MANAGEMENT OF RISK AND MAINTAIN PERFORMANCE OF BANKS

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Abstract -Recently many public and private banks are facing non-performing credit portfolios to financial distress in the banking sector. Banks collect deposits and lends to customers but when customers fail to meet their obligations problems such as non-performing loans arise. This paper evaluates the impact of credit risk on the performance of public banks. Financial ratios as measures of bank performance and credit risk were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2017-18. Descriptive, correlation and ratio analysis were used in the analysis. The findings revealed that risk management has a significant impact on the performance of public and private banks. Therefore, management need to be cautious in setting up a credit policy that might not negatively affects performance and also they need to know how risk affects the operation of their banks to ensure judicious utilization of deposits.

Key words: Credit Risk, Performance, Loan and Advances, Non-performing Loan and Total Deposits

Introduction For banks and financial institutions, risk had been an essential factor that needed to be managed well. Risk was the possibility that a borrower of counter party would fail to meet its obligations in accordance with agreed terms therefore risk arise from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. The oldest and biggest risk that bank, by virtue of its very nature of business, inherited. Currently in India there were many banks in operation. From these some public sector banks are namely State Bank of India, Punjab National Bank, Oriental Bank of Commerce, Bank of India, Indian Bank, Indian Overseas Bank, Syndicate Bank, Bank of Baroda, Canara Bank, Allahabad Bank, UCO Bank, Vijaya Bank and private sector banks are Axis Bank, ICICI Bank, IndusInd Bank, ING Vysya Bank, Dhanlaxmi Bank, HDFC Bank, YES Bank, Kotak Mahindra Bank, Karnataka Bank, ABN Amro Bank, Federal Bank, Laxmi Vilas Bank were selected to examine the impact level of risk management towards the performance of Indian public and private banks. To examine its impact level the researcher had used multiple regression models by taking four years return on asset (ROA), non performing asset (NPA) and capital adequacy ratio (CAR) from each bank. The researcher had collected data from RBI annual report since 2015 to 2019 for regression purpose.

As we know that Risk Management is the process of controlling the impact of credit risk-related events on the financial institution and involves the identification, understanding, and quantification of the degree of potential loss and the consequential implementation of appropriate measures to minimize the risk of loss to the financial institution (guidelines on credit risk management for institutions licensed to conduct banking business under the banking act.

Characteristics of Risk management

Risk management is a systematic process that deals with the problem of uncertainty. It is an important discipline under the broad subject of management.

Establishing the Context

Before dealing with risks, managers must be able to understand and identify them clearly. In order to do this, they first need to comprehend the context in which the risks arise. In other words, managers need to figure which environment their business functions in and what risks may arise therein. They should also be aware of their organization's functions, goals and core activities. **Identifying the Loss** After understanding the context, managers should list down all possible risks that may arise. This will depend on the nature of the organization's business, its environment, etc. For example, a company manufacturing chemicals may face the risk of leakage from its production units. Firstly, physical risks are those which involve an organization's physical (tangible) assets and environmental factors. Secondly, Financial risks include the likes of insurance costs, payment of damages, loans, taxes, etc. Thirdly, risks may also be ethical if they involve harm in the nature of one's beliefs or reputation.Finally, there can also be legal risks which arise of laws and regulations. **Analysing and Evaluating Risks** Every organization faces several kinds of risks but the chances of them occurring differ in every case. Managers should analyze each possible risk individually and evaluate the chances of it happening. This is because they have to accord more importance to serious risks than less serious ones. A business often incurs financial expenses for mitigating risks. For example, payment of insurance premium, costs of hiring security personnel, etc. The greater the chances of a risk occurring, the greater will be its cost of mitigation. Analysis of risks, thus, helps in realizing how expensive it will be to prepare for a risk. Managers can take the help of a 'likelihood scale' to fix the chances of risks occurring. This scale basically ranks risks on the likelihood of them causing losses. They can even rank risks in terms of priorities for this purpose **Treating the Risks** After identifying and analyzing risks, managers next have to treat them. This process can include avoiding risks altogether. Alternatively, it is also possible to reduce the possible impact of a risk. For example, a factory can deploy safety measures and equipment to prevent injuries to its workers. One can even transfer risks to other entities. This process includes the use of contracts and notices to shift any possible liability on others. For example, shopping malls often shift the responsibilities of parked vehicles on their owners in case any damage occurs.

Monitoring and Reviewing Risks

Monitoring and reviewing of risks is a continuous process. Managers need to keep checking the likelihood of risks occurring. They must also regularly follow up on their risk prevention strategies. This step is important because risks are inevitable and they never remain static. one can also refer to it for responding to undesirable events. In this regard, it helps in preparing for worst-case scenarios. It is also a system that helps in making choices. It provides various alternatives and approaches to help managers select one that has minimum chances of losses.

Objective of Risk Management-Credit creation is the main income generating activity for the banks. But this activity involves huge risks to both the lender and the borrower. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can smooth functioning of bank's business. On the other hand, a bank with high credit risk has high bankruptcy. In a bid to survive and maintain adequate profit level in this highly competitive environment, banks have tended to take excessive risks. But then the increasing tendency for greater risk taking has resulted in insolvency and failure of a large number of the banks.

Credit risk is the possibility of losing money due to the inability, unwillingness, or no timeliness of a honor a financial obligation.. Banks are one of the many institutions that lend money for individuals and institutions to make profit. The large stake of those banks profit is from the lend money interest and related fees. But those banks f challenge of collecting the money they lend which we call credit risk. Many banks in US like Sanderson State Bank, Haven Trust Bank, First Georgia Community Bank, and others ware collapsed or experienced financial problems due to incompetent credit risk management systems during the 2008 financial crisis. There system was characterized by high levels of insider loans, speculative lending, and high concentration of

The major cause of serious banking problems continues to be directly related to low credit standards for borrowers and counterparties, poor portfolio management, and lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of bank's counter parties. And it is clear that banks use high leverage to generate an acceptable level of profit. Credit risk management comes to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable limit in order to provide a framework of the understanding the impact of credit risk management on banks performance.

The excessively high level of non-performing loans in the banks can also be attributed to poor corporate governance practices, lax credit administration processes and the absence or non-adherence to credit risk management practices. The question is what is the impact of credit risk management on the performance of Public and Private Banks? How does Loan and advances affect banks performance? What is the relationship between non-performing loans and performance in Public and Private Banks?

The study considers the extent of relationship that exists between the core variables constituting Public and Private Banks default risk and the performance. It therefore seek to examine the impact of credit risk on the performance of Public and Private Banking system and identifies the relationships between the non-performing loans and banks performance and evaluate the effect of loan and advance on banks performance on Public and Private Banks. To achieve the study's objectives it is postulated that there is no significant relationship between non-performing loan and banks performance while loan and advances does not have a significant influence on banks performance.

The second section of the paper provides an overview of related literature and the third section presents an exposition of the methodology used in the study. The fourth section provides the results and its discussion. The last section provides a conclusion and recommendations.

Significance and scope

It highlights the major tools or techniques that can be used by Indian public and private banks to manage their credit risk. It will help Indian public and private banks by providing information in credit risk management and give a chance to see their loopholes and initiate for improvement. National bank of Ethiopia may benefit from this study to improve the current policy lived on public and private banks in the country

CONCLUSION AND RECOMMENDATIONS

The study investigated the impact of credit risk on the performance of Public and Private Banks. From the findings it is concluded that banks performance is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Therefore, management need to be cautious in setting up a credit policy that will not negatively affects performance and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits and maximization of profit. Improper credit risk management reduce the bank performance, affects the quality of its assets and increase loan losses and non-performing loan which may eventually lead to financial distress. CBN for policy purposes should regularly assess the lending attitudes of financial institutions. One direct way is to assess the degree of credit crunch by isolating the impact of supply side of loan from the demand side taking into account the opinion of the firms about banks' lending attitude.Finally, strengthening the securities market will have a positive impact on the overall development of the banking sector by increasing competitiveness in the financial sector. When the range of portfolio selection is wide people can compare the return and security of their investment among the banks and the securities market operators. As a result banks remain under some pressure to improve their financial soundness.

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