

APPRAISAL OF CREDIT RISK MANAGEMENT POLICIES IN COOPRATIVE BANKS

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Abstract

Credit risk management policy is one of the most important instrument for sound credit lending practices. It is most necessary for the banks credit risk management, the past banking crisis are big lesson to the banks therefore the CRM policy is an essential element for banking credit decision making process. Which in turn can mitigate and control the risk in the banking business. Most of the research on CRM has focused on the credit risk practices very few studies focused on effect of credit risk management policies that would help the bank in decision making process.

This paper is focused on effect of CRM policies related cooperative banks. The suggested CRM to help the banks in their CRM framework, identify areas for monitoring and for improvement as their banking practices.

Keyword: credit risk policy, management.

Introduction

Banking organization is contributed towards the economic development. It provide the financial benefits to the different sector of the economy such as companies, government and society rely on the banking services. They also play key role in the local development. Therefore the proper management of banking organization is most beneficiary to the society. However it will possible with sound credit lending practices. The credit risk management policy is provide the principle guidelines to the banks which help in decision making process.

This paper is focused on effect of CRM policies related cooperative banks. The suggested CRM to help the banks in their CRM framework, identify areas for monitoring and for improvement as their banking practices.

Need for the study

Credit risk management is the most important for the banking business because it is the most common risk arises in the banking sector, it was observed that 80 % of bank have failure due to the bad debt in the banking business. Therefore for proper management of credit risk necessary for the banks survival and it is possible with proper CRM policy is established guidelines that enable the bank to fair credit approval

standards, and it also helps the bank management in monitoring and control the risk. While the need for identify the relevant policies and their role in effective managing risk and credit decision process.

Literature Review

A number of studies conducted on issues pertaining to CRM in general and on issues of CRM practices in commercial banks. Some of the important studies conducted in India and abroad include: Abhiman Das (1998) loan quality direct effect on banks costs and concluded that banks adopt the strict credit risk policy.

Anupam Mitra (2012) evaluating the CRM of the banks, author examine the financial condition of the banks with loan and advances, total deposits ratio and capital adequacy, risk weighted assets and non-performing assets of the banks. Author concluded that credit approval policy and effective strategy helps in reduce the risk.

Ravi and Paudel (2012) studied Impact of CRM on financial performance of banks and establish default rates and cost per loan that in order to reduce the risk, bank tray to maintain optimum level of capital adequacy.

Research Methodology

For evaluate the effect of the credit risk management policy in the cooperative banking system, a survey of credit risk management policy in cooperative banks in Dharwad district. All the cooperative banks are participated in the survey. There are 10 cooperative banks are remaining in the Dharwad district. These sample banks are categorized in to Tier I and Tier II sample banks and are varied in terms of geographical area and number of branches. The Tier I bank branches are unit bank branches located within city and Tier II sample banks multiple bank branches are located in different city and district, they are equally distributed. The study is based on the analysis of primary data collected through the structured questionnaire. The information is personally collected from the credit risk officers.

Objective of the study

The present paper is related to the appraisal of credit risk management policies and practices followed cooperative banks and analysis the credit risk polices followed by the banks in effective credit lending practices. Further, focuses on improvement in near future.

Analysis of the study

The credit risk management policy is framework through the organisational structure, policy and strategy and operating and system of banking practices. All the element are inter related to each other, the organisational structure is most important to manage the banking activity, the policy is principle guidelines provide by the bank in manage the banking business and strategy is provide the information to implement the policies and practices through it.

Organizational structure

CRM organizational structure is framed by the related to determined suitable organizational structure and decisions taken by delegation of authority and unit for managing problem credit.

CRM organization structure responsible for credit risk management policy and strategy implementation of the bank in respect to credit risk management. As per the RBI guidelines each banks have framed the different department or committees depending upon its size and volume of banking business, these committees are helped the bank to manage the risk prudential manner. The cooperative banks constituted the committees to manage the credit risk, such as Credit Policy Committee (CRC), Credit Audit Committee (CAC) and Credit Data Management Cell (CDMC) to manage the risk.

Table 1
Credit Risk Management Committees

Banks Committees	Tier I			Tier II			Tier I+ Tier II
	Yes	No	Total	Yes	No	Total	Grand Total
CPC	03(60) (30)	02(40) (20)	05(100) (50)	02(40) (20)	03(60) (30)	05(100) (50)	10 (100)
CDMC	03(60) (30)	02(40) (20)	05(100) (50)	04(80) (40)	01(20) (10)	05(100) (50)	10 (100)
CAC	03(60) (30)	02(40) (20)	05(100) (50)	04(80) (40)	01(20) (10)	05(100) (50)	10 (100)

Source: Field survey

Note: Figure below in bracket represents percentage total

Figures in brackets opposite to the figures in the cells represents the percentage to the respective cell figures to the respective row total.

The table 1 shows that 60 % of Tier I sample banks have formed the credit policy committee, credit data management cell and credit audit committee. Further 40 % of Tier II sample banks were following the practices of forming the separate credit policy committee and 40 % of sample banks have formed the credit data management cell and credit audit committee.

The study was observed that more than half of Tier I sample banks are formed the all committee. The three-fourth of Tier II sample banks are formed all committees. Therefore for need to follow the best practices in respect of constitution the committees.

Credit Risk Assessment

The key purpose of credit risk management is for a bank to maximize its profit. Best practices require that an internal control framework for credit risk analysis. The credit risk assessment towards better understanding of risks and their management As per RBI norms, it is confined that the professionalism in the board should have at least two directors with banking experience or with relevant to professional qualification in the field of account or in finance.. For appropriate credit risk assessment and an effective internal control.

The study observed that 50% of Tier I sample banks have experienced person in credit risk assessment. And 50% of Tier II sample banks have experienced person in credit risk assessment. The study found that

both all the Tier I and Tier II sample banks have experienced person for credit risk assessment. It helps the bank in monitoring the risk.

Experience credit risk officers

Bank must have experienced credit risk officers for the assessing, approving and managing credit risk. The experienced credit officers help the bank in suitable decision making. They also have responsible for reviewing credit applications and completing administrative task for their organization. They are supervising the important credit dealings requirements before submitting all the documentation to the lender. Credit officers dealing with banking lending and credit risk assessment functions on regular basis and give the suggestion for improvement. Experienced credit officers overall responsible for monitoring the credit account and take the action for recover the account turn an overdue. As per the RBI norms requirement of credit officers have a minimum 10 years' experience related to credit risk management or in finance or banking or chartered accountant.

Table 2
Experience of credit risk officers

Experience credit risk officers	Tier I banks	Tier II banks	Number of banks
10 to 15 years	04 (67) (80)	02 (33) (40)	06(100)
15 to 20 years	01(50) (20)	01 (50) (20)	02(100)
Above 20 years	00 (00) (00)	02 (100) (40)	02(100)
Total	05 (50)	05 (50)	10(100)

Source: Field survey

Note: Figures in brackets opposite to the figures in the cells represents the percentage to the respective cell figures to the respective row total.
: Figures in brackets below the figures in different cells represents the percentage of the respective figures to the total of the respective columns.

Table 2 reveals that 80% of Tier I sample banks have experienced credit risk officers with 10 to 15 years. Further, 40 % of Tier II sample banks have experienced credit risk officers above 20 years. It was observed that Tier II sample banks have more experienced credit risk officers than Tier I sample bank.

Credit Risk Management Policy

Credit risk management policy is guiding principle for the bank. The main objective of credit risk management policy is to define the strategies and implementing best practices for suitable action. The banking policy provides the broader guidelines on the exposure norms, target market, credit approval authority, collateral, pricing of credit, maintain documentation in procedural order, and risk acceptance criteria. The credit risk management policy has been well documented by the board; and are circular to the bank branches for sound monitoring and management. Each bank has defined the credit risk management policy to approach the banking practices with different criteria to reach their branches with well documented or either in oral but clearly defined, well documented and also based on practices.

Table 3
Credit risk management policy defined by the bank

Credit risk management policy defined	Tier I banks	Tier II banks	Number of banks
Well documented	02 (33) (40)	04 (67) (80)	06(100)
Oral but clearly defined	01(100) (20)	00 (00) (00)	01(100)
Both well documented and oral but clearly defined	01(100) (20)	00 (00) (00)	01(100)
Both well documented and also based on practices	01(50) (20)	01(50) (20)	02(100)
Total	05 (50)	05 (50)	10 (100)

Source: Field survey

Note: Figures in brackets opposite to the figures in the cells represents the percentage to the respective cell figures to the respective row total.

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Table 3 reveals that credit risk management policy defined by the bank the sample banks three- fourth of Tier I sample banks have define the CRM policy in both well documented and also based on practices. Further all the Tier II sample banks have define the credit risk management policy in well documented form. It helps the banks in creating the appropriate environment within the bank to install and bring into effective action to manage and control the risk.

Frequency of review of CRM policy

The review of credit risk management policies are foundation for the internal control of credit portfolio. The credit officers annually review the credit risk policy under supervision of board. The main objective of review of CRM policy are essential for effective portfolio management. The reviewed credit risk management policy should be referred by the credit officers, managers, employees and senior management. Any corrective action should be noted with the reviewed policy. Thus, review of credit risk management policy used to identify the deficiencies and responsible for corrective action in timely manner.

Table 4
Frequency of review the credit risk management policy

Frequency of review the credit risk management policy	Tier I banks	Tier II banks	Number of banks
Yearly	04 (57) (80)	03(43) (60)	07(100)
Quarterly	00(00) (00)	00(00) (00)	00(00)
Half Yearly	00(00) (00)	01(100) (20)	01(100)
When time persists	01(50) (20)	01(50) (20)	02(100)
Total	05 (50)	05(50)	10(100)

Source: Field survey

Note: Figures in brackets opposite to the figures in the cells represents the percentage to the respective cell figures to the respective row total.

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Table 4 indicates that the frequency of reviewing credit risk management policy by the sample banks, 80% of the Tier I sample banks have reviewed the credit risk management policy on yearly basis and 60 % of Tier II sample banks have reviewed the CRM policy yearly basis. Majority of sample banks were review the credit risk management policy on yearly basis. Therefore the reviewing of CRM policy most significant for implementing the fresh perspective for current norms and practices.

Training provided to Credit risk officers

Staffing is an important part of the organization and the well trained staff benefits in effective implementation of CRM policies. The bank must have special skilled officers who have experience in assessing, approving and managing the credit risk. To develop the supportive staff bank must conduct the regular training programme. The training provides the knowledge to the employees in sharing valuable banking experience. It is a process which update the knowledge and skill of the credit officers on various developments in banking. The survey found that RBI has yearly conduct regular training programme to development such supporting staff.

Table 5
Frequency of training provided to credit risk officers

Frequency of training to credit risk officers	Tier I banks	Tier II banks	Number of banks
Yearly	00 (00) (00)	00 (00) (00)	00(100)
Once in three years	01(50) (20)	01(50) (20)	02(100)
As per need	04(50) (80)	04(50) (80)	08(100)
Total	05 (05)	05 (50)	10 (100)

Source: Field survey

Note: Figures in brackets opposite to the figures in the cells represents the percentage to the respective cell figures to the respective total.

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Table 5 shows that 80% of Tier I sample banks were conducted the training programme to credit risk officers as per need. Further 80% of Tier II sample banks have conducted the regular training programme as per the need. The study found that majority of sample banks have conducted the training programme as per the need.

Policy regarding defining exposure norms

Credit risk management policy may be oriented towards a prudential measure aimed at better risk management and avoidance of concentration of credit risk, the co-operative banks were fix the limits on their exposure to priority sector lending, weaker sector lending, individual borrowers and group borrowers, to specific sectors, and towards unsecured advances and unsecured guarantees.

Priority sector and weaker sector lending exposure limits

Credit exposure limits to priority sector lending scheme is providing a specified portion of bank lending to the important sectors of the economy. It includes agriculture allied activities, micro and small enterprises, poor people, small-scale industries, and other low income group, education loan, housing loans etc. RBI guidance

note on priority sector lending suggested that 40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

Table 6
Priority sector lending exposure limits

Priority sector lending	Tier I banks	Tier II banks	Number of banks
Below 20% of Adjusted Bank Credit	03 (100) (60)	00 (00) (00)	03(100)
40% of Adjusted Bank Credit	01 (50) (20)	01 (50) (20)	02(100)
Above 40% of Adjusted Bank Credit	01 (20) (20)	04 (80) (80)	05(100)
Total	05 (50)	05 (05)	10 (100)

Source: Field survey

Note: Figures in brackets represents percentage total

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Table 6 shows that some of the sample banks have priority sector lending exposure within RBI limits. It may indicate that their preference with lower concentration of credit exposure or risk avoidance. Further some of the sample banks high concentration on credit exposure limits, it indicates that it is high risk for the banks.

Weaker sector exposure limits

The weaker sections of society are the socially backward or minority communities at national level or the people belonging to economically low income group. Normally, such people may not easily get timely and adequate credit without the priority credit dispersion of RBI. As per RBI's priority sector approved plan, banks have to achieve weaker section target of 10 percent of ANBC (Adjusted Net Banking Credit) or Credit Equivalent of off- Balance Sheet Exposure, whichever is higher.

Table 7
Weaker sector lending exposure limits

Weaker sector lending exposure limits	Tier I banks	Tier II banks	Number of banks
Below 10% Adjusted Net Banking Credit	01(50) (20)	01(50) (20)	02(100)
10% Adjusted Net Banking Credit	02(100) (40)	00(00) (00)	02(100)
Above 10% Adjusted Net Banking Credit	02(40) (40)	03(60) (60)	05(100)
Not given	00 (00) (00)	01(100) (20)	01(100)
Total	05 (50)	05 (50)	10 (100)

Source: Field survey

Note: Figures in brackets represents percentage total

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Table 7 shows that the sample banks were following the practices of weaker sector lending. Some of the sample banks have low concentration on credit portfolio. It indicates that banks were following the practices with risk avoidance. Further some of the sample banks are following the practices of high concentration on

credit portfolio to the weaker sector, it indicates the high risk for the bank. Therefore the bank have reduce the risk with concentration limits.

Credit Risk Audit (CRA)

The banks have forming an independent group assigned with the responsibility for conducting periodic inspection of credit portfolio to assess the exposure to credit risk, the bank may follow the practice of assigning this task to auditor appointed by the bank. The banks to derive the benefits of specialized skills of an independent group expert in this specific task and thereby easily follow the approach selected to CRM.

Table 8
Credit audit

Internal Credit risk audit	Tier I banks	Tier II banks	Number of banks
Yearly	02 (100) (40)	00 (00) (00)	02(100)
Quarterly	02 (29) (40)	05 (71) (100)	07(100)
Monthly	01(100) (20)	00 (00) (00)	01(100)
As per need	05 (50)	05 (50)	10 (100)

Source: Field survey

Note: : Figures in brackets opposite to the figures in the cells represents the percentage to the respective cell figures to the respective row total.

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Table 8 shows that internal credit risk inspection Tier I sample banks have internally inspect the bank branches with different intervals of time according to the banking size and business. The majority of Tier II sample banks have internally inspect the bank branches on quarterly basis. Because the Tier I sample banks are unit bank branches and Tier I sample banks are multiple bank branches. The credit audit helps the banks in control the risk.

Finding of the study

The study found that half of the banks are formed the credit risk management committees to manage the risk. The all the banks have experienced credit risk officers for credit risk assessment in the banks. The almost all the banks have defined the credit risk management policy with documented form and review the credit risk management policy on yearly basis. The banks have provide the training to the employees as per the need. Further, exposure norms regards the priority sector and weaker sector lending practices with high concentration and risk avoidance factor. The almost all the sample banks are internal credit audit bank branches.

Conclusion

This paper is proposes the credit risk management policies helps the banks in credit lending decisions. The well documented credit risk management policy helps the banking environment with sound credit lending practices. Reviewing of the credit risk management policy helps in identify the changes in the risk profile and amend them as necessary. The bank must provide the regular training programme to their staff regarding credit risk on regular basis. Further banks have revise and concentrate the credit exposure norms by RBI with priority sector lending

and weaker sector lending. Credit audit is helps the banks in monitoring and control the risk. However the banks have following the practices with identify, manage, monitoring and control the risk in banking business. The proper credit risk management policy helps the banks in sound credit lending practices and in strengthen the banks.

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