EVALUATION OF CREDIT RISK MANAGEMNT POLICIES AND PRACTICES IN COOPERATIVE BANKS

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ABSTRACT:
The credit risk management policy play a significant role in banking organisation. It provide the principle guidelines to the banks in managing and mitigate risk. The most of the research are focused on the either CRM practices or on the non-performing assets very few study focused on credit risk management policies and practices that would help in identify the gaps and reduce the risk in banking organisation.

This paper is focused on CRM policies and practices related to cooperative banks. The suggested CRM policy help the banks in their credit risk decision making process, identify areas for monitoring and for improvement as their banking practices.
KEY WORDS: *credit risk management policy.*

INTRODUCTION

Risk is the integral part of the banking business, it is varies from bank to bank. The banks have faced the many risk but among these risk the credit risk is highest risk faced by the banks. It affect the whole banking system. While it is not control the within a time it collapse the whole banking systems. Therefore the credit risk management is most essential instrument for prevent the risk. The management of credit risk is feasible with proper policies and these helps the banks in effective monitoring and control the risk. An attempt has been made to find the role of credit risk management policies in the banks and how much it influence the practices.

The study identifies the potential areas in improvement and suggestions for strengthen the credit risk management framework for their urban and rural cooperative banks. Various studies have been done on the public sector and private sector banks on the issues such as performance and profitability.

LITERATURE REVIEW

While there have been several contributions to the literatures on the credit risk management practices of the banks in commercial banks. The present paper attempts is address the gap between the policies and practices of the banks.

Bodla and verma: (2009): examine the credit risk management framework at Indian banks, the study was highlight on the banking practices that reveal the aspects about credit approval authority, prudential limits, risk pricing, loan review policy. The author concluded that training to employees which helps bank regarding risk management practices.

SaidurRahaman (2011): felt that credit risk management practices in banks. He found in the study that most of the banking problems have been either explicitly or indirectly caused by weakness in credit risk management several credit losses in banking system usually reflect simultaneous problem in several area such as concentration, credit processing, failure of due diligence and inadequate monitoring. Many credit problems reveal basic weaknesses in the credit granting and monitoring process. The bank should update the credit risk management policy of the banks and prudential corporate governance practices.

Anju Arora and Muneesh Kumar (2014): The study has constructed of credit risk management index score for Indian banking sector: An in-depth analysis. The study covers 35 public sector and private sector commercial banks participated in the survey. Credit risk managementpractices towards the index scoring based on organizational structure, policy, and strategy, operation, and system. The purpose of the study to assess of current strength of credit risk management framework in the Indian banking system towards benchmarking practices.

OBJECTIVE OF THE STUDY

The present study attempts to report the state of the credit risk management policies followed by the cooperative banks in Dharwad district. The aim is to identify the CRM policies and practices are followed by the cooperative banks in their banking business. Further, analysis of proposes to identify the techniques commonly used by the banks in monitoring and mitigate the risk.

RESEARCH METHODOLOGY

The study is primarily based on the primary data collected during the year 2017-18 with the help of structured questionnaire. All the cooperative banks in Dharwad district were cover under the study. They are categorized in to urban and rural area banks, there are eight urban area banks and two rural area functioning in the Dharwad district depending on size and volume of banking business. The respondents were of the credit risk officers and General Managers of Head office level.

ANALYSIS OF THE STUDY

The CRM policy is principle guidelines provided by the Reserve banks of India. It help the banks in effective manage the credit risk in banking business and reduce the risk of defaults. The banks were following the practices of CRM policies of the RBI guidelines. The banks were provided the credit facility to their membership as per the cooperative by-law.

KYC POLICY

The KYC policy required for the banks to verify the borrowers address through documents listed in the circular. It has been noticed by the RBI that a large number of persons, especially those belonging to low income group, both in urban and rural area are not able to produce such documents to satisfy the bank about their identity and address. This leads to their inability to access the banking services and result in their financial exclusion. It involves the true identification of credit beneficiaries, source of funds, nature of customers business etc.

As per the KYC policy, if the borrowers address may change and hence the banks are required to periodically update their records. The urban area sample banks and rural area sample banks are following the practices of KYC norms as per the RBI norms. The KYC policy helps the banks understand their customers and their financial dealings better and help them manage their risk prudentially.

Table 1
Know Your Customer (KYC) Policy

Know Your Customer (KYC) Policy	Urban area banks	Rural area banks	Number of banks
Yes	08 (80) (100)	02 (20) (100)	10(100)
No	00(00) (00)	00(00) (00)	00(00)
Total	08 (80)	20 (20)	10 (100)

Source: Field study

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

Figures in brackets below the figures in different cells represent the percentage of the respective figures to the total of the respective columns.

Table 1 reveals that 80 % of urban area sample banks were follow practices of KYC norms. Further, 20 % of rural area sample banks were following the practices of KYC norms.

The study found that all the urban area sample banks and rural area sample banks were strictly following the KYC norms while introduce the customers. Therefore the KYC norms helps the bank measure the risk.

MEMBER OF THE CIBIL

The CIBIL is a credit information bureau is checks the borrower's past financial health and decides whether to disburse the credit or deny it. While RBI has made mandatory to all the banks to taken report of CIBIL before sanctioning the loan. It providing the indicative remarks about past credit history of the borrowers, every banks must have registered the CIB. The credit information bureau collect and maintains records of an individual payment pertaining to credit and these records submitted to credit institutions on a monthly basis. This information is then used to create credit information reports (CIR) and credit institutions in order to evaluate and approve credit applications. It helps the bank in credit decisions and also for differentiate the borrowers and defaulters.

Table 2
Member of the CIBIL

Member of the CIBIL	**Urban area banks**								**Total**	**Rural area banks**		**Total**	**Grand Total**
	B1	**B2**	**B3**	**B4**	**B5**	**B6**	**B7**	**B8**		**B9**	**B10**		**Urban+ Rural**
Experian	-	3	-	-	-	2	1	-	03	-	-	00	03
Equifax	-	2	-	-	2	-	-	-	02	-	-	00	02
High mark	1	1	-	1	1	1	-	1	06	1	1	02	08
Not registered	-	-	1	-	-	-	-	-	01	-	-	-	01

Source: Field survey

Note: B1, B2, B3, B4, B5, B6, B7, B8, B9, B10 denotes the total number of banks.

: Figure in the cells denotes the ranks given by the bank for the CIBIL registration.

Table 2 revels that credit risk managementpractices with becoming the member of the CIBIL. That urban area sample banks are registered the Highmark, Equifax and Experian; it will observed that Highmark is the highest number of the banks registered credit information bureau; and Equifax is second highest registered credit information bureau. Further, the Experian is third highest registered credit information bureau. It was observed that one of the urban area sample bank have not registered the credit information bureau and it is the high risk for the bank.

It was observed that all the rural area sample banks are registered only one credit information bureau that is Highmark.

The study found that urban area sample banks were registered three credit information bureaus are Highmark, Experian and Equifax. While rural area sample banks are registered the Highmark only.

Further one of the urban area sample bank have not registered the credit information bureau and they have to register the credit information bureau, it help the banks in reduce the risk.

PRIORITY SECTOR CREDIT EXPOSURE LIMITS

The CRM policy towards the priority sector lending to provide the credit facility to the under privileged class of the society. The main concept of priority sector lending is to provide the continuous credit facility to poor peoples by providing then necessary financial assistance. As per the RBI norms the total priority sector lending is 40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher.

The urban area and rural area sample banks are diversify the credit exposure to the priority sector and weaker sector of the economy.

Table 3
Priority sector credit exposure limits

Priority sector credit exposure limits	Urban area banks	Rural area banks	Number of banks
Below 20% of Adjusted Bank Credit	01(100) (12)	00(00) (00)	01(100)
40% of Adjusted Bank Credit	02 (67) (25)	01 (33) (50)	03(100)
Above 40% of Adjusted Bank Credit	04 (80) (50)	01 (20) (50)	05(100)
Not given	01(100) (13)	00(00) (00)	01(100)
Total	08(80)	02(20)	10(100)

Source: Field study

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

: Figures in brackets below the figures in different cells represent the percentage of the respective figures to the total of the respective columns.

Table 3 shows that two urban area sample banks were following the RBI norms in this regard to fixing priority sector credit exposure limits at 40 % of Adjusted Net Bank Credit, and four of urban area sample banks were following the CRM practices of credit exposure limit above 40% of Adjusted Net Bank Credit, it indicates that the bank has high concentration on priority sector lending, it is high risk for the bank. Further, one of the sample bank were following the conservative approach in limit fixation by fixing the credit exposure limit below the 20 %. It indicates the bank were following the practices of risk avoidance.

The study found that three fourth of the urban area sample banks have high concentration on priority sector lending it is high risk for the banks and half of the rural area sample banks were high concentrate on credit exposure limits, it indicates the high risk for the bank. Therefore the sample banks have lower concentrate on credit portfolio to reduce the risk.

WEAKER SECTOR CREDIT EXPOSURE LIMITS

Weaker sections is a most neglected sector of the economy and it includes small marginal farmers. The main concept of weaker section was adopted within a priority sector lending. The target parameters of priority sector lending is weaker section target is specify 10 percent of ANBC (Adjusted Net Banking Credit) or Credit Equivalent of off- Balance Sheet Exposure, whichever is higher should give to weaker sections.

The urban and rural area sample banks are diversify the credit on weaker sector lending prescribed by the RBI guidelines by fixing the credit exposure limits.

Table 4
Weaker sector credit exposure limits

Weaker sector credit exposure limits	**Urban area banks**	**Rural area banks**	**Number of banks**
Below 10% Adjusted Net Banking Credit	01(100) (13)	00 (00) (00)	01(100)
10 % Adjusted Net Banking Credit	02(67) (25)	01(33) (50)	03(100)
Above10% Adjusted Net Banking Credit	03(75) (37)	01(25) (50)	04(100)
Not given	02 (100) (25)	00 (00) (00)	02(100)
Total	08 (80)	02(20)	10(100)

Source: Field study
Note: Figures in brackets opposite to the figures in the cells represent the percentage of the respective cell figures to the respective row total.

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Table 4 reveals that practices with regard to the weaker sector credit exposure limits are summarised. It was observed that one fourth of urban area sample banks and half of rural area sample banks have following the RBI norms regarding the weaker sector credit exposure limits to be fixed at 10 % ANBC. Further, three fourth of urban area sample banks were following the practices of high concentration on credit portfolio limits, it indicates the high risk for the bank. However one fourth of the urban area sample banks credit exposure limit is below 10% of ANBC. It indicates that bank were following the conservative approach in limit fixation.it indicates that were following the risk avoidance.

The study observed that one fourth of urban area sample banks were following the high concentration of credit exposure limit, it indicates the high risk for the banks and half of the rural area sample banks were high concentration of credit exposure limit, it indicates the high risk for the bank. Therefore the banks have reduce the concentrate credit portfolio.

CREDIT AUDIT

The internal inspection is undertaken by a bank credit committee or experienced credit officers are inspecting the bank branches. The internal credit audit officers are monitoring the day to day bank operations; such as daily account opening, cash balance, income leakage and nonperforming assets of the bank branches. Further, credit officers reported to the audit committee and it should be placed before the board of directors. While periodicity of internal audit of the branches should be at least once in a year and which should be in surprising condition. Now a days more number of bank branches are regularly conducted internal audit due to alarming rise of NPAs in all the banks. The internal audit helps the banks in effective internal control, risk management and governance to facilitate the achievement of organisational objectives.

Table 5
Internal audit

Internal audit	Urban area banks	Rural area banks	Number of banks
Monthly	03(100) (38)	00 (00) (00)	03(100)
Quarterly	04 (80) (50)	01(20) (50)	05(100)
Yearly	01(50) (12)	01(50) (50)	02(100)
Total	08 (80)	02 (20)	10 (100)

Source: Field study
Note: Figures in brackets opposite to the figures in the cells represent the percentage of the respective cell figures to the respective row total.

Figures in brackets below the figures in different cells represent the percentage of the respective figures to the total of the respective columns.

Table 5 reveals that the CRM policy were following the practices of internally audited the bank branches. Half of the urban area sample banks have internal audited the bank branches quarterly basis and half of the rural area sample banks have internally audited the bank branches on yearly basis.
The study found that majority of urban area sample banks were internally audited the bank branches on monthly basis and half of the rural area sample banks were following the practices of audited the bank branches on yearly basis. Therefore internal audit is helps the bank in strengthen the credibility system of the bank.

DOCUMENTATION TO APPROVE THE CREDIT

The documentation is the most important aspect of the banking business. It is the collected from the borrowers at pre sanctioning of credit. It includes the physical records are inspected by the bank such document are called documentary evidence. It help the bank in post monitoring follow up. It is secured as legally binding the bank and the borrowers, so that the bank becomes secured creditors. Therefore documentation helps the bank in reduce the risk.

Table 6
Proper documentation is collected from borrowers

Documentation	Urban area banks	Rural area banks	Number of banks
Yes	08(80) (100)	02(20) (100)	10(100)
No	00(00) (00)	00(00) (00)	00(100)
Total	08 (80)	02 (20)	10 (100)

Source: Field study
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 6 shows that proper documentation. Almost all urban and rural area sample banks have maintaining the proper documentation. Therefore the proper documentation is help the banks in reduce risk.

COLLATERAL SECURITY FOR SMALL BORROWERS

Collateral is a security in the kind of an asset or property is acquired by the bank in the form of collateral security at the time of lending credit. If the borrower stop the making payment of credit the bank can seize the asset to recover the loss.

The urban area and rural area banks have collect the collateral security from the borrowers it help the banks to recover the credit loss. The some sample banks have provided the credit to small borrowers with their personal assurance. If the borrower fail to make credit payment within given period of time, then it is high risk factor for the bank.

The urban and rural area sample banks were following the practices of collateral security from the borrowers is shown in the table

Table 7
Collateral security for small borrowers

Collateral security	Urban area banks	Rural area banks	Number of banks
Yes	06 (75) (75)	02 (25) (100)	08 (100) (80)
No	02(100) (25)	00 (00) (00)	02 (100) (20)
Total	08(80)	02 (20)	10 (100)

Source: Field study

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 7 revels that collateral security for small borrowers. That 75 % of urban area sample banks have taken the collateral security from the small borrowers and 100 % of urban area sample banks have not taken the collateral security from small borrowers. However 25 % of rural area sample banks have taken the collateral security from small borrowers.

The study was found that three fourth of urban area sample bank have collect the collateral security from small borrowers and all the rural area sample banks have collected the collateral security from small borrowers. Therefore the further sample banks have collect the collateral security from the small borrowers, it help the bank in control the risk.

FINDINGS AND SUGGESTIONS

The CRM policy and practices of rural and urban area cooperative banks in Dharwad district,
Allthe urban area sample banks and rural area sample banks were strictly following the KYC norms while introduce the customers and urban area sample banks were registered three credit information bureaus are Highmark, Experian and Equifax and rural area sample banks are registered the Highmark only. Further one of the urban area sample bank have not registered the credit information bureau and they have registered the credit information bureau, it help the banks in reduce the risk.

However, three fourth of the urban area sample banks have high concentration on priority sector lending it is high risk for the banks and half of the rural area sample banks were high concentrate on credit exposure limits, it indicates the high risk for the bank. Therefore the sample banks have lower concentrate on credit portfolio to reduce the risk.The study observed that one fourth of urban area sample banks were following the practices of weaker sector lending with high concentration of credit exposure limit, it indicates the high risk for the banks and half of the rural area sample banks were high concentration of credit exposure limit, it indicates the high risk for the bank. Therefore the banks have reduce the concentrate credit portfolio.

Internal audited by the banks the study found that majority of urban area sample banks were internally audited the bank branches on monthly basis and half of the rural area sample banks were following the practices of audited the bank branches on yearly basis. Therefore internal audit is helps the bank in strengthen the credibility system of the bank. Further, all the urban and rural area sample banks have maintaining the proper documentation.However, collateral security is one fourth of urban area sample bank have not collect the collateral security from small borrowers.

CONCLUSION

The CRM policy is provide the guidelines to manage the credit in effectively manner in banking business. CRM policy is processes through identify, manage, monitoring and mitigating the credit risk. The banks have following the CRM policy as per the RBI norms for sound lending practices with applying the KYC norms and registered the credit information bureau to identify the credit worthiness of the borrowers. The credit exposure norms helps the bank in concentration credit limits and diversification of funds helps the banks in in monitoring risk. Credit audit is most important to the banks in control the risk, Further early warning, documentation, collateral helps the banks in mitigate the risk in the banking business.

The further sample bank must concentrate on exposure norms regarding the RBI guidelines, it helps the banks in sound credit lending practices Further, banks must install the system to detect early warning system to tackle the bad credit account. The collateral security is the most necessary for bank in recover the credit, therefore banks must take the collateral from small borrowers to control the risk.

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