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Anthology : The Research

Management of Credit Risk in Commercial Banks in Reference to Non-Performng Assets (NPA)

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Abstract

Risk is omnipresent in the real world. Financial institutions, therefore, should manage the risk efficiently to survive in this highly uncertain world. Risk is the fundamental element that drives financial behavior. The future of banking will undoubtedly rest on risk management dynamics. Only those banks that have efficient risk management system will survive in the market in the long run. The effective management of credit risk is a critical component of comprehensive risk management essential for long term success of a banking institution.

Indian banking has made a significant progress after nationalization especially in three aspects: Branch expansion, deposit mobilization and loan maximization. Among these, monitoring of loans took a back seat in an era of mass banking and social banking. In the changing scenario of the operations of Public Sector Banks (PSBs), Non-performing Assets (NPAs) have been the most vexing problem faced by PSBs. The Reserve Bank of India (RBI) and Government of India (GoI) have initiated various measures to curb NPAs in the post-financial sector reforms. But PSBs are still unable to solve the problem. In the liberalized scenario, the continuation of the NPAs is a menace for the survival of the banks. After over a decade of implementation of financial sector reforms and prudential norms, there is a need for a systematic analysis of NPAs. In this milieu, this article is an investigation of the trends in NPAs, sectoral composition of NPAs, asset quality diagnosis and the scenario of NPAs at the bank level. The strength and soundness of the banking system primarily depends upon health of the advances. This paper tries to examine the problems in credit management and growing NPA in Indian context.

Introduction:

Credit risk is arguably the most significant form of risk capital market participant's face. It is often unmanaged, or at best poorly managed, and not well understood. It tends to be situation-specific, and it does not easily fit to the concept of modern portfolio theory. And yet, it is an important consideration in most business and financial transactions. Managing credit risk exposure more effectively is crucial to improving capital market liquidity and efficiency. The corner stone of credit risk management is the establishment of a frame work that defines corporate priorities, loan approval process, credit risk rating system; risk adjusted pricing system, loan review mechanism and comprehensive reporting system.

Today the Indian banking system has undergone significant transformation following financial sector reforms, adopting international best practices. Several prudential, payment, integrating and provisioning norms have been introduced, and these are pressurizing banks to improve efficiency and trim down NPAs to improve the financial health in the banking system.

It is among the best in the world because Indian banks are favorable on growth, asset quality and profitability; RBI and Government have made some notable changes in policies and regulation to strengthen the sector. NPA involves the necessity of provisions, any increase in which bring down the overall profitability of banks; is the indicator of banking health in a country.

The objectives of the present study are:

- To find out trends in NPA Level.
- To analyze how efficiently banks have been managing NPA.
- To Highlight the NPAs position of selected PSB's.