

# A STUDY OF CREDIT RISK MANAGEMENT SYSTEMS IN SCHEDULED COMMERCIAL BANKS IN INDIA

## Abstract

The banking sector went through significant changes after banks were nationalized in 1969. The government policies promoting liberalization, privatization, and globalization. Banks face credit risk when borrowers may not repay their loans, which includes individual loan defaults and overall portfolio risk. This risk is inherent in lending, especially when borrowers' financial capacity is not well-understood.

This study focuses on Scheduled Commercial Banks in three categories: Public Sector Banks, Private Sector Banks, and Foreign Banks, excluding Regional Rural Banks. It examines their credit efficiency through metrics like loan-to-deposit ratio, Capital Adequacy Ratio, Credit Deposit Ratio, and Non-Performing Assets (NPA) ratios. Additionally, the study evaluates how these banks manage Non-Performing Assets, looking at NPA levels, asset quality, and recovery efforts. The researcher has identified these issues for analysis and interpretation.

**Keywords:** Credit Risk, Non-Performing Assets, recovery, Scheduled Commercial Banks

## Author

**Dr. S. Sankareswari**  
Assistant Professor  
PG & Research Department of Commerce  
Thiagarajar College  
Madurai Kamaraj University  
Madurai, Tamil Nadu, India.

## I. INTRODUCTION

The banking sector has a long history dating back to 1786, but it saw significant changes after banks were nationalized in 1969. Government policies, such as liberalization, privatization, and globalization, spurred rapid growth in the banking industry. In 1991, the New Economic Policy opened up new opportunities for banks beyond traditional lending. However, Indian nationalized banks, despite their extensive networks, face challenges, with Non-Performing Assets (NPAs) and Credit Risk Management being major concerns.

The impact of credit risk is profound, affecting not only the financial position of banks but also the broader economy. Therefore, it is crucial to closely monitor and manage credit risk, as excessive risk can pose a significant threat to banks, even jeopardizing their operations. Credit risk directly influences a bank's financial strength and earnings. To mitigate this risk, banks employ various risk management practices. Numerous parameters are used to assess the extent of risk, making it imperative for banks to establish sound risk management frameworks. Credit risk management involves several steps, including the identification, measurement, monitoring, and control of risk exposure. Consequently, a comprehensive credit management framework is put in place, encompassing policies and regulations aimed at effectively monitoring and managing risk.

## II. REVIEW OF LITERATURE

The researcher has taken following reviews to justify the Problem selected for research.

1. **Saah.M and Zaman .A 2021:** conducted a study titled "Management of NPAs in Banks: A Special Focus on UBI." Their research revealed that as NPA levels decreased, there was a corresponding increase in the profitability of banks.
2. **Smarika Jain, Dr. Sangeetha R. (2021):** in their study they recommended that management to give greater attention to the management of non-performing assets in the realm of credit risk management, as these assets have a negative impact. In contrast, they found that the capital adequacy ratio does not exert a substantial influence. Therefore, they suggest that excessive emphasis should not be placed on the capital adequacy ratio but to simply ensure it remains within the range of 12-15 percent to mitigate the risk of financial underperformance for the firms
3. **Hawaldar, I.T, Spulkar, C., Lokesh, A., Birau, R., Robegen, C.(2020):** in their study, examined non-performing assets in agriculture loans in India, they found that there wasn't a significant difference in how these loans performed before and after approval. They also noted that the management of non-performing assets by banks didn't show a significant change. They attributed the problem of borrowers deliberately defaulting on their loans and the rise in non-performing assets in banks to the debt waiver policies announced by political parties.
4. **Jethwani, B., Dave, D., Ali, T., Phansalker, S., and Ahhirao, S. (2020,):** they conducted a regression analysis to examine the relationship between Indian agricultural GDP and Non-Performing Assets (NPAs). Their findings indicated that the repayment of

farm loans is negatively impacted by factors such as a high rural population, low crop export value, and reduced crop production for the year. It's important to note that the study suggests that farm loan waivers alone cannot effectively address this issue.

5. **Sharma S., Rathore D.S., and Prasad, J. (2019):** it was observed that in it was observed that in both public and private sector banks, the primary cause of Non-Performing Assets (NPAs) stems from the misutilization of bank loans and ineffective recovery management. NPAs are on the rise, particularly in the agriculture and industrial sectors. To address this issue, the researchers recommended enhancing corporate governance practices to facilitate better operational and credit-related decisions.
6. **Rana C., (2018):** he concluded in his study titled Management of NPA in context of Indian banking system that NPAs negatively affect profitability, liquidity, and lead to credit losses. There are two types of NPAs: gross and net. They also cause lower yields on loans and have a detrimental impact on capital adequacy. To prevent these problems, the researcher has suggested to avoiding multiple financing and promptly recognizing loan repayment issues.
7. **Taiwo, Ucheaga, Achugamonu, Adetiloye, and Okoye (2017):** conducted a study to assess how Credit Risk Management (CRM) influences the financial performance and loan growth of deposit money banks in Nigeria. The findings indicated that CRM had a limited impact on the overall quantity of loans and advances.
8. **Sheeba, (2017):** conducted a study to understand the factors influencing credit risk and its impact on a bank's profitability. The study suggested that the bank in question should improve its Credit Risk Management (CRM) methods to reduce credit risk. This involves reducing non-performing assets and ensuring proper leverage management.
9. **Khan & Ali, (2016):** conducted a study to examine the relationship between the liquidity and profitability of commercial banks in Pakistan. They utilized correlation and regression techniques for their evaluation. The findings from the data indicated a significant positive correlation between the liquidity and profitability of these banks.
10. **Bayyoud and Sayyad (2015):** conducted research in the Palestinian banking sector to investigate the impact of Credit Risk Management (CRM) on profitability. They collected data from 2010 to 2014 and used a regression model for analysis. The study found no significant connection between credit risk and the financial performance of Palestinian commercial and investment banks.
11. **Li and Zou (2014):** examined the relationship between CRM and the profitability of European commercial banks. They used profitability metrics like ROE and ROA, along with CRM factors such as NPLR and CAR. The study revealed that CRM had a significant influence on bank profitability. NPLR significantly affected both ROE and ROA, while CAR had a minimal impact.
12. **Said (2013):** explored the correlation between various risks (credit risk, operating risk, and liquidity risk) and efficiency in Islamic banks across the Middle East and North

Africa. The findings showed that operating and credit risks had a negative association with efficiency, whereas liquidity risk had a limited impact on bank performance.

- 13. Poudel (2012):** investigated the impact of CRM factors on bank profitability using data from 2001 to 2011 from 31 banks in Nepal. The study employed descriptive, correlation, and regression statistics. The results indicated that these factors had a negative influence on bank financial performance, with default risk being the most significant predictor of economic success. The study recommended strategies to minimize credit risk exposure.
- 14. Ogonori et al. (2011):** emphasized that the failure to collect loans and advances extended to customers and related parties was a major contributor to the distress of liquidated banks.
- 15. Mansaram (2010):** highlighted the importance of Non-Performing Asset (NPA) management for the profitability and viability of banks. A sound NPA management system helps in the quick identification and containment of non-performing advances to minimize their impact on financials.
- 16. Kuphal (2009):** noted that Non-Performing Assets were higher in Public Sector Bank groups due to their high advances to the priority sector, including agriculture.
- 17. Dong (2008):** discussed the nature of Non-Performing Assets in the Indian Banking System and key design features for Assets Reconstruction Companies to resolve NPAs based on regional and cross-country experiences.
- 18. Janardhan G Naik (2006):** mentioned that banks, following Basel II norms and international best practices, are expected to efficiently manage NPAs. Legal reforms like the SARFAESI Act, 2002, are aiding in faster NPA recovery.
- 19. Charanjit Singh and Mohammad Farook Khan (2005):** found that Debt Recovery Tribunals (DRTs) are effective in recovering bank dues to some extent, and the establishment of DRTs has brought changes in bank recovery suits.
- 20. Muninarayanappa and Nirmala (2004):** outlined the concept of Credit Risk Management in banks, emphasizing the importance of maintaining a proper credit risk environment, strategy, and policies to protect and improve loan quality.

### III. STATEMENT OF THE PROBLEM

In the recent times, both Private and Public Sector Banks have introduced numerous new and innovative financial as well as non-financial services to attract and retain customers. While this development is positive, it has also raised concerns about potentially weakening credit risk management practices among banks. Weak credit risk management has been a leading cause of failure for many commercial banks, significantly impacting the financial performance of the banking system, particularly the profitability of individual banks. The well-documented issue of Non-Performing Assets (NPAs) has a notable impact on the effectiveness of the Credit Risk Management System within the Indian Banking System. It is imperative to address this issue. The primary objective of this study is to analyze the NPA situation and the recovery procedures employed by Scheduled Commercial Banks in India,

which are integral components of the Credit Risk Management system adopted by these banks. Additionally, the study aims to provide relevant recommendations for addressing these challenges.

#### **IV. OBJECTIVES OF THE STUDY**

The major objectives of the study are as follows:

- Investigate the management of Non-Performing Assets (NPAs) as an integral part of the Credit Risk Management System.
- Analyze NPAs within Scheduled Commercial Banks using key metrics like Credit Depository Ratio, Capital Adequacy Ratio, Gross NPA to Gross Advances Ratio, and Net NPAs to Net Advances Ratio to assess the Credit Efficiency of these banks.
- Examine the procedures employed for recovering NPAs in Scheduled Commercial Banks.

#### **V. METHODOLOGY OF THE STUDY**

This research on Credit Risk Management System specifically centers on Scheduled Commercial Banks (SCBs) operating in India, comprising Public Sector, Private Sector, and Foreign Banks, while excluding Regional Rural Banks. The study evaluates the credit efficiency of these banks through various indicators. These indicators encompass the proportion of credits relative to deposits, the assessment of capital strength via the Capital Adequacy Ratio, the credit depository ratio, the Gross NPA to Gross Advances Ratio, and the Net NPA to Net Adequacy Ratio. The researcher conducted this study by examining the entire population of relevant banks. Secondary data pertaining to the Credit Risk Management System were collected for a ten-year period spanning from 2012-13 to 2021-22. The data was sourced from diverse materials such as books, journals, magazines, publications, research reports, RBI Bulletin, RBI Annual Reports, Reports on Trends and Progress of Banking, and various websites. To analyze this data comprehensively, the researcher utilized statistical tools, including percentage analysis, ratio analysis, and compound growth rate calculations.

#### **VI. ANALYSIS AND INTERPRETATION**

**1. Credit Deposit Ratio of Bank Groups:**The analysis of the Credit Depository Ratio (CDR) of Scheduled Commercial Banks (SCBs) over the ten-year period from 2012-13 to 2021-22 indicates the following trends: The CDR for Public Sector Banks experienced a decline from 2016-17 to 2021-22. Private Sector Banks, on the other hand, exhibited positive growth in their CDR over the same period. Foreign Banks displayed a fluctuating trend in their CDR, with noticeable reductions from 2020 to 2022 primarily attributed to the impact of the COVID-19 pandemic. These CDR figures for different bank groups are summarized and presented in Table 1.

**Table 1: Credit Depository Ratio of Bank Groups (In Percent)**

Year	Public Sector Bank	Private Sector Banks	Foreign Banks	All SCBs
2012-13	77.85	81.9	91.51	79.14
2013-14	77.42	84.37	82.6	78.93
2014-15	76.12	86.36	80.85	78.32
2015-16	74.72	90.3	79.24	78.24
2016-17	68.81	86.53	71.39	73.04
2017-18	68.96	88.36	70.93	74.16
2018-19	69.44	88.26	68.26	75.09
2019-20	68.06	87.16	62.56	73.72
2020-21	64.11	82.02	54.21	79.14
2021-22	65.72	83.50	55.06	71.05
<b>CGR</b>	<b>-0.91</b>	<b>0.89</b>	<b>-0.93</b>	<b>-0.91</b>

Source: Report on Trends and progress of banks in India.

2. **Capital Adequacy Ratio of Bank Groups:** The Capital Adequacy Ratio (CAR) among various bank groups within Scheduled Commercial Banks (SCBs) demonstrated an upward trajectory over the study period, spanning from 13.9% in 2012-13 to 16.8% in 2021-22. Specifically: Public Sector Bank Groups exhibited a rising trend, increasing from 12.24% in 2012-13 to 14.7% in 2021-22. Private Sector Bank Groups also experienced an increase, moving from 16.8% to 18.8%. Foreign Bank Groups showed substantial growth in their CAR, with figures climbing from 11.05% to 19.8% during the study duration. Detailed data on the Capital Adequacy Ratio of banks within SCBs, along with their respective Compound Growth Rates, can be found in Table 2.

**Table 2: Capital Adequacy Ratio of Bank Groups (In Percent)**

Year	Public Sector banks	Private Sector Banks	Foreign Banks	All SCBs
2012-13	12.34	16.8	11.05	13.9
2013-14	11.2	13.1	12.41	13
2014-15	11.2	13.1	12.41	13
2015-16	11.8	15.7	17.1	13.3
2016-17	12.1	15.5	16.4	13.7
2017-18	11.7	16.4	19.1	13.8
2018-19	12.2	16.1	19.4	14.3
2019-20	12.9	16.5	17.7	14.8
2020-21	14	18.4	19.5	16.3
2021-22	14.7	18.8	19.8	16.8
<b>CGR</b>	<b>0.018</b>	<b>0.011</b>	<b>0.060</b>	<b>0.019</b>

Source: Report on trends and progress of Banks in India

- 3. Gross Advances in Bank Groups:** The Gross Advances of bank groups in India have reached a total of Rs. 90,87,793 crores. Public Sector banks lead with Rs. 51,81,427.5 crores (57.01% of total advances), followed by Private Sector banks with Rs. 27,10,064.3 crores (29.82%), and Foreign banks with Rs. 3,71,965.7 crores (12.8%). The bank-wise Gross Advances of SCBs are presented in Table 3.

**Table 3: Gross Advances of Banks (In Crores)**

Year	Public Sector Bank	Private Sector Banks	Foreign Banks	SCBs
2012-13	3141286	1151246	260405	5171820
2013-14	3607182	1360256	299575	6875748
2014-15	3897549	1607340	336609	7560666
2015-16	3911176	1972659	376504	8171114
2016-17	3914442	2266721	343611	8476705
2017-18	6141698	2725891	363305	9266260
2018-19	6382461	3442347	406881	10287085
2019-20	6615112	3776231	436065	10918918
2020-21	6770363	4097040	420617	11399608
2021-22	7433006	4700912	476085	12750006
<b>Total</b>	<b>51814275</b>	<b>27100643</b>	<b>3719657</b>	<b>90877930</b>
<b>Percentage (%)</b>	<b>57.01</b>	<b>29.82</b>	<b>12.8</b>	<b>100</b>

Source: Report on trends and progress of Banks in India

## VII. GROSS NPAs OF BANK GROUPS

The Public Sector Banks hold the majority share in Gross Non-Performing Assets (NPAs) among scheduled commercial banks, accounting for approximately 80.36%. In contrast, Private Sector bank groups hold 17.18% of the Gross NPAs, while foreign bank groups hold 2%. The detailed figures for Gross NPAs among various bank groups are presented in Table 4.

**Table 4: Gross NPAs of Bank Groups (In crores)**

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	All SCBs
2012-13	165006	15800	7977	194053
2013-14	227264	24542	11565	263362
2014-15	278468	34106	10761	323335
2015-16	539956	56186	15805	611947
2016-17	684732	93209	13629	791791
2017-18	895601	129335	13849	1039679
2018-19	739541	183604	12242	936474
2019-20	678317	209568	10208	899803
2020-21	616616	200141	15044	837771
2021-22	139905	125834	8320	283441

<b>TOTAL</b>	<b>4965406</b>	<b>1072325</b>	<b>119400</b>	<b>6181656</b>
<b>Percentage (%)</b>	<b>80.36</b>	<b>17.18</b>	<b>2</b>	<b>100</b>
<b>CGR</b>	<b>2</b>	<b>6.5</b>	<b>0.5</b>	<b>2.19</b>

**Source:** Report on Trends and progress of Banks in India

**Gross NPAs to Gross Advances Ratio:** The Gross Non-Performing Asset (NPA) ratio within Scheduled Commercial Banks (SCBs) exhibited a consistent increase over the study period. Specifically, the Gross NPA ratio for SCBs rose from 3.23% in 2012-13 to 5.82% in 2021-22. Breaking it down further: For Public Sector banks, the Gross NPA ratio increased from 3.24% in 2012-13 to 7.28% in 2021-22. Private sector banks saw their Gross NPA ratio climb from 1.77% in 2012-13 to 3.84% in 2021-22. In the case of foreign banks, the Gross NPA ratio experienced a decline, decreasing from 3.04% to 2.9% between 2012-13 and 2021-22. Detailed data can be found in Table 5.

**Table 5: Gross NPAs to Gross Advances Ratio of Bank Groups (In percent)**

<b>Year</b>	<b>Public Sector Banks</b>	<b>Private Sector Banks</b>	<b>Foreign Banks</b>	<b>SCBs</b>
2012-13	3.24	1.77	3.04	3.23
2013-14	4.09	1.78	3.86	3.83
2014-15	5.26	2.1	3.2	4.27
2015-16	10.69	2.83	4.2	7.48
2016-17	12.95	4.05	3.96	9.32
2017-18	14.58	4.62	3.81	11.18
2018-19	11.59	5.25	2.99	9.08
2019-20	10.25	5.45	2.34	8.21
2020-21	9.11	4.94	2.42	7.33
2021-22	7.28	3.84	2.9	5.82

**Source:** Report on Trends and progress in Banks in India

## VIII. NET ADVANCES OF BANK GROUPS

The total Net Advances among bank groups in India have reached Rs. 75,76,423.3 crores. Public Sector banks lead the way, providing advances amounting to Rs. 50,45,267.3 crores, which accounts for roughly 66.6% of the total advances in India. Private Sector bank groups follow with advances totaling Rs. 45,52,157.3 crores, making up approximately 28.5% of the total. Foreign bank groups have extended advances amounting to Rs. 3,18,069.4 crores, representing around 7.72% of the total advances. The Net Advances of bank groups has shown in table 6



**Table 6: Net Advances of Banks Groups (In Crores)**

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	SCBs
2012-13	4472845	873252	263680	5879773
2013-14	5101137	1342935	291142	6735213
2014-15	5476250	1584312	327599	7388160
2015-16	5593577	1939339	363551	7896467
2016-17	5557232	2219475	332335	8116109
2017-18	5697350	26626753	351016	8745997
2018-19	5892667	3327328	396726	9676183
2019-20	6158112	3625154	428076	10301897
2020-21	6348758	3939292	423546	10820208
2021-22	154745	43733	3023	204226
<b>Total</b>	<b>50452673</b>	<b>45521573</b>	<b>3180694</b>	<b>75764233</b>
<b>Percentage</b>	<b>66.6</b>	<b>28.5</b>	<b>4.1</b>	<b>100</b>
<b>CGR</b>	<b>1.89</b>	<b>1.02</b>	<b>7.72</b>	<b>1.88</b>

**Source:** Report on Trends and progress in Banks in India

- 1. Net NPAs of Bank Groups:** There is an observable upward trend in Non-Performing Assets (NPA) among Scheduled Commercial Banks (SCBs). Within the realm of SCBs, Public Sector Banks hold the majority share of NPAs. The Net NPAs of Bank Groups have presented in table 7.

**Table 7: Net NPAs of Bank Groups (In Crores)**

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	SCBs
2012-13	90037	3900	2663	98693
2013-14	130394	8862	3160	142421
2014-15	159951	14128	1762	175841
2015-16	320376	26677	2762	349814
2016-17	383089	47780	2137	433121
2017-18	454473	64380	1548	520838
2018-19	285122	67309	2051	355068
2019-20	230918	55683	2005	289370
2020-21	196451	55809	2987	258228
2021-22	154745	43733	3023	204226
<b>TOTAL</b>	<b>2405556</b>	<b>388261</b>	<b>24098</b>	<b>2827620</b>
<b>Percentage (%)</b>	<b>85.07</b>	<b>13.73</b>	<b>0.85</b>	<b>100</b>

**Source:** Report on trends and progress in Banks in India

- 2. Net NPAs to Net Advances Ratio:** The trend in the Net Non-Performing Assets (NPA) to Net Advances Ratio has been characterized by fluctuations. Notably, Public Sector

Banks witnessed an increase in this ratio, particularly during the years 2016-2019. Private Sector Banks and Foreign Banks also experienced an upward trend in their Net NPAs to Net Advances Ratio. The table 8 shows the net Net NPAs to Net Advances Ratio for the year 2012-2022

**Table 8: Net NPAs to Net Advances Ratio (In Percent)**

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	All SCBs
2012-13	2	0.4	1	1.7
2013-14	2.6	0.7	1.1	2.1
2014-15	2.9	0.9	0.5	2.4
2015-16	5.7	1.4	0.8	4.4
2016-17	6.9	2.2	0.6	5.3
2017-18	8	2.4	0.4	6
2018-19	4.8	2	0.5	3.7
2019-20	3.7	1.5	0.5	2.8
2020-21	3.1	1.4	0.7	2.4
2021-22	2.2	1	0.6	1.7

**Source:** Report on Trends and progress in Banks in India.

## IX. RECOVERY OF NON- PERFORING ASSETs BY SCBs

The Recovery of Non- Performing Assets for the study period 2012-2013 to 2021-2022 has shown below.

- 1. Recovery of NPAs through Lokadalats:** The trend in NPAs recovery through Lok Adalats has shown fluctuations, and these Lok Adalats play a significant role among all the channels for recovering Non-Performing Assets (NPAs). The recovery procedure of NPAs through LOKADALAT has presented in the table 9

**Table 9: Recovery of Npas through Lokadalts (In Crores)**

Year	Amount Involved	Amount Recovered	Percentage of Recovery (%)
2012-13	66	4	6.06
2013-14	23200	1400	6.034
2014-15	310	10	3.23
2015-16	720	32	4.44
2016-17	1058	38	3.60
2017-18	45728	1811	3.96
2018-19	53484	2750	5.15
2019-20	67801	4211	6.21
2020-21	28084	1119	3.99
2021-22	119005	2777	2.33

**Source:** Report on Trends and progress in Banks in India

2. **Recovery of NPAs through Debt Recovery Tribunal (DRT):** The trend in NPAs recovery through Debt Recovery Tribunals (DRTs) exhibited an increase during the years 2016, 2017, 2021, and 2022. However, for the remaining period of the study, there was a declining trend in NPAs recovery through DRTs.. The details were presented in table 10.

**Table 10: Recovery of NPAs Through Debt Recovery Tribunal (DRT) (In Crores)**

Year	Amount Involved	Amount Recovered	Percentage of Recovery (%)
2012-13	310	44	14.19
2013-14	55300	5300	9.58
2014-15	604	42	6.95
2015-16	693	64	9.24
2016-17	671	164	24.44
2017-18	133095	7235	5.44
2018-19	264413	10552	3.99
2019-20	245570	10018	4.07
2020-21	225361	8113	3.60
2021-22	47165	12114	25.68

**Source:** Report on Trends and progress in Banks in India

3. **Recovery of NPAs Through Sarfaesi Act:** The recovery of NPAs through the SARFAESI ACT were increasing trend except in the year 2016 & 2017. The recovery procedure of NPA through SARAFASI ACT has presented in the table 11.

**Table 11: Recovery of NPAs through Sarfaesi Act (In Crores)**

Year	Amount Involved	Amount Recovered	Percentage Of Recovery (%)
2012-13	681	185	27.17
2013-14	94600	24400	25.80
2014-15	1568	256	16.33
2015-16	801	132	16.48
2016-17	1131	78	6.89
2017-18	81879	26380	32.21
2018-19	258642	38905	15.04
2019-20	196582	52563	26.74
2020-21	67510	27686	41.01
2021-22	121642	27349	22.48

**Source:** Report on Trends and progress in Banks in India

4. **Recovery of NPAs through Insolvency and Bankruptcy Code:** The Insolvency and Bankruptcy Code (IBC) was implemented in 2016, and as a result, data regarding NPA recovery through the IBC code is available for the years 2017 to 2022. It's noteworthy

that NPA recovery through the IBC showed a decline, decreasing from 49.61% in 2017 to 21.18% in 2021. Detailed information is provided in Table 12

**Table 12: Recovery of NPAs through Insolvency and Bankruptcy Code (In Crores)**

Year	Amount Involved	Amount Recovered	Percentage Of Recovery
2017-18	9929	4926	49.61
2018-19	145457	66440	45.68
2019-20	232478	105773	45.50
2020-21	135319	27311	20.18
2021-22	199250	47421	23.80

**Source:** Report on Trends and progress in Banks in India

## X. FINDINGS

1. The Credit Depository Ratio (CDR) for Public Sector Banks witnessed a decline from 2016 to 2022. Conversely, Private Sector Banks experienced a positive growth trend, followed by Foreign Banks, which saw a decrease attributed to the COVID-19 pandemic.
2. Over the study period from 2012 to 2022, the Capital Adequacy Ratio of Scheduled Commercial Banks showed a consistent increasing trend, rising from 13.9% to 16.8%.
3. The CAR of PSB has increasing Trend from 12.34% to 14.7% during the period 2012-22, PSB (16.8%to 18.8%) followed by Foreign Banks 11.05%to 19.8%.
4. The Gross Advances of Bank Groups in India shows that the PSB have the highest Percentage (57.01%) followed by PSB (29.82) and Foreign Bank (12.8).
5. In the GNPA of SCB the Public Sector Banks has a high GNPA around 80.36% followed by PSB 17.18% and Foreign Bank 2%
6. The GNPA to Gross Advances Ratio of SCB has increased from 3.23% to 5.82% and in PSB and PSB has increased from 3.24% to 7.28 %; In Foreign Banks the GNPA has decreased from 3.04 % to 2.09%.
7. Among the various bank groups in India, the Net Advances reveal that Public Sector Banks (PSBs) hold the largest share at 66.61%, followed by Private Sector Banks (28.5%), and then Foreign Banks (7.22%).
8. The Net Non-Performing Assets (NNPA) to Net Advances Ratio, especially for Public Sector Banks, exhibited an upward trend during the years 2016 to 2019.
9. NPA recovery through Lok Adalats displayed a fluctuating trend over the course of the study period.

10. The Recovery of NPAs through DRT has increased in the year 2016,2017,2021,2022
11. The Recovery of NPAs through SARFAST ACT has increased trend expect in the year 2016 and 2017
12. The Recovery of NPAs through IBC has decreased from 49.61% to 21.18% from the year 2017-2022.

## XI. SUGGESTIONS

1. It is suggested that the SCBs are make compulsory to comply the credit policy guidelines issued by RBI.
2. **Enhanced Credit Risk Management:** Banks, especially Public Sector Banks, should focus on strengthening their Credit Risk Management (CRM) systems to minimize Non-Performing Assets (NPAs). This includes more rigorous assessment of borrowers' creditworthiness and ongoing monitoring of loan accounts.
3. **Interest Rate Adjustment:** To address customer concerns and attract more borrowers, banks should consider revising interest rates to competitive levels. Offering competitive rates may encourage prompt repayment and reduce NPAs.
4. **Focus on Capital Adequacy:** Given the importance of Capital Adequacy Ratios (CAR) in maintaining financial stability, banks should continue their efforts to maintain healthy CAR levels. This ensures they have an adequate buffer to absorb losses and reduce NPAs.
5. **NPAs Recovery Channels:** Banks should actively explore and utilize various NPAs recovery channels, including Debt Recovery Tribunals (DRTs), the SARFAESI Act, and the Insolvency and Bankruptcy Code (IBC). Effective use of these channels can lead to more successful NPA recoveries.
6. **Credit Monitoring:** Implementing a comprehensive credit monitoring policy is crucial. Banks should closely track warning signals, such as missed interest payments and dishonored checks, to identify potential NPAs early and take proactive measures.
7. **Loan Screening:** Conduct thorough loan screening processes to assess the genuine need and creditworthiness of loan applicants. This helps in avoiding loans to borrowers who may struggle with repayment.
8. **Lok Adalat Improvement:** To optimize NPAs recovery through Lok Adalats, banks could work on streamlining and improving the efficiency of these recovery mechanisms.
9. **Review of IBC Implementation:** Given the decreasing trend in NPA recovery through the Insolvency and Bankruptcy Code (IBC), it's essential to evaluate the reasons behind this decline and consider potential improvements in IBC implementation.

**10. Customer Engagement:** Engage with customers to understand their financial needs and challenges. This can help banks tailor their offerings and services to better suit customer requirements, potentially reducing NPAs.

These suggestions should help banks in managing NPAs more effectively, improving their financial health, and providing better support to their customers.

## **XII. CONCLUSION**

The purpose of this study was to gain insights into the credit policies and credit risk management systems employed by commercial banks. The credit risk management policy of a bank plays a critical role in ensuring the smooth functioning of its banking operations. It serves as the guiding framework for making decisions regarding whether to grant credit to a customer and the extent of credit to be provided. This study aimed to understand how banks manage credit policies and handle credit risk. A bank's credit risk management policy is crucial for its smooth operations. It helps decide whether to give credit to customers and how much. The research enriched our knowledge about effectively managing credit risk in banking. While it's hard to eliminate all bad loans, known as Non-Performing Assets (NPAs), banks can reduce them with the right strategies. This involves proper assessment, monitoring, and follow-up of loans to prevent NPAs.

## **BIBLIOGRAPHY**

### **Journals**

- [1] International Journal of Humanities, Law and Social Sciences Published Biannually by New Archaeological & Geological Society, Kanpur, India- An Overview Of The Impact Of Credit Risk Management On Indian Banking Sector
- [2] Ram Bilas Agrawal, Dr. Mredu Goyal, Non- Performing Assets of Banks: A Literature Review, -- Pal arch Journal of Archaeology Egypt/Egyptology 18(10), 330-340. ISSN 1567-214x)
- [3] The relationship between credit risk management and profitability between investment and commercial banks in Palestine. International Journal of Economics and Finance, 7(11), 163-169.
- [4] The Impact Of Credit Risk Management On The Commercial Banks Performance In Nigeria -International Journal of Management and Sustainability Vol. 3, No. 5, 295-306. ISSN (e):2306-0662,ISSN(p):2306-9856,DOI: 0.18488/journal.11/2014.3.5/11.5.295.306.
- [5] A Study Of Credit Risk Management In Commercial Banks –Madurai Kamaraj University, Madurai.
- [6] Priyanka. Y. Kumar, C.R & Scholar P (2019). A Study of Non-Performing Assets of Commercial Banks and it's recovery in India. Complexity International, 23(2).
- [7] Dudhe, C. (2017). Impact of non- performing assets on the profitability of banks –a Selective study. Economic and Management Journal, 18 (9-12), 4-13.
- [8] Gnawali, A. (2018) Non-Performing Assets and its Effects on Profitability of Nepalese Commercial Banks. International Journal of Research in Business Student and Management, 5 (9), 39-47.
- [9] Sengupta, R.and Vardhan,H.(2017), “Non-performing assets in Indian banks this time it is different”, Indira Gandhi Institute of Development and Research Economic and Political Weekly, Vol. 52 No.12,pp.85-95.
- [10] Chatterjee, C. and Mukherjee, J. and Das, R., “Management of nonperforming assets - a current scenario”, International Journal of Social Science & Interdisciplinary Research, Vol.1 Issue 11, 2012

### **WEBSITES**

- [1] <http://www.rbi.org.in>
- [2] <http://www.finance-research.net>
- [3] [www.investopedia.com](http://www.investopedia.com)
- [4] [http://www.asticlebase.com/banking articles/problem-and-recovery](http://www.asticlebase.com/banking%20articles/problem-and-recovery)

- [5] <https://www.slideshare.net/Amanrajak6/a-study-on-npa-of-sbi>
- [6] <https://www.researchgate.net>
- [7] <https://prepp.in/news/e-492-classification-of-npa-Indian-economy-notes>
- [8] <https://groww.i.p/non-performing-assets>
- [9] <https://www.jetir.org/view?paper=JETIR2201562>
- [10] <https://iwjtmne.mijntweedemening.nl/credit-risk-in-banks>
- [11] [https://ug.linkedin.com/posts/govind-gurnani-2a2a0955\\_credit-risk-management-in-the-banks-credit-activity-7055393382147256321-qVv4](https://ug.linkedin.com/posts/govind-gurnani-2a2a0955_credit-risk-management-in-the-banks-credit-activity-7055393382147256321-qVv4)
- [12] <http://lrc.acharyainstitutes.in:8080/jspui/bitstream/123456789/957/1/A%20Study%20on%20Credit%20Risk%20Management%20at%20HDFC%20Bank%2C%20Tumkur.pdf>
- [13] [https://ug.linkedin.com/posts/govind-gurnani-2a2a0955\\_credit-risk-management-in-the-banks-credit-activity-7055393382147256321-qVv4](https://ug.linkedin.com/posts/govind-gurnani-2a2a0955_credit-risk-management-in-the-banks-credit-activity-7055393382147256321-qVv4)

### **RBI PUBLICATIONS**

- [1] Annual Reports from 2012-2022
- [2] Statutory Tables relating to banks in India, 2012-2022
- [3] Trends and Progress of banks in India, 2012-2022
- [4] Reports on Currency and Finance, 2012-2022