

A Study on Credit Risk Management – A Qualitative Analysis on NBFC’S

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ABSTRACT

Design/methodology/approach –Basically the research is qualitative research type. The researcher has adopted the descriptive research method for this study. Data collection : Primary data and secondary data collection was made, on which primary data was collected by issuing questionnaire to the respondents which is inclusive of employees of Investment and Finance Company Chennai, only. Sampling Method: Complete enumeration method was used in our study, Covering the units of employees working in Investment and Finance Company Chennai. Findings – From the research we here to conclude NBFC’s offers wide product segment to the customers, this offers a greater choice to customer. This firmly helps the firm to strengthen their CRM. Originality/value – This paper communicates the ways and means credit risk can be managed.

Keywords: Credit risk, Portfolio risk, Credit risk management.

1. INTRODUCTION

Over the last decade, the role of credit risk management practices in the overall risk management in the commercial banks was well accepted and banks have established a set of these practices, collectively known as Credit Risk Management (CRM) framework. The present paper evaluates the strength of CRM framework in INVESTMENT AND FINANCE COMPANY LTD , and makes a qualitative assessment of the overall CRM framework and each of its three major elements, namely, risk parameters associated in granting the loan, analyzing the reasons for delay in present lending process, knowing the challenges behind the loan granting process . The study focused on the following areas via., the existing credit risk management system, and factors considered in the loan approval, various risk parameters in loan granting process. Finally suggest measures to strengthen the existing credit risk management system.

MEANING OF CREDIT RISK MANAGEMENT

Credit risk management is the risk to earnings or capital due to borrowers’ late and nonpayment of loan obligations. Credit risk includes both transaction risk and portfolio risk. Transaction risk is referred to the risk in individual loan while portfolio risk is referred to the risk inherent in the composition of the overall loan portfolio. On the other hand, credit risk management is the process that identifies loss exposures involved in lending and selection of the appropriate

measures to curb or at least minimize credit default. According to GEORGES DIONNE (OCTOBER 2003) Credit risk is the major challenge for risk managers and market regulators. Banks, regulators and central banks do not agree on how to measure credit risk and, more particularly, on how to compute the optimal capital that is necessary for protecting the different partners that share this risk

Credit Risk is inherent in all aspects of a commercial operation; however for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. According to FROOT AND STEIN (1998) it was found that credit risk management through active loan purchase and sales activity affects banks' investments in risky loans. Banks that purchase and sell loan should more risky loans (Credit Risk and Loss loans and commercial real estate loans) as a percentage of the balance sheet than other banks. Again, these results are especially striking because banks that manage their credit risk (by buying and selling loans) hold more risky loans than banks that merely sell loans (but don't buy them) or banks that merely buy loans (but don't sell them). According to PHILIP E. STRAHAN (OCTOBER 2001) Management of bank credit risk exposure through the loan sales market affects capital structure, lending, profits, and risk.

2. OBJECTIVES OF THE STUDY

- To know about various risk parameters involved in Credit risk Management Systems.
- To find out the reason for delays in the existing process of credit risk management system.
- To know the challenges that faced by the financial institution in credit risk management.

LIMITATIONS OF THE STUDY

- The respondents of the research were not revealing the entire data due to its confidentiality.
- Time constraint was one of the major issues.
- Availability of literature is limited. The data for the project is mainly compiled from credit risk management statement of bank.

3. RESEARCH METHODOLOGY

RESEARCH DESIGN

Descriptive type of research has been used in this study. It involves surveys and fact findings enquire of different kinds of major purpose of descriptive research is the description of the state of affairs, as it exists at present.

DATA COLLECTION METHOD

The data is collected from primary as well as secondary sources, the tool used for data collection is questionnaire there which Nominal and ordinal scales are used. The information is collected from each and every unit of the population i.e., survey method is used in this study.

POPULATION UNIT

The population was taken as 50 for the study.

HYPOTHESIS TESTING

H_0 : Null Hypothesis (H_0) - There is no significance relationship between the CIBIL report as one of the criteria of customer profile judging pattern and reliability of CIBIL score.

Alternative Hypothesis (H_1) - There is significance relationship between the CIBIL report as one of the criteria of customer profile judging pattern and reliability of CIBIL score.

TEST APPLIED: CORRELATION ANALYSIS

		CIBIL SCORE RELIABILITY	CIBIL REPORT
Cibil score reliability	Pearson Correlation	1	1.000**
	Sig. (2-tailed)		.
	N	3	2
Cibil report	Pearson Correlation	1.000**	1
	Sig. (2-tailed)	.	
	N	2	2

** . Correlation is significant at the 0.01 level (2-tailed).

TABLE NO 1

II. Null Hypothesis (H_0) - There is no significance relationship between the customer having political background and also customer involved in political background and also having a good repayment track record and funding percentage of the customer based on customer repayment track record.

Alternative Hypothesis (H_1) - There is significance relationship between the customer having political background and also customer involved in political background and also having a good repayment track record and funding percentage of the customer based on customer repayment track record.

Test Applied: Regression Analysis.

Regression equation is $Y = 0.029 X + 3.998$

III.TEST APPLIED: KRUSKAL WALLIS H-TEST CLASSIFICATION BASED ON EXPERIENCE OF THE EMPLOYEES VS CIBIL REPORT IS ONE OF THE CRITERIA FOR JUDGING THE CUSTOMER PROFILE

Null Hypothesis (H_0):- There is no significance relationship between the experience of the employees and CIBIL report as one of the criteria for judging the customer profile.

Alternative Hypothesis (H_1):- There is significance relationship between the experience of the employees and CIBIL report as one of the criteria for judging the customer profile.

KRUSKAL-WALLIS TEST RANKS

	EXPERIENCE	N	MEAN RANK
cibil report	1	3	22.33
	2	6	26.42
	3	5	25.60
	4	36	25.60
	Total	50	

TABLE NO 2

TEST STATISTICS

	CIBIL REPORT
Chi-Square	.346
Df	3
Asymp. Sig.	.951
a. Kruskal Wallis Test	
b. Grouping Variable: experience	

TABLE NO 3

IV.TEST APPLIED: CHI-SQUARE ANALYSIS

Null Hypothesis (H_0):- There is no significance relationship between the experience of the employees and risk involved without running CHOLA dedupe while logging in a file.

Alternative Hypothesis (H_1):- There is significance relationship between the experience of the employees and risk involved without running CHOLA dedupe while logging in a file.

CASE PROCESSING SUMMARY

	CASES					
	VALID		MISSING		TOTAL	
	N	Percent	N	Percent	N	Percent
chola dedupe * experience	3	75.0%	1	25.0%	4	100.0%

TABLE NO 3

CHI-SQUARE TESTS

	VALUE	DF	ASYMP. SIG. (2-SIDED)
Pearson Chi-Square	6.000 ^a	4	.199
Likelihood Ratio	6.592	4	.159
Linear-by-Linear Association	1.839	1	.175
N of Valid Cases	3		

a. 9 cells (100.0%) have expected count less than 5. The minimum expected count is .33.

TABLE NO 4

V. WEIGHTED AVERAGE METHOD

RISK PARAMETERS MEASURE ACCORDING TO CUSTOMER’S NATURE OF JOB WEIGHTS FOR LEVEL OF RISK AS FOLLOWS

4- HIGH RISK 3 – MODERATE RISK 2 – LOW RISK 1- NO RISK

JOB PROFILE OF THE CUSTOMERS	WEIGHTED AVERAGE	RANKS ACCORDING TO RISK
Cine field	3.68	2
Liquor and wine business	3.42	5
Beauty parlor	3.48	3.5
Political background	3.48	3.5
DSA/DMA	3.08	6
Lawyer	3.9	1

TABLE NO 5

VARIOUS PARAMETERS AFFECTING PROMPTNESS OF CREDIT GRANTING PROCEDURE

VARIOUS PARAMETERS	WEIGHTED AVERAGE	RANK ACCORDING TO VARIOUS PARAMETERS
CIBIL report submission	4.86	1
Know your customer documents completion	4.7	2
Credit approval	4.66	3
Getting Customer’s signature in time	4.32	4

TABLE NO 6

4. FINDINGS

Most of the Respondents (56 %) are in the AGE group of 28 to 38 Ages.

2. Majority of the Respondents (72%) are having the Experience of more than 3 years.

3. In my study that the most of the Respondents (36%) are in the designation of Field executive and (26%) of the respondents are in the designation of back office executive.

4. Almost all the respondents (98%) opined that collecting know your customer document is very important.

5. Majority of the Respondents (80%) are opined that CIBIL report as one of the criteria for judging customer profile pattern.

6. Majority of the respondents (80%) are opined that CIBIL score is highly reliable.

7. Maximum number of respondents (94%) opined that funding for the customer having more than 65 years of age will fall under the age as risk category.

8. Three fourth of the respondents (72%) opined that funding a customer from the cine field having more risk and (24%) of the respondents say that it is moderate risk.

9. Half of the Respondents (56%) opined that risk of funding customer with political background having a good Repayment Track Record with other NBFC.

10. From the study it reveals that the most of the Respondents (38%) opined that risk involved in funding direct sales association and direct marketing association of a competitor.

11. Most of the Respondents (60%) opined that risk involved in funding a customer with Liquor and Wine business.

12. Most of the Respondents (60%) opined that risk involved in funding a customer in running a Beauty Parlor business without Repayment Track Record.

13. Most of the Respondents (92%) opined that risk involved in funding a customer who comes from the Lawyer Family.

14. Almost majority of the of Respondents (46%) opined that risk involved in funding a customer to the Small Commercial Vehicles and Large Commercial Vehicles to an extent of above 90% without Repayment Track Record (RTR).

15. Majority of the Respondents (54%) opined that based on customer Repayment Track Record funding percentage under low risk category between 75%-80%.

16. Most of the Respondents (84%) opined that risk involved without running CHOLA Dedupe while logging in a file.

5. SUGGESTIONS and CONCLUSION

- Granting credit customers with political background can be treated cautiously.
- The combination of customers profile with cine field and lawyer is so risk category. So such combination can be avoided in future.
- Delays may occur in CIBIL report submission, so the focus has to be made to avoid such delays in future. The training can be given to the employees for accelerating the process.
- The entry of more Non Banking Financing Companies and Banking players in the financial sector has expanded the product segment to meet the different level of the requirement of the customers. It has brought about greater choice to the customers. CHOLA has vast market and very firm grip on its traditional customers in TamilNadu. RBI and SEBI is also playing very comprehensive role by regulating norms mandating

to Non Banking Financial Companies in this sector, that increases the confidence level of the customers to the private players. This helps the CHOLA to strengthen the credit risk management in Investment and Finance Company LTD.

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