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# Credit And Risk Management Policy of Public Sector Banks: A Case Study of Punjab National Bank

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**Abstract:**
*Loans and advances have emerged as the most exciting most glamorous segment of banking. Therefore, banks require having an efficient management system for loans and advances portfolio as it is the largest asset of the bank having direct impact on its profitability. In the wake of the continued tightening of norms of income recognition, asset classification and provisioning, increased competition and emergence of new types of risks in the financial sector, it has become imperative that the credit function are strengthened. RBI has also been emphasizing banks to evolve suitable guidelines for effective management and control of credit risks.*

*With a view to ensuring a healthy loan portfolio, PNB Bank has taken various steps to bring its policies and procedures in with the changing scenario which also aims at effective management dispersal of credit risks, strengthening of pre-sanction appraisal and post-follow up system. Therefore, this project aims at studying the procedure that bank follows for giving loans to its customers. This project also discusses about various parameters which bank takes into consideration while making decisions of giving loans to its customers*

**Keywords:** *credit, risk management, public sector bank, PNB*

## 1. Introduction

### *1.1 Early History of Banks*

Currently, India has 96 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 49,000 ATMs. According to a report by ICRA (**Investment Information and Credit Rating Agency of India Limited)** a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. Banking in India originated in the last decades of the 18th century. The first banks were **The General Bank of India which started in 1786**, and the Bank of Hindustan, both of which are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as quasi-central banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India.
Indian merchants in Calcutta established the Union Bank in 1839, but it failed in 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India. (**Joint Stock Bank**: A company that issues stock and requires shareholders to be held liable for the company's debt) It was not the first though. That honor belongs to the Bank of Upper India, which was established in 1863, and which survived until 1913, when it failed, with some of its assets and liabilities being transferred to the Alliance Bank of Simla.

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## 2. Credit Management

### *2.1 Credit Scenario in India*

Against the backdrop of generally strong economic fundamentals, the credit growth has been impressive. The credit products have become more sophisticated with the increasing maturity of banks and growth of financial institutions. In order to decrease the borrowing cost and hedge interest rate risk the companies in India are increasingly using products Credit Linked Note, Credit Default Swaps,
CBOs etc.

## 3. Function of the Credit Department

- Credit is a core banking function that enables attainment of the fundamental objective of assets transformation between its clients. The function is executed by way of extending fund based and non-fund-based credit facilities to different clients.
- The Credit department endeavors to extend different products in the above two categories to the corporate clients in the country. The department aims to maximize the interest spread earned on funds available with the Bank while keeping the risk on the credit portfolio at acceptable levels.
- The department is the major contributor to the top line as well as bottom line of PUNJAB NATIONAL BANK. The department has been at the forefront of launching innovative corporate credit products.
- The key strengths of the department are superior appraisal skills, understanding of risk, in-depth understanding of industry and relationship with leading Indian corporate, especially in the mid corporate segment**.**

## 4. Review of literature

Prudent banking is built on the principle of risk management. Banks exist to manage risk rather than to reduce or eliminate it (Ferguson, 2003). Credit risk is a major issue for commercial banks, and loans are the biggest and most evident source of this risk (Al-Tamimi & Al-Mazrooei, 2007). The issue of credit asset quality is one of the factors impeding commercial banks' ability to grow (Jin, 2011). Despite the Indian banks continued strong capitalization, concerns about the rising non-performing assets loomed big, especially for the public sector banks, according to RBI reports from 2011 to 2013. (RBI, 2013). RBI noted further that insufficient bank evaluation and oversight of credit proposals is another factor contributing to the decline in asset quality, in addition to the slowdown in the economy.

Therefore, improving internal CRM systems and processes for credit risk assessment, mitigation, and control, tracking and lowering credit delinquencies, and developing high-quality asset portfolios is an immediate and doable task for Indian public sector banks. According to several theoretical and empirical research, internal organisational management and strategies determine a company's profitability (Wei-Shong & KuoChung, 2006). To lower credit risk, banks must have a "differential treatment, differential control" loan policy (Jin, 2011). When establishing internal systems and procedures to control credit risk, banks should also take qualitative factors into account (Gama and Gerald, 2012). (Lehmann, 2003). Bank credit departments must be well-versed in Basel rules, the business climate, and client accounting strategies (Oesterreichische, 2004). An effective CRM policy must have as its major objective maximising a bank's risk-adjusted rate of return while keeping credit exposures within reasonable bounds (Lepus, 2004). The bank management will be better able to identify errors early on with proper risk monitoring (Al-Tamimi & AlMazrooei, 2007). Oesterreichische (2004) proposed an ideal credit approval procedure that would eliminate substantive and procedural errors by including all practical risk mitigation techniques. Problems and Obstacles in Credit Risk Management in Indian... 355

According to Njanike (2009), banks have several challenges when trying to control their credit risk, including a shortage of funding, departmental system breakdown, inconsistent risk-rating methods, data management issues, and strict regulatory requirements.

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## 5. Research Work

### *5.1 Research Problem*

- **Inefficient data management**
  An inability to access the right data when it's needed causes problematic delays.
- **No groupwide risk modeling framework**
  Without it, banks can't generate complex, meaningful risk measures and get a big picture of groupwide risk.
- **Constant rework**
  Analysts can't change model parameters easily, which results in too much duplication of effort and negatively affects a bank's efficiency ratio.
- **Insufficient risk tools**
  Without a robust risk solution, banks can't identify portfolio concentrations or re-grade portfolios often enough to effectively manage risk.
- **Cumbersome reporting**
  Manual, spreadsheet-based reporting processes overburden analysts and IT.
- **Research**
  Comparative Analysis of credit recovery mechanism of Public Sector vs. Private Sector Banks in Varanasi.

## 6. Objectives of the study

1. To learn about credit recovery mechanism of public and private sector banks.
2. To do the comparative analysis of public and private sector banks credit recovery pattern.
3. To know the effort and level of efficiency of public and private sector banks in credit recovery mechanism.

## 7. Research Methodology

Research methodology is a way to systematically solve the research problems. It may be understood as a science of studying how research is done scientifically. We study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them.

It is necessary for the researcher to know not only need to know how to develop certain indices or tests, how to calculate the mean, the mode, the median, standard deviation and chi – square, how to apply the particular research techniques, are relevant and which are not and what would they mean and indicate and why?

Researchers also need to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that **certain techniques and procedures will be applicable to certain problems and others will not.**

## 8. What type of research design was used?

- Exploratory Research Design

### *8.1 Why was this type of design used?*

Exploratory research is a type of research conducted because a problem has not been clearly defined. Exploratory research helps determine the best research design, data collection method and selection of subjects. Given its fundamental nature, exploratory research often concludes that a perceived problem does not actually exist.

Exploratory research often relies on secondary research such as reviewing available literature and/or data, or qualitative approaches such as informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, projective methods, case studies or pilot studies. The Internet allows for research methods that are more interactive in nature:

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E.g., RSS feeds efficiently supply researchers with up-to-date information; major search engine search results may be sent by email to researchers by services such as Google Alerts; comprehensive search results are tracked over lengthy periods of time by services such as Google Trends; and Web sites may be created to attract worldwide feedback on any subject.

The results of exploratory research are not usually useful for decisionmaking by themselves, but they can provide significant insight into a given situation. Although the results of qualitative research can give some indication as to the "why", "how" and "when" something occurs, it cannot tell us “How often" or "how many."Exploratory research is not typically generalizable to the population at large.

***8.2 What data collection methods were used?***

***8.2.1 Primary Data Collection Methods***

In primary data collection, you collect the data yourself using methods such as interviews and questionnaires. The key point here is that the data you collect is unique to you and your research and, until you publish, no one else has access to it. There are many methods of collecting primary data and the main methods include:

- Questionnaires
- Interviews

***8.2.2 Secondary Data Collection Methods***

All methods of data collection can supply quantitative data (numerical, statistical or financial) or qualitative data (usually words or text). Quantitative data may often be presented in tabular or graphical form. Secondary data is data that has already been collected by someone else for a different purpose to yours.

***8.2.2.1 Survey***

Surveys are used to collect quantitative information about items in a population. Surveys of human populations and institutions are common in political polling and government, health, social science and marketing research. A survey may focus on opinions or factual information depending on its purpose, and many surveys involve administering questions to individuals. When the questions are administered by a researcher, the survey is called a structured interview or a researcher-administered survey. When the questions are administered by the respondent, the survey is referred to as a questionnaire or a self-administered survey.

***8.3 What Data Collection Devices were used?***

***8.3.1 In primary data***

- Questionnaire
- Close ended
- Personal Interview
- observation

***8.3.2 In Secondary Data***

- Search Engines
- Wikipedia & Encyclopedia
- Annual company report
- Government statistics

**9. Statistical Analysis**

In this segment I am showing my findings in the form of tables. All the data which I got from the banks I have shown here with the help of tables, pie chart, bar graph etc .Here I have shown questionnaire of 4 major banks and did not shown small banks data but results has been shown keeping in the mind data as a whole.

**Questionnaires**

- Sample Size - 4 major banks* (200 People)
- Area - Credit Recovery
- Type of Data - Primary data, Secondary data
- Industry - Banking
- Respondent - Bank Employees

**Four major players have been selected for the purpose**

**Punjab national bank (PNB)**

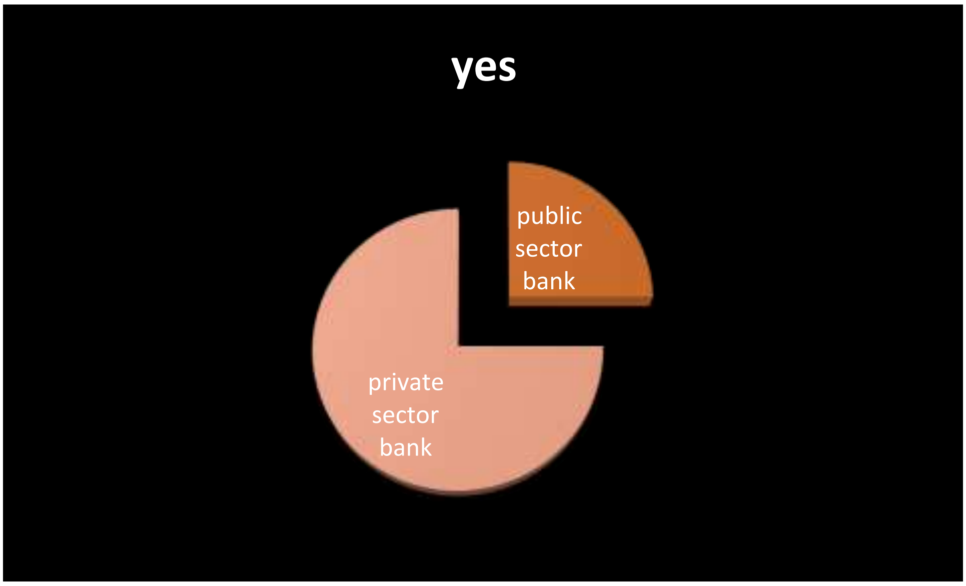
**Oriental bank of commerce (OBC)**

*Public Sector Bank*

**Survey**

**QUES.1- Does your Corporate Credit Policy entails a Credit Recovery Policy/ Mechanism?**

| Sectors/Answer | Public Sector Banks | | Private sector banks | |
|---|---|---|---|---|
| | PNB | OBC | ICICI | AXIS |
| **Yes/ No** | YES | NO | YES | YES |




**Interpretation of Data**

This pie chart shows more than 50% of private banks has credit recovery mechanism while in public sector banks very few banks have credit recovery mechanism.

**Ques.2 Does your institution have a separate credit recovery department that handles collection of credits in default?**

| Sectors/Answer | Public Sector Banks | | Private sector banks | |
|---|---|---|---|---|
| | PNB | OBC | ICICI | AXIS |
| **Yes/ No** | YES | NO | YES | No |

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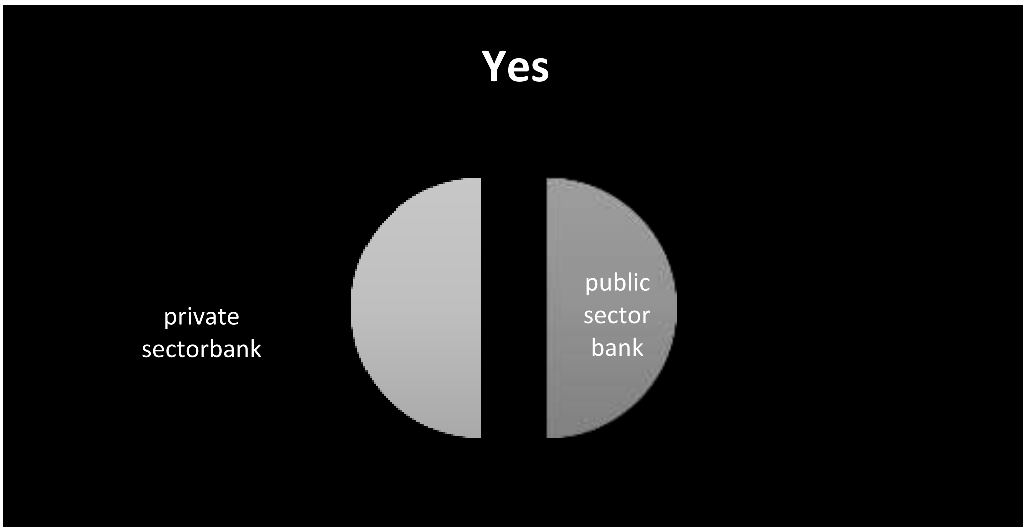


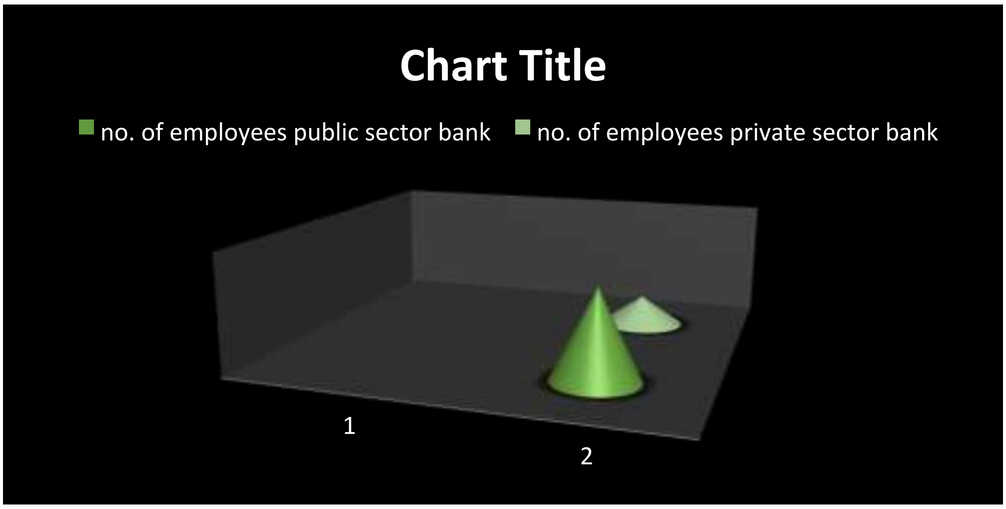

**Interpretation**

This pie chart represents that approx both sector have different department for credit recovery but in case of AXIS BANK they have a credit recovery cell not proper separate department so in private sector banks we find few banks having separate department instead they have cells like SCRC(stressed Assets Recovery Cell). So, public sector banks have more seriousness towards their credit recovery.

**Ques.3 No. of employees in the credit recovery/ credit department?**

o 05-15; o 15-30; o More than 30

| **Sectors/Answer** | **Public Sector Banks** | | **Private sector banks** | |
|---|---|---|---|---|
| | PNB | OBC | ICICI | AXIS |
| No. of employees | 5-15 | 15-30 | 5-15 | 5-15 |




**Interpretation**

This figure shows that public sector banks which has more than employees in credit department in comparison to private sector banks. So, this shows a public bank effort in credit recovery. In private sector they have very few employees regarding this purpose. So, in diagram approximately 15-20% banks have more than 15 employees. So, this shows positive attitude of public sector banks towards credit recovery.

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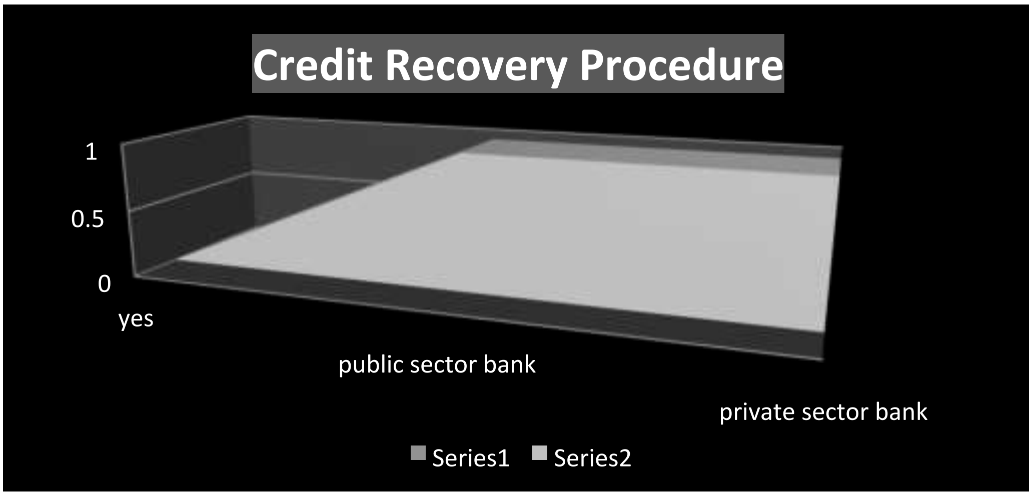
**Ques. 4 Any standardized procedures for handling credit recovery?**

| **Sectors/Answer** | **Public Sector Banks** | | **Private sector banks** | |
|---|---|---|---|---|
| | PNB | OBC | ICICI | AXIS |
| **Yes/ No** | Yes | Yes | Yes | Yes |

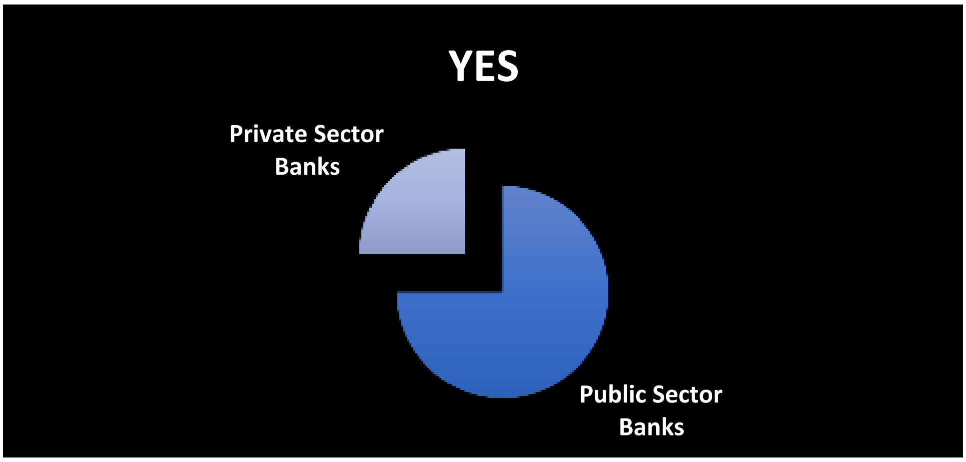



**Interpration**

This diagram shows that majority of private sector banks and public sector banks. Both have their own standardize procedures for credit recovery. But the way of credit recovery by public sector is give maximum satisfaction to their customers in comparison to private sector.

**Ques.5 Do you hire any agency for credit recovery?**

| **Sectors/Answer** | **Public Sector Banks** | | **Private sector banks** | |
|---|---|---|---|---|
| | PNB | OBC | ICICI | AXIS |
| Yes/No | Yes | Yes | Yes | NO |




**Interpration**

This diagram shows 80% of public sector banks hire outside agency for credit recovery while few private banks hire outside agency for recovery that's why the level of NPAs are high in case of private sector banks.

**Ques.7 Overall average recovery rate:**

20% o 20-40% o 40-60% o 60-80%

Or More than 80%

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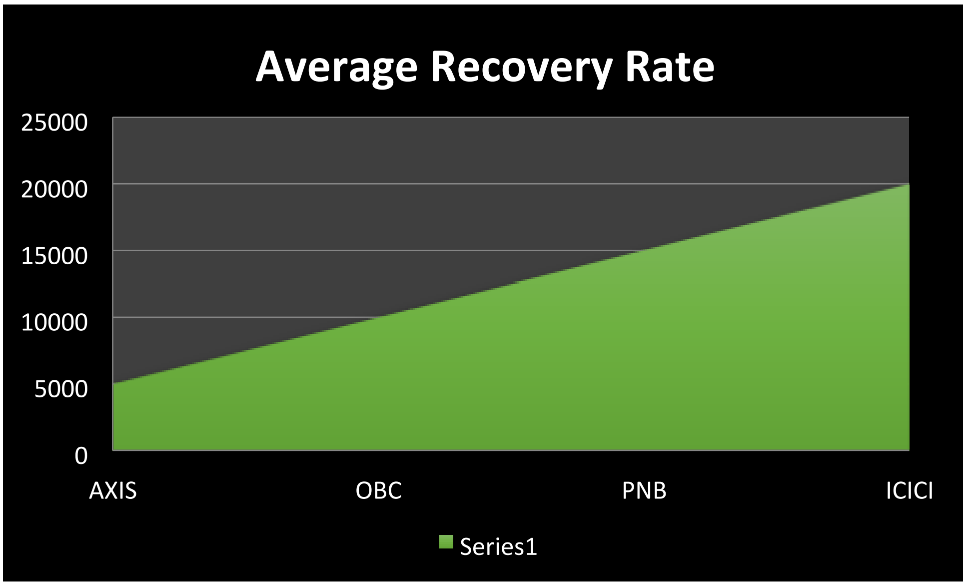
| Sectors/Answer | Public Sector Banks | | Private sector banks | |
|---|---|---|---|---|
| | PNB | OBC | ICICI | AXIS |
| Overall average recovery rate | More than 60-80% | 80% | More than 40-60% | 80% |



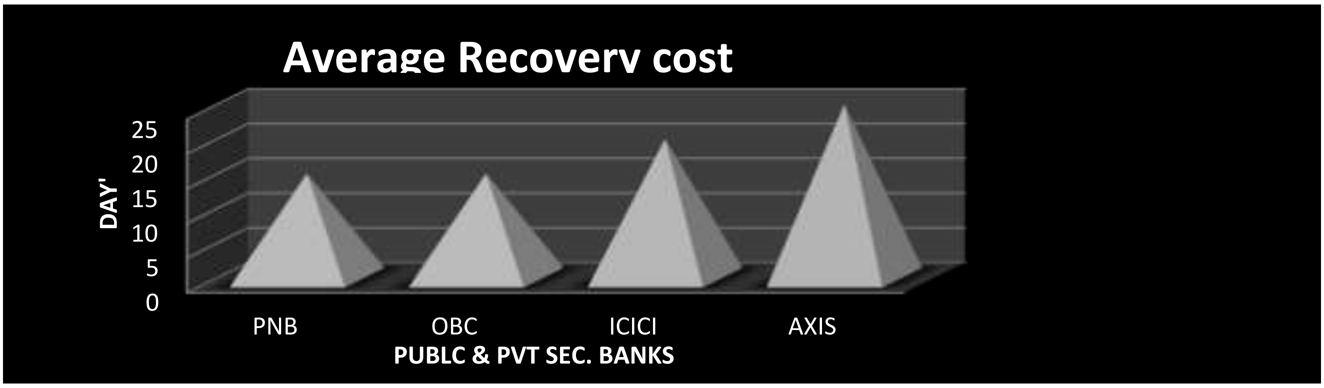

**Interpretation**

This chart is self explanatory that how much private sector banks and public sector banks able to recover. We can see here that public sector banks able to recover more than 80% approx while private sector banks recover even less than or equal to 80% of its credit recovery cases. This shows difference of level of efficiency in credit recovery.

**Ques.8 The average duration for recovery:**

1-15 days o 15-30 days o 1-3 months o 3-6 months o More than 6 months

| Sectors/Answer | Public Sector Banks | | Private sector banks | |
|---|---|---|---|---|
| | PNB | OBC | ICICI | AXIS |
| **Overall average duration for recovery (Days)** | 1 - 15 | 1 - 15 | 1 - 15 | 15 - 30 |



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**Interpretation**

This diagram shows that how quickly public sector banks able to recover their money in comparison to private sector banks. Public sector banks recover their money in easy instalments under the rules and regulations which specified by the RBI. In some cases private sector banks not have proper way for making their recovery of money.

## 10. Findings

In the end we can say that public sector efficiency is high as compared to private sector banks which gives maximum satisfaction and services to their customers. Public sector banks are government bank so that public easily trusts on them. Which can be seen from above questions, table and charts private sector is providing more services in comparison to public sector bank but they are also losing their faith from the customer side because of more extra expenses, Private Taxes, more interest charged by them and less or not specified returns.

While private sector needs to have little control on its cost incurred in credit recovery process and should try to earn public faith with providing good services and investment products.

## 11. Recommendations

- Number of Branches should be increased covering a wider area in various states.
- A wide publicity to be given about the organization and its products through various means of communications to keep growth momentum.
- More number of training and educational programmers should be included in Banks schedule.
- Developing a learning culture through continuous learning process.

## 12. Conclusion

It is found that this bank has developed manifold by their long experience and due to facilities and services they provide to their customer and this growth rate can be kept up if they start to go in semi-urban areas.

The working staffs are very co-operative in nature and due to that the bank will also get good benefit. Punjab National Bank has provided their customer Netbanking facilities and due to that transactions are done fast. Charges at Punjab National Bank is on lower side when we compare it with other Banks.

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