

Credit Risk Management

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I. INTRODUCTION:

The Definition of Credit risk is “the possibility of losses related to diminution within the credit quality of borrowers or counterparties. In a bank’s portfolio, losses arise because of inability or unwillingness of a customer to satisfy various commitments in reference to lending, matching, trading, settlement and other financial transactions or foreign exchange transactions. Alternatively, losses result from reduction in portfolio value which arise due to destruction in quality of credit”. Credit risk arises due to various financial systems handling a private, corporate banks, and financial organization. Credit risk takes the following various forms:

- **In direct lending:** Principal as well as interest amount might not be repaid.
- **In guarantees of letters of credit:** Funds may or may not be realized from the various units when the liability has undergone through the process of crystallization.
- **In treasury operations:** The payments due from counter parties under the respective contracts might not be realized.
- **In cross border exposure:** The availability, supply and free movement and flow of foreign currency funds may get stopped or the sovereign may impose the various restrictions.

In this backdrop, it's imperative that banks have a very well managed credit risk system. The flawless management of credit risk may be a critical component of risk management and is important for the long-run success of any banking organization. Credit risk management functions by identification, analyzing, measurement, monitoring, maintaining and control of the various credit risk exposures.

The banking system has been in a phase where there is a dramatic change and Indian banking system isn't an exception during this changing scenario. With the arrival of foreign banks into the market, the competition has become cutthroat and banks are forced to work at much lower spreads. Recession in economy, increased

NPA's, increase in default rates, have only added to the already ailing industry. Aside from the macro economic factors, inherent risks involved within the banking system have worsened things further. In such a situation it's become utmost important for the banking system to manage various risks that not only hamper the profitability but also strengthen the very survival of the industry.

One such risk that has been affecting the banks adversely throughout is credit risk. Credit risk has always been an element of concern for banks and financial institutions. In India, credit risk is becoming an important concept with the help of opening its economy to the world. Nobody has any doubts that credit risks have substantially increased in global banking over the previous couple of years. One can take a macro global vision, or limit oneself to India the results are an equivalent but the explanations could also be different.

Therefore it's felt that an in-depth study should happen regarding credit risk and various alternatives to manage an equivalent so as to maximize the advantages from the industry which otherwise booming and lucrative.

Introduction to unicon's investment solution:

Unicon has got established with the goal of providing investment experience globally to hitherto undeserved investor community. Today's technology made it possible to succeed in to the last person in financial market and supply him with an equivalent level of service which is out there only to few.

Unicon provides various personal premium related services with reasonable commissions on the NSE, BSE, & Derivative market through Equity broking arm. With our sophisticated technology you'll trade through your computer and if you would like human touch you'll also deal through our Relationship Managers out of our quite 100 branches spread across the state.

Unicon is one among the various financial service companies which was established as a 1 stop investment solutions provider. It had been established in 2004 by 2 visionary and flamboyant entrepreneurs, Mr. GajendraNagpal and Mr. Ram M. Gupta, who possess great expertise within the field of Finance. It has itshead quarters in New Delhi, with its corporate office in Mumbai and other regional offices in Chennai, Kolkata, Noida and Hyderabad.

Unicon is one of the well managed company with various professionals and has a team of outstanding managerial acumen and which has an expertise of quite 400 man years within the financial markets. the corporate is supported by 4500 Uniconians and features a team of over 900 business offices in 235 cities across India. With a huge number of customers of more than 2lakhs, the company has been continuously striving to cater to both the short-term financial needs and also the long-term financial needs of its clients or customers through a bouquet of investment services. It has been founded with the goal of providing global investment experience to the community which has a great desire of investing. Theservicesprovide by this company range from offline &online trading in shares, debts, commodities, swaps and derivatives to index and to debt markets. The Entity features a sizeable presence within the distribution of outsider party financial products like mutual funds, insurance products and brokerage in finance. Apart from all this, itprovides various Advisory services on life assurance, General insurance, Mutual funds & IPO's. The network of distribution is taken care by in-house back office support to supply prompt and efficient customer service.

The Equity Broking arm – UNICON Securities Pvt. Ltd provides various personalized premium services on the NSE, BSE &Options market. The Commodity broking arm Unicon Commodities Pvt. Ltd offers various services in commodity trading on NCDEX and MCX. This group ofUnicon also features a PCG division providing investment solutions for top net worth individuals. The Company Advisory Services arm – Unicon Capital Services (P) Ltd offers entire range of investment banking services to corporate.

Unicon customers has the advantage of trading altogether the market segments together within the same window, as we understand the necessity of transactions to be executed with high speed andreduced time. At an equivalent time, they need the advantage of getting all Advisory services for all kinds of Insurance like Life, General, and Mutual fund Organizations and IPO's also.

Unicon is one of the customer focused financial services organization providing a variety of investment solutions to our customers. We work with the clients to satisfy their overall investment objectives and achieve their financial goals.Our clients have the chance to urge personalized services supported their investment profiles. Our personalized approach enables clients to realize their total Investment Objectives.

II. NEED FOR THE STUDY:

While Public sector banking institutions have faced difficulties and threats over a long range of years for a mess of reasons, the main explanation for various high banking problems continues to directly regarding lax credit standards for borrowers, bad portfolio risk management, or a scarcity of giving attention to changes that occur in economic or their respective circumstances which will cause a deterioration within the credit standing on the bank's counterparties.

In global sense, increased credit risks arise because of two reasons: one, banks are forced to lend to riskier clients because well rated corporate have moved faraway from banks to access capital markets directly. This is often clearly provided by statistics over last 25years approximately. The vast arrays of capital market products have brought corporate to Dalai Street instead of resort to traditional banking relationships. Banks balance sheets have more of below investment grade bonds, syndicated loans, and commercial land lending today than in past.

In Indian context, the increased credit risk is inevitable with the opening of this economy to global forces. To an extent the phenomenon of disintermediation is additionally visible in India with well-rated corporate demanding loans at rates that don't meet the bank's Risk Adjusted Return On Capital (RAROC). In such a scenario, the banks are alleged to improve their efficiency as far as credit recovery cares so as to enhance their overall profitability.

III. SCOPE OF THE STUDY:

Credit risk by its inherent nature affecting the profitability of the banks adversely as well as resulting in higher Non Performing Assets, due to which bank's rating gets lowered. This again adversely affects the CAMELS (Capital Adequacy Ratio, Assets, Management, Efficiency, Liquidity and Systems) for the banks and it is therefore felt that an in-depth study of risk related to credit

should be done in order to reduce the risk to a low level and improve the profitability to a higher level.

IV. RESEARCH METHODOLOGY:

This study is aimed at finding out various alternative methods and techniques adopted by various commercial banks for managing and maintaining the credit risk at low level in order to increase the overall financial position of banks.

Study has been conducted in the following manner:

- Credit approval procedure of Unicon Investment Solutions has been closely observed.
- The history accounts of borrowers have been studied.
- Secondary information so gathered have been analyzed.
- Various regulatory procedures issued by RBI have been studied.
- Cross checked whether BASEL Committee reports and their respective recommendations have been implemented or not.
- Comparison with various bank's strategies and success of it.

OBJECTIVES OF THE STUDY:

- To know the entire process of how to manage credit risk in the company.
- To know how to overcome losses against the loans.
- To know how to overcome inherent risk against the loans.
- To know how to ensure proper margins from the customers to overcome default credit of customers.
- To know how to improve the efficiency in the transactions.
- To know how to improve authenticity and accuracy.

LIMITATIONS OF THE STUDY:

- The study is limited to time period.
- The study is limited to study of unicon.
- The study is limited to credit risk management.

V. FINDINGS:

1. It's notified from the above research/study that banks are largely affected by credit or default risk.
2. This Risk related to credit is not only reducing profitability of the various banks but also contributing the higher Non Performance

Asset.

3. Hedging though proved to be very effective instrument to handle the credit risk has not been adopted by many banks
4. The credit risk strategy should receive attention from top management
5. Every bank should become sophisticated and develop their own strategy for credit

VI. CONCLUSIONS AND SUGGESTIONS:

CONCLUSIONS

It is vital to banks and various other financial institutions which grant loans to the purchasers should manage credit risk management to beat credit default of the purchasers. to beat credit default the businesses has got to keep proper margins. the businesses should grant the loans to the purchasers consistent with their credit worthiness.

SUGGESTIONS

From the above research/study it is often said that each bank should mandatorily follow the subsequent program to maintain at low level the Credit Risk effectively.

1. The Board of Directors should have the utmost responsibility for management of risks.
2. Committee & Department for Credit Risk Management should be setup
3. Banks should have in situ an appropriate credit administration, credit risk measurement and monitoring processes.
4. Banks must have a Management Information system (MIS), which should enable them to manage and measure the credit risk inherent altogether on- and off-balance sheet activities.
5. Banks should continuously make sure that there are consistent standards for the origination, documentation and maintenance for extensions of credit.