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Retail Credit Risk Management in Indian Public Sector Banks

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ABSTRACT

The banking industry in the world over has undergone a profound transformation since the early 1990s. The changed operating environment for the banking sector, underpinned by liberalization, privatization and globalization, coupled with the reforms of information technology, has resulted in intense competitive pressures. The primary function of banking sector is to receive deposits and lend money to various sectors such as agriculture, industry, personal loans, housing loans etc. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded where as the lending always involves much risk because there is no certainty of repayment. Most of the banks today in India are facing the default risk with respect to the loans and advances made to the retail customers, wherein some part of the profit is reserved for covering the non-performing assets. Retail credit defaults are also play an important role in accumulation of non-performing assets of a banking business.

The present study touches up on the credit management practices in public sector banks and management of retail loans and advances. Trend analysis and percentage methods have been used to analyse data. The study found that the profit in PSBs was declining trend due to competitio, lack of diversity of banking services and stringent rules of RBI before economic reforms. The profit was declining initial period due to operation was not linked with profit and lack of diversity in the banking services

KEYWORDS : Retail banking, Credit risk, NPAs.

1. Introduction

The banking industry in the world over has undergone a profound transformation since the early 1990s. The changed operating environment for the banking sector, underpinned by liberalization, privatization and globalization, coupled with the reforms of information technology, has resulted in intense competitive pressures. Banks have responded to this challenge by diversifying through organic growth of existing businesses as well as through creative marketing of its services. This has exposed the banking sector to newer risks and posed serious regulatory challenges. Regulatory and supervisory policies are, therefore, being continuously refined to meet the emerging challenges. The focus of regulatory has been on strengthening the financial institutions by aligning the prudential norms with the international standards, identifying systemic risks and adopting appropriate risk mitigating policies. While continuously striving to strengthen the prudential framework, regulators in recent years have also focused on improving bank governance and information disclosures that enhance market discipline. In most cases, the regulatory initiatives have been guided by international best practices, adapted suitably to the domestic conditions.

The primary function of banking sector is to receive deposits and lend money to various sectors such as agriculture, industry, personal loans, housing loans etc. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand, lending always involves much risk because there is no certainty of repayment. A banker shall be very cautious in lending, because he is not lending money out of his own capital. A major portion of the money lent comes from the deposits received from the public. These deposits are mostly repayable on demand. Hence, while lending money, a banker should follow a very cautious policy. The risk involved in lending business makes it very important as it involves making prominent decisions. Therefore while sanctioning credit the banker should appraise the project reasonably or else it leads to the non-repayment of loans and advances. Most of the banks today in India are facing the default risk with respect to the loans and advances made to the retail customers, wherein some part of the profit is reserved for covering the non-performing assets. Retail credit defaults are also play an important role in accumulation of non-performing assets of a banking business.

2. Retail Banking

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms.. It is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. The term Retail Banking encompasses various financial products viz., different types of deposit accounts, housing, consumer, auto and other types of loan accounts, d-mat facilities, insurance, mutual funds, credit and debit cards, ATMs and other technology- based services, stock-broking, payment of utility bills, reservation of railway tickets, etc.,. It caters to diverse customer groups and offers a host of financial services, mostly to individuals. It takes care of the diverse banking needs of an individual. Retail banking is a system of providing soft loans to the general public like family loans, house loans, personal loans, loans against property, car loans, auto loans etc. The products are backed by world-class service standards and delivered to the customers through the growing branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking. Customers and small businesses get benefited from increased credit access, speedy and objective credit decisions whereas lenders get benefited from increased consistency and compliance. Today's retail banking sector is characterized by three basic characteristics:

1. Multiple products (deposits, credit cards, insurance, investments and securities);
2. Multiple channels of distribution (call centre, branch, Internet and kiosk); and
3. Multiple customer groups (consumer, small business, and corporate)

The objective of retail banking is to provide customers a full range of financial products and banking services, give the customers a one-stop window for all their banking requirements. Retail banking segment is continuously undergoing innovations, product re-engineering, adjustments and alignments.

3. Concept of Risk Management

Risk management in Indian banks is a relatively newer practice, but has already shown to increase efficiency in governing of these banks as such procedures tend to increase the corporate governance of a financial institution. In times of volatility and fluctuations in the market, financial institutions need to prove their mettle by withstanding the market variations and achieve sustainability in terms of growth and well as have a stable share value. Hence, an essential component of risk management framework would be to mitigate all the risks and rewards of the products and service offered by the bank.

The financial sector in various economies like that of India is undergoing a monumental change factoring into account world events such as the ongoing Banking Crisis across the globe. The 2007 – present recession in the US has highlighted the need for banks to incorporate the concept Risk Management into their regular procedures. The various aspects of increasing global competition to Indian Banks by Foreign banks, increasing deregulation, introduction of innovative products, and financial instruments as well as innovation in delivery channels have highlighted the need for Indian banks to be prepared in terms of risk management.

Indian banks have been making great advancements in terms of technology, quality, as well as stability such that they have started to expand and diversify at a rapid rate. However, such expansion brings these banks into the context of risk especially at the onset of increasing Globalization and Liberalization. In banks and other financial institutions, risk plays a major part in the earnings of a bank. The higher the risk, the higher the return, hence, it is essential to maintain a parity between risk and return. Hence, management of financial risk incorporating a set systematic and professional methods especially those defined by the Basel 2 becomes an essential requirement of banks. The more risk averse a bank is, the safer is their Capital base.

3.1 Types of Risk

Credit risk: Credit Risk is the potential that a bank borrower/ counter party fails to meet the obligations on agreed terms. There is always scope for the borrower to default from his commitments for one or the other reasons resulting in crystallization of credit risk to the bank. These losses could take the form outright default or alternatively, losses from changes in portfolio value arising from actual or perceived deterioration in credit quality that is short of default. Credit risk is inherent to the business of lending funds to the operations linked closely to market risk variables. The objective of credit risk management is to minimize the risk and maximize bank's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. Credit risk management includes a) measurement through credit rating/ scoring, b) quantification through estimation of expected loan losses, c) pricing on a scientific basis and d) controlling through effective review mechanism and portfolio management.

Market risk: Market Risk may be defined as the possibility of loss to bank caused by the changes in the market variables. It is the risk that the value of on-/off-balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices. Market risk is the risk to the bank's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities, of those prices. Market Risk Management provides a comprehensive and dynamic frame work for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity as well as commodity price risk of a bank that needs to be closely integrated with the bank's business strategy.

Liquidity risk: Bank Deposits generally have a much shorter contractual maturity than loans and liquidity management needs to provide a cushion to cover anticipated deposit withdrawals. Liquidity is the ability to efficiently accommodate deposit as also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims. The cash flows are placed in different time buckets based on future likely behaviour of assets, liabilities and off-balance sheet items. Liquidity risk consists of Funding Risk, Time Risk & Call Risk. **Funding Risk:** It is the need to replace net out flows due to unanticipated withdrawal/nonrenewal of deposit **Time risk:** It is the need to compensate for non-receipt of expected inflows of funds, i.e. performing assets turning into nonperforming assets.

Call risk: It happens on account of crystalisation of contingent liabilities and inability to undertake profitable business opportunities when desired.

Operational risk: Operational risk involves breakdown in internal controls and corporate governance leading to error, fraud, performance failure, compromise on the interest of the bank resulting in financial loss. Operational risk, though defined as any risk that is not categorized as market or credit risk, is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. In order to mitigate this, internal control and internal audit systems are used as the primary means. Risk education for familiarizing the complex operations at all levels of staff can also reduce operational risk. Insurance cover is one of the important mitigators of operational risk. Operational risk events are associated with weak links in internal control procedures. The key to management of operational risk lies in the bank's ability to assess its process for vulnerability and establish controls as well as safeguards while providing for unanticipated worst-case scenarios.

4. CREDIT RISK MANAGEMENT:

An analysis should be made to establish the extent to which the bank's existing processes and procedures need to be enhanced to meet the demands of the regulations. For this purpose, there is need to train the team of bankers and develop and strategic models and solutions with the help of experts or outside agencies. It is essentially to maintain record of every activity of the bank to manage the credit risks. As stated by Rekha Arunkumar (2005), "Better and effective strategic credit risk management process is a better way to manage portfolio credit risk." The process provides a framework to ensure consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth. Beyond and over riding the specifics of risk modeling issues, the challenge is moving towards improved credit risk management lies in addressing banks' willingness and openness to accept change to a more transparent system, to rapidly changing markets, to more effective and efficient ways of operating and to meet market requirements and increased answerability to stake holders. There is a need for strategic approach to Credit Risk Management (CRM) in Indian Commercial Banks, particularly in view of NPAs level, CAR (Capital Adequacy Ratio) norms and Basel Capital Accord.

5. Techniques for Management of Credit Risk:

The instruments and tools, through which credit risk management is carried out, are detailed below:

Exposure Ceilings: Prudential Limit is linked to Capital Funds – say 15% for individual borrower entity, 40% for a group with additional 10% for infrastructure projects undertaken by the group, Threshold limit is fixed at a level lower than Prudential Exposure; Substantial Exposure, which is the sum total of the exposures beyond threshold limit should not exceed 600% to 800% of the Capital Funds of the bank (i.e. six to eight times).

Review/Renewal: Multi-tier Credit Approving Authority, constitution wise delegation of powers, Higher delegated powers for better-rated customers; discriminatory time schedule for review/ renewal, Hurdle rates and Bench marks for fresh exposures and periodicity for renewal based on risk rating, etc are formulated.

Risk Rating Model: Set up comprehensive risk scoring system on a six to nine point scale. Clearly define rating thresholds and review the ratings periodically preferably at half yearly intervals. Rating migration is to be mapped to estimate the expected loss.

Risk based scientific pricing: Link loan pricing to expected loss. High-risk category borrowers are to be priced high. Build historical data on default losses. Allocate capital to absorb the unexpected loss. Adopt the RAROC framework.

Portfolio Management The need for credit portfolio management emanates from the necessity to optimize the benefits associated with diversification and to reduce the potential adverse impact of concentration of exposures to a particular borrower, sector or industry. Stipulate quantitative ceiling on aggregate exposure on specific rating categories, distribution of borrowers in various industry, business group and conduct rapid portfolio reviews. The existing framework of tracking the non-performing loans around the balance sheet date does not signal the quality of the entire loan book. There should be a proper & regular on-going system for identification of credit weaknesses well in advance. Initiate steps to preserve the desired portfolio quality and integrate portfolio reviews with credit decision-making process.

Loan Review Mechanism: This should be done independent of credit operations. It is also referred as Credit Audit covering review of sanction process, compliance status and review of risk rating, pick-up of warning signals and recommendation of corrective action with the objective of improving credit quality. It should target all loans above certain cut-off limit ensuring that at least 30% to 40% of the portfolio is subjected to LRM in a year so as to ensure that all major credit risks embedded in the balance sheet have been tracked. This is done to bring about qualitative improvement in credit administration. Identify loans with credit weakness. Determine adequacy of loan loss provisions. Ensure adherence to lending policies and procedures. The focus of the credit audit needs to be broadened from account level to overall portfolio level. Regular, proper & prompt reporting to Top Management should be ensured. Credit Audit is conducted on site, i.e. at the branch that has appraised the advance and where the main operative limits are made available. However, it is not required to visit borrowers factory/office premises.

6. RBI Guidelines on Management of Credit Risk

The central bank, Reserve Bank of India (RBI) was established in April 1935 with a share capital of Rs 5 crore on the basis of the recommendations of Hilton Young Commission. One of the important functions of the RBI is controller of credit, i.e., it has the power to influence the volume of credit created by banks in India. It can do so through changing the Bank rate or through open market operations.

RBI suggests that each bank should have an effective Credit Management Framework which comprises; Credit Risk Policy, Organization Structure and Operation/System. The board of directors of each bank shall be responsible for approving and periodically reviving credit risk strategy and significant credit risk policies. The policy should include risk identification, risk measurement, risk grading/ aggregation techniques, reporting and risk control/ mitigation techniques, documentation, legal issues and management of problem loans. These policies shall further be communicated to branches and controlling offices. A sound organization structure is outcome for successful implementation of an effective credit risk management system. Each bank should constitute a high level Credit Risk Management Committee (CRMC). Concurrently, each bank should also set up Credit Risk Management Department (CRMD), independent of the Credit Administration Department.

7. LITERATURE REVIEW

Rajan (1994) explained that behavior of the bank manager during expansion periods may be one of the reasons that NPA accumulates because of competition and peer pressure.

Berger (1997) pointed out that cost efficiency is the direct indicator of the ratio of Non- performing loans to total loans. He concluded that the problem loan precedes reduction in measured cost efficiency and measured cost efficiency precedes reduction in problem loans.

Froot and Stein (1998) found that credit risk management through active loan purchase and sales activity affects banks' investments in risky loans. Banks that purchase and sell loans hold 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).

Raghavan (2003) has conceptually explained and discussed the various categories of risk such as credit risk market risk operational risk etc. and also highlighted various tools to manage these risks.

Bodla(2009) surveyed the implementation of the Credit Risk Management Framework by Commercial Banks in India. The results show that the authority for approval of Credit Risk vests with 'Board of Directors' in case of 94.4% and 62.5% of the public sector and private sector banks respectively. The survey has brought out that irrespective of sector and size of bank, Credit Risk Management framework in India is on the right track and it is fully based on the RBI's guidelines issued in this regard.

Goyal. A (2010) highlighted the importance of risk management process and throws light on challenges and opportunities regarding implementation of Basel-II in Indian Banking Industry. The banking industry is exposed to different risks such as forex volatility, risk, variable interest rate risk, market play risk, operational risks, credit risk etc. which can adversely affect its profitability and financial health.

Anand (2011) compared the profitability and productivity of nationalized and private sector banks. This study has been conducted on the basis of five banking parameters; Business per employee, Profit per employee, Deposits, Advances and NPA ratio. It was found that nationalized sector banks are certainly performing better than private sector banks.

Uppal (2011) reviewed the banking sector reforms' policy, crucial issues and agenda for the future on the basis of certain parameters like productivity, profitability and NPAs' management. The study concludes that foreign banks and new private sector banks are much better in performance as compared to our nationalized banks in the post-banking sector reforms period.

Mallikarjun (2012) stressed upon the various risks that are public sector banks are facing; systematic risks, operational risks, liquidity risks and credit risks. He had suggested different plans and decisions should be taken by the banks to reduce these risks.

Dan Rosen, presented a simulation based model to estimate the credit loss distribution of retail loan portfolios and applied the model to sample credit card portfolio of a North American financial institution. Within this model the researcher tested three default models that describes the joint behaviour of default event. It was suggested that application of portfolio crdit risk models to retail portfolios is in its infancy and much more research is required.

Leeladhar(2007), in his inaugural speech on Basel II and Credit Risk Management points out that even though Basel-II framework has a broader scope and includes 'operational risk' under Pillar 1 and public disclosures under Pillar 3, the credit risk still claims the largest share of the regulatory capital. This underscores the significance of credit risk in the bank's operations. This is hardly surprising result that the several banking crises in many countries had their roots in lax credit standards, poor portfolio risk management, and the inability or failure to evaluate the impact of the changing economic environment on credit worthiness of the banks' borrowers. The Basel II framework creates an enabling environment for enhancing the risk management capability in the banks by providing the right incentives.

8. STATEMENT OF PROBLEM

The main function of the banks are mobilizing of funds and lending the same to the needy. The difference between both is the interest rate which is the profit for the bank. Bank will be safer only till all the borrowers pay their due in time. Once a bank borrower/counter party fails to meet the obligations on agreed terms, becomes credit risk for banks to recover those loans and advances made. There is always scope for the borrower to default from his commitments for one or the other reasons resulting in crystallization of credit risk to the bank. These losses could take the form outright default or alternatively, losses from changes in portfolio value arising from actual or perceived deterioration in credit quality that is short of default. Credit risk is inherent to the business of lending funds to the operations linked closely to market risk variables. The objective of credit risk management is to minimize the risk and maximize bank's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. A proper management of credits makes retail banking sector feasible in terms of management of liquidity, management of NPAs and profitability. The present study touches up on the credit management practices in public sector banks and management of retail loans and advances.

9. NEED FOR THE STUDY

Now a day's credit risk is a major risk for all banking institutions. Profitability of banks' depends on this sector. Liquidity is another major issue for selecting this topic, because each and every bank are now facing liquidity crisis, if they are not efficient enough to handle credit risk, they are also facing more liquidity crisis. Credit Risk refers to potential financial loss as a result of customers' inability to honor the terms and conditions of credit facility. Most of the shares of the total revenue of the bank come from credit operation and the existence of the bank depends on quality of assets portfolio. So, efficient management of credit risk is a paramount importance. Credit risk is the loss associated with degradation in the credit quality of borrowers of counter parties. In a bank's portfolio, losses stems from outright default due to the inability or unwillingness of the customer or counter party to meet commitments in relation to leading, trading, settlement and other financial transaction. Alternatively, losses result from reduction in portfolio value arising from actual or perceived determination in credit quality. As the credit department plays a vital role in all these issues. It is necessary to study credit risk management practices in public sector bank.

10. OBJECTIVES

a) To understand the concept of credit risk management
b) To know the different retail credit scheme
c) To understand lending pattern of public sector banks for retail borrowers
d) To analyze NPAs position and their risk management
e) To study the credit risk management strategy in PSBs
f) To suggest the ways to improve credit management system in PSBs.

11. RESEARCH METHODOLOGY

This study includes both primary and secondary data and concentrated on PSBs only. The secondary data have been collected from annual report of RBI publications including Trend and Progress of Banking in India, Statistical Tables relating to Banks in India, Articles and Papers relating to NPAs published in different journal and magazines were studied and data available on internet and other sources have also been used.

12. ANALYSIS

12.1 Non Performing Assets (NPAs)

Non-performing Assets (NPAs) - Meaning Assets which generate periodical income are called as performing assets. Assets which do not generate periodical income are called as non-performing assets. NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. An asset, including a leased asset becomes non-performing when it ceases to generate income for the bank for a specified period of time. The RBI guidelines regarding classification of assets and its provision implementing with effect from March 31, 2005 are as follows.

12.2 Classification of Loan Assets

Standard Assets: Standard assets generate continuous income and repayments as and when they fall due. So a standard asset is a performing asset. Such assets carry a normal risk and are not NPAs in the real sense. Hence, no special provisions are required for Standard Assets.

Sub-Standard Assets: A sub-standard asset was one, which was considered as non-performing for a period of 12 months.
Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful assets.
Loss Assets: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not war- ranted although there may be some salvage or recovery value.

12.3 Analysis of Gross Advances and Gross NPAs:

The study first of all examined the trend of gross advances, gross NPAs, ratio of gross NPAs to Gross Advances, and ratio of gross NPAs to total assets. It is evident from table 1 that gross advances of the banks have shown a rising trend since 2003-04. Gross advances of the public sector banks in absolute term have increased from Rs 661975 crore in 2003-04 to Rs 3500389 crore in 2011-12. There is sharp increase of 528.77 percent in gross advances of the public sector banks during the study period. The gross NPAs in absolute terms have increased by 142.15 percent in the year 2011-12 over 2004-05. An in-depth analysis into gross NPAs shows that the gross NPAs of the public sector banks have declined up to the year 2006-07, and drastically increased in the last two years of study i.e. 2010-11, and 2011-12. The study observed that the gross NPAs of public sector banks have depicted a mixed trend over the period of study. It is found on the basis of analysis of data that the asset quality of public sector banks improved consistently in the past few years as reflected in the decline in the two ratios i.e. gross NPAs as percentage of gross advances, and gross NPAs as percentage of total assets.

Table No. 01
Gross Non-Performing Assets (NPAs) of public sector banks
(Amount in crore)

Year	Advances (Cr)	NPAs		
		Amount (Cr)	Percentage to advances	Percentage to Total Assets
2000-01	442134	54772	12.4	5.3
2001-02	509369	56473	11.1	4.9
2002-03	577813	54090	9.5	4.2
2003-04	661975	51537	7.8	3.5
2004-05	817248	48399	5.7	2.7
2005-06	1070872	41358	3.9	2.1
2006-07	1373777	38968	2.8	1.6
2007-08	1696333	40452	2.3	1.3
2008-09	2103763	44957	2.1	1.2
2009-10	2519331	59926	2.3	1.3
2010-11	3079804	74600	2.3	1.4
2011-12	3500389	117200	3.3	1.9

Source: Statistical Tables Relating to Banks in India

12.4 ANALYSIS OF NET ADVANCES AND NET NPAs:

The study then investigated net advances, net NPAs, ratio of net NPAs to net advances, and ratio of net NPAs to total assets (Table No.2). The study found that the net advances of the public sector banks have increased in absolute term have increased by 9.4 times in 2011-12 over 2000-01. Over the period of study, Net NPAs as a percentage to advances have registered a decline from 6.7%in 2000-01 to 1.7% in 2011-12. The study observed a mix trend in net NPAs of public sector banks over the period of study. It found that Net NPAs have decreased during the period of 2000-01 to 2005-06. And thereafter, it has shown an increasing trend. It is observed that despite increase in gross non-performing assets (NPAs) during the year, asset quality of public sector banks improved in the year 2008-09 as reflected in the decline in these two ratios i.e. net NPAs as percentage of net advances, and net NPAs as percentage of total assets. But it is observed that again after 2008-09 it is the public sector banks are failing to meet the quality of assets. Hence, it can be stated that as a whole there is a necessary to improvement in the asset quality of public sector banks.

Table No. 02
Net Non-Performing Assets (NPAs) of public sector banks
(Amount in crore)

Year	Advances (Cr)	NET NPAs		
		Amount (Cr)	Percentage to advances	Percentage to Total Assets
2000-01	415207	27977	6.7	2.7
2001-02	480681	27958	5.8	2.4
2002-03	549351	24877	4.5	1.9
2003-04	631383	19335	3.1	1.3
2004-05	848912	16904	2.1	1.0
2005-06	1106288	14566	1.3	0.7
2006-07	1440146	15145	1.1	0.6
2007-08	1797401	17836	1.0	0.6
2008-09	2259212	21155	0.9	0.6
2009-10	2701300	29375	1.1	0.7
2010-11	3305632	36000	1.2	0.7
2011-12	3878300	59100	1.7	1.0

Source: Statistical Tables Relating to Banks in India

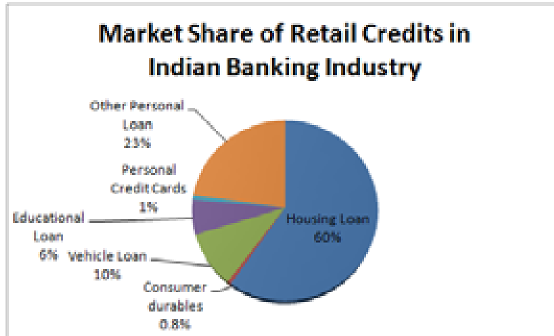
12.5 Retail Portfolio of banks

During 2011-12, banks' retail loan portfolio witnessed expansion at a higher rate as compared with the previous year, mainly led by growth in credit card receivables and other personal loans. Housing loans continued to constitute almost half of total retail portfolio of bank. Consumer durables have showed 40% decrease in 2012(27 crore) over 2011 (46 crore).

Table No.3
Retail Portfolio of Banks
(Amount in crore)

Sl. No	Particulars	Outstanding as at end-March		Percentage Variation	
		2011	2012	2011	2012
1	Housing Loans	3,607	4,118	15.1	14.2
2	Consumer Durables	46	27	50.3	-40.9
3	Credit Card Receivables	187	223	-13.5	19.6
4	Vehicle Loans	1,002	1,162	27.8	16.0
5	Other Personal Loans	2,469	3,069	18.5	24.3
Total Retail Loans		7,310	8,599	17.0	17.6

Source: Trends & progress of banking in India, RBI Publication



The above chart indicates the market share of each retail products of Indian banking sector. Housing finance alone occupies the maximum share in the total of cpnsumer personal loans(60%), Vehicle loans is having 10% of its share in total personal loans.

Table No. 4
STATUS OF OUTSTANDING HOUSING LOAN
(Rs. in Millions)

Year	Total Personal Loan	Housing Loan	Share of Housing Loan in total personal loan
2007	3184502.1	2101608.0	66.0
2008	3653723.6	2295992.5	62.8
2009	4130723.6	2653070.6	64.2
2010	6085928.4	2884390.5	47.4
2011	5453525.8	3311084.6	60.7
2012	6085928.4	3628439.8	59.6

Source: Basic statistical returns of scheduled commercial banks various issues

From the above Table No. 4 it is observed that the housing finance is gaining importance as it is known that housing is one of the important basic needs of the human being. The public sector banks are catering to the needs of customers (borrowers) through providing housing finance at an affordable interest rate varying from 9.25% to 10.75% per annum. The public sector banks are performing well in meeting the requirements of the housing shortage. Out of total personal loan it is evident that more than 50% of the shared by housing loan alone.

Table No. 7
Status of Retail Credits in Public Sector Banks
(Rs. in Millions)

Year	Housing Loan	Consumer Durables	Educational Loan	Vehicle Loan	Credit Card	Other Personal Loan	Total personal loan
2009	1830348.9	39565.7	236501.3	199729	12127.9	5310983	7629255
2010	2207582.7	31732.2	316344.5	256832.5	25426.8	5461405	8299324
2011	2448260.4	34264.5	410543.1	350130.1	32756.5	1341392	4617347
2012	2778765.7	27056.3	472676.1	410328.9	97.9	1485749	5174674

Source: Basic statistical returns of scheduled commercial banks various issues

Effective credit risk management practices reduce the risk of customer default and help commercial banks remain competitive in the credit market. In this study the effectiveness of CRM is measured with the change in NPA level of the public sector banks and the status of retail loans. The trends in NPAs level, various retail banking services and CRM practices of Public sector Banks were examined among the public sector banks in this study. The analysis of the data (includes both primary and secondary data) resulted in satisfactory level and a summary of which is depicted in the following paragraphs.

13.Findings and suggestions:

FINDINGS:

1. Retail credit in public sector banks has been increasing after the economic reforms and banks are identified the credit to this sector has less weighted average lending risk is comparatively, because the lending are against mortgage of the property and secured for repayment of loans.
2. The concept of traditional service in banking sector is ceased, In fact the public sector banks started offering modern services to govern hedge with other private and foreign banks by offering retail credit. The public sector banks have linkage with capital market, insurance, leasing, high purchase, factoring and forfeiting. All the public sector banks in co-ordination with stock exchanges and non-fund based services organization.
3. The study found out that the profit in public sector banks was declining trend due to competition lack of diversity of banking services and stringent rules of RBI before economic reforms. The profit was declining initial period due to operation was not linked with profit and lack of diversity in the banking services.
4. The banks including public sector banks are facing the problem of liquidity due to the period of retail credit longer. The banks were not segmenting the barrowers according to their liquidity requirement.
5. The study finds that public sector banks renders combination of traditional, modern and global services in the global banking system.. Slowly and steadily the public sector banks are moving from modern services to global banking services by entering to retail credit market, thanks to freedom accorded to them RBI.
6. The study shows that the Gross NPAs level of Public Sector Banks did registered a clear decreasing trend during the 2008-09. The NPAs level was 12.4 % during the year 2000-01, where as it reduced to 2.1 % in the year 2008-09 and again it increase to 3.3% in the year 2011-12.
7. In the year 2011-12 NPAs level registered at 3.3%. The study observed that after 2008-09 the public sector banks are failing to meet the quality of assets. The Gross NPAs level of Public Sector Banks shows an increasing trend during the year 2008 to 2012.
8. The Net NPAs of public sector banks in during the year 2011-12 is 1.7 % as a percentage of Advances, where as the NPA was 0.9% during the year 2008-09. This show the Credit Risk Management performances of public sector banks are not satisfactory.
9. Retail Loan Portfolio during the year 2011-12 witnessed the expansion at higher rate mainly because of the growth in credit card and other personal loans. Housing loans alone occupies the 50% share in total retail portfolio of bank.
10. It is observed that consumer durables showed 40% decrease in 2012(27 Crores) over 2011 (46 Crore). This is because of public sector banks are very rigid with their interest rate with respect to consumer durables loans.

SUGGESTIONS:

1. To reduce the NPAs in retail credit the public sector banks must follow the guidelines of the credit worthiness of the barrowers and decide the amount and nature of loan by that the risk can be effectively manage and the rate of NPAs can also be reduce in the retail products.
2. Public sector Banks have to work on estimating and investigating the past records of creditworthiness of the borrowers so as to reduce the burden of defaults and also to reduce the NPAs.
3. Public sector banks may gear up to oriented the employees on the role of banks in the competitive arena. Obviously the banks have to impart knowledge at the brooder prospective which operationally includes the importance of the retail credit products.
4. Public sector banks have flexible of use outsourcing has been observed in private and foreign banks in marketing of retail credit. To further offer is an alternative to all the customers as such it can recognize in to force.
5. The rate of interest charged by the public sector banks on retail credit products in India more compare to private and foreign banks. The RBI and ministry of finance shall work in co-ordination mainly to bring down the interest rate on par with the other banks in the country. At time when the country dreaming of super power status in world by 2020 the government and apex body of the banking system must trigger the interest chargers on downwards.
6. To reduce the increasing NPAs in retail credit market the public sector banks after considering the both NPAs management and all the remedial measures it is very much important establish link between lending to productive investment and recovery of credit to product sale.
7. Public sector banks can strengthen retail banking services keeping in view the potentiality and the volume of transaction. Further public sector banks may reduce service chargers on debit transactions.
8. KYC concept needs to be strengthened so as to enable customers to have red-reseal of their problems within the time frame. So that easy to comparison of service charges and fee of differential rates of interest charge by the lending banks may host on the website of concerned banks, so that the customers can make comparison of cost of capital, rate of interest and service charges. This will help the costumers to decide about the competitive retail products from the banks.
9. Public sector banks should ensure that there is an adequate security is provided by the borrowers at the time of applying for retail credit.

14. CONCLUSION:

The retail banking, which is a part of the modern banking service, has undergone tremendous changes mainly to keep pace with fast changing global business. Indian banking is fully controlled by the Government of India under its code. The economic reforms paved the way for the competition as the mantra for the survival of the banks in particular and all other concerns in general. The private banks, foreign banks, and public sector banks are forced to compete with each other mainly to grab the opportunity besides accelerating the retail banking market share. General Agreement on Trade and Services and Basal II and Basal III expected banking in India to equip them properly to meet the challenges of foreign banks which entered into India. The Government of India has prepared a road map and planned a dictum to all the public sector banks to acquire requires capabilities to meet the challenges. Further the Government has been trying to clear legal hurdles, technical hurdles and HR hurdles either by repeating the existing provisions of the concerned banks legislation before mergers or by amendment with suitable provisions in the existing Act. Public sector banks could not tune themselves to the globalised standard; hence they have problems such as impact of social banking on the economy, poor customer service, obsolete to technology, alarming NPA, prudential regulation, in effective human resources resulting in under utilization of human resources.

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