A Study on Perception of Branch Managers Towards Risk Management Practices of Selected Nationalised and Private Banks in Tirunelveli District

Giftson Solomon J
Ph.D. Research Scholar (Registration No.: 18221271011024),
PG and Research Department of Commerce,
St. John's College, Palayamkottai,
Tirunelveli District, Tamil Nadu - 627002, India.

Dr D Janis Bibiyana
Research Guide and Supervisor,
PG and Research Department of Commerce,
St. John's College, Palayamkottai,
Tirunelveli District, Tamil Nadu - 627002, India.
Manonmaniam Sundaranar University, Abishekapatti,
Tirunelveli District, Tamil Nadu - 627012, India.

Abstract:
The main aim of the study is to appraise the Risk Management System employed by Nationalised banks and Private sector banks and the perceptions of branch managers of the study units towards Risk Management System. The required data for the present study are collected from both primary and secondary sources. Primary data are collected with the help of structured interview schedule designed for bank managers. The present study has employed the judgement sampling techniques. The criteria considered for selecting the sample units include the number of branches. A sample of 50 bank branch managers each from nationalised banks and private sector banks has been selected. The selected branch managers have been interviewed personally with the help of structured interview schedule. In the present study, a sincere attempt has been made to analyze the parameters of Risk Management Systems to oversee the management of NPAs by banks and together the experiences of branch managers of both Nationalised banks and Private Sector Bank groups in urban, semi-urban and rural areas which suggest that recovery of NPAs will be more effective if proper care is taken by bank officials in shouldering the recovery drive more enthusiastically and confidently.

Keywords: Risk Management System, Nationalised banks, Private sector banks and Perception

INTRODUCTION

In India, the banking sector is considerably strong at present but at the same time, banking is considered to be a very risky business. Financial institutions must take risk, but they must do so consciously. However, it should be borne in mind that banks are very fragile institutions which are built on customers' trust, brand reputation and above all dangerous leverage. In the backdrop of all these developments i.e., deregulation in the Indian economy and product/ technological innovation, risk exposure of banks has also increased considerably. Thus, this has forced banks to focus their attention to risk management. In fact, the importance of risk management of banks has been elevated by technological developments, the emergence of new financial instruments, deregulation and heightened capital market volatility.

REVIEW OF LITERATURE

Singh, A. (2015) made a study entitled "Performance of Credit Risk Management in Indian Commercial Banks" For banks and financial institutions, credit risk had been an essential factor that needed to be managed well. Credit risk was the possibility that a borrower of counter party would fail to meet its obligations in accordance with agreed terms. Credit risk; therefore arise from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. Credit risk had been the oldest and biggest risk that bank, by virtue of its very nature of business, inherited. Currently in India there were many banks in operation. From these some public sector banks are namely State Bank of India, Punjab National Bank, Oriental Bank of Commerce, Bank of India, Indian Bank, Indian Overseas Bank, Syndicate Bank, Bank of Baroda, Canara Bank, Allahabad Bank, UCO Bank, Vijaya Bank and private sector banks are Axis Bank, ICICI Bank, IndusInd Bank, ING Vysya Bank, Dhanlaxmi Bank, HDFC Bank, YES Bank, Kotak Mahindra Bank, Karnataka Bank, ABN Amro Bank, Federal Bank, Laxmi Vilas Bank were selected to examine the impact level of credit risk management towards the profitability of Indian commercial banks. To examine its impact level the researcher had used multiple regression models by taking 11 years return on asset (ROA), non performing asset (NPA) and capital adequacy ratio (CAR) from each bank. The researcher had collected data from RBI annual report since 2003 to 2013 for regression purpose.

Abu Hussain and Al-Ajmi (2012) examined the methodology of risk management followed by the commercial and Islamic frameworks of banking in Bahrain. The information was collected through a questionnaire to assess the understanding of risk and management, risk identification, risk assessment and analysis, and credit risk analysis. The outcome additionally demonstrates a significant and positive effect on risk management practices in both commercial and Islamic banks of Bahrain.

Khalid and Amjad (2012) examined the management of risk in the Islamic banking system of Pakistan. The exploration shows that the Islamic banking system of Pakistan positively affects risk management procedures, and the persuasive variable which demonstrated the significant behaviors was an analysis of credit risk, monitoring of risk, and knowing the risk and its management.

Al-Tamimi and Al-Mazrooei (2007) examined the procedures and practices of risk management followed by national and international banks of UAE. They showed that UAE business banks are confronting three huge types of risks; these are foreign exchange risks pursued by operational and credit risk. The factors having the greatest influence are risk assessment and analysis, and risk identification. Moreover, the business banks of UAE have accomplished to some degree proficiency towards the management of risk. Finally, the examination inferred that the two systems, i.e., risk monitoring and controlling, fluctuate enormously between the national and international banks of UAE.

STATEMENT OF THE PROBLEM

Risk Management has emerged as a big challenge for the Indian banking system. Therefore, it is attempted to make a study of Risk Management in Nationalised banks and Private sector banks to evaluate the credit efficiency by analyzing Credit deposit ratio, Capital adequacy ratio, and Management of Non Performing Loans/Assets and branch managers' perception of Risk Management System to oversee the management of non-performing loans/assets of sample banks. It is in this context, the researcher has undertaken a study of Risk Management Strategies of Nationalised banks and Private sector banks in Tirunelveli District.

OBJECTIVES OF THE STUDY:
Source: Primary data
*-Significant at five per cent level

Table 1 clearly shows that the important factors influencing non-performing assets among the sample branch managers of nationalized banks were lack of proper post supervision / Follow up / Monitoring and inadequate and delayed credit decision / Disbursement since the respective high mean scores were 4.6398 and 4.4165 respectively. Among the "Sample branch managers of private sector banks" important factors influencing non-performing assets were lack of proper post supervision / Follow up / Monitoring and poor monitoring and controlling system for credit risk since the respective mean scores were 4.3252 and 4.2275 respectively. A significant difference among the sample branch managers of nationalized and private sector banks were identified regarding the factors influencing non-performing assets on its various aspects especially 'willful default, diversion of funds, wrong guidance given by political parties, lack of proper post supervision / follow up / monitoring, inadequate and delayed credit decision / disbursement, poor monitoring and controlling system for credit risk' since the respective "t" statistics were significant at 5 per cent level. However the aspects like "Business failure, crop failure, due to power failure results in reduction of production, under financing, accidents / natural calamities and improper selection of borrower / credit appraisal" was found to be not significant.

Factors influencing non-performing assets among branch managers of different branch locations

In order to reveal the significant difference in factors influencing non-performing assets among branch managers of different branch locations, data were collected and the 'ANOVA' test has been administered. The mean score on each statement obtained was calculated separately. The resulted mean score on the factors influencing non-performing assets among the branch managers of different branch locations and the respective "F" statistics are presented in Table 2.

Table 2
'ANOVA' test for Significant difference among branch managers of different branch locations with respect to Factors influencing non-performing assets

Factors influencing non-performing assets	Branch Locations (Mean Score)			F Statistics
	Urban	Semi-urban	Rural	
Willful default	3.7297	3.5631	3.5806	2.148
Business failure	4.2658	4.2010	4.0887	1.973
Diversion of funds	3.6486	3.8252	4.2269	3.862*
Crop Failure	3.5045	3.6505	4.0161	7.232*
Wrong guidance given by political parties	4.0396	4.1078	4.3226	3.129*
Due to power failure results in reduction of production	4.0270	4.1359	3.6774	2.809*
Under financing	3.8829	3.8447	3.6532	2.710*
Accidents / Natural calamities	3.9910	4.0485	3.5726	3.334*
Lack of proper post supervision / Follow up / Monitoring	4.4649	4.4029	4.5226	1.202
Inadequate and delayed credit decision /	4.3689	4.2796	4.5984	3.308*

Disbursement				
Improper selection of borrower / Credit appraisal	3.8288	3.8350	3.8629	1.709
Poor Monitoring and Controlling system for credit risk	3.8574	3.9817	4.1897	2.985*

Source: Primary data

*-Significant at five per cent level

Table 2 shows that the important factors influencing non-performing assets among the sample branch managers who belong to urban area were lack of proper post supervision / Follow up / Monitoring and inadequate and delayed credit decision / Disbursement since the respective high mean scores were 4.4649 and 4.3689 respectively. Among the "Sample branch managers who belong to semi-urban area" important factors influencing non-performing assets were lack of proper post supervision / Follow up / Monitoring and inadequate and delayed credit decision / Disbursement since the respective mean scores were 4.4029 and 4.2796 respectively. Among the "Sample branch managers who belong to rural area", were inadequate and delayed credit decision / Disbursement and lack of proper post supervision / Follow up / Monitoring since the respective means scores were 4.5984 and 4.5226.

A significant difference among the sample branch managers of different branch locations of were identified regarding the factors influencing non-performing assets on its various aspects especially 'Diversion of funds, crop failure, wrong guidance given by political parties, due to power failure results in reduction of production, under financing, accidents / natural calamities, inadequate and delayed credit decision / disbursement and poor monitoring and controlling system for credit risk' since the respective "F" statistics were significant at 5 per cent level. However the aspects like "willful default, business failure, lack of proper post supervision / follow up / monitoring and improper selection of borrower / credit appraisal" was found to be not significant.

Association between Level of impact of non-performing assets and Type of banks

In order to examine the relationship between type of banks and level of impact of non-performing assets, a two-way table with type of banks and level of impact of non-performing assets was constructed. Accordingly, branch managers have been grouped into two categories on the basis of their type of banks. Chi-square test is attempted with the following null hypothesis,

H_o: There is no association between level of impact of non-performing assets and type of banks

The details of level of impact of non-performing assets among bank managers on the basis of their type of banks are presented in Table 3.

Table 3

Chi-square test for association between level of impact of non-performing assets and type of banks of branch managers

Type of Banks	Level of Satisfaction			Total	Chi-square Value	P value
	Low	Moderate	High			
Nationalised banks	5 (10%) [35.7%]	18 (36%) [45%]	27 (54%) [58.7%]	50	21.921	0.000
Private sector	9 (18%)	22 (44%)	19 (38%)	50		

banks	[64.3%]	[55%]	[41.3%]			
Total	14	40	46	100		

Note: 1. The value within ( ) refers to Row Percentage
2. The value within [ ] refers to Column Percentage
3. * Denotes significant at 5% level

Since p value is less than 0.05, the null hypothesis is rejected at 5 percent level of significance. Hence it is concluded that there is an association between level of impact of non-performing assets and type of banks of branch managers. Based on the row percentage, level of impact of non-performing assets among the branch managers of nationalised banks, 10 per cent of the sample branch managers have stated that low level of impact of non-performing assets, 36 per cent of the sample branch managers have mentioned that moderate level of impact of non-performing assets and 54 per cent of the sample branch managers have opined that high level of impact of non-performing assets. Among the sample branch managers of private sector banks, 18 per cent of the sample branch managers have stated low level of impact of non-performing assets, 44 per cent of the sample branch managers have expressed that moderate level of impact of non-performing assets and 38 per cent of the sample branch managers have mentioned that high level of impact of non-performing assets.

Association between Level of impact of non-performing assets and Branch locations of branch managers

In order to examine the relationship between branch locations of branch managers and level of impact of non-performing assets, a two-way table with branch locations of branch managers and level of impact of non-performing assets was constructed. Accordingly, respondents have been grouped into three categories on the basis of their branch locations. Chi-square test is attempted with the following null hypothesis,

H_o: There is no association between level of impact of non-performing assets and branch locations

The details of level of impact of non-performing assets among branch managers on the basis of their branch locations are presented in Table 4.

Table 4
Chi-square test for association between level of impact of non-performing assets and Branch locations

Branch Locations	**Level of Satisfaction**			**Total**	**Chi-square Value**	**P value**
	Low	Moderate	High			
Urban	3 (10%) [21.4%]	15 (50%) [37.5%]	12 (40%) [26.1%]	30	32.275	0.000
Semi-urban	5 (16.7%) [35.7%]	12 (40%) [30%]	13 (43.3%) [28.3%]	30		
Rural	6 (15%) [42.9%]	13 (32.5%) [32.5%]	21 (52.5%) [45.6%]	40		

Total	14	40	46	100		

Note: 1. The value within ( ) refers to Row Percentage
2. The value within [ ] refers to Column Percentage
3. * Denotes significant at 5% level

Since p value is less than 0.05, the null hypothesis is rejected at 5 percent level of significance. Hence it is concluded that there is an association between level of impact of non-performing assets and branch managers of different branch locations. Based on the row percentage, level of impact of non-performing assets among the branch managers who belong to urban area, 10 per cent of the sample branch managers have mentioned that low level of impact of non-performing assets, 50 per cent of the sample respondents have opined that moderate level of impact of non-performing assets and 40 per cent of the sample branch managers have stated that high level of impact of non-performing assets. Among the sample branch managers who belong to semi-urban area, 16.7 per cent of the sample branch managers have opined that low level of impact of non-performing assets, 40 per cent of the sample branch managers told that moderate level of impact of non-performing assets and 43.3 per cent of the sample branch managers said that high level of impact of non-performing assets. Among the sample branch managers who belong to rural area, 15 per cent of the sample branch managers have expressed that low level of impact of non-performing assets, 32.5 per cent of the sample branch managers have stated that moderate level of impact of non-performing assets and 52.5 per cent of the sample branch managers have opined that high level of impact of non-performing assets.

SUGGESTIONS

- The experiences of branch covered in the present study indicate the recovery of NPAs is possible if adequate care is taken by the bank officials. Hence, there should be pragmatic approach, sincerity and involvement on the part of the branch officials. They should shoulder the responsibility of recovery more enthusiastically and confidentially.
- The bank should make vigorous effort to strengthen the internal control and risk management system and set up early warning signals to detect the NPAs at the early stage and initiate necessary actions

CONCLUSION

In the present study, a sincere attempt has been made to analyze the parameters of Risk Management Systems to oversee the management of NPAs by banks and together the experiences of branch managers of both Nationalised banks and Private Sector Bank groups in urban, semi-urban and rural areas which suggest that recovery of NPAs will be more effective if proper care is taken by bank officials in shouldering the recovery drive more enthusiastically and confidently. The SARFAESI Act has significant positive implication in the recovery of NPAs by banks. With the passage of the Enforcement of Security Interest and Recovery of Debt Laws (Amendment) bill on 7th December 2004 by the Central Government, the recovery of NPAs has improved significantly. The success of credit risk management requires maintenance of proper credit risk environment, credit strategy and policies to manage the credit risk. Thus the ultimate aim is to protect and improve the loan quality to reduce the level of NPAs.

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