A Comparative study of Credit Risk Management: A Case Study of Canara Bank and Karnataka Bank.

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ABSTRACT

Banks need finance to carry out their day to day activities smoothly. There will be times where the borrowers fail to repay the money leading a risk to the lenders. There are various types of risks faced by the banks such as financial and non-financial risk in the unstable environment. These risks may be a threat for the existence and achievements of banks. A Credit risk is the risk which arises when the borrower fails to make required payments. It is a huge loss to the lender where he loses both the principal and interest which leads to the interruption of the cash flows and increase in collection costs. Banks usually follow a certain framework while lending loans so that they can manage the credit risks. The main purpose of credit risk management is to find out how much credit should be provided to the borrowers and the different ways to collect the amount back. The success of banks depends on the formulation of the policies and procedures of lending the loans and collecting the amount back and avoid Non-Performing Assets (NPA) to the banks. When banks collect their debts systematically and avoid the Non- Performing Assets (NPA), they can survive in the competitive market. The study is focused on the comparison of two banks such as Canara Bank and Karnataka Bank with regard to loans, advances, interest received and expended and the variation in the levels of Non- Performing Assets. Methodology used is the secondary source of data where the balance sheet of the banks and the income and expenditure statement of the banks are being used to explore the credibility and the capacity of the banks in managing the credit risk.

Keywords: Credit Risk, Non-Performing Loans, Credibility, Competitive market, Financial Risk, Non- Financial risk.

INTRODUCTION:

Credit risk is the oldest form of risk that is faced by the bankers across the globe. It is the risk of default on loans. If credit can be defined as “nothing but the expectation of a sum of money within some limited time” then credit risk is the possibility that this expectation will not be fulfilled. Banks are the intermediaries between people who have excess money and those who are in need of money. There are various types of risk such as credit risk, market risk, operational risk, liquidity risk etc. but credit risk is most important as it is essential for the survival of the banking sector. Loan transaction account to nearly 50% of all the banking activities and therefore banks should monitor it in a very systematic way. Banks accept deposits such as Fixed Deposit, Savings Deposit etc. and lend loans to various companies, industries and customers.

Companies borrow to make acquisitions and to grow, small business borrow to expand their capacity and individuals use credit for other purpose. So banks have to measure the risk and then decide on the credibility of the companies in paying back the loans borrowed by them for various purposes.

As credit risk is the major problems of banks, the bankers should be alert from their past experiences. The aim of credit risk management is to minimize bank's risk by maintaining credit risk exposure within acceptable boundary. Banks need to manage the credit risk with regard to whole loan portfolio and the risk in individual transaction. Credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount granted. Credit Management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts.

Credit Management from debtor's point of view is managing finances especially debts so as not to have a tail of creditors lurking behind your back. Credit Management is responsibility that both the debtors and the creditors should seriously take when it functions efficiently; credit management serves as an excellent instrument for the business to remain financially stable. Credit management is the process of granting credit, setting the terms on which it is granted, recovering this credit when it is due and ensuring compliance with company credit policy, among other credit related functions. The goal within a bank or company in controlling credit is to improve revenues and profit by facilitating sales and reducing financial risks.

LITERATURE REVIEW:

Hoff and Stiglitz (1990) denoted, in the past decades there have been major advances in theoretical understanding of the workings of credit markets. These advances have evolved from a paradigm that emphasis the problems of imperfect information and imperfect enforcement. They pointed out that borrowers and lenders may have differential access to information concerning a business risk, they may form different appraisal of the risk. What is clearly observed in credit market is asymmetric information where the borrower knows the expected return and risk of his/her business, whereas the lender such as bank knows only the expected return and risk of the average business in the economy.

Theodore N.Beckman and Ronald S Foster (1924) states that Banks in today world have many functions. Lending is the most important one. Credit or loans covers the large portion of banks total asset and a backbone of every bank structure. In formulating policies and procedures for the credit granting process several basic steps must be taken by credit management.

Bert et al. (2003) defines credit management as a process of granting credit, the terms it's granted on and recovering this credit when it's due. This is the function within a bank or company to control credit policies that will improve revenues and reduce financial risks.

OBJECTIVES OF THE STUDY:

- To compare the Credit Risk Management of Canara Bank and Karnataka Bank.
- To evaluate Credit Risk Model of Canara Bank and Karnataka Bank.
- To ascertain Credit Risk Management Policy with Bloom's Taxonomy.
- To analyze the variations in Non-Performing Asset(NPA) levels in 5 years

RESEARCH METHODOLOGY:

The information has been collected to compare the credit risk management of Canara Bank and Karnataka Bank from different sources. It can be classified as primary and secondary source.

Primary Source:

The Primary source of the data for the present case study is collected by having discussion, interview with the branch Managers and the staff of both the bank and ideas received from them. The primary source of the data includes the information obtained through direct personal interview with the managers and the banks staffs. It also includes observation, discussion.

Secondary source:

The secondary source was collected through annual reports, manuals, magazines, internal records, previous records and Balance Sheets. Some of the information was also been explored from the books and from the several websites of the banks. The secondary source of data include, Bank Annual Reports, Manuals and through websites of the bank and other relevant websites.

LIMITATIONS OF THE STUDY:

1. In depth analysis of the data required some confidential information which was not disclosed by the bank.
2. All the staffs of the bank were having a very busy schedule; more information could not be collected through interviews with the staff.

OVERVIEW OF CANARA BANK:

Canara Bank was founded by Sri Ammembal Subbarao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port town in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the bank completed a century of operation in the Indian Banking Industry. The eventful journey of the bank has been characterized by several memorable milestones. Today Canara Bank occupies a premier position in the comity of Indian banks. With an unbroken record of profits since its inception, Canara Bank has several firsts to its credit. These include:

- Launching of Intercity ATM Network
- Obtaining ISO Certification for a Branch
- Articulation of “Good Banking”- Banks Citizen Charter
- Commissioning of Exclusive Mahila Banking Branch
- Launching of Exclusive Subsidiary for IT Consultancy
- Issuing Credit Card for Farmers
- Providing Agricultural Consultancy Services

Over the years, the Bank has been scaling up its market position to emerge as a major ‘Financial Conglomerate’ with as many as nine subsidiaries/sponsored institutions/joint ventures in India and abroad. As at March 2015, the bank has further expanded its domestic presence, with 5682 branches spread across all geographical segments. Keeping customer convenience at the forefront, the Bank provides a wide array of alternative delivery channels that include 8533 ATMs, covering 4021 centers. Several IT initiatives were undertaken during the year. The bank set up 132 hi-tech E-lounges in selected branches with facilities like ATM, Cash Deposit Kiosk with voice guided system, Cheque Deposit Kiosk, Self-Printing Passbook Kiosk, Internet Banking Terminal, Online Trading Terminal and Corporate Website Access. Canara e-Info book – an electronic passbook and banking related information facility was introduced on mobile platforms- Android, Windows and IOS. The Bank also launched Canara Bank Rupay Debit Card, Canara Club Card- Debit, Canara Secured Credit Card, Canara Elite Debit Card, Canara Bank Platinum Rupay Card and EMV Chip Cards under debit and credit cards. Online savings Bank and PPF account opening were introduced during the year.

Founding principles:

1. To remove superstition and ignorance

2. To spread education among all to sub-serve the first principle.
3. To inculcate the habit thrift and savings
4. To transform the financial institution not only as the financial heart of the community but the social heart as well.
5. To assist the needy
6. To work with sense of service and dedication
7. To develop a concern for fellow human being and sensitivity to the surroundings with a view to make changes/ remove hardships and sufferings.

Vision and Mission of Canara Bank:

***Vision statement*:**

"To emerge as a Best Practices Bank' by pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach."

Mission statement:

"To provide quality banking services with enhanced customer orientation, higher value creation for stakeholder and to continue as a responsive corporate social citizen by effectively blending commercial pursuits with social banking."

OVERVIEW OF KARNATAKA BANK:

Karnataka Bank Limited, a leading 'A' Class Scheduled Commercial Bank in India, was incorporated on February 18th, 1924 at Mangaluru, a coastal town of Dakshina Kannada district in Karnataka State. The bank took shape in the aftermath of patriotic zeal that engulfed the nation during the freedom movement of 20th Century India. Over the years the Bank grew with the merger of Sringeri Sharada Bank Ltd., Chitradurga Bank Ltd. and Bank of Karnataka.

With over 9 decades of experience at the forefront of providing professional banking services and quality customer service, it now has a national presence with a network of 858 branches spread across 22 states and 2 Union Territories.

Managed by a dedicated & professional management team, it has over 8,220 employees, 1, 46,000 shareholders and over 10.21 million customers.

Today, it has emerged as a leading financial service institution in India.

Throughout the years, it has focused on one task, one mission - To Give You The Best in Services and In Products. Among other Banks, it was Karnataka Bank who first realised the importance of having a Centralised Banking system and was among the first to deploy the Core Banking System in the year 2000. This system enabled the bank to store and processes all the customers' accounts from one single place - the Data Centre at Bangalore. To ensure that you have the Best, bank has deployed the State-Of-Art technology from the best players in the Industry like Infosys, Sun and Wipro. These systems provide the highest reliability thus enabling the bank to offer its customers Non-Stop services of the highest order.

Karnataka ban k has taken a lead and implemented a Disaster Recovery Centre. This centre will replicate the Banks Centralised Banking system and all its data. This centre will also be the backup for the ATM operations. In the event of a natural disaster at Bangalore, this centre will immediately come into force and provide full continuous service.

As a premier bank, Karnataka bank have developed comprehensive range of customized products & services suitable for every kind of market, trade or perceived need - Business or Personal. They include, borrowing facilities, deposits, providing optimum returns on surplus funds or helping with overseas transactions.

Karnataka bank believes in total quality at all levels. It has deployed the most modern information technology to deliver products & services for the benefits of the customers with an aim to develop an effective long-term relationship. But most of all, Technology is matched to the customers' expectations of service, for today & for the future.

Vision:

Our vision is to be progressive, prosperous and well governed bank.

Mission Statement:

"Our mission is to be a technology savvy, customer centric progressive bank with a national presence, driven by the highest standards of corporate governance and guided by sound ethical values."

ANALYSIS OF THE CREDIT FACILITIES PROVIDED BY THE BANKS TO THE DEPOSITS AND THE NON-PERFORMING ASSET (NPA) RATIO FOR THE PREVIOUS FIVE YEARS:

Table 1: Advances provided by Banks for the previous 5 years.

Year	Canara Bank		Karnataka Bank	
	Amount (Rs. In Cr)	% increase	Amount (Rs. In Cr)	% increase
2016	324714.82	-	33902.45	-
2017	342008.76	5.33%	36915.70	8.89%
2018	381702.99	11.61%	47251.75	28.00%
2019	427727.27	12.05%	54828.20	16.03%
2020	432175.20	1.03%	56964.27	3.89%

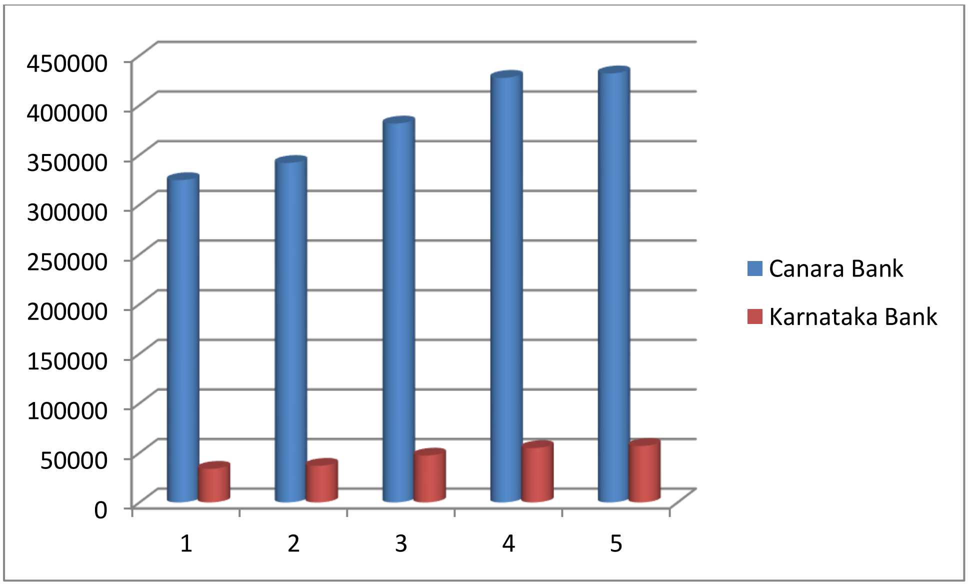

Figure 1: **Advances provided by Bank for the previous 5 years.**

From the above chart it is evident that the advances provided by the bank are increasing over the years which clearly indicate that the bank is meeting its demand from the customers with regard to the various credit facilities required by its customers and contributing to the economic development of the society. Further the increase in advances contributes to the increase in income earning capacity of the bank.

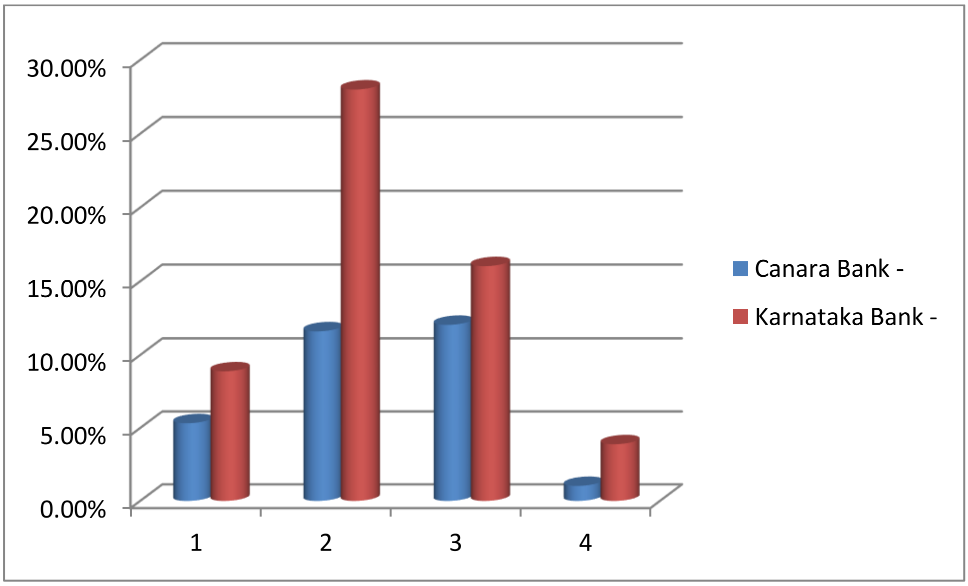

Figure 2: **Percentage Increase in Advances provided by Bank for the previous 5 years.**

From the above table indicates the percentage increase in advances, the percentage increase in case of Karnataka Bank is more when compared with that of Canara Bank which clearly indicates the growth prospects of Karnataka Bank.

Table 2: Deposits received by Banks for the previous 5 years.

Year	Canara Bank		Karnataka Bank	
	Amount (Rs. In Cr)	**% increase**	**Amount (Rs. In Cr)**	**% increase**
2016	479791.56	-	50488.21	-
2017	495275.24	3.23%	56733.11	12.37%
2018	524771.86	5.96%	62871.29	10.82%
2019	599033.27	14.15%	68452.12	8.88%
2020	625351.17	4.39%	71785.15	4.87%

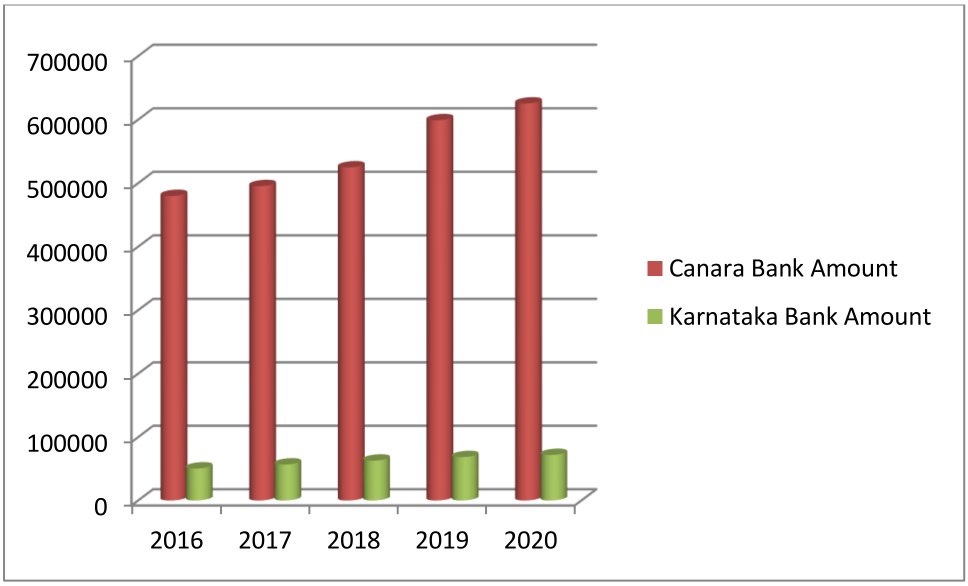

Figure 3: Comparative chart showing Deposits received by Bank for the previous 5 years.

From the above chart it is evident that the deposits received by the bank have been increasing over the years, which in turn has been creating the cash flow for providing advances to meet the financial requirements of its customers.

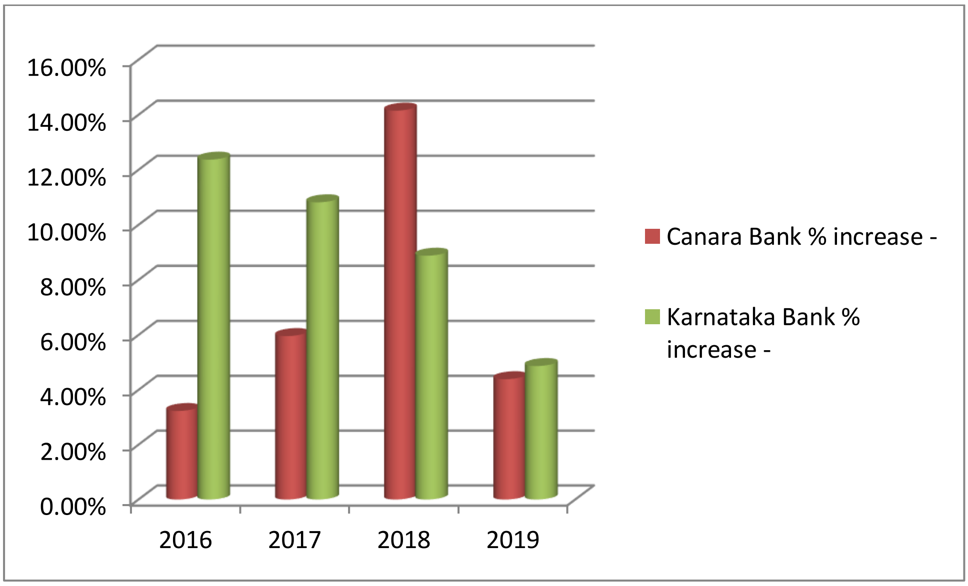

Figure 4: Comparative chart showing increase in deposits received by banks for the previous 5 Years

From the above table indicates the percentage increase in deposits, the percentage increase in case of Karnataka Bank is more when compared with that of Canara Bank except in the year 2018 which clearly indicates the growth prospects of Karnataka Bank.

Table 3: Interest earned on advances by Banks for previous 5 years.

Year	Canara Bank		Karnataka Bank	
	Amount (Rs. In Cr)	% increase	Amount (Rs. In Cr)	% increase
2016	31377.25	-	4992.21	-
2017	29585.67	-5.70%	5185.40	3.87%
2018	29096.44	-1.65%	5423.75	4.60%
2019	34319.28	17.95%	5905.96	8.89%
2020	36075.88	5.12%	6474.77	9.63%

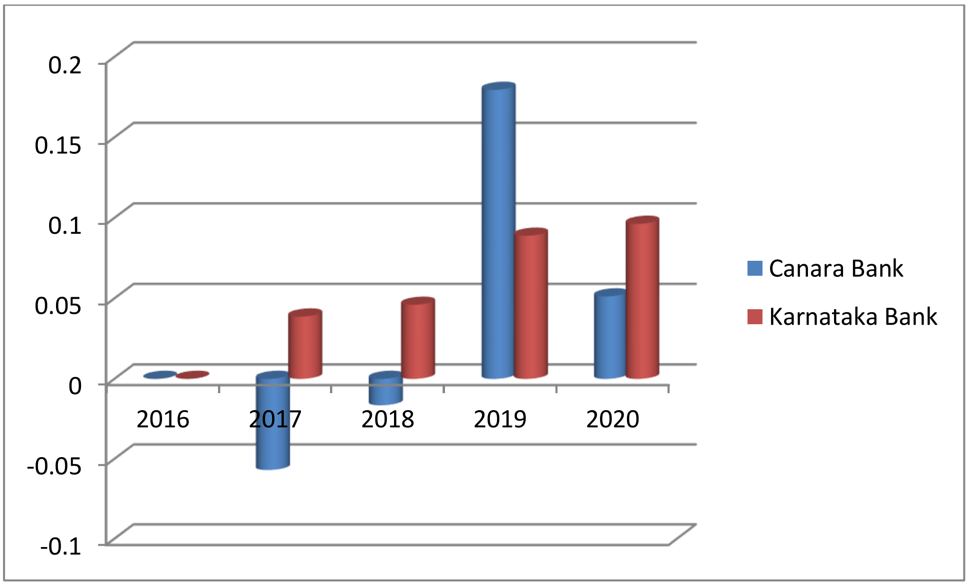

Figure 5: Comparative chart showing Percentage increase/Decrease in Interest earned on advances by Banks for previous 5 years.

From the above it has been observed that the interest earned by Karnataka Bank has been increasing over the years as compared to Canara Bank. Further Canara Bank showed percentage decrease in the financial years 2017 and 2018 which clearly indicates that the income earned by the banks increases with percentage increase in the advances of the banks.

Table 4: Interest expended by Canara bank during 5 previous years.

Year	Canara Bank		Karnataka Bank	
	Amount (Rs. In Cr)	% Increase	Amount (Rs. In Cr)	% Increase
2016	32350.02	-	3689.34	-
2017	29560.08	-8.62%	3694.78	0.15%
2018	27136.16	-8.20%	3566.10	-3.48%
2019	30098.46	10.92%	4000.84	12.19%
2020	33520.94	11.37%	4444.41	11.09%

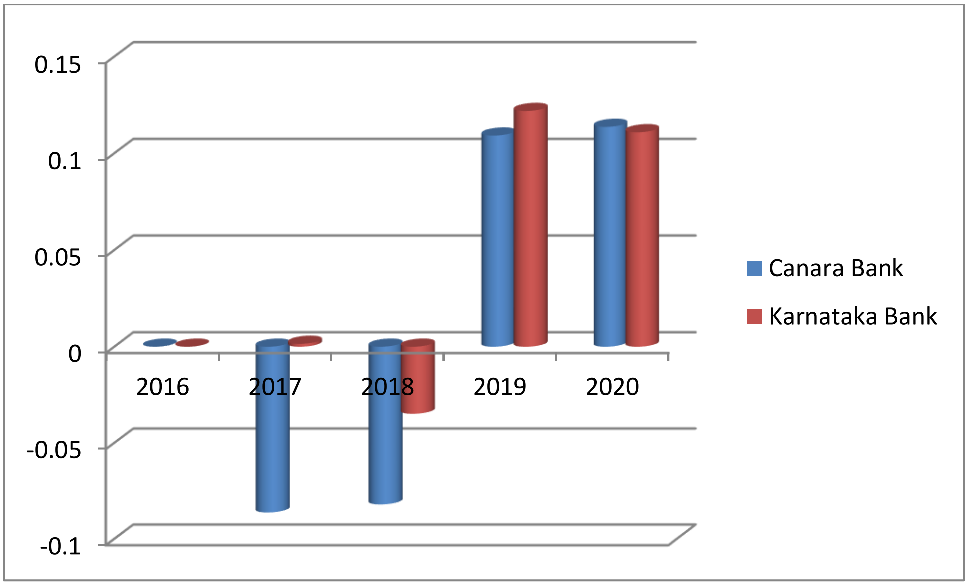

Figure 6: Comparative Chart Showing Interest expended by banks during 5 previous years.

From the above it has been observed that the interest earned by Karnataka Bank has been increasing over the years as compared to Canara Bank. Further Canara Bank showed percentage decrease in the financial years 2017 and 2018 which clearly indicates that the income earned by the banks increases with percentage increase in the advances of the banks.

Table 5: Non-Performing Assets (NPA) of the Canara Bank for previous 5 years

Year	Amount (Rs. in Cr)	Total advances	% of Total Advance
2016	31637.83	324714.82	9.74%
2017	34202.04	342008.76	10.00%
2018	47468.47	381702.99	12.44%
2019	39224.12	427727.27	9.17%
2020	37041.15	432175.20	8.57%

Table 6: Non-Performing Assets (NPA) of the Karnataka Bank for previous 5 years

Year	Amount (Rs. in Cr)	Total advances	% of Total Advance
2016	1180.40	33902.45	3.48%
2017	1581.59	36915.70	4.28%
2018	2376.07	47251.75	5.03%
2019	2456.38	54828.20	4.48%
2020	2799.93	56964.27	4.92%

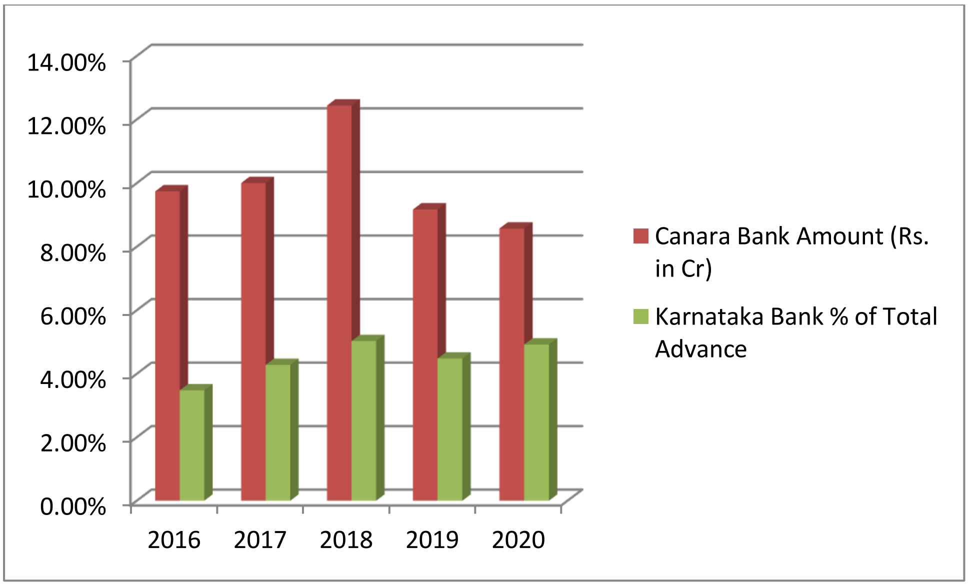

Figure 7: Comparative Chart Showing Percentage Increase/Decrease in Non-Performing Assets (NPA) of the Banks for previous 5 years

From the above it is evident that the percentage increase in NPA of Canara Bank is more as compared to the percentage increase in NPA percentage of Karnataka Bank which clearly indicates the better credit policy of Karnataka Bank. The same also indicates the better recovery ratio of advances by Karnataka Bank as compared to the Canara Bank.

Table 7: Profitability statement of Canara Bank for previous 5 years.

Year	Canara Bank	Karnataka Bank
	Amount (Rs. In Cr)	**Amount (Rs. In Cr)**
2016	-2812.82	415.29
2017	1121.92	452.26
2018	-4222.24	325.61
2019	347.01	477.24
2020	-2235.72	431.78

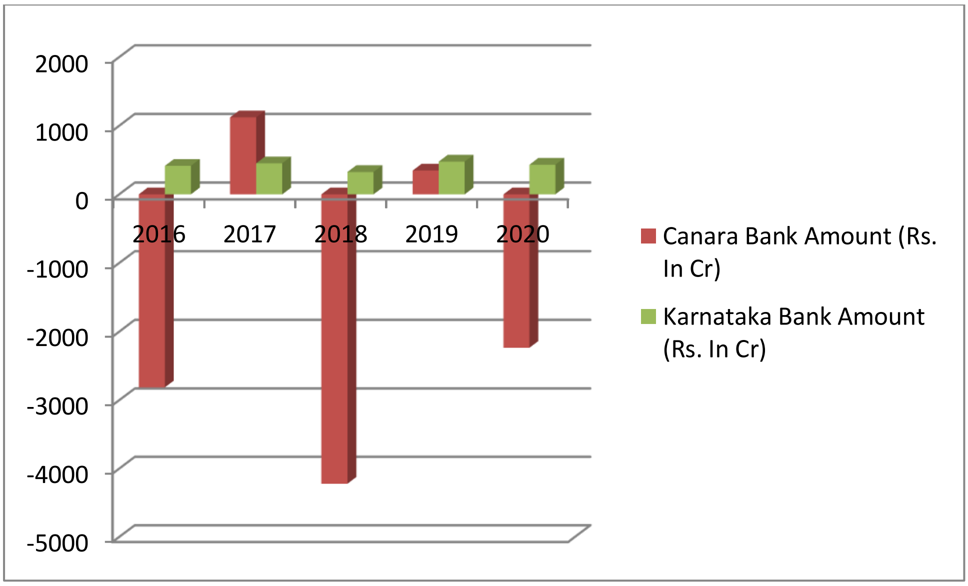

Figure 8: Comparative Chart Showing Profitability statement of Banks for previous 5 years.

From the above it is clear that Karnataka Bank has been consistently earning Net Profits over the years as compared to Canara bank. One of the reasons being that the interest earned and expended by Karnataka Bank has been steadily increasing over the years. Further the percentage increase in NPA in case of Karnataka Bank as compared to percentage increase in NPA of Canara Bank is much lower as a result of which the provisions made for recovery of NPA has also reduced which in turn has affected the profitability of Canara Bank. It is evident that the credit policies of the banks effects its profitability and performance of the banks at large.

FINDINGS:

- Increase/Decrease in Advances provided by the bank has an impact on the Interest income earned by the banks during the respective years.
- Increase/ Decrease in Deposits received by the bank results in Interest expended by the banks which in turn affects its profitability. More Deposit provided than Advances given will result in Loss and more advances given than Deposits received will result in profits during the year.
- NPA of the banks shows the good credit risk management of the bank which clearly shows that the bank has been considering the major credit risk factors during the time of sanction of the credit facilities to its customers.

CONCLUSION:

Canara bank being a public sector bank has been carrying on banking activities for a long period of time. However Karnataka bank is one of the emerging banks in private sector and in the path of its growth due to the credit risk management policies adopted by its management.

Indian banks have gone a long way in adopting credit risk management policy and procedures as stated by the BASEL. The study confirms banks implementation of credit risk management policy. The need for the banks is to implement a strong credit risk models in banks to avoid loan defaulters. If banks will implement better credit risk models to identify the status of the borrowers they will be far from the actual credit risk. Banks need to look forward not only in implementation of regulatory framework but risk models to avoid risk.

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