CREDIT RISK MANAGEMENT PRACTICES OFBANKS IN PRIMARY SECTOR LENDING: POSTCOVID-19 STRATEGIES TO RECOVER

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ABSTRACT
Sound risk assessment and management is a fundamental element of sustainable agricultural finance at the level of the farm, the financial institution, and throughout the agricultural value chain. Initiatives to foster financial literacy can also contribute to more effective risk management. Appropriate commercial and financial regulations can mitigate risk that results from policy uncertainty. Credit risk is the bank's risk of loss arising from a borrower who does not make payments as promised. This has, however, acquired a greater significance in the recent past for various reasons. Better credit portfolio diversification enhances the prospects of the reduced concentration credit risk as empirically evidenced by direct relationship between concentration credit risk profile and NPAs of Scheduled Commercial banks. This study evaluates the influence of credit risk management in financing Agriculture by Commercial Banks in India.

The strength and soundness of the banking system primarily depends upon the quality of the assets. Non-Performing Assets (NPA) is one of the major concerns for banking system in India. In this paper we have made an attempt to analyze how efficiently Scheduled Commercial sector banks managed their Agriculture NPAs. Primary and Secondary data has been collected for the selected categories of the banks from the RBI publications for a period of ten yearsand in the questionnaire method with sample size of ten Scheduled commercial banks of 100 respondents. Data was gathered using a data a questionnaire and analyzed using SPSS 17. Our results reveal that Scheduled Commercial banks have witnessed a continuous increasing trend in Agriculture NPAs in comparison to total NPAs during the study period and there is statistical significant in the mean of reasons, impact and management of Agriculture NPA of Scheduled Commercial Bank category of Indian banks.

KEY WORDS: Risk mitigation- Sustainability- Financial distress- Provisions-Regulatory

1.1 Introduction

Agriculture in India has had a long history because of the fertile plains of India and despite existence of river systems; agriculture in India has always been heavily dependent on the monsoons and has hence been an inherently risky activity. With the intermittent failure of the monsoons and other customary vicissitudes of farming, rural indebtedness has been a serious and continuous characteristic of Indian agriculture. Risk is an integral part of Agriculture. In India Agriculture risks are exacerbated by a variety of factors, ranging from climate variability and change, frequent natural disasters, uncertainties in yields and prices, weak rural infrastructure, imperfect markets and lack of financial services etc. Agricultural risks can be broken down into three main types of risks, i.e. risks caused by fluctuations in production, risks caused by fluctuation in prices and risks related to untimely loan disbursements. Agricultural credit risk is not limited to agricultural risks, but includes risks

that interrelate to agricultural lending such as credit risk, operational risk, concentration risk, market risks and inadequacy of capital. These interrelated banking risks are faced by all commercial banks. Banking risks have not hampered commercial banks from widely practicing financial intermediation, because they have invented many tools and measures to tackle them. Banking risks, which plague all finance transactions regardless of the type of financial institution, and their clients' risks, which in agricultural finance, include climatic and other production risks, as well as the field-to-market agricultural processing and marketing risks.

Research gap

The present study fills the gap of literature by evaluating agricultural credit and the impact of agriculture NPA in Commercial bank financing help in identifying the difficulties involved in advancing and recovery of loans. . Study of the causes of default provides lessons to the farmers on how to use credit in a better way for productive purposes so that they can repay the loan within the specified period. This enables the banks to alter their lending procedures and the repayment schedule. The study helps the policy makers to reformulate the policies so as to improve the performance agriculture of the Commercial banks in India.

1.2 Statement of Problem

Priority sector lending (PSL) is part of the regulatory framework for commercial banks/ financial institutions in many countries, both developing and developed. However, compliance and lending effectiveness of such programs may be determined by a number of factors. This may be particularly so in developing countries, where availability of finance for the vulnerable sectors likes agriculture, small businesses, weaker sections, are scarce. Finance in agriculture is as important as other inputs being used in agricultural production. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planned development era in India. Several initiatives have been taken to strengthen the institutional mechanism of agriculture credit system. In bringing "Green Revolution", "White Revolution" and "Yellow Revolution" finance has played a crucial role.

1.3 Methodology

The importance of a study to a great extent depends on the methods followed in selection of area, collection of data and methods adopted for their analysis. While deciding the validity of the results of a study, consideration of the sources of data and the method followed in the study is necessary. The sources of data and methods of analyses adopted in the present study are explained below. The period selected for the study is from 2007 to 2017, though in many instances it goes either prior to or beyond the period, depending on the data availability.The researcher used a descriptive research design. Descriptive research seeks to establish factors associated with certain occurrences, outcomes, conditions or types of behavior. This is deemed appropriate because the study involve in depth a study of credit risk management and its effect on the on agriculture NPA of commercial banks which help the researcher in describing the state of the real current situation of banks. A descriptive study undertaken in order to certain and be able to describe the characteristics of the variables of interest in a carried out study.

1.4 Data analysis:

1.4.1 Major reasons for rise in agriculture NPA in Scheduled Commercial Banks

The respondents were requested to indicate the extent to which credit risk management affect rise of agriculture NPA in scheduled commercial banks. From the findings, majority above 69% of the respondents stated that most important reason in the rise of agriculture NPA is delay and untimely credit support followed by lacking in credit risk appraisal of 66% and Lack of proper monitoring and follow-up of the account constitutes around 65%. Rrespondents opined that important in Scheduling of improper repayment period around 79% followed by 65% in diversification of funds and finally the respondents declare that 24% considered credit rating agencies are least important with 33% credit rating agencies is not important in rise of agriculture NPA.
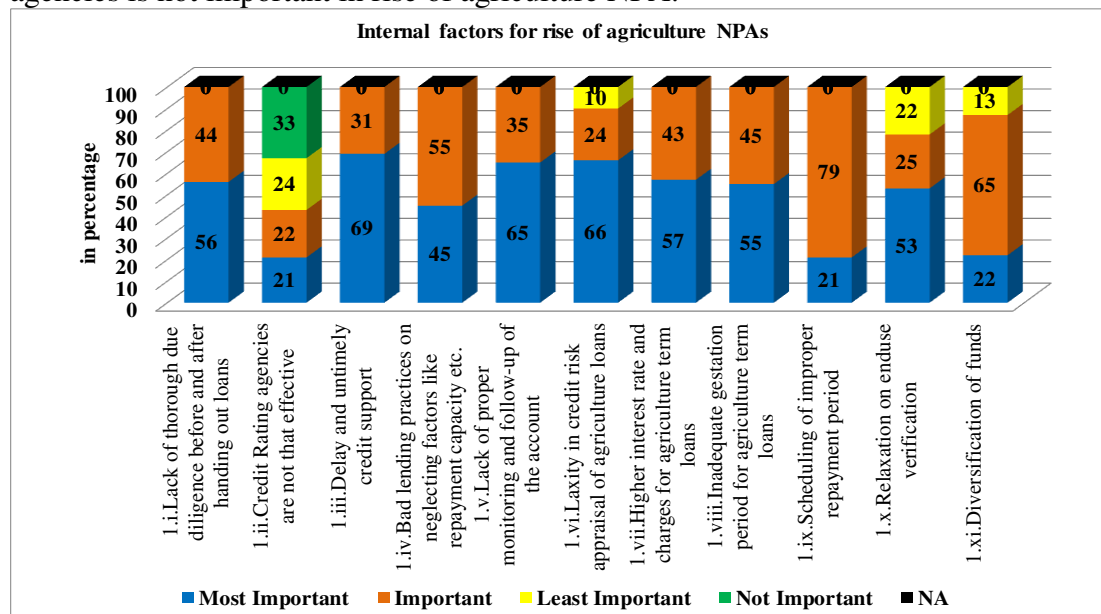

Fig-1: **Internal factors for rise in agriculture NPAs**

It is observed that respondents were requested to indicate the extent to which affect rise of agriculture NPA of scheduled commercial banks in general. From the findings, majority above 57% of the respondents stated that most important reason in the rise of agriculture NPA is expectations of getting loan waivers and change in government policy followed by lack of knowledge on agriculture insurance scheme around 45% and absence of legally enforceable and recoverable security to 44%. Respondents opined that important in Low demand excess supply around 89% followed by 76% in secure remunerative prices is not up to the mark and finally the respondents declare that 22% in willful default, loan frauds and corruption & 11% around inadequate extension service by agriculture departments is not important in rise of agriculture NPA.
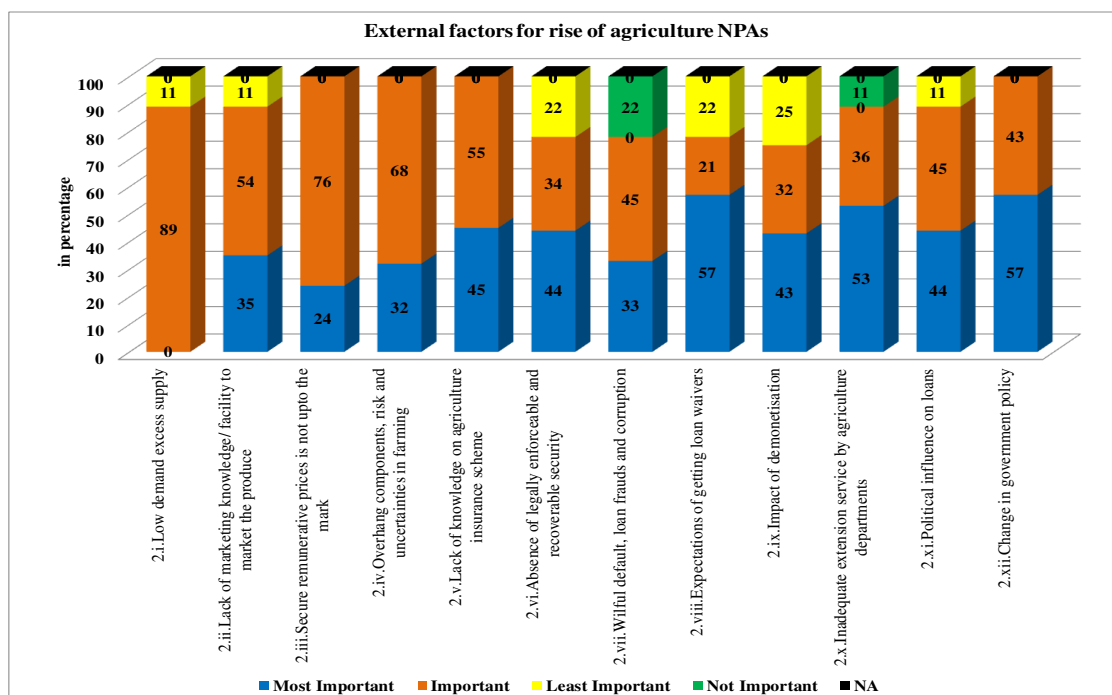
Fig-2: External factors for rise of agriculture NPAs of SCBs

It is evident from the graph that 76% of the respondents strongly agree that the farmers accessing informal sector for loans on expectation of getting benefit on debt loan waivers and hence higher indebtness which contributed more NPA in agriculture segment followed by 55% on rise in agriculture NPA on meeting priority sector lending target, for financing under agriculture sector by banks which computed more agriculture NPAs , 44% is scale of finance is invariably fixed that is much lower than the actual farm costs which prone to exploitation by money lenders contributing more NPA in agriculture and 42% in dealing competitive pressure has forced banks to relax credit appraisal standards and lending norms in agriculture finance thereby computing more agriculture NPAs. Out of 100 respondents 58% of the Bank officials agree that banks compete among themselves and provide unsecured loans which attribute high level of agriculture NPAs and 54% agree that existing norms in agriculture cash credit to repay the entire outstanding (principal along with interest) unlike other cash credit business which impact burden on farmer's repayment adding NPAs in agriculture segment.
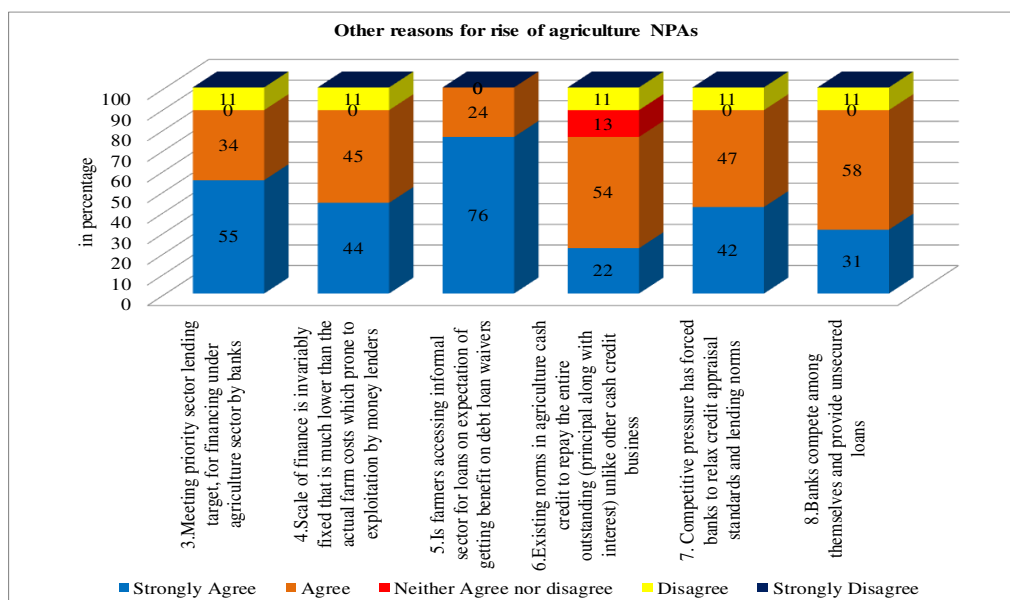
Fig-3: Other reasons for rise of agriculture NPAs of SCBs

From the below pie chart it is proved that 100% bank officials accepts 56% always and 44% sometimes on effective recovery of the agriculture NPA is held back on account of the sizeable overhang component arising from infirmities from the existing process of debt recovery and inadequate legal provisions on foreclosure and bankruptcy.

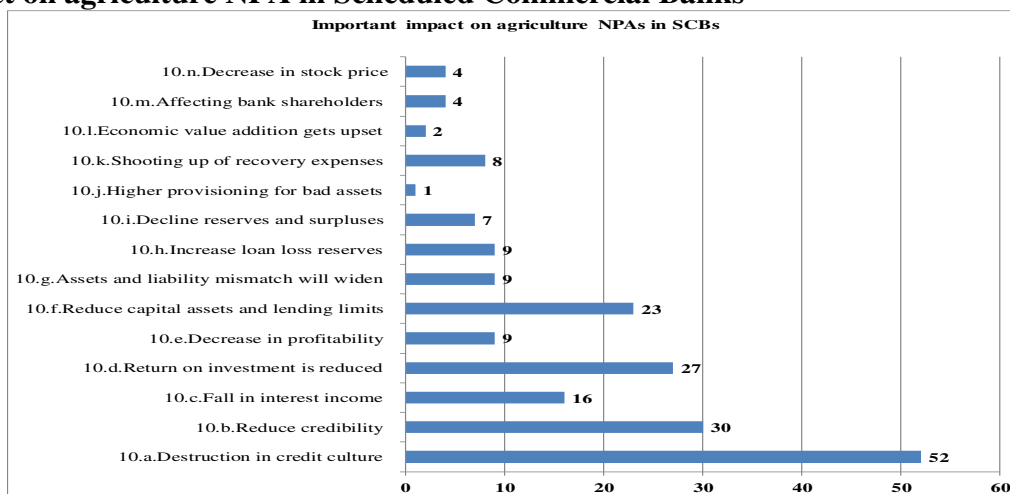**Impact on agriculture NPA in Scheduled Commercial Banks**

Fig-4: Most important impact on agriculture NPAs in SCBs

Queried about the most important impact on agriculture NPA and analyzed the most important impact in rise of agriculture NPAs on Scheduled Commercial Banks. Among all destruction in credit culture stands first on 52% rating of respondents, 30% on reduce credibility, 27% on return on investment is reduced, 23% on reduce capital assets and lending limits, 16% fall in interest income and 9% in decrease in profitability, assets and liability mismatch widen and increase in loan loss reserves.
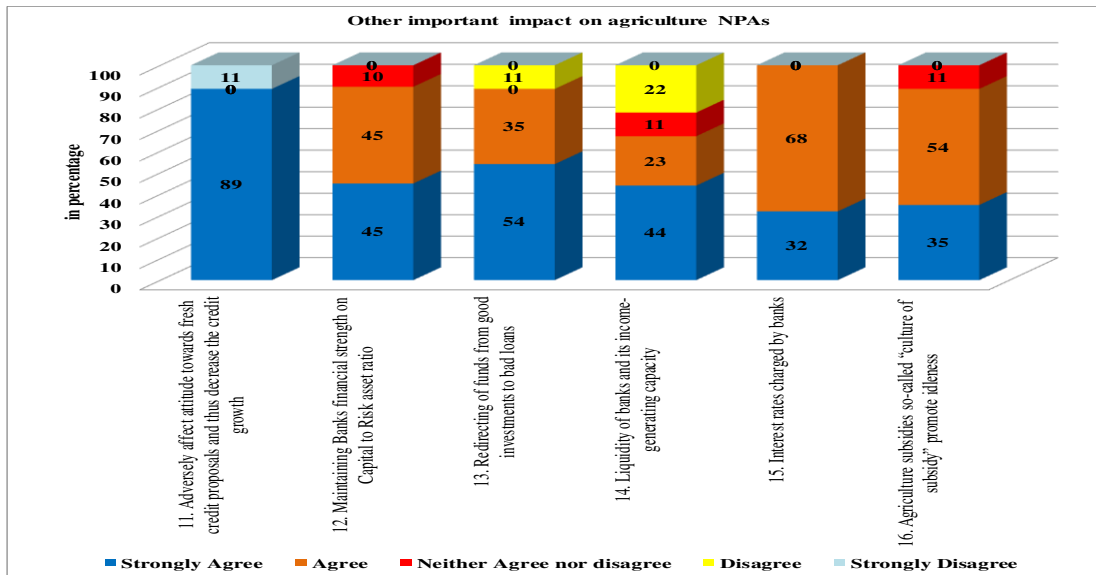
Fig-5:
Other important impact on agriculture NPAs in SCBs

It is obvious from the graph that higher NPA in agriculture may adversely affect attitude towards fresh credit proposals and thus decrease the credit growth is strongly agreed by 89% of the respondents followed by 54% of respondents stated agriculture NPA implies redirecting of funds from good investments to bad loans, 45% responded that agriculture NPA makes effort in maintaining Banks financial strength on Capital to Risk asset ratio and 44% marked that agriculture NPA which adversely affects the liquidity of banks and its income-generating capacity. Agriculture NPAs have significant role on interest rates charged by banks is strongly disagreed by 68% and agriculture subsidies so-called "culture of subsidy" promote idleness and thereby impact in agriculture NPA is strongly disagreed by 54% of the respondents.

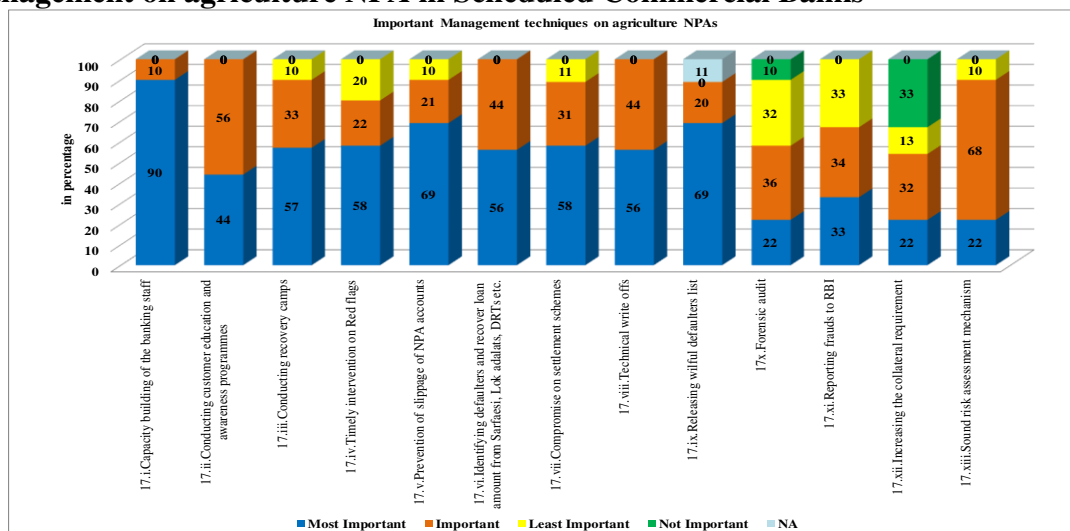**Management on agriculture NPA in Scheduled Commercial Banks**

Fig-6: Management techniques on agriculture NPAs in SCBs

The respondents measured on effective management techniques on the rise agriculture NPA of scheduled commercial banks. From the findings, majority 90% of the respondents stated that most important management on capacity building of the banking staff followed by 69% of prevention of slippage of NPA accounts and 69% releasing willful defaulters list. 58% of

respondents point out on timely intervention on Red flags and compromise on settlement schemes and 57% on conducting recovery camps. 56% respondents stated that identifying defaulters and recover loan amount from Sarfaesi, Lok adalats, DRTs etc. and technical write offs.
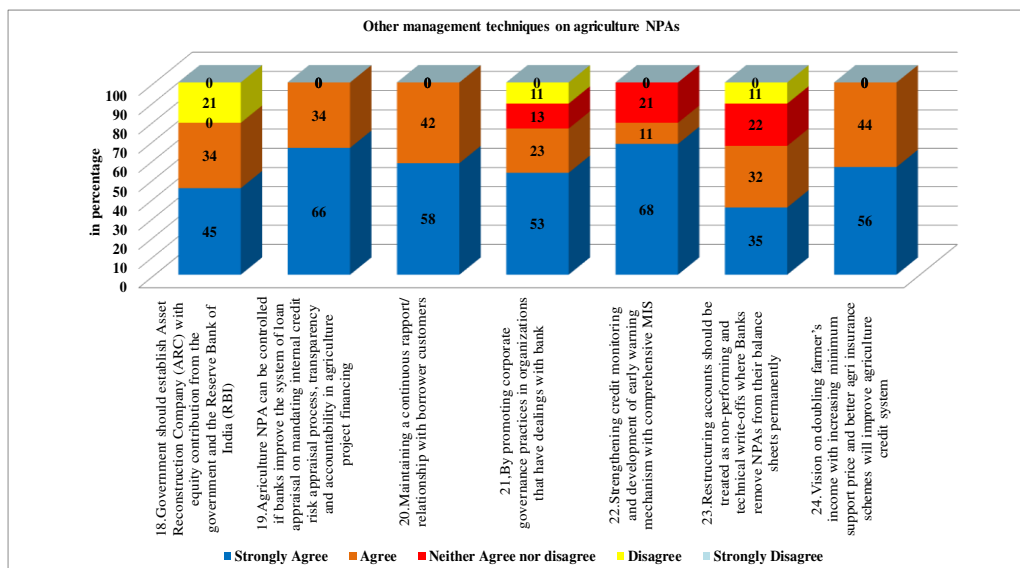

Fig-7: Other management techniques on agriculture NPAs in SCBs

From the figure 4.2.8.2Bank officials of 68% identified on strengthening credit monitoring and development of early warning mechanism with comprehensive MIS and 66% bnak employees strongly agree on improving the system of loan appraisal on mandating internal credit risk appraisal process, transparency and accountability in agriculture project financing followed by 58% opined that maintaining a continuous rapport/ relationship with borrower customers and 56% commented on vision on doubling farmer's income with increasing minimum support price and better agri insurance schemes improve agriculture credit system and reduce agricultural NPAs to improve the management on agriculture NPA on SCBs.
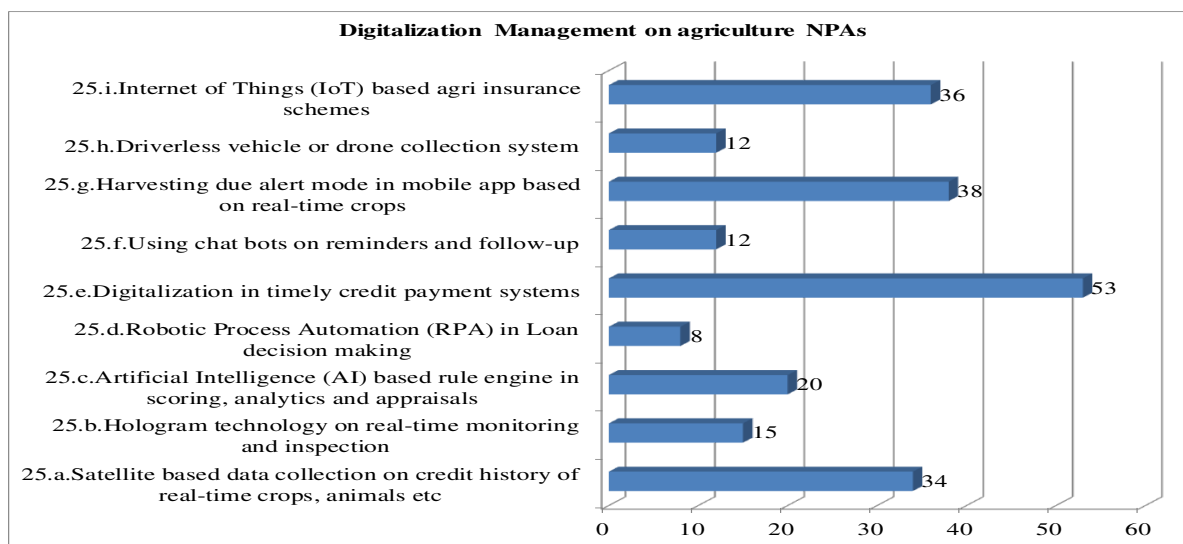

Fig-8: Digitalization Management on agriculture NPAs in SCBs

Digitalization management on agriculture NPAs is evident from the graph that 53% of the respondents strongly agree digitalization in timely credit payment systems followed by harvesting due alert mode in mobile app based on real-time crops with 38%, internet of Things (IoT) based agri insurance schemes with 36%, satellite based data collection on credit history of real-time crops, animals etc with 34% , art al Intelligence (AI) based rule engine in scoring, analytics and appraisals at 20%, hologram technology on real-time monitoring and inspection on 15%, using chat bots on reminders and follow-up with 12%, driverless vehicle or drone collection system with 12% and Robotic Process Automation (RPA) in Loan decision making with 8% on digitalization management on agriculture NPAs in SCBs

1.5 Suggestions
Based on observation and findings, this study suggests that.
1. Effective management techniques on the rise agriculture NPA of scheduled commercial banks majority of them considered most important management on capacity building of the banking staff, prevention of slippage of NPA accounts and releasing wilful defaulters list.
2. Other management measures like timely intervention on Red flags, compromise on settlement schemes, conducting recovery camps, identifying defaulters and recover loan amount from Sarfaesi, Lok adalats, DRTs etc. & technical write offs, maintaining a continuous rapport/ relationship with borrower customers and commented on vision on doubling farmer's income with increasing minimum support price and better agri insurance schemes will improve agriculture credit system and reduce agricultural NPAs to improve the management on agriculture NPA on SCBs.
3. From the findings, most of the respondents revealed that digitalization management on agriculture NPAs strongly agree on digitalization in timely credit payment systems followed by harvesting due alert mode in mobile app based on real-time crops with internet of Things (IoT) based agri insurance schemes and satellite based data collection on credit history of real-time crops, animals.

1.6 Conclusion
     The problem of Agriculture Non-Performing Assets (NPAs) is a serious issue and danger to the Indian Scheduled Commercial Banks, because it destroys the sound financial positions of them. The customers and the public would not keep trust on the banks any more if the banks have higher rate of Agriculture NPAs. So, the problem of Agriculture NPAs must be handled in such a manner that would not ruin the financial positions and affect the image of the banks. The RBI and the Government of India have taken innumerable steps to reduce the volume of NPAs of the Scheduled Commercial Banks. The remedial measures taken by Government of India, Reserve Bank of India and the Bank management in recent years helped to reduce Agriculture NPAs. To improve the efficiency and profitability, the Agriculture NPA has to be reduced further.Although these measures are significant and largely helped the banks to reduce their level of Agriculture NPA, the generation of fresh Agriculture NPA particularly, its increased trend on expectation of waivers highlights the need for effective credit risk management mechanism. Agriculture NPAs are draining the capital of the banks and weakening their financial strength. It is also as much a political and a financial issue. The banks and financial institutions should be more proactive to adopt a pragmatic and structured Agriculture non-performing assets management policy where prevention of Agriculture non-performance assets receives priority. As compared to private sector banks, public sector bank is more in the Agriculture NPA level.

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