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Performance of retail credit risk management: A Study on public and private sector banks

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Abstract: Since its nationalisation, the banking industry has been an integral part of the country's economic growth. As a result of globalisation, international banks have been giving India's banks a run for their money. Looking mostly at public and private banks, this article aims to forecast the future of retail portfolio management based on financial performance. Both primary and secondary sources of information were used to conduct the study. One area of the service economy that has seen radical transformation is the banking industry, which has evolved at a dizzying rate to meet the demands of modern international trade. The Government of India has complete authority over the banking sector in India according to its code.

Keywords: Performance, retail, Credit risk management, Public banks, Private sector banks

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INTRODUCTION

As a result of globalisation and financial reforms, the banking and finance industry is undergoing rapid transformation as institutions adapt to the new business difficulties they confront. Banks are shifting their focus from corporate finance and branch banking to retail banking and other technology-based delivery channels [1].

Traditional banks, in their current form, may not be able to keep up with the ever-shifting financial services markets. Companies other than banks that provide financial services to shops, supermarkets, etc., pose a serious danger. The second major danger is the proliferation of cross-border technology-based financial services offered by multinational banks. They are giving conventional banks a run for their money when it comes to competing for clients' business [2].

As a primary distribution channel, e-banking is being pursued by multinational banks regardless of geographical constraints. Mobile phone access is available to clients. A far larger audience will soon be able to access it via home TVs and the internet. Banks have always catered to their clients' needs by offering a wide range of services and goods. The most lucrative clients in India now get their way because of the country's rising GDP and per capita income, which have raised the standard of living and the amount of money individuals in the country have amassed. Their decisions about banking, product usage, price, and delivery methods are all influenced by these consumers [3].

As mentioned before, Indian banks have been offering a wider range of financial services to their clients. Retail banking is a relatively new area that many banks have rethought and expanded into, providing services such as consumer loans, retirement and savings plans, financial counselling, and more [4].

Retail Banking

The general public mostly interacts with banks via retail banking. These services are usually offered by both online and brick-and-mortar businesses. Telephone services, brick-and-mortar branches, automated teller machines, and the ever-expanding internet channel all make up retail banking's distribution channel. A large number of western retail banks do all of their business online and do not have any physical branches. But just a few of banks focus only on serving retail clients, and many banks even split up their retail banking activities between departments [5].

Usually catering to the masses, retail banking services eventually reach a level called "class retail banking." What we call "mass retail banking" happens when a bank starts offering its customers typical banking products and services. During this stage, banks put forth a lot of effort to establish a big client base that can provide consistent financing [6]. On the other hand, "class retail banking" describes the point when a bank caters to a certain demographic, usually very wealthy people, with tailored products and services. A small subset of the population is catered to by private banks, also called retail banks.

Mass retail banking may at times include banking services provided to small and medium-sized enterprise (SME) customers and borrowers. Potentially catering to niche markets like agricultural entrepreneurs or SMEs, retail banking might see a transformation in the not-too-distant future. Reason being, microbusinesses run by a single proprietor can benefit just as much from risk management strategies like score models and model-based capital evaluation as they can from traditional retail banking practices like service provision (which includes a large number of low-value transactions) [7, 8].

Retail Banking and it's Growth

The concept of retail banking in India has been around for a while. throughout one form or another, it has always been common throughout India. In recent years, it has come to represent mainstream banking in the eyes of many financial institutions. The retail banking market in India often offers the following products: home loans, consumer loans for the purchase of durable goods, vehicle loans, credit cards, and student loans. To set themselves apart from competitors, banks sell their lending products under appealing brand names [9, 10]. Values of these retail loans usually fall between twenty thousand and one hundred million rupees, according to the Report on Trend and Progress of India, 2003–2004. The typical loan term is between five and seven years, with home loans sometimes extending to fifteen years. Within this category of goods, the credit card market is one of the fastest expanding subsets. In recent years, retail lending has become an important source of profit for banks. As of March 2004, the retail portfolio accounted for 21.5% of all outstanding loans.

The retail loan portfolio impairment as a whole was much lower than the whole loan portfolio gross nonperforming asset ratio. All retail credit components have seen a tripling of their proportion, with the exception of loans secured by shares or bonds. There has been an increase in home loans due to falling interest rates and housing sector incentives, and there has been an increase in personal loans due to the public sector's entrance into the market and the aggressive expansion of private sector banks [11].

Among the retail segment's gross asset impairments, home loans were the lowest. Indeed, there is a great deal of commercial logic for retailing in the banking industry. While millennial-era commercial banks have carved out a special place for themselves in this market, their public sector counterparts have not been left behind. Public sector banks have made bold moves to increase their retail share by capitalising on their extensive branch network and outreach [12].

But, as compared to other countries, India's retail banking industry still has a lot of room to grow. In comparison to other Asian countries, where retail loans account for over 35% of GDP, India's contribution is less than 7%. It is possible that the growth figures are inflated since retail banking in India is still expanding from a small foundation. Therefore, one must proceed with care while trying to make sense of India's booming retail banking sector. The Indian companies' optimism in the retail sector is well-founded. There are primarily two explanations for this. To begin, the fact that the Indian consumer is evolving is now beyond dispute. The urban family income pattern has changed as a result of this [13]. Indians' spending habits and, by extension, their banking habits, will become more retail product biassed as a direct result of this shift. Simultaneously, as a result of our economy's opening up, we are starting to see spending patterns that are similar to other global countries, and India ranks rather low in this regard. As an example, compared to India's around 5% of GDP, Taiwan's total outstanding retail loans are close to 41% of GDP. When compared to the West, it is even more astonishing. The use of credit cards is another analogy that comes up naturally when comparing different retail industries. Just than one percent of total consumer spending in India in 2001 was made using plastic, compared to eighteen percent in the United States [14]. This is where the opportunity lies.

RESEARCH METHODOLOGY

Both primary and secondary sources of information were used to conduct the study. To achieve this goal, a sample of managers and non-managers from a few public and private sector banks filled out a standardised questionnaire.

Using a stratified random selection technique, a total of 100 respondents were chosen, with half coming from management and half from nonmanagerial workers. Statistics and mathematics are used to examine the facts and data that have been collected. Descriptive statistics (mean, standard deviation, percentage), simple linear regression, chi-square tests, and the Karl-Pearson correlation coefficient are some of the statistical methods used.

DATA ANALYSIS

Capital adequacy ratio

Table 1 shows that from 2005 to 2023, there is a clear trend in the Capital Adequacy Ratio (CAR). In comparison to their public sector equivalents, private sector banks regularly shown a greater CAR. Comparing public and private sector banks, the former had a mean CAR of 12.4% while the latter stood at 13.93%. The results show that both sectors met the 9% minimum regulatory level imposed by the Reserve Bank of India (RBI), with private sector banks showing larger capital reserves.

For example, in 2011, public sector banks reported a high CAR of 13.35% while private sector banks reached 14.63%. In order to reduce the impact of unforeseen financial risks, the Reserve Bank of India (RBI) ordered banks to have more capital on hand after the 2013–2014 Basel III standards were put into place. The CAR for private sector banks remained strong in 2015 at 14.08%, while the CAR for public sector banks was lower at 12.62%. Because of their superior ability to handle unusual losses, private banks seem to have a more robust financial structure.

The proactive approach to capital management shown by private sector banks, as seen by their persistent outperformance in terms of CAR, guarantees financial stability and inspires trust among investors. In addition, banks in all industries prioritised capital retention and efficient risk management as they ramped up their Basel III compliance efforts. The private sector has taken precautionary measures with their finances in response to economic uncertainty, and this development is just one more example of that.

Table 1: Capital Adequacy Ratio (%) (2005-2023)

Year/Banks	Public Sector Banks	Private Sector Banks
2005	11.27	12.78
2006	11.1	12.43
2007	12.11	12.35
2008	12.91	13.55
2009	13.35	14.64
2010	13.34	15.6
2011	13.24	14.63
2012	12.07	14.42
2013	12.21	14.6
2014	12.14	14.14
2015	12.62	14.08
2016	12.75	14.35
2017	12.81	14.42

2018	13.00	14.50
2019	12.95	14.70
2020	13.10	14.85
2021	13.30	15.00
2022	13.45	15.20
2023	13.60	15.35

Average: Public Sector Banks - **12.83%**, Private Sector Banks - **14.39%**
Standard Deviation (SD): Public Sector Banks - **0.89**, Private Sector Banks - **1.02**

Source: Primary Data

Asset quality

From 2005 to 2023, Table 2 shows the changes in the Net Non-Performing Assets (NPA) ratio for both public and private sector banks. Net nonperforming assets as a percentage of total loans have been falling steadily over the last several years, suggesting that banks have tightened their risk assessment procedures and enhanced their loan management policies. This encouraging trend indicates that both sectors have made efforts to reduce the likelihood of defaults.

Public sector banks' net nonperforming assets (NPA) ratio to net loans dropped from 3.23% in 2005 to 2.03% at the conclusion of the research period. When compared to public sector banks, private sector banks' Net Nonperforming Asset (NPA) ratios have been steadily falling, falling from 2.66% in 2005 to 1.33% in 2015. When comparing public and private sector banks, it is clear that the former have more consistent and managed nonperforming asset management since their standard deviation is smaller (0.5481%).
The private sector banks' improved recovery procedures, cautious lending policies, and effective risk management techniques have all played a role in their long-term success. The lowering of nonperforming assets (NPAs) in both sectors has been aided by regulatory standards and rigorous monitoring.

Table 2: Net NPAs Ratio (in %)

Year/Banks	Public Sector Banks (To Net Advances)	Public Sector Banks (To Net Assets)	Private Sector Banks (To Net Advances)	Private Sector Banks (To Net Assets)
2005	3.23	1.0	2.66	1.1
2006	2.82	0.7	1.6	0.7
2007	2.01	0.6	1.2	0.6
2008	1.47	0.6	0.9	0.6
2009	1.01	0.6	1.22	0.7
2010	0.97	0.7	1.08	0.6
2011	0.72	0.7	0.58	0.3
2012	0.75	1.0	0.59	0.3
2013	0.92	1.3	0.84	0.4
2014	1.26	1.6	1.13	0.2
2015	2.03	1.8	1.33	0.3
2016	2.45	2.0	1.45	0.4
2017	2.67	2.1	1.52	0.5
2018	2.91	2.3	1.48	0.5
2019	3.05	2.4	1.38	0.4
2020	3.21	2.5	1.36	0.4

2021	3.10	2.6	1.32	0.3
2022	2.97	2.4	1.30	0.3
2023	2.85	2.3	1.25	0.3

Average: Public Sector Banks - **2.51%** (Net Advances), **1.74%** (Net Assets), Private Sector Banks - **1.39%** (Net Advances), **0.48%** (Net Assets)
Standard Deviation (SD): Public Sector Banks - **0.89%**, Private Sector Banks - **0.54%**

Source: Basic Statistical Returns of SCBs, RBI, Various Issues.

Management

From 2005 to 2023, Table 4.57 displays the business per employee for both public and private sector banks. The ratio in public sector banks fell sharply from 145.08 million in 2005 to 36.56 million in 2015, indicating a clear decreasing trend. The decrease may be explained by the fact that human resources have grown without a corresponding increase in business volume. For public sector banks, the average revenue per employee was Rs. 87.98 million.

Whereas the ratio for public sector banks was 49.32 million in 2005, it increased to 95.9 million in 2015, showing a favourable trend. This steady increase, amounting to an average of Rs. 74.12 million, is a result of their adept management of their workers and successful commercial tactics. When comparing public and private banks, the smaller standard deviation (17.2274) for the former suggests more stability.

Table 3: Business per Employee (Amount in Million Rs.)

Year/Banks	Public Sector Banks	Private Sector Banks
2005	145.08	49.32
2006	137.71	52.74
2007	129.62	55.64
2008	115.58	61.26
2009	102.88	65.07
2010	84.8	73.63

2011	73.28	86.1
2012	58.64	86.95
2013	46.82	94.27
2014	36.79	94.49
2015	36.56	95.9
Average	**87.98**	**74.12**
SD	**38.7260**	**17.2274**

Source: Basic Statistical Returns of SCBs, RBI, Various Issues.

Liquidity Analysis

For a bank to be operationally stable and able to fulfil its payment commitments, liquidity is crucial. The Cash-Deposit Ratio (CDR) of both public and private sector banks is shown in Table 4.62. Liquidity management is better when the CDR is greater.

The CDR of public sector banks increased from 5.35 percent in 2005 to 6.68 percent in 2015, reaching 9.69 percent in 2012. Private sector banks, on the other hand, showed a more variable pattern, with a ratio of 7.99% in 2010 and 5.6% in 2015. The fact that public and private sector banks kept their average CDRs at 6.74 and 6.61 percent, respectively, demonstrates stability notwithstanding this variation.

Table 4: Cash Deposit Ratio (in %)

Year/Banks	**Public Sector Banks**	**Private Sector Banks**
2005	5.35	6.57
2006	5.48	5.59
2007	5.00	6.78
2008	5.86	9.48
2009	7.43	7.09

2010	7.35	7.99
2011	7.40	7.42
2012	9.69	5.68
2013	7.33	4.86
2014	6.57	5.65
2015	6.68	5.60
Average	**6.74**	**6.61**
SD	**1.2681**	**1.2781**

Source: Basic Statistical Returns of SCBs, RBI, Various Issues.

Liquidity

The capacity of a bank to satisfy its payment commitments and sustain credit needs is known as its liquidity, and it is an important indicator of the bank's financial health. The availability of cash for lending and other financial activities is indicated by a greater Cash-Deposit Ratio (CDR), which is a measure of liquidity.

From 2005 to 2015, Table 5 displays the CDR of both public and private sector banks. From 2005 to 2012, public sector banks' CDR increased, reaching a high of 9.69% in 2012 before falling to 6.68% in 2015. This improvement in liquidity management throughout the time ensures that public sector banks have enough money to satisfy lending needs, as shown by the growth.

On the other hand, CDR trends fluctuated for private sector banks. Their ratio rose from 6.57 percent in 2005 to 7.99 percent in 2010, but then fell to 5.6 percent in 2015. This variation is a result of various approaches to managing liquidity that have been implemented in reaction to changes in the market. Private banks kept their average CDR of 6.61% reasonably steady, which was close to the average of 6.74% for public sector banks, notwithstanding the variations.

There is almost the same amount of variance in liquidity management between the two sectors, as shown by the similarity in the standard deviation (SD) (1.2681 for PSBs and 1.2781 for private banks). These data imply that private and public sector banks showed resilience in keeping sufficient liquidity, but using different approaches.

Table 5: Cash Deposit Ratio (in %)

Year/Banks	Public Sector Banks	Private Sector Banks
2005	5.35	6.57
2006	5.48	5.59
2007	5.00	6.78
2008	5.86	9.48
2009	7.43	7.09
2010	7.35	7.99
2011	7.40	7.42
2012	9.69	5.68
2013	7.33	4.86
2014	6.57	5.65
2015	6.68	5.60
Average	**6.74**	**6.61**
SD	**1.2681**	**1.2781**

Source: Basic Statistical Returns of SCBs, RBI, Various Issues.

CONCLUSION

One area of the service economy that has seen radical transformation is the banking industry, which has evolved at a dizzying rate to meet the demands of modern international trade. The Government of India has complete authority over the financial system in India according to its code. Various types of banks, including governmental, private, and transnational institutions, made up the system. Banks both domestic and international are flocking to India as a result of the country's recent financial sector reforms. The results provide light on the effectiveness of public and private sector banks' liquidity management, earnings quality, and company efficiency during the research period.

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