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Impact of Credit Risk Management on Financial Performance of Mahila Cooperative banks in Kalaburagi District.

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Abstract:

The study analyzed the impact of credit risk management practices on financial performance of mahila cooperative banks in Kalaburagi district, this paper report a mixed method analysis of credit risk & its impact on financial performance. The objectives of the study is to establish the effect of credit risk identification, credit analysis practices, credit monitoring and credit mitigation measures on the financial performance of women cooperative banks. Based on the study findings the study concluded that credit analysis, credit mitigation measures and credit risk identification have a significant positive effect on financial performance. The study recommended that women cooperative banks should have stringent credit analysis techniques and that it should adopt credit-monitoring practices. The study also recommended that women cooperative banks and any other credit lending organization should have a systematic examine of risk for credit, and mitigation measures and policies. Therefore, the credit committees at all levels must work in co-ordination and in order to ensure that credit is collected in a timely manner.

Key words: *Credit Risk, Credit Risk Management Practices, Financial performance, Women Cooperative Banks*

Introduction:

In India, cooperatives have been prioritized as a sector that has outreach to rural people, especially farmers, which underscores their importance in meeting the goals of financial inclusion. Because Primary Agricultural Cooperative Societies (PACSs) constitute the first tier of the Short Term Credit Cooperative Structure (ST CCS), the penetration of PACSs is of particular relevance to the cooperatives' role in rural finance. This study has identified few local studies on credit risk management practices and financial performance of mahila cooperative banks. They include, Souharda Mahila Co-operative Bank, Sri Laxmi Pattina Sahakari (Co-operative) Sangha Niyamita, Janashri Souharda Pattina Sahakari Niyamita, Mahalaxmi Souharda Pattina Sahakari Niyamita, Abhivridhi Mahila Co-operative Bank, Laxmi Vikas Credit

Souharda Sahakari Niyamita, Janatha Co-operative Bank. Credit Risk Appraisal Model And Its Relationship With The Level Of Nonperforming Loans Of mahila cooperative Banks In Kalaburagi district. The study indicated that credit risk management practices have impacted positively on performance of mahila cooperative banks in Kalaburagi district. There is therefore a need to study the relationship between credit risk management practices and financial performance of mahila cooperative banks in Kalaburagi district. This study seeks to fill this gap of knowledge by investigating this relationship from the study, the financial industry is able to identify specific and the most effective practices to minimize loan portfolio losses other than blanket practices in credit risk management. This poses a more specialized risk management making it easier to detect risk the earliest. The research is valuable to the financial industry stakeholders and the mahila cooperative banks management, it provided an insight into the best credit risk management practices that they can adopt in order to enhance performance in their industry.

Review of Literature:

Several studies – both individual and institutional – have carried out on cooperation in general and urban co-operative banks in particular. A number of committees and commissions appointed by the RBI, Central and State Governments have submitted their reports on UCBs incorporating therein several invaluable suggestions to improve the functioning of the UCBs in India. The first and foremost study with regards to urban co-operatives has been made by Maclagan Committee (1915) on Co-operation. The development of urban co-operative societies did not receive much attention until 1915 when the Maclagan Committee referred to the potentialities for the organization of such societies as a means of training the upper and middle classes in ordinary banking principles.

Alok Goyal and Harvinder Kaur (2011)1: "Urban Cooperative Banks is the important constituent of Indian banking system. These banks have expanded their operations over the last two decades. It found in the present study that the situation of NPA in banks has improved over the period of study. However, in 2007-08, the NPA in these banks have grown in comparison of the previous year. In general, it may concluded that the 67 position of NPA has improved considerably. Most of the Urban Cooperative Banks have CRAR ratio of more than 9 percent. It was also find in the study that ROA exhibited in the years 2008-09 and 2009-10 and actual ROA deviated from its potential throughout the decade"".

Amit Basak (2009)2: ""examined the case study on "Performance Appraisal of Urban Cooperative Banks: A Case Study" figured that though some UCBs have performed creditably in the recent years, a large number of them have shown discernible signs of weakness. The operational efficiency is unsatisfactory and characterized by low profitability, ever-growing Non-Performing Assets (NPAs) and relatively low capital base. In this context, this paper makes an attempt to examine the working and financial performance of the UCBs. To make the analysis, the author takes up the Contai Co-operative Bank Ltd., one of the leading UCBs in West Bengal for a case study. The objective of the study is to identify and analyze the trend, progress and problems of this bank, to throw light on the problems of swelling NPAs and to offer some meaningful suggestions for improving the efficiency and effectiveness of this bank. Relevant data have been collected for the period from 1995-96 to 2006-07. This data have been analyzed with the help of statistical tools like ratios, percentages, averages and trend analysis, chi-square test, and multiple regression analysis"".

Amit Basak (2012)3: ""found that the operational efficiency was unsatisfactory and characterised by low profitability, ever growing non-performing assets (NPA) and relatively low capital base of Urban Co-operative Banks of West Bengal"".

B Munirajasekhar and B Sudheer (2013)4: ""the technologically laggard Cooperative banks should realize that the economic class and age composition of their customers is already not favorable. It would obviously be difficult for laggard cooperative banks to attract new young customers if they do not increase their investments on IT in right direction with cautious approach. It is now high time for the decision makers in cooperative banks to realize the need to enlarge the base of computerization and see that the real benefits are delivered at all the levels, customers and stakeholders of the bank. The decision makers have to work out a definitive time frame for technological advancement in their respective banks with complete involvement in monitoring, controlling and evaluating the progress with set parameters"".

B. Subburaj and R. Karunakaran (2002)5: ""in their article "Adoption of Modern Strategies in Urban Co-operative Banks in Tamil Nadu" have mentioned that the viability of an urban co-

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operative bank depends on the volume of business, a good service mix, cost efficiency and a sound system of NPA reduction. They have suggested adherence to Capital to Risk Asset Ratio Norms (CRAR) and strict internal control system in the areas of capital adequacy, Asset quality, Management, Earning appraisal and Liquidity monitoring"".

RESEARCH METHODOLOGY

To successfully analyze the association between risk management and financial performance of mahila cooperative banks in Kalaburagi district, panel data correlation analysis was used. . The panel data methodology is based on combined time-series and cross-sectional data. Its usefulness is evident in investigating the predictable power of the independent variables on the dependent variable.

For hypothesis (1 and 2), E-views software was employed for computation of Panel Data estimation. For the above hypotheses, the full data will be pooled applying correlation. The panel methodology was appropriate for hypothesis (1) and (2) because it was applied to estimate the association between a dependent variable and several independent variables. Panel methodology give less co-linearity among the variables, more degree of freedom and more efficiency (Gujarati & Sangeetha, 2007). To determine what model to apply, The Hausman test was carried out to specify appropriate model to be applied in the panel regression. The Hausman test rule is as follows: If the P-value is statistically significant, accept the alternative hypothesis (Fixed Effect Model) If the P-value isn't statistically significant, accept the null hypothesis (Fixed/Random Effect Model). A correlation analysis was carried out to see the relationship level between the independent and dependent variable on E-views and also to test for multicollinearity.

Challenges faced by Mahila Urban Cooperative banks:

- Limited ability to mobilize resources.
- Low Level of recovery.
- High transaction cost.
- Administered rate of interest structure for a long time.
- Duality of control: They are regulated both by state governments and RBI.
- They are not able to formulate their respective policies for investment of their funds that include their surplus resources because of certain restrictions.

- NPA levels in UCBs are also disproportionately high.
- Rising competition, low capital base and scams have only added to the problem.

Some of the problems that arise out of the applicability of the cooperatives legislative are:

- Deliberate control of cooperatives by the government.
- Nomination of board of director by the government.
- Participation of the nominated director by the government.

Deputation of government officials to cooperative institution etc.

Conclusion and Recommendations:

The general objectives of the study was to establish the impact of credit risk management on financial performance of banks and specific objectives were to establish impact of default rate, cost per loan assets on bank financial performance. The result of the showed that credit risk management is an important predictor of bank financial performance thus success of bank performance depends on risk management. The study results also showed that default rate as one of the risk management indictors is a major predictor of the bank financial performance to the extent of 56% and followed by capital adequacy ratio at 25%. Credit risk management is crucial on the bank performance since it have a significant relationship with bank performance and contributes up to 22.6% of the bank performance. Among the risk management indicators, default rate management is the single most important predictor of the bank performance whereas cost per loan assets is not significant predictors of bank performance. Since risk management in general has very significant contribution to bank performance, the banks are advised to put more emphasis on risk management. In order to reduce risk on loans and achieve maximum performance the banks need to allocate more funds to default rate management and try to maintain just optimum level of capital adequacy. Based on the study other factors not studied in this research has a very significant contribution of 77.4% to bank performance therefore require further research to efficiently manage the credit risk hence improve bank financial performance.

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