

# **CREDIT AND RISK MANAGEMENT IN BANKS & NBFCS**

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## **ABSTRACT**

This study focuses on understanding the concept of credit and risk management in banks and Non-Banking Financial Companies (NBFCs). The purpose of the research is to analyze how financial institutions manage credit risk while providing loans and other financial services to customers. The study is based on both primary and secondary data. Primary data was collected through a questionnaire from respondents, while secondary data was gathered from journals, reports, and financial websites. The findings show that proper credit evaluation and monitoring are important for reducing the risk of loan default. The study concludes that effective credit and risk management practices help banks and NBFCs maintain financial stability and improve their lending decisions.

## **INTRODUCTION**

The growth and stability of the Indian financial system depend largely on how well credit is managed and risks are controlled. Banks and Non-Banking Financial Companies (NBFCs) play a very important role in providing credit to different sectors of the economy, including businesses, industries, and households. Credit helps in economic development, but it also involves several risks such as loan defaults, liquidity problems, market fluctuations, and operational issues.

In recent years, Indian banks—especially public sector banks—have faced the problem of increasing Non-Performing Assets (NPAs). Rising NPAs have affected the profitability and financial stability of many banks. According to reports published by the Reserve Bank of India (RBI), a large portion of NPAs is concentrated in sectors such as infrastructure, power, and real estate. Factors such as poor credit appraisal, weak monitoring of loans, and delays in projects have contributed to this issue.

**The study seeks to answer critical questions -**

**1 How effectively are banks and NBFCs managing their credit portfolios?**

**2 What are the key factors contributing to NPAs and liquidity stress?**

**3 How can regulatory frameworks and technology adoption strengthen risk resilience?**

Therefore, it becomes important to study how banks and NBFCs manage credit and risk in the current financial environment. This study aims to understand the existing practices, challenges, and opportunities in credit and risk management in the Indian financial sector. By analyzing secondary data such as RBI reports, industry publications, and academic studies, the research attempts to evaluate how effectively financial institutions manage their credit portfolios and deal with various risks.

Overall, effective credit and risk management is essential for maintaining financial stability and ensuring sustainable economic growth. Strong risk management practices not only improve the performance of banks and NBFCs but also build investor confidence and support the overall development of the economy.

## LITERATURE REVIEW

1 **KUMAR (2018)** examined the credit appraisal mechanisms in Indian public sector banks and concluded that weak borrower evaluation systems are the primary cause of rising NPAs. Strengthening pre-loan assessment and monitoring was suggested as a key solution.

1. **MISHRA AND SINGH (2019)** focused on liquidity risks in NBFCs and found that dependency on short-term borrowings to finance long-term loans created systemic vulnerabilities. They emphasized the need for better asset-liability management frameworks..

2. **SHARMA (2020)** highlighted that RBI's prudential norms have improved credit risk management in NBFCs but increased regulatory compliance costs. Smaller NBFCs often face challenges in maintaining profitability while adhering to strict norms.

3. **GUPTA (2021)** compared credit and risk management practices of banks and NBFCs and found that banks are more stable due to regulation, while NBFCs are flexible but riskier. The study suggested better corporate governance in NBFCs to reduce defaults.

4. **WORLD BANK (2023)** reported that digital credit in India has expanded rapidly but has led to risks like cyber fraud, unsecured lending, and privacy concerns. It suggested tighter regulations and improved digital risk assessment frameworks.

5. **DAS AND ROY (2020)** analyzed NPAs in Indian banks and identified that the infrastructure and power sectors were the main contributors to stressed assets. They stressed the importance of sectoral risk analysis in credit appraisal.

6. **RBI (2021)** in its Financial Stability Report emphasized that both banks and NBFCs need to adopt stress testing and scenario analysis to prepare for external shocks like pandemics or global market volatility.

7. **CHOUDHARY AND MEHTA (2019)** studied NBFC failures such as IL&FS and DHFL, concluding that poor liquidity management and weak governance were the main reasons for collapse. They recommended stronger RBI oversight of large NBFCs.

8. **VERMA (2022)** investigated credit risk mitigation techniques and found that risk-based pricing, collateral requirements, and diversified portfolios were effective tools in reducing default risk for both banks and NBFCs
  
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## RESEARCH GAP

Several studies have been conducted on credit risk management in banks and the financial challenges faced by NBFCs in India. Most of the existing research focuses on issues such as rising Non-Performing Assets (NPAs), credit appraisal techniques, and the regulatory framework governing financial institutions. Some studies have also examined the impact of technological advancements like digital lending and data analytics on credit evaluation.

However, many of these studies mainly analyse banks and NBFCs separately and focus largely on financial performance or regulatory compliance. There is limited research that provides a comparative understanding of credit and risk management practices in both banks and NBFCs together. In addition, the practical challenges faced by financial institutions in managing credit risk in the changing financial environment are not discussed in detail.

Therefore, there is a need for further research that examines the current practices, challenges, and opportunities in credit and risk management in both banks and NBFCs. This study attempts to address this gap by analysing existing literature and industry reports to understand how these institutions manage credit risk and how technological developments and regulatory frameworks influence their risk management strategies.

## RESEARCH METHODOLOGY

### RESEARCH DESIGN –

The research design used for this study is Descriptive and Analytical.

The descriptive part focuses on describing the existing credit and risk management systems followed by banks and NBFCs.

The analytical part examines the responses collected through questionnaires to understand how effectively credit risks are being managed in practice.

This design helps in identifying both qualitative and quantitative aspects of credit and risk management in financial institutions.

## **SOURCES OF DATA -**

The study uses both primary data

**PRIMARY DATA** - Collected directly from respondents such as employees, loan officers, and customers of selected banks and NBFCs through a structured questionnaire and personal discussions.

## **DATA COLLECTION METHOD –**

The questionnaire method was used to collect primary data. The questionnaire included both close-ended and open-ended questions designed to gather opinions about credit policies, risk control practices, npa handling, and loan recovery processes. Additionally, a few informal interviews and discussions were conducted with branch staff and finance officers to gain deeper insight into practical issues.

The questions covered areas like -

**Regarding loan approval process**

**Regarding Credit appraisal and borrower verification**

**Regarding Risk identification and mitigation steps**

**Regarding Recovery and NPA management practices**

## **POPULATION-**

The population for this study includes employees and customers of selected banks and NBFCs operating in India. This includes both public sector and private institutions, ensuring a fair representation of the financial sector.

## **SAMPLING METHOD -**

The study uses Purposive and Convenience Sampling Techniques:

Purposive Sampling was used to select banks and NBFCs that are actively involved in credit operations (**like SBI, HDFC Bank, Bajaj Finance, and Muthoot Finance**).

Convenience Sampling was used to select respondents who were easily approachable and willing to participate in the survey.

## **SAMPLING FRAME -**

The sampling frame consists of respondents from both categories — employees (credit and risk officers, branch managers, loan executives) and customers (borrowers and account holders).

Sample Size – **200 respondents**

Area of Study - **Vadodara**

Time Period of Data Collection – **OCT 2025 – MARCH 2026**

## DATA COLLECTION INSTRUMENT –

The main data collection instrument used was a structured questionnaire. It was divided into two sections:

1. **Demographic Details – age, gender, occupation, type of institution, etc.**
2. **Research-Based Questions – covering awareness, effectiveness, satisfaction, and challenges in credit and risk management.**

A 5-point Likert Scale was used to measure agreement levels with statements related to credit practices, NPA handling, and overall satisfaction.

Google form questionnaire link.

[https://docs.google.com/forms/d/e/1FAIpQLSf5KBTYK\\_JnJWfwc43HXBQgaWRM9r\\_CBHQgH-V5Hp0CWKzNF0A/viewform?usp=header](https://docs.google.com/forms/d/e/1FAIpQLSf5KBTYK_JnJWfwc43HXBQgaWRM9r_CBHQgH-V5Hp0CWKzNF0A/viewform?usp=header)

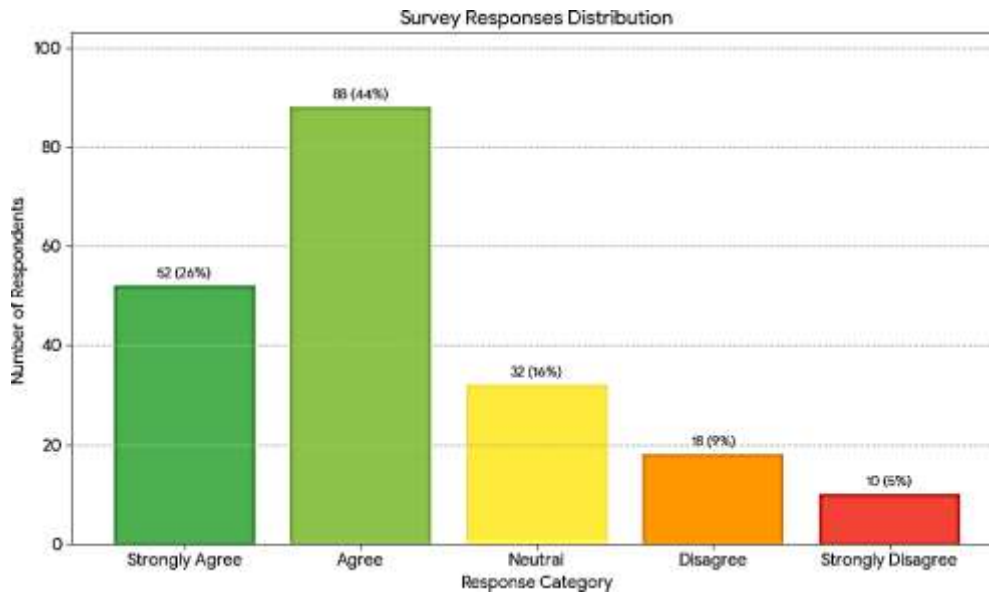
## HYPOTHESIS –

- **H1 - EFFECTIVE CREDIT APPRAISAL AND MONITORING SYSTEMS SIGNIFICANTLY REDUCE NPAS AND CREDIT RISK IN BANKS AND NBFCS.**
- **H0 (NULL HYPOTHESIS) - CREDIT APPRAISAL AND MONITORING SYSTEMS HAVE NO SIGNIFICANT IMPACT ON NPAS AND CREDIT RISK**

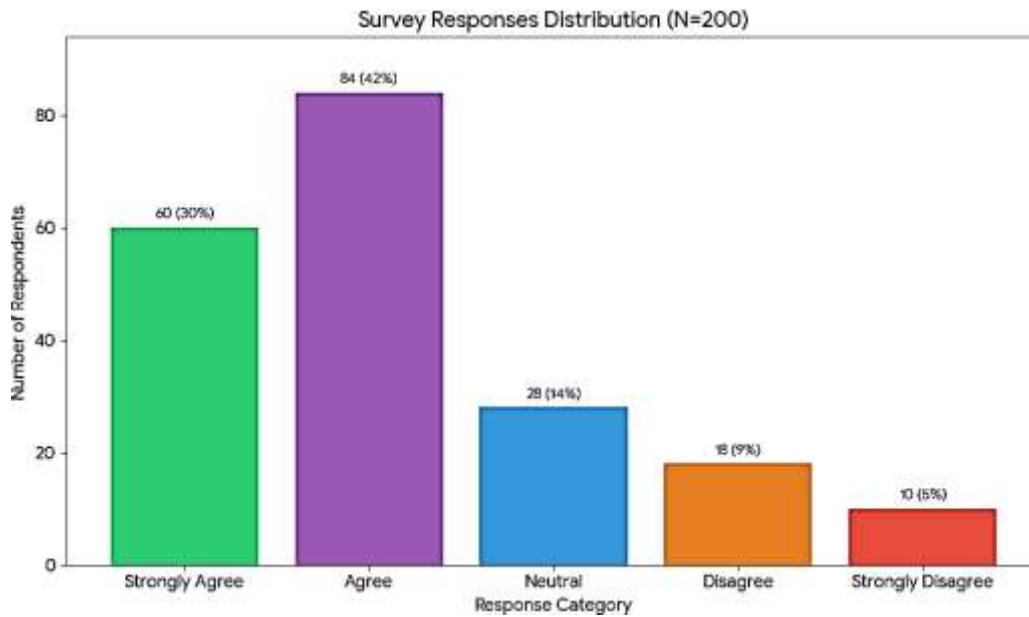
### ANALYSIS OF DATA

INSTITUTION / SOURCE	NO. OF RESPONDENTS	PERCENTAGE
BANKS	130	65%
NBFCs	40	20%
STUDENTS	30	15%
TOTAL	200	100%

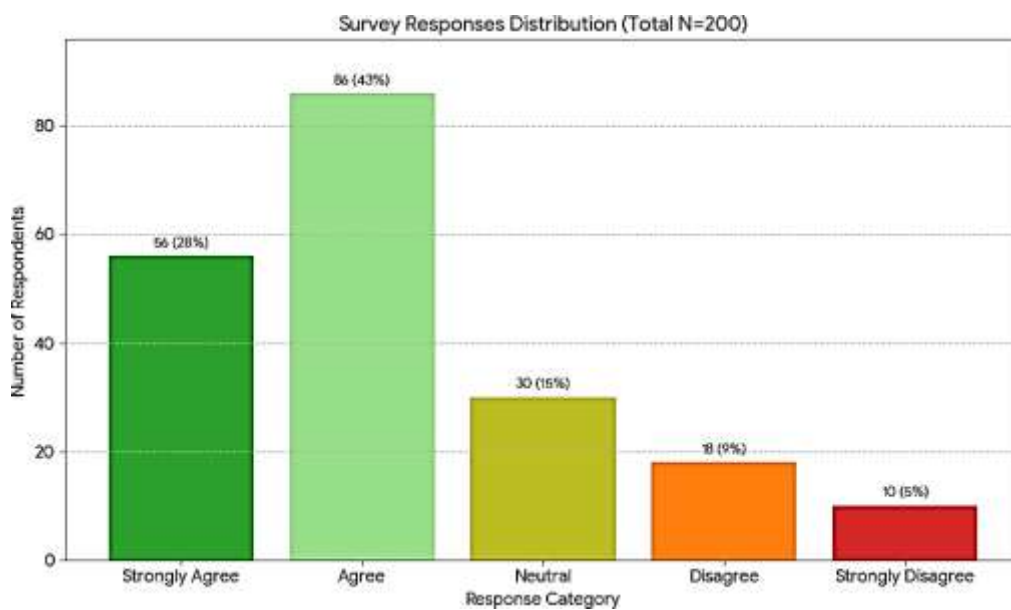
- CREDIT APPRAISAL HELPS IN REDUCING NPAS :-**



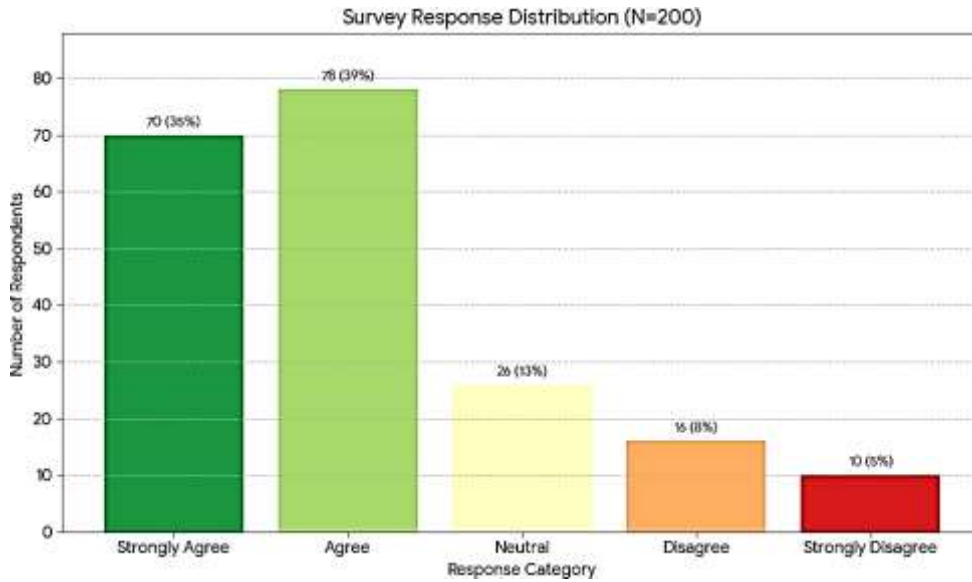
- EFFECTIVENESS OF CREDIT APPRAISAL PROCESS :-**



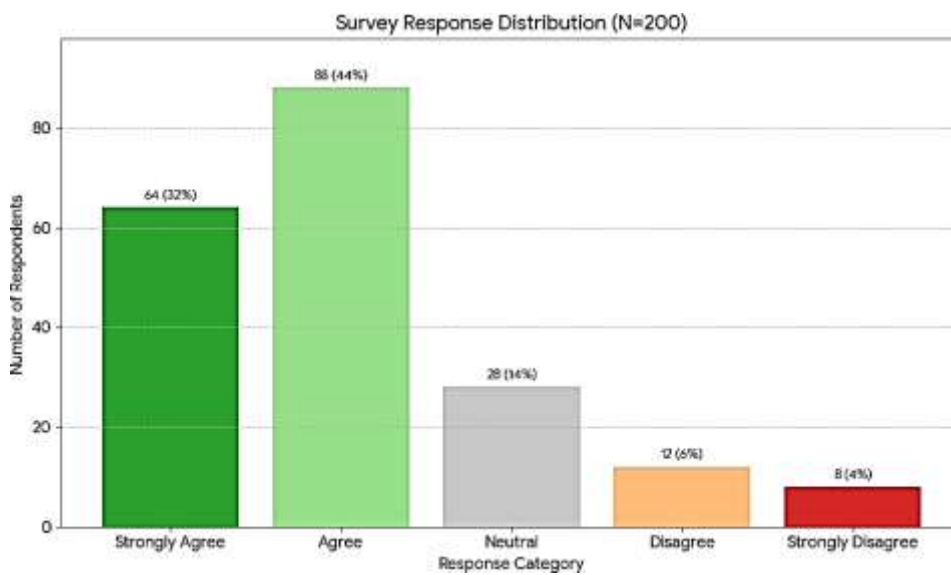
- EFFECTIVENESS OF RISK MANAGEMENT FRAMEWORK :-**



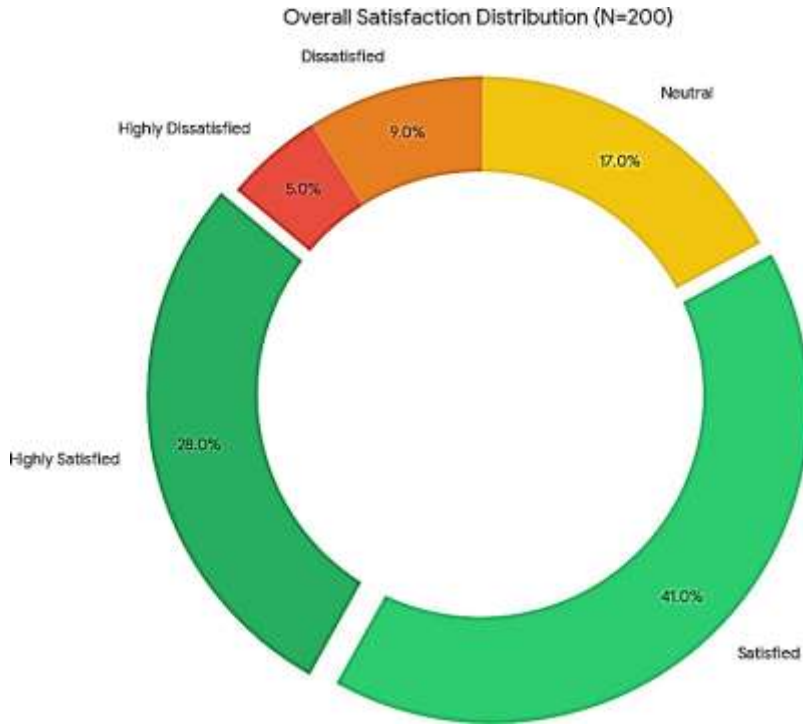
• **LIQUIDITY RISK IS A MAJOR CHALLENGE FOR NBFCS :-**



• **ROLE OF TECHNOLOGY IN CREDIT & RISK MANAGEMENT :-**



• OVERALL SATISFACTION WITH CREDIT & RISK MANAGEMENT :-



**CONCLUSION :-**

The study also shows that risk management practices are necessary to control losses. Banks and NBFCs use different methods such as collateral security, monitoring systems, and risk- based decisions to manage credit risk. However, liquidity risk is still a major problem for NBFCs, mainly because they depend on short-term funds to give long-term loans.

Overall, the findings show that **credit and risk management practices in banks and NBFCs are improving and are mostly effective. The responses clearly support the idea that good credit appraisal and regular monitoring reduce NPAs and credit risk.** This chapter forms the base for the next chapter, which discusses the final results and findings of the study.

## MAJOR RESULTS

- The study shows that most respondents agree that the credit appraisal process is effective in banks and NBFCs. Proper checking of income, documents, and credit score helps in selecting genuine borrowers.
- A large number of respondents believe that effective credit appraisal helps in reducing NPAs. Regular monitoring of loan accounts helps institutions take timely action before loans turn into bad debts.
- The results indicate that risk management practices are important for controlling credit risk. Banks and NBFCs use collateral security, diversification, and internal controls to manage risk.
- The study highlights that liquidity risk is a major challenge for NBFCs. Many NBFCs depend on short-term funds to provide long-term loans, which increases financial pressure during market problems.
- Most respondents agreed that technology has improved credit and risk management systems. Digital tools help in faster loan processing, better data analysis, and easier tracking of loan accounts.
- Overall satisfaction levels show that majority of respondents are satisfied with the credit and risk management practices followed by banks and NBFCs.

## KEY FINDINGS

- Strong credit appraisal systems reduce chances of loan defaults.
- Regular monitoring helps in early identification of NPAs.
- Banks are more stable due to strict regulations, while NBFCs face higher liquidity risk.

## SUGGESTIONS

Based on the findings of the study, the following suggestions are made :-

- **Banks and NBFCs should strengthen credit appraisal systems by using both financial analysis and field verification.**
- **Regular monitoring of loan accounts should be carried out to identify early warning signs of default.**
- **NBFCs should improve liquidity management by maintaining proper asset- liability balance and adequate liquidity buffers.**
- **More training programs should be conducted for employees to improve knowledge of risk management and regulatory guidelines.**
- **Use of advanced technology and analytics should be encouraged, but with strong cyber security measures.**
- **RBI should continue to ensure strict regulatory supervision, especially for large NBFCs, to avoid future financial crises.**
- **Financial institutions should focus on balanced growth, giving importance to both profitability and risk control.**

## CONCLUSION OF THE STUDY

This study was conducted to understand the credit and risk management practices followed by banks and NBFCs in India. The study mainly focused on credit appraisal, risk management systems, NPAs, liquidity risk, and the role of technology. Data was collected from 100 respondents including bank employees, NBFC employees, customers, and students.

The study shows that effective credit appraisal plays a very important role in reducing credit risk and NPAs. Proper verification of borrower details, income assessment, credit history, and repayment capacity helps banks and NBFCs in selecting genuine borrowers. Regular monitoring of loan accounts further helps in early identification of problem loans.

The study also highlights that risk management practices are essential for the smooth functioning of financial institutions. Banks are generally more stable due to strict regulatory control, while NBFCs face higher risks, especially liquidity risk, because of their dependence on short-term funds.

Technology has significantly improved credit and risk management. Digital tools have made loan processing faster, improved monitoring, and enhanced recovery systems. However, digital lending also increases risks such as cyber fraud and data security issues.

Overall, the study concludes that credit and risk management practices in banks and NBFCs are improving, but continuous monitoring, better governance, and balanced risk-taking are required to ensure long-term financial stability.

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