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National Institute of Bank Management

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Articles

❉ **Credit Monitoring in Banks: Effective Strategies**
✍ *Deepak Narang & V S Kaveri*

As per the Financial Stability Report of the Reserve Bank of India (RBI) of June 2015, gross non-performing advances (GNPAs) of scheduled commercial banks (SCBs) as percentage of gross advances rose to 4.6 per cent between September 2014 and March 2015. The restructured standard advances during the period also increased, pushing up stressed advances of these banks to 11-12 per cent of the total advances from 10.7 per cent. Public sector banks (PSBs) recorded the highest level of stressed advances at 13.5 per cent of the total advances as at end of March 2015, compared to 4.6 per cent of private sector banks (PVBs). Thus, slippage in loan asset quality is on the rise, calling for strengthening the credit monitoring function in banks by observing due diligence in credit, and also by evolving best practices.

Thus far, bank branches are expected to undertake this function for all types of advances. However, realising their genuine difficulties in performing this function effectively due to shortage of staff, lack of skills at branches, etc., controlling offices are also involved in credit monitoring of high-value advances. In addition, the RBI has come out with a framework for management of stressed advances in banks in February 2014. The framework ensures effective handling of 'potential NPAs', also called as 'Special Mention Accounts (SMAs)'. This framework will supplement the present system of credit monitoring. The present article discusses credit monitoring function based on the RBI guidelines, due diligence in credit, and best practices related to credit monitoring in banks.

❉ **Global Financial Crisis and the Regulation of Credit Rating Business**
✍ *Sanhita Athavale & Arnab Kumar Chowdhury*

The credit rating industry had largely been self-regulated, until the last financial crisis. Post-crisis investigations reveal that the industry has been beset with problematic issues, such as lack of competition, conflicted business model, poor disclosures, regulatory over-dependence and lack of accountability, to name the major ones. Both the US and the European Union (EU) have made comprehensive changes to the regulatory framework of the credit rating industry. However, emerging evidence does not indicate any perceptible change in the oligopolistic structure of the rating industry or any significant improvement in the quality of ratings. Against this backdrop, regulators in the US, EU and Basel Committee have laid out a roadmap for elimination of regulatory references to credit rating; which once achieved, will mean that the rating industry will be bereft of any sovereign approval that is implicit in the present regulatory regime for banks and financial institutions. The lesson from the story of rating agency regulations is: first, self-regulation does not work in a market rife with perverse incentives. Second, when perverse incentives are allowed a free hand sufficiently long, the market is shaped by vested interests that grow around these incentives, which then becomes extremely difficult to change.

❉ **Ambience Management in Banks**
✍ *S B Singh*

Customer experience is the lens through which customers view their business decisions; therefore, getting the right customer experience is a critical success factor for financial services where ambience is the first interaction point between customer and the bank. This can be digital (internet or mobile banking), physical (branch) or a mix of both (ATM centres, e-gallery, etc.) depending upon the channel of customer interaction.

❉ **Approaches to Value-at-Risk (VaR)**

✍ *Navneet Kaur*

There is a vast literature on value-at-risk (VaR) in all directions possible. This paper attempts to summarise the main approaches to VaR and advancements going on in each approach. There are broadly three approaches to VaR i.e. historical simulation, variance -covariance and Monte Carlo simulation. Historical simulation is based on historical data with equal weights. Variance-covariance approach assumes normal distribution to calculate VaR. Monte Carlo simulation simulates data on the basis of historical data. Further analysis reveals that each approach has its own limitations and the literature is extending in each approach on modifications of these basic three approaches which this paper attempts to summarise.