

Credit risk management in Consumer Banks in Thrissur, Kerala: A comparison during COVID and Pre COVID times

SREEPARVATHI A

ABSTRACT

The paper emphasis on the Credit risk management in the banks of Thrissur, Kerala and the changes that may have happened in the credit risk mitigation strategies in these banks due to the current ongoing pandemic. Even before the pandemic itself credit risk management was a subject of immense research interest among the financial analysts and the statisticians. The quantification of credit risk by assigning measurable and comparable numbers to the likelihood of default or spread risk is a major area in modern finance. Credit risk had been the oldest and biggest risk that bank, by virtue of its very nature of business, inherited. The data of the collected from the consumers of banking services in Thrissur as per 5C criteria is logistically regressed to obtain the Probabilities of default. The probabilities of default hence obtained are used to classify the consumers into different credit groups both during and before the pandemic. The paper then deals with finding the maximum exposure limit of the bank as a function of the credit risk index of the bank and the resource growth percentage. The expected loss of the bank due to the default by the customers and due to the loss given default are found out indicating a higher expected loss for the banks during the pandemic compared to that of the pre COVID times.

Key Words : Credit Risk, Probability of Default, Exposure Limit, Expected Loss, Loss given Default