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A Study on Credit Risk Management Practices at Jana Small Finance Bank

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Abstract:

Credit risk management is a critical function in the banking sector that ensures the safety and profitability of lending operations. Jana Small Finance Bank, one of India's leading small finance banks, serves diverse customer segments, including microfinance borrowers, small businesses, and retail customers. This study examines the credit risk management practices adopted by Jana Small Finance Bank to minimize loan defaults and maintain asset quality. The study focuses on credit appraisal, risk assessment, monitoring mechanisms, and recovery procedures. Both primary and secondary data sources have been utilized to understand the effectiveness of the bank's credit risk management framework. The findings indicate that systematic credit evaluation, technology-based monitoring, and prudent recovery strategies contribute significantly to reducing credit risk and improving financial performance.

Keywords: Credit Risk, Loan Portfolio, NPA, Risk Assessment, Banking Sector, Jana Small Finance Bank.

Introduction:

The banking industry plays a crucial role in economic development by mobilizing savings and providing credit. Lending activities generate significant income for banks; however, they also expose banks to credit risk. Credit risk refers to the possibility of a borrower failing to meet repayment obligations as per the agreed terms.

Jana Small Finance Bank operates with a mission of promoting financial inclusion while maintaining sustainable growth. Effective credit risk management is essential for balancing profitability and risk. The bank follows various policies and procedures to evaluate borrowers, monitor loan accounts, and prevent defaults.

This study aims to analyze the credit risk management practices adopted by Jana Small Finance Bank and assess their effectiveness in maintaining credit quality.

Literature Review:

Sharma (2021) The study highlighted that effective credit appraisal and borrower assessment significantly reduce default rates in commercial banks.

Gupta and Singh (2022) The researchers emphasized the importance of technology-driven credit monitoring systems in managing credit risk and improving loan recovery.

Reserve Bank of India Reports (2023) RBI reports indicate that robust credit risk frameworks help banks maintain healthy asset quality and lower Non-Performing Assets (NPAs).

Kumar (2023) The study found that periodic review of loan portfolios and risk diversification are essential strategies for managing credit risk.

Mehta and Rao (2024) The researchers concluded that digital credit scoring models enhance the accuracy of lending decisions and reduce credit losses.

The reviewed literature suggests that strong credit assessment procedures, continuous monitoring, and regulatory compliance are key components of effective credit risk management.

Objectives of the Study:

1. To understand the concept of credit risk management in banking.
2. To examine the credit risk management practices followed by Jana Small Finance Bank.
3. To analyze the methods used for credit appraisal and borrower assessment.
4. To evaluate the effectiveness of monitoring and recovery mechanisms.
5. To suggest measures for improving credit risk management practices.

Research Questions:

1. What are the major credit risk management practices followed by Jana Small Finance Bank?
2. How does the bank assess borrower creditworthiness?
3. What measures are adopted to monitor loan performance?
4. How effective are the recovery mechanisms in reducing defaults?
5. What improvements can be made in the existing credit risk management framework?

Research Methodology:

Research Design:

Descriptive research design.

Sources of Data:

Primary Data:

- Structured questionnaire
- Discussions with bank employees

Secondary Data:

- Annual reports of Jana Small Finance Bank
- RBI publications
- Research journals
- Bank website and policy documents

Sampling Technique:

Convenience sampling.

Sample Size:

50 respondents (bank employees and customers).

Data Collection Tools:

Questionnaire and interview schedule.

Statistical Tools:

- Percentage Analysis
- Tables and Charts
- Mean Analysis

Study Period:

January 2026 – April 2026.

Data Analysis:

Table 1: Awareness of Credit Risk Management Practices

Response	No. of Respondents	Percentage
Yes	40	80%
No	10	20%
Total	50	100%

Interpretation: Majority of respondents are aware of the bank's credit risk management practices.

Table 2: Effectiveness of Credit Appraisal System

Opinion	Respondents	Percentage
Highly Effective	20	40%
Effective	18	36%
Neutral	8	16%
Ineffective	4	8%
Total	50	100%

Interpretation: Most respondents believe that the bank's credit appraisal system is effective.

Table 3: Loan Monitoring Process

Response	Respondents	Percentage
Excellent	15	30%
Good	22	44%
Average	10	20%
Poor	3	6%
Total	50	100%

Interpretation: The majority rate the loan monitoring process as good or excellent.

Findings:

1. Jana Small Finance Bank follows a structured credit risk management framework.
2. The bank conducts detailed borrower assessment before loan sanctioning.
3. Technology-based monitoring systems help in tracking loan performance.
4. Regular portfolio reviews assist in identifying high-risk accounts.
5. Recovery mechanisms contribute to controlling loan defaults.
6. Most respondents perceive the credit appraisal system as effective.
7. Credit risk management practices have positively influenced asset quality.

Suggestions:

1. Strengthen AI-based credit scoring models for better risk prediction.
2. Increase borrower awareness regarding repayment obligations.
3. Enhance employee training in risk assessment techniques.
4. Conduct periodic stress testing of loan portfolios.
5. Improve digital monitoring systems for early detection of defaults.
6. Strengthen recovery and collection mechanisms.
7. Encourage diversification of the loan portfolio to reduce concentration risk.

Conclusion:

Credit risk management is essential for ensuring the stability and profitability of banks. Jana Small Finance Bank has implemented comprehensive credit risk management practices that include credit appraisal, monitoring, and recovery procedures. The study reveals that the bank's systematic approach helps in minimizing loan defaults and maintaining asset quality. Continuous adoption of advanced technologies and proactive risk management strategies will further strengthen the bank's ability to manage credit risk effectively and support sustainable growth.

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