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Systematic Literature Review Analysis on Willful Default Risk in Banking Sector

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Abstract

Purpose - This study aims to do a systematic literature review analysis of the previous studies which has focused Wilful default risk by different researchers. *Research question* – How Wilful default risk is slowing down the pace of economies development? *Purpose* – This paper aims to reveal potential research possibilities in the area of recovering and curbing wilful default risk. *Research methodology* – Four research databases like Ebscohost, Google Scholar, Web of Science and Scopus were employed, for conducting systematic review using data from 2000-2022. The raw data was processed using the shinyapps.io/prisma_flowdiagram. *Research methodology* – Bibliographic and bibliometric coupling techniques were employed using data from 1990–2022. The raw data was processed using the VOSviewer 1.6.18 software version. *Findings* – The results confirm the positive effect of the systemically important relationship between the short supply chain and food security. *Research limitations*- The artices were chosen for the period between 2000-2022, focusing only on the Wilful Default Risk in Banking Sector. *Practical implications* – The results establish the importance of more studies on the areas,the banking sector should ponder upon how artificial intelligence can be roped for identifying wilful defaulters. *Originality and value* – This study confirms the importance of studying the various aspects of risks present in the banking sector and the causes of failures of banks in different economies.

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Keywords

NPA, Wilful Default Risk, Bad Loan

Introduction

The banking industry is getting into deep trouble which may look at present like tip of the ice berg but sooner or later our economy will be affected by its repercussions. As the country had been witnessing in past also that political parties waiving off loans to farmers, the profit share of banks is decreasing and RBI has to bring strict changes in the loaning mechanism.

Defining Wilful Default

Risk is a possibility of suffering loss or no loss by firm, undertaking, individual or institution, in financial services context insurance firms provide cover for pure risk but there is no such cover which is available for averting the wilful default risk. A wilful default risk arises when an individual or firm does not meet its financial obligations arising due to credit sanctioned in his name or any loan taken by him even if the individual is capable of clearing off the credit. As per the Reserve Bank of India which is the apex body in banking services a "wilful default" would be deemed to have occurred if any of the following events is noted: -

(a) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.

(b) The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.

(c) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets." (RBI).

The objectives of the present study are to critically review and examine the existing literature on wilful default risk in the banking sector, synthesize the findings of the eligible studies, and critically interpret the results of the selected studies in the broader context of banking and financial risk management. The study further aims to consolidate the key findings and present them systematically through a comprehensive summary and evidence-based conclusions.

Materials and Methods

Collecting data for conducting a systematic review analysis is very essential, because upon the foundation of it only conclusion is drawn. This creates a feeling of surety that collected data is accurate, complete, free from ambiguity and also easily accessible. After much brainstorming the objective for systematic review of Wilful default risk was finalised. Various methods were adopted to search relevant studies through both offline and online source, without any language barrier. Moreover, multiple internet engines were used to provide any relevant web pages. The study selection criteria were predetermined and searched directly to the related review question. Exclusion and inclusion criteria were defined and recorded respectively. Selected studies were more refined for the quality assessment by adopting critical techniques.

Data Collection Strategies

Four research databases like Ebscohost, Google Scholar, Web of Science and Scopus were employed, for conducting systematic review. To eradicate the over saturation of data, keywords were searched and Logical operators were employed.

Keywords used as per MeSH: Wilful Default risk, Wilful default risk in bank, Causes of NPAs, Bad Loans

Inclusion/exclusion criteria

Articles between the year 2002-2022 were considered for conducting fair research on the topic, the researcher did Boolean search (Scells *et al.,* 2020) using “and”,”+”

PRISMA Flow Diagram was developed with the help of (Haddaway *et al.,* 2022) which enabled to create the Figure 1.1. depicting study included after screening on the basis of inclusion and exclusion criteria.

Results and Discussion

In totality ten studies were analysed (Arora, 2021) studied the responses of Credit managers on core CRM practices of 12 Indian public sector banks. The researcher attempted to analyise the managerial perceptions of 337 credit/risk analysts, having various management roles, different years of experience within their banks, and different educational and professional qualifications. The results of 50 CRM variables confirms that there are only few highly effective CRM practices such as awareness about other banks’ risk management systems, giving weightage to experience and judgment of risk managers, a loan appraisal and review mechanism, implementation of KYC norms, multi-tier credit approval process, risk-based appraisals, internal audit, NPA recovery through OTC scheme and controlling wilful defaults by all means. The study also focuses that degree of human bias is inevitable and different opinions and perceptions are functional to some extent.

(Jayadev. M & Padma. N, 2020) studied malefice practices in business, hidden corporate structures,and a charm among business conglomerate to show off financial soundness,along with a desire to acquire more and more firms. Incremental wilful default amount as a percentage of gross advances is used by adopting standard Ordinary Least Squares (OLS) time series regression analysis. The study focused six worldwide governance indicators such as voice and accountability, Political stability and absence of violence, Government effectiveness, Regulatory quality, Rule of law, Control of corruption.

(Narasimha M.I; Sridevi V, 2019) studied the growing NPAs in BRIC countries and tried to reach to a solution for the trends of NPAs. The study tries to unearth the possible causes for such phenomena by conducting a survey for such trends. The data used was secondary and collected though the official website of RBI, World bank, BIS etc, the study focused on the measures which

can downsize the NPAs through Capital Adequacy Ratios, NPL to loans ratio etc and suggested to employ early warning NPA system to look for hidden bad loans.

(Attigeri *et al.,* 2019) tried to develop a model based on big data for early detection of Wilful default loans. The study focused on India, China, Russia and Spain NPAs structure while focusing on understanding loan process, identification of clues for early detection of Wilful defaulter, further to develop algorithms for Wilful default identification. The model suggested that prospect customers entire profile based upon including behavioral, financial, social parameters should be considered prior to sanctioning loan.

(Shiralashetti & Poojari, 2016) conducted a study on a period of 5 years for NPAs of Syndicate Bank,data was collected through annual reports of Syndicate bank and analysed by applying t-test, regression and one way ANOVA. The study revealed that bank has experienced highest NPAs in service sector and furthermore during the period of 2011-13.

(Shenbagavalli *et al.,* 2013) conducted study to analyse the impact and effect of NPAs of public sector banks and to find measures which can curtail this problem,multiple regression, T Test, Factor analysis were adopted to locate the causes which are increasing NPAs of public sector banks of Chennai. The study suggested that proper scrutiny of the application forms must be conducted prior to loan sanctions, and revealed causes of loans turning into bad loans due to many internal factors like inefficient management, inappropriate technology, labour problems etc.

(Obamuyi, 2013) has explored the relation between deposits, loans and profitability of banks in Nigeria, and to examine up to which extent Nigerian banks have performed the function od intermediary for the enhancement of economic growth. Trend analysis was found most suitable for the study period of 2006-2011. The study revealed that banks which has high deposits and loans perform better in terms of profitability than banks with low deposits and loans. The ability to channelise huge number of deposits and granted more loans and advances were found to have higher profits than the others. Thus, confirming there is a positive relationship between deposit mobilization and bank lending.

(Bardhan & Mukherjee, 2013) developed a sequential game to highlight the chances of Wilful default on moral hazards, when debtors under-reported their financial position with an intention to default wilfully. The study examines how the loan decision-making process of the bank is affected given the fact that Wilful default occurs, one of the important results reported was as the loan disbursement capacity of bank increases, the Wilful default also increases. Therefore, it is the policy regulator skill for defining loan capacity of the banks.

(Sanjeev, 2007) tried to study and examine the key factors which becomes instrumental in occurrence of bad loans or NPA throughout the world. The study focused on the both external and internal factors causing an increase in the bad loans. The study applied both primary and secondary data collected from public, private and also foreign banks operating in India. The study revealed that if appraisals of loan applications is done more cautiously followed by proper monitoring and controlling, prospects Wilful defaulters will be funnel down and suggested that banks should have common database for such Wilful defaulters for sharing the information.

(Raine *et al.,* 2004) studied the pattern of Wilful default loans among who pays the loans who doesn't and what are the reasons for not paying loans. The study focused on the present legal framework in UK for penalising such Wilful defaulters by imposing financial penalties on them also highlighting three potential actions such as enabling steps (to make possible payments), ensuring actions (for timely settlements) and enforcing interventions (after the due dates has expired).

The research has highlighted that default is not necessarily just the offender's problem` nor something automatically to be regarded as further misbehaviour to be punished.

In conclusion, the study revealed that NPA or Wilful default loans are present throughout world and it is affecting all the nations, a Wilful default loan does not put burden on the bank, but actually the customers of the banks more precisely the citizens of that particular economy. There is dire need of systems, mechanisms for actually identifying the loan applicants who may become Wilful defaulters in future

The artificial intelligence may be roped in for disbursing the loan and also for the repayment method. The bankers have to be more prudent in sanctioning loan, as study has revealed that there is a direct relationship between loan capacity and loan default (Bardhan & Mukherjee, 2013).

Inclusion/exclusion criteria

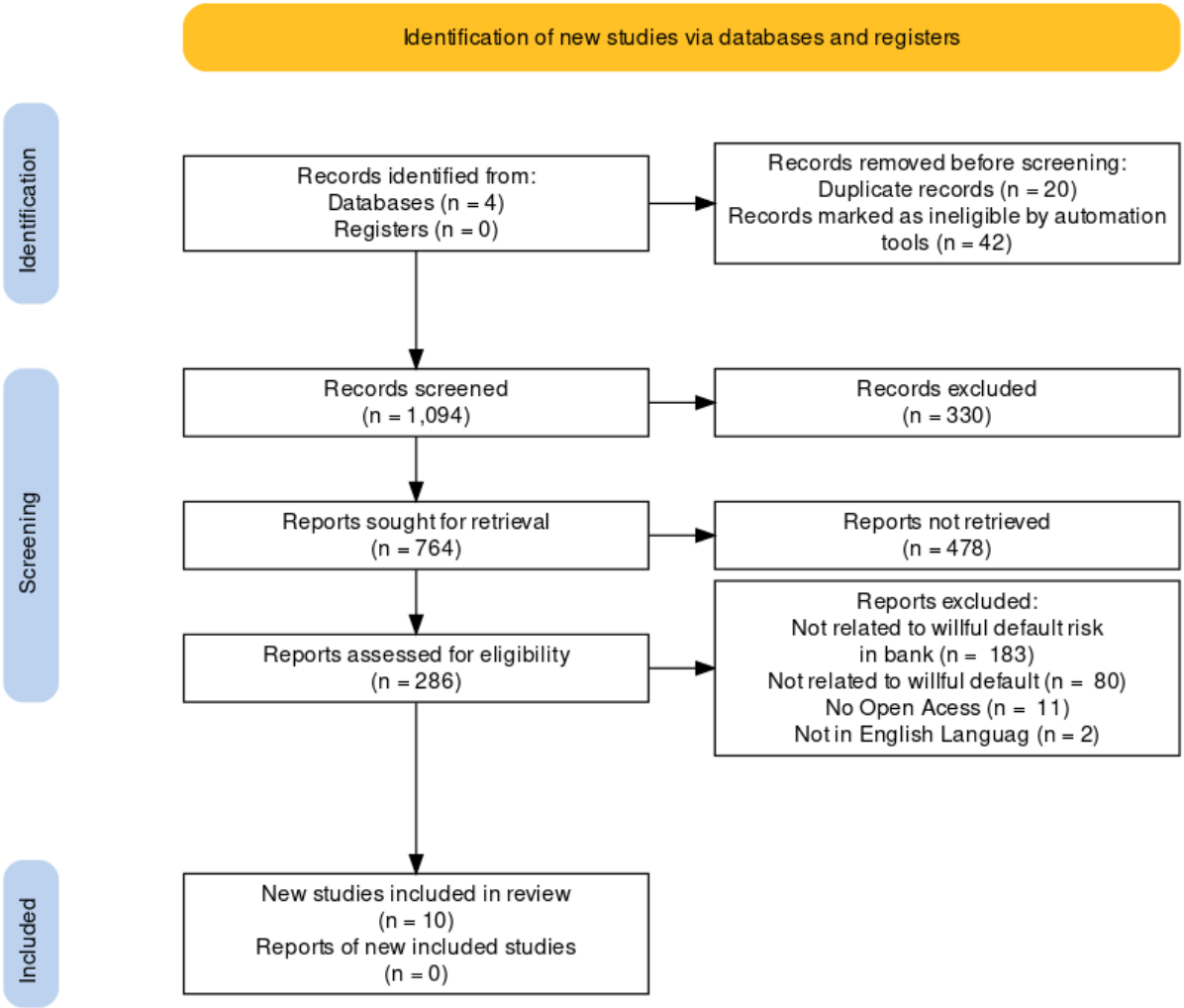
Inclusion Criteria	Exclusion Criteria
• **Articles Related to Wilful Default Risk in Bank**	• Articles Related to Wilful Default Risk to another sector
• **Articles written in English**	• Articles Published before 20 years
• **Articles Free to Access**	• Paid articles
• **Peer reviewed articles**	• Non Peer reviewed articles

Serial No.	Author & Year	Study design	Study Area	Objective	Findings
1.	Arora. (Arora, 2021) R (2021)	Empirical	India	The study aims for a comprehensive and systematic analysis of CRM practices of Indian public sector banks through their managers, for efficient control and mitigation of credit risk in business loans.	Empirical investigation of more than 50 CRM variables concluded with few highly effective CRM practices – awareness about other banks' risk management systems, giving weightage to experience and judgment of risk managers, a loan appraisal and review mechanism, implementation of KYC norms, multi-tier credit process, risk-based appraisals, internal audit, NPA recovery through OTC scheme and controlling wilful defaults by all means.
2.	Jayadev M, Padma N, (2020)	Empirical	India	The empirical significance of governance and macroeconomic factors in explaining the wilful defaults of Indian commercial banks.	Banks need to exploit transaction data available through payment channels and collaborate with various investigative agencies such as Income Tax department, Revenue Intelligence, Central Economic Intelligence Bureau, Enforcement Directorate (ED) and Special Fraud Investigation Office (SFIO). These agencies are expected to investigate the irregularities in corporate monetary transactions such as money laundering, tax and duty evasions and other suspicious financial transactions.
3.	Narasimha M.I; Sridevi V (2019)	Descriptive	BRICS	The primary objective of survey to compare the trends of non-performing loans in BRICS economies. The secondary objective is to study the potential solutions to address the above problem statement	For better growth and control, governments must make structural changes in the loan process across industries. Each country needs to develop a prototype for the structural transformation which can be measured against the developed nations. Banks must implement data analytics 3for early warning NPA system which

					should dwell the hidden NPAs.
4.	Attigeri. G; Manohara P.M; Pai R.M (2019)	Exploratory	India & Others	The objective of this paper is to build a data model for early detection of the Wilful default. The process of classifying Wilful default involves considering various categories of parameters such as financial, personal, social etc.	The results show that neural network has the best performance, and hence it is implemented in the framework. The results also indicate that in order to identify Wilful default unstructured components play a major role
5.	Shiralashetti, A S; Poojari, L (2016)	Analytical	India	Present study is conducted to analyze the non-performing assets in Syndicate Bank.	The study concluded that NPAs are draining the capital of the banks and weakening their financial strength. Management of non-performing assets is a difficult task for every bank in the banking industry. Wilful defaults, improper processing of loan proposals, poor monitoring and so on are the causes for accounts becoming NPAs
6.	Shenbagavalli. R; Senthilkumar. S; Ramachandran. T (2013)	Descriptive	India	To analyze the cause and impact of the Non Performing Assets (NPAs) of Public Sector banks and to give suitable suggestions.	The fraudulent practices like advancing loans to ineligible persons, advances without security or to the inefficient project/businesses is a significant factors remarkably influencing the default loss at a level of 78%.
7.	Obamuyi M.T (2013)	Descriptive	Nigeria	The study examines the extent to which banks in Nigeria have performed their intermediation functions of deposit mobilization and granting of 6.loans and advances and the effects on their performance.	The results of the study reaffirm that banks with high deposits and loans perform better in terms of profitability than banks with low deposits and loans.
8.	Bardhan. S; Mukherjee. V (2013)	Exploratory	India	To explore the relation between the profit of a bank and the amount of Wilful default that occurs at the equilibrium consequent on the loan advancement process.	If limited liability condition holds and if the condition of Wilful default is satisfied, the bank will extend loans to its capacity which is exogenously fixed.
9.	Sanjeev. M. Gunjan (2007)	Exploratory	India	To identify the endogenous (internal) and exogenous (external) factors, which are contributing to the rising levels of bad loans in the banking sector.	The external factors are found to play a greater role in creation of bad loans as compared to the internal factors. Amongst the internal factors monitoring and controlling issues are observed to be more significant than the appraisal issues.

10.	Raine. J; Dunstan. E; Mackie. A (2004)	Descriptive	UK	To explore some of the realities and problems that currently associate with this form of judicial and administrative sanction, and highlights some of the operational and practice challenges to be addressed if, indeed, financial penalties are to play a more significant role in the future	The research has highlighted that default is not necessarily just the offender's problem nor something automatically to be regarded as further misbehaviour to be punished

Figure.1 Studies included in the study



PRISMA FLOWCHART

There are very less studies which are conducted on the wilful default risk which is evident from the data which the researcher has presented in the PRISMA flow diagram.

Therefore, Banking industry should conduct a brain storming, for developing methods to identify the future bad loan, individuals and more emphasis given on such companies where there is a chance of morale hazards.

Recommendations

The present study gives cue for further studies focusing on the wilful default risk present in banks, and motivates for banking associations to develop a framework for identification and sharing of data of wilful defaulters across all the types of banks, such as cooperative banks, rural banks, industrial banks etc.

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