Final Report

On

Credit default survey (CDS) and Corporate Finance

Submitted by: Group 04

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Abstract:

Financial default happens when somebody denies you of your cash or in any case hurts your monetary wellbeing through deceiving, or other unlawful practices. One of the cases is Credit defaulters. Credit Card defaulters are those people that do not pay back their credit. Credit defaulters are those clients who make deferral or decline to pay their normal portions for the credit that they picked. In this report we are trying to understand the percentage of credit defaulters and at the same to understand its relation to corporate finance. This information is analyzed by understanding the customers financial background based on their financial behaviour and stability.

To understand this, we have conducted a survey in which it helps to analyze the spending behaviour as well as the savings patterns of a credit card holder. The survey is created through Google Forms, which has been circulated to people who own a credit card. The objectives of this entire report/survey are to:

- Understand credit defaults in Corporate Finance and to know the percentage of credit defaulters in a given number of respondents.

Introduction:

Credit risk is subject to a great interest in Banks. Credit defaulters are those customers who were/are not regular in making the payments of instalments of the debt that they have taken from various sources such as credit cards, loans etc.

To analyse the determinants of default on credit card debt, bank loans, this report uses empirical findings on credit card and bank loans use from a recent survey. It reflects on the relationship between default and the consequences of customer financial decisions taken under the parameters of the terms of the contract set by credit card issuers.

Our data collection provides the most detailed information on the behavioural dimensions of credit card use that is available on a regular basis.

Research Methodology:

Primary research on the topic CDS and Corporate Finance was done in this project. Primary research means collection of data, information and doing observations by our own. We analyzed firstly from where we have to start it (as in what we want to discover, who we are going to survey, how can we make sure that our results will be free from biases, etc). Survey is chosen to be done for this project as it will provide a limited amount of information from a large group of people and is useful when we want to learn what a larger population thinks.

This project is also done on the basis of the same as we had created a Google form (survey) and circulated it amongst our networks on social media sites such as WhatsApp, Facebook, Instagram, LinkedIn etc; to get diverse responses from various types of people. So that responses shouldn't be biased in any of the ways. And the results will also be much more precise as the collected data is from people of different perspectives.

Importance of Credit risk management in Banks:

The risk factor comes with banking operations and it's unavoidable. Risk is an anticipation of a circumstance or occurrence that could arise in the future, in the easiest way possible, and for banks, it is the uncertainty of a business investment outcome. Strategic risk, regulatory risk, collateral risk, cyber security risk, liquidity risk, market risk, operating risk, etc. can be categorised as separate categories of banking risks. Of these, the most significant form of risk for commercial banks is credit risk.

- It helps to estimate the risk factor of any transaction and/or measure it.
- This helps banks think ahead of strategies to address a negative outcome.
- It helps to develop credit models that can serve as a helpful instrument to assess the degree of risk while lending.

Credit risk is simply understood as the risk that a bank takes when lending borrowers money. They could default and refuse to repay the dues on time, resulting in bank losses. Loan portfolio management is really important because most times a bank can't completely determine how it will recover the money back because even if the borrowers have been paying their dues on time, the economy could show shift and adjust the way things have always been. So, banks need their credit losses to be handled.

The aim of banks' credit risk management is to maintain exposure to credit risk within the proper and acceptable criteria. It is the method of mitigating risks at any given time by recognising the adequacy of the capital and loan loss reserves of a bank. For this, banks not only need to handle the whole portfolio but also individual credits.

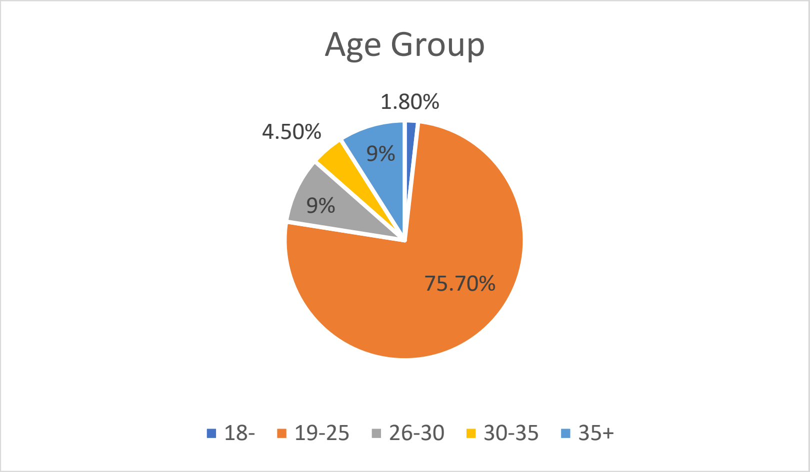
Finding from the Survey on Credit Default

The objective of this survey was to understand

- How much percentage of people are credit defaulters
- What are the major parameters for being the credit defaulter
- Analyse the spending pattern of the participants of the survey

(All the results published below are purely from the survey we conducted)

Fundamental information from the report



The major focus on the data shown below will be on the people who have been credit defaulters or have missed the EMI or bill payment.

- Out of 111 respondents we have observed that 5 people have missed paying EMI's for their bank loans and 14 people have missed paying Credit card bills on time and 3 people are common in both. Therefore 4.5% and 12.61% of people have missed paying their loan EMI's and Credit Card bills. According to ICICI – CRISIL report the market size in India for retail loan is Rs. 48 trillion. Assuming that everyone pays the equal amount of EMI the loss for the financial institutions per month due to bank loan EMI payment miss will be almost equal to Rs. 180 Billion rupees
- Results on the 14 people who have missed paying bills of their Credit Card
  - Highest percentage of people are from age group 19-25 years old
  - In 19-25 years batch 7.14% are females and 92.86% are male
  - Their major spending is on groceries, Entertainment and Traveling
  - Majority of the people monthly income under this category is less than Rs. 50,000 with a upper credit limit of Rs. 1,49,999 and utilize only 30% of it.
  - The major reason for failing to pay the bill is – forgot to pay the bill before deadline.
- Results on the 5 people who have missed paying EMI's of their bank loans

    - Majority of them are in the age of 30-35 years of range being all are mails whose marital status is single
    - Their credit score is between 750 to 800 and majority of them are Entrepreneur or Business owners
    - They all have only one loan and 60% of them have business loan, 20% housing loan and other 20% vehicle loan with a tenure ranging from 5 to 10 years
    - The major reason for missing out the EMI are
        - Non availability of liquid cash and
        - Slipped out of mind to pay the EMI's

- Since majority of people who missed out paying EMI's for bank loans or failed to pay credit card bills on time major reason being that it slipped out from the mind of the customers to pay these liabilities. Even after repeated messages and reminders through the apps and other medium, people are missing out paying their liabilities.

  The best option to avoid this either by penalizing by heavy fines or by cold calling these customers.