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USING SOCIAL MEDIA AS A TOOL FOR MONITORING CREDIT RISK IN BANKING

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Abstract

Credit risk is unavoidable part of the banking business. Credit risk refers to the risk of inability of borrower to repay the principal to meet contractual obligation. This is also termed as default risk. The credit risk is assessed at the beginning of the loan origination. The best way to handle such risk is to identify, quantify, monitor and control upfront. Credit risk should be monitored and reported to regulatory authorities, as a part of regulatory compliance. It’s an important strategic planning for any financial institution to build a sound Credit Risk Management System (CRMS).

There are multiple risk assessment and mitigation strategies in place to control such risk. It would vary from bank to bank. The primary parameters for any Credit Risk Management System are ‘ability to repay’ and ‘willingness to repay’. The current Credit Risk Management Systems use the static values for the risk parameters. In other words, the values of any parameters are not validated for any change since the data was collected. This study attempts to capture and use the dynamic values for the Credit Risk Management system.

Social Media could be a very good source for collecting the value of ‘ability to repay’ and ‘willingness to repay’. Though the social media is not an authentic data source to base the Credit risk, we can derive a model which can help better quantify the risk, which can then be used for monitoring continually and get us the most accurate risk index. The Source of data includes but not limited to Twitter, Facebook, News Portals, Weather portals, Public Economic surveys results published in various social portals.

Key words: Bank, Credit risk, Loan, Risk management, Borrower, Lender.

Introduction

Credit risk emanates from a bank’s dealings with an individual, corporate, institution etc. As per the Reserve Bank of India Guidelines (RBI), each Banks which are under the purview of RBI, need to have a Credit risk Management system in place. There are similar guidelines by various competent authorities. The primary purpose of this is to reduce the Credit risk of the Banks and ensure reduced Non-Performing assets (NPA) [1]. In the present credit risk framework, Value of parameters is static in