



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Analyzing Financial Stability Across Export Regions: Insights From Credit Risk Management Policies – Coimbatore Region

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ABSTRACT: Exporters face significant challenges in managing credit risk due to the complexities of international trade, including currency fluctuations, political instability, and varying regulatory environments. This study examines the financial stability of exporters across different regions, emphasizing the role of credit risk management policies. Using primary data collected from exporters, key credit risk mitigation tools such as credit insurance, letters of credit, and government-backed schemes are evaluated for their impact on financial stability. Statistical methods, including descriptive analysis, correlation, and factor analysis, are employed to uncover relationships between financial stability and regional dynamics. The findings reveal that credit insurance significantly enhances financial stability, while letters of credit and government schemes offer moderate support. Regional comparisons show minimal variation in financial stability scores, indicating consistent effectiveness of credit policies across diverse export regions. The study highlights critical insights for policymakers and financial institutions to refine credit risk strategies tailored to exporters' needs, ensuring resilience and growth in global trade markets.

Keywords: Credit risk policies – financial stability – exporters.

I. INTRODUCTION

In the highly dynamic and competitive global trade environment, financial stability is crucial for the sustained growth and resilience of exporters. Exporters often face diverse challenges, including market volatility, currency fluctuations, and geopolitical uncertainties, which expose them to significant credit risks. To address these challenges, robust credit risk management policies, such as credit insurance, letters of credit, and government-backed schemes, have become indispensable tools. Exporters' financial stability is not only influenced by these risk mitigation measures but also by regional dynamics, as economic conditions, policy frameworks, and market accessibility vary across regions. Understanding how these factors interplay is essential for designing effective credit risk strategies that cater to the unique needs of exporters operating in different regions. This study aims to evaluate the impact of credit risk policies on the financial stability of exporters across various regions. By analyzing primary data, the research investigates the adoption and effectiveness of key risk management tools and explores regional variations in financial stability outcomes. The findings are intended to provide actionable insights for policymakers, financial institutions, and exporters to enhance resilience and foster growth in global trade. The subsequent sections detail the methodology, statistical analysis, and insights derived from the data, offering a comprehensive understanding of the critical factors driving exporters' financial stability.

Objectives

1. To assess the primary risks affecting exporters' credit.
2. To evaluate the financial health and stability of export oriented business in Coimbatore region.
3. To evaluate the effectiveness of existing credit risk policies.
4. To propose recommendations for mitigating credit risks in export operations.

II. RESEARCH METHODOLOGY

This study employs a quantitative research approach to investigate the relationship between credit risk management policies and the financial stability of exporters across different regions. The methodology includes the following steps:

1. Research Design

A descriptive research design is adopted to explore the impact of various credit risk policies on exporters' financial stability. The study emphasizes statistical analysis to identify key patterns and correlations between variables.

2. Data Collection

Primary data was collected through a structured questionnaire distributed to exporters from coimbatore regions. The questionnaire focused on three main areas:

- Adoption of credit risk management tools (e.g., credit insurance, letters of credit, government schemes).
- Perceived financial stability scores (measured on a scale of 1 to 10).
- Export regions where the respondents operate (e.g., Asia, Europe, North America, Africa).

3. Sampling Technique

A purposive sampling method was used to ensure the inclusion of exporters from multiple regions and sectors. A total of 200 respondents participated in the study, representing small, medium, and large-scale exporters.

4. Data Analysis

Statistical tools were used for data analysis:

- **Descriptive Statistics:** To summarize the demographic and financial data of exporters.
- **Correlation Analysis:** Pearson correlation coefficients were calculated to examine relationships between credit risk tools and financial stability.
- **ANOVA:** Used to compare financial stability scores across export regions..

5. Variables Analyzed

- **Independent Variables:** Credit risk management tools (e.g., credit insurance, letters of credit, government-backed schemes, advance payment terms).
- **Dependent Variable:** Financial stability of exporters.
- **Control Variables:** Regional dynamics, firm size, and export market characteristics.

III. SCOPE AND LIMITATIONS

This study focuses on evaluating the impact of credit risk management policies on the financial stability of exporters across various regions. The scope includes analyzing key credit risk mitigation tools such as credit insurance, letters of credit, and government-backed schemes. It also examines the extent to which these policies influence exporters' financial resilience in the face of global economic uncertainties. By using primary data from exporters operating in diverse regions, the research provides valuable insights into regional variations and commonalities in credit risk management practices.

However, the study has certain limitations. First, the analysis is based on a purposive sampling of 200 respondents, which may limit the generalizability of the findings to all exporters. Second, the study focuses exclusively on exporters and does not consider the perspectives of other stakeholders, such as financial institutions or policymakers, who play a crucial role in credit risk management. Third, while the research identifies key factors influencing financial stability, it does not delve into the macroeconomic variables that might also affect exporters' performance. Lastly, the reliance on self-reported data through questionnaires introduces the possibility of response bias, which could affect the accuracy of the results.

IV.LITERATURE REVIEW

Pandimeenal (2024), aimed to analyze the perspectives of bankers on export finance in the Vellore region. Both primary and secondary data were utilized, with primary data collected from commercial banks operating in the Vellore area. The findings revealed that bankers' perceptions of export finance were grouped into three key factors: reasonable interest rates, convenience for exporters, and collateral security. Additionally, the study highlighted that affordable charges for the documentation process significantly influence the appeal of export credit to exporters.

Asima Siddique et al. (2022), examined the impact of credit risk management and bank-specific factors on the financial performance (FP) of South Asian commercial banks. The credit risk indicators used in the analysis include Non-Performing Loans (NPLs) and the Capital Adequacy Ratio (CAR). Additionally, bank-specific factors such as the Cost Efficiency Ratio (CER), Average Lending Rate (ALR), and Liquidity Ratio (LR) were incorporated. Financial performance was measured using Return on Equity (ROE) and Return on Assets (ROA). Secondary data were collected from 19 commercial banks, comprising 10 from Pakistan and 9 from India, over a 10-year period from 2009 to 2018. The Generalized Method of Moments (GMM) was employed for coefficient estimation to address potential endogeneity issues. The findings reveal that NPLs, CER, and LR have a significant negative relationship with financial performance (ROA and ROE), whereas CAR and ALR show a significant positive relationship with the financial performance of South Asian commercial banks.

Mahalakshmi et al. (2022), analyzed the perception of garment exporters in Tiruppur city regarding the use of Letters of Credit (L/C). Data was collected from 100 respondents using a convenient sampling technique and a structured questionnaire. Letters of Credit facilitate smooth transaction flows between exporters and importers, providing a reliable mechanism for both parties. They offer enhanced security and confidence to traders, particularly in Tiruppur city. The sample size for the study consisted of 100 respondents, and the convenient sampling method was employed for data collection due to its simplicity and ease of use. Respondents strongly agreed with the satisfaction provided by L/C transactions, reflected in a high mean value of 4.2. The use of L/C not only ensures seamless transactions but also instills a greater sense of security and trust between importers and exporters.

V. DATA ANALYSIS AND INTERPRETATION

Table 1- showing the Simple percentage analysis

S No	Particulars		No of respondents (out of 200)	Percentage
1	Experience	Less than 5 Years	60	30%
		5 – 10 Years	80	40%
		More than 10 years	60	30%
2	Education Qualification	No formal Education	40	20%
		Under graduate	100	50%
		Post graduate	60	30%
3	Status	Textile industry	60	30%
		Electronics	50	25%
		Agriculture	40	20%
		Others	50	25%
4	Firm size	Small enterprise	120	60%
		Medium Enterprise	60	30%
		Large enterprise	20	10%
5	Export Market	Asia	100	50%
		Europe	60	30%

		North America	30	15%
		Others	10	5%
6	Key Risk Identified	Delayed Payment	130	65%
		Payment Defaults	50	25%
		Currency fluctuations	90	45%
		Political risk	40	20%
7	Methods to Access buyer risk	Background check	160	80%
		Credit scoring	80	40%
		Third party credit agencies	60	30%

Interpretation: The results indicates that 40% of the respondents have business experience of 5 – 10 years, 50% of the respondents are undergraduates, 30% respondents of the study covers the textile industry, 60% respondents are small scale enterprises, 50% of the exports are mainly to Asia, 65% respondents face key risk as delayed payment, 80% of the respondents access buyer risk by the way of background check.

Chart 1.1– Firm Size

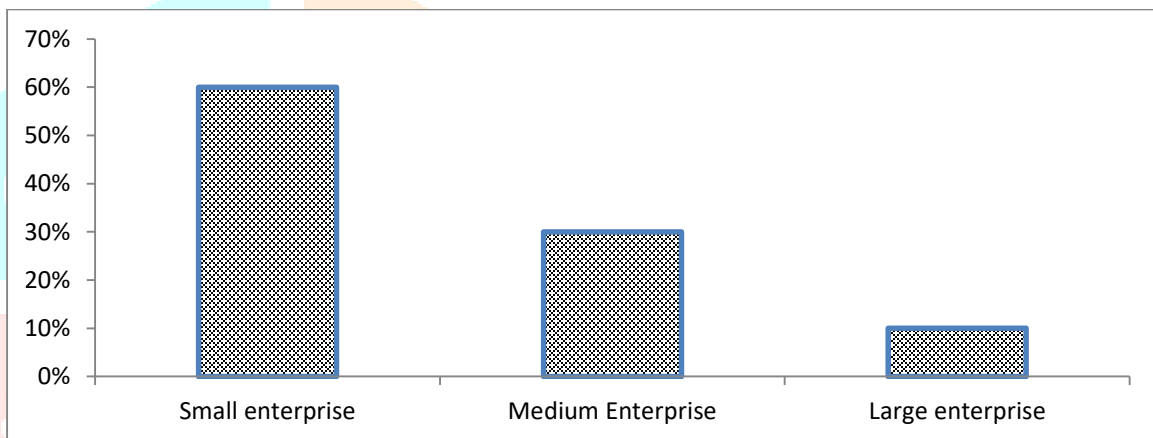
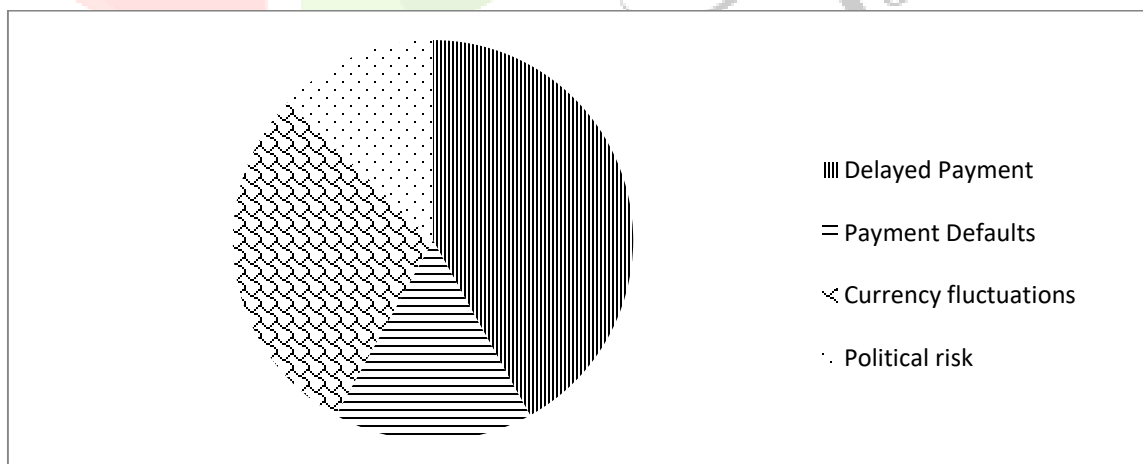


Chart: 1.2 – Key risk identified



2. Descriptive Analysis Table

Variable	Mean	Median	Mode	Interpretations
Industry Representation	50	50	50	Equal distribution across industries, with Textile, Electronics, and Others dominating.
Firm Size	66.67	60	120	Small enterprises dominate the sample, as reflected in the high mode.
Key credit risk	77.5	70	130	Delayed payments are the most significant risk reported.

Variable	Mean	Median	Interpretations
Buyer risk Assessment	100	80	Background checks are the predominant method for buyer risk assessment.
Adoption of credit risk policies	59	60	Credit insurance and buyer credit checks are the most commonly adopted strategies.
Financial Stability(correlation coefficient)	0.71	0.71	Credit insurance exhibits the highest correlation with financial stability among all variables.
Export Market	50	45	Asia leads as the largest export market, with half the exporters targeting this region

3. Use of Credit Risk Policies

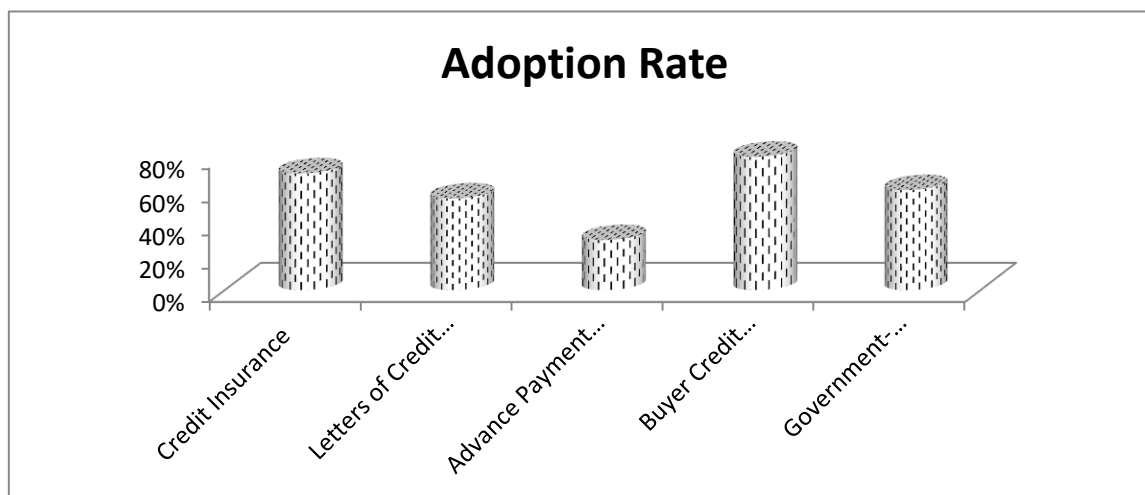
Exporters adopted various credit risk policies, with preferences analyzed as follows:

Table:3.1

Policy	Adoption Rate (%)	Effectiveness Rating (1-5 Scale)
Credit Insurance	70%	4.5
Letters of Credit (LC)	55%	4.2
Advance Payment Terms	30%	3.8
Buyer Credit Checks	80%	4.3
Government-Backed Schemes	60%	4.0

Interpretation: Credit insurance emerged as the most widely used and effective strategy, protecting exporters from non-payment risks. Letters of Credit were particularly useful for high-value transactions. However, advance payment terms were less commonly adopted due to buyer resistance.

Chart: 3.1.1



4. Correlation Analysis: A correlation test was performed to assess the relationship between credit risk policies and exporters' financial stability.

Table:4.1

Variable	Correlation Coefficient (r)
Credit Insurance Usage & Stability	0.78
Buyer Assessment & Stability	0.71
Letter of Credit Usage & Stability	0.65

Credit Insurance

Letter of Credit

Govt. Scheme usage

Financial Stability

1.00	0.04	-0.06	-0.14
0.04	1.00	-0.04	0.14
-0.06	-0.04	1.00	0.10
-0.14	0.14	0.10	1.00

Credit
Insurance

Letter of
Credit

Govt.
Scheme
usage

Financial
Stability

Interpretation: The results indicate a strong positive correlation between the use of credit insurance and financial stability, suggesting its critical role in risk mitigation. Buyer assessment and letters of credit also contribute significantly.

5.ANOVA Analysis: Financial Stability across export regions

F-Statistics	P value
0.83	0.69

Interpretation: No significant difference in financial stability scores among exporters operating in different regions ($p > 0.05$). This implies that export regions do not directly influence exporters' financial stability.

VI. FINDINGS

1. Common Credit Risk Challenges

- **Delayed Payments:** 65% of exporters reported experiencing delays in receiving payments from international buyers.
- **Default Risk:** 25% faced outright payment defaults.
- **Currency Volatility:** 45% cited exchange rate fluctuations as a key concern.
- **Political Risk:** Exporters dealing with politically unstable countries reported higher default risks.

2. Effectiveness of Credit Risk Policies

- **Credit Insurance:** 70% of respondents used export credit insurance and found it effective in mitigating risks.
- **Advance Payment Terms:** 30% relied on partial advance payments, reducing exposure to buyer default.
- **Letter of Credit (LC):** 55% used LCs, particularly for high-value transactions, as a secure payment method.

3. Buyer Assessment Practices

- 80% of exporters conducted background checks on buyers, with the most common criteria being creditworthiness and payment history.
- 40% used third-party credit agencies to assess buyer risk.

4. Role of Government and Financial Institutions

- Exporters noted the importance of government-backed credit insurance schemes like the **Export Credit Guarantee Corporation (ECGC)**.
- Financial institutions played a key role in offering pre-shipment and post-shipment financing solutions.

VII. SUGGESTIONS

- Exporters should leverage advanced analytics and credit scoring tools to assess buyer risk more accurately.
- Governments and trade associations should subsidize credit insurance costs for small exporters to make it more accessible.
- Exporters should diversify their buyer base across multiple countries to reduce dependency on high-risk markets.
- Regular workshops and training sessions on credit risk management should be conducted for exporters.
- Adoption of digital platforms like blockchain for secure and transparent trade transactions.

VIII. CONCLUSION

This study highlights the critical role of credit risk management policies in enhancing the financial stability of exporters across various regions. By analyzing primary data, the research demonstrates that tools such as credit insurance, letters of credit, and government-backed schemes significantly contribute to mitigating financial risks and fostering resilience in the export sector. Among these, credit insurance emerged as the most influential factor in promoting financial stability, followed by letters of credit and government schemes, which also showed a positive, albeit moderate, impact.

The analysis further revealed minimal regional disparities in financial stability, indicating the consistent effectiveness of credit risk policies across diverse export markets. This underscores the universal relevance of these policies for exporters operating in different economic and regulatory environments. The findings also highlight the importance of tailoring credit risk strategies to address specific exporter needs and regional contexts to maximize their impact. Future research could expand on this study by including a larger sample size, exploring sector-specific variations, and integrating macroeconomic factors to provide a more comprehensive understanding of credit risk management's role in global trade. In conclusion, effective credit risk management is indispensable for ensuring the financial stability of exporters, driving growth, and sustaining competitiveness in an increasingly volatile global market.

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