INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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CREDIT RISK MANAGEMENT IN STATE BANK OF INDIA - A STUDY ON PERCEPTION OF SBI MANAGER'S IN VISAKHAPATNAM ZONE

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ABSTRACT
Credit risk management is not an 'off-the-shelf product. It is a 'whole-time' and 'organization-wide' function. Common-sense dictates that people responsible for targets under business-growth are ill suited to address 'risk' inherent to credit and its management. Credit risk management should therefore be separated form and sufficiently be independent of the business lines. Risk Management can be defined as systematic identification and analysis of the various loss exposures faced by a firm/individual and the best methods of treating the identified loss exposures consistent with the firms'/individuals' objectives. The choice of appropriate strategies for control of credit risk by individual banks depends on their priorities and risk-appetites. It encompasses designing policies for every major aspect of credit administration to ensure that credit deployment and the accompanying risk-management processes are controlled within the known risk/return parameters. Hence the present study focused on the credit approval process in SBI, manager's awareness towards credit risk management and risk control strategies. The major research findings are based on the primary data. The date has been collected by using elaborate questionnaires for bank managers working in State Bank of India of Visakhapatnam zone. The researcher identifies credit is the real activity that should be managed to generate profitability by keeping the three cardinal principles of banking in mind "Liquidity, Solvency and Profitability". With the thinning of spreads in the deregulated and liberalized economy, risk management has become all the more crucial. So proper mechanism should be put in place for anticipation and identification of risks, together with a suitable mechanism to deal with such risks in an efficient and pro-active manner. Majority of the respondents strongly felt that the system followed in the banks need a review in term of simplifying various forms used and procedures followed for sanctioning loan. It is suggested that the bank should establish overall credit limits at the level of individual borrowers/counterparties, and groups of connected borrowers/counterparties in one industry.

KEYWORDS
Credit, SBI, Visakhapatnam, Risk, Finance.

INTROUDUCTION
In 1988, the Basel Capital Accord has become the global standard by which the financial soundness of banks is assessed.[1] The Basel methodology requires banks to maintain a minimum ratio of capital to total risk-adjusted assets – that is, the total for all of a bank's assets, after the amount of each asset has been multiplied by the relevant risk weighting of 8 per cent. The Basel Committee's new capital framework proposals will have important implications for developed and developing countries alike. The Basel Committee developed a simple risk measurement framework that assigned all bank assets to one of four risk-weighting categories, ranging from zero to 100 per cent, depending on the credit risk of the borrower. Thus, the Basel Committee is already working on the scope of application of the Accord, capital and capital adequacy, risk exposure and assessment. The Risk Management has come at the central stage in the New Basel Capital Accord.

CREDIT RISK MANAGEMENT IN BANKS
The post-liberalization years have seen significant pressure on banks in India with a few banks repeatedly showing signs of distress. One of the primary reasons for this has been the lack of effective Credit Risk Management systems and practices in Indian banks. With an increasingly competitive and volatile banking environment here to stay, a comprehensive and integrated risk management system will soon become synonymous with survival for banks.
In generic terms, Risk Management can be defined as systematic identification and analysis of the various loss exposures faced by a firm/individual and the best methods of treating the identified loss exposures consistent with the firms'/individuals' objectives. Extending the same analogy, SBI defined "the credit risk management as a process that puts in place systems and procedures enabling."

- Identify and measure the risk involved in a credit perception, both at the individual transaction and portfolio level.
- Evaluate the impact of exposure on Bank's Balance Sheet/Profit.
- Assess the capability of risk-mitigators to hedge/insure risks, and
- Design an appropriate risk management strategy to arrest 'risk migration' leading to deterioration in the credit-quality/default risk.

The choice of appropriate strategies for control of credit risk by individual banks depends on their priorities and risk-appetites. It encompasses designing policies for every major aspect of credit administration to ensure that credit deployment and the accompanying risk-management processes are controlled within the known risk/return parameters.
Credit risk management is not an 'off-the-shelf product. It is a 'whole-time' and 'organization-wide' function. Common-sense dictates that people responsible for targets under business-growth are ill suited to address 'risk' inherent to credit and its management. Credit risk management should therefore be separated form and sufficiently be independent of the business lines.[2]

OBJECTIVES OF THE STUDY
1. To examine credit approval process in State Bank of India.
2. To study the branch manager's awareness towards credit risk management system in State Bank of India.
3. To study the risk control strategies followed by the managers.
4. To suggest appropriate measures to SBI.

METHODOLOGY

The present study is based on both primary and secondary data.

The primary data for the study are collected by using elaborate questionnaires for bank managers working in State Bank of India of Visakhapatnam zone. The data on risk management perception and practices relating to the credit risk management, risk control strategies and credit approval process were obtained through responses to questionnaires and in personal interviews with senior credit, treasury executives and bank managers of State Bank of India. The secondary data has been collected through RBI bulletins, SBI monthly magazines, various research articles etc.

The study has taken into consideration of bank managers in State Bank of India of Visakhapatnam zone. The study covered the various Mandalas in Visakhapatnam zone. The sample is drawn from the banks which are spread over the zone. The total sample of 40 respondents was selected the respondent managers by using convenient random sampling technique.

CREDIT APPROVAL PROCESS IN SBI

State Bank of India should keep in place an approved and documented analytical framework that helps credit officers in:

Assessing relative risks to a units' cash flow.

Judging whether a unit is able to generate sufficient cash flows from internal operations to service the debt.

Measuring the sufficiency of the 'credit – mitigators' in arresting deterioration in credit – quality and approving credit. Secondly, such a document helps SBI in maintaining uniformity and consistency of standards in granting credit across the organization.

The approved document should address issues like-

- Identification of borrower.
- Identification of associates – groups; common ownership; family ties; strong connecting links.
- Historical analysis of the unit – balance sheet, profit and loss account; cash flow and trends; assessment of managerial competence – promoter's background/track record/economic and social status/ability to absorb unanticipated financial costs/technical competence/propensity to keep up the promises/repay the loans/transparency in operations etc.
- Current position of the unit – impact of risk associated with non-financial information namely internal factors – like scale of economies, technology adopted, income-elasticities, superior resources, product differentiation, and external factors – like government policies, domestic and international competition, technology development, shift in consumer behaviour etc., on the unit's competitive position in the given market and in turn the reliability of its projected cash flows; stress being on factors that will drive future financial performance and hence analysis preferably on "gone-concern" lines; valuation of assets in balance sheet at market price under distress sale conditions and acceptable short-falls there under.
- Future position of the unit – competitiveness, products, management depth, forecasts and cash flows; analysis on the lines of "going-concern;" SBI's ability to fund the loan vis-à-vis its capital adequacy.
- Prescription of benchmark financial ratios. Exceptions under benchmark ratios may also be defined.
- Estimating credit-requirements and dispensation mode.
- Securities – third party guarantees/guarantee of promoters; financial securities; in case of term loans-charge on fixed assets; infrastructure projects – charge on borrowers rights and future cash flows through appropriate covenants; collaterals as a certain percentage of facility.
- Valuation method of fixed securities proposed.
- Documentation – required covenants to cover the proposed securities; legal status of the borrowers.
- Lending under consortium arrangements – independent assessment of risks/to fall in line with the leader's assessment and recommendations.
- Pricing of loans: credit rating/assessing risk-return relationship; profitability of overall relationship; factoring all the imbedded costs into price.
- Sanctioning of high value loans-credit-committees/grid concept to pool all the available wisdom in to credit decisions.
- Sanctioning of ad hoc/temporary additional limits period; interest; other precautions.

Once credit-granting process is defined and put in operation, top-management should ensure that loan proposals coming for sanction are provided with sufficient information that results in a sound credit decision. It should result in a clear shift from a "business-is-safe-and-secured syndrome" to "risk is identified, measured, priced and is acceptable."

Thus, it is often noticed in organizations that in absence of clear cut instructions, people often tend to overlook even important issues under the presumption that others are taking care of. To obviate it, a well-drafted mechanism of monitoring loan accounts with a clear demarcation of roles and responsibilities of branches and administrative offices on the following lines.

PERCEPTION ON ROLE OF CREDIT RISK MANAGEMENT

In the lexicon of Bankers of the previous decades, intermediation occurred when banks took in funds from depositors and then lent the funds to businesses and individuals, holding such loans in their books until the loans matured, were rolled over or went belly up. Credit risk was the major risk incurred by the banks since interest rate risk could be managed by making sure the contractual interest rates on the loans vary with the cost of fund. Over the past 15 years, however, traditional intermediation has changed dramatically. A variety of products, including loan securitization, and the greater risk exposures to which the borrowers are subjected, have transformed the levels of credit risk for the banks and increased the need to manage the risk in a more sophisticated manner. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with the agreed terms. The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage credit risk in individual loans or transaction as well as credit risk inherent in the portfolio. They should also consider the relationship between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

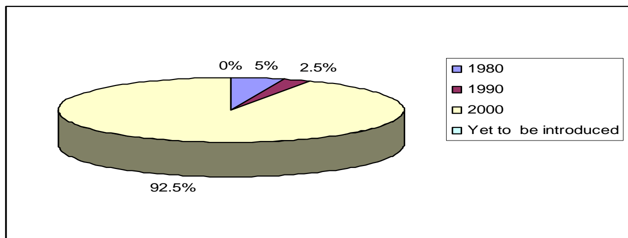
With rapid economic changes and the opening up of the Indian economy, the range of industries and services as well as the levels of competition, the threat of obsolescence of technology/product and the cost structure of the economy, is undergoing extensive transformation. Because of this, the financial risk to individual business, industries and even individuals has increased significantly. Both the numbers of start-ups and bankruptcies are increasing rapidly. In this environment, the credit risk of traditional lenders like banks has increased greatly. At the same time the intense competition is reducing the spread between income and cost. The level of non-performing assets of banks has increased beyond acceptable levels. The introduction of new products like securitized assets, in the market, has created a new dimension of credit risk. Under the circumstances, Indian banks need to undertake. Comprehensive review of their processes for identification of credit risk, credit assessment and scoring, credit administration and capital allocations to meet regulatory norms.

In the management of credit risk generally a scientific quantitative model is not available as a basis or the rating system in most banks. The rating systems do not truly reflect the credit risk because they incorporate weightages for various control and monitoring factors, which do not necessarily convey a credit risk. Even where risk parameters are included, some of the key financial parameters like return on capital employed, turnover, efficiency etc., which reflect risk, are omitted for the rating purposes, eventhough some of these factors are considered while assessing the credit need. Frequently, conflicting outcomes are thrown up in grading based on the internal ratings of the banks and the Income Recognition and Asset Classification norms specified by Reserve Bank of India. Thus, taking into account all, the factors suitable and appropriate ground rules and parameters are proposed for a credit risk rating model for Indian banks.

TABLE.1 THE IMPLEMENTATION OF CREDIT RISK ASSESSMENT IN SBI

Years	No. of Respondents	Percentage
1980	2	5.00
1990	1	2.50
2000	37	92.50
Yet to be introduced	0	0
Total	**40**	**100.00**

FIGURE: 1



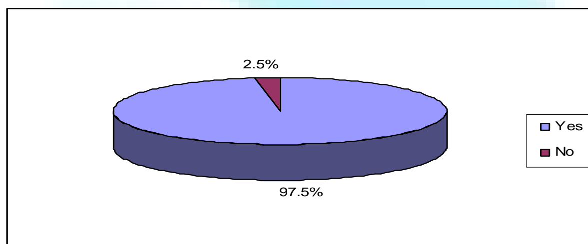
From this conceptual understanding the present study has been thoughtfully directed to include focus on implementation of credit risk assessment. Table.1 interestingly describes that, highest number of respondents (37) with percentage effectiveness of 92.5 was observed for the year 2000, whereas only 2 to 1 respondents opined with 5 to 2.5 per cent for the year 1980 and 1990. Thus, the response is interpreted as the effective implementation of credit risk assessment in SBI was done from 2000, which has given an opportunity to SBI to assess the risk by following various traditional approaches and rating models.

In the well developed risk management system, there has to be a credit risk committee consisting of personnel at the senior management level can assist the risk management committee of the board. Hence, the credit risk committee should periodically review the credit risk granting criteria and how the bank's credit sanction process is functioning and put up the review to the board.

TABLE.2 SEPARATE CREDIT RISK COMMITTEE REPORTING TO THE BOARD

Response	No. of Respondents	Percentage
Yes	39	97.50
No	1	2.50
Total	**40**	**100.00**

FIGURE: 2



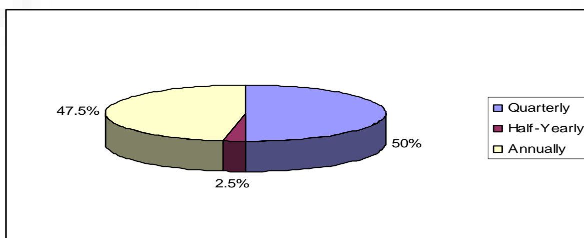
Against this the present study has been thoughtfully directed to focus on the maintenance of separate credit risk committee reporting to the board. Table.2 revealed that, there is highest number of respondents (39) with percentage effectiveness of 97.5 was observed with positive response and only one respondent has given his opinion in negative with a percentage of 2.5. Thus, the response is interpreted as the effective management of credit risk committee reporting to the board in SBI to assess the position of credit flow and manage the risk accordingly.

With the vast functions of banking institutions, the total assets of a bank are classified under the four groups such as loss assets, doubtful assets, sub-standard assets and standard assets on the basis of time period during which the assets remain NPA and in case of term loans the duration which the principal and interest remain overdue. On the basis of the quality of the assets, prospects of the realization of the security and the erosion overtime in the value of security charged to the banks, the banks should make adequate provisions for such assets. Thus, the period of review of provisions depends on the time period of NPAs and term loans.[3]

TABLE.3 THE PERIOD OF REVIEW OF PROVISIONS

Periods	No. of Respondents	Percentage
Quarterly	20	50.00
Half-Yearly	1	2.50
Annually	19	47.50
Total	**40**	**100.00**

FIGURE: 3



Against this conceptual understanding the respondents from the sample organization for the study were contacted to give their perception on the period of review of provisions. As per the opinion of respondents it is understood that there is highest number of respondents (20) with percentage effectiveness of 50

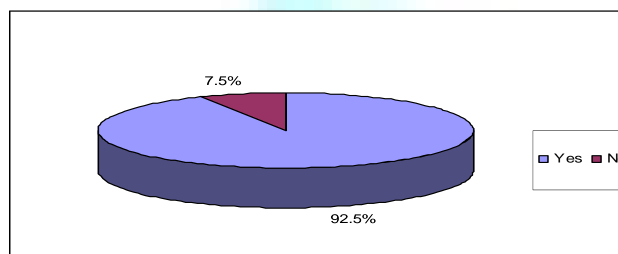
was observed for quarterly review, the next higher number of respondents (19) with percentage effectiveness of 47.5 was observed for annual review and only one respondent opined for half-yearly review with a percentage of 2.5. The response is interpreted as the period of review of provisions is for quarterly and annual in SBI to facilitate easy assessment of NPAs.

In the management of credit risk, Banks should establish overall credit limits at the level of individual borrowers/counter-parties, and groups of connected counter-parties/borrowers, groups of borrowers in one industry or type of activity. Establishment of exposure limits on individual borrowers, a promoter group or set of associate concerns and on exposure to an industry or economic sector is an important part of credit risk management process. These limits can be related to the size of capital of the lending bank. For instance, it can stipulated that exposure to a single company or a borrower should not exceed 25 per cent of the Bank's capital, exposure to a single group should not exceed 50 per cent of the Bank's capital and exposure to a single industry should not exceed 10 per cent of the Bank's total advances.

TABLE.4 LIMITS LAID RELATING TO CONCENTRATION OF RISK WITH SPECIFIC GROUPS OF BORROWERS

Response	No. of Respondents	Percentage
Yes	37	92.50
No	3	7.50
Total	**40**	**100.00**

FIGURE: 4



Against this understanding to elicit the respondents opinion from the sample organization on limits laid relating to concentration of risk with specific groups of borrowers are ascertained as that, there is highest number of respondents (37) with percentage effectiveness of 92.5 was observed with positive response and the remaining 3 respondents with a percentage of 7.5 are opined with negative response. The response is analyzed as the effective limits laid relating to concentration of risk with specific groups of borrowers in SBI, which has made the borrowers restricted in their borrowing capacity.

With the growing trend of credit flow, the management of credit risk has become complicated to convert ratings for different risk factors into identifiable prices, banks have to develop a concept of risk free return. Risk is normally defined as a variability of the rate of return. The risk adjusted price of credit for a unit can be:[4]

$r_K = I + n_K + d_K$

Where I = risk free rate of return

n_K = adjustment for industrial risk or firm risks.

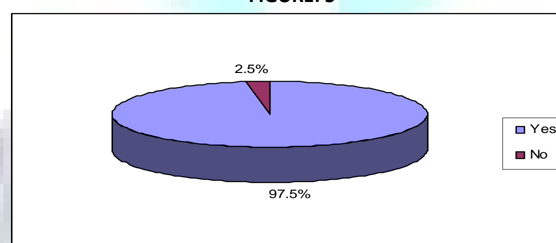
d_K = adjustment for management risk.

For large advances the decision of rating and pricing of credit should ideally be taken by a group of people who would individually rate the proposal and thereafter a combination would give the fair and unbiased price of risk for a proposal. The individual rating of each member would depend on his perception.

TABLE.5 CREDIT PRICING RELATING TO LEVEL OF RISK

Response	No. of Respondents	Percentage
Yes	39	97.50
No	1	2.50
Total	**40**	**100.00**

FIGURE: 5



From this the present study has been directed to focus on credit pricing relating to level of risk. Table.5 interestingly describes that there is highest number of respondents (39) with a percentage effectiveness of 97.5 was observed with positive response, whereas only one respondent with the percentage of 2.5 was opined as negative response. Therefore, the response is interpreted as the effective relationship of credit pricing to level of risk in SBI, which has taken initiative by SBI, to have a fresh look at the pricing mechanism is a step in the right direction.

In the management of credit risk there has to be a clearly defined set of processes which are in conjunction with a well defined policy. This policy is determined and approved by a credit risk management board constituted by the top management of the organization. The expected results of systematic management of credit risk will be possible for an organization when it follows the procedure. The results will be more effective and implementable under any context when a well-defined policy holds water. One such most important policy document to be prepared by a financial institution like SBI is on loans of various types. It must be clearly understood that the effectiveness of working of banking institutions will be exclusively on their performance in deposits and advances. Hence, it is important to concentrate on analyzing certain issues related to these factors so as to arrive at meaningful understanding of credit risk management in any organization.

The present study has been thoughtfully directed to include focus on ascertaining respondent responses on the loan policy. Table.6 describes that almost 100 per cent of respondents opined that sample organization followed meticulously their procedure for a well-defined loan policy document. It is observed from the data that none of the respondents was unaware of the initiative by SBI in this regard. Hence, it can be interpreted that the degree of transparency at all levels of hierarchy is positively ensured in the organization. Awareness and involvement of employees at all levels is a highlighting feature in the sample organization.

Banks must receive sufficient information to enable a comprehensive assessment of the true risk profile of the borrower. This should include:

- The purpose of the credit
- The sources of the repayment
- The nature and aggregate amount of risk of the borrower.
- The nature of collateral and its sensitivity to market developments and enforceability.
- The borrowers past repayment history, existing liabilities or obligations, current capacity to repay and future cash flow projections.
- For business loans, the borrower's business expertise, the status of the industry or sector and the borrower's position within that sector.
- Fair assessment based market reports of the integrity of the owners/management of the enterprise, or of the borrower in case of individual loans. Hence, the risk profile of credit portfolio monitored regularly.

TABLE.6 ROLE OF CREDIT RISK MANAGEMENT IN STATE BANK OF INDIA (N = 40)

SI.No.	Statements	Percentage of Response	
1.	Respondents opinion on loan policy document approved by the Board	YES	NO
		100	-
2.	Respondents opinion on Risk Profile of Credit Portfolio monitored regularly	100	-

Against this conceptual understanding the respondents from the sample organization opined on the monitoring of credit portfolio of risk profile as that almost 100 per cent of respondents were with positive response that is in SBI there is regular monitoring of credit portfolio of risk profile. Therefore, none of respondents was unaware of the initiative by SBI in this regard. Awareness of managers at all levels of monitoring is a highlighting feature in State Bank of India.

RISK CONTROL STRATEGIES

Each corporation operates in an external environment where actions or influences beyond its control may impact the success of the organization. This environment may vary substantially from market-to-market, country-to-country, as well as by product or service offered to customers. An operative approach towards the identification of risk requires accurate and timely information from a variety of disparate sources. This generally involves substantial investment in research targeted at external constituencies such as markets, customers, vendors, competitors, regulators, analysts, investors, technology, economies and political systems. The analysis performed must evaluate external factors in the context of the corporation's current and future strategic plan, to ensure that business goals are appropriate and achievable. It must also focus upon the functional aspects of the business that is products, services, manufacturing, distribution, transportation, innovation, process management, organization structure and other issues critical to the operations of the corporation. Finally, external factor impact upon the financial structure and performance of the corporation must be evaluated.[5]

PERCEPTION ON RISK CONTROL STRATEGIES

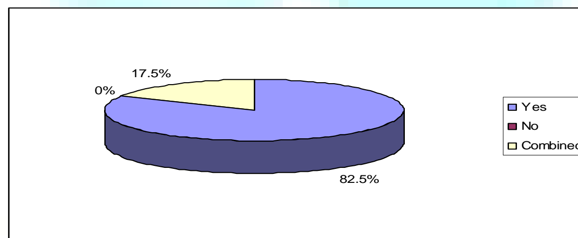
Risk control strategies have been laid down by the Reserve Bank of India for the guidance of the banks, Indian banks have not generally enunciated specific internal guidelines. Even in the absence of such comprehensive guidelines, risk limits have been prescribed for specific activities by the bank management.

In the management of risk there has to be a clearly defined set of processes such as risk taking and risk control that is risk managers and risk takers report to different controllers thus ensuring independence and segregation of risk management functions. The controllers in turn report to the top management level where congruence is established. Either the top level risk management committee based on the risk policy approves the risk limits keeping in view the banks risk taking capacity and the risk appetite. Thus, risk taking and risk control go hand in hand.

TABLE.7 MANAGER SEGREGATES THE RISK TAKING AND RISK CONTROL

Response	No. of Respondents	Percentage
Yes	33	82.50
No	0	0
Combined	7	17.50
Total	**40**	**100.00**

FIGURE: 6



From the Table.7 to elicit the respondents opinion the present study has been thoughtfully directed to include focus on the segregation of risk taking and risk control. Therefore, there is highest number of respondents (33) with percentage effectiveness of 82.5 was observed with positive response, whereas 7 respondents with percentage of 17.5 was responded negatively. Therefore, the response is described as the SBI positioned both risk taking and risk control separately to make the assessment easily.

Risk control guidelines should concentrate on specific strategies and procedures. They should consider what the Bank's specific underlying exposures are and ensure that these are monitored during the entire lifetime of the exposure. Therefore, the approvals were made in accordance with the Bank's written guidelines.

TABLE.8 RISK CONTROL STRATEGIES IN STATE BANK OF INDIA (N = 40)

SI.No.	Statements	Percentage of Response	
1.	Clear Written down Risk Control guidelines followed by SBI	YES	NO
		100	-

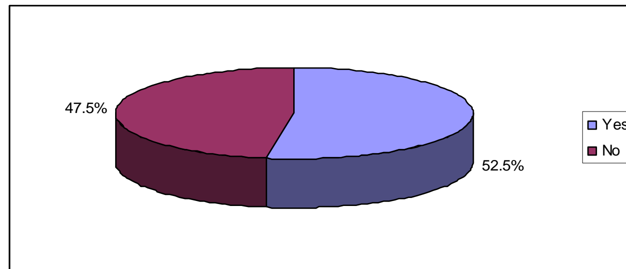
Against this the present study has been thoughtfully directed to focus on written down risk control guidelines. Table.8 explain that almost 100 per cent of respondents opined that sample organization followed the risk control guidelines. It is examined from the data that none of the respondents was unaware of the risk control guidelines in SBI. Hence, it can be interpreted that the degree of clear written down guidelines at all levels of risk is positively ensured in the organization.

Risk weighting based on risk weighting of country in which bank is incorporated and it is based on assessment of individual bank with claims of original maturity <6 months. Claims on banks of a short original maturity would receive weighting that is one category more favourable than the usual risk weight on the bank's claim.

TABLE.9 RISK WEIGHTS ARE SAME FOR ALL THE YEARS

Response	No. of Respondents	Percentage
Yes	21	52.50
No	19	47.50
Total	**40**	**100.00**

FIGURE: 7



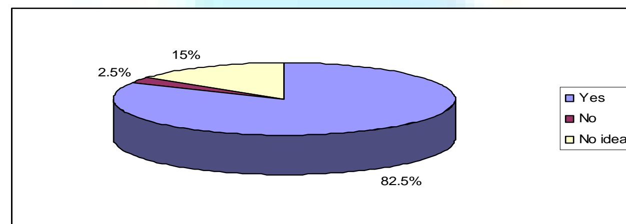
From this conceptual understanding the respondents from the sample organization for the study were contacted to give their perception on the risk weights are similar for the years. Therefore, there is higher number of respondents (21) with percentage effectiveness of 52.5 was observed with positive response and slightly lower number of respondents (19) with percentage of minute change 47.5 was observed with negative response. Thus, the response is explained as the risk weights may be same to some extent for all the years, this has given an opportunity to SBI to measure the amount of risk basing on the weights assigned.

Risk weighting of banks should be de-linked from that of the sovereign I which they are incorporated as this system penalizes banks with better quality asset portfolio incorporated in low rated countries, while benefiting weaker financial institutions in highly rated countries. Instead, preferential risk weights in the range of 20 per cent to 50 per cent on a grade scale could be assigned on the basis of risk assessment by domestic rating agencies.

TABLE.10 RESPONDENTS OPINION ABOUT ALL THE BANKS FOLLOWS SAME RISK WEIGHTS

Response	No. of Respondents	Percentage
Yes	33	82.50
No	1	2.50
No idea	6	15.00
Total	**40**	**100.00**

FIGURE: 8



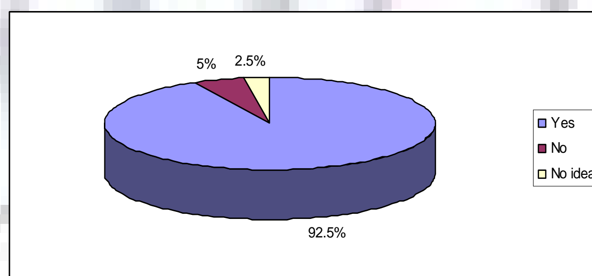
Against this conceptual understanding, respondents have opined that there is highest number of respondents (33) with percentage effectiveness of 82.5 was examined with positive response, whereas 6 respondents with 15 per cent was observed that they do not have any idea and only one respondent with 2.5 per cent was opined with negative response. Hence, the response is interpreted as all the banks follow same risk weights, which made SBI to assess the risk quickly for all the branches.

The mid office is particularly critical because it would perform the risk management functions which may include setting of risk modeling and monitoring parameters, real time monitoring of risk parameters, reporting of exceptions, monitoring realized and un-realized profits and losses, cash flows and accruals, and scrutinizing cost of carry to minimize the risk.

TABLE.11 THE CONCEPT OF MID OFFICE FOR RISK MANAGEMENT HAS BEEN INTRODUCED

Response	No. of Respondents	Percentage
Yes	37	92.50
No	2	5.00
No idea	1	2.50
Total	**40**	**100.00**

FIGURE.9



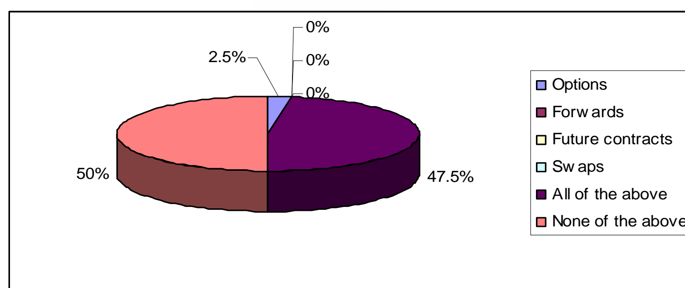
Against this it is understood as per the perception of respondents that there is highest number of respondents (37) with percentage effectiveness of 92.5 was observed with positive response, whereas 2 respondents with 5 per cent responded negatively and only one respondent with 2.5 per cent do not have any idea about the concept. Therefore, the response is analyzed as the implementation of the mid office is for risk management in SBI to monitor and control all the activities of risk.

Financial derivatives are important risk management tools with tangible benefits from their use. However, like all tools it is important that the user understands the tools and uses it to meet specific risk management objectives based on an analysis and understanding of the risks. While the risks are more complex they are in no way different from those associated traditional instruments such as credit risks, market risks and operating risks etc. Financial derivatives serve the useful purpose of managing risks selectively and even in unbundling risks from traditional instruments and activities. They only need to be understood as their composition, strengths and limitations are well known. Thus, the large banks and corporations are major players in the derivatives market, it is the smaller banks and firms with greater vulnerability to risks who need to protect themselves using derivative products because of their smaller capital base.

TABLE.12 THE KIND OF DERIVATIVES ARE USED TO MANAGE THE CREDIT RISK

Kinds of Derivatives	No. of Respondents	Percentage
Options	1	2.50
Forwards	0	0
Future contracts	0	0
Swaps	0	0
All of the above	19	47.50
None of the above	20	50.00
Total	**40**	**100.00**

FIGURE.10



From this conceptual understanding the respondents from the sample organization for the study were contacted to give their perception on the kind of derivatives were used to manage the credit risk in SBI. As per the opinion of respondents it is understood that there are highest number of respondents (20) with percentage of 50 was observed without following derivatives in their risk assessment, whereas there is a slightly lower number of respondents (19) with percentage of 47.5 are able to follow all kinds of derivatives in their risk assessment and only one respondent with 2.5 per cent is aware of using option kind of derivative in their risk assessment. Thus, the response is analyzed as that not following at maximum level the various kinds of derivatives and at minimum level could be following derivatives approach in SBI to measure and monitor various kinds of risks.

Ultimately, it is concluded that the performance of State Bank of India at the level of zonal office, head office and branch level is very satisfactory in managing, monitoring, controlling and assessing the risk.

SUGGESTIONS

Credit is the real activity that should be managed to generate profitability by keeping the three cardinal principles of banking in mind "Liquidity, Solvency and Profitability". With the thinning of spreads in the deregulated and liberalized economy, risk management has become all the more crucial. So proper mechanism should be put in place for anticipation and identification of risks, together with a suitable mechanism to deal with such risks in an efficient and pro-active manner.

To be successful, Credit Risk Management demands that every credit manager should get agitated with questions like – "Have all the risks identified?" "Have the odds changed?" "Have some risks vanished and new ones taken their place?" etc., that may pave way for a proactive shuffling of the credit portfolio. This becomes feasible if only every one becomes 'risk-conscious'. It is obvious that 'risk-consciousness' enable the organizations to raise right questions at right time resulting in right actions.

Majority of the respondents strongly felt that the system followed in the banks need a review in term of simplifying various forms used and procedures followed for sanctioning loan. Some of the respondents advice their banks to adopt the new models in their credit flow based on parameters.

Credit defaults can be avoided and can be covered by developing the credit derivatives market and trading of these instruments can be permitted subject to certain rules and regulations.

It is suggested that in credit granting application, appraisal, sanction, disbursement, control activities are strictly observed. Diversion of funds to be checked and need based assessment to be arrived to eliminate element of risk in the bank.

The applications of borrowers which are sent by branches to head offices credit cell department such as RACPC and SMECCC should be observed keenly without arising any risk.

Bank must operate within sound well-defined credit granting criteria. These criteria should indicate the bank target market and a thorough understanding of the borrower as well as the purpose and structure of credit and its source of repayment.

It is suggested that the bank should establish overall credit limits at the level of individual borrowers/counterparties, and groups of connected borrowers/counterparties in one industry.

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Hoping an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

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