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A Study on Credit Risk Management in State Bank of India

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Abstract: Credit Risk management underscores the fact that the survival of an organization depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and react to it. The objective of risk management is not to prohibit or prevent risk taking activity, but to ensure that the risks are consciously taken with full knowledge, purpose and clear understanding so that it can be measured and mitigated. It also prevents an institution from suffering unacceptable loss causing an institution to suffer or materially damage its competitive position. Functions of risk management should actually be bank specific dictated by the size and quality of balance sheet, complexity of functions, technical/ professional manpower and the status of MIS in place in that bank. Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.

Keywords: credit risk, risk management, credit policy

I. INTRODUCTION

State Bank of India (SBI), India's largest public sector bank, has consistently demonstrated its commitment to prudent banking practices, with credit risk management being a cornerstone of its operational strategy. As a leading financial institution, SBI recognizes the inherent risks associated with lending activities and has therefore implemented a robust credit risk management framework to mitigate potential losses and ensure the stability of its financial position. This framework encompasses a comprehensive range of policies, procedures, and guidelines that govern every aspect of the lending process, from initial credit assessment to ongoing portfolio monitoring. By adopting a proactive and forward-looking approach, SBI aims to minimize credit losses, optimize risk-adjusted returns, and maintain regulatory compliance, thereby safeguarding the interests of its stakeholders and contributing to the overall health of the Indian banking sector. Effective credit risk management is critical to SBI's success, as it enables the bank to balance its growth objectives with the need to manage risk, ensuring that its lending activities are aligned with its risk tolerance and appetite. Through its credit risk management practices, SBI demonstrates its dedication to maintaining the highest standards of banking excellence, upholding the trust of its customers, and contributing to the economic development of India. This discussion will provide an overview of SBI's credit risk management framework, highlighting its key components, objectives, and benefits, and underscoring the bank's commitment to prudent and responsible lending practices.SBI's board and risk management committee periodically review and approve credit risk policies.SBI studies each borrower carefully to see if they are likely to repay.They also check which industries or regions might have higher risks.They also spread loans across different industries and regions to avoid putting all their money in one place.SBI follow the Reserve Bank of India's guidelines for managing risks.This includes rules about how much money the bank should set aside for risky loans and how to handle loans.SBI tries to recover the money through legal processes or by restructuring the loans to make repayment easier.SBI ensures it lends money responsibly,keeps a close watch on borrowers,and has plans in place to handle risks.This helps protect the bank and it's customers from financial losses.If recovery isn't possible,The bank writes off the loan as a loss but sets aside money for such situations in advance.SBI keeps a close watch on borrowers to catch any early signs of trouble.Data analytics are used for predictive modeling and better decision making.Regularly tracking the performance of credit and loan's and identifying early warning signals.

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II. LITERATURE REVIEW

Research on State Bank of India (SBI) encompasses various aspects, including financial performance, risk management, digital transformation, customer relationship management, and regulatory compliance. Studies have examined SBI's credit risk management strategies, such as credit assessment and scoring models, risk-based lending, and portfolio monitoring.

Digital transformation and innovation have also been explored, highlighting SBI's adoption of mobile banking, digital payments, and fintech partnerships. Customer-centric initiatives, including customer satisfaction and loyalty programs, branchless banking, and employee training, have been investigated. Regulatory compliance and governance have been analyzed, focusing on Basel III implementation, risk governance, and anti-money laundering practices.

Key findings indicate SBI's strong financial performance, effective credit risk management, and digital transformation driving growth. Customer-centric initiatives have enhanced satisfaction and loyalty. Regulatory compliance ensures stability. However, gaps remain, including the impact of COVID-19, artificial intelligence in credit risk management, digital banking strategies, comparative analysis with private sector banks, and sustainability initiatives.

Sources include Gupta (2017), Jha (2020), Kumar (2020), Rajput (2018), Rao (2019), Sharma (2018), and Singh (2019), providing valuable insights into SBI's operations, strategies, and performance. These studies contribute to the understanding of SBI's role in the Indian banking sector and inform future research directions.

III. RESEARCH OBJECTIVES

1) To study the credit risk management operations in State Bank of India.
2) To study the different methods available for credit rating and credit risk policy of State Bank of India
3) To analyze the impact of credit risk management practice on banks profitability and sustainability.

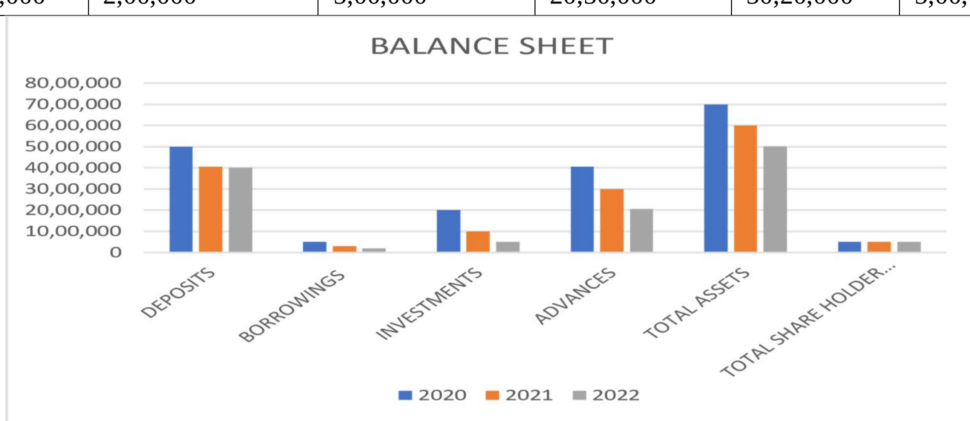
IV. RESEARCH METHODOLOGY

Methodologies used in the study are analytical and empirical.The empirical analysis is based on the statistical analysis of secondary data .The secondary data source include journals,magazines,books,websites,publication of various research agencies like CRISIL,AMFI,SEBI,UTI annual report etc.The data has been properly analyzed and reported to draw conclusion and inferences.The research entitled"analysis of credit pattern and creditor attitude towards state bank of india"is basically a descriptive type of research.

V. DATA ANALYSIS AND INTERPRETATION:

1) *Balance Sheet*

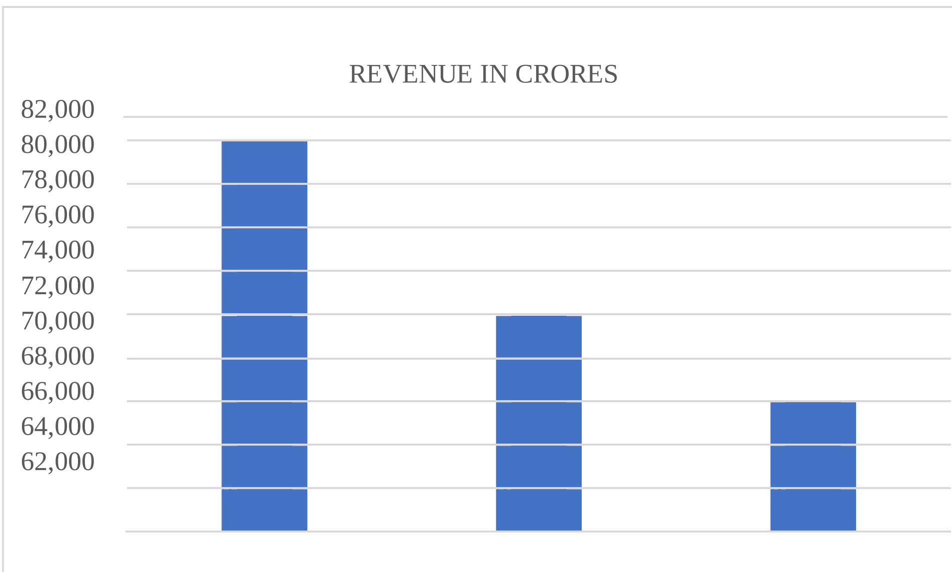
YEAR	DEPOSITS	BORROWINGS	INVESTMENTS	ADVANCES	TOTAL ASSETS	TOTAL SHARE HOLDER FUNDS
2020	50,00,000	5,00,000	20,00,000	40,50,000	70,00,000	5,00,000
2021	40,50,000	3,00,000	10,00,000	30,00,000	60,00,000	5,00,000
2022	40,00,000	2,00,000	5,00,000	20,50,000	50,20,000	5,00,000



INTERPRETATION: There has been a consistent decline in deposits from 2020 to 2022, indicating either reduced customer trust or reduced efforts in deposit mobilization.Borrowings have decreased over the years, which may indicate reduced dependency on external funds or improved internal resource generation.Investments have declined more over the three years, suggesting a more conservative approach to risk or a shift in focus to core activities.Advances have also decreased, which might impact profitability. It indicates a cautious approach in lending, potentially due to market risks.Total assets have consistently reduced, reflecting a decline in overall business operation.Total Shareholder Funds Remains constant at ₹5,00,000 for all three years.The unchanged shareholder funds indicate no significant capital infusion or profit retention during the period.

2) Sbi-Revenue

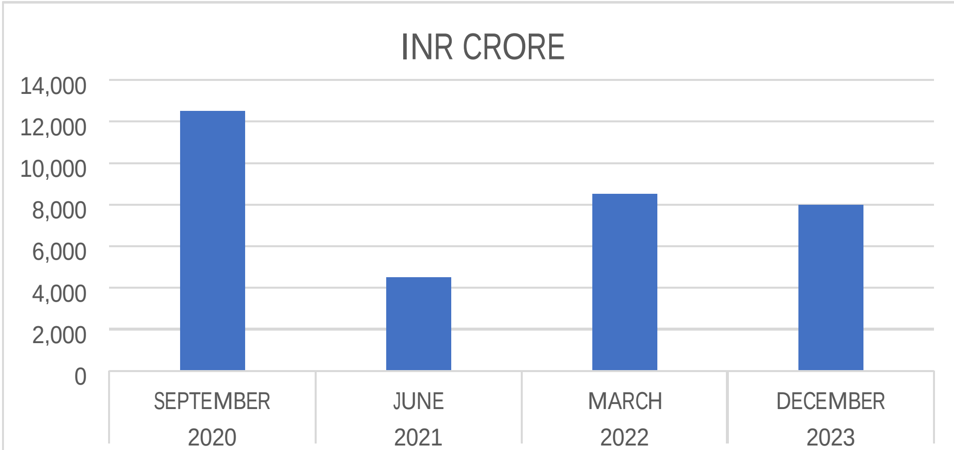
YEAR	REVENUE IN CRORES
2020	80,000
2021	72,000
2022	68,000



INTERPRETATION:
Consistent Decline:
The revenue has shown a downward trend over the three years:
A decrease of ₹8,000 crores (10%) from 2020 to 2021.
A decrease of ₹4,000 crores (5.56%) from 2021 to 2022.
This reflects a slowdown in the entity's revenue generation.

3) Sbi-Net Profit

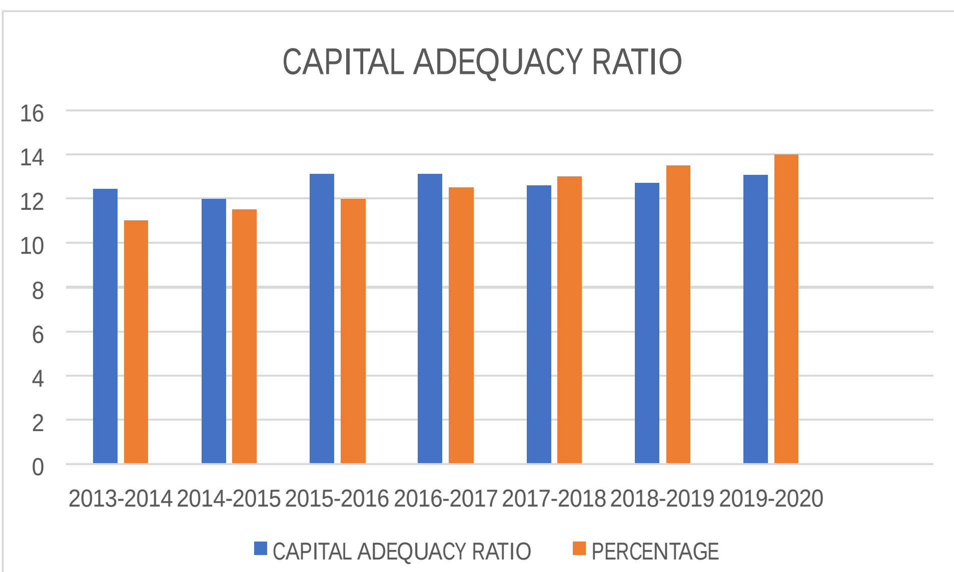
YEAR	MONTH	INR CRORE
2020	SEPTEMBER	12,500
2021	JUNE	4,500
2022	MARCH	8,500
2023	DECEMBER	8,000



INTERPRETATION:
The data shows a fluctuating trend over the years, with the highest value in 2020 and a low point in 2021.2020-2021: There might have been an external factor like a market slowdown or crisis leading to a sharp drop in June 2021.2021-2022: The recovery from June 2021 to March 2022 suggests improved market conditions or strategic growth efforts.2022-2023: The slight decline from March 2022 to December 2023 might indicate stabilization or a minor setback.

4) Capital Adequacy Ratio

YEAR	CAPITAL ADEQUACY RATIO	PERCENTAGE
2013-2014	12.44	11
2014-2015	12	11.5
2015-2016	13.12	12
2016-2017	13.11	12.5
2017-2018	12.6	13
2018-2019	12.72	13.5
2019-2020	13.06	14



INTERPRETATION: The CAR remains within a relatively narrow range, starting at 12.44% in 2013-2014 and ending at 13.06% in 2019-2020.There is a slight upward trend overall, indicating consistent efforts to maintain or improve the institution's financial stability.The peak CAR was 13.12% in 20152016, followed closely by 13.11% in 2016-2017.

Percentage Changes:

The CAR percentage requirement seems to increase steadily, from 11% in 2013-2014 to 14% in 2019-2020.This reflects possible regulatory changes or heightened standards for risk management over the years.

CAR Maintenance vs. Percentage Requirement:

Between 2013-2014 and 2015-2016, the institution consistently maintained CAR above the regulatory requirement.From 2017-2018 onwards, the gap between actual CAR and required CAR narrowed, to direct potential challenges in exceeding new regulatory benchmarks.20182019 to 2019-2020:CAR grew marginally from 12.72% to 13.

VI. FINDINGS

State Bank of India (SBI) employs a comprehensive credit risk management framework to safeguard its lending activities and maintain the health of its credit portfolio. The bank integrates risk assessment into both pre-sanction and post-sanction credit processes, leveraging a Credit Audit System for high-value exposures exceeding ₹20 crore. SBI's gross NPA ratio stands at 4.72%, and net NPA ratio is 1.21%, reflecting effective recovery mechanisms. Sectoral lending is diversified, with substantial focus on home loans, personal loans, and priority sectors, though its direct agricultural lending is relatively lower compared to peers like Canara Bank. Recommendations for improvement include enhancing agricultural credit policies, revising interest rates, and updating credit policies periodically to adapt to market needs. Overall, SBI's strong credit risk management policies support sustainable growth while minimizing credit risks.

VII. SUGGESTIONS

1) 1.Check Borrowers Carefully:Do a deep check on borrowers' financial history and ability to repay.
   Use advanced tools and technology to predict if a borrower might default.
2) Keep a Close Watch:Monitor borrowers regularly to spot signs of trouble early.
   Update policies to address new challenges in the economy.
3) Use Risk Ratings:Rate borrowers based on their ability to repay loans.
   Test how the bank's loans would perform in bad economic conditions.
4) Recover Loans Faster:Act quickly on overdue loans by engaging with borrowers early.
   Use legal tools to recover money when necessary.
5) Train Your Staff:Train employees to assess risks better and handle challenging situations.
   Educate borrowers about managing loans responsibly.
6) Take Insurance for Loans:Suggest borrowers get credit insurance to cover risks in case of unexpected events.
7) Follow the Rules:Ensure all practices comply with RBI guidelines.Be honest about reporting non-performing loans.
8) Think About Long-Term Risks:Consider environmental and social risks, as they can impact borrowers' ability to pay.
9) Work with Other Banks:Share information about borrowers with other banks to understand risks better.
10) Use of Credit Insurance:Credit Insurance Policies: Encourage borrowers to take out credit insurance to protect against unforeseen circumstances that might lead to default.

These steps can help SBI reduce loan defaults, protect its money, and make smarter lending decisions.

VIII. CONCLUSION

The credit risk management of SBI focuses on ensuring that the money it lends is safe and borrowers can repay on time. To do this, the bank carefully evaluates the financial background of borrowers, their repayment capacity, and the value of assets offered as security. It uses tools to rate borrowers based on risk and adjusts loan terms, like interest rates, accordingly. SBI also spreads its loans across various industries and regions to reduce the impact of any single borrower or sector failing. Regular monitoring of loans helps the bank detect early signs of trouble and take action to recover its funds. Overall, SBI's credit risk management ensures financial stability while supporting customers and businesses responsibly. SBI has created a system to carefully check and reduce the risks that come with lending money.

The bank follows strict rules to decide who can get loans and makes sure to watch how borrowers are doing. This helps reduce bad loans, also called non-performing assets (NPAs). SBI also spreads its loans across different businesses and regions to lower the chance of large losses. Even though the bank works hard to manage risks, it still faces challenges like changes in the economy and new government rules. To handle these problems, SBI needs to use new technology, improve its systems for predicting risks, and act quickly when it sees potential problems. Overall, SBI has a strong plan for managing credit risks, and by keeping its focus on improving and preparing for the future, the bank can continue to grow safely and serve its customers better.

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BOOKS:

[1] "Credit risk management"by S.Ramakrishnan (2017)-this book provides an overview of credit risk management practices,including those used by SBI.

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ARTICLES:

[1] "Credit risk management in indian banking sector :A Study of SBI"by kumar et al.(2020)this article analyses the credit risk management practices used by SBI and provides recommendations for improvement.

[2] "An analysis of credit risk management practices in SBI"by singh et al.(2019)-this article analyses the credit risk management practices used by SBI and identifies areas for improvement.

RESEARCH PAPERS:

[1] "Credit risk management in SBI: A comparative study"by sharma et al.(2018)-this research paper compares the credit risk management practices used by SBI with those used by other Indian banks.

[2] "An empirical Analysis of credit risk management in SBI"by gupta et al.(2017)-this research paper provides an empirical analysis of the credit risk management practices used by SBI.

WEBSITES:

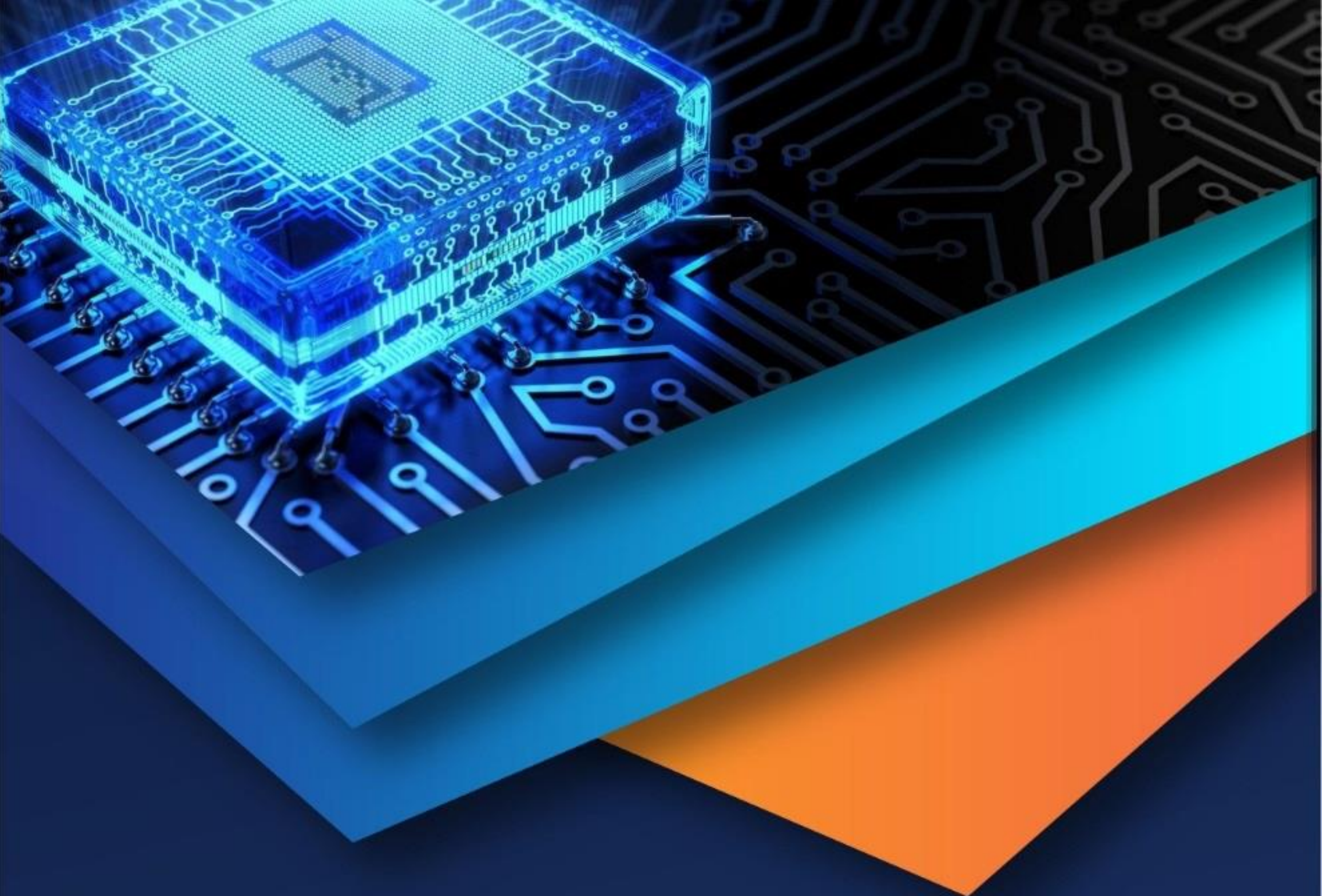
[1] State bank of india(SBI) 2.Reserve bank of india(RBI) JOURNALS:

[2] Journal of risk management

[3] Journal of credit risk

[4] Journal of Banking and Finance

[5] Indian Journal of Banking and Finance



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