A study onRisk Analysis and management in SBI and ICICI Banks.

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Abstract

Banks plays an important role in the economic growth and development of a country. Banks are the development drivers. In view of growing difficulty of banks business and the vibrant operating environment, risk management has become very significant, especially with SBI and ICICIbanks. Risk managementtechniques assumes importance considering the deregulation of Indian economy, technological innovations and risk exposure of banks. The State Bank of India (SBI) is one of the leading banks of public sector in India. ICICI Bank is second largest and leading bank of private sector in India. The purpose of the study is to examine the risk management of SBI and ICICI Bank, public sector and private sector respectively. The future of banking will certainly rest on risk management dynamics. Onlythose banks that have efficient risk management system will survive in the market in the longrun. The effective risk management is a critical component of for long-term success of a banking institution.

Introduction

The Bank is exposed to various risks that are an integralpart of any banking business. The major risks includes are creditrisk, market risk, liquidity risk and operational risk. The Bank controls these risks by their policies and procedures, which measures the risk, assesses the risk, monitors the risk and manages theserisks systematically through all its portfolios.Risk Management is a tool that is used for firstly to identify, then to analyze and last to respond to a particular risk.Risk management in banking includes both common practices whichshould be a normal part of a bank's daily operations, and specialpractices which are implemented at the senior management level.

Literature Review

Deepak Tandon, NeelamTandon and Anurag Arora (2009),in their study on "Profitability and Efficiency of Indian Bank" with the objectives 1) To analyze the productivity efficiency parameters in Indian Banks. 2) Comparative study regarding efficiency analysis and productivity 3) measurement in terms of financial key ratios. 4) Analysis in terms of efficiency, management review, management audits,operational review, comprehensive staffing models using Spearmen'srank correlation test. The findings of the study were 1. As far as credit deposit ratio is concerned, there was a negativecorrelation of -0.048 between the ratios of these two banks. The creditdeposit

ratio of ICICI Bank was higher than PNB.**Rao (2002)**analyzed the impact of new technology on banking sector.The advent of technology both in terms of computers and communications hasbeen changing totally the ways and doing banking business. Technology hasopened new vistas and in turn brought new possibilities every day for doing thesame work differently and in most cost-effective manner.**Leeladhar (2006)** in his studyentitled, "Indian Banking - The ChallengesAhead" shown that in the recent years, there has been a considerable widening anddeepening of the Indian financial system, of which banking is a important component. He concluded that banks need to supplement thiswith sophisticated and robust risk management

Need for the study
Having reviewed previous research studies, it is found that many of the researchers have focused their attention on the aspects of credit risk, market risk, etc. No research study has covered intensively on the risk analysisand management in SBI and ICICI. It is hoped that the present study will bridge the gap related to risk analysis and management issues.

Objective of the study
1. To analyze the opinions of the bank managers regarding the risk analysis and management in SBI/ICICI Bank.

Null Hypothesis (Ho)

1. There is no significant relationship between identifying / prioritizing its main risks and appropriate risk control for the risks that it faces at SBI /ICICI Banks.

Research Methodology
Research is a scientific and systematic search for pertinent information. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet or refinement over the existing findings of the earlier research work. The opinion on risk management by branch managers is analyzed.

Methods of Data Collection: The task of data collection begins after a research problem has been identified. The study is basically empirical in nature. The required data for the study was collected from both primary and secondary sources.

The Primary Source: Data was collected with the help of well-structured questionnaires. Separate questionnaires were prepared and circulated among (i) branch managers if SBI / ICICI Bank. The questionnaires contained both types of questions i.e. open ended and closed ended.

Tools for data analysis: The objective of empirical analysis is to present the opinion of the respondents (branch managers). The views were obtained and summarized by administrating a well-structured questionnaire. In addition direct personal interviews with few respondents were also conducted.

Here an attempt has been made to analyze relationship between identifying or prioritizing its main risks and appropriate risk control for the risks that it faces at SBI and ICICI Banks.

Table: 1.1

SBI / ICICI bank takes significant steps to keep up to date with current risk management trends

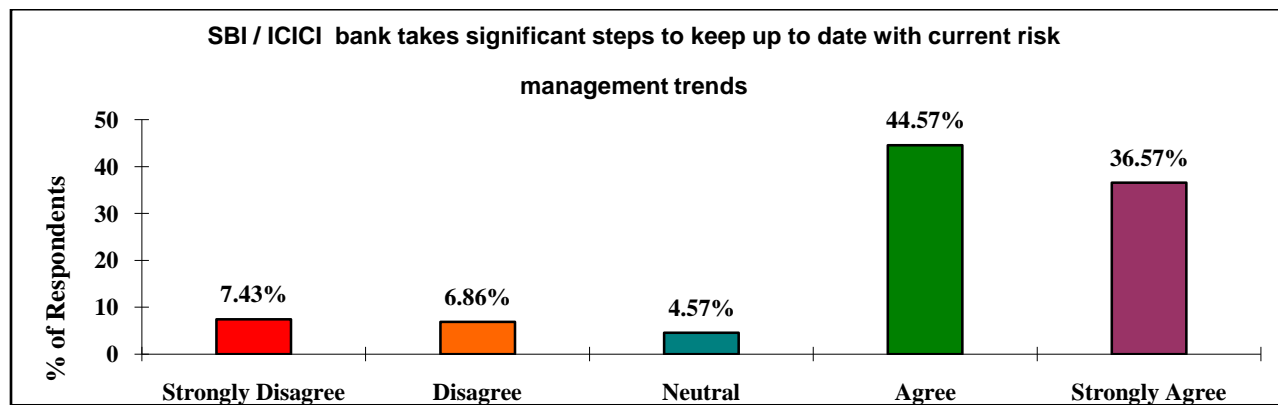| Opinion	No. of Respondents	Percentage (%)
Strongly Disagree	26	7.43
Disagree	24	6.86
Neutral	16	4.57
Agree	156	44.57
Strongly Agree	128	36.57
Total	350	100

Source : Primary Data

Table-5.63 reveals the opinions of the respondent on the SBI / ICICI bank takes significant steps to keep up to date with current risk management trends. The majority of the respondents with (44.57%) have agreed with the statement. This is followed by (36.57%) of respondents, who have strongly agreed. However, (6.86%) of the respondents expressed their disagreement. A Meager of (7.43%) respondents have strongly disagreed. Whereas (4.57%) of respondent have neither agreed nor disagreed. It

can be concluded that SBI / ICICI bank takes significant steps to keep up to date with current risk management trends.

Table-1.2

SBI / ICICI bank's level of risk control is appropriate for the risks that it faces

Opinion	No. of Respondents	Percentage (%)
Strongly Disagree	22	6.29
Disagree	23	6.57
Neutral	21	6.00
Agree	168	48.00
Strongly Agree	116	33.14
Total	350	100

Source : Primary Data

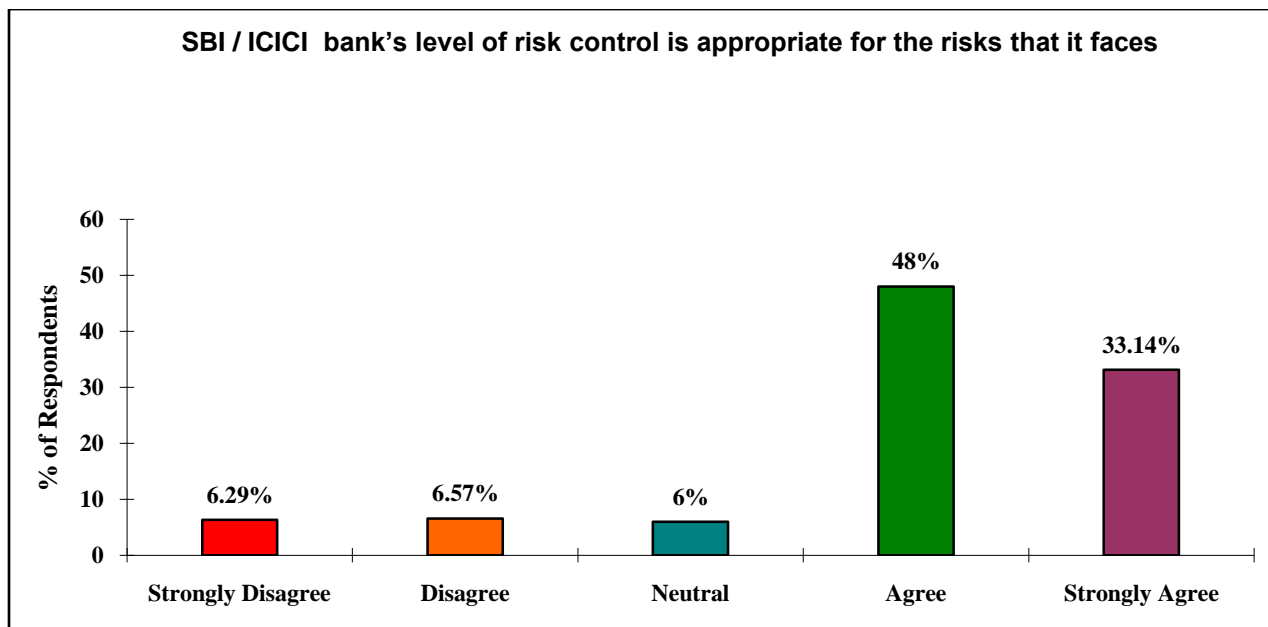SBI / ICICI bank's level of risk control is appropriate for the risks that it faces

Table-5.64 sets out the opinion of the respondents on SBI / ICICI bank's level of risk control is appropriate for the risks that it faces. Majority of the respondents with (48%) have agreed with the statement. This is followed by (33.14%) of respondents, who have strongly agreed. However, (6.57%) of the respondents expressed their disagreement. While (6.29%) of respondents have strong disagreed, only (6%) of respondent have neither agreed nor disagreed. It can be concluded that SBI / ICICI bank's level of risk control is appropriate for the risks that it faces.

KOLMOGOROV-SMIRNOV TEST

Aim: To test whether there is any association between up to date with current risk trends and level of risk control at SBI / ICICI banks.

Null Hypotheses (H0): There is no significant relationship between up to date with current risk trends and level of risk control at SBI / ICICI banks.

Alternative Hypotheses (H1): There is a significant relationship between up to date with current risk trends and level of risk control at SBI / ICICI banks.

Table showing Data

Up to date with current risk trends / level of risk control at SBI / ICICI banks	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Strongly Disagree	4	5	3	8	6	26
Disagree	5	4	4	7	4	24
Neutral	6	5	2	1	2	16
Agree	5	6	6	125	14	156
Strongly Agree	2	3	6	27	90	128
Total	22	23	21	168	116	350

Calculated weighted average

Up to date with current risk trends / level of risk control at SBI / ICICI banks	Strongly Disagree			Disagree			Neutral			Agree			Strongly Agree		
	X	W	XW	X	W	XW	X	W	XW	X	W	XW	X	W	XW
Strongly Disagree	4	1	4	5	1	5	3	1	3	8	1	8	6	1	6
Disagree	5	2	10	4	2	8	4	2	8	7	2	14	4	2	8
Neutral	6	3	18	5	3	15	2	3	6	1	3	3	2	3	6
Agree	5	4	20	6	4	24	6	4	24	125	4	500	14	4	56

Strongly Agree	2	5	10	3	5	15	6	5	30	27	5	135	90	5	450
Total	22		62	23		67	21		71	168		660	116		526

Weighted average and rank

Factors	Weighted average	Rank
Strongly Disagree	2.82	5
Disagree	2.91	4
Neutral	3.38	3
Agree	3.92	2
Strongly Agree	4.53	1

Kolmogorov-Smirnov Test

F	CF	F0(X)	E	CE	Fe(X)	F0(X)-Fe(X)
4.53	4.53	0.26	3.515	3.515	0.20	0.06
3.93	8.46	0.48	3.515	7.03	0.40	0.08 (Dmax)
3.38	11.84	0.67	3.515	10.55	0.60	0.07
2.91	14.76	0.84	3.515	14.06	0.8	0.04
2.82	17.58	1	3.515	17.58	1	0
17.58			17.58			

F = Observed frequency.   CF = Cumulative frequency.
E = Expected frequency.   Dmax = Maximum deviation.
H0 = Null Hypotheses.   H1 = Alternative Hypotheses.
n = Sample size.

Calculated value of Dmax = 0.08
Table value @ 5% level of significance $= 1.36/\sqrt{n}$
$$= 1.36/\sqrt{350}$$
$$= 0.072$$

Result: Calculated value of Dmax (0.08) is greater than the table value (0.072), Hence H0 is rejected and concluded that there is a significant relationship between up to date with current risk trends and level of risk control at SBI / ICICI banks.

Conclusions

A properly structured risk identification, analysis, and implementation process can reduce the risks associated with SBI/ICICI banks and it need to develop properly educational programs and workshops. Risk analysis and management is a critical measure for the success for banks.Most of the risks in the banking business are interrelated. As Investment risk, liquidity risk, and cost of funds risk are all inter related in the management of the investment portfolio, gaps, spreads, and maturities. One

important analysis of risk is between credit risk and solvency risk. It is that loan losses that result in charge-offs against capital.

Suggestions

1. It is suggested that SBI / ICICI Banks shouldhave effective control andmonitoring system for operational risk on an integrated basis and its regular reporting is done to the senior management.

2. It is suggested that SBI / ICICI Banks should provide procedural manuals in all SBI/ICICIbanks to all areas of bank operations.

3. It is suggested that SBI / ICICI Banks should have a separate department for risk managementand allot responsibility of the same on few senior persons of the banks.

References

1. Deepak Tandon, NeelamTandon and Anurag Arora (2009) "Profitability and Efficiency of Indian Bank", July 2009, Published in the book – "modern banking in India", by New Century Publication.

2. Rao, N.V. (2000), 'Changing Indian Banking Scenario: A Paradigm Shift,' IBA Bulletin, Vol. XXIV No. I, Indian Banks' Association (IBA), Mumbai, pp. 12-20.

3. Leeladhar, V. (2006), "Indian Banking – The Challenges Ahead", PNB Monthly Review, January, pp.3-7.