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A STUDY OF RISK MANAGEMENT POLICIES AND PRACTICES OF SBI

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ABSTRACT

In day-to-day life, the phrase "risk" refers to the probability of undesired, unpleasant, or even disastrous future results that are associated with human activity or inactivity. These outcomes are tied to the fact that humans either act or don't act. The development of technological capabilities, the growth of product offerings, and deregulatory policies that foster higher competition are all contributing factors to the increasing complexity of the banking industry. To put it another way, banking is a profession that is fraught with danger. Because of this, efficient risk management is a need that should be given the utmost attention. When compared to how prepared it was for the implementation of Basel I, the banking system in India is far more prepared for the implementation of Basel II. As a direct result of the Basel II Accord, new prudential measures, such as capital adequacy and the identification of problematic loans, were introduced by the banking industry. In recent years, some financial institutions have promoted senior executives to head up official risk management departments. These departments report directly to the institution's chief executive officer. A crucial component of effective risk management is the ability to analyze potential threats and formulate appropriate responses and courses of action. Considering this, a study was carried out to highlight the NPAs position of SBI and associates as well as capital adequacy ratio after the implementation of Basel II Accord to focus on the risk management practices in State Bank of India (SBI) and associates for the period of six years from 2007-08 to 2012-13. This study covered the period from 2007-08 to 2012-13. The years 2007-2008 through 2012-2013 were the ones that were looked at for the purposes of this study. Because of this, an efficient method of risk management is an absolute need currently.

Keywords: *Risk management, Credit risk*

INTRODUCTION

The key areas of concern were subjected to a Root Cause Analysis, and the results of that analysis are presently being incorporated into efforts to improve both the product and the process. In addition to this, it has conducted a Customer Satisfaction Survey as well as a Depositor Satisfaction Survey, and it is now using the findings of these surveys to strive to enhance the entire experience that its customers have when dealing with the company. E-Town hall meetings were organized around the country at a total of 523 centersto connect with consumers, and during these sessions, feedback from customers regarding items and processes was received. Throughout the course of this year, the employees of your bank will participate in a massive knowledge development initiative that is being referred to as "Project Utkarsh." This programmed aims to increase both the level of knowledge possessed by the frontline workers as well as the quality of the experience that is offered to consumers to better meet their needs. In addition to this, it has created something that is known as the "Customer Service Index" tocategories its branches according to the level of care that they give for its customers. This index serves as an encouraging and motivational factor for the branches. Using the CRM Tool, your financial institution is now moving towards the application of

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analytics and artificial intelligence. The digital tools and technology that are now accessible, in the opinion of SBI, have the potential to bring about a dramatic transformation in the customer experience in the very near future. It has supplied two 8-digit Contact Centre Toll Free numbers that are easy for customers to remember (18001234 and 18002100), which is done for the convenience of the company's customers. In addition to this, it has developed a simplified IVR Menu that is 5 by 5, which enables seamless and simple navigation to improve the entire experience of the customer. This was done to make the customer's experience more positive overall. During these hard times, Your Bank has reacted to the demands of its client base by offering six more Registered Mobile Number based services (on a trial basis in two telecom Circles), for a total of eleven services. This brings the number of services that are based on a Registered Mobile Number to a total of eleven. Most of the client base has benefited from these offerings. In addition, PSB Doorstep Banking services, which make banking easier for customers, are driven by Your Bank, the driving force behind the PSB Doorstep Banking services. They will be able to make use of several doorstep services, including the opportunity to submit their life certificates, cash withdrawal facilities, and account statements, among other things, if they make use of the DSB Services.

Your financial institution has implemented a cutting-edge customer relationship management (CRM) solution, which incorporates a comprehensive complaint management system (CMS) as an essential component of the overall system. The stakeholders of your bank will have a better capability to engage with their customers because of the 360-degree picture of those clients that the CRM system provides. Customers can register their complaints and receive their comments, recommendations, and inquiries through several channels thanks to the Customer Relationship Management System (CMS), which includes your bank's Branches and Offices, as well as the Contact Centre, Website, SMS, and Email. Customers may also use these channels to ask questions and make suggestions. The State Bank of India provides customer service in Hindi, English, and ten other key regional languages through its round-the-clock contact centers, which operate 24 hours a day, seven days a week, and 365 days a year from four unique geographical locations. In addition to these languages, the State Bank of India also provides customer service in 10 additional major regional languages. Your financial institution has established specializedCentralized Complaints settlement Centers at the level of the Local Head Office to enhance the degree of quality that is achieved in the resolution of customer complaints. The fast and proper resolution of concerns brought up by consumers is the primary area of concentration. Your financial institution has developed a strategy to achieve this objective by putting in place a process that allows customers to provide feedback about the way their complaints have been handled. You Bank has also built a system that enables staff to visit branches secretly to evaluate the quality of customer service and take corrective action, if required, if it is found to be lacking. This system was created for the bank to take corrective action if the quality of client service was discovered to be insufficient. In addition to this, it conducts Root Cause Analysis on a continuous basis across the main complaint categories and makes the required modifications to both the product and the process to reduce the number of complaints that are received in the future.

Your financial institution engages in risk management, which entails locating hazards, evaluating those risks, quantifying those risks, and finding ways to reduce or eliminate those risks. The basic

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objective of risk management is to mitigate any negative impact that exposure to hazards may have on a company's profitability and capital. Your bank is susceptible to a variety of risks that are intrinsically connected with the financial services sector, including those risks. Among the most serious threats are those posed by credit risk, market risk, liquidity risk, and operational risk, which also includes the risk posed by information technology. Your financial institution is entirely committed to building an environment that encourages heightened risk awareness on all levels, and they are working very hard to achieve this goal. In addition to this, it attempts to ensure the avoidance of or reduction in the effect of a variety of risks by continually enhancing the appropriate security measures, which include measures related to cyber security. Because it has policies and processes in place to access, analyze, monitor, and manage these risks in a systematic manner across all its portfolios, your bank is among the leaders in the industry when it comes to the adoption of advanced strategies for credit, market, and operational risk. This is one of the reasons why your bank is among the leaders in the industry. Both the enterprise risk management project and the group risk management project have been kicked off by the State Bank of India. Both projects are being carried out with the support of outside consultants to embrace the best practices that are now being used all over the globe.

OBJECTIVES OF THE STUDY

The following is a list of the goals that this study aims to accomplish:

1. To examine an overview of risk management in the banking industry.
2. To have access to several studies those have been carried out on risk management in the banking sector.

Risk Management Framework:

The Company's risk management system is founded on the pillars of identification, measurement, control, and mitigation of various risks, as well as reporting to the Top Management. These tenets are all interconnected. The Company makes its business decisions using a committee-based approach, and to ensure effective risk management, a well-defined risk management architecture that includes clearly delineated roles and duties has been put into place.

Role as Pension Fund Manager (PFM)

The Company has separate Investment Management Agreements (IMA's) with the NPS Trust for the management of Government Sector NPS on 18.04.2012 and for the management of Private Sector NPS on 25.03.2015. These agreements were entered into for the purpose of managing NPS funds. The Investment Guidelines provided by PFRDA and the Investment Policy adopted by the Board of Directors of the Company serve as the governing documents for all investment-related operations. Marking the investment portfolio to market is a mandatory requirement, and the NAV must be published daily. As a direct result of this, the investments that are made are subject to a variety of hazards, including market risk, credit risk, liquidity risk, and operational risk.

Risk Limits, Monitoring & Reporting:

Market Risk a) Limit:

- When determining whether to make an investment, the duration of the securities in question should be taken into consideration, considering the current state of the market.
- The threshold for management actions to be triggered:

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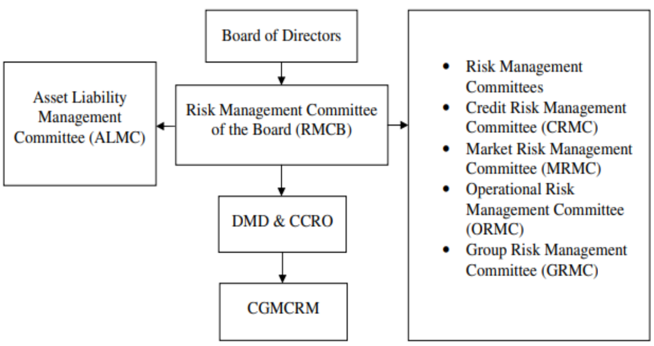
- Bonds: a 10% negative movement in the weighted average cost price of a bond, and a further 5% movement for every movement after that.
- Equities: a 15% downward shift in the stock's weighted average cost price.

If Bonds are involved, the Investment Sub-Committee (ISC) will evaluate the current situation and determine whether to continue with the investment or to withdraw. This information will be documented in the form of a note, and it will be communicated to the Risk and Investment Committee of the Board at regular quarterly intervals. When it comes to stocks and shares, the decisions about investments are determined by basic analysis. Once MAT is triggered in a security, the Investment subcommittee will examine whether it is beneficial to continue holding the asset, to add to the holding, or to leave the security partially or completely depending on the fundamentals and the perspective of the capital market. An in-depth investigation would be performed to determine the cause for the price correction based on the broader market condition and the fundamentals of the firm, and a plan would be devised to correct the position within an acceptable amount of time. If an existing holding is increased in a security that causes MAT to be triggered, the expansion of that holding ought to be supported in the note that is produced by the investment subcommittee. Further, if the prices remain on a downward trend for three consecutive quarters after the quarter in which the MAT was triggered, a gradual withdrawal from the position, either in part or in its entirety, would be carried out starting in the quarter that followed the quarter in which the MAT was activated. The position would be regularly monitored, and the board's Investment and Risk committee would be informed of any changes to the status of the position on a quarterly basis.

Risk Management in SBI

According to the chart, an independent risk governance structure has been established for the purpose of integrated risk management, which covers enterprise, credit, market, operational, and group risks. This framework conceptualizes the empowerment of business units at the operating level, with technology serving as the primary driver to enable the detection and control of risk at the point of genesis.

Chart – 1
Risk Management Structure



Risk Management Structure of SBI

Basel Implementation

After having already implemented the Standardized Measurement Method for Market Risk with effect from March 31, 2006, the bank migrated to the Basel II framework in accordance with RBI

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guidelines on March 31, 2008, with standardized Approach for Credit Risk and Basic Indicator approach for Operational Risk, after having previously implemented the Standardized Measurement Method for Market Risk with effect from March 31, 2006. On May 2, 2012, the Reserve Bank of India (RBI) announced guidelines for the implementation of Basel III capital regulations in India. The Bank is now working to comply with these principles and has begun the process of putting relevant mechanisms in place. These principles will become effective on January 1, 2013.

Non-Performing Assets (NPAs) Position in SBI and Associates

The major indications of credit risk are known as Non-Performing Assets (NPAs). The Capital Adequacy Ratio, often known as CAR, is another method for calculating credit risk. The CAR is designed to serve as a buffer against credit loss, which is established at 9 percent under the RBI specification firms in comparison to the Basel Committee stipulation of 8 percent.

Table no. 1 NPAs of SBI & Associates

Years	Priority Sector		Non-priority Sector		Public Sector		Amount
	Amount	% Tototal	Amount	% To total	Amount	% Tototal	
2007-08	7175	57.15	5193	41.36	188	1.50	12556
2008-09	8902	58.49	6222	40.88	97	0.63	15220
2009-10	8447	47.76	9250	51.75	177	0.99	17874
2010-11	10940	50.11	10646	48.77	244	1.12	21831
2011-12	15567	55.32	12567	44.66	6	0.02	28.140
2012-13	23900	52.30	21800	47.70	220	4.90	45700

Compliance Risk Management

Compliance with regulatory requirements and statutory mandates is now being given the greatest attention. Your Bank has, throughout the course of its history, established the essential instruments to identify compliance risks and guarantee that prompt remediation is carried out. The Compliance Policy as well as the Group Compliance Policy go through annual reviews tofulfill the expectations of the Regulators. Maintaining supervision on all compliance-related concerns is the responsibility of the Compliance Risk Management Committee, which is made up of senior executives from several business verticals and support roles. The Committee has regular meetings and provides all the internal stakeholders with the required assistance to ensure that they follow the regulations. In addition, the Compliance function examines all items as well as policies to guarantee that they are in accordance with regulatory criteria.

KYC / AML-CFT Measures

Your bank has been making significant strides towards implementing the KYC regulations and procedures throughout the bank as of late. In accordance with the most recent RBI Master Direction on Know Your Customer (KYC), the Board of Directors of the Bank has approved a Policy on Know Your Customer (KYC) Standards, Anti-Money Laundering (AML), and Combating of Financing of Terrorism (CFT) Measures. The method that the Bank takes to dealing with KYC, AML, and CFT concerns is incorporated into the Policy. The Customer Acceptance Policy, Risk Management Policy, Customer Identification Policy, and Transaction Monitoring Policy are all included in the Policy that your bank has created. Bank has taken action to execute the Prevention of Money-Laundering Act of 2002 as well as the Prevention of Money-Laundering (Maintenance of Records) Rules of 2005, both of which have been subject to many amendments over the years.

Insurance

Your bank is now looking into purchasing insurance policies that will protect its assets as well as other potential hazards. The coverage for this insurance extends to cash and valuables, as well as the properties of the bank, fraudulent transactions using debit cards and electronic banking, and cyber risk, amongst other things.

Premises

As a socially responsible corporation, SBI has always made it a priority to include environmental management practices into its operations. Your bank has started a variety of projects with the intention and dedication of making the world a greener place, which is very much in line with the goals of the nation. We are pleased to announce that we have reached a significant benchmark by successfully obtaining green building ratings from the IGBC for nine of our prominent buildings during the current fiscal year, bringing the total number of ratings to 18.

Official Language

Utilizing technology to provide banking services in Hindi and other Indian languages, the State Bank of India (SBI) is dedicated to promoting the usage of the Official Language within the Bank by utilizing a variety of channels that have been established by the Bank. Your Bank has been very proactive in promoting the usage of official languages by using a variety of creative measures.

CONCLUSION

The management of risks is not a novel concept. The moment a person starts working for a bank, their education on the dangers that are inherently associated with banking operations can begin. The management of risks is one of the most essential procedures, particularly for usage in financial institutions like banks. The Reserve Bank of India (RBI) has been providing instructions on a regular basis to ensure the continued financial health of each bank in the country. According to this point of view, the internal management of SBI and its partners must be evaluated on a regular basis for this potential danger. In addition, it is essential that the external agencies responsible for risk management and credit management engage with one another on a regular basis so that risks may be effectively managed and controlled. The current situation calls for a very effective risk management strategy. The purpose of this paper was to provide an overview of 1) the conceptualization of risk management, 2) the management of credit risk by SBI and associates, and 3) the components of credit risk management in SBI and associates that were analyzed, specifically Non-performing Assets for the period of six years and capital adequacy ratio for the period from 2008 to 2013 (a six-year period). Because of limitations on both our time and our ability to study, we have only gone over credit risk management. It is quite challenging to cover all the facets of credit risk management in SBI and affiliates since credit risk management is such a big and complex subject.

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