CHAPTER – 7

FINDINGS, CONCLUSION AND RECOMMENDATIONS
Present study is done on 40 (out of 213) Urban Co Operative Banks (USBs) from North, South, East, West and Central Gujarat. List of USBs in Gujarat is obtained from authorities and RBI Website. Out of selected forty USBs, 12 USBs were selected from North zone whereas from South, East, West and Central zones 7 USBs each were selected. Gross findings of the present study are given below.

7.1 FINDINGS

- For this study, senior management or board member or branch managers are interviewed and their views on risk management in their USBs are obtained. Almost all respondents are well experienced. Average experience of the selected respondents is around 29 years in this area.

- None of the bank having separate department for risk management. On an average three senior persons have allotted this responsibility.

- Selected UCBs had risk management system which is operated by few officers of the bank.

- USBs from North, South and West zones are routinely experienced Liquidity and Credit risks whereas USBs from East zone routinely experience Liquidity and operational risks. Major risks experienced by all UCBs are Market Risk, Credit Risk, Liquidity Risk and Capital Risk.

- Almost all UCBs are identifying their risk by comparing their numbers with the standards provided by Reserve Bank of India (RBI).

- Capital to Risk Asset Ratio (CRAR), Key Ratio Analysis and CAMEL Rating are most common techniques / methods adopted by selected UCBs to measure their risk.
• SWOT Analysis, Statement of Structural Liquidity, Maturity Ladder and Statement of Interest Rate Sensitivity are the techniques which are never used by any USB.

• Credit Portfolio view and Scenario Analysis models are employed by UCBs to identify credit worthiness of their customers. As per majority UCBs, Risk Management concept doesn’t increase the consumer satisfaction as they are unaware regarding this concept and methods adopted by bank.

• Few management persons from South, West and Central zones feel that their consumers are satisfied with bank’s risk management concept.

• Majority of the respondents are using Credit Portfolio View and Scenario Analysis Models for measuring risk of USBs. USBs which are using these two models to identify credit worthiness, their customers are more satisfied as compared to others.

• First priority of all UCBs for investment is Government Securities followed by Fixed Deposits, Nationalized Banks and Loans. Few of them are interested to deposit their money in private banks and Stock Market.

• When they ask regarding steps taken by their UCBs to minimize various risk, following answers are given by authorities / officers. None of the respondents have said that they are unsatisfied with risk management policy of their banks.

• Almost all respondents of the selected USBs said that their roles and responsibilities of various functionaries of the bank is well defined. None of the respondents have said that they are unsatisfied with roles and responsibilities defined by their banks.

• About half of the respondents said that risk controlling system on an integrated basis is good. There are 40% USBs which means their controlling system is average whereas remaining said it is poor.
• Half of the respondents said that quantification level is good. There are good proportion of respondents who mean their level of quantification is average whereas remaining said it is poor.

• As per one fourth respondents, qualitative measures are good whereas about half of them means their qualitative measures are average.

• All most all respondents are satisfied with the security level of backup of their bank data in vault and distant location.

• As per all respondents of selected USBs, their management is monitoring the implementation of policy and making necessary adjustments when and where require.

• All respondents also agreed that their managements have set limits for acceptable level of various risks.

• Majority of respondents, especially from North zone, said that there is an active involvement of management in sketching up of strategies for risk management in their USBs.

• **Credit Risk**: To minimize this risk, credit portfolio of borrower is analyzed. Financial statement and stock statement is watched. Income statements are closely analyzed.

• **Market Risk**: To overcome this risk, bank persons closely watching market trends and put market watch on daily basis.

• **Liquidity Risk**: To get lowest liquidity risk, UCBs maintaining liquidity on daily basis. They have developed contingency plans to overcome this risk.

• Operational Risk: Policy framework is made over the operation to minimize this risk. In addition of this, Operation Risk is maintaining at acceptable level throughout the year by managers.
• As per senior management of selected UCBs, degree of risk management policy approved by board of directors, quantification of system to quantify risk profile and security of backup data are very good whereas risk controlling system on an integrated basis and qualitative measures to capture risk profile are not up to the mark.

• In all UCBs, management has made necessary changed in monitoring & implementation of policy. Management has also set limits for acceptable level of various risks. Active involvement of management is seen to sketch strategies on risk management.

• Organizational roles and responsibilities of different functionaries regarding risk management is clearly defined in all UCBs and for them fix persons are allotted. There are some UCBs in which risk review function is dependent on risk taking units i.e. risk taking units review the risk functions.

Credit Risk Management

• Credit risk strategy and credit risk policy are reviewing regularly. Banks have effective control and monitoring system for credit risk on an integrated basis and its regular reporting is done to the senior management. As per all respondents (senior officers of UCBs) support system for measuring credit risk is quite good.

• Almost all respondents of selected banks are not satisfied with reviewing policy by their banks.

• As per all respondents controlling and monitoring of credit risk on an integrated basis and regular reporting to senior management by their USBs is effective.

• As per all respondents the support system in their USBs for measuring credit risk is good.
• Banks have credit policy duly approved by the BOD. Roles and responsibilities of individuals for credit policy are clearly spelled out in all selected UCBs.

• To avoid concentration of credit, credit limits for different client segments, economic sectors and geographical locations are duly set out by managements of selected UCBs. Periodically examination of the consistency and accuracy of risk rating is done by bank officials. Each UCBs have a defined minimum exposure limit for credit rating.

• All respondents say that the banks have well defined minimum exposure limit for credit rating. These banks do check the credibility of financial statements of borrowers regularly.

• Majority of the UCBs doesn’t have separate credit risk management committee to oversee credit risk management function.

• Lake of Credit Risk Management Department (CRMD) is a common problem in all selected UCBs. Banks also suffer with unavailability of pre – disbursement audit system for the credit facilities.

**Market Risk Management**

• Market risk strategies are approved by board of majority UCBs. They have also clear, comprehensive and well documented policies and procedural guidelines related to market risk. Business performance is taken into account while reviewing policy in all selected UCBs.

• About half of the selected USBs have clear, comprehensive and well documented policies and procedural guidelines relating to market risk.

• None of the USBs have a market risk management committee. There are very few USBs in which the market risk policy is regularly reviewed by the management at board
meetings in the light of financial results. None of the USB from South zone is reviewing this policy.

- About one third USBs take business performance into account while reviewing policy. None of the USB from Central zone takes it into account in policy review.

- About half of the USBs have defined market risk limits in the policy commensurate with the overall risk management policy. Among these USBs, majority are from North, East and West zones.

- Among selected USBs, 50% of the USBs’ boards receive regular reports on market risk measures. From South and North zones about two third of USBs’ boards receive regular reports on market risk measures.

- Only one third USBs use any system / model for market risk assessment. From North zone half USBs use any system / model for market risk assessment whereas one fourth USBs from East and West each and about 10% from Central zone use it for market risk assessment. None of the USB from South zone uses it for risk assessment.

**Operational Risk Management**

- As per all respondents, their USBs have proper periodical review of credit risk strategy and credit policy. They are satisfied with the frequency of review policy in their banks.

- Operational risk strategy and credit risk policy are reviewing regularly. Banks have effective control and monitoring system for operational risk on an integrated basis and its regular reporting is done to the senior management.

- As per all respondents (senior officers of UCBs) support system for measuring operational risk is quite good.
• Boards of all UCBs have established operational risk tolerance level and set strategic directions in relation to operational risk. Senior management has developed the operational risk management policy clearly in selected UCBs.

• Majority of the banks has capable policy to identify and assess the operational risk inherent in all material products, activities, processes and systems.

• Almost all banks have developed systems and procedures to institute effective operational risk management framework.

• Procedural manuals are available in all UCBs related to all areas of bank operations. As like the credit risk, there is no separate department for operational risk management in any selected UCBs.

• Only twenty percent of banks have procedural manuals in all areas of operations. Very few banks have separate function for operational risk management which is independent of internal audit.

• All banks have clearly defined roles and responsibilities regarding business operations and risk management. Respondents also confirm that there is an existence of a system of regular and timely reporting of pertinent information to senior management and the board of directors that supports the proactive management of operational risk.

**Liquidity Risk Management**

• All USBs have good review mechanism on credit risk strategy and credit policy.

• Liquidity risk strategy and credit risk policy are reviewing regularly. Banks have effective control and monitoring system for liquidity risk on an integrated basis and its regular reporting is done to the senior management. As per all respondents (senior officers of UCBs) support system for measuring liquidity risk is quite good.
• Majority of the UCBs had policy duly approved by BOD for liquidity risk management. This policy defines general liquidity strategy. Banks have established assets and liabilities management committee (ALCO).

• ALCO doesn’t comprise of senior management from each key area of operations. Banks have also procedural manuals for liquidity management.

• They also have contingency funding plan for cop up with liquidity issues. Majority banks have exceptions reporting system for liquidity risk in timely manner. Lake of reporting amounts of commitments drawn and balance to the ALCO is seen in almost all UCBs.

• More than seventy percent banks have exceptions reporting system for liquidity risk in timely manner.

7.2 CONCLUSION

After acceptance of risk management approach selected urban co-operative banks have made valuable changes in their management systems. Each UCB has appointed responsible person for risk management and put cut off (markers) for credit and liquidity. Though all banks have adopted risk management approach, as per them it is not influence satisfaction level of bank’s consumers due to their unawareness regarding this type of policy and its importance. Almost all UCBs are identifying their risk by comparing their numbers with the standards provided by Reserve Bank of India (RBI). Capital to Risk Asset Ratio (CRAR), Key Ratio Analysis and CAMEL Rating are most common techniques / methods adopted by selected UCBs to measure their risk.

Credit Portfolio view and Scenario Analysis models are employed by UCBs to identify credit worthiness of their customers. First priority of all UCBs for investment is Government Securities followed by Fixed Deposits, Nationalized Banks and Loans. Few of them are interested to deposit their money in private banks and Stock Market.
minimize credit risk, credit portfolio of borrower is analyzed. Financial statement and stock statement is watched. Income statements are closely analyzed. Market risk is handled by bank personals with close watch of market trends and put market watch on daily basis.

To get lowest liquidity risk, UCBs are maintaining liquidity on daily basis. They have developed contingency plans to overcome this risk. Policy framework is also made to minimize operational risk. In addition of this, Operation Risk is maintaining at acceptable level throughout the year by managers. Hence it can be concluded that all selected UCBs have adopted risk management to handle various risks. Due to adoption of these policy all banks reported satisfactory improvement in their financial and operational status. Thus present study concludes that risk management is important for each bank and their customers.

7.3 RECOMMENDATIONS

On the basis of above findings of present study, following recommendations are made for Urban Co-Operative Banks (USBs) of Gujarat state.

- As it is seen that none of the bank having separate department for risk management, it is strong recommendation for all USBs that they should quickly form a separate department to watch on risk management and allot responsibility of the same on few senior persons of the banks.
- All banks should review their results on regular intervals.
- For Risk analysis in addition to CRAR, Key ratio analysis and CAMEL rating methods, other methods like SWOT analysis should be adopted.
- Customers of USBs should inform on risk management procedures and techniques used by USBs. It increases satisfaction level and trust on bank.
• Managements of USBs should their risk controlling systems and it should be regularly reviewed by a responsible person.

• In risk management department, only qualified and experience persons should be included and they have to provide free hands for taking hard decision in emergency.

• To minimize credit risk, credit portfolio of borrower should analyze. Financial statement and stock statement is watched. Income statements are closely analyzed.

• To overcome market risk, bank persons should closely watching market trends and put market watch on daily basis.

• To get lowest liquidity risk, UCBs should maintain liquidity on daily basis. They should develop contingency plans to overcome this risk.

• Policy framework should make over the operation to minimize operational risk. In addition to this, operation risk should maintain at acceptable level throughout the year.

• All USBs should have clear, comprehensive and well documented policies and procedural guidelines relating to the market risk.

• Management should receive regular reports on market risk measures and review it with experts.

• For market risk assessment proper system or model should make in the bank.

• Assets and Liabilities Management Committee (ALCO) should be framed in each bank and it comprise of senior management from each key area of operations of bank.
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