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Credit Risk Management in Commercial Banks (A comparative study of commercial banks in India and Ethiopia)

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Abstract

The main objective off the present study is to identify, assess and compare the credit risk management practices in commercial banks of India and Ethiopia. Every commercial will have different risks like credit risk, liquidity risk, market risk, Interest rate risk, and operational risk etc... Among all Credit risk is the primary and default risk of all the commercial banks, where the particular risk cannot be separate or avoid from the functions of commercial banks. Effective credit risk management is the only solution in order to improve the financial performance of the banks. Most of the commercial banks will follow the standard practices to control the credit risk but still some significant differences are identified between commercial banks of India and Ethiopia. The present study is descriptive in nature and used primary and secondary data, primary data was collected through books, questionnaire, and secondary data was collected through books, journal, newspapers, financial statements of the banks and magazines etc…In order to identify the frequency of different risk factors and in order to collect the relevant data from the selected sample units researcher developed structure questionnaire and determined the sample size by using the purposive sampling technique, Multiple linear regression model used to analyze the data statistically, paired T Test to test the Hypotheses and interpreted the data using tables and graphs. At the end point researched identified that, comparatively credit risk management practices are good in commercial banks of Ethiopia and moderate in selected Indian commercial banks.

Key Words

Commercial banks, Credit Risk, risk management

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I. Introduction

Financial performance of any commercial bank depends upon the risk management practices that the banks adopted. In order to sustain in the current competitive environment and part of the penetration process, banks are implementing different network technologies to improve the convenient and customer satisfaction. Only banks with the strong risk management system and different tools will sustain in the financial market. Risk management is the process of identifying, measuring and evaluating the potential loss or threats to the bank. The main objective of risk management is to minimize the risk to the level accepted by commercial banks where the cost of particular risk management is also minimal. All commercial banks are exposed to different financial and non-financial risks like credit risk, liquidity risk, operational risk, liability risk, and interest rate risk etc... Among all the risks, credit risk will have significant impact on the financial performance of the banks. Credit risk is the possibility of losses resulting from barrower's failure to repay the loan or meet contractual agreement which results in cash flow disturbance.

Credit Risk called as default risk also and the financial loss will be incurred if a derivate transaction did not meet financial obligations in timely manner. Credit risk is the threat to a banker where it may not able to collect principle and interest amount partially or fully from the barrower as promised (Hempel and Simonson, 1999). Practically loans and advances are the biggest cause for the credit risk in most of the commercial banks (Dhakar, 2006). Banks minimize the credit risk through effective risk management that contains a comprehensive credit risk analysis based on scanning and monitoring of the most trustworthy loan applications, the level of collateral, portfolio of diversification and accurate loan pricing depending upon the borrowers' ability to repay the loan (Afriyie and Akotey, 2013).

II. Literature Review

National Bank of Ethiopia did a survey in 2009 on risk management profile of the commercial banks in Ethiopia, and stated that Irrespective of the strengths by Ethiopian commercial banks in the management of risks, weaknesses dominate Ethiopian commercial banking sector risk management. A survey study by the National Bank of Ethiopia (NBE) 2009.

Okan Veli safakli has studied the credit risk for the banking sector in Northern Cyprus, and identified that credit risk has significant effect on banking crisis previously experienced in the country, tough no provision for loan losses during the regulatory and supervisory stage of credits. Furthermore necessary preparation for technologist, administrative, know-how and qualified personnel should be made in accordance with Basel II framework and situation has been determined with credit risk ratio.Fatemi .A and Fooladi I, 2006 conducted research on current practices of the credit risk management in US based top 100 banking institutions, the study intended to shed light on the current practices of credit risk management in these firms. Questionnaires were prepared and distributed to headquarters in the USA and recognized that identifying counterparty default risk is the most important purpose served the credit risk models utilized and half of the institutions are successful in utilizing the risk models dealing with counterparty risk migration. Astonishingly, minority of banks presently uses either a proprietary or a vendor marketed model for credit risk management. Remarkably, those that utilize their own in-house model also utilize a vendor-marketed model. Not surprisingly, such models are more widely used for the management of non-traded credit loan portfolios than they are for the management of traded bonds.

Mekasha, 2011 did a research on credit risk and its impact on the performance of commercial banks in Ethiopian, researcher selected 6 commercial banks and used return on asset as an alternate of performance and nonperforming loan to total loan ratio, loan provisions to nonperforming loan ratio, loan provision to total loan ratio and loan provision to total assets ratio used as an alternate of credit risk measures. The result shows that there is significant relationship between nonperforming loan to total loan ratio and loan provision to total loan ratio with return on asset however nonperforming loan to total loan was statistically significant. Whereas loan provision to nonperforming loan and loan provision to total asset have positive association with return on asset but both are insignificant to impact return on asset.

Awoke, 2014 studied the impact of credit risk on financial performance of the commercial banks in Ethiopia for the period of 2008-2012 and selected 8 commercial banks for the study, researcher used ROA as dependent variable and provision to total loans, Loans to total assets, cost to total loans and total asset as independent variable. Finally researcher concluded that provisions to total loans and cost to total loans have opposite relationship with ROA but loans to total assets and natural logarithms of total assets have positive relationship with ROA and all variable have significant impact on ROA.

Bizuayehu, 2015 conducted a study on the impact of credit risk on the performance of commercial banks in for the period of 2003-2008. ROE used a proxy for the financial performance and nonperforming loan to total loan ratio, capital adequacy ratio and total loan to deposit, interest rate, bank size, GDP and inflation rate a proxy for credit risk. Finally researcher identified that macroeconomic factors and banks specific factors have opposite relationship with ROE but only banks specific factors have significant impact ROE.

Credit risk is the most important and oldest risk that most of the banks receive by virtue of its very nature of the business. However it is got more importance due to economic liberalization all over the world and India is not an exception to this scenario towards market-driven economy. To enhance the performance and minimize the credit risk effective portfolio diversification is mandatory as empirically proved by direct relationship between credit risk profile and NPAs of public sector banks, (G.Korteshwar, university of Mysore).

Generally credit risk strategy decided or commanded by Credit Risk Management Policy of the bank which influenced by the target market, risk acceptance, risk avoiding, prefer level of diversification, measurement, and risk controlling mechanism. Continuous updated and improved risk management practices will enhance the performance and enjoy the competitive advantage in the market, (Ms. Asha Singh, Mewer University, chittorgarh, rajasthan).

Al-Khouri (2011) measured the impact of bank's specific risk characteristics, and the overall banking environment on the performance of (GCC) Gulf Cooperation Council banks for the period of 1998-2008 by taking 43 commercial banks as a sample size. At the end he concluded that the credit risk, liquidity risk and capital risk are the major risk which effect the performance of the banks, where profitability is measured by ROA, however liquidity risk is the only risk which effect the profitability when measured by ROE, and also it can be stated as all the risks are mutually interrelated without concerning to the number of identifiable risks.

SCOE OF THE STUDY

The present study is undertaken in two countries namely India and Ethiopia, both the countries have strong banking sector and significant impact on their economy. Geographically, the study is restricted to North Region districts (Adilabad, Nizamabad, Medak, Karimnagar, and Warangal districts) of Telangana state in India and SNNPR Region (Kembata-Tembaro, Hadiya and Halaba Wolayita) of Ethiopia, keeping in view the convenience of the researcher and limitations of time and financial resources.

STATEMENT OF THE PROBLEM

The emerging changes in the banking environment play an important role in risk and risk management practices which are forced by internal and external factors. The recent developments in global lending market, liquidity crisis and political volatility strapped back the economy of most of the countries in to recession and Indian and Ethiopia are not exempted. Most effective risk management practices are required to come out of this situation and tt was found that many financial institutions are still using traditional methods to identify and manage the risk. Lack of more comprehensive practices, proactive processes, narrowly focused risk control, improper understating of actual risk associated with investments and integrated view of risk will affect the overall performance of banks. Major financial institutions are unable to estimate their actual exposures to the losses resulting from different risks.

The primary concern of the present study is to compare significant differences of risk management practices and procedures between commercial banks of India and Ethiopia, it aims to identify the significant differences in credit risk procedures and policies of Indian and Ethiopian commercial banks.

RESEARCH QUESTIONS (following research questions are examined)

1. What are the policies, and procedures used for the credit risk associated with respective commercial banks in India and Ethiopia?
2. Is there any significant difference among concepts of credit risk practices between commercial banks of India and Ethiopia?

OBJECTIVE OF THE STUDY

The primary objective of the present study is to identify and asses the credit risk management practices in commercial banks of India and Ethiopia. The specific objectives are as follows

1. To study and assess the credit risk management practices in commercial banks of India and Ethiopia
2. To compare the significant differences of credit risk management practices between selected sample units
3. To offer suggestive measures to improve the management of credit risk management practices in selected commercial banks of India and Ethiopia.

HYPOTHESIS OF THE STUDY

Ho1: There is no significant difference regarding credit risk management practices between commercial banks of India and Ethiopia**.**

H1: There is no significant difference regarding credit risk management practices between commercial banks of India and Ethiopia**.**

III. Research Methodology

RESEARCH DESIGN:

Research design is a comprehensive strategy that logically integrates the different components of the entire study to arrive at an effective conclusion to the above-mentioned research problems. The present study is survey and therefore descriptive survey method has been adopted by the researcher based on the data available for the period of 2016-2019

POPULATION AND SAMPLING SIZE:

Population for the present study basically divided in to two countries, one is India and second one is Ethiopia. Based on the Size and History of the bank, Researcher selected three commercial banks (one state owned and two private sector banks) from each country, namely

From India

- **State Bank of India –** first largest and oldest public sector banks in India
- **HDFC Bank Ltd –**first largest private sector banks in India
- **ICICI Bank Ltd –** second largest private sector banks in India

From Ethiopia

- **Commercial Bank of Ethiopia-** first largest and oldest state owned banks in Ethiopia
- **Bank of Abyssinian –** first largest private sector banks in Ethiopia
- **Dashen Bank-** second largest private sector banks in Ethiopia.

Table no 1.1: Details of Population

DETAILS OF POPULATION						
India	**North Telangana Region**					
	Adilabad	**Nizamabad**	**Medak**	**Karimnagar**	**Warangal**	**Total**
State bank of India	21	27	50	29	10	137
Hdfc bank ltd	05	15	08	25	11	64
ICICI bank	08	03	15	19	11	56
					Total	257
Ethiopia	**SNNPR Region**					
	Kembata-Tembaro	**Hadiya**	**Halaba**	**Wolayita**		**Total**
Commercial bank of Ethiopia	29	54	41	68		192
Dashen bank	4	9	7	14		34
Bank of Abyssinian	4	7	5	12		28
					Total	259

SAMPLING DESIGN

For the present study stratified random sampling method was applied to determine the sample size. There are several formulas developed for sample size calculation that confirm to different research situations accordingly, and for the present the study the following formula has been used to derive the sample size.

$$n = \frac{\sum_i p_i q_i w_i / v}{1 + \frac{1}{N}\left[\frac{\sum_i p_i q_i w_i}{v}\right]} \qquad \text{Where,} \quad v = \left[\frac{d}{z_{\alpha/2}}\right]^2$$

Pi = proportion of commercial banks in the country

$q_i = 1 - p_i$

w_i = Weight of commercial banks in the country

$$w_i = N_i / N$$

d = margin of error (o.05)

α = level of significance (0.05) 5 %

$z_{\alpha/2}$ = The critical value at 5% los=1.96

The sample size in each country or stratum is calculated by using proportional allocation

$$ni = \frac{n.Ni}{n}$$

P1= 0.25, p2= 0.33

Q1- 0.75, q2= 0.67

N1= total commercial banks in India =257

N2= total commercial banks in Ethiopia = 259

$$n_0 = \sum_i p_i q_i w_i / v$$

$$w_1 = \frac{N_1}{N} = 0.498 \qquad w_2 = \frac{N_2}{N} = 0.502$$

$$n_0 = \frac{0.25 * 0.75 * 0.498 + 0.33 * 0.67 * 0.502}{(0.05 / 1.96)^2} = 314.46 \cong 314$$

n= sample size needed for the study

N= Total Population

The finite population correction in this case is

$$\frac{n_0}{N} = 314 / 516 = 0.608$$

Since $\frac{n_0}{N}$ >5% the researcher can use adjusted formula as given below

$$n = \frac{n_0}{1 + \frac{n_0}{N}} = 195.21 \cong 196$$

Total sample size, n = $n_1 + n_2$ = 196.

PROPORTIONAL ALLOCATION

It will be used when the size of the sample from a given stratum is proportional to the size of the stratum. The proportional allocation, a small sample has taken from a small stratum and large sample has taken from a large stratum and the sample size in each stratum is fixed then.

$$\frac{n_i}{N_i} = \frac{n}{N}$$

$n_i = n . \frac{N_i}{N}$; i = 1, 2 n_1 = 97.62 (98) and n_2 = 98.38 (98)

Total sample size for the present study is 196, and respectively 98 branches from each country. The structured questionnaire has been developed and distributed to the assistant managers and managers in selected sample branches of both the countries to collect the required data for the study, details of questionnaire and variables has follows.

QUESTIONAIRE DESIGN

Questioner is one of the most popular data collection techniques, wherein the respondents are asked to give answers to the series of questions, written or verbal, about an applicable topic is called as a questionnaire. Generally two types of questioners will be used to gather the data, one is open ended where respondent have a choice to write their answers on his own and the second one is closed ended wherein respondent has to choose the answer from the given choice. In order to gather valued information for the study, researcher made a contact with some major banks and confirmed the standard of the questionnaire and distributed to assistant managers and managers in selected sample branches to collect the data. Researcher used structured and closed ended questionnaire for self-assessment of risk management practices in commercial banks of India and Ethiopia. The questionnaire mixed up with True/False and Likert scale methods, where True/False used for filtering and Likert Scale for weighting the variable and questions as follows.

Table no 1.2 Likert Scale for weighting the variable and questions

Five Point Scale on services	**Scoring (In Points)**	**Five Point Scale on services facilities**
Excellent	5	Very High
Good	4	High
Moderate	3	Moderate
Poor	2	Low
Very Poor	1	Very Low

The structure of the questionnaire broken down into following major sections.

- Demographic Characteristics
- Level of awareness of bank employees regarding risk management practices
- Credit Risk Management Practices
- Liquidity Risk Management Practices
- Operational Risk Management Practices

DATA COLLECTION

Required data for the present study is gathered form primary and secondary sources.

PRIMARY AND SECONDARY DATA

Primary data was collected through structured and closed ended questionnaire; Secondary data was collected through different journals, official documents, newspapers. Magazines, Government publications, research papers, books and financial statements of the commercial banks.

DATA ANALYSIS AND STATISTICAL TOOLS

The collected data has been analyzed statistically and interpreted by using SPPS Version 20. Researched used Cronbach's alpha technique to test the reliability of the questionnaire. Cronbach Alpha is a reliability test conducted within SPSS in order to measure the internal consistency i.e. reliability of the measuring instrument (Questionnaire). It is most commonly used technique when the questionnaire is developed using multiple Likert scale statements. Linear Regression model used to analyze the collected data and Chi-square test to test the Hypothesis and interpreted the results using tables and graphs. The below stated variable are considered for statistical analysis.

IV. Results And Discussion

REGRESSION RESULT OF CREDIT RISK MANAGEMENT IN INDIAN COMMERCIAL BANKS

Table 1.3 presents Model summary of Regression analysis. The R value which represents simple correlation is 0.873 which represents high degree of correlation and R^2 value is 0.762 which indicates total variance in dependent variable. 76.2 percent of independent variables explains variance in dependent variable.

Table 1.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.873[a]	.762	.670	.57568

Table 1.4 presents ANOVA result which reports how well the regression equation fits the data (i.e. predicts the dependent variable). F value is 8.310 at 0.000 significance level and the value of F is statistically significant at a level of 0.05 or less, this suggests statistically significantly predicts outcome variables.

Table 1.4 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	74.362	27	2.754	8.310	.000[b]
	Residual	23.199	70	.331		
	Total	97.561	97			

REGRESSION RESULT OF CREDIT RISK MANAGEMENT IN INDIAN COMMERCIAL BANKS

Table 1.5 presents Model summary of Regression analysis. The R value which represents simple correlation is 0.963 which represents high degree of correlation and R^2 value is 0.927 which indicates total variance in dependent variable. 92.7 percent of independent variables explains variance in dependent variable.

Table 1.5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.963[a]	.927	.898	.18961

Table 1.6 presents ANOVA result which reports how well the regression equation fits the data (i.e. predicts the dependent variable). F value is 32.686 at 0.000 significance level and the value of F is statistically significant at a level of 0.05 or less, this suggests statistically significantly predicts outcome variables.

Table 1.6 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31.728	27	1.175	32.686	.000[b]
	Residual	2.517	70	.036		
	Total	34.245	97			

Table1.9 Presents beta coefficients and t values for perception towards credit risk management by Indian respondents. The beta value is a measure of how strongly the independent variable influences the dependent variable.

Table no 1.9 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.108	.799		2.639	.010
	Credit Risk Management policy and rules developed at bank/corporate level	.081	.186	.062	.438	.662
	Association and Scope of Credit risk management policy and rules in line with banks business and its risk profile	.226	.074	.326	3.056	.003
	Development of Credit risk management division at branch level	-.199	.098	-.259	-2.033	.046

	Monitoring and Controlling Credit Risk and Regularly reporting to Senior management	.007	.239	.005	.031	.975
	Credit Risk Review report regularly submitting to senior management	-1.078	.569	-.760	-1.896	.062
	Credit Risk Management Division integrated control over branch	-2.616	.535	-2.634	-4.890	.000
	Status of Independence of Credit Risk Management Division	.254	.087	.347	2.934	.005
	Status of check-and-balance system for appropriate screening	.418	.248	.337	1.687	.096
	Due consideration given to the target population in devising credit policy	-.358	.221	-.173	-1.620	.110
	Priority/Consideration has given to Farmers	-.076	.266	-.077	-.287	.775
	Priority/Consideration has given to Entrepreneurs	.113	.113	.111	1.006	.318
	Priority/Consideration has given to Self Help Groups	.625	.117	.653	5.354	.000
	Priority/Consideration has given to Employees and Pensioners	.426	.364	.299	1.169	.246
	Priority/Consideration has given to Students	-.241	.088	-.283	-2.733	.008
	Periodical review and setting of credit limits for clients	-.144	.074	-.205	-1.940	.056
	Status of verification of borrowers documents and collateral approvals	-.045	.101	-.057	-.444	.658
	Status and periodical physical verification of collateral assets	.032	.094	.044	.338	.737
	Status of identifying borrowers' actual status and financing condition	-.048	.112	-.055	-.427	.670
	Investigation of proper utilization of borrowed funds by the clients	.238	.114	.272	2.086	.041
	Status of identifying borrowers' financial sources for loan repayment	-.278	.082	-.409	-3.405	.001
	Status of appropriate screening of risk nature of application	2.473	.478	2.627	5.170	.000
	Status of periodical review of financial status of borrowers	.292	.124	.455	2.356	.021
	Execution of integrated control system with regard to credit risk that bank exposure to in on and off-balance sheet transactions	-.096	.239	-.108	-.402	.689
	Detection of early date loans that need to be managed	-.142	.165	-.159	-.857	.394
	Timely Identification of problem loans on banks comprehensive risk management	.013	.202	.011	.062	.950
	Effective managing and recovery of problem loans	.306	.101	.323	3.033	.003
	Submitting review reports regularly to corresponding higher authorities	-.325	.126	-.296	-2.571	.012
a. Dependent Variable: Overall Credit Risk Management Process						

From the table 1.9 it is observed that the predictor variables Association and Scope of Credit risk management policy and rules in line with banks business and its risk profile, Development of Credit risk management division at branch level, Credit Risk Management Division integrated control over branch, Status of Independence of Credit Risk Management Division, Priority/Consideration has given to Self Help Groups, Priority/Consideration has given to Students, Investigation of proper utilization of borrowed funds by the clients, Status of identifying borrowers' financial sources for loan repayment, Status of appropriate screening of risk nature of application, Status of appropriate screening of risk nature of application, Effective managing and recovery of problem loans, and Submitting review reports regularly to corresponding higher authorities are statistically significant. Therefore, these variables are more influenced variables on the dependent variable and also explains the most of the total variance in the Overall Credit Risk Management Process.

Table 1.10 presents beta coefficients and t values for perception towards credit risk management by Ethiopian respondents. The beta value is a measure of how strongly the independent variable influences the dependent variable

Table no 1.10 Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-2.089	1.300		-1.607	.113
	Credit Risk Management policy and rules developed at bank/corporate level	-.298	.155	-.262	-1.922	.059
	Association and Scope of Credit risk management policy and rules in line with banks business and its risk profile	-.142	.060	-.337	-2.388	.020
	Development of Credit risk management division at branch level	.501	.097	.969	5.150	.000
	Effectiveness of Credit Risk Management Division	-.030	.101	-.033	-.298	.767
	Monitoring and Controlling Credit Risk and Regularly reporting to Senior management	.091	.069	.147	1.323	.190
	Credit Risk Review report regularly submitting to senior management	.003	.059	.004	.059	.953
	Credit Risk Management Division integrated control over branch	.081	.066	.117	1.230	.223
	Status of Independence of Credit Risk Management Division	-.037	.062	-.070	-.599	.551
	Status of check-and-balance system for appropriate screening	.037	.100	.031	.369	.713
	Priority/Consideration has given to Farmers	.180	.079	.266	2.279	.026
	Priority/Consideration has given to Entrepreneurs	-.068	.089	-.073	-.767	.446
	Priority/Consideration has given to Self Help Groups	.232	.130	.253	1.785	.079
	Priority/Consideration has given to Employees and Pensioners	-.122	.098	-.227	-1.239	.219
	Priority/Consideration has given to Students	.253	.113	.187	2.238	.028
	Periodical review and setting of credit limits for clients	.209	.084	.457	2.503	.015
	Status of verification of borrower's documents and collateral approvals	-.162	.091	-.171	-1.769	.081
	Status and periodical physical verification of collateral assets	-.174	.047	-.307	-3.677	.000
	Status of identifying borrowers' actual status and financing condition	-.187	.110	-.253	-1.711	.091
	Investigation of proper utilization of borrowed funds by the clients	.166	.076	.273	2.200	.031
	Status of identifying borrowers' financial sources for loan repayment	.069	.048	.124	1.430	.157
	Status of appropriate screening of risk nature of application	.089	.076	.137	1.182	.241
	Status of periodical review of financial status of borrowers	-.049	.034	-.091	-1.436	.155
	Execution of integrated control system with regard to credit risk that bank exposure to in on and off-balance sheet transactions	.089	.093	.111	.967	.337
	Detection of early date loans that need to be managed	-.051	.037	-.099	-1.349	.182
	Timely Identification of problem loans on banks comprehensive risk management	.087	.055	.149	1.587	.117
	Effective managing and recovery of problem loans	9.208E-005	.022	.000	.004	.997
	Submitting review reports regularly to corresponding higher authorities	-.122	.075	-.207	-1.626	.108

a. Dependent Variable: Overall Credit Risk Management Process

From the table 1.10 it is observed that the predictor variables Association and Scope of Credit risk management policy and rules in line with banks business and its risk profile, Development of Credit risk management division at branch level, Priority/Consideration has given to Farmers, Priority/Consideration has given to Students, Periodical review and setting of credit limits for clients, Status and periodical physical verification of collateral assets, and Investigation of proper utilization of borrowed funds by the clients are statistically significant. Therefore, these variables are more influenced variables on the dependent variable and also explains the most of the total variance in the Overall Credit Risk Management Process.

HYPOTHESIS TESTING

H02: There is no significant difference between credit risk management practices in commercial banks of India and Ethiopia

H2: There is significant difference between credit risk management practices in commercial banks of India and Ethiopia

Table no 1.7 Observed and Expected frequencies

	Observed N	Expected N	Residual
1.00	82	39.2	42.8
2.00	71	39.2	31.8
3.00	35	39.2	-4.2
4.00	4	39.2	-35.2
5.00	4	39.2	-35.2
Total	196		

Table no 1.8 Test Statistics

	VAR00002
Chi-Square	136.194[a]
df	4
Asymp. Sig.	.000

From the above table 1.6 it is identified that p= .000 which is less than 5%, hence It is proved that there is significance difference between commercial banks of India and Ethiopia regarding credit risk management practices

MAJOR FINDINGS OF THE STUDY

➢ Overall policy and rules development regarding the credit risk management at corporate level and corresponding to overall risk management policies are good in commercial banks of India. Commercial banks of India and Ethiopia are effective in regular submitting review report to higher authority regarding risk exposures without fail; this function is more significant function of risk management process and Indian commercial banks has to take some more measurement to improve.

➢ Credit risk management division integrated control over branch is not operative in commercial banks of Ethiopia, on the other hand its good in commercial banks of India, status of independence of credit risk management division is excellent in commercial banks of India, and management interference killing the status of independence of credit risk management division in commercial banks of Ethiopia.

➢ Comparatively check and balance system for appropriate screening of the credit risk is effective in commercial banks of Ethiopia and they are giving high priority to the target population in devising credit policy. While the consideration of target population for credit policy is moderate in commercial banks of India.

➢ Agriculture is the base for economy of both the countries but Ethiopian banks are giving low priority for farmers, self-help groups, student's loans and high priority for entrepreneurs. where in India, self-help groups are playing important role in financing group members for different requirements, even banks are giving due consideration by providing loans to groups , for example Dwakra groups is one of the famous self-help groups in India and especially in the states of Telangana and Andhra Pradesh. Majority of state owned banks provide the loan for self-help groups and Indian banks are giving high priority to employees and pensioners where as for the same the priority is moderate in commercial banks of Ethiopia.

➢ Verification of barrower's documentation and collateral approvals is very important which will minimize customer defaults, status of this process is excellent in commercial banks of Ethiopia; however the verification process of the same is moderate and low in commercial banks of India, which in turn increases the customer defaults and affects the financial position of the organization.

- The practice of periodical physical verification of collateral assets is poor in commercial banks of India and good in commercial banks of Ethiopia. The practice of identifying barrower's actual financing conditions is far better in commercial banks of Ethiopia than Indian commercial banks.

- The process of Investigation with regard to proper utilization of barrowed funds by the client's is good in commercial banks of India and Ethiopia. The practice of identification of financial status for repayment of barrowed funds has to be improved in commercial banks of both countries.

- Identifying risk nature of applicant by appropriate screening is blameless in commercial banks of India and moderate in Ethiopia. The practice of periodical review on financial status of borrowers is not effective in commercial banks of both the countries, Execution of integrated control system with regard to credit risk that bank exposure to in on and off balance sheet transactions is blameless in commercial banks of Ethiopia and moderate in commercial banks of India.

- Commercial banks of India are not effective in identifying early date loans and problematic loans in advance, nevertheless Ethiopian commercial banks are good, but they are poor in managing and recovery of problem loans.

- Submitting the review reports regularly to higher authority is excellent in commercial banks of India, computer generated reports will be updated automatically to higher authority in commercial banks of India, manual reporting to higher authority is effective in Ethiopian commercial banks.

Recommendations to Commercial Banks of India

- Credit risk is base for all the commercial banks, ineffective management may cause for the insolvency, management practices regard credit risks are blameless in commercial banks of India.Banks in India has to develop new measures to identify the actual financial status of the barrowers which will minimize the number of default customers

- Principally checking the balance sheet of barrower is not authorized in commercial banks of India has to be relaxed in case of irregular payers which will facilitates to identify the doubtful debts in advance.

- Commercial banks of India are not effective in identifying early date loans and problematic loans in advance, check and balance system for appropriate screening the credit risk function has to be more operative.

- While the due consideration of target population for the credit policy is moderate in commercial banks of India, giving high priority to farmers and very low priority for entrepreneurs, which will demotivate the self-employment options, banks has to increase the credit limit for entrepreneurs too.

- Verification of barrower's documentation and Investigation regard proper utilization of barrowed funds by the client's process is nominal in Indian commercial banks which has to standardized.

- High fluctuations in the value of collateral assets is also another reasons for customer defaults, banks has to verify, collateral approvals, periodical physical verification of collateral assets and physical verification of the assets need to be undertaken by concern banks.

Recommendations to Commercial Banks of Ethiopia

- Credit facilities and limit for farmers are very poor in commercial banks of Ethiopia, due consideration has to be given for formers and student as well, which will improve the agro based products and supportive financial assistance to students for higher education.

- Principally checking the balance sheet of barrower and Identification of financial status for repayment of barrowed funds is not authorized in commercial banks of Ethiopia, this process has to be relaxed in case for irregular payers which leads to identify the doubtful debts in advance, Conditions has to be included in credit policy and procedures to make it effective.

➢ Credit risk management division integrated control over branch is not operative in commercial banks of Ethiopia; CMD has to review the status of barrowers periodically and submitting review report regularly to concerned higher authorities in time.

Identifying risk nature application by appropriate screening and Execution of integrated control system with regard to credit risk has to be improved in commercial banks of Ethiopia. Overall credit risk management practices are good

V. Conclusion

For banks, it is a fundamental capability as they buy and sell risk every day. There are many examples of poor risk management practices from the recent financial crisis but, bank risk management will likely look dramatically different by 2025, when it has become a core part of banks' strategic planning, a close collaborator with business heads, and a center of excellence in analytics.

Credit risk is base for all the commercial banks which has to be managed effectively. Form the above study it is identified that, credit risk management division (CRMD) at the branch level is not effective in commercial banks of India, and comparatively, check –and-balance system for appropriate screening function is well operated in commercial banks of Ethiopia, and the verification function of barrowers documentation, collateral approvals, and physical verification of collateral assets are more standardized in commercial banks of Ethiopia. Form the present study it is concluded that commercial banks of both countries are following best practices concern to different risks, However, there is significant difference of risk management practices between commercial banks of India and Ethiopia, the present study of risk management will help in suggesting a suitable best methods of managerial risks followed by commercial banks in both the countries. Hence the mutually adoption of best practices will enhance the management of risks.

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