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A STUDY ON CREDIT RISK MANAGEMENT AT ICICI BANK LTD, HYDERABAD

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ABSTRACT

The present study evaluates the effectiveness of credit risk management practices in financial institutions. Credit risk management is a critical aspect of financial risk management, and its effectiveness can significantly impact the financial performance and stability of institutions. The study examines the credit risk management frameworks, processes, and tools used by financial institutions to identify, assess, and mitigate credit risks. The findings of this study provide insights into the strengths and weaknesses of credit risk management practices, highlighting areas for improvement. The study's results can inform financial institutions, policymakers, and risk managers in developing and implementing effective credit risk management strategies, ultimately contributing to financial stability and sustainability. By identifying best practices and areas for improvement, this study aims to enhance the effectiveness of credit risk management in financial institutions.

Key words: Credit risk, Financial stability, Customer relationships, Risk management, Profitability.

INTRODUCTION

Today, it's very important for companies to stay financially healthy over the long term. To keep shareholders happy, they need to manage their money well — this includes keeping steady cash flow, making smart investments, growing wisely, and controlling costs.

At the same time, keeping customers is just as important as gaining new ones. Many companies are losing more customers (customer churn), so holding on to valuable ones has become a key focus. One big problem businesses face is late payments from customers, which increases costs. They also have to deal with bad debts, fraud, and longer times to get

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paid (called Days Sales Outstanding or DSO), all of which affect profits.Not all customers are the same, so companies need to treat them differently and design their structure and strategies accordingly. The goal is to attract and keep high-value customers — those who bring in more profit.

To do this, businesses must manage the risk of giving credit (letting customers pay later). If they are too strict with credit, they may lose customers. But if they are too relaxed, they might lose money. Since ICICI Bank lends to many types of customers — like people, companies, and other financial groups — it must carefully check and manage these risks.ICICI Bank does this by checking how likely a borrower is to repay, using smart systems to manage risk, and having clear policies. This helps the bank give good loans and avoid big losses, keeping the bank strong and stable.

REVIEW OF LITERATURE

1. **Hauwamodu (2016):** Credit risk management is crucial for banks to increase profits and customer satisfaction. Effective credit risk management is key to success. Banks should prioritize credit policies to achieve this. Good credit management leads to profits.
2. **Hameeda Abu et al. (2012):** Traditional banks face higher risks than modern banks. Risk management practices are essential to mitigate operational and credit risks. Effective risk management reduces losses and ensures bank stability. Banks should manage risks proactively.
3. **Abmed et al. (2015):** Credit risk management is vital for microfinance banks to enhance loan performance. Effective credit risk management leads to better loan performance and success. Microfinance banks should prioritize credit risk management to achieve their goals. Good credit management is crucial.
4. **Jobs et al. (2005):** Banks face spread risk and interest rate risk, which can impact long-term growth. Effective risk management is crucial to minimize these risks. Banks should focus on managing these risks to ensure stability. Risk management is key to success.
5. **Sensarma & Jaydev (2009):** Risk management is essential for banks' financial performance. Evaluating risk management capacities helps banks improve. Effective risk management enhances bank performance and stability. Banks should prioritize risk management.
6. **Ljaz & Maha (2015):** Credit risk management has shifted from estimation to evaluation.

Banks should focus on evaluating credit risk effectively. Effective credit risk management is crucial for bank stability. Risk management is vital for banks.

7. **Waemustafa et al. (2015):** Problem financing, administrative capital, and contracts affect credit risk. Banks should manage these factors to minimize credit risk. Effective credit risk management reduces losses and ensures stability. Good risk management is crucial.
8. **Freeman et al. (2006):** Credit derivatives can help companies manage risk. Effective risk management strategies are crucial for corporate treasurers. Risk management reduces losses and enhances company performance. Companies should prioritize risk management.
9. **Ghosh & Maji (2000):** Risk management is essential for credit review functions. Identifying risks can help banks outperform competitors. Effective risk management is key to success. Banks should prioritize risk management.
10. **Hussain & Hassan (2007):** Commercial banks face significant credit, operational, and foreign exchange risks. Effective risk management practices are crucial for banks. Risk management reduces losses and enhances bank performance. Banks should prioritize risk management.
11. **Prakash et al. (2010):** Risk management and corporate governance are crucial for banks. Poor risk management practices contributed to the financial crisis. Effective risk management is key to success. Banks should prioritize risk management.
12. **Olaf Weber (2012):** Environmental risks are essential for banks to manage. Ignoring environmental risks can lead to financial losses. Effective risk management is crucial for bank stability. Banks should prioritize environmental risk management.

NEED AND IMPORTANCE

Studying how ICICI Bank assesses credit risk is very important in today's fast-changing financial world. As lending becomes more complex and more people fail to repay loans, ICICI Bank needs to improve how it checks credit risk before giving out loans. This study will help the bank spot possible risks early, build better risk management strategies, and make sure loans perform well. By lowering credit risk, the bank can reduce the number of defaults, improve the quality of its loans, and stay strong in the competitive market.Good credit risk assessment is key for ICICI Bank to stay ahead of other banks and grow in a healthy way. The study will give useful ideas on how to improve the way the bank checks credit risk,

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making its lending process smarter and safer. By using what the study finds, ICICI Bank can avoid big losses, boost its financial health, and stay stable in the long run.

SCOPE OF THE STUDY

This study plays a crucial role in helping lenders make informed decisions regarding loan approvals, interest rates, and credit limits. By offering a deeper understanding of credit risk, it enables financial institutions to develop more effective risk management strategies. As a result, the study contributes to maintaining overall financial stability by reducing loan defaults and preventing larger systemic financial crises. Additionally, it supports the creation of more accurate credit evaluation models, which help lenders identify reliable borrowers more efficiently. This, in turn, leads to lower default rates and improved loan portfolio performance. Furthermore, the study promotes increased access to credit for underserved populations, helping to foster financial inclusion. Overall, it provides valuable insights not only for financial institutions but also for policymakers and researchers aiming to strengthen the credit and financial system.

OBJECTIVES OF THE STUDY

1. To assess the effectiveness of ICICI Bank's credit risk policies, procedures, and practices.
2. To determine the major challenges faced by ICICI Bank in managing credit risk and their impact on financial performance.
3. To examine the effectiveness of ICICI Bank's credit risk mitigation techniques, such as credit scoring and collateral evaluation.
4. To offer suggestions to enhance ICICI Bank's credit risk management practices based on the study's findings.

RESEARCH METHODOLOGY

RESEARCH DESIGN:

Type: Descriptive and Analytical

Approach: Qualitative and Quantitative method

SOURCES OF DATA

Primary Data:

Structured questionnaires for ICICI Bank employees involved in credit and risk departments.

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SAMPLING METHOD:

Sampling Technique: Purposive sampling

Sample Size: 70 ICICI Bank employees

Data Analysis Techniques:

Quantitative data (from questionnaires): Descriptive statistics (mean, percentage, frequency), Likert scale analysis.

LIMITATIONS OF THE STUDY

1. The study may be limited to a specific number of participants or branches, which may not be representative of the entire bank.
2. The study may be limited by the availability of data, particularly if secondary data is used.
3. The study may be limited by the time frame considered, which may not capture long-term trends or effects.

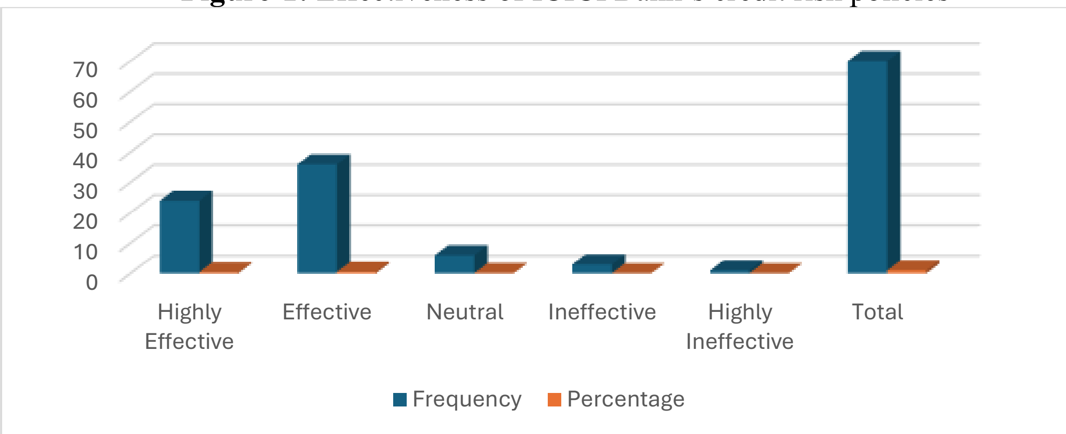
DATA ANALYSIS AND INTERPRETATION

1. How would you rate the effectiveness of ICICI Bank's credit risk policies?

Table-1: Effectiveness of ICICI Bank's credit risk policies

RESPONSE	FREQUENCY	PERCENTAGE
Highly Effective	24	34.29%
Effective	36	51.43%
Neutral	6	8.57%
Ineffective	3	4.29%
Highly Ineffective	1	1.43%
Total	70	100%

Figure-1: Effectiveness of ICICI Bank's credit risk policies



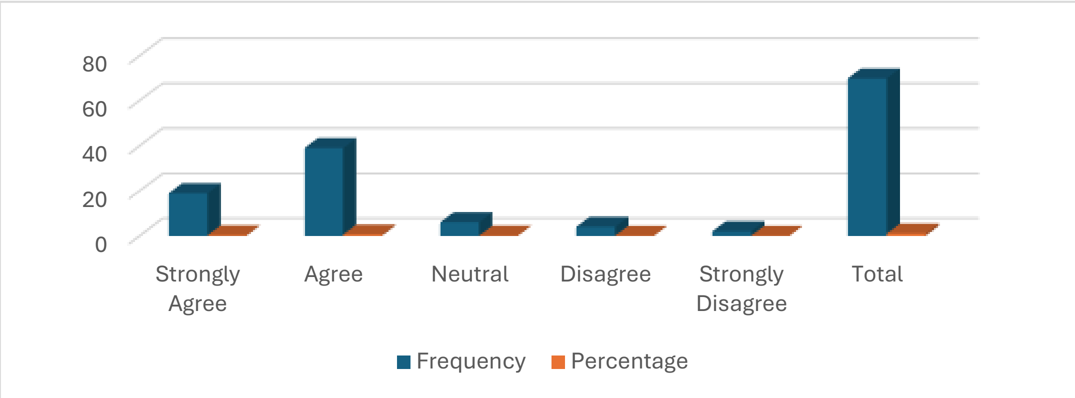
Interpretation:A total of 85.72% of respondents consider ICICI Bank's credit risk policies to be either highly effective or effective. This indicates a high level of trust and satisfaction with the bank's policy framework. Only a small fraction (5.72%) found them ineffective, showing strong approval.

2. Are ICICI Bank's credit risk procedures aligned with industry best practices?

Table-2: ICICI Bank's credit risk procedures aligned with industry best practices

Strongly Agree	19	27.14%
Agree	39	55.71%
Neutral	6	8.57%
Disagree	4	5.71%
Strongly Disagree	2	2.86%
Total	70	100%

Figure-2: ICICI Bank's credit risk procedures aligned with industry best practices



Interpretation: Over 82% of respondents agree or strongly agree that ICICI Bank's procedures align with industry best practices. This suggests that the bank maintains competitive and standardized risk management methods. Minimal disagreement (8.57%) indicates general consensus on their industry relevance.

3. what are the major challenges faced by ICICI Bank in managing credit risk?

Table-3: major challenges faced by ICICI Bank in managing credit risk

CHALLENGE	FREQUENCY	PERCENTAGE
Inadequate Assessment	20	28.57%
Insufficient Collateral	12	17.14%
Economic Downturn	23	32.86%
Regulatory Compliance	11	15.71%
Other	4	5.72%
Total	70	100%

Figure-3: major challenges faced by ICICI Bank in managing credit risk

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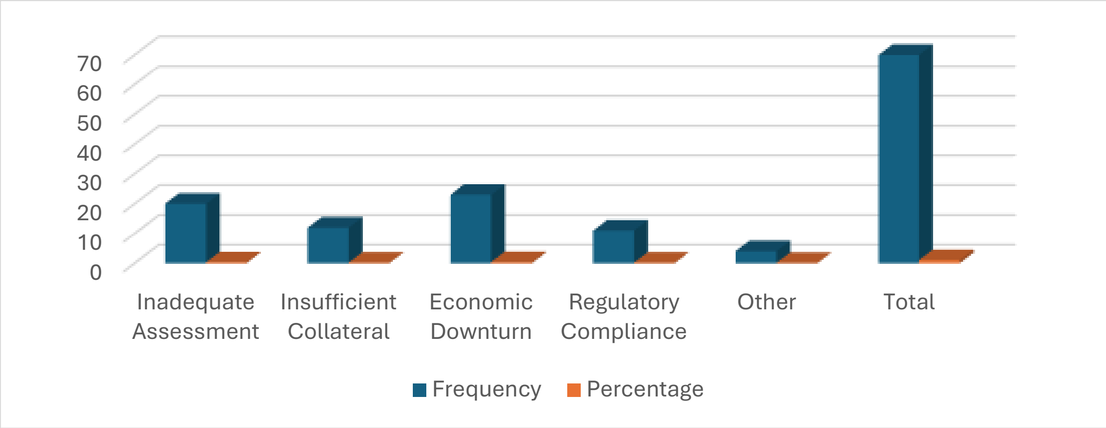


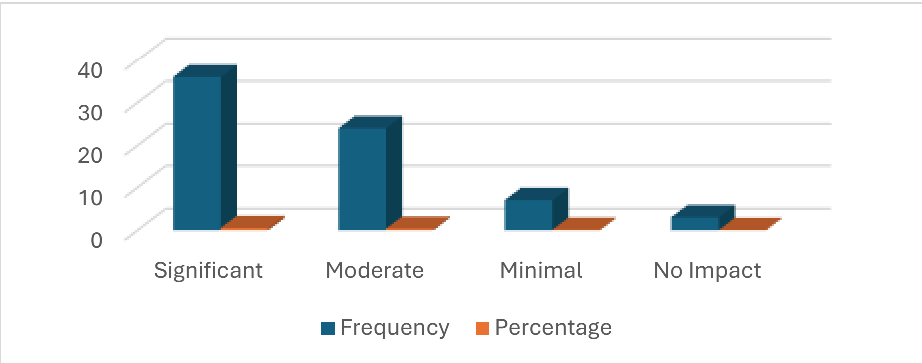
Interpretation: Economic downturns (32.86%) and inadequate assessment (28.57%) are seen as the primary challenges in credit risk management. These findings highlight external macroeconomic factors and internal process limitations as key risk areas. Regulatory compliance and insufficient collateral are also notable but less critical.

4. How do these challenges impact ICICI Bank's financial performance?

Table-4: challenges impact ICICI Bank's financial performance.

IMPACT LEVEL	FREQUENCY	PERCENTAGE
Significant	36	51.43%
Moderate	24	34.29%
Minimal	7	10.00%
No Impact	3	4.28%
Total	70	100%

Figure-4: challenges impact ICICI Bank's financial performance.



Interpretation: More than half (51.43%) of respondents believe credit risk challenges have a significant impact on financial performance. A combined 85.72% acknowledge at least some impact, pointing to the tangible effect of risk issues on profitability. Very few see no impact at all.

5. How effective is ICICI Bank's credit scoring system in assessing creditworthiness?

Table-5: Effectiveness of ICICI Bank's credit scoring system in assessing creditworthiness

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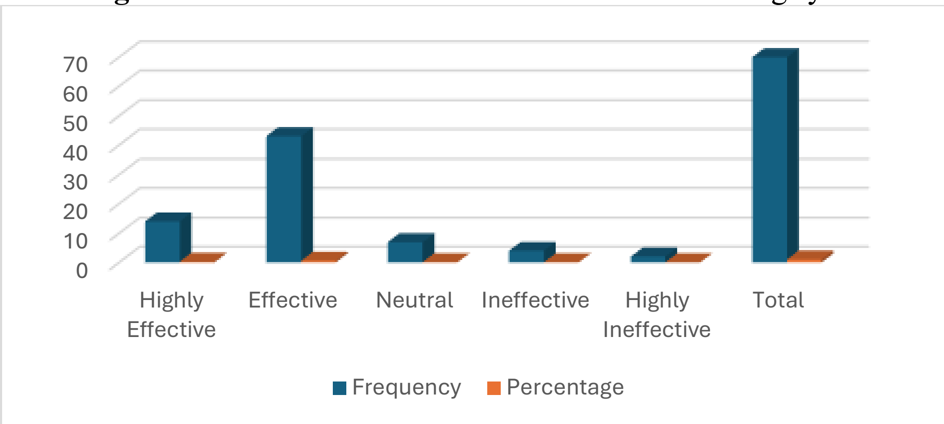
RESPONSE	FREQUENCY	PERCENTAGE
Highly Effective	14	20.00%
Effective	43	61.43%
Neutral	7	10.00%
Ineffective	4	5.71%
Highly Ineffective	2	2.86%
Total	70	100%

Figure-5: Effectiveness of ICICI Bank's credit scoring system



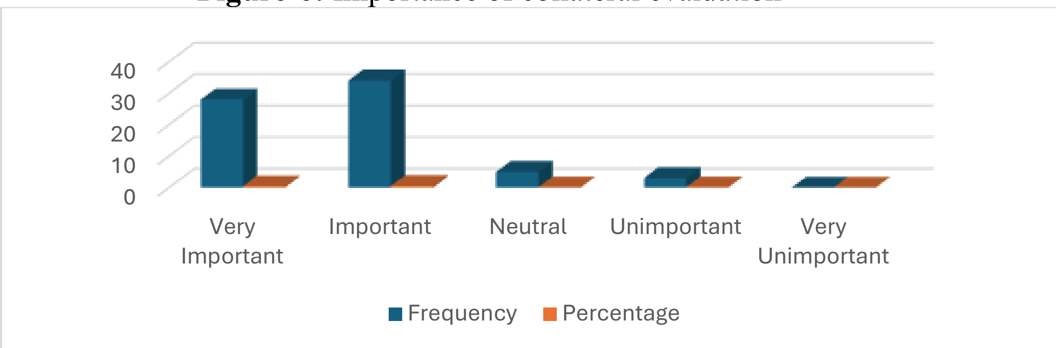
Interpretation: Around 81.43% rate the credit scoring system as effective or highly effective. This affirms the system's importance and reliability in risk assessment. However, about 8.57% find it ineffective, suggesting there may be scope for refinement.

6. How important is collateral evaluation in ICICI Bank's credit risk management practices?

Table-6: Importance of collateral evaluation in ICICI Bank's credit risk management practices

RESPONSE	FREQUENCY	PERCENTAGE
Very Important	28	40.00%
Important	34	48.57%
Neutral	5	7.14%
Unimportant	3	4.29%
Very Unimportant	0	0.00%
Total	70	100%

Figure-6: Importance of collateral evaluation



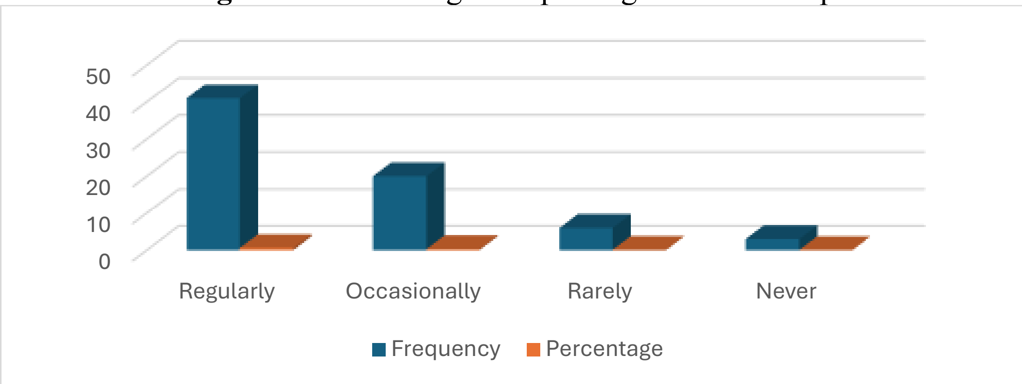
Interpretation: Collateral evaluation is widely recognized as essential, with 88.57% marking it as important or very important. This indicates its central role in managing lending risk. Only a negligible portion considers it unimportant.

7. How frequently does ICICI Bank review and update its credit risk policies?

Table-7: Reviewing and updating its credit risk policies

RESPONSE	FREQUENCY	PERCENTAGE
Regularly	41	58.57%
Occasionally	20	28.57%
Rarely	6	8.57%
Never	3	4.29%
Total	70	100%

Figure-7: Reviewing and updating its credit risk policies



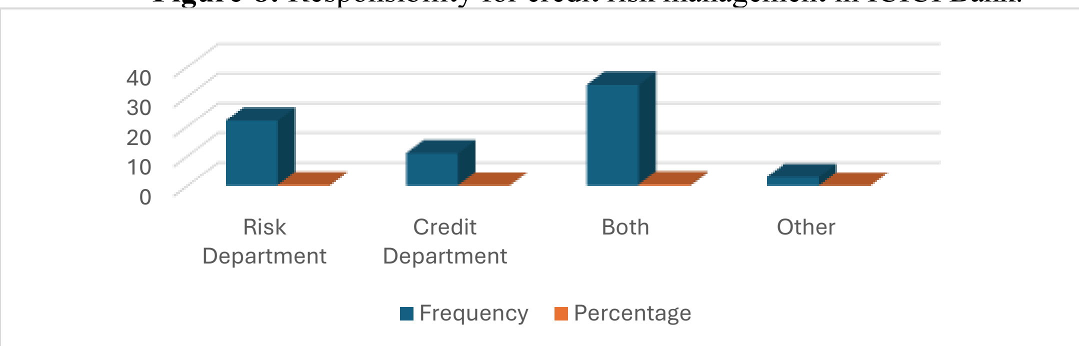
Interpretation: Most respondents (58.57%) confirm that policies are reviewed regularly, indicating strong risk governance. Occasional reviews account for 28.57%, while infrequent reviews (rarely or never) are minimal, pointing to consistent policy updates at ICICI Bank.

8. Who is responsible for credit risk management in ICICI Bank?

Table-8: Responsibility for credit risk management in ICICI Bank

RESPONSE	FREQUENCY	PERCENTAGE
Risk Department	22	31.43%
Credit Department	11	15.71%
Both	34	48.57%
Other	3	4.29%
Total	70	100%

Figure-8: Responsibility for credit risk management in ICICI Bank.



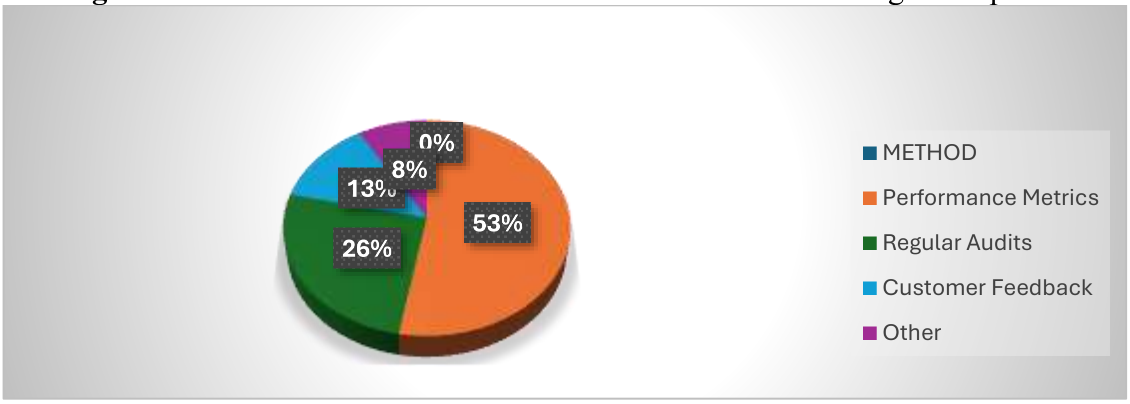
Interpretation: Nearly half (48.57%) of respondents say both the Risk and Credit Departments manage credit risk, indicating a collaborative approach. This is followed by 31.43% for the Risk Department alone, suggesting centralized but shared responsibility structures.

9. How does ICICI Bank measure the effectiveness of its credit risk management practices?

Table-9: Measurement the effectiveness of its credit risk management practices.

METHOD	FREQUENCY	PERCENTAGE
Performance Metrics	37	52.86%
Regular Audits	18	25.71%
Customer Feedback	9	12.86%
Other	6	8.57%
Total	70	100%

Figure-9: Measurement the effectiveness of its credit risk management practices



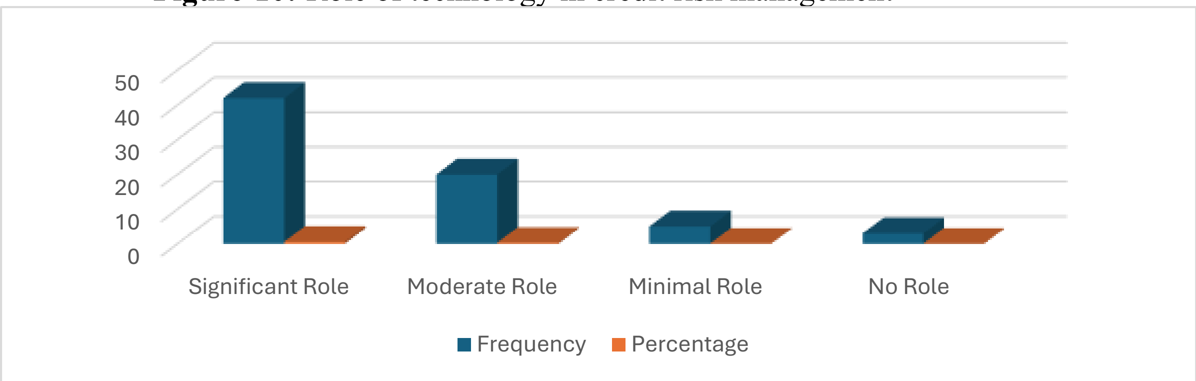
Interpretation: Performance metrics (52.86%) are the primary method used to measure effectiveness, followed by audits (25.71%). This reflects a data-driven approach with periodic checks. Customer feedback and other methods are less commonly used.

10. What role does technology play in ICICI Bank's credit risk management practices?

Table-10: Role of technology in credit risk management

RESPONSE	FREQUENCY	PERCENTAGE
Significant Role	42	60.00%
Moderate Role	20	28.57%
Minimal Role	5	7.14%
No Role	3	4.29%
Total	70	100%

Figure-10: Role of technology in credit risk management



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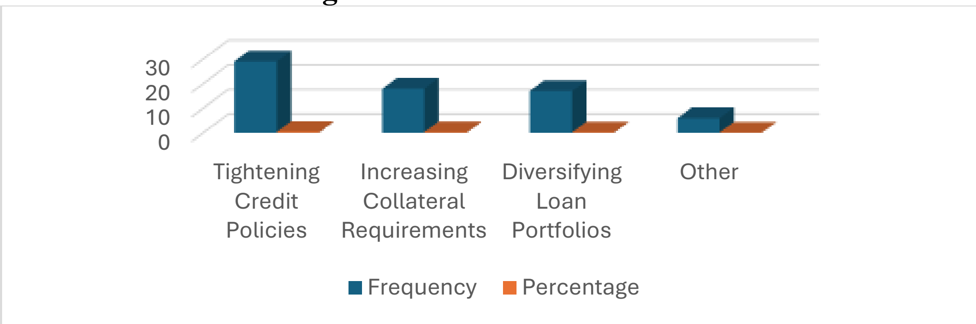
Interpretation: A strong 60% of respondents see technology as playing a significant role in credit risk management. This highlights the importance of digital tools and automation in modern risk evaluation. Minimal reliance on tech is rare.

11.How does ICICI Bank handle credit risk during economic downturns?

Table-11: Economic downturns

RESPONSE	FREQUENCY	PERCENTAGE
Tightening Credit Policies	29	41.43%
Increasing Collateral Requirements	18	25.71%
Diversifying Loan Portfolios	17	24.29%
Other	6	8.57%
Total	70	100%

Figure-11: Economic downturns



Interpretation: ICICI Bank mainly responds by tightening credit policies (41.43%) and increasing collateral requirements (25.71%). Diversification of loan portfolios (24.29%) is also used, showing a multi-pronged approach to risk control during crises.

12.What is the impact of credit risk on ICICI Bank's profitability?

Table-12: impact of credit risk on ICICI Bank's profitability

RESPONSE	FREQUENCY	PERCENTAGE
Significant Impact	48	68.57%
Moderate Impact	15	21.43%
Minimal Impact	4	5.71%
No Impact	3	4.29%
Total	70	100%

Figure-12: Impact of credit risk on ICICI Bank's profitability

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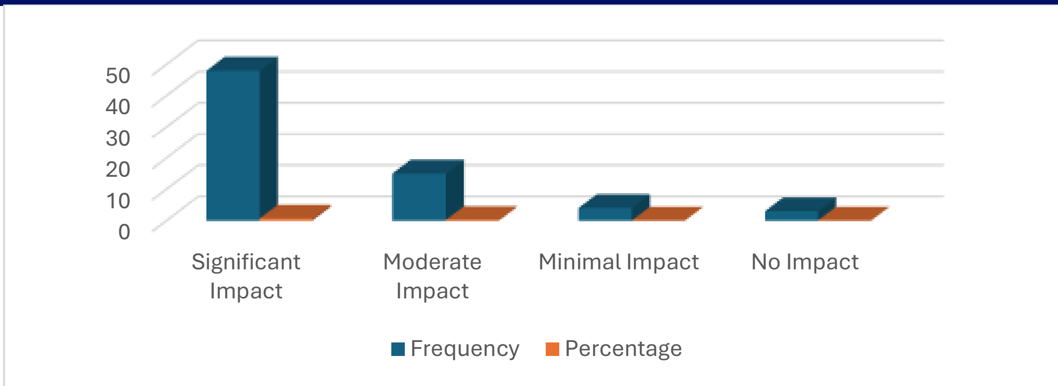


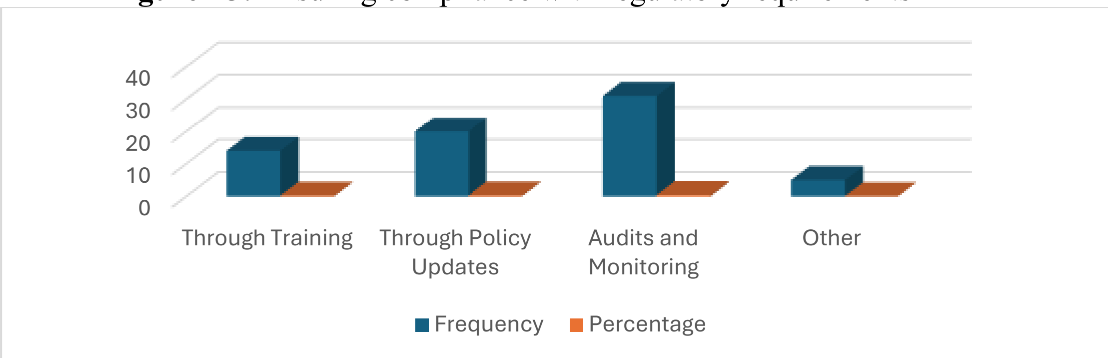
Interpretation: A substantial 68.57% believe credit risk significantly impacts profitability. Combined with moderate impact (21.43%), over 90% recognize credit risk as a direct factor in financial outcomes. This underscores its strategic importance.

13. How does ICICI Bank ensure compliance with regulatory requirements in credit risk management?

Table-13: Ensuring compliance with regulatory requirement

RESPONSE	FREQUENCY	PERCENTAGE
Through Training	14	20.00%
Through Policy Updates	20	28.57%
Audits and Monitoring	31	44.29%
Other	5	7.14%
Total	70	100%

Figure-13: Ensuring compliance with regulatory requirements



Interpretation: Audits and monitoring (44.29%) are the most used compliance method, followed by policy updates (28.57%). Training (20%) also plays a role. The data reflects a structured, multilayered approach to ensuring regulatory adherence.

14 How would you rate ICICI Bank's overall credit risk management practices?

Table-14: Rating credit risk management practices

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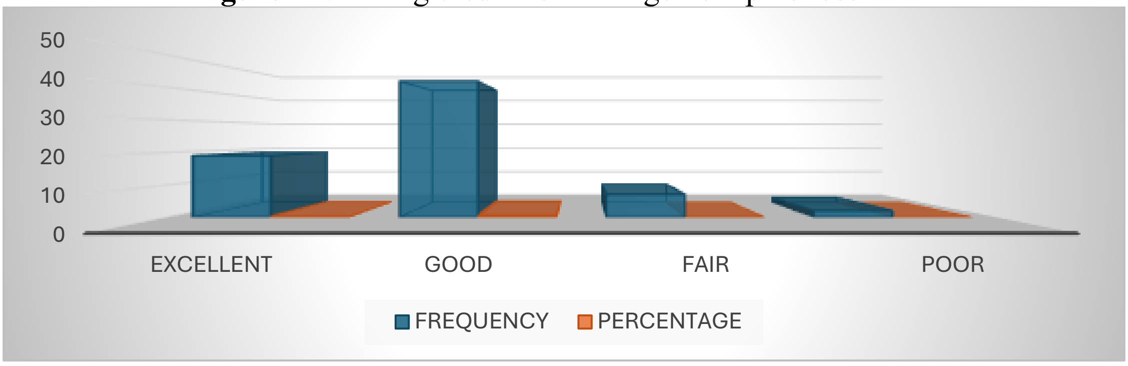
RESPONSE	FREQUENCY	PERCENTAGE
Excellent	19	27.14%
Good	42	60.00%
Fair	7	10.00%
Poor	2	2.86%
Total	70	100%

Figure-14: Rating credit risk management practices



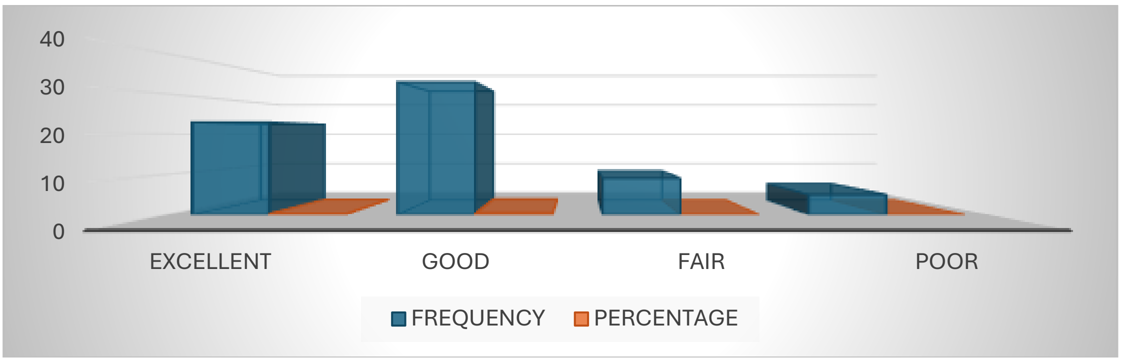
Interpretation: Most respondents (60%) rate ICICI's risk management as "Good," and another 27.14% say "Excellent." This positive rating (87.14%) reflects satisfaction with the bank's risk practices. Very few (2.86%) rate it as poor.

15 How would you rate the transparency and clarity of ICICI Bank's credit risk policies and procedures?

Table-15: Transparency and clarity of ICICI Bank's credit risk policies and procedures

RESPONSE	FREQUENCY	PERCENTAGE
Excellent	23	32.86%
Good	33	47.14%
Fair	9	12.86%
Poor	5	7.14%
Total	70	100%

Figure-15: Transparency and clarity of ICICI Bank's credit risk policies and procedures



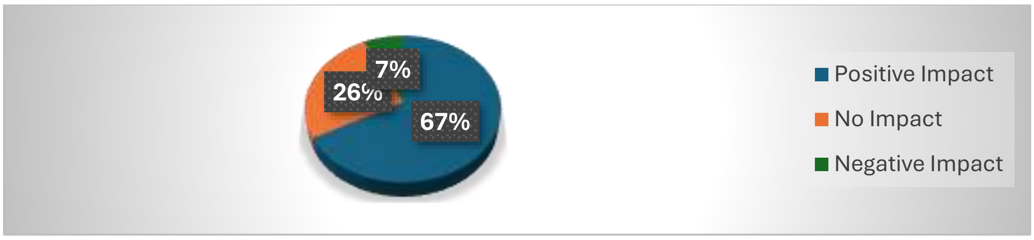
Interpretation: About 80% rate the bank's policies as good or excellent in terms of transparency and clarity. This suggests clear communication and accessible guidelines. A small 7.14% view them as poor, indicating some room for better communication.

16 How does ICICI Bank's credit risk management practices impact its customer relationships?

Table-16: Impact of credit risk management on customer relationships

RESPONSE	FREQUENCY	PERCENTAGE
Positive Impact	47	67.14%
No Impact	18	25.71%
Negative Impact	5	7.14%
Total	70	100%

Figure-16: Impact of credit risk management on customer relationships



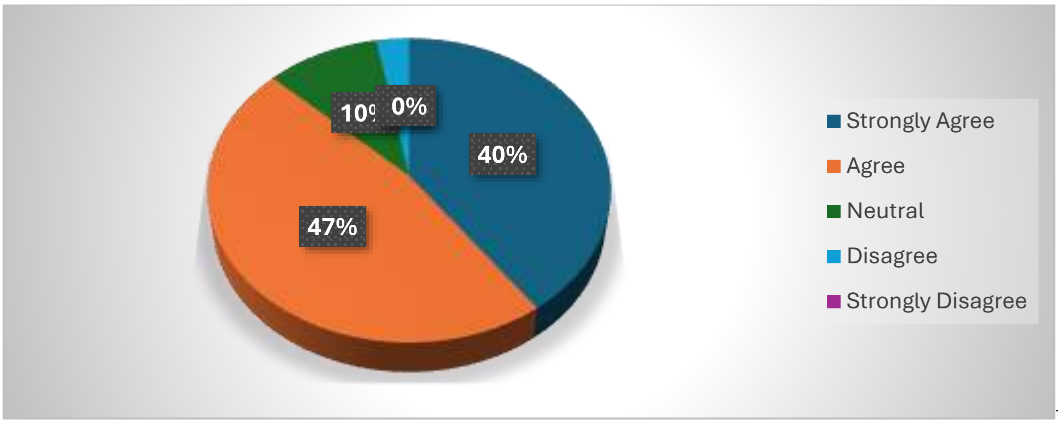
Interpretation: A majority (67.14%) believe the impact is positive, suggesting that effective risk management enhances trust and service delivery. Only 7.14% report a negative impact, indicating minimal disruption to customer experience.

17. Are ICICI Bank's credit risk management practices aligned with its overall business strategy?

Table-17: Credit risk management practices aligned with its overall business strategy

RESPONSE	FREQUENCY	PERCENTAGE
Strongly Agree	28	40.00%
Agree	33	47.14%
Neutral	7	10.00%
Disagree	2	2.86%
Strongly Disagree	0	0.00%
Total	70	100%

Figure-17: Credit risk management practices aligned with its overall business strategy



Interpretation: An overwhelming 87.14% agree or strongly agree with the alignment,

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showing that risk management is well-integrated into the bank's strategic planning. Only 2.86% disagree, suggesting broad organizational coherence.

FINDINGS

1. 85.72% of respondents consider ICICI Bank's credit risk policies to be highly effective or effective.
2. 82% of respondents agree that ICICI Bank's credit risk procedures align with industry best practices.
3. Economic downturns (32.86%) and inadequate assessment (28.57%) are the primary challenges.
4. 85.72% of respondents acknowledge that credit risk challenges have a significant or moderate impact on financial performance.
5. 81.43% of respondents rate the credit scoring system as effective or highly effective.
6. 88.57% of respondents consider collateral evaluation important or very important.
7. 58.57% of respondents confirm that policies are reviewed regularly.
8. 48.57% of respondents believe both Risk and Credit Departments manage credit risk.
9. Performance metrics (52.86%) are the primary method used to measure effectiveness.
10. 60% of respondents see technology playing a significant role in credit risk management.
11. ICICI Bank mainly responds by tightening credit policies (41.43%) and increasing collateral requirements (25.71%).
12. 68.57% of respondents believe credit risk has a significant impact on profitability.
13. Audits and monitoring (44.29%) are the most used compliance method.
14. 87.14% of respondents rate ICICI's risk management practices as good or excellent.
15. 80% of respondents rate the bank's policies as good or excellent in terms of transparency and clarity.
16. Impact on customer relationships: 67.14% of respondents believe the impact is positive.
17. 87.14% of respondents agree that credit risk management practices are aligned with the bank's overall business strategy.

SUGGESTIONS

ICICI Bank can enhance its credit risk management by strengthening various strategic and operational areas. A key focus should be on improving its credit risk assessment processes to address the primary challenge of inadequate evaluations. Additionally, the bank must remain

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vigilant in monitoring economic downturns and develop proactive strategies to mitigate their impact on credit risk exposure. Leveraging advanced technologies, such as analytics and machine learning, can significantly enhance risk identification and assessment capabilities. Regular reviews and updates of credit risk policies are essential to ensure alignment with evolving industry standards and best practices. Moreover, maintaining and enhancing strong customer relationships through sound credit risk practices adds further value.Ongoing emphasis on compliance through audits and monitoring is vital to uphold regulatory standards. Lastly, promoting greater transparency and clarity in credit risk policies—supported by stakeholder and customer feedback—will contribute to continuous improvement and strengthened trust.

CONCLUSION

In conclusion, the analysis of ICICI Bank's credit risk management practices reveals a robust framework with effective risk assessment, regular policy reviews, and a strong risk culture. The bank's use of technology, performance metrics, and audits ensures compliance with regulatory requirements. The findings suggest that ICICI Bank prioritizes credit risk management, and its practices are aligned with industry best practices.Overall, the study indicates that ICICI Bank's credit risk management practices are effective in managing credit risk, and the bank's overall performance is positively impacted by its risk management efforts. By continuing to refine its credit risk management practices, ICICI Bank can maintain its stability and profitability in an ever-changing financial landscape, ultimately benefiting its customers, employees, and stakeholders.

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