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IMPACT OF RISK MANAGEMENT IN PUBLIC AND PRIVATE SECTOR BANKS

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Abstract

The research paper aims to examine the impact of risk management on the performance of private and public sector banks in India. Effective risk management is crucial for mitigating risks and improving bank performance. The study utilizes the CAMELS approach, a rating system that analyses various ratios to evaluate bank performance. The ratios considered include capital adequacy ratios, asset quality ratios, management capability ratios, earnings quality ratios, liquidity ratios, and sensitivity to market risk. The analysis covers the period from 2018 to 2022, and descriptive statistics are employed to analyse the results.

Keyword: Public sector banks, Private sectors banks, financial stability, Comparative analysis

INTRODUCTION

Risk management in the banking sector is a critical factor that determines the stability, efficiency, and profitability of financial institutions. The importance of risk management has been magnified by numerous financial crises over the years, underscoring its role in safeguarding the banking system against potential losses and uncertainties. This introduction explores how effective risk management practices impact both public sector and private sector banks, highlighting the similarities and differences in their approach and the outcomes of these strategies.

Overview of Risk Management in Banks

Risk management in banks involves identifying, assessing, and prioritizing risks followed by coordinated efforts to minimize, monitor, and control the probability or impact of unfortunate events. Common types of risks managed by banks include credit risk, market risk, operational risk, liquidity risk, and compliance risk. The objective of risk management is not only to prevent losses but also to optimize the risk-return profile of the bank.

Public Sector Banks: A Unique Risk Landscape

Public sector banks (PSBs) are typically owned by the government and play a crucial role in national economic strategies, including financial inclusion, poverty reduction, and infrastructure financing. These banks often have social objectives at par with commercial goals. The government backing influences their risk management approaches, often focusing heavily on maintaining high levels of liquidity and capital adequacy to ensure operational stability and public confidence.

PSBs face unique risks due to their size, complexity, and integration within broader governmental policies. They might be more exposed to political risks and pressures, affecting their lending practices and risk assessment methodologies. Additionally, public scrutiny and regulatory oversight can be more intense, requiring robust compliance and risk management systems. However, government support also implies a lower risk of failure, which can sometimes lead to complacency in risk management practices.

Private Sector Banks: Competitive and Dynamic Risk Management

Private sector banks are profit-driven entities owned by private investors and shareholders. They are characterized by a more aggressive approach to capturing market opportunities and enhancing shareholder value. In such a competitive landscape, private sector banks are often at the forefront of adopting innovative risk management techniques and technologies.

These banks face intense competition and thus are compelled to take calculated risks for higher returns. They tend to have more sophisticated risk management frameworks that utilize advanced analytics and risk modelling techniques to assess and mitigate risks dynamically. Private banks are also quicker in adapting to changing market conditions and regulatory environments, integrating risk management deeply into their corporate strategy and culture

Comparative Analysis**:**

Impact and Outcomes

The impacts of risk management in public and private sector banks can be observed in several key areas:

Financial Stability: Effective risk management ensures that both types of banks can withstand financial shocks, although PSBs often benefit from implicit government guarantees, reducing their risk of default.

Operational Efficiency: Advanced risk management tools in private sector banks often lead to higher operational efficiency and agility. In contrast, PSBs might struggle with bureaucratic inefficiencies.

Innovation and Adaptability: Private sector banks generally demonstrate greater adaptability and innovation in products and services due to their risk-taking nature and competitive pressures.

Regulatory Compliance: Both sectors face intense regulatory scrutiny, but PSBs may face additional challenges due to their dual role in fulfilling both economic and social government agendas.

Risk management is indispensable in the banking sector, crucial for safeguarding assets, maintaining customer confidence, and ensuring the long-term viability of the banks. While both public and private sector banks share the fundamental goal of managing risks to prevent losses, their approaches and effectiveness can differ significantly due to their organizational structures, objectives, and external pressures. These differences highlight the importance of tailoring risk management strategies to the specific needs and conditions of each bank type, ensuring stability and efficiency in the broader financial sits.

LITERATURE REVIEW

Kou Sky C, 2018 Mar, Kun Reuther H. Risk management roles of the public and private sector. Risk Management and Insurance Review. ;21(1):181-204.

Resilience in the home and in society depends on insurance. It offers financial protection to policyholders against disaster losses, can incentivize the adoption of affordable mitigation strategies by lowering premiums, and speeds up property reconstruction and long-term rehabilitation. Providing complete protection against calamities is a difficulty for private insurers. Governments all over the world have responded to this by establishing a range of public insurance organizations, many of which are public-private partnerships. Participants in a workshop in November 2016 titled "Improving Disaster Financing: Evaluating Policy Interventions in Disaster Insurance Markets" assessed policies covering losses from terrorism, earthquakes, and floods.

Nisar TM. 2007 Mar Risk management in public-private partnership contracts. Public Organization Review; 7:1-9.

Public-private partnerships, or PPPs, provide private businesses the authority to construct, own, and run public facilities like hospitals and schools on behalf of the government. In PPP contracts, the private agent is typically obliged to assume responsibility for the asset's performance for an extended period of time, or a substantial portion of its useful life, in order to gain the efficiencies that result from long-term investment and asset management. On the success of such initiatives in achieving the stated goals, however, the evidence is not entirely conclusive. This highlights the difficulty of creating and carrying out creative collaboration plans in order to better manage public services. Strategies for risk transfer must receive more attention if PPP contracts are to be successfully completed.

2006. Arunkumar R, Kotreshwar G. Risk management in commercial banks (A case study of public and private sector banks). In Indian Institute of Capital Markets 9th Capital Markets Conference Paper

The primary factor that influences financial behavior is risk. The financial system would be much simpler if there was no risk. In the real world, risk is, nevertheless, always present. Therefore, in order for financial institutions to thrive in this extremely uncertain world, they must effectively manage risk. Risk management dynamics will surely be the foundation of banking in the future. The only banks that will last in the long run in the market are those with effective risk management systems. One crucial element of comprehensive risk management that is necessary for a banking organization to succeed over the long run is the efficient management of credit risk.

Baldry D. 1998 Feb 1 The evaluation of risk management in public sector capital projects. International journal of project management;16(1):35-41.

Risk is an inherent component of capital project execution that can take many forms at different phases of the project's life cycle. The risk exposure and resulting risk consequences for public sector organizations that sponsor projects are determined by the cultural and environmental parameters that govern their operations. In this work, the importance of project risk is discussed and assessed, and the effects of both financial and non-financial risk outcomes are examined. Proposals for the broader implementation of risk management approaches are taken into consideration, along with the capability and ability of public sector organizations to manage project risk.

Kong Y, 2018 Jul 31, Lartey PY, Bah FB, Biswas NB. The value of public sector risk management: An empirical assessment of Ghana. Administrative Sciences;8(3):40.

This study looks into Ghanaian public enterprises' risk management procedures. We advocated for potential solutions to reduce the incidence and consequences of risk in public organizations by relying on the well-known framework created by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The control environment, dedication to ethics, job segregation, review, information sharing, and communication are some of the internal control components that are employed. These make up the explanatory variables that are employed in multivariate data analysis to ascertain the data set's dimensionality and potential outcomes. Using a structural equation model and the survey method, the exploratory investigation used a quantitative approach.

OBJECTIVE

1. **To identify the key risk management strategies employed by public sector and private sector banks.**
   This objective involves cataloguing the risk management tools and methodologies currently in use, focusing on how these strategies differ between public and private sector banks and how they are integrated into the banks' operational frameworks.

2. **To evaluate the effectiveness of risk management practices in enhancing financial stability in public sector and private sector banks.**
   This aims to measure the success of risk management in maintaining or improving financial health, focusing on metrics like capital adequacy, asset quality, profitability, and liquidity ratios.

3. **To analyse how risk management influences operational efficiency in public and private banks.**
   This will examine aspects such as process improvements, technological adoption, and cost efficiencies that arise from effective risk management practices.

4. **To assess the role of risk management in ensuring regulatory compliance and managing reputational risk.**
   This objective looks at how risk management practices help banks meet legal and regulatory requirements, mitigate the potential for financial scandals, and maintain public trust and confidence.

5. **To investigate the challenges faced by public and private sector banks in implementing risk management practices.**
   Here, the focus will be on identifying common obstacles such as technological limitations, organizational culture barriers, regulatory changes, and external economic factors.

SCOPE

Studying risk management has broad and varied applications in the public and private domains, including a variety of areas where governance, economics, finance, law, and organizational behavior are all impacted. Fundamentally, the goal of this research is to improve the resilience and sustainability of the entities that operate in these sectors by investigating the several facets of risk identification, assessment, management, and mitigation.

From a theoretical standpoint, the scope encompasses investigating the conceptual underpinnings of risk management, including risk perception, risk appetite, and risk tolerance, as well as how these ideas differ in the contexts of the public and private sectors. It entails examining how institutional arrangements, legal frameworks, and stakeholder roles influence risk management procedures and results in various industries.

In practical terms, this means that the scope can be expanded to include analyzing the particular risks that public sector organizations face, like reputational, regulatory, and political risks and contrasting them with market, operational, and cybersecurity risks that private sector organizations face. It entails researching how well risk identification instruments, risk assessment techniques, and risk mitigation tactics work in various corporate contexts.
In addition, the scope takes into account how shocks in one sector might have an impact on the larger economy and society by examining the interdependencies and spillover effects of risks between the public and private sectors. This entails looking into how risk exposure and risk management skills are affected by outsourcing agreements,

public-private partnerships, and cross-sectoral collaborations. The scope also includes analyzing how technological developments like blockchain, big data analytics, and artificial intelligence affect risk management procedures in both industries. It entails evaluating the benefits and drawbacks of implementing these technologies to enhance risk detection, monitoring, and decision-making procedures.

RESEARCH METHODOLOGY

RESEARCH DESIGN

I. Research Approach:

Quantitative Approach: Employ quantitative techniques to gather numerical data regarding organizational outcomes and risk management procedures.

Qualitative Approach: Use qualitative techniques to learn more about stakeholder views, company culture, and contextual elements that affect risk management efficacy.

II. Metrics for data collection:

Survey and questioners: Send out organized surveys or questionnaires to get quantitative information on stakeholder views, performance metrics, and risk management procedures.

Document Analysis: To augment survey and interview data, examine organizational records like financial.

III. Methods of Data Analysis:

Descriptive Statistics: Determine means, frequencies, and standard deviations to provide an overview of quantitative information on organizational results and risk management procedures.

Inferential Statistics: Run statistical tests to look at connections between organizational performance and risk management factors, such as regression analysis or analysis of variance (ANOVA).

IV. Sources of Data

The primary source of data:

The survey was carried out online utilizing a Google questionnaire that was provided to the respondents and had numerous study-related items. As a result, many response types were observed including “yes” or “no” responses as well as responses stated as **percentages and ratios.**

DATA COLLECTION

The following steps are usually included in a systematic strategy for gathering primary data on risk management in the public and private sectors:

Establish Research Objectives: Clearly state the goals and research questions that will direct the gathering of data. Establish which particular facets of risk management, such as procedures for risk identification, techniques for risk assessment, or tactics for risk mitigation, will be examined.

Determine the Sources of Data: Determine which sources will be used to get primary data. Surveys, interviews, focus groups, and organizational practice observation are a few examples of this.

Create Data Collection Tools: Create data collection tools that are specific to the goals of the study and the technique that has been selected. Create organized questionnaires for surveys that include both closed- and open-ended questions. Prepare discussion questions or interview guides in advance of focus groups and interviews to help steer the conversation.

Method of Sampling: Based on the population of interest, choose a sampling strategy. The public and private sector populations that may be involved in risk management include corporations, industry groups, non-profits, and government agencies. Based on the goals of the study and the available resources, choose between probability sampling (random sample) and non-probability sampling (purposive sampling, snowball sampling).

Data Collection: Use focus groups, interviews, and survey administration to carry out the plan for gathering data. Make sure that the processes for gathering data are done ethically and in compliance with the applicable laws; this includes getting participants' informed consent and protecting the privacy of their answers.

Data analytical: Apply the relevant statistical or qualitative analytical methods to the collected data. Use statistical software to examine quantitative responses from survey data using methods including regression analysis, correlation analysis, and descriptive statistics. To find patterns and themes in qualitative data from focus groups or interviews, use content analysis or thematic analysis.

Reporting and Interpretation: Analyse the results in light of the study's goals and the body of knowledge regarding risk management in the public and private sectors. Write a thorough report outlining the research approach, important conclusions, ramifications, and suggestions for more study or application.

Peer Evaluation and Communication: To guarantee validity and rigor, have the research findings reviewed by peers. Share the findings with appropriate parties via scholarly papers, conference talks, policy briefs, or business reports to foster information exchange and risk management decision-making.

DATA ANALYSIS AND INTERPRETATION

Table No 5.1

1. Gender

Responses	**Frequency**	**percentage**
Male	12	37.5%
Female	20	62.5%
Total	32	100%

Source: Primary Data

Analysis: From the above graph and table, it is observed that out of 32 responses, 12 responses are from male with 37.5%, 20 responses from female with 67.5%

Interpretation: It is observed that most of the respondents are female and the least number of respondents are male.

Fig 5.1

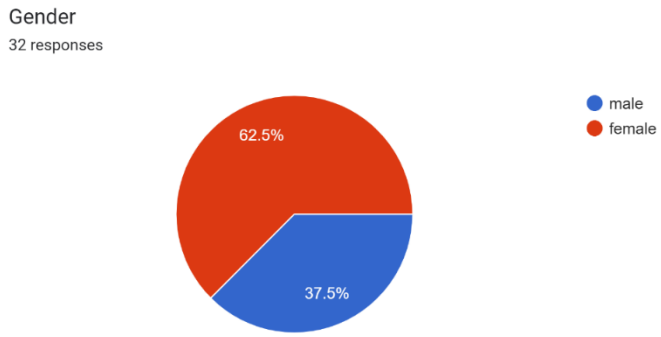


Table 5.2

2. Age

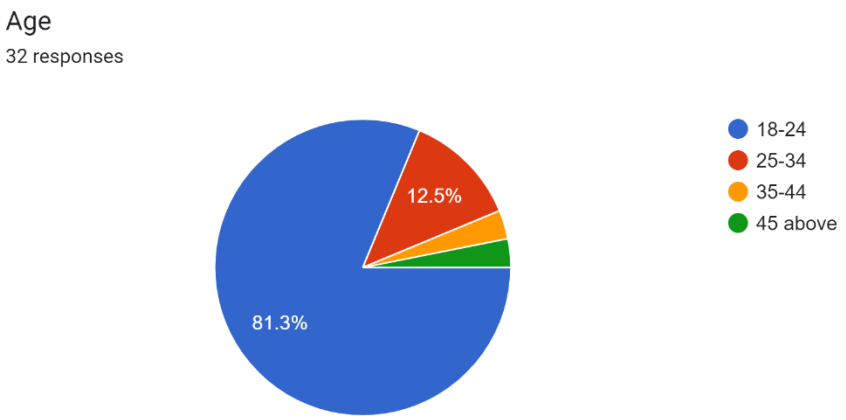
Responses	Frequency	Table
18-24	26	81.3%
25-34	4	12.5%
35-44	1	3.1%
45above	1	3.1%
Total	32	100%

Sources: Primary Data

Analysis: From the above graph and table, it is observed that out of 32 responses, 26 respondents are from under 18-24 age group with 81.3%, 4 respondents are from 25-34 age group with 12.5%, 1 respondent from 35-44 age group with 3.1 %, 1 respondent from 45 above with 3.1 %

Interpretation: It is observed that most of the respondents are from 18-24 years, and least respondents are from 45 above

Fig 5.2



3. Educational Qualifications

Table 5.3

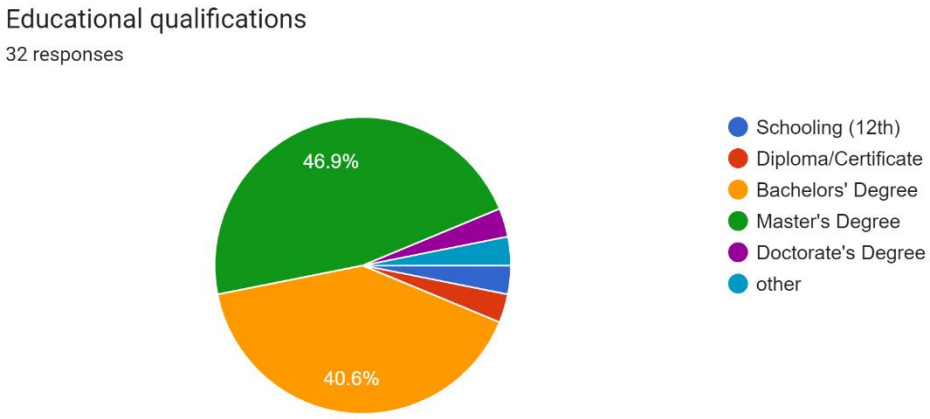
Responses	Frequency	Percentages
Schooling (12th)	1	3.1%
Diploma/ Certificate	1	3.1%
Bachelor's degree	13	40.6%
Master's degree	15	46.9%
Doctorate's degree	1	3.1%
Others	1	3.1%
Total	32	100%

Sources: Primary data

Analysis: From the above graph and table, it is observed that out of 32 respondents, 1 respondent are from schooling(12th) with 3.1%, 1 respondent are from Diploma/certificate with3.1%, 13 respondent are from bachelor's Degree with 40.6%, 15 respondent are from master's degree 46.9%, and 1 from other with 3.1%

Interpretation: It is observed that most of the respondent are from master's degree and least number of respondent are from others.

Fig 5.3



4. Which sector do you think faces greater risk management challenges: Public or Private sector banks?

Table 5.4

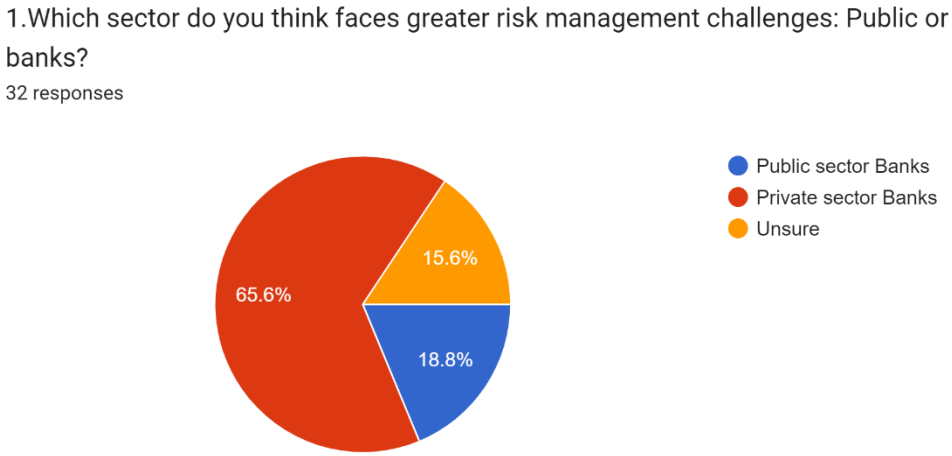
Responses	Frequency	Percentage
Public sector banks	6	18.8%
Private sector banks	21	65.6%
Unsure	5	15.6%
Total	32	100%

Sources: Primary Data

Analysis: From the above graph and table, it is observed that 21 responses are for public sector banks at 65.6%, 6 responses are for private sector banks at 18.8%, 5 responses are for unsure at 15.6%

Interpretation: It is observed that most of the respondents are from private sector banks and the least number of respondents are from unsure.

Fig 5.4



5. What do you believe is the primary goal of risk management in banks?

Table 5.5

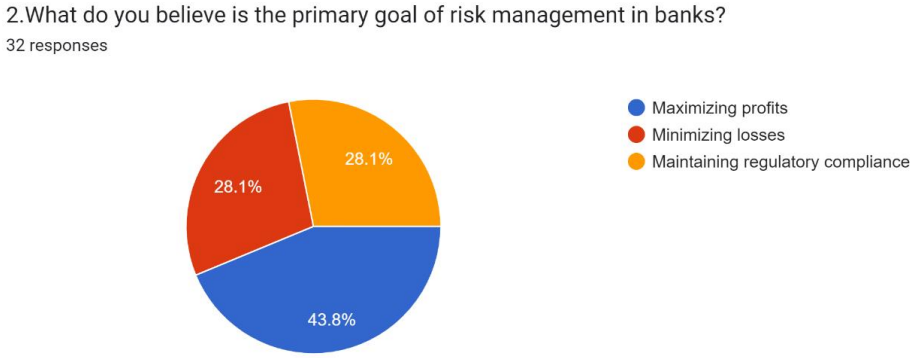
Responses	Frequency	Percentage
Maximising profit	14	43.8%
Minimizing losses	9	28.1%
Maintaining regulatory compliances	9	28.1%
Total	32	100%

Sources: Primary Data

Analysis: From the above graph and table, it is observed that 14 responses are from maximizing profit at 43.8%, 9 responses are from minimizing losses at 28.1%, and 9 responses are from Maintaining regulatory compliances at 28.1%

Interpretation: It is observed that most of the respondents are from Maximising Profit and the least number of respondents are from Maintaining regulatory compliances

Fig 5.5



FINDINGS

1. Speed of Response: - When it comes to reacting to hazards, public sector banks (PSBs) move more slowly than private sector banks.

2. Methodology: Private sector banks employ a combination of classic and new risk management strategies, whilst PSBs mostly rely on conventional approaches.

3. Regulatory Influence: PSBs may find it more difficult to manage risk since they must comply with higher regulations.

4. Financial Health: - As a result of their delayed risk management responses, PSBs may see an increase in non-performing assets (NPAs) and a decrease in profitability.

5. Customer Perception: - In the face of perceived inefficiencies in risk management, PSBs may find it difficult to keep customers' trust.

LIMITATION

Many restrictions may appear while researching how risk management affects the public and private sectors, which could have an impact on the reliability and applicability of the results. The quality and accessibility of the data is one major limitation. Since risk management procedures can be intricate and multidimensional, it can be difficult to compile thorough and reliable data from a range of businesses and industries. Bureaucratic procedures and laws in the public sector might impede data accessibility and transparency, while for competitive reasons, private sector businesses may be hesitant to reveal critical information about their risk management plans.

The variety of risk management strategies and frameworks used by various firms represents another drawback. Different approaches to risk identification, assessment, and mitigation can be used by public and private sector institutions depending on their specific goals, organizational configurations, and legal settings. As a result, it can be difficult to compare the efficacy of risk management techniques across industries because success criteria can vary greatly.

SUGGESTION/ RECOMMENDATIONS

Recognizing, evaluating, and mitigating risks to an organization's assets and profits is the goal of risk management. When applied to banks, it helps guarantee that they can manage a range of financial risks and carry on with business as usual. The following are the effects on banks in the public and private sectors:

Government Support for Public Sector Banks: Since the government owns public sector banks, they frequently have safety nets. To preserve both public confidence and financial stability, risk management is still necessary.

Regulation Compliance: In order to prevent financial crises and guarantee the security of public funds, they must adhere to stringent regulations.

Credit Risk: They frequently make riskier loans to priority industries like agricultural and government projects. They can handle possible loan defaults with the use of effective risk management.

Operational Efficiency: Public banks can reduce waste and fraud by streamlining their operations with the aid of effective risk management.

The primary focus of private sector banks is to optimize earnings for their owners. By managing risk, they can make informed investing decisions and stay out of trouble

.

Competitive Edge: By using risk management to create superior goods and services, they are able to draw in more clients and acquire a competitive advantage.

CONCLUSION

For banks in the public and private sectors, effective risk management is essential to maintaining their stability and prosperity. By recognizing and reducing risks that could result in financial losses, strong risk management in private sector banks improves financial stability. It guarantees adherence to strict legal and regulatory requirements, preventing fines and legal problems. This strengthens the bank's position in the market and encourages more investments by showcasing its capacity to properly handle risks, which in turn inspires trust in investors. Early risk assessment leads to smoother operations and lower costs, which enhances operational efficiency. Additionally, by averting situations like fraud or significant financial losses, good risk management contributes to the preservation of the bank's reputation.

Risk management is very beneficial to public sector banks since it protects public funds and sustains public confidence. Good risk management helps maintain the financial system's overall stability, which is necessary for the expansion and stability of the economy. Strong risk management guarantees that government initiatives, which these institutions frequently play a crucial part in executing, are carried out without suffering major operational or financial setbacks. Furthermore, by guaranteeing improved credit assessment and monitoring procedures, robust risk management methods contribute to a decrease in non-performing assets. As a result, the bank's loan portfolios are better and its financial standing is enhanced. Effective risk management guarantees that public sector banks carry out their social responsibilities without placing the bank at undue danger.

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