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Risk Management in Public and Private Sector Banks

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Abstract

A key component of contemporary banking operations, risk management is essential for maintaining financial stability and safeguarding stakeholders. With increasing global competition, digital transformation, and evolving regulations, Indian banks face various risks—credit, market, operational, and liquidity. This study compares risk management practices between public and private sector banks in India using the CAMELS framework (Capital adequacy, Asset quality, Management efficiency, Earnings, Liquidity, and Sensitivity). The research analyze six major banks and evaluates their performance and preparedness to manage risks, offering insights and recommendations for enhancing risk resilience across the sector.

Introduction

The Indian banking sector has undergone a significant transformation over the past two decades. Liberalization, technological advancements, and economic expansion have introduced new opportunities and risks. Risk in banking arises from uncertainties related to financial transactions, customer defaults, regulatory shifts, and operational inefficiencies. Hence, risk management has evolved from a regulatory obligation to a strategic priority.

Risk is defined as the possibility of suffering losses due to unforeseen events. In banking, these risks can affect profitability, solvency, and reputation. Efficient risk management involves identifying potential threats, assessing their likelihood and impact, and applying mitigation strategies. The CAMELS framework, originally developed in the U.S., serves as a comprehensive model for evaluating a bank's risk position and operational strength.

Objectives of the Study

- To evaluate how crucial risk management is to contemporary banking.
- To identify major risks faced by public and private sector banks.
- To use the CAMELS to assess the risk performance of a few chosen Indian banks
- To analyze the impact of COVID-19 on risk exposure and banking operations.
- To suggest improvements in risk governance, especially for underperforming banks.

Methodology

This study uses a comparative analysis of six banks—three from the public sector (SBI, Central Bank of India, IDBI) and three from the private sector (HDFC, ICICI, Kotak Mahindra). Both primary data (via questionnaires) and secondary sources (RBI bulletins, annual reports, research articles) have been used.

Key evaluation parameters include:

- Capital Adequacy Ratio (CAR)
- Net Non-Performing Assets (NPAs)
- Management Efficiency Ratios
- Return on Assets (ROA) and Equity (ROE)

- Liquidity and Sensitivity Ratios

The CAMELS model is applied to rank these banks based on their overall financial health and risk profile during the years 2019–2020.

Key Findings

Capital Adequacy

solid CAR indicates solid capital buffers for private banks like ICICI and Kotak Mahindra. Among public sector banks, SBI maintained adequate reserves, whereas Central Bank of India performed the weakest on this metric.

Asset Quality

IDBI and CBI showed higher levels of stressed assets, reflecting poorer asset quality. Private banks generally maintained lower NPAs due to stricter lending norms and better credit monitoring.

Management Efficiency

Kotak Mahindra and IDBI were top performers in controlling operational expenses. Public banks showed moderate efficiency, but needed improvements in cost-to-income ratios and automation.

Earnings

HDFC and CBI showed strong earnings performance. HDFC had high ROE and ROA, while some public banks lagged due to legacy NPAs and higher provisioning requirements.

Liquidity

SBI and Kotak Mahindra exhibited robust liquidity management. Liquidity risks were more prominent in smaller public sector banks.

Sensitivity to Market Risks

Private banks were better prepared for interest rate and market fluctuations. Public banks showed limited diversification and slower adoption of hedging tools.

Challenges and COVID-19 Impact

The pandemic introduced multiple disruptions:

- Reduced borrower repayments increased credit risk.
- Digital adoption accelerated, demanding enhanced cyber-risk management.
- • Remote operations and staff shortages have an effect on service quality.

However, it also pushed banks to digitize faster and restructure loans under RBI guidelines. According to data, most banks showed resilience, with private banks adapting faster to change.

Recommendations

1. Adopt Advanced Analytics: AI and data science tools can improve predictive risk analysis.
2. Strengthen Capital Buffers: Especially for weaker public banks, raising capital is vital for long-term survival.
3. Improve Digital Risk Systems: Build stronger IT infrastructure and cyber defense.
4. Enhance Governance: Implement transparent policies and a proactive risk culture.
5. Continuous Staff Training: Equip employees with tools and skills for risk identification and mitigation.
6. Strategic Risk Integration: Make risk management a board-level, organization-wide responsibility.

Conclusion

Risk management in banking is no longer optional—it's essential. While public and private sector banks operate under similar regulatory frameworks, their approaches and effectiveness vary. Private banks generally outperform due to agility, technology use, and strict credit standards. Public banks need to invest in systems, governance, and talent to match this performance.

The CAMELS framework proves effective in benchmarking risk practices and financial health. Overall, the study concludes that while Indian banks are progressing in risk resilience, continuous innovation, regulatory compliance, and cultural alignment are necessary for enduring success in a volatile financial ecosystem.