International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 08 Issue: 04 | April - 2024 SJIF Rating: 8.448 ISSN: 2582-3930

STUDY OF RISK MANAGEMENT IN BANKING SECTOR

MAIMISH JAHAN - 22042010930
UNDER THE GUIDANCE OF
Prof. JAGRITI GUPTA

ABSTRACT

When it comes to the change of an economy, the function that financial institutions of a country perform is absolutely essential. The financial performance of a bank over the course of its history, as well as its capacity to manage risks such as market risk, credit risk, and liquidity risk, can be used to evaluate the progress that banking institutions have made. In the 1980s, the United States of America first implemented a supervisory framework model known as "CAMEL" in order to ascertain the overall state of the bank. It is possible for the model to serve as an efficient instrument for guidance and management, as it is able to forecast future risks that may have an impact on a bank. The purpose of this study is to evaluate the performance of three "public sector banks" and three "private sector banks" in India using the CAMEL methodology for a period of two years, specifically 2022 and 2023. A bank's financial strength is determined using the CAMEL model, which rates the banks from best to worst based on characteristics such as "capital adequacy, asset quality, management efficiency, earning, and liquidity." characteristics such as these are used to determine the strength of a bank. According to the findings of the study, the State Bank of India, the Central Bank of India, and the IDBI bank are the three banks that perform the best in terms of the CAMEL parameters among public sector banks. Similarly, according to the CAMEL composite index rating, the private sector banks in India that hold the top ranks are ICICI bank, Kotak Mahindra Bank, and HDFC bank.

Key Word : CAMEL model evaluates financial health of banks using capital, asset quality, management, earnings, and liquidity.

INTRODUCTION

India is one of several developing nations experiencing a shift in the financial sector, particularly the banking industry. The banking industry can stabilise the financial markets by constructing a solid financial framework.

The developed market now offers a wider variety of products because to loosening financial sector rules. Credit cards, real estate, exit strategies, and other non-balance sheet products are among the newly offered items. Thus, new opportunities have increased banking resources, allowing for greater profit generation than was previously possible through conventional financial mediation. Also, new, potentially hazardous places are being unveiled simultaneously. The banking sector in India has been adapting to new threats, uncertainty, and competition during the last decade. Failures on the part of customers, gaps in service, or unfavourable shifts in the market can all pose risks. Assessing and quantifying dangers plainly or precisely. The goal of our regulators' honest efforts is to strengthen the stability of the financial system by bringing about regulatory procedures and monitoring that are in line with worldwide banking practices. "Rescum," meaning "danger at sea" or "what it cuts," follows the derivation of "risk" in Latin. Risk is an unforeseen occurrence that can have a negative impact on one's financial situation, leading to a decrease or loss of wages. Reason being, it's brought on by a lack of clarity on what the future holds. Consequently, a proposal with both possible gains and imminent costs is considered risky. The bank's capital or income could be negatively affected by unforeseen and unexpected circumstances. Two alternative definitions of "risk" have been provided by Price Waterhouse Cooper in one of their publications. Exposure to the possibility of harm, loss, or other undesirable outcome is known as risk. A company's vulnerability to losses unrelated to its economic activity and its profit generator. "The Danger of Missing Out: "The typical profit margin will inadvertently increase. Consequently, the goal of risk management is to detect, quantify, track, and control unknowns. While it does not aim to eradicate risk entirely, it does provide banks the ability to increase their risks to unmanageable levels without substantially impacting their profits.

LITERATURE REVIEW

Researchers can find new information on a topic that hasn't been published before by following a literature review. Despite an abundance of literature on the issue, the CAMEL technique limits the application of ratio analysis in analyzing the financial performance of banks. The researcher first undertakes a literature review on financial performance analysis using the CAMEL method before beginning the actual research for the piece. Svetlana Tatuskar (2010) used the CAMEL framework to examine the financial health of a selection of scheduled banks in India. The five institutions selected for the study were ICICI, SBI, Axis, HDFC, and BOI. This study found that public sector banks like BOI did very well across the board when using the CAMEL criteria. In comparison to ICICI Bank, another private sector bank did better. The research concludes that public sector banks should set up a strong system to recover distressed assets. Using the CAMEL framework, Sushendra Kumar Misra and Parvesh Kumar Aspal (2013) examined the State Bank Group's operations and financial stability. The years 2009–2011 are the focus of this analysis of Via Twenty Ratio's financial results. This finding was made by the people involved: When it came to the Capital Adequacy requirement, SBBJ and SBP came out on top, while SBI got the lowest possible grade. According to the Asset Quality metric, SBBJ ranked first, while SBI ranked last. When it came to managerial effectiveness, SBT was ranked first, whereas SBBJ was ranked last. While SBP ranked lowest in the Earning Quality indicator, SBM ranked first in capacity. Based on the liquidity metric, SBI came out on top, while SBM came out on bottom. Asset quality and capital sufficiency at SBI, managerial effectiveness at SBBJ, and earning quality at SBP should all be improved. Santosh Kumar and Roopali Sharma (2014) used the CAMEL framework to delve more into the efficiency of well-known Indian institutions. The eight institutions with the highest market capitalization were the ones they decided to concentrate on for their investigation. Capital adequacy is an area where Kotak Mahindra Bank excels. Among its affiliated banks, SBI has the highest level of nonperforming assets. They thought the earnings quality of SBI and PNB was the best. According to the survey, ICICI Bank and Kotal Mahindra are the best at controlling their liquidity.

RESEARCH METHODOLOGY

Financial institutions must address numerous risks and challenges presented by: Worldwide expansion • Mergers and acquisitions Changes in regulation and more competition in India's banking industry. The necessity and difficulty of catastrophe management have grown in tandem with the prosperity of financial operations, recorded trading funds, internet banking, and payment services. Risk management is a useful tool for recognising, quantifying, tracking, and controlling unknowns. However, there has been little progress in putting this strategy into action because banks still find risk assessment and management to be a difficult undertaking, which begs the question of what the best solutions are to mitigate these risks. Research into the development and execution of risk management strategies in different financial institutions is, hence, warranted. Banks should practise good risk management. Additionally, the institution's successful survival depends on sound banking. Wages are stabilised and efficiency is increased. Boost the amount of stockholders through the production of value, according to the current research. Saving money seful

↵Make capital allocation better. ↵Make portfolios and applications easier to identify. The company's standing and comprehension of important business operations.

Scope of the Study

There are many other types of risk that might affect a banking company, but the four main ones are credit, interest rate, mortality, and operational risk. Banks can safeguard themselves from any risk by recognising potential threats, precisely assessing and pricing those threats, and keeping sufficient reserves and finances on hand. Indian banks need to use effective catastrophe risk management strategies to boost their efficiency and compete on a global scale.

This study assesses the risks faced by both public and private sector banks using a camel's approach. • To get the senior officers' take on risk.

Data Collection

The current investigation draws from a variety of sources, both official and unofficial.

Primary Research

'The goal of this study is to compare the degree of risk management readiness across six different banks by collecting information from their top executives and employees.

Additional Resources

Additionally, data has been culled from sources such as bank annual reports and desk research. The Indian Bank Association Bulletin and the Reserve Bank of India Bulletin both provide information on the state of the banking industry in India and its recent developments.

Sample Size

Six different types of banks, including public and private ones, make up the sample. The net profit of the banks from 2019 to 2023 is the deciding factor in their selection. The sample sizes are displayed in sequence from the most profitable banks to the least profitable ones. The banks' names are listed below.

✢ Indian National Bank ➢ ICICI Bank Indian Reserve Bank ➢ HDFC Bank Kotak Mahindra Bank Indian Bank for Investment and Rural Development (IDBI) The study is divided into following chapters.

1. Introduction
2. Research Methodology
3. Bank Profiles
4. Data collection and Analysis
5. Analysis of Survey Responses
6. Observations and Suggestions

Research Design

Efficiently integrating the research objective with the economics is the goal of study design, which entails designing data collecting and analysis settings. A research design is really just a blueprint for how a study will be carried out. Provides a structure for gathering, quantifying, and analysing data. It offers a rock-solid foundation for learning and drawing conclusions. Study layout for scientific investigations. A variety of approaches are employed to gather and analyse data in a systematic and intentional manner. Methods of Evaluation

- The performance of the bank and the risks involved have been analysed using the CAMELS method: - A The ratio of capital adequacy
- A bank's capital base is fortified by this percentage. Banks' investments, loans, and advances, as well as their paid-up capital reserves, make up a sufficient portion of their total assets. The capital adequacy ratio is the result of giving each of these factors a weight based on the risks that are specified.

OBJECTIVE

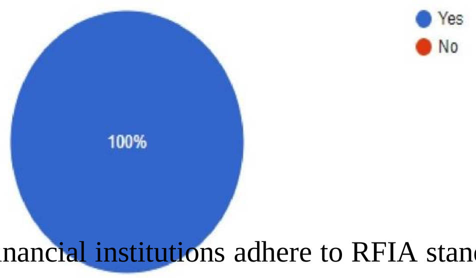
- To analyze the current risk management practices employed by banks and financial institutions.
- To assess the effectiveness of risk identification methods used in the banking sector.
- To examine the impact of regulatory requirements on risk management strategies in banks.
- To evaluate the relationship between risk management practices and financial performance in banking institutions.
- To identify emerging risks and their implications for the banking sector.
- To explore the role of technology and data analytics in enhancing risk management capabilities in banks.
- To investigate the challenges and barriers faced by banks in implementing robust risk management frameworks.
- To propose recommendations for improving risk management practices and resilience in the banking sector.
- To study the correlation between risk management culture and organizational success in banks.

Volume: 08 Issue: 04 | April - 2024 SJIF Rating: 8.448 ISSN: 2582-3930

- To compare risk management approaches across different types of banks (e.g., commercial banks, investment banks, credit unions) and geographical regions.

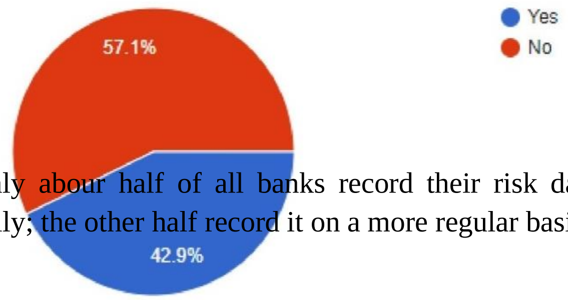
DATA ANALYSIS

Does your bank carries out Risk Focused Internal Audit (RFIA)?



All financial institutions adhere to RFIA standards so that their customers may rest assured that risk is being adequately managed in accordance with their

DOES YOUR BANK CAPTURES RISK DATA ON RAGULAR BASIS?



Only abour half of all banks record their risk data daily; the other half record it on a more regular basis.

FINDINGS

• KOTAK Mahindra Bank has superior performance compared to its competition in the Capital Adequacy component. Also performing admirably in terms of capital sufficiency are HDFC Bank and ICICI.
• Another metric for Assets quality indicates that IDBI Bank is performing admirably. Both CENTRAL BANK and SBI bank are performing admirably on the asset quality metric.
The survey found that when it came to managerial efficiency, KOTAK was far and away the best, with IDBI and CENTRAL bank just behind.
In terms of earning efficiency, CBI bank is leading the pack, with SBI and IDBI bank not far behind.
• The liquidity levels of both SBI and KOTAK banks are rather healthy. As a whole, ICICI Bank's liquidity is better.
Even though IDBI and SBI are doing well, kotak bank is doing the best according to the sensitivity component. When comparing the overall performance of different banks, it has been observed that HDFC, KOTAK, and SBI pose less of a risk and have better results than other banks such as ICICI, CBI, and IDBI.
Banks rated 4th and 3rd are in a far better position than those ranked 5th and 6th, which means that the latter two are much riskier.

CONCLUSION

The financial industry presents an exceptionally high level of risk, but there is always some risk involved. Banks were unable to take chances due to environmental rules until recently. But now there's more competition than ever before, and that means financial and non-financial risks for banks. Because of the inherent dangers and uncertainties, banking is inherently dangerous. The CAMEL model encompasses all aspects of a bank's performance, including capital adequacy and liquidity. Research shows that assessing a financial institution's efficiency is a challenging and fascinating endeavor. In terms of overall performance, the analysis indicates that HDFC Bank is leading the pack. Both SBI Bank and KOTAK performed admirably on the CAMEL subcomponent, according to the findings. The purpose of risk management is not to discourage or outright ban risk-taking. Nevertheless, dangers can only be tracked and mitigated if they are intentionally pursued. In addition, it prevents institutions from suffering unmanageable losses that could ultimately spell their downfall or a sharp drop in competitiveness.

In order to keep financial institutions safe, risk evaluations and monitoring must be rigorous. Few financial organizations effectively apply suitable risk management and measurement technologies, despite the growing importance of this area. Risk management measures will soon be required of both businesses and financial institutions. The study found that in order for banks to properly distribute capital and reduce risk, risk management is crucial. To stay ahead of the competition, banks should improve their current risk reporting systems and construct a robust, reliable system from the ground up.

A separate module for managing different kinds of risk, such as liquidity risk, credit risk, etc., and new technology for analyzing risk data should be developed by banks. Banks can only effectively mitigate risks in this manner.

REFERENCES

1. Dr. Krishn A.Goyal, Risk Management in Indian Banks –Some emerging issues. Int. Eco. J. Res., 2010 1(1) 102-109
2. Pyle, H. David (1997); Bank Risk Management Theory, Working paper RPF-272, Haas School of Business, University of California, Berkeley.Page-2.
3. Santomero, Anthony M. (1997), “Commercial Bank Risk Management: An Analysis of the Process”, Journal of Financial Services Research , 12, 83-115.
4. Konishi, M., Yasuda, Y., 2004. Factors Affecting Bank Risk Taking: Evidence from Japan. Journal of Banking and Finance 28: 215-232.
5. Matthews, K. and J. Thompson, 2008. The Economics of Banking. Chichester: Wiley, 2008; Chapter 3, pp.99-143.
6. Rajagopal, S., (1998). Bank Risk Management – A Pricing Model, The Banker, The Journal of Banking, April, pp-25.
7. Battacharya, H., (2001). Banking Strategy, Credit Appraisal & Lending Decisions, Oxford University Press, New Delhi.
8. Bratanovic, S.B., and V.H. Greuning, (2000). Analyzing Banking Risk, Working Paper the World Bank, Washington, D.C.
9. Rajaraman, I and Vashistha, G., (2002).Non Performing Loans of Indian Public Sector Banks – Some Panel Results, Economic and Political Weekly, February.
10. Raghavan, R.S., (2002). Risk Management - An Overview, A Monthly Journal of The Indian Banking Association, Vol. XXIV, Dated November, p. 13.
11. Sathye, M., (2003). Efficiency of Banks in a Developing Economy: The Case of India, European Journal of Operational Research, 148, pp. 662-671.
12. Rajesh, Sood., (2003). Risk Based Supervision – A New Tool with Supervision for Managing Risks in Banks, A Monthly Journal of The Indian Banking Association, Vol. XXV, No. 9, September, pp. 5.
13. Prabhaker Verma., (2004). Risk Mitigation: Need for Training, A Monthly Journal of the Indian Banking Association, Vol. XXIV No. 6 June, pp. 30.
14. Peter O. Davis., (2004). Credit Risk Measurement: Avoiding Unintended Results, RMA Journal, April, P. 86.