

Risk Management Strategies and Practises for Banking Industry in India: A Cross-Sectional Study

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Abstract

Risk management plays a crucial role in the banking industry, as it helps institutions effectively identify, assess, and mitigate various risks that can impact their stability and financial health. The study provides an overview of the most important RM strategies and practices adopted by banks in India to navigate the dynamic and challenging financial landscape. The findings of this study, if implemented, could guide banks in India in enhancing their RM frameworks. By understanding the key risks faced by the industry and the effective strategies employed by successful banks, institutions can strengthen their risk identification, measurement, and mitigation processes. This can ultimately contribute to improved stability, profitability, and resilience of banks in the face of uncertainties. Regulators and policymakers can utilize the insights from this study to refine and enhance the regulatory frameworks governing RM in the sector of finance. Research in this field highlights the importance of maintaining an updated and comprehensive regulatory environment that aligns with international standards while considering the unique characteristics and challenges of the Indian banking industry. Policymakers can draw upon the best practices identified in this study to implement targeted reforms that promote stability within financing and protect the interest of people who invest and different stakeholders.

Keywords: Banking Industry Strategies, RM Strategies, Market Risk, Credit Risk, Liquidity Risk, Regulatory Compliance, Operational Risk, Risk Assessment.

Introduction

RM plays a vital role within finance, as many financial institutions are often prone to various risks inherent in their operations. The effective identification, evaluation and curbing of risks are essential to safeguard stability as well as financial health of banks. In an ever-changing financial landscape, the ability to manage risks becomes crucial for maintaining a competitive edge, meeting regulatory requirements, and protecting the interests of stakeholders.

The banking sector faces a multitude of risks, including credit risk (CR), market risk (MR), liquidity risk (LR), operational risk (OR), and regulatory compliance risk (RCR). CR comes from the possibility of borrowers defaulting on their loan obligations, while MR stems via changes in interest, foreign exchange rates, and asset prices. LR pertains to the availability of sufficient funds to meet obligations as they arise. Operational risk encompasses risks arising from internal processes, technology failures, fraud, and human error. Lastly, regulatory compliance risk arises from the non-compliance with legal and regulatory requirements imposed by regulatory authorities.

To effectively manage these risks, banks employ a comprehensive RM framework that incorporates various strategies and practices. One of the key aspects of RM in the banking sector is the assessment of CR, which involves evaluating the creditworthiness of borrowers through rigorous analysis and credit rating models. Stress testing is another important tool that banks employ to assess the resilience of their portfolios under adverse scenarios. In addition to credit RM, banks also focus on managing market risk by utilizing models such as value-at-risk (VaR) to evaluate losses arising from market fluctuations. Liquidity RM involves maintaining an appropriate liquidity buffer and developing contingency plans to address any unforeseen liquidity shortages. Operational RM emphasizes the establishment of robust internal control systems, business continuity planning, and the use of technology for fraud identification.

Furthermore, the finance sector operates within a complex regulatory framework. Banks are required to comply with guidelines and regulations imposed by regulatory authorities such as central banks and financial regulatory bodies. Effective RM practices are crucial for banks to adhere to these regulations and maintain regulatory compliance.

Literature Review

In their article, Goyal and Joshi (2012) examine the problems and benefits incurred by Indian banking sector. They highlight the significant growth of the industry contemporarily, while being taken forward by determinants such as liberalisation, increasing disposable incomes, and technological advancements. They emphasize the need for banks to adapt to these challenges and capitalize on the emerging opportunities, such as expanding into rural areas, adopting innovative technology solutions, and enhancing customer relationship management. The study provides valuable insights into the Indian banking landscape and offers recommendations for banks to navigate the evolving industry dynamics.

Kumar and Yadav (2013) propose a conceptual framework for liquidity RM in banks. The authors emphasize the importance of effective liquidity RM as a critical aspect of overall RM in banks. They discuss various sources of LR, including asset LR, funding LR, and contingent LR, and the potential consequences of inadequate liquidity RM, such as funding difficulties and financial distress. The study contributes to the understanding of liquidity RM and provides a foundation for banks to develop robust strategies to mitigate LR and enhance their resilience.

Arora and Agarwal (2009) focus on banking RM in India and the part that RBI plays in supervision and regulation. The authors highlight the importance of effective RM practices in banks to ensure financial stability and prevent systemic risks. The authors examine the role of the RBI in supervision, monitoring, and enforcement of RM standards. They also highlight the challenges faced by the RBI in effectively regulating the finance industry. The research contributes to the understanding of banking RM in India and emphasizes the role of regulatory authorities in maintaining a stable and secure banking system. Finger, Gavius, and Manos (2018) explore the relationship between environmental RM and financial performance in the banking sector. The study acknowledges the growing concern regarding environmental issues and the increasing recognition of the role financial institutions play in addressing these risks. The findings of this study have implications for both regulators and financial institutions as they provide insights into the importance of environmental RM practices in enhancing financial performance.

In his paper, Anbalagan (2017) focuses on the new technological changes in the Indian banking sector. The author recognizes that the banking industry is undergoing significant transformations due to advancements in technology. The study highlights the benefits of these technological changes, including improved operational efficiency, enhanced customer experience, and increased accessibility to financial services. However, the author also discusses the challenges associated with technology adoption, such as cybersecurity risks and the need for adequate infrastructure. The paper provides valuable insights into the ongoing technological changes in the Indian banking sector and their implications for banks and customers alike.

Bodla and Verma (2009) delve into the credit RM framework adopted by banks in India. The authors recognize the significance of credit RM in ensuring the stability and profitability of banks. The authors highlight the importance of robust credit RM systems in managing non-

performing assets (NPAs) and maintaining a healthy loan portfolio. The study also discusses the regulatory framework and guidelines provided by the RBI to promote effective credit RM practices. The conclusions of this research contribute to the literature on credit RM in the Indian banking sector and offer insights into best practices for banks to mitigate CR effectively.

In their study, Ali and Dhiman (2019) explored the connection among RM and benefits incurred by public sector commercial financial institutions in India. They aimed to explore how effectively managing CR influences the financial effects of these banks. The authors conducted empirical research by collecting data from public sector banks in India and analyzing the relationship between CR indicators and profitability ratios. The research emphasized the importance of implementing effective credit RM strategies to enhance profit ratios of public sector for-profit financial institutions in India.

Naresh and Rao (2015) explored the CRM practices of for-profit banks in India. Their study aimed to assess the level of awareness and implementation of credit RM practices among Indian banks. The authors conducted a survey among a sample of commercial banks in India to gather data on various aspects of credit RM, such as credit appraisal techniques, risk measurement and monitoring tools, CR policies, and RM strategies. The study highlighted the importance of continually enhancing credit RM practices to ensure the carefulness and stability of the sector.

Kumar and Prakash (2020) conducted a study to assess the extent of sustainable banking adaptations in the banking sector in India. The authors aimed to understand the level of integration of environmental, social, and governance (ESG) factors into the banking practices of Indian banks. The study emphasized the significance of incorporating sustainability considerations into banking operations and suggested that sustainable banking practices can lead to improved financial performance and resilience in the long term. The authors called for increased awareness, commitment, and implementation of sustainable banking principles by the banking sector in India.

In Oino's (2016) study, the author examines and compares the credit RM practices in private and public banks in India. The research aims to shed light on the differences in credit RM strategies adopted by these two types of banks and their impact on the overall stability and profitability of the banking sector. Through a comprehensive analysis of the relevant literature and a comparative study of selected private and public banks, the author explores

various aspects such as credit appraisal, loan approval processes, risk identification and measurement, and CR mitigation techniques. Firoz, Ansari, and Akhtar (2011) investigate the impact of International Financial Reporting Standards (IFRS) on the Indian banking industry. With the increasing convergence towards global accounting standards, the adoption of IFRS by Indian banks has significant implications for financial reporting, transparency, and comparability of financial statements. By studying the experiences of Indian banks during the transition to IFRS, the authors offer insights into the potential benefits and challenges associated with the adoption of these international accounting standards in the banking sector.

Bhasin (2015) conducts an empirical study to investigate the growing menace of frauds in the Indian banking industry. The author aims to identify the types of frauds prevalent in the sector, examine the causes and consequences of these fraudulent activities, and explore the effectiveness of existing preventive and control mechanisms. The findings of the study emphasize the need for robust RM practices, enhanced internal controls, and effective regulatory measures to address the challenges posed by frauds in the Indian banking industry. In their study, Sharifi, Halder, and Rao (2019) examine the relationship between credit RM and non-performing assets (NPAs) in the commercial banking sector of India. The authors recognize the significant impact of NPAs on the financial stability and profitability of banks, as well as the overall health of the banking industry. The findings suggest that effective credit RM, including robust loan appraisal and monitoring systems, can help mitigate NPAs and improve the financial performance of commercial banks.

The article by Malik (2014) focuses on technological innovations in the Indian banking sector and their transformative impact on the banking industry. The author highlights the changed face of banking brought about by advancements in technology. The author discusses the benefits of these innovations, including enhanced convenience, accessibility, speed, and efficiency in banking operations. Moreover, the author emphasizes the importance of technological advancements in promoting financial inclusion by extending banking services to previously underserved segments of the population. Overall, the literature review underscores the significant role played by technology in reshaping the Indian banking sector and emphasizes its potential to drive further advancements in the future.

Objectives of the study:

To ascertain the risk management strategies and practises for banking industry in India

Research Methodology:

This study nature is empirical. 215 respondents were approached to give their view on the risk management strategies and practises for banking industry in India. The data was analysed through frequency distribution and data was presented with the help of pie charts.

Data Analysis and Interpretation:

Table 1 Evaluating the Creditworthiness of Borrowers

Particulars	Agree	Disagree	Can't Say	Total
Respondents	180	24	11	215
% age	84.0	11.0	5.0	100

Table 1 represents the statement **evaluating the creditworthiness of borrowers**, and 84.0% respondents admit with this statement.

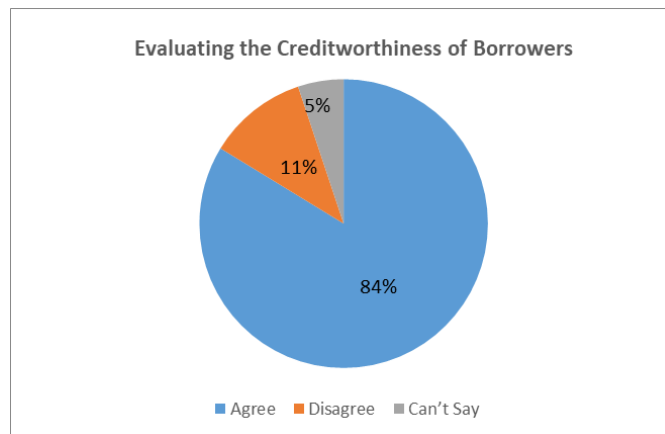


Figure 1 Evaluating the Creditworthiness of Borrowers

Table 2 Focusing Time and Resources on High-Risk Areas

Particulars	Agree	Disagree	Can't Say	Total
Respondents	186	18	11	215
% age	87.0	8.0	5.0	100

Table 2 represents the statement **focusing time and resources on high-risk areas** and 87.0% respondents admit with this statement.

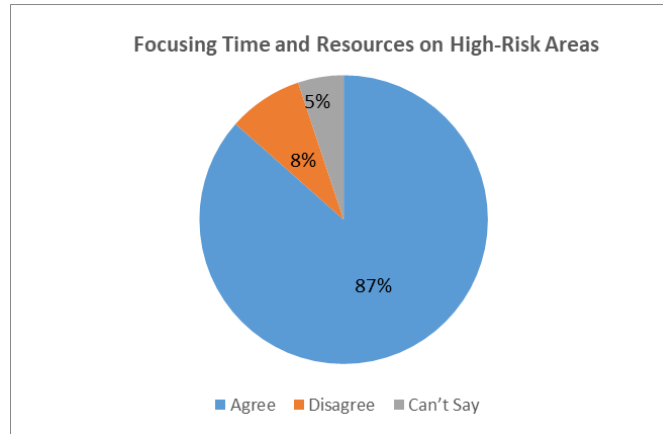


Figure 2 Focusing Time and Resources on High-Risk Areas

Table 3 Performing Comprehensive Risk Assessments

Particulars	Agree	Disagree	Can't Say	Total
Respondents	193	13	9	215
% age	90.0	6.0	4.0	100

Table 3 represents the statement **performing comprehensive risk assessments**, and 90.0% respondents admit with this statement.

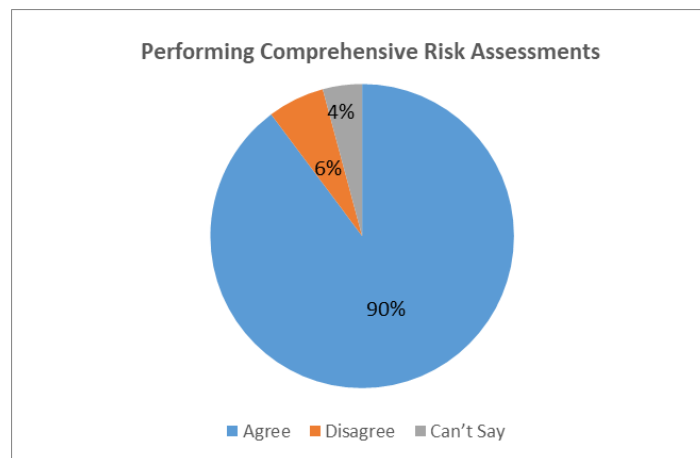


Figure 3 Performing Comprehensive Risk Assessments

Table 4 Developing Programs to Mitigate Risk

Particulars	Agree	Disagree	Can't Say	Total
Respondents	198	10	7	215
% age	92.0	5.0	3.0	100

Table 4 represents the statement **developing programs to mitigate risk**, and 92.0% respondents admit with this statement.

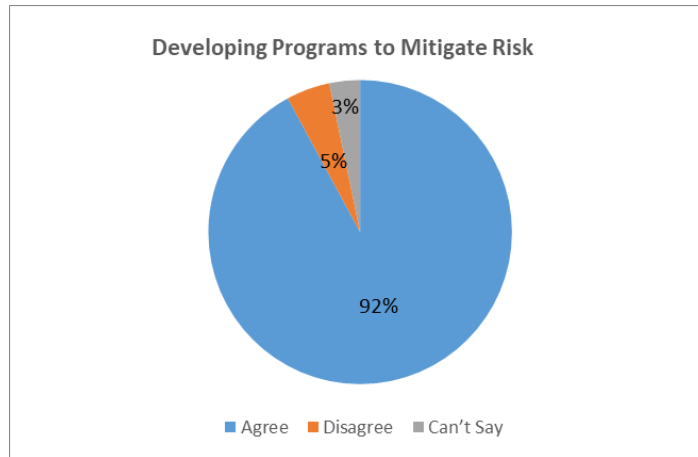


Figure 4 Developing Programs to Mitigate Risk

Table 5 Taking a Risk-Based Approach

Particulars	Agree	Disagree	Can't Say	Total
Respondents	203	8	4	215
% age	94.0	4.0	2.0	100

Table 5 represents the statement **taking a risk-based approach**, and 94.0% respondents admit with this statement. Considering all the responses of the statements, it was found that to a good percentage, the respondents have agreed that risk management strategies and practises are important for banking industry in India.

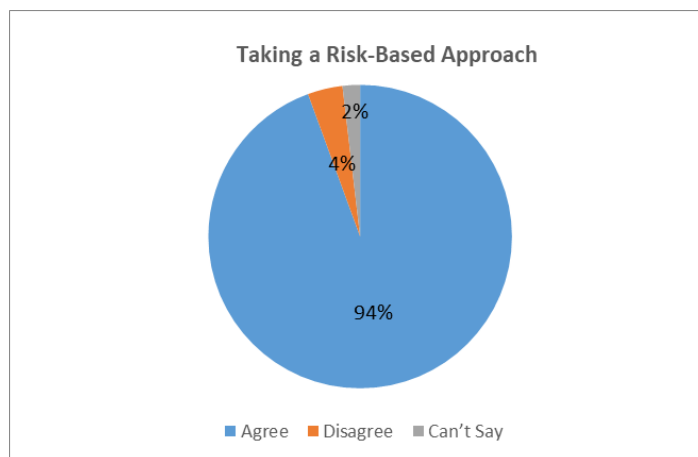


Figure 5 Taking a Risk-Based Approach

Conclusion

In conclusion, RM is of paramount importance in the banking sector to ensure the stability and sustainability of banks' operations. By adopting robust RM strategies and practices, banks can identify, assess, and mitigate risks effectively, thereby safeguarding their financial health, meeting regulatory requirements, and protecting the interests of their stakeholders.

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