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A STUDY ON FINANCIAL RISK MANAGEMENT IN INDIAN BANKING SECTOR: EVALUATING RISK MANAGEMENT STRATEGIES ADOPTED BY INDIAN BANKS.

Govind R Menon

USN – 22MBAR0694

CMS BUSINESS SCHOOL JAIN (Deemed-to-be-University), Bangalore

Dr. Rashmi Akshay YadavAssistant Professor

Faculty of Management Studies

CMS BUSINESS SCHOOL JAIN (Deemed-to-be-University), Bangalore

ABSTRACT

Financial risk management in the Indian banking sector plays a crucial role in safeguarding financial institutions against potential economic uncertainties and regulatory changes. Indian banks are faced with the challenge of managing various risks such as credit risk, market risk, liquidity risk, and operational risk to ensure financial stability and sustainable growth.

In response to these challenges, Indian banks have adopted various risk management strategies to mitigate risks and enhance their resilience in the face of changing economic conditions and regulatory environments. One of the key strategies adopted by Indian banks is the implementation of robust risk assessment frameworks that incorporate advanced risk measurement techniques and models to evaluate and quantify risks accurately. Moreover, Indian banks have also focused on enhancing their risk governance practices by establishing dedicated risk management committees and appointing experienced risk management professionals to oversee and monitor risk management activities. These initiatives are aimed at improving risk transparency, accountability, and decision-making processes within financial institutions.

Furthermore, Indian banks have increasingly emphasized on diversifying their risk exposures through effective risk hedging strategies such as derivatives and insurance products to reduce the impact of adverse market movements and fluctuations. Additionally, banks have also invested in advanced technology and

risk management systems to enhance their risk monitoring and reporting capabilities, enabling them to proactively identify and address potential risks. In the face of economic uncertainties and regulatory changes, Indian banks have recognized the importance of stress testing and scenario analysis to assess their resilience to adverse market conditions and regulatory requirements. By conducting stress tests and simulations, banks can identify potential vulnerabilities and develop contingency plans to mitigate risks and ensure business continuity.

Overall, the evolving landscape of financial risk management in the Indian banking sector underscores the importance of proactive risk management strategies and robust risk governance practices to navigate through uncertainties and regulatory challenges effectively. Indian banks continue to adopt innovative approaches and best practices in risk management to enhance their competitive edge, strengthen their financial resilience, and maintain trust and confidence among stakeholders in the dynamic and unpredictable business environment.

KEYWORDS:

- CAMELS, Non-performing assets, Basel norms, Risk management.

INTRODUCTION

The study on Financial Risk Management in the Indian Banking Sector seeks to address a critical need in understanding and evaluating the strategies employed by Indian banks to mitigate risks amidst dynamic economic landscapes and evolving regulatory frameworks. This investigation is motivated by the recognition of the pivotal role played by banks in the Indian economy and the imperative need for effective risk management practices to safeguardfinancial stability and ensure sustainable growth.

At the heart of this inquiry lies the acknowledgment of the inherent vulnerabilities and complexities inherent in the banking sector, particularly in a developing economy like India, characterized by rapid globalization, technological advancements, and frequent regulatory reforms. The recent wave of economic uncertainties, underscored by factors such as volatile market conditions, geopolitical tensions, and the ongoing ramifications of the COVID-19 pandemic, has heightened the urgency for banks to fortify their risk management frameworks. Against this backdrop, understanding the risk management strategies adopted by Indian banks assumes paramount importance. By delving into the intricacies of these strategies, encompassing areas such as credit risk, market risk, liquidity risk, and operational risk, thisstudy aims to shed light on the effectiveness and adequacy of existing risk mitigation measures. Moreover, it endeavors to identify areas of improvement and innovation in risk management practices to bolster the resilience of banks in navigating turbulent environments.

Furthermore, the regulatory landscape governing the banking sector in India is continuously evolving, driven by both domestic imperatives and international standards. Recent regulatory changes, including reforms in capital adequacy requirements, provisioning norms, and enhanced disclosure requirements, have profound implications for banks' risk management practices. Consequently, there is a pressing need to evaluate the adaptability and compliance of banks with these regulatory mandates and assess their implications on overall risk exposure.

OBJECTIVES OF THE STUDY

The current study is based on the following objectives:

- To evaluate the risk management strategies adopted by Indian banks.
- Assess the use of technology in risk management practices.
- Review of credit risk, market risk, liquidity risk, and operational risk.
- Risk management practices across different banks in India to identify best practicesand emerging trends.

METHODOLOGY

The research involves collecting primary data through Google forms. It comprises of various demographic data as well as factors on the risk management strategies that Indian banks have adopted. It also consists of opinions of the people on how comfortable and how much does they know about the banking regulatory in our country.

LITERATURE REVIEW

▪ Arora, D., & Agarwal, R. (2009). Banking risk management in India and RBI supervision. Available at SSRN 1446264. Risk Management is the application of proactive strategy to plan, lead, organize, and control the wide variety of risks that are rushed into the fabric of an organizations daily and long-term functioning. Like it or not, risk has a say in the achievement of our goals and in the overall success of an organization. Present paper is to make an attempt to identify the risks faced by the banking industry and the process of risk management.

▪ Brahmaiah, B. (2022). Market Risk Management Practices of the Indian Banking Sector: An Empirical Study. International Journal of Economics and Financial Issues, 12(3), 68. The banking sector serves the economic function of financial intermediation by ensuring efficient allocation of resources in the economy. Risk is associated with every part of banking transactions. Banks have to assess the banking risks such as credit risk, market risk (interest rate risk, foreign exchange risk, and liquidity risk) and operational risk properly, evaluate them effectively, measure them correctly, monitored them perfectly and managed as per banks' desired policies.

▪ Chakrabarti, M. (2015). Risk analysis and management in Indian banking sector: An overview. International Journal of Informative & Futuristic Research, 2(7), 2133-2143. Banks have mature from being a financial intermediary into a risk intermediary as they are exposed to severe competition and hence are compelled to encounter various types of financial and non financial risks. In the world today, risks and uncertainties form an important part of banking business which by nature entails taking risks. Banks are now required to clearly separate avoidable and unavoidable risks and are required to focus on the extent to which such risks can be shoulder by them. Risk management i.e. trade-off between risk and return in the banking sector is a vital issue linked to financialsystem stability.

- Perwej, A. (2020). The impact of pandemic COVID-19 on the Indian Banking System. International Journal of Recent Scientific Research, 11(10), 39873-39883. The COVID-19 pandemic could be one of the most serious challenges faced by the financial services industry in nearly a century. The COVID-19 impact on banking will be severe fall in demand, lower incomes, and production shutdowns and will adversely affect the business of banks. The situation is exacerbated by staff shortages, inadequate digital maturity, and pressure on the existing infrastructure as firms scramble to deal with the impact of COVID-19 on financial services. Banks certainly have their hands full in lightof the novel coronavirus outbreak COVID-19

- Vyawahare, M. J., & Nerlekar, V. S. (2021). Impact of Good Corporate Governance Practices on the Financial Performance of Selected Banks in India. Journal of

ducation, 24(5), 166-177. The aim of this research paper is to define the correlation between corporate governance practices and financial performance of banks in terms of profitability. Extensive set of board characteristics like composition of board of directors, number of directors on the Board, meetings convened during last year, composition of executive, non-executive, independent, women directors, different committees along with the bank's code of governance theory were explored and their impacts on financial performance of the banks were analyzed for five Indian Banks.

- Ahmad, N., Naveed, A., Ahmad, S., & Butt, I. (2020). Banking sector performance, profitability, and efficiency: a citation-based systematic literature review. Journal of Economic Surveys, 34(1), 185-218. This study presents a citation-based systematic literature review on banking sector performance, particularly in terms of profitability, productivity, and efficiency. Specifically, the study aims to identify the leading sources of knowledge in terms of the most influential journals, authors, and papers. The paper presents a content analysis of the 100 most cited papers. In total, 1996 peer-review papers were found relevant in the Scopus database by using a comprehensive list of keywords.
- Du, G., Liu, Z., & Lu, H. (2021). Application of innovative risk early warning mode under big data technology in Internet credit financial risk assessment. Journal of Computational and Applied Mathematics, 386, 113260. In the era of big data, it is aimed to use big data technology to form an effective early warning and prevention of Internet credit. The BP neural network algorithm is applied to determine the number of nodes, activation function, learning rate, and other parameters of each layer of the BP neural network. Also, many data samples are used to build an early warning modelof Internet credit risk.

- Mishra, P., & Sant, T. G. (2021, October). Role of artificial intelligence and internet of things in promoting banking and financial services during COVID-19: Pre and post effect. In 2021 5th International Conference on Information Systems and Computer Networks (ISCON) (pp. 1-7). IEEE. The covid-19 outbreak has triggered an economic crisis and severely affected the global economy. The revolution of AI and the Internet of things (IoT) is helping in reshaping the traditional financial sector by consolidating technology, finance, and economics. This paper highlights how the integration of Artificial intelligence (AI) in IoT is helping in promoting digital financial inclusion

during the COVID-19. Through multiple real-life case studies, this article examines the successful implementation of AI and IoT in banking and financial institutions.

- Gupta, J., & Kashiramka, S. (2020). Financial stability of banks in India: does liquidity creation matter?. Pacific-Basin Finance Journal, 64, 101439.Author: Gupta, R., and V. Malhotra Year: 2020. The fallout of the Global Financial Crisis demonstrated the importance of bank liquidity creation (LC) for the economies. This study attempts to analyze the implications of LC for promoting the financial stability of banks. To address this question, a dynamic panel estimation has been employed for 1046 firm-year observations of commercial banks operating in one of the fastest-growing emerging markets, India, covering the period 2007 to 2019. The results suggest that LC enhances the financial stability of banks. However, this impact varies according to bank size.

- Kumar, K., & Prakash, A. (2019). Developing a framework for assessing sustainable banking performance of the Indian banking sector. Social Responsibility Journal, 15(5), 689-709. Sustainable development has now been recognised as the pivot around which development activities should revolve. Banking is an important component in the same and adoption of sustainable banking practices by various banking institutions is a strong driver to achieve sustainable development. The purpose of this paper is to study the level of adoption of sustainable banking tools and the extent to which banking institutions practice the same in India. In addition, the banking institutions have been ranked and categorised on basis of their sustainable banking performance.

DATA ANALYSIS

- **Hypothesis**

Null Hypothesis (H0): The impact of economic uncertainties and regulatory changes on risk management strategies in the Indian banking sector is not significant.

Alternative Hypothesis (H1): The impact of economic uncertainties and regulatory changes on risk management strategies in the Indian banking sector is significant.

Category	Observed (O)	Expected (E)	(O - E)	(O - E)^2	(O - E)^2 / E
Extremely Significant	35	25	10	100	4.00
Significant	30	25	5	25	1.00
Somewhat Significant	25	25	0	0	0.00
No significance	10	25	-15	225	9.00
Total	100	100			14

- Calculation of chi-square statistic (χ 2)Sum of (O - E)^2 / E

=4.00+1.00+0.00+9.00=14.004.00+1.00+0.00+9.00=14.00

- Degrees of freedom (df) = Number of categories - 1
= 4 - 1 = 3.

- Significance level0.05

- P value
P value is 0.002905

P value 0.002905 < significance level 0.05Therefore, we reject the null hypothesis

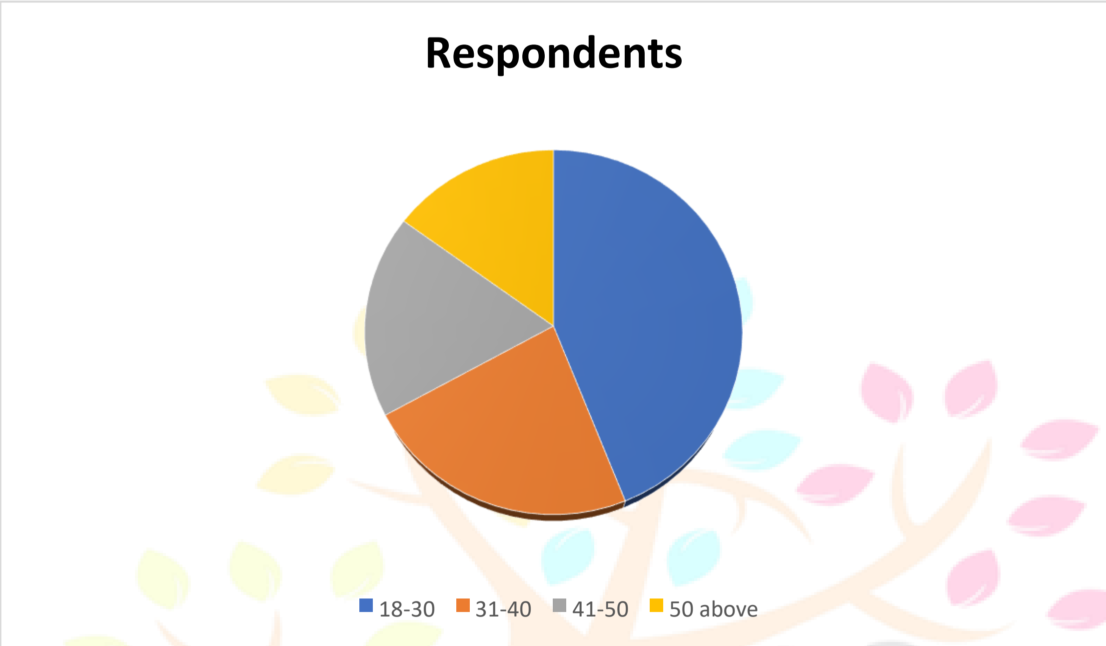
DATA INTERPRETATION

3.1 DATA INTERPRETATION

1. Age

Category	Respondents	Percentage
18-30	44	44%
31-40	23	23%

41-50	18	18%
50 above	15	15%

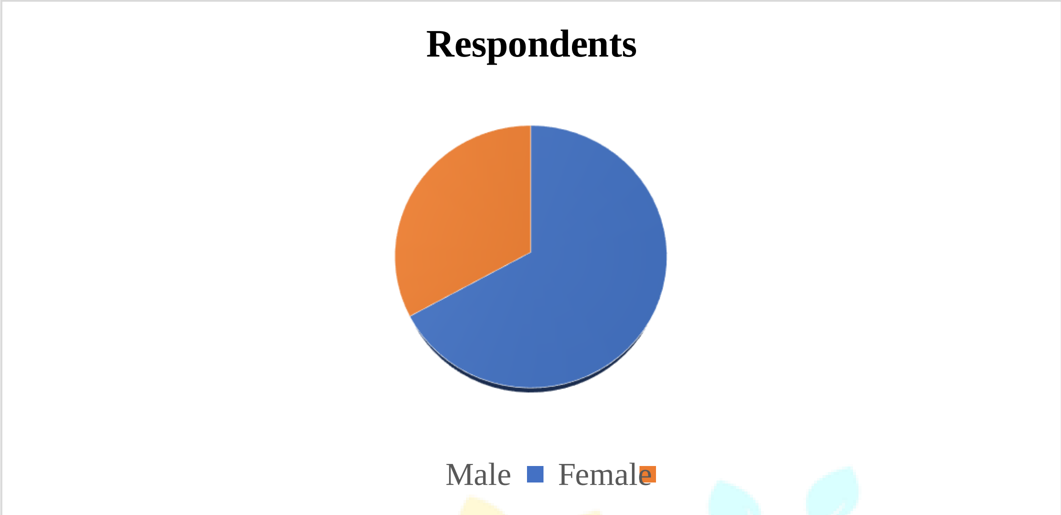


Interpretation

The following table takes into consideration a number of different factors in order to provide an accurate estimate of the subject's age. There were almost half as many responses who were under the age of 30 as there were who were in their twenties, with 23% in their twenties, 18%in their forties, and 15% in their fifties.

2. Gender

Category	Respondents	Percentage
Male	67	67%
Female	33	33%



Interpretation:

You will find a table at the very top of the page that organizes the information according on gender for your own personal convenience. In all, there are 67 males and 33 women.

3. Occupation

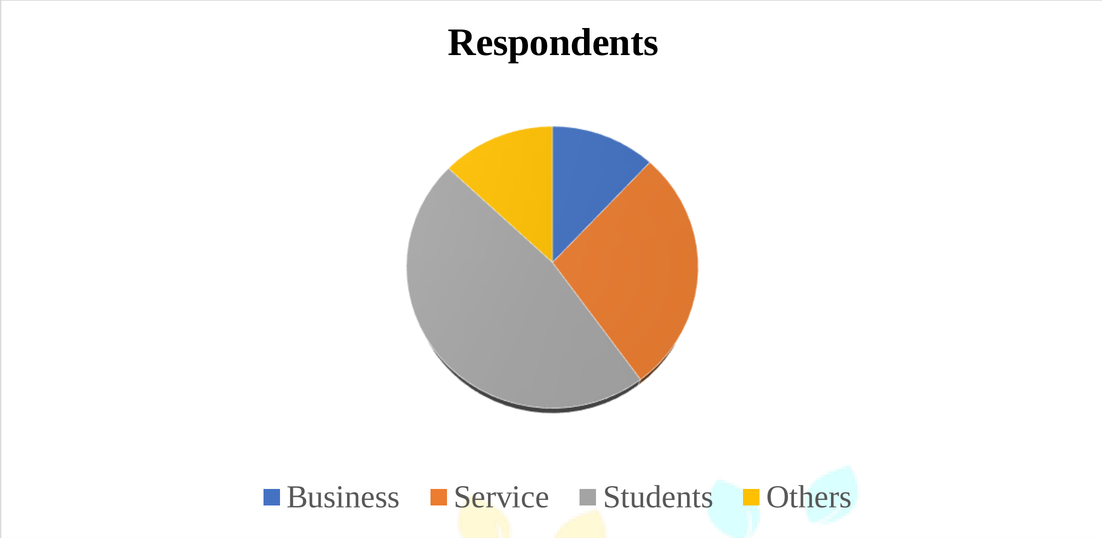
a) Business

b) Services

c) Students

d) Others

Category	Respondents	Percentage
Business	12	12%
Service	28	28%
Students	47	47%
Others	13	13%

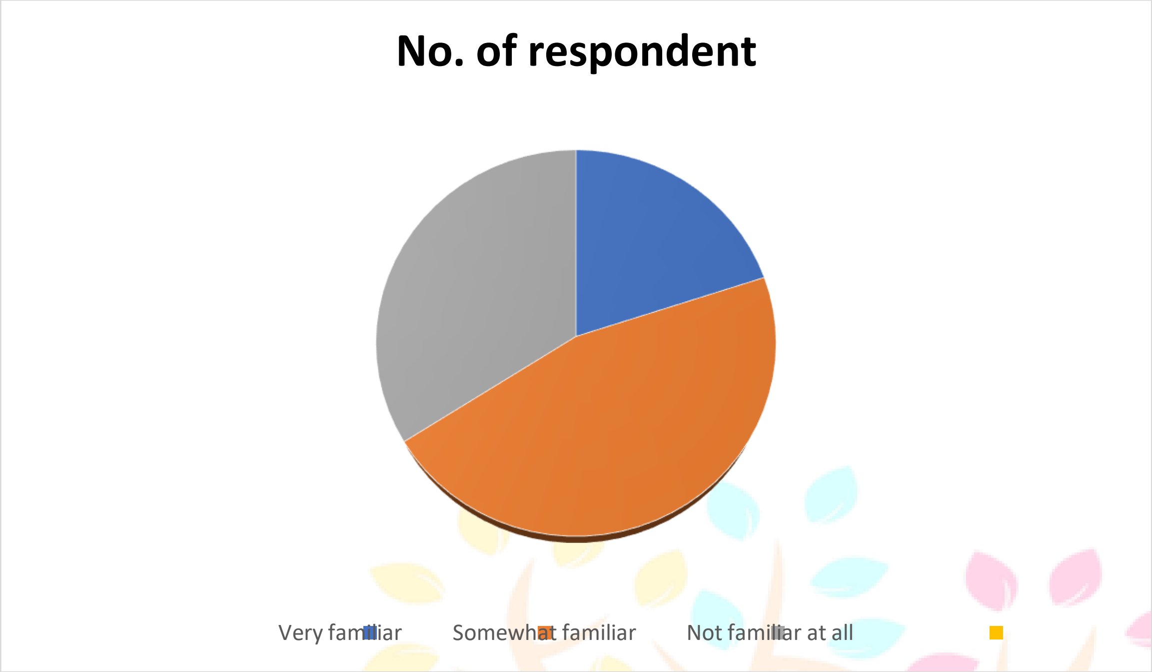


Interpretation

The following table provides a condensed explanation of the term "Occupation." The one immediately behind it is the next in line after this one. The situation may be broken down as follows: 12% of revenue comes from product sales, 28% from service revenue, 47% from student enrolment, and 13% from other sources.

4. How familiar are you with Financial Risk Management in the Indian Banking Sector?

CATEGORY	No. of respondent	Percentage (%)
Very familiar	20	20%
Somewhat familiar	46	46%
Not familiar at all	34	34%
Total	100	100%

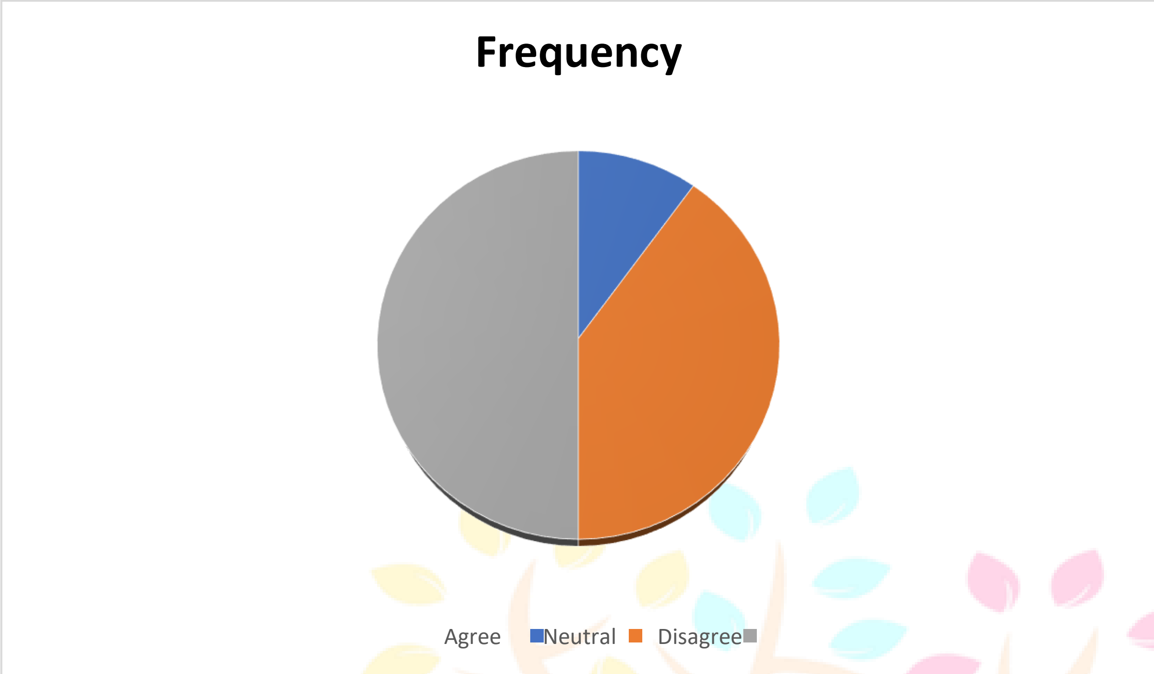


Interpretation

The following How familiar are you with Financial Risk Management in the Indian Banking Sector? shows that 20% IS Very familiar, 46% is Somewhat familiar, 34% is Not familiar at all.

5. Do you agree that evaluating risk management strategies in the face of economic uncertainties and regulatory changes is important for Indian banks?

Impact	Frequency	%
Agree	10	10%
Neutral	40	40%
Disagree	50	50%
Total	100	100%

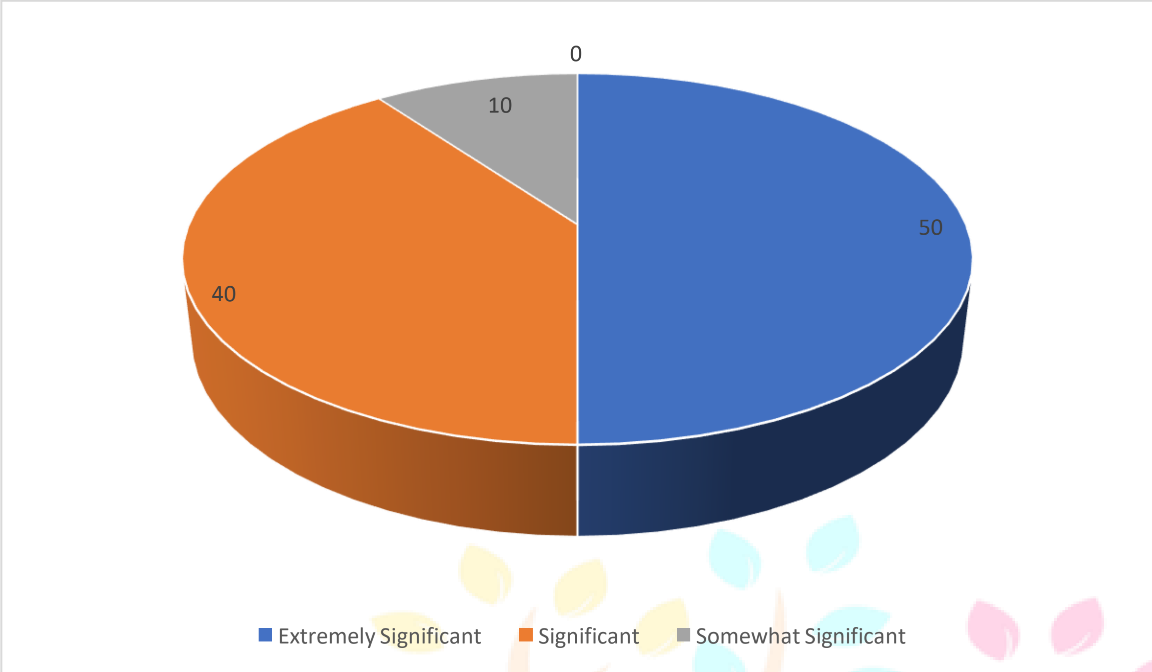


Interpretation

The above Do you agree that evaluating risk management strategies in the face of economic uncertainties and regulatory changes is important for Indian banks? respondent's 10% agree, with 40% neutral 50% disagree.

6. How significant do you consider the impact of economic uncertainties and regulatory changes on risk management strategies in the Indian banking sector?

Category	No. of respondent	Percentage (%)
Extremely Significant	50	50%
Significant	40	40%
Somewhat Significant	10	10%
Total	100	100%

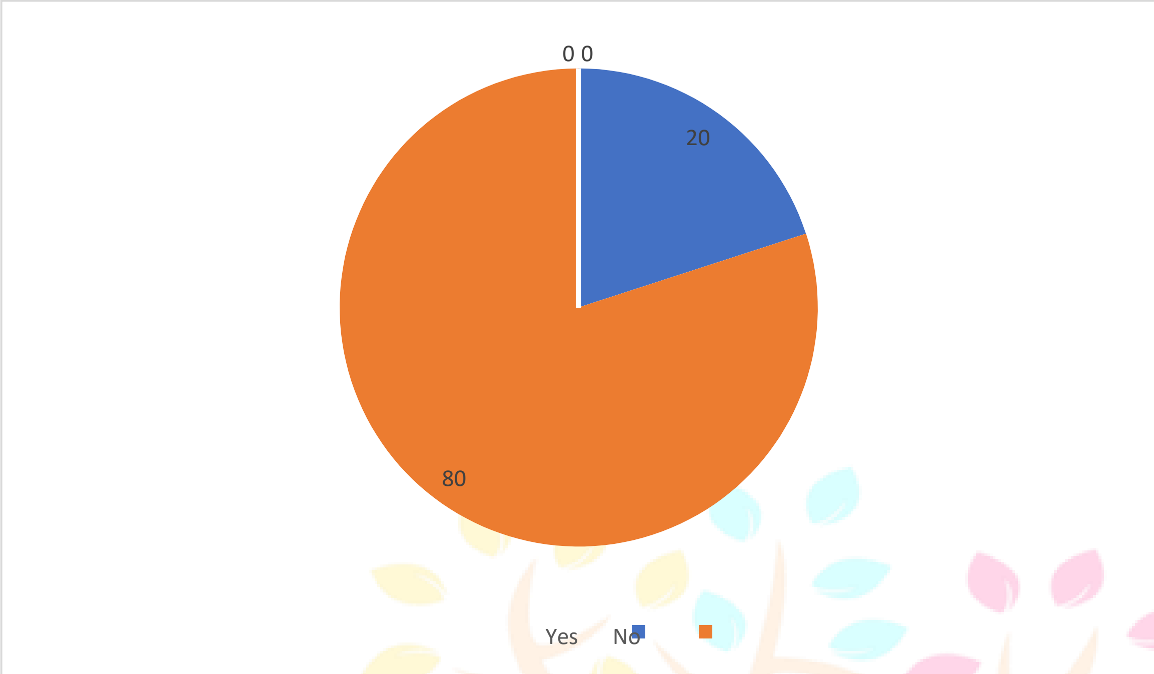


Interpretation

From the table above How significant do you consider the impact of economic uncertainties and regulatory changes on risk management strategies in the Indian banking sector? that around 50 percent Extremely Significant and 40% of the Significant and 5% is somewhat Significant.

7. Have you noticed any changes in risk management strategies adopted by Indian banks in response to economic uncertainties and regulatory changes?

Advertisement you saw	No of Respondents	Percentage
Yes	20	20%
No	80	80%
Total	100	100%

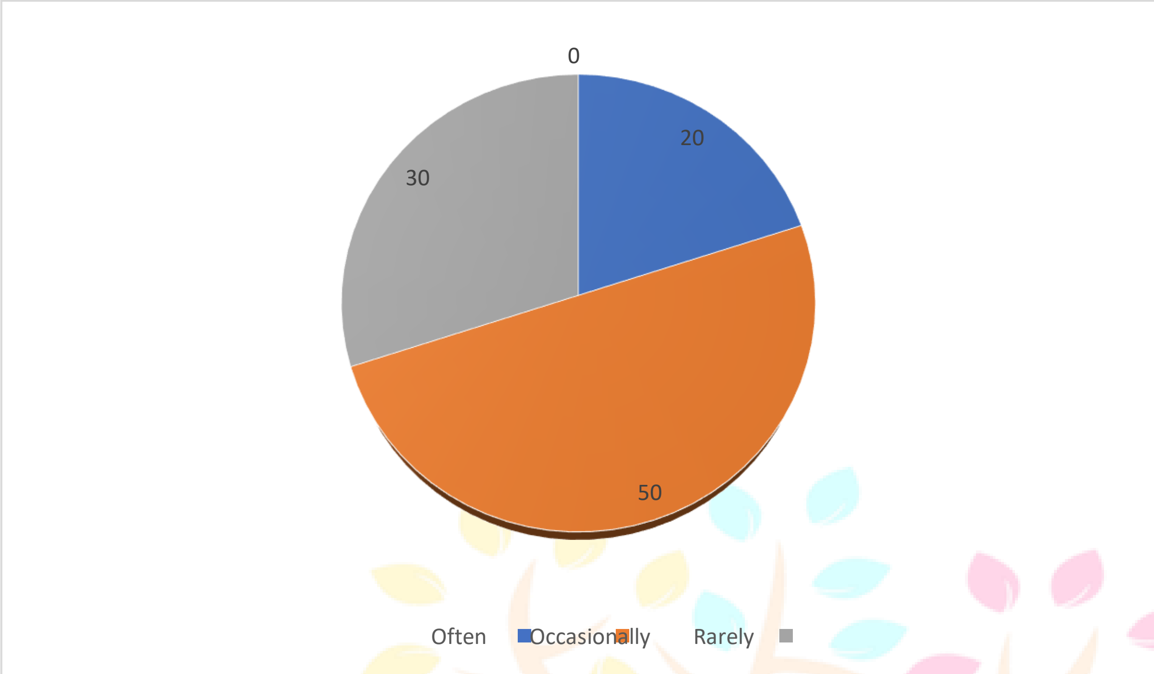


Interpretation

The above table and graph Have you noticed any changes in risk management strategies adopted by Indian banks in response to economic uncertainties and regulatory changes? represents that 20 percent of the respondents are yes and the remaining 80 percent of the respondents are no.

8. How often do you think Indian banks should reassess their risk management strategies?

Category	No of Respondents	Percentage
Often	20	20%
Occasionally	50	50%
Rarely	30	30%
Total	100	100%

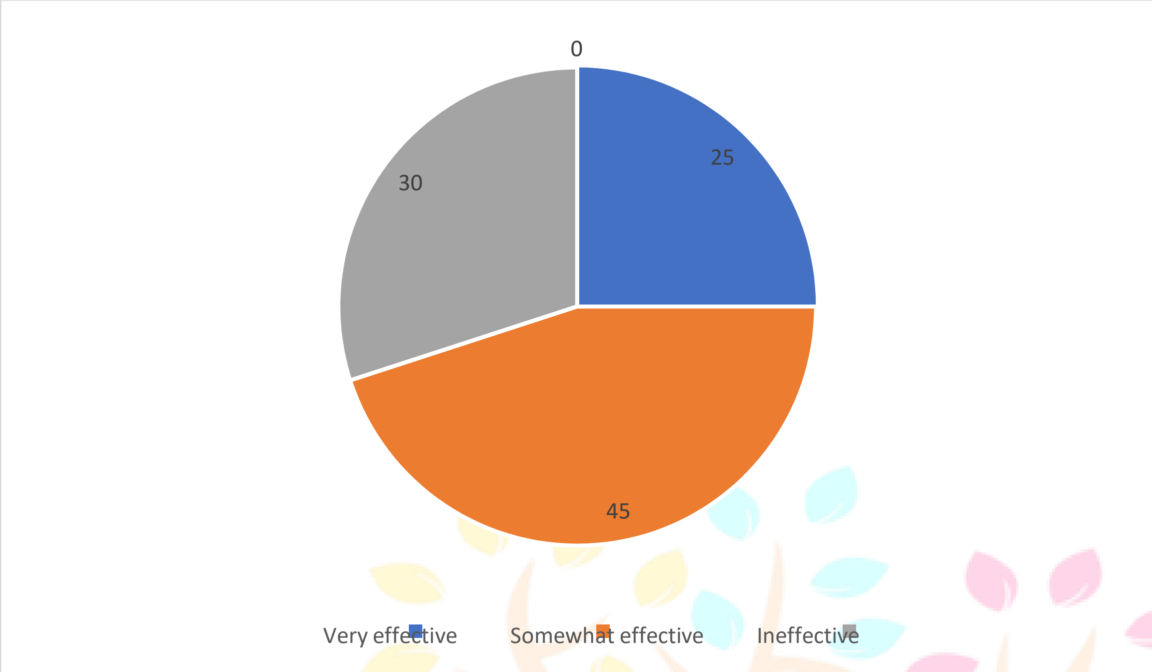


Interpretation

The above table and graph How often do you think Indian banks should reassess their risk management strategies? represents that 20 percent of the respondents are often and the remaining 50 percent of the respondents are occasionally and 30 percent is rarely.

9. In your opinion, how effective are the risk management strategies currently adopted byIndian banks?

Category	No of Respondents	Percentage
Very effective	25	25%
Somewhat effective	45	25%
Ineffective	30	30%
Total	100	100%

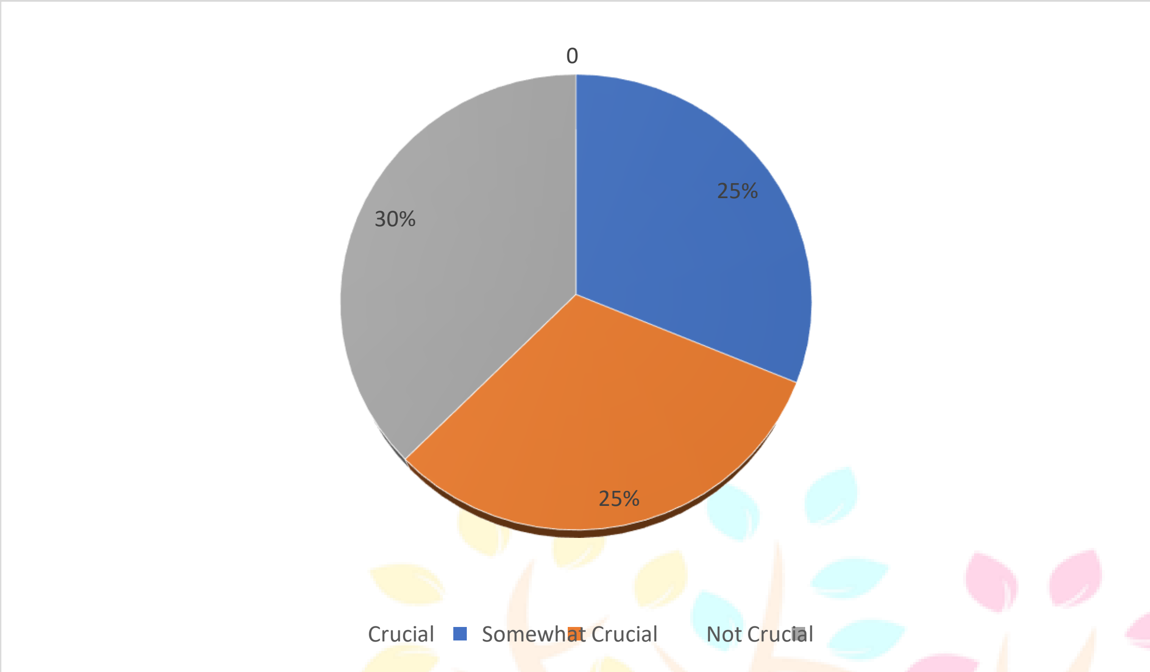


Interpretation

The above table and graph In your experience, In your opinion, how effective are the risk management strategies currently adopted by Indian banks? represents that 25 percent of the respondents are Very effective and the 45 percent of the respondents are Somewhat effective and 30 percent is Ineffective.

10. How crucial do you believe it is for Indian banks to continuously evaluate and adapt their risk management strategies in response to changing economic and regulatory environments?

Category	No of Respondents	Percentage
Crucial	25	25%
Somewhat Crucial	45	25%
Not Crucial	30	30%
Total	100	100%



Interpretation

The above table and graph analysis How crucial do you believe it is for Indian banks to continuously evaluate and adapt their risk management strategies in response to changing economic and regulatory environments? represents that 25 percent of the respondents are Crucial and the 45 percent of the respondents are somewhat Crucial and 30 percent is not Crucial.

FINDINGS

Economic uncertainties, such as fluctuations in GDP growth rates, inflation rates, and interest rates, have a significant impact on banks' risk management strategies. Research findings may reveal how Indian banks adjust their risk appetites, asset allocations, and lending practices in response to economic downturns or recessions to mitigate credit risk and maintain financial stability. It may be found that during periods of economic volatility, banks increase provisions for loan losses, tighten credit standards, and focus on liquidity management to withstand adverse economic conditions. Regulatory changes, including amendments to capital adequacy requirements, liquidity standards, and asset classification norms, influence banks' risk management practices. Research outcomes may demonstrate how Indian banks adapt their risk management frameworks to comply with regulatory mandates while balancing risk-return considerations. Findings may indicate that regulatory reforms aimed at enhancing risk transparency and capital resilience contribute to improved risk management effectiveness and financial stability in the banking sector.

It may be found that banks with robust risk management processes, stress testing capabilities, and scenario planning mechanisms are better equipped to withstand economic shocks and regulatory upheavals. The research may highlight the role of technology, data analytics, and predictive modeling in enhancing risk identification, measurement, and mitigation capabilities in the face of uncertainties. Research outcomes can have significant policy implications for regulators, policymakers, and banking executives. Findings may inform the design of regulatory frameworks that balance risk management objectives with the promotion of financial innovation and inclusion. It may be suggested that policymakers prioritize measures to enhance risk transparency, governance standards, and systemic resilience in the banking sector to mitigate the adverse effects of economic uncertainties and regulatory changes.

CONCLUSION

Based on the research conducted on financial risk management in the Indian banking sector, it is evident that the banks have been actively adopting various strategies to mitigate risks arising from economic uncertainties and regulatory changes. These strategies include diversification of portfolios, stress testing, establishing robust internal control mechanisms, and enhancing oversight through risk committees.

The Indian banking sector faces challenges such as non-performing assets (NPAs), liquidity constraints, interest rate risks, and regulatory compliance. To address these risks, banks have been working on strengthening their risk management frameworks. This involves the use of advanced risk assessment models, regular monitoring of exposures, and ensuring compliance with regulatory requirements. In response to economic uncertainties, Indian banks have been focusing on enhancing their risk assessment and monitoring capabilities. This includes developing early warning systems to identify potential risks, conducting scenario analysis to assess the impact of adverse economic conditions, and implementing stress testing to evaluate the bank's resilience to shocks.

Furthermore, regulatory changes, such as Basel III norms and guidelines issued by the Reserve Bank of India, have prompted banks to revise their risk management strategies. Banks are required to maintain adequate capital buffers, implement liquidity management tools, and enhance risk governance practices to align with regulatory requirements. Overall, the Indian banking sector has made significant strides in improving its financial risk management practices. However, there is still a need for continuous monitoring and adaptation to changing economic conditions and regulatory landscapes. By adopting a proactive approach to risk management and leveraging technology for enhanced analytics, Indian banks can strengthen their resilience and sustain growth in a dynamic environment.

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