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RISK PARAMETERS OF BANKING SECTORS IN INDIA

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Introduction

Commercial banks are in the risk business. In the "process of providing financial services, they assume various kinds of financial risks. The risks contained in the bank's principal activities, i.e., those involving its own balance sheet and its basic business of lending and borrowing, are not all borne by the bank itself. In many instances the institution will eliminate or mitigate the financial risk associated with a transaction by proper business practices; in others, it will shift the risk to other parties through a combination of pricing and product design. The banking industry recognizes that an institution need not engage in business in a manner that unnecessarily imposes risk upon it; nor should it absorb risk that can be efficiently transferred to other participants. Rather, it should only manage risks at the firm level that are more efficiently managed there than by the market itself or by their owners in their own portfolios. In short, it should accept only those risks that are uniquely a part of the bank's array of services.

Since the introduction of economic reforms in the country in 1991 the financial sector in general, and the banking sector in particular, has made rapid progress and is growing at an accelerated pace. Sensing the opportunities an open market offers, both public sector and private sector banks have adopted a "forward-looking approach" and adjusted with the changed environment in a positive manner.

However, along with liberalization, the financial and operational risks faced by the financial intermediaries, that is, commercial banks, term-lending institutions, and finance companies, have increased manifold. Earlier, these institutions were familiar only with credit risks relating to non-payment, but now they are confronted with multidimensional multivariate risks in the form of credit risk, interest rate risk, exchange risk etc. Managing risk, therefore, has become an important strategic consideration for fostering financial well-being of these organisations.

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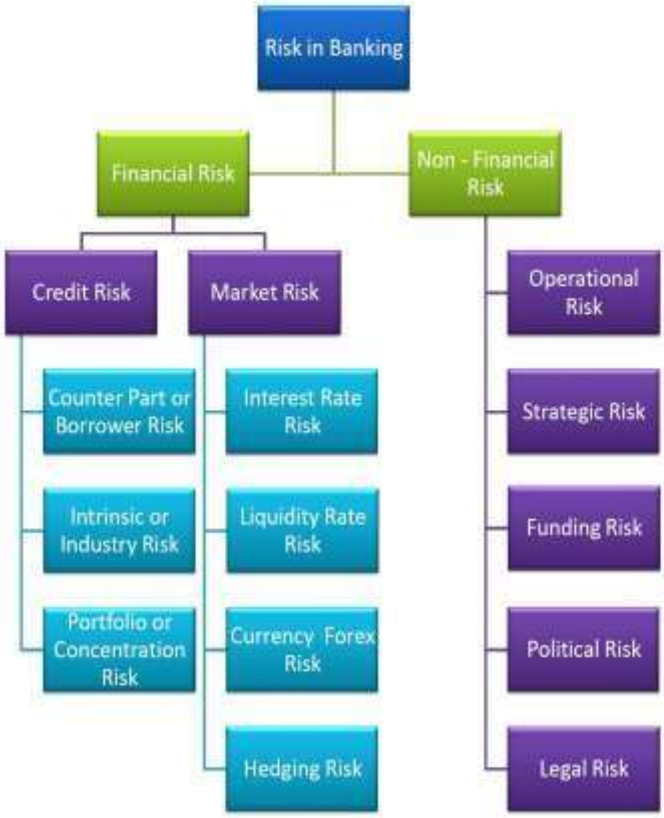
It necessitates understanding and analysis of various kinds of risk elements and adoption of appropriate strategies and techniques for minimizing the impact of these risks on the bottomline of the entity.

Various Types of Risks



Risk Defined

"Risk can be defined as the possibility of loss arising because uncertainty of outcome of a particular transaction. Banks have always dealt with risks and uncertainties, and the objective of risk management is to minimise losses arising from such risk exposures. A bank acts as an intermediary between providers of capital and those needing it. People who have money are unwilling to bear the risk or default on the part of borrowers. Hanks, as financial intermediaries, undertake such risks and, as reward, earn a "spread" or "net interest margin" i.e., the difference between interest earned from borrowers and interest paid to depositors.

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Statement of the Problem

Risk Analysis and Risk Management has got much importance in the Indian Economy during this liberalization period. The foremost among the challenges faced by the banking sector today is the challenge of understanding and managing the risk. The very nature of the banking business is having the threat of risk imbibed in it. Banks' main role is intermediation between those having resources and those requiring resources. For management of risk at corporate level, various risks like credit risk, market risk or operational risk have to be converted into one composite measure. Therefore, it is necessary that measurement of operational risk should be in tandem with other measurements of credit and market risk so that the requisite composite estimate can be worked out. So, regarding to international banking rule (Basel Committee Accords) and RBI guidelines the investigation of risk analysis and risk management in banking sector is being most important.

Objectives

1. To identify the risks faced by the banking industry.
2. To trace out the process and system of risk management.
3. To examine the techniques adopted by banking industry for risk management and
4. To know the risk parameters of banking industry.

Research Methodology

This paper is theoretical modal based on the extensive research for which the secondary source of information has gathered. The sources include online publications Books and journals.

Types of risks in Banking Sector

Risk is an exposure to a transaction with loss, which occurs with some probability and which can be expected measured and minimized. In financial institutions risk result from variations and fluctuations in assets or liability or both in incomes from assets or payments and on liabilities or in outflows and inflows of cash. Today, banks face different types of risks that financial intermediaries are exposed to in the course of their business.
Which can be understood through following chart.

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Comparison of Risk Parameter of different groups of Banks in India

Comparison of Liquidity Risk

Table-1 reveals that Liquidity Risk has been ranging between 9.35 to 16.45 in. Foreign Banks, ranged between 5.43 to 6.13 in Other Scheduled Banks. In SBI and Groups it has been between 5.20 to 9.22. In Nationalized Banks it has been between 3.38 to 4.28. The Mean Value of Liquidity Risk is found that it is very high in Foreign Banks which is 13.53 and very low in Nationalized Banks which is 4.05. The degree of variation (Standard Deviation) is very high in Foreign Banks which is 2.68 and very low in Other Scheduled Bank which is 0.26.

Table-1 - Liquidity Risk (Short Term Securities / Deposits)

Category of Banks									***Mean***	***St. Dev***
				2021	2022	2023				
All Scheduled Banks				5.72	5.39	5.58			5.4933	0.2084
SBI & Groups	5.55	5.20	9.22			6.51	5.75	5.40	6.2717	1.5133
Nationalized Banks	4.00	4.28	3.38			3.99	4.20	4.48	4.0550	0.3782
Other Scheduled Bank	5.93	5.43	5.53			5.82	6.13	5.63	5.7450	0.2633
Foreign Bank	13.21	16.45	9.35	12.31			13.41	16.45	13.5300	2.6881

Comparison of Interest Rate Risk

Table-2 reveals that Interest Rate Risk in Foreign Banks has been between 1.05 to 1.52; in other Scheduled Banks it has been between 1.54 to 1.77; in Nationalized 'Banks it has been between 1.55 to 2.26 and in SBI & Groups it has been between 1.45 to 2.22. The Mean Value of Interest Risk is found to be very high in Nationalized Banks which is 1.96 and very low in Foreign Banks which is 1.21. The degree of variation (Standard Deviation) is very high in Other Scheduled Banks which is 0.56 and very low in Foreign Banks which is 0.17. Thus the interest rate risk has been very high in public Sector Banks as compared to Private Sector and Foreign Banks.

Table-2 - Interest Rate Risk (Interest Sensitive Assets / Interest Sensitive Liability)

Category of Banks										***Mean***	***St. Dev***
			2020	2021	2022	2023					
All Scheduled Banks			2.04	1.90	1.70	1.53				1.7167	0.2162
SBI & Groups	1.80	1.45	2.22				1.99	1.85	1.50	1.8017	0.2924
Nationalized Banks	1.70	1.55	2.13				2.03	1.75	2.60	1.9600	0.3803
Other Scheduled Bank	1.54	1.55	1.77				1.66	1.59	1.60	1.6153	0.565

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Foreign Bank	1.12	1.05	1.52			1.30	1.17	1.10	1.2100	0.1741

Credit Risk

Table-3 reveals that Credit Risk in Foreign Banks has been between 13.89 to 20.54; in other Scheduled Banks it has been between 12.86 to 14.87; in Nationalized Banks it has been between 20.94 to 25.05; and in SBI & Groups it has been between 17.4 to 20.72. The Mean Value of Credit Risk is found to be high in Nationalized' Banks (Public Sector Banks) which is 2.79 and very low in Other Scheduled Banks which is 13.69.

The degree of variation (Standard Deviation) is very high in Foreign Banks which is 2.56 and very low in Other Scheduled Banks which is 1.59.

Table-3 - Credit Risk (Medium Quality Loan/ Assets)

Category of Banks				2021	2022	2023			*Mean*	*St. Dev*
All Scheduled Banks				19.33	19.05	20.91			19.9117	1.0855
SBI & Groups	17.40	20.22	20.23	18.69			17.94	20.72	19.2000	1.3784
Nationalized Banks	20.94	23.35	25.05	22.16			21.44	23.85	22.7983	1.5612
Other Scheduled Bank	13.31	14.07	13.52	12.86			13.81	14.57	13.6900	0.5992
Foreign Bank	20.04	19.72	13.89	20.18			20.54	20.22	19.0983	2.5654

Thus, it is clear that the Credit Risk is very high in Foreign Banks and low in Private Sector Banks.

Capital Risk

Capital Risk, is very high in Foreign Banks and Private Sector Banks and very low in Public Sector Banks as it is clear from the Table.

Table-4 reveals that capital risk has been ranging between 13.9 to 16.07 in Foreign Bank. In Other Scheduled Banks it has been between 6.36 to 8.88. In Nationalized Banks it has been between 5.25 to 6.77. In SBI and Groups it has been between 5.11 to 6.31.

Table-4 - Capital Risk (Capital / Risk Assets)

Category of Banks				2021	2022	2023			*Mean*	*St. Dev*
All Scheduled Banks				6.50	6.90	7.18			6.9933	0.5300
SBI & Groups	6.01	6.31	5.11			5.43	5.51	5.81	5.6967	0.4330
Nationalized Banks	5.75	6.77	5.72			6.01	5.25	6.27	5.9617	0.5216

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Other Scheduled Bank	8.40	8.88	7.01			6.36	7.90	8.38	7.8217	0.9558
Foreign Bank	16.03	16.07	13.90	14.04			15.53	15.07	15.1067	0.9545

Source : Trend Report & RBI Bulletin

The Mean Value of Capital Risk is found to be high in Foreign Banks which is 15.10 an very low in SBI and Groups which is 5.69. The degree of variation (Standard Deviation) is also very high in Foreign Banks which is 0.96 and very low in SBI and Groups which is 0.43. This indicates that Capital is adequate in Public Sector Banks and less adequate in Private Sector Banks and Foreign Banks.

Conclusion

The comparison of various risk parameters of different categories of Scheduled Commercial Banks revels that degrees of risks faced by different categories of Scheduled Commercial Banks are different. Degree of Risk has been very high in Foreign Bank and Other Scheduled Banks and low in Public Sector Banks.

Improved-risk management practices by “banks are the key to success in a competitive environment where new instruments such as derivatives are introduced in a gradual and progressive manner. To reduce the risks, there is need for forecasting the risks at an early stage. In case of indispensable risks such as rural lending as per the guidelines, there is need to compensate an equal amount with value added services in cities with high reward schemes. Further, it is essential to assess the value of the assets at the long run, before lending. A systematic risk assessment from all securities, events and policies should be made well in advance, so that the risks can be identified at an early stage and should be avoided with no or meager loss.

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