MANAGEMENT OF RISK AND MAINTAIN PROFITABILITY OF BANKS

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Abstract- Risk management is one of the vital aspects of the financial institutions regardless of their nature. For a more comprehensive analysis of Indian banking sector, investment and public and private banks both were chosen for assessing the relationship between risk management and profitability. Explanatory design of study helped in assessing the casual effect relationship between the research variables. Although risk management has been a well-plowed field in financial modeling for more than two decades, traditional risk management tools such as mean–variance analysis, ratios, and Value-at-Risk do not capture many of the risk exposures of hedge-fund investments. In this article, I review several unique aspects of risk management for dynamic risk analytics, liquidity, and nonlinearities—and provide examples that illustrate their potential importance to managers and investors. I propose a research agenda for developing a new set of risk analytics specifically designed for investments, with the ultimate goal of creating risk transparency without compromising the proprietary nature of investment strategies.

Keywords: credit risk management, profitability, public and private banks performance, investment banks

Introduction

Risk management is the process of minimizing the risk. It starts with the identification and evaluation of risk followed by optimal use of resources to monitor and minimize the same. Risk generally results from uncertainty. In banking industries this risk can come from uncertainty in providing more loan than creditability, failure of projects, accidents, natural disasters etc. There are different tools to deal with the same depending upon the kind of risk.

Risk management has turned out as a vital issue in the current intensely complicated and competitive business environment. Undoubtedly, after recent financial crisis, it can be believed that banking sector at present are the largest financial institutions. Businesses and industries are heavily dependent upon the credit grants from these banks. The uncertain and volatile financial environment all across the globe has increased credit risk for the banking institutions, which is ultimately affecting the level of their profitability (Berríos, 2013). Past studies have confirmed that bank performance in terms of profitability is directly associated with its credit risk. Favorable credit risk management leads to positive profits and vice versa. However, the extent of this relationship is strongly dependent upon the types of banking institution. Public and private banks, due to the nature of their business are exposed towards the high risk of non-payment from their borrowers.

F.W. Taylor - "Art of knowing what you want to do and then seeing that it is done the best and cheepest way".

Henry Fayol – "To Manage is to forecast, to plan, to organise, to command, to co-ordinate and to control".

Peter F.Drucker –"Management is work and as such it has its own skills, its own tools and its own techniques". • "Management is the art of getting things done through and with people".

Risk management is identification, assessment and planning and controlling social, economic or physical threat to the organization. It is the concept for transferring the risk or reduce its negative effects.

The process of risk management is not only restricted to controlling the threats or reducing their negative effects. It is a much deeper concept that also involves risk avoiding as well as risk taking. Every work involves some or other kinds of risk. Sometimes you avoid, sometimes you control the phenomenon and sometimes you simply let it come. Same is true for the business world.

The idea behind is that there are no hard and fast rules. This means that even though we have a systematic approach to treat risk it is not necessary that this is going to help. Simply designing and implementing a risk management plan is not enough to treat risk. It depends on firm-to-firm and industry-to-industry. There are various other criteria that need to be analyzed such as internal and external environment of a company, company's ability to develop and implement a risk management plan effectively.

Credit risk is defined as the probability that some of a bank‘s assets, especially its loans, will decline in value and possibly become worthless. Because banks hold little owner' capital relative to the aggregate value of their assets, only a small percentage of total loans need to go bad to push a bank to the brink of failure. Thus, management of credit risk is very important and central to the health of a bank and indeed the entire financial system. As banks make loans, they need to make provisions for loan losses in their books. The higher this provision becomes, relative to the size of total loans, the riskier a bank becomes. An increase in the value of the provision for loan losses relative to total loans is an indication that the bank‘s assets are becoming more difficult to collect .

Characteristics of Risk Management

A risk is an uncertain event which may occur in the future
A risk may prevent or delay the achievement of and organization's or units objectives or goals
A risk is not certain – Its likelihood can only be estimated

Management of risk is a Social Process.
Risk management Involves in Group Effort.
Risk management Planning- Look ahead and chart out future course of operation.

Importance of Risk Management

The objective of a well-managed risk management program is to provide a repeatable process for balancing cost, schedule, and performance goals within program funding. This is especially true on programs with designs that approach or exceed the state-of-the-art or have tightly constrained or optimistic cost, schedule, and performance goals.

To identify ,priorities and potential risk events

A key concept here is that the public and private sector banks shares the risk with provide better services. The PMO always has a responsibility to the system user to develop a capable and supportable system and cannot absolve itself of that responsibility. Therefore, all program risks, whether primarily managed by the program office or by the services provider, are of concern and must be assessed and managed by the management. Once the program has determined which risks and how much of each risk to share with the service provider, it must then assess the **priorities and potential** risk assumed by concerned management.

Help develop risk management strategies and risk management plans

The customer and service provider both parties may not always agree on risk likelihoods, here management plays important role to maintains ultimate approval authority for risk definition and assignment. Risk involves selection of the option that best provides the balance between performance and cost. Recall that schedule slips generally and directly impact cost. It is also possible that throughout the system life cycle there may be a need for different near-term and long-term mitigation approaches

Find ways to identify and evaluate risks

An effective risk management process requires a commitment on the part of the PM, the PM to be successful. Many impediments exist to risk management implementation, however, the program team must work together to overcome these obstacles. One good example is the natural reluctance to identify real program risks early for fear of jeopardizing support of the program by decision makers. Another example is the lack of sufficient funds to properly implement the risk mitigation process. However, when properly resourced and implemented, the risk management process supports setting and achieving realistic cost, schedule, and performance objectives and provides early identification of risks for special attention and mitigation

Importance of Profitability

Profitability is a source to determine the operational efficiency of a business. It is the magic eye that can measure operating efficiency of the whole business. The return on capital employed can be the best judges by profit not by the investment made by all the investors.

In view of the management the profitability is the money that is earned on the investment capital. If the invested capital generates the profit, it can be treated as profit. According to new market researches if the sale is increasing day by day and payment of operating expenses made regularly than it can be termed as the efficiency of management.

Profitability is analysed with reference to operations of business, keeping in mind, short term and long term objectives both. While in short term profitability helps in continuance of business operations like product mix etc. The trend of profitability helps in managerial decision making for expansion programmes in long run. Profitability measurement is important for different categories of people with different points of view. Profitability analysis can be internal because it is related with analysis of internal working of a business. The financial advisor is able to guide the management on various operational aspects with the help of profitability measurement and its analysis.

Profitability is an important factor for all concerned with a particular business enterprise, either directly or indirectly. Profitability figures are taken as indicators of business activity in a particular banking industry and of many industries as whole. It helps in long term planning by the government like five year plan.

Objective of the Research Paper

To study comparative trends on selected parameters of State Bank of India for financial year 2016-17 to 2017-18.

To analyze and show net profit position of State Bank of India.

To analyze the employee performance of State Bank of India.

To analyze the assets quality (Non-performing Assets) of the concern bank in India

NET PROFIT POSITION OF SBI FOR FY 2016-17 AND 2017-18

	FINANCIAL YEAR 2016-17 Rs in crores	FINANCIAL YEAR 2017-18 Rs in crores	Increase/Decrease
Interest Income	2,23,982	2,20,499	-3483
Other Income	42637	44601	-1964
Total Income	2,66,619	2,65,100	1519
Interest Expenses	148783	145646	3137
Net Interest Income	75,199	74,854	345
Operating Expenses	58375	59,943	-1568
Operating Profit	75,199	59,511	15688
Total Provision	61266	66,058	-4792
Net Profit	-1,805	-6547	-8352

As from the above profit position the interest income of SBI decrease by 3483 crores in 2017-18 in compare to 2016-17 but the total income increase by 1519. It is due to the part of other income increases in the current financial year.

As according to SBI financial maintaining system interest expenses also decreases by Rs 3137 crores so due to decreasing Interest Income and Interest expenses SBI in Position of Net interest income by Rs 345 crores.

SBI decreases its operating Expenses by Rs 1568 due to such decreases its operating profit increases by Rs 15688 crores but due to increases in current year provision it shows its negative net profit position.

Conclusions Suggestions

The paper confirms that there is a positive relationship between interest income and net profit as the above table show negative interest income it directly impact on net profit which show negative position (If other things constant) in such way that profits of banks are affected due to credit facilities. The majority of the managers confirmed the wide use of credit risk management principles within their institutions for the development of value and evaluating uncertainties associated with the business. The use of collateral is made for setting the limits and ceilings for the amounts of credit facilities. Appropriate collaterals are obtained from the customers. Respondents also confirm that an individual committee works in their banks for controlling the credit issues. However, it is worthy to note down that effects of bank size, credit risk in relation to capital adequacy, assets monitoring and operational administrations also contribute vitally on the financial performance of banks in India. Furthermore, various ratios can be used by the banks for determining their profitability level. These include return on assets and return on equity as vital ones. Return on equity and NPLR however were found effectively used in most of the past studies. It can be summarized at the end that there is no difference in the investment and public and private banks in relation to the association between credit risk and profitability.

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