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BANKING RISK AND PROFITABILITY

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Abstract: Many research papers have been published on banking risk. Here is my own research on Profitability and banking risk.

So, in US back in 2014 non- traditional bank affect the profitability of bank. So, the bank that are involved in this process have high characterized risk that are more hazardous to some market that totally comes in macroeconomics. In Kenya the government put their most well-known bank on statuary management for 9 months and in that 9 month the credit risk of that banks are goes high. The bad loans increased one more time the profitability fluctuates.

And is that profitability available in banks and what type of role of that profit GDP growth of Europe union

We also discuss the relationship between Capital adequacy ROA and non-performing assets. We take the quantitative data of 5 well known banks of India and find out the relationship between them

Keywords: Banking risk, Profitability, Capital adequacy, ROA.

INTRODUCTION

Any risk that harms the bank in any way withers it is financially or non- finically comes in the banking risk.

Example: if any customer fails to pay the loan money and customer became bank corrupt that amount said to be bad loan for bank.

If government policies tend to be change in future this is unpredictable it will result in loss to the bank.

There are nine types of risk:

- Credit risk: That risk when borrower failed their loan and interest amount to bank.
- Market risk: These type risks are suffered by overall performance of bank in financial market.
- Liquidity risk: The risk that are for a certain period time of and given assets or a commodity without impacting their market price.
- Operational risk: The risk that suffered by bank from internal process or external event.
- Reputation risk: That risk which cause the damage to bank reputation or brand.
- Business risk: Is that risk whether company generate sufficient revenue to cover its expenses or not.
- Systematic risk: is the risk that can be occurring without damaging the entire system.

- Moral hazard

REVIEW OF LITERATURE

Nicholas Apergis (2014). The main aim of this study is to find how nontraditional bank activities affect directly the profitability; risk profiles of the financial institutions involved in such activities. In this process they cover 1725 US financial institution that involves in non-traditional bank. The banking institutions that are involved in non-traditional activities are distinguish by higher a risk, which makes them more danger to a number of market and macroeconomic shocks. This research paper studied the quantitative influence of non-traditional bank activities on profitability and insolvency risk for a number of United states financial institutions involved in non-traditional banking activities.

Kaguri Kobia (2017). The main aim of this study is to find how the banking industry was shocked when central bank of Kenya put their 3 banks in statutory management within 9 months. That's increase the credit risk in the bank. The one way to decrease that risk as introduction of credit derivatives into the Kenyan market. And decrease the fraudulent activities and don't give illegally loans to people and make more stable banking work. The data was collected as census method between 2007 and 2017 and 1 and half year was taken to make that data in secondary data.

Hutter and Jones (2017). In this research paper the researcher is doing how external factors could affect the economic and socio life. So, the empirical study has been done with the contest of the food retail sector and the management of food safety and food hygiene risks. The main and broader objective of this study is to through some light on regulation of those factors within or beyond state. In 1980s and 1990s the state government put harsh policy on them. So, from that the series of studies find out how the external factors influence their business risk so the result that comes out from that is that there should be proper focusing on all factors including economics social and political. In this process 7 large companies and 22 SMEs participated in the research. One person per SME was interviewed and on average seven per large company was interviewed.

Amaliah, Hassan (2019). Mainly in this research paper there is relationship between credit risk, liquidity and capital adequacy. So why they do so? Because The Indonesian government faces economic shutdown back in 2016 especially in banking sector due to people are failing to pay loan amount. It was increased 3.2% in bad loans report by moody so that's why economic growth was decreased in Indonesia from 10.4% to 7.4%. So, government of Indonesia find that there is negative relationship between credit risk and profitability as due to bad bank loans the profitability of bank is decreased. Sample size in this research paper is the 4 state-owned banks in Indonesia. The research used secondary data which is obtained from that publish annual report of each bank within 10 years period (2007 to 2016).

Petriaa, Caprarub, (2015). Directed an overview weather there is profitability in bank or not? They found that 18 countries have positive profitability but the main limitations is that bank profitability and that inflation has a strong effect on profitability, while banks' profits are not significantly affected by the real GDP per capita. And the sample size and data used in this paper are yearly data for 1098 banks from European Union countries for the period from 2004 to 2011.

Indian banks' profitability weaker than BRICS peers, to improve next fiscal: Moody's

Read more at: https://economictimes.indiatimes.com/industry/banking/finance/banking/indian-banks-profitability-weaker-than-brics-peers-to-improve-next-fiscal-moodys/articleshow/66318824.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

In this news article Moody is showing that if compared the BRICS nation Banks with Indian bank. The Indian bank have profitability ratio 8.4% whereas BRICS nation have 11.8%.

Furthermore, reported NPL ratios will gradually decline as a result of stressed asset resolution," Moody's said.

PROBLEM STATEMENT

How the external and internal risk can harm the Banking profitability. That the basic problem we trying to understand and analyze how the robust banking system can be threatened by the external and internal factors which are beyond the control of the banks

OBJECTIVE

The following are the objectives of the study:

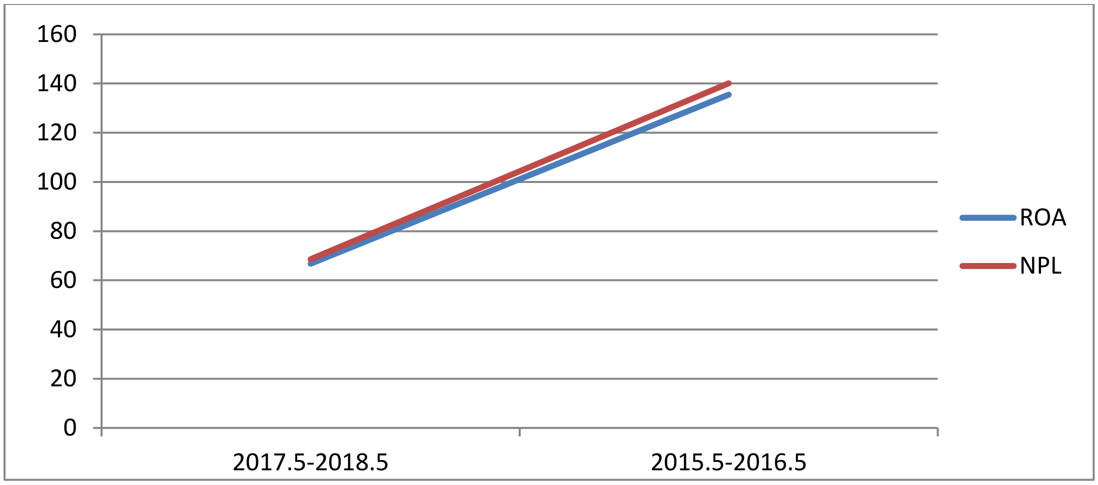
- To identify the risk faced by the banking industry.
- To examine the technique by the banking industry. To deal with their profitability.
- To find the role of small component like capital adequacy, liquidity and different type of risk.

RESEARCH METHODOLOGY

The data has been collected from secondary sources. The secondary sources are the official website of that bank. The type of research is descriptive, causal and quantitative research.

7.Data Analysis

The data mention below is secondary data which was collected from the annual report of past 4 years of HDFC bank. The below analysis is done on the basis of Semi average methods.



Year	ROA(billion)	NPL(billion)
2018-2019	77.95	79.18
2017-2018	57.55	60.93
2016-2017	37.02	38.56
2015-2016	29.74	30.23

If we look at the graph and analysis that we found that nowadays the ROA and NPL of HDFC bank are increasing and in future 2019-2020 we make an assumption that ROA of the HDFC must be between 80 to 85 billion. And NPL will be around 82-87 billion.

Bank's income falls due to increase in NPL because debtors have low repaying capacity which results as high interest rate and non-economic use of loans. ... The main causes of NPL are high-interest rate, Low GDP, Inflation, unemployment.

CONCLUSION

The government of India facing such a loss nowadays due banking risk because are paying more and more money to bank from taxpayer money around 25,000 crores are given banks by the government in year 2016-2017. So, in furthers government should take or already taken steps are mention below:

- The Reserve bank of India had created small banks to give rise to the credit facilities to small credit companies.
- The government going to merged state owned banking to improve the credit facilities and trying to remove NPL related problems that are faced by bank.
- The government should also attract foreign lenders for small scale banks.
- After granting loan, banks should observe past as well as present of the company withers company is able to pay that cost or not. In this way, banks can sell the assets before it become NPA.

- It's better to shows the name fraud people in newspaper it will cause fear among public.
- Through Insolvency and Banking code (IBC) banks are either reviving the companies or liquidating them to solve NPAs issue.

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