



A STUDY ON RISK MANAGEMENT PRACTICES IN COMMERCIAL BANKS

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ABSTRACT

The banking sector is one of the most important pillars of economic development. In today's dynamic financial environment, banks are exposed to multiple risks such as credit risk, market risk, operational risk, and liquidity risk. Risk management has become an essential function to ensure financial stability, profitability, and sustainability of banks.

This study focuses on analysing risk management practices in commercial banks and evaluating their effectiveness. The research is based on both primary data (survey of 108 respondents) and secondary data (RBI reports, journals, and articles). The findings reveal that risk management significantly improves operational efficiency, reduces financial losses, and enhances customer confidence. However, challenges such as cybersecurity threats, lack of awareness, and technological risks still exist.

CHAPTER 1: INTRODUCTION

The banking system is prone to various risks, so risk management is vital in the sector. Risk management involves identifying, analyzing, assessing, monitoring and resolving risks. The banking system is associated with many operational, credit and market risks. The process of risk management ensures security for the banking sector and its instruments. The financial industry is the backbone of the economy, so risk managers should manage any risks early. Planning and anticipating the risks that can occur contribute to the efficient functioning of the sector. Quantitative methods of risk management aid in evaluating and managing the risks arising during operations and provides data useful for decision-making. Risk management is beneficial to the banking sector as it ensures asset management. It ensures that risk managers closely monitor and operate the bank's functions efficiently. Setting capital aside for risk management is essential to ensure effective governance.

STATEMENT OF THE PROBLEM

The banking industry operates in a highly dynamic and complex financial environment where commercial banks are exposed to various types of risks such as credit risk, market risk, operational risk, liquidity risk, and regulatory risk. With the growth of globalization, technological advancements, and increasing financial activities, the level of risk faced by banks has significantly increased. Effective risk management has therefore become essential to ensure the stability, profitability, and smooth functioning of banking institutions.

Commercial banks have adopted advanced risk management frameworks, internal control systems, and regulatory compliance mechanisms to manage these risks. However, despite these efforts, banks continue to face several challenges in effectively identifying, monitoring, and mitigating risks. One of the major concerns is the rising level of non-performing assets (NPAs) due to credit risk, which directly affects the financial performance of banks. Inadequate credit assessment, poor monitoring of loans, and economic uncertainties contribute to this issue.

Another significant problem is the exposure to market risk, which arises from fluctuations in interest rates, foreign exchange rates, and overall market conditions. These fluctuations can impact the value of banking assets and investments, making it difficult for banks to maintain financial stability. Additionally, the increasing use of technology in banking operations has led to higher operational risks, including system failures, cyber fraud, and human errors, which can disrupt banking services and reduce customer trust.

OBJECTIVE

1. To examine awareness of risk management in the banking sector.
2. To evaluate the effectiveness of risk management practices.
3. To identify the types of risks faced by commercial banks.
4. To identify the challenges associated with risk management in banks.
5. To study the role of regulatory guidelines and technology in risk management.

HYPOTHESIS

Hypothesis 1: Risk Management and Financial Stability

Null Hypothesis (H_0):

There is no significant relationship between risk management practices and the financial stability of commercial banks.

Alternative Hypothesis (H_1):

Effective risk management practices improve the financial stability of commercial banks performance

Hypothesis 2: Risk Management and Bank Performance

Null Hypothesis (H_0):

There is no significant relationship between risk management practices and the performance of commercial banks.

Alternative Hypothesis (H_2):

Effective risk management practices positively influence the performance of commercial banks.

CHAPTER 2: LITERATURE REVIEW

Risk management is essential for the stability and performance of commercial banks in a dynamic environment. Basel Committee on Banking Supervision (2016) emphasized integrated risk frameworks for effective control and monitoring.

Studies identify credit risk (NPAs), operational risk (fraud, system failures), and regulatory compliance as major concerns (Ghosh, 2018; Kaur & Rao, 2020; Patel, 2021). Research also shows that strong risk management improves profitability and efficiency (Singh & Sharma, 2019; Gupta, 2020).

Overall, effective risk management enhances financial stability, but challenges like rising NPAs, cyber risks, and compliance issues remain

CHAPTER 3: RESERCH METHODOLOGY

The study uses a descriptive and analytical research design to examine risk management practices in commercial banks. It follows a quantitative approach, collecting data through structured questionnaires.

Data Collection:

- Primary: Questionnaire (bank employees, students, customers)
- Secondary: Journals, books, RBI reports, articles

Sampling: Convenience sampling

Sample Size: 100–120 respondents

Overall, the methodology ensures systematic analysis of risk management practices in banks.

CHAPTER 4 : FINDINGS

- Majority (85%) respondents are aware of risk management and consider it important.
- Credit risk (NPAs) and market risk are the most significant risks in banks.
- Digital banking is perceived to increase operational risks like fraud and system failures.
- Over 50% believe banks have risk management systems, but some doubt their effectiveness.
- Risk management helps in financial stability and reducing losses.
- RBI regulations play a key role in strengthening risk management practices.
- Customer satisfaction with banking services is generally high.
- Lack of awareness and internet access are key barriers to banking services.
- Mixed opinion exists on impact of risk management on bank performance.
- Need for improvement through technology, training, and stronger controls.

CHAPTER 5: CONCLUSION

Risk management is essential for the stability and performance of commercial banks. The study shows that while banks have established risk management systems, their effectiveness needs improvement. Credit and market risks remain major concerns, and digitalization has increased operational risks. Overall, strong risk management practices help in reducing losses and ensuring financial stability, but continuous improvement is required.

CHAPTER 6: SUGGESTION

- Strengthen credit risk management to reduce NPAs
- Improve technology and cybersecurity systems
- Provide regular employee training and awareness
- Enhance risk monitoring and internal controls
- Ensure strict compliance with Reserve Bank of India guidelines
- Increase customer awareness about banking risks

CHAPTER 7: References

- Reserve Bank of India (2023) – Annual Reports
- Basel Committee on Banking Supervision (2016) – Risk Management Principles
- Deloitte (2020) – Banking Risk Reports
- Ghosh (2018), Singh & Sharma (2019), Kaur & Rao (2020) – Research Journals
- Investopedia – Banking Risk Concepts
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