Risk Management in Selected Private and Public Sector Bank in Raipur (C.G)

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ABSTRACT

Risk management plays a pivotal role in ensuring financial stability and operational efficiency of banks. This research paper explores and compares the risk management practices adopted by selected private and public sector banks, focusing on key risk categories. Through case studies, data analysis, and comparative evaluation, the paper highlights the effectiveness, challenges, and innovations in risk management practices. The findings reveal significant differences in risk appetite, technological adoption, and regulatory compliance between selected private and public banks. The paper concludes with recommendations to enhance risk resilience, emphasizing the need for a proactive and integrated risk management framework across the banking industry.

INTRODUCTION

Risk management plays a crucial role in ensuring financial stability and regulatory compliance in the banking sector. Due to differences in ownership structures, public and private sector banks adopt varied risk management frameworks. This study aims to compare the risk management practices of both sectors by analyzing their strategies, effectiveness, and adherence to regulatory requirements.

Banks today operate in an environment filled with uncertainty and rapid changes. From economic ups and downs to technological risks and cybersecurity threats, there are many challenges that can impact a bank's performance and reputation. That's why risk management has become such an important part of banking. It helps banks protect themselves from potential losses and ensures that they can continue to serve their customers reliably.

Private and public sector banks often face similar types of risks, but the way they manage these risks can be quite different. Private banks may have more flexibility and quicker decision-making, while public sector banks often work within stricter government guidelines. These differences can affect how each type of bank plans for and responds to risks.

This study looks at how both private and public banks manage risks, what strategies they use.

OBJECTIVE OF THE STUDY

1. To identify the key risks faced by both selected private and public sector bank.
2. To compare the risk management policies and strategies implemented in each sector.
3. To analyze how risk management practices impact financial performance.
4. To propose recommendations for improving risk management in both sectors.
5. Analyze the different types of risk involved in banks.

FUTURE SCOPE OF THE STUDY

This study focuses on major public sector banks and private sector banks, examining risk management practices in areas such as credit risk, market risk, operational risk, and liquidity risk.

Risk management in banks is a constantly evolving area, especially as new challenges and technologies continue to emerge. While this study provides valuable insights into how private and public sector banks currently manage risks, there's still much to explore.

In the future, researchers could look into how banks are using digital tools and artificial intelligence to detect and manage risks more efficiently. It would also be useful to study how environmental and social factors are being included in risk management strategies, especially as sustainability becomes a growing concern in the banking sector.

REVIEW OF LITERATURE

Risk management has become a critical part of banking operations, especially with the increasing complexity of financial systems and past global financial crises. Banks—both public and private—are exposed to various types of risks and need effective strategies to manage them in order to remain financially stable and compliant with regulations.

1. Understanding Risk Management in Banks

Banks typically face several kinds of risks, including credit risk, market risk, operational risk, and liquidity risk. The Basel Accords (Basel I, II, and III) offer international guidelines on how banks should manage these risks and maintain sufficient capital. Hull (2018) explains that a strong risk management system helps banks stay resilient during financial shocks.

2. Comparing Public and Private Sector Banks

Many researchers have studied the differences between public and private sector banks when it comes to risk management. Das and Ghosh (2007) found that private banks often adopt more advanced tools and technology to manage risks, while public sector banks may be slower in adopting such measures due to bureaucratic hurdles. Chaudhary and Sharma (2011) also observed that decision-making in public banks can be slower, which affects how quickly they can respond to emerging risks.

3. Practices Followed in Managing Risks

Most Indian banks now have dedicated risk management committees and internal controls. According to Kaur and Kapoor (2012), private banks tend to be more proactive in identifying and managing risks, while public banks are often more reactive. The Reserve Bank of India (RBI) requires all banks to conduct stress testing and risk analysis, but how well these guidelines are followed can vary between banks (RBI Reports, 2020–2023).

4. Role of Technology in Risk Management

Technology is playing a bigger role in how banks manage risk. Private banks are increasingly using real-time data analysis and artificial intelligence to detect potential problems early. Mittal and Arora (2020) note that this has helped reduce credit defaults. Public sector banks are also adopting technology, but the process is slower due to older systems and organizational resistance to change.

5. How Risk Management Affects Performance

Studies show that private banks generally perform better when it comes to risk-adjusted returns. Bhattacharya et al. (2019) suggest this is because private banks are more careful in their credit assessments and monitoring processes. On the other hand, public banks often deal with higher levels of non-performing assets (NPAs), pointing to weaker risk management in those institutions.

6. Governance and Regulation

Strong corporate governance also plays a big role in managing risk effectively. Jain and Yadav (2021) found that banks with well-structured boards and active audit committees are better at controlling risks. Regulatory bodies like the RBI and SEBI require all banks to follow certain standards, helping ensure a more consistent approach to risk management across both public and private sectors.

RESEARCH METHODOLOGY

Research Design

Research method used is DESCRIPTIVE RESEARCH

Descriptive research design is a research method that aims to describe a phenomenon, situation, or population by gathering information. It's a foundational tool in scientific research. What information has to be gathered, from what sources, and how it will depend on the project's overarching operating pattern

International Scientific Journal of Engineering and Management (ISJEM) ISSN: 2583-6129
Volume: 04 Issue: 05 | May – 2025 DOI: 10.55041/ISJEM03472
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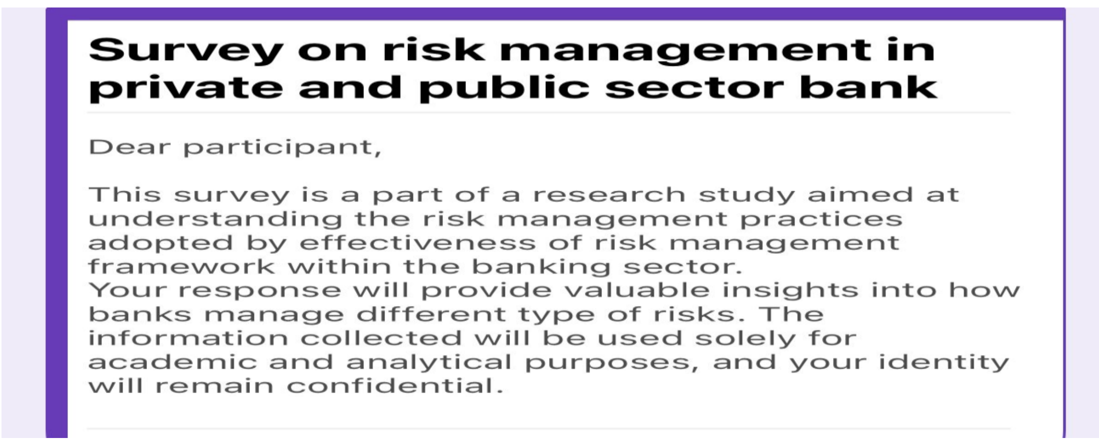
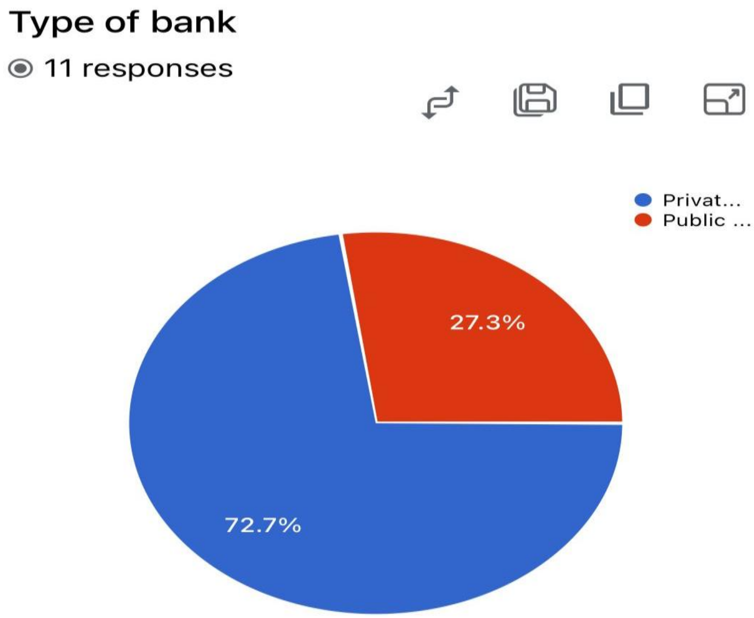
or structure. DESCRIPTIVE RESEARCH was determined to be the most appropriate based on the primary goal of our inquiry. The main goal of this form of research is to enhance understanding of the issue. It investigates the primary location of the issue and attempts to assess several suitable methods of action.

Data Analysis and Interpretation
Primary Data Collection
Data is collected through:
Questioner
Survey

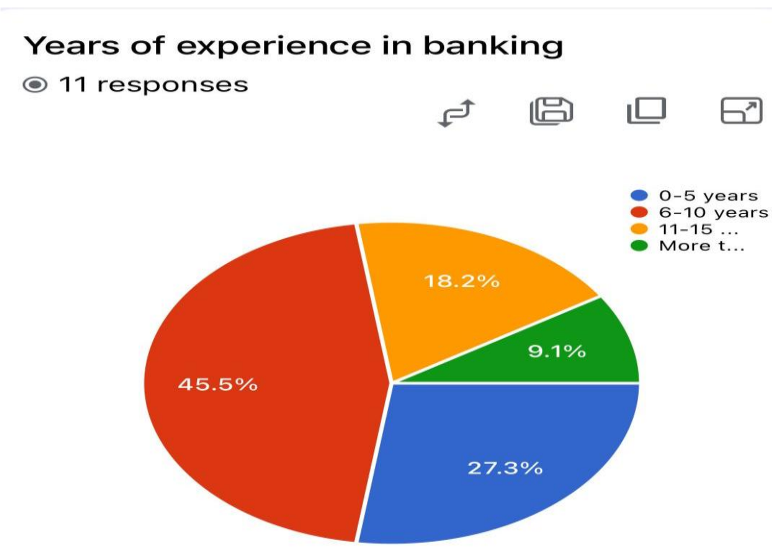

Survey on risk management in private and public sector bank

Dear participant,

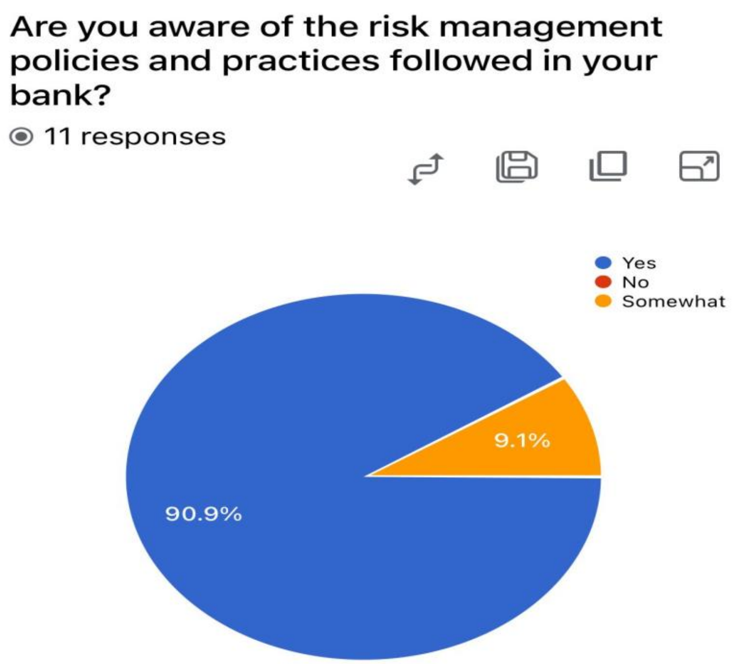
This survey is a part of a research study aimed at understanding the risk management practices adopted by effectiveness of risk management framework within the banking sector.
Your response will provide valuable insights into how banks manage different type of risks. The information collected will be used solely for academic and analytical purposes, and your identity will remain confidential.



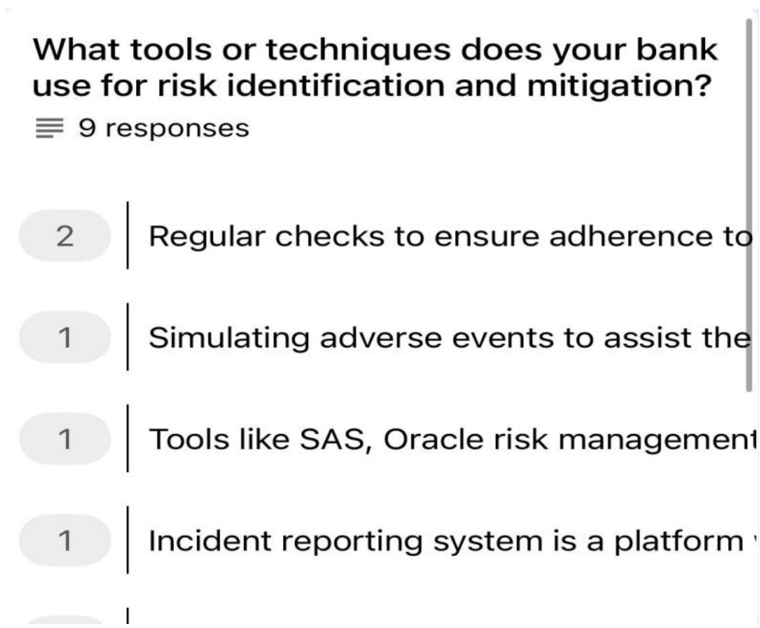
Interpretation: This question asked participants to indicate whether they work in a public or private sector bank. The responses show that 72.7% of them are from public sector banks, while 27.3% are from private sector banks.



Interpretation: This question looked at how many years of experience each respondent has in the banking sector. It helps us understand whether the views shared in the survey come from experienced professionals, newcomers, or a mix of both.



Interpretation: This question asked whether respondents are aware of the risk management policies and practices in their own bank. Most people answered yes, which shows that risk management is generally well-communicated within banks.

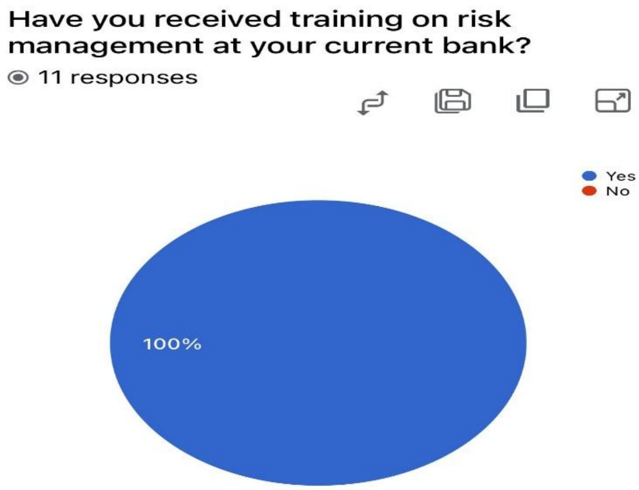


Interpretation: This question asked participants to share the specific methods their bank uses to spot risks and reduce them. The answers help us understand how different banks handle risk

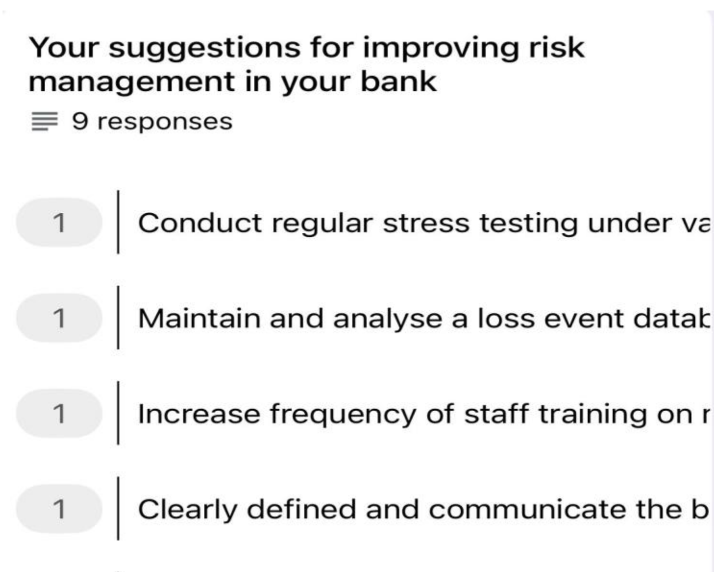
Response:

1. Regular checks to ensure adherence to risk policies and regulatory standards.
2. Simulating adverse events to assist the banks, preparedness and resilience.
3. Tolls like SAS, Oracle risk management cloud, or Matric Stream used for integrate risk oversights.
4. Incident reporting system is a platform where staff can report risk events, near misses, or breaches for analysis and improvements.

5. Automated system for evaluating browsers creditworthiness to minimize credit risk.
6. Visual tools to identify and prioritize risk based on their likelihood and impact.
7. Evaluation of risk arising from partnership, vendors and out outsource services.
8. System designed to detect signs of financial distress in borrowers or markets before major issue arise.



Interpretation: This question asked whether employees have been given any training on risk management in their current bank. All the responses help us understand how seriously banks take staff education when it comes to handling risks.



Interpretation: This question gave respondents a chance to share their own ideas on how risk management could be made better in their bank. These suggestions are valuable because they come from people who see the day-to-day challenges and know what might actually work.

Response:

1. Conduct regular stress testing under various economic scenarios.
2. Maintain an analyze a loss event database to learn from past failures and prevent recurrence.
3. Increase frequency of staff training on risk awareness and response procedure.

International Scientific Journal of Engineering and Management (ISJEM) ISSN: 2583-6129
Volume: 04 Issue: 05 | May – 2025 DOI: 10.55041/ISJEM03472
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4. Clearly defined and communicate the banks, risk appetite, framework to all employees for better alignment.
5. Increase frontline staff in risk assessment to gather practical insights from daily operations.
6. Use real time monitoring system for fraud detection and cyber security threats.
7. Update risk management policies regularly to align with current market and regulatory challenges.

Secondary Data Collection
Data is collected through:
Internet, Website
Government Departments

1. **Selected Private Sector Banks in Raipur (C.G)**

- **HDFC Bank** risk management policies and strategies implemented.

Fiscal year	Gross NPA (%)	Net NPA (%)	Liquidity coverage Ratio (LCR) (%)	Net Stable Funding Ratio (NSFR) (%)
2019 – 20	1.26	0.36	115.51	>100
2020 – 21	1.32	0.40	116.50	>100
2021 – 22	1.17	0.32	117.00	>100
2022 – 23	1.12	0.30	117.35	>100
2023 – 24	1.24	0.33	117.35	120.81

Interpretation: HDFC Bank maintained a consistently low-risk profile throughout the five-year period. With Gross NPAs averaging near 1.2% and Net NPAs below 0.4%, the bank showcased exceptional credit risk management, even during the pandemic.
Its Liquidity Coverage Ratio (LCR) remained above 115% and NSFR consistently exceeded regulatory benchmarks, reflecting a solid liquidity and funding strategy. The slight increase in NPAs in FY 2023–24 was well within control and did not compromise its overall risk position. HDFC's performance reflects stability, conservative lending, and operational excellence.

- **ICICI Bank** risk management policies and strategies implemented.

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Fiscal year	Gross NPA (%)	Net NPA (%)	Liquidity Coverage Ratio (LCR) (%)	Net Stable Funding Ratio (NSFR) (%)
2019 – 2020	5.53	1.41	123.0	112.0
2020 – 2021	4.96	1.14	122.0	114.0
2021 – 2022	3.60	0.76	123.0	115.0
2022 – 2023	2.81	0.48	123.0	116.0
2023 – 2024	2.30	0.50	123.0	117.0

Interpretation: ICICI Bank demonstrated a strong recovery and transformation over the five-year span. Starting with higher NPAs (5.53% gross in 2019–20), the bank steadily reduced its asset quality risk, achieving a Gross NPA of 2.3% and Net NPA of 0.5% by FY 2023–24. This turnaround highlights significant improvements in credit underwriting and recovery efforts. Liquidity-wise, the bank consistently held LCRs above 120% and improved its NSFR, reaching 117% by 2023–24.

2. Selected Public Sector Banks in Raipur (C.G)

- **SBI** risk management policies and strategies implemented.

Fiscal Year	Gross NPA (%)	Net NPA (%)	LCR(%)	NSFR(%)
2019 – 20	6.15	2.23	>100	>100
2020 – 21	5.00	1.50	>100	>100
2021 – 22	3.97	1.02	>100	>100
2022 – 23	2.78	0.67	>100	>100
2023 – 24	2.24	0.57	>100	>100

Interpretation: State Bank of India has made strong progress in reducing its financial risks over the past five years. Back in 2019–20, the bank was managing a high number of bad loans (Gross NPA at 6.15%), but through focused recovery efforts and better loan practices, it brought that number down to just 2.24% by 2023–24. Throughout this period, SBI maintained a solid liquidity position, with plenty of backup funds to meet any short-term or long-term needs.

- **Bank of Baroda** risk management policies and strategies implemented.

Fiscal year	Gross NPA (%)	Net NPA (%)	LCR (%)	NSFR(%)
2019 – 20	9.40	3.13	>100	>100
2020 – 21	8.87	3.09	>100	>100
2021 – 22	6.61	1.72	>100	>100
2022 – 23	3.79	0.89	135.4	>100
2023 – 24	2.92	0.68	120.6	>100

Interpretation: The Gross NPA ratio decreased from 9.40% in FY 2019–20 to 2.92% in FY 2023–24, while the Net NPA ratio reduced from 3.13% to 0.68% in the same period. This decline indicates effective credit risk management and recovery strategies. In terms of liquidity, the bank has consistently maintained the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) above the regulatory threshold of 100%, ensuring strong short-term and long-term liquidity positions.

Delimitations

1. **Strict Rules to Follow:**
   Banks must follow lots of regulations, which can limit how flexible they are in managing risks.
2. **Not Enough Data:**
   Decisions often rely on outdated or incomplete information, making it hard to judge risks accurately.
3. **Gaps in Skills or Systems:**
   Some banks lack the right tools or trained staff to handle risks effectively.
4. **Resistance to Change:**
   Staff or management may be slow to adapt to new risk policies, tools, or regulations.
5. **Short-Term Thinking:**
   Decisions may focus on quick wins or immediate goals, ignoring potential long-term risks

Conclusion

By highlighting the differences in risk management approaches between public and private sector banks, this research will help financial institutions, policymakers and regulatory bodies enhance banking risk management frameworks.

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