"IMPACT OF RISK MANAGEMENT ON THEFINANCIALPERFORMANCEOFBANKS ININDIA" (ASTUDY ONSELECTEDBANKS)

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ABSTRACT

Today the banking sector is facing many challenges and significant losses. TheReserveBankofIndiahasbeenforcedtoadoptanumberofregulations tomitigatebanklosses.Providingloanstolow-incomepeoplewithoutadequatecollateralwhilestillhelpingsociety is Banks main problem. As a result, risk management in Banks has gainedsignificant importance. The primary goal of the researcher was to examine the various risk management techniques employed byBanks in India. The Study investigates the connection between risk managementtechniquesandriskfactors. As a sampling, six MFIs with Telangana statelocations were taken which are in the control of The Reserve Bank of India. The researcherfound that there is a positive correlation between effective risk management practices andthe financial performance of Banks.

Keywords: Bank, Asset financing risk, credit rating, risk management, riskmanagementpractices.

Introduction:

Banks contribute significantly to the financial ecosystem by complementingtraditionalBankingservices,extendingcredittounderservedsegments,andfostering economic growth. Their flexibility, specialized offerings, and focus oncustomer needs make them an important part of the financial landscape in manycountries to become more structured and regulated, leading to the establishment of modernBankingsystems.Intoday'sworld,theBankingindustryencompassesawiderangeof financial institutions, including commercial Banks, Investment Banks, creditunions, and online Banks. These institutions offer a variety of services, such asdeposit accounts, loans, credit cards, investment and wealth management, foreignexchange, and payment processing. Banks act as custodians of deposits, allowingindividualsand businessesto safelystoretheirmoney.

TheBankingindustryissubjecttoextensiveregulationandoversightbygovernmental authorities to ensure financial stability, protect consumer interests,andpreventillicitactivitieslikemoneylaunderingandfraud.CentralBanks,regulatory agencies, and international organizations play a crucial role in settingstandards, enforcing regulations, and supervising Banks to maintain the integrity andsoundness of the Banking system. In recent years, the Banking industry has facedvariouschallenges,includingtechnologicaldisruptions,changingcustomerexpectations,andincreasedcompetitionfromnon-traditionalfinancialserviceproviders,oftenreferredto asfintechcompanies.

Risk   management:
Riskmanagementinvolvesthesystematicidentification,assessment,andmitigationofriskstominimizetheirpotentialnegativeimpact.Itaimstoincreasetheorganization'sabilitytoanticipateandrespondtoriskseffectively,therebyenhancingitsresilienceandmaximizingopportunities.Byimplementingriskmanagementprocesses,organizationscanmakeinformeddecisions,developappropriate risk mitigation strategies, allocate resources

effectively, and ensure theoverallsustainabilityand successofthebusiness.

It is important for organizations to establish a risk management framework, definerisk appetite, and continuously monitor and review risks to maintain proactive riskmanagementpractices.Riskisthepossibilityofexperiencingharm,loss,orundesirableoutcomes.Itreferstot heuncertaintyandpotentialnegativeconsequences associated with a particular action, decision, event, or situation. Invariouscontexts,suchasfinance,business,andeverydaylife,riskisaninherentpart. By understanding and effectivelymanaging risk, individuals and organizations can make informed decisions, protectagainstpotentialharmor losses,andseizeopportunitiesfor growthand innovation.

Review of Literature

Srinivas K. T. (2013) is on identifying assets that fail to perform atIndian commercial Banks. This article identifies the different general causes thatresult in advances or assets becoming non-performing assets (NPA) and offersappropriatesolutionstotheissueat hand. Sikdar and Makkad's (2013) research sheds light on how NPAs fit into the riskframeworks of a few Indian commercial Banks and attempts to provide ways toassesscreditriskbasedoncurrentBankNPAlevels.Researchfurtherrevealsimportant actions and processes used by important Indian commercial Banks in thepublic and private sectors to recover loans and advances that fall under the NPAcategory. According to a 2011 study by Hosmaniand Hudagi, "Unearthing the Global Epidemic of Non Performance Accounts inRespect of the Banking Sector in India is a descriptive and empirical study thatexamines the size and trends of Private Service Bank in India. It reveals a minorimprovementin asset quality,asevidenced by adropin thediversified NPApercentage. Kumar and Sanjeev(2014) used secondary datafrom Indian old private sectorBanks over theyears 2007to2012toapply thecapital sufficiency,assetsquality,management,earning,liquidity,systems,and controls(CAMELS)model. According to Kumar and Sanjeev (2016), the Reserve Bank of India recommendedtwo supervisory rating models for Indian financial institutions: CAMELS and capitaladequacy, assets quality, compliance, systems, and controls. Using a review of theliterature and empirical research, each CAMELS system parameter was analysed inthestudy. Asgharian et al. (2018) in their paper investigated

theimpactofEPUshocksonUSandUKstockmarketvolatility.ThefindingsdemonstratedpresenceofEPUs hocksonUSandUKstockmarketandalsopositivecorrelation between stock market volatility and EPU. Debata& Mahakud (2018) intheir paper examined the relationship between economic policy uncertainty andstockmarketliquidityinanemergingstockmarketbyapplyingvectorautoregressive Granger-causality tests, impulse response functions and variancedecomposition analysis. A moderate impact on the liquidity of stock market duringnormal conditions was found though there is a significant and greater influenceduringthepresenceoffinancialcrisis.Benzid& Chebbi (2020) in theirstudyappliedGARCH(1,1)modeltoinvestigatetheshockofCOVID-19ontheUSexchange rate volatility. It was found that an augmentation in the number of casesand the deaths (both in logs) in the US bears a positive shock on the USD/EUR,USD/Yuan.**Research Methodology:**

Researchmethodologyisawaytofindouttheresultofagiveproblemonaspecificmatter or that is also referred as research problem. In methodology, researcher

usesdifferentcriteriaforsolvingsearchingthegivenresearchproblem.

RESEARCHOBJECTIVES

1. Identifyvarioustypesofriskarisingoutto measurethefinancialperformances

2. Todeterminesourcesofriskandtheircause

3. ToknowtheimpactofriskmanagementonthefinancialperformancesofBANK

4. TodeterminethesignificantofimpactonthefinancialperformancesonBANK

RESEARCHGAP

After making extensive review of literature, it isobserved that there islot ofresearch work done on different   aspects   of   financial   performance   of BANK.Butverylittlestudieshavebeenundertakentillnowtowardsimpactofriskmanagementconnected to financial performance of banking sectors taking either credit recoveryorcreditcontrolor determinationofNPA'S.

SAMPLESIZE

Thelast5 yearsdatacollectedfrommoneycontrol,prowessiqreportsconsideredto be the sample size for testing data calculating the values arrives at the level ofsignificant.

SOURCESOFDATA

Thestudyisbasedonmainlyonsecondarysourcesofdatarelatingtothestudywasobtained from the money control,   prowessiq   goggle   scholars,   research   journals andwebsite,werealsoreferredfordesigningmethodologyforthestudy.

CONCEPTUALFRAMEWORK
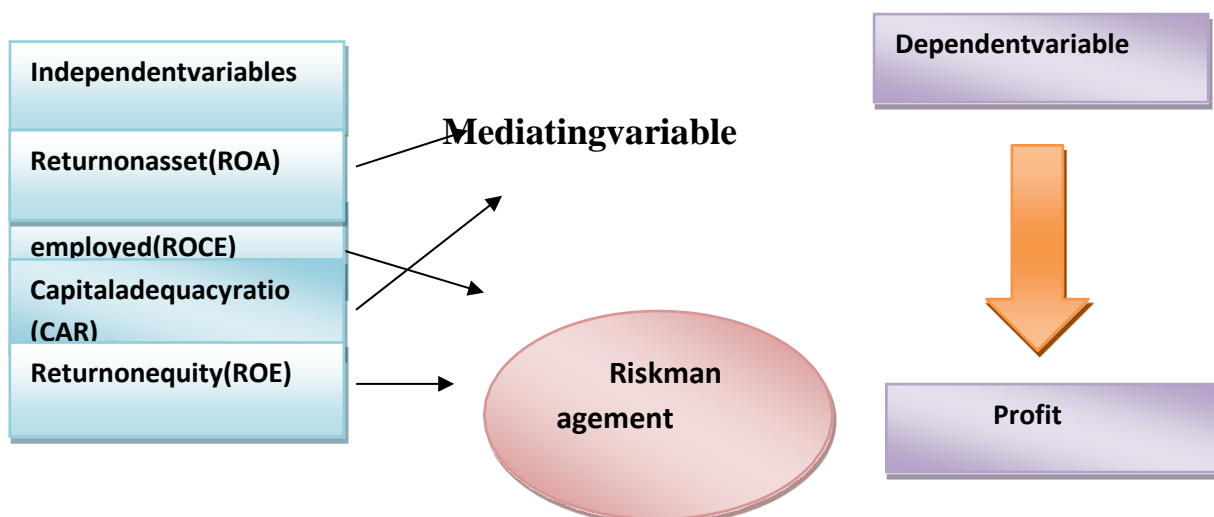
TESTOFHYPOTHESIS

H$_O$:fixedeffect modelisnotapplicablethenrandomeffectmodelissignificant.

H$_1$: Fixed effect model is applicable then random effect model is insignificant.

H0:there isasignificantimpactofROCE,ROE,ROA,CAR onprofit.

H$_2$:thereis ano significantimpactofROCE, ROE, ROA,CARonprofit.

SIGINIFICANCEOFTHESTUDY

Thisstudydealswiththeimpactofriskmanagementonthefinancialperformanceofbankingfinancialcompany.

STATISTICALTOOLANDSOFTWAREUSEDFORTESTINGTHE DATA

RprogramandMS-EXCELwere used totestthedata.

LIMITATIONOFTHESTUDY

Only 6 years data were taken due to time constraints and availability of the datathisdataisnotenoughtoanalyzetheimpactofrisk managementonthefinancialperformanceofBanks.

Data Analysis:

Ratios of the banks

	Dependentvariable	Independent Variables			
Year	Companyname	profit	ROCE	ROE	ROA	CAR
2014	HDFCBank	17.3	3.18	19.5	1.72	16.07
2015	HDFCBank	17.8	3.11	16.47	1.73	16.79
2016	HDFCBank	17.3	3.17	16.91	1.73	15.53
2017	HDFCBank	17.8	3.18	16.26	1.68	14.55
2018	HDFCBank	18.3	3.2	16.45	1.64	14.82
2019	HDFCBank	18.1	3.34	14.12	1.69	17.11
2020	HDFCBank	19	3.33	15.35	1.71	18.52
2021	HDFCBank	21.3	3.42	15.27	1.78	18.79
2022	HDFCBank	23.5	3.22	15.39	1.78	18.9
2023	HDFCBank	22.9	0.66	13.21	0.54	19.26

		Dependentvariable		Independent variable		
Year	Companyname	profit	ROCE	ROE	ROA	CAR
2014	Axis Bank	16.3	3.1	16.26	1.62	16.07
2015	Axis Bank	16.8	2.99	16.46	1.59	15.09
2016	Axis Bank	16.3	3.15	15.46	1.56	15.29
2017	Axis Bank	6.5	3.05	6.59	0.61	14.95
2018	Axis Bank	0.5	2.34	0.43	0.03	16.57
2019	Axis Bank	6.9	2.47	7.01	0.58	15.84
2020	Axis Bank	2.1	2.68	1.91	0.17	17.53
2021	Axis Bank	8.7	2.7	6.48	0.66	19.12
2022	Axis Bank	15.8	2.2	11.3	1.1	18.54
2023	Axis Bank	9.4	2.54	7.66	0.72	17.64

		Dependentvariable		Independent variable		
Year	Companyname	Profit	ROCE	ROE	ROA	CAR
2014	SBIBank	7	1.89	9.2	0.6	12.96
2015	SBIBank	7.5	2.06	10.2	0.63	12
2016	SBIBank	5.2	1.96	6.89	0.42	13.12
2017	SBIBank	5	1.99	6.69	0.38	13.11
2018	SBIBank	-2.4	1.81	-3.37	-0.18	12.6
2019	SBIBank	0.3	0	0.39	0.02	12.72
2020	SBIBank	4.8	1.79	6.95	0.36	13.13
2021	SBIBank	6.6	1.64	8.86	0.45	13.74
2022	SBIBank	10	1.42	12.33	0.63	13.85
2023	SBIBank	13.6	1.59	16.75	0.91	14.68

		Dependentvariable		Independentvariable		
Year	Companyname	Profit	ROCE	ROE	ROA	CAR
2014	kotakmahindraBank	14.8	3.05	12.23	1.71	18.83
2015	kotakmahindraBank	15.7	2.96	13.19	1.76	17.17
2016	kotakmahindraBank	11	2.2	8.72	1.08	16.34
2017	kotakmahindraBank	16.1	2.9	12.35	1.58	16.77
2018	kotakmahindraBank	17.2	2.8	10.89	1.54	18.22
2019	kotakmahindraBank	17	2.77	11.47	1.55	17.45
2020	kotakmahindraBank	18.4	2.86	12.25	1.65	17.89
2021	kotakmahindraBank	21.8	3.32	11.01	1.81	22.26
2022	kotakmahindraBank	25.3	2.93	11.9	1.99	22.69
2023	kotakmahindraBank	26.4	3.15	13.17	2.23	21.8

		Dependentvariable		Independent variable		

Year	Companyname	Profit	ROCE	ROE	ROA	CAR
2014	YesBank	13.8	2.61	22.71	1.48	14.4
2015	YesBank	14.7	2.51	17.16	1.47	15.6
2016	YesBank	15.6	2.73	18.41	1.53	16.5
2017	YesBank	16.2	2.86	15.09	1.54	17
2018	YesBank	16.6	2.57	16.4	1.35	18.4
2019	YesBank	5	2.24	6.39	0.45	16.5
2020	YesBank	-38.1	4.95	-75.56	-6.36	8.5
2021	YesBank	-14.2	1.91	-10.42	-1.26	17.5
2022	YesBank	4.8	0.96	3.15	0.33	17.4
2023	YesBank	2.7	0.94	1.76	0.2	17.9

		Dependentvariable		Independentvariable		
Year	Companyname	Profit	ROCE	ROE	ROA	CAR
2014	ICICIBankLTD	18	2.96	13.39	1.64	17.7
2015	ICICIBankLTD	18.2	3.2	13.89	1.72	17.02
2016	ICICIBankLTD	14.3	3.47	11.19	1.34	16.64
2017	ICICIBankLTD	13.3	3.59	10.11	1.26	17.39
2018	ICICIBankLTD	9.3	2.91	6.63	0.77	18.42
2019	ICICIBankLTD	4.3	2.52	3.19	0.34	16.89
2020	ICICIBankLTD	8.7	2.67	6.99	0.72	16.11
2021	ICICIBankLTD	16.5	3.1	11.21	1.31	19.12
2022	ICICIBankLTD	22.2	2.92	13.94	1.65	19.16
2023	ICICIBankLTD	24.7	3.27	15.89	2.01	18.34

AnalysisandInterpretationofResults

1.   *ROCE*:

Estimate:0.162565   **Std. Errors:**0.054224

t-value:2.9980**Pr(>|t|):**0.004372

Interpretation: The estimate for ROCE is 0.162565. The standard errorrepresents the uncertainty associated with this estimate (0.054224). The t-valueindicates how significant the estimate is, with a higher absolute t-value suggestinggreater significance. In this case, the t-value is 2.9980. The Pr(>|t|) value representsthep-valueassociatedwiththet-value,whichindicatestheprobabilityofobservingsuch a t-value by chance. In this case, the p-value is 0.004372, which is below thecommonly used threshold of 0.05.The double asterisks(**) suggest that the estimateisstatisticallysignificant at the0.01 significancelevel.

2.   ROE:

Estimate:0.098447   **Std. Error**:0.186395

t-value:0.5282   **Pr(>|t|):**0.599925

Interpretation: The estimate for ROE is 0.098447. However, the t-value

isonly0.5282,indicatingthattheestimateisnotstatisticallysignificant.ThePr(>|t|)value of 0.599925 is above the 0.05 threshold, suggesting that the estimate is notsignificantlydifferentfromzero.

3. ROA:

Estimate:0.824116   **Std. Error**:0.204385

t-value:4.0322   **Pr(>|t|)**:0.000206

Interpretation:TheestimateforROAis0.824116.Thet-valueof4.0322indicatesthattheestimateisstatisticallysignificant.ThePr(>|t|)valueof0.000206 iswellbelow0.05,indicatinghighsignificance.Thetripleasterisks(***)denotestrongstatisticalsignificanceat the0.001 level.

4. CAR:

Estimate:0.021171   **Std. Error**:0.068956

t-value:0.3070   **Pr(>|t|)**:0.760208

Interpretation: The   estimate   for   CAR   is   0.021171.   The   t-value   of 0.3070suggeststhattheestimateisnotstatistically significant.ThePr(>|t|)valueof0.760208iswell above the0.05 threshold,indicating that the estimateisnotsignificantly different from zero. In summary, based on the provided results, onlythe variables ROCE and ROA appear to have statistically significant estimates, whileROEandCARdonot.

1. Intercept:

Estimate:--7.6510e17   **Std. Error**:5.4871e-02

Z-value: 0.0000**Pr(>|Z|):**   1,0000000

Interpretation: The intercept term in the model does not appear to have astatisticallysignificantestimate.TheZ-value is0.0000,indicatingthattheestimateis not significantly different from zero. The Pr(>|Z|) value of1.0000000 confirmsthis,asitiswellabovethecommonlyusedthreshold of0.05.

2. ROCE:

Estimate:1.1418e-01   **Std. Error**:5.2198e-02

Z-value:2.1875**Pr(>|Z|):**0.028708
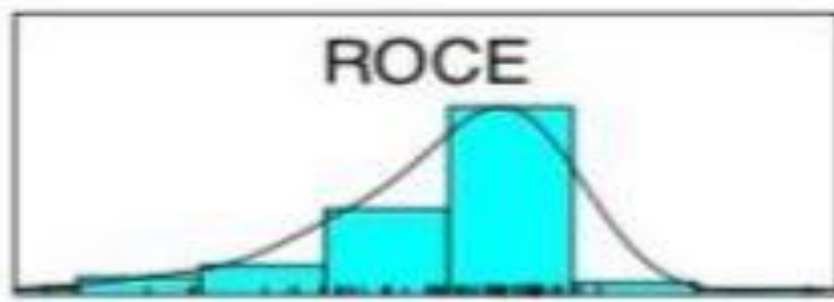
Interpretation:TheestimateforROCEis1.1418e-01.TheZ-valueof2.1875suggests that the estimate is statistically significant. The Pr(>|Z|) value of0.0287084 is below 0.05, indicating significance at the

0.05 level . The singleasterisk(*)denotesstatisticalsignificanceat the0.05 level.

3. *ROE:*

Estimate:9.86302**Std. Error**:1,8774e-01

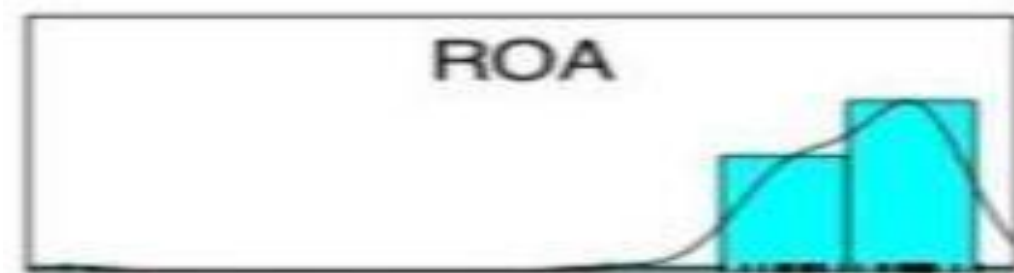**Z-value**:0.5254**Pr(>|Z|):**0.5993195

Interpretation: The estimate for ROE is 9.8637e-02. However, the Z-value is0.5254, indicating that the estimate is not statistically siginificant. The Pr(>|Z|)valueof0.5993195isabovethe0.05threshold,suggestingthattheestimateisnotsignificantlydifferentfromzero.

4. *ROA:*

Estimate:7.80311**Std. Error**:2.0336e-01

**Z-value**:3.8371**Pr(>|Z|):**0.0001245

Interpretation: The estimate for ROA is 7.8031e-01. The Z-value of 3.8371indicate that the estimate is statistically significant. The Pr(>|Z|) value of0.0001245 iswellbelow0.05,indicatinghighsignificance.Thetripleasterisks(***)denotestrongstatisticalsignificanceat the0.001level.

5. *CAR:*

Estimate:1.0186e-01**Std. Error**:6.0238e-02

Z-value:1.6910 **Pr(>|Z|):**0.0908324
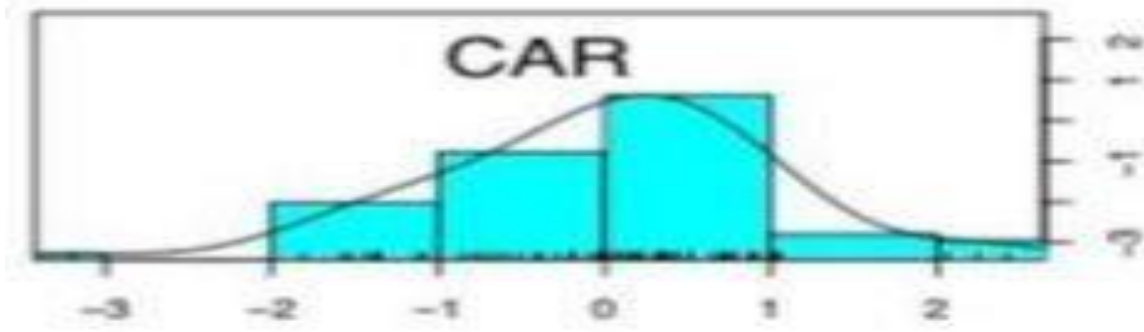
Interpretation:TheestimateforCARis1.0186e-01.TheZ-valueof1.6910suggests that the estimate is not statistically significant at the conventional 0.05level. ThePr(>|Z|) value of 0.0908324 is slightly above 0.05, indicating marginalsignificance.Thedot(.)denotesmarginalstatisticalsignificance.

In summary, based on the provided results, the variables ROCE and ROA havestatisticallysignificantestimates.

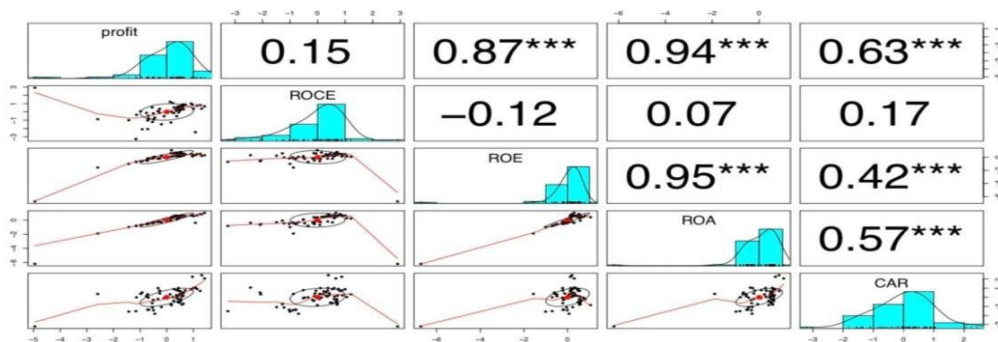*HausmanTest*

data:profit~ROCE+ ROE+ ROA+CAR

chisq= 0.80708,   df=4,   p-value = 0.9375alternative

hypothesis:onemodelisinconsistent

>#correlationmatrix

>pairs.panels(dts)

>pairs.panels(dts,stars=T

The information you provided suggests that you performed a chi-squared test ofmodel inconsistency for a model that predicts profits based on the variables ROCE,ROE, ROA, and CAR. The test result indicates that the chi-squared statistic is0.80708with4degreesoffreedom,andthecorrespondingp-value is0.9375.

Based on the p-value of 0.9375, which is greater than the typical significance levelof0.05,thereisinsufficientevidencetorejectthenullhypothesis.Thenullhypothesis in this context would typically be that the model is consistent, meaningthatthevariablesROCE,ROE,ROA,andCARarecollectivelynotinconsistentwithpredictingprofits.

Therefore, the test results suggest that there is no significant evidence to concludethat the model is inconsistent. In other words, the variables in the model are notcontradictingeachother intheirabilitytopredict profits.

CONCULSION:

The study underscores the importance of effective risk managementpracticesforthefinancialperformanceofBanks.Ithighlightstheneedforstrategies suchasdiversification,creditassessment,NPAmanagement,liquiditymanagement,governance, and compliance to mitigate risks and enhance profitability. The findingsemphasize the role of regulatory compliance in ensuring sound risk managementpracticesandpositivefinancialoutcomesforBanks.TheseinsightscanguideBanksin developing and implementing effective risk management strategies to improvetheirfinancialperformance.

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