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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   APPENDIX/ANNEXURE

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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BANK RISK MANAGEMENT AND ROLE OF RESERVE BANK OF INDIA-A STUDY

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ABSTRACT

Growing competition and fast changes in the operating environment impacting the business potentials, banks are forced to encounter various kinds of financial and non-financial risks. Risk is associated with uncertainty and reflected by way of charge on the fundamental/ basic i.e. in the case of business it is the Capital, which is the cushion that protects the liability holders of an institution. The various risks that a bank is bound to tackle is divided into two categories i.e. business risks and control risks. Risk management in banking designates the entire set of risk management processes and models allowing banks to implement risk-based policies and practices. They cover all techniques and management tools required for measuring, monitoring and controlling risks. The range of models and processes extends to all risks: credit risk, market risk, interest rate risk, liquidity risk and operational risk, to mention only major areas. From the banks point of view risk based practices are so important, because banks being 'risk machines', they take risks, they transform them, and they embed them in banking products and services. For centuries bankers as well as their regulators have assessed and managed risk instinctively, without the benefit of a formal and generally accepted framework or common terms. R.B.I. is the guardian of all banks in Indian therefore its role is more promising and vital in managing the bank risk in country like India.

KEYWORDS

Risk, Banking Risk, Risk Management, Role of R.B.I.

I-INTRODUCTION OF THE STUDY

Risk, in one kind or the other, is inherent in every business. Furthermore, risk taking is essential to progress, and failure is often a key part of learning. Although some risks are inevitable, it does not mean that attempting to recognize and manage them will harm opportunities for creativity. Risks pose new challenges to every company. From employment practices to electronic commerce, from social and political pressures to the vagaries of the weather, the hazards that exist in today's business climate are as diverse as the companies that face them. Like any other business organization, banks too face risks inherent to the company and the industry in which they exist. This paper has been undertaken with the objective to critically examine the current risk management practices as directed by RBI and supervision process undertaken by RBI.

II-OBJECTIVES OF THE STUDY

1. To study the nature of bank risk
2. To study the impact of risk on banks
3. To study the risk management practices adopted by banks
4. To assess the role of Reserve Bank of India in bank risk management

III-METHODOLOGY OF THE STUDY

Present study is carried on secondary data collected from various sources i.e. annual reports, R.B.I. reports, Books, periodicals, websites etc.,

IV-RISK MANAGEMENT IN INDIAN BANKS

The banking industry has long viewed the problem of risk management as the need to control four of the given risks which make up most, if not all, of their risk exposure, viz., credit, interest rate, foreign exchange and liquidity risk. While they distinguish counterparty and legal risks, they view them as less central to their concerns. Accordingly, the study of bank risk management processes is essentially an investigation of how they manage all these risks. Irrespective of the nature of risk, the best way for banks to protect themselves is to identify the risks, accurately measure and price it, and maintain appropriate levels of reserves and capital, in both good and bad times. However, this is often easier said than done, and more often than not, mounting a holistic approach to assessing and managing the many facets of risks remains a challenging task for the financial sector

4.1-STEPS FOR IMPLEMENTATIONS OF RISK MANAGEMENT PROCESS

- ***Standards and reports,***
- ***Position limits or rules,***
- ***Investment guidelines or strategies***
- ***Incentive contract sand compensation.***

4.2- CHALLENGES FACED BY THE OPERATIONAL RISK MANAGEMENT DEPARTMENT

- Quantification of operational risk
- Reporting of the near miss events.
- Less stress on operational risk by the top management
- Less available manpower in operational risk management department

4.3-THE THREATS EXPOSED TO THE BANKS

- Competition
- Less of customers
- Volatility in the market share
- Attention
- Threat of new entrants

4.4-STRATEGIES ADAPTED BY BANKS TO OVERCOME RISKS

Integrative growth
Intensive growth
Downsizing older business
Diversification

4.5- RISKS NOT ADDRESSED BY THE BANKS

- Interest rate risk in the banking book
- Settlement risk
- Reputational risk
- Strategic risk
- Legal and compliance risk
- Risk of under estimation of credit risk under the standardized approach
- Model risk
- Residual risk of securitization

V-ROLE OF RESERVE BANK OF INDIA IN BANKS RISK MANAGEMENT

Before 1950s regulation and supervision by RBI was not that stringent as the banking activity was limited to collection of deposits and issue of loans. Moreover, there was no separate comprehensive enactment for the banking sector. With the introduction of the Banking Companies Act, 1949, (later Banking Regulations Act, 1949) the scope of RBI supervision broadened over the years, necessary changes in the supervisory system have been made to meet with the new challenges emerging in the financial sector. In the wake of rapid changes in the financial sector such as emergence of Universal Banking, introduction of Securitization, integration of various markets, etc. a lot of preparations for further strengthening the supervisory mechanism is required, not only on the part of RBI but by individual banks also. World over the way financial markets are integrating day by day, risk is continuously increasing.

Since the year 1998 RBI has been giving serious attention towards evolving suitable and comprehensive models for Risk-management. It has laid stress on integrating this new discipline in the working systems of the Banks. In view of this, the risk management division in most of the banks was established in or after 1998 only. All the details regarding the risk management framework is presented by the bank in a policy document called ICAAP.

5.1-R.B.I. GUIDE LINES OF RISK MANAGEMENT FUNCTION

- organizational structure
- comprehensive risk measurement approach
- risk management policies approved by the Board which should be consistent with the broader
- business strategies, capital strength, management expertise and overall willingness to assume risk
- guidelines and other parameters used to govern risk taking including detailed structure of
- prudential limits
- strong MIS for reporting, monitoring and controlling risks
- well laid out procedures, effective control and comprehensive risk reporting framework
- separate risk management framework independent of operational Departments and with clear delineation of levels of responsibility for management of risk
- Periodical review and evaluation
- RBI follows a carrot and stick system for implementation of Risk Management and Supervisory controls in Banks.
- The approach is expected to optimize utilization of supervisory resources.
- It is to minimize impact of crisis situation in the financial system.
- Building of a Risk Matrix for each institution.
- Continuous monitoring & evaluation of risk profile of the supervised institutions.
- Facilitates implementation of new capital adequacy frame work
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- Continuous monitoring & evaluation of risk profile of the supervised institutions.
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VI-FINDINGS

- The banks have been making progress in the area of Asset Liability Management. But they are still far from achieving the level, which has been attained in banks abroad.
- All of the banks have set up ALM function and established the requisite organizational framework consisting of the ALCO and the support groups.
- Banks have also made an attempt to integrate ALM and management of other risks to facilitate integrated risk management.
- Banks are grievance with the regulatory requirements of the RBI regarding the preparation of statements.
- Many of them have also achieved 100% coverage of business by ALM.
- Private Banks and foreign banks have made the most progress.
- The number of branches in banks are huge and the level of computerization is low
- Limited use of advanced techniques of ALM and the adoption of sophisticated ALM specific software. Such Absence of a good control framework for ALM
- Banks have also not established any way of measuring the performance of ALM function or conducted any studies about impact of ALM.
- Training of staff is inadequate.
- Articulation of the interest rate view is quite difficult.
- Many of the banks have instituted ALM in order to comply with RBI guidelines and have not adopted the spirit of the guidelines.
- Some of the banks have not laid down clear policies and have failed to establish a hierarchy of objectives.
- Some of the banks also provide their ALCO with a large amount of information rather than specific analytical reports.
- The reason as why targets set for loans have not reached by banks include:
- Projects Placed were not Feasible or Risky in the Respective Category
- Inadequate Security Provided by the Borrowers
- Large No. of Borrowers Whose Credit Worthiness is not Satisfactory
- Fear of Non Performing Assets.
- Availability of Government Securities in the Market at Large scale
- Possible fall in the Interest rates in Future and thus building up a better portfolio as of tomorrow
- Investments give maximum contend, as Risk is reduced very much as compared to that of loans and Advances
- There is at least an amount of satisfaction that some Income may be leaped with least or no risk at all

VII-CONCLUSION

The risk management arrangement followed at all banks is a blend of centralized and decentralized form. Though risk department forms the heart of the organization because if it fails the bank will gasp for breath. But this department is a victim of ignorance in today's scenario. After observations it was found that the banks have lowest number of workforce assigned to this department. Within the department, maximum stress is given to credit risk and other risks are still neglected. The bank does not have sufficient skill set for driving risk management function

RBI, keeping in view international best practices has already taken certain initiatives in this regard and there is a proposal to initiate shortly, the system of Consolidated Supervision too, along with Risk Based Supervision. The impact on bank's key ratios due to banking supervision reveals good results and walking on the same range few issues can be stressed upon like technology up gradation, corporate governance, market intelligence etc. ***In short there is a need of a perfect role to be played by R.B.I. in managing the bank risk so that risk of bank can be restricted from spreading towards other components of financial mechanism at the same time promising policy making and implementation is needed from central government***

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