14th International Conference on Science, Technology and Management (ICSTM-19)
Guru Gobind Singh Polytechnic, Nashik, Maharashtra (India)
2nd March 2019, www.conferenceworld.in
ISBN: 978-93-87793-74-3

RISK MANAGEMENT PROCESS IN BANKING INDUSTRY

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ABSTRACT

Banking sector plays on important role in the management of the economy of a country as risk is directly proportional to return. The banking sectors are minimizing the risk by effective management. The common risks faced by the banking sector are liquidity risk, interest rate risk, market risk, credit or default risk ,and operational risk in which the banks are managing all these type of risks by using tool called CAMELS i.e."Capital adequacy asset quality, management ,earnings quality liquidity and sensitivity" for market risk, there is a process in order to minimize risks in these areas all the necessary steps in process are explain in the paper and what is the importance of Board of Financial Supervision application to cover any losses from their activities The major findings in this paper are monetary a thirty, development and support of base application in the banking sector, is the most important aspect for the bank to continue their activities in a well structured manner.

Keywords

Capita, Asset Quality Management, Liquidity risk

Introduction

Risk Management in Banking is theoretically defined as the logical development and execution of a plan to deal with potential losses usually the focus of the risk management practices in banking industry is to manage an institutions exposure to losses are risk and to protect the value of its assets. \in general banking business in regarded as risky business**:** Economic theory suggests that there are two economic unit's surplus unit and deficit unit and these economic nits prefer to use financial institutions intermediaries to transfer the

ISBN: 978-93-87793-74-3

necessary funds to each other certainly` This process increases funds to each other certainly. This process increases the importance of the financial intermediaries in the economy but also poses some risks to these institutions economic units usually perforce to use intermediaries because of the problems associated with asymmetric information.

In order to solve the asymmetric information problems, institutions are recruiting skilled employees and system that is h the scare sources of funds are now used more effectively by units in the economy. Therefore the funds are channeledt the most valuable projects that are beneficial to the economy, however, this process of channeling funds from one unit to another naturally has some inherent risks within the process. Banks are usually managing those risks are part of their normal operations.

Definition

Risk Management in banking is theoretically defined as the logical development and execution of a plan to deal with potential losses usually, the focus of the risk management practices in the banking industry is to manage an institutions exposure to losses or risk and to protect the value of its assets.

Literature review

Vanany, S Zailani, N Pujawan- and Supply Chain Management - igi-global.com

Supply chain risk management has increasingly becoming a more popular research area recently. Various papers, with different focus and approaches, have been published since a few years ago. This paper aims to survey supply chain risk management (SCRM) literature

W Ho, T Zheng, H Yildiz, S Talluri - International Journal of …, 2015 - Taylor & Francis

Risk management plays an important role in effectively operational supply chains in the presence of a range of uncertainties. Over the years, several researchers have targeted on offer chain risk management (SCRM) by tributary within the areas of process, operationalising and …

From a literature review to a abstract framework for sustainable provide chain management

S Seuring, M Müller - Journal of cleaner production, 2008 - Elsevier

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Such risk will be reduced by involving 2 or additional analysisers when finding out and For a literaturereview it's significantly vital to outline clear boundaries to delimitate the research only at papers in peer-reviewed scientific journals in English with a management focus

Supply chain risk management: a brand new methodology for a systematic literature review C Colicchia, F Strozzi -Management: a global Journal, 2012 - emeraldinsight.com

Purpose–Supply chain risk management (SCRM) has recently gained increasing attention within the supply chain context, both from the practitioners' perspective and as a probe space. Given the connection of the subject, the aim of the {present|this|the current} paper is to present a focused

Objectives

- Overview of Risk Management in banking sector
- To know various kinds of risk levels in banking
- To identified process of Risk Management in Banking Industry

SIX TYPE OF BANK RICK:

1. Credit card risk
2. Market risk
3. Operational risks
4. Liquidity risk
5. Systematic Risk
6. Business risk

1. Credit risk:

The basal commit on banking super vision (BSV) defines credit risk as the potential that a bank browsesor counter party will fail to meet its payment obligation regarding the terms agreed with the bank it includes in repayment of the bank dues and rudiment of dues on time.

2. Market risk

The beset committeeon banking supervision defines market risk as of losses in on off balance sheet position that arise frame movement in market price market risk is the most prominent for banks present in investment banking.

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3. Operation Risk

The based committee on banking supervision defines operational risk "as the risk of loss resulting from inadequate or failed internal processes people and systems or form external strategic and reputation risk"

4. Liquidity Risk

Liquidity risk is the risk that stems from the lack of marketability of on investment that cannot be bought or sold quickly enough to prevent or minimize a loss liquidity risk typically reflected in unusually wide or large price movements, the rule of thumb is that the smaller the size of the security or its issuer the larger the liquidity risk.

5. Systematic Risk

In finance, Systematic risk is the risk of collapse of a n entire financial system or entire market, as opposed to risk associated with anyone individual entity group or component of a system that can be contained therein without harming the entire system

6. Business Risk

The term business risk refers to the possibility of inadequate profits or even losses due to uncertainties e.g. changes in tastes, preference of consumers, strikes, increased competition change in government policy obsolescence.

PROCESS OF RISK MANAGEMENT:

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The risk management process: bank has to take risk all the time any bank has to take an risk to make money. This include full service bank there are

1**. Identify and access of risk:** identify and access of risk, identify potential risk analysis and prioritize and prioritized risk avoidance strategies. Identified risk mitigation satires identify risk continence strategies revisit risk during the litigation revisit risk at the end of an alteration.

2. **Aggregate result Integrate with decision making process**: enables of integrated decision making a policy analysis perspective policy process policy inputs implementation cruces section coordination synergistic solution

3. **The porous of risk management** is to identify potential problem before they occur so that risk handling activity may be planned and invoked as needed across the late of the product or project to mitigate adverse impacts on achieving

4. **Determine strategic and designed capabilities:** strategic design is the application of future oriented design principles in order to incurs an organizational innovations and competitive equalities its foundation lie in the analysis of external and internal trends and data which enables design decision to be made on the basis of rather than institution

5**. Develop and execution plans**: developing an action plan can help change makers and turn their union in to reality and increase efficiency within an organization will meet its objective through detailed action steps will be taken.

(A). **Overdraft**: loan arrangement under which a bank extended credit up to maximum amount against which a current account customer can balance of a bank account in which funds Withdraw have exceed funded deposited.

(B)**.** Non perfuming asset is destined has a credit facility in respect of which the interest and or instalment of principal has remained past due for a specified period of time in simple terms an assets is tagged as non performing when its ceases to generate income for the lender

(C).LOANS gone are the days when borrows went scot free after deflating on bank loan in the bank loan in the digital it is very easy for bank to bank loan defaulter in particular cases.

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Research Methodology

This is a Conceptual Study based on the Secondary data source. The Secondary data is used to high light the conceptual analysis & review of literature. The sources of secondary data for the study are the reports of the Risk Management Process in Banking Industry. In addition to those books articles, journals. It is conceptual in nature data by using secondary data, Journals, Articles and Books.

FACTORS AFFECTING RISK:

Factors affecting business risk, every business is risks that affect cash flows and profitability some come that forms internal weaknesses, some come from external threats and some arise from positive sources such as expansion and growth opportunities

- Variability in demand
- Variability in selling price
- Ability to price adjustment
- Speed of technological changes
- Extent of fixed operating costs

Techniques to manage:

- Accepting the risk means that while you have identified t and logged it in our risk management
- You can also change your plans completely to avoid the risk
- Transfer risk
- Mitigate the risk
- Exploit the risk
- Avoidance is the best means of loss control
- Loss prevention is a technique that limits rather than eliminates loss
- Diversification
- Duplication

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Findings:

1. Risk management underscores the fact that the survival of an organization depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and react to it.

2. The objective of risk management is not to prohibit or prevent risk taking activity, but to ensure that the risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated.

3. Functions of risk management should actually be bank specific dictated by the size and quality of balance sheet, complexity of functions, technical/ professional manpower and the status of MIS in place at that bank.

4. Risk Management Committee, Credit Policy Committee, Asset Liability Committee, etc are such committees that handle the risk management aspects.

5. The banks can take risk more consciously, anticipates adverse changes and hedges accordingly; it becomes a source of competitive advantage, as it can offer its products at a better price than its competitors.

6. Regarding use of risk management techniques, it is found that internal rating system and risk adjusted rate of return on capital are key prominent.

Conclusion

Theriskindispensable for banking sector proper attestation need to pay for assess the future risks and frame strategies to handle tackle effectively. And RBI has to add pot a series of steps to ensure individual In Indian banking sector systematic risk fray can be common in the country. And RBI can make policies and setup offline survey lines to monitor the barrowers Promote the comprehensive coverage of risks offer a more flexible approach through a menu option. And is applicable to be all banks.

ISBN: 978-93-87793-74-3

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