Risk Management Practices of Banking Sector: A Case Study of Central Bank of India, Jorhat

***Nomami Dutta**

Abstract

The banking sector is one of the important sectors for the economic and social development of a country. This study explores current research on the best practices of risk management and insurance procedures of banking sector. The research draws from both theoretical and practical examples. The study highlight key messages and best practices pertaining to two main areas that makes up an effective banking organization: Risk Management and transfer procedure of banking sector. A case study is done on Central Bank of India to know about the risk management and transfer procedure of a banking organisation. The objectives of the study to trace out the process and system of risk management practices of Central Bank of India, Jorhat, to find out the risk pertaining areas of the bank and to identify the risk transfer practices of the bank.

The study explains the basic concepts of risk and risk management. Effective banking organizations require both strong and effective risk management and transfer practices. The study also includes details about the research design that have been undergone to do the study effectively and correctly to achieve the objectives. It also gives the limitations of the study. The interpretations are made from the analysis and suggestions and conclusions are also included. Lastly, any mistake and omission with or without the knowledge of the researcher may kindly be overlooked and forgiven as an unintentional human error. Thus any kind of suggestion for improving the contents is highly solicited.

Key words : *Risk, Risk Management, Risk Transfer and Banking Sector.*

Introduction :

The banking sector has a decisive role in the development of an economy. It is the force behind the economic growth of a country and it plays a vital role by optimum use of idle capital of the country. The Indian banking sector has gone through

* Assistant Professor of Commerce, Gargaon College, Simaluguri

drastic changes in the recent few years. As the liberalisation process has been undergone in India, banks are more exposed to risks. Risk is inherent in any walk of life in general and in financial sectors in particular. Banks are exposed to some competition in recent times and hence are compelled to encounter various types of financial and non-financial risks. Risks and uncertainties form an integral part of banking which by nature entails taking 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. Foremost thing is to understand the risks run by the bank and to ensure that the risks are properly confronted, effectively controlled and rightly managed. Each transaction that the bank undertakes changes the risk profile of the bank. Hence, providing real time risk information is one of the key challenges of risk management exercise.

Business grows mainly by taking risk. Greater the risk, higher the profit and hence the business unit must strike a trade off between the two. The essential function of risk management is to identify measure and more importantly monitor the profile of the bank. Managing risk is nothing but managing the change before the risk manages. While new avenues for the bank has opened up they have brought with them new risks as well, which the banks will have to handle and overcome. There are three main categories of risks in banks; Credit Risk, Market Risk &Operational Risk. Other types of risk in bank are regulatory risk and environment risk. 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.

Profile of the Bank :

Indian banking sector has always been one of the most revenue earning avenues. There are a large number of banks in India in public as well as in private sector. Central Bank of India, the Jorhat branch has been selected for the study. Central Bank of India, a government owned bank, is one of the oldest and largest commercial bank in India. Central Bank of India, established in 1911 was the first Indian commercial bank which was wholly owned and managed by Indians. The bank has 4741 branches, 5000 ATM's and 4 extension counters across 27 Indian states and three union territories. Central Bank has been playing an increasingly active role in promoting the key thrust areas of agriculture, small scale industries as also medium and large industries. The Bank also introduced a number of Self Employment Schemes to promote employment among the educated youth.

Customers' confidence in Central Bank of India's wide ranging services can very well be judged from the list of major corporate clients such as ICICI, IDBI, UTI, LIC, HDFC has also almost all major corporate houses in the country.

Objectives of the Study :

The following are the objectives of the study :

- To trace out the process and system of risk management in the bank.
- To find out the risk pertaining areas of the bank.
- To identify the risk transferred areas of the bank.

Scope of the Study :

The scope of this project work is defined by the objectives itself. In this study, the risk management practices adopted by the Central Bank of India will be studied. As risk measurement and management plays an important role for the success and growth of any organisation, we will make an attempt to study how the risks are managed in the bank. Moreover, the insurance coverage practiced by the bank will be analysed.

Significance of the Study :

Banking organisations are important part of a country for its overall economic and social developments. The sole aim of the banking organisations is to act as intermediate between those having financial resources and those requiring resources. The foremost hurdle faced by the banking sector today is the understanding and managing of risk effectively. After liberalisation with the growing pace of deregulation and changes in the customer behaviour, banks are more exposed to risks. Therefore there is a growing need for proper measurement and management of risks in the banking sector. This study emphasise on the risk management practices and the insurance procedure of banking organisation. So, this paper tries to study the practices with the help of a case study on Central Bank of India, Jorhat.

Methodology :

Descriptive Research :

The major purpose of Descriptive research is description of the state of affairs as it exists at present. So in this study the state of risk management in Central Bank of India, Jorhat is provided as the data are collected through interview schedule. The researcher has no control over the variable; he/she can only report what has happened or what is happening.

Case Study :

This is a case study of Central Bank of India, Jorhat branch as a representation of banking organisation. The study has been made to know about the risk management practices and insurance procedures of banking organisation and its effectiveness.

Data Source :

- The blend of primary and secondary data is used for the study.
- The requisite data and information is gathered with the help of interview schedule and personally interacting with the staffs of the bank.

Collection of data :

The data for the present study has been collected personally by interviewing the branch manager and the staffs of the bank with the help of interview schedule as also by in-depth study and analysis of the various financial reports and records prepared by the institution. Thus, both primary and secondary sources of data have been tapped for the purpose of the study.

Interview Schedule :

The interview schedule is being prepared keeping in minds the various factors so as to fulfil the objectives of the study. It can be divided into two parts questions related with risk management and insurance coverage of the bank respectively.

Tools of Analysis :

The role of statistics in research is to function as tool in designing research analyzing its date and drawing conclusions there from most research studies result in a large volume of raw data. Which must be suitable reduced so that the same can be read easily and can be used for further analysis. It is an empirical type of project work or data based work, coming up with conclusions that could be verified by observation or experiment. Thus, the methodology adopted for this study has basically been personal interrogation of the department staffs and the branch manager of the bank, engaged in implementation of risk management practices of the bank along with in-depth analysis of the associated records and reports and thereby, drawing logical inferences there from.

Period under consideration :

The period considered for the purpose of the study ranges between one to two months.

Findings :

An analysis is made on the responses received from respondent employees of banks. The objective of the report is to find out the risk management policies of the banks. The analysis and findings of the study is based on the primary data that have been collected by putting interview schedule to the manager of the Central Bank of India, Jorhat Branch regarding risk management practices by banks.

The interview schedule contains various questions from which an analysis is made. Interpretations are made on a rational basis, these interpretations may or may not be correct but care is taken to draw a valid interpretation. Analysis is made on the basis of the information collected through interview schedule no other data or information is taken in to consideration for the purpose of the analysis. Here are some major findings of the study :

- As we have visited more than 4-5 banks to collect the complete data, in every bank we are informed that they have risk management practices in their banks.
- In Central Bank of India, there is a practice of holding important documents, cash etc under dual control. Vouchers are entered by one person and checked by other person.
- To mitigate risk occur in daily transaction, they use, daily checking, periodical inspection by auditors as well as by concurrent audit it is observed. Moreover, to mitigate risk, all banks are currently using advanced technologies like computers, money counting machines etc.

- The risk pertaining areas of the bank are mainly Safety, security of cash; DD, cheques etc. and all these areas are looked after by insurance company. This insurance is done at the head office level.
- The Central Bank of India selects the insurers who are well established in this business and are generally selected by the head office. Moreover, several factors like financial strength of the insurer, risk management practices provided by the insurer and the cost and terms of protection also taken into consideration while selecting the insurer.
- The risk management services provided by the insurer of Central Bank of India are mainly on furniture, fixtures, documents, cash, security items etc. as informed by the manager of The Central Bank of India, if they want, they can even claim the loss of small things like pen and other equipments also.
- Central Bank negotiate on the insurance contracts terms of the insurance company by following the guidelines of head office in this regard, moreover, they follow the RBI guidelines and if any shortcomings pointed out by auditors/ inspectors are rectified immediately. If printed policies, endorsements and forms are used, the risk manager and the insurer must agree on the documents that will form the basis of the contract.
- Insurer of Central Bank of India provides a specially tailored manuscript policy to the central office. If such tailored manuscript policy is written for the firm, the language and the meaning of the contractual provisions must be clear to both the parties. In most of the cases, an agent or broker will be involved in the negotiations.
- The Central Bank of India disseminates information on risk management policy to the lower levels through internal circulars. Moreover, if any changes occur in the risk management policy of the bank, the lower level part i.e. the branches are immediately informed through internal circulars.
- The procedure for claiming the insurance sum and providing necessary proofs to the insurance company is prescribed by central office and the insurance companies are followed along with the RBI guidelines. Generally, the terms and conditions for claiming the insurance sum are written on the insurance contract.
- The Central Bank of India revised the risk management system periodically and sometimes depending upon the necessities. Moreover, some special committees are also formed by RBI to revise the risk management system of the banks.

- The training programmes of Central Bank of India informs the risk management practices to the trainees, so that they can be aware of the risk management practices currently going on in the banks.
- The Central Bank of India have their internal audit system, more over the external audit is also done in financial year. The external auditors are generally appointed by following the RBI guidelines.
- The decisions regarding which areas should be covered under insurance are taken at the central office level and communicated to the branches.
- In our study we found out that the risk management policies are made at central office level and the branches follow these policies.

Conclusion :

Risk is an integral part of banking sector, so proper assessment of risk is an essential part of bank's risk management practices. There are significant developments in the area of quantification of risk over the years but there is no single best practice of risk measurement and management. The survival and growth of a bank hugely depends on its risk management practices. Risk management policy should be such that it is capable in anticipation and preparation for the change rather than just waiting for it and then react to it. As banks are the main source of financial transactions, therefore it is the duty of the bank to safeguard their customer's properties, so it is necessary to insure the property of the customers. But the duty of the bank should not be limited only to insuring the property; they should also use proper policy to reduce the risk factor as much as they can. Now-a-days the banks are using various advanced technology like computer, money counting machines, ATM, CCTV to reduce the error in the transactions as well as for faster transactions, this will also help in reducing the risk occur in day-to-day transactions.

Based on the findings of the study it can be concluded that for most of the decisions on risk management, branches have to depend on the policies issued by the head office. Thus the effectiveness of risk management policies hugely depends on the efficient management information system and computerization of the bank activities. Through this study the organization itself is also benefited and also gets to know the spheres where it needs to improve in order to attain success in future years.

Limitations of the Study :

- The study was conducted on Central Bank of India and as such the conclusions of the study may vary from bank to bank. So the findings may not be generalized in a broader perspective. The study is limited to one bank. The results as a whole may differ.
- Due to time constraint, it was not possible to carry out an intense and in depth study.
- The respondent hesitated to answer all the questions of the questionnaire provided to them.
- The timing of my working hour and their work hours clashed. And that made my research work difficult.
- Another limitation of the study was lack of experience in such type of study. Perhaps, the study might have been more effective had if we got sufficient experience in this type of study.

Further scope of the Study :

The any other researcher can go for further research in the following mentioned areas :

- The project study is conducted with the help of purposively selected only one bank branch due to lack of time. The project could be conducted with more than one bank.
- Any further research can be carried on by comparing Central Bank of India with other banks too.
- The areas of the study could be broader. The researcher could try to cover some more parameters.

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