Risk Analysis And Management In Indian Banking Sector: An Overview

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Abstract

The concept of risk and its management are core for any financial organization. Risk Management is the application of proactive strategy to plan, lead, organize, and control the wide variety of risks that are rushed into the fabric of an organization’s daily and long-term functioning and it plays a crucial role in the overall success of the organization. In recent times risk exposure in banking system has increased worldwide in various manner due to fierce competition, changing socio-economic patterns, market flexibility, and increased foreign exchange business and cross border activities. The financial sector especially the banking industry in most emerging economies including India is passing through a process of change. Rising global competition, introduction of innovative products and delivery channels have pushed risk management to the forefront of today's financial landscape. Ability to gauge the risks and take appropriate action will be the key to success. This paper attempts to identify various types of risks that contribute to Risk analysis in Indian banks and also examined the different techniques adopted by the bank management for controlling the same in the context of Basel committee recommendations. Mainly secondary data from Books, journals and online publications are used for the study.
1. Introduction

Banks have matured from being a financial intermediary into a risk intermediary as they are exposed to severe competition and hence are compelled to encounter various types of financial and non-financial risks. In the world today, risks and uncertainties form an important part of banking business which by nature entails taking risks. Banks are now required to clearly separate avoidable and unavoidable risks and are required to focus on the extent to which such risks can be shoulder by them. Risk management i.e. trade-off between risk and return in the banking sector is a vital issue linked to financial system stability. Unsafe risk management practices governing bank lending often plays a central role in financial turmoil, most notably seen during the financial crisis of 2008.

Credit risk, which is attached to bank loans and forward contract, represents the most important type of risk in the banking business. The risk of defaults or protracted arrears on outstanding loan is termed as credit risk (Tamimi et al., 2007). According to the consultative paper issued by the Basel Committee on Banking Supervision (BCBS, 1999), for most of the bank in the world today loans are the major and most obvious sources of credit risk. Credit risk is the potential that a bank borrower or counter party fails to meet the obligations on agreed terms. It may arise from either an inability or an unwillingness of the borrower to perform in the pre committed contracted manner.

Banking Policies and Strategies are formed depending upon type and structure of ownership of a bank. Organizational culture, attitude and behaviors also differ according to type of bank ownership i.e. Private owned banks and state owned banks. This difference leads to different levels of risk-taking behavior and banks performance (Arora et al., 2011) and in turn results into varying level of credit risk in different types of banks.

The foundation of a sound economy depends on how sound the banking sector is and vice versa. Banks are very brittle institutions which are built on customers’ trust, brand reputation and above all risky leverage. In case something goes wrong, banks can collapse and failure of one bank is enough to send shock waves right through the economy (Rajadhyaksha, 2004). In spite of heavy regulations in the last two decades, many developed and growing countries have witnessed severe banking crises. Therefore, banks are required to develop the system which involves minimum risk exposure.

Banking institutions must take risk, but they must do consciously (Carey, 2001). Bank management must take utmost care in identifying the type as well as the degree of its risk exposure and tackle those effectively. Moreover, bankers should follow risk management as an ongoing and valued activity with the board setting the example. They also try to ensure that their risk taking is informed and prudent.

2. Objectives And Methodology Of The Study

The present study aspires to make an overall evaluation on the risk analysis and its management in Indian banks in the context of Basel committee recommendation on capital accord. To be specific, the main objectives of the study are:

- To explain the need for risk management in any financial institution.
- To describe various types of risks in banking business.
- To explain various risk management techniques and its process.
- To examine the role of RBI over risk management in Indian banks.

Accordingly, the reminder of the paper is organized as under. Section three narrates meaning of risk management and need for the same; while section four represents a brief sketch on various types of risks in banking business. Section five and six analyses a range of risk management tools as used in...
the financial institutions and the process of risk management respectively. Section seven focuses on the role of RBI in risk management by Indian banks. The last section is devoted for concluding observations.

This study is basically exploratory in nature and the entire gamut of discussion has been made on the basis of secondary sources. Secondary data are collected from various reports on risk management published by RBI and also from books, research articles and websites.

3. Why Risk Management?

The banking sector all over the world has witnessed stiff competition not only from the domestic banks but also from foreign banks alike. In fact, competition in the banking sector has emerged due to disintermediation and deregulation. The liberalized economic scenario of a country has opened various new avenues for increasing revenues of banking business. In order to grab this opportunity, commercial banks in India also have launched several new and innovated products and facilities like ATMs, Credit Cards, Mobile banking, Internet banking etc. Apart from the traditional banking products, it is seen that mutual funds, insurance etc. are being designed/ upgraded and served to attract more customers to their fold. Deregulation in the Indian economy, product/ technological innovation and increased volatility in the capital market has considerably increased the risk exposure of commercial banks. Thus, this has forced banks to focus their attention to risk management (Sarkar 1999; Sharma et al., 2007). The two most vital developments that have made it imperative for Indian commercial banks to give emphasize on risk management are –

(a) Deregulation: The financial sector reforms which started in early 1990s have culminated into deregulation in a phased manner. Deregulation has given banks more freedom in areas like lending, investment, interest rate structure etc. Therefore banks are required to handle their own business themselves and at the same time maintain liquidity and profitability. This has increased risk management awareness among the commercial banks.

(b) Technological innovation: Technological innovations have provided a plinth to the banks for creating a customer friendly environment and also for designing various new products. In fact, it is technological innovation that has helped banks to manage the assets and liabilities in a better way, providing various delivery channels, reducing processing time of transactions, reducing manual intervention in back office functions etc. But all these developments have increased the diversity and complexity of risks, which need to be managed professionally so that the opportunities provided by the technological invention are not negated.

4. Various Types Of Risks In Banking Business

The word ‘risk’ is derived from an Italian word ‘resicare’ which means ‘to dare’. Risk is more a ‘choice’ than a ‘fate’. An extension of this analogy tells that risk is a possibility of loss or injury perils and the degree of uncertainty in return. It may be defined as ‘possibility of loss’, which may be financial loss or loss to the image or reputation. Banks like any other commercial organization also intend to take risk, which is natural for any type of business. Higher the risk taken, higher the gain would be. But higher risks may also turn into higher losses. The major risks in banking business are listed below –
4.1 Financial risk

Financial risk crop up from the business transaction assume by a bank, which is exposed to potential loss. This risk can be further classified into Default or Credit risk and Market risk.

4.1.1. Default or Credit Risk

Credit risk is more simply defined as the potential failure of a bank borrower or counterparty to meet its obligations in accordance with the agreed terms. In other words, credit risk can be defined as the risk that the interest or principal or both will not be paid as promised and is estimated by observing the proportion of assets that are below standard. Credit risk is borne by all lenders and can lead to serious liquidity problems, if excessive. For most banks, loans are the largest and most obvious source of credit risk. There are two variants of credit risk which are discussed below –

4.1.1.i Counterparty Risk: This type of credit risk is related to non-performance of the trading partners due to counterparty’s refusal and or inability/ unwillingness to perform. The counterparty risk is generally viewed as a fleeting financial risk associated with trading rather than standard credit risk.
4.1.1.ii Country Risk: This is also a type of credit risk where non-performance of a borrower or counterparty arises due to constraints or restrictions imposed by a nation. Here, the reason of non-performance is external factors on which the borrower or the counterparty has no control.

4.1.2. Market Risk
The unfavorable deviations of the mark-to-market value in the trading portfolio due to market movements and the risk of liquidation of the transactions during the period is called market risk (Beckers, 1998). It is the risk that the value of on-/off-balance sheet positions will be negatively affected by movements in equity and interest rate markets, currency exchange rates and commodity prices. In the case of banking business, market risk arises on bank’s earnings and capital due to changes in the market level of interest rates or prices in securities, foreign exchange and equities, as well as the volatilities, of those prices. The following are the major types of market risks for any banking institutions:

4.1.2.i. Liquidity risk: The liquidity risk in banking business arises from funding of long-term assets by short-term liabilities, thereby making the liabilities subject to rollover or refinancing risk (Beckers, 1998). It is also defined as the possibility of inability of an institution to meet its maturing commitments or may do so only by borrowing funds at excessive costs or by selling assets at very low prices. Different form of liquidity risk in banks are discussed below:

a. Funding Liquidity risk: Funding Liquidity Risk is defined as the inability to obtain funds to meet cash flow obligations. For banks, funding liquidity risk is crucial. The main cause of this sort of risk is to replace net outflows due to unanticipated withdrawal/ non-renewal of deposits (wholesale and retail).

b. Time risk: Time risk arises from the need to recompense for non-receipt of expected inflows of funds i.e., performing assets turning into non-performing assets.

c. Call risk: this type of risk arises due to crystallization of contingent liabilities. It may also crop up when a bank may not be able to undertake profitable business opportunities when it arises.

4.1.2.ii. Forex risk: Foreign exchange arises when a bank may bear loss as a result of negative exchange rate movement during a period in which it has an open position, either spot or forward or both in same foreign currency. Even in case where spot or forward positions in individual currencies are balanced the maturity pattern of forward transactions may result in mismatches. There is also a settlement risk arising out of default of the counterparty and out of time lag in settlement of one currency in one center and the settlement of another currency in another time zone. Banks are also exposed to interest rate risk, which arises from the maturity disparity of foreign currency position.

4.1.2.ii. Interest rate risk: The risk of adverse impact on Net Interest Income (NII) due to negative variations of interest rate may be called Interest Rate Risk (Beckers, 1998). It is the exposure of a bank’s financial condition towards negative movements in interest rates. It arises when the Net Interest Margin or the Market Value of Equity (MVE) of an institution is badly affected due to changes in the interest rates. The various types of Interest rate risk are discussed below:

a. Gap or Mismatch Risk: A gap or mismatch risk arises from holding in assets and liabilities and Off-Balance Sheet items with different principal amounts, maturity dates or re-pricing dates, thereby creating exposure to unexpected changes in the level of market interest rates.

b. Yield Curve Risk: banking intuition in a floating interest rate scenario, may fix price for their assets and liabilities on the basis of different benchmarks, i.e., treasury bills’ yields, fixed deposit rates, call market rates, MIBOR etc. In case the banks use two different instruments
maturing at different time horizon for pricing their assets and liabilities then any non-parallel movements in the yield curves, which is quite frequent, would badly affect the NII. Thus, banks should evaluate the movement in yield curves and the impact of the same on the portfolio values and income. An example would be when a liability raised at a rate linked to say 91 days T Bill is used to fund an asset linked to 364 days T Bills. In a raising rate scenario both, 91 days and 364 days T Bills may increase but not identically because of non-parallel movement in yield curve creating a difference in net interest earned (Beckers, 1998).

c. Basis Risk: Basis Risk arises when the interest rate of different assets, liabilities and off-balance sheet items may change in different magnitude. For example, in a rising interest rate scenario, asset interest rate may rise in different magnitude than the interest rate on corresponding liability, thereby creating variation in net interest income. The degree of basis risk is reasonably high in respect of banks that generate composite assets out of composite liabilities. The loan book in Indian commercial bank is funded out of a composite liability portfolio and is exposed to a considerable degree of basis risk. The basis risk is noticeable in case of volatile interest rate scenarios (Beckers, 1998). When the disparity in market interest rate causes the NII to expand, the banks have experienced favorable basis shifts and if the interest rate movement causes the NII to contract, the basis has moved against the bank’s earning.

d. Embedded Option Risk: Significant changes in market interest rates produce the source of risk to banks’ profitability by encouraging prepayment of cash credit/demand loans, term loans and exercise of call/put options on bonds/ debentures and/ or early withdrawal of term deposits before their stated maturities. The embedded option risk is experienced in volatile situations and is becoming a truth in India. The faster and higher the magnitude of changes in interest rate, the greater will be the embedded option risk to the banks’ Net Interest Income. The result is the drop in projected cash flow and the income for the bank.

e. Reinvested Risk: Reinvestment risk is the risk arising out of uncertainty in interest rate at which the future cash flows could be reinvested. Any gap in cash flows i.e., inflow and outflow would expose the banks to variation in Net Interest Income. This is because market interest received on loan and to be paid on deposits move in different directions.

f. Net Interest Position Risk: Net Interest Position Risk arises when the market interest rates fiddle with downwards and where banks have more earning assets than paying liabilities. Such banks will follow a practice of reduction in NII as the market interest rate declines and the NII increases when interest rate rises. Its impact is on the earnings of the bank or its impact is on the economic value of the banks’ assets, liabilities and OBS positions

4.1.2.iii. Hedging risk: A hedge is an investment position intended to offset potential losses/gains that may be incurred by a companion investment. In simple language, a hedge is used to reduce any substantial losses/gains assumed by an individual or an organization. A hedge can be constructed from many types of financial instruments, including stocks, exchange-traded funds, insurance, forward contracts, swaps, options, many types of over-the-counter and derivative products, and futures contracts. In banking business hedging risk may arise due to forward exchange contract for currencies and interest, currency future contracts, money market operations for currencies and interest, future contracts for interest etc.

4.2 Non-Financial risk

Non-financial risk refers to those risks that may affect a bank’s business growth, marketability of its product and services, possible failure of its strategies for business growth etc. The causes of non-
financial risk are management failures, competition, non-availability of suitable products/services, external factors etc. Major type of non-financial risk in banking business are discussed below -

4.2.1. **Operational risk:** Basel Committee for Banking Supervision (1999) has defined operational risk as ‘the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events’. Exponential growth in the use of technology and increase in global financial inter-linkages are the two primary causes of this type of non-financial risk. Operational risk, though defined as any risk that is not categorized as market or credit risk, is the risk of loss crop-up from inadequate or failed internal processes, people and systems or from external events. In order to alleviate this, internal control and internal audit systems are used as the primary means. Two of the most common operational risks for any banking institution are–

4.2.1.i. Transaction Risk: Transaction risk is the risk arising from fraud, both internal and external, failed business processes and the incapability to maintain business continuity and direct information.

4.2.1.ii. Compliance Risk: Compliance risk is the risk of legal or regulatory sanction, financial loss or reputation loss that a bank may suffer as a result of its failure to fulfil with any or all of the applicable laws, regulations, code of conduct and standards of good practice. It is also called integrity risk since a bank’s reputation is closely linked to its loyalty to principles of integrity and fair dealing.

4.2.2. **Strategic Risk:** The risk arising from adverse business decisions, reprehensible implementation of decisions or lack of responsiveness to industry changes is called strategic risk. It is a function of the compatibility of an organization’s strategic goals, the business strategies applied to achieve those goals, the resources used for achieving these goals and the superiority of implementation.

4.2.3. **Legal risk:** Legal risks are widespread in financial contracting and differ from legal ramifications of credit, counterparty, and operational risks. New statutes, tax legislation, court opinions and regulations can put formerly well-established transactions into argument even when all parties have previously performed adequately and are capable to perform in the future. For example, environmental regulations have radically affected chemical business and raise a serious risk on lending to this type of business. Again legal risk may arise from the activities of an institution's management or employees. Fraud, violations of regulations or laws, and other actions can lead to disastrous for any banking business.

4.2.4. **Reputation risk:** Reputation Risk is the risk arising from negative public opinion. This type of risk may lead towards litigation, financial loss or decline in customer base.

4.2.5. **Political risk:** Monitoring, understanding, and adapting to the political situation are critical for every business including banking. The success of any business depends upon stability of Government, economic and trade policy of the governments, diplomatic event in the surrounding countries, readiness of the business in international competition etc. Politically unstable condition may hamper the business in many ways like financial losses, stock devaluation, physical and psychological harm to employees, customers and other stakeholders. Sometimes there is a possibility of business credibility at stake.

5. **Techniques of Risk Management**

i. **GAP Analysis:** It is an interest rate risk management tool based on the balance sheet which focuses on the possible fluctuation in net-interest income over specific time intervals. In this method
A maturity/re-pricing programme is prepared on the basis of distribution of interest-sensitive assets, liabilities, and off-balance sheet positions into time bands according to their maturity (in case of fixed rate) or time left to their next re-pricing date (in case of floating rate). These programmes are then used to create indicators of interest-rate sensitivity of both earnings and economic value to changing interest rates. After selecting the time intervals, assets and liabilities are grouped into these time buckets according to maturity (for fixed rates) or first possible re-pricing (for flexible rates). The assets and liabilities that can be re-priced are termed as Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs) respectively. Interest sensitive gap or simply GAP reflects the divergence between the volume of rate sensitive asset and the volume of rate sensitive liability and calculated by, GAP = RSAs – RSLs. The information on GAP gives the organization an idea about the effects on net-income due to changes in the interest rate. Positive GAP can reflect an increase in future interest rate would increase the net interest income as the change in interest income is greater than the change in interest expenses and vice versa (Cumming and Beverly, 2001).

ii. **Duration-GAP analysis:** It is another reflection of interest rate risk and managing net interest income derived by taking into account all individual cash inflows and outflows. Duration is the value and time weighted measure of maturity of all cash flows. It will show the average time required to recover the invested funds. Duration analyses imitate the elasticity of the market value of a financial instrument with respect to its interest rate. Duration gap (DGAP) reflects the deviation in the timing of cash flow in asset and liability and is given by, DGAP = DA - u DL. Where DA is the average duration of an asset, DL is the average duration of a liability, and u is the liability/asset ratio. An increase in interest rate by comparable amounts will reduce the market value of assets (more than that of liabilities) resulting in drop of the market value of equities and expected net-interest income and vice versa (Cumming and Beverly, 2001).

iii. **Value at Risk (VaR):** It is one of the latest risk management tools. The Value at Risk (VaR) indicates how much a firm can lose or make with a certain probability in risk during a certain time period. VaR summarizes intrinsic financial risk in portfolios into a simple number. In general, VaR is used to calculate market risk but it also identify many other risks like foreign currency, commodities, and equities. (Jorion, 2001).

iv. **Risk Adjusted Rate of Return on Capital (RAROC):** It point out consistently an economic basis to measure all the relevant risks in a transaction and use as an efficient tool in respect of risk/return trade off in different asset classes. As economic capital protect financial institutions against unexpected losses, therefore it is vital to allocate capital for various risks that these institutions are confronted with. Risk Adjusted Rate of Return on Capital (RAROC) analysis shows how much economic capital is needed by different products and businesses and determines the total return on capital of a firm. Though Risk Adjusted Rate of Return (RAR) can be used to assess the capital requirements for market, credit and operational risks but RAROC is used as an integrated risk management tool (Crouhy and Robert, 2001).

v. **Securitization:** It is a process studied under the systems of structured finance or credit linked notes. Securitization of a bank’s assets and loans is a tool for raising new funds and reducing bank’s risk exposures. The bank accumulates a group of income-earning assets (like mortgages) and sells securities against these in the open market, thereby transforming illiquid assets into tradable asset backed securities. As the returns from these securities lies on the cash flows of the underlying assets, the burden of repayment is transferred from the originator to these pooled assets.
vi. **Sensitivity Analysis:** This analysis is very useful when attempting to determine the impact or the actual outcome of a particular variable will have if it differs from what was previously assumed. By creating a given set of scenarios, the analyst can determine how changes in one variable(s) will shock the target variable.

vii. **Internal Rating System:** An internal rating system helps financial institutions to manage and control credit risks as they face from lending and other operations, by grouping and managing the credit-worthiness of borrowers and the quality of credit transactions.

6. **Process of Risk Management**

Process of risk management includes the following steps:

6.1. **Risk Identification:** At first, all types of risk must be identified and their likely effect on the bank’s operation in the short-run is understood. A bank that has international operations may experience different intensity of credit, market and operational risks in various countries when compared with a pure domestic bank. Even within a bank, risks may vary in its domestic operations and its overseas arms.

6.2. **Risk Measurement:** Measurement means weighing the contents and/or value, intensity, magnitude of any object against a benchmark. The objective will be to find out and comprehend the exact degree of risk elements includes in each category of operational environment. While a very simple qualitative assessment may be satisfactory in some cases, sophisticated methodological/statistical models will be necessary in others for finding out the quantitative value of risk.

6.3. **Risk Monitoring:** Keeping a close watch on risk identification measurement activities in the light of the risk, principles and policies is a core function of a risk management system. For the success of the system, it is essential that the operating wings should perform their usual activities within the broad contours of the organization’s risk perception.

6.4. **Risk Control:** There must be a suitable mechanism to control and steer the operation of the risk management system in the entire organization through a set of control devices. These can be achieved through a host of management processes such as assessing risk profile techniques regularly, analyzing internal and external audit feedback from the risk angle and using it to activate control mechanisms (Oldfield et al. 1997).

7. **Role of RBI in risk management of Indian banks**

The Central bank of India i.e. RBI has been using CAMELS rating to evaluate the financial soundness of the commercial banks. The CAMELS Model consists of six components namely Capital Adequacy (C), Asset Quality (A), Management (M), Earnings Quality (E), Liquidity (L) and Sensitivity to Market risk (S).

The Basel Committee on Banking Supervision (1988) has recommended for using of CAMEL as a criteria for assessing financial institutions in case of any international settlement. The sixth component i.e. sensitivity to market risk (S) was added to CAMEL in 1997 (Gilbert et al., 2000). However, most of the developing countries are using CAMEL instead of CAMELS in the performance evaluation of financial institutions. The Central Banks in some of the countries like Nepal, Kenya use CAEL instead of CAMELS (Baral, 2005). CAMELS framework is a widespread method for evaluating the soundness of financial institutions.
In India, during pre-liberalization era (early 1990s), the focus of the statutory regulation by RBI in case of commercial banks was mainly on licensing, administration of minimum capital requirements, pricing of services including administration of interest rates on deposits as well as credit, reserves and liquid asset requirements (Jayadev, 2006). Therefore, the supervision norms had to focus essentially on solvency issues. After the evolution of the BCBS prudential norms for international settlement in 1988, the RBI took a series of measures to realign its supervisory and regulatory standards and bring it at par with international best practices. Keeping in mind the socio-economic conditions of the country, the business practices and payment systems prevalent in the country and the predominantly agrarian nature of the economy RBI ensured that the prudential norms were applied over the period and across different segments of the financial sector in a phased manner.

Finally, it was in the year 1999 that RBI realized the need of a robust risk management procedure for banking institutions in India and issued guidelines accordingly in the area of assets liability management and management of credit, market and operational risks. The entire supervisory mechanism has been reconstituted (since 1994) under the directions of a newly constituted Board for Financial Supervision (BFS), which functions under the aegis of the RBI, to fulfil the demanding needs of a strong and steady financial system. The supervisory jurisdiction of the BFS is now being extended to the entire financial system barring the capital market institutions and the insurance sector. The periodical on-site inspections, and also the targeted appraisals by the Reserve Bank, are now supplemented by off-site surveillance which mainly focuses on the risk profile of the supervised institution. A process of rating on the basis of CAMELS in respect of Indian banks and CACS (Capital, Asset Quality, Compliance and Systems & Control) in respect of foreign banks has been started since 1999.

Since then, the RBI has moved towards more strict capital adequacy norms and adopted the CAMEL (Capital adequacy, Asset quality, Management, Earnings, Liquidity) based rating system for evaluating the financial capability of Indian banks. The Reserve Bank’s regulatory and supervisory responsibility has been widened to embrace financial institutions and non-banking financial companies. As a result, considering the rapid changes in the banking industry, the thrust lies upon Risk - Based Supervision (RBS). The main supervisory issues addressed by Board for Financial Supervision (BFS) targeted towards on-site and off-site supervision of banks.

The on-site supervision system for banks is on an annual cycle and is based on the ‘CAMEL’ model. It focuses on core assessments in accordance with the statutory mandate, i.e., solvency, liquidity, operational soundness and management prudence. Thus, banks are rated on this basis. Moreover, in view of the recent trends towards financial integration, competition, globalization, it has become essential for the BFS to supplement on-site supervision with off-site surveillance so as to capture ‘early warning signals’ from off-site monitoring that would be helpful to prevent the likes of East Asian Financial Crisis (Radelet et al., 1998). The off-site monitoring system consists of capital adequacy, asset quality, large credit and concentration, connected lending, earnings and risk exposures viz., currency, liquidity and interest rate risks. Apart from this, the fundamental and technical analysis of the script in the secondary market will serve as a supplementary meter of financial performance of banks.

Thus, on the basis of RBS, a risk profile of individual Bank will be prepared at first. A high-risk sensitive bank will be subjected to more rigorous supervision by shorter periodicity with superior use of supervisory tools aimed on structural meetings, additional off site surveillance, regular onsite
inspection etc. The main focus is on the development of Indian financial system at international standard.

8. Conclusion
Risk is an opportunity as well as a threat and has different meanings for different users. The performance of a bank from the viewpoint of profitability is not very meaningful unless the same is accounted for along with the risk. After economic liberalization, the banks were free to introduce new products and free to charge price their products with varying risk associated with the instrument. Thus, the banking industry is exposed to different risks which can adversely affect its profitability and financial health. Therefore, risk analysis and its management have emerged as a new and challenging area in banking business. Reform process and the guidance of Basel Committee have directed the Indian banking industry in the right path so far risk management is concerned. They have adopted best structures, processes and technologies available worldwide and have moved from strength to strength.

References