

AN IN-DEPTH EXAMINATION OF RISK MANAGEMENT PRACTICES IN INDIAN PUBLIC AND PRIVATE SECTOR BANKS

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ABSTRACT

Risk management has emerged as a critical function in the banking sector due to increasing financial complexity, regulatory requirements, and economic uncertainties. Indian banks, both public and private sector, operate in a dynamic environment exposed to various risks such as credit risk, market risk, liquidity risk, and operational risk. This paper presents an in-depth examination of risk management practices adopted by selected public and private sector banks in India. The study aims to analyze the frameworks, tools, and regulatory guidelines governing risk management and to compare the effectiveness of risk mitigation strategies across the two sectors. The analysis highlights significant differences in risk identification, monitoring mechanisms, technological adoption, and compliance culture. While public sector banks face challenges related to asset quality and legacy systems, private sector banks demonstrate relatively advanced risk management practices supported by technology and data analytics. The study concludes that strengthening governance structures, improving credit appraisal systems, and enhancing regulatory compliance can significantly improve the overall risk management efficiency of Indian banks.

KEYWORDS

Risk Management, Public Sector Banks, Private Sector Banks, Credit Risk, Market Risk, Indian Banking System, Basel Norms

INTRODUCTION

The banking sector plays a vital role in the economic development of a country by mobilizing savings, facilitating investments, and supporting financial stability. In India, the banking system comprises public sector banks and private sector banks, both of which are exposed to a wide range of financial and non-financial risks. The increasing integration of global financial markets, technological advancements, and changing regulatory norms have significantly heightened the importance of effective risk management in banks.

Risk management in banking refers to the systematic process of identifying, assessing, monitoring, and controlling risks that may adversely affect a bank's financial performance and stability. Among the various risks faced by banks, credit risk remains the most significant, followed by market risk, liquidity risk, and operational risk. Inefficient management of these risks can lead to financial distress, rising non-performing assets, and loss of stakeholder confidence.

Public sector banks in India have traditionally played a dominant role in financial inclusion and priority sector lending. However, they often face challenges such as higher non-performing assets, operational inefficiencies, and slower adoption of advanced risk management tools. In contrast, private sector banks have demonstrated relatively stronger risk management practices due to better governance structures, technological integration, and proactive compliance with regulatory norms.

The Reserve Bank of India, along with international frameworks such as the Basel Accords, has introduced several guidelines to strengthen risk management practices in Indian banks. Despite these measures, variations exist in the implementation and effectiveness of risk management across public and private sector banks. In this context, an in-depth examination of risk management practices becomes essential to understand sector-wise differences and identify areas for improvement. This study

seeks to analyze and compare the risk management approaches of selected public and private sector banks in India, thereby contributing to the existing literature on banking risk and financial stability.

STATEMENT OF THE PROBLEM

Risk management has become a core function of banks due to increasing competition, regulatory pressure, technological changes, and economic uncertainty. Indian public and private sector banks are exposed to multiple risks such as credit risk, market risk, liquidity risk, and operational risk. Despite regulatory guidelines issued by the Reserve Bank of India and adoption of Basel norms, Indian banks continue to face challenges like rising non-performing assets, capital adequacy pressure, and operational inefficiencies. Public sector banks, in particular, have experienced higher asset quality stress, while private sector banks have shown relatively stronger financial performance. This raises concerns about the effectiveness and uniformity of risk management practices across the two sectors. Hence, there is a need for an in-depth examination and comparative analysis of risk management practices in Indian public and private sector banks.

OBJECTIVES OF THE STUDY

1. To study the concept and types of risks faced by Indian banks.
2. To analyze risk management practices followed by selected public and private sector banks.
3. To compare the effectiveness of risk management between public and private sector banks.
4. To examine key indicators such as Non-Performing Assets and Capital Adequacy Ratio.
5. To suggest measures for strengthening risk management practices in Indian banks.

REVIEW OF THE LITERATURE

Several studies have emphasized the importance of risk management in ensuring banking stability. Researchers have identified credit risk as the most significant risk affecting bank performance, particularly in public sector banks due to priority sector lending and weak credit appraisal systems. Studies also highlight that private sector banks adopt advanced risk assessment techniques, supported by technology and data analytics, resulting in better asset quality and profitability. Research findings further suggest that regulatory frameworks such as Basel III have improved capital adequacy and risk disclosure practices, though implementation varies across banks. The literature reveals a gap in uniform risk management efficiency between public and private sector banks, justifying the need for comparative analysis.

RESEARCH METHODOLOGY

- **Nature of Study:** Descriptive and analytical
- **Sources of Data:** Secondary data
- **Data Sources:** Annual reports of selected banks, RBI publications, journals, and reports
- **Sample Banks:**
 - Public Sector Bank: State Bank of India
 - Private Sector Bank: HDFC Bank
- **Period of Study:** Five years
- **Tools for Analysis:** Percentage analysis, ratio analysis, and comparative tables

SCHEMATIC DIAGRAM OF RISK MANAGEMENT PROCESS

Risk Identification

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Risk Measurement

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Risk Monitoring

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Risk Control & Mitigation

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Review and Reporting

INTERPRETATION AND ANALYSIS

Table 1: Comparison of Non-Performing Assets (NPAs) (%)

AN IN-DEPTH EXAMINATION OF RISK MANAGEMENT PRACTICES IN INDIAN PUBLIC AND PRIVATE SECTOR BANKS

Year	Public Sector Bank	Private Sector Bank
2019	8.5	1.3
2020	7.8	1.5
2021	6.9	1.8
2022	5.4	1.6
2023	3.2	1.2

Interpretation:

The table indicates that public sector banks have consistently higher NPAs compared to private sector banks. Although NPAs have declined over the years, the gap reflects differences in credit risk management efficiency.

Table 2: Capital Adequacy Ratio (CAR) (%)

Year	Public Sector Bank	Private Sector Bank
2019	12.7	17.5
2020	13.0	18.1
2021	13.9	18.9
2022	14.8	19.2
2023	15.5	19.8

Interpretation:

Private sector banks maintain higher capital adequacy ratios, indicating stronger capital management and better compliance with Basel norms.

Table 3: Return on Assets (ROA) (%)

Year	Public Sector Bank	Private Sector Bank
2019	0.2	1.6
2020	0.1	1.5
2021	0.4	1.7
2022	0.7	1.9
2023	1.0	2.1

Interpretation:

The higher ROA of private sector banks reflects efficient risk-adjusted performance, whereas public sector banks show gradual improvement due to strengthened risk controls.

FINDINGS (Brief)

- Credit risk is the major risk affecting public sector banks.
- Private sector banks exhibit superior risk management efficiency.
- Regulatory measures have improved capital adequacy across both sectors.
- Technology-driven risk assessment enhances performance.

SUGGESTIONS

Based on the analysis of risk management practices in Indian public and private sector banks, the following suggestions are proposed to enhance the effectiveness of risk management systems:

1. **Strengthening Credit Appraisal Systems:**
Public sector banks should improve their credit appraisal and monitoring mechanisms by adopting advanced credit scoring models and sector-specific risk assessment tools to reduce the incidence of non-performing assets.
2. **Enhanced Use of Technology:**
Banks, particularly in the public sector, should accelerate the adoption of digital tools, data analytics, and artificial intelligence for real-time risk identification, monitoring, and early warning systems.

3. **Improving Governance and Accountability:** Stronger risk governance structures should be established, with clearly defined roles for boards and risk management committees to ensure timely decision-making and accountability.
4. **Capacity Building and Training:** Continuous training programs should be conducted for bank officials to enhance their understanding of emerging risks, regulatory requirements, and modern risk management practices.
5. **Uniform Implementation of Regulatory Norms:** Both public and private sector banks should ensure consistent and effective implementation of RBI guidelines and Basel norms to strengthen capital adequacy and risk resilience.
6. **Focus on Operational and Cyber Risks:** With increasing digitalization, banks must strengthen controls against operational and cybersecurity risks through regular audits, system upgrades, and robust internal controls.

CONCLUSION

Risk management is a critical determinant of the stability and performance of banks in the evolving Indian financial system. This study has provided an in-depth examination of risk management practices in selected public and private sector banks in India, highlighting significant differences in risk exposure, management efficiency, and financial performance. The findings reveal that while both sectors operate under the same regulatory framework, private sector banks demonstrate relatively stronger risk management practices due to advanced technology adoption, efficient governance, and proactive compliance mechanisms.

Public sector banks, despite recent improvements, continue to face challenges related to asset quality, operational efficiency, and legacy systems. However, regulatory interventions and reforms have contributed to a gradual strengthening of their risk management frameworks. The study concludes that effective risk management requires not only regulatory compliance but also continuous innovation, skilled human resources, and strong governance structures. By adopting robust risk management strategies and leveraging technology, Indian banks can enhance their financial stability, improve performance, and sustain long-term growth in an increasingly competitive environment.

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