Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 8 | Issue: 4| April 2021 -Peer-reviewed Journal

"MANAGEMENT OF FINANCIAL INSTITUTION-AN EMPHASIS IN PRAGATHI-KRISHNA GRAMIN BANK AND RISK MANAGEMENT"

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ABSTRACT
Financial institutions play an essential function in the present globalized economy. On account of their mastery and by observing and screening likely borrowers, these financial mediators have a relative bit of leeway in defeating symmetric data. All things considered, one of the key functions of these financial mediators is capital allotment by loaning subsidizes that have been kept in their accounts. These stores are dependent upon a "first-start things out serve" rule. In a negative climate with rum our own about the bank holding bad quality assets, this could ultimately prompt bank clients pulling out their stores since they dread bank indebtedness. A large part of the Great Depression's monetary harm was brought about by bank runs and the current financial emergency likewise shows the negative effect on financial soundness of these occasions. Generally financial organizations are regularly stood up to with credit, market and operational danger. The default history of financial institutions shows that credit hazard is the main danger to bank dissolvability. Late developments, for example, disintermediation by highest caliber and biggest borrowers, a declining estimation of genuine assets (and hence insurance) in numerous business sectors emotional development of shaky sheet instruments with intrinsic default hazard and a basic expansion in the quantity of bankruptcies.

KEYWORDS: ***Risk Management, Credit risk, Market risk,***

1. INTRODUCTION

In a changing global financial movement particularly in liberalization of participation of financial markets. Financial institutions are facing challenges with more entrance into the market creating competition and forcing wither closures, acquisitions, mergers or management over. However, where others fail, others succeed and even new entrants join with different strategies and different products. Therefore to understand how to manage financial institutions successfully, in a changing environment, one need to appreciate the concepts within money and capital markets the institutional framework of financial institutions, the risk managerial strategies of financial institutions is to identify the functionalities, categorization statements and legal systems.

In addition, the risk management takes a major part of the management of the institutions because all financial institutions hold some assets and liabilities in the form of. Loans or Deposits and consequently are exposed to default risk and credit risk. This is the risk that the borrower may not commit to repayment of the expected amount within the expected time.

a) They are also exposed to interest risk rate, this risk relates to the liability to match maturities of liabilities with the maturities of assets.
b) They are also exposed to liquidity risk. This is due to un-presented or unexpected saver withdrawals which may limit the capability of

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financial institutions to commit to such withdrawals.

c) They are also exposed to underwriting risk. This emanates from lack of reliable guarantees or collateral for the loans/assets issued outs.
d) They are also exposed to operational risks. This is due to operational leverage resulting from unbalanced usage of real resources. E.g. technology, materials, human resources etc.

2. OBJECTIVES OF THE STUDY

1. To evaluate the Basel-committee on banking supervision and management;
2. To identify the types of risks faced by the Pragathi-krishna Gramin Bank;
3. To examine the risk management mechanism at Gramin Bank for the granting of loans and steps in place to boost the bank's loan recovery.
4. To examine the techniques adopted by Pragathi-Krishna Gramin Bank.
5. To evaluate the Guidelines for risk management of Reserve Bank of India at rural banks and the challenges of the risk management practices of the bank.
6. To analyze the suitable suggestions on the basis of the findings of the study.

3. RESEARCH METHODOLOGY

Secondary data were used for the study and the details are given here. The secondary data required for the study were drawn from the annual reports of and records maintained at Regional Head- offices of Pragathi Krishna Gramin Bank and annual reports & guidelines of reserve bank of India, books, articles, journals and some websites on internet and descriptive method is used for the study. The role of branch managers, human resource officers, internal auditors' officers of the bank, projects/loans officers, Marketing Officers, Information Communication Technology Officers, and the Procurement Officers, are considered because their roles at the bank put them in a position to provide certain information required to achieve the research objectives.

4. SAMPLING DESIGN

Pragathi Krishna gramin banks branches selected for the study

SERIAL NO	PKGBANK NAMES	LOCATION
1	BIDDAPUR COLONY	GULBARGA
2	ESI HOSPITAL	GULBARGA
3	KAPNOOR INDUSTRIAL AREA	GULBARGA
4	KARUNESHWAR NAGAR	GULBARGA
5	M B NAGAR	GULBARGA
6	N R COLONY	GULBARGA
7	NEHRU GUNJ	GULBARGA
8	OM NAGAR	GULBARGA
9	SARAF BAZAAR	GULBARGA

5. STATISTICAL- DESIGN

The collected data was analyzed and tabulated the data was scrutinized verified and analyzed with the help of computer percentages are computed for interpretation of the data Apart from tabulation and analysis, necessary Graphs, Diagrams are also incorporated in the study. In this study the data collected is analyzed using programming packages such as MS Excel, SPSS and also using mathematical and statistical tools such as percentages, averages.

6. HYPOTHESES OF STUDY

1) H0: There is no significant difference of RM on overall performance between selected banks.
2) H1: There is significant difference of RM on overall performance between selected banks.
3) H0: There is no significant difference on efficiency in managing RM between selected banks.
4) H1: There is significant difference on efficiency in managing RM between selected banks.

7. RISK MANAGEMENT CONCEPT

The concept of risk management was first introduced into business strategy in 1916 by Henry Fayol. But it only became formalized after Russell Gallagher (1956) published "Risk Management: A New Phase of Cost Control" in the Harvard Business Review and argued that "the professional insurance manager should be a risk manager". Risk management as we understand it today has been conceptualized in the early 1950s. There was a transition period when the development from the insurance management to organizational risk management was paralleled by the evolution of the academic discipline of risk management. Without any doubts the academic discipline produced

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valuable approaches, methodologies and models that further supported the development of risk management in the real business world. The Nobel award winner, Harry Markowitz, was the first financial theorist to explicitly include risk in the portfolio and diversification discussion. He linked terms such as return and utility with the concept of risk.

Risk management is often performed by an organizational unit, ideally an independent staff function reporting directly to the board of directors, making risk management a board responsibility and task. [7].

7.1. Risk management according to Basel accords

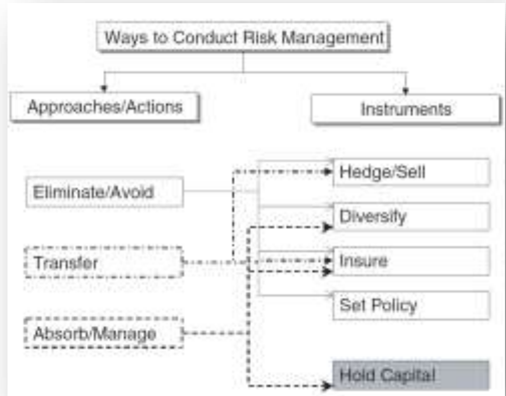
a. **Globalization:** The world has become a global village with the integration of financial systems through close cooperation between nations.
b. **Deregulation:** In the Indian context as in the case of many developing countries, the factors of deregulation both in interest rates, credit dispensation, exchange rates etc.
c. **Development of sophisticated products:** The evolution of modern Banking has seen the birth of many complex products and derivatives.
d. **Competition:** With liberalization came a new generation Private Sector Banks leading to stiff competition threatening the profitability and growth of the existing Banks.
e. **International Best Practices and Basel requirements:** The current focus on Risk Management emerges from the requirements of the Basel Accords.

7.2. Risk management principles

- ✓ **Principle 1:** Senior management should ensure the identification and assessment of the operational risk inherent in all material products, activities, processes and systems.
- ✓ **Principle 2:** Senior management should ensure that there is an approval process for all new products, activities, processes and systems that fully assesses operational risk.
- ✓ **Principle 3:** Risk identification and assessment are fundamental characteristics of an effective operational risk management system. Effective risk identification considers both internal factors and external factors.
- ✓ **Principle 4:** The bank should ensure that the internal pricing and performance measurement mechanisms appropriately take into account operational risk. Where operational risk is not considered.

7.3. Strategies foriskmanagement:

Fig. 1. Strategies for risk management:



(*Source: Schroeck, 2000)*

7.4. Banking risk management

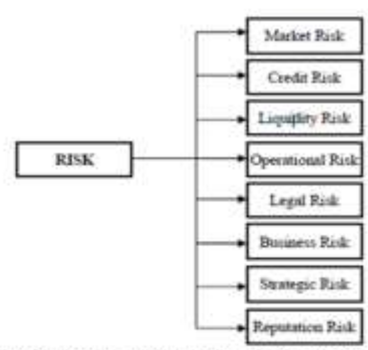


Figure 2. Typology of Risks (Crouhy, Galai & Mark 2006, 26).

Fig.2. shows risks undertaken by bank (Source: Bessis, 2002, p. 12)

7.5. The key drivens of risks

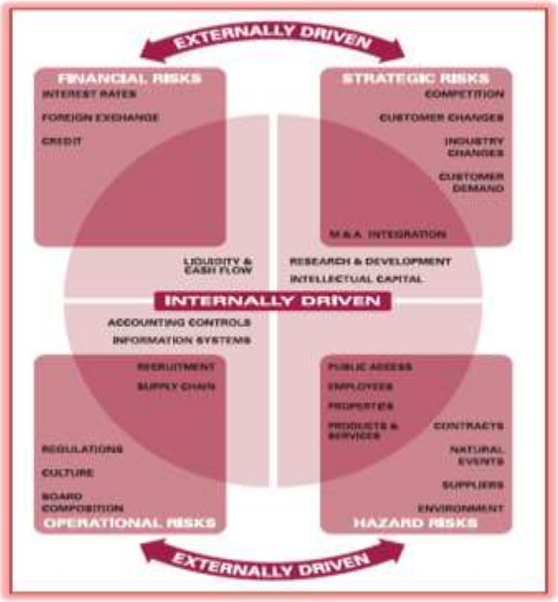


Fig.3. shows the key drivens of risks

7.6. Risk management approach

Fig. 4. Shows Risk Management approach

7.7. Proactive risk management

Fig. 5. Shows the risk management proactively.

7.8. Implementing riskmanagement

Fig.6. shows the implementation Risk management process

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7.9. The model of risk management process

Fig.7. shows risk management process
(Source: AIRMIC, ALARM, IRM: 2002)

8. ANALYSIS AND INTERPRETATION OF DATA ON INTEREST RATE RISK MANAGEMENT

Table- 4.11.
Summary of Performance Measures for 2016-17
Rs. in Lakhs

Performance Measure	Initial Position	Change in interest rate	
		2% decrease in interest rate	2% increase in interest rate
GAP (RSA-RSl)	45142	45142	45142
Net interest income	4913.79	4010.96	5816.64
Net interest margin (%)	5.08	4.15	6.02
Net income	4091.31	3188.48	4994.16

Figures computed from Annual report of PKGB for the year 2016-17.

Graph- 4.3.
Summary of Performance Measures for the year 2016-17

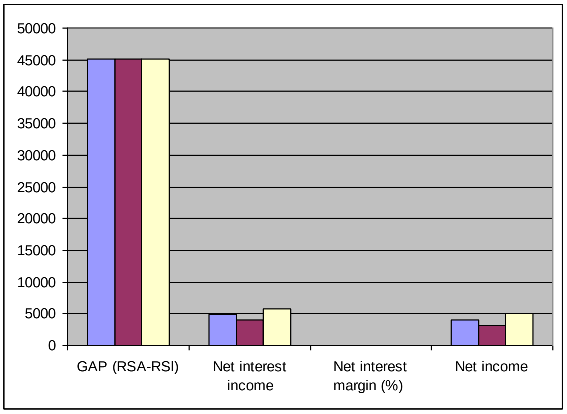
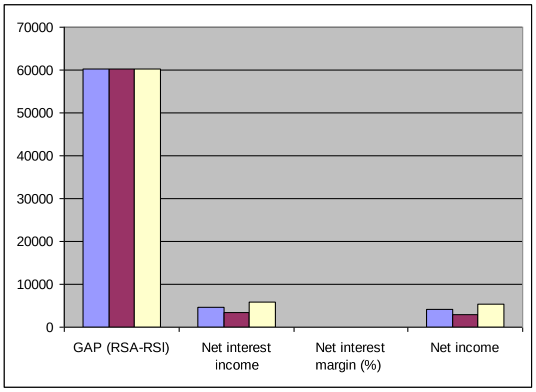


Table- 4.15.
Summary of Performance Measures for 2017-18. Rs. in Lakhs

Performance Measure	Initial Position	Change in interest rate	
		2% decrease in interest rate	2% increase in interest rate
GAP (RSA-RSl)	60145	60145	60145
Net interest income	4640.20	3437.30	5843.10
Net interest margin (%)	3.98	2.95	5.01
Net income	4140.51	2937.61	5343.41

Figures computed from Annual Report of PKGB for the year 2017-18.

Graph-4.4
Summary of Performance Measures for the year 2017-18



8.2. Liquidit & profitability Risk management

Table- 5.1.
Liquid Assets to Total Assets Ratio
Rs. in Lakhs

Year	Liquid Assets	Total Assets	Ration
2014-15	22121.28	76819.09	28.79
2015-16	29711.83	100380.77	29.60
2016-17	38155.83	124645.76	30.61
2017-18	54827.99	154439.42	35.50
2018-19	47170.55	169102.30	27.89

Source: Compiled from the Annual reports of PKGB from 2014-15 to 2018-19.

Graph-5.1.
Liquid Assets to Total Assets Ratio

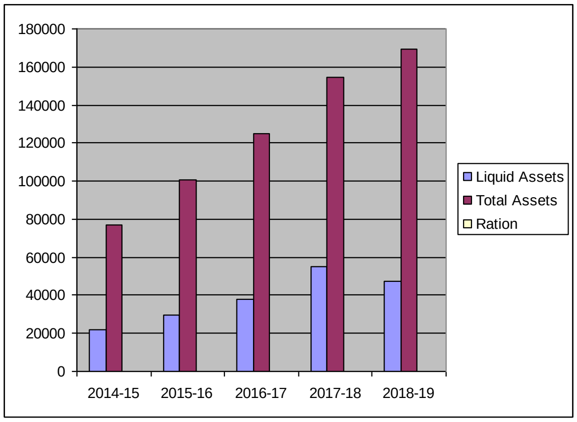


Table-5.2.
Liquid Assets to Total Deposits
Rs. in Lakhs

Year	Liquid Assets	Total Assets	Ration
2014-15	22121.28	46283.54	47.79
2015-16	29711.83	58462.78	50.82
2016-17	38155.83	75330.64	50.65
2017-18	54827.99	95755.21	57.25
2018-19	47170.55	109422.60	43.10

Source: Compiled from the Annual reports of PKGB from 2014-15 to 2018-19

It is evident from the above table that the average liquid assets ratio of the bank is almost 48% in the beginning of the study but decreased to 43.10% in the year 2018-19.

Graph-5.2.
Liquid Assets to Total Deposits

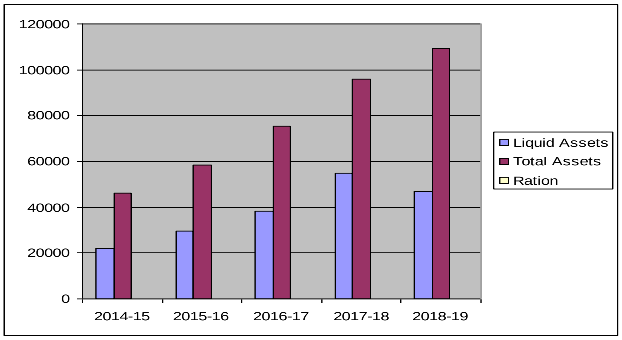


Table-5.3.
Advances to Deposits Ratio
Rs. in Lakhs

Year	Liquid Assets	Total Assets	Ration
2014-15	52375.12	46283.54	113.16
2015-16	66011.90	58462.78	112.91
2016-17	80521.64	75330.64	106.89
2017-18	95227.45	95755.21	99.44
2018-19	114303.21	109422.60	104.46

Source: Compiled from the Annual reports of PKGB from 2014-15 to 2018-19.

Graph- 5. 3.
Advances to Deposits Ratio

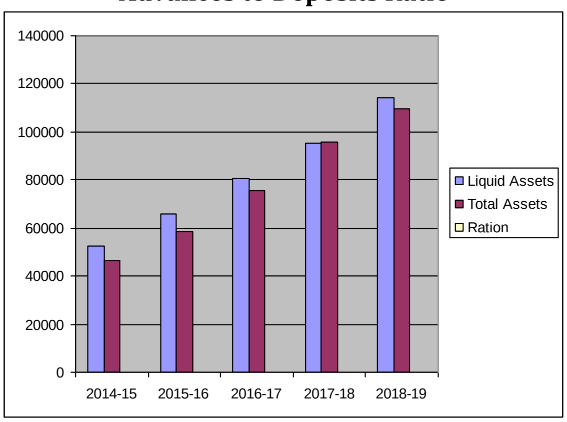


Table - 5. 4.
Advances to Assets Ratio
Rs. in Lakhs

Year	Liquid Assets	Total Assets	Ration
2014-15	52375.12	76819.09	68.17
2015-16	66011.90	100380.77	65.76
2016-17	80521.64	124645.76	64.60
2017-18	95228.45	154439.42	61.66
2018-19	114303.21	169102.30	67.59

Source: Compiled from the Annual reports of PKGB from 2014-15 to 2018-19.

Graph-5.4
Advances to Assets Ratio

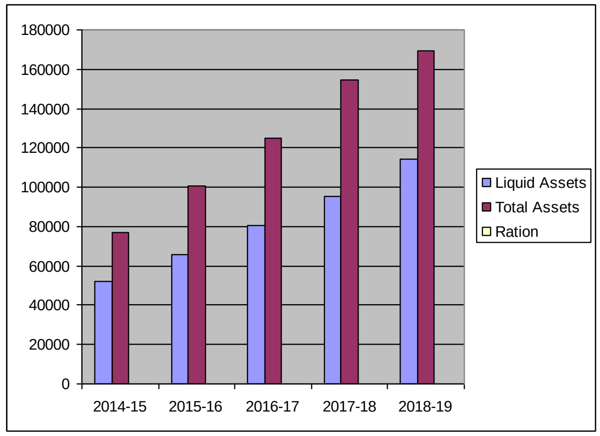


Table-5.5.
Advances to Core Deposits
Rs. in Lakhs

Year	Advances	Core Deposits	Ration
2014-15	52375.12	38558.83	1.35
2015-16	66011.90	48825.35	1.35
2016-17	80521.64	62198.49	1.29
2017-18	95227.45	80842.82	1.17
2018-19	114303.21	97147.26	1.17

Source: Compiled from the Annual reports of PKGB from 2014-15 to 2018-19.

The above table indicates that the advances to core deposits ratio is decreasing over the years. It was 1.35% in 2014-15 but decreased to 1.17% in 2018-19.

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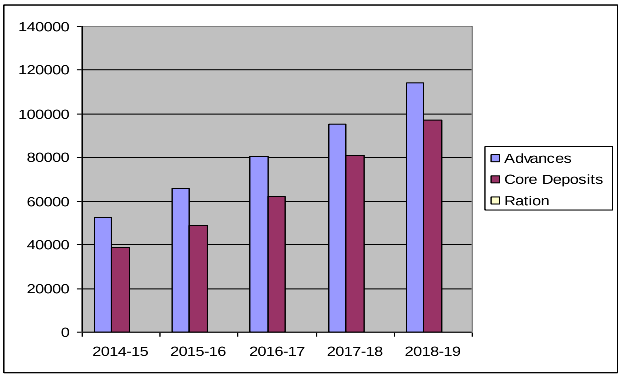
Graph-5.5
Advances to Core Deposits



8.3. Credit risk management

Table-6.2
Gross NPA to Gross Advances Ratio
Rs. in Lakhs

Year	Gross NPA	Gross Advances	Ratio
2014-15	1426.58	52375.12	2.72
2015-16	1976.75	66011.90	2.99
2016-17	1426.35	80521.64	1.77
2017-18	1810.71	95227.46	1.90
2018-19	1495.60	114303.21	1.30

Source: Compiled from the Annual reports of PKGB from 2014-15 to 2018-19

It is clear from the above table that the ratio of gross NPA is fluctuating between 2.99% to 1.30% during the study period.

Graph-6.2.
Gross NPA to Gross Advances Ratio

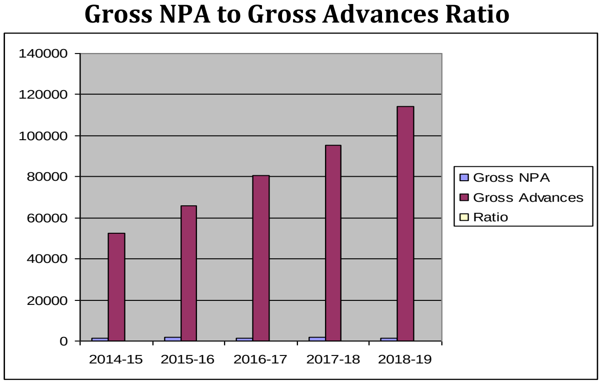


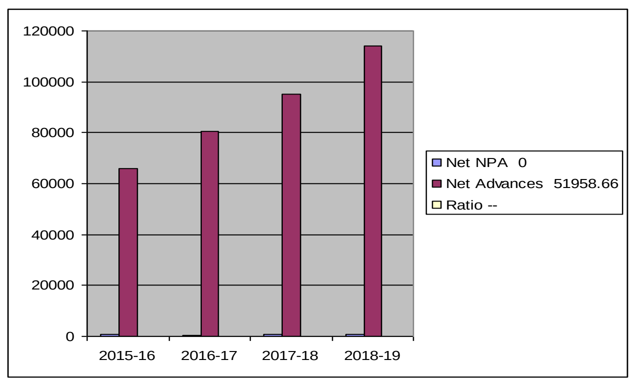
Table-6.3.
Net NPA to Net Advances Ratio
Rs. in Lakhs

Year	Net NPA	Net Advances	Ratio
2014-15	0.00	51958.66	--
2015-16	658.97	66011.90	0.99
2016-17	550.34	80521.64	0.68
2017-18	761.28	95227.46	0.79
2018-19	719.73	114104.61	0.63

Source: Compiled from the Annual reports of PKGB from 2014-15 to 2018-19

The above table reveals that the percentage of net NPA to net advances. This ratio is less than one in all the years. It was 0.99% in the year 2014-15 and has come down to 0.63% in the year 2018-19.

Graph-6.3.
Net NPA to Net Advances Ratio



9. FINDINGS OF THE STUDY

The following findings were rendered

1. The Gap is found to be positive in the bank's interest rate risk management in all the years apart from 2014-15, where rate touchy liabilities are more than the rate responsive assets.
2. Though the Gap is positive during the year 2014-15 period wire analysis of development of assets and liabilities shows that the Gap is positive just for the time pail of 1-180 days while it is negative for 181-365 days. The negative Gap is because of the jumble in the development example of assets and liabilities (vide Table 4.8).

3. It is observed that declining interest rates are more advantageous in the case of a negative gap, whereas increasing interest rates are more advantageous to the bank in a positive gap.
4. The Pragathi-Krishna Gramin Bank interest rate pattern has been observed to be on the increase over the years. Positive gaps are preferable for banks in this case.

10. SUGGESTIONS EMERGED FROM THE STUDY

1) It is suggested that the bank should increase other income by providing supplementary services such as facility of safe deposit lockers, selling gold coins, issuing gift cheques, payment of utility bills on behalf of customers etc.
2) If the management wants to be defensive it should try to maintain the Gap nearest to zero. A negative Gap is useful to the management only in falling interest rates and positive gap is useful only in rising interest rates.
3) The interest rates are rising over the years. The Gap is positive in almost all the years. This situation is beneficial to the bank. It is advisable that the bank should increase the Gap to maximum possible extent to take advantage of the situation.
4) The Net Interest Margin of KGB is decreasing from 2017-18. It is 3.98% in 2017-18 and decreased to 2.14% in 2018-19. The decreasing trend of this ratio is not good for the bank. It is below the 4.5% of standard ratio prescribed by the World Bank.

11. CONCLUSION

The 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. 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. 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 management information system in place in that bank.

12. Scope for further study

The key emphasis of this study was the management of interest rate risk, liquidity risk and credit risk. It has not included the other types of risks like operational risk, contingency risk etc. Further the study is limited to Pragrathi Krishna Grameena Bank only. Therefore, further research can be carried out on operational risk, contingency risk etc. in the bank. The central Government has merged two regional rural banks of north Karnataka viz.Krishna Grameena Bank and Pragati Grameena Bank with effect from 23rd August 2013 and named it as Pragati Krishna Grameena Bank.

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