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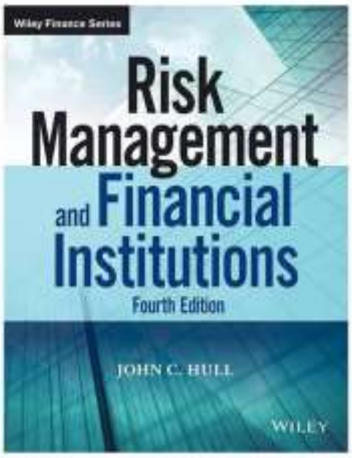
A Study of Risk Management in Finance Sectors

Dr. Giri Babu[1], Dokku Manikanta[2], Duddala Anirudh[3], A. Sneha[4], Basupali Ranadheer Reddy[5]

[1]Associate Professor, KLEF, KLH University
[2](2110560068); [3](2110560070); [4](2110560080); [5](2110560077) BBA 21 Batch, KLH University



ABSTRACT:

Using information on interest rate and foreign exchange risk hedging, we investigate risk management in financial institutions. There is compelling evidence that over time, institutions with larger net worth's hedge more, both across and within institutions, while controlling for risk exposures. We take use of net worth shocks brought on by loan losses because of declines in home values for identification. If such shocks are sustained, institutions considerably lessen hedging in comparison to other similar institutions. The decrease in hedging varies more amongst institutions with more exposure to real estate. The findings support the idea that hedging, and financing are both hampered by financial limitations.

Key Words: Risk, Risk Management.

INTRODUCTION:

Financial risk management is a function within organizations that aims to detect, manage, and hedge exposure to various risks stemming from the use of financial services. The complexity here is far higher than for individuals because institutions must match various kinds of future income streams and payment obligations, for example, raising funds for investment or working capital requirements, paying wages and invoices, provisioning for future payment obligations like pensions, and so on. Therefore, financial risk management involves an assessment of various assets and liabilities in the present as well as in the future.

Although risk has always been a feature of the financial industry, risk management really took off in the banking and other financial organizations during the 1990s. The significant losses suffered by a few large, international corporations in the 1990s, which startled financial institutions into putting more focus on risk management and controls, were major factors in its rise in importance. However, a greater emphasis was already being placed on making sure that losses were not incurred due to unfavorable market conditions, counterparty failure, or improper controls, structures, or people. These factors included industry globalization and consolidation, product complexity, and the increasingly sophisticated requirements of customers. Due to these considerations, there is now more regulation, and banking and financial institutions must abide by the Basel III-advocated principles of banking regulation.

Objectives of the study:

The study to identify and assess potential risks, develop strategies to mitigate or control them and monitor and review the effectiveness of these strategies.

Risk management aims to support informed decision-making, protect the organization, and ensure long-term success.

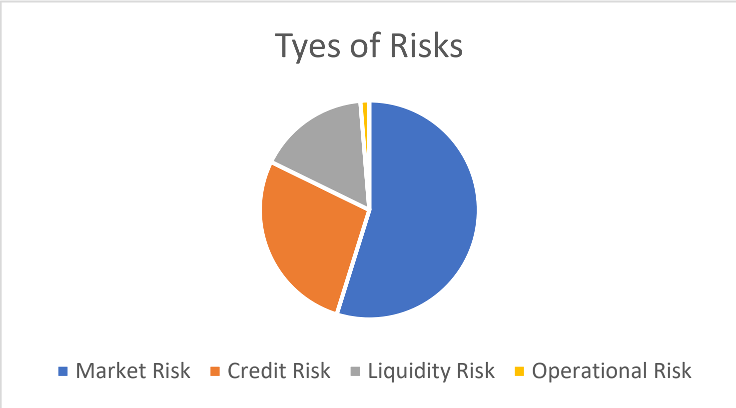
Methodology:

Primary data: Interviews with practicing certified public accountants, bankers, and portfolio managers produced the primary data. A prepared questionnaire with open-ended, subjective responses served as the basis for the interview.

Secondary data: This type of data was gathered from a variety of online publications, periodicals, reference books, and magazines.

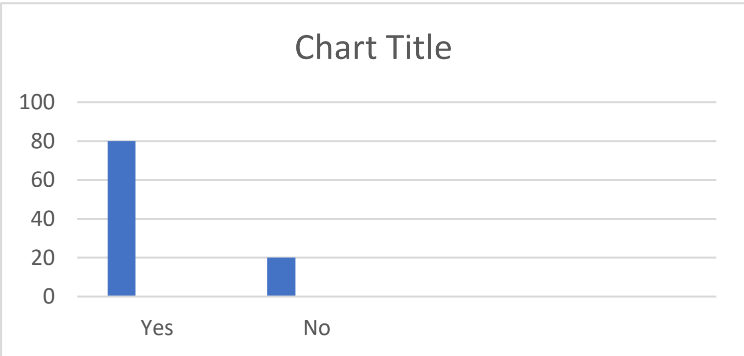
Data analysis & interpretation:

1.What are the major risks faced in corporations and financial institutions?



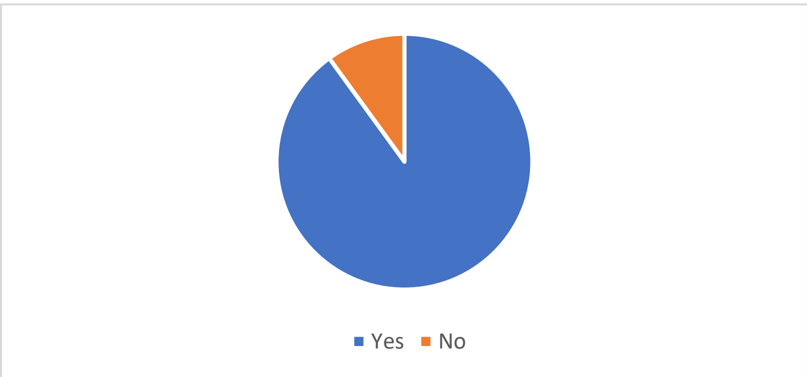
According to the Pie chart,50% of the respondents have faced market risk,25% of the respondents have faced credit risk,15% of the respondents have faced liquidity risk,10% of the respondents have faced operational risk.

2. Is there a need of risk management in corporations and financial institutions?



According to the Graph, 80% of the respondents have agreed that there is need of risk management,20% of the respondents have not agreed that there is need of risk management.

3.Is there any committee in placed in corporations and financial institutions to manage risk.



According to the Pie Chart, 90% of the respondents have a risk managing committee in placed,10 % of the respondents doesn't have a risk managing committee.

4.What is the most frequently used strategy for risk management.

According to the Pie Chart, 50% of the respondents use risk avoidance strategy for risk management,20% of the respondents use risk reduction,20% of the respondents use risk retention,10% of the respondents use risk transfer.

Findings:

Majority of the respondents have faced market risk.

Majority of the respondents have agreed that there is need of risk management.

Majority of the respondents have a risk managing committee in placed.

Majority of the respondents use risk avoidance strategy for risk management.

Conclusion:

A company's management style is crucial to its growth and survival in the marketplace, and risk management is essentially that management style applied to hazards. Every business has risk, which must be managed in accordance with its size and mode of operation as without it, no enterprise can last over the long term. Additionally, compared to other sectors, the banking sector has the highest level of risk.

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