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"A STUDY ON THE FINANCIAL RISK MANAGEMENT IN BANKING SECTOR"

Miss Sharvari Ardekar[1], Dr. M.S. Suganthiya[2] , Prof. (Dr.) Bhawana Sharma[3]

[1] BBA (Banking & Finance) – Final Year Amity Business School, Amity University Mumbai

[2] Assistant Professor Amity Business School, Amity University Mumbai

[3] Director-International Affairs & Programs, Officiating HOI, Amity Business School, Amity niversity Mumbai

ABSTRACT:

The significance of financial risk management in the banking industry is examined in this study. The stability and profitability of banks can be impacted by a number of risks, such as those related to credit, markets, operations, and liquidity. To recognize, evaluate, and lower these risks, effective financial risk management plans and frameworks are required. The significance of financial risk management in banks is examined in this study, which emphasizes the value of regulatory compliance, financial stability, and stakeholder trust. The study's conclusions add to the body of information, report policy and decision making, and shed light on the difficulties and best practices of financial risk management in the banking industry.

STATEMENT OF THE PROBLEM

Numerous financial hazards, such as credit risk, market risk, operational risk, and liquidity risk, are inherent to the banking industry. Notwithstanding the significance of financial risk management, banks have difficulties in recognizing, evaluating, and mitigating these risks. Ineffective financial risk management can result in serious drawbacks, reputational harm, and even bankruptcy. Furthermore, the necessity for robust financial risk management procedures in the banking industry has grown due to the complexity and volatility of financial markets as well as regulatory requirements. This study's objectives are to assess the state of financial risk management in the banking industry today, pinpoint any weaknesses or difficulties, and offer practical management techniques.

LITERATURE REVIEW

2.1 Introduction

By definition, the banking industry works in an environment where there are underlying dangers. Thus, financial risk management, or FRM, has become a key discipline to help banks manage uncertainty, safeguard their capital, and maintain long-term operations. The significance of FRM, its evolution, stability, and influence on financial institutions' performance are all highlighted in a sufficient amount of research. Early research frequently focuses on particular risk categories, such as market risks, interest rates, currency rates, and equity prices, which are market pricing, and credit risk, which results from the potential for borrower defaults.These core operations used the earliest statistical models and risk assessment methods, laying the groundwork for comprehending and identifying these individual risks. The evolution of FRM research has also been greatly influenced by the regulatory environment. Credit, market and operational risks, measuring and managing capital, risk-loving assets, and standardized procedures have all gained attention from academia and industry thanks to landmark agreements like the Basel Accords. The literature examines how these regulations affect the conduct of major banks, the promotion of risk-taking, and the general stability of the financial system.Research has identified the efficacy of different regulatory frameworks, implementation obstacles, and the potential for unanticipated outcomes. Furthermore, the growing focus on corporate governance has investigated how internal controls, risk committees, and board composition contribute to a robust risk management culture in banks. The effect of technological advancement on FRM has been postponed in recent studies.

METHODOLOGY

3.1 Research Design

Recently literature delays the impact of technological progress on FRM. The rise of Fintech, Big Data and Artificial Intelligence presents both opportunities and challenges for risk management practices. Research investigated the use of machine learning for credit scoring, fraud detection and market risk forecast, addressing emerging risks related to cyber security and data privacy. In addition, the literature is focusing on systemic risk rapidly, the risk of fingering within the financial system, and the purpose of reducing this widespread level of instability, the purpose of macroproudenial policies.Last but not least, the body of knowledge on financial risk management in the banking sector is diverse and rich, reflecting the evolving nature and developed understanding of the dynamic nature and risk of the industry. From early research on individual risk types, the body of knowledge keeps expanding from preliminary studies, regulatory effects, technical disruption, and current research on systemic weaknesses. This continuous educational investigation is crucial to inform best practices, shape regulatory policies, and ultimately increase the flexibility and stability of the global banking system.

3.2 Data Collection

Eighty valid responses were obtained after the online survey was disseminated via investment communities and social media. The bulk of participants were students and first-time investors, with over half falling within the 18–24 age range. Questions about responses to significant events, investment experiences, and prominent trusts centered on how frequently people use social media. The sample size and digital dissemination restrict the generalizability to the larger investor population, even though General Z Focus offers deep insights into the digitally active demographic.

3.3 Data Collection

Microsoft Excel and Python were used for quantitative analysis, and Google Sheets was used for human theme coding analysis of qualitative responses.

- Descriptive statistics: The use is summed up by age, business, frequency of investment, and platform.
- Cross-suppulation: Connections between investment behavior and impressive frequency were found.
- Correlation analysis: Spiman was used to look into how investment choices and dependability relate to the rank-order correlation.

DATA ANALYSIS AND FINDINGS

Building on the methodology, the analysis uses both quantitative and qualitative techniques to explore patterns, relationships, and themes emerging from a survey of 80 respondents primarily Gen Z investors.

4.1 Descriptive Statistics of Respondent Profiles

Table 1 According to the data, 86.4% of respondents said they were either "very familiar" (45.5%) or "somewhat familiar" (40.9%) with the idea of financial risk, indicating a high level of overall knowledge among respondents. This indicates that most people are exposed to some degree of financial risk and shows a deep comprehension of the fundamentals. The fact that over half of the respondents specifically describe themselves as "very familiar" suggests a high degree of confidence and perhaps real-world financial experience. Even though only 13.6% "are not very familiar" and nobody has stated that they are unfamiliar, "it highlights a relatively small group that may benefit from an increase in financial literacy efforts to further enhance their understanding.

Table 1: Demographic Profile of Respondents

Familiarity Level	**Percentage (%)**
Very Familiar	**45.5**
Somewhat Familiar	**40.9**
Not Very Familiar	**13.6**
Not at all Familiar	**0.0**

Table 2. According to the study, social media is the most widely utilized source of financial risk information, accessed by 45.5% of respondents. Financial news websites are used by 40.9% of respondents, and real-time digital platforms are becoming more and more popular. However, the fact that only 13.6% of people rely on financial counselors points to a shift away from professional financial advice and toward less regulated, more informal sources of financial information.

Table 2: Tools or Resources Used to Stay Informed About Financial Risks

Resource Type	Percentage (%)
Social media	45.5
Financial News Websites	40.9
Financial Advisors	13.6

According to Table 3 data, the majority of people (59.1%) primarily manage financial risk through saves and budgeting, demonstrating a high value placed on prudent and controlled financial activities. The 31.8% of investments in diversified assets shows that some people want to control risk by balancing their portfolios and managing market risk. Only 9.1%, however, depend on insurance products, underscoring the individual financial plan's scant use of formal risk transfer mechanisms.

Table 3: Methods Of Managing Financial Risks In Personal Life

Method	Percentage (%)
Budgeting and saving	59.1
Investing in Diversified Assets	31.8
Using Insurance Products	9.1

DISCUSSION

Talk about In light of the body of current literature, this part summarizes the results of the data analysis and study objectives. Investors consider broad ramifications for psychology, social media dynamics, and financial regulation as a result of this conduct, which blends statistical consequences with financial principles.

5.1 Impact of Social media on Financial Risk Management

Unquestionably, social media is influencing many facets of our lives, and financial risk management is no different. It has a variety of effects, including the potential to add additional levels of complexity and alter how people and organizations view and handle financial risks. The quick and extensive distribution of information, which is sometimes disregarded, can have a big impact on market attitudes and individual investing choices. For instance, social media endorsements and viral trends can cause some assets to become famous and see a sudden rise in value, often without any underlying cause. When this tendency is basically reversed, investors may suffer severe losses as a result of this "promotional" investment, which can also lead to speculative bubbles and heighten market volatility.

5.2 Impact of Age in Financial Risk Management

One crucial aspect of private finance is the effect of age on economic hazard control. People's financial risks and priorities significantly shift as they move through different stages of life. Gaining an understanding of these changes is crucial to developing efficient financial risk management plans that address the unique requirements and challenging circumstances of every age institution.

5.3 Risk Management Theories

The banking industry works in an environment that is inherently dangerous, with numerous unknowns that could compromise its overall stability, solvency, and profitability. Banks and regulatory agencies use a variety of risk management concepts that offer a framework for comprehending, quantifying, and minimizing possible losses in order to successfully manage these risks.

These ideas have changed over time in response to advancements in quantitative methods, regulatory regulations, and the financial landscape. This thorough investigation looks at the key ideas, uses, and limitations of some of the few significant risk management concepts that apply to the banking industry.

5.4 Risk Management Practices

As patrons of major participants in the financial assets and economy, banks implement a wide range of risk management techniques to safeguard their operations and guarantee long-term stability. These tactics are in line with the wide variety of dangers that are present in the banking industry, ranging from market hysteria and credit to operational breakdowns and liquidity shortages.

A robust risk culture that embraces all organizational levels and places an emphasis on risk awareness and responsible risk is a basic component of any successful risk management framework. Training, unambiguous communication, and the tone set by the directors and board of directors all help to foster this culture.

6. CONCLUSION

In conclusion, Bank stability and profitability depend on efficient financial risk management. Banks can minimize losses and increase profits by recognizing, evaluating, and mitigating any risks. Credit risk, market risk, operational risk, and liquidity risk are some of the hazards that the banking industry must deal with. Banks can overcome these obstacles and accomplish their financial goals by putting in place effective risk management frameworks and techniques.

For banks to keep the confidence and trust of its stakeholders, risk management is essential. Banks can show their dedication to sound financial processes and regulatory compliance by favoring risk management. Additionally, banks are able to make well-informed judgments regarding lending, investments, and other financial activities when they practice effective risk management

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