ABSTRACT

Risk Management, Regulation and Supervision of the Financial Sector in general and the Banking Sector in particular are of paramount importance for the orderly growth of the economy.

The oversight of the Banking System has been undergoing a paradigm change in tune with the growth of the Sector as well as the international developments. There is a shift in the Supervisory approach from the conventional transaction based approach to Risk Based Approach on the part of the Regulators worldwide and in India since the 1990’s. The Risk based tools implemented by the Reserve Bank of India for overseeing the working of the Banks include introduction of CAMELS (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Supervision) rating, PCA (Prompt Corrective Action), IRAC (Income Recognition and Asset Classification) Norms, OSMOS (Offsite Surveillance and Monitoring) etc.

The present study is undertaken to assess the impact of such Risk Management and Risk Based Supervision measures introduced by the Reserve Bank of India (RBI) in the post Reform period. The main objective of the study is to evaluate the benefits of these measures on the overall working of the Scheduled Commercial Banks (SCBs) belonging to the three Sectors viz., Public Sector, Private Sector and Foreign Banks. The study also made inter- sector cross
comparisons to see if the impact is uniform among these sectors and if not, to find out which sector has performed better due to these changes.

The study is based on an analysis of a sample of 49 Banks (25 from the Public Sector, 15 from the Private Sector and 9 from the Foreign Banks). The sample was drawn on stratified random sampling basis. Five performance parameters viz., Non-Performing Assets, Net Profit, Net Interest Income, Net Interest Expenses and Operating Expenses were taken. In addition, Capital Adequacy also was studied.

The data for the study comprises of secondary data which was collected from the statistics published by the RBI, Indian Banks Association, Government of India and other sources. The data was analysed using Statistical Package for Social Sciences (SPSS) 19.0 version. The following statistical tools were used in the study.

1. Parametric paired T-test

2. One way analysis of variance (ANOVA)

3. Post-Hoc Analysis

From the data analysed using the above tools, it was found that the impact of the changes was favourable in the case of the sample SCBs in general. It was observed that the Public Sector Banks have shown outstanding performance indicating significant difference in their working. The results of the Anova and Post Hoc Tests have
also confirmed that that the difference is significant in the case of Public Sector Banks as compared to Private Sector and Foreign Banks.

All the 49 sample Banks have been ranked individually on the basis of their parameter wise performance as well as overall performance.

The study concludes that Sector wise, the Public Sector Banks have shown significant difference in their working. Banks in all the three Sectors have also been ranked on the basis of their performance on individual parameters. Composite Ranking also was given taking into account the results of all the Parameters. As per this analysis, Development Bank of Singapore in Foreign Sector secured the 1st Rank, while the second position has gone to Corporation Bank Ltd. in the Public Sector. HDFC Bank Ltd. in Private Sector stood 4th in the overall Ranking.

On the basis of these findings, the Researcher made an analysis of the reasons for the improved working of the Public Sector Banks. As the Public Sector Banks had been the worst hit during the pre-reform period, their working in the post reform period has shown significant change after the Reserve Bank introduced Risk Management and Risk Based Supervisory measures. In the case of Private Sector and Foreign Banks, their working was efficient even during the pre-reform period. Hence there was no significant difference noticed in their working during the study period.