CHAPTER: 3

RESEARCH METHODOLOGY
3.1 NEED OF RISK MANAGEMENT

In view of growing complexity of banks' business and the dynamic operating environment, risk management has become very significant, especially in the financial sector. Risk at the apex level may be visualized as the probability of a bank's financial health being impaired due to one or more contingent factors. While the parameters indicating the bank's health may vary from net interest margin to market value of equity, the factor which can cause the important are also numerous. For instance, these could be default in repayment of loans by borrowers, change in value of assets or disruption of operation due to reason like technological failure. While the first two factors may be classified as credit risk and market risk, generally banks have all risks excluding the credit risk and market risk as operational risk. Risk Analysis, in a broad sense, is any method — qualitative and/or quantitative — for assessing the impacts of risk on decisions. Different Risk Analysis methods are used that blend both qualitative and quantitative techniques. The goal of any of these methods is to help the decision-maker choose a course of action, given a better understanding of the possible outcomes that could occur. Risk Management is the application of proactive strategy to plan, lead, organize, and control the wide variety of risks that are rushed into the fabric of an organization's daily and long-term functioning. Like it or not, risk has a say in the achievement of our goals and in the overall success of an organization.

There are many methods for investigation of risk management. In this chapter researcher has discussed about research methodology used for this study.

3.2 PURPOSE OF THE RESEARCH

Risk Analysis and Risk Management has got much importance in the Indian Economy during this post liberalization period. The forefront among the challenges faced by the banking sector today is the challenge of understanding and managing the risk. The very nature of the banking business is having the threat of risk imbibed in it. Banks' main role is intermediation between those having resources and those requiring resources. For management of risk at corporate level, various risks like credit risk, market risk or operational risk have to be converted into one composite measure. Therefore, it is necessary that measurement of operational risk should be in tandem with other measurements of credit and market risk so that the requisite composite estimate can be worked out. So, regarding to international banking rule (Basel Committee
Records) and RBI guidelines the investigation of risk analysis and risk management in Co-Op banks is being most important. Therefore, the overall purpose of this research is to “Risk management: A Study of selected Urban Co-Operative banks in Gujarat”.

3.3 RESEARCH QUESTIONS

- Are the changes favorable for UCBs after the acceptance of risk management approach?
- Does the risk management concept increase the consumer satisfaction?
- How to control credit risks in UCBs?
- What are the proper risk management tools and techniques apply in UCBs?
- Should UCBs invest in such securities whose returns are hardly predictable?

3.4 OBJECTIVES OF THE RESEARCH

- To study the changes of UCBs after the acceptance of risk management approach.
- To quantify the consumer satisfaction arises from the risk management concept accepted by the UCBs.
- To study the methods of controlling credit risks and to introduce the acceptable method of controlling credit risks by UCBs.
- To formulate or derive the optimum solution giving risk management tool or technique after studying the various risk management tools and techniques available and applicable in UCBs.
- To study the investment pattern and strategy of UCBs.

3.5 HYPOTHESES OF THE RESEARCH

1. \( H_0 \) – There is no significant association between the risks faced by UCBs and its profitability.
   \( H_1 \) – There is significant association between the risk faced by UCBs and its profitability.

2. \( H_0 \) – There is no significant relationship between risk management practices followed by UCBs and consumer satisfaction.
H₁ – There is significant relationship between risk management practices followed by UCBs and consumer satisfaction.

3. H₀ – There is no significant relationship between risk management practices and return generated by UCBs.

H₁ – There is significant relationship between risk management practices and return generated by UCBs.

3.6 METHODOLOGY OF STUDY

In this research, researcher has used standard questionnaire for self-assessment of risk in banks (the IRAF: QUESTIONNAIRE FOR SELF-ASSESSMENT) which is the questionnaire on risk management guidelines in banking system. The structured interview questionnaire is driven by using the most important factors in risk analysis and risk management in banking system from literature review. The questionnaire is developed with guidance of research guide and discussion of some experts and professionals in risk management working in banking sector. The questionnaire is tested by contacting with some banks for clarity, ease of use, and value of the information that could be gathered. The structure of the questionnaire and format of the interviews is broken down into the following major sections:

- General or basic information
- Board and senior management oversight
- Market Risk Management
- Credit Risk Management
- Operational Risk Management
- Liquidity Risk Management

Here researcher has used a combination method include false/true, likert and semantic scales which, the false/true has been used for filtering, semantic scale for grading of each variable and question in selected bank and likert scale for weighting the variables and questions in general.
3.6.1 Population and Sampling method

The list of Population of Cooperative bank is taken from Gujarat Urban cooperative bank federation and there are 234 banks (as on 31-03-2012) in list. The stratified sampling method is used in first stage and the analysis is done on elements within strata by using random simple sample method which covered about 10% of population.

3.6.2 Data Collection

The present study is made on the basis of data collected from primary and secondary sources. The primary data are collected through structured questionnaire from different managers, Board of Directors of UCBs. Researcher has selected 40 urban co-operative banks form different areas of Gujarat state. The structured questionnaires were distributed among these 40 UCBs and approached personally (if it required) to get properly filled questionnaire from them. The structured interview method was employed to know the risk management practices adopted by their respective banks. The secondary data was collected from the journals, magazines, government publications and annual reports of UCBs.

3.6.3 Sample and Population

Finally the study is focused on 40 urban co-operative banks. The target population for present study is all co-operative banks situated in Gujarat state.

3.6.4 Nature of Research

For the purpose of study, descriptive and analytical research method is used. Present research work is based on qualitative as well quantitative observation (data). The qualitative research is multi method in focus, involving an interpretative, naturalistic approach to its subject matter. For this research design, the researcher had gathered data, published studies from different co-operative Banks, articles from books / journals and makes a content / thematic analysis of the collected documentary and verbal observation.
3.6.5 Data Analysis

The data collected were entered in M S Excel data sheet. Entered data was cleaned, edited, and classified as per the requirement. Data analysis was done using statistical software “R 2.15.2”. Descriptive Statistics was obtained to get insight of collected data. Data is presented in the form of frequency distribution and cross tabulation. When and where required, information is provided in form of graphs / charts. Pearson’s Chi-square test is applied to check association between selected variables. Regression analysis is done to know the trend of outcomes. Ratio analysis and Analysis of Variance test is carried out to compare different rate and ratios between selected banks.

3. 7 LIMITATIONS OF STUDY

All efforts have been made to ensure that the research is designed and conducted to optimize the ability to achieve the research objective. However there are some constrains that do not validate the research but made to be acknowledge.

1. This study is restricted to the state of Gujarat only.
2. The conclusion given through present study is based on selected 40 Urban Co-Operative Banks.
3. This evaluation is based on primary data generated through questionnaire and collected from the respondents.
4. The study is based on the response of the customer who is highly subjective in nature and hence generalization made may get differ.
5. During the course of personal interview the subjective nature of interviewers might also have influence upon the response-received for the present study.
6. Certain issues in the study concentrate on both perceptions and attitude of respondents.
7. Consistent data from secondary sources was available for last six years only; moreover the data were processed to four years on an average basis wherever required.
3.8 SIGNIFICANCE OF THE STUDY

This study will be a significant endeavour in understanding the importance of assessing risk management in UCBs. This study will be helpful to UCBs administrators and management practitioners. This will be a guide for them when they employ effective risk management approach to their bank. By examining the risks and other factors involved in UCBs helps management practitioners to design measures to minimise the risks. Further, through the understanding of the needs of their consumers in terms of satisfaction. Moreover, this study will be a significant endeavour in promoting effective marketing strategies that suffice the needs of consumers.

This study is deemed useful for future researchers on UCBs. This study could also serve as an academic tool informing its reader about the business development and organisational changes in UCBs. Knowing how consumers perceive development of UCBs will assist authorities in establishing programs and policies.