



Risk Management Practices in Banks

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ABSTRACT

In current globalized market banking industry is rapid growing sector with significant part in economy of the country. Banking sector is highly competitive in current era as more and more public as well as private sector banks are being a part of development. The cost and management profession has biggest opportunity as the banking sector needs different tools and systems of cost reduction to survive, grow and maintain their profitability in highly competitive era. We analyze the risk management practices in banks.

KEYWORDS : Risk Management, Bank, Strategies

Introduction

Banking is one of the services with a long history. The banks have grown over a period in size and variety of products and customers. It includes small cooperative bank to MNCs like CITI bank and large banks like State bank, ICICI, UTI, Kotak bank, etc. All the new banks are technologically superior and the public sector banks have gradually making efforts to upgrade themselves. The highly competitive markets have made the need for utilization of highly sophisticated management accounting tools available and develop them for the organizational needs.

The cost and management accountant profession has the biggest opportunity as the banking services needs their tools to develop and sustain their profitability in the highly competitive globalized market. Currently bank offers a wide range of banking products and financial services to their customers through a variety of delivery channels and through their specialized branches in the areas of banking, life and non-life insurance, venture capital, asset management etc. Banks also provide cross border needs of clients.

What banks require?

The bank wants to satisfy its customers. Banks are also interested in knowing their profitability and growth. So, it is proposed to examine the various needs of the banks relevant to the cost and management accountant. Banks may have needed help of cost and management accountant in the following decisions. These are only examples and are not limited for the purpose.

Which products are profitable?

What is the overall profitability?

What is the profitability of different branches?

Should a branch be closed or continued?

Should a new product be introduced? What will be the profitability level?

What will be marketing costs?

Benefit of investment in technology?

Role of Cost and Management Accountant

The tools handling by cost and management accountant should be relevant and easy to understand. The system developed by cost and management accountant should not be too much complicated and should be well balanced with the need of banks. It can be easily understood and reasonably priced.

Cost categorization and codification

A categorization of costs with further sub classification should be made with lot of interaction with the banks and their various centers. The classification can use the profit and loss account as the starting point and sub classification can be identified depending upon the various factors like need costs etc. for example. Employee cost can be

further classified in to salaries and allowances. A suitable codification should be follow. For example fields should be made for the different characters of data like employee number, location code, activity code etc. this will make the collection and presentation of costs in proper manner.

Analysis of fixed, variable and semi variable costs

Normally bankers are familiar with fixed, variable and semi variable cost but further analysis by the management accountant will make it more usable. For example the basic costs of running branch may be fixed to a big level but the cost where flexibility is available like reduction at a business volume should be considered as variable to the extent of flexibility.

Analysis of activities and developing cost group

Here the management accountant and the banks sitting together and analyze the various activities by a study. The need for collecting costs for each activity should be justified and groupings of similar activities should be tried to minimize the number if require. For example in savings account operation the activities are opening account, cash collection, cheque collection, cheque payment, electronic payment, setting up interest account access, cheque issue, customer complaint processing, etc. are involved. Similarly for other current accounts same activities are involved. Common activities can be considered together. Weightage for time spent with the type of executive time could be rated and the cost of such process identified.

Cost driver identification

The cost driver is the basis for allocating specific costs. The cost driver is one which has a cause and effect relationship as to why such cost is incurred. For example the units consumed could be as cost driver for allocation of electricity costs. The number of cash movements between branches can also be a cost driver. The management accountant will be a part of the top management group providing relevant guidance to the management for decision support. Following could be some examples of cost drivers in case of banking industry.

Number of transactions through ATMs

Number of electronic transfers

Number of intercity cheques

Number of instruments in clearing inward or outward

Number of transactions done in the counter.

Number of employees

Area in square meters

Units of electricity consumed

Number of complaints attended

Number of transactions in account

Implementation of an activity based cost (ABC) accounting system

Most of the banks don't have any cost accounting system but adopt special purpose study each time when decision is taken. Actions may be taken based on such studies and it may happen that bank might have missed an opportunity or could not prevent an adverse decision for lack of information on the costs. The cost and management accountant should establish ABC system which is best suited for a service industry to enhance the management quality.

Preparation of worksheets for pricing decisions or other decisions

The preparation of worksheets like income and expenditure account gives an idea of the various factors involved in customer profitability. If the net benefit is marginal then bank can consult for increase in charges or demand a margin on the exposure.

Estimates of new product profitability

A proper analysis is made for evaluation of new products and services. Strategic decisions involving loss in the initial stages will require to be evaluated in monetary terms to assess their return ultimately. The impact of internet banking may involve allocation of resources and such measures should be converted into monetary terms after long time. The management accountant specially trained in these techniques will be consultant for the management on these crucial matters.

Evolving standard costs

The management accountant can evolve a standard cost for each activity after a proper study of the various factors involved. The standard

should be achievable. Also the actual costs incurred can be compared with standard cost to analyze the efficiency. This could be done with the help of management accountant who are professionally trained to operate such systems.

Other activities of cost and management accountant.

The following are the other activities but not limited to where services of cost and management accountant can be utilized.

Internal audit of branches.

Audit of specific products like housing loan in an area.

Management audit of specific activities

Stock and receivables audit of units financed.

Review of projects financed once a year with analysis of deviations from the original estimates and reevaluation of risks.

Review of costs of specific firms.

Conclusion

The cost and management accountant has an important role in banking industry and they can do better to meet the challenges in global economy. The present situation is that the management accountants and banking industry needs each other to implement a successful strategic cost management. The door should be open for Cost and management accountant equally with chartered accountant. This article involves broad area on role of cost and management accountant but it can be further analyze in detail according to the subject matter.

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