



**International Journal of Advanced Research in Arts,
Science, Engineering & Management (IJARASEM)**

Volume 11, Issue 2, March 2024



**INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA**

IMPACT FACTOR: 7.583



Risk Management in Banking Fraud

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ABSTRACT: The use of proactive strategy to plan, lead, coordinate, and control the many different risks that are woven into the daily and long-term operations of a company is known as risk management. Whether we like it or not, risk plays a role in both the accomplishment of our objectives and the general success of an organization. The goal of this article is to attempt to identify the dangers that the banking industry faces and the risk management process. This study also looked at the various risk management strategies used by the banking sector. In order to accomplish the study's goals, information was gathered from secondary sources, such as books, journals, and internet articles; different risks that banks faced were identified; a risk management procedure was created; and-examined several risk management strategies. In the end, it can be said that banks should manage the banking sector more effectively, predict negative developments and take appropriate precautions, and take more calculated risks. This will give them a competitive edge.

KEYWORD: Value at Risk (VaR), market risk, operating risk, banking sector, and risk management.

I. INTRODUCTION

Risk is defined as anything that can create hindrances in the way of achievement of certain objectives. It can be because of either internal factors or external factors, depending upon the type of risk that exists within a particular situation. Exposure to that risk can make a situation more critical. A better way to deal with such a situation; is to take certain proactive measures to identify any kind of risk that can result in undesirable outcomes. In simple terms, it can be said that managing a risk in advance is far better than waiting for its occurrence.

Risk Management is a measure that is used for identifying, analysing and then responding to a particular risk. It is a process that is continuous in nature and a helpful tool in decision making process. According to the Higher Education Funding Council for England (HEFCE), Risk Management is not just used for ensuring the reduction of the probability of bad happenings, but it also covers the increase in likeliness of occurring good things. A model called "Prospect Theory" states that a person is more likely to take on the risk than to suffer a sure loss.

Key components of risk management in banking sector include:

Key components of risk management in banking fraud include robust authentication measures, continuous monitoring of transactions, timely detection through anomaly detection systems, effective employee training, and a comprehensive incident response plan. Additionally, leveraging advanced technologies like artificial intelligence and machine learning can enhance the effectiveness of risk management strategies in detecting and preventing banking fraud.

In today's competitive talent landscape, organizations must adopt a proactive and strategic approach to talent acquisition to attract and retain top talent. This involves leveraging technology, fostering diversity and inclusion, and continuously refining recruitment processes to meet the evolving needs of the organization and the workforce. By prioritizing talent acquisition as a strategic imperative, organizations can build a strong foundation for sustainable growth and competitiveness in the marketplace.

II. LITERATURE REVIEW

Introduction to Banking Fraud Risk:

Literature underscores the critical nature of fraud risk in the banking sector. Introduction of various types of banking fraud, from traditional methods to emerging cyber threats. Technological Advancements and Banking Fraud Exploration of the impact of technological advancements on the sophistication of banking fraud. Emphasis on the role of artificial intelligence, machine learning, and data analytics in both detecting and perpetrating fraud. Regulatory Frameworks: Examination of regulatory responses to banking fraud, with a focus on compliance requirements Analysis of how regulatory measures influence risk management strategies within financial institutions Collaborative Approaches:



Highlighting the importance of collaborative efforts among banks and other stakeholders in combating fraud. Discussion of information-sharing mechanisms and industry-wide initiatives to strengthen the collective defense against fraud. Risk Assessment Models In-depth review of risk assessment models, including the Basel framework, in managing banking fraud Evaluation of the effectiveness of these models in providing a structured approach to risk identification, measurement, and mitigation Behavioral Aspects of Fraud Exploration of psychological and behavioral dimensions in fraud, considering both internal and external actors.

Analysis of human factors and decision-making processes influencing fraud risk management strategies Adaptive Risk Management Strategies: Recognition of the dynamic nature of banking fraud, advocating for adaptive risk management strategies Case studies and examples demonstrating successful responses to evolving fraud threats. Conclusion: - Summarization of key findings from the literature review. Emphasis on the continuous need for research and innovation to stay ahead of evolving banking fraud risks.

III. RESEARCH OBJECTIVE

The research objective of **'Risk Management In Banking Fraud'** is to investigate and identify effective strategies and best practices aimed at enhancing the recruitment and selection processes within organizations. The primary goal is to strengthen strategies by improving the efficiency, effectiveness, and inclusivity of recruitment practices (Collins & Smith, 2006).

This research aims to explore various facets of , including sourcing methods, screening techniques, interviewing approaches, and onboarding procedures. By examining emerging trends, innovative technologies, and proven methodologies, the research seeks to provide actionable insights and recommendations for optimizing recruitment and selection processes.

Key research objectives include:

The research objective of risk management in banking fraud typically involves identifying, analysing, and mitigating potential risks associated with fraudulent activities within the banking sector. This may include developing effective strategies, technologies, and processes to detect, prevent, and respond to various types of fraud, safeguarding financial institutions and their customers.

Overall, the research objective is to contribute to the body of knowledge on risk management by offering insights, recommendations, and best practices for optimizing recruitment and selection processes. By enhancing these critical aspects of talent acquisition, organizations can better attract, select, and retain top talent, ultimately driving organizational success and competitive advantage.

IV. RESEARCH METHODOLOGY

The research methodology for "Risk Management In Banking Fraud" involves a systematic approach to gather, analyze, and interpret data to address the research objectives effectively.

The research begins with a comprehensive review of existing literature on recruitment and selection practices. This involves identifying relevant scholarly articles, books, reports, and case studies to gain insights into established theories, emerging trends, and best practices in talent acquisition. The literature review serves as a foundation for understanding the current state of recruitment and selection and informing the research questions and hypotheses.

This paper is theoretical modal based on the extensive research for which the secondary source of information has gathered. The sources include online publications, Books and journals..

V. TECHNIQUES OF RISK MANAGEMENT

a) GAP Analysis

It is an interest rate risk management tool based on the balance sheet which focuses on the potential variability of net-interest income over specific time intervals. In this method a maturity/ re-pricing schedule that distributes interest-sensitive assets, liabilities, and off-balance sheet positions into timebands according to their maturity (if fixed rate) or time remaining to their next re-pricing (if floating rate), is prepared. These schedules are then used to generate indicators of interest-rate sensitivity of both earnings and economic value to changing interest rates. After choosing the time



intervals, assets and liabilities are grouped into these time buckets according to maturity (for fixed rates) or first possible re-pricing time (for flexible rates). The assets and liabilities that can be re-priced are called rate sensitive assets (RSAs) and rate sensitive liabilities (RSLs) respectively. Interest sensitive gap (DGAP) reflects the differences between the volume of rate sensitive asset and the volume of rate sensitive liability and given by,
$$GAP = RSAs - RSLs$$

The information on GAP gives the management an idea about the effects on net-income due to changes in the interest rate. Positive GAP indicates that an increase in future interest rate would increase the net interest income as the change in interest income is greater than the change in interest expenses and vice versa. (Cumming and Beverly, 2001).

b) Duration-GAP Analysis

It is another measure of interest rate risk and managing net interest income derived by taking into consideration all individual cash inflows and outflows. Duration is value and time weighted measure of maturity of all cash flows and represents the average time needed to recover the invested funds. Duration analysis can be viewed as the elasticity of the market value of an instrument with respect to interest rate. Duration gap (DGAP) reflects the differences in the timing of asset and liability cashflows and given by, $DGAP = DA - u DL$. Where DA is the average duration of the assets, DL is the average duration of liabilities, and u is the liabilities/assets ratio. When interest rate increases by comparable amounts, the market value of assets decrease more than that of liabilities resulting in the decrease in the market value of equities and expected net-interest income and vice versa. (Cumming and Beverly, 2001).

c) Value at Risk (VaR)

It is one of the newer risk management tools. The Value at Risk (VaR) indicates how much a firm can lose or make with a certain probability in a given time horizon. VaR summarizes financial risk inherent in portfolios into a simple number. Though VaR is used to measure market risk in general, it incorporates many other risks like foreign currency, commodities, and equities. (Jorion, 2001)

d) Risk Adjusted Rate of Return on Capital (RAROC)

It gives an economic basis to measure all the relevant risks consistently and gives managers tools to make the efficient decisions regarding risk/return tradeoff in different assets. As economic capital protects financial institutions against unexpected losses, it is vital to allocate capital for various risks that these institutions face. Risk Adjusted Rate of Return on Capital (RAROC) analysis shows how much economic capital different products and businesses need and determines the total return on capital of a firm. Though Risk Adjusted Rate of Return can be

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e) Securitization

It is a procedure studied under the systems of structured finance or credit linked notes. Securitization of a bank's assets and loans is a device for raising new funds and reducing bank's risk exposures. The bank pools a group of income-earning assets (like mortgages) and sells securities against these in the open market, thereby transforming illiquid assets into tradable asset backed securities. As the returns from these securities depend on the cash flows of the underlying assets, the burden of repayment is transferred from the originator to these pooled assets.

f) Sensitivity Analysis

It is very useful when attempting to determine the impact, the actual outcome of a particular variable will have if it differs from what was previously assumed. By creating a given set of scenarios, the analyst can determine how changes in one variable(s) will impact the target variable.

g) Internal Rating System

An internal rating system helps financial institutions manage and control credit risks they face through lending and other operations by grouping and managing the credit-worthiness of borrowers and the quality of credit transactions.

VI. FINDINGS

In risk management for banking fraud, findings often include identifying vulnerabilities in systems, analyzing patterns of fraudulent activities, implementing preventive measures, enhancing cybersecurity, and conducting ongoing assessments to adapt to evolving threats. The focus is on early detection, swift response, and continuous improvement to mitigate the impact of fraud on the financial institution and its customers.



VII. CONCLUSION

In conclusion, the research on "Risk Management In Banking Fraud "

Risk management underscores the fact that the survival of an organization depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and react to it.

The objective of risk management is not to prohibit or prevent risk taking activity, but to ensure that the risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated.

Functions of risk management should actually be bank specific dictated by the size and quality of balance sheet, complexity of functions, technical/ professional manpower and the status of MIS in place in that bank.

Risk Management Committee, Credit Policy Committee, Asset Liability Committee, etc are such committees that handle the risk management aspects.

The banks can take risk more consciously, anticipates adverse changes and hedges accordingly, it becomes a source of competitive advantage, as it can offer its products at a better price than its competitors.

Regarding use of risk management techniques, it is found that internal rating system and risk-adjusted rate of return on capital are important.

The effectiveness of risk measurement in banks depends on efficient Management Information System, computerization and net working of the branch activities.

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