

Trends of Risk Management in Banking Sector in Sri Lanka

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Abstract

Risk management can be identified as complex multidimensional problematic situation, which arises in banking sector. Among various types of risks faced by banking sector credit risk, market risk and liquidity risk rank higher. The effective management of credit risk, market risk and liquidity risk are critical components of a comprehensive approach to risk management and essential to the long-term success of any banking industry. Based on the significance of studying risk management, major objective is to identify the recent trends in risk management practices in banking sector of Sri Lanka. Secondary data were gathered based on Annual Reports and News Survey Reports of Central Bank, Sri Lanka. Findings disclosed that, under the credit risk, even though the gross Non-performing Loans (NPLs) ratio declined to 3.2 per cent at the end of 2015 from 4.2 per cent in 2014, total loan loss provisions were increased by Rs.11.3 billion. Under the market risk, equity risk of the banking sector remained at low levels during the year 2015 while the foreign currency borrowings were 61.3 per cent of total borrowings at end 2015 and the banking sector reported a positive foreign currency exposure of Rs. 9 billion. Under the liquidity risk, the Statutory Liquid Assets Ratios (SLARs) of the Domestic Banking Units (DBUs) and Offshore Banking Units (OBUs) were maintained well above the minimum statutory level at 33.8 per cent and 41.1 per cent respectively in 2015. When comparing the profit and the capital adequacy in 2015, although profit margins increased Capital Adequacy Ratio (CAR) is higher than the minimal regulatory requirement. Since, risks are the main determinants of banking failures, banks should have a keen awareness of the need to identify the measures recommended by Basel II, and III and they should maintain adequate capital in order to mitigate these risks.

Keywords : Risk Management, Credit Risk, Market Risk, Liquidity Risk, Banking Sector, Sri Lanka

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