

## A COMPARATIVE STUDY ON RISK MANAGEMENT BETWEEN INDIVIDUALS AND MICRO FINANCIAL INSTITUTIONS IN INDIA

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**Abstract**—The micro finance sector in India today is on a path of steady growth and is undergoing substantial change building on regulatory support and the common shared industry infrastructure. In the year 2014/2015 NBFC-MFIs had a branch network of 9894 branches, and employee base of 75, 085 provided credit to over 2.85 crore clients with loan outstanding of Rs. 37,988 crores and Par 30 under 1 % (Microscope, FY 2014-15) The main challenge of microfinance is to create social benefits and promote low income households by providing financial services without any suitable guarantees. It is in this context that the issue of risk management in microfinance institutions becomes increasingly relevant. This study used a descriptive research design with the main objective to study the risk management practices of microfinance institutions (MFIs) in India. This study investigates the comparative study on risk management between individuals and micro financial institutions in India. The study aims to know the problems faced by micro financial institutions in India. In this study the researcher will identify the problems that are faced by the loan borrowers by the micro financial institutions in India. Here researcher comes to know about the management of risk or how risk can be managed by the micro financial institutions. Also, we come across the objectives, problems, advantages, of the micro financial institutions and the individuals. We can know the overall performance of the micro finance industry in India.

**Keywords**—Economic Losses, Micro Finance, Micro Financial Institutions, Risk Index, Risk management.

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### 1. INTRODUCTION

Business is all about risk taking. According to the researchers, micro financial institutions (MFIs) aren't banks, even though, some appears to work like banks at the same time as others might also be called as Micro finance banks (MFB), however, their products and services are abnormal and centred to the low earnings earners. Hence, the need for evaluation of micro finance before risk trouble is examined.

The procedure of identifying the risks to a funding and if viable, mitigating them. The first degree of risk control is figuring out the types and magnitude of chance. The second degree is taking steps to treatment threats, as it is viable.

Risk is an integral part of economic services. When financial institutions difficulty loans, there is a risk of borrower default. When bank acquires deposits and on-lend them to different clients (conduct economic intermediation), they placed clients' financial savings at chance. Any institution that conducts cash transactions or makes investments risks the loss of those budget. Development finance establishments need to neither avoid risk nor ignore chance. Like all economic establishments, micro financial institutions (MFIs) face risks that they must manage efficiently and effectively to be successful. If the individuals and MFI does not manipulate its risk well, it will probably fail to meet its social and financial objectives. When poorly managed risks begin to result in economic losses, donors, investors, borrowers, and savers tend to lose self-belief in the company and funds begin to dry up.

### 2. REVIEW OF LITERATURE AND GAPS:

Risk Management and Risk primarily based Supervision in Banks has been the subject of look at of many Agencies and Researchers and Academicians. There is a treasure of literature available on the subject. A careful choice of relevant material turned into a formidable challenge before the Researcher. Efforts were made to experiment the literature highly relevant to the Context.

The main sources of literature had been the Website of the Reserve Bank of India, the website of the Basle Committee on Banking Supervision and the websites of numerous major Banks both in India and abroad. The guides of Academicians engaged in the Risk Management and Central Banking Supervision sphere also throws precious insights into the area. The occasional Research papers published by Reserve Bank, the speeches of the Governor and the Deputy Governors of the Reserve Bank of India, the Publications of the Reserve Bank of India, the Indian Banks Association have proved quite applicable to the look at.

- i. **Rekha Arunkumar and Koteswar** sense that the Credit Risk is the oldest and largest threat that Banks, by way of distinctive feature of their very nature of business inherits. The pre-dominance of credit score threat is the main component in the capital allocation. As consistent with them estimate credit score threat takes the major a part of the Risk Management apparatus accounting for over 70 in keeping with cent of all Risks. As in keeping with them the Market Risk and Operational Risk are important, but more interest needs to be paid to the Credit Risk Management in Banks.
- ii. **Reserve Bank of India, Volume 3, 1967-81** offers very valuable account of the evolution of Central Banking in India. This third volume describes vividly the heritage against which the Reserve Bank of India came into being on April 1, 1935. Before the status quo of the Reserve Bank, the Central Banking capabilities were treated with the aid of the Imperial Bank of India. The Royal Commission on Indian Currency and Finance (Hilton Young Commission) 1926 encouraged that there is warfare of interest inside the Imperial Bank of India functioning as the controller of currency even as also functioning as a Commercial Bank. After detailed evaluation on the ownership, charter and composition of the ownership, RBI turned into set up by means of a Bill within the Legislative Assembly.
- iii. **S.K. Bagchi** discovered that in the international of finance more particularly in Banking, Credit Risk is the most predominant risk in Banking and occupies roughly 90-95 per cent of chance segment. The ultimate fraction is resulting from Market Risk, Operations Risk etc. He feels that a lot of subject on operational threat is misplaced. As in line with him, it may be just one to two in line with cent of Bank's chance. For this small fraction, instituting a complex mechanism may be unwarranted. A properly laid out Risk Management System must give its excellent attention to Credit Risk and Market Risk. In instituting the risk Management equipment, Banks appear to be giving identical priority to these three Risks viz., Credit Risk, Operational Risk and Market Risk. This may additionally prove counterproductive. Securitization and Reconstruction of Financial Assets Enactment of Security Interest Act, 2002. (SARFAESI ACT).
- iv. **The Report of the Banking Commission 1972 RBI Mumbai.** The Commission made several hints for making the Indian Banking machine healthier. The fee observed that the system of controls and supervisory oversight have been lax and underlined the want for closure supervision of Banks to avoid Bank failures. However, most of the pointers of the Commission lost their relevance in view of the priorities of the Government which is greater concerned with its political compulsions. The nationalization of Banks and the tight control on the Banks of the Govt. Left little scope for implementation of the tips of the Commission. If best the hints which are supposed to repair tighter regulatory measures, strengthening of the inner manage systems and professionalization of the Bank Boards were well liked and implementation, Indian Banks would not have ended within the mess of abrasion of capital, mounting burden of non-appearing assets. Etc.

### **3. NEED OF THE STUDY:**

The look at targeted on figuring out the problems and demanding situations faced via the people and micro monetary institutions in India that allows you to be helpful for the reference in the future. This study may be helpful for the coverage makers, managers, stakeholders, and players in the industry of finance on the way to manipulate and get entry to the risks they face. The findings of this look at will reveal several the common risks faced by means of the people and the micro economic institutions. The have a look at facilitates us in knowledge of the practices adopted to conquer the threat faced by way of them. The study helps us in information the hazard and the management of the risk so that it will be faced via the individuals and micro monetary establishments in India. The empirical data could be beneficial for the policy makers, managers, stakeholders etc., in designing and implementing effective risk control regulations for individuals and micro economic sectors. The look at on hazard management among the people and micro monetary establishments helps in expertise how the management faces the danger and how individuals as well as the micro financial institutions overcome the risk.

#### **4. STATEMENT OF THE PROBLEM:**

The problem of the danger is unsure and, it's miles unpredictable. Many international locations in the world which might be growing international locations do no longer have basic economic services which are beneficial for control of their belongings and create income. They need to get entry to the borrowings, savings, and investment to eliminate poverty. Micro finance is one of the approaches of combating poverty in developing nations. The individuals and the micro monetary institutions facilitate in imparting funds, insurances, financial savings, and other economic services. The few problems confronted by people and micro monetary institutions are as follows:

- High interest rates
- Inability to generate funds
- Lack of coverage services
- Regional disparity etc.,

#### **5. SCOPE OF THE STUDY:**

The study on “risk management between individuals and micro financial institutions in India” was confined to some selected institutions in India. Institutions are growing larger in size and reach. In order to live ahead of dynamism inside the market, they need to improve their internal management systems and threat control. It allows them manage credit score and liquidity risks, marketplace risks, pricing, and operational risks, etc. Only the right analysis of credit chance can assist the bank to keep away from going through the disasters of monetary losses.

There is large scope of Micro finance for Rural India. Just see the way SKS Micro finance is increasing its operations at pan India level. Need of Micro-finance is there due to commercial banks no longer coming forward to lend cash to rural poor.

#### **6. OBJECTIVES OF THE STUDY:**

- To apprehend the troubles faced by individuals and micro economic establishments in India.
- To examine the demanding situations and opportunities faced via the individuals and micro monetary institutions.
- To observe the advantages of micro economic establishments.
- To get admission to the overall performance of micro monetary establishments.

#### **7. RESEARCH DESIGN:**

##### **7.1 SAMPLING:**

The sampling is carried out by using taking in consideration of the pattern size that could be opting for the study. There are several sorts of institutions that offer micro finance are credit score unions, business banks, NGO's (non-governmental organizations), cooperatives, and sectors of government banks. The problems and demanding situations faced through people and micro economic establishments are to be considered underneath sampling.

##### ❖ **SAMPLE SIZE:**

The sample size for this study is arrived at 126 respondents.

##### ❖ **AREA OF OPERATION:**

Research is conducted in Bangalore.

##### **7.2 TOOLS FOR DATA COLLECTION:**

Both primary and secondary data are taken into consideration for collection of the data.

##### ❖ **PRIMARY SOURCES:**

The primary data in the information will be collected through respondent using the well-structured questionnaire.

##### ❖ **SECONDARY SOURCES:**

Secondary data are those data which are already been collected by someone who have already been through statistical persons, this study also uses data and information from journals, articles, internet, magazines, newspapers, and books etc.,

### **7.3 DATA ANALYSIS:**

The data collected will be tabulated; pie charts and graphs will be used to prepare data. The resulting tables, charts and graphs will be analysed, and interference will draw.

### **7.4 STATISTICAL TOOL USED FOR DATA ANALYSIS:**

Percentage analysis will be used to analyse the data of the study.

### **8. LIMITATIONS OF THE STUDY:**

- ❖ The study is confined to a finite period.
- ❖ The result fully depends on the information given by the respondents.
- ❖ This study is an opinion survey.
- ❖ The analysis of the present study has been done based on the information collected from the one who are residing in India.

### **9. DATA ANALYSIS AND INTERPRETATION:**

Data analysis is the process of collecting the information from different sources. It helps in gathering data from many areas and to interpret it. This will help in knowing the complete details of the respondents from different places by taking sample size as a whole. The age, gender, qualification, occupation, and monthly income level of respondents is also one of the analysis of data and so on. Interpretation of statistics refers to the mission of drawing inferences from the collected information after an analytical and/or experimental have a look at. The mission of interpretation has major factors like the effort to establish continuity in research through linking the results of a given examine with those of another, and the establishment of a few explanatory concepts.

**TABLE 1: AGE OF THE BORROWER**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Below 25	56	44.4%
2.	26-35	37	29.4%
3.	36-45	15	11.9%
4.	46-55	11	8.7%
5.	Over 56	7	5.6%
	Total	126	100%

Source: Primary data

The above table shows that, out of 126 respondents, majority are in the age of 18-25 with 44%, 29% are in 26-35 age, 11.9% are in 36-45 age, 8.7% in 46-55 age and 5.6% are above 56 age.

**TABLE 2: GENDER OF BORROWERS**

<i>SL. NO.</i>	<i>PARTICULARS</i>	<i>NO. OF BORROWERS</i>	<i>PERCENTAGE</i>
1.	Male	64	50.8%
2.	Female	62	49.2%
	Total	126	100%

Source: Primary data

The above table shows that, 50.8% borrowers are male and 49.2% are female borrowers. In this way, the larger part of respondents is male.

**TABLE 3: OCCUPATIONAL STATUS OF THE BORROWER**

<i>SL. NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Agriculturist	14	11.1%
2.	Industrialist	14	11.1%
3.	Employee	58	46.0%
4.	Business	27	21.4%
5.	Others	13	10.3%
	Total	126	100.0%

Source: Primary data

The above table shows that, the occupational status of the borrower. Agriculturists and industrialists have same number of respondents with 11.1%, 46.0% are employees, 21.4% are business, 10.3% are others.

**TABLE 4: MONTHLY INCOME OF THE FAMILY**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Less than Rs. 10000	26	20.6%
2.	Rs. 10001-20000	10	7.9%
3.	Rs. 20001-30000	21	16.7%
4.	Rs.30001-40000	42	33.3%
5.	Above 50000	27	21.4%
	Total	126	100.0%

Source: Primary data

The above table shows the monthly income of the family whereas 20.6% are less than Rs. 10000, 7.9% are Rs. 10001-20000, 16.7% are Rs. 20001-30000, 33.33% are Rs. 30001 to 40000, 21.4% are above 50000.

**TABLE 5: MICRO CREDIT**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Strongly disagree	1	0.8%
2.	Disagree	2	1.6%
3.	Neither agree nor disagree	7	5.6%
4.	Agree	87	69.0%
5.	Strongly agree	29	23.0%
	Total	126	100%

Source: Primary data

The above table shows that .8% strongly disagree with benefits of micro credit, 1.6% respondents disagree, 5.6% respondents neither agree nor disagree, 69.0% respondents agree, 23.0% respondents strongly agree.

**TABLE 6: MICRO SAVINGS**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Strongly disagree	1	0.8%
2.	Disagree	1	0.8%
3.	Neither agree nor disagree	14	11.1%
4.	Agree	87	69.0%
5.	Strongly agree	23	18.3%
	Total	126	100.0%

Source: Primary data

The above table shows that .8% respondents strongly disagree with benefits from micro savings, .8% disagree, 11.1% respondents neither agree nor disagree, 69% agree, 18.3% strongly agree.

**TABLE 7: AGRICULTURE**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Strongly disagree	2	1.6%
2.	Disagree	2	1.6%
3.	Neither agree nor disagree	7	5.6%
4.	Agree	85	67.5%
5.	Strongly agree	30	23.8%
	Total	126	100.0%

Source: Primary data

The above table shows the reason behind the use of micro finance products for agriculture where 1.6% respondents strongly disagree, 1.6% disagree, 5.6% neither agree nor disagree, 67.5% agree and 23.8% strongly agree.

**TABLE 8: INCOME GENERATING ACTIVITIES**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Strongly disagree	1	0.8%
2.	Disagree	3	2.4%
3.	Neither agree nor disagree	6	4.8%
4.	Agree	90	71.4%
5.	Strongly agree	26	20.6%
	Total	126	100.0%

Source: Primary data

The above table shows the reason behind the use of micro finance products for income generating activities where .8% respondents strongly disagree, 2.4% disagree, 4.8% neither agree nor disagree, 71.4% agree and 20.6% strongly agree.

**TABLE 9: POVERTY REDUCTION**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Neither agree nor disagree	4	3.2%
2.	Agree	85	67.5%
3.	Strongly agree	37	29.4%
	Total	126	100.0%

Source: Primary data

The above table shows the respondents awareness of micro finance for poverty reduction, where 3.2% neither agree nor disagree, 67.5% agree and 29.4% strongly agree.

**TABLE 10: UTILIZE OF MICRO FINANCE**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Neither agree nor disagree	7	5.6%
2.	Agree	93	73.8%
3.	Strongly agree	26	20.6%
	Total	126	100.0%

Source: Primary data

The above table shows the respondents awareness of micro finance for utilize of micro finance, where 5.6% neither agree nor disagree, 73.8% agree and 20.6% strongly agree.

**TABLE 9.11 TERMS AND CONDITIONS**

<i>SL.NO.</i>	<i>PARTICULARS</i>	<i>NO. OF RESPONDENTS</i>	<i>PERCENTAGE</i>
1.	Disagree	2	1.6%
2.	Neither agree nor disagree	8	6.3%
3.	Agree	89	70.6%
4.	Strongly agree	27	21.4%
	Total	126	100.0%

Source: Primary data

The above table shows the respondents awareness of micro finance for terms and conditions, where 1.6% disagree, 6.3% neither agree nor disagree, 70.6% agree and 21.4% strongly agree.

**FINDINGS:**

- From the analysis we found that the male respondents are more than female where male respondents are 51% and female respondents are 49%.
- The age group of 18-25 has responded more and above the age of 56, the respondents are very less.
- Respondents who are postgraduates has responded more than the illiterate people.
- Respondents are more who are employee.
- Majority of the people whose income is between 30000-40000 has opened account in micro financial institutions.
- Majority of the people has opened their accounts in Grameen financial service Pvt. Ltd compare to other micro financial institutions.
- The products of micro finance institutions people have got benefitted from are as follows:

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Majority of people agree with the benefit of micro credit, micro savings, micro insurance, and micro finance training.

- After the response we came to know that the reasons behind the use of micro finance products and majority of them agree to the products like agriculture, animal husbandry, income generating activities etc.,
- The responses we got has a greater number of people who are aware of the micro finance and who has fully aware of micro finance knowledge.
- 71% of people are agreeing to the terms and conditions of the micro finance.

#### **SUGGESTIONS:**

- MFIs ought to awareness on powerful cash flow control which would reduce unnecessary blockage of coins. Every department has to be linked immediately with banks to lessen coins transfer timings. To reinforce the operation processes for area level hobby and to increase repayment rate, it can be counselled that the MFIs can alternate series duration from weekly to monthly basis to triumph over excessive transaction price.
- Regarding economic challenges it is able to be suggested that there have to be centralized structure of employer so that maximum authority of mortgage disbursement can maintain with pinnacle control. Proper analysis of client's threat assessment to be accomplished with the help of profits analysis of client and exquisite analysis of clients. Moreover, customer satisfaction audits through independent corporations have to be performed from time to time.
- To triumph over HR issues organization can begin imparting profits packages triumphing in sector. Moreover, policy and regulation associated with documentation to be formed & accomplished seriously. Performance related incentives for staff have to be encouraged. This would increase corporate tradition and thereby sustainability as an objective together with outreach can be met.
- To triumph over staffing concerns, standard training module for exceptional degrees of personnel in business enterprise to be prepared. Products knowledge of personnel contributors also want to be emphasized. On job and rancid job training to receive to newly hired body of workers individuals. This would cause shift in mindset and behaviour of personnel. They may give you the want based and low-priced merchandise for the clients. This could also help in keeping consumer relationship, training to clients, customer focus is necessary.
- The scarcity of right pleasant personnel in any respect ranges may be taken care of by using converting the pioneer MFIs into schooling institutions.

#### **10. CONCLUSION:**

In the Indian context, the financial crisis has challenged the belief of limitless fund availability that has sustained growth better than 70 in step with year inside the remaining 3 years. It is now time for MFIs to emphasise on problems of pleasant (and to focus less on quantity): first-rate of products, high-quality of management, and pleasant of governance. Hopefully, Indian MFIs will take gain of this low period to reinforce their structures and plan for destiny market-led increase.

Microfinance has emerged as a tool which aimed toward providing economic offerings to low earnings populations omitted by means of traditional economic institutions. No doubt the supply of credit to the negative has proved to be powerful device in development, however there are range of demanding situations faced through microfinance institution.

Based on normal findings the demanding situations faced via the MFIs are High cost of price range and financing; Marketing i.e. Disbursement and collection of credit services by means of the MFIs leads to high fee of information; High fee of operations ends in operational issues; Inefficiency in facts sharing as MFIs fails to communicate with each other main to high threat and susceptibility of the indebted; Lack of physical infrastructure which can sell extra and innovative profitable ventures; Lack of right regulatory mechanism; Low ranges of technical information and entrepreneurial know-how and Credit for non-efficient and intake purposes.

Despite the issues faced with the aid of the MFIs, there is no question that the model has enough ability to resolve a number of the burning troubles the U. S. A. on the whole is dealing with i.e. Imbalanced growth among privileged and underprivileged. The challenge, therefore, is to look beyond the present limitations and opportunities and execute plan that could make MFIs a car to pressure and deliver for all phase of the society.

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