International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 11 Issue 3, March, 2022, Impact Factor: 7.751

Operational Risk Management in Housing Finance Institutions

NBV Srinivasa Reddy[1], Dr. Mahesh Chandra[2]

[1] Research Scholar of OPJS University, Churu, Rajasthan
[2]Faculty of Management, OPJS University, Churu, Rajasthan

ABSTRACT

The goal of the research is to investigate the origins, dimensions, and effects of operational risks in housing financing. Compared to other risk management strategies, operational risk management is the least developed. Operational hazards have recently risen for a number of reasons. Compared to other risks that the banks confront, the measuring of is still in its early stages. In this context, it is essential to concentrate on the sources, consequences, management, and reduction of operational risks in housing finance.

Keywords: operational risks, housing finance, risk management strategies, banks

INTRODUCTION

One of humanity's fundamental needs is a place to live. Housing supports both household-based economic activity as well as socio-biological interaction. 600 businesses are thought to be directly or indirectly connected to housing operations via the housing industry, which has both forward and backward connections. Globally speaking, interest in housing and associated activities has just recently emerged. The 1970 release of a Government White Paper on Housing Policy by the United Nations provided further impetus to the growing public interest in the housing sector and housing policies. Housing was once a sector that received little attention and was solely seen as a private benefit. But recently, housing has not only been acknowledged as a public benefit but also given priority status in India.

The United Nations' declaration of "The Global Strategy for Shelter for the Year 2000" gave housing in India a boost. The National Housing Policy (NHP), which launched India's housing development, was released at this time in order to achieve the country's worldwide objectives. Since then, efforts have been made to provide shelter to everyone, with a focus on the economically disadvantaged (EWS) and vulnerable populations. In 1998, India released its first National Housing Policy (NHP), which signaled the start of the country's fast housing construction. The fundamental characteristic of housing in India, as in many other emerging nations, is that it did not previously get the attention it deserved from policymakers or planners. Because of this, there is still a housing scarcity backlog. The housing crisis in India is both qualitative and quantitative in character, making it similar to the one that is experienced in third-world nations. In terms of quantity, the issue is the discrepancy between the supply and demand of housing for different income categories in both rural and urban locations.

A three-tier housing finance system is used in the housing finance system:
First, there is the budgetary allocation system, in which housing is funded by the government at the federal and state levels via different social housing programs and other public policies for the homeless in general and the Economically Weaker Sections (EWS) in particular.

The institutional housing finance sources come next. The system of Institutional Housing Finance consists of the Institutions that provide general housing finance, such as the GIC, LIC, Provident Fund, and Scheduled Business banks.
(ii) The different Housing Finance Companies (HFCs), such as the HDFC, Dewan Housing Finance, among others in the private sector, and the HUDCO, Housing Co-operatives in the public sector, are examples of Specialized Housing Finance Institutions.

The National Housing Bank (NHB), India's apex bank, is the driving force behind the housing policies that will be implemented there.

The third category is The Informal Source of Housing Financing, which covers all non-institutional or informal sources of housing finance. The informal sources include people like moneylenders, zamindars, and owners of small shops, among others. The non-institutional sources of financing play a significant role in financing housing, serving both the needs of the population that cannot obtain housing financing from institutions (i.e., institutions only finance 75–80 percent of housing costs, leaving 20 percent to be covered by non-institutional sources) and filling the funding gap left by institutions.

STATEMENT OF PROBLEM

Innovation has become the guiding principle of the banking industry today. To stay competitive, banks must develop new products and add new features to their current offerings. Additionally, in order to please and keep clients, banks are creating and implementing Alternative Delivery Channels (ATMs, etc.). A full paradigm change in transactions and financial services has been brought about by technological advancement. The banks' computerization in the use of Core Banking Solutions (CBS) and new alternative delivery channels (ATMs) between 1990 and 2000 to improve operational effectiveness, productivity, and risk management in the banks has, regrettably, largely universalized fraud. The Indian banking and financial industry has seen a tremendous growth in banking activity and the adoption of new technologies in the previous ten years, making it increasingly vulnerable to a variety of hazards, particularly the operational risks associated with financing homes.

Risks are "The threat of loss." Risk is often connected with a transaction's negative outcomes.
Risks come in many different forms, including credit risks, market risks, settlement risks, and risks associated with liquidity, agencies, systemic credit, politics, law, regulation, operations, and others.
The research therefore focuses on the operational risks that banks in their housing portfolio confront.

Objectives
The goals of the current study are to:
1. To Research the relevance and scope of housing finance in Scheduled Commercial Banks;
2. To study the various risks that banks face when financing housing;
3. To investigate the causes, scope, and implications of operational risks in housing finance;
4. To find out the management and mitigation strategies for operational risks in housing finance; and Recommend methods to be used to manage

REVIEW OF LITERATURE

According to Bjorn Berggern's "Risk Management Strategies in Housing Finance: Three Case Studies of Creating Sustainable Housing finance Models for Low-Income Households" (2009), sharing the risk decreased the overall risk for each actor. A reduction of the overall risk in the project was made possible through the close monitoring and knowledge of the local savings bank's clients, involving construction companies from the organization's business and social network, and g In summary, the author claims that risk management is a centralized process and an all-inclusive strategy in which the business has established control from the outset. Operational Risk Management" has discussed various management techniques of the mortgage loss, by maintaining minimum Capital requirement and insuring and re-insuring the mortgage loans. State Bank Mysore, (1998) "Operational Risk Procedures Manual" has discussed the various measures adopted in State Bank of Mysore, Basle Committee on Banking Supervision, and Operational Risk Management." The techniques to reduce and sustain the loss from operational risk in housing finance include adoption of the Basic Indicator Approach, standardizing Approach, and progressively transitioning to the Advanced Measurement Approach. Operational Risk Management of Indian Banks in the Context of Basel II: A Survey of the State of Preparedness and Challenges in Developing the Framework, Usha Janakiraman, 2008. By addressing all risks faced by the bank that operate at all levels within the bank, risk assessment should also identify and evaluate the internal and external factors that negatively affect the bank's performance, information, and compliance. Guidance Note on the Management of Operational Risk, RBI, 2005. The credit rating firms have played a crucial role. Because failure by the credit-rating agencies exposes the whole securitization market to a possible crisis of trust, the credit-rating agencies, or their proxies, are participating in sample inspections. The asset and liability management has been emphasized by Douglas Robertson in "So That's Operational Risk!" (OCC Economic Working Paper, 2011) and "Risk Management and Asset and Liability Management in Banks" (ADB, 2008) as an effective method to control and manage operational risks in housing finance.

RESEARCH METHODOLOGY

Both descriptive and analytical methods are used in the current investigation. The research has focused on how much operational risk management, and operational risk in particular, the Scheduled Commercial Banks are exposed to. One of Karnataka's public sector banks was the first source of data collection. Both primary and secondary sources were used to create the data base for this investigation.

Secondary Information:
The secondary data was gathered from a variety of sources, including articles, journals, periodicals, books, reports from the RBI and other committees, bank annual reports, the Basel Committee Reports I and II, reports from housing finance institutions, documents from the government pertaining to policy issues, and websites of related organizations.

Primary Information:
When assessing the risks that the banks must manage and mitigate in the home financing industry, original data is of the highest importance. The original data was gathered from corporate headquarters and bank branches in four major cities, with Bengaluru zones I and II receiving the most attention.

Sample Dimensions
The current investigation involves many stages of sampling. The following phases are proposed by the research for data collection:

- The data from the corporate offices of one of the public sector banks has been chosen for research in the first stage.
- In the second stage, several bank branches were opened in Chennai, Delhi, Kolkata, and other major cities. Mumbai will also be given top priority, as will the branches in Bengaluru, where the sample bank's headquarters are located.
- The branch managers, filed officers, and other employees who assist with housing advancements in various branches, zones, and cells are the study's responders.
- The sample size is about 10% of the sample bank's total bank branches.
- Samples from 4 Chennai branch locations (representing 25% of the 17 bank locations), 5 Mumbai branch locations (25% of the 18 branch locations), Delhi, and Kolkata Out of the 254 branches in Bengaluru Zone-I and Zone-II, 64 branches—or 25% of all the branches—have been chosen, equaling 8 branches each branch, or 25% of the total of 30 branches.

Research Tools:
The core data for the proposed research were gathered via interviews. To achieve this, a systematic questionnaire has been used. Additionally, the data was gathered via talks with the targeted groups.

Analysis Plan:
The outcomes and effect of operational risks on housing financing by SCBs in India were studied in the current research utilizing a variety of analytical techniques. The data are analyzed and the hypothesis is tested using statistical techniques including the percentage method, exploratory method, reliability test method, and correlation method.

RESULT AND FINDINGS

1. Of the total respondents who were questioned, 20.8% said that fraud losses of more than Rs. 27.81 crores were the result of operational failure in the housing sector.
2. There have been around 19 recorded incidences of fraud out of the total number of bank branches assessed.
3. A loss of about 12.33 crores was attributed by 4.3% of respondents to a breakdown in processes and procedures.
4. No operational threats from the rural branches were noted by the 23% of respondents throughout the research period.
5. According to 16.66 percent of the respondents, internal fraud at the urban branches has resulted in a loss of Rs 14.99 crores.
6. It has been shown via study of the source data that the OR is more severe in urban areas.
7. According to 30.35 percent of respondents from metropolitan branches, operational risk failure in the housing finance industry has resulted in a loss of Rs. 37.87 crores.
8. According to 1.09 percent of the respondents, management staff members opened two distinct housing loan accounts using the manager's password, causing a system breakdown that cost the banks money.
9. About 10.99 percent of the respondents disclosed the participation of outside parties and procedural errors, such as

the builder failing to register the property in the borrower's name, the borrower failing to get the tri-partite agreement, and the paperwork being registered more than once.
Process: 10. Nearly all respondents (100%) agree that pre-sanction inspections should be made necessary before home loan approval.
11. The verification of pay certificates and income tax returns in collaboration with the salary distribution authority and income tax department is seen to be of the greatest significance by 94.5 percent of respondents.
12. To minimize any kind of operational risk, 96 percent of respondents agree that KYC (Know Your Customer) compliance is essential prior to loan authorization.

CONCLUSION

By 2009, the whole Indian commercial banking system, or 100% of all commercial banking assets, would have been Basel-II compliant, and most banks would have embraced the Basic Capital Requirements.

To reduce operational risk generally and operational risk in housing finance specifically, the Minimum Capital Requirement must be calculated using both the Indicator Approach and the Standardized Approach. However, it is anticipated that the banks would abandon the basic indicator approach and Advanced measurement approach with a standardized approach. The operational risk management framework has recently made some headway in the eyes of the Indian banking sector. However, it is clear from the study's findings that much more work has to be done, and banks will need to invest more time and money into managing the operating Risks in Housing Finance.

The development of a strategy and implementation plan for these areas that is correctly connected to each bank's strategy is required of all banks, regardless of size. There is no one situation or size that fits all, therefore the banks must evaluate the foundations of their particular business and environment. Additionally, asset liquidity management (ALM) and risk management are dynamic activities.

Both are still changing, and fresh elements keep emerging that put the organization's capabilities to the test. To make sure the framework's focus stays appropriate and pertinent, regular board supervision and a thorough review procedure must be included.

REFERENCES

[1]. Abhinna Mohan Nanda. (2006) frauds in Mortgages: Prevention Measures, The Indian Banker-October 2006 Volume I No 10 (IBA).
[2]. BIS (2004), ‘‘International Convergence of Capital Measurement and Capital Standards,’’ www.BIS.org.
[3]. Blunden, T. (2003), Scorecard Approaches, in Alexander (2003b), pp. 229 – 240. Brandts, S. (2005), ‘‘Reducing Risk Through Insurance,’’ in Davis (2005), pp.305 – 314.
[4]. Census of India, Housing and Amenities, Paper 2 of 1991,and 2011.
[5]. Dutta, K., and Perry, J. (2006), A Tale of Tails: An Empirical Analysis of Loss Distribution Models for Estimating Operational Risk Capital, Technical Report06-13, Federal Reserve Bank of Boston.
[6]. ESCAP, NHB, UNO HABITAT, (2010). “Regional Project on Pro-Poor Housing Finance in Asia and the Pacific”
[7]. LoicChiquier and Michael Lea“Housing Finance in Emerging Markets” World Bank Report (2009) .
[8]. Manoj. P.K., “Benchmarking Housing Finance Companies in India: Strategies for Enhanced Operational Efficiency and Competitiveness”, issue 21, (2010)
[9]. Marshall, C. L. (2001), Measuring and Managing Operational Risk in Financial Institutions: Tools, Techniques, and Other Resources, John Wiley & Sons, Chichester.
[10]. Mritunjay Kumar,(2010), “Demographic Prrofile As a Determinant of Default Risk in Housing Loan Borrowers-Applicable to Indian Condition” International Research Journal of Finance and Economics, Issue 58, (2010).
[11]. National Housing Bank (2012), Report on Trend and Progress of Housing in India, Mumbai
[12]. RBI .Basic Statistical Returns of Schedule Commercial Banks in India 2001-2011.