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What Determines Risk of Bankruptcy ?[1]

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Abstract

External and internal environments related to the firm keep on changing. The changing environment affects a firm directly as well as indirectly. This is true for firms across the world. Changing the environment poses a risk for organizations. Bankruptcy risk is one of them. Many pieces of research have been conducted world over to know what determines the risk of bankruptcy in a firm and how high bankruptcy risk a firm has. These determining factors vary at different points of time as per the external & internal environment of business. This study is done for now the risk of bankruptcy for the National Stock Exchange-listed banking firms. Further, the work identifies and classifies firms as risky and healthy firms. This research work provides much-needed information about the banks on the verge of bankruptcy and the process of determining the risk. There are lesser studies available for prediction of bankruptcy for Indian banks. The revalidation of the measurement model is done in the study.

I. Introduction : Banking Industry and Risks

THE BANKING INDUSTRY of India is adequately capitalized as well as well regulated. Indian banks resisted the internationaldepressionin a commended manner. The Indian banking system consists of eighteen and twenty-two firms respectively for public and private sector banks along with forty-six foreign banks, fifty-three rural banks of regional nature and one thousand five hundred and forty-two urban cooperative banks, ninety-four thousand three hundred eighty-four rural cooperative banks (as of September 2019, ibef banking industry report). The deposits, stick up at ₹ 132.35 lakh crore (US$ 1,893.77 billion) as of February 2020. The positive side is that the Indian banking system differs significantly from the rest of the nations by being more flexible and less fragile (Murari, 2012).The reserve bank of India has indicated rising "gross non-performing advances ratio of scheduled commercial banks" is an area of concern (Financial Stability Report, 2016).

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justify its use and energize their utilization by industry experts. Numerous elements may have impacted the performance of banks, factors that can't be estimated or evaluated. Further investigation of the Z score ofAltman and elective recipes, conceivably helpful instrument should be refined to build up an assortment of devices valuable in foreseeing money related trouble.

6.2 *Social Implications*

The results have societal implications. They are of significance to society as the people who are part of society are affected, directly or indirectly, by the performance of the banks. They keep their hard earn money in the bank and invest in different financial instruments of the banks. This isone of the very first studies to use a bankruptcy prediction model for the bankruptcy risk calculation in the banking sector. From the stakeholders' consideration,the ramifications of the research focus to a requirement for a strategy on the part of RBI to help various advances practice among microfinance foundations. With an expansion in the loan payment burden, a few firms may require time to acclimate to the new monetary commitments. Notwithstanding, the accessibility of extra funds may over the long haul lead to progressively gainful operations.

RBI should look into the speedy implementation of the innovative technology developments like blockchain, telematics, artificial intelligence, cloud computing, internet of things, etc. for better risk management (PWC report, 2019; Financial foresight, 2018).

VII. Limitations and Suggestions

In the present study, usingthe Altman Z and Z" score models, the bankruptcy of the banks has been determined. The same method can be used to determine the bankruptcy risk of other firms as well in Indian and international context. Though Altman "Z-Score models" are good and proven method for bankruptcy determination, it is suggested that results can be supported with the results of other methods of bankruptcy determination.

One of the study limitations was the sample obtainability of financial statistics from FY 2008 onwards for the banking firms. Hence in the study, all those banks are excluded for which data on these variables was not available.

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