Factors Affecting to Risk Management Efficiency: Evidence from Domestic Licensed Commercial Banks in Sri Lanka

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ABSTRACT

Introduction - Capital adequacy ratio is considered as a key financial indicator in banking system. The capital adequacy ratio was approved by the Basel Committee on Banking Supervision. This study examines what are the factors affecting the risk management efficiency in domestic licensed commercial banks in Sri Lanka.

Design/ Methodology/ Approach - The population of the study is licensed commercial banks in Sri Lanka. There are 13 domestic licensed commercial banks. Among that remove one bank details due to some deviations. Then sample is 12 domestic licensed commercial banks in Sri Lanka. Data collected during the period from 2013 to 2018. The Capital adequacy ratio was used as the dependent variable. Credit risk, market risk, liquidity risk, profitability, operational efficiency and bank size were used as independent variables of the study.

Findings - Panel regression analyzing used for this study. Fixed effect model was selected as appropriate model for analyzing the data. The findings of the study revealed that credit risk, liquidity risk, profitability and operational efficiency has a significant impact on capital adequacy ratio. Further, credit risk, liquidity risk and profitability share a positive significant relationship with the capital adequacy ratio. Operational efficiency has a negative significant relationship with the capital adequacy ratio. Finally, market risk and bank size did not show an impact on the risk management efficiency.

Conclusion - The present study can be concluded that the independents variables have a high impact on the dependent variable and explanatory power of the model is approximately 66 %.

Keywords: *Capital Adequacy, Risk Management Efficiency, Bank Specific Risk Factors, Domestic Licensed Commercial Banks, Basel III*

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