

Determinants of Risk-taking Behavior of Licensed Commercial Banks: A Case of Licensed Commercial Banks in Sri Lanka

Damayanthi, N. M. M.¹ and Gunawardhana, C. S.²

Although being a widely researched area elsewhere in the world, the determinants of risk-taking behavior of Sri Lankan banks remain unexplored and important area considering the systemic importance of banks in the financial sector. Therefore, this study examines the relationship between risk-taking factors and its various determinants of banks. The study employs a panel data analysis using quarterly financial data of selected licensed commercial Banks (LCBs) in Sri Lanka for a period of 10 years, i.e., 2013Q1 to 2022Q4. The test results revealed that the size and corporate age of the banks have a negative relationship with the standard deviation of the net interest margin. NPL ratio, cost to income ratio and the diversification indicator reflected weak positive relationships with risk-taking behavior of LCBs. The outcome of the study may utilize for preparation of a risk-based supervision framework that can be used by the Central Bank of Sri Lanka (CBSL). Further, the study stress CBSL to analyze the possibility of introducing stringent control mechanisms for newly licensed banks to be followed during the initial years of banking operations, considering the accumulation of excessive risks by such entities.

Keywords: *Assets Quality, Cost to Income, Liquid Assets, Non-performing Loan, Risk-taking Behavior*

¹ Deputy Superintendent, Central Bank of Sri Lanka (manel@cbsl.lk)

² Deputy Director, Central Bank of Sri Lanka (champisg@cbsl.lk)