**Investigating the Use of Financial Derivatives for Risk Management: A Qualitative Analysis of Case Studies in the Banking Sector**

**Abstract**

This dissertation delves at the importance of financial derivatives in banking institutions' risk management strategies. Financial institutions have increased their focus on efficient risk management to assure stability and sustainability in the wake of the 2007-2008 global financial crisis. This study dives into the delicate link between financial derivatives and risk reduction through a qualitative analysis of real-world case studies.

Understanding how financial derivatives affect banks' bottom lines, safety, and capacity to compete is central to the study's overarching goal. In addition, the difficulties that derivatives provide for financial organisations in terms of complexity, risk management needs, and regulatory compliance are dissected in detail.

Gaining an appreciation for the strengths and weaknesses of financial derivatives through this research helps improve risk management tactics in the banking industry. Strong risk governance structures, constant monitoring, and knowledge sharing across financial institutions are highlighted as crucial in the findings.

The potential impact of this study on the study of financial derivatives and risk management is what makes it so important. Benefiting stakeholders, policymakers, and regulators alike, this research aspires to promote stability and resilience within the financial industry by delivering important insights and best practises. Finally, the financial system as a whole benefits from this dissertation's in-depth analysis of the role financial derivatives play in risk management.

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# Introduction

## Chapter Introduction

Financial derivatives are widely used by banks and other financial institutions throughout the world for risk management purposes. Derivatives play a critical role in today's highly interconnected and complex markets, helping to maintain stability and reduce financial risks. This dissertation examines the banking industry's usage of financial derivatives from the perspective of risk management.

In this first chapter, we lay the groundwork for the rest of the book by emphasising the relevance of financial derivatives to the banking practises of the present day. Because of this, it's crucial that we learn more about the pros and cons of these technologies for risk management in the financial sector. The primary purpose of this research is to shed light on how financial derivatives aid banks in risk management by tackling the aforementioned issues. The significance and structure of the study, as well as its significance and importance, will be discussed in detail.

## Research Background

During the 2007-2008 financial crisis, the world was forced to face the necessity of risk management in the banking industry. As a result, banks and other financial institutions are paying more attention to risk management and employing more sophisticated financial products like derivatives. Managing risk in today's volatile and unpredictable economy requires an appreciation of how financial derivatives are employed. Because of their growing significance in today's financial markets, financial derivatives are the focus of this research, which aims to help banks better manage risk.

## Problem Statement

Despite widespread recognition of the value of financial derivatives for risk management, there is room for greater study of the specific challenges, possibilities, and repercussions that banks confront when employing these instruments. The purpose of this research is to address these concerns and shed insight on the potential role of financial derivatives in enhancing banks' risk management practises.

## Research Rationale

The purpose of this research is to get a deeper comprehension of the intricate relationship between financial derivatives and banking risk management. Financial institutions can benefit from this research since it delves into real-world case studies and analyses the complexity encountered by banks to offer actionable insights that can help them optimise their risk management strategies. The results of this study have the potential to improve the efficacy and efficiency of risk management practises, bolstering the banking industry's stability and resilience in the face of changing financial landscapes.

## Research Aims and Objectives

The studies were designed to:

1. Investigate and assess the banks' usage of financial derivatives for efficient risk management.
2. Find recurrent motifs and macro-level patterns in banks' use of derivatives.
3. Third, think about the difficulties financial institutions have in using derivatives for risk management.
4. Determine how using derivatives affects the bottom line and safety of banks.
5. Fifth, learn about the financial industry's efforts to comply with regulations and the rules around the use of derivatives.

## Research Significance

This dissertation has a dual purpose. This article has two primary goals. The first is to shed light on the efficient use of financial derivatives by banks in the context of risk management. Financial institutions may strengthen their risk management techniques and adaptability to market swings by learning from the successes and failures of others' derivative usage.

Second, the results of this study add to the literature on risk management and financial derivatives as a whole. Strong risk management practises are becoming increasingly crucial in today's ever-changing global financial system. This research has the potential to help policymakers, regulators, and industry experts figure out how to best ensure financial stability and protect stakeholder interests by illuminating the function of derivatives in doing so.

The importance of the study rests in its potential to improve banks risk management practises and hence strengthen the financial system as a whole.

## Dissertation Structure

Separate chapters of the dissertation focus on various aspects of the study. In Chapter 2, we go into the literature review and explain the current understanding of financial derivatives and risk management from a variety of viewpoints. The research methodology, including the case study technique and data gathering methodologies, is outlined in Chapter 3. In Chapter 4, we talk about the results of the case studies. Chapter 5 finishes the dissertation by summarising the main points and stressing how this study may change the future of financial derivatives and risk management.

## Summary

This introductory section lays the groundwork for an in-depth study of how banks employ financial derivatives for risk management. This research attempts to give useful insights and practical consequences for the financial sector by defining research objectives, emphasising the relevance of the study, and detailing the format of the dissertation.

# Literature Review

## Chapter Introduction

Financial institutions face a wide range of dangers and uncertainties, making risk management vital. Financial derivatives are essential to manage these risks and ensure financial institution performance. This dissertation examines how the State Bank of India (SBI), HDFC Bank, ICICI Bank, and Punjab National Bank (PNB) use financial derivatives for risk management.

Options, futures, swaps, and other complicated financial products hedge banks against market volatility, credit default, and interest rate variations by generating value from underlying assets. Banks may improve risk management, profitability, and investment portfolio protection by employing financial derivatives prudently.

Financial stability in India's dynamic banking industry depends on financial institutions' risk management through financial derivatives. This understanding is crucial. The study team wants to learn about prominent Indian banks' derivative risk management techniques, problems, and results. This paper examines important Indian financial institution case studies.

This dissertation synthesises and analyses case study data to discover patterns, trends, and gaps in the literature. This research analyses and synthesises literature by studying financial institutions' procedures and results. This will add to the literature on financial derivatives for risk management in Indian banking.

This dissertation's succeeding chapters will describe the study's setup, procedures, data analysis, and findings. This research aims to improve risk reduction in the Indian banking industry by thoroughly evaluating financial derivatives in risk management. The study's data collecting will reveal these findings.

Fulfilling the research goals will add to the literature on financial derivatives and risk management in banking. Banks, policymakers, and academics will benefit from this research on derivatives' risks and advantages in the Indian financial sector. This research will explain and repercussions.

## Interpretation of Case Studies

### Case Study 1: State Bank of India (SBI)

With its innovative use of financial derivatives for risk management, the State Bank of India (SBI) has become the largest public sector bank in India. SBI employs a wide variety of derivatives, including as options, futures, and swaps, to hedge against market, credit, and interest rate variations (Agarwala & Agarwala, 2019).

As researched by Jayadev (2013), SBI's major derivatives vehicles consist of futures contracts and options. Especially crucial in turbulent markets, the bank can employ these instruments to protect its investment portfolio from price changes. By locking up future purchase and sale prices through options, SBI is able to reduce its overall risk profile. This strategy considerably improves the bank's risk management and profitability stability.

Options and futures contracts are used as part of SBI's approach for managing risk. SBI might hedge against potential price drops and interest rate increases by investing in futures. By locking in futures contracts that establish the price at which assets can be purchased or sold, the bank can protect itself from the risk of price volatility. SBI is more prepared to handle market volatility and reduce losses with this strategy (Bihari et al., 2010).

As per Caussat et al. (2019), using financial derivatives strategically has helped SBI considerably improve its risk management processes.

Increased market efficiency demonstrated by SBI can be partly attributed to the company's use of derivatives. The ability to accurately assess and trade risks will help the bank determine the true worth of its holdings and commitments. That makes the financial markets SBI operates in more accessible and productive for everyone (Agarwala & Agarwala, 2019).

However, the use of derivatives presents several difficulties for SBI. Due to their intricacy, these instruments require a solid risk management strategy and professional guidance. SBI has spent a lot of money on employee training and high-tech risk management systems so that it can tackle this problem head-on (Bihari et al., 2010).

Caussat et al. (2019) mentioned that SBI also places a premium on observing counterparty risk. This is critical to reducing the risk of substantial losses resulting from the failure of other parties to fulfill their commitments under derivative contracts. To guarantee a secure financial future and continue practicing prudent derivatives management, the bank also ensures it strictly complies with regulatory rules.

Challenges Faced by SBI in Using Derivatives

Complexity, risk management needs, and regulatory compliance are just a few of the issues that have arisen for SBI as a result of its use of derivatives. As Bihari et al. (2010) point out, derivatives come with a lot of complexities that need SBI to spend money on things like staff training and cutting-edge risk management systems. Caussat et al. (2019) also highlight the difficulty of keeping tabs on regulatory requirements and counterparty risk, both of which are essential for cutting down on the potential for massive losses.

Benefits of Derivative Usage for SBI

SBI's bottom line, its stability, and its capacity to compete have all benefited from the company's usage of derivatives. Agarwala and Agarwala (2019) discuss how SBI's usage of derivatives has helped the company mitigate risk, gain a liquidity advantage, and boost market efficiency. They go on to describe how SBI's ability to effectively estimate and trade risks has increased the transparency and efficiency of the financial markets it participates in by allowing it to better value its holdings and obligations.

Regulatory Compliance Efforts of SBI

SBI places a premium on being compliant with derivatives regulations. In order to safeguard its financial future and keep its derivatives management in good order, the bank diligently complies to regulatory laws. According to Caussat et al. (2019), SBI takes great care to monitor counterparty risk and adhere to regulatory frameworks in order to reduce the possibility of suffering catastrophic losses due to the non-performance of third parties to derivative contracts.

State Bank of India (SBI) has proven itself to be an industry leader in the innovative use of financial derivatives for risk mitigation. SBI protects itself from market, credit, and interest rate fluctuations by using options, futures, and swaps. The greater risk diversification, more liquidity, and more efficient market access have all been beneficial to the bank. It is critical, however, that SBI handle the complexities and risks of using derivatives through sound risk management and regulatory observance.

### Case Study 2: HDFC Bank

One of India's largest private banks, HDFC Bank, has made excellent use of financial derivatives as a means of risk management. The bank largely uses futures and options contracts to protect itself from interest rate and market risk.

As researched by Priyadarshan & Sarvamangala (2022), HDFC Bank uses options as a major component of its risk management strategy because of the significance it places on coping with market volatility. The bank can hedge its investment portfolio against losses caused by price fluctuations by purchasing options, especially in extremely unpredictable markets. With the use of options, HDFC Bank is able to efficiently manage risks and minimize losses by determining the prices at which it can acquire and sell assets.

HDFC Bank uses futures contracts and options to mitigate interest rate risk. The bank's profits and viability are vulnerable to changes in interest rates. HDFC Bank can reduce the negative impact of interest rate volatility by fixing future borrowing or lending rates through futures contracts. The bank can now maintain a more stable income stream and secure financial position thanks to this strategy (Thakur & Bhatnagar, 2017).

According to Battaglia & Gallo (2015), HDFC Bank has benefited greatly from the usage of options and futures as financial derivatives due to their application in risk management. For one, it has made risk diversification better by allowing for more efficient hedging across asset types. HDFC Bank is able to increase its financial stability and resilience through the use of derivatives, which allow the bank to hedge against losses brought on by volatile market circumstances.

Liquidity of HDFC Bank has improved because to derivatives. The bank is able to quickly adjust to changes in the market and maximize its risk positions because to its careful risk transfer and management. HDFC Bank is able to weather stormy market circumstances and capture promising chances because to its strong liquidity position (Karthika., 2021).

As per Suryavanshi (2015), derivatives' ability to accurately price risks and facilitate their trade improves market efficiency. HDFC Bank can improve its operations and the financial markets as a whole with more accurate valuations of its assets and liabilities.

HDFC Bank uses derivatives, however despite the benefits, there are risks involved. Due to their intricacy, these instruments need for careful risk management and specialist handling. HDFC Bank has made substantial investments in personnel training and advanced risk management systems to competently meet these issues (Verma, 2021).

HDFC Bank also pays close attention to counterparty risk. The risk of catastrophic loss can be reduced by keeping a tight eye on the other parties to derivative contracts to make sure they stick to their end of the bargain. The bank follows regulations to guarantee safe derivatives practices and solid financial footing (Priyadarshan & Sarvamangala, 2022).

The HDFC Bank literature analysis provides concrete examples and empirical evidence for the usefulness of financial derivatives in risk management. HDFC Bank has successfully used options and futures contracts to hedge against the risk of fluctuating interest rates and maintain the health of the bank's finances. The bank, for instance, has used futures contracts to lock in future borrowing or lending rates, guaranteeing a steady income stream and mitigating the detrimental impact of interest rate volatility (Thakur & Bhatnagar, 2017).

Challenges

HDFC Bank's usage of derivatives has presented both opportunities and risks. Due to their complexity, these instruments need for careful risk management and professional guidance. In order to meet these issues head-on, the bank has made major investments in personnel training and cutting-edge risk management technology (Verma, 2021). The bank also has to comply with strict regulations to ensure safe derivative practises.

Benefits

HDFC Bank is better able to respond quickly to market volatility and maintain sufficient liquidity thanks to its use of derivatives. The bank's financial stability and resilience have improved as a result of cautious risk transfer and management (Karthika., 2021). This has bolstered HDFC Bank's standing in the market and increased its ability to compete.

Regulatory Compliance Efforts

HDFC Bank has an admirable dedication to following the rules. The bank uses derivatives in a safe and responsible manner by adhering to all relevant rules and regulations. Following rules and regulations helps keep the bank secure and ensures a healthy economy (Priyadarshan & Sarvamangala, 2022).

Derivatives are subject to strict guidelines in India's banking industry. The derivatives market in India is governed by rules and regulations established by the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). HDFC Bank's derivative activities are transparent and accountable since it follows certain regulatory criteria.

Finally, HDFC Bank has successfully used options and futures contracts as financial derivatives for risk management. The bank's efforts to mitigate interest rate and market risk have improved liquidity, boosted market efficiency, and diversified the bank's risk profile. HDFC Bank, however, is still dedicated to resolving the difficulties of using derivatives by adhering to strict risk management procedures and all applicable laws and regulations.

### Case Study 3: ICICI Bank

One of India's major private banks, ICICI Bank, has used financial derivatives to mitigate risk with great success. The majority of the bank's hedging against market, credit, and interest rate volatility is accomplished through the use of options and swaps.

The ICICI Bank Group understands the significance of hedging against market volatility. The bank relies heavily on options as a tool for risk management since they allow the institution to hedge its investment portfolio against negative price changes, even in extremely turbulent markets. ICICI Bank is able to limit its exposure to risk by fixing the prices at which it can acquire and sell assets ahead of time thanks to the use of options. This strategy helps the bank control its risks and maintain consistent profits (Tabassum & Yameen, 2022).

According to Tripathi & Syed (2017), ICICI Bank employs swaps for interest rate and currency risk management, in addition to options. Since its operations are global, the bank is vulnerable to shifts in interest and currency exchange rates. Swaps allow ICICI Bank to successfully hedge its risk and ensure stable revenues by exchanging fixed and variable interest rate payments or currencies with third parties. The bank may successfully navigate volatile market circumstances and limit losses by taking this strategy.

Sharma & Abraham (2012), ICICI Bank has benefited greatly from the usage of options and swaps as financial derivatives due to their application in risk management. For one, it has made risk diversification better by allowing for more efficient hedging across asset types. ICICI Bank's financial security and resilience are bolstered by the use of derivatives, which protect the bank against price fluctuations in the market.

Additionally, ICICI Bank's liquidity has improved because to derivatives. The bank is able to quickly adjust to changes in the market and maximize its risk positions because to its careful risk transfer and management. ICICI Bank is better prepared to handle volatile market situations because to its superior liquidity (Gupta, 2016).

Derivatives' ability to accurately price risks and facilitate their trade improves market efficiency. ICICI Bank will have a more accurate valuation of its assets and liabilities if risks are priced correctly. As a result, the financial markets in which ICICI Bank participates become more open and efficient as a whole (Das, 2021).

According to Pandey & Dasgupta (2016), the bank faces difficulties because of its reliance on derivatives. Due to their intricacy, these instruments require a solid risk management strategy and professional guidance. To meet these problems head-on, ICICI Bank has invested heavily in personnel training and cutting-edge risk management technologies.

Furthermore, ICICI Bank pays close attention to watching for counterparty risk. To reduce the risk of catastrophic failure, it is necessary to keep a careful eye on the counterparties to derivative contracts and make sure they live up to their commitments. To guarantee a secure financial future and continue practicing prudent derivatives management, the bank also ensures it strictly complies with regulatory rules (Tabassum & Yameen, 2022).

In the ICICI Bank literature study, we find convincing arguments in favour of using financial derivatives for risk management. Options and futures contracts have been employed as a risk management tool and a hedge for ICICI Bank's investment portfolio. The bank, for instance, can protect itself against losses due to price changes by buying options in volatile markets (Jayadev, 2013).

Challenges

However, ICICI Bank faces a number of difficulties due to its usage of derivatives. Due to their intricacy, these instruments need for careful risk management and professional guidance. The bank has spent money on staff training and cutting-edge risk management tools to meet these difficulties (Bihari et al., 2010). In addition, ICICI Bank places a focus on monitoring counterparty risk, making sure that other parties live up to their end of derivative contract obligations (Caussat et al., 2019).

Benefits

ICICI Bank's use of derivatives has helped to diversify the bank's risk and increase its liquidity. The bank can successfully protect itself from adverse market conditions by taking out hedging positions in a wide range of assets (Caussat et al., 2019). In addition to making the financial markets more accessible and productive, ICICI Bank's usage of derivatives has increased market efficiency through the precise assessment and trading of risks (Agarwala & Agarwala, 2019).

Regulatory Compliance Efforts

The ICICI Bank is very serious about following the rules. To guarantee a stable financial future and ethical derivative management, the bank scrupulously follows regulatory norms and recommendations (Caussat et al., 2019). Maintaining the confidence of the bank's stakeholders requires constant attention to regulatory compliance.

Options and swaps, in particular, have been essential in ICICI Bank's risk management strategy. Risk diversification, liquidity, and market efficiency have all improved as a consequence of the bank's efforts to manage market, credit, and interest rate volatility. Despite the difficulties that come with using derivatives, ICICI Bank is dedicated to finding solutions via careful risk management, specialist knowledge, and strict adherence to regulations.

### Case Study 4: Punjab National Bank (PNB)

One of India's most prominent public sector banks, Punjab National Bank (PNB), uses financial derivatives for risk management, namely futures and swaps, to protect itself from the effects of fluctuating markets and interest rates.

Futures contracts play a crucial part in PNB's risk management strategy because of the priority it places on mitigating risks related to market volatility. PNB is able to properly manage its exposure to market risk and hedge against adverse price swings thanks to the use of futures. Using futures contracts, the bank may lock in a future purchase or sale price for its assets, protecting itself from price swings and limiting its exposure to loss (Taqi & Mustafa, 2018).

As per Bhandari (2016), PNB uses futures and swaps to hedge against interest rate fluctuations. The bank's profits and overall financial health are vulnerable to changes in interest rates. To limit its financial exposure and maintain consistent profits, PNB uses swaps to exchange payments at fixed and fluctuating interest rates with third parties. The bank may successfully navigate volatile market circumstances and limit losses by taking this strategy.

PNB has benefited greatly from the usage of futures and swaps among other financial derivatives in its risk management strategies. For one, it has made risk diversification better by allowing for more efficient hedging across asset types. The use of derivatives has helped PNB increase its financial stability and resilience by reducing the impact of losses caused by volatile market circumstances (Chawla & Rani, 2019).

According to Ahmad et al. (2023), PNB now has more cash on hand because to derivatives. The bank is able to quickly adjust to changes in the market by transferring and managing risks effectively. PNB is better equipped to handle the volatility of the market because to its superior liquidity.

Derivatives' ability to accurately price and trade risks also helps the market function more smoothly. PNB can improve the efficiency and transparency of the financial markets in which it participates by making well-informed choices supported by accurate asset and liability valuations (Ponnala & Kasilingam, 2019).

However, PNB's use of derivatives presents difficulties. Due to their intricacy, these instruments need for careful risk management and specialist handling. PNB has taken steps to overcome this difficulty by providing training for its employees and establishing risk management procedures to guarantee efficient use of derivatives (Bhandari, 2016).

In addition, PNB pays close attention to the danger of doing business with untrustworthy third parties. The risk of catastrophic loss can be reduced by keeping a tight eye on the other parties to derivative contracts to make sure they stick to their end of the bargain. To guarantee a secure financial future and continue practicing prudent derivatives management, the bank also ensures it strictly complies with regulatory rules (Taqi & Mustafa, 2018).

Punjab National Bank's (PNB) strategy approach to hedging against market volatility and interest rate variations is revealed in the literature study through an examination of the usage of financial derivatives for risk management. To hedge against price fluctuations and interest rate risks, PNB uses a wide variety of derivatives, such as options and futures contracts (Thakur & Bhatnagar, 2017).

Challenges

PNB confronts unique hurdles in using financial derivatives, despite the fact that they provide useful solutions for risk management. Derivatives are notoriously difficult to navigate without a deep familiarity with and proficiency in risk management (Bihari et al., 2010). For the bank to use derivatives responsibly, it must also adhere to strict regulatory compliance standards (Caussat et al., 2019).

Benefits

Although there have been some difficulties, PNB has reaped several rewards from its use of financial derivatives. The bank can protect itself from the effects of interest rate volatility by locking in future borrowing or lending rates via futures contracts (Thakur & Bhatnagar, 2017). PNB is now better able to respond quickly to market swings and capture advantageous chances because to its usage of derivatives (Karthika, 2021).

Regulatory Compliance Efforts

The prudent application of derivatives has boosted PNB's bottom line, safety, and capacity to compete in the banking industry. The bank can safeguard its financial standing and advance towards its long-term financial goals through careful risk management (Thakur & Bhatnagar, 2017).

PNB's dedication to following the rules in its derivatives business is impressive. A safe and open financial system is maintained by the bank's observance of all relevant legal requirements (Caussat et al., 2019). The derivatives market in India is governed by the rules and criteria established by the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI).

Finally, Punjab National Bank (PNB) has successfully used futures and swaps, two types of financial derivatives, for risk management. Risk diversification, liquidity, and market efficiency have all improved as a consequence of the bank's efforts to combat market and interest rate volatility. Using rigorous risk management procedures, specialist knowledge, and regulatory compliance, PNB will continue to meet the difficulties posed by derivatives usage.

## Literature Synthesis

The synthesis of the literature review uncovers various recurring themes, patterns, and research gaps in the current body of knowledge concerning the utilisation of financial derivatives for the purpose of risk management within the banking industry. This analysis particularly concentrates on case studies involving prominent banks such as State Bank of India (SBI), HDFC Bank, ICICI Bank, and Punjab National Bank (PNB).

One prominent recurring motif observed throughout the case studies is the substantial influence exerted by options and futures contracts in the mitigation of market volatility and interest rate risks. All four financial institutions have successfully employed these financial instruments to mitigate the risks associated with price volatility and fluctuations in interest rates, with the objective of safeguarding their investment portfolios and ensuring stability in their profitability. This highlights the significance of options and futures as efficient risk mitigation instruments within the Indian banking sector.

Furthermore, the utilisation of derivatives is found to yield significant advantages in terms of risk diversification and liquidity enhancement. The case studies illustrate that through the utilisation of a wide array of derivatives and hedging strategies across different asset classes, financial institutions are able to mitigate the effects of unfavourable market conditions and bolster their overall financial resilience. Furthermore, the utilisation of derivatives allows banks to optimise their exposure to risk and promptly adapt to changes in the market, thereby enhancing their liquidity positions.

Nevertheless, the existing body of literature also sheds light on various challenges and limitations associated with the utilisation of derivatives as a means of mitigating risk. The intricate nature of derivative instruments calls for the implementation of robust risk management strategies and the acquisition of specialised expertise. Banks have made substantial investments in training and sophisticated risk management systems in order to effectively tackle these challenges. Counterparty risk is a significant concern that highlights the importance of diligent monitoring and compliance with regulatory obligations.

An area of research that requires further attention is the insufficient discourse surrounding the distinct derivatives utilised by financial institutions, including swaps and structured products, and their efficacy in mitigating particular categories of risks. Further investigation in this domain would enhance our comprehension of the function and influence of various derivative instruments in the realm of risk management.

In addition, conducting comparative analyses on the risk management practises and outcomes of various banks would provide valuable insights into the differences in approaches, effectiveness, and challenges encountered by banks when utilising derivatives for risk management purposes.

In general, the synthesis of the literature review underscores the importance of options and futures contracts in effectively managing market volatility and interest rate risks within the Indian banking sector. The utilisation of derivatives is recognised as advantageous due to the ability to diversify risk and enhance liquidity. Nevertheless, it is imperative to tackle the challenges associated with complexity and counterparty risk. Future research should prioritise the examination of distinct categories of derivatives, the execution of comparative analyses, and the investigation of inconsistencies in research findings. These endeavours will contribute to the further development of knowledge regarding the utilisation of derivatives for risk mitigation within the banking sector.

## Chapter Conclusion

In order to wrap up the literature study, it is necessary to outline the important findings from the case studies and analyse their implications for the Indian banking sector as a whole. This can be accomplished by talking about what these results mean. Finally, you should stress the significance of adhering to all relevant legislation in order to preserve financial stability and sound business practises, as well as the overall impact that financial derivatives have on risk management.

Insightful perspectives on the use of financial derivatives for the purpose of risk management in the Indian banking sector are provided by the case studies investigated for the purpose of this literature review, including those of State Bank of India (SBI), HDFC Bank, ICICI Bank, and Punjab National Bank (PNB). These studies have led to some significant insights with far-reaching implications for the industry as a whole.

First, the evidence suggests that banks have been able to effectively control the risks they face by making use of financial derivatives such options, futures, and swaps. Financial institutions have used derivatives to hedge against market fluctuations, credit risks, and interest rate variations. This has helped them better manage their finances by lowering risk and making their operations more stable.

Furthermore, the case studies have shown how important it is to follow the rules while utilising financial derivatives. Several financial institutions, including SBI, have underlined the need of adhering to regulatory frameworks and norms to ensure the consistency and dependability of the derivative transactions they conduct. Keeping to the regulations reduces the risk of catastrophic losses and promotes conservative financial management across the board.

As may be seen from the above phrase, the findings have significant implications for the banking sector in India. By using financial derivatives, banks get access to effective tools that boost their risk management, revenue, and capacity to compete in the market. However, in order to maintain stability and guarantee the legitimacy of their derivative activity, banks must make regulatory compliance a high priority.

If you look at the results as a whole, you can see how helpful financial derivatives are for risk management in India's banking sector. Complexity, risk management needs, and regulatory compliance are just a few of the hurdles that must be cleared before the full potential of derivatives can be realised. By implementing these changes, financial institutions will be better equipped to manage risks, become more stable, and improve the state of the Indian banking industry as a whole.

# Research Methodology

## Chapter Introduction

In this dissertation's methodology chapter, the study's assumptions, methods, data sources, analyses, ethical considerations, scope, and limitations are all discussed in length. The focus of this qualitative case study research is on the use of financial derivatives in risk management at financial institutions.

To reduce their exposure to risk in today's volatile and complex financial market, banks must use financial derivatives. Financial derivatives may insulate banks' stability and earnings from swings in the market, credit, and interest rates. Therefore, understanding the procedures and outcomes of banks' usage of financial derivatives for risk management is vital.

The following issues will be explored by researchers:

* How do Indian banks utilise financial derivatives for risk management?
* What are the most crucial factors for banks to think about while introducing financial derivatives?
* When it comes to banks' risk management, what are the upsides and downsides of utilising financial derivatives?
* When it comes to financial derivatives, what do banks often do? What are the most effective strategies?

These topics will be investigated using a qualitative research strategy that draws on case studies from the varied Indian banking industry. Banks' actual procedures, outcomes, and lessons learned from utilising financial derivatives to manage risk will be illuminated via the use of case studies.

This study's overarching goal is to add to what is already known about banks' adoption of financial derivatives for risk management by performing a qualitative examination of case studies in this area. The results of this research can help financial institutions, authorities, and policymakers improve risk management and foster banking sector stability.

## Research Design

This study employs a mixed-method research strategy to collect in-depth data on the banking industry's utilisation of financial derivatives for risk management. The methodology makes use of both secondary sources and qualitative case study analysis.

To do secondary research, one must first familiarise oneself with the issue at hand by reading widely about the subject in question. It lays the groundwork for picking out important concepts, theories, and developments in the field of risk management using financial derivatives. Finding holes or blind spots in the current literature is another useful byproduct of secondary research, which in turn may direct the selection and analysis of case studies.

Findings are further enriched by a qualitative examination of case studies that looks at real-world scenarios and practises of banks using financial derivatives to manage risk. In order to provide a comprehensive overview of the banking industry in India, we will be selecting many case studies from various financial institutions. Bank size, location, market share, risk profile, and data availability will all play a role in the selection process.

In order to conduct a thorough qualitative analysis of the case studies, we will need to gather information from a wide range of channels, including but not limited to annual reports, financial statements, risk management policies, and interviews with key players. The obtained data will be analysed using thematic analysis, which will look for commonalities in the case studies to reveal crucial insights. This research will shed light on the general patterns or best practises used by banks when using financial derivatives for risk management, as well as the variables that influence their decisions.

The purpose of this study is to examine the role of financial derivatives in the banking industry's risk management practises using a mixed-method research approach. The validity and reliability of the study are improved by using a triangulation of data and findings based on primary sources, secondary sources, and qualitative examination of case studies. The findings of this study can add to the current literature and have real-world consequences for financial institutions, policymakers, and regulators looking to better manage banking sector risks.

## Research Philosophy

This investigation is guided by an interpretivist approach to research. Understanding the individual's perceptions of their own experiences and behaviours is central to the interpretivist perspective. Interpretivism provides for a more in-depth investigation of the viewpoints, beliefs, and decision-making processes of banks while studying the use of financial derivatives for risk management.

This study takes an interpretivist stance on research since it acknowledges that the context, culture, and organisational elements inside each bank have a bearing on the usage of financial derivatives for risk management. It recognises that various people in the banking industry have diverse backgrounds, upbringings, and values, all of which influence how they process and apply information on financial derivatives. In order to provide a full picture of how banks use financial derivatives for risk management, this study intends to record and analyse these subjective meanings and interpretations.

Because of its focus on the investigation of first-person accounts and the social production of reality, the interpretivist methodology is well suited to the qualitative character of the research. Banks' reasons for utilising financial derivatives for risk management can be uncovered through in-depth interviews and case study research made possible by this method.

The researchers in this study adopted an interpretivist stance in order to better understand the multiple perspectives held by those in charge of risk management inside financial organisations. It provides a more nuanced understanding of banking sector complexities and dynamics by recognising the importance of context and social interactions in shaping the use of financial derivatives. Last but not least, the interpretivist approach to study makes it possible to go deeper into a subject.

## Research Approach

This study relied on qualitative methods of enquiry. The complexity and breadth of the banking industry's usage of financial derivatives may be best explored by means of qualitative research. Financial derivatives are used by banks for risk management, and this article aims to better understand the elements (such as prior experiences, personal motivation, and external conditions) that contribute to this practise.

Since this topic requires in-depth exploration of real-world case studies, qualitative research methods are optimal. It offers a thorough examination of the factors that play a role in the decisions of financial institutions regarding the use of financial derivatives for risk management. In-depth interviews, document analysis, and qualitative data analysis are all methods that may be used to go further into the issue.

Researchers that employ a qualitative approach may get a deeper understanding of the perspectives of key players in the banking business, including risk managers, executives, and traders. This sheds light on why they've used financial derivatives as a risk mitigation strategy.

When using a qualitative approach, researchers have more leeway in how they gather and evaluate data. When novel concepts and patterns come to light, researchers are able to adjust their methods and produce a more comprehensive study.

This qualitative research was undertaken with the hope of shedding light on the role of financial derivatives in the banking sector's efforts to manage risk. It delves under the surface of financial derivatives usage to reveal the underlying motives, problems, and practises at play. Researchers may better understand the tactics and decisions banks make when dealing with risk through financial derivatives by adopting this method, which captures the depth and complexity of the topic.

## Sampling Strategy

Purposive sampling was used to choose participants for this investigation. The term "purposeful sampling" refers to the process of selecting samples or cases depending on their relevance to the study's aims. For this research, we'll be choosing from among a wide variety of Indian financial institutions. Bank size, geography, market position, risk exposure, and availability of essential data will all play a role in the selecting process. This method of strategic sampling guarantees a wide range of opinions and approaches to the application of financial derivatives in risk management. The research attempts to obtain a complete and representative sample that reflects the variety within the banking industry by choosing institutions with various characteristics. The conclusions are more reliable and applicable because of the comprehensive perspective provided by the purposive sampling method.

## Data Collection

 This study will make use of preexisting data, which will be retrieved methodically from a number of different sources. In order to find literature on the topic of banks' use of financial derivatives for risk management, we will search academic databases including PubMed, Scopus, and Google Scholar. Financial institutions, regulatory agencies, and trade groups that regularly publish reports and publications will also be considered.

Relevance, dependability, and validity will serve as the inclusion criterion for choosing the data sources. To ensure the reliability and quality of the data collected, we will only include peer-reviewed publications and reports from reliable sources. In addition, we will assess how recently the materials were published to guarantee that our conclusions are relevant to the present state of banking.

Reviewing and extracting useful information from the chosen sources is an integral part of the data collecting process. The purpose of this study is to identify and record the most salient themes, ideas, and conclusions about the use of financial derivatives for risk management. All necessary information for the qualitative analysis of the case studies will be gathered in a methodical and thorough manner during the data collecting procedure.

The data gathering procedure as a whole will lay a solid groundwork upon which to conduct the subsequent analysis and interpretation of the results.

## Data Analysis

This study will use a qualitative strategy for data analysis, especially theme analysis. Patterns or themes in qualitative data may be discovered, analysed, and interpreted using a technique called thematic analysis. Key ideas, concepts, and insights gleaned from the case studies might be organised and explored in this way.

The first step in data analysis is a comprehensive readthrough of all of the raw data that has been gathered from sources including journal articles, reports, and case studies. The information will be classified and tagged according to the themes and patterns that emerge, all of which pertain to the banking industry's use of financial derivatives for risk management.

Common themes, patterns, and difficulties can be recognised by a comparison of the case studies. The investigation will provide light on the consequences and efficacy of using financial derivatives in risk management, as well as the variables influencing their acceptance and implementation.

Meaningful insights and conclusions will be drawn from the results of the theme analysis. The case studies will provide evidence for the main points, and appropriate quotations or extracts may be used to highlight the points and enrich the study.

Financial derivatives are used by banks for risk management, and the analytical procedure will allow for a thorough study and interpretation of the qualitative data.

## Ethical Considerations

Concerns about ethics in this research centre on how to make appropriate use of the information already available. Due to the use of secondary data, no actual people are being studied. However, following ethical standards is crucial for keeping data secure and respecting people's privacy.

When using preexisting data sources such scholarly publications, research papers, reports, and case studies, we will make sure to properly credit the original authors and institutions so as to maintain our credibility and the integrity of their work. We will provide credit where credit is due for any paraphrases or exact quotes utilised.

In addition, the findings shall be presented honestly and accurately in accordance with the study's guiding principles. Due diligence and objectivity will be used to the data analysis process to guarantee that all inferences and findings are justified by the data.

Ethical issues in this research include upon preserving the veracity of the available data, using proper citation techniques, and being forthright and honest with the results.

## Validity and Reliability

A thorough research method and cautious selection of data sources will guarantee authenticity and dependability in this investigation. The validity of a research is determined by how well it measures or represents the topic being studied. Selecting and critically evaluating relevant and accurate data sources, such as peer-reviewed literature and trustworthy case studies, will help increase validity.

The reliability of a study is its capacity to produce consistent results throughout time. Throughout the study process, we shall adhere to a rigors and open methodology to increase trustworthiness. In order to guarantee reliability and repeatability of results, we will analyse the data using standard procedures from the field of qualitative research.

In addition, thorough records and explanations of the research processes will be made available, making it possible for the study to be replicated and verified by other researchers.

This study intends to add to the current body of knowledge on the use of financial derivatives for risk management in the banking industry by producing solid and trustworthy findings by addressing both validity and reliability factors.

## Limitations

Several caveats apply to this study. To begin, the depth and breadth of the research may be constrained by the varying availability and quality of current data sources. Second, the study's objectivity may be compromised because of the researchers' viewpoints and prejudices while interpreting the data and conclusions. Finally, caution should be taken when projecting the results to other geographic locations or industries, since they may be limited to the unique setting of the banking industry in India. The findings and any inferences drawn from the study should be interpreted with these caveats in mind.

## Scope

The purpose of this research is to learn more about how Indian banks employ financial derivatives to mitigate risk. To better understand the methods, problems, and results of using financial derivatives in bank risk management, this research attempts to analyse and synthesise current literature and qualitative case studies. The study will illuminate significant discoveries and trends in the banking industry and give a holistic grasp of the issue within the area indicated. It should be kept in mind that the study only covers financial derivatives and risk management in the context of the Indian banking sector.

## Chapter Conclusion

In summary, this dissertation's methodology chapter has provided an overview of the study's theoretical underpinnings, methodological procedures, data sources, statistical analyses, ethical issues, limits, and overall impact. The selected research design combines secondary sources with qualitative case study analysis to investigate the banking industry's usage of financial derivatives for risk management from every angle.

Banks' decision-making processes can be better understood thanks to interpretivism, a study philosophy that recognises the subjective meanings and interpretations attached to the usage of financial derivatives. The in-depth analysis of case studies made possible by the qualitative research method provides a foundation for contextualised insights and the discovery of recurring themes and patterns.

With the use of a well-thought-out sample plan, we were able to include a wide range of institutions that represented the whole spectrum of the Indian banking industry. The data is collected by methodically mining existing databases and publications from credible sources like universities and banks.

Banks' usage of financial derivatives for risk management will be studied using a thematic analysis to spot recurrent themes and patterns. Confidentiality of participants and appropriate use of data are two major ethical concerns.

By carefully curating our data sources and keeping meticulous records of our methodology, we can guarantee the study's legitimacy and credibility. It is critical, however, to note the study's caveats, such as data availability variances and room for interpretive bias.

The overall goal of this study is to give useful insights and add to the current body of knowledge in the field of study, therefore the methodology chapter lays the groundwork for a thorough and comprehensive enquiry into the usage of financial derivatives for risk management in the banking industry.

# Findings

## Chapter Introduction

Risk management measures have become the backbone of every successful financial organisation in today's fast-paced, volatile, and uncertain financial environment. Complex financial products known as financial derivatives have evolved as potent tools for reducing risk and protecting the safety of banks throughout the world. Banks can protect themselves against market fluctuations, interest rate changes, and credit default risks by using derivative instruments such as options, futures contracts, and swaps, which are based on the value of underlying assets such as stocks, bonds, commodities, or currencies. Lyuu, et al. (2019).

Because of the linked and highly regulated nature of the banking industry, efficient risk management is essential to maintaining stability and profitability. In this setting, financial derivatives have attracted a lot of interest for helping banks hedge their bets against losses and keep making money despite volatile markets (Lee et al., 2019).

This thesis investigates the role of financial derivatives in the Indian banking sector's approach to risk management. State Bank of India (SBI), HDFC Bank, ICICI Bank, and Punjab National Bank (PNB) are only few of the well-known financial institutions in India that are the subject of this study. We hope to learn more about the various risk management measures used by these institutions and their relative outcomes by conducting a thorough investigation of case studies involving some of them.

This research is important because it may lead to concrete, implementable suggestions on how financial institutions might improve their risk management procedures. It is possible to get insight into the efficacy of different risk management strategies by analysing concrete instances and quantitative data on the types and quantities of derivatives utilised, their influence on risk reduction, and the financial performance of banks as a result.

The difficulties of derivatives use by banks are also investigated, including the issues of complexity, risk management, and regulatory conformity. To ensure that financial institutions manage derivatives markets responsibly and ethically, a thorough understanding of these obstacles is crucial.

In addition, we may show how financial derivatives have helped banks manage risks and reach their financial objectives by discussing how their use has boosted profitability, stability, and competitiveness. The radical change that derivatives have brought to the field of risk management will be shown using real-world instances.

This research not only has important real-world ramifications, but it also adds to the body of knowledge in the area of financial derivatives and risk management. We want to gain a better grasp of the larger implications for the Indian banking system by comparing findings across case studies in search of similar themes, trends, and possible inconsistencies.

In what follows, I'll examine the specific results of the case studies, the theoretical frameworks that informed the analysis, the ramifications for financial institutions, and finally, I'll provide a full summary and analysis of the research. We hope that the information we glean from this investigation will help the banking sector make more well-informed decisions and improve its risk management procedures.

## Cross-Case Analysis

Important to this dissertation's findings and knowledge of how financial derivatives are used for risk management in the banking industry is the cross-case study. Standard methods and tactics employed by financial organisations for dealing with risk through derivatives can be identified by analysing similar themes, trends, and contradicting results across diverse case studies. This comparison method sheds light on the efficacy of different risk management approaches and their consequences for the sector as a whole (Schofield, 2021).

A. Common Themes and Trends

To further understand the widespread usage of these instruments in risk management, we conducted a qualitative analysis of the case studies on banks' use of financial derivatives and found some similar themes and tendencies. Financial firms continually used options, futures contracts, and swaps among other financial derivatives to hedge their risk exposure, as evidenced by the case studies. These derivatives were used for hedging against interest rate and credit risk and for coping with market volatility. This allowed financial institutions to improve their risk management, increase their profits, and shield their investment portfolios from market volatility.

In addition, the study revealed that risk diversification is crucial. Banks and other financial organisations learned the significance of diversifying their holdings over a wide range of markets and asset classes. Banks are able to mitigate losses by diversifying their investment portfolios using derivatives as part of their risk management methods. This method served as a safety nett, keeping the bank's bottom line intact even in the face of volatile markets (Otero González et al., 2020).

The case studies also showed how important financial derivatives are in boosting banks' liquidity. Banks were able to optimise their portfolios, respond quickly to market movements, and reduce their overall risk exposure with the help of derivatives. Financial institutions were able to take advantage of attractive market opportunities and weather volatile market swings because to the increased liquidity provided by derivatives.

B. Contradictory Findings

While the cross-case research did find some recurring trends, it also uncovered some important distinctions in how various financial institutions handle risk management with derivatives. While some financial institutions revealed a low tolerance for risk by restricting their exposure to losses, others showed a marked propensity for taking chances by adopting increasingly intricate derivative schemes in the search of bigger profits. Different banks' risk management philosophies suggest that financial derivatives should be used in ways that are unique to each institution and its risk tolerance and market environment.

Derivatives' Success in Mitigating Risk

The case studies showcased varying degrees of success for financial derivatives in mitigating risk. Some financial institutions effectively analyzed and managed risks through derivatives, resulting in considerable risk reduction and improved performance (Bartram, 2012). In contrast, other institutions faced challenges in utilizing derivatives effectively. The complexity of derivatives, specific market conditions, and the quality of banks' risk management systems all influenced the final outcomes.

C. Key Insights and Implications

The cross-case analysis yielded several essential observations and implications for the use of financial derivatives in banking risk management:

* The critical relevance of robust risk management practices: The findings underscore the importance of strong risk management practices in the effective use of financial derivatives. Banks with a deeper understanding of derivatives, robust training programs, and advanced risk management systems demonstrated better performance (Ahuja & Gupta, 2023).
* Regulatory compliance: The case studies emphasized the significance of adhering to regulatory requirements while dealing with financial derivatives. Responsible and compliant use of derivatives helps mitigate the potential for malfeasance and systemic instability in the banking sector (Verma et al., 2019).
* Continuous monitoring and review of derivative strategies: The research highlights the importance of regularly reviewing and adjusting derivative strategies to adapt to changing market conditions effectively. A proactive approach to risk management ensures banks can respond promptly to emerging risks and opportunities (Banerjee et al., 2018).
* Collaboration and knowledge exchange: The case studies demonstrate the efficacy of industry-wide collaboration and knowledge exchange in enhancing risk management. Banks that actively shared best practices, lessons learned, and industry research exhibited improved risk management effectiveness (Ray & Anuradha Priya Raha, 2023).

Overall, the cross-case analysis illuminates the role of financial derivatives in risk management within the banking industry. By identifying common themes, trends, and divergent findings, we have gained valuable insights into the factors contributing to effective derivative adoption, challenges encountered, and strategies for optimizing risk management practices. These findings offer practical guidance for financial institutions seeking to navigate the dynamic landscape of financial derivatives and strengthen their risk management capabilities. Furthermore, the analysis emphasizes the significance of context-specific approaches tailored to each bank's risk appetite and market dynamics.

## Discussion and Interpretation

A. Comparison of Findings

The purpose of this part is to draw broad conclusions about the banks' use of financial derivatives for risk management by comparing and contrasting the results of the various case studies. The benefits, difficulties, and repercussions of adopting derivatives in banking are all shown by this contrast.

* One of the most important factors to compare is the banks' risk management techniques. Financial derivatives were used by all banks, but there were differences in how each institution handled them. While some financial institutions hedged just against interest rate or market volatility risk, others embraced a broader, more holistic view of risk. The market circumstances, the banks' risk appetite, and the banks' risk management expertise are all on full display here (Khan et al., 2021).
* Additionally, the analysis highlighted discrepancies in the institutions' risk exposure and portfolio management procedures. Banks that took more risks with their loans or had a larger asset concentration used financial derivatives more frequently to mitigate their risk. On the other hand, banks with smaller risk exposure took a more cautious approach, viewing derivatives more as a safety nett than a key instrument for risk management (Ahmad et al., 2023).
* Another important factor that influenced how banks handled risk with derivatives was their organisational culture and their view of risk. Some financial institutions favoured safety and security over risk taking. The derivatives used by these financial institutions were primarily for defensive purposes, with an emphasis on risk management and hedging. However, banks with a more adventurous outlook saw derivatives as a way to boost profits and expand. These financial institutions were more prone to use derivative tactics for speculation (Khan & Faisal, 2023).
* Another area where the banks were compared was in their interactions with one another as counterparties in derivative transactions. In order to execute transactions more efficiently and lower their exposure to risk, certain banks kept up long-term relationships with reliable counterparties. While others took a more flexible strategy, working with a wide variety of counterparties to increase their access to capital and take advantage of market conditions. Risk exposure in derivative transactions is affected by the banks' counterparty selection and due diligence procedures (Brahmaiah, 2022).

Through this comparison, we learn more about the external influences, internal dynamics, and risk management procedures that determine the banking industry's usage of financial derivatives. Since no two institutions or market environments are identical, it stands to reason that financial institutions need to adjust their derivative strategy accordingly.

The results also stress the need to evaluate findings in light of the larger industrial context and regulatory environment. Banks' risk management strategies and their utilisation of financial derivatives are affected by regulatory frameworks and supervisory practises. Derivative trades and market integrity benefit from strict adherence to regulatory guidelines.

This data analysis takes an in-depth look at how banks are utilising financial derivatives for risk management. It exemplifies the many strategies, difficulties, and potential benefits that banks encounter while utilising derivatives for risk management. These findings will help banks, regulators, and other industry players create more robust risk management methods.

B. Theoretical Framework

This section presents the theoretical foundation that underpins our investigation into the role of financial derivatives in risk management within the banking industry. By incorporating relevant theoretical frameworks, we aim to better understand and interpret the findings of our study. But if we want our findings to be taken seriously, we need to be honest about the caveats and inherent biases in each hypothesis.

1. Agency Theory: The concept of "agency theory" has been studied extensively in the fields of business and management. Information asymmetry and divergent interests are hypothesised to lead to friction between shareholders and management. Agency theory provides an explanation for how the use of derivatives might bring together the interests of shareholders and managers in the context of risk management. The ability of derivatives to reduce risk protects shareholder money from the damage that may be caused by management choices.

Limitations and Potential Biases: Agency theory may oversimplify the intricacies of real-world interactions inside financial institutions, despite providing useful insights into the alignment of interests between shareholders and management. Risk management choices can also be impacted by intangibles including organisational norms, personal drives, and environmental factors.

1. Resource-Based View (RBV): The RBV stresses the value of a firm's special assets and skills in creating and keeping an edge in the market. The RBV provides insight into the use of derivatives as strategic tools by banks by revealing how banks utilise their expertise, infrastructure, and talent in risk management. The RBV viewpoint stresses the need of skill development in risk assessment, pricing, and portfolio management for maintaining a competitive edge.

Limitations and Potential Biases: However, exogenous variables, like as regulatory changes and macroeconomic developments, can have a significant influence on derivatives usage, which the RBV may not completely account for (Safari & Saleh, 2020).

1. Institutional Theory: Institutional theory investigates the ways in which prevailing social and legal norms have an effect on and form institutions. Institutional theory sheds light on the factors (such as industry norms, regulatory mandates, and market expectations) that influence the strategies and practises of financial institutions with regards to derivatives risk management. It stresses the importance of financial institutions' compliance and regulation adherence while evaluating their methods for controlling derivatives risk.

Limitations and Potential Biases: It's possible that institutional theory doesn't adequately account for the myriad of contextual and idiosyncratic elements that influence how different banks handle derivatives risk. It runs the risk of ignoring institution-specific practises and innovations (Liu et al., 2022).

1. Contingency Theory: According to the principles of contingency theory, no single method of managing a company is optimal in every situation. Effective management, on the other hand, requires harmony between internal and external factors. Using contingency theory, we may learn how variables like bank size, complexity, risk appetite, and market conditions affect the ways in which banks handle risk management using derivatives. It stresses the significance of individualising a bank's derivatives risk management approach (Safari & Saleh, 2020).

Limitations and Potential Biases: While useful for gaining insight into how risk management strategies may be adapted to new circumstances, the complex interplay of elements and dynamic changes that financial institutions must account for in their quest of efficient risk management via derivatives may be beyond the scope of contingency theory.

It is important to recognise that no theory can fully contain all aspects of derivatives risk management, despite the fact that the selected theoretical frameworks provide vital insights into the use of financial derivatives for risk management. Stakeholder theory, behavioural finance, and market efficiency theory are only a few examples of other viewpoints that could provide light on the events under study.

In summary, our theoretical framework provides a solid basis for interpreting the findings and understanding the underlying dynamics of financial derivatives' usage for risk management in the banking industry. By considering the interaction of agency relationships, firm-specific resources, institutional constraints, and contingency considerations, we gain valuable insights into banks' risk management techniques employing derivatives.

C. Practical Implications

The findings of this study offer valuable insights that can significantly benefit financial institutions and professionals involved in risk management with financial derivatives. By considering and implementing the following actionable recommendations, banks can enhance their risk management practices and achieve better outcomes:

* Holistic Risk Assessment: Financial institutions should adopt a comprehensive approach to risk assessment, encompassing not only market risk but also credit risk and interest rate risk. Understanding the full spectrum of risks enables banks to develop more effective risk management plans. Integrating financial derivatives into these plans as hedging instruments can help mitigate risk exposure effectively. It is essential to carefully select the appropriate derivatives instruments and determine optimal hedging ratios to maximize risk reduction (Ahmad et al., 2023).
* Robust Risk Governance and Compliance: The study emphasizes the significance of establishing robust risk governance frameworks and regulatory compliance in derivatives risk management. Banks should implement transparent rules and processes that align with regulatory standards and industry best practices. Derivatives risk tracking, reporting, and management may be improved with the use of cutting-edge risk management tools and technology. Effective and consistent risk governance may be maintained by routine risk assessments and external audits (Banerjee et al., 2018).
* Knowledge and Skill Development: Banks should put money into continuing education for their risk management employees so that they can make educated judgements when employing financial derivatives for risk management. Derivative pricing, valuation models, and risk measurement tools should all be included in training programmes. Financial institutions can benefit from working with outside consultants and specialists because of the increased knowledge and insights they give (Ahuja & Gupta, 2023).
* Advanced Technology Infrastructure: Effective derivatives risk management necessitates a well-developed information technology and data system foundation. Advanced risk modelling software, real-time data analytics, and automated report production are all examples of state-of-the-art risk management technologies that financial institutions could take use of. These tools empower banks to better analyze and manage risk exposure associated with derivatives, ensuring timely and well-informed decisions (Bartram, 2012).
* Collaboration and Knowledge Sharing: The research highlights the benefits of collaboration and information sharing among financial institutions and industry players. Participating in industry forums, disseminating anonymized case studies, and exchanging knowledge and strategies for derivatives risk management can lead to collective learning and the establishment of industry standards. Such collaborative efforts contribute to the continuous improvement and advancement of risk management practices (Brahmaiah, 2022).

By implementing these recommendations, banks can strengthen their risk management practices, reduce exposure to risks associated with financial derivatives, and bolster their overall organizational resilience. Regularly reviewing and revising risk management methods will allow banks to adapt to changing market circumstances, new regulations, and emerging threats effectively. Embracing these practical implications will position financial institutions to achieve better risk-adjusted performance and sustainable growth in the dynamic landscape of the banking industry.

## Limitations and Future Research

This study on the use of financial derivatives for risk management in the banking sector has some inherent limitations that warrant acknowledgment. Firstly, the research relies on qualitative analysis of case studies, which may limit the generalizability of the findings to a broader population of financial institutions. The sample size of case studies may also be limited, and the selection process might introduce bias. Furthermore, the study's focus on Indian banks may restrict the applicability of findings to other geographical regions with different market conditions and regulatory environments. Additionally, data availability and quality might impact the depth of analysis and conclusions drawn from the study.

To build upon this research, future studies could adopt a mixed-methods approach, combining qualitative case studies with quantitative analysis to enhance the robustness of findings. More banks from more countries would provide a more representative sample from which to extrapolate trends in derivatives' use and risk management. Further understanding might be gained by examining how various derivatives and risk management measures affect banks' bottom lines. Moreover, policymakers and practitioners alike might benefit from longitudinal research analysing the long-term implications of derivatives usage on banks' risk profiles and profitability. Finally, investigating the impact that new regulations and technologies have on derivatives use and risk management may yield useful insights for the developing banking sector.

## Chapter Conclusion

This dissertation has examined the world of financial derivatives and its vital function in the banking industry's risk management. We learned a great deal about the various methods banks use to manage risk with derivatives through qualitative research into case studies. The results showed certain recurring ideas, such the use of derivatives to lessen reliance on single assets and increase liquidity.

Contrasting approaches were also evident, highlighting the importance of tailoring risk management strategies to each bank's unique circumstances and risk appetite. Regulatory compliance emerged as a key factor, emphasizing the need for responsible and transparent derivative usage to mitigate malfeasance and systemic instability.

The theoretical framework provided a solid grounding for interpreting the results, offering a prism through which to understand the dynamics of derivatives' role in risk management. While the study's limitations were acknowledged, the research contributes to the field by providing actionable recommendations for financial institutions to enhance risk management practises using derivatives.

Overall, this study reinforces the significance of effective risk management in banking through the use of financial derivatives and contributes to the ongoing discourse surrounding sound financial practices and stability in the banking industry. It is our hope that this research will aid banks, policymakers, and other stakeholders in making informed decisions to fortify their risk management approaches, ultimately fostering a more resilient and secure banking sector.

# Conclusion

## Restatement of Main Research Question

This dissertation sought to answer the main research question: How can financial derivatives be effectively utilized for risk management in the banking industry? Through an in-depth qualitative analysis of case studies, the study delved into the role of financial derivatives in enhancing banks' risk management practices and their overall organizational performance. The results provided a thorough picture of the methods used by various financial institutions and the results obtained via the use of financial derivatives. By answering the primary research question, this study provides important new information that can be used by banks, regulators, and policymakers to better manage risk and build a secure financial system.

## Main Findings

The primary results of this study emphasise the significance of financial derivatives in improving banking risk management. Several major themes and trends emerged from a cross-case examination of several financial organisations, providing insight into the efficient use of derivatives for risk mitigation.

The study found, first and foremost, that options, futures contracts, and swaps are often used by financial organisations to mitigate risk. Banks may hedge their investment portfolios and risk exposure with these products, providing them with greater flexibility in the face of interest rate swings, credit risk, and market volatility.

One further important discovery is the need to diversify investment across different markets and asset classes. Banks and other financial institutions knew they could reduce their exposure to risk and losses in volatile markets by utilising derivatives to diversify their portfolios. The bank's bottom line was protected from market downturns thanks in large part to this risk diversification approach.

The report also noted that financial derivatives have the ability to increase banks' liquidity. Derivatives helped financial institutions take advantage of profitable market opportunities and better weather strong market swings by allowing them to swiftly alter risk exposure, respond to market volatility, and optimise portfolios.

Financial derivatives have varying degrees of success among institutions, as was discovered by the study's contradicting findings. The complexity of derivative instruments, fluctuating market circumstances, and the excellence of certain institutions' risk management practises made it difficult for others to reap the benefits of using derivatives for risk management and reduction.

There are major repercussions of these results for the financial sector to consider. In order to weather market volatility and financial shocks, institutions must practise strict risk management. Financial derivatives may provide banks an edge and boost performance if they are used in a way that is consistent with their risk tolerance and expertise.

The findings of this study can help financial institutions improve their risk management strategies by encouraging them to take a more comprehensive approach to risk assessment, taking into account a wider variety of risks, and using suitable derivatives instruments. To guarantee efficient and ethical use of financial derivatives, the research also highlights the significance of following regulatory requirements and maintaining strong risk governance systems.

Overall, the findings highlight the significance of financial derivatives in improving banking risk management. Financial institutions, regulators, and policymakers may all benefit from these results, which offer direction for strengthening risk management, bolstering stability, and making the banking industry more resilient in the face of changing market conditions.

## Discussion of Findings in light of Research Objectives

In the introduction, we mentioned that we were interested in studying the effects of financial derivatives on a company's bottom line, stability, and competitiveness, as well as how banks employ derivatives for risk management. Let's analyse whether or not this research accomplished its goals.

First, the study gave a comprehensive look at the banking industry's use of financial derivatives for risk management by studying case studies from a range of financial institutions. Derivative financial instruments such as options, futures contracts, and swaps were found to be used by banks as a hedge against interest rate risk, credit risk, and market volatility, as demonstrated by the study's findings. This study does a fantastic job of explaining how various businesses normally deal with risk.

Second, the research looked into the difficulties encountered by financial institutions when attempting to implement risk management strategies that use derivatives. The underlying difficulties of dealing with derivative goods, the risks of dealing with counterparties, and the necessity of satisfying regulatory criteria were all shown by the cross-case study. These findings provide light on the difficulties financial organisations face when trying to implement derivatives for risk management.

The effects of banks' usage of derivatives on profitability, stability, and competitiveness were also evaluated. Financial derivatives were shown to have the ability to improve company outcomes, strengthen security, and protect investment capital. Proactive financial institutions were better equipped to take advantage of opportunities, optimise portfolios, and withstand market fluctuations because of their approach to derivatives.

In doing so, it contributes to our understanding of how financial derivatives are employed in the management of banking risk by drawing connections between the study's findings and its objectives. The findings of this study may be put to use in the real world to enhance risk management, risk assessment, and governance in the financial sector. Findings like this will help policymakers and regulators craft frameworks that ensure derivatives are used safely and effectively.

In sum, the goals of this study were met since we now know how banks use financial derivatives to manage risk, we understand the obstacles they face, and we can see the good effects these derivatives have on profitability, stability, and competitiveness. The results are an important advance in the study of financial derivatives and risk management, giving stakeholders the tools they need to navigate the complicated and ever-changing financial sector.

## Limitations

It is important to recognise the limits of this study in order to guarantee a complete understanding of the usage of financial derivatives for risk management in the banking industry.

The size and scope of the sample used in the study are two major caveats. The very small sample size may not depict all of the banking industry's practises, despite efforts to choose varied and representative case studies from different financial organisations. More information on the risks and rewards of using derivatives may have been gleaned from a more numerous and diversified sample.

Secondly, the qualitative nature of the research poses certain limitations. While the in-depth analysis of case studies allowed for detailed insights, it might not fully capture the quantitative aspects of derivatives' impact on profitability and risk reduction. Future studies could incorporate quantitative data to complement the qualitative findings and provide a more comprehensive evaluation.

Thirdly, the availability and accessibility of data from financial institutions could be challenging. Some institutions may be reluctant to share sensitive information related to derivatives usage and risk management strategies. Consequently, data gaps and potential bias in case selection may impact the research's completeness and objectivity.

Moreover, the study primarily focuses on the Indian banking sector, and the findings may not be directly transferable to other financial markets and regulatory environments. Cultural, institutional, and regulatory differences across regions could influence the application and effectiveness of financial derivatives in risk management.

Despite these limitations, this research contributes valuable insights to the understanding of financial derivatives' role in banking risk management. By acknowledging these limitations, we recognize the need for further research and more comprehensive data analysis to enhance the generalizability and robustness of findings. Future studies could consider larger sample sizes, combine qualitative and quantitative approaches, and encompass diverse global financial markets for a more comprehensive understanding of derivatives usage and its impact on the banking industry.

## Practical Applications

The practical applications of the findings from this research offer valuable guidance for banks and financial institutions seeking to enhance their risk management strategies effectively.

Firstly, the study highlights the significance of adopting a holistic risk assessment approach that encompasses various types of risk, including market risk, credit risk, and interest rate risk. Banks may improve their risk management strategies, such as the tactical use of financial derivatives, by conducting thorough risk identification and assessment. To do this successfully, one must pick the right derivatives instruments and calculate the right hedging ratios.

As a second point, banks and other financial institutions may gain from improving risk governance structures and adhering to all relevant regulations. To ensure compliance with regulatory requirements and market best practises, the use of derivatives should be governed by clear rules and protocols. Investment in risk management systems and cutting-edge technology can improve the monitoring, reporting, and control of derivatives' risks. Independent audits and periodic risk assessments can help ensure the effectiveness of risk governance frameworks.

Third, improving the risk management team's understanding and ability to use financial derivatives effectively is crucial. A bank's risk management staff would benefit from training in derivatives pricing, valuation models, and risk assessment techniques. Working with outside experts and professionals can yield fruitful results.

Fourth, the research emphasises the need of having a solid data and technological infrastructure to enable effective derivatives risk management. Complex risk modelling software, real-time data analytics, and automated report production are all examples of cutting-edge risk management technology that banks and other financial organisations should implement. The use of these instruments improves the ability to manage and track exposures to derivatives.

Lastly, collaboration and information sharing within the industry can be advantageous for banks. Sharing knowledge and strategies for derivatives risk management through industry forums and anonymized case studies can promote collective learning and the establishment of industry standards.

By implementing these practical applications, banks and financial institutions can optimize their risk management strategies, reduce exposure to risks associated with financial derivatives, and fortify their overall organizational resilience in an ever-evolving financial landscape.

## Reflection on the Research Process

The research process presented a fulfilling and enlightening journey, albeit with its fair share of challenges. Gathering comprehensive and relevant case studies posed a significant hurdle due to limited accessibility to some data sources. To address this, I employed a meticulous selection process and prioritized sources with detailed information to ensure the reliability and validity of the findings.

Analyzing qualitative data from diverse case studies demanded rigorous effort to identify common themes and trends while acknowledging contradictory findings. To overcome this, I employed thematic analysis and engaged in constant triangulation to validate the conclusions drawn from the data.

Moreover, synthesizing theoretical frameworks required an in-depth understanding of complex concepts. I tackled this challenge by conducting extensive literature reviews and consulting with subject matter experts to ensure accurate representation and interpretation of theories.

In retrospect, the research process offered invaluable insights into financial derivatives and risk management within the banking industry. The journey has deepened my appreciation for research methodology and its impact on generating meaningful contributions to the field.

## Recommendations for Future Work

Quantitative Research: Future studies can expand on the qualitative findings by analysing the effect of financial derivatives on risk management outcomes. Research of this nature can provide statistical proof and deepen our comprehension of the connection between the use of derivatives and the efficiency of risk management.

Research that compares risk management strategies and results across regions or types of financial institutions is useful for this purpose. Researchers may learn more about the factors affecting the use of derivatives in risk management by comparing techniques and outcomes across different contexts.

We can examine how the use of derivatives has impacted the profitability and security of banks over time thanks to longitudinal studies. Examining historical patterns and shifts allows researchers to gauge the viability of derivative-based risk management strategies.

## Contribution to the Field

This dissertation has contributed to our knowledge by providing a comprehensive analysis of the function of financial derivatives in the risk management strategy of the banking sector. The findings provide light on the strategies and obstacles faced by financial institutions and propose solutions to strengthen risk management practises. This research helps us understand what motivates people to employ financial derivatives for risk management.

## Wrap-Up

In conclusion, this dissertation has shed light on the crucial role of financial derivatives in enhancing risk management strategies within the banking industry. Through a comprehensive analysis of case studies and theoretical frameworks, it is evident that financial derivatives empower banks to navigate complex market conditions, strengthen resilience against risks, and improve overall organizational performance. The practical applications of these findings offer financial institutions valuable insights to optimize their risk management practices, leading to greater stability and competitiveness in the dynamic global financial landscape. This research contributes to the field of financial derivatives and risk management by providing a solid foundation for future advancements and fostering a safer and more sustainable banking environment.

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