RISK MANAGEMENT AND ITS IMPLICATIONS IN THE CENTRAL BANK AND COMMERCIAL BANKS IN TANZANIA

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION OF THE OPEN UNIVERSITY OF TANZANIA

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends by the Senate of the Open University of Tanzania a dissertation titled "**Risk Management and its Implications in the Central Bank and Commercial Banks in Tanzania"** in partial fulfillment of the requirements for the degree of Masters in Business Administration.

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Prof. Isaya J. Jairo

(Supervisor)

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DECLARATION

I, Jackson Andrew Nangi hereby declare that this dissertation is my own original work, and has not been presented and will not be presented to any other University or any other institution of higher learning for a similar or any other award.

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Jackson Andrew Nangi

Date..

DEDICATION

This dissertation is dedicated to my family, my wife Claudia and our children Jalen, Jacen and Jaden for their love, patience, and their understanding. Patiently, they allowed me to devote much of the time on this research dissertation.

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ABSTRACT

This study investigated the impact of risk management with the main focus on the approaches adopted by the Central Bank and Commercial banks on the management of assets and liabilities in the financial institutions. The research was quantitative in nature applying questionnaires as an instrument for data collection. Primary and secondary data sources were used too to serve the purpose. Respondents were purposefully sampled. Of the 30 respondents, 26 were working in commercial banks and 4 in the central Bank of Tanzania. The findings show that there are variations in views regarding the best practices or techniques to be employed and opinion about the impact of the measures taken to manage risks. The variation was also noted in relation to the types of risks the Central bank and Commercial banks are facing and on the measures to improve these risks management approaches or techniques. Although there is a general understanding about risk and its management among the staff at various directorates or departments of risks at the Central bank and Commercial banks, still there is a need for these banks to devise a more sophisticated means of identifying the risk exposures.

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LIST OF ABBREVIATIONS

ADIs	–	Authorized Deposit-taking Institutions
BFIA	–	Banking and Financial Institutions Act, 1991
BOD	–	Board of Directors
BOT	–	Bank of Tanzania
CBs	–	Commercial Banks
CBK	–	Central Bank of Kenya
CRB	–	Credit Reference Bureau
GCB&DFIs	–	Risk Management Guidelines for Commercial Banks & DFIs
DECH	–	Dar es salaam Electronic Clearing House
GBFIs	–	Risk Management Guidelines for Banks and Financial Institutions
HEFCE	–	Higher Education Funding Council for England
RMGs	–	Risk Management Guidelines
RMP	–	Risk Management Programme
SFIs	–	Supervised Financial Institutions
SPSS	–	Statistical Package for the Social Sciences
UAE	–	United Arab Emirates
VaR	–	Value at Risk

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

Financial Institutions exist to improve the efficiency of the financial markets. In introducing banking business, banks and financial institutions (hereinafter referred to as ‘institutions’) assume risks in order to realize returns on their investments. Risk is inherent in any walk of life in general and in financial sector in particular. The Bank of Tanzania (BOT) as the Central Bank principally supervises financial institutions. The Central banks are exposing themselves to a variety risks, including market, credit, interest and liabilities. The Central banks and Commercial banks are also exposed to significant reputational and operational risks as well legal risk. Foster (2004, pg. 76) points out that financial risk can be increased, for instance by virtue of policy decisions on foreign currency exposure, particularly reserve assets for currency management reasons. The risks assumed have the potential to wipe out expected returns and may result into losses to the institutions. These losses could be either expected or unexpected. Expected losses are those that the bank knows with reasonable certainty that they will occur (e.g. the expected default rate of corporate loan portfolio or credit card portfolio) and are typically provided for in some manner. Unexpected losses are those associated with economy, falling interest rates, natural disasters, or human action such as terrorism). If savers and investors, buyers and sellers, could locate each other efficiently, purchase assets costlessly, and make their decisions with freely available perfect information, then financials would have little scope for replacing or mediating direct transactions. However, this is not the real world. Thus, in essence risk management as a discipline at the core of every institution. In order to manage risks, an institution must identify existing risks or risks that may arise from both existing and new business initiatives. Once risks have been identified they should be measured in order to determine their impact on the institution's profitability and capital. This can be achieved through putting in place an effective risk management framework.

1.2 Problem Statement

Financial institutions are characterized by many risks in their financial sector as risk is an integral part of the sector's product array. The major problem facing financial institutions in Tanzania is on how to identify the risk profile so as to entail an effectively risk management approach in their banking industry. The risk awareness at the Central bank is at a fairly low level; only 15% of central banks surveyed have an independent risk management unit, Foster (2004). The problems of risk handling in banks thus have been perceived predominantly in terms of 'markets with imperfect information', 'bounded rationality of decision – makers', 'moral hazard' and 'adverse selection' (Stiglitz and Weiss 1981).

The risk of Financial Institution examines the various risks affecting financial institution and explores a variety of methods to help institutions and regulations more accurately measure and forecast risk. Formal responsibility for monitoring and management of risk is still generally decentralized at departmental or head of function level. As a result the focus rest on controlling the risk rather than actively managing the risk itself. According to Hotay (2009) in Tanzania, the survey results conducted on 2004 pointed out three major areas where improvement was required i.e. responsibility for the overall risk management was not clearly assigned in most banks; level of risk management awareness was generally only moderate across the banks and there was no independent review of risk management functions in most banks. Historically, bank supervision focuses primarily on compliance, i.e. on finding contraventions to banking laws rules and regulations regardless of materiality. Bank inspectors relied extensively on transaction testing such as reconciling data, counting cash and securities, and other detailed checking.

This approach is very resource intensive (therefore expensive) and often ineffective (Hotay, 2009). The explanation why managers wish to reduce risk and the approaches taken for mitigation is an inherent part of the financial services offered by these firms. The experience of many developing countries in the 1980 indicates that once a country fail in its management and stumbles into financial distress the resulting cost is enormous. Both economic growth and welfare suffer (Caprio, Honohan and Vittas 2000). The global development since 2000 will have contributed towards a far greater awareness of the need for identification, measurement and management of risk at all levels of the organization. Many would argue that it is not for a central bank to actively manage risk for its own benefit, since this may conflict with its statutory objectives associated with ensuring stability of the financial system and defending currency.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of the study was to investigate risk management and its implications in the Central bank and Commercial Banks. It is understood that banks manage assets and liabilities in the financial institutions.

1.3.2 Specific Objectives

More specifically the study will be:

1. To explore the types of risks facing the Central bank and Commercial banks.
2. To explore measures taken by the Central bank and Commercial banks to manage risks.
3. To assess the impacts of the measures taken by the Central bank and Commercial banks on risk management.
4. To explore the practices and techniques employed by the Central bank and Commercial banks to minimize risks.

1.4 Research Questions

Based on the research problem definition as well as research objectives, the study is designed to answer the following questions:

1. What kinds of risks face the Central bank or Commercial banks?
2. What measures are taken by the Central bank or Commercial banks to manage risks?
3. What are the impacts of the measures taken by the Central bank or Commercial banks on risk management?
4. What practices and techniques employed by the Central bank or Commercial banks to minimize risks?

1.5 Scope of the Study

The study will cover on the Central Bank (referred to as BOT) and some of the CBs operating in Tanzania, preferably located here at Dar es Salaam. Technically the study will dwell on the risk management aspects and its consequences for the same. Moreover, the study will also cover on the measures taken by the Central Bank and CBs to manage these risks and the impacts of the measures taken by both BOT and CBs on managing the same.

1.6 Rationale for the Study

The study intends to shade light on the risk management approaches adopted by the BOT and CBs so as to manage in the sense of avoidance, reduction and mitigation of risk management. Specifically the study will explore on the types of risks facing the BOT and Commercial Banks (CBs), measures taken by the BOT and CBs to manage these risks and finally, the impacts of the measures taken by the BOT and CBs on the risk management. This study is expected to contribute valuable information to the existing body of knowledge and especially on the financial risk management faced by the financial institutions in Tanzania, which reflects on the growth of the country's economy.

Furthermore, the study may be intended to be a benchmark for researchers, various scholars and institutions responsible for formulating policies and regulations on banking and financial risk management, for it is going to curb the current situation of risk management and the impacts of the measures taken.

1.7 Challenges for the Study

During conducting my study several challenges have been encountered as under mentioned:

- First, searching and reading the literature review on the specific subject. It makes it cumbersome for the researcher as the literature review may not be widely available in the existing library. The researcher has to seek for other external sources to get access for broader libraries or more efficient internal search.

- Second, accessibility of where about to undertake the study or collect data, responds from various respondents especially high ranking officers in the sample from different banks.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

In this chapter the literature review is provided to establish an understanding the concept of risk management and giving definitions of various terms in the banking sector. It also explains on the conceptual framework, empirical review and research gap. The implications of risk management at the Central Bank and Commercial Banks in Tanzania form the basis of this study and therefore understanding the existing knowledge about it is imperative.

2.2 Definition of Terms

Financial institution – means any person authorized by or under the Banking and Financial Institutions Act, 1991 to engage in banking business not involving the receipt of money on the current account subject to withdrawal by cheque (BFIA, 1991).

Bank – a bank is a financial Institution authorized to receive money on current account subject to withdrawal by checks (BFIA, 1991).

The Bank of Tanzania (BOT) – is the central bank of the country and as such performs central bank functions without prejudice to the generality of the foregoing, to formulate, implement and be responsible for the monetary policy, to issue currency, to regulate and supervise banks and financial institutions and manage gold and foreign exchange reserves of Tanzania (BOT).

Commercial Banks (CBs) – are institutions authorized to receive money on current accounts subject to withdrawal by checks. There are 29 licensed commercial banks operating in Tanzania. They are the only category of financial intermediaries that are allowed to participate in the interbank clearing and settlement processes (BOT).

Risk – is defined as anything that can create hindrances in the way of achievement of certain objectives (Hassan, 2009). It can be because of either internal factors or external factors, depending upon the type of risk that exists within a particular situation. Exposure to that risk can make a situation more critical. A financial risk in banking organization is possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings or capital or may result in imposition of constraints on bank's ability to meet its business objectives.

Risks Management – is the discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It involves identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and /or impact of unfortunate events or to maximize the realization of opportunities (GCB&DFIs).

2.3 Financial Stability, Risks and Functions of the Financial Systems

Financial stability is important given the critical functions served by the financial system in the economy, namely the intermediation function and the role of the financial system in the payments system and as a channel for the transmission of monetary policy. Weak or poor managed financial institutions or ineffective supervisory authorities could lead to financial instability and thereby, diminish the ability of the financial system in performing its functions effectively. However, the risks associated with the provision of financial services differ by the type of service rendered. There are four main levels of financial intermediation that provide payment services to the Government, corporate bodies and individual customers. The levels are Central bank, Commercial banks (CBs), Non – Bank financial institutions and Service Providers Institutions. Those of originators, distributors, servicers, and packagers are provided more or less on an agency basis. These services facilitate markets access for buyers and sellers of financial instruments and provide little risk to the service provider.

The last two, intermediation and market making, are largely principal businesses. It is in these areas that the financial institution retains the bulk of the risk of the service provided, and where effective risk management is most crucial. Neither an intermediary nor a market maker will be perfectly hedged against all risks, and thus, its investors will bear an array of the financial risks associated with the institution's activities. Inefficient and unstable financial institutions would therefore, be a drag on the economy, misallocate resources and hamper economic growth. The financial system comprising both financial institutions and markets, acts as an intermediary of resources in the economy. This intermediation functions involves the mobilization of resources by providing the means for savers to hold monetary and financial assets. Likewise, poor performance by the sector can highly costly to society, if banking system is prone to instability depositors may avoid placing deposits in the banking system.

2.4 Risk Management

The practice of risk management is a measure that is used for identifying, analyzing and then responding to a particular risk. It is a process that is a continuous in nature and a helpful tool in decision-making process. Most of the theories and practices of risk management have developed enormously in the last two and half decades, Ercel (2000). According to the Higher Education Funding Council for England (HEFCE), risk management is not just used for ensuring the reduction of the probability of bad happenings but it also covers the increase in the likeliness of occurring good things.

A model called “Prospect Theory” states that a person is more likely to take on the risk than to suffer a sure loss. Risk exists as a part of an environment in which various organizations operate (Tchankova, 2002). Banking is a business mostly associated with risk because of its large exposure to uncertainty and huge considerations. Risk management is one of the most important practices to be used especially in banks, for getting assurance about the reliability of the operations and procedures being followed. In today’s dynamic environment, all banks are exposed to a large number of risks such as credit risk, liquidity risk, foreign exchange risk, market risk and interest rate risk, among others – the risks which may create some source of threat far a bank’s survival and success (Al- Tamimi and Al-Mazrooei, 2007).

Due to such exposure to various risks, efficient risk management is required. Managing risk is one of the basic tasks to be done, once it has been identified and known. And, effective risk management leads to more balanced trade-off between risk and reward, to realize a better position in the future (Fatemi and Fooladi, 2006).

It is also realized recently that risk management is essentially more important to be carried upon in the financial sector than any other part of the economy. It makes more sense when it is known that the main purpose of the financial institutions is to maximize revenues and offer the maximum value to the shareholders by facilitating them with a variety of financial services especially by administering risks (Al-Tamimi and Al-Mazrooei, 2007). Risk Management had become a major and highly contentious issue in all industrialized countries and increasingly in developing countries. In Kenya, Uganda and Tanzania the more focus is on the financial sector including banks (EA Banking School, 2006). The prime reason to adopt risk management practices is to avoid the probable failure in future. But, in realistic terms, risk management is clearly not free of cost.

In fact, it is expensive in both resources and institutional disruption. But the cost of delaying or avoiding proper risk management can lead to some adverse results, like failure of a bank and possibly failure of a banking system (Meyer, 2000). Financial risk management refers to the practices used by corporate finance managers and accountants to limit and control uncertainty in the firm's total portfolio. Financial risk management aims to minimize the risk of loss from unexpected changes in the price of currencies, interest rates, commodities, and equities. The institution will eliminate or mitigate financial risk associated with a transaction by a proper business practices, likewise it will shift the risk to other parties through a combination of pricing and product design.

The banking industry recognizes that an institution need not engage in business in a manner that unnecessary imposes risk upon it; nor should it absorb risk that can be efficiently transferred to other participants. In short it should accept only those risks that are uniquely a part of the bank's array of services. There three main categories of risks; credit risk, systematic or market risk, and operational risk. However, there some other categories of risk such as counterparty risk, legal or regulatory risks and environmental risk.

Credit risk: Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting economic loss to the bank. This can affect the lender holding the loan contract, as well as other lenders to the creditor. Therefore, the financial condition of the borrower as well as the current value of any underlying collateral is of considerable interest to its bank. The real risk from credit is the deviation of portfolio performance from its expected value. Accordingly, credit risk is diversifiable, but difficult to eliminate completely.

This is because the portion of the default risk may, in fact, result from the systematic risk outlined below. In addition to direct accounting loss, some portion of these losses remains a problem for creditors in spite of the beneficial effect of diversification on the total uncertainty. This is particularly true for the banks that lend in local markets and ones that take on highly illiquid assets. In such cases, the credit risk is not easily transferred, and accurate estimates of loss are difficult to obtain (Santomero, 1997).

Systematic risk: Systematic risk or sometimes referred as market risk is the risk of asset value change associated with systematic factor. By its nature this risk can be hedged, but cannot be diversified completely away. In fact, systematic risk can be thought of as un-diversifiable risk. All investors assume this type of risk, whenever assets owned or claims issued can change in value as a result of broad economic factors (Santomero, 1997). As such, systematic risk comes in many different forms. However, for the banking sector two are of greatest concern that is variations in the general level of interest rates and the relative value of currencies. Because of the bank’s dependence on these systematic factors, most try to estimate the impact of these particular systematic risks on performance, attempt to hedge against them and thus limit the sensitivity to variations in un-diversifiable factors. Accordingly, most will track interest rate risk closely. They measure and manage the firm’s vulnerability to interest rate variation, even though they cannot do so perfectly. The Systematic or market risk includes.

Liquidity risk

It is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. Liquidity risk is considered a major risk for banks, the risk is seen more correctly as the potential for a funding crisis (GCB&DFIs, pg.27). Such a situation would inevitably be associated with an unexpected event, such as a large charge off, loss of confidence, or a crisis of national proportion such as a currency crisis. In any case, risk management here centers on liquidity facilities and portfolio structure. Recognizing liquidity risk leads the bank to recognize liquidity itself as an asset, and portfolio design in the face of illiquidity concerns as a challenge.

Interest Rate risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition to the movement of interest rates. Changes in interest rate affect earnings, value of assets, liability off – balance sheet items and cash flow (Raghavan, 2003). The various types of interest rate risks are; Gap/Mismatch risk, Basis risk, Embedded option risk, Yield curve risk, Reprice risk, Reinvestment risk, and Net interest position risk. The approach towards measurement and hedging interest rate risk varies with segmentation of bank's balance sheet.

Forex risk

Foreign exchange risk is the risk that a bank may suffer loss as a result of adverse exchange rate movement during a period in which it has an open position, either spot or forward or both in the same foreign currency. By setting appropriate limits – open position and gaps, stop- loss limits, Day Light as well as overnight limits for each currency, individual Gap Limits and Aggregate Gap Limits, clear cut and well defined division of responsibilities between front, middle and back office the risk element in foreign exchange risk can be managed or monitored (Raghavan, 2003).

The most common risk faced by banks is exchange rate risk which emanates from two distinct areas; Foreign exchange business transacted with clients and counterparties, including proprietary trading and Profit or losses arising from the bank's foreign currency deposit and loan books, and operational cash-flows in the foreign currency.

The open position risk arising from client business is relatively easy to identify and measure. However, it is essential that all deals be processed as soon as possible after the trade has been agreed with the client and that authorized dealing personnel are advised of deals of a material size.

Foreign Exchange risk positions arising from a bank's profit and loss account are more difficult to assess accurately. However those banks with material profit flows in foreign currency should carry out an assessment as to the benefits of hedging their risk. As such foreign exchange risk will normally emanate from outside the treasury area, as a matter of best practice, the decision to hedge or not should be taken at a minuted management or asset and liability meeting.

The foreign exchange risks are managed by the Financial Risks Department which is responsible for monitoring and management of financial risks including on-line monitoring and assessment of the Bank's liquidity, interest and currency risks; and preparing internal documents on the Bank's risk management procedures, including the identification, evaluation and control of liquidity, interests and currency risks (Charles, 2004).

Country risk

This is the risk that arises due to cross border transactions that are growing dramatically in the recent years owing to economic liberalization and globalization. It is the possibility that a country will be unable to service or repay debts to foreign lenders in time (Raghavan, 2003). Banks should use variety of internal sources as a means to measure country risk and should not rely solely on rating agencies or other external sources as their only tool for monitoring country risk.

Operational risk: Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or external events. It is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems. Basel Committee (1998) illustrate that operational risk arises from potential loss due to significances in system reliability or integrity. However, poor system reliability and integrity rise due to; poor security, poor system design, implementation and misuse of product or services by customers. Operational risk exists in all products and business activities. The objective of operational risk management is the same as for credit, market and liquidity risks that is to find out the extent of the financial institution's operational risk exposure; to understand what drives it, to allocate capital against it and identify trends internally and externally that would help predicting it.

Legal risk: Legal and regulatory risk arise in financial contracting and are separate from legal ramification of credit, counterparty, and operational risks. Sometimes governments change the law in a way that adversely affects a bank's position. New statutes, tax legislation, court opinions and regulations can put formerly well established transactions into contention even when all parties have previously performed adequately and are fully able to perform in the future (Santomero, 1997).

For example, environmental regulations have radically affected real estate values for older properties and imposed serious risks to lending institutions in this area. The other type of legal risk arises from the activities of an institution's management or employees. Fraud, violations of regulations or laws, and other actions can lead to catastrophic loss.

Counterparty risk: This type of risk comes from non – performance of a trading partner. The non – performance may arise from the counterparty's refusal to perform due to an adverse price movement caused by systematic factors, or from some other political or legal constraint that was not anticipated by the principals (Santomero, 1997). Diversification is the major tool for controlling nonsystematic counterparty risk. Counterparty risk is like the credit risk, but it is generally viewed as a more transient financial risk associated with trading than standard creditor default risk. In addition, counterparty's failure to settle a trade can arise from other factors beyond a credit problem.

Environmental risk: As the years roll by and technological advancement takes place, expectation of the customers change and enlarge. With the economic liberalization and globalization, more national and international players are operating the financial markets, particularly in the banking field. This provides the platform for environmental change and exposes the bank to the environmental risk (Raghavan, 2003). The changed environment in which banks find themselves today presents major opportunities for banks but also entails complex and variable risks which challenge the traditional approach to bank risk management. Traditional banking practice based on deposits and the granting of loans is today only one part of a typical bank's business and in the developed countries is often the least profitable.

2.5 Bank Risk Management Systems and Practical Approach

The banking industry has long viewed the problem of risk management as the need to control four of the above risks which make up most, if not all, of their risk exposure i.e. credit, interest rate, foreign exchange and liquidity risk. While they recognize operational, counterparty, legal and environmental risks, they view them as less central to their concerns. Where operational or counterparty risks are also significant and evaluated using standard risk procedures like other risks. Likewise, most bankers would view legal risks as arising from their credit decisions or, more likely, proper process not employed in financial contracting. Accordingly, the study of bank risk management processes is essentially an investigation of how they manage all these risks. In spite the fact that institutions may have different risk management systems depending on their sizes and complexity.

Why do Banks Manage these Risks at all? According to standard economic theory, managers of value maximizing firms ought to maximize expected profit without regard to variability around its expected value. However, there is now a growing literature on the reasons for active risk management including the work of Stulz (1984), Smith, Smithson and Wolford (1990), and Froot, Sharfstein and Stein (1993). Infact, the recent review of risk management reported in Santomero (1995) lists dozens of contributions to the area and at least four distinct rationales offered for active risk management. These include managerial self- interest, the non-linearity of the tax structure, the costs of financial distress and the existence of the capital market imperfections.

The financial institutions such as commercial banks, savings and loan associations, credit unions, and mortgages and finance companies employ additional financial managers who oversee various functions, such as lending, trust, mortgages, and investments, or programs, including sales, operations. Risk and insurance managers oversee programs to minimize risks and losses that might arise from financial transactions and business operations. Risk managers control financial risk by using hedging and other techniques to limit a company’s exposure to currency or commodity price changes. These areas require extensive, specialized knowledge to reduce firm’s risks and maximize profit.

2.5.1 Risk Management Practices and Guidelines in the Central Bank

The Central banks are traditional risk averse as they manage the national wealth thus operating for the interest of the public in general. Also the Bank of Tanzania (BOT) has legitimate interest in ensuring that institutions operate in a safe manner. A survey was conducted in August, 2004 to determine risk management practices by institutions in Tanzania (GBFIs, 2005). The survey coupled with BOT experience in reviewing risk management practices by institutions, generally revealed the following weaknesses; the level of risk management awareness among board of directors, senior management and staff, the responsibility of risk management is not very clearly assigned and also absence of independent review of risk management systems in some institutions. However, the Central bank risk management is increasingly recognizing that their accounting and financial reporting needs to reflect trends in markets, which regulates. One direct consequence of this is that the central bank needs quickly to understand what the new rules are and how they will impact on the operations and management of risk in banks and in their own activities. Therefore, in a wider context, it is important to understand that the new rules are likely to result in a significant income and capital volatility for the institutions. In the markets that the central bank regulates, there will be some potentially unexpected swings in reported results and the levels of capital, which the regulator will have to anticipate and deal with (Foster, 2004). In addition to the market volatility, is the ability of the central bank to continue to collect meaningful statistical data from the markets as part of its monetary policy.

The recent experience indicates that risks management practices, including the existence of a central risk management function, are only now being developed in many central banks. To enhance risk management practices among institutions BOT has decided to issue Risk Management Guidelines for Banks and Financial Institutions, (RMGs) based on international best practices in risk management. All financial institutions are therefore required to observe these guidelines in the course of conducting their businesses. Also the Bank of Tanzania Act, 2006 and Banking and Financial Institutions Act, 2006, issued various prudential regulations intends to institute prudent practices in different areas of banks operations. These regulations set limits to various banking operations so as to reduce the risk exposure facing banks and financial institutions (BOT, 2005). In addition, the BOT requires each institution to prepare a comprehensive Risk Management Programme (RMP) tailored to its needs and circumstances under which it operates. These guidelines covers five most common risks in banking, at minimum cover these risks; credit, liquidity, interest rate, foreign exchange and operational risks (GBFIs, 2005). Therefore, the practical approach to manage risks starts with risk identification, risk measurement, risk control and finally risk monitoring. There should be a framework comprehensive enough to capture all risks an institution is exposed to and have flexibility to accommodate any change in business activities. The key elements of an effective risk management framework are: active board and senior management oversight; adequate policies, procedures and limits; adequate risk measurement, monitoring and management information systems; and comprehensive internal controls.

2.5.2 Risk Management Practices and Guidelines in the Commercial Banks

The nature and scope of operations between Central Bank and CBs or rather other financial institutions differentiate their approaches of the risk management practices and the guidelines adopted as the degree of competition often entail taking more risk in search of higher returns. Appropriate risk management policies should therefore be put in place. Risk management must start at the top, while the overall responsibility rests with BOD, it is the duty of senior management to transform strategic direction set by board in the shape of policies and procedures and to institute an effective hierarchy to execute and implement those policies (GCB & DFIs, pg.2). According to Greuning and Bratanovic (2003), the objectives and principles of currency risk management should specifically encompass setting of appropriate limits to the risks taken by the bank in its foreign exchange business and establishing measures to ensure that there are proper internal control procedures covering bank's area of business. Banks, in addition to risk management functions for various risk categories may institute a setup that supervises overall risk management at the bank. Such a setup could be in the form of a separate department or bank's Risk Management Committee (RMC) could perform such function. Or specific policies and limits that should be adhered by operational staff are often established by risk management committees (such as asset-liability committee (ALCO)). Such policies define the risk exposure limits, currency position limits, stop loss provision, concentration limit, settlement and counterparty risks.

2.6 Tools and Techniques of Risk Management

In view of the tools and techniques of risk management, there necessary procedures that must be in place to carry out adequate risk management. In essence, what techniques are employed to both limit and manage the different types of risk, and how are they implemented in each area of risk control? The management of the banking firm relies on the sequence of steps to implement a risk management system. These can be seen as containing the following; standards and reports, position limits or rules, investment guidelines or strategies, and incentive contracts and compensation (Santomero, 1997). Generally, these tools are established to measure exposure, define procedures to manage these exposures, limit individual positions to acceptable levels, and encourage decision makers to manage risk in a manner that is consistent with the firm's goals and objectives.

Standards and Reports, the first of these risk management techniques involves two different conceptual activities, i.e., standard setting and financial reporting. The standardization of financial reporting is the next ingredient. Obviously outside audits, regulatory reports, and rating agency evaluations are essential for investors to gauge asset quality and firm level risk. These reports have long been standardized, for better or worse. However, the need here goes beyond public reports and audited statements to the need for management information on asset quality and risk posture.

Position Limits and Rules, a second technique for internal control of effective management is the use of position limits, and/or minimum standards for participation. In terms of the latter, the domain of risk taking is restricted to only those assets or counterparties that pass some pre-specified quality standard. Then, even for those investments that are eligible, limits are imposed to cover exposures to counterparties, credits, and overall position concentration relative to various types of risks. While such limits are costly to establish and administer, their imposition restricts the risk that can be assumed by any individual, and therefore by the organization as a whole.

Investment Guidelines and Strategies, investment guidelines and recommended positions for the immediate future are the third technique commonly in use. Here, strategies are outlined in terms of concentrations and commitments to particular areas of the market, the extent of desired asset – liability mismatching or exposure, and the need to hedge against systematic risk of a particular type. The limits described above lead to passive risk avoidance and/or diversification, because managers generally operate within position limits and prescribed rules. Beyond this, guidelines offer firm level advice as to the appropriate level of active management, given the state of the market and the willingness of senior management to absorb the risks implied by the aggregate portfolio.

Incentive Schemes, to the extent that management can enter incentive compatible contracts with line managers and make compensation related to the risks borne by these individuals, then the need for elaborate and costly control is lessened. However, such incentive contracts require accurate position valuation and proper internal control systems. Such tools which include position posting, risk analysis, the allocation of costs, and setting of required returns to various parts of the organization are not trivial. Notwithstanding the difficulty, well designed align the goals of managers with other stakeholders in a most desirable way (Jensen and Meckling, 1976 and Santomeo, 1984).

2.7 Risk Management Practices in Multinational Corporations

Financial or corporate risks – the risks to a corporation stemming from price fluctuations are pervasive, and directly or indirectly influence the value of a company. Multinational corporations often sell products in various countries with prices denominated in corresponding local currencies. It is widely recognized that as the volatility in exchange rates has increased dramatically after the breakdown of the Bretton Woods system of fixed exchange rates (Smith, Smithson and Wilford, 1990), multinational corporations may have become increasingly vulnerable to exchange risk since short term movements in exchange rates are often not accompanied by offsetting changes in prices in the corresponding countries (Shapiro, 1992). Firms resorted to operational alternatives like establishing plants abroad to minimize exchange rate risk, or to natural hedging by trying to match the currency structure of their assets and liabilities (Santomero, 1995). With the development of the derivatives market, active risk management has become an important part of modern corporate strategy, as can seen from the fact that financial executives in companies all around the world have ranked risk management as one of their most important objectives (Bartram, 2000). However, it is apparent that managers are constantly engaged in hedging activities that are directed at the reduction of unsystematic risk.

In the real world, financial managers and treasurers give a great deal of thought of matters of capital structure and securities design. Additionally, the corporate use of derivatives in hedging interest rate, currency, and commodity price risks is widespread and growing. As an explanation for this clash between theory and practice, imperfections in the capital market are used to urge for the relevance of corporate risk management function. Of course, in perfect capital markets, corporations need not hedge exchange risk at all since investors can do it on their own (Aliber, 1978). In addition to using financial contracts, a firm could manage its risk exposure through operational hedging. An example of an operational hedging policy would be to locate production in a country where significant sales revenues in the local (i.e., foreign) currency are expected.

2.8 Risk Management Guidelines in Kenya and Uganda

The Central Bank of Kenya provides guidelines to all its financial institutions on minimum requirements for risk management systems and framework (CBK, 2011). In view of this followed by the CBK carried out a risk management survey on the Kenyan banking sector in September 2004. The survey was necessitated by the drive to fully adopt Risk Based Supervision and to incorporate the international risk management best practices envisioned in the 25 Basel Core Principles for Effective Banking Supervision.

The survey culminated in the issuance of the Risk Management Guidelines (RMGs) in 2005 and the adoption of the Risk Based Supervision approach of supervising financial institutions in 2005 (CBK, 2011). While the types and degree of risks an organization may be exposed to depend upon a number of factors such as its size, complexity business activities, volume etc, these guidelines cover the most common risks in financial institutions namely; Strategic risk, Credit risk, Liquidity risk, Interest Rate risk, Foreign Exchange risk, Price risk, Operational risk, Reputational risk and Compliance/Regulatory risk. The management of financial institutions need to attach considerable importance to improve the ability to a number of aspects that include identify, measure, monitor and control the overall levels of risks undertaken. All institutions that do not have independent risk management structure must immediately set up units that will concentrate fully on the risk management function.

The Bank of Uganda on a continuous basis issued risk management guidelines to the Supervised Financial Institutions (SFIs). The latest supervised guidelines were issued in February, 2010. At the centre of these guidelines is the importance of good corporate governance which stresses the role of the board of directors in setting the tone at the top. Additionally, the Bank of Uganda is increasing its oversight surveillance capacity through the new methodologies of risk based supervision. There are periodic off-site and on-site examinations of banks' performance based on internationally accepted benchmark. In addition, on its effort to mitigate risks in the banking sector introduced the Credit Reference Bureau (CRB) and would like to request that all SFIs ensure that their borrowers register as this will create a database for managing some of the banking risks.

2.9 Empirical Review

A study which comprised of fifty respondents from five NBC Ltd branches on credit risk management in commercial banks, a case study on NBC Ltd branches at Dar es Salaam done by Maiga (2011) showed that branches have well documented credit risk management policy and the other activities performed to manage the credit risk. The findings also revealed a challenge that NBC bank to comply with the Central bank requirements and to manage credit risk together with other kinds of risk.

Empirical studies made by Amran, *et al.* (2009), explored the availability of risk disclosures in the annual reports of Malaysian companies. The study was aimed to empirically test the characteristics of the sampled companies. The level of risk faced by these companies with the disclosure made was also assessed and compared. The findings of the research revealed that the strategic risk came on the top, followed by the operations and empowerment risks being disclosed by the selected companies.

Hassan (2009), made a study "Risk Management Practices of Islamic Banks of Brunei Darussalam" to assess the degree to which the Islamic banks in Brunei Darussalam implemented risk management practices and carried them out thoroughly by using different techniques to deal with various kinds of risks. The results of the study showed that, like the conventional banking system, Islamic banking was also subjected to a variety of risks due to the unique range of offered products in addition to conventional products. The results showed that there was a remarkable understanding of risk and risk management by the staff working in the Islamic Banks of Brunei Darussalam, which showed their ability to pave their way towards successful risk management.

Al-Tamimi and Al- Mazrooei (2007) provided a comparative study of Bank's Risk Management of UAE National and Foreign Banks. This research helped them to find the three most important types of risks facing the UAE commercial banks were foreign exchange risk, followed by credit risk and then operating risk. They found that the UAE banks were somewhat efficient in managing risk; however the variables such as risk identification, assessment and analysis proved to be more influencing in risk management process.

According to McAleer (2009) the Basel II Accord requires that banks and other Authorized Deposit-taking Institutions (ADIs) communicate their daily risk forecasts to the appropriate monetary authorities at the beginning of each trading day, using one or more risk models to measure Value-at-Risk (VaR). Also examine how risk management strategies performed during the 2008-09 financial crisis, evaluate how financial crisis affected risk management practices, forecasting VaR and daily capital charges, and discuss alternative policy recommendations, especially in light of the financial crisis.

It has become especially important following the 1995 amendment to the Basel Accord, whereby banks and other Authorized Deposit-taking Institutions (ADIs) were permitted (and encouraged) to use internal models to forecast daily VaR (Jorion, 2000). This is one reason why financial managers prefer risk management strategies that are passive and conservative rather than active and aggressive.

Al-Tamimi (2008) studied the relationship among the readiness of implementing Basel II Accord and resources needed for its implementation in UAE banks. Results of the research revealed that the banks in UAE were aware of benefits, impact and challenges associated in the implementation of Basel II Accord. However, the research did not confirm any positive relationship between UAE banks readiness for the implementation of Basel II and impact of the implementation. The relationship between readiness and anticipated cost of implementation was also not confirmed.

Koziol and Lawrenz (2008) provided a study in which they assessed the risk of bank failures. They said that assessing the risk related to bank failures is the paramount concern of bank regulations. They argued that in order to assess the default risk of a bank, it is important considering its financing decisions as an endogenous dynamic process.

2.10 The Research Gap

Of all the study reviewed Maiga (2011), Hassan (2009), Amran, *et al.* (2009), Al-Tamimi and Al-Mazrooei (2007), Al-Tamimi (2008) and Koziol and Lawrenz (2008) different gaps have been identified as follows: A case study on NBC Ltd branches at Dar es Salaam done by Maiga (2011) showed that branches have well documented credit risk management policy and the other activities performed to manage the credit risk. However the study did not seek to look on other kinds of risk or the risk exposures and the role of the Central bank on other final institutions on the implications of risk management. Therefore this study intended to bridge that gap.

Hassan (2009) did a study on the implementation of risk management practices of Islamic banks. Here, the bankers considered these unique risks such as Foreign exchange risk, credit risk and operational risk more serious than conventional risks faced by financial institutions. The gap found in this study is that did not dwell on other aspects of risk management practices and its implications or comprehensive risk management framework. Therefore my study intended to study that gap.

Amran, *et al.* (2009) its study empirically aimed to test the characteristics of the sampled companies. The results indicated that the strategic risk came up on the top, followed by operations and empowerment risks being disclosed by the selected companies. In his study Amran relied on risk disclosure requirements on the sampled companies without considering other financial institutions. Thus this gap was studied in my study to investigate risk management and its implications in Tanzania.

Al-Tamimi and Al- Mazrooei (2007) made a comparative study of Bank's Risk Management of UAE National and Foreign Banks. In their study came up with three most important types of risks facing the UAE commercial banks i.e. foreign exchange risk, credit risk and then operating risk. They found that the UAE banks were somewhat efficient in managing risk; however the variables such as risk identification, assessment and analysis proved to be more influencing in risk management process. The gap studied in this study was to discover the other types of risks or risk exposures and check the risk management at the Central bank as well as the Commercial banks as a whole.

Al-Tamimi (2008) studied the relationship among the readiness of implementing Basel II Accord and resources needed for its implementation in UAE banks. Results of the research revealed that the banks in UAE were aware of benefits, impact and challenges associated in the implementation of Basel II Accord. However, the research did not confirm any positive relationship between UAE banks readiness for the implementation of Basel II and impact of the implementation. Hence this gap was studied in my study. According to McAleer (2009) the Basel II Accord requires that banks and other Authorized Deposit-taking Institutions (ADIs) communicate their daily risk forecasts at the beginning of each trading day, using one or more risk models to measure Value-at-Risk (VaR).

Koziol and Lawrenz (2008) provided a study in which they assessed the risk of bank failures. They said that assessing the risk related to bank failures is the paramount concern of bank regulations. They argued that in order to assess the default risk of a bank, it is important considering its financing decisions as an endogenous dynamic process. In general, Default risk is not an abrupt process to happen suddenly and past experience dictates that, more often than not, borrower's credit worthiness and asset quality declines gradually, which is otherwise known as migration. Default is an extreme event of credit migration (Raghavan, 2003). In my study have intended to bridge that gap of Koziol and Lawrenz on not only looking assessment of default risk on considering its financing decisions or financial exposure. But, there are other default risk caused by accounting exposure or operating exposure or the use of comprehensive Risk Management Programme (RMP) tailored to its needs and circumstances under which the bank operates.

2.11 Conceptual Framework

The study is about investigating risk management and its types, bank risk management systems and practical approach and the guidelines at the central bank and commercial banks, the practices and or tools and techniques employed on risk management. The government policies and security prices which act as an interconnection from the below model between the independent variables i.e. the types of risks and the practical approach and guidelines adopted at the central bank and commercial banks and the dependent variables are the practices and or tools and techniques employed on the risk management. Principally risk management policies on payment systems requires that banks to maintain credit balances in their settlement accounts maintained at the Central Bank. Central bank may lend commercial banks upon pledging government securities of short-term maturities not exceeding three month to maturity as collateral (BOT, 2010). On the pricing policies the BOT hosts all the five clearing houses located at its head office and zonal branches.

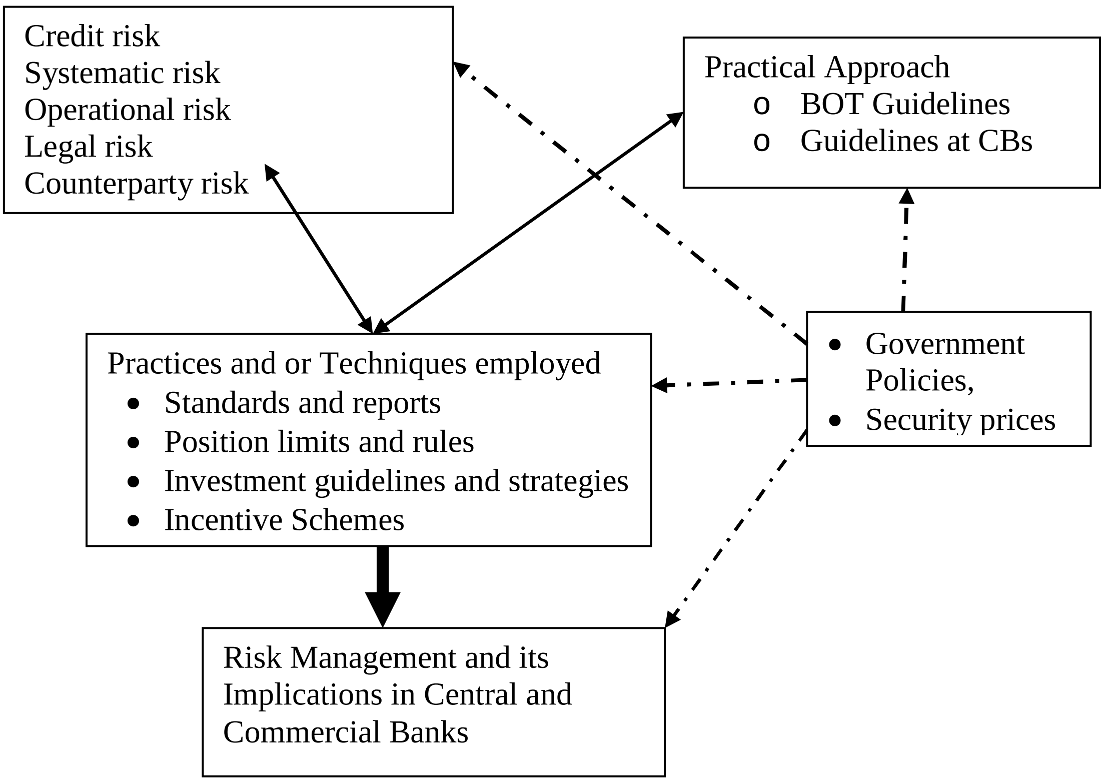

Figure 2.11 Conceptual Framework

Source: **Conceptual Framework (Researcher)**

The Bank meets the costs of operating these clearing houses, save to the maintenance costs of the Electronic Clearing system (DECH). In order to mitigate operational risks the BOT is implementing a Business Continuity and Disaster Recovery programme.

CHAPTER THREE

2.0 RESEARCH METHODOLOGY

This part explained the overall approach to the research process. It covers the research design. However, it represents data collection methods, processing, procedures and administration, analysis techniques used in the study.

3.1 Research Design

This was a plan used as a guide in meeting the objectives of the research (Kombo and Tromp, 2006). The research covered the BOT and Commercial banks (CBs) operating in Tanzania, with the headquarters based in Dar es Salaam. The study employed descriptive and analytical, qualitative and quantitative approaches of data collection.

3.2 Sample and Sampling Procedures

The Central bank and CBs as among financial institutions in the banking industry, its population consists of 29 (BOT, 2010) commercial banks. For this study a sample of 8 was made purposive to get variability about the risk management from the Central bank and other 7 Commercial bank branches. Questionnaires were distributed from 50 respondents and about 30 respondents were responded. The descriptive analysis was made to get variability on the implications of risk management on these banks. Though many scholars argue that sample should be as large as possible from a population, however, successful research is possible from a population with a small sample size of 30 (Cohen and Manion, 1980).

3.3 Data Collection Strategy and Instruments

The research employed both primary and secondary methods of data collection. Primary data collection methods used includes interviews, questionnaires, focus group discussion and documentary review of which the raw data without interpretation or pronouncements that have been filtered will be extracted. For this study the reliability were made from the 50 copies of questionnaires distributed. Secondary data are data collected by someone else for other than solving the problem being currently investigated. In this study source of secondary data includes documentary analysis and literature search such as BOT Publications, newsmagazines, books, journals, internet, or government publications. Data Collection Instruments included: Questionnaires, Documentary Review and Focus Group Discussion.

3.4 The Study Area

For the purpose of this study, units of analysis have been drawn from Dar es Salaam. This is due to budget and time constraint, but also most of the banks are located in Dar es Salaam. Moreover, various economic activities are exercised in Dar es Salaam and center for decision making, that derive from reliable infrastructure and main ministerial offices are based in Dar es Salaam.

3.5 Data Processing Analysis

The data collected were processed and analyzed with the use of computer packages specifically used the Microsoft Office Excel Templates, computer software for qualitative data i.e. SPSS was used for data management analysis. The analysis focused on understanding all factors taken into account that may influence risk management at the central bank and commercial banks (CBs).

CHAPTER FOUR

4.0 FINDINGS, ANALYSIS AND PRESENTATION

4.1 Introduction

In this Chapter, the data that was collected from the field has been presented, analyzed, and discussed. The study aimed at investigating the impact of risk management approaches adopted by the Central bank and CBs on the management of assets and liabilities in the banks and financial institutions.

This Chapter dealt with the characteristics and findings from the Central bank and CBs. Frequency distribution was used to organize data, to give meaning to the response rate and facilitate insight. In the relevant tables the frequency distribution of responses has been ordered from the highest to the lowest occurrences obtained from the responses.

The data have been analyzed using Statistical Package for Social Science (SPSS) which made cross - tabulation of variables possible as well as the Microsoft Excel 2007 which was used to draw tables. Descriptive explanations have been undertaken where the reasons for justification has been cross - checked with the existing literature.

The sample consisted of the Bank of Tanzania (BOT) and some of Commercial Banks (CBs) branches i.e. NBC Ltd – Head Office, CRDB Bank Plc – Azikiwe Branch, FBME Bank – Head Office, Standard Chartered Bank – Head Office, Diamond Trust Bank – Head Office, Azania Bank – Head Office and Akiba Commercial Bank Ltd – Head Office employees from the Directorate of Risk

Management or Department of Risk Management depending on the size and operations of the bank itself.

4.2 Characteristics of Respondents

In this part, the sample characteristics were fully analyzed. For this study, the sample characteristics are the characteristics of the Central bank and CBs employees. The characteristics observed included age, gender, and the education level of the respondents. The reviews of these characteristics provide insight to why the answers of the respondents may vary.

About 50 questionnaires were distributed in various Directorates or Departments of risk management at these banks. Of the 50 questionnaires about 30 questionnaires were returned, 4 from the Central bank, 26 from the Commercial banks and the other 2 questionnaires were not returned. This response rate is about 60% of the distributed questionnaires. This was a good response rate indicating good cooperation from the banks' risk management departments' staff in response. The remaining 40% non-response was due to absenteeism of some of the staff at the banks and also other banks having few numbers of staff at the directorate or department of risk management.

4.2.1 The Age of Respondents

The age range for the majority of the respondents was between 31 and 40 years. This age category had a total of 19 respondents, constituting 63.3% of the total respondents. The second frequent occurring age group was that of the ages between 41 to 50 years; they were 6 respondents. This group constituted 20% of the sample.

The third frequent age group was the age between 20 to 30 years which had 5 respondents making up (16.7%) of total respondents. The age structure shows that the central Bank and CBs composed of a mixture of the different age group.

Table 4.1 Summary Description of the Age of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Between 20 to 30	5	16.7	16.7	16.7
Between 31 to 40	19	63.3	63.3	80.0
Between 41 to 50	6	20.0	20.0	100.0
Total	**30**	**100.0**	**100.0**	

Source: Field Data (2011)

From the findings above, it was noted that the age difference was found that there was no much deviation with respect to age as most fall in the same categories of age. However it was noted that more respondent staffs were aged between 31 to 40 years. Below this age group were few, these might be due to fact that most of them were fresh from universities and they did not have experience on risk management practices. Also there were few between 41 to 50 years age group.

4.2.2 Gender of Respondents

The respondents were asked about gender, the findings depict that 13 (43.4%) of the respondents were male and the rest 17 (56.7%) of respondents were female.

Table 4.2 Gender of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	13	43.4	43.4	43.3
Female	17	56.7	56.7	100.0
Total	**30**	**100.0**	**100.0**	

Source: Field Data (2011)

It was important to identify the gender of respondents to see how the gender balance has spread in the directorates or departments of risk management at these banks. The findings revealed that more female 17 (56.7%) were involved in the study than male constituted to 13 (43.4%) of the total respondents.

4.2.3 Education Level of Respondents

The category that had the most of the respondents in terms of academic level was of Masters 16 (53.3%), and the rest Advanced Diploma or Bachelor degree and other professional qualifications are 7 (23.3%) of the respondents. Data from the table 4.3 below implies that most of respondents who answered questionnaires concerning the impact of risk management approaches adopted by the Central bank and CBs on the management of assets and liabilities in the financial institutions had got masters education level.

Table 4.3 A Summary Description of the Education Level of Respondents

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Advanced Diploma/ Bachelor Degree	7	23.3	23.3	23.3
Masters	16	53.3	53.3	76.6
Professional Qualification	7	23.3	23.3	100.0
Total	**30**	**100.0**	**100.0**	

Source: Field Data (2011)

At this demographic, a researcher believed that knowing education of respondents was good so as to understand their ability on dealing with different issues like risk management that occurred in the organization. Their level of education depicts that they are aware of risk management aspects based on their knowledge.

4.2.4 Position of the Respondents in the Institution

The question was asked to the respondents about position they hold, the finding showed that 2 (6.7%) of respondents holds positions not of manager, assistant manager and head of department, 16 (53.3%) of respondents were Managers, 5 (16.7%) of all respondents were Assistant Managers and the rest 7 (23.3%) of all respondents were Head of Departments.

The findings depict that most of respondents held managerial positions. With these findings it depicts that these staff had great knowledge on managing different situations like different risks that would occur in the institution. To be given a managerial position in an institution means that the person had sufficient knowledge on handling different issues in the institution. From Table 4.4 it can be seen that managers with their assistants and head of departments would have a sufficient experience on risk management and other issues that occurred in banks compared to others.

Table 4.4: Position of the Respondent in the Institution

	Frequency	Percent	Valid Percent	Cumulative Percent
Manager	16	53.3	53.3	53.3
Assistant Manager	5	16.7	16.7	70.0
Head of Department	7	23.3	23.3	93.3
Others	2	6.7	6.7	100.0
Total	**30**	**100.0**	**100.0**	

Source: Field Data (2011)

4.3 Discussion on the Findings

4.3.1 Heard of the Word Risk/Risk Management

The question was asked to all respondents if they had heard of the word risk/risk Management. The findings showed that all 30 respondents making 100% had heard of the word risk/risk management.

Table 4.5 shows that all employees knew about the word risk or risk management. Knowing what it means helped them to design strategies that helped to overcome any risk that would happen at the banks. Risk management encompasses identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause.

Table 4.5 Understanding of the terms risk and risk management

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	30	100.0	100.0	100.0

Source: Field Data (2011)

4.3.2 Type of Risk the Institution Face

The question was asked to the respondents about the type of risk the institution face. The findings showed that out 30 respondents; 26 (86.7%) frequency in occurrence indicates Systematic or Market risk, 25 (83.3%) Credit risk, 24 (80.0%) Liquidity risk, 27 (90.0%) Operational risk, 22 (73.3%) Regulatory risk, 20 (66.7%) Strategic risk and other risk (i.e. Reputational or Compliance) appeared to be 11 (36.7%).

Table 4.6: Type of risk the institution face

	Frequency	Percent	Valid Percent	Rank
Systematic or Market risk	26	86.6	86.6	**2**
Credit risk	25	83.3	83.3	**3**
Liquidity risk	24	80.0	80.0	**4**
Operational risk	27	90.0	90.0	**1**
Regulatory risk	22	73.3	73.3	**5**
Strategic risk	20	66.7	66.7	**6**
Other risk (i.e. Reputational or Compliance)	11	36.7	36.7	**7**

Source: Field Data (2011)

Credit risk occurred when a borrower will fail to make the payments which it is obligated to do. Such an event is called a default. The risk is primarily that of the lender and includes lost principal and interest, decreased cash flow, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. Such as resulting from inadequate controls, human fraud and system errors which render one party unable to fulfill its obligations.

Liquidity risk occurred when a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).

Legal risk is risks that counterparty are not legally able to enter into a contract. Another legal risk relates to regulatory risk, i.e., that a transaction could conflict with a regulator's policy or, more generally, that legislation might change during the life of a financial contract.

An **operational risk**, as the name suggests, a risk arising from execution of a company's business functions. It is a very broad concept which focuses on the risks arising from the people, systems and processes through which a company operates. It also includes other categories such as fraud risks, legal risks, physical or environmental risks. That resulted from external events such as terrorism, vandalism, earthquakes, fires and floods are examples of events that may cause operational risk in an institution.

From Table 4.6 based on the types of risk the data indicates that the Central bank and Commercial banks are faced with the risk. The most risks that the BOT or CBs might face were Operational risk, Systematic or Market risk, Credit risk, Liquidity risk, Regulatory risk, Strategic risk and other risks such as Reputational or Compliance. Since a high number of frequencies in occurrence occurred simultaneously in Operational risk 27 (90.0%), Systematic or Market risk 26 (86.6%), Credit risk 25 (83.3%) and Liquidity risk 24 (80.0%). This indicates that staff respondents agreed that risk was a problem on the BOT and Commercial banks. The Head of directorates or department had a great job to find out different solutions that would enable them to overcome those problems. In their directorates or departments of risk management at the banks.

4.3.3 Risk is among the Problems Facing the Bank

The question was asked to the respondents if the risk is among the problems facing the Bank. The findings showed that 26 (86.7%) of all respondents agreed that risk is among the problems facing the Central Bank or Commercial Banks in Tanzania. The rest 4 (13.3%) of all respondents said no, that is risk is not among the problems facing BOT or CBs.

Table 4.7 Risk is among the Problems facing your Bank?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	26	86.7	86.7	86.7
No	4	13.3	13.3	13.3
Total	**30**	**100**	**100**	**100**

Source: Field Data (2011)

This depicts that risk was among the problems that BOT and Commercial Banks are facing. That’s why there was a need of having good structure of the risk management directorate or department at these banks. The risks that BOT might face were Systematic or Market risk, liquidity risk, operational risk, regulatory risk, strategic risk or other risk like reputation as stated above. On other words in the Commercial Banks the same types of risks may be faced or part. The BOT or CBs need to have good risk management framework to mitigate those problems. Since the high number of respondents 26 (86.7%) admits that risk is among the problem facing the banks as compared to 4 (13.3%) respondents who say risk is not a problem.

4.3.4 Type of Risk Exposure the BOT or CBs Face

The question rose to the respondents on the type of risk exposure the BOT or CBs face. The findings indicates that 13 (43.3%) of all respondents are faced by Financial exposure, 9 (30.0%) of all respondents are faced by Translation or Accounting exposure, the remaining 8 (26.7%) of all respondents are faced by Economic or Operating exposure.

Table 4.8 Type of risk exposure the BOT and CBs face

	Frequency	Percent	Valid Percent	Cumulative Percent
Financial exposure	13	43.3	43.3	43.3
Translation or Accounting exposure	9	30.0	30.0	73.3
Economic or Operating exposure	8	26.7	26.7	100.0
Total	**30**	**100**	**100**	

Source: Field Data (2011)

Financial exposure refers as the possibility that shareholders will lose money when they invest in a company that has debt, if the company's cash flow proves inadequate to meet its financial obligations. When a company uses debt financing, its creditors will be repaid before its shareholders if the company becomes insolvent. Also it refers to the possibility of a corporation or government defaulting on its bonds, which would cause those bondholders to lose money.

Translation exposure refers to risk that a company's equities, assets, liabilities or income will change in value as a result of exchange rate changes. This occurs when a firm denominates a portion of its equities, assets, liabilities or income in a foreign currency.

Economic exposure is the risk that a company's cash flow, foreign investments, and earnings may suffer as a result of fluctuating foreign currency exchange rates.

From Table 4.8 above the data indicates that the Central bank and Commercial banks are affiliated much by risk exposure. The risk exposures that the BOT or CBs might face were Financial, Translation or Accounting and Economic or Operating exposure. The researcher noted that there is high frequency in Financial and Translation or Accounting exposure. Then followed by Economic or operating exposure, this implies that the BOT or CBs have a high possibility that their shareholders will lose money when they invest in a company that has debt, if the bank's cash flow proves inadequate to meet its financial obligation. Or rather the bank's equities, assets, liabilities or income will in value as a result of exchange rate changes. As well as their cash flow, foreign investments, and earnings may suffer too.

4.3.5 Measures Taken by the Institutions to Manage Risks

The question was asked on the measures taken by the Central bank and Commercial banks (CBs) to manage risks. The findings indicated that out of 30 respondents in frequency of occurrence; 24 (80.0%) said most of the measures taken by these institutions to manage risks are Risk management guidelines, followed by 23 (76.7%) respondents who said Risk management plans or management framework policy and procedures, 21 (70.0%) of all respondents said establishment of various units that will proactively determine measures and manage risks, 20 (66.7%) of all respondents said by reviewing various controls and or training on risks, 19 (63.3%) of all respondents said by identification, analysis, management and evaluation process and the remaining 18 (60.0%) of all respondents said monthly and quarterly reporting to respective committees.

Table 4.9 indicates that although all of the above mentioned at a table were important ways that a bank could use to overcome risks problems that might be occurred in the bank, researcher noted that more staffs thought that having good risk management guidelines and risk management plans or management framework policy and procedures would be the best ways that a bank could use as measures to solve those risks problems. One of the consequences of this is that the central bank needs quickly to understand what the new rules are and how they will impact on the operations and management of risk in the banks and their own activities. Therefore, in a wider context, it is important to understand that new rules are likely to result in a significant income and capital volatility for the institutions. To enhance risk management practices among institutions BOT has decided to issue Risk Management Guidelines for Banks and Financial Institutions (GBFIs), RMGs based on international best practices in risk management.

Table 4.9 Measures taken by Institution to Manage Risk

Response	**Frequency**	**Percent**	**Total**	**Rank**
Risk management guidelines	24	80.0	**30**	1
Risk management plans or management framework policy and procedures	23	76.7	**30**	2
Establish various units that will proactively determine measures and manage risks	21	70.0	**30**	3
By reviewing various controls and or training on risks	20	66.7	**30**	4
By identification, analysis, management and evaluation process	19	63.3	**30**	5
Monthly and quarterly reporting to respective committees	18	60.0	**30**	6

Source: Field Data (2011)

All financial institutions are therefore required to observe these guidelines in the course of conducting their businesses. This implies that the practical approach to manage risks starts with risk identification, risk measurement, risk control and finally risk monitoring. There should be a framework comprehensive enough to capture all risks an institution is exposed to and have flexibility to accommodate any change in business activities.

4.3.6 Practices/ Techniques Employed by BOT or CBs to Minimize Risks

The question was asked to all respondents on the practices or techniques employed by the Central bank or Commercial banks to minimize risks. The findings indicated that 19 (63.3%) of all respondents said both Daily, monthly and quarterly reporting and monitoring, Risk management and compliance principles, 14 (46.7%) of all respondents said setting of risk tolerance limits or appetite, 13 (43.3%) of all respondents said establishment of government process to report and deliberate risk issues and 10 (33.3%) of all respondents said assessment of risks in different departments or RCA approach (i.e. Risk and Control Assessment approach).

Table 4.10 Practices/Techniques employed by BOT or CBs to minimize risks

Response	Frequency	Percent	Total	Rank
Daily, monthly and quarterly reporting and monitoring	19	63.3	**30**	1
Risk management and compliance principles	19	63.3	**30**	1
Setting of risk tolerance limits or appetite	14	46.7	**30**	2
Establishment of governance process to report and deliberate risk issues	13	43.3	**30**	3
Assessment of risks in different departments or RCA approach (i.e. Risks and Control Assessment approach)	10	33.3	**30**	4

Source: Field Data (2011)

This implies that frequent daily, monthly and quarterly reporting and monitoring of risk that arose in the banks and having clear risk management and compliance principles would help BOT or CBs to minimize those risks that arose in the banks. BOT and Commercial banks should also have proper setting of risk tolerance limits or appetite so as to make the banks operate effectively. However a researcher noted that, apart from having good management more respondents said that there should be; an establishment of governance process to report and deliberate risk issues. Assessments of risks in different departments or RCA approach (i.e. Risks and Control Assessment approach).

4.3.7 Measures to Improve Risk Management Approaches or Practices

The question was asked to all respondents on the measures to be taken to improve risk management approaches or practices. The findings in frequency of occurrence indicated that 19 (63.3%) of all respondents said there should be continuous assessment of the identified risk, 18 (60.0%) of all respondents said having good and workable policies, 17 (56.7%) said to promote risk aware culture among employees or seniors and or the management acceptance and 16 (53.3%) said instruments of implementation are good.

Table 4.11 Measures to improve risk management approaches or practices

Response	**Frequency**	**Percent**	**Total**	**Rank**
Continuous assessment of identified risks	19	63.3	**30**	1
Having good and workable policies	18	60.0	**30**	2
Promote risk aware culture among employees or seniors and management acceptance	17	56.7	**30**	3
Instruments of implementation are good	16	53.3	**30**	4

Source: Field Data (2011)

From a Table 4.11 more staff respondents thought that a good way to improve risk management approaches or practices in the BOT and Commercial banks was to have clear continuous assessment of the identified risks. So it was a task of the risk management department or the directorate to make sure that they took clear measurement or procedures so as to solve the risks that occurred in the banks. However, in other cases improvement of risk management could be done by having good and workable policies as stated by the staff respondents, and also could be improved by promoting risk aware culture among employees or seniors and or management acceptance. On the other hand if the instruments of implementation are good at these banks.

4.3.8 Impact of the Measures taken by BOT and CBs to Manage Risks

The question was asked to all respondents about the impact of the measures taken by BOT and CBs to manage risks. The findings showed that 23 (76.7%) of all respondents said to put various controls in place to detect and manage risks, 22 (73.3%) of all respondents said effective measures, 20 (66.7%) of respondents said Compliance with regulator (i.e. BOT), 19 (63.3%) of all respondents said to make risk awareness to all staff and conducting in-house training and other 18 (60.0%) of all respondents said risk management activities now performed on only few operations.

Table 4.12 depicts that based on the impact of the measures taken to overcome risks problems in the banks, it was noted that more staffs are aware of the impact of risks now started to put various controls in place to detect and manage risks, effective measures also are taken in their respective directorates or departments of risk management. Other Commercial banks do comply with the regulator (i.e. BOT) on the procedures to be followed on the measures taken to mitigate risk.

Table 4.12 Impact of the measures taken by BOT and CBs in managing risks

Response	**Frequency**	**Percent**	**Total**	**Rank**
To put various controls in place to detect and manage risks	23	76.7	**30**	1
Effective measures	22	73.3	**30**	2
Compliance with regulator (BOT)	20	66.7	**30**	3
To make risk awareness to all staff and conducting in-house training	19	63.3	**30**	4
Risk management activities now performed on only few operations	18	60.0	**30**	5

Source: Field Data (2011)

4.3.9 BOT and CBs Structure of the Risk Management Functions

The question was asked to all respondents about how the BOT or Commercial banks structure the risk management function to achieve an appropriate risk profile. The finding showed that 18 (60.0%) of all respondents said by selection of risk champion from each functional units, 17 (56.7%) of all respondents said they have a proper risk management governance structure and the rest 16 (53.3%) out of 30 said ERM approach (i.e. Effective Risk Management approach).

Table 4.13 depicts that based on the ways BOT or Commercial banks structure the risk management function to achieve an appropriate risk profile in their respective directorates or departments of risk management. By having clear selection of risk champion from each functional unit, a proper risk management governance structure and finally effective risk management approach.

Table 4.13 BOT and CBs structure of the risk management functions

Response	**Frequency**	**Percent**	**Total**	**Rank**
Selection of risk champion from each functional units	18	60.0	**30**	1
Have a proper risk management governance structure	17	56.7	**30**	2
ERM approach (i.e. Effective Risk Management approach)	16	53.3	**30**	3

Source: Field Data (2011)

4.3.10 Identification and Prioritization of Risks in Banks

The question was asked to all respondents about how they ensure that identifying and prioritizing risks appropriately. The findings showed that 22 (73.3%) of all respondents said Reviewing internal controls units, internal auditing, group auditing and supervision auditing by BOT, 17 (56.7%) of all respondents said Analyze and evaluate the identified risks and prioritizing them appropriately, 16 (53.3%) of all respondents said Monitoring of polices, assist in ensuring that this is done, 15 (50.0%) said they conduct a regular risk assessment exercise, 13 (43.3%) of all respondents said have a risk management framework and polices and the rest 10 (33.3%) of all respondents said by using the checklist developed or risk matrix tables.

Table 4.14 Identification and prioritization of risks in Banks

Response	Frequency	Percent	Total	Rank
Reviewing internal controls units, internal auditing, group auditing and supervision auditing by BOT	22	73.3	**30**	1
Analyze and evaluate the identified risks and prioritizing them appropriately	17	56.7	**30**	2
Monitoring of policies, assist in ensuring that this is done	16	53.3	**30**	3
Conduct a regular risk assessment exercise	15	50.0	**30**	4
Have a risk management framework and policies	13	43.3	**30**	5
Using the checklist developed or risk matrix tables	10	33.3	**30**	6

Source: Field Data (2011)

From Table 4.14 above it depicts that having several numbers of risks occurred or that might occur in the Central bank or Commercial banks. The directorate or departments of risk management at the BOT or the Commercial banks ensures that in identifying and prioritizing risks appropriately most of the CBs, they do reviewing their internal controls units, internal auditing, group auditing and supervision auditing by the BOT. Or rather in order to have a proper measures the BOT and Commercial banks analyze and evaluate the identified risks and prioritizing them appropriately, monitoring the policies, assist in ensuring that this is done, or conduct a regular risk assessment exercise. But the other time the Central bank and Commercial banks they may have a risk management framework and policies and or by using the checklist developed or risk matrix tables.

CHAPTER FIVE

5.0 SUMMARY, IMPLICATIONS ON FINDINGS AND CONCLUSION

5. 1 Summary

This study investigates the implications on risk management in Tanzania. The study intends to explore the impact of risk management approaches adopted by the Central bank (BOT) and Commercial banks (CBs) on the management of assets and liabilities in the financial institutions. Further that the study complements to analyze the implication of the regulatory requirements in the sense to avoid, reduce and mitigate risks facing the banks.

Chapter one introduces the background information on the financial institutions its existence to improve the efficiency of the financial markets. The principal supervisory role of the BOT on other financial institutions, the variety of risks exposed to the Central bank and Commercial banks. Also the major problem characterized by these financial institutions in identifying the risk profile to entail an effective risk management approach.

Chapter two surveys on the literature review the introduction part of the same, definitions of various terms about the financial institutions. The chapter focuses also on the financial stability, risks and functions of the financial systems. It has been advocated that the financial stability stem on the importance given on the critical functions served by the financial system in the economy coupled by the intermediation function and the role of the financial system in the payments system and as a transmission channel on monetary policy. The risks associated with the provision of financial services differ by the type of service rendered. The conceptual framework, Bank risk management systems and practical approach, their practices and guidelines at the Central banks and Commercial banks. It has been found that the nature and scope of operations between the Central bank and Commercial banks or rather other financial institutions differentiate their approaches of the risk management practices and the guidelines adopted as the degree of completion often entail more risk in search of higher returns. The practical approach to manage risks starts with risk identification, risk measurement, risk control and finally risk monitoring.

In Chapter three, it explains the overall approach to the research process the research design, the sampled data, data collection and the data processing analysis. As the data were processed and analyzed using the Microsoft Office Excel Templates and the computer software for qualitative data i.e. SPSS was used for data management analysis. The analysis focused on understanding all factors taken into account that may influence risk management at the BOT and Commercial banks (CBs).

In Chapter four, the findings, analysis and presentation of the data from the field were made. As it was noted earlier the study aimed at investigating the impact of risk management approaches adopted by the Central bank and CBs on the management of assets and liabilities in the financial institutions. Each of the findings is shown separately on each table from Tables 1 to 14 and the findings indicate encouraging results.

5.2 Implications on the Findings

This study intends to explore the impact of risk management approaches adopted by the Central bank and Commercial banks on the management of assets and liabilities in the financial institutions. As mentioned earlier from the problem statement that financial institutions are characterized by many risks in their financial sector as risk is an integral part of the sector's product array. And the risk awareness at the Central bank is at a fairly low level; only 15% of the central banks surveyed have an independent risk management unit (Foster, 2004). The study reveals that there is an implication of risk management as this depicted from the findings presented. Further that results from the field data also indicates that 24 (80.0%) of the frequency of occurrence adopted the risk management guidelines as a measure taken to manage risks, 23 (76.7%) use risk management plans or management framework policy and procedures and 21 (70.0%) establish various units that will proactively determine measures to manage risks.

In the literature review some tools and techniques were pointed out to carry adequate risk management, such as standards and reports, position limits and rules or rather incentive schemes. From the results obtained it shows that daily, monthly and quarterly reporting and monitoring, risk management and compliance principles and setting of risk tolerance limits or appetite are the best practices or techniques employed by the BOT or Commercial banks to minimize risks.

According to amendment to the Basel Accord the banks and other Authorized Deposit-taking Institutions (ADIs) were permitted and encouraged to use internal models to forecast daily Value at Risk (Jorion, 2000). This is one reason why financial managers prefer risk management strategies that are passive and conservative rather active and aggressive. From the findings the best measures to improve risk management approaches or practices are continuous assessment of identified risks 19 (63.3%), having good and workable policies 18 (60.0%) and to promote risk aware culture among employees or seniors and management acceptance (i.e. 17 (56.7%). The then later the assessment of the impacts of the measures taken are clearly defined like to put various controls in place to detect and manage risk. The ways BOT or CBs structure the risk management function to achieve an appropriate risk profile are such as selection of risk champion from each function units, or having proper risk management governance structure. Reviewing internal controls units, internal auditing, group auditing and supervision by BOT or analyze and evaluate the identified risks and prioritizing them appropriately seems to be the most ways in which BOT or CBs to ensure that they identifying and prioritizing risks appropriately.

5.3 Conclusion

From the descriptive and analytical results, it is concluded that there is a general understanding on the implications of risk management at the Central bank and Commercial banks in Tanzania. The study reveals that most of the daily operations that are performed at these banks are risky by nature. The most critical types of risks include: Operational risk, Systematic or Market risk, Credit risk, Liquidity risk, Regulatory risk, Strategic risk and other risks such as Reputational or Compliance. The recent experience indicates that risks management practices, including the existence of a central risk management function, are only now being developed in many central banks. And the nature and scope of operations between the Central bank and Commercial banks or rather other financial institutions differentiate their approaches of the risk management practices and the guidelines adopted as the degree of competition often entail taking more risk in search of higher returns. Therefore the practical approach to manage risks starts with risk identification, risk measurement, risk control and finally risk monitoring. There should be a framework comprehensive enough to capture all risks an institution is exposed to and have flexibility to accommodate any change in business activities.

5.4 Recommendation

Although the nature and scope of operations between the Central bank and Commercial banks or rather other financial institutions differentiate their approaches of the risk management practices and the guidelines adopted in an open market operations with various risks environments. The BOT will continue to be a key component of any successful liberalization and modernization of sophisticated means of risk management in the banking industry. The Central bank needs to execute a more efficient and competitive financial system capable of operating with lower financial intermediary of the financial institutions.

The capacity of the Commercial banks also to lower risks should specifically encompass setting of appropriate limits to the risks taken by the bank in its business operation and establishing measures to ensure that there are proper internal control procedures covering bank’s area of business. Such a move will force banks to limit a company’s exposure to currency or commodity price changes. Or rather be forced to adjust other factors affecting the net profit other than the risk.

To ensure that the financial institutions operates in unforeseen situation of risks as coupled by BOT experience in reviewing risk management practices by institutions. Generally to reveal weaknesses; the level of risk management awareness among board of directors, senior management and staff, the responsibility of risk management is not very clearly assigned and also absence of independent review of risk management systems in some institutions. In addition, the BOT requires each institution to prepare a comprehensive Risk Management Programme (RMP) tailored to its needs and circumstances under which it operates.

5.5 Study Limitation and Future Research

Apart from the earlier challenges mentioned in this study. The study particularly limited by lack of statistical data on trends of risk management from these banks. Consequently, the study has whole relied on focus group discussion, field data presentation and some other researchers’ reports as acknowledged in references. However, it is recommended that studies are needed for specific type of risk and methods or approaces adopted at the Central bank and Commercial banks.

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APPENDICES

Appendix A: QUESTIONNAIRE

(For BOT)

Introduction and informed consent

I am interested in finding out risk management at the Central Bank. The researcher is a student of Masters of Business Administration at the Open University of Tanzania. This study is carried out as partial fulfillment of the requirements of the degree mentioned above.

The findings of this study will lead to clear understanding of the risk management at the BOT and will provide the basis for improvement of risk management process with this institution. Please assist by answering the under mentioned questions as honesty as possible. The information you will give will be treated confidential and used solely for the purpose of this study. There is no need for you to disclose your name unless you wish to do so. Thank you in advance for your time and cooperation. I greatly accord for your contribution in this research.

Kindly fill the blank spaces and put a tick {√} in the right answer for the multiple choice questions:

1. Name of the Institution……………………………………………………….…..

2. Your age

 □ between 20 to 30 years

 □ between 30 to 40 years

 □ between 40 to 50 years

□ between 50 to 60 years

□ or above 60 years

3. Your education level

□ Advance secondary certificate

□ Diploma

□ Advance Diploma/ Bachelor Degree

□ Master Degree

□ PhD

□ other (Please specify) ……………………………………………………………

4. What is your position in this institution…………………………………………….

5. Have you ever heard of the word risk/risk management?

□ Yes

□ No

6. What type of risk your institution face:

□ Systematic or Market risk

□ Credit risk

□ Liquidity risk

□ Operational risk

□ Regulatory risk

□ Strategic risk

□ others (Please specify) ……………………………………………………

7. Is the risk among the problems facing the Central Bank?

□ Yes

□ No

8. What type of risk exposure does the Central Bank face?

□ Financial exposure

□ Translation or Accounting exposure

□ Economic or Operating exposure

9. Which directorate/department deals with risk management?

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10. What measures are taken by the Central Bank to manage risks?

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11. Can you describe your opinion about the impact of the measures taken by the Central Bank to manage risks?

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12. What are the practices/techniques employed by the Central Bank to minimize risks?

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13. How can the Central Bank structure the risk management function to achieve an appropriate risk profile?

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14. How can they ensure that they are identifying and prioritizing risks apropriately?

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15. What measures do you think will improve risk management approaches or best practices?

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Appendix B: QUESTIONNAIRE (For Commercial Banks)

Introduction and informed consent

I am interested in finding out risk management at the Commercial banks (CBs). The researcher is a student of Masters of Business Administration at the Open University of Tanzania. This study is carried out as partial fulfillment of the requirements of the degree mentioned above.

The findings of this study will lead to clear understanding of the risk management at the Commercial banks and will provide the basis for improvement of risk management process with this institution. Please assist by answering the under mentioned questions as honesty as possible. The information you will give will be treated confidential and used solely for the purpose of this study. There is no need for you to disclose your name unless you wish to do so. Thank you in advance for your time and cooperation. I greatly accord for your contribution in this research.

Kindly fill the blank spaces and put a tick {√} in the right answer for the multiple choice questions:

1. Name of the Institution………………………………………………………….………..

2. Your age

   □ between 20 to 30 years

   □ between 30 to 40 years

   □ between 40 to 50 years

   □ between 50 to 60 years

   □ or above 60 years

3. Your education level

□ Advance secondary certificate

□ Diploma

□ Advance Diploma/ Bachelor Degree

□ Master Degree

□ PhD

□ other (Please specify) ……………………………………………………………

4. What is your position in this bank…………………………………………………

5. Have you ever heard of the word risk/risk management?

□ Yes

□ No

6. What type of risk does your bank face:

□ Systematic or Market risk

□ Credit risk

□ Liquidity risk

□ Operational risk

□ Regulatory risk

□ Strategic risk

□ others (Please specify) …………………………………..……………………

7. Is the risk among the problems facing your bank?

□ Yes

□ No

8. What type of risk exposure does your bank face?

□ Financial exposure

□ Translation or Accounting exposure

□ Economic or Operating exposure

9. Which directorate/department deals with risk management?

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10. What measures are taken by your bank to manage risks?

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11. Can you describe your opinion about the impact of the measures taken by your bank to manage risks?

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12. What are the practices/techniques employed by your bank to minimize risks?

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13. How can your bank structure the risk management function to achieve an appropriate risk profile?

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14. How do you ensure that you are identifying and prioritizing risks appropriately?

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15. What measures do you think will improve risk management approaches or best practices?

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