UNDERSTANDING RISK MANAGEMENT PRACTICES IN COMMERCIAL BANKS: THE CASE OF THE EMERGING MARKET

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Abstract

This study examines how risk management practices can be influenced by factors, including understanding risk management, risk assessment & analysis, risk identification, risk monitoring and credit risk analysis in commercial banks of Pakistan. The collected data satisfied the reliability requirement and regression and correlation analyses were adopted. The results suggest that understanding risk and risk management (URM), risk assessment and analysis (RAA), risk identification (RI), risk monitoring (RM) and credit risk analysis (CRA) have positive significant impact on risk management practices (RMP). This suggests that commercial banks in Pakistan need to pay attention to URM, RAA, RI, RM and RA. Moreover, RM and RAA are prominent variables which influence RMP; therefore commercial banks of Pakistan should focus on RM and RAA.

Keywords: Commercial Banks, Risk Management Practices, Risk Analysis, Pakistan, Risk Management, Risk Monitoring

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1. INTRODUCTION

Risk can cause troubles in the way of success of achieving certain objectives. Risk can be influenced by any external or internal factors, depending upon the sort of risk within a particular case. Exposure to risk can lead to serious consequences. The best way to deal with risk in such circumstances is to take practical measures to recognize any sort of risk that can result in unwanted result. Without a doubt, it is easier to manage risks rather that deal with future consequences. Banking sphere is often connected with risks due to its massive exposure to improbability.

Banks are highly correlated with risk because of its business nature and huge exposure to large amounts of capitals. Risk management (RM) is the mainly vital practice which is used particularly in banks. Risk management has been employed in banks to control risks there. In today's dynamic condition, all banks are exposed to various kinds of risk such as liquidity risk, credit risk, market risk, interest rate risk and foreign exchange risk. These risks may cause some bad consequences which might even influence the success and survival of banks. (Al-Tamimi and Al-Mazrooei, 2007). Effective risk management is needed due to such exposure to different risks. After identifying risks and knowing the characteristics of corresponding risks, managing risks is one the most essential tasks. Returns and risks are directly related to each other, which means that rising one will consequently raise the other one and vice versa. Moreover, effective risk management can lead to more balanced trade-off between reward and risk, which may generate a good situation in future (Fatemi and Fooladi, 2006). From economic point of view, the main purpose of financial institutions especially commercial banks is to maximize profits and offer the highest values to the shareholders by providing them with a variety of financial services through risk management (Al-Tamimi and Al-Mazrooei, 2007).

Miller and Modigliani (1958) proposed classic Modigliani-Miller paradigm in their research, which stated that financial arrangement would not influence the value of corporate. Their research also

specified that prevarication may lead to minor instability of cash flow and consequently lower instability of firm value. Rationale for corporate management of risk was assumed from the unimportance circumstances and included: higher debt capability (Smith and Stulz, 1985), securing internal financing (Froot et al., 1993), and asymmetries of information (Geczy et al., 1997). The critical result of hedge, if it is helpful for the firm, must be high value – a hedging premium. The last universal financial disaster has been exposed to a few shortcomings in the financial systems. The financial institutions regulation and banks risk management system belong to them.

Better understanding contexts under which commercial banks work could provide brief explanations of the Pakistani economy. Risk survives as an element of environment in which a variety of organizations work (Tchankova et al., 2002). Banking is frequently associated with risk because of its huge exposure to ambiguity and various kinds of risk. Risk management in Banks has fascinated more and more researchers in the course of previous years, and more studies provided the regulations to manage risks within banks. Previous study intends to classify the most important sort of risks of conventional banks in Pakistan. The previous study such as Abulhassan (2009) proved that there is a positive connection between risk management practices on the understanding risk and customer trust. In this research, risk management practices can be reflected as risk management, risk identification, risk monitoring, credit risk analysis and risk assessment and analysis in conventional banks. This study will investigate the risk management practices in the commercial bank in Pakistan.

The rest of the paper is structured as follows. Section 2 describes background of Pakistani Banks. Section 3 introduces theoretical concepts and relevant literature. Section 4 introduces the dataset and methodology. The corresponding results and findings are discussed in Section 5. Section 6 introduces conclusion and recommendations for future research.

2. BACKGROUND OF PAKISTANI BANKS

The State Bank of Pakistan (SBP) was formed in 1948, had incorporated and worked under the 1956 Act of Central Bank of Pakistan, which provided the bank with authority and right to perform as the central bank of Pakistan. The SBP is one of the largest and well-known banks in Asia as well as in the world. The SBP has some primary and secondary functions. The primary functions include issue of currency, bankers' banks, keeping reserves, controlling credit, formulation monetary, fiscal policy, regulation and supervision of the financial system, lender of last resorts and economic stability. Secondary functions include establishing of new financial institutions, development of credit instruments (bonds , debentures , promissory notes , bill of exchanges), fixation of interest rate, management of public debt, management of foreign exchange as well as other functions like advising the government on policy matters and maintaining close relationships with international financial institutions, providing subsidized credit, and development of the capital market.

The basic objective of SBP is to control monetary stability, thereby leading towards the stability in the domestic prices, as well as to promote the economic growth of Pakistan. The other objectives of the SBP are supervision and regulation of the of the financial system to make sure its stability and soundness and to protect the interests of the depositors as well as banker of banks, development of financial framework, institutionalization of savings and investment, provision of training facilities to bankers, and provision of credit to priority sectors, monitoring and regulations of commercial banks, loans to commercial banks and governments, implementations and monitoring of monetary policy and provide advisory services and developmental consultations to government and banks with regard to development. Government of Pakistan nationalized all domestic commercial banks in 1974. Pakistan Banking Council (PBC) was established, which assumed the role of a bank when holding company but with limited supervisory powers. However, PBC was dissolved in1997, leaving SBP as the sole authorization power for banks and financial institutions in Pakistan (modarabas and leasing companies are now keeping up by the Corporate Law Authority). Banking sector nationalization led to important government interfering and resulted in directed lending to favourite projects. The network of the branch of the National Corporative Bank also proliferated in an effort to offer banking services to all territories of the country, frequently with disregard to the possibility or capability of such expansion.

The financial sector in Pakistan is comprised of listed commercial banks, which contain nationalized, private and foreign banks; and Non-Banking Financial Institutions (NBFIs) which includes Developmental Finance of Institutions (DFIs), Investment Banks, modarabas, leasing companies, and housing companies of finance. Scheduled Banks and NBFIs (excluding modarabas and leasing companies) are both controlled by SBP's Prudential Regulations while through various divisions and are required to meet various regulatory constraints such as wealth and liquidity reserve obligations. Commercial banks are mostly related to short term working capital of requirements while NBFIs need to satisfy long-term and medium financing needs. Therefore, NBFIs are barred from attraction in commercial banking activities. However, in September 1997 the SBP permissible commercial bank to conduct long term project lending. Among the listed banks, only Pakistani commercial banks are scheduled.

3. LITERATURE REVIEW

Scholars from different countries have previously defined and studied risk management practices.

Credit risk management significantly affects the profitability of banks (Annor and Obeng, 2017). Credit risk management significantly affected financial performance of commercial banks of Pakistan (Iftikhar, 2016). Credit risk management significantly affected the profitable of the commercial banks' in Nigeria (Abiola, and Olausi, 2014). Credit risk management has a significant

relation with the performance of financial of the commercial banks of Jordanian (Alshatti, 2015). Capital adequacy ratio, loan and advances, and size have positively affected credit risk management and Loan loss provision ratio, while non-performing loan ratio and liquidity ratio have no effect on credit risk management (Hamza, 2017). Liquidity risk management has a positive effect on the performance of commercial banks in Rwanda (Empabwa and Kariuki, 2017). The relationship between bank performance and credit risk management is significant in India (Singh, 2015). Capital management risk has significant association with return on equity of commercial and operating risk has significant relation with the financial performance of commercial banks in Sri Lanka (Wijewardana and Wimalasiri, 2017).

Risk management is the process to classify and measure the loss exposure faced by an entity. According to Buttimer et al. (2008), risk management is the process that a banks execute to manage its exposures and financial losses. Furthermore, in the dictionary, business financial risk management may be described as the evaluation and forecasting of financial risk in conjunction with the procedures where identification will be used to avoid or minimize risk (http://www.business dictionary .com/definition/risk-management. html). In finance, risk management can be explained as the anticipating risk, practice of identifying, imagining and analysing them and then taking defensive stride to curb the risk (http:// economictimes. Indiatimes.com/definiti on/risk-management). Then best possible method and strategy will be adopted to deal with these risks (Rejda, 2011). Risk management practices have positive correlation with the financial performance of commercial banks in Kenya (Wanjohi et al., 2017). There is significant impact of risk management practices on financial performance of small, medium and large banks in Pakistan (Tanveer et al., 2017). There is positive significant correlation between risk management practices and financial performance in Kenya (Makokha, 2016). Risk analysis and risk assessment significantly affect risk management practices, while risk monitoring and risk identification have no effect on risk management practices (Khalil and Ali, 2015).

Some risk management are in use practices in commercial banks in Bangladesh. Alam and Musukujjaman (2011) found that interior ranking system and risk adjusted charge on resources are comparatively vital techniques in Bangladesh banks. Shafiq and Nasr (2010) suggested that there is good perception of risk management for workers in banks, but there is a breach of training courses which needs to be undertaken for risk management. Pakistani banks are capable of risk monitoring, credit risk analysis, and understanding the risk in the mainly significant variables of the risk management (Nazir et al., 2012). In addition, this paper disclosed significant differences in practices of risk management of the Islamic and conventional banks of Pakistan. There was significant distinction between the public sector and private banks (Shafiq and Nasr, 2010). It is recommended that financial soundness pointer should be at variance in rate for each kind of commercial bank.

Risk might transmit to failures is the dominant apprehension of bank instruction (Koziol and Lawrenz, 2009). Banks desire the regulated volume of deposit to earn premiums of deposit and control costs at the same time. Key pronouncements suggested that the characteristics of endogenous of dynamic financing introduced a vital self-regulation mechanism. The component of credit risk management differs in commercial banks operating in a less developed economy from the developed economy. Richard et al. (2008) suggested that the environment within which the bank operated was an important characteristic for a credit risk management system to be successful. The UAE (United Arab Emirates) commercial banks were mainly facing credit risk (Al-Tamimi, 2002) and inspection by branch managers and financial statement analysis. These were the main methods used in risk identification. The willingness of the UAE commercial banks to use the most sophisticated risk management techniques, and recommended the adoption of a conservative credit policy.

4. RESEARCH METHODOLOGY

The data was collected from managers and employees at risk management department in Pakistani commercial banks. Closed ended questionnaire has been designed and distributed among managers and employees at risk management department of sampled commercial banks (please refer to Appendix for the details of the questionnaire). All items of the questionnaire were rated on 5-point Likert scales, where 1 indicated strongly disagree and 5 represented strongly agree. There are 35 commercial banks operating in Pakistani market. These 35 commercial banks can be considered as the population of the study. Due to time and financial constraints, 15 banks in district Peshawar have been randomly selected as the sample of this study (as shown in Table 1). There are 325 managers and employees working in the department of risk management in the selected 15 banks. Among these 325 managers and employees, only 250 have been randomly selected to distribute questionnaires.

Table 1. Randomly selected banks in Peshawar

No.	*Name of the Banks*
1	MCB Bank
2	The Bank of Punjab
3	First Women Bank
4	Khyber Bank
5	Askari Bank
6	Habib Bank Ltd (HBL)
7	NIB Bank
8	Silk Bank
9	Faysal Bank Ltd
10	United Bank Ltd (UBL)
11	Meezan Bank
12	KASAB Bank
13	Bank Al Habib
14	Habib Metropolitan Bank
15	Bank Al-Falah Ltd

The dependent variable of this research is Risk Management Practices (RMP). The construct of RMP was measured by 8 items adopted from precious research (Khalid and Amjad, 2012). Other variables are independent variables. Understanding Risk Management (URM) was measured by 8 items

developed by Khalid and Amjad (2012). Risk Identification (RI) means "determining what risks or hazards exist or are anticipated, their characteristics, remoteness in time, duration period, and possible outcomes". Risk identification will be measured by 5 items developed by (Khalid and Amjad, 2012). Risk assessment means "the identification, evaluation, and estimation of the levels of risks involved in a situation, their comparison against benchmarks or standards, and determination of an acceptable level of risk". Risk Assessment (RA) was measured by 7 items developed by Khalid and Amjad (2012). Risk Monitoring (RM) was measured by 6 items developed by Khalid and Amjad (2012). The risk of defeat of principal or defeat of a financial prize stemming from a borrower's failure to pay back a loan or else meet a contractual requirement. Credit risk analysis (CRA) was measured by 7 items developed by (Khalid and Amjad, 2012).

4.1. Model

In this research, we proposed a model as shown in equation (1) to explain the relationship between RMP, URM, RI, RA, RAA and RM.

$$RMP_i=\alpha_0+\beta_1URM_i+\beta_2RI_i+\beta_3CRA_i+\beta_4RAA_i+\beta_55RM_i+\varepsilon_i \quad (1)$$

In this equation, α_0 represents the intercept, β_i denotes regression coefficient of the *i-th* variable (i=1,2, …5), ε_i represents error term which follows normal distribution whose mean is zero and standard deviation is δ. In other words, $\varepsilon_i \sim N(0, \delta^2)$.

4.2. Reliability test

Reliability of the constructs was evaluated using Cronbach's alpha. According to previous research, if the value of Cronbach's alpha for a construct is larger than 0.7, then it demonstrates good construct reliability (Nunnally, 1978).

4.3. Regression analysis

To examine the effect of risk management practices in commercial banks of Pakistan, multivariable linear regression was applied. Multivariable linear regression is a statistical tool used to estimate the influence of multiple independent variables on dependent variable. In this research, we used multivariable linear regression to investigate how RMP can be influenced by other factors in commercial banks.

4.4. Model diagnosis

In this research, two problems which may affect the quality of multivariable linear regression were discussed: multicollinearity and heteroscadasticity.

4.4.1. Multicollinearity

The correlation matrix could be used to investigate the problem of multicollinearity. Any pair of independent variables whose correlation coefficient is greater than 80% will be considered multicollinear (Gujarati, 2004). In addition, VIF will also be used to check multicollinearity problem.

4.4.2. Heteroskedasticity

White's test was used to check the heteroscedasticity of the data. If the value of White's test is significant ($P < 0.05$), then it is suggested that there might be heteroskedasticity problem (White, 1980). If data has I heteroscedasticity problem, then robust method will be adopted to estimate the model parameters and their corresponding standard errors.

5. RESULTS AND FINDINGS

This section presents the results and finding of the study.

5.1. Reliability analysis

In order to test the reliability of the collected data, Cronbach's Alpha was used to measure all constructs. As shown in Table 2, the value of Cronbach's Alpha coefficient for risk management practices, risk identification, risk assessment & analysis, risk monitoring, credit risk analysis and understanding risk are 0.941, 0.942, 0.953, 0.944, 0.948 and 0.959 respectively and the overall Cronbach's Alpha (for all the variables combined) is 0.956. The results suggest that Cronbach's Alpha for all the constructs exceed the threshold value of 0.70, which suggests that all constructs have good reliability (Cronbach, 1951).

Table 2. Reliability analysis

Constructs	*Cronbach Alpha*	*Remarks**
Risk management practices	0.941	Reliable
Risk identification	0.942	Reliable
Risk assessment and analysis	0.953	Reliable
Risk monitoring	0.944	Reliable
Credit risk analysis	0.948	Reliable
Understanding risk and risk management	0.959	Reliable
Overall	*0.956*	*Reliable*

5.2. Descriptive statistics

Table 3 shows the descriptive statistics of all variables in this research, including their minimum and maximum value, mean and standard deviation. As shown in Table 3, the mean of risk management practices is 4.152, and the standard deviation is 0.612. And the values of mean for understanding risk and risk management, risk assessment & analysis, risk identification, risk monitoring and credit risk analysis are 3.746, 3.972, 3.928, 3.899, 3.899. The value of standard deviation for understanding risk and risk management, risk assessment & analysis, risk identification, risk monitoring and credit risk analysis is 0.605, 0.671, 0.63, 0.602 and 0.627.

Table 3. Descriptive statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Age	250	1	5	2.72	1.284
Qualification	250	1	3	1.81	0.610
Experience	250	1	4	2.41	0.920
Gender	250	1	2	1.21	0.407
URM_M	250	1.250	5.0	3.746	0.605
RAA_M	250	1.142	4.857	3.972	0.671
RI_M	250	1.20	5.0	3.928	0.630
RM_M	250	1.167	5.0	3.899	0.602
CRA_M	250	1.285	4.857	3.899	0.627
RMP_M	250	1.250	5.0	4.152	0.612

5.3. Model diagnosis

Before using linear regression to investigate how factors influence risk management practices, it is necessary to verify whether the data satisfy the requirements of regressions. In this section, two diagnostic problems of regression model are discussed: multicollinearity and heteroscedasticity.

5.3.1. Multicollinearity

In order to test the multicollinearity problem, variance inflation factor (VIF) and tolerance were used for each independent variable, and the results are displayed in Table 4. As shown in Table 4, the value of VIF for risk identification, risk assessment and analysis, risk monitoring, credit risk analysis and understanding risk and risk management is 7.080, 3.443, 6.058, 4.119, and 2.757. The value of VIF for all independent variables is less than 10, which suggests that multicollinearity is not a big issue in this research.

Table 4. Multicollinearity

Variable	*Tolerance*	*VIF*
Risk identification	0.141	7.080
Risk assessment and analysis	0.290	3.443
Risk monitoring	0.165	6.058
Credit risk analysis	0.243	4.119
Understanding risk and risk management	0.363	2.757

5.3.2. Heteroscedasticity

White test was used to test the heteroscadasticity problem of data. The Chi-square value was 100.9999 with p-value equaling =0.000 (<0.05), which suggests that the model is suffering from the problem of heteroscadasticity. Therefore, to alleviate this problem, regression analyses were performed with robust standard errors and their results are described in Table 5.

Table 5. Test statistics

TR^2	=	100.904113
p-value	=	P(Chi-square (27) > 100.904113) = 0.000000

5.4. Regression model

To investigate what might influence risk management practices, learner regression model was used to find out the effect of independents variable on the dependent variable. And the results are presented in Table 6.

Table 6. Regression model

Variable	Coefficient	Std. error	t-value	p-value
Constant	.295	0.104	2.838	.005
URM	.075	0.040	1.859	.064
RAA	.242	0.044	5.464	0.000
RI	.175	0.062	2.857	0.005
RM	.331	0.060	5.526	0.000
CRA	.164	0.043	3.781	0.000

Note: R-square = .785

As shown in Table 6, we can find that the value of R-square is 0.785, which suggests that more than 70 percent of variation of risk management practices could be collectively explained by the employees' engagement (understanding risk management, risk identification, risk assessment & analysis, risk monitoring and credit risk analysis). And the remaining variation might be due to other factors which are not considered in the current study. According to the regression results, RM has largest value of beta coefficient, which indicates that RM makes the special and more contribution to the explanation of the dependent variable. The results also suggest that the value of beta coefficient for URM is 0.075, and the p-value of URM is 0.064 (<0.01). Therefore, we can conclude that the influence of URM on RMP is positive, and the influence is significant. The value of regression coefficient for RAA is 0.242, and the p-value is 0.000(<0.05). Therefore, the effect of RAA is positive, and the effect is significant. The value of regression coefficient for RI is 0.175 and the p-value is 0.005. It suggests that RAA has significantly positive influence on RMP. The value of regression coefficient for RM is 0.33, and the p-value is 0.000. We can conclude that RM has significantly positive influence on RMP. The value of regression coefficient for CRA is 0.164, and the p-value is 0.000(<0.05). Therefore, we can conclude that CRA positively influence RMP, and the influence is significant. Overall, URM, RAA, RI, AR and CRA can influence RMP, and the influence is significant. This is consistent with previous research (Hassan, 2009). The results indicate that commercial banks in Pakistan should give more focus on these factors.

6. CONCLUSIONS

This study examines how risk management practices can be influenced by factors, including understanding risk management, risk assessment & analysis, risk identification, risk monitoring and credit risk analysis in commercial banks of Pakistan. To achieve this goal, we collected data from 250 employees of commercial banks of Pakistan through a well-structured questionnaire. Cronbach's Alpha test for all constructs suggests that they have good reliability. Then model diagnostic tests like

multicollinearity and heteroscedasticity were also applied for checking the suitability of regression model. , Then regression analyses were adopted to investigate the influence of these factors on RMP. Similarly, Multicollinearity results indicate that the value of VIF for all the independent variables is less than 10. Therefore, it is concluded that all the variables are not linearly related and w there is no multicollinearity problem. The results suggest that understanding risk and risk management (URM), risk assessment and analysis (RAA), risk identification (RI), risk monitoring (RM) and credit risk analysis (CRA) have positive significant impact on Risk Management Practices (RMP). This suggests that commercial banks in Pakistan need to pay more attention to URM, RAA, RI, RM and RA. Moreover, RM and RAA are prominent variables which influence RMP; therefore, commercial banks of Pakistan should focus on RM and RAA. The results could be used as a helpful guideline for enhancement of RMP in commercials banks in Pakistan and will be of worth to those who are curious about commercial banking system.

This research has several limitations that point to the directions for future research. First, this research was limited to Pakistani commercial banks which are operating under Pakistani financial mechanisms. Whether the results can be generalized to other banks especially non Islamic banks needs further investigation. It will be interesting to conduct similar studies to understand the differences of commercial banks in Muslims and non- Muslims countries. Second, although this study investigates the influence of risk and risk management, risk assessment and analysis, risk identification, risk monitoring and credit risk analysis on risk management practices, other factors which might influence risk management practices should also be considered to enrich this research. Third, in this research, the sample size is 250. Although the sample size satisfies the requirement of the research, more banks and more employees could be included in future research.

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APPENDIX

This questionnaire has been designed to find out "*Risk management practices in the commercial banks of Pakistan".* Your responses in this regard will be a healthy addition towards the analysis of the study. It is ensured that the information you provide will be strictly used for academic purpose. Your information will be kept highly confidential.

Gender:
(i) Male
(ii) Female
Age:
(i)20-25
(ii)26-30
(iii)31-35
(iv) 35-40
(v)above 40
Designation:_____
Years of Experience in current Organization:
(i) less than 1
(ii) 1 – 3
(iii) 4 – 7
(iv) Above 7
Education:
(i) Bachelor
(ii) Masters
(iii) Other(s):_____

S.No.	***Statements***
	Understanding Risk Management (URM)
URM1	There is common understanding of risk management across the bank
URM2	Response Bank for risk management is clearly set out and understood throughout the bank
URM3	Accountability for risk management is clearly set out and understood throughout the banks
URM4	Managing risk is important to the performance and success of the banks
URM5	It is crucial to apply the most sophisticated techniques in risk management
URM6	Your objective of bank (Bank) is to expand the applications of advanced risk management techniques
URM7	It is important for your bank to emphasize on the continuous review and evaluation of the techniques used in risk management
URM8	Applications of risk management techniques reduce costs or expected losses
	Risk Assessment & Analysis (RAA)
RAA1	Bank assesses the likelihood of occurring risk
RAA2	Bank's risk is assessed by using quantitative analysis method
RAA3	Bank's risk is assessed by using qualitative analysis methods
RAA4	Your Bank analyses and evaluates the opportunities that it has to achieve Objectives
RAA5	Your bank's response to analysis risk includes assessment of the costs and benefits of addressing risk
RAA6	Your bank's response to analyze risk includes prioritizing of risk and selecting those that need active management
RAA7	Your bank's response to analyze risk includes prioritizing risk treatments where there are resource constraints on risk treatment implementation
	Risk Identification (RI)
RI1	The bank carries out a comprehensive and systematic identification of its risks Relating to each of its declared aims and objectives
RI2	The bank finds it difficult to prioritize its main risk
RI3	Changes in risk are recognized and identified with the Bank's roles and Responsibilities
RI4	The bank is aware of the strengths and weaknesses of the risk management systems of other banks
RI5	Bank has developed and applied procedures for the systematic identification of investment opportunities

S.No.	Statements
	Risk monitoring (RM)
RM	Monitoring the effectiveness of risk management is an integral part of routine management reporting
RM1	The level of internal control by the bank is appropriate for the risks that it faces
RM2	The level of external control by the bank is appropriate for the risks that it faces
RM3	Reporting and communication processes within your bank support the effective management of risk
RM4	The bank 's response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses
RM5	The bank's response to risk includes action plans for implementing decisions About identified risks
	Risk Analysis (RA)
RA1	Bank undertakes a credit worthiness analysis before granting loans
RA2	Before granting loans your bank, undertake a specific analysis including the client's characters, capacity, collateral capital and conditions
RA3	Bank 's borrowers are classified according to a risk factor
RA4	It is essential to require sufficient collateral from the borrowers
RA5	Bank 's policy requires collateral for all granting capital or making transaction
RA6	It is preferable to require collateral against some loans and not all of them
RA7	Level of credit granted to defaulted clients must be reduced
	Risk Management Practices (RMP)
RMP1	The bank 's executive management regularly reviews the organization's performance in managing its business risks
RMP2	Your bank highly effective in continuous review/feedback on risk management strategies and performance
RMP3	Your bank's risk management procedures and processes are documented and provide guidance to staff about managing risks
RMP4	Your bank's policy encourages training programs in the area of risk management as well as in commercials ethics
RMP5	This bank emphasizes the recruitment of highly qualified people having banking knowledge in risk management area.
RMP6	Efficient risk management is one of the objective of bank
RMP7	It is too dangerous to concentrate bank's funds in one specific sector of the economy
RMP8	I consider the level of risk management practices of this bank to be excellent