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Financial Institution and Risk Management: A Study of First Bank of Nigeria PLC Ekwulobia, Anambra State

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Abstract

This research project is carried out so as to look into the various risks encountered in financial institutions: case of First Bank of Nigeria PLC: Ekwulobia branch. The objective of the research is to assess risk management in financial institution and to also know the contribution of risk management to financial institutions. The researcher collected data from both primary and secondary sources. The primary data includes questionnaire and conducting of informal interview, while the secondary source consists of textbooks, journals and conference works. The work found out that banks faces varied risks and among the most devastating are interest rate risk, insurable risk, underwriting risk. Based on the findings, the following recommendations were made The staff of banks need to have adequate training from time to time:. Banks managers should recognize the need for installing firefighting equipment such as fire sprinkler, alarm, fire house, water hydrate at strategic positions in the banking environment. Conclusively, there is need for sound programmes on risks analysis and control in financial institutions, focusing specially on banks and insurance companies; if properly implemented, will ensure efficiency and effective management of the risks facing the institutions which will aid them in achieving their company's set objectives.

KEYWORDS: financial, institution, banks, insurance, loan and risks management

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Introduction

The effective management of business organizations and the occasional disasters associated with life itself, together with political and social disruptions, are examples of the risks which a society is exposed to. It is not often possible to totally eliminate these risks, but the probability of a loss can be reduced by changing some of the circumstances relating to loss. Applying this to the financial institutions, it has become more important than ever for banks to manage effectively the various types of risk they confront, including market, credit, liquidity, operations and computer system risks. These changing circumstances often create new set of risk in whose answers lie in better planning and well organized risk management techniques. According to Pandey (2004), the key to effective risk management is not to do away totally with the various inherent risks. For example, lending operations of banks have the inherent risks of possible loan losses (credit risk) but by taking the risk, banks are able to charge a premium for their risk taking activities and earn profits. Risks are therefore, a source of profits to the bankers.

However, risk management in the Nigeria financial system has not yielded much result as desired due to challenges ranging from insider loans and advances to inadequate risk management policy put in place by the banking operators. It has become a common phenomenon in Nigerian banks to extend loans and advances to family relations, friends and directors without due process. This has led to bad debts caused by inadequate recovery procedures leading to inability of these banks to collect loans and advances extended to these categories of stakeholders ultimately leading to banking distress. Another problem is operational risks. These are the risks of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or external threats. The manifestation of high operational risk in Nigerian banks is the volume of fraud and forgeries.

Furthermore, Ogunleye (2001) observed that ignorance and neglect of regulatory guidelines meant to mitigate these risks by bank management contribute to risk. Some of the management teams in the Nigerian banks are either ignorant of risks inherent in banking operations or have total neglect for regulatory guidelines that insulate the banking operations from potential losses. Therefore, based on the foregoing, this study is out to give an insight on how effectively risk management can be put in place in Nigeria banking industry and how various risks associated with Nigeria banks' performances can be reduced in order to guide against the perennial distress syndrome plaguing Nigerian banks.

Review of Related Literature

Risks

Risks can come from different ways e.g: uncertainty in financial markets, threats from project failures (at any phase in design, development, production or sustainment lifecycle). Legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary or events from an uncertain and unpredictable root-cause. There are two types of events i.e: Negative events can be classified as risks while positive events are classified as opportunities.

Several risk management standards and technology, actuarial societies and also standards. Methods definitions and goals vary widely according to whether the risk management security, engineering, industrial processes, financial portfolios, actuarial assessments or public health and safety. Intangible risk management identifies a new type of a risk that has a 100% probability of occurring but is ignored by the organization due to a lack of identification ability. For example: when deficient knowledge is applied to a situation, a knowledge risks materializes. Relationship risk appears when inefficient collaboration occurs. Process engagement risk maybe an issue when ineffective operational procedures are applied. This risks directly reduce the productively of knowledge workers, decrease cost, effectiveness, profitability, service, quality reputation, brand value and earning value. Intangible risk management allows risk managers to create immediate value from the identification and reduction of risks that reduce productivity. Risk management also faces difficulties in allocating resources. This is the idea of opportunity cost resources spent on more profitable activities. Again, ideal risk management minimizes spending (or manpower or other resources) and also minimizes the negative effect of risks.

Method of Risk Management

For the most part, these methods consist of the following elements, performed, more or less in the following order.

- Identify Characterized threats Access the vulnerability of critical assets to specific threats.
- Determine the risk (ie: the expected likelihood and consequences of specific types of attacks on specific assets.
- Identify ways to reduce those risks.
- Prioritize risk reduction measure based on a strategy.

Principles of Risk Management

The International Organization of Standardization (ISO) identifies the following principles of risk management:

Risk management should:

- Create value resources expended to mitigate risk should be less than the consequences of inaction (or as in value engineering) the gain should exceed the pain.
- Be an integral part of organizational processes.
- Explicitly address uncertainty and assumption.
- Be systematic and structures process.
- Be based on the best available information.
- Be tolerable
- Take human factor into account
- Be transparent and inclusive

- Be dynamic interactive and responsive to change
- Be capable of continual improvement and enhancement
- Be continually or periodically re-assessed.

Process

According to the International Organization of Standardization, Risk management principles and guidelines on implementation, the process of risk management consists of several steps as follows:

- Identification of risk the in a selected domain of interest.
- Planning the remainder of the process.
- Mapping out the following: Social scope of risk management, identity and objectives of shareholders.
- Defining frame work for the activity and on agenda for identification.
- Developing an analysis of risk in the process.
- Mitigation or solution of risks using available technological, human and organizational resources.

Identification

After establishing the context, the next step in the process of managing risk is to identify potential risk. Risks are about events that when triggers, causes problems or benefits. Hence, risk identification can start with the source of our problem and those of our competitors (benefits) or with the problem itself.

Source Analysis: Risk source maybe internal or external to the system that is the target of risk management (use mitigation instead of management since by it's own definition, risk deals with factor of decision making that cannot be managed).

Problem Analysis: Risks are relations to identify threats. Examples, the threat of losing money, the threats of human errors, accidents and casualties. The threats may exist in various entities most important with shareholders, customer and legislative bodies such as the government. When either source or problem can be investigated, for example: stakeholder withdrawing during a project may endanger funding of the project, confidential information may be stolen by employees even within a closed network, and lightening striking in aircraft during takeoff may make all people on board immediate casualties.

The chosen method of identifying risks may depend on culture, industry practice and compliance. The identification methods are formed by template or the development of templates for identifying sources, problems or events. Common risk identification methods are:

Objective – based with identification: organization and project teams have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk.

Scenario – based risk identification: Scenario analysis different scenario are crated. The scenario maybe the alternative way to achieve an objective or an analysis of the interaction of forces in, for examples: a market or battle. Any event that triggers an undesired scenario alternative IS identified as risk. See future studies for methodology used by futurists.

Taxonomy-based risk identification is a breakdown of possible risk source, based of the taxonomy and the knowledge of best practices, a questionnaire is compiled the answer to the question reveal risks.

Common- Risk checking: In several industries, list with known risks are available. Each risk in this can be checked for application to a particular situation.

Risk Charting: This method combines the above approaches by using resource at risk, threats to those resources, modifying factors which may increase or decrease the risk and consequences it is wished to avoid. Creating a matrix under those headings enables a variety of approaches. One can begin with resources and consider the threats they are exposed to and the consequences of each. Alternatively one can start with the threats and examine which resources they would affect, or one can begin with the consequences of threats and resource would be involved to bring them about

Assessment: More traffic capacity leads to greater development in the areas surrendering the improve traffic capacity. Over time, traffic thereby increase to fill available capacity. Tumpike thereby need to be expanded in a seeming endless cycles. Thereby many other engineering examples where examples were expanded capacity (to do any function) is soon filed b increased demand, since expansion comes at a cost, the resulting growth could become unsustainable without forecasting and management.

The fundamental difficulty in risk assessment is determining the rate of occurrence since statistical formation is not available in all kinds of past incidents. Furthermore, evaluating the seventy of the consequences impact is often quite difficult for tangible asset. Asset valuation is another question that needs to be addressed. Thus, best educated opinions and available statistics are the primary sources of information. Nevertheless, risk assessment should produce such information for the management of the organization that the primary risks are easy to understand and that the risk management decisions maybe prioritized. Thus, there have been several theories and attempt to quantify risk. Numerous different risk quantification is rate (or probability) of occurrence multiply by the impact of the event equals not magnitude.

Methodology

The research used survey method as the design of the study. This was used to enable the researcher go into the field way for proper experimentation of data.The study was carried out at First bank Ekwulobia branch Anambra state.The population of the study was 120 workers of staff of First bank Ekwulobia Anambra state. A statistical method known as Yaro Yamani formula was used to determine the sample size for the study. This was necessitated by the importance of an appropriate

number of questionnaires to be treated. It is impossible to sample all the individuals concerned. The total number of questionnaire produce was determining by formula.

$$n = \frac{n}{1 + N(e)^2}$$

n=sample size

N= total population

e=level of significance

Therefore N=120,e=5% or 0.05

$$n = \frac{120}{1+120\,(0.05)^2}$$

$$n = \frac{120}{1+120\,(0.0025)^2}$$

$$n = \frac{120}{1.2}$$

n = 92 sample size.

Distribution and Retrieval of the Instrument

The research distributed ninety – two (92) copies of questionnaires to respondent of different banks and seventy-five (75) questionnaire were retrived. The researcher therefore worked with seventy – five (75) copies.

Method of Data Analysis

The analytical techniques employed by the researcher is simple percentage

$$\text{Percentage } (\%) = \frac{r}{P} \times \frac{100}{1}$$

Where r= total number of respondent $\frac{100}{1}$

Total number of questionnaires

Data presentation and Analysis

At the previous chapter, it was indicated that different methods were used in collecting data such as personal interviews direct observation and questionnaires. It is now relevant to examine the research questions using the data collected from the questionnaires.

Out of the ninety – two (92) questionnaire that were distributed to respondents, only seventy – five (75) were turned and filled.

This section presents the research questions that were stated in 1.4 of chapter one of this study in order to help solve the problem of this study.

Research Question 1

To what extent has the introduction of risk management effected the credit portfolio of banks?

TABLE 6

Responses	No. of respondents	Percentage
Very high	45	70
Very	30	30
Total	75	100

Source:OkoroUgochukwu and Iregbuodinaka field survey, 2024

Table 6 above indicate that the introduction of risk management effected the credit portfolio of banks with 70% of the respondent been very high.

Research Question 2

To what extent has risk management improved debt recovery of banks?

Table 7

Responses	No. of respondents	Percentage (%)
Very high	50	80
Very low	25	20
Total	75	100

Source:OkoroUgochukwu and Iregbuodinaka field survey, 2024

Table 7 shows the extent of risk management with 80% improves debt recovery of banks.

Research Question 3

To what extent has the goal of risk management banking been achieved?

Table 10

Responses	No. of respondents	Percentage (%)
Very high	53	85

Very low	22	15
Total	75	100

Source:OkoroUgochukwu and Iregbuodinaka field survey, 2024

From the table 8 above, 85% of respondents shows that the goal of risk management in banking is been achieved.

Research Question 3

Do you think that management in banking has had a positive impact on customers services.

Table 9

Responses	No. of respondents	Percentage (%)
Yes	75	100
No	Nil	Nil
Total	75	100

Source:OkoroUgochukwu and IregbuOdinaka field survey, 2024

Table 9 reveal that risk management in banking has had positive impact on customers services with 1005 of respondents

Conclusion

From the findings, the following observations were made

That to a very high extent the introduction of risk management positively affected the credit portfolio of banks.

That to a very high extent also, risk management has helped the banks to improve when it comes to debt recovery.

It was also observed that the goal of risk management in the banking system has been achieved relatively.

That risk management in the banking system has a positive impact on customer services.

Finally, that risk management in the banking system has improved bank liquidity.

So far, this research work has tried to draw attention to the need for a sound programme of risk analysis and control in financial institution focusing specially on banks and insurance companies, various recommendations were also forwarded and if properly implemented, will ensure efficiency and effective management of the risks facing the intuitions and this will enable them achieve the company's set objectives.

Recommendations

Based on the findings, recommendations are as follows; Banks and insurance companies, managers need to pay close attention to the analysis and control of all threats to optimal functionality. To control and minimize these risks, the banks should lay down guidelines and procedures for granting loan to individual customers as well as distorted and reliable method of retrieving the loan. Banks should also maintain adequate reserves as a hedge against possible loan losses.

Training as we know is an indispensible way of loss preventive technique. It is a continuous exercise which must be carried out to ensure efficiency. A lot of staff of banks and insurance companies need to have adequate training from time to time, send employees on course for adequate training in various disciplines. Management should often organize seminars, workshops etc. The most common risk in the banking system is fraud. This normally results in huge, financial losses to the banks.

As a way to prevent this, management should involve positive policies aimed at safeguarding assets under them such as, the introduction of an effective accounting system of the institution and operation of an appropriate system of internal control monitoring relevant legal requirements appropriate for banks. Managers should recognize the need for installing firefighting equipment such as fire, alarm, fire sprinkler, fire house, water hydrate etc at strategic position in the office. The distance between the fire bridges station and most of the financial institution is far, should fire occur, it will take a reasonable long time for the fire service stations to reach the affected stop. Therefore the telephone installed on the office as a means of communication network should always be in good order to facilitate frequency flow of information.

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