MANAGEMENT OF RISK IN THE BANKING SECTOR

A CASE STUDY CONDUCTED AT OKOMFO ANOKYE RURAL BANK.

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DECLARATION

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

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Supervisor's Declaration

I hereby declare that the Preparation and Presentation of the Dissertation were Supervised in Accordance with the Guidelines on Supervision laid down by Christian Service University College

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ABSTRACT

The study is mainly on risk management in Okomfo Anokye Rural Bank Ltd. The study focused on the identification of the various types of risk facing O.A.R.B.Ltd. and how best these risk identified could be controlled to the barest minimum.

The study again sought to determine the various steps used to control risk in O.A.R.B.Ltd and how best proper risk management could lead to maximization of shareholders wealth. The methods used for the study were data collection techniques which involve the use of questionnaires and interviews, as well as quantitative and qualitative approach to research.

The findings of the study were : Okomfo Anokye Rural Bank Ltd. faces loan default risk, risk involving payments of entitlements to staff and customers who are hurt by the bank in the course of its operations, payments of forgery cheques, wrong crediting and debiting of customers accounts by staff and risk involving fluctuations in exchange rate on the market.

The study concluded that the Bank has internal risk management mechanism in place but it does not have department purposely for risk management.

However, it was recommended that O.A.R.B.Ltd. should have a risk management department in order to handle all issues that concern risk so as to reduce losses associated with risk.

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DEDICATION

This piece of work is dedicated to the Almighty God who divine providence has us to this far and to all our love ones.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE RESEARCH

It has been observed in the financial sector that most of the banks do not achieve what they have planned to achieve due to deviations in the financial sector or banking sector. The reason for this failure is associated with the steps that banks undertake in the process of achieving the stated objectives. However, it becomes risky when there are differences in possible outcomes and deviations in expectations.

The banking sectors continue to experience risk of different kinds, as a result of the differences of outcomes. It becomes very crucial when banks are seen as an activity of throwing a-die, where the possible outcome cannot be predetermined before performing the activity.

The degree of the risk is the measure of the accuracy with which the outcome of an event based on the changes can be predicted. It implies that the accuracy of the predictions of an outcome of an event base on the chances, the less the degree of risk vis-à-vis, the less accuracy predictions the more the degree of risk.

Banks of today cannot do away with risk since it is Part of the society and has been there since ages it can only be research into and reduce the degree at which it can be reached and cannot be eradicated absolutely. Cubing the degree of severances of risk can be done through many activities, some of which are; hedging, techniques, forward contract etc.

What is more, it has been truly confirmed that all the activities of the banks are prone to risk activities that have to be examined critically and make necessary research into it to reduce the degree of it to acceptable limit. Giving out part of the deposit takings to people as loans overdraft, purchasing of cocoa to help the banks achieve higher profits and maximize shareholders wealth in the process are all associated with risk. Whatever deposit takings are put into investments; they are exposed to risk as such risk must be managed to the extreme in other to put the banks on a comfort seats.

A lot of banks as a matter of fact, foil and collapse due to improper management of risk that they face off it becomes very embarrassing when risk is poorly managed. It is a major contributor to the failure of banks to achieve their objectives. When customers, clients, lenders etc realize that there is a constant depreciation of the banks profit, objectives etc as a result of poor management of risk which has contributed to banks failure, they loose confidence in the bank and sometimes causes bank run where savers customers demand their saving and deposits.

1.2. STATEMENT OF THE PROBLEM

Managing financial institutions has never been an easy task, but in recent years it has become even more difficult because of greater uncertainty in the economic environment. Risk is any situation where there is uncertainty about what outcome will occur, however, in financial and investment management, risk is often used in a more specific sense to indicate possible variability in outcomes around some expected value.Since creation, risk has been a major setback in man's endeavor, financial institution are not exceptional of risk. Banks face a lot of risk in the course of their operation.

Examples are liquidity risk, interest rate risk, market risk, credit or default risk, pure risk, operational risk, etc.

These risks pose a lot of challenges to banks activities. Risk has a lot of effects that militate against banks activities. Again, as a result of the presence of risk, the general public sometimes looses interest, confidence and their loyalty to the bank. Customers sometimes become more averse when they observe that their banks are not clicking due to poor management of risk. Proper management of risk boosts the confidence of customers as well as the general public.

Okomfo Anokye Rural Bank invests customers deposit in loan portfolios, participate in internal cocoa marketing activities to help the bank achieve higher profits and maximize shareholders wealth. All these activities are prone to risk of which there is the need for critical assessment and management of the risk to minimize if not eliminate eminent risk in the business.

1.3 OBJECTIVES

The objectives of this research have been underline below.

- To find out which department is mostly affected by risk in Okomfo Anokye Rural Bank Ltd.
- To identify the major types of risk facing the banking sector.
- To outline the strategies used to manage risk in Okomfo Anokye Rural Bank Ltd.
- To find out measures used to control or reduce risk in Okomfo Anokye Rural Bank..
- To help the implementation process of the strategies outlined.
- To find out why customers default in repaying loans granted to them by O.A.R.B.Ltd.

1.4. RESEARCH QUESTIONS

- What department is affected by risk mostly?
- What types of risk do the O.A.R.B. Ltd faces?
- What tools can be used to identify risks exposures in the O.A.R.B.Ltd?
- What are the underlined strategies or techniques for managing risk?
- What measures are used to manage risk in the bank?
- Why do customers default in repaying loans taken from O.A.R.B.Ltd?

1.5 IMPORTANCE OF THE STUDY

The significance of this study cannot be over looked. This research would be of great importance to the stakeholders of the Okomfo Anokye Rural Bank Ltd. This research will go a long way to minimize the cost of risk in O.A.R.B.Ltd financial activities. It will boost the confidence that the general public have in the O.A.R.B.Ltd since the rampant collapse among banks will reduce drastically as a result of this study.

The study will again go a way of reducing the unexpected adverse impact of pure loss exposures which may be experience by the Okomfo Anokye Rural Bank Ltd thereby helping the bank to achieve its stated objectives and aims.

The study will also help management of the Bank and to identify risk, outline various techniques of reducing risk and implementation these techniques to help reduce risk in financial institutions. The Government will also benefit from this study in the sense that it will give direction to the government to formulate risk reducing policies to the financial institution in the country.

Through this study, other research and risk management departments will be able to improve upon the existing knowledge on risk management, and have access to vital risk management information.

1.6 SCOPE AND LIMITATION OF THE STUDY

Through this study is viewed as the means of reducing risk facing financial study, it has a limit and confirms the saying that "ones liberty ends just at the tip of his/her neighbour's door but do not transcends into the neighbours room". This is to say that this study is limited to the types of risk faced by rural banks (Okomfo Anokye Rural Bank) and how best it could be mitigated to bring to bear good operations and performing.

This research did not materialized without encountering some problems. A lot of challenges emanated from in getting access to vital information on the operations of the Bank, financial constraints, time, and acceptance of carrying this research in Okomfo Anokye Rural Bank Ltd (OARB).

Moreover, getting the accurate data to be collated for this research was a major problem we encountered the risk involved in travelling to get the needed information, pointing of data, purchasing of stationeries, etc. were some of the problems encountered during the research.

Last but not the least, since we did not have the length of time needed to conduct this research we did not cover wider area and enough detailed information. In spite of all these constraints we were able to produce a document on risk management which has all it takes to reduce risk in the Rural Banks (OARB), which would help the Banks to realize their objectives.

1.7 ORGANIZATION OF THE STUDY

This research is categorized into five (5) main chapters. Sequentially, chapter one talks about the introduction which throws more light on the background of the study, statement of the research problem, objectives of the study, research questions, importance of the study, methodology, scope and limitation of the study and organization of the study.

The second chapter emphasize on the relevant literature on the management of risk and the theoretical framework of the research which give vivid insight of the study. The third chapter covers the methods and strategies used in collecting data for the study. The forth chapter talks about how the data collected were analyzed and dealt with. The fifth chapter deals with summary conclusion and recommendations of the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The literature review talks about a detailed review of the pattern designed to reduce the cost of risk exposures on Banks objectives, profit and the overall performance of Banks (OARB). This chapter again deals with the theological framework of the study, data associated with this study and the literature review. The meaning of risk, risk management and the types of risk facing Banks are not over looked in this chapter.

2.2 MEANING OF RISK

There is risk in everyday's activities of every individual as well as every organization (Banks). You take risk every time you act. A lot of scorers and books have tried to give a meaning to risk. Risk is any situation where there is uncertainty about what outcomes will occur.

In insurance, risk refers to the expected losses associated with a situation. According to chicken (1996) risk is the measure of the uncertainty about the frequency and consequences of unacceptable events. According to Wikipedia, the free encyclopedia, risk is the potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable).

According to investor words come risk is a quantifiable likelihood of loss or less- than-expected returns.

2.3 TYPES OF RISK

Unfortunately, the concept of risk is not a simple concept in finance. There are many different types of risk. Risk takes many forms, different types of risk that can affect the banking sector are:

- Credit risk
- Liquidity risk
- Interest rate risk
- Market risk
- Foreign risk

2.3.1 Credit Risk

According to Wikipedia, the free encyclopedia, credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Better still, Investopedia defines credit risk as the risk of loss of principal or loss of a financial reward. According to Basel Committee on banking supervision (2000), Credit risk is defined as the potential of a bank borrower or counterparty to fail to meet its obligations in accordance with agreed terms.

As a matter of fact loans are the largest and most obvious source of credit risk, however other source of credit risk exist. Credit risk is the possibility that the borrower defaults in accordance with the credit terms or will fail not to pay at all. Banks day-in-and-out expose lenders and depositors to credits risk when ever banks lend out what they have been lent by lenders.

2.3.2 Liquidity Risk

Liquidity risk according to Wikipedia the free encyclopedia, In finance, liquidity risk is the risk that a given security or asset cannot be treated quickly enough in the market to prevent a loss (or make the required profit), en.wikipedia.org/wiki/liquidity-risk. From Answers.com, liquidity risk, Risk that a bank will have to sell assets a loss to meet cash demands. Liquidity risk arises from the difficulty of selling an asset.

Liquidity risk in the financial markets represents the lack of trading volume in a particular security. To Investopedia.com, liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be brought or sold. According to market-Wikipedia, The investment portfolio represents a smaller portion of assets, and serves as the primary source of liquidity.

2.3.3 Interest Rate Risk

Interest rate risk is the risk (variability in value) borne by an interest-bearing assets, such as a loan or bond due to variability of interest rate. en.wikipedia.org/wiki/interest-rate-risk. Again is the risk that an investment's value will change due to a change in the absolute level of change in the rate of interest.

According to mutual funds.about.com/od/mutualfundlossary/g/interest-rate-risk.htm. Interest rate risk is risk to earnings or market value of a portfolio due to uncertain future interest rates. Liquidity risk of banks arises from funding of long-term assets with short term liabilities, thereby making the liabilities subject to refinancing risk. Interest rate risk is the chance that a security's value will change due to a change in interest rates. For example, a bonds price drops as interest rate rise. Interest rate risk manifest itself into five different dimensions according to (www.scibd.com/doc/interstrate risk) these dimensions are:

1. Yield curve risk.
2. Basic risk
3. Embedded option risk
4. Reinvestment risk and
5. Net interest position risk.

Yield curve risk is the risk of experiencing an adverse shift in market interest rates associated with investing.

But on the other hand, a high yield may have resulted from a falling market value for the security as a result of higher risk. Yield levels vary mainly with expectations of firms.

Basic Risk.

This is the risk that offsetting investments in a hedging strategy will not experience price changes. Basic risk in finance is the risk associated with imperfect hedging futures.

It could arise because of the difference between the asset whose price is to be determined

Embedded Option Risk.

According to Investopedia, embedded option risk is an option that is an inseparable part of another instrument. An embedded option is a component of a financial bond or other security; and usually provides the bondholder the right to take some action.

Reinvestment Risk

Reinvestment risk is the risk resulting from the fact that interest or dividends earned from an investment may not be able to be reinvested in such a way the firm aims at. Reinvestment risk is one of the main genres of financial risk. The term describes the risk that a particular investment might be cancelled or stopped somehow somehow(en.wikepedia.org/wiki/|Reinvestment-risk). It is the risk that a bank will be unable to reinvest interest.

Market risk is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market.(en.wikipedia.org/wiki/market risk).Moreover, market risk is also refer to the risk of adverse deviations of mark-to-market value trading portfolio, due to market movements, during the period required to liquidate the transactions. Cacu Girardone and Molyneux(2006).

This risk is also refer to as Price Risk; it is a risk of loss of capital or earnings of a bank due to the position on-and-off its balance sheet due to adverse movements in interest, foreign exchange rate, equity price, inflation.(www.scribed.com/doc/market risk)

Of late, this particular risk has become the backbone of all the known risk as a result of modern conditions in the market and as a matter of fact, due to a decline in traditional source of income and a much dependants by banks on income from traditional securities. Market risk has other types of risk, these are systematic risk and unsystematic risk according to Heffernan.(www.heffins.com).

Systematic or general risk uses graphs to indicate the causes of this risk. The movements of the prices of all market movements as a result of macro factors (example, a change in economic policy) are put presented graphically unlike unsystematic or specific risk that arises in a situation where the price of one market instrument moves out of line with other similar instrument as a result of events related to issuer of the instrument (example, a law suit against a bank will reduce it's share price). Cacu.Girardone and Molyneux(2006).

Country Risk is another type of market risk, it refers to the risk of investing in a country, dependent on change in the business environment that may adversely affect operating profits (en.wikipedia.org/wiki/country risk) for example, lack of currency reserves (Foreign Exchange).

To investopedia-Country Risk is a collection of risk associated with investing in a foreign country. This risk includes political risk.

Counterparty Risk is another type of market risk, it refers to the risk to each party of a contract that the counterparty will not live up to its contractual agreement. The risk that the other party in an agreement will default is also term as counterparty risk.

2.3.4 Operational Risks

According to Wikipedia, the free encyclopedia, an Operation risk is, as the name suggests, a risk arising from execution of a company business functions. According to the Basel Committee, Operational risk is a loss resulting from inadequate or failed. Internal process, people and systems or from external events. www.riskglossary.com/link/operational-risk.html.

The possible failure of bank's systems, control or other management failure is generally considered to be Operational risk. Operational risk emanates from a number of events. Examples of operational risks are: reputable risk (damage to an organization through loss of its reputation). En.wikipedia.org/wiki/operational risk.

Again, fraud losses in credit card books are an example of operational risk. Moreover, external fraud risk, internal fraud risk, transaction risk, compliance risk and employment practice and workshop risk are other example of operational risk.

External fraud risk arises from external environment of the organisation. Examples are theft of information, hacking damage, third party theft and forgery, en.wikipedia.org

Internal fraud risk emanates from internal international misreporting of positions, employee theft and insider trading on an employee's own accounts. Systems failure deals with computer hard and software's failure, problems associated with telecommunication and utility outages. Mensah (2010).

Legal Risk is risk from uncertainty due to legal actions or uncertainty in the applicability of interpretation of the contracts, laws or regulations. It also means description of the potential for loss arising from the uncertainty of legal proceedings, such as bankruptcy, and potential legal proceedings. www.investorword.com/5632/legal_risk.html. Transaction Risk on investopedia – The exchange rate risk.

Transaction risk is the current and prospective risk to earnings and capital arising from fraud, error and the inability to deliver product. The transaction risk has to do with the amount of risk that is incurred during the period of time of the transaction. This risk arises from fraud, both internal and external, unachieved business process and the inability of the O.A.R.B to maintain the accounting business concept.

Transaction risk is associated with foreign exchange rats. The foreign exchange market future payments or distribution compliance risk also deals with current and prospective risk to earnings or capital arising from violation or non conformance of law.
According to Accounting and Taxes super Tips, compliance risk is the threat a company faces for failing to adhere to laws, regulations, or internal policies.

2.4 MANAGEMENT OF BANKING RISK

Risk management involves assessing and qualifying business risks, then taking measures to control or reduce them. The risk management function is especially vital in managing business. Financecareers.about.com/od/compliance/a/riskmanagement-wikipidia, the free encyclopedia. The IT risk management is the application of risk management to information technology context in other to manage IT risk that is the business risk associated with IT.

Risk management is the identification, assessment and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative). Risk management on investopedia is defined as the process of identification, analysis and either acceptance or mitigation of uncertainty in business. Under the sun, risk encompasses every event activity or endeavors of man. There is no risk free environment, everything that man does have some iota of risk and this cannot be completely avoided through proper risk management.

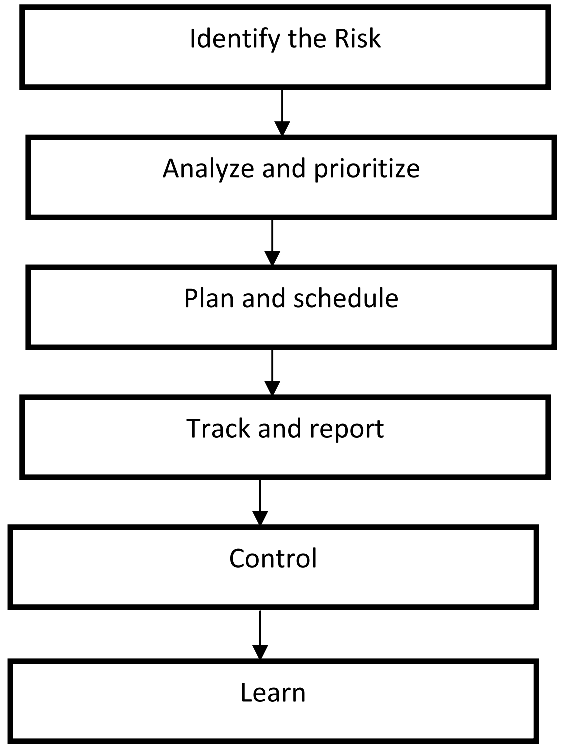
Risk is not about eliminating risk. It is about identifying what negative events may occur and integrating that knowledge into decision making. According to Risk Management and Decision making eHow.comManaging risk properly has a lot of benefits to banks and financial institutions. JUNE 2007 15 Las month’s Risk Doctor Column considered the cost of managing risks on projects. These often measured as part of a cost benefits analysis. Later research has shown that the beneficial benefits of risk managements are less dependent on the formula used but are more dependent on the frequency.En.wikipedia.org/wiki/Risk.management.

Risk management is a process which provides assurance that:

1. Objectives are more likely to be achieved.
2. Damaging things will not happen or are less likely to happen.
3. Administration and Healthcare benefits.
4. Helps companies to live forever (Prudent Concept)
5. Helps to determine the probabilities of risk and to design a premium, according to Risk management to insurance companiesRisk management is a dynamic process.

2.4.1 Risk Management Process

Risk management is a process of identifying vulnerabilities and threats to financial institution, according to (ISA Review Manual (2006). This diagram illustrates the six steps of the risk management process;



(technet.microsoft.com/en-us/library/cc535304)

According to Principles of Risk Management and Insurance by Rejda, there exist only four (4) steps in risk management process. These are:

- Identify loss exposures
- Analyze the loss exposures
- Select appropriate techniques for dealing with the loss exposures.
- Implement the risk management technique selected

A risk management process describes the steps one needs to take to identify, monitor and control

2.4.2 Liquidity risk management.

Liquidity risk-in finance, is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) en.wikipedia.org/wiki/liquidity risk. Moreover, Liquidity risk is the risk that arises from the difficulty of selling an asset.

Liquidity risk, sometimes called funding liquidity risk, is the risk associated with funding asset portfolios in the normal course of business. Liquidity Risk management is a method used by investment portfolio managers to hedge the risk of being unable to sell their large portfolio positions.

2.4.3. Interest rate risk management.

Interest rate risk is risk to the earning s or market value of an asset. An interest rate arises when a firms (financial institutions) principal and interest cash flows (including final maturities) both on and off – financial statement, have discrepancy in re-pricing dates. The hazard or crises to interest rate has grown at a fast rate in years due to the increases volatility in interest rates especially at the international level. (www.scribed.com/doc/managmentofinterestracterisk)

According to Basel Committee on Banking Supervision Consultative Document, the goal of interest rate risk management is to maintain a bank's interest rate risk exposures within self-imposed parameters over a range of possible changes in interest.

On the financial market, interest rate risks affect both borrowers and lenders. For institutions (banks) to do well, interest rate should be managed properly for smooth and sound executions of the banks operations.

A lot of factors go into managing interest rate risk, examples of this factors are, the frequency, volatility and direction of rate change, the slop of the interest rate yield curve, the size of the interest sensitivity position and basis for re-pricing at rollover dates.

To manage interest rate risk, the following policies must be adhering to. In the first place:

- Prudent – and sound interest rate policies must be established and implemented.
- Secondly, appropriate interest rate risk management techniques must be developed and implemented.
- Developing and implementing effect interest rate management and control procedures. CacuGirardone and Molyneux.

Authorities are reminded to critically monitor how banks control interest rate risk, Board of Directors, management should make it a point to develop a decisive measure to control interest rate risk to an acceptable minimal level. This goes to confirm what a learner said “Supervisors are expected to monitor the way in which banks control interest rate risk including effective board and senior management oversight adequate risk management policies and procedure, risk measurement and monitoring systems and comprehensive controls.

Again, supervisors are expected to receive sufficient and timely information in banking operations in order to evaluate the level of interest appropriate account of the range of maturities and currencies in each bank's portfolio as well as other relevant factors such as the distinction between trading and non-trading activities. Mensah (2010)

2.4.4 Operational Risk Management.

From the free encyclopedia, Wikipedia. The term operational Risk Management (ORM) is defined as a continual cyclic process which includes risk assessment, risk decision making, and implementation of risk methods or techniques.

The Basel Committee defines Operational risk as the risk of loss resulting from inadequate or failed internal process, people and systems. From wiseGEEK: clear answers for common. Operational Risk is the risk associated with a company's business operations.

Operational Risk management framework should include identification, measurement monitoring, reporting, control and irrigation frameworks for operational Risk. Risk management is a logical process or approach for minimizing the risk of a business operation. Improper Operational Risk management in an organization (Banks) pave way for rampant fraudulent activities, employees reluctant to work assiduously and above all hinders the banks progress.

It causes customers, creditors and the general public to lose interest in the Banks and can even cause bank run. Risk is an inherent part of doing business when considering operational risk;

service providers are especially sensitive to potential problems in their data centres. (technet.microsoft.com/en-us/library.cc526672.aspx).

Managing Operational risk covers Managerial accounting, Operational risk management, optimism bias, precautionary Principle.

The principles of operation risk management are as follows:

- Accept not all risk
- Accept risk when banks benefits outweigh the banks cost of operations
- Expert risk and manager risk by planning
- Take decisions on risk at the appropriate levels. Cacu, Girardone and Molyneuz (2006)

2.4.5 Credit risk management.

Credit risk comes as a result of borrowers delay or refusal to fulfill their promises to pay off the credit facilities obtained from the banks. The banks credit policies are therefore expected to be revised and monitored by the supervisory systems.

Banks profits are largely depends on how they will be able to lend out deposits from their customers, savers or clients and have the principal lend out together with the interest charged on the principal. So the banks are to ensure that lending and investment activities be based on good and prudent documented lending policies that are accepted by the bank's shareholders, and board of directors and communicated to the bank's lending officers and staff in a clear language. Mensah (2010)

However, banks can never ever give loan facilities to clients or borrowers without facing credit risk as such the banks must design loan classification to suit all kinds of its customers, whiles doing so on a well-developed process for ongoing, monitoring credit relationship, including the assessment of credit worthiness of borrowers in financial ratios.

To manage credit risk properly, the following must be adhere to:

- First, is the use of credit scoring or credit analysis to avoid credit default. www.riskglossary.com/link/credit-risk.html
- Secondly, the use of the Balanced Scorecard as a Tool in Credit risks Management.
- Thirdly, Banks must not give room for delay in loan repayments.
- Forth, field or loan officers should be given a refresh courses, paid well, and be given incentives to entice them to work to recover loans given out.
- Fifth, borrows past and present records must be examined critically in the quest for loan credit facility.
- Sixth, Banks should avoid paying by credit cards if the banks think these cards will put them into credit risk (www.privacyrights.org/fs/fs17-it.htm).
- Seventh, in the case of a borrower using collaterals to secure loan facility banks should have put in place a reliable revaluation of assets tem revaluate and determine the cost of the collateral or property to be used to secure the loan.

Moreover, when lien, collaterals or guarantees are provided by clients, the financial institutions (Banks) are expected to put mechanisms (internal and external) in place for monitoring and assessing the weakness and strength of these guarantees.

Moreover, proper records must be kept to allow proper monitoring of the loans. The Banking supervisors must be satisfied that banks have management information system that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict banks exposures to single borrowers or groups of related borrowers.

The system is expected to provide information to loan officers that enable them to conduct effective and timely follow-up of loans to manage their portfolio efficiently.

2.4.6 Market risk management:

Market risk management is a risk management that mixes a wide variety of ideas to control market risk (www.investopedia.com/terms/market risk.asp). Market risk management goes beyond just trading in the market, as such Banks must put in place solid and reliable systems to check, regulate and monitor market risk. The Banks must satisfy that they have in place systems that accurately measure, control and adequately control market risk; supervisors need to have to impose specific limits and/or a specific capital charge on market risk exposure, if warranted, such as hedging. Mensah (2010).

Market risk must be valued, accurately measure and employ good mechanisms to curb it to an acceptable limit. Example, sound quantitative and qualitative methods of analyzing the effect of problems must be employed to check the severeness of market risk.

2.5 CONCLUSION

Good laid down procedures for day-to- day management of organizations are paramount when it comes to managing risk in an organization. Every organization on this earth is bound to face one risk or the other, this fact cannot be disputed. In view of this efficient and effective management, policies, structures, monitoring are required by organizations to execute their activities smoothly.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

It focuses on quantitative and qualitative analysis, research design, various techniques used, data collections which were collated to get the needed information for this research.

3.2 THE RESEARCH DESIGN

The chapter considers the methodology, the design employed for the study. The research strategy, qualitative and quantitative research, choice of study area, source of information, data collection techniques, key assumption and the limitations of the study are presented in this chapter.

To conceptualize the problem and place it in a perspective that would aid data collection and analysis, and produce results that are not misleading, a good research design must be developed (Singleton.Jnr.et al; 1993). It therefore behooves the researchers to ensure a proper design to achieve good results.

This is a descriptive research which was undertaken by a survey using both qualitative and quantitative data approaches. Qualitative approach accessed the savings and investment behavior of the workers in the Okomfo Anokye Rural Bank, whiles the quantitative view provided the statistical background to support the data.

The instruments used in designing this research were mainly questionnaires. The questionnaires were designed to help the directors, management and staff of Okomfo Anokye Rural Bank. What is more, questionnaires containing 24 items associated with the types of risk facing banks, the impacts of these risks, and how they are managed were dispatched to 24 workers of the bank.

In addition, interviews with fifteen (15) staffs and two (2) Board of Directors of Okomfo Anokye Rural Bank were conducted to beef the information already had from the 24 workers. Twenty four (24) customers of the bank were also interviewed on the various risks and their responds were also collected and scrutinized to produce this research. We used structured and unstructured interview (interview guide to elicit information from respondents).

These customers were allowed to express themselves in either English language or Twi language, this made the interview so friendly that those (customers) present were picked randomly to answer questions.

3.3 TARGET POPULATION

The population targeted mainly for this research was the Board of Directors, staff and management in their various branches. General Manager, internal and external auditors, senior management team, branch managers, credit officers, information technology officers, central accounts, susu monitors, and microfinance officers were classified as the targeted population.

3.4 SAMPLE AND SAMPLING PROCEDURES

A significant section of workers and customers were chosen for this research. In all, sixty two workers and customers were chosen for the study. The section of respondents: were itemized as follows;

- Questionnaires numbering 1 to 24 were given out.
- Staffs interviewed were 15, mobile bankers 8.
- Board of Directors interviewed 2.
- Customers interviewed were 6.
- Other employees 10.
- Specialists 1 totaling 62 respondents. Their views were significant in writing this piece of work.

3.5 DATA COLLECTION TECHNIQUES

The researcher chose quantitative data collection technique, qualitative data collection, primary and secondary data collection sources.

On the quantitative method, two main methods were identified; the first been projective and second causal methods. Both methods rely on numerical data, facts on the ground. Qualitative methods identified (1) personal insight method (this has to do with those individual respondents who are familiar with the situation), (2) panel consensus (which deals with data collected from a group of people). Nsiah(2011).

The study also made use of internal data collected from Okomfo Anokye Rural Bank (O.A.R.B) Limited risk identification and management department, internal and external auditors, central accounts and other departments, hence the secondary source of data collection. Moreover, vital information was also collected through the use of interviews.

Delphi method of collecting data was also employed in this study. With this, questionnaires itemized one to twenty four was sent to staffs of Okomfo Anokye Rural Bank and their responds were used in this study.

The results obtained from these methods were scrutinized and organized appropriately through statistical tools like tables and percentages.

3.6. DATA ANALYSIS AND PROCEDURES

Okomfo Anokye Rural Bank risk management practices was studied, compared and contrast with that of the best and standard risk management and recommended practices.

The questionnaires and interviews were presented in a tabular form for easy analysis. Quantitative, qualitative, delphi, secondary and primary data collection methods were used in the study. Section of the population focused in this research was management, staff specialist and customers of Okomfo Anokye Rural Bank Limited. On sample and sampling procedures, qualitative methods of collecting data were used.

In a nutshell, questionnaires and interviews were used with regards to the research instrument.

3.7 CONCLUSION

Risks have been the major setbacks for a lot of financial institutions (Banks). Every organization is been faced with one risk or the other, in their everyday endeavors. As such assessing and managing risk has become necessary to elevate banks

CHAPTER FOUR

ANALYSIS AND INTERPRETATION OF DATA

4.1 INTRODUCTION

This chapter analyses and interprets the data gathered from our respondents. Total number of respondents stood at sixty two (62), 21 out of the 62 respondents, was interviewed and the rest (41) responded through the questionnaires that were given out. The 21 respondents that were interviewed include risk management specialist in O. A. R. B. Ltd, some of the staff of the bank and some customers.

The other 41 respondents who answered the questionnaire include some staff of O. A. R. B., mobile Bankers, other employees; Board of Directors of these respondents said. The chapter is made up of three sections: the first been the banks' profile, the second section focuses on analysis and interpretation of the data and the final section gives emphasis on conclusion drawn from the chapter.

4.2 PROFILE OF OKOMFO ANOKYE RURAL BANK LTD (O. A. R. B. LTD).

O. A. R. B. Ltd was established not for establishing sake, but as a result of bringing banking services to the door steps of mankind, to relief people from struggling to access banking facilities and to inculcate the habit of saving among people.

The bank was established in line with the company's code of 1963 (Act 179) which indeed has an element of releasing people who has to travel a number of miles to access banking facilities.

Okomfo Anokye Rural Bank was incorporated in June 10th, 1980 with registration number 20416. The Bank was issued with a license to Commence Banking Operations on the September 9th, 1980 under the banking Act 1970 (Act 339). The bank started actual banking activities to the general public on the 16th September 1980.

The mission of O. A. R. B. Ltd is to provide efficient financial services through excellent customer services and maximization of shareholders wealth. The vision of O. A. R. B. Ltd is to be leaders in rural banking.

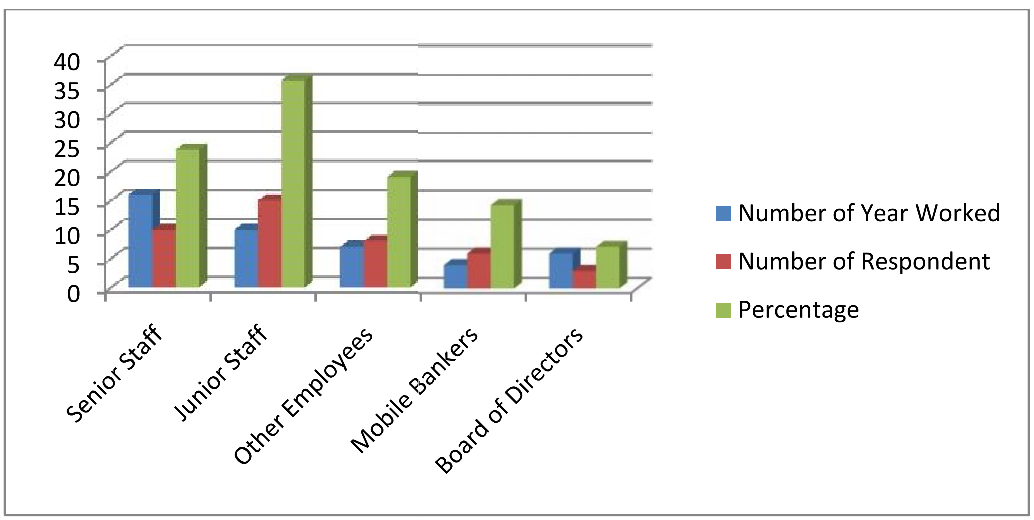
4.3.1 DATA PRESENTATION AND ANALYSIS

The data collected from the questionnaires sent to O. A. R. B. Ltd reviewed that; Ten (10) senior staff, staff members have worked with the bank for sixteen years, Fifteen junior staff have worked with the bank for ten years, eight (8) other employees have worked with the bank for seven years, six (6) mobile Bankers have worked with the bank for four years and three (3) board of Directors have worked with the bank for six years.

The table shows the actual position of respondents of the questionnaire, number of respondents of the questionnaire, number of respondent and their respective percentages.

Position of respondent	No. of year worked	Number of respondent	Percentage
Senior Staff	16	10	23.81
Junior Staff	10	15	35.71
Other Employees	7	8	19.05
Mobile Bankers	4	6	14.29
Board of Directors	6	3	7.14
Total		42	100%

The chart below shows the bar chart of the positions of respondents and their respective percentages on the number of years they have worked with the bank. (O.A. R. B. Ltd).



Again, according to the questionnaire that were responded, 38 respondent responded that they do understand risk and risk management, only 3 respondents responded that they do not understand risk and how it is managed. The 38 respondents who understand what risk is and how it is managed also responded that they do manage risk but the 3 respondents again responded that they do not manage risk. What is more, the questionnaire reviewed that O. A. R. B. Ltd have risk management team.

Risk; according to the respondents have been managed since the established of the Bank, However, 40 out of the 41 respondents responded that there is no feasibility team that studies the movement of the market, the other one (1) respondent left the answer on feasibility blank.

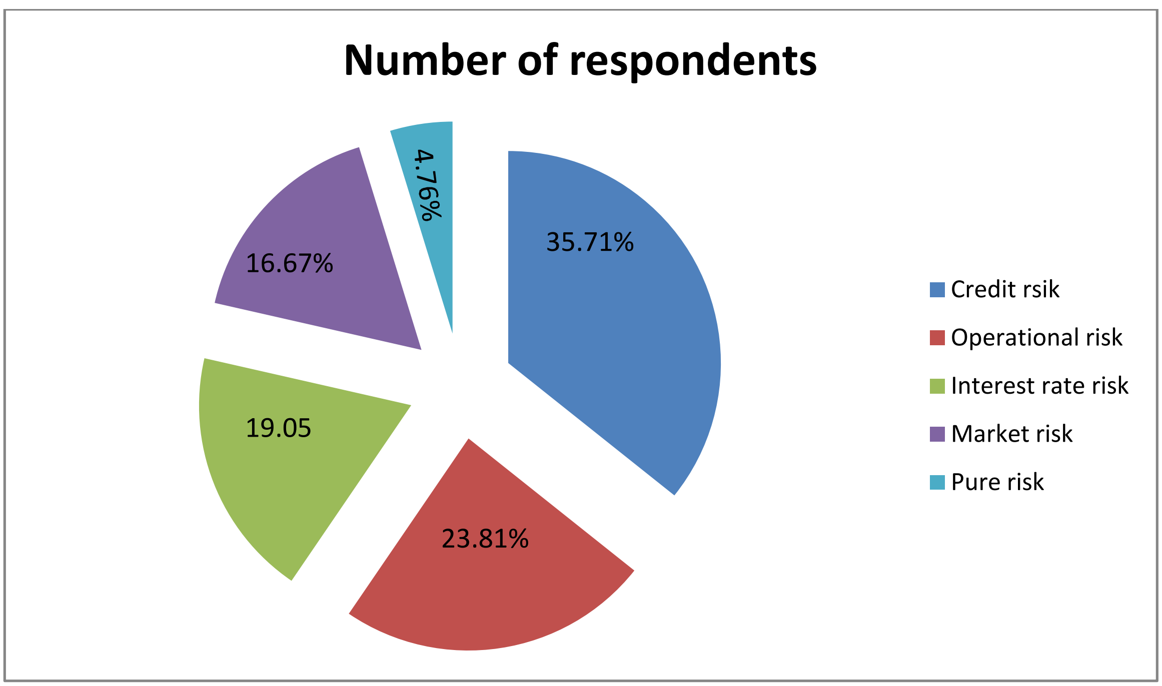
What is more, all the respondents responded that O. A. R. B. Ltd keep their accounting records of daily activities through both manual and electronics.

From the respondents again, O. A. R. B. Ltd faces the following risk; Market risk, credit risk, operational risk, interest rate risk, pure risk. 15 respondents out of the 42 responded that credit risk normally affects the bank, 10 respondents also responded that operational risk affects the bank whiles 8 respondents responded that interest rate risk normally affects the bank, 7 respondents responded that market risk affects O. A. R. B. Ltd and finally, 2 respondents responded that pure risk affects the O. A. R. B. Ltd.

The table below show the actual risk that affects O. A. R. B. Ltd, the number of respondents and the respective percentages.

Type of Risk	**Number of Respondents**	**Percentages**
Credit risk	15	35.71
Operational risk	10	23.81
Interest rate risk	8	19.05
Market risk	7	16.67
Pure risk	2	4.76
Totals	42	100%

The Chart below shows the types of risk affecting O. A. R. B. Ltd and their respective percentages.



35 respondents representing 83.33% responded that O. A. R. B. Ltd have techniques of managing risk but 4 respondents representing 9.52% responded that there are no techniques for managing risk but according to these 4 respondents risk are managed in O. A. R. B. Ltd when they occur.

Risk management techniques are often reviewed after annual general meetings. (That is every accounting year) according to the respondents. Again, all the respondents responded that O. A. R. B. Ltd insures their loans as well as its staff.

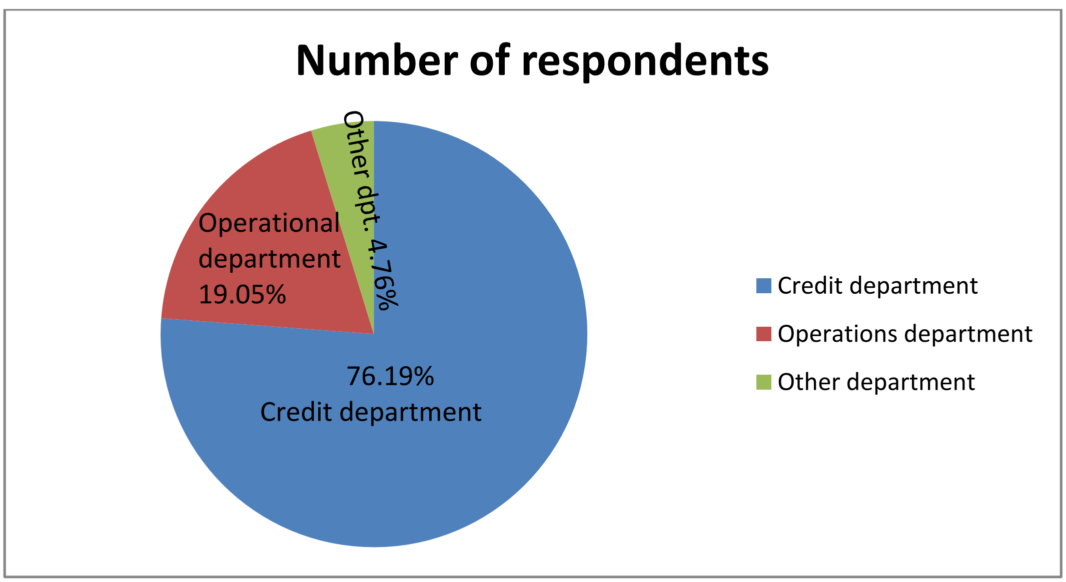
Moreover, the bank organizes courses on risk management for some of its staff. 7.14% of the respondents responded that O. A. R. B. Ltd do not organize risk management courses for its staff; but 92.85% responded that the bank organizes risk management courses that meet ARB Apex Bank and Central Bank Standard for the staff.

According to questionnaire, there is no unit in O. A. R. B. Ltd that is not affected by risk, but some departments are more risk prone departments than others. 32 respondents responded that credit department has the highest risk than any other department, 8 respondents responded that operations department is risk prone department and 2 respondents responded that other departments are risk prove.

The table below shows these departments, the number of respondents and their percentages.

Department	Number of respondents	Percentage
Credit department	32	76.19%
Operations department	8	19.05%
Other department	2	4.76%
Total	42	100%

The pie chart below shows the departments that are affected by risk mostly, number of respondents and their various percentages.



Finally, 35 respondents responded that risk management techniques have good impact on banking activities.

Moreover, in other to find out the techniques used to manage risk in O.A.R.B.Ltd more deeper, an interview which is another instrument for managing risk was used to gather more information from these respondents.

From the interview, it was reviewed that the high default rate was as a result of improper banking procedures for granting loans, provision of loan facilities to customers who do not have the capabilities of repaying the loan.

Moreover, inadequate monitoring system to monitor loan facilities given out and educating people or customers on how to make good use of the loan given are all responsible for high rate of defaulters.

Again, the interview revealed that 35% of borrowers default due to the fact that borrowed money is invested in areas with little or no knowledge or divert money from the intended purpose. In addition, the interview revealed that 40% of borrowers default due to crises in their families such as illness or sickness, payment of children school fees and house keeping money.

10% of borrowers also faces crisis from natural disasters such as flood death and earthquakes and other 5% default as a result of factors such as theft and robbery. One also responded that he hardly seen some one refused to repay loan taken. The interview finally reviewed that 5% of borrowers intentionally refuse to repay the borrowed money.

The research also revealed that O.A.R.B.Ltd. control risk internally using the following risk management techniques: Assessing the credibility / ability of the borrower. The credibility of borrowers must be strictly assessed before loans are given. Personalities do not have to be looked at when given loans but capabilities of paying are considered.

The use of cash – item strategy. With this O.A.R.B.Ltd keeps one third (1/3), that is 33% of the amount borrowed to serve as a security should the borrower default. The use of insurance strategy. O.A.R.B.Ltd operates with a credible insurance company to insure loans granted against natural disasters.

Again, those interviewed touched on some items, documents and some areas that need much attention to reduce risk.

They touched on vouchers. According to them all vouchers for transfers of money from account to another must be prepared and counter signed or dual signed by the Officer In Charge (O.I.C.) and the deputy O.I.C. before they are posted onto the ledgers.

The O.I.C

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarises the research, provides some recommendation derived from the findings, gives conclusion to the research on risk confronting Okomfo Anokye Rural Bank Ltd and the possible techniques to reduce these risk.

5.2 SUMMARY OF FINDINGS

From the two research methods used in this research (Interviews and Questionnaires), it has now become so clear that O.A.R.B Ltd is faced with default risk, operation of risk and market risk.

According to questionnaire, there is no unit in O. A. R. B. Ltd that is not affected by risk, but some departments are more risk prone departments than others. 32 respondents responded that credit department has the highest risk than any other department, 8 respondents responded that operations department is risk prone department and 2 respondents responded that other departments are risk prone.

The table below shows these departments, the number of respondents and their percentages.

Department	**Number of respondents**	**Percentage**
Credit department	32	76.19%
Operations department	8	19.05%
Other department	2	4.76%
Total	42	100%

The research again revealed that project or the credit department is mostly affected by credit or default risk than operations department. According to the research, project/credit department had 32.26% risky activities according to the respondents, followed by operations which had 29.03% followed by microfinance which had 24.19% of default activities; Susu department had 8.07% of default activities and the other departments had the lowest risk activities which is 6.45%.

The table below shows the actual risk that affects O. A. R. B. Ltd, the number of respondents and the respective percentages.

Type of Risk	**Number of Respondents**	**Percentages**
Credit risk	15	35.71
Operational risk	10	23.81
Interest rate risk	8	19.05
Market risk	7	16.67
Pure risk	2	4.76
Totals	42	100%

Moreover, O.A.R.B Ltd have internal risk control mechanisms but authorities like the C.E.O and some of the Directors do not give recognition to these internal mechanisms.

The research has again brought the minds of the authorities onto the issue of having a qualified department solely for risk management activities, to see to it that risk facing

O. A.R.B Ltd is reduced to an acceptable limit, and that will also go a long way to reduce the work load on the internal auditors since they are in charge of risk reduction in the Bank.

The table below shows why customers default in repaying loans taken from O.A.R.B.Ltd.

Reason for customers to default	**Number of Respondents**	**Percentages**
Investing in areas with little or no knowledge	7	35%
To solve crises in family	8	40%
Crises from natural disaster	2	10%
Theft and Robbery	1	5%
Refuse to pay intentionally	1	5%
Totals	20	100%

5.3 CONCLUSION

Rural Banks have been accused, criticize, abuse and doubted in many instances on negligence, fraud, Bank run, deceit, misuse of clients funds, bankruptcy, financial distress and as insolvent but despite all these, O.A.R.B have come a long way in helping people under the sun.

The intervention of Apex Banks, the Banks regulatory bodies of Rural Banks has also contributed to the success of rural Banks, Insurance companies, factors, and factoring institutions, the legal systems and risk averse organizations that have, partner with the Rural and

Community Banks have brought about innovation, redeem of a taught lost monies, fast delivery, creativity, reliability and acceptability.

Okomfo Anokye Rural Bank has been one of the viable banks and had worked effectively and efficiently in its operations to manage risk to an acceptable limit. Should the current risk management techniques welcomed and use in the daily activities of O. A. R. B. Ltd, then credit risk, operational risk, market risk etc, will be drastically reduced if it will not be a thing of the past.

Okomfo Anokye Rural Bank have put in place risk management procedures that have helped them in all these years though these procedures need to be amended.

5.4 RECOMMENDATIONS

The following recommendations were made from the research.

These financial institutions should institute loan recovery teams that will not entertain even a day default and management should entertain and motivate these recovery team to entice them work from the bottom of their heart. This will ginger the recovery team to reduce the rate at which default could occur.

O. A. R.B. Ltd should identify clearly the types of risk facing them to keep all workers and interested parties alert.

Management should not discriminate among workers. Since the discriminated worker may even know those who have default in various ways, who can help to redeem every loans that are classified to be bad.

The Bank and interested financial institutions should establish risk management unit that will solely identify risk confronting their institution and deal with them to reduce the severances of the identified risks. The interest rate charged to borrowers must be reasonable and must not impose any burden on borrowers for them to make prompt repayments.

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