IMPACT OF RECESSION ON RISK MANAGEMENT SYSTEMS IN NIGERIAN BANKS

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BEING A RESEARCH PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA)

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CERTIFICATION

This is to certify that this project titled "**Impact of Recession on Risk Management Systems in Nigerian Banks**" by Nwokeke Uchechi meets the partial regulation governing the award of the Degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and is therefore approved for its contribution to knowledge and literary presentation.

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DEDICATION

This research project is dedicated to God Almighty

DECLARATION

I Nwokeke Uchechi declare that this research project is an endeavour of mine and the result of my own primary study and to the best of my knowledge it has never been presented for the award of any degree in any institution of higher learning. All materials consulted have been duly acknowledged by means of reference.

_____ _____

Nwokeke Uchechi **Date**

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ABSTRACT

One of the major consequences of recession is a general slowdown in economic activity over a period of time. It therefore beholds and organization to set up a robust Risk management to assist in consolidating property values, claims, policy and exposure information and provide the tracking and management reporting capabilities to enable the organization monitor and control its overall cost of risk. Unfortunately, unavoidable risks, the category to which recession belongs, is mostly ignored. This study therefore is an attempt at assessing the impact of recession on risk management systems and to appraise the effectiveness of the banks general risk management system. The study takes the form of a survey research, with questionnaires and interviews being the dominant source of data collected. Charts and tables have been extensively employed in presenting available data while the chi-square test was used in testing the stated hypothesis. The analysis of data shows that there is a significant relationship between the global financial crisis and the risk management systems of Nigerian banks. The global financial crisis placed a strain on existing risk management systems of banks in Nigeria The study therefore recommends a strict adherence to the risk management system in place while the practice of constant review of this system should be adopted.

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CHAPTER ONE

1.1 Background to the Study

Recession in its general form has been described as a business cycle contraction, bringing about a general slowdown in economic activity over a period of time. During this period, several macroeconomic indicators vary in a similar way and there is usually a high risk of bankruptcy (Julius, 2008). The impact of recession on a business varies and is dependent on the nature of business especially as regards to its relationship with the macroeconomic indicators which mostly reflect the existence of recession.

Most mainstream economists believe that recessions are caused by inadequate aggregate demand in the economy, and favour the use of expansionary macroeconomic policy during recessions. Strategies favoured for moving an economy out of a recession vary depending on which economic school the policymakers follow. Monetarists would favour the use of expansionary monetary policy, while Keynesian economists may advocate increased government spending to spark economic growth. Supply-side economists may suggest tax cuts to promote business capital

investment. Laissez-faire minded economists may simply recommend that the government not interfere with natural market forces.

Risk management systems are usually set up to assist in consolidating property values, claims, policy and exposure information and provide the tracking and management reporting capabilities to enable the organization monitor and control its overall cost of risk. This according to Hanson (2005) would provide the organization with a 'recession-proof' risk management setup capable of withstanding bad business weather.

Management of organizations, depending on their risk exposure, spend different amount of time selecting cost effective approaches for minimizing the effect of threat realization to the organization since all risks can never be fully avoided or mitigated simply because of financial and practical limitations. Consequently, all organizations have to accept some level of residual risks.

According to Rael (2008), the value of managing operational risk is slowly gaining recognition. One reason is that by the time financial impact of management's misjudgement affects the balance sheet or income statement, it is usually too late to do anything about it other than pick the

pieces. By tracking operational indicators and metrics, management can identify opportunities and threats before they affect the company's finances.

Most organizational risk management systems are tailored towards reducing the effects of the systematic and unsystematic risks, with more emphasis placed on the unsystematic risks which to a greater extent are avoidable. Unfortunately, recession of whatever form falls within the category of systematic risks for which the organization possesses little or no control over.

1.2 Statement of the Problem

As mentioned earlier, a typical organization puts in place risk management systems aimed at combating the effects of unsystematic risks, leaving out the systematic risks. Recession, as a component of systematic risks results in the sharp rise of the variation in profitability between firms while productivity tends to fall in the early stages, and then rises again as weaker firms close. The impact of recession on risk management systems is mostly unknown, with little or no research conducted in this area.

In a financial institution, enterprise risk management is normally thought of as the management of the combination of credit risk, interest rate risk or asset liability management, market risk and operational risk. How much these guarantee the company against the effect of recession is relatively unknown.

Most studies carried out on the impacts of recession look at a broader economic view (macroeconomic impact) without considering its impact on the firms that make up the economy (microeconomic impact).

1.3 Research Questions

In light of the forgoing, this study would aim at answering the following research questions:

i. What impact does recession in the form of the recent global economic meltdown have on risk management systems in Nigerian Banks?

ii. How effective is the risk management system in Nigerian Banks in guarding against systematic risks?

iii. What combination of risks are best managed in order to guard against the possible effect(s) of recession?

1.4 Objectives of the Study

The basic purpose of this research is to assess the impact of recession on risk management systems. The study would set out to assess the extent to which risk management systems in Nigerian banks provides cover for recession as a systematic risk and to appraise the effectiveness of the banks general risk management system.

This study would also suggest recession-proof risk management strategies which, to a large extent`, would ensure success.

1.5 Statement of Hypothesis

For the purpose of this study, the hypothesis to be tested is as follows:

H_0 – there is no significant relationship between global financial crisis and risk management systems in Nigerian Banks.

H_1 – there is a significant relationship between global financial crisis and risk management systems in Nigerian Banks.

1.6 Significance of the Study

The existence of sound market risk management practices is crucial to promote investors confidence required for capital market development. This study would therefore help in guiding management, especially in the financial sector, in determining the best risk management strategy to be adopted by their organizations.

The study will also bring to the fore, certain risk management practices that when paired with existing global events, can be detrimental to the performance of the financial sector. The study would also serve as a valuable resource material to investors wishing to invest in the financial sector of the economy. Both private and corporate investors will benefit from understanding the current practices of risk management in Nigeria and how these fit with recommendations in literature.

1.7 Scope of the Study

The management of market risk is highly complex. To limit the size of market risk exposures, a bank needs to have an understanding of the size of potential loss that can be incurred under extreme market volatility

The study is therefore restricted to the banking sector risk management systems. The study will cover a period of 3 years beginning from 2007, precisely the eve of the global financial crises.

1.8 Limitations of the Study

A major limitation of this study is the time factor. The time frame available is not sufficient to carry out a study of this magnitude. To this end, the researcher is left with no option but to limit the scope of the study.

Availability of research materials also constitutes a limitation of the study. The available books on risk management are old. Books containing current issues on risk management tend to be non-existent at bookshelves in libraries and bookshops. The researcher had to resort to internet materials with their attendant limited accessibility.

1.9 Plan of the Study

This study would be divided into five chapters comprising Introduction, Literature review, Research methodology, Data presentation and analysis, Recommendation and conclusion. These would be featured in the study as follows:

Chapter One – Introduction

Chapter Two – Literature Review

Chapter Three – Research Methods

Chapter Four – Data Presentation and Analysis

Chapter Five – Summary, Conclusion and Recommendation

The first chapter provides an introduction to the entire research work and more importantly states the purpose of the work and its justification. The second chapter provides an explanation of elements that make up the research work such as the concept of risk management, recession, etc. The chapter gives an overview of literature and past research work related to these areas while providing a setting for and connection to this current

research. Chapter two thus gives background information required for the understanding of the entire work.

Chapter three describes the research methodology used for this research while chapter four presents and describes the results obtained from the research on the implementation of the methods described in chapter three. This chapter also discusses the results obtained from the research and attempts to critically explain them and any deviations from previous studies. Chapter five presents the summary and conclusions that have been drawn from the results obtained and make recommendations.

1.10 Definition of Terms

i. Risk

This is the probability of an unfavourable outcome occurring as a result of taking a particular decision.

ii. Recession

This is the general slowdown in economic activity over a period of time.

iii. Risk Management

This is the systematic application of management policies, procedures and practices to the task of managing uncertainty by identifying, assessing, controlling and communicating risks across the organization.

iv. Investment

This is the outlay of company resources into a venture for the purpose of generating a profit.

v. Financial System

The financial system consists of financial intermediaries, markets, instruments, rules, conventions and norms that facilitate and regulate the flow of funds through the macro economy.

vi. Systematic Risk

This is the risk associated with the movements in the overall economic cycle and cannot therefore be diversified away.

vii. Unsystematic Risk

This is a firm specific risk that is unique to a firm and hence can be eliminated by diversification.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter will present an outline of previous research done in the area of risk management and recession. Their concepts and origins will be reviewed along with relevant theories

2.2 Concept of Risk Management

The International Organization for Standardization (2009) defines risk as the effect of uncertainty on objectives (whether positive or negative). Risk management according to Hubbard (2009) can therefore be considered the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attacks from an adversary.

Several risk management standards have been developed including the Project Management Institute (2009), the National Institute of Science and Technology (2008), actuarial societies (2007), and ISO standards (2009). Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety. The strategies to manage risk include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

According to John (2005), managing risk in a business context is a process involving the following integrated steps:

i. Risk identification

ii. Risk evaluation

iii. Risk control

iv. Risk financing

v. Monitoring and control.

Each of the steps above affects the one that comes after it e.g. if the identification techniques are inefficient wrong decisions are likely to be taken regarding risk evaluation, control and financing. John (2005) also opined that insurance is a function within the broader risk financing component of the risk management process.

a. Risk Identification

This is perhaps the most crucial step in the entire process. Risk identification must start by identifying the sources of risk. Risk emanates from the following sources (Crockford, 1986):

i. The physical environment

ii. The social environment

iii. The political environment

iv. The legal environment

v. The operational environment

vi. The economic environment.

Risk identification is critical as it determines the effectiveness with which risks facing the organization will be tackled.

b. Risk Evaluation

This part of the risk management process, according to John (2005), enables risks to be ranked in terms of their importance to the organization. Information regarding estimates of possible financial consequences and estimates of the likelihood of the risk producing losses are provided under this step of the risk management process. Ranking is important as it influences the allocation of resources within the firm for managing and controlling risks. Techniques such as the maximum possible loss (MPL) and the estimated maximum loss (EML) are often used to evaluate risk.

c. Risk Control

This includes techniques, tools and strategies that seek to avoid, prevent, reduce or otherwise control the frequency and/or magnitude of loss. Risk control measures include (Williams, 1989):

i. Risk avoidance-if risk emanates from man's interaction with the environment then abandoning a venture also avoids the attendant risks.

ii. Loss prevention-seeks to reduce the number of losses or to eliminate them completely. Loss prevention measures seek to alter/modify the hazard, alter/modify the environment in which the hazard exists and/or intervene in the processes whereby hazard and environment interact.

iii. Loss reduction-aim to reduce the potential severity of a loss should it occur. Loss reduction measures are post-loss measures hence they are a tacit admission on the part of the risk manager that some losses will still occur despite the organization's best efforts.

d. Risk Financing

Risk financing methods fall into two classes: Retention and Transfer (John, 2005). Retention involves the organization using its own resources to finance risks. Retention can be planned or unplanned.

Risk can be financed through insurance transfer. Insurance transfers focus on the economic feasibility of the transfer i.e. if the cost of transfer exceeds the cost of expected losses then transfer would not be economically feasible.

2.3 CBN Credit Risk Management System

The late 1980s and early 1990s witnessed rising non-performing credit portfolios in banks and these significantly contributed to the financial distress in the banking sector. Also identified was the existence of predatory debtors in the banking system whose modus operandi involved the abandonment of their debt obligations in some banks only to contract new debts in other banks (CBN, 2007). Furthermore, the use of status enquiries on bilateral basis between banks was characterised by some weaknesses. Status enquiries were regarded as business courtesies to which some banks either did not respond to or gave vague replies. In spite of the systemic weakness, many banks continued to extend fresh facilities to customers who already had hardcore and un-serviced debts with other banks and financial institutions (CBN, 2007). On the part of the regulators, the paucity of credit information had inhibited consistent classification of credits granted to certain borrowers and their associated companies.

Consequently, the need for a central database from which consolidated credit information on borrowers could be obtained became imperative. It was against this background that the CBN Credit Risk Management System [CRMS]

or Credit Bureau was established. The decision to establish a Credit Bureau in Nigeria featured in the Presidential Budget Speech of 1990. Thereafter, it was given a legal backing by the CBN Act No.24 of 1991 [sections 28 and 52] as amended. The enabling legislation empowered the CBN to obtain from all banks, returns on all credits with a minimum outstanding balance of N100,000.00 (now N1.m and above of principal and interest), for compilation and dissemination by way of status report to any interested party (i.e. operators or regulators). The Act made it mandatory for all financial institutions to render returns to the CRMS in respect of all their customers with aggregate outstanding debit balance of N=1,000,000.00 (One million naira) and above. It also required banks to update these credits on monthly basis as well as make status enquiry on any intending borrower to determine their eligibility or otherwise. Banks are penalized for non-compliance with the provisions of the Act.

Presently the CRMS is web-enabled thus allowing banks and other stakeholders to dial directly into the CRMS database for the purpose of rendering the statutory returns or conducting status enquiry on borrowers.

The objectives of the Credit Risk Management System include:

i. Strengthening the Credit Appraisal Procedures of Banks: This is achieved by generating accurate and reliable credit information on bank borrowers from a central database. With such information available, banks will be in a better position to appraise the repayment capabilities of customers seeking new or additional credit facilities from them. This will reduce or eliminate the granting of loans to customers who had no capacity to repay and/or already had non-performing and sometimes abandoned loans in other banks.

ii. Storage and dissemination of Credit Data: The Credit Bureau captures all credits of N1 million (principal and interest) and above from banks' monthly returns on all their customers. Banks are also required to provide all other relevant data on the facilities such as names of borrowers, directors of borrower companies, credit limit, outstanding amount, status of credit, securities pledged, etc. These data are collated in the CRMS database, which are made available to banks through credit status enquiry/report. The CBN Credit Bureau provides objective responses to status enquiries to promote a responsive borrowing culture. The customers who meet their obligations as contracted will consequently continue to have access to credit facilities, while

delinquent customers are denied access to new facilities from other banks until they make good their outstanding delinquent credits.

iii. Monitoring of Over-Exposure to Borrowers: The consolidated credit information generated by the Credit Bureau will enable banks to identify borrowers who have contracted debts in excess of their repayment capabilities. Banks are thus put on notice to avoid putting their funds into areas or sectors that are already experiencing a lull or declining prospects. It will also assist banks in the evaluation of the viability or otherwise of proposals on loans from customers.

iv. Facilitating Consistent Classification of Credits: The Credit Bureau will facilitate regulators' consistent classification of credits granted to the same borrower(s) by different banks.

v. The Regulator will also have first hand information on a customer's global debt profile thereby eliminating the erroneous classification of a customer's loan as performing in one bank and doubtful or lost in another bank

2.4 Setting up Risk Management System

According to George (1991), a firm-wide risk management program consists of three strategies:

1. Identification of the specific risks. In this strategy, management identifies and assess risks, measure them, and then use this information to prioritize and strategize each identified risk.

2. Arrive at specific ways of dealing with the risk (specifically, controlling, mitigating, or avoiding).

3. Monitor the risk. This is the most neglected strategy of the three because management would have to dissect each identified risk in three different ways. Management would look at the potential risk at the macro level to determine its affect on the culture, at the individual level to see how employees view and handle the risk at the process level, and, finally, at the activity level where the actual decision takes place.

The overall risk management system, while it does not need to be formal, needs to have contingency plans in place for whatever "surprises" might occur

and employees need to be trained in how to handle these "surprises." (Tongson, 2000)

Risk management involves five steps:

1. Identifying risk
2. Measuring it
3. Formulating strategies to limit it
4. Carrying out specific tactics to implement those strategies
5. Continuously monitoring the effort

A company's business model is made up of two components:

- The organizational structure and process
- The impact on operational risk from decisions made

In addition, if an organization is unable to perform or execute its strategy, the firm incurs execution risk. To assess and measure execution risk, a company focuses on the results it generates from the structure of its marketplace and its business model. Within the theory of a business model, three specific risks reside:

1. Strategic risk
2. Operational risk
3. Innovation risk

2.4.1 Strategic Risk

Strategic risk is defined by George (1991) as the inability to align with competitive pressures and customer sufficiency. George (1991) opined that the following are eight categories of risk that threaten a firm's ability to carry out its strategy:

i. Operational risks (execution of your strategy and goals)
ii. Reputation risks (impact on your reputation and brand)
iii. Financial risks
iv. Hazard risks
v. E-commerce and technology risks
vi. Intellectual capital risks
vii. Ethical risks
viii. Integrity risks

Setting up a risk management system is a form of strategic planning. It is a critical process in which risks can and need to be identified and dealt with in advance.

For a firm to manage its strategy risk, leaders must develop acceptable expectations for all products or services. A risk to the firm's ethical standards is involved here because there is intense pressure on the organization and the employees to meet a lofty goal, to achieve its business plan, and to satisfy creditors or investors. The more this pressure is applied, the more likely people will undertake unwarranted risk. If these wild, out-of-control leaps fail or do not meet the high expectations, people feel urged to cover them up. Thus, the firm's integrity is at risk.

In market risk, firm integrity is involved and can be damaged when its research or studies are flawed or when its assumption of the customer's needs are skewed in favour of the organization. Many market studies have been accepted as true without consideration of the realities of the market place or without obtaining true customer buy-in. Facing this risk requires the firm to get its input about the competitive environment from the source.

2.4.2 Operational Risk

Operational risk management looks at the business from the operation itself and is defined as the risk of direct or indirect loss resulting from inadequate internal control, processes, people, and systems to react to external events. Financial information is not enough to gauge a company's overall business risk.

The value of managing operational risk is only slowly gaining recognition (Hovey, 2000). One reason is that by the time financial impact for management's misjudgement affects the balance sheet or income statement, it is usually too late to do anything about it other than pick up the pieces (Hovey, 2000). By tracking operational indicators and metrics, leaders can identify opportunities and threats before they affect the company's finances.

One approach to measuring operational risk requires firms to routinely review many nonfinancial factors such as the quality of corporate governance, employee morale, customer satisfaction, implementation of goals and their execution, application of technology, and deployment of those practices. Numerous tools already exist that enable a firm to easily measure operational risk, such as the balanced scorecard, activity-based costing, and driver-based forecasting.

Most companies still rely on their planning and budgeting processes and historical reporting techniques created in the 1930s. According to Hovey (2000), to improve the likelihood of detecting operational risk, organizations can do the following:

i. Update their technology
ii. Use advanced analysis tools
iii. Use a balanced scorecard reporting system
iv. Incorporate activity-based costing
v. Invest in an enterprise-wide accounting system

Managing operational risk requires a systematic, objective, and comprehensive framework that assesses all of the nonfinancial variables that could contribute to an organization's risk portfolio.

All firms incur certain operational risk simply when choosing their marketplace and its customer base. The structure of the market directly affects business complexity and revenue volatility. Technology, regulations, the consumer, and the global economy all drive changes in market structure. The organization must factor all of these into its assessment and valuation of operational risk.

The starting point to measuring operational risk is to make sure that the organization is collecting the right data (Williams et al, 1989). This requires a complete and balanced view of key business metrics across at least three dimensions and must include a mix of leading and lagging indicators. The organizations' operational data must be able to describe how a key operation is conducted within it.

To overcome any information deficiency, the organization must effectively combine operational and financial data together to form a more complete and timely picture of operational risk and decrease its reliance on historical financial reports. The managers need to assemble a list of possible and predictive metrics for the business and then test those metrics to make sure that they correlate the time lag of the activity indicator to the time of its financial impact. The ultimate payoff is that the organization can use these operational risk metrics as targets for its budgeting process. Thus, the organization strengthens its budgeting process.

Regularly assessing the organizations operational risk profile benefits the shareholders. Managers and the employees of the organization grow in their ability to both spot and manage risks and, most importantly, convert them into

opportunities. Understanding the risk profile is a benefit to the firms' customers and suppliers as well. This insight gives the organization clues into areas that offer the best benefit for allocating resources and making tough decisions.

2.4.3 Innovation Risk

Companies undertake three sources of risks when they believe themselves to be innovative and desire a culture in which employees think for themselves (Williams et al, 1989). In a culture of innovation and creativity, the three sources of risk are as follows:

a. Strategy risk, and avoiding this risk requires clear direction setting and involvement to help the entire organization know where it is going and have the ability to measure progress.
b. Market risk, which is the risk that the company fails to be in touch with the customer's needs and demands.
c. Capability risk, which is the risk that the company will not be able to execute carefully designed plans and use the innovation to generate revenues.

The solution to making a firm less vulnerable, according to George (1991), is for its leaders to clearly define each of the firm's risks though its risk management program. It is particularly important to identify strategy risks early. This involves a matching of the role or purpose of the firms' innovation with a specific strategic need for each new and existing initiative. Without such guidelines, new products, new ideas, and new services will misfire (George, 1991).

George (1991) opines that for market risk, the firm need to prevent the risk that the innovation will not meet its market's needs. The firm need to ensure that it differentiate itself from its competition or position itself as separate from what everybody else is doing. Because market risk is harder than other risks to measure and monitor, companies usually end up paying less attention to this risk (George, 1991).

Similarly, Hubbard (2009) is of the opinion that to minimize the operational risk, such as insufficient internal capability to deliver what was promised or the inability to develop new product within the desired time and budget, requires foresight and honest self-assessments. Defining the firms' innovation risk up front will allow it to take the critical first step toward successfully managing it.

2.5 Origin of Recession

In a 1975 New York Times article, economic statistician Julius Shiskin suggested several rules of thumb for identifying a recession, one of which was "two down quarters of GDP" (Encarta, 2008). In time, the other rules of thumb were forgotten, and a recession is now often defined simply as a period when GDP falls (negative real economic growth) for at least two quarters (Business Dictionary, 2008).

Based on these definitions, recession has its origins in the United States of America. Economic recessions have occurred all throughout the history of modern economics. The National Bureau of Economic Research defines economic recession as a significant decline in the economic activity spread across the economy, lasting more than a few months. As familiar as people in the U.S. are right now with economic recession, the United States is not the only county to suffer from them. Any country that has even a remotely similar modern economic structure has suffered to some degree from economic recession.

The United States suffered its first recession back in the years between 1797 and 1800. It was called the panic of 1797, and it was primarily caused by the

deflating effects of the Bank of England as they crossed the Ocean to American soil. This disrupted commercial real estate markets in the U.S. Britain's economy was in a strained state already, because it was fighting France in the French Revolutionary wars at the time. This is just one example of how the effects of recession on one country can travel quickly to another. Economists all agree that what effects one country, especially a key country, will affect the rest of the world in at least one way, shape, or form, before the recession is over. Recession history has shown that U.S. economic recession history is full of trials that have helped bring about many other recessions since the Panic of 1797. Luckily though, the Panic of 1797 was the last recession of the 1700s.

The next recession confirmed occurred in the years between 1807 and 1814, and was called the Depression of 1807. This depression was primarily caused by the Embargo Act of 1807, signed into effect by then President Thomas Jefferson. This act destroyed a good part of the shipping related industries, and it was fought hard by the Federalists, who allowed smuggling to take effect in New England as a result of the Act.

The Panic of 1819 soon followed. This was considered the first major financial crisis to unveil itself before the relatively new U.S. economy. This panic

brought with it widespread foreclosures, failing banks, huge unemployment rates, and a gigantic slump in manufacturing and agriculture that caused havoc among Americans. This recession also marked the end of great economic expansion that had taken place following the War of 1812.

Economic recessions in America continued with the Panic of 1837. This recession can really be attributed to failing banks, and to the lack of confidence people had in paper currency, which was becoming popular at the time. Banks stopped paying out in gold and silver, which really took its toll on American confidence.

The Panic of 1857 followed not long after. With the failure of the Ohio Life Insurance and Trust Company (which at the time was one of the biggest in the United States) came the explosion of a European confidence bubble in the U.S. This greatly affected the railroads and U.S. banks, causing over 5,000 businesses in America to fail in the first year of the panic alone. Unemployment rose, and protests meetings became popular.

Recessions continued to plague not only America, but the rest of the world as well. Considered part of the natural cycle of the modern economic system, no one can really escape recession in the long run. Countries like Germany, the

U.K., China, and Japan have all had trouble with recessions. In fact, economists say that Germany is in for what might be the biggest recession in all of German history not too far down the road. Japanese economic recession has also played a huge part in their history. Japanese recession, just like economic recessions in America, can be linked to the dreadful cycle of imbalanced inflation, money supply, and interest rates that keep things in balance, rolling, and functioning properly.

In the year 2001, the early 2000s recession hit America. The collapse of the dot.com bubble was truly the cause of these recessions, as well as the attacks that occurred on September 11th on the World Trade Center Towers in New York City. Accounting scandals also ran rampant, contributing to the overall downward financial spiral that America faced. Everyone remembers the attacks on America's soil, and nobody will forget how, despite economic trouble, the attacks brought Americans together, more united than ever. And with that kind of perseverance, America was led out of that struggle to a new future of prosperity.

And lastly, the financial crisis of 2007–2009 has been called the most serious financial crisis since the great depression by leading economists, (Fackler,

2009), with its global effects characterized by the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. In September 2008, the crisis deepened, as stock markets worldwide crashed and entered a period of high volatility, and a considerable number of banks, mortgage lenders and insurance companies failed in the following weeks.

2.6 Theory of Recession

Two theories of recession are of interest here; the Keynesian theory and the hangover theory.

A. Keynesian Theory

The Keynesians Theory as developed by John Maynard Keynes (1940) looked at recession from two angles; wages and spending and excess saving.

i. Wages and spending

During the Great Depression, the classical theory defined economic collapse as simply a lost incentive to produce, and the mass unemployment as a result of high and rigid real wages

To Keynes, the determination of wages is more complicated. First, he argued that it is not real but nominal wages that are set in negotiations between employers and workers, as opposed to a barter relationship. Second, nominal wage cuts would be difficult to put into effect because of laws and wage contracts. Even classical economists admitted that these exist; unlike Keynes, they advocated abolishing minimum wages, unions, and long-term contracts, increasing labor-market flexibility. However, to Keynes, people will resist nominal wage reductions, even without unions, until they see other wages falling and a general fall of prices.

He also argued that to boost employment, real wages had to go down: nominal wages would have to fall more than prices. However, doing so would reduce consumer demand, so that the aggregate demand for goods would drop. This would in turn reduce business sales revenues and expected profits. Investment in new plants and equipment—perhaps

already discouraged by previous excesses—would then become more risky, less likely. Instead of raising business expectations, wage cuts could make matters much worse.

Further, if wages and prices were falling, people would start to expect them to fall. This could make the economy spiral downward as those who had money would simply wait as falling prices made it more valuable—rather than spending. As Irving Fisher argued in 1933, in his Debt-Deflation Theory of Great Depressions, deflation (falling prices) can make a depression deeper as falling prices and wages made pre-existing nominal debts more valuable in real terms.

ii. Excessive saving

To Keynes, excessive saving, i.e. saving beyond planned investment, was a serious problem, encouraging recession or even depression. Excessive saving results if investment falls, perhaps due to falling consumer demand, over-investment in earlier years, or pessimistic business expectations, and if saving does not immediately fall in step, the economy would decline.

The classical economists argued that interest rates would fall due to the excess supply of "loanable funds". The resulting excess of saving causes

interest-rate cuts, abolishing the excess supply: so again we have saving equal to investment. The interest-rate fall prevents that of production and employment.

Keynes had a complex argument against this laissez-faire response. First, saving does not fall much as interest rates fall, since the income and substitution effects of falling rates go in conflicting directions. Second, since planned fixed investment in plant and equipment is mostly based on long-term expectations of future profitability, that spending does not rise much as interest rates fall. Given the inelasticity of both demand and supply, a large interest-rate fall is needed to close the saving/investment gap. This requires a negative interest rate at equilibrium. However, this negative interest rate is not necessary to Keynes's argument.

Third, Keynes argued that saving and investment are not the main determinants of interest rates, especially in the short run. Instead, the supply of and the demand for the stock of money determine interest rates in the short run. Neither changes quickly in response to excessive saving to allow fast interest-rate adjustment.

Saving involves not spending all of one's income. It thus means insufficient demand for business output, unless it is balanced by other sources of demand, such as fixed investment. Thus, excessive saving corresponds to an unwanted accumulation of inventories, or what classical economists called a general glut. This pile-up of unsold goods and materials encourages businesses to decrease both production and employment. This in turn lowers people's incomes and saving. For Keynes, the fall in income did most of the job by ending excessive saving and allowing the loanable funds market to attain equilibrium. Instead of interest-rate adjustment solving the problem, a recession does so.

Finally, a recession undermines the business incentive to engage in fixed investment. With falling incomes and demand for products, the desired demand for factories and equipment (not to mention housing) will fall. This recreates the problem of excessive saving and encourages the recession to continue. To Keynes there is interaction between excess supplies in different markets, as unemployment in labor markets encourages excessive saving—and vice-versa. Rather than prices adjusting to attain equilibrium, the main story is one of quantity adjustment allowing recessions and possible attainment of underemployment equilibrium.

Keynes theory suggested that active government policy could be effective in managing the economy. Rather than seeing unbalanced government budgets as wrong, Keynes advocated what has been called countercyclical fiscal policies, that is policies which acted against the tide of the business cycle: deficit spending when a nation's economy suffers from recession or when recovery is long-delayed and unemployment is persistently high—and the suppression of inflation in boom times by either increasing taxes or cutting back on government outlays. He argued that governments should solve problems in the short run rather than waiting for market forces to do it in the long run. In Keynes' theory, there must be significant slack in the labor market before fiscal expansion is justified.

B. The Hangover Theory

The hangover theory by Paul Krugman (2001) argues that downturn is the result of unhealthy or unsustainable growth. Unsustainable growth is the consequence of money and credit growth in excess of voluntary savings.

This theory is also referred to as overinvestment theory of recessions. It is the idea that slumps are the price we pay for booms, that the suffering the

economy experiences during a recession is a necessary punishment for the excesses of the previous expansion.

The theory begins by properly distinguishing between sustainable and unsustainable growth. Sustainable growth is growth consistent with consumer/producer tastes and preferences and resource availability. Investment is financed by credit made available from previous saving. Unsustainable growth occurs when the central banks' creation of credit (often accompanied by crony capitalism) allows investment to exceed available savings (Routledge, 2001). The amount and type of investment and growth are not consistent with preferences and resource availability. The process generates significant malinvestment and the possible consumption of capital. The downturn is inevitable because production has been misdirected by central bank action.

The onset of the crisis may or may not be accompanied by a higher market rate of interest. It is more likely that the rate of interest and credit availability will play a significant role. As the boom progresses, entrepreneurs will need progressively larger increases in the supply of money credit to continue the process of building the new structure of

production in the face of increasing relative demands for consumers' goods. The increased demand for credit needed to maintain the new investment proportions, the less liquid positions of banks, and/or a tighter monetary policy by a central bank fearful of the effects of inflation should cause the market rate of interest to increase. Investment cycles typically end in a credit crunch, with a comparatively sudden and simultaneous financial 'crisis' for numerous firms.

The recession is the corrective phase of the cycle; market forces have begun to reassert themselves. Once a crisis has begun, policymakers must walk a fine line. If market processes are not interfered with by government policies, the recession that follows the crisis will be sharp and short and will eliminate and correct the past errors and malinvestments. In other words, the economy moves on. If the government interferes with the market processes, however, the adjustment may be postponed, but the recession eventually will be more severe and, most likely, more prolonged.

CHAPTER THREE

Research Methodology

3.1 Introduction

This chapter handles how data is collected for the study. The chapter deals with the description of procedure adopted in carrying out the study. It describes the research design, source of data, instruments for data collection, establishment of research questions, population for the study, sampling and sampling technique, sample size and technique of data analysis.

Thus, the methodology used for the collection of data is mainly survey method based on secondary and primary sources of data collection.

3.2 Method of Research

The research design is a plan outlining how information is to be gathered for an assessment or evaluation that includes identifying the data gathering method(s), the instruments to be used/created, how the instruments will be administered, and how the information will be organized and analyzed. There are various designs which are used in research, all with specific advantages

and disadvantages. These designs range from the experimental to the survey design.

The research design allows for the determination of the type of data required as well as the method of analysing and measuring the data. It therefore gives direction to the study.

For the purpose of this study, the survey research method is adopted. The study in focus is descriptive in nature, involving the collection of data for the purpose of describing and interpreting present happenings, prevailing practices and on-going processes. The research design for this study embodies the blue print for the collection, measurement and analysis of data related to the research questions. The main research method for this thesis includes the use of questionnaires, in a survey, to gather primary empirical data. The survey is designed to reveal the impact recession in the form of the recent global economic meltdown has on risk management systems in Oceanic Bank plc.

3.3 Source of Data

The source of data is the location from which data is to be acquired for the purpose of analysis. The source of data is classified into primary and secondary sources.

For the purpose of this study, the primary (field survey) and secondary (desk survey) sources of data are employed. Primary data are those obtained directly from the case study. The aim of collecting them is to obtain first hand information about the bank being studied The primary source of data includes focused interviews as well as questionnaires while the secondary source includes documentation such as annual reports of the bank under study, media reports, journals etc. – that were relevant to the research study.

3.4 Population and Sampling Techniques

According to Obilade (1987), a population denotes the total number of all possible subjects or elements which could be included in a study. The population represents a group that the researcher would want to generalize his research to. This study considers a population of all commercial banks in

Nigeria and as at the time of this study, there are 24 registered commercial banks kin Nigeria.

The sample size for the purpose of this study will be determined using the following model as recommended by Cochran (1977):

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

Where n = required sample size

N = population size

e^2 = desired level of precision

Therefore, using a 95% confidence level, the sample size can be calculated as follows:

$$N = \frac{24}{1 + 24(0.05)} = 10.24$$

Therefore N ≈ 10

The research will therefore focus on ten (10) commercial banks in Nigeria.

A sample of ten (10) banks was conveniently selected from the population of twenty one (24) commercial banks in Nigeria; and they include the following:

i. Oceanic Bank Plc

ii. First Bank of Nigeria Plc

iii. United Bank for Africa (UBA) Plc

iv. Afribank Plc

v. Stanbic IBTC

vi. Diamond Bank Plc

vii. Bank PHB

viii. Skye Bank Plc

ix. FCMB

x. Intercontinental Bank Plc

The selection of these banks is made considering the fact that they are readily available and conveniently located in a given area.

A total of one hundred (100) questionnaires are distributed to the sampled banks, with each bank having ten (10) questionnaires. The questionnaires are distributed to the top management personnel of each bank. This is because they are in a better position to assess the risk parameters in their bank.

3.5 Tools of Data Analysis

The data collected for this study will be analyzed using the descriptive statistic and the chi-square test. The descriptive statistic will take the form of frequency and percentage tables while the chi-square test will be used to test the null hypothesis.

The chi-square test formula (χ^2) is given by:

$$\chi^2 = \sum \frac{(fo - fe)^2}{fe}$$

where: χ^2 is the chi-square symbol representing the chi-square calculated

$\sum$ = the summation of the total values obtained

fo = the observed frequency of respondents

fe = the expected frequency of respondents

Source: Marie (2008)

Where the calculated chi-square is greater than the table value at a given degree of freedom, the null hypothesis is rejected. Otherwise, the null hypothesis is accepted.

The simplicity and ease of understanding associated with the simple percentage accounts for its usage, and the chi-square statistical tool was appropriate because it is applied to explain the relationship of the variables under study.

CHAPTER FOUR

Presentation and Analysis of Data

4.1 Introduction

This chapter is devoted to the presentation and analysis of data. As stated in the previous chapter, methods of data acquisition include the questionnaire and face-to-face interview, with the questionnaire being the most widely used as the main data collection instrument.

The data acquired relate to the impact of recession on risk management systems of ten selected banks. The presentation and validation of hypothesis stated earlier is carried out in this chapter.

4.2 Data Presentation

A total of 100 questionnaires were distributed for the purpose of this study, ten for every sampled bank. Ninety two (92) questionnaires out of the hundred issued were duly completed and returned accordingly, thus representing a 92% completion rate.

Table 1: Sex of respondent

Options	Frequency	Percentage
Male	67	73
Female	25	27
Total	**92**	**100**

Source: Field survey, 2010

67 respondents representing 73% of the total respondents are male, while 25 of the respondents are female. The result shows a predominantly male staff population in the sampled banks.

Table 2: Age group of respondent

Options	Frequency	Percentage
25 – 30	20	22
31 – 35	36	39
36 – 40	21	23
41 – 45	10	11
45 – above	5	5
TOTAL	**92**	**100**

Source: Field survey, 2010

20 respondents, representing 22% of the population were between the ages of 25-30. 39%, which represent 36 respondents were within the ages of 31-35, 21 respondents were within the ages of 36-40 while 11% of the population were

within the ages of 41-45. Only five (5) of the respondents were 45 years old and above.

Table 3: Response on whether there is a standard risk management system in place

Options	**Frequency**	**Percentage**
Yes	92	100
No	0	0
TOTAL	**92**	**100**

Source: Field survey, 2010

Response for the ninety two (92) respondents indicates that there is a standard risk management system in place in all the sampled banks. This is represented by a hundred percent response rate in the affirmative.

Table 4: Response on whether existing risk management system is adequate for the level of operation

Options	**Frequency**	**Percentage**
Strongly Agree	34	37
Agree	21	23
Indifferent	10	11
Disagree	15	16
Strongly Disagree	12	13
TOTAL	**92**	**100**

Source: Field survey, 2010

The response above shows opinion on the adequacy of existing risk management system for the level of operation. 60% of the respondents either agree or strongly agree while 29% of them either disagree or strongly disagree. 11% of the respondents were however indifferent.

The adequacy of a bank's risk management system for its level of operation determines to a large extent, the effectiveness of existing risk management system.

Table 5: Response on the type of risk identification method adopted

Options	**Frequency**	**Percentage**
Objectives-based risk identification	24	26
Scenario-based risk identification	0	0
Taxonomy-based risk identification	0	0
Common-risk checking	58	63
Risk charting	10	11
Total	**92**	**100**

Source: Field survey, 2010

From the table above, banks seems to favour the use of objectives-based risk identification, common-risk checking as well as risk charting identification

methods. The common risk checking method however accounts for a higher percentage (63%) in terms of usage.

The scenario-based risk identification and the taxonomy-based risk identification methods are not used in risk identification by selected banks.

Table 6: Response on frequency of review of risk management system

Options	**Frequency**	**Percentage**
Twice a year	17	33
Once every year	35	67
Once in two years	0	0
Once in three years	0	0
Total	**52**	**100**

Source: Field survey, 2010

52 out of the 92 respondents agree to having a fixed period for the review of risk management system. 17 of them say a review is done twice a year while 35 of them say it is done once every year. The remaining 40 respondents have varying response to this question. Some say that there is no fixed period for the review of existing risk management system while others say that a review is hardly ever done.

Table 7: Response on whether any significant setback was witnessed as a result of the recent global financial crisis

Options	Frequency	Percentage
Strongly agree	7	7
Agree	9	10
Indifferent	21	23
Disagree	32	35
Strongly disagree	23	25
Total	**92**	**100**

Source: Field survey, 2010

The recent global financial crisis did not result to any significant setback in most of the sampled banks. This is according to 60% of the sampled population. A large number of the sampled population however (23%) were not sure of the direction of impact the financial crisis had on their bank.

Table 8: Response on whether the risk management system in place provides enough cushion against recessionary trends

Options	Frequency	Percentage
Strongly agree	17	19
Agree	48	52
Indifferent	13	14
Disagree	9	10
Strongly disagree	5	5
Total	**92**	**100**

Source: Field survey, 2010

The table above shows that about 71% of the respondents are of the view that the risk management system in place provides enough cushion against recessionary trends while 14 respondents representing 15% do not agree. 14% of the respondents however do not know if enough cushion is provided against recessionary trends by the existing risk management system.

Table 9: Response on whether the recent global financial crisis prompted any special review of existing risk management system

Options	Frequency	Percentage
Strongly agree	55	60
Agree	16	17
Indifferent	0	0
Disagree	20	22
Strongly disagree	1	1
Total	92	100

Source: Field survey, 2010

From the table above, more than half of the respondents (77%) claim that the global financial crisis prompted a special review of existing risk management system, while only 23% of the respondents claimed otherwise.

Table 10: Response on whether the recent global financial crisis impacted on the banks credit management system

Options	Frequency	Percentage
Strongly agree	**68**	**74**
Agree	**12**	**13**
Indifferent	**7**	**8**
Disagree	**5**	**5**
Strongly disagree	**0**	**0**
Total	**92**	**100**

Source: Field survey, 2010

As can be seen above, there is an overwhelming agreement that the recent global financial crisis impacted on the banks credit management system, this is represented by 87% of the sampled population.

4.3 DATA ANALYSIS

The analysis of data is carried out in this section in order to gain an insight into the relationship between the variables as stated in the statistical hypothesis.

As stated in chapter one, the hypothesis is as follows:

H_0 – there is no significant relationship between global financial crisis and risk management systems in Nigerian Banks.

H_1 – there is a significant relationship between global financial crisis and risk management systems in Nigerian Banks.

In order to test this hypothesis, the chi-square statistic will be employed as follows:

$$\chi^2 = \sum \frac{(oj - ej)^2}{ej}$$

where: χ^2 is the chi-square symbol representing the chi-square calculated

$\sum$ is the summation of the total values obtained

oj is the observed frequency of respondents

ej is the expected frequency of respondents

The data in tables 4, 7, 8, 9 and 10 will be combined in order to test the stated hypothesis.

Table 11: **Observed frequency**

Response	S/Agree	Agree	Indifferent	Disagree	S/disagree	Total
Table 4 **Response on whether existing risk management system is adequate for the level of operation**	34	21	10	15	12	**92**
Table 7 **Response on whether any significant setback was witnessed as a result of the recent global financial crisis**	7	9	21	32	23	**92**
Table 8 **Response on whether the risk management system in place provides enough cushion against recessionary trends**	17	48	13	9	5	**92**
Table 9 **Response on whether the recent global financial crisis prompted any special review of existing risk management system**	55	16	0	20	1	**92**
Table 10 **Response on whether the recent global financial crisis impacted on the banks credit management system**	68	12	7	5	0	**92**
Total	**181**	**106**	**51**	**81**	**41**	**460**

The result of the expected frequency is therefore derived from the observed frequency table using the following formula as presented on the table below:

$$\frac{\text{Row total} \times \text{Column total}}{\text{Grand total}}$$

Therefore, for each cell, the expected frequency would be as follows:

Table 12: **Expected frequency**

Response	S/Agree	Agree	Indifferent	Disagree	S/disagree	Total
Table 4 **Response on whether existing risk management system is adequate for the level of operation**	36.2	21.2	10.2	16.2	8.2	**92**
Table 7 **Response on whether any significant setback was witnessed as a result of the recent global financial crisis**	36.2	21.2	10.2	16.2	8.2	**92**
Table 8 **Response on whether the risk management system in place provides enough cushion against recessionary trends**	36.2	21.2	10.2	16.2	8.2	**92**
Table 9 **Response on whether the recent global financial crisis prompted any special review of existing risk management system**	36.2	21.2	10.2	16.2	8.2	**92**
Table 10 **Response on whether the recent global financial crisis impacted on the banks credit management system**	36.2	21.2	10.2	16.2	8.2	**92**
Total	**181**	**106**	**51**	**81**	**41**	**460**

Given the observed and the expected frequency, the computed chi-square statistics estimated will be as follows:

$$\chi^2 = \sum \frac{(oj - ej)^2}{ej}$$

Table 13 Chi – Square evaluation table

oj	ej	oj – ej	$(oj - ej)^2$	$\frac{(oj - ej)^2}{ej}$
34	36.2	-2.2	4.84	0.134
21	21.2	-0.2	0.04	0.002
10	10.2	-0.2	0.04	0.004
15	16.2	-1.2	1.44	0.089
12	8.2	3.8	14.44	1.761
7	36.2	-29.2	852.64	23.554
9	21.2	-12.2	148.84	7.021
21	10.2	10.8	116.64	11.435
32	16.2	15.8	249.64	15.410
23	8.2	14.8	219.04	26.712
17	36.2	-19.2	368.64	10.183
48	21.2	26.8	718.24	33.879
13	10.2	2.8	7.84	0.769
9	16.2	-7.2	51.84	3.2
5	8.2	-3.2	10.24	1.249
55	36.2	18.8	353.44	9.764
16	21.2	-5.2	27.04	1.275
0	10.2	-10.2	104.04	10.2
20	16.2	3.8	14.44	0.891
1	8.2	-7.2	51.84	6.322
68	36.2	31.8	1011.24	27.935
12	21.2	-9.2	84.64	3.992
7	10.2	-3.2	10.24	1.004
5	16.2	-11.2	125.44	7.743
0	8.2	-8.2	67.24	8.2
				212.728

From the table above, the calculated value of X^2 is 212.728

The degree of freedom, for a 5 × 5 contingency table is given as follows:

$V = (h - 1)(k - 1)$

Where: V is the degree of freedom

h is the number of rows

k is the number of columns

The degree of freedom (V) is therefore

$V = (5 - 1)(5 - 1)$

$V = 4 \times 4$

$V = 16$

Using the chi-square distribution table with v degrees of freedom, we then find that the critical value of χ^2 at 5% (0.05) significance level and degree of freedom V = 9 is given as 26.30

Decision rule

If chi-square calculated (X^2_c) given by the degree of freedom is greater than the table value (X^2_t) at 5% significance level, we would reject the null hypothesis and accept the alternate hypothesis.

RESULT INTERPRETATION

Since the chi-square test of hypothesis show that the calculated value is greater than the table value i.e. 212.728 > 26.30, we reject the null hypothesis (H_0) and accept the alternate hypothesis (H_1).

This implies that the null hypothesis which states that there is no significant relationship between global financial crisis and risk management systems in Nigerian Banks would be rejected and as such the alternate hypothesis which states that there is a significant relationship between global financial crisis and risk management systems in Nigerian Banks is accepted.

4.4 Presentation of other Findings

Some of the identified problems of existing credit management system of sampled banks include the following:

i. The banks do not set clearly strategic goals for the lending divisions etc. in line with management philosophies etc. for the financial institution as a whole.
ii. Strategic goals for the lending divisions etc. are not appropriate from the perspective of risk management that results. For example, they do not eliminate a concentration of credit risks from efforts to achieve short-term profits by lending to specific industries or groups.
iii. The board of directors does not receive regular reports on credit risks (including the status of concentrated lending to specific industries or groups).
iv. Management do not verify adherence to credit risk management policies based on measured risk information?

Findings from the study of the selected banks also showed that the risks to which they are particularly exposed in their operations are:

i. Liquidity risk,
ii. Credit risk,
iii. Market risks (interest rate risk, foreign exchange risk and risk from change in market price of securities, financial derivatives and commodities)
iv. Exposure risks

v. Investment risks
vi. Operational risk
vii. Legal risk
viii. Reputational risk and
ix. Strategic risk

Liquidity risk is the risk of negative effects on the financial result and capital of the bank caused by the bank's inability to meet all its due obligations.

Credit risk is the risk of negative effects on the financial result and capital of the bank caused by borrower's default on its obligations to the bank.

Market risk: includes interest rate and foreign exchange risk. *While Interest rate risk* is the risk of negative effects on the financial result and capital of the bank caused by changes in interest rates, F*oreign exchange risk* is the risk of negative effects on the financial result and capital of the bank caused by changes in exchange rates. A special type of market risk is the *risk of change in the market price* of securities, financial derivatives or commodities traded or tradable in the market.

Exposure risks: include risks of bank's exposure to a single entity or a group of related entities, and risks of banks' exposure to a single entity related with the bank.

Investment risks: include risks of bank's investments in entities that are not entities in the financial sector and in fixed assets.

Operational risk: is the risk of negative effects on the financial result and capital of the bank caused by omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems, and unforeseeable external events.

Legal risk: is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, and penalties and sanctions pronounced by a regulatory body.

Reputational risk: is the risk of loss caused by a negative impact on the market positioning of the bank.

Strategic risk: is the risk of loss caused by a lack of a long-term development component in the bank's managing team.

CHAPTER FIVE

Summary, Conclusion and Recommendations

5.1 Summary

Recession has varying impact on business entities. These impacts depend on the type of business especially as regards to its relationship with the macroeconomic indicators which mostly reflect the existence of recession. In order therefore to cushion the effect of recession, risk management systems are usually set up to enable the organization monitor and control its overall cost of risk.

The objectives of this study were to among others, to assess the impact of recession on risk management systems as well as to assess the extent to which risk management systems in selected banks provides cover for recession as a systematic risk and to appraise the effectiveness of the banks general risk management system.

The existing commercial banks in Nigeria constituted the population of the study while ten out of the twenty two were sampled. Questionnaires formed the major source of data collection while the non-parametric chi square test was used to test the stated hypothesis.

Findings show that there is a significant relationship between global financial crisis and risk management systems. The global financial crisis placed a strain on existing risk management systems of banks in Nigeria. Several banks had to review their risk management systems to reflect the increased risk as a result of the global phenomenon.

5.2 Conclusion

The unprecedented scope and depth of the global financial and economic crisis have invited attention from governments, regulators, and stakeholders to corporate risk management and governance practices. The global financial crisis has shown that having a robust risk management framework that takes into cognisance all risk elements of all business ventures entered into by banks is of paramount importance to the long-term survival of the institutions. There is a pressing need for continual re-evaluation of the enterprise risk management framework no matter the level of sophistication achieved in product or service offering. Unethical practices on the part of the management of banks, no matter the age and size will ultimately ruin it. Embracing the virtue of improved corporate governance practices on the part of operators will go a long way in ensuring financial institutions do not fall victim to the

vices that resulted in the distress of banks in America. Internal auditors in all organizations stand to play critical roles in promoting better corporate governance and risk management cultures by providing additional assurance services.

5.3 Recommendations

The success of a Risk Management System requires a business owner to comprehensively follow the steps laid out in the system and practice strict adherence to the rules. A good Risk Management System should include the five steps below:

1. Identifying Risks: These risks could be due to fire or forces of nature, risk of obsolescence, competitive products or theft (of tangible as well as intangible material)

2. Quantifying Risks: Identified risks need to be quantified in terms of potential loss of income and reputation caused by the actual loss, as well as further loss of income until the risk is tackled and eliminated

3. Formulating Strategies to Contain the Identified Risks: As has been said earlier, you cannot run a business without running a risk or taking a chance.

What you can do, however, is to contain the risk so as to limit potential losses

4. Implementing Strategies: Strategies, no matter how good they are, are useless unless they are put into practice. Putting strategies into practice also helps to evaluate their utility and identify company shortcomings.

5. Continuous Monitoring of Risk Containment Tasks: Risk containment tasks have to be constantly monitored to ensure that the risk that they present is tackled promptly and thereby minimized. Continuous monitoring ensures that the changing needs of the business are met.

Other recommendations are as follows:

i. It is recommended that banks particularly and financial institutions in general constantly review their risk management strategy at least once every year.
ii. The level of risky assets in banks portfolio should not fall short of the prudential ratios prescribed by regulatory authorities.
iii. Boards should be responsible for defining banks' risk appetites and identifying emerging areas of risk since they are statutorily responsible for reviewing and guiding corporate strategy and risk

policy and for ensuring that appropriate systems for risk management are in place.

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APPENDIX A:

QUESTIONNAIRE

Department of Business Administration
Faculty of Administration,
Ahmadu Bello University Zaria
26th October, 2010

Dear Sir/ Madam,

I am an MBA student of the above named Department conducting a research work on the impact of Recession on Risk Management Systems.

I consider your bank as very central to this study. The information you give us for the purpose of this study would be treated only for academic purposes and your name will in no way be made reference to or quoted.

Thank you very much for the maximum co-operation and assistance.

Yours faithfully,

Nwokeke Uchechi
MBA/ADMIN/00149/08-09

Instruction: Please tick (√) as appropriate, unless otherwise stated

SECTION A: Bio data

1. Sex:
   - Male ( )
   - Female ( )

2. Age:
   - 25 – 30 ( )
   - 31 – 35 ( )
   - 36 – 40 ( )
   - 41 – 45 ( )
   - 45 – above ( )

SECTION B: Data on the impact of Recession on Risk Management Systems

3. Name of Bank:

4. Does your organization have a standardized risk management system in place?
   a. Yes ( )
   b. No ( )

5. Do you believe the risk management system of your bank to be adequate for the level of operation?
   a. Strongly Agree ( )
   b. Agree ( )
   c. Indifferent ( )
   d. Disagree ( )
   e. Strongly Disagree ( )

6. Which of the following risk identification methods does your bank adopt
   a. Objectives-based risk identification ( )
   b. Scenario-based risk identification ( )
   c. Taxonomy-based risk identification ( )
   d. Common-risk checking ( )
   e. Risk charting ( )

7. How often does your organization conduct a review of its risk management system?
   a. Twice a year ( )
   b. Once every year ( )
   c. Once in two years ( )
   d. Once in three years ( )
   e. Others (Specify) _____

8. In your own view, did your bank witness any significant setback as a result of the recent global financial crisis?
   a. Strongly Agree ( )
   b. Agree ( )

c. Indifferent ( )
d. Disagree ( )
e. Strongly Disagree ( )

9. Does the risk management system you have in place provide enough cushion against recessionary trends?
   a. Strongly Agree ( )
   b. Agree ( )
   c. Indifferent ( )
   d. Disagree ( )
   e. Strongly Disagree ( )

10. Did the recent global financial crisis prompt any special review of your organizations existing risk management system?
   a. Strongly Agree ( )
   b. Agree ( )
   c. Indifferent ( )
   d. Disagree ( )
   e. Strongly Disagree ( )

11. How would you agree that the recent global financial crises had an impact on the credit management system of your bank?
   a. Strongly Agree ( )
   b. Agree ( )
   c. Indifferent ( )
   d. Disagree ( )
   e. Strongly Disagree ( )

12. Mention some major problems of credit management system in your bank

_____

_____

_____

13. Could you please suggest some solutions to the above problems?

_____

_____

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