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MANAGEMENT RISKS IMPROVEMENT AS A KEY FOR THE CRISIS OVERCOMING

Financial crisis creates shift in strategic priorities. At the first sight, the current predicament appears to stem from the pursuit of revenue growth in the world of easy credits. The reality in fact is more complex and a number of causes emerge from the survey findings: weaknesses in risk culture and governance; gaps in risk expertise at the non executive Board level; lack of influence of the risk function; lack of responsibility and accountability of those on the front line; a compensation culture mostly oriented at year by year profit increases; business models that were over reliant on ample market liquidity.

The current economic crisis has exposed inherent weaknesses in risk management, forcing banks to improve their risk governance processes, increase the collaboration between risk and finance functions, and make instilling a risk culture a true priority.

In order to create and instill a culture of risk awareness within banks, risk management must become everyone's business.

Banks and other financial institutions have been leaders in the Ukrainian market with respect to initiating, building and evolving their risk management functions and instilling a risk-aware culture within their organisations.

This is due partly to the nature of the banking business itself but also due to the close coordination and regulation by the central bank of Ukraine.

Risk management functions in Ukrainian banks are receiving ever increasing levels of attention and executive management support, especially as the Ukrainian market goes through various stages of challenge and evolution.

Shareholders, executive management and all stakeholders are demanding more comprehensive, timely, collaborative and forward-looking risk management information and analysis of all parts of the business sector.

Poor data quality, gaps in the data flow, and the sheer volume of data are just a few challenges which banks face with.

The banking system needs to strengthen forecasting by developing more formal processes and more forward-looking risk assessment tools. This includes more frequent executive risk committee meetings implementation, in order to monitor issues and events, creating detailed scenario modeling, and mandating periodic portfolio reviews to monitor leading risk indicators.

The crisis is already acting as a catalyst by dismantling silos, promoting more dialogue between risk and finance, and stimulating broader discussion of risk as a core issue.

The risks to which a bank is particularly exposed in its operations are as follows: liquidity risks, credit risks, market risks (interest rate risk, foreign exchange risk and risk from change in market price of securities, financial derivatives and commodities), exposure risks, investment risks, risks relating to the country of origin of the entity, operational risks, legal risks, reputational risks and strategic risks.

All risks are interconnected. The crisis has also driven home the interdependencies in the global banking system, both at a micro level within organizations and at a macro level across the industry.

The top priority for Ukrainian banks now is to manage the liquidity and reputational risks.

Liquidity is a key factor for the soundness of the banking sector. Liquidity risk can best be described as the risk of a funding crisis.

In any case, risk management here centers on liquidity facilities and portfolio structure. Recognizing liquidity risk leads the bank to recognize liquidity itself as an asset, and portfolio design in the face of illiquidity concerns as a challenge.

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

Overcoming these types of risks the banking industry can renew the confidence of investors and depositors and survive the financial crisis with smaller losses.