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Globalization of Banking Business and Risk Management

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Abstract. Risk management is a vital component of internal control and refers to the process of identifying and analyzing risks in achieving the organization's objectives and in defining a suitable risk mitigation response.

This means:

- ✓ Identification of the risk
- ✓ Risk Assessment and Classification
- ✓ Assessing the organization's appetite for risk
- ✓ Prepare a Risk Response

Also, risk management should be reviewed and reported in order to monitor whether a risk profile is changing or not, to obtain guarantees that risk management is effective and to identify further action that is needed.

Typical problems related to risk management that are encountered are:

- ➢ Senior managers are not aware of the responsibility they have for implementing it and / or do not seem to want to implement it.
- ➢ Mid-level managers are afraid to apply risk management as they may not want to accept the risks / weaknesses in their current work arrangements.ϖ
- ➢ Where risk is managed, it is often implemented at the end of the internal control process, rather than at the beginning.

As risk management refers to the process of identifying and analyzing risks to the achievement of objectives, this management requires financial institutions to set their business objectives and then carry out a risk analysis to see if these objectives are possible realized. Risk management can be seen as a bridge between the control environment and the control of activities, since it is precisely on the basis of the risk analysis that internal controls need to be set up. If the risk analysis is done after the internal controls have been set up, then it is unlikely that these controls will be the appropriate ones to cope with the risks.

Key words: financial institutions, portfolio, liquidity risk, market risk, risk of banking exposure, country risk, operational risk.

Introduction

Banks and other financial institutions face various difficulties in their business. Bank risks are the potential of absolute or relative losses versus the expectations of banking business; they are features of bank management. Modern banking business is exposed to new risks which were unknown until recent times. By applying the new tools, techniques and strategies, and new banking products, adds additional number of risks. Uncertainty is further increased by interest rate changes, deposit fluctuation and reduced ability of credit return by borrowers, but also the influence of other factors such as deregulation, moral hazard and the entry of new banks outside the traditional banking business. Due to the nature of their work banks are more and more exposed to great impact of various risks, and the impact of the risks is more rapid. In this context, financial institutions management is becoming more and more difficult due to uncertain circumstances they are facing now, in terms of economic, financial, and political impact.

Globalization of banking business and trends in mergers and acquisitions of large banks, force bank management to identify and quantify the important risks. Risk identification is the first step towards a successful banking business. The most significant risk threatening banking business, is estimated to be credit risk. In this we give special emphasis to this risk.
Credit risk is that a borrower will be unable to make a payment of interest or principal in a timely manner. This risk represents a permanent or temporary disability of a debtor to fulfill at the contracted time, in whole or in part, its obligations to the financial institution. Also, credit risk, besides loans, can be addressed to some other banking instruments such as securities, etc.

To eliminate the risk, or even reduce the level of risk to the extent that is acceptable to the institution, risks should be carefully analyzed and managed. To avoid these risks, the banking sector is necessarily obliged to promote an adequate credit management system, to do in-depth analysis and try to monitor them. Risk analysis should show the processes and key points of danger. Credit management system should propose measures and find solutions to eliminate or reduce the risk. Credit risk management represents a management project, which takes place consistently to monitor and assess the risk. The main purpose of banking risk management is to harmonize risks and rewards, and in this regard, the focus of bank risk management is the credit and market risk, which impacts solvency risk on bank as the main bank risk. Interest rate risk and currency risk are also included in the market risk, while the liquidity risk remains slightly sideways as more specific risk can be managed through financial markets, but provided they have high degree of solvency and credibility. Therefore, risk management in the banking system is intended to increase the solvency of the bank and simultaneously to maximize the rate of return on capital by risk correction.

Description of research methodology

We will try to present ourselves through the method of comparison with the knowledge of the studies carried out in relation to scientific research methodology and the ability to independently develop scientific-research work in relation to risk management in our country.

Here will be explored the basic notions of risk management, their role in the field of risk management. Local and foreign literature will be used for theoretical and practical study of the subject. Data cluster needed through data collection, regulation and processing methods. Comparative, comparative and synthesis methods, in the country's financial institutions, will be used for the study. Also, data from different financial institutions that their business will develop in the Republic of Kosovo will be used. Also, a survey will be conducted with a number of clients to try to figure out which are the most common factors affecting the quality of loan returns. Processing of these surveys will be done and they will be presented graphically in this paper.

In recent years - in current trends, financial institutions' business has undergone major changes under the influence of deregulation, which has enabled banks to offer different financial services. Commercial banks provide a wide range of non-traditional financial services, including insurance, securities trading, pensions and similar services.

In Kosovo, all banks operating within the system of financial institutions have the status of commercial banks and microfinance institutions (MFIs).

The most common risk to financial institutions' business is the possibility that the borrowed or invested assets will not be returned, which would cause the bank losses. Many unexpected events may hinder borrowers from performing their obligations when they have expired, such as elemental disasters (floods, earthquakes, etc.). However, changes in the taste of consumers can also significantly affect the business and the fate of the enterprises.

To prevent and control losses due to non-return on borrowed and invested assets, financial institutions should have high credit rating standards, know the borrower and his business well, and have an active return policy hers.

Among the main objectives of the study are:

a) Provide a definition of the basic principles of banking management.
b) Harmonize policies and procedures with best practices from the country and region on risk management.
c) The process of selecting scientific research methods.
d) Proposals on how to implement and implement best practices, practices and standards for risk management

The risk management objective is that the liquidity criterion conflicts with that of profitability. Solving this dilemma is done by the financial institution by balancing the level of reserves with that of loans. That is why financial institutions are very cautious in earning profits. They do not aim for too high profits but profits harmonized with meeting the liquidity needs. Financial institutions should avoid appearing as bad choices and risk of conscience, otherwise they will not be profitable. For this purpose, the financial institution applies the following principles of loan management, principles that limit these two negative phenomenaThe primary purpose of this paper is to analyze the impact of risk on the profitability of institutions providing financial services. Risk management plays an important role in the profitability of enterprises, as business outcomes are very closely related to how these financial institutions manage the risk. Enterprises can avoid risk for financial concerns if they manage to maintain their ability to meet their contracted interest obligations and capital payments to financial institutions.

In everyday life we face every day risks of different nature, to which we try to exercise the so-called "risk control", such as. road driving, car driving, job loss, price rises, natural disasters, thefts, scams, etc. Also, businesses in the process of developing their activity are associated with many risks, both internal and external, which risks which if not managed risk the achievement of business objectives. Therefore the purpose of this paper is to prepare to deal with events that may deviate from the realization of the objectives will enable the business to avoid, reduce, transfer or accept and manage the risk. In this regard, opportunities must be explored to apply strategies by which it prevents, detects or corrects the occurrence of an event that may jeopardize the achievement of its objectives.

Many financial institutions have different risk management practices, as well as many acts and regulations that need to be adapted to the all-acceptable risk management rules and principles that can be summarized at short notice.

- legislation;
- Standards and principles of risk management;
- Common risk management practices;
- Market capital rules;
- Access to reports (submission to national competent bodies);

For each country, domestic regulations are prevalent with regard to the preparation of financial statements, whether this is more pronounced or less pronounced.

Subsequently, an analysis will be conducted based on a concrete research on risk management in institutions providing financial services as well as assessments and conclusions based on the importance of contemporary risk management.

From the results obtained in this paper, it is alleged that the risk management mechanisms in the institutions that provide financial services, determine the factors that influence the risk increase in the Republic of Kosovo, and evaluate the effects as well as draws conclusions and recommendations.

Conclusions :

Credit risk management has always been under the on-going control of senior management. At this stage of advancement and complexity of the risk transfer mechanism, financial institutions should examine the basics of credit risk management and identify key priorities and challenges in the area of credit risk and problem solving. Worldwide experience has shown that poor credit quality coupled with poor credit risk management practices continues to be a dominant factor in bank failures and banking system crises. Information on a bank's credit risk profile and compliance with its management processes is essential in assessing market supervisors and market participants in terms of their terms, performance, and ability to survive in the long run. Information is important in assessing the health and safety of the banking system and financial institutions should coordinate activities related to identification and risk assessment that jeopardize the achievement of unit objectives and the establishment of a risk management system in proportion with its size as well as advising and giving instructions to other managers of other departments.
In order to manage the risk in the most professional way from the present discussion of this topic we have concluded that it should be done:

- Organization of Financial Institutions to Manage Risk
- Organization of Financial Institution Structures
    - Risk Management Committees
    - Risk Management Process
    - Types of risk
    - Credit policies

- Under the Committees
- Chief Risk Officer
- Control functions
- Central Crediting Department
- Assessing the Risk Function
- Credit management including problems in the credit process

- Audit Department

The system should ensure that the entity's structures will report regularly on the identified risks and actions taken as a response to the risk. The reporting line should be established in order to ensure that information on identifying and monitoring all risks is reported to senior management and all departments and units.

The monitoring also identifies which risks have become more threatening and lessened. In this way, not only ensures transparency and accountability for the entity's activities but also systematic reporting on the status of risks enables the unit's management to distinguish the priorities in dealing with the risks. The Strategic Management Group needs to verify how risks are managed within a financial institution.

Once they have identified all the strategic, operational and control objectives, managers under the direction of the underwriter must identify all the risks associated with each of the objectives (eg events that could come in risking the fulfillment of any objective, including the case when the odds are not utilized to their fullest extent). These risks can be internal (eg human error, fraud, system crash) and external (eg changes in legislation, natural disasters, etc.). It is essential that managers of all levels within the unit identify the risks associated with the respective objectives and report on them.

Leadership and no leading task can not exist without defining the goal and without determining the stages for its realization. Only for defined or defined purposes, the organization's actions can be oriented or directed, as well as risk management will only succeed when its principles are accurately implemented during the work, and at the same time the implementation of his will be successful.

From the first hypothesis we can conclude that the interest rate impact is evident, which is also argued by the processed data for this problematic.

Even for the second hypothesis, the correlation between seasonality and the return on time of annuities on a contractual basis was verified.

The third hypothesis has proved the impact of the waiting period on the quality of loan repayment

This paper illustrates and discusses the principles, importance, activities and implementation of risk management. This paper begins with the explanation of management principles, their separation and the definition of essential risk management features. Then, there is a clear insight into the importance of risk management, which has recently become a high profile, because rapid and timely risk identification provides significant benefits to the organization itself.

Recommendations

Taking into account the business environment of financial institutions, risk management has become "art" in itself. The major global banking crises, which recently hit the banking sector, although their impact was not immediate in our country, the recovery of these effects lasted longer. The experiences of the countries overcome by these crises should also serve us to create mechanisms and regulators for the protection of these situations, even if they hit us.

It is known that risks are caused by external factors such as strategic and internal risks, including human factor, programs, procedures, and so on. External factors influence the financial institutions' impact, while on internal factors, financial institutions have more opportunities to deal with risks. From this it appears that financial institutions need to create internal controls and be able to:

- Risk assessment
- Risk response
- Control Activities
- Monitoring

To support regular monitoring, senior management should establish an internal risk reporting system identified, according to the Risk Coordinator's guidelines, ensuring a timely, frequent (eg quarterly) and detailed reporting .

The system should ensure that the entity's structures will report regularly on the identified risks and actions taken as a response to the risk.

In risk management, they should identify the risks at the financial institution's overall level and at the activity level by asking the following questions:

- What can go wrong?
- Can we fail?
- What should work to achieve our goals?
- What are the assets we must protect?
- How could anyone get absorbed by spending units, departments, sectors?
- How could anyone or something (such as lack of energy supply or damage to a particular equipment) affect our activities and operations?
- How can we know if we are meeting our goals?
- What are the information we rely on?
- Which activities are more complex?
- Which activities are regulated?

Risk management implies not only identifying and assessing risk as well as identifying and enforcing appropriate controls, but also continuous monitoring and reporting on its terms. This helps to track the process if the risks are managed successfully, ie if the control activities have minimized the corresponding risks and if the endangered objectives are met.

Managing inattention (neglect) needs absolute. Each central unit should prepare and adopt a risk management strategy, which should be regularly updated (at least once every three years) and whenever the risk environment undergoes significant changes. This strategy should be prepared by the Risk Manager. The senior management adopts the risk management strategy. The Risk Manager analyzes and updates controls aimed at minimizing risk, at least once a year. The risk strategy defines how the unit moves towards risks and establishes the overall framework of the risk management process.

For this, any financial institution during its business needs:

- Adoption of a risk management strategy, which is regularly updated;
- Awareness of unit staff about the approved risk management strategy;
- Clear division of risk management responsibilities, including reporting for their fulfillment to the respective manager

The risk strategy after approval by Senior Management should be made available to employees and recognized by them. The risk strategy should clearly define risk management and risk management structures, how to address risks at the strategic level, program level and activity level; structures for monitoring and evaluating it; criteria for determining major risks; risk register mechanisms as well as criteria for risk measurement.

The risk strategy should also determine the unit's risk appetite at the strategic level. The risk appetite relates to the level of risk a unit is willing to allow (meaning to agree to be exposed) in accordance with its mission, vision and objectives at any time before deciding whether to intervene. Risk appetite is affected by the external and internal control environment, people, work systems, and policies. For the highest rated risks (most critical), a long-term action plan needs to be drawn up. Identified risks can be reduced or reduced by introducing appropriate control activities.

These checks may be:

- Preventive controls designed to reduce the likelihood of a risk occurring (such as division of duties,
- clear limits of authorized delegations, etc.);
- Corrective controls designed to correct unwanted results (such as when payments are made incorrectly);
- Management controls designed to guarantee the achievement of a certain outcome (such as safety
- measures, or health and life preservation requirements); or
- Inventory controls designed to identify instances when unwanted results have already occurred (eg, reserve controls, or assets).

Regarding the hypotheses set out for this paper, however, they should be well analyzed and the recommendation for the first hypothesis; The size of the interest rate does not affect the non-payment of the loans would be the harmonization of interest rates with the competition, so that the interest rates do not cause the delays of credit payments, because high interest rates directly affect in reducing revenue from business revenues and inadequate revenue after loan payments, our customers will not have limited investment opportunities and their businesses will fail. With the failure of their businesses, delays in loan payments will arise, and the delay will also have a direct impact on the reduction of creditors' profits (financial institutions). Second hypothesis: There is no direct link between seasonality and loan repayment, we recommend that annuity periods should be tailored to the borrower's payment options so that we do not create a delicate client but create flexible payment options according to the borrowing season of the funds. For the third hypothesis: The waiting period (grey period) has no impact on credit quality, our recommendations are too good to ensure that debtors create easier opportunities for their business in their businesses. This is the fact that if at the beginning of the loan or even if at a certain time period clients are enabled to pay the loan after a certain time period they will be able to initially invest in raw materials or even machinery starting the production they will be able to make the payments of contracted annuities much easier, ie by selling their products. Its impact is also in the field of agriculture, where the waiting period would help many clients both in crops and fruit trees, vineyards, animal husbandry, poultry (bird breeding).

One should never forget the fact that financial institutions are dependent on customers so it is their duty to create better opportunities for clients rather than creating barriers for customers. If you do not create the conditions for customers to make payments more favorable to them, then not only will they create problems for current loans, but will also lose them as a customer in the future as for their delays they will be categorized into the Credit Registry at the Central Bank, and their categorization (categories A, B, C, D, E, W) will not allow our policies and procedures to finance these clients

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