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Effectiveness of Risk Management in the Financial Institution system:

A Case Study of Balochistan, Pakistan

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Abstract:

Present research aims at observing how loan dealing is done by the bank in order to denote the effectiveness of risk management in the financial institutions system in Balochistan, Pakistan. Sample of one hundred (100) respondents twenty (20) respondents from each financial institutions were selected by using simple random sampling method. The sample of the respondents was determined by using (McCall 1980) table of "selecting sample sizes" at the 0.05 percentage error rate.Hence; the raw data collected was tabulated and analyzed by using Statistical Packages for the Social Sciences (SPSS). One-Way-ANOVA was applied as comparison in order to check the respondent's perception about variables as construct at 0.05 alpha levels. Majority (75%) of the respondents had received education MBA, majority (63%) of the respondents belonged to age group of 31-40 years. The significant differences were observed six out of nine categories benefits of considering social issues. Significant differences were found two out of five statements. Based on achieved results following recommendation were suggested: Mainly, business mortgage is provided to the patrons in reasonable quantities of cash so as to operate their business for the effected manner in order to boast up the bank business.

Keywords: risk management, financial institutions, Balochistan, Pakistan.

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Introduction:

Risk management rudimentary conception has the idea or knowledge that the likelihood of an occurrence happening can be reduced, or its expected significances can be curtailed. Effective risk management considered as the exploit the benefits of a risk (frequently a decrease in time or cost) whereas diminishing the risk itself (Oluchukwu, 2012). Risk management is an exact imperative perception for several businesses as greatest economic results revolve about the commercial cost of holding risks. However, this matter is mainly essential for banks since risk establishes their primary business procedures (Amidu, Hinson, 2006).

Risk Management is the documentation, calculation, and prioritizing of risks followed by synchronizing and cost-effective application of the resources to minimalize, monitors, and regulator the likelihood and impact of unsuccessful procedures. Risks can derive from ambiguity in financial markets, project letdowns, legal obligations, credit risk, coincidences, and natural causes and as deliberate outbreaks from an adversary (Oluchukwu, 2012).Now and then safety management and risk management are realized as the similar kind of management, but in exercise safety management is the principal and significant portion of the risk management which also hiding place, e.g. financial risks. Monetary associations are firms that provide fiscal and non-financial offerings to guide individuals and firms in their fiscal and different non-monetary problems. Fiscal associations consist of three principal groups and these are the savers (the surplus unit), borrowers (the deficit items) and the lenders (financial institutions).

Risk Management Implements and Phases:

The risk management steps as reported by (Oehmen 2005).

1. Instituting goals and setting (i.e. the risk environment),
2. Classifying risks,
3. Analyzing the acknowledged risks,
4. Evaluating or estimating the risks,
5. Discussing or managing the risks,
6. Observing and studying the risks and the risk environment frequently, and increasingly interactive, referring with stakeholders and recording.

This study was situated on quantitative research and knowledge. The intent of this can be explained additionally because of the imparted progresses, along with the list and explanations of the study problems and

targets, the speculation and other important points about the methods it is going to use. Nonetheless, it briefly grants and discusses the historical past. Credit chance administration in a monetary associations starts with the establishment of sound lending principles and an efficient framework for managing chance. Insurance policies, industry unique specifications and instructions, along with risk attention limits are designed underneath the supervision of threat administration committees and departments. Also, credit risk is most without difficulty defined because the abilities that a mortgage borrower or counterparty will fail to fulfill its tasks in keeping with agreed phrases.

Statement of the Problem:

Obviously, it has been perceived that risk management in the sustainability of banking plays a main role. Risk management was regarded as the dominant fragment of any financial organization's planned supervision. It is the procedure whereby financial organizations systematically address the risks assigning to their events along with the objectives. On the other hand, it seems that, despite significant development in risk management, several supervisors have not yet identify the significance, they and their organizations could advantage from investing in a contemporary risk management system. Consequently, numerous rural banking civil services do not have appropriate risk management system. This has directed to numerous banks not being able to recover back the loan they issue out to customers. Loan dealings seem to be an exact energetic section of every single bank's success. Present research aims at observing into how loan dealing is done by the bank, what categories of customers are given loan to, what form of collateral is use, in order to denote the effectiveness of risk management in the financial institutions system as a case study of Balochistan, Pakistan.

Objectives of the Study:

The specific objectives of the study, conversely, are

1. To find out the demographic profile of the respondents.
2. To explore the type of risk management as use by financial institutions.
3. To develop the recommendations based on achieved outcome for policy makers.

Research Hypothesis:

H1: There is a no relationship between the perceptions of the respondents about type of riskmanagement as use by financial institutions.

Methodology:

Methodology presents a structure and methods for various features of the concern which is into consideration that ultimately supplies legitimate generalization about the phenomena (Thakur, 2003). The research design is the enterprise that makes clear the ways and method of accumulating, examining and interpretation of data facet by side the solution of issues faced through the researcher throughout research work (Nachmias and Nachmias, 1992). The present research was used a cross-sectional method meanwhile this types of design utilize different groups of people who differ in the variable of interest and perception but share other characteristics such as socio-economic position, educational background and traditions (Cherry, 2005). The present research study was based on medium and large micro-finance financial institutions in Balochistan province. The sampling frame for the research instrument was five financial institutions in operation in Balochistan.Sample of one hundred (100) respondents twenty (20) respondents from each financial institutions were selected by using simple random sampling method. The sample of the respondents was determined by using (McCall 1980) table of "selecting sample sizes" at the 0.05 percentage error rate. Likert scaling was used for attitudinal direction on five point scales (Likert 1932). Whereas the Cronbach's Alpha was also used in order to test the reliability of the research instrument (Nunnally 1967). The Correlation Coefficients calculated were found value of 0. 727, that was excellent. The data analyzed by calculating frequencies, means, standard deviation, standard error and other rankings assigned by the researcher based on mean scores, for performing the required analysis.Hence; the raw data collected was tabulated and analyzed by using Statistical Packages for the Social Sciences (SPSS). One-Way-ANOVA was applied as comparison in order to check the respondent's perception about variables as construct at 0.05 alpha levels.

Results and Discussions:

Socio-economic or Physical Characteristics of the Respondents

The socio-economic features mainly connected to education, age, social status etc. and these features use their density on the performance of an individual (Hassan et al., 2002). The statistics connecting to these features are obtainable as below:

Table.2. Socio-economic profile of the respondents.

Education level	***Frequency***	***Percentage***
Graduate	12.00	12%
Post graduate	8.00	8%
MBA	75.00	75%
Ph.D.	2.00	2%
Other	3.00	3%
Age		
18 to 30	10.00	10%
31 to 40	63.00	63%
41 to 50	15.00	15%
51 and above	12.00	12%

The data presented in table-1 indicated that majority (75%) of the respondents had received education MBA, followed by most (12%) of the respondents who received graduate level of education. While, 8% of the respondents had received education post graduate and 2% of the respondents had Ph.D. The data presented in age depicted that, majority (63%) of the respondents belonged to age group of 31-40 years followed by the age group of 41-50 (15%). Only 10% of the respondents had between the (18-30) years of age, while only 12% of the respondents had 51 and above.

Table.2. Benefits of considering collective issues.

Statements	Respondents		Customers		Mean score	*F-vale*	Sig*
	Mean	SD	Mean	SD			
Increased revenues	3.30	1.185	3.85	.978	15.125	12.812	.000**
Improved community relations	3.08	1.245	1.93	.856	15.125	11.00	.000**
Reduced risk	3.03	1.123	3.80	.974	29.645	26.813	.000**
Improved access to financing	2.95	1.250	3.28	1.341	5.445	3.238	.073
Improved brand value and reputation	3.47	1.096	4.01	.823	14.580	15.529	.000**
Cost savings	3.75	.999	3.48	1.049	3.645	3.475	.064
Better quality of work	3.17	2.265	2.27	.863	40.500	13.783	.000**
Developed new business	3.33	1.055	3.90	.859	16.245	17.566	.000**
Developed new products and services	2.50	1.040	2.56	1.085	.180	.159	.690

Weighbridge (1 = strongly disagree), (2= Disagree), (3= Undecided), (4= Agree), (5= strongly agree)
** Significant (2-tailed) at 0.05 Level*

The respondents were to determine the effectiveness of risk management in the financial institutions system at province level in this connection the information as suggested to the respondents on the base of 5 pint Likert scale ranged from 1 to 5 as shown in table 2. Information and their mean scores included: increased revenues (F= 12.812; P.05); improved community relations (F= 11.00; P.05) reduced risk (F= 34.005; P.05); improved brand value and reputation (F= 15.529; P.05); better quality of work (F= 13.783; P.05) and developed new business (F= 17.566; P.05) were found highly significant at 0.05 levels by using the One-Way-ANOVA (DMRT) test. However, improved access to financing (F= 3.238; P.05); cost savings (F= 3.475; P.05) and developed new products and services (F= .159; P.05) were non-significant. The significant differences were observed 6 out of nine categories benefits of considering social issues.

Table-3: Perceived score of respondents regarding.

Items	Boys		Girls		Std. Error Diff.	*T-vale*	Sig*
	Mean	SD	Mean	SD			
Internal loss event data	4.01	1.141	3.06	1.270	.950	5.564	.000**
Risk assessment	3.06	1.052	3.16	1.117	-.100	.652	.615
Risk and capital modelling	1.97	1.039	2.46	1.352	-.490	2.874	.006
Key risk indicators	2.70	1.106	3.55	1.132	-.850	5.373	.001**
Scenario analysis	2.77	1.024	3.41	1.190	-.640	4.077	.000**

Weighbridge (1 = strongly disagree), (2= Disagree), (3= Undecided), (4= Agree), (5= strongly agree)
** Significant (2-tailed) at 0.05 alpha Level*

Respondents were further asked to rate and inquired the perceived score regarding operational risk management process as rated by five points as shown in table 3. The result of One-way ANOVA carried out between the variables regarding the operational risk management process. The significant at $p<0.05$ were observed between the variables about operational risk management process. Highly significant differences found between the perceptions of the respondents were: internal loss event data (F= 5.564.); key risk indicators (F= 5.373.) and scenario analysis (F= 4.077 were found non-significant by using the One-Way-ANOVA (Multiple Duncan Range Test).

H1: There is a no relationship between the perceptions of the respondents about type of risk management as use by financial institutions.

In this regard the hypothesis was tested; significant differences were found 2 out of 5 statement. Therefore the null hypothesis was rejected in the favor of alternate hypothesis two out of five categories. It was concluded that the discrepancy existed between respondent's perceptions concerning the operational risk management process.

Conclusions and Recommendations:

Risk management rudimentary conception has the idea or knowledge that the likelihood of an occurrence happening can be abridged, or its expected significances curtailed. Majority (75%) of the respondents had received education MBA, majority (63%) of the respondents belonged to age group of 31-40 years. The significant differences were observed 6 out of nine categories benefits of considering social issues. The result of One-way ANOVA carried out between the variables regarding the operational risk management process. The significant at $p<0.05$ were observed between the variables about operational risk management process. In this regard the hypothesis was tested; significant differences were found 2 out of 5 statement. Based on achieved results following recommendation were suggested: Mainly, business mortgage is provided to the patrons in reasonable quantities of cash so as to operate their business for the effected manner in order to boast up the bank business.

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