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Financial Risk Management: A Review of the Role of the Central Bank of Nigeria

Onyekwelu Uche Lucy ACA and Onyeka Virginia Nnenna
Department of Accountancy,
Enugu State University of Science and Technology. Enugu,Nigeria E-mail: anneshalome@yahoo.com

Abstract
This study reviews the risk management practices among banks in Nigeria with particular reference to the role of the Central Bank of Nigeria . Data were gathered through structured questionnaires, the banks' annual reports and accounts, relevant CBN publications and other related literature. The study revealed among others that poor risk awareness and management practices among banks has led to the intermittent turmoils experienced in Nigeria's banking sector. It also revealed that many banks adopted a reactive approach to risk instead of being proactive and this has eroded to a reasonable extent depositors funds . The study recommends that Central Bank of Nigeria and other banks' managements should establish proactive risk management strategies while necessary infrastructure are put in place to enforce them. There should also be adequate provision of the needed risk infrastructures like the state of the art technologies, personnel and processes in the banks. The apex regulators should set out strategies that will sternly regulate the risk culture and appetite of the banks, conduct periodic recertification of banks on risk management and put the neccessary framework that will ensure compliance . The hitherto firebrigade approach to risk management should be eschewed as this sends an undeserved panic on stakeholders and erodes public's confidence in the banking system in Nigeria.
Keywords: Financial Risk, Risk Appetite, Risk Disclosure, Risk Management, Central Bank of Nigeria.

INTRODUCTION

Risk management has gradually become a critical component of every corporate discuss in the recent past. A situation orchestrated by the bubble burst that led to the global financial crisis of 2008/2009 and which is still having some ripple effects on the performance status of most organisations especially the banks. Banks in Nigeria were not shielded from this as the authorities had to grabble with the reality that the crisis has cripped into the system with a quantum of its income and balance sheet values being depleted leading to huge loss of depositors' fund and overall networth of the business. The situation became so bad that some banks were said to have negative networth. As is expected , the apex regulator, the CBN had to device means of saving some of the banks from total collapse. One of the measures it took was the commissioning of an independent audit on the banks. The audit report revealed some eight banks have very fundamental problems a case it blamed on poor corporate governance and ineffective risk management practices. Those banks were also blamed for their over exposure to the capital market which lead to huge accumulation of margin loans that have become toxic assets. Adequate provisions were made on these loans with most of banks' balance sheet having negative balances while depositors funds were all wiped away. To this effect some very drastic measures were taken by the apex bank one of which was the removal of the board of those affected banks followed prosecution with one of the cases leading to outright convinction. A major feature of the measures was the establishment of the AMCON(Assets Management Company of Nigeria). This outfit was primarily charged with the responsibility of acquiring the toxic assets from the banks with a view of recouping them from the debtors.

Again, the era of universal banking had banks scouting for patronage from corporate, governmental and non-governmental bodies. This stretched the demand and supply chains of banking services to cut across borders. Globalisation has also brought so much demand as banks' board and management face the pesistent pressure from regulators, investors and indeed other stakeholders for more transparent disclosure of their financial transactions. The executive/board is therefore charged with risk management now more than ever demanding them to braze up with these dynamics. Risk management which was once synonimous with insurance, of compliance and loss avoidance has assumed management function and entrenched as board level. Nigeria and other Sub-Saharan African countries, no doubt were vulnerabe to the effect of the global recession and the fact remains that if financial institutions in this part of the world should take with levity the issue of risk management and corporate governance, the fall of bigger financial institution is inevitable,(Adepetun,2009). He further argued that failure of most financial institutions world over were attributed to the lax and carefree attitude and insensitivity of managers of banks to risk management issues at their disposal.

Bankers especially those at the board and risk managers must get to grip with the trend in the dynamic environment in which they operate. The demand on risk management function has drastically changed in some few years gone by. They must urgently come to terms with the new measurement techniques and technology,

more complex organisational environment,wider geographical scope that they currently operate in , nature ie more demanding stakeholders and the ever increasing regulations. Financial institutions especially banks are presently subjected to more stern scrutiny because any dint of failure could cause wide panic in the already weakly financial system. Moreso, any distress could lead to destruction of corporate reputation, erosion of wealth and even collapse of the whole banking system. It therefore becomes imperative that risk management is taken very seriously across the strata of any banking institution.The Economic Intelligence Unit,US (2007) reports posited that:

- Risk management function enjoys wider scope in the affairs of many organisations: According to that report, risk management has moved away from a narrow sub-set of financial function to become an overarching discipline that demands a contribution from every level of the organisation. John Algar noted ‘‘ In my role as an director, I hear the board discussing risk on a very regular basis’. He noted that interestingly it is not because of fear, but because of the potential benefit risk management could provide.
- The discipline’s growing maturity: This states that the role of risk management is no longer expected to simply detect and address threats to the bank, but to leverage those efforts to yield broader benefits, thus it aims at enhancing reputation and improving relative position in the market place.

Risk management as a result is taking the centre stage in most organisations as the Board now appreciate that though losses can be avoided through it but most importantly the value that it can create. The remaining part of this report is divided into four main sub-sections namely: the literature review, research methodology, data presentation and analysis, discussion of findings, conclusions and recommendations.

Statement of the Problem:

The growing spate of bank failure in Nigeria has become worrisome. In mid 80’ s there was a major shake up in the financial sector with the conventional banks receiving the greatest shock. This led to quantum loss of depositors funds with its attendant loss of depositors lives. The era of bank failure saw some banks like the Co-orperative and Commerce bank, Peoples Bank, African Continental Bank and a host of others going under. Again in 2004, the Central Bank leadership under Soludo Charles,during one of its reforms, some banks were coerced to merge or even be absorbed by others because they could not meet up with the recapitalisation demand of the apex bank. Most recently, 2009/2010, a major overhaul was carried out in the banks which saw the removal of some bank executives and subsequent prosecution by the apex bank. Though, the actions of the apex bank were seen as inevitable measures to save the banking system in Nigeria, the trends set an unpresedented panic in the banking system. In all, the whole palaver was blamed on overexposure of the banks to the capital market, poor risk management culture and weak corporate governance.

Objectives of the Study:

The main objective of this study is to evaluate financial risk management practices among banks in Nigeria with particular reference to the role of Central Bank of Nigeria. Some of the study's specific objectives are**:**

- The role of the Central Bank of Nigeria in mitigating the diverse financial risks facing Nigerian Banks;
- State the risk disclosure requirements as spelt out by Central Bank of Nigeria and how it strengthens risk management among banks in Nigeria;
- Identify the effects that poor financial risk disclosure and management could have on the performance of the Nigerian banking sector;

Research Questions:

This study will address the following questions:

- What are the roles of the Central Bank of Nigeria in mitigating the diverse risks facing the banks ?
- To what extent does the disclosure requirements of the CBN strengthen risk management among banks in Nigeria?
- What effects could poor risk disclosures and ineffective management have on the performance of Nigerian banking sector?

Research Hypotheses: (Null)

H1: The Central Bank of Nigeria has not mitigated all financial risks facing banks in Nigeria.

H2: The disclosure requirements of the Central Bank has not significantly strengthened risk management practices in the banking industry.

H3: Poor financial risk disclosure and ineffective management will not significantly affect the performance of Nigeria banking sector.

REVIEW OF RELATED LITERATURE

The Concept of Risk : The import of risk in any business is better buttressed in this saying of Thomas Stewart Fortune, ''lets get it straight up front- risk is good, the point of risk management is not to eliminate it; that would eliminate reward''. The origin of the word according to (Ndukwe,2009) can be traceable to a latin word 'riscare'meaning to dare while Raghavan, (2003) traced it to the latin word 'Rescum' meaning risk at sea. He posits that risk is inherent in any walk of life and the financial sector in particular. Risk is associated to uncertainties and reflected by way of changes in the fundamentals which is predicated by the effect on capital which is the cushion that protects the liability holders of an institution.

Risk has been seen to be synonimous with uncertainty but Frank Night in the 1920's tried to make a distinction between the two. 'Risk' he noted is a variability that can be quantified in terms of probabilities while defining uncertainty as an immeasurable variability. In line with this argument, uncertainty reduces the predicability and therefore increases risk. Risk is defined as volatility of returns leading to unexpected losses, with higher volatility indicating higher risk (Merije,1992 ; Crouhy, et al 2006). Such outcomes they avered could either result in a direct loss of earning/capital or may result in imposition of constraints on bank's ability to meet its business objectives and that such constraints could hinder a bank's ability to conduct its ongoing business or to take benefit of opportunities to enhance its business. Risk is also that chance of financial loss; the variability of return associated with a given asset (Megginson1997 and Isenmila 2002).

Risks are usually defined by the adverse impact on profitability of several distinct sources of uncertainty while the types and degree of risks an organization may be exposed to depend upon a number of factors such as its size, complexity business activities, volume and so on.

For the purposes of this work risk encountered by banks are refered generally to as financial risk. Financial risk is the possibility that the outcome of an action or event could bring up adverse impacts on the earning capacity of the bank. Banks generally face Credit, Market, Liquidity, Operational and reputation risks (Raghavan,2003).

Risk Management Concepts and Framework: Risk Management is a central part of any organisation's strategic management. It is the process whereby organisations methodically address the risk associated to their activities with the goal of achieving sustained benefits within each activity and across the portfolio of all activities(Bassel Report, 2005). The report avers that the focus of good risk management is identification and treatment of those risks, while its objective is to add maximum sustainable values to all the activities of the business. Risk management practices could develop from the expected utility theory(Idolor,2010). He further posits that that this commences through the process from the available information to an agent concerning an uncertain event as this can be represented by a subjective probability distribution and there exist a utility function such that the agent acts as though he was endeavouring to maximize the expected value of utility. Butressing this view, Boulton, et al. (2000) stated that risk encompases the uncertainty of future in terms of both the upside and the downside and the opportunity in business arises from managing the future. They emphasized that companies must face and manage the future knowing that they cannot simply carry on business as usual.

Merrit(1998) defined risk management as the total process of identifying, measuring and minimizing uncertain events affecting resources. He further note that rather than continue to try to precisely measure risk, efforts should be geared to assessing risk and taking appropriate actions to manage them. Every good risk management strategy should have a well defined Risk Management Index which would bring together a group of indicators that measure risk management performance and effectiveness(Carreno et al., 2005). They posit that indicators should reflects the organisational, development, capacity and institutional actions taken to reduce vulnerability and losses. Risk reduction it noted should involve prevention and mitigation. A sound Risk Management Index should include identification of risk, risk reduction strategies, financial governance and protection. Risk management as a strategic tool that can increase profitability and smooth earnings volatility (Stalnecker 2002). She noted the key role internal audit is important in establishing and ensuring vibrant risk management and that the framework should include such areas as defining-

- The corporate wide policy
- Corporate wide guidelines
- Line management strategies and procedures.

Risk management has been described to be at the core of every financial institution and encompases all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that-

- The individuals who take or manage risks clearly understand it.
- Risk taking decisions are explicit and clear.
- Sufficient capital as a buffer is available to take risk.
- Risk taking decisions are in line with the business strategy and objectives set by the board.
- The organization's Risk Exposure is within the limits established by Board.
- The expected payoffs compensate for the risks taken.

The acceptance and management of financial risk is inherent to the business of banking and banks' roles as financial intermediaries. Risk management as commonly perceived does not mean minimizing risk; rather the goal of risk management is to optimize risk-reward trade-off. Notwithstanding the fact that banks are in the business of taking risk, it should be recognized that an institution need not engage in business in a manner that unnecessarily exposes it to risk or transfered to other area but should however seek to absorb and address those risks which are inherent in its normal course of business.

Table 1.1
Key features of the New Risk Management Practices

Old Paradigm	New Paradigm
Fragmented – department/function manage risk independently; acounting, treasurer,internal audit primarily concerned.	Integrated- risk management coordinated with senior-level oversight; everyone in the organisation views risk management as part of his or her job.
Adhoc – risk management done whenever managers believe need exists to do it.	Continous; risk management process is ongoing.
Narrowly focused – primarily insurable risk and financial risk.	Broadly focused- all business risks and opportunities considered.

Source: Economist Intelligent Unit, *Managing Business Risk*, p.10. A similar analysis is replicated in Barton et al, 2002 *Making Enterprise Risk Management Pay Off* p.5

Risk management is built around the strategic direction of the business, risk portfolio, optimization and measuring and mornitoring based on the establishment (Peter and Pat,2010) According to KPMG, Australia,2001, the following model represents the evolving risk management paradigm**:**

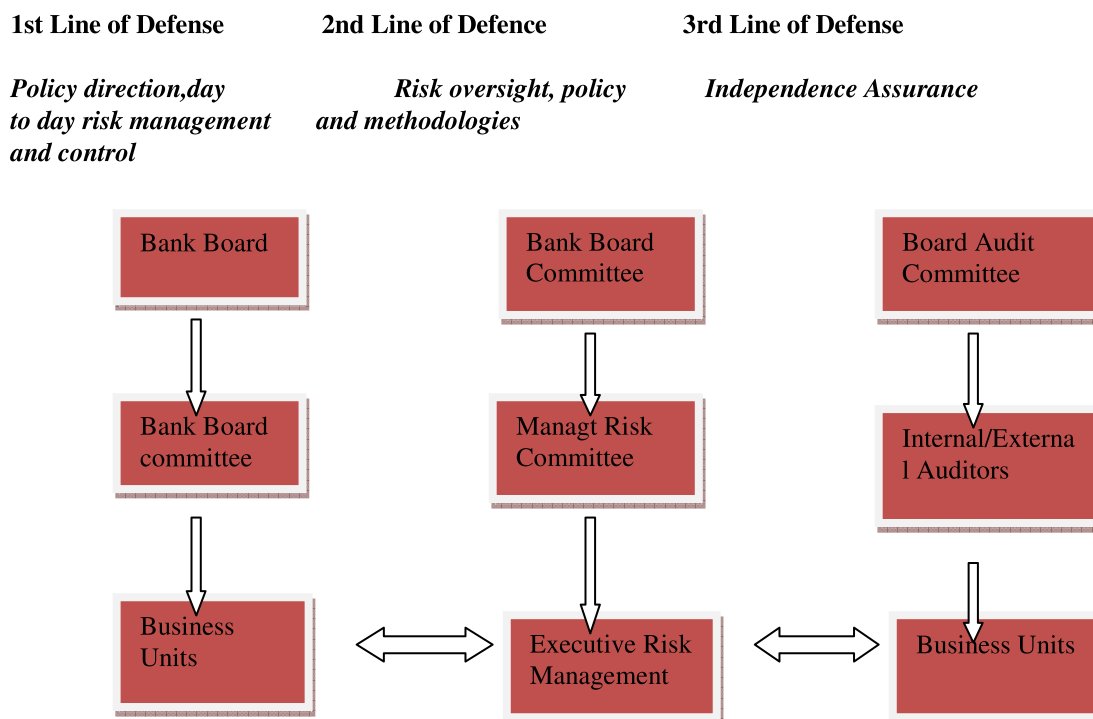
- From risk as individual hazards(iI) to risk in the context of business strategy
- From risk identification assessment (iA) to risk portfolio development(pD)
- From focus on all risks (Ar) to focus on critical risk (cR)
- From risk mitigation(rM) to risk optimization(rO)
- From risk limit(Rl) to risk strategy(rS)
- From risk with no owners (nO) to risk responsibility(R)
- From haphazard risk quantification(rQ) to risk monitoring and measurement (mM)
- Ot= unspecified 'others'

Emerging(ERM) model= Bs+Pd+Cr+rO+rS+R+Mm+Ot

RISK MANAGEMENT FRAMEWORK

A Risk Management Framework work encompasses the scope of risk to be managed , the process/systems and procedures to manage risk, well spelt out roles and responsibilities of individuals involved in risk management. The framework should be comprehensive enough to capture all risks a bank is exposed to and have flexibility to accomodate any change in business activities.

Risk Management Governance Framework
An effective Risk Management Governance Framework is outlined in the diagram below:

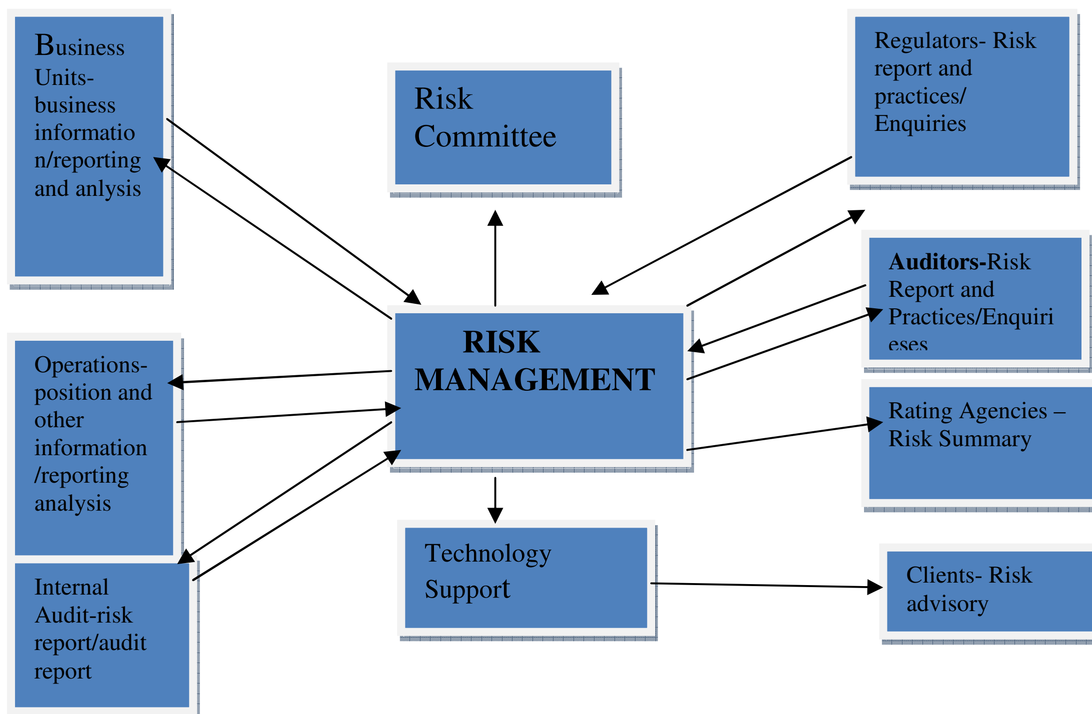


Source :GTB Plc, Annual Report and Accounts, 2010

If the concept of risk management practices would be effective, it should be viewed as a business wide phenomenum and carried out at the differ strata of the organisation namely the strategic levels-Board of Directors, the Macro level–Management and the Operations level. Thus, an effective risk management include;

- A clearly defined risk management policies and processes covering risk identification, acceptance, measurement,monitoring, reporting and control.
- A well constituted organisational or structure defining clearly the roles and responsibilities of individuals in risk taking and management.
- Those responsible for risk review , internal control and compliance should be independent from risk taking units, and report directly to brand or senior management who do involve in risk taking.
- There should be effective information system that ensures flow of information from operational level to top management and a system to address any exceptions observed and explicit measures to address them.
- A well spelt out mechanism to ensure on-going review of systems, policies and policies for risk management and procedures to adopt changes.

Relationship of Risk Management with other units of a financial institution.



Source: Adapted from FBN, 2009 Annual Report and Accounts

Benefits of effective Financial Risk Management Practice

Algar(2007) stated that given the commitment being made to future investment in risk management, it is not suprising that that banks are increasingly expecting that they get measurable returns. This is further compounded with the fact that the concept is shifting from avoiding damaging events to yielding indirect benefits. Appreciating the importance of risk management,Vickers(2000) stated 'I also need my Chief Finance Officer to be a risk management wizard, ahead of the pack of figuring out all the things that could possibly go wrong and finding and finding ways to limit it'. In addition to the fact that losses would have been incurred without risk managers, executive board and investors desires to see what the practice is delivering in terms of tangible benefits. Effective risk management practice can yield the following benefits-

- Effective risk management will ensure the better protection and enhancement of banks corporate reputation; this new reason simply emphasis the important shift in nature probably from the anticipated protection from financial losses. It empahasised that risk management is presently expected not just to be a tool to protect the bank from loss , but also to play a role in projecting the right corporate image to customers , partners and other stakeholders.
- Expanded scope of risk management function; it is noted that risk managers are under growing pressure to show a measurable return on the investment that is made in the function, rather than simply carrying out their traditional role of meeting regulations and preventing losses. Algar(2007) argued ''it is quite wrong to see risk management from the perspetive of compliance and loss avoidance. He argued that it is possible that that perspective is the cause of the inappropriate risk attitude that many corporations still have today''.
- Better reputation with customers, improved investor relationship and success in in the reputation objective of risk management appears secure. This have the ability to providing the potential to deliver strong benefits as better reputation encourages clients and partners to continue doing business with the bank. Most importantly, it also provides compatitive advantage that may result in an improved market share over time.
- Effective risk management practice would ensure better relations with regulators and rating agencies.
- It can ensue having a better than competitors at detecting and understanding risk can be crucial in gaining early access to what may be limited resources when a crisis hits the industry therby granting the

bank a strong positive impact on reputation and considered an important source of competitive advantage.

- An effective risk management guarantees other operational benefits namely improved strategic decision making ,greater profitability from business units and reduced earnings volatility.

Impact of weak risk management practices on the Nigerian banking system.

The effect of weak risk management practices has been in the banking system cannot really over emphasized. The effect according to Akponkpolor(2010) include;

- **Erosion of Shareholders' fund**: CBN release of 14th August 2009 showed that the huge non-performing credits in the banks arising from over exposure to the capital market and the Oil and Gas sector is a major reason for their liquidity problems. He noted that poor risk management practices in the eight troubled banks, the extent of banks capital were eroded as a result of loan provisioning for non- performing credit.from the annual reports and accounts bad loans acquired by Oceanic bank and Intercontinental Banks amounted to ₦489.1b while their equity holders' fund stood at ₦369.8 b automatically wipping-off the investment of equity holders.
- **Explosion in banks' balance sheets and attendant increase in loan/advances portfolio**: Weak risk management practice will lead to bloated balancesheet size which will trigger increase in loan advancement. The size of the balancesheet of the troubled banks increased as some of them banks recorded explosive growth with some of the statistics like Intercontinental bank assets grew from a modest size of ₦369.2b by December, 2006 to ₦704.4b by December, 2007 recording about 90.79% increase; Oceanic bank balance sheet worth grew from ₦372 billion within the same period to a whooping sum of ₦1,030.4b in December 2007 an increase of 176.99% and so did the other banks grew. Basking in the euphoria of these feats, a lot of these banks tremendously increased their loan portfolio. For instance, a bank like Intercontinental bank's had a loans and advances balance of ₦277b. The bubble however bursted when the crisis in the capital market to which most of loans and advances were advanced and loan recovery became a problem.
- **Single Obligor, serial borrowers and collaterals used to secure credit:** This was another fundamental pitfall that heralded the failure of the troubled banks. Investigation revealed that there were multiple cases of contravention of single-obligor rule. The troubled banks has a records of single obligor ranging from ₦13.3 to ₦44.6 billion, constituting an exposure as much as 13.3 to 47.4% and some of these loans were not properly collaterized.
- **Poorly loan documentation:** Most of the loans advanced according to CBN reports disclosed that most of the loans were poorly documented with most having collaterals ranging from domiciliation of payment, legal mortgage, deed of assignment,stock hypothecation and personal guarantees. The report also reveals that some of the credits were either not collateraized or the value of collaterals falling short of the amount of credit facility granted.

Measures Taken By Central Bank of Nigeria at Ensuring Effective Risk Management

After the bank failure of the 1990s the Central Bank of Nigeria has took some initiatives aimed at ensuring effective risk management among banks in Nigeria**.**

- **The Prudential Guidelines-**The apex bank in 1991 introduced a measure aimed at identifying problem loans through disclosure requirements. The measure requires banks to classify their credits as either performing or non-performing. It also mandates that non-performing facilities were to be further classified into sub-standard, doubtful or lost and that provision for doubtful debts must be made to sub-standard facilities of 25%; doubtful- 50% and 100% on lost loans.
- **Issue of corporate governance code-** the apex bank mandates banks to have formal Code of Corporate Governance. The code of corporate of governance requires banks board to establish organisational structure statingits quality Board membership, board performance, appraisal, reporting relationship , disclosure requirements, risk management and the role of auditors.
- **Issuance of Failed Banks recovery and financial malpractice Act.** This act states that any director , manager, officer or employee of a bank who knowingly, recklessly or otherwise grants , approves the grant the grant or is otherwise connected with the grant or approval of a loan, advance, guarantee, or any other credit facility or financial accomodation to without adequate collateral, with no collateral, with defective security or collateral or without perfecting through his negligence or otherwise, a security or collateral obtained is guilty of an offence.
- Disclosure of Risk Management Analysis in the annual reports and accounts.

Barriers to effective risk management

Some of the barriers to risk management are;

- Lack of time/resources and difficulty in identifying and assessing emerging risks.
- Lines of managing risk not sufficiently clear and threat from the unknown, unforseable risk
- Lack of support from management and difficulty harmonising risk appetite across business units and geographies.
- Difficulty obtaining buy-in from employees/ outright lack of skills for effective risk management.
- Lack of available data and regulatory complexitities.

Principles of Risk Management

The International Organization for Standardization, according to Sanusi (2009), identifies the following principles of risk management:

- Risk management should create value and Risk management should be integrated into the organizational processes.
- Risk management should be part of decision making and should explicitly address uncertainties.
- Risk management should be systematic and structured based on the best available information.
- Risk management should be tailored to the specific needs of a bank's risk culture and appetite.
- Risk management should take into account human factors, transparent and inclusive.
- Risk management should be dynamic, interactive and responsive to change and be capable of continuous improvement and enrichment.

Risk Management Process

Risk management process, according to Sanusi (2009), consists of such basic steps as identification, assessment and risk mitigation.A typical risk management process is shown in the diagram below:

Risk Identification

The first step in the process of managing risk is to identify potential risks. Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems which may be internal or external, or with the problem itself. When either of them is known, the events that a source may trigger or the events that can lead to a problem can be investigated and addressed by management.

Risk Assessment

Once risks are identified, they must then be assessed as to their potential severity of loss and to the probability of occurrence. It is critical to make the best educated guesses possible in order to properly prioritize the implementation of the risk management plan. Risk assessment should provide information for management that makes inherent risks easy to understand and risk management decisions easier to prioritize.

Risk mitigation processes

Sanusi (2009) notes that financial risks can be mitigated once identified and assessed through:

Risk avoidance: This may mean not undertaking an activity that could carry risk. Risk avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting the risk may have allowed.

Risk Reduction: This involves methods that reduce severity of the loss or the likelihood of the loss from occurring**.**

RiskRetention: This involves accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained.

Risk Transfer: He notes that the most common risk transfer technique is the purchase of an insurance contract where some compensation may be payable to the policy holder that is commensurate to the suffering/damage after the damage has occurred.

FINANCIAL RISK MANAGEMENT: REVIEW OF EFFORTS OF CENTRAL BANK OF NIGERIA

One of the core mandates of the Central Bank of Nigeria is to promote a sound financial system .This function is carried out through the supervision and regulation of financial institutions including Deposit Money Banks (DMBs). In carrying out this function, the CBN relies on the provisions of sections 30 – 32 of the Banks and Other Financial Institution Act (BOFIA) which empowers it to carry out routine examination of banks, other financial institutions and specialized banks. As a result of the global financial crisis which adversely affected the Nigerian economy, in particular the capital market, and oil and gas sectors, it was observed by the regulators that

some Nigerian banks had huge concentration of exposure to these two sectors, in addition to general weakness in risk management practices, poor corporate governance practice and signs of illiquidity.

The CBN, as the regulator of the banking sector, has a responsibility to ensure the stability of the sector and a duty to safeguard the interests of depositors and creditors. The current intervention of the CBN in the market should be seen as being proactive with a view to strengthen the banking system and restore public confidence in the banking sector, to protect depositors' money and to save the country from an avoidable crisis. The current efforts by the regulatory authorities to rebuild the governance frameworks in Nigerian banks are aimed at enhancing the safety and soundness of the banking system. The need to adopt and deploy more effective risk management practices has come to the forefront in the Nigerian financial institutions and the move by the regulatory authorities has served as a wakeup call for all banks that are going about their business honestly but have so far only paid lip service to the way they govern the execution of their business strategy.

The current situation presents a crucial opportunity for the leaders of the Nigerian banks to restructure and strengthen their governance models by taking action to enhance two key governance aspects required:

- to satisfy external stakeholders such as shareholders, customers and regulators; and
- ensure that board and senior management plan and execute the corporate strategy within the appropriate legal and ethical boundaries.

To date, there is only one real framework currently available within the business community to adequately address the needs of the above categories of stakeholders and that is the Governance, Risk and Compliance (GRC) framework. "GRC is the only framework that integrates business strategy definition and execution, risk management, and compliance," (Sanusi, 2009).

When implemented effectively, a GRC framework can provide the board and senior management with increased visibility and confidence about the day-to-day decisions and actions across their organization. This in turn enables them to pro-actively demonstrate to the external stakeholders that the organization is meeting or exceeding on the various obligations expected of them.

It seems a paradox, as Agbonkpolor (2010) explained, that the rationale offered by the CBN for consolidating the Nigerian banking system in July 2004 was weak corporate governance evidenced by high turnover in the board and management staff, inaccurate reporting and non-compliance with regulatory requirements, gross insiders' abuse resulting in huge non-performing insiders' related credit. From recent developments, rather than these ills abating after the banking restructuring, they seemed to have returned in magnified dimensions in the ensuing financial conglomerates. After the euphoria of the exercise, the regulators momentarily took their eye off the ball. The ensuing banking crisis presents important lessons and challenges for bank management and regulation.

Furthermore, as part of the initiative to enhance the quality of the banks, the CBN just lately stated that banks' credit policy must now be duly approved by their directors. According to Nweze(2010) the CBN's Director of Banking Supervision Samuel Oni, said banks are now required to be guided by the regulations and ensure strict adherence. The policy covers loan administration, disbursement, appropriate monitoring mechanism and should be reviewed at least every three years. By this, the total outstanding exposure by a bank to any single person or a group of related borrowers shall not at any point in time exceed 20 percent of the bank's shareholders fund unimpaired by losses.

The risk management rule further requires a bank's management to conduct periodic stress tests (on a quarterly) of its major credit risk concentrations and review the results of those tests to identify and respond to potential changes in market conditions that could adversely impact the banks performance. The CBN, therefore, requires banks to put in place policies on credit Portfolio Plan as part of their credit risk management which are to be approved by their respective boards.

Banks will, henceforth, review their credit portfolio plan quarterly to ensure that the credit plan is still reflective of current market circumstances. In the event of Material Adverse Changes affecting the macro-economic environment or particular sectors, industries or regions, appropriate review and mitigation strategies should be performed.Nweze (2010: 27) further explained that on insider borrowings, banks are now expected to fully disclose directors,insider and significant shareholder credit exposure banks in their financial statements and returns prescribed by the CBN. Nweze concludes while quoting Samuel Oni, are targeted at enhancing provisioning policies and practices, which are consistent, with sound risk management practices for banks and ensuring that provisioning guidelines support the life cycle and gestation periods of the various specialized loans. The quidelines should be regarded as minimum requirements and licensed banks are encouraged to implement more stringent policies and practices to enhance mitigation of risks.

NATURE/TYPES OF FINANCIAL RISKS :

The nature and type of financial risk can be described as that variable that has triggered a given type of financial risk. Idolor,2010 andRayghan, 2003 submitted that financial institutions are exposed to the risk of poor business performance as this could be caused by factors like hightened competition, emergence of new technologies, development of substitute products, shift of consumer preferences, inadequate supply of essential inputs, change in government policies and so on. To this effect, the nature/types of risk exposure which financial institutions face could be basically classified into-

(i).Strategic Risk- this is the risk arising from the overal strategy of the bank. Sanusi, 2009 stated that it includes the quality of the strategic planning process, the implications of such strategy especially for risk appetite and track record of implementation. It explains risk associated with business targets as risk from bank's product, services and customers.

(ii).Liquidity Risk-Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Because bank fundamental role is in the maturity transformation of short-term deposits into londg-term loans makes banks vulnerable to liquidity risk both of an institution-specific nature and that which affects the market as a whole. Liquidity risks arises from the type and nature of the bank's liquidity or assets/liability mix, Sanusi(2009).Consequently when a bank is not able to meet the payment of commitment it has made, liquidity risk has occour., (Ndukwe2010, Cabedo and Tirado,2004 Cebenado, Idolor,2010). Effective liquidity risk management helps a bank's ability to meet cash flow obligations which are uncertain as they are affected by external events and other agents behaviour, Basel Report,(2008). Ineffective liquidity management could result in a situation where though a bank is solvent, it may not be able to meet due obigation(Sanusi, 2009).

(iii).**Technology Risk:** The risk incurred by a financial institution when technological investments do not produce the cost savings anticipated. The risk that existing technology or support systems may mal-function or break down. It is partly related to technology risk and can arise whenever existing technology mal-functions or back-office support system break down. Technological risk can result in major losses in the competitive efficiency of a financial institution, ultimately in its long term failure. Similarly, gains from technological investments can produce performance superior to a financial institution's rivals as well as allow it to develop new and innovative products, enhancing its long term survival chances.

iv.Operational Risk: The Bank for International Settlement(BIS),1997, defined operational risk (inclusive of technology risk) as ''the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The breakdown of internal controls and corporate governance leading to error, fraud, performance failure, compromise on the interest of the bank resulting in financial loss, Ravaghan,2003. Operational risk arises from the failure of people or processes within the organisation, leading to losses often caused by deviations from expected courses of action. The objective of operational risk management is to find out the extent of of financial institutions operational risk exposure; understand what drives it ; to allocate capital against it and identify trends internally and externally that would help in predicting it.

v.**Market Risk:** This arises when financial institutions actively trade assets and liabilities (and derivatives) rather than holding them for longer-term investment, funding or hedging purposes. Epstein and Jermakowicz, (2010) submitted that market risk implies not merely the risk of loss but also the potential for gain from interest rate, equity return, and foreign exchange risk in that as these risks increase or decrease, the overall risk of the financial institution affected. Market Risk could therefore be defined as the incremental risk incurred by a financial institution when interest rate, foreign exchange, and equity return risks are combined with an active trading strategy, especially one that involves short trading horizons such as a day.Market risk can be in the form of i**nterest rate risk,refinancing risk; and reinvestment risk**.

v.**Credit Risk:** Jestine et al(2010) stated that it is related to a loss that may occur from the failure of another party to a financial instrument to discharge an obligation according to the terms of the contract. Sanusi(2007) opined that credit risk arises from non-performance by a borrower. He noted that it may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner.

vi. Foreign Exchange Risk:

It is the risk that exchange rate changes can affect the value of a Financial Institution's assets and liabilities located abroad. The trend of globalization has made it possible that both direct foreign investment and foreign portfolio investments can extend the operational and financial benefits available from purely domestic investments. Globalization has increased market share and invariably returns on domestic and foreign

investments are imperfectly correlated, there are potential gains for an institution that expands its asset holdings and liability funding beyond the domestic frontier.

The returns on domestic and foreign direct investing and portfolio investments are not perfectly correlated for two reasons. Firstly, is that the underlying technologies of various economies differ, as do the firms in those economies. For example, one economy may be based on agriculture while another is industry based. Given different economic infrastructures, one economy could be expanding while another is contracting.

RESEARCH DESIGN AND METHODOLOGY

3.0 Research Design: This study adopted both the survey and descriptive approach.
3.1 Population/Sample of the study: The population is the banks' staff and public in Nigeria .Since studying this population will be near impossible, the researcher randomly selected eighty. This sample size cuts across the bank staff, customers and the academia.

3.3 Sources of Data: The primary data of this study were sourced through a structured questionnaire which comprised of 21 questions designed with the Linkert Scale ranging from 1-5. The questionnaires were administered to 80 randomly selected respondent. Out of the respondents, 72 completed and returned the questionnaires representing return rate 90%. Secondary data were sourced from relevant textbooks, scholarly journals, annual reports and accounts of companies under study and the internet.

3.4 Tools for Data Analysis: Data collected using the questionnaire were analysed with the aid of Statistical Package for Social Sciences(SPSS) while Chi-square statistical technique was used to test the hypotheses at 5% level of significance. Simple percentages were also used to analyse the data collected from the firms' annual reports and accounts.

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

A total of 80 questionnaires was administered. The respondents were made up of the academia, bank staff and some bank customers. 72 of the questionnaires were returned. This representing 90% of the total respondents and that was used for the analysis.
Hypothesis 1: The Central Bank of Nigeria has not mitigated all the financial risks facing banks in Nigeria.
The responses show that 56 representing 77.8% of the respondents agreed that though the financial risks facing banks are diverse but the CBN has played some roles that has mitigated it. 11% however agreed with the above assertion, 8% were undecided while the remaining 3.2% disagreed that the CBN has not done much to mitigate the diverse risks facing the banking industry.
Using the chi-square statistical tool 95% level of confidence and 5% level of significance, X^2 calculated was 22.1 is > than X^2 critical value of 9.488. This result is significant therefore the null hypothesis is rejected and the alternative is accepted though the nature of financial risk is diverse but the CBN has played some roles that has mitigated them.
Hypothesis 2: The disclosure requirements of the Central Bank has not significantly strengthened risk management practices in the banking industry. Using the chi-square statistical tool 95% level of confidence and 5% level of significance, X^2 calculated was 28.2 is > than X^2 critical value of 9.488.This result is significant therefore the null hypothesis is rejected and that alternative hypothesis is accepted that is the disclosure requirement has significantly strengthened risk management in the banking industry. .
Hypothesis 3: Poor financial risk disclosure and ineffective management will not adversely affect the performance of Nigeria banking sector. Using the chi-square statistical tool 95% level of confidence and 5% level of significance, X^2 calculated was 55.55 is > than X^2 critical value of 9.488. This result is significant therefore the null hypothesis is rejected and that alternative hypothesis that poor financial risk disclosure and management will adversely affect the performance of the Nigerian banking sector was accepted.

Summary of Findings:
The study has revealed that the financial risks facing Nigeria banks are quite diverse. The adoption of effective risk management strategy is very key to the sustainability of banking industry in Nigeria but the Central Bank must get the banks to comply with its disclosure requirements. Again risk management is better articulated and handled wholistically by getting every staff involved starting from the board and that banks should adopt a uniform way of reporting the risk asset and risk should be well disclosed in the annual reports and accounts of

banks. Many banks including the CBN needed the adequate manpower and the state-of- the-art facilities needed to fight the level of sophisticated financial risks banks face in today's business.

Conclusions

This study examined the risk management practices among banks in Nigeria with particular reference to the role of the Central Bank of Nigeria as a key regulator. The issue of compliance to the guidelines of the Central Bank is paramount here. The CBN seems to be overwhelmed by the challenges of financial risks in the industry as it appears ill-equiped orchestrated by paucity of requisite manpower and infrastructure. Again, adequate man power must be provided and state of the art facilities are needed to provide the necessary infrastructure that could help better risk management in the banking sector.

Recommendations

Risk has no doubt become an integral part of financial intermediation. Banks' management must consider risk management imperative for corporate survival and existence. The apex bank and indeed other regulatory agencies should deliberately pursue strategies aimed at strenghtening risk management among banks in Nigeria.The supervisory role of the CBN must not be compromised. It should among other others educate the banks and even customers on the importance of risk management. Stringent measures aimed at penalizing defaulters should be carried out. Board of different banks should adopt policies that would ensure that risk management functions is carried out at all strata of the banks while the right personnel, technologies and processes are put in place to ensure effective risk management. The Central Bank of Nigeria must relentlessly pursue stringent compliance of the deposit money banks to its disclosure requirements. The CBN must also be pro-active in its role. Banks should be periodically certified and results made public. Adequate infrastructure, personnel and process should be put in place to avert any trend of ineffective risk management that could sweep away depositors' funds.

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