Risk Management - a necessary Part of the Bank Management In Era of critical Changes

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Abstract
No human activity, no matter if in private or professional life, is absolutely safe and therefore the management of the company is to think about the possible risks and threats in the business, the possibility of a crisis. Each economically active entity is exposed to constant exposure to various risks. Safe and sustainable development of the company depends on how it will handle risks, primarily on whether the risks that exist in the enterprise at present and foreseeable risks in the future correctly identified, and evaluate and understand how we deal with them in the future. Management belongs to one of the main functions of any organization and an essential condition for the effective functioning of the organization is the existence of a control system. Risk management in today's era of critical changes has an increasing importance also in the bank sector. The paper deals with the specifics of risk in the banking, particularly operational risks and their impact on organizational solutions.

1. Introduction

Condition for the effective functioning of the economic system of any society is functioning financial system. The financial system has the following components: financial markets, financial institutions as intermediaries, financial instruments, lenders and borrowers, financial transactions.

The financial system in the strict sense of is a set of financial institutions, regulatory authorities, their mutual relations and relations to other actors (government, population, foreign). Both of these sub systems creates and regulates the state through acts according to its politico-economic and financial needs for the optimal functioning of finance on its territory. Effectively functioning economic system is determined by the efficient functioning of the financial system. (Belás, 2011)The financial market is a place where it meets the demand and supply of funds. Demand includes entities with fewer financial resources that they want to get the financial market. This offer consists of entities that have surplus temporarily free funds and want to invest with a view to their recovery. The meeting resulted in supply and demand is the price that the financial market is a form of interest rate, insurance and so on.

In this context, it is necessary to distinguish between direct funding (excluding financial intermediaries) and indirect funding (with the help of financial intermediaries). Functioning financial markets are an indispensable part of every economy and their effective functioning is a key factor for economic growth. Conversely poorly functioning financial markets may significantly weaken the economy, such as during the current crisis, when financial sector problems have spread to other sectors of the economy, which in turn contributed to the global economic crisis. Financial markets directly affect the wealth of individuals, businesses and behavior of consumers and also contribute to the cyclicality of the economy. (Černohorský, Teplý, 2011)

In the financial market operate a number of institutions, for example:

• banking institutions (banks and savings banks)
• insurance companies (such as life insurance companies and pension funds)
• non-bank financial institutions (e.g. cash exchanges, brokerage companies, institutions OTC)

The main goal of our research was to analyze the impact of risk management on the organizational structure and organizational solutions in chosen Slovak banks.

2. Specifics of the bank risk management

Banking is generally defined as prudent business. That means, that the bank as an entrepreneur, trader borrows money from the public or from other banks and lending them away, or they invest in securities. With foreign sources wants to achieve maximum, appropriate or targeted profit, because he wants to reward its shareholders dividends to their money (capital) not entered into any other bank or any other business field.

2.1 The basic risk of the bank

Specific risks they take the bank arising from banking activities resulting from the internal conditions of the department, types of transactions, clients, types of technology etc. The main risks of banking activities might include, in particular, credit risk, operational risk, market risk (currency -currency, interest rate, equity, and commodity), liquidity risk and operational risk. Banking transactions are also exposed to other risks, but these are difficult to quantify and guidance, even though the associated potential risks of loss can sometimes be very high. For example, the reputation risk, legal risk, or the risk of unforeseen circumstances.

For each financial institution is required to pay the utmost attention to risk management, the specific risks they take banks in particular:

•Credit risk-the risk of loss due to the fact that the client fails to comply with its obligation
• Operational risk-the risk of loss due to inadequate internal processes and systems, if necessary their failure including legal risk
• Market risk-the risk of loss due to changes in market factors (prices, interest rates, exchange rates, volatility, etc.)
• Liquidity risk-the risk of to the fact that the bank cannot meet its financial obligations and investment due to lack of financial resources
•Concentration risk-the risk of loss of concentration risk factors or high-risk types, such as risk arising from loans granted to the same client or group of connected clients and the like
•fraud risk-the risk of financial loss or damage to reputation from the intent to defraud the bank falsifying information or intentional provision of false information by employees, current or prospective customers or any third party
•Compliance risk-the risk of breaching regulatory rules, and related litigation risk, financial risk such as fines and damages, reputation risk
•Strategic and business risks-risks to earnings and capital. This risk results from changes in the business environment, the wrong business decisions, if necessary, lack of responsiveness to changes in the business environment

In developed financial markets, the risks regularly analyzed and evaluated. Even stock reports published prices of financial instruments by each specific disciplines and industries.

2.2. Operational risk in the Bank and its management

Operational risk is specific in that it is part of all business and business processes. The main components of operational risk are-people, processes, systems and external events. As the most important sources of operational risk can be specified:

• Increasing range of IT implementation in technological processes
• Pressure on cash flow and stability and pressure to reduce costs
• Increasing the complexity of financial products
• Increasing demand combined with a focus on a concentrated, respectively differentiated marketing
• Concentration and connecting to financial institutions
• Development of new financial products (derivatives)
• Increasing pressure regulators (Kľučka, 2006)

Operational risks like credit and market act is often difficult to assign to the classification class. Many losses in the credit risk have their source in the operational risk–e.g. default for a loan due to incorrect assessment procedure, which led to inadequate credit rating of the applicant. Market losses on the sale of products may be caused by unauthorized procedure broker or entering unauthorized persons to the electronic trading and transacting business without authority.

Definition of operational risk:

• Operational risk is any risk that does not belong to a set of credit and market risk business.
•Operational risk is the risk arising due to traffic-but there is a definition limited to technological failure.
•Operational risk is the risk of direct or indirect loss arising from inaccurate or absented internal processes, people, systems or external events. (Sukalová, Križanová, 2008)

Operational risk is the risk of loss resulting from inadequate or failed internal processes in the bank, from human error, failure of the Bank of the systems or from external events. This risk is even legal risk - the risk of loss from irrecoverable contracts unsuccessful legal proceedings.

2.2.1 Process of the operational risk management

Management of operational risks is a process which includes:

1 Creating the conditions for risk management, in particular
•develop risk management strategies
•ensuring risk management organization, which corresponds to the complexity of the bank's activities and allows you to implement a risk management strategy adopted
•creating an information system
•establishment of an adequate system of doing business and developing internal regulations
•establish a system for the introduction of new types of transactions

2 Identification, measurement, monitoring and minimizing risks, especially
• determine methods for risk identification
• determine methods for risk measurement corresponding to the range and complexity of the bank's activities
• determine the methods for setting limits and monitoring risks
• determination of shops, activities and procedures to minimize risk
3Establishment of an appropriate internal control banks

There are two approaches for the assessment of operational risks:
•top–down
• bottom–up
Top-down approach seeks to determine the amount of capital to individual business units within the company due to operational risks to which they are exposed.
The bottom-up begin son specific, individual operational risk. The resulting profile created by summation of risk at lower levels. (Hasprová, 2008)

Operational risk management framework consists of the following steps:

• Identification of risks
•Risk Analysis and Risk Assessment
• Adoption of strategies
• Monitoring

In the first step each risk named. The phase identification and risk assessment of the individual risk analysis and assigned a weight and derives the conclusion - risk selection, which will be the subject of strategies adopted. Specific actions (strategies) should theoretically optimize the ratio of income / expense for each of the selected risk. The final stage is to monitor and update the database risk.

2.2.2 Sources of operationalrisks

The specific sources of operational risk include:

Risk of human resources
• loss of key employees
•inappropriate behaviour of employees
•errors and omissions workers
•insufficient level of education

Risk in the organization and management of operational processes:
• incomplete disclosure or concealment of the conclusions of the problems in the management
• inadequate and vague division of responsibilities
• insufficient delegation of powers
• inappropriate restructuring effort to merge different operations and workflows, which are unable to cooperate
• loss of confidence in the leadership, the concept of brand and product range

Risk in planning:
•incomplete and in consistent planning
•planning only to certain degrees vertical structure
•inadequate approval procedures of planning documents
•indiscriminate application of new technologies
•poorly resolved relationships with third parties and dependence on them

Risk in control activities:
•insufficient monitoring of production and management activities
•low operational and control mechanisms,
• insufficient work with the results of audit activities

Other risks:
•industrial accidents
•physical damage to property or product
•theft
• fraud

Today, it is increasingly important to create space in companies to manage operational risks. Internal policies and guidelines are an indicator of corporate approach to operational risk management. It should include:
•formulating goals, procedures, peculiarities in terms of risk management
•procedure of publication objectives of risk management and its application in practice
•control of their timeliness and the possibility of ongoing changes.

2.3 Change management as a permanent instrument of the bank management

Under conditions of constant changes in the business environment are necessary methods and tools for crisis management and risk management integrated into management in critical conditions change. In order to prevent a crisis, it is necessary to risks resulting from constant changes in the enterprise and beyond, to manage. The ability to manage risk is one of the necessary conditions for competitiveness in today. Risk management is the process by which the body tries to avoid exposure to the management of existing and future factors to eliminate the effect of adverse effects and at the same time take the opportunity efficiencies. Knowledge of enterprise risk and their ties allow identifying and predicting the future state of the company and on this basis to make strategic and operational decisions that anticipate this knowledge. Knowledge of the risk profile, knowledge of risk factors and their management options and define the business model for risk management are all tasks related to risk management at the enterprise level.
People handle change, if at least the following conditions - to understand the need for change, are willing to accept change and are able to change. It is therefore necessary to define the changes in corporate strategy including the establishment of the inside-company communication and motivation of people. No changes can be implemented without the involvement of bank staff. It is necessary to specify the services to which they affect change, what will it mean for individual teams and what the expected outcome. In any case we must not let the uncertainty of the whole staff. Responsible management must have previously mapped the risks and alternatives prepared.

3 Incorporating elements of the security or crisis management within the organizational structure

Specific group of departments in enterprises (organizations), including private, state and public institutions are departments responsible for risk analysis, for measures to protect the health, life, property and the environment, for education professionals, the public emergency management and effective solution for any crises. Among the causes leading to the crisis cannot be ignored failure risk management process throughout the system and at the level of individual institutions, which led to excessive risk-taking. Risk management failed to do its job. Banks were lending too much money to people who could be expected defaults on its obligations. Subsequently, these loans through securitization create new instruments that have purchased other institutions, and the risk is spread uncontrollably whole financial system. Another problem associated with poor risk management was that the managers were under pressure in the direction of generating higher profits for owners, which in turn led to increased risk-taking accompanied by inadequate control.

3.1 General principles of risk management in bank organization

For each financial institution is required to pay the utmost attention to risk management.
Risk management should be completely independent from the bank business. Has to fulfil the following tasks:

•determines the strategy and principles of risk management
•proposes risk management processes and verifies them
•proposes the principle of internal risk management and supervising them, suggests processes and organizational structure of the units
• creates the risk management models, ensures their implementation
•protecting against losses from financial crime activities and losses arising from infringement
•creates the bank aware culture existing risks

Some banks create separate organizational units on financial fraud, which handles a code of ethics and a variety of programs to combat money laundering and fraud risk management. They focus on prevention, detection, investigation, prevention of fraud and the subsequent replacement of losses caused by financial fraud. Mostly this activity covers the Department or the Compliance Department.
Management of such work requires specific competences needed. In connection with the need for crisis management is necessary to define certain specific activities, such as managers:

• Crisis manager - specially trained experts on crisis management in the organization, must be able to timely analyze potential risks and threats to coordinate the preparation of contingency plans in the event of such a crisis situation effectively and efficiently manage the progress of rescue and rehabilitation work, interact with the media, the public and affected,
• Safety Manager - suggests specific security measures under particular situation, evaluate the security situation, processes different effectiveness analysis of measures taken to optimize the scope and structure of security measures in order to increase their efficiency,
• Manager - Specialist - is responsible for safety and security organizations within the organization, that means for the safety of personnel, technical and economic systems, as well as readiness to address possible emergencies.

3.2 Risk management in the organizational structure

When designing the organizational structure is necessary to make sure the fact that the effective functioning of the organization is in addition to the resources necessary to ensure the safety and security of the entire organization and safety of employees. Currently, security in the enterprise understood from two aspects:

• Security company - it's ability to resist external threats, securing the property, but also the ability to avoid compromising the security of the external environment (e.g. traffic accidents, emissions, etc.)

• Security in the enterprise as a certain quality of care for the safety and health of workers at work, taking care of safety of technical equipment, but especially information security - ensuring internal information networks against abuse. Just information security is a priority for banking institutions and is currently becoming part strictly monitored security system of any enterprise (organization).

For these reasons, it is essential in determining the organizational structure to ensure those components which contribute to ensuring the safety of both the creation of various contingency plans, as well as their readiness to these plans if necessary to implement. At present, more and more appear different forms of risks stemming from poor economic situation as various thefts, assaults banks, illegal withdrawals from credit card customers, and so on. In the era of computerization famous and deepens and prefers only electronic system of banking services to clients. This trend has several advantages, it is convenient and saves time and money not only for the bank, but also the client, but also brings with it various forms of risk. Any abuse of this system may have important consequences for the bank to loss of customer confidence - are notably different misuse of lost or stolen credit cards such as phishing, pharming, skimming and under. Furthermore, in terms of risk for the bank and the client continues to grow and counterfeit banknotes. Each bank must therefore take measures in advance and create systemic conditions to overcome these risks.

3.3 The risk management system in chosen Slovak bank organization structure

In the searched bank accordance with the rules of the risk management is separated from banking activities within the organizational structure of the bank secured credit and investment department stores under different organizational units, controlled by different parties, and shall be kept separate records of investment transactions on behalf of companies and investment transactions on behalf of clients. Separate implementation of credit transactions is provided in the division of public and commercial banking division and the Director General and retail banking. For conducting investment business department is responsible treasury. The Risk Management Division is responsible for risk management separated from banking activities. This division is an independent organizational unit focused mainly on the management of market, credit and operational risks, including the identification, monitoring, measurement and management of significant risks, separated from the risks, the bank faces in carrying out banking transactions with persons in a special relationship with the bank. In this division shall be carried out banking activities, the performance of which the company is authorized.

Corporate Credit Risk Department has the following main responsibilities:

• shared responsibility for the management of corporate credit risk in the bank
• methodically covers the area of corporate credit risk management
• is responsible for the assessment of credit transactions in all lending segments in terms of corporate credit risk, monitor the performance of the portfolio, proposed mitigation procedures
• proposes a strategy for managing corporate credit risk in line in terms of fulfilment of legal obligations and in accordance with the Bank's financial plans
• Co-responsible for the establishment of an appropriate quality assessment of credit transactions

Retail Credit Risk Division has the following main responsibilities:

• comprehensively responsible for the management and adequacy of risk arising from the Bank provided loans
• analyzing proposals for the provision of credit products developed by the relevant bank employees

• analyze loan transaction from the perspective of banks' lending policies
• proposing measures for this treatment, elimination of retail credit risk in the loan proposals

Compliance

Compliance is an independent function with responsibility for putting in place internal procedures to protect against legalization of proceeds from crime and terrorist financing prevention of, protection against internal fraud and avoid conflicts of interest. Director of the Compliance Department regularly inform the Chairman of the main findings in the performance of control activities and at least annually inform the Board of Directors and the Supervisory Board on the activities of the Compliance Department.

Internal audit

The internal control system is a control system covering all levels of the organizational structure and jobs, which includes process control, direct and indirect, as well as out of control. The internal control system consists of control activities, control environment, information systems, monitoring processes and risk assessment processes. The internal control system is mainly:
•improve the effectiveness and efficiency of banking operations and ensure the achievement of objectives,
•improve the integrity, accuracy, timeliness and reliability of information
• improve the quality of record-keeping
•ensure compliance with laws, regulations and internal procedures
•protect resources from misuse, fraud and inefficient use
•prevent the misuse of powers and detect fraud

For implementing an effective internal control system and its monitoring and improvement corresponds to the Board of Directors. For creating, practical implementation and maintenance of an adequate and effective internal control system within its organizational units responsible all levels of government. Executives cannot delegate this responsibility. Internal audit is the planning of their control activities, risk assessment of banks, defining the scope and selection of control, process performance and reporting the results of its operations independent of the operation, business and management of the bank.

External audit

In accordance with applicable law, the bank is obliged to ensure the verification of the annual accounts auditor and audit reports drawn up in accordance with the requirements of the National Bank of Slovakia. The Bank is obliged to inform the National Bank of Slovakia selection of the auditor, approved by the Supervisory Board of the Bank.

Risk management is fragmented in some cases. Some banks have created a separate division for risk management, encompassing the following departments:
•Department of corporate credit risk
•Department of retail credit risk
•Department of market and operational risks
•Department of methodology of credit risk and capital management

We can suggest for risk management the responsibility of one manager, namely the Head of Risk Management. The manager would be responsible for risk management throughout the bank in all areas including IT security management and banking operations. Of course, management must be carried out in close cooperation with the heads of departments concerned.

4 Conclusions

When creating the organizational structure of financial institutions in the current period it is necessary to pay attention to the safety of banks and inclusion elements of the security or crisis management within the organizational structure.

It is also necessary to note that the implementation of risk management systems can present problems, because often affects bank as a whole and requires a lot of expertise and experience. Even organizations that use the basic pillars of good risk management, you often do not realize the full value of their investment. We can talk about the need of harmonization of the risk management. Experience shows that the improvement of existing risk management systems should include in particular the following procedures:

• Re-evaluation of the current risk management system under investigation, what are the main risks, as they are treated and who owns them

•Examining whether the risk management system is adequately formally defined

• Assessment of the extent to which the objectives of the company are aligned, risks and controls and whether the risk management system focuses on risks that are really important

• Developing and maintaining dialogue between the different functions within the company in order to avoid gaps, overlaps and unnecessary to risk management system was consistent throughout the company

In this context, it is good to note that the harmonization of risk management does not necessarily represent a greater centralization, but implies greater integration of processes in the company. The creation of a centralized risk management department can facilitate this integration, but in no case should such a unit replace the responsibility of the real "owners" of risks. The main function of a separate risk management is ensuring the functioning of controls and processes in the area of risk management throughout the organization in a concerted fashion.

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