

Risk Management Practices by Barbadian Banks

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Motivation for Undertaking Study

- The economic and financial turbulence over the last four years have brought into sharp focus the management of risk by banks.



Motivation for Undertaking Study

- ▣ The literature on risk management by banks in the Caribbean is quite sparse. The primary objective is therefore to extend Caribbean literature by examining the various types of risk faced by banks operating in Barbados



- Review of Literature, focusing on the empirical literature
- Methodological and Data Issues
- Discussion of Empirical Results
- Summary and Future Work

Presentation Outline

Review of Literature

Author	Sample Country	Statistical and Review Period	Focus of Study	Methodology	Main Results
Hassan (2009)	Islamic Banks of Brunei Darussalam	2006	Assess the degree to which Islamic banks in Brunei Darussalam use risk management practices and techniques in dealing with different types of risk.	The study comprises data collected through primary and secondary sources. Primary data were collected through a questionnaire. The questionnaire is comparable to one provided by Al-Tamimi and Al-Maazrooei (2007)	The study found that the three most important types of risk facing Islamic banks are foreign exchange risk, credit risk and operating risk.

Review of Literature

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Christie-Veitch (2005)	Jamaica, Trinidad & Barbados	2004	Determine the current status of operational risk management in the Caribbean region.	Interviews were conducted with senior management in sixteen financial institutions in Trinidad, Barbados and Jamaica.	The findings are as follows: the framework necessary to identify, assess, monitor and control operational risk was not evident in the Caribbean region.

Review of Literature

Author	Sample Country	Statistical and Review Period	Focus of Study	Methodology	Main Results
Wood (1994)	Barbados	1991	Review the lending behavior and examine credit risk management practices of Banks in Barbados. Also, examine the nature of the credit rationing process.	The study comprises data collected from six commercial banks and one government owned development bank. Secondary data prepared by the Central Bank were also used.	The results of the study were as follows: (i) banks utilized published and internally-generated information in the process of screening applicants; banks do not use interest rates alone to allocate credit but resort to other means like varying the maturity structure on loans, requesting collateral, utilizing debt covenants and compensating balances in order to offset credit risk; the role of monitoring by banks is essential given the absence of credit rating agencies and lack of an active acquisitions market;

Review of Literature

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Wood (1994) cont'd.					monitoring activities of banks are characterized by regular (formal and informal) visiting (and telephone contact) between banks and clients and by periodic reviews of clients' accounts; credit rationing in Barbados can be usefully explained by the Stiglitz-Weiss "equilibrium-rationing model" which emphasizes the influence of imperfect or asymmetric information on bank behaviour.

The Banks Featured in the Case Study:

- The Barbados National Bank
- Butterfield Bank
- First Caribbean International Bank
- RBTT Bank
- Royal Bank of Canada
- The Bank of Nova Scotia

Methodological And Data Issues

The Questionnaire

- The Importance of Risk Management to Banks
- Risk Identification
- Risk Monitoring
- Risk Management practices

Methodological and Data Issues

- Risk Presenting the Greatest Exposure

Risk	Average	Ranking	Respondents
Credit	1.75	1	4
Operational	3	2	4
Country\ Sovereign	3	2	2
Interest rate	3.33	3	3
Market	3.33	3	3
Liquidity	3.67	4	3

Analysis of Empirical Results

Risk Identification

- Banks generally do not experience difficulty in identifying and prioritizing their main risk

Analysis of Empirical Results

Importance of Risk Management Practices

- All risk managers recognize the central importance of risk management to the bank's performance

Analysis of Empirical Results

Risk Management Practices

- Results reveal that there are adequate arrangements in place, with documented procedures to provide guidance to staff.

Analysis of Empirical Results

Current Measures in Place to Manage and Control Risks

- Credit Risk
- Operational Risk
- Country\ Sovereign Risk
- Interest Rate Risk

Analysis of Empirical Results

- **Risk Monitoring Analysis**
- **The Level of Success or Failure**
- **How Have the Measures Evolved Over the Years**

Analysis of Empirical Results

- Foreign Exchange Risk was identified among the greatest risk exposures. However such risk did not figure among the first six in our studies.
- Our study indicates that some measures traditionally used are employed within Barbadian banks.

Comparison of Results to Previous Studies

A number of findings emerged from the study

- Banks perceive risk management as very important and critical to their bank's performance
- Main types of risk exposures are credit, operational, country\sovereign, interest rate and market risk.
- High level of success with the current risk management practices

Conclusion

- Risk management practices have evolved in line with the changing economic environment and regulatory updates
- Some of the approaches traditionally used to manage risk are being utilized by Barbadian banks today.
- Overall, the findings suggest strongly that banks are risk-focused or might we say “risk intelligent”

Conclusion

- One limitation resulted from the fact that the participating bank personnel were more involved in the area of credit risk and hence lacked knowledge of other risks.

Limitation

- This work should be replicated across the other Caribbean Countries with the view of moving towards a common approach in relation to Risk Management within the Caribbean.

Future Work