United International University
QUEST FOR EXCELLENCE

INTERNSHIP REPORT
ON

“Emerging Risks for the Banking Institutions”

EXIM
BANK
Shariah Based Islami Bank

United International University

QUEST FOR EXCELLENCE

Internship Report on

“Emerging Risks for the Banking Institutions”

Submitted to

Mrs. Nusrat Farzana
Assistant Professor
School of Business & Economics
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Submitted By

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Letter of Transmittal

Date: 9th June, 2020

To

Nusrat Farzana

Assistant Professor

School of Business and Economics

United International University

Subject: Application for Approval Report

Dear Madam,

Assalamu Alailum, with due respect I make a report titled "Emerging risks for the Banking Institutions". It is one of the requirements of BBA program from the department of business administration of United International University.

I have tried to make this report precise. The prime focus of the report is to give a clear picture of the emerging risks for the banking institutions. I feel the immense knowledge and experience will facilitate me a lot in my future career life. With my limited knowledge, I have tried my level best to prepare the report worthwhile.

Your acceptance and appreciation would surely inspire me. For my further explanation about the report, I will be gladly available to clarify the ins and out.

Sincerely yours,

……………………..

Fatematuj Johura

ID: 111 152 273

B.B.A (Major in Finance)

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Acknowledgement

This report is the outcome of the practical orientation and my experience in the EXIM Bank Limited, Rayer Bazar Branch. For successful completion of this report, I got aid from so many persons, without their help this report would never have been possible.

First of all, I would like to express my gratitude to almighty Allah for keeping me mentally and physically sound to prepare this report.

Then I would like to convey my sincere gratitude to Nusrat Farzana Madam, professor of BBA department, United International University, for her inspiration as well as guidance I have prepared this report.

I articulate my heartiest appreciation to Md. Sherazul Islam (Mamun), FAVP and Second Officer, of EXIM Bank Ltd. Rayer Bazar Branch for providing me with valuable information's for my report.

I also admire all the personnel of EXIM Bank Ltd., for their co-operation and cordial assistance to me.

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Student's Declaration

I, the under noted student of BBA program do hereby decide that the report on "Emerging risks for the Banking Institutions" is done by me under the close supervision of Nusrat Farzana Madam, Assistant Professor, School of Business and Economics, United International University.

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Fatematuj Johura

ID: 111 152 273

School of Business and Economics

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Executive Summary

Risk management in banks or other financial institutions has been changed substantially over the past ten years. The regulations that has been flourished from the global financial crisis and the fines that were imposed in its wake rises a float of change in risk functions. The risks now consist of more elaborate and demanding capital, leverage, liquidities, and funding necessaries, as well as higher measures for risk reporting, which includes BCBS 239. Now-a-days-the management of nonfinancial risks becomes more essential as the standards for compliance and conduct have been strengthened. Banks and the financial institutions have also invested in strengthening their risk cultures and connect their boards more closely in major risk related decisions. They also investigated further define and depicture their lines of protection. Through the expansion of these and other shifts, most of the risk functions in banks and other financial institutions are still in the midst of transformations which react to these increased demands.

This report first describes the different literatures of diffident publications. It then outlines the various types of risks which is now available and may emerged 2025 and highlights what different authors say about those emerging risks in their articles. My insights and recommendations build on my knowledge experience which I could gather by preparing this report.

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Chapter- One (Introduction)

1 Introduction:

Banking sector always has a rich and long history. The history begins with people's different needs. And the banking institutions always there for fulfilling the business peoples and other's needs. As the competitions and sizes of different business is increasing day by day, to meet these increasing needs of businesses and others, banking institutions also takes various initiatives and offers new services to their customers to make their lives more easier. This internship report is made to fulfill my Bachelor of Business Administration (BBA) degree and to evaluate my knowledge regarding upcoming risks for the banks. As a part of the internship program I had to work in the Rayer Bazar Branch of EXIM Bank Limited.

Modern banking is the result of the initiatives and evolutions which is usually driven by our changing economic environment and activities and life styles. By entering into a new economic environment, the need of banking have becomes more intense and diverse than before.

Now-a-days, people are increasingly aware of the management of their resources. As the banking institutions do their businesses by lending their depositors' money, they are become more responsible in managing their credit portfolio more smoothly. Bank's reputation is the most critical factor for its success and they should follow appropriate guidelines, policies and relevant manuals regarding their credit extensions and recovery which is made the Bangladesh Bank. The use of banking services for any types of financial activities is increasing day by day. People are now taking loans not only to start their businesses but also they take loans for other and purposes. That's why, it is now very important to know the upcoming risks of the banks.

In the banking business, no reward and profit can be gained and expected without taking risks.

1.1 Background of the Report:

As we know that, a developed banking sector plays an essential role for the financial growth and stability of a country. In a BBA program, the internship is a very important part, which I need to complete for the fulfillment of my BBA degree. This internship program usually provides an opportunity for the students to reduce the gap between the student's theoretical and practical knowledge and also will helps us in our practical life in the future. After completing my all BBA courses as a student I have to complete my Internship program from a reputed Bank which will be helpful for me and my future professional career. I got this great opportunity to perform my internship program in the EXIM BANK LIMITED. I have completed my internship period based on both the theoretical and practical knowledge. I was sent to Rayer Bazar Branch of EXIM Bank Ltd to do my internship. It was my three months practical orientation program from which I gather experiences. As a Finance student I choose "Emerging Risks for the Banking Institutions "as the topic of my internship report.

1.2 Origin of the Report:

It is said that without any theory, the practice of anything is blind similarly without practices any sort of theory is meaningless. The internship is designed to reduce the gap between the student's theoretical knowledge and their real application of that knowledge. The main reason of this report is to learn about the various emerging risks who the banking institutions may face.

The entry level position as an intern is a piece of the Business Administration (BBA) program which gives the genuine the professional trainings and experiences to the students. For this reason, I was put as an internee official at EXIM Bank Limited, Rayer Bazar Branch for 3 months. This internship program is my first professional training that gives me much experiences and informations in various zones of the banking divisions. During the initial weeks of my internship, I had the option to learn about the positions and condition of EXIM Bank Limited. As the time passes, I found out about the various exercises, functions and tasks of the bank and furthermore able to gathers information about the important and most essential business exercises of the banks. I have tried my best to design the report to gain a practical experience with theoretical understanding of the upcoming risks for the banking institutions.

1.3 Rational of the Report:

This internship program is extremely essential to reduce the gap between our theoretical knowledge and our real life experiences by being it as a part of our Bachelor of Business Administration (BBA) program. This internship report has been actually designed to gain practical experiences and knowledge through the theoretical understanding of many things. This reason, to complete my internship and BBA degree, I have been placed in a Bank which is named as “Export Import Bank of Bangladesh Limited” for three months.

The importance of the risk management and the emerging risks for the banks has motivated me to conduct this study. If the banking institutions can ident8ify the upcoming risks, they will be able to measure it and will take precautions against those risks.

1.4 Objective of the Report:

The main objective of the report is to identify, learn and measure the emerging risks for the banking institutions.

There are some specific objectives includes which are as follows-

- To know what the different authors say and write about the upcoming risks for the banks.
- To identify possible measurable to prevent those risks.
- To learn about the new risks for banks about which I am not well aware off.

1.5 Methodology of the Report:

The report is descriptive in nature which is prepared based on the informations of upcoming risks for the banks. Therefore methodology was involving learning about different risks which the banking institutions may face during the near future and collecting information from various sources so that I can present this report in a coherent manner.

My methodology of this report is, I read some recent publications on emerging risks for the banks and also read the literature review of those risks and make a qualitative report on the current scenario of these risks.

1.6 Scope of the Report:

As an intern I was assigned to the EXIM Bank Limited, Rayer bazar Branch. This report includes the upcoming risks which the banking institutions may face in the future and also to gather knowledge about those risks which is mostly unknown to me. This report does not include any other issues related to EXIM Bank rather I discuss about the risks for the banking industry as a whole. Besides this report also does not includes any services of other private or public commercial banks and other non-banking institutions.

1.7 Limitations of the Report:

In a short period of time, prepare a report on this topic is a difficult task. When preparing this report I had faces some problems and limitations which are the following-

- ✓ The main limitation of the report was insufficiency of informations, which i needed for preparing this report.
- ✓ Lack of opportunities to access to sufficient relevant data. Because of this reason, I was not able to discuss many of the aspects of the risks in this report.
- ✓ I have to use mostly the secondary data for preparing this report.
- ✓ As most of the data which I required are not in the organized way, I have to face many difficulty in choosing relevant important informations.
- ✓ The informations which was related with legal action was not available.
- ✓ Lack of my experience and knowledge about this topic of the report.

Chapter- Two (Literature Review)

2 Literature Review:

2.1 Monitoring of compliance risk in the bank:

Financial institutions play an essential and also important role to develop a country's economic conditions .Banking sector is one of the largest sectored among them. According to the Regulation of the Basel Committee on Banking Supervision, Monitoring of Compliance Risk in the banks document (2005), Non-compliance in the banks is the negative consequences, which means that the banks are not compliance their activities with the regulations and compliances. Also, the European Directive MiFID pointed that they tells the investing firms like banks that the banks that are involved in non-compliance activities, for those banks-the European Directive MiFID will fix a Legal Compliance Supervision Unit to evaluate and monitor those banks activities. To do this National Regulators are thought to underline the importance of the individual compliance and the compliance functions. Compliance risk is the risks that involves legal and regulatory sanctions, material financial losses or losses to reputation of a bank which may results from the failure to obey the laws, regulations, rules, self-regulatory organization standards and also the codes of conducts which is applicable to the banking activities (Basel Committee, 2005).

Every banking institutions that accomplishes the compliance risk management program for both because of their internal needs and as well as the regulators order, usually builds their own ownership based solutions which is fitted to the needs and characteristics of the bank. The compliance risk management process involves several stages which includes- Risk identification, Risk measurement, Risk monitoring, Risk control and mitigation etc. These stages are conducted by the compliance unit which is establishes by the bank (Losiewicz-Dniestrzanska, 2014).

Identification of compliance risks usually involves two steps which are finding relevant legal obligations which can be established by the applicable legal framework and then by evaluating the importance and topicality of the businesses of the banks. These steps are very essential for the usefulness of those risk management process because finding all the hazards which is involves in non-compliance can be determined by the capability which can detect the actual error in the emerging years (Risk Based Compliance, 2008).

The effects of recognizable risks must be measure and evaluate in regard to their relevance which can distinguish their strengths. By doing this, the banks will be able to measure the compliance risk through the use of both the qualitative and quantitative instruments (Birindelli and Ferretti, 2008). According to the Risk Management & Compliance Framework (2014), a risk matrix can be developed by using the preceding knowledge of compliance risk measurements of the banks that will helps to determine the risks on the basis of the banks accepted values.

Monitoring of risks can be prescribe as the measurement of risks which stays at an acceptable level. The duties of measuring risks in the banks usually stands within the responsibility of the compliance unit which can be attained through several activities like participating in the process of assessing regulations, participating in the process of assessing marketing materials, participating in projects implementation, participating in the banks audit committees meetings etc. (Certified Global Education, 2015). These activities helps to monitoring the compliance risks by using both quantitative and qualitative techniques. The qualitative techniques consists of risk maps which shows the business processes in the banks and also looks at the relationships between them that includes the causes of any errors in the implementation process (Patchin and Carey, 2012).

The quantitative techniques of monitoring risks involves the indicators which are characterized by abundance, simple accessibility, freedom of fixing thresholds based on the historical data regarding as the parameter which is set by the regulators (Are, 2013; Kroll, 2012).

Monitoring is basically the controlling mechanism which certifies compliance along with the necessity of the current process which must be planned, regular and the activities of monitoring should be relevant with risk evaluation and corrective measures of those recognizable errors. Collected data of compliance risk monitoring is using in the banks by larger amounts which is related to the needs of the banks (Wehmeyer, 2005).

2.2 The Compliance Function in Banks and the Need for Increasing and Strengthening its Role -Lessons Learned from Practice:

Basel Committee describes compliance risks as the risk which involves legal or regulatory sanctions, financial or commercial losses, or losses of reputation that banks may faces from the failure to follow all applicable laws, regulations, rules, codes of conducts etc.

Compliance risks also consisting of governance of banking and other financial businesses, privacy and also protection of valuable data and specially dispositions on the determination of money laundering and financing which involves terrorists (Basel Document).

There is a difference between the compliance risk and the litigation risk because the compliance risk does not the credit institutions responsibility on their contractual obedience which involves negative results from disobeying of non-complying rules of the public orders.

The prime concern of the compliance function involves help the senior management in effectively managing their compliance risks. By using different performance indicators, compliance risks can be measured. Through compliance risk functions, banks can also find, record and evaluate the compliance risks which is combined with a bank's operations consists of that banks new products or practices, proposed installation of new kinds of businesses, relationship with customers and also the changes in the materials etc.

According to the Compliance risk of the Albania banking systems, through some regulations, they can deal with compliance risks. The regulations includes-regulations on bottom management practices of banks and their branches of foreign banks and ground for the approval of those banks administrations, regulations on the clearness for the banking and financial products or services, regulations on mortgage and clients credit etc.

There is already a controversy arise on compliance risk management both in the international level between the regulators (Basel Committee) of the banks and in the national level between the banks. Because of the modern investments in area of the credit and the market risk management, now the banks are able to find and measure these risk more appropriately.

2.3 The Impact of Information Security on Banks' Performance in Egypt:

By lies on the developments of the banking services and the technological advancement, the banking services related with internet operates their businesses. As a result, the offense and security breaches have been increasing. Some security threads are now faces by many banks which are called Trojan Virus, Spam, Hacking, Spyware or Malware, Stealing etc.

New Information and the new Communication Technologies (NICT) has been moved at a point where technology helps logistically the intimate processing of networking and the information technology through enhancing interbank networks and also the systems of NICT has been speedily grant the access to the capital markets (Hilal, 2015).

Feruza and Kim describes the information security as a means of protecting the valuable informations and the systems of information from unrecognized accesses, uses, uncovering, breakdown, modification or any destruction etc. Because of such threats information security can be increased in the banks through providing particular available goals which includes appearance, integrity or confidentiality (Feruza and Kim, 2007).

According to Susanto et al, there should be a set of standards fixed to assure the ideal security practices are obtained and it should be at an appropriate level. Some set of standards that leads to information security consists of ISO27001, COBIT, PCI-DSS etc. Susanto et al. characterizes these systems as the standards of information security management system (Susanto et al., 2011).

Furthermore, there is also a requirement to ignore information security threats and the end in losses for those standards. There are some incidents of the banking institutions highlighted by Glaessner et al. which results because of information security threats. The incidents includes-Citibank bears a loss of about $10 million because of an intrusion in the financial subsistence network in 1995, Unidentified bank and the Citibank incur thieve of about $141000 from the online accounts, the Italian banking system faced stealing the credit card informations of about their 5000 clients in 2003 (Glaessner et al., 2003).

Every standards of the information security management system has their own conduct and position in implementing the system. The standard ISO-27001 concentrate on the information security management system, the PCI-DSS deals with information securities which is related to the business transactions or smart cards and the COBIT standard focuses on information securities which is related with the IT governance and the project management (Glaessner et al., 2011).

The data of the standards like ISO-27001 and PCI-DSS has been gathered through a questionnaire through which they can know about the levels of applications. The standard ISO-27001 consists of items such as- find out the policies and the objectives of the information security management system by gathering informations, analyzing and through the developments of a specified strategy, the amount of applications to all the risky areas of this system, designed to address risks, establish standards and report those risks, establish the process of mitigating the risks etc. For every items, the application levels must be directed as designed, not designed, drafted, located, and approved (Salah & Hinson, 2009).

The process of standard PCI-DSS should be includes the items as- install and sustain a firewall configurations to safeguard cardholder data's, use and orderly update the anti-virus software, establish and sustain secure systems and applications, constantly examine the processes and security systems, track and check all the accesses to the network resources and the data of cardholders etc. For every items, the application levels must be directed as applied or not applied (PCI Security Standards Council LLC, 2010).

2.4 Cyber Risk for the Financial Sector: A Framework for Quantitative Assessment:

Cyber risk has been founded as a systematic risk because of some current cyber incidents which includes IIF 2017, IFF 2017b etc. According to some current survey, cyber risk becomes a main worry for the market participants who were firstly ranked in the DTCC Systematic Risk Barometer, secondly in the 2017 H2 systematic risk observation through the Bank of England.

Data and informations on cyber incidents are unavailable and also there was a few quantitative analyses of the cyber risks. As the data on cyber risk is rare to find, there is no general standard of recording them and banks have no encouragement in report them. As an example we can include, only 49 attacks which results from cyber were reported in 2017 in U.K. It is pointed as a material under the reporting of those cyber-attacks in the financial sectors like banks by the authorities (Butler, 2017).

The SEC which was relief in 2011 in the U.S based on guidance on exposure of cyber risks for the firms which were listed (SEC 2011), and was reconsider during 2018 to provide extra details about how and when the firms or banks should publish the informations to their investors (SEC 2018).

In European Union, the General Data Protection Regulation (GDPR) would admit into the force in May 2018 which needed the firms to report contravention to their compatible supervisory authorities in 72 hours. If the firms failed to follow these reporting requirements, they will have to fine up to EUR 20 Mn or about 4% of their global annual turnover.

The economic or financial sector is the most targeted segment of cyber risks because of its dependence on information and also its key role in the credit arbitration process. Furthermore, because of the regulatory necessaries regarding the operational risk, the financial institutions are apparently collecting data on the cyber incidents than the non-financial institutions or corporates (Kopp et al., 2017).

Cyber risks can be also prescribe as the operational risks for the information and technological assets which are related with results that are affecting the secrecy, availability or the fairness of informations or the information systems (Cebula and Young, 2010).

Cyber risks also have characteristics of both the property and liability risks which is covered by insurance, and as well as the disastrous and operational risks (Eling and Wirfs, 2016).

All the financial institutions all over the world are manifested to cyber risks. An agency of the United Nation which is called the "International Telecommunication Unit (ITU)" gives a global cybersecurity exponent for the whole world. The exponent was establish on the basis of a range of certain factors which is consists of legal, technological and the organizational as well as capability building and cooperation (ITU, 2017).

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As there is no accurate and quantitative measures of cyber risks by countries for the financial institutions, they try to establish an indirect measure through using the media coverage. They compute an index by using a number of articles which is related to cyber risks by the countries and then divides by the number of those articles which was related to risks in the financial areas. The index shows that countries like Bangladesh and the Baltic states are highly suffered because of cyber-attacks.

According to the Information security risk management, risk is described as the combination of several factors. Threat level are especially strong for financial sectors because of cybercrime, proxy, hacking etc. by corrupted attackers who conduct spying on behalf of the beneficiaries and also the surveillances of informations by third parties (Kopp et al., 2017).

Vulnerabilities of the cybercrime incidents also be considered higher as the financial institutions are highly dependent on immensely inter connected networks and troublesome infrastructures. Besides, there are many financial institutions which have succession systems that may not be alert to the cyber-attacks (Friedman, 2016).

The Advanced Measurement Approach in the Basel II framework points that the approaches which were takes to count the losses distributions usually follows those approaches that are using in the actuarial science to plan the insurance claims and also to evaluate the operational risks for the banks (Shevchenko, 2010).

2.5 Moral Hazard and Government Guarantees in the Banking Industry:

The financial crisis of 2007 has driven to a renewed interest and argument about government interventions in the financial institutions. During the period of 2008-2013, the usage of the public funds in the financial sector was large. Those government interventions takes many forms which was ranging from recapitalization of loans and inherent as well as evident guarantees. Because of the expectation of the Lehman brothers, all big financial institutions that have faces difficulties were pledged out.

In reply to that crisis, many regulatory measurement has been launched both in Europe and in the USA. And then new regulations also enforced both on the banks and in the imperial. The regulations consists of the Fiscal Compact that involves the creation of a new banking unions within the Eurozone.

The moral hazard problem can be defined as the problems that are associated with the mass interventions which is seen in the public or academic controversy as its main difficulty. The moral hazard problem can reduce the effectiveness of the interventions by reducing financial durability and performances and in this way it overcharge the costs of the government who provides it.

The financial crisis which was stated in 2007 in USA in the subprime mortgage markets extended instantaneously around the whole world. Brunnermeier pointed that, for this major problem, one of the biggest cause was the pushed of their housing bubble which was happening in USA during 2007. This problem was followed by a collapse of their credit quality of their subprime mortgages and a raise in their deficiency rates. This disquiet expansion from their subprime mortgage markets to other security products has led to the downgrading of their many products which is related to mortgage and as well as other financed products which is structured. This results in a usual loss of confidence in their financial markets. As a result, the market participants becomes unwilling to lend money to each other's and the interest rates which is on their asset backed commercial-papers and the London Interbank Offered Rate (LIBOR) extends rose as the consequence of their liquidity parched up.

Banks supply liquid liabilities in the form of the desired deposits and invests their money mostly in liquid assets. This mismatch and maturities helps banks to improve their depositor's prosperity as they shares their liquidity risks that they provides which also discloses them to the risks as depositors conduct and withdraw their money before the maturity dates of their assets. These results usually because of two reasons. This problem may arise either because the depositors fear or withdraw their money early because of their self-fulfilling feeling or the depositors might arise because of downfall in their economic conditions (Diamond and Dybvig, 1983).

According to the result of Diamond and Dybvig, 1983, the government guarantees are a cheap and effective technique to reduce the incidence of banking crisis confide in the results that raises from their particular set of impersonations.

Based on Diamond and Dybvig's analysis, banks and the financial institutions invest their funds only in a technology that involves less risks and in this way the appearance of the government guarantees does not affect both the bank's or the depositor's spirit to behave properly and sensibly.

The deposit insurance pricing scheme could be linked to the banks noticeable reported capital turn out the banks to express their true risks and behave properly. Neverthlessly, such a scheme might be very costly and not pleasant. The thought is that the costs of capital varies among banks on the basis of their risk profiles. The government relates that, capital is most costly for less risky ones and because of that they will select a diverse combination of the insurance premium capital requirements. This signifies that the government can plan those combinations in a way that every banks could pay a premium which will be sufficient to covering the costs of giving the insurance. (Chan, Greenbaum, and Thakor, 1992).

There was an argument that, within some more usual assumptions on costs of banks, rationally priced deposit insurance turns out as possible in spite of the competitive banking systems but is might not be searchable as it involves cross-subsidization between banks which are more and less efficient (Freixas and Rochet, 1998).

According to the cross-country datasets during the period over 1980-1997, the deposit insurance has a negative influence on those monitoring enthusiasms of all the investors who have claims on the banks and by this way, it increases the possibility of banking crisis (Demirgu¨c¸-Kunt and Detragiache (2002)31 and Demirgu¨c¸-Kunt and Huizinga (2004).

2.6 Moral Hazard in Banking:

Banks are engaged in taking the deposits and provides the collected deposits as loans to the debtors. Money lending is thought to be as killing someone as it is risk intrinsic. Still, money lending is fundamental for the establishments and developments of the national and international economic conditions (Cicero, 1998).

The Financial Stability Report (2015), shows that In Bangladesh, banks are playing an essential role in put together internal savings and provides capital to the deficit groups in the economy. By analyzing the performances of the banking institutions, a presumption can be stretched that states that the banking institutions in Bangladesh is imposed to high numbers of non-performing loans (NPLs). As a result of this high NPLs, banks profitability is declining and also reduces the banks loanable funds which is available to the banking institutions.

By examining the Asian Financial Crisis, it has been shown that Thailand was the foremost country which has been affected by that crisis. There are many banks in Thailand were influenced because of the inauguration of the crisis which is converted into the currency crisis later (Wade et al., 1998 and Victoria, 1998).

During the period of the Asian Financial crisis, similar incidents are occurred to the Thai baht. Soros and other speculator connected Thai baht. after looks on the banking crisis which has forced Thailand to run out of their foreign consigns and the Thai government was oppressed to pathway its baht (Radlet & Sachs, 1998).

At the time of the Asian Financial crisis, the moral hazard problem was also faced by the Thailand banks. This moral hazard problem was created because of the Thailand government as it decides to guarantee the bank loans. As a result banks feel that they were investing their funds in mostly risky projects as the government guarantees the bank loans. There would be no problem if these more risky projects works well but that did not go as they planned it. Many of those risky projects results in failure that leads to many non-performing loans. After that the banks asks for the government helps, the government also failed to backing those non-performing loans because the government was also faces a shortage of funds (Krugman,1998).

Moral hazard can be consulted with the insurance that refers to the possibility that the insurance will induce the in injured parties to get along the additional risks in the way that could not efficiently be instructed (Dembe et al., 2000).

Moral Hazard can be described as a situation in which a party decides on how much they should take risks by taking in concern that other party would bear the costs if things does not go as planned (Krugman, 2009).

According to Myers et al., 1994, the moral hazard word says about the changing behaviors of the financial institutions when these institutions are insured against losses which results from set of actions. It is not mandatory to declare that the government will takes responsibility is they banks are failed. The characteristics of banking crisis is self-fulfilling fear that the government naturally wants to ignore as it creates obstacles for money supply in the economics which results in less economic growth. Consequently, it is by fault that the government is taking the responsibility of those banks which will be in financial distress. Because of this, banking institutions are more involved in moral hazard problems. The banks are investing their funds in more risky projects as a result of the belief that the government will be there to support if things goes wrong. This shows that the banks are playing games by coin in which if the outcome is by head then the bank wins and if tails is the outcome then the taxpayers will loss the money (Dewan and Shaila, 2012).

During the Mortgage crisis which are acuminate in the financial crisis of 2008, the moral hazard problem was higher. During that time period, the standard of mortgage has fall down at a level that the house owners step away from their homes. Many of the banking institutions were in the margin of bankruptcy. Then the regulators comes forward and unloads money at that time. As it was not a possible thing to get out all the firms from the pressure, the government still gets out a few banks who were primarily accountable for the mass. This decision of bailed out then increases the moral hazard problems in the economics because other firms beliefs that they would also be get out from this problem (Lewis, 2007).

Zandi and Mark, 2009, points that mortgage securitization is one of the major reason for the financial crisis which was occurred in 2008. There are three steps which is associated with mortgage securitization. The steps consists of- at first they need to buy mortgages from the banks and the mortgage brokers, a big pool of mortgages would to needed to grouped and then requires to selling the shares in those mortgages pools to the investors (Lederman, 1990).

The moral hazard problem can be declined at a least level if the information incoherence problem is reduced. The healing of information asymmetry is gathering more informations about the parties who are involved. As an example of this, the regulators will needs to collects and gathers more informations about the banking institutions business operations and the banks needs to collect more informations about their feasible fund receivers (Hubbard, 1990).

The main reason of the moral hazard problem is the government deposit guarantee and the governments bail out programs. There is an excuse for both helps but still requires to gripe both the issues straight away so that it cannot cause more damages in the economies (Keely, i990).

2.7 Reputational Risk: A Crisis of Confidence in Banking:

There are several factors that contributes to the financial crisis which was stated in 2007. Those factors consists of lower interest rates, the U.S governments discretion to rise home ownerships and to encouraging house prices and also influencing the currency exchange rates by the Asian and oil exporting countries (Avgouleas, 2010).

The Basel committee on Banking Supervision (2009) points that, the banking institutions are failed to identify the reputational risks that are related with their off-balance sheet vehicles, securitization schemes, overall positions of liquidity and also their business practices. Furthermore, the banking institutions and other financial services are considered as the two minimum trusted sectors by the ordinary public (Edelman Trust Barometer Survey, 2012).

To control the threats to the business operations as an outcome of the ongoing crisis on banks, the banking institutions requires to act in the way that will reestablish the confidence in the financial sectors. One of the main emerged drivers of the reputational risks is the affair of money laundering, a matter that is absorb when the financial markets are in trouble as it is proved by the resignation of the HSBC’s head of compliance approximate accusations that the bank was engage in money laundering related activities (Nasiripour, 2012).

According to the Basel committee on Banking Supervision (2009), Reputational risks refers to the risks which is rises from the negative appreciation from the counterparties, clients, shareholders, regulators of the investors that can conversely effects a banks capability to sustain the existing or build new business relations and preserve access to the sources of their funds.

The Basel committee on Banking Supervision (2001) noted that, it is very essential to remark that mischievous publicity concerning a bank’s business operations, exercises and associations, even though they are exact or not, might results in a loose of confidences in their fairness of the firms.

The reputational risk management needs a clear and widespread policy, either as a part of the banking institutions risk management policy or as a different separate policy, that requires to be support by the senior management and also the board of directors (Scandizzo, 2011).

2.8 The Management of Reputational Risks in Banks: Findings from Germany and Switzerland:

The banks reputational risks can be described as the risks to a public reputation of the banks in case of expertness, fairness and trustworthiness that is resulting from the understanding of the shareholders. The Reputation is the extreme factor that ensures the long-lasting profitability. In the wide sense, the reputational risks is the negative or positive removal from the expected reputation.

One study on Reputation points that, there are three banks associated with the group of 50, are the most admired companies in the whole world, which are JP Morgan Chase, Goldman Sachs and Wells Fargo (Fortune, 2016b).

In exercise, the reputational risks can be defined as the risks of probable damage to the Deutsche Bank's spit and reputation and also the connected risks to earnings, capital and liquidity raises from any confederation, actions or inactivity that could be realized by the stakeholders to be improper, unethical or irrational with any banks values and believes (cf. Deutsche Bank, 2017).

There is a positive outcome of the reputation of a company's success and that can be experimentally verified. The positive effects consisting of- enhance the attractiveness of jobs, in case of the inventors increased the payments readiness, above the industry average profitability's, the positive link between the reputation and the financial prosperity of the company (cf. Fombrun & Wiedmann, 2001).

A large number of participants who were engaged in the experimental study believes the reputational risks as the ultimate object. Most of the people who were participating in the study puts more importance to the risks rather than to credit risks and other types of risks which are lined with the market prices and all together around 13% participates puts less importance to reputational risk.

2.9 Systemic Risk, Financial Markets, and Performance of Financial Institutions:

According to Huang et al. (2009), systemic risks is the risks which is associated with diverse defaults of the larger financial institutions or banks.

Group of Ten (2001) describes the systemic risks as, when some occurrence results in a loss of the economic values in a large volume of the financial systems or too expands to the real economies.

A proposal was made by Acharya et al. (2010) on Systemic Risk Index which is known as Systemic Expected Shortfall (SES), this index measuring the achievements of the financial institutions to the systemic risks. The SES can be prescribes as the prospective capital scarcity of the financial institutions which are contingent on the substantive deduction of the capitalization of the system. They believes that the collapse of the systematically important firm can destine a rareness on the whole economic system when the financial systems are below capitalization. Still, the SES uses the Static Structural process to evaluate the financial institutions subscription to the systematic risks in the time of the crisis.
The MES (Marginal Expected Shortfall) was primarily established by Acharya et al. (2010) to measuring the contributions of the financial institutions performances to the overall systemic risks but they presumes that the consistency between the individual institution and the market is fixed.

2.10 Systemic Risk in the European Banking Sector:

Systemic risk can be defined as the risks of the downfall of the whole financial system usually hammers by the defect of one or more big and interconnected financial institutions. The systemic risks can be distinguished by three factors which includes- systemic risks effects a strong segment of the financial systems, it is associated with negative rareness and also it needs interventions of universal authorities for the prohibition and management of the risky environments.

A methodology on the systemic risk was proposed by Adrian and Brunnermeier on the basis of the CoVaR metrics. The CoVaR metrics is actually the value at risk metrics of the financial method contingent on institutions that are under distress. The CoVaR metrics can be also described as the differences between CoVaR contingent on the institutions which are being under distress and the CoVaR in the "median" condition of the identical institution or bank (Adrian and Brunnermeier, 2011).

Chapter-Three (Types of Risks)

3 Types of Risks:

Over the decennaries, the financial institutions or banks has bear meaningful transformation because of the internal and external factors, including transformation of business models, adopting the advanced technologies, shifting of regulatory environments, etc. The modern banking part is a highly complicated ecosystem, in which the stakeholders of different backgrounds such as internet, tech companies, and startups plays an increasingly powerful role.

In this growing complex environment of the financial institutions, new complications arises, which requires an adjustment in the risk management systems and within the procedures that are associated with it. For the financial service industries, spreading the layout of risks which comes with new kinds of players, ever-growing complications of the national and international regulations, new technologies and as well as the changing customers behavior needs enough resources and investments so that the banks could address the financial and other risks naturally which is resulting because of those changes.

The history of the banking industry indicates that the banks has been drawn billions in losses because of their unwise risk-taking decisions. It is therefore necessary to understand the various kinds of risks faced by every banks in 2018 and beyond.

Banking risks could be broadly classified under the following categories-

3.1 Strategic Risks:

Strategic risks refers to the risks that are intimidate to shatter the assumptions at the essence of the financial institution or banks strategy and also the risks from the changes that intimidate to destroy the fundamental set of strategic hypocrisy and conditions. Or in other words, strategic risk is all about the degree of risks which is associate to a banks inappropriate strategies that does not match with the corporate goals. The strategic risks are not instinctively unwanted. There could also be an upside who are taking these risks. Such risks may arise from the fact that the banking institutions might have a good plan but also incompetent decision making procedures or may have a lack of a systematic implementation plans.

The aim of governing the strategic risks is not perforce prevention but also prospect and the understanding. The understanding of the strategic risk could favor the leaders to know about how they should react and also helps to evaluate the opportunities that will give them the highest value.

3.2 Compliance Risks:

Compliance risk is the risk of disclosure to legal penalties, financial confiscation and material loss that a bank faces when it fails to act according to the industry laws and regulations, internal policies or described best practices. Compliance risks can be also sometimes known as the integrity risk. There are many compliance regulations which are establishes to ensure that the organizations or banks operates fairly and ethically. For this reason, compliance risk is also regard to as the integrity risk.

Compliance risk management is the part of the corporate governance, risk management and the compliance (GRC) discipline. These three grounds often overlaps in the areas which includes incident management, operational risk assessment, internal auditing, and compliance with regulations such as the Sarbanes-Oxley Act. Punishments for the compliance violations consisting of the payments for damages, fines and paralyzed contracts, that could leading to the financial institutions loss of reputations and business opportunities, as well as the underestimation of their franchises.

3.3 Credit Risks:

Credit risk is the risks that arises because of uncertainty in the counterparty's ability to meet its obligation. There are many types of counterparty's obligations which ranges from the individuals to sovereign governments. Risk is intrinsic in all perspectives of the commercial operations. Nevertheless for the banks and other financial institutions, credit risk is an important factor which needs to be managed. Credit risk is the probability where a borrower or counter party will failed to meet its obligations according to its agreed terms. Credit risk, consequently, rises from the banks that are dealing with or lending to the corporates, individuals and other banks and other financial institutions.

The objectives of credit risk management is to enhance a bank's risk adjusted rate of return by obeying the credit risk disclosure within receivable parameters. Banks or financial institutions requires to manage the credit risk disclosures which are intrinsic in the whole portfolio as well as the risk in individual's credit or transactions. The banks should take into account about the relationship between credit risk and other risks. The efficient management of credit risk is a troublesome component of a widespread approach to risk management and important to the long term success of any banking organizations.

3.4 Cybersecurity Risks:

Cybersecurity risk is refers to the disclosure to harm or loss which results from the breaches of or assaults on the information systems. Or, cybersecurity risk is the possibility of loss or harm which is associated with the technical infrastructure or the uses of technology within and the financial institutions or banks or other organizations.

The capability to identify cybersecurity risks and make sensible decisions about cybersecurity risk tendency would frequently be the differences between the success and failure for the banks. Those who do this efficiently will be better settled and enable to have continuous growth, those who do not will disclose their organization to the risks with possible dangerous implications. The financial institutions should take a widespread inventory of probable cybersecurity risks, identify their possible impacts, and prioritize them efficiently. This procedure must involves the stakeholders over the banks to gain aspects and unity. The procedure should be an ongoing process that involves perpetual evaluation and re-evaluation.

3.5 Liquidity Risks:

Liquidity is the capability of a firm, company, or even an individual to pay its lending funds without bearing disastrous losses. Moreover, liquidity risk raises from the deficiency of marketability of an investment which can't be bought or sold speedily sufficient to prevent or reduce a loss. It's usually reflected in rarely wide bid-ask spreads or large price movements.

Liquidity risk results when an individual investor, business, or the financial institutions could not able to meet its short-term debt obligations. The investor or entity might be incapable of converting an asset into cash without giving up capital and their income due to a shortage of buyers or an inefficient market.

3.6 Reputational Risks:

A financial institution or bank is disclosed to the reputational risk when the probable negative publicity is associated with a client's or investee's improvised environmental and social practices. This risks damages the financial institution's or banks brand value and shadow in the media, with the public, with the businesses and financial communities, and even with its own employees. This type of risks is considered as uncertain because of the negative publicity, lawsuit, loss of revenues, customers, partners and key employees, reduction in share prices, and difficulty in recruiting talented employees etc.

Reputational risk management in banking institutions, consequently, can be prescribed as the prediction and evaluation of reputation risks, simultaneously with the consolidation of the processes and procedures to ignore or minimize their impact. This processes or practices also support the banks to form the public appreciation of its products, services, and brand in the ways will enhance the publics and consumers trust.

3.7 Moral Hazard Risks:

Moral hazard risk arises in a condition in which one party gets engaged in a risky instance by knowing that it is protected against the risk and the other party will oppress the costs. It rises when both the parties have partial informations about each other. In the financial markets, there is a risk where the borrower might involve in the activities which are unwanted from the lender's viewpoints because they make him less likely to pay back the debts or loans.

Moral hazard risks results when the borrower knows that the other will pay for the mistakes that he makes. This severally gives him the spirit to act in the riskier way. This economic thought is known as moral hazard. This risks usually arises within the financial industry or banks, such as with the contract between a borrower or lender, as well as the insurance industry.

3.8 Systematic Risks:

Systematic risk can be refers to the risk which is intrinsic to the entire market or the market segment. Systematic risk is also known as the undiversifiable risk, volatility or market risk that simulates the overall market, not just a certain stocks or industry. This type of risk is both disputable and impossible to completely ignore. It cannot be extinguished through diversification, but can be only through hedging or by using the correct asset allocation strategy. The systematic risks can be also describes as the financial system instability, potentially catastrophic, caused or exacerbated by idiosyncratic events or conditions in financial intermediaries. It refers to the risks exposed by the inter linkages and interdependencies in a system or market, in which the failure of a single entity or cluster of entities can results in a cascading failure, that could partially bankrupt or bring down the entire system or market.

Systematic risk endures other investment risks, which includes the industry risk Systematic risk, nevertheless, incorporates the changes in interest rates, inflation rates, recessions and wars, among other major changes. Changes in these parts can affect the entire markets and cannot be restrained by changing the around positions within a portfolio of the public equities.

3.9 Market Risks:

Market risk is the probably that an investor experiencing losses because of the factors that affects the entire performances of the financial markets in which he or she is engaged. Market risk is also known as the systematic risk which cannot be extract through diversification, though it can be hedged against in other ways. Sources of market risk consisting of recessions, political turmoil, and changes in the interest rates, natural disasters and terrorist attacks. Systematic, or market risk tends to influence the entire market at the same time.

Market Risk Management handles the risk of dynamic portfolio losses because of contradictory changes in the prices of financial instruments which is resulting from stochastic fluctuations of the market variables.

The major causes behind arising credit risks includes the following-

Interest rate risk: Interest rate risk arises because of the potential losses due to the fluctuations in the interest rates.

Equity risk: Equity risk arises because of the dynamic losses for the fluctuations in the stock prices.

Currency risk: Currency risk arises because of the losses for the fluctuations in the international currency exchange rates.

Commodity risk: Commodity risk arises because of the dynamic losses as a result of the fluctuations the in prices of the sectors like industrial, agricultural, and energy commodities such as wheat, copper and natural gas respectively

3.10 Operational Risks:

Operational risk refers to the risk that occurs because of the losses which arises due to the errors, obstacles or damages evolved by the people, systems or processes. The operational kinds of risk is low for general business operations which includes retail banking and asset management, and the risk is usually higher for operations like sales and trading. Losses that rises because of human errors or mistakes that includes the internal deception or mistakes made during the transactions.

Operational risks can be classified into the following categories-

Human risk: Human risk arises because of the potential losses which occurs for a human error, done willingly or unconsciously.

IT/System risk: IT or system risk arises because of the dynamic losses due to the system failures and programming errors.

Processes risk: Process risk arises because of the dynamic losses for the improper information processing, leaking or hacking of information and inaccuracy of data processing.

3.11 Structural Risks:

Structural risks can be defines as the risks which arises because of management of various balance sheet items, not only in the books of the banks but also in relations to the insurances and pension activities. The decisions of the management on these risks can be taken by the Assets and Liabilities committee (ALCO) of every country in consistent with the ALCO group and could be evolved by the financial institutions. This management considers inspiring durability and frequency into the financial edge on the group's commercial actions and economic values, bringing up suitable levels of liquidity and sufficiency.

3.12 Model Risks:

A model can be described as a system, accession or quantitative methods that appeal theories, techniques or statistical, economic, financial or mathematical hypotheses to constitute input data into quantitative estimates. The models are facilitating representations of the real world relationships between accomplished characteristics, values and observed impersonations. By simplifying through this way, the financial institutions could concentrate on attentions of the specific perspectives that are deliberated to be most essential to apply a particular model.

Use of those models entails model risk, which can be prescribed as the risk of losses raises from the inappropriate predictions which presents the Banks or financial institutions to take sub-optimal decisions, or abuse of a model. Model risk management and rule is structured around a set of procedures which are regarded as the model life cycle.

3.13 Business Risks:

Business risk refers to the risk that arises because of the possibility that a company will have lower than the awaited profits, or that the company will experience a loss instead of a profit. In the viewpoint of the banks, business risk refers to the risk which is associated with the failure of the bank's long term strategy, calculated forecasts of revenue and number of other related things that are connected to their profitability. To be ignored, business risks requires flexibility and conformation to market conditions. And to ignore the business risks, long term strategies are good for banks but they should be contingent to changes when required. The entire banking industry is unsure. For this reason, the banking institutions must have long term strategies which have backup plans to ignore the business risks. On the time of 2007 and 08 global crisis, there are a lot of banks which has been collapsed as they have to back up plans to ignore the risks.

3.14 Earning Risks:

Earnings risk is actually not a risk by itself, but there are several activities and risks which are linked with them that can momentously effect the efficiency and feasibility of earnings of the banks. Earnings risk can be evaluated by the measurement of the fund cost and return, measurement of earnings and consumptions together with the measurement of the earnings, efficiency and stability.

3.15 Organization Risks:

Organization risk refers to the risks that arises on account of the organizational bottlenecks in the form of insufficient or inappropriate structure, as regards to its business and the proficiency of its external and internal relationships. The organizations structures requires to be well designed and in accordance with the legal and regulatory requirements for the banking institutions. With the rapid changes in the banking industry, the organization needs to be gentle to meet the challenges which might be imposed by such changes.

Improper relationships between the people within the organization might impact the pleasant functioning of the banks. Likewise, pure relationships between the people within the banks and the outsiders like the customers, regulatory authorities, group companies, etc. can impose a risk to the operations of the bank.

Chapter-Four (Findings)

4 Findings:

During my internship period, I got a number of opportunities to amplify my knowledge and experience on the practical and also corporate life and learn new things about the risks involved in the banking sector. When I prepare my report I had to experience and learn many different things. Many emerging risks which are associated with the banking institutions are learned through preparing this report about which I am unaware about. While preparing this report, I have gone through some findings on the emerging risks for the banks which are as follows-

- To measure different types of emerging risks which are associated with the banking institutions, they use different methodologies which includes MES (Marginal Expected Shortfall, Aggregate SRISK Index, CoVaR metrics etc.
- Several kinds of indicators have been used to monitor and measure the upcoming risks for the banks.
- Many surveys has been done during 2013 to measure the information security of the banks like ISO 27001, PCI-DSS. They use those surveys data to protect their customers account data and to know about the banks non-performing loans ratio. They use 13 banks informations as a sample to conduct the survey and measuring the results.
- Banks' risk management and operational functions needs to evaluate and mitigate their own risks in the context of a financial system which will be more uniquely connected than ever before.
- The banking institutions should be open to partnerships, alliances and relationship to extent their workloads for the future transformation and also introduce different thinking and wider skillsets of their manpower's.
- Banks are clear on their core competencies and the places in which they can add and use their competitive advantages.
- Different structural tends about banks were discussed. I also found how the risk activities and functions might viewed in 2025 and the highlights on what the senior risk managers could and should do at present to start making those functions which will deal with those different structural trends.
- The emerging technologies like Fintech is also exposed to the cybercrime risk for the banks. Technological advancements and innovation increases the vulnerabilities to cyber-attacks.
- The different analysis on different emerging banks risks shows that the emerging risks as the upcoming threats for the banking institutions.
- Several measures were taken to reduce the risks which ranges from recapitalization, loans, implicit or explicit guarantees etc.
- For the proper management of the various current and upcoming risks which are associated with the banking institutions, some measurement techniques also founded in some publications which includes the following-
    - Appraisement of the borrowers on the basis of the statement of the assets-liability, which includes the verification and correction, if required based on the verification of their tax return and other documentary evidences.
    - Forecasting of the growth in advances to ignore the centralization in a certain sector or activity.

- The documents which are related with the security and the creation of charge on those security such as signatures, stamping, checking and registration or the noting of charge or lien with the eligible authorities are kept properly.
- Compliance and agreement with terms of authorization which consisting of the Audit and legal vetting of documents, credit Process, etc. what is requires to obey the legal terms.
- Regular follow-up for the recovery of the interest, term Loan instalments, overdue for bills purchased or discounted and other charges.
- Management of the NPA portfolio such as the steps to be taken for recovery up gradation, compromise etc.
- Destroy the waste records which were confidential, the old manuals, old records as per laid down procedures etc.
- Backups for the systems must be taken at the end of every day and should be keep in the fireproof safe and also stored off-site on regular basis.
- Documents of the banks disaster recovery plan should be updated and tested on quarterly basis.
- Reconsideration of the access rights should be reviewed on a monthly basis by considering the similarity of numbers in every category and at each levels.
- Scrutiny of all the new accounts must be opened and approval the opening of those accounts after ensuring all laid down norms.
- Analyzing the profit and loss accounts for different income and expenditure accounts.
- The updated or new policies should be developed which can be measured by internal control and that are directed through circulars from time to time. Bank need to keep a close eye on such circulars and bring them to the notice boards of all the staffs.
- Management of sensitive stationaries such as Cheque Books, Demand Draft Books, and Term Deposit Receipt Books should be accorded top priority.
- Branches of all banking institutions should also closely observe and take precautions and practice prohibitive vigilance for defending the frauds.
- The banks must update their user profiles as per written requests and through the authorization by the Manager only.
- The banking institutions should determine the value of the mortgaged properties at periodic intervals.

Chapter- Five (Conclusion)

5 Conclusion:

The banking institutions are facing groundbreaking challenges nowadays. The banks' risk-culture and values should recognize specific characteristics which are desired, as well as ignore those that are not desired. Through identifying the aspiration and values, the banks should assesses their current risk and also knows their strengths and their development opportunities. By strengthening their risk cultures the banking institutions may change their mind-sets and behaviors. First, the banks are awaited to bring up the understanding and belief about what changes are requires and why they are important to their customers and also for the banks. Second, several initiatives or incentives would enhance the talent and skills which are necessary to fulfill their various changes. Third, formal tactics will amplify the new developed processes and procedures which may consisting of the governance, evaluation and compensation mechanisms, and the accountability of the banking institutions. Finally, role-modeling of intended behaviors by the banks senior management will help out all of these.

The Banks risk functions and operations will likely required to be fundamentally different than they are today. It may be difficult for us to believe that from today to the next ten years, the risk management might be subject to more transformation than the last decades. So the banks now start to act and prepare for those longer-term changes, for which they might be overwhelmed by the new requirements and demands that they will face.

The banks risk management will likely to be dramatically different by 2025, when it was become a core part of the banks' strategic planning, a familiar helper with business heads, and a center of excellence in analytics and the decision making process. Its ability to manage multiple emerging risk types while they will be preparing for new the new developed regulations and complying with current ones is expected to make it less valuable for the financial institutions or banks, and their role in creating and fulfilling customer experiences will mostly transform it into a key contributor to banks' bottom lines. The risk function is also prospected to become increasingly a differentiating factor among the banks, which helps them to determine which ones to succeed. Still, the risk functions that are likely to attain this state are those which take on a wholesale and ambitious transformation. For those to do so, a wealth of potential value will be waiting for the banking and other institutions.

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