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Risk Management at Ahli Bank, Sultanate of Oman

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Abstract[2]

The financial crisis made glaring revelations about the inherent weakness of financial institutions regarding their risk governance and risk management. This has created a need in the financial institutions world over to properly identify, understand and control the inherent risks and mitigate them for sustainability. This case looks at the risk management practices at Ahli Bank, Sultanate of Oman. The case starts with a brief description of Ahli Bank and then the policy related to risk management followed at Ahli Bank is described followed by the discussion of the process for embedding the policy within the organization. The subsequent sections identify and report the issues pertaining to the practice within the organization followed by the mechanism used for enforcing the practice. The case concludes with the lessons learnt.

1. Introduction

Risk is inherent to the business of commercial banking. In the process of providing financial services, commercial banks assume various kinds of financial risks. Market participants seek the services of these financial institutions because of their ability to provide market knowledge, transaction efficiency and funding capability. In the process of acting as a principal in the transaction and performing all these roles they use their own balance sheet to facilitate the transaction and to absorb the risks associated with it. Dramatic loses in the banking industry in the past decade have exposed the financial industry's vulnerability to financial risk. This triggered the commercial banks to upgrade their risk management and control systems.

2. Literature Review

Bessis (2004) describes risk management as all the things that need to be done to make the future sufficiently certain. It is regarded as the rational process that will allow risk to be managed well. The Committee of Sponsoring Organizations (2004), p. 6 of the Treadway Commission in the USA defines risk management as "enterprise risk management is a process, affected by an entities board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." On the other hand, the European Foundation for Quality Management (2005) defines it as "the systematic use of organization-wide processes to identify, assess, manage, and monitor risks – such that aggregated information can be used to protect, release and create value." However both definitions emphasize the systematic approach.

Most of the popular models for managing risk are based on the original pioneering work undertaken in Australia and New Zealand (Standards Australia and Standard New Zealand, 2004a, b). To manage the risks, the models suggest the process of risk identification and prioritization followed by risk management. In managing unacceptable risks the "four Ts" model sets out four ways of dealing with unacceptable risks:

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Terminate, Treat (adding control measures and contingency plans), Tolerate (accept the risk) and Transfer (moving the impact of risks to another entity).

In this study an attempt is being made to understand the process of risk management at Ahli Bank which is one of the leading commercial bank in the Sultanate of Oman.

3. Company Description

Ahli Bank SAOG, Oman is a subsidiary of Ahli Bank QSC (known as: Al Ahli) which is a public company, listed on Qatar Exchange since May 1999. Ahli Bank SAOG was established in Oman on January 5, 1998. Till 2008, it was called Alliance Housing Bank and was a major player in the housing finance sector. It attained its new identity as a fully-fledged commercial bank in early 2008 following its strategic partnership with Ahli United Bank (35% stake) and International Finance Group (9.9% stake). Today it provides a full array of products and services within major business segments: Corporate Banking, Treasury and Investments, Retail and Private Banking & Wealth Management. The Retail banking segment includes customers' deposits, consumer loans, overdrafts, and credit card and fund transfer facilities. On the other hand corporate banking (Treasury and investments segment) covers deposits, which include current accounts and term deposit, among others, for corporate and institutional customers, as well as provides treasury, trade finance and investment banking services.

Six years into its new form of existence, Ahli bank has succeeded in becoming one of the premier commercial banks in Oman. It has been able to work towards it mission: 'To create an unrivalled ability to meet customer needs, provide fulfillment and development for our staff and deliver outstanding shareholder value'. On December 2, 2013, Ahli Bank won the 'Bank of the Year' award from The Banker, the world's leading and most respected banking industry magazine. The award is conferred in recognition of the Bank's outstanding achievements over the past year.

Ahli bank added to its accolades further by winning 'Best Commercial Bank in Oman 2013', award by the World Finance Magazine on September 30, 2013.The annual World Finance Banking Awards, conducted by World Finance Magazine, are conferred upon industry leaders, eminent individuals, exemplary teams and distinguished organizations which represent the benchmark of achievement and best practices in a variety of fields. In addition to robust financial performance and prudent business strategies, the formidable risk management system helped establish service excellence and efficiency while propelling Ahli bank to the top.

Ahli bank has been recognized in recent years by a number of awards, including being named the No.1 Bank in Oman in 2011 and 2012 by Oman Economic Review — Gulf Baader Capital Markets survey, and ranked No.1 Large Capital Company for 2012 by AIWA Magazine as well as receiving the Corporate Governance Award for the year 2010 and again end as runner up in 2013 (Ahli Bank SAOG, 2014).

The above awards and recognitions are the realization of the Chairman's statement that: "We strongly believe that real business success is not just about profits measured in numbers but also, as importantly, about how those numbers are achieved. Our corporate strategy reflects our commitment to sustainable business practices and balancing responsibility alongside growth and productivity".

4. Description of Risk Management Practice

Risk management is a primary concern for any commercial organization and for one in the financial sector; it is a prerequisite for survival and success. Traditionally, Ahli Bank followed Operational Risk Self-Assessment (ORSA) approach towards its lending operations. These tough procedures helped the bank in achieving good quality assets.

In his interview Mr. Majid al Balushi mentioned that Ahli bank has replaced the traditional model with a new risk management model in line with Central Bank of Oman (CBO) guidelines CBO circulars, 2011). To develop an integrated organization-wide perspective on risk, the new system includes formation of a separate

department for managing risk. Their responsibility is to monitor and guide the bank's various functions in managing their overall risk exposures on account of the Bank's capital and financial positions.

Policy Development

Ahli bank endeavors to develop the risk management framework to be consistent with the recommendations of CBO. CBO suggests certain sound risk management principles for the sustainable growth and profitability of the banking institution (CBO circulars, 2011). They are as follows:

1) Active board and senior management oversight;

2) Appropriate policies, procedures and limits;

3) Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks including usage of management information systems (MIS) at business and firm-wide level and;

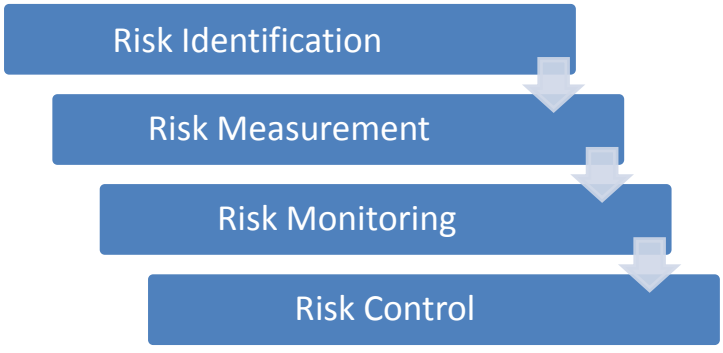
4) Comprehensive internal controls, review and revision.

To enable board and senior management oversight, Ahli bank has formed four board level sub-committees one of them being the Executive Risk Committee. The committee is headed by the Chairman and consists of four other non-executive directors. The role of the Executive Risk Committee includes:

- Integrated approach to managing the risks inherent in various aspects of the business
- Responsible for monitoring risk levels according to various parameters and ensuring mitigation measures.
- To focus on review of all policies governing Bank's risk and funding exposure.
- To ensure the consistent adherence and implementation of the board approved policies and treasury strategies in monitoring market and other risks.

The committee meets every month to review the evolving risk environment on a continuous basis. Fourteen full time employees are allocated to this function to enable effective implementation of policies and procedures with more to be added in future years.

At Ahli Bank Risk Management includes the following four elements (Ahli Bank SAOG, 2013):



Risk management is carried out by a separate Risk Management Department which was established in the year 2007 to support the new business model of commercial banking. The Bank manages the risks effectively and efficiently by emphasizing a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading to the identification of the various associated risks.

Having identified the risks, suitable policies and procedures are formulated taking into account regulatory requirements and best international practices, so as to monitor and control the risks within pre-determined acceptable limits.

Process of Embedding the Practice within the Organization

According to Mr. Balushi, the approach adopted by Ahli Bank towards embedding risk management practices include the creation of a responsive organization structure around each of these risk categories with appropriate delegated authority to deliver in line with the business objectives.

Given the dynamic nature of risk environment, the business and operational areas which are primarily responsible for generation of risk exposure are the first in focus. Risk management provides an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

A fulltime training department has been constituted by the bank to embed the best practices in the staff. The department ensures that adequate training is provided to the staff for risk management policies and corporate governance responsibilities. At the different bank branches, road shows are carried out to spread awareness. Training needs are identified at various levels and are fulfilled in a phased manner. This process is also done with the new staff to ensure continuity.

Customer service staff and branch staff are trained for anti-money laundering (AML) detection. They are oriented to ask smart questions at the time of taking deposits and providing account maintenance services. This enables to flag any risks at the customer point and trigger action. This proactive measure helps to address the grievances early and avoids negative media attention.

Transparency in transactions is already in place at Ahli bank with the Customer Fairness Principle. This includes no hidden charges for credit cards and other bank products. Customers are informed clearly about all the rates and charges and their timings. Additionally, a complaint management process has been put in place to identify and solve customer grievances. To ensure cyber security, additional measures have been put in place.

The main challenge during the implementation was of bringing about a change in culture towards customer centric approach. This challenge was addressed using several sessions of orientation and training.

5. Identification and Reporting of Issues

Technology intensive systems framework has been a prime aid at Ahli bank in identifying and reporting of issues with regard to risks. According to Mr. Al Balushi the newly established Enterprise Risk Management module has the key performance and risk identifiers. This system generates automated reports which are directly sent to senior management. AML monitoring reports are sent to the board and also to CBO.

6. Enforcement

The risk management department includes the internal audit and control wing. The organizational framework ensures that the department is independent from all other functions and can operate rationally and in the best interest of all stakeholders.

The internal audit department carries out annual review of the approved policies and procedures covering all functions of the bank. The internal control unit is responsible for monitoring any breaches of policies and reports it to the risk management committee. The committee then triggers action and formulates policies and best practices to be followed.

7. Lessons Learned

1. Truth and transparency are pillars of every sound business.
2. To achieve truth and transparency, development of risk management culture is the key.
3. The risk management culture is a result of integration of people, process and technology. Competent and professional staff at the core, enabled by state of the art technology as tools, delivers the results by following the best practices.
4. Risk management is a total team effort involving all parts of the organization. It is vital to the creation and protection of stakeholders' value.

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