



RISK MANAGEMENT ANALYSIS AT ABC BANK IN KEDIRI, INDONESIA

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ABSTRACT

Risk management is a very important thing to do in a company. Small and large scale company will never avoid risk.. This study aims to identify risks, measure risks and analyze and evaluate the risks faced by ABC bank in Kediri City, Indonesia. This study uses risk management analysis with a qualitative descriptive method. The stages in risk measurement research are as follows risk identification, risk assessment, and risk response. The results of interviews with the director of risk management and employees of bank ABC can be seen the types of risks that are likely to occur in bank ABC are credit risk, market risk, liquidity risk, operational risk, compliance risk, legal risk, reputation risk, strategic risk. Credit risk has the highest level of risk, namely with cases of more than 9 customers per year with a case value of more than 450-500 million per year. Next is the market risk which has a moderate risk level with a case value between 250 million and 350 million per year. Risk management in credit and market risk is with all employees must have a strong credit analysis for prospective customers who apply for credit to the bank, the Manager must ensure that the amount of credit received by the customer is in accordance with the predetermined ceiling, the Manager monitors the distribution of credit to be on target, and etc.

Keywords: bank, risk, qualitative, likelihood, contingency plan

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1. INTRODUCTION

1.1. Background

Risk management is a very important thing to do in a company. Small and large scale company will never avoid risk. If they get smaller risk so the profitable will bigger than before seen from the various aspects including costs (Santoso, Mochamad Solikin and Sahid, 2017). Bank in Indonesia do not implement risk management. So the attention to the risks that occur is very less. Only a few banks have formed a risk management committee and placed it in a bank's strategic position. Eventhough the risk will certainly occur in every management (Uzliawati and Budi, 2017). The risk is the effect of uncertainty on the company's objectives (Muthmainnah, Immawan and Herdianzah, 2021).

There are four reasons why it is important to study the effect of complexity on risk management. First, operational risk events result in substantial losses. Second, unlike credit and market risk, where the source of uncertainty is outside the company, operational risk is created by internal sources of the company and is the result of control failures (Jorion, 2007). Specifically, operational risk events result from inadequate or failed internal processes, people or systems and include fraud, flawed business and market practices, failed transaction processing and process management, inappropriate employee and client relationships, and system failures (Settlements, 2006). Third, the events analyzed are the events when the events occurred. This can prevent identification problems associated with outdated information, such as balance sheet losses from risks taken years in advance. Fourth, these events capture risk management failures without being influenced by other factors, such as government implicit guarantees that can make more complex banks appear less risky from an investor's perspective while riskier from a taxpayer's perspective (Acharya, Anginer and Warburton, 2016)(Atkeson *et al.*, 2019). Finally, failures in operational risk management indicate deficiencies in other areas of risk management (Zeissler and Metrick, 2014).

The implementation of well-managed risk management can contribute to the achievement

of goals, improvement of performance and quality of work (Misbah, 2017). As research conducted by (Sari, Yuniarti and Puspita, 2017) about risk management in rattan SMEs in the city of Malang where there are main risks to SMEs, namely supply risk and marketing risk are in the red zone (high) so that risk responses such as cooperation and support are needed. from various elements and agencies, suppliers and distributors as well as the Government.

Risk management is made to reduce a high level of risk to an acceptable level of risk so that it can achieve optimal goals and objectives (Qintharah, 2019). However, there are still many small industries that rarely carry out risk management (Umar, Widaningrum and Lalu, 2019). Therefore, it is necessary to have the right strategy or method to be able to identify and analyze the risks that will occur in the future and after that choose an alternative. As one of the most effective decision making methods when used in risk analysis (Priyambada, 2020). And, this study aims to identify risks, measure risks and analyze and evaluate the risks faced by ABC bank in Kediri City, Indonesia.

2. METHODS

This study uses risk management analysis with a qualitative descriptive method because it is to determine the impact of risks arising from an event (Ramli, 2010). Starting from data collection using primary data and secondary data. The primary data in this study are the results of interviews with risk management directors and employees of ABC bank risk management in Kediri City. While secondary data in the form of previous research in the form of library research.

The stages in risk measurement research are as follows:

1. Risk Identification

At this stage, it begins with interviews with the risk management director and risk management employees to get an idea of what risks occur in the bank where he works. The results of the interviews were used as a risk instrument design.

2. Risk Assessment

The results of the questionnaire answers were processed using a risk assessment matrix method to determine the boundary between acceptable risk and unacceptable risk (Qintharah, 2019). The completion step is to assess the degree of likelihood of an event (likelihood) and the impact that the event has (consequences) on each identified risk. The probability and consequence levels are divided into very high, high, medium, low and very low.

The answers to each item answered by the respondents on the likelihood and consequences are summed and the median calculated using the formula:

$$Me = \frac{1}{2} \left(x\left(\frac{n}{2}\right) + x\left(\frac{n}{2} + 1\right) \right) \quad (1)$$

Information :

Me = median

n = number of data

x = data value

The next step is to calculate it into a matrix by multiplying the likelihood and consequences values for each risk.

$$Risk = Consequence \times Likelihood \quad (2)$$

For the classification of the risk level criteria, it is divided into 4 zones, namely: Very High in the red zone if the risk score is $12 \leq X \leq 25$, then urgent action is needed because this risk is unacceptable. High in the orange color zone if the risk score is $8 \leq X \leq 12$, then action is needed to control risk. While in the yellow color zone if the risk score is $4 \leq X \leq 8$, it is recommended to take action if the resources are available and possible. Low in the green color zone with a risk score of $X \leq 4$, then in this zone there is no need to take risk action, because it is still acceptable.

3. Risk Response

This stage is carried out to manage risks that enter at very high, high and medium levels using the contingency plan method. This method is a strategy designed to take into account events that interfere with an activity against uncertainty (Shuohui and Xuan, 2006).

3. FINDINGS AND DISCUSSION

3.1. Findings

A bank is a business entity that collects funds from the public in the form of deposits. In addition, it also distributes to the public in the form of credit and or other forms in order to improve companies engaged in finance. In carrying out its business, the bank faces risks of both low and high levels, both small and large impacts. Risk can be defined as potential losses that may arise from a particular event.

The results of interviews with the director of risk management and employees of bank ABC can be seen the types of risks that are likely to occur in bank ABC are:

1. Credit Risk, which is the risk that occurs due to customers not being able to fulfill their obligations in paying debts.
2. Market Risk, which is a risk that occurs due to the risk of fluctuations due to changes in the money market.
3. Liquidity Risk, which is the risk that occurs due to banks not being able to fulfill their obligations and threatening their financial position.
4. Operational Risk, which is a risk that occurs due to internal processes and external processes that affect bank activities.
5. Compliance Risk, which is the risk that occurs because the bank does not comply with applicable laws and regulations or other provisions.
6. Legal Risk, which is a risk arising from legal demands and banks are weak in juridical aspects.
7. Reputation Risk, which is a risk that occurs due to the assessment of stakeholders on the bank's performance.
8. Strategic Risk, which is a risk that occurs due to inaccuracy in making a strategic decision.

Data collection of each possible and consequence of each identified risk was carried out by providing questionnaires to the director of risk management and employees of the risk management department of bank ABC. The

data is then processed and searched for the median value. To find out which risks are entered at very high, high, and medium levels using the risk assessment matrix.

3.2. Discussion

Credit risk has the highest level of risk, namely with cases of more than 9 customers per year with a case value of more than 450-500 million per year. Next is the market risk which has a moderate risk level with a case value between 250 million and 350 million per year. Liquidity risk and operational risk have a low risk level with a liquidity risk case value of 250 million to 350 million per year and an operational risk case value of 20% to 30% per annum. The risks that have the lowest level of risk are compliance risk, legal risk, reputational risk, and strategic risk which has a case value of 1 to 2 times per year. The results of the risk matrix as shown in table 1 and table 2 below.

Table 1. Likelihood Matrix

Level	Likelihood							
	Credit Risk (M/ year)	Market Risk (Rp/ year)	Liquidity Risk (Rp/ year)	Operational Risk (%)	Obedience Risk (time)	Law Risk (time)	Reputation Risk (customer)	Strategic Risk (time)
Very High (5)	>500	>500	>500	>50	>5	>5	>5	>5
High (4)	450-500	450-500	450-500	40-50	4-5	4-5	4-5	4-5
Medium (3)	350-450	350-450	350-450	30-40	3-4	3-4	3-4	3-4
Low (2)	250-350	250-350	250-350	20-30	2-3	2-3	2-3	2-3
Very Low (1)	<250	<250	<250	10-20	1-2	1-2	1-2	1-2

Table 2. Consequences Matrix

Consequence				
Very Low (1)	Low (2)	Medium (3)	High (4)	Very High (5)
				Credit Risk; Market Risk
	Liquidity Risk; Operational Risk			
Obedience Risk; Law Risk; Reputation Risk; Strategic Risk				

Further analysis is focused on the red zone, namely credit risk and market risk that have the highest risk impact. Meanwhile, other risks are not taken action because they are still acceptable. According to research from (Mosey, Tommy and Untu, 2018) that indeed credit risk and market risk have a higher level of risk than other risks.

In a company, risks always try to be avoided both internally and externally. The decisions taken by an organization are also seen from the magnitude of the risks that will have an impact on the amount of profit received, because for a company, profit is the main goal of the establishment of the organization or business entity.

From the results of interviews that have been conducted with the director of risk management and risk management employees of bank ABC in Kediri City, credit risk occurs because the borrower's customer fails to return the funds at maturity or after maturity in accordance with the mutual agreement. Meanwhile, market risk occurs due to changes in the money market that occur outside the bank's control, such as interest rates, which are calculated from funding rates reduced by loan interest rates which, in addition to exchange rates, stock prices, and commodity prices also affect the market risk of a bank.

To manage credit risk and market risk, identification of the causes of risk is carried out using the fishbone diagram as shown in figure 1 below.

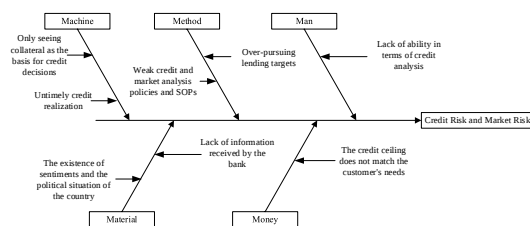


Figure 1. Fishbone

In the fishbone diagram, the causes of the risk have been found, then a solution will be found regarding the risk using the contingency plan method as in table 3 below.

Table 3. Contingency Plan

Event	Saverity	Solution	How	Who	By When
Lack of credit analysis	Very High	Strengthening credit analysis	All employees must have a strong credit analysis for prospective customers who apply for credit to the bank	All workers	Everytime
The credit ceiling does not match the customer's needs	Medium	The creation of a credit ceiling in accordance with customer specifications	The manager must ensure that the amount of credit received by the customer is in accordance with the predetermined ceiling	Manager	Everytime
Over-pursuing lending targets	Medium	Continue to disburse loans in accordance with policies and SOPs	Managers monitor credit distribution so that it is right on target	Manager	Everytime
Weak policies and SOPs	High	Monitoring policies and SOPs that have been set	Managers monitor policies and SOPs that have been made to be carried out in accordance with their provisions	Manager	Once a month
The existence of sentiment and the political situation of the country	High	Make quick changes to country rules	Update to state rules so that if there is a rule change, it can be responded to immediately	All workers	Anytime
Just see collateral as a basis	Very High	Not only looking at collateral but also looking at customer payment capabilities	Analyze the overall customer's specifications, not only collateral but also work, income, and the ability to pay installments	All workers	Everytime
Untimely credit realization	Medium	Realizing credit in a timely manner according to the timeline	ImplementING SOPs properly and according to the rules	All workers	Everytime
Event	Saverity	Solution	How	Who	By When
Lack of credit analysis	Very High	Strengthening credit analysis	All employees must have a strong credit analysis for prospective customers who apply for credit to the bank	All workers	Everytime
The credit ceiling does not match the customer's needs	Medium	The creation of a credit ceiling in accordance with customer specifications	The manager must ensure that the amount of credit received by the customer is in accordance with the predetermined ceiling	Manager	Everytime
Over-pursuing lending targets	Medium	Continue to disburse loans in	Managers monitor credit distribution so that it is right	Manager	Everytime

		accordance with policies and SOPs	on target		
Weak policies and SOPs	High	Monitoring policies and SOPs that have been set	Managers monitor policies and SOPs that have been made to be carried out in accordance with their provisions	Manager	Once a month
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Untimely credit realization	Medium	Realizing credit in a timely manner according to the timeline	ImplementING SOPs properly and according to the rules	All workers	Everytime

4.CONCLUSION AND SUGGESTION

This research obtained the results of Bank ABC in Kediri City has several main risks that greatly affect the sustainability of its performance. 8 risks are divided into credit risks, namely risks that occur due to customers not being able to fulfill their obligations in paying debts, market risks, namely risks that occur due to the risk of fluctuations due to changes in the money market, liquidity risks, namely risks that occur due to banks not being able to fulfill their obligations and threaten their financial position, operational risks, namely risks that occur due to internal processes and external processes that affect bank activities, compliance risks, namely risks that occur because the bank does not comply with applicable laws and regulations or other provisions, legal risks, namely risks arising from legal demands and weak banks in juridical aspects, reputational risks, namely risks that occur due to assessments from stakeholders of bank performance, strategic risks, namely risks that occur due to inaccuracies in making a strategic decision.

Of all the risks that are most impactful and have a high level are credit risk and market risk. Risk management in credit and market risk is with all employees must have a strong credit analysis for prospective customers who apply for credit to the bank, the Manager must ensure that the amount of credit received by the customer is in accordance with the predetermined ceiling, the Manager monitors the distribution of credit to be on target, the Manager monitors the policies and SOPs that have been made to be carried out in accordance with its provisions, update to state rules so that if there is a rule change, it can be responded to immediately, analyze the overall customer specifications, not only collateral but also work, income, and the ability to pay installments, apply SOPs properly and according to the rules.

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