

# RISK MANAGEMENT; A CURRENT CHALLENGE IN BANKING

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**Abstract:** Risk Management is of growing importance in Banking as a result of prudent initiatives taken by the banking industry regulators, and also due to a number of bitter experiences faced by the banks during the last few decades. Today, Risk Management is one of the most talked about topics, and is getting integrated into core activities of commercial banking.

This paper focuses on a range of factors such as Laws and Regulations, Organisational Readiness, Developments taking place in the business of Banking, Socio-Economic and Country Specific conditions, and Global Trends affecting the Banking Industry, and key challenges faced by the Risk Managers in Sri Lankan Banking Industry, and the Banks.

## 1. Introduction

Risk Management is recognised as a key topic in Banking forums in Sri Lanka and worldwide. This paper is an attempt to generate discussion on different aspects of Risk Management in Banking, the changes taking place in the industry, the present and future challenges faced by the Banks.

The first section of this paper attempts to identify the factors shaping the Banking and Financial Services Industry. The second section focuses on challenges that are practically faced by Banks and Bankers in their real life Risk Management programmes.

## 2. Factors Driving Banking and Financial Service Industry

### 2.1. Risk Based Laws and Regulations

Basel II, Anti Money Laundering (AML) and Know Your Customer (KYC) Regulations, Sarbanes Oxley Act are some of the key legal and regulatory directives imposed on Banking and Financial Service institutions worldwide.

In Sri Lanka, the most significant are, Banking Act, No 30 of 1988, [Payment and Settlement Systems Act No 28 of 2005](#), Prevention of Money Laundering Act, No. 5 of 2006, Financial Transactions Reporting Act, No. 6 of 2006, Companies Act, No. 07 of 2007 and directions, circulars and guidelines issued by Central Bank of Sri Lanka, including Basel II compliance directives.

Increasing number of Laws and Regulations act as a key driver shaping the Banking industry, while generating more complexity in operations as well as in Managing Risk.

### 2.2. Technology

Unquestionably, Technology has been at the foundation of the rapid growth and innovations within Banking and Financial Services since 1980s. Dr John Lee identifies six major drivers behind Technology investments in Banking and Financial Services industry.

- i. Dynamic IT Transformation
- ii. Support Organic Growth
- iii. Developing new and IT enabled revenues
- iv. Defend Revenue sources
- v. Cost Optimisation
- vi. Industrialised Banking

Use of technology naturally creates more risks, including changing processes and opening up of new risk exposures that are attached or inherent with the technologies adopted.

### 2.3. Standardisation of Controls and Business Mechanisms

There are three drivers silently operating to standardise the way Banking is conducted.

- i. Regulatory cooperation among Governments, Professional bodies, and International organisations.
- ii. Cross border Laws and regulations like Basel II, AML Compliance, Know Your Customer regulations, Laws on Electronic Commerce, and Sarbanes Oxley.
- iii. Banks/Financial Service providers adapting to systems (software/hardware) offered by major systems service providers operating globally.

The first two drivers usually act in harmony, while the third, acts below the line in response to the opportunities created as results of the first two. Sum effect of actions of these three drivers has been, and will be instrumental in standardising the way banks are conducting their business.

#### *2.4. Financial Service Innovations*

Banking is a traditional business blending traditional thinking with a liking to latest technologies. Introducing new and innovative products has become very common among Bankers. Changes in technologies and needs of clients have necessitated rapid changes, making competitors to use service innovations and technology to retain their market share and profitability. Ability to adapt to changing needs of its clientele, and continuous innovation are core competencies of the industry.

Bankers have emulated many non traditional concepts into the business, and accept higher risk levels to generate returns that keep their stakeholders happy. Although there are direct benefits to both banks and their stakeholders, naturally the new developments create more risk exposures.

Popularity and growth of E-commerce/Mobile technologies, and changing lifestyles have propelled mushrooming of Electronic and Mobile Commerce Products within the Banking Industry. Most Banks have launched products in these areas during the last ten years.

Wealth Management and Retail Investing Services are getting more sought after due to rising number of high net worth clients; increasing savings levels of middle and upper middle income earners and ageing population eager to invest their retirement benefits/savings.

Islamic Banking has spread into several markets. Singaporean and Malaysian regulators have already taken initiatives to establish Islamic Banking in their countries. Islamic Financial Services Board of Malaysia has developed a framework for capital treatment of Islamic products, allowing regulatory convergence with Basel II. As per Pamela Tang, the swift pace of economic development of Middle Eastern and other predominantly Muslim countries, combined with strong commodity exports from many of these nations, has fuelled demand for the development of a raft of funding instruments and investment products that comply with Islamic Sharia law. Monetary Authority of Singapore estimates that global Islamic Financing market is worth USD 300 billion, and growing at a rate of 15% every year.

#### *2.5. Competition among Service Providers*

Banks are facing increased competition from local and overseas banks as well as non financial organisations expanding into financial service products. Maintaining Profitability while facing stiff competition has become an industry wide issue. Outsourcing has reduced this burden a little bit, but at the same time exposing the banks to higher levels of operational risk.

Global Banks and Growing Cross Border Transactions pose a threat to banks which mainly focus only on their local market segment. Global players in the market offer branded products across the geographical boundaries. Demand for these services are on the increase due to growing numbers of commercial and personal financial needs going beyond local boundaries.

Many non traditional financial service providers enter the market trying to attract clients from traditional banking institutions. Telecommunications, Retailing, Real Estate, Automotive, and Plantation sector companies have come out with many alternative financial service products with appeal. Most of these providers do not fall within strict regulations applicable to banks, and as a result, eat into banker's market with relative ease and could give away more benefits to clients while earning higher margins than Banks do.

#### *2.6. Volatility in Energy and Commodity Markets*

Rising food and energy prices make living conditions difficult in middle and lower income groups in the society. These two basic needs influence every other aspect of life, affecting every individual, commercial and governmental sector customers of the Banking Industry, at some level.

On one hand, increasing operational expenses of banks will affect their bottom lines directly, on the other, banks in long run will experience increased credit risk due to contraction of borrowers' paying power.

#### *2.7. Climate Change and Global Warming*

Global warming and resulting climate change would affect the entire world. Although the repercussions are not apparent as to how they would affect Banking industry, it is definitely going to affect the future of banking directly or indirectly within the next decade.

UBS Wealth Management and Lehman Brothers have both issued investment guides on the risks and opportunities arising from global warming. The UK Financial Services Authority has also cited climate change as presenting a considerable risk to the financial services sector in its annual Financial Risk Outlook report.

### *2.8. Country Specific Conditions*

Sri Lankan banks face higher Market Risk due to volatility of interest and exchange rates. Domestic interest rate changes, very high inflation rates and relatively weaker local currency are some of the factors that need Risk Managers attention.

Unstable political situation in the north and east has restricted healthy business growth, and also poses security threats to every type of venture irrespective whether governmental, private or otherwise. This affects Credit, Operational and Market Risk of banks, while the need for strong Business Continuity Plans has become more critical than ever. Going further, the conditions prevailing in the country also generate higher Anti Money Laundering & Terrorist Financing Risk, putting Anti Money Laundering Compliance officers under continuous pressure.

Uncertainties like GSP plus, future of north and east, rising cost of living, issues in transportation, falling condominium market, stagnating land market, changes in educational system, restrictions in some of the overseas job markets are few of the factors that could effect the way, the business of Sri Lankan banking would go forward.

### *2.9. Changing Social and Behavioural Patterns*

A typical Sri Lankan's response to an act of terrorism or a crime has drastically changed over the last 25 years.

Bank would never have considered generating a customer transaction on the strength of an email instruction, fifteen years back. Thousands of transactions are affected without a signature on paper today.

Food and water contamination has become a silent killer nurturing serious health problems. Mental and physical health issues due to lifestyle changes are so significant, and have almost replaced epidemics, hunger and poverty as major threats to human life.

It is common to compromise traditional comforts in life to earn more wealth.

Cross border activities are gradually dissolving distinct cultures, thereby changing commercial and personal behaviour patterns. Growing number of people would today prefer not meeting someone to discuss a businesses transaction, but to finalise it over email, chat or other electronic channel.

Bribery and corruption are more frequent and one would be less concerned about the society noticing a sudden boost of wealth. A money launderer may not be ashamed of getting caught, and in turn the society would be too busy to humiliate a money launderer or a criminal.

Networking Technology has created mechanisms to commit financial crimes without physical presence near the location where the crime takes place.

Although this paper is not an attempt to embrace negativities of the society, these factors contribute to make Risk Management, a more challenging aspect in Banking.

### *2.10. Emerging Risk Types*

Operational Risk and Anti Money Laundering Risk are relatively new to Banking. Business Continuity Planning has emerged to mitigate the risk of business disruptions. Arms and drug trade, human trafficking, bribery and corruption are some of the most common areas getting attention of money launderers, and in turn joining the list of risks faced by Banks.

Although Basel II does not cover Reputation Risk much, Banks anyway will have to manage reputation for their survival. Reputation as well as diminishing reputation travels extremely fast through today's sophisticated communication mechanisms, and therefore guarding it could be critical for a Bank in a highly competitive market. As Peter Madigan points out, Reputational Risk will only manifest itself after the damage to the firm's name has already been done. If, as many believe, CSR is moving to the centre of banking activities in the US as in Europe, then increasing investor and media focus on corporate responsibility should probably be a concern for risk managers.

Managing sustainability and environmental risks is another notable development. According to Sarah Varney, organisations are trying to minimize negative environmental impacts in order to ensure long term profitability and growth potential. Sustainable Investment Research Analyst Network (SIRAN), a nonprofit organization made up of analysts whose firms are devoted to sustainability issues, reported that 86 of the 100 largest publicly traded U.S. companies now note their sustainability efforts in their annual reports.

New or unidentified risk types could surface from time to time, and may need attention of Bankers. The way banking is moving could be significantly changed by a new and high impact risk type.

### **3. Risk Management in Banking; the Challenges**

Every Sri Lankan Bank is now working towards managing risk in a formal and structured manner. Getting the job title “Risk Manager” of a bank itself is challenging. The whole bank, including board of directors, senior management and the rest would be anticipating Risk Manager’s expert comments, professional judgement, and in many instances, assistance in performing their functions, from the day the board of directors and top management becomes seriously committed to manage risks.

Why did almost every bank appoint a Risk Manager in the recent past? Do those appointments show that the board of directors and top management are seriously committed to manage risks? Although Managing risk is a key concern for the business of banking, not many banks welcome the additional cost and loss of freedom in taking fast business decisions as a result of implementing Risk Management within their organisations.

Current legislations, regulations and peer pressure from their local/global counterparts require Sri Lankan bankers to establish Risk Management Frameworks and Practises. The laws and regulations such as

- i. Central Bank of Sri Lanka Directive on Adoption of Basel II Capital Adequacy Framework
- ii. Prevention of Money Laundering Act No 5 of 2006
- iii. Financial Transactions Monitoring Act No 6 of 2006
- iv. Companies Act No 7 of 2007
- v. Corporate Governance for Licensed Commercial Banks - Banking Act Direction No 11 of 2007

have widened the scope and volume of responsibilities of board of directors, senior management and Risk Managers in the banking sector. Some of the responsibilities are not confined to the office, but extends to make them personally liable as well.

Therefore, the circumstances contain all the logical reasons for doing what exactly the laws and regulations require the bankers to do, but difficult part is coming into terms with the substantial changes in the way bankers act and think. After all, it’s a change, a new way of doing business, and bankers are like all humans resist change. This is the very first challenge being appointed as a Risk Manager in a Bank.

#### *3.1. Getting Top Management Commitment and Support*

Obtaining sincere Top Management sponsorship for Risk Management could take a number of months and sometimes years. Risk Managers quite often find their roles misunderstood, requests meeting blind walls and sometimes being bulldozed by majority business managers who consider the new kid in the block as a threat to what they have been doing so well during all their careers.

As Ravi Varadachari points out, senior management buy-in is definitely required. It is a necessity, but not sufficient condition. In addition there should be buy-in from individual departments and individual business heads. It is a complex area, because it looks at human behaviour- it is really a juxtaposition of human behaviour and risk management.

However much difficult, one of the primary tasks of the Risk Manager is to canvass serious sponsorship from the board of directors and senior management of the organisation. It is essential for the Risk Manager to realise the fact that Risk Management is affecting all employees, all processes across the bank, and therefore it is unlikely to be successful without sponsorship from the top levels of the organisation. Starting from commitment to high level of corporate governance, top management sponsorship shall extend to treating Risk Management as a serious aspect positively contributing to the organisation, demonstrating their commitment openly, working with Risk Manager to implement Risk Management within the organisation and accepting the ultimate responsibility for Risk Management within the bank.

### *3.2. Increased Responsibilities and Involvement from Board of Directors*

Central Bank of Sri Lanka Directive on Corporate Governance (No 11 of 2007) directs board of every commercial bank to appoint a Board Level Sub Committee on Risk Management, develop Risk Management expertise within the board itself, to ensure that Risk Management framework and personnel within the bank are operating on a sound footing, and be updated with current changes in the banking industry worldwide.

The Corporate Governance Directive coupled with Companies Act 6 of 2007, makes directors jointly and personally liable for ensuing risk is managed in a sound manner. Directors will automatically become more involved in giving proper directions to the top management and making sure that the organisation is protected against risks.

### *3.3. Setting-up Organisational Structures*

Most banks were limited to managing credit risk until a couple of years back. Some of the senior bankers, still wearing old hats tend to look at today's need for Integrated Risk Management approach similar to traditional and familiar frameworks that were used to manage credit risk or market risk. This weakness can divert decision makers to think in wrong lines, resulting inappropriate organisational structures to be created or to continue.

Growing number of banks are adopting "three lines of defence" approach to Integrated Risk Management, where Business Line, Risk Management and Internal Audit act as independent Lines of Defences. Although the principle is clear, it could prove to be much difficult in managing the transition within an established bank, at the same time keeping an eye on business critical human resource aspects of the structural changes.

There needs to be more involvement from the Board of Directors, Senior Management, Human Resources and Risk Managers in designing structural changes within the organisation, establishing risk reporting lines, establishing new Reporting Procedures and Reporting Relationships etc.

As stressed by Mario Micallef, regulators are increasingly seeking formal internal control assurances from regulated entities. Organisations should formally assess their risk and controls on an ongoing basis. At least once a year, management within each of the three lines of defence should formally attest or provide assurance on the capability maturity of the enterprise risk management framework as it relates to risks within their scope of authority.

### *3.4. Managing HR for Risk Management*

Turning from the board to the HR aspects, finding and retaining the right person for the Risk Manager's role is one of the most challenging tasks faced by many director boards of Sri Lankan Banks.

Firstly, local market may not have the sufficient number of competent Risk Managers to cater to all banks, secondly, prospective Risk Managers are reluctant to accept employment with the standardised remuneration packages that are offered by traditional banks, thirdly, not many boards/top managements are ready to offer the premium pay levels offered to Risk Managers in other markets, and lastly, sometimes a bank succeeds in addressing all these three issues and happy, only to find their Risk Manager leaving for greener pastures before the job is done.

In much worst scenarios, some banks may find them in helpless situations when the headhunted Risk Manager does not perform to the expectations when the whole organisation is looking forward for guidance.

#### *3.4.1. Finding Data Analysis, Documentation and Communication Skills*

Problem analysis, good use of econometrics, high level of documentation and communication/public relations skills are the most required skills for a Risk Manager. Incorrect analysis or interpretation could create more risk to put the organisation in danger, and bad documentation could either misinterpret the message risk manager attempts to communicate, or end up in a trash bin with disrespect.

#### *3.4.2. Assessing a prospective Risk Manager*

There are no clear cut benchmarks or industry certifications to measure an individuals' Risk Management capability. Certifications of Financial Risk Management, Information Security, Business Continuity Planning, Project Management, Undergraduate and Masters Level qualifications are some of the useful benchmarks.

Combined exposure to overall banking, Auditing, Information Technology, Project Management, Econometrics, Statistical Data analysis, Legal, Technical Writing and Organisational Re-structuring experiences could be of help to a Risk Management position.

When it comes to selections, irrespective whether it is Credit, Market, Operational Risk, or Anti Money Laundering Compliance, banks use a combination of existing qualifications, career history, and a substantial amount of guesswork to assess suitability of an individual for a Risk Management position.

#### 3.4.3. Retaining Good Risk Managers, Job Satisfaction and Remuneration

Retention of Risk Managers in Sri Lankan context is more complex than retaining a normal bank employee.

If the Risk Manager's role is seen as a threat by peers and superiors, that could result in lack of performance of the Risk Manager due to wasted time or efforts used to manage internal resistance.

Improper placement of the Risk Manager within an organisational hierarchy could also create lack of performance, due to Risk Manager not having sufficient authority and independency. Frustration could develop over time due to being overruled by the superiors lacking understanding on risk principals, or with conflicting interests.

Often, Risk Managers leaving the organisation may not necessarily mean that they are irresponsible, or unable to perform. Risk Managers facing similar circumstance are often victims of job dissatisfaction and tend to look for better career prospects elsewhere.

Considering the fact that Risk Managers accept higher risk during the course of discharging their duties, including additional legal liabilities, Risk Management positions in more developed markets receive comparatively higher level of remuneration than business managers.

As per Victoria Pennington, the increased demand for experienced (Risk and Compliance) staff has pushed up salaries significantly. There has been a year on year increase for compliance professionals, particularly at the junior end, which has seen a 25-30% increase in the basic salary. Temporary staff can earn upwards of 300 Sterling Pounds a day.

Risk Management remuneration levels in Sri Lankan banks depend mostly on

- i. The remuneration decision maker understanding on the contribution from a Risk Manager towards business success
- ii. General pay levels of the organisation
- iii. Whether there is a strong lobby of Risk Managers in the market
- iv. The bargaining power of the prospective individual

The bottom line is that there are remuneration disparities, and pay premiums available to local Risk Managers are not in line with their counterparts in more developed economies, nor in line with risks that they are exposed to here in Sri Lanka. Under the circumstances, Risk Managers leaving for better prospects may not be totally illogical or unprofessional.

Therefore, the local banking industry must address human resource aspects of Risk Management positions, for example, correct hierarchical positions with authority, top management sponsorship, career path, sufficient training, and remuneration packages, to improve job satisfaction and employee retention.

In the long run, banks need to build their Risk Management expertise with contributions from diverse range of fields like core banking, lending, treasury, investments, econometrics, social sciences, Technical Writing, Information & Communication Technology, Card Business, Legal, Project Management, Auditing, Information Security, and Business Process Re-Engineering etc. A bank's board of directors and top management shall show and act with their strategic vision, foresight, and long range planning in building a Risk Management Team over a number of years.

#### 3.5. *Collecting Data & Managing Data Quality*

Risk Management relies on unearthing trends or possibilities through econometrics and other techniques. Therefore, large volumes of organised and dependable data, pertaining to events over a number of years are a necessity for reliable results. Availability of historical data becomes a critical success factor once a bank completes setting up its basic Risk Management framework and wants to move up towards advanced Risk Management approaches. Banks need to recognise this early, and start data cleansing and collection without delay. In some instances, it may be possible to go one year backward and get some more data points for analysis, but as a minimum of five years long data is needed for regulatory purposes the prudent way is to commence data collections from now on.

The next question is whether the available data is usable for a particular model or system the bank is planning to use. Banks should, therefore, at the same time evaluate what systems or mechanisms that they are going to use for data analysis. Data requirements may vary according to the future plans. Although the process is simple to describe, data cleansing and preparation is not a small exercise. This process will also need some important actions/decisions, model testing with available data, expertise to interpret the results and refine data collection process.

As per Global Data Management Survey of Australian, US and UK companies, it was highlighted that,

- i. A high proportion of respondents are not very comfortable in the quality of their data
- ii. Most organisations still view data quality management as an IT issue, rather than an issue for senior management, the managing director or corporate board
- iii. Confidence in shared (industry) data with/from third parties has eroded

Therefore, it is necessary to recognise the challenges early, plan ahead, and act early.

### *3.6. Integrating Risk Management Tasks into Business*

Risk Management activities happen at every level of the organisation. Therefore, at some point they need to be integrated into business process lifecycles. This is done by suitably adding Risk Management Components into the Policies, Standards, Procedures and Guidelines of the bank with the help of board of directors, top management, operations, human resources, and training.

This process needs broad knowledge of the existing business processes, knowledge of Risk Management, and substantial efforts in planning, documentation, and training to employees for amended processes. The initial years on this process will be more of managing a project than risk management. It would take a few years to complete the process, and to obtain organisation wide support for new way of conducting daily business functions.

### *3.7. Business Manager vs. Risk Manager*

Risk Managers are branded among Business Managers for disrupting or delaying the usual business activities by adding more and more control tasks into the business process lifecycles. However, adding controls within the business processes is exactly what Risk Managers are expected to do in discharging their duties.

There is a very thin line between Managing Risk to improve the business results versus Managing Risk in a way that weighs down the business activities. In most situations, the success of the Risk Manager in getting the buy-in from the other stakeholders depend heavily on Risk Manager properly identifying this extremely thin margin, and clearly communicating the expected business benefits to the stakeholders. In essence, public relations and communication are not just preferred skills, they are core competencies of any good Risk Manager.

From another perspective, Risk Management is a core activity in planning and designing competitive strategies, policies and detailed action plans. In case of new product launches, risks created could start from Operational Risk and expand into Credit Risk, Market Risk, Anti Money Laundering Risk, plus many other new or old risk types.

The Risk Manager's true function would be to add business value by ensuring higher predictability of business outcomes. Both Risk Managers and Business Managers need to assist each other for business success in today's competitive business conditions.

### *3.8. Keeping Pace with Developments in Risk Management and Training Requirements*

Being a good Risk Manager today does not ensure continuing to be a good Risk Manager in one or two year's time. Rate of changes in technology, business and society are so fast, and what exists today may be totally obsolete one or two years later. Therefore, a Risk Manager needs to constantly update knowledge on developments in a number of fields including banking industry, overall business environment, technical developments, new risk types, ICT etc. to maintain professional capabilities.

Training plays a vital role in maintaining professional Risk Management capabilities. It is crucial for Risk Managers, Board of Directors and the top management of the banks to undergo training on Risk Management, technology and business aspects from time to time to keep abreast of their knowledge on the developments taking place within the industry, country and world over.

Risk Management training consists of two key areas, theoretical knowledge, and exposure to the industry practices. Knowledge sharing and exposure among local and global counterparts is a highly effective way to get trained and maintain Risk Management expertise.

### *3.9. Risk Management and ICT*

Managing Risk in present context needs a fair amount of appreciation and understanding on the use of Information and Communication Technologies. Firstly, every bank uses ICT for their core business activities, and therefore it is a vital factor that influences anything to do with banking, secondly, the volume of transactions that are to be monitored, and the complex nature of calculations and analysis that are needed in Risk Management can never be done without ICT support, and finally, Risk Management as a distinctive field of expertise develops at many locations, by number of experts in diverse fields, thereby making it impossible for normal human or organisational capabilities to keep up with the developments.

From the organisational perspective, every bank must evaluate their IT systems needs for Risk Management from early days of planning. Many local banks have chosen not to become the first movers in investing on IT systems. Whilst there is some validity in this approach, it could be a mistake not to plan or prepare, as one day every bank will find it impossible to move on to advanced approaches in Risk Management without IT systems.

### *3.10. Auditing Risk Frameworks*

Internal and Systems Auditors act as an independent line of defence against business /risk management failures, and could contribute immensely to identify loopholes not detected by Risk Managers. Paul J Sobel identifies the following four key steps of risk based auditing.

- i. Gaining a formal understanding of the key process objectives and any company objectives that may affect the operations of the process.
- ii. Brainstorming risk scenarios before identifying process risks
- iii. Identifying and gaining an understanding of management's risk tolerance levels for various process risks
- iv. Assessing the risk infrastructure within the process to evaluate the sustainability of the existing risk management activities.

Audits are a regulatory requirement as well as a best practise. Banks face two key challenges during the initial phases

- i. obtaining services of auditors with prior knowledge and exposure to Risk Management, Anti Money Laundering and Business Continuity Planning areas
- ii. rearranging existing internal audit frameworks into Risk Audits

Nevertheless, regularly auditing the bank's Risk Framework is not to be taken lightly, it is an urgent must for true progress.

## **4. Conclusions**

Risk Management is a major concern in the Banking industry today. Key reasons are

- i. to comply with regulatory requirements
- ii. to maintain the reputation with regard to compliance and be ahead of competitors
- iii. as a response to increasing pressure from counterparties and global industry bodies
- iv. to strengthen the operations, business growth, stability and improve predictability of business outcomes
- v. in the medium to long term, to enjoy benefits of lesser regulatory capital
- vi. to improve good governance over a period of time

Despite significant benefits that are expected, banking as an industry is struggling to face challenges during the course of implementing Risk Management frameworks. Simultaneously, the local banks have their own share of problems created due to a wide range of factors outside the scope and control of them, but compelling local banks to adopt accordingly.

Integrated Risk Management would provide significant quantum of relief to the banking industry in facing these challenges. However, to reap those benefits fully, banking as an industry needs to proactively identify the challenges it would face while implementing Integrated Risk Management within their organisations. At the same time, Boards of Directors and Top Managements need to retain their focus on ultimate business goals, while managing their Risk Management programme implementation.

This paper is an attempt to map out the current scenario with a view to assist Sri Lankan Banks to identify and appreciate the hidden issues from a wider practical perspective, while contributing to enhance their strategies for successful and business wise beneficial Risk Management Frameworks within their organisations, and to achieve regulatory compliance.

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