ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF RISK MANAGEMENT PRACTICE IN PRIVTE COMMERICAL BANKS OF ETHIOPIA AT THE LEVEL OF ENTERPRISE RISK MANGEMNT FRAMWORK (COSO) 2004

BY

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JUNE 2021

Addis Ababa

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DECLARATION

I, Tewodros Endalkachew declares that this thesis is my original work, prepared under the guidance of **Dr. Abebaw Kassie**. All sources of materials used for the thesis have been duly acknowledged. I further verify that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

________________________________ ________________________

St. Mary's University Addis Ababa **Signature June 2021**

ENDORSEMENT

This thesis has been submitted to St. Mary's University School of Graduate Studies for examination with my approval as a university advisor

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Advisor	Signature
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LIST OF ACRONYMS

COSO	Committee of Sponsoring Organizations of the Tread way Commission
ERM	Enterprise Risk Management
ISO	International standard organization
NBE	National bank of Ethiopia

ABSTRACT

Enterprise risk management (ERM) has emerged as a new paradigm for managing the portfolio of risks that face organizations. This thesis wants to assess the practice of risk management in private commercial banks of Ethiopia at the level of ERM framework Coso (2004) . The studies conducted in sixteen private commercial banks of Ethiopia. The researcher used descriptive research design. A purposive sampling technique was used to select employees from risk management and compliance departments. The total population of the study was 105.This questionnaires were distributed to the respondents and returned and filled appropriately. The main instrument for collecting primary data was questionnaire. The data was analyzed using both descriptive statistical like mean, standard deviation and narrative methods. Narrative analysis was used to explain the qualitative results of the survey. The findings of the study were that Private commercial banks in Ethiopia has a moderate practices of ERM in terms of the objective seating , risk identification, risk assessment, risk response ,risk control, communication and monitoring. Regarding to the result that shows for reasonable extent practice of risk management which means the respondent was in average agreement about practice of ERM . This study pointed that private commercial banks should give attention, to establish a comprehensive ERM risk managements committees for each private banks on providing the vital information and creating for awareness for ERM frameworks of eight components coso (2004) to all lines of the staff in the form of training, panel discussion, seminar, workshops and different mechanism to implement ERM efficiently and effectively .

key words, Risk ,Enterprise Risk managements

CHAPTER ONE

INTRODUCTION

This chapter introduces the background of the study briefly. It highlights the meaning of risk, risk management enterprise risk management in banking sectors. The chapter also explains the problem of statement, objectives of the study, the research questions, significance, scope, and the methodology of the study.

1.1 Background of the study

Banks operate in a complex dynamics business environments there is always a competitive advantages for critical strategic decision to exist and survive in the local and global finical markets ,but no business decision making can able to make a future volatility and At what degree the business can be survival .the financial crisis during in (2007 -2009) had Brings a negative impacts on finical stability of the global financial banking service. The major issues to understand the causes' of any financial crises that happened before, which can enhance to develop the protection technique that can be strong the financial stoke markets without interrupting their regular Operations.

In any organization whither established for profits oriented or not they face uncertainty. Uncertainty includes both Risk and opportunities. Enterprise risk mangers they can accomplish to assure for minimizing risk and getting to optimize opportunities for the organization. The global financial crisis event **(2007-2009)** created the demand of risk management to be increased across the globe. The traditional risk management it does not look at a proactive portfolio risk management decision, in addition to these ,it does not consider the responsibility of risk management which includes objective setting and strategy implementation for the company as whole rather it look a particular risk factors , due to these, the new enterprise risk management practices widely accepted after the global financial crises event occurred for banking and insurance sectors **(Nayak et al., 2010).** (**Kashif &Shad ,2015)** ERM framework that is different from traditional risk management practice since widely covers a multidimensional risk portfolio management (i) provides the severity to identify and select risk responses (i.e. risk avoidance, reduction, transfer and acceptance) (ii) integrates risk with corporate

In this dynamic world changes in technological advancement, the impacts of global political issues, international trade and tax laws , global financial stock markets prices fluctuation, and other related factors brings for the variation of customer test and preference for banking and insurance service **(Coskun, 2013).**

In this research paper the main objective of the study is assessment of enterprise risk management in private commercial banks of Ethiopia. Enterprise risk management which are designed and approved by **COSO (2004)** The committee of sponsoring organization of the trade way commission. Other stakeholders developing this concepts and principles.

ERM formwork for objective setting and strategic implementation by board of directors and corporate finance , chief risk officers together with the implementation of the risks should be goes from top to down management to adders all company staff to achieve a common goals for efficiently and effectively utilization of resources. and increasing of firm values and share holders returns profit. if the risk management process goes to enterprise wide perspective which would be effective and add values to the organization as a whole. (Jayan,2005)

In Ethiopia Most of the pervious empirical literature reviews for the assessment of risk management in commercial banks were the researchers conducted on a particular risk management perspective like credit risk management , liquidity risk management, operational risk management and those findings indicated that banking risk are directly related with financial performance ,but the actual empirical literature reviews and different international journal of articles suggested that risk is comes form at all lines of the business activates and not only includes insured risk ,but also non insurable or non transferable risk coverage . ERM models and tools are the best one to make assessments of commercial banks risk management and its final objectives accomplishing of strategic goals for minimizing all lines of risk factors and maximizing both owners profit and firm values .firm values increase from proper allocation of capital , efficient utilization of recourses and minimizing of cost of capital (Hakan ,2019).

Bank of Abyssinia, which was the first banks in Ethiopia, was established during Minilki II in 1905.

It was also the first private banks in Ethiopia, which was owned by Birtsh nations. After Men ilk II, the banking industries pass through a lot of challenges beginning from monarch density, the Italian evasion of Ethiopia until the dredge regime, during EPRDF ,the free market polices which made encouraged to open a private commercial banks in Ethiopia . Today we have 16 private commercial banks and two sate banks in Ethiopia. After the world global financial crises event which was happened (2007-2009) the National Banks of Ethiopia made a critical general Reviews for risk management practices guide lines which was approved (NBE, 2010). The guidelines contents for how to manage risk for banking and insurance for the common risk types officially approved such as credit risk, market risk ,liquidity risk, operational risk, and the guidelines sets the risk management process of risk identification, assessment , analysis, control and monitoring.

A yearly annual reports of the National banks of Ethiopia shows that most private commercial banks are not aware for the significance of implementing of Enterprise risk management supervision at the level of corporate board and risk directors , chief risk officer for the setting of strategic goals for example most privet banks assigned chief risk officer for only for his immediately supervisor of the bank president rather for the board of directors . a published annual reports organizational structure of commercial banks of Ethiopia . **(Jayan ,2005)**The chief risk officer (CRO) should be an equal partner with the head of the business, interacting continuously with all units, discussing their risks, and ensuring that it is aligned with the stated tolerance, budget and, strategy of the institution.

1.2 Statement of the Problems

Banks today operate in a dynamic environment marked by rising customer preference and expectations, increasing international finance and trade, local and foreign government regulatory requirements, business innovation and advancement of technology, increasing of financial sectors competitiveness and which lead to increase the demand of risk management across the globe. The other main reason for increasing of interest of risk management due to a different financial crises events across the globe**(2007-2009)** , the traditional risk management shifted to international enterprise risk management practice. Because enterprise risk management which assesses all risk faced by the organization both internal and external factors and insurable and non insurable risk types.

In Ethiopia most of the previous research conducted on the assessment of risk management practices at the level of a particularly banking risk types or unit, not addressing the banks which face all lines of risk within the internal and external environments. (Hakan , 2019) the distinguishing feature about ERM is that it represents risk management as viewed from the perspective of the firm's top executives and directors. It is not about project risk; or investment risk; or any particular risk.

The traditional risk management that is different from ERM for the following reasons :1 traditional risk managements only focus on a particular risk types. 2 Considering risk is an individual hazards and risk is not my responsibility. 3 risk it has limitation (Banham, 2004). On the other hands, ERM Covers a protiflo risk managements which can covers all lines of risk types and interrelated with corporate objective ,strategy planning ,integrated with all business units and functions (Kashif ,2015) .

Yetayew (2020) ERM assessments at level of commitment of Ethiopian private commercial banks towards using ERM Programs. The researcher used a simple random sampling method for the latest banks: such as Abay , Buna and Berhan banks and for the oldest banks . Wegagen, Abyssinia, United Banks to represent the all 16 private commercial banks of Ethiopia . The researcher also conducted interviews for data collection methods. The targeted population was sex private commercial banks of Ethiopia. The sample size of the population was 51 respondents form selected sex private commercial banks of Ethiopia. The finding indicate that there was a gap to impalements of enterprise risk managements in private commercial banks .The researcher concluded that there was a weak top level managements for strategy and objective implementations, lack of adequate professional human power, traditional technological risk managements systems are some of the main reasons for week achievements to implements ERM in private commercial banks in Ethiopia. The researcher gap was the all private commercial banks they do not have the same organizational structure for risk managements frameworks ,because the risk managements frameworks will different in each banks , in their size ,the volumes of the transactions ,numbers of customers , advancements of technologies adapting and some others factors . The Sampling methods was used by the researcher has limitation for the above reasons.

(Samuel, 2015) in his research title assessment of enterprise risk management in Ethiopia private banks at the level of Risk management programs and a proactive risk management practice researcher used an exploratory research method and conducted with three private banks of Ethiopia and the findings show that the practice is well understood by all stakeholders but is in its infant stage where continuous follow up and development requires for enterprise risk management practice .

In Ethiopian most of empirical literatures reviews shows that risk management practice for commercial banks were conducted on a particular risk types for banking sectors ,certainly a very few researcher conducted ERM assessment practices . (Samuel, 2015) ERM assessments at the level of risk management programs and a proactive risk management practice and (Yetayeu ,2020) Assessment of ERM at the level of Ethiopian private commercial banks towards using ERM Program. They conducted, But based on the researcher knowledge, assessment of risk management practices in private banks has not been conducted at the level of the eight components of ERM Formwork which was the standard developed by COSO (2004) .

Therefore, The researcher will extend the pervious study, the assessment of risk management practices in16 private commercial bank of Ethiopia by using the eight component of enterprise risk management framework **coso (2004) .**

1.3. Research Questions

The major research questions of the study are:

1. To what extent private commercial banks in Ethiopia use the component of objective setting
2 To what extent private commercial banks in Ethiopia use the components Risk identification?
3. To what extent private commercial banks in Ethiopia use the component of risk assessment?
4 To what extent private commercial banks in Ethiopia use the component of risk response?
5. To what extent private commercial banks in Ethiopia use the component of risk controls?
6 To what extent private commercial banks in Ethiopia use the components of risk information?
7. To what extent private commercial banks in Ethiopia use the components of risk communication?
8 To what extent private commercial banks in Ethiopia use the components of risk monitoring?

1.4 Objectives of the Study

The study has both general and specific objectives.

1.4.1 General Objective

The general objective of this study is to assess the risk management practice of private commercial banks of Ethiopia at level of ERM Component criteria COSO (2004) .

1.4.2 Specific Objectives

The major research questions of the study are:

- To assess the practice of objective setting
- To assess the practice of risk identification.
- To assess the practice of risk assessment.
- To assess practice of risk response.
- To assess the practice of risk controls.
- To assess the practice of risk information.
- To assess the practice of risk communication.
- To assess the practice of risk monitoring.

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1.5 Significance of the Study

Since study is conducted on private commercial banks which are found in Ethiopia it will

Bring the following benefits to private banking sector and external stake holders.

a) **Banks Directors or Executive** : The information obtained from this research which can be used as decision making for corporate Finance to take a positive action for vital investments decisions ,capital utilization, performance evaluation, reward systems, employee training and evaluation
b) **Shareholders:** Share holders can get information regarding the dividend police, earning per share, stock price volatility which can increases shareholders worth.

c.) Financial statements auditors, regulatory examiners: Which can aid to make monitoring and reporting of the enterprise risk managements programs. ERM data

d) National bank of Ethiopia **:** to see the actual risk management practice maintained by private commercial banks .The recommendation and the suggested possible solutions for the identified gaps can be used as an input for assessing the effectiveness of ERM risk management practice.

1.6. The Scope of the Study

The study mainly focuses on assessment of enterprise risk management practice in private commercial banks in Ethiopia based on **COSO (2004)** a component frame work criteria : objective setting, risk Identifying, measuring, response activity, control, communication and monitoring risk. Because such framework will see all the aggregated risk frame work.

(Hakan ,2019) ERM has a unique characteristics as compared with the traditional risk managements because its covers the all aggregated risk exposures of the entire enterprise risk managements and the firm that to adopted Such exposures should implements the eight enterprise risk frameworks.

1.7 Limitations of the Study

This research papers has the following limitation 1) firstly only using the primary data gathering method which was using of questionnaires for the respondent answer this is, due to the fact that, covid 19 has caused a negative impacts to conduct the research. 2) Secondly, The researcher only using one of the enterprise risk management framework The eight (8) components COSO (2004) since there others enterprise risk management frameworks to conducted the research under this research title.

1.8 Organization of the Study

This research thesis paper contains five chapters. The first chapter which discuses about background of the study, statements of the problems, research questions, general and specific objectives of the study, scope and limitation of the research. Chapter two includes, theoretical and empirical literature reviews that related with the research titles which includes, concepts, principles and strategies and models that adopted by privet commercial banks. The third chapter presents the types of research methods which includes, data gathering method, techniques of the data analyzing and presentation. The four chapters presenting of the major findings regarding risk management's practices in private commercial banks of Ethiopia. The five chapters discussed the summary of major finding, conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the literature on risk management in banking. It discusses issues on risk Management from different perspectives and with the view of giving a theoretical foundation to The study. It starts with an explanation on risk management, followed by reviews of literature on the rationales and categories of risk management activities as well as the kinds of risk faced by banks.

2.1.1 THEORETICAL FRAMEWORKS

2.1.2 Risk Definition

A risk can be defined as an unexpected event with financial consequences resulting in loss or Reduced earnings **(Vasavada, Kumar, Rao&Pai, 2005).** An activity, which may give profits or result in loss, may be called a risky proposition due to uncertainty or unpredictability of the activity of trade in future. In other words, it can be defined as the uncertainty of the outcome .Risk refers to a condition where there is a possibility of undesirable occurrence of a particular

Result, which is known or best quantifiable and therefore insurable,‟‟ (Periasamy, 2008). Risk that there is a possibility of loss or damage, which, may or may not happen.

Risks may be defined as uncertainties resulting in adverse outcome, adverse in relation to Planned objective or expectations (Kumar, Chatterjee, and Chandrasekhar & Patwardhan 2005). In the simplest words, risk may be defined as possibility of loss. It may be financial loss or loss to the reputation/ image (Sharma, 2003).

2.1.3 . Risk management

An appropriate definition of risk management could be presented as a systematic approach towards the identification, assessment and analysis, prioritizing, monitoring, control and communication of risks that are involved in the transactions and operations of a bank function or process necessary to ensure that the level of risks are mitigated and at the same time opportunities involved are maximized. Management of risk thus, should be presented to address and present all possible risks involved in the environment of the organization from a

Historical, current and future perspective. **(Hassan, 2014).**

Santomero (1995**)** adopt that effective banking firm management places emphasis upon the integration of several steps aimed at enhancing the integration of a viable risk management system. The steps integrate four Main elements including standards and reports, position limits or rules, investment guidelines or strategies, Incentive contracts and compensation. These tools enhance the measurement of exposure through the definition of the necessary procedures necessary in managing the identified levels of exposure, which enhances the limitation of the individual positions to the recommended levels. The tools enhance the risk-management decision-making.

Pyle (1997) defines risk management as the process that enhances the satisfaction of the identified needs by the managers through the identification of the key risks through the development of consistent and operational risk measures. This enhances the identification of the risks to be reduced or increase through the development of the necessary procedures aimed at monitoring the potential risk positions**.** **Bessis (2010**) identifies that risk Management seeks to ensure proper measurement of risks to enhance the consequent monitoring and control to Enhance the provision of other bank services together with the direct financial function. These functions and Services include incorporating assistance processes relating to the integration of the bank’s strategy through the Provision of a profitable future. This enhances the definition of the necessary business policies that enhance the Development of competitive advantages through the integration of several calculations relating to the pricing.

2.1.4 Historical Perspective of Risk Management

According to Basel Committee in 2018, the concept of risk management in banking arose in the 1990s. However, risk management before the 1990s was used to explain the techniques and risks related to insurance. This kind of risk management refers to the purchase of traditional insurance products that are suitable for any events to protect from future hazards. More recently in the financial markets, derivatives have also been promoted as risk management tools to use for hedging activity purposes. This form of risk management is often called financial risk.

The main objectives of risk management can be to observe risks to avoid uncertainties and to measure risks t control them. “You can’t control what you can’t measure” a reality that should not be ignored. To achieve the aforementioned objectives, banks should integrate some functions into their risk management systems and establish certain procedures within their structures. These are; the establishment and implementation of strategies, the development of competitive advantages, the inclusion of risk management in the decision making process for risk exposures, in price policy, risk control and reporting (Bessis 2002, p.11, Cited by; Varlık 2010, p.86).

2.1 5 Benefits of Risk Management

Osborne (2012) A successful risk management helps a company to reduce the negative and develop the positive impacts of risks and company to Continually stay in business. A company that has effective risk management will assist and can make informed decisions; exploiting can increase the likelihood of successful risk taking, i. e. opportunity risks; can protect its reputation or goodwill; can improve the quality and reliability of its products and services; can increase the likelihood of achieving strategic goals or objectives; can reduce costs or increase profits; can reduce failure or downtime; and above all can properly utilize competitive.

2.1.6 Risk Management in the Bank industry

Risk Management is described as the performance of activities designed to minimize the negative impact (cost) of uncertainty (risk) regarding possible losses (Schmidt and Roth, 1990). Redja (1998) also defines risk management as a systematic process for identify, evaluation of pure loss exposure faced by an organization or an individual, and for the selection and implementation of the most appropriate techniques for treating such exposures. The process involves: identification, measurement, monitoring, and control of management of the risks. Risk management can be regarded as an active, strategic, and integrated process that encompasses both the measurement and the mitigation of risk, with the ultimate goal of maximizing the value of a bank, while minimizing the risk of bankruptcy **(Schroeck, 2002).**

The banking industry is a highly regulated industry with detailed and focused regulators. While banks struggle to keep up with the changes in the regulatory environment, regulators struggle to manage their workload and effectively regulate their banks. The impact of these changes is that banks are receiving less hands-on assessment by the regulators, less time spent with each Institution and the potential for more problems slipping through the cracks, potentially resulting in an overall increase in bank failures. (Jaiye ,2009) mention in his paper that the business of Banking is to manage risks associated with accepting deposits, granting loans and trading Portfolios. The changing economic environment has a significant impact on banks and thefts as they struggle to effectively manage their interest rate spread in the face of low rates on loans, Competition for deposits and the general market changes, industry trends and economic Fluctuations.(Andrea ,2010) in his study mentioned that Management failure can be easily Recognized in losses resulting from over-aggressive lending practices and risk tolerances that were too high. However, as one digs deeper, slighter failures can be recognized in operational inefficiencies, weak internal control environments, and lack of management attention to detail. Arising interest rate environment may seem to help financial institutions, but the effect of the changes on consumers and businesses is not predictable and the challenge remains for banks to grow and effectively manage the spread to generate a return to their shareholders.

2.2 TYPES OF RISKS FACED BY BANKING SECTORS

The core business of Banking Industry is to mobilize deposit for reselling or investment purpose. Banks need to take to maintain their margin and fulfill their role in the economy. But taking excessive risk is likely to run in to difficulty and eventually fail to fulfill its obligations and becomes insolvent (Gustel and Baesen, 2009). According to (Crouhy, Galai and Mark 2009) in the global banking industry there are three broad risk types as presented below.

Credit Risk: Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the institution.

Liquidity Risk: Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses. Liquidity risk includes inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Market Risk: Market risk is the risk of losses in on and off balance sheet positions as a result of adverse changes in market prices i.e. interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exists in both trading and banking book. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book.

Operational Risk: Operational risk is the current and prospective risk to earnings and capital arising from inadequate or failed internal processes, people and systems or from external events

Strategic Risk: Strategic risk is the current and prospective impact on earnings, capital, reputation or good standing of an institution arising from poor business decisions, improper implementation of decisions or lack of response to industry, economic or technological changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed to meet these goals and the quality of implementation.

Compliance Risk: Compliance risk is the current or prospective risk to earnings, capital and reputation arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from incorrect interpretation of relevant laws or regulations. Institutions are exposed to compliance risk due to relations with a great number of stakeholders, e.g. regulators, customers, counter parties, as well as, tax authorities, local authorities and other authorized agencies

Reputational risk: Reputational risk is a significant result of the operational risk and, to some extent, the security risk. In other words, when a company fails to provide security to their customers, or when they perform inefficiently in processing their requests, then they suffer loss in users. People began spreading rumors about the bank, and the bank's image gets spoiled**.**

Systematic Risk: Whenever there are some external issues involved with the bank like employee's strike, market fluctuation, non-stability of the government, and so on, then it is termed as Systematic risk. The systematic uncertainty is beyond the control of management since it entirely depends on the various external factors. The losses due to systematic risks are unpredictable and cannot be wholly avoided. Banks suffer huge losses due to systematic risk and may have to write off certain assets to compensate for their losses.

Moral Hazard Risk: Moral hazard is an entirely new type of risk when compared to the other mentioned risks. It came to light recently in the global market. The moral hazard occurs when a bank takes some risk, even when they know that someone else has to bear the losses. In other words, when a bank invests in a risky business, and it backfires, then it is the taxpayers who have to bear all the losses.

2.3 Definition of Enterprise Risk Management

ERM the first time formed in 1985, COSO is a joint initiative by the following five organizations: Institute of Internal Auditors; the Association of Accountants and Finance Professionals in Business; Financial Executives International; American Institute of CPAs; and American Accounting Association .

There are many definitions of Enterprise Risk Management. A representative example is the following from the Committee of Sponsoring Organizations of the Tread way Commission (COSO).

"Enterprise risk management is a process, effected by an entity's 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."

(Abrams ,2006) A study of the various ERM definitions reveals that all share three critical characteristics

1. Integrated: ERM must span all lines of business.

2. Comprehensive: ERM must include all types of risks.

3. Strategic: ERM must be aligned with overall business strategy.

COSO (2004) defines ERM as a process designed to identify events that could affect the firm and to manage these risks so as to keep risk within the firm's "risk appetite", thus providing reasonable assurance that its objectives are met. This process is to be carried out by personnel at all levels of the organization, including the firm's Board of Directors. Risk in ERM frameworks is generally taken to mean failure to achieve various targets set by management. This is very clearly stated in ISO 31000 (2009), where risk is defined as "the effect of uncertainty on objectives". To describe the COSO framework, Power (2009) invokes the metaphor of a thermostat. Firms seek to identify all material risks and to design controls for them, producing a residual risk consistent with a target risk appetite, akin to how a thermostat adjusts to changes in the environment subject to pre-given target temperature.

2.4 Development of Enterprise Risk Management

In this section will discuss briefly the development of ERM especially on the emerging factors that influence companies to shift from risk management practices (Traditional Risk Management) to Enterprise Risk Management. The discussions will focus from the theoretical perspectives; academic and professional bodies. D'Arcy (2001) has postulated that the origin of risk management was developed by group of innovative insurance professors i.e. Robert I. Mehr and Bob Hedges in 1950s.

The first risk management text entitled (1963) Risk Management and the Business Enterprise were published. The objective of risk management at that time was to make best use of the productive efficiency of the enterprise. At that time, risk management was specifically focused on pure risks and speculative risks. In the 1970s, when Organization of Petroleum Exporting Countries (OPEC) decided to reduce production in order to increase the price, financial risk management became an interesting issue highlighted by firms because the increment in oil price has affected the instability in exchange rates and inflation rate (D'Arcy, 2001; Skipper and Kwon, 2007).

Later in 1980s, political risks attracted more attention from multinational corporations as a result of different political regimes in different countries. For example, when the government announced a new policy, investors and corporations must make decision to reduce risk (Skipper and Kwon. According to D'Arcy (2001), during this era, organizations did not properly apply risk management because they did not apply the risk management tools and technique such as options.

2.5 Types of Enterprise risk Management frameworks

There are various important ERM frameworks, each of which describes an approach for identifying, analyzing, responding to, and monitoring risks and opportunities, within the internal and external environment facing the enterprise.

2.5.1. Casualty Actuarial Society framework

In 2003, the Casualty Actuarial Society (CAS) defined ERM as the discipline by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organization's short- and long-term value to its stakeholders The CAS conceptualized ERM as proceeding across the two dimensions of risk type and risk management processes The risk types and examples includes

Hazard risk: Liability torts, Property damage, Natural catastrophe

Financial risk: Pricing risk, Asset risk, Currency risk, Liquidity risk

Operational risk**:** Customer satisfaction, Product failure, Integrity, Reputational risk; Internal Poaching; Knowledge

2.5.2 COSO ERM framework

The COSO "Enterprise Risk Management-Integrated Framework" published in 2004 (New edition COSO ERM 2017 is not Mentioned and the 2004 version is outdated) defines ERM as a "…process, effected by an entity's 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."

The COSO ERM Framework has eight Components and four objectives categories. It is an expansion of the COSO Internal Control-Integrated Framework published in 1992 and amended in 1994. The eight components are:

- Internal Environment
- Objective Setting

- Event Identification
- Risk Assessment
- Risk Response
- Control Activities
- Information and Communication
- Monitoring

The four objectives categories - additional components highlighted - are:

- Strategy - high-level goals, aligned with and supporting the organization's mission
- Operations - effective and efficient use of resources
- Financial Reporting - reliability of operational and financial reporting
- Compliance - compliance with applicable laws and regulations

2.5 .3 ISO 31000 : the new International Risk Management Standard

ISO 31000 is an International Standard for Risk Management which was published on 13 November 2009. An accompanying standard, ISO 31010 - Risk Assessment Techniques, soon followed publication (December 1, 2009) together with the updated Risk Management vocabulary ISO Guide 73.

2.5.4 RIMS Risk Maturity Model

The RIMS Risk Maturity Model (RMM) for Enterprise Risk Management, published in 2006, is an umbrella framework of content and methodology that detail the requirements for sustainable and effective enterprise risk management. The RMM model consists of twenty-five competency drivers for seven attributes that create ERM’s value and utility in an organization. The 7 attributes are:

- ERM-based approach
- ERM process management
- Risk appetite management
- Root cause discipline
- Uncovering risks
- Performance management

- Business resiliency and sustainability

The model was developed by Steven Minsk, CEO of Logic Manager, and published by the Risk and Insurance Management Society in collaboration with the RIMS ERM Committee. The Risk Maturity Model is based on the Capability Maturity Model, a methodology founded by the Carnegie Mellon University Software Engineering Institute (SEI) in the 1980s.

2.5.5 Components of Enterprise Risk Management

The COSO framework (2006), ERM consists of eight interrelated components that are derived from the way management runs an enterprise and that are integrated with the management process: internal environment, (1) objective setting, (2) Risk identification, (3) risk assessment, (4) risk response, (5) control activities, (6) Risk information ,Risk communication (7) , and (8) monitoring.

- **Internal environment**. The internal environment--the tone of an organization--is a reflection of the organization's risk-management philosophy, risk appetite, and ethical values. It determines how risk is viewed and addressed by employees throughout the organization. This tone is established at the very top of the organization.

- . **Objective setting.** Objectives must exist before management can identify events that could affect achievement of objectives The board of directors approves corporate objectives, and management is responsible for achieving them. Enterprise risk management ensures that the board has in place a process for setting appropriate objectives, which support and align with the company's mission and are consistent with its risk appetite.

- **Event identification**. Internal and external events that could affect achievement of a company's objectives must be identified and measured, and a distinction must be made between risks and opportunities. Opportunities are channeled back to management's strategic-planning or objective-setting processes.

- **Risk assessment**. The likelihood and the potential impact of various risks are analyzed, as a basis for determining how the bank should manage risks. Risks are assessed on an inherent and a residual basis.

- Risk response. Management selects risk responses--avoiding, accepting, reducing, or sharing risk--and develops a set of actions to align risks with the organization's risk tolerances and risk appetite.

- Control activities. Policies and procedures are established and implemented to help ensure that the desired risk responses are effectively carried out.

- .Information and Communication – Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing
- Monitoring – The entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

Source: COSO (2004).

2 .6 Review of Empirical Literature

This section provides a summary of some of the published work on assessment of enterprise risk management in banking sectors in developing and developed countries.

(Houdle, 2013**)** the impacts of **COSO (2004)** control components on internal activates .the major objectives of the study was focus on the board of directors have unlimited for governance related with internal controls. The author used a descriptive statics method for data analysis. The questionnaire was distributed to internal audit practitioners. the respondent were obtained from 31 participants form eastern cape and western cape region in south Africa. The research findings indicate that implementing and maintenance of internal control systems, internal auditors plays key independent roles in evaluating those controls and acting on behalf of the board of directors, in order to mitigate the possible of risk management not acting in the best interest of the organizations.

The study concludes that internal auditors can take as a guideline of COSO (2004) enterprise risk managements.

For risk assessment, information and communication, controls and monitoring components for effective internal control systems.

Bisrat (2018) Assessment of enterprise risk management in insurance sectors. The objectives of the study was assessment of enterprise wide risk management practice in the Ethiopian insurance sectors. the assessments was based on identifying of the nature, the structure and objectives of the practices ,assessments for the levels of knowledge .the study used a descriptive sampling method. The final findings show that the main functions of insurance sectors they takes a yardsticks enterprise risk compliance rather than strategic competitive advantages.

The study has identified a weakness in defining a clear risk appetite that is aligned with the organizations strategic objectives. The study also identified the lack of skill and experience specific to risk management in addition to the weakness over risk quantification phase of risk management practice of insurers. Thus, in order to make effective and efficient management decision based on risk adjusted returns the practice of risk management should be supported through continuous trainings, workshops and panel discussions that involve all staff members of insurers from different levels. The other parts of the findings indicates that there was a weakness in defining a clear risk appetite hat aligned with the organization strategic objectives so the researcher concluded that in order to practices a good enterprise risk management there should be a continuous trainings ,workshops and panel discussions at different levels of the staff

Abraham (2015) assessment of Enterprise level risk management practice. The researcher he used a simple random sampling method and data collection method were both in primary and secondary data collection method. The main objective of the author wanted to assesses the strength and weakness of enterprise risk managements practice in insurance company. The author used both primary and secondary sources of data. Census method of sampling adopted. The data gathered both in questioner and interviews. The targeted respondent was 17 insurance companies and **119** insurance management's staff and senor officers. The findings suggested that there is good perspective for insurance companies to strengthen the Enterprise risk management's framework practices . The studies also recommended that insurance companies should give attention for the developments of risk management's functions awareness.

Yetayehw (2020) Assessment of Enterprise risk management practices in private commercial banks .The main objective of the study was to assess the practice of risk assessment in private commercial banks of Ethiopia. The author used a sample random sampling method and the total sampling size was 51. The targeted population had selected form sex private commercial banks of Ethiopia. The data gathered through questioner and face to face and some of NBE directorates. The model of his survey was assessment of risk managements practices at the level of ERM process .The final finding s suggested that the major problems for un effective implements ERM frameworks in private commercial banks ,the author indicates that there was weakens at the top level managements, Absence of qualified staff and week in technological advancement . Banks should conduct workshops or panel discussion to identify enterprise level risks in each activity and Banks should have comprehensive risk register and database to run their business with smooth operations and absence of interruption. In addition to, these banks should conduct workshops or panel discussion to identify enterprise level of risk activities

Samuel (2015) in his research title assessment of enterprise risk management in Ethiopia private banks at the level of risk management programs and a proactive risk management practice researcher used an exploratory research method and conducted with three private banks of Ethiopia and the findings show that the practice is well understood and important by all stakeholders ,but is in its infant stage where continuous follow up and development requires for enterprise risk management practice.

Hiwot (2017) Assessment of risk management practice in insurance company in Ethiopia .she used a purposive sampling techniques which used to select employees form risk management and underwriting departments of insurance company in Ethiopia . she made a sense survey for all insurance company in Ethiopia. The total sample size of the population was 85 .she used a questioner for main instruments for data collection .The model she used was enterprise risk management frameworks eight components **coso (2004)** .the final findings indicates that objective setting and risk Identification, Risk measurements, risk response and risk control, communication and monitoring insurance companies they practices enterprise risk management at a moderate levels.

Danson (2017) Risk Factors and Enterprise Risk Management in the Financial Services Industry .the objective of the study was a general reviews for both theoretical and empirical literature reviews on risk managements

The theoretical reviews on certainly on concepts developments .According to the literature reviews , the empirical study focuses on all organizational perspective been studied from a firm performance perspective, firm value perspective, form the others views for example , default risk perspective and disclosure requirements perspective. From a methodology perspective, regression analysis, correlation analysis and descriptive statistics and form the eight components COSO **(2004)** seem to be the most favored techniques used and in particular in the African continent.

Ganesh (2014**)** the main objective of the study to verify the level of enterprise risk management practice in Zimbabwe banks .a purposive sampling method was used to gather data from respondent .the targeted population was chief risk officers and compliance risk department .The finding shoes that there is a relationship between Strategic plan with operational and reporting with this means there is an ERM implementation has a piratical risk management components and ERM which should be implemented in Zbabawain Banks .

2. 7 Conceptual Framework

A conceptual framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate it. When clearly articulated, a conceptual framework has potential usefulness as a tool to assist a researcher to make meaning of subsequent findings. It forms part of the agenda for negotiation to be scrutinized, tested, reviewed and reformed as a result of investigation and it explains the possible connections between the variables (Smith, 2004). To guide the study, the eight components of variables in risk management banking sectors.

The ERM integrated framework recognizes the internal environment objective setting (OS), Risk identification (RI), risk assessment (RA), risk response (RR), control activities (CA), information(RI), Risk Communication (RC) and Risk monitoring (RM) as the key functions requires for a company to adopt a robust ERM model.

2.8 Summary and Knowledge gap

Most Studies focus on the risk management practice by using different frameworks effective risk management practice relation with financial performance on banking sectors in Ethiopia and a lot of previous research indicated that a particularly banking risk types (credit risk, market risk, liquidity risk or operational risk and etc) so the researcher believes that a limited studies providing risk Management practice of banking sectors and it is less focused .As per the researcher's knowledge a very few study is conducted to assess the risk management practice of banking sectors in Ethiopia by using ERM framework. Hence, this study aims to fill the gap in the literature by focusing on the components of ERM **(COSO) 2004** to assess the practice risk management in private banking sectors in Ethiopia.

CHAPTER THREE

RESEARCH APPROACH AND METHODOLOGY

This chapter outlines the rationale of research approach and methodology used in this study. It Includes research design, sampling design, data type, research method, unit of analysis, variables of the study, research instrument, data analysis methods, reliability and validity.

3.1 Research Design

The research design that will be employed in this study is descriptive design. The qualitative research approaches were employed based on the private commercial banks staff drawn from risk Departments. The quantitative technique will be used to collect and analyze data with the objective of describing about private commercial banks of Ethiopia ERM practices. This design will used because it brought out clearly the practice of risk management in private commercial banks.

3.2 Population and Sampling design.

The targeted population was 16 private commercial banks of Ethiopia. A purposive sampling method was applied since targeted sampling groups were Risk directors, risk officers, and risk compliance managers.

The sample size differed per the structure of the risk management of the respective private commercial banks .The minimum estimated sample size (n) of the risk management staffs was 105.That is it presumed that there is seven staffs selected at each banks risk management and compliance department.

3.3 Data type, data source and instrument of Data Collection

Data types: a structured questioner were distributed to the respondents .The study were conducted at 16 (sixteen) privet commercial banks of Ethiopia at head office level . Awash International banks, Wegagen Banks , Zemene Banks , Bunna Banks, Abyssinia Banks ,Addis International Banks ,Nib international Banks, Oromiya Corporative banks, ,Dashen

Banks , Lion Banks, Abya banks, united banks. Debub Gelobal bank. Oromiya International, Enat banks ,Berhain International bank The sources of data were accordingly the organization structure of each private banks of Ethiopia. head of risk directorates, chief risk officers ,compliance risk officers and risk departments staff**.**

The questioner constructed and developed by using the following reference

- Using previous research questionnaire which have relation with the title. Omasete (2012).
- National Bank of Ethiopia's (NBE), Risk management guidelines for commercial banks.
- ERM-COSO 2004 Executive summary**.**
- Chartered Global Management Accountant January 2012 **.**

Sampling Technique The sampling population used in this study was 105 respondents which were selected using purposive sampling technique. Respondents were selected from the risk management departments considered as better sources of data for the topic under study with the assumption that they could have better information and experience. **Jayan (2005)** The chief risk officer **(CRO)** should be an equal partner with the head of the business, interacting continuously with all units, discussing their risks, and ensuring that it is aligned with the stated tolerance, budget and, strategy of the institution

3.4 Collection Method

Data collected by using of primary data collection techniques. Primary data means to first hand data. It will be gathered basically through structured questionnaires like objective-setting, risk identification, risk assessment, risk response, risk control, communication and monitoring. One: each of them have own details. Primary data will important in answering questions about practice of risk management.

3.5 Data Analysis

Data analysis which includes data preparation, organization , interpreting the processed data and presentation Of the results in the form of tables, graphs Greener (2008). The researcher used a descriptive data analysis method and data which was analyzed by SPSS soft ware package.

Likert Scales are a type of ordinary scale that asks respondents to indicate their level of attitude ,opinion, perspectives views of a specific subject matter .. a Likert scales generally include five-point, seven-point, or nine-point responses. But the author used the five points likert scales which is the most common scale of measurements in most literature reviews.

The authors, Albaum, Roger Best **(1977)** the likert scale measurements there was a confidential interval from score from **1- 1.79** is lowest, from **1.80- 2.59** is lower, from **2.60- 3.39** is average/moderate, from **3.40-4.19** is good/high, and **4.20- 5** is considered very well and SD OF 1of 1 and less shows less variability in a five point. Below shows the diagram. For confidence intervals that developed by **Best (1977).**

Table 1. 3

Interval range	**confidence level**
1. 00- 1.79	Not confident at all
1. 80- 2.59	Slightly confident
2 . 60- 3.39	Somewhat confident
3. 4- 4.19	Fairly confident
4.20- 5.00	Completely confident

Source Best (1977)

3.6 Variables of the study

In this literature reviews, the variability of the studies, which was extracted from COSO (**2004)** ERM framework .COSO (2004) an international standard of established criteria to conduct the survey .Objective setting and risk identification. Risk assessments, risk response, risk control, communication and monitoring are a setting Variables in this research paper.

3.7 Reliability Test and validity of the study variables

3.7.1 Reliability

Reliability used to measures the constancy of the questioner .Alpha Cranach which is the most famous method to test reliability.

3.7.2 Validity which can validity the works of the paper accordingly to international standards, journal of articles, empirical literature reviews.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

Introduction

This chapter discusses about the presentation, analysis and interpretation. These data are presented and analyzed based on data collected through structured questionnaires from sixteen privte commercial banks of Ethiopia . For this purpose, questionnaires have been distributed to 105 staff members of risk management and compliance department of the sixteen private commercial banks of Ethiopia , which are, Awash International banks, Wegagen Banks , Zemene Banks ,Bunna Banks, Abyssinia Banks , Addis International Banks ,Nib international Banks, Oromiya Corporative banks, ,Dashen Banks , Lion Banks, Abya banks, united banks. Debub Gelobal bank. Oromiya International Bank ,Berhan International Bank, Enat Bank.

The aim of the study is to assess ERM practices of Private commercial banks of Ethiopia at the level of the eight component **COSO (2004)** the researcher used tables to present organized data. The findings are intended to answer the study's research question. Data collected is combined and reports delivered in form of tables and qualitative analysis done in text.

4.1 RESPONSE RATE

The study takes all targeted population and from the size of **105** target population respondents the all questionnaire But 105 respondent exactly and properly filled in and returned the questionnaires which makes a response rate of 100%. This response rate was good enough to make conclusions for the study.

4.2. The General Background of the Respondents

The respondent background have the basic criteria for a reliable information to be presented and also the variables of the study to be effective.

According to table 4.21 belows, The bank ground of respondent of information are visualize. Respondents back ground asked Criteria in order to conducted thesis research papers. the respondent Genders, Fields of studies and levels of experiences . To conducted the research paper the respondent asked a structured questioners .The Total numbers of respondent are 105. Among this male 81 and female are 24 the number of male and female proportionality are not equal major of the respondent they have degree and masters 67 and 29 % in parentage they

Respondent Background information

Indicators	**Values**	**Frequency**	**Percentages**
Gender	**Male**	**81**	**77**
	Female	**24**	**23**
Level of education	**Diploma**	**5**	**5**
	Degree	**70**	**67**
	Masters	**30**	**29**

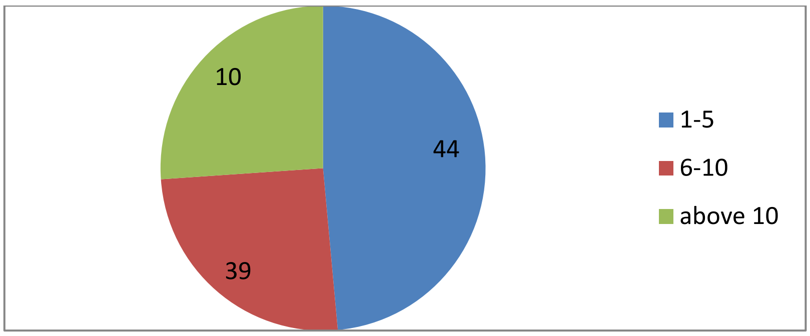
Table 4.1 source primary data

The other background information of the respondents is years of experience. As shown in the

Graph 4.1 below out of **105** respondents, **34** % of total respondents represent a group that covers **1- 5** years of experience, **30%** of total respondents represent a group that covers **6-10** years of experience. The rest **17 %** of respondents were under the ranges of greater than 10 years of experience. One can understand **30%** of the respondents have more than 6 year experience. It implies that most of the staffs acquired enough experience to perform risk management activities.

Graph 4.1:

Years of experience in pie chart



As can be seen from the pie charter the majority of banking experience the respondent takes 34 % so which this shows the respondent they have a better qualified to respondent the questioner y that compare with the experience form 1- 5 years .

4. 3 Key elements of Enterprise risk management's components

4.3.1 Objective setting and risk identification

In this part the summery of the data analyses and findings were presented for Objective setting and risk identification, The respondent asked their level of agreement, altitude and opinion for objectives setting and risk identification, and findings and results presented descriptive statics of Mean and standard deviations .in the form table.

TABLE 4. 2 Objective setting and Risk Identification

Objective setting and Risk Identification	Mean	SD
Risk-related Objective are developed by Board & Senior Manager	**4.10**	**0.8**
Risks that are not acceptable by the organization are identified & Clearly Communicated to employees.	**3.63**	**0.94**
Risk Appetite (Capacity) of the Banks clearly communicated to the employees	**3.66**	**0.94**
Risk Tolerance of the banks clearly communicated to the employees	**3.68**	**0.93**
Risk inspection (identification) is done by managers	**3.41**	**0.87**
Risk identification involve all level of staff	**3.59**	**0.95**
Roles and responsibility for risk Identification are clearly defined	**3.8**	**0.84**
All managers are aware of the risks inherent in the business	**3.56**	**0.88**
Workshop or panel discussion have been conducted to identify risk	**3.55**	**0.95**
Total score	3.67	0.9

source primary data

1) Risk related objective are developed by board & senior Managements

As can been seen the above table 4.2,the respondent level of response for Objective setting and risk identification were expressed in terms of mean and standard deviation as a way of interpreting the results. The mean that shows average level of respondent for each items for the questioners. The final results of the research outputs measured according to Best (1977) range of confidential level. As can been seen above table 4.2 , the results shows that respondent answer fairly good for the development of risk objectives and strategies that developed by board & senior manager according to the evidence of the score of mean which was 4.10 according to Best (1977) from 3.40-4.19 that was is fairly confidential . Generally this indicates that all respondent are agreed for objective setting and risk identification developed by board members and senor mangers. However, the standard deviation values of 0.80 indicate that different altitude of respondent. Njeri (2010) if a bank has strong system which can make facilitation of reporting of internal environments specially board of directors and senor managements the reporting standard will be effective .The finding could be those who participate in the objective setting do have different views on their opinion of objective ,when we look about risk identification that is done by mangers which is scored the mean 3.41 according to Best (1977) which was fairly good but SD Shows is the level of respondent opinion Different by .87 .

2) Risk that are not be acceptable by the banks are identified and clearly communicated to employees

As can been seen table 4.2 , there the respondent level of answer and an average mean is 3.63 according Best (1977), the range with 3.40-4.19. Which is the results fairly confidential. This shows that private commercial banks have a good practice for uncalculated risk or risk that cannot be accepted by risk managements which can be disclosed transpartley to all bank staff. This is a good trend the banks which can increase its customer loyalties. and the SD which is 0.94 indicates the respondent answers deferent form SD 1 by 0.94.

3) Risk appetite Or capacity of the banks clearly communicated to employees .

As can been seen table 4.2 ,Regarding to answer this question the level of responded average scored of mean which is 3.68 according to Best **(1977) 3.40-4.19** which is fairly confidently .The risk that the Banks can tolerate or make a decision to take a calculated risk. Here also the results indicates that the banks managers has a good communication with risk departments and other compliance staff for a decision making and risk capacity, the banks that take any tolerable or acceptable action for risk appetite.

4) Risk tolerance of the banks clearly communicated to the employees.

As can been seen table 4.2 ,The level of respondent for an average of mean scored was 3.68 .according to Best (1977) 3.40-4.19 fairly confident There is a good ERM Practices for risk tolerance and giving of available information to employees. SD Which was 0.93 shows that the level of respondent for answering different. (Jayan ,2005) establishing the appropriate risk managements functions carried out by the chief risk officer to get the business optimizing opportunities. Implementing each and every part of the risk function and providing the relevant risk information to all lines of the business will be the special task of senior risk officers.

5) Risk inspection or identification is done by mangers.

As can been seen table 4.2 ,the level of respondents average scored mean is **3.41** according best (1977) it is fairly confidential. This results shows that any source of risk either internal or external environments ,the risk inspection is done by mangers, specially risk departments staff ,since most commercial banks they have risk departments accordingly based on their organizational structures .

6) Risk identification involves all level of staff.

As can been seen table 4.2 ,the average respondent mean scored 3.59 according to Best(1977) the range 3.59-4.19 which is fairly confidential . The results shows risk identification process which good in banking operations. But the results indicates still not effectively carried out that all lines staff doing this tasks and SD 0.95 Which is different accordingly the level of respondents opinion .risk identification process has Its on procedures so board of directors , senior bank mangers, head of chief risk officers, they always need to updating themselves for an effective implementation of risk manual, policy and procedures and system design in internal environments for banks staff involves effectively in the risk identification process .

7) Roles and responsibilities for risk identification are clearly defined.

As can been seen table 4.2 ,the level of respondent that scored the mean 3.8 accordingly to Best (1977) which is at the range from 3.40- 4.19 fairly confidential . Here are the results shows that modernity or good trends That the banks practices for this particular case. so. The SD is 0.84 this indicates that the levels of respondent options different by. Opinion .**Jayan (2005**) the chief risk officer has an equal power with board of directors that can communicating with all lines of the business ,discussing any kinds of risk factors, insuring the associated With the stated risk tolerance, collaborating for setting strategic decision making .

8) All mangers are aware of the risk inherent in business.

As can been seen table 4.2, the level of respondent average scored of mean was 3.56 according to Best (1977) 3.40-4.19. According to the results, all mangers they have fair understanding to the nature of risk in bank operational activities. This indicates that, even thought all bank managers have awareness for nature and sources of risk , the risk departments heads, are the key and have the main responsibility to give a relevant information regarding inherit risk to all lines of banks .

9) Work shop and panel discussion have been conducted to identify risk ,

As can been seen table 4.2, the respondent their level of average mean scored was 3.55 .according to Best (1977) which is fairly confidential. The head of risk departments and senior managements, boards of directors they have responsibility for a continues assessments regarding the developments of ERM practices . SD which was different respondent views by 0.95.

4.3.2 Risk Assessment

,In this part the summery of the data analyses and findings were presented for risk Assessment, The respondent asked their level of agreement, altitude and opinion for risk Assessment, and findings and results presented descriptive statics of Mean and standard deviations .in the form table.

Table 4.3 Risk Assessment

Section I- Risk Assessment	Mean	SD
Risks are evaluated with assumptions and uncertainties being Clearly considered and presented.	3.78	.759
Risk is evaluated in terms of both quantitative and qualitative Value.	4.03	.765
Measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company	3.93	763
A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring	3.93	.693
Total score	3.91	0.745

Sources primarily data

1) Risks are evaluated with assumptions and uncertainties being clearly considered and presented

As can be seen the above table 4.3 , The respondent answer for this question the mean score 3.78 according Best (1977) 3.40-4.19 which was fairly confidential. This means respondent believes that the banks have good practices for evaluation and handling for risks and predicating uncertainties that banks faces some future times ,indeed the SD .759 still shows that the respondent answering in deferent level of altitude that was opinion. .

2) Risk is evaluated in terms of both quantitative and qualitative Value

As can be seen the above table 4.3 , the respondent average mean scored 4.03 according to Best(1977) 3.40-4.19 fairly confidently . The private commercial banks have a good trends for evaluation of risk both quantitative and qualitative values.

The respondent level of answers for the question of risk is evaluated in terms of both quantitative and qualities values. the average scored mean was as can been seen table,4 4.03 which is a good scored like the pervious question developed objective seating and risk identification that developed by senior managers .the findings suggested that there is a moderate risk Enterprise risk evaluation practices carried outs by private commercial Banks of Ethiopia . (Jayan ,2005) when measuring of risk in qualitative methods the banks should consider the impacts of the stated appetite on earnings, volatility of revenues, capital and reputation. When risk measuring in quantitative methods Var limits other measures such as expected shortfall, tree limits with market volatility.

3) Measurements of both the quantitative in which risk assessment is concerned –potential loss and Probability of Occurrence is often treated differently from one with a low potential loss and a high like hood of occurring.

As can be seen the above table 4.3 , The level of respondent for average mean scored that was 3.93 according to Best (1977) which was fairly confidential. (Njeri ,2016) any business organizations that do not have an adequate level of technical capacity

To assesses and evaluate of the risk functions , but the author suggested that organizations they can take another alternatives for decisions making that is forecasting of expected potential loss in some future times.

In this finding there was a good practices for controlling of potential loss . So the board of directors, senior managements groups they should design a compressive risk managements frameworks that can be guided by ERM frameworks to achieves a better controlling some unforeseen risk.

4) A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring.

As can be seen the above table 4.3, the average respondent mean scored was 3.91 according to Best (1977) which was fairy confidential As pervious disused the banks head of chief risk officers they should developing of any risk related functions That the banks face risk exposures within the internal and external business environments SD 0.745 which shows that the levels of varied response from respondent by .0745.

4.3.3 Risk responses

In this part the summery of the data analyses and findings were presented for risk Responses, The respondent asked their level of agreement, altitude and opinion for risk Responses, and findings and results presented descriptive statics of Mean and standard deviations .in the form table

Table 4.4 Risk Response

Section I- Risk Response	**Mean**	**SD**
The company avoids risk by insuring different type of risks but not all risks	3.75	0.886
The banks avoids risks by not banks catastrophic risks	3.33	0.942
The bank use risk retention as risk response practice	3.53	0.809
The bank train employees to reduce risk	3.93	0.724
The banks response to risk includes action plans in implementing decision about identified risk	4.05	0.626
Total score	3.61	0.87

Source primary data

1**) The banks avoids risk by insuring different type of risks but not all risks**

As can be seen the above table 4.4, The level of respondent for average scored of mean which was 3.75 according to Best(1977) .the risk departments head that has a responsibility of identifying which risk are controllable and which risk cannot be controlled by the banks all units .

COSO (2012) The stage of risk identification process which contents risk assessment and a risk comprehensive that contents list of risk . Banks may categories such risks , financial , operational, strategic, compliance) and others ways of classification can be market, credit, liquidity , human hazard risk , political risk and here the banks can easily identify and gets a perspectives feed back to which risk can be uncontrollable .this information can aid to banks easily capture the information to management decision at operational levels and in each business unites **.** so the finding indicates that banks ,even though ,has a fair risk managements practices

They should develop a compressive risk managements planes according copy with the dynamic business environments

2) The banks avoids risks by not banks catastrophic risks

As can be seen the above table 4.4 The level of respondent average mean scored mean was 3.33 according to Best (1977).

COSO (2012) they banks in order to avoid a catastrophic risk .the risk departments head should develop and design a compressive risk management plans according to the enterprise risk managements criteria that set by COSO. The compressive risk management plans that can aid the banks to identify the nature of risk and risk volatiles. This activity can lead to forecasting the potential or calculated loss the banks may face some future times by natural desserts .the finding indicates the mean 3.33 and sd 0.942 that private commercial banks they should develop an effective a compressive risk Management plans to handling for those catastrophic risk.SD

That shows the level of respondent varied from the response by 0.942

3.The bank use risk retention as risk response practice

As can be seen the above table 4.4, The level of respondent for average scored mean was 3.53 and the SD 0.809 . The findings shows that Private commercial banks they have a good practices for risk retention plans for risk managements . Risk retention Can be risk avoidances or risk reducing methods depending on the nature of the bank transactions. The risk Departments head they have an equal decision making power to investigating for handling to develop a different risk managements mechanism**.**

4)The bank train employees to reduce risk

As can be seen the above table 4.4, The levels of respondent an average mean scored 3.93 and sd o.724. the findings of the results shows banks has a moderate ERM practices regarding a training that has been given to employees. As previous research shows that Njeri(2016) the risk departments heads they have taken a great portion for the contribution for effective risk managements systems that to apply all actives in banking . so private commercial banks of Ethiopia they should Employed an expertise man powers at the head of risk departments heads to give and lead employees in different Manners training, seminar ,panel discussion ,workshops and so on.

5) The banks response to risk includes action plans in implementing decision about identified risk

As can be seen the above table 4.4, Here the level of respondent the average mean scored that was 4.05 and SD was 0.626 .the findings indicates that Private commercial banks have a good trends for response of risk which practices ERM for the identified risk action plans .

Risk responses comes after risk assessments .The assessments criteria which expressed in terms of impacts and like hood that the banks face .risk response includes risk avoidance ,Risk transfer, Risk acceptance, and risk reducing .ERM coso (2004) ERM has a a guideline for potential risk protection systems that the business face some undefined periods of times .so privte commercial banks if they effectively implanting the ERM components they will succeed to controls all risk exposures that the banks faces day to day and time to times .

4.3.4 Control, Communication and monitoring

In this part the summery of the data analyses and findings were presented for risk control, communication, and monitoring .The survey contains sex key elements. The respondent asked their level of agreement, altitude and opinion for risk control, communication, and monitoring the results and findings was presented below tables.

Table 4.5 Risk control information, communication monitoring

Section I- risk control information, communication ,monitoring	**Mean**	**SD**
Risk management strategies and policy and Manuel are well documented	4.18	0.632
Risk management efforts are supported by senior management.	4.07	0.737
Employees are properly trained on risk management policies of the Banks	3.97	0.753
The roles and responsibilities of each employee in the risk Management efforts of the firm are well communicated to them.	3.86	0.753
Controls are in place to evaluate the efficiency of the risk Management program.	4.02	0.679
Regular reviews of risk management efforts and reporting to senior management	4.11	0.609
Over all socre of Mean	4.035	0.693

Source primary data

1) Risk management strategies and policy and Manuel are well documented

According to table four shows that the level of respondent average mean scored that was 4.18 according to Best(1977) The private commercial banks practices moderate for the documentation of risk strategy , policy and risk manual . COSO(2004) The risk managements documents includes Strategy documents, bank operational documents, financial reporting documents, and compliance of rules and regulations documents all these are interrelated the missing of one them or poor managements of these documents will brings the risk the business at all lines. So commercial banks they need to handling effectively all those essential documents by using The current advancing soft ware for securities and safety. Shows that the respondent response varied by 0.632

2) Risk management efforts are supported by senior management.

The respondent average mean scored was 4.07 according to Best (1977) the private commercial banks senior managers. They have a good practice for supporting risk managements function at all levels of staff .SD 0.737 which the respondent. Response varied of by 0.737.

3) Employees are properly trained on risk management policies of the Banks

The level of respondent average scored that was 3.97 according to Best(1977) fairly confidential .all private commercial Banks of Ethiopia have a good trend to gives training to their employees . but, the risk departments

Heads they are the owners for all risk managements of the banks .so under risk departments head there should be a training Departments established, the research shows that most private commercial banks they are not effectively giving the risk management's course. One of the reason, they do not have their own training departments. Most of the private commercial banks they take an out source decision making to conduct the training .SD was 0.753 which means that respond varied by 0.753 .

4)The roles and responsibilities of each employee in the risk Management efforts of the bank are well communicated to them

The level of respondent average mean scored was 3.86 according to Best(1977) the finding shows that there is A good communication for all staff of risk departments regarding for identifying of their responsibility And their communication under the risk managements functions .COSO (2004) all lines of the staff

Of the company they have the right to get information about the risk factors since managements of risk is not one departments or business unites tasks' and responsibility . for effective risk managements all banks departments they should integrated systems for effective risk management communications S.D for 0.753 .The respondent level of respond varied by 0.753.

5) Controls are in place to evaluate the efficiency of the risk Management program

The level of respondent for average scored mean was 4.02 according to Best (1977) all private banks respondent agreed to the significance of ERM Components of controls that used to evaluate the risk managements process. Jayon (2005) controls of risks has the functions of to check the risk model has been Effectively runs or something need to improves or shifts to another risk models, if the banks which have poor standards and policies that will be reviewed periodically .to perform all the above function ,there should be assigned a senior risk managements groups that performs to take a corrective actions after getting of feedback from controls procedures and finally will be approved by the Board of committee. so the finding shows that Private commercial banks has a moderate risk controls practices to evaluate the risk managements programs Based on the size and natures of activates ,and customers rendering service a senior risk management team should be engaged to effective controlling system to be existed.

6) Regular reviews of risk management efforts and reporting to senior management

The level of respondent average mean scored was 4.11 according to Best (1977) private commercial banks Fair practicing of the regular reviews of risk managements that related with controls activities scored mean 4.2 that different by 4.11 which shows the different of respondent answers for questions the SD Risk controls was 0.679 and for regular rewes which was 0.609 this shows that the level of respondent response different.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMENDATIIONS

In this chapter efforts are made to highlight and summarize the significant contribution of this study. The next two sections dwell on the conclusion and recommendation of the study based on the actual findings of the research and ultimately provides answer on the research questions.

5.1 Findings

According to the risk management guideline of NBE for commercial banks of Ethiopia, the Banking sector is faced with several risk exposures. As a sector that provides insurance coverage for different risk areas the necessity of establishing an integrated enterprises wide risk management system should be among the main strategies of insurers **(Acharyya and Mutenga, 2013).** therefore, The major objective of this thesis paper is to assesses the practices of Enterprise risk management practice in the Private commercial banks in Ethiopia .this research examined the nature and aspect of the practice, , the level of understanding perceived about Each ERM Framework and components respective level of risk measurements and likelihood in the practice and ultimately the functions, benefits and challenges of the practice so far. Thus based on the findings of the research the conclusions are presented as follows.

The research shows that Private commercial banks managers perceive risk management control as a main strategic objective. But the establishment of risk management committee is accomplished at board level only. This shows that management involvement in the practice is at an early stage.Based on the findings there is a moderate enterprise risk management practices in private commercial banks in Ethiopia .

5.1.1 Objective setting and Risk identification

According to the findings, objective setting and strategy developments carried out by senior management and Board directors, this shows that there is a good practice of interrelated works among the management and board members. But still need required the implementation ERM Framework components to be goes to all lines of staff members. On the other hands, risk identification which is identification of the cause and sources of risk in internal and external factors that affects the over all of banks functions. Here, the findings shows that all responded answered which is moderate. But the banks do not have an effective ways of method to identify all lines of risk factors. So the banks should implements ERM framework effectively to brings a completes risk identification to handling all source of risk factors.

5.1.2 Risk assessment

Risk assessment is a ways of method to evaluate how is the degree of risk influences factors to analyses risk it has assessment criteria .The findings suggested that a practices of an average method of risk analysis in terms of qualitative and quantitative method. But, still need private commercial banks should develop a more effective ways of the ERM components to be practiced effectives ways of data analyses and ordering for risk form higher to lower level .

5.1.3 Risk Response

Risk response is responding for identifying and evaluating risks through risk avoidance, risk transfer, risk reducing and accepting with calculating risk. The findings shows that banks practice a moderate risk response methods .The banks has a methods for risk response by retention , but hazard risk factors which the banks can not have a defined method of teqenincs to handling for catastrophic risk factors. So the banks should exercise and focus on a risk strategy for catastrophic or hard risks.

5.1. 4 Control, Communication and monitoring

Risk control is Policies and procedures are established and implemented to help ensure that the desired risk responses are effectively carried out. **Information and Communication** is Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing .**Monitoring is** the entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing Tasks , The findings indicates that the banks doing a moderate level of practice for risk control accordingly ERM frameworks ,but still there is a gap for information communication for disclosing of a risk reporting.

To entire all staff members that is all banks staff need for a conference, a penal discussion to create a good awareness for risk managements and to develop a good risk culture .

5.2 Conclusions

Based on the findings summery, the the researcher concluded that private commercial banks practicing of ERM at moderate levels . this indicates that there is still an information gap among the Management and staff in order to impalement ERM frameworks effectively coso(2004) .

COSO(2004) .The board of directors ,Senior management groups of banks ,Chief risk officers, all these have A great responsibility to implements the ERM Frameworks effectively .Risk departments head ,is the owners of risk managements of the organization. Updating of the staff regarding the policy, strategy, and goals of the risk managements to all lines of the staff. So the final conclusion of the study giving of a continues training for ERM by Panel discussion, workshop and seminar and related mechanism to carry out the system effectivel and efficiently.

5.3 Recommendation

Every organization the final objective can be increasing of the values of the firm and shareholders wealthy. We live in a very complicated dynamic business environments, so we should adopt our self with this by accepted of international standards, rules and regulations for our business objective and Competitive strategies. ERM which is one of international standards that developed by COSO (2004) for effective enterprise risk managements systems.

The following recommendation which can be important for shareholders, bank managers and chief risk officers and other stake holders .As an important feedback for effective utilization of the Enter pries risk management frameworks COSO 2004.

I. The main function of ERM is to protect the banks form all lines of risk types which can be also used as a compliance frame works for risk managements. Shareholders can get a better benefit form Strategic values ,because implementing effectively ERM ,share holders they can reducing of their risk investments scenarios Moreover, banks shall emphasize managing risk instead of trying to avoid it or minimize because risk management is a way to maximize the tradeoff between risk and return. Hence by taking a strategic view of risk management, banks can focus on the risks intentionally, undertake as a consequence of doing business and avoid risks that are inconsistent with the banks objectives.

II. Every organization has a different organizational structure. One of the critical structure is Human resource and developments departments .now a days ,we live in a very a complex dynamic environments ,specially banks ,has a very competitive business environments they are doing ,so they should have establishes their Owen Risk training departments Heads ,which can performing of a different programs and secludes for giving enterprise risk managements training , for all staff at all levels , facilitating for penal dissection, and workshop and to get a better awareness for company risk objective and strategies , risk polices and any procedures.

III. Generally, Private commercial banks should implements effectively the ERM frameworks COSO **(2004)** for a better management of all lines of business risk rather a traditional risk managements . a better utilization of the banks resources ,increasing more shareholders interest and ,returns from the investments and firm wealthy maximization.

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Appendix

Data Collection Instruments

St. Mary's University

School of Graduate Studies

MBA in Accounting& Finances Program

This questionnaire is designed to collect information about the assessment of risk management practice in Private commercial banks in Ethiopian. The data or information collected in such a way shall be used as primary data in my thesis, which I am conducting as a partial fulfillment for the requirement of my study in **MBA in Accounting and Finance at ST**. **Mary's University School of Graduate Studies.** The researcher would like to thank you in advance for your kind response in giving your precious time infilling the questionnaire.

No need to mention your name and the information provided is to be used only for this study

And any information given will be kept confidential.

Tewodros Endalkachew student ID /0080/2011B

Mobil 0912-07-14-14

Thank you for your Co-operation!!

Background Information

Instructions:

Please use this √mark for each question to indicate your response.

1. Gender:	**Male**	☐	**Female**	☐
2. Level of Education:				
	Diploma	☐	**Bachelor Degree**	☐
	Masters Degree	☐	**PHD**	☐
3.Field of Study	**Accounting**	☐	**Mangement**	☐
	Marketing	☐	**Economics**	☐
	Business Adiminstration	☐	**others**	☐
4. Years of Experience:	**1-5**	☐	**6-10**	☐
	Above 10 years	☐		

5. Indicate your level of agreement with the following statements as regards setting

objective and risk identification techniques used by your banks .Use a scale of1-5,where

Strongly disagree (1)	Disagree(2)	Netural(3)	Agree(4)	storngly agree(5)

NB: This scales should be used for question number5,6,7 &8

SECTION I: SETTING OBJECTIVE AND RISKIDENTIFICATION

STATEMENT	1	2	3	4	5
Risk-related Objective are developed by Board & Senior Management					
Risks that are not acceptable by the banks are identified & Clearly communicated to Employees.					
Risk Appetite (Capacity) of the banks clearly communicated to the employees					
Risk Tolerance of the banks clearly communicated to the employees					
Risk inspection (identification)is done by managers					
Risk identification involve all level of staff					
Roles and responsibilities for risk identification are clearly defined					
All managers are aware of the risks inherent in the business					
Workshop or panel discussion have been conducted to identify risk					

SECTION II: RISKASSESSMENT

6. Indicate your level of agreement with the following statements as regards risk assessment in thecompany.Useascaleof1-5.

STATEMENT	1	2	3	4	5
Risks are evaluated with assumptions and uncertainties being clearly considered and presented.					
Risk is evaluated in terms of both quantitative and qualitative value.					
Measurement of both of the quantities in which risk assessment is concerned-potential loss and probability of occurrence–is carried out by the banks					
A risk with a large potential loss and a low probability of occurring is often Treated differently from one with a low potential loss and a high likelihood of occurring					

SECTION III: RISK RESPONSE

7. To what extent does your banks adopt the following risk response practices? Use a

scale of 1 – 5.

STATEMENT	1	2	3	4	5
The banks avoids risk by insuring different types of risks but not all risks					
The banks avoids risks by not insuring catastrophic risks					
The banks use risk retention as risk response practice					
The banks train risk management to reduce risk					
The banks response to risk includes action plans in implementing decision about identified risk					

SECTION IV:RISK CONTROL, COMMUNICATION ANDMONITORING

8. To what extent are the following facets of risk control, communication and monitoring

Applicable to your company? Use a scale of 1 – 5.

STATEMENT	1	2	3	4	5
Risk management strategy and policy and Manuel are well documented					
Risk management efforts are supported by senior risk compliance officer and bank managers					
Risk compliance or departments are properly trained on risk management policies of the banks					
The roles and responsibilities of each employee in the risk management Efforts of the Banks are well communicated to them.					
Controls are in place to evaluate the efficiency of the risk management Program.					
Regular reviews of risk management efforts and reporting to senior Management.					