Management as a Tool for Financial Stability in Rwandan Commercial Banks: A Case Study of Bank of Kigali Head Office Avenue De La Paix – Kigali City.

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ABSTRACT

The purpose of this study is to discuss in depth, the types of risks encountered by commercial banks, the tools and techniques used in risk management. It will also throw some light on how risk management enhances financial stability of Rwandan commercial banks. Rising global competition, increasing deregulation, introduction of innovative products and delivery channels have pushed risk management to the forefront of today's financial landscape. Ability to gauge the risks and take appropriate position will be the key to success.

This study will be useful to business administrators and management practitioners in designing measures to mitigate risks. Bankers, depositors, investors and regulators will benefit from the results of the study when taking decisions related to the banking industry. This study will also be useful for future researchers on risk management and its application to different business organisations. The study will also contribute to the existing body of knowledge on risk management.

The research is descriptive in nature. In this study, the researcher adopted a case study approach whereby Bank of Kigali is chosen as a case study. A case study was adopted because the researcher could not be able conduct a broader study in all Commercial banks in Rwanda. Further, the researcher targeted Bank of Kigali being the bank with biggest market share in the Rwandan commercial banks. The main method used by the researcher in study was questionnaire. The population of this study consisted of employees of Bank of Kigali and purposive sampling technique was used in selecting the sample of respondents. Data was collected from both primary and secondary sources.

This research assessed how risk management enhances financial stability of commercial banks in Rwanda. There are various forms of financial institutions in Rwanda which encounter risks in their activities. But commercial banks were selected because of being pivotal in Rwandan economy. The capacity of the banks to act as a buffer against errors in risk management depends on their ability to measure and mitigate their own exposures, as well as the sufficiency of their capital.

This research sought to evaluate the relationship between how commercial banks manage their risks and its eventual consequence on their Financial Stability in Rwanda. The bank is exposed to a range the risks ranging from Credit, operational, liquidity, Strategic and market risk as indicated by 100% of respondents. It was found that the bank uses a number of tools ranging from strong MIS (58%), Board and senior management oversight, Having policies and procedures in place (25%). The research showed that 75% of respondents mentioned that risk management enhances
financial stability on the rate of 50% and above percentage. This means that risk management is a key factor in financial stability of the bank.

To support the effectiveness of Risk management across the bank, the institution should consider having an approved enterprise level of risk appetite.

Risk management should be infused through the organization, not only for certain departments but the entire bank involving strategic and operational decisions. It is clear that banks face increasing range of risks; therefore, they have to keep pace with ever changing and challenging risk environment. Risk Management implementation efforts should be accelerated with appropriate support from senior management and board of directors.