

# **THE APPLICATION OF HOLISTIC RISK MANAGEMENT IN THE BANKING INDUSTRY**

Thesis by

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# DECLARATION

“I declare that: THE APPLICATION OF HOLISTIC RISK MANAGEMENT IN THE BANKING INDUSTRY is my own work, that all sources used or quoted have been indicated and acknowledged by means of complete references, and that this thesis was not previously submitted by me for a degree at another university.”

Signed

.....  
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MAY 2007.



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## **SYNOPSIS**

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The banking industry in South Africa is facing three main challenges, namely: continuous change, foreign competition, and increasing levels of risk. These problems flow mainly from cultural diversity, globalisation, and rapid technological development in systems and communication. Decreasing predictability stems to a great extent from a lack of foreknowledge of how globalisation will develop, and how it can influence the South African banking industry in general and holistic risk management (HRM) in particular.

Management of the South African banking industry therefore need to rely on crucial intelligence and foreknowledge concerning events, trends and development of (HRM) that affect the profitability and future strategic viability of the whole South African banking industry.

At the onset various concepts and processes were emphasised in this study, namely operational risk management, strategic risk management, the risk management culture in the banking industry, the role of risk management in the banking industry, the role of risk management process in the banking industry,

corporate governance in the banking industry in South Africa. However, the main purpose of this study was to explore the need and the dynamics of managing risk in the banking industry in a holistic manner. To this end the development of, and trends in (HRM) as part of good corporate governance in the banking industry were researched and documented.

The practical aspect of the study was firstly based on the definition and analysis of different categories of risk in the banking industry. The definition and analysis was done in order to cover a broader range of risks the banking industry is facing. Secondly the risk management culture in the banking industry was investigated. Thirdly the role of risk management in the banking industry was explored in detail. Fourthly the risk management process in the banking industry was investigated and explained. Fifthly the link between risk management and corporate governance was explored. Sixthly models developed by Kloman (2000), Lam (2003) and Regester and Larkin (2005) were used as a benchmark to develop a framework for the management of holistic risk in the banking industry.

It was concluded that in view of the need in the South African banking industry for a structured means of managing risk holistically, and in view of HRM constituting such a process, there is relevance for the implementation of HRM in the four big banks of the South African banking industry. However, small and unlisted banks do not manage HRM as suggested by the HRM framework. In this regard a number of recommendations were made with respect to managing HRM proactively. A framework based on empirical research and earlier work by Kloman (2000), Lam (2003) and Regester and Larkin (2005) was furthermore suggested for the implementation of HRM in the South African banking industry in the belief that this framework, and the overall research reported in this study could be of theoretical as well as practical value for risk managers in the South African banking industry.

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**IN THE BANKING INDUSTRY**

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