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RISK MANAGEMENT PRACTICES ON GOVERNMENT TENDER PROJECT LOAN AT SELECTED PRIVATE BANKS IN MYANMAR

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ABSTRACT

This study aims to analyze the structure for lending of government tender project loan in selected private banks and this study is to examine risk management practices on the government tender project loan at selected private banks. In the meantime, KBZ Bank AYA Bank's populations are about 250 numbers (about 130 in KBZ Bank and about 120 in AYA Bank), KBZ Bank and AYA Bank were collected by distributed questionnaires to 24% of 60 respondents who are working at credit loan departments at each 5 branches of KBZ Bank and AYA Bank. With the strong relation with these banks' authorities, randomly sampling method and face to face interviewing method were used in the study. For the study, the descriptive research method is applied and (Scope & Method) primary data are mainly based from issued data at KBZ Bank and AYA Bank, Central Bank data, GIZ research paper, and also from the relevant research papers published and unpublished from local and abroad. It is also comprised data from the credit departments of bank branches, their operational risk management framework, principles of project finance issued by academic press and some web links relating to credit risk management. The study found that difference in very smaller risk management performance gap between KBZ Bank and AYA Bank. These two private banks have been found as very well systematic risk identification and risk management practices not only for government tender project loans but also to the other types of bank loans in an efficient and effective manner to mitigate the financial losses. In Summary, setting the risk management practices is not sufficient. The risk management process in terms of risk awareness, identification, analysis or measurement, and control or mitigation.

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CHAPTER I

INTRODUCTION

Loan is one of the most common ways to raise capital for any business. That is called a business loan. It is also a better source of capital for a profitable business in comparison with the share capital as business can have a better leverage. Businesses can enjoy the surplus of rate of return over the interest they pay for the borrowings. To obtain loans, there are many different ways which are available if business needs some money. Businesses are trying to find an investor or business partner who will inject some cash into the enterprise.

In the other hands, primary functions of commercial banks include accepting deposits, granting loans, advances, cash, credit, overdraft and discounting of bills. Secondary functions include issuing letter of credit, undertaking safe custody of valuables, providing consumer finance, educational loans, etc. (Mishra M, 2016).

In today's competitive business world, many potential projects and services are put out to tender. That is numerous potential companies are provided with the opportunity to bid for the work. Loans to finance projects promoted by private and public sector companies or entities, or public - private partnerships, among others, located in the country. Depending on risk and other features of the project and specific operation, this product may be supported by the any investment bank.

Risk is ubiquitous and spreads through every issue of life (Duong L. (2009). To business sectors, unforeseen situations create severe loss exposures. Whatsoever small or large enterprises, where the capital background is not sufficiently strong, it could likely lead to interruption in operational activities, financial loss, and bankruptcy. Therefore, managing risks to reduce and minimize the loss exposure is essential for every business, especially on project loans. This study focuses on the risk management on government tender project loan.

This is needed to manage the risk and safety of long-term projects by a bank guarantee for its promises on the company when carrying out the project and if company defaults on any of its loans, the bank will cover the costs or losses. The confidence of the vendors are increased by these guarantee who need to give large amounts of their products or services, that of the credit, as their part of the project to complete.

Project loan is a kind of loans which is used on finance for projects promoted by private and public sector companies or entities, or public-private partnerships, among the countries around the world. Tarver E. (2018) explained that project loans provided by the bank is eligible to the large corporates, medium-sized companies (Midcaps), public –private partnerships / special purpose (including for project finance), national administrations or local authorities, and public sector companies. A bank guarantee is essentially a promissory provision on a loan indicating that if the borrower of the loan defaults on repayment, the bank will cover the amount of default. This is a crucial provision to convince multiple companies to work together to complete a long - term project (Tarver E., 2018).

Generally, private sectors are more flexible and open to innovations; they are profit and people driven. Public sector is highly regulated and sometime can be seen as inflexible (Herbert, 2013). Procurement in the public sector (local government) is mechanically driven to meet procedures/regulations and often interfered with politically. Private entity will receive annuity from government for the project. Government may put a building project 'out to tender'; that is, publish an invitation for other parties to make a proposal for the building's construction, on the understanding that any competition for the relevant government contract must be conducted in response to the tender, no parties having the unfair advantage of separate, prior, closed-door negotiations for the contract.

The bank guarantee is that of a lending institution ensures that the liabilities of a debtor will be met. In other words, if the debtor fails to settle a debt, the bank will cover it. A bank guarantee enables the customer, or debtor, to acquire goods, buy equipment or draw down a loan. A bank guarantee is promises from a financial institution that a borrower will be able to repay a debt to another party, no matter what the debtor's financial circumstances.

1.1 Rationale of the Study

The progression and globalization of monetary markets, just as quick advances in data innovation, are empowering budgetary organizations to extend business openings. At the same time, risks arising from these new business opportunities are growing rapidly and becoming more diverse and complex. Credit risk perhaps the most fundamental risk in financial services organizations face. In spite of the fact that this hazard has existed for a long time, the present condition has prompted regularly expanding strain to guarantee that credit chance administration rehearses give a frictionless client experience, amplify productivity, and guarantee clear proof of consistence with institutional credit norms and administrative desires. Obsolete and inadequate credit hazard the board practices can prompt expanding credit misfortunes, problematic client experience, discouraged edges, and administrative investigation.

Financing foundation extends through the task account course offers different advantages, for example, the open door for chance sharing, broadening the obligation limit, the arrival of free incomes, and keeping up an upper hand in an aggressive market. On account of the bureaucratic delicate procedure utilized in government many qualified and experienced providers decay to offer because of the numerous postpones that happen in the sourcing procedure. All things considered, this choice is a troublesome one as most of the high worth open doors are offered by open division associations as they have huge spending plans. In their offers, they will portray how their organization will take care of a business issue, give the administration required or supply the merchandise mentioned. They will likewise need to give an aggressive cost to this work.

In Myanmar, liberalization of banking industry encourages traditional banking of accepting deposits, lending common loans, and remittance service into other short term loans such as international trade settlement, foreign exchange counter, mobile banking, project financing, working capital financing, etc. Private Banks now in Myanmar are developing news roles in providing these full ranges of financial services. Among these private banks in Myanmar, KBZ and AYA Banks are selected as sample private banks in the study of their banks' risk management practices for their higher roles of ranks in private banking sector in Myanmar.

1.2 Objectives of the Study

The objectives of this study are:

(1) To identify the structure for lending of government tender project loan in selected private banks, and

(2) To examine risk management practices on the government tender project loan at selected private banks.

1.3 Scope and Method of the Study

The study only focuses the risk management practices on the government tender project loan at private banks in Myanmar. There are 31 numbers of domestic banks which are 4 state owned banks, 11 semi private banks, and 16 are private owned banks. In this study, KBZ and AYA banks are selected for their higher-ranking positions at Myanmar banking industry. Among various credit risk management practices at banks, major focusing is the credit risk management on government tender project loans, at which how well bank authorities scrutinizing and monitoring on a government tender project loan application.

In the meantime, KBZ Bank AYA Bank's populations are about 250 numbers (about 130 in KBZ Bank and about 120 in AYA Bank), KBZ Bank and AYA Bank were collected by distributed questionnaires to 24% of 60 respondents who are working at credit loan departments at each 5 branches of KBZ Bank and AYA Bank. With the strong relation with these banks' authorities, randomly sampling method was used in the study.

Secondary data are mainly based from issued data at KBZ Bank and AYA Bank, Central Bank data, GIZ research paper, and also from the relevant research papers published and unpublished from local and abroad. It is also comprised data from the credit departments of bank branches, their operational risk management framework, principles of project finance issued by academic press and some web links relating to credit risk management. Summarized by five points Likert - Scale measurement to find out their option at the most important variables of credit risk management practices.

1.4 Organization of the Study

There are totally five chapters in this study. Chapter 1 is the introduction of the paper. It includes the rationale of study; objective of the study; methods and scope of the study and organization of the study. Chapter 2 discusses the definition of risk and risk management, practices of credit risk management, relevant literature reviews. Chapter 3 states the profiles of KBZ bank and AYA bank, procedure of government tender project loan in KBZ bank and AYA bank. Chapter 4 is to examine the risk management practices on government tender project loan at selected private banks. Chapter 5 concludes the study with findings and discussions, suggestions, and need for future studies.

CHAPTER II

LITERATURE REVIEWS

In this chapter, it describes the definitions and determinants of risk and risk management including different types of risk. It starts with credit risk management practices in banks and later the section is the literature reviews on risk management, as follows.

2.1 Definition of Risk and Risk Management

Risk is a situation involving exposure to danger. It is the possibility or chance of loss, or injury. For more precisely, risk is the possibility of losing something of value. Qualities, (for example, physical wellbeing, societal position, enthusiastic prosperity, or money related riches) can be picked up or lost when making hazard coming about because of a given move or inaction, predicted or unanticipated (arranged or not arranged). Risk is necessary to understand that "uncertainty" is a much broader term, while "risk" is just a part of "uncertainty". According to Frank Knight (2006) and Duong L. (2009), "risk" is the term used to describe cases of known probability, for example, a store can calculate the probabilities that the cashier might mistakenly check an order per every certain number of customers and hence the store account might lose some balance.

It could be difficult to calculate the uncertainty probabilities or it could only be a forecasted assumption. For instance, for uncertainty is to predict stock market price, an example, fifty years ahead. Risks and uncertainties are often distinguished in the language of "statistical probability" (B. Ritholtz, 2012). Not relying at the different scope of these two terms, both risk and uncertainty might result in positive or negative impact to the business operation and require proper management.

Levels of risk can be defined as mild risk: disruptive or concerning behavior, moderate risk: More involved or repeated disruption; behavior is more concerning, elevated risk: seriously disruptive incidents, severe risk: upset conduct; not one's ordinary self, and outrageous hazard: individual is deregulated (way off benchmark).

Risk management can be stated as the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risks, could come from a wide assortment of sources, including money related vulnerability, legitimate liabilities, vital administration mistakes, mishaps and catastrophic events. IT security dangers and information related dangers, and the hazard the executives procedures to lighten them have become a top priority for digitized companies. Accordingly, a hazard the executives plan progressively incorporates organizations' procedures for distinguishing and controlling dangers to its advanced resources, including restrictive corporate information, a customer's personally identifiable information and intellectual property.

Beginning from early 2000s, numerous industry and government have extended administrative consistence decides that investigate organizations' hazard the executives plans, arrangements and techniques. In an increasing number of industries, boards of directors are required to review and report on the adequacy of enterprise risk management processes. Subsequently, hazard examination, inward reviews and different methods for chance appraisal have become significant segments of business system.

Risk management standards have been developed by several organizations, including the National Institute of Standards and Technology and the ISO. These guidelines are intended to assist associations with distinguishing explicit dangers, survey novel vulnerabilities to decide their hazard, recognize approaches to diminish these dangers and afterward actualize chance decrease endeavors as per authoritative procedure.

Functions of risk management contain identification, measurement, aggregation, planning and management, as well as monitoring of the risks arising in a bank’s overall business. Hazard the executives is a persistent procedure to build straightforwardness and to oversee dangersBank's dangers must be distinguished before they can be estimated and oversaw. Regularly, banks recognize the accompanying danger classifications: credit hazard, showcase chance operational risk. There are further types of risks, such as strategic risks, or reputational risks, which cannot usually be included in risk measurement for lack of consistent methods of quantification.

The reliable appraisal of the three sorts of dangers is a basic essential for fruitful hazard the executives. While the improvement of ideas for the appraisal of market dangers has demonstrated extensive advancement, the strategies to gauge credit dangers and operational dangers are not as refined at this point because of the constrained accessibility of authentic information. Credit chance is determined based on potential misfortunes from the credit portfolio. Potential losses in the credit business can be divided into expected losses and unexpected losses Expected losses are derived from the borrower's expected probability of default and the predicted exposure at default less the recovery rate, i.e. all normal incomes, particularly from the acknowledgment of security.

The normal misfortunes ought to be represented in pay arranging and included as standard hazard costs in the credit conditions. Unexpected losses result from deviations in losses from the expected loss. Startling misfortunes are considered just by implication by means of value cost over the span of salary arranging and setting of credit conditions. They must be verified by the hazard inclusion capital.

Risk implies the extent to which any chosen action or an inaction that may lead to a loss or some unwanted outcome. The notion implies that a choice may have an influence on the outcome that exists or has existed (Uploaded by Pritish Pallaw), Financial Management Project. Nonetheless, in budgetary administration, chance identifies with any material misfortune joined to the task that may influence the profitability, residency, legitimate issues, and so forth of the venture. Different types of financial risks can be categorized under two main groups. First type of risk is called systematic risk, which cannot be controllable by an organization and macro in nature, whereas, unsystematic risk, which is controllable by an organization and micro in nature.

2.1.1 Systematic Risk

International System Security Association (ISSA) defined the systematic risk as the risk of collapse of an entire financial system or entire market, as opposed to risk associated with any one individual entity, group or component of a system, that can be contained therein without harming the entire system (Tahir, 2004). ISSA further defined systematic risk as "financial system instability, potentially catastrophic, caused or exacerbated by idiosyncratic events or conditions in financial intermediaries. It notices to the dangers forced by interlinkages and interdependencies in a framework or market, where the failure of a single entity or cluster of entities can cause a flowing failure, which could possibly broke or bring down the entire system or market. It is also sometimes inaccurately referred to as "systematic risk". Systematic risk comprises interest rate risk, market risk, inflationary risk.

(a) Interest Rate Risk

Akrani, (2012) explained interest-rate which risk rises because of inconsistency in the interest rates from time to time. It mostly touches debt securities as they transfer the fixed rate of interest. The kinds of interest-rate risk are price risk and reinvestment rate risk. Sam, S (2017) further explained price risk and reinvestment rate risk. **Price risk** which arises because of the possibility that the price of the investments in terms of shares, commodity, investment, etc. may decline or fall in the future, and **reinvestment rate** hazard which originates from the reason for premium or profit earned from a speculation can't be reinvested with a similar pace of return as it was gaining before.

(b) Market Risk

Market risk is linked with constant fluctuations which can be seen in the trading price of any particular shares or securities. This means, it arises due to rise up or down in the trading price of listed shares or securities in the stock market. The types of market risk are Absolute risk, Relative risk, Directional risk, Non-directional risk, Basis risk and Volatility risk.

Absolute risk is short of any content. For Instance, if a coin is tossed, there is fifty percentage chance of getting a head and vice-versa. Relative risk is the assessment or evaluation of risk at various stages of business roles. For e.g. a relative-chance from an outside trade variance might be higher if the most extreme deals accounted by an association are of fare deals. Directional risks are those risks where the loss arises from an exposure to the particular assets of a market (Slideshare.net). For Example, an investor holding some shares experience a loss when the market price of those shares falls down (Swaminath Sam, 2017). Sam father states that non-directional risk arises where the method of trading is not constantly followed by the trader. For e.g. the dealer buys and sells the share at the same time to ease the risk. Basic risk is because of the probability of misfortune emerging from defectively coordinated dangers. For e.g. the risk which are in counterbalancing positions in two related yet non-indistinguishable markets. Instability chance is of an adjustment in the cost of protections because of changes in the unpredictability of a risk factor. For e.g. it applies to the portfolios of derivative instruments, where the volatility of its underlying is a major influence of prices (Renaissance, college of commerce & management, banking & Insurance.

(c) Inflationary Risk

Defining the demand risk and cost inflation risk, at there, demand inflation risk arises due to raise in price, which consequence of an excess of demand over supply. It happens when supply neglects to adapt to the interest and thus can't extend any longer. As such, request expansion happens when creation factors are under greatest usage. Cost swelling hazard emerges because of supported increment in the costs of merchandise and ventures. It is really brought about by higher generation cost. A significant expense of generation blows up the last cost of completed merchandise devoured by individuals.

2.1.2 Unsystematic Risk

Unsystematic hazard is because of the impact of inside elements winning inside an association. Such factors are regularly controllable from an association's perspective. It is a small scale in nature as it influences just a specific association. It very well may be arranged, so important moves can be made by the association to relieve (diminish the impact of) the hazard. The sorts of unsystematic hazard are Matter of fact or liquidity chance, Money related or credit chance and Operational risk. Unsystematic Risk includes Business or Liquidity Risk, Financial Risk, Operational Risk, Moral Hazard Risk.

(a) Business or Liquidity Risk

Birla Institute of Technology & Science school of management explains business risk which is well-known as liquidity risk. It is along these lines, since it exudes (begins) from the deal and acquisition of protections influenced by business cycles, mechanical changes, and so forth. The types of business or liquidity risk are Asset liquidity risk and Funding liquidity risk. The meaning of asset liquidity risk is due to losses arising from an inability to sell or pledge assets at, or near, their carrying value when needed. For e.g. resources sold at a lesser incentive than their book esteem. Subsidizing liquidity chance exists for not having an entrance to the adequate assets to make an installment on schedule.e.g. when commitments made to customers are not fulfilled as discussed in the SLA (Service Level Aagreements).

(b) Financial Risk

Renaissance College of Commerce & Management has explained financial risk which is well known as credit risk. Financial risk arises because of change in the capital structure of the organization. The capital structure for the most part includes three different ways by which assets are sourced for the undertakings. These are as Owned funds (e.g. share capital), Borrowed funds (e.g. loan funds), Retained earnings (e.g. reserve and surplus). The types of financial or credit risk are Exchange rate risk, Recovery rate risk, Credit event risk, Non-Directional risk, and Sovereign risk and Settlement risk.

Conversion standard hazard is additionally called as introduction rate chance. It is a type of budgetary hazard that emerges from a potential change found in the conversion scale of one nation's money in connection to another nation's cash and the other way around. (for example financial specialists or organizations face it either when they have resources or tasks crosswise over national fringes, or on the off chance that they have credits or borrowings in a remote money). Recuperation rate hazard is a regularly disregarded part of a credit-chance investigation. The recuperation rate is regularly should have been assessed. For example the normal recuperation pace of the assets offered (given) as an advance to the clients by banks, non-banking financial companies (NBFC), etc. Sovereign risk is associated with the government. Government can't meet its advance commitments, reneging (to break a guarantee) on credits it ensures, and so on. Repayment chance exists when counterparty doesn't convey a security or its incentive in real money according to the understanding of exchange or business.

(c) Operational Risk

Operational dangers are the business procedure dangers flopping because of human blunders. This risk will change from industry to industry. It occurs due to breakdowns in the internal procedures, people, policies and systems. The types of operational risk are Model risk, People risk, Legal risk and Political risk.

Model risk is associated with utilizing different models to esteem monetary protections. It is because of likelihood of misfortune coming about because of the shortcomings in the monetary model utilized in surveying and dealing with a hazard. Individuals hazard emerges when individuals don't pursue the association's methods, rehearses and additionally runs the show. That is, they go amiss from their normal conduct. Legitimate hazard emerges when gatherings are not legally equipped to enter an understanding among themselves. Moreover, this identifies with the administrative hazard, where an exchange could struggle with an administration approach or specific enactment (law) may be changed later on with review impact. Political hazard happens because of changes in government approaches. Such changes may unfavorably affect a financial specialist. It is particularly predominant in the underdeveloped nations.

(d) Moral Hazard Risk

Moral hazard is the risk that a party has not entered into a contract in good faith or has provided misleading information about its assets, liabilities, or credit capacity. In addition, moral hazard also may mean a party has an incentive to take unusual risks in a desperate attempt to earn a profit before the contract settles. Moral hazards can be present any time two parties come into agreement with one another. Each party in a contract may have the opportunity to gain from acting contrary to the principles laid out by the agreement. Any time a party in an agreement does not have to suffer the potential consequences of a risk, the likelihood of a moral hazard increases.

A moral hazard occurs when one party in a transaction has the opportunity to assume additional risks that negatively affect the other party. The decision is based not on what is considered right, but what provides the highest level of benefit, hence the reference to morality. This can apply to activities within the financial industry, such as with the contract between a borrower or lender, as well as the insurance industry. For example, when a property owner obtains insurance on a property, the contract is based on the idea that the property owner will avoid situations that may damage the property. The moral hazard exists that the property owner, because of the availability of the insurance, may be less inclined to protect the property, since the payment from an insurance company lessens the burden on the property owner in the case of a disaster.

Moral hazard can exist in employer-employee relationships, as well. If an employee has a company car for which he does not have to pay for repairs or maintenance, the employee might be less likely to be careful and more likely to take risks with the vehicle.

2.2 Importance of Credit Risk

A credit risk is the danger of default on an obligation that may emerge from a borrower neglecting to make required installments. Credit risk is most essentially characterized as the potential that a bank borrower or counterparty will neglect to meet its commitments as per concurred terms. A credit risk is the danger of default on an obligation that may emerge from a borrower neglecting to make required installments. Credit risk is most essentially characterized as the potential that a bank borrower or counterparty will neglect to meet its commitments as per concurred terms.

In the primary resort, the risk is that of the loan specialist and incorporates lost head and premium, interruption to incomes, and expanded assortment costs. Presently the risk that is annoying every one of the banks the most is the Credit chance. Misfortunes can emerge in various conditions, for instance: a customer may neglect to make an installment due on a home loan advance, Visa, credit extension, or other advance, an organization can't reimburse resource verified fixed or coasting charge obligation, a business or purchaser doesn't pay an exchange receipt when due, a business doesn't pay a worker's earned wages when due, a business or government security guarantor doesn't make an installment on a coupon or head installment when due, and a wiped out insurance agency doesn't pay an approach commitment, a wiped out bank won't return assets to a contributor.

To decrease the loan specialist's credit hazard, the moneylender may play out a credit beware of the planned borrower, may require the borrower to take out fitting protection, for example, contract protection, or look for security over certain benefits of the borrower or an assurance from an outsider. The loan specialist can likewise go out on a limb out protection against the hazard or on-offer the obligation to another organization. When all is said in done, the higher the hazard, the higher will be the loan fee that the account holder will be approached to pay on the obligation. Credit chance for the most part emerges when borrowers can't pay due enthusiastically or reluctantly.

It is the act of alleviating misfortunes by understanding bank's capital sufficiency and credit misfortune holds anytime. The significant objective is to amplify hazard balanced pace of return by keeping up credit chance presentation inside adequate parameters. Rivalry has become a reality in every single area so banks are likewise not resistant to it. And furthermore with the appearance of different mechanical developments banks job has fairly changed and are compelled to adjust to it. Banks need to confront solid focused weights both in selling of items and capital acquisition making them inclined to dangers which can essentially affect benefit.

2.3 Practices of Credit Risk Management

The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters (ICOAE 2015). Banks need to deal with the credit hazard innate in the whole portfolio just as the hazard in singular credits or exchanges. Banks ought to likewise think about the connection between credit risk and different risk. Credit risk is part of most balance sheet assets and off-balance sheet transactions series (bank acceptances or bank guarantee) (Kašparovská, 2006). The viable administration of credit hazard is a basic segment of a complete way to deal with chance administration and fundamental to the long haul achievement of any financial association. Among the supporting strategies have a place chance expansion, risk sharing and risk move. On each level is applied system of limits. Points of confinement mirror the degree of hazard that the bank can acknowledge.Some of the limits have the character of external regulations and their compliance is monitored by the authorities of banking regulations, other limits the bank may provide as an internal (Krajíček, 2009).

All risk management plans follow the same steps that combine to make up the overall risk management process:

2.2.1 Risk Identification

Risk identification is the process of listing potential project risks and their characteristics. The aftereffects of risk identification are typically archived in a hazard register, which incorporates a rundown of distinguished dangers alongside their sources, potential risk reactions, and risk classes. The organization recognizes and characterizes potential dangers that may adversely impact a particular organization procedure or undertaking.This information is used for risk analysis, which in turn will support creating risk responses. Identified risks can also be represented in a risk breakdown structure, a hierarchical structure used to categorize potential project risks by source. The objective of the risk identification process is to ensure that all potential project risks are identified. The strategies for dealing with these risks will be devised during later risk management steps. This ultimate purpose of risk identification is to minimize the negative impact of project hiccups and threats and to maximize the positive impact of project opportunities. Only by identifying risk first will a project manager be able to control the impact of a risk on a project.

2.3.2 Risk Analysis

The subsequent advance in chance administration is chance examination. It is the review of the risks associated with a particular event or action (Anthony, 2008). It is the way toward distinguishing and dissecting potential issues that could contrarily affect key business activities or basic tasks so as to assist associations with maintaining a strategic distance from or relieve those dangers. When explicit kinds of hazard are recognized, the organization at that point decides its chances happening, just as its results. The objective of the investigation is to additionally see every particular occasion of hazard, and how it could impact the organization's tasks and targets. It is applied to ventures, data innovation, security issues and any activity where dangers might be broke down on a quantitative and subjective premise.

2.3.3 Risk Mitigation

During this progression, organizations survey their most noteworthy positioned chances and build up an arrangement to mitigate them utilizing explicit hazard controls. These plans incorporate hazard alleviation forms, chance aversion strategies and alternate courses of action in the occasion the hazard happens as expected. The essential sorts of relief activities to diminish long haul defenselessness are nearby plans and guidelines, Basic Tasks, Common frameworks security, Training Projects, Readiness and reaction activities.

2.3.4 Risk Monitoring

Continuous dynamic observing and the executives of credit hazard positions is an essential piece of credit chance administration exercises. Monitoring tasks are primarily performed by the divisional credit risk units in close cooperation with the business which acts as first line of defense, dedicated rating analysis teams and portfolio management function. Credit chance checking can be partitioned into two level, (I) observing of credit chance at the degree of the customer and (ii) observing of credit hazard at the degree of the credit and bank portfolio Part of the alleviation plan incorporates following up on both the dangers and the general arrangement to consistently screen and track new and existing dangers. The general hazard the board procedure ought to likewise be investigated and refreshed as needs be.

At the level of individual trade operations, there is a regular monitoring, when the bank monitors the fulfillment of the contract conditions, financial situation of the client, and also the macroeconomic conditions. To distinguish changes in the capacity to reimburse the credits, the bank may set numerous identifiers, for example, turnover, reimbursement discipline, productivity, liquidity. Ordinary checking and recognizable proof of the adjustments in the capacity to pay is a significant device for chance administration. In the moment of the deterioration of debtor, the bank may initiate steps to maximize the return of their claim, or to minimize the losses, for example the exchange of the extra conditions, the utilization of supporting instrument, the rebuilding of the obligation and so forth. The recurrence of credit chance checking relies upon the reliability of the customer. Customers with great rating has been observing one every year, customers with a more awful evaluating has been checking quarterly or monthly.

2.4 Previous Study of Risk Management Practices in Banking Sector

Credit risk can be brought about by an assortment of reasons of both inward and outer sources. The credit risk caused by internal and external sources, developed by Nijskensetal, 2011.

The main sources of credit risk recognized in the literature (e.g, Nijskens and Wagner, 2011; Breuer, Jandacka, Rheinberger and Summer, 2010; Qian and Strahan, 2007; Saunders and Allen, 2002). The literature has identified these reasons that could lead to potential credit risk. The extent of credit risk incurred varies across sectors and countries.

Credit risk is frequently considered as a result of foundational chance got from the large scale viewpoint. Fundamental hazard speaks to the bigger budgetary issues brought about by the powerlessness of money related market members to meet reimbursement commitments on augmentations of credit (e.g., Fukuda, 2012; Giesecke and Kim, 2011; Nijskens and Wagner, 2011; Wagner and Swamp, 2006). The issue is fundamental in light of the fact that the failure of one member to pay may prompt a powerlessness of different members to meet credit commitments. This domino impact happened in the market during the home loan emergency of 2009 (Giesecke and Kim, 2011; Nijskens and Wagner, 2011). The rash of dispossessions brought about by an absence of installments on contract credits prompted contract organizations being not able meet budgetary commitments. This spread all through the market, causing a lockup in liquidity where banks would not loan cash because of a paranoid fear of unfavorable monetary risk.

There are likewise interior factors that can cause credit danger of money related organizations. For example, one of the internal factors is the financial incentives provided to the employees of a bank. Those people have a solid propensity to advantage and good risks by loaning to inadequately performing firms and people with flawed credit records. The World Advancement Report (2012) by the World Bank shows that, in the state of vulnerability and data asymmetry, it is difficult to structure a motivating force framework for bank representatives who are responsible for credit and loaning. Risks faced by commercial banks are generally classified into seven categories: credit risk, market risk, interest risk, liquidity risk, operational risk, legislative risk and reputation risk (Basel Committee, 1999). Steinwand (2000) categorizes the major risks faced by commercial bank. Alam & Masukujjaman (January-June, 2011), examined the risk management practices of commercial banks in Bangladesh based on five commercial banks operating in Bangladesh. Primary data were used to collect the information through questionnaires with five points Likert scales. The target of the exploration was to fundamentally analyze chance administration practices of Bangladesh banks. The study also examined how far the banks follow the guidelines of Bangladesh Bank regarding risk management. The research revealed that credit risk, market risk and operational risk are the major risks in commercial banks, which are managed through three layers of management system.The Directorate plays out the obligation of the principle chance oversight, the Official Board of trustee’s screens chance and the Review Panel administers every one of the exercises of banking tasks. In the situation of sentiments with respect to utilization of hazard the board procedures, it was discovered that inner rating framework and hazard balanced pace of profit for capital are generally progressively significant methods utilized by business banks in Bangladesh.

CHAPTER III

BACKGROUND STUDY OF SELECTED PRIVATE BANKS IN MYANMAR

In this section, it studies on the profiles of KBZ Bank and AYA Bank, Along with that, study also made on Government Tender Project Loan Development at Selected Private Banks and Procedures of Government Tender Project Loan in KBZ Bank and AYA Bank are studies, as follows;

3.1 Profiles of KBZ Bank and AYA Bank

Myanmar has drawn out history of the advancement of private business banks. In the year 1992, National Bank of Myanmar Law was passed to set up present day money related strategy. Around then, private bank licenses were given for first time. At the point when budgetary Organizations of Myanmar Law was passed, characterizing four express banks' jobs yet in addition permits private banks for first time since 1963, just as remote bank agent workplaces however no outside bank direct exchanges.

In the year 1995, Asia Wealth Bank begins operations; prior to crash of 2003 and subsequent de-licensing it would be largest of not only private banks but all banks operating. This and some other banks were alleged (unproven) to have connections to drug money - another major bank of the time, Myanmar Mayflower Bank, and money-laundering. Other banks - Myawaddy, Cooperative and others - work with government backing. Late 2002, the main ever private area banking emergency starts.

In the year 2011, the first democratic president confirmed in as president; civilian government takes office. Myanmar Payment Union (MPU), a Central Bank initiative, was formed to reform payment system, sets up ATM network and private banks were allowed to open foreign exchange counters. Foreign Exchange Management Law lifts restrictions on transactions on exports and imports of goods and services. Money related Foundations of Myanmar Law correction expects to introduce increasingly productive financial framework.

Currently products and services provided by Myanmar private commercial banks are deposits, loan and advances, remittances, cash management, card payment, E-Banking services, trade services, corporate banking and other services. At present, there are total 27 private commercial banks which are operating in Myanmar.

To understand the risk management practices at government tender loans in private commercial banks in Myanmar, study focuses on the risk management practices of the two famous private commercial banks namely KBZ and AYA are selected.

Founded in 1994 in Taunggyi region, KBZ current management took over in 1998. Now, KBZ Group is a leading commercial bank with a largest capital base and major market share in deposits and credit. There are all together over 500 bank branches around the country. It is also a largest coverage with ATM network in Myanmar. KBZ has employed over 20,000 of staff members. KBZ has high synergy among expatriates, repatriates and local bankers and has been recognized by numerous domestic and international awarding bodies.

KBZ has mainly two main sectors: financial and non-financial sector. KBZ financial group is composed of 7 sub sections namely banking section, insurance section, securities section, trust, microfinance, cash mobilization, and finance/leasing section, respectively. For the non-financial sector, it is composed of 10 sections. They are aviation, mining, real estate, trading, hotel & tourism, manufacturing, agriculture, infrastructure, health care, and technology section, respectively.

KBZ has not only strong banker in Myanmar, it has extended its representative offices to Thailand dated at 3rd August in 2016, dated at 6th October in 2016, and 5the of December 2016 in Malaysia. KBZ is also the pioneer company as private insurance company in Myanmar. KBZ received its registration on 17th September 2012. The paid capital is 46 billion kyat which is equivalence to 55 million in US$. IKBZ has been launched successfully on 12th June 2013. KBZSC is the JV company between the Kanbawza (KBZ) Group and Stirling Coleman Holdings of Singapore to carry out the business of: underwriting, dealing, brokerage, investment advisory at Yangon Stock Exchange in Myanmar. Awarded the 1st Underwriter License by SECM, on 7th December 2015.

As a fund settlement bank, KBZ bank was chosen by Securities and Exchange Commission of Myanmar (SECM) as one and only fund settlement bank between all Securities Companies and Yangon Stock Exchange (YSX) on 28th April 2015. As a non-financial sector, KBZ has acquired Myanmar Airway International with effective from 1st October 2013, MAI by the 100% complete member of KBZ Group, Myanmar National owned private company.

AYA Bank was authorized by the Central Bank of Myanmar on 2 July 2010 and relicensed under the Financial Institution Law 2016 as a full-administration universial bank. The bank has become quickly in the course of recent years to turn into the second biggest in the nation, with 234 branches, 1.4m client, Kyat 4.7 trillion client stores and 150 billion Investors' Value as toward the finish of September 2017. Top 100 investors speak to about total deposit, underlining the overall population's trust in the bank.

As a member from the UN Worldwide Smaller (UNGC), AYA Bank is resolved to actualize worldwide guidelines in Corporate Governance and Compliance best practices in its administration and activities. Thusly, since 2014-15, AYA Bank is the main bank in Myanmar to be IFRS consistent and the only one examined under Worldwide Gauges of Inspecting (ISA) by a major four global firm. The bank has additionally pulled in and held capable staff with both residential and worldwide presentation and has put altogether in Learning and Improvement as an approach to guarantee long haul economic development for the networks it serves.

For the years ahead, the bank will continue to extend its branch network throughout Myanmar while concurrently investing in state-of-the-art Core Banking, Digital Banking and Fintech platforms. AYA Bank expects to give uniform Omni-channel interface offering imaginative items and administrations over all client portions. AYA Bank will also continue to focus on deepening relationships with customers, providing best-in-class customer service, and leveraging technology as the enabler to rapidly expand the customer base. The bank likewise intends to additionally reinforce its administration, risk and consistence structure as a measure to guarantee adjust and support development.

3.2 Government Tender Project Loan Development at Selected Private Banks

Offering for the most part alludes to the procedure whereby governments and budgetary foundations welcome offers for huge tasks that must be submitted inside a limited cutoff time. There are a few kinds of delicate including open delicate, particular delicate, arranged delicate, sequential delicate and term offering. Open offering is the primary offering systems utilized by both the administration and private part. A delicate can be said as an idea to do work or supply products at a fixed cost. Starting advance of an offering procedure in which qualified temporary workers are welcome to submit fixed offers for development or for supply of explicit and unmistakably characterized products or administrations during a predetermined time allotment. The delicate procedure is intended to guarantee that the work to be accomplished for customer/government is given out in a reasonable way. The association mentioning the delicate will decide the kind of delicate that will be utilized, just as what will be engaged with the delicate procedure.

In Myanmar, it is legally necessary to distribute or report their tenders in at least one open media, for example, paper, exchange magazines and to an ever increasing extent, all alone sites. There are a number of policies known as procurement policies which guide government of Myanmar on how to make decisions on which tender to accept. In spite of the fact that value is significant in the choice on which delicate or offer to acknowledge, it isn't the main calculate considered.

For sourcing purposes, Government Offices for the most part keep a rundown of endorsed providers which is utilized to welcome offers. Government and neighborhood specialists may request Articulation important to enable different providers to be added to their rundown of potential providers before they issue formal records. Some governments are now issuing electric tenders but it is still regular practices for them to ask bidders to submit their bid (Contract Agreement) in hard-copy form.

As shown in above, Banks accept loan requisition for Government tender offer to invite bids for a project. Banks accepts a formal offer such as a takeover bid. Tender is normally a process whereby governments invite bids for large projects that must be submitted within a finite deadline by means of public media channels. Government organizations are seeking other businesses to respond to a particular need, such as the supply of goods and services, and will select an offer or tender that meets their needs and gives the best an incentive to cash.

3.2.1 Procedure of Government Tender Project Loan in KBZ Bank and AYA Bank

There are the similarities lending procedure on the Government Tender Project Loan in AYA Bank and KBZ bank. Types of projects are Construction Projects, Solar Installation Projects, Purchase of Electrical Equipment, Medical Equipment and Drugs, etc; These project must be in line with bank's lending objectives and must be economically, financially, technically, environmentally. The purpose of the monitoring process is to ensure that the project is implemented in compliance with the framework loan agreement executed in accordance with the conditions in the loan document approve by government.

Bank provide loans to financial industry and government and also provide direct loan to companies with up to 50% of contract value for both private sector. Financing conditions rely upon the speculation type and the security offered by outsider (Bank), other budgetary organizations. Interest rate can be fixed rate (13%) per annum as per Central Bank policy. Bank charges fee for project processing fees (2%) base on loan amount. Loan repayment is based on government repayment in contract agreement. Bank scrutinizes applicant's ability to access loans by means of Character (client's reputation or client's desire to pay, repayment history, regular repayment with interests), Capacity (legal form of the company and the financial analysis of the financial statements, (The cash flows for the client), capital (company size, sales, cash flows, and market share),Site visit to observe tender contract is legal from government authorities, and the progress of project, that is to mitigate and Collateral (Original Tender Contract Agreement without collaterals that is, bank obtains as guarantees or strong recommendation from customers by means of government authorized approval for project to specific client). Bank authorities always contact to the government authorities to watch over the performance guarantees that the borrower would issue from government without informing to the Bank.

This above information and analysis concerning the intermediary financial institution to creditworthiness aspects, operational strategy, market position and lending instrument as well as the experience is achieved with KBZ Bank and AYA Bank and Other institutions.

CHAPTER IV

RISK MANAGEMENT PRACTICES ON GOVERNMENT TENDER PROJECT LOAN AT SELECTED PRIVATE BANKS IN MYANMAR

The study of Risk Management is increasingly becoming a popular option not only in the banking industry, but also to the all other business organization. In this section, it analyzes the risk management practices on each type of risk occurred by Government Tender Project Loan at KBZ and AYA Bank. There are three parts: demographic profile of respondents, credit risk management practices at these banks, and lastly the important level of the major factors that are involved in a risk management practices on Government Tender Project Loan in KBZ and AYA Bank, as follows.

4.1 Survey Design

This study is trying to find out risk management practices especially on the government tender project loan undertaken by private banks in Myanmar. To obtain the reliable result, proper survey design was constructed. It is useful for gathering the opinions, agreeable, beliefs, feelings of selected groups of individuals, as well as key persons from organization. There are about 250 numbers: (about 130 in KBZ bank and about 120 in AYA Bank), who are working at loan department at each 5-bank branch. Total 60 numbers: (each 30 number) who are working in key person positions (Assistant GM, Mangers, Deputy Mangers, Credit Risk officers, were selected from KBZ and AYA Bank branches in Yangon region.

After studying their demographic background, survey further made by asking their perception upon the importance of the different type of financial risks. Later the section is the comparative study on the risk management practices on Government Tender Project Loan in selected private banks. In the survey analysis, descriptive and analytical method are used to find out the frequencies and mean value of respondents' option and their agreeable to the importance of project loan risk management by each respondent. Structurally prepared survey questioner set was developed as survey instrument and face-to-face interviewing was made with the help of administrative authorities of selected banks. Excel software calculation is used to measure the variables.

4.2 Demographic Profile of Respondents

The first analysis is made on the demographic profiles of respondents. Sample authorities from loan department at two major private banks are randomly selected to examine the risk management practices on government tender project loan. Table (4.1) is the demographic profile of respondents, as follows.

Table (4.1) Demographic Profile of Respondents

Sr. No	Particular	KBZ		AYA		Total Respondents	Percent
		Total	Percent	Total	Percent		
		30	100	30	100	60	100
Gender:							
1	Male	14	47	14	47	28	47
2	Female	16	53	16	53	32	53
Age:							
1	31-40	14	47	14	47	28	47
2	41-50	16	53	12	40	28	47
3	50 year	0	0	4	13	4	7
Education Level:							
1	Graduate Level	22	73	20	67	42	70
2	Master level	8	27	10	33	18	30
Designation of Respondents							
1	Assistant GM	2	7	2	7	4	7
2	Mangers	12	40	8	27	20	33
3	Deputy Mangers	8	27	10	33	18	30
4	Credit Risk officers	8	27	10	33	18	30
Years of working experiences							
1	1-3 years	4	13	2	7	6	10
2	3-5 years	14	47	12	40	26	43
3	5-10 years	10	33	8	27	18	30
4	10 years and above	2	7	8	27	10	17
Years of working experiences							
1	Less than 1 year	4	13	6	20	10	17
2	1-3 years	10	33	6	20	16	27
3	3-5 years	12	40	10	33	22	37
4	5-10 years	2	7	6	20	8	13
5	10 years and above	2	7	2	7	4	7
Current working department at bank							
1	Loan department	30	100	30	100	60	100

Source: Survey data, 2019

Genders of respondents are easily asked whether they are male or female. By the Table (4.1), gender of respondents includes male 14 person (47%) and female 16 person (53%) from KBZ Bank, and male 14 person (47%) and female 16 person (53%) from AYA Bank. Total 60 numbers of respondent compositions include male 28 person (47%) and female 32 person (53%). From the gender analysis, survey includes just higher composition at female respondents than male respondents.

Age levels of respondents are grouped into five age groups: under 20 year, 21 to 30-year, between 31-40-year, between 41-50 year, and above 50 year. By the result of the survey, there are 14 respondents with the age range 31-40 year, and 16 respondents with the age between 41-50 year, who are from KBZ Bank. There are 14 respondents with the age range 31-40 year, 12 respondents with the age between 41-50 year, and 4 respondents over the age 50 year, in the AYA Bank. Total 60 numbers of respondent compositions include 28 respondents with the age range 31-40 year, another 28 respondents with the age range between 41-50 year, and 4 with age over 50 year, respectively. In term of percent, the majority of respondents are found as age over 31 years with matured age level. Matured respondents would understand more on survey questions to answer more correctly, in this research.

Education level of respondents has grouped into three: university students, university graduate, and master and above level. In the analysis on their educational level, survey includes 22 respondents who possess university graduate and 8 master level from KBZ Bank, and 20 university graduate and 10 master degree level from AYA Bank. In the total composition, survey includes 42 university graduate and 18 master degree respondents. In term of percent, university graduated level is the most participants with 70%. The obtained result is showing that of the high level of education of respondents, at which it would also yield more correct answer from understanding to the survey questions.

Designations of respondents are also analyzed. Table shows that in KBZ Bank with 2 assistant GM, 12 manager, 8 deputy mangers, and 8 credit risk officers. In the AYA Bank, table also shows that 2 assistant GM, 8 manager, 10 deputy mangers, and 10 credit risk officers. By the total composition of their position level, survey includes 4 assistant GM, 20 manager, 18 deputy mangers, and 18 credit risk officers. In term of percent, most of respondents are at manager position in the loan department with 33%, and follows by deputy mangers, and credit risk officers with each 30% of composition, respectively. By the study, survey only includes respondents who are in higher position at banks.

Years working experience also analyzed. It is found that 4 respondents who have 1 to 3 years working experience, 14 respondents who have 3 to 5 year working experiences, 10 have 5 to 10 year working experiences, and 2 have above 10 year working experiences of respondents from KBZ Bank respondents. As for the AYA Bank, there are 2 respondents who have 1 to 3 years working experience, 12 respondents who have 3 to 5 year working experiences, 8 have 5 to 10 year working experiences, and 8 have above 10 year working experiences, respectively. In the total composition, respondents who have 3- 5 year experiences are the most participants with 43% and 3 to 5 year working experiences are with 30% second most participants, respectively.

In the analysis on the current bank working experiences of respondents at KBZ Bank survey found that 4 respondents who have less than 1-year experience, 10 have 1-3 year experience at current bank, 12 have 3-5 year experience, 2 have 5-10 years, and 2 have over 10 years and above at current bank. On the respondents at AYA Bank, survey found that 6 respondents who have less than 1-year experience, 6 have 1-3 year-experience at current bank,10 have 3-5-year experience, 6 have 5-10 years, and 1 has over 10 years and above at current bank. In term of percent, majority of respondents possess 3 to 5 year and above working experiences at current bank. And thus, respondent experience survey analysis also shows their fulfillment of knowledge in the banking products and services provided by their banks.

The working departments of respondents are analyzed. Table shows that all the respondents are working at loan departments from the KBZ Bank, as well as from the AYA Bank. For that background department of respondents, the result can be said that more reliable information on their banks' project loans management.

4.3 Comparative Study on the Risk Management Practices of Government Tender Project Loan at Selected Private Banks

In this analysis, study focuses on the credit risk identification practices, credit risk analysis / measurement practices, credit risk control for mitigation practices, and credit risk monitoring practices by rating from 5=Strongly agree, to 4= agree, 3=Neutral, 2=disagree, 1=strongly disagree), as follows.

4.3.1 Credit Risk Identification Practices

Table (4.2) shows the Government Tender Project Loan Credit Risk Identification Practices based on the 7 statements which are relevant with credit risk identification, as follows.

Table (4.2) Government Tender Loan Credit Risk Identification Practices

Sr. No.	Statement	KBZ Bank		AYA Bank	
		Mean	St. Dev	Mean	St. Dev
1	Bank carries out a compressive and systematic identification of its risks relating to each of its declared aims and objectives	4.07	0.25	4.33	0.48
2	The bank finds it difficult to priorities its main task	4.00	0.74	4.07	0.69
3	Changes in risks are recognized and identified with the bank' roles and responsibilities	4.33	0.48	4.60	0.50
4	The bank is aware of the strengths and weakness of the risk management systems of government tender project loan	3.87	0.35	3.93	0.58
5	The bank has developed and applied procedures for the systematic identification of opportunities	3.40	0.50	3.27	0.45
6	It is crucial for bank to apply the most sophisticated techniques for risk identification	3.33	0.48	3.40	0.50
	Overall mean	3.83		3.93	

Source: Survey data, 2019

By the Table (4.2), KBZ respondents give higher total mean score 3.83, indicating their strongly agreed on the practices at credit risk identification. This means that KBZ loan officials are at well practicing at the first step of the credit risk identification.

Among total 6 issues relating credit identification at Government Tender Project Loan, KBZ respondents are firstly strongly agree at the “Changes in risks are recognized and identified with the bank' roles and responsibilities” with the mean score of 4.33. KBZ respondents are also strongly agreed to the “Bank carries out a compressive and systematic identification of its risks relating to each of its declared aims and objective" with mean score 4.07, and less rating the issue of crucial for bank to apply the most sophisticated techniques for risk identification with mean score 3.33.

On the side of AYA Bank, respondents give total mean score 3.93 indicating their strong practices at credit risk identification at their bank. Among them, the highest risk identification practices at Government tender project loan is found at Changes in risks are recognized and identified with the bank' roles and responsibilities with mean value 4.60.

Second higher risk identification practices at AYA Bank is also found on Bank carries out a compressive and systematic identification of its risks relating to each of its declared aims and objectives with mean value 4.33, and they are also less importance at the bank has developed and applied procedures for the systematic identification of opportunities with mean value 3.27.

In the comparison between two - banks practices, the very much fewer mean gap by abstracting overall mean 3.83 at KBZ bank, to mean 3.93 at AYA Bank indicating that both KBZ and AYA loan officers are strong credit identification practices for the Government tender project loans.

4.3.2 Credit Risk Analysis / Measurement Practices

Table (4.3) shows the comparative analysis on the two bank practices at credit risk analysis or measurement. In this analysis, total 7 statements which are: bank estimating at the impact and frequency of each identified risk factor, of credit scoring model to identify risks and mitigating factors, the use of 5C's of credit risk analysis, which are stated, as follows

Table (4.3) Credit Risk Analysis/Measurement Practices

Sr. No.	Statement	KBZ Bank		AYA Bank	
		Mean	St. Dev	Mean	St. Dev
1	The bank assesses the likelihood of occurring risks.	4.87	0.35	4.93	0.26
2	The bank risks are assessed by using quantitative analysis method.	4.53	0.52	4.65	0.49
3	The bank risks are assessed by using qualitative analysis methods (e.g. high, moderate, low)	4.67	0.49	4.73	0.46
4	Bank analyze and evaluate opportunities, it has to achieve objective.	4.80	0.41	4.67	0.49
5	Banks' response to analyze risks include an assessment of the costs and benefits of addressing risks.	4.33	0.49	4.20	0.68
6	Banks' response to analyze risks include prioritizing of risks and selecting those that needs active management.	4.53	0.52	4.60	0.51
7	Banks response to analyze risks include prioritize risk treatment which there are resource constraints on risk measurement implementation.	4.67	0.49	4.40	0.51
8	The bank undertakes a credit worthiness analysis before granting credit or executing transactions.	4.27	0.46	4.07	0.59
9	Before granting capital or credit by bank undertakes specific analysis including the applicant's character, capacity, collateral and condition.	4.47	0.52	4.40	0.51
10	The bank has a computer-based support system to estimate the earnings and risk management variability.	4.40	0.51	4.07	0.59
11	The bank relies on the outputs of quantities data with human judgement.	4.43	0.51	4.40	0.51
	Overall mean	4.54		4.47	

Source: Survey data, 2019

By the Table (4.3), KBZ respondents give higher total mean score 4.54, indicating their strong practices at credit risk analysis or measurement. This means that KBZ loan officials are well practicing at the credit risk measuring after they have identified the loan issues.

KBZ respondents are also strongly agreed the credit measurement at the bank assesses the likelihood of occurring risks with mean value 4.87, that is, loan department personal are regular behavior at credit risk on Government Tender loans.

In measuring credit risk relating bank analyzes and evaluates opportunities it has to achieve objective, the received mean value is higher value also of 4.80, assessment of bank risks by using qualitative and quantitative analysis methods (e.g. high, moderate low), prioritize risk treatment which there are resource constraints on risk measurement implementation, with the mean scores are very high, and thus, KBZ are found as well credit measuring practices by its loan officers.

KBZ Bank loan department authorities are less measuring in credit worthiness analysis before granting credit or executing transactions with mean value 4.27, and measuring 5C Characters with mean value 4.47 which all are very much higher, and thus, KBZ Loan officers can be said that strong credit measuring activities.

To the analysis on the AYA respondents, Table (4.4) states that the highest overall mean score 4.47 is found, and indicating that AYA Bank Authorities are strongly analyzing on that of the Government Tender Credit Loan applications.

The highest mean score 4.93 is also found as these banks assess the likelihood of occurring risks, and thus, bank has strong behavior to analyze and measure the risk possibility from the loss of repayment. AYA Bank officers also strong characteristics of measuring credit risk assessment by the use of quantitative analysis method with mean value 4.67, assessment by using qualitative analysis method with mean value 4.73, analysis and evaluation of the opportunities to achieve objective of credit department with mean value 4.87, in the response to analyze risks and prioritizing severity level with active management with mean value 4.60, analyzing client' character, capacity, capital, collaterals, and economic conditions with high mean value 4.40, which all measurements are very much higher mean value, and thus, survey finds out the strong AYA Bank credit analysis and measurement likelihood to achieve its objective.

In the comparison between two bank practices, the mean gap by abstracting overall mean 4.55 at KBZ bank, to mean 4.46 at AYA Bank, result is indicating that KBZ loan officers are found as strong or more tighten analysis on Government Tender Credit Loan application process than AYA Bank, whereas the both higher overall means are indicating that KBZ Bank and AYA Bank have very strict measuring procedure on Government credit application for mitigating credit risks.

4.3.3 Credit Risk Control / Mitigation Practices

In this credit risk control, total 4 statements are used. They are the use of covenants or the use of adequate contract /collateral, control at the first and main source of repayment, control at collateral to repossession and resale to cover the loan, the bank practices at taking the interest rate for 13% + BG/PG (risk premium) to cover the risk, and controlling lending to related parties is particularly dangerous form of credit risk exposure to reduce the concentration risk in the future.

Table (4.4) shows the comparative analysis on the two bank practices at credit risk control to mitigation, as follows.

Table (4.4) Credit Risk Control/Mitigation Practices

Sr. No.	Statement	KBZ		AYA	
		Mean	**St. Dev**	**Mean**	**St. Dev**
1	Risk Mitigation Practices used to control credit risk include the use of Covenants or contract, use of adequate Contract /Collateral.	4.07	0.25	4.33	0.48
2	Collateral is the second source of the repayment, which would be the repossession and resale of the collateral to cover the loan.	3.60	0.50	3.53	0.51
3	When banks are lending with unsecured lending method (without collateral), the bank should take the interest rate for 13% + BG/PG to cover the risk.	4.73	0.45	4.93	0.25
4	Lending to related parties is particularly dangerous form of credit risk exposure. Bank need to consolidate lending of the related parties' group that can be reduce the concentration risk in the future.	3.67	0.48	4.07	0.58
	Overall mean	4.02		4.22	

Source: Survey data, 2019

By the Table (4.4), KBZ respondents give overall higher mean score 4.02, indicating their strong risk control or mitigation practices at government tender loan credit risk. Among all the statements, KBZ respondents are strongly recommended on that of the taking of interest rate for 13% + BG/PG to cover the risk, the unsecured lending method (without collateral) with the mean score of 4.73. In common, government tender loans are short term loan for project period and there would have no collaterals. For that there would be higher interest rate to cover loss of repayment. Among the KBZ respondents, the least mean score 3.60 is found at collaterals of borrowers, which is the second source of the repayment, which would be the repossession and resale of the collateral to cover the loan. Since, government tender project loan is mainly focusing on Government contract between loan applicants and the government body. Government recommendation on the contracts would be the strong collectables by KBZ Bank.

By the Table (4.4), on the other hands, AYA respondents give overall higher mean score 4.22, indicating that AYA Bank has strong practices at the credit risk control to mitigation. Among the total five issues relating to credit control to mitigate, AYA respondents agree higher mean values 4.93, which is at taking interest rate as charge as KBZ bank, when they are lending with unsecured lending method (without collateral), the bank should take the interest rate for 13% + BG / PG to cover the risk by insurance. Both banks have same opinion upon this lending without collateral. AYA Bank respondents give the least mean score 3.53 at collaterals of borrowers, which is the second source of the repayment, which would be the repossession and resale of the collateral to cover the loan.

In the comparison between two banks' credit risk control practices for mitigating purpose, the mean gap is, by abstracting overall mean at KBZ bank, to mean at AYA Bank, result is indicating that AYA loan officers are found as doing more credit risk control practices than practices by KBZ Bank at government tender loans. However, the difference is small gap, indicating that both banks have well practices at credit risk control practices.

4.3.4 Credit Risk Monitoring Practices

Table (4.5) is the credit monitoring practices as the final stage of credit risk management by two selected commercial banks. In this analysis, total 8 statements, which are relating to the credit risk monitoring practices of: monitoring the effectiveness of risk management as an integral part of routine management reporting, level of control by the bank as appropriate for the risks that faces, bank adoption a standard reporting system about the risk management from bottom to top management, reporting and communication processes within the bank support the effective management of risk, bank's response to risk including an evaluation of the effectiveness of the existing controls and risk management response, bank response to risk including action plans in implementation decisions about identified risk, bank effectively monitors the credit limit of everyone counterparty, borrower's business performance is regularly observed by the bank following the extension of financing, which all factors are analyzed. Five-point Likert scale measure is also used by rating respondents' option from 5= strongly agree, then to 4= agree, 3=Neutral, 2=disagree, 1=strongly disagree, respectively.

Table (4.5) Credit Risk Monitoring Practices

Sr. No.	Statement	KBZ Bank		AYA Bank	
		Mean	St. Dev	Mean	St. Dev
1	Monitoring the effectiveness of risk management is an integral part of routine management reporting	3.73	0.46	4.33	0.49
2	The level of control by the bank is appropriate for the risks that faces	3.67	0.49	3.33	0.49
3	The bank has adopted a standard reporting system about the risk management from bottom to top management	3.53	0.52	3.27	0.46
4	Reporting and communication processes within the bank support the effective management of risk	4.27	0.46	4.47	0.52
5	The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management response	3.87	0.35	3.60	0.51
6	The bank response to risk includes action plans in implementation decisions about identified risk	4.33	0.49	4.00	0.38
7	Bank effectively monitors the credit limit of everyone counterparty	4.20	0.41	4.40	0.51
8	Borrower's business performance is regularly observed by the bank following the extension of financing	4.40	0.51	4.53	0.52
	Overall mean	4.00		3.99	

Source: Survey data, 2019

By the Table (4.5), overall mean value 4.00 is received by the KBZ respondents which is stating that of well practice at monitoring credit risks on government tender project loans, although the credit term is short.

By the KBZ Bank, the highest credit monitoring area is found at their loan officers are continuously watched over after the loan has been approved, they watch regularly borrower's business performance with the highest mean score of 4.40. The second most credit monitoring practices is found as the bank response to risk includes action plans in implementation decisions about identified risk with received mean value 4.33.

The third higher mean value 4.20 is found as the monitoring practices of bank effectively monitors the credit limit of everyone counterparty, conducting periodic valuation of collateral and monitoring timely repayments. As for the AYA Bank, the highest mean value 4.47 is found at credit officers who are reporting and communication processes within the bank support the effective management of risk. It seems that AYA credit officers are monitoring with systematic manner in proper documentation.

The second higher mean value 4.33 is found as the bank officers monitoring activities as the effectiveness of risk management is an integral part of routine management reporting. These two focusing area are found as differing between KBZ and AYA Bank. AYA Bank respondents also rate lesser mean value 3.27 at the monitoring practices at bank adopted a standard reporting system about the risk management from bottom to top management.

Majorly, AYA Bank credit assessment is done by high level at senior loan officers. In the comparison between two bank credit risk monitoring practices for mitigating purpose, the mean gap is very small, by abstracting overall mean 4.00 at KBZ bank, to mean 3.99 at AYA Bank indicating that both KBZ loan officers are found as doing more credit risk monitoring practices at government tender loans.

4.4 Summary Analysis on the Credit Risk Management Practices between Selected Private Banks

Table (4.6) shows the summary analysis on the credit risk management practices between two selected banks (KBZ Bank and AYA Bank) in Yangon.

Table (4.6) Credit Risk Management Practices

Sr. No.	Credit Risk Management Practices	KBZ Bank (Mean)	AYA Bank (Mean)
1	Credit Risk Identification Practices	3.83	3.93
2	Credit Risk Analysis/Measurement Practices	4.54	4.47
3	Credit Risk Control/Mitigation Practices	4.02	4.22
4	Credit Risk Monitoring Practices	4.00	3.99

Source: Survey Data, 2019

By the Table (4.6), it shows the summary analysis on the different management practices of two selected banks. Among four total risk management practices, AYA is more practicing at Credit Risk Identification Practices, Credit Risk Control/Mitigation Practices, while KBZ Bank has more careful at Credit Risk Analysis / Measurement Practices, and Credit Risk Monitoring Practices. By the summary analysis, the overall risk management practice is found as difference of 0.05 or smaller risk management performance gap between these two banks. This means that both private commercial banks are managing well on government tender project loan risk properly to mitigate the risk of loss or repayment from borrowers.

CHAPTER V
CONCLUSIONS

In this section, it concludes the study with findings and discussion, suggestions, and need for future researches, as follows.

5.1 Findings

Risk management is a basis of practical banking and its important status is increasing over the time. Bank is a better source of capital for a profitable business in comparison with the share capital as business can have a better leverage. Banks have benefits from the difference in two interest rates, however, banks have prepared to be liquidity from loans when depositors call for their deposits. To protect the depositors' savings, banks have set systematic policy and procedures for credit loan risk management. In this study, it focuses the effect of current credit risk management practices especially on the government tender project loans at two selected private commercial banks. With the descriptive research, collection of primary data includes the use of predetermined questionnaires to 60 respondents who are working at credit loan departments at two selected private commercial banks. There are various credit risk management practices at banks. In this study, major comparing factors are mainly based on that of the fundamental risk management practices as shown in theory which are including credit risk identification practices, credit risk analysis/measurement practices, credit risk control and/or mitigation practices, and lastly on Credit Risk Monitoring Practices. Survey findings are stated as follows.

In the demographic profile analysis, survey includes males and female similar ratios from both KBZ and AYA Bank. Age composition also is also found as more than 31 years old, and thus, matured people are only taking part as samples in the study. In the education level analysis, all are found as educated. Their working experiences are also showing that well enough for working at loan departments. For that demographic background of loan department respondents, the result can be said to yield more reliable information on their banks' government tender project loans management.

Regarding to the study on risk identification by two private banks on loans, all the banks have found that management consideration and careful scrutinizing on loan applications to identify risk levels. That is, loan departments are found as doing properly on evaluation of loan applications for loan approval, and then disbursement of required funds, control and movement of security. In the comparison of credit risk identification, the obtained mean gap is lesser from the credit risk identification by KBZ to AYA. And thus, AYA bank seems to have more credit risk identification upon the loan applicants for government tender project loan.

Regarding to the credit risk management by mean of credit risk analysis or measurement, the obtained mean gap is positive from the risk management by KBZ to AYA. And thus, KBZ bank also seems to have more credit risk analysis and measure upon the loan applicants for government tender project loan.

Regarding to the credit risk management by mean of credit risk mitigating practices, the obtained mean gap is lesser from the risk management by KBZ to AYA. And thus, AYA bank also seems to have more credit risk control practices upon the loan applicants for government tender project loan.

However, in the analysis on the credit risk management by mean of credit risk monitoring practices, the obtained mean gap is similar from the risk management by AYA to KBZ. And thus, both KBZ bank and AYA Bank also seem to have similar strong strict credit risk control practices upon the loan customer for government tender project loan.

Among four total risk management practices, summary analysis showing AYA Bank credit management practice is stronger practicing at credit risk identification practices, and credit risk control / mitigation practices, whereas, KBZ Bank has more careful credit risk analysis / measurement practices, and credit risk monitoring practices.

By the summary analysis, the overall risk management practice is found as difference in very smaller risk management performance gap between these two banks. In conclusion to the study, two private banks have been found as very well systematic risk identification and risk management practices not only for government tender project loans but also to the other types of bank loans in an efficient and effective manner to mitigate the financial losses.

5.2 Suggestions and Recommendations

Loans are useful for business to expend its capitals. As for the bank, it is important to mitigate the risk of repayment or resettlement from borrowers. It is recommended loan bank must have systematic loan identifying, consideration and scrutinizing upon loan applications to mitigate the risks of losses of loan funds. So that, it would be suggested that all the staff in the bank should have basic understanding loan risk management step- by- step practices.

Regarding to the credit risk identification steps, the risk management by KBZ bank should have more identification practices especially in the area of credit risk officer needs to know the length of time or number of years. Bank officers at loan departments should also more identification all possible risks from the survey questions or computing the loan ratios. As for the AYA Bank, staffs at loan department should be more risk identification on the borrower and his business have been dealing with Bank. Primarily based on opening date of first deposit account. AYA staff also should establish the framework for lending and reflect an institution’s credit culture and ethical standards. By doing these, AYA Bank and KBZ bank staff at loan department would have more strong risk identification to mitigate the risk of financial losses.

Regarding to the result by the credit risk analysis or measurement, it could be suggested to KBZ Bank to manage more in the area especially more analysis on the level of all debts, proposed loan request, compared to the equity should tell how heavy the debt burden is, and more measurement on the amount of the financing needs compared to the business size, in terms of capital, total debts and total assets. KBZ Bank staffs also need to make more analysis / measure on the ability to pay back short - term debts with short-term assets. KBZ Bank staffs should check more the borrower’s loan purposes, repayment plan, government recommendation letter, need to check periodically after the loan disburse. As for the AYA Bank, staffs need to know the borrower’s business ability of growing sales in the recent years and should have more analysis on the length of the need to repay the loan, the shorter the better.

Regarding to the credit risk management by mean of credit risk mitigating practices, KBZ should have more control credit risk by the use of Covenants, use of adequate Contract / Collateral, and more control on lending to related parties is particularly dangerous form of credit risk exposure. Bank need to consolidate lending of the related parties that can be reduce the concentration risk in the future. As for the AYA Bank, bank staffs are suggested to have more control at first and main source of repayment, cash flow generated by the business, should be carefully assessed through financial analysis to see if cash will be available. AYA staff also more control on collateral which is as the second source of the repayment, which would be the repossession and resale of the collateral to cover the loan.

By the analysis on the credit risk monitoring practices, AYA bank staffs are suggested to have more monitoring like KBZ loan staffs do. AYA staffs should have more monitoring in the area of following up the customer's bank account with cash transaction and regular payment of interest for the all of debt. AYA Credit Officers are also suggested for the need continuous dealing with the customers and unexpected project inspection to the proposed project. Not only monitoring upon these area, AYA Bank staffs should have more monitoring through the use of MIS, continuously watched over after the loan is approved, and more monitoring rehearses incorporate monitoring borrowers' consistence with credit terms, recognizing early indications of anomaly, leading intermittent valuation of insurance and observing opportune reimbursement plans.

KBZ bank also seems to have more strict credit risk control practices upon the loan applicants for government tender project loan. However, the calculated overall mean value are similar, it could be recommended that all the banking sector and financial sectors should maintain current risk identification and risk management practices, in Myanmar.

Risk management is a keystone of sensible banking and its importance is increasing over the time. The issue of risk management in the banking institutions is a topic of interest not only to the industry players, but also the policy makers. Setting risk management practices in not sufficient. That is, after setting risk management process in terms of risk awareness, identification, analysis or measurement, and control or mitigation, further risk management steps are necessary in the implementation in real world, or that means, banks have to make operational risk management in terms of their bank employees, credit analysis system, and process, which all will lead eventually to narrow down the losses. It could be strongly recommended that the result of this study will help different stakeholders of banks to understand the impotence and effectiveness of risk management.

5.3 Needs for Further Studies

This study is made on the risk management practices of private banks by selecting two major private banks, in Yangon. There are many private banks who are serving government tender loan services. And thus, further studies should carry out to other private banks as well as public banks like SMIDB banks, MEB, etc. And also, there are many credit loans services. This study only focuses on risk management practices on government tender project loan at two private banks. So that, further studies should carry out other credit risk management strategies to understand fully on bank risk management practices on all credits. There are many regions and states which are composed in Myanmar. This study is only made in Yangon region and only selected bank branches in Yangon. Further studies should extend to other parts of Myanmar.

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APPENDIX 1

QUESTIONNAIRES

PART A

Dear Respondents,

This questionnaire is a part of the special study, which is the curricular requirements of the students from Master of Banking and Finance, Yangon University of Economics, Myanmar. All information herein that the respondents provided in this survey questionnaire will be treated with utmost confidentiality. Please kindly answer all the questions in below survey questionnaire spread sheet. I am highly appreciated for your cooperation by spending your precious time answering it.

Please tick the choice that you made after reading the statements.

Profile of the respondents

1. Gender of Respondents
    - Male
    - Female
2. Age of Respondents
    - Age between 31 and 40
    - Age between 41 and 50
    - Age over 50
3. Level of Education
    - Graduate Level
    - Master Level

4. Designation of Respondents

    - Assistant General Manager
    - Manger
    - Deputy Manger
    - Credit Risk officer

5. Working Experience of Respondents

   - Less than 1 year
   - 1-3 years
   - 3-5 years
   - 5-10 years
   - 10 years and above

PART B

Comparative Study on the Risk Management practices on Government Tender Project Loan Application in Two Selected Private Banks

Please indicate your level of agreement with the following statements as regards setting objective and risk identification techniques used by your company. Use scale of 1-5 where:

Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	2	3	4	5

1. Credit Risk Management Practices

(A) Credit Risk Identification Practices

Statement	1	2	3	4	5
Bank carries out a compressive and systematic identification of its risks relating to each of its declared aims and objectives.	1	2	3	4	5
The bank finds it difficult to priorities its main task.	1	2	3	4	5
Changes in risks are recognized and identified with the bank' roles and responsibilities.	1	2	3	4	5
The bank is aware of the strengths and weakness of the risk management systems of government tender project loan.	1	2	3	4	5
The bank has developed and applied procedures for the systematic identification of opportunities	1	2	3	4	5
It is crucial for bank to apply the most sophisticated techniques for risk identification	1	2	3	4	5

(B) Credit Risk Analysis/Measurement Practices

Statement	1	2	3	4	5
The bank assesses the likelihood of occurring risks.	1	2	3	4	5
The bank risks are assessed by using quantitative analysis method	1	2	3	4	5
The bank risks are assessed by using qualitative analysis methods (e.g. high, moderate, low)	1	2	3	4	5
Bank analyze and evaluate opportunities; it has to achieve objective.	1	2	3	4	5
Banks' response to analyze risks include an assessment of the costs and benefits of addressing risks.	1	2	3	4	5

Banks' response to analyze risks include prioritizing of risks and selecting those that needs active management	1	2	3	4	5
Banks response to analyze risks include prioritize risk treatment which there are resource constraints on risk measurement implementation	1	2	3	4	5
The bank undertakes a credit worthiness analysis before granting credit or executing transactions.	1	2	3	4	5
Before granting capital or credit by bank undertakes specific analysis including the applicant's character, capacity, collateral and condition.	1	2	3	4	5
The bank has a computer-based support system to estimate the earnings and risk management variability	1	2	3	4	5
The bank relies on the outputs of quantities data with human judgement	1	2	3	4	5

(C) Credit Risk Control/Mitigation Practices

Statement	**1**	**2**	**3**	**4**	**5**
Risk Mitigation Practices used to control credit risk include the use of Covenants or contract, use of adequate Contract /Collateral.	1	2	3	4	5
Collateral is the second source of the repayment, which would be the repossession and resale of the collateral to cover the loan.	1	2	3	4	5
When banks are lending with unsecured lending method (without collateral), the bank should take the interest rate for 13% + BG/PG to cover the risk.	1	2	3	4	5
Lending to related parties is particularly dangerous form of credit risk exposure. Bank need to consolidate lending of the related parties' group that can be reduce the concentration risk in the future.	1	2	3	4	5

(D) Credit Risk Monitoring Practices

Statement	**1**	**2**	**3**	**4**	**5**
Monitoring the effectiveness of risk management is an integral part of routine management reporting.	1	2	3	4	5
The level of control by the bank is appropriate for the risks that faces.	1	2	3	4	5
The bank has adopted a standard reporting system about the risk management from bottom to top management.	1	2	3	4	5

Reporting and communication processes within the bank support the effective management of risk.	1	2	3	4	5
The bank's response to risk includes an evaluation of the effectiveness of the existing controls and risk management response.	1	2	3	4	5
The bank response to risk includes action plans in implementation decisions about identified risk.	1	2	3	4	5
Bank effectively monitors the credit limit of everyone counterparty.	1	2	3	4	5
Borrower's business performance is regularly observed by the bank following the extension of financing.	1	2	3	4	5

Thanks for taking of your time to complete the questionnaires.