YANGON UNIVERSITY OF ECONOMICS

DEPARTMENT OF COMMERCE

MASTER OF BANKING AND FINANCE PROGRAMME

THE EFFECT OF OPERATIONAL RISK MANAGENENT PRACTICES ON PERFORMANCE OF KBZ BANK

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EMBF - 10

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A Thesis submitted to the Board of Examiners in partial fulfillment of the requirements for the degree of Master of Banking and Finance (MBF)

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ACCEPTANCE

Accepted by the Board of Examiners of the Department of Commerce, Yangon University of Economics, in partial fulfillment for the requirement of the Master Degree, Executive Master of Banking and Finance.

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ABSTRACT

The main objective of this investigation is on the guidelines established by the Basel Committee on Banking Supervision (BCBS). Additionally, the research investigates the ways in which operational risk management (ORM) procedures influence the performance of KBZ Bank. Using a quantitative study design, data were obtained from 171 KBZ bank workers using a structured questionnaire. Regression analysis demonstrated that operational risk assessment and monitoring and control of bank performance significantly impact. The data shows that KBZ Bank uses a widespread ORM framework efficiently, with an excellent rating for risk identification and training and reporting. Key characteristics include dependability, issue solutions, financial health, and operational efficiency contribute to the bank's high profitability, revenue growth, and customer satisfaction. This study describes the importance of ORM practices in generating long-term corporate success in the financial sector.

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CHAPTER 1
INTRODUCTION

Like other businesses, commercial banks were founded with the intention of maximizing shareholder wealth. Wealth is determined by return and risk. In the financial markets and in many commercial endeavors, taking on more risk is frequently necessary to attain a higher average rate of return. In the risk business are commercial banks. They assume a variety of financial risks in the process of providing financial services. The types and frequency of risks vary amongst various business operations. In other words, some risks are unique in nature and have a particular impact on how the banking sector operates (Young, 2012).

Any enterprise's bank performance can be defined as a gauge of the banks' capacity to meet their financial objectives under the direction of their financial and nonfinancial benchmarks. A bank's capacity to make steady profits typically signifies that its profitability and performance are safeguarded against unforeseen losses. It has been proven that financial performance is directly impacted by the presence of a risk management policy and how it is incorporated into the formulation of organizational goals. More often than not, certain risk management techniques have a big impact on the financial health. This indicates that banks can enhance their performance by creating strong risk management policies and incorporating risk management into the procedures for establishing attainable organizational goals (Lyambiko, 2015).Likewise, the hazards linked to banking services vary depending on the kind of service provided. In order to operate, banks must take on a number of risks, and the profitability and minimum amount of capital that a bank must maintain are largely dependent on how well these risks are managed and understood. Operational risks are a byproduct of the bank's business dealings and can be further divided into market, liquidity, and credit risk. On the other hand, non-financial risk can emerge in performance as a result of poor management, rivalry, outside variables, etc. According to Patel (2015), the primary non-financial risks are those related to operations, risk management, and compliance. Credit risk, market risk, and operational risk are some of the most significant risks that financial institutions are required to manage. Credit risk refers to the possibility that a borrower will not settle their loan payments in accordance with the terms of the agreement, which could result in the loss of the principal or other financial gain. In the context of the market, market risk refers to the possibility of incurring losses as a result of fluctuations in the value of the market risk components. Kimei's work from 2007. Therefore, the management of risk in financial organizations must place a significant emphasis on operational risk.

The possibility of incurring a loss as a consequence of inadequate or ineffective systems, craftsmanship, internal processes, or external procedures is what we mean when we talk about operational risk that we face. All risks that are not covered by credit and market risk but have a measurable financial impact on the company are referred to as operational risks, as stated by Rippel and Teplí (2011). This is in contrast to risk management, which primarily consists of measuring the scope and extent of institutions' risk exposures (Lopez, 2002). With the creation of recommendations such as the Basel (II) in June 1999, the term "operations risk" became widely accepted in the mid-1990s. This was a reaction to escalating scandals in the financial sector, such as the 1995 dishonest downfall of Barings Bank by Nicholas Leeson (Khan, 2008). The advent of Basel II marked a pivotal moment in the international banking regulatory landscape and introduced a breakthrough innovation that aimed to address operational risk in a complete manner. For the purpose of mitigating the potential effects of operational risk, Basel II mandated that financial institutions keep a certain amount of capital on hand. According to the Basel Committee, operational risk is the possibility of incurring a financial loss as a result of insufficient or broken internal processes, human error, technological limitations, or adverse external occurrences.

In Basel II, the operational risk as a focal point was a commendable and necessary step in increasing the resilience of the global banking system. However, the real test lies in the effective implementation of these regulations, with particular emphasis on addressing operational vulnerabilities. The examples of banks failing and experiencing financial turmoil due to operational deficiencies underscore the need for continued vigilance and improvement in risk management practices. In the quest of a more stable and robust global financial system, the lessons learnt from these issues should act as a spur for improving and fortifying the mechanisms meant to guard against operational risk as financial institutions traverse an ever-changing terrain. Consequently, a bank's operational risk management processes' effectiveness and consistency define its success. Emphasizing operational risk was crucial for enhancing the global banking system's strength. However, the true challenge lies in the effective application of these regulations, particularly in addressing operational weaknesses. Instances of banks failing due to operational deficiencies describe the need for ongoing awareness and improvement of risk management practices. As financial institutions direct an ever-changing landscape, these experiences should drive the continuous improvement of mechanisms to protect against operational risk. The success of banks centers on the effectiveness and regular nature of their operational risk management practices, which are essential for achieving a more stable and strong global financial system.

Most financial institutions in Myanmar are expanding swiftly to get a larger portion of the market using a range of strategies, such as creating mobile-based financial products to reach the unbanked population and putting better core infrastructure in place. The Central Bank of Myanmar, or CBM, has been monitoring and supervising all private banks concurrently in order to maintain the stability of the country's economy. In Myanmar at the moment, there are 4 state-owned banks and 27 privately held banks. Among private banks, KBZ Bank has led the way with the largest market share of 40% in both retail and commercial banking in Myanmar. By accelerating the development of internet banking and mobile payment applications, KBZ is stepping into the digital future and working toward the nation's complete financial inclusion. Thus, to improve KBZ Bank's bank performance, one must comprehend operational risk management techniques.

1.1 Rationale of the Study

The eleven principles that were established by the Basel Committee on Banking Supervision (BCBS) serve as the foundation for operational risk management (ORM), which is an essential component of the financial industry. By adhering to these guidelines, financial institutions are provided with a comprehensive framework that allows them to reduce risk and maintain operational resilience. Management of operational risk (ORM) in financial institutions, with a particular emphasis on the implementation of the guidelines established by the Basel Committee on Banking Supervision (BCBS). Understanding that strong ORM procedures are essential to the health and survival of financial institutions, the study methodically investigates the relationship between following BCBS principles and improved organizational effectiveness.

In today's interconnected and rapidly evolving business ecosystem, operational risks pose significant threats to organizational viability and success. These risks encompass a wide array of factors, including process failures, cybersecurity breaches, supply chain disruptions, and regulatory non-compliance, among others. Addressing such risks necessitates the implementation of robust ORM practices aimed at identifying, assessing, mitigating, and monitoring operational vulnerabilities.

The rising awareness of ORM's significance in modern corporate environments is not matched by the few and dispersed empirical evidence of its direct impact on organizational performance. While some studies have highlighted the positive effects of effective ORM on financial performance, operational efficiency, and risk mitigation, others have emphasized challenges and barriers hindering the implementation and adoption of comprehensive ORM frameworks. Moreover, existing literature often lacks a holistic perspective, focusing predominantly on specific industries or geographical regions, thereby limiting the generalizability of findings. Consequently, there is a need for comprehensive research that examines the nuanced relationship between ORM practices and performance outcomes across diverse organizational settings, considering factors such as industry dynamics, organizational size, and regulatory environments.

In essence, the Central Bank of Myanmar is an independent organization that periodically issues rules and directives to maintain the stability of the country's economy, particularly with regard to interest rates and foreign exchange rates. The CBM released the most current regulation, the Liquidity Ratio Requirement regulation, in July 2017. It mandates that all banks operating in Myanmar maintain a minimum of 20%. According to the Capital Adequacy Regulation (CAR), Tier I must have a minimum of 4% CAR and an 8% ratio. More importantly, "The Risk Management Framework" is included in the AML/CFT Risk Based Management Guidance Note that was released by the CBM in January 2015. It is extracted from the Basel Committee's Principle for the Sound Management of Operational Risk. It is mentioned that banks would design the risk management framework, which includes corporate governance, policies and processes, training, internal controls, and risk monitoring and reporting.

Practices for managing operational risk have a significant impact on how well banks perform. A bank that practices good operational risk management is better able to identify, assess, monitor, and manage risks because it reduces the likelihood of operational failures and the ensuing financial losses. This, in turn, contributes to improved financial performance, as evidenced by higher profitability and lower volatility in earnings.

Akhigbe & McNulty (2012) found that banks with stronger risk management practices tend to have higher returns on assets (ROA) and returns on equity (ROE), indicating better financial performance. Similarly, research by Berger et al. (2016) suggests that effective risk management can lead to higher market valuations for banks. Furthermore, effective operational risk management practices can enhance a bank's reputation and trustworthiness, leading to increased customer loyalty and market share. This is supported by a study by Fernandes & Farinha (2018), which found that banks with better risk management practices have higher customer satisfaction levels and are more likely to attract and retain customers. This study address investigating the effect of ORM practices on various dimensions of organizational performance, thereby contributing to a deeper understanding of the role of risk management in driving sustainable business success.

Strong operational risk management is seen by KBZ Bank as essential to its success.. In order to do this, the bank has a thorough and integrated strategy in which management systematically identifies, monitors, and manages all significant risks to which the bank is exposed. This ensures that all risks are continuously evaluated and minimized in line with the Bank's strategy and risk tolerance. Our method takes into account a wide range of risks, such as those that could affect the business of KBZ Bank and include credit, market, operational, liquidity, business, and reputational risks as well as environmental and social changes.

With more than 20,000 employees and 500 branches across the country, KBZ Bank is growing. To ensure smooth operations and low operational risk, it is critical to have excellent standard operating procedures (SOPs) and adhere to the following principles:. On the other hand, fraudsters create fake channels such as websites, Facebook pages that can be mistaken as KBZ Bank, its services or employees to steal customers' personal information and financial information by sending messages via email or phone SMS, Viber, and Messenger. Fraudsters make the customers' to fill their KBZ mBanking Username and Password, KBZPay PIN/OTP Code, Credit/Debit card numbers, the Expiry Date and Security Code on the back of the card in the fake link. Fraudsters pretend to be bank employees and fraudulently obtain customers' OTP codes, log into KBZPay accounts and transfer money. KBZ Bank must manage risk associated with operation activities. Accuacy of operational activities is very important for KBZ Bank. Frameworks for operational risk management are used by KBZ. These frameworks include processes for identifying, evaluating, mitigating, and monitoring risks related to the particular threats that banks confront, such as system failure and fraud. Thus, the study looks at how KBZ Bank's operational risk management procedures affect the bank's performance.

1.2 Objectives of the Study

The main objective of the study is to investigate the effect of operational risk management practices on bank performance of KBZ bank. The specific objectives are

(1) To identify operational risk management practices of KBZ bank.

(2) To analyze the effect of operational risk management practices on financial performance of KBZ bank.

1.3 Scope and Method of the Study

The primary focus of the research is how KBZ Bank's bank performance is affected by its operational risk management practices. There was a quantitative research design used in the study. The target population consists of KBZ Head Office workers. According to Yamane's (1973) methodology, 171 out of the 300 total responders were included in the sample. The survey using questionnaires was carried out in March 2024. The secondary data used the Basel Framework guidelines, CBM reports, relevant text books and previous research. The structured questionnaire employed a five-point Likert scale, where 1 meant "strongly disagree" and 5 meant "strongly agree," to enable a thorough evaluation of each principle's current level of application. Using multiple regression analysis, the relationships between the variables were examined.

1.4 Organization of the Study

This research consisted of five chapters. The study's introduction, justification, goals, scope, and methodology were all covered in the first chapter. The theoretical underpinnings of operational risk management techniques are covered in chapter two. The operational risk management procedures of KBZ Bank are covered in Chapter 3. The study's analysis is presented in Chapter 4. The results and discussion, recommendations, and requirements for more research are included in the chapter five's conclusion.

CHAPTER 2
THEORITICAL BACKGROUND

This chapter, which was divided into six sections, provided the theoretical framework for the investigation. These are the study's conceptual framework, prior research, financial performance, operational risk management strategies, and operational risk management concept.

2.1 Concept of Operational Risk Management

Dominic (1993) defined risk as the volatility of potential outcomes that might have favorable or unfavorable effects. Operational risk is asymmetric and impacts banks' profits and losses. Banks should control their expenditures to minimize operational risk, especially when marginal expenditure and marginal reduction are similar during an operating event with loss expectations. Banks can thereby reduce the predicted future cash flow by reducing operational loss occurrences, anticipated expenses, and enhancing bank performance (King, 2001).Furthermore, as noted by Cummins et al. (2006), it would appear appropriate for banks to devote the bare minimum of funds to operational risk management, with those monies going toward the marginal decrease in projected losses from comparable operational occurrences.

As to Froot's (2007) findings, banks may optimize their future cash flows by reducing the approximate expenses associated with operational loss incidents. This will enhance the bank's performance. Additionally, because their clients are more vulnerable to insolvency risk—which might worsen in the event of severe operational losses—banks have a strong incentive to manage operational losses effectively in order to reduce insolvency risk and enhance bank performance.Timothy (1997) defined operating risk as the possibility of experiencing a loss due to either external occurrences or inadequate or ineffective internal systems, people, or processes.

Operational risk is associated with inadequate processes and controls, human mistake, and malfunctioning systems. Operational risk is a potential that arises from inadequate information systems, technical glitches, and breaches of internal controls. Every product and company activity has some level of operational risk.operating risk management's (ORM) goal is to systematically identify, evaluate, and minimize risks associated with an organization's operating procedures. Operational risk management is essential to business, and risk is beneficial as long as it yields a sufficient return (Barger, 1997). To improve performance, management in general needs to establish a strong connection between operational risk management, achieving corporate objectives, and lowering outcome volatility (Basel, 2002).Recognized for its critical role in guaranteeing organizational resilience and sustainability, operational risk management is a cornerstone of contemporary business practice (Basel, 1998).

ORM is the process of detecting, assessing, and mitigating risks that arise from internal processes, external events, and systems that have the potential to impede business objectives, according to the Institute of Risk Management (IRM). By incorporating standards like ISO 31000 and instructions from regulatory authorities like the Basel Committee on Banking Supervision (BCBS), enterprises may develop robust ORM frameworks that are tailored to their specific risk profiles and operational environments. In addition to protecting against possible dangers, this proactive strategy encourages a culture of risk awareness and accountability at all organizational levels, which eventually boosts stakeholder confidence and long-term success.

.A bank's ability to effectively manage operational risk depends on a number of essential factors.. Maintaining a robust risk management culture under the direction of top managers and the board of directors is crucial above all else. Second, integrating an operational risk framework into the more comprehensive risk management protocols is essential. This framework should be reviewed and approved by the board on a regular basis. Third, risk acceptance and taste statements should be recommended by the board, which also needs to acknowledge acceptable operational risk levels. The bank's risk appetite should be in line with the clearly defined governance structure that senior management should create. It's also critical to comprehend the risks that are inherent in business lines and processes. Risk assessment should be a part of new initiatives, and procedures for monitoring must be in place. Robust internal controls, risk minimization, and flexible planning are necessary for operational risk management. Last but not least, transparent disclosures enable other parties to assess the bank's approach to managing operational risk. The discovery, evaluation, monitoring, and control of risk in the creation of a reliable protocol for an operational risk management framework is known as operational risk.

The Basel Committee has recommended eleven criteria for an effective framework for managing operational risk (Basel 2011). All of the following are essential for the maintenance of a robust risk management culture: the development and complete integration of the operational risk framework into the overall risk management processes of the bank; the approval of the framework by the board of directors and periodic reviews of the framework; the identification of the types and degrees of operational risks that the bank is willing to assume; and the approval of risk appetite and risk tolerance statements that are in line with the bank's risk appetite and risk tolerance. The eleven guidelines that are presented here constitute an efficient framework for the management of operational risks. The senior management, the board of directors, and the business line staff should all be on board with the implementation of a methodology that will monitor operational risks and material exposures to losses. Banking institutions are required to have strong internal controls, risk reduction strategies, and risk transfer methods in order to effectively manage operational risks. In the event that their company is significantly disrupted, they are required to have contingency plans in place to ensure their continued existence. It is necessary for the senior management of the bank to establish a transparent governance structure. It is also necessary for senior management to be aware of the inherent risks that are associated with the business lines and procedures of the bank, as well as the incentives that are associated with those risks.

2.2 Operational Risk Management Practices

The term "operational risk management" (ORM) refers to a group of methodical techniques used to recognize, evaluate, reduce, and keep an eye on risks associated with an organization's operational procedures. These processes include putting plans, guidelines, and regulations into place to reduce the possibility of interruptions and monetary losses brought on by outside circumstances, internal malfunctions, or human mistake. The success of the bank as a whole depends on ORM practices being able to sustain long-term development and stability.

(a) Operational Risk Identification

One of the most important components of risk management is operational risk identification, which is the act of identifying possible hazards that might interfere with an organization's daily operations. There are many different sources of this kind of risk, including as external events, people, systems, and internal processes. For operational risks to be effectively identified, a thorough strategy including risk assessments, internal audits, and ongoing monitoring is needed. Root cause analysis, scenario analysis, and process mapping are important techniques for locating these hazards. Employers frequently use risk control self-assessments (RCSA) to ensure a comprehensive grasp of possible vulnerabilities by involving staff members at all levels in the identification process. Basel Committee on Banking Supervision (2004) defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events". Historical data and incident knowledge can also improve operational hazard identification and control. Because organizational structures and procedures are becoming more complex, Power (2005) suggests strong risk identification frameworks to manage operational disruptions. Through systematic risk identification and mitigation, companies can secure resources, comply with regulations, and maintain operations.

(b) Operational Risk Assessment and Analysis

Operational risk assessment and analysis is essential for effective risk management in enterprises, particularly in the banking sector. These procedures include locating possible operational risk sources, assessing the risk's effect and possibility, and ranking the risks in order of importance for mitigation. Usually, the evaluation combines qualitative and quantitative techniques to offer a thorough grasp of the risk environment. Expert judgment, scenario analysis, and risk workshops are examples of qualitative methods; statistical models and analysis of past data are common quantitative methods used to assess prospective losses. An efficient allocation of resources and the implementation of suitable measures to minimize identified risks are made possible by an effective operational risk assessment, which guarantees that hazards are methodically identified and handled. Numerous scholarly publications and regulatory recommendations emphasize the significance of these procedures. For instance, in its special guidelines for operational risk management, the Basel Committee on Banking Supervision (BCBS) highlights the need for comprehensive risk assessment and analysis as a means of enhancing the resilience of financial institutions (BCBS, 2011). Furthermore, Chernobai, Jorion, and Yu (2011) highlighted the importance of thorough risk assessment in anticipating and minimizing operational losses, highlighting its role in preserving organizational performance and stability. These references serve as a reminder that thorough operational risk assessment and analysis is essential to proactive risk management and sustaining long-term organizational performance.

(c) Operational Risk Monitoring and Control

Operational risk monitoring and control are essential components of a robust risk management system, particularly in the banking sector where operational stability and integrity are critical.. In order to identify possible operational risks early on, monitoring entails the ongoing inspection of risk indicators, internal procedures, and external circumstances. Prompt identification of developing threats through effective risk monitoring facilitates timely actions. To track risk exposure and performance against preset thresholds, this method frequently makes use of key risk indicators (KRIs), routine risk assessments, and real-time data analytics. The steps taken to reduce the effect and mitigate recognized risks are known as operational risk controls. These controls, which can be preventative, investigative, or remedial in nature, are intended to lessen the possibility of operational failures and the possible repercussions that may follow (Lam, 2003).Numerous scholarly and regulatory sources stress the need of operational risk monitoring and management.A thorough set of rules for controlling operational risk has been published by the Basel Committee on Banking Supervision (BCBS). The guidelines emphasize the importance of strong control systems and efficient monitoring in order to guarantee continuous risk mitigation and compliance (BCBS, 2011). Additionally, Power (2007) emphasized the significance of ongoing monitoring and control systems in managing operational risks and how crucial they are to preserving operational integrity and organizational resilience.

(d) Training and Reporting

Effective operational risk management methods include training and reporting, which support businesses in developing a culture of risk awareness, improving their risk management skills, and guaranteeing accountability and transparency. Employees are intended to learn about operational risks, their possible effects, and the significance of following risk management policies and procedures through training programs. With the help of these initiatives, the business hopes to increase employee capacity to recognize and communicate risks, enhance decision-making procedures, and cultivate a risk-aware culture. A major factor in lowering the probability of operational failures due to ignorance or human mistake is effective training. (J. Fraser and B. Simkins, 2010)By giving stakeholders timely and pertinent information on the organization's risk profile, control environment, and mitigation activities, reporting methods play a critical role in operational risk management. Frequent exports enables management to keep an eye on important risk indicators, evaluate how well control mechanisms are working, and make deft judgments about new threats. Additionally, transparent reporting improves responsibility and fosters a sense of confidence among stakeholders, including as investors, consumers, and regulators.

2.3 Performance of Bank

The stability, profitability, efficiency, and general health of banks are reflected in a variety of financial and non-financial criteria that collectively comprise their performance. Key performance indicators (KPIs) including the cost-to-income ratio, net interest margin (NIM), return on assets (ROA), and return on equity (ROE) are frequently used to evaluate a bank's financial performance. These indicators show how well a bank makes use of its resources, controls its equity, and makes money relative to its outlays. Furthermore, evaluating a bank's success also heavily weighs non-financial aspects including worker happiness, operational effectiveness, risk management efficiency, improved financial performance, and adherence to legal and regulatory requirements. Bank performance is used in this study as a proxy for non-financial performance.Good risk management techniques are essential for preserving stability and averting large losses that can jeopardize a bank's finances and image, especially when it comes to controlling operational risks. Research shows that during economic downturns, banks with strong risk management systems typically perform better and show higher resilience. Acharya et al. (2017) emphasized how effective risk management can be in improving bank performance, particularly when it comes to reducing systemic risks. In addition, the Basel Committee on Banking Supervision (BCBS) provides a wealth of guidelines emphasizing the need for strong governance and internal control structures as well as establishing a link between improved bank performance and successful risk management techniques (BCBS, 2011). The aforementioned references highlight the correlation between risk management and the entire performance of banks. They recommend a comprehensive strategy to controlling both financial and operational factors in order to attain stable and sustainable growth.

2.4 Related Theories

This section discussed ground theories of this study. These consist of the BASEL framework, the Three Lines of Defense model (3LoD), and Risk Management Theory.

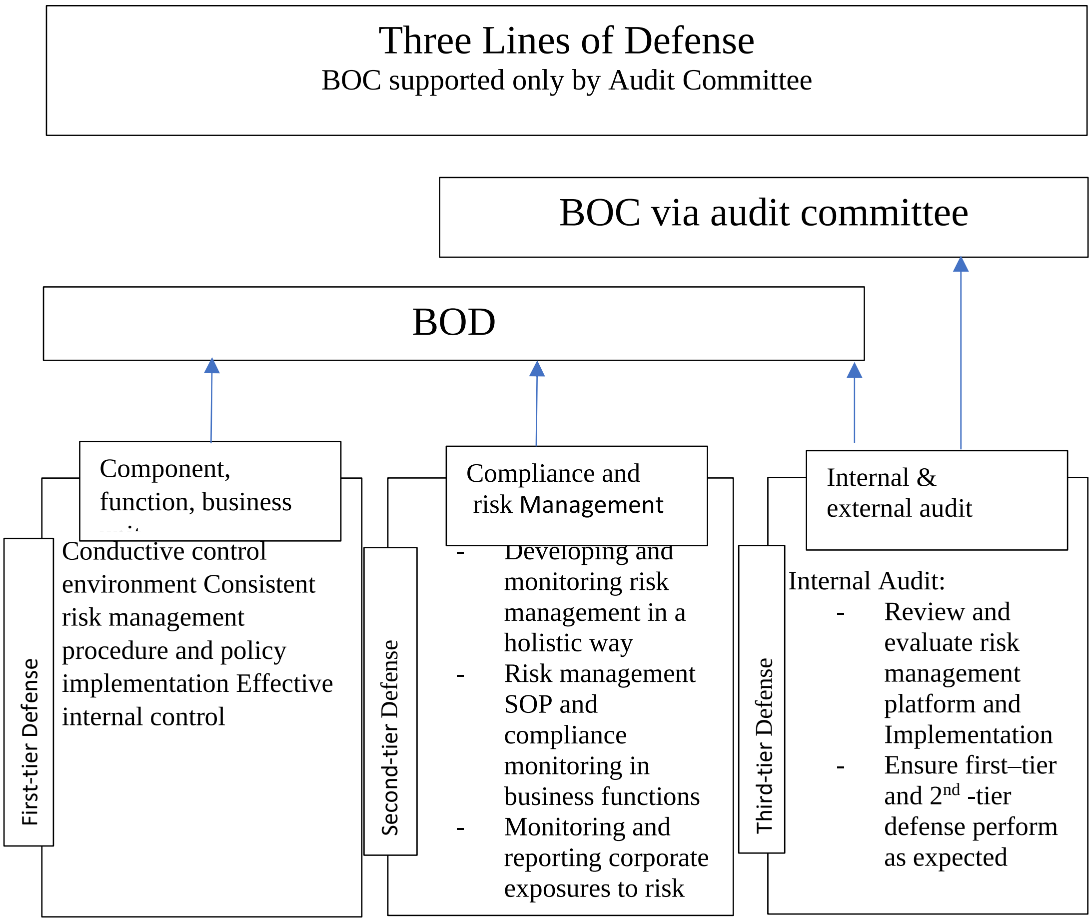
(a) Risk Management Theory

A key foundation for operational risk management techniques is provided by risk management theory, which emphasizes the requirement of methodical methods for identifying, evaluating, and mitigating risks related to systems, people, internal processes, and external occurrences. This theory emphasizes how important it is to handle operational risks well in order to keep organizations performing and stable, especially in industries like banking where these risks may have serious negative effects on an organization's finances and image. Organizations may establish strong internal controls, create thorough risk assessment procedures, and promote a risk-aware culture by putting Risk Management Theory to use. These procedures support better decision-making, ensure regulatory compliance, and lessen the effects of operational errors. Additionally, in order to adapt to shifting risk environments, the idea encourages continuous assessment and improvement of risk management practices. The literature provides strong support for the application of risk management theory to operational risk management. Lam (2014) underlined the necessity of integrating risk management into corporate operations in order to properly manage operational risks. Furthermore, the Basel Committee on Banking Supervision (BCBS) has developed frameworks and recommendations that provide detailed guidelines for managing operational risk in financial institutions in line with risk management theory (BCBS, 2011). These materials highlight how important Risk Management Theory is for providing direction for efficient operational risk management procedures.

(b) Three Lines of Defense model (3LoD)

Created some twenty years ago, the Three Lines of Defense (3LoD) paradigm Since then, particularly in the banking industry where it started, it has become the standard for linking risk management and control obligations to company operations. Officially embraced by the Institute of Internal Auditors (IIA) in a 2013 Position Paper titled "The Three Lines of Defense in Effective Risk Management and Control," it has since been pushed as a useful tool for government officials (IIA, 2013).

Figure (2.1) Three Lines of Defense (3LoD)



Source: adapted from IIA,2013

The Three Lines of Defense (3LoD) idea is a robust framework for risk management and internal control that has been widely embraced by several industries, including the banking sector. This model lays out precise roles and duties for improving governance, controlling risk, and guaranteeing efficient risk management procedures. Operational management is the first line of defense as it knows how to recognize, evaluate, control, and minimize risks in their daily operations. The emphasis in this line is on taking ownership of risk and putting internal controls in place inside operational processes.. In general, the first line of defense's main goal is to make it more likely that the organization's business objectives will be met through the effective use of the required risk management procedures and controls mechanisms by the relevant personnel (managers - risk owners). The 3LoD model has received widespread support from the Institute of Internal Auditors (IIA), which highlights its importance in preserving strong risk management frameworks inside businesses (Institute of Internal Auditors, 2013). The approach guarantees thorough monitoring and accountability while assisting companies in managing risk more skillfully by precisely defining roles along these three lines. First line of defense procedures are the main emphasis of this study's conceptual framework.

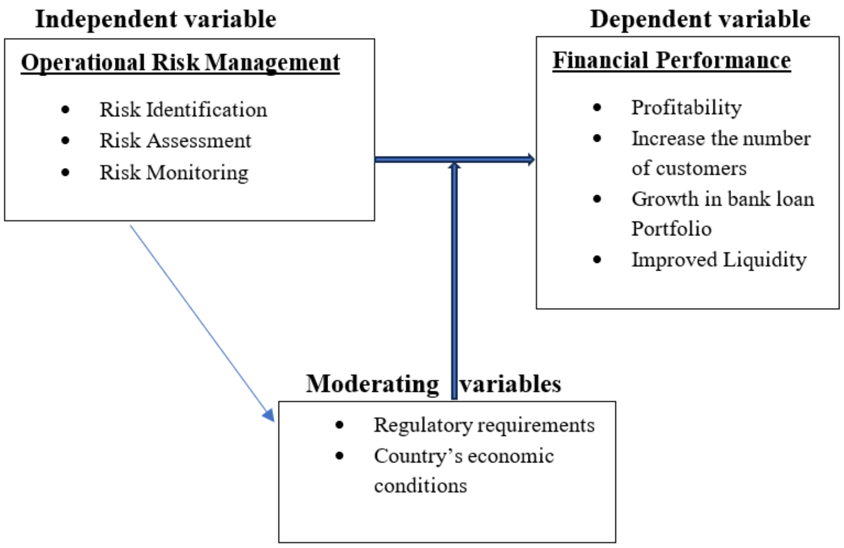
(b) BASEL Framework

The Basel Committee on Banking Supervision (BCBS) established the Basel Framework for Operational Risk Management, a collection of international regulatory guidelines and recommendations, to guarantee that banks effectively manage operational risks. In particular, the framework offers comprehensive principles and methods for identifying, assessing, tracking, and minimizing operational risks within financial institutions, particularly through the Basel II and Basel III accords. It underscores the necessity of a robust governance structure, effective internal controls, and an efficient risk management environment to mitigate risks associated with internal processes, people, systems, and external events. In order to accommodate the complexity and risk profile of the bank, Basel II established the Basic Indicator Approach, the Standardized Approach, and the Advanced Measurement Approach for determining operational risk capital needs. Basel III enhanced these recommendations by advocating for increased capital requirements, emphasizing the importance of a risk-aware culture, and conducting ongoing oversight of risk management procedures, as well as incorporating the knowledge acquired from the financial crises. The BCBS's 2011 "Principles for the Sound Management of Operational Risk" delineate essential practices, including the establishment of clear lines of accountability, the development of reliable procedures for identifying and evaluating risks, and the implementation of effective reporting and control systems. These prerequisites are indispensable for banks to mitigate operational risks and safeguard financial stability. The framework is widely implemented and implemented in the banking sector, as demonstrated by the comprehensive studies and guidelines published by the BCBS (BCBS, 2011; BCBS, 2006).

2.5 Previous Studies

Emmanuel, L. (2017) conducted research on the financial performance and operational risk management in Uganda's banking sector, with a particular emphasis on the Mpigi Branch of Stanbic Bank Uganda. The research was guided by objectives to determine how Stanbic Bank has recognized risk in order to improve liquidity, to evaluate and analyze operational risk in order to guarantee profitability, and to determine how Stanbic Bank Uganda has monitored operational risk in order to improve the reduction in the number of non-performing loans. The research framework for Uganda is shown in Figure (2.2)..

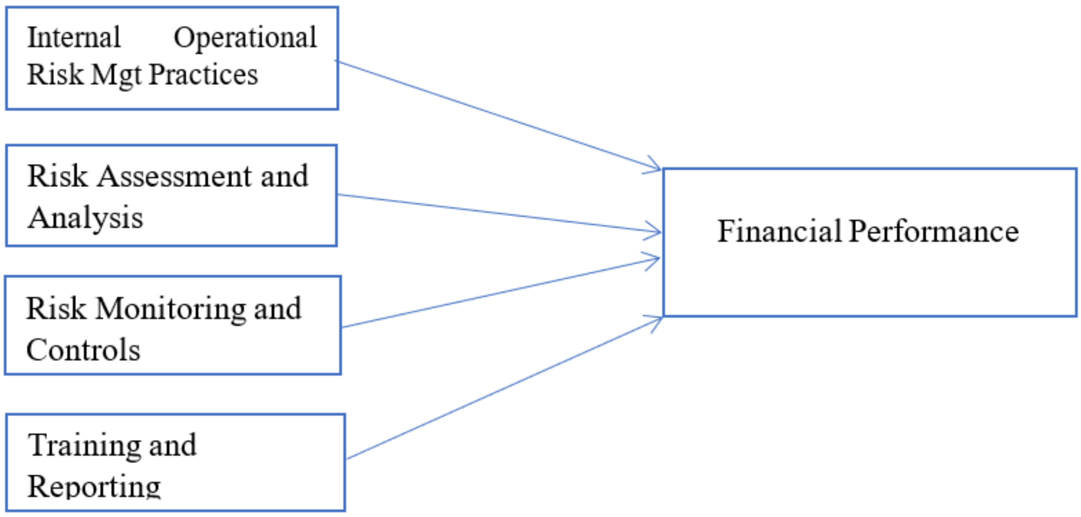
Figure (2.2) Operational Risk Management and Financial Performance



Source: Emmanuel, L. (2017)

Because the r values were positive, the investigation came to the conclusion that there was a significant and positive regression coefficient between the two variables. This was the conclusion reached by the investigation. The findings of the study, which are demonstrated by an R2 value of 57%, demonstrated a significant positive correlation between the financial performance of Stanbic Bank and the management of operational risk. As a result of the findings of the study, the idea that efficient management of operational risks is an essential managerial task for strong financial performance is given more credence. Furthermore, it demonstrated the shortcomings of the monitoring system that the Stanbic firm had, which had resulted in the firm incurring some financial losses. According to the findings of the research, Stanbic Bank ought to conduct regular evaluations of its prospects in order to achieve its financial goals. Additionally, the bank ought to strengthen its operational risk management protocols in order to continuously improve its financial performance.The purpose of the research that was carried out by Isoh, Alain, Nchang, Nchise, and Ambang, Egute (2020) was to investigate the influence that operational risk management strategies have on the financial performance of a number of prominent commercial banks in Cameroon. A quantitative case study approach was utilized, with positivism epistemology and objectivism ontology serving as the philosophical pillars that supported the approach at hand. In order to collect information through the use of structured questionnaires, a representative sample of two hundred and fifty (250) employees from the National Financial Credit Bank (NFCB), the United Bank for Africa (UBA), and Eco Bank was selected from the central and littoral regions of Cameroon. The data was analyzed using structural equation modeling (SEM) using Amos 24 and SPSS 23. Figure (2.3) provides a description of the Isoh et al. (2020) study framework.

Figure (2.3) The Impact of Operational Risk Management on Financial Performance



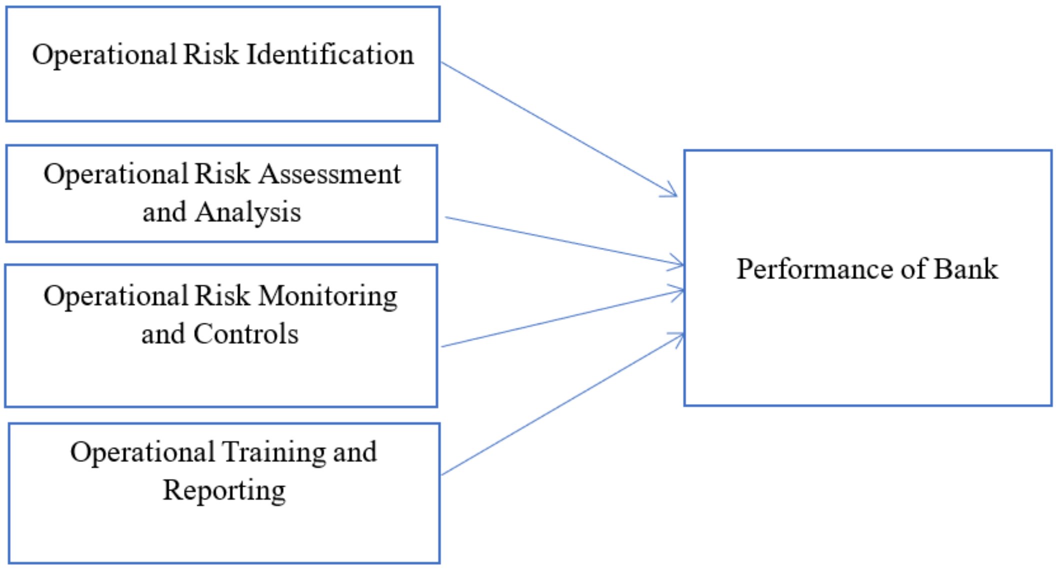
Source: Isoh et al., 2020.

According to the research that was cited earlier, an organization's financial performance can be significantly improved by implementing internal operational risk management processes, risk monitoring and control, as well as training and reporting. The findings of this study provide evidence to support the hypothesis that implementing internal operational risk management measures leads to an improvement in financial performance. In addition, there is a significant role that risk management and monitoring play in mediating the relationship between financial performance and reporting and training. Therefore, using Cameroon as an example, our research indicates that the implementation of operational risk management techniques, as mandated by the Basel I, II, III, and IV accords, is a significant factor in determining the stability and resilience of a financial system.

2.6 Conceptual Framework of the Study

In accordance with previous research, the conceptual framework of this study is constructed and displayed in Figure (2.6). The Basel Framework, the Three Defenses Model, and risk management theory are all utilized in this Study. In this study, the bank's performance serves as the dependent variable, while the independent factors include risk identification, monitoring, controls, training, and reporting..

Figure (2.4) Conceptual Framework of the Study



Source: Own Compilation (2024)

Working Definitions

Operational Risk Identification: The process of recognizing, recording, and comprehending any risks that can adversely affect an organization's operations, initiatives, or goals is known as operational risk identification.

Operational Risk Assessment and Analysis: Operational risk assessment and analysis include ranking possible threats to the systems, procedures, and activities of KBZ Bank.

Operational Risk Monitoring and Controls: Operational Risk monitoring and controls help KBZ bank to identify, assess, and control risks to achieve its objectives.

Operational Risk Training and Reporting: Operational risk Training and reporting help KBZ bank to enhance risk management capabilities, and ensure transparency and accountability for improving performance.

Performance of Bank: A bank's performance refers to how effectively and efficiently the institution achieves its financial and operational goals.

CHAPTER 3

PROFILE AND OPERATIONAL RISK OF KBZ BANK LIMITED

This chapter covers KBZ Bank Limited's operational risk management techniques and profile. It details the bank's founding, goals, fundamental principles, and motto, as well as the growth of its branches and the financial services it provided throughout the course of its 26-year existence.

3.1 Profile of the KBZ Bank Ltd

Beginning on July 1st, 1994, KBZ Bank was established in the southern part of Shan State, close to the town of Taunggyi. To begin, the bank provided the residents of Taunggyi with essential goods. After taking over the company from its previous owner in November 1999, the current management has been responsible for the company's growth into one of the largest private commercial banks in Myanmar thanks to their leadership. It was in April of 2000 when the headquarters of the KBZ were relocated to Yangon, which is the commercial center of Myanmar. At this point, KBZ Bank is the largest privately held bank in Myanmar, boasting more than 500 branches across the country. In the retail and commercial banking sectors of the nation, KBZ Bank currently holds a market share of forty percent, as indicated by an analysis conducted by the GIZ in 2018. In November 2011, the Central Bank of Myanmar granted KBZ Bank an Authorized Dealer License (ADL), which is a requirement for the bank to be able to engage in international banking operations. The bank is laying the groundwork for Myanmar's rapidly growing financial services sector, particularly in the areas of digital and technological advancement. The fact that they are aware of the opportunities for innovation, the needs of the local population, and the specific economic conditions of the nation makes it possible for them to accomplish this. The initial capital of KBZ Bank was MMK 477 million when it was established in 1999. As of 2014, the bank's capital had increased to MMK 113 billion. Over the course of more than twenty years, KBZ Bank has been an integral part of Myanmar's development story, serving as a representative of a new generation in the economic sector. The bank is making a concerted effort to improve the standard of living for all individuals while simultaneously fostering the long-term strength of the institution and the community. In order to facilitate the acceleration of Myanmar's development in the digital era, KBZ Bank is implementing banking technology of the next generation. KBZ Bank will continue to expand its operations in the financial sector in tandem with the development of Myanmar.

With a broad range of goods and services for both business and personal clients, KBZ Bank's **vision** is to become Myanmar's leading bank.. **Mission is**

- To guarantee the utmost degree of client contentment and confidence via the provision of superior financial services.
- To consistently raise the caliber of our financial services by utilizing creative thinking, putting money into cutting-edge technology, and investing in human resources.
- Provide fulfilling career possibilities and encourage accountability from employees at all levels;
- Behave as a responsible corporate citizen by balancing business endeavors with moral behavior and social responsibility;

KBZ Bank's core values are guided by a belief and a culture that flows throughout the entire organization. These core values include being kind to people and acting in a manner that is morally sound. Because of this, we are motivated by our three core values, which are Metta, Thet Ti, and Virya, which in turn are loving kindness, perseverance, and courage.

3.2 Financial Services Provided by KBZ Bank Ltd

The goal of KBZ Bank's Responsible Business Practices is to empower people, companies, and via its products. It may be seen in Table 3.1. Additionally, KBZ Bank expanded its self-service banking portal, enabling users to open accounts and seek extra credit card and account services online. The self-service Banking Portal makes it simple to create an account and apply for a credit card, so there's no need to visit banks.

The following MMK accounts and credit cards can be opened and applied for using the Self-service Banking Portal.

- Saving Account (Individual)
- Current Account (Individual)
- KBZ MPU Credit Card
- Call Account (Individual)
- Cash Account Savings (Individual)
- KBZ Visa Credit Card
- Cash Account Call and Current (Individual)
- KBZ UnionPay Credit Card

Table 3.1 The Products and Services of KBZ bank

Accounts	Cards	Loans	Payroll services
Recurring deposit accounts, 'New CASH accounts, Current accounts, Saving Deposit accounts, Fixed Deposit accounts, Minor Accounts, Call Deposit Accounts, Foreign Currency Accounts, Bank Guarantee Deposit Accounts	Explore debit card, Prepaid card, MPU Teen Debit Card, Credit Card	Shopper installment loan, Overdraft, Home loan, SME loan	
Remittance	SME & Business Banking	Cash Management	Trade Finance
Local remittance, International remittance		Collection service, Payment service	
Trust Service	Other Services		
Escrow services, Onshore Security Agent services	KBZPay Life Insurance, Gift Cheques, KBZ QuickPay, KBZ DirectPay, Bank Certificate, E-commerce, Safe Deposit Locker, Payment Order, Procurement, KBZ MPU Corporate Tax, Debit Card, Treasury		

Source: KBZ Bank,2023

3.3 The Operational Risk Management Practices of KBZ Bank Limited

KBZ Bank Limited, one of Myanmar's largest banks, has implemented robust operational risk management practices to safeguard its operations and enhance its resilience in the face of potential risks. The bank's operational risk management framework is aligned with international best practices and regulatory guidelines, ensuring that it effectively identifies, assesses, and mitigates operational risks across its business lines.

(a) Risk Identification In KBZ Bank

One of the key aspects of KBZ Bank's operational risk management practices is its emphasis on risk identification. The bank utilizes a variety of methods, including risk registers, process mapping, and scenario analysis, to identify potential risks arising from internal processes, people, systems, and external events. By systematically identifying risks, KBZ Bank can proactively assess their possible impact and likelihood, enabling the bank to implement appropriate controls and mitigation strategies.

The process of thoroughly identifying and recording any risks that can negatively affect KBZ Bank's operations, financial stability, or reputation is known as risk identification. Numerous risk areas are covered by this approach, such as credit, market, operational, compliance, and strategic risk. A solid understanding of the bank's internal processes, the external environment, and the regulatory landscape are necessary for effective risk detection. It requires the use of a variety of tools and procedures, including risk assessments, audits, scenario analysis, and data analysis. Identifying hazards early allows banks to establish risk mitigation strategies, assuring operational resilience and long-term financial health.

(b) Operational risk assessment and analysis in KBZ Bank

Operational risk assessment and analysis in KBZ Bank involve a systematic approach to identifying, evaluating, and mitigating risks that could disrupt its internal processes, systems, and overall operations. This begins with comprehensive risk identification through internal audits, risk workshops, and detailed process mapping to pinpoint potential failure points. Following this, the bank employs qualitative and quantitative tools such as Risk Control Self-Assessment (RCSA) and scenario analysis to assess and rate these risks based on their likelihood and impact. To mitigate identified risks, KBZ Bank implements robust internal controls, develops stringent policies and procedures, and conducts regular employee training to ensure awareness and adherence to risk management practices. Continuous monitoring and reporting systems are established to promptly detect and address any emerging risks. Leadership commitment and fostering a risk-aware culture across the organization are crucial for effective risk management. Additionally, leveraging advanced technology and adhering to regulatory compliance standards further strengthen the bank's operational risk management framework. This structured and proactive approach ensures KBZ Bank maintains operational resilience and stability in an ever-evolving risk landscape.

(c) Operational Risk Monitoring and Controls

KBZ Bank also places a strong emphasis on risk monitoring and controls. The bank regularly monitors key risk indicators (KRIs) to track the effectiveness of its controls and identify emerging risks. Additionally, KBZ Bank has implemented a range of preventive, detective, and corrective controls to mitigate operational risks. These controls are regularly reviewed and updated to ensure their effectiveness in managing risks.

The success of KBZ Bank depends on its ability to manage risk well. To this end, the bank takes a comprehensive and integrated approach to risk management, with management carefully identifying, monitoring, and controlling all significant risks to which the bank is exposed. This ensures that all risks are continuously evaluated and minimized in line with the Bank's strategy and risk tolerance. Numerous risks are taken into account in the process, such as those related to credit, markets, operations, liquidity, company, and reputation; changes in the environment and society; and other risks that may have an effect on the business. The core components of the Risk Governance Framework, which serves as the cornerstone of KBZ Bank's all-encompassing approach to risk management, are the Board of Directors, Three Lines of Defense, and a comprehensive governance process.In order to keep up to speed with the continually evolving business and regulatory environments in Myanmar, the KBZ Bank Board of Directors ensures that best practices for risk management are integrated into all management initiatives and business operations. In order to achieve these goals, the Board works with two Board Committees and supervises their operations: the Board Credit Committee and the Board Audit and Risk Committee (BARC).The BARC is the board committee that is mostly in charge of supervising risk management operations and making sure that all relevant material controls and procedures are operational. By regularly monitoring the Bank's operations for compliance and handling instances of non-compliance, the BARC's risk control functions make sure the Bank never deviates from predefined risk criteria.The BARC receives regular updates and reports from all risk control functions. The Board is still ultimately in charge of making sure that the Bank's activities adhere to sound and sensible procedures, relevant laws and regulations, and Board-approved policies. Senior managers also assist the Board by swiftly disclosing any noteworthy events that might alter the categories or degrees of risk.

For important business and product lines, KBZ Bank developed and launched the Risk Control Self-Assessment (RCSA) project in the second half of 2021. The RCSA procedure for risk identification encompassing these areas was finished in May 2022.

(d) Operational Risk Training at KBZ Bank

Operational risk training and reporting at KBZ Bank are integral to its comprehensive risk management framework. The training program equips employees with the knowledge and skills to identify, assess, and mitigate operational risks effectively. Regular training sessions, workshops, and seminars focus on the latest risk management techniques, regulatory requirements, and the importance of internal controls. Practical insights are provided through interactive modules and real-life case studies, fostering a culture of risk awareness and proactive management. Concurrently, a strong reporting system is established to ensure timely detection and resolution of operational risks. Employees are encouraged to report incidents and near-misses through a structured incident reporting system, facilitating prompt analysis and corrective action. Regular risk reports are generated and reviewed by senior management and the board, ensuring transparency and informed decision-making. This dual approach of continuous training and diligent reporting helps KBZ Bank maintain operational excellence and resilience in a dynamic risk environment.

From KBZ Bank, now trained course by course about risk-fraud awareness training, and Anti-money laundering training through KBZ Landing Academy. KBZ Bank Landing Academy provides a range of operational risk training programs are in the below Table.

Course	Progermes	Purposes	Topics
1	Risk identification and assessment training	How to identify and assess operational risks within the KBZ bank process?	Types of operational risks, risk assessment techniques, risk indicators, and case studies of past incidents
2	Risk management frameworks and policies	The bank's risk management frameworks and policies awarness	Overview of the bank's risk management framework, key policies and procedures, roles and responsibilities, and compliance requirements
3	Fraud prevention and detection	Recognizing and preventing fraud awarness	Types of fraud, fraud detection techniques, reporting mechanisms, and real-life examples of fraud incidents
4	Information security and cybersecurity	the importance of information security and are equipped how to protect the KBZ bank data	Data protection principles, cybersecurity threats, safe internet practices, and response protocols in case of a breach.
5	Business continuity and disaster recovery	Handling business disruptions	Business continuity planning, disaster recovery procedures, crisis management, and communication plans
6	Compliance and regulatory training	Updated on relevant laws and regulations	Regulatory requirements, compliance best practices, anti-money laundering (AML) and counter-terrorist financing (CTF), and internal audit processes
7	Operational risk in financial transactions	Financial transactions and operations risks mitigation	Transaction processing risks, reconciliation procedures, internal controls, and error management

8	Customer service and relationship management	How to manage risks associated with customer interactions	Customer service best practices, handling complaints, data privacy, and ensuring ethical conduct in customer dealings
9	Vendor and third-party risk management	How to manage risks associated with third-party vendors	Vendor selection and management, contract management, due diligence, and monitoring vendor performance
10	Health and safety	A safety working environment	Workplace safety protocols, emergency procedures, ergonomic practices, and health and wellness programs

KBZ Bank might customize these training programs based on specific roles, departments, and emerging risks. Regular updates and refresher courses are typically conducted to keep employees informed about the latest risk management practices and regulatory changes.

CHAPTER 4

ANALYSIS OF OPERATIONAL RISK MANAGEMENT PRACTICES ON PERFORMANCE IN KBZ BANK LIMITED

This chapter describes the information gathered from the survey on operational risk management techniques and how it affects performance. analysis of information derived from 171 KBZ Bank Limited respondent. This chapter covers the research design, demographic profile studied in this research, results from descriptive analysis, Pearson's correlation and regression analysis which can point out the objectives of this research study.

4.1 Research Design

The primary objective of this study is to examine how operational risk management strategies affect the performance of KBZ Bank Limited. The study's cornerstone is its research design, which offers guidance for both data collection and analysis. This study's main objectives were to collect primary data and analyze secondary data; both types of data were used to evaluate the findings. As a research tool, two-sectioned structured questionnaires were used to gather primary data pertaining to the study's objective. In section one, the respondent profile was looked at. The topics addressed were operational risk identification, assessment, and analysis, monitoring and controls, operational risk training, operational risk reporting, and survey items related to the dependent variable for bank performance. These are the research's dependent variables. According to Taro Yamane's recommendations (1973), a sample size of 171 respondents was chosen from among the 300 total workers of KBZ Bank in order to determine the influence of operational risk management methods on the performance of KBZ Bank Limited.

The sample size of this study is 171 respondents.

$n = N/ 1 + N * (e) 2 = 300/ 1+ 240* (0.05) 2 = 171$

Where, n =the sample size, N= population size, e = acceptable sampling error which is assumed that 95% confidence level and e = 5 %

Relevant journals, local and international research papers, survey report, articles, website. published text book were used as secondary data to obtain the relevant information of this research. For measuring the objective of this research, five Point Likert Sale were used.

SPSS version 23 used in this study to utilize the information come from descriptive analysis, Cronbach's Alpha for reliability statistics, Pearson's correlation analysis and multiple regression analysis.

4.2 Profile of Respondents

The profiles of chosen responders from KBZ Bank are covered in this part. The employee profiles contain information on the employees' gender, age, place of employment, degree of education, income, and length of service. Frequency distribution and percentage distribution are used to evaluate and summarize all of the data information gathered from the completed surveys. The examination of frequency and percentage shown in Table (4.1).

Table (4.1) Profile of Respondents

Items	Demographic	No. of Respondents	Percent
Gender	Male Female	52 119	32% 68%
Total		**171**	**100.0**
Age (Year)	Below 30 31– 40 years 41 – 50 years 51 – 60 years Above 60	32 50 47 36 6	19 29 28 21 3
Total		**171**	**100.0**
Education	Bachelor Degree Master Degree Ph.D	113 39 19	66 23 11
Total		**171**	**100.0**
Income	Less than 500,000 Ks 500,001 – 1000,000 Ks 1000,001 – 1500,000 Ks More than 1500,000 Ks	67 36 51 17	39 21 30 10

Total		**171**	**100.0**
Service Year	Less than 1 years	69	40
	1 year – 3 years	34	20
	3years – 5years	51	30
	5 years and above 5 years	17	10
Total		**171**	**100.0**
Position	Junior Staff	54	32
	Senior Staff	45	26
	Supervisor	33	19
	Assistant Manager	19	11
	Manager	14	8
	Directors	5	3
	CEO	1	1
Total		**171**	**100.0**

Source: Survey data (2024)

According to Table (4.1), 68% of respondents were women and 32% of respondents were men. Consequently, it was found that the respondents' gender—females—represented the most common working group at KBZ Bank. Table (4.1) shows the frequency distribution of age in years. There were six categories based on the age group categorization. The selected staff is composed of 32% individuals under 30 years of age, 50% between 31 and 40 years of age, and 47% between 41 and 50 years of age. The percentages for those over 60 and those still 51 to 60 are 3% and 21%, respectively.

According to Table (4.1)'s results, 66% of respondents had bachelor's degrees, with the remaining 23% having master's degrees. And 11% of those with doctorates in this study come next. This suggests that the majority of responders had excellent or high levels of education. According to the results, 39 percent of respondents made less than 5,000,000 Kyats per month, 30 percent made between 1,000,001 and 1500,000 Kyats per month, 21 percent made between 500,001 and 1,000,000 Kyats per month, and the remaining 10 percent made more than 1,500,000 Kyats per month.

The responders' additional background data included years of experience.. Table (4.1) presents the job experience of the respondents. Table (4.1) shows that 40% of respondents have worked for less than a year, and 30% have worked for three to five years. The results are: 20% of the service group for times between one and three years, and 10% of the group for times more than five years. According to Table

(4.1)'s results, there are around 32% junior staff members, 26% senior staff members, and 19% supervisory staff members. The CEO, director, and manager make up the remaining 11%, 8%, and 3%.

4.3 Reliability Test

A scale's capacity to measure variables consistently is referred to as its dependability. Analyzing the test's internal consistency allows for the Cronbach's alpha value findingsCronbach's Alpha scores above 0.7 are regarded as officially satisfactory; numbers over 0.8 suggest good reliability, while levels over 0.9 indicate exceptional reliability. The results of thesurvey study's Cornbrash alpha value are shown in Table (4.2)..

Table (4.2) Reliability Test for Operational Risk Management Practices and Performance

Sr. No.	Factors	No. of items	Cronbach's Alpha
1	Operational Risk Identification	7	0.876
2	Operational Risk Assessment and Analysis	7	0.922
3	Operational Risk Monitoring and Controls	7	0.951
4	Operational Risk Training and Reporting	7	0.915
5	Performance of Bank	10	0.965

Source: Survey data (2024)

As demonstrated by the Cronbach's Alpha score of 0.876, Table (4.2) indicates a good degree of internal consistency for the items evaluating operational risk identification. Excellent internal consistency is suggested by Cronbach's Alpha values of (0.922) for operational risk assessment and analysis, (0.951) for operational risk monitoring and controls, and (0.915) for operational risk training and reporting. Excellent internal consistency for the items gauging the bank's performance is indicated by the value of (0.965).

4.4 Employee Perception on operational risk management practices of KBZ Bank Limited

Within the conceptual model of the study, there is one independent variable, which is financial performance, as well as four independent variables, which are operational risk identification, operational risk assessment and analysis, operational risk monitoring and control procedures, and operational risk training and reporting. This section provides an explanation of the means by which the impact of each variable on the financial performance of KBZ Bank was determined.

Mean score interpretation

Mean Score	Interpretation
1.00 - 1.80	Very Low
1.81 - 2.60	Low
2.61 - 3.20	Medium
3.21 - 4.20	High
4.21 - 5.00	Very High

Adopted according to moidunny (2009)

4.4.1 Employee Perception on Operational Risk Identification

There are seven items in the analysis of operational risk identification. Each statement's the mean score and standard deviation are shown in Table (4.3).

Table (4.3) Mean Score of Operational Risk Identification

Sr. No.	Items	Mean	Standard Deviation
1	Having implemented a comprehensive risk taxonomy framework for the consistent definition and categorization of operational risks across all departments.	4.49	0.501

2	Addressing the identification of current and potential risk exposures within each business unit.	4.48	0.577
3	Including facilitated sessions such as workshops, brainstorming, and discussions among KBZ departmental staff.	4.43	0.613
4	Adheresing to stringent due diligence protocols to avoid interactions with entities involved in fraudulent activities or other crimes.	3.94	0.906
5	Considering critical factors such as personnel, processes, IT systems, and external events.	4.04	0.836
6	Involving all level of staffs of concerned department.	4.53	0.500
7	Identifying all possible risks from the survey questions or computing in their operation process.	4.43	0.542
Overall Mean		**4.34**	

Source: Survey data (2024)

According to table (4.3), respondents gave KBZ Bank's operational risk detection procedures an overall mean score of 4.3350, indicating that they are highly regarded. With little answer variability, the mean score result of 4.49 and standard deviation of.501 show that respondents had a strong opinion of KBZ Bank's capacity to define and classify operational risks. As the mean score result 4.48 in the statement no 7, there is a strong consensus that KBZ Bank effectively identifies all possible risks, indicating a thorough and systematic approach. According to mean score result of 3.94 and .906 in standard deviation, there is moderate agreement that the finance department adheres to due diligence protocols to avoid interactions with entities involved in fraudulent activities or other crimes., but the higher standard deviation describes a wider range of opinions on this matter. This mean that there is well management system and identification system of risk to cover in fraudulent activities or other crimes.

4.4.2 Employee Perception on Operational Risk Assessment and Analysis

Employees must answer to seven questions about operational risk assessment and analysis procedures. The following Table (4.4) displays the mean and standard deviation for each statement derived from respondents' responses.

Table (4.4) Mean Score of Operational Risk Assessment and Analysis

Sr. No	Items	Mean	Standard Deviation
1	Using Both qualitative methods (e.g., risk and control self-assessments, risk mapping) and quantitative methods (e.g., causal modeling, key risk indicators) to assess operational risks in our department.	3.60	0.801
2	Utilizing historical loss data to predict the likelihood of future operational risk events.	3.60	0.492
3	Being determined through rigorous risk assessment processes.	3.89	0.703
4	Being aligned with the bank's strategic objectives.	3.59	0.809
5	Being in place to ensure that all department's risk appetite and management strategies are well-understood and integrated into decision-making processes.	4.19	0.994
6	Performing internal control system to assess the operational risk.	3.99	0.454
7	Assessing operational risks are comprehensive and reliable.	3.89	0.703

Source: Survey data (2024)

As a result of Table (4.4), the respondents' overall mean score of 3.82 indicates that they have an overall good opinion of KBZ Bank's operational risk assessment procedures. The mean of statement 4 which is 3.59 with.809 in standard deviation suggests operational risk assessments are generally aligned with strategic objectives. The mean score of 3.60 in statement number one indicates a moderately high usage of both qualitative and quantitative methods in risk assessment. In statement 2, With a mean of 3.60 and a lower standard deviation of 0.492, the finance team appears effective in using historical loss data to predict future risks, showing consistency in this practice. Item no 5 has the highest mean score 4.19 with standard deviation .994, suggesting strong integration of risk appetite and management strategies into decision-making.

4.4.3 Employee Perception on Operational Risk Monitoring and Controls

The findings of the respondents' behaviors for operational risk monitoring and controls are displayed in Table (4.5). Efficient risk management strategies primarily consist of a monitoring and control system.

Table (4.5) Mean Score of Operational Risk Monitoring and Controls

Sr. No	Items	Mean	Standard Deviation
1	Employing real-time data and reporting systems to continuously monitor operational risks.	3.40	0.801
2	Ensuring compliance with all regulatory requirements relevant to our operations.	3.49	0.831
3	Providing to incorporate regulatory reforms into our department's policies and procedures.	3.40	0.664
4	Being accountable for their actions, regardless of the financial outcome.	3.59	0.820
5	Having established mechanisms, such as whistleblowing procedures, for staff to report concerns about unethical practices.	3.49	0.931
6	Being regularly tested and updated.	3.49	0.929
7	Being employees well-trained in implementing and adhering to risk controls.	3.89	0.703
Overall Mean		**3.54**	

Source: Survey data (2024)

There are seven items to analyze Operational Risk Monitoring and Controls. The mean score of 3.40 in statement one suggests a moderate level of employment of real-time data and reporting systems to monitor operational risks. A mean of 3.49 shows a fairly strong compliance with regulatory requirements. The mean score of 3.59 reflects a relatively strong sense of accountability among the staff of finance department for their actions, regardless of the financial outcome. A high mean score of 3.89 in item number seven indicates that employees are generally well-trained in implementing and adhering to risk control. The overall mean score of 3.5363 indicates that the department generally has good practices in place for monitoring and controlling operational risks. However, the variability in some areas suggests that there is still room for improvement.

4.4.4 Employee Perception on Operational Risk Training and Reporting

To achieve the effectiveness loan performance, not only public organizations but also private organization need to consider as an important part for reporting and training to cover the potential risks. Table (4.6) presents the information come from the result of the respondents regarding with operational risk training and reporting. Seven items which includes in survey questions are stated in this section.

Table (4.6) Mean Score of Operational Risk Training and Reporting

Sr.	Items	Mean	Standard Deviation
1	Receiving regular training through workshops, newsletters, and mandatory operational risk awareness programs.	4.19	0.994
2	Promoting an open exchange of views and discussions to ensure staff have the necessary resources and information for effective performance.	3.99	0.454
3	Being aligned with our department's strategic objectives.	3.89	0.703
4	Updating the reports on operational risk issues communicated to all staff in our department.	4.09	0.705
5	Feeling confident in using the bank's reporting system to raise operational risk concerns without fear of retaliation.	3.89	0.703
6	Being a clear and effective process for reporting operational risks to senior management	3.89	0.703
7	Having an open culture that encourages reporting of risk incidents and near misses.	4.09	0.545
Overall Mean		**4.00**	

Source: Survey data (2024)

This overall mean 4.008 describes that, on average, respondents have a positive view of operational risk training and reporting practices according to Table (4.16). In statement one, mean 4.19 indicates strong agreement among respondents that regular training is provided from workshops, newsletters, and mandatory operational risk awareness programs. Mean score 4.09 for statement four indicates a strong belief that regular communication about operational risk issues is maintained to all staff. A strong cultural endorsement for reporting risk incidents and near misses occurs among the respondents according to the mean score 4.09 for items number seven. This shows strong performance in training and promoting an open culture for risk reporting in KBZ Bank.

4.4.5 Employee Perception on Bank Performance

The financial performance of the KBZ bank in terms of operational risk management procedures is examined in this section. In this section, there are ten items to analyze the performance of KBZ Bank.

Table (4.7) Mean score of Bank's Performance

Sr. No	Items	Mean	Standard Deviation
1	Including profitability and revenue growth, has been strong over the past year.	4.11	0.770
2	Meeting or exceeding customer expectations in terms of service quality and product offerings.	4.15	0.675
3	Operating efficiently, with minimal delays and high levels of productivity in our department.	4.17	0.790
4	Leveraging technology to improve its services and enhance customer experience.	4.15	0.787
5	Having strong risk management practices in place that effectively mitigate financial and operational risks	4.13	0.779
6	Being satisfied with their work environment, work design, policy and career development opportunities.	4.15	0.790
7	Being trustworthy from customer feedback and resolves issues effectively.	4.24	0.823
8	Conducting its business ethically and with integrity rather than before.	4.01	0.707
9	Building to trust for protecting employee personal and financial information and recommendation on operational risk in the task.	4.18	0.795
10	Having strong overall financial health	4.24	0.823
Overall Mean		**4.15**	

Source: Survey data (2024)

Overall, KBZ Bank demonstrates strong financial performance across various dimensions, with a computed overall mean of 4.153 as the result of Table (4.153). 5. It can be concluded that all respondents are strongly agreed performance of KBZ bank. KBZ Bank has an average financial health score of 4.24 out of 5, with a standard deviation of 0.823, indicating relatively strong financial health with some variability in perceptions of respondents. Respondents have rated KBZ Bank's trustworthiness and issue resolution effectiveness with an average score of 4.24 out of 5, and the standard deviation of 0.823 indicates a moderate level of consistency in these perceptions. The bank's financial performance, including profitability and revenue growth, has been rated 4.11 out of 5 by respondents, with a standard deviation of 0.770. This indicates a generally strong performance with a reasonable level of consistency in the ratings. Most respondents view the bank's financial performance positively.

4.5 Correlation Analysis on Operational Risk Management Practices and Performance of KBZ Bank

One statistical measure that can be used to characterize the direction and strength of a relationship between two variables is correlation. Pearson's correlation coefficient has a range of -1 to 1: A strong positive correlation indicates that when one variable rises, the other variable also tends to rise, and this is the case if it is closer to 1. If the correlation coefficient is nearer -1, there is a strong negative correlation between the values. It implies that when one variable rises, the other will follow suit with a fall. After that, it approaches o, which results in a nonlinear relationship between the variables.

No.	Factors	Correlation Coefficient	P-value
1	Operational Risk Identification	0.048	0.533
2	Operational Risk Assessment and Analysis	0.982***	0.000
3	Operational Risk Monitoring and Controls	0.981***	0.000
4	Operational Risk Training and Reporting	0.966***	0.000
** Correction is significant at the 0.01 level (2 tailed)			

Source: Survey data (2024)

The p-value and correlation coefficients that correspond to the relationship between operational risk management procedures and financial performance are presented in Table (4.8), which also incorporates a discussion of the relationship between the two. The correlation coefficients of.982 for operational risk assessment and analysis,.981 for operational risk monitoring and control, and.966 for operational risk training and reporting all point to a very strong positive correlation between the three variables. In light of the fact that the p-value is 0.000, it can be concluded that the correlation is statistically significant at an extremely high level (0.01). The correlation coefficient for operational risk identification is 0.048, which indicates that there is a very weak positive correlation between the two topics. This correlation does not meet the criteria for statistical significance, as indicated by the p-value of 0.533, which is calculated at the level of 0.01 with two tails. The operational risk assessment and analysis, monitoring and controls, training and reporting, and financial performance have all been found to have strong positive correlations with one another. The fact that this is the case suggests that the implementation of these operational risk management practices in an effective manner is associated with improved financial performance! There is a very weak positive correlation between financial performance and the identification of operational risk, but this correlation is not statistically significant at the significance level of 0.01 (2-tailed).

Based on these findings, it can be inferred that although the identification of operational risks may not have a direct correlation with financial performance, the comprehensive assessment, monitoring, controls, training, and reporting of operational risks are closely associated with improved financial performance.

4.6 Analysis on the Effect of Operational Risk Management Practices on Performance of Bank

This section uses multiple linear regression analysis to examine how operational risk management strategies affect KBZ Bank Limited's financial performance. Four variables are regarded as dependent variables that have a substantial impact on explaining the bank's financial performance. Table (4.9) provides a description of the output result from constructing multiple linear regression models. Appendix B has the detailed outputs from this section. Table (4.9) displays the findings of a multiple regression study conducted to look at how operational risk management techniques affect financial performance.

Table(4.9) Effect of Operational Risk Management Practices on Financial Performance

Dependent Variable: Financial Performance	Unstandardized Coefficients		Standardized Coefficients	t	Sig	VIF
	B	SE	Beta			
(Constant)	-0.044	0.113		-0.391	0.697	
Operational Risk Identification	0.063	0.098	0.063	0.639	0.524	1.014
Operational Risk Assessment and Analysis	0.290**	0.096	0.273	3.005	0.003	4.435
Operational Risk Monitoring and Controls	0.414***	0.016	0.509	26.104	0.000	9.105
Operational Risk Training and Reporting	0.052	0.051	0.045	1.010	0.314	8.024
R^2	0.902					
Adjusted R^2	0.900					
F statistics	382.157***					

Source: SPSS Output,2024

*** Significant 1% level, ** Significant 5% level

Table (4.9) presents the previously mentioned results, showing that all of the model's coefficients are significant at the 1% F-statistic level. Two operational risk management techniques in the model—operational risk assessment and analysis and operational risk monitoring and controls—are relevant to the study, but operational risk identification, training, and reporting are not. For every unit increase in the operational risk assessment and analysis procedures score, there will be a 0.290 unit improvement in financial performance, depending on the size of each coefficient. Additionally, the degree of financial performance rises by 0.414 units if the operational risk monitoring and controls score result increases by one unit.

Operational risk monitoring and control (beta = 0.509) is the most significant practice influencing KBZ Bank's financial performance, according to the standardised coefficient. When used as a regression model, the approach may identify variations in operational risk management procedures and financial performance of up to 99.3%.

In conclusion, operational risk monitoring and controls are tied to operational risk assessment and analysis. Operational risk reporting and training are unrelated to operational risk detection.

CHAPTER 5
CONCLUSION

The purpose of this chapter is to present the findings of the research that was carried out at KBZ Bank Myanmar to investigate the connection between operational risk management practices and other aspects of bank performance. In the following step, suggestions and recommendations are made. The recommendations of the study and the necessity of conducting additional research are then presented.

5.1 Findings and Discussions

On the other hand, the primary objective of this study is to investigate the effects of operational risk management practices on the financial performance of KBZ Bank. These practices include operational risk identification, monitoring and controls, assessment and analysis, training, and reporting. A total of 171 individuals from the entire population of KBZ Bank were surveyed for the purpose of obtaining the findings of the study in order to accomplish the goal of the study. According to the results of the participants, most respondents are between the ages of 31 and 40, and most of them are female. Bachelor's degree holders make up the majority of responders. The monthly earnings of the participants are in the vicinity of Ks 500,000. Most responders are junior staff members with less than three years of experience providing services to KBZ Bank.

The results indicate that the KBZ bank employs a range of operational risk management strategies to enhance its performance in areas with intense competition. Effective operational risk management results in improved bank financial performance, according to regression model study.

Risk identification is the initial stage of operational risk management. This entails methodically identifying any hazards that could have an influence on the bank's operations at KBZ Bank. These hazards may originate from people, systems, internal processes, external events, or any combination of these. Consequently, there is strong agreement among employees across all departments about this, as seen by the highest mean score obtained.

Regarding to the operational risk assessment and analysis, while the mean scores for individual items vary slightly, they all fall within the range of moderately positive perceptions. KBZ Bank employs quantitative and qualitative assessment methods to prioritize risks based on their severity. This process includes scenario analysis and stress testing to understand how different risks might affect the bank under various conditions.

KBZ Bank has established healthy monitoring systems to track risk indicators and ensure that controls are functioning as intended. Regular reviews and updates to risk management policies ensure that the bank adapts to changing conditions and emerging threats. Based on the operational risk monitoring and control, the overall mean score for the all department's practices is High, that’s indicating a generally positive perception of these high aspects among respondents.

Based on the regarding operational risk training and reporting practices, The mean score of operational risk management training and reporting of Very High indicating strong practices in training, communication, and reporting related to operational risks.

As the overall mean score result of Very High, KBZ Bank welly maintain a strong performance across various dimensions. Key strengths of KBZ include trustworthiness, issue resolution, financial health, and operational efficiency which can cover the performance of bank. This study found that the bank's ability to meet customer expectations, updated technology utilization, and maintain healthy risk management practices also contribute significantly to improve the performance of bank. Employee satisfaction and ethical conduct are areas where the bank performs well, indicating a supportive work environment and a commitment to integrity. Financial performance of KZB Bank measures the profitability, revenue group and customer satisfaction of bank. It is found that the bank's financial performance, including profitability and revenue growth, and customer satisfaction has been strong in the perception of respondents.

The results of the study show that operational risk management techniques, such as monitoring, controls, and operational risk assessment and analysis, have a major positive effect on financial performance. Moreover, it can be inferred that enhancing the financial performance of KBZ bank mostly depends on risk assessment, analysis, and monitoring and control systems.

5.2 Suggestions and Recommendations

According to the finding results for KBZ Bank operational risk identification, recent evaluations have revealed that risk identification alone does not significantly impact operational performance. This suggests that while identifying risks is crucial, it must be part of a more integrated and comprehensive risk management strategy to drive operational improvements. To enhance the effectiveness of risk identification, it is suggested that KBZ Bank integrate risk identification with mitigation strategies by developing and implementing specific action plans to address identified risks. This will ensure that identified risks lead to concrete actions that enhance operational stability and performance. Additionally, strengthening risk assessment processes through the use of advanced risk assessment tools and techniques will enable more effective allocation of resources and better management by prioritizing risks based on their severity.

The impact of risk assessment and analysis, it is recommended to link risk assessment outcomes with key performance indicators (KPIs)**.** Establishing clear KPIs that are directly influenced by risk assessment results will provide measurable insights into how risk management efforts are improving operational performance. This linkage will facilitate better tracking of risk management effectiveness and drive continuous improvement.

Based on the analysis's findings, KBZ Bank's summary recommendations regarding the impact of operational risk management procedures on financial performance are provided. Firstly, the finance department of KBZ bank should be more adherence to stringent due diligence protocols reflects a proactive approach to risk management, potentially minimizing exposure to fraudulent activities or other crimes. KBZ bank should a well-established operational risk management framework in place, supported by effective policies and procedures for risk identification and mitigation. Overall, the findings suggest that the department has established processes and mechanisms for assessing and managing operational risks effectively, KBZ bank need to consider in prioritize improvement in certain areas to enhance reliability and alignment with strategic objectives.

KBZ bank should perform there may be room for improvement in certain areas, such as resource allocation for regulatory reforms and the effectiveness of risk control implementation training. Regular review and enhancement of these practices can contribute to further strengthening the department's risk management capabilities and compliance posture. And also, bank need to well train finance department to be effectively managing and controlling operational risk.

In order to sustain and improve operational risk management's efficacy, the bank should keep encouraging transparent communication, making sure that training is in line with strategic objectives, and boosting trust in the reporting system. These actions will contribute to sustaining a robust risk management framework and a proactive risk-aware culture. Bank should regularly review and update risk management policies to adapt to emerging risks Bank should perform enhance and necessary training programs focused on risk awareness and management for all employees. Bank should consider the enhance digital services to improve customer experience and to cover the potential risk of further and operational efficiency. By focusing on these areas and managing operational risk by KBZ Bank, KBZ Bank can maintain its strong financial performance.

5.3 Needs for Further Research

The long-term effects of operational risk management on KBZ Bank's financial performance need to be further investigated as market and regulatory circumstances shift. Expanding the sample size to include individuals from various departments and organizational levels will result in a more complete analysis. Investigating the role of emerging technologies and digital transformation in operational risk management is also essential. Comparative investigations with other banks may show best practices and creative initiatives. Examining the relationship between employee satisfaction, ethical behavior, and risk management effectiveness may support insight into improving overall corporate performance. These areas require more investigation to improve KBZ Bank's risk management and financial performance.

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Appendix-1

Questionnaire

Survey Questionnaire for Employees

I'm a candidate of Executive Master of Banking and Finance at Yangon University of Economics. I'm currently doing my independent study with carries the title "The Effect of operational risk management practices on financial performance at Kanbawza Bank". Your co-operation to answer the following questions is very important helping in my research. All the information collected is used for this research purpose only and the answers provided by you are confidential and anonymous. Thank you in advance for your participation in this research.

PART (A)

Employee Related Information

Make the selected point with (√).
(မေးခွန်းများအား (√) ခြစ်၍ ဖြေဆိုပါ။)

1. Gender: What is your gender?

   ☐ Male ☐ Female

2. Age: What is your age? *

   ☐ Less than equal 25 years ☐ 26 – 35 years ☐ 36 – 45 years ☐ more than 45

3. Location: Where are you living? *

   ☐ Yangon ☐ Mandalay ☐ Other

4. What is your education level? *

   ☐ Under graduate ☐ Bachelor Degree ☐ Master Degree ☐ Ph.D

5. What is your approximate monthly income? *

   ☐ Less than 500,000 Ks ☐ 500,001-1000,000 Ks ☐ 1000,001-
   ☐ 1500,000 Ks More than 600,000 Ks

6. How long have you worked for kbz Bank?

   ☐ Less than 1 years ☐ 1 year – 3 years ☐ 3years – 5years
   ☐ 5 years and above years

PART (B)

Operational Risk Management Practices on Financial Performance

Listed below is a series of statements that represent feelings that individuals might have about the company or organization for which they work. With respect to your own feelings about the particular organization for which you are working, please indicate the degree for each statement by making a choice the scale below.

1 = strongly disagree (လွန်စွာကန့်ကွက်သည်)   2 = disagree (ကန့်ကွက်သည်)

3 = neutral (သေချာမသိပါ)   4 = agree (ထောက်ခံသည်)

5 = strongly agree (လွန်စွာထောက်ခံသည်)

Sr. No.	Operational Risk Identification	1	2	3	4	5
1	KBZ bank has implemented a comprehensive risk taxonomy framework for the consistent definition and categorization of operational risks across all departments.					
2	The operational risk policy effectively addresses the identification of current and potential risk exposures within each business unit.					
3	Risk identification processes include facilitated sessions such as workshops, brainstorming, and discussions among KBZ departmental staff.					
4	Finance department adheres to stringent due diligence protocols to avoid interactions with entities involved in fraudulent activities or other crimes.					
5	Operational risk identification considers critical factors such as personnel, processes, IT systems, and external events.					
6	Risk identification involves all level of staffs of concerned department					
7	KBZ bank identifies all possible risks from the survey questions or computing in their operation process.					

Sr. No.	**Operational Risk Assessment and Analysis**	**1**	**2**	**3**	**4**	**5**
1	Both qualitative methods (e.g., risk and control self-assessments, risk mapping) and quantitative methods (e.g., causal modeling, key risk indicators) are used to assess operational risks in our department.					
2	Finance team effectively utilizes historical loss data to predict the likelihood of future operational risk events.					
3	Regulatory capital allocation for operational risk is determined through rigorous risk assessment processes.					
4	Operational risk assessments within our department are aligned with the bank's strategic objectives.					
5	Mechanisms are in place to ensure that our department's risk appetite and management strategies are well-understood and integrated into decision-making processes.					
6	KBZ Bank performs internal control system to assess the operational risk.					
7	The processes in place for assessing operational risks are comprehensive and reliable.					

Sr. No.	Operational Risk Monitoring and Controls	1	2	3	4	5
1	Finance department employs realtime data and reporting systems to continuously monitor operational risks.					
2	KBZ bank ensure compliance with all regulatory requirements relevant to our operations.					
3	Adequate resources and attention are provided to incorporate regulatory reforms into our department’s policies and procedures.					
4	Staff in Finance department are held accountable for their actions, regardless of the financial outcome.					
5	KBZ bank have established mechanisms, such as whistleblowing procedures, for staff to report concerns about unethical practices.					
6	KBZ bank’s risk controls are regularly tested and updated.					
7	Employees are well-trained in implementing and adhering to risk controls.					

Sr. No.	Operational Risk Training and Reporting	1	2	3	4	5
1	Finance department receives regular training through workshops, newsletters, and mandatory operational risk awareness programs.					
2	KBZ bank promote an open exchange of views and discussions to ensure staff have the necessary resources and information for effective performance.					
3	Operational risk training programs are aligned with our department's strategic objectives.					
4	Regular updates and reports on operational risk issues are communicated to all staff in our department.					
5	Staff feels confident in using the bank's reporting system to raise operational risk concerns without fear of retaliation.					
6	There is a clear and effective process for reporting operational risks to senior management					
7	KBZ bank have an open culture that encourages reporting of risk incidents and near misses					

Sr. No.	Performance of Bank	1	2	3	4	5
1	The bank's financial performance, including profitability and revenue growth, has been strong over the past year.					
2	KBZ Bank consistently meets or exceeds customer expectations in terms of service quality and product offerings.					
3	The bank operates efficiently, with minimal delays and high levels of productivity in our department.					
4	KBZ Bank effectively leverages technology to improve its services and enhance customer experience.					
5	The bank has robust risk management practices in place that effectively mitigate financial and operational risks					
6	Employees at KBZ Bank are satisfied with their work environment, work design, policy and career development opportunities.					
7	KBZ Bank is trustworthy from customer feedback and resolves issues effectively.					
8	KBZ Bank conducts its business ethically and with integrity rather than before.					
9	The customer trust KBZ Bank to protect their personal and financial information, recommendation on Operational Risk in the task.					
10	KBZ bank has strong overall financial health					