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TITLE: Assessment of viability of Rural Banks in Ilocos Norte in relation to their risk Management system.
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Abstract: This study assessed the viability of rural banks in Ilocos Norte in relation to their risk management system and eventually came up with an effective risk management system model that addresses the weakness identified.

To accomplish this objective, the researcher delved on the following specific questions; 1) What is the quantity of risks-credit risk, liquidity risk, operations risk, market risk, interest rate risk, legal risk-that the rural banks in Ilocos Norte face as perceived by rural bank managers and their clients? Is there significant difference in their percepts? 2) What is the quality of the risk management system of the rural banks in Ilocos Norte that help mitigate their risks as perceived by the internal auditors and rural bank managers on the quantity of risks and quality of risk management system of rural banks? 3) What is viability of rural banks in Ilocos Norte vis-à-vis aggregate risk? 4) Do financial statements confirm the level of viability in terms of aggregate risks? 5) What risk management system model could be proposed to the rural banks in Ilocos Norte to enhance their viability?

The researcher employed the descriptive-survey research design as framework of investigation.

The quantity of risk were measured through the feedback gathered from the Rural Bank Managers in Ilocos Norte using questionnaire (Annex 1) and were validated by the feedback from the clients of the rural banks in Ilocos Norte using a structured interview method (Annex 3). The responses of the internal auditors were subsequently compared with the responses of the rural bank managers.

In order to establish the viability of rural banks in Ilocos Norte, the aggregate risk or the overall risk rating of the rural banks in Ilocos Norte was interpreted in terms of viability and concluded
that there was a need to develop a risk management system model.

This study included all rural banks whose head office is located in Ilocos Norte. It involved all the Bank Managers and internal Auditors of said rural banks as well as some of their clients.

As to the bank managers and internal auditors, total enumeration sampling was employed. As to the clients of the rural banks in Ilocos Norte, quota sampling was employed. The questionnaires and financial ratios used were adapted from the Risk Assessment System used by BSP bank examiners.

To test the difference between the responses of the rural bank managers and the internal auditors as to quality of risk management system; and between the aggregate risks obtained using the matrix and the results of the document/financial analysis pertaining to the viability of rural banks in Ilocos Norte, the researcher utilized the t test for dependent samples. The computed t value in the test of difference was tested for significance at 0.05 alpha level.

It was found out that the over-all quantity of risks is moderate both according to rural bank managers and clients in Ilocos Norte which denotes that generally, managers and clients of rural banks in Ilocos Norte have still moderate confidence level of the risks faced by rural banks in Ilocos Norte.

It was revealed in this study that the average aggregate risk or over-all risk rating of the rural banks in Ilocos Norte is moderate which indicate that generally, the over-all viability of rural banks in Ilocos Norte vis-à-vis aggregate risk is moderate, therefore, it can be inferred that the level of risks faced by rural banks in Ilocos Norte is still manageable.

The results of the financial analysis revealed that the over-all risk rating of the rural banks in Ilocos Norte is moderate which suggests that generally, the rural banks in Ilocos Norte are faced with moderate risk in terms of their financial statements.

Thus it can be deduced that the rural banking industry in Ilocos Norte has moderate level of viability as revealed by their financial statements. It can be inferred that the rural banks in Ilocos Norte are not yet in a serious danger that can cause alarm to the public.

Statistically, the mean numerical ratings of the aggregate risk obtained and the results of the financial analysis did not differ significantly. Hence, the financial statements confirmed the level of viability of rural banks in Ilocos Norte in terms of the
aggregate risk which shows that the over-all risk rating obtained in this study is highly valid and can be relied upon.

The over-all risk rating of the rural banks in Ilocos Norte is moderate which means that the rural banking industry in Ilocos Norte is faced with moderate risks that threaten viability. Although the level is unlikely to cause panic, it is in a state where a little complacency may cause risks to advance to a higher level especially during this financial crisis. It is to be noted that though generally, risks are moderate, credit and liquidity risk are high. Hence, there is a need for improved, effective risk management system model.

In the light of the findings drawn from this study, the following recommendations were given: 1) since the rural banks in Ilocos Norte generally are faced with moderate quality of risks, the researcher recommends the use of the Effective Risk Management System Model developed; 2) although the rural banks in Ilocos Norte have acceptable quality of risk management system, rural banks management are advised to observed religiously their risk Management System and should adopt other measures in addition to these proposed to address the identified weaknesses in the different risk area, especially credit risk where rural bank managers and internal auditors assessed only as moderate while their financial statements revealed credit risk as high, by taking as guide the principles of effective credit risk management; 3) Since the level of viability of rural banks in Ilocos Norte is moderate.

There is a need to improve their risk management system to enhance their viability. To accomplish this, the researcher recommends to rural banks management a continual monitoring and regular updating of the proposed risk management system model when adopted because of changes in economic and political conditions of the country; 4) a pilot study or field testing of the model prior to implementation; 5) seminars or information campaign to disseminate the model; 6) that BSP publish a manual of risk management system to enhance the viability of rural banks; 7) a follow-up study on the viability of rural banks in Ilocos Norte after implementation of the model; and 8) replication of this study on private development banks, pawnshops and other non-bank financial institutions.