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Risk Management Awareness and Practices in Commercial Banks in Banadir Region of Somalia

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Abstract: Commercial banks are crucial for economic growth and stability, operating in a high-risk environment. Bank risk refers to potential financial losses due to various factors and uncertainties. Bank risk management involves identifying, assessing, mitigating, and monitoring these risks to maintain financial stability and profitability. This study assesses the risk management awareness and practices in commercial banks in Banadir region of Somalia, using a descriptive research design. The data were collected through a questionnaire survey of 75 banking staff from 6of 13 licensed banks in the Banadir region. The results demonstrate that bank staff are highly aware of about risk and management, and they strongly agree that practices for reducing credit, liquidity, and operational risks are essential. effective and efficient. The study highlights how crucial efficient risk management is to maintaining financial stability and preventing possible risks. So, the study suggests enhancing risk management frameworks, funding staff training, strengthening regulatory frameworks, creating comprehensive contingency plans, and emphasizing technological advancements. The steps outlined are crucial for Somali commercial banks' sustained development and stability, ensuring they can handle challenges while maintaining a competitive financial sector.
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Keywords: Bank Risk, Risk Management, Commercial Banks, Credit Risk, Liquidity Risk, Operational Risk, Somalia

I. Introduction

Since the collapse of Somalia's central government in 1991, the country has faced a long period of civil war and political turmoil. This led to the complete breakdown of the financial sector (Musse, Ab Rashid, &Zainol, 2019). For almost twenty-five years, Somalia operated without a formal financial system, relying on informal methods like(money transfer operators)(Xawaalads) and mobile money services provided by telecommunication companies (Irbad, 2016). This informal system provided essential financial services, particularly for Somalis abroad sending money home, while operating without official oversight, posing significant financial risks (Musse et al., 2019). With the establishment of Somalia's federal government in 2012, there was a concentrated effort to revive formal financial institutions, including commercial banks. This period marked the transition of major money transfer businesses into recognized commercial banks, approved by the Central Bank of Somalia (CBF, 2018). The emergence of these banks signified a crucial move towards restoring financial stability and promoting economic growth in the post-conflict period.

Financial institutions are currently in operation in Somalia, with a focus on delivering banking and financial services that adhere to Sharia laws. These laws forbid the payment of interest and emphasize ethical investing and financing (Kulmie, 2024;Musse et al. 2019). Theseinstitutions as referred as Islamic banks (Kulmie, et a. 2023), providing a range of financial services, including savings and current accounts, investment opportunities, and loans, catering to both businesses and individuals. The development of commercial banks in Somalia has created significant opportunities for individuals, business and communities. playing a crucial role in pooling resources, supporting small and medium-sized enterprises (SMEs), and promoting investments in public infrastructure. Despite their valuable contributions, these banks encounter challenges such as political and economic instability, inadequate regulatory frameworks, and a shortage of skilled workforce.Additionally, the long-standing mobile money providers presents a notable challenge to the newly established banks. These operators have a history of offering informal financial services that compete with the traditional banking system (Firestone et al. 2017). To thrive in this market, commercial banks must craft competitive strategies that uphold their business, allowing them to capture market share effectively (Ogunbado, 2013). Therefore,

their stability and advancement hinge on the implementation of effective risk management practices. So, this shows that robust risk management is vital for the growth and sustainability of these financial institutions (Omar, Muturi, &Samantar, 2017). This entails devising thorough policies for credit risk, liquidity risk, and operational risk tailored to the unique conditions in Somalia.

Despite the increasing importance of risk management in the global banking industry, there is a significant dearth of empirical research on the awareness and practices of risk management in commercial banks within the Banadir region of Somalia. Existing literature primarily focuses on the challenges and opportunities facing the Somali banking sector as a whole, with limited attention to the specific area of risk management, particularly at the regional level. Many studies have been done on banking intuitions in Somalia; however, some of these studies (Musse et al. 2019) concentrate on the emergence of particular bank types in Somalia, other studies, for instance,Kulmie and Omar, (2024) looked at the profitability of banks. One of the current gaps is that the majority of papers—like Hafsa (2018)—use case studies with data from a single bank. Furthermore, little research including Barre, (2024) has been done on how bank employees perceive and understand risk. Therefore, this work focuses on risk management awareness and practices in commercial banks in Banadir region of Somalia, using data from Six licensed banks.

II. Conceptual and Emperical Review

2.1 Commercial Bank: Concept and Significance

A commercial bank is a vital financial institution that facilitates the exchange of deposits and loans between individuals and businesses, playing a crucial role in the economy (Kumar, & Prasad, 2024; Ibrahim, et al. 2024).The key functions of commercial banks include accepting deposits, providing loans, transferring funds. This means that commercial banks offer various deposit accounts like savings, current, and fixed deposit accounts to attract funds from the public, as their primary function. Also, banks lend money to individuals and businesses for various purposes such as personal loans, home loans, auto loans, and business loans. This perfectly shows their role in the economy. Similarly, these banks facilitate fund transfers through various channels like checks, electronic transfers, and debit cards.They offer additional services like safe deposit boxes, foreign exchange, investment advisory, and credit cards.

There are different types of commercial banks, classified based on their nature and scope of their operations. They can be retail banks which primarily focus on individual customers, offering services like savings accounts, personal loans, and debit cards. Or industrial Banks that cater to businesses, offering services like commercial loans, trade finance, and cash management. there is also, universal Banks that offer a wide range of services, including retail, commercial, and investment banking. So, commercial banks play a crucial role in economic growth. First, they collect savings from the public and channel them into productive investments. Second, they create credits, by lending money, banks create credit, which stimulates economic activity. Third, they facilitate smooth transactions in the economy. Fourth, they assess and manage risks associated with lending and other activities. in simple way, their role can be summarized as fund mobilization, credit creation, payment system, and risk management.

2.2 Prudent banking practices

The bank sector is a crucial part of the national economy, providing insight into the economic climate and growth direction, ensuring financial system stability Teresienė et al. (2021). So, effective management is crucial for the permanence and stability of the financial market and the banking sector (Gündüz, 2020). As a result, the banking sector is heavily regulated, and risk management is now a crucial duty of financial organizations (Bessis, J. 2015). So, in today's banking landscape, prudent banking practices are crucial.Prudent banking practices are a set of principles and guidelines that banks follow to ensure their financial stability, protect depositors' interests, and maintain public confidence (Kulmie e al. 2024). Prudent banking practices are based on risk management, as banks face various risks in the current unstable climate, including credit, liquidity, operational risk, foreign exchange, markets, interest rates, and other factors that could threaten their survival and growth.Carey and Mark (2001) emphasize the importance of effective risk management in the financial industry, stating that banking is a risk-taking sector that requires specialized risk management strategies.

2.3 Risk and Risk Management

Risk refers to obstacles that hinder the achievement of objectives, arising from internal or external factors. Exposure to risk can make a situation more critical (Kanchu& Kumar 2013). Risk Management is a continuous process used to

identify, analyze, and respond to specific risks, aiding in decision-making (Kanchu& Kumar 2013). Risk management is crucial for financial organizations, as it involves proactive strategies to plan, lead, organize, and control risks that impact daily and long-term functioning. The banking sector, particularly in emerging economies is experiencing increased risk exposure due to competition, changing socio-economic patterns, market flexibility, and foreign exchange business. The ability to gauge risks and take appropriate action is key to success.

Many more businesses have embraced risk management since Hubener first proposed it in 1930. The study of risk management has evolved since World War II (Crockford, 1982), and Snider(1956) noted that at the time, there were no risk management books or courses offered by universities. Following World War II, studies on risk management got underway with market insurance being the primary method for protecting individuals and companies from accidents (Dionne, 2013). Alternatives emerged in the 1950s, and derivatives were used in the 1970s and 1980s. International risk regulation began in the 1980s, and financial firms developed internal risk management models and capital calculation formulas to hedge against unanticipated risks(Dionne, 2013). Governance of risk management became essential, and integrated risk management was introduced. However, these regulations and risk management methods failed to prevent the 2007 financial crisis (Dionne, 2013).

Risk management in corporations is a somewhat fresh function (Dionne, 2013).In the 1970s, risk management in financial institutions became a priority for companies like banks, insurers, and non-financial enterprises, addressing price fluctuations like interest rates, stock market returns, exchange rates, and commodity prices.In the finance industry, risk management's role has evolved over the past century from merely identifying risks to include complex econometrics and uncertain financial models (Alexander, 2005). In the banking sector, risk management is defined theoretically as "the logical development and execution of a plan to deal with potential losses". The primary objectives of risk management protocols are typically controlling an organization's exposure to losses or risk and protecting the value of its assets.

2.4 Significant of Risk Management

Risk management is a crucial aspect of prudent banking practices, focusing on identifying, assessing, and mitigating potential financial stability and profitability threats for commercial banks (Ghosh, 2012). The risk management strategy considers potential future risks and focuses on securing adequate capital against these risks while constructing a sustainable capital structure. On the other hand, risk management implements the necessary measures to avert any future adverse consequences (Besis, 2002). Risk management supervision must fall under the authority of internal audit as well. So, internal audit and compliance activities are crucial for maintaining integrity and consistency in risk management procedures (Crouhy et al. 2006). They should oversee the suitability and validity of systems and processes for efficient risk management. The banking industry faces primary risks such as credit risk, market risk, operational risk, reputation risk, and third-party risks, which must be considered and connected to the bank's total risk level.

2.5 Various Types of Risk

Risk management is crucial in the financial sector due to the growing complexity of banks' business and dynamic operating environment. It involves predicting the financial health of a bank due to contingent factors such as default on loans, asset value changes, or technological failures(Kanchu& Kumar 2013).Banks operate in a complex environment, exposed to various risks that can impact their financial stability and profitability.Here are the primary types of bank risk:

Risks	**Financialrisks**	Financial risk is a potential loss that banks face from any business transaction they undertake (Kanchu& Kumar 2013)	Examples: Market risk, Credit risk, Liquidity risk, Operational risk
	Non-financial risks	Non-financial risks are those that do not directly impact a company's financial performance but can significantly affect its operations, reputation, or overall value (Rossi &Harjoto2020).	Examples: Reputational risk, Strategic risk, Operational risk, Environmental risk, Legal risk, Compliance risk.

2.6 Credit Risk

Credit risk is without a doubt the biggest risk that banks encounter and is a necessary component of conducting business with customers (Vyas & Singh, 2010). Experts believe that this risk is among the best and most significant categories of banking risk (Colquitt, 2007). So, managing credit risk is crucial to the long-term, steady growth of businesses, as it plays a significant role in the majority of bank failures (Županović, 2014). Conceptually, credit risk is the possibility that a contractual counterparty will not fulfil their obligations under a contract due to a decline in their ability to repay or a refusal to abide by the terms of the agreement (Ammann et al. 2001). Therefore, a bank's exposure to credit risk occurs when it loses money that it has lent to a counterparty, borrower, or obligee. According to Hempel and Simonson (1999), credit risk is the chance that the bank won't be able to collect the principle or interest on loans and securities as agreed upon.

2.7 Market Risk

The second point is the market risk. Market risk refers to the deviation of mark-to-market value in trading portfolios due to market movements and the risk of liquidation. In banking, it affects earnings and capital due to changes in interest rates and prices (Chakrabarti, 2015). So, market risk is to the potential loss to banks due to changes in market variables, such as equity and interest rate markets, currency exchange rates, and commodity prices(Kanchu& Kumar 2013). It affects the value of on-/off-balance sheet positions and the bank's earnings and capital due to these changes (Kanchu& Kumar 2013). Market risk, according to the Basel Agreement,is "the risk of losses on the balance sheet and off-balance sheet items due to changes in market prices" (BCBS, 2004).

2.8 Operational Risk

Operational risk, along with credit and market risk, is an essential risk. The 2008 financial crisis is considered the worst operational crisis in history, according to Jongh et al, (2012) and Li and Moosa (2015). Vasiliev et al. (2018) noted that effective operational risk management may reduce the liability risk to the bank and contribute to its stability. Unlike many other types of hazards, such as market and credit risk, operational risk mostly results from internal bank operations. However, a variety of external factors, including competitive acts, natural catastrophes (such floods and earthquakes), and terrorist attacks, might pose an operational risk to banks because they are mostly unpredictable and uncontrollable (Fayyaz, 2006). According to Saunders and Cornett (2008), banks take steps to control and reduce operational risk. These include investing in advanced technology (system capacity building), creating backup systems and contingency plans, and starting training and development programs for staff

2.9 Liquidity Risk

Liquidity risk refers to the possibility of not having sufficient cash to fulfill short-term obligations. In other words, liquidity risk refers to the financial institution's inability to meet short-term obligations due to a lack of cash or liquid assets, essentially indicating a lack of readily available funds when needed (Matz, et al. 2006). Insufficient liquidity, according to Crouhy, Galai, and Mark (2006), can lead a bank to unforeseen cash shortages that must be filled at extravagant prices and reduce profitability. They also emphasize that a bank may become insolvent due to a lack of liquidity even if it is not capital insolvent. As a result, banks run the danger of running out of cash when they can't cover their projected and unforeseen expenses and have to take on more borrowing (Fayyaz, 2006).

3.0 Review on Previous Studies

The banking industry is a crucial component of the nation's financial and economic landscape, providing vital services to the government, people, families, and groups. Over the past few decades, this industry has expanded and drawn more capital from various sources. Several key factors propelling the industry are technological advancements and deregulations. These elements increase the industry's competitiveness despite its profitability, enabling banks to provide more flexible deposit rates, locations, and services (Kumah&Sare 2013).Consequently, the banking industry has transformed from a financial intermediary to a comprehensive center offering various financial services (Alam &Musukujjaman, 2011). This allowed these insititutions more flexibility which in turn led to intense competition among banks and other financial institutions offering financial services, despite its generally favorable outlook. On the other hand, the rapid advancements in technology and regulatory frameworks have significantly impacted banking institutions, necessitating stricter compliance with risk management and capital requirements.

Several studies on risk management practices in the banking sector were conducted with the aim of understanding how elements of risk management influence commercial banks. For instance, Kumah&Sare (2013) examined risk management practices among commercial banks in Ghana. The study exposes that commercial banks in Ghana are efficient in managing risk, with risk monitoring and control being the most influential factors. The authors identified that there is a significant difference in risk identification, understanding, and monitoring, except for risk assessment and analysis. Barre (2024) examined risk management practices in Somali banks. The study evaluated the effectiveness of RMPs, which include understanding risk, risk identification, credit risk analysis, risk assessment and analysis, and risk management. This study found that the bank staff have a clear understanding of risk and risk management and have

efficient risk identification, risk assessment, risk monitoring, credit risk analysis, perceived trust, and risk management practices. So, the author recommends that the government establish a robust regulatory framework and capital adequacy requirements to enhance the financial system's health, and depositors should carefully consider depositing their funds at multiple banks to diversify their risk of bank failure.

Ng'aari (2016) studied the profitability of Kenyan listed commercial banks found that banks should be cautious when issuing long terms to customers, as a well-managed credit level will yield more returns. The author suggests that all commercial banks should implement strategies to reduce risk exposure and increase profits, using the contingency theory of risk management. The contingency theory, as noted by Woods, (2009) directs the analysis of the behavior of the organization by looking at how important contingent elements like structure, culture, and technology may direct and regulate the operations of the business for improved performance. Hence, Ng'aari (2016) concluded that commercial banks are essential in creating credit, but they face risk from borrowers defaulting on their obligations. To avoid that risk, the writer suggests that banks should prudently manage credit risk, emphasizing the importance of risk management practices for financial performance. Balancing risk and returns is crucial for shareholder wealth maximization, and banks should effectively manage exposed risk to achieve consistent dividends. This can be achieved by setting up comprehensive risk management frameworks and giving risk management departments significant authority.

In Nigeria, Chukwunulu, et al. (2019) examined the relationship between risk Management and Performance of commercial banks, focusing on return on assets, equity and unsystematic measures like credit risk, liquidity risk, operational risk, and capital adequacy risk. The results indicated that credit risk negatively affects return on equity, and liquidity; operational risk management has no significant effect; and capital adequacy positively affects return on equity but negatively affects return on assets. The study found Nigerian banks are underperforming in risk management, suggesting that commercial banks and regulators should implement risk identification, assessment, measurement, and control mechanisms to prevent financial crises and enhance performance. Konovalova, et al. (2016) studied credit risk management in commercial banks, which aiming to ascertain the degree of risk borne by various retail client groups (classes) or borrowers in order to better manage banking risks and anticipate and minimize future credit risk.The authors suggested that in order to draw in new customers and guarantee repayment, terms and conditions for loan clients should be created in order to control credit risk in commercial banks.

III. METHODOLOGY AND DATA ANALYSIS

3.1 Research Objectives and Design

This study assesses the risk management awareness and practices in commercial banks. Therefore, the specific objectives of the study are to: (1) assess the awareness and understanding of bank risks among commercial banks' staff, and (2) evaluate the effectiveness of risk management practices of commercial banks in Somalia.
A research design is employed to ensure that the data gathered is relevant and sufficient for responding to inquiries drawn from a specific study (Myers, et al. 2013). A descriptive approach was used in this study, which is useful for giving a thorough rundown of certain elements of a social setting, scenario, or relationship (Siedlecki, 2020).Descriptive research design offers a detailed analysis of characteristics, behaviors, or trends, identifying patterns and relationships within data, influencing decision-making, and validating existing theories Tuthill et al. (2020).

3.2 Data Source and Analysis

This study focused on the risk management awareness and practices in commercial banks.The target population of this study consists of banking staff from 6 of the 13 licensed banks in Banadir region, Somalia. The data of this study data were collected from 75 respondents, using a simple random sampling technique. This method is a statistical method that ensures every member of a larger population has an equal chance of being chosen, reducing bias and allowing for the drawing of conclusions about the entire population (Banerjee & Chaudhury, 2010). The data was collected through a five-point Likert scale questionnaire. This questionnaire consisted of fourth sections. The first section intended to collect background information of the respondents such as age, gender, and education. The second section addressed the awareness and knowledge of bank risk and risk management. The third section addressed credit risk management practices, and the fourth section covered liquidity risk management practices. The final section explored operational risk management practices. The data collected from these participants were analyzed using the Statistical Package for the Social Sciences (SPSS).

IV. RESULTS AND DISCUSSIONS

4.1 Demographic Information

Table 1 shows thatout of the 75 people surveyed, 54 were male, accounting for 72% of the total sample, while the remaining 21 respondents (28%) were female. The responders have excellent levels of education. with 61 respondents (81.3%) holding a graduate degree, 11 respondents (14.6%) holding an undergraduate degree, 2 respondents (2.6%) holding a high school, and 1 respondent (1.3%) having informal education. The respondents work with different banks, out of all the banks represented, so, Premier Bank has the highest number of respondents, contributing 20 individuals (26.6%). followed by Dahabshiil Bank (16 respondents, 21.3%), Salaam Somali Bank (15 respondents, 20%), Amal Bank (10 respondents, 13.3%), My Bank (8 respondents, 10.6%), IBS Bank (6 respondents, 8%). This distribution clearly indicates a diverse representation of all six banks selected for the study. The respondents hold various roles within their banks: 22 (29.3%) are head sections, 12 (16%) are supervisors, 11 (14.6%) are managers, 11 (14.6%) are tellers, 10 (13.3%) occupy other positions, 3 (4%) are advisors, 4 (5.3%) are secretaries, and 2 (2.6%) are directors.

Table1 illustrates the demographic Characteristics of respondents

Category		**Frequency**	**Percentage (%)**
Gender	Male	54	72.0
	Female	21	28.0
Age	Below 20 years	1	1.3
	20 – 30 years	31	41.3
	31 – 40 years	33	44.0
	41-50 years	9	12.0
	Above 50 years	1	1.3
Marital Status	Single	28	37.3
	Married	37	49.3
	Divorced	9	12.0
	Widowed	1	1.3
Educational level	Graduate	61	81.3
	Undergraduate	11	14.6
	High school	2	2.6
	Informal education	1	1.3
Experience	Less than 3 years	12	16.0
	3-6 years	21	28.0
	7-10 years	28	37.3
	More than 10 years	14	18.6
Banks	Dahabshiil Bank	16	21.3
	Salaam Somali Bank	15	20.0
	Premier Bank	20	26.6
	Amal Bank	10	13.3
	IBS Bank	6	8.0
	My Bank	8	10.6
Position	Director	2	2.6
	Manager	11	14.6
	Supervisor	12	16.0
	Secretary	4	5.3
	Teller	11	14.6
	Head section	22	29.3
	Advisor	3	4.0
	Other	10	13.3

4.2 Risk Management awareness & Practices

Table 2 illustrates the respondents' awareness of bank risk and risk management practices. Participants evaluated their perception of six key statements related to risk management within their banks. The study reveals that respondents generally agreed on the importance of these practices. Specifically, 75 respondents agreed or strongly agreed on the common awareness of risk management. Clarity of responsibility and accountability for risk management was supported by 89.3% of respondents. The importance of applying sophisticated techniques in risk management was agreed upon by 74.7% of respondents. Additionally, 78.7% of respondents agreed that risk management strategies should be reviewed and evaluated regularly.

The majority of respondents firmly believed that managing credit risk required an efficient framework for risk management. Furthermore, 34.7% agreed that applying risk management techniques reduces costs or expected losses. This suggests that bank workers have a general awareness of and respect for risk management procedures. The majority of respondents strongly believed in their bank's robust framework, highlighting the financial benefits of effective risk management practices. These results align with the findings of several previous studies conducted. According to Barre (2024), bank workers in Somalia have a common understand of risk management techniques and how to use them, which helps reduce loan losses in the banking industry.

Table 2 shows awareness of bank risk and risk management

	Statement	**Responses %**				
		SA	**A**	**N**	**D**	**SD**
1.	1. There is a common awareness of risk management across the bank.	52.0	40.0	8.0	0.0	0.0
2.	2. Responsibility and accountability for risk management are clearly set out and awareness throughout the bank.	26.7	26.7	26.7	26.7	26.7
3.	3. It is crucial to apply the most sophisticated techniques in risk management	32.0	32.0	32.0	32.0	32.0
4.	4. It is important for your bank to emphasize the continuous review and evaluation of the techniques used in risk management.	38.7	38.7	38.7	38.7	38.7
5.	5. The bank has an effective risk management framework (infrastructure, processes and policies) in place for managing credit risk.	46.7	46.7	46.7	46.7	46.7
6.	6. Applications of risk management techniques reduce costs or expected losses.	34.7	38.7	18.7	5.3	2.7

4.3 Credit Risk Management

Table 3 displays the credit risk management practices of the respondents. Of them, 68% believe that top management has been successful in converting and communicating the credit risk strategy established by the Board of Directors into policies and procedures. Additionally, 57% of respondents confirmed the existence of a comprehensive credit risk rating framework for all types of credit activities.73.3% of respondents commend the bank for its proactive efforts in monitoring the quality of its credit portfolio and taking corrective action when necessary. Regular preparation of periodic credit risk reports is considered important by 81.3% of respondents, and the thoroughness of the bank's creditworthiness analysis before granting loans is acknowledged by 73.3% of respondents. Furthermore, 78.7% of respondents agreed or strongly agreed with the necessity of collateral requirements in credit policies. The same percentage of respondents supported reducing credit exposure to defaulted clients, indicating strong approval of these credit risk management practices. The overall consensus was that collateral requirements are essential in credit policies. These results are consistent with the findings of several previous studies. (Barre 2024), suggested that bank employees trust their institutions, which may help mitigate potential risks those institutions could encounter. Banks should strengthen collateral policies, invest in staff training, maintain clear communication, establish robust monitoring mechanisms, and develop strategies to reduce credit exposure to defaulted clients.Mwanzia (2021) claims that good credit management assesses borrowers' creditworthiness through suitable credit policies, lowering non-performing loans and loan default risk, both of which have a detrimental effect on the bank's functioning. By lowering credit

exposure to clients who default and guaranteeing the seamless operation of risk management frameworks, this all-encompassing strategy helps preserve financial stability and mitigate potential risks.

Table 3 presents credit risk management practices

	Statement	Responses %				
		SA	**A**	**N**	**D**	**SD**
1.	The credit risk strategy set by the board of directors is effectively transformed and communicated within the bank in the shape of policies and procedures by the top management.	29.3	38.6	28.0	4.0	0.0
2.	The bank has a credit risk rating framework for all types of credit activities.	30.6	45.3	24.0	0.0	0.0
3.	The bank monitors quality of the credit portfolio on a day-to-day basis and takes remedial measures as and when any deterioration occurs.	30.6	42.6	25.3	0.0	0.0
4.	The bank regularly prepares periodic reports of credit risk.	29.3	52.0	16.0	2.6	0.0
5.	5. The bank undertakes a creditworthiness analysis before granting loans.	31.0	41.3	22.6	4.0	0.0
6.	Before granting loans, the bank undertakes a specific analysis, including the clients' characters, capacity, collateral capital, and conditions.	38.6	36.0	16.0	8.0	0.0
7.	The bank policies require collateral when it necessary.	46.6	18.6	16.0	4.0	0.0
8.	The level of credit granted to defaulted clients must be reduced.	33.3	45.3	42.6	8.0	0.0

4.4 Liquidity Risk Management

Table 4 presents the respondents' perceptions of liquidity risk management practices within their banks. Participants evaluated five statements related to liquidity risk management. The study reveals a strong consensus on several aspects: 81.3% of respondents agreed or strongly agreed that there are adequate rules and guidelines for managing liquidity risk. Additionally, 77.3% positively perceived the effectiveness of transforming and communicating the liquidity risk strategy set by the board of directors into policies and procedures by top management. Regarding the presence of an effective risk management framework, 80% of respondents believe their banks have the necessary infrastructure, processes, and policies for effective risk management, indicating the presence of a robust risk management framework. The importance of regular preparation of periodic reports on liquidity risk was acknowledged by 82.7% of respondents, reflecting a strong belief in its importance. Lastly, 76% agreed or strongly agreed that applying liquidity risk management techniques reduces costs or expected losses, indicating broad support for these practices. This demonstrates a strong belief in the financial benefits of effective liquidity risk management practices. The results align with the findings of numerous prior studies. Several studies including Ng'aari, (2016) highlighted that managers should monitor items that could affect their firm's liquidity and maintain a manageable loan proportion to boost profitability in shortfalls, thereby enhancing the overall profitability of their companies. Also, Mwanzia (2021) noted that effective management of liquidity has a positive effect on the performance of commercial banks because it allows them to provide credit to customers, which raises interest income and improves their overall financial health.

Table 4 Shows liquidity risk management practices

	Statement	Responses %				
		SA	**A**	**N**	**D**	**SD**
1.	There is a proper set of rules and guidelines, for managing liquidity risk, available in the bank	44.0	37.3	13.3	4.0	0.0
2.	The liquidity risk strategy set by the Board of Directors is effectively transformed and communicated within the bank in the shape of policies and procedures by the top management.	33.3	44.0	17.3	4.0	0.0
3.	The bank has an effective risk management framework (infrastructure, process and policies) in place for managing liquidity risk.	28.0	52.0	16.0	2.6	0.0
4.	The bank regularly prepares periodic report of liquidity risk.	36.0	46.6	14.6	1.3	0.0
5.	Applications of liquidity risk management techniques reduce costs or expected losses.	36.0	40.0	26.6	1.3	0.0

4.5 Operational Risk Management

Table 5 indicates the respondents of operational risk management practices within their banks. The study reveals a strong consensus on several aspects: 85.3% of respondents agreed or strongly agreed that there are adequate rules and guidelines for managing operational risk. Additionally, 84% of respondents recognized and understood the board and executive management's definition of all categories of operational risk. The effectiveness of senior management in implementing strategic direction through operational risk policies was acknowledged by 65.3% of respondents. Furthermore, 70.7% of respondents agreed or strongly agreed on the existence of contingency and business continuity plans to ensure the bank's ability to operate and minimize losses during severe disruptions. Lastly, 82.7% of respondents supported the regular preparation of periodic reports on operational risk, indicating strong approval of these practices. This demonstrates a strong belief in the importance of regular reporting on operational risk. The results align with the conclusions of several other investigations. According to Ng'aari (2016), banks should give careful consideration to evaluating overhead costs in order to maximize returns on investment and assets. This is because shareholders want to make sure that operations run smoothly and that risks are kept to a reasonable level. Mwanzia (2021) emphasizes that efficient operational risk management in banks can prevent issues like fund misappropriation, forgery, cheque fraud, hacking, and unauthorized access, thereby enhancing performance.

Table 5 presents operational risk management practices

	Statement	**Responses %**				
		SA	**A**	**N**	**D**	**SD**
1.	There is a proper set of rules and guidelines, for managing operational risk, available at the bank	37.3	48.0	12.0	1.3	0.0
2.	The board and executive management of the bank recognize, understand and have defined all categories of operational risk applicable to their institution	30.6	53.3	12.0	1.3	0.0
3.	Senior management of the bank transforms the strategic direction given by the board through operational risk management policy	24.0	41.3	20.0	12.0	0.0
4.	The bank has contingency and business continuity plans to ensure its ability to operate as a going concern and minimize losses in the event of severe business disruption	29.3	41.3	18.6	6.6	0.0
5.	The bank regularly prepares periodic reports of operational risk	38.6	44.0	12.0	1.3	0.0

V. CONCLUSION AND RECOMMENDATIONS

Risk management is crucial in the banking industry for managing an institution's exposure to losses and safeguarding its assets' value. So, risk management takes steps to prevent negative outcomes in the future. Primary risks include credit risk, market risk, operational risk, reputation risk, and third-party risks. Credit and liquidity risk are critical for banks' survival, making risk management essential for navigating the complex financial landscape.The current study evaluates risk and risk management awareness and practices in commercial banks in the Banadir region of Somalia. Data was collected through a questionnaire survey of 75 staff from six of 13 licensed banks. Results show that staff are highly aware of risks and risk management and agree that reducing credit, liquidity, and operational risks is essential for maintaining financial stability and preventing potential risks. The findings indicate that these commercial banks have a good foundation in risk management practices, with a focus on frequent review, reporting, and the adoption of comprehensive risk management frameworks. The study recommends the following recommendations based on its findings:

1. Banks should enhance their risk management frameworks by incorporating advanced methods, conducting regular reviews and evaluations, and introducing comprehensive training programs.
2. Banks should adopt contingency and business continuity strategies to ensure operational stability during interruptions, with regular reporting and monitoring crucial for early threat detection and mitigation.
3. The government should establish regulatory frameworks and support for a healthy financial system, encouraging depositors to diversify their funds across multiple banks to reduce bank failure risk and ensure financial stability.
4. The implementation of technological advancements, including backup systems and cybersecurity measures, will enable banks to adopt a proactive risk mitigation strategy and ensure financial system stability.

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