Reorganization of Risk Management in Public Sector Specialized Financial Institutions: Evidence from Small and Medium Enterprise Bank Limited of Pakistan.

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Abstract

The rational of this study investigated the risk management practices (RMP) of SME banking. Therefore, evidences reserved from the Small & Medium Enterprise Bank Limited of Pakistan (SMEBL). For precision two-fold techniques for gathering of data used; from formal questionnaires and individual interviews using judgmental sampling. Various econometric and statistical tools applied to test hypotheses. Findings reveal the regressive approach of the management and staff towards Risk Management. So comprehensive policy is required to reframe it including training about Basel, risk-averse mechanism and technological advancement. Small & Medium Enterprise Bank Limited has thirteen corporate level branches as well as five recovery booths all over Pakistan. Financing to Small & Medium Enterprises has a vital role in the economic growth of Pakistan. So, the remodelling of Risk Management (RM) in Small & Medium Enterprise Bank Limited of Pakistan is duly favorable for regulators, academicians, management, investors and stakeholders. It is deemed as a first study to empirically explore study regarding RM in Specialized Financial institution dealing with Small & Medium Enterprises of Pakistan.

Keywords- Non-Performing loans; Delinquency ratio; Basel regulations; Risk Governance,

Introduction

According to Rohra and Panhwar (2009), most of the developed countries admit the prominence of SME sector in supporting their Economies. Therefore, the study validates the contention that SMEs in Pakistan have commendable potential for wider economic and social developments. SME sector can perform a prime role in developing the sustainable economic framework of the country. The statistics presented earlier defined the growth and potential in this sector. Conversely, SMEs are not exploiting their human resource tactically and logically so management ignores organization's valuable assets these are the workforce. Implementation of incompetent human resource as well as risk management practices due to deficiency of HR practitioners is one of the major obstacles facing by the SMEs to maximize their profitability. Therefore, reasonable measures need to be implemented for improvement of all the sources regarding enhancement of organizational efficiencies for attainment of SME performance (Khalique, Isa, & Nassir Shaari, 2011).

Small and medium sized companies signify a large, diversified and important sector globally and measured as the most substantial segment that underwrites in the growth of a country. Schlogl, (2004) states that in recent years the small and medium sized enterprises (SME) have come under the limelight of public policy and seek attraction of the policy makers of developed and developing economics. Consequent upon the facts and figures furnished by the UNIDO, 90 percent trading around the globe fall under the category of SME segment that provides around 60 percent employments all over the world (SMEDA, 2006). While investigating the significance of

SME segment worldwide and its prominence into the country's economy it can be concluded that SME segment plays a pivotal role in growth of economic development of Pakistan.

Risk is the biggest factor involved in any type of financing especially in agricultural sector due to various tangible and intangible reasons. Therefore Tanninen (2013) states Credit risk as Default risk carries occurrence of loss due to the inability of borrowers to pay-back. The Business Dictionary.Com estimates that probability of threat may be avoided through preemptive measures. In the words of (Burt, 2001) the Risk is a chance of occasion. Burki (2007) states that the risk is the possibility of definite loss of earning or equity. Drollette (2009) describes that the risk can be termed as a possibility of harmony of inauspicious outcomes due to imperfect knowledge in making judgment. As defined by Hardaker (2004), Bukenya & Chembezi (2006) and Nair (2009) the agricultural risk can be of two types "Localized Risk", which influence the life of farmer and the "Highly Correlated Risk" that affect whole society. According to Ngathou (2006) the Risk is an innate component of trade and societal life. The exposure of risk can be minimized in financial institutions by implementing well organized (RMPs). Therefore, this study is dealing with Banks role in the theoretical-lens of Rational Banking Practices. So, Carey (2001) defines the management of risk in bank is desperately needed than any other economic sector. The major duty and responsibility of financial institution is to maximize profit. The Risk can be bifurcated into two types' vis-à-vis systematic risk related to whole economy as well as unsystematic risk in banking industry. The Risk Mitigation and Transmission techniques is used to minimize the systematic risk. Santomero and Oldfield (1997) stated some essential risk-mitigation strategies through: 1. Simple trading activities; 2. Transference of risk; and 3. Active management of risk leading with risk acceptance approach. Hakim (2005) pointed out the use of RM tools for minimizing risk. Therefore, RMPs have prime role in healthy life of banks (Carey, 2001). The Neaime (2005) defines that the financial institutions of Pakistan adopt Ratio of Capital Adequacy according to Basel-II. The Basel-II in turns is used as a technique in lending decision to administer the risk in an efficient manner (Rob and Calem, 1999). Shafiq and Nasr (2010) further elaborated that the Pakistan Banking has faced different types of risks regarding market, foreign exchange, liquidity and credit due to the economic volatility. Referring to the previous studies derived from conventional and Islamic banking there is a need to extend the same on specialized financial institutions dealing in agricultural credit. So, based on said discussion the ongoing research addresses the purposes as: 1. to adopt different RMP and Techniques; 2. to examine the practices in RM with reference to agricultural credit; 3. to improve the weaker area of RM revealed in previous studies and practices.

The main aim of this study is to examine the RM structure of Small & Medium Enterprise Bank Limited of Pakistan duly established in 2001 based on the vision of government for restructuring & refurbishment of the bank towards privatization according to Basel Standards. Appended below are the research questions for facilitation of this study:

What are the exploratory presumptions regarding RMP in Small & Medium Enterprise Bank Limited of Pakistan?

What are the derivations covering risk factors and whether the Small & Medium Enterprise Bank Limited of Pakistan tends to remodel its RM philosophy for controlling financial catastrophes?

What importance needs to be drawn on the framework of Basel-III to safeguard the financial disasters?

Following objectives are established to elaborate the above research questions:

- To appraise and identify the philosophy of risk management in Small & Medium Enterprise Bank Limited of Pakistan;

- To appraise and reframe of risk modeling using personal interviews of Small & Medium Enterprise Bank Limited of Pakistan officials;
- To explore the risk-averse mechanism in Small & Medium Enterprise Bank Limited of Pakistan;
- To observe the response of High-ups regarding RM framework in lieu of Basel-III standards;

Literature Review

BCBS (2001) and Meor Ayub (2006) stated that the RM is a practice engaged in decision making on regular basis relied upon identification of events in broader classes of Operational, Credit, Liquidity, Market and other risks. It is sub-divided as the risk model for the valuation of data, reporting, supervision, assessments and control. It is observed that basic RM structure comprised of four pillars including risk identification, risk measurement, risk mitigation, monitoring and reporting respectively. Principally there are three major banking risks like hazard or pure risk, financial and non-financial risk. The financial risk segregated into market, credit, liquidity, interest rate, foreign exchange, solvency and capital adequacy. The non-financial risk is deemed as operational risk. According to Rosman (2009) the research structure is a RMP and the classification of RM Processes. Whereas the structure defines relationship of four features of RM process and RMP as: 1. Understanding Risk Management (URM). 2. Risk Identification (RI). 3. Risk analysis and assessment (RAA) 4. Risk Monitoring (RM).

According to Taha, (2012) Pakistan is a less developed country and most of the economy relied upon the agricultural activities. However, from few yester decades the country noticeably shifted to the industrial undertakings. Albeit the development of the economy is passing through mismanagement of resources and it can be monitored through a visionary and proficient political administration in Pakistan. Textiles industry seems to be most viable segments in country that accounts for most of the export earnings of Pakistan. The total work force of Pakistan is 58.41 million with the rate of unemployment to the tune of 5.6 percent. Agricultural sector comprised mainly of labour force with the proportion of 45 percent; moreover, industry and service sector engaged 20.1 percent and 34.9 percent correspondingly with per capita income of USD 2800. The main agricultural products comprise of cotton, wheat, rice, sugarcane, fruits, vegetables; milk, beef, mutton and eggs. Additionally, the industrial segment of Pakistan consists of textiles and apparel, food processing, pharmaceuticals, construction materials, paper products and fertilizer (Mustafa and Khan, 2005; Dasanayaka, 2008). According to Federal Bureau of Statistics, (2004) & SMEDA, (2006) state that 65 percent of enterprises are in Punjab, 18 percent in Sindh, 14 percent in KPK and other 3 percent in Baluchistan or Islamabad. The bifurcation defines 53 percent are wholesale, retail, restaurants and hotels, 22 percent community, social and personal services and 20 percent are in manufacturing. It is quite conspicuous that about 90 percent of SMEs are around 20 years of age.

Economic Survey of Pakistan (2017) stated that 3.8 million establishments are functioning in Pakistan out of that 94 percent companies falls in the category of SMEs. Additionally, SME sector outfits for 25 percent of manufacturing exports in Pakistan, wherein its share in value addition is 28 percent (Kureshi et al., 2009). Likewise, SMEs jointly underwrite about 30 percent to GDP; employ 80 percent of the non-agricultural labour force, 25 percent to total exports and 35 percent to manufacturing value addition (Economic Survey of Pakistan, 2017). Economic Survey of Pakistan (2017) elaborates any further that small scale manufacturing that accounts for 5.1 percent of total GDP.

Conversely, irrespective of their economic viability, SMEs in Pakistan undergo a variety of deficiencies that have curbed their ability to accommodate to the economic liberalization measures presented by Government of Pakistan and their capability to take full benefit of the briskly moving world markets. According to Bari, Cheema & Ehsan-ul-Haque, (2005); Khawaja, (2006); Mustafa & Khan, (2005), Rohra & Panhar; (2009); and SBP (2010) these deficiencies comprise for example, focus on low value-added products, absence of an effective business information infrastructure, energy crisis, lack of tactical planning, low levels of monetary literacy, unskilled human resources and non-aggressive lending strategies by banks. According to SBP, (2017) the enterprises having 20 or more employees with annual turnover of up to $ 757,500 are considered as SMEs. The economic support by SMEs segment to Pakistan is 30 percent of GDP and 35 percent of manufacturing value added. Similarly, 25 percent to manufacturing sector exports and absorb 78 percent of non-agricultural human force.

The establishment of SME Bank has done vide Government of Pakistan's Ordinance LVI of 2001 named as Regional Development Finance Corporation and Small Business Finance Corporation through Amalgamation and Conversion Ordinance. It was made with the aim of propagation of financial support to the Small & Medium Enterprise Industry of Pakistan. According to Bhutta, Arif, & Usman, (2008) SME Bank had been established to furnish monetary and financial assistance for supporting business as well as Small & Medium enterprises. Total Assets of SME Bank as on the December 31, 2016 depicted PKR 9357.6 million; Advances for amounting to PKR 2771.7 and Investments to the tune of PKR 4869.5 million. Up to 31st December 2016 SME Bank has financed 11,299 SMEs along with 50,891 beneficiaries in the country similarly the deposit base reached to PKR 5228.7 million, ROA ratio -2.21 percent, ROE ratio -105.71 percent and loss after tax accounts for PKR 199.2 million (Economic Survey of Pakistan, 2017).

Angelopoulos and Mourdoukoutas (2001) expound that the RM is a sense towards risk and results related to it. Niinima Ki (2004) added level of competition on bank's risk taking observed through framework and size of market where the competition is taking placed. Wetmore (2004) investigated that there is a strong correlation of advances to the primary deposit ratio as the deposit is the biggest source of liquidity. Bagdi and Khambata (2003) explored an eminent tool of Off-Balance-Sheet (OBS) based on financial derivatives to cater Credit Risk duly prevailed 20 large Banks of Japan. Al-Tamimi (2002) emphasized that the UAE based banks applied RM Techniques relating to different types of risks. It discovered that the major problem of the commercial banks in UAE was the credit risk. The study interprets that the main technique in investigating RI is the critical analysis of financial statements. The techniques adopted in RM were formulating principles, credit-scoring, analysis of credit-worthiness, security, indemnity, risk rating and further determined the keenness of the banks to practice latest sophisticated tools of RM for extraction of accepted traditional credit-policy. Saurina and Salas (2002) applied the group data to compute the problematic factors pertained to credit risk of Commercial and Saving Banks of Spain during the period (1985-1997) after studying macro and micro level economic variables of the banks. According to Santomero and Oldfield (1997) the RM in banks is based on four steps of integrated RM techniques: 1. Establishment of reports & standards; 2. obligation of situation, restrictions and policies (that is existing exposure, limits of the credit and arrangement application); 3. The composition of self-dealing policies and strategies; 4. Establishment of incentive policies and compensation plans based on performance. Nasr and Shafiq (2010) elaborated for determination of customary RMP those may be implemented in the banks of Pakistan. The data comprised of primary and secondary sources with conclusion based on momentous difference between government and the private sectors banks depicting that the financial soundness indicator varies from bank-to-bank and person-to-person; these gaps can be overcome by the on-job trainings. To suffice this doctrine the Economist Intelligence Unit (2010) held extensive survey of 346 global level high-ups in finance depicting outcomes that just to the account of 40 percent of the contenders (realizing the significance of RM) had efficiently adapted RM skills in their banks; wherein the plenty of correspondents stood at initial level. So, to signifying authoritarian effects of Basel-III RM structure, Fitch's attempts [...] (Financial Times, 2012) pointed out the compliance of Basel- III requirements, the assets base of 29 largest global monetary organizations for US$. 47t required to maintain a capital of US$. 566b after the vacuity of Basel-II to overstep from the latest monetary crisis. Atkinson, Wignall and Bundell (2010) examined valuable performance of Basel-III capital proposal to find out the basic authoritarian issues of the financial institutions. Fissha (2009) stated that the government can establish special contingences reserves for disaster relief management during catastrophe. Jessop & Harms (2012) further stated that the there are various methods to manage the Policy Risk. The agricultural-land used as collateral with index insurance to safe-guard loans. The institutional reforms are a burning issue, which resolves through proper planning and legislation by the government. Derived from the literature that every organisation universally needs to adopt RMP. Therefore, same conventions may be extended on Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) to examine its risk structure determining the impact of figurative aspects as understanding risk management-URM, risk identification-RI, assessment of risk and analysis-ARA, monitoring of risk-RMR, Operational risk analysis-ORA, Liquidity risk analysis-LRA, Market risk-MR, risk governance-RG, and credit risk analysis-CRA on RMP (Sania et al 2012; Bilal et al 2013; Asma 2016). Referring to gratify the objectives of study appended below hypotheses established to discover the evidences of transforming of RM:

H_1. URM, ARA, RI, CRA, ORA, MMR, RG have optimistic relationships with RM Practices in Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL).
H_2. There are no evidential deviations in Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) to take causal computations on pivotal banking risks derived from the previous studies.
H_3. Review of RMP that has a consequential influence on potential RM policies in Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL).
H_4. Adoption of Basel-III standards may have evidential impact on reframing of RM in Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL).

Introduction to Study Population

The Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) as DFI comprised of the branch network of 13 branches along with 5 recovery collection units serving more than 11,299 SMEs all over Pakistan. The staff strength of Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) is 490 regular and 28 contractual employees. Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) has been passing from restructuring w.e.f. FY-2010 (SMEBL, 2017).

Sampling, Collection of Data, Assessment and Analysis

The sample of the study comprised of Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) staff. To certify this study, bi-dimensional technique for data collection adopted through closed as well as open ended questionnaires to the staff of branches and Zonal Offices, Lahore, Sheikhpura and Okara. Respondents were selected through judgmental sampling technique based on their experiences in branch operations, credits and administration. The questionnaire developed with due modification based on previous studies (Bilal et al. 2013 and Asma 2016). All the questions are measured on seven-point likert-scale ranging from strongly disagree to strongly agree. Questionnaire was pre-tested based on standardized reliability and validity. A small sample size of 160 respondents used. To verify the uniformity of the study personal interviews gathered later-by two months of empirical results to test significance level from two different techniques. Multiple-imputation technique for getting regression, correlation and other statistical outcomes used in SPSS for replacement and imputation of missing values at 7% of data for homogenous population.

The values derived from descriptive statistics regrading mean of means and the mean of standard deviation that the high mean value of CRA-5.39 with SD-1.23; ORA-5.23 with SD-1.21; and MMR-5.07 with SD-1.27 reveal that the model tends to explore three main risks. Liquidity Risk Analysis is required to be measured through Liquidity Stress Testing & Scenario Analysis. Similarly, the implications of risk-averse mechanism and Basel-III regulations need to be implemented through Risk filtration system (RFS).

Table 1: Descriptive Statistics

Sr. No.	Variables	Mean of Means	Mean of S.D.
01	Understanding Risk Management-(URM)	4.77	1.71
02	Assessment of Risk & Analysis-(ARA)	4.69	1.35
03	Risk Identification-(RI)	4.50	1.54
04	Credit Risk Analysis-(CRA)	5.39	1.23
05	Operational Risk Analysis-(ORA)	5.23	1.21
06	Managing Market Risk-(MMR)	5.07	1.27
07	Risk Governance-(RG)	4.87	1.32
08	Risk Management Practices-(RMP)	4.63	1.58

Source: Derived from the personal survey based on previous studies (Al-Tamini, 2007; Al-Mazrooei, 2007; Hassan, 2009 and Bilal et al. 2013)

Regression and Correlation Analysis

The regression results illustrated the value of Durbin-Watson (D-W) showed the assessment as 2.028; tolerance was not lower than 0.221 and variance information factor (VIF) was not higher than 4.75 except in RAA, which exist non-existence of the autocorrelation and multicollinearity issue in record except in (RAA) with minor difference from the prescribed criteria. Hence the reliability showed relatively satisfactory having Cronbach alpha full-fills the condition of ($0.699 \leq 0.70$). The results showed all predictors variables as (RI), (RMR), (CRA), (ORA), (MMR) were satisfactorily significant with ($p \leq 0.01$), which testify the grander prominence of these Risk Practices. However, the (URM) as well as (ARA) were optimistic having positive values, but insignificant in this study. Regression outcomes, RG defined as most dominant variables with Beta-value (β) as 0.367 that was the highest amongst all other variables in this study followed by MMR, RI, ORA, RAA, URM and CRA. The value of Coefficient of determination R^2 has been rationalized by Adj. R^2 to avoid an over-optimistic observation of model-fit. In the Regression model the value of adj. R^2 determined 86.0%, which further testified that how strongly multiple-exogenous variables have an impact on RMP. The interpretation of this study has been derived from Bilal et al (2013) with some contradiction with reference to insignificance of (URM) & (RAA) as predictors, which is due to mediocre Sample size of this study.

Table: 2 Reliability Analysis

Sr. No.	Risk Measurement Variables	Cronbach's α
1.	URM	0.744
2.	RAA	0.901
3.	RI	0.697
4.	MMR	0.863
5.	CRA	0.881
6.	ORA	0.781
7.	RG	0.870
8.	RMP	0.883

Source: Derived from Bilal et al (2013) and Asma (2016)

The regression results found out the concurrent influence of RMP in Agricultural Credit evidenced from Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL). The findings determined that exogenous-variables have optimistic positive association with conventional significance level. The RG with highest value of (β =0.367, p=0.000), followed by other predictors as MMR (β=0.330, p=0.000), RI as (β=0.313, 0.000), ORA as (β=0.125, p=0.009), RAA as (β=0.041, p=0.478), URM as (β=0.017, p=0.758) and CRA as (β=0.089, p=0.069); hence H1 is validated. The Regression model R^2 having value 0.863 depicting that expounded variation of 86.7 percent with adjusted R^2 expanded value of 86.0 percent is due to influence of exogenous-variables on endogenous-variable. The outcomes discovered that all selected exogenous-variables have significant involvement on RM process. Moreover, all constructs have duly effective and far-reaching impact on eventual RM Policies. Therefore, H2 and H3 are fully supportive. The table showed the F-value of 135.593 with significant level of 0.000 is larger enough to highlight that concurrent influence of exogenous-variables was significantly noticeable to the variance of efficient RM process.

Table: 3 Regression Analysis

				COLLINEARITY STATISTICS		ANOVA STATISTICS		
Variables	Un-stand. β	SE	Stand. β	Tolerance	VIF	t	Sig. level	
(Constant)	0.559	0.209				2.670	0.008	**
URM	0.017	0.053	0.017	0.340	2.968	0.297	0.758	
RI	0.364	0.051	0.313	0.434	2.313	6.859	0.000	**
RAA	0.041	0.065	0.041	0.179	5.635	0.679	0.478	

RG	0.367	0.063	0.329	0.240	4.181	5.501	0.000	**
ORA	0.169	0.061	0.125	0.406	2.454	2.702	0.009	**
MMR	0.340	0.068	0.330	0.223	4.528	5.145	0.000	**
CRA	0.102	0.059	0.089	0.333	2.987	1.779	0.069	*
R^2	0.863							
Adj. R^2	0.861							
F. Stat	135.593	@Sig. F-Change 0.000						
Durbin-Watson	2.028							

Note: Significant at: * ≤ 5 and * * ≤ 1 percent levels

Table (vi)-Correlations

	1	2	3	4	5	6	7	8
Understanding Risk Management	1							
Risk Identification	.641**	1						
Risk Assessment and Analysis	.775**	.738**	1					
Risk Management Practices	.711**	.734**	.829**	1				
Risk Governance	.723**	.574**	.783**	.851**	1			
Operational Risk Analysis	.429**	.390**	.605**	.663**	.639**	1		
Managing Market Risk	.605**	.512**	.738**	.825**	.793**	.701**	1	
Credit Risk Analysis	.439**	.364**	.496**	.612**	.664**	.675**	.761**	1

**. Correlation is significant at the 0.01 level (2-tailed).

**. Convergent Validity

The Pearson's correlation matrix is basically a table showing a positive significant correlation between different sets of variables. The one on diagonal of the table means strong correlation between variables to test Convergent Validity.

Findings Based on Empirical Analysis of Theoretical Framework

Results of the regression along with personal survey in the line with hypotheses of research and verified that The judgements retrieved from statistical analysis determined that URM, RAA, RI, ORA, CRA, RG and MMR have optimistic relationships with RMP in Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL), hence H_1 is accepted; wherein personal survey through interviews envisaged that Small & Medium Enterprise Bank Limited of Pakistan-

(SMEBL) has also dedicated on some auxiliary risks pertained to ongoing challenges likewise Technology risk, reputational risk and settlement risks respectively Bilal et al. (2013). The Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) is a specialized financial institution dealing in agricultural credit in contrast to other conventional and Islamic banks based on the previous studies Sania and Shehla, (2012). So, no significant difference found as the results of the study conducted at 5 percent level of significance. Therefore, H_2 is accepted.
Consequent upon the vision 2008-2018 of democratic government regarding restructuring and refurbishment of the bank; one of the important aspects achieved with establishment of separate RM Department during 2012 seems that Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) has tendency to remodel its RM nomenclature to cope with financial threats. So H_3 is accepted. The findings based on personal interviews duly endorsed by demographic statistics envisaged that the branch banking operations and credit staff desire to have formal training sessions about RM and Basel Accord. Therefore, H_4 substantiated.

Finding based on personal interviews and survey of bank's profiles the RM seems implemented, but lack of proper coordination amongst departments and slow technological advancement RMP has been taken for granted. Survey reveals that 88.9 percent respondents believe in "One-size-fit-all" strategy for improvement in prevailing structure. Therefore, comprehensive training plan and fetching of modern technology are the panacea for mitigating operational and technology risks. Both these risks have direct influence on liquidity as well as credit risks; since no bank can attract depositors to strengthen its liquidity unless it may achieve the status of one-link membership through ATMs. Hence verified that ORA, TRA, and CRA are interrelated phenomena. (Al-Tamimi, 2007; and Bilal et al. 2014)

Table: 5 Significant Review regarding Important Risks derived from Survey

Sr. no.	Risks	Degree of Acceptance
1	Operational Risk	0.77
2	Risk Governance	0.73
3	Credit Risk	0.78
4	Compliance & Regulatory Risk	0.75
5	Reputational Risk	0.63
6	Repayment Risk	0.62
7	Settlement Risk	0.60
8	Legal Risk	0.71

Source: Findings of Personal Interviews technique (degree of significant acceptability: 0-1) derived from (Al-Tamimi, 2007; and Bilal et al. 2014)

Conclusions and Limitations

Based upon the literature, empirical findings as well as the personal survey it has been concluded that the Small & Medium Enterprise Bank Limited of Pakistan-(SMEBL) has a potential role in growth and development of Small & Medium Size Enterprises in Pakistan; but due to regressive approach and slow decision power the Risk Management model is not properly implemented, and it desperately needs review and reform of procedural manuals in the line of Basel-III Standards.

Recommendations and Future Research

Undoubtedly the management is keen to observe all the parameters defined by the State Bank of Pakistan regarding restructuring of the bank commenced during FY-2010. The one way or other it gradually functioning toward privatization, but it observes a great margin for procedural innovation and creativity regarding usual risk model concerned with major risks faced by the bank as RG, ORA, MMR and CRA respectively. Therefore, referring the other studies pertained to previous researchers regarding risk management practices, it is intensely recommended to reframe the prevailing RM structure of the bank to efficiently deal with all the gaps especially risk governance and managing market risk. Additionally, the credit and operations staff trainings for Basel Accord and SBP regulations regarding Risk Management are required. Furtherance to that improvement in risk assessment analysis through critical monitoring and effective control techniques (Wignall et al 2010 and Bilal et al 2013),

Subsequent to the study model future research can be extended on distended sample size covering a comparative study amongst all the specialized financial institutions of Pakistan functioning in Public Sector or there may be a public vs private specialized financial institutions of Pakistan dealing in agricultural credit, micro-financing and small & medium enterprises about understanding of RM tactics for reduction of risks related to banking evasion for fabricating organizational structure of Public sector specialized banks of Pakistan.

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