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Risk Management practices in Banking. A case of Zambia National Commerical Bank and First National Bank in Kitwe, Zambia

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Abstract: Problem Statement: *Despite sector growth and enhanced capital adequacy, Zambian banks face persistent challenges such as high non-performing loans, liquidity shortages, and economic volatility, which hinder performance and stability. There is a need to empirically assess how internal risk management practices directly impact the financial performance of major commercial banks in this context.*

Aim of the Study: *This study aimed to examine the impact of credit, liquidity, and operational risk management practices on the financial performance and stability of First National Bank (FNB) and Zambia National Commercial Bank (ZANACO) in Kitwe, Zambia.*

Methodology: *The study employed a mixed-methods approach. A descriptive design was used to collect quantitative data via structured questionnaires from 105 employees in risk, finance, and operations departments. Qualitative insights were gathered through interviews. Secondary financial data were analyzed. Data were processed using SPSS for descriptive and inferential statistics, including regression analysis.*

Key Findings: *Findings indicated robust credit risk management practices, particularly in collateral enforcement and regulatory compliance. Liquidity management was adequate for short-term obligations but lacked strategic prioritization for long-term resilience. Operational risk controls were strong in employee training and fraud detection. However, regression analysis revealed that these combined risk management practices explained only 8.3% of the variance in operational performance, indicating that other factors play a more dominant role.*

Main Implication(s): *The study implies that while FNB and ZANACO have foundational risk management frameworks, there is a critical need to move beyond compliance-driven practices. To significantly enhance performance and stability, banks must strategically integrate risk management with organizational objectives, invest in advanced analytics, and strengthen areas like strategic liquidity planning and cybersecurity.*

Keywords: *Job Stress, Madison Life, Workload, Role Ambiguity, Performance*.

I. Introduction

Banking is a key financial intermediary that promotes economic growth by channeling public funds into productive sectors, earning interest through lending activities (Khan et al., 2020; Ghosh, 2015). Depository institutions mobilize resources across regions to support financial stability, but excessive credit risk can threaten this stability and even lead to systemic failures (Accornero et al., 2018). Risk represents uncertainty and potential loss, and effective risk management involves identifying, assessing, and mitigating risks to balance risk and return while protecting financial performance (Schroeck, 2002; Apostolik & Donohue, 2015; Economic Bank, 2017).

Credit risk, arising from borrowers' inability to meet obligations, poses significant threats to banks' asset quality, profitability, and regulatory compliance, requiring rigorous assessment, portfolio diversification, and continuous monitoring (nCino, 2024). Banks also face liquidity, market, and operational risks, which, if poorly managed, can undermine stability and reputation (Intone Networks, 2024). Research shows that inadequate risk management negatively affects performance, with credit risk reducing profitability metrics such as ROA and ROE (Haneef et al., 2012; Kithinji, 2010). In Zambia, despite sector growth and improved capital adequacy, banks continue to face non-performing loans, liquidity challenges, and economic volatility, emphasizing the need to assess the impact of credit, liquidity, and operational risk management on the financial performance of FNB and ZANACO (PwC Zambia, 2024; Bank of Zambia, 2023).

II. Research objectives

I. To examine the credit risk management practices and their impact on the financial performance of FNB and ZANACO.

II. To assess the effectiveness of liquidity risk management practices in maintaining the stability of FNB and ZANACO.

III. To evaluate the operational risk management practices and their influence on the overall risk profile of FNB and ZANACO.

III. Literature Review

Theoretical Foundations

The study of risk management in banking is grounded in well-established management and financial theories that explain how institutions identify, manage, and mitigate uncertainties while safeguarding performance and stakeholder interests. Two dominant theoretical perspectives underpin this study: Risk Management Theory and Stakeholder Theory.

Risk Management Theory emphasizes the systematic identification, assessment, and mitigation of risks to optimize the risk–return trade-off (Markowitz, 1952; Schroeck, 2002). In the banking sector, this theory highlights practices such as diversification, credit appraisal, liquidity buffers, and internal controls as mechanisms for reducing exposure to credit, liquidity, and operational risks. Banks apply quantitative tools such as regression analysis and stress testing to predict potential losses and strengthen decision-making under uncertainty.

Stakeholder Theory, advanced by Freeman (1984), posits that organizations must balance the interests of multiple stakeholders, including shareholders, customers, regulators, and employees, to achieve sustainable performance. In banking, ineffective risk management can undermine stakeholder confidence through loan defaults, liquidity shortages, or operational failures. Therefore, sound risk management practices are essential not only for profitability but also for regulatory compliance, reputational integrity, and long-term institutional stability.

Together, these theories provide a strong conceptual basis for examining how credit risk, liquidity risk, and operational risk management practices influence the financial performance and stability of commercial banks such as ZANACO and FNB in Zambia.

Josyula (2022) examined risk management strategies in global banking, highlighting that although banks across regions adopt similar overarching risk management

Risk Management Practices in Banking

Empirical research on risk management practices has consistently demonstrated their importance in enhancing bank performance and financial stability. Globally, studies indicate that effective risk management frameworks contribute to improved profitability, reduced non-performing loans, and stronger resilience to economic shocks.

Ishtiaq (2015) examined risk management practices in Pakistani banks and found that active processes of risk identification, measurement, monitoring, and control significantly enhanced bank performance. Similarly, Amin et al. found that strong risk identification and mitigation policies positively influenced organizational performance in the banking sector.

Chen (2023) emphasized that risk management equips banks with analytical tools to detect and mitigate credit, operational, and market risks, thereby protecting assets and enhancing profitability. These findings underscore the central role of structured risk management systems in maintaining financial health across diverse banking environments.

In the African context, Ismail (2023) reported a strong positive relationship between risk management practices and profitability in Tanzanian commercial banks. Agyemang et al. (2020) similarly found that effective risk measurement, monitoring, and internal controls significantly improved financial performance in Ghanaian credit unions. However, some studies, such as Tamakloe et al. (2023), observed that not all risk types exert equal influence, with operational risk having a stronger effect on bank performance than credit and liquidity risks.

Within Zambia, empirical evidence remains limited but growing. Mulwanda (2021) established a significant negative relationship between non-performing loans and effective credit risk management at Absa Bank Zambia, indicating that improved credit practices reduce default rates and enhance profitability. Afumukache and Masando (2023) found that credit risk management had a significant positive effect on ZANACO's performance in Ndola. These studies highlight the relevance of internal risk management practices but often focus on single institutions or isolated risk categories.

Key Themes and Models in Banking Risk Management

Several key themes emerge from the literature on banking risk management. First, **credit risk management** remains the most extensively studied area, given its direct link to loan defaults and profitability. Common practices include credit appraisal, collateral enforcement, portfolio diversification, and compliance with regulatory guidelines.

Second, **liquidity risk management** has gained prominence following global and regional financial crises. Models such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) emphasize maintaining adequate liquid assets to withstand short-term and long-term funding pressures. Effective liquidity management is associated with improved bank resilience and stability.

Third, **operational risk management** focuses on internal processes, systems, human resources, and fraud prevention. Studies increasingly recognize operational risk as a critical determinant of bank performance, particularly in emerging markets where system failures and human error are more pronounced.

From a management perspective, integrated risk management frameworks and enterprise risk management (ERM) models are emphasized as best practice. These models advocate for aligning risk management with strategic objectives, governance structures, and performance measurement systems to ensure holistic risk oversight.

Limitations in Existing Literature

Despite the extensive body of research on risk management in banking, several limitations are evident. First, many studies focus on developed economies, limiting the applicability of their findings to emerging markets such as Zambia, which face distinct economic and regulatory challenges.

Second, existing Zambian studies often concentrate on a single bank or a single type of risk, particularly credit risk, thereby overlooking the combined effects of credit, liquidity, and operational risk management practices on financial performance. Third, there is limited empirical evidence linking formal risk management frameworks to actual performance outcomes using institution-level data.

Additionally, some studies rely heavily on secondary data or descriptive analysis, offering limited insight into how internal risk management practices are implemented at the operational level. These gaps restrict a comprehensive understanding of how risk management practices translate into performance and stability in the Zambian banking sector.

Rationale for the Study and Link to Research Questions

The reviewed literature demonstrates that while risk management is widely acknowledged as essential for banking performance, there is insufficient empirical evidence on how integrated risk management practices affect financial performance in Zambia's commercial banking sector. In particular, limited comparative research exists on how credit risk, liquidity risk, and operational risk management practices collectively influence the performance and stability of major banks such as ZANACO and FNB.

Given Zambia's exposure to economic volatility, rising non-performing loans, and liquidity pressures, understanding the effectiveness of internal risk management practices is both timely and necessary. This study addresses the identified gaps by empirically examining the impact of credit, liquidity, and operational risk management practices on the financial performance of ZANACO and FNB in Kitwe.

Accordingly, the literature review provides a clear justification for the study's research questions, which seek to determine:

- the impact of credit risk management practices on financial performance,
- the effectiveness of liquidity risk management practices in maintaining bank stability, and

- the influence of operational risk management practices on the overall risk profile of commercial banks.

Conceptual framework

The conceptual framework for this study is built on the interplay between risk management practices, stakeholder interests, and financial performance in the banking sector, with a focus on First National Bank (FNB) and Zambia National Commercial Bank (ZANACO).

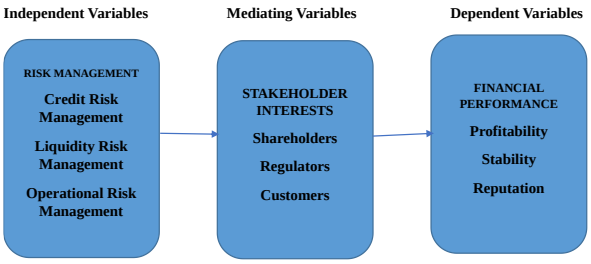

Figure 1 Conceptual Framework of the Study.

Source; Author (2025)

Operational definitions of terms

Credit Risk Management

Credit risk management involves policies and controls aimed at reducing losses arising from borrowers' failure to meet contractual obligations. It focuses on managing loan and off-balance-sheet exposures through effective credit appraisal, monitoring, and portfolio control to safeguard asset quality and profitability (Bank of Tanzania, 2010).

Liquidity Risk Management

Liquidity risk management refers to a bank's ability to meet its short-term obligations without incurring excessive costs. It emphasizes maintaining adequate liquidity buffers and stable funding sources to prevent earnings volatility and potential insolvency (Bank of Tanzania, 2010).

Operational Risk Management

Operational risk management addresses losses resulting from inadequate internal processes, human error, system failures, or external events. Effective controls, sound governance, and robust systems are essential in minimizing operational disruptions and financial losses (Bank of Tanzania, 2010).

Financial Performance

Financial performance reflects a bank's profitability, stability, and overall financial health, commonly measured using ROA, ROE, capital adequacy, and liquidity ratios. These indicators demonstrate how effectively banks manage credit, liquidity, and operational risks to achieve sustainable growth (Bank of Zambia, 2023; PwC Zambia, 2024).

IV. Methodology

According to Churchill (1987), the research methodology deals with the description of the method applied in carrying out the research study. This chapter focuses on the research techniques that will be used to get the data for the study. It covers the research design. study population, sample selection and size data collection and data analysis. It also brings out the anticipated limits of the study.

Research design

The research adopted a descriptive research approach; the main objective of descriptive research is to define the characteristics of a particular phenomenon. Quantitative and qualitative data will used alongside questionnaire and interview to further understand the risk management practices.

Participants

The study targeted employees from Zambia National Commercial Bank (ZANACO) and First National Bank (FNB) Zambia, particularly those working in risk management, credit, finance, internal audit, and operations departments. Primary data were obtained directly from respondents through structured questionnaires, while secondary data were sourced from bank annual reports, policy documents, and regulatory publications to support the analysis of financial performance.

Data Collection Tools

Primary data were collected using a structured questionnaire designed on a Likert scale to measure stakeholder-oriented risk management practices, including credit risk, liquidity risk, and operational risk management. Secondary data were obtained through document review of published financial statements, risk management reports, and relevant regulatory guidelines**.**

Data Analysis Method

Quantitative data were analyzed using the Statistical Package for Social Sciences (SPSS). Descriptive statistics, including frequencies, means, and standard deviations, were used to summarize respondent characteristics and risk management practices. Inferential analysis, such as correlation and regression analysis, was employed to examine the relationship between risk management practices and financial performance indicators. Secondary financial data were analyzed using trend analysis to complement the survey findings.

Ethical Considerations

Ethical standards were strictly observed throughout the study. Participation was voluntary, and respondents were informed of the purpose of the research. Confidentiality and anonymity of responses were assured, and no personal identifiers were collected. Permission to conduct the study was obtained from relevant bank authorities, and all data were used solely for academic purposes in compliance with institutional research ethics guidelines.

V. Results

Demographic Characteristics

The table below summarizes the demographic profile of the respondents in terms of gender, age, department/role, educational qualification, and the bank they are employed in.

Table 1. Demographic Characteristics

Variable	Category	Frequency	percentage %
Gender	Male	43	41
	Female	62	59
Age	18–25 years	26	24.8
	26–35 years	34	32.4
	36–45 years	33	31.4
	46 years and above	12	11.4
Department/role	Risk Management	22	21
	Finance/Accounting	47	44.8
	Operations	36	34.3
Educational Qualification	Diploma	19	18.1
	Bachelor's Degree	70	66.7
	Master's Degree	16	15.2
Bank	FNB	61	58.1
	ZANACO	44	41.9
	Total	105	100

The findings indicate a higher participation of female respondents (59%) compared to males (41%). Most respondents were aged between 26–35 years (32.4%) and 36–45 years (31.4%), suggesting that the majority were in their early to mid-career stages. In terms of roles, Finance/Accounting constituted the largest group of respondents (44.8%), followed by Operations (34.3%) and Risk Management (21.0%). The educational profile shows that most respondents held a Bachelor's degree (66.7%), with smaller proportions holding Diplomas (18.1%) and Master's degrees (15.2%), indicating a generally well-educated workforce. Regarding institutional representation, respondents were drawn from both banks, with 58.1% from FNB and 41.9% from ZANACO, reflecting fairly balanced participation.

Credit Risk Management Practices

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Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Credit risk management practices have reduced loan default rates.	105	2.00	4.00	3.4476	.70685
Collateral requirements are strictly enforced to minimize credit losses.	105	3.00	5.00	4.2190	.61988
The bank's profitability is significantly affected by credit risk exposure.	105	4.00	4.00	4.0000	.00000
Credit risk policies comply with Bank of Zambia regulations.	105	4.00	4.00	4.0000	.00000
Credit risk management practices have reduced loan default rates.	105	3.00	4.00	3.7524	.43370
Valid N (listwise)	105				

Source: field data

The findings indicate general agreement among respondents that credit risk management practices have been effective in reducing loan default rates, as reflected by mean scores of 3.45 and 3.75, with relatively low standard deviations, suggesting moderate to strong consensus. Respondents strongly agreed that collateral requirements are strictly enforced to minimize credit losses (mean = 4.22), with consistent responses across participants. There was unanimous agreement that credit risk exposure significantly affects bank profitability and that credit risk policies comply with Bank of Zambia regulations, both recording a mean of 4.00 and zero standard deviation. Overall, the results suggest that employees perceive credit risk management practices at FNB and ZANACO as robust, particularly in terms of profitability protection, collateral enforcement, and regulatory compliance

Liquidity Risk Management Practices

Table 2. Liquidity Risk Management Practices

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
My bank maintains sufficient liquid assets to meet short-term obligations.	105	4.00	5.00	4.3238	.47017
The bank diversifies funding sources to reduce liquidity risk.	105	2.00	4.00	3.1048	.86518
Liquidity risk management ensures operational stability.	105	3.00	4.00	3.5714	.49725
Management prioritizes liquidity risk in strategic decisions.	105	2.00	5.00	2.9524	1.32564
Liquidity risk practices have improved the bank's resilience.	105	1.00	5.00	2.1619	1.60602
Valid N (listwise)	105				

Source: field data

The results show strong agreement that banks maintain sufficient liquid assets to meet short-term obligations (mean = 4.32; SD = 0.47), indicating confidence in day-to-day liquidity management. Moderate agreement was

observed regarding diversification of funding sources (mean = 3.10; SD = 0.87) and the role of liquidity risk management in ensuring operational stability (mean = 3.57; SD = 0.50), though perceptions varied among respondents. In contrast, respondents were divided on whether liquidity risk is prioritized in strategic decision-making (mean = 2.95; SD = 1.33). The lowest level of agreement related to the effectiveness of liquidity risk practices in improving bank resilience (mean = 2.16; SD = 1.61), reflecting considerable uncertainty and lack of consensus on this aspect.

Operational Risk Management

Table 5. Descriptive Statistics; Operational Risk Management

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Employee training reduces human-error-related risks.	105	4.00	5.00	4.4286	.49725
Fraud detection systems are robust and effective.	105	3.00	5.00	4.5429	.67977
Internal audits identify operational risk gaps adequately.	105	3.00	4.00	3.3524	.48000
Cybersecurity investments mitigate digital operational risks.	105	3.00	5.00	4.2476	.91757
Liquidity risk practices have improved the bank?s resilience.	105	1.00	5.00	2.2667	1.59486
Employee training reduces human-error-related risks.	105	2.00	5.00	4.1714	.94520
Valid N (listwise)	105				

Source: field data

The findings indicate strong agreement that employee training reduces human-error-related risks (mean = 4.43; SD = 0.50), underscoring its importance in mitigating operational risk. Respondents also expressed high confidence in the effectiveness of fraud detection systems (mean = 4.54; SD = 0.68). Moderate agreement was observed regarding the adequacy of internal audits in identifying operational risk gaps (mean = 3.35; SD = 0.48), suggesting room for improvement. Cybersecurity investments were generally perceived as effective in mitigating digital operational risks (mean = 4.25), although responses showed some variability (SD = 0.92). Consistent with earlier findings, perceptions regarding the role of liquidity risk practices in enhancing bank resilience remained weak and divided (mean = 2.27; SD = 1.59). Overall, the results suggest that while operational risk controls particularly training and fraud prevention are strong, further strengthening of audit processes and consistency in cybersecurity implementation is required.

Regression analysis

Regression analysis showed a low positive relationship between risk management practices and operational performance (R = 0.288), with the model explaining only 8.3% of performance variation (R^2 = 0.083). This indicates that while credit risk management, liquidity risk management, and internal audits contribute to performance, other factors play a more significant role. The low adjusted R^2 (0.056) supports prior studies suggesting that risk management alone has limited explanatory power unless combined with broader organizational factors (Osei-Kyei & Chan, 2018; Mwaura & Karanja, 2020).

Table 7. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.288[a]	.083	.056	.68683

a. Predictors: (Constant), Internal audits identify operational risk gaps adequately., Liquidity risk management ensures operational stability., Credit risk management practices have reduced loan default rates.

Source: field data

The regression analysis examined the effect of credit risk management, liquidity risk management, and internal audits on operational performance. ANOVA results showed the model was statistically significant (F = 3.050, p = 0.032), indicating that the combined risk management practices significantly explain variations in credit risk management effectiveness, such as reduced loan defaults. However, the R^2 value of 0.083 suggests that these variables account for only 8.3% of the variance, highlighting that while risk management contributes to performance, other factors also play a substantial role (Mwangi & Murigu, 2015; Field, 2013).

VI. Discussions

The first objective examined the effect of credit risk management on financial performance. Findings indicate that credit risk practices, particularly collateral enforcement and regulatory compliance, are strongly implemented, with respondents agreeing that these measures reduce loan defaults and protect profitability. This aligns with Stakeholder Theory (Freeman, 1984), which emphasizes safeguarding stakeholder interests, and supports prior studies showing that effective credit risk management enhances financial outcomes (Josyula, 2022; PwC Zambia, 2024).

The second objective focused on liquidity risk management. Respondents largely agreed that banks maintain sufficient liquid assets to meet short-term obligations (mean = 4.32), but there was uncertainty regarding the prioritization of liquidity in strategic decisions and the ability of liquidity practices to enhance institutional resilience (means = 2.95 and 2.16, respectively). This suggests that while operational liquidity management is adequate, strategic integration remains weak, highlighting a gap in translating liquidity risk measures into long-term organizational stability.

The third objective addressed operational risk management. Strong practices were observed in employee training (mean = 4.43) and fraud detection mechanisms (mean = 4.54), indicating a robust internal risk culture. However, internal audit effectiveness and cybersecurity preparedness showed variability, suggesting areas for improvement. Regression analysis further indicated that operational risk was not statistically significant in influencing performance ($\beta = -0.193$, $p = 0.421$), implying that while operational risks are managed effectively, they are not yet fully optimized to drive outcomes. These findings correspond with Josyula (2022) and Silwimba (2022) on training and anti-fraud measures, but differ from Tamakloe et al. (2023), who found operational risk highly influential in Ghanaian banks.

VII. Conclusion

The study's conclusions are framed in relation to the three specific research objectives established at the outset. For the first objective concerning credit risk management and financial performance, the findings present a nuanced picture. While the banks demonstrated robust implementation of standard credit risk mitigation strategies, the lack of a statistically significant relationship with financial performance suggests that these traditional measures alone may be insufficient to substantially enhance profitability. This implies that compliance with regulatory requirements and basic risk controls, though necessary, do not automatically translate to improved financial outcomes in Zambia's banking context.

Regarding the second objective focused on liquidity risk management and bank stability, the conclusions highlight an important dichotomy. The banks' ability to maintain adequate short-term liquidity positions indicates sound operational practices, but the lack of strategic prioritization of liquidity risk raises concerns about long-term resilience. This finding suggests that liquidity management in these institutions may be more compliance-driven than strategically focused, potentially limiting its effectiveness as a tool for ensuring stability in times of economic stress or market volatility.

For the third objective examining operational risk management and overall risk profiles, the conclusions are generally positive but with important qualifications. The strong performance in employee training and fraud prevention demonstrates effective investment in human capital and basic operational controls. However, the identified weaknesses in audit processes and cybersecurity implementation indicate that operational risk management has not yet reached optimal levels of effectiveness, particularly in addressing emerging digital risks. These conclusions collectively suggest that while FNB and ZANACO have established competent risk management frameworks, there remains substantial room for improvement in aligning these practices with strategic objectives and contemporary risk challenges.

Recommendation

The research findings yield several important recommendations for practical application in real-world banking settings. For bank management teams, the study suggests three priority areas for action. First, credit risk assessment methodologies should be enhanced through adoption of advanced analytical tools such as machine learning algorithms and behavioral scoring models, which could improve predictive accuracy and risk-based pricing. Second, liquidity risk management should be elevated from an operational concern to a strategic priority, with implementation of comprehensive stress-testing scenarios and contingency funding plans that account for various economic conditions. Third, operational risk frameworks require modernization, particularly through investment in automated audit systems and standardized cybersecurity protocols across all business units.

For banking regulators and policymakers, the study recommends several interventions to strengthen the broader financial sector. Regulatory authorities should consider introducing more sophisticated risk-based supervision frameworks that encourage banks to move beyond basic compliance. This could include requirements for banks to demonstrate how their risk management practices contribute to strategic objectives and financial performance. Policymakers could facilitate knowledge-sharing platforms for best practice exchange and support fintech partnerships that enhance risk management capabilities. Additionally, the Bank of Zambia might develop specific guidelines for strategic liquidity risk management that emphasize long-term planning alongside short-term requirements.

Recommendations for Future Research

Future research could expand the sample to include more banks across Zambia to improve generalizability and explore regional variations in risk management practices. Longitudinal studies tracking risk management changes and their financial impacts over time would provide insights into sector resilience, while comparative studies with other African banks could identify contextual factors influencing effectiveness. With rapid digital transformation, research on emerging technologies such as AI, blockchain, and big data in risk management is recommended. Studies examining risk culture, decision-making processes, and the influence of macroeconomic conditions would further enrich understanding.

Overall, while FNB and ZANACO have established solid risk management foundations, there is scope to enhance strategic impact. Future research can guide banks in treating risk management as a dynamic, strategic function, investing in innovation, improving practices, and aligning them with institutional objectives to strengthen resilience and performance in Zambia and similar emerging markets.

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