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Integrating Risk Management Frameworks: Practical Steps to Mitigate Inherent Risks

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Abstract

Banking activities are currently growing very rapidly, both in the external environment and the internal banking environment. All of these activities meet with an uncertainty related to the probability of these activities being carried out successfully according to plan or not, so that various kinds of risks arise. The wider range of banking business activities will also be followed by the increasingly complex risks in banking activities. This research aims to analyze the implementation of risk management to avoid or reduce the impact caused if the risk occurs through qualitative analysis. Descriptive qualitative research aims to describe the application of risk management to mitigate these risks in detail and in depth, so as to obtain an understanding of the context, meaning, and characteristics of the results of the analysis by collecting and analyzing data descriptively. Descriptive qualitative research focuses on an in-depth understanding of a problem without trying to test hypotheses or measure variables quantitatively.

Keywords: *Inherent Risk, Implementation, Mitigate, Risk Management*

INTRODUCTION

As one of the indicators of a good or bad economy in a country, banking activities are currently growing very rapidly, both in the external environment and the internal banking environment. All of these activities meet with an uncertainty related to the probability of these activities being carried out successfully according to plan or not, so that various kinds of risks arise. The wider range of banking business activities will also be followed by the increasingly complex risks in banking activities. The complexity of the risks faced by banks is what causes banks to require real practice of good corporate governance or what is often referred to as good corporate governance, as well as the implementation of risk management to ensure that the bank's business activities that pose many risks can be mitigated.

The process of implementing risk management begins with identifying what risks may be posed by a bank's activities, followed by measuring the exposure of these risks to ensure the impact that will be caused if the risk occurs, so that the bank can prioritize business activities or business activities to be carried out (Tursoy et al., n.d.). Furthermore, the bank will perform the function of monitoring and controlling these risks. The risk management process involves identifying, assessing, prioritizing, and mitigating potential risks to minimize their impact on an organization or project. It starts with risk identification, where possible threats such as financial, operational, legal, or environmental risks are recognized. Following identification, risk assessment evaluates the likelihood and severity of each risk, categorizing them based on their potential impact. Once assessed, risks are prioritized to address the most critical ones first. The next step is risk mitigation, where strategies like avoiding, transferring, reducing, or accepting risks are implemented. Finally, monitoring and review ensure that risks are continuously tracked and updated throughout the project or operational cycle. Once the risk management process is in place, effective communication and documentation become critical components to ensure its success. All identified risks, assessments, mitigation strategies, and monitoring activities should be clearly documented and shared with relevant stakeholders. This transparency helps in maintaining alignment among teams, departments, and leadership regarding the potential risks and the steps being taken to manage them. Regular training and awareness programs can further enhance the organization's risk management culture, ensuring that all employees are equipped to recognize risks in their areas and contribute to the mitigation process. Additionally, as external factors such as market conditions, regulatory environments, or technological advancements change, flexibility in the risk management framework is essential. Continuous improvement, driven by data from previous experiences and changing risk landscapes, enables an organization to remain resilient and adaptable in the face of evolving challenges.

To implement risk management effectively, organizations can use tools like risk assessment matrices, involve cross-functional teams in risk identification, and integrate risk management into their decision-making processes. Regular reviews and updates, along with a strong risk culture, are essential to keep the process agile and responsive to changing conditions. According to POJK Number 18/POJK 03/2016 (SAL - POJK Manajemen Risiko, n.d.), there are eight main types of inherent risk in banking. These risks are considered inherent because they are naturally embedded in the banking industry due to the nature of financial services and markets. Credit risk arises from the possibility that borrowers or counterparties may fail to meet their financial obligations. Market risk relates to potential losses due to fluctuations in financial markets, such as changes in interest rates, exchange rates, or asset prices. Liquidity risk is the risk that a bank may not have sufficient liquid assets to meet its short-term financial commitments. Operational risk includes losses resulting from internal failures, human errors, system breakdowns, or external events. Legal risk pertains to potential legal consequences or financial losses due to lawsuits or regulatory breaches. Reputation risk is the threat of damage to a bank’s image, which can lead to a loss of customers and business. Strategic risk involves losses due to poor business decisions or changes in the competitive landscape. Finally, compliance risk is the risk of penalties or damage resulting from failure to adhere to laws, regulations, and industry standards. All these risks are inherent in the banking sector, and managing them is crucial for a bank’s stability and success. Each of these risks must be carefully managed to ensure the stability and smooth functioning of the bank, as failure to do so can have significant consequences on its reputation, legal standing, and long-term strategy.

Given the function of banks as the wheels of a country's economy and the many risks faced by banks, banks must be able to carry out their activities properly with the support of risk management implementation which is not only about how to avoid or reduce risks, but also about how to manage these risks effectively to create long-term value for the bank and for its stakeholders, therefore, ongoing research is needed regarding the implementation of risk management to reduce the risks inherent in the business activities of banks in Indonesia.

LITERATURE REVIEW

Risk management is a crucial aspect of the banking sector aimed at protecting financial institutions from various risks that could affect their stability and operational continuity. (Agustina et al., 2022). According to (Committee on Banking Supervision, 2004), banks are required to implement a comprehensive risk management framework to identify, assess, and manage existing risks. This framework encompasses various approaches and practices designed to reduce inherent risks, which are the risks present before any controls or mitigation efforts are applied. Research by (Setyarini et al., 2024) emphasizes that effective risk management must include a deep understanding of the sources of risk and their impact on the bank's performance.

The integration of a robust risk management framework in banking operations helps financial institutions create more efficient risk mitigation strategies. The Enterprise Risk Management (ERM) model can integrate risk management into strategic decision-making processes, allowing banks to proactively identify and manage risks (Kwintana & Hanggraeni, 2023). With this approach, banks not only focus on regulatory compliance but also on achieving long-term business objectives. The implementation of ERM in Indonesia, as outlined by (Rahayu et al., n.d.), shows that many banks, including PT Bank Hana Indonesia, have adapted to global practices to manage inherent risks more effectively.

One practical step in integrating a risk management framework is to conduct comprehensive risk assessments. According to (Aven, 2016), risk assessments should include both quantitative and qualitative analyses to identify potential risks across all bank functions. This process involves gathering relevant data, analyzing historical trends, and applying hypothetical scenarios to project risk impacts. For example, Bank Hana Indonesia could apply these techniques to identify inherent risks associated with their loan and investment portfolios, enabling better decision-making in risk management. The use of information technology and analytical systems is also a critical step in mitigating inherent risks. By employing sophisticated analytical models, banks can identify risk patterns and provide early warnings about potential losses. In Indonesia, Bank Hana has begun adopting this technology to improve their risk management processes, ensuring that mitigation steps are taken before risks escalate into more significant issues (Marching Into Digital and Sustainable Future Laporan Tahunan 2020 Annual Report, n.d.).

Finally, it is essential to develop a strong risk management culture throughout the organization. According to (Qabrati, 2019) involving all levels of management and employees in the risk management process will enhance the effectiveness of the existing framework implementation. Therefore, training and development related to risk management are crucial to ensure that all members of the organization understand and apply the established risk management practices. With this approach, PT Bank Hana Indonesia can build a solid foundation for mitigating inherent risks, creating a safer and more stable environment to face the challenges in the ever-evolving banking sector.

METHOD

This research was conducted using a qualitative approach through descriptive data analysis descriptive data analysis to determine the process of implementing risk management in mitigating or reducing the impact caused if the risk occurs. document analysis, where organizational records, policies, incident reports, and case studies are reviewed to uncover patterns of past risks and their management. This qualitative approach helps in building a historical narrative of risk occurrences, which can be useful in identifying recurring vulnerabilities and gaps in existing frameworks. By synthesizing this descriptive data, risk managers can develop a more comprehensive and adaptable framework, enabling them to integrate risk mitigation strategies that are more aligned with the organization's unique environment. These methods contribute to a holistic understanding of risks and provide actionable insights for refining risk management processes to better address inherent challenges. The main data source in this study is data on the application of risk management described in the bank's annual report, in this case the 2022 annual report of PT Bank Hana Indonesia which is the focus of observation in the study.

This research does not prioritize the number of populations or sampling even the population or sampling is very limited because qualitative research is descriptive research and tends to use inductive analysis. Qualitative descriptive research is a methodology that focuses on providing a comprehensive overview of a specific phenomenon or context through rich, detailed descriptions. This approach emphasizes understanding participants' perspectives and experiences without manipulating variables or establishing causal relationships. Researchers often use methods such as interviews, focus groups, and observations to collect data, allowing them to capture the complexity of human behavior and social interactions in natural settings. The analysis involves synthesizing the collected information to identify patterns, themes, and insights that emerge from the data. This type of research is particularly valuable in fields like healthcare, education, and social sciences, where understanding the nuances of individuals' experiences can inform practices, policies, and further research. By prioritizing depth over breadth, qualitative descriptive studies provide a nuanced understanding of the topic under investigation, offering valuable insights that can guide decision-making and enhance outcomes. This foundation not only directs the study's focus but also aids in interpreting the findings within a broader theoretical perspective. Sugiyono (2021), the descriptive qualitative method is a research method based on the philosophy of postmodernism. The research method is grounded in the philosophy of postpositivism, which focuses on studying natural objects or real-world settings. In this approach, the researcher plays a central role as the primary instrument for data collection, emphasizing direct observation and interaction with the subject in its natural environment.

RESULTS AND DISCUSSIONS

PT Bank Hana Indonesia is dedicated to continuously evolving in order to enhance its organizational capabilities, which serves as a key strategy in addressing the ever-changing business landscape and the challenges that come with it. A significant effort in this transformation is the ongoing improvement of risk management practices, ensuring full alignment with the various legal and regulatory requirements governing risk management in the banking sector. The bank consistently applies an effective, targeted, and systematic risk management system across all aspects of its operations. This approach is tailored to the size and complexity of the organization, with the primary goal of managing and mitigating potential risks that could lead to financial losses. By doing so, PT Bank Hana Indonesia aims to minimize risks and support the achievement of its business objectives, ensuring that these align with the bank's overall vision and mission. To support this, the bank has established a comprehensive risk management framework, featuring a well-structured and adequately resourced organization dedicated to risk management. The roles and responsibilities within this framework are clearly defined, independent, and focused on maintaining the integrity of the risk management process. Risk management efforts extend across all levels of the organization and are embedded in every business activity. This includes robust internal controls designed to strengthen the processes of risk identification, measurement, monitoring, and control, ensuring that the bank remains resilient and capable of achieving its business targets while safeguarding its financial health.

At PT Bank Hana Indonesia, the role of Chief Risk Officer (CRO) is crucial in leading the bank's risk management function. The CRO is tasked with overseeing the bank's entire risk management system and ensuring its effective operation. This position requires a deep understanding of the financial landscape and a proactive approach to identifying potential risks. The risk management function collaborates closely with various departments, including the

Internal Audit Unit, Compliance Unit, business units, operational units, and other supporting units, to ensure comprehensive risk management is integrated into every aspect of the bank's operations. By fostering a culture of risk awareness and collaboration, the CRO ensures that all employees understand their roles in managing risk. Additionally, the Risk Management Committee, which operates under the Board of Directors, is responsible for ensuring that the bank maintains an effective risk management framework. This committee also provides recommendations to the President Director regarding the overall implementation of risk management strategies within the bank. On the supervisory side, the Risk Monitoring Committee, which reports to the Board of Commissioners, is tasked with evaluating the consistency and alignment between the bank's risk management policies and their actual implementation. This committee also monitors the activities of the Risk Management Committee and the Risk Management Function to ensure that the bank's risk management practices are executed in accordance with established guidelines and regulations. Through these collaborative efforts, PT Bank Hana Indonesia aims to safeguard its assets and reputation while ensuring sustainable growth in a dynamic financial environment.

Sumber: Annual Report PT Bank Hana Indonesia, 2022

Picture 1. Structure of Risk Management Division

To enhance the effectiveness of the risk management system at PT Bank Hana Indonesia, the bank recognizes the importance of having highly skilled and competent human resources in each respective role. To achieve this, PT Bank Hana Indonesia ensures that relevant employees participate in risk management certification programs on an annual basis, ensuring their expertise is up-to-date. The bank's risk management practices are guided by several key regulations. First, PT Bank Hana Indonesia adheres to Financial Services Authority (OJK) Regulation No. 18/POJK.03/2016 and OJK Circular No. 34/SEOJK.03/2016 on the Implementation of Risk Management for Commercial Banks. These regulations serve as the foundation for the bank's comprehensive risk management system, covering the control of eight types of inherent risks across its business operations. Second, the bank follows OJK Circular No. 14/SEOJK.03/2017 concerning the Assessment of Soundness Levels for Commercial Banks. Based on this regulation, the relevant units within PT Bank Hana Indonesia conduct a semi-annual risk profile evaluation in June and December, which serves as a benchmark for assessing the bank's overall soundness. Lastly, the bank complies with OJK Regulation No. 32/POJK.03/2018 and OJK Regulation No. 38/POJK.03/2019 regarding the Legal Lending Limit and Provision of Large Exposure for Commercial Banks. These regulations help ensure that the bank maintains prudent lending practices while managing large exposures to minimize risk and ensure financial stability.

PT Bank Hana Indonesia always improves the quality and development of risk management as a whole and sustainable. In 2022, the bank made improvements and refinement of risk management on the following matters. First, the Bank started the development of a loan origination system, namely Credit Application System Hana Bank (CASH) to accommodate the loan process as a whole, including process, including the loan document storage function. document storage function. The Bank has also implemented the SME Scorecard calculation for SME loans below Rp 5 billion and made improvements to the post-disbursement monitoring post-disbursement monitoring process, namely the call report application phase 3, which includes credit monitoring to borrower groups. Secondly, until the fourth quarter of 2022, the total restructuring of due to the impact of the Covid-19 pandemic continues to experiencing a downward trend. Against this, the Bank still continues to conduct regular monitoring of debtors who apply for restructuring, including conducting periodic stress tests as an anticipation of risks that may occur. The results of credit stress test results show that the Bank is still considered has the ability to anticipate potential losses from extreme conditions in the future. Third, against potential operational risks, the bank conducts policy, including the Data Classification Policy, Project Management Policy, and Data Classification Policy, Project Management Policy, Vendor Management Policy, including conducting periodic penetration and vulnerability testing periodically based on criticality of systems and applications. The Bank also conducts periodic socialization of IT Security to all employees. Fourth, the bank continues to develop operational risk management tools, one of which is by piloting Risk Control Self Assessment (RCSA) of Branch Offices and Head Office Operational Units focusing on increasing risk awareness culture. Implementation RCSA implementation will also be carried out periodically every semester with semester by taking into account the main processes and risks of each work unit and will continue to be developed by involving other work units. Fifth, establish strategic measures in order to mitigation of risk on human resource needs, among others, the Talent Banking Program (TBP) program for MSME and IT work units, employee trainings at various levels, determination of talent employees at various levels, establishment of talent pool, and various campaigns, such as Zero Defect and Destroy the Silo. Sixth, risk mitigation for the launch of credit products in digital banking services, such as socialization of fraud digital banking services, such as socialization of fraud awareness socialization to both employees and customers, implementation of application security standards, multi-factor authentication, SSL certificates, hard server hardening, etc. authentication, SSL certificates, server hardening, anti-code obfuscation. The Bank also launched a core banking system specifically for digital banking services. Lastly, on policies related to risk management, the bank periodically conducts reviews and improvements all policies by taking into account current conditions of the bank, regulations issued and projected economic and business conditions faced by the bank.

PT Bank Hana Indonesia adopts a framework of five pillars in its risk management implementation. The first pillar focuses on Active Oversight by the Board of Commissioners and Directors. Both boards play a vital role in ensuring comprehensive supervision that aligns with their respective responsibilities. Their oversight facilitates the establishment of an integrated organizational structure that reflects the evolving complexities of the Bank’s business. Additionally, this structure is tailored to the Bank's internal objectives, capabilities, and overall capacity. The second pillar emphasizes the adequacy of policies, procedures, and the setting of risk limits. PT Bank Hana Indonesia has developed cohesive risk management policies, standards, and procedures grounded in its risk management strategy. These policies consider the level of risk undertaken, tolerance levels, and the Bank's capital capacity to absorb risk exposure. The Bank conducts an annual evaluation of these risk management policies to ensure they remain effective and relevant in light of ongoing business developments, the Bank's vision, mission, strategy, and changes in applicable regulations. The third pillar pertains to the robustness of processes for risk identification, measurement, monitoring, and control, alongside a comprehensive risk management information system. Risk management at Bank Hana is an ongoing endeavor encompassing the identification, measurement, monitoring, and control of all significant risks. This process is bolstered by a thorough risk management information system and a strong internal control framework. The Bank conducts objective risk identification across all potential sources and assesses the impacts that may arise. Moreover, risks associated with new products and activities are specifically identified before they are launched for customer access. The risk measurement process utilizes both quantitative and qualitative modeling approaches, incorporating various risk models, such as stress testing, to facilitate informed decision-making. Periodic calibration and validation of these risk models are conducted by the Risk Management Unit (SKMR) to ensure reliability, validity, and adherence to regulatory requirements. The risk control measures are aligned with the assessed risk exposure, levels, and tolerance. Additionally, the risk monitoring process is conducted in accordance with risk exposure, tolerance levels, compliance with internal limits, and stress testing results. A comprehensive risk profile checklist is utilized for each work unit to support this monitoring. Risk management is integrated bank-wide by establishing risk limits for lending, treasury, and operational activities, ensuring all exposures are effectively measured and controlled. The Loan Review Committee plays a critical role in monitoring the loan portfolio and evaluating clients categorized under Early Warning and Watch List, aiming to mitigate potential credit risks in the future. This committee also recommends action plans for any loans that appear problematic. The fourth pillar focuses on the risk management information system. PT Bank Hana Indonesia has developed a robust system to facilitate the identification, measurement, monitoring, and control of risks. This system ensures that accurate, complete, and timely information is available to support decision-making processes. The Management Information System (MIS) application includes essential data related to lending, treasury operations, administrative transactions, fundraising, and third-party funds, sourced from the core banking system, Hana Overseas Branch Information System (HOBIS). Finally, the fifth pillar is a comprehensive internal control system. The Bank employs an effective internal control system guided by established policies and procedures. This internal control framework is crucial for enabling PT Bank Hana Indonesia to identify potential risks proactively. When risks are detected, the Bank can take timely action to mitigate any adverse impacts that may arise.

In carrying out its operational activities, PT Bank Hana Indonesia faced with various inherent risks that may arise such as credit risk, market risk, and risk arise. These risks have the potential to negative impact on business continuity banking and financial businesses if not managed properly. For this reason, the bank needs to implement several policies in order to prevent, manage, and to prevent, manage, and mitigate various risks that may occur. First, in managing credit risk, the Bank conducts risk management with the principles of supporting sound lending standards, encouraging the implementation of credit risk monitoring and control, identifying and handling non-performing loans as well as managing credit risk, problem loans, and protect against the risk of loss.

The secondly, market risk. This risk refers to the potential for financial loss due to fluctuations in market prices, such as interest rates, exchange rates, equity prices, and commodity prices. Banks are exposed to market risk because of their involvement in various financial activities, including lending, trading, and investment in securities. Changes in interest rates can affect the value of assets and liabilities, impacting the bank's net interest margin, which is a critical component of profitability. Similarly, fluctuations in foreign exchange rates can pose risks to banks with international operations, while shifts in stock or bond prices can influence the value of the securities they hold. Managing market risk is crucial for banks to ensure financial stability and avoid significant losses. To mitigate market risk, banks implement strategies such as diversification, hedging using financial derivatives, and maintaining capital reserves in line with regulatory frameworks like the Basel III standards. Effective market risk management helps banks navigate volatile market conditions while safeguarding their financial position and protecting stakeholders' interests. This procedure is supervised by the Risk Management and assisted by the Related to these risks, the Bank conducts prevention through 2 methods, namely repricing gap and sensitivity analysis. Managing these risks effectively helps to preserve both net interest income (NII) and the economic value of equity (EVE). By doing so, banks can ensure stable earnings from their interest-bearing activities and maintain the long-term value of their assets relative to liabilities, thereby enhancing financial stability and overall profitability.

The third type of risk is liquidity risk, refers to the risk that a bank may not be able to meet its short-term financial obligations as they come due, without incurring unacceptable losses. This can occur if a bank cannot convert its assets into cash quickly enough to cover liabilities, such as deposit withdrawals, loan demands, or other payments. Banks typically manage a mix of liquid and illiquid assets, where illiquid assets like long-term loans cannot be easily sold or converted to cash without a loss. If there is a sudden demand for cash, such as during periods of financial stress or economic downturns, a bank may face liquidity pressure. Liquidity risk is particularly dangerous because it can lead to a loss of confidence from depositors and investors, potentially triggering bank runs. To manage this risk, banks maintain liquidity buffers, such as holding reserves of highly liquid assets , and ensure access to funding markets, central bank facilities, or emergency lines of credit. Regulatory frameworks like Basel III also require banks to maintain certain liquidity ratios, such as the Liquidity Coverage Ratio (LCR), to enhance their resilience in periods of liquidity stress. Throughout 2022, the Bank maintained a strong liquidity position. Additionally, PT Bank Hana Indonesia has developed a liquidity risk stress methodology framework to conduct stress testing for various general and specific scenarios. The aim is to assess the impact of market fluctuations and internal factors on liquidity under extreme conditions. Another important aspect of the policy is the liquidity contingency plan

(LCP), which outlines funding strategies such as money market loans, repos, bilateral loans, FX swaps, and securities sales, along with pricing strategies.

The fourthly is operational risk. Operational risk can cause losses to the Bank's systems and daily operations. This risk is caused by several factors, such as the inadequacy and/or malfunction of internal processes, human error, system failure, or external events. In order to manage operational risk exposure which has the potential to cause financial and non-financial losses, the Bank carries out various strategies to operational risk mitigation strategies and has an Operational Risk Management (ORM) policy as a reference in managing the Bank's operational risk. All operational risk control strategies through efforts, among others, coordinating with the Anti Fraud Unit regarding the implementation of anti-fraud function, Loss Event Management (LEM) implementation. The Bank implements a policy that requires all work units to record losses incurred in each functional activity as a result of operational risks that occur in each of its work functions. Implementation of Business Continuity Management program. Implementation of Surveillance of the Bank's branches. Establishment of Wealth Management Governance Unit. Conducting IT Security Risk Assessment by adopting ISO 27001 standardization. Conducting operational risk awareness to branches. Preparation of Business Impact Analysis and Business Continuity Plan for critical departments; and critical departments, and Implementation of the Destroy SILO and Zero-Defect program to improve work processes and reduce waste/defects in work units or across departments.

The fifth type of risk is legal risk. PT Bank Hana Indonesia has implemented Legal Risk Management to mitigate negative consequences that could adversely affect the Bank, such as those arising from lawsuits or legal vulnerabilities. To prevent legal risks, the Legal Working Unit, in collaboration with the Board of Directors, conducts regular monitoring and holds periodic meetings to oversee the engagement of legal consultants and the litigation process. Additionally, the Legal Working Unit and the Board of Directors continuously review documentation standards and evaluation processes for new products and services, ensuring that all activities and transactions comply with legal requirements and include appropriate mitigation strategies to minimize legal risk exposure. The Bank also monitors and assesses all activities, particularly those involving third parties, which could lead to conflicts of interest or legal actions against the Bank due to weaknesses in the legal framework related to the Bank's engagements. To protect the Bank’s legal interests and avoid potential legal risks, the Legal Working Unit regularly reviews cooperation agreements with third parties. They also play a crucial role in addressing legal issues, both inside and outside of court, including managing legal proceedings. Notably, in 2022, the Bank successfully won a legal case that could have significantly impacted its capital. The sixth risk is compliance risk management. The bank mitigates compliance risk by implementing a comprehensive framework that ensures adherence to laws, regulations, and industry standards. This includes establishing clear internal policies and procedures, regularly updating them in response to changing regulatory environments. Banks often create dedicated compliance departments responsible for monitoring regulatory changes, conducting internal audits, and ensuring that all activities comply with legal requirements. Staff training is also critical, as it equips employees with the knowledge to follow regulations in their daily operations. Additionally, banks use advanced technology systems to track compliance and detect potential violations early. By fostering a culture of compliance and promoting transparency, the bank reduces the risk of legal penalties, financial losses, and reputational damage. Employees are encouraged to comply with these regulations in line with the Code of Conduct (CoC) and the corporate culture. A comprehensive review of compliance aspects is systematically applied to every process and activity within the Bank. The control mechanisms for compliance risks involve a thorough process of identification, measurement, monitoring, and risk control. Identification and measurement of compliance risk are achieved by reviewing the Bank's systems, policies, and procedures to identify any potential non-compliance with applicable laws and regulations. This aligns with the compliance risk management strategy, which emphasizes preventive measures to ensure that all systems, policies, procedures, and business activities adhere to the requirements set by the Financial Services Authority, Bank Indonesia, and other regulatory bodies. Such actions are essential to uphold the Bank’s commitment to sound banking practices, thereby enhancing operational performance and fostering stakeholder trust.

Another significant risk is strategic risk. To mitigate this, the Bank focuses on managing and enhancing its financial performance through various supporting programs. This includes regular evaluations of performance and policies related to business target preparations, ensuring that strategic plans and objectives are adjusted in response to both internal and external conditions affecting the Bank. The measurement of strategic risk is conducted by assessing the Bank’s performance, which involves comparing actual results with the predetermined targets. Additionally, the Bank analyzes its performance in relation to its peer group, allowing for a comprehensive understanding of its competitive position and strategic effectiveness. By continuously refining its strategies and aligning them with changing circumstances, the Bank aims to strengthen its overall strategic framework and ensure sustainable growth.

The last aspect is reputation risk management, which is crucial for maintaining stakeholder trust and confidence. This risk is managed in coordination with the Corporate Communication team and the Contact Center, which facilitates easy access to information and enhances the quality of bank services. By ensuring transparent communication, the Bank aims to promptly address any potential concerns that could affect its reputation. Additionally, a Service Level Agreement (SLA) is implemented to effectively handle customer complaints regarding the Bank's services. Customers can reach out through a dedicated customer service hotline or via electronic mail on PT Bank Hana Indonesia’s website, ensuring their issues are addressed in a timely manner. Regular training sessions are conducted for customer service representatives to equip them with the necessary skills to handle inquiries efficiently and empathetically. Furthermore, the Bank actively monitors feedback from customers to identify areas for improvement, which not only helps resolve issues but also enhances overall service quality. By prioritizing reputation risk management, PT Bank Hana Indonesia strives to foster a positive public image and build long-lasting relationships with its customers.

CONCLUSION

Based on the results of a descriptive qualitative approach, it can be concluded that PT Bank Hana Indonesia has implemented its risk management practices very effectively. The Bank recognizes the critical role that risk management plays in mitigating potential losses arising from various risks. This commitment is further supported by the active involvement of the Board of Commissioners and Directors, who continuously evaluate the effectiveness of the risk management system. The effectiveness of the risk management framework is enhanced through joint discussion meetings that employ a self-assessment approach, allowing for comprehensive evaluations. Additionally, the Bank's policies and procedures for risk management are regularly analyzed and refined to align with the evolving business landscape and changes within the banking industry. According to the evaluation results for the financial year 2022, both the Board of Commissioners and Directors determined that the risk management system is functioning well. They concluded that the existing framework is adequately capable of controlling the various risks encountered in the Bank's operational activities. Overall, PT Bank Hana Indonesia's proactive approach to risk management positions it to effectively navigate potential challenges in the future.

PT Bank Hana Indonesia adheres to Financial Services Authority Regulation No. 18/POJK.03/2016 and Financial Services Authority Circular No. 34/SEOJK.03/2016, which outline the framework for implementing risk management within commercial banks. This adherence enables the Bank to establish an integrated risk management framework that effectively controls eight types of risks inherent in its business activities. Additionally, the Bank complies with Financial Services Authority Circular No. 14/SEOJK.03/2017, which focuses on assessing the soundness level of commercial banks. This assessment involves observing the Bank's risk profile and serves as a critical reference for evaluating its soundness, with evaluations conducted semiannually in June and December. To maintain an effective risk management strategy, PT Bank Hana Indonesia updates its risk management policy at least once a year or whenever necessary, especially in response to changes in regulatory policies. The Bank's risk management policy and procedures encompass several key components, including the measurement of the eight types of risks outlined in Financial Services Authority regulations. Furthermore, the policy clearly delineates the roles and responsibilities within the organizational structure related to risk management. The procedures also detail the calculations and methods employed for the Internal Capital Adequacy Assessment Process (ICAAP), which is crucial for maintaining financial stability. Additional components include risk identification, risk measurement, and the establishment of a robust risk management information system. The framework also incorporates risk rating assessments, risk control and mitigation strategies, limit-setting, and risk tolerance measures, all of which are essential for effective risk governance. Moreover, the implementation of stress testing and a comprehensive internal control system further enhances the Bank's ability to anticipate and respond to potential risks, ensuring its resilience in a dynamic financial environment.

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