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Effective risk management practice in Somalia Islamic banks

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ABSTRACT

This paper aims to assess the degree to which Somali banks use effective risk management practices (RMPs). Furthermore, the study has explored the level of risk management practices using the original components of risk management aspects, including understanding risk and risk management, risk assessment and analysis, risk identification, risk monitoring, and credit risk analysis, with the addition of perceived trust to the original constructs of risk management aspects. The study is based on a questionnaire survey of 423 banking staff from 13 licensed banks in Somalia. The researcher adopted a questionnaire that covers six aspects of risk management with perceived trust: understanding risk and risk management, risk assessment and analysis, risk identification, risk monitoring, credit risk analysis, perceived trust, and RMPs. This study found that the staff of Somalia have a clear understanding of risk and risk management and have efficient risk identification, risk assessment, risk monitoring, credit risk analysis, perceived trust, and risk management practices. In addition, the respondents also recognize that the banks do not have deposit insurance, which is a risk to the depositors if the bank goes bankrupt. The paper's findings are limited to the risk management aspects of the bank industry, with additional perceived trust in Somalia. The paper explores the risk management practice in the Somali bank sector. The results can be used as valuable feedback for improving risk management practice in the banking industry. This study is the first research attempt to investigate risk management practice with additional trust.

Contribution/ Originality: This study is the first attempt to examine the degree to which Somali banks use effective risk management practices by using the components of risk management aspects, including understanding risk and risk management, risk assessment and analysis, risk identification, risk monitoring, and credit risk analysis, with perceived trust.

1. INTRODUCTION

The theories of financial intermediation and risk management are closely intertwined, and financial intermediaries' primary role is to manage risks (Scholtens & Van Wensveen, 2000). Risk is an unforeseen incident that has the potential to affect how banking institutions achieve their goals, including transactional and strategic goals, as well as profitability (Noory & Ismail, 2021). Most of the top banks worldwide include risk management in their operational strategies (Nair, Purohit, & Choudhary, 2014). Risk is a fundamental component of both business and everyday life. Risk is a phenomenon that involves doubt, improbability, and acts and is reproduced when basic elements are charged (Abbas, Haider, Zainab, Hassan, & Fazal, 2018). Risk is an element that increases the possibility of gains or losses, as well as unclear possible events that could affect financial organizations' success. Well-established risk management practices (RMPs) can help banks lower their risk exposure (Khalid & Amjad, 2012). A continual activity, risk management is immediately impacted by shifts in the internal and external environment of banks (Abu Hussain & Al-Ajmi, 2012). Risk management plays a crucial role in business strategic decision-making (Kulchmanov, Hassan, & Rashid, 2016). Many believe that risk management (RM) is essential to the banking system in particular and the financial sector as a whole (Elgharbawy, 2020). These environmental changes necessitate ongoing attention to risk identification and risk management. Academics, practitioners, and regulators all agree that efficient risk management is a crucial component of bank management (Abu Hussain & Al-Ajmi, 2012). Despite the prompt reinforcement of risk management during the GFC 2008 (AbdulGaniyy & AbdulKareem, 2020), financial institutions continue to face liquidity risks due to their strong reliance on easy access to money amid "market stressors.".

Over the past three decades, the Islamic banking sector has experienced significant growth and increased prominence in the global financial landscape. Islamic banks appeared to coexist with mainstream banks (Lebbe, Rauf, Lebbe, & Irzath, 2016). Islamic banking has gained popularity since it first emerged on the financial landscape in the 1970s and is now one of the most significant participants in the banking services sector. Between 2014 and 2019, the Islamic finance sector had significant growth of 7.8% yearly (Alpen Capital, 2021). The various facets of Islamic finance, particularly the use of electronic channels for all goods and services like infrastructure, sukuk, and Islamic funds, drove the rise.

In recent decades, the financial services industry for Islamic banking has experienced rapid growth and become a global phenomenon. Islamic banking has its own history, course, laws, principles, and means of conducting business, defying the claim that it is only a component of a traditional banking system (Haron, Abdul Subar, & Ibrahim, 2020). Islamic banking is typically seen as an interest-free business strategy because *"Allah has allowed trade and has prohibited riba (usury)"(Al-Baqarah: 257).*

Islamic banking is defined as a forecast that considers various pertinent components of various risk management framework phases, such as setting the context and identifying, evaluating, prioritizing, and controlling threats through the application of mitigation measures (Anjum & Kin, 2019). Risk management, equally essential to Islamic institutions, manages credit risk, market risk, liquidity risk, and operational risk (Ariffin, 2022). After the recent financial crisis, there was an increased focus on bank risk management because many academics believed that the failure of many financial institutions during this crisis was caused by insufficient risk management techniques in banks (Kabir, Worthington, & Gupta, 2015; Khalid & Amjad, 2012). Islamic banks should prioritize risk management methods because being aware of risk and using modern risk management strategies are critical components (Hassan, 2009). The Basel Committee on Banking Supervision, which created Basel I, Basel II, and Basel III to support risk management in banks around the world, has completely approved this viewpoint.

Prior to the collapse of the Central Government in 1991, the Somali government, believing socialism to be the most effective economic system for the country, owned and operated all commercial banks. Somalia had two public commercial banks before its central government fell in 1991: Somali Savings and Credit Bank and Somali Commercial Bank (Jibril, 2020). In contrast to other Muslim nations, Somalia only has one type of banking system: Islamic banking (Sheikh Ali & Jama, 2016). Over the past two decades, Somalia's Islamic banking industry has experienced significant growth and expansion without the need for government intervention. Somalia's banking sector has seen a lot of success (Ahmed, 2019; Jibril, 2020; Sheikh Ali & Jama, 2016). Clients have voiced displeasure with the banks as intermediaries, despite the fact that Somalia's Islamic banks have made tremendous success and are essential to the country's economic growth and social well-being (El Taraboulsi-McCarthy & George, 2020; Jibril, 2020; Sheikh Ali & Jama, 2016). In 2003, Somalia established its first Islamic bank (Warsame, 2016), In Somalian banks, there is no adequate risk management strategy and no deposit insurance. Due to the lack of risk management procedures and the general lack of knowledge about risk management in banks, many depositors opt to avoid them. Islamic banks should prioritize risk management methods since being aware of risk and using modern risk management strategies is a crucial component (Hassan & Dicle, 2005). Numerous theoretical and empirical studies on risk management have been published in numerous nations throughout the world (Abu Hussain & Al-Ajmi, 2012; Elgharbawy, 2020; Noory & Ismail, 2021).

Previous studies have examined the understanding of risk and risk management (URRM), risk identification (RI), risk analysis and assessment (RAA), risk monitoring (RM), and credit risk analysis (CRA), among the RMPs that have been the subject of prior studies. However, none of these studies have taken the banks' trust into account. Therefore, this study adds to the previous construct of perceived trust (PT). Furthermore, it is clear that Somalia has not yet conducted any research on risk management practice in the banking industry. This study will concentrate on how successfully the Somali banking sector can manage different types of risk. Additionally, this study aims to add a new variable to previous constructs, which is perceived trust (PT), as long as Somalis are mostly unbanked people. The following research questions are addressed by this study by using a similar methodology because the primary goal of this research is to examine the extent to which the Somalia bank industry uses risk (Abu Hussain & Al-Ajmi, 2012; Al-Tamimi & Al-Mazrooei, 2007; Anjum & Kin, 2019; Khalid & Amjad, 2012; Nair et al., 2014). According to the previous studies, there is no published empirical research on risk management practices and the explained variables of risk management in Somalia. Therefore, this study will include perceived trust (PT), as confidence is crucial in Somalia, particularly given the high rate of distrust among customers and staff members towards their banks.

RQ1. Do the Islamic banks in Somali's staff understand risk and risk management?
RQ2. Do the Islamic banks in Somalia efficiently assess and analyze risk in general?
RQ3. Have the Islamic banks in Somalia clearly identified the potential risks?
RQ4. Do the Islamic banks in Somalia have efficient risk monitoring?
RQ5. Do the Islamic banks in Somalia manage the risk efficiently?
RQ6. Do the staff and the bank management have trust in their banks?
RQ7. Does the Somali bank industry analysis the credit risk of its customers?

2. REVIEW OF LITERATURE

Both conventional and Islamic banks face a variety of risks that might endanger their existence and prosperity, including operational, liquidity, and credit risks (Al-Tamimi & Al-Mazrooei, 2007). However, the Islamic banking system is considered to be more risky than conventional banking (Rahman, 2016; Turen, 1996). As a result, this study examines Islamic banking institutions' risk management practices (RMP) in Somalia. The intention is to identify the most important types of risk facing the Somali banking industry.

Risk Management Practices: According to Rahman (2016) risk management involves acknowledging, determining, measuring, prioritizing, exploiting, and reviewing various risk exposures. Rahman, Alsmady, Ibrahim, and Muhammad (2014) define "risk management" (RM) as the comprehensive process an institution employs to establish its strategy, recognize various risks that could impact the business, assess the financial consequences of these risks, and contemplate potential internal controls to mitigate potential threats. The other study focused on Islamic banks' risk management practices and came to the conclusion that the three primary risks faced by Islamic banks in Brunei Darussalam were operating risk, credit risk, and foreign exchange risk (Hassan, 2009). Because they only provide Murabaha with collateral or a guarantor in Somalia, Somali banks are actually effective at-risk analysis, monitoring, risk detection, and credit risk management. To the best of researchers' knowledge, there is a limited risk in the banking industry in Somalia. But there are no prior studies that have verified that notion. To ensure financial stability and prevent other unintended economic effects, it is crucial to keep in mind that while risks are a necessary component of the banking industry, regardless of whether Islamic banks or conventional banks, effective risk management distinguishes and outlines the intensity of these risks and vulnerabilities (Chattha, Alhabshi, & Meera, 2020).

However, because of the different manner in which Islamic banks' assets and liabilities are structured, risk management needs to be given extra consideration. The lack of consistency in financial reporting, the absence of suitable quantitative indicators, and the inadequate risk monitoring methods make it extremely difficult to establish an RM framework for Islamic banks. Additionally, the Sharia-derived principles at the core of the Islamic business model have changed how risks are handled in Islamic banks (Elgharbawy, 2020). The findings imply that the three most significant categories of risk that these Islamic banks face are foreign exchange risk, credit risk, and operating risk (Elgharbawy, 2020). The level of risk in Islamic banks varies depending on the funding strategy, according to another study that surveyed RMPs in Islamic banks operating in the MENA region (Mudharba, Murabaha, etc.) (Mokni, Echchabi, & Rajhi, 2015). However, Islamic banks are quite conscious of the critical role that a strong RM system plays in cost reduction. IBs also rely heavily on conventional methods of reducing risks, like credit risk. In another study, Abbas et al. (2018) interviewed 58 bank managers and experts from Pakistani conventional and Islamic banks in 2014 to gather information for an investigation on the remodeling of RMPs. The findings imply that RMPs, RI, and CRA have a highly substantial positive association. Although less significant, RM, RAA, and URRM are still positively correlated with RMPs. Based on the discussion that has already taken place and the findings of earlier studies in the literature, it is clear that the most important variables that have an impact on risk management practice—URRM, RI.

H_1. RMPs are determined by URRM, RI, RAA, RM, CRA, and PT.

Risk Identification: The RI determines the success of risk management. The bank cannot foresee the risk in advance and prepare for the problems it may present unless the risk management team has the necessary competencies to recognize the potential dangers (Nair et al., 2014). The functions and responsibilities of the bank must include a provision for risk detection in the event that something goes wrong (Hassan, 2009). Therefore, a bank will need to design a systematic process for identifying risks, and this process may vary from bank to bank.

Understanding Risk and Risk Management: The URRM is the fundamental risk management process. We must identify the various options available to solve a problem effectively. A thorough examination of all the options would facilitate decision-making (Abu Hussain & Al-Ajmi, 2012). The different types of risk associated with banking must be understood by everyone in the bank (Nair et al., 2014). The bank should make everyone aware of their individual duties. Additionally, it's important to define who is responsible for risk management. As a result, banks should provide sufficient training to their employees so that they can fully comprehend all potential dangers to the institution.

Risk Assessment & Analysis: A risk assessment is necessary to determine the possibility of a risk (Abu Hussain & Al-Ajmi, 2012). In the RAA, cost-benefit analysis is significant. Risk analysis requires active management, which involves risk identification, risk prioritization, and risk selection (Nair et al., 2014). Therefore, banking system in Somalia needs risk assessment and analysis for its safety.

Risk Monitoring: The RM must be included as a fundamental component of regular management reporting. The bank's level of control must correspond to the risk it faces (Nair et al., 2014). To manage risk, the bank must have efficient reporting and communication procedures. Therefore, Somalia's banking system necessitates risk monitoring to promptly take remedial action during transactions, ensuring their safety.

Credit Risk Assessment: Before extending credit or carrying out a credit transaction on CRA, credit worthiness should be considered (Nair et al., 2014). Before issuing capital or credit, the bank should do a thorough study of the applicant's character, capacity, collateral, and circumstances. To decrease non-performing loans, it is crucial to have enough collateral from both small and large borrowers.

Perceived Trust: The idea that consumers have faith in something being true or trustworthy is compatible with the attitude of trust (Ashraf, Joarder, & Ratan, 2019). In addition, trust is the degree to which people wish to depend on and believe in others (Luo, Tong, Fang, & Qu, 2019). The element of trust is essential for enabling a business to retain its current clientele while also attracting new potential clients for growth and sustainability (Aziz, Husin, Hussin, & Afaq, 2019). Numerous prior studies have highlighted the significance of trust in a variety of business contexts, and empirical data demonstrates that trust is a crucial determinant of whether or not to use takaful products. At the same time, Poan, Merizka, and Komalasari (2022) discovered that trust has a positive impact on the purchase of Islamic insurance (takaful). Numerous studies also reveal a strong relationship between client trust and purchasing intentions, notably for Islamic insurance (Chimedtseren & Safari, 2016; Hajli, Sims, Zadeh, & Richard, 2017; Luo et al., 2019; Saleem et al., 2016; Suhartanto, Farhani, & Muflih, 2018). Trust is therefore essential to risk management since it lowers the possibility of staff turnover, and if the well-trained employee quits and is replaced by new hires, there is a danger that the new hires won't fully comprehend all of the risks that the bank may face in the future.

Lastly, these considerations clearly imply that Islamic banks in Somalia must implement dynamic risk management strategies. The researcher is unaware of any prior studies that specifically aim to evaluate the RMPs in Somali banks of a given country. Hence, a discussion of the study's research methodology follows.

3. METHODOLOGY OF THE STUDY

The study was based on a primary questionnaire survey of 432 employees from 13 Somali commercial banks. The survey utilized in this study is a modified version of the survey used in a previous study (Al-Tamimi & Al-Mazrooei, 2007). The study uses a self-administered questionnaire and a quantitative research methodology. It is believed that using a questionnaire as a survey methodology is the most suitable method for gathering primary data (Alan Bryman & Cramer, 1992; Tufano, 1996). Additionally, it is a cost-effective method of gathering information from a potentially huge number of respondents, enabling statistical analysis of the study's findings (Bryman & Cramer, 1997; Miller, 1983). This study approach is consistent with several studies on risk management practices in emerging markets (see, for example, (Abu Hussain & Al-Ajmi, 2012; Al-Tamimi & Al-Mazrooei, 2007; Hassan, 2009; Khalid & Amjad, 2012; Shafiq & Nasr, 2010)).

There are two sections to the questionnaire. The first section discussed the background characteristics of the respondents. The following section contained closed-ended questions using an ordinal scale. 43 of the total closed-ended questions, which were based on risk management-related topics, were on a Likert scale with a maximum of five points (1 = strongly agree to 5 = strongly disagree). The respondents were asked to mark the scale that best represented how much they agreed or disagreed with each of the questions. The respondents in this study included senior management, branch managers, front-line employees, and senior credit managers, as they were the best informed about the risk management techniques employed by banks. The items and statements included in the questionnaire have also been carefully selected.

Table 1. Reliability test.

No.	Risk measurement aspects	Cronbach's alpha
1	Understanding risk and risk management	0.760
2	Risk assessment and analysis	0.781
3	Risk identification	0.745
4	Risk monitoring	0.798
5	Credit risk analysis	0.754
6	Perceived trust	0.808
7	Risk management practices	0.795

Reliability test: Cronbach's alpha is used to assess the scales' dependability. It measures how consistently respondents react to questions on a scale (Hassan, 2009). By adding Cronbach's alpha to each variable, the data's dependability was confirmed. In order to assess the validity of the questionnaire's general design and its many sections, one analysis technique called Cronbach's Alpha was applied (Anjum & Kin, 2019). Cronbach's alpha was used to measure the degree of internal consistency among the outcomes on a particular scale. Researchers consider the data credible if the coefficient value is equal to or greater than 0.70 (Gnanadesikan, 2011; Nunnally, 1994; Nunnally

& Bernstein, 1978). In a nutshell, all seven elements in this study had results that were greater than 0.7 when measured using Cronbach's alpha (see Table 1).

4. EMPIRICAL RESULTS AND DISCUSSION

The following risk management aspects are dealt with, to address the research questions of the study.

Table 2. Respondent's profile.

Variable	Frequency	Percent (%)
Gender		
Male	298	70.4
Female	125	29.6
Age		
Below 20 years	20	4.7
20 – 30 years	333	78.5
31 – 40 years	66	15.6
Above 40	5	1.2
Education level		
Graduate	308	73.0
Undergraduate	100	23.7
High school	4	0.9
Other	29	2.4
Marital status		
Single	281	66.6
Married	141	33.4
Experience		
Less than a year	94	22.2
3-5 years	182	42.9
More than 5 years	148	34.9
Deposit insurance		
My bank does not have deposit insurance	410	97.0
My bank does have deposit insurance	13	3.0

Table 2 displays the profile of respondents from the study. According to the table, 70.4% of respondents were male, compared to 29.6% who were female. The bulk of respondents (78.5%) are between the ages of 20 and 30. While 15.6% of respondents are between the ages of 31 and 40, 4.7% of the respondents are under 20 years old. Lastly, only 1.2% of responses were over 40 years old. According to the respondents' educational backgrounds, graduates make up 73.0% of the sample, while undergraduates make up 23.7%. According to the insurance deposit of the banks, the majority of the staff knew that their banks do not have deposit insurance (97%), while only 3% believed their banks have deposit insurance.

Table 3 presents the perceptions on risk understanding and the study's risk management section. More than 70% of the respondents strongly agreed or agreed with the statements, indicating that the staff in Somali banks understands risk and its management well. The mean responses to all questions related to understanding risk and risk management are 2.11 out of 7. The highest mean for the whole sample is 2.29 for question number 4, about how crucial it is to apply the most sophisticated techniques in risk management. The findings of this study is consistent with (Abu Hussain & Al-Ajmi, 2012; Al-Tamimi & Al-Mazrooei, 2007; Holland, 2010). Thus, the employees of Somali banks have a common understanding of risk management practice and how to manage them, which helps reduce loan losses in the bank sector.

Table 3. Understanding risk and risk management (URRM).

No.	Statement	1	2	3	4	5	Mean	Std. dev.
1	There is a common understanding of risk management across the bank	33.6	47.5	12.3	6.1	0.5	1.92	0.862
2	Responsibility for risk management is clearly set out and understood throughout the bank	28.6	42.1	20.6	8.0	0.7	2.10	0.932
3	Accountability for risk management is clearly set out and understood throughout the bank	28.6	42.8	19.4	6.9	2.4	2.12	0.978
4	It is crucial to apply the most sophisticated techniques in risk management	27.1	34.0	24.5	11.3	3.1	2.29	1.078
5	Your objective at Islamic bank (IB) is to expand the application of advanced risk management techniques	29.7	42.3	16.6	8.1	3.3	2.13	1.035
6	It is important for your bank to emphasize the continuous review and evaluation of the techniques used in risk management	34.6	35.8	18.5	7.3	3.8	2.10	1.076
7	Applications of risk management techniques reduce costs or expected losses	33.8	37.8	14.4	10.2	3.8	2.12	1.103
8	Average mean	30.86	40.33	18.04	8.27	2.51	2.11	1.00

Table 4. Risk assessment and analysis (RAA).

No.	Statement	1	2	3	4	5	Mean	Std. dev.
1	The Islamic bank of Somalia assesses the likelihood of occurring risk	24.8	36.8	21.2	13.2	4.0	2.35	1.105
2	Islamic banks risk is assessed using quantitative analysis methods	22.6	42.3	20.7	12.6	1.9	2.29	1.013
3	Islamic banks risk is assessed using qualitative analysis methods	18.2	40.3	24.9	14.0	2.6	2.42	1.024
4	Your Islamic Banks' response to risk analysis includes an assessment of the costs and benefits of addressing risk	26.5	43.0	18.0	10.4	2.1	2.19	1.010
5	Your Islamic bank's response to analyze risk includes prioritizing risks and selecting those that need active management	27.4	41.6	19.4	8.3	3.3	2.18	1.032
6	Your Islamic banks response to analyze risk includes prioritizing risk treatments where there are resource constraints on risk treatment implementation	22.0	43.4	20.6	10.6	3.4	2.30	1.032
7	Average	23.58	41.23	20.8	11.52	2.88	2.28	1.04

Table 4 illustrates the responses' outcomes. The RAA is a critical phase in terms of risk assessment. The development of risk-reduction measures is beneficial (Bashir & Azeez, 2022). There are six RAA-related questions on the survey. Table 4 displays the responses' outcomes. Due to the fact that more than 64% of respondents strongly agreed or agreed with the statements by providing a positive response to the questions, the findings show that the employees believe the Somali banks assess the risk in terms of both quantitative and qualitative factors and prioritize the risk. The sample responses to the six questions average 2.28, indicating that the Islamic banks in Somalia are effectively analyzing and assessing risk. This figure also implies that the research questions have received satisfactory answers. This result is consistent with the results of the studies of Al-Tamimi and Al-Mazrooei (2007), Hassan (2009), and Rehman, Benamraoui, and Dad (2018).

Table 5. Risk identification (RI).

No.	Statement	1	2	3	4	5	Mean	Std. dev.
1	The Islamic bank carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives	25.7	43.7	17.8	10.0	2.9	2.21	1.025
2	The Islamic bank finds it difficult to prioritize its main risk	5.7	20.6	19.9	28.2	25.6	3.47	1.232
3	Changes in risk are recognized and identified with the Islamic bank's roles and responsibilities	20.7	46.0	21.0	9.0	3.3	2.28	1.000
4	The Islamic bank is aware of the strengths and weaknesses of the risk management systems of other banks	27.3	34.2	19.2	14.5	4.8	2.35	1.163
5	Islamic bank has developed and applied procedures for the systematic identification of investment opportunities	27.2	45.6	17.3	6.1	3.8	2.14	1.007
6	Average	21.32	38.02	19.04	13.56	8.08	2.49	1.08

Table 5 displays the responses' outcomes. Effective risk management is a result of accurate risk identification (Bashir & Azeez, 2022). The RI problem is a critical stage in risk management. There are five items in the questionnaire for the research on RI. Table 5 displays the respondents' opinions, means, and standard deviations based on their questionnaire responses. 59% of respondents who responded positively to the questions indicated that they either strongly agreed or agreed with the comments made in the questions. Islamic banks in Somalia have clearly recognized the potential risk associated with their stated goals and objectives, as evidenced by the average mean of 2.49. Four out of the five questions on RI received good responses, while question two shows that the majority of respondents—53 percent—strongly disagreed or agreed with the assertion that "The Islamic bank finds it difficult to prioritize its principal risk." The findings demonstrate that Somalia's banking sector has the capacity to recognize possible threats to its banks. This outcome is also consistent with the finding about risk understanding, as staff members are better able to recognize danger when they have a greater awareness of it. Furthermore, this result on RI is consistent with the results from (Al-Tamimi & Al-Mazrooei, 2007; Elgharbawy, 2020; Rahman, 2016). The mean score for the second question was the highest, at 3.47. Table 5 presents the mean value of the respondents' responses to question number two, indicating that the Islamic bank faces challenges in prioritizing its primary risk. Given this outcome, it appears that Islamic banks in Somalia would benefit from learning effective risk prioritization techniques.

Table 6. Risk monitoring (RM).

No	Statement	1	2	3	4	5	Mean	Std. dev.
1	Monitoring the effectiveness of risk management is an integral part of routine management reporting	33.0	40.6	16.3	7.5	2.6	2.06	1.013
2	The level of internal control by the Islamic bank is appropriate for the risks that it faces	29.6	41.1	19.1	8.0	2.1	2.12	.994
3	The level of external control by the Islamic bank is appropriate for the risks that it faces	29.1	36.3	19.9	11.8	2.8	2.23	1.082
4	The Islamic banks to risk includes an evaluation of the effectiveness of the existing controls and risk management responses	29.1	39.5	16.5	10.6	4.3	2.22	1.105
5	The Islamic bank's response to risk includes action plans for implementing decisions about identified risks	28.2	39.3	18.2	10.2	4.0	2.23	1.089
6	Average mean	29.80	39.36	18	9.62	3.16	2.17	1.06

Table 6 displays the responses' outcomes. Risk monitoring (RM) is a process used to make sure that risk management practices are in line with the desired level of risk acceptance. Appropriate RM helps bank management discover mistakes early. According to the result of this study, the respondents strongly agreed or agreed with the statements by more than 69%, which indicates that Somali banks monitor risk effectively by using all available tools. The average mean of the responses of the sample on the total five questions is 2.17, which indicates that the Islamic banks in Somalia have an efficient RM and controlling system. Furthermore, this result is consistent with (Al-Tamimi & Al-Mazrooei, 2007; Elgharbawy, 2020; Rahman, 2016). Hence, the result of this study shows that Somali bank sector effectively monitors risks, which enables it to mitigate risks at an early stage in a transaction.

Table 7. Credit risk analysis (CRA).

No.	Statement	1	2	3	4	5	Mean	Std. dev.
1	Islamic bank undertakes a credit worthiness analysis before granting loans	30.0	37.9	18.6	11.0	2.6	2.18	1.062
2	Before granting loans, your Islamic bank undertakes a specific analysis, including the clients' characters, capacity, collateral capital, and conditions	33.1	37.4	17.9	8.8	2.9	2.11	1.053
3	Islamic banks borrowers are classified according to a risk factor	25.8	43.8	16.0	11.0	3.3	2.22	1.055
4	Islamic banks policy requires collateral for all granting capital or making transaction	28.2	32.5	23.4	11.2	4.8	2.32	1.138
5	It is preferable to require collateral for some loans, but not all of them	22.1	40.5	20.5	12.4	4.5	2.37	1.094
6	Level of credit granted to defaulted clients must be reduced	23.7	38.2	16.8	15.6	5.7	2.41	1.172
7	Average mean	27.15	38.38	18.86	11.66	3.96	2.27	1.09

Table 7 presents the responses' outcomes. The most significant kind of risk in the Islamic banking system is credit risk. Somalia's Islamic banks deal with credit risk as well. Regarding credit risk, there are six questions in the survey questionnaire. The sample's responses to the six questions are detailed in Table 7. By responding in the affirmative to the questions, 65% of respondents indicated that they either strongly agreed or agreed with the statements made in the questions. The average mean of the responses to the seven questions is 2.27, which illustrates how effectively credit risk is managed in Somalia's Islamic institutions. Furthermore, this result on RI is consistent with the results from (Al-Tamimi & Al-Mazrooei, 2007; Elgharbawy, 2020; Rahman, 2016). The questions regarding conducting a credit risk worthiness analysis, conducting a specific project analysis taking into account the client's character, capacity, and capital and condition of the collateral, as well as the requirement for sufficient collateral, receive the most significant responses. Hence, the results show that there is less credit risk in the banking sector of Somalia compared to other nations.

Table 8 displays the responses' outcomes. Since the banking system cannot function without trust, perceived trust is the most crucial factor. Islamic banks in Somalia face trust issues, particularly with clients and staff. Regarding perceived trust, there are four questions in the survey form. Table 8 details the sample's responses to the four questions. More than 71% of respondents who responded positively to the questions indicated that they either strongly agreed with or agreed with the questions' statements. The average mean of the answers to the seven questions is 2.09, which indicates that bank industry personnel in Somalia place a high value on the banking system. Furthermore, this result on RI is consistent with the results from (Ashraf et al., 2019; Luo et al., 2019). The findings of this study imply that bank employees have faith in their institutions and may lower any potential risk those institutions may face.

Table 8. Perceived trust.

No.	Statement	1	2	3	4	5	Mean	Std. dev.
1	Based on my beliefs about Islamic banks, I think Islamic banks use effective risk management practice	35.4	36.8	15.3	9.2	3.3	2.08	1.081
2	I would like to put my money in an Islamic bank if it uses effective risk management practice	37.4	37.2	14.0	7.6	3.8	2.03	1.077
3	Based on my beliefs about Islamic banks, I think it cares about protecting customers money	34.8	34.8	18.0	9.2	3.3	2.12	1.088
4	Based on my beliefs about Islamic bank, I think they are trustworthy	33.3	37.1	16.2	9.3	4.0	2.14	1.102
5	Average mean	35.25	36.47	15.87	8.82	3.60	2.09	1.09

Table 9. Risk management practices (RMPs).

No.	Statement	1	2	3	4	5	Mean	Std. dev.
1	The executive management of the Islamic Bank regularly reviews the organization's performance in managing its business risks	29.8	43.5	18.4	6.1	2.1	2.07	0.957
2	Your Islamic bank policy encourages training programs in the area of risk management as well as Islamic ethics	32.0	36.3	19.7	8.8	3.3	2.15	1.070
3	This Islamic bank emphasizes the recruitment of highly qualified people with Islamic knowledge in risk management	28.8	38.1	20.0	11.0	2.1	2.20	1.041
4	Efficient risk management is one of the objectives of Islamic bank	28.7	40.8	17.3	9.0	4.3	2.19	1.081
5	The application of Basel II will improve the efficiency and RMPs in Islamic banking in general and at your bank in particular	23.0	34.4	28.0	9.5	5.2	2.40	1.097
6	I consider the level of risk management practices at this Islamic bank to be excellent	31.7	41.1	17.7	5.6	3.9	2.09	1.030
7	Average mean	29	39.03	20.18	8.33	3.48	2.18	1.05

Table 9 displays the responses' outcomes. Despite the Islamic bank personnel's understanding of hazards and risk management and their use of advanced methods for risk assessment and analysis, it remains possible that ineffective Risk Management Plans (RMPs) exist, and the staff may not adhere to these policies. Table 9 displays the responses from the sample. Table 9 details the sample's responses to the six RMP-related questions. More than 68% of respondents who responded positively to the questions indicated that they either strongly agreed with or agreed with the questions' statements. The 10 questions' replies had a mean average of 2.18, showing that Brunei's Islamic banks are effective at RMPs. The use of Basel Accord II will increase the efficiency and RMPs in Islamic banking in general and your bank in particular, according to question number five, which has a mean value of 2.40. The response to this question suggests that employees of Islamic banks should be better knowledgeable about how the "Basel Capital Accord II," which was adopted to increase the effectiveness of Islamic bank, is applied. The question one median value, 2.07, is the lowest. "The executive management of Islamic banks frequently assesses the organization's success in controlling its business risks," it says. Furthermore, this result on RI is consistent with the results from (Al-Tamimi & Al-Mazrooei, 2007; Elgharbawy, 2020; Rahman, 2016).This outcome also demonstrates that Islamic banks' management thoroughly evaluates and periodically reviews the risks that they may face in the future.

5. CONCLUSIONS, POLICY IMPLICATION, AND FURTHER STUDY

This study is concerned with the risk management practices in the Somali bank industry. A questionnaire is used to obtain the information needed to achieve the study's objectives. There is a general understanding of RMPs throughout the banking system in Somalia. In all seven aspects of risk management, the respondents strongly agreed or agreed by more than 50% with the statements of the questionnaire, which indicates that the Somalia bank industry has strongly practiced risk management, which gives a positive answer to the questions. The objectives in this study include the perceived trust in the level of importance of risk management practices being used in Somalia's Islamic Bank, the study of the level of risk management practices in the Islamic Bank, identifying if the Somali banks are managing their risk management properly, and identifying if the Somali Bank deals with the risks efficiently. The hypotheses of the study have been developed and tested. The results have revealed that there is a positive level of risk management practices throughout the Somali banking industry. In the reliability analysis, results have revealed that the variables used are good in terms of their association with reliability because all variables have passed the rule of thumb of Cronbach's alpha to be equal to or greater than 0.7.

In terms of policy implications, this study's implications concern clients, banks' management, and regulators. Depositors should know that their banks do not have deposit insurance, which could create a higher risk when they deposit their money with Somali banks. As for management, regulators should be aware that the Somali bank industry has positive risk management practices, but it needs to increase and train the staff and frontline workers, in addition to enhancing transparency.

This research has some restrictions: For instance, given the country's weak regulatory framework for risk management in Somali banks, the circumstances Somalia's banks faced during the distribution of the questionnaires may have influenced some of the findings. Second, despite the high response rate, lack of non-response bias, and good internal consistency of the responses, the study relies on survey methodology, which gauges bankers' views rather than necessarily their actions.

The recommendations given based on results and personal observations indicate that the Islamic banks cannot disregard risk entirely and that there is a need to administer it accurately. Islamic banks should increase their attention to RMPs and their aspects, particularly deposit insurance. The government should provide enough regulatory framework and capital adequacy requirements to safeguard and increase the health of the financial system in the country. Finally, in order to diversify their risk of bank failure, depositors should think carefully about where they are depositing their funds and consider doing so at several different banks.

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Institutional Review Board Statement: The Ethical Committee of the SIMAD University, Somalia has granted approval for this study (Ref. No. EC000118).
Transparency: The author states that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.
Data Availability Statement: Upon a reasonable request, the supporting data of this study can be provided by Galad Mohamed Barre.
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