The effects of organizational structure and rules on banks risk management
- A comparative case study of three major banks in Sweden

Authors: Andreas Lindè
         Erik Wallgren

Supervisor: Per Nilsson

Student
Umeå School of Business and Economics
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ABSTRACT

A well functioning banking sector is crucial to the functioning of our financial system, but yet the banking sector has been very troubled by different crises during the last 20 years. Even though more stringent rules and requirements develop through increasingly stringent Basel agreements the global financial crisis of 2008 show that it still exist a problem of financial risk management. Further several financial organizations have run into financial problem because of failures in internal control and monitoring systems. Therefore it is worth highlighting the question of centralization or decentralization since this is a factor that affects the control an organization has. Based on this background we believe that it is important to investigate the effect these variables have on financial risk management.

The purpose of this study therefore is to outline the relationship between the degree of centralization and the risk management structure at three major banks in Sweden. Further we want to show the effect more stringent rules and regulations, stemming from the Basel agreements, have on the degree of centralization in the banks risk management. Further we wish to increase the general knowledge of which of the risks facing the banks that are most likely to be managed at the different levels and contrast on the differences between the banks.

Our main concepts presented in the theoretical frame of reference are rules and regulations, which mainly consists of the Basel agreements, financial risk and financial risk management, where we presents the main financial risks a bank is exposed to and how these risks mainly are handled. Lastly the concept of organizational structure is presented, where our main focus is on the concept of centralization/decentralization. From the above-mentioned concepts a semi-structured interview guide was deducted, which we used to gather our empirical data. Our main focus was to highlight the problem from the banks point of view and therefore the questions mainly focused on the effects for the banks and not for their customers.

The data gathered from the interviews is presented in the three broad categories of risk, rules and regulation and lastly organizational structure. From the empirical findings and analysis we could conclude that the banks seem to have similar risk management structures and the degree of centralization and the overall organizational structure do not seem to have a big impact on how the banks manage financial risks. Rather it is the nature of the risk that determines where in the hierarchy the risk is managed and how it is managed. Further the increasingly stringent rules and regulations contribute to increasing control functions, increased importance for central risk units and changes in risk management due to new methods for calculating risk exposures. Nevertheless the increasingly stringent rules and regulations do not affect where in the hierarchy business decisions are made.
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Erik Wallgren
Andreas Lindé
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DISPOSITION

1. Introduction
In the introductory chapter we develop our problem formulation and we are also providing the background to our problem. Further we also state our purpose and how we limit our choices and a short explanation of concepts.

2. Theoretical methodology
In our second chapter we provide the reader with our pre-understandings and our methodological philosophy, strategy and approach. Further we will also discuss our secondary sources and evaluate them from a critical standpoint. This is done so that the reader can appreciate what can be large influences in later chapters.

3. Theoretical Frame of Reference
The third chapter aim to introduce the most important theories and concepts for our study to provide the reader with the theoretical basis for our future analysis. We will present the Basel agreements, the most important financial risks and how to manage them and lastly also the concept of centralization.

4. Practical Methodology
Our fourth chapter introduces the procedures used to gather the data for our analysis. We will provide the reader with who we are interviewing, how we conduct our interviews and the access to interviewees.

5. Findings
Our fifth chapter presents the data collected from our interviews. Here we will present the findings organization by organization and divided in three broad categories, risk, rules and regulations and organizational structure.

6. Analysis and Discussion
In our sixth chapter we will analyze our empirical findings and relate these to the theories we have used in our theoretical frame of reference. This analysis will be the base for the upcoming conclusion.

7. Conclusion
In the seventh chapter we will use the empirical findings and the analysis to draw conclusions of our research. Here we will provide an answer to our problem statements. In addition we will also provide the reader with implications from our research and give suggestions for future research within the area.

8. Truth criteria
Our eighth chapter will provide the reader with the truth criteria used for this qualitative study. We will provide a discussion about; credibility, dependability, transferability, and confirmability.
1. INTRODUCTION

In this chapter we will present our problem by looking at the background of the problem and formulate the research questions. In addition we will introduce the purpose of the research and its limitations and provide a short explanation of concepts.

1.1 Background

David H. Pyle (1997, p. 1) mentions in his working paper Bank Risk Management: Theory for the Conference on risk management and deregulation in banking 1997, that the head of the US housing committee had told him: to make banks mark their assets to market was out of the question. Further in the article from 1977 “Estimating the probability of failure for commercial banks and the banking system” Anthony M. Santomero and Joseph D. Vinso (1977, p. 204), concludes that the risk for banks to fail is on average very small. Santomero and Vinso (1977, p. 204) also found that the few banks that were exposed to more risks had lower capital ratios and/or higher variability than the other banks, something they hoped to affect regulators with who are concerned with identifying and helping those institutions. A lot has happened to the financial industry since then, new regulations, different crises, scandals, and new instruments etcetera.

A well functioning banking sector is crucial to the functioning of our financial system, but yet the Swedish banking sector has been very troubled by different crises during the last 20 years. With the Swedish banking crisis in the beginning of the 1990s, the global mortgage crisis a couple of years ago and now the current Euro crisis. During the Swedish Banking Crisis in the 1990s the credit losses for the Swedish banks were extremely high (FI, 2011, pp. 18-19). Regarding more recent crises the Swedish banks managed to get through the global mortgage crisis relatively well compared to banks in other countries due to help from the Swedish Government and “Riksbanken” still they were faced with large losses because of their operations in the Baltic states (FI, 2009, pp. 4-5; 21). These crises show that the banking industry is exposed to high degrees of risks. Pyle (1997, p. 2) mentioned in 1997 that risk management among banks has been inadequate and stressed the importance for a uniform procedure to monitor and regulate risks. During the years since then procedures have been improved with the expansion of the Basel agreements and international standards for reporting on risks and risk management. However the financial crisis in 2008 is evidence that the problem of risk management still exists. Lang and Jagtiani (2010, p. 314) found there was still a lack in the management and control of risks in 2010. Further Lang and Jagtiani (2010, p. 314) identified another factor to be insufficient in financial organizations at this time, internal control.

In the recent history several financial organizations have run into financial problem, not only because of lacking risk management but also because of failures in internal control and monitoring systems. It is worth noticing how it is possible for several traders to manipulate the system with the expectation to beat the market but instead resulting in a disastrous outcome. There are many examples of this: Société Générale, Sumitomo Corp, Barings, Allied Irish Bank, UBS, Daiwa bank etcetera (Grapper, 2011). The individual trader have historically had the possibility to conceal their position, resulting in an avoidance of immediate detection of the position and also, there seems to be a too high tolerance level from some managers regarding risky positions (Jawadi, 2010, p.
Another important finding in Jawadi’s study was that there seemed to be a problem in communicating the real risks; Jawadi argues that there seemed to have been some smoothness in the transition between traders and control supervisors. Further Jawadi also argues that the supervision and control measures seems to be weak and inefficient, resulting in frequent by-passing of the risk limits in place (Jawadi, 2010, p. 1021). Nevertheless the Basel agreements set extensive requirements on the banking industry regarding the management of risks (BSCBS, 2004). Basel two is based on the three pillars of: minimum capital requirements, supervisory review and market discipline (BCBS, 2004, p. 6). This suggests that the supervisory authorities are aware of the problems and tries to minimize them, still the problems do not disappear; therefore the Basel agreements also constantly develop and now the financial market are facing the implementation of Basel three in law (BCBS, 2010, p. 27, 60, 63) further increasing the control measures the banks are facing.

One can further argue that a centralized organizational structure is a good way to increase the control within the organization. This could possibly limit the above-mentioned possibilities to circumvent the system in a financial institution. Struzenski (2006, p. 60) argues that transparency and control that follows from a centralized treasury management system contributes to better risk management. Further he also argues that to meet the compliance requirements of today a company must have a centralized cash management structure (Struzenski, 2006, p. 60). Further Alonso, et al. (2008, pp. 145-146) argues that an organization having several divisions or activities in several locations have to decide how their management structure should look like. Alonso et al. (2008, pp. 145-146) further argues that the organization can be centrally managed or that the organization can decentralize the decision-making. In this process the organization has to consider the trade-off between more control from central management or the decisions taken closer to the actual operations which is possible when implementing a decentralized management (Alonso, et al., 2008, pp. 145-146).

However among the largest commercial banks in Sweden and Europe, the one that is considered among the safest and has the most satisfied customers is one of the banks claiming to be a very decentralized bank (SKI, 2011; Karlberg, 2010; Jönsson A, 2010). This might be an argument pro decentralization and the fact that the decisions are taken closer to the operations as argued by Alonso, et al. (2008, pp. 145-146).

1.2 Problem Discussion
Risk management is an issue that needs to be stressed and investigated, especially in the banking industry, where the need for a good risk management structure is extremely important. The European banking system has been very troubled by recent financial crises, Swedish banks have however been resilient and managed these crises reasonably well (FI, 2011, pp. 4-5) making it interesting to look more in depth in the Swedish banks and their risk management.

Since recent events in the financial industry has proven that one person can be responsible for a company wide crisis, it is also very important to investigate the impact organizational structure and internal control has on risk management. We argue that centralization can be a way to organize the organizational structure of a bank. At the same time an obvious effect from centralization can be that decisions are more concentrated to one level of the organizational hierarchy, whilst the opposite can be true
for the decentralized structure (Andrews et al., 2009, pp. 58-59). Through this, internal control can also be affected by the degree of centralization; therefore we argue that centralization is a subject that needs to be addressed in research of risk management.

Further the development of the Basel agreements has increased the requirements of banks risk management and therefore the question can be asked if the more stringent requirements has affected the financial risk management structure of the Swedish banks. And as argued by Alonso, et al. (2008, pp. 145-146) in that case has it contributed to a more centralized management structure with the focus to have control or a more decentralized risk management with decisions taken closer to the operations. Therefore we will combine these concepts into the following problem formulations:

*How does the financial risk management structure look like at three major Swedish banks?*

*How are the banks approach to financial risk management affected by how decentralized their organizations are, and what effect does the increasingly stringent rules in the financial community have on the structure of the organization and its risk management?*

1.3 Purpose
The purpose of this study is to outline the relationship between the three variables of centralization, rules and regulations and financial risk management at three major banks in Sweden. We want to show the effect more stringent rules and regulations, stemming from the Basel agreements, has on the degree of centralization in the bank’s risk management. If we cannot observe any effect from these variables we will provide an alternative explanation of what variables that relate to each other and how they relate to each other. Further we wish to increase the general knowledge of which of the risks facing the banks that are most likely to be managed at the different levels and contrast on the differences between the banks investigated.

1.4 Research Gap
There is a lot of research conducted in the subject of financial risk management (e.g. Santomero 1997, 2003; Pyle 1997) A lot of research has also been conducted in the areas of centralization/decentralization (e.g. Struzenski, 2006; Andrews, et al., 2009; Alonso, et al., 2008) as well as on rules and regulations (e.g. Hintze 2012; Kaplan, et al., 2009). There is however no research conducted that investigates the effects centralization/ decentralization and rules have on the structure of the risk management, this is what is unique with our study. We aim to contribute to the theoretical area of research by combining these extensive subjects to one problem, where we decided to look at how the risk management structure is affected by degree of centralization and rules. This will contribute with new theoretical knowledge of how centralization is affecting the structure of bank risk management and the contribution of rules to this fact. This will also lead to some practical implications, as it can come to use for banks in their discussion about their organizational and risk management structure. The banks can see how risk management functions in organizations structured in other ways than themselves, and evaluate the pros and cons of the system they have in use right now.
1.5 Delimitations
Our research is focused on the concept of financial risk management, the managing of credit, liquidity, market and operational risk and how this is affected by the degree of centralization and rules. We have chosen to eliminate the other types of risk since we find the financial risks to be the most common and relevant to financial institutions due to their line of business and involvement in financial markets. This subject is still rather broad but since the purpose of this study is not to in depth describe how the different models function and how they are calculated, but rather to investigate how the overall structure looks like, we found it relevant to get a broad understanding of financial risks.

In this study we will focus on the Swedish banks since they have managed to get through the recent crises relatively well in comparison to other European banks (FI, 2009, p. 4) making it interesting to investigate the Swedish banks and how risk is managed in these institutions. Another reason that affects the choice of investigating Swedish banks is access to information. Gaining access to information in banks can be hard and adding a language barrier as well as distance would have made it even harder, therefore due to the timeframe of this course we will focus on Swedish banks.

To obtain a broader knowledge of how banks handle financial risks we have chosen to include rules and regulations, such as the Basel agreements, which are setting standards for how banks should handle risks. In this study we will introduce the general principles of the Basel agreements and how they affect the banks in our sample, therefore we will not put any major emphasis on the technical details of the agreements.

1.6 Explanation of Concepts
Hart (2003 p. 193) argues that it is important that key concepts of a study are clearly defined. Therefore we will provide a list of concepts we argue need a short explanation so that the reader can get an understanding of how we understand these concepts. Further we will also explain complicated regulatory subjects.

Centralization We see centralization as to what degree management decisions are taken by few individuals at one central unit.

Decentralization The opposite of centralization, the individual closest to the problem has a bigger influence in the decision making.

Internal Control Internal control is a very broad subject concerning strategic governance and activities that help the organization achieve objectives. However, our focus in this thesis is only on how internal control measures can be a part of managing financial risks.

Minimum Capital Requirements According to the Basel agreements, banks need to hold a certain amount of capital to meet different kind of financial risks. The minimum capital requirements consist of Tier 1 and Tier 2 capital, where the capital requirements of 8% should be comprised of at least 50% of Tier 1 capital while Tier 2 capital is limited to the maximum of 100% of Tier 1 capital. (BCBS, 2004, p. 12)
Tier 1 Capital

The Basel agreements divided capital in two tiers, where Tier 1 capital is the capital that is considered safe. According to the Basel agreements, banks capital requirements need to consist of a minimum amount of Tier 1 capital. The Basel 1 agreement (BCBS, 1988, p. 17) defines Tier 1 capital to include:

- Permanent shareholders equity
- Disclosed reserves (retained earnings and other surplus)

Tier 2 Capital

This capital can be considered as supplementary capital, it is not considered as safe as Tier 1 capital. Therefore the Basel agreements limits Tier 2 capital to a specified amount of the total capital requirements. According to Basel 1 (BCBS, 1988, p. 17), Tier 2 capital is comprised of:

- Undisclosed reserves
- Asset revaluation reserves
- General provisions/general loan-loss reserves
- Hybrid (debt/equity) capital instruments
- Subordinated debt
2. THEORETICAL METHODOLOGY
In this chapter we will present and discuss our pre-understanding as well as our research perspective and methodological philosophy, strategy and approach. We will also provide a discussion about our secondary sources and our criticism of sources. All of this is done to show the effect these variables have on our study.

2.1 Pre-Understanding
All researchers are affected by their past experiences in life, these experiences may affect the process of conducting research. The past experiences can be gained through personal experiences, orientation of studies, social background and viewpoints (Johansson Lindfors, 1993, pp. 25-26, 76). Bryman and Bell (2007, p. 30) mentions that pre-understanding will influence what the researcher sees and how the researcher interprets these things. We are aware that this can affect the quality of the research, and our aim is to remain objective and not let our pre-understanding interfere with our results. However by stating our previous experiences and knowledge we try to give the reader an understanding of the effects it can have on our research.

One of the biggest influences on our view of the research problems stem from our previous educational background. We are both students at the International Business Program at Umeå School of Business, both of us have studied abroad at Grenoble Ecole de Management and our main subject is finance. One of us have taken finance courses on C level, one of us have been abroad doing an internship at C level and both of us have taken D level financial management courses. In these courses we have come in contact with financial risk management on several occasions and we have gained an overall understanding on the subject. The fact that we do have a basic knowledge in the subject we are investigating may have an impact on the theories we have chosen to use, we have however conducted a thorough literature review to decrease our dependency on our previous knowledge. These experiences may still have an effect on how we interpret the results, how we construct our questions and why we see this research problem as interesting.

Further, influences come from our social background and previous work experience. Both of us are born and raised in the northern part of Sweden and we have close personal contacts with bank professionals at one of the banks investigated. This may have an effect on our knowledge about the bank in question and this may further have influenced our standpoint about the bank and it may cloud our objectivity. Lastly one of us have work experience from another bank investigates, and this might have an effect on how he interpret the results due to his knowledge and his standpoint about the bank.

We are aware of these pre-understandings and therefore it is important that the reader is provided with the pre-understanding since they may affect our study in the matters mentioned in the previous paragraphs. Therefore the risks from these pre-understandings are that they may affect our analysis and the result. We are conducting a comparative case study and our previous experience and knowledge about some of the banks may affect how we portray these banks. However, since we are aware of these pre-understandings we will do our best to exclude them from our analysis and be as objective and value free as possible.
2.2 Research Perspective
The problem we are researching can be viewed from several different perspectives. Therefore it is important to clarify our perspective so that the reader gets a deeper understanding of our view. One can view the bank's risk management from the investor, the bank itself and from the customer’s point of view. We will highlight the problem from the banks point of view. We argue that this is important for the banks, mainly because recent events in the financial market have been in the spotlight and many of these events are concerning internal control, new hedging instruments and financial crises (Jawadi, 2010, pp. 1019-1020). Therefore our study of centralization and risk management can be of importance for banks on the organizational level, where they can use our study to enhance their organizational structure.

2.3 Research Philosophy
Research philosophy is generally divided into epistemology and ontology, where epistemology is what is or should be regarded as acceptable knowledge and ontology concerns the nature of social entities (Bryman and Bell, 2007, pp. 16, 22). It is crucial to take a philosophical standpoint in how knowledge is viewed when conducting a research. The research philosophy that is adopted contains important information for the continuation of the thesis about our view of the world (Saunders, et al., 2009, pp. 107-108).

Due to the scope of this study and the formulation of the research questions, the pragmatists view is important to consider in the following discussion regarding epistemology and ontology. According to Saunders et al. (2009, p. 109) a pragmatist argues that the research question is the most important determinant of what philosophical standpoints that are appropriate for a particular study. In addition Saunders et al. (2009, p. 109) argue that if the research question not clearly indicates what philosophical standpoint that is most appropriate it is possible to work with variations in epistemology and ontology. The discussion about pragmatism will be outlined further in the following sections regarding epistemology and ontology.

2.3.1 Epistemology
Epistemology concerns what is or should be regarded as acceptable knowledge in a discipline and it is possible to view the epistemological considerations in two main positions: Positivism and interpretivism (Bryman and Bell, 2007, pp. 16-21; Saunders et al., 2009, pp. 112-116). Saunders, et al. (2009, pp. 112-113) explains the difference between an interpretivist and a positivist in that a positivist would view the research from an interpretivist as a social phenomenon with no external reality. Easterby-Smith et al. (2002, p. 28) further adds that a positivist argues that the social world exist externally. It is of crucial nature to enlighten the reader that the difference between positivism and interpretivism is not black or white (Easterby-Smith et al., 2002, p. 28). We agree with this standpoint and highlight the fact that the most important aspect when conducting research is to answer the research question as thoroughly as possible, indicating that we accept both positivism and interpretivism as acceptable views in accordance with the pragmatists view as presented by Saunders et al. (2009, p. 109, 119).

Our research questions are formulated in such a way that the most logical way of collecting information is through interviews. To answer our research questions we need
to collect a large amount of information that covers a wide variety of areas, indicating that the best way to acquire this information is through interviews (Saunders et al. 2009, p. 119) since it could be hard to gain access to a large amount of people with the necessary knowledge to cover all areas investigated e.g. use a questionnaire. To further enhance the quality of the information collected from interviews it could be appropriate to complement with facts from e.g. the annual reports, something we intended to do but we had to exclude this triangulation (Bryman and Bell, 2007, p. 59) due to reasons of anonymity. The fact that we intended to use both annual reports and interviews suggest that we accept both the positivist view and the interpretivists view of what is acceptable knowledge in a discipline underlining the fact that we relate to the pragmatic view as presented in Saunders et al. (2009, p. 109, 119). However since we had to exclude the annual reports from our research and only rely on interviews suggests that a view that is mainly interpretative is the most appropriate to answer our research questions.

Below In Table 1, developed from Easterby-Smith et al. (2002, pp. 28-31), we present an outline of the main features of a study with a positivist’s standpoint and a study with the interpretative standpoint of social constructionism. To show clearly that we are pragmatic with more influences from interpretivism we highlight what we believe is applicable to our study.

<table>
<thead>
<tr>
<th></th>
<th>Positivism</th>
<th>Social Constructionism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Observer</strong></td>
<td>Must be independent</td>
<td>Is part of what is being observed</td>
</tr>
<tr>
<td><strong>Human Interests</strong></td>
<td>Should be irrelevant</td>
<td>Are the main drivers of science</td>
</tr>
<tr>
<td><strong>Explanations</strong></td>
<td>Must demonstrate causality</td>
<td>Aim to increase general understanding of the situation</td>
</tr>
<tr>
<td><strong>Research progresses through</strong></td>
<td>Hypotheses and deductions</td>
<td>Gathering rich data from which ideas are induced</td>
</tr>
<tr>
<td><strong>Concepts</strong></td>
<td>Need to be operationalized so that they can be measured</td>
<td>Should incorporate stakeholder perspectives</td>
</tr>
<tr>
<td><strong>Units of analysis</strong></td>
<td>Should be reduced to simplest terms</td>
<td>May include the complexity of whole situations</td>
</tr>
<tr>
<td><strong>Sampling requires</strong></td>
<td>Large numbers selected randomly</td>
<td>Small number of cases chosen for specific reasons</td>
</tr>
</tbody>
</table>

As seen in Table 1 we, as observers are a part of what is being observed since we are conducting interviews, however our aim is to let the interviewers speak freely without too much intervention. Regarding human interest we do not relate fully to any of the extreme views. Human interests are interesting but they are not the main drivers of our study, on the questions were it is appropriate to exclude human interests we do so. Regarding explanations we both want to explain cause and effect and increase the general understanding, this is strengthened by our purpose. To be able to gather information for our findings we will, based on theory deduct questions for an interview-guide, testing the theories, not developing new ones. Regarding concepts, we operationalized these to be able to test and measure them but we also include the
perspective of our interviewees since we let them speak freely and let them show their perspective, indicating that we analyze our findings by including complexity of whole situations. The most appropriate way to sample in our study is to select a small number of participants due to their explicit knowledge in the area, not randomly selected since our respondents are required to have particular knowledge in the field.

Taking all the above argumentation into consideration we cannot say that we are one hundred percent positivists or interpretivists, and as argued in Easterby-Smith et al. (2002, p. 28) not even an extremist can agree with all assumptions and methodological implications associated with one position. However, based on the above discussion it becomes clear that to answer our research question in the best way possible it is most appropriate to be mostly influenced by the interpretative view of what constitutes acceptable knowledge.

2.3.2 Ontology
According to Johansson Lindfors (1993, p. 34) and Hart (2003, p. 82), ontology deals with the assumptions the researcher has regarding how the world and the entities in it function. There are two main viewpoints in the field of ontology, these are objectivism and constructionism/subjectivism, and there are one main question that need to be answered and that is whether social entities should be regarded as objective and have a reality external to social actors or if they should be regarded as constructions built up from the perception of social actors (Bryman and Bell, 2007, p. 22).

In short an objectivist argues that the organization is not dependent on the people inside since they need to follow standardized procedures and since they need to learn how to follow the rules and the mission of the organization (Bryman and Bell, 2007, p. 22). Further an objectivist argues that it is possible to understand the organization from an external viewpoint and that the organization is built on consistent structures and real processes (Bryman and Bell, 2007, p. 25). The alternative to objectivism is constructionism, which states that the individual has an active role in the making of social reality, and also that social phenomenon is under a constant state of revision (Bryman and Bell, 2007, pp. 23, 24). Further a subjectivist argues that an organization is socially constructed and that it therefore only can be understood of the people inside it (Bryman and Bell, 2007, pp. 25-26). Here we argue that these viewpoints are extreme and we mean that it is possible to get an understanding of how an organization works from the outside, but to get a deep, comprehensive understanding you need to talk to people inside the organization.

As argued in the epistemological part our main focus is to answer the research question as thorough as possible and therefore we see ourselves as pragmatists. This means that the view we have is the best to help us answer our research question (Saunders et al., 119). Therefore it is not completely clear if we prescribe to the ontological view of objectivism or the one of constructionism/subjectivism. Nevertheless as the discussion below will outline, we prescribe more to the ontological view of objectivism since our research question is outlined in such a way as it is best answered using an objectivists view on reality.
As Johansson-Lindfors (1993, p. 39) mentions, it is possible to get an understanding of how the researchers view reality by looking at the research questions. Our research questions follows below:

- How does the financial risk management structure look like at three major Swedish banks?
- How are the banks approach to financial risk management affected by how decentralized their organizations are, and what effect does the increasingly stringent rules in the financial community have on the structure of the organization and its risk management?

These research questions suggests that we look at the reality mainly with an objective view since the questions mainly emphasizes the formal properties of the organization, meaning that the organization is an objective social entity that act on its individuals (Bryman and Bell, 2007, p. 25). Further, banks are highly regulated and restricted in their line of business indicating that management has to adhere to the rules and that the personal aspects is less important. This suggests that banks are not dependent on actions of specific social actors and therefore the constructivist/subjectivist approach would not apply very well in this type of organization. (Saunders et al., 2009, pp. 110-111) The fact that we are conducting interviews even though we do not believe that management has any major effect on the organization is because the wide scope of the study and we need the broad knowledge of key people, even though we do not believe that these key people have any major effect on the organization itself.

Bryman and Bell (2007, pp. 28-29) mentions that constructionism is in large associated with qualitative research and objectivism with quantitative research. But Bryman and Bell (2007, p. 29) also mention that it is possible to have an objective view when conducting a qualitative study, it all depends on what is investigated and how it is analyzed and what findings that can be drawn from it. Again based on our research question we do not believe that the individual managers play a large role in the structure of the organization, rather we believe that it is the organization and the rules they need to adhere to that play the largest role.

Table 2 – Pragmatic view comparison (developed from Saunders et al., 2009 p. 119)

<table>
<thead>
<tr>
<th>Epistemology</th>
<th>Positivism</th>
<th>Interpretivism</th>
<th>Pragmatism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology</strong></td>
<td>External, objective and independent of social actors</td>
<td>Socially constructed, subjective, may change, multiple</td>
<td>External or multiple, view chosen to best enable answering of research question</td>
</tr>
<tr>
<td><strong>Epistemology</strong></td>
<td>Only observable phenomena can provide credible data, facts. Focus on causality and generalizations, reducing phenomena to simplest elements</td>
<td>Subjective meanings and social phenomena. Focus upon the details of situation, a reality behind these details, subjective meanings motivating actions</td>
<td>Both observable phenomena and subjective meanings can provide acceptable knowledge dependent upon the research question. Integrating different perspectives to help interpret the data</td>
</tr>
</tbody>
</table>
As previously stated our research philosophy is pragmatism and how we perceive reality is dependent on the formulation of our research question. Regarding the ontology, we believe that our research question is formulated in a way suggesting that we perceive reality independent of social actors (Saunders et al., 2009, p. 110). Seen above in Table 2 is a clarification, comparing the pragmatic view to the more traditional views of interpretivism and positivism. Our views are provided in bold and italics.

2.4 Research Approach
There are two general research approaches; it is the deductive approach that bases the empirical findings on theory and the inductive approach that uses the empirical findings to generate theory (Johansson Lindfors, 1993, p. 55). We argue that we are using a deductive approach since we are combining two already existing theoretical concepts, within risk management and organizational structure in combination with rules and regulations as a base for our findings and our analysis. The fact that we are starting with theories exclude the possibility to conduct an inductive study, since the theory is supposed to be the product of the empirical findings in that case (Johansson Lindfors, 1993, pp. 57-59).

The general approach to conduct a deductive study is to use theory to deduct testable hypotheses, testing them and analyzing the outcome, and thereafter showing a relationship or revise the theories (Saunders, et al., 2009, pp. 124-125). However we will not deduct any hypotheses from our theory, the fact that we are conducting a qualitative study with few respondents makes us unable to generalize our findings and the use of hypotheses is thereby diminished (Saunders, et al., 2009, p. 125).

In this deductive thesis we will instead revise the general approach to the deductive study by removing the testing of hypothesis and instead use the theory to generate broad categories within the extensively explored subjects of risk management, centralization and financial rules, a conceptual framework. We will provide a discussion about each individual concept and later combine these concepts in what can be thought of as a hypothesis but it is rather an assumption. We will collect data for our investigation by using a semi-structured interview and analyze our findings and hopefully we will be able to combine these subjects to prove or revise the fact that most people believe that centralization means better control.

2.5 Research Strategy
According to Saunders et al. (2009, p. 151) there are two major strategies to use when conducting research; one can either use a quantitative strategy, collecting large amounts of numerical data, or a qualitative strategy, collecting more in depth information.

As mentioned previously in this chapter our research strategy is qualitative, we are going to collect in depth information using a limited number of interviews. We will not
conduct a quantitative study due to the fact that the scope of our study is so wide making it hard to collect a sufficiently large amount of data to be able to generalize the findings (Easterby-Smith et al., 2002, p. 29). Due to the scope of our study and the fact that some of the issues investigated are of an interpretivistic nature the best way to approach our problem is by a semi structured interview and a qualitative strategy (Bryman and Bell, 2007, p. 28).

As mentioned earlier our aim of the study is not to investigate human behavior connected to qualitative studies. Our main data in this study, we argue, is to a large extent data that is not dependent on the actors within the organization, rather it is the organization itself and its structure that affect the outcome (Saunders et al., 2009, p. 110). Since we mainly have this ontological view of objectivism and deduct our research question from theory it suggests that we should use a quantitative research strategy (Bryman and Bell, 2007, p. 28). However, as already mentioned the most important aspect affecting our choice of research strategy is the wide, in depth scope of the study, suggesting that only a few people in each organization has the necessary knowledge to answer all our questions, making us choose to conduct a study with a qualitative research strategy (Saunders et al., 2009, p. 119). Further, Johansson Lindfors (1993, p. 72) argues that the research approaches are seldom black or white, and either a qualitative or quantitative study can be undertaken regardless of choice of research approach and philosophical standpoints, validating our choice to use a qualitative strategy.

2.6 Research Design
Since our research is aimed at analyzing three full product range banks in Sweden we will look at each individual bank as a single case. Therefore there are a couple of research designs that need to be highlighted in this chapter: a cross sectional, a case study, and a comparative design. (Bryman and Bell, 2007, pp. 55-59, 62-70)

A case study is often conducted in depth in a single organization. The cross sectional design means that one gathers data on several cases and then compares these cases in search for patterns, while the comparative design combines these two methods for a more in depth comparison between the different cases. Considering the fact that we are analyzing three different banks through cases and plan to compare and look at the causality of the result, the design best suited for our study is a comparative case study. (Bryman and Bell, 2007, pp. 55, 62, 66)

2.7 Secondary Sources
Throughout this thesis we have used both primary and secondary sources to gatherer information to our theoretical frame of reference. Since most of our sources used are secondary it is important to evaluate the quality of them. Concerning the secondary sources we have used scientific articles, web pages, ordinary books and some publications and newspaper articles. We decided to mostly use scientific articles since, of the sources presented above, they can be perceived as the source of the highest academic quality.

There are a couple of different databases to use when searching for scientific articles but we decided to mainly use the database Business Source Premier (EBSCO) since it is provided via Umeå University library’s homepage and therefore also often used in
academic writing. Bryman and Bell (2007, p. 112) emphasizes the importance of using key words when searching for articles and suggests that it is important to use key words and not sentences and further that it may be important to try alternative spelling. When searching for articles typical keywords have been: Risk management, financial risk, internal control, centralization, decentralization, organizational structure, credit risk, market risk, operational risk, liquidity risk and bank etcetera. We have used alternative spelling on words such as organization and centralization, where it is possible to use an S instead of Z. To build our theoretical framework we have as extensively as possible used articles from well-known authors such as Antony M Santomero. Further if an article was not provided as a full-text document in Business Source Premier we used Google scholar, if applicable, to find these articles. We have spent many man-hours searching for relevant articles and the approach we generally used was to scan relevant articles and look in their reference list to see what references they used. This is the way to find the original source and therefore also the most reliable theories. This is emphasized by Johansson-Lindfors (1993, pp. 88-89) who argues that it is important to use the original source to avoid misinterpretation. Further, where applicable we have also tried to use independent sources with as small gap as possible between the event and the telling about the event (Thurén, 1997, p. 11), this was done to avoid that there has been misinterpretation because of the difference in time between the event and the article.

When introducing organizations such as the Bank of International Settlement, the Basel Committee and Finansinspektionen we have used web pages. Webpages may not be considered as sources of high academic quality and therefore it is important to evaluate if the information found on them are useful (Bryman and Bell, 2007, p. 109). Nevertheless to find basic information about an organization, their web page is generally the best source to use and for example the Bank of International Settlements and the Basel Committee are .org sites meaning that they are non-commercial organizations (Bryman and Bell, 2007, p. 109). In addition when writing about regulations, which these organizations provide, we have used publications from the regulating body and from the Basel committee. We have done this since the information given through their publications must be considered to be the most reliable information since it is the original source; again this is emphasized by Johnsson-Lindfrors (1993, pp. 88-89) who argues that it is important to use the original source to avoid misinterpretations. To evaluate the effect of the rules and regulations and to find some relevant critiques against them, we have used scientific articles. In addition in some rare cases we have used newspaper articles from Dagens Industri, The Economist and The Financial Times. This is merely done in some rare cases where scientific articles are not provided to a great extent as in very new events or where we want to emphasize some special things.

Lastly we have also used research methodology literature and financial course literature. Regarding research methodology we consider the literature to be highly reliable and useful since complete books, written by well-known authors such as Saunders et al., 2009, Bryman and Bell, 2007, Lincoln and Guba, 1985 and Easterby-Smith et al., 2002 should be considered reliable. This is enhanced since when reading their books it is possible to see that the authors refer to each other, which should indicate that they perceive each other as reliable. In addition we have used financial course literature to a small degree to explain basic concepts since in most scientific articles the most basic explanation of the concepts are not provided.
2.8 Criticism of Sources
To be able to evaluate the sources used in this thesis and make sure that they are of sufficient quality, we will use the criteria presented by Thurén (1997, p. 11) of authenticity, time frame, independence and tendency freedom.

Thurén (1997, p. 12) argue that it is important that the source is not a falsification that the source is what it argues to be, that it is authentic. Further Thurén (1997, p. 12) argues that it can be hard to understand what is a falsification and what is authentic and that it is quite common with people who improve the results of their study. To make sure that the sources used in our thesis are authentic we have as extensively as possible used scientific articles found at Business Source Premier (EBSCO) since it gives access to full-text documents from key business and management journals such as the Harvard Business Review (Bryman and Bell, 2007, p. 108). It can be argued that these sources are of high academic quality since they are scientific and published articles. Still we need to be critical to these sources. Therefore where applicable we have used multiple sources (Thurén, 1997, p. 25) either to strengthen or to provide a counter argument to the particular source and to get a more comprehensive understanding of the concept at hand. Because of this, we argue that it is hard to understand if the sources used in our study are authentic but that we have taken the necessary steps to minimize the possibility of a falsified source being used by using multiple sources and sources of high academic quality.

The second criteria used to evaluate the sources are the time frame. Here it is important that it is not a long time from the event to the telling about the event and the rule is that the more contemporary the source is the better (Thurén, 1997, p. 26). Thurén (1997, p. 26) also argues that the more detailed knowledge one is looking for the more important is the time frame. In order to make sure that the sources used are regarded as high quality sources in relation to the concept of time frame, we have used sources as close to the event as possible (Thurén, p. 26). For example when explaining the development of the Basel agreements, we have used the relevant publications to that particular agreement. Further, we have also tried to use original sources as extensively as possible since they always are closest to the actual event and as Johansson-Lindfors (1993, pp. 88-89) argue it is important to use the original source and not a secondary interpretation of that specific source since this decreases the possibility of misinterpretations. If we apply this to our thesis, we have for example used the interpretation of Harry Markowitz (1952) to explain the concept of diversification, which is viewed as the modern interpretation of diversification.

Further Thurén (1997, p. 34) argue that it is important that the source is independent, that someone else does not influence the one providing the information. Thurén (1997, p. 34) further argue that there is a difference of the original source and the secondary referenced source and that the main rule is that the original source is more reliable. In addition Johansson-Lindfors (1993, pp. 88-89) argue that it is important to use the original source since there is a possibility of that the secondary reference has misinterpreted the original authors intent with the information. Thurén (1997, p. 49) further argue that a statement can be considered as true if it is confirmed by at least two independent sources. As previously argued, we have tried to use the original sources as frequently as possible and when we have not found the original sources we have tried to
use multiple sources to strengthen our arguments. From the reference list in the article it is possible to see where the author has collected information and therefore it is also possible to see if the author is independent from the source at hand. As far as possible we have tried to use independent sources, but as mentioned earlier to find relevant articles we have scanned the reference list of other articles suggesting that the articles used may in some cases be slightly dependent.

The last evaluation criterion is the tendency freedom. Thurén (1997, p. 63) argue that when the part propagating the information is part of the case it is valid to think that this person is propagating for its own interests and not for the actual truth. Therefore, Thurén (1997, p. 63) argue that official messages often are classified as sources of very low quality. Saunders et al. (2009, p. 64) argue that it is important that the source is objective but also stresses that there are very few authors that are completely value free. In our thesis we have tried to exclude secondary sources that are part of the case as far as possible. Nevertheless when describing rules and regulations we have used the publications from the regulating bodies and from the Basel Committee. All these sources are part of the actual case but since these sources concerns rules, regulations and how they are implemented one can assume that they are completely tendency free.

2.9 Theoretical Departures

In our theoretical frame of reference, which will be presented in the next chapter, we will examine the theoretical concepts we find most relevant to our study, to help the reader understand our problem and purpose. Since we aim to investigate the effect the degree of centralization has on financial risk management and how rules affect centralization, we will have four major theoretical areas of focus, rules and regulations, financial risks, financial risk management, and organizational structure.

We will start the chapter by introducing the rules and regulations that limit how banks handle risk management. This is mainly done through an examination of the Basel agreements, we will also have some focus on the Swedish laws and regulating bodies, but since the Basel agreement is incorporated into Swedish law we will only have a minor focus on the Swedish law. The reason of why we want to incorporate Basel in our theoretical frame of reference is that we want to show how these international agreements affect the operations of the Swedish banks. Further, this is important since we are going to investigate if the more stringent rules and regulations on the banks have an affect on the organizational structure of these banks.

After the rules and regulations, we will introduce the financial risks we find to have the largest impact on the Swedish banks we are investigating. After that we will look at how banks can manage these risks and the instruments and methods most commonly used to manage them. We introduce these risks and the management of them since the core subject of this thesis is how rules, regulations and organizational structure affect the financial risk management. Therefore to be able to do a thorough analysis an introduction to these risks and the management of them is important.

Lastly we will also go through the different organizational structures, horizontal and vertical, and we will present the relating subjects of centralization and decentralization. This is done to show the effects the type of organizational structure can have on the risk management structure.
3. THEORETICAL FRAME OF REFERENCE

In this chapter we will introduce the most important theories and concepts for our study. Our focus will be on the Basel agreements, the most important financial risks and how to manage them and lastly on the concepts of centralization and decentralization. Our intention with this chapter is to provide the theoretical basis for the future analysis.

3.1 Rules and Regulations

3.1.1 The Basel Agreements

The Bank of International Settlements (BIS) is one of the world’s oldest international financial organizations with head office in Basel, Switzerland. The main responsibilities consist of acting as a bank for the central banks, to serve central banks and foster international cooperation (BIS, 2012a). The Basel Committee on Banking Supervision (BCBS) has its secretariat located at the BIS and the BCBS is the committee behind the Basel agreements (BIS, 2012d). The BCBS consist of representatives from a large number of member states and among them Sweden (BIS, 2012b).

The main objective of the Basel Committee is to enhance the understanding of some key supervisory issues and to improve the quality, worldwide, of supervision of banks (BIS, 2012b). At this moment the Basel Committee have formulated three main agreements, Basel 1 (1988), Basel 2 (2004) and Basel 3 (2010), in addition smaller amendments have been done to the outdated agreements before a new agreement has been worked out (BIS, 2012c; BIS, 2012d). A new agreement is worked out when the previous gets outdated through changes in the banking environment, for an example the global financial crisis during 2008-09 led to the creation of the Basel 3 agreement (BCBS, 2010 p. 1-2). The Basel agreements are only recommendations since the committee does not possess any formal supranational authority (BIS, 2012d). Rather it is the member-states that need to take appropriate adoption procedures in their respective countries to make the recommendations applicable in law (BCBS, 2004, p. 1).
The EU implemented the first two Basel agreements and Basel 2 was implemented as law in the EU member-states in 2007 (Holmquist, 2007, pp. 6-7).

3.1.2 Basel 1
The Basel 1 agreement was created in 1988 to make sure that regulations regarding capital adequacy of international banks were converged on an international basis (BCBS, 1988, p. 1). The main objective with Basel 1 was to stabilize the international banking system. To decrease the competitive inequality between international banks in different countries Basel 1 was also intended to be in fair and have a high consistency in its application to banks in different countries (BCBS, 1988, p. 1).

The Basel 1 framework mostly dealt with credit risk and it set a minimum capital requirement for banks but if the national authorities felt it to be necessary they were able to adopt more stringent requirements (BSCBS, 1988, p. 2). In addition to capital requirements, the Basel 1 framework limits the banks individual exposure to one specific non-bank borrower to a maximum of 25% of the banks capital (BCBC, 1999, p. 24). Basel 1 defined capital into two categories (BSCBS, 1988, pp. 3-4):

- Tier 1 capital – Core capital
- Tier 2 capital – Supplementary Capital

The banks capital adequacy was based on a weighted risk ratio (RWA) where capital related to different asset classes was weighted in relation to their level of risk, using five different levels of standardized risk weights (BSCBS, 1988, p. 8). The ratio of capital to RWA should according to Basel 1 be at least 8% and 50% of that need to be tier 1 capital (BSCBS, 1988, pp. 4, 14).

3.1.3 Basel 2
Basel 2 was developed with the objective to further strengthen the international banking system and with the belief that banks would adopt stronger risk management policies (BSCBS, 2004, p. 2). Basel 2 was agreed upon in 2004 and was expected to be able to be implemented at year-end 2007 (BSCBS, 2004, p. 1), but the Basel agreements are only guidelines and some member states are still to implement the Basel 2 agreement (BIS, 2012e). Further Basel 2 is based on three pillars: minimum capital requirements, supervisory review and market discipline (BSCBS, 2004, p. 2). We will now in turn present the three pillars.

<table>
<thead>
<tr>
<th>Basel II three pillars</th>
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</thead>
<tbody>
<tr>
<td><strong>Pillar 1</strong></td>
</tr>
<tr>
<td>Minimum capital requirements</td>
</tr>
<tr>
<td>• Operational risk</td>
</tr>
<tr>
<td>• Market risk</td>
</tr>
<tr>
<td>• Credit risk</td>
</tr>
<tr>
<td>Supervisory review</td>
</tr>
<tr>
<td>Market discipline</td>
</tr>
</tbody>
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Figure 3 - The three pillars of Basel 2 (developed from BCBS, 2004, p. 6)
Pillar 1 - Minimum capital requirements

The minimum capital requirement in Basel 2 states that the capital ratio can be no lower than 8% and that 50% of those need to be Tier 1 capital. The main difference from the requirement in Basel 1 is that the capital requirement in Basel 2 is based on credit, market and operational risk, not only credit risk. (BCBS, 2004, p. 12)

In the calculation of capital requirements for credit risk the bank is allowed to choose between two approaches: The standardized approach and the internal ratings based approach (BCBS, 2004, pp. 6, 15). In the standardized approach the bank is determining risk weights to the different parts of the book exposure. The risk weights given to the different assets are based on the particular assets credit rating and in determining this, the bank may use assessments from external credit assessment institutions (BCBS, 2004, p. 15). In the Internal ratings based approach the risk weights are determined relying on the banks own internal estimates of risk and to use this approach the bank need to have received a certain approval (BCBS, 2004, p. 48). A bank that want to use the IRB approach need to fulfill several requirements, among these the bank need to have an appropriate risk-sensitive internal rating system. The bank also needs to have facilities that capture characteristics of borrowers and default information. In addition the bank need to have appropriate corporate governance and internal control, a modeling and capital estimation process that is embedded into the day-to-day operations. Lastly the bank needs to have a validation and testing procedure. (Yeh, et al., 2005, p. 9)

In the Basel 2 agreement the Basel committee provides two broad models to calculate the capital charge for market risk: the standardized measurement method and the internal models approach (BCBS, 2006, pp. 166, 191). The standardized framework in turn, provides two methods for calculating the capital charge of market risk: the maturity method and the duration method (BCBS, 2006, p. 170). In contrast to the standardized method, a bank need approval from the supervisory authority to be able to use the internal model approach, to get this approval a bank need to fulfill specific requirements concerning risk management, staff, models, stress tests etc. (BCBS, 2006, p. 191). Banks need to calculate VaR on a daily basis, using a one tailed confidence interval in the 99th percentile with a minimum holding period of 10 days, further the use of the internal models approach requires the bank to have a comprehensive stress testing program in place (BCBS, 2006, pp. 195, 197).

Operational risk capital charges are measured using different approaches such as the Basic Indicator Approach (BIA), the Standardized Approach and the Advanced Measurement Approach (AMA). Banks that operate internationally are expected to use a more advanced measurement than the BIA, therefore this suggests that all banks investigated in this thesis should use for example the AMA (BCBS, 2004, p. 137).

Pillar 2 - Supervisory review

The second pillar provides supervisors with key principles of supervisory review (BCBS, 2004, p. 159). It is also intended to make sure that banks have enough capital to meet all their risks and to enhance the risk management techniques within the bank. If the supervisor feels that the bank is not assessing their capital need in a satisfying way the supervisor is authorized to intervene. This is intended to create a dialogue between the supervisors and the banks (BCBS, 2004, p. 158). Further the supervisory review process addresses specific issues such as key risks not directly addressed under pillar 1 (BCBS, 2004, p. 165).
Pillar 3 - Market discipline

The Basel committee aim to achieve market discipline by the development of certain disclosure requirements. These requirements will make it possible for market participants and supervisors to assess for example the key risks in the banks and evaluate the banks accordingly (BCBS, 2004, p. 175). The disclosure requirements are quite extensive and for each individual risk area the bank need to describe their objectives and policies in depth (BCBS, 2004, p. 181).

3.1.4 Basel 3

The Basel 3 accord is the last of the Basel accords so far and was created in 2010. The revisions of Basel 3 still will not come into effect for a number of years; the changes will be implemented in phases starting in 2013 and supposed to be in full effect in January 2019 (BCBS, 2010 pp. 27, 60, 63). Like Basel 2 the aim is to update the previous accord to make it more in line with the current economic and banking climate (BCBS, 2010 pp. 1-2). With the economic crisis of 2007-2008 in the rearview mirror there was a need to address the factors that lead to the crisis. The Basel 3 agreement builds on the three pillars of the Basel 2 framework concerning the regulation of capital and expands their scope to cover the failures in the market that were revealed during the crisis. (BCBS, 2010 pp. 1-2) The main adjustments in the regulatory framework that make up Basel 3 concerns:

- **Improved capital base and transparency:** Tier 1 capital is redefined as only common equity and retained earnings, to ease comparison between organizations and remove inconsistencies (BCBS, 2010 p. 2, 13-17). Further requirements on tier 1 capital are to be increased to always have a minimum level of at least 6% of risk weighted capital while total capital requirements remain at 8% of the risk weighted capital (BCBS, 2010 pp. 12-13). To further enhance transparency banks are required to disclose information about capital instruments used and current capital ratios (BCBS, 2010 p. 27).

- **Capital conservation:** A buffer of capital of 2.5% above minimum capital requirements is to be built up during periods without financial stress. A buffer that can be decreased in times of stress, absorbing parts of the impact of a crisis to the banking sector (BCBS, 2010 pp. 54-55). When rebuilding the buffer banks are restricted in depleting their capital in form of dividend and payments to creditors until the buffer is restored to the correct level (BCBS, 2010 p. 55).

- **Reducing procyclicality:** A counter-cyclical buffer is to be implemented to offset the systemic risks in the banking sector that arises from banks having the same economic cycles and the fact that banks and other financial institutions are so interconnected. The buffer will between 0 and 2.5% of the total risk weighted assets and aimed to increase the strength of the banking sector in good times to ensure that banks act as shock absorbers instead of transmitters of risk as during crisis situations (BCBS, 2010 pp. 5, 57-58).

- **Limiting leverage:** Seeks to limit banks in their leverage structure; during the crisis banks had built up big off-balance sheet leverage, therefore giving a skewed picture of the bank's risk level. This is limited in the Basel 3 agreement
through a leverage restriction and a simpler, uniform ratio to calculate leverage to supplement capital requirements as a risk measure (BCBS, 2010 pp. 60-61).

- **Limiting liquidity levels:** A standard for liquidity and supervision of liquidity. This is done to make sure banks hold a minimum level of liquidity and avoid liquidity-crunches in the short run and give banks incentives to invest in stable assets in the long run (BCBS, 2010 pp. 8-9).

### 3.1.5 Effect and Critique of the Basel Agreement

![Figure 4 The development of the Basel agreements (developed from BCBS, 1988, 2004, 2010)](image)

The Basel agreements do not only affect the financial institutions they also affects the customers and borrowers since the indirect effects from the new agreements have an influence on the interest rates on different types of loans (FI, 2005, p. 1). If for example the banks need to increase their capital buffer before a certain date, they need to alter their strategy so that they can save more money, an example of this could be to increase the spread between the borrowing and the lending rate.

As the minimum capital requirements increases and incorporates more risks and the risk management systems in the banks go through more rigid controls the most obvious effect from Basel is that the general risk for bankruptcy and bank crises decreases as the Basel agreements becomes more rigid (BCBS, 2010). Regulations such as the Basel agreements are central parts in controlling risks; OECD (2010, pp. 121, 136-138) argues that these kinds of rules are the first line of defense in managing risks. However they also argue that the Basel agreements should be implemented faster since, during an implementation period of up to 10 years new problems will have risen rendering the agreement obsolete when it is implemented in its entirety (OECD, 2010, pp. 136-137). Kaplan et al. (2009, p. 74) also mentions in their article “Managing risk in the new world” that regulators will always lag behind innovation of new instruments and risks. Further indicating that the regulations being agreed upon now will likely be obsolete when being implemented in their entirety.

Looking at Figure 5 below it shows the effect from the development of the Basel agreements from Basel 1 to Basel 2 regarding corporate loans. In Basel 1 the risk sensitivity of the capital requirements were non-existent since the banks followed a standardized approach. During Basel 2 we can clearly see that the risk sensitivity has increased and if the banks use the Internal Ratings Based approach (IRB) we can see
that it is the most risk sensitive approach. If we apply this in practice it is possible to say that a bank that holds a healthy portfolio and customers with good ratings will benefit from the adoption of the IRB method. (Yeh, et al., 2005, p. 9)

Santomero mention in his article “process and progress in risk management” from 2003 that one common complaint about Basel II is that it is too complex. Further he provides two other common critiques, that Basel II may be too extensive and that it makes bank regulators into bank managers and that some bankers question whether the regulators have the necessary knowledge to assess the quality of the banks systems (Santomero, 2003, p. 3). Since the Basel agreements develop towards a more extensive regulation the above critiques can be legitimate. An extensive regulation that hampers the managers’ room to decide about the operations of their bank can cause the bank manager to loose motivation and put out their fire for developing the bank. Finansinspektionen (2005) stresses this issue by mentioning that the internal capital adequacy process should be a subject for the board of directors and top management and that it is their work that should be passed through the organization (FI, 2005, p. 12).

One of the most common and up to date critiques against the Basel accords is regarding the risk weights and capital requirements. Banks are required to hold specific percentages of capital against different types of investments, 8% against business loans, 4% against mortgages, but 0% against government debts. This low risk weight for government debts could be understandable for stable economies, but this applies to all government debt, including Greece, that is on the verge of bankruptcy (Forbes, 2012).

Looking at Figure 6 below you can see the yield on a 10 year government bond from Greece and from Sweden, the difference between them in yield show there is a clear difference in risk between them, giving an understanding to the critique against them both having zero as risk weight.
Further, according to Hintze (2012 pp. 8, 28), European banks will be more affected by Basel 3 than American banks since they hold more Asset Backed Securities (ABS) in their portfolios. Hintze (2012, p. 28) also argues that Basel 3 adds some capital requirement twists to Basel 2 and that it institutes new liquidity ratio requirements. These new requirements in combination with changes in how Tier 1 capital is calculated will affect low grade ABS negatively. This also means that since the banks will not invest in low grade ABS the risk will be positively affected (lower risk), due to banks not being as keen on investing in low graded assets as previously. (Hintze, 2012, p. 28)

3.1.6 Swedish Regulations

Swedish banks need to follow the rules and regulations that are introduced by the Swedish government. In the concept of risk management there are two important rules that the banks need to follow; Lag (2004:297) om bank- och finansrörelse and Lag (2006:1371) om kapitaltäckning och stora exponeringar. (Sveriges Riskdag, 2006; Sveriges Riksdag, 2004)

The Swedish Financial Supervisory Authority, Finansinspektionen (FI) is in charge of supervising, authorizing and monitoring all companies with businesses on the financial markets in Sweden. Their main role is to promote stability in the financial system (FI, 2012). Finansinspektionen argues that by introducing the regulation about kapitaltäckning (capital requirements), Sweden applies the EU rules and the Basel 2 agreement in Swedish law. This indicates that the Basel 2 agreement has had legal effect in Sweden since 2007 when the laws were passed. (FI, 2007) The upcoming implementation of Basel 3 in Swedish law have been a hot debate since the Swedish finance minister has the opportunity to put stronger demands on the Swedish banks Swedish operations where he intends to demand higher capital requirements meaning 12 percent for the Swedish banks contrasting the 7 percent that applies to rest of the European Union. (Grundberg-Wolodarski, 2012)
3.1.7 IASB/IFRS
When dealing with financial reporting within the EU, companies must since 2005 according to EU regulation report using the standards set by the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS, 2011b p. 3). To the banking industry one of the most important IFRS standards is the IFRS 7 on disclosure of financial instruments. The IFRS 7 requires companies to disclose information about its financial situation and risk management to enable people to evaluate their risk structure (IFRS, 2011a). This is achieved by reporting fair values of their use of financial instruments such as derivatives (IFRS, 2011a), and the company exposure to the major financial risks: credit risk, liquidity risk and market risk (Bischhof, 2009, pp. 170-171). Bischhof (2009, pp. 168-169) further found that reporting disclosure levels on financial risks and how they are managed have increased significantly in Europe since the implementation of the IFRS 7, indicating an increase in transparency in the banking sector.

3.2 General Classification of Risk

![Figure 7 - The financial risks](image)

Risk is a broad term that can be interpreted in a number of different ways; it is a multidimensional concept that requires a deep understanding, which has lead to the fact that there is no generally accepted definition of risk (Haimes, 2009, p. 1647). Vyas and Singh, (2010, p. 16) however choose to define risk as the volatility of a corporations market value, with the motivation it is a broad definition. Aven and Renn (2009, pp. 1-2) argues that there is no agreed upon definition of risk but that all definitions can be divided in two categories, either expressed as a probability or expected value, or expressed as an event, consequences or uncertainty. Vyas and Singh, (2010, p. 16) stresses the importance for a bank to have a uniform definition of risk throughout their organization and over time to be able to measure the risk.
It is understandable that risk is hard to define since it applies in a wide variety of situations and aspects. Sveriges Riksbank argues that the financial system has three main functions: to convert savings to financing, to cope with risk and to make it possible to make efficient payments (Sveriges Riksbank, 2011, p. 6). Hence in the banking sector, financial risks are the most apparent risks (Pyle, 1997, p. 3). This is supported by Vyas and Singh (2010, pp. 16-17), in their article Risk Management In Banking Sector they argue that the most important risks in the banking sector are liquidity risk, credit risk, market risk and operational risk. These risks can all be classified as financial risks, something that Santomero (1997, pp. 2-4) also underlines in his article Commercial Bank Risk Management: an Analysis of the Process, where he concludes that commercial banks are in the business to expose themselves to various financial risks by providing financial services.

More than 50% of the Swedish banks credit losses during the market crisis stemmed from their operations in the Baltic states (FI, 2009, p. 5) After the culmination of the market crisis Finansinspektionen argued that the uncertainty about the macroeconomic position in the Baltic states was large and that this was the main concern for the Swedish banks (FI, 2009, p. 5). Very rapid stabilization in the Baltic States and the positive development in the Swedish economy have led to better results for the Swedish banks. On the other hand, today there is a very unstable European market due to the fiscal crisis and this results in a worse environment for market recovery. This may have an effect on the further recovery of the Baltic States, which may result in a worse environment for the Swedish banks once again (FI, 2011, p. 5).

The discussion above have enlightened the most important financial risks that a bank is exposed to, below follow a more in depth discussion about each individual risk.

### 3.2.1 Credit Risk

In short credit risk may be explained as the change in asset value due to a change in the counterparties ability to meet their obligations (Pyle, 1997, p. 3). The banks are the largest group of credit institutes and together the banks stands for nearly half of the total public lending in Sweden, further the public lending stands for about 35% of the banks total assets (Sveriges Riksbank, 2011, pp. 81, 83). The result of this is that credit risk for banks are substantial due to the nature of the banks business (Suresh et al., 2010, p. 72). Loans are the biggest and most obvious part of credit risk for banks but banks also face credit risk in other instruments such as; interbank transactions, foreign exchange transactions, futures, swaps, bonds, options etc. (BCBS, 2000, p. 1)

As Akerlof mentions in his article “The market for ‘lemons’: Quality uncertainty and the market mechanism” the concept asymmetric information means that the party of a contract that has more information can use that to his/her advantage (Akerlof, 1970, pp. 488-489). Further Santomero (1997, p. 9) argues in his article “Commercial bank risk management” that credit risk arises either from an inability or unwillingness by the borrowers to perform on the contract and because of this, that it is very important for the banks to correctly assess the borrowers financial positions. These concepts can be linked together as the borrower might have more information about his/her ability to perform on a contract meaning that there might be asymmetric information and that the bank therefore are exposed to more severe credit risk. On the other hand Finansinspektionen argues that a bank that act as an intermediary reduces the information asymmetry
between the borrower and the lender, resulting in a more efficient financial system (Sveriges Riksbank, 2011, p. 7).

Further credit risk also includes a type of counter-party risk as the Basel accord sets out limits on how much exposure a bank can have to one counterpart. This is done to limit the exposure if one counterpart would fail to meet their obligations (BCBS, 1999, p. 24).

3.2.2 Operational Risk
The result from mistakes in transactions, such as failure to comply with regulations, settlement failures, record keeping etcetera; give rise to operational risk (Pyle, 1997, p. 3; Santomero, 1996, p. 10). Further, to the list of operational risks, Finansinspektionen adds human errors, internal process failures, system failures, fraud etc. (FI, 2006, p. 5).

The above explanation comport with the Basel committees explanation, they only add that operational risk includes legal risk but excludes reputational and strategic risks (BCBS, 2004, p. 137). Given the list above, operational risk is important to manage since the outcomes from the exposure can be very costly for the bank (Santomero, 1997, p. 10).

Vyas and Singh mention that there is often a difference in how operational risk is handled within the bank compared to credit and market risk. Vyas and Singh argues that operational risk often is handled centrally but implemented in the operational business units while credit and market risk is handled on the banks financial division (Vyas and Singh, 2010, p. 17). This means that operational risk is less centralized. Further another very important difference that distinguishes operational risk from credit and market risks is that credit institutes seldom exposes themselves to operational risk on purpose with a profit objective (FI, 2006, p. 5).

3.2.3 Market Risk
Market risk is a broad summation of a number of different kinds of risks: interest rate risk, exchange rate risk, commodity risk and equity risk (Vyas and Singh, 2010, pp. 16-17). It is the risks that assets change in value due to a number of economic factors mentioned in the previous sentence, interest rate, exchange rate, commodity prices etc. (Pyle, 1997, p. 3).

**Interest rate risk** is the risk that an interest-bearing asset, like a bond or a loan incurs from variability in interest rates. As interest rates fluctuate the price of the asset will move in the opposite direction (Vyas and Singh, 2010, p. 16-17), resulting in a risk of not being able to sell bonds at the same price or ending up with a lower than desirable interest rate on a loan. Santomero (1997, p. 8) argues in his article *commercial bank risk management: an analysis of the process*, that interest rate risk is a systematic risk, a risk inherent to the entire system.

**Exchange rate risk** is incurred when a bank has international operations or exposures to several currencies (Santomero, 1997, pp. 8-9), which is why it is sometimes also referred to as currency risk (Vyas and Singh, 2010, p. 17). Exchange rate risks are normally divided into two categories, transaction and translation risks. If a company has transactions denominated in foreign currency that need to be exchanged to local currency they are exposed to transaction risk (Sorensen and Kyle, 2010, pp. 45). Translation risk on the other hand focuses on the accounting aspect, the risk that the
assets hold in foreign currencies or subsidiaries abroad will be reported at inaccurate values due to fluctuations in exchange rates (Hagelin, and Pramborg, 2004, p. 3; Sorensen and Kyle, 2010, pp. 45).

Commodity prices fluctuate over time and commodity risk is the risk associated with future income from these commodities, (Vyas and Singh, 2010, p. 17). Further Vyas and Singh, (2010, p. 20) argues that banks with high exposure to one industry or one specific commodity are exposed to commodity risk. Equity risk is quite similar to commodity risk, only it is relating to changes in equity value causing the bank to lose money from equity investments instead (Vyas and Singh, 2010, p. 17).

3.2.4 Liquidity Risk
Liquid assets are the assets that easily can be exchanged for other assets or for goods (Shapiro, 2010, p. 68). Moreno (2006, p. 74) classifies liquidity risk in banks as the risk of being unable to raise funds without incurring unusually high costs. Santomero (1997, p. 10) explains liquidity risk more in depth as the risk of a funding crisis in a bank related to an unexpected event causing a loss of confidence in the bank or a currency crisis causing bank runs when people want to withdraw their liquid assets from the bank.

Commercial banks generally finance their activities with both long and short term financing, leading to a mismatch in the maturities in many occasions forcing the bank to use short-term borrowing to pay of long-term debt (Sveriges Riksbank, 2011, pp. 86-88). This mismatch is an example of liquidity risk; if the cost to obtain a short-term loan would increase dramatically the bank would not be able to refinance their debt, which in part is what happened during the credit crisis of 2007-09 (Sveriges Riksbank, 2011, pp. 86-88). Other major types of liquidity risks are the “asset -liability imbalance”, which usually arise when the bank cannot get funding to pay for their liabilities. Examples of funding liquidity risk are when depositors withdraw big amounts of deposits and the risk that the bank cannot obtain funding through interbank borrowing (Ismal, 2010, pp. 55-57). In the long run a bank that has problems generating liquid assets will experience insolvency risk, which is the inability of the banks to repay their depositors, this happens if the banks fail to manage liquidity risk by having liquidity reserves, selling liquid assets, or borrowing from the interbank market (Ismal, 2010, p. 56).

3.3 Risk Management
A lot has happened in the financial industry in the development of risk management since the 1950s when Harry Markowitz developed the modern portfolio theory, on financial risk management in his paper “Portfolio Selection” (1952). Risk management has evolved into a major industry and Santomero (2003, pp. 1, 5) emphasizes it is still evolving with the evolution of the financial community and the development of new complex financial instruments.

The financial risk management deals with controlling the risks mentioned previously. However according to Ismal (2010, p. 49) these risks are not black and white, they are correlated and the impact of one risk has effects on the other. Ismal explains this by arguing that for example market and operational risk can trigger liquidity risk (Ismal, 2010, p. 49). However, Santomero (2003, pp. 24-25) mentions that because of correlation of different risks, these risks may have an offsetting effect on each other as well. Further Hagelin and Pramborg (2004, p. 13) mentions that large firms that are
multinational, like the banks investigated in this thesis, often have natural hedges built into their business.

Our society depends heavily on the banking sector and due to the nature of their businesses, risk management is very important. The banks provide important functions to the society, for example lending, borrowing and accounts that facilitates payments (Sveriges Riksbank, 2011, p. 81). Since the society depends on the banking system, we have an ever-evolving set of regulations around banking risk management. These regulations are as mentioned earlier in the thesis mainly set by the Basel committee in the form of Basel 1, 2 and 3 (BCBS, 1988; 2004; 2010).

Even though there are regulations around risk management there are different ways to deal and classify the risks within the corporation. As Oldfield and Santomero mentions in their article “The Place of Risk Management in Financial Institutions” (1997), one can classify risks as either

- Possible to eliminate or avoid,
  - By diversification, matching, hedging and due diligence
- Possible to pass to someone else
  - By a sale, syndication and derivative hedging
- Risks that can and should be actively managed.
  (Oldfield and Santomero, 1997, pp. 4, 29)

Although the most common way to define risk management procedures is simply through the main ways to handle risk, which is, avoiding, diversification and hedging (Powers, 2010, pp. 441-443; Santomero, 1997, pp. 3-5). Avoiding can be interpreted in two ways. Oldfield and Santomero (1997, p. 5) argue that common ways to avoid risk are to diversify, hedge, syndicate etcetera. Further as Santomero (1997, p. 3-4) mentions the goal of avoiding can be to absorb an optimal amount of risk suggesting that one could perceive that to actually avoid exposing oneself to an excess amount of particular risks.

Santomero (1997, pp. 3-4) further mentions that common ways to avoid risk also include standardization of processes and procedures to prevent incorrect decisions being made and also implementation of incentive contracts that requires the employees to be held accountable for the risk. The goal from this is not to avoid all risks but to absorb an optimal amount of the risk. (Santomero, 1997, pp. 3-4)

Diversification is an old concept, the modern interpretation comes from Harry Markowitz (1952, pp. 89-90) where he introduced the modern portfolio theory and concluded the fact that diversification of a portfolio reduces the standard deviation and risk of the portfolio. Diversification deals with investing in different uncorrelated assets in different industries or countries to reduce the dependency of one variable, to spread the risk (Denis, et al., 2002, pp. 1951-1952). According to research by Strahan (2006, p. 3) volatility/risk in the banking sector was reduced as the banks become more diversified. Santomero (1997, p. 3) also mentions that to construct portfolios of different borrowers, to diversify across borrowers, will reduce the effects of any one borrower forfeiting on their payments.

The idea behind hedging is to contain the risk of loss that can emerge from for example interest rate movements (Chandra and Rishabh, 2010, p. 23). In general terms hedging
means to establish an offsetting position, meaning that what is lost on one exposure is gained on the other. If this concept is applied to exchange rates for Swedish banks which is one of the risks they face in their day to day operations, the value of the currency exposure is locked in due to the offsetting currency position. (Shapiro, 2010, p. 355) When financial firms hedge themselves against interest rate movements and exchange rate changes they can use different types of derivatives, such as options, futures, forwards, or swaps (Sveriges Riksbank, 2011, p. 8).

### 3.3.1 Managing Credit Risk

The Basel committee provides a set of principles for banks on how to manage credit risk, these principles are addressed to the following areas: 1. Make sure that the bank has an appropriate credit risk environment, 2. Make sure that the process for credit granting is sound, 3. Make sure that the bank has appropriate credit administrations, measurements and monitoring processes, 4. Lastly the bank also needs to make sure that they have satisfactory control over credit risk. (BCBS, 2000, p. 3-4).

A problem in one bank can easily be transferred to another bank since banks partly finance their business by borrowing from each other, therefore it is very important that a bank tries to minimize their credit risk by as accurately as possible assess the creditworthiness of their borrowers (customers). Credit institutes such as banks are specialists in determining credit risks since they, among other things, have long relationships with their customers. (Sveriges Riksbank, 2011, pp. 9, 81) To assess the creditworthiness of a counterpart banks have used methods such as credit scoring, credit ratings and credit committees (Pyle, 1997, p. 12-13). If the creditworthiness in a bank's portfolio is doubtful the bank may run into problems of financing their businesses, since it might be hard to get a loan from another bank (Sveriges Riksbank, 2011, p. 9).

Banks can use a variety of different techniques in trying to keep the credit risk on low levels. They can for example use a risk based pricing technique, which suggests that the bank should provide more favorable terms for customers with better (higher) credit histories (BGFRS, 2008). A bank can also place restrictive covenants in their contracts with borrowers, the covenants are intended to give the bank more control and the result of these covenants may be that the borrower must ask the bank for permission if they want to change their strategy. The covenants may also result in that the borrower cannot engage in risk shifting activities (Berger and Udell, 1998, p. 29).

According to the Basel committee the most important cause to major bank problems is concentration risk. They argue that concentration risk is an exposure, which can affect the bank as severe as threatening its health or ability to continue with their core operations. Further Credit risk concentration are based on common or correlated risk factors which means that in times of stress the individuals in one group all may be negatively affected resulting in worse creditworthiness which in turn have a negative effect on the bank. Therefore supervisors can define exposure limits, setting a ceiling of how much that can be exposed to a single counterpart or group of related counterparts. (BCBS, 2006, p. 214) The obvious way to mitigate concentration risk and to construct a sound credit risk portfolio is by diversification. To reduce the effect from a borrower default, a bank should construct well-diversified portfolios across borrowers (Santomero, 1997, p. 3; Ranson and Watts, 2004, p. 3).
Yet another way to limit the credit risk is to use credit derivatives. The credit derivatives market has undergone a tremendous growth the last years and was one of the contributing factors to the recent economic crisis. Non-the less credit derivatives such as the credit default swap, the credit spread option and the collateralized debt obligations are mainly used by banks for risk management purposes. (Ayadi and Behr, 2009, p. 179-180)

3.3.2 Managing Operational Risk
According to the Basel Committee on Banking Supervision (BCBS, 2006, p. 144) operational risk is the risk of loss that results from insufficient or completely failed internal processes, people and systems or from events external to the organization. Therefore the Basel committee encourages banks to establish more sophisticated operational risk measurement systems and practices such as the Advanced Measurement Approach (AMA) (BCBS, 2006, p. 144). Further Dunnet et al. (2005, p. 9) argue that banks often calculate the operational risk coverage by estimating the probability of an occurrence of a particular event and the potential loss from this event.

In addition Dunnet et al. (2005, p. 11) argues that about half of all operational risk events that occurs in banks are problems within the institution’s control and that a small amount was caused by process failures regarding monitoring and reporting. The previous statement is further strengthened by Chernobai et al. (2011, p. 1685) who argue that most operational risk events happen due to consequences of weak internal control. Indirectly, we argue that the above arguments from Dunnet et al. and Chernobai et al. shows the importance of that a bank establishes good monitoring and reporting processes and have a good internal control.

Operational risks differ from the other risks mentioned in this thesis since they deal with internal control, fraud, etcetera and this means that they are practically impossible to hedge against, nevertheless these risks can to some extent be insured against and through that also managed (Nocco and Stultz. 2006, p. 10). Vyas and Singh, (2010, p. 17) also argues that most financial risks are handled centrally, but operational risks are usually implemented in the various operational units relating to the risk.

In addition Kaplan and Mikes (2012, pp. 1-2) argue that risks from employees and managers unauthorized, illegal, unethical and inappropriate actions, in other words operational risks hold no strategic value for the firm since they in the long run will diminish the value of the company. Therefore these risks should be avoided in contrast to strategic risk such as credit risks that can be used to generate value for the firm. (Kaplan and Mikes, 2012, pp. 1-2) Santomero (1997, p. 10) further mentions that even though the probability is small for fraud in a well-controlled organization such as a bank, it could be very costly if this would occur. Some of the examples given in the background about the banks that have failed are good examples of failed operational risk management such as Barings Bank and Allied Irish Bank. These events and additional developments in areas such as e-commerce and adoption of more automated technology have led to the industry’s recognition of the importance of operational risk. (Plunus et al., 2012, p. 1553)
3.3.3 Managing Market Risk

As mentioned in the previous Basel section the two models to calculate the capital charge for market risk are the standardized approach and the internal models approach (BCBS, 2006, pp. 166, 191). The standardized framework in turn, provides two methods for calculating the capital charge of market risk; the maturity method and the duration method (BCBS, 2006, p. 170), these are extensively outlined in Basel 2.

To measure market risk one can mainly use either a scenario analysis or a value at risk (VaR) analysis. When using a scenario analysis the analyst investigate how a change in the underlying determinant of the portfolio value (interest rates, exchange rates, commodity and equity prices) revalues the portfolio. A popular way to conduct a scenario analysis is by using a stress test. (Pyle, 1997, p. 7-8) When using a stress test one can for example, approximate the loss of a potential change in the interest rate. Further to conduct the test one can either use small changes in the underlying determinant or historical maximum movements. (Santomero, 1997, p. 19; Pyle, 1997, p. 7) The internal models approach in Basel has extensive requirements concerning risk management, staff, models, stress tests etc. (BCBS, 2006, p. 191). To use the VaR model in line with the internal models approach in the Basel agreements the bank need to calculate the loss in value over 10 days that will not be exceeded more than 1% of the time (Pyle, 1997, p. 8; BCBS, 2006, p. 195).

Derivatives are a popular risk management technique for market risk exposures, since it give banks the possibility to manage and spread the risk exposure and to possibly generate revenue (Chandra and Rishabh, 2010, p. 22; Sveriges Riksbank, 2011, p. 53). A derivative derives its value from an underlying asset such as a stock, bond or a currency, from a reference rate or from an index (Shapiro, 2010, p. 293). With this in mind a derivative is a good way to hedge the foreign exchange and interest rate exposures. To hedge an exchange rate exposure a bank can use for example either a currency future or forward, the futures market are standardized and daily marked to market, resulting in that futures are more widely used than forwards (Bodie et al., 2009, p. 789). Other derivatives that are traded in Sweden are foreign exchange swaps (FX-Swaps), interest rate- and currency swaps, currency options, interest rate futures and forwards, interest rate options and interest rate swaps (Sveriges Riksbank, 2011, pp. 42, 53). On the interest rate market in Sweden the standardized IMM-FRA (International Money Market Forward Rate Agreements) are the forwards mostly used. A regular interest rate swap implies that two parties swap interest rate payments during a certain number of years. The Swaps that are traded in Sweden are called STINA (Stockholm Tomorrow Next Interbank Average), these implies that during a maximum of one year you either pay or receive the difference between an agreed fixed interest rate and a floating daily interest rate (Sveriges Riksbank, 2011, p 42- 44).

To manage the transaction exposure a bank can use either a forward market hedge (buy or sell the foreign currency forward depending on if they are long or short the foreign currency) or a money market hedge, which implies to simultaneous borrow and lend in two different currencies to lock in the SEK value of a future cash flow (Shapiro, 2010, pp. 375, 377).
3.3.4 Managing Liquidity Risk
The BCBS (2006, p. 208) argues that liquidity is crucial for the bank and the ongoing viability of it; therefore they recommend banks to organize their liquidity management process to measure, monitor and control their liquidity risk exposure. According to FI (2011, p. 13) banks have generally been taking to big liquidity risks, forcing central banks to contribute emergency liquidity support to maintain financial stability. FI also mention that it should not be up to central banks to bear the liquidity risk and inject moral hazard into the financial community, instead it must be up to the individual bank’s (FI, 2011, p. 13). This has made new guidelines necessary, and as mentioned previously the Basel agreements also deal with liquidity risk by requiring banks to hold minimum levels of liquidity (BCBS, 2010 pp. 8-9). The BCBS (2010, p. 8) argues that this will promote a fair playing field internationally resulting in prevention of a competitive race.

Ismal (2010, p. 55) argues that if a bank can manage their asset-liability imbalance and maturity mismatch risks they control their liquidity positions and limit their exposure to liquidity risk. In addition Santomero (1997, p. 43) argues that to manage liquidity risk, the maturities in the banks investment portfolio can be modified and managed in accordance to the liabilities thereby matching the assets to the liabilities making sure that the bank always has liquid assets to cover their liabilities.

Further Matz (2010, p. 39) argues that holding highly marketable securities are a way to manage liquidity risk since they can act as a buffer when it is hard to access liquid sources of funding. In addition BCBS (2010, p. 5) are introducing measures that are aimed to raise the resilience of the banks during good times, especially they put focus on the building of buffers of liquid assets that can be used in times of stress. However to hold so much liquid assets that the bank has eliminated the liquidity risk is according to Matz (2010, p. 39) unarguably to expensive for any financial organization, therefore banks set up additional defenses against liquidity risk, including Key Risk Indicators (KRI) and stress tests. Regarding KRIs Matz (2010, p. 39) argues that large banks often prepare and distribute reports with KRIs on a daily basis, which enables risk management to respond quickly to changes in liquidity. Matz (2010, p. 40) further argues that by conducting stress tests, the banks management can obtain inputs from both inside and outside of the organization to identify hypothetical liquidity scenarios. Matz (2010, p. 40) further argues that the most frequent vulnerabilities found in stress tests in the banking sector are maturity related risks and inadequate buffers.

3.3.5 Three Lines of Defense
This far only risk management has been mentioned, however the work of mitigating risks is broader than only risk management, it is a cooperation between several controlling and managing functions. The three lines of defense model, illustrated in Figure 8 is a model that has gained a lot of international attention that is explaining this fact. In order to have control over the risks facing their organization a company's operational management apart from risk management has to have a system for maintaining effective internal controls in the organization as well as to hold the accountability for assessment of risks, this is seen as the first line of defense. The risk management itself along with compliance is seen as the second line of defense and has the responsibility to implement effective risk management measures and practices and defining target risk exposures. The third line of defense is considered to be the internal
audit and it works as a sort of check up system of how well risks are assessed and managed in the organization, in addition it is used to evaluate how well the first two lines of defense are functioning. (Dennery, et al., 2010, pp. 9-10)

To gain a deeper understanding of how a bank can use the two lines of defense other than risk management, a deeper explanation on their main parts, internal control and internal audit follows below.

**Internal control** functions are as mentioned regarding the three lines of defense closely related to risk management, it is also the first line of defense for the organization to meet risks since internal control is a broad concept including strategic governance and business activities helping the organization in its performance (Vijayakumar and Nagaraja, 2012, p. 2). According to the FERMA and ECIIA report by Dennery, et al. (2010, p. 15) internal control deals with making sure that risks are minimized and that company objectives are met, this is effected by the board of directors who has the ultimate responsibility, the management team who has responsibility of control within their area of operations and other employees. This is further highlighted by Cappelletti, (2009, p. 18), who argues that internal control ensures correct financial reporting, helps in risk management and also in the achievement of company objectives. Further internal control helps the organization to direct, monitor and measure the organization’s resources (Dennery et al., 2010, p. 15). *COSO Internal Control-Integrated Framework* mentions that internal control should provide the organization with help regarding:

1. The operations effectiveness and efficiency
2. The financial reporting reliability
3. Law and Regulation compliance
   (Dennery, et al., 2010, p. 15)

**Internal Auditing** is important, since it is the auditor's job to monitor and ensure that the internal control system is complete (Cappelletti, 2009, p. 19). Internal auditing can be described as an evaluation of the activities conducted by the organization and the organization’s internal auditors help the management with analyses, recommendations, information etc. (Vijayakumar and Nagaraja, 2012, pp. 2-3). This fact is further highlighted by Marks, N (2011, p. 28), who argues that internal auditing plays a vital role in the assessment of risk management and in the reporting to senior management.
and the board of directors. Marks, N (2011, p. 29) further argues that the responsibility of the auditor is to evaluate if the design of the internal controls is enough to meet the organization's business risks and that it also is the auditor's responsibility to evaluate the organization's risk management program. The institute of internal auditors - Sweden (2011), explains internal auditing responsibilities as finding out if the organization is healthy, if it reaches its goals and if the organization in whole works satisfactory. If the organization is not working satisfactory it is the internal auditors responsibility to explain why the organization is not working satisfactory and also to analyze and exemplify what can be done to mitigate the problems (IIA- Sweden, 2011).

3.4 Organizational Structure
There are two major ways the organizational structure affects the actions of the organization. First it provides a foundation for operating procedures, second it determines how involved people at the different levels of the organization are to be in the decision making process (Jacobides, 2007, p. 457). Regarding the involvement of individuals, the degree of their involvement can be organized into two structures, horizontal structure and vertical structure (Ostroff and Smith, 1992, pp. 148-152).

In a traditional vertical structure the organization is divided into different functions, departments and tasks with a very clear chain of command. The main responsibility lies on the managers suggesting that the organizational structure is centralized. (Ostroff and Smith, 1992, p. 149) Generally this can be considered the view of banks, very strict and vertical. On the other hand in a horizontal organization, individuals are involved in taking the decisions closest to them, there is still a level of hierarchy but the structure is much flatter. (Ostroff and Smith, 1992, p. 151)

3.4.1 Centralization/Decentralization
Organizations having several divisions or activities in several locations have to decide on their management structure, they can be centrally managed or they can decentralize decision-making. In this process they have to consider the trade-off between having more control, in a centralized management structure and having the benefit of a decision making process that is closer to the problem brought by a decentralized management. (Alonso et al., 2008 pp. 145-146) This suggests that all banks investigated need to evaluate what organizational structure to adopt.

Alonso et al. (2008, pp. 167-168) argues that one problem for organizations with many divisions is that managers within the divisions communicate strategically with each other to promote their own divisions at the expense of the overall organization. In addition the divisional managers are more inclined to communicate and share information vertically within the hierarchical structure than horizontally between the different divisions (Alonso et al., 2008, pp. 167-168). However Alonso et al. (2008, p. 168) argues that decentralization always outperforms centralization when the incentives of the divisional managers are aligned.

When dealing with centralization and decentralization there is no generally accepted opinion on which is the best structure. However it is often believed that centrally controlled organizations are more bureaucratic, this is however argued both ways. In Andrews et al. (2009, p. 59) it is argued that centralization is associated with the dysfunctions of bureaucracy, like red-tape. However Mansfield (1973, p. 487) found
that if anything there was a negative relationship between bureaucracy and centralization.

To explain the difference between a centralized management system to a decentralized management system a link can be made to horizontal and vertical organizational structure. A centralized organizational structure is characterized by a high degree of hierarchical authority, with most decisions taken centrally, like in a vertical organization. A decentralized organizational structure is on the other hand characterized by a high degree of participation in decision-making and lower hierarchical authority; this is a quite flat organizational structure with higher responsibility on the employees, more resembling the horizontal organizational structure. (Andrews et al., 2009, pp. 58-59; Ostroff and Smith, 1992, pp. 148-152)

Alonso et al. (2008, pp.145-146) also argues that many firms moving from a decentralized structure towards a more centralized structure due to an increased need to organize and coordinate their business structure. It is also argued that to meet the regulatory and compliance requirements of today a company must have a centralized cash management structure to be able to meet the requirements and remain profitable (Struzenski, 2006, p. 60). There are however according to Alonso et al. (2008, p. 146) firms that have decentralized management that perform very well, but that is provided that local managers have clear channels to communicate and coordinate with each other and managers at higher hierarchical levels.

According to Andrews, et al. (2009, p. 60) people that are for centralization argue that the performance is increased in a centrally controlled organization, due to the fact that the structure contributes to faster and easier decision making and clearer goals. It is also argued that the potential for internal conflicts are decreased due to the clear line of hierarchical authority (Andrews, et al., 2009, p. 60). Andrews et al. (2009, p. 60) also contrasts this by mentioning that the people pro decentralization argue that centralization harms the company performance since it prevents middle and low-level managers, those closer to the operations, from making independent decisions. This is executed by implementing inflexible rules and work procedures, undermining the lower level managers responsiveness to risks and changes in environment.
3.5 Conceptual framework

Up to this point we have gone through the theories we have found applicable to our research question and purpose such as risks, risk management, regulations and the organizational structure. As can be noted in Figure 9 above, we have identified three broad categories that could have an effect on banks risk management structure. As the arrows suggest, the categories are interconnected and affect each other in the way displayed in the figure.

In our literature review we have found that the organizational structure can have an effect on the banks risk management structure. Further, the literature review show that rules and regulations may affect the risk management structure both through changes in the legal environment and by affecting the organizational structure. We also found that financial risks can affect risk management both directly and by its effect on how the financial system is regulated and the way the banks organize their management structure. Therefore we will investigate both the direct effect on risk management and the indirect effects we observed on structural changes in the organization through changes in the legal environment.

Based on these broad categories, questions for our interview-guide were deducted relating to risks, rules & regulations and organizational structure. The questions in these three categories are relating to that specific category and the managing of risks.

Relating to the section concerning risks we have been able to ask questions regarding the most important financial risks and how they are managed in the banks, therefore it was important for us to go through the different risks and common ways to manage these in our theoretical frame of reference.

Relating to rules and regulations we were able to deduce questions concerning how the different banks have been affected by the development of rules and regulations and how this have affected the bank’s organizational structure. Therefore it was important for us
to go through the different Basel agreements and show the development of these as well as Swedish regulations that have an affect on risk management.

In the theoretical frame of reference we have included a section about organizational structure with the main focus on centralization/decentralization. These concepts allowed us to ask questions regarding the banks hierarchical structure and how large the local responsibility was at the specific bank. This was done to show were in the organizational structure risks are managed. Further we asked questions about communication and communication channels. These questions are linked to the debate of centralization versus decentralization.

To see what specific questions that were deducted from each category in the theoretical frame of reference, the interview-guide used in our study can be found in Appendix 1 and 2.
4. PRACTICAL METHODOLOGY

This chapter outlines the practical procedure and methods we intend to use when carrying out our research. We will present who we are interviewing, how we carry out the interviews and the access to the interviewees. Further ethical considerations will be presented since they have a big importance in this study.

4.1 Interviews

As mentioned in the theoretical methodology chapter we have decided to use a qualitative approach to gather the necessary data for our study. In a first stage we aim to gather broad data covering a wide range of knowledge therefore it is just a few people in each organization that has the necessary knowledge to answer all our questions and the data collection will take up considerable time for the interviewee (Saunders, et al., 2009, p. 325). This means that a quantitative study would not have been appropriate since a large non-response might have been unavoidable because of the scope of our investigation.

To be able to gather the necessary data for our study without too much non-response we have decided to conduct interviews. There are mainly three types of interviews available and these are structured, semi-structured and lastly unstructured (Saunders, et al., 2009, p. 320). In addition to interviews, focus groups are a common way to conduct qualitative research. According to Shiu, et al. (2009, p. 175) focus groups generally means that the researchers gather a group of people, generally eight to twelve participants that are guided by a moderator in a discussion. We could not use this method since it was too hard to gather that many participants at the same time, due to problems of gaining access to interviewees. Easterby-Smith et al. (2002, pp. 85-86) describes the structured interview as highly formalized and the unstructured interview they describe more as a conversation. Our choice is to use interviews that are semi-structured. Bryman and Bell (2007, p. 213) argues that in a semi-structured interview the interviewer has a schedule of questions, but the interviewer do not need to follow the schedule slavishly, further it is possible to ask additional questions to the interviewees replies. Further Bryman and Bell (2007, p. 479) argues that a semi-structured interview is right to use if the researcher has a relatively clear focus, making it possible to address these more specific issues in the beginning of the interview, which we argue applies to our interview.

The semi-structured interview was the best choice for our study since we aim to compare 3 cases; therefore we need to have a list of themes and questions to be covered during the interview since this enhances our comparison in later stages of the thesis. Further since many themes in our study are quite complicated we wanted to have the possibility to ask follow-up questions if the first answer did not cover the intended topic, further we also wanted the possibility to follow ideas from the interviewee that we thought could be of interest for our study. New ideas from the interviewee we argue could make our analysis more interesting in the end since the interviewee might have some knowledge that we had not thought about before conducting the interview. (Saunders, et al., 2009, pp. 320-321)

Our choice of a semi-structured interview even though we see ourselves as pragmatists and are more positivistic than interpretivistic is strengthened by Easterby-Smith et al.
(2002, p. 86) who argues that a type of semi-structured interview can be used by a positivist when questions require a lot of thought before answered. This argument fits exactly with our research since our questions are too complex and extensive to ask in a questionnaire.

Further one can classify the interview as standardized or non-standardized where a semi-structured interview would be classified as a non-standardized interview (Saunders, et al., 2009, p. 321). One can conduct a non-standardized interview either face-to-face, by telephone, or over the Internet via for example mail or Skype (Saunders, et al., 2009, p. 321). We chose to conduct all our interviews face to face since we wanted to increase our response rate and make sure that it actually was our interviewee that answered our questions (Saunders, et al., 2009, p. 324). Further when conducting face-to-face interviews it is easier for the interviewer to catch up on interesting details than it is when for example conducting an interview over the Internet. This is so since the communication during a face-to-face interview often is interactive, rich and spontaneous (Saunders, et al., 2009, p. 350).

A last general note regarding the interviews is that they were all conducted in Swedish and transcribed and translated directly into English. This makes it possible that the information is misinterpreted when translated into English. However we argue that if we would have conducted the interview in English directly the risk is that we would have misunderstood each other even more, since English is the second language to all of us, both interviewers and interviewees. In addition to this it might be uncomfortable to conduct the interviews in a foreign language when we have the same mother tongue, and the risk is that the interview is conducted partly in Swedish anyway since it is easy to turn to Swedish when you do not know the right words. Therefore we conducted the interviews in Swedish and translated them to English, and then sent the translated version back to the interviewee for validation to minimize the risk of misinterpretation.

4.2 Interviewee Selection
The focus of this study was on three Swedish Banks with a full range of products. Due to anonymity we will not explicitly state the names of the banks instead we will call them Bank 1, Bank 2 and Bank 3. We chose to limit our study to these three Swedish banks since our intention was to compare the local responsibilities in the individual banks risk management structure. The size of the bank was quite important for us since the banks in our investigation need to have operations on different levels and operations nationwide. This excludes some smaller banks. Further it was important that the banks were of reasonably similar size since our aim was to compare and discuss the results with the main focus on the degree of centralization, not on size.

Our study has been based on several banks due to the fact that our problem involves to test how centralization affects risk management, with this problem in mind we required to have more than one observation in order to be able to do an empirical test and analyze that (Bryman and Bell 2007, p. 66), further to enhance our comparison we would prefer if there is a difference in the organizational structure between the banks. If we only were to have one bank we would not have had any reference point to compare with and test if the degree of centralization had an effect on risk management in our chosen banks.
Since we aim to gather broad data that covers a wide range of knowledge we have selected interviewees carefully. We decided to first interview one key source within each organization. These interviewees were mainly selected on the criteria of knowledge of risks and how these risks are handled in the organization and also on the criteria of knowledge of the bank's organizational structure. These criteria implied that the interviewee generally was a person on a regional or central level with a responsibility over a region or a person with a good overview of the organization, for example a controller. As already stated the interviewees were generally in a position of power and as Kvale and Brinkmann (2009, p. 163) mentions it can be hard to gain the necessary respect needed for conducting a good interview for an interviewer when the interviewee is a person in a power position. To mitigate the risk of obtaining minimalized respect we made sure that we were highly prepared, both concerning knowledge about the interview subjects and knowledge about the organization being interviewed.

In addition to the interviews made at regional/central level we conducted interviews with people on a local level to make sure not to obtain a skewed picture of the organization. This was done to obtain a more complete picture of how the organization looks like and functions. However for the interviews conducted on a local level we adapted the interview guide to be more focused on the local level and their responsibilities. This was done since the interview guide used at a regional/central level was rather broad and not all questions are dealt with on a local level, therefore if we had used the same interview guide we would not have been able to gain access to interviews at the local level.

Further to gain the access to these key sources within the organization we used a sort of “snowball sampling” where we first was in contact with the local offices and local managers to get tips on who within their organization that was the best person for our interview, and based on their tips we contacted people on the regional levels, and if these people could not help us we contacted people at a central level based on the information gathered at regional level. (Johansson-Lindfors, 1993, p. 101) Since we first had been in contact with people on local level, we contacted them again to see if they could be part of the study since we had adapted the interview guide so that it was possible to answer the questions from a local perspective.

So the main criteria our interviewees was selected on was on their knowledge about the subjects covered in the interview.

4.3 Ethical Considerations
Diener and Grandall (1978) identified four main areas of ethical considerations when conducting business research. These considerations are whether there is harm to participants, lack of informed consent, invasion of privacy, and whether deceptions is involved (cited in Bryman and Bell, 2007, p. 132). Further as mentioned in Easterby-Smith et al. (2002, p. 95) ethical issues is particularly important in qualitative studies using interviews because of the potential freedom of interaction between the interviewer and the interviewee. Therefore ethical issues are of great importance for our study.

Easterby-Smith et al. (2002, p. 95) mentions that organizations might be hostile to open interviews and that they therefore might ask for a copy of the interview schedule. Even
though we conducted semi-structured interviews we decided to provide the interviewee with a copy of our interview schedule both to grant access, to increase the trust that the interviewee has for us as interviewers and to help the interviewee to prepare. Further, to the interviewees, this implied that they had an understanding of what we as researchers wanted from the questions and they knew that we did not try to trick them to participate in a study that they did not want to participate in. To further increase the interviewees trust for us as interviewers we agreed to send a transcribed version of our interview to the interviewee for validation and approval, further this was also done to make sure that we did not misinterpret the information given during the interview (Lincoln and Guba 1985, pp. 314- 315).

Considering the fact that banks operate in a competitive industry and that the information gathered through this study might be sensitive, we provided the interviewees with the possibility of being anonymous, the possibility of anonymity was provided both for the interviewee and for their organization. This was done to decrease the potential harm to participants and to increase the possibility of obtaining truthful information, since the interviewee might want to protect him/herself and his/her organization. We had decided to use the financial reports of the banks as an extra source in the gathering of our data, but since we decided to agree to keep the banks anonymous we have excluded the financial reports from our thesis since it would be too easy to link the information to the bank in question. (Saunders, et al., 2009 p. 180)

Informed consent means that the potential research participant should obtain as much information as possible beforehand so that they can make an informed decision of whether to participate in the study (Bryman and Bell, 2007, p. 137). As Kvale and Brinkmann (2009, pp. 87-88) mentions, it is important to obtain informed consent and that the interviewee is informed about the purpose of the study and the different risks of participating. Therefore before conducting our interviews we provided the interviewee with information about our study and as mentioned above we gave the interviewee the possibility of being anonymous and we also gave the interviewee the choice of whether or not to be recorded during the interview. We decided to use audio recordings to enhance our personal notes when allowed, since it is not just important to understand what the interviewee says, it is also important to know how the interviewee says it, further to audio record makes it easier for us as interviewers to be highly alert during the interview (Bryman and Bell, 2007, p. 489). In one case we were faced with a refusal to record the interview, nevertheless we still conducted the interview using only notes (Bryman and Bell, 2007, p. 490). In addition the audio recording made it easier for us to transcribe the interview in a more accurate way, mirroring doubting answers and references to objects such as the financial report, in the end this gave us a clearer picture of how the interview really went. (Kvale and Brinkmann, 2009, pp. 193-195)

Concluding the ethical considerations, to make sure that our interviewees will be anonymous in this thesis we have decided to use a unique abbreviation or the term “the interviewee” throughout the whole thesis. These abbreviations can found in Table 4. This means that we will not use the words he or she to make sure that it is impossible to understand the gender of the interviewee and to make the answers harder to link to who the specific interviewees are. Further, Saunders, et al., (2009, p. 180) mentions the importance of making sure information that cannot be indirectly identified back to the particular participants when anonymity has been agreed upon. To further reduce the risk
of this happening we do not provide their exact age and experience when presenting them, but present an approximation of this.

4.4 Interview Guide
As previously stated, Bryman and Bell (2007, p. 213) argues that in a semi-structured interview the interviewer has a schedule of questions, but the interviewer do not need to follow the schedule slavishly, further it is possible to ask additional questions to the interviewees replies. Saunders, et al. (2009, p. 320) mentions that because of the nature of the questions in a semi-structured interview it could be good to audio record the interview. And as mentioned in the ethical part we provided the interviewee with the information and they could choose to accept or deny the audio recording.

To be able to answer our research question as thoroughly as possible we deducted an interview guide from our theoretical frame of reference and made sure to formulate our questions as clearly as possible to avoid the questions to be misinterpreted. Further we made sure that all our questions were relevant for our thesis and our research problem since our analysis is going to be built on the data collected from the interviews. (Bryman and Bell, 2007, p. 483)

Kvale and Brinkmann (2009, pp. 150-152) mentions the importance of asking varying types of questions during an interview, Kvale and Brinkmann, (2009, pp. 150-152) also classifies these questions in nine categories that will help the interviewer to understand the topic well. As Bryman and Bell (2007, pp. 485-486) mentions most interviews will contain all of these categories and our interviews are no exceptions. Using Kvale and Brinkmann’s classification we introduced our topics by asking standardized introducing questions and depending on the answer we then asked the interviewee to elaborate their answers, this is called follow up questions. Further we have used probing and specifying questions to get clear answers that easily could be measured. As a round-up question we ended most topics using interpreting questions to make sure we understood the interviewee correctly. (Kvale and Brinkmann, 2009, pp. 150-152) Most of these questions were open-ended, meaning that the interviewee could answer the question without influence from us as researchers (Saunders, et al., 2009, p. 343) and according to Saunders, et al. (2009, p. 324) a semi-structured interview is the most appropriate where the questions are complex or open-ended.

Lastly, the questions in our interview guide were related on the three topics of risk, organizational structure and rules & regulations. All of these topics were handled depending on how they relate to the concept of risk management.

4.5 Access
Since banks operate within a very competitive industry and financial risk management can be a sensitive issue it can be hard to grant access to interviewees. According to Johansson-Lindfors (1993, p. 136) one thing that is particularly important, when trying to grant access to interviewees, is the initial contact.

We realized that a proper entry gate to the organization was needed to grant access to the people on regional and central levels. Therefore we decided to contact local bank offices at a first stage, where we sought to get some tips on where to turn in the next stage. When contacting the potential interviewee we tried to first call them but
sometimes we did not get the telephone number just an e-mail address and in these cases we naturally could not call we sent an email instead. The e-mails sent to the interviewees as the introduction to our study and the type of questions we planned to ask were very well thought through so that the interviewee would get the correct information and could decide if they could participate or not. (Johansson-Lindfors, 1993, p. 136)

Our aim was to include a fourth bank in our study, but we were denied access to interviews at regional or central level at this bank since, according to them, the banks financial risk management functions had too much to do at the moment. We tried different ways to come in contact with people at central level but were denied to do the interviews. Therefore this bank was not included in our thesis.

When we had gained contact with people in the different banks, in order to increase the probability of gaining access to interviews and make sure the interviewees had the relevant knowledge and that they felt safe in the situation during the interview, we sent a rough interview guide to the people we were in contact with. Easterby-Smith, et al. (2002, p. 95) also mentions that interviewees often ask for an interview guide before access is granted to reduce the risk involved for the interviewee, therefore we sent the approximate interview guide to the people we were in contact with. In the cases the contacts felt they had sufficient knowledge they agreed to undertake an interview with us and if they felt they could not answer our questions, we asked them to refer us to someone with the relevant knowledge to participate in an interview. Then the same procedure was undertaken again, gain contact, send the interview guide and agree on an interview or be referred to someone else in the bank.

When attempting to gain access to the interviews we chose to secure access and conduct the interviews on a central/regional level before we attempted to gain access to the interviewees at the local level. The reason for this is that the interview guide at central level was very wide, relating to information throughout the hierarchical levels of the bank. Therefore we adapted the local level interview guide based on the information given to us through the interviews on the regional/central levels to relate to the local responsibilities in the respective banks. We did this since we wanted the interviewees at the local level to feel they had the necessary knowledge to answer our questions and feel safe in the interview environment.

Since our study demanded specific interviewees, we decided to increase the possibility of gaining access to an interview to locate all our interviews at the location decided by the interviewee, usually at their office and at the time decided by the interviewee. Further we chose to conduct the interviews in Swedish, the mother tongue of our interviewees partly so that they would feel safe in the interview situation increasing the probability of access. This was also done to increase the interviewees’ convenience and confidence and to make sure that the interviewee was not under any specific pressure during the interview (Saunders, et al., 2009, p. 325). Further as mentioned by Easterby-Smith et al. (2002, p. 89) it was also important for us to come to the interview properly dressed for the situation and with the right attitude and the right voice and language since this helps in shaping the interviewees picture of us as interviewers, and the attitude they take towards us.
In summary we can say that it was more troublesome than initially expected to gain access to interviewees. This is most probably because banks are highly regulated and the banking industry is quite competitive resulting in that the potential interviewee might feel that participating in an interview might affect them or the organization negatively. Further due to reasons of anonymity we cannot use other publicly available sources, such as the annual reports, to gather data meaning that we can only rely on the data gathered from interviews making the access particularly important for our study.

4.7 Data Processing
To process and store our data for the future findings and analysis we decided to audio-record the interview and in addition to this we took notes. As mentioned in the practical method chapter, one interviewee did not want to be recorded; therefore we exclusively relied on note taking during this interview. Further, all our interviews were conducted in Swedish and since this thesis is in English there is a potential for making a misinterpreted translation. All our interviews were transcribed as quickly as possible after the interview so that the information was fresh, limiting the possibility of misinterpretation. When the interviews were transcribed and translated we made a summary of the findings that is to be presented in the thesis. This transcribed and translated summary was sent to the interviewee for validation and after comments or direct validation we had a final version of the summary that we presented in the following “Findings” chapter. The fact that we sent the translated version for validation limited the probability for misinterpretation even further since the interviewee had the possibility to read our translation.

In the findings chapter we will present the findings bank for bank and concept by concept to make it as clear as possible and to make it easier for the reader to follow. Also the choice of presenting the data like this is so that we can provide a comprehensive view of each bank so that the reader can develop an own understanding of the different organizations.

4.8 Primary Sources
The sources used to gather the primary data for our analysis are all bank professionals on different hierarchical positions. As previously mentioned all banks and all interviewees are anonymous throughout the whole thesis and therefore it can be good to show a short summary of the interviews conducted. Below in Table 3, we outline a summary of the interviews, the position of the interviewee, and the time of the interview and the duration of it. From this table the reader can see that the interviews conducted on regional/central level was considerably more time consuming. This was because of the adaptation of the interview to fit with the local offices job descriptions, therefore some of the questions were erased and some was reformulated. Further it can be noticed that one interview took a lot more time than the other interviews and this was because the interviewee had some particular in-depth knowledge in the subject and therefore also took the discussion on a much more complicated level. In the end approximately the same amount of useful data for our study was gathered from all the interviews.
Table 3 – General information on the interviews

| Interviews |
|------------|-----------------|-----------------|-----------------|-----------------|
| Bank       | Hierarchical level | Position        | Date            | Duration        |
| Bank 1     | Central/regional level | Controller    | 2012-03-30      | 1 hour 5 minutes |
|            | Local level       | Business advisor | 2012-04-20      | 30 minutes |
| Bank 2     | Central/regional level | Credit Manager | 2012-03-30      | 1 hour |
|            | Local level       | Office manager  | 2012-04-27      | 30 minutes |
| Bank 3     | Central/regional level | Risk Manager | 2012-04-26      | 1 hour 35 minutes |
|            | Local level       | Office manager  | 2012-04-27      | 35 minutes |

4.9 Criticism of Primary Sources

As previously mentioned all interviewees are professionals working in the banks investigated. Due to the nature of the questions and the subject investigated one can assume that the interviewees do not want to share negative thoughts and arguments about their bank since this could make their bank look bad and also this could mean competitive disadvantages. Further this could affect the interviewee in a personal way since they could be punished or even fired for revealing information they should not have. Therefore we have decided to limit this possibility by making all banks anonymous throughout the whole thesis. In addition to this we sent our summary of the interviews to the interviewees so that they could go through it and comment on the things they felt not should be there. As stated earlier all of this was done to be able to secure as truthful information as possible. Still, another possibility is that the interviewees could take the opportunity of an interview to brag about their organization. Since this possibility exists we try to limit the information that can be deduced as much as possible so that the reader do not understand which organization that is being discussed.

In addition to the above-mentioned problem the interviewees are scattered across different positions in the banks resulting in that they have different focus areas and competences. What can be concluded from the depth of our analysis is that all interviewees had the sufficient knowledge to answer our questions in a satisfactory manner, making the difference in position a limited problem. Further this was affected by the interview-guides that were adapted to the different hierarchical levels to get a complete understanding of how the bank as organization looked at the subjects investigated.
5. EMPIRICAL FINDINGS

In this chapter we will present the data collected from our interviews with the respective banks. The findings will be presented organization-by-organization and divided into three broad categories, risk, rules & regulations and organizational structure.

In order to make it clearer with the anonymity for our participants the banks will be denoted by numbers and the interviewees will be referred to as “the interviewee” or by the abbreviations seen in Table 4 below. This is done to ensure the anonymity of the interviewees and their banks.

Table 4 – Abbreviations of the interviewees

<table>
<thead>
<tr>
<th>Abbreviations</th>
<th>Bank 1</th>
<th>Bank 2</th>
<th>Bank 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee central/regional level</td>
<td>A</td>
<td>C</td>
<td>E</td>
</tr>
<tr>
<td>Interviewee local level</td>
<td>B</td>
<td>D</td>
<td>F</td>
</tr>
</tbody>
</table>

The questions from the interview guide will not be presented all by themselves, but rather be presented in the general themes: risk, rules and regulations and organizational structure. The reason for this is that the interviews were not completely identical and the respondents were allowed to speak freely on our questions so all questions were not given exactly the same depth, making all interviews different from each other. Further the findings will be presented bank by bank so that the differences are clear between the banks and so that the banks easily can be compared later in the analysis.

5.1 Bank 1

Table 5 – Interviewee information Bank 1

<table>
<thead>
<tr>
<th>Bank 1 - interviewees</th>
<th>Central/regional level (A)</th>
<th>Local level (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years in the bank</td>
<td>Approximately 20 years</td>
<td>Approximately 20 years</td>
</tr>
<tr>
<td>Position</td>
<td>Controller</td>
<td>Business advisor</td>
</tr>
<tr>
<td>Work description</td>
<td>Responsible for risk control, financial reporting and accounts payable</td>
<td>Works with and manages business credits</td>
</tr>
</tbody>
</table>

5.1.1 Risk

Central/regional interview answers

Regarding risks, the interviewee (A) mentions that the market risks and the liquidity risk are managed centrally. The interviewee continues by mentioning that the bank is very decentralized but that these risks are handled centrally. The reason for this is mentioned to be since these risks are more efficiently handled at a central level where they can be measured and managed on a company wide basis. A also mentions that the
local branches cannot take on any interest rate risk, if they for example lend to a customer at 5 years fixed rate, they have to borrow 5 years fixed rate internally within the bank, transferring the risk management to central level. A further says the same thing is true if they buy or sell currency for a customer, that it is handled internally the same way. Regarding the liquidity risk A mentions that a summary of the liquidity is done at the different regional banks, how the liquidity looks like today and forecasts over the future. This information is gathered in a system and managed by the banks central risk management.

Regarding liquidity, A also mentions that if it becomes very hard for the banks to borrow money on the market, Bank 1 has a substantial liquidity reserve, which they can use if needed. Half of the capital is in pure placements and half are in credit lines. A mentions that if the funding was to freeze, Bank 1 would have enough of capital to keep them afloat for 2 years without any external funding as long as they do not pursue too much new lending. A means that this safety is quite expensive but that it is good to be safe.

The interviewee further mentions that the bank has a central risk department, a kind of treasury function with responsibility for the handling of interest rates and exchange rates centrally for the organization. This department is supposed to be a non-profit department, since they deal with the borrowing for the bank and the central handling of market risks and liquidity risks. It is according to the interviewee important that they keep a low risk so that the bank's overall risk remains low. The interviewee argues that if this department makes a profit one year they can just as easily make a loss the coming year. Since a profit would have come from speculations it is not relatable to the bank's policy, which is to keep a low risk profile. The interviewee stresses the importance that the result in the bank comes from its branch operations.

Of the financial risks, the interviewee argues that the main risk for the local branches is the credit risk. Local branches of the bank manage the credit risk and the local branch manager is responsible for the risk relating to the different credits belonging to that local branch. A also mentions that all credits of the bank belongs to a local branch, if a borrower forfeits on its payment it is the local branch that lent the money and its manager that is held responsible. According to the interviewee a loan can generally not be approved by a person on a regional or central level, they must go through a local branch. The interviewee also mentions that all the employees have limits on the amount of money they are allowed to lend without authorization from higher levels. If the amount becomes too big for the local banks limit, the loan is dealt with at a credit department at the regional bank, if the amount gets really big the management of the regional bank must approve the loan as well. For the biggest most important loans, a few errands has to be handled at the banks headquarter. However, the local branch and its manager are still in charge if something goes wrong. In the cases where the credit mass on a loan exceeds 1 million SEK the interviewee mentions that a yearly limit check is done on the customer, where the entire engagement with the customer is examined and a thorough discussion with the borrower is undertaken to go through the intentions and the future.

The interviewee mentions that since the local branches do not have any equity and borrow the funds for lending internally, if the branch lend 1 million they borrow one million internally. According to the interviewee the local branches do not have to hold the standard 10% own equity capital for lending that is up to the central risk
management. The local branches instead have to pay a capital coverage cost, which can vary from zero to up to a couple percent, depending mainly on the quality of the customer and the type of security the bank gets. The interviewee further mentions that the quality of the customer is determined by a rating that all customers get on their financial resilience and repayment ability. This is all rated on two scales of 1 to 5, long and short term, where one is good and 5 is bad. This way the branch gets an understanding of the quality of the credit and the branch may try to find better securities etcetera.

Regarding the operational risks they are handled by the local branch manager at the branch where they occur, they are then sent to a regional level where all the risks at the regional bank are summarized and sent to central level where all the operational risks are compiled. A also mentions that every quarter the regional bank meets up to go through what has happened, and if something has happened a number of times action is taken to set it right.

The respondent also mentions that the most important risk for the bank as a whole is the credit risk, since it is the core of the bank's business. The interviewee further mentions market risk as important since it involves how the bank gets the funding for its credits. In addition to this, the interviewee discusses on how new guidelines on risk management are implemented and concludes that guidelines are worked out centrally with inputs from the other levels. The finished guidelines are presented at regular meetings with the central and regional levels where the central departments present the guidelines and the regional representatives bring them to their regions where they make sure that the new guidelines are implemented. The interviewee states that the bank has few different hierarchical levels in their organization so the implementation process is fairly easy, the branch manager reports to the head of the region who in turn reports to the CEO.

Local interview answers
The interviewee at the local level (B) found that there are many steps involved in giving a credit and that managing the credit risk is an ongoing process. It starts with a meeting with the potential customer to gather information about them, background, what they need and why. The interviewee then mentions that the advisors do credit checks, analyze what underlying safeties are needed and analyze the ability of the customer to repay the loans, B mentions that the repayment ability is the most important aspect when giving credits.

The interviewee mentions that each person has a personal limit that they have been dealt on credit amounts that they can decide upon themselves. This is then divided between when there is a loan backed by a security and the loans that can be without securities, which are dependent, on how big limit the person has. If a credit request is too big for the advisor to make the decision on their own, there is a hierarchy at the local branches where the person in charge of the department has bigger limits than the advisors and the office manager has the largest limit at the local branch. The regional bank is the one that sets these personal decision limits based on experience, authority and responsibility of the person in question. Further the interviewee mentions that the biggest most important loans have to get approved by regional or central levels of the bank. The interviewee finds that the local branches have a big responsibility when it comes to handling credit
risks, they are working under a big own responsibility, but then there are always control functions above, and they always have limits to move within.

The borrowers are according to the interviewee rated by the bank based on the information on the company or person. The bank set this rating themselves since they are closest to the customer and should have the greatest knowledge about them. The rating is based on the background, and the risks imaginable. According to the interviewee the bank uses dynamic rating of their customers to keep the rating up to date, if a person gets a hold of information about a customer that would change their current rating they must re-rate the customer at once.

Regarding the operational risks the interviewee mentions that there are many layers of control to reduce the risk of operational errors, for an example the employees can make decisions about a credit to a certain limit but when the employees approves a credits it passes by the local branch manager that re-examines the handlings before the money is paid out. This is done to make sure that the decision is made on correct grounds. The local branch also has rules and regulations to follow, easily accessible so that they can read up on what the general rule is. The bank also has formalities to follow, for example they need to make sure that the right securities are taken, the local branch also has a person examining decision before it is stored. Then the bank have yet another level, the internal audit that goes through everything done at the office continuously, in addition there are continuous controls conducted from the regional level where there is a person reviewing the handlings. This person then lets the local branch manager know what has happened and then it is up the manager to handle and take care of the problem.

5.1.2 Rules and Regulations
Central/regional interview answers
Regarding the Basel agreement the interviewee mentions that a lot has happened the last ten years, the bank have to maintain an amount of common equity in their lending, the cost of capital coverage. A mentions that equity costs money and that this was a marginal issue only ten years ago and since this is scheduled to increase even more next year the bank is currently adapting to the more stringent rules. The interviewee mentions that during Basel 1 it was easier to calculate the risk weights since a standardized method was used, with the implementation of Basel 2 it has become harder and the bank is using internal data and is now more and more using the advanced measurement approach. This is argued to be more complicated, but the interviewee argues that the bank has a healthy borrowing portfolio, the risk weights with the advanced measurement approach makes it better for the bank to use it. A however argues that a bank with bad credits would probably be better off using the standardized approach.

The interviewee does not see that the Basel agreements have affected the organizational structure, but A does claim that the interest from central levels on how credits look like has increased. The central level want the bank to have more focus on good and safe customers demanding a small amount of own equity capital, in other words with low capital requirements. Another effect the interviewee can see is that the central group risk control has seen an increase in employees of 10 times the last five or six years. The interviewee sees this continuing to increase with the implementation of Basel 3 and more stringent capital requirements.
The interviewee does not think that the increasing rules will lead to more central control, A argues that decentralization is too deeply rooted in the bank, what A believes will be affected is mainly pricing through increasing capital coverage costs and internal control functions. The interviewee mentions that the local branches does not have any own equity, so they do not have to focus on the capital requirements, that is managed centrally. A argues that the capital coverage cost is a way to increase the local banks awareness of the risk of their customers, and the higher the risk of the customers the more expensive it is for the local bank to borrow internally. A further argues that the capital coverage cost is mainly based on the quality of the customer, a rating, if the customer is bad with no security the capital coverage cost would be very high and the customer would pay a high price.

The interviewee believes that Bank 1 will be a winner on the increasingly stringent rules since they have a sound borrowing/lending portfolio. One thing the interviewee mentions about the Basel agreements is that since Finansinspektionen has implemented the agreements in Sweden with harsh interpretation of the agreement Swedish banks cannot really compete with foreign bank on some areas since it is more expensive to the Swedish banks.

Local interview answers
The interviewee has been working many years at the bank and have been through many changes, like the implementation of the Basel accords, the interviewee however does not think it has changed the structure of the bank and argues that the local branch is working in the same way as always with the risks. B mentions that the internal audit possibly has increased and that the local branch manager is examining everything more now, but B also mentions that the local branch manager has always had the final responsibility, regarding the control, before it leaves the local branch at least. Regarding the work with credits the interviewee mentions that they have been working with decisions limits all the time so B does not think there has been any change in how they work. B argues that it is the same decision hierarchy as always with the local branch manager making the decisions, and then the next level the regional bank as a supporting function.

5.1.3 Organizational Structure
Central/regional interview answers
The interviewee at Bank 1 mentions that the bank is strongly decentralized as a main principle and would say that the bank gets the grade 10 out of 10 on a decentralization scale but A also mentions that there are a few policies that are centralized and must be complied with. A also argues that there are risks that are more efficiently and better managed centrally and these includes the interest rate risk and the liquidity risk both because of the nature of these risks and also since it is good to have somewhere in the organization to summarize all the risks to make it possible to see the total risk which can be limited through different transactions. Therefore these risks are managed centrally in their organization since it is easier to carry out these offsetting transactions on one place than on 400 places at the same time. Further if managed centrally one makes sure that unnecessary hedge transaction is not conducted since two positions at different offices may be offsetting each other. A further argues that the more decentralized the bank is the more and better internal control is needed and A also believes that the bank's organizational structure is not changing but that control
measures are becoming more frequently used.

As previously mentioned during the interview credit risk is handled at different levels in the company hierarchy, but according to A, a central thing in their bank is that the local branch manager should have full control on their customer, and further the local branch manager has the responsibility to give the customer the appropriate credit rating. According to A, Bank 1 uses dynamic rating, which means that the bank rerate the customer at once when they get new information about the customer. Further, A mentions that the bank has a principle, which means that the local branch should only lend to people and companies in the nearby environment. The principle has to do with the flow of information and means that if the bank has customers closer to the office they can pick up new information much faster than if the customers was far away.

Further the interviewee gives the example that if a company that is rated as a very good customer for the bank would run into financial trouble the local branch manager would not have done his/her job correctly and if this happens repeated times this could be a disaster for the bank. Therefore the bank uses a penalty system. This penalty system means that if the customer that went into bankruptcy was rated as a very good customer 6 month before the bankruptcy, the local branch that is responsible for the customer has to pay a penalty fee, this fee can be 4 or 5% of the whole engagement which could mean a disaster for the local branch, but still in relation to the expense for the bank this is a small fee. This shows the importance of the customer rating for the bank.

The interviewee argues that the central and regional levels in the bank are mainly support functions that aim at helping the local branches in their business. According to the interviewee this makes communication important between the levels and the interviewee finds that the communication works well between the hierarchical levels and that it is clear where to turn if someone has questions. Further the interviewee adds that the knowledge within the organization is very good and that there is always somewhere to turn to ask a question if you do not know the answer yourself. The interviewee also mentions that one reason for the local responsibility is that it is clear who is doing what in the organization, and A adds that the local manager and its branch has the full responsibility for its operations.

Local interview answers
When receiving the question on whether the interviewee found the bank to be centralized or decentralized the answer was very clear where B stated without a doubt that B perceived the bank to be decentralized. This was motivated by the fact that the bank has a short decision path, with the employees reporting to the local branch manager, the local branch manager reports to the regional bank manager who reports to the CEO. The interviewee further mentions that the local branch manager has full responsibility of what happens at the local branch, making it easy to get a hold of the person with the right to make the decision. The interviewee further underlines the big responsibility held by the local branch manager by mentioning that they are in charge if something was to go wrong and states that in both ups and downs they do have a big responsibility. The interviewee further did not see any change in the organizational structure, but rather found that the local branches operate rather similarly now as they always have during the over 20 years the interviewee has been working at the bank.
Regarding communication between the local branch and the other hierarchical levels the interviewee found the communication channels to be clear and easily accessed and that the people at the local branch often are in contact with the regional bank for support. The decision the local branch have the authority to make are made entirely at local level and the interviewee mentions that the regional levels are there mainly for reviewing decisions and to support local decisions. The interviewee mentions that there are many supporting functions that can be turned to in case of any questions; the regional bank, internal audit and central supporting departments. B ends with stating that there is a big organization behind the people at the local branch with many supporting functions that can be turned to for help.

5.2 Bank 2

Table 6 – Interviewee information Bank 2

<table>
<thead>
<tr>
<th>Bank 2 – interviewees</th>
<th>Central/regional level (C)</th>
<th>Local level (D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years in the bank</td>
<td>Approximately 25 years</td>
<td>Approximately 20 years</td>
</tr>
<tr>
<td>Position</td>
<td>Credit Manager</td>
<td>Office manager</td>
</tr>
<tr>
<td>Work description</td>
<td>Manages Credits</td>
<td>Manager for the banks offices in a municipality, responsible and accountable for its operations</td>
</tr>
</tbody>
</table>

5.2.1 Risk

Central/regional interview answers

Regarding the risks, the interviewee at bank 2 (C) argues that the bank and the other Swedish banks historically has been Swedish, meaning they operated only in Sweden. However in the last decade the bank has increased its operations abroad and is now operating in several countries outside Sweden. The interviewee mentions that this has increased risks like the exchange rate risk and operational risk and also brought new sets of risks to the organization. C argues that of the financial risks, the market risks and liquidity risks are the ones that are handled purely on a central level in the bank, by the banks central treasury function. Further C mentions that a central treasury function exist as units in the countries where the bank have their operations and works with guidelines from the bank's board and how these guidelines are going to be ensured. The interviewee further mentions that these risks are dealt with using different kind of derivatives. The bank's policy is to be a bank with low risk. This is strengthened by the bank's guidelines in for example liquidity questions. In these questions C mentions that the bank's policy is that they should be able to operate a certain time without taking on further debt in the case that the money market was to freeze. This time should according to the interviewee be roughly one year.

According to the interviewee the financial crisis from 2008 affected the bank to a large extent. This crisis was a turning point for the bank, after this crisis the bank had to increase their reserves and changed the liquidity they were obliged to have. According to the interviewee this and the new Basel agreements and extended rules from “Finansinspektionen” and “Riksbanken” have led to a change in the prices of the banks
credits and it has also affected the way the bank charges their customers, rather than affecting the organizational structure. One reason for increased margins on the housing mortgage loans is that the costs for the bank have increased and the requirements for profitability have sharpened. Further, earlier Sweden was one of the countries that had the lowest margins due to a “price war” between the banks since they all chased bigger volumes not greater margins. The interviewee sees this as a clear effect of the new Basel agreements, which sharpened the requirements for the banks, making it more costly to do business for them.

Regarding the two other risks credit risk and operational risks C mentioned that both of these risks are handled throughout all the levels of the organizational hierarchy; local, regional and central levels. The responsibility starts at the customer-responsible; the advisor that scores the potential credits and the risk is measured. These risks are further measured both on the regional and the central level so that the bank gets an overall picture of the risk. Further, the bank has a credit policy with general rules for the management of the risk and they also have a credit strategy that stipulates how the bank wants the future portfolio to look like.

Further, the interviewee mentions that loans are granted from a scoring system. Depending on what this scoring system tells the credit advisor the credit advisor can in some cases make his/her own decision regarding the lending. In other cases the nature of the credit can be very complicated, which is noted by a worse score in the banks system. If this is the case the credit can be analyzed in a credit delegation, and in some really complicated cases the final decision is made in a credit committee, which is in charge of all the credits to the banks “high risk customers”. C further argues that the main variable that affects where in the hierarchy the decisions are made are the risk of the credit, in other words if the credit has a bad score or if the credit in large part is made of unsecured loans.

Regarding credits, the interviewee mentions that the banks ambition is that the offices should be able to handle as much as possible by themselves. According to C bank 2s ambition is to strengthen the office manager’s role; the interviewee mentions the term accountability – to strengthen the office manager’s responsibility for what happens with the local offices business. The interviewee also mentions that the more decentralized the organization is, the more controls and follow-ups are needed.

Regarding the operational risks the bank have an internal reporting system for different kind of events. This system stems from the banks internal regulations, which in turn is developed from the banks continuous dialogue with Finansinspektionen. The internal reporting system reaches from the official level and up through the organization. The interviewee argues that the bank has a good routine for handling these risks and stresses the importance of having a good system for the reporting of the operational risks. To sum up the operational risks are handled on all organizational levels in the bank, exactly as the credits.

Further the interviewee mentions that the bank handle risks at three levels; the office manager, who has a full responsibility of the local offices businesses; the central risk unit, which sets guidelines and internal rules for the rest of the organization to follow and; internal audit, that is used to assess the bank's operations. Further the interviewee
adds that there is a constant dialogue between office managers and the regional managers in Bank 2.

The interviewee also mentions that all risks are important to consider, but due to the nature of the bank's business, the largest risks are the ones stemming from the banks credits. Further the interviewee adds that the operational risks can impose great damage on the bank depending on their nature and the interviewee mentions the importance of internal control. According to C the knowledge about different risks facing the organization is increasing within the bank.

**Local interview answers**

According to the interviewee at the local level in Bank 2 (D) the financial risks they are involved in the management of are credit and operational risks. D argues that the market and liquidity risks are handled at a central level. Regarding the management of credit risks the interviewee argues that the local bank and D as its office manager has the utmost responsibility, since the office manager has accountability for the credits that belong to and are handled at the office. When looking at the local banks responsibility for credits D mention that the local bank has a responsibility both for managing new credits and already existing ones. For the new credits different types of scoring models are used to judge the quality of the customer based on different criteria; history, payback ability etcetera. For already existing customers the interviewee argues that there are different supporting systems for assessing the quality of the customers, systems that tells if the customer does not pay on time or other more unforeseeable things like if the board of a company resigns, things that affect the quality of the customer. The interviewee also mentions the importance of the knowledge the local offices have without systems, if for an example a big local producer makes major cutbacks, D mentions that it is important to look into their suppliers and stresses the importance of local knowledge and awareness. Further D mentions that central authorities may want the local bank to look into specific industries and that this is about preventing credit risks. D also mentions that managing risks to a big extent is to prevent them from occurring in the first place. In the event of something like that happens the interviewee says that the customer would be re-rated to be in line with the new circumstances.

The interviewee also mentions that credits most of the time are granted in duality to reduce the risk of personal mistakes, but some simple credits can be granted by an advisor alone with the help of a computerized support system. In the other cases D argues that the credit granting decision has to be approved by the office manager or even a credit committee. The interviewee also mentions that no matter where the decision to grant a credit is taken, it is the office manager that holds the responsibility for the credit.

Regarding the operational risks the interviewee mentions that about once every year they do a risk assessment, where they try to identify risks at the office, grade them and make an action plan for how to handle them. D also mentions that the bank has become better at preventing risks in the last years, but that errors can occur any way. The person meeting the customer should according to the interviewee manage the operational risks related to the customer. Further D argues that if something was to occur repeated times or is of importance for the bank it is reported into a system so that an overall picture of
the bank can be made. What is reported is up to the office manager and it is very intuitive what is reported.

The interviewee also argues that the office has a big responsibility in the managing of credit and operational risks since the responsibility lies on the office and the office manager. D also argues that when risks have to be reported upwards it is done through the office manager and therefore it is very clear where to turn when reporting about risks. D argues that it follows the hierarchy, you ask the one closest above you in the hierarchy, the office manager, and they may refer the question on to central level. But D mentions it is important that the information passes the office manager, if the office manager is to have the responsibility they have to know what is going on.

5.2.2 Rules and Regulations

Central/ regional interview answers

Regarding the rules and regulations the interviewee argues that the new Basel agreements has not contributed to changes in the organizational structure, the interviewee mentions that the Basel agreements rather contributes to large price differences and that they therefore in large part affect the profitability of the bank. C argues that the Basel agreements therefore rather have had an effect on the prices of their products. C further argues that the financial crisis of 2008 and the rules stemming from it had a big effect on the bank's organizational structure. The interviewee mentions that the financial crisis redrew the organizational map for the bank and that the crisis strengthened the control functions within the bank. Further C mentions that these changes have not contributed to a more centralized bank; rather the bank has strengthened the office manager’s role. The interviewee argues that the manpower working with control has increased and that the crisis has contributed to that the bank more regularly perform different stress tests and scenario analyses and that the internal control measures has increased.

C further mentions that before the Basel agreements the bank used a lot of ROE in their analyses and now after the implementation of Basel RAROC is used more frequently, which means that the bank uses risk adjusted numbers today in their analyses.

Regarding the implementation of new guidelines for a set of rules, the interviewee argues that there is always an ongoing communication between local, regional and central units. The central units sets the internal set of rules and therefore they also stands for the final implementation of these rules. The interviewee adds that the one that is closest to the customer has the possibility to notice changes that has to be done in the new guidelines and stresses the importance of a constant interaction between the different hierarchical levels.

Further the interviewee mentions that the scoring systems that the bank uses for credit-assessment are formed centrally so that they are uniform throughout the organization. These scoring systems are developed through, among other things Basel. This has given the bank the opportunity to use internal measurement approaches for risks and the scoring systems, which are also developed with a continuous discussion with Finansinspektionen. Further C mentions that the Basel agreements have had an affect on how the bank measures credit risks. During Basel 1, credit risks was measured through a standardized measurement technique, using templates with risk weights and now
under Basel 2, the banks are allowed to use an internal technique, the interviewee says that the internal techniques of measuring risks gives a better outcome. The interviewee further states that with a better outcome C means that the bank can measure their risks more accurately, resulting in that the bank gets a better overall view of the actual risk and that they can give a more fair view of how the risks look like.

The interviewee argues that the bank do not have any critique on the Basel agreements and the development of them; instead, the interviewee mentions that banking in large part is dependent of trust. Further the interviewee argues that strong and clear regulations are positive for all parties. Regarding the future and the implementation of Basel 3, the interviewee believe that this mostly will have an affect on the prices of the bank's products and that the consequences of the implementation of Basel 3 in the Swedish law will not have an affect on the organizational structure in the first hand.

Local interview answers
When external rules are implemented in the organization, D does not see that the local bank has much to say about the implementation of rules, it is only to make sure that the rules are followed. When there are important rules implemented, the local employees get educated on the rules. The interviewee further mentions that there are E-courses on rules and regulations that are taken by the employees every year to keep the knowledge on rules up to date. Regarding internal rules from within the bank D mentions that the local bank has more to say, the units implementing the rules often come out to the offices to get a picture of what is working and what is not working.

Further the interviewee mentions that no clear organizational change has been observed on a local level due to stricter financial rules, the changes that the interviewee can see have been on a central level with the central risk department expanding in size and importance. D also mentions that there have been changes in the organizational structure the last few years, but D cannot conclude the reason for the change since the implementation of the Basel 2 agreement and the financial crisis occurred at about the same time.

5.2.3 Organizational Structure
Central/regional interview answers
The interviewee believes that the bank develops towards making their business decisions more decentralized; the interviewee argues that the bank historically has been more top-down regarding this fact. On the other hand C argues that as a consequence from more stringent rules and requirements, the control functions within the bank is strengthened dramatically and that the industry in nature is very centralized due to all rules and requirements the banks need to follow. The interviewee further adds that today the bank conducts a more frequent reporting to different authorities and that this is one of the outcomes from the new Basel agreements. The interviewee also see the fact that the bank is now operating in several countries and markets has contributed to the stronger central control functions in the bank. Further regarding the development of the organizational structure C argues that centralized units gets more responsibility for follow up and control functions while business decisions such as decisions about insurances and credits develops toward that local offices is getting a heavier responsibility, these decisions are becoming more decentralized.
Regarding the communication between the different hierarchical levels in the bank, the interviewee argues that the communication flows between office managers, regional managers and their assistants to a central Swedish function. All guidelines are created at this central function and the regional managers are responsible for implementing these in the organization. Further the interviewee argues that most decisions in the organization are backed up with different key figures. The interviewee also mentions that each customer-responsible has an own portfolio, which is possible to monitor and see the development in. The interviewee also mentions that the communication in the organization flows in both directions, both up and down.

The interviewee also mentions that the office managers at the local offices receive reports, which describes the office’s credit quality, how the office’s stock is developing and the level of different key figures. In short the report is describing the risk level at the local office. This report is generated through the bank's internal control system. Further the interviewee mentions that there is a continuous dialogue between the different hierarchical levels regarding the future development of the bank and the development of the local offices. The interviewee mentions that it exists a couple of key figures that the bank wants the local offices to meet. Lastly the interviewee mentions that the hierarchy of command in the bank is crystal clear and that each hierarchical level in the bank has a good knowledge about both credit and operational risks.

**Local interview answers**
The interviewee mentions that the bank is becoming more and more decentralized when it comes to responsibility. However, D also mentions that the bank has been very centralized and D finds that the bank is currently both centralized and decentralized, but continuing to develop towards a more decentralized organizational structure. The interviewee also argues that it is positive that the change is done gradually so that it is clear that the new structure can be handled before it is implemented fully. As the bank has become more decentralized the interviewee has also seen an increase in control measures and claim that if you increase the local responsibility it is important to have controls making sure that the local employees can handle the increased responsibility. Regarding controls D mentions that the bank has three lines of defense against risks in the organizational structure, first the bank itself, then different control measures and systems and last the board of directors and internal/external control.

The interviewee argues that there are several supporting functions in the organization; regarding risk management the central risk unit is one of the most important supporting functions. The interviewee further argues that it is good to try to manage the problems one might have at a local level, since the answer in many cases can be found locally. The interviewee also states that when the employees have worked for a while in the bank they learn most of what they need to know and that the responsibility of the office manager is in part to be the link to other levels in the bank. Although D adds that if there are questions it is important to be open and ask them, D also stresses that the levels above the local level are mainly supporting functions for the local bank to function smoothly and that the support functions exist to help the local banks. As mentioned earlier D finds that it is important that information passes the office manager on the way up in the hierarchy, if the office managers are to have the responsibility for the local offices actions, they have to know what is going on in the bank.
5.3 Bank 3

<table>
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<tr>
<th>Bank 3 - interviewees</th>
<th>Central/regional level (E)</th>
<th>Local level (F)</th>
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<tr>
<td><strong>Years in the bank</strong></td>
<td>Approximately 15 years (an additional 10 years in another bank)</td>
<td>Approximately 15 years (an additional 10 years in another bank)</td>
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<td><strong>Position</strong></td>
<td>Risk Manager</td>
<td>Office manager</td>
</tr>
<tr>
<td><strong>Work description</strong></td>
<td>In charge of compliance of rules regarding credit and operational risks</td>
<td>Manager of a local bank, responsible and accountable for its operations</td>
</tr>
</tbody>
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5.3.1 Risks

Central/regional interview answers

The interviewee at central level in bank 3 (E) mentions that the bank has a very clear divisional structure and that the different divisions are exposed differently to the financial risks investigated in this thesis. According to E the different divisions also manages risks very differently from each other, some of the divisions manage much of their risks themselves while other divisions let a central risk unit manage most of their risks. Most of the divisions are mainly exposed to credit risks and it represents the biggest post in the banks capital requirements. In some of the divisions credit risk represents up to 90% of the risks that have to be covered, while market and liquidity risks in most of the divisions are close to nothing. The unit mainly exposed to market and liquidity risks is a central unit, which deals with the trading to gather funding in accordance to the capital requirements. E argues that both the market and the liquidity risks are managed centrally since it regards the funding, and that is handled at a central level. E further mentions that there are central departments, a market risk control unit, and a center for the group’s risk that works with the models on how the bank is to measure the market and liquidity risks, as well as the credit and operational risks. This department is according to the interviewee working a lot with statistics and measurement instruments, and they are the unit that stress tests the models in use for risk management in the bank. E further argues that they develop models that are supposed to be resilient and minimize the risks, increase control and how the risks are seized and mitigated, indicating that all of the handling of market and liquidity risk is done in central units.

The credit risks are according to E on the other hand managed throughout the hierarchical structure of the bank, E stresses that the credit risks are the most important risk to manage in the bank. In the day-to-day work E mentions that credit risks are managed with a clear line of command, the advisors at local level first handle the credits. The interviewee mentions that these advisors work in duality to either grant or reject possible credits based on a scoring that is made up of the risk and the possible credit loss. E further describes that these advisors are allowed to make their own decision regarding the credits as long as they do not surpass a specific limit, and remain within the bank's credit risk policy. If the credit in question gets to big or risky E argues that it has to be dealt with by the next step in the hierarchy, the office manager. If the office
manager does not have the mandate to grant the credit, a district credit committee is the next step, and/or then a regional credit committee and/or a divisional credit committee or a higher credit committee has to approve more risky loans, higher limited loans or other circumstances that has to bee fulfilled. According to the interviewee these different levels have clear decision limits, where they have decision authority. This means that a credit does not have to be tested at all levels, but it can be sent straight to the level that has authority to rule in the matter and only be signed off on the other levels. In addition to the limit system the bank also has a group for independent risk control to handle credit risks through Value at Risk models and different credit classification measures. The interviewee argues that these risk management systems helps reduce the risk, lower the capital requirements for those risks and increase the profitability for the bank.

If it is seen that credit risks are increasing, that the risk of the portfolio has too high proportions of high-risk customers or that the risks have shifted, the interviewee argues that the bank is scoring and monitoring the credits. Both the already existing portfolio and the new credits that are granted are monitored to it to keep track of how the risk in the portfolio is developing. If this risk increases and people for example forfeit on their payments, or the solidity decreases then the risk increases in the bank's portfolio and this is reported to the board so that an action plan to set things right can be worked out.

The operational risks are like the credit risks argued to be handled throughout all the levels of the organization. In the case that operational risks occur or are elevated they are reported to both the people involved with the risks and to the board. The interviewee also mentions that it is important for the risk to be reported and that the person that has committed the error should not see the effects as a punishment, more as a quality check. For operational risks E argues that it is up to all employees to report any error they may find so that if there has been an increase in incidents in an area they can be dealt with. The interviewee mentions that the system for operational risk reporting is the same for all divisions of the bank so that systematic errors can be found and adjusted.

Regarding both credit and operational risks E argues that there are many central control systems that enlighten and control if the offices are following the rules, conducting the required controls, how many incidents they have had and how much costs these incidents have had. This information is given to the office so that they can improve their operations. New guidelines are also as argued by E, to be developed centrally and introduced at the local offices and controlled through continuous education.

Local interview answers
According to the interviewee (F), both liquidity and market risk is handled at central level in different units. For the local offices this means that they are borrowing money internally within the bank to be able to lend the money to their customers, and when the local office is borrowing from the public the office in turn lend that money to the central level. For the local offices this means that they have to pay for the money they borrow and that they get paid for the money they lend internally.

F mentions that credit risks are a widespread area and that private and business credits differ from each other a bit. Handling the credit risk of private customers is mainly done through a scoring system. A scoring system is also used for business credits but there the individual assessments are a bit more complicated than for the private credits. All
customers receive a score and from these scores the advisor gets a recommendation if the credit is approved, denied or have to be more in-depth tested. If a credit need to be tested more in depth it can be because some numbers does not match or if for example the income has increased or decreased a lot, in short there are many different parameters that plays a role. This is the first step of the tests a credit needs to go through, after the credit has been granted and received the proper score it has to go through different tests or the person in charge of the credit conducts different check-ups.

Most of the credits are managed in duality between two advisors but if the amount increases to a certain level, the credit has to move on to a credit committee that can take decisions on more complicated cases like for example if the credit lacks security and also on larger amounts. In other cases it is the advisor that does most of the work with the credit and in addition the advisor might need to gather additional information like salary confirmation, employee certificates and so on. Further each advisor has his or her own decision limit and if the credit is in a higher amount than the limit, the office manager has a higher decision limit. If the credit exceeds the office manager’s limit then there are credit committees that can make the decision regarding the credit.

It exists both internal and external operational risks, and the way the bank handles these risks has become better with the years since it has been systematized and the bank has a system that alerts the office manager with times when the office should do different check-ups. Through this system the office manager also gets an idea of what needs to be addressed and improved. To further prevent the operational risks the bank has many safety reviews. The operational risks are many and widespread and it contains among other things fraud and the risk of being fooled. Since a couple of years ago, to keep track of everything, all of these things have been reported, F argues that this can be linked to the Basel agreements and how things need to be documented and shown today.

It is the office manager that has the full responsibility of the office's business and through the system it is possible for the office managers manager to supervise both the risks and different kinds of statistics for the office. If the office do not keep up or things are done wrong it will be available for the office manager's boss who will conduct a dialogue with the office manager. The local office is involved in the management of the risks that concerns the office directly and it is the responsibility of the office manager to make sure that it is done in the right way. F argues that the office are entirely dependent on that each individual does what is expected of him/her and that the individual signals if something is not working the way it should. F mentions that it is important that each individual in the organization take their own responsibility, otherwise it will be hard to handle. Further Bank 3 has a support system that helps the bank to make sure that everything is done in the right way.

If a risk is spotted at the local office the advisor or the office manager can either directly contact a support function or they can try to share their observations between each other. For example F mentions that in the management group they share their point of views and experiences between each other and in that sense the information travels between the different offices so that other offices can take proper action to prevent different kind of happenings. A further F mention what is spotted on the official level is communicated upwards through the hierarchical levels.
5.3.2 Rules and Regulations  
Central/regional interview answers

According to the interviewee there has been big organizational changes in Bank 3 due to the implementation of stricter financial rules stemming from the Basel agreements. In Basel 1 the financial departments handled the capital requirements, and E argues that it was easy to handle since everything was based on templates, so the bank did not need anything except simple models to calculate their capital requirements. With the implementation of Basel 2 it became more complicated since the bank started using internal models like IRC (Internal Risk Classification) and AMA (Advanced Measurement Approach) for calculating the risk weight and capital requirements for credit and operational risks. E argues that the bank now when following the stricter rules have units that did not exist before, that validates model, builds models, calculates on the models, gather information and checks historical information. E also argues that there was no unit for handling operational risks before, but that the bank now has an organization with independent risk control for all the financial risks. Further E argues that the banks also have new units in each division that are responsible to implement the rules into the operations, both regarding the mechanics and the knowledge as a supporting function. Regarding the decision limits the interviewee has not seen any change in how they are constructed. However, E argues that since everything has become so controlled with the increasing rules and so much that is automated and handled by systems the risk management structure should have become more decentralized.

E continues by arguing that another aspect that has been affected by the Basel agreements is the pricing by the bank. With the rules in place now, the bank looks at the specific risk for each customer, something E argues was not done the same way before. Further the bank has a system for operational risk management, they have people counting on models and there is an increasing demand for more reporting demands to Finansinspektionen and the new departments already mentioned. According to the interviewee these measures to reduce risk cost money for the bank, and through that driving up the cost for the banks products. The interviewee explains that the bank is trying to reduce the capital requirements since the more capital they use, the more expensive it gets in form of capital requirements.

The bank is preparing for the implementation of the Basel 3 agreement and has at group level started to report to Finansinspektionen about their changes and more systems are being developed. Further regarding the Basel 3 the interviewee does not think it will affect the organization, but it may affect the business through deposits becoming more important. This making the set attractive prices for their customers making them want to place money with them. Further E argues that the business financing where the bank has much of its operations may become less attractive since business deposits are considered more risky than private.

Regarding the development of the Basel agreements E argues that it is mostly positive since it has made the banks able to identify the risk relating to each counterparty, to get a more correct assessment of each counterparty and can set the price based on that. Further E argues that the rules themselves are positive and the banks get a better control of their portfolios and their inflow of customers due to better scoring systems and check-ups. However the interviewee argues that the competitive environment between the banks have changed due to the implementation of Basel 2 since the banks have been
approved on different risk weights on their portfolios and some banks get lower capital requirements than others, therefore making it more expensive to some banks. E argues it may have been fairer during Basel 1 where the capital requirements were based on general templates.

Local interview answers
Regarding the implementation of new internal rules F mentions that on a local level rules are meant to be followed. F also mentions that it is good if the board and senior management are well prepared and give a heads-up to the local offices so that they can prepare for the changes that will be implemented. F mentions that the implementation of new rules works rather well and that it is the supporting functions job to make sure that it is as easy as possible for the local offices, so that they can work with good and sound deals as often as possible.

Further F mentions that for the bank the implementation of new external rules and regulations, such as the more stringent Basel agreements in Swedish law means that the bank continuously needs to adapt to these changes. And what concerns the implementation of Basel 3 the bank has been working with that for a rather long time. F mentions that this implementation is to be done in stages and mention transfer rules. F mention that what can be seen from the development of more stringent rules are the development of the documentation of operational risks and also how credits are secured, how securities are valued and how loans and credits are valued. In addition F mentions that the pricing has changed in terms of how it is handled and that the funding need to be longer, the own capital requirement higher and that there are more demands on documentation. F argues that it is increasingly more costly to run a bank and that the shareholders still want their return on their investments and therefore that the prices naturally has increased.

F argues that the new rules and regulations have not had that much impact on how the credits are handled other than that the documentation has increased successively over many years, so F also mentions that this does not need to be specific for right now. Further the interviewee mentions that the focus is on ROBE, the return on business equity and that it is more of a business question than a credit question.

Further F argues that after the financial crisis the refinancing risk has been more in the spotlight. F describes this by an example: If you have a customer that borrow money over twelve months you have to be clear with the customer that you can guarantee the money over twelve months but also that the bank cannot guarantee that the customer can have them for three or five years, since the deal is twelve months. When these twelve months are up, the intention is of course to extend the credit, but the bank cannot guarantee that it is possible. If you want to have money for three years you have to borrow for three years. F further mentions that this refinancing risk is most probably the same for all banks or financial institutions that borrow a lot of money on the international market. All of these players have to manage the refinancing risk suggesting that the end consumer also has to manage it.

About the buffer that the Basel agreements seek the banks to hold F mentions that the Swedish government has implemented higher demands on the Swedish banking system than the average, which they explain by that the Swedish bank system is larger in relation to the Swedish economy than in many other countries. At the same time this
can lead to a competitive disadvantage for the Swedish banks, since there are foreign banks operating in Sweden. F mentions that F does not know how hard this will hit but that it could be a disadvantage, but F also mentions that it is not that much own equity they have to hold, F mentions ten percent in core capital.

5.3.3 Organizational Structure
Central/regional interview answers
The interviewee argues that the bank has become more decentralized during the last few years and is continuing to move in that direction. However the interviewee also argues that the bank has historically become more decentralized only to become more centralized again, and now back to a decentralized structure. The interviewee believes the fact that the structure has been so volatile is a question of management, what the current board thinks is the best structure rather than being affected by risks and rules. E further believe it is positive with decentralization, the employees have to take own responsibility, and it is first when the employees take on own responsibility that they have the incitement to drive the business the right way. The employees become more motivated and the competence ends up at the right place, where you meet the customers.

Between the divisions the interviewee feel there is some competition instead of cooperation and that the communication is affected by this competition. Within the divisions the communication is on the other hand functioning well, with several channels between the hierarchical levels, like the intranet, direct contact, committees, fora and different systems. The interviewee again argues that it is up to the management how well the communication works, the management may think they know how the business is run, but it is easy to lose track of what is best for the offices when sitting in the board. E however argues that it is important to know what the offices want since the central levels are mainly supporting functions for them. E also adds that the local offices make many of their own decisions, that they can affect the risk by changing the price of a product and to whom they grant credits. E however argues that the risk of loss is always there for a customer, what can be done is to reduce the probability of loss, by scoring the customer well and taking the right securities. The interviewee mentions that in the local offices it is the credit risks and operational risks they can affect, if they do everything correctly, the operational risks decrease. So when it comes to the operational risks it is a kind of a self-sanitation question since the more risks and incidents they report, catch and notice the more the bank can manage and minimize those risks.

E mentions that the bank has three lines of defense, the first line of defense is the management, the business itself, it is the offices, the units, the board and the management. The second line of defense is made up of compliance and group operations and risk control. Audit is the third line of defense, and they report straight to the board, they are independent in their control activities. E underlines that there are several systems in place to control risks.

Regarding the general knowledge about risk management, the interviewee believes it is very high. The banks have been working a lot with it, and operational risk management people understand what it is about and customer complaints are managed well. When it comes to the Basel 2 and credit risk the level of knowledge can shift a bit. If you ask a person at the local office specific questions they may not know the answers. But if you ask the question how they manage risks they have a high level of knowledge, and E
argues that the bank works a lot with continuous education to keep a high level of knowledge.

Local interview answers
The interviewee argues that in general the bank has become more decentralized but that it feels like on one point the bank has become more centralized and that is the pricing of products. F mentions that pricing is more centrally controlled now. F argues that there is a lack of capital in the environment now and that it does not exist an unlimited amount that can be lent out. F gives an example and refers to that even states and countries have trouble to get the funding they need. F draws the parallel and mentions that today when lending out a major sum it must feel right in a return perspective. F mentions that the pricing nowadays is more centrally controlled. Further F mentions that the bank has to choose on where to lend and mentions that it is not only the pricing that is affected it is also which customers the bank choose and the securities the bank demands.

Further F argues that the bank seems to become more decentralized and that the bank cannot have unlimited costs in control and support functions. F argues that it requires that the everyday work is done in a proper way and that there is the necessary competence at local level. F also argues that a decentralized organizational structure is good since with responsibility at local level follows the possibility to make relevant decisions. If one has a lot of responsibility one should be able to make critical decisions and affect the outcome, otherwise it is no fun to have responsibility.

Further F mentions that the movement towards a more decentralized structure has not meant that control functions have increased. F mentions that the local offices have a great support from their system where it is possible to follow what have happened. F also briefly mentions internal revision. Further F adds the credit risk and mentions that the banks customers are scored every day, checked against the Swedish enforcement authority, the tax authority and that this ends up at F’s table every day if there are any major risks that need to be handled.

The interviewee also mentions that the bank is built out of different hierarchical levels and that these are local, regional, divisional and group level and the board. F describes that the bank is divided into divisions such as office movement, big corporations and institutions, life and insurance and asset management and one division for the foreign operations.

F perceives that the communication between the hierarchical levels works in a good way and most questions that an advisor have is very clear where to turn. Otherwise F argues that it is a lot about common sense; often you know what is right.
6. ANALYSIS AND DISCUSSION

In this chapter we will analyze and discuss our empirical findings generated through our interviews using our theoretical frame of references as a basis. The analysis conducted will be the base for the upcoming conclusions.

In this chapter we will divide the analysis in three parts, as done in the interview guide. These parts are Risks, Rules and Regulations and Organizational structure. The answers from our respondents will be presented and analyzed together and we will use these findings from our interviews to evaluate the theory presented in our theoretical framework and show to what extent these theories are applicable to our case organizations. As mentioned we will divide the analysis in three parts and we will not present all questions from the interview guide separately since all interviews were semi-structured and therefore also unique because of the respondents possibility to speak rather freely. We will start by analyzing the risks and how they are managed in the organizations and then continue with rules and regulations, then the organizational structure and finally we will summarize the analysis and revise our conceptual framework.

6.1 Risks

What we can see from the data collected in the interviews is that market & liquidity risks can be classified together and credit & operational risks can be classified together. We can see this because our problem formulation focuses on the financial risk management structure, which consequently means where in the company hierarchy the risks are handled and how they are handled. According to interviewee A at Bank 1, C in Bank 2 and E in Bank 3, market and liquidity risks are handled at central level and credit and operational risks are handled throughout the whole organization. Further it seems like the main reason for this is the nature of the risk in question. Shapiro et al. (2010, p. 355) explains hedging as establishing an offsetting position. Interviewee A states that the nature of market risks indicates that they should be handled at central level, for the whole bank since to establish offsetting positions at all local offices would not be so smart since a risk at one office may be offset by another risk at another office. We argue that a possible outcome of this is that it would be a lot more expensive to establish offsetting positions at all local offices and also as argued by A it is a question of efficiency. Further A argues that the local branches are not exposed to interest rate risk in the sense that when they lend money to a customer they borrow that money internally with the same maturity, transferring the risk to central level, therefore as argued by Sveriges Riksbank (2011, pp. 86-88) they are also avoiding the problem of maturity mismatch, which according to Sveriges Riksbank (2011, pp. 86-88) is an example of liquidity risk. This is also highlighted in Bank 3 by interviewee F who argues that when the local offices lend to the public they borrow internally, and when borrowing from the public they lend that money internally to a central level. Further F argues that the refinancing risk has come more in spotlight after the financial crisis and mentions that if a customer borrow money for twelve month it is not automatically possible for them to roll over that loan when the time is up. This we argue may be because of the new liquidity situation the banks are faced with, from the increasingly stringent Basel agreements that are implemented in Swedish law.

According to Chandra and Rishabhs, (2010, p. 22) derivatives may be used to generate
revenue but as found in the interviews with the banks this seems to be out of the question since their risk departments is not supposed to deliver revenue, they should manage risk. As argued by interviewee A if the derivatives make a profit one year they can make an equal loss or even bigger loss another year. We argue that this shows that the banks investigated see risk management as what it is, management of risks, and not as possible revenue-earning activities. Based on the interviews we have seen that these banks want to be perceived as low-risk banks, in addition we argue that this should mean that the banks should not engage in speculation activities in transactions that should be done to hedge and reduce the risk that already is undertaken by the office operations.

BCBS (2010, p. 5) and Matz (2010, p. 39) argue that an obvious way to handle liquidity risk is by building up a buffer of liquid assets during good times, which is possible to use in the future if there is a credit crunch. Further Ismal (2010, p. 56) argues that a bank that has problems generating liquid assets in the long run will in addition experience insolvency risk. Therefore we argue that the argument by BCBS and Matz, to build up a liquidity buffer, is insurance for future happenings and that safe banks should have a buffer. According to the interview answers we can see that this is the case for the banks, and C in Bank 2 argues that their bank should be able to operate about one year without taking on further debt. This is also highlighted by interviewee A in Bank 1 who states that they have access to enough liquid assets to keep them afloat for two years without any external funding. This shows that the banks investigated seem to want to be considered safe and we believe that this is a parallel to the nature of the banks businesses since they manage others people's money. Further Matz (2010, p. 39) argues that it is expensive to hold this liquidity buffer, but as mentioned by interviewee A it is expensive to be safe but that it is necessary. In addition since the financial markets the last couple of years have been very volatile and there have been a couple of crises, we believe that a strong amount of the people would prefer the banks to be considered safe. In addition to the demand from the public the increasingly stringent Basel agreements may also affect the liquidity buffers the banks hold.

The market risk and liquidity risk seem to be handled centrally in the organization because of their nature. It is cheaper and more effective to handle it at one level and therefore this seems to be the uniform way the banks meet these risks. Further it is seen as more effective since the nature of a hedge transaction according to Shapiro (2010, p. 355) is to establish an offsetting position, and therefore it must be smart to do this at a central level so that the local offices do not need to do it by themselves since it would be time consuming and inefficient since two offices that has opposite risk position have established a natural hedge, making it cheaper and more efficient for the banks to handle these risks at a central level. Therefore, based on our interviews we argue that there is no general difference on how the banks meet these risks.

According to the interviewees, because of the nature of credit and operational risk, they are handled throughout the whole organization. According to BGFRS (2008) to handle credit risk, a bank can use a risk based pricing technique, which suggest that the bank should provide more favorable terms for better customers. In the job of determining the quality of the customers the banks investigated in this thesis use among other things a credit scoring system where they give each customer an appropriate credit score and from this score the bank and the customer can negotiate terms. We argue that this implies in a way that one can argue that the banks uses a kind of risk based pricing
technique. Further as Oldfield and Santomero (1997, pp. 4, 29) mentions a common way to manage risk is to eliminate or avoid it by for example diversification. If we apply this to the banks investigated, we cannot conclude from our data, collected from the interviews, how the banks diversify their portfolios. On the other hand we can use the term avoid in another concept and argue that the banks score the customers and if the score is too bad they avoid exposing themselves to the risk and decide not to lend. This can be interpreted as an avoidance technique as argued by Santomero (1997, pp. 3-4) that the banks absorb an optimal amount of risk and avoid the undesirable risks. Based on the interviews this seem to be one of the most common ways to manage the credit risk at the local level, to simply avoid taking on credits with too elevated risks associated with them, using scoring systems, decision limits for credit granting, etc.

Further according to Sveriges Riksbank (2011, p. 9) if a bank has a doubtful creditworthiness of their portfolio it might be hard for the bank to borrow more money on the interbank market. This shines a light on the importance of having a sufficient credit assessment system. As Pyle (1997, p. 12-13) mentions banks generally use methods such as credit scoring, credit rating and credit committees and according to the findings from our interviews this seem to apply to all of the banks. All banks give their credits a score and depending on the characteristics of the credit the decision to grant a credit can be taken on different levels, for example in a credit committee. Further according to interviewee A and B, Bank 1 uses dynamic rating, and according to interviewee D in Bank 2 customers are re-rated to suit the new circumstances and E argues that Bank 3 monitors the portfolio to make sure that the risk is accurate. This, we argue, indicates that all banks in some way re-rates the credits as new information emerges. This dynamic rating we argue is good to keep track of the real risk in the portfolio and it is a good way to make sure that the bank is not faced with any unexpected credit defaults which could affect the bank negatively.

Further as Santomero (1997, p. 3) argues a way to avoid credit risk is by making sure that the bank has standardized processes and procedures to prevent that wrong decisions are made. This can be linked to the banks investigated in this thesis that have limits and back-up systems that help the advisor to make the right decisions. Further these systems we argue also help the banks to minimize the potential asymmetric information, which in accordance with Akerlof (1970, p. 489) can be interpreted as the party of a contract that has more information can use that to his/her advantage. From our interviews we have found that all the banks have clear decision limits for their employees and in addition the banks have several different levels of where the decision is made depending on the complexity and the size of the credit. All this is done to make sure that the right decision is made since many wrongful decisions about credits can be disastrous for the bank since a large part of the banks turnover is related to the credits (Sveriges Riksbank, 2011, pp. 81, 83). Further it can be seen from the interviews that the office managers in all of the banks have the largest decision limit at the local office. In addition the office manager also has the full responsibility for the operations relating to the office, indicating a large local responsibility for management of risks related to the office.

Suresh et al, (2010, p. 72) argue that credit risk for banks are substantial due to the nature of the bank's business, this can be underlined by the answers from our interviews, where all the interviewees argued that the credit risk is the most apparent risk in the different banks and that therefore it is important to manage the credit risk. Interviewee A also mentions that the market risk is important since it relates to the funding of the
banks credits. Based on the interviews we can see that the statement of Suresh et al, (2010, p. 72) holds in this case and it can be argued that it is obvious that the credit risk is seen as most important and apparent due to the nature of the bank's business, they lend money.

To sum up the analysis of credit risk and how credits are handled we can see that all the banks in our investigation are operating under sound credit granting process; since they based on the findings from our interviews all have sound credit granting criteria. They have established overall credit limits, they have a clear process of how to approve and monitor credits, which can be argued to be crucial since the banks underline the importance of managing the credit risk. In addition the banks seem to have good systems for ongoing administration of their credits, all in accordance with the Basel committee's principles regarding credit risk management (BCBS, 2000, p. 3-4).

Nocco and Stultz (2006, p. 10) mention that operational risk is practically impossible to hedge since they deal with internal control, fraud etcetera and Vyas and Singh (2010, p. 17) mentions that management of operational risks are usually implemented at various operational units. This is highlighted from the interviews and all banks handle these risks at the various hierarchical levels. Interviewee A at Bank 1 mentions that the branch manager handles the operational risk at the office where they occur and these are later sent to a regional level where the risks are summarized and sent to the central level where all operational risks are compiled. Interviewee B in Bank 1 further mentions that there are many layers of control that is used to reduce the risk for operational errors. Interviewee C In Bank 2 and interviewee E in Bank 3 argues that operational risks are handled throughout all levels of the organizational hierarchy. We argue that the fact that all banks handles these risks at all organizational levels highlights the nature of this risk and should confirm the argument by Nocco and Stultz (2006, p. 10) that operational risks are practically impossible to hedge and therefore the best way to approach the risk is by meeting it at all levels, starting with the people closest to the problem.

The BCBS (2006, p. 144) defines operational risk as the risk of loss that results from inadequate or completely failed internal processes, people and systems or from events external to the organization. Further BCBS stress the importance of sophisticated operational risk measurement systems something that also is stressed by Dunnet et al. (2005, p. 11) and Chernobai et al. (2011, p. 1685) who argues that most operational risks occurs due to problems with the institutions control. This shows the importance of banks having great systems in place that reduces the probability of these events from happening. Regarding this Interviewee A in Bank 1 mention that operational risks are handled by the branch manager and that they are sent through a system to regional level where they are summarized and sent to central level where they are compiled. According to interviewee C in Bank 2 they have an internal reporting system that is used for reporting different kinds of events and that this system reaches from official level up through the organization. Further interviewee D in Bank 2 adds that if something happens repeated times it is important that it is reported in the system so that the overall picture of the bank can be made. In addition interviewee E mentions that in Bank 3 the operational risks are both reported to the persons involved with the risk and to the board and that this reporting should be perceived as a quality check and that their bank use a system to report these risks. Interviewee F in Bank 3 further argues that it exist both internal and external operational risks and that the bank has a system that helps the office manager to have control over these risks. This shows that all banks
investigated have sufficient operational risk control systems that help them to mitigate
the risk of failed internal control as argued by Dunnet et al. (2005, p. 11) is the largest
cause for operational risk events.

From the interviews we could in addition to risk management see that the banks all
argue to have additional systems in place to mitigate and control risk. In accordance
with the model “three lines of defense” (Dennery, et al., 2010, pp. 9-10) the banks also
use internal control measures and internal as well as external audit as protection and
management of risks. Interviewee A argues that there are many layers of control in
Bank 1 to reduce the risk of errors occurring, Interviewee B add to this by stating that
the internal auditors are always possible to turn to in case of questions. For Bank 2,
interviewees C and D both stresses the importance of control measures to keep risks in
manageable forms and in Bank 3, interviewee E argue that the bank uses the three lines
of defense and underlines that there are several control systems for financial risks in the
bank. Based on this it would seem like the banks all to one degree or another use the
three lines of defense or an adaptation of it in their management structure of financial
risks. It is clear that all the banks uses more than only pure risk management practices to
mitigate and control the risk they are exposed to in accordance with the three lines of
defense model. We argue that it is important to highlight the internal control measures
and audits that are done to help the organization to learn from historical events and
prevent similar events from happening in the future. These defense mechanisms are
important in the bank's work to minimize and mitigate the financial risks.

6.2 Rules and Regulations
According to the interviewees the rules that affect their risk management and
organization the most is the implementation of the Basel agreements in Swedish law. As
argued in the theoretical frame of reference the Basel agreements has developed and
become increasingly stringent from Basel 1 to Basel 2 and now to Basel 3 (BCBS,
1988; BCBS, 2004; BCBS, 2010). On the other hand the Basel agreements do not only
become more rigid, the Basel 1 agreement provided the banks with templates with risk
weights that the banks used when calculating the capital charge for risks. Now, the
Basel 2 Agreement provides other ways to calculate this and that is to calculate it
internally by for example the internal ratings based approach for credit risk (BCBS,
2004, pp. 6, 15). To use the internal methods put higher demands on the banks, their
staff, their models and so on suggesting that to use the internal models is more
expensive and puts higher demands on the bank and its employees working on the risk
units, as stated by Yeh et al. (2005, p. 9). Based on our interviews we can see that the
banks prefer to use the internally calculated approaches since they provide a more fair
view of the actual risk in their portfolio and as interviewee A and C argues it is more
beneficial for the banks to use these internal techniques if they have a healthy portfolio
and E argues that the use of the internal models is more complicated than the use of the
standardized approaches and that the use of the internal models is increasing and E also
mentions that the bank gets a more correct assessment of the counterparties using the
internal models. Figure 5 further strengthens this, where we can see that if the banks
have good ratings on the credits the percentage of the exposure that is required to be
held as capital, is lower than for the standardized approach. This highlights that all
banks investigated seem to argue that the internal models are worthwhile to implement
in their banks since they believe that they will benefit from the use of them even though
there is a lot of demands that needs to be fulfilled.
The use of internal models is as mentioned in the paragraph above more expensive since it puts high demands on the organization and the staff within it. This is highlighted by interviewees A and E who argue, that the internal ways of calculating risk is more demanding on the organization and that this has affected the organizations in the way that the divisions working with these calculations and models need to have more in depth knowledge and they might also need more staff since it is much more extensive and complicated. In addition interviewee C argues that the manpower working with control has increased since the financial crisis and that this contributes to that the bank more regularly perform different stress tests and scenario analyses. Interviewee A also argues that to use the internal methods can bring a competitive advantage if the banks hold healthy portfolios. It can be seen from the interviews that the interviewees seem to have the same opinion and stresses that the Basel agreements have not contributed to any general changes in the organizational structure, rather that it has contributed to that the control and calculation functions have increased in manpower and importance.

In addition the interviewees cannot see that the Basel agreements have affected the organizational structure in any obvious way. Some changes have happened during the last years but as argued by interviewee C in Bank 2 this may rather be because of the financial crisis. There seem to be a general understanding of, if the Basel agreements have affected the organizational structure, which they do not believe, it has affected the organizations to become more decentralized. This is highlighted by interviewee E who argues that since everything has become so controlled with the increasing rules and so much that is automated and handled by systems the risk management structure should have become more decentralized however interviewee E believes that the fact that the organizational structure changes through time is rather a question of management. However market and liquidity risk management is very centralized in the investigated banks and this have not been affected by the increasingly stringent rules. This is in accordance with Struzenski (2006, p. 60) that mentions that a centralized cash management is needed to meet the regulatory demands.

One can also see from the interviews that the internal rules the banks impose in their own organizations to a large extent seem to be affected by the external rules implemented by Finansinspektionen based on the Basel agreements etcetera (FI, 2007). Interviewee C mentions that the bank implements new guidelines and systems in the organization at a central level based on external events, and in cooperation with Finansinspektionen but also to a certain extent based on the local knowledge and the people closest to the operations. Interviewee B also mentioned that the bank has many layers of control to reduce the risk of operational errors and that the local offices has easily accessible rules and regulations to follow. Interviewee B also mentioned that many of the internal rules are concerning that the right securities are in place. If we apply these internal rules to the Basel agreements we believe that the internal rules are formulated in a way so that a general understanding is easily accessible to all employees in the bank on how to follow the internal rules and in extension also the external rules implemented by Finansinspektionen. So in these matters we argue that the banks risk management structure and internal guidelines seem to be affected by external rules and regulations to a certain extent even though the interviewees did not see any major effects on risk management structure from external rules.
The banks all argue that they have started to prepare for the implementation of the upcoming Basel 3 agreement and that this will not affect them and their risk management structure to a big extent since they already have these sound portfolios in place and are prepared. The one critique that has been mentioned regarding rules and regulations is against Finansinspektionen and their implementation of the Basel agreements to the Swedish banks. Both interviewee A and F mentions the fact and that the Swedish banks gain a competitive disadvantage since the rules are implemented harder in Sweden than other countries. The Swedish minister of finance further highlights this and wants to impose more demanding capital requirements for Swedish banks Swedish operations compared to the rest of the European Union, 12 percent compared to the standard 7 percent (Grundberg-Wolodarski, 2012). In addition, FI (2005, p. 1) argues that the customers and borrowers also will be affected through interest rate changes since the Basel agreements affect the cost structure for the bank. If the Swedish banks want to be competitive they might need to lower their margins and on the other hand if they want to keep the same margins they need to increase the prices for their products. This results in a competitive disadvantage. Further it can be argued that this competitive disadvantage could affect the Swedish banks and their risk management since they might need to expose themselves to more risks in order to be able to compete with the foreign banks that do not have the same extensive requirements put upon them. It could be argued that Finansinspektionen and other regulating authorities have a big impact on the banks and their operations and there is a possibility that the bank managers could feel that the regulators are taking over their responsibilities. This we argue could be linked to Santomero (2003, p. 3) and his argument that the extensive rules and regulations that are imposed on the banks due to the regulations may have a negative effect on the bank managers’ motivation.

One thing that is evident from our empirical findings is that most of the interviewees are satisfied with the development of the Basel agreements and perceive the development as positive. Interviewee C for an example argues that strong and clear regulations are positive for all parties. Further interviewee E and A both argue that the development is positive since more correct assessments can be made and that their banks will benefit from the development due to the fact that they have sound portfolios of credits. Based on this it would seem that the Swedish banks investigated all perceive themselves as winners of increased regulations, this could be linked to the fact that the banks investigated see themselves as low risk banks and that they already have sound portfolios of credits and control systems in place and will not be affected to a big degree of stricter rules and regulations. We argue this could have to do with the banks being able to use internal models for calculation of risks, and as argued by Yeh, et al, (2005, p. 9) it is possible to say that a bank that holds a healthy portfolio and customers with good ratings will benefit from the adoption of the IRB method and therefore also indirectly from the development of the Basel agreements.

### 6.3 Organizational Structure

According to Alonso et al. (2008, pp. 145-146) an organization that have several divisions or activities in several locations have to make a decision about their management structure. Alonso et al. (2008, pp. 145-146) mentions that the organization need to make a decision to either centralize control or decentralize the decision making and in doing that the organization need to consider the trade off between the different alternatives as decentralized decision making means that the decisions are taken closer
to the actual problem and centralized decision making means more control. Further according to Alonso et al. (2008, pp. 145-146) in a decentralized management structure the local managers have a big responsibility. What we can see from the interviews is that the banks have roughly the same organizational structure. All banks have different hierarchical levels, for example; local, regional and central, Bank 1 have more focus on the regional offices and Bank 3 have more focus on different divisions within the bank. Nevertheless the trend seems to be that the banks are developing towards becoming more decentralized. This is highlighted by interviewee A and B who argues that their bank is very decentralized as a strong principle and have been so for a long time and A argues that the branch manager should have full control on their customers and that the regional and central levels in the bank mainly are supporting functions. In addition interviewee B mentions that the bank has very short decision paths and that the local bank manager reports to the regional bank manager who reports to the CEO and interviewee B also underlines the big responsibility of the local managers. Further interviewee C and D believes that their bank develops toward taking their business decisions more decentralized and argues that their bank has been more top-down historically and C also argues that the bank is strengthening the office manager's role, D further adds that it is important that the office manager has information about what is going on at the local bank, since they are supposed to be responsible for their actions. Interviewee E and F also argues that their bank is currently becoming more decentralized and that this has been the trend for the last couple of years, and in addition F argues that it is the office manager that has the full responsibility of the office’s business. These statements are all in alignment with Alonso et al.’s statement that in a decentralized management structure, the local manager has big responsibility (Alonso, et al., 2008, pp. 145-146). Further it seems that the banks investigated in this thesis all prefer to have the manager closest to the problem responsible for the business decisions, in the cases of business decisions this also becomes quick and easy and most probably more accurate since the managers have a local knowledge that the centralized management lacks. This further strengthen the fact that the banks seem to move towards a decentralized structure and as already mentioned the banks seem to have evaluated the trade-off between having centralized control versus decentralized decision making as mentioned by Alonso et al. (2008. pp. 145-146).

Previously there seem to have been quite big differences in organizational structure between the banks, with Bank 1 being decentralized, Bank 2 and Bank 3 having been centralized. However as the previous paragraph shows, the banks are now becoming more like each other structure-wise. Still what can separate Bank 3 from the other two banks is that Bank 3 has a very clear divisional structure, something that we have not observed in the other banks to the same extent. It is hard to isolate the reason for the banks becoming more alike, but the trend has been going on roughly since the financial crisis and the implementation of Basel 2, and since these events occurred approximately at the same time it is hard isolate the reason for the change. Interviewee C rather think the financial crisis has affected the structure of Bank 2, while interviewee D cannot conclude the reason but, mentions both the financial crisis and the implementation of Basel 2. Interviewee E cannot see a connection between either the financial crisis or the implementation and the Basel 2 agreement and the current move towards decentralized control, Interviewee E rather claims it is a question of what the current management prefer, something that suggests that external events would not have any major effect on the organizational structure. In addition interviewee A mentions that Bank 1 is strongly decentralized as a main principle and A do not believe that increasing rules will lead to
more central control. So based on these interviews no clear answer to why the banks are becoming more decentralized can be identified, but all interviews indicate that all the banks investigated are decentralized or at least moving towards a decentralized organizational structure. Nevertheless it is worth highlighting the argument from Andrews et al. (2009, pp. 58-59) who mentions that in a centralized organization it is typically only few individuals involved in the development of policies. As found in the interviews we can see that this applies to all the banks. The policies and guidelines are constructed at central level and then implemented throughout the organization. A argues that guidelines are worked out centrally with inputs from other levels, C argues that a central unit sets internal rules but that there is always an ongoing communication between local, regional and central units and E argues that guidelines are developed centrally and introduced at the local offices and controlled through continuous education. This shows that a decentralized structure is not clear-cut and that it is important to remember that the one thing that the banks argue is decentralized is the offices business decisions.

Further as mentioned in the other parts we can see that the decisions that are taken relating to the offices business for example managing credit risk and operational risk is taken at the local office within certain limits only backed up by the other hierarchical levels. As argued by interviewee C, banks have a very centralized nature. We notice this fact by the management of market and liquidity risk that is dealt with purely on a central level. Struzenski (2006, p. 60) argues that to meet the regulatory and compliance requirements of today a company must have a centralized cash management structure. This we think is highlighted from the interviews in a sense since we can see that all liquidity questions are handled on a central level. This implies that the argument of Struzenski holds for the cases examined in this thesis.

Based on our interviews we can see that with more responsibility on local level the effect is rather that more extensive control functions follow than a change in the structure of risk management. A in Bank 1 argues that with more responsibility on the local offices follow more control. C also stresses this for Bank 2 and argues that centralized units get more responsibility for follow up and control functions while the business decisions are becoming more decentralized, D also emphasizes this by arguing that if there is a large responsibility on the local office it is important to have controls that make sure that the local staff can handle this responsibility. Further regarding Bank 3, F mentions that they have not perceived that the control has increased, F rather mentions the great support system they have where it is possible to follow what have happened. This, we argue, shows that the control functions have increased in importance as the business decisions has become more decentralized. The fact that the business decisions becomes more decentralized can be linked to the argument of Andrews et al. (2009, p. 60) which states that if decisions are taken centrally it can undermine the local managers and their responsiveness to risk and changes in the environment, which will not happen in the cases investigated.

According to Alonso et al. (2008, p. 146) it is important that the decentralized firm have clear communication channels to coordinate with other local managers and managers at higher hierarchical levels to perform well. B in Bank 1 argues that the communication channels between the local bank and the other hierarchical levels are clear and easily accessed. C in Bank 2 argues that communication flows between office managers, regional managers and their assistants to a central Swedish function and in addition C
mentions that the communication in the organization flows in both directions, both up and down. Regarding Bank 3, E argue that the communication between the banks different divisions is to a small extent affected by some competition between the divisions, but that the communication between the hierarchical levels works well with many channels to turn to. F also argues the communication between the hierarchical levels work well and potential questions can be answered. This shows that all banks investigated have clear communication channels and it is strengthening the argument by Alonso et al. (2008, p. 146), that it is important for an organization that perceives itself as decentralized to have clear communication channels to function well. Further the fact that interviewee E mentions that there is some competition between the divisions at bank 3 shows that the argument by Alonso et al. (2008, pp. 167-168) that divisional managers may communicate strategically to promote their own divisions at the expense of the overall organization holds for Bank 3. Nevertheless the fact that Bank 3 is moving towards a more decentralized structure could also indicate that Bank 3 has noticed a potential benefit from a decentralized structure. Alonso et al. (2008, p. 168) also highlights this, and argue that decentralization will always outperform centralization when the incentives of the divisional managers are aligned.

6.4 Summary of Analysis and Discussion
Since the above analysis and discussion is rather extensive we intend to show the relationship between the three above investigated concepts and how they fit together by making a quick summary of the analysis and discussion.

Looking at the whole picture of risks and how they are managed at the banks, we have not uncovered any major differences. The banks seem to use a rather uniform management structure of financial risks. The nature of the risk seems to be the determinant of where in the hierarchy it is handled. Further the banks all use some kind of control and backup systems that help them in their work to assess risks. One thing that is very clear is that the banks investigated all seems to want to be perceived as banks with low risk, and this we think might be since the nature of their business is built on trust and also because of the recent global financial turmoil. Further in addition to regular risk management practices the banks all use some sort of adaptation of the three lines of defense model.

What can be concluded from the interviews is that the banking industry is very regulated and that the banks are handling different financial risks in a similar fashion. Further there seems to be no major organizational changes from new stringent rules and regulations. All banks investigated seem to mainly use internal measurement techniques indicating a strong knowledge and sound risk structure in their portfolios. The banks investigated and their risk management is very affected by the Swedish rules and regulation, mainly the rules implemented based on the Basel agreements, but any clear changes in the organizational structure can not be observed. The fact that the Swedish regulators are adopting more stringent rules for the Swedish banks means that the cost for their products increases and this might of course affect the customers and it may also lead to a competitive disadvantage for the Swedish banks against foreign competitors.

From the interviews we can see that the organizational structure of the banks differ only to a small extent. They have focus on different aspects of the structure. Bank 1 has a lot of focus on the regional level; Bank 3 has more focus on the different divisions, while
Bank 2 cannot be categorized as clearly as the other two banks in these brackets. Further we can also see that the bank's organizational structure is changing and that the banks seem to move towards having their business decisions taken on local level. Further, from the interviews one can see that the banks do not meet risks differently depending on the overall organizational structure. Risks are met where it is most appropriate and for market and liquidity this means management at central level and for credit and operational this means at all levels in the company hierarchy for all three banks.

To link our research back to the conceptual framework (see Figure 9) we can, based on the findings and the analysis see that the different concepts did not have the effect we assumed based purely on theories. Therefore we will present a revised framework that shows a more complete picture of how the different concepts fit together and affect each other. This revised framework can be seen in Figure 10 below.

Looking at the figure we can see that financial risks affects rules and regulations and that these two concepts both have an affect on the structure of risk management. Based on the theories we assumed that this was the case and gathering data from the interviewees strengthened this argument. Further as discussed in the analysis/discussion part it is mainly the nature of the financial risk that affects where in the organizational hierarchy it is dealt with. Further rules and regulations affect how risks are managed since the Basel agreements deal with capital requirements, supervisory review and market discipline. In addition as can be seen in Figure 10, rules and regulations have affected the central control functions and risk units. This is because the Basel 2 agreement provides internal ways of calculating risk exposures and for a bank to be approved to use these internal calculations they need to fulfill certain requirements. As found in the interviews these central control functions did not seem to affect the risk management and the structure of risk management in any big extent. In addition we can also see that external events in the financial market affect rules and regulation and these external events also affect the organizational structure. As found in the interviews external events such as the financial crisis can affect the organizational structure. In addition one can argue that rules and regulations can be an external event and that rules can affect the organizational structure, but as found in the interviews this does not seem to be the general understanding. In addition according to the interviews it seems like management policies affect the organizational structure. Lastly, from our empirical findings we could also see that the organizational structure had no direct impact on the risk management structure, rather that it was the nature of the risk that determined where in the organization the risk was managed.
7. CONCLUSION

In this chapter we will answer our research questions and provide a conclusion closely linked to the purpose of this study. To do this we will use our empirical findings and the analysis provided in previous chapters. In the end of the chapter we will also include the implications of our research and give suggestions for further research in the area.

To be able to do a proper conclusion it is important to have the purpose of the study and the research questions in mind. Our purpose was mainly to show the relationship between the degree of centralization and the risk management structure in three banks and enlighten the reader on the effect the more stringent rules and regulations have on the degree of centralization in the bank’s risk management. Further to enhance the structure of the bank's risk management we intend to show which of the risks facing a bank that most likely are to be managed at the different hierarchical levels and contrast on the difference between the banks. To be able to fulfill this purpose we formulated the following two research questions:

1. How does the financial risk management structure look like at three major Swedish banks?

2. How are the banks approach to financial risk management affected by how decentralized their organizations are, and what effect does the increasingly stringent rules in the financial community have on the structure of the organization and its risk management?

Based on the analysis we can see that the conceptual framework we drew in the theoretical frame of reference needed a revision. Our concepts did not relate to each other as expected and therefore we provided a revision of the conceptual framework. Based on our empirical findings we could see that the banks are very similar in their risk management structure and that it is mainly the nature of the risk that determines where in the hierarchy the risk is managed. This means that credit and operational risks are handled throughout the organization on different levels due to the nature of the banking business, to give out credits on the local level, therefore some of the responsibility for the management must be there as well. Further operational risks can occur throughout the whole organization and therefore they must also be handled at all the levels of the organization. In addition all banks have backup, monitoring and controlling functions on other hierarchical levels that are intended to work as a support to the local offices. On the other hand market and liquidity risks are handled at central level at all of the banks investigated and this is also mainly because of the nature of the risks. According to our findings it is more efficient to handle market risk at central level since it often concern hedging, to establish an offsetting position. Liquidity risk is also handled at central level due to lower cost and higher efficiency.

Based on our empirical data we also found that rules and regulations do not seem to have any big impact on the organizational structure of either of the banks. The effects noticed were rather concerning increasing control functions and changes in risk management due to new methods for calculating and monitoring risk exposures. As the Basel agreements develop we can see that all the banks prefer the internal measurement techniques, which put higher demand on the banks resulting in an increased importance of central risk units. Nevertheless the more stringent rules and regulations do not seem
to have an impact on where in the hierarchical structure the risky business decisions are made.

From the interviews we could see that the banks have similar organizational structures, but with small differences in focus. One of the banks have large focus on divisions and one bank emphasized the regional importance while all of the banks seem to agree on the importance of responsibility at the local offices and that the regional and central levels mainly exist as back-up functions. Historically there has been a bigger difference between the organizational structures of the banks but now they are more homogeneous since the two banks that have been more centralized in the past seem to develop towards taking their business decisions more decentralized. However the difference in organizational structure do not seem to affect how the banks meet the financial risks. The analysis of these main findings has led us to the following conclusions on our two problem statements:

1. Regarding the financial risk management structure, we can see it is similar in all banks investigated and it is the nature of the risk that determines where in the organizational hierarchy it is dealt with. Liquidity and market risk are dealt with purely on a central level while credit and operational risk are dealt with throughout the whole organizational hierarchy. All banks have supporting functions that help the local offices to manage the risks correctly.

2. No effect can be observed from the organizational structure and decentralization on how financial risk management is structured. The more stringent rules has led to more control functions and increased central risk management units, no clear effect can however be seen on where in the organizational hierarchy risky business decisions are made.

7.1 Research Contribution

The contribution of this study to the theoretical field is that we have combined the extensive subjects of financial risk management, centralization/decentralization, and rules and regulations by investigating what effects rules and regulations have on decentralization and how these two concepts affects the financial risk management. Since no study has combined these subjects, our thesis will provide the reader with new knowledge. Further we argue that it is important to combine these subjects since the banking industry generally is considered very strict, rigid, hierarchical and that there are a lot of rules the banks need to follow indicating the importance of research to be conducted in the area.

The practical implications from the study are that the banks can use this thesis in their discussion about how they should structure their organization and their risk management. Since we compare three different cases the banks can evaluate their own structure in relation to the other banks investigated. Further this thesis provides the general public with knowledge in how Swedish banks structure their financial risk management and how the banks are affected by rules and regulations, this can be necessary knowledge since it is important to understand that for example the Swedish regulators are imposing stronger demands on the Swedish banks Swedish operations than are imposed in the rest of European Union. This suggests that the Swedish banks
should be safer which can be a critical point for the general public when choosing bank because of the recent financial turmoil.

7.2 Recommendations for Future Research

From this extensive study within the field of financial risk management and how it is affected by the organizational structure and rules and regulations we have spotted a few areas where we could recommend further research.

The first area is on regarding the implementation of new rules: Why is Finansinspektionen implementing tougher demands on the Swedish banks, and what do they base that decision on? What do Finansinspektionen think about the possible competitive disadvantage this might bring the Swedish banks?

This would be an important area of research because of the fact that Swedish regulators have decided to adopt more stringent rules and requirements on the Swedish banks Swedish operations. It would be important to shine a light on the effect from these more stringent requirements and describe the effect it will have on the competitiveness of the Swedish banks.

The second area is regarding the difference between commercial banks and investment banks: To what extent do commercial banks and investment banks differ from each other when it comes to financial risk management and are they affected differently by rules and regulations like the Basel agreements?

It would be interesting to investigate this since in our research we have gathered a substantial amount of empirical findings on 3 commercial banks and we have spotted no major difference between how they approach financial risk management and further we have noticed that the rules and regulations affects the cost of the products to the largest extent, therefore it would be appropriate to see what effect the rules have had on investment banks. Both The Economist and The Financial Times have mentioned the big effect, new more stringent capital requirements will have on the investment banking activities (Masters, et al., 2010; The Economist, 2010). Based on this motivation, it would be interesting to complement this data with the same set of data on investment banks and conduct a comparative study between these two different types of banks. If this is done one would get a broader picture of how the financial market works and how the rules affect different types of banks.
8. TRUTH CRITERIA

This last and final chapter will present the reader with an understanding of the truth criteria that will be used to evaluate this research: Credibility, dependability, transferability and confirmability.

When conducting a qualitative study it is important to notice that the truth criteria generally used when evaluating a quantitative study are not applicable. Lincoln and Guba (1985, p. 218-219) suggest four alternative criteria for evaluating qualitative research: credibility, transferability, dependability and confirmability, these criteria together make what Lincoln and Guba call trustworthiness. Further Easterby-Smith et al. (2002, p. 54) argue that it is important that the study is believable and that the result is reached through transparent methods. In this part of the thesis we will evaluate our research using the criteria mentioned by Lincoln and Guba (1985) and we will also provide arguments for our transparency.

8.1 Credibility

Credibility is according to Lincoln and Guba (1985, p. 219) a parallel to the quantitative criteria of internal validity, Easterby-Smith et al. (2002, p. 53) describes validity as if the measures correspond closely to reality. According to Bryman and Bell (2007, p. 411) it is the credibility criterion that is going to determine how acceptable the study is to others. To ensure that the study is as credible as possible one can use different techniques such as member checking and triangulation (Lincoln and Guba, 1985, p. 301).

To increase the credibility of the study we aimed to do a triangulation to ensure that the interpretations of the interview data was correct (Lincoln and Guba, 1985, p. 301; Easterby-Smith et al., 2002, p. 53), therefore we aimed to use an additional source of data by using the annual reports of the investigated banks. Due to that we decided to make the banks anonymous we could not use the annual reports and therefore we could not use the triangulation we wanted. Further according to Saunders et al. (2009, p. 157) a threat to the validity of a study, or in this case credibility, is if for example the interviewee believes that truthful answers will affect them negatively. This is minimized by the fact that all interviewees and case organizations are anonymous. However since the banking industry is quite competitive and there is a lot of rules and regulations that the banks need to follow and since risk management can be a sensitive subject there is a possibility that even though we made the banks and the respondents anonymous that information was withheld.

To ensure that the findings from the interviews were validated by the interviewees we sent the transcribed version of the interview that we were going to use in our findings chapter to the interviewee and asked them for comments and corrections if there was something that we had misinterpreted, this is called a member check and it is the most crucial technique for establishing credibility (Lincoln and Guba, 1985, p. 314). Since we conducted all our interviews in Swedish and later transcribed it and translated it to English the member check of the interview is particularly important. If the interviewees had any comments or corrections regarding the translation and interpretation we took the necessary steps to ensure that all those comments were corrected and then we sent another copy of the findings to them for yet another member check.
Further Easterby-Smith et al. (2002, p. 54) argues that it is important that the result of research is believable and that they are reached using transparent methods. Therefore it can be important for the reader that we as researchers are as transparent as possible in the thesis making sure that the actual measures correspond close to reality. During the thesis writing we tried to be as transparent as possible and describe as much as possible in detail for example the method used for gathering data, view of reality, limitations and sample of interviewees.

Lastly Lincoln and Guba (1985, p. 314) argue that when possible it is good to store the raw data in archives for later recall and comparison and that this increases the credibility. When permitted we recorded our interviews but due to reasons of anonymity we have not kept the recording rather we have kept a transcribed anonymous version of the interview, which can be provided to interested parties after approval from the interviewee.

8.2 Dependability
Dependability is according to Lincoln and Guba (1985, p. 219) a parallel to the quantitative criteria of reliability. Saunders et al. (2009, p. 156) describes reliability as to what extent the data collection techniques and analysis procedures will yield consistent findings. We argue that our sample of six interviewees, two at each bank, can be considered a limited sample and therefore it might affect the findings and to what extent the findings will be consistent if similar research is conducted again. Additional interviews at each bank could have enhanced the dependability; nevertheless due to problems with access six interviews were conducted. However the interviewees all had relevant work experience and knowledge suggesting that the answers are dependable. In addition Easterby-Smith et al. (2002, p. 53) argues that the constructionists viewpoint of reliability is if there is transparency in how sense was made from the raw data, and since we made a qualitative study with few observations this is how we should evaluate our study since it is impossible to say if the measures will yield the same result on other occasions (Easterby-Smith et al., 2002, p. 53). Further Lincoln and Guba (1985, p. 316) argue that there can be no credibility without dependability and that therefore it is only needed to demonstrate the former.

To make sure that our study is as dependable as possible we have made sure to keep as complete records as possible of all phases of the research process (Bryman and Bell, 2007, p. 414). When allowed we recorded the interviews and later we transcribed these so that we have a transcribed version of the interview that is assessable on demand after approval from the interviewee. Due to reasons of anonymity the audio record will not be available, it is only the transcribed version where the interviewee has been made anonymous that is available on demand.

Further Saunders et al. (2009, p. 156) mention that a threat to reliability is subject or participant bias meaning that the interviewee is saying what they think their boss want them to say. The fact that we have made our case organizations and interviewees anonymous makes the participant bias minimized, strengthening the dependability of our research. Another threat mentioned by Saunders et al. (2009, p. 157) is observer error, which is increased by low structure and different people conducting interviews. To make sure that observer error was minimized we had as much structure in our
interviews as possible when using a semi-structured interview-guide. Further we also conducted all interviews together in pair minimizing the risk of different styles of interviewing used with different interviewees. This results in higher dependability of our study.

8.3 Transferability
Transferability is according to Lincoln and Guba (1985, p. 219) a parallel to the quantitative criteria of external validity. Lincoln and Guba (1985, p. 316) argue that a naturalist cannot specify the external validity of a study; they argue that it is only possible to provide a thick description, meaning that the researcher should provide a database that makes it possible for the reader to make a judgment of transferability. Therefore, to ensure that the study is as transferable as possible it is important to provide rich accounts of detail (Bryman and Bell, 2007, p. 413). Thick description should include everything that a reader may need to know in order to understand the findings (Lincoln and Guba, 1985, p. 125).

It would be appropriate to describe the case organizations so that the reader can get an understanding of the surrounding environment, then it would be easier to make a judgment if the study is transferable or not. In our case, we could not provide a description of the case organizations since we have decided to make the organizations and the interviewees anonymous. Nevertheless we have provided the reader with as much information as possible about the case organizations. To further make it possible for the reader to understand the findings we relate the findings from our research to existing theory since we then can show that the findings have broader theoretical significance than the cases investigated (Saunders, et al., 2009, p. 335) and therefore it is also easier to understand if the research is transferable.

8.4 Confirmability
Confirmability is according to Lincoln and Guba (1985, p. 219) a parallel to the quantitative criteria of objectivity. To establish confirmability Lincoln and Guba (1985, pp. 318-319) suggest three different techniques: Confirmability-audit, triangulation and keeping of a reflexive journal. None of these broad techniques are used in our study, we can rather say that if the reader wants to the reader can act as an auditor by using the stored raw data and evaluate our study from that (Lincoln and Guba, 1985, p. 323).

It is important for us as researchers not to be colored by personal values or theoretical inclinations since it can affect the findings (Bryman and Bell, 2007, p. 414; Lincoln and Guba, 1985, p. 293) therefore during the research process we have let other researchers read our thesis and comment on things that could be improved and where we might have been affected by our personal values or our pre-understandings. This was done both before and after the gathering of data, making sure that our pre-understandings had a minimum impact on our research.

To assess the confirmability of this study the reader can evaluate if we as researchers have grounded all our findings in data, the reader can for example ask for a copy of a transcribed version of an interview. As mentioned in the dependability part, on demand we can provide the reader with an anonymous version of a transcribed interview after approval from the interviewee. This is provided since the reader then can evaluate the findings by looking at the raw data. (Lincoln and Guba, 1985, p. 323)
REFERENCES


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APPENDIX 1 – Interview Guide, Central Level

Central level interview guide - English

General Information

In order for your answers to be reproduced as accurately as possible in our thesis we would like to record the interview with your permission. If you choose to not let us record the interview we will only take notes of your answers. Further both you and your bank will have the possibility to remain anonymous, should you choose this, the bank will be given a number that it will be called, and for you, only the position will be revealed in our thesis.

The interview is split into three parts, where all areas touch upon risk management. The first part is about financial risks; the second part about rules like the Basel agreements and the third part will focus on the organizational structure of the bank.

Our goal is that the interview should take approximately one hour; if possible have that in mind when answering the questions.

Personal Questions

Age:

Position:

Work description:

Years in the bank:

Risks

Below, 4 questions follow regarding financial risks, here we seek short answers giving us a picture of how the structure look like and what instruments/approaches that are used

- How is market risk managed at your bank? (Instruments, diversification etc.)
  - Where in the hierarchical structure is this risk managed? (Distribution between central, regional and local units)
  - If it is handled at several levels how is that done?
- How is credit risk managed at you bank?
  - Where in the hierarchical structure is this risk managed?
  - If it is handled at several levels how is that done?
- How is liquidity risk managed at you bank?
  - Where in the hierarchical structure is this risk managed?
  - If it is handled at several levels how is that done?
- How are operational risks managed at your bank?
  - Where in the hierarchical structure are these risks managed?
  - If they are handled at several levels how is that done?
Below follows five questions regarding financial risks and the organizational structure. Here we are looking for answers that shine a light on the different organizational levels responsibilities and how the communication works between these levels.

- How high are the limits on what the local offices can decide where they are involved in the risk management?
- Which risks are most central in your organization?
  - Why?
- How are risks communicated between the hierarchical levels (risk management, and actual risk levels)
- How is the work divided between local/Regional/Central risk management functions?
- How are new risk management guidelines implemented throughout the organization?

Rules

In this part of the interview we will go through rules like the Basel-agreements and how they affect the bank’s organizational development and its risk management.

- Do you perceive that the implementation of the Basel agreements has had any effect on your bank’s organizational structure?
  - How has it affected the structure of your bank?
- Do you perceive that there have been any changes in how your bank approaches and manages financial risks as the Basel agreements have developed?
  - How does your bank adapt to these changes?
- What do they think about the development of the Basel agreements?
  - Positive or negative reflections?
  - Any critique? (What could be different?)
- How severe do you think the impact will be from the Future Basel 3 agreement on your organization?
  - Do you think that this will affect the banks organizational structure?
  - In that case: How?

Organizational Structure

In this third and final part of the interview we will focus on the organizational structure. Focus will be on the different hierarchical levels, the communication between these and finally on the general level of knowledge in the group.

- Do you perceive your organization as centralized or decentralized in control?
  - Why?
  - On a scale of 1-10 how centralized do you perceive the organization?
- Do you perceive that your bank has a constant organizational structure or is it developing towards a centralized or a decentralized organizational structure?
  - Why do you think this is the development?
  - Why not?
- Does your bank have several lines of defense in meeting financial risks?
  - In that case: How are they structured? (Organizational levels)
- How do you perceive that the communication function between the different hierarchical levels?
Lindé & Wallgren, 2012

- How involved are the local offices in the work with financial risk management?
- Do you perceive the chain of command to be clear?
- If there are any questions on local level is it clear where they should turn to ask their questions?
- What is your perception of the general knowledge about financial risk management within the organization?
  - Take the different organizational levels into consideration (Local, Regional, central)
Central level interview guide - Swedish

**Generell Information**

Om ni godkänner kommer vi att spela in denna intervju för att era svar ska återges så exakt som möjligt vår uppsats. Väljer ni att inte godkänna spelar vi inte in intervjun, utan kommer endast att använda oss av anteckningar. Ytterligare har ni möjligheten att vara anonym, om ni väljer detta kommer endast er position att offentliggöras i vår uppsats.

Vi kommer att dela in denna intervju i tre delar där samtliga delar berör riskhantering. Den första delen handlar om finansiella risker, den andra delen har fokus på Basel överenskommelserna och den tredje och sista delen fokuserar på bankens organisationsstruktur. Vårt mål är att intervjun ska pågå i ca 1 timme. Om möjligt ha detta i åtanke när ni svarar på frågorna.

**Personliga frågor**

Ålder:

Position:

Arbetsbeskrivning:

År inom banken:

**Risker**

Nedan följer 4 frågor som handlar om finansiella risker. Här söker vi korta svar som målar upp hur strukturen ser ut och vilka instrument/angreppssätt som används för att hantera dessa risker

- Hur hanterar er bank marknadsrisker? (Instrument, internrevision, diversifiering etc.)
  - Var i den hierarkiska strukturen är marknadsrisken hanterad?
    (Distribution mellan lokala och centrala enheter?)
  - Om marknadsrisken hanteras på flera nivåer, hur går det till?
- Hur hanterar er bank kreditrisken?
  - Var i den hierarkiska strukturen är kreditrisken hanterad?
  - Om kreditrisken hanteras på flera nivåer, hur går det till?
- Hur hanterar er bank likviditetsrisker?
  - Var i den hierarkiska strukturen är likviditetsrisken hanterad?
  - Om likviditetsrisken hanteras på flera nivåer, hur går det till?
- Hur hanterar er bank operationella risker?
  - Var i den hierarkiska strukturen är operationella risker hanterade?
  - Om operationella risker hanteras på flera nivåer, hur går det till?

Nedan följer fem frågor som handlar om finansiella risker och organisationsstrukturen. Här söker vi främst svar som belyser de olika organisationella nivåernas ansvar och kommunikationen mellan dessa.
Var går gränsen för vad lokala kontor får bestämma, när de är involverade i riskhanteringsprocessen?

Vilka risker är mest centrala i er organisation?
  o Varför?

Hur kommunikeras risker mellan de olika hierarkiska nivåerna (Riskhantering och faktiska risk nivåer)

Hur är riskhanteringsarbetet fördelat mellan lokala/Regionala och Centrala enheter?

Hur implementeras nya riskhanterings-guidelines i er organisation?

**Regler**

*I denna del av intervjun kommer vi att behandla Basel-överenskommelsernas påverkan på bankens organisationella utveckling och riskhantering.*

Upplever ni att det har skett någon organisationell förändring på grund av strikta finansiella regler, utvecklade från Basel-överenskommelserna?
  o Vilka är dessa förändringar?

Upplever ni att er bank har ändrat sitt angreppssätt vad gäller riskhantering på grund av att Basel-överenskommelserna har utvecklats?

Vad tycker ni om Basel-överenskommelsernas utveckling?
  o Positiva/negativa reflektioner?
  o Har ni någon kritik mot Basel?

Hur tror ni att Basel 3 kommer att påverka er organisation?
  o Tror ni att detta kommer att påverka bankens organisationsstruktur?
  o I så fall: Hur?

**Organisationsstruktur**

*I denna tredje och sista del av intervjun kommer vi att fokusera på organisationssstrukturen, vi kommer att fokusera på olika organisationella nivåer, på kommunikation mellan dessa och slutligen på den generella kunskapsnivån inom koncernen.*

Upplever ni att er organisation är centraliserad eller decentraliserad vad gäller kontroll?
  o Varför?
  o På en skala 1-10 hur centraliserad upplever ni den?

Upplever ni att banken har en konstant organisationsstruktur, eller utvecklas den mot att ha en centraliserad alternativt en decentraliserad organisationsstruktur?
  o Varför tror ni att detta är bankens utveckling?
  o Varför inte?

Har er bank flera försvarslinjer mot de finansiella riskerna? (syftar på organisationella nivåer)
  o Om så är fallet: Hur är dessa strukturerade?

Vad är er uppfattning om hur kommunikationen fungerar mellan de olika organisationella (Hierarkiska) nivåerna?

Hur involverade är de lokala kontoren i arbetet med hanteringen av finansiella risker?

Upplever ni att er organisation har en klar orderstruktur?
Om det finns några frågor på de lokala nivåerna, är det klart var de ska vända sig för att fråga dessa?
Hur uppfattar ni den generella kunskapsnivån gällande hantering av finansiella risker inom organisationen?
Kan ni ta de olika organisationsnivåerna i beaktning (Lokala, regionala och centrala)
APPENDIX 2 – Interview Guide, Local Level

Local level interview guide - English

General information

In order for your answers to be reproduced as accurately as possible in our thesis we would like to record the interview with your permission. If you choose to not let us record the interview we will only take notes of your answers. Further both you and your bank will have the possibility to remain anonymous, should you choose this, the bank will be given a number that it will be called, and for you, only the position will be revealed in our thesis.

The interview is split into three parts, where all areas touch upon risk management. The first part is about financial risks, the second part about rules and regulations and the third and last part will focus on the organizational structure of the bank.

Our goal is that the should take approximately half-an-hour, if possible have that in mind when answering the questions.

Personal Questions

Age:

Position:

Work description:

Years in the bank:

Risks

In this part follows a number of general questions regarding risks and how they are managed. The focus will be on credit risk and operational risks.

- How is credit risk managed at the local offices?
- How is operational risk managed at the local offices?
- How involved are the local offices in risk management within the bank?
  - Regarding credit risks?
  - Regarding operational risks?
- Are there any limits on what the local offices can decide on when they are involved in the risk management process?
- How are risks communicated upwards in the hierarchical levels in the bank?
- When new guidelines regarding risk management are implemented in the organization, what role does the local offices have?

Rules

In this part of the interview we will go through the effect of rules and regulations on organizational development and risk management.
Do you perceive that there has been any organizational change due to the development of stricter financial rules the last years?
Has your local responsibilities changed in any way?
Do you perceive that the credit management has changed due to these rules?

Organizational Structure

In this third and final part of the interview we will focus on the organizational structure. Focus will be on the different hierarchical levels, the communication between these.

Do you perceive your organization as centralized or decentralized in control?
Do you perceive that the organizational structure is changing or that it is relatively constant?
What is your perception on the communication between the hierarchical levels within the organization?
What central support function exists for the local offices in their work with credits?
From a local level, how is the order structure perceived within the bank?
In the case of questions and uncertainties, is it clear where to turn to get answers to these?
Local level interview guide - Swedish

Generell Information

Om ni godkänner kommer vi att spela in denna intervju för att era svar ska återges så exakt som möjligt i vår uppsats. Väljer ni att inte godkänna spelar vi inte in intervjun, utan kommer endast att använda oss av anteckningar. Ytterligare har ni möjligheten att vara anonym, om ni väljer detta kommer endast er position att offentliggöras i vår uppsats.

Vi kommer att dela in denna intervju i tre delar där samtliga delar berör riskhantering. Den första delen handlar om finansiella risker, den andra delen har fokus på lagar och regler och den tredje och sista delen fokuserar på bankens organisationsstruktur.

Vårt mål är att intervjun ska pågå i ca en halvtimme. Om möjligt ha detta i åtanke när ni svarar på frågorna.

Personliga frågor

Ålder: 
Position: 
Arbetsbeskrivning: 
År inom banken: 

Risker

I denna del följer några allmänna frågor angående risker och hur dessa hanteras, med fokus på kreditrisk och operationella risker

- Hur hanteras kreditrisker på de lokala kontoren?
- Hur hanteras operationella risker på de lokala kontoren?
- Hur involverade är de lokala kontoren i riskhanteringen inom banken?
  - Kreditrisker
  - Operationella risker
- Finns det några gränser för vad lokala kontor får bestämma, när de är involverade i riskhanteringsprocessen?
- Hur kommuniceras riskerna uppåt i de hierarkiska nivåerna inom banken?
- När nya riktlinjer för riskhantering implementeras inom organisationen: Vilken roll har det lokala kontoret?

Regler

I denna del av intervjun kommer vi att behandla lagar och reglers påverkan på bankens organisationsutveckling och riskhantering.

- Upplever ni att det har skett någon organisationell förändring på grund av utformningen av striktare finansiella regler de senaste åren?
- Har ert lokala ansvar förändrats på något sätt?
Upplever ni att kredithanteringen har ändrats på grund av dessa regler?

**Organisationsstruktur**

*I denna tredje och sista del av intervjun kommer vi att fokusera på organisationens struktur där vi kommer att fokusera på kommunikationen mellan organisationens olika nivåer.*

- Upplever ni att er organisation är centraliserad eller decentraliserad?
  - Upplever ni att strukturen förändras eller är strukturen relativt konstant?
- Vad är er uppfattning om hur kommunikationen fungerar mellan de olika hierarkiska nivåerna inom organisationen?
- Vilka centrala stödfunktioner finns att tillgå för de lokala kontoren i deras arbete med krediter?
- Från lokal nivå, hur upplevs orderstrukturen inom banken?
- Vid funderingar och frågetecken, är det klart var man ska vända sig för att få svar på dessa?