

The current global financial crisis on the banking industry in oman essay sample

[Finance](#), [Banking](#)



Introduction

The current global financial crisis emerged in September 2008 as a result of failure and conservatorship of large financial firms that are based in the United States. This resulted to these firms being unable to pay their debts to other firms, their insolvency spread to other companies and governments all over the world and especially in Europe. This resulted to decline and collapse of stock market prices internationally and the United States and most other countries going into recession. The impact and consequences of this crisis however vary in different countries.

The Omani banking sector seems to be resistant to the current financial crisis that is being experienced globally. The Times of Oman (2009), reported that there has been significant improvement in the Omani banking sector performance during the first eleven months of 2008 as compared to the same period in 2007. The country's banking sector ability and strength to cope with and survive the prevailing drastic changes in the World's economy had until now enabled the banking sector not to be affected by the global financial crisis. The Central Bank of Oman (CBO) has repeatedly affirmed this adding that the monetary and financial condition in Oman continued to be resistant to the global financial crisis that is currently being experienced globally. The CBO further explained that generally, the monetary conditions still are characterized falling interests and high money supply growth in spite of the financial crisis (Oman Daily Observer, 2008).

The proposed project conforms to the structure and contents of the MSc. Program in Financial Services, Risk and Operations, and aims to develop

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skills and enhance knowledge in this area. The scope of the study will be limited to the banking industry in the Sultanate of Oman throughout the current global financial crisis era.

Aims and Objectives of the Proposal

According to Blum (2008), the collapse of financial system reflects mainly the failure of risk management. There however are many similarities between the huge failure in the functions of risk management and the probable weaknesses in our day to day business risk management practices. This makes it worthwhile to explain how the current risk management systems and regulations can be effectively implemented and utilized. Risk management has so far played a critical role in reducing the impact of the current financial crisis on the sector. This project therefore aims at investigating the role of risk management in reducing the effect of the global financial crisis on the banking industry in Oman.

The study will also describe the Omani banking performance for managing risks processes, the risk management activities that are carried out, and the tools and techniques used. In addition, the CBO rules and regulations implemented to prevent such crises from affecting the banking sector in Oman will also be discussed. The proposed research can be carried out and its aims achieved in a period of three months, which is within the required time frame imposed by the Division of Accounting, Finance & Risk.

Literature Review

The current global financial crises that originated from the United States and has had adverse effects on financial industries such as banks and markets globally started with the collapse of the United States subprime risky mortgage market and reflected to Europe and other countries around the world. Its consequences have been a slowdown in the growth of the rest of the global economy. Some of the largest banks, government-sponsored enterprises and investment houses have already declared bankruptcy or have to be rescued financially due to capital decline (CRS Report 2008). Robbin (2008) has attributed the causes of this crisis to the failure of the regulatory system, lack of development of new and risky financial instruments, and the amount of risk the leading institutions were exposed to. According to Tapscott (2008), the current crunch was predictable. He explains that this is because of risk management practice failure of the financial firms that requires to be revisited to avoid such crises from arising in the future.

As the credit crisis continues impacting markets around the world, the Gulf countries remain unaffected and still are positioned to outperform the rest of the world. The Omani banking sector for example was insulated from the current global financial crisis. This sector, which is the product of the banking law that was enacted in 1974 and effected in the year 1975 by the Central Bank, consists of the CBO and other specialised commercial banks that operate in the Sultanate. It is very efficient and has the capability of responding to developments that are regional and international, inclusive of the current

growing trend in financial industries that aim at using the World Trade Organisation (WTO) framework to free up their financial services.

The insulation Omani banking sector is attributed to the change of direction by the Central Bank of Oman (CBO) in its policies from that one of tightening credit situation to controlling of the inflation raise in order to support the shortage of liquidity that was facing the economy during the second half of the year 2008. The changing of Omani's currency to fixed dollar has also enabled it remain unaffected by the current financial crisis. This is because the CBO started to offer loans in dollar in late October to local institutions to ensure the liquidity required by these institutions. In spite of some banks having negative indicators in their international activities during the current crisis, the Oman's banking sector in general remain positive and are consideration on long term prospects (Oxford Business Group 2008).

To understand the current financial crisis effects on the banking sector in Oman, we need to look at several factors. Firstly the general economic environment in Oman, secondly the Omani's banking risk management framework, and thirdly, the central bank's rules and regulations and its implementation on the banking sector (Mansur 1999). The economic environment of Oman generally is good for investment. The government has laid down policies that encourage both local and foreign investment. The presence of oil in the country gives more economical advantage as it is a resource that earns the country a substantial amount of foreign exchange enabling it to have financial resources to develop its infrastructure that is

crucial for economic development. In general, there is remarkable development in the economy of Oman (Mansur 1999).

The sultanate of Oman has focused on development of trade so as to reduce the over dependence on the crude oil resources in the country. It has done so by improving health and education services, the infrastructure and the tourism sector. These strategies have reduced the inflation rate of Oman and increased the GDP to 5.3 percent annually since 2000 (The Gulf directory 2001).

Omani's banking risk management framework has been to lay down strategies that manage risks rather than eliminating them as they did not want to completely lose the rewards. The change of policies as discussed before to protect the economy from the liquidity shortage that faced it is one of the risk management practices (of liquidity risk) that were taken by the CBO. Other frameworks have been laid down to manage credit, market, operational, legal, strategic, foreign exchange amongst other risks hence enabling it to survive the current global financial crisis.

The central bank's rules and regulations are not formally documented as they are subject to changes in the market and economy hence is flexible (The Gulf directory 2001). Some of the regulations include exchange controls, credit regulations such as banks not being allowed to lend more than thirty percent of their net worth to companies and individuals who are not residents of Oman (Mansur 1999). The implemented rules and regulations basically seek to protect the investors from harmful and unfair

practices while at the same time encouraging and creating opportunities for more investment from investors and serving to fulfil the interests of the Sultanate national economy (The Gulf directory 2001).

Methodology and Data

Considering the aim of this project, the project is viewed as a qualitative, explanatory study. To achieve this aim, semi-structured interviews are intended to be used in data collection of the research. Semi - structured interviews was chosen as it proved to be the best method to employ in such a study. King (2004) refers to this type of interviews as qualitative research interviews. Saunders et al. (2007) emphasize that such type of interviews are more frequent in explanatory studies than other types, and its value is derived from the flexibility that the researcher may use to investigate the complexity of the topic. In this project, the researcher plans to cover all the banks in Oman as well as the Central Bank of Oman, by interviewing the in-charge managers in each of them with the respect to the aim of the study.

In semi-structured interviews, the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview (Saunders et al., 2007). In this context, Leedy and Ormrod (2005) also suggest that the researcher may follow a standard set of questions with one or more individually tailored questions to get clarification or probe a person's reasoning.

Leedy and Ormrod (2005) noted that qualitative researchers frequently use triangulation for validation. Since one type of research methods does present

in this study (i. e. triangulation does not exist), the researcher intends to validate the results obtained from the data using two strategies. The first strategy will be to ask for the interviewees' opinions about these results and whether the results make sense to them based on their experiences. The second strategy, on the other hand, will be to seek the opinion of experienced researchers in the field and determine whether they agree or disagree with the findings of the study. Both these strategies are recommended by Leedy and Ormrod (2005) as to overcome the issue of validity in qualitative research.

Analytical Tools

To analyze the data obtained from the interviews, the researcher intends to apply the data analysis spiral tool that has been described by Creswell (1998). This tool is equally applicable to a wide variety of qualitative studies (Leedy and Ormrod, 2005). Although the interpretation of the data obtained will be influenced by the researcher's biases and values, the researcher plans to acknowledge any biases may result, so that the reader understands and takes them into account.

As results of the project, the researcher expects that the risk management systems implemented by different banks in Oman and by the Central Bank of Oman have a positive direct effect in keeping the banking industry in Oman away from the global financial crisis and ultimately reducing its impact on this industry.

The researcher expects to find out the risk management practices that have employed by the different banks in the Omani banking sector that have enabled the industry to continue thriving even as others internationally have collapsed as a result of the prevailing global financial crisis. The researcher particularly expects to find that the Omani banking sector is more focussed on managing of credit risk as it is lack of management of this risk that led to the start of the financial crisis in the US. The researcher will find out how the existing risk management practices can be effectively implemented and utilised in the banking sector so as to enable it to benefit from the rewards while managing the risk to avoid collapse.

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