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RISK CULTURE IN BULGARIAN BANKING SECTOR – A VISION FOR THE FUTURE

Setting up an effective risk culture is one of the most important post-crisis tasks of banking management. In order to solve it, the bank management bodies should take a number of measures – setting the „tone at the top“, establishing risk-competent and coordinated organizational-structural units, developing mechanisms for "implanting" the desired risk consciousness among all staff. A survey conducted among banks in Bulgaria shows how much they are already taking steps in this direction. On the basis of the most significant problems identified in the study, there is a need to undertake measures in three aspects: performing structural and process optimization of risk management; increasing the effectiveness of the work of risk instances; encouraging commitment and integrity of banking staff to risk issues.

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The survey was conducted between March and November 2016 and comprises nine credit institutions holding 66.21% of all assets in the Bulgarian banking system by the end of 2016. Three of the banks are local and the other six - subsidiaries of EU banking groups. In order to maintain the confidentiality of the banks covered by the survey, their market share and the number of institutions in each group of BNB allocation were not stated.

In particular, the study includes 304 respondents on three levels – senior management, risk instances and other departments. Not all banks are evenly represented in the sample – the maximum number of respondents from a bank is 55 and the minimum number is 12 (see the Table). This circumstance is explicable from the point of view of the differences in the size of the individual banks and should not be regarded as a disadvantage. At the same time, it should be noted that each of the participating institutions has filled in questionnaires from representatives of the three groups of respondents. In summary, the survey cards were filled in by 31 members of senior bank management, 64 members of the risk management and control units and 209 employees (including operational managers) from other departments.

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Table

Distribution of respondents by banks and by groups*

Bank	Groups of Respondents			Total
	Senior management	Risk units	Other departments	
Bank A	*2*	2	8	*12*
Bank B	3	8	30	*41*
Bank C	7	8	19	*34*
Bank D	2	4	12	*18*
Bank E	3	8	34	*45*
Bank F	5	11	28	*44*
Bank G	1	2	10	*13*
Bank H	4	12	39	*55*
Bank I	4	9	29	*42*
Total	*31*	*64*	*209*	*304*

* The names and order of the banks in the Table are entirely arbitrary and are not linked to their market share or to any other objective criterion.

The survey showed that the risk culture (RC) topic does not enjoy popularity among banking circles in Bulgaria. In banks' risk management, the focus is mainly on its classic "hard" aspects. Issues such as promoting bilateral risk communication, linking remuneration to risk-taking and conducting effective risk associated trainings remain in the background. This leads to low engagement and integration of employees towards risk management, expressed in the formed attitudes, that this is not their direct responsibility. Another negative consequence is that a significant number of bank staff demonstrate extremely cautious behavior and perceive risk too much one-sidedly – entirely in a negative context.

There are some peculiarities in the organizational structure and process organization of risk management (RM), diminishing its importance as a strategic success factor: the absence of a Chief Risk Officer (CRO) instance (in most banks); disparagement and isolation of the risk function; ineffective communication between the units involved in risk management; focusing primarily on classical risk categories. Thus much of the leading principles of post-crisis risk culture in the banks in Bulgaria remain only a "good wish".

Need for structural and process optimization of risk management

The problems identified in the research of banking risk culture in Bulgaria require, above all, some optimizations at the strategic level. While BNB does not oblige banks, and their senior management does not find it necessary to establish a standalone CRO position, the lack of such a position in most credit institutions is critical to building an effective risk culture. The benefits of appointing a Chief risk officer in all banks in the country are expressed in several important points.

- The risk expertise at the "top management" level will be substantially improved, which will help overcome the feeling of insufficient "representation" of the risk function at the bank's "top". In addition, an unambiguous message will be sent to staff on the risk magamenet's crucial role in ensuring the long-term success of the bank.
- The existence of a single centralized risk instance will minimize the importance of another problem identified in the study – the imperfections in the internal communication among the various RM functions and units. Such "shortcomings" become particularly evident and cause more damage when taking the more critical risk decisions, a close cooperation and coordination among the "fragmented" instances on several different levels are required. One of the main functions assigned to the CRO is the coordination of the activities of the individual units involved in the risk management. Thus, the organizing official becomes an intermediary between them all, which goes through a continuous bilateral communication.
- Creating a Chief Risk Officer instance can help overcome another problem, that hinders the debate on the risk. It is about the established high "power gap" between the strategic management and all other managers and employees, which indicates the prevailing application of the authoritarian leadership style. In particular, the "undertaking operational business responsibility" (Hoffman, Peters 2016, p. 30). CRO creates the conditions to reach the "tone of the top" to the lower floors and to encourage talking about risk in general.
- Establishing a centralized risk instance at the top level will result in overcoming problems such as: a deficient overall holistic vision of risk; overlapping and diluting responsibilities; multiple performance of identical activities; increased monitoring costs.
- As a leader, CRO has the potential to motivate highly qualified risk specialists for career development at the bank. That is why the creation of such an instance should be regarded as a positive one also from the perspective of the motivational theory.

Improving the risk governance performance, both structurally and in process aspect, could be ensured through the wider application of the Three Lines of Defense (TLD) model.[1] But its presence is not a guarantee for generating benefits for the banks. Its successful implementation and subsequent application require a certain sequence of actions, in view of the results of the survey and the banking characteristics in Bulgaria.

Firstly. Justification of the reasons requiring to apply the principles of the TLD model. In order to minimize communication problems highlighted in the study, the fundamental design of the model should be explained at this stage, with the

[1] In the context of sophisticated and turbulent markets, the renewed focus on the concept of "Three Lines of Defense" is the key to successfully transferring good risk governance practices to operational instances and subsidiaries of the large banks (see Blue, 2011, p. 7). Business lines, risk management function and internal audit are the three lines of defense (IFC, 2012, p. 12).

strongest emphasis on the interrelation of the three defence levels. It should also be taken into consideration that this should not be a "paralyzing" model that limits rational behavior towards risk, promotes one-sided perception (only as a threat) and generates tension between the individual lines. On the contrary, it should be communicated to staff as a rational, general framework that facilitates co-operation between independent "defense lines" and provides guidance for managing and controlling aggregate risk in the bank.

Secondly. Clear and detailed defining the responsibilities of each of the TLDs. The starting point for the design of the model should not be the distribution of the commitments of each individual unit in the management of the aggregate risk, but the detailed formulation of the essential risk categories that will be the basis of the defense. On this basis, prerequisites for full coverage of all phases of the risk management process are created, and only subsequently each risk will be bound to its specific "responsible" in the respective line of defense.

Thirdly. The actual implementation of the model requires each line of defense, in addition to a clear knowledge of its responsibilities, to have adequate skills to carry out its duties. Here risk governance training comes to help.

Fourthly. The implementation of the model must be ensured by a single technology system (i.e. data basis) that can be used to record all incoming information. Such a system allows to monitor individual risks and related monitoring and control activities at any time. The necessity of optimization in this direction is confirmed by the conclusions about the absence or ineffective application of these systems in the banks in Bulgaria.

Fifthly. Creating a "Risk Cover Map". Comprehensive mapping of risks against the activities of each level of defense "promises" the following more important benefits for the banks: organizing risk management activities on an integrated basis; unequivocally distinguish down-side from up-side risks; easy identification and assessment of gaps in the management and control of each of the defined risk sub-categories as well as the persons and instances responsible for allowing them.

However, the application of the „Three lines of defense“ model would only be successful if the bank has already identified adequately and fully all material risks to its business. Especially, if it has created conditions for the effective management. As such, for example, risk management departments dealing with individual risk categories can be considered, as well as the policies developed for each of them. In this regard, the survey shows that the banks in Bulgaria have the most serious reserves in terms of IT and reputational risks.

Although it is in a relatively early stage, the transition to digitalization of banking in Bulgaria[2] poses a number of challenges for the banks. The IT risks accompanying this trend are increasing in scale every day. In view of the fact that the threats are entirely new and unknown, beyond the competence of the current

[2] Over 47% of investments in Bulgarian banks are dedicated to digital technologies, innovations, technological projects, improving security in financial systems (Stoyanova, 2016).

risk specialists[3], the need to create specialized teams to manage them in all their aspects, becomes imperative for the banks.

Creating a technology risk team can be a complex task. This endeavor is associated with high costs, given the country's high standard of remuneration of good IT specialists. On the other hand, insufficient opportunities for intra-company career in the area of technology would discourage top talents from opting for a financial institution to start their career. Therefore management should not follow the traditional maxima of separation between people and position because they cannot define specific roles (especially at strategic level) and then find the people needed to perform them (Vachkov, 2016, p. 44). In order to compete with the many outsourcing IT companies and emerging start-ups, banks need to "shake off" their stereotype thinking in human resources management and provide more flexible opportunities for hi-tech talents' development. First steps in this direction could be the introduction of part-time jobs, the implementation of a remote job, and the provision of opportunities for participation in international certification programs. An additional option for subsidiary banks is the provision of options for a transfer to the technology departments to the bank headquarters.

The formation of specialized teams in IT risk management in banks in Bulgaria is necessary, but not a sufficient condition for ensuring its effectiveness. To this end, it is necessary to observe the fact that IT risk is a broad concept that requires its fragmentation into separate sub-risks in order to fully cover all its manifestations. Such are: cyber security; accident recovery; management of suppliers and third parties; project management; development and testing processes; quality and information management and IT compliance (see Bevan et al., 2016).

Increased efficiency in managing IT risk will also directly affect the formation of an appropriate risk culture. One way to do this is by improving the quality of the information system and the technological infrastructure, which will help to improve the coordination among the different units involved in risk management. Better IT risk management has also the potential to facilitate real-time data processing, which in turn will enable the faster and easier registration of the risks identified by the "frontline" and the escalation of this information to the upper floors. Moreover, removing the technological "silos" allows for more consolidated risk reporting.

Special attention shall also be paid to the underestimated reputational risk found in the survey, especially against the backdrop of fragile confidence in the Bulgarian banking sector.[4] The reputation issue in its "genesis" corresponds to the risk culture topic. As a part of the "soft" success factors, reputation and risk culture have a number of similar features – intangible character, impossibility for imitation by competitors, gravitating around the value-based management. This implies

[3] Among all possible options, as far as their obligations are concerned, the "cyber security of the bank" is indicated by the smallest proportion of respondents in the risk function.

[4] In one of the latest published surveys on this issue, 50% of respondents say they have no confidence in the banking system, but only 30% - that they have (see Gallup International, 2015).

similar approaches to their management. There is an even closer relationship between these two categories. Although reputation is the image of the organization created by external stakeholders, it is in fact an outward projection of its corporate identity and institutional culture (the risk culture being an integra part thereof). The already proven high moral deficit on banks' upper floors motivates customers and the general public today to evaluate them through the prism of their ethical and cultural values. Reverse relationship (reputation – risk culture) is also valid. Proof of this is that the massive manifestations of the reputational risk in a number of leading banks have become a catalyst for the "risk culture" phenomenon falling under the spotlight.

What, in particular, calls for increased attention to reputational risk in Bulgarian banks? The guiding principle is that reputational problems have an interdisciplinary nature and usually cover all elements of organizational life. Thus, while other types of risk may jointly or individually reflect on the reputational risk, it generally causes a multiplied effect on all of them.[5] In the context of the Bulgarian reality, the need of reputational risk management is also motivated by some specific features. As a result of the unilateral and often distorted media presentation of the events on the financial scene[6], the phrase "a fly and a bank are most easily killed by a newspaper" does not sound implausible. Moreover, the Bulgarian banking system is subject to potential contamination by reputational risk from the outside, given the large share of foreign subsidiaries.

Against this background, some key points in the risk reputational management, applicable for the banks in Bulgaria, can be formulated.

Firstly, from the perspective of its positioning in the organizational structure, different options are possible. For example, in some of the banking groups heavily affected by the global financial crisis, specialized strategic committees and operational units, fully engaged in reputational risk management, are being set up.[7] The second option is to combine it "under the umbrella" of one of the instances existing within the risk function. Due to the already mentioned interdisciplinary nature of this risk, various examples of such instances in the international banking practice are observed in the world banking practice – the Operational Risk Management Committee, the Compliance Function, and the Legal Department. A third option is reputational risk management to be taken over by the unit exercising control over the overall risks for the institution. Finally, in some banks, reputation is treated as an entirely marketing problem and on this basis is managed by the PR department.

Given the relatively small critical mass of the banks in Bulgaria, an independent function focused entirely on the reputational risk, would not seem a justified investment at this stage. Its positioning within the committees involved with the aggregated risk

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[5] Therefore, reputational risk is often treated as a "starting point for all other risks" (EIU, 2005, p. 6).

[6] In support of this statement, it is sufficient to point out the apparent division of the main economic media in the country into the case of Corporate Commercial Bank in two "camps" - actively supporting and strongly opposed to the theses of its majority owner.

[7] See e.g. Deutsche Bank (db.com).

management on the other hand would indicate a quite formal attitude towards it. Most serious defects, however, would be created by the last option in which reputational problems can be expected to be removed postfactum, by means of crisis PR campaigns. This strategy is unlikely to provide sufficient coverage of all reputational risk manifestations.

It is most logical reputational risk management to be "attached" to the unit directly responsible for managing operational risk. In addition to the link between the two risk categories, an argument in that direction is that a large number of banks in the country have an independent authority involved in the management of operational risk (unlike the lack of an instance managing the compliance risk, for example).

Secondly, although, in practice, the list of potential sources generating problems for bank reputation is infinite[8], it is necessary to outline their profile. These include: mismatch of the outcome at the bank "exit" with the expectations of the stakeholders; high information asymmetry; reflections on reputation by other categories of risks; leaks of confidential information; threats arising from the rapid development of social networks; competitors attacks; hostile media.

Thirdly, against the backdrop of the country's banks sparse and formalized approach to disclosure of information, the adoption of better practices in this area is a prerequisite for an effective reputational risk management. Through more active disclosure of information, not only the scope of some of its generators will be limited, but also all stakeholders (including emplloyees) will be alerted of the democratization of the corporate governance model. This additional effect would also have a positive impact on the institutional spirit and hence on building a reliable risk culture.

Fourthly, in the context of the reputational risk, the increased interest of banks in social media becomes imperative. It is no secret to anyone that, through their multiplier effect, they provide the opportunity in only a few days or hours dissatisfied clients or employees to irreparably damage the reputation of the institution. The situation in Bulgaria is no exception to this global trend. This is evidenced by the many Facebook hate groups that are targeting the "arbitrariness" or "racket" of one or another bank. The conclusion of a study by the Samsung Techonomic Index that "Bulgarians take the first place in Europe in use of social networking technologies" (see Popova, 2015) should even more motivate banks to treat these media as a major tool for evaluating the reputational risk.

Fifthly, a major step towards recognizing the importance of the reputational risk for the banking business is the increased emphasis on crisis management. It is paramount that it should be organized on the basis of a set of preventive measures. For this purpose, it is necessary to set up a special crisis management team to hold periodic meetings on the analysis of potential crisis determinants and formulate strategies for their overcoming. In addition to the immediate benefits of this, benefits will also be generated on the occasion of revising the set of indicators tracked by the early warning system.

[8] In this respect, some define the reputational risk even as "esoteric" (see Dey, 2013, p. 42).

Increasing demand to risk function

Creating a reliable risk culture in the banks goes through a significantly more efficient operation of the risk function. One of the possible options for this is proposed by *McKinsey* and could be applied with success in the relatively small-scale banks in Bulgaria. Taking the view that traditional approaches to treating risk function often leave a gap in bank protection, the authors offer a new vision of the problem that allows management to easily identify weaknesses in risk management. This is done by decomposing the risk function into four sub-functions, each with its clear priorities, performing different activities and requiring specific levers for improvement. These are: Risk and Strategy; Risk Modeling and Monitoring; Individual Risk Management; Risk Operations (see Assi et al., 2012, p. 2-3). These components comprehensively encompass all the key engagements of the risk units, while each of them is referred to one of the sub-functions. They are on the other hand interdependent and the risk function will be effective only if stable relationships are established among them, and any merging of activities would result in potential lack of matching between specific tasks and their inherent performers.[9]

Speaking about the effectiveness of risk institutions, the question of their coordination with other functions inevitably also appears in the foreground. In view of the less efficient communication among risk departments and businesses, bank managers should require risk professionals to devote more time and effort to building bridges to the “front-line” units. For this purpose, the first step could be maintaining closer informal relationships with their line managers, which will enable a rapid response to a problem. This convergence, however, should not be at the cost of the excessive organizational bonds between risk and business, leading to a loss of independence.

Communication efficiency can be greatly improved by the active implementation of the cross-staffing technique, which involves rotation of employees in different departments. Putting risk specialists „in the shoes“ of front-line staff can become a major tool for spreading the risk culture amongst businesses in several ways (see Accenture, 2015, p. 19): As a result of the shortened distance, employees in business units will be given the opportunity to receive directly "from the spring" knowledge of risk management, with which they will enrich their risk terminology. These rotations, could successfully counteract unfavorable or abusive practices on the “front line”. The knowledge and practical experience of risk management, obtained at the point

[9] Designing the proposed optimization of the practice of several banks, the authors demonstrate that it could generate significant benefits, even in the short run. For example, in a large bank, credit consultants were responsible for a significant part of the customer information processing activities, which took up to 50% of their working hours. Therefore, for the purpose of optimization, there is a dedicated credit back office with a clear commitment to handling end-to-end transactions. The result of the innovation is shortening the time until the loan is granted by 30% and a significant reduction of the "rework" from 70% to 20%" (Assi et al., 2012, p. 4).

of its emergence, will contribute to the better performance of the duties and the risk experts themselves.

There is no doubt that the contribution of the risk units to the improvement of the risk climate in the bank is evaluated by the quality of the human factor in them. In this respect, the requirements to the credit institutions are increasing on a daily basis, especially under the sign of the confrontation between the new digital 3.0 reality and the appeal for a more human face of risk management. Banking management should be aware that the turbulent environment requires employees in the risk function, apart from improving their traditional technical skills, to have a number of other qualities. Now they must be creative, communicative, keen, defending their positions, technologically literate, and flexible and to have a high "intellectual curiosity", attention to detail, to be able to rapidly interpret information, etc. In addition to these soft abilities, good risk management specialists should be able to interpret scenarios in many areas, to adequately assess external factors, and to understand the interdependencies among all business-affecting processes.

Although it is difficult to judge whether the banks in Bulgaria are "mature" for such a vision with regard to the employees in their risk departments, the indications are rather positive.[10] In any case, the list of new skills demanded from risk professionals requires a steady change in human capital management. In particular, top-talent management in the area of risk should become its underlying platform. Moreover, that the two types of management, the talent and risk management, are regarded as „the two sides of one coin“ in the specialized literature (Deloitte, 2010, p. 3).

The practical implementation of this strategy includes a series of initiatives aimed at attracting talented employees, their subsequent development and retention by the bank. The implementation of these steps, however, will not be an easy task. Yet at the “entrance”, banks in Bulgaria are likely to face serious difficulties for several reasons. There is still not enough staff qualified in risk management. Indicative is the fact that there is no university degree in the country that is entirely oriented to this problem. An even more serious challenge is the lack of an attractive promised benefit to whip up the most talented staff to a career in banking risk departments. Compensation packages[11] and working conditions are often inadequate to the needs of Y generation, which is the main reservoir of young top talents. It is known that there are no opportunities for flexible working hours, creative holidays are not offered, bank work is not considered to be prestigious, and so on. How could banks cope with all this?

Firstly, it is clear that employees in the risk units should be armed with applied mathematics, financial modeling and econometrics skills. However, under the

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[10] Analytical capabilities, combined with communication and "softer" qualities, stand out as the most deficient knowledge and skills of risk management experts.

[11] According to an analysis of 2016, wages in banks are collapsing and the many responsibilities, combined with symbolic payment are the main reason of the high turnover in the sector (see Tsolov, 2016).

influence of the changing environment, it is best for banks to formulate as their priority the demand for staff with potentially underdeveloped technical competencies in risk management, but at the benefit of having a number of "soft" skills - communication, willingness to cooperate, openness to new knowledge, etc.

Secondly, when selecting employees for the risk function, HR professionals could focus on the digital future of banking. In only a few industries, innovation is entering at such a speed and creating so many opportunities as in banks. The sector is changing completely – from online payment instruments and mobile banking to new ATM technologies and virtual currencies. This circumstance makes bank risk management extremely difficult, difficult to predict and challenging, but also a promising profession.

Thirdly, in an attempt to replace the broken relationship between theory and practice, banks should make efforts to improve their co-operation with universities offering training in bank management, banking and finance. At the same time, this should not be expressed only in the recruitment of graduate students, but also in organizing joint events, delivering public lectures, participating in the development of curricula and programs, and conducting much more substantial student internships.

Fourthly, the use of unconventional channels would be a suitable option for recruiting staff for the risk function. LinkedIn could be treated as one. In the world practice, there are also instances in which banking institutions create their own specialized online networks to attract talents in a given area.[12]

The next crucial issue for the successful implementation of the talent management strategy is related to the opportunities offered by the banks to improve the skills of the talents in the risk units. They should consider internal trainings as only a mandatory minimum. An appropriate upgrade option is to give the top talents the opportunity to participate in international risk managers certification programs. Despite their high cost, low success rate and relatively low popularity in Bulgaria[13], they can generate a number of benefits in the long run – from raising the level of expertise in the risk function, through higher satisfaction of top talents, to image benefits. Such initiatives can also be considered a mature risk culture attestation, because of the demonstrated professional attitude to risk issues.

But no matter how they promise to improve the quality of risk function in all dimensions, the proposed measures would only generate temporary benefits for the banks in Bulgaria if they do not take place in parallel with the rapid adaptation of risk management to the new digital reality. It obliges the managing authorities to make every effort to find the profitable symbiosis between risk and innovation culture that can guarantee the return of entertainment in banking (Vachkov, 2015,

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[12] Investment giant JPMorgan Chase, for example, creates "online talent forums" in an attempt to attract IT specialists. In particular, the bank presents to professionals in the field why it is interesting to work in the financial services firms, as well as details of the institution's activity (Financial Times, 2016).

[13] On the official website of the most popular similar certificate (FRM (Financial Risk Manager) awarded by the GARP (Global Association of Risk Professionals)), for example, at the end of January 2017 the names of only 37 certified persons from Bulgaria are published (garp.org).

p. 111). The lack of balance between them creates different hazards. The massive taking of unjustified risks puts to an ordeal not only the success of specific product or process innovations, but also the prosperity of the bank in the long run. If however, the risk escaping is the „default option" in the entire bank, this would negatively affect its innovation readiness. In the context of digitization, such thinking and behavior will lead to a rapid loss of competitive advantage. This conclusion sounds particularly worrying in the face of the fear of punishment found in the study, which is most likely to provoke ubiquitous risk aversion.

This is why digital transformation requires banks in Bulgaria to overcome their conservatism and innovative skepticism and to treat it not only as a generator of new threats to the risk function but also as an opportunity to performance improvement. Big Data provision must be at the heart of the digital agenda of risk units, given that the widespread use of this technology creates a unique opportunity to make significantly smarter risk-based solutions based on the processing of huge amounts of data in real time. Although the most commonly cited advantage of the Big Data platform is related to more accurate credit risk management[14], it could generate more benefits for the risk management. These include: improving the predictive power and sustainability of risk models; forcing response time; providing a wider risk coverage; significant cost savings in risk management (see Veldhoen, De Prins, 2014, p. 3).

Risk units of the banks in Bulgaria will have to adapt to the omnichannel offerings built upon the Big Data platforms. The reason for this is not only the fact that the larger number of heterogeneous channels for customer interaction implies more risk entry points, but also that this concept requires a new way of thinking. The omnichannel environment requires a special reading of the risk culture topic. If staff in the branch network could relatively easily understand its principles, the question arises whether the same could be said about staff engaged in mobile or social banking. In this regard, specialists in the risk function are subject to additional requirements. Firstly – in view of the support they provide to the staff involved in each of the distribution channels in risk decision makin. Secondly – in view of their ability to combine the information of the risk profile of a client, obtained on the basis of the various distribution channels used by him.

Omnichannel banking has the potential to provide a number of benefits to the risk management. On the one hand, the underlying need for a smooth transition between the distribution channels used will enhance the cooperation between the persons responsible for their management and will help to improve their coordination with the risk function. On the other hand, it can be expected that the reduced operating complexity will improve the bank's ability to meet client's needs on time and will correspond to less risk for it.

[14] Because of the simplicity of the example, the most common scenario is that a new client's creditworthiness test is based on a wide range of information about it - credit file, routine costs, social networking profiles, consumer habits, and so on.

The widespread use of social banking (one of the channels in omnichannel distribution) could facilitate the relatively easy construction and operation of intra-bank social networks, which can also improve coordination between the different units. Another possibility that it provides is the application of the staff-oriented crowdsourcing concept.[15] By including employees from the risk function in a similar project, weak spots in the management of a given risk category could be identified and ideas for structural and process optimization generated.

Big Data-concept and omnichannel distribution are not the only products of the new digital environment that transform RM in banks fundamentally. More and more important will be the digitalization of key processes, which undoubtedly affects RM. While it generates benefits in managing all risk categories, they are most tangible in credit risk. By experts' estimate, credit process automation and digitization of key steps in the credit value chain can result in cost savings of up to 50 percent, bank revenue protection, while credit risk management benefits go even beyond these improvements (Bahillo et al., 2016).

How can business units become more accountable to risk management?

Increasing the commitment of the employees of the business units to risk management becomes a mandatory condition for the improvement of the banking risk culture in Bulgaria. As already pointed out, the broad implementation of „Three lines of defense" model provides a solid basis for addressing this problem. However, analyzed in depth, it is clear that it is caused by more identified defects. What is meant here is the lack of a real opportunity for employees to participate actively in the risk debate as well as the excessive focus on the strict rules for managing individual risks, at the expense of the underestimation of the soft aspects of this process. Therefore the task "front offices and other business units in the bank to become more responsible and integrated with risk management" has no single solution, but requires the implementation of comprehensive measures.

As one of the most significant problems for the formation of an effective risk culture in banks in Bulgaria, the study identifies the insufficient relation between the bank remuneration systems and risk taking by individual employees. Because (at least formally) banks in our country have publicly announced policies focusing on the relationship between risk management and remuneration, it is obvious that the germ of this problem should be sought not in the lack of rules but in their actual implementation.

Therefore, the declared principles (strong sensitivity of variable incentives to all key risk categories, emphasis on incentives oriented towards long-term results,

[15] Such a large-scale Crowdsourcing Project is carried out for example by Hypovereinsbank. It involves 8,000 employees from 11 regions, 101 subsidiaries and 855 service units in Germany. Under the motto „If I were a client", consultants „on the front" take the role of the opposite party and have to determine where the service offered is „really excellent" (Vachkov, 2015, p. 198).

compliance with the time horizon of assumed risks) must be reflected in the monthly remuneration of each employee. For this purpose, employees who have fulfilled their monthly target (for example, convincing a certain number of clients to have a credit card open) must receive a bonus, but in direct relation to the consequences of their decisions. This, in particular, includes the possibility of determining the exact amount of the bonuses and their rescheduling over time. This will allow the card service to be followed up by their holders.[16]

Next, additional incentives are required for employees who have shown a certain initiative beyond their routine duties. Financial incentives should be applied in the following situations:

- Preventing fraud or money laundering through the bank;
- Quick identification of problems and "bugs" in the early warning system;
- Generating ideas for optimizing some risk management rules and procedures;
- Alert for certain actions taken by outsiders that could damage bank reputation;
- Reporting a colleague's behavior that is incompatible with ethical principles.

In such situations, financial incentives should be accompanied by public announcement of success. It can be done in various forms – a public announcement of gratitude, sending the employee to a specialized training course, giving a charter or a gift on behalf of the bank. The main purpose in this case is not so much to increase the motivation of the promoted employee as to send a signal to the staff about management's sensitivity to risk issues.

An important prerequisite for these measures to deliver the desired results is all employees to be fully aware of what risk-taking behavior is considered reasonable and what are the criteria taken into account when determining the variable portion of their remuneration. For this purpose, the best approach is to draw up a list of key risk-based performance indicators on which incentive systems are based. The challenge here is the lack of reliable quantitative indicators for all types of risk and all activities performed. Overcoming this deficiency can be sought through the inclusion of additional qualitative indicators based on the expert opinion of the line management.

The next important step that banks need to take to try to encourage risk management as the personal responsibility of each employee is to organize more effective training on key risk management issues. In terms of forms of training, banks put the priority on organizing and conducting classical lectures. However, they usually require participants to adjust their schedules and postpone their tasks over time. An additional problem is that classical lectures are usually organized in the form of heavy sessions with a large number of participants that last for several days. This loss of time and the purely financial losses, usually do not bring the

[16] Although in banking practice the risk function staff takes the final decision to approve a borrower, the underlying principles of effective risk culture requires front-line employees to be closely integrated into the process, at least taking into account initial indications of degraded credit quality of the respective customer. From this point of view, the correction and rescheduling of part of their bonuses is fully justified.

required return on education. Classical lectures can therefore be considered an appropriate tool only when introducing new staff, when it is necessary to transfer large amounts of information to them. In addition to knowledge about other key areas of banking, some general statements about risk management should be included here.

Lectures, however, are not an appropriate option for forming effective risk culture among employees. The reason for this is that it cannot be taught in the form of specific knowledge constituting the content of a lecture. Often the lecture form is identified by the unilateral transfer of large amounts of information with minimal opportunity for meaningful discussions among the participants. By contradicting the communicative nature of the risk culture, this includes the opportunities for forming a common language on risk management issues.

The absence of direct "trainer-trainee" contact and contacts among the employees involved in the program, questions the effectiveness of increasingly popular e-trainings. They are mostly organized in the form of social networking webinars, courses in specially designed forums and software training products. Although they have many advantages (convenience, low costs, elimination of the need to be absent from the workplace, the possibility of involving many employees), electronic forms are more appropriate for the periodic transfer of information about risk management but not for communicating the principles of risk culture.

Therefore, in order to establish an effective risk culture in the banks in Bulgaria, it is necessary to re-consider the applied forms of training. In addition to providing opportunities for discussion and direct interaction between trainees and trainers, they should create prerequisites for greater engagement and activity among participants. An appropriate form of risk training is the lean training technique. It involves a number of periodically run short-term training courses lasting no more than one or two business days (Petrov, 2009, p. 131). Actually, this form of education is a variety of trainings, which, unlike traditional lectures and e-learning, provide higher efficiency of learning, because the information here is not only presented and discussed, but various scenarios and patterns of behavior are played, and the obtained results are analyzed (ibid., p. 131).

Lean training also provides other benefits. Given the interdisciplinary nature of the risk culture, it would be appropriate to decompose the training into several small modules, which will allow a more complete coverage of the risk issues. In modular training, emphasis should be placed on the importance of RC for the banking business and on its genetic link to many other elements of organizational life. For example, a dedicated module on the link between risk culture and the day-to-day behavior of employees will make them aware of the idea that their own attitude to risk is an integral part of ethical standards. Decomposing the risk modules into separate modules allows their distributed over time conducting, which could minimize the negative perceptions of their frequency, identified in the study.

The next question is whether the trainings are to be carried out by own internal staff („in-house”) or to be outsourced. Among the main benefits of the first option can be distinguished: relatively low costs; lack of need to leave the workplace; full control over the time and duration of the training; possibility to personalize its content to the needs of the bank; an option to include real practice examples; encouraging direct communication among people from different units. Trainings from outside organizations promise: providing professional know-how based on best international practices; the possibility of using innovative training techniques; the release of intra-banking resources; higher dedication to employees.

In the context of the objective of "establishing an effective risk culture", the importance of the comprehensive nature of training on this topic is critical, i.e. the need to cover all staff. Better conditions for doing this are provided by the in-house trainings, in view of the lower costs they generate. By enabling better planning of the scope, time and duration of each specific training, they allow for minimizing the lost benefits of organizing such large-scale training programs involving all employees.

Another key requirement of trainings is to bring closer the thinking and behavior of individual subjects towards risk. From this perspective internal trainings can be expected to deliver better results as they allow direct contacts among staff from a variety of units from the first line of defense (trainees) and top management and risk experts (trainers). This creates prerequisites for significant improving the cooperation between the different organizational units, creating a sense of joint commitment to risk management and promoting the use of a common language with regard to risk. Another important argument in favor of internal training is that it is unlikely that external consultants will be able to "feel the pulse" of the particular bank, or to bind risk management with the other components of corporate governance and with the institutional mission, vision, strategy and culture.

In a sophisticated area, such as the risk management (and risk culture), conducting effective external training seems even more problematic in Bulgaria. This finding is based on a review of the public offerings of Bulgarian companies for conducting courses in risk management. Here two conclusions can be outlined. Firstly, the majority of companies offering such services are organizing training aimed at risk management in the non-financial sector. This automatically wipes out the possibility for banks to take advantage of their services, given the need for a significantly modified approach to the risk phenomenon in financial institutions. Secondly, the few specialized courses for risk management in the financial sphere are entirely oriented towards training senior management or professionals from the risk function, and they give knowledge mainly on technical aspects of the RM.

Despite the negatives presented, banks may to take advantage of the benefits of external training with the help of some alternative methods. One option is to engage lecturers from the consulting community to conduct part of them, complementing the work of internal trainers. Another possibility is applying the outstaffing and staff leasing approaches, whose essence is expressed in temporary hiring of external collaborators to assist the work of domestic experts in a particular area.

Enhancing staff integrity with risk management processes also requires improved internal communication system performance. When it comes to the need to transfer to the staff the necessary information about risk, not all internal communication channels are equally suitable. Sometimes it is appropriate to use those that suggest the same message reaching each employee for the purpose of forming a single risk culture. Here are some examples: disseminating information about changing a risk strategy or risk appetite; announcing rules on what risk behavior is considered unethical; presenting changes in the organizational structure affecting risk management. In this case, the combined use of the bank's intranet network, e-mails, intra-bank forums, social networks, smartphone applications, is appropriate. This could also be very useful for periodically reminding the personal responsibility of each employee in the aggregate risk management.

As for the disclosure of more specific risk information (for example, changing risk limits for a particular business line or introducing new risk management rules), the set of appropriate communication channels is different. Firstly, because the more specific nature of such information makes it more targeted. Secondly, this is usually about information that directly affects the day-to-day activity of employees, which intensifies the need to ensure that it is mastered by each of them. Therefore, in this case, it would be best to have it face-to-face – individually in front of any employee or small group. A suitable form for this are the periodic team meetings where line managers can reasonably announce the new risk management procedures.

There are a lot of opportunities for improvement of communication in reverse (bottom-up) direction. The results of the study reveal problems in the status of even the basic communication channels, allowing timely reporting of information on identified threats. First of all, it is imperative that bank's management looks for opportunities to optimize the formalized feedback channels that are part of the banking intranet network. They must be complemented by other informal channels - the creation of specialized emails, telephone lines and profiles in social networks, allowing for a spontaneous response upon identifying a problem.

Following the example of some foreign supervisory institutions, the bank's management in Bulgaria could also consider developing the so-called whistle-blowing mechanisms.[17] What is special about them is that they provide an opportunity for anonymous employee reporting (or at least guarantiing their full confidentiality) (see Libit et al., 2014), which has the potential to minimize problems such as fear of revenge of a colleague, fear of punishment, lack of trust in the recipient of the information.

Combined use of the presented communication channels and mechanisms will significantly improve bidirectional risk communication but will not provoke employees to frankly share critical views about the risk management framework and generate ideas for optimizing it. The latter could be done by integrating Internal Social Networks into the bank organization.[18] In addition to positively influencing

[17] For example, these were published by the British Regulator in 2015 (FCA, 2015).

[18] One of the pioneers in this field is Deutsche Bank, which launched the myDB platform in 2009 with the ambition to encourage its employees to start "working loud" (Lombardi 2014). The goal of integrating such an

employees' commitment to the institution, making full use of technology and social networks, these platforms create incentives to increase considerably their activity. But the mere existence of an internal social network is not a guarantee for the realization of these benefits. They would become a reality only if the bank management and the institutions directly responsible for their operation create the necessary conditions for the full inclusion of the personnel in them. In the context of risk culture, this means not only the use of these networks as one of the many communication channels for risk information transmission, but also as a convenient platform for provoking wide-ranging risk discussions.

Conclusion

The problems identified in the survey reveal the need for structural and process optimization of bank risk management in Bulgaria. By appointing a CRO, the risk management function will legitimize its place at a strategic level. The wider application of the „Three lines of defense“ model creates prerequisites for alignment of the units involved in the risk management, more efficient allocation of resources and provision of consistent risk reporting. Focusing attention on IT risk and reputational risk can overcome the breaks in the risk management framework.

An important contribution to improving the effectiveness of the risk function will be its decomposition. By integrating top talent management strategy in risk management, a decisive step will be taken to increase the quality of human capital in risk institutions, in line with new skills and capabilities needs. A significant potential for optimization of the risk management in our country have the products of digitalization – Big Data, omnichannel distribution, process digitalization.

Linking remuneration and incentives to the attitude of each employee to risk, will increase the engagement and integrity of business units to risk issues. Reconsidering the frequency, form and content of the training will promote a joint understanding of risk, based on a common language and the convergence of employee thinking and behavior. The introduction of an optimal number of internal communication channels, the development of mechanisms for exposing irregularities and the integration of internal social networks will improve the transfer of risk information and motivate employees to generate ideas for optimizing the risk management framework.

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