How to Cite:
Bensilette, Z. (2024). Establishing banking governance principles for risk management in the Algerian Banking sector. *International Journal of Economic Perspectives*, *18*(8), 1264–1280. Retrieved from https://ijeponline.org/index.php/journal/article/view/633

Establishing banking governance principles for risk management in the Algerian Banking sector

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***Abstract*---**This research highlights the crucial role of banking governance in boosting the efficiency of risk management in Algerian banks. By following international principles and standards, the goal is to enhance the performance and stability of the banking sector. Effective risk management is vital for averting banking crises, which can have far-reaching consequences. Adopting governance principles is key to preserving the integrity of banking systems. A series of reforms and regulations have led to noticeable improvements in the performance of Algerian banks. The study emphasizes the importance of banking governance for effective risk management and the overall development of the sector.

***Keywords*---**Banking Governance, Risk Management, Algerian Banking Sector.
JEL Classification Codes: G21; G28; G32.

1. Introduction

The banking sector has recently become increasingly significant in the economic system due to its intermediary role between surplus and deficit units. This sector facilitates money trading and acts as a financial intermediary, collecting savings from the economy and providing them to investors in need of funding, thereby promoting economic growth. However, the sector has encountered crises and collapses, particularly in the context of globalization, which has led to market liberalization, free capital movement, reduced banking restrictions, heightened competition, and scandals involving major American companies like Enron and Arthur Andersen. These factors have introduced numerous new risks and challenges to the sector, leading to the emergence of governance as a concept to address the causes of these collapses and crises, influencing global market transactions.

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Submitted: 16 April 2024, Revised: 20 August 2024, Accepted: 18 September 2024

Given these challenges, this research investigates the procedures implemented by the Bank of Algeria to establish governance principles for banking risk management. We hypothesize that adopting these governance principles effectively mitigates banking risks and enhances the stability and performance of the Algerian banking sector. The primary research questions include:

- What is meant by banking governance and its main principles?
- What are banking risks and how are they managed?
- What mechanisms are applied for governance principles in the Algerian banking sector, and what is their role in managing banking risks?

The importance of this study lies in the critical role of banking governance in the aftermath of global banking crises. Since the banking sector is the primary funder of other economic sectors, adopting governance principles is essential to reduce banking risks, especially following crises in private banks like the Khalifa Bank crisis and the Algerian Bank crisis. This study aims to highlight the fundamental concepts of banking governance and risk management, clarify the main risks faced by banks, and emphasize the role of governance principles in supporting and enhancing risk management efficiency.

2. Conceptual Framework for Banking SectorGovernance

2.1. Concept of Governance in the Banking Sector

The term "governance" is a simplified translation of "Corporate Governance," a term recommended by the Secretary-General of the Arabic Language Academy and widely accepted in this context. Scientifically, it is translated as the method of exercising sound management authority (Youssef, 2007, p. 04). The Organization for Economic Cooperation and Development (OECD) defines governance as "a set of procedures and processes by which an institution is managed and controlled to achieve its objectives. It involves the distribution of rights and responsibilities among different parties within the institution and establishes rules and procedures for decision-making" (Fawzi & Nebo, 2021, p. 232).

In the banking sector, governance refers to the development of internal structures to ensure performance transparency and improve management standards. The Basel Committee defines banking governance as the manner in which banks are managed by their boards and senior management (Warad, 2005, p. 16). From a risk management perspective, the American Institute of Internal Auditors describes governance as "the processes through which stakeholders' representatives provide oversight of risk management and control adequacy to achieve goals and preserve the institution's value" (Hebar, 2009, p. 80). This definition emphasizes the role of governance in monitoring, controlling, and managing risks to enhance institutional value and achieve objectives.

2.2. Elements of Governance in the Banking Sector

Governance in banks is based on several elements, categorized into two main groups (Mahmoudi, Zarukhi, & Baalah, 2020, pp. 302-303):

- **The first group (internal actors):** includes shareholders, the board of directors, executive management, and internal auditors;
- **The second group (external actors):** includes depositors, the deposit insurance fund, the media, credit rating agencies, and the legal regulatory and supervisory framework.

2.3. Essential Factors Supporting Proper Governance Implementation in the Banking Sector

Key factors essential for implementing proper governance in the banking system include (BASEL , 1999, p. 01):

- Establishing strategic objectives along with a set of values and principles that are communicated to all employees within the banking institution;
- Developing and enforcing clear policies on responsibilities within the bank;
- Ensuring the competence of board members and their understanding of their roles in the governance process, free from external or internal pressures;
- Providing adequate oversight by senior management;
- Effectively leveraging the work of internal and external auditors to highlight the importance of the oversight function;
- Aligning incentive systems with the bank’s policies, objectives, and the surrounding environment.

2.4. Pillars of Banking Governance

The pillars of banking governance can be outlined as follows (Bin Dhahib, 2018, p. 98):

- **Behavior**: Promoting ethical behavior and professional conduct, balancing the interests of all parties related to the bank, ensuring transparency in information disclosure, and committing to social and environmental responsibilities.
- **Oversight and Accountability**: Enhancing the roles of stakeholders in the bank's success, including public regulatory bodies like the stock exchange commission, corporate affairs, the central bank, and direct oversight entities such as shareholders, the board of directors, the audit committee, and internal and external auditors.
- **Risk Management**: Implementing a risk management system and effectively communicating anticipated risks to stakeholders.
- **Competence and Skills**: Ensuring the presence of skilled and qualified personnel, including strategic experts, independent directors capable of making sound judgments, and innovative board members.
- **Organizational Structure**: Clearly defining authorities, responsibilities, and hierarchical levels within the organizational structure.
- **Legislation and Regulations**: Precisely and mandatorily outlining the elements and general framework of the governance system, providing the necessary tools to ensure fair practice of rights, and regulating internal and external relationships through laws.

3. Principles of the Basel Committee on Banking Supervision for Banking Governance

In September 1999, the committee released a document titled "Enhancing Corporate Governance for Banking Organizations" to address banking supervision and assist bank supervisors in adopting governance principles. These principles were based on the OECD principles published in 1999, with the OECD issuing revised principles in 2004. Acknowledging that this revised guide could help banks and officials implement suitable governance, the committee issued principles from the 1999 guide, with a new guide adopted in 2006. The principles are as follows:

- **Principle 1: Competence of Board Members**. Board members must be qualified to perform their duties, fully understanding their roles, and not subject to internal or external influences. They must have the capability to make appropriate decisions for managing the bank's affairs.
- **Principle 2: Formulating and Monitoring the Implementation of Objectives**. The board of directors should set the bank's strategic objectives and monitor their implementation. The institutional values within the bank should be clearly communicated to all employees.
- **Principle 3: Granting Powers and Responsibilities**. The board of directors should establish clear rules, limits, accountability, and responsibility within the bank for both board members and all employees.
- **Principle 4: Establishing an Effective Internal Control System**. The board of directors should ensure an effective internal control system within the bank and that supervisors understand the importance of their role.
- **Principle 5: Special Risk Monitoring in Conflict of Interest Areas**. This includes relationships between employees and related borrowers, major shareholders, and senior management.
- **Principle 6: Aligning Financial Rewards and Incentives with Bank Objectives and Systems**. Compensation and incentives should align with the bank's overall culture, strategies, and their implementation.
- **Principle 7: Ensuring Transparency and Disclosure**. All operations, activities, and reports should be transparent and fully disclosed.
- **Principle 8: Compliance with Laws and Regulations**. Board members and senior management must understand the legislative environment governing the bank's operations and fully comply with laws and regulations.

4. Mechanisms of Banking Governance in the Banking Sector

Governance mechanisms are methods established by stakeholders to monitor the performance of agents, align incentives, and ensure that agents make decisions in the stakeholders' best interests, thereby maximizing returns for the bank (Al-Yasiri, 2012, p. 48). The effective implementation of banking governance depends on the quality of two sets of determinants (Farahtiyeh, Boutoura, & Wadih, 2018, pp. 141-142):

- **Internal determinants**: These are the rules and principles that define the decision-making process and the distribution of authority among the general assembly, the board of directors, and managers, aiming to minimize conflicts of interest among these parties.

- **External determinants**: These include organizational elements such as the overall investment climate in the country, including market regulations, financial sector efficiency, availability of project financing, market competitiveness, efficiency of regulatory bodies, and institutions operating in financial markets. Additionally, they involve specific elements related to stakeholders, private institutions, and professionals such as accountants, auditors, and lawyers.

4.1. Importance of Applying Banking Governance Principles in the Banking Sector:

The importance of applying governance principles in the banking sector can be highlighted through several key points (Zidane, 2009, p. 20):

- **Investor Confidence**: The adherence of banks to governance principles has become a crucial factor for investors making investment decisions. In the current global economic system, characterized by intense competition in local and international markets, banks that implement governance principles gain a competitive edge in attracting deposits and clients.
- **Improved Management**: Implementing governance principles enhances bank management, prevents failures and bankruptcies, boosts performance, and supports sound decision-making.
- **Performance-Linked Rewards**: A governance framework ties rewards and incentive systems to performance, thus improving overall bank efficiency.
- **Transparency and Disclosure**: Adopting standards of disclosure and transparency in dealings with investors and borrowers helps prevent banking crises.
- **Enhanced Performance and Planning**: Governance ensures optimal performance results, quality decision-making, and encourages effective planning by the board of directors. This supports the bank's long-term goals, increases public confidence, protects against market volatility and stock price fluctuations, and leads to better investment returns, increased employment, and economic growth.
- **Accountability and Oversight**: Establishing administrative structures enables banks to be accountable to their shareholders, with independent oversight from accountants and auditors to produce accurate financial statements. This enhances the value of bank shares and strengthens competitiveness in global financial markets. A strong board of directors can select qualified managers capable of executing bank activities within legal and ethical frameworks (Nisman, 2009, p. 20).
- **Increased Funding and Reduced Costs**: Applying governance in banks increases funding opportunities, reduces investment costs, stabilizes financial markets, and curbs corruption. Adherence to governance standards by banks encourages borrowing companies to adopt these principles, particularly in disclosure, transparency, and sound management, which reduces risks in dealing with banks and minimizes defaults (Hebar, 2009, p. 84).

4.2. Objectives of Applying Banking Governance Principles:

The principles of banking governance are designed to achieve several key objectives through their established rules and regulations (Naeem & Abu Zar, 2003, p. 133):

- **Transparency and Fairness**: Ensuring transparency and fairness while providing the right to hold management accountable;
- **Shareholder Rights**: Safeguarding the rights of shareholders;
- **Depositor Protection**: Securing the funds of depositors;
- **Financial Performance**: Conducting regular reviews of the bank's financial performance;
- **Independent Oversight**: Implementing independent oversight over all bank activities;
- **Preventing Power Misuse**: Preventing the misuse of power against the public interest of the bank.

5. Banking Risk Management:

With the evolving banking business environment, particularly in the areas of information technology and communication, and the increasing reliance on these technologies, risks have escalated significantly. This has led to numerous financial and banking crises globally. Effective banking risk management acts as a safety valve, ensuring the management and security of banks. Banking operations are inherently tied to the level of risk, as banks often base their returns on the potential risks associated with their services.

5.1. Definition of Banking Risks:

There are numerous definitions of banking risks due to the varying interests of different stakeholders and the differing perspectives of researchers based on their environments and views on the phenomenon under study. One prominent definition describes these risks as the fluctuations in a bank's market value. Risks are categorized into two types: those beyond the control of both the bank and the client, such as inflation risks, economic cycle risks, changes in interest rates, and exchange rate fluctuations, and those specific to the bank's activities and its clients. Generally, banking risk is associated with the uncertainty in recovering loaned capital or achieving expected future profits.

From a banking perspective, risk is defined as "the likelihood of the bank incurring unexpected and unplanned losses, or experiencing fluctuations in expected returns on a particular investment, leading to negative impacts that can hinder the achievement of the bank's objectives and the successful implementation of its strategies." In this context, two types of losses are distinguished in banks (Maariv & Sheikh, 2019, p. 36):

- **Expected losses**, such as the anticipated default rate in a bank's loan portfolio;
- **Unexpected losses**, such as sudden changes in interest rates.
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5.2. Types of Banking Risks:

The main risks that banks face include:

5.2.1. Credit Risks (Loans):

Credit risks are among the most critical risks faced by banks. They mainly pertain to the bank's interactions with borrowers, involving loans, overdrafts, or any credit facilities extended to customers. These risks emerge when a bank provides loans scheduled for repayment at a future date, and the borrower defaults on their payment obligations when due. Furthermore, these risks also occur when a bank issues a letter of credit to import goods on behalf of a customer who lacks sufficient funds to pay for the goods upon their arrival (Al-Sayrafi, 2006, p. 60).

5.2.2. Liquidity Risks:

Liquidity risks occur when a bank is unable to fulfill its short-term obligations as they come due. Given that banks conduct a substantial part of their operations using public funds that can be withdrawn, they often encounter liquidity issues. Effective liquidity management necessitates the implementation of appropriate policies and procedures. Banks require a comprehensive database to manage and monitor these risks, with reports detailing liquidity positions at specific intervals. It is crucial for banks to maintain adequate liquidity to continuously meet the financial needs of their customers (Tahrawi, 2014, p. 31).

5.2.3. Operational Risks:

According to the Basel II Accord issued in April 2003, operational risks are defined as "the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events" (Hakimi, 2014, p. 70). These risks can stem from various sources, such as banks relying on third parties to manage the technological infrastructure necessary for electronic banking operations. If the bank's systems are not well-integrated with those of the third party, operational errors may occur. It is crucial for banks to ensure these elements are effectively monitored and controlled. Additionally, regulatory authorities must evaluate the bank management's ongoing capacity to achieve this (Safar, 2008, p. 26).

5.2.4. Market Risks:

Market risks result from unfavorable changes in financial market prices and rates, including variations in interest rates, asset prices, and exchange rates (Bou Said & Ben Bouziane, 2019, p. 217).

5.2.5. Legal and Political Risks:

It is essential for lending officials to monitor political and legal aspects, as non-compliance can significantly risk banking services. Political risks involve a state's capacity to fulfill its commitments and repay debts, along with the oversight of financial institutions and the laws and regulations that govern them within the national financial system (Ibtihaj, 2000, p. 449).

5.3. Causes of Banking Risk Escalation:

Some of the primary causes leading to increased banking risks include (Bensafta, 2004, p. 50):

- **Information Asymmetry between Lender and Borrower**: For an economic transaction to be effective, both parties involved must have access to the same information. Information asymmetry occurs when there is a mismatch in the information available to the lender and the borrower. This is particularly relevant in the context of the relationship between banks and individuals or economic entities when loans are issued.

- **Borrower's Non-compliance with Ethical Agreements with the Lender**: The issue of borrower ethics in relation to loans granted by banks can be attributed to both subjective and objective factors that might justify a borrower's failure to repay the debt. For example, managers of limited liability companies may falsify profit reports to avoid repaying debts. In addition to exploiting legal loopholes, some borrowers exhibit behaviors where they are reluctant to repay their debts unless they have reaped the benefits they sought from the borrowing.

5.4. Definition of Banking Risk Management:

The term "risk management" has become increasingly prominent in recent years, particularly with the advent of global openness. Banks and financial institutions highly value this process due to its crucial importance. Risk management can be defined as "the process of identifying, measuring, monitoring, and controlling risks to ensure a comprehensive understanding and assurance that risks are within acceptable limits and the framework approved by the bank's board of directors." It is an integrated system made to identify, assess, and quantify risks in order to address them with the best strategies for the least amount of money. But only as part of a larger system can these actions be carried out successfully (Zanaqi, Maariv, & Sheikh, 2019, p. 37). Additionally, banking risk management is described as "the procedures and policies implemented by bank management aimed at protecting the bank from various surrounding risks by identifying, measuring, managing, and controlling them through a comprehensive risk management system" (Alal & Amri, 2018, p. 52).

5.5. Importance of Banking Risk Management:

Risk management is not a new concept, but its significance has greatly increased in recent years due to numerous financial crises. This has prompted regulatory authorities and international supervisory bodies, including the Bank for International Settlements, to develop a new, structured risk management system. The importance of risk management can be summarized as follows (Al-Shammari, 2013, p. 46):

- **Increased Risks Over Time**: Risks have escalated, particularly in the financial and banking sectors;
- **Guiding Future Planning**: It helps in forming a clear vision for the future, which is crucial for the planning and policy-making of banking activities;
- **Technological Advances**: The technological revolution has introduced new risks for banks, especially with the shift towards electronic banking;
- **Competitive Advantage**: There is a need to develop a competitive edge by controlling current and future costs that impact profitability.

5.6. Objectives of Banking Risk Management:

The objectives of banking risk management in detail include (Shaqiri & others, 2012, p. 29):

- **Asset Preservation**: Safeguarding existing assets to protect the interests of investors, depositors, and creditors;

- **Risk Control Enhancement**: Strengthening control over risks associated with securities, credit facilities, and other investment instruments;
- **Qualitative Risk Treatment**: Providing specific treatment for each type of risk at all organizational levels;
- **Risk Measurement and Control**: Measuring risks to control them, using quantitative, graphical methods, or custom bank-specific designs;
- **Maximizing Returns and Minimizing Losses**: Increasing returns, creating opportunities, reducing losses, and protecting assets;
- **Strategic Integration**: Integrating risk management into the bank's overall strategy, discussed in regular meetings, focusing on competitiveness and market developments;
- **Resource Allocation for High-Risk Situations**: Ensuring adequate resources are available for high-risk situations while maintaining legal obligations, stable profits, and continuous growth;
- **Regular Risk Reporting**: Producing regular reports on the risk exposure of investments.

5.7. Methods of Dealing with Banking Risks:

There are generally three methods to address and manage banking risks (Fayash, 2020, p. 54):

- **Avoiding Risks**: This strategy involves steering clear of activities that could lead to risks, such as banks avoiding high-risk loans or not investing in long-term securities to circumvent interest rate risks.
- **Reducing Risks**: This approach focuses on identifying ways to confront risks and gradually minimize the potential losses they may cause.
- **Transferring Risks**: This method entails an agreement between two parties, where the bank, which is exposed to the risk, transfers it to another party, such as an insurance company, that is willing and able to assume the risk in exchange for a financial payment.

6. Principles of Banking Risk Management:

Important guidelines for efficient banking risk management have been establishe by the American Financial Services Committee's Subcommittee on Banking Risk Management (Khan & Habib, 2003, p. 35):

- Board and Senior Management Responsibilities: Any financial institution's board of directors is required to create risk management guidelines. These rules should outline how risks are defined or identified, as well as how risk control is managed and measured.
- Risk Management Framework: To mitigate all possible risks, a bank should put in place a thorough risk management framework. This framework has to be flexible enough to adjust to changes in the business environment and include risk management methods and procedures. Integration of Risk Management: It is important to do risk assessment and evaluation in an integrated way, taking into account the interactions and reciprocal impacts between various risks. Accountability of Business Lines: Activities conducted by banks ought to be divided into business lines, such as corporate and retail operations, and each line ought to be in charge of handling the risks that are specific to it.

- Risk Measurement and Assessment: Every risk has to be routinely evaluated, if at all feasible, using both descriptive and quantitative methods. Both expected and unforeseen occurrences' effects must be taken into account when assessing risks. Independent Review: Determining who is responsible for measuring, monitoring, and assessing risks and who is not for taking risks is a crucial part of risk management. An impartial organization with the power and knowledge to analyze risks, evaluate the success of risk management initiatives, and present results to top management and the board of directors should carry out risk assessment. Contingency Planning: In order to manage risks during emergencies and unusual occurrences, policies and strategies must be devised. These plans must to be checked on a regular basis to make sure they sufficiently address any emergencies that could affect the organization.

7. Key Elements of Banking Governance in Risk Management:

Given the significant risks inherent in banking operations and the role of the board of directors as the highest administrative authority within a bank, their responsibilities are closely tied to the practice of good governance. Therefore, the following points outline the board of directors' responsibilities related to risk management (Dabla & Gulab, 2014, pp. 210-214):

7.1. Responsibilities of the Board of Directors Related to Risk Management:

Banking laws and regulations explicitly state that the board of directors plays a crucial role in the risk management process. The primary responsibilities of the board include:

- **Strategy Formulation**: Developing a clear strategy for each area of risk management and designing or approving structures that clearly delegate authority and responsibilities at all levels.
- **Policy Review and Approval**: Reviewing and approving policies that quantitatively define acceptable risks and determine the quantity and quality of capital required for the bank's safe operation.
- **Oversight of Risk Management**: Ensuring that senior management takes the necessary steps to effectively identify, measure, monitor, and control the bank's financial and operational risks.
- **Reporting Standards**: Defining the content and quality of reports to ensure sound employment and compensation practices and a positive working environment.
- **Compensation Committee**: Electing a committee of non-executive directors, known as the Compensation Committee, to determine executive directors' compensation.
- **Risk Management Committee**: Establishing a Risk Management Committee composed solely of non-executive members.

7.2. Responsibilities of Senior Management Related to Risk Management:

The primary responsibilities of senior management in risk management include:

- **Strategic Development**: Creating and recommending strategic plans and risk management policies for board approval.
- **Policy Implementation**: Executing strategic plans and policies once they have been approved by the board.
- **Corporate Culture**: Fostering a corporate culture that upholds high ethical standards and integrity.
- **Policy Manuals**: Ensuring the preparation of manuals that outline policies, procedures, and standards for the bank's key functions and risks.
- **Reporting System**: Establishing and maintaining a reporting system that accurately reflects business risks.
- **Internal Audits**: Ensuring internal auditors review and assess the adequacy of control measures and adherence to limits and procedures.
- **Exceeding Limits**: Obtaining explanations and justifications when set limits are exceeded, including credit reviews for board members and related parties, and ensuring adequate provisions are made.
- **Compliance Review**: Ensuring the internal audit function includes a review of compliance with policies and procedures.

7.3. Responsibilities of the Risk Management Committee:

The responsibilities and authorities of the Risk Management Committee include:

- **Risk Identification**: Identifying and recognizing all types of risks the bank may encounter, such as credit, market, liquidity, operational, and other risks, and acquiring all necessary reports and data to accomplish this.
- **Reporting to the Board**: Providing the board of directors with regular updates on the risks the bank currently faces or may potentially face, and promptly informing the board of any significant changes in the bank's status.
- **Risk Management Environment**: Ensuring the bank has an appropriate risk management environment, which includes assessing the adequacy of the bank's organizational structure and ensuring that a qualified team independently manages primary risks according to a clear risk management system.

8. Procedures of the Bank of Algeria for Establishing Governance Principles for Banking Risk Management in the Algerian Banking Sector:

Despite the reforms undertaken in the Algerian banking system since its inception, numerous deficiencies and drawbacks continue to limit the effectiveness of these reforms, particularly following the enactment of the Money and Credit Law, which allowed private and foreign banks to operate in Algeria. To mitigate the various crises and risks faced by banks, the Algerian authorities have made efforts to implement proper governance in the banking sector, including:

8.1. Enacting Laws to Support the Application of Banking Governance Principles:

Some of the key laws include:

8.1.1. Law on Financial Supervision of Banks and Financial Institutions:

On November 14, 2002, the Bank of Algeria issued Regulation No. 02-03, which mandates internal control for banks and financial institutions. This regulation requires these institutions to establish internal control systems to address various risks in alignment with the Basel II Accord (Sharifi, 2009, pp. 09-10). According to Article 3 of Regulation 02-03, the internal control systems that banks and financial institutions must implement should include (Bin Thabet & Amri, 2018, p. 127):

- Control systems for operations and internal procedures;
- Organization of accounting and information processing;
- Systems for risk and results assessment;
- Systems for risk control and management;
- Documentation and information systems.

8.1.2. Law on Foreign Exchange Regulation and Capital Movement:

Established on April 12, 2003, this commission involves several ministries and aims to combat money laundering, enhance transparency and disclosure in the banking sector, and fight against illicit sources of funds. In 2005, a group of judges specializing in money laundering, cross-border crimes, and cybercrimes was formed (Ksori & Belhassan, 2018, p. 301).

8.1.3. Laws Combating Financial and Administrative Corruption:

Algerian law explicitly addressed financial and administrative corruption in 1996, identifying the sources of corruption and the offenses that contribute to it, without providing a precise definition. This was through the issuance of Ordinance No. 96-22 on July 9, 1996, related to suppressing violations of foreign exchange regulations and capital movement from and to abroad (Al-Rubaie & Radi, 2011, p. 15). On June 9, 1996, a presidential decree established a national observatory for monitoring and preventing corruption.

8.2. National Action Program in Governance:

As part of the national action program in governance within the banking sector, Algeria has adopted governance principles in banks, aligning with the national governance program. The Basel Committee's recommendations have been implemented in banks and financial institutions to enhance risk management and improve market supervision and discipline. The Bank of Algeria has taken gradual and coordinated measures with the banking community to implement this project (Ghanaya & Halimi, 2021, p. 136).

8.3. The Bank of Algeria and Basel Committee Provisions:

Algeria needed to adopt global banking standards, particularly those set by the Basel Committee for supervision, defined by Instruction No. 94-74 issued on November 29, 1994. This instruction established most ratios related to globally recognized prudential rules, especially those concerning capital adequacy. Banks were mandated to maintain a capital adequacy ratio of at least 8%, to be gradually implemented, considering the transitional phase of the Algerian economy at that time. The deadlines were set as follows (Akash, 2013, p. 291):

- 4% by the end of June 1995;
- 5% by the end of December 1996;
- 6% by the end of December 1997;

- 7% by the end of December 1998;
- 8% by the end of December 1999.

Regarding Basel II, the Bank of Algeria issued Regulation No. 03-02 on November 14, 2002, in line with Basel II provisions. Regulation 03-02 addressed various procedures and necessary clarifications for establishing the mentioned systems in banks and financial institutions, considering their nature, size of operations, and the importance of the different risks they may face (Lashab, 2006, p. 17).

8.4. Enhancing Financial Intermediation Efficiency:

Financial intermediation efficiency is increased through banking restructuring and improving banks' commitment capabilities by enhancing their private funds through asset reassessment and implementing Article 81 of the 2008 Finance Law. This article authorizes the treasury to grant medium-term credit lines to banks and long-term credit lines to finance corporate investments (Salehi, 2021, p. 176).

8.5. Launching the Algerian Corporate Governance Code:

Following the launch of the SME Corporate Governance Code in Morocco in January 2008 and the guidelines for best corporate governance practices in Tunisia, Algeria adopted good corporate governance. The Algerian Corporate Governance Code was issued on March 11, 2009, at a critical time. Applying corporate governance rules will help build mutual trust with the banking sector, which is crucial for access to capital and economic growth, especially in overcoming the global financial crisis and mitigating its impacts (Bahrawa, 2009, p. 01). Encouraging and enhancing economic growth is a concern for both the public and private sectors, particularly in Algeria’s business environment, dominated by the informal sector and a narrow capital market. Until recently, business enterprises were part of the problem. Salim Osmani, Chairman of the Corporate Governance Working Group, noted that the lack of governance within companies limits innovation and development potential. Bankers, partners, or investors are unlikely to invest in poorly governed projects. Adhering to the corporate governance code will create more resources and help grow businesses. Former Minister of Small and Medium Enterprises, Mr. Mustafa Ben Bada, emphasized that good governance would improve relationships between banks and business establishments by fostering mutual trust through greater transparency (Bin Thabet & Amri, 2018, p. 129).

9. Conclusion

The various risks that banks encounter due to numerous banking crises have driven the development of several methods and guidelines for managing and controlling these risks. Consequently, banking risk management has become the central administrative function in banks, with their safety closely linked to the efficiency and effectiveness of this management. As such, risk management is a fundamental aspect of governance, and the relationship between governance and risk management is deeply interconnected. Adhering to and implementing the internationally established governance principles by the Basel Committee on

Banking Supervision is essential for creating a robust and unified supervisory system that enhances bank performance and mitigates risks. This is achieved by distributing responsibilities and authorities among different stakeholders within the bank to ensure and protect the rights of all shareholders and depositors.

To activate the role of governance in banks, the Algerian authorities have issued specific laws and decrees applicable to the group of Algerian banks forming the banking sector. These reforms primarily focused on establishing and consolidating governance rules and mechanisms through these decrees and laws to regulate bank operations, maintain their safety, and enhance performance. Despite these efforts and measures, more conditions and additional laws are required to fully establish and implement governance in Algerian banks.

Study Findings

Based on this theoretical study, the following findings were reached:

- A sound banking system is one of the essential pillars for the overall safety of the financial system and the economy.
- Banking governance consists of a set of policies and procedures issued by international bodies and implemented and monitored through specific mechanisms to achieve the goals of both internal and external bank stakeholders.
- The board of directors plays a crucial role in enhancing and maximizing the bank's value through supervision and control.
- Governance involves defining and distributing rights and responsibilities among various bank participants.
- The proper application of governance depends on the central bank's supervision and the concerned bank's management.
- One of the main causes of banking risks is the inadequacy of responsible officials in determining loan approvals, making banks always susceptible to this type of risk and their clients' failure to repay their debts.
- The role of risk management lies in minimizing unplanned operations and activities, anticipating potential risks, and implementing measures to confront risks, thereby reducing the likelihood of losses by addressing and managing risks and avoiding damages through effective plans.
- There is a strong relationship between governance mechanisms and risk management.
- Implementing governance in banks is necessary to create a robust and unified supervisory system that contributes to improving and developing bank performance through risk management by defining and distributing responsibilities and authorities among various participants to reduce these risks.
- The Algerian banking system's efforts to practically implement governance principles are reflected in the issuance of various laws and regulations that reinforce this.

Study Recommendations

Based on the findings, the following recommendations are made:

- It is essential to adhere to and implement governance rules in banks, activating and developing them to minimize risks through prudent risk management.
- Increasing transparency and supervision of banking operations to enhance the implementation of governance in banks.
- Greater efforts are needed to solidify the application of banking governance principles in the Algerian banking system to reduce risks and avoid crises.

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