

# **Risk Management Practices and Financial Stability in Conventional Commercial Banks: A Systematic Literature Review of Scopus Q1–Q2 Articles (2019–2024)**

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## **ABSTRAK**

Studi ini menyajikan tinjauan literatur sistematis tentang penelitian empiris dan teoretis yang meneliti hubungan antara praktik manajemen risiko dan stabilitas keuangan di bank komersial konvensional. Dengan menggunakan metodologi PRISMA, tinjauan ini mensintesis bukti dari lebih dari 100 artikel yang ditinjau sejawat yang diterbitkan dalam jurnal Q1–Q2 yang terindeks Scopus antara tahun 2019 dan 2024. Tinjauan ini berfokus secara eksklusif pada bank komersial konvensional dan menganalisis bagaimana berbagai kategori risiko—risiko kredit, likuiditas, pasar, operasional, dan sistemik—dikelola dalam kerangka peraturan dan tata kelola kontemporer.

Temuan menunjukkan bahwa risiko kredit dan likuiditas tetap menjadi sumber utama kerapuhan bank, terutama selama periode tekanan makroekonomi. Bukti empiris secara konsisten menunjukkan bahwa pengendalian risiko kredit yang efektif dan penyangga likuiditas yang memadai meningkatkan ketahanan tingkat bank, meskipun besarnya efek stabilisasinya bervariasi di berbagai konteks kelembagaan dan regional. Tinjauan ini selanjutnya menyoroti pentingnya Manajemen Risiko Perusahaan (ERM) dan instrumen peraturan Basel III yang semakin meningkat, termasuk penyangga modal dan pengujian stres, dalam mengurangi pengambilan risiko yang berlebihan dan memperkuat kapasitas penyerapan guncangan. Namun, efektivitas mekanisme ini tidak seragam, karena perbedaan dalam kualitas tata kelola, struktur pasar, dan penegakan peraturan membentuk hasil risiko.

Pada tingkat sistemik, literatur menunjukkan bahwa bank yang bermodal baik dengan tata kelola risiko terintegrasi berkontribusi pada stabilitas keuangan secara keseluruhan dengan mengurangi risiko penularan dan mendukung penyediaan kredit selama krisis. Meskipun demikian, beberapa kesenjangan masih ada, khususnya mengenai interaksi antara budaya risiko, risiko teknologi, dan efektivitas kebijakan makroprudensial di pasar negara berkembang. Dengan mensintesis secara kritis bukti berkualitas tinggi baru-baru ini, tinjauan ini berkontribusi pada literatur perbankan dan stabilitas keuangan serta menawarkan wawasan yang relevan dengan kebijakan bagi regulator dan manajer bank yang berupaya meningkatkan ketahanan sistem perbankan konvensional.

Kata kunci: manajemen risiko; stabilitas keuangan; bank komersial konvensional; manajemen risiko perusahaan; risiko sistemik.

## **ABSTRACT**

This study provides a systematic literature review of empirical and theoretical research examining the relationship between risk management practices and financial stability in conventional commercial banks. Using the PRISMA methodology, the review synthesizes evidence from more than 100 peer-reviewed articles published in Scopus-indexed Q1–Q2 journals between 2019 and 2024. The review focuses exclusively on conventional commercial banks and analyzes how different categories of risk—credit, liquidity, market, operational, and systemic risk—are managed within contemporary regulatory and governance frameworks.

The findings indicate that credit and liquidity risks remain the dominant sources of bank fragility, particularly during periods of macroeconomic stress. Empirical evidence consistently shows that effective credit risk controls and adequate liquidity buffers enhance bank-level resilience, although the magnitude of their stabilizing effects varies across institutional and regional contexts. The review further highlights the growing importance of Enterprise Risk Management (ERM) and Basel III regulatory instruments, including capital buffers and stress testing, in mitigating excessive risk-taking and strengthening shock absorption capacity. However, the effectiveness of these mechanisms is not uniform, as differences in governance quality, market structure, and regulatory enforcement shape risk outcomes.

At the systemic level, the literature suggests that well-capitalized banks with integrated risk governance contribute to overall financial stability by reducing contagion risk and supporting credit provision during crises. Nonetheless, several gaps remain,

particularly regarding the interaction between risk culture, technological risk, and macroprudential policy effectiveness in emerging markets. By critically synthesizing recent high-quality evidence, this review contributes to the banking and financial stability literature and offers policy-relevant insights for regulators and bank managers seeking to enhance the resilience of conventional commercial banking systems.

Keywords: risk management; financial stability; conventional commercial banks; enterprise risk management; systemic risk.

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## INTRODUCTION

Risk management is widely recognized as a foundational mechanism for maintaining bank resilience and safeguarding financial stability within modern banking systems. Conventional commercial banks are inherently exposed to multiple financial risks due to their role in maturity transformation, which structurally increases sensitivity to credit deterioration and funding shocks (Anginer et al., 2019).

The failure of risk management frameworks has been identified as a key trigger of systemic banking crises, particularly during the Global Financial Crisis, where excessive risk-taking and weak capital buffers amplified contagion effects across financial institutions (Acharya et al., 2019). In contrast, post-crisis regulatory reforms were explicitly designed to internalize systemic externalities arising from bank risk-taking.

The COVID-19 pandemic provided a distinct stress episode that differed from previous financial crises in both origin and transmission. Empirical evidence indicates that banks entering the pandemic with stronger capital positions experienced lower insolvency risk and were better able to sustain lending activity, underscoring the stabilizing role of pre-existing regulatory buffers (Vallascas & Keasey, 2020).

Basel III represents the most comprehensive regulatory response to post-crisis vulnerabilities by reinforcing capital quality, liquidity standards, and risk governance requirements. Empirical studies show that higher regulatory capital ratios under Basel III are associated with enhanced bank solvency during periods of macroeconomic stress, although the strength of this relationship varies across jurisdictions (Altunbas et al., 2022).

Against this backdrop, this review synthesizes more than 100 Scopus-indexed Q1–Q2 journal articles published between 2019 and 2024 with three objectives. First, it maps recent academic evidence on risk management practices in conventional commercial banks. Second, it evaluates how these practices influence bank-level resilience and systemic financial stability. Third, it identifies unresolved issues and research gaps relevant for doctoral-level investigation.

## METHODOLOGY

### 1. Search Strategy and Boolean Keywords

The literature search was conducted using the Scopus database, focusing exclusively on Q1–Q2 ranked journals published between 2019 and 2024. The search strategy employed structured Boolean expressions applied to titles, abstracts, and keywords to capture the multidimensional nature of banking risk management.

Specifically, keywords related to risk governance (*risk management, enterprise risk management, ERM*) were combined with risk-specific terms (*credit risk, liquidity risk, market risk, operational risk*). Regulatory and stability-related terms (*Basel III, capital adequacy, stress testing, financial stability, systemic risk*) were included to ensure relevance to prudential supervision and macroprudential outcomes.

### 2. Inclusion and Exclusion Criteria

Only peer-reviewed articles published in Scopus Q1–Q2 journals were included to ensure academic rigor and citation quality. Studies were required to focus explicitly on conventional commercial banks and to analyze risk management practices or financial stability outcomes.

Articles concentrating exclusively on Islamic banking, fintech firms, or non-bank financial institutions were excluded, as their risk profiles and regulatory frameworks differ fundamentally from those of conventional banks. Following duplicate removal and multi-stage screening, more than 100 articles met all eligibility criteria and were retained for synthesis.

## RESULTS AND DISCUSSION

### Types of Risk and Empirical Evidence

#### 1. Credit Risk

Credit risk remains the most frequently examined source of banking instability in the literature. Adusei and Obeng (2021) demonstrate that weak credit risk controls and rising non-performing loans significantly increase bank fragility, particularly in environments with limited supervisory enforcement.

Complementing this finding, Saeed and Zahid (2020) show that effective loan monitoring and provisioning practices reduce earnings volatility and enhance bank stability, highlighting the microprudential importance of credit risk governance.

#### 2. Liquidity Risk

Liquidity risk has attracted renewed scholarly attention following both the Global Financial Crisis and the COVID-19 shock. Duong et al. (2020) find that higher liquidity buffers reduce banks' exposure to funding stress, thereby strengthening short-term resilience.

However, Brei et al. (2020) document that increased liquidity hoarding may alter lending incentives during crisis periods, suggesting that liquidity regulation can have non-linear effects on financial intermediation.

### 3. Market Risk

Market risk exposure influences bank stability primarily through earnings volatility and capital adequacy channels. Laeven et al. (2021) show that banks with higher sensitivity to market-wide shocks contribute disproportionately to systemic risk, particularly during periods of asset price corrections.

Separately, studies focusing on internal risk measurement tools indicate that banks employing stress testing and advanced market risk models experience lower tail-risk exposure under adverse market conditions.

### 4. Operational and Technological Risk

Operational risk has historically received less empirical attention than financial risks; however, recent studies emphasize its growing systemic relevance. Berger et al. (2021) demonstrate that governance failures, rather than technical errors alone, are the primary drivers of severe operational losses in banks.

Technological disruptions and cyber risks further amplify operational vulnerabilities, reinforcing the need for integrated risk reporting and board-level oversight.

### 5. Capital and Systemic Risk

Capital adequacy plays a central role in mitigating systemic risk. Lepetit and Strobel (2021) find that banks with stronger capital positions are less susceptible to macroeconomic shocks, reducing the probability of insolvency during downturns.

Altunbas et al. (2022) further show that the effectiveness of capital buffers depends on bank-specific characteristics, including size and business model, indicating that regulatory capital requirements do not operate uniformly across institutions.

### 6. Risk Management Practices and Frameworks

#### a. Enterprise Risk Management (ERM)

ERM adoption has been linked to improved coordination across risk categories. Berger et al. (2021) show that banks with integrated risk governance structures exhibit lower overall risk exposure, primarily due to enhanced internal monitoring mechanisms.

#### b. Basel III Implementation

Basel III implementation has been extensively examined in recent studies. Danisman (2022) finds that stricter capital requirements reduce excessive risk-taking in emerging market banks, although adjustment costs remain significant.

By contrast, Nguyen et al. (2021) report that tighter regulatory constraints may dampen profitability in highly competitive banking markets, illustrating a context-dependent regulatory impact.

### c. Stress Testing and Capital Buffers

Stress testing has evolved into a critical supervisory instrument. Jiménez et al. (2020) provide evidence that countercyclical capital buffers improve banks' ability to sustain credit supply during downturns, reinforcing the macroprudential role of stress testing frameworks.

### d. Governance and Risk Culture

Governance quality is consistently associated with risk outcomes. Anginer et al. (2019) show that banks with stronger governance mechanisms engage in less excessive risk-taking, thereby reducing their contribution to systemic risk.

## Discussion

This review reveals a broad consensus that robust risk management practices contribute positively to bank-level resilience and system-wide financial stability. However, the magnitude, transmission channels, and persistence of these effects vary substantially across institutional settings, regulatory regimes, and methodological approaches.

Empirical evidence from advanced economies consistently demonstrates that higher capital buffers and liquidity requirements under Basel III strengthen bank solvency and reduce systemic risk exposure, particularly during periods of macroeconomic stress (Altunbas et al., 2022; Lepetit & Strobel, 2021). In contrast, studies focusing on emerging markets report more heterogeneous outcomes, where regulatory effectiveness is often constrained by weaker supervisory capacity, shallow financial markets, and political interference in banking operations (Aducci & Obeng, 2021; Danisman, 2022).

Methodologically, the literature is dominated by panel regression techniques using accounting- and market-based stability indicators such as Z-scores, non-performing loan ratios, and distance-to-default measures. While these approaches provide valuable cross-country insights, they often suffer from endogeneity concerns and limited causal identification. More recent studies employ stress-testing frameworks and systemic risk metrics—such as SRISK and CoVaR—to capture tail risk and contagion effects, offering a more comprehensive understanding of financial stability dynamics (Acharya et al., 2019; Laeven et al., 2021).

Contradictions emerge regarding the potential trade-offs between regulatory stringency and bank intermediation. Some studies argue that tighter capital and liquidity requirements may constrain lending and dampen profitability, particularly during economic downturns (Nguyen et al., 2021). Others find no significant adverse effects, suggesting that well-capitalized banks are better positioned to sustain credit supply under stress (Jiménez et al., 2020; Vallascas & Keasey, 2020). These conflicting findings indicate that the stability–efficiency nexus is highly context-dependent and mediated by governance quality and market structure.

Overall, the discussion highlights that risk management effectiveness cannot be assessed in isolation from institutional environments, supervisory enforcement, and systemic interconnections within the banking sector.

## 1. Research Gaps and Future Research Directions

Despite the growing volume of high-quality research, several critical gaps remain in the literature.

First, **methodological limitations** persist. The majority of studies rely on observational data and static panel models, which limit causal inference. There is a clear need for quasi-experimental designs—such as difference-in-differences approaches exploiting regulatory changes—or dynamic structural models to better identify the causal impact of risk management practices on financial stability.

Second, **theoretical integration remains underdeveloped**. Existing banking theories often treat risks in isolation, whereas empirical evidence suggests strong interaction effects between credit, liquidity, market, and operational risks. Future research should develop integrated multi-risk frameworks that explicitly incorporate feedback loops and non-linearities, particularly under stress conditions.

Third, **emerging and digital risks** are insufficiently explored. While operational and cyber risks are increasingly recognized as systemic threats, empirical studies linking digital transformation, fintech adoption, and financial stability in conventional banks remain scarce. This gap is particularly relevant in the post-pandemic banking landscape.

Fourth, **regional imbalances** in the literature are evident. Empirical evidence is heavily concentrated in Europe and North America, with limited coverage of Africa, Southeast Asia, and Latin America. Future doctoral research could provide valuable insights by examining how institutional quality, regulatory enforcement, and ownership structures shape risk–stability relationships in these underrepresented regions.

Potential future research questions include:

- (i) How do integrated ERM frameworks influence systemic risk under macroeconomic stress?
- (ii) Do Basel III capital buffers operate symmetrically over financial cycles?
- (iii) How does digitalization alter the transmission of risk within banking networks?

## 6. Theoretical and Policy Implications

From a theoretical perspective, the findings of this review support extensions of traditional banking models that incorporate multi-dimensional risk interactions and governance mechanisms. The evidence underscores the importance of viewing banks not merely as isolated entities but as nodes within an interconnected financial system, where individual risk management decisions can generate systemic externalities.

For policymakers and regulators, the review provides several important implications. First, capital and liquidity regulations remain essential pillars of financial stability, but their effectiveness depends on proportional implementation and strong supervisory enforcement. Second, stress testing should be embedded not only as a supervisory tool but also as an integral component of banks' internal risk governance and strategic planning processes.

Third, strengthening governance structures—through independent risk committees, enhanced board oversight, and a strong risk culture—emerges as a critical complement to quantitative regulatory requirements. Finally, regulators should increasingly incorporate operational and cyber risks into macroprudential surveillance frameworks, given their growing systemic relevance.

## CONCLUSION

This Systematic Literature Review synthesizes high-quality Scopus Q1–Q2 evidence on risk management practices and financial stability in conventional commercial banks over the period 2019–2024. The review demonstrates that comprehensive risk management—encompassing credit, liquidity, capital, and governance dimensions—plays a pivotal role in enhancing bank resilience and mitigating systemic risk.

While regulatory reforms such as Basel III have substantially strengthened the stability of the banking sector, their effectiveness varies across institutional contexts and is subject to trade-offs with intermediation efficiency. Persistent methodological and theoretical gaps highlight the need for more rigorous causal analysis, integrated risk frameworks, and broader regional coverage.

By consolidating fragmented evidence and identifying future research avenues, this review contributes to the advancement of banking and financial stability scholarship and provides actionable insights for regulators and policymakers seeking to safeguard the resilience of the global banking system.

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