

Liquidity Risk Management In The UK Banking Industry

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Abstract

In the aftermath of the 2008 global financial crisis, many theorists and studies put forward assumptions and positions explaining the causation or development of the credit crunch. At the same time, they suggested measures to manage risk and prevent the occurrence of such a crisis in the future. Since the crisis was primarily about the drying-up of liquidity, this study aims to focus on apprising the issue of liquidity, liquidity risk assessment, and approaches to managing such a risk within an economy. Studies indicate that liquidity crises are not overly rare as people might have assumed in the pre-2008 crisis era. This is especially because companies lack sufficient incentive to build-up enough resilience into their stresses of liquidity and thus hold enough levels of liquidity to guard against such a crisis. The core question here is whether the regulators are justified to force banks to adopt policies and measures that could lead to higher liquidity management standards, which will also advance the risk measurements of liquidity.

Keywords: *Liquidity, Liquidity Risk, Financial Crisis, Assets, Liability, Risk Culture, Risk Appetite, Financial Regulation*

1.0 Introduction

1.1 Background Analysis

Many scholars consider the 2008 financial crisis the worst since the Great Depression of the 1930s. The financial crunch resulted in an increasing threat of total crumbling of all large financial institutions. It also led to the bailout of large banks and insurance companies by national governments as well as massive downturns in global stock markets (McNeil et al., 2015). This crisis was instrumental in the decline of consumer wealth worth trillions, failure of crucial businesses, and a sharp decrease in economic activities around the world leading to the global recession between 2008 and 2012. The progression of this crisis eventually led to the European sovereign-debt crisis (McNeil et al., 2015). According to the International Monetary Fund's estimates, around \$1 trillion was lost by large banks in the US and Europe on bad loans and toxic assets between January 2007 and September 2008.

The active phase of this crisis was manifested as a liquidity crisis, and it can be dated back to August 7, 2007. This is when, citing a sudden evaporation of liquidity, BNP Paribas stopped

withdrawals from three hedge funds. Therefore, the crisis was triggered by a complex interplay of factors involving government policy and actions taken by individual organizations in the market. For example, the government policies that encouraged and allowed home ownership led to overvaluation of bundled sub-prime mortgages in the market. These policies also led to the provision of easy access to loans for the subprime borrowers, and the assumption that the prices of housing would continue to grow (Yan et al., 2014). Emerging issues such as damaged investor confidence, a decrease in credit availability, and bank solvency had an increasing influence on global market stocks, and thus the securities experienced massive losses between the late 2008 and the early 2009.

1.2 Purpose and Need of the Study

The study aims to evaluate the issue of liquidity risk. It will focus on liquidity assessment and management in the UK banking industry. This is because UK banks were extremely affected by the credit crunch and the subsequent liquidity crisis around Europe and especially in the UK. In the pre-2008 financial crisis era, financial regulations were largely relaxed, and many banks and insurance companies had sweeping leeway to take risks. However, there was a rethink in the aftermath of the crisis. This was because the UK government had to bail out some of the major banks such as Abbey, HSBC Group, Barclays, Royal Bank of Scotland, Nationwide Building Society, and others in the country. The widespread understanding was that taxpayers in the UK were paying for the mistakes made by CEOs and heads of these countries in their pursuit of extreme profits and allowances. Therefore, the regulatory framework was changed to reflect new tougher rules aimed at reining in the extravagance and cavalier behaviour of the banking sector. This study aims to evaluate the new approaches adopted to enhance a better management of liquidity risks in the sector. This research will also establish whether these strategies are effective, better than the previous regulatory framework, or do they represent a sustainable approach to managing liquidity risk and at the same time encourage the much-needed economic growth.

1.3 Objectives of the Study

This study aims to evaluate the following objectives:

- i. It seeks to analyse whether the banking sector and the authorities can establish a better understanding regarding the sector's and country's vulnerability to liquidity risk particularly under the current stressed conditions of the economy.
- ii. The study aims to evaluate whether the UK banking sector can develop more effective contingency approaches or funding plans in cases of a liquidity crisis.
- iii. The study aims to appraise the importance of increased disclosure in developing improved market functioning.
- iv. The study also aims to explore the importance of continuous surveillance of liquidity risk in the banking sector. This is especially crucial in ensuring that the liquidity risk management is carried out in a robust and standard way that internalises the cost of the failure of the banking sector and the financial system as a whole.

1.4 Scope of the Study

The study will primarily focus on the subject of liquidity risk management. The study will be

limited to the banking sector in the UK. Therefore, the study will seek to define liquidity risk, liquidity risk management, to the significance of the 2008 global financial crisis, and its impact on the UK economy as a whole and particularly the banking sector. The study will also evaluate the background motivation factors of regulation reform targeting liquidity risk management; some of these include decreased economic growth and a surge in unemployment in the UK.

2.0 Literature Review

Financial intermediation theories argue that the existence of financial institutions, especially banks, is designed to serve two primary purposes; these include the provision of financial services and liquidity as well. In providing liquidity, banks accept funds from depositors and extend these funds to the real sector. At the same time, banks provide liquidity for any depositors that want to withdraw their funds. However, these theories also indicate that the role of banks in transforming short-term deposits into potentially long-term loans inherently predisposes them to liquidity risks (Samanta and Chakraborty, 2016 Pg. 11). The concept of liquidity in the banking sector focuses on the liquidity related to solvency and that focusing on the financial instruments in the market. Therefore, banks have an obligation of paying third parties; some of these examples include balancing assets and liabilities, liquidity management policies, preparing liquid financial instruments, and preserving liquidity as well. Therefore, the primary target in the process of liquidity risk management focuses on the balance between the demand for liquidity and that of the liability side (Lam, 2014). Liquidity risk challenges arise in the event the banking sector fails to reconcile these two sides, or does not have sufficient liquidity reserves internally, or when it fails to obtain or access the funds from external sources such as other banks or the Bank of England.

2.1 Liquidity Risks In the UK's Banking Sector

In financial terms, the risk is defined as the probability that the expected returns might differ from the actual return. Broadly, the financial system is faced with three major risk categories; these include financial, business, and operational risks. Financial risks arise from the banking business activities (Berger and Sedunov, 2017, p.17). On the other hand, the internal issues of individual banks have been shown to be the primary drivers of operational and business risks. In this case, liquidity risks are categorized under financial risks alongside the market and credit risks as well. However, in the analysis of these risks, there is a need to arrange them according to an interactive and causal system. This is because many of these risks cannot be isolated from a banking set-up. In many cases, a financial crisis can easily turn into a business risk and vice versa (Tse et al., 2014, p.21). For example, a liquidity risk within a bank can easily cause a market/credit risk. Therefore, there is a need to evaluate these risks in an integrative approach to establish their relationships within the machinations of the banking sector. Internally, banks facing a maturity mismatch risk or an asset-liability imbalance might experience the development or worsening of liquidity risk (McNeil et al., 2015, p.37). Therefore, there is a need for the banking sector as a whole and individual banks to anticipate factors that can potentially cause business, financial, or operational risks that might lead to the development or build-up of asset-liability and subsequently liquidity risks.

Analysis of the UK banking sector reveals that both non-economic and economic environments have an influential impact on the functioning of banks. Additionally, it shows that these environments have a role in the development of financial, business, and operational risks,

which eventually lead to liquidity difficulties. For example, the failure of derivative markets in the 2008 financial crisis affected significantly the ability of banks to provide liquidity to third parties (Haldane, 2014). This heightened the liquidity crisis and led to the need of bailouts since some of the major banking institutions faced the risk of collapsing and going bankrupt.

In the current financial environment, the management of liquidity risks is increasingly challenging. This is because global market advances and financial innovations have contributed to the significant transformation of the nature of liquidity risks banks face in the UK market. For example, there has been a marked decline in the reliance on bank deposits and a surge in focus on global and capital markets. As a result, these conditions have increased the susceptibility of the financial institutions in the UK to market issues such as deep depreciation currency, which can be caused by excessive loans. Additionally, many of the banks in the UK had been approaching the liquidity problem as an isolated challenge in the lead-up to the 2008 financial crisis (Valdez and Molyneux, 2015, p.63). This was a mistake because liquidity risks are closely related to the operational and business models adopted by these firms in the market. However, there is a need to approach this issue in an integrated manner; this is because a liquidity problem in one bank can impact the entire banking industry or financial system and thus potentially unravel the UK economy, which can also spread throughout Europe and the world as well.

Cooperation among individual banks in the industry, stakeholders, regulators, and the public is crucial in addressing some of these risks. This approach ensures that the sector utilizes sound liquidity risk assessment and management. The post 2008-financial crisis has seen many regulators and banks place massive emphasis on programs targeting sound liquidity risk management and thus allow for a prudent increase in market discipline, avoiding excessive bank credits, and deal with unsecured market derivatives (McNeil et al., 2015 Pg. 111). In 2008, a majority of the reported bank failures were down to the inability to anticipate or solve many of the liquidity risks at the time. Liquidity risk management programs should create a framework in which the bank is not exposed to the negative effects of prevailing economic conditions. It would also allow banks to strike a balance between the liability and asset liquidity sides. It would be crucial in preventing a bank rush, and thus reduce the need for government bailouts to the banks defaulting on their depositors.

2.1.1 The Profile of Liquidity Risks In the UK Banking Sector

The concept of the liquidity risk management refers to the inability of a bank to meet its obligations to depositors; it can also indicate the inability of a bank to fund surges in assets as they fall without running the risk of incurring unsustainable losses or costs. In many cases, this challenge occurs when depositors collectively decide to demand a withdrawal of funds, which are more than the bank has on hand (Bromiley et al., 2014, p.27). At the same time, when borrowers fail to meet their financial obligation to the bank, there is an increased chance of developing a liquidity crisis. Therefore, there are two cases in which a bank can experience liquidity risks. Firstly, it is caused when the bank decides to terminate the loans while borrowers are not able to meet the immediate financial obligations. Secondly, when depositors, due to an array of factors in the external environment, decide to redeem their deposits but the bank is not liquid enough to meet these demands (McNeil et al., 2015, p.113). Some of the consequences of liquidity risk include running the risk of insolvency, reputation risk of the

bank, or the risk of government bailout accompanied by increased regulation. Several factors can cause the inefficiency or failure of liquidity management approaches within a bank. Some of these aspects include the strength of liquidity pressure, the bank's condition in the event of liquidity pressure, the bank's liquidity instruments, and the inability of the bank to find external sources of liquid. Some of the internal and external factors that contribute to liquidity problems are tabulated below:

Table 1: Internal and External Factors That Contribute To Liquidity Problems

Internal Banking Factors	External Banking Factors
High off-balance sheet exposures.	Very sensitive financial markets and depositors.
The banks rely heavily on the short-term corporate deposits.	External and internal economic shocks.
A gap in the maturity dates of assets and liabilities.	Low/slow economic performances.
The banks' rapid asset expansions exceed the available funds on the liability side.	Decreasing depositors' trust on the banking sector.
Concentration of deposits in the short-term tenor.	Non-economic factors (political unrest, etc.).
Less allocation in the liquid government instruments.	Sudden and massive liquidity withdrawals from depositors.
Fewer placements of funds in long-term deposits.	Unplanned termination of government deposits.

2.2 The Process of Liquidity Risk Management

In the current economic conditions, banks are recommended to carry out the process of the liquidity management through identification, measurement, monitoring, and control of liquidity risk within an organization. In this case, there are four elements involved in this process. Firstly, there is a need for liquidity management policies by the Board of Directors. Secondly, there is a need to define the roles of the Asset Liability Committee (ALCO). Thirdly, the bank needs to install an effective information system for the reporting and monitoring liquidity risk in a timely manner (McNeil et al., 2015 Pg. 127). Fourthly, the roles of internal control systems should be defined and structured in a way that enhances liquidity management.

2.3 Approaches to Mitigate Liquidity Risk

In banking theory, Gap Analysis is the commonly used technique to evaluate the performance of assets and liabilities of the targeted bank. Continuous assessment is crucial to inform the management and regulators of the progress of the bank. Additionally, in the case of signs of liquidity risks, this approach allows the bank to avert the development of this problem into a business-threatening level or an industry-wide disaster. The technique is crucial in evaluating the output of the assets; this is especially the case when it comes to the interest rate returns of the bank credits (Rahman and Banna, 2016, p.77). Additionally, it also helps in sorting out the liability side over a specified period. This is because banks often maintain a higher return on the asset side compared to the liability aspect of the business. In this case, banks should

always maintain a positive ratio of the total return from its credits to the total payments of interest on the received deposits, In the event it is negative, banks should work to increase their total equity. Additionally, such a negative action should prompt the bank to increase the interest on its bank credits (Rahman and Banna, 2016, p.77). This is designed to prevent the development of an asset-liability imbalance or a maturity mismatch risk.

However, the action to increase the interests on the bank credits might lead to a sudden increase in non-performing loans (NPL), which might interrupt performance of the asset side. Therefore, there is a need for banks to diversify their source of funding and to increase the contingent sources of liquidity. Moreover, banks need to provide and maintain liquidity in their daily operations to resolve the irregular and regular demand for liquidity from their depositors. Often, daily business activities form the bulk of regular day-to-day needs for liquidity from the banks. However, the irregular demands for liquidity can be categorized into the predictable irregular and the unpredictable irregular demand for liquidity (Rahman and Banna, 2016, p.81). The irregular demand often results from the sudden and huge demand of liquidity like during a contagious banking crisis, global financial crisis, oil price shock, political unrest, natural disasters, or economic crises.

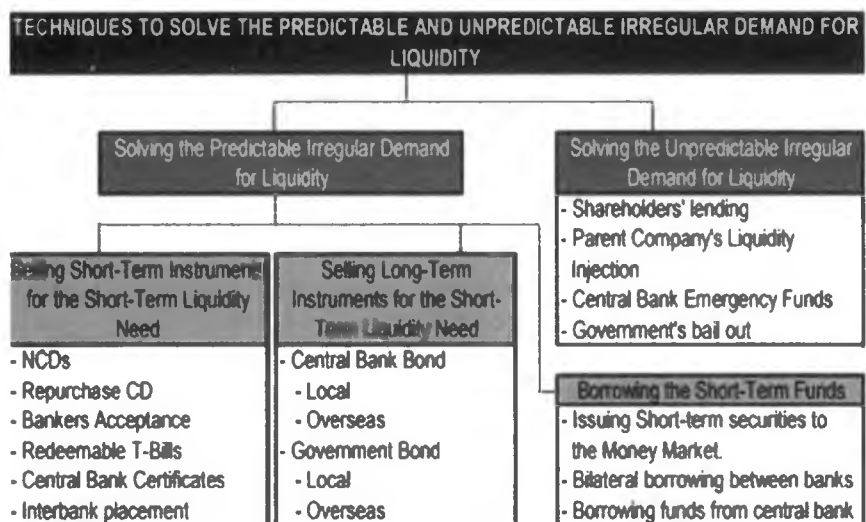
Banks need to maintain a standby account on the asset side that enables them to handle the day-to-day regular demand for liquidity. In many cases, this is a pool of funds that used to meet the liquidity demands on a daily basis. In this case, bigger banks are required to maintain a bigger surplus compared to smaller banks. Such an account should consist of currencies, central bank certificates, deposits from other commercial banks, as well as cash items in the process of collection. At the same time, banks can further manage the regular demand for liquidity by investing more funds in liquid loans or keeping more cash in hand. Banks can also diversify their source of funding from various depositors (Bryce et al., 2016, p.117). This will reduce the risk of a collective demand for the bank to supply liquid funds as it occurs in a monolithic group of liquid sources. Moreover, banks can use the central bank as a last resort to provide the emergency liquidity to meet such demand from depositors.

The unpredictable irregular demand for liquidity is the hardest to manage in the banking sector and the economy as a whole. This is because banks cannot anticipate or predict such occurrences. Therefore, it can be caused by non-economic issues that are often unpredictable. In this case, the demand for liquidity can be managed through various actions by the bank. Firstly, the bank should have a contingency funding plan (CFP) for the events where there is an irregular spike in demand for liquidity (Bryce et al., 2016, p.93). CFPs are the strategies policies and procedures that are aimed to serve as a blueprint for a bank to evaluate and address any emerging liquidity shortfalls. This is especially important in the emergency situations. Secondly, the bank should establish a combination of cash flow matching as liquid assets. This gives it a chance of meeting a sudden surge in liquid demand from depositors. Thirdly, there is a need for banks to establish a prudential allocation of assets; this is aimed at ensuring that banks have a working balance between liquid assets and the liability side as well (Bryce et al., 2016, p.113). Fourthly, an integrated structure of the banking organization gives the sector solidity and helps it increase trust in the institutions. This contributes to reducing cases of panic. Fifthly, the banks should utilize the deposit insurance companies to safeguard against liquidity risks to the bank.

2.5 The Financial Instruments Utilized as the Sources of Liquidity

In many instances, banks are forced to set up liquid financial instruments aimed at establishing diverse tenors and sources of investments. Several factors affect the decision of banks to place funds into various financial instruments. Firstly, banks have to consider their liquidity management policies. This is because their conduct has to be managed and regulated through such frameworks set within the firm (Goetz et al., 2016, p. 66). Secondly, there is a need to evaluate the purpose of placement of funds regarding the liquidity needs. Thirdly, banks need access to financial markets. Fourthly, the hallmarks and costs of financial instruments have to be assessed to ensure that they are cost-effective. Fifthly, the forecast of the returns from interest rates should be established to allow banks to plan their courses of action. Moreover, banks should determine the type of liquidity they need before they redeem the instruments for liquidity. Financial instruments are designed to solve some of the unpredictable and predictable demand for liquidity in the market. For the predictable market surges in demand of liquidity, banks can sell the long-term and short-term instruments to gain short-term liquidity. Banks can also borrow the short-term funds; this is often carried out through bilateral borrowing between financial institutions or banks, or the borrowing from the central bank. On the other hand, the unpredictable, irregular demand for liquidity can be solved through several options; these include shareholder lending, central bank emergency funds, parent company's liquidity injection, or government bailouts, as seen in the UK banks during the 2008 credit crunch and global economic crisis (Bryce et al., 2016, p.75). Some of these instruments aimed at addressing or managing liquidity crisis are illustrated in Table 2 below:

Table 2: Instruments Used in Liquidity Risk Management



3.0 Methodology

This study primarily utilized secondary data. The data employed was sourced from databases focusing on the UK banking sector, the 2008 financial crisis, liquidity crises in the UK, Europe, and around the world. It also utilized books, journals, peer-reviewed articles, magazines,

newspapers, periodicals, and annual publications in the banking sector as well as the financial system as a whole. The study utilized both qualitative and quantitative data. The qualitative data provide the background understanding on some of the major phenomena encountered during the course of the study (Weber et al., 2015, p.98). Therefore, qualitative research provides meanings, explanations, descriptions, discussions, and in-depth appraisals of some of the core issues aimed at meeting the primary objectives of the study. On the other hand, the quantitative data provide numerical estimations, percentages, and ratios of the performance of the banking sector, liquidity risk estimations, instruments, or approaches used to manage such risks and the effectiveness of some of these measures (Weber et al., 2015, p.115). Therefore, the quantitative research provides the core estimations of performance, effectiveness, efficiency, and future projections of the UK banking industry regarding the liquidity risk management aspect.

When combined with this study, qualitative and quantitative approaches helped to offer a comprehensive view of the UK banking sector and an in-depth analysis of the liquidity risk management strategies employed during and after the 2008 financial crisis. The 2008 global financial crisis is used as a crucial marker in this study because of its enormous significance in the world financial system, especially the banking sector in the UK. Additionally, the crisis marked a turning point in many of the conventional approaches of doing business in the UK banks. Therefore, it was utilized as a reference point throughout the study. This was especially crucial because of the changes implemented in the wake of the impact of the crisis on the UK economy, financial system, and relationship between the banking sector and the society.

The data collected was mainly analysed through tables and graphs; these were preferred because of the ease of representation and the demonstration of aspects of change over time as well. The data collected was evaluated through thematic organization and analysis (Weber et al., 2015, p.112). This means that the secondary data was organized into targeted themes aimed at answering or meeting the core objectives of the study.

4.0 Data Analysis and Discussion

4.1 The Changing Environment and Business Approaches

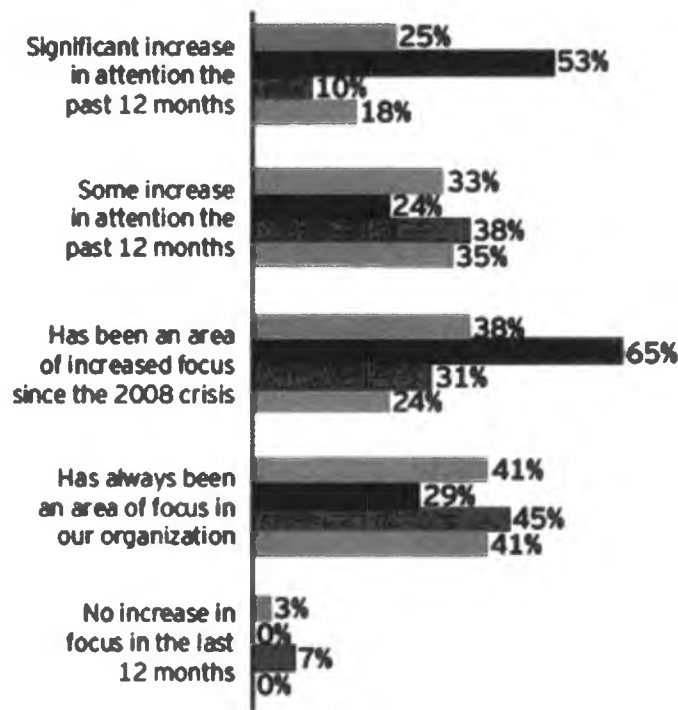
Over the past few years, the UK financial environment has changed significantly. These changes had led to increased predisposition or vulnerability of the UK banking sector to liquidity risk. In the decade leading up to 2007, financial markets and the overall economy experienced massive stability throughout the world. The economic conditions were marked by low nominal yields, low inflation, and reduced volatility of the economic cycles (Calomiris and Carlson, 2016 p.12). However, in the decade after 2007 and the global financial crisis, the economies around the world, banking sectors, and financial systems have been characterized by everything but stability. Constant changes, volatile trust in the banking industry, and a surge in regulations against financial institutions mean that chaos and volatility has replaced stability. This has led to a significant change of culture within major organizations, and especially the banking sector (Calomiris and Carlson, 2016, p.17). The central role that banks played in the 2008 financial crisis triggered a re-think of their attitudes towards risks, especially the liquidity risk. As a result, liquidity and capital management have become some of the most important agendas among the top leaderships of the banks in the UK. Under Basel III, there is a requirement of the major companies to comply with the new and complex liquidity

coverage ratio (LCR). The Basel III alongside a myriad of local regulations and liquidity requirements are the core drivers of several initiatives aimed at adjusting business models and upgrading liquidity management approaches and processes. Major firms in the UK have made changes to their external and internal charging for liquidity. At the same time, most of the organizations are shifting the movement levels of their liquidity across local and group entities (Calomiris and Carlson, 2016, p.31). This is designed to increase the focus on liquidity risk management within the banking sector, and thus prevent the occurrence of a similar liquidity crisis as in 2008. Some of the measures employed in addressing liquidity risk management in the UK are discussed below.

4.2 Transforming the Risk Culture

Most of the banks in the UK are looking into changing their attitudes, practices, and behaviours regarding liquidity risk management. Some of the changes in culture have been enforced through government regulation, while others have been implemented through internal analysis and the need to safeguard banks from such exposures to potentially detrimental risks (DeYoung and Jang, 2016, p.24). Figure 1 below illustrates the changes that the banking sector firms have undergone in the aftermath of the 2008 financial crisis.

Figure 1: The Progress Made by Firms in the UK In Liquidity Management



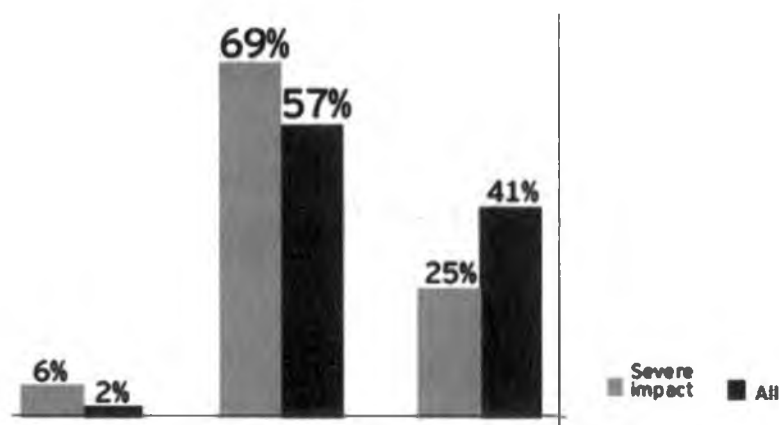
In this case, there was a need to evaluate the level of transformation of the risk culture relative to the level of impact that these companies suffered during the 2008 financial crisis. In this case, most of the banks were severely affected by the liquidity crisis that characterized the 2008 financial crisis. Therefore, many of the banks were expected to make significant changes.

Therefore, around 58 per cent of the most affected banks in the UK have made "significant increases in attention to liquidity risk management." Overall, around 25 per cent of the businesses in the UK financial system have made such significant changes. This is an indication that many of the companies that were severely affected by the liquidity crisis have learned lessons, and thus they have instituted measures to counteract or prevent the occurrence of such disasters (Chiaramonte and Casu, 2017, p.7). In many cases, these companies have to employ financial instruments to ensure that the level of preparedness for a sudden surge in demand for liquidity is high. This is especially because some of these surges can be completely unpredictable and irregular. However, some of the financial sector businesses such as insurance companies do not face the increased level of exposure or predisposition to liquidity crises (Calomiris and Carlson, 2016, p.19). This is because their liquidity demands are often long-term and structured in a manner that regulates the amount of the request at a time.

There are many initiatives underway in the UK aiming to institutionalize consistent, comprehensive, and collaborative strategies the management of liquidity risk (Berger et al., 2014 p.54). However, cultural change is an extremely arduous and long-term process (Calomiris and Carlson, 2016, p.29). Therefore, there is a need to keep up these initiatives. This is aimed at ensuring that the banking sector continues to address some of the different sources of liquidity risks. Additionally, banks should be prepared to prevent or respond effectively once they occur.

As illustrated in Figure 2 below, most businesses indicate that they have made significant progress towards the adoption of a strong risk culture. However, the distance of this progress varies from one firm to another. Overall, around 41 per cent of the companies argue that their risk culture is strong. However, only 25 per cent of the severely affected firms in the 2008 financial crisis believe that they are close to achieving a strong risk culture.

Figure 2: Progress in Liquidity Risk Management

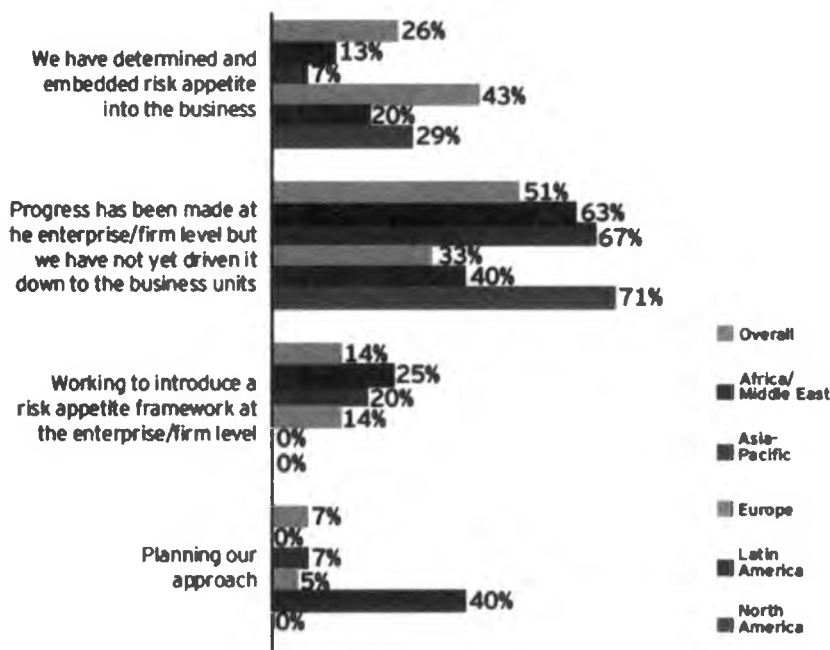


4.3 Managing Risk Appetite

Managing the amount and type of a risk a bank is willing and able to accept in the pursuance of its core business targets will provide an effective framework to manage liquidity risks. In

figure 3 below, European banks have a massive embedded risk appetite at around 43 per cent. It also shows that the steps taken to introduce measures to regulate or even limit the risk appetite are significantly behind. Therefore, there is a need to evaluate and introduce measures in the management of risks in the UK banking sector to ensure that banks are secure against some of the risks taken (Galati and Moessner, 2013, p.29). In this case, regulation can be used to create a framework in which banks can have access to quick liquidity from other banks, financial institutions, investors, or even the central bank. In such cases, the available liquidity will give these banks the leeway to deal with the regular or irregular and unpredictable surges in demand for liquidity from its depositors in the market. However, banks also have to be mandated to operate within their means. They should not take on extremely risky ventures that could expose them to liquidity crises in the market (Calomiris and Carlson, 2016, p.31). Such responsible behaviour can save the individual bank as well as the larger banking sector which is equally vulnerable to perceptions and speculations or panicking of the depositors, which might lead to a full-blown liquidity crisis.

Figure 3: Addressing Risk Appetite



4.4 Expanding Regulation

In the aftermath of the 2008 financial crisis, the UK government came up with crucial regulatory frameworks aimed at reining in the leading financial institutions and other companies in the markets. Regulation is aimed at capping the risk taking and over-reaching of some of these enterprises in the process of seeking yield (Avgouleas and Cullen, 2014, p.69). Therefore, the depth and breadth of regulation will continue to expand shortly in the UK, especially the initiatives targeting the behaviour and liquidity risk management in the banking sector. On risk management, regulation is expected to lead to the optimization of regulatory frameworks

within banks, principle-based compliance, and automated compliance to some of the targeted rules in the market.

5.0 Limitations of the Study

The study mainly employed secondary data. This was because this approach offered the study the historical perspective and the prevailing market dynamics as well. However, secondary data does not provide in-depth details of the respondents or businesses studied to collect the data. Therefore, this study does not have sufficient background understanding of the make-up of reviewed studies. This means that this study was vulnerable to bias developed by the studies and databases being used. At the same time, the regulations and behaviours of banks regarding the liquidity risk management are evolving on a day-to-day basis. Therefore, secondary data collected from studies carried out in 2016 and before do not offer an accurate reflection of the changes underway or the developments that have occurred since the studies and databases used were last updated. Therefore, secondary data, as applied in this study, suffers a time lag, which means this study might not represent up-to-date information.

Additionally, this study employed a single approach to collecting data. Therefore, the collected data is likely to suffer researcher-based biases. Therefore, this affects the validity and reliability of the study's findings.

6.0 Recommendations for Future Research

- a) There is a need to explore the influence of the shift in consumer expectations and the emerging technological advances on the banking sector's liquidity risk management.
- b) The increased culture of risk management might affect the structure and business models of many banks. There is a need to evaluate the impact of these changes on the internal and external environment of the banking sector.
- c) With more and more banks in the UK embracing technology and analytics, there is a need to study the impact of these changes on the core business model, relationship with consumers, and the profitability of the bank's business. Additionally, the impact of these changes on the financial system as a whole and the rest of the economy can reveal merits and demerits of these changes.

7.0 Conclusion

This study has evaluated the issue of liquidity risk and demonstrated that there is a need for a shift in the mentality, structure, and model of the business of the UK banking sector when it comes to the liquidity risk management. It focused on liquidity assessment and administration in the UK banking industry because the UK banks were extremely affected by the credit crunch and the subsequent liquidity crisis around Europe and especially in the UK. In the pre-2008 financial crisis era, financial regulations were largely relaxed, and many banks and insurance companies had sweeping leeway to take risks. However, there was a re-think in the aftermath of the crisis. The UK government had to bail out some of the major banks such as Abbey, HSBC Group, Barclays, Royal Bank of Scotland, Nationwide Building Society, and others in the country; this was the trigger of the transformation in mentality and practices in the banking sector. According to the study, the widespread understanding is that the taxpayers in the UK should not be paying for the mistakes made by CEOs and heads of these

countries in their pursuit of extreme profits and allowances. Therefore, the regulatory framework has been changed to reflect new tougher rules aimed at reining in the extravagance and cavalier behaviour of the banking sector. This study evaluated the new approaches adopted to enhance a better management of liquidity risks in the sector. In many cases, banks and regulators are working in tandem to reduce exposure to liquidity risks in the market. The research also established that these strategies are effectively managing liquidity risk and at the same time encouraging the much-needed economic growth.

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