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EXPLORING THE ECONOMIC LINK BETWEEN FINANCIAL RISK STRATEGIES AND LONG-TERM SUSTAINABILITY IN THE BANKING INDUSTRY

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Abstract
This research explores the relationship between financial risk strategies and long-term sustainability in the banking sector. It aims to examine how banks manage financial risks and their impact on long-term viability, focusing on credit, market, and operational risks. Using a library-based methodology, the study reviews relevant literature, including books, journals, and reports, to analyze risk management frameworks and sustainability practices. The findings indicate that while traditional risk strategies like Value at Risk are essential, integrating sustainability practices—such as CSR and ESG—improves a bank's resilience and long-term performance. The study concludes that banks adopting comprehensive risk strategies aligned with sustainability are better positioned for long-term success.

Keywords: financial risk strategies, long-term sustainability, banking industry.

INTRODUCTION

The global banking industry faces significant challenges related to financial risk management in the pursuit of long-term sustainability (Niţescu & Cristea, 2020). Major banks around the world have been subjected to various market shocks, economic uncertainties, and recurring financial crises, all of which impact their performance and stability. While the banking sector plays a crucial role as a key driver of the global economy, the uncertainties and risks associated with investment decisions and financial policies remain a critical issue in banking (Van Greuning & Bratanovic, 2020). Additionally, the complexity of financial instruments and reliance on systems vulnerable to market fluctuations expose banks to risks that could threaten their long-term survival. In light of these realities, it becomes essential to explore how financial risk management strategies implemented in the banking industry can enhance their sustainability amidst the rapidly changing economic landscape.

Various studies have explored the relationship between risk management and long-term performance in the banking sector. Classical theories in risk management, such as Value at Risk (VaR) and market risk models, provide a crucial framework for measuring and managing potential losses in volatile market conditions(Siraj et al., 2024). However, some of these theories fail to fully address the major challenges in the context of long-term sustainability. Previous research has shown that many banks have failed to anticipate the impacts of the global financial crisis due to risk strategies that were not adaptable to structural changes in the global economy. On the other hand, more recent approaches to risk management, such as systemic and sustainable finance risks, although evolving, have yet to offer comprehensive solutions that connect risk management to long-term sustainability in the banking industry. Therefore, there is a gap in the literature that needs to be bridged regarding the link between risk strategies and sustainability.

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The main objective of this research is to explore the relationship between financial risk management strategies and long-term sustainability in the banking industry(Barua, 2020). This study will investigate the different types of risks that banks face, such as credit risk, market risk, and operational risk, and how each of these risks is managed to maintain stability and long-term viability. Furthermore, this research aims to identify the factors that influence the effectiveness of risk management strategies in supporting the sustainability of banks, considering the role of internal policies, government regulations, and broader market dynamics(Yameen et al., 2024). This research will provide new insights into how the banking industry can enhance its risk management policies and practices to focus more on sustainability.

The importance of this research lies in its ability to offer concrete solutions to connect risk management theory with sustainability practices in the banking sector. Based on the facts presented earlier, although many existing theories examine risk management, there is still no clear consensus regarding the direct relationship between risk strategies and long-term banking sustainability (Țîrcovnicu & Hațegan, 2023). Therefore, the hypothesis of this research is that adaptive and holistic risk management strategies, which consider the long-term impacts of economic fluctuations and banking policies, will significantly support the operational sustainability of banks in the face of global economic challenges. This study aims to test and confirm this hypothesis by utilizing a more comprehensive empirical approach to analyze the risk management practices adopted by leading global banks.

LITERATURE REVIEW

Definition of Financial Risk Strategies

Financial risk strategies refer to the systematic approaches adopted by organizations, particularly in the banking sector, to identify, assess, and mitigate potential financial risks that could negatively impact their operations(Peng et al., 2025). These strategies are essential for ensuring the stability and sustainability of a financial institution. In the context of banking, financial risk strategies are designed to protect the bank's assets, optimize financial returns, and maintain long-term viability by managing various types of risks, such as market risk, credit risk, and operational risk. The ultimate goal of financial risk strategies is to minimize exposure to unfavorable economic conditions, market fluctuations, and other uncertainties that could jeopardize the bank's financial health and business continuity. Effective financial risk management involves both preventive and corrective measures, ensuring that risks are carefully analyzed, monitored, and mitigated to ensure the institution's financial resilience.

Categorization or Manifestation of Financial Risk Strategies

Financial risk strategies can be categorized into several key approaches, each tailored to address specific types of financial risks(Alhammadi et al., 2020). One of the primary categorizations is the distinction between proactive and reactive strategies. Proactive strategies aim to anticipate and manage potential risks before they arise, such as hedging

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techniques, diversification, and the establishment of contingency plans. On the other hand, reactive strategies focus on addressing risks after they have materialized, typically involving damage control and corrective actions. Another important categorization is based on the types of risks being managed. For example, credit risk strategies involve the assessment and mitigation of risks associated with borrowers' inability to repay loans, while market risk strategies deal with managing risks stemming from market fluctuations, such as interest rate changes or currency volatility. Additionally, banks often adopt integrated risk management strategies that combine different approaches to handle the interconnected nature of various risks.

Definition of Long-Term Sustainability

Long-term sustainability in the context of the banking industry refers to the ability of a bank to maintain consistent and stable growth over an extended period, ensuring its financial health, profitability, and survival in a competitive and ever-changing market (Audi & Al-Masri, 2024). It involves a holistic approach to managing resources, where a bank not only focuses on short-term profitability but also considers the long-term impacts of its business practices on its stakeholders, society, and the environment. Long-term sustainability goes beyond financial performance; it encompasses the social and environmental aspects of banking, ensuring that the institution's activities align with broader societal goals. A sustainable bank is one that operates efficiently, balances risk with reward, and contributes positively to the economy while maintaining a positive reputation among customers, investors, and regulatory bodies.

METHOD

The object of this research is the exploration of the relationship between financial risk strategies and long-term sustainability in the banking industry. The focus is specifically on the issues and phenomena surrounding how financial institutions manage risks such as credit risk, market risk, and operational risk, and the impacts of these strategies on their long-term viability(Siraj et al., 2024). The research investigates real-world cases, including historical examples of financial crises and their aftermath, as well as the strategies employed by leading banks to navigate these challenges. The problem identified in this research is the gap in existing literature regarding the clear linkage between financial risk management practices and the sustainable growth of banking institutions. The aim is to understand how the application of various risk management strategies contributes to the ongoing stability and success of banks in the face of dynamic and volatile financial environments.

This research is categorized as a library-based research, which primarily involves the collection and analysis of secondary data from relevant literature. The research focuses on both primary and secondary data types. Primary data in this context refers to the direct literature concerning the banking industry's risk strategies, their sustainability efforts, and empirical studies regarding financial performance during times of crisis. Secondary data consists of extensive reviews of existing books, scholarly articles, journal papers, and

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scientific reports that provide insight into the theories, case studies, and methodologies relevant to the subject of the research(Nhleko & Adelowotan, 2025). These sources are critical in forming a comprehensive understanding of the key concepts such as financial risk management, long-term sustainability, and their intersection within the banking sector. This combination of primary and secondary data allows for a robust investigation of the research problem.

The theoretical foundation for this research is based on several key theories that address risk management and sustainability in business practices. The primary theory used in this research is the Modern Portfolio Theory (MPT), introduced by Harry Markowitz in 1952. MPT is centered on the idea that an investor or financial institution can reduce risk and increase returns through diversification of investments. Although initially developed for individual investors, this theory has been adapted to banking risk management practices(Cavaliere et al., 2021). MPT argues that combining various assets or financial instruments in a portfolio can optimize returns while minimizing exposure to financial risk. Additionally, the Sustainable Development Theory, proposed by Gro Harlem Brundtland in 1987, also serves as a significant foundation for this research. This theory emphasizes the need for businesses, including banks, to integrate long-term social, environmental, and economic goals into their operations to achieve sustainability. The combination of these theories provides a framework for analyzing how financial risk strategies contribute to the broader goal of sustainable banking.

The research process involves several stages, with a focus on collecting and analyzing secondary data from existing literature. The first step is the identification of relevant sources, including books, academic journals, previous research papers, conference proceedings, articles, and reports that provide valuable insights into financial risk management strategies and long-term sustainability in the banking sector(Nocco & Stulz, 2022). These sources are reviewed to understand the various dimensions of risk management in the context of banks and how these strategies impact their long-term success. A critical aspect of the research process is the systematic gathering of materials that are directly related to the key research themes, such as the role of credit risk, market risk, and operational risk in fostering sustainable banking. Data collection is performed through an extensive review of these written materials, with the aim to synthesize the information and derive conclusions about the relationship between financial risk strategies and sustainability.

In this research, the data analysis technique employed is content analysis, a method used to analyze and interpret qualitative data from written sources. Content analysis involves systematically examining the texts, identifying key themes, patterns, and relationships, and interpreting the information in a way that answers the research questions. In the case of this study, content analysis will be applied to identify how various financial risk management strategies are framed in the literature and what their implications are for the long-term sustainability of the banking sector. The process includes coding the text, categorizing the key concepts, and analyzing how these concepts interconnect. By applying this technique,

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the research aims to uncover deeper insights and provide a comprehensive understanding of the role of financial risk management in ensuring long-term sustainability in banking.

RESULTS AND DISCUSSION

The literature on financial risk strategies highlights various methodologies employed by banks to mitigate risks. A major portion of the literature focuses on risk management frameworks, including the use of Value at Risk (VaR), stress testing, and scenario analysis, all of which are designed to quantify and predict potential financial losses under various economic conditions. These strategies often involve the implementation of diversification techniques, risk-adjusted return metrics, and hedging instruments. Banks apply these strategies to manage a variety of risks, including market, credit, and operational risks. For example, the use of VaR allows banks to measure the maximum potential loss of a portfolio within a specified confidence interval, while stress testing simulates extreme but plausible market conditions to assess resilience. Furthermore, risk management policies and frameworks also consider external factors such as regulatory requirements, economic forecasts, and industry best practices.

The data reveals that financial risk strategies are primarily concerned with reducing the exposure of banks to unpredictable financial losses. Through a combination of quantitative and qualitative approaches, banks can assess their risk profile and make informed decisions on how to allocate resources more effectively. By employing VaR, banks can monitor and limit their exposure to potential losses, while diversification strategies spread risk across different asset classes to minimize the impact of market fluctuations. Additionally, hedging strategies, such as using derivatives, are commonly employed to protect against adverse price movements in assets, currencies, or interest rates. These strategies are essential for ensuring financial stability and protecting a bank's capital against volatile economic conditions, making them a critical component of the risk management framework.

The relationship between the data on financial risk strategies and the research problem becomes evident when considering the recurring financial crises and market volatility experienced by the banking sector. The failure of many banks during past financial crises, such as the 2008 global financial crisis, can be attributed to inadequate risk management strategies and an inability to anticipate severe economic downturns. The current research problem seeks to address how banks' financial risk strategies contribute to their long-term sustainability. The evidence from the literature shows that while many banks have implemented robust risk management frameworks, these strategies need to be continually adapted to changing market conditions and global financial trends. Thus, the effectiveness of financial risk strategies is critical to achieving long-term sustainability in the banking sector, as evidenced by the shortcomings observed in previous financial crises.

The literature on long-term sustainability in the banking sector highlights that sustainability goes beyond merely maintaining financial performance; it also involves social and environmental dimensions. Several studies emphasize the role of banks in promoting

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financial inclusion, supporting sustainable development projects, and adhering to environmental regulations. Sustainability frameworks within banking emphasize the balance between profitability, social responsibility, and environmental stewardship. A key focus of sustainability efforts is aligning financial decision-making with the principles of corporate social responsibility (CSR), ensuring that banks operate in a way that benefits both their stakeholders and society as a whole. Additionally, banks are increasingly integrating Environmental, Social, and Governance (ESG) criteria into their lending and investment decisions to support sustainable economic development.

The data on long-term sustainability suggests that banks increasingly recognize the importance of aligning their financial goals with broader societal and environmental objectives. The integration of CSR and ESG principles into banking operations enables financial institutions to consider the long-term consequences of their decisions on the environment, social equality, and governance. As banks begin to focus on these aspects, their operations tend to shift towards more sustainable practices. For example, many banks are now offering green bonds and loans to fund environmentally friendly projects and are investing in technology that minimizes their carbon footprint. By prioritizing sustainability, banks aim to ensure not only their long-term financial success but also their positive contribution to broader social and environmental goals.

The relationship between long-term sustainability and the research problem becomes apparent when we consider how sustainability efforts impact the financial resilience of banks. The growing emphasis on CSR and ESG factors suggests that banks that incorporate sustainability into their business models are more likely to survive long-term market fluctuations and economic uncertainty. Banks that ignore sustainability concerns may face reputational risks, regulatory challenges, and declining market share, which could threaten their ability to operate effectively in the future. This aligns with the research problem, which seeks to explore how financial risk strategies support the long-term sustainability of banks. The findings from the literature indicate that banks adopting sustainability practices tend to have more stable and resilient business models, making them better equipped to manage financial risks and maintain operational stability over time.

The literature on the banking industry provides an overview of the sector's evolution, with a particular focus on how banks have adapted to changing economic environments and regulatory frameworks. Over the decades, the banking industry has seen substantial shifts, from the early dominance of traditional brick-and-mortar institutions to the rise of digital banking and fintech innovations. Key data points from this literature show that banks increasingly rely on technology to streamline operations, enhance customer experience, and improve efficiency. The industry's response to global financial crises has also shaped its operational strategies, with a significant focus on strengthening capital adequacy and liquidity requirements in the wake of the 2008 crisis. As the banking sector becomes more interconnected globally, the literature reveals that banks must adopt more sophisticated risk management and sustainability strategies to navigate the complexities of the modern financial landscape.

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The data underscores the transformation of the banking industry, highlighting how technological advancements and regulatory changes have influenced the way banks operate and manage risks. The implementation of new technologies, such as blockchain, artificial intelligence, and data analytics, has allowed banks to enhance their risk assessment capabilities and improve operational efficiency. Additionally, the introduction of stricter regulatory frameworks, such as Basel III, has forced banks to strengthen their capital buffers and liquidity positions to withstand future financial shocks. These changes in the banking industry reflect a broader shift toward a more resilient and adaptable financial sector, one that recognizes the importance of robust risk management and long-term sustainability in an increasingly complex global economy.

The relationship between the data on the banking industry and the research problem becomes evident when considering how the industry's evolution and regulatory reforms have shaped the way financial institutions manage risk and pursue sustainability. The literature highlights that banks that successfully integrate technology and adhere to regulatory guidelines tend to exhibit better risk management practices and more sustainable business models. This is directly relevant to the research problem, as it emphasizes the need for banks to adopt innovative risk strategies and sustainability practices in order to ensure their long-term survival and success. By aligning financial strategies with regulatory standards and technological advancements, banks are better positioned to manage financial risks and maintain sustainability in an increasingly uncertain and competitive global market.

Table 1. Research Findings Based on Objectives

Research Objective	Findings
Examine the relationship between financial risk management strategies and long-term sustainability	Financial risk strategies directly impact the long-term sustainability of banks by mitigating potential financial losses.
Analyze the types of financial risks (credit, market, operational) and their management	Credit, market, and operational risks are key areas managed by banks to ensure financial stability and minimize risk exposure.
Identify factors influencing the effectiveness of risk strategies in promoting sustainability	The effectiveness of risk strategies depends on the integration of both proactive and reactive measures, with a focus on adaptability.
Assess how sustainability practices (CSR, ESG) impact the long-term viability of banks	Sustainability practices, including CSR and ESG, contribute significantly to a bank's ability to maintain long-term profitability and social responsibility.

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Understand the role of financial risk strategies in maintaining stability during economic volatility	Financial risk strategies play a crucial role in ensuring a bank's stability, particularly during times of market instability and economic crises.

CONCLUSION

This research underscores the critical importance of integrating robust financial risk strategies with long-term sustainability practices in the banking sector. The findings reveal that while various risk management frameworks, such as Value at Risk and stress testing, are vital for mitigating immediate financial risks, their role in ensuring long-term stability is even more significant when complemented by sustainability efforts, such as incorporating CSR and ESG factors. The research demonstrates that banks adopting comprehensive risk management strategies that align with sustainability objectives are better positioned to navigate economic volatility and maintain operational resilience. As the banking industry continues to evolve, integrating financial risk strategies with sustainable practices will be essential for ensuring both the financial health of institutions and their positive contributions to society and the environment in the long run.

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