

RISK MANAGEMENT PRIMER



Enhance knowledge in Risk Management
...Scale New Heights



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RISK DEFINITION - PERSPECTIVE

Risk can be defined as a *prospect of loss or reduced gain* that can adversely affect the achievement of an organisation's objectives.

Risk management is a structured approach to managing uncertainty through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

"The ability to understand risk is one of the fundamental drivers behind global economy. Without it, we can't make the investments, and we can't take the initiatives required to succeed."

What is Risk Management?

- It is the process of assessing threats, taking steps to mitigate risk to an acceptable level, and maintain or reduce that level of risk.
- It is the process of identifying, analyzing, and addressing risks proactively throughout the project lifecycle.

SOURCES OF RISK

Internal

- Changes in pricing
- Mismatch in resource allocation
- Labour problems
- Employee attrition
- Equipment failure

External

- Inflationary pressure
- Government regulation
- Supplier becomes insolvent
- Unauthorised access into systems
- Disruption through power/communication
- Suppliers

DOMINANT CORPORATE RISK ISSUES

Ranking	Risk Description
1	Damage to Reputation
2	Business Interruption
3	Third Party Liability
4	Distribution or Supply Chain Failure
5	Market Environment
6	Regulatory / Legislative Changes
7	Failure to attract or retain workforce
8	Market Risk (Financial)
9	Physical Damage
10	Merger/Acquisition/Re-structuring/DRP Failure

CREDIT RISK

- Credit Risk can be defined as the potential loss due to a change in counterparty credit.
- The counterparty credit can be affected by a change in either current counterparty credit rating, or a default by the counterparty
*For example, if a company's credit rating changes from AA to A, this will result in a credit risk, as will a default by that counterparty

OPERATIONAL RISK

- Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Operational Risk differs from other banking risks as it is not typically taken directly in return for an expected reward but exists in the course of corporate activity
- Deregulation and globalisation of Financial Services, together with the growing sophistication of financial technology are making the activities of banks and thus their risk profiles more complex.

MARKET RISK

- Market Risk is inherent to the entire market or entire market segment. Also known as "un-diversifiable risk" or "systematic risk."
- Interest rates, recession and wars all represent sources of systematic risk because they will affect the entire market and cannot be avoided through diversification.
- Systematic risk can be mitigated only by being hedged.

ENTERPRISE RISK MANAGEMENT

ERM is the discipline, by which the organizations in any industry assess, controls, finances and monitors risks from all sources for the purpose of increasing the organization short term and long term value to its stakeholders.

Key Drivers:

- Wake-up calls from corporate disasters
- New stringent regulatory environment
- Increased examination and enforcement standards
- Redefined SOX guidelines on enterprise documentation and controls
- Linkage of Basel II and Solvency II on minimum regulatory capital and underlying risk exposure of financial services industry

FRAUD RISK

Fraud commonly includes activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and extortion, it essentially involves using deception to dishonestly make a personal gain for oneself and/or create a loss for another.

Key Types:

- Bankcard Fraud
- Impersonation Fraud
- Employee Fraud
- Monetary /Transactional /Remittance Fraud
- Accounting Fraud
- Regulatory /Compliance Fraud

Business Impact:

- Monetary Loss
- Loss of Goodwill, Brand Equity.

RISK & COMPLIANCE - INDIAN SCENARIO

Current Scenario:

- Risk manager's role - is restricted to pre-fact and post-fact analysis of customer's credit
- No segregation of credit, market, operational and strategic risks.
- Few banks have articulated framework and risk quantification. However, the outputs are far from the stressed or actual losses due to usage of un-compatible implications

Next Stages:

- Formalized risk-reporting framework

- Appropriate escalation procedures between risk takers to risk managers.
- Qualitative measures cover the issues relevant to identifying quality of customer, compliance risks, operational risks, money laundering, control and assurance profiles.

RISK MANAGEMENT PROCESS

Risk Management

- Risk Plan
- Objectives
- Resources
- Responsibilities
- Requirements
- Techniques

Risk Assessment

- Probability of Occurrence
- Severity of Impact
- Ability to control

Risk Analysis

- Response Log
- Alternatives
- Risk Profiles
- Impact Analysis

Risk Handling

- Transfer
- Avoid
- Reduce / Deflect
- Accept
- Control
- Investigate

SARBANES OXLEY

- The Sarbanes-Oxley Act of 2002, covers issues involving auditor independence,
- Corporate governance, internal control assessment, and enhanced financial disclosure.
- Key Provisions attributes:
- SOX Section 302: Internal control certifications
- SOX Section 404: Assessment of internal control (Small companies/IT)
- SOX Section 802: Criminal Penalties for Violation of SOX
- SOX Section 1107: Criminal Penalties for Retaliation Against Whistleblowers

SOLVENCY II

Solvency II is the updated set of regulatory requirements for insurance firms that operates in the European Union. The rationale for European Union insurance legislation is to facilitate the development of a Single Market in insurance services in Europe, whilst at the same time securing an adequate level of consumer protection.

- Pillar 1 - consists of the quantitative requirements
- Pillar 2 - sets out requirements for the governance and risk management of insurers
- Pillar 3 - focuses on disclosure and transparency requirements.

BASEL II

Basel II is the second phase of the Basel Accords, which are recommendations on Banking laws and regulations issued by the Basel Committee on Banking supervision. The key objective for this accord is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face. Basel II attempts to setting up rigorous risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its lending and investment practices.

Basel norms use three pillar approach methodology:

- Pillar I - Maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, operational risk and market risk.
- Pillar II – Deals with regulatory responses to provide framework for dealing with other associated residual business risks viz. systemic, concentration, reputational risk.
- Pillar III – Deals with enhanced disclosure information by banks allowing the market to have a better insight of overall risk position enabling them to price and deal appropriately.

MFID

The Markets in Financial Instruments Directive (MiFID) is a European Union law which provides a harmonized regulatory regime for investment services across European Economic Area. Its scope extends to "investment services and activities" (core services) and "ancillary services" (non-core services).

Key components include:

- Authorisation, regulation and passporting
- Client categorisation
- Client order handling
- Pre-trade transparency
- Post-trade transparency
- Best execution
- Systematic Internaliser

Riskpro India

Riskpro is an organisation of member firms around the world devoted to client service excellence. Member firms offer wide range of services in the field of risk management. It is managed by experienced professionals with experiences spanning various industries. RiskPro was incorporated in India as a limited Liability entity in 2009. Since then, RiskPro has been actively involved in providing effective risk management services. We are a growing organization with well qualified partners and a pool of talented resources

ABOUT US

- ❑ Riskpro is an organisation of member firms around India devoted to client service excellence. Member firms offer wide range of services in the field of risk management.
- ❑ Currently it has offices in three major cities Mumbai, Delhi and Bangalore and alliances in other cities.
- ❑ Managed by experienced professionals with experiences spanning various industries.

MISSION

- ❑ Provide integrated risk management consulting services to mid-large sized corporate /financial institutions in India
- ❑ Be the preferred service provider for complete Governance, Risk and Compliance (GRC) solutions.

VALUE PROPOSITION

- ❑ You get quality advisory, normally delivered by large consulting firms, at fee levels charged by independent & small firms
- ❑ High quality deliverables
- ❑ Multi-skilled & multi-disciplined organisation.
- ❑ Timely completion of any task
- ❑ Affordable alternative to large firms

DIFFERENTIATORS

- ❑ Risk Management is our main focus
- ❑ Over 200 years of cumulative experience
- ❑ Hybrid Delivery model
- ❑ Ability to take on large and complex projects due to delivery capabilities
- ❑ **We Hold hands, not shake hands.**

SERVICES

Risk Management Advisory Services

Basel II/III Advisory

- ❑ Market Risk
- ❑ Credit Risk
- ❑ Operational Risk
- ❑ ICAAP

Corporate Risks

- ❑ Enterprise Risk Assessment
- ❑ Fraud Risk
- ❑ Risk based Internal Audit
- ❑ Operations Risk
- ❑ Forensic services

Information Security

- ❑ IS Audit
- ❑ Information Security
- ❑ IT Assurance
- ❑ IT Governance

Operational Risk

- ❑ Process reviews
- ❑ Policy/Process Review
- ❑ Process Improvement
- ❑ Compliance Risk

Governance

- ❑ Corporate Governance
- ❑ Business Strategic risk
- ❑ Fraud Risk
- ❑ Forensic Accounting

Other Risks

- ❑ Business/Strategic Risk
- ❑ Reputation Risk
- ❑ Outsourcing Risk
- ❑ Contractual Risk

Training

- ❑ Banking – E Learning
- ❑ Corporate Training
- ❑ Regular Risk Management Training
- ❑ Online Training material
- ❑ Workshops/ Events

Recruitment

- ❑ Virtual Risk Managers
- ❑ Full Time Risk Professionals
- ❑ Part time Risk Professionals
- ❑ Risk Managers on call – free

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