

Workshop on Governance, Risk Management and Basel II



Indian Banks' Association (IBA) organised a full-day workshop on 'Governance, Risk Management and Basel II' for whole-time directors, directors and top executives of banks. The workshop was conducted on three consecutive days (October 14, 15, and 16) at Hotel Trident, Mumbai to accommodate the overwhelming response from directors and executives. At the beginning of the workshop, K Unnikrishnan, deputy chief executive, IBA explained the purpose and objective of the workshop to the participants.



Dr Robert M Mark

Dr Robert M Mark, chief executive officer, Black Diamond Risk, who is also the vice chairperson of the board of the Professional Risk Managers' International Association (PRMIA), conducted the workshop. He was assisted by David R Koenig, founding partner of Ductibility. Koenig has been the chairperson of the board of PRMIA, was also its executive director and president of PRMIA Institute.

The morning session focused on establishing governance and risk management objectives by the board. In this session, participants were given inputs on risk management,

ranging from the definition of risk, different types of risks, their prioritisation, and board's responsibilities with respect to rating agency objectives and regulators.

Pre-lunch session detailed the best practice governance from the board and top management, with special emphasis on governance principles. In this session roles of the directors, chief risk officer, risk advisory director, and other senior executives were discussed. Structure of risk management organisation, risk and audit committees, risk policies and procedures and various risk methodologies formed the subject matter of this session.

The post-lunch session was on enterprise risk management (ERM). Eight interrelated components of ERM namely, internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication and monitoring were discussed in detail. Popular enterprise wide risk management frameworks such as Committee of Sponsoring Organisations (COSO), Australian Standard/New Zealand Standard (AS/NZS) 4360, Open Compliance and Ethics Group (OCEG) Governance Risk and Compliance (GRC) capability model, and that of James Lam were detailed and compared.

The audience was introduced to the results of a survey whose major findings pointed out that the current or intended ERM programmes of most companies were evenly divided in their emphasis on operational and financial risks. According to the survey, most companies had plans to develop ERM frameworks internally taking a hybrid approach to various popular frameworks. Only COSO had some followers.

The concepts of value at risk (VaR), economic capital, and risk-adjusted performance measurement (RAPM) were also discussed with a case study on risk transfer pricing at major banks.

The final session focused on challenges in managing risks of complex products in both normal and non-normal markets, efficacy of quantitative risk management, commodity risk management and the role of insurance in operational risk management. Complex products have historically exhibited behaviours that are hard to model even in 'normal markets'. Constructing stress tests to predict the amount of risks in non-normal markets is a key challenge for the banks. Other challenges in non-normal markets are to incorporate liquidity risk into risk

management framework, and to properly assess the fair value of illiquid assets.

Participants were informed of the risks of incorrect modelling or not understanding the basic assumptions used in a model. Towards this purpose, the instructors suggested model vetting and creation of a model database to reduce 'model risk'.

A very spirited discussion ensued everyday on the causes, impact and risk management failures leading to subprime crisis. The workshop on each day witnessed intense discussions and energetic participation by the participants. Each participant was given a copy of the book titled 'The Essentials of Risk Management' published by McGraw Hill.