A Higher Standard for Risk Professionals

Managing Risks in Commercial Institutions: the challenge

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PRMIA is an association of risk professionals involved in risk management in financial institutions, or financial risk management in non-financial institutions. We provide a members' forum, standards, risk qualifications and training. There are over 62,000 members in 190 countries.

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The Challenge

- Risk management is of growing importance within all companies - in the financial sector is has become a regulatory requirement.
- How should this be managed at a board and senior management level?
- The problems are:
  i. Governance, setting risk appetite, controlling risk and ensuring accurate risk information,
  ii. How to ensure that day-to-day managers understand risk and allow for it in their activities,
  iii. how do the authorities ensure compliance with risk standards without impacting creativity and entrepreneurship?

The tone at the top*

- Risk management starts at the Board
  - Understanding
  - Creating the infrastructure
  - Defining risk appetite
  - High level monitoring - the "hand on the tiller"

** A phrase, I believe, first used in the COSO report to the National Commission on Fraudulent Financial Reporting in October 1987*

- Ten Principles of Risk Governance
  - Competence in key areas
  - Adequate processes and levels of resource
  - Continuous education and development
  - A suitable compensation and incentive structure
  - Establishment of the risk appetite
  - Independence of key parties
  - External validation of the framework
  - Clear definition of accountability at all levels
  - Consistent and adequate disclosure and transparency
  - Trust, honesty and fairness in the key people
- But are current corporate governance standards adequate?

Risk management at all levels

1. **R**isk frameworks
2. **R**isk standards
3. **R**isk managers

Lead to ...

- **R**isk reporting
- **R**isk education
- **R**isk maintenance

Lead to ...

- ☑ **R**isk mitigation
- ☑ **R**isk reduction

"Every day, in every way, I am getting better and better"

"Tous les jours à tous points de vue je vais de mieux en mieux" ,

Émile Coué de Châtaigneraie (1857 – 1926)

Can risk management be imposed?

Q Can governments and regulators force companies to reduce their risk profiles?

A The answer must be NO, but …

- Corporate Governance standards can be developed
- Risk Governance can be built into these
- Transparency and disclosure can be imposed by including these in shareholder disclosure standards
- The market (i.e. the share price) will then do the enforcement of these standards
- The benefits of strong corporate governance will also be demonstrated
- Quantitative conditions can be imposed, i.e. Basel II

Q Will this be sufficient?

A If combined with the development of risk management as a ***profession***, then yes.

In conclusion …

- Risk needs to be managed in all commercial institutions
- The process for improvement is two fold:
  1. Enforcement – using market self-regulating processes such a strong globally-accepted Code of Corporate Governance
  2. By ensuring that risk management is developed to a Professional status similar to law, accountancy, etc
     - Global standards
     - A strong educational foundation
     - Requirements for qualification
     - Continuous education
     - A code of conduct
- Accounting standards are accepted at all levels of commercial activity – why not risk management?

Thank you

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