

Risk Management in Banks & the Capital Implications

A two-day workshop to give a better understanding of enterprise risk management procedures within banks and how these risks are addressed by both Basel II and internal economic capital models. An overview of lessons learned and best practice in the identification, monitoring and management of risk.

TARGET AUDIENCE

The workshop is designed for bankers, regulators and analysts but is also appropriate for a broader audience who wish to gain insight into the risk management process and how capital is allocated. The course is targeted at an intermediate level and assumes a basic understanding of banking products.

COURSE OBJECTIVES

The goal of this workshop is to understand how risks are categorised, quantified, monitored and managed within banks. Participants will be equipped to:

- Identify, categorise and quantify credit, market, liquidity, operational, legal, regulatory and reputation risks
- Understand the systems and procedures needed to track, monitor and manage these risks
- Relate the risks to the capital of a bank.

CONTENT

ANALYTIC OVERVIEW

Overview

- Why risk management is critical to banks
- An overview of lessons learned from past risk management failures
- Understanding differing perspectives: shareholders, regulators, and debt providers.

Risk management

- Major risk groups: credit, market, liquidity, operational, legal, regulatory, and reputation
- Management objectives – risk versus return
- Inter-relationship between key risk groups
- Lessons learned from recent risk management failures.

Capital allocation

- Types of capital: shareholder, regulatory and economic capital
- Regulatory capital: Basel II structure
 - Pillar I – Capital Calculation
 - Pillar II – ICAAP and SREP
 - Pillar III – Disclosure
- Economic capital: calculation and uses.

CREDIT RISK

Identifying and quantifying the risk

- Importance of credit risk
- Five categories of credit risk: lending, issuer, contingent, pre-settlement and settlement
- Defining and quantifying credit risk: probability of default, exposure at default, loss given default
- Methodologies for quantifying credit exposures.

Managing credit risk

- Limits and safeguards – policy, process and procedures
- Credit approval authorities and transaction approval process
- Documentation: covenant packages, ISDA and CSA and other collateral agreements
- Potential credit risk mitigants and how they are be used in practice.

MARKET RISK

Identifying and quantifying the risk

- Defining market risk: types of market risk
- Trading Book v Banking Book
- Value at Risk (VaR): Definition and key concepts: holding periods, confidence levels, disclosure, limitations
- Banks' disclosures on market risk
- Comparative analysis of market risk disclosures.

LIQUIDITY RISK

Identifying, defining and quantifying the risk

- Types of liquidity risk: funding and transactional
- How liquidity risks affect different financial institutions
- Gap management: interest, currency, and maturity mismatches
- Concepts of cash capital
- Identifying key areas of risk: double leverage, window dressing, off balance sheet financing and other early warning signals.

Managing the risk

- Asset and liability management techniques: gap limits
- Regulatory requirements: Basel II guidelines for sound liquidity risk management
- Measuring and managing stress scenarios: elements of a contingency plan
- Use of securitisation: impact on capital, credit quality and liquidity.

OPERATIONAL RISK

Identifying, defining and quantifying the risk

- Examples of operational risk failures in financial institutions
- Best practice systems and management procedures
- Statistical challenge of high value, low frequency losses
- Capital requirements under Basel II.

LEGAL, REGULATORY AND REPUTATION RISK

Identifying, defining and quantifying the risk

- Legal risks and their management
- Impact of changing regulations
- "Know Your Customer", money laundering and ultra vires issues
- Impact of changing regulations on banks
- Managing reputation risk.