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PROFESSIONAL COMMUNITY OF RISK MANAGERS IN JORDAN CONCEPT PAPER

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PROFESSIONAL COMMUNITY OF RISK MANAGERS IN JORDAN

CONCEPT PAPER

SUSTAINABLE ACHIEVEMENT OF BUSINESS EXPANSION AND
QUALITY (SABEQ)

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AUTHOR: SARAH HARGROVE

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OF PROFESSIONAL COMMUNITY FOR RISK MANAGEMENT

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INTRODUCTION AND BACKGROUND

This concept to establish a Professional Community (PC) of Risk Managers in Jordan arose owing to three primary drivers as follows:

1. The CBJ has mandated the adoption of the new Basel II regulatory regime for Jordanian banks and the associated risk management department and functions to implement the new regime.
2. The new risk managers in the Jordanian banks for the most part have no experience in formalized risk management functions and are essentially “learning on the job” by attending domestic and international training programs, some of which have been sponsored by USAID through Jordan Economic Development Program (SABEQ)
3. SABEQ InsTran has already begun pilot programs to establish Professional Communities (PCs) in Human Resources and Trade Finance and are available to provide the technical requirements initially for such a PC.

The rationale for sponsoring such PCs, with applies to a PC of Risk Managers as well as the pilot PCs, is to:

- Enable SABEQ’s technical experts to better and more directly connect with, support, and make value-added resources available to a larger number of Jordanian clients
- Create a space for both *cooperation* and *competition*, encouraging symbiotic ‘cooptition’ among Jordanians engaged in related activities or specialty functions, and the means to continue such cooperation well beyond SABEQ completion
- Empower progressive Jordanian reformers, particularly mid-level managers, with the *understanding*, the *motivation*, and the *means* to improve their individual skills and to drive the “bottom-up” transformation of their respective organizations.
- Improve the ability of SABEQ’s counterpart to understand and apply opportunities made possible by advances in information technology (IT) and the world-wide-web (www).

Given the dearth of experienced risk managers in Jordanian banks, and presumably the larger business community, the establishment of a Professional Community of Risk Managers can provide a much-needed resource for individual risk managers to share experiences, topical issues, and solutions to problems and generally raise the professional standards for the individuals managers. Discussions with several risk managers at banks, as well as with the Deputy Governor of the CBJ, indicate interest and support of such a PC.

Accordingly, this paper identifies the steps to taken in the formation of the PC, identifies “charter members,” suggests behaviors and activities, discusses the role of SABEQ and provides an implementation plan.

STEPS IN ORGANIZING THE PROFESSIONAL COMMUNITY OF RISK MANAGERS (PCRM) IN JORDAN¹

The Preliminary Steps in the organization process are being addressed herein, including identifying the champion and sponsor, suggesting start-up activities, recommending the Steering Committee and proposing the scope of activities and charter for the PCRM.

IDENTIFY THE CHAMPION AND SPONSOR

It is recommended that the champion and sponsor be the Association of Banks in Jordan. At present the ABJ has several technical committees devoted to various issues relevant to the banks in Jordan and provides a number of training programs in specialized areas. The risk management training provided to date by SABEQ has been under the aegis of the ABJ. Therefore the ABJ is the logical champion and sponsor of the PCRM.

PICK THE FOCAL POINT

The focal point of the PC should be “practice oriented” and be risk management in banks. It is anticipated that eventually the PC will be expanded to encompass risk managers in other sectors with a broader focus on “Enterprise Risk Management.”

It should be recognized that sub-focal points within the PC itself can address particular problems or processes related to the risk management functions in banks.

PREPARE THE BUSINESS CASE AND PROPOSAL

As noted above, the business case for the PCRM rests, in part, on the absence of an experienced pool of risk management professionals in Jordan. A Profession Community of Risk Managers (or a Community of Risk Professionals) would be group of people who share a profession in, a concern, a set of problems, or a passion about risk management and who deepen their knowledge and expertise in risk management area by interacting on an ongoing basis.

Trends of the knowledge economy point to the critical role that communities of a particular practice can play, particularly in knowledge-driven markets such as banking. It is generally recognized that good risk management is not only a competitive advantage for banks, but also can enhance the safety and soundness of individual banks and the banking system as a whole.

Knowing the boundaries and the leading edge of the “domain” of risk management will enable members to decide exactly what is worth sharing, how to present their ideas, and which activities to pursue. It also helps them to recognize the potential in tentative or half-baked ideas. The “Community” creates the social fabric of learning based on trust and mutual respect; only then will there be a willingness to share ideas, expose one’s ignorance, ask difficult questions and listen carefully. The PRACTICE or PROFESSION is a set of frameworks, ideas, tools, information, styles, language, stories, and documents that community members share. When they function well together, a PC makes an ideal

¹ The organizational steps presented herein have borrowed heavily from *Communities of Practice: A Start-Up Kit*, Fred Nichols, 2003.

knowledge structure—a social structure that can assume responsibility for developing and sharing knowledge.

Benefits to the members are listed in the Table below:

Short –term	Long-term
<i>Improve experience of work</i>	<i>Foster professional development</i>
Help with challenges	Forum for expanding skills and expertise
Access to expertise	Network for keeping abreast of a field
Better able to contribute to individual's institution	Enhanced professional reputation
Confidence in one's approach to problems	Increased marketability and employability
Fun of being with colleagues	Strong sense of professional identity
More meaningful participation	
Sense of belonging	

Table 1: Benefits to Members of the PCRM

GET ORGANIZED

The ABJ should appoint a Steering Committee to develop further the concept for a PCRMM outlined herein. The Steering Committee can enlist members from the current risk management departments of the Jordanian banks, and have a organizational meeting to vet prospective members, need for sub-groups (such as credit risk managers) and launch the PCRMM.

The expected outcomes of the PCRMM include the following²:

1. A rapid flow of information between and among members (a good “grapevine”)
2. Quick diffusion of innovation and knowledge among members (rapid transfer of best practices)
3. Conversations move quickly to the point without lengthy introductions or rationales
4. Problems quickly framed and addressed
5. A widespread and shared awareness of each others’ competencies, strengths, contributions, etc.
6. Common tools, methods, techniques to use in managing and reporting risk positions
7. Extensive use of “war stories” to communicate lessons learned
8. A shared, evolving language

² As adapted by Nickols from Chapter 5 in *Communities of Practice: Learning, Meaning and Identity* by Etienne Wenger.

ROLE OF SABEQ InsTran

SABEQ InsTran will establish and maintain the web portal for two years, after which time the responsibility for maintenance of the portal will move to the ABJ.

Based upon Key Words, SABEQ InsTran will establish the initial “virtual library” of documents and arrange for the necessary copyright or trademark permissions so that the resources are readily available to the PC. Subsequent postings of materials by PC members will be subjected to the same clearance. Appendix 1 presents the key words for the initial searches. Once the PCRMM is operational it is anticipated that the key words will be continuously updated and revised.

Hands-on assistance: Regular, SABEQ facilitated in-person ‘round table’ sessions of dialogue and support services will establish the initial personal relationships and peer-to-peer communities. Maintaining the ‘human element’ of each community is the most critical factor for overall success.

Web-enabled assistance: The PCRMM will have an on-line presence. Community members will be connected to this presence via a link on their desktops maintained by SABEQ initially. There will also be access to identified “experts” for brainstorming or providing feedback to issues that may arise that the PCRMM cannot solve or answer definitively on its own. Such experts can be “on call” virtually or through email, and can be selected from the stable of SABEQ consultants.

RECOMMENDED NEXT STEPS

A recommended implementation plan is provided in Annex 2. The responsibility for championing the PCRMM should be housed in the ABJ. A Steering Committee of interested bankers should be appointed by the ABJ to guide the implementation plan or revise it if necessary. The following banks and individuals are recommended as members of the Steering Committee:

1. Mohammad Azen, Jordan Kuwait Bank
2. Rana Sunna, Cairo Amman Bank
3. Firas Naber, HSBC
4. Deema Akel, Union Bank
5. Ginger Stearns, Arab Bank

The Steering Committee can meet with the SABEQ InsTran team to establish contact and review the technical steps required to establish the portal, including the name and access requirements.

APPENDIX 1 AND 2

APPENDIX 1: INITIAL KEY WORDS

Risk Management

Advanced internal ratings-based approach
Advanced measurement approach
ALCO
ALM
Asset and Liability Management
Basel II
Basic indicator approach
Business unit
CAR
Capital
Capital adequacy guidelines
Capital adequacy ratio
Commodity risk
Credit risk
Credit risk mitigation
Credit score
Data warehouse
Default
Economic capital
Eligible operational risk offsets
Equity risk
Expected operational loss
Exposure at default
Foreign exchange risk
FX risk
Interest rate risk
Internal assessment approach
Internal ratings-based approach
KPI (Key performance indicators)
KRI (Key risk indicators)
Liquidity
Liquidity risk
Loss given default
Market discipline
Market risk
Operating risk
Operational risk
Price risk
Pricing model
Probability of default
Profitability measurement
RAROC
Rating model
Return on allocated capital
Risk
Risk adjusted return on capital

Risk Analogues
Risk appetite
Risk Management
Risk Management in Banks
Risk-adjusted return
Risk-based capital guidelines
RORAC
Scenario analysis
Stress test
Supervisory formula approach
Supervisory review
Value at risk

APPENDIX 2: IMPLEMENTATION PLAN

Activity	SABEQ	ABJ	Steering Committee
Select Steering Committee		✓	
Arrange meeting to establish contact and technical set-up issues	✓		
Draw up list of prospective members to invite; advertise in appropriate newspapers/journals		✓	✓
Sponsor organizational meeting of participants		✓	
Draw up charter			✓
Establish operating principles			✓
Launch PCRM	✓	✓	✓

Sustainable Achievement of Business Expansion and Quality (SABEQ)

BearingPoint, Inc.

Salem Center, Sequleyah Street, Al-Rabiyeh

Amman, 11194 Jordan

Phone: + 962-6 550-3050

Web address: <http://www.SABEQ-Jordan.org>