



Introduction to Risk Management

USAID-Funded Economic Governance II Project

10 – 11 December 2006

Module Learning Objectives



At the end of this module, participants will be able to:

- **Describe** the objectives of the risk management
- **Explain** the key elements of the risk management
- **Describe** the Risk Management Process
- **Create** a risk report

Risk Management



Objectives of Risk Management

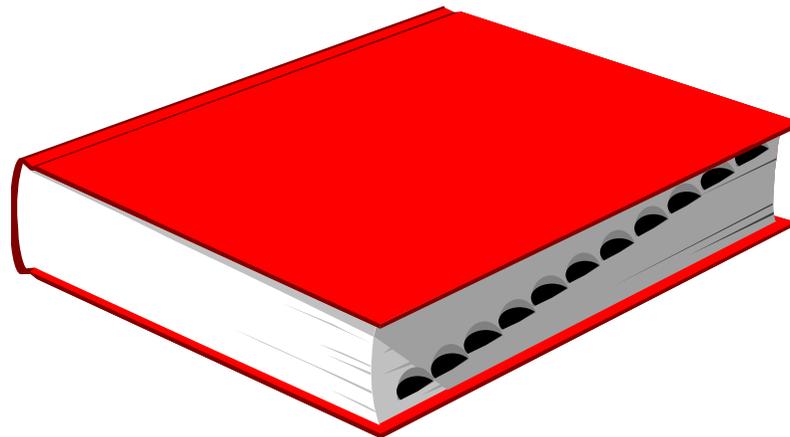
- Control expected costs
- Determine probability of unexpected costs
- Develop procedures to prevent unexpected costs
- Measure risk
- Report risk to senior management and the Board of Directors

Risk Management



Definition of Risk

Risk is the potential that events, expected or unexpected, may have an adverse impact on the bank's capital or earnings.



Risk Management



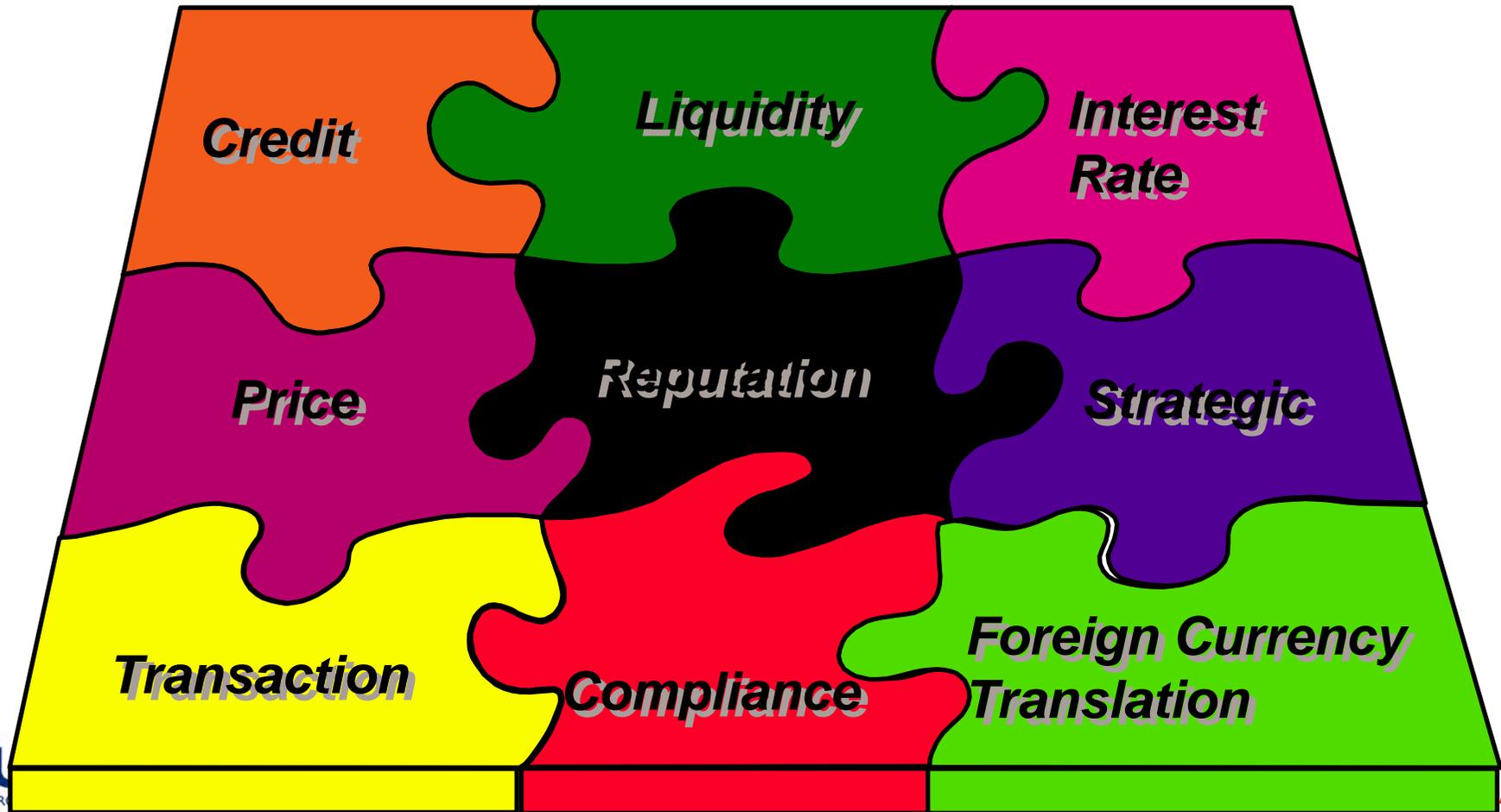
Banking Risk Exposures:

A World Bank document on “Analyzing and Managing Banking Risk” suggests that there are four basic types of risk:

- Financial Risks
- Operational Risks
- Business Risks
- Event Risks

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Categories of Risk



Risk Management



Name risks at CBI:

The Risk Management Process

- Determine quantity of Risk
- Assign quality of Risk
- Set Limits (appetite)
- Create Risk Prevention Procedures
- Measure Risk Events
- Report Risk

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Element I Quantify Risk

- **Select Category – one of our CBI Risks**
- **Determine Probability**
- **Calculate potential for loss**
- **Make initial report to management**

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Element 2 Qualify Risk

- Use the quantified risk
- Assign risk quality
 - High 5
 - Medium to high 4
 - Medium 3
 - Low to Medium 2
 - Low 1

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Element 3 Set Limits

- Responsibility of CBI Senior Management
- Refer estimated risk quantifies with rating to Senior Management
- Be prepared to defend risk assignments

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Element 4 Risk Prevention

- **Eliminate risk elements which can be eliminated**
- **Set Procedures for limitation of risk**
- **Monitor risk procedures to ensure compliance**
- **Establish risk measurement criteria**

Element 5 Risk Reporting

- Two types of reports
- A. Periodic reports to management detailing risk exposures and exceptions to policy
- B. Reports of new products or services that exhibit potential risk or significant risk events.

The Risk Management Process

- Provides a common framework to evaluate risks and report risk.
- The Process includes:
 - Policies
 - Processes
 - Personnel
 - Control Systems

Risk Management

