



Leading the risk profession

INTERNATIONAL DIPLOMA IN RISK MANAGEMENT

Specialist Module - Financial Services

Syllabus

Unit one: Background to the financial services sector

- Explains what we mean by financial services and why the sector is important to the global economy
- Provides a background to the development of the banking and insurance industries and the importance of risk taking within the sector
- Explains the interconnected nature of global financial markets

Unit two: Key concepts in financial risk management

- Examines the key financial and statistical techniques that underpin risk management in the financial services industry, such as value at risk (VaR) and Monte Carlo simulations
- Describes the importance of financial and non-financial quantification
- Outlines the concept of economic capital and other methodologies such as scenario analysis and stress testing
- Briefly considers the application of financial risk techniques in asset management and hedge fund businesses as well as to other, non-financial, businesses (e.g. trading desks in energy firms)

Unit three: Operational risk in financial services

- Outlines the key sources of operational risk in financial services:
 - people
 - processes
 - systems
 - external events
- Describes common approaches used to identify, monitor and control key operational risks, explores quantitative techniques and the importance of analysis of historic loss and near miss data

Unit four: Sources and approach to risk in banks

- Explains key sources of risk within the retail and wholesale banking industry
- Considers common approaches to the identification, assessment and control of key risks including:
 - credit risk
 - market risk
 - operational risk
 - liquidity risk

[Type text]

Unit five: Development of the regulatory framework for banks

- Sets the context for the role of regulation in banking, including consumer protection and improving confidence in financial markets
- Demonstrates why regulation seeks to impose minimum risk management standards
- Explains the background and limitations of the Basel Capital Accord
- Outlines the subsequent development of banking regulation through the development of Basel II and prepares you for the later unit that introduces the Basel III project
- Details the structure of, and key requirements of, the Basel Accord and explains the Three Pillars and responses required within them, including the Pillar 1 calculations and the internal capital adequacy assessment process (ICAAP)

- Explains the background and purpose of the US *Sarbanes-Oxley Act* 2002 and the response by major financial institutions

Unit six: Sources and approach to risk in insurers

- Explains the key sources of risk within the life and non-life Insurance industries
- Considers common approaches to the identification, assessment and control of key risks including:
 - insurance risk
 - credit risk
 - market risk
 - operational risk
 - liquidity risk

Unit seven: Development of the regulatory framework for insurers

- Considers the development of insurance regulation starting with Solvency I, and discusses why Solvency II was developed
- Examines the background, purpose, structure and implementation of Solvency II and initiatives, such as Prudential Sourcebook (PSB) (UK FSA rules), and Germany's minimum requirements for risk management (MaRisk).
- Examines the broader international context of insurance regulation driven by the work of the International Association of Insurance Supervisors (IAIS) and looks at the drive behind countries seeking equivalence to Solvency II, for example Bermuda, Switzerland and Mexico
- Considers the development of insurance regulation in the United States, including the role of the National Association of Insurance Commissioners (NAIC)
- Looks at the impact of regulation on the role of the risk manager and the actuary as well as other risk governance implications

[Type text]

Unit eight: Lessons from failure

- Explores the recent history of losses in the financial services sector in particular the Financial Crisis of 2008
- Explains how the losses occurred and examines the developments in risk management that have evolved as a response to these losses
- Examines responses to the global financial crisis by regulators and Governments and the possibility of new global super-regulators
- Explores the key question of whether the global financial crisis was caused by the failure of risk management or human practices
- Provides an explanation of systemic risk and its place in the financial services industry
- Emphasises the importance of the behavioural and people elements of risk management

Unit nine: Enterprise risk management (ERM) in a financial services context

- Examines the ERM framework in financial services business, given the context of the regulatory developments and the lessons from failure, and sets out the components of an ERM framework in a financial services organisation

[Type text]

Module Learning Outcomes

By the end of the module students should be able to:

- understand the main sources of risk in the banking and insurance sectors
- understand the approaches used by the banking and insurance sectors to manage risk
- understand a typical enterprise-wide risk model in a financial services organisation
- identify the regulatory imperatives that help drive risk management in banking and insurance and understand what regulators are seeking to achieve
- understand the role of the chief risk officer (CRO) and the risk management function in a financial services organisation
- examine whether the global financial crisis demonstrated weaknesses in the approaches to risk management and regulation in the banking and insurance sectors that were in place at the time
- understand the risk management differences between banks and insurers
- identify the importance of personal and interpersonal skills, incentives, communication and ethics in the financial services sector.

The Institute of Risk Management
6 Lloyd's Avenue
London
EC3N 3AX
Tel: + 44 (0)20 7709 9808
www.theirm.org