



## IRM Turkey Regional Group - RYD Semineri

What are the lessons to be taken for risk management and where does RM go from here in the context of the current global credit crunch?

Steve Fowler (IRM) and Nicola Crawford (BRG)  
Bankası Genel Müdürlük Konferans Salonunda, Istanbul  
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**Steve Fowler, +(44) 207 7099808 [steve.fowler@theirm.org](mailto:steve.fowler@theirm.org)**

**Nicola Crawford, 05455 713374. +(44)7792 504533 [nicci@businessresilience.com](mailto:nicci@businessresilience.com)**

## Presentation includes:

- ERM – broad view of systemic risk issues based on weaknesses in Governance and management systems

## Does not include:

- Technical discussion of risk modelling and individual risk types

**“A systemic risk requires a systemic response”**

# The Global Credit Crisis?

USA/European Trigger point for global financial crisis.....

*“The shocking succession of corporate meltdowns signals a massive leadership failure across the financial services landscape. Executives at these troubled firms may have ignored or failed to see the level of risk their companies were taking on in a crusade to enhance results and their own compensation. When markets turned against them, their firms -- big as they were -- crumbled.”*

Professor Peter Cappelli, Wharton Management

According to a global survey of 316 financial services executives, over 70 percent of respondents believed that the losses stemming from the credit crisis were largely due to failures to address risk management issues (EIU/SAS)

# Risk Management Lessons Learned

- Ethics of decisions – using other peoples money to lend to clients who can't afford to pay!
- Lack of systemic risk assessment – focus on internal risks with limited focus on industry specific issues and risks including global linkages e.g. assumptions
- Not targeted to right risks – the “accidental / unintended” risk profile – activity on the how rather than the why
- Not focused on strategic risk – what business should we be in tone at the top – need to understand the risks of the business you are in.

# Risk Management Lessons Learned

- Lack of transparency – “covering up failures becomes the norm”
- Reward and remuneration structures influences decision making behaviour
- Communication challenges

- Revisit strategy and risk appetite
- Alignment of risk and finance (ICAAP) – decisions should be based on same source of information
- Improved product risk assessment and management
- Risk management becomes a thought process – built in not bolted on to day to day decisions
  - Don't play the blame game - the balance of the focus should be prospective. What should be done differently? What are the responsibilities, information, and controls that we need going forward?"

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# Summary – Future Risk Management

- Comprehensive – to cover all risks facing the enterprise
- Consistently applied – top down and bottom up
- Common language and capability – focus on competencies & training to attain
- Commitment from the top to all levels of the organisation
- Connections between people, processes and information that go beyond the organisation
- Coordination vertical and horizontal, processes and communication – Enterprise Risk Governance

# Catastrophe or Correction?

Is the current crisis a complete failure of the financial system or a correction of risk management as a system?

Have we tried to run before we can walk – sophisticated modelling - lost sight of the basics

“Provision of training with no education”

# Thank You



Institute of Risk Management  
6 Lloyd's Avenue  
London  
EC3N 3AX  
United Kingdom

