INTRODUCTION

Risk management and risk assessment is crucial to the business of financial institutions, such as Banks, Insurance Companies, and Funds. Their success depends on how well they identify, measure, and control all of the risks they undertake in the course of their business.

Improving the management of risk has become a key task after the financial crisis of 2009 revealed the weakness at the heart of most institutions' risk monitoring and control processes. Regulators, Central Banks, and other authorities are in the process of imposing new capital adequacy rules to minimize systemic risk that was so prevalent in the multiple bankruptcies in the financial world (Lehman, Bear Sterns, etc) in 2009. Lack of robust risk management led to near-failures of several large banks and insurance companies such as Citicorp, AIG, Bankia, just to name a few.

This course is an intensive introduction to Financial Risk Management principles, where theory is balanced with real life case studies to prepare students with essential skills necessary in today's world of modern finance. Although many of the principles are equally important in non-financial entities, the focus of the course is on financial institutions - as measuring and managing financial risk is essential for profitability and survival for the latter. However, in the last session there will be discussions of how two large corporate entities manage their strategic and financial risks.

It is to be noted that this course is NOT one on "hedging techniques" for financial risk - how foreign exchange or interest rate risks are hedged will be covered in the various financial product modules. Instead this course will focus on the residual financial risk that an organisation bears as part of its strategic approach to maximising value. To be noted is that an organisation bears many other strategic risks beyond financial risk (such as "reputation risk") which are not the focus of this course.

AIMS

To assess how the emphasis on financial risk has changed since the crisis of 2009;
To understand the nature of different types of financial risks that an entity is exposed to;
To understand how market risk and liquidity risk arise, and methods to measure these; the emphasis is on trading and investment positions of financial institutions;
To analyse credit risks in bank loan portfolios, and how these are measured;
To analyse risks faced when assets and liabilities have maturity mismatches in financial institutions;
To understand the importance of Operational Risk and how to measure it;
To understand the concept of Economic Capital, internally in the context of the risk-bearing financial institutions, and externally in the context of the Regulatory bodies such as the Basel Committee;
To understand the complex and unpredictable nature of certain risks termed as "unknown unknowns", or Black Swans.
METHODOLOGY

Lectures, real-life case studies, and practical Excel work.

Participants should read and analyze cases before class sessions and be prepared to discuss the cases in depth in the class.

For the class to be more productive, participants should also read the relevant lecture notes provided in advance.

EVALUATION

The class will be divided into groups. Daily each group will alternately present analysis of a case, while the other students will participate through adding to the analysis or challenging what is presented.

Participation and Group Analysis = 40%

Written Exam (last class) = 60%

However, to pass the course it is necessary that the participant obtain a minimum Pass mark in the Written Exam.

BIBLIOGRAPHY

- Supplementary Readings:
  - J P Morgan, RiskMetrics, 1994
  - J P Morgan, CreditMetrics, 1997