
RISK
MANAGEMENT

What is risk???

- Risk is any uncertainty in the future, which can deviate from the expected earnings or outcome.
- There are various risks like sovereign risk, liquidity, insurance, default, and business risk that arise in different situations.
- Assess the risk by taking into account historical outcomes and behaviors.
- In finance, the standard deviation is used to measure risk.
- It is a measure of price volatility based on past data.
- Risk occurs where there is a chance of profit.

Risk = Probability x loss

- Where probability is the chances of occurrence of risk and loss means the amount exposed to loss.

Types of Risk...

Strategic Risk:

When a company's strategy/ planning fails to achieve the aim, objectives, and goal of the company is known as a strategic risk.

Compliance Risk:

Risk occurs when a company does not adhere to rules, and regulation is called compliance risk. It is also known as "**Integrity risk**." It attracts financial penalties and legal action against the company.

Operational Risk:

Risk associated with the day-to-day operations of the business is known as operational risks.

Financial Risk:

Risk occurs when the company cannot pay its obligations or liabilities, known as a financial risk.

Reputational Risk:

Every business/ organization has one common thing, i.e., goodwill/ reputation in the market, and no company takes any chance to spoil their goodwill/ reputation in the market. The company faces enormous losses if the company's reputation is spoiled.

What is Risk Management??

- To identify, assess, and control threats relating to the organization's assets is known as Risk management.
- It means taking steps to minimize the risk or adverse effect of risk in an organization.
- It helps predict the company's future or return on investment and find the threats that a company can face in the future.
- Effective risk management can be seen when the company acts actively and tries to control the risk and its consequences as much as it is possible instead of reacting to the situation.
- It is an essential part of any business.

Risk Management Strategy Has To Answer The Following Questions To Prove Its Effectiveness:

- Can anything go wrong in the workplace or an individual's work?
- What are the chances of occurrence of the risk?
- Will it have a high or low impact on the organization?
- What is the preventive measure taken to reduce or avoid the loss?
- What are the steps for recovery of loss?
- What is the corrective measure if the risk occurs?

Importance of Risk Management

- An organization can protect its money and the future by implementing a risk management process.
- It is an essential process in a company as it provides various tools to identify and deal with potential risks.
- After identifying risk, it is easy to mitigate or take precautionary action to save the company from facing losses and continue being profitable.
- It also helps the company make a sound decision regarding the project or the process based on identifying risk.
- Risk management helps a business or a company prepare for future uncertainties that hinder its growth and progress.
- When a business starts preparing to evaluate the potential risk and design a structure to alleviate it, it helps a company succeed.
- A robust corporate governance principle focusing specifically on risk management policy helps a company to achieve its goals.

OTHER IMPORTANCE OF RISK MANAGEMENT

Assures protection of all assets from potential risks.

Protect company and environment from destructive events.

It provides a secure and assured environment for all stakeholders.

Stability of business operations increases, and legal liability decreases.

STEPS TO IMPLEMENT RISK MANAGEMENT

Continued...

Define the end goal–

- The first step in implementing the risk management process is to define the aim, objective, and purpose of this process.
- In this step, decide the evaluation criteria for risk and structure for analysis.

Risk Identification–

- The company needs to identify the possible risk affecting the company's process or project.
- It begins with identifying the internal problems. The best way to determine the risk is to chart it to find more common risk and severe risk and manage it accordingly.

Analyzing the risk

After identifying risk, the company needs to find the possible reason for its occurrence and the consequences. The goal is to understand each risk's specific instance and its influence on the particular process or project.

Evaluation of risk

Next step is evaluation of the risk, based on its occurrence and consequences. The risks need to be ranked based on their effects, like how severe it can be for the project or company.

Continued…

Mitigation of risk–

- After evaluating and rating the risk, start the mitigation process with the most severe threat.
- In this step, a plan is prepared to mitigate the risk using a risk control matrix.
- It includes the process of risk mitigation, measures to prevent risk, and a contingency plan if risk takes place.
- This step consists of the preparation of preventive measures and a contingency plan.

Monitoring of risk

In this step, a follow up of the overall plan to monitor and track the existing and new risk is done. The overall process of risk management should be reviewed and updated on a timely basis.

Communication and Consultation

The company needs to communicate and consult on the risk management process with its internal and external stakeholders and consider their feedback.

Limitations in the Risk Management process

- Risk management has a vital role in the organization, but it also has its limitations.
- There are various risk analysis techniques like simulating or creating a model that requires a company to gather lots of data.
- The process of collection of data is costly and is not even reliable.
- If easy indicators are used to detect complex situations, then the data used for decision making will have substandard outcomes.
- A shortfall of time and absence of expertise in the analysis are the other limitations.
- For the simulation of events, a computer-based software program has been designed that may give a negative result to the company.
- These complex programs are cost-effective and require highly trained and qualified personnel with comprehensive skills and knowledge to accurately interpret the generated results and analyze the past data to identify risks.
- These personnel cannot be assigned every time to these projects, or they might not get enough time to pile up their findings regarding the tasks that leads to ineffective results.

OTHER LIMITATIONS IN THE RISK MANAGEMENT PROCESS

- If things are going smoothly, it looks like the situation is improving, but the real problem is getting worst as the calculation of value-at-risk is focused on the past rather than the future.

A wrong sense of security

- Organization gets wrong belief by the risk models that every potential risk can be quantified and regulated, leading to ignorance of unexpected dangers.

The illusion of command

- To view and interpret the whole picture of cumulative risk is complicated.

Negligence in viewing the big picture

- An organization's risk management policy lacks the previous data to make correct interpretations and is not develop entirely.

Risk management is undeveloped

Plan to deal with the risk

Making a Plan

- A business must have a firm risk management policy.
- The format of the procedure depends upon the size and needs of the organization.
- A large and complex organization's plan runs into more than a hundred pages, whereas a small organization's plan can be of a single page consisting of main points.
- Following are important points that need to be included in the program:
  - List of all individual risk
  - Rating is given to each risk based on its probability and impact
  - Current controls assessment
  - Action plan

A decision on handling each risk

- In this step, all business risks are identified and ranked based on their chances of occurrence, and the impact and effectiveness of controls are tested.
- Once it is rated, a decision is made regarding handling each risk.
- There are the many strategies to deal with threat.
- Every strategy has its own benefits and drawbacks and can be used depending upon the risk type, probability, and impact.

MONITORING

- Just implementing the measure to safeguard the company from risk is not enough; continuous tracking has to be done whether they are working or not.
- Monitor business regularly to recognize and handle new risks.
- A risk management plan's disadvantage is that it takes lots of time in preparation, but it is never updated based on the situation.
- An effective risk management policy is based on the current situation, regularly referred to carry out the work, and continuously updated based on the current situation to effectively deal with the risk.
- There is no rule as to how often risk management policy has to be updated.
- Large companies have a dedicated department for risk management, whereas small companies have a single person to handle it or a group of 2-3people.

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- The key to effectiveness is to commit to updating the plan either on a monthly, quarterly, or annual basis.
- One of the best techniques is to continuously make minor changes as the changes occur and then make overall changes at regular intervals.
- The effective review takes place when all the above steps are performed successfully.
- Brainstorming is done regarding the risk attached to the business, adding to the list if there is any new risk and ranking it and repeating the same process, and monitoring if any changes occur.


RISK MANAGEMENT STRATEGIES
Risk Avoidance
Risk Reduction
Risk Transfer
Risk Exploitation
Risk Retaining
Risk Enhancement
Risk Sharing

Risk Management Strategies

Risk Avoidance–

Risk cannot be eliminated entirely, so a company can design a risk avoidance strategy to avoid the maximum possible threats that lead to the avoidance of costly and harmful damaging events.

Risk Reduction–

- Companies can reduce the impact of risk that can occur on company processes or projects.
- This can be accomplished by making desired changes in the project's overall plan or company process or reducing its scope.

CONTINUED...

Risk Transfer-

- Company can transfer the risk to the other project participants or other company departments.
- It can also be transferred upon the company's third party, like suppliers and other business partners.

Risk Exploitation-

- Company can exploit the risk and convert it into an opportunity.
- A company can assign efficient and sufficient resources to the project and reap the benefit from that.

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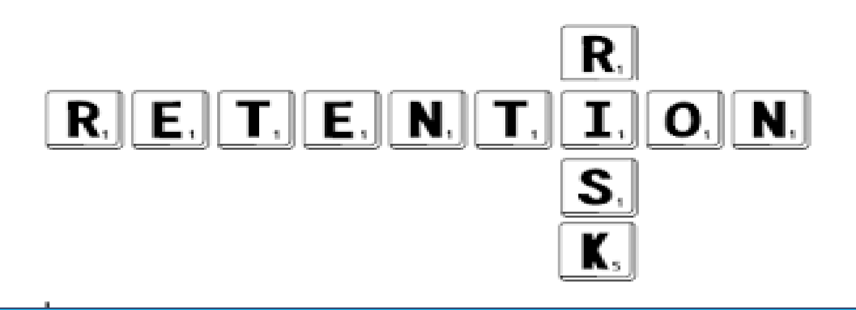
Risk Retaining–

- Company sometimes decides to retain a risk stating that it is for the company and deals with the consequences of the risk.
- This strategy is considered only when the project's profit is more than the cost of the risk.



Risk Sharing–

If the company cannot take an opportunity from the risk, it can share it with another department of the company or other project participants by taking advantage of their expertise.

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Risk Enhancement–

- Enhancement of risk means increasing the chances of occurrence of the risk and its impact.
- It can be done by identification of the risk triggers and influencing them.

Risk Management Standards

- National Institute of Standards and Technology, International Organization for Standardization, and many other organizations have developed Risk Management Standards.
- These standards were designed to identify particular threats and risk and their vulnerabilities, mitigation plans to avoid or reduce the risk and their effects, and steps to implement them for the organization.
- ISO 31000 is implemented in regards to risk management.
- It does not provide certification, but it gives guidance regarding internal and external risk audits.
- It also helps organizations in comparing their risk management practices with international benchmarks.
- These standards are designed to help organizations to implement a risk management process systematically.
- Even though it is not compulsory to follow these standards, some industry regulators or business contracts want the organization to adopt them.

ISO recommended target area and principles in the risk management program

- The process should help in value creation for the company.
- It is an inbuilt part of an organization.
- It must help in the decision-making process of the organization.
- It should exceptionally address any uncertainty to the organization.
- It must be well organized and planned.
- Use adequate information to prepare it.
- Must be tailored made based on the situation.
- Consider human factors and potential risks attached to that.
- Must be clear and comprehensive.
- Must be flexible and adjustable.
- Must be continuously tracked and updated.

How risk management plans helps a company in improvement???

Helps in carryout business Efficiently and Consistently

- Risk management allows a company to discover risks or threats that can hinder business operations.
- The company becomes proactive and prepares itself to deal with that risk, leading to the smooth functioning of business operations.

Increase in Customer Satisfaction

- Risk management helps a company in improving all aspects of business operations, i.e., from the production/development of products/services to the finances of the company.
- All these aspects lead to carry out business operations effectively, resulting in improving customer satisfaction.

Growth and Development of a Company

- The process of risk management requires gathering lots of data, which helps a company in identifying inefficiencies in its operation, reveals opportunities where the company can save money and avoid or deal with the risk.
- All these aspects help a company in its growth and development.

Conclusion

- Risk management is an integral part of an organization.
- It helps a company to prevent itself from future uncertainties.
- For the implementation of a risk management plan, a company needs to gather lots of data.
- From the collected data, the company gets to know its inefficiency in a particular segment, which gives it a scope for improvement.
- It also helps to prepare a mitigation plan beforehand to deal with the risk in the future.
- It also provides an opportunity to save money.
- Risk management strategies help a company in its overall growth or development.

Thank You!

Contact us-

ADDRESS

H 55 Sector 63 Noida-

201301

(Uttar Pradesh)

E-MAIL

info@enterslice.com

MOBILE

9870310368

9810688945

Written by

Pallavi Singh

||Financial Researcher – Enterslice||