Workshop on 'Enterprise Risk Management'
BBTA, 07 December 2009

Inaguration Speech by **Dr. Atiur Rahman, Governor, Bangladesh Bank**

Mr. Jim McCabe, SCB Group Trainers, BBTA Faculty Members,
and dear participants from Bangladesh Bank.

What is ERM?

Automation may lead to newer risks. We need to monitor and manage risks. Enterprise Risk Management (ERM) refers to the methods and processes used by organizations to manage risks related to the achievement of their objectives on an enterprise-wide scale. ERM can also be described as a risk-based approach to managing an enterprise, integrating concepts of strategic planning, operation management, and internal control.

ERM provides a framework for risk management, which typically involves identifying particular events of circumstances relevant to the organization's objectives, assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress. By identifying and proactively addressing risks and opportunities, business enterprises protect and create value for their stakeholders, including owners, employees, customers, regulators, and society overall.

Benefits of ERM

The gradual transition from conventional risk management to all encompassing Enterprise Risk Management (ERM) has enable management to be aware of the risks to which it is susceptible, while developing plans designed to respond to these very risks. The capabilities inherent in enterprise risk management help management achieve the entity's performance and profitability targets and prevent loss of resources. Enterprise risk management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences. In sum, enterprise risk management helps an entity get to where it wants to go and avoid pitfalls and surprises along the way.

Why ERM in banks?

The advance of technology, the pace of business, globalization, increasing financial sophistication all contribute to the growing number of and complexity of risks that meet banks. Especially, banks in this region operate in more volatile financial markets and face higher economic and financial uncertainties; they are also undergoing significant structural changes with respect to deregulation, privatization, and consolidation.

ERM has gained substantial momentum because of the growing importance of solutions for compliance and regulatory norms (including BASEL II) for which ERM lays down the foundations. Triggers for ERM implementation in banks include catastrophic events such as stock market crashes and the current credit crisis, credit rating processes, compliance with regulatory bodies such as the Central Bank and other government regulatory bodies, the introduction of ERM by competitors, challenges posed by new or emerging products and the dynamic nature of business risk.

A successful enterprise risk-management process can help a bank meet many of these challenges by providing a framework within which managers can explicitly consider how the bank's risk exposures are changing, determine risk mitigates and controls in place to limit risk to targeted levels.

ERM and Banks in Bangladesh

All financial institutions need sound risk-management practices. Central banks should ensure that banks prudently manage the risks as these can cause systemic threats and jeopardize the stability of the entire financial system. Over the past decade, western banks have made significant improvements in risk management practices. Following global financial crisis these banks have become even more risk conscious. In comparison, most of our banks need to improve all of their risk management capabilities. However, they lack critical human, data, and modeling resources to attain such capabilities.

The central bank is concerned about and responsible for the financial system stability in the country. It has therefore instructed the banks to establish separate Risk Management Unit (RMU) and ensure proper monitoring of the functions of the unit. Terms of Reference (TOR) for RMU have also been issued. The banks will bring all the core risks related activities under this unit so that they can understand all the existing and probable risks in the organization and be able to manage them in a prudent manner. The risk management unit will conduct not only stress testing for examining the bank's capacity of handling future shocks but also deal all probable risks that might occur in future. As supervisors, we want to ensure that banks are not only identifying, measuring and managing their risks but are also developing and maintaining appropriate corporate governance structures appropriate for their business activities and risks taking. There is no other way but to have hands on training on risk management to attain the needed Supervisory Skills. This workshop is perhaps the best way to attain such skills. And, this should not be just one shot affair. We have to continuously update our skills on risk management.

The resource persons who will be taking you through this workshop, I believe, are experts in the subject matter. I trust that they will do a good job and you will be able to learn a lot about the key indicators to look at while supervising banks on risk management issues.

I am happy to be a part of this training workshop and wish this inauguration program a grand success.

Thanking you.

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