

DEBT RISK MANAGEMENT MITIGATING OPERATIONAL RISKS

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Outline



Debt and Risk Management

- ☐ Debt
 - ☐ Public, Corporate, Private
 - ☐ Approaches to management
 - ☐ Debt Policy and strategy
- ☐ Risk Management
 - ☐ Operational Risk Management
 - ☐ Risk Culture
 - ☐ Bringing it together
- ☐ Questions and Answers

Debt



Debt is defined as the uptake of external funding to support in performance of financial obligations of an entity.

These could be:

- ☐ Public: National or County
- ☐ Corporate
- ☐ Individual

We are aware that there could be entities that owe these, and such scenarios can also be incorporated into our evaluation of the subject

Debt Strategy and Policy



Debt serves an important function in enabling entities attain their short, medium and long terms objectives, but with opportunities come risks.

- ❑ Expanded opportunities; Healthy positive outcomes in health, Productivity / GDP
- ❑ Foreclosure; High interest penalties; Poor credit rating and, reputational risk

We must be deliberate about;

- how much debt, and where to apply it to
- under which conditions we wish to incur debt

RISK - DEFINITION



Risk is the situation or event that can have an effect on our objective(s). The effect of uncertainty on attainment of our objective(s).

- ☐ When faced with risks we can choose to;
 - ☐ Avoid
 - ☐ Accept
 - ☐ Control
 - ☐ Transfer

Approaches to Risk Management



What we choose is subject of our RISK APPETITE that requires that we undertake;

- ☐ RISK IDENTIFICATION
- ☐ RISK ASSESSMENT
- ☐ RISK MITIGATION
- ☐ RISK MONITORING

Approaches to Risk Management



RISK IDENTIFICATION

☐ Process method

- ☐ Involves following through the process, from beginning to end

☐ Scenario method

- ☐ Evaluates possible unexpected scenarios that could arise and afflict the objective

Approaches to Risk Management



RISK ASSESSMENT

- ☐ Impact / Severity
- ☐ Frequency / Probability analysis

These give rise to the risk weight or score.

We apply our risk tolerance or appetite to this outcome and determine the appropriate

- ☐ RISK MITIGATION
- ☐ RISK MONITORING

Operational Risk Management types...



Credit Risk- Losses arising from inability of counterparties to meet the terms of the contractual agreement

Market risk – Losses arising from adverse changes in the market prices; inflation; interest rates

Liquidity risk – Losses arising from inability to meet cashflow obligations as contracted

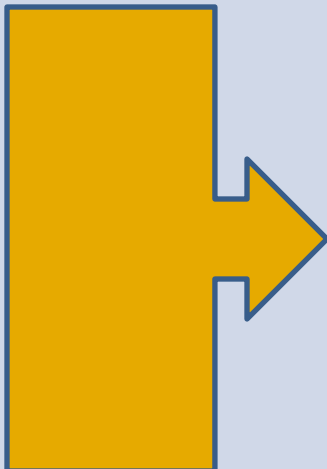
Operational risk – Losses arising from weak or inadequate processes, systems, people or from external events

Definitions from Basel Committee

Operational Risk Management



In order to embed the operational risk management framework, we must align

RISKS		FRAMEWORK
Process Systems People External Events		IDENTIFICATION ASSESSMENT APPETITE MITIGATION MONITORING

Operational Risk Management – TOOL



❑ RISK LIBRARY

- Compilation of the risks, controls, their assessment and ownership

Process	Risk	Control	Impact	Frequency	Control Owner

Operational Risk Management - TOOL



□ KEY RISK INDICATORS

- Monitoring mechanism evaluating significant values and relationships as they manifest on some significant controls, tracking the trends by way of Trigger and Alert levels

UNIT	PROCESS	KRI	Alert level	Trigger Level	Status*	KRI Weight
XYZ	Data collection	% of errors in data	$\geq 6.5\%$	$\geq 10\%$	Breach Trigger Alert	1.56%

❑ RISK CONTROL SELF ASSESSMENT

- Deliberate evaluation of the effectiveness of controls within the live environment of the process

❑ LOSS DATA COMPILATION

- Compilation of the risks that have crystallised in the period of review

Risk Culture



The combination of individual and corporate values, attitudes, competencies and behaviours that determine our commitment to, and style of operational risk management.

- ☐ TRANSPARENCY
- ☐ ACKNOWLEDGEMENT
- ☐ RESPECT
- ☐ RESPONSE

Basel Committee

Risk Culture



TRANSPARENCY

- ☐ Level of Insight – Knowing the risks
- ☐ Tolerance – How much to accept (controls)
- ☐ Communication

Approach by McKinsey & Company

ACKNOWLEDGEMENT

- ☐ Confidence – Recognition that things CAN go wrong
- ☐ Challenge – Deliberate desire to address contrary actions and behaviours
- ☐ Openness – Sharing of experiences in bid to improve overall effectiveness

Risk Culture



RESPECT

- ☐ Adhering to Rules – choice to consistently follow the set policies and procedures
- ☐ Coordination – An appreciation that rules work effectively in a coordinated / combination mode

Risk Culture



RESPONSE

- ❑ Responding with Speed – that when things go wrong we seek to address them expeditiously
- ❑ Diligence – that we purpose to address weaknesses in an exhaustive manner; effectively extinguishing the weakness

FINALE



THANK YOU

Interactive Session

