

RISK MANAGEMENT IN THE MANAGEMENT OF TREASURIES Presentation by:

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Introduction







Risk and Risk Management





Risk Management
identify, evaluate,
and prioritize risks
minimize, monitor,
and control

Risk Management Process



RISK IDENTIFICATION



RISK ANALYSIS



RISK EVALUATION



RISK TREATMENT

Risk Management Strategies



High

Likelihood

Control

(reduce the risk through contingency planning, diversification, hedging)

Terminate

(Get out of situation)

Accept
(Monitor the risk)

Share

(Insurance, risk transfer)

Low

Consequence

High

Risks In Treasury Management



- Some of the major risks faced in Treasury Management include:
 - Credit Risk
 - Liquidity Risk
 - **❖**Operational Risk
 - Foreign Exchange Risk
 - **❖**Market Risk

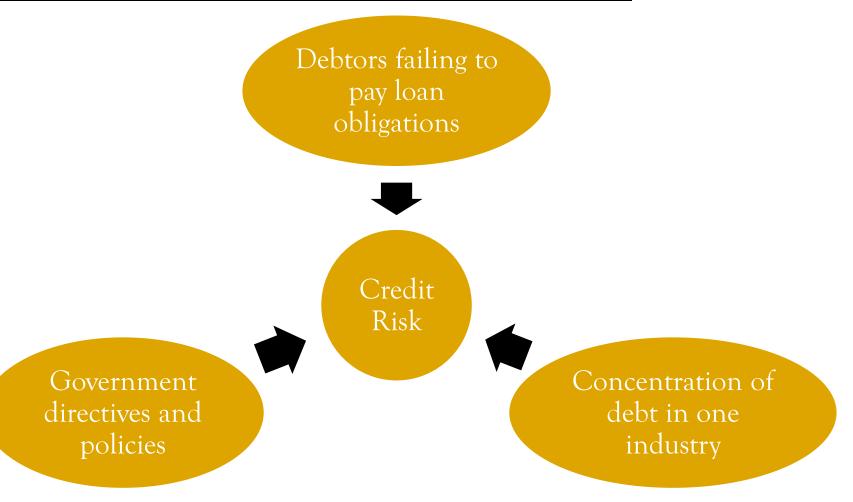
Credit Risk



• Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations.

Credit Risk





Credit Risk



- Identifying and working within an institution's credit risk appetite
- Continuous monitoring of an institution's credit levels
- Insuring loans
- Creating a bad debt reserve
- Getting letters of credit from potential debtors
- Diversification of debtors

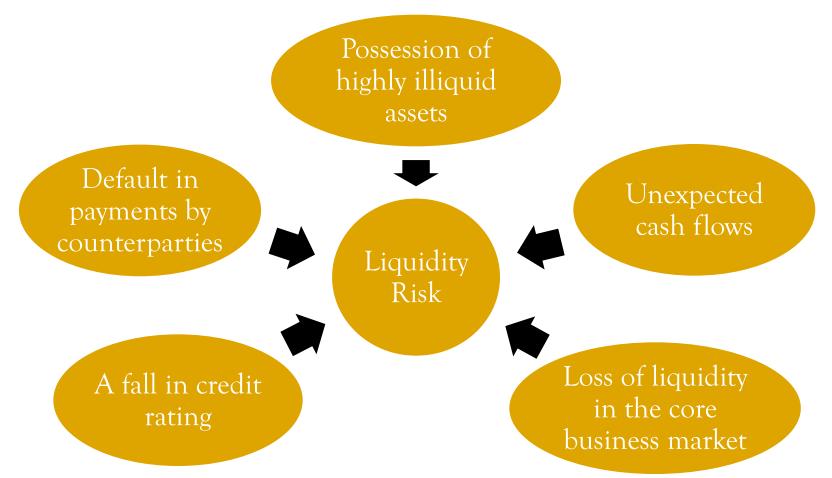
Liquidity Risk



• Liquidity risk is the risk that an institution may be unable to meet short term financial needs/demands.

Liquidity Risk





Liquidity Risk

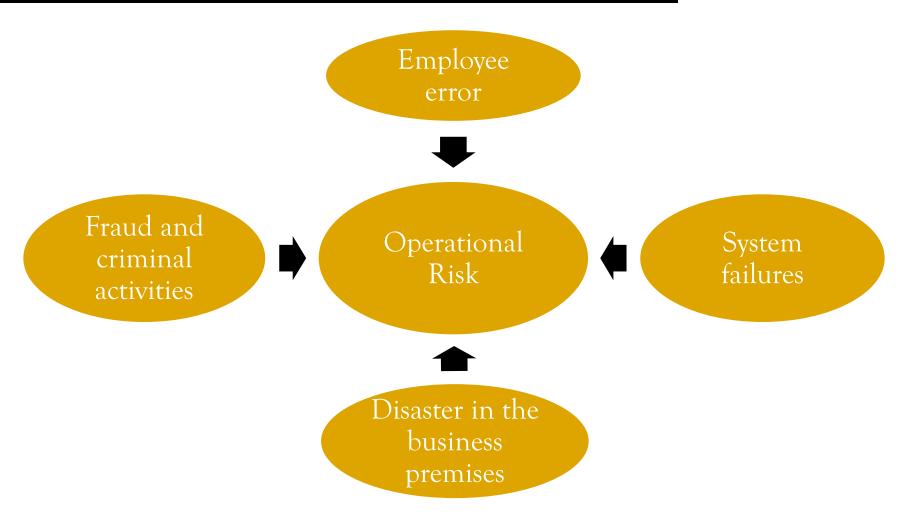


- Identifying and working within an institution's liquidity risk appetite
- Diversifying an institution's business model
- Investing in liquid assets/ having cash reserves
- Monitoring expected cash flows and applying corrective action to fix any variation
- Setting up contingency plans



• Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies.







- Identifying and working within an institution's operational risk appetite
- Putting in place strong internal controls to monitor and control fraud
- Implementing policies and procedures
- Having a tested disaster recovery and business continuity plan in place



- Insurance cover for an institution's assets
- Hiring the right personnel
- Conducting periodic risk assessments including independent reviews
- Risk transfer i.e. outsourcing services

Foreign Exchange Risk



• Foreign exchange risk is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the institution.

Foreign Exchange Risk



Government policies and relations with other countries



Foreign Exchange Risk

Political instability

Changes in a country's macro-economics

Foreign Exchange Risk



- Identifying and working within an institution's foreign exchange risk appetite
- Conducting business in stable currencies
- Reducing business in politically unstable countries
- Investing in hedged assets

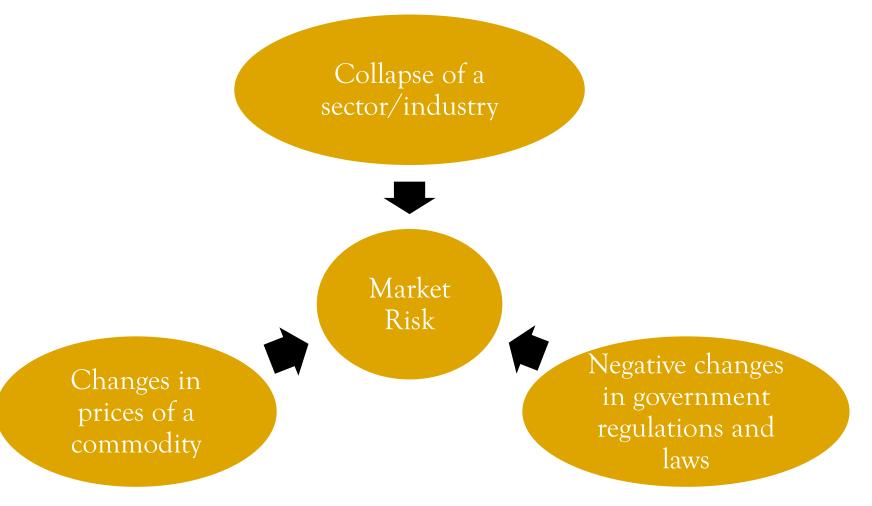
Market Risk



• Market risk is the possibility of an institution experiencing losses due to factors that affect the overall performance of the financial markets in which it is involved.

Market Risk





Market Risk



- Identifying and working within an institution's market risk appetite
- Diversifying an institution's investments

Conclusion



Risk Appetite Policy and Statement

A risk appetite policy and statement expand on the company's principles for embedding and establishing its appetite for risk as well as expectations for governance and management.

Policies and Procedures

Business and operational policies and procedures naturally exist to establish risk appetite and guide adherence to it.

Monitoring and Metrics

Monitoring and operational metrics employed by each business unit can be continually refined to ensure adherence to risk appetite.

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Questions?



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