Risk management process

[Business](), [Risk Management]()

There are several components and functions of risk management, this includes identification, where banks risks have to be recognized before they can be measured and managed, this is paramount in categorizing risk, since they fall into different classes such as operational risks, market risks and credit risks, these risks have quantifiable metrics that can be used to measure them, however strategic risks, or reputation risks, do not have a consistent methods of quantification, therefore are seldom included in risk measurement.

Apart from the risks above, credit risks is also affected by other risks such as measurement risks and aggregation risks , it is therefore imperative that risk management is a process which involves planning, management and monitoring aimed increase transparency and to control risks. Risks once identified have to assessed, unswerving assessment of the aforementioned risks is an indispensable precondition for triumphant risk management.

There have been advances in risk assessment methodologies; however the metrics for credit risk measurement have failed to keep phase due to limitation in accessibility of past data and information. Most institutions calculate Credit risk on the foundation of probable losses from the credit portfolio; this can either be expected losses and unexpected losses. The sum of individual risks may differ from overall risks, the cause should therefore be considered when aggregating risks.

Risk management in addition has the purpose of planning the banks cumulative risk situation and controlling the effects of the risks. There are management tools that are used in credit risks, these measures are trading in assets, risk-considered costing of every loan transaction, insuring risks and setting loan ceilings and utilizing collaterals in loan awarding. Regulation of rating companies can effectively execute if the prerequisites for Efficient Risk Management are understood.

These prerequisites are sound and dependable methods, organizational processes and structures as well as InformationCommunicationTechnologyinfrastructure. The methods are utilised to reveal means in which risks are captured, measured, and aggregated into a risk position by risk rating companies. Processes and organizational structures are utilised to guarantee risks being measured within a viably relevant time p, that the ceilings are defined and adhered to for every risk position and that mitigation steps are immediately implemented in the ceilings are exceeded.

There should be a reporting methodology which considers the organizational structure and attempt to define the boundaries of risk causing areas from areas that measure, plan, manage, and control the risks. With advancement in technology and computerization, Information and Communications technology systems are infrastructure play a crucial role in risk management. These involves the use of effective enterprise resource planning tools and decisions support systems, which provide required data and information, and when needed, and to provide a means of informing the decision makers, when critical risk levels are approached.

Rating companies Calculation of Risks There are several methods that can be employed to measure unforeseen lose; however Value-at-Risk analyses and scenario techniques are adversely utilized to effectively and adequately measure a banks risk. The methods however have different calculation means and precisions. However, they differ strongly in their calculation methods and their precision. Value-at-Risk analyses are used in complex environments while scenario analysis is a simpler alternative.

Under scenario analysis, the obtainable information concerning past transactions are exercised to reconstruct probable scenario as regards the potential occurrence of default rates. Optimal conditions are called normal case, while worst case scenarios are the occurrence of extreme losses. Scenario analysis however suffers from lack of extensive presentation and explanatory capabilities due to consideration of fewer parameters. This therefore gives limited accuracy results and output.

The Value-at-Risk Concept states the ceiling of a loss that will not be surpassed with a specified probability at a given horizon. This gives better precision output with a confidence level of higher accuracy. The Goldman Sachs Group There have been several accusations, lawsuits and defences concerning the role played by Goldman Sachs in the credit crisis as a principal and as a player. It is therefore imperative to understand the history Goldman Sachs Group. Founded in 1869 and headquartered in New York, The Goldman Sachs Group, Inc.

is a worldwide investment banking and securities firm which is concerned with offering diverse financial services to a wide customer base especially institutional clients, these services include underwriting, securities, investment banking, prime brokerage, investment management mergers and acquisition guidance, services, and has branches located in several parts of the world. Goldman Sachs Group has survived several past financial crises, for example the 1970 bankruptcy of Penn Central Transportation Company threatened the existence of the firm Stitch (45 - 54).

This however had immense effect in the market has it resulted to creating rating services, creating credit ratings for issuers of commercial paper. The organizations image was however improved in 1974, when it invented the white knight strategy to save Electric Storage Battery from an intended takeover. Goldman Sachs Asset Management was created in 1986, several years later, it was to introduce paperless trading to the New York Stock exchange and Goldman Sachs Commodity Index (GSCI).

The firm offered an Initial Public Offer (IPO) in 1999, in which 12 percent of ownership was offered to the public, this resulted to change in management. In 2007 when there was a subprime mortgage crisis, Goldman profited in the summer of the same year, of the collapse in subprime mortgage bonds by short-selling subprime mortgage-backed securities, this lead to positive reputation of the company as portrayed by reports appearing in newspapers and financial journals then.

The downward trend, which eventually led to collapse of Lehman brothers, played a role in creating a crisis. By 2007 November however, the crisis had spiralled, occasioned by loans offered without proper analysis by the lenders and speculators keen to make handsome profits in housing markets, this caused housing bubble and bust. In 2008, Goldman Sachs converted to a bank holding company; this helped to cool fears which had send Lehman Brothers into bankruptcy, then an investment services firm.