

Risk management



Risk Management Risk Management Prior financial disasters have emphasized upon the need of risk management especially in banking sector, so that they can be saved from potential losses. Risk management is a complete procedure through which bank managers evaluate the key risks present in the market. They seek to get unswerving, enviable and comprehensible operational risk measures. Subsequently they check that which risks need to be increased or decreased and what specific risk management strategies shall be used (DAVID H. PYLE, 1997). Broadly there are four basic risk management theories: Agency theory, New Institutional Economics, Stakeholder theory and Financial theory (KAROL MAREK KLIMCZAK, 2007). Financial risk management provides the basis for managing assets and liabilities at banking level. For instance, it can be used to strengthen the capital position of a bank and help banks in predicting future risks etc. (DENNIS G. UYEMURA, et al., 1992).

The fall of 2008 experienced intense financial crises which were significantly unique in nature as people and investors were not willing to trust banks in any manner. They were completely reluctant in lending or trading money with the major banks within the United States. There are several reasons for the overall financial crises including extensive borrowing, poor and investment decisions. However, the most substantial reason is that there was lack of transparency. People were unable to evaluate from the bank's disclosures that whether or not a particular bank was going to thrive for the foreseeable future. At the same time the risk management strategies used by majority of the banks were not clear to the general public. Dane Holmes, the investor relations head at Goldman Sachs says that the general people, whose percentage is far more than intellectual investors, do not trust the big

banks operating in the country due to the transparency factor which has finally led these banks to a stage where they are facing extensive issues related to capital and investments (FRANK PARTNOY, et al., 2013).

Goldman Sachs had acquired more than required liquid assets before the start of financial crisis in 2008. These assets were significantly hard to sell. However, their strategy proved beneficial for the bank as it faced minimum loss during the crisis. The assets included high yield debts, loans, stocks and bonds emerging in the financial market and the private equity investments. Consequently, the bank had \$172 billion in the first four months of 2008 which made up for 14% of the total balance sheet amount. In 2009 when majority of the banks were trying to survive after the huge financial crisis of 2008, Goldman Sachs was making immense profits (CHRISTINE HARPER, 2011).

This indicates that the bank has ingeniously managed risk through applying various risk management strategies. However, after the financial crisis in the recent years the company has lost its previous prestige and trust from people since now critics believe that the bank had extensively used the money of general public so as to save itself from the extreme consequences of 2008 financial crisis. Additionally, Goldman Sachs has also participated in multimillion dollar settlements which are associated with inside fraud and trade (GOLDMAN SACHS GROUP INC., 2012). This has collectively ruined the image of Goldman Sachs despite of the fact that it performed very well during the financial crisis.

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