



CHANGING THE RISK GAME

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Risk Management

Enterprise Risk and Risk Strategy

The consultancy aims to help the client to:

- Interpret enterprise risk management (ERM) as a continuous process of directing and allocating resources to meet strategic goals and objectives according to their risk.
- Align risk appetite and strategy.
- Enhance risk response decisions.
- Reduce operational surprises and losses.
- Seize opportunities and improve deployment of capital.

The advisory is based on internationally agreed standard for the implementation of risk management principles, namely COSO (The Committee of Sponsoring Organizations of the Treadway Commission) ERM framework and ISO 31000.

This will be achieved by exploring the path:

Design of framework Implement risk management Improve framework Monitor and review framework

Basel III

With Basel III new changes are required to be implemented by banks. The pathway for banking is becoming clearer. It is a pathway in which lending and allocation decisions should be made in conjunction with the associated risk. If not, more capital, more liquidity will imply lower returns on capital, higher costs of doing business and slower growth. The ultimate effects will be felt by investors and end-consumers. This is why Basel III is forcing many banks to transform their business models, which in turns requires implementation of significant process and system changes.

Adapting to Basel III capital and liquidity requirements also involves implementing good governance. The new Basel III rules demand stronger capital and liquidity requirements, as well as increased transparency. Many institutions have difficulty adapting to these changes, and this is where Watan First can add meaningful value.

Basel III capital changes – these are not always easy to comprehend. Watan First has extensive knowledge of these changes, and can help institutions readily adapt.

Enhancing risk coverage – one of the main reasons for Basel III is to enhance coverage of risks. Watan First has intimate knowledge of these risks and can help institutions in this process.

Basel III global liquidity standard – liquidity is a primary component of the new Basel framework, and Watan First can help formulate an effective structure.

The leverage ratio – this is another Basel III innovation, which firms need to understand and adhere to.

Practical issues with Basel III implementation – Watan First can aid firms in implementing effectively the intricacies of Basel III compliance..

Regulatory reporting for liquidity & capital, trading book capital & regulation – this is a key aspect of Basel III, where many firms are ill equipped to manage this process.

Risk Capital

Implementation of techniques to refine capital, including use of hybrids, is critical in order to optimise RAROC – the aim of the firm is to optimise RAROC (Risk-Adjusted Return On Capital), where Watan First can leverage its expertise to help firms achieve this.

Capital market disciplines for bank issuers – debt and equity funding are fundamental for institutions, and Watan First has built considerable experience in conducting such exercises successfully.

Credit rating considerations – ratings and capital – given the advent of a local rating agency, in addition to the global agencies, Watan First's experts can help firms manage these relationships optimally.

Investor relations process – this is a growing area of importance, where Watan First has assembled a long track record of success in helping firms communicate effectively with the investor community.

Recovery and resolution planning – while adverse events in KSA have fortunately been rare, this is an important aspect to consider for any institution, and where Watan First has considerable experience.

Capital structure & planning – the success of the firm has much to do with its capital structure and planning, and Watan First can provide expert advice on optimal capital structure and firm value.

Capital strategy – in pursuit of optimal capital structure, various strategies can be followed to achieve this, where Watan First can add value.

Stress Testing and Back Testing

Integrating ALM, liquidity and credit risk into ERM stress testing – Watan First recommends that an integrated approach is optimal from an organisational perspective.

Liquidity reporting, stress testing & ILAAP – stress tests, developed in conjunction with Watan First, allow the firm to maintain adequate liquidity.

Risk Management (Liquidity, Operational, Credit/Counterparty, Market and Business Risk)

Techniques to better evaluate and monitor credit and counterparty risk are becoming ever more sophisticated – credit risk management has come a long way over the years, and we can share latest developments with firms in this respect.

Value at Risk and methods – market risk is also a key risk, and VAR is frequently misunderstood. Watan First can help clarify and implement an effective system to mitigate market risk.

Managing interest rate risk – interest rate risk is also endemic to institutions, where Watan First can bring into play sophisticated techniques by way of mitigation.

Rate sensitivity analysis – it is important to conduct sensitivity analysis to rate changes, and take mitigating actions.

Break even analysis – it is useful for a firm to know the profit breakeven point in the context of interest rate changes.

Duration and duration gap – this relates to effective ALM practice, and can also affect the value of the firm.

Gap risk – measurement and management – another effective ALM practice is to minimize

gap risk, where Watan First can help, to improve the firm's profitability (or mitigate losses).

Hedge accounting – this is an important component of Basel III, and needs to be carefully understood.

Basis risk and option risk – management of such – these are common banking risks, often overlooked.

Basel Committee standards – a main purpose of the above exercises is to adhere to the Basel standards.

Liquidity risk management – metrics and limits – it is essential for a firm to establish such metrics and limits, appropriate to its activities.

Liabilities strategy and managing the liquid asset buffer – Basel III demands a liquidity asset buffer, and assessment of the liquid assets is extremely important.

Operational risk management for finance, treasury & risk teams – operational risk plays into Basel standards as well, cutting across the finance functions.

Solvency II

Solvency II has set a new standard for insurance sector in terms of governance, risk control and operations. The framework focuses on 4 key topics: systems of governance, forward looking assessment of own risks, submission of information to supervisors and pre-application of internal models. This helps insurers in achieving a better capital and operational efficiency.

In addition, Pillar 2 of Solvency II prescribes that the risk must be embedded in the organization on a daily basis. Procedures should be put in place on how the board and management are held accountable by the supervisor; the regular and non-regular Own Risk and Solvency Assessment (ORSA). This identifies risks, realizes transparency, and imposes control.

Our consultancy helps clients in building the framework and the models, implementing them and embedding risk management in their organizations.

ORSA

Own Risk and Solvency Assessment (ORSA) is a demanding task for the board because often they are not fully aware of their capital responsibility. The objective is to achieve a complete and holistic risk picture of the company at board level so that the board knows what company it is running and the risk that the company can afford.

Watan First helps clients in connecting risk management with operations and internal control systems. This is based on best practices and standard capabilities for embedding this required risk management and enhancing managerial control significantly. As a result, insurers more accurately understand their operation resulting in decreased risks, lower losses and incidents and ultimately reduced required funding.

ICAAP

Procedures for implementing ICAAP in a financial institution – this is quite a complex process, where Watan First has extensive experience.

ICAAP Drafting & capital planning – this is the starting point for implementation, where Watan First can provide expert advice.

Asset and Liability Management

Techniques to manage asset and liabilities effectively, in order to maximise profit and mitigate risk, include:

Strategic ALM and balance sheet management, which is key to successful performance.

NIM sensitivity is a crucial exercise to undertake, given the dependence of banks on such income.

Managing NIM and the importance of stability – as the driver of profitability, NIM must be carefully managed, balancing assets and liabilities.

Forecasting NIM – banks must be prepared for eventualities in order to maintain profitability.

ALM trading and hedging principles – hedging can play an important role in the ALM process.

ALM, derivatives & hedge accounting – this relates to Basel standards again.

Treasury target operating model and reporting line – a robust structure needs to be in place.

ALCO terms of reference – it is important for a bank to establish such terms of reference, in order to perform effectively.

ALCO and credit risk management – ALCO also relates to credit risk management, the major risk faced by banks.

Mechanics of securitisation for balance sheet management – practical issues – while securitisation is new to this market, it is important to have an understanding.

Constructing the bank internal funding curve – curve construction & market inputs – these are essential inputs to bank product costs and pricing.

Internal funds transfer pricing & funding policies – this relates to internal processes in pursuit of sustainable profitability.

FTP in emerging markets – this is particularly relevant to a market like Saudi Arabia.

Asset encumbrance: considerations for balance sheet & collateral management – given the emphasis on secured lending in this market, the wider implications need to be understood.

Insurance

We combine our business, operational, risk management and actuarial skills to help insurers, reinsurers, brokers, corporations and regulators address complex issues providing both tactical and strategic solutions to the challenges facing insurers in these dynamic times including:

- Developing a business transformation programme to support vision, operating models, growth opportunities, customer relationships, loyalty and satisfaction, cost reduction and efficiencies.
- Validating current risk management framework and helping refine the existing framework for robust risk management. Our consultants have an in depth experience of risk assessment, measurement, control and reporting.
- Advanced Analytics and Modeling, using analytical tools and solutions to help mine data to enable effective decision-making and therefore achieve broad business goals and strategies.