

Success Story

Business Advisory

Risk Management Framework

Storyline...

The client is a development bank in Bhutan that offers deposit & loan products and provides financial services to its customers. The Bank desired to develop a Risk Management Framework (RMF) with policies in line with Royal Monetary Authority (RMA) and other regulatory agencies' requirements.

MaGC in association with Jigmi Audit & Financials Pvt Ltd (JAF), Bhutan, developed the RMF for the bank.

Once upon a time...

A formal RMF was mandated by the regulator. Although the bank had a Risk Manual in place, it was not implemented fully. The client lacked comprehensive risk management policies and procedures to assess and report on risk. The degree of preparedness and resilience in the face of adversity could not be assessed. The Risk Manual needed to be revised to accommodate the changes in the bank's business strategy and outlook. The RMF was expected to accommodate all these requirements.

Moving on...

MaGC team conducted interviews with the bank management and personnel from key departments and branches to gain insights into the risk environment and existing risk assessment and management systems in the bank. The field study comprising of branch visits, structured interviews, and risk questionnaire responses helped identify key risk types and analyse gaps in the existing risk management process, models, and tools used by the Bank. The findings were outlined in a Diagnostic report along with a PESTEL and SWOT analysis. Based on the field study findings, requirements of applicable regulations and Corporate Governance regulations, and desk research on risk management in the banking sector, the bank's risk landscape was arrived at.



These inputs were considered to create the Risk Policy which contained details on the risk strategy, definition and classification of risks, the risk appetite, the roles and responsibilities of key stakeholders in risk management, and risk management principles. The Policy was modelled on three lines of defence and aligned with Internal Capital Adequacy Assessment Process (ICAAP – Basel component) requirements.

MaGC further developed the Risk Process which outlines the procedures and guidelines to identify, assess, treat, monitor, and report on risk and provides the supporting document and report templates. It also included the risk scoring mechanism and rationale for rating risks at different threshold levels. A spreadsheet-based Risk Analysis Model was prepared with templates for branch, function, and organisation level risk analysis along with the Risk Register and Risk Heat Maps. The team also prepared the guidelines and model for the stress test, which helps to evaluate the impact of adverse situations (shocks). The other deliverables prepared include the Terms of Reference for the Bank's Asset Liability Committee (ALCO) and a model for assessing a customer's credit worthiness. To facilitate knowledge transfer, the client's risk management team was actively involved and regularly apprised throughout the exercise.

A four-day virtual training was conducted to sensitise the employees in the risk management function. The training sessions included hands-on exercises in spreadsheets, Kahoot quizzes, and Zoom polls.

Finally...

The RMF was presented to the Risk Committee and Management of the Client, and it was well-received and appreciated. It helped standardise the risk management process and enabled an objective reporting mechanism that provide assurance to the Board on the existence and adequacy of risk management controls.