

Banks must overhaul risk management, says Fed governor

Many banks and financial institutions need to undertake a "fundamental review" of their strategic risk management to ensure that the system not only recovers from the current banking crisis but also that it maintains its stability in the future, a Federal Reserve governor has said.

Addressing the annual conference of the Risk Management Association in Baltimore, Maryland, Dr Randall Kroszner noted that a number of banks had learnt the hard way that ignoring any aspect of financial risk management usually had negative consequences later on.

In the wake of the financial crisis that claimed a number of banks including Lehman Brothers and Merrill Lynch, he called on risk management to be "interwoven into all aspects" of business planning through a "strategic risk management framework".

He added that too many firms were currently undertaking the first part of a corporate strategy - defining what activities a business will participate in - only to neglect the second half of such a strategy, namely assessing the risks attached to those activities.

"Strategic decisions about what activities to undertake should not be made unless senior management understands the risks involved," Dr Kroszner said.