

Banks must rethink risk management: Execs

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LONDON (Reuters)—Banks need to rethink ways of managing risk, replace outdated technologies in the area and give the traditionally lowly risk manager a higher profile, a panel of financial professionals said this week.

As the credit crisis rages, financial services firms are seeking better ways to guard against unexpected losses. The credit crunch has so far led to more than \$300 billion in estimated writedowns and credit losses, as well as steep falls in banks' share prices.

The lack of investment in control systems stems from the fact that, unlike trading systems, they do not generate profit for the banks, said Shane Lamont, who heads up risk technology development at HSBC Holdings P.L.C.

"Risk systems must give an early warning of anything that might hurt the profit," he said.

The panel said risk management systems have not kept up with the rapid expansion and increasing sophistication of the financial services industry.

"Everything we know about managing risk is out of the window since August 2007," Philippe Carrel, global head of business development at Thomson Reuters said at "The Changing Face of Risk Management" forum, a Thomson Reuters-hosted event for professionals in the industry.

"We have to raise it to its proper place in corporate strategy, which is at the highest level where the risk manager will soon sit between the CEO and the CFO," he added.

Most large banks have grown through acquisitions that throw together vastly different risk control systems, said Glenn Woodcock, who specializes in investment in technology at Andromeda Capital Management.

He added that banks' spending on risk management is constrained by their hunt for short-term profit rather than long-term value creation.

Robert Fiedler, formerly a risk executive at Deutsche Bank A.G., said the difference in the way risk managers and deal-makers approach risk was a stumbling block.

"We (risk managers) are talking about (longer term) value at risk, but banks are looking at earnings at risk," he said. Panelists said risk managers must drive a cultural sea change at banks and an evolution of risk regulation.

Mr. Woodcock, previously a risk executive at the Royal Bank of Scotland Group P.L.C., said banks should replace their risk appetite with a risk-return appetite.

"It is about getting the right level of return over an extended time period for those deals for

the shareholder equity employed," said Mr. Woodcock.

"We need to be in a situation where the CEO or the CFO of the bank will say: 'No, we don't want to make that much money.'"

Between the 1950s and the 1990s, the power at financial companies shifted from financial engineers to marketing executives and then to mergers and acquisition bankers, and it will now move to risk executives, Mr. Carrel added.

"This is the decade of risk management starting."

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