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Risk/Crisis Management⑩

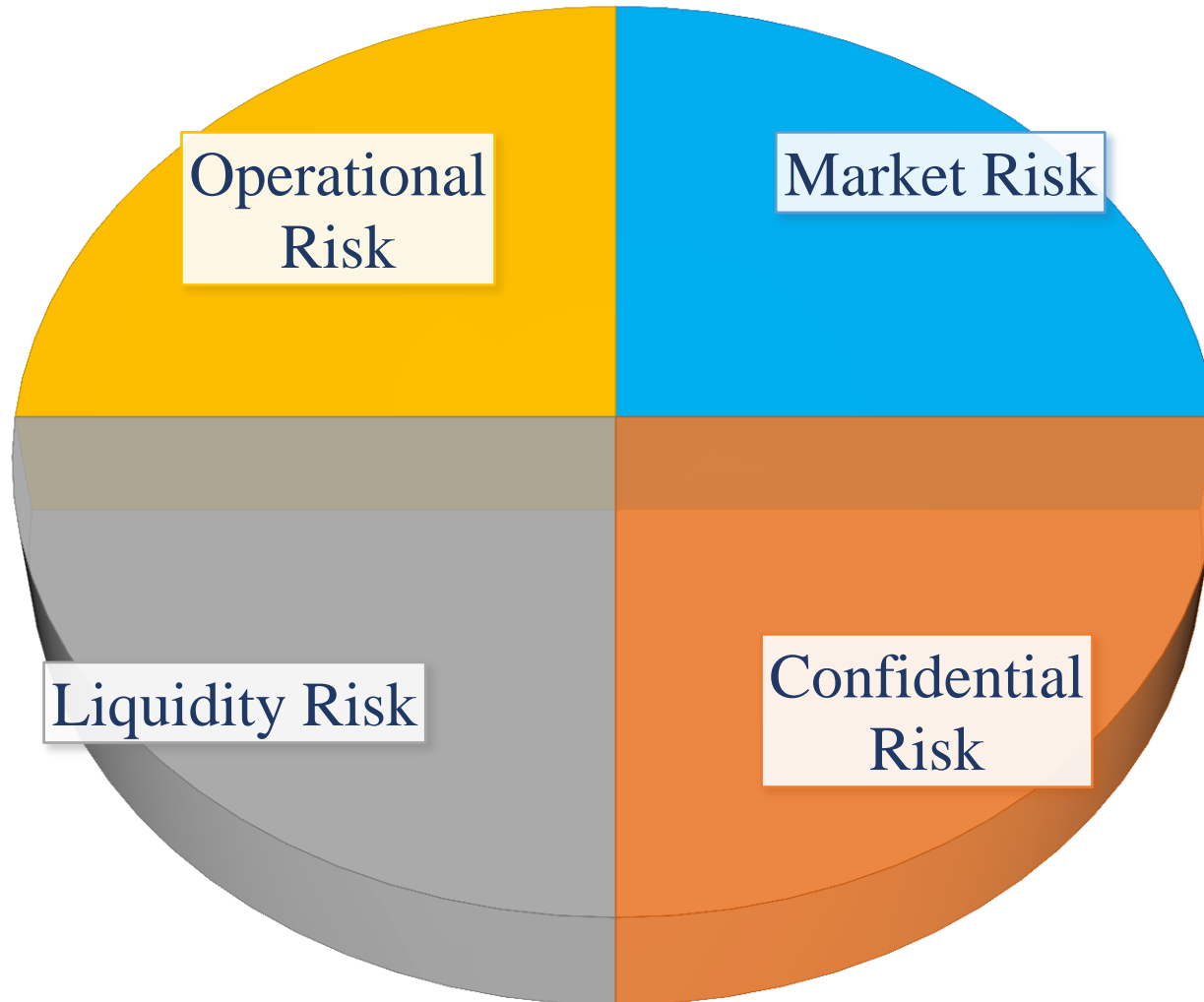
危機管理論⑩

enterprise and operational risk(1)

企業活動とオペレーショナルリスク

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Risks the firms facing



Operational risk and enterprise management

Basic concept of enterprise risk

Purpose of
the firm

Profit maximization 利潤の追求

Revenue risk 収益リスク

Cost risk 費用リスク

Price fluctuation risk 価格変動リスク

Market risk 市場リスク

Sustainability and growth of the firm 組織の存続と成長

Market risk 市場リスク

Exchange risk 為替リスク

Disaster risk 災害リスク

legal risk 法的リスク

Satisfying social responsibility 社会的責任の充足

Responsible risk 責任リスク

Credit risk 信用リスク

Political risk 政治的リスク

Criminal risk 犯罪リスク

Definition and the contents of “Operational Risk”

Definition :

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

by Basel Committee on Banking Supervision 2001

Contents of Operational Risk

Reputational Risk

Risk of loosing customers, revenue and competitiveness by negative behavior of firm and employees

Settlement Risk

Risk of receiving loss by settlement did not carry out on schedule

Strategic Risk

Risk of loosing benefits through fails of decision and strategy

External environmental Risk Risk of weakened firm's efficiency by the change of policy and economics

Disaster caused Risk

Risk of receiving damage of firm's function by natural disaster

Secretary Risk

Risk of loosing benefits by official's negligence and cheating

Systematic Risk

Risk of receiving loss by system dysfunction or down

Legal Risk

Risk generated by vague response against legal affaires

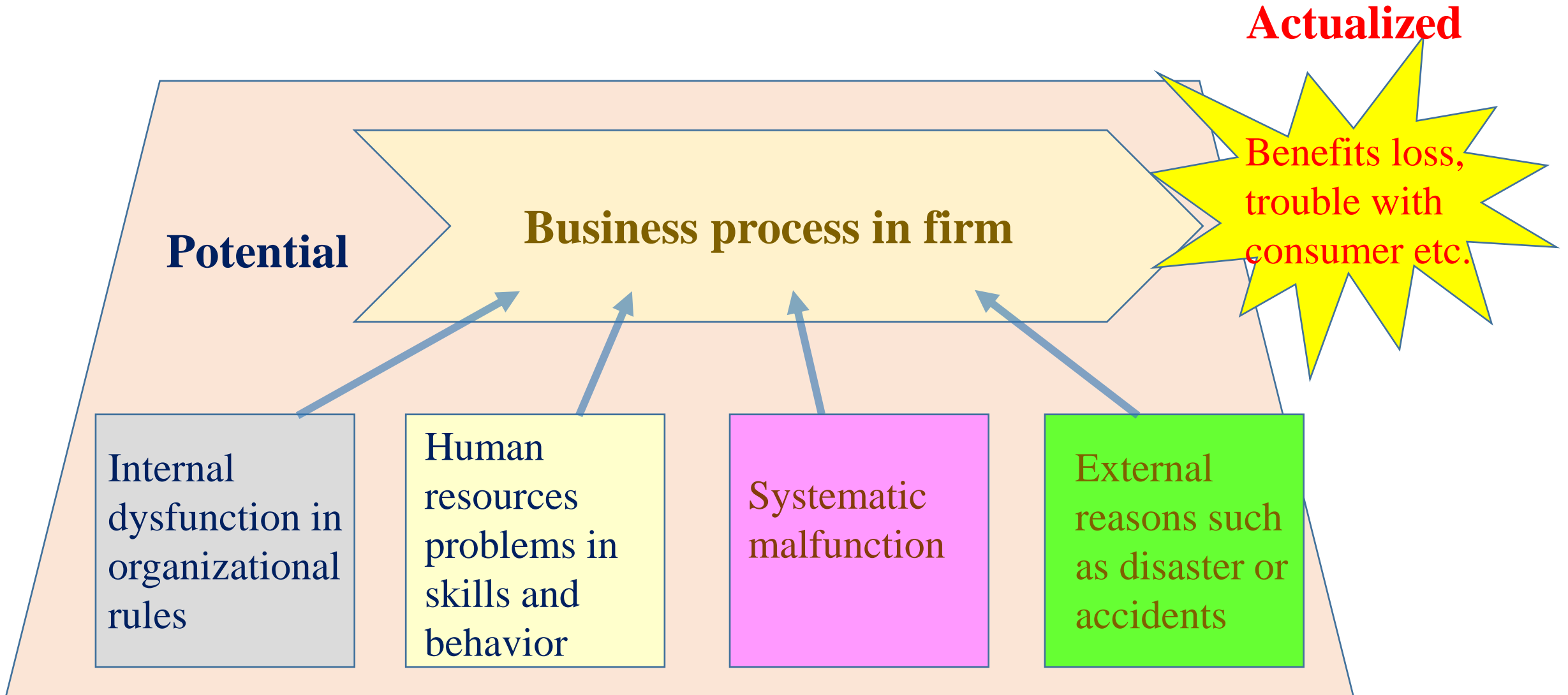
Compliance Risk

Risk of receiving revenue loose and penalty by violating rules

Modelling Risk

Risk of building and using mal-functional model of estimating future risks

Conceptual figure of operational risk



Scandal at Daiwa Bank in 1995

Daiwa Bank (Daiwa), Japan's 12th largest commercial bank, announced on September 26, 1995 that its New York branch had lost more than \$1 billion (bn) over a 11-year period. These losses were the result of forgery and fraud committed by Toshihide Iguchi (Iguchi), the Executive Vice-President of Daiwa's New York branch. Daiwa was one of the top 20 banks in the world in terms of asset size. The New York branch was managing the custody of the US treasury bonds that it had bought on its own account, and those that it had bought on behalf of its customers, via a sub-custody account held at the Bankers Trust New York Corporation (BTNYC). The scam was exposed soon after another major banking scam involving Barings Bank was exposed on February 26, 1995.

These scams raised serious doubts about the risk management policies followed by the banks. Moreover, industry experts and the media were shocked at the way the loss had been first covered up by Iguchi over a period of 11 years and then by the senior managers at Daiwa after Iguchi had confessed his crimes to the president of Daiwa in a letter on July 13, 1995. Analysts commented that Daiwa would not go bankrupt as Barings had because Daiwa's \$200 bn of assets and \$8 bn of reserves meant that it had enough cushion to bear the losses.

However, the scam gave a massive blow to Daiwa's reputation as US regulatory authorities ordered Daiwa to put an end to most of its trading activities in the US. This proved to be a major setback for Daiwa, which wanted to become a global player.

Events Leading to the Loss

During the 1980s, Diawa's New York branch gradually increased its presence in the US government debt market.

It became a primary market dealer in 1986, emerging as one of the leading players in the US debt market. The branch was also trading in bonds placing short-term bets on interest rate movements. Iguchi was entrusted with back-office work and there he learnt how to handle back-office paperwork for government-bond trading. In addition to his back-office duties, he was also promoted to the post of trader in 1984. Thus, Iguchi was simultaneously in charge of making trades and recording them in the department's back office. In his early trading days, Iguchi lost \$200,000 betting in the American government-bond market...

Why Did It Happen?

Industry analysts said that a combination of blunders had led to the major losses at Daiwa. The bank's failure in implementing a proper risk management and internal control system was the biggest blunder. The fact that Iguchi was able to conceal the losses for a period of 11 years showed that there was inadequate control and supervision of Iguchi's trading activities. Analysts felt that the scam had occurred due to the following reasons:

Overlapping of front and back-office duties

The main objective of the back-office was to record and settle trades transacted by the front-office and reconcile them with the statements sent by the Bankers Trust for assessing the accuracy of prices. Iguchi was given charge of both trading and back-office duties and consequently, was well placed to manipulate the statements received from the Bankers Trust...

Why Daiwa bank had been involved in such “falsification” or “scam”?

Are there any internal dysfunction in Daiwa bank?

Are there NO risk management systems?

Are there any systematic malfunction in this organization?

Did inadequate internal security system in the enterprise encourage that?

What are the problems in human resource perspective?

Any egoistic ,wicked person try to deal the data?

Adopted all but not only one reason

Rethinking what is “Enterprise risk management”

Risk management  For Preventing risk you face

Enterprise risk  Risks exist at *external* and *internal* environment surrounding enterprise



Enterprise risk management(ERM)

Comprehensive risk management process involving all aspects and all department of enterprise in it in order for achieving her goal with enhancing enterprise value.