Financial Institutions Management: A Risk Management Approach

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Institutions must rethink their risk management strategy and adopt a holistic approach to NFR in order to reduce potential liabilities while improving effectiveness.  

1. Building a comprehensive NFR strategy. An effective NFR management program begins with a comprehensive approach to identify all the non-financial risks facing an organization, based on a detailed risk taxonomy and a holistic risk identification process. The following four specific levers should be considered:  

First, a clear process and explicit ownership to incorporate all material NFRs into the business strategies and risk appetite. Financial Institutions Management’s central theme is that the risks faced by FI managers and the methods and markets through which these risks are managed are similar whether an institution is chartered as a commercial bank, a savings bank, an investment bank, or an insurance company. As in any stockholder-owned corporation, the goal of FI managers should always be to maximize the value of the financial intermediary.  

INTENDED AUDIENCE  
Financial Institutions Management: A Risk Management Approach is aimed at upper-level undergraduate and MBA audiences. Occasionally there are more technical sections that are marked with a footnote. Approach #1. Traditional View: Financial management is primarily concerned with acquisition, financing and management of assets of business concern in order to maximize the wealth of the firm for its owners. The basic responsibility of the Finance manager is to acquire funds needed by the firm and investing those funds in profitable ventures that will maximize firm’s wealth, as well as, yielding returns to the business concern. The success or failure of any firm is mainly linked with the quality of financial decisions. (a) Arrangement of short term and long-term funds from financial institutions.  

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Institutions must rethink their risk management strategy and adopt a holistic approach to NFR in order to reduce potential liabilities while improving effectiveness. 1. Building a comprehensive NFR strategy. An effective NFR management program begins with a comprehensive approach to identify all the non-financial risks facing an organization, based on a detailed risk taxonomy and a holistic risk identification process. The following four specific levers should be considered: First, a clear process and explicit ownership to incorporate all material NFRs into the business strategies and risk appetite. Anthony Saunders, Marcia Millon Cornett. Saunders and Cornett’s Financial Institutions Management: A Risk Management Approach 7/e provides an innovative approach that focuses on managing return and risk in modern financial institutions. The central theme is that the risks faced by financial institutions managers and the methods and markets through which these risks are managed are becoming increasingly similar whether an institution is chartered as a commercial bank, a savings bank, an investment bank, or an insurance company. Although the traditional nature of each sector’s product
A.M. Santomero, “Financial Risk Management: The Whys and Hows,” Financial Markets, Institutions and Instruments, volume 4, number 5, 1995, pp. 1–14. In fact, a well-known textbook in the field devotes an entire chapter to motivating financial risk management as a value-enhancing strategy using the arguments outlined above. See: C. Smithson, C. Smith, Jr., and D. Wilford, Managing Financial Risk: A Guide to Derivative Products, Financial Engineering, and Value Maximization (Burr Ridge, Illinois: Irwin, 1995). This point has been made in a different context. See: A.M. Santomero and J. Tres Saunders and Cornett’s Financial Institutions Management: A Risk Management Approach provides an innovative approach that focuses on managing return and risk in modern financial institutions. The central theme is that the risks faced by financial institutions managers and the methods and markets through which these risks are managed are becoming increasingly similar whether an institution is chartered as a commercial bank, a savings bank, an investment bank, or an insurance company. Although the traditional nature of each sector's product activity is analysed, a greater emphasis is placed on managing return and risk in modern financial institutions. Risk management of a financial services company should begin with evaluating the process of the risk transform and then measure the risk and performance of each phase of the process. Performance of a financial institution should then be measured by consolidating the performances of all the major departments of the process adjusted for their risks. In sum, this process approach provides an integrated framework of risk management to the institution. By way of comparison to using risk measures like value-at-risk, earning-at-risk, and others, the proposed approach of this article has three important attributes: (1) Bottom up. The methodology ties information from the transaction level to the corporate goals, from trading decisions to corporate strategic decisions.
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