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An Overview Of Enterprise Risk Management

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ABSTRACT:

Enterprise risk management (ERM) implementation is crucial to the success of banks. ERM provides banks with a framework for managing risks appropriately and integrates the best practices of risk management into the overall strategy. It enables the banks to make the right call as implementing ERM in the organization would help the banks in making better decision, enhancing their image, earning money, as well as reducing losses. Banks are the most at-risk entities in that respect, as this is one of the most perilous businesses in which we operate. Banks face the ongoing challenge of balancing multiple risks in areas such as credit, liquidity, the market, operations, cybersecurity incidents, and environmental, social and governance (ESG) issues. It is essential in hazard management. Therefore, setting enterprise risk management (ERM) standards is a necessity for every financial institution, regardless of its size. It is a systematic approach to addressing (preventing, detecting, and minimizing) all kinds of organizational risk. It is a continuous process that means identifying, evaluating, controlling, and monitoring currently existing and new risks across a whole company. Realizing the importance of ERM, this study concentrates on the banking industry.

Keywords: Risk Awareness, Compliances, Operational Efficiency

A. Introduction:

Enterprise Risk Management, often known as ERM, is a process that is highly structured and is utilized by businesses in order to identify, evaluate, manage, and control risks that may have an impact on their ability to fulfill their goals. The process entails taking a methodical approach to comprehending and addressing prospective possibilities and dangers. Enterprise risk management (ERM) comprises a wide variety of hazards, including as regulatory risks, financial risks, reputational risks, and operational risks. There is no restriction that restricts it to a particular department or function; rather, it is interwoven throughout the entire organization.

B. Objectives of the Study:

1. To analyse the concept of ERM in relation with banking sector.
2. To study the framework of ERM
3. To study the techniques of Risk Identification

C. Methodology:

This paper presents a critical review of the Enterprise Risk Management in the banking industry. An analysis of the existing literature has been carried out in order to lay a solid theoretical groundwork for the research that will be carried out in order to achieve the goals that have been established. The secondary data were collected from a wide variety of publications, including books, journals, and reports.

Overview of ERM:

One of the key purposes of enterprise risk management (ERM) is to protect organizational value. This is done by identifying and managing risks that could adversely affect the organization's financial performance, reputation, or capacity to achieve its goals. Assessing potential risks and possibilities allows for decisions to be made with consideration of this analysis and other relevant information. The next step to help the organization be more resilient is to increase its ability to withstand and recover from bad events. Demonstrated to stakeholders that the company is taking proactive measures to mitigate risks and safeguard their interests, thus boosting their trust in the company.
With the contemporary complexity and dynamic of business environment, Enterprise Risk Management (ERM) has gained significant importance in the organizations of all dimensions. Some critical aspects of its significance are:

1. **Heightened volatility and uncertainty:**: Economic downturns, regulatory changes, technology disruptions, and political events pose significant risks to businesses.

2. **Globalization and interconnectedness:**Operating in a global economy exposes companies to a wider set of risks, such as currency fluctuation, cultural differences, and disruption in supply chains.
3. 3.**Technological advancements:**: Technology in many ways offers unprecedented opportunity, but poses new risks, including cyber attacks, data breach, and operational failure.
4. **Regulatory pressures:**: Complying with an ever-growing list of regulations is burdensome and costly, and noncompliance can result in severe fines.
5. **Stakeholder expectations:**: Stakeholders, such as investors, consumers, employees, and communities, are increasingly antsy to see organizations undertake responsible and transparent risk management processes.

ERM Framework:

An enterprise risk management framework provides a structured approach to identifying, assessing, and managing risks. Two prevalent frameworks are:

1. **1.COSO Enterprise Risk Management Framework: -** Enterprise Risk Management Framework COSO (The Committee of Sponsoring Organizations of the Treadway Commission) published an Enterprise Risk Management (ERM) framework consisting of eight integrated components.
2. **Internal environment:** The tone set by management regarding the culture, level of ethical behavior, and risk appetite of the organization.
3. **Objective formulation:**The process of establishing clear and measurable objectives that align with the mission and vision of the organization
4. **Event identification:** The process of identifying potential events that can affect the achievement of objectives. Pareto analysis: A strategy for classifying potential hazards/risks in order to focus on those posing the highest threat; identifies the few causes leading to the biggest percentage of the total impact.
5. **Risk response:** The process of identifying and implementing appropriate options to reduce the risks.
6. **Control activities:** The policies, procedures, and practices that the organization has put in place to ensure that risks are effectively managed.
7. **Information and communication:** The process of obtaining, evaluating, and exchanging information to enable effective risk management.
8. **Monitoring:**: Assessing the efficiency of the ERM framework and making necessary adjustments.
   ISO 31000—The International Organization for Standardization (ISO) has developed a standard (ISO 31000) that outlines a framework for risk management. This standard is more comprehensive in scope than the COSO framework, and is relevant to more organizations and different types of activities.

F. Risk Identification and Assessment:

Through the process of identifying potential occurrences that might have an impact on the accomplishment of goals, risk identification is carried out. It is possible for these occurrences to be either positive or negative; nevertheless, the primary focus of risk management is often on negative occurrences that have the potential to endanger the business.

Techniques of Risk Identification:

1. **Brainstorming:** The process of generating a list of potential risks through the use of group discussion is referred to as brainstorming. Participants have the opportunity to contribute suggestions based on their prior experiences and knowledge.
2. **Scenario Analysis:** A process for exploring probable future outcomes based on diverse assumptions about important variables, scenario analysis is sometimes referred to as "scenario analysis." It is possible that this strategy can assist in the identification of dangers that may be difficult to anticipate using other methods. Tools for risk assessment are specialized pieces of software or other tools that can be utilized to discover and evaluate potential dangers. The majorities of the time, these tools contains databases of known dangers and are able to offer advice on risk assessment and mitigation.

Risk Reporting:

The practice of sharing risk information with management, board members, staff, and other parties is known as risk reporting. Efficient risk reporting may guarantee that risks are well managed, boost stakeholder confidence, and facilitate better decision-making. Tracking KRIs allows firms to discover possible risks early on and take corrective measures to avoid negative effects. Determine which hazards pose the biggest danger to the organization's objectives. Choose metrics that are related to the identified risks and can be measured accurately. Set performance benchmarks for each KRI to assess the organization's risk management effectiveness. Collect and evaluate KRI data to identify patterns and potential concerns. If KRIs shows that dangers are increasing, take immediate corrective action to alleviate the situation.

G. Conclusion:

Senior executives need to lead by example and show a strong commitment to risk management. Train staff members in risk management concepts, methods, and resources. Encourage staff members to take part in risk assessment and mitigation initiatives as well as to report possible hazards. Give credit to staff members who help manage risks effectively. This may contribute to the development of a constructive and encouraging atmosphere for risk management. Promote candid discussion on risk management-related topics. This can aid in the early detection of possible issues and the creation of workable remedies. Organizations need ERM in order to recognize, evaluate, control, and manage risks. It contributes to value protection, better decision-making, increased resilience, and bolstered stakeholder trust.

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