

Bank Risks in Emerging Markets

2 Days

COURSE OVERVIEW

This course reviews a wide range of emerging markets, concentrating on Asia and examining both failures as well as successes. The stress will be on the development of a structured approach to risk, incorporating financial, qualitative and market indicators. Participants will be shown how to identify strong and weak performers, to recognize early warning signals of credit deterioration in full and limited disclosure situations, to understand impact of key economic, political, regulatory and supervisory issues, to use credit analytics to identify relative value and business development opportunities, and to assess counterparty risk in order to set facilities and exposure limits.

LEVEL

Intermediate - Advanced

WHAT WILL I GET OUT OF IT?

The learning objectives are to ensure that the audience fully understands what risks banks face in emerging markets, how these risks differ from those in developed markets is, how it is analyzed, compared and measured, and the techniques that have been developed to manage it, together with the specific requirements in respect of the Basel

WHO'S IT FOR?

- Retail Bankers
- Ratings Agencies
- Central Bankers
- Investors
- Stockbrokers
- Brokerage Houses
- Derivatives traders
- Regulators
- Lawyers
- Accountants
- Auditors

COURSE CONTENT

Day 1 Emerging Markets and Bank Lending

Session 1: What is an Emerging Market?

- Definitions and history
- Economic background
- Outlook for growth
- Inflation trends
- Trade & exchange rates

Case Study: Chinese foreign exchange policy

Session 2: Risks in Emerging Markets

- Political risks

Case Study: Nationalization and windfall taxes

- Macroeconomic policy
- Monetary policy
- Fiscal policy
- Role of the IMF and the World Bank

Case Study: The IMF and Asia

- Emerging market crises

Case Study: The Malaysian Market – Emerging?

- Governance
- Overseas investment, potholes and fraud
- Role of government
- Equity markets and equity investing
- Summary of risks inherent in investing in emerging markets

Session 3: Bank Lending in Emerging Markets

- Role of banks in emerging markets
- Banking system structure and competition
- Regulation and supervision - prudential supervision, key regulations, proposed BIS guidelines
- Lending in emerging markets

Case Study: The Evolution of Corporate Leverage in South Africa

Session 4: The Operating environment

- Financial fundamentals
- Statement logic, limited disclosure, accounting conventions
- Business risk - loan quality and reserve adequacy; off balance sheet exposures; trading and investment risk, related parties
- Financial risk - stability of funding, gap management, liquidity, capital adequacy
- Performance risk - overall return, stability of income, control of expenses
- Early warning signals - financial and non-financial indicators of distress
- Management, franchise and ownership
- Management - structured approach: strategy, systems, skills and structure
- Risk management - credit, market, operating liquidity, legal and reputation risk

- Franchise and competitive advantage
- Shareholder types and support
- Organizational structures - holding companies double leverage and other risks
- Support
- M&A in the banking sector
- Lender of last resort - safety net from shareholders and/or government.

Case Study: The Evolution of the Thai Banking System

Day 2: Bank Risks, Measurement and Management

Session 5: The Risks Banks Face

- What is risk management?
- Types of risk
- How do risks vary?
- Risk appetite (personal and corporate)

Case Study: Key Measures of Risk (Including VAR)

- The responsibilities of the risk management function
- Regulatory and economic capital
- Value-at-Risk (VaR) and its derivatives
- Insurance and risk management
- The BIS and risk management
- Risk policies and procedures
- Strategic risk
- Reputational risk
- Outsourcing and risk management
- Strategic and tactical risk management

Case Study: Development of Metrics and Application to Business Units – Can VaR Work in Thailand?

Session 6: Market Risk

- The different constituents of market risk
- Implementing controls, limits and thresholds
- Reporting excesses and authorized deviations
- Dealing with derivative instruments
- Value at risk calculations
- Trading book reports
- Sensitivity analysis
- Stress testing market risk
- Scenario modelling market risk
- Back-testing
- Strategic and tactical risk management
- Available software – Algorithmics, RiskMetrics, Askari, SunGard Trading and Risk Systems

Case Study: What Goes Wrong in Practice

Session 7: Liquidity Risk

- The management of liquidity risk
- The key elements of uncertainty
- The real liquidity of asset types
- Limits, thresholds and uncertainty
- Basel and liquidity risk
- Economic capital, bank risk and liquidity
- Asset-Liability Management (ALM)

Case Study: The benefits and results of ALM management

Session 8: Credit Risk

- The risk management of credit risk
- The role of the credit committee
- The use of rating agencies
- Default risk using historic information
- Personal and corporate credit assessment
- Credit risk management
- The IRB approach and use test – application to emerging markets
- Limits and thresholds
- Sensitivity analysis
- Stress testing
- Scenario modelling

Case Study: Are Ratings Any Use? A Review of Ratings in the Credit Crunch and Future Regulation of the Rating Industry.

Session 9: Operational Risk

- What is operational risk?
- The identification of operational risk
- The key parts of operational risk
- Developing an operational loss database
- Developing key risk indicators (KRIs)
- Using external loss data
- Developing key risk indicators

Case Study: Examples of Operational Risk Disasters

Conclusion: Managing, Supervising and Regulating Banks in Emerging Markets