

Rethinking Risk Management in Financial Services

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Financial Institutions Look Outside For A Revamp Of Post-Crisis Risk Management

- Financial services industry turn to other domains like firefighting and immunology to rethink their own risk management practices
- Rethinking Risk Management in Financial Services launches a discussion on how the industry can prevent another crisis and how it can manage better if one does strike
- Download the report:
www.weforum.org/pdf/FinancialInstitutions/RethinkingRiskManagement.pdf

New York, USA, 16 April – What can finance chiefs learn from airline pilots, wildfire fighters and infectious disease controllers? Valuable lessons on how to prevent disaster and what to do when it strikes the financial services industry have come from unlikely sources such as salmon farmers and immunologists.

The World Economic Forum's latest report, *Rethinking Risk Management in Financial Services: Practices from Other Domains*, prepared with the support of The Boston Consulting Group, takes an original approach to addressing the issues raised by the global financial crisis.

"The crisis exposed many weaknesses in how financial services manage risk. However, finance is not the only industry to struggle with this. And so the report analyses seven domains outside financial services – aviation, fisheries, immunology, infectious disease control, pharmaceuticals, telecommunications and wildfire fighting – with the belief that their risk management techniques might hold lessons for finance," said Giancarlo Bruno, Director and Head of Financial Services Industry, World Economic Forum USA.

"Risk management has many dimensions. This report shows how risks are successfully absorbed in situations and under circumstances entirely different from those faced by financial institutions. There are vital lessons to learn from these findings, particularly the ones that deviate from the conventional wisdom proffered in our industry," said Axel Lehmann, Chief Risk Officer, Zurich Financial Services, and Co-Chair of the report's Steering Committee.

The report makes nine proposals including:

Innovate transparently: In immunology, pathogens that mutate before the adaptive immune response can kick in are particularly dangerous because the immune system perpetually lags the pathogen's invasion. Similarly, financial institutions and regulators should be weary of rapidly "mutating" products by carefully monitoring instruments with exceptional growth and variation.

Aggregate system-wide data: Aviation has become one of the safest human endeavours. Yet, it continues to make efforts towards improving safety standards by continuously gathering and analysing data on accidents, near misses and unexpected incidents from all industry participants. Along these lines, actors in financial services could identify critical indicators of threat to the system; aggregate and analyse data that exists on these within individual banks, regulators, international organizations; and act on the insights generated.

Look for trouble: The World Health Organization is constantly on the lookout for the next pandemic using its customised search engine and human networks. This has improved its ability to detect outbreaks earlier and respond to them more effectively. Financial services could create similar early warning tools and indicators and a culture that proactively looks for trouble.

The report's findings are presented as "food for thought" and are intended to spark a broader discussion, with a deliberate choice not to provide concrete prescriptions or off-the-shelf solutions for the industry.

"In the run up to the recent crises, risk management in finance had taken a back seat. We need to make it a part of the way we do business again," said Lazaro Campos, Chief Executive Officer of SWIFT and Co-Chair of the report's Steering Committee. "The industry has a responsibility towards itself and to wider society to not let this crisis go to waste."

Simon Levin, Moffett Professor of Biology at Princeton University, welcomed the fresh perspectives in the report. "Developing a deep understanding of the context of complex systems outside of finance and accounting for the differences between the environments are key to drawing the right lessons to successfully implement change in finance," he said.

"Drawing inspiration from unusual quarters, the report makes a compelling argument for finance to break from its somewhat insular approach to risk management. We hope that the suggestions and insights in the report, while potentially controversial, will initiate constructive engagement between the various stakeholders towards making the financial system more risk-aware and resilient," said Duncan Martin, Partner and Managing Director, The Boston Consulting Group.

The Steering Committee was comprised of Industry Partners of the World Economic Forum as well as noted academics and experts:

- Iain Abrahams, Head of Liquidity, Risk and Capital Markets, Barclays Capital
- Lázaro Campos, Chief Executive Officer, SWIFT; Co-Chair of the Steering Committee
- Karl Guha, Chief Risk Officer, UniCredit Group
- Axel Lehmann, Chief Risk Officer, Zurich Financial Services; Steering Committee Co-Chair
- Simon Levin, Moffett Professor of Biology, Princeton University
- Erwann Michel-Kerjan, Managing Director, Wharton Risk Management and Decision Processes Center, The Wharton School, University of Pennsylvania
- David Rhodes, Senior Partner and Managing Director, The Boston Consulting Group
- Luke Savage, Director, Finance, Risk Management and Operations, Lloyd's of London
- Cüneyt Sezgin, Member of the Board of Directors, Garanti Bank
- Raj Singh, Chief Risk Officer, Swiss Re
- Paul Smith, Treasurer, State Farm Insurance
- Jim Webber, Chief Risk Officer, Aviva
- Tom Wilson, Chief Risk Officer, Allianz
- Vanessa Wittman, Chief Finance Officer, Marsh & McLennan Companies Inc.
- Mark Yallop, Chief Operating Officer, ICAP

Notes to Editors

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