



# Risk Management—Case Studies from the 2008 Crisis

## How Poor Risk Management Led to Financial Meltdown

### Why you should attend

#### Who Should Attend

- Risk Managers.
- Senior Executives.
- Operations Officers.
- Business Managers in financial services.
- Consultants and professionals serving the financial services industry.
- I.T. applications providers serving financial institutions.

#### What This Course Covers

- Conditions that led to the 2008 crisis.
- A blow-by-blow account of the crisis.
- Why and where the crisis can be traced to a failure of Operational Risk Management.
- Why moral hazard became a real problem.
- Emergence of Operational Risk Management (Governance, Risk and Compliance) as a focus

During 2008, the financial institutions of the world suffered unprecedented events. In the years to come the field of risk management will reflect on these events to develop new approaches and frameworks. As the dust settles, it is becoming clear that financial organizations that focused on qualitative operational risk were better prepared.

This course focuses on the actual events of 2007-2008 and shows how a failure in Operational Risk Management fuelled the subsequent Credit & Liquidity Crisis and the Financial Meltdown which engulfed the world in the closing months of 2008.



While it has been suggested that “new” unknown risks from Derivatives, Collateralized Debt Obligations and the like were the root cause, this course will put this myth to rest. What is clear is that an ever greater focus on effective risk management is needed, not simply more data and information or even more “exotic” products.



We will look at best operational risk management frameworks and how these have proven useful for bank survival.

- **What happened!**
- **What caused it!**
- **What lessons we have learned!**
- **How it could have been avoided!**



# What is the curriculum focus?

## What the course covers

### Concepts & Basic Principles

- A short history of risk
- Dimension & drivers of risk management.
- Governance in the risk management field.
- Financial Bubbles
  - What they are & how they are caused.
- Securitization
  - What it is and how it works.
  - Why securitization is a key feature of financial markets.
- Collateralized Debt Obligations
  - What it is and how it works.
  - Who uses CDOs.
- Credit Default Swaps
  - What it is and how it works.
  - Using credit default swaps for speculation, hedging and arbitrage.
  - How a CDS is settled.
  - Risks in, and criticisms of the CDS market.
- Rating Agencies & Risk
  - The role of the Rating Agency in financial markets.
  - What role did rating agencies play in the financial crisis?
- Financial Leverage
  - How it works and why it was so critical in the events of 2008.
- "Ponzi" Finance
  - A closer look at an age-old financial scam and how it functions.

### The Sub-Prime Problem

- The mortgage market in the US.
- Credit, Liquidity and Counterparty risk.
- High-risk mortgage loans and lending/borrowing practices.
- Mortgage securitization.



### The Developing Crisis – the Events of 2007

- Turn of the mortgage market.
- The liquidity crisis – what happened and why?
- How the crisis became international.



### The 2008 Financial Crisis

- Prelude.
- Events of September 2008.

### The Financial Meltdown

- A Timeline of the weeks following the collapse. This includes events from around the world including regulatory responses.
- The US' Troubled Asset Relief Program (TARP)

For further details please contact

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# What is the curriculum focus?

## Case Studies

This course is rich in case studies drawn directly from the Crisis and from other recent Operational Risk Events

**Lehman Brothers** - The collapse of Lehman Brothers inflicted 'chaos' on the markets. This case study looks at the collapse of Lehman Brothers and how this event triggered the 2008 meltdown.

- The events of September 2008
- Settlement of credit default swaps
- During Lehman Brothers collapse, there was an escalation in failed trades in the UK and Europe. In conjunction with the Financial Services Authority the industry in the UK is looking at the reform of stock trading and settlement rules after these events. We examine the problems and the proposed solutions.

**Iceland's Banks** - In the Fall of 2008 all three of the Iceland's major banks collapsed following their difficulties in refinancing their short-term debt and a run on deposits by foreign depositors. The causes of the collapse are closely linked to the 2008 financial crisis. In this case study we examine the events that led to this situation, what went wrong and how contagion from the worldwide financial crisis triggered the collapse.

**Bernard L. Madoff Investment Securities** – The financial meltdown brought further problems in its wake. As investors tried to liquidate investments to access their cash the largest Ponzi finances scam in history was revealed. Apart from a long running fraud was this also prima facie evidence of a regulatory failure on a grand scale.

**Citibank** – "A giant on its knees". The events leading up to the potential collapse of the world's largest bank and its rescue. We examine what went wrong and why.

**National Australia Bank & Société Générale**—These two case studies into recent events provide an in-depth examination of operational risk management failures resulted in substantial losses to the institutions concerned as well as the lessons learned.

## Analysis of the Crisis

- Why these events happened.
- What went wrong?
- Lessons from the Crisis.

## The 2008 Crisis & Operational Risk Management

- How a failure in Operational Risk management led to the 2008 crisis
- Changes needed in the risk management frameworks
- How can the financial architecture be improved?



## Global Fallout

- A review summary of how the crisis has affected both the financial markets worldwide and the real economies in scores of countries across the globe.

## Governance, Risk and Compliance

- The governance process.
  - Setting risk management objectives.
  - Building a risk culture
  - Examples of a staff risk culture
  - Examples of management risk culture



- Why are risk cultures important?
- Compliance requirements
- Operational risk – definition and examples
- Enterprise Risk Management
- Key elements in managing operations risk
- A selection of case studies to illustrate the material covered
- The banking activity framework - the "Top-Down" approach of the BIS
- Main areas affected by operational risk
- Key Risk Factors

# What is the curriculum focus?

## Measuring Operational Risk

- Risk Analysis
- Determining the “Risk Appetite”
- Risk impact/Frequency
- Impact vs. Probability
- A generic case study
- Measurement methods
- The Loss Modeling Method
- The COSO ERM framework
- Monte Carlo simulations
- Operational risk & bank strategy
- Quantitative & Qualitative approaches
- Operational risk & the business cycle
- Problems in identifying operational risks

## What You Will Learn

- **Understanding Operational Risk – The Big Picture.**
- **Positioning the organization to successfully manage the ever-present Operational Risk problem in banking.**
- **Successful approaches to Operational Risk Management – providing the bank great survivability.**

## Developing an Appropriate Risk Management Environment

- Policy & structure
- Developing an appropriate risk management environment
- Implementation
- Mapping risks to controls
- Understanding risks, goals and priorities
- Prioritizing risk based on probability & impact
- Establishing responsibilities for risk management
- Mapping risk strategies to categories of control
- Designing & Documenting specific controls
- Implementing risk management controls



- Execution, Delivery & Process Management
- Business Disruption & System Failures

## Specific Examples of Operations Risks

- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products & Business Practices
- Damage to Physical Assets



## Managing Operations Risk

- Assessment methods
- Loss data collection (internal & external)
- Using loss data
- Scenario analysis
- Using realistic scenarios
- Statistical techniques
- Problems and issues in assessing & managing operational risk

## The Risk Management Process

- Surveying the playing field - Environmental survey & Technology inventory
- Identifying & assessing the operational risks (including an illustrative operations risk management plan)
- Minimum control requirements
- Risk identification tools
- Control & mitigation of specific operational risks
- Establishing a framework of formal, written policies and procedures

