TOPIC: RISK MANAGEMENT

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RISK

- Managing risk has become a critical element within most companies.
- As per the Oxford Dictionary – "Risk is Exposure to the possibility of loss, injury, or other adverse or unwelcome circumstance; a chance or situation involving such a possibility'.

CLASSIFICATION OF RISK

SYSTEMATIC RISK:

- Not fully uncontrollable by an organization
- Not entirely predictable
- Cannot be fully assessed and anticipated in advance in terms of timing and gravity.

UNSYSTEMATIC RISK

- Usually controllable by an organization
- Is reasonably predictable.
- Usually assessed well in advance with reasonable efforts and risk mitigation can be planned with proper understanding and risk assessment techniques.

TYPES OF RISKS

Financial Risk	Non Financial Risk
Market Risk	Business Risk
Credit Risk	Strategic Risk
Operational Risk	Reputation Risk
Liquidity Risk	Technology Risk

RISK MANAGEMENT

Risk management is relevant to all organizations large or small.

Effective risk management practices support accountability, performance measurement and reward and can enable efficiency at all levels through the organization.

Risk Management is part of the corporate strategy. It is a key management tool to safeguard the business assets for its use for the productive purposes.

Risk Management provides a framework to:

i) Ensure that all the foreseeable risks involved are actually understood and accepted before important decisions are taken.

ii) Monitor new projects and ongoing operations to ensure that they continue to develop satisfactorily and no problems or new risks emerge.

STEPS IN RISK MANAGEMENT PROCESS

Risk Identification

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Risk Analysis

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Risk Assessment

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Handling of Risk

RISK IDENTIFICATION

- Risk identification is the first stage of the risk management strategy. The origin source of the risk is to be identified.
- By risk identification the organization is able to study the activities and places where its resources are placed to risk. Correct risk identification ensures effective risk management.
- The results of risk identification are normally documented in a risk register, which includes a list of identified risks along with their sources, potential risk responses and risk categories.
- The objective of the risk identification process is to ensure that all potential project risks are identified. The ultimate purpose of risk identification is to minimize the negative impact of project hiccups and threats.
- The outputs of the risk identification are used as an input for risk analysis, and they reduce a project manager's uncertainty. It is an iterative process that needs to be continuously repeated throughout the duration of a project.

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STEPS FOR A RISK IDENTIFICATION PROCESS

1. Creating a systematic process - The risk identification process should begin with project objectives and success factors.
2. Gathering information from various sources - Reliable and high quality information is essential for effective risk management.
3. Applying risk identification tools and techniques - The choice of the best suitable techniques will depend on the types of risks and activities, as well as organizational maturity.
4. Documenting the risks - Identified risks should be documented in a risk register and a risk breakdown structure, along with its causes and consequences.
5. Documenting the risk identification process - To improve and ease the risk identification process for future projects, the approach, participants, and scope of the process should be recorded.
6. Assessing the process' effectiveness - To improve it for future use, the effectiveness of the chosen process should be critically assessed after the project is completed.

RISK ANALYSIS

After identification of the risk parameters, the second stage is of analyzing the risk which helps to identify and manage potential problems.

To carry out a Risk Analysis, first identify the possible threats and then estimate the likelihood that these threats will materialize.

It's an essential planning tool, and one that could save time, money, and reputations.

PROCESS OF RISK ANALYSIS

Identify Threats

- First step in Risk Analysis is to identify the existing the existing & possible threats that one might face.
- Human, Operational, Reputational, Procedural, Natural, Political

Estimate Risk

- Once the risks are identified , it is required to calculate both the likelihood of these threats being realized & their possible impact.
- It helps the organization to distinguish between risks and its impact.

RISK ASSESSMENT

- Risk assessment is the way in which enterprises get a handle on how significant each risk is to the achievement of their overall goals.
- To accomplish this, enterprises require a risk assessment process that is practical, sustainable, and easy to understand.
- The process must proceed in a structured and disciplined fashion.
- . It must be correctly sized to the enterprise's size, complexity, and geographic reach.
- The first activity within the risk assessment process is to develop a common set of assessment criteria to be deployed across business units.
- To be effective and sustainable, the risk assessment process needs to be simple, practical, and easy to understand.

HANDLING OF RISK

- The ownership of risk should be allocated. Responsibilities and accountabilities of the persons handling risks need to be identified and assigned.
- The persons concerned when the risk arises, should document it and report it to the higher ups in order to have the early measures to get it minimized.
- Risk may be handled in the following ways: Risk Avoidance , Risk Absorption , Risk Reduction , Risk Transfer etc.

Risk Avoidance	Risk Retention	Risk Reduction	Risk Transfer
Risk Avoidance means to avoid taking or choosing of less risky business/project.	It is handling the unavoidable risk internally and the firm bears it due to the fact that either insurance can't be purchased or it may be of too expensive to cover the risk	n many ways physical risk reduction (or loss prevention, as it is often called) is the best way of dealing with any risk situation and usually it is possible to take steps to reduce the probability of loss.	This refers to legal assignment of cost of certain potential losses to another
For example one may avoid investing in stock market due to price volatility in stock prices and may prefer to invest in debt instruments	An insurance deductible is a common example of risk retention to save money, since a deductible is a limited risk that can save money on insurance premiums for larger.	The ideal time to think of risk reduction measures is at the planning stage of any new project when considerable improvement can be achieved at little or no extra cost.	Insurance substitutes certainty for uncertainty. Insurance does not protect a firm against all perils but it offers restoration, atleast in part of any resultant economic loss.

RISK MITIGATION

- Risk mitigation is defined as taking steps to reduce adverse effects.
- Risk mitigation is the process by which an organization introduces specific measures to minimize or eliminate unacceptable risks associated with its operations.
- Risk mitigation measures can be directed towards reducing the severity of risk consequences, reducing the probability of the risk materializing, or reducing the organizations exposure to the risk.
- The risk mitigation step involves development of mitigation plans designed to manage, eliminate, or reduce risk to an acceptable level.

CATEGORIES OF RISK MANAGEMENT

1) Transfer Risk
2) Tolerate Risk
3) Reduce Risk
4) Avoid Risk
5) Combine Risk
6) Sharing Risk
7) Hedging Risk

ROLE OF COMPANY SECRETARY IN RISK MANAGEMENT

- The company secretaries are governance professionals whose role is to enforce a compliance framework to safeguard the integrity of the organization and to promote high standards of ethical behavior.
- He has a significant role in assisting the board of the organization to achieve its vision and strategy.
- The activities of the governance professional encompass legal and regulatory duties and obligations and additional responsibilities assigned by the employer.
- As an advisor to the board in ensuring good governance, a Company Secretary shall ensure that there is an Integrated Framework on which a strong system of internal control is built.

FUNCTIONS OF GOVERNANCE PROFESSIONALS

- Advising on best practice in governance, risk management and compliance.
- Championing the compliance framework to safeguard organizational integrity.
- Promoting and acting as a 'sounding board' on standards of ethical and corporate behavior.
- Balancing the interests of the Board or governing body, management and other stakeholders.

MODEL RISK MANAGEMENT POLICY

A risk management policy serves two main purposes: to identify, reduce and prevent undesirable incidents or outcomes and to review past incidents and implement changes to prevent or reduce future incidents. A risk management policy should include the following sections:

☐ Risk management and internal control objectives (governance)

☐ Statement of the attitude of the organisation to risk (risk strategy)

☐ Description of the risk aware culture or control environment

☐ Level and nature of risk that is acceptable (risk appetite)

☐ Risk management organisation and arrangements (risk architecture)

☐ Risk mitigation requirements and control mechanisms (risk response)

☐ Allocation of risk management roles and responsibilities

☐ Risk management training topics and priorities

☐ Criteria for monitoring and benchmarking of risks

☐ Allocation of appropriate resources to risk management

☐ Risk activities and risk priorities for the coming year.

REGULATORY FRAMEWORK ON RISK MANAGEMENT

- Under The Companies Act ,2013

1) Responsibility of Board of Directors
2) Responsibility of Audit Committee

- Under SEBI (LODR) Regulation, 2015

1) Responsibility of Board of Directors
2) Constitution of Risk Management Committee

AS PER THE COMPANIES ACT, 2013

Responsibility of BOD:

1) Sec 134 of the Companies Act 2013 spells out that a statement indicating development and implementation of a risk management policy for the company including identification, therein of elements of risk, if any, which in the opinion of the board may threaten the existence of the company.

Responsibility of Audit Committee:

1) Every Audit Committee shall act in accordance with the terms of reference specified in writing by the board which shall inter alia include evaluation of internal financial controls and risk management systems.

In line with the above requirements, it is therefore, required for the company to frame and adopt a "RISK MANAGEMENT POLICY" of the company

AS PER SEBI (LODR) REGULATION, 2015

- Responsibility of BOD:

1) Regulation 17of the SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015 spells out that that the board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.

- Constitution of Risk Management Committee:

1) As per Regulation 21, the board of directors are required to constitute a Risk Management Committee and also required to define the role and responsibilities of the risk management committee and the board may delegate monitoring and reviewing the risk management plan, to the committee and such other functions as the board may deem fit such function shall specifically cover cyber security.

The Company is required to formulate a "Strategic Risk Management Policy"pursuant to the provisions of Companies Act 2013 applicable for all companies and SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015 applicable for listed companies in addition to Companies Act provisions.

DISCLOSURES

Board Report:

- In the board report, the directors are required to disclose under the heading "Risk Management Framework" stating that the board regularly monitors and reviews the risk management strategy of the company and ensures the effectiveness of its implementation. Further the directors may have to also state that they take all necessary steps towards mitigation of any elements of risk, which in their opinion, can impact the company's survival and all the identified risks are managed through review of business parameters by the management, and the board of directors are informed of the risks and concerns.
- in the Report on Corporate Governance which forms part of the annual report, pursuant to Regulation 34(3) read with Schedule V of the SEBI (Listing Obligations And Disclosure Requirements) Regulations 2015 together with a certificate from the practicing company secretary the company would disclose under the heading "Compliance or otherwise of any requirement of corporate governance report" that the company has complied with the requirements of the corporate governance and has made disclosures to the extent required and applicable to it, as stipulated in the SEBI (LODR) Regulations,

MANAGEMENT DISCUSSION ANALYSIS REPORT

- In the Management Discussion and Analysis report which is included as part of the annual report, the board of directors are required to state under the heading "Internal Control Systems and their adequacy" the company adopted a rigorous system of Internal Control and Risk Management to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and that transactions are authorized, recorded and reported quickly and in addition, the company has a well-structured system of risk assessment and risk reporting.

SECRETARIAL AUDIT REPORT ISSUED BY THE PCS

- The secretarial audit report issued by the practicing company secretary pursuant to section 204(1) of the Companies Act, 2013 and rule No.9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014] would also state that the practicing company secretary has examined the compliance with the applicable clauses of SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015 and would certify that upon review the company has complied with the provisions of the regulations amongst other Act / Rules / Regulations, guidelines issued by the regulators.

BUSINESS RESPONSIBILITY REPORT

- The listed companies are also required to make a disclosure in the Business Responsibility Report (recently this report has been revised to Business Responsibility and Sustainability Report) that all policies as approved by the board of directors can be viewed online on the website of the Company……….website details…………..under the heading 'Investor Information' – 'Policies & Other Disclosures' Section. Further, the companies are also make a declaration the policies have been developed based on the best practices or as per the regulatory requirements and the policies are internally evaluated by the management and the board.

INDEPENDENT AUDITOR REPORT

- The Auditor shall form an opinion about the adequate internal financial controls system with reference to financial statements and such internal financial controls with reference to financial statements operating effectively in his report.

CONCLUSION

- Risk management by an enterprise has to be defined as identification, assessment and economic control of those risks that endanger the assets and earning capacity of the enterprise business. Either risk can be tolerated if it is not severe and its occurrence is sufficiently remote, risk can be eliminated or reduced by changes in the processes or transferring all or part of the risk. Each company's risk management system would differ due to their risks are being different, operations and organizations are unique and the corporate culture followed would be unique for that enterprise.
- The board will have to regularly review the risk register and selects a number of item each year for more detailed review, based on the recommendation of Risk Management Committee. The risks are required to be monitored until they are either wholly mitigated or no longer present a significant risk. We can conclude that, by a well-defined framework of risk management, the management of the company need to control risk and mitigate them wholly or until such time the significant risk no longer exists.

THANKYOU

KNOWLEDGE MANAGEMENT TEAM OF MEHTA & MEHTA

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