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Risk Management Strategies and Processes

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Introduction

Risk is the possibility of losing something of value. Values (such as physical health, social status, emotional well-being, or financial wealth) can be gained or lost when taking risk resulting from a given action or inaction, foreseen or unforeseen (planned or not planned). Risk can also be defined as the intentional interaction with uncertainty.[1]

Definition **: "**risk is an uncertain event or condition that, if it occurs, has an effect on at least one [project] objective. (This definition, using project terminology, is easily made universal by removing references to projects)".[2]

Management (or managing) is the administration of an organization, whether it is a business, a not-for-profit organization, or government body. Management includes the activities of setting the strategy of an organization and coordinating the efforts of its employees (or of volunteers) to accomplish its objectives through the application of available resources, such as financial, natural, technological, and human resources. The term "management" may also refer to those people who manage an organization

Definition : "The organization and coordination of the activities of a business in order to achieve defined objectives. Management is often included as a factor of production along with? machines, materials, and money. According to the management guru Peter Drucker (1909-2005), the basic task of management includes both marketing and innovation. Practice of modern management originates from the 16th century study of low-efficiency and failures of certain enterprises, conducted by the English statesman Sir Thomas More (1478-1535). Management consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization's resources in order to achieve the objectives of that policy.

Risk Management: In the financial world, risk management is the process of identification, analysis and acceptance or mitigation of uncertainty in investment decisions. Essentially, risk management occurs when an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given his investment objectives and risk tolerance.

Risk management is the identification, evaluation, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events[1] or to maximize the realization of opportunities.

Risks can come from various sources including uncertainty in financial markets, threats from project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters, deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. There are two types of events i.e. negative events can be classified as risks while positive events are classified as opportunities. Several risk management standards have been developed including the Project Management Institute, the National Institute of Standards and Technology, actuarial societies, and ISO standards.[5][6] Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety.

The ISO 31000 principles, for example, provide frameworks for risk management process improvements that can be used by companies, regardless of the organization's size or target sector. The ISO 31000 is designed to "increase the likelihood of achieving objectives, improve the identification of opportunities and threats, and effectively allocate and use resources for risk treatment," according to the ISO website. Although ISO 31000 cannot be used for certification purposes, it can help provide guidance for internal or external risk audit, and it allows organizations to compare their risk management practices with the internationally recognized benchmarks.

The ISO recommended the following target areas, or principles, should be part of the overall risk management process:

The process should create value for the organization.

- It should be an integral part of the overall organizational process.
- It should factor into the company's overall decision-making process.
- It must explicitly address any uncertainty.
- It should be systematic and structured.
- It should be based on the best available information.
- It should be tailored to the project.
- It must take into account human factors, including potential errors.
- It should be transparent and all-inclusive.
- It should be adaptable to change.
- It should be continuously monitored and improved upon.

The ISO standards and others like it have been developed worldwide to help organizations systematically implement risk management best practices. The ultimate goal for these standards is to establish common frameworks and processes to effectively implement risk management strategies.

These standards are often recognized by international regulatory bodies, or by target industry groups. They are also regularly supplemented and updated to reflect rapidly changing sources of business risk. Although following these standards is usually voluntary, adherence may be required by industry regulators or through business contracts.

Risk Management Strategies And Processes

All risk management plans follow the same steps that combine to make up the overall risk management process:

1. Risk identification. The company identifies and defines potential risks that may negatively influence a specific company process or project.
2. Risk analysis. Once specific types of risk are identified, the company then determines the odds of it occurring, as well as its consequences. The goal of the analysis is to further understand each specific instance of risk, and how it could influence the company's projects and objectives.
3. Risk assessment and evaluation. The risk is then further evaluated after determining the risk's overall likelihood of occurrence combined with its overall consequence. The company can then make decisions on whether the risk is acceptable and whether the company is willing to take it on based on its risk appetite.
4. Risk mitigation. During this step, companies assess their highest-ranked risks and develop a plan to alleviate them using specific risk controls. These plans include risk mitigation processes, risk prevention tactics and contingency plans in the event the risk comes to fruition.
5. Risk monitoring. Part of the mitigation plan includes following up on both the risks and the overall plan to continuously monitor and track new and existing risks. The overall risk management process should also be reviewed and updated accordingly.
6. Risk management approaches
7. After the company's specific risks are identified and the risk management process has been implemented, there are several different strategies companies can take in regard to different types of risk:
8. Risk avoidance. While the complete elimination of all risk is rarely possible, a risk avoidance strategy is designed to deflect as many threats as possible in order to avoid the costly and disruptive consequences of a damaging event.
9. Risk reduction. Companies are sometimes able to reduce the amount of effect certain risks can have on company processes. This is achieved by adjusting certain aspects of an overall project plan or company process, or by reducing its scope.
10. Risk sharing. Sometimes, the consequences of a risk is shared, or distributed among several of the project's participants or business departments. The risk could also be shared with a third party, such as a vendor or business partner.

11. Risk retaining. Sometimes, companies decide a risk is worth it from a business standpoint, and decide to retain the risk and deal with any potential fallout. Companies will often retain a certain level of risk a project's anticipated profit is greater than the costs of its potential risk.

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An Incremental Urge for Financial Risk Management

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Introduction

The recent technological development s in the financial sector in India has resulted in major increase in the online exchanges and exchanges. Many of the commercial banks being operative in India saw queues of people during the phase of demonetization and with the upcoming era of many new start-ups which are focused on cash less transactions, the banks are again observing a major break through

But with the advancement in the technology based financial transactions along with the increasing rely on it, it is compulsory as well as required to consider the security perspective. This leads to the increasing significance for undertaking risk management for newly start-ups in India.

The concept of risk management refers to the broad examination, expectation and notwithstanding covering of financial risk which leads to minimization of the financial risk faced by the financial institutions being operative in India.

Urge For Risk Management

One of the pronounced risk manager in a leading firm also felt the upcoming urge along with the tremendous gap which exists while organizing sessions on risk management for the newly upcoming start-ups.

"With the developing innovation in new payment portals, there is a accompanied rising risk also. From digital risk, payment gateway risks leads to frauds and fakes, organizations still don't have trust in the genuine requirement for managing the financial risk leading to higher vulnerability among the customers", he said.

He also added that "Comprehensively, significantly more should be possible in this segment. Any organization that has a payment portal faces the danger of misrepresentation internally, from the client's side and also from an external party that is not at all linked with supply chain of the organization. They can totally disturb the framework. Presently, many newly started businesses have started employing people for undertaking the task of risk management,"

The recent developments in the era of the digitalization and technology advancement also represent a huge challenge to numerous organizations' plans of action along with the inherent risk included. The concept of Risk management is basic for an organization in light of the fact that without it, a firm cannot shape or form its objectives for the coming future.

With new companies consistently on an advancement mode in innovation and continually developing business tasks, organizations are confronting with a new source of risk viz. 'technology based risks' as these leads to instability among the computer systems, payment platforms and operations.

A Giant Market

Remembering the expanding utilization of technology, the market for risk management at present is at higher side in India.

The requirement for risk management for new start-ups is more in our nation in comparison to other countries. It's an extraordinary test to discover, approve, and validate the unique answers. A number of organizations are still working in the old manner in spite of being impelled and introduced to the different new advancements. There is an incredible demand for risk management related offerings in our nation as we motivate an assortment of utilization cases to test our answer. In digital security, there exist numerous similar cases and this generates the need and requirement to develop extraordinary answers for these issues.

Role of AI

The concept of Artificial Intelligence assumes a major role in the area of financial risk management. From anticipating tax evasion to confirming validity of a purchaser, Artificial intelligence comes into the frame on account of its capacity to manage loads of information with preeminent precision.

"With the beginning of innovation, today there are a large number of information ports that are accessible everybody on the internet; however the essence lies in gain the correct data from the correct source. Artificial intelligence can help in the profiling of an individual when they apply for a credit. Prior, the check used to be done dependent on a couple of parameters and that too with the accessible data. Presently, there are more than 300-400 parameters for an individual alone that can be practiced through AI. It can give appropriate choice which is quick and economical in contrast with human partners.

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Human Capital Risk Management: Managing People is Laborious Task

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Introduction

Human Resources or human Capital includes all the people that make up an organization work force. Human resources are a valuable asset for the organization. The success of any institution depends how much the people are satisfied by the treatment given by management and in turn what an individual has contributed towards it. The factors responsible for the growth of an organization totally depends upon the working conditions, conducive environment, monetary and non-monetary motivation at all levels being provided to the people at work. On the other hand, human resources are dissatisfied by the treatment given by the organization towards them, the success might be hindered for both parties (i.e., employee & organization).

Human Capital Risk management is all about understanding potential issues that arise from the dissatisfied employees or poorly managed work force and creating ways to minimize those risks. Some of the critical areas of **human capital risk** are as below:

- Dissatisfaction
- Attrition: Is there a high rate of turnover?
- Corruption: (Involving misappropriation or misusing the organizations resources or assets)
- Work place disasters: Not having proper Employee safety measures
- Careless hiring or retention

Process for Human Capital Risk Management

An organization needs to retain their employees for Longer period of time only by managing all the issues well at time without hindering the functioning of the institution. There are certain points or important areas to be looked upon:

- **Planning:** Making sure the right kind of person to be placed at right time at right place and in right numbers. Avoiding the overlapping of work and minimizing the work load.

- **Acquisition:** It means manning the required personnel with right qualifications and skills.
- **Maintenance:** It means after hiring the required personnel, it's important to manage them by retaining them and maintaining the work force. It includes the certain factors:
    - Safety: Managers should ensure a safety regulation laid down by statute.
    - Training: Managers must ensure proper arrangement for gaining the knowledge and learning of different methods, techniques, to keep them updated all the time.
    - Compensation: Ensuring the competitive compensation packages as and when needed for the personal development of the people at work.
    - Evaluation: Proper feedback system should be there for analyzing the performance of employees. It is important for them to know how they are doing.

By adopting the above-mentioned points, the organization can manage the work force effectively and can minimize the risks associated with them.

References

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ABOUT US

The Trinity Institute of Professional Studies (TIPS), Sector-9, Dwarka, an ISO 9001:2008 certified institute, is affiliated to Guru Gobind Singh Indraprastha University. It was founded in 2007 under the aegis of Kamal Educational and Welfare Society (KEWS) with the objective of overcoming the critical demand for skilled professionals in India and abroad by nurturing intellectual capital by adopting best practices in quality education.

TIPS is offering courses / programs across various disciplines, such as Management, Commerce, Information Technology, Journalism & Mass Communication and Law. Today, the Institute has over 1500 students and more than 60 faculty members. The faculty at the Institute has proper experience both from the industry and academics as a result of which it brings the right mix of research and industry experience to education and consultancy offered by the Institute.

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