



Risk Management Programs in Kenya

Presented by:

Madge.C. Salatt
Banking Supervision
Central Bank of Kenya

QUICK BACKGROUND



- To facilitate the implementation a 3 technical sub-committees were created to cover 3 core areas in implementation of RBS. These are
- Process,
- **Risk Management Guidelines**
- Capacity Building.

TERMS OF REFERENCE



RMG Sub-Committee

- Formulate RMG that will help map operations of banks RBS
- Formulate ways of developing risk profiles for individual banks
- Sensitise banks on the RBS approach

ACTION PLAN



- Conduct Risk Management Survey
- Prepare and issue risk management guidelines to all commercial banks
- Review risk management programmes submitted by banks

Results of the survey



- The survey was conducted in September 2004
- The survey revealed that there is a high level of awareness in banking institutions on the importance of employing systematic methods of identifying, analyzing and controlling/ mitigating risks.

Results of the survey



- However there were a number of shortcomings. Accordingly, the CBK requested all banks to submit a document called a Risk Management Program outlining their arrangements for managing risks
- These documents were to be based on the Guidelines produced by the CBK which identified eight risk for banks to manage

Results of the survey



The 8 risks identified were:

- Strategic
- Credit
- Interest rate
- Price
- Foreign Exchange (FX)
- **Liquidity**
- Operational (Legal)
- Regulatory
- Reputational risk (mentioned but not in the list)

RMGs Progress



- Completed RMGs in August 2005, published and issued on 10th November 2005.
- The Guidelines, stipulates minimum requirements for risk management, requires banks to submit risk management programmes (RMPs) within 6 months
- Overall risk mgt should be assigned to a Risk Management Committee or an independent Risk Manager..."

RMGs-Progress



- No single risk mgt system works for all financial institutions. For this reason, CBK required each financial institution to develop its own comprehensive RMP tailored to its needs and circumstances."

RMGs Progress



- " Regardless of the RMPs design, each programme at the minimum should include:
 - Risk identification
 - Risk Measurement
 - Risk Control
 - Risk Monitoring"

RMGs-Highlights



- " The RMP of each financial institution should at least contain the following elements of a sound risk management system:
- Active board and senior management oversight
- Adequate Policies, Procedures and Limits
- Adequate Risk Monitoring and MIS
- Adequate Internal Controls"

WHY REQUIRE RMPs ?

- to emphasize CBK's broader goal of improving risk management of banks, without dictating in which businesses banks should engage and to what extent
- to identify banks whose risk management are quite deficient or inappropriate and to take prompt appropriate actions before risks materialize into losses
- to leverage on existing risk management approaches of well-managed banks
- to make the financial system safer and more stable

REVIEW of RMPs



- An initial review of RMPs submitted- pre screen all submissions using the RMGs as guide (Template)
- Parameters : overall risk management structure, structure for managing each risk category, role of the board & reports submitted to the board, overview of the policies, procedures & limits for each risk, risk models in use, risk monitoring reports & frequency, internal controls & audit

REVIEWING RMPs



- After review responses were send to the financial institutions : accept, return with comments, reject
- For those accepted: We scheduled a walk through presentation by the bank
- For those deficient: issues were raised & set timetable to address same
- For those rejected: ask to resubmit within an extended timeframe

IMF/World Bank Input



- A consultant from IMF/World Bank review
- For two weeks consulting with the team on the way forward
- Presentations/ Discussions- revised RMPS may be necessary in light of the reviews
- Most of the banks will need to resubmit their RMPs given the range of deficiencies

WAY FORWARD. . .



- Reinforce the risk management partnership between bankers and supervisors
- Risk Management is a fast evolving discipline, keep abreast !
- Familiarize with risk modeling tools

RISK MANAGEMENT PROGRAM



Questions and Answers?

THE END