

THE **RISK**MANAGER

VOL 1 NO. 1 AUGUST 2020 EDITION NOT FOR SALE

DIGITAL ISATION

The next phase
of Risk Management





Vision

To be the premier body in developing and sustaining best practices and high competencies in the management of risks in Financial and non-financial industries.



Mission

To facilitate the creation & creation & sustenance of credible risk management practices; through proactive advocacy, capacity building, knowledge sharing, promotion of high professional standards and corporate governance.

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1. In publishing The Risk Manager magazine, scholarly research articles in risk management and related subjects are expected from Industry Practitioners, Subject-matter-experts, Academics, Analysts, Researchers, etc.
2. Articles should be written in 11-point Arial Font, whether in normal, bold, or italic and should be typed double spaced on A4 size paper, not exceeding 20 pages, including references.
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e.g. 'This article was originally presented at a seminar on organized by.....on.....

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All correspondence should be addressed to:

The Editor, The Risk Manager Magazine
Risk Management Association of Nigeria (RIMAN)
15, Blessing Kayode Estate, Kayode Animashaun Street, Admiralty Way, Lekki Phase 1, Lagos.
Tel: 01- 4549418, 08033108746. Website: www.rimanng.org. E-mail: info@rimanng.org



Contents

·ARTIFICIAL INTELLIGENCE – WHY IT MATTERS

-By Austin Okere

Founder, Computer Warehouse Ltd



**·DEEPENING CAPITAL MARKET ACTIVITIES THROUGH
TECHNOLOGICAL INNOVATION:
REGULATORY PERSPECTIVE**

-By Ms. Mary Uduk

Ag. Director General,
Securities & Exchange Commission, Nigeria



**·THE FOURTH INDUSTRIAL REVOLUTION -
UNDERSTANDING THE TECHNOLOGIES
DRIVING THE REVOLUTION**

-By Funmi Adewole

MD, Grandelle Professional Services



**·INTERVIEW – DIGITALISATION: THE NEXT PHASE
IN RISK MANAGEMENT**

-By Mrs. Osaretin Demuren

Chairman, GTBank Plc



·UNDERSTANDING THE BASICS OF RISK MANAGEMENT

-Adebowale Seidu FCA, CRISC, MIoD

Risk Management Consultant



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Artificial Intelligence

WHY IT MATTERS

- Austin Okere, Founder Computer Warehouse Group

Win at the turns of history

- Innovation disrupts industries in a quantum magnitude that creates new opportunities
- Anticipate such shifts
- Take full advantage to win at the turns
- Redefine the course of your industry

New ideas...

- Ideas become obsolete
- Innovation is crucial
- Music on the move
- Handsfree
- Innovation in action

Fast Fish Eats Slow Fish

UBERBlack & Yellow Cabs

AirbnbHotels

Apple iTunesMusic Distributors

Mobile OperatorsTelecom Utilities

DellEMC

AmazonWaterstones/ B&N

GoogleEncarta/ Encyclopaedia

Streaming videosTelevision

MOOCs Ivory Tower

What is AI?

Artificial intelligence - Wikipedia

Artificial intelligence is intelligence exhibited by machines, rather than humans or other animals

AI is tech's hottest investment area right now, with VCs ploughing \$5 billion into start-ups through 2016

Artificial Intelligence & Augmentation

- Organizations are investing in AI research and applications to automate, augment, or replicate human intelligence
- We must be prepared to fully participate in organizational AI



initiatives.

- Human expertise develops technologies to make machines smart, and smart machines, in turn, augment human capabilities.

MAX TEGMARK: LIFE 3.0 BEING HUMAN IN THE AGE OF AI

- We can amplify our own intelligence with AI,
- This type of life can “become the master of its own destiny
- It's about winning the race between the growing power of the technology and the growing wisdom to manage it.

Deep Mind, the AI firm acquired by Google for £400 million in 2014 beat the world's best Go player with an algorithm

SwiftKey acquired by Microsoft for \$250m in 2016 is a predictive keyboard for mobile which uses AI to work out what a person might type next.

Boston Dynamics rediscovers the wheels



- AI will become a political talking point.
- Logistics will become increasingly efficient
- Mainstream auto manufacturers will launch self-driving cars.
- DARPA will develop advanced robo-warriors in plain sight.
- Machine learning will aid knowledge workers

Watch Robots somersault



10 AI Trends to Watch in 2018

- Peer-to-peer networks will create transparency
- Consumers will become accustomed to talking with technology
- Demand for data scientists will surpass demand for engineers
- AI will fight challenging diseases

The Future of Security: China to Prevent Crime Using AI Predictive Analytics



Bloomberg

How AI Will Invade Every Corner of Wall Street

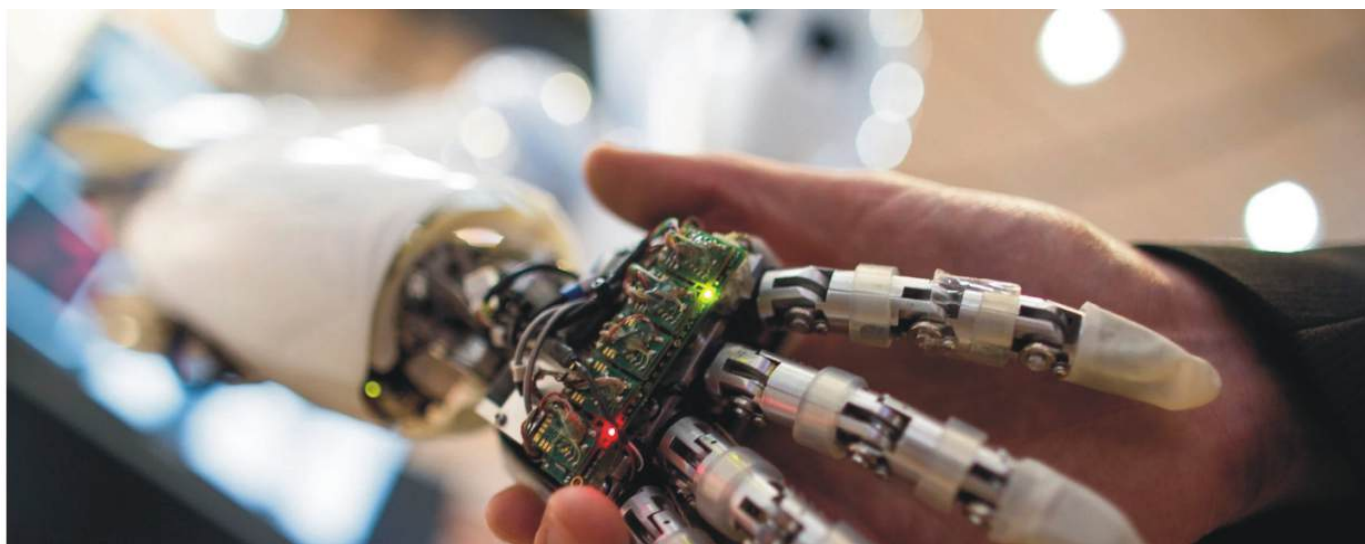
- Machine learning with its prowess in producing insights from data, is poised to have a hand in 99 percent of investing, CO says.



A. I. and Big Data Could Power a New War on Poverty

By Elizabeth A. Mason

Jan. 11 2018



Applications

Medical Automaton

John Chen of Rice University has his heart and heart respiratory rates measured by a prototype robot. Aids elderly and caregivers



Agriculture Automaton

John Deere is buying AI start-up Blue River for technology that help crop sprayers identify weeds and blast them with pesticide, and plants with fertilizer.



Agriculture Automation

- Save “up to 90 percent” of the volume of chemicals being sprayed
- Reduce the amount of pesticides that end up in the food chain reduce labour costs
- It takes a very long time to teach the system the difference between weed and plants
- Blue River Technology purchased at \$305m is bridging the gap between traditional agriculture and the fully automated

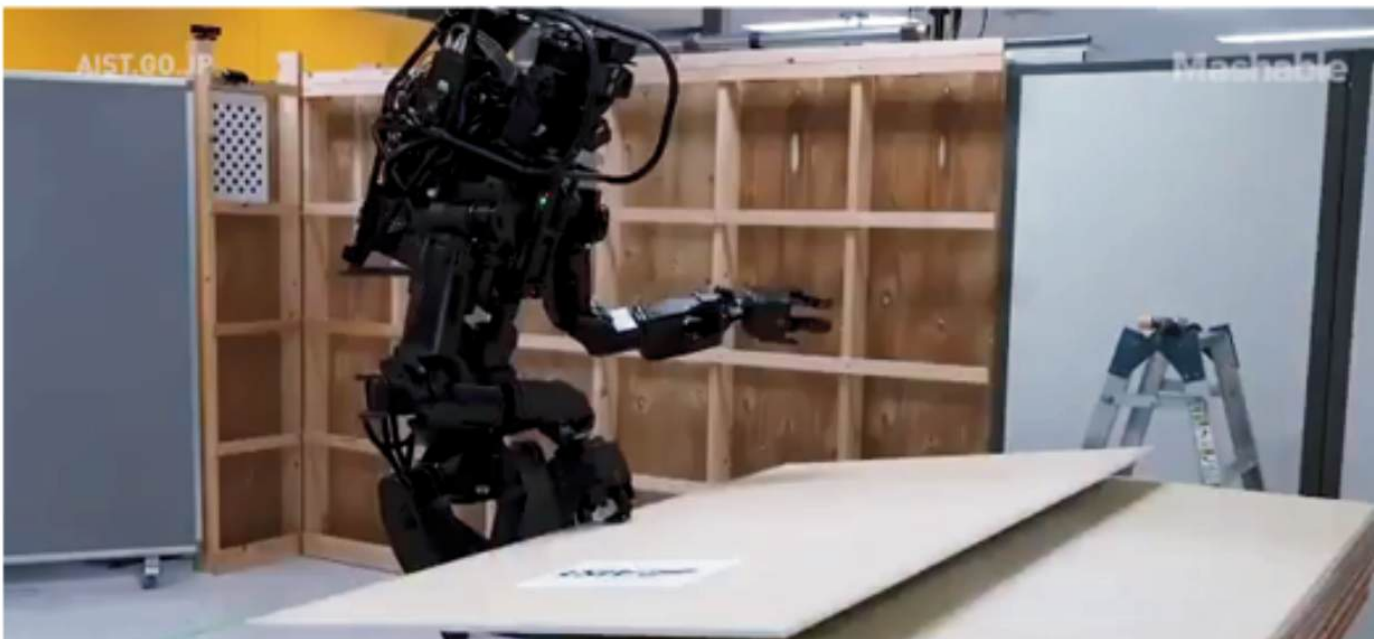
farm of future

- The difference today is that the innovation is digital, not chemical.

AI typical use areas

- Loss modelling
- Credit analysis
- Valuations
- Transaction processing
- A host of others.

Artisans jobs too



AI Applications in new areas

- Automobile manufacturers - develop self-driving vehicles.
- Online search engines - deliver targeted search results.
- Social media organizations - recognize faces in photographs and filter newsfeeds.
- Media companies - recommend books or shows to subscribers.
- Retailers - create customized online experiences for shoppers.
- Logistics companies - route optimal paths for deliveries.
- Governments - predict epidemics.
- Marketing professionals - deliver hyper-personalized content to customers in real time.
- Virtual assistants - use voice-controlled natural language to interface with consumers.

Arend Hintze's four types of AI

- Reactive machines: respond to the same situation in exactly the same way, every time
- Limited memory: AI machines can look to the past, but the memories are not saved
- Theory of mind: refers to the idea that a machine could recognize that others it interacts with have thoughts, feelings, and expectations
- Self-awareness: A machine embedded with Type IV AI would be self-aware, know about its internal states, and be able to predict the feelings of others



AI opportunities

- The ability to compress the data processing cycle
The ability to reduce errors by replacing human actions with perfectly repeatable machine actions
- The ability to replace time-intensive activities with time-efficient activities (process automation), reducing labor time and costs.
The ability to have robots or drones replace humans in potentially dangerous situations.
- The ability to make better predictions, for everything from predicting sales of certain goods in particular markets to predicting epidemics and natural catastrophes.
- The ability to drive revenue and grow market share through AI initiatives.

AI risks

- The risk that unidentified human biases will be imbedded in the AI technology.
- The risk that human logic errors will be embedded in the AI technology.
- The risk that inadequate testing and oversight of AI results in ethically questionable results.
- The risk that AI products and services will cause harm, resulting in financial and/or reputational damage.
- The risks that customers or other stakeholders will not accept or adopt the organization's AI initiatives.
- The risk that the organization will be left behind by competitors if it does not invest in AI

development, and talent acquisition) will not yield an acceptable ROI

AI: The good, the bad & the ugly

- Artificial intelligence of all kinds is becoming ubiquitous, but its explosive growth comes with big challenges
- Will humans have the wisdom to manage artificial intelligence effectively?
- Recently, Elon Musk and 116 founders of robotics and AI companies signed a letter to the UN seeking ways to limit weapons control by autonomous robots.
- Can humans design a safe future living alongside artificial intelligence?





Deepening Capital Market Activities Through Technological Innovation: Regulatory Perspective

By Ms. Mary UDUK
Ag. Director General
Securities & Exchange Commission, Nigeria

Capital markets are effective catalysts for economic development, providing needed capital for growth and development of countries and societies.

The SEC and capital market have contributed their quota in developing our financial system...

- Investor protection
- Introduction of new products, exchanges market infrastructure, etc.
- Banking sector consolidation
- Providing an exit route for private equity

With the introduction of new financial technologies, capital markets around the world are transcending into a new dimension where automation and self-service is the norm rather than the exception.

We are concerned about RISK...

However, if we intend to compete with other growing economies on the continent, and indeed the world, we must gear up to make our markets more attractive to capital.

We are making efforts to adapt to, and facilitate, technological innovation:

Created a Market-wide FinTech Road-map Committee.

We have an in-house FinTech Work Group.

Created a new division – Market Infrastructure Division – the innovation office of the Commission.

Introduced a regulatory sandbox.

...And we collaborate with other players in the financial sector – the Interagency Committee on Virtual Currency.

Challenges

■ Skill gaps & inadequate capacity

Each of these new products is unique and must be treated as such.

Regulators must be knowledgeable to be able to provide adequate regulation and protect investors.

■ Cost

The cost of technology acquisition is high; maintenance and implementation are difficult. To regulate the platforms, regulators must be at par, and sometimes even higher, in terms of technology deployment.

Review of the ISA and development of rules and guidelines

■ Amendment of the ISA was not completed by the 8th National Assembly

■ Development of standard rules and guidelines is difficult because the products and platforms have unique features.



Conclusion

The SEC supports technological innovation in the Nigerian Capital Market, for many reasons:

- new opportunities it presents
- more efficiency to investors, operators, and the regulator.

We must make the markets safe for investors, and ensure their confidence in our market grows, and never wanes.

The future is where technology would overtake the conventional processes. There is, therefore, the need to introduce these new ways of doing things into school curricula to prepare our young ones to fit into a technology-driven future.

It is evident that the tide is turning in the financial world and, as a young nation, we can rise with the tide and improve the quality of our financial services.

The SEC is firmly on board and we will do our best to deliver on our mandate.





CERTIFIED RISK MANAGER (CRM) PROFESSIONAL EXAMINATION

You are invited to register for the Certified Risk Manager (CRM) Professional Examinations

This pioneer Industry Recognized Professional Examination in Risk Management is jointly run by two foremost professional bodies in Nigeria: Risk Management Association of Nigeria (RIMAN) and The Chartered Institute of Bankers of Nigeria (CIBN). The examination is designed to benchmark global Risk Management standards whilst taking into cognisance a Nigeria content that will fully make participants well rounded professionals.

The programme has produced the fifth set of Certified Risk Managers (CRMs) in Nigeria.

CRM Professional Examination is organized twice in a year (April and October).

Benefits of CRM Certification

Skill enhancement leads to career progression. In today's increasingly complex and inter connected business climate, it is very important to keep up to date with relevant business-critical skills and certifications in several areas.

- » Certifications will help you to cope better with the pressures of your role in your current job.
- » Certification provides you with a credible accomplishment that may be listed on your CV.
- » Certification assures organizations that their staff have a common set of knowledge and terminology.
- » CRM certification can enhance the competitive edge of CROs, Risk Managers, and other ancillary risk functions.
- » CRM certified professional can speak the same language as other risk professionals worldwide and will be able to network with a more elite group of professionals across a variety of disciplines.
- » By completing certification in CRM, professionals gain a systematic and professionally valued approach to best practice methodology.
- » Certification provides a platform for continuing professional education for risk professionals.

Membership Registration Conditions Apply

For further inquiries, Please contact:
Risk Management Association of Nigeria,
House 15, Blessing Kayode Estate,
Kayode Animashaun Street (Road 15),
Off Admiralty Way,
Lekki Phase 1, Lagos.
Tel: 01 4549418, 08033108746,
08055633697,
crminfo@rimanng.org, info@rimanng.org

www.rimanng.org

The Chartered Institute of Bankers of Nigeria
Plot 19, Adeola Hopewell Street,
Victoria Island, Lagos-Nigeria.
Contact Number: 09091625910

www.cibng.org



The Fourth Industrial Revolution - Understanding the Technologies Driving the Revolution

Content

The Fourth Industrial Revolution ■

The Technologies Driving the Fourth Industrial Revolution ■

What Must We Do to Prepare for the Future? ■

Introduction

The world is changing at an astronomical pace. From politics, to economy, to technology, global developments are changing established realities.

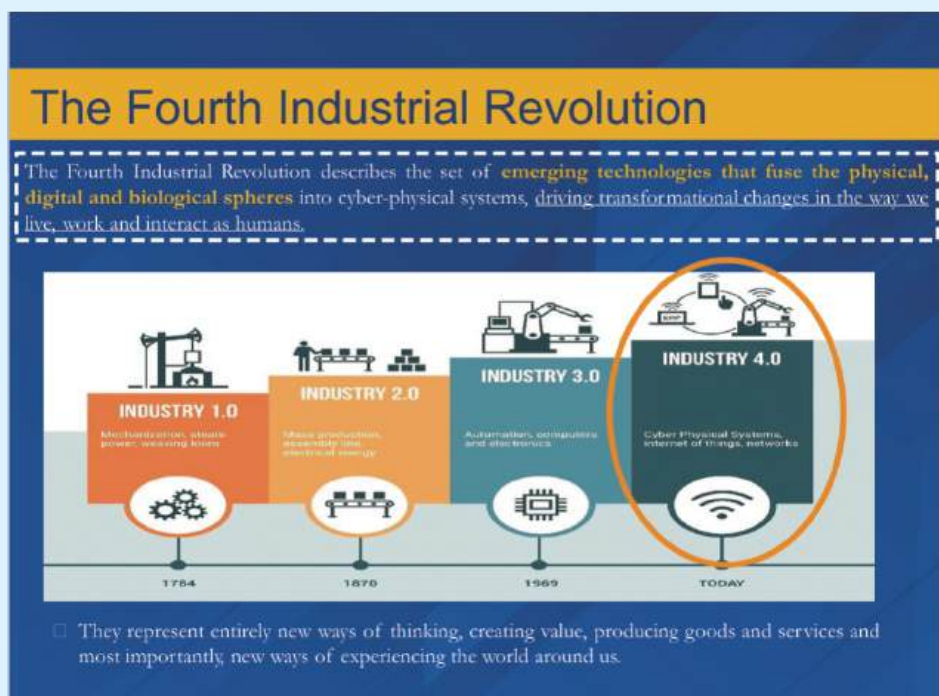
Emerging technologies are not just providing incremental advances on today's digital technologies, they are disruptive in nature and are quietly creating tectonic shift in the way we live, interact, work and play.

It is globally believed that the combinatory power of these technologies is leading towards a higher-level industrial revolution (4th Industrial Revolution) and this will pose new opportunities and threats to life as we know it.

As the world races towards the fourth industrial revolution, the real winners will be individuals and institutions who understand the emerging technologies and can leverage them to be future-ready.

The Fourth Industrial Revolution

The Fourth Industrial Revolution describes the set of emerging technologies that fuse the physical, digital and biological spheres into cyber-physical systems, driving transformational changes in the way we live, work and interact as humans.



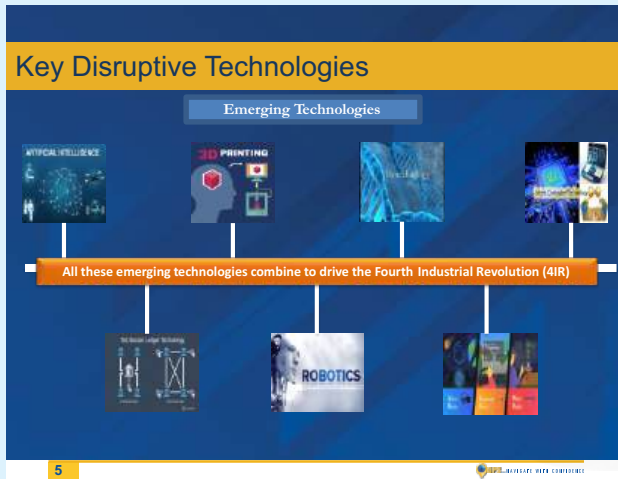
They represent entirely new ways of thinking, creating value, producing goods and services and most importantly, new ways of experiencing the world around us.



The 'Fourth IR' Equals the 'Big Bang'

The Fourth Industrial Revolution will be the most disruptive industrial era in the history of the world due to the combined impact of four key disruptions to life as we know it now

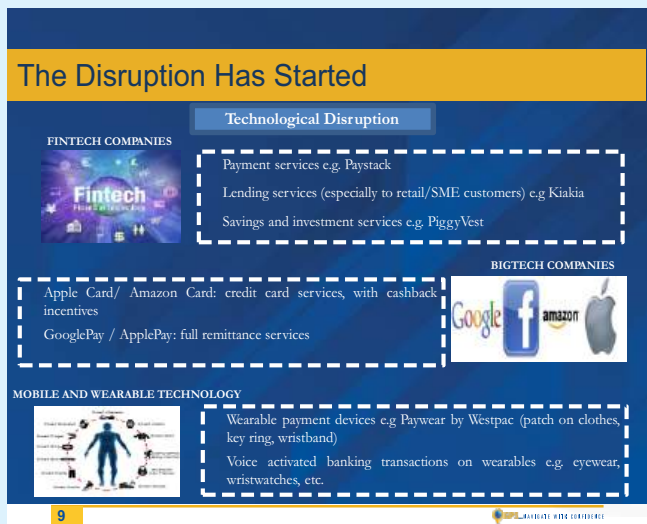
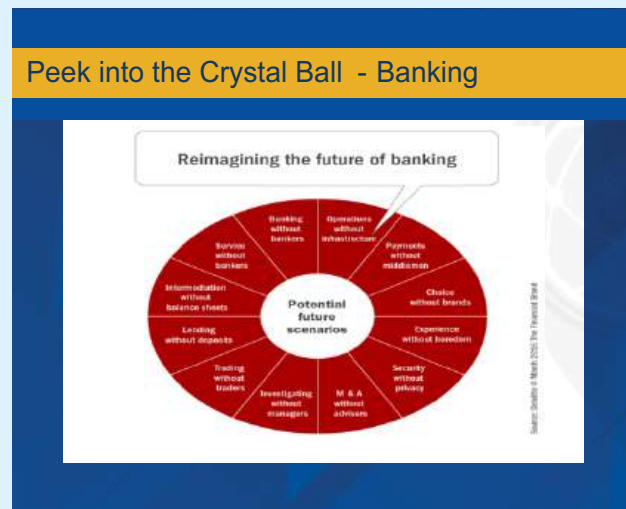
- Extending Digital Frontiers
- Changing the Physical World
- Altering the Human Being
- Integrating the Environment



Implication of 'Fourth IR'



Peek into the Crystal Ball Banking



What Must We Do Now?

Transformation is the Key to Survival

- The scope of reinvention must cover the
- Business structure
- Business models
- Interpretation of customers' needs and wants
- Products and services that banks render.

What Must We Do Now? cont'd

Product Innovation Process Innovation ■

Risk Management Innovation ■

Business Model Innovation ■

■

■



The Road to Transformation

The key challenge for individuals and organizations in this Fourth Industrial Revolution era is to:

Understand the disruptive technologies and their impact;

Leverage the technologies to create new products, new platforms and new partnerships;

Develop and sustain a culture of innovation, creativity and relevant products and service

Understand the Technologies | Leverage the Technologies | Sustain the Culture of Innovation

Understand the Technologies

Understand the technologies to make appropriate decisions about:

- Investment
- Adoption
- Design of products/services

- Minimum viable appreciation of the technologies is required of Executives.
- 'Zoom in' and 'zoom out' strategy.
- Connect the dots.
- Capacity Development.
- Articulate specific skillsets required to understand and leverage new and emerging technologies.
- Learning and Development Programme to include clear pathways for training staff to develop specific technological competences.
- Recruitment of tech-savvy candidates with tech-specific skillsets.

Leverage the Technologies

- Reimagine what your industry will become in the 4IR age;
- Focus on a particular technology or a combination of technologies;
- Leverage available customers data and behavioral insights;
- Adopt and explore emerging technologies in developing radically new products and services;
- Implement fit-for-purpose risk management framework, processes and systems;
- Implement Corporate Feedback System to share lessons learnt and experiences;
- Creation of platforms to bring tech innovators together to share ideas, learn and collaborate.



Sustain the Culture of Innovation

- Culture is critical to surviving change.
- Create a culture of questioning and challenging, with the aim of seeking creatively new and better ways of doing things.
- Focus on building a culture of innovation, self-disruption and technological leadership.
- Develop a sound risk culture that empowers staff to understand and manage the emerging risks of the 4IR.

Conclusion

The best way to predict the future is to invent it.

– Abraham Lincoln

photos



Expert Interview

By Mrs. Osaretin Demuren
Chairman, GTBank Plc

1. What apparent gaps have been laid bare by the sudden emergence of COVID-19?

COVID-19 emergence has exposed weaknesses in organizations business continuity plans as it relates to human resources, operational tasks, and technology evolution. It has brought to the fore, the huge infrastructural gaps, especially when it comes to working remotely from outside the office and the fact that digitization of processes are inadequate. It has accentuated the need for end to end automation of processes.

2. We have learnt that we may have to live with the virus as with other illnesses, should this quicken the digitization of our processes as part of operations protocol?

Yes it should. Whilst digitization may have been achieved for some processes, quite a large number of operations/activities still involve significant paper based and fragmented processing. There is need to develop digital products / processes and effectively migrate customers to digital channels. Furthermore, processes must be reviewed to reduce human contacts and to better handle health and safety issues.

3. In the quest for digitization what are the risk management processes needed to address the immediate systematic upgrades or human capital?

Digitization comes with a host of new risks. Chief among which will include cyber security risks and systems vulnerabilities, process complexities/opaqueness and redundancies (including assets and humans). Hence, there is a need to identify these novel risks, measure and analyze their impact, effectively communicate to all stakeholders and put adequate mitigating measures in place. This may involve some significant investments in



new infrastructures, creating new platforms and collaborations, and retraining/retooling the human capital to ward off the heightened risks.

4. COVID-19 has brought about an increased concentration of digitization in banking, however the country still has a low penetration in term of financial inclusion. How can banks increase its penetration in rural areas that have a less digital savvy population?

Adoption of financial services digitization is quite slow even among urban dweller and existing banking customers. This is partly due to knowledge gap, but also due to incidences of e-frauds which is causing fear and apathy. For the financially excluded customers,



especially in the rural areas digital adoption will be a more daunting task.

Banks need to leverage on existing shared agent network - SANE agents across the country in order to continue to enhance the reach. To improve the digitization adoption at the rural level, creating awareness among the dwellers is the key. This can be achieved by simplifying transaction processes, communicating the processes in their local dialects through Jingles, advertisements, folklore stories or songs (aligned with the digitization approach). Banks can also adopt a brand ambassador approach in rural areas and assign the responsibility to that person to further create awareness (train the trainer type concept).

5. What is the future of jobs in what appears as the new normal?

Suddenly, employers are faced with the reality that they may not need the size of their current workforce to run optimally. There is now an urgent need to cut down on overheads. The need for self-service to enhance health and safety has immediately rendered some jobs unnecessary. Enhanced digitization may mean less need for human capital. Hence, I expect reduction in workforce. There will however be a surge in demand for specialized skills in the areas of technology, information security, process reengineering, digital product development, risk management and compliance. I also foresee a situation where certain skilled persons may work for various organizations on a need basis as against being in a specific organization's payroll.

6. The effect of COVID-19 has caused a decline in most banks' earnings, while banks with high digital footprints are doing well. Would banks who have not done well in digital banking be able to catch up with its competitors and what are the foreseen risks for those smaller banks?

There is obviously a big gap between banks with high digital footprints and those that do not have. One reason for the current decline in earnings of banks is the decline in economic activities, caused by the COVID-19 disruptions to the supply chains and distribution channels. I believe there is "flight to safety" to big banks creating wider gap in the earning capacity of the big and smaller banks.

Would banks that have not done well in digital banking be able to catch up with its competitors? Probably not, especially where the big banks with high digital footprints have the right mix of product and service offerings required by customers; and there is assurance that the customers' current and future needs can be met.

Since digitization is a continuous journey and the competitive landscape is ever evolving, if the smaller banks engage in a rapid digitization drive, prioritize their efforts and positively exploit their advantage of nimbleness, they may stand a chance. This, though, requires huge investments which the smaller banks may not have. If this is the case, the smaller bank may face a going concern risk.

7. Can you give us your assessment on the measures being taken by the CBN in reacting to the economic impact of COVID-19?

The measures being taken by CBN through the intervention funds and credit support programs, forbearance for COVID-19 affected sectors, reduction of interest rates and other palliatives are in order. These initiatives must be carefully and meticulously implemented to achieve desired results. The lag between policy pronouncement and implementation can be improved upon.

8. Would you say the Nigerian financial industry has been able to achieve a suitable level of professionalism in



lending considering the current NPL levels and the recent drive to increase lending?

In my opinion, Professionalism in the Nigerian financial industry has improved over the years with increased supervision by the regulators. There is however a suppressed new NPL bubble building up in the industry, due to the frailties of the economy. The drive to increase lending as presently being pursued will only further worsen the future expected losses. The belief is that big banks will use their capacity to attract good risks offering low interest rates; while the smaller banks also striving to increase lending may be faced with increased credit risks.

9. A school of thought believes the CRR and the LDR levels do not add up for a sustainable banking sector, would you say they are right especially now that stability in the banking sector is of upmost importance?

The school of thought is right to a large extent. Even though both CRR and LDR are laudable monetary policy instruments, the manner in which they are being used leaves much to be desired. Attempting to achieve high CRR and LDR levels at the same time seems contradictory and will at current levels impinge on the stability of the banking sector. In one breadth banks' liquidity is drastically stifled, while in another the same banks are "compelled" to increase lending. To remain profitable, banks may try to avoid the CRR penalties by granting credits without properly looking at the fundamentals of those credits. The major risk here is that lending decisions may be shrouded by LDR concerns and this may lead to future increase in NPL levels.

10. Covid-19 has been an eye opener to shortages in the system, in your opinion, what are the gaps in the financial sector?

In my view the gaps in the financial sector include: (i) heavy reliance on manual fragmented processing for consummating transactions. (ii) No central repository

for organization resources. (iii) Inadequate infrastructure to support working from remote locations (working from home). (iv) Logistic inadequacies to service the customers (hence their need to come physically to the banks). (v) Industry platforms (e.g. GSI and CRMS) and database (e.g. BVN) are not optimal. (vi) Products and services gaps (including the ability to open accounts remotely in a seamless manner, non- acceptance of e-signatures on documents, non-availability of e services where customers desire to make changes on their accounts).

11. What technological gap do you foresee in the risk management of the Nigerian financial industry?

Risk management in Nigerian financial industry to a large extent is driven by semi-automated or manual processes. Therefore, often times, risk management in the financial industry is not aligned with business decisions, long term and even short-term goals and strategies. This is caused by: (a) the fact that available tools often cannot be customized to the local environment and risks. (b) Inadequate risk analytics infrastructure. (c) Non-availability of right data to enhance the quality of decision making. (d) Poor infrastructure for managing Cyber Risk as well as digital platform.

12. How do you think the policy makers and economic planners should position the economy of the Nigeria Nation to minimize the impacts of COVID-19 on the about 120million population? What policy changes need to be made and what additional measures do they need to put in place?

The policy makers and economic planners should consciously reduce cost of governance and improve transparency. They should continue to channel palliatives to enhance recovery of badly hit sectors through tax incentives and other regulatory support. Resources should also be channeled towards fighting the scourge of COVID-19, by providing the necessary support for the health sector.



13. In the road to economic recovery, Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries like ours, what do you think the SMEs in Nigeria must do to attract fund and investors in the remaining half of 2020 for full recovery and sustainability. Is there any short term or long-term plans by the Government and/or Financial Institutions to help business owners recover from the effects of the COVID-19 pandemic faster and start on a healthy living?

SMEs need to consciously manage their cost, to protect their margins. To do this, they must as much as possible find ways to source their inputs locally and depend less on FX, which will be very volatile in the short run. SMEs must also endeavor to discover new markets, particularly in areas less financially impacted by COVID-19 pandemic like, distribution, healthcare, food, agriculture etc. They should strive to be agile in their operation. Good business models with the potential to survive during and post COVID-19 will continue to attract investors and funding.

SME operators need to be aware of the bouquet of palliatives measures that CBN / Government have put in place in-order to help them. Financial institutions can

help in the areas of debt restructuring and reduction in interest rate. Government can help by providing tax waivers, (which could be tied to import substitution initiatives / ability to keep workforce), reducing import tariffs for select critical raw materials. Government should provide low cost funds to specific sectors like agriculture, health, and food industry. It should also promote infrastructure and technology required by these sectors to be home developed.

14. Going forward what would be your best advice to risk managers in all spheres of business?

Going forward, risk managers should endeavor to be an integral part of every major business decision from the inception and not at the end or after implementation. Continuous capacity building / personal development of risk managers is paramount especially in the area of digitization of processes. Strengthen information technology infrastructure / governance. Remain vigilant and abreast of changes in the environment with keen interest in emerging risks as the impact of COVID-19 unfolds.



Understanding the Basics of Risk Management

ADEBOWALE SEIDU
FCA, CRISC, MIoD
Risk Management Consultant

Introduction

Risk is inevitable in any organization. Many organizations need to put in place various risk management structures including framework, policies, procedures, processes and systems in order to function effectively and efficiently. As a matter of importance, an organization is required to develop and implement a risk management plan or framework that will ensure that key risks are effectively identified and responded to in a manner that is appropriate to the nature of the risks face by the organization, the ability to accept and/or manage risk, the resources available to manage risks within the organization and organization's culture. A risk management framework is a set of components that provide the foundations and organizational arrangement for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization. This document therefore highlights the essentials of risk management that will provide thorough understanding to assist business owners and manager to manage risk in businesses.

What is Risk?

Risk is defined as “the possibility that an event will occur and adversely affect the achievement of organizations' objectives” (COSO 2004). It is often express in terms of a combination of the consequences of an event, associated likelihood of occurrence and the magnitude of impact. Risk can also be defined as the “effect of uncertainty on objectives”... it is the “combination of the probabilities of an event and its consequences” (ISO/IEC Guide 73). In other word, the term risk simply refers to a situation where it is not certain when, where and how a loss or misfortune may occur.

Risk Likelihood: It is the probability that a risk can occur. The factors that should be taken into account in the determination of likelihood are: the

source of the threat, capability of the source, the nature of vulnerability; and existence and effectiveness of current controls... ...Likelihood can be described as almost certain, likely, possible, unlikely and rare.

Risk Impact: It is the potential effect that a risk could have on the organization if it arises. It is worth mentioning that not all threats will have the same impact as each system in the organization is worth differently. The magnitude of impact also can be categorized as catastrophic, major, moderate, minor and insignificant.

ypes of Risk found in today's Organization

- **Business Risk:** It is simply the risk experience at all level of a business which naturally has the tendency to deter the organization from achieving its objectives.
- **Operational Risk:** This is the risk of loss resulting from inadequate or failed internal process, people and systems, or external events. It refers to the risks that usually arise as a result of the day to day activities of the business. Examples are technology, people/intellectual capital, political/regulatory.
- **Financial Risk:** refers to the risk arising from the financial activities of the business. This type of risk usually affects the going concern of the business. Examples are interest rate, investment, credit, liquidity, asset market value.
- **Strategic Risk:** This is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed



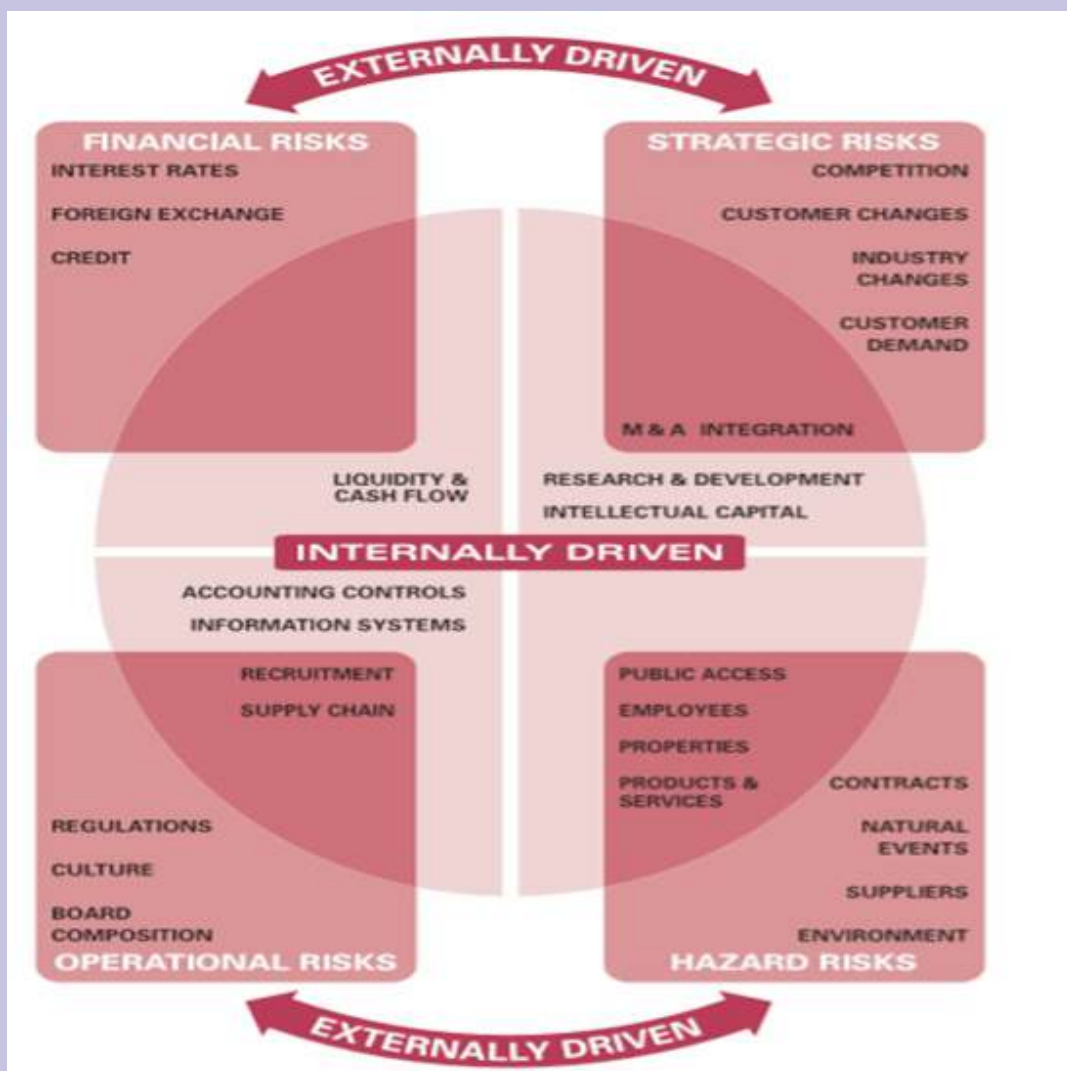
to achieve those goals, the resources deployed against these goals and the quality of implementation.

- **Hazard Risk:** These are conditions that increase the probability of loss, for example: poor housekeeping in factory and inadequate lighting in a crime-prone areas (IRMI.Com).
- **Legal / Compliance Risk:** Usually arises as a result of non-compliance with relevant laws and regulation surrounding the business.
- **Fundamental Risk:** These are the kind of risk that affect the society in general and are beyond the control of any individual. Examples are earthquake and flood.
- **Pure Risk:** This is the type of risk that gives birth to a loss or loss situation in general. i.e., their

possible outcome is harmful. Examples of pure risk event include premature death, identity theft and career ending disability.

· **Speculative Risk:** This is the type of risk that may give rise to a loss or gain or break even. The probability that a particular threat or opportunity may arise from an action of any business is usually at par with each other. It is a risk that when undertaken result in an uncertain degree of gain or loss.

· **Particular Risk:** These are risks which an individual may have some measure of control. It is an exposure to loss from a situation associated with specific individual event. Examples are break-in, fire or robbery. These are usually insurable.



Why risk management?

Organizations operate in a very dynamic setting, and the future of these entities remains uncertain to a large extent, allowing for chance to play a part in the results that are achieved by the businesses. Using banking and some other financial institutions as our example, risk management has historically focused on credit risk. However, recent dramatic failures in this sector have shown that managers in financial institutions need to pay equal, if not greater, attention to market, operational, strategic, legal and compliance risks, if they are to safeguard against potential catastrophes and if they are to continue to be able to work in the industry themselves. It is increasingly apparent that; value-at-risk, risk scenario analysis and risk adjusted performance measures on which managers now rely in much of the financial industry, are potentially misleading if they ignore other types of business risks. A number of situations have happened in the recent past which brings to light the lack of foresight and pro-activity on the part of the organization in managing risk. Risk management is the process of evaluating risks faced by firms or an individual and how the cost

involved are minimized with those risks. It is a set of principles and process that help minimize the negative impacts of risks and maximize the positive impacts.

While defining risk management as the culture, processes and structures that are directed toward the effective management of potential opportunities and adverse effects; it is the process of reducing potential loss to an acceptable level and at the same time maximizing returns from opportunities.

Figure 2: Risk Management Process



Elements of risk management process are:

- Identify risks: identify where, when, why and how events could prevent, degrade, delay or enhance the achievement of organizational objectives
- Analyse risks: identify and evaluate existing controls. Determine consequences and likelihood and hence the level of risk.
- Evaluate risk: that is, compare estimated level of risk against the pre-established criteria and consider the balance between potential benefits and adverse outcomes.
- Treat risks: develop and implement specific cost-effective strategies and action plans for increasing potential benefits and reducing potential costs.
- Monitor and review: monitor the effectiveness of all steps of the risk management process.
- Communicate and consult: with internal and

external stakeholders as appropriate at each stage of the risk management process.

- Establish the context: establish the external, internal and risk management context in which the rest of the process will take place.

Roles of a Risk Manager

According to IRM (2019), risk management has changed a lot in the past decade. The business landscape is more complex – change cycles are shorter and digital disruption and emerging risk will increasingly and continuously challenge organisations. Therefore, all organisations need someone accountable at the top with primary responsibility to assist the organisation manage risk, whether this is called CRO or something different.



The role of a risk manager is a key role in an organization and has to be managed by an effective professional for the organization to grow successfully. These are not limited to the following:

- Ø Providing overall leadership, vision and direction involving the establishment of risk management systems.
- Ø Developing and promoting risk management competences systems, culture procedures, protocols and patterns of behavior.
- Ø Reporting on risk management to the management and risk committee as appropriate.
- Ø Ensuring compliance with relevant codes, regulations and statutes.
- Ø Ensuring that the organization's risk exposure comply with the level established by policy guidelines.
- Ø Managed any significant areas of risk and the officer who is responsible for keeping exposure within tolerable limits,
- Ø Ensure that the company has insurance coverage appropriate for the risk it undertakes, etc.

Recommendation/Conclusion

F To develop a sustainable risk management framework, organizations are required to have a full support from board, executive management and all employees. There must be a process for identifying committed risk champion in all units and departments that are available to ensure adequate and effective risk systems, and to carry out regular risk awareness training in the organization. Such organization must have staff capacity and competency, adequate working tools and process efficiency.

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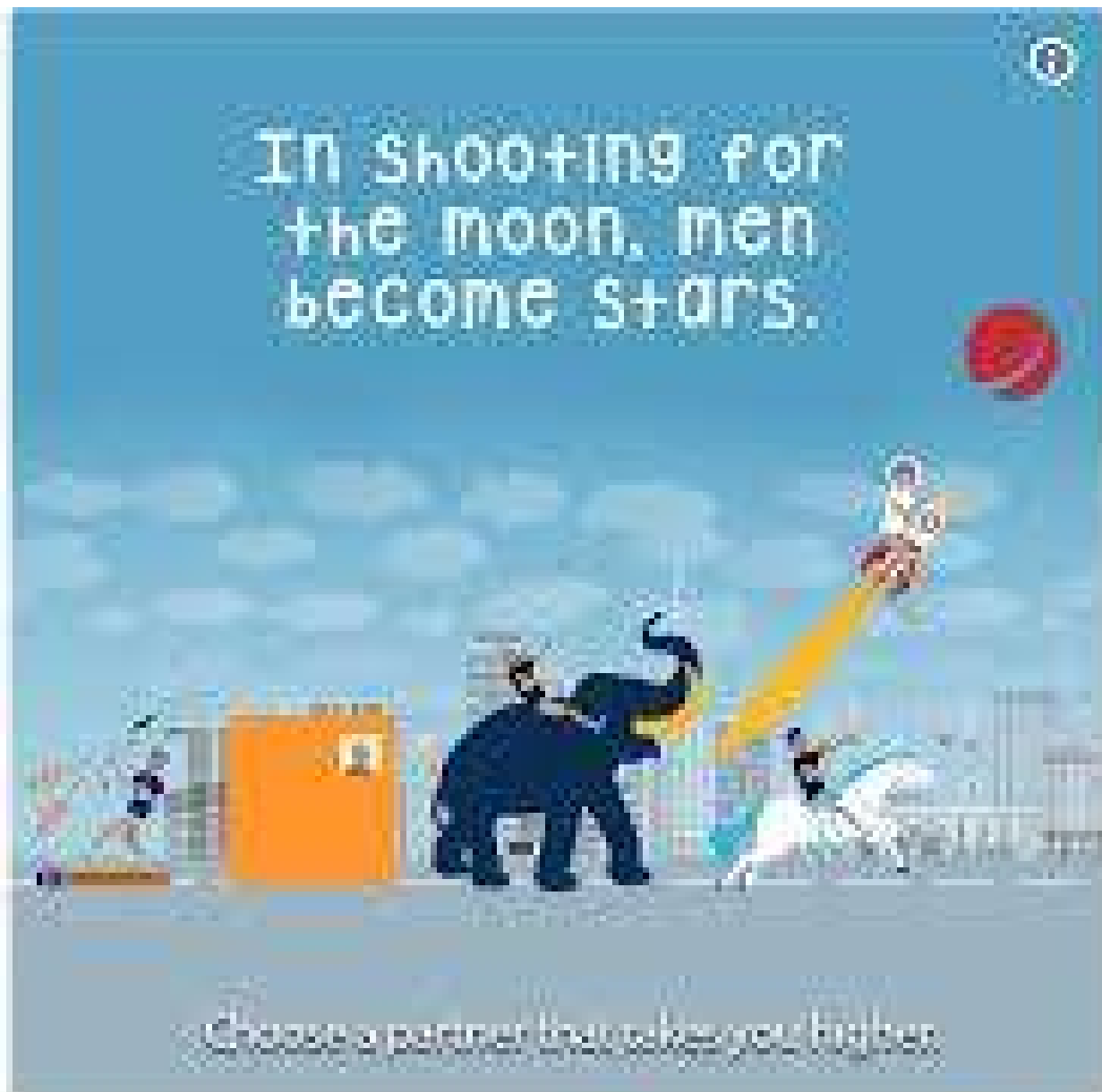
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