Session Descriptions – 2019 Wharton/RMA Advanced Risk Management Program

Week 2: June 23 - 29

Risk Management & The Board of Directors – Dean Yoost

Marcel Proust, a French novelist, critic, and essayist, said that, "The real voyage of discovery consists not in seeing new lands but seeing with new eyes." Given the intensity of the expectations of shareholders, the regulators, and other stakeholders – and the dynamism of business and the risks – fulfilling board responsibilities is no placid stroll down the 18th fairway. The somewhat whimsical approach of some past practices to board governance and risk management are in the rear-view mirror. Board members today spend considerable time and energy, both inside and outside the boardroom, attempting to understand the trends, developments, and the risks – both global and local – that impact the business, now and into the future. This session will focus on the board's perspectives in overseeing risk management, particularly focusing on board governance matters and current and emerging risks.

Communicating with the Board of Directors – Stephen Joyce and Melody Feinberg

Hear from veteran CROs who know about the challenges of working with an organization's Board of Directors. They will explain the importance of understanding who your Board is and their respective pain points and will provide practical advice on how to gain that knowledge. In addition, they have summarized simple lessons learned from the Board room "trenches" on what works and what does not and will share practical tips to help you navigate your own Board room.

Enterprise Risk Management – Ed Schreiber

A mature Enterprise Risk Management Program can be the key for a bank being a positive outlier when the credit cycle turns. Understanding the ERM dependencies between culture, governance, strategy are critical for creating and maintaining a dynamic ERM program. This session will help you understand what is an appropriate ERM structure and the need for well-crafted risk frameworks and smart key risk indicators to serve as guideposts and early warning indicators.

Retail Credit Risk: Model Valuation Upgrading & Credit Scoring – Bob Stine

Quantitative models have dominated decision making at the customer level in retail credit for many years, and this dominance continues with the introduction of deep learning (neural networks). Though often hidden by the surrounding complexity, these models make crucial assumptions that managers must understand to control model risk. This session introduces these assumptions and the underlying model frameworks from several perspectives, first in the analysis of wider market trends before turning to specific techniques and metrics.

Decision Making Under Uncertainty – Bob Stine
Important decisions require blending many types of information. Before moving on an acquisition, management calls on internal financial and technical teams to estimate the gains and explore the downsides. Consulting firms contribute the mix with their own separate estimates. The final decision has to combine these often conflicting opinions. This session develops a framework for blending uncertain estimates of outcomes into a final number. The estimates can be those from elaborate quantitative models or outright judgmental guesses.

Risk Culture – Joe Iraci
Reputation risk is what is at stake for firms that do not support a value-driven culture, and today's 24-hour news cycle has increased the stakes. Once a firm's reputation is tarnished it is very difficult to recover, and a firm that loses the public's trust and confidence can find itself in a downward trajectory. By aligning risk appetite to strategy and reinforcing a value-driven culture that develops human capital, a firm is better positioned to enhance its reputation and earn the public's trust and confidence.

Identifying and Managing Emerging Risks – Rajeev Lakra
Expectations of Risk managers are constantly changing. We are now being asked to look around corners and anticipate emerging risks, but how do you effectively do so? This session will provide an overview of what emerging risks are and a construct for identifying managing them.

Stress Testing – Til Schuermann
Stress testing now forms part of the bank regulatory programs in countries representing more than half of world GDP. With its success as an effective tool in helping to put a line under the recent financial crisis, banks and their regulators have taken this instrument and applied it to peacetime risk management and supervision. We will go over the main elements of stress testing and do some deeper dives into scenario design, scenario translation into outcomes such as losses and P&L, recent regulatory developments, and discuss the widening scope of use and application of stress testing plus some pitfalls and limitations.

Model Risk Management – Elizabeth Mays
Models are used broadly throughout banks today for loan underwriting and pricing, capital adequacy assessment, valuing securities and derivatives, establishing allowances for loan losses and even automation of processes. In this session we'll talk about the risks the use of models poses to banks and how they can manage those risks. We'll outline the components of a complete model risk management framework for banks to follow, and discuss the roles and responsibilities of the three lines of defense in managing model risk. We also touch on some of the hot topics in the modeling world today.

Model Development and Validation – Elizabeth Mays
After a brief introduction to one of the most common methods to develop models in banks, teams will tackle their own model development project in class. This exercise will illustrate the importance of assessing data quality, how to evaluate model performance, and what can happen to the model's accuracy when data are poor or information on an important variable is excluded from the model. We'll review the case study in class together and draw conclusions.

Fixed Income Hedging – Don Schilling

The normal daily activities of the bank (taking deposits, making loans, originating mortgages to be sold to the market) expose the bank to risk including interest rate risk, credit risk and market risk. Some banks engage in additional activities such as trading (fixed income, equity, commodity, FX) or have offshore entities that exposed them to additional risks. Hedge strategies are employed to mitigate those risks to an acceptable level. As with all bank activities, hedging is subject to oversight including the policies, limits, committee review, as well as internal and external reporting. We will discuss several examples of how the bank can reduce risk including insight into the considerations that influenced those decisions. The second half of the session is an interactive fixed income hedge decision.

Machine Learning and Artificial Intelligence – David Berglund

What is Artificial Intelligence (AI)? What does it mean for your business? It is critical that bank leaders understand the supply and demand factors driving AI performance and utilization. This session will focus on the key principles underlying the technology, how it's being applied in banking, and how to consider the human implications and risk factors it poses to organizations. We will bring into sharp focus the reality of AI today through case studies, and dialogue around misconceptions, ethical considerations, and evolving risk profile the suite of technologies poses to banks and FIs.

Demise of the Big Five Investment Banks – Dick Herring

This session follows the movie Too Big to Fail and provides a closer look at a particularly fragile part of the pre-crisis financial system. We will focus on the channels of contagion that led to the collapse of the five leading investment banks, which had dominated world capital markets, and examine the resulting Dodd-Frank reforms intended to prevent another similar crisis. Only two of the five, Goldman Sachs and Morgan Stanley, managed to survive the crisis without bankruptcy or merger, but did so only by becoming Bank Holding Companies and submitting to oversight by the Federal Reserve. Although the Dodd-Frank reforms have had an extensive impact on all banks, they have caused a fundamental restructuring of the business models of the two former investment banks. Each has addressed the strategic challenge in different ways as they attempt to compete in the post-crisis environment alongside traditional commercial banks and fin tech firms. Their transformations have important implications for the evolution of the financial system.

Managing Risks of Mergers and Acquisitions – Maria Teresa Tejada

The crisis of 2007-08 was a rude awakening for U.S. banks in many ways. It prompted a series of large bank mergers that were aimed at consolidating stronger banks with failing banks. There was a period of optimism in 2017 regarding the prospect of regulatory relief and the potential for bank M&A activity. Since 2018, we have seen regional and community banks execute transactions with some support from the markets. The bank operating environment and outlook in 2019 are very favorable to bank mergers. Many banks are dusting off their merger playbooks to guide them through the M&A process for transformational mergers or acquisitions of loan portfolios and/or capabilities; this involves evaluating potential targets or combinations, managing the due diligence requirements, resourcing this activity both internally and externally, and importantly, assessing the risks. This session will focus on the anatomy of a transaction, merger integration the relevant business and integration risks, as well as other important considerations such as cultural integration and change management.

Country Risk – Sandy Wolfson
Individual countries can be good or bad risks for investment. This session explains the rationale for performing a country risk analysis, including its ability to repay debt vs. its willingness to repay debt.

Living Wills & TLAC – Dick Herring
A considerable amount of emphasis has been placed on the numerous, post-crisis policies intended to prevent insolvency – more and higher capital requirements, increased risk weights, capital surcharges for G-SIBs, a strengthened leverage ratio, liquidity requirements and heightened prudential supervision including stress tests. But, an equally important innovation in policy has been the design and implementation of resolution plans to be activated if the strengthened prudential policies should fail. The impetus for these reforms came from the realization that governments in the US and Europe had allocated the equivalent of 25% of world GDP to propping up their banking systems, an amount that would be politically impossible to mobilize again in the event of another crisis. An (implicit) policy of too-big-to fail had become too costly and politically damaging to continue. Meeting in 2009, the Group of Twenty Heads of State mandated bank regulators to develop and implement resolution policies to ensure that every systemically important financial institution can be resolved without disrupting the economy and without taxpayer assistance. US regulators have faced the additional challenge imposed by the Dodd-Frank Act that all US systemically important banks demonstrate that they can be resolved under existing bankruptcy laws without exacerbating financial instability. In this session we will examine how bank regulators have met this mandate, with particular emphasis on the introduction of TLAC and the Single Point of Entry strategy developed jointly by regulators in the US and UK. We will consider how these policies are intended to work and highlight some potential problems.

Ethics in Financial Services – Peter Conti-Brown
Nearly everyone agrees that firms in financial services must behave ethically, but that only prompts the question: what is an ethical culture? In this session, there will be discussion on differing theories of ethical decision-making and walks through case studies from outside the financial services industry to think through how different firms in different situations have resolved ethical crises. Participants will be asked to think through how their own business practices reflect—or don't—their ethical worldview while also seeking to make sense of the unique ethical opportunities and challenges that confront the financial services industry. Time will also be spent reflecting on how individuals, firms, and industries together constitute a "culture," and engages participants in their own thinking about what their culture is and what they want it to become.

Risk Appetite – Ajai Bambawale
This session will discuss TD's journey in developing its Risk Appetite and Culture over the past 20 years. The discussion will focus on the bank's approach to Risk Management and the development of TD's Enterprise Risk Appetite Statement, including how the bank sets, monitors and reports compliance against it.

Strategic Agility – Kathy Pearson

Today's business environment is no longer described as having an "ebb and flow", but rather a permanent "whitewater" condition. This increased speed of change has caused a movement from discrete-event strategic planning to more dynamic planning – the quarterly strategy "refresh", for example. However, many organizations struggle with the ability to stay nimble to respond to rapid market changes because of a variety of factors. This session explores the common barriers to agility, provides tools to overcome these barriers, and describes three concrete actions in achieving strategic agility. After this session participants will be able to: • Understand the importance of establishing concrete strategic decision rights. • Identify key future trends and uncertainties for the organization. • Develop a system of dynamically scanning for leading indicators. • Build adaptability into the strategic planning process by rapid experiments and small bets.