



CISI Risk in Financial Services



The Chartered Institute for Securities & Investment (CISI)

- Leading professional body for staff employed in the investment industry
- Global Presence
- Main examining body for investment related exams and offers unique range of exams focused on international marketplace
- Recognised and Mandated by Regulators
- Extensive CPD program
- 45,000 members in 104 countries



CISI Qualifications	
Foundation Level	Fundamentals of Financial Services International Introduction to Securities & Investments
Professional Exams	Wealth Management Financial Planning Corporate Finance Investment Operations Islamic Finance Risk, Regulation & Compliance
Post Graduate Professional Exams	Chartered Wealth Manager Certified Financial Planner Diploma in Investment Compliance Diploma in Investment Operations Diploma in Corporate Finance Diploma in Capital Markets



Exam Details

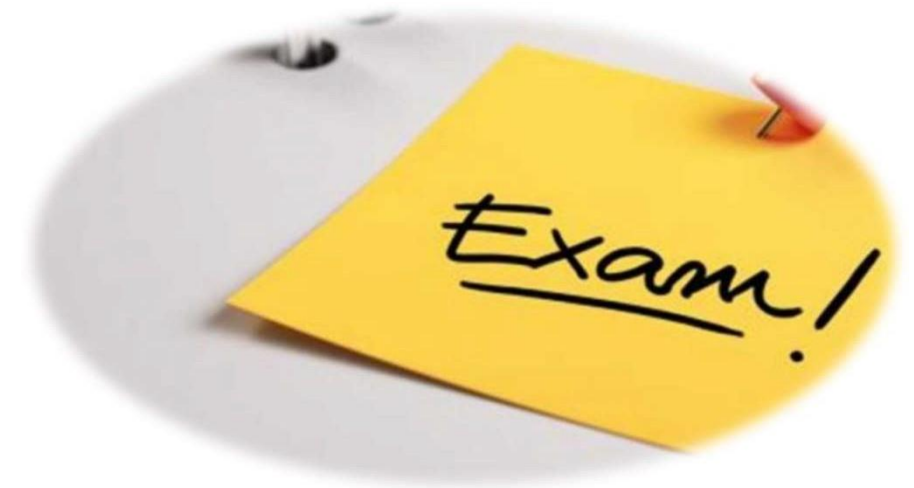
Duration = 2 Hours

100 Multiple Choice Questions The Pass

Mark = 70%

Current Pass Rate = 53%

Total Qualification Time = 102 Hours

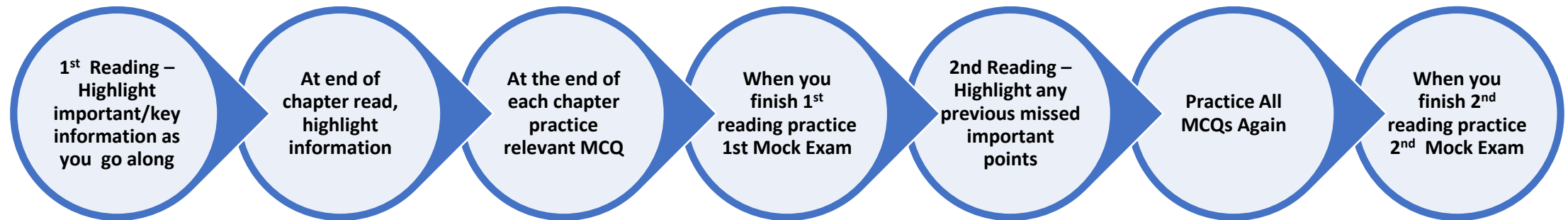


Chapters & Exam Question Weightage

Chapter No:	Title	No: of Questions
1	Principles of Risk Management	14
2	International Risk Regulation	7
3	Operational Risk	15
4	Credit Risk	15
5	Market Risk	15
6	Investment Risk	11
7	Liquidity Risk	10
8	Model Risk	3
9	Risk Oversight and Corporate Governance	5
10	Enterprise Risk Management (ERM)	5
Total		100



Study & Exam Approach





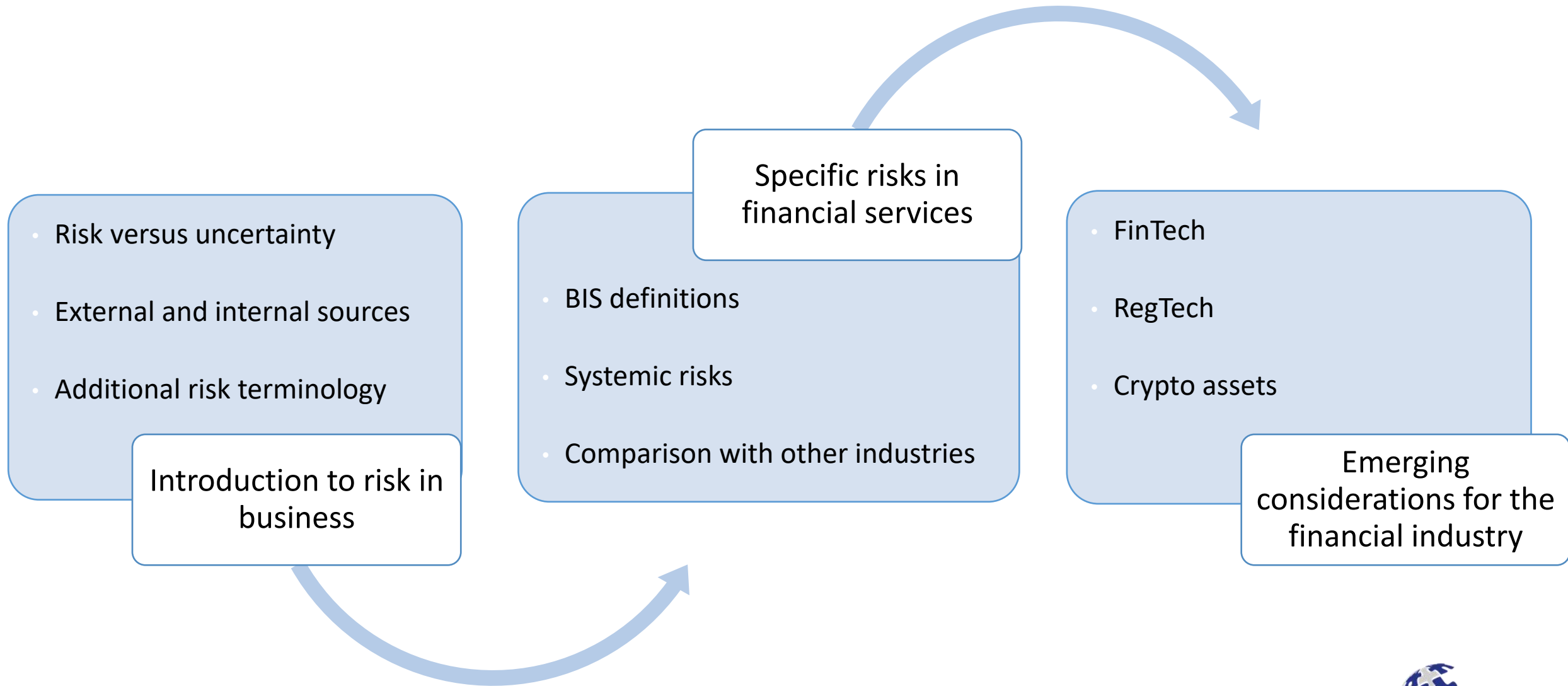
Chapter 1

Principles of Risk Management

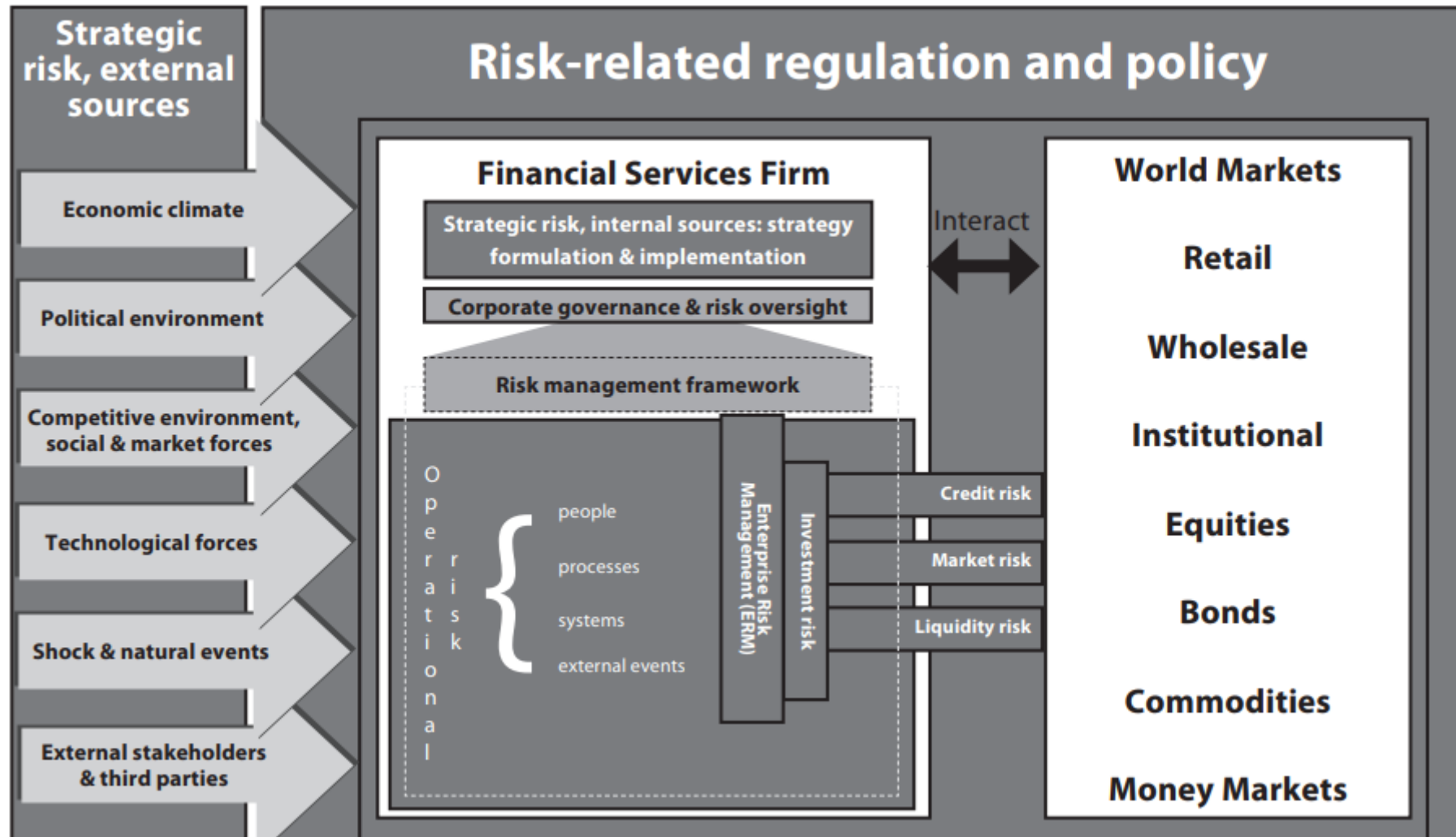
Questions - 14



Chapter summary



Risk in financial services



Introduction to Risk



INVESTMENT RISK



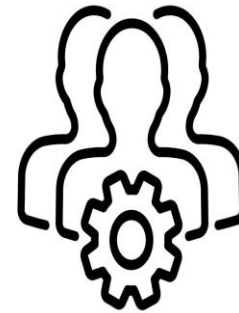
CREDIT RISK



Enterprise risk



Strategic risk



Operational risk



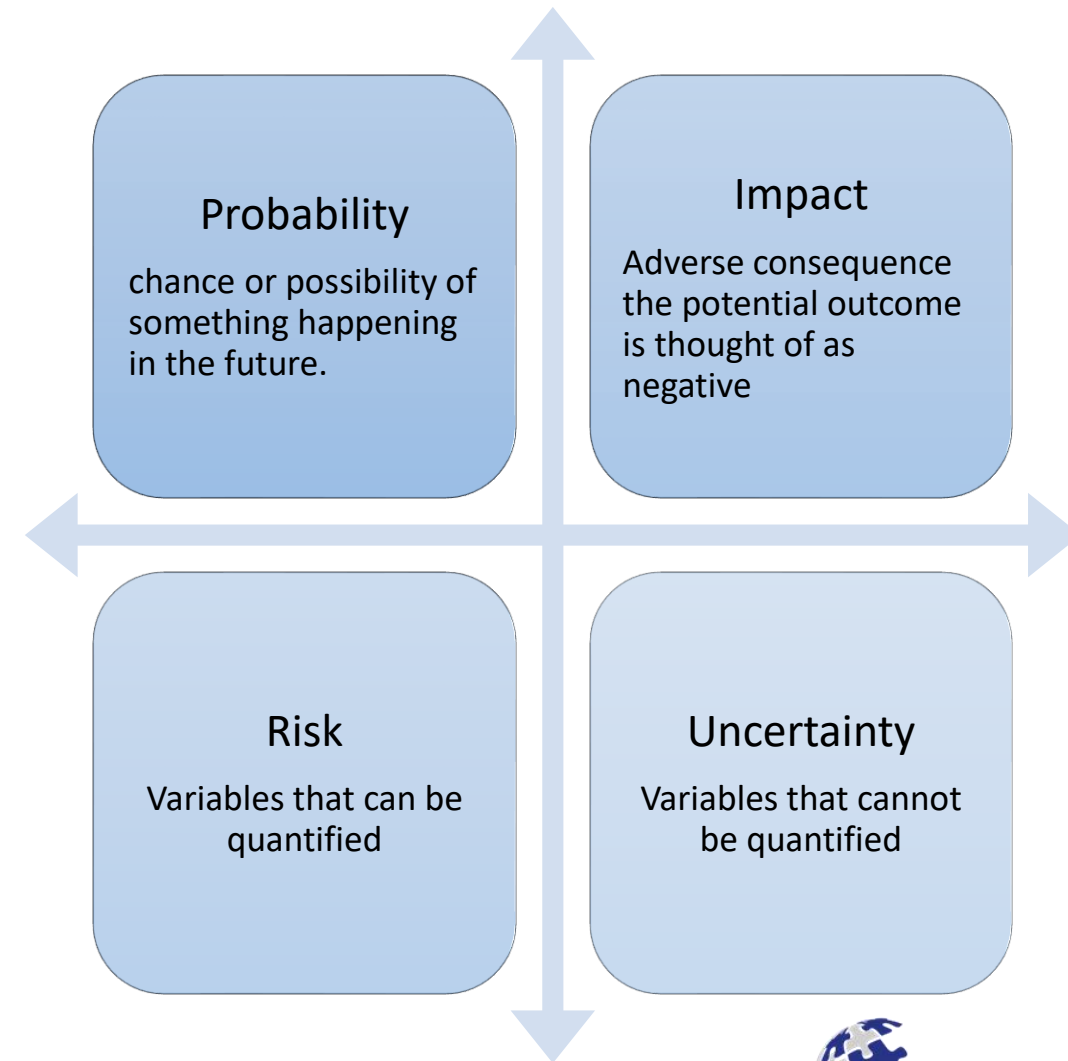
Introduction to Risk in Business

Risk

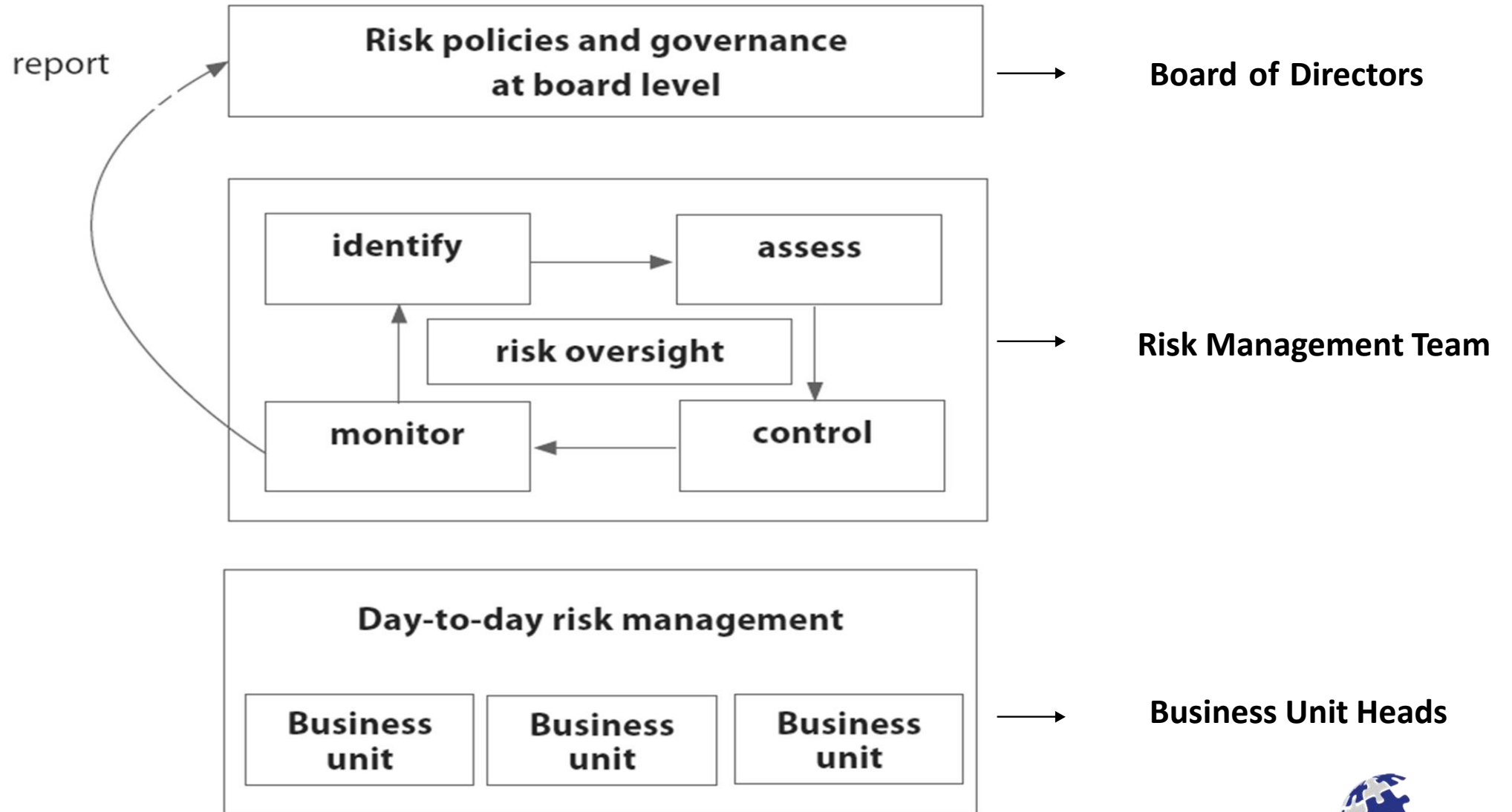
The chance or possibility of damages, loss, injury or other adverse consequence

Risk Management

Risk management is the practice of using **processes**, **methods** and **tools** for quantifying and managing these risks and uncertainties



Framework for Managing Risk



External Sources Of Risk

Political

Risk due to change in the political environment

- A rise or fall in the **markets**
- An increase or decrease in **demand** for the products
- Changes to the **legislative and regulatory** environment

Economic

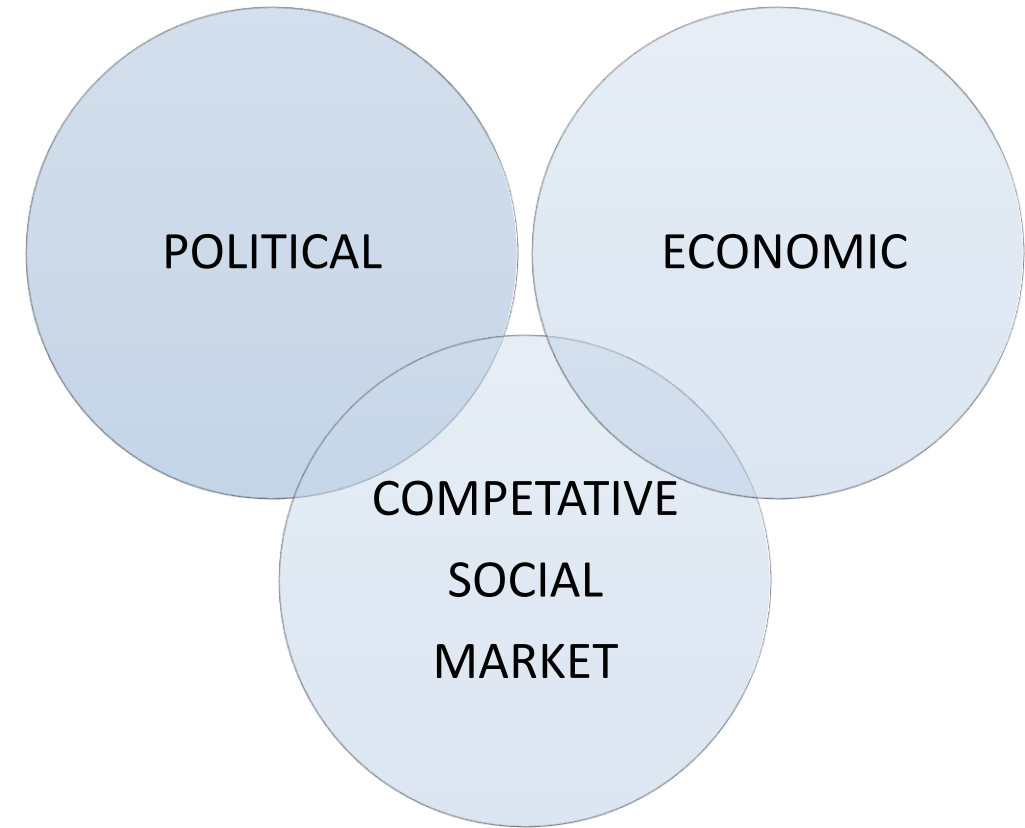
Risk due to change in the economic environment

- A fall in **house prices**
- Change in **unemployment**

Competitive, social, market

Risk due to the performance of other companies or changes in social and market forces

- **Technological advances**
- Changes in **consumer behavior**
- Rising inequality of **wealth distribution**



External Sources Of Risk

Technological & Cyber

Risks due to not being able to keep up with the **developing technology** and **cyber crime**.

- Theft of or damage to, information stored on computers

Shocks and Natural Events

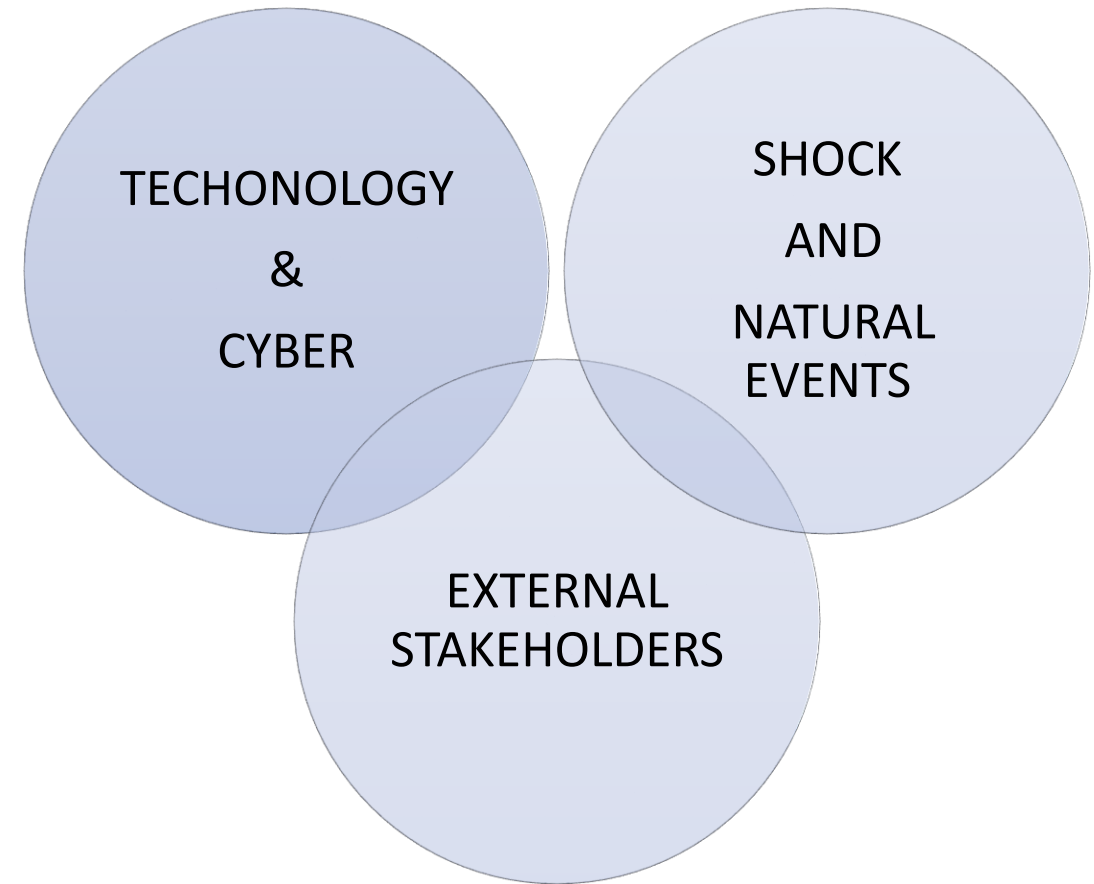
Risks due to **naturally occurring event**

- Natural disasters
- The crisis of COVID 19

External stakeholders

Risks due to the actions of:

- The **parent company**
- Significant holdings by **institutional investors**
- Large customers



Which of the following describes Political Risk?

- A. Human behaviour that will affect the product it sells
- B. Change in government, economic policy, tax laws, etc. that affect financial services
- C. Theft of, or damage to, information stored on computers
- D. Competitors gaining market share, attitudes to saving/credit/etc.

EXAM FOCUS



Environmental, Social, and Governance (ESG) Risks



ENVIRONMENTAL

Climate change issues

- Firms 'vulnerability due to climate change

Depletion of natural resources

- Water scarcity,
- Land use
- Raw-material sourcing.



SOCIAL

Human capital issues

- Labour management and health and safety

Product liability issues

- Product safety, quality, privacy and data safety issues

Stakeholder opposition

- Local health and demographic risks and controversial sourcing of materials



GOVERNANCE

Corporate governance

- Management structure
- Board-employee relations

Corporate behaviour

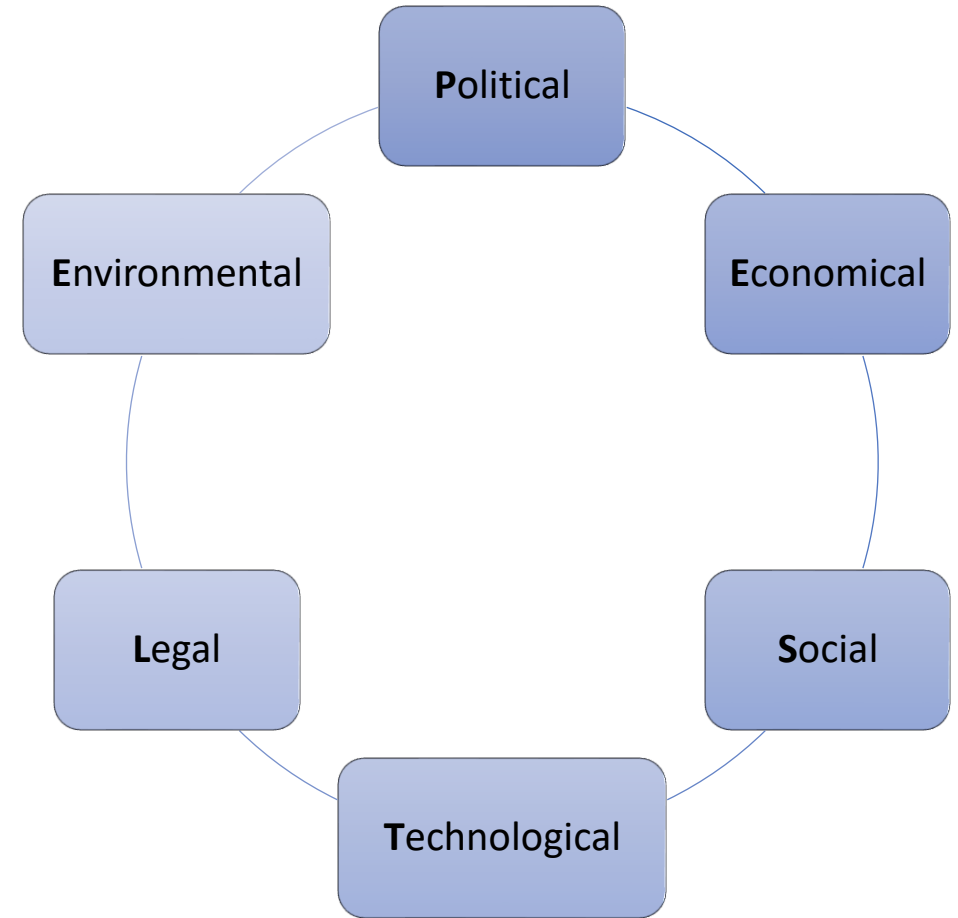
- Business ethics
- Anti-competitive practices
- Tax,
- Transparency
- Corruption
- Financial system instability



Business Continuity Planning

Business Process Analysis

PESTLE Analysis



Internal Drivers of Business Risk



Strategic risk

The current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment



Operational risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events



Financial risk

Credit risk is the risk of loss caused by the failure of a counterparty or issuer to meet its obligation

Market risk is the risk of loss arising from changes in the value of financial instruments

Liquidity risk is the risk that a firm has insufficient cash to meet its cash obligations and will become insolvent.



Strategic Risk is the risk of loss of earning or capital via:

- A. Improper implementation of decisions
- B. Lack of adequate responsiveness to changing business environment
- C. A lack of strategic information
- D. All of the above

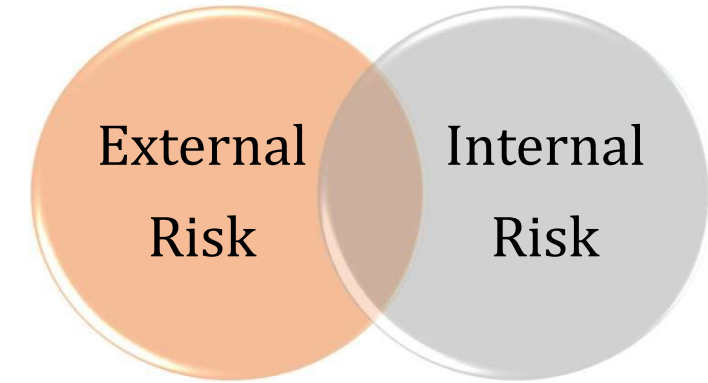
EXAM FOCUS



The Nature of External and Internal Risk

External and internal risks overlap, and mutually influence one another

The following methods are typically used to reduce the levels of business risk associated with developing and launching new products:



A gap analysis of the firm's strategy

Market surveys to establish external demand for potential new products

Market research to understand any similar products already being sold by competitors

Research and development to design the new product

Liaison with external stakeholders, such as the regulator

Test marketing to fine-tune the product and its launch



Risk Culture And Conduct Risk

Risk culture can be defined as the system of values and behaviours present throughout an organisation that shape risk decisions

The **key features of a healthy risk culture** are:

The **attitude to risk and ethics** of the board and senior team

The **effectiveness with which these attitudes and ethics** are communicated throughout the firm

The **degree to which risk is formally considered** during decision-making

The **extent to which incentive schemes** reinforce good risk management



Risk Culture And Conduct Risk

Risk culture

The system of values and behaviours present throughout an organisation that shape risk decisions.

Risk Appetite

Risk appetite (or risk tolerance) is the type and amount of risk that a firm is willing to accept in the pursuit of its business objectives.

Inherent risk

Also called gross risk, is an assessment of risk without considering the beneficial effects of mitigating controls.

Residual (Net) Risk

Residual risk, also referred to as net risk, is the firm's exposure after having taken mitigating controls into account.

Risk Profile

A firm's risk profile is made up of the type and intensity of the risks to which it is exposed.

Risk Mitigation

Depending on the risk type, mitigation techniques may include:

ensuring that appropriate insurance policies are in place

upgrading processes and IT systems to control an operational risk better

hedging against a market risk



Risk Management - Protects and Adds Value

When firms embark on new areas of business, or launch new products, they very often justify the strategy with a cost/benefit analysis. This analysis **compares the estimated likely revenues with the actual costs**. If the former outweigh the latter, then the project is given the green light.

Certain risks, such as **client litigation**, can vastly overshadow the operational costs of supporting the venture.

If **risk management staff** are involved in the process from the start, they will be able to **advise on the likelihood and impact of any risks**

A **commitment to good risk management** will also reduce the likelihood of unexpected outcomes on a day-to-day basis



RISK MANAGEMENT



Specific Risks in Financial Services

Operational Risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Credit Risk

This is the risk of loss caused by the failure of a counterparty or issuer to meet its obligations.

Market and Asset Liquidity Risks

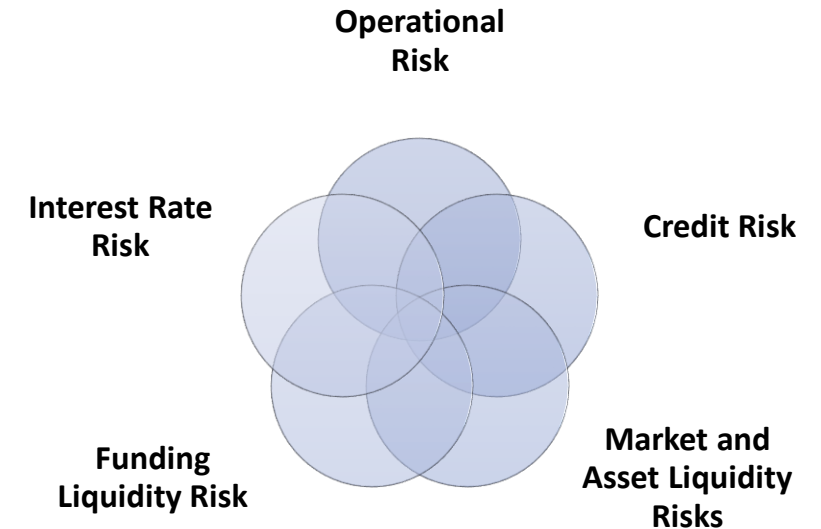
Market risk is the risk of loss arising from changes in the value of financial instruments.

Funding Liquidity Risk

Funding liquidity risk is the risk that a firm cannot obtain the necessary funds to meet its obligations as they fall due

Interest Rate Risk

Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.



Managing Systemic Risk within Financial Services

Systemic risk

Risks that affect one firm, or a group of firms, can affect the stability of the whole financial system. This is **known as contagion**, and it causes systemic risk.

Deposit insurance schemes

If **depositors fear that a bank might fail**, then that fear, even if ill-founded, causes them to withdraw their deposits en masse. This can actually cause a bank to fail, leaving insufficient funds to repay other depositors who had not been as quick to withdraw their cash. **This risk has been reduced through** the introduction of deposit insurance schemes

Resolution plans

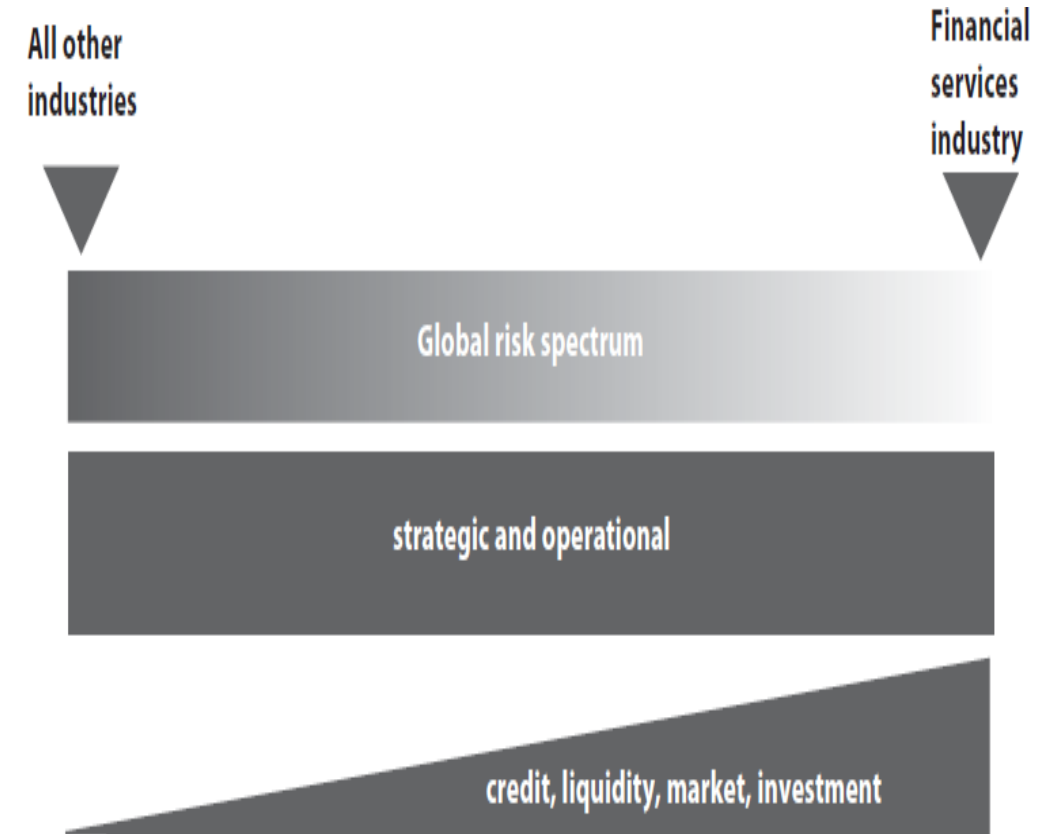
Credible recovery actions that the firm could implement in the event of a severe stress to restore its business to a stable and sustainable condition. The mechanism by which any absolute failure within the firm can be enacted in an orderly fashion



Risk in Financial Services with Other Industries

The combination of the following characteristics of the financial services sector tends to set it apart from other industries:

- **Complexity**
- **No physical product**
- **Product life span** often measured in decades
- Not an 'optional extra' but a **necessity of modern economic systems.**



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What is Systematic Risk?

- A. Risks that affect one firm, or a group of firms, can affect the stability of the whole financial system
- B. Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- c. Risk of loss arising from changes in the value of financial instruments.
- D. Risk is the exposure of a firm's financial condition to adverse movements in interest rates.

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Emerging Considerations for the Financial Services Sector

Fintech and Regtech as Disruptive Innovations Companies use technology to:

- Secure improvements in the consumer experience
- Bring about disruption to business models, changing the competitive landscape for firm

Cryptoassets

A cryptoasset is a digital asset that does not require intervention by a middleman and uses decentralised distributed ledger technology (DLT).

Unclear or No Regulation

The growth in the use of cryptoassets has been driven by individuals and unregulated companies, highlighting the level of oversight and proper controls in the cryptoassets market



Emerging Considerations for the Financial Services Sector

Financial Crime - Refers to any kind of **crime or misconduct, including fraud or dishonesty, bribery etc.**

Cybersecurity - As transactions are conducted on the internet, hackers target people, service-handling and storage areas, through means such as **spoofing/phishing and malware.**

Data Security - The threat of hacking and the need to protect sensitive consumer and corporate financial data has brought **stringent regulations.**

Custody - Digital assets is much **more complex** than safekeeping traditional assets

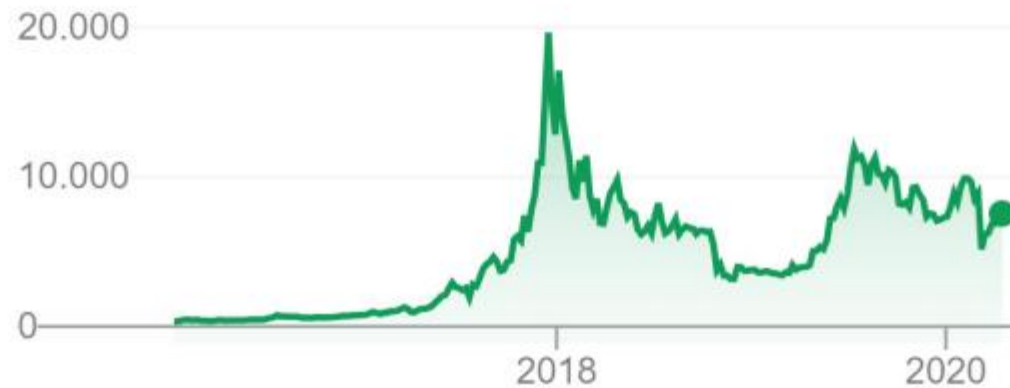
Market risks – They are idiosyncratic as **cryptoassets only trade on demand.**



Emerging Considerations for the Financial Services Sector

Business and Reputational Risks – More companies are **introducing cryptoassets** into their business models and are creating new levels of risks. There is also a considerable **risk to reputation and the brand**.

Fluctuation of Bitcoin Value in USD



What is Financial Crime?

- A. Any kind of misconduct
- B. Any kind of fraud .
- C. Any kind of bribery or dishonesty
- D. All of the above.

EXAM FOCUS

