

# **Risk Management & Environmental Challenges**

**A presentation by**

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**At**

**A seminar on Demystifying Corporate Governance,**

**Organised by the Institute of Directors (IoD)**

**October 27, 2009**

- **Recent Global Events**
- Risk Management Imperatives
- Environmental Challenges
- Way Forward

# Housing Market collapsed .....

Participants

Sources

Facilitators

Consequences/Impact

- **Poor Risk Management and Corporate Governance evident**
- **Over \$1.3trillion lost in toxic assets**
- **Stimulus packages by US govt in excess of \$3.8trillion**
- **G8 nations approved \$1trillion global stimulus package**

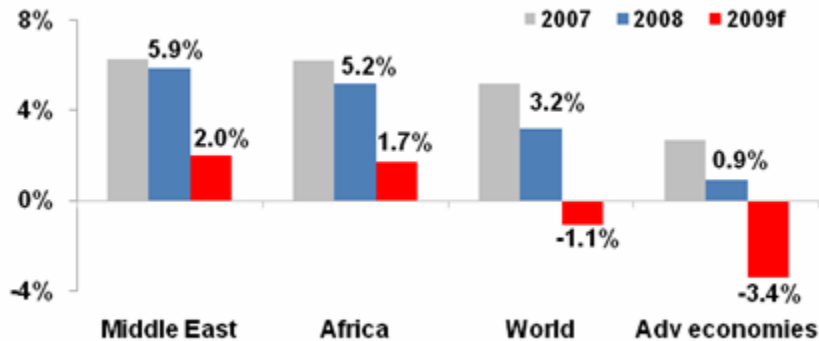
# resulted in Bank and OFI failures...

The image displays a collection of logos for various financial institutions, each accompanied by a red annotation indicating its fate:

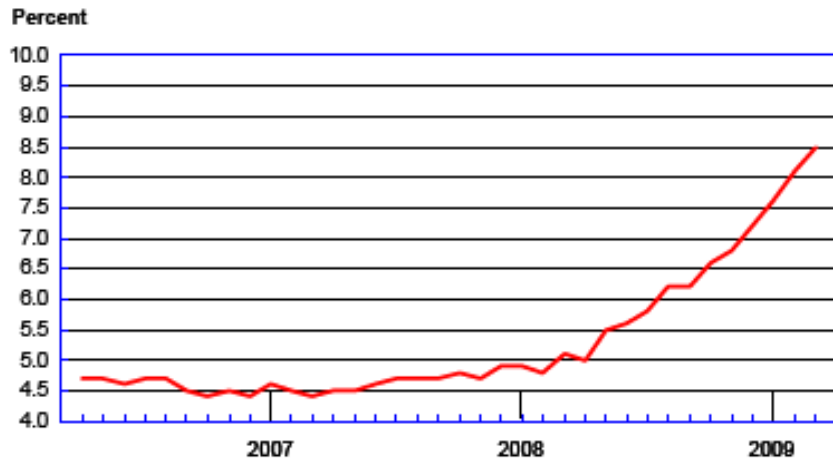
- Washington Mutual**: Acquired By JP Morgan
- WACHOVIA**: Acquired By Wells Fargo
- Merrill Lynch**: Acquired By Bank of America
- Lloyds TSB**: Acquired By Lloyds TSB
- BEAR STEARNS**: Bankrupt; acquired by JP Morgan
- LEHMAN BROTHERS**: Bankrupt; acquired By Barclays
- AIG**: US Nationalized
- FannieMae.**: US Nationalized
- Fredie Mac**: US Nationalized
- RBS**: UK Nationalized (The Royal Bank of Scotland)
- northern rock**: UK Nationalized
- BTA BANK**: Kazakhstan Nationalized
- BankWest**: Australia Nationalized

# plunged world economy into a recession...

## Output growth, selected regions



## Rising global unemployment rate



- Global output to contract by 1.1%
  - 3.4% decline in advanced nations
- Sustained rise in unemployment rate...
  - Sustained rise in unemployment rate...7.5% globally
  - US unemployment at 9.5% (10.1% expected in Dec-09)
  - Usually the last indicator to reverse
- Volatility in financial markets remain

## Financial Assets yet to recover value lost



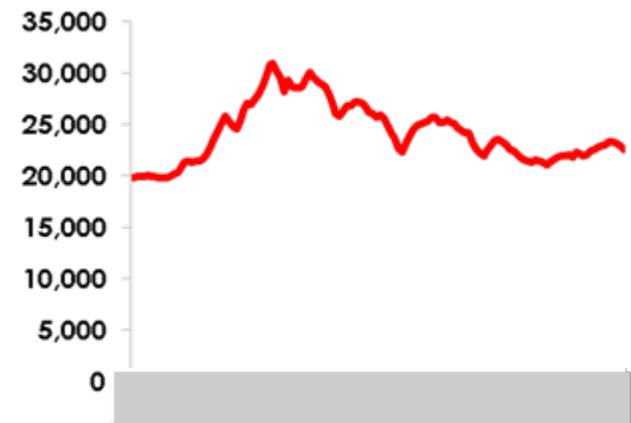
# ....Impacted Nigeria slowly but surely



- Oil price plunged from an all time high of \$147pbl to under \$30pbl
- Foreign Reserves declined from \$63bn to \$40bn
- Government revenue shrank by almost 50%; GDP growth rate down to 5%
- Exchange rate fell from N117/\$1 to N150/
- NSE Market Cap and ASI fell from N12.64trn and 66371 in Mar 2008 respectively to an all time low of N4.49trn and 19814 in April 2009
- Banks industry suffer huge liquidity squeeze/NPL arising from exposures to Margin Loans and Downstream/Real estate sectors
- CBN stress tested banks
  - Clears 14/Sanctions 8
  - Pardons 2 others and allows them till June 2010 to recapitalize
  - Injects N620bn into the banks

Key Macro-Economic Data	2009	2008
GDP Growth (Mar-09)	4.85%	6.6%
Inflation Rate (Sep-09)	10.4%	13.0%
Monetary Policy Rate (Sep-09)	6.0%	9.75%
Official Exchange Rate (N/US\$)	148.0	117.0
External Res. (US\$) - Oct-09	44.0	63.0
90-Day NIBOR Rate (Oct-09)	16.45%	16.75%
NSE All Share Index (Oct-09)	22,653	41,952
Market Cap - N'trn (Oct-09)	5.34	9.20

## Equity market trades flat



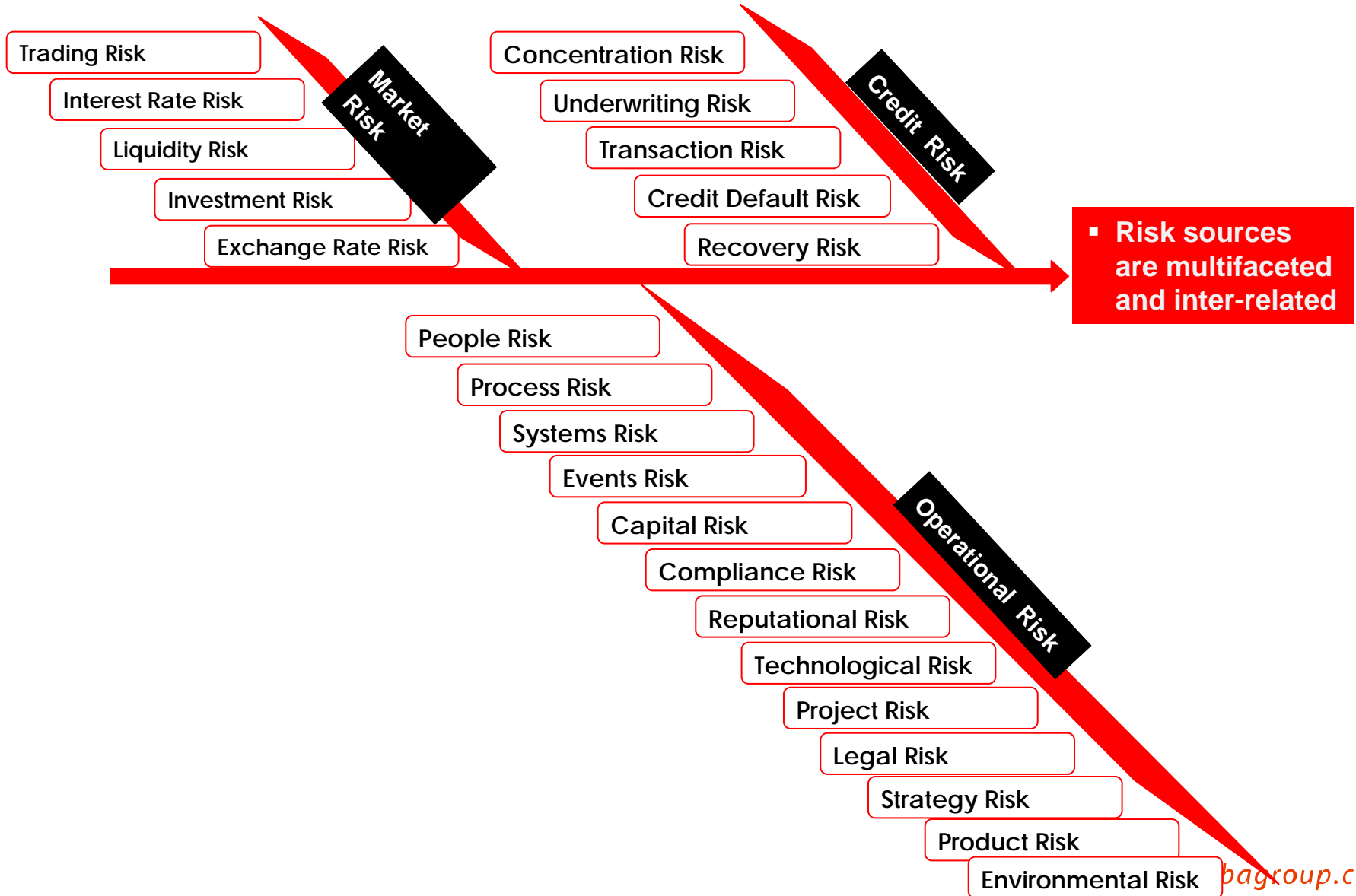
[www.ubagroup.com](http://www.ubagroup.com)

- Recent Global Events
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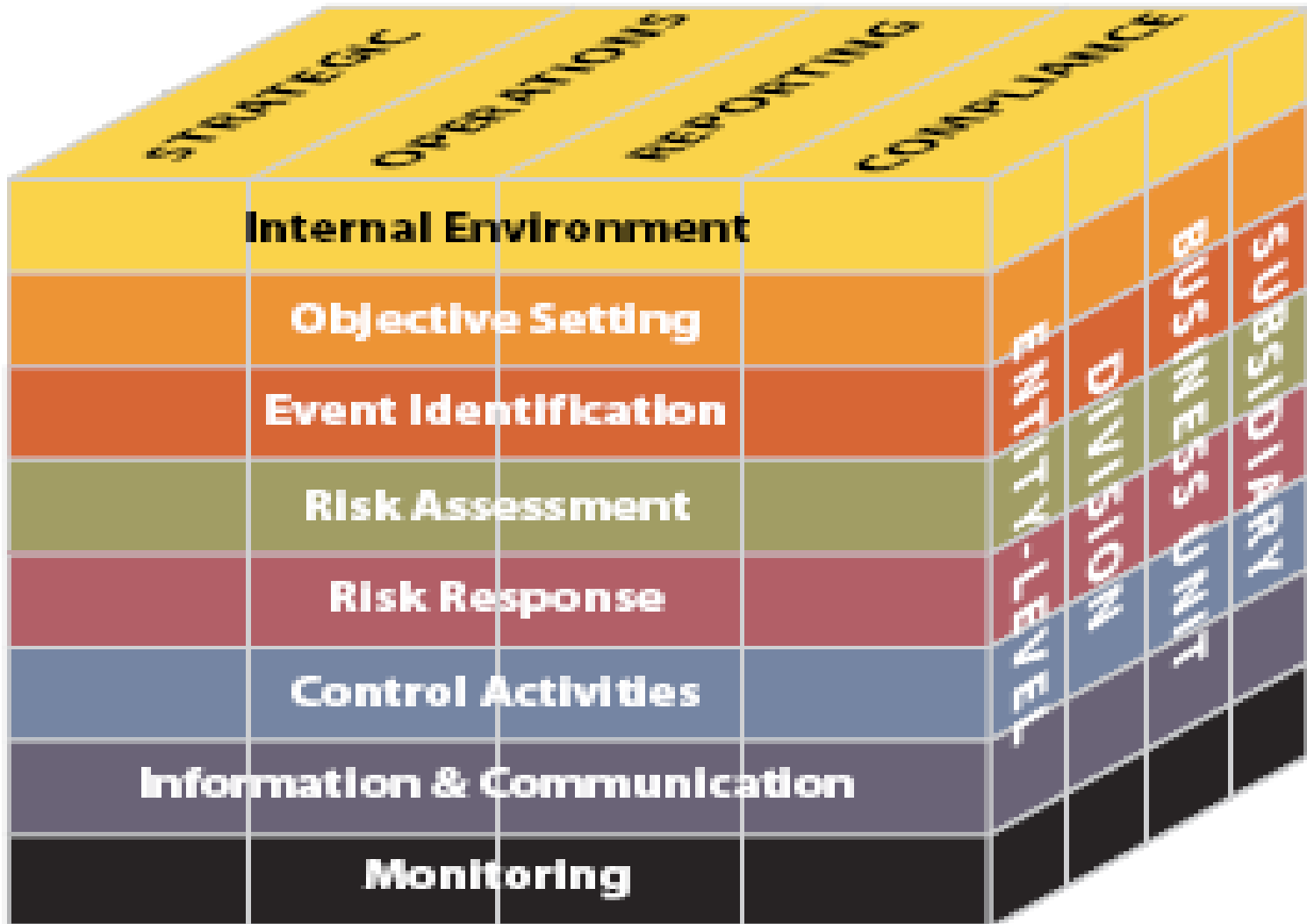
# Risk Management (RM) Imperatives

- **Risk Types**
- **RM Dimensions**
- **RM Process**
- **RM Framework**
- **RM Structure**

# Major Types of Risk...



# Dimensions of Risk Management



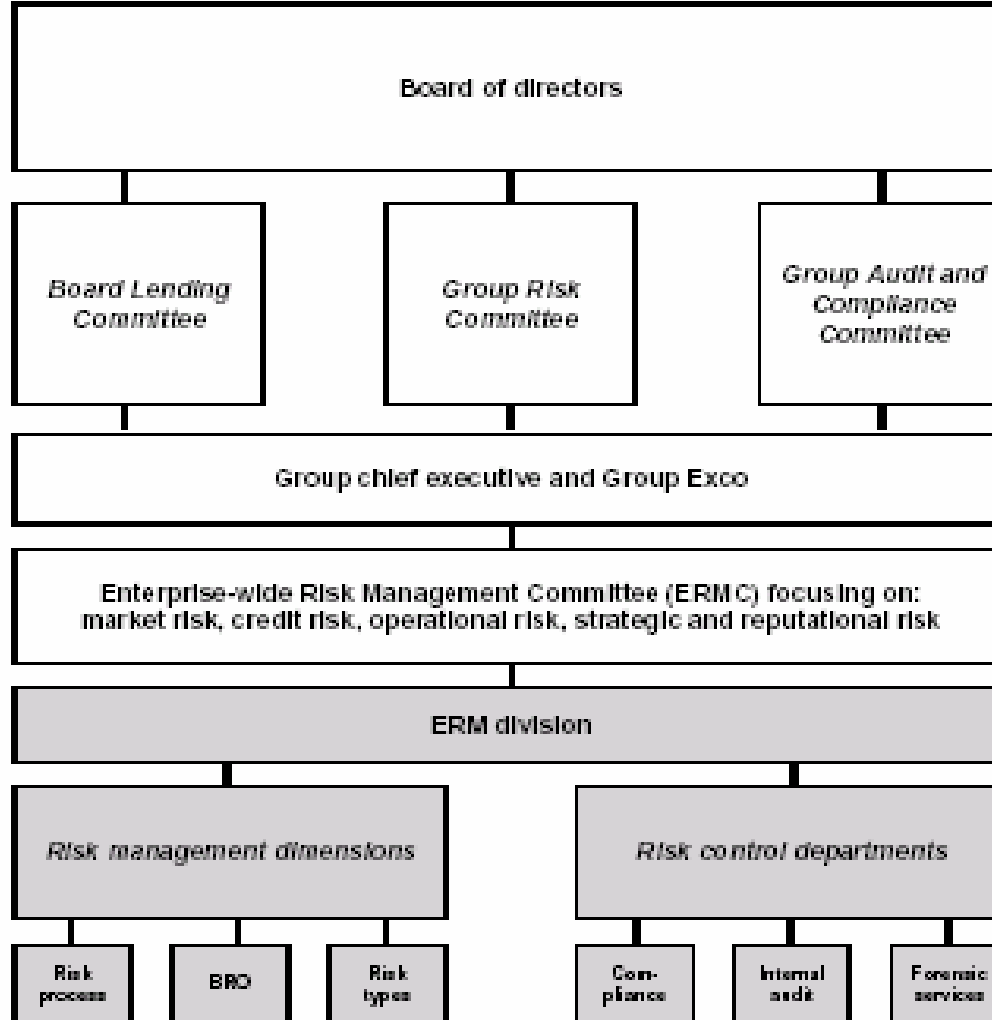
# Risk Management Framework



# Risk Management Structure...

Supportive of:

- Risk management culture and environment
- Risk management policies
- Risk management framework
- GRC, GACC
- Group chief executive and Group Exco
- GRC, GACC, ERM, Divisional/subsidiary risk forums and audit and compliance committees



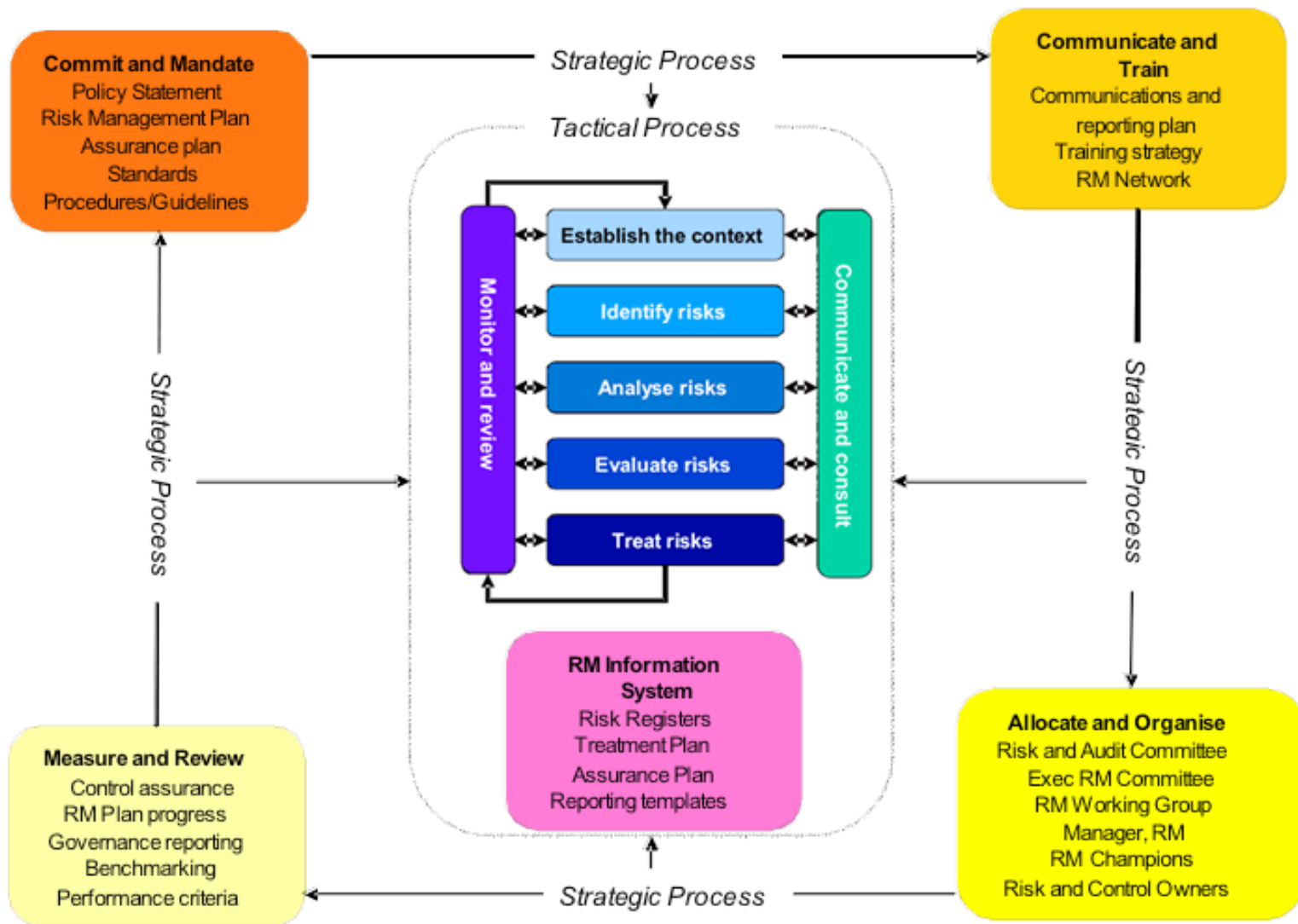
Supported by:

- Board committees
- Group Exco
- Divisional/subsidiary boards
- Divisional/subsidiary risk forums
- Divisional/subsidiary audit and compliance committees
- Group Exco
- ERM C, ERM division and Group Credit
- ERM division, specialist functions
- Group Board, GRC, GACC, Group chief executive and Group Exco, Specialist functions, shared services, committees and councils

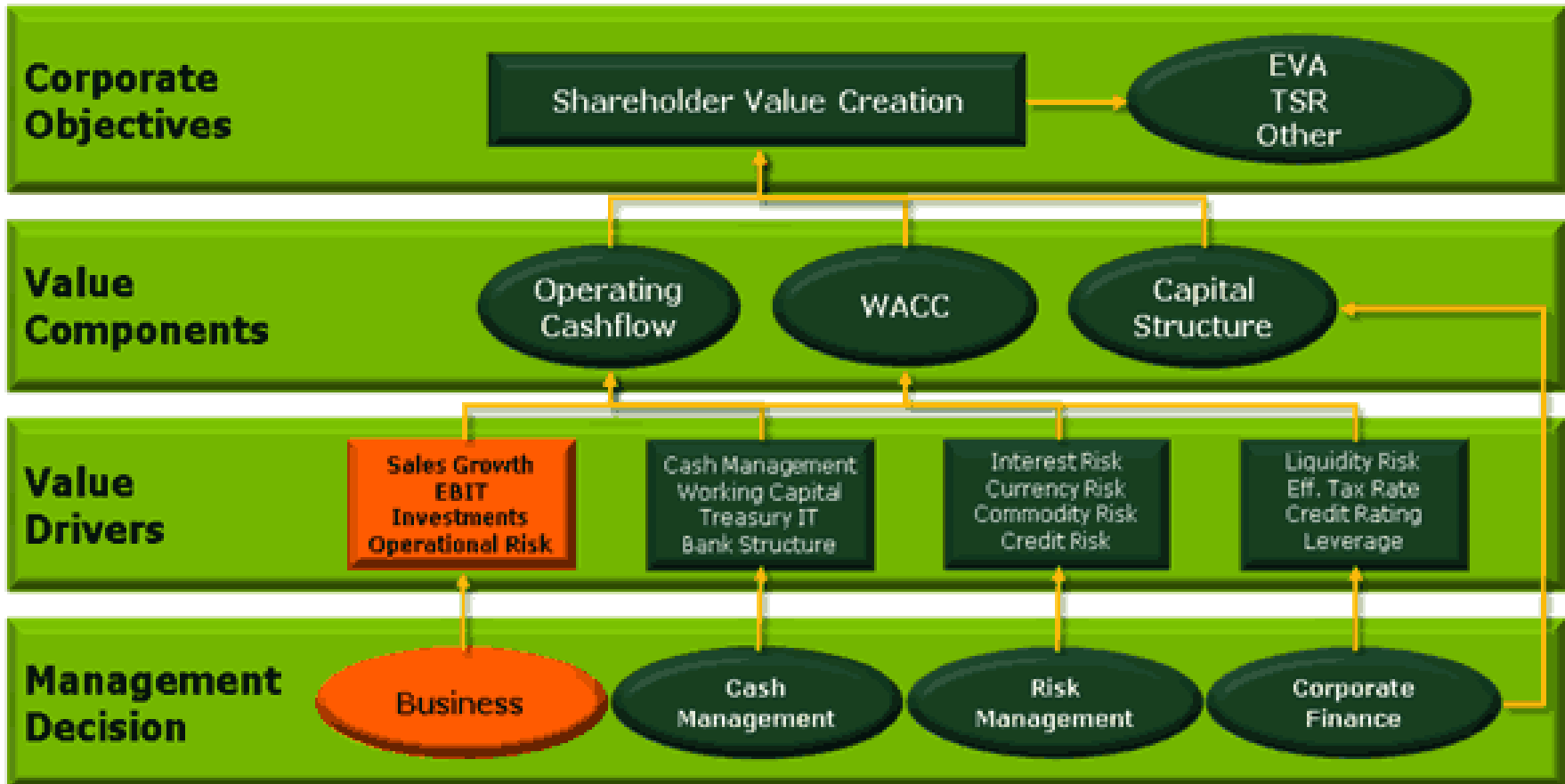
# Risk Mgt Process...



# Risk Mgt Process...



# To drive Shareholder Value Creation



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# Environmental Challenges...1

- **Legal**
  - Under-developed legal framework
  - Regulatory challenges
  - Lack of respect for the rule of law and slow adjudication process (foreclosure difficulties, no commercial courts etc)
  
- **Socio-political milieux**
  - Weak value system
  - Weak RM Culture
  - Unrealistic growth/profit expectations from investors
  - Corporate Governance challenges and awareness
  - Insecurity
  - Unhealthy competition and rivalry
  
- **Technical/Infrastructure**
  - Risk mgt capabilities/initiatives still nascent
  - Weak educational system
  - Inadequate infrastructure (Credit Bureaux, National ID, Rating Agencies etc)
  - Technological challenges

## ■ Internal/Company specific

- Ineffective Board
- Poor ethical and moral standards (weak corporate governance)
- Weak Audit Committee
- Weak Management (low strategy formulation/implementation capability)
- Inadequate commitment from Top Management
- Weak internal control (RM framework/structure not well defined)
- Complexity of organization structure
- Frequent changes in top management/organization structure
- Dearth of skilled RM personnel
- Absence of RM best practice (Scenario planning, ICAAP, Stress testing, etc)
- Poor disclosure standards/communication and training
- Lack of succession plan/Business Continuity Plan/Disaster Recovery Plan
- High cost of RM infrastructure
- Inappropriate reward systems

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- **Board of Directors must assume full responsibility for risk governance**
  - Implement measurable corporate governance programs
  - Exhibit high ethical conduct; lead by example
  - Maintain sufficient independence
  - Maintain direct communication with a strong internal audit function
- **Know Your Business**
  - Board members must understand the intricacies of the business
  - Management must understand the Strengths, Weaknesses, Opportunities & Threats of the business
  - Staff should understand the major risks associated with their functions. KRIs must be well articulated
- **Establish Checks and Balances**
  - Board must determine the risk controls to be instituted
  - Strong governance structures must be established
  - Knowledge gaps must be filled through training
  - Targets must be measured and monitored
- **Set Limits and Boundaries**
  - Establish acceptable norms and ethical standards
  - Set achievable Financial and Operational targets

# Way Forward

- **Focus on cash flows**
  - Develop internal process to measure, monitor, reconcile and document cash transactions
  - Establish appropriate measures for managing cash positions
  
- **Use the Right Yardstick**
  - Risk measures should be incorporated in generating management reports
  - Growth targets should mirror economic growth
  
- **Pay for the Performance You Want**
  - Establish appropriate reward system to reinforce desired behavior & performance
  - Give a little more to retain your good employees
  
- **Balance the Hard (processes/systems/structure) and the Soft (people/norms/skills) RM issues**
  - Let the organization structure be clear to reaffirm senior management commitment
  - Principles that will guide organization risk norms/values must be established
  - Management must engage staff in discussing risk issues
  - Firm whistle blowing policies must be established
  - Provide training and development programmes
  - Reinforce desired behavior through performance measurement and reward

Thank You