# Enterprise Risk Assessment, Measurement, & Management for Information Professionals

## Case Analysis Worksheet: Chase Manhattan Case (in Barton, Shenkir & Walker 2002)

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This worksheet follows the ERM Process model used in IST 425 and IST 625. The cases we study, however, present information throughout the chapter. If you try to answer questions as you read the case the first time, you will miss many of the important facts presented later in the case and may have problems presenting your information in an insightful manner. In responding to questions, do not just quote or copy, but synthesize. Reference specific facts, including page numbers.

Remember, read the case three times. The first time you read the case, focus on the story and make not of the types of information provided. The second time you read the case, work to fill in the worksheet (keep track of page numbers for particularly relevant information). The third time you check over the case, look for other information to elaborate or support your responses.

1. **This case addresses a very large organization in the banking sector. What are some of the unique terminology or organizational aspects that were new to you?**

Some unique terminology/organizational aspects that were new to me upon reading this material are as follows:

* Value at Risk(vars)
* Fiduciary risk
* Operational risk
* Shareholder value added(sva)
* COSO
* LIBER

1. **After reading the case, what do you feel are the *most important facts about* the company’s industry, business, markets, founding or other history that influenced the firm’s RISK culture? Which of these do you feel is the most important in sharing their risk culture?**

There are many factors that were influential in Chase Manhattan sharing their risk culture, but I feel that the most important was the fact that their current organization was conceived via large mergers and acquisitions. As shown on page 40, Chase’s merger with Chase-Chemical. The acquisition of the Manhattan Bank with the aid of the Rockefellers (who were global bank tycoons at the time and still to this day, controlling the world wide banking industry) were not only huge proponents in their success, but also in their risk management practices. By growing so large, and by dissolving so many different large corporate structures, different risk practices were not only applied and merged, but were necessary for the sustainability of the company and shareholders profits. These large mergers were not only the catalyst, but were necessary for Chase-Manhattan’s unique risk structure. It was also equally as important that Chase was established and grew during a high risk time in history, which can be seen by the many economic collapses such as: the Russian Crisis, or the great depression Chemical weathered through, or the many different regulations congress enacted.

1. **Why did Chase Manhattan feel they needed to make a change to an Enterprise Risk Management view of risk? Who championed the change initiative to ERM? Do you feel that they would have been more or less successful if they had done it differently?**

* Chase was the number one player in syndicated loans, and was one of the worlds largest markets trading organizations. They were also the largest private equity investor. All of these aforementioned high risk positions, coupled with the collapse of many of their peers such as the Goggins incident, when $60 million of funds were misappropriated by Christopher Goggins, put Chase in a very high risk position. It was crucial that they have a diversified enterprise risk management structure in order to mitigate as much potential damage as possible. There was a lot riding on chase then, and there still is today due to their proactive and diversified enterprise risk management structure. Obviously Chase would have been less successful today if they had not managed risk in the manner that they did. With so much inorganic growth, and the inherently risky markets/sectors they operate in, it was vital to their success that they managed risk the way that they did. The Russian currency crisis, the Goggins incident, and many more economic and organizational collapses motivated and fostered a risk centered approach to their organization.

1. **How did they structure their ERM? (Describe the structure as centralized, decentralized or hybrid.) Why do you think Chase structured their ERM the way they did? For example, why not have a single Risk Management Department and a Chief Risk Office (CRO)? As part of moving to an enterprise approach to risk management, did they radically change their approach or build on their past approaches? Is there anything that you feel is particularly effective about their structure, given their type or size of organization?**

Chase divided its overall risk structure into three different categories: market risk, credit risk, and operating risk. Chase emphasises the fact that diversification and strong controls are quintessential in its risk aversion structure. If everything is centralized, risks can be overlooked and slip through the cracks. By diversifying and spreading their risk structure, or “safety net” as far as possible, it is much less likely risks will slip through the cracks. An integral part of the control process is the risk management committee structure. This struc-ture begins with the risk policy committee of the board of directors, con-tinues to the executive committee, and then flows to the committees on credit risk, market risk, and capital, and two new committees, operating risk and fiduciary risk.

1. **What were two of the company’s biggest challenges in making the transition from their old approach to dealing with risk to the new focus on Enterprise-wide Risk Management? Why were these challenges for their firm? Do you think every company would face these same challenges? Why or Why not?**
   1. A part of chases SVA, or shareholder value added, model is evaluating every employee based off of one fixed standard to see if they are making the right decisions and adding value to the company. This caused discord within the organization, as Marc Shapiro said, “And there were some problems in the company because people didn’t trust the financial systems, so they were all making up their own standards by which they ought to be judged and adjusting the numbers and that sort of thing.”(Page 49). I think this is an unavoidable issue within any company, because people are naturally resistant to change. It doesn't matter if the change is for the better, people will often push back against anything new, especially if the new changes are evaluations of themselves.
   2. Part of operating risk is risk of fraud on the part of the company's own employees. Because of this, the company needs to provide checks/scrutinize employees. This poses a problem because it can cause backlash within the organization. This is prevalent in any corporation, with its human resources often being a stereotype of a “snitch” or enemy within the organization. Despite feelings of mistrust, human resources and regular checks and balances is a necessary part of Chase’s risk structure.
2. **Using the Risk/Measurement/Management table below, identify five risks and align with one or two risk measurement metrics and with the at least one management approaches (e.g. consider different techniques they used to mitigate, transfer, or share a risk. Be specific.).**

| Risk (definition and example) | Measurement Strategies | Management Strategies |
| --- | --- | --- |
| e.g. Credit Risk – consumer level | Default rates calculated on consumer loan portfolios  Trending of average and frequency of applicant Fico scores on different loan portfolios by geographic locations | Mitigate – Fico score limits  Loan authorization limits on approving personnel |
| e.g. Market risk – currency fluctuations | Government regulation,  Industry wide collapse,  Analysis error/oversight,  Recession,  Global market/country collapse | Diversification,  Strong leadership and guidance on market conditions,  Don’t over leverage |
| e.g. Operational risk – transaction errors | Failure in control structure,  Human error,  Unchecked error compounding,  tampering/manipulation,  computer error | Regular checks on employees and technology,  Strong oversight board/committee,  failsafes |
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1. **How does Chase explain their contingency planning or disaster recovery strategies as part of their overall ERM approach?**

Chase said that it does not want to eliminate risk, but wants to use it effectively. They take into account possible disasters and work dynamically to mitigate them and rectify the situation. They want every employee to not only be cognizant of risks, but also be able to rectify them. The constant self assessment demanded by the company makes it so that any disaster or risk is quickly mitigated and tailored to the specific needs of the current situation. They design their system to be idiot proof so that no one disaster can cripple the company nor happen in the first place to a great degree.

1. **What does the company feel are the main benefits of ERM for their firm? Do you agree?**

The main benefits of ERM for their firm is that it not only maximizes profits, but secures those profits by mitigating as much risk as possible. They mentioned that the risk structure needs to be almost idiot proof, so that no one person or group within the organization can expose the company to risk. There are checks and balances, and checks on balances for those checks and balances. The company has a ton of oversight all diversified into different structured sections in order to make sure profits are secured in the most efficient way possible relative to potential risks associated with those strategies.

1. **What surprised you most about this case about ERM at a large, international organization? Why? Be SPECIFIC.**

What surprised me was not only the minute and detailed structuring of risk management into different organizations, but the amount of revision and review it undergoes on an annual basis to make sure that it is up to date and effective. It is one thing to partition risk in the way that chase has through several structured components, but to constantly review those risk structures is equally as impressive. The entire point of having different enterprise risk structures is to monitor and analyze all risk, almost as if they are sifting through and reviewing all potential threats; on top of doing that, they then sift through and review the very structure responsible for doing so. It is almost like they are checking. As said on Page 66, “One-third of the operating risk adjustment to capital under SVA isbased on the business unit’s risk assessment done by senior manage-ment, and one-third is based on the internal audit grade. A risk self-assessment is an important part of both.”

1. **What do you think is the *most important lesson*(s) to be learned from this firm’s experiences with Enterprise Risk Management?**

I think that reading about other banks, large banks at that, collapsing due to human error or stupid mistakes is a huge lesson that should not be overlooked. Multi billion dollar corporations can collapse in the blink of an eye without proper oversight and enterprise risk management. This contrast is highlighted further upon seeing a corporation like Chase stand the test of time solely due to its strong and structured enterprise risk management. They have been through multiple recessions, malicious employees, and many more crises and still have survived due to their diligent work in mitigating risks.