ENTERPRISE RISK ASSESSMENT, MEASUREMENT, & MANAGEMENT FOR INFORMATION PROFESSIONALS

CASE WORKSHEET FORMAT: CHASE MANHATTAN CASE

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Fill this out BEFORE trying to complete the discussions. These cases present information throughout the chapter. If you try to answer questions as you read, you will miss many of the important facts presented later in the case and may have problems presenting your information in an insightful manner. The discussion forum may be helpful.

1. **As an industry, what are some of the unique terms or other aspects that were new to you?**

   With little to no background in finance and its terms, the terms that were unique to me were : SVA, Stress Analysis and Syndicate Loans. I have never heard of these terms, and to read it in this case made the case even more interesting as this gave me an opportunity to understand and learn. Before going through this case, I was unaware about how banks were treated in the earlier years. The fact that banks were created as a part of a product line of the company was new to me as I always thought that apart from technology, the way we perceive banks had been same throughout these years.

2. **After reading the case, what do you feel are the *most important facts about* the company's business, markets, and/or history that influenced the firm's RISK culture? WHY are these important?**
   Chase RISK culture is based on the idea that they do not want to just eliminate risk , rather to use it as effectively as possible. The firm is built on the fundamentals that puts importance on Risk Identification, assessment and management. The risk policy committee's structure shows the scope of risks that are divided into different committees. Chase believed that the key way to reduce risk was to have diversity across businesses and leadership positions. According to the new model, Chase Manhattan was divided into Global Bank, National Consumer Services, and Global Services. The risk policies and decisions were implemented for each department within these divisions. The firm's concept of splitting up risks into different categories also contributes to its RISK culture.

3. **Why did Chase Manhattan feel they needed to engage in Enterprise Risk Management? How did they manage the transition, i.e. who championed the initiative? What other key tactics did they utilize? Do you feel that they would have been more or less successful if they had done it differently?**

With the Chase Manhattan merger, the company grew larger. To ensure constant profit and growth, the firm emphasized on Enterprise Risk Management. To manage the transition, Chase initiated the Shareholder Value Added model that leverages the use of adjusted-risk capital concept where employees were only given a commission when the loan interest was higher than a preset rate. This also helped in reducing asset growth thereby calling SVA a way of free cash flow. I think that this concept prevented the company from debt as it allows bank employees to evaluate risk when lending money. I think the introduction of SVA made the firm more successful.

4. **Describe how the company structured their ERM governance? Why do you think Chase structures their ERM the way they did? For example, why not have a single Risk Management Department and a Chief Risk Office (CRO)? Did they radically change their approach or build on their past approaches? Is there anything unusual about their approach?**

   The company followed a centralized structure. Although the company has a risk committee structure that separates different types of risks, the decision making happens at the executive and board of directors level. The firm made sure that the decisions that were taken followed through different divisions of the company. Initially, I was of the opinion that the firm followed a decentralized structure but during the discussion, I realized that although there are risk management departments within Chase's divisions, the decisions are uniform. This uniformity prevents faults and confusions and also ensures that profits are intact.

5. **What were some of the company's biggest challenges in making the transition from their old approach to dealing with risk to the new focus on an Enterprise view of Risk Management? Why were these challenges for their firm? Do you think every company would face these same challenges? Why or Why not?**
   One of the biggest challenges from this transition is evaluating operations risk. In one of Marc Shapiro's statement, he mentions that they have 20 years of credit history and 10 years of Market history but none for operations risk . This becomes an issue as they do not have past data to perform analysis on risks. Since operations risk is new and has almost no quantitative ways to measure it, it becomes challenging for the firm to predict loses. I think that this is a common type of risk that most companies face as operation risks arise from employees of the companies.

6. **Using the Risk/Measurement/Management table from the worksheet, identify five risks with their measurement and management approaches.**

Risk (definition and example; Be specific)	**Measurement Strategies**	**Management Strategies**
Credit Risk	SVA	Performance evaluation within the credit extension units.
Market Risk	Value at Risk	Potential loss from adverse markets
Market Risk	Stress Testing	Predict the probability of the event likely to happen
Gauge the impact of change in market rates	Sensitivity Analysis	Predicts the impact of specific variable on an output model
Credit Risk	Syndication	Transfer of Risk

7. **What are two roles that Information and Communication Technologies (ICT's) played in the ERM approach at Chase Manhattan? Are these transferrable approaches to other companies or unique to Chase?**
   ICTs helped in risk assessments for different types of risks

8. **How does Chase explain the contingency planning or disaster recovery strategies as part of their overall ERM approach?**
   Chase uses different types of risk methodologies to analyze and predict worst case scenarios in order to prepare for disaster recovery strategies. They put their portfolio against a huge recession scenario and predict the worst possible outcome. They also use other assessments such as stress testing and COSOs to predict their worst outcomes.

9. **What does the company feel are the main benefits of ERM for their firm? Do you agree?**
   The structuring of a Risk Committee has enabled Chase to mitigate risks in the firm. The SVA model proved to be most advantageous as it has found a way to make all business decisions incorporate an explicit consideration of risk, reduce asset growth and it aligns the interests of decision makers throughout the company. The division of risks into different categories has proven to be beneficial as the company can focus on the risks that need to be mitigated. ERM has enabled processes within Chase to be more streamlined and automated thereby reducing human errors.

10. **What do you think are the two *most important lesson*(s) to be learned from this firm's experiences with Enterprise Risk Management? It may help to consider what surprised you most about this case and why. Be SPECIFIC.**

    The first lesson to be learned is the organizational structure of the risk committee that has proven to be beneficial for the company. The second lesson is the way each type of risk is mitigated through different methodologies. Chase has implemented a Enterprise Risk Management System that takes even the smallest details into consideration.