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

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

|  |  |
| --- | --- |
| **STUDENT NAME:**  **William Chen** | **CASE NAME: Chase Manhattan** |

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?**

A terminology that was new to me is syndicated loan. They are loans where two banks lend a borrower money, and I was surprised to see that Chase is number one in syndicated loans. Another new thing to me is derivative trading (although I still don’t get the definition and how it works). Another term I learned is the SVA measurement.

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?**

I think the timing of when Chase was chartered definitely played a role in dealing with risks. They opened at a time when there was a panic in the economy and other banks had debts, lawsuits and were running out of cash. However, Chase was the opposite as it just opened, and they had money when others didn’t. Additionally, Chase has incentives for managers (and its employees) to run risk simulations and incorporate ways to prevent risks in their day-to-day decisions. They also stated that they do not want to eliminate risk and instead use it as effectively as possible. Chase also has a risk committee separated into different departments like credit risk, market risk, operating risk, etc. I think the most important fact is having a risk committee that looks at the different types of threats and trying to run those simulations. By actively managing risks and trying to mitigate them, they effectively avoided those risks. For example, they “avoided” the great depression and managed to stay positive while everyone else failed and lost money.

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?**

With the mergers between multiple companies, Chase Manhattan needed to make changes to its management styles. Along with mergers being one of the riskiest things an organization can do, Chase emphasized the ERM process to mitigate those risks. In return, Chase initiated the SVA model, where employees were given a commission if the cash return exceeded the capital charge. I think Marc Shapiro started the transition to ERM with the risk committee and SVA model. If they had done it differently, I don’t think Chase would be as successful.

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?**

I think Chase has a centralized structure because the decision-making is made at the executive level. Although they do have a risk committee, the executives' decisions are followed throughout the different divisions of Chase. I think Chase structured their ERM the way they did because their organization is enormous, and they have many individual branches (or I assume so). Having a single risk management department limits how much risk the department can counter, and each branch experience different kinds of risks, so having individual risk committees makes sense. As they transitioned to risk management, I feel as if they built on their past and tried to improve what they already had. Given the size of the organization, I think their structure is great. It reminds me a bit of our government, where there are three judicial branches, and each one oversees the other.

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?**

One of the biggest challenges from the transition is assessing operational risk because Marc Shapiro stated that Chase didn’t have any history in operating risks. The reason is that operating risks are random, and they can’t predict what will happen, whereas they can manage the market and credits they lend. Another challenge is ensuring people are doing what they’re supposed to do. They don’t have a way to control people and make sure they do their jobs. Employees could sit back and ignore what the organization is doing (although they’d likely be caught). This is a challenge for the firm because if one person doesn’t do their job, the whole transition is delayed, and someone has to make up the slack. I think these are common risks among all organizations because organizational risks vary wildly. Employees are unpredictable, and one wrong move can mess everything up.

1. **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 |
| Credit risk – loan to “untrustworthy” people | SVA (Shareholder value added) | Syndicated loans by sharing risks with other banks. Customer base (consistently sell the to same customers if they are repeat customers) |
| Market risk – currency fluctuations | VAR (Value at risk) | Examine potential losses from fluctuating markets |
| Operational risk – transaction errors | COSO | Assess what transactions seem wrong and do an assessment using the COSO document |
| Market risk – recession | Stress test | Predict the likelihood of the event happening. Predict how much money will be lost and how quick, along with whether or not the bank would have to stop lending money like previous recessions |
| Credit risk – not enough money | Syndicated loan | Transfer risk/share risk with other banks |
|  |  |  |

1. **How does Chase explain their contingency planning or disaster recovery strategies as part of their overall ERM approach?**

Chase developed procedures and different methods to analyze risks and predict worst-case scenarios such as recessions. They also do stress testing, COSOs, and calculate other risks and assign committees to address each problem.

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

The SVA and the risk committee/division of risks are probably the main benefits of ERM. They managed to provide incentives for decision-makers to incorporate risks in their decisions which help mitigate risks. This also incentivizes more people to become shareholders because they know Chase will be safer and take risks more seriously. The risk committee benefits Chase because they focus on individual risks, allowing Chase to handle their risks more effectively and efficiently. These processes have made the ERM process more autonomous.

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

The thing that surprised me most about this case was the credit risk. When Russia had its meltdown in 1998, Robert Strong stated that they were projected to lose about $250 million in Russia. However, a couple of weeks later, they actually lost about $30 billion. With all of their risk measures, I was surprised that they underestimated by a lot.

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

One of the biggest lessons learned is that the risk committee structure has been beneficial and will continue to be. Another lesson is how to prioritize and manage the risks through the different methods they developed. Chase tries to incentivize its employees to manage risks and mitigate them to be prepared for future financial disasters. Stress testing is crucial for Chase and other banks.