

ERM and the Failure of Risk Management: An Asian Perspective

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Abstract

Now that in many regions of the globe Basel II is fait accompli, risk professionals may feel that the financial world is ready for the ERM challenge. Is this really the case?

The Asian scenery, in which I have worked for over 15 years, paints a different picture altogether; a picture which I believe is relevant to risk professionals wherever they are. In Asian financial institutions risk management as a value-creating business has failed. The fact that over 20 years after risk management practices were first introduced, books, articles and seminars are still devoted to how risk management can pay off, is just a reminder that the market has not yet bought into our vision. The question we all must ask ourselves is why. Is it a problem of proposition or of communication? In other words, is it because we have failed to communicate the business benefits of ERM, or is it because we ourselves are not clear about them?

But why should the Asian scenery be relevant for the rest of us? After all, most American and European risk professionals tend to ignore Asia for its "less-sophisticated" financial environment. However, my experience shows that as the Asian "culturally acceptable" is different to that of the West, Asian institutions can openly exhibit problems and attitudes that in other regions may be buried under the surface. Therefore, getting familiarized with Asian institutions can help us, as risk professionals, unearth problems in our own territories that would otherwise remain hidden. This is particularly important if we believe that ERM should not merely aim at the few that can afford the resources capable of "rocket science," but rather that it should be a tool for every enterprise whatever its business may be.

Because the "scientification" of the language is, in my opinion, one of the main reasons for the failure of risk management as a value-creating business, for this paper, I have chosen the casual style.