Chase Manhattan Enterprise Risk Management

Define and explain Credit risk as it relates to Chase. Give an example of Credit Risk. Identify the techniques they use to measure this category of risk, and explain what actions they take to manage this risk.

Credit risk is the chance that the principal or financial reward from a borrower may be lost owing to the borrower's inability to repay a loan. An example is a borrower taking a loan then becoming insolvent before full repayment. The shareholder value-added (SVA) and Risk Profile techniques are used to measure the risk which is managed through evaluation of individual performance and assigning of SVA to decision makers.

Describe the major events that shaped the company's risk culture. How would you describe the company's risk culture before ERM was implemented and how would you describe the company's risk culture after ERM was implemented.

The founding of Chase Bank in 1877 during the financial crisis of that era shaped the risk culture of the organization. Prior to launching SVA, an ERM for Chase Manhattan, the company had a risk culture that focused on diversification and controls. After the launch of SVA, the company adopted a risk culture that would allow it to take risks while earning more benefits from the same.

Explain how technology was used as it relates to the Enterprise Risk Management model. Describe the problem technology solved and how technology was used.

Technology was used to refine the residual income concept of internal reporting. It helped to incorporate risk consideration in all business decisions. With the technology, everyone could understand what was involved and thus take appropriate risk management steps. It also helped in reducing the asset growth that was growing too rapidly and increasing risk for the company.

Detail the new Infrastructure as described in the case. How would you describe the new Infrastructure? Explain why you picked this structure AND the firm's rationale for this ERM structure.

The risk infrastructure is headed by a Risk Policy Committee formed from the board, an Executive Committee deputizes it and five other risk committees follow. These are the Credit Risk, Market Risk, Capital, Operating Risk and Fiduciary Risk committees. The company picked the structure because it is highly organized, has an emphasis on cascaded communication and has strong policies and controls for risk management.

Describe "Moral Hazard" and "Systemic Risk". Explain how these terms were used in response to the Mortgage crisis. Explain both sides of the argument. Explain how the issue was resolved ("Moral Hazard" or "Systemic Risk")? Concerning risk management, do you think the US government made the right choice (why or why not)?

Moral hazard is the condition where one party engages in a risky venture knowing that it is insulated against the risk and that another party would incur the costs of a catastrophic event. Systemic risk is a concept from the belief that the failure of a major institution would result in the failure of all other institutions in that industry as opposed to just the one entity. The government solved the problem by denying some banks such as Lehman Brothers a bailout while funding others like AIG. The government made the right decision to avoid a total collapse of the market.

What is one lesson or insight you take away from this case, and how it may change your actions or behavior now or in the future?

An insight from this case is that balance is important for a company operating in a risky environment. My actions in the future would be guided by a risk culture that seeks to use diversification and controls as well as technology to manage risk. Such a risk culture has helped Manhattan Chase remain in operation while other banks were failing.

Describe one challenge the firm faced in transitioning from their previous approach to risk management to the enterprise approach described in the case. Why was this a challenge? What did the firm do to manage this challenge?

There were fears of reduced earnings for loan officers. Under the old system, the more loans they issued, the more income they earned. The new system reduced the rate of asset growth and the officers feared reduced income. However, the bank helped the officers understand that they would earn more from better calculation of risk.

Define and explain Market risk as it relates to Chase.   Give an example of Market Risk. Identify the techniques they use to measure and monitor this category of risk, and explain what actions they take to manage this risk.

It refers to the risk that Chase might lose money due to poor asset performance in the market. Currency assets may underperform if the holding currency depreciates. Value-At-Risk (VAR), Stress Testing and Non-Statistical techniques are used in measuring and monitoring this risk. Thresholds, stop-loss advisories, and risk avoidance strategies are used in risk management.

Describe the risk infrastructure of Chase Manhattan Corporation. Does the infrastructure align with the old or new paradigm of enterprise risk management? Support your response.

The new risk infrastructure has three tiers of committees. It aligns with the new paradigm of ERM in that it is more organized. It also has more controls and policies for risk management.

How did Chase Manhattan Corporation define credit risk? How is credit risk measured? How is credit risk managed?

It is the risk that a borrower may be unable to meet their contractual obligation. It is measured using SVA and Risk Profile. The management is done by use of risk transfer strategies.

How did Chase Manhattan Corporation define market risk? How is market risk measured? How is market risk managed?

It is the risk of a loss from an asset's unfavorable market price. It is measured by Stress Testing, VAR and non-statistical measures. The management is done using thresholds, stop-loss advisories and risk avoidance strategies.