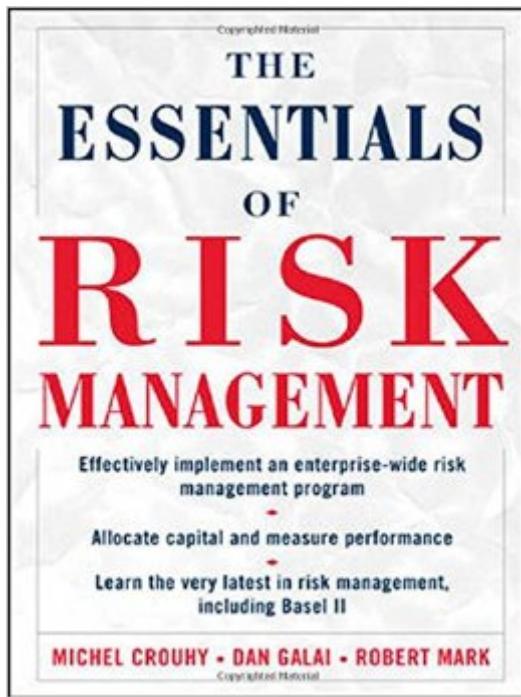


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# The Essentials Of Risk Management



## Synopsis

Risk management is no longer confined solely to risk management specialists. Stakeholders ranging from employees to investors must understand how to quantify the tradeoffs of risk against the potential return. The failure to understand the essential nature of risk can have devastating consequences. Globally renowned risk and corporate governance experts Michel Crouhy, Dan Galai, and Robert Mark have updated and streamlined their bestselling professional reference Risk Management to introduce you to the world of risk management without requiring you to know the intricate formulas and mathematical details. The Essentials of Risk Management is the first book to make even the most sophisticated risk management approaches simultaneously accessible to both risk and non risk professionals. It will help you to: Increase the transparency of your risk management program to satisfy shareholders, employees, regulators, and other important constituencies Keep on top of the continuing evolution of best-practice risk policies and methodologies and associated risk infrastructures Implement and efficiently communicate an organization-wide Enterprise Risk Management (ERM) approach that encompasses market, credit, liquidity, operational, legal and regulatory, business, strategic and reputation risks Navigate thorny areas including risk policies, risk methodologies, economic capital, regulatory capital, performance measurement, asset-liability management, and more Efficiently allocate limited corporate resources to comply with the new generation of risk regulation and corporate governance regulation As a non-risk professional or board member, you are being called on more than ever before to make sophisticated assessments of your organization's risk exposures as well as play a critical role in its formal risk management process. The Essentials of Risk Management tells you what you need to know to succeed in this challenging new environment.

## Book Information

Hardcover: 416 pages

Publisher: McGraw-Hill; 1 edition (December 14, 2005)

Language: English

ISBN-10: 0071429662

ISBN-13: 978-0071429665

Product Dimensions: 6.3 x 1.2 x 9.3 inches

Shipping Weight: 1.6 pounds

Average Customer Review: 4.2 out of 5 starsÂ  See all reviewsÂ  (25 customer reviews)

Best Sellers Rank: #547,002 in Books (See Top 100 in Books) #128 inÂ  Books > Textbooks >

## Customer Reviews

This book provides an introduction to the field of risk management for readers who do not yet want to get deeply involved in the mathematical formalism that is typically used. The authors wrote the book so that it is "accessible to everyone", and they have done a fine job. Those readers who need a more quantitative treatment will have to consult another book or the vast research literature on the subject. Risk management, as they see it, is an attempt to estimate both the 'expected' losses and the 'unexpected' losses, and being able to differentiate between these two concepts goes to the core of the subject. Thus the book emphasizes the "intuition" behind risk management, and not the formalism. However, one must not conclude from this that "intuition" and "formalism" are distinct, and the belief that they are has resulted in a lot of confusion (and financial losses) in recent years. The authors clearly do not believe that they are, but have merely emphasized "intuition" from a pedagogical point of view. The authors classify risk into eight categories, namely market, credit, liquidity, operational, legal and regulatory, business, strategic, and reputation risk. Financial risk, as they see it, is composed of two of these, namely market and credit risk. Their discussion of corporate risk management is very interesting, in that it begins with the observation first made almost forty years ago that the value of a firm is not altered solely by financial transactions. This is due to their assumption of the perfect market hypothesis, which effectively suppresses the ability of the firm to gain significant advantages over an individual investor. Therefore with this assumption a firm should not concern itself with risks outside of the ones that all other firms face.

This is a broad, gentle introduction to risk. As it means to be non-technical, it is stronger as a discussion of qualitative issues like governance and weaker as an introduction to deep topics like Basel II and value at risk (VaR). What I like about this book is that it succeeds in putting risk measurement in perspective, from 10,000 feet. Chapter 1 nicely summarizes why risk measures are helpful and "dangerous." In this respect, the authors actually go further than Taleb's Black Swan by hinting at solutions. Taleb basically says we necessarily abuse models (my paraphrase of his entire book). We can all stipulate to that. The relevant question is, knowing our risk models do not describe natural phenomena, what do we do about it: how do we improve them and, a different question, what is their proper use (e.g., support, situation, context)? It's hard to find good study on model risk but this book touches on it quite a bit. In a way, I think the book's strength is as a primer on model

risk. Chapter 4 is helpful on risk governance, including roles (risk advisory director). The credit crisis, like some before, has re-surfaced the importance of governance. It is a very accessible scan of various risk topics. The authors boiled down their formidable research on risk adjusted return on capital (RAROC) into a quick review. Great intro to economic capital and OpRisk VaR. Basel II is summarized into the smallest space I've seen. What I don't like Bending over backwards to be non-technical can lead to confusion. The central limit theorem (CLT), being slightly misstated, is given too much application (i.e.

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