Rabobank

Principles of Risk Management

Manish Sarraf
Head, Global Financial Markets, Rabobank India

14 Dec, 2011

Contents

- Recognition
- Measurement
- Management

Risk Recognition

How Do We Recognize Risk

- Planning Stage
  - Local versus Import / Export
  - Buyers – cost escalation clauses
  - Capital Account vs Trade Account
- Order Stage
  - Crystallized
- Continuous

Rabobank

Risk Measurement

How Do We Measure Risk

- Absolute impact
- Percentage impact
- Scenario Analysis
- Break-even Analysis (Stop-loss)

Rabobank

Risk Management

Can We Manage Risk?

Myth: Since we can’t predict the future, let us take no action.

Reality: No action is also action.

Concepts People Use

- “I know the markets”
- “I can make money / more money on the exchange rates”
- “It’s a one-way street”
- “This can never happen / It’s money for the asking”

Finally:

- “Hope the market reverses”

Principles Of Risk Management

- 3 styles – Nothing, Everything, Something
- There is no perfect approach
- Long term versus short term
- Consistency is key
- Be disciplined
- Look back for lessons, not regrets

Other Factors To Consider

- Earnings volatility – listed companies
- Accounting Standards – Hedge Accounting
- Simplicity is often best
- Greed is not good
- Focus on core business

Best Products Are The Simple Ones

- Cash rates
- FX Forwards
- Options – expensive but good insurance
- Interest Rate / Cross Currency Swaps – for cash flows, specially for borrowings

Thank You