Warwick Economics Society



Divisional Starter Packs – Risk Management

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Risk Management:

What is risk management?

Risk Management is the process of identification, analysis, and acceptance or mitigation of uncertainty in investment decisions. Simply, risk management involves understanding what could go wrong financially and taking steps accordingly to reduce the potential impact.

Risk management is particularly important for commercial banks, investment banks, asset managers, and insurers. This is because they are constantly exposed to different types of financial risk.

Types of Risk Management:

Credit Risk:

Assesses the likelihood that a borrower or counterparty will fail to meet its obligations, setting lending limits and monitoring the creditworthiness of clients. This is especially important for corporate banking and lending.

Companies: JPMorgan, HSBC, Barclays, Citi, Lloyds

Market Risk

Measures and monitors the risk of losses arising from movements in the financial markets. These movements could come from interest rates, FX, equities and commodities, setting limits on trading desks' exposures. Market risk is mainly associated with S&T (Sales and Trading).

Companies: Mainly bulge bracket firms: Goldman Sachs, Morgan Stanley, Deutsche Bank, UBS

Operational Risk

Identifies and manages the risk of losses resulting from failures in internal processes, people, systems or external events. This is managed internally.

Companies: HSBC, NatWest, Santander, Standard Chartered

Liquidity Risk

Manages the risk that a firm cannot meet its short-term funding obligations, monitoring cash flows, funding sources and regulatory liquidity requirements.

Companies: Barclays, Citi, BNP Paribas, RBC Capital Markets

Enterprise & Non-Financial Risk

Takes a firm-wide view across all major risk types, aggregating exposures and reporting the overall risk profile to senior management and the board.

Companies: Aon, Marsh McLennan, WTW, Deloitte

Regulatory & Compliance Risk

Ensures the firm meets its regulatory obligations, monitoring conduct, financial crime and prudential requirements set by regulators.

Companies: EY, PwC, KPMG, FCA

Model Risk & Quantitative Risk

Monitors the risk models a firm relies on for pricing, capital and credit decisions, ensuring they remain accurate and fit for purpose.

Companies: Morgan Stanley, BlackRock, Man Group

Day to day tasks:

Across risk management roles, day-to-day work can vary significantly depending on the risk type and seniority, but common tasks include:

- **Risk monitoring** - tracking limits and key risk indicators across a business area or portfolio.
- **Risk reporting** - preparing regular reports that summarise risk exposures for senior management and committees.
- **Limit setting & monitoring** - working with the business to set appropriate risk limits and escalating any breaches.
- **Model & data analysis** - running and interpreting risk models, stress tests and scenario analysis.
- **Policy & framework work** - helping maintain the risk policies that govern how risk is managed across the firm.
- **Business partnering** - working with trading, lending or operational teams to challenge and advise on risk-taking.
- **Regulatory interaction** - supporting responses to regulatory requests and ensuring compliance with prudential requirements.

- **New product review** - assessing the risks of new products or business initiatives before they are approved.

For a junior risk analyst, a typical day might therefore involve:

checking overnight risk reports, updating models or dashboards, team catch-up, calls with the business or committee prep & refining risk papers.

Required skills:

- **Analytical & Quantitative Skills** - comfort working with statistics and large datasets to measure and interpret risk.
- **Accounting & Financial Knowledge** - strong grasp of financial statements and how they translate into credit and financial risk.
- **Attention to Detail** - producing accurate risk analysis and reporting, particularly where errors can have material consequences.
- **Written Communication** - producing clear, well-structured risk papers and reports for senior stakeholders.
- **Challenge & Judgement** - confidently questioning and challenging risk-taking by the business.
- **Numerical & Data Skills** - comfort working with large datasets, spreadsheets and risk systems.
- **Problem-Solving Skills** - synthesising complex risk information into a clear, well-supported view.
- **Resilience & Time Management** - managing multiple risk areas and reporting deadlines simultaneously.
- **Awareness of Regulation rules** – abiding by possible laws.

Specific interview advice:

The most important advice for a role in this industry is having market awareness. Keeping up to date with current news sources such as The Economist or the FT is essential. **The University of Warwick Economics Department provide free subscriptions to both of these sources, so make good use of them.**

Finally, have a good understanding of the technicals such as credit and market risk analysis (knowing the 3 financial statements well) and how key risk metrics such as Value at Risk (VaR) are used. Note that technical knowledge is more useful for summer internship and graduate roles. Spring Internships will not require as much technical knowledge.

Career progression:

Intern (Off-cycle or Summer Intern): Gain exposure to risk management through data analysis, reporting and supporting the wider risk team.

Analyst: Support senior risk managers with reporting and analysis across a risk area.

Associate: Take ownership of parts of a risk portfolio, lead analysis and build relationships with business stakeholders.

Vice President: Lead risk oversight of a business area or risk type, and act as the primary point of contact for senior stakeholders.

Director: Oversee a risk team, mentor junior risk professionals, and represent the function on the most significant committees.

Managing Director / Chief Risk Officer: Set the overall risk strategy and appetite for the firm and manage its relationships with regulators and the board.

Common exit opportunities include skills that have been built up throughout a career in risk management.

Examples:

- **Compliance & regulation** - moving into broader compliance functions or in-house at a regulator.
- **Corporate treasury** - applying credit and liquidity risk skills to manage a company's own funding and financial risk.
- **Internal audit** - applying risk and control expertise to independently assess a firm's processes and governance.
- **Consulting** - moving into risk or broader financial services consulting, drawing on technical and regulatory expertise.