

## Part 14

# Risk Policing & Enforcement

July, 2011  
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**Perspective of:**

**Risk ratings and fund suppliers**

# Limitations in taking risks

## Owners and Management

- Shareholders
- Board of Directors
- Management
- Internal Audit

## Regulation and Supervision

- Legal Framework
- Regulations
- Supervision
- External Auditors

Risk

## Market Discipline

- Depositors
- Customers
- Analysts
- Ratings Agencies
- Media

# Rating areas

## Rating areas

**Government**

**Information**

**Risks: identification and control**

**Activities**

**Financing and liquidity**

**Efficiency** and profitability

## Weight or importance

24%

10%

10%

Qualitative areas

20%

14%

22%

Quantitative areas

# Rating areas

## Government (24%)

- Decision making.
- Planning.
- HR management

## Information and Systems (10%)

- Design, information functional system and data quality.

## Risks (10%)

- Procedures and internal controls.
- Internal audit.

# Rating areas

## Activities (20%)

- Finance services management (credits, capturing, money transfer, insurances, etc).
- Credit risk.
- Credit risk cover.

## Financing and Liquidity (14%)

- Market risk management.
- Liquidity risk.
- Financing and strategy of capital adaptation.

## Efficiency and profitability (22%)

- Profitability (ROA).
- Income's quality .
- Efficiency and operative.
- Use of assets optimization.

## Key elements for MFI evaluation

- **Qualitative.**
  - Main stockholders and corporate government quality.
  - Management quality, board team stability.
  - Strategic planning – business strategy.
  - Staff management quality.
  - Technology and systems.
  - Financial information quality.

## Key elements for MFI evaluation

- **Qualitative (cont.)**
  - Global risk management.
  - Control and audit environment.
  - Quality service and standards.
  - Brand – corporative image.
  - Country risk: economic stability, integrity and corruption.
  - Regulatory framework and legal system and licenses.



## Key elements for MFI evaluation

- **Quantitative.**
  - Financial strength – capitalization.
  - Quality and diversification of credit portfolio.
  - Size and market participation.
  - Profitability.
  - Stability and results of evolution.
  - Liquidity management.
  - Diversification of fund sources.

## Own financial reasons limits from relevant competition

- Margins
- Profits.
- Profitability.
- Risk / credit of the quality of portfolio.
- Growth.
- Market participation.
- Cost efficiency/ operatives.

## Own financial reasons limit from relevant competition

- Indebtedness (debt/capital).
- Capitalization.
- Funding sources.
- Liquidity.
- Risk classification.