SPOTLIGHT ON...

Risk Management

Samuel Won, Global Risk Management Advisors

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Samuel Won, Founder and Managing Director of Global Risk Management Advisors (GRMA), talks about the challenges funds are facing with new risk-related reporting/regulatory requirements and why having institutional-quality risk management is essential for attracting and retaining investors.

You founded Global Risk Management Advisors, Inc. in 2008, just as the global financial crisis really kicked in. Was this timing coincidental?

The timing was not coincidental - GRMA was created as a direct response to the 2008 financial crisis. We established the firm in order to help asset managers and investors to have formal and institutional-quality risk management so that they can better weather the next financial crisis and have a more sound, sustainable and integrated risk and investment process that will produce better risk adjusted returns.

As recovery gets underway, how has your business changed? Are you finding that companies are more or less interested in risk management?

We are finding that there is a rapidly growing secular and regulatory sea change that is forcing asset managers and institutional investors to do more formal and enhanced risk management. For asset managers, the pressure to do more is coming from institutional investors and regulators demanding more transparency and data from asset managers (e.g., their risk profile and demonstrated proof of risk management practices).

For institutional investors, the rationale to do more formal risk management stems from their need to protect themselves from fiduciary risk and liability. We have also seen institutions adopting more formal risk management in an effort to be in line with best practice standards and follow the leaders in their peer group (e.g. Harvard Management Company, Ontario Teachers, etc.)

What about the regulators? How has their approach to risk management changed?

Following the financial crisis, major regulators, such as the SEC and FCA, have rolled out new regulations to better understand how asset managers, specifically alternative asset managers, affect systemic risk. As a result, they are requiring funds to report information about their risk profile including market risk, credit risk, counterparty risk and liquidity risk.

For example, the AIFMD regulations in Europe require funds to go far beyond basic risk reporting — they require funds to have an independent risk management function, risk management policies, procedures and compensation schemes. Many fund managers use us to help them with these onerous and complex risk requirements.

What do you see as the biggest challenge funds have had with these reporting requirements?

The biggest problems we have seen are: 1.) funds are inadvertently raising "red flags" because they are using incorrect assumptions and interpretations in their risk-related regulatory filings; 2.) funds do not have proper regulatory audit trails and policies/procedures in place; and, 3.) overall, their process is not efficient, cost effective nor scalable for all types of risk-related reporting.

And what about the services for your other silo, institutional investors?

While many institutional investors use an outsourced CIO firm and/or consultant(s) to help them with asset allocation and manager selection, we have found that most of these institutions still lack formal risk management. GRMA works with these institutions to help them have a formal risk management framework and risk management processes, controls and governance.

For example, we assist institutional investors to enhance their Investment Policy Statements to reflect their risk management approach, develop their risk management policy guidelines and provide on-going training and education to both the investment staff and the board. We also serve as an independent sounding board on risk management matters to both the staff and board.

And what differentiates GRMA?

No other firm offers complete, institutional-quality investment risk management as a managed service. We provide a superior and cost effective solution for risk measurement and risk data aggregation. We also enable our clients to take a holistic approach to risk management by incorporating GRMA's "four pillars" of sound risk management: risk strategy, risk management processes/controls, risk infrastructure and risk management governance.

We work with firms and institutions that have no risk management as well as some that have a risk function. In today's environment, we strongly believe it is not enough to simply measure and aggregate risks; we believe it is important to manage these risks as part of a sound, sustainable and repeatable investment and risk management process.

About Samuel Won

Samuel Won is the Founder and Managing Director of Global Risk Management Advisors (GRMA), the leading investment risk management advisory and implementation firm to asset managers and institutional investors. Prior to GRMA, he headed up risk management at major firms and institutions in the investment management industry, Wall Street, and the government.