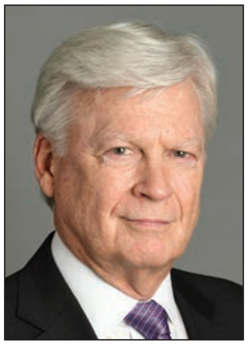
Risk Management

An Interview with Richard Apostolik, President and Chief Executive Officer, Global Association of Risk Professionals (GARP)



Richard Apostolik

EDITORS' NOTE *Richard Apostolik has led the world's premiere association for risk professionals for 19 years. While at a previous role at Bankers Trust's (Deutsche Bank) strategic ventures group, Apostolik developed financial risk management initiatives there designed to provide credit risk mitigation and management services to financial service companies. He also served as JPMorgan & Co.'s global head of energy brokerage activities and Chief Operating Officer of its global listed product businesses. He ran his own consulting firm and was responsible for the start-up of SG Warburg & Co.'s North American futures and options business. He was an attorney with the U.S. Securities and Exchange Commission, practiced law with a private law firm in Chicago, and was the Chicago Mercantile Exchange's house counsel. Apostolik holds a BSBA, MBA, and JD from the University of Dayton.*

ORGANIZATION BRIEF *The Global Association of Risk Professionals (GARP.com)is a non-partisan, not-for-profit membership organization focused on elevating the practice of risk management. GARP offers role-based risk certification, the Financial Risk Manager (FRM®), as well as the Sustainability and Climate Risk (SCR™) certificate and on-going educational opportunities through Continuing Professional Development. Through the GARP Benchmarking Initiative and GARP Risk Institute, GARP sponsors research in risk management and promotes collaboration among practitioners, academics and regulators. Founded in 1996, and governed by a Board of Trustees, GARP is headquartered in Jersey City, NJ, with offices in London, Washington, D.C., Beijing, and Hong Kong.*

Will you discuss the history and heritage of the Global Association of Risk Professionals (GARP) and how you define the organization's mission?

The Global Association of Risk Professionals, known as GARP, was organized in 1996 and is a non-partisan, not-for-profit membership organization focused on setting standards around and elevating the practice of risk management. GARP offers a practitioner-focused professional risk certification – namely the Financial Risk Manager (FRM®) – as well as the Sustainability and Climate Risk (SCR™) certificate and on-going educational and networking opportunities through Continuing Professional Development and global chapter meetings.

In its early days, prior to my joining the organization, GARP was organized primarily as a conduit for convening consultants and very early risk-based practitioners in the financial world to network and discuss ways in which they could strengthen their respective businesses. It was initially organized as a U.S.-based not-for-profit activity. At that time, in the late 1990s, risk management was not considered its own profession. GARP shortly thereafter expanded to the UK and a third entity was created to engage in events-related programs, mainly to host an annual convention and organize other networking activities. In 1997, GARP launched its first professional examination program called the Financial Risk Manager (FRM) certification program. At its inception, GARP registered about 110 people for the first FRM exam. Now, 24 years later, earning the FRM designation has become the gold standard for professional financial risk management practitioners worldwide.

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In 2001, I became involved with GARP during what was a transitional time for the organization. At that point, approximately 2000 people were taking the FRM exams on an annual basis, and GARP had roughly $1 million in revenue. We appointed our first formal Board of Trustees, who together with our senior leaders led the charge in expanding and promoting the FRM exam program globally. The program grew between 10-20 percent annually from 2002 up until COVID hit us last year. Even with the challenges COVID presented in 2020 to GARP's abilities to deliver the examinations to interested risk management professionals, we found that the interest in the FRM program did not wane and through the adaptability and perseverance of our employees, we still delivered our exams to over 60,000 registrants in about 100 locations on three different exam dates globally. The FRM has become, in many ways, the embodiment of GARP's mission – to advance and promote best practices of risk management around the world.

Another interesting piece of the GARP story is our growth and visibility in China. I made my first trip to China for GARP in 2005. We introduced the FRM program directly to the Chinese marketplace at that time, as well as throughout Asia. Up until the onset of COVID, for the last 16 years, we had been regularly traveling back and forth to China to ensure we were meeting the demands of the Chinese marketplace for building capabilities in financial risk management based on globally accepted approaches and standards. The tangible results of that effort have been very successful and we are the only organization formally noted by the Chinese government as professionals in financial risk management. I have been back and forth to China since 2005 more than 75 different times to promote our program and introduce best practices in financial risk management. Our work in China, and throughout Asia, has been integral to GARP's growth.

Will you provide an overview of GARP's services and solutions for risk professionals?

In addition to building our education and certification programs, we recognized there were many other prospective areas of focus for GARP in the risk management space. A strategically significant piece of the GARP business is around one of our key initiatives called the GARP Benchmarking Initiative (GBI). To provide

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some context, during the Great Financial Crisis of 2007-2009, there were a multitude of issues that arose around bank capital – how bank capital was being utilized, how it was being analyzed, how banks were identifying risks in their portfolio, and determining how much capital banks should have in their portfolios and/or on their balance sheet. That resulted in the issuance of a series of Basel Committee-based rules to strengthen the capital of financial institutions. In or about 2011, the Basel Committee on Banking Supervision (BCBS) came out with its first of what they called hypothetical portfolio exercises. Those exercises were designed to look at how banks were assessing risk weights of the various assets they had on their balance sheets. Banks were asked to run their risk measures against the hypothetical portfolios and this concept of assessing risk measures had never been used before.

GARP became involved in hypothetical portfolio assessment work after reading and thinking through an op-ed written by the then Chairman and President of Citibank, Vikram Pandit, on January 11, 2012. In the op-ed, he suggested that a number of hypothetical portfolios be developed on behalf of banks and that banks run the risk measures against those benchmark portfolios and make the results public. We thought it a great suggestion and brought it before GARP’s Board of Trustees. We recommended that GARP become involved in helping banks develop these portfolios and work with them to compile and analyze the results. GARP was, in our view, the ideal partner for this as we do not lobby or consult, and since this was a risk management activity, it fit perfectly within our mission.

We reached out to the banks and regulators, indicating to them that we had or would develop the depth of expertise to further what we felt was a crucial way forward toward reestablishing confidence in the banking system during what was still a time of crisis. We initially spent an entire year developing our own market risk hypothetical portfolio and learned a lot in terms of how these representative portfolios should be developed, and results were aggregated and then published back to the participating financial institutions and regulatory bodies around the world. In doing so, GARP became a “trusted third party” for other studies that provided aggregated, anonymized, objective fact-based feedback to banks and regulators. Today, 74 banks, 34 asset managers and other institutions take part in GBI, adding up to a total of 122 participants from every region of the world. GARP is the only organization globally that engages in this type of work as a trusted third party to the global financial services industry.

In addition to GBI, about three years ago, we created the GARP Risk Institute (GRI). GRI was created to conduct objective and non-partisan research around a variety of different issues that affect risk management on a global basis. One of its primary areas of focus has been on climate risk, an emerging risk in the financial services industry. We’ve acted as secretariat to the Bank of England’s Climate Forum for the scenario analysis and risk management workstreams, have worked extensively on developing educational webcasts and podcasts on a number of climate-related risk management issues, and published papers and articles on developments in this still relatively nascent industry. GRI, in just three short years, has become the leader in climate risk management.

In addition, GRI has also focused on an issue we feel is highly important, especially now that the corporate financial effects of COVID will start to be seen: leveraged loans. Leveraged loan defaults may come to the forefront once the various measures of government support and stimulus are removed from the marketplace.

Another area where we feel we’ve added considerable value is assessing the issues and alternative reform approaches concerning liquidity and the tools to manage liquidity.

As the trusted third party, we also play the role of “convener.” We are the only organization in the world who has been able, because of our work with GBI and our non-partisan standing, to bring together individuals from academia, the regulatory community, and risk management practitioners to senior level forums to discuss issues important to them in a confidential setting, called the Global Risk Forum. The forums bring together senior professionals from various parts of the world to sit down and talk about issues in a nonpartisan, open and constructive way under Chatham House rules. They occur once a year and are co-hosted each year by GARP and a different central bank. They travel the globe, moving from the Americas to Europe and Asia. Attendance is by invitation-only, and only senior industry professionals are invited. The forum agendas each year change depending on the current issues of interest and are developed by a forum steering committee consisting of very senior practitioners and regulators and academics. The Global Risk Forum has served as a model for other types of forums that GARP has administered and developed. Today, we have the GARP Buyside Risk Managers Forum in the U.S., and a second Buyside Risk Managers Forum in Europe. We are right now in the process of developing an Asian Buyside Risk Manager’s Forum. We are taking this forum concept and its successes and bringing it around the world.

What are the keys to being effective as a risk manager and how has the risk manager role evolved?

Risk managers look at very complex issues on a regular basis. It is important for risk managers to be able to communicate these issues in a very easy to understand way to senior management, and to company board members, making them aware of the key risks so they can do their jobs appropriately. Most people think risk managers need to be quants but that’s not the case. They just need to understand what a quant is doing, understand and interpret the results and clearly communicate how those findings can be used in a way to support the company’s business. The risk manager must be a partner to the business while maintaining his/her independence. He or she is expected to work with the business to achieve its goals while simultaneously ensuring the firm and its business units comply with the company’s risk appetite statements and capital requirements, among other things. The role and function of the risk manager has dramatically evolved and expanded. Historically, the risk manager in financial firms was primarily or only concerned with credit risk, market risk or both. Today, the role of the risk manager is considerably broader and has pivoted to the C-suite.

Risk managers are now overseeing such activities as climate risk, cyber security and financial crime and in some cases even the firm’s technology function, as technology is vital to ensuring a viable risk management function. So, today, many organizations have technology areas and departments reporting into the risk management function given the data being generated to support most risk assessments is driven by technologies that these companies are using. The role of the risk manager is to help make things happen in a way that still protects and manages potential risks to the organization. ●

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