

The Professional Risk Managers' Handbook

A Comprehensive Guide to Current Theory and Best Practices

The Official Handbook for the PRM Designation



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Introduction to Operational Risk, by Penny Cagan

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Introduction

If you're reading this, you are seeking to attain a higher standard. Congratulations!

Those who have been a part of financial risk management for the past twenty years, have seen it change from an on-the-fly profession, with improvisation as a rule, to one with substantially higher standards, many of which are now documented and expected to be followed. It's no longer enough to *say* you know. Now, you and your team need to *prove* it.

As its title implies, this book is *the* Handbook for the Professional Risk Manager. It is for those professionals who seek to demonstrate their skills through certification as a Professional Risk Manager (PRM) in the field of financial risk management. And it is for those looking simply to develop their skills through an excellent reference source.

With contributions from nearly 40 leading authors and practitioners, the PRM Handbook is designed to provide you with the materials needed to gain the knowledge and understanding of the building blocks of professional financial risk management. Financial risk management is not about avoiding risk. Rather, it is about understanding and communicating risk, so that risk can be taken more confidently and in a better way. Whether your specialism is in insurance, banking, energy, asset management, weather, or one of myriad other industries, this Handbook is your guide.

In Volume II, we take you through the mathematical foundations of risk management. While there are many nuances to the practice of risk management that go beyond the quantitative, it is essential today for every risk manager to be able to assess risks. The chapters in this section are accessible to all PRM members, including those without any quantitative skills. The Excel spreadsheets that accompany the examples are an invaluable aid to understanding the mathematical and statistical concepts that form the basis of risk assessment. After studying all these chapters, you will have read the materials necessary for passage of Exam II of the PRM Certification program.

Those preparing for the PRM certification will also be preparing for Exam I on Finance Theory, Financial Instruments and Markets, covered in Volume I of the PRM Handbook, Exam III on Risk Management Practices, covered in Volume III of the PRM Handbook and Exam IV - Case Studies, Standards of Best Practice Conduct and Ethics and PRMIA Governance. Exam IV is where we study some failed practices, standards for the performance of the duties of a Professional Risk Manager, and the governance structure of our association, the Professional Risk Managers' International Association. The materials for Exam IV are freely available on our website and are thus outside of the Handbook.

At the end of your progression through these materials, you will find that you have broadened your knowledge and skills in ways that you might not have imagined. You

will have challenged yourself as well. And, you will be a better risk manager. It is for this reason that we have created the Professional Risk Managers' Handbook.

Our deepest appreciation is extended to our Handbook editors, Prof. Elizabeth Sheedy, Jonathan Howitt, Stefan Loesch, Justin McCarthy, Oscar McCarthy and Andy Condurache, dedicated PRMIA Leaders, for their editorial work on this publication. The commitment they have shown to ensuring the highest level of quality and relevance is beyond description.

Our thanks also go to the authors who have shared their insights with us. The demands for sharing of their expertise are frequent. Yet, they have each taken special time for this project and have dedicated themselves to making the Handbook and *you* a success. We are very proud to bring you such a fine assembly.

Much like PRMIA, the Handbook is a place where the best ideas of the risk profession meet. We hope that you will take these ideas, put them into practice and certify your knowledge by attaining the PRM designation. Among our membership are several hundred Chief Risk Officers / Heads of Risk and tens of thousands of other risk professionals who will note your achievements. They too know the importance of setting *high standards* and the trust that capital providers and stakeholders have put in them. Now they put their trust in you and you can prove your commitment and distinction to them.

We wish you much success during your studies and for your performance in the PRM exams!

PRMIA