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Postgraduate Certificate in Risk Management for Central Banks (Bangladesh)

Risk Governance And Culture

Adequacy of Capital – related terms: capital buffers, solvency ratio – The amount of capital a central bank must hold to absorb losses while continuing operations. It is measured against risk-weighted assets. Example: Bangladesh Bank maintains a minimum Tier 1 capital of 8 % of its risk-weighted assets. Practical application: regular stress-testing to verify capital sufficiency. Challenge: forecasting extreme macro-economic shocks that could erode capital quickly.

Aggregated Risk Profile – related terms: risk aggregation, risk appetite – A consolidated view of all material risks across the institution, expressed in a common metric such as monetary value or risk-adjusted return. Example: combining credit, market, liquidity, and operational risks into a single heat map. Practical application: informs strategic decision-making and resource allocation. Challenge: ensuring consistent data quality across disparate risk lines.

Anti-Money Laundering (AML) Framework – related terms: KYC, SAR, FATF – A set of policies, procedures, and controls designed to detect, prevent, and report illicit financial activities. Example: implementing transaction monitoring systems that flag suspicious transfers above a threshold. Practical application: protects the central bank's reputation and supports compliance with international standards. Challenge: balancing thoroughness with the burden on regulated institutions.

Asset-Liability Management (ALM) – related terms: duration gap, liquidity mismatch – The process of coordinating the timing and currency of assets and liabilities to manage interest-rate, liquidity, and funding risks. Example: using forward contracts to hedge foreign-exchange exposure of foreign-currency reserves. Practical application: maintaining stability of the monetary base. Challenge: forecasting interest-rate movements in volatile markets.

Audit Committee – related terms: board oversight, internal audit – A sub-committee of the board tasked with reviewing the effectiveness of risk governance, internal controls, and audit findings. Example: the Audit Committee of Bangladesh Bank reviews quarterly internal audit reports on cyber-risk. Practical application: provides independent assurance to senior management. Challenge: ensuring committee members possess sufficient technical expertise.

Baseline Scenario – related terms: stress testing, forward-looking analysis – The reference macro-economic projection used as a starting point for scenario analysis. Example: a baseline GDP growth of 6 % for Bangladesh in the next fiscal year. Practical application: calibrates risk models and capital planning. Challenge: accurately capturing emerging trends such as climate-related disruptions.

Behavioural Risk – related terms: culture risk, human error – Risks arising from the actions, attitudes, or incentives of individuals that may lead to sub-optimal decisions. Example: traders taking excessive positions due to performance-linked bonuses. Practical application: embedding risk-aware behaviours through training. Challenge: measuring intangible cultural factors.

Board Risk Appetite Statement – related terms: risk tolerance, strategic objectives – A formal declaration by the board outlining the level and types of risk the institution is willing to assume to achieve its goals. Example: a statement that the bank tolerates moderate market risk but low operational risk. Practical application: guides risk limits and performance metrics. Challenge: translating qualitative statements into quantitative limits.

Business Continuity Planning (BCP) – related terms: disaster recovery, resilience – A structured approach to ensure critical functions can continue during and after a disruptive event. Example: alternate data-center sites for the central bank's payment system. Practical application: reduces downtime and protects financial stability. Challenge: maintaining up-to-date recovery procedures amid rapid technology changes.

Capital Conservation Buffer – related terms: Basel III, regulatory capital – An additional capital reserve above minimum requirements intended to absorb losses during periods of financial stress. Example: a 2.5 % buffer mandated for Bangladesh's banking sector. Practical application: strengthens solvency under adverse conditions. Challenge: allocating capital without impairing lending capacity.

Cash Flow at Risk (CFaR) – related terms: VaR, liquidity risk – A statistical measure of the potential variability in cash-flow projections over a defined horizon at a given confidence level. Example: a 5 % CFaR indicating a possible shortfall of BDT 200 million over three months. Practical application: informs liquidity buffer sizing. Challenge: modelling non-linear cash-flow dynamics.

Change Management – related terms: risk culture, transformation – The discipline of managing the human and organisational aspects of transitioning to new processes, technologies, or strategies. Example: rolling out a new risk-reporting platform across all departments. Practical application: mitigates implementation risks. Challenge: overcoming resistance and ensuring consistent adoption.

Climate-Related Financial Risk (CFRR) – related terms: physical risk, transition risk – Risks to financial stability arising from climate change, including acute events and the shift to a low-carbon economy. Example: assessing exposure of sovereign bond holdings to flood-prone regions. Practical application: integrating climate scenarios into stress testing. Challenge: limited data on climate impacts in emerging markets.

Compliance Risk – related terms: regulatory risk, legal risk – The risk of legal or regulatory sanctions, financial loss, or reputational damage due to failure to comply with applicable laws. Example: non-adherence to the Foreign Exchange Regulation Act. Practical application: regular compliance reviews and training. Challenge: keeping pace with rapidly evolving regulations.

Concentration Risk – related terms: credit concentration, sectoral exposure – The risk that a large portion of exposures is concentrated in a single borrower, sector, or geography, amplifying potential losses. Example:

30 % of the central bank's investment portfolio in textile sector bonds. Practical application: setting exposure limits per sector. Challenge: balancing diversification with strategic focus.

Control Environment – related terms: tone at the top, governance – The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. Example: a code of conduct that emphasizes integrity and risk awareness. Practical application: forms the foundation for risk assessments. Challenge: maintaining effectiveness as the organization grows.

Counterparty Risk – related terms: credit risk, settlement risk – The risk that a counterparty will fail to meet its contractual obligations. Example: a foreign central bank defaulting on a currency swap. Practical application: netting agreements and collateral management. Challenge: assessing sovereign risk in volatile political environments.

Credit Risk Rating – related terms: PD, rating agencies – An assessment of the likelihood that a borrower will default on its obligations, often expressed as a grade or probability of default. Example: assigning a 'B-' rating to a commercial bank based on its asset quality. Practical application: determines risk-adjusted pricing. Challenge: rating models may be less predictive for non-bank borrowers.

Culture Assessment – related terms: risk culture, employee surveys – Systematic evaluation of the organisation's attitudes, values, and behaviours towards risk. Example: conducting an annual questionnaire measuring risk awareness among staff. Practical application: identifies gaps for targeted interventions. Challenge: obtaining candid responses without fear of reprisal.

Cyber-Risk Framework – related terms: information security, threat intelligence – A structured set of policies, processes, and technologies to protect digital assets from cyber attacks. Example: implementing multi-factor authentication for all privileged accounts. Practical application: reduces probability of data breaches. Challenge: evolving threat landscape and limited specialised talent.

Data Governance – related terms: data quality, data stewardship – The overall management of data availability, usability, integrity, and security. Example: establishing a master data repository for all risk-related metrics. Practical application: ensures reliable inputs for risk models. Challenge: coordinating across multiple legacy systems.

Delegated Authority – related terms: risk limits, empowerment – The formal permission given to individuals or units to act within predefined risk boundaries without seeking higher-level approval. Example: a regional director authorized to approve operational risk incidents up to BDT 5 million. Practical application: speeds decision-making. Challenge: monitoring compliance with delegated limits.

Deposit Insurance Scheme – related terms: financial stability, systemic risk – A protection mechanism that guarantees depositors' funds up to a certain amount, mitigating panic withdrawals. Example: Bangladesh's Deposit Insurance Fund covering deposits up to BDT 500 000. Practical application: enhances confidence in the banking system. Challenge: funding the scheme without distorting market discipline.

Derivatives Risk – related terms: market risk, counterparty risk – The risk arising from the use of derivative contracts, including valuation volatility and potential losses. Example: exposure to interest-rate swaps used for monetary policy operations. Practical application: mark-to-market and collateral posting. Challenge: complex valuation under stressed market conditions.

Emerging Risk Identification – related terms: horizon scanning, scenario analysis – Process of detecting new or evolving risks that may affect the institution's objectives. Example: monitoring fintech innovations that could disrupt payment systems. Practical application: early-warning alerts for senior management. Challenge: limited historical data to quantify impact.

Enterprise Risk Management (ERM) – related terms: risk framework, risk appetite – A holistic approach to identifying, assessing, and managing all material risks in a coordinated manner. Example: Bangladesh Bank's ERM policy integrates credit, market, operational, and reputational risks. Practical application: aligns risk with strategic objectives. Challenge: achieving consistent implementation across all units.

Escalation Protocol – related terms: risk reporting, governance – Defined steps for raising risk issues to higher authority levels when thresholds are breached. Example: escalating a liquidity shortfall above BDT 2 billion to the Risk Committee within 24 hours. Practical application: ensures timely corrective action. Challenge: avoiding "alert fatigue" from excessive escalations.

External Audit – related terms: independent assurance, compliance – An examination performed by an outside firm to verify the accuracy of financial statements and adequacy of controls. Example: a Big-Four audit of the central bank's annual report. Practical application: provides credibility to stakeholders. Challenge: coordinating audit scope with internal risk priorities.

Financial Stability Assessment (FSA) – related terms: macro-prudential, systemic risk – Evaluation of the resilience of the financial system to shocks, often conducted by the central bank. Example: the FSA for Bangladesh examining bank capital adequacy under a severe recession scenario. Practical application: informs macro-prudential policy decisions. Challenge: integrating diverse data sources and modelling inter-connections.

Fraud Risk – related terms: operational risk, internal controls – The risk of intentional deception causing financial loss. Example: falsified invoices submitted by a vendor to the procurement department. Practical application: segregation of duties and whistle-blower mechanisms. Challenge: detecting sophisticated schemes that bypass standard controls.

Governance Structure – related terms: board, committees – The arrangement of roles, responsibilities, and authority that defines how decisions are made and overseen. Example: a three-tier governance model comprising the Board of Governors, Risk Committee, and Business Unit Risk Officers. Practical application: clarifies accountability for risk outcomes. Challenge: preventing overlap and ambiguity in responsibilities.

Heat Map – related terms: risk dashboard, risk matrix – A visual tool that displays risk severity (likelihood vs impact) using colour coding. Example: a quarterly heat map showing high operational risk in IT systems. Practical application: facilitates rapid risk prioritisation. Challenge: ensuring data behind the visual is current and accurate.

Internal Audit – related terms: risk assurance, control testing – Independent, objective assurance activity designed to evaluate and improve the effectiveness of risk management, control, and governance processes. Example: internal audit reviews of the central bank's payment-system security. Practical application: identifies control gaps and recommends remediation. Challenge: maintaining audit independence while being embedded in the organisation.

Interest-Rate Risk (IRR) – related terms: duration gap, market risk – The risk that changes in interest rates will affect the value of assets, liabilities, or earnings. Example: a mismatch between the duration of foreign-exchange reserves and short-term liabilities. Practical application: hedging with interest-rate swaps. Challenge: modelling non-linear effects during rapid rate movements.

Key Risk Indicators (KRIs) – related terms: metrics, thresholds – Quantitative measures used to monitor changes in risk exposure and performance. Example: a KRI tracking the number of failed login attempts per day. Practical application: triggers alerts when thresholds are breached. Challenge: selecting indicators that are predictive rather than merely reactive.

Liquidity Coverage Ratio (LCR) – related terms: high-quality liquid assets, Basel III – A regulatory standard requiring banks to hold enough high-quality liquid assets to survive a 30-day stress scenario. Example: maintaining an LCR of 120 % for the central bank's commercial banking subsidiaries. Practical application: ensures short-term funding resilience. Challenge: sourcing sufficient liquid assets without compromising profitability.

Loss-Absorbing Capacity (LAC) – related terms: capital buffers, resolution planning – The ability of an institution to absorb losses and continue operating without external assistance. Example: a 10 % LAC requirement for systemically important banks. Practical application: guides capital planning and recovery strategies. Challenge: aligning LAC with business growth.

Macro-Prudential Policy – related terms: systemic risk, counter-cyclical capital – Regulatory measures aimed at safeguarding the financial system as a whole, rather than individual institutions. Example: imposing a counter-cyclical capital buffer when credit growth exceeds 15 % YoY. Practical application: dampens pro-cyclical lending. Challenge: calibrating tools to avoid unintended credit contraction.

Management Information System (MIS) – related terms: reporting, data analytics – A system that collects, processes, and disseminates information needed for decision-making. Example: an MIS dashboard displaying real-time exposure across risk categories. Practical application: supports timely risk monitoring. Challenge: integrating data from legacy and new platforms.

Market Risk – related terms: price risk, interest-rate risk – The risk of losses arising from movements in market prices, rates, or volatilities. Example: exposure to fluctuations in the BDT/USD exchange rate affecting foreign reserve valuation. Practical application: VaR calculations and stress testing. Challenge: capturing tail events and illiquid market dynamics.

Operational Risk – related terms: process risk, fraud risk – The risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. Example: a system outage causing delayed settlement of interbank payments. Practical application: risk-control self-assessment (RCSA) and loss event databases. Challenge: quantifying low-frequency, high-impact events.

Operational Resilience – related terms: business continuity, risk culture – The ability of an organisation to continue delivering critical services during disruptions. Example: maintaining payment-system operations during a cyber-attack. Practical application: resilience testing and recovery time objectives. Challenge: balancing resilience investments with cost constraints.

Outsourcing Risk – related terms: third-party risk, vendor management – Risks associated with delegating essential functions to external service providers. Example: reliance on a cloud-service provider for data storage. Practical application: due-diligence, service-level agreements, and periodic reviews. Challenge: ensuring contractual clauses cover regulatory expectations.

Policy-Level Risk Appetite – related terms: risk tolerance, governance – The overarching stance on risk expressed in policy documents, guiding the setting of limits and controls. Example: a policy stating a “low” appetite for operational risk in core monetary-policy functions. Practical application: cascades into unit-level risk limits. Challenge: translating broad statements into measurable targets.

Probability of Default (PD) – related terms: credit risk, loss given default – The likelihood that a borrower will fail to meet its debt obligations within a specified time horizon. Example: a PD of 2 % assigned to a medium-size commercial bank. Practical application: used in credit risk modelling and pricing. Challenge: calibrating PD models for new sectors with limited historical data.

Quantitative Risk Modelling – related terms: statistical analysis, simulation – The use of mathematical techniques to estimate risk exposures and potential losses. Example: Monte-Carlo simulation of foreign-exchange reserve returns. Practical application: supports capital allocation and scenario analysis. Challenge: model risk arising from incorrect assumptions or data errors.

Regulatory Stress Testing – related terms: scenario analysis, capital adequacy – A supervisory tool that evaluates how institutions would fare under adverse macro-economic or financial conditions. Example: Bangladesh’s central bank conducting a severe recession stress test on its banking sector. Practical application: informs supervisory actions and capital planning. Challenge: designing scenarios that are both plausible and severe.

Risk Appetite Framework – related terms: board statement, limits – The set of structures, processes, and documentation that define, communicate, and monitor the institution’s willingness to assume risk. Example:

a framework linking risk appetite to key performance indicators. Practical application: ensures alignment of risk-taking with strategy. Challenge: maintaining relevance as business models evolve.

Risk Culture – related terms: behavioural risk, tone at the top – The shared values, beliefs, and attitudes that shape how risk is understood and acted upon throughout the organisation. Example: a culture where staff feel empowered to raise concerns without fear. Practical application: reinforced through training, incentives, and leadership messaging. Challenge: measuring culture objectively and driving change.

Risk Committee – related terms: governance, oversight – A senior-level body responsible for reviewing risk exposures, policies, and the effectiveness of risk management. Example: the Risk Committee of Bangladesh Bank meets quarterly to review the heat map and KRIs. Practical application: provides strategic direction and oversight. Challenge: ensuring members have sufficient risk expertise.

Risk Event – related terms: loss event, incident – An occurrence that could lead to a loss, either realized or potential. Example: a data breach affecting confidential monetary-policy information. Practical application: recorded in an event database for analysis. Challenge: distinguishing between minor incidents and those with systemic implications.

Risk Governance – related terms: board, committees, policies – The system of rules, practices, and processes by which an organisation directs and controls risk management. Example: a governance charter outlining roles of the Board, Risk Committee, and Business Unit Risk Officers. Practical application: establishes clear accountability. Challenge: avoiding governance fatigue and ensuring effective communication.

Risk Limit – related terms: risk appetite, tolerance – A quantitative or qualitative boundary set to restrict the amount of risk an entity can assume. Example: a limit of BDT 500 million on foreign-exchange exposure for a specific trading desk. Practical application: triggers alerts when breached. Challenge: calibrating limits to be neither too restrictive nor too lax.

Risk Management Information System (RMIS) – related terms: risk reporting, data warehouse – A technology platform that aggregates risk data, supports analysis, and generates reports for decision-makers. Example: an RMIS that consolidates operational loss events, KRIs, and stress-test results. Practical application: enhances transparency and speed of reporting. Challenge: ensuring data integrity across multiple sources.

Risk Ownership – related terms: accountability, risk champion – The assignment of responsibility for managing a specific risk to an individual or unit. Example: the Head of Treasury owning market-risk exposure. Practical application: clarifies who must act to mitigate risk. Challenge: avoiding diffusion of responsibility in complex structures.

Risk Policy – related terms: risk appetite, governance – A formal document that outlines the principles, objectives, and approaches for managing risk. Example: a policy mandating annual risk assessments for all new projects. Practical application: provides a consistent framework for risk decisions. Challenge: keeping policies up-to-date with emerging threats.

Risk Register – related terms: risk inventory, mitigation plan – A structured repository that records identified risks, their assessment, owners, and mitigation actions. Example: a register listing 150 operational risks with associated control owners. Practical application: facilitates tracking and reporting. Challenge: maintaining completeness and relevance over time.

Risk Self-Assessment (RSA) – related terms: risk identification, internal controls – A process where business units evaluate their own risk exposures and control effectiveness. Example: a quarterly RSA completed by each department to update the risk register. Practical application: promotes ownership and early detection. Challenge: ensuring objectivity and consistency across units.

Risk Tolerance – related terms: risk appetite, limits – The acceptable level of variation around risk-taking objectives, often expressed as a range. Example: a tolerance of ±5 % around the target capital adequacy ratio. Practical application: guides setting of risk limits. Challenge: measuring tolerance accurately in a dynamic environment.

Scenario Analysis – related terms: stress testing, forward-looking – The process of evaluating the impact of plausible future events on the institution’s risk profile. Example: assessing the effect of a 30 % depreciation of the BDT on foreign-currency reserves. Practical application: informs strategic planning and contingency measures. Challenge: selecting scenarios that capture tail risks without excessive speculation.

Sectoral Risk – related terms: concentration risk, industry exposure – The risk arising from exposure to a particular economic sector, such as agriculture or manufacturing. Example: heavy reliance on textile-sector bonds in the investment portfolio. Practical application: sector-limit policies and diversification strategies. Challenge: rapidly shifting sector dynamics due to policy changes.

Service Level Agreement (SLA) – related terms: outsourcing risk, vendor management – A contract that defines the performance standards and responsibilities of a service provider. Example: an SLA guaranteeing 99.9 % uptime for the central bank’s payment-processing system. Practical application: provides measurable expectations and remedies. Challenge: aligning SLA terms with regulatory requirements.

Strategic Risk – related terms: business risk, governance – The risk that the institution’s strategic objectives will not be achieved due to poor decision-making or external forces. Example: mis-alignment of monetary-policy tools with inflation targets. Practical application: regular strategic risk reviews by senior management. Challenge: quantifying strategic risk and linking it to operational metrics.

Stress Testing – related terms: scenario analysis, regulatory stress – A forward-looking risk assessment technique that evaluates the impact of adverse conditions on financial position. Example: a severe liquidity stress test assuming a 40 % withdrawal of deposits. Practical application: tests resilience of capital and liquidity buffers. Challenge: modelling complex interactions and ensuring data quality.

Supervisory Review and Evaluation Process (SREP) – related terms: regulatory oversight, risk assessment – The European-style framework for assessing banks' risk management and capital adequacy, adapted in many jurisdictions. Example: Bangladesh's adaptation of SREP to evaluate systemic banks. Practical application: guides supervisory actions and capital requirements. Challenge: aligning local practices with international standards.

Sustainable Finance Risk – related terms: climate risk, ESG – Risks associated with the transition to a sustainable economy, including regulatory, reputational, and physical risks. Example: exposure to coal-financing projects that may become stranded assets. Practical application: integrating ESG criteria into credit underwriting. Challenge: limited data on long-term sustainability impacts.

Systemic Risk – related terms: macro-prudential, contagion – The risk that the failure of one or more institutions could trigger a collapse of the entire financial system. Example: a major bank's default leading to a liquidity crunch across the market. Practical application: macro-prudential tools such as capital surcharges. Challenge: identifying hidden interconnections and feedback loops.

Technology Risk – related terms: cyber-risk, operational risk – The risk of loss or disruption arising from failures in hardware, software, or IT processes. Example: a software bug causing incorrect calculation of interest rates. Practical application: regular system testing and change-control procedures. Challenge: rapid pace of technology evolution outpacing control mechanisms.

Third-Party Risk – related terms: outsourcing risk, vendor management – The risk that a third-party provider fails to deliver services as expected, potentially causing operational or reputational harm. Example: a data-center outage affecting the central bank's real-time gross settlement system. Practical application: comprehensive due-diligence and ongoing monitoring. Challenge: managing risk across a growing ecosystem of fintech partners.

Threshold Breach – related terms: risk limit, escalation protocol – An event where a measured risk indicator exceeds a pre-defined limit. Example: a KRI indicating that daily transaction failures exceed 0.5 % of total volume. Practical application: triggers automatic alerts and escalation. Challenge: setting thresholds that are sensitive enough to prompt action without causing unnecessary alarms.

Transaction Monitoring – related terms: AML, fraud detection – The systematic review of financial transactions to identify suspicious or non-compliant activity. Example: real-time monitoring of large foreign-exchange transfers for potential money-laundering patterns. Practical application: generates alerts for investigation by compliance staff. Challenge: balancing detection accuracy with false-positive rates.

Value-at-Risk (VaR) – related terms: risk metric, market risk – A statistical technique that estimates the maximum loss over a specified horizon at a given confidence level. Example: a 1-day VaR of BDT 1 billion at 99 % confidence for the foreign-exchange portfolio. Practical application: risk limit setting and capital allocation. Challenge: VaR does not capture tail-risk events beyond the confidence level.

Vendor Risk Management (VRM) – related terms: third-party risk, SLA – The process of identifying, assessing, and controlling risks associated with vendors and service providers. Example: a VRM program that requires annual security audits of cloud providers. Practical application: reduces exposure to external failures. Challenge: maintaining oversight as the vendor landscape expands.

Yield Curve Risk – related terms: interest-rate risk, market risk – The risk that changes in the shape or level of the yield curve will affect the value of fixed-income assets. Example: a steepening of the BDT yield curve reducing the value of long-dated government bonds. Practical application: duration matching and hedging strategies. Challenge: forecasting complex curve movements under stress.