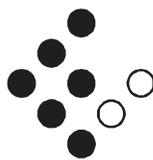


RISK MANAGEMENT IN THE FINANCIAL SERVICES SECTOR



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Foreword

Economic entities are faced with the increased number and more complex risks in the significantly altered macroeconomic environment during the past decade. Risk identification, measurement and appropriate management are becoming of key importance for the successful operation of insurance companies and banks, but also for the stability of a country's entire financial system. The global financial crisis has shown that even highly developed countries are not immune to numerous risks that endangered and undermined all aspects of their financial system. The banking sector has suffered significant consequences, and the insurance sector was not circumvented also. The monograph "Risk management in the financial services sector" was created as a result of the research by a larger number of authors, academics and experts from the field of insurance, actuarial science, banking, financial economics and related disciplines. The first objective of this monograph is related to the identification of key risks that undermine the stability of the entire financial sector. The second aim of the monograph is to improve existing and develop new methodological approaches for the measurement of the identified risks and their interdependencies. Finally, the monograph aims at formulating specific proposals for managing these risks at the level of individual institutions, sectors to which they belong, but also at the level of national economy as a whole.

The first part of the monograph is devoted to the analysis of macroeconomic framework for risk management in the financial sector. A comprehensive analysis of causes and consequences of economic, ecological, geopolitical, social and technological global risks was conducted. In the context of contemporary processes of globalization, internationalization, financial deregulation and integration, risk-based regulatory frameworks for financial institutions are being developed. Therefore, special attention in this chapter is dedicated to comparative analysis of concepts Solvency II for insurers and Basel III for banks in terms of risk treatment.

The second part of the monograph deals with the risk management in the banking sector. In addition to interest rate, credit and foreign exchange risk, as the most important risks for banks, the special emphasis was placed on the evaluation and management of systemic risk which is becoming very important during the financial crisis. Also, the interaction of state securities' credit rating and banking crisis was examined.

Models for measuring risks in the insurance sector are analyzed in the third part of the monograph. Besides investment risk, insurance companies are, by nature of their operations, primarily exposed to actuarial risks. Therefore, a particular attention was given to models for measuring risks of insurance premium and loss reserve adequacy. Bootstrapping method was used for loss reserve formation and modeling of reserve risk as well as for estimation of insurance premiums and marketing expenses.

The objective of the analysis in the fourth part is the Own risk and solvency assessment (ORSA), as an important element of the second pillar of Solvency II concept. After the analysis of compliance of domestic with the regulatory framework for insurance companies in the European Union, models of risk management in insurance companies were considered, with a focus on the actuarial control cycle importance.

The fifth section is related to management of catastrophic risks, whose frequency and intensity are continuously growing, representing one of the key threats to sustainable development in all of its segments. The role of software support in monitoring and predicting these risks, as well as the role of government in managing them were highlighted. Moreover, possibilities for managing terrorism risk as the increasingly prominent threat in recent years through insurance were investigated.

We are very grateful to reviewers for their comments and suggestions, especially to professor Chris Daykin whose authority and competency have raised the reputation of this scientific monograph.

EDITORS

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