

Risk Management **fOCUS**

Edelweiss Financial Services Limited

Mumbai



Organizational Description

The Edelweiss Group is one of the India's leading diversified financial services. Edelweiss was founded in November 1995 by Mr. Rashesh Shah and Mr. Venkat Ramaswamy. The Board of Edelweiss Financial Services Limited (the parent Company) comprises of 12 directors out of which seven directors are independent and are persons of eminence in their field and come with a wealth of experience in financial services. Edelweiss has net worth of INR 48.5 billion and serves over 1 million clients through 6500 employees in around 240 offices spread across India and Overseas. Edelweiss has an asset base of over INR 36,000 Crores and has successfully completed 21 straight profitable quarters and ranks in the top 200 most profitable companies in India.

The Edelweiss Group's businesses are broadly classified into three buckets – Credit, Investment & Advisory and Insurance.

Credit – Create Wealth

- Corporate Credit
- Distressed Asset Credit
- Mortgage
- Agri and Rural Finance
- SME Financing

Investment and Advisory – Grow Wealth

- Capital Markets
- Asset Management
- Wealth Management

Insurance – Protect Wealth

- Life Insurance
- General Insurance*

*IRDAI has accepted our registration application.

Effectiveness of the Risk Management Framework

The Motto of Risk Management Framework at Edelweiss is “There should be no surprises”.

Edelweiss business activities in multiple geographies and products make it susceptible to various kinds of risks. Our risk strategy is evaluating all risk decisions based on two questions

“Is it worth it” & “Can we afford it”.

We have an evolved Eight Risk framework to cover key risk areas. The framework assists in comprehensive risk assessment on all critical aspects of Risk. The framework has evolved and is continuously evolving to add new vectors of risks basis evaluation of internal and external environment. Further Center of Excellences (COEs) are established for focused and standardized mitigative risk practices.

At an operating level, Edelweiss handles risk along its lifecycle using the widely known 4T Risk Framework namely, Tolerate, Treat, Transfer & Terminate.

Effectiveness and efficiency of risk management strategy and framework at Edelweiss may be highlighted through the fact that our NPAs are at the lowest amongst the peer group.

Roles and responsibilities of Organizational Risk Management set-up

The four-tiered risk management structure defined at Edelweiss encompasses each of the following constituents thereby ensuring well defined roles and responsibilities laid down for Board of Directors, Risk Management Committee, Risk Council and Operational Management.

The Board of Directors: The Board Risk Committee oversees the Risk Management at Edelweiss. The Committee meets on a quarterly basis and oversees the risk strategy and framework.

Risk Management Committee and Risk Council: To have a 360 degree view and comprehensive management of all types of risks the Company is exposed to; Edelweiss has constituted Risk Council and Global Risk Committee with MD & CEO, Executive Directors and Chiefs of Finance, Compliance, Technology, Risk, Corporate Services as its core members. The Committee oversees policy formulation, views risks at consolidated level and also provide guidance for thematic risk reviews.

Operational Management: For operational management of risks, risk officers are appointed for each Business & Enterprise Units. The officers ensure implementation of risk policy and framework, and are also responsible for day to day risk management. We have 150 plus risk professionals in the Organization.

Key Corporate Governance Risks

On the basis of priority the current identified key risks are as follows:

Technology - Cyber Risk: We have defined a comprehensive Cyber Security risk management strategy roadmap and information architecture to adequately protect sensitive data of the Company.

Operational risk: To manage operational risk, Edelweiss has created a Centre of Excellence (CoE) for operational risk. The CoE conducts thematic reviews and uses tools like Risk and Control Self Assessment (RCSA), Exception (Incident) reporting, Control testing to minimize operational risk.

Financial Risk: In addition to its regular measures for financial risk, Edelweiss has now implemented Early Warning Signal (EWS) framework to identify risks at nascent stage. The objective is to classify our book on severity of risk- standard, early stage, mid stage and high stress.

Fraud Risks and Policy & Process for prevention

Ever changing business environment, increasing complexities, sophistication of technology, coupled with enhanced presence in retail and wholesale space makes Edelweiss vulnerable to both internal & external fraud risks.

Fraud risk has been considered as a separate risk vector in the Edelweiss Risk Framework as the Company has zero tolerance for frauds. To manage fraud risks, we have constituted independent Anti-Fraud - Centre of Excellence (CoE). The CoE is responsible for ensuring adequate control and mitigation measures are put in place for managing fraud risks. Further, we have also put in place a well-defined Anti-Fraud Policy which defines the fraud risk framework for the Organization. The framework lays emphasis on proactive reporting & early detection of incidents using the following:

- **Vulnerability Assessment:** Tools: Process reviews, review basis Industry fraud schemes, Mystery shopping
- **Predictive Analysis:** Tools: Data Analytics, Surveillance Mechanism, Fraud Scorecards, Negative List/ database
- **Incident Investigation:** Tools: Fraud reporting Board line & e-mail id, Fraud incident reporting system, Data Loss Prevention system
- **Culture & Awareness:** Tools: Awareness campaigns, framework and policies

At Edelweiss, we have not had any major incidents of internal or external frauds.

Risk Management Process

For effective management of risks, Edelweiss has implemented a comprehensive risk management framework which covers the following:

- **Identification:** Risk identification starts before any new product is launched. Any new product has to go through a stringent approval process to ensure all the risks are identified and adequate controls are put in place. After rigorous assessment of product in the approval stage, the new product goes through to a Proof of Concept (POC) stage wherein the products are launched in a limited way.
- **Assessment:** Risk assessment is carried out by generating a risk profile for the business or using ABC framework to assess the client worthiness.
- **Recording:** For recording financial and non-financial risks, comprehensive risk reports and Risk Control Self Assessment (RCSAs) are used.
- **Monitoring:** For monitoring risks, Edelweiss performs daily monitoring of various risk exposures so that necessary actions can be taken as per need. Also a comprehensive incident management system helps in monitoring various exceptions and breaches to the process and policies.
- **Review:** The risk management structure defined at Edelweiss helps in ensuring adequate risk reviews are performed by various lines of defense.

Overarching tools:

- **Risk registers** - prepared for various businesses to capture all types of risks and encompass all the stages of risk management life cycle.
- **Early Warning Signal (EWS) framework** - to identify risks at nascent stage. The objective is to classify our book on severity of risk- standard, early stage, mid stage and high stress. An actionable matrix is defined, to respond to each of the risk classification. To support a few parts of EWS framework, big data analytics tools are also used.

Review & Identification of Risks

Risks are identified and reviewed at multiple levels so as to ensure there are enough checks and balances and any critical risks do not get un-noticed or unaddressed. Further, the findings from compliance/audits reviews feed into the risk registers and risk assessment reports of respective businesses. Any non-compliance issue also gets reported into the incident management system.

Key Risk Indicators

We have defined KRIs to measure key risks and risk areas. Few of the critical KRIs used for monitoring risks are as following:

- **Business Risk** - Exceptional movement in Monthly MIS, Change of regulations impacting product

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