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Prioritising risk

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With the global economy still fragile, effective risk management is essential to banks and specialist financiers alike. Mark Wyatt explores risk exposure and what it means for specialist financiers

In all corners of business, in markets both developed and emerging, risk is a pervasive threat from which none are immune. Effective risk management, in the aftermath of the global economic crisis, has thus become something of a filter separating the strong businesses from the weak. Corporates must navigate an increasingly diverse risk landscape in order to survive.

The tightening of regulation post-2008 has cultivated an increasingly risk-averse financial services sector. While some banks now shy away from foreign investment due to heightened regulation and hypersensitivity to emerging market risk, specialist financiers – flexible and less restricted by regulation – are filling the funding vacuum and actively extending their global reach.

In the case of Falcon Group, this is due to the recognition that the emerging markets present a variety of opportunities and a confidence in the company's own ability to effectively manage geopolitical risk. What's more, on a macroeconomic scale, investment in developing economies is vital to global recovery. After all, the symbiotic relationship between risk and reward has underpinned business since time immemorial.

All markets face risk

The risks affecting business can be loosely categorised under the following umbrella terms: business risk, economic risk, and political risk. All are intertwined and all vary according to region. However, all of these risk categories, contrary to popular assumption, affect both developing and emerging markets alike – albeit to varying degrees. In fact, far too often, risk is insufficiently addressed in developed markets. The recent collapse of mobile phones retailer, Phones 4u, is a case in point; insolvency risk exposure – which falls under the category of economic risk – catapulted the corporate into administration in September. A strong cashflow is of the utmost importance. If cashflow is weak, even the most profitable of businesses can run the risk of default.

Indeed, risk is as prevalent in developed markets as it is in emerging ones. That said, extending global reach means that a broader approach to risk management is critical. Financiers are not only exposed to the risks of the country in which they are domiciled, but also to the risks their customers face. Sovereign risk and country risk – often wrongly conflated – are of particular concern in developing markets. Fluctuations in currency values and instability of sovereign finances have a direct impact on the operating environment for businesses. Equally, corruption and regulation, while not directly affecting national finances, constitute a significant risk for corporates.

Risk-proofing: key to business survival

Therefore, as financiers grow, so must their risk management capabilities. Falcon's enhancement of its risk management expertise, for example, is an acknowledgement of the fact that responsibility runs concurrently with growth. It is the duty of specialist financiers to ensure that their clients can conduct business with confidence and certainty. Thus, they must rise to the challenge of devising bespoke funding solutions which take into account any risk involved, in any geographical location.

While the demand for services and financing may fluctuate, the demand for good risk management is perennial. Specialist financiers with insufficient risk management capabilities will have to acknowledge that in the new and challenging economic environment, sustainability is paramount to survival. Regulation and business transparency are key to this sustainability and should, thus, be embraced by specialist financiers as a means of sorting the good from the bad.

- Mark Wyatt is chief risk officer at Falcon Group