Indians by nature are one of the most risk tolerant people in the World. Many of us attribute this to our belief in Karma. This attitude shows up not only in many of our personal lives but also in our collective behaviour in a group or even in a company. However, this risk tolerance becomes destructive when it is extended to the banking sector which deals with public money. As per a recent report published by Reuters (based on information provided by RBI under RTI Act), the total stressed assets of Indian banks have now increased to $138 Bi by end-June 2016 compared to $121 Bi in December 2015. The Public Sector Banks (PSBs) account for the lion's share of the stressed assets amounting to $122 Bi, which is concentrated in the metals & mining, power, and infrastructure sectors.

Therefore, the PSBs have to be recapitalised heavily in order to retain their credibility which is also linked to the Central Government’s standing. Obviously, a major chunk of the recapitalisation has to be achieved with public money since many PSBs have so far been unable to recover large loans which have gone sour leading to steep drops in their share price during the last two years when the asset quality review was carried out by Indian banks under RBI’s
In the above context, the broad details of a risk assessment and management approach are presented. This model is used by an internationally listed company which has operations and mega projects in about 22 countries. While this model is not unique, it helps the practitioner and the organisation to understand the risk scenario and develop mitigation plans before the risk actually fructifies. It also enables the organisation to capture several perception-based inputs provided the logic for these inputs can be explained to a broader, multi-disciplinary group of experienced professionals drawn solely from within the organisation or with a few experts/facilitators from outside. This model is also discussed and updated not only on a project-wise basis, but also at the Business-Unit level and Company level, depending on the magnitude of the project and the current level of overall risk. In some cases, it is also discussed with the company’s bankers at a broad level so that the lenders have comfort in the risk profile of the company and can price the company’s debt accordingly.

In the case study explained during the Seminar, an MNC decided to withdraw from a $5 Bi project due to the major changes in the risk scenario of the project after it was awarded. This decision while thought to be foolhardy by many in Indian industry, was amply justified due to certain unfortunate events that happened more than 2 years after the company withdrew from the scene.

A similar model of risk assessment was also used by the same company to assess the country risk of investments in several developing countries where it either had existing businesses or had received promising business prospects in its line of business. While the parameters on which the country risk assessment was done were different from those on which project risk assessment was done, the same rigor was applied during the country risk assessment process, the results of which were then reviewed at the Group level. This led to an unpopular but well thought-out decision to pull out of an important market which had lot of potential since the rewards in that country in
the company’s line of business were not commensurate with the risks assessed.

It is high time that Indian financial institutions start insisting that their large borrowers (esp., for project loans) start using such risk assessment & management tools and share the results thereof with their current (and future) lenders at regular intervals in a transparent manner. Large delays in mega projects ultimately result in cost overruns and even hamper the viability of the project or the company itself. As recent experience in India indicates, delays in large projects built with a large debt component may lead to lumpy stressed assets for the lenders resulting in larger repercussions on the country’s industrial growth as a whole. Since India’s PSBs need large doses of capital (primarily, funded from the General Budget) to continue to be the engines of economic growth, all Indians have an interest in seeing that PSBs develop sectoral expertise in their main areas of lending while adopting a comprehensive risk management system with timely inputs from their corporate borrowers.

Similarly, while the Government is focussing on “Ease of Doing Business” as a way of attracting more FDI into
India, it also needs to work on reducing the country risk of doing business in India since a reduction in risk will also reduce the threshold return required (for domestic as well as foreign investors), thereby increasing the probability of LOIs/MOUs getting converted into “Make in India” projects, instead of foreign capital coming in only for acquisition of existing projects.

To summarise, a more systematic and transparent approach to the risk assessment and mitigation process is required to be followed by various organisations and financial institutions in India, and even by the Government. The results of following this process should also be updated at regular intervals since the impacts and likelihood of various risk parameters change with time, sometimes dramatically.

This is also evident from the hair-cuts that are being sought from the banks willing to dispose off their stressed assets in various sectors. India is a Land of Opportunity but it is still riddled with pockets of Risk that need to be assessed carefully and managed with care. Institutions handling public money need to be doubly careful in their own due diligence which is incomplete without the inputs of independent professionals in various eclectic fields into a more rigorous and well-designed risk assessment process. However, the pendulum should not swing from the peak of optimism and brazen risk-taking to the depths of despair and helplessness.