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Salim Raza urges strong academia-industry partnership

Syed Salim Raza, Governor State Bank of Pakistan has stressed the need for establishing a strong partnership between the academia and the industry which would help the students better understand the applicability of theoretical studies in the real world.

Addressing faculty members and students of the Institute of Business Management (IoBM) on Risk Management in Karachi this morning, Mr. Raza recommended that in addition to imparting knowledge on quantitative and qualitative techniques of Risk Management, institutions like IoBM must establish industry linkages through academia-industry partnership.

Mr. Raza dwelt at length on various aspects of theoretical and applied aspects of risk management and said that ignorance of risk was a contributor to the recent turmoil in financial markets, and the reason why risk managers across the world advocated sound macroeconomic background was to capture correlated behaviour of underlying risks.

He said the quantitative risk management discipline stems from the fact that techniques from several existing quantitative disciplines such as mathematics, statistics, and econometrics are drawn together to analyze a variable data set, giving rise to multiple risks in a single business operation. In order to fully understand the dynamics of the business world, he stressed that the ideal skill set of a risk manager should also include qualitative skills such as sound understanding of financial markets and its instruments coupled with understanding of behaviour of economic agents at micro and macro levels.

Mr. Raza said the financial world now takes a more organized and disciplined view of risks. It identifies, quantifies and addresses a myriad spectrum of uncertainties arising out both from an organization's internal operations as well as from the outside world in which it operates.

He said in recent years, there has been a widespread increase in the usage of statistical and mathematical models for financial risk management. "These mathematical models use historical data to forecast the future which is stochastic in nature," he said and added that mathematical models are employed right from the beginning of an investment process to its end, starting with the shaping of investment decisions and going up to portfolio performance analysis. Investors use mean-variance techniques to select unique set of assets that match their risk appetite while risk tolerance levels are quantified by using prominent microeconomic theory of utility theorems, Mr. Raza added.
