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**R**isk is the hallmark of any business. It is virtually impossible to visualize any business without risk as business and risk are like two close companions. The risk element is not merely confined to business alone but is an integral part of our human life. Risk exists everywhere and in every form which can be perceived by us even in our day-to-day life. For instance, an element of uncertainty may exist as to whether say, rains could be delayed in a particular season or a flight could be cancelled or any journey to be undertaken by rail will meet with an accident etc. When these uncertain events occur, it could result in some kind of loss or damage. This is 'risk'. Thus, uncertainty is a pointer to risk and not risk in itself. In legal parlance, the word 'risk' is used to mean peril, hazard or chance of loss. 'Risk', in commercial parlance, is the chance that expected objectives will not be achieved. It has been defined as the effect of uncertainty on objectives. (ISO Guide 73:2009) There are actually two dimensions of risk – probability and impact.

The origin of the word is believed to be from the Italian word 'rischare' meaning to 'run into danger'. The idea of risk management took some time to develop. It emanated from the sense that a logical, consistent and disciplined approach to an organization's uncertainties will allow it to deal with them prudently and productively, avoiding unnecessary waste of resources. It goes beyond faith (e.g. praying) and luck (e.g. buying a lottery ticket), the twin pillars of managing the future before we began learning how to measure probability, a key idea in thinking about risk. As Peter Bernstein wrote in his book, Against the Gods: The Remarkable Story of Risk, (1997): "If everything is a matter of luck, risk management is a meaningless exercise". From this one may infer risk management to be a nebulous concept. But it is not so. In fact, the rapid changes witnessed in the last one and a half decade of the twentieth century in information technology and in the international financial system served as wake up calls to companies not only operating in the financial services sector but in other sectors as well to conceptualize and devise an appropriate risk management system. Risk management is an integral part of business process which involves identifying and assessing the inherent risks and then responding to them. In practice, it is about identifying the potential variations from what is planned and managing those to maximize opportunity, minimizing loss and improving decisions and outcomes. Risk taking, which is also a part of risk management, involves seizing opportunities. It is a common belief that higher the risk, higher the rewards. Yet, in practice, a higher risk can lead to a much higher loss as well. Hence, appropriate strategies need to be formulated and adopted which would ensure that the organization makes use of the tool to reduce the negative effects to the best extent possible and identify the potential for positive use of risk. Risk management aims to ensure that corporate managers do not take too many unwarranted risks. It is the process of managing risks mainly through :

- Identifying and understanding the risks to the business
- Building vigilance into the organization in a systematic way through effective control, operational measurement and strategic scanning
- Creating a culture that encourages effective risk identification, mitigation and monitoring
- Linking risk management to rewards and resourcing
- Communicating to the organization, its stakeholders and owners.

Of late, risk management, as an important element in the financial services has assumed significant importance. Thanks to the sub-prime crisis leading to corporate catastrophe of some of the top notch financial services companies like Lehman Brothers, Bear Sterns which was caused owing to loose credit risk management followed by them. Till late 80's banks practiced a health code to classify the assets and those assets which were not good were provided for but not in a systematic manner. Bad debts were transferred to bad debt accounts but the norms for income recognition and asset classification were not in proper place. Transparency in the balance sheets of risk disclosure was conspicuous by its absence. The opening of the banking system on account of financial sector reforms brought in the IRAC and the capital adequacy norms. Application of these standards depicted the relative weakness of banks. The deregulation of markets brought forth the issue of market risk and the impact that commodity and financial product prices and volatility could have on the balance sheet of banks. The introduction of capital adequacy norms which was gradually raised to the targeted 8% on a uniform basis brought about some financial stability.

As globalization gained momentum, the risks grew in variety and volume resulting in the Basel – II (the Basel committee for bank supervision was formed in 1974) norms and more emphasis on capital adequacy for risk management. The Basel – II framework breaks risks into market risk (price risk), credit risk and operational risk and also specified methods for calculating capital requirements for each of these components. Almost the entire risk management exercise in banks / financial institutions hinges on this three pillar approach to provide greater stability to the financial sector. In India, SEBI effective from January 1, 2006 has inserted Part IV (C) of Clause 49 of the Listing agreement making it mandatory for all listed companies to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

One must remember that risk management does not aim at eliminating the total risks as it will be practically impossible to do so. What is required is to shoulder calculated risks and to carry out a 'de-risking' exercise which will call for careful analysis and decision making. 'A decision that does not involve risk is probably not a decision'. Even after adoption of the best of risk management practices, glitches may occur as no system can be full proof. But one has to be optimistic because "A pessimist believes that nothing can be done. An optimist, on the other hand, believes that nothing can go wrong. A realist knows that something can go wrong, but that the situation can be managed. Risk management is realism, and it acts as a necessary counterbalance to an organization's other best resource: optimism."