

# Risk Management Training

Understanding PRIMA & GARP Certifications

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## **PRMIA and GARP Certifications**

Professional certifications are important to both the individuals that obtain them as well as the organizations in which those individuals work. In the financial field, personnel involved in risk management can obtain several important certifications from two major international groups. In today's uncertain financial environment, professional certifications can go a long way to calm investors and regulators, as well as restore faith in the financial system in general.

But before we look at the organizational and individual benefits of the most common risk management certifications, we should spend some time becoming generally familiar with the certifications and the groups that offer them. There are two major groups offering risk management certifications: the Professional Risk Managers' International Association (PRMIA) and the Global Association of Risk Professionals (GARP). Both of these organizations show their certifications as widely recognized and accepted, although the organizations approach certifications differently.

PRMIA offers the Professional Risk Manager certification, or PRM. PRMIA calls the PRM certification "The Higher Standard in Risk Management" and is very flexible on how professionals prepare for the certification exams. The PRM is essentially a validation of skills that are most likely picked up in every day work in the risk management arena. The certification does stress professional standards and integrity in addition to skills and knowledge. Also, the PRM tests an individual's

ability to not only know best practices but his or her ability to apply those best practices in the appropriate situations. The candidate must be a member of PRMIA in order to sit for the certification exams, and, as in many cases with professional certifications, the candidate with other industry certifications, such as the CFA (Chartered Financial Analyst) may have an easier time attaining the PRM. In the industry at large, hiring managers often use the PRM designation as a measurement for the most desirable risk management skills.

GARP offers two major risk management certifications, the FRM, or Financial Risk Manager, and the ERM, or Energy Risk Professional. The FRM, according to GARP, is one of the certifications that is currently desirable to recruiters who are looking to fill senior risk manager positions. There are only around 18,000 FRM's in the world, which is a small number for a professional certification that is recognized around the world. In order to qualify for the FRM, a professional must have two years related experience and must also be a member of GARP.

The ERM certification is obviously for energy industry risk managers, who must also have at least two years experience in the field of energy risk management. These professionals must also be members of GARP. GARP is in the process of creating a continuing education program and requirements for the ERM certification, which will most likely become a requirement in 2010. In the field of risk management, the ERM is one of the only designations that has or is about to have a continuing education requirement.

It's a good idea to have a general feeling of what professionals hold risk management certifications - as well as what industries look for these professionals. The top industries with certified risk managers, and whose recruiters look for certifications, are banking, academics, asset management, and government. There are many other sectors of the financial industry in which you will find certified risk managers. Professionals who hold these certifications also hold a wide variety of positions, from junior through executive levels. The most common jobs held by certified professionals in the field are risk managers, analysts, consultants, accountants, traders, portfolio managers, and even operations managers.

What exactly does the professional have to undertake in order to become certified as a risk manager? It depends on the program, but both the PRMIA and GARP certifications are either strictly structured or strictly unstructured in regard to preparation, and both organizations certify only after examination. To obtain a PRM certification, the candidate must take four examinations, either separately within two years or all at once. These exams cover financial theory, financial markets, risk management mathematics, best practices, ethics, conduct, and case studies. PRMIA will help a candidate prepare for the examination through a variety of preparation courses and seminars, but the candidate is not required to "officially" attend any courses. In fact, PRMIA encourages organizations to use the exams separately as ways to test potential job candidates or to test for promotional readiness. As we discussed, a PRM candidate can take the entire battery of tests at one time, or can spread the four out over two years.

The GARP FRM certification is broad based,

covering market risk, credit risk, operational risk, and risk management in investments. There is only one exam in order to obtain the FRM certification. The ERP certification, on the other hand, requires about 250 hours of study to prepare and is also only one examination. The ERP core competencies include physical energy markets, risk management compliance, financial trading, and valuation of energy transactions.

We will discuss specific benefits of these certifications throughout the risk management series, but it's a good idea to consider why certifications might be important to your organization. A professional designation carries proof of knowledge and competence in specific areas. Your organization can use the certifications as a way to market or prove competence in the field, and can even use the possibility of certification as a way to recruit and retain the best talent. In today's financial market, a certification may show a higher dedication to ethics and integrity, both on the organizational and individual levels, and this may help to satisfy regulatory agencies and shareholders.

The next step in this series is to look more closely at the curriculum and study methods for each of the certifications, and determine why this is important to the organization.

### **Certification Curriculum and Exam Preparation**

Becoming a certified professional in any field can be a rigorous process. Some designations require classroom study and preparation, while others simply require that a designee pass an exam based on his or her knowledge.

Curriculum is also important, but also based on the field. If the field is a dynamic one, such as

the financial industry, then a curriculum should be dynamic to match the field. In terms of the risk management certifications, both PRMIA and GARP offer self study programs, designed to be "at pace" with the individual. But both organizations offer examinations that are rigorous and that will test the ability and knowledge of the candidate.

The PRM program is comprised of four exams. As we discussed, PRMIA does not require that a candidate take all four exams at one time, nor does the organization require that the exams be taken in a specific order. PRM Exam I covers theory related to finance, as well as financial instruments and markets. In Exam II, the candidate will need to understand the mathematics that accompanies risk measurement. Exam III is a test of common practices in the risk management field, and exam IV covers professional standards, conduct, ethics, and bylaws as set by PRMIA.

The PRM exams are multiple-choice exams, consisting of 120 questions pulled from a database. Although the questions are multiple choice, the existence of a database proves that the organization is attempting to test from every possible angle. PRMIA reports that only 50% of its candidates actually finish the certification with the required 60% pass rate, so it appears that the exams are fairly difficult. Preparation is unstructured, that is, there is no actual requirement that a candidate attend courses. One of the first aspects that PRMIA stresses about exam preparation is that professionals in the field can prepare by simply doing their jobs well.

The organization also recommends that candidates examine all of the available resources, including professional journals,

articles, online forums, conferences, and procedural documentation. PRMIA offers a self-study guide which the candidate can use to assess areas in which he or she needs further study and practice. The study guide also recommends reading in specific topic areas. The organization recommends a textbook (The Professional Risk Manager's Handbook), which is written by 35 authors, as preparation for Exams I, II, and III. In order to prepare for Exam IV, the candidate is encouraged to examine a reading list provided by PRMIA. Once the candidate determines his or her areas for improvement, PRMIA offers online and classroom training targeted for those competency areas.

The FRM certification from GARP is undergoing change as of October 2009, mainly in response to the financial upheaval of the past two years. Depending on when a candidate submits interest for the certification, he or she may either be required to take one exam or two exams. All of the FRM exams are multiple choice; the exam with only one part, which will be "grandfathered" out, has 140 questions. The two part exam consists of 100 questions for Level I and 80 questions for level II.

In order to prepare for the two-level exam structure, the organization expects that the candidate will spend between 150 and 200 hours for each level. GARP offers a self study guide, as well as core readings that are available as a "course pack". The FRM Handbook is recommended as a textbook for study and each participant can also prepare using practice exams available from GARP. The organization can also point candidates in the direction of local study groups and third party course providers. GARP does not offer training directly, naming this as a potential conflict of interest.

There is a digital library where candidates can find information and readings on any of the competencies covered in the exam battery. As mentioned, the FRM curriculum, in the form of readings, textbook, and courses, changes regularly, and is being especially overhauled to match the new financial environment.

GARP's ERP preparation and exam structure is very similar to the FRM's. Candidates are expected to spend 250 hours in preparation of the exam, which covers physical energy markets, financial trading instruments, valuation and structure of energy transactions, risk management in financial trading, as well as disclosure, accounting, and compliance. This is obviously a broad-based curriculum for a specialty area of practice. As with the FRM, candidates can use a self-study guide, a course pack, a digital library, and sample exams in order to prepare for exam day. The ERP certification program is overseen by practicing professionals, which is in itself a dynamic aspect of curriculum and exam preparation.

Why is the curriculum and preparation method for certifications important to your organization? First, a dynamic curriculum ensures that whoever becomes certified will not only be exposed to a broad base of knowledge, but also to knowledge that is current. This is important in any field, but in the field of finance current knowledge takes on a life of its own. Oversight by practitioners is also of importance to the organization, for virtually the same reasons: content needs to be current. Broad-based areas of competency are also important, because you need to ensure that designees are able to function in a variety of knowledge areas, even if he or she is specialized. Knowing where a particular function "sits" in relation to the broad spectrum of financial activity is key to

moving the organization forward.

What about the significance of self-study? We will go into more detail in this topic when we discuss competencies, but it's important to note that a self-guided curriculum requires a dedication and focus that not every adult learner possesses. If you hire based on a certification such as the FRM, PRM, or ERP, you'll know that you're getting a person who is dedicated, able to focus, and possesses the skills to follow through.

Next, we will examine the recognition and standards set forth by risk management certifications.

### **Recognition and Standard of PRM, FRM, and ERP**

It's very difficult to ensure that the individuals you hire into your organization have a recognized standard of knowledge, experience, and competency. You can certify internally, but this type of program does not have much meaning outside of your organization. That's why it's necessary to look for external certification sources. And in the case of risk management, the three certifications are highly visible, recognized, and set standards that will most likely improve your organization. Let's look at how the PRM, FRM, and ERP standards look, and then discuss how those standards might impact your organization.

First, the Professional Risk Manager certification from PRMIA seems to have a high level of recognition throughout the industry. PRMIA defines its certification as the "benchmark" in global risk management. To begin with, the organization gives partial credit toward certification if you hold another designation, such as Actuarial Fellow, Actuarial Associate, or

Chartered Financial Analyst (CFA), to name a few. This type of recognition means that the PRMIA puts its certification on the level of other well-known certifications. Because this type of reciprocal arrangement exists, you can be assured that the standard of excellence is high. The PRM certification carries recognition by universities, including the University of Toronto, Technical University of Munich, NYU, and also a group of faculty who represent the Sorbonne, the Ecole Polytechnique, and the Universite Paris Dauphine.

The PRM designation is used in about 80 countries, which is, according to PRMIA, more than any of the other risk management designations. This also indicates a high level of portability for the certification, which means that your organization can certainly benefit if it is international in scope or is planning expansion. The PRM certification is also endorsed by some of the best-known companies in the business, including the Canadian Securities Institute, Algorithmics, Lombard Risk, Ernst and Young and SunGard Trading and Risk Systems. These industry relationships can help your organization gain a firmer footing in the industry.

In regard to standards, the PRM stands out because of the exam format, which is designed from a database. This format ensures that a professional cannot pass the exam with weaknesses in any areas. If he or she plans to pass, he or she must be highly prepared in any area as there is no way to predict where the database will pull questions for the individual exam. The exam prep handbook is currently in use in 105 countries and is a common reference guide in 23 of the world's largest banks. Plus, the exams can be used to test knowledge areas without going to full certification. For example,

you can have members of a certain department take the exams that most closely relate to their expected competencies. It's obvious that the PRM designation is well recognized for its high standards.

The FRM designation from GARP also carries high standards and recognition. GARP reports that recruiters and hiring managers are now actively looking for these certificate holders in order to fill senior risk management positions. Given the current economic climate, this is certainly a plus in the recognition column. FRM holders make up a fairly elite group, having slightly less than 18,000 members worldwide. This creates a highly recognizable standard as well as a useful network. For example, GARP reports that its 2008 candidates represented 36 industry sectors and were working in 168 of the Fortune 500 companies. A person who receives the certification can add the "FRM" to the end of his or her name, and a potential candidate can even submit a resume to see if he or she qualifies for the experience requirement.

The ERP designation carries much of the same standard and recognition as the FRM certification, including the network of worldwide certificate-holders. However, one of the more revealing elements of the ERP certification is that GARP is planning a continuing education requirement for its holders. Continuing education requirements ensure that certificate holders have current knowledge. Consider the state bar associations or even real estate and appraisal professionals in the U.S. If a person obtains a certification with a continuing education requirement, he or she is signifying a readiness to consistently work to maintain the certification and to continually uphold the standards required of the certification.

Why is recognition and standard important for your organization? Consider the value that a recognized certification brings. The certification certainly provides value for your shareholders, stakeholders, and customers. And in this financial environment, any kind of value and standard is going to be vital to the survival of the organization. Plus, a recognized standard may even bring regulatory value. In other words, regulators are looking for proof that financial organizations are actively finding ways to maintain the highest knowledge, ethics, and accountability. In relation to your leadership pool, a certification is of definite value. As you bring certified professionals in or certify your existing associates, your pool of qualified candidates grows. This pool not only possesses the competencies that are stated by the program, but also some implied competencies that come with self-guided certification programs.

Finally, certifications like these focus on the advancement of the profession and not necessarily education for education's sake. This focus ensures that your certified associates are "A" players - and that they are committed to their respective fields.

In our next discussion, we will look at the competencies that certified professionals bring to your organization, both as expressed and implied competency.

### **Competencies for PRM, FRM, and ERP Certificate Holders**

It's important to examine the competencies you would like to see in your organization and compare them to the competencies that a professional certificate holder can bring. But when we analyze competencies, we need to

look at both expressed and implied competencies. The expressed competencies are those that are stated in the program, and may be technical or functional in nature. The implied competencies are the ones that are not stated by the program and take some inference to determine. In other words, these are the competencies that the certificate holder will most likely have because he or she went through the program successfully. Also keep in mind that you'll want to look for competencies that are not only technical and functional, but also related to leadership and management.

The PRM certification brings numerous expressed competencies to your organization's collective table. The successful completion of the program means that a person is well versed in risk management theory as well as practice, through the mathematics of risk management. The certificate holder must also have the ability to apply theoretical knowledge, as the exam tests application of knowledge, conduct, and ethics through case studies. The expressed competencies in the PRM program are mainly technical and functional in nature.

But let's analyze the program a little further to look for implied competency for a PRM certificate holder. First, the multiple-choice format of the exams provides us with a picture of someone who is good at making decisions. The fact that the program is self-directed in nature paints a picture of a professional who has drive, determination, and focus. As we've mentioned, not all adult learners possess the competency to get through a self-directed study program successfully. Translated into the organizational world, this person will probably have the ability to work well independently.

Because the PRM program allows a candidate

to self-assess, you're going to get a professional who is able to address his or her weaknesses. This is not just acknowledgement of a weakness but the ability to correct that weakness through action, study, or other intervention. The choice between online and classroom preparation also ensures that the professional knows his or her own learning style and can apply it quickly and easily to the learning process. Plus, in relation to learning, a successful completion of the PRM shows you that the person is open to being coached, trained, and managed in a positive direction. All of these combined competencies create a great profile for a potential organizational leader.

The FRM certification through GARP also carries a high level of technical and functional competency, such as market risk, credit risk, and operational risk. The FRM also tests risk management in investment management. Again, this certification proves a certain ability to take knowledge, synthesize it, and apply it to common situations.

In terms of implied competency, the FRM shows us that the certificate holder, because of the elite size of the network, has the ability to see him or herself a part of a larger group. The fact that the person chose the FRM designation shows that he or she is dedicated to the furtherance of the profession and not just interested in his or her own self-interest. It's also necessary to again consider that a self-directed learner has proven an ability to focus and drive projects through to completion.

In regard to the ERP certification through GARP, we can also see a high level of technical and functional competency, including physical energy markets, financial trading instruments, and valuation and structure of energy related

transactions. Because there are specific experience requirements to even sit for the exams, we can also assume a higher level of experience in what is certainly a specialized field.

On the implied level, the ERP certificate holder not only shows his or her determination and focus, but also a level of devotion to a specialized field. When you add the continuing education requirement to this mix, you'll also see a professional who is certain that he or she is in the field on a permanent basis.

Why are expressed and implied competencies important to your organization? One of the most obvious reasons is that you want to ensure that people in specific positions have a measurable level of functional and technical competency. All of these certification programs prove this competency, as well as experience. But what about bringing in certified professionals as part of your overall leadership "bench" strategy? If you are actively recruiting professionals with the designation, you can be assured that you are going to create a bench of high professional leaders, that is, the ones who can lead and manage functions in their own field. But when you look at the implied competency of these certification programs, you can also be assured that some of those professionals will be high potential leaders, that is, the ones who can be groomed for leadership and management across a spectrum of functional and technical areas.

If you are considering certifying existing associates, think about how that will improve your existing "bench". The people who readily enter a certification program are proving that they are dedicated to the profession and dedicated to the organization's future success.

Not only this, they are obviously open to being coached and "schooled" on the most current industry knowledge.

Now that we've looked at the FRM, PRM, and ERP certifications generally, examined the curricula and exam structures, analyzed recognition and standard, and discovered competencies, the last step is to look at the overall picture of how these things can help your organization.

### **Organizational Benefits of Certification**

You may be ready to decide which risk management certifications to look for or which ones you will ensure that certain existing associates complete. Before you do this, it's a good idea to examine your organization in relation to each individual certification. Look at the factors that affect your organization and determine which certifications will be closely aligned with those factors. Then, consider some of the overall benefits your organization can gain from risk management certifications.

To begin with, look at the technical and functional specifications of each certification. For example, if you are not an energy related industry, you probably would not need the ERP certification from GARP. Of course, that's an easy distinction to make. The PRM and FRM certifications, although they come from different organizations, are very similar. It may be necessary to do a further analysis on the exact technical and functional specifications of each certification to see which one matches your organization more closely. You may also need to look at where your organization is in terms of its own position and its own recognition within the industry. For example, if you are looking for a very high standard of

recognition and cross-utilization when it comes to your certification, you may want to consider the PRM. If not, either one would most likely work.

Also consider how and "where" you'll want to use the certifications. Are you looking at hiring or also at top-grading your current workforce? In regard to hiring, you can easily determine if you want to recruit for one certification or both. But if you are considering top-grading your existing staff by putting them through a certification program, you'll want to look at the time involved as well as the cost and pass rates of the major risk management certifications.

In your overall analysis, you may also want to consider the expressed and implied competencies we've already discussed. What are your organization's desired competencies when it comes to positions at the levels that are affected by these risk management certifications? Although the three major certifications generally carry the same competencies, you may want to compare your organization's competencies with each certification program - and make a determination that way.

What about overall organizational benefits of risk management certifications? First, a globally recognized certification program puts employees on the same footing. This is a way of ensuring that everyone in particular job groups or functions has the same level of experience, knowledge, and ability. For an organization that is attempting to move forward in an uncertain financial environment, this is crucial. For example, if you have new leadership positions available because of expansion, you can look at each person and how he or she matches those competencies instead of being tasked with

examining every technical and functional competency the position calls for.

The recognition and standards are also very important. For example, if you are looking to cross-utilize a staff that already has certification in other areas, such as CFA or Actuarial, you may want to go with the PRM, as that certification credits people for having other designations. If other designations don't play a part in your organization, you can consider any of the three. Also consider the global recognition of the certification based on your organization. Whatever you decide, you can use the recognition and standards set by the certification in several ways.

You can also market the organization based on its certifications. For example, you can say that a certain percentage of your employees hold the designation. This type of branding can work both internally and externally. Customers, when educated about the "weight" of a certification, will probably place more trust in an organization that is dedicated to certification, knowledge, and ethics. But look at this from the opposite standpoint. You can use the certification to recruit and retain employees. For those already certified, you can decide that leadership is promoted from the certified pools of people. For those who don't hold certification, marketing the company with the promise of a global certification can get the brightest talents through the door - and hold on to them.

Also consider the subtle marketing that a

certification plan can accomplish. If shareholders and stakeholders become aware that the company is now hiring risk managers who hold global certifications, it will increase their perception of value. This holds true for regulators, as well. The fact that an organization is looking for ways to ensure quality and adherence to ethical standards will increase regulatory value, as well.

The network that is created through certification is also an organizational benefit. For all of the risk management certifications, the candidate must be a member of the certifying organization. This membership increases the network not only for the individual but also for the organization. If there is a new topic or issue, the certificate holder will be able to use the network to gain insight, knowledge, and assist in the decision making process. Plus, like organizations can benchmark from each other, whether a functional benchmark or even a management or leadership benchmark.

There are certainly numerous organizational benefits to risk management certifications. You can achieve your best benefits by closely analyzing your organization, its competencies, and its goals, and choosing the certification program or programs that most closely align with those items. All three of the major risk management certifications, the FRM, PRM, and ERP, carry overall and specific benefits. It's up to you and your organization to decide which one works the best for you.

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**Bryant Nielson, Director**

<http://www.CapitalWave.com>

<http://www.FinancialTrainingSolutions.com>

<http://www.YourTrainingEdge.com>

Tele US: +1 (917) 477-3221

Tele UK: + 44 (20) 3356 9935

bryant.nielson@financialtrainingsolutions.com

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