

Framework for Assessment of Non-financial Concentration Risk

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Abstract : Amid the escalating digitalization and deployment of cross-border technological solutions, a significant portion of the industry and regulatory bodies have begun to pose queries concerning the formulation, computation, and contemplation of concentration risk. In the financial sector, well-established parameters exist for gauging the concentration of a portfolio and similar elements. However, a unified framework appears to be absent, which could guide industry and regulators pertaining to non-financial concentration risk. This paper introduces a framework, constructed on the foundation of multiple regulations where regulators are advocating for licensed corporations to evaluate their concentration risk. The lacuna lies in the fact that, while regulators delineate what constitutes concentration risk, unlike other domains, no guidelines are provided that could assist firms. This frequently results in ambiguity and individual corporate interpretation, which, from a risk management standpoint, is less than ideal.

Keywords : concentration risk, non-financial risk, government regulation, financial regulation, non-market risk, MAS, DORA, EDSP, SFC

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