

ENTERPRISE RISK MANAGEMENT

ERM

*Symposium*

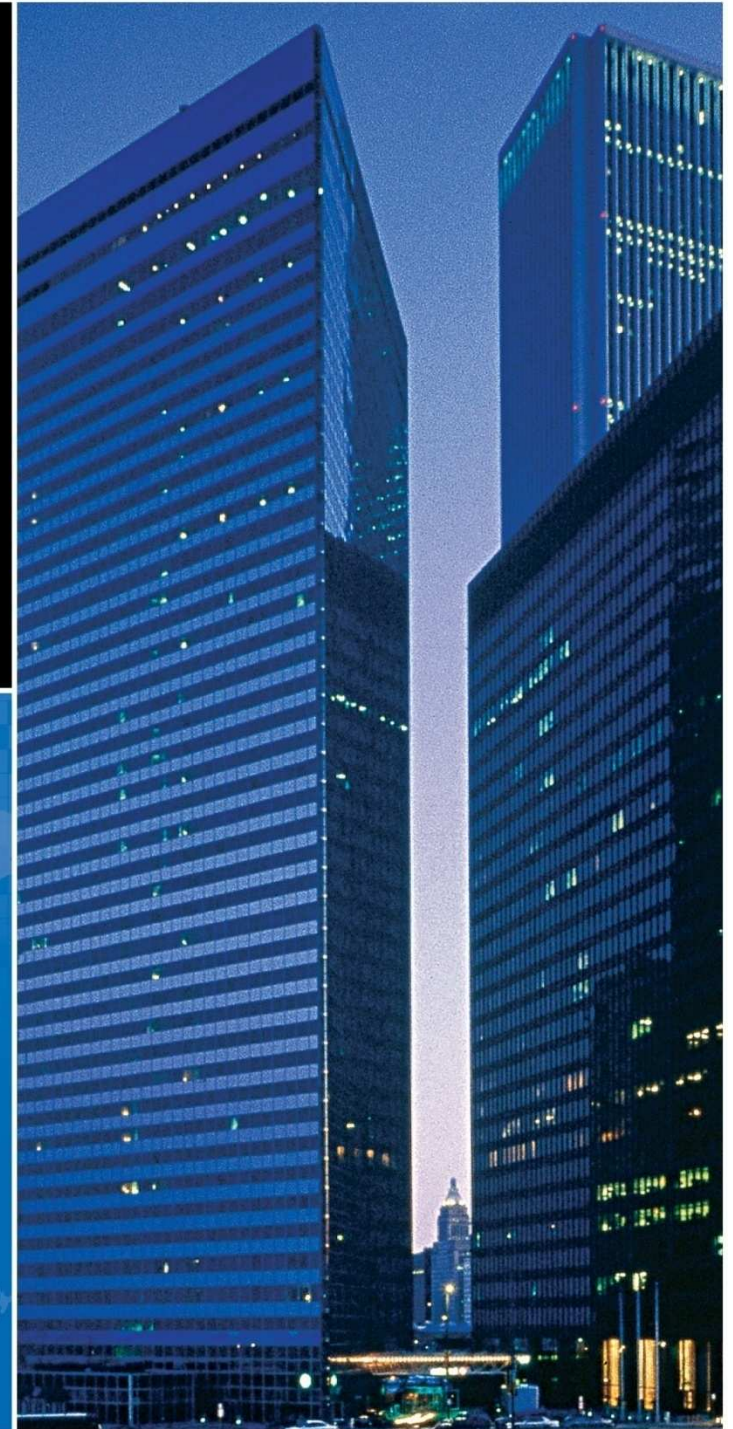
*Where Cutting Edge Theory Meets State of the Art Practice*

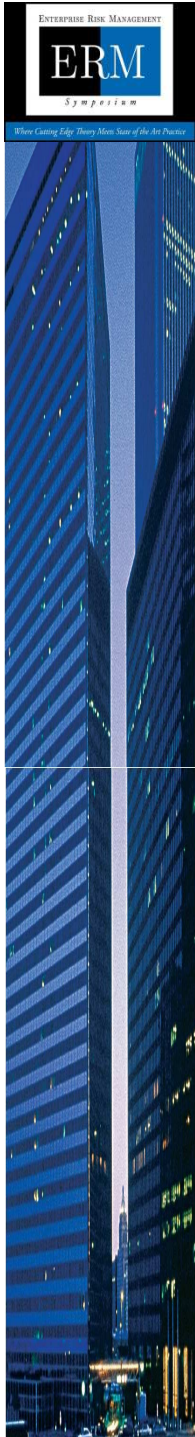
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## From ICAAP/ORSA to ERM: Board and Senior Management Oversight

Leon Bloom, Partner, Deloitte & Touche LLP  
[lebloom@deloitte.ca](mailto:lebloom@deloitte.ca)





# Agenda

- Basel II – ICAAP
- Solvency II – ORSA
- ERM



# BASEL II – ICAAP



# How is Basel II structured?

## The 3 pillars

Today's focus

### Pillar 1

Calculation of Minimum Capital Requirements

- Credit Risk
- Securitization Framework – Credit Risk
- Operational Risk
- Trading Book Issues (inc. Market Risk)

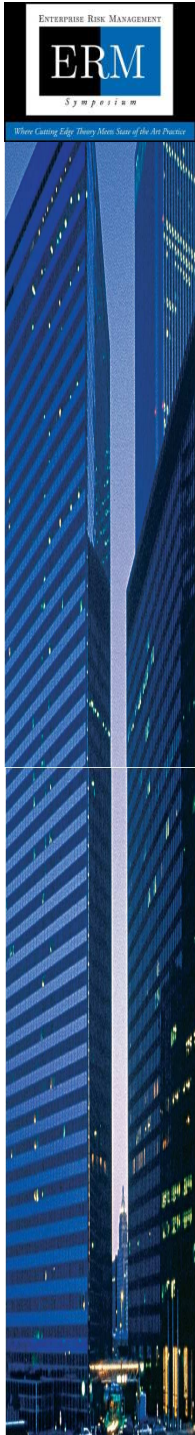
### Pillar 2

- Capital Adequacy Assessment
  - Board and Management Oversight
  - Sound Capital Assessment
  - Comprehensive Assessment of Risks
    - Credit Risk
    - Operational Risk
    - Market Risk
    - Interest Rate Risk
    - Liquidity Risk
    - Other Risks
- Monitoring and Reporting
- Internal Control Review
- Supervisory Review Process
  - Stress testing under IRB
  - Residual Risk
  - Credit Concentration Risk
  - Securitization

### Pillar 3

- General Considerations
  - Guiding Principles
  - Interaction with Accounting Disclosures
- Disclosure requirements:
  - General
  - Scope of Application
  - Capital Structure
  - Capital Adequacy
  - Credit Risk
  - Market Risk
  - Operational Risk
  - Interest Rate Risk

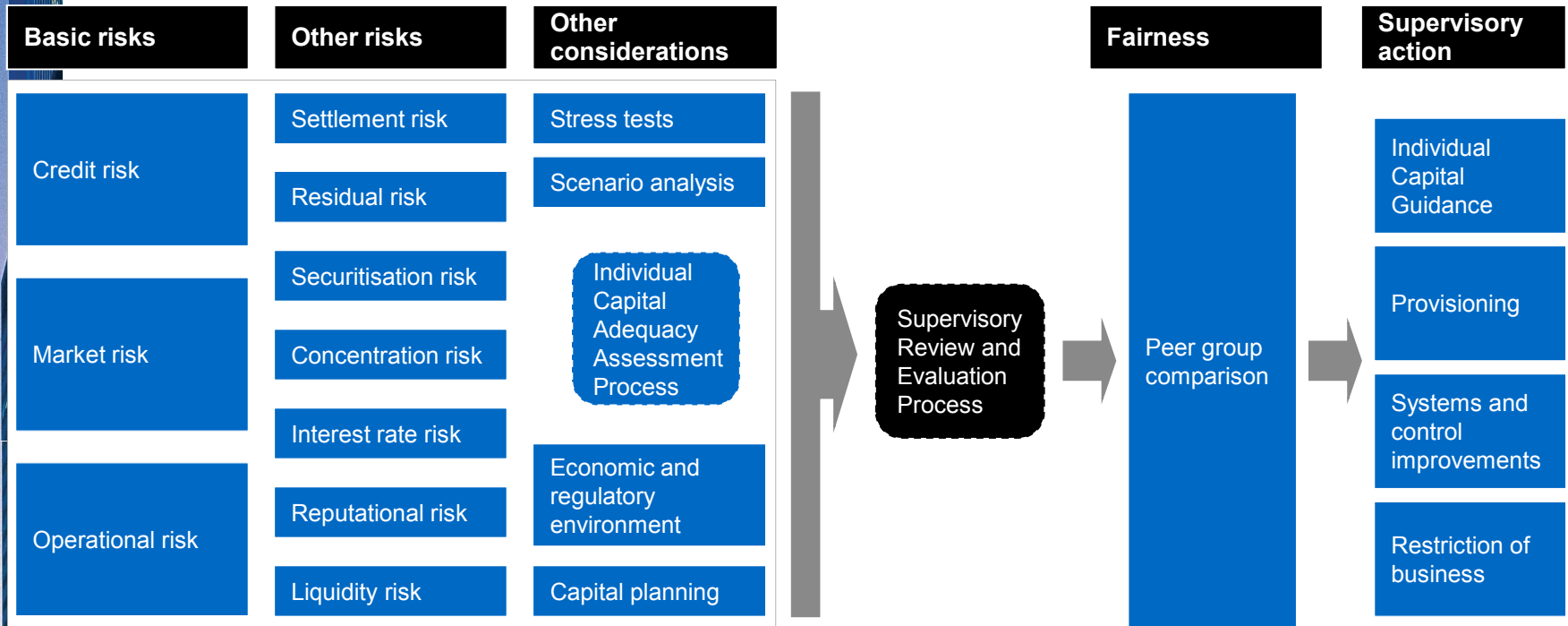
- Pillar 2 seeks to enhance the link between an institution's risk profile, its risk management and risk mitigation systems and its capital.
- Banks must ensure that they have a process in place to ensure they hold capital consistent with their risk profile and strategy.
- The ICAAP belongs to the bank and they should 'own', develop and manage their risk management processes.



# What does this mean for banks?

- The obligation to conduct an ICAAP, includes requirements on a bank to:
  - Carry out regular assessments of the amounts, types and distribution of financial resources
  - Identify the major sources of risk to its ability to meet its liabilities as they fall due
  - Conduct stress and scenario tests
  - Consider the adequacy of capital required with regard to the nature and level of risks to which it is or might be exposed
  - Ensure that the processes, strategies and systems used in its ICAAP, are both comprehensive and proportionate to the nature, scale and complexity of that firm's activities
  - Document its ICAAP
- Key elements of the ICAAP include:
  - The Supervisory review and evaluation process
  - Proportionality
  - A top down reasonableness test of a firm's ICAAP
  - Stress and scenario analyses to be carried out for each major source of risk relevant to a firm
- Development of robust internal governance arrangements
  - Clear responsibilities
  - Supporting management information and documentation

# ICAAP – What needs to be included?



- **The Individual Capital Adequacy Assessment Process (ICAAP)** is the responsibility of the Bank to develop and maintain.
- **The Supervisory Review and Evaluation Process (SREP)** undertaken by the regulator will include the review and evaluation of a Bank's ICAAP.

# Logical steps in the ICAAP process

<b>1. Risk Identification</b>	Identify all the risks applicable to the institution which should therefore be considered within the ICAAP.
<b>2. Identify impact on business activity</b>	Consider the impact on balance sheet, budgets and strategic plans. The firm should be able to calculate its own funds and set their risk appetite accordingly, in relation to the level of their own funds.
<b>3. Assess adequacy of own funds</b>	The adequacy of own funds need to be assessed as part of the internal capital adequacy assessment process. Examples of the potential calculations include closed to all new business and close out existing book, closed to new business and run existing book off until appropriate sale, open for new business and run off after one year, open for new business.
<b>4. Assess impact of risk event types</b>	<b>Approaches could include:</b> <ul style="list-style-type: none"> <li>• Estimate the impact on the opening balance sheet and subsequent profit and loss experience by risk type.</li> <li>• First identify and estimate the drivers of the different risk types and subsequently estimate the impact of each risk event type. This approach has the added advantage of recognising dependencies between risk event types.</li> </ul>
<b>5. Assess impact on Balance Sheet</b>	This should include assessment of the impact of risk events on both current balance sheet and projected future balance sheets. This should be based on extreme scenario analysis. The outputs should also be used to re-calculate the institution's own funds and to compare against risk appetite.
<b>6. Revisit capital planning framework</b>	Once the projections have been completed and the evaluation of own funds assessed and compared to the risk appetite (i.e. tolerances) the capital planning framework has to be revisited.
<b>7. Scenario Analysis</b>	The projections are based on best estimates of future expected experience and the impact of the scenarios identified. It is appropriate to test the sensitivity of the results by changing the scenarios chosen, the business plan, the capital structuring, the impact of assumed management actions etc.
<b>8. Identify mitigating actions</b>	Identify mitigating actions suitable to ensure that the organisation continues to meet its risk appetite throughout.
<b>9. Implement mitigation</b>	Enact mitigating strategies where relevant. Assign roles and responsibilities and track progress.

**Repeat the process at least on an annual basis**



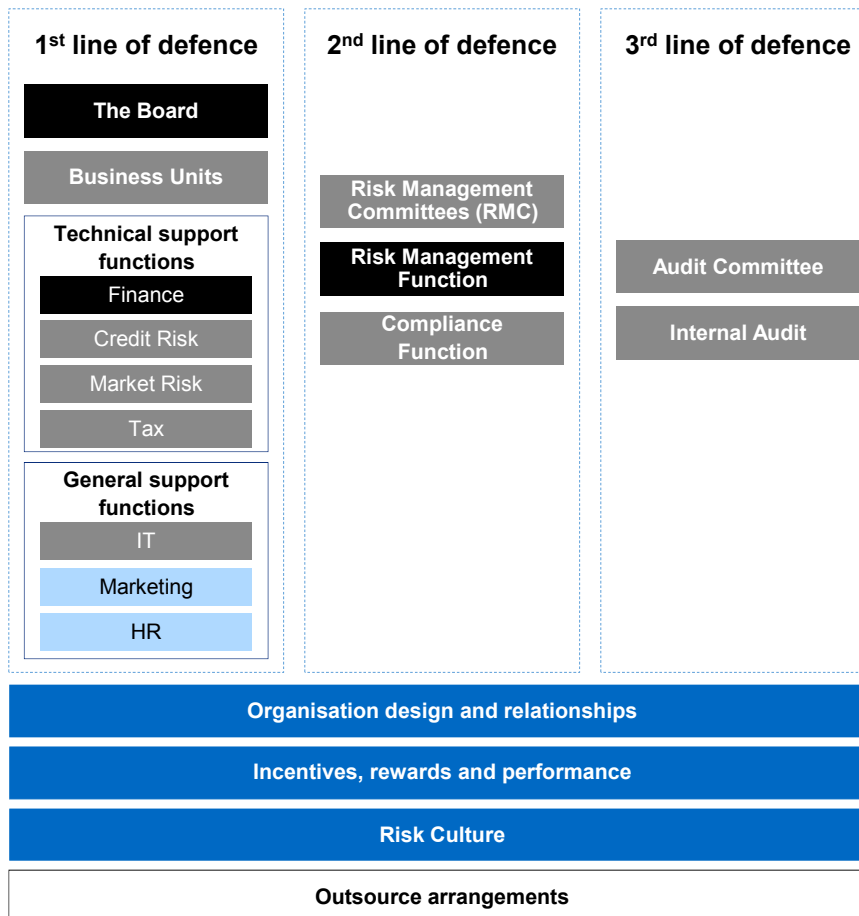
# The FSA's Pillar 2 assessment process (SREP)

<b>Internal Planning</b>	Internal FSA meetings to consider risks specific for the firm and to agree timescales. Many ICAAP reviews will be carried out alongside the FSA's Arrow process and eventually most should coincide with Arrow.
<b>Submission Request</b>	The submission request letter is tailored to the firm's particular risks and circumstances. Supervisor will discuss the information request with the firm after receipt of the letter. Three months' notice normally given.
<b>Initial Review</b>	Internal FSA review of the ICAAP materials, submitted alongside other information held by the FSA.
<b>Questions/ Discussion</b>	Based on the Initial Review, the FSA team prepares a number of questions for the firm. The review process may include face-to-face discussions with the firm to discuss and explore areas of concern or to seek further background and evidence. If an on-site visit is scheduled the topics for discussion are submitted in advance.
<b>FSA Initial View</b>	The second stage of the internal FSA review. May be supplemented with further discussion with the firm, usually by telephone or email. Production of formal 'Panel Pack' of conclusions and recommendations.
<b>Discuss Findings with Firm</b>	FSA review team discuss key conclusions with the firm, providing an opportunity for the firm's comments to be taken into account by the panel.
<b>FSA Panel Process</b>	Review team presents the conclusions and recommendations to a panel for review, moderation and signoff. Panel considers key issues for each firm within industry-wide context to ensure broad consistency.
<b>Formal Notification</b>	A letter is sent to the firm's Board setting out the final conclusions and recommendations of the review along with Individual Capital Guidance. Where the review is carried out alongside the FSA's Arrow process a single integrated letter is used.

# What should the governance model consider?

## Three lines of defence as a framework

- The three lines of defence model has been used to illustrate the impact on typical insurance functions as it provides sound principles for a risk management framework, although the directorate and the FSA do not use it explicitly.



Key  Significant impact  Moderate impact  Minimal impact

### 1<sup>st</sup> line of defence

- Has day-to-day management of risk, taking on risk on behalf of the organisation
- The Board**, supported by RMCs, have ultimate responsibility for risk management (and Basel II)

### 2<sup>nd</sup> line of defence

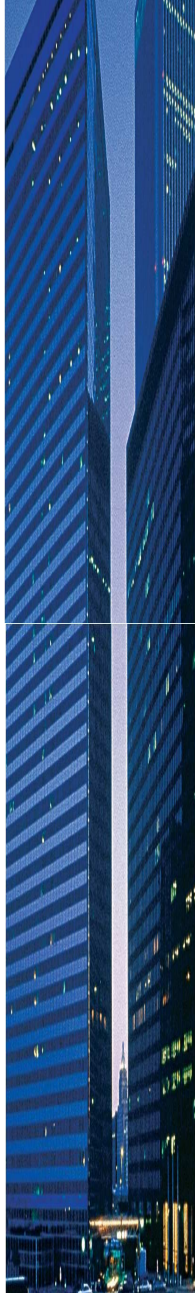
- Sets Risk standards processes and oversight
- There is **still uncertainly where the Risk and Actuarial functions will sit** across the three lines

### 3<sup>rd</sup> line of defence

- Provides independent assurance on the design and effectiveness of the risk management framework

### Cross-organisation areas

- Enhanced process and systems for Basel II will be managed by relevant functions within the three lines
- However all **people** and outsourcing will be impacted

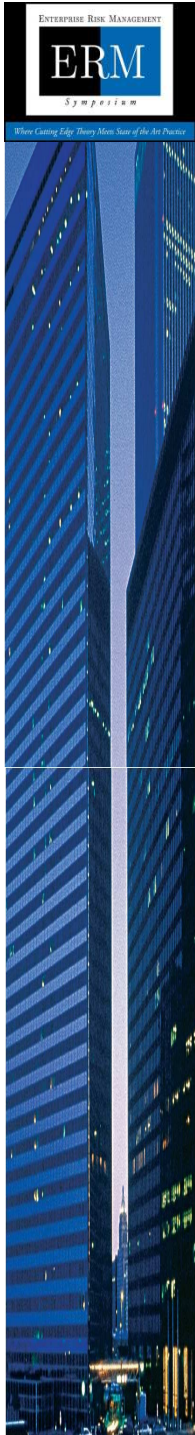


# Internal Governance – What needs to be done?

Area of Internal Governance	Tasks required
<b>Corporate Structure and Organization</b>	<ul style="list-style-type: none"> <li>• Documentation of corporate structure and associated committees</li> <li>• Documentation supporting segregation of duties between loan origination and risk management</li> <li>• Incorporate Internal Governance review into the ongoing planning for Internal Audit</li> <li>• Review and amendment of management reporting to support risk management activities within the organisation</li> </ul>
<b>Management Team</b>	<ul style="list-style-type: none"> <li>• Review and amendment of Board and Management policy to reflect increased responsibility in terms of risk management</li> <li>• Develop documentation supporting the succession planning of key executives</li> <li>• Development and documentation of the capital planning and maintenance process</li> </ul>
<b>Internal Control</b>	<ul style="list-style-type: none"> <li>• Review and amend the terms of reference for the following key areas:               <ul style="list-style-type: none"> <li>– Risk management</li> <li>– Compliance</li> <li>– Internal Audit</li> </ul> </li> <li>• Review of the management information currently produced to support the following:               <ul style="list-style-type: none"> <li>– evaluation of the level and trend of material risks and their effect on capital</li> <li>– reporting which allows the monitoring of capital adequacy, planning, forecasting and the reasonableness of expected overall capital resources.</li> </ul> </li> <li>• Development and documentation for raising internal governance concerns from staff.</li> </ul>
<b>Public Disclosure and Transparency</b>	<ul style="list-style-type: none"> <li>• Incorporate specific Pillar 2 Disclosure requirements within the plans set out for Pillar 3 reporting</li> <li>• Development of a Risk Disclosures Principle policy to ensure that the reports produced are relevant and timely.</li> </ul>

# Key roles and responsibilities

<b>Board</b>	<ul style="list-style-type: none"> <li>• Review and approve enterprise risk appetite and enterprise level risk limits</li> <li>• Review material/significant exceptions to limits</li> </ul>
<b>CEO</b>	<ul style="list-style-type: none"> <li>• Approve enterprise risk appetite and enterprise level risk limits</li> <li>• Review material/significant exceptions and determine corrective actions required</li> </ul>
<b>Risk &amp; Capital Committee</b>	<ul style="list-style-type: none"> <li>• Review/endorse risk appetite framework and enterprise level risk limits (recommend to CEO and Board)</li> <li>• Recommend actions to material/significant exceptions; monitor completion of agreed actions</li> </ul>
<b>ERM</b>	<ul style="list-style-type: none"> <li>• Drive development of risk appetite framework</li> <li>• Drive/support development of enterprise level risk limits</li> </ul>
<b>Business/Functional Area Risk Committees</b>	<ul style="list-style-type: none"> <li>• Review/endorse business unit risk sub-limits (in the context of enterprise risk appetite and limits constraints)</li> <li>• Recommend sub-limits to business unit leadership for approval</li> <li>• Monitor adherence to limits and recommend actions to exceptions; monitor actions</li> </ul>
<b>Corporate Strategy</b>	<ul style="list-style-type: none"> <li>• Review enterprise risk capacity and appetite in the context of determining/evaluating strategic plans</li> </ul>
<b>Other Risk Management Partners</b>	<ul style="list-style-type: none"> <li>• Support compliance with risk limits (including execution of actions required to achieve)</li> <li>• Provide advisory/consult roles in recommending risk limits</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>• Provide independent assurance on framework design effectiveness and operational compliance</li> </ul>



# ICAAP – Practical issues to consider

- A bank may operate to differing capital measures (regulatory, market, economic) – need a clear understanding of the links between these and of the relationship to actual capital
- Appropriately differentiating between those risks that can be appropriately managed qualitatively and those that require capital provisioning (and evidencing this process)
- Senior management understanding and responsibility for the ICAAP, as well as wider Pillar 2 requirements
- Assessing whether an ICAAP is appropriate for a bank's needs whilst being proportionate to its size and complexity
- Evaluating the data required in terms of availability, completeness, accuracy and so on
- Development of appropriate and relevant stress testing scenarios
- The relationship between regulatory governance requirements and the current and future target operating model (based on future business expectations)
- Banks that use Pillar 2 as a catalyst to embed robust ECM and risk processes can gain competitive advantage by using this as a basis for decision-making and performance management
- Pillar 2 provides an opportunity for banks to proactively manage their regulatory capital requirements through, for example, process enhancement.

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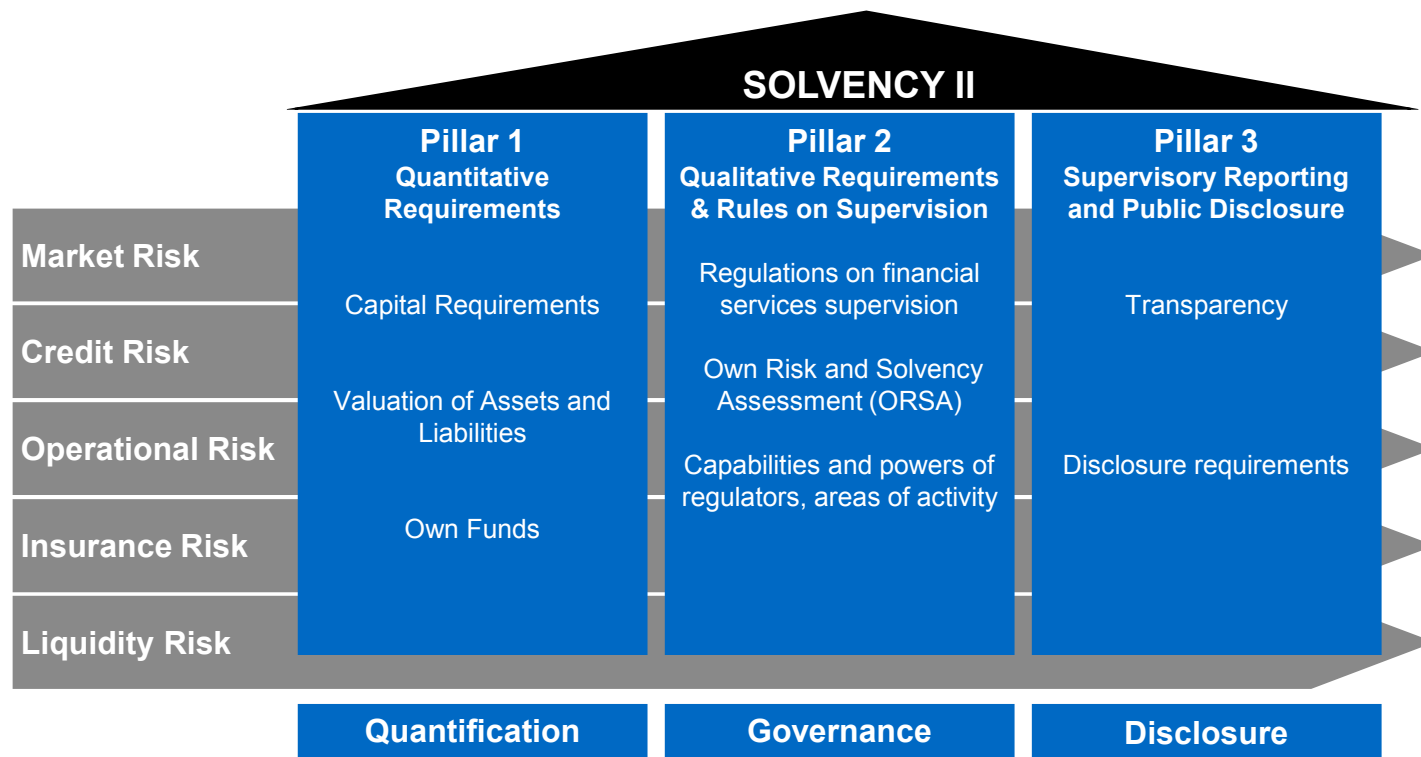
# SOLVENCY II – ORSA



# How is Solvency II structured?

## The 3 pillars

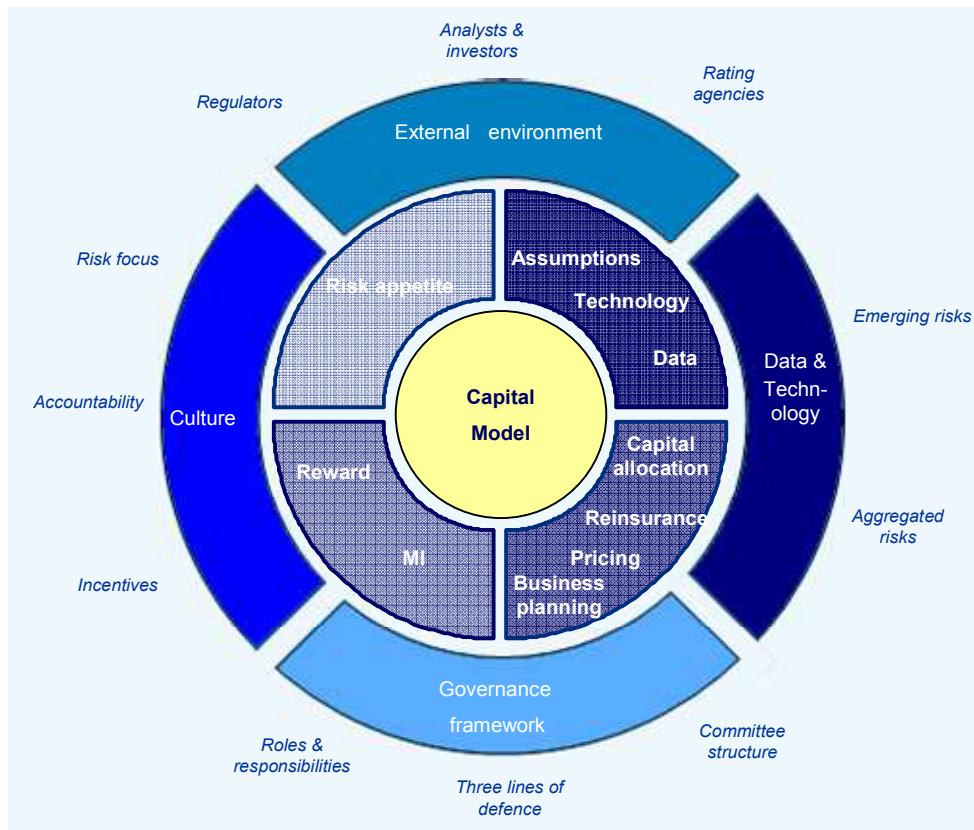
- Like Basel II for banks, Solvency II is based on three guiding principles (pillars) which cut across market, credit, operational, insurance and liquidity risk.
  - The new system is intended to offer insurance organisations incentives to better measure and manage their risk situation, i.e. lower capital requirements, lower pricing etc.
  - The new solvency system will include both quantitative and qualitative aspects of risk, each pillar focusing on a different regulatory component; minimum capital requirements, risk measurement and management and disclosure



From ICAAP/ORSA to ERM: Governance and Practices

# What are internal models? Overall framework

- An internal model is a risk and capital management framework that not only includes the calculation engine to quantify capital requirements, referred to as the 'capital model', but also the risk management framework and system of governance.



## Internal model approval

To gain sign-off an internal model needs to pass six tests:

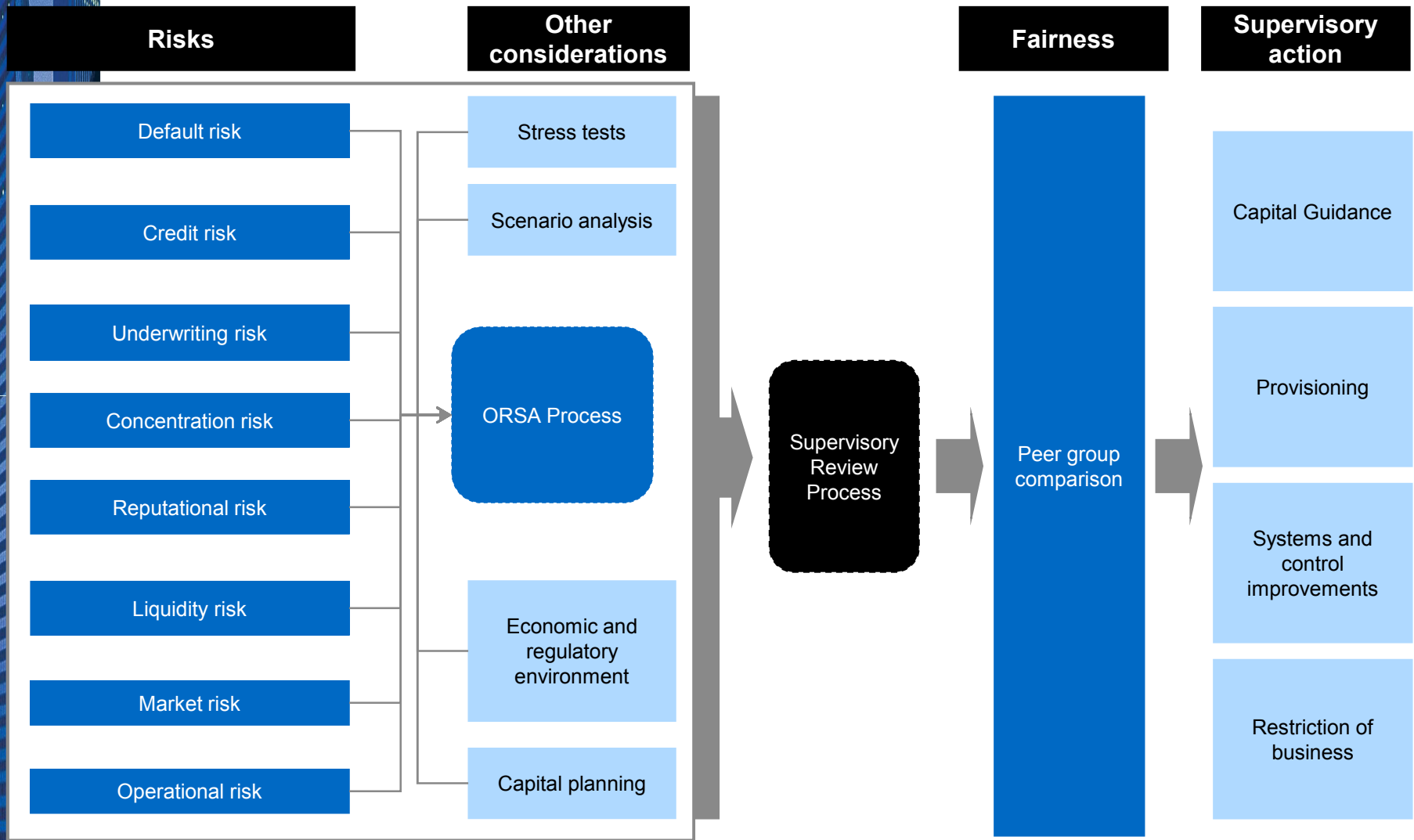
- Use test
- Statistical quality standards
- Calibration standards
- Profit loss and attribution
- Validation standards
- Documentation standards

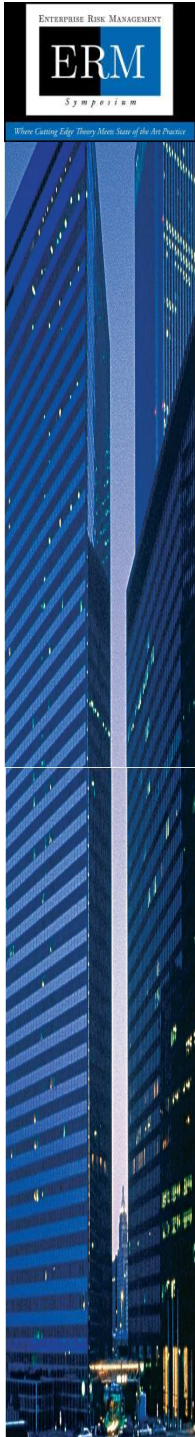
## Pillar 2

# Qualitative requirement and rules on supervision

Requirements	Implications
<ul style="list-style-type: none"> <li>• It encourages insurers to develop and implement <b>internal risk management processes</b></li> <li>• It includes a specific requirement for formal <b>risk management, actuarial and internal audit functions</b> to be established</li> <li>• Insurers are required to embed a robust risk framework and integrate risk and capital management. Insurers must carry out an <b>Own Risk and Solvency Assessment (ORSA)</b> to determine:               <ul style="list-style-type: none"> <li>– Their overall solvency needs taking into account specific risk profile, approved risk tolerance limits and the business strategy of the undertaking</li> <li>– Projected compliance with capital requirements on a continuous basis</li> <li>– <b>Supervisory processes</b> are also defined here. Supervisors can impose a <b>capital add-on for:</b></li> <li>– Governance deficiencies</li> <li>– Inadequacies in the SCR calculation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The Board and Executive will have ultimate responsibility for embedding an effective risk and capital management system</li> <li>• Organisations will have to determine their overall internal capital requirements, and monitor current and projected compliance with capital requirements.</li> <li>• The ORSA and wider internal model should form part of an integrated risk based decision making framework.</li> <li>• The activities of the Actuarial, Risk Management and Finance functions will be strongly impacted and need to be closely integrated/aligned.</li> <li>• Management will need to demonstrate to regulators that they understand and manage the organisation's risk – it's not just about handing over a report</li> <li>• Solvency II will impact the wider business, not only those functions associated with risk and regulation.</li> <li>• Embedding Solvency II will not solely require the development of new processes and tools, but will require a significant change in risk management attitudes and behaviours</li> </ul>

# ORSA – What needs to be included?





# Pillar 2 – System of governance

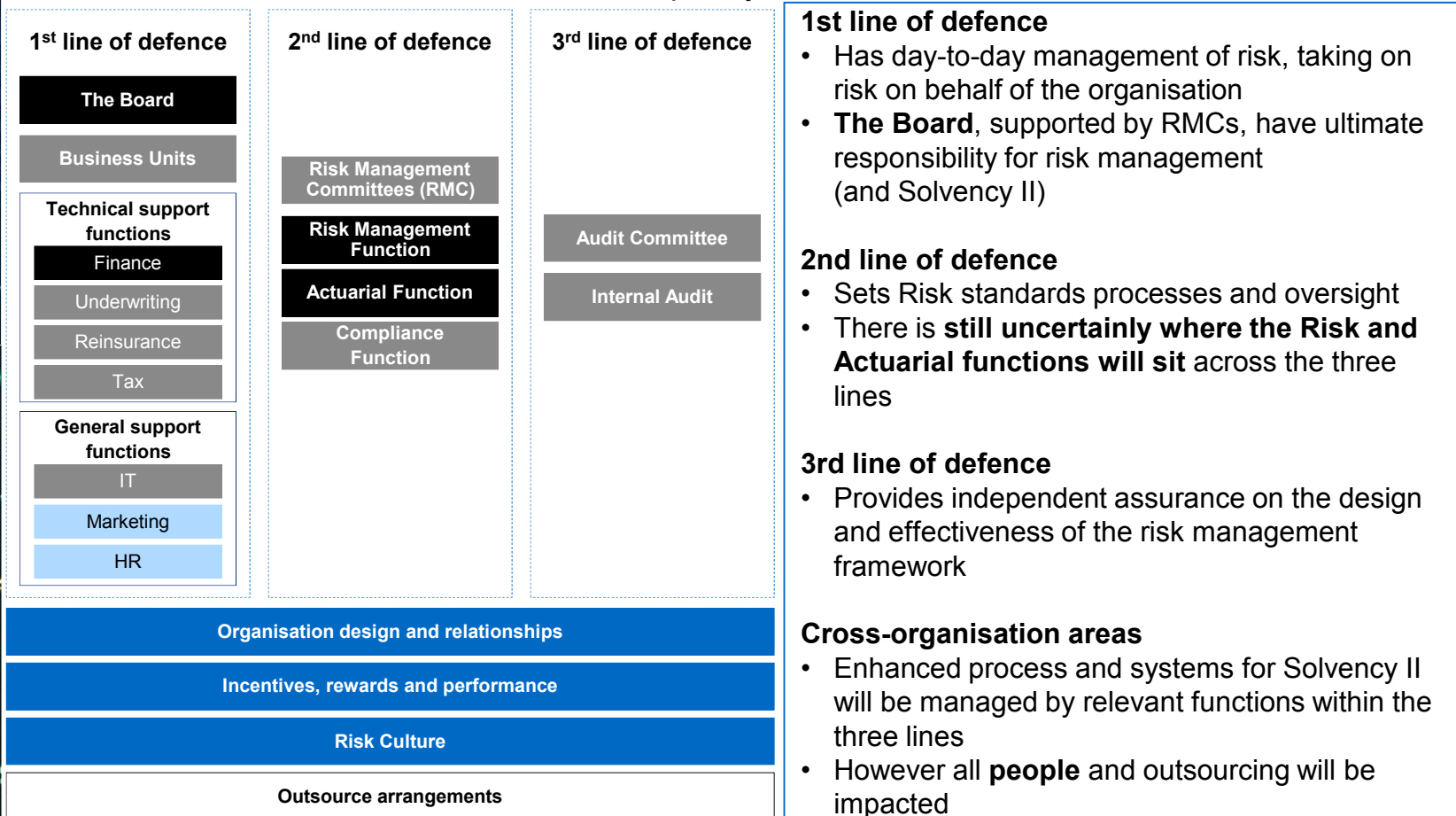
## Contents

- What does Pillar 2 look like?
- Pillar 2 in context - why does it matter?
- Effective risk management under Solvency II
- Risk appetite framework – setting operational limits
- What should the governance model consider?
- Changing organisational attitudes and behaviours
- ORSA – definition and characteristics
- ORSA – determining solvency needs
- ORSA – internal and external reporting
- Risk based decision making – regulatory requirements
- Risk based decision making – embedding the internal model

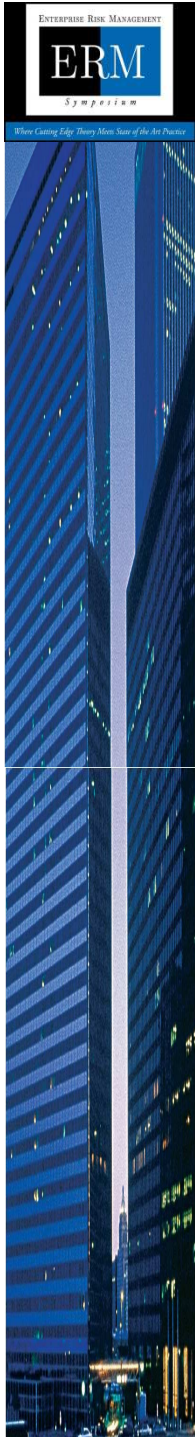
# What should the governance model consider?

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- The three lines of defence model has been used to illustrate the impact on typical insurance functions as it provides sound principles for a risk management framework, although the directorate and the FSA do not use it explicitly.



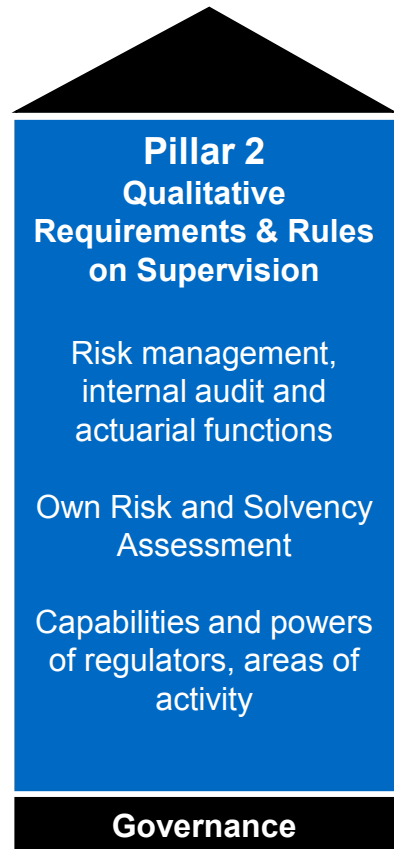
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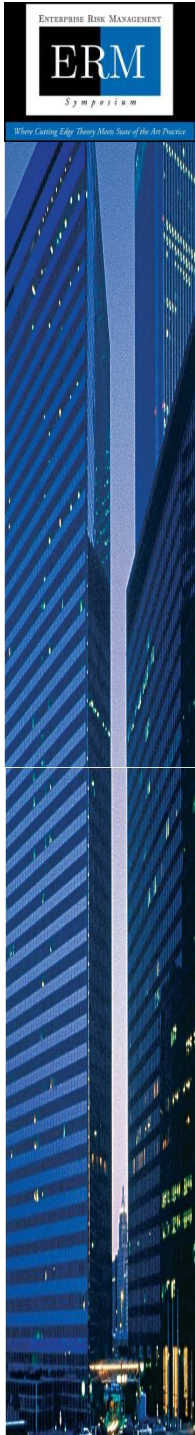


# What does Pillar 2 look like?

Pillar 2 deals with qualitative elements and focuses on the internal control and risk management processes of the company, and on supervisory review.

- It encourages insurers to develop and implement **internal risk management processes**.
  - Risk management is defined in a broad sense, including actuarial reserving, internal review, asset liability management and business planning.
- It includes a specific requirement for formal **risk management, actuarial and internal audit functions** to be established.
- Insurers are required to embed a robust risk framework and integrate risk and capital management. Insurers must carry out an **Own Risk and Solvency Assessment (ORSA)** to determine:
  - Their overall solvency needs taking into account specific risk profile, approved risk tolerance limits and the business strategy of the undertaking
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  - Governance deficiencies
  - Inadequacies in the SCR calculation





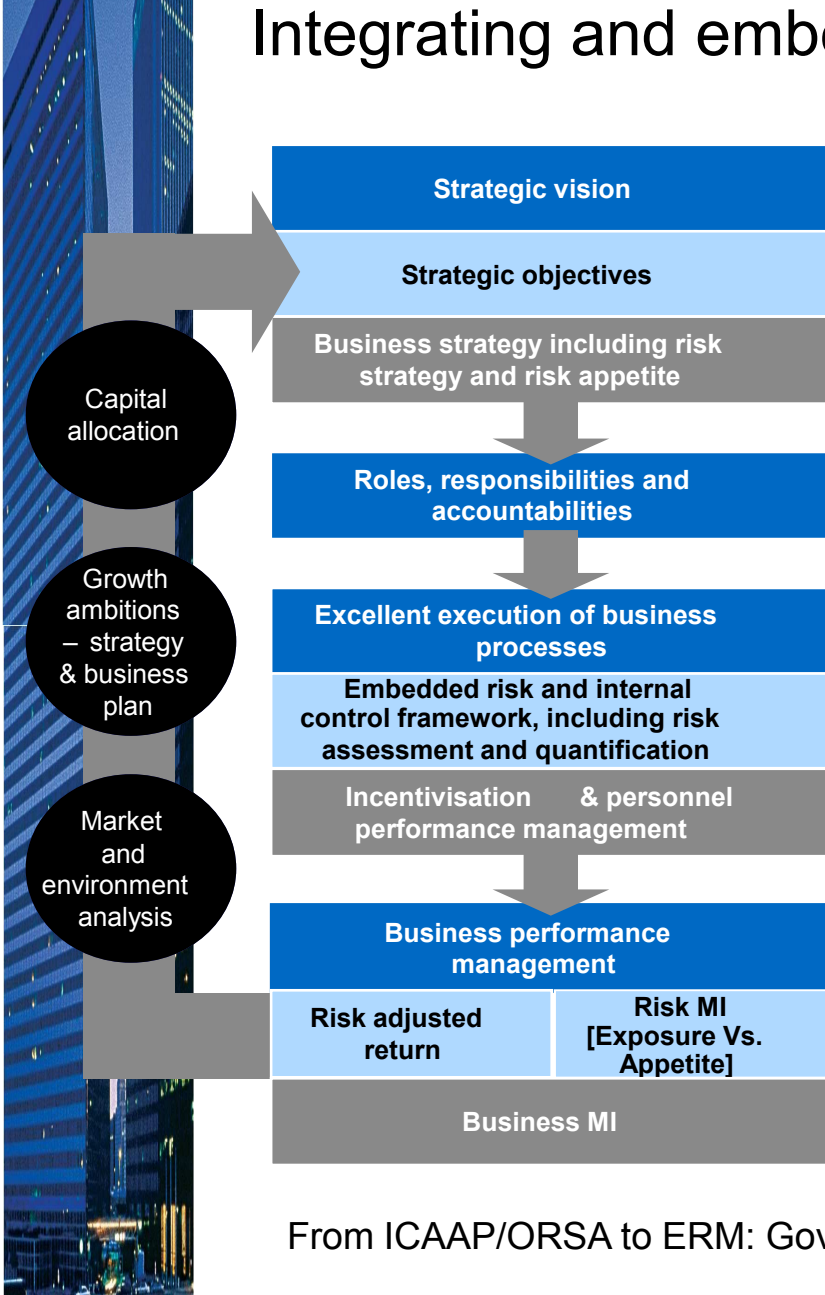
# Pillar 2 in context

## Why does it matter?

- Companies will have to demonstrate that **risk and capital management is embedded** in the everyday management of the entity, and integrated in business planning and strategic decision making.
  - Compliance will only be achieved if effective risk governance and risk management systems are in place.
- The **Board and Executive ‘own’ the risk management system and the internal model** and must understand and be accountable for the ongoing solvency of the organisation and the management of risks within appetite.
- **Risk accountabilities cannot be diluted** through delegation.
- **‘Use Test’**– the internal model must be integrated in the risk management and capital assessment processes to be validated.
- **Capital add-ons** may be applied where risk management systems are deemed deficient.
- **Risk-based performance management** a key focus area for regulators in the wake of the financial crisis.

# Effective risk management under Solvency II

## Integrating and embedding risk and capital management



Solvency II, and in particular Pillar 2, requires risk and capital management to be more closely integrated.

- Business strategy is set within the context of risk strategy
- Roles, responsibilities and accountabilities are clearly defined and align with desired risk taking
- Risk and control frameworks are embedded
- Individuals incentivised to act in a manner consistent with risk strategy
- Business performance is measured on a risk adjusted basis with risk exposure being monitored against appetite
- Day to day decision-making is based on both risk and business MI
- The organisation proactively adjusts its risk strategy in response to the changing business environment

# Risk appetite framework

## Establishing operational limits

“Risk appetite is the amount of risk a firm is willing to accept to be in alignment with strategic objectives for the purpose of maximising value to its stakeholders”

A clearly defined **risk appetite** is essential to embedding the internal model.

It can serve as a tool to:

- Articulate the requirements for and use of capital
- Understand the key risks to solvency and earnings and assessing alternative management approaches
- Align risk taking with strategic objectives

Key outputs include:

- Capital allocation
- Risk tolerances and operational limits
- Performance measurement targets



# Own risk and solvency assessment (ORSA) Definition and characteristics

- The ORSA requires that the organisation determines the own funds necessary to ensure that its overall solvency needs are met at all times.
- It includes all processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks.
- The ORSA should consider all significant risks, be forward looking, and be integrated in business strategy.

## The ORSA should at least include:

- Description of **overall solvency needs** (considering risk profile, business strategy and risk tolerance limits) – on a regulatory and internal (economic capital) basis
- Description of **risk profile** (long- and short-term) and processes in place to monitor and manage these risks
- Demonstration of **current and projected compliance** with regulatory capital requirements and technical provisions
- Description of the ORSA **process and methodology**.

## Key characteristics

- Management responsibility
- Risk coverage
- Forward looking
- Integration in the business
- Documentation and validation
- Granularity

# Own risk and solvency assessment (ORSA) Determining solvency needs

## Risk Profile:

- The ORSA should consider all material risks to determine solvency needs. This may include risks not adequately treated in the SCR (e.g. strategic risks, liquidity risks)

## ERM framework:

- Risk identification
- Risk analysis
- Risk assessment

## Solvency needs:

- The ORSA should consider current and future risks, and thus incorporate projections of the financial position, and capital and earnings requirements, demonstrating ongoing compliance.

## Business strategy:

- The ORSA should be an integral part of the management process and decision-making framework.
- Strategic decisions should be considered through the ORSA process e.g. reinsurance, restructuring, investment.
- The current business strategy should be allowed for in the ORSA calculations.

## Balance Sheet

## Profit & Loss

## Cash Flow

## SCR

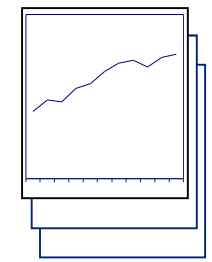
## EC

## EP

## RORAC

AT GROUP & LEGAL ENTITY LEVEL

GRANULARITY AT BUSINESS LEVEL



## Risk appetite framework:

- The first stage in the risk appetite framework – the establishment of adequate financial resources – is a key component of the ORSA.
- The risk appetite framework will also establish tolerances, limits and risk-based performance measures which will provide a basis for assessing the ongoing capital and earnings positions.

**Targets,  
 limits &  
 tolerances:**  
 VaR EaR  
 CFaR

**Reconciliation** of the internal model SCR with the economic capital, and assessment of where the risk profile deviates from the SCR.

# Own risk and solvency assessment (ORSA) Internal and external reporting

External reporting

## Solvency and Financial Condition Report (SFCR) requirements

- How the ORSA is integrated in management and decision making
- How own solvency needs have been determined
- How the ORSA has been evidenced and reviewed

- Report to Supervisors (RTS) requirements
- SFCR information
- Projected solvency position
- Current and future risk exposures
- Comparison between the regulatory and internal capital requirements

CEIOPS' current view is that the process to fulfil the ORSA requirements should be made public whereas the results of the ORSA should be privately reported in the RTS.

Internal reporting

Our view is that internal reporting of ORSA components is needed:

- For integration in strategic management and decision making
- To satisfy the requirement that processes are in place to identify and assess the short- and long-term risks
- To satisfy the requirement for ongoing monitoring of compliance with capital requirements.

We expect that the internal reporting requirements of the ORSA will be addressed through dashboard reporting.

MI will need to exist at various levels and granularities, with different versions being created to meet the needs and responsibilities of the Boards and various committees in a group.

## Key challenges exist around:

- The technology solution needed to deliver the reporting
- What information should be reported and in what form
- How frequently the information will be reported
- Integration with existing MI

# Risk based decision making Regulatory requirements

## Article 118: The Use Test

“Insurance and reinsurance undertakings shall demonstrate that the internal model is widely used in and plays an important role in... their system of governance... in particular

- Their risk-management system... and their decision-making processes;
- Their economic and solvency capital assessment and allocation processes, including (the ORSA)”

## Article 44: ORSA

Article 44 of the Solvency II Framework Directive specifies that the ORSA shall be an integral part of the business strategy and shall be taken into account on an ongoing basis in the strategic decisions of the undertaking.

### The ORSA Issues Paper expands on this:

“The administrative or management body needs to be aware of the implications strategic decisions have on the risk and overall solvency needs of the undertaking and to consider whether these effects are desirable and affordable. Any strategic decision that may affect the risk and/or own funds’ position of the undertaking should be considered through the ORSA process before such a decision is taken.”

# Basel II – Lessons learned Opportunities for the insurance industry

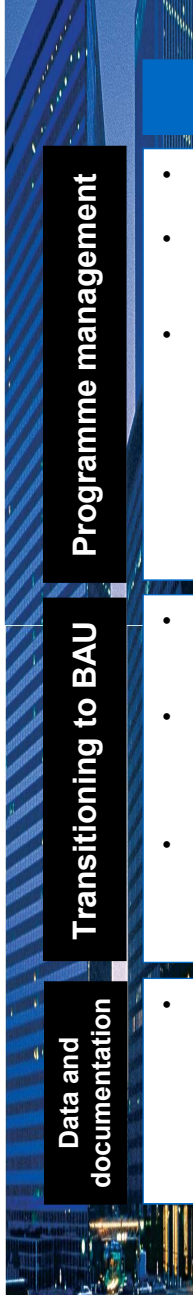


**Governance structure**

**Senior management support**

	Challenges	Consequences	Opportunities for learnings
Governance structure	<ul style="list-style-type: none"> <li>Unclear division of responsibilities between Group and business units.</li> <li>Unclear governance structure.</li> <li>Unclear ownership of overall Basel II programme and specific sub-components.</li> </ul>	<ul style="list-style-type: none"> <li>Unclear accountabilities and responsibilities.</li> <li>Lack of clear scope and 'vision'.</li> <li>Lack of senior executive sponsorship/buy-in.</li> <li>Lack of an appropriate internal approval process.</li> <li>Unclear communications leading to misunderstanding of overall objectives and goals.</li> <li>All of the above generally result in a lack of tangible progress in meeting both regulatory and business requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Affected stakeholders should be properly trained and informed of changed roles, responsibilities etc.</li> <li>Senior level sponsorship and involvement is key to successful delivery and is invariably underestimated so needs to be addressed at the outset of the project.</li> <li>The governance structure needs to be consistent with line authority and impacted stakeholders. It should make clear accountabilities and roles in both the project and business as usual environments.</li> </ul>
Senior management support	<ul style="list-style-type: none"> <li>Lack of senior management support.</li> <li>Unclear objectives with regard to usage and associated business benefits.</li> <li>Unclear governance structure around core usage elements.</li> <li>Lack of clarity within the organisation of the business benefits attached to regulatory compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Efforts to embed Basel II practices are undermined.</li> <li>Business units lack motivation to embrace the business benefits of Basel II and thereby miss the business benefits of Basel II implementation.</li> <li>Increased time and costs incurred during implementation.</li> <li>Failure to successfully implement Basel II.</li> </ul>	<ul style="list-style-type: none"> <li>It is important to provide early education to senior management and to gain their visible support.</li> <li>Approaching this as a business issue rather than a regulatory compliance issue will assist in obtaining buy-in and support.</li> </ul>

# Basel II – Lessons learned (cont'd)



## Challenges

## Consequences

## Opportunities for learnings

**Programme management**

- Lack of alignment to other change programmes.
- “Light” touch programme management failing to provide proper challenge and direction.
- Unclear ownership and accountability of usage elements.

- Lack of definition surrounding when the experience requirements will be met.
- Difficulty in transitioning programme activities to business as usual.
- Unclear objectives leading to failure to meet targets.

- It should be recognised that resource needs and, in particular, skill sets may change during the programme.
- The programme critical path must be focused around business outcomes that are clearly understood and communicated.
- A strong, clearly mandated programme manager is key.
- Independent verification tends to be at the bottom of the ‘to do’ list. Developing an approach to verification at an early stage allows good practice/efficient processes to be included prior to issues arising.

**Transitioning to BAU**

- Lack of involvement of eventual owners in the development process.
- Insufficient emphasis given to transitioning programme activities to business as usual activities.
- A lack of communication and training both to senior management and staff.

- Failure to properly meet usage requirements and realise potential risk management benefits.
- Lack of real understanding of impacts on business units.
- Failure to take advantage of potential business and operational benefits.

- Properly embedding within the organisation requires wider consideration of organisational culture and behaviours.
- Changing organisational culture is particularly important for successfully embedding new operational risk frameworks and this needs to be at the forefront of the overall programme.
- Lack of motivation of eventual owners to embrace new processes and benefits.

**Data and documentation**

- Poor disciplines around data and documentation.

- Lack of documented policies and procedures for ongoing business as usual.
- Poor version control of documents.

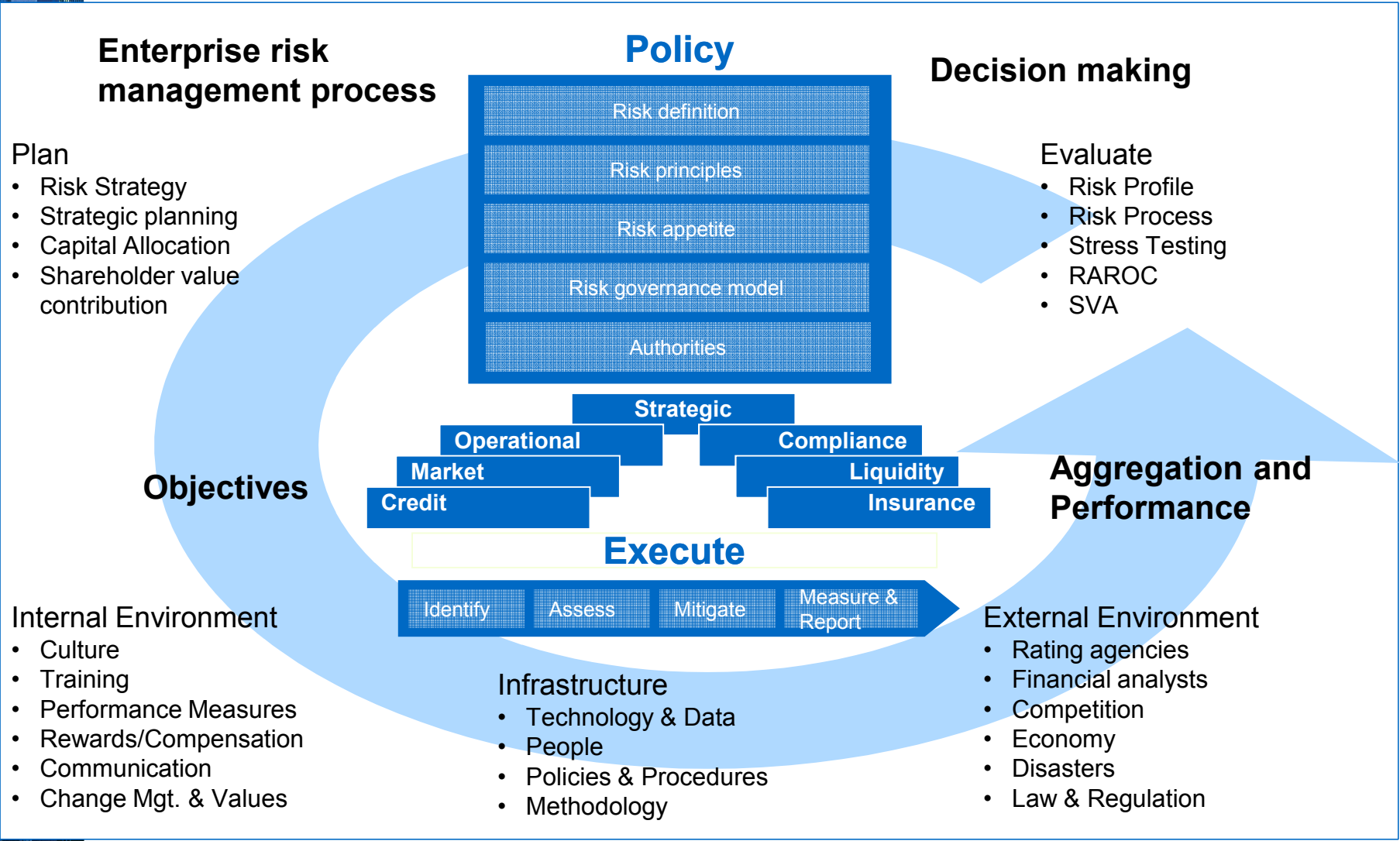
- Centrally control documents. This ensures proper version control and consistent definitions.
- Identify and populate documentation structures and hierarchies earlier on the project cycle.

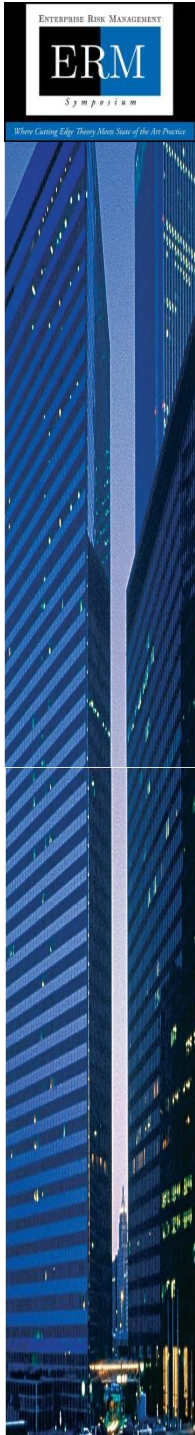
A world map is centered on the slide, rendered in a light blue color against a darker blue background. The map shows the outlines of continents and major landmasses. The background of the entire slide is a dark blue color with a subtle grid pattern.

**ERM**



# An ERM framework summarizes the components of how risk will managed





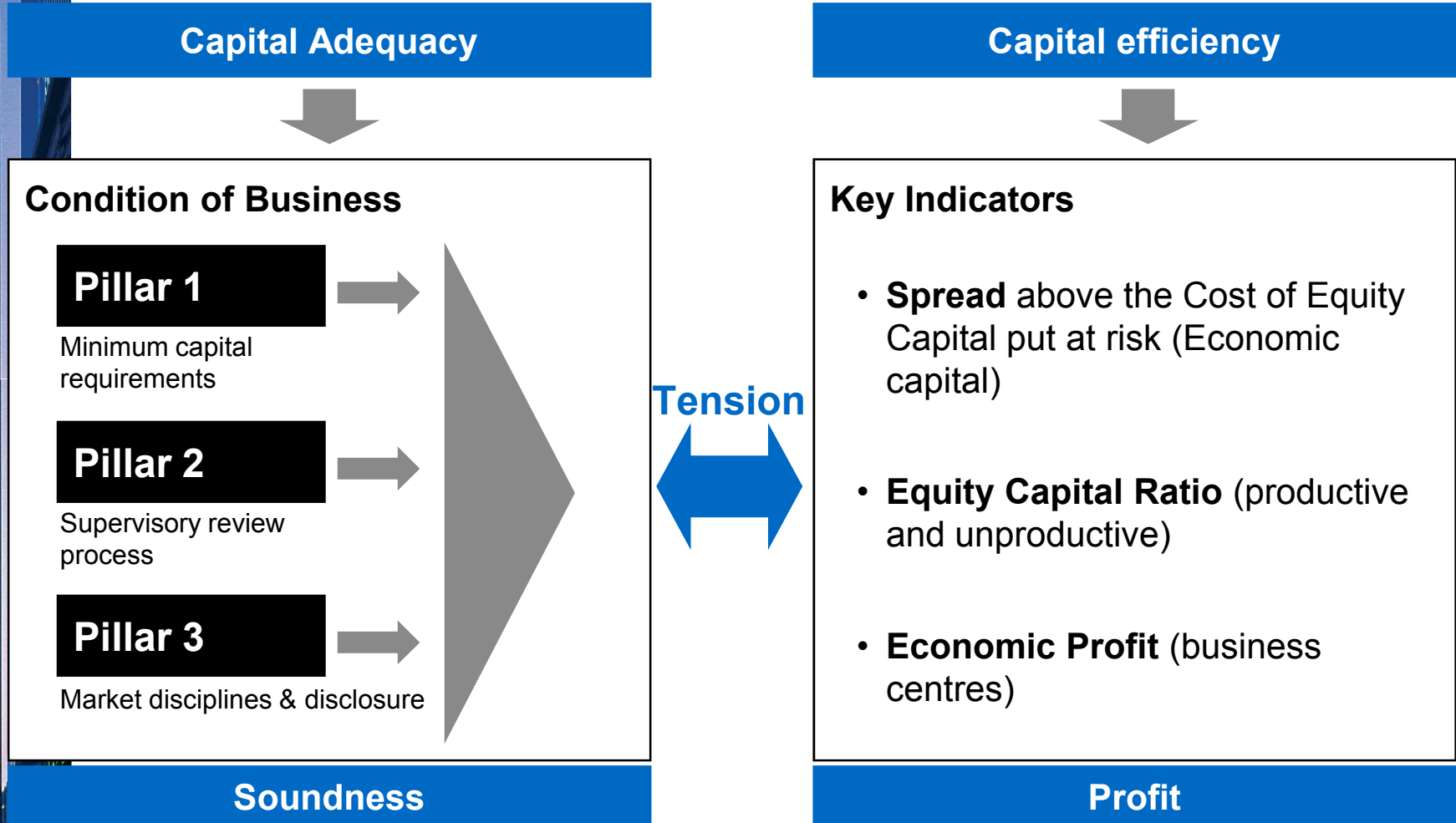
# Objectives of ERM

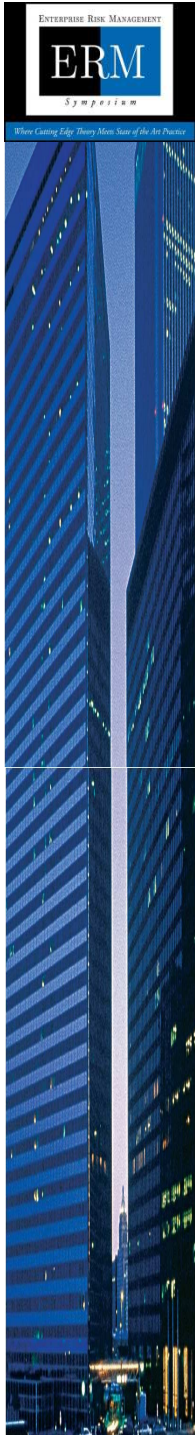
**ERM is intended to help improve the odds in taking risk: reducing surprises, optimizing risk and return, thus improving shareholder value**

## **More specifically ERM should:**

- Optimize use of capital and resources through their allocation to business areas which will achieve superior risk/reward results.
- Improve understanding of interactions and interrelationships between risks.
- Contribute to improved risk adjusted returns.
- Establish clear accountability or ownership of risk.
- Help to reduce unpleasant earnings surprises.
- Help anticipate risk thus minimizing the cost and effort in dealing with it.
- Help to demonstrate the “in control” status of significant risks.
- Strengthen perceptions regarding governance and risk management by investors, regulators, rating agencies, external auditors and others.

# Two views of capital management





## Concluding messages

- Regulatory changes are a condition of business
- While mandatory, try to avoid negative perception:
  - a huge regulatory burden
  - a major cash outlay with little value created for shareholders
  - an isolated program to be run by risk managers
- Remain positive
  - an opportunity to align regulatory and economic capital
  - an opportunity, for example, to create market share growth through better pricing and risk data
  - a platform to integrate risk based capital and regulatory compliance