



Efficient Risk Management From Silos to Governance

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Risk Management is Everywhere

There are prime suspects

- Banks: prudential requirements, bank recovery, deposit guarantee, credit rating agencies, PSD2, ...
- Insurance: Solvency II, insurance risk, operational risk, ...
- GDPR: risks of varying likelihood and severity for rights and freedoms of natural persons , ...

But there's much more to the risk management (google "site:.europa.eu risk"):

- Customs: ... effective and cost-efficient EU customs risk management at the external borders ...
- Chemicals: ... To comply with the regulation (REACH), you must identify and manage the risks associated with the substances you manufacture and market in the EU/EEA ...
- Disaster risks: ... Identifying challenges in Disaster Risk Reduction: Risk Data Hub for Disaster Risk Management ...
- Agriculture: ... Study on risk management in EU agriculture ...
- Railways: ... Railway undertakings and infrastructure managers must cooperate on shared interface risks ...
- ... and more and more and more ...

And approaches tend to be the same

Category	Finance	Occupational safety	Reputation
Very high consequences	Losses exceeding \$1,000,000	More than 1 casualty	Broad negative news coverage in international media
High consequences	Losses from \$750,000 to \$1,000,000	Casualty	Broad negative news coverage in local media
Medium consequences	Losses from \$500,000 to \$750,000	Serious injury	Some negative articles in mass media
Low consequences	Losses from \$250,000 to \$500,000	Medium injury	Widespread rumours
Very low consequences	Losses below \$250,000	Light injury	Rumours (which have been reported less than 3 times)

Source: United Nations Economic Commission for Europe, Risk Management in Regulatory Frameworks: Towards a Better Management of Risks

But silos prevail

Financial risks

Consequence	Occupational safety	Reputation
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Safety risks

Consequence	Occupational safety	Reputation
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IT risks

Consequence	Occupational safety	Reputation
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“you name it” risks

Consequence	Occupational safety	Reputation
Very high consequences	Losses exceeding \$1,000,000	More than 1 casualty
High consequences	Losses from \$750,000 to \$1,000,000	Casualty
Medium consequences	Losses from \$500,000 to \$750,000	Serious injury
Low consequences	Losses from \$250,000 to \$500,000	Medium injury
Very low consequences	Losses below \$250,000	Light injury

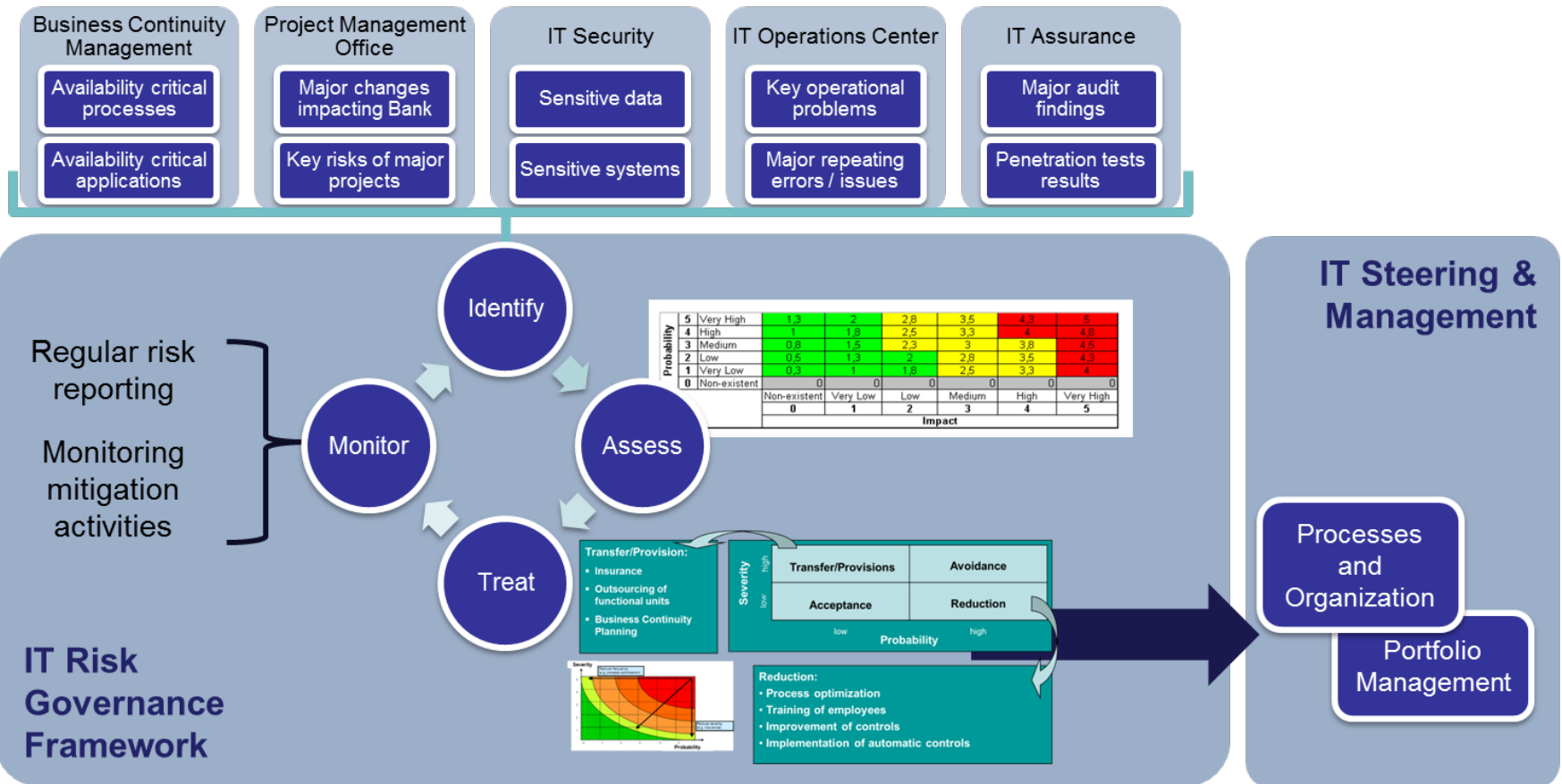
From Silos ...

 Risk Assessment & Measurement	 Risk Management & Monitoring	 Risk Reporting & Insights	 Data & Technology
Risk Definition & Taxonomy	Risk Mitigation, Response & Action Plans	Risk Reporting	Data Quality & Governance
Risk Identification	Testing, Validation & Management's Assurance	Business/ Operational Requirements	Risk Analytics
Assessment & Prioritization	Monitoring	Board & Senior Management Requirements	Technology Enablement
Quantitative Methods & Modeling	Risk in Projects/ Initiatives	External Requirements	
Risk Aggregation, Correlation & Concentration			
Scenario Analysis & Stress Testing			
Capital & Performance Management			

... to Enterprise Risk Management

 Risk Strategy & Appetite	 Risk Governance	 Risk Culture	 Risk Assessment & Measurement	 Risk Management & Monitoring	 Risk Reporting & Insights	 Data & Technology
Linkage to Corporate Strategy	Board Oversight & Committee	Knowledge & Understanding	Risk Definition & Taxonomy	Risk Mitigation, Response & Action Plans	Risk Reporting	Data Quality & Governance
Risk Strategy	Company Risk Operating Structure	Belief & Commitment	Risk Identification	Testing, Validation & Management's Assurance	Business/ Operational Requirements	Risk Analytics
Risk Appetite & Tolerance	Risk Guidance	Competencies & Context	Assessment & Prioritization	Monitoring	Board & Senior Management Requirements	Technology Enablement
	Roles & Responsibilities	Action & Determination	Quantitative Methods & Modeling	Risk in Projects/ Initiatives	External Requirements	
	Decision Support		Risk Aggregation, Correlation & Concentration			
			Scenario Analysis & Stress Testing			
			Capital & Performance Management			

Integrating Risk Management Silos



Risk Appetite – Key Component of Alignment

Define the Concepts	The Board's Duties	Measuring Risk	Setting Thresholds	Operationalizing Risk Appetite	Risk-Taking Opportunities
- Agree upon the risk appetite concepts to be adopted by the company. - Design an approach or conceptual model to be adopted by the company, appropriate for its business sector. - Develop a risk appetite policy document. - Develop a risk appetite framework or set of guidelines for use by management. - Determine risk appetite and risk tolerance thresholds and parameters.	- Approval of the company's approach to risk appetite, its policy statements and management framework. - The board's risk governance responsibilities and oversight of management's risk-taking decisions. - Application of disclosure principles and communication to stakeholders regarding risk appetite.	- Management's responsibility to measure all key risks in monetary terms. - Use of KRIs as a proxy for measuring the impact on finances. - Using quantitative analysis as appropriate, such as stress testing, loss data and scenario analysis.	- Management's responsibility to set thresholds for risks. - Thresholds per risk, per risk category, per risk aggregation. - Capital thresholds including loss absorption capacity, solvency, and available capital. - Setting earnings thresholds according to financial imperatives, such as credit rating, interest rate cover, depreciation charges, and bank covenants.	- Management's responsibility to implement a risk appetite business process. - Monitoring and reporting tools and processes for risk appetite. - Escalation protocols and delegation of authority. - Reporting to the board and board committees on risk appetite status.	- Responsibility of the board and management to examine its risk-taking propensity during strategy formulation and business planning. - Risk-taking lens in decision making. - Opportunities for further risk taking, e.g. using the company's risk capacity. - Optimizing the corporate culture between risk-taking and risk mitigation.

Defining Risk Appetite

Activity	Description	Features
Capability assessment	Assessment of current state capabilities for determining risk appetite, tolerances, and limits for the purpose of identifying opportunities for improvements	- Current state observations - Target state definition - Gaps - Recommendations - Roadmap
Risk appetite policy framework	Develop a risk appetite policy framework	- Risk appetite objectives to support business strategy - Potential metrics and statements for consideration - Risk appetite policy framework document - Revised risk management policy framework.
Risk metrics	Measurement of identified key risks	- KRIs - Estimates of values at risk - Scenario analyses - Loss data analysis - Stress testing
Risk limits	Develop risk limits for a single risk category or multiple risk categories	- Financial thresholds - Capital thresholds - Model of risk exposures to earnings - Dashboard of risk metrics and tolerance limits - Breach escalation roles and responsibilities
Reporting	Develop or enhance risk monitoring and reporting risk levels against established risk limits	- Define the monitoring and reporting business requirements - Establish system requirements - Prototype reports for each stakeholder group - Recommendations and project plan to remediate gaps - Dashboarding

Risk Maturity Continuum – Maturing, not Aging

<i>Weak</i>	<i>Sustainable</i>	<i>Mature</i>	<i>Integrated</i>	<i>Advanced</i>
Governance pre-requisites for a formal risk management framework are not in place. Risk management processes and frameworks are siloed, undocumented, inconsistent, and/or lack clarity. Risk Management activities are not aligned with business strategy. Risk management capabilities are dependent on individuals. Risk is not consistently considered as business decisions are made.	The business does the minimum to meet the expectations of internal and external stakeholders. Select risk management activities are defined; some of which are aligned with business strategy. Risk management capabilities vary across the “three lines of defense”. Limited and inconsistent use of supporting technology. Limited focus on emerging risks and/or scenario analysis.	The board and executives are increasingly confident that risk is being effectively managed based on emerging risk identification efforts, external benchmarking, and the use of risk appetite, tolerances and limits. Risk Management activities are aligned with business strategy. “Corporate” risk management functions demonstrate a level of consistency, but remote operations or business entities are not integrated. Use of technology is not integrated.	Risk management capabilities and activities are integrated and coordinated across corporate and remote operations and business entities. Risk management objectives and value proposition are consistently aligned with business strategy. Common tools and processes are used with enterprise-wide risk monitoring, measurement and reporting. Proactive change management exists among the three lines of defense.	Risk management activities are fully embedded in strategic planning, capital allocation, and in daily decision making. An early warning system is in place to notify the board and management of risks above established thresholds. Risk management serves as a source of competitive advantage. Incentive compensation formally considers risk management.



Thank you!

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