

AGILE RISK MANAGEMENT

*Re-engineering Risk Solutions to Enable Business
Strategies in Asset Management and Trust
Institutions*

Dolores Atallo, Managing Director, Protiviti

POLLING QUESTION #1



Which line of defense do you identify with most?

First Line – The Business

Second Line – Risk Management & Compliance

Third Line – Internal Audit

THE THREE LINES OF DEFENSE



Functions of Each Line of Defense

1. **First Line (Own & Manage)** - Takes on risk through day-to-day business (primary responsibility) & is responsible for identifying and mitigating this risk
2. **Second Line (Monitor)** – Establishes enterprise risk framework and risk appetite. Provides oversight, support, monitoring, and reporting of first line risk taking and management & acts as both an “expert advisor” and “effective challenger” of first line
3. **Audit (Assurance)** - Provides independent and objective assurance that internal control systems and governance processes are well-designed and working as intended

CHALLENGES FACED TODAY

Emerging Threats



The shift and push to re-organize business models and processes to be more agile requires agile and efficient risk and compliance solutions to fully meet client expectations.



Evolving and uncertain regulatory landscape requires business organizations to quickly adapt to changing requirements and growth opportunities



Growth of competition and demands to adapt services to optimize operating efficiency, while delivering smooth and customized customer experiences.

Current Challenges



Operating costs have become unsustainable as quick-fix solutions and increasing headcount is the norm to improve risk management practices.

Growth and innovation have been forced to take a back seat given risk and compliance challenges.

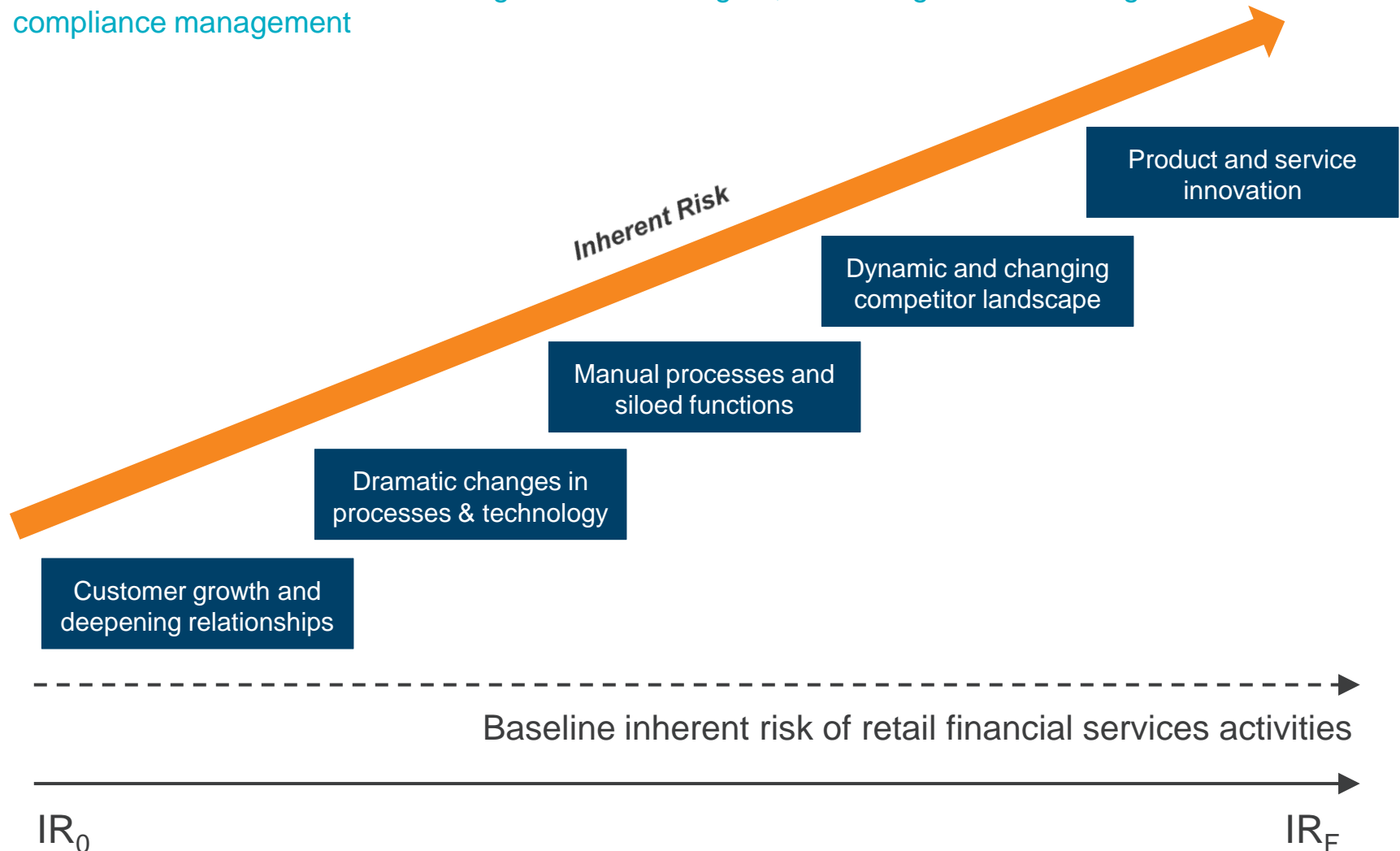
Inherent risk continues to rise given the underlying business complexity and increased pace of change.

Risk and Compliance Costs ↑
↓ Growth and innovation



INHERENT RISK PROFILE IS CONTINUING TO INCREASE

There are a number of factors driving inherent risk higher, increasing the need for agile risk and compliance management



POLLING QUESTION #2



Where does your institution lie on the continuum?

Processes are mostly manual and functions are siloed

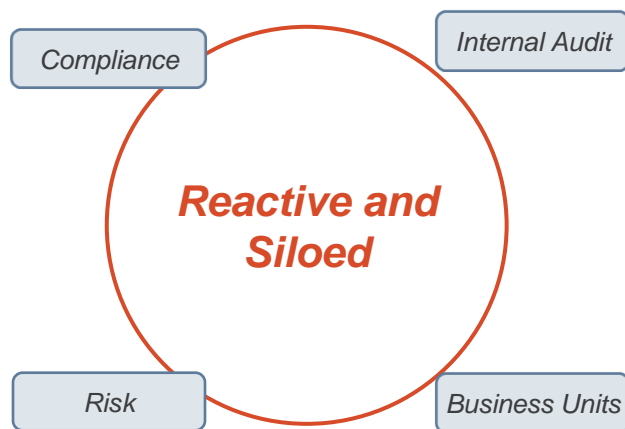
Currently assessing automation of processes

Most processes are automated and functions are aligned across the enterprise

Processes are fully automated and culture is focused on innovation

CONTROL PARTNER EVOLUTION

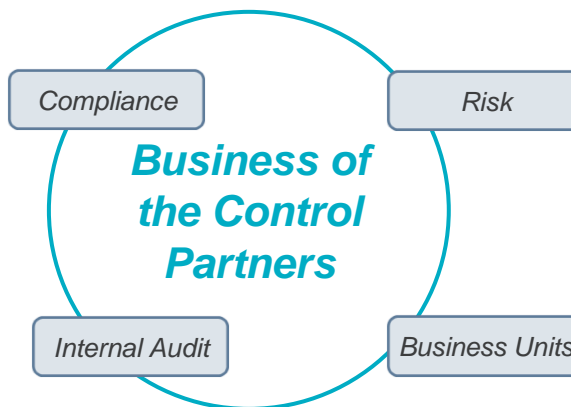
Typical Current State



Stage One Attributes

- Reactive
- Duplication
- Misaligned processes
- Bad data
- Manual reporting
- Unclear Accountability
- Lack of customer-centricity.

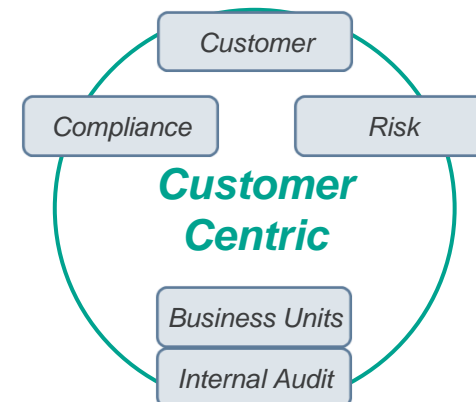
Post-Remediation State: Alignment / Coverage



Stage Two Attributes

- Control functions align
- Common technology and data
- Fragmented risk and compliance management
- Solutions fix problems but not root-cause

Agile State - Operational & Customer Excellence



Stage Three Attributes

- Effective identification, measurement, monitoring and controlling of aggregate risk
- Embedded risk culture
- risk prevention versus detection
- Customer-centric focus across the organization
- Technology-enabled solutions

AGILE RISK MANAGEMENT PHILOSOPHY



AGILE RISK MANAGEMENT ENABLES RISK INFORMED DECISIONS



Elements of Target State

- Effective identification, measurement, monitoring and controlling of aggregate risk.
- Proactive collaboration and engagement.
- Clear accountability and consistent execution.
- Demonstrated knowledge and capabilities.
- Increased transparency and common methodologies.
- Risk informed executive decisions.

Key Benefits

- Opportunities are assessed through alignment to the strategic plan and risk appetite.
- Ability for executives to make the right, risk informed decisions.
- Earned reputation with customers, regulators and stakeholders as an industry leader.

Impact on the Trust Organization

- **12 CFR 9** imposes a number of requirements for compliance, having a sound risk management framework for fiduciary activities allows Financial Institutions the ability to receive both effective advisement and challenge
- A trust department does not always need its own CRO but you do need oversight from your independent second line partners (e.g. your LOB compliance partner). Someone with appropriate experience and expertise in fiduciary laws and regulations.

ENSURING CLEAR ACCOUNTABILITY & ALIGNMENT



Elements of Target State

- Defining business strategy with consideration from control partners.
- Clear accountability for risk management
- Risk and business process convergence.
- Appropriately resourced and skilled organization.
- Embedded risk culture throughout the organization that encourages collaboration and escalation.
- Risk-enabled decisions aligned to risk appetite.
- Continuous engagement between control partners and front-line business units.

Key Benefits

- Reduced duplication and rework.
- Less stress on business stakeholders.
- Enhanced reporting and analytics that enable customer service and growth.

Impact on the Trust Organization

- **First Line of Defense** - Trust management should understand that they are the owner of risk
- **Second Line of Defense** – Independent compliance testing should occur in a continuous manner throughout the year. Evidence of this challenge should be clearly documented and available for third line review as well as for regulatory review
- **Third Line of Defense** – 12 CFR-9 requires an annual audit of fiduciary activities be conducted to give proper assurance

OPTIMIZING PROCESSES FOR INCREASED EFFICIENCY



Elements of Target State

- Successfully executed business strategy.
- Efficient processes and risk agility.
- Optimized technology.
- Promotion of risk management that is built into the design of processes, technology, and products.
- Propensity toward risk prevention versus detection.
- Transparency that reduces redundancy.
- Robust process adherence and management.

Key Benefits

- Increased customer and employee satisfaction.
- Risk-designed products and services.
- Simplified reporting and analysis focused on achieving business objectives within risk appetite limits.
- Continuously improving technology-enabled processes and controls.

Impact on the Trust Organization

- In a Trust organization, if risk management is operating effectively and the organization is aligned, operating effectiveness will help increase customer and employee satisfaction.
- Processes can be optimized through the use of technology and data and analytics.
- The focus can be on continuous improvement creating agile and resilient processes.

SOLIDIFYING THE TRUSTED ADVISOR RELATIONSHIP



Elements of Target State

- Risk management as the driver for consistent customer experiences.
- Customers' needs considered in the design of processes, products and services.
- Customer-oriented risk metrics support that support informed marketing plans and customer interactions.
- Customer-centric focus across the organization.
- Customer focus enables enterprise strategy development and enhances the risk management vision.

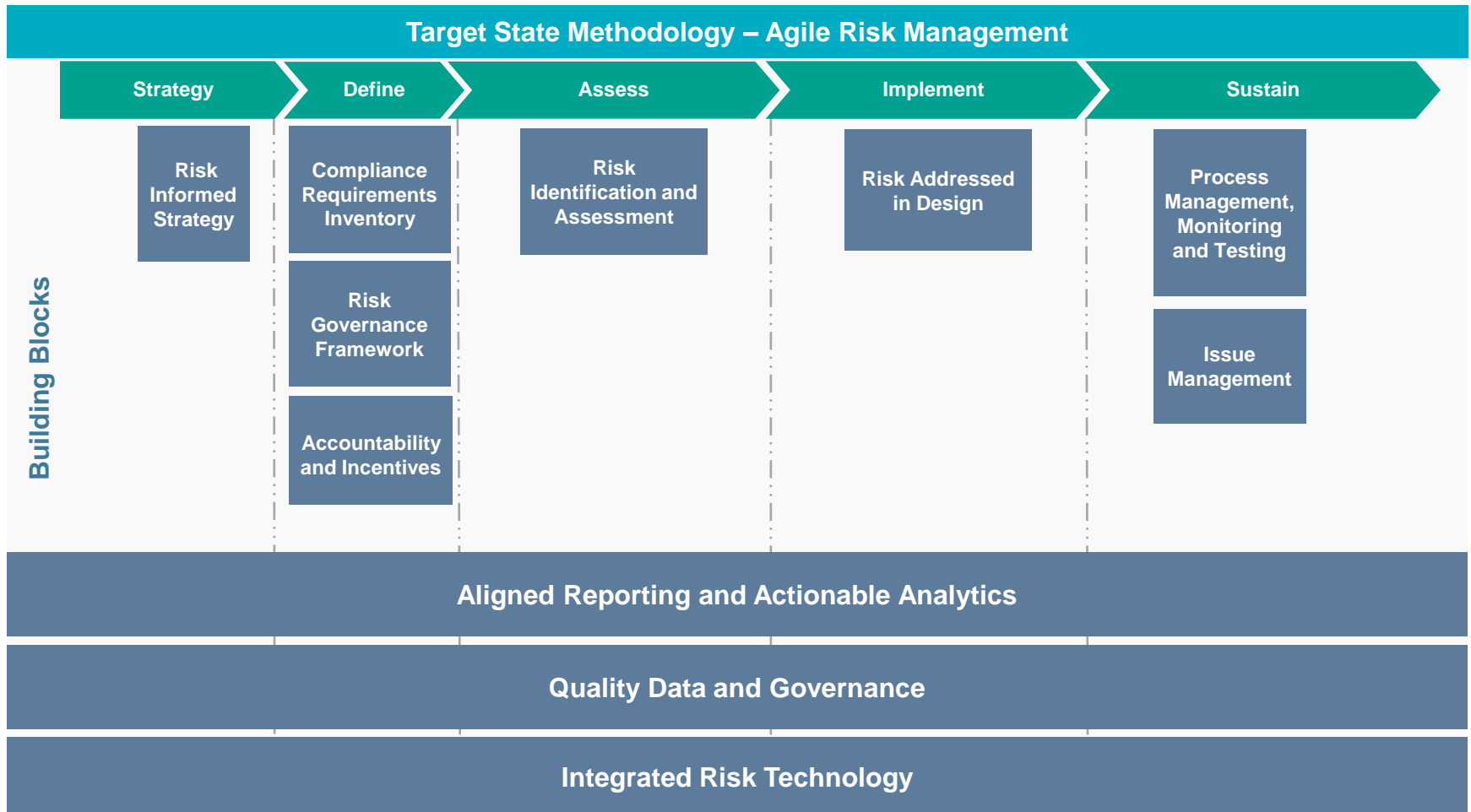
Key Benefits

- Increased loyalty when customers know what to expect; reduction in "surprises".
- Improved processes and controls that enable the business to increase market share while protecting the consumer.
- Tailored product and service solutions that fit customer profiles and drive profitability.

Impact on the Trust Organization

- In a Trust organization, because the goal is to maintain each customer long-term, earning the trusted advisor relationship is key.
- To earn that relationship, focus on your customer's needs in the design of processes, products and services is critical.
- Agile Risk Management enables Financial Institutions to solidify the Trusted Advisor relationship.

AGILE TARGET STATE METHODOLOGY



HOW TO GET STARTED ON AGILE RISK MANAGEMENT



Determine current state through high level maturity assessments across the organization utilizing the Agile Risk Management philosophy and building blocks



Conduct deep-dive reviews of specific Agile Risk Management Building Blocks that are known pain points in the organization



Implement meaningful changes across the organization or within specific Building Blocks to move toward an improved and agile risk management structure



Measure and track success rates against customer-centric goals as the firm's Agile Risk Management maturity continues to increase

ADDITIONAL RESOURCES

Reference Materials

Agile Risk Management White Paper

https://www.protiviti.com/sites/default/files/united_states/insights/agile-risk-management-white-paper-protiviti.pdf

Agile Risk Management Website

<https://www.protiviti.com/US-en/insights/agile-risk-management>

Key Contacts

Dolores Atallo

Managing Director

+1.212.708.6323

dolores.atallo@protiviti.com

Cory Gunderson

Managing Director

+1.212.708.6313

cory.gunderson@protiviti.com

Matthew Moore

Managing Director

+1.704.972.9615

matthew.moore@protiviti.com

Michael Brauneis

Managing Director

+1.312.476.6327

michael.brauneis@protiviti.com

James McDonald

Managing Director

+1.704.998.0786

james.mcdonald@protiviti.com

Matthew Perconte

Managing Director

+1.212.479.0692

matthew.perconte@protiviti.com

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