

# Optimizing Risk Management

## 29<sup>th</sup> National Risk Management Training Conference

Nashville, Tennessee  
Pre-Conference Workshop  
Monday, April 20, 2015

Marilyn Smith  
Head U.S. Risk Governance  
BMO Harris Bank  
Chicago, Illinois

Satish Pattegar  
SVP Corporate Compliance  
U.S. Bancorp  
Minneapolis, Minnesota

# Objectives

Explore at a high-level the

- Essential **components** of risk management,
  - **Challenges** to executing those components
    - **Capabilities** for overcoming those challenges and
      - possibly strengthening your risk management function

# Components of Risk Management

Risk management defined:

OCC

“ The ability to identify, measure, monitor and manage, and communicate key impactful risks”

COSO

“ A process to identify potential events that may affect the organization; manage risks to be within the organization’s risk appetite; and provide reasonable assurance regarding the achievement of the organization’s objectives.”

FRB

“Mechanisms relied upon by the board of directors and senior management for identifying, measuring, monitoring, and controlling primary risk to the consolidated organization.”

# Components of Risk Management

Risk Strategy Risk Profile/Appetite

Organizational Structure / Defined Roles & Responsibilities

Key [Relevant] Metrics

Governance over all components

# EFFECTIVENESS CHALLENGES

- Lack of Role Clarity
- Improper 'positioning' of control functions or business owner
- Recommendations/Advice inconsistent with strategies or goals
- Lack of Resources
- Lack of succession talent
- Unclear lines of accountability
- Culture/Ethics – none or insufficient
- Perception of Compliance, Risk , or Audit professional ; its your job, not mine; enforcer not advisor
- Incentives not aligned with behaviors
- Little or no 'training' or communication
- Ineffective reporting and escalation
- Improper identification of the risks
- Not knowing what you don't know

# Capabilities

Routine formal assessment of process

internal control; root cause analysis; risk assessment; self

Lines of accountability

Metrics and Indicators

Reporting

Training and Education

## Poll Question

Can you name one or two individuals within your organization who can influence the outcome of an initiative?

## Identifying outcomes / Fine tuning your list

Determine who the **right** stakeholders are. Choose stakeholders who can:

- add transparency to your workflow or your expectation to others
- understand your needs as a compliance, risk or audit professional
- have sufficient authority and resources within the organization
- understands the mechanics of the organization

Create a stakeholder accountability matrix

- be specific as to what you want from each stakeholder
- be specific as to what 'action' each stakeholder will perform
- create "advisor relationships" among stakeholders

Benefits;

- Facilitates early identification of risks
- Breaks down the silos inhibiting accurate identification of risks
- Displays your knowledge of day-to-day business activities, products, services and operations or at least, your willingness to learn
- Adds clarity to processes and expectations on broader scale



## Poll Question

When was the last time received a call from a business partner to ask for your advice ?

## Openly discuss your barriers and challenges

Orchestrate an information sharing venue.

- Provide regular updates on changes in requirements – laws, regulations, policies, initiatives
- Discuss your workflow and expectations in relation to the strategic goals
- Translate your compliance, risk or audit language into their business terms
- Ask the business to discuss their workflow
- Look for relationships between stakeholder priorities

Benefits;

- Breaks down the silos inhibiting accurate identification of risks
- Builds stronger teams and centers of influence
- Teaches stakeholders about each others' needs and priorities
- Displays your knowledge of day-to-day business activities, products, services and operations or at least, your willingness to learn
- Adds clarity to processes and expectations on broader scale

## Poll Question

Do you know which units in the organization have embraced the responsibilities of risk management?

## Refresh Metrics and Measurements and Methods

Review, self-assess, revise on a regular basis

- Decide what you actually want to achieve
- Eliminate or re-categorize metrics/measurements that do not trigger action
- Look among changes in the organization that would provide a more efficient way to collect data
- Re-assess the timeliness of what and when information is collected
- Document the rationale for each metric/measurement and expected action

Benefits:

- Opportunity to re-assess methodology
- Drives focus on relevant data and actionable behavior
- Drives predictive, proactive capabilities

## Reporting /Teach Others What Risk Looks Like

Use the outcome of the risk management components wisely

- Consider all levels of stakeholders - Board, Executives, Middle Managers, Functionaries
- Socialize expectations early and often
- Establish clear a process for escalating issues
- Tailor communication to the stakeholder's priorities
- Respect the reports of others and be willing to act on them
- Align solutions to priorities of the stakeholders
- Teach principles as well as the rules
- Give credit for self-identified issues

Benefits:

- Allows others to see your solutions as valid and actionable
- Fosters spirit of trust and respect
- Creates a sustainable governance structure

# 10 TIPS FOR OPTIMIZING YOUR RISK MANAGEMENT PROGRAM

## 1. **Identify the outcome**

Know in advance what success should look like. If you know what the outcome should be you will achieve a far more effective product.

## 2. **Be flexible**

Do not remain overly attached to the past or the present. Things change and when they do you will no longer need to strictly adhere to the existing rule or the process “we have always done this way.”

## 3. **Fine-tune your wish list**

Decide which opportunities will derive the most benefit in the shortest use of resources so that you are not wasting time and energy trying to focus on every single opportunity. At some point, you won't see the forest for the trees.

## 4. **Don't take on too many tasks at once**

“A thousand mile journey begins with a single step”. Break the end-game outcome down into a smaller number of tasks that can be accomplished quickly. A progressively small number of effectively implemented changes will deliver more value than a never ending, always changing litany of tasks.

## 5. **Learn as much as you can about the business**

Management will appreciate collaborating with someone who they feel knows their business. It is always a good idea to take a look at the how things are done to enable you to set clear actions and this enhances your credibility.

# 10 TIPS FOR OPTIMIZING YOUR RISK MANAGEMENT PROGRAM

## 6. **Openly discuss your barriers**

Have early and frequent discussions with all stakeholders about barriers that might prevent you from delivering the maximum value. This aligns business expectations with your expectations to avoid a disconnected outcome and helps make all stakeholders feel like part of the solution.

## 7. **Aim to use the take a WORM-type approach – test once report many (OTM)**

The “one-to-many” testing approach will allow you to review an area one time for many different requirements. Any requirement could become a separate report or matter for analysis. This will also help address time and resource barriers.

## 8. **Teach others what risk looks like**

Take the information you learn about the business to understand their concerns and what they perceive they will have to give up, and figure out what they need. If it is important to them, it should be important to you. Tell the business partners, in language they understand, what risk they face and how they can be managed.

## 9. **Self-assess**

Periodically step back and take a good long look at your program for effectiveness. Don't be complacent about your program. At least annually review the objectives/requirements of your program against organization changes, regulations, industry issues and peer practices. Some firms review and refine their program 3-4 times a year.

## 10. **View risk management as an opportunity**

Effectively managing risk is an opportunity for enhancement. Good risk management does help the bottom line.

## Achievable Strengths

- Clear and transparent roles, responsibilities, and accountabilities
- Lower risk of misinterpretation; misidentification; and misanalysis
- Ability to provide cost-efficient solutions to challenges
- Creates a sustainable governance structure
- Regulator recognition



# RISK GLOSSARY

<b>Risk Framework</b>	A structure or frame for describing how risk is managed in the normal course of business. May include your firm's risk profile, risk strategy, risk assessment process, risk metrics, policies and procedures.
<b>Risk Appetite /Profile</b>	Description of the risk(s), type or specific, you have accepted to manage in the normal course of business in the achievement of the firm's business objective and at what level; can be qualitative or quantitative or both
<b>Risk Assessment</b>	A method to evaluate or capture the impact on risks you have accepted and to decide what the measurements/metrics/tolerances should be Often attempts to quantify the qualitative, current state and potential state, and ultimate goal or objective is to reduce risk or the level of harm Frequently used to aggregate risks across the organization
<b>Risk Management</b>	A coordinated, comprehensive process to identify, assess or evaluate the probability of unplanned events occurring and address them ( <i>monitor, managing, mitigating, controlling</i> ) in the normal course of business
<b>Risk Metrics</b>	An element/factor/thing to be measured or watched; quantification of the qualitative to provide a way to measure and assess (e.g. account reviews)
<b>Key metrics</b>	The characteristic of the Risk Metrics you deem to be most meaningful to your objective (e.g. account reviews completed)
<b>Key Risk Indicators (KRIs)</b>	Key metrics + their measurement (e.g. % of account reviews completed within 60 days); often used as early warning system
<b>Key Performance Indicators (KPIs)</b>	Specific metrics or indicators you deem most important or meaningful to facilitate evaluating how well an area has performed, against a specific objective (e.g. return of sales)
<b>Tolerances</b>	The level or range of levels describing the measurements to be monitored. These should align with the amount of risk the firm is willing to tolerate or accept and/or the firm's risk appetite or profile
<b>Risk Identification</b>	The discovery , describing and documenting of the probability of the occurrence of unplanned events (risks) and/or their characteristics that may cause harm

# RISK GLOSSARY

<b>Risk Measurement</b>	Identification plus metrics plus tolerances used to assess or evaluate the risks or probability of the occurrence or outcome of unplanned event(s) , usually quantifiably
<b>Risk Monitoring</b>	A practice/process/method for keeping track of risks
<b>Risk Control Assessment</b>	Evaluation focused on the practices or procedures applied to control or mitigate risks
<b>Roles and Responsibilities</b>	A structured organization of accountability
<b>Objectives</b>	Clearly defined vision, philosophy, or goals to be attained and measured
<b>Policy</b>	Board-approved statement(s) describing your position (what) on the topic
<b>Procedure</b>	Management or staff level instructions describing the process or steps applied to adhere to the Board approved policies
<b>Three Lines of Defense</b>	A model approach for developing/maintaining a risk management framework generally used by larger organizations emphasizing 3 separate independent functions to facilitate overall management of risk
<b>GRC / Governance, Risk , and Compliance</b>	A model approach for developing /maintaining a risk management framework generally used by larger organizations emphasizing 3 pillars Governance, Risk Management, and Corporate Compliance, where Governance refers to influence of senior executives, the Board, and/or Committees.
<b>COSO /Committee of Sponsoring Organizations of the Treadway Commission</b>	A standardized methodology for establishing and assessing integrated internal control frameworks developed jointly by 5 sponsoring institutions : the Institute of Internal Auditors (IIA); American Institute of CPAs (AICPA); American Accounting Association; the Association of Accountants and Financial Professionals (ima); and Financial Executives International (fei).

# Questions