

# Elevating Risk Self-Assessments to the Next Level

May 24, 2017

Raissa Horstmeier,  
Vice President  
BMO Wealth and Asset Management  
Operational Risk

# Elevating Risk Self-Assessments to the Next Level

“This session will focus upon getting past the basic, comfortable and mechanical risk self-assessments. Attendees will obtain a view on weaving in accountability, heightened standards and the business environment resulting in a holistic risk self-assessment. A mature process provides better engagement and elevates pro-active risk management practices by addressing what is meaningful to the business.”

*\*Note: The views expressed are those of the individual presenter and not BMO Harris Bank, N.A, FIRMA, or any other party, and do not constitute legal advice.  
Illustrations are simulated.*

# Agenda

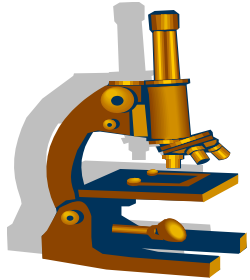
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- Risk and Control Self-Assessment Tool (RCSA)
- Methodology
  - Question
  - Research
  - Hypothesis
  - Analysis
  - Conclusion
  - Socialization
- Summary

# A Risk Self-Assessment is both Art and Science

## Goal:

Continually monitoring the risk profile of the business to have a pulse on what is occurring!



## Science

- Look at the scientific method part of the Risk Manager role
  - Quantitative – assign score to risks, mathematical conclusion

## ART

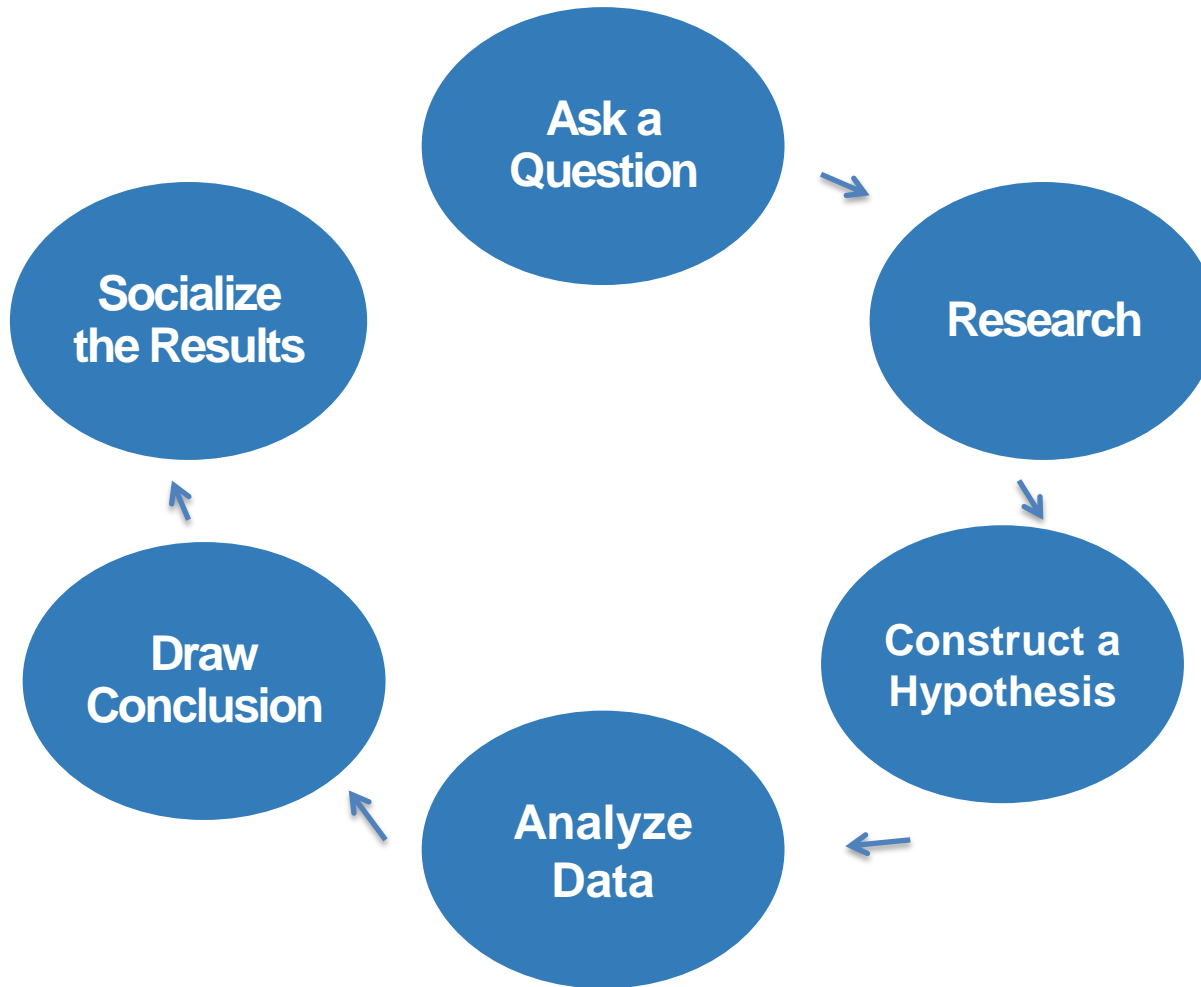


- Look at the artistic/creative part of the role which is applying judgment
  - Qualitative – discussion of significant risks, gaps and action plans
  - Connect the dots of potential emerging risks to determine if mitigating controls are sufficient and use judgment

## Required: Super talented Risk Professional

Do you have a risk professional who understands the **risk framework and the business** and is experienced, organized, detail-oriented, inquisitive, fact-based, timely, accountable, motivated, **politically correct**, pro-active and has a backbone for **effective challenge**? Also, candidate should have advanced written/verbal communication, presentation, critical thinking, problem-solving, leadership and **networking** skills. Individual will be able to “Think on Their Feet”, have the ability to influence business, be responsive, **approachable**, can anticipate and prepare for tough questions, is pragmatic and composed under pressure. Has well-established relationships with management, staff, regulators, auditors and **understand regulatory directives**. Possess organizational savviness with the ability to navigate a complex organization. Candidate will work in an office environment, which may be fast paced. Must demonstrate an advanced understanding of the **financial industry** services and products, industry practices, evolving trends and leading practices **and have the ability to analyze risk exposures**.

## Heightened Expectations: Attract and develop talent

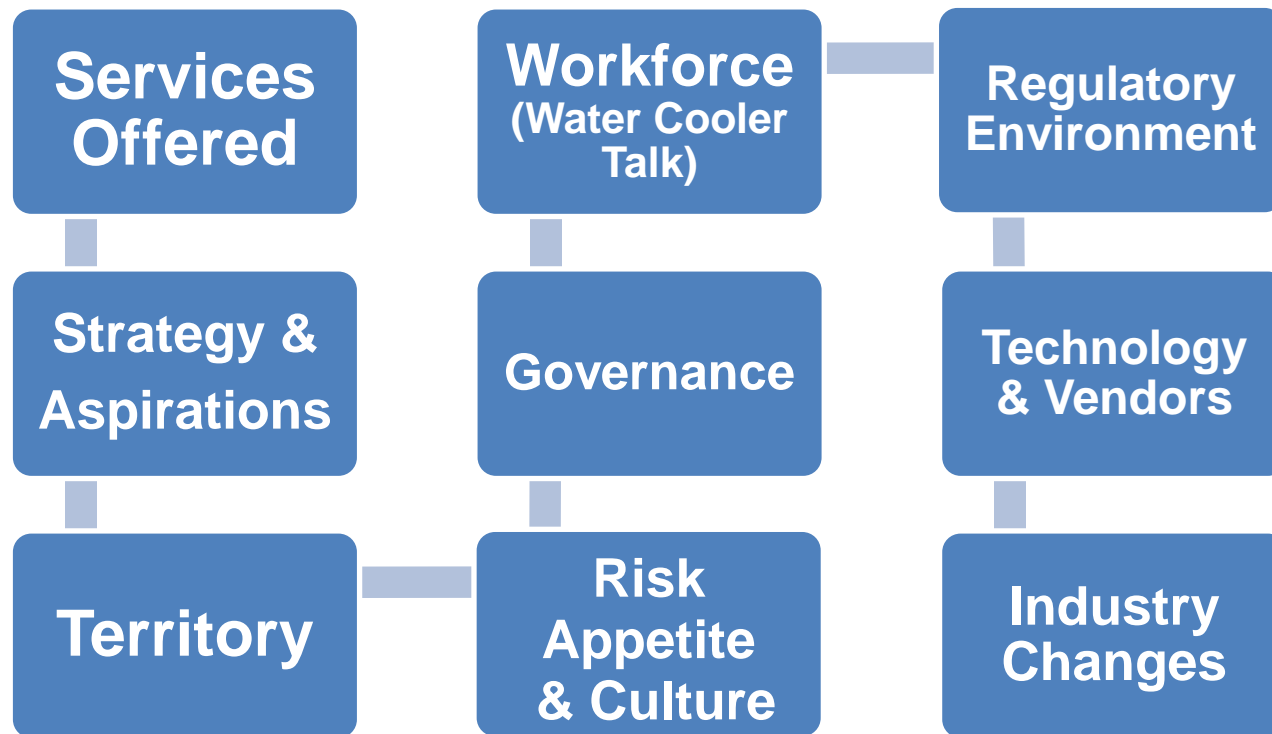


\* Scientific Method: [www.sciencebuddies.org/science-fair-projects/project\\_scientific\\_method.shtml](http://www.sciencebuddies.org/science-fair-projects/project_scientific_method.shtml)

# Ask a Question: What is the Risk Profile of the Business?

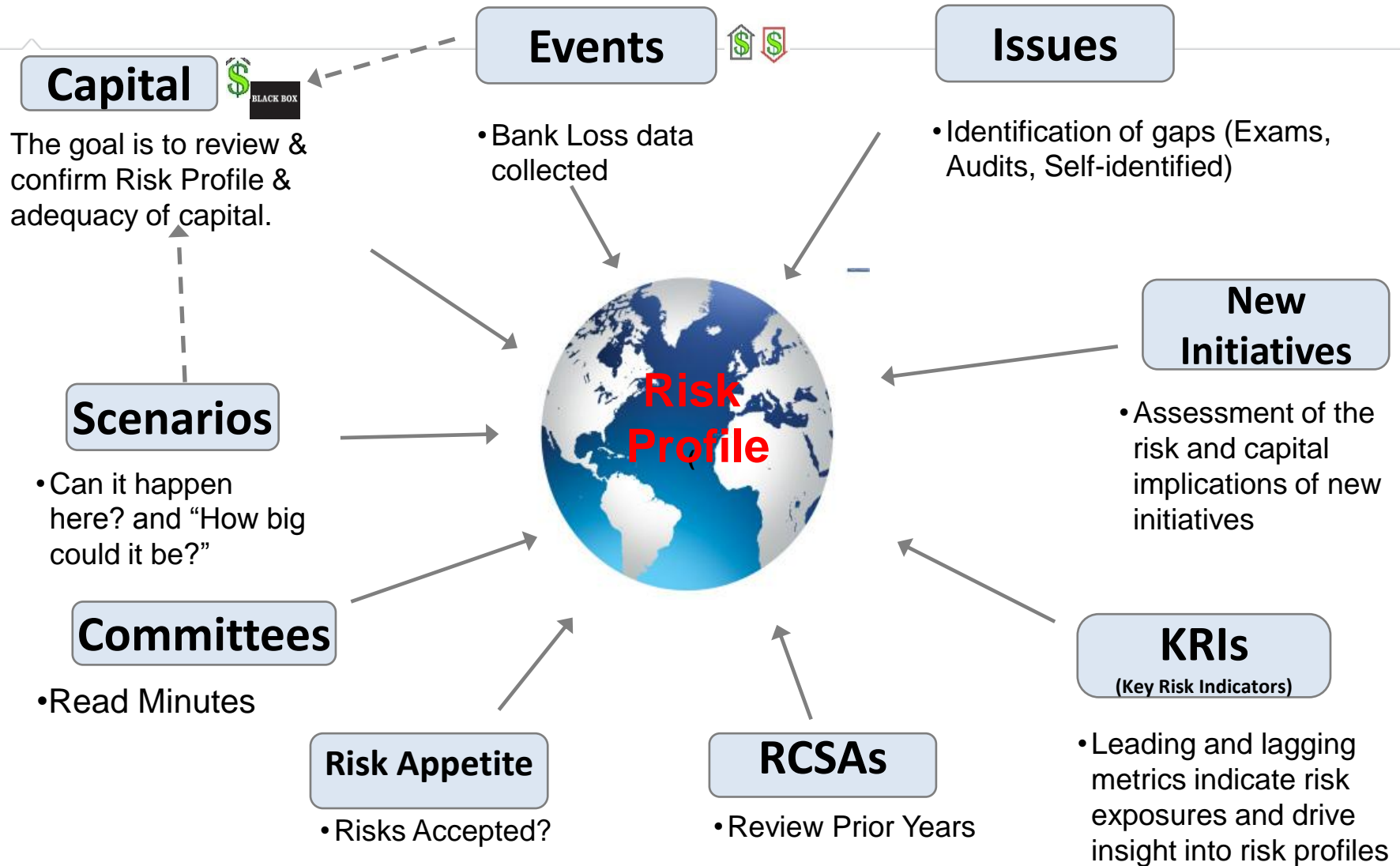
Obtain a preliminary understanding of the Business Environment

*Emerging Risks, Top Risks, Key Risks, Material Risks*



# Research: Collection of inputs to the RCSA

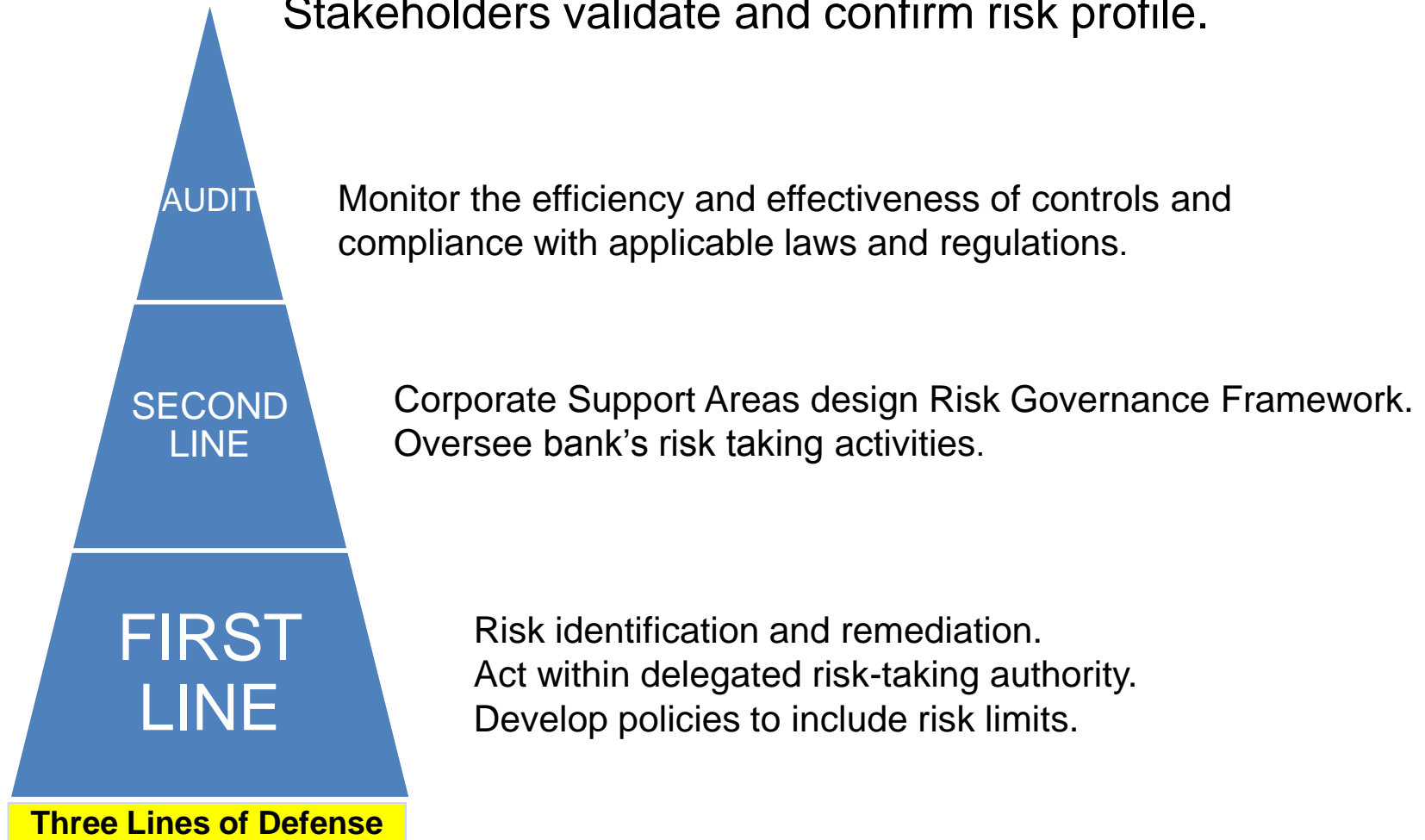
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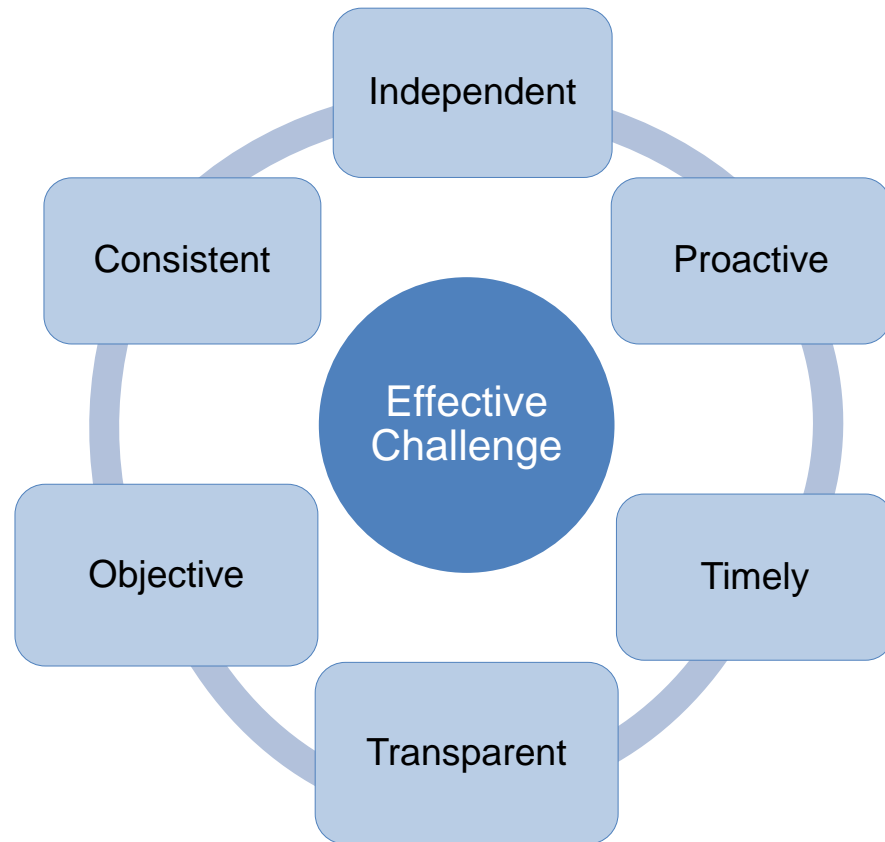
# Research: Stakeholders and Accountability

Defined roles and responsibilities: Who does what? Who cares about this?  
Stakeholders validate and confirm risk profile.



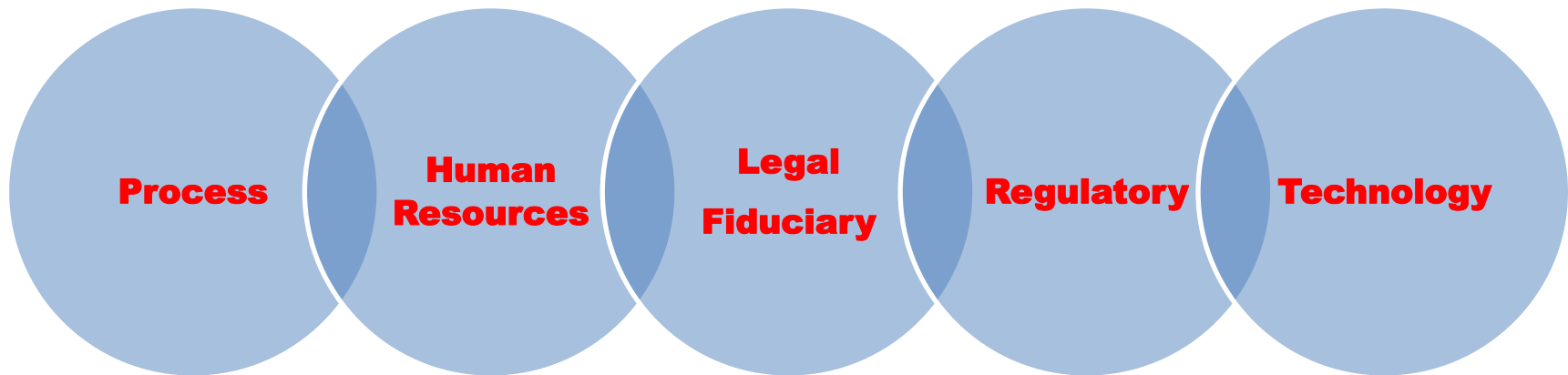
# Research: Stakeholders and Accountability

- ☑ First Line reign in tight ownership of risk identification tools.
- ☑ Second Line provide stronger effective challenge to help spur forward looking thought process.
- ☑ Measuring risk knowledge in the enterprise.



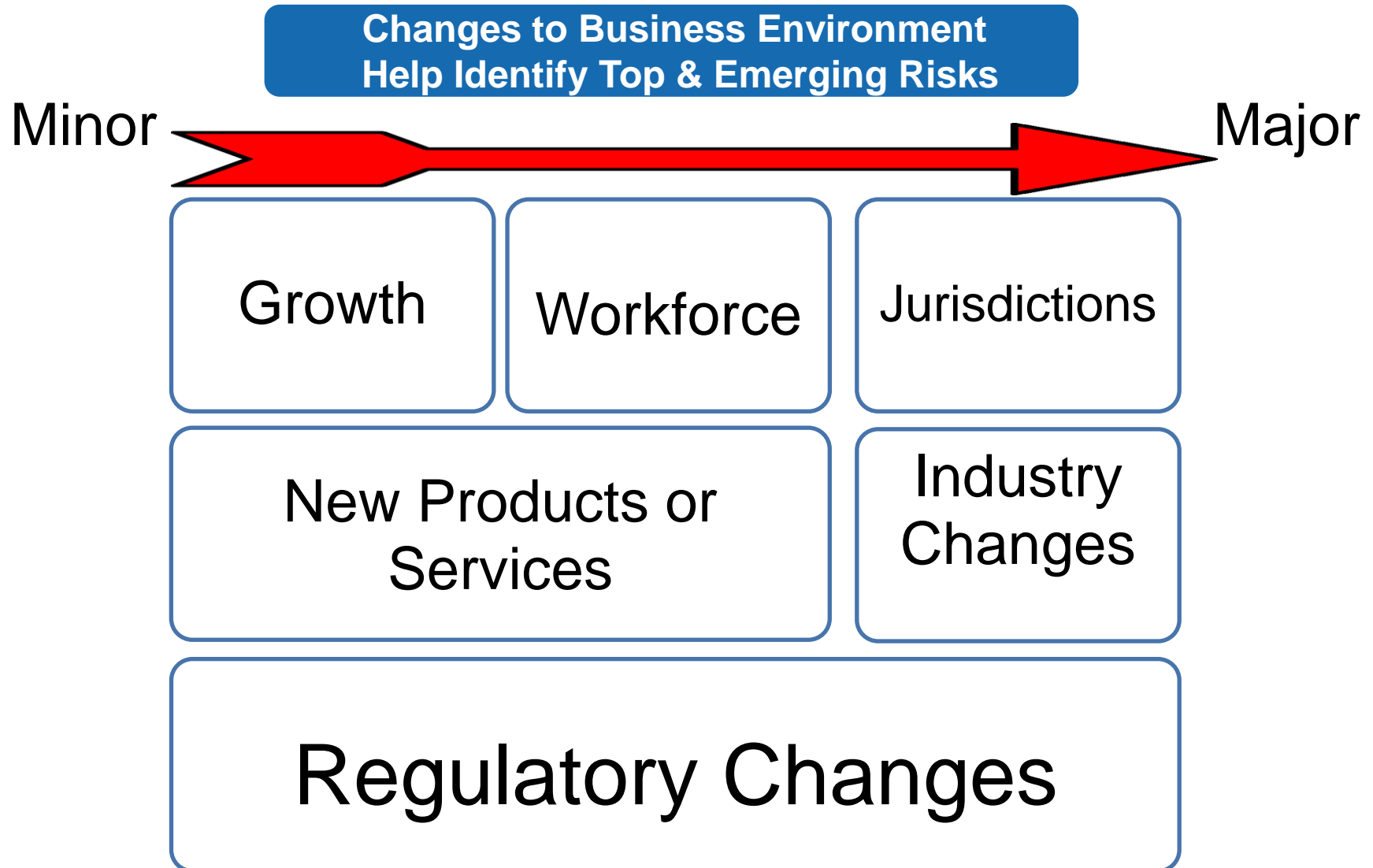
# Construct a Hypothesis: Operational Top Risks

Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events

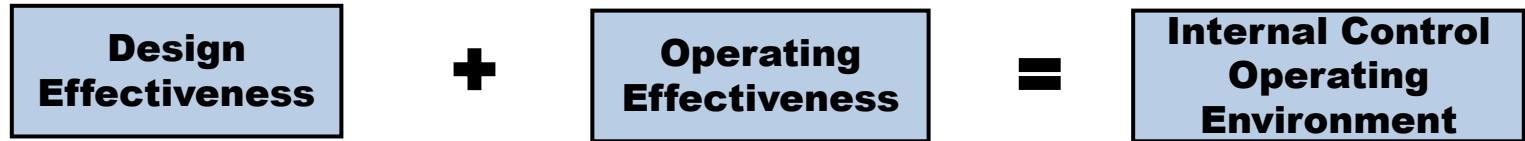


- ? *The **Business Environment** is anticipated to experience **MODERATE** changes led by change in workforce and the regulatory environment.*
- ? ***Control Environment** Operational Risk overall continues to be **MANAGED EFFECTIVELY.***

## Analyze Data: Business Environment



# Analyze Data: Internal Controls



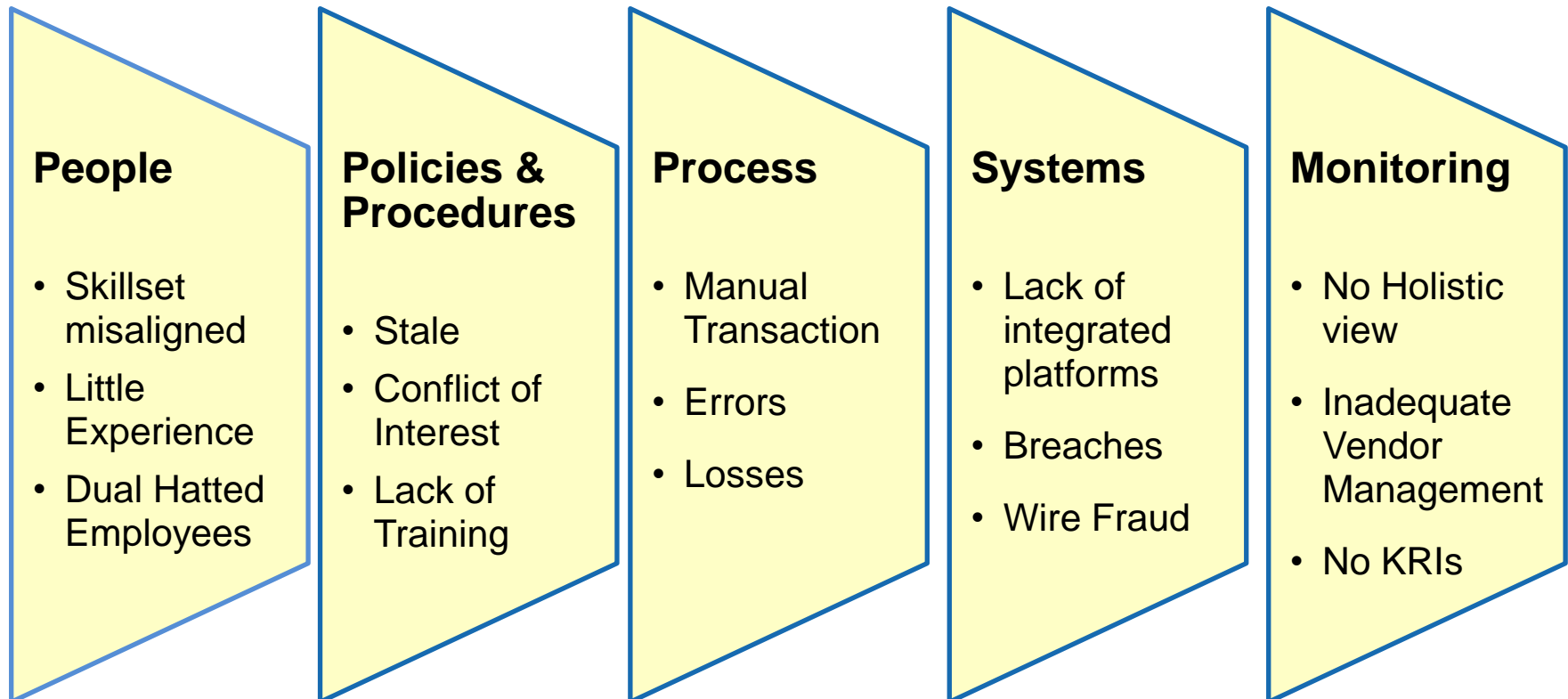
*Prove Internal Control design is effective; inquiry, observation, examination, re-performance.*

Operating Effectiveness	Effective (0)	Partially Effective (-1)	Ineffective (-2)
Polices & Procedures	Evidence of sustainability		
People	Understand Regulation		
Process		Issues identified	
Systems			Slow
Monitoring	Timely reporting		


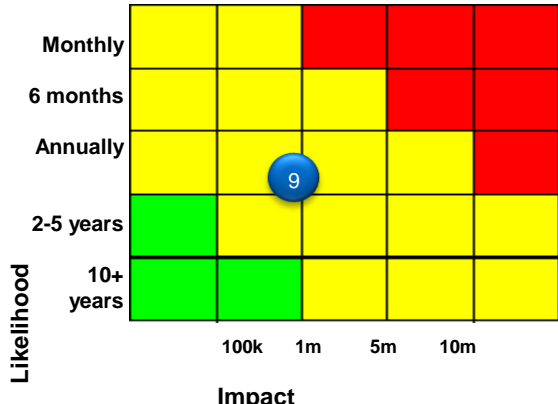
Design Effectiveness	Initial (1)	Repeatable (2)	Defined (3)	Managed (4)	Optimized (5)
Polices & Procedures				Annual review	
People				Highly skilled	
Process					SOX controls
Systems	Manual				
Monitoring			Solid KRIs		

# Analyze Data: Potential Red Flags

Validate the risk profile against past experiences and future assumptions.



# Analyze Data: Inherent and Residual Risk

<b>Inherent Risk Rating</b> <div style="border: 2px solid red; padding: 5px; display: inline-block;"><b>High</b></div>	<b>Inherent Risk Rationale:</b> Intellectual capital is required to service fiduciary and custodial business. Likelihood is high with inability to attract and/or retain talented and qualified professionals with the appropriate knowledge and skill-sets given small industry pool of fiduciary talent. Impact is high if loss of key employees or frequent staff turnover.	
<b>Control Effectiveness Rating Rationale</b>	<ul style="list-style-type: none"> <li>•Business has documented policies, processes and procedures, including on-boarding.</li> <li>•Employees are cross trained in an effort to create a knowledge base.</li> <li>•Business has experienced elevated turnover in the past quarter.</li> </ul>	
<b>Control Environment Rating Score</b>	<div style="display: flex; align-items: center; justify-content: space-around;"> <div style="text-align: center;">  <p><b>Design Effectiveness</b></p> <p>1 2 3 4 5</p> <p>Initial Defined Optimized</p> <p>3</p> </div> <div style="font-size: 2em;">+</div> <div style="text-align: center;"> <p><b>Operating Effectiveness</b></p> <p>-2 -1 0</p> <p>Ineffective Partially Effective</p> <p>0</p> </div> </div>	
<b>Residual Risk</b> <div style="border: 2px solid blue; padding: 5px; display: inline-block;"><b>Medium</b></div>		<b>Residual Risk Rationale:</b> Loss of key person risk is likely as competition in the industry for financial skill set is prevalent. Impact of not replacing timely or with appropriate skill set, could result in missed service standards and moderate financial loss. Succession planning in place but additional breadth and depth of resources may prove desirable.

## Key Messages for Business Operational Risk Profile Summary

- Overall residual risk rating and trend
- Major losses, findings or indicators of control effectiveness experienced over a period
- Operating within Risk Appetite??????

## Risk Management Practices

- The aggregate Business Environment and Internal Control falls within the Neutral range



## Business Environment (BE)

- The aggregate view indicates changes are occurring that have a moderate impact to the profile



## Internal Control (IC)

- The aggregate view indicates that all key Operational Risk categories are considered effective with the exception of Regulatory & Process Risk which are considered partially effective



## Risk Framework

- Overall the monitoring mechanisms indicate that the key components of Corporate Policies and Standards are being adhered to





## Draw Conclusion/Results: Document...Document

- ☐ Document the **rationale** and evidence judgment
- ☐ **Justify** the conclusion
- ☐ Can anyone, not related to the business, be able to pick up your document and come to the same conclusion you did?
- ☐ Complete the assessment with whatever works best for the executives: heat maps, charts, graphs, power points, reports, etc.

## Draw Conclusion/Results: “Risk” Buzzwords

**Is a common language used across the bank?**

**Risk Culture**

**Risk Appetite**

**Monitoring and  
Testing**

**Governance &  
Oversight**

**Sustainability**

**Heightened  
Standards**

**Key Risk  
Indicators**

**Three Lines of  
Defense**

**Top, Emerging,  
Inherent,  
Residual Risk**

## Draw Conclusion:

? *The **Business Environment** is anticipated to experience **MODERATE** changes led by change in workforce and the regulatory environment.*

**CONFIRMED**

? ***Control Environment** Operational Risk overall continues to be **MANAGED EFFECTIVELY.***

**CONFIRMED**

## Socialize the Results:

## Report

- ✓ Report provides a clear message regarding the risk in the business?
- ✓ What's driving the risk assessment?
- ✓ Are connections/correlations between different elements of the risk framework components, e.g., issues, events, KRIs, etc., clear?
- ✓ Is the balance between commentary/visuals effective and timely?
- ✓ How is the content used? Decision-making, information, validation, initiation of action plans?
- ✓ Who do you share the report with? Business, Risk, Corporate Partners, Audit, Regulators, Committees?

# Socialize the Results: How You Can Help?

## Meaningful Information

- RCSA is a helpful tool which fosters greater accountability and ownership by the First Line.
- Risk Rating, Top Risks, Emerging Risks, trending, industry events.

## Influence

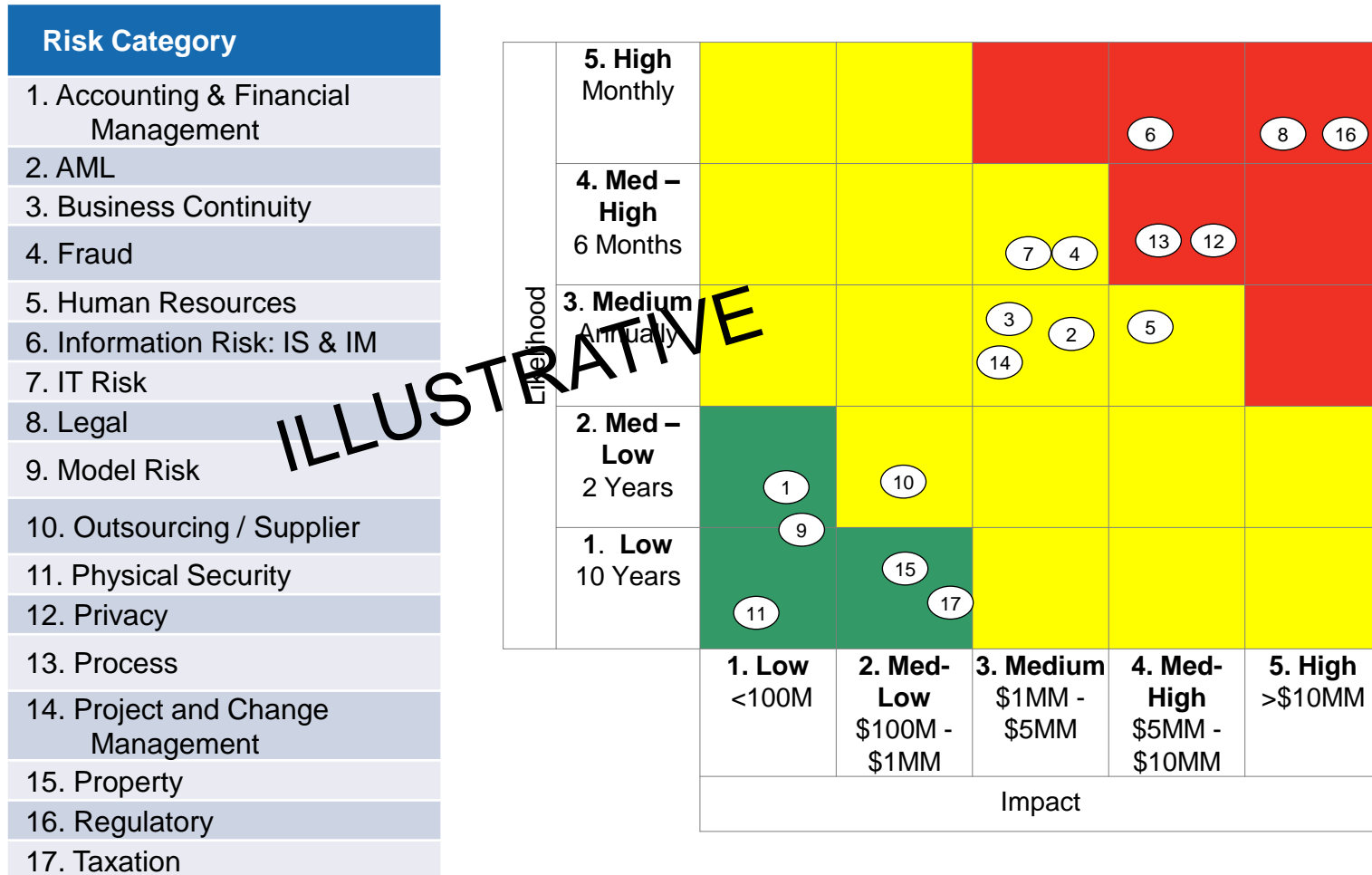
- Don't pull the pin out of the grenade and walk away.
- Provide alternatives and potential solutions.
- Don't give up. Plant the seed and water it.

## Health of the Patient

- Not necessary to do full physical every month or quarter but know the new symptoms that impact your patient and act on those.
- Stay connected and provide positive feedback.

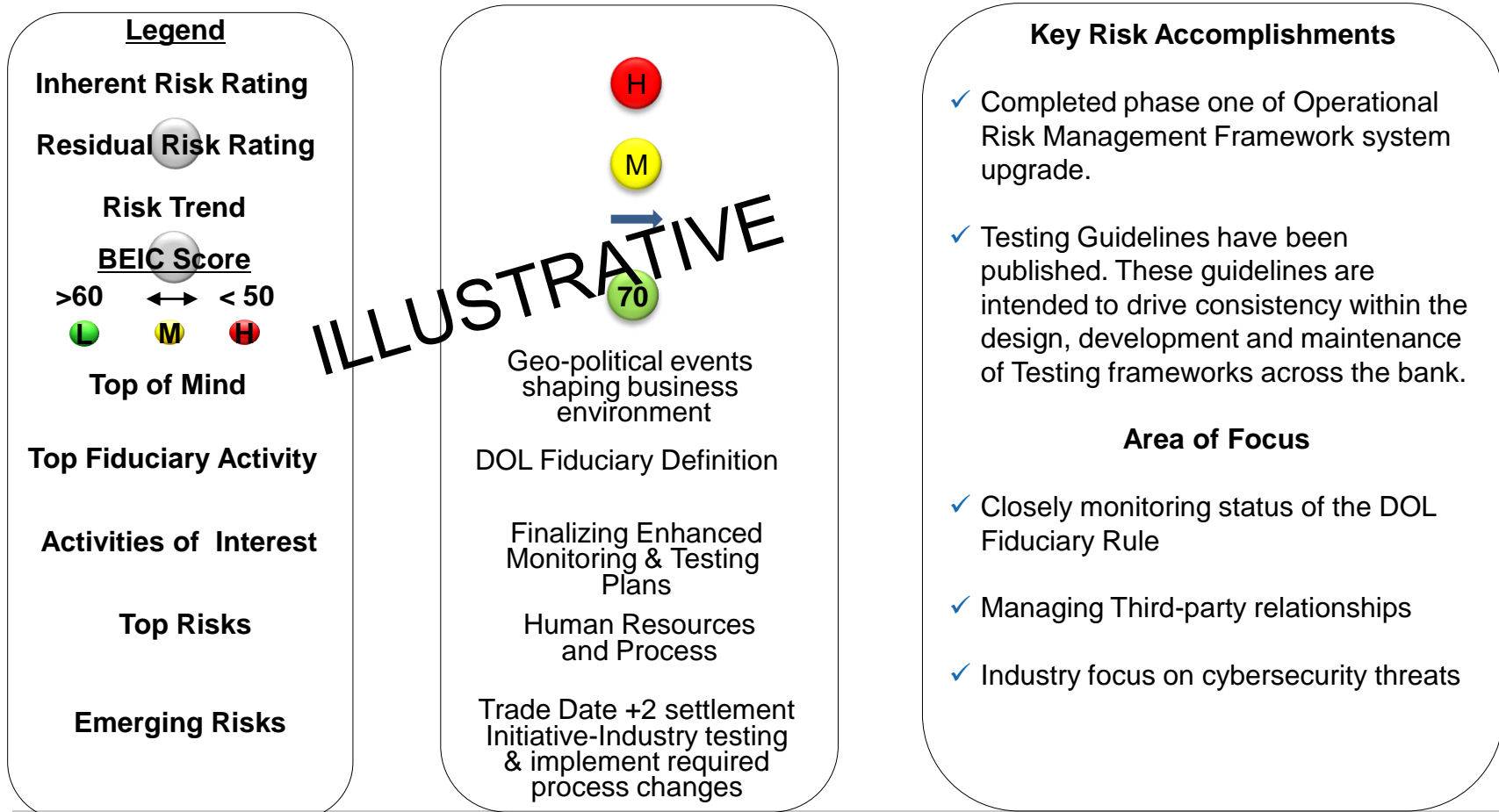
# Socialize the Results: Provide Illustrations

## Heat Map



# Socialize the Results: Business Dashboard

- **Key Message:** Human Resource Risk continues to be top of mind with a focus on attracting, retaining and developing high quality talent for all business lines. Attention also remains on the regulatory environment; Department of Labor (DOL) Fiduciary Rule. Overall Operating Environment is effective with a stable trend.



## Summary

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***A well-executed RCSA evidences maturity.  
It provides better engagement, a holistic  
view and elevates the bank's risk practices.***

Questions?