Optimizing Risk Management

29th National Risk Management Training Conference

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

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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
- As 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
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 addresses 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
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Questions