In the post-crisis era, many financial institutions find themselves caught in a two-way squeeze. They are under continued pressure from regulatory authorities to improve both the accuracy and the level of detail of their risk reporting. Other stakeholders, particularly investors and customers, are less concerned with reporting but have a keen interest in how enhanced risk assessments help drive controlled operations, a leading contributor to lower operational risk and profitable growth in our view.

To determine whether existing controls are adequate in a rapidly changing risk environment, financial institutions have begun to implement risk and control self-assessment (RCSA) transformation programs. While such programs have helped banks to improve risk identification, measurement, control and reporting, as well as to identify the individuals or groups with responsibility for operational risk, financial institutions should carefully evaluate how such programs are structured. More importantly, they ought to examine how an enhanced RCSA program could support the organization’s larger strategic objectives such as profitability and growth.
New Risk Challenges

The RCSA techniques are not new; however there are new challenges confronting financial institutions which call for improvements to RCSA processes. These include:

   Line managers are the traditional first line of defense in risk management. They are charged with identifying, owning and managing risks and with implementing corrective actions to address process and control deficiencies. In today’s dynamic environment of heightened regulatory expectations, first line of defense risk managers need skills that go beyond day-to-day operational knowledge to include the ability to balance risk and to control decision making. Line managers may not always have the capabilities needed to effectively manage the broad range of risks confronting the organization.

2. Emerging Risks Tied to Changes in Operating Models.
   Organizations are experimenting with and adopting (sometimes at high speed) new digital operating models. The technologies on which the models are based, such as social media, require risk knowledge and skills in new domains. Mobile apps and social media, for example, can introduce elements of risk tied to cyber-crime. Furthermore, there may be some ambiguity concerning risk ownership across business units, operations and technology. Another emerging risk is the difficulty of monitoring and controlling employee conduct as communications channels expand.

3. Operational Risk Costs.
   New regulatory demands have led to higher costs for risk, controls and compliance staff. In addition to human capital costs, institutions are dealing with the cost of operating with numerous and often disjoined technology solutions.

   According to a recently published study on the cost of compliance, over two-thirds of surveyed firms are expecting skilled staff to cost more. Among global systemically important financial institutions (G-SIFIs) respondent firms, 32 percent expect the cost of senior compliance professionals to be significantly more. The major reason cited for the expected increase in the cost of senior compliance professionals among all respondents was the demand for skilled staff and knowledge (82 percent).1

   Noninterest expenses—which include salaries, investments in technology and compliance costs—are also climbing. At the six largest US banks, these costs rose nearly 10 percent from 2009 to 2013.3

4. Need for Profitable Growth.
   As institutions search for new avenues to profitable growth, they are finding it difficult to identify and measure the true costs of operational risk and to weigh the costs and benefits of existing controls. Operational losses linked to unmitigated risks and unexpected events continue to occur as capital requirements for banks increase.

   According to a series of Quantitative Impact Studies conducted by the Basel Committee on Banking Supervision, the aggregate increase in surveyed banks’ capital adequacy ratios, based on Basel III framework definitions, has increased significantly. For large internationally active banks, the weighted average capital ratios rose from 5.7% at the end of 2009 to 9.2% at the end of 2012. For the smaller banks surveyed during the same period, capital ratios increased from 7.8% to 9.4%.3

   In light of these and other challenges, financial institutions are looking for better approaches to manage operational risk and help reduce unexpected losses. A RCSA program with functions centralized in a Center of Excellence (COE) model can help address risk challenges while supporting the institution’s strategic performance objectives.
For example, the COE model can help reduce resource demands by: (i) a change management process that helps schedule continuous RCSA initiatives throughout the year without undue demands being placed on line managers; and (ii) mitigating some of these time demands by centralizing repeatable, resource-intensive RCSA activities.

Similarly, the COE framework utilizes the deep experience and specialization needed to manage emerging risks, aligning these roles with greater risk governance transparency and speedier responses. A skilled team identifies emerging risks and assesses new risks as the business changes course.

A Center of Excellence can help the RCSA become a valuable tool to simplify and improve business processes and rationalize redundant tools, systems, and operations.

A COE model using a hybrid of onshore and offshore staffing can lower resource costs and offers increased staffing flexibility through rapid mobilization and reduction of resources. Specialized teams are then better able to identify potential process and technology improvements opportunities and align changes across the bank.

Finally, the COE framework can promote profitable growth by improving the business’s risk-weighted decision making and its ability to set priorities. The insights and standardized reporting from the COE, along with the operational transparency provided by the bottom-up RCSA approach, provide management with valuable input to support better business evaluations while helping to reduce operational losses. Issues are identified and remediated sooner, as business changes occur, often limiting the impact and severity of losses later.

As seen in Figure 1 below, a continuous RCSA cycle creates a type of “virtuous circle,” allowing banks to minimize the impact of operational risks while fostering a risk mindset in the first line of defense as operational managers are asked to consider risk implications when making business changes.

Any change to an existing process, or the creation of a new process, triggers a RCSA on a continuous basis. As changes are under way, risks, controls and gaps are identified and assessed as part of the change management process.

Process improvements may also be identified during the assessment process, with the potential for reductions in operating costs. If new risks or control gaps are identified, remediation can start immediately—rather than waiting for the next scheduled RCSA—reducing operational losses.

Figure 1. Continuous RCSA Cycle

Source: Accenture, September 2015
While RCSA programs may differ, most contain the same basic elements, overseen and standardized by the second line of defense or the operational risk oversight organization. These core elements include:

1. Confirm current processes. The team responsible for the RCSA conducts process design review sessions with process owners and stakeholders to understand their current state or changes from the previous baseline.

2. Risk and control capture. The team meets with process, risk, control and compliance stakeholders to discuss and capture the current operational risk and control environment.

3. Control assessment. After conducting a control assessment walk-through, the formal assessment of control design and effectiveness is completed.

4. Residual risk analysis and remediation. The team compares control effectiveness ratings with corresponding inherent risk ratings to determine residual risks, then develops action plans to improve the control environment as needed. After an analysis, key findings are documented.

Planning and Implementing an Effective RCSA Program
Creating a RCSA Center of Excellence

A COE model with a hybrid onshore/offshore team allows for flexible staffing, specialization, and faster turnaround time for key documents by using a “follow the sun” approach with teams working offshore in different time zones.

As seen in Figure 2 below, the onshore team is primarily concerned with RCSA governance and oversight, strategic issues such as risk identification, and validation, as well as solution design and leading specific work streams, including residual risk analysis, remediation and recommendations. The onshore team can be cross-trained in offshore tasks for additional flexibility.

The offshore team typically takes on resource-intensive tasks and has responsibility for activities in areas such as process and control documentation, control assessment, and the production of metrics and dashboards.

**Figure 2. Onshore/Offshore Hybrid COE Model**

Source: Accenture, September 2015
How a RCSA Center of Excellence Works

Here are four examples of how a RCSA Center of Excellence helps financial institutions manage operational risks, control costs and support growth initiative.

I. Challenge
First line of defense personnel and control functions are not able to continuously update risk and control assessments and implement and/or manage remediation measures.

Context
Policies, procedures and risk and control assessments should be kept up to date with business practices in a fully auditable format; remediation measures based on identified control gaps and regulatory findings completed and tracked in a timely manner.

RCSA COE Solution
Through centralized RCSA responsibilities in a COE model, assessments and remediation measures are delivered on a rolling basis, with offshore resources leveraged to “follow the sun.” A continuous RCSA cycle helps reduce capacity constraints on key business and control resources and may incorporate more data for better results.

II. Challenge
The bank lacks the first line of defense and control staff to manage social media and cyber risks that are emerging due to changes in operating models.

Context
Cyber risk: Increasing digitization by third parties may involve using new outside vendors, meaning that the vendor management organization should perform due diligence and incorporate digital risk management measures when issuing vendor guidelines and monitoring performance.

Social Media: Applicable regulations must be considered for online marketing or communications strategies. Additionally, employees’ use of social media, social media monitoring and associated reporting all require investments in training.

RCSA COE Solution
The RCSA provides risk management and control staff with the ability to compare previous assessments to help determine if the enterprise has the talent needed to manage emerging risks. Centralization of RCSA execution within the COE allows for deep experience and specialization in these emerging risk areas.

III. Challenge
The cost of maintaining additional compliance and control staff to meet regulatory demands cuts into the bank’s profitability.

Context
Revenues for the six largest US banks declined by 9.7 percent from 2009 to 2013, according to research firm SNL Financial.6

RCSA COE Solution
Standardized RCSA reporting supports better decision making and prioritization, allowing managers to make better risk-weighted decisions. Operational losses are reduced as operational risk issues are identified and remediated.

IV. Challenge
Banks find it increasingly hard to grow profitably in the face of low interest rates, operational losses and high capital costs.

Context
The 2015 Accenture Compliance Study indicates that compliance costs should increase by at least 10 percent over the next two years, according to 76 percent of banking compliance officers.4 Non-interest expenses at the six largest US banks rose by 9.6 percent from 2009 to 2013.5

RCSA COE Solution
The COE helps reduce resource costs by shifting some activities offshore, while centralizing and sharing remediation planning and project management capabilities and lowering audit costs. RCSA personnel can be flexibly staffed and resource needs can be recalibrated on a continuous basis.
The Benefits of a RCSA Center of Excellence Model

A RCSA COE model can help deliver significant cost savings along with streamlined reporting to provide better process and risk management governance across the bank.

We estimate, for example, that an onshore/offshore model can increase productivity by approximately 20 percent while reducing delivery times of critical assessments. Gains come from greater expertise in RCSA tasks and 24-hour resource availability. Cost savings of up to 30 percent can be realized through offshore staffing, along with the flexibility to increase or reduce the offshore team based on changing needs. This reduces the cost of maintaining onshore RCSA staff.

COE standardization can yield other benefits, such as the consistent and comparable application of RCSA methodology through COE governance of process/risk/control (PRC) taxonomies and standard RCSA documentation.

Common RCSA definitions, standards, metrics and reporting allow for comparison of results across lines of business, supporting the identification of common gaps. Relatively severe risks can be identified and prioritized for remediation measures.

Analytics developed through the COE support a number of objectives. Analyses of RCSA results by the COE can help the enterprise identify emerging or systemic risks, and process improvements can be identified to boost productivity, minimize risk or heighten the customer experience. Effective controls and/or remediation measures can be shared across lines of business, potentially reducing regulatory capital requirements tied to unexpected losses. Finally, centralization helps identify redundant activities, tools and systems, simplifying processes and reducing system maintenance costs.
Conclusion

A rapidly evolving regulatory and operational risk environment puts a premium on effective RCSA programs. Such programs can help an organization understand its current processes and its operational risk and control environment. With such an understanding, the organization is better positioned to undertake a formal assessment of controls and to identify and remediate residual risks.

In our experience, a RCSA program based on the Center of Excellence model can yield significant benefits to financial services organizations. Such a model supports a continuous evaluation cycle, which helps reduce capacity constraints on key business and control resources. This model also helps risk management and control teams centralize the talent and resources to manage emerging risks and deliver access to specialized skills and capabilities.

Using a RCSA Center of Excellence model shifts some costs offshore while continuing the proper utilization of resources in a highest-and-best-use format. This approach supports better decision making and prioritization in an environment characterized by a limited number of opportunities to drive profitable growth, increasing risk of operational losses and increased capital requirements. Such improvements can help financial institutions establish and maintain a competitive advantage over their peers while building trust with their customers.
References


6. Ibid
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