Delivering an Integrated Approach to Non-Financial Risk Assessments

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In an increasingly complex ecosystem, chief risk officers (CRO) face a mounting challenge in developing and maintaining a holistic view of risk exposure. Regulators and senior management continue to increase their demands for risk organizations to evidence a clear understanding of how each risk impacts the institution, the degree of correlation between risks and a consistent approach to understanding and measuring this exposure.
CROs should evidence such maturity of risk oversight in light of ongoing and often unpredictable changes to the types of risks requiring attention. As an example, more than eight in 10 respondents (82 percent) to the Accenture 2015 Risk Management Study found that emerging risks, such as cyber and social media, account for more of the CRO’s time than ever before. Compounding this challenge for CROs is a growing trend within senior management to demonstrate increased operational efficiencies within risk management organizations.

Accenture’s recent client experiences have identified opportunities for CROs to address this emerging risk challenge while navigating the expectations of regulators and senior management. One such opportunity is the delivery of a more integrated approach to conducting non-financial risk assessments. This approach helps CROs present a holistic view of risk exposure both externally to regulators and internally to senior management and the board while remaining aware of the growing number of overlaps and boundary events between risk types. In this environment, maintaining the status quo of delivering siloed risk assessments that drain resources within the first line of defense (see Figure 1) presents challenges in reporting normalized results of risk exposure.

In this paper, we present our learnings and insights from our initial work with senior risk managers in delivering a more integrated approach to non-financial risk assessments. This is a topic where we expect ongoing dialogue as methodologies and approaches mature and results begin to deliver the desired transformation.

It is important to note that though this paper focuses on non-financial risk management, we see clear potential, ambition and value in extending integration efforts to include financial risk assessment as part of a strategic end state for risk management within financial institutions.
Barriers to a Holistic View of Risk

In Accenture’s experience, there are a number of barriers preventing CROs from gaining a better understanding of their holistic risk exposure, prioritizing their management focus and addressing identified control gaps. These include:

**Inconsistent methodologies**
Multiple (and separate) risk assessment processes return autonomous views of risk, often with different risk rating methodologies. This can impede an institution’s ability to make decisions based on disaggregated results and thereby hinder proper risk governance on an enterprise-wide basis.

**Lack of risk sensitivity**
Legacy risk assessment methodologies can be cumbersome and may not return the level of insight required by a CRO to understand the implications of a specific risk, the interdependencies between risk types, including potential overlaps, and identification of key boundary events.

**Missing risks**
Maintaining siloed delivery of individual risk assessment processes year-to-year can allow gaps in coverage to remain undetected if methodologies are not regularly refreshed or are not nimble enough to integrate new coverage requirements.

**Lack of coordination**
Individual risk assessment teams in the second line of defense can duplicate efforts and engage front line colleagues on multiple fronts (see Figure 1) without the appropriate sharing of capabilities or data. This can result in bloated risk management costs and “audit fatigue” among first line teams.

**In summary**
Accenture’s research, combined with our industry experience, has highlighted the importance of an integrated approach to risk assessments to address these challenges. Later in this paper we will discuss the approach for accomplishing this.

Source: Accenture, November 2016

Figure 1. Accenture’s experience indicates that front office teams can face between 10 and 20 risk assessments in a given year.
The Benefits of a More Integrated Risk Assessment Process

A more integrated approach to risk assessment can deliver benefits to CROs that span operational efficiencies, improvements to the efficacy of controls, and enhancements to the collaboration between the lines of defense (see Figure 2).

Accenture has observed that reducing the risk of assessing the same process or control multiple times through overlaps in assessment scope can deliver more efficient use of resources and cost savings. Such time and resource capacity can often be reinvested in enhancing the overall risk management framework to deliver more relevant insights around an ever-changing holistic risk profile for the institution. For example, risk managers can increase their focus on emerging and material enterprise risks, such as cyber security or vendor risk management, and the interdependencies and correlations across these different risks. Additionally, the insights captured from a greater focus on these risks can help financial institutions make more informed decisions on capital holdings as they better understand their own risk profile.

Proactively simplifying the process for assessing risk across multiple risk types can also deliver a cohesive technical design and a more streamlined technology architecture. Such rationalization of applications and tools can reduce cost of ownership for a CRO as well as increase savings in ongoing maintenance and upgrade costs.

Aside from more tangible efficiency and control benefits, enhancing the integration of risk assessment processes and tools can also support a more unified relationship between the first and second line of defense. Through transforming its approach to risk assessment, the second line can leverage its deep understanding and enterprise perspective of the risks that need to be managed, giving the first line of defense more time and energy to focus on revenue generation initiatives and institutional risk challenges.

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Key Elements of an Integrated Risk Assessment Process

In Accenture’s experience, delivering the benefits case for a more integrated risk assessment require CROs to focus on five key elements.

Though most financial institutions may have these elements in place to some degree, the extent to which these capabilities are mature and effective differ from institution to institution. As each institution can vary in readiness and adaptability to change, and as CROs seek to improve each element, they should weigh the need for immediate transformation against the benefits of incremental adjustment, as well as the likely transition costs for their organization.

The elements are:

1. Governance

Most institutions have established groups to drive towards more integrated risk management, but in some cases there is no clear mandate. Some institutions have defined escalation paths and empowered review committees, while developing the ability to refocus resources using a risk-based approach. Establishing strong governance with a prominent role for the board of directors to serve as a catalyst in challenging risk managers to drive towards more integrated risk management is critical.

2. Framework

Foundational framework capabilities should include a robust fit for purpose methodology for assessing and evaluating the independent risks and controls. In addition, a consistent and single risk and control taxonomy is suggested—i.e., a common risk language. This can be further supported with key risk indicators (KRIs), that when evaluated in the context of an enterprise-wide risk appetite can provide a stronger real-time assessment that directs effective change on an ongoing basis.

3. Talent and culture

The basic capabilities in the area of talent and culture include the identification of common skills to guide the development of a shared pool of risk analysts. More advanced institutions have identified both junior and senior talent to serve across risk types, demonstrating effective demand management for key risk skills across the institution.

4. Technology and data

Starting points in technology and data include the development of a data inventory to align with the risk taxonomy, as well as identification of potential integration opportunities associated within the technology architecture. Some institutions already have a common risk architecture, along with tooling, that helps predict exposure while incorporating advanced methods such as robotics.

5. Management reporting

The sophistication of management reporting moves at the pace at which a consistent risk and control taxonomy is being developed. More advanced institutions employ reporting that provides management with a full view of risk exposure. Ratings are standardized across different types of risk to focus management’s attention. Getting to this level calls for a “pilot, test, and learn” mindset so that reporting can evolve quickly to the needed scope.
In our experience, multinational institutions typically develop a top-down view of key risk themes that are generating the largest exposure, and this is subsequently validated through bottom-up investigation. Institutions with less resources may typically focus on one preferred type of assessment.

Top-down methods are based on leadership’s assessment of key risks, controls, and gaps within an organization. This input is typically solicited through leadership working sessions or surveys, with results captured at an organizational or group level, and with the desired outcome being a leadership view on key risks, controls and gaps across risk topics, including emerging risks. The top-down approach also helps identify residual risk (based on ratings for key risks and the overall control environment) and focus areas for further investigation.

Bottom-up methods involve an assessment of key risks inherent in a process or activity, as well as corresponding controls and gaps. This often requires detailed process mapping with results typically captured at the process or activity level. The key input is provided by process owners and risk and/or compliance subject matter advisors (SMAs) in the first line of defense. The bottom-up approach yields detailed process and activity documentation, along with key risks and corresponding controls (or gaps) across risk topics, and a business-specific process, risk and control inventory.
Mobilizing a More Integrated Approach to Non-Financial Risk Assessments

Through our initial industry experiences, we have seen that institutions can transform their risk management processes through a three-phase approach, evolving from a siloed to a more integrated risk management mode.

Figure 3. Three-phase integrated approach to non-financial risk assessments

As institutions manage through the practicalities of changes in their risk management methodology, Figure 3 outlines the prerequisites that need to be in place at each stage in the approach to drive delivery.

The decision to pilot, and therefore begin the journey towards a more integrated approach to non-financial risk assessment, requires consideration of several key factors. Based on our experience, these decisions typically revolve around three key questions.

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How will this pilot fit with the existing risk management strategy?
- What is the appropriate risk appetite statement to assess results of the pilot?
- What are the dependencies between the scope of risks addressed by the pilot and other BaU risk assessment activity within the CRO organization?

What does "success" look like?
- How can the pilot be designed to deliver results against key value drivers for management (e.g., SMA time saving, reuse of capabilities, etc.)?
- Who will provide executive accountability for results from the pilot?

Does the business have bandwidth for the pilot?
- What are the competing priorities for SMAs’ time across the first and second lines of defense (e.g., timing of pilot vs Comprehensive Capital Analysis and Review (CCAR) process or other BaU risk assessments)?
- What flexibility does the CRO organization have to leverage other in-flight initiatives to deliver the scope of the pilot?
Case Study: Integrating the Compliance and Operational Risk Assessments

Our experience indicates that one high-potential area of focus for a pilot program is the integration of compliance and operational risk assessments. This has led us to develop a playbook for how to execute such initiatives while identifying synergies in the end-to-end risk assessment process.

Below is a high level understanding of the basic activities that an institution should plan for during the integration and implementation exercise. Though this pilot walks us through specific activities for integration between compliance and operational risk, this playbook can be leveraged and enhanced for the integration of additional risk themes.

We would start with planning and objective setting – identifying risk assessment priorities, and opportunities for correlation between risk themes for compliance and operational risk assessments. In parallel, the team should create a more integrated calendar of all assessment activities and the sequencing of required inputs from subject matter advisors in the front office.

The next step is event identification. This involves identification and documentation of the risk landscape, with reference to a common taxonomy for policies, rules, controls and risk themes. These foundational capabilities help identify correlations and allow controls to be considered through both a compliance and operational risk lens.

The third step is measurement and risk assessment. The key activity here is conducting risk assessment and measuring effectiveness using key risk, performance, and control indicators. Possible synergies between assessment methodologies could include identifying the most effective approach to control testing, the documentation of results, and sharing of internal and/or external audit resources to assure results.

The fourth step is the execution of control activities and development of a risk response. Here we identify control gaps, communicate mitigation plans, and determine ownership of various initiatives. During this stage, the organization can seek opportunities to integrate mitigation plans from both assessments and therefore to more efficiently assign actions to the front line for remediation.

The final step concerns monitoring and reporting and offers a number of possible synergies to financial institutions. The central activity here is the reporting of risk assessment outcomes. These can help establish a consistent framework for risk identification, risk rating and alert management. This also represents a key opportunity to inform senior management and the board on correlations that exist between risk events, critical to developing a more holistic view of risk across the organization.
Adopting a Center of Excellence Model

Once an institution has begun to process and learn from the insights delivered by a pilot program, Accenture's industry experience indicates there are opportunities to further decrease operational costs and build a sustainable delivery capability that operates at scale.

Adopting a center of excellence (CoE) model can be an effective platform for conducting ongoing risk assessments by leveraging a “follow the sun” delivery model that builds a critical mass of knowledge and skills within the institution. Over recent years, CoE models driven by effective senior sponsorship and management engagement have shown a marked ability to effectively operate within the parameters of regulatory requirements, address local data privacy standards and talent availability challenges to deliver high quality outcomes at lower cost.

Below, Figure 4 draws on Accenture's experience in designing and structuring CoEs for delivery of global risk and control processes. A common feature in CoE models used in the financial services area has been the identification of onshore risk SMAs. They help define the framework in which risk assessment managers operate with the support of offshore teams. Risk assessment managers are supported by highly specialized offshore teams that can provide around-the-clock support to meet tight reporting and regulatory deadlines. Accenture's experience has shown that CoE offshore teams can effectively be configured along horizontal disciplines and across individual risk assessments, such as documentation review, process mapping, and trend analysis, to focus resources and cultivate premium skills. Over time, offshore teams can also assist in finding new areas of convergence across risk assessments to deliver continuous improvement to the integrated risk assessment approach.

Figure 4. Center of Excellence Model (Illustrative)

Source: Accenture, November 2016
Conclusion

A convergence of factors is putting pressure on CROs to develop a comprehensive, holistic view of risk exposure. At present, financial institutions typically undertake multiple risk assessments, each with its own taxonomy, data sources and reporting methods. This often leads to duplication of effort, higher cost and potential gaps in risk identification and mitigation. Institutions seeking to integrate risk assessments—and to realize the efficiencies, control improvements and collaboration opportunities inherent in such an integration—can adopt a three-phase approach that evolves risk management methodologies towards a more strategic end state. Accenture’s experience with clients mobilizing on this journey has shown the potential for this approach to deliver against CRO objectives in an ever more complex risk ecosystem.
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