EXPOSED

The hidden value of risk in banking

Accenture 2017
Global Risk Management Study
Banking Report
Banking on bold moves, smart investment choices, swift action
RISK IN CONTEMPORARY BANKING

In future, we expect this decade to be remembered as a period of metamorphosis for the banking industry.

By the mid 2020s, a different industry should have emerged. We will look back on a sector forced to change by disruptive forces—from regulations to technological breakthroughs—that reshaped society and business. History will show how new approaches to data, the workforce, business relationships and customers consigned time-worn business models to obsolescence.

Change is the only thing that is guaranteed for risk professionals in banking. Much has been achieved since the financial crisis, but they cannot rest, because so much more is required. An innovative mindset should become their default stance. Banks need to be bold in moving from pockets of experimentation—in cloud, analytics, automation and artificial intelligence (AI)—to a core, proactive strategy that serves the overall development of their risk capabilities.

There are new competitors—non-banks, technology firms and fintechs—and new risks to manage, particularly non-financial risks (e.g. conduct risk, strategic risk and reputational risk) and emerging risks (e.g. model risk, cyber risk and contagion risk). At the same time, the risk function, like the rest of the bank, is expected to drive efficiency and make considered investment choices in people, technology and partnerships.
Banks find themselves having to take swift but deliberate steps to survive, and thrive, in this and future decades. In 2017, banks are responding to the forces of change by taking a more fluid, progressive approach to risk management. Our research finds companies investing to strengthen their risk functions across three key areas:

1. **Harnessing smart technology**
2. **Rising to meet coordination challenges**
3. **Building new layers of talent**

In this report, we look at progress among banks in making these changes, and highlight what they need to do in order to pivot to a new paradigm.
The pace of regulatory change may have become part of the “new normal,” but banks still face intense pressure and uncertainty about how regulations will look in the future. Indeed, the top challenge faced by banking respondents is the increasing demand from multiple regulators in multiple jurisdictions, cited by 78 percent of respondents to our 2017 Global Risk Management Study (see Figure 4).

New directives such as IFRS 9 – Financial Instruments (IFRS: International Financial Reporting Standard), Basel Committee regulations (particularly the fundamental review of the trading book and the standardized approach for measuring counterparty credit risk) and the European Union’s General Data Protection Regulation continue to dominate resources at many banks, while Basel III reforms (Basel IV), could dwarf the impact of any of those.1

In recent years, the relationship between banks and regulators has changed around reporting, measuring and handling risk. Previously, banks may have viewed regulators as an entity that imposes legislation upon them. Today, the relationship appears to have become more open and collaborative. This shift requires a change of mindset among banks. They should put in place a more proactive way of engaging with regulators and see them as one of the stakeholders with whom they have to engage. Our 2017 study finds that there is some way to go before banks are ready for this new relationship: 59 percent say they need to upgrade their systems and capabilities to provide more transparent reporting to regulators (see Figure 1).

This can be a major incentive for banks. The best can help to shape the regulatory environment in emerging areas of technology. After all, bankers understand many challenges and opportunities (e.g. cyber risk, blockchain and fraud) better than regulators. Leading organizations should be engaged in defining new standards and processes for the industry, pulling regulators forward in the process.

Figure 1: Considering some regulators increasingly require financial institutions to give them more access to their underlying risk data, please state to what extent you agree or disagree with the following statements. (Base: 159 – banking)

We need to upgrade our systems and capabilities to be able to provide more transparent reporting to our regulators

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>9%</td>
<td>3%</td>
<td>29%</td>
<td>43%</td>
<td>16%</td>
</tr>
</tbody>
</table>

We are ready for change in the way we need to interact with the regulator (moving towards results-focused outputs)

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>4%</td>
<td>31%</td>
<td>43%</td>
<td>17%</td>
</tr>
</tbody>
</table>

We have not yet determined the impact of regulators having access to our underlying risk data

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>12%</td>
<td>37%</td>
<td>43%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: Accenture 2017 Global Risk Management Study
THE EVOLUTION OF RISK MANAGEMENT

Accenture has conducted research on risk management since 2009. Through the years we have seen the rise in the importance and influence of risk management and the function, however there is still much work to do. Below are some of the highlights from past research, which show how the nature of risk management within the financial services industry has changed over the last eight years.

ACHIEVING BALANCE
The gap between risk and finance has been closing but there is still more progress that needs to be made.

<table>
<thead>
<tr>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk silos</td>
<td>Towards a new risk culture</td>
<td>Direct line to the CEO</td>
<td>CRO at the executive table</td>
<td>Still closing the risk-finance gap</td>
</tr>
<tr>
<td>Only 15% had an integrated IT risk infrastructure</td>
<td>84% said risk capabilities help engender a risk culture in the organization</td>
<td>96% of risk owners reported directly to the Chief Executive Officer (CEO), up from 82% in 2011</td>
<td>79% said the Chief Risk Officer (CRO) is important to strategic planning decisions</td>
<td></td>
</tr>
</tbody>
</table>

HARNESSING TECHNOLOGY
Technology in risk management has evolved over the years to drive innovation and strategic decision-making.

<table>
<thead>
<tr>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech not fit for purpose</td>
<td>Tech as newest strategic priority</td>
<td>Systems integration still a barrier</td>
<td>Building analytical capabilities</td>
<td>The power of automation to come</td>
</tr>
<tr>
<td>92% said that fragmented, inefficient IT systems are increasing the cost of risk management</td>
<td>77% reported extensive or significant need for analytics to address risk magnitude and frequency</td>
<td>Adoption of analytics growing but 45% said systems integration still a barrier</td>
<td>67% plan to increase investment in big data and analytics over the next two years</td>
<td></td>
</tr>
</tbody>
</table>

EVOLVING TALENT
Over the years, organizations have responded to the changing demand for specialized risk skills.

<table>
<thead>
<tr>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk resource in short supply</td>
<td>Rising headcount</td>
<td>Lack of specialized tech skills</td>
<td>Demand for data specialists</td>
<td>Emerging tech capabilities</td>
</tr>
<tr>
<td>32% stated they see resources and talent as a significant challenge</td>
<td>53% planned greater headcount to enhance risk organization</td>
<td>Risk technologists (64%), risk business and data analysts (62%) were skills in shortest supply</td>
<td>Data management (34%) and data analysis (32%) were anticipated as the skills most in demand</td>
<td></td>
</tr>
</tbody>
</table>

Source: Accenture Global Risk Management Studies, 2009 to 2017
1. Harnessing smart technology

Technology impacts every industry, but some are finding themselves transformed more than others. Banking leaders understand that their sector is among the most impacted. This explains why such an overwhelming proportion (about 90 percent) of banking respondents in Accenture’s 2017 Technology Vision research report that their organizations must innovate at an increasingly rapid pace just to keep a competitive advantage.²

Innovation is everywhere in banking. Data analytics continues to reinvent decision-making; there are software robots in operations and humanoid robots in branches;³ meanwhile, emerging technologies such as blockchain and AI are changing the fundamental services and mechanics of banking.

The risk function is evolving both as part of these trends and in reaction to them. In other words, these innovations are changing the way the risk function operates, while at the same time, the risk function has to adapt to the rapid pace of innovation across most areas of the bank, not to mention the wider ecosystem.

For example, while risk professionals have historically had responsibilities separable from customer service and satisfaction, today—with customers increasingly expecting rapid, personalized digital services—risk has become a key facilitator of superior customer service (e.g. by automating, integrating and accelerating risk management processes).

Banking risk leaders are looking to use technology to make incremental and transformational changes. Part of this involves industrializing some of the ways they manage risk, automating labor-intensive activities and integrating processes into operations. These strategies can help the function devote more human resources to the pursuit of deep insights and innovations, while also helping to reduce costs and gain more control over operational and conduct risk.
### INTELLIGENT RISK MACHINES

In this regard, RPA, AI and machine learning are areas of huge potential. At this stage, few risk teams have fully exploited these technologies, but most have now at least begun to explore them. For instance, just 8 percent of banking respondents to the 2017 Global Risk Management Study claim to have highly proficient capabilities in RPA, while 25 percent are using it in the risk function but are not extracting its full potential. AI has similar figures: 10 percent and 31 percent respectively (see Figure 2).

Banking respondents in our study selected “improved customer service” as the greatest opportunity for the risk function arising from adopting RPA. This itself is reflective of the increasingly integrated role of risk management within banks, and how risk automation is seen as a fundamental driver of the speed, efficiency and productivity gains that support many new, digital services customers now expect.

RPA also presents banks with a wide range of opportunities: many 2017 study respondents (close to a third in each case) also believe the technology can help them gain “improved risk analysis and risk insight,” “greater efficiency/productivity” and “improved compliance.”

In addition, robotics (and other forms of automation) and AI (including machine learning and other disciplines) overlap depending on the application. And the list of applications is expanding rapidly: reviewing disclosures, scanning transactions, assessing incident reports, picking up anomalies in employee activity, predicting drivers of change to risk exposure, and rapidly checking data quality. There are more possibilities to explore than the time and resources with which to do so.4

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**Figure 2:** Thinking about the range of technologies that you use to support your risk management function, how advanced is your institution’s use of the following technologies? (Base: 159 – banking)

<table>
<thead>
<tr>
<th>Technology</th>
<th>Highly Proficient</th>
<th>Using for Risk Function but Not Extracting Full Potential</th>
<th>Starting to Use to Some Extent</th>
<th>Not Using but See the Potential</th>
<th>Not Using and Do Not See the Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloud</td>
<td>18%</td>
<td>38%</td>
<td>26%</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>Big data and analytics</td>
<td>16%</td>
<td>36%</td>
<td>30%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Collaboration and workflow tools</td>
<td>16%</td>
<td>30%</td>
<td>37%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Machine learning</td>
<td>12%</td>
<td>26%</td>
<td>33%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Artificial intelligence</td>
<td>10%</td>
<td>31%</td>
<td>35%</td>
<td>17%</td>
<td>7%</td>
</tr>
<tr>
<td>Robotic process automation</td>
<td>8%</td>
<td>25%</td>
<td>38%</td>
<td>20%</td>
<td>9%</td>
</tr>
</tbody>
</table>

*Source: Accenture 2017 Global Risk Management Study*
POWER OF DATA

Our 2011 risk management study found a strong need to invest in data analytics: 77 percent said their organization had an extensive or significant need for risk analytics tools and capabilities specific to risk magnitude and frequency. At the time, just 28 percent reported having consistent and updated data available to decision-makers across the organization on an ongoing basis. In 2017, considerable progress has been made, with close to two thirds (64 percent) now reporting that risk analytics is integrated with strategic planning and decision-making (see Figure 3).

A similar proportion (65 percent) say risk analytics is fully integrated into the risk function’s everyday operations (see Figure 3). This is comparable for retail and commercial banking. However, the sectors do have a notable difference in maturity in one area: many commercial banking respondents (61 percent) claim that risk analytics are applied consistently across the organization and can address all relevant risks and exposures. Just 47 percent of retail banking respondents say the same most likely because of challenges with budgets, available skills and regulatory pressures.

Some banks have shown how data analytics can work as a crucial transformation and survival tool. For example, one of Europe’s largest banks, can point to several data analytics successes, implemented despite the extreme liquidity, credit and regulatory challenges faced by its national peers in recent years. Since 2014, it has been investing in new distributed frameworks to build predictive analytics capabilities that support everything from lending decisions to capital optimization, while improving agility and lowering costs. The move has also helped the bank to spread the power of data analytics from the risk function to colleagues in other areas, integrating key capabilities into operations.

Many other firms have also made significant improvements in risk data analytics, creating centralized processes to capture data and report an enterprise-wide view of risks for committees and reports.

Figure 3: Thinking about your institution’s use of risk analytics, to what extent do you agree or disagree with the following statements? (Base: 159 – banking)
But the process is often manually intensive still, and not supported by a common source that can collect all risk types. Indeed, many firms have much to do in the basics of data warehousing—integrating sources, cleaning and transforming data—to support the use of more sophisticated analytics techniques.

All stakeholders should be aware, that for all their rewards, implementing data and analytics initiatives can be a major undertaking. Indeed, the sheer increase in the velocity, variety and volume of data has become a serious challenge—indeed it is among the top challenges facing risk management functions, according to 2017 respondents.

An equally significant—and fundamentally related—challenge is legacy technologies: 72 percent say these old systems impede the effectiveness of the risk function, while 67 percent report the same from a lack of integration across existing technology infrastructure (see Figure 4). Of course these are often deeply complex core systems, integrated into the fabric of the business and impossible to interrupt or put at risk. Banks should consider how they can pivot to new systems wisely and without causing disruption. This is a highly complex challenge.

**Figure 4: To what extent do the following challenges impede the overall effectiveness of your risk management function? (Base: 159 – banking)**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>To a great extent</th>
<th>To some extent</th>
<th>To a minimal extent</th>
<th>No impact</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing demand from multiple regulators in multiple jurisdictions</td>
<td>31%</td>
<td>47%</td>
<td>16%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Lack of budget to make necessary investments</td>
<td>26%</td>
<td>48%</td>
<td>18%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Shortage of skills in new and emerging technologies</td>
<td>33%</td>
<td>40%</td>
<td>20%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Shortage of core risk management talent and skills</td>
<td>22%</td>
<td>51%</td>
<td>21%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Legacy technologies within the risk function</td>
<td>33%</td>
<td>39%</td>
<td>18%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Increased velocity, variety and volume of data</td>
<td>31%</td>
<td>41%</td>
<td>22%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balancing the responsibilities for control and compliance</td>
<td>23%</td>
<td>49%</td>
<td>16%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Increasing demands from senior management and the board</td>
<td>25%</td>
<td>42%</td>
<td>24%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Lack of integration with other business functions</td>
<td>23%</td>
<td>44%</td>
<td>23%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Lack of integration across existing technology infrastructure</td>
<td>19%</td>
<td>48%</td>
<td>23%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Lack of clear governance in decision-making processes</td>
<td>27%</td>
<td>39%</td>
<td>21%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Disruption of business models from digital technologies</td>
<td>21%</td>
<td>43%</td>
<td>21%</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Accenture 2017 Global Risk Management Study
**FAST-MOVING CLOUD**

Risk analytics benefit enormously as banks migrate legacy systems to the cloud, which can improve the scope, scale, consistency, quality, accuracy and speed of data management.

Our 2017 study finds that use of cloud technology is becoming widespread—82 percent of banking respondents are using it in some form (see Figure 2). However, few have fully migrated their core systems to the cloud. Of that 82 percent, just 18 percent report being highly proficient in using cloud within their organizations, 38 percent are not using it to its full potential, and 26 percent are only just introducing it.

The biggest areas of opportunity for cloud technology are greater efficiency and productivity (38 percent) and improved customer service (30 percent, see Figure 5). Commercial banking respondents see similar levels of opportunity for improved regulatory data management and a greater ability to collaborate with external partners. Retail respondents, meanwhile, also emphasize improved risk analysis and insight and greater accuracy and control.

**Figure 5:** What do you see as the biggest opportunities for your organization with adopting the cloud? (Base: 131 banking; asked only of those respondents indicating some level of cloud adoption.)

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved accuracy and control</td>
<td>21%</td>
</tr>
<tr>
<td>Improved business scalability</td>
<td>21%</td>
</tr>
<tr>
<td>Improved compliance</td>
<td>21%</td>
</tr>
<tr>
<td>Improved product profitability/product rationalization</td>
<td>21%</td>
</tr>
<tr>
<td>Improved ability to combat financial crime</td>
<td>15%</td>
</tr>
<tr>
<td>Improved regulatory data management</td>
<td>24%</td>
</tr>
<tr>
<td>Improved risk analysis and risk insight</td>
<td>28%</td>
</tr>
<tr>
<td>Improved ability to collaborate with external partners</td>
<td>25%</td>
</tr>
<tr>
<td>Improved customer service</td>
<td>30%</td>
</tr>
<tr>
<td>Greater efficiency/productivity</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Accenture 2017 Global Risk Management Study
This reflects the fact that cloud is bigger than any one application. It is the foundation for all the digitalization and technological innovation the banking sector needs to meet future business objectives and customer expectations. Put simply: without cloud’s capacity and speed, digital does not happen.

Cloud is also crucial for cost control. The vast majority of 2017 respondents (95 percent) say that cost pressures are having an impact on risk management effectiveness, and sometimes lead to sub-optimal outcomes.

Despite this, 60 percent say that investment is being made available for the right projects: those that improve cost efficiency and grow the top line.

Many of these projects involve new technologies. The most common response to cost pressures, cited by half of all respondents (55 percent), is improving efficiency through smart technologies. Cloud is one of the top choices in this regard, with 71 percent using it to allow the risk function to address cost pressures (see Figure 6).

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**Figure 6:** To what extent are the following technologies enabling your risk function to address the cost pressures that you are facing? (Base: 159 – banking)

<table>
<thead>
<tr>
<th>Technology</th>
<th>To a great extent</th>
<th>To some extent</th>
<th>Hardly at all</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big data and analytics</td>
<td>35%</td>
<td>47%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Cloud</td>
<td>33%</td>
<td>38%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Collaboration and workflow tools (e.g. IBM® OpenPages®)</td>
<td>21%</td>
<td>50%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Artificial intelligence</td>
<td>18%</td>
<td>51%</td>
<td>25%</td>
<td>6%</td>
</tr>
<tr>
<td>Machine learning</td>
<td>17%</td>
<td>52%</td>
<td>23%</td>
<td>8%</td>
</tr>
<tr>
<td>Robotic process automation</td>
<td>13%</td>
<td>44%</td>
<td>26%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Accenture 2017 Global Risk Management Study
2. Rising to meet coordination challenges

Most large banks operate across multiple regulatory jurisdictions and have risk teams spread across several locations. On top of regional differences, specialized risk types and a variety of business units can create additional silo problems for risk functions.

In many cases, total centralization of risk management and coordination is impossible, and total decentralization is impractical, so risk functions strive to get the best of both worlds. At the moment, 50 percent of 2017 respondents say there is limited coordination between risk management activities at the local and group level (see Figure 7).

Centralization is desirable because it offers an immediate aggregate picture for analysis. Central frameworks and tools provide a standardized and coordinated response to regulation, a consistent set of rules for managing all risks, and the ability to perform complex and high-value calculations to measure risk exposure, liquidity and solvency.

Decentralization is valuable because local or specialized teams can focus on local regulatory requirements and market-specific topics. Nearly half (45 percent) of banking respondents say that organization-wide risk processes do not capture the nuances of local markets, while 55 percent say that local markets struggle to balance the management of risk at the local level with organization-wide risk priorities (see Figure 7).

No matter to what extent coordination is centralized—the optimal arrangement varies across organizations—risk leaders should strive to create a common data platform that provides a “single version of the truth.” Without it, turf wars can break out over which data has priority, and aggregation is a constant drag on efficiency. This impedes integration, and prevents the use of common data building blocks to improve risk outcomes.

So how are risk functions currently balancing centralization and decentralization? And how well are they integrated with other parts of the business?
**SELECTIVE AND GRADUAL CENTRALIZATION**

Overall, where it is possible, there is a trend toward greater centralization of risk management at group level. There are some modest differences between how this coordination is handled by risk type and by lines of business.

A quarter (25 percent) have centralized coordination of risk management activities across all risk types, and 23 percent have done so for all business lines (see Figures 8 and 9). It is not surprising, then, that more than half (52 percent) say there is duplication of effort in risk management across lines of business (see Figure 7).

But this does seem to be changing. In two years’ time, respondents expect to be further centralized, with about 40 percent expecting coordination to be centralized for all risk types, and 48 percent for all business lines (see Figure 8 and 9).

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**Figure 7:** Thinking of your risk management function, to what extent do you agree or disagree with the following statements? (Base: 159 – banking)

- There is limited coordination between risk management activities at the local level and the group level
- Local markets struggle to balance the management of risk at the local level with organization-wide risk priorities
- There is duplication of effort in risk management activities across lines of business
- Organization-wide risk processes do not capture the nuances of local markets

Source: Accenture 2017 Global Risk Management Study
**Figure 8:** Using scores between 1 and 5, please indicate how risk management activities are currently coordinated across risk type (e.g. market risk, credit risk, liquidity risk) and how you expect them to be coordinated in two years’ time. (Base: 159 – banking)

- **5 – Fully centralized:** risk management operates at a group level
  - Now: 16%
  - Two years’ time: 24%

- **4**

- **3 – Centralized & decentralized:** risk management operates equally at both a group and regional level
  - Now: 15%
  - Two years’ time: 34%

- **2**

- **1 – Fully decentralized:** risk management operates at a regional level
  - Now: 12%
  - Two years’ time: 20%

Source: Accenture 2017 Global Risk Management Study

**Figure 9:** Using scores between 1 and 5, please indicate how management activities are currently coordinated across specific lines of business (e.g. investment banking, retail banking, commercial banking) and how you expect them to be coordinated across specific lines of business in two years’ time. (Base: 159 – banking)

- **5 – Fully centralized:** risk management operates at a group level
  - Now: 15%
  - Two years’ time: 25%

- **4**

- **3 – Centralized & decentralized:** risk management operates equally at both a group and regional level
  - Now: 23%
  - Two years’ time: 44%

- **2**

- **1 – Fully decentralized:** risk management operates at a regional level
  - Now: 15%
  - Two years’ time: 17%

Source: Accenture 2017 Global Risk Management Study
COORDINATION WITH THE BUSINESS

Another key coordination challenge is around the integration of risk with other business functions. This is something that has not improved over the years of this study. In 2013, for instance, 59 percent of banking respondents said that a lack of integration with other business functions was a challenge that impeded the effectiveness of the risk function. Four years later, this figure has risen to 67 percent (see Figure 4).

One of the key areas where integration is needed is between finance and risk. Where these functions remain siloed, decision-making can be hampered—particularly where separate data sources are used—and it becomes challenging, for example, to calculate risk-adjusted returns, manage capital and improve regulatory reporting. This has of course become a major issue for banks in recent years with post-financial crisis regulations—e.g. Basel III and the IFRS accounting standards, creating even more need for collaboration between finance and risk.7

Back in 2011, 87 percent were planning better integration of risk and finance processes to enhance risk organization. But by 2015, only 7 percent said that finance and risk leaders had a close working relationship that included joint input into corporate strategy and enterprise risk management steering. In 2017, this figure has only risen to 16 percent, with 30 percent expected two years from now.

This is slow progress. Sometimes, this is because companies operate risk as part of the finance area, which limits the direct involvement of risk professionals in top management decision-making.

Risk functions that report directly to the CEO often enjoy an equal footing with finance, but have a different collaboration challenge. For them, the challenge is the systemic integration with finance; that way, the two functions can support each other and resolve conflicting views productively.
3. Building new layers of talent

Coordination challenges are not what risk teams were historically built to overcome. Today, as risk has become a central and strategic part of the organization, complex co-ordination across functions, regions and business units is among many new strengths the risk function needs to build into its teams.

Beyond quantitative skills, the risk management function is increasingly expected to bring value to the company by providing economic insights, generating new ideas and building strong relationships throughout the organization and beyond.

Smart technologies and new processes also change how risk teams interact with the business, regulators and other external stakeholders; calling for new skills and a balance of personalities across teams.

Indeed, some of the most transformative innovations expected over the coming years are likely to be in how technologies are redesigned to complement and enhance human potential.8
Evolving Skill-sets

Over the years we have tracked the evolution of skills demand in banking risk management functions. For example, in 2009, at the time of the first Accenture Global Risk Management Study, financial market instability was the most pressing risk. Back then, just 7 percent of respondents thought technological change had the potential to cause a maximum increase in risk faced by the organization. Today, understanding emerging technology risks is one of the top priorities among 2017 respondents for strengthening risk management capabilities over the next year (see Figure 10).

A great deal has been achieved in this area in recent years. Nearly eight out of ten 2017 banking respondents (78 percent) say that their risk management workforce capabilities are effective or very effective at understanding emerging technology risks, such as cyber risks. Most (65 percent) agree that they have a cyber risk management function that can effectively support the IT function and accurately report to the board the real status of cyber risk.

**Figure 10:** What are the priority risk management capabilities your institution plans to strengthen over the next year? (Base: 159 – banking)

- Data management: 48%
- Understanding of emerging technology risks, e.g. cyber: 43%
- Understanding of key trends in our sector (e.g. shift to digital business models): 35%
- Advanced mathematical and statistical knowledge (e.g. enhancing quantitative capabilities, actuaries and data scientists): 35%
- Managing reputational risk associated with social media: 30%
- Broader commercial awareness: 27%

Source: Accenture 2017 Global Risk Management Study
Banks have clearly been building their cyber risk capabilities, but there is still a shortage of talent in this and other specialist areas. In fact, over the past few years the demand for relevant risk skills has intensified.

In 2013, 51 percent said they had insufficient talent in the risk function and that this impeded the overall effectiveness of the organization’s risk management function. By 2015, this figure had jumped to 73 percent. This year, we separated core risk management skills from skills needed for new and emerging technologies, and found in both cases that 73 percent again agree that skills shortages in these areas impede the function.

While the need for core skills is the same between retail and commercial respondents, there is a more pressing need for emerging technology skills among the 2017 retail banking respondents (81 percent), where this is the top challenge impeding risk management effectiveness, compared with the commercial segment (64 percent), where it is just the eighth ranked challenge.

Skills should continue to be a challenge, but it is encouraging to be able to report strong progress in key areas such as data analytics and cyber since we started this research.

In the year ahead, risk leaders should continue to build teams that are both responsive and anticipatory—able to catch issues early and respond to increasingly ad hoc requirements from regulators and the business. Given the complexity of risks banks manage, leaders may find value in bringing in skills from different markets, divisions and professional backgrounds—creating teams with the breadth of talent required to excel in modern banking risk management.
CONCLUSION: SIX SIMPLE BUT POWERFUL ACTIONS TO TAKE IN 2017

As the complexity of risk management in banking increases, the function should continue to adapt at pace and expand its remit. CROs should strive to meet demanding quantitative and qualitative standards—considering their internal and external stakeholders—while keeping costs under control. They should do this while adapting to continuous regulatory change and rapid disruption by unprecedented technological innovation, emerging risks and geopolitical instability.

Today more than ever, modern banks need a risk function that goes far beyond compliance to become an integrated, strategic cog in the primary gears of the business.

Based on our research, in-depth consultations with banking risk leaders and our own observations, we have compiled a set of six simple but powerful actions that can help risk functions to rise to these challenges in this decade of metamorphosis.

1. DRIVE THE BUSINESS TOWARD DIGITAL AND TECHNOLOGICAL INNOVATION

Robotic process automation, artificial intelligence and a wide range of data-driven technologies can help to speed up operations and improve measurement, modeling, analysis, integration, predictions and anomaly detection. But not every bank is at the same stage, and many should work on the fundamentals of their IT infrastructure and build internal skills before they can seize further innovation. Whatever the stage of development, however, the risk function should consider pushing—and we believe leading—the business and IT to advance in these areas as fast as possible.

2. PUSH FOR TOP-LEVEL INTEGRATION

Risk management is already becoming more integrated with operations, IT and other parts of the business. But greater integration is often needed with the CEO and board over strategic decision-making. As an input to strategic planning and in monitoring subsequent execution, risk should offer the board a clear and cohesive view of financial, non-financial and emerging risks.
Banks need to keep investing in risk data aggregation and reporting systems with the flexibility to integrate multiple data sources and strong data governance features. But the risk function needs to sit above data management. Instead, risk talent should be engaged in information analysis, while automation and supporting professionals manage data quality, integrity, integration and technical issues. This should help capture the full analytical value of professional risk practitioners.

Banks should transform not just to compete, but also to survive. The risk function should strive to be more commercially aware than ever in order to evolve its role to support the business. For many, this could mean evolving away from being a “control function” and toward being a transformation leader and joint architect of new business models.

A new relationship paradigm between regulators and banks is emerging. In place of the old model, where regulators were seen as imposing rules on banks, there is now a more open dialog taking place. Banks and regulators now see themselves as part of an ecosystem that helps to protect the financial system. Each party plays a role and has to work with the other in order to provide the appropriate safeguards. To make this work effectively, risk managers should be more proactive in their approach; for their part, regulators should be more receptive to industry perspectives. This new model will take time to be fully embedded, but it can be of benefit to the entire financial system.
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ABOUT THE RESEARCH

The Accenture 2017 Global Risk Management Study is the fifth edition of our study first published in 2009. It is based on a telephone survey (computer-assisted telephone interviewing, CATI) conducted by Longitude Research on behalf of Accenture between January 2017 and February 2017 among 475 senior risk management executives.

This sector-specific banking report presents the perspectives of 159 banking industry executives from the retail and commercial banking sectors, and includes insights from in-depth qualitative interviews with senior banking executives.

For more information on the study, visit www.accenture.com/RiskStudy2017

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