

Case study: Globally diversified financial services company

Improving risk management
and regulatory compliance



Client

Our client is a top-tier national retail bank with significant expertise in the service of high-net-worth clientele and retirement services.

Challenge/Objective

Since the economic collapse of 2007-2008, financial services organizations have placed a much greater emphasis on the goal of proactive risk identification and mitigation across the relationship lifecycle. This ever-increasing attention to risk and the growing regulatory demands surrounding it have made establishing an enhanced, executive role for risk management a priority in many banking organizations. Much of this concern is driven by the intent to comply with the "Principles for Effective Risk Aggregation and Data Reporting" (RDAR). Domestically important banks will have these principles embedded in their compliance processes in support of Basel III and the Comprehensive Capital Analysis and Review. Areas of key importance to regulatory supervisors include overarching governance and risk appetite infrastructure, risk aggregation data capabilities and risk reporting practices.

It is a key expectation that risk organizations, tasked with oversight and coordination by the Basel Committee on Banking Supervision, specifically RDAR capabilities, should be staffed appropriately and aligned to ensure effective administration of portfolio risk management while also satisfying the many components of regulatory guidance.

Defining the size of its newly appointed Risk Architecture department, in terms of appropriate organization, accountabilities and skill sets of the expanded set of roles, was the challenge that a financial services client brought to the Experian Global Consulting Practice team's attention in 2014.

The client's Senior Risk team asked Experian to determine the appropriate scope and staffing requirements of the Chief Risk Architecture (CRA) team. By using Experian's business review methodology and internal and external benchmark assessments, Experian's research and consultation services could ensure that the CRA team would successfully align and support the functions of the Risk Management department. In addition, the Client Risk team wanted information on how the enhanced CRA department should be staffed and what the key roles and responsibilities would be based on the model of peer organizations.

The client's vision for the executive role was clear. The chief risk architect needed to be someone very familiar with business operations and with a broad scope of experience across the organization. The chief risk architect would be the driving force to integrate initiatives and coordinate activities to achieve the organization's stated risk appetite.

Business benefits

- The framework and roadmap for the risk architecture function will enable the client to be more nimble and precise in responding to the board or to regulatory-driven, risk-aggregated reporting requirements.
- The client will be able to proactively identify business risk and benefits for approved and proposed projects, as well as opportunities within strategy challenges and operations control features.
- The client's view will be more expansive, given their cross-enterprise accountabilities and coordination of risk across the organization.

Operational benefits

- There will be improvements in risk project prioritization and risk culture consistency across the organization's various portfolios.
- The client can plan for adequate staffing and resources to meet strategic execution standards. (assess, plan and manage).

Feedback from the internal survey and self-assessment was illuminating. Officers on the current CRA team described themselves as "lean and mean", doing basic reporting in response to government regulatory requests or to their own internal auditing team, but always in "scramble" mode. The team wanted to become more best-in-class and ownership oriented in order to respond with a higher level of accuracy and timeliness to the frequent requests from third parties. The internal board also was demanding a higher degree of readily available, accurate documentation, which provided more integrated risk reporting insight across the company's several portfolios, instead of the "siloeed" approach currently being used.

Resolution

The Experian team conducted a clearly structured business review to clarify the drivers and impacts of the decision to create a true Risk Architecture team. Experian® has used this approach successfully in the past for complex initiatives. The review progressed through a series of steps:

1. The team formulated a qualitative questionnaire, to engage the internal perspective and confirm the recommended structure of the department and job descriptions of the staff.
2. They looked at the Risk Architecture team structure in comparable organizations and interviewed key management for recommendations for the roles and responsibilities of department staff.
3. The team then ranked key findings by business impact, identifying initiatives that could be achieved more quickly and filling gaps that would bring more immediate value to the organization.
4. This information formed the first deliverable on the roadmap. This tool clearly defined the timing and the order of changes needed to get the client from where it was, to achieving a "best-in-class" Risk Architecture department.

Results of the survey and model development

Experian surveyed industry peer risk organizations about their risk architecture structures. Additionally, the team obtained risk organization structure diagrams from four of the top 10 risk organizations. This feedback confirmed the recommended scope for the proposed team's functions (Figure 1).

The team also found that in many organizations, the chief risk architect served a role similar to that of a chief operating officer, being completely accountable to the board at the highest level and not involved in incentives or benefits from day-to-day activities. This role had the potential to drive transformational change, integrating functions across the organization and transforming strategic risk vision into execution.

With the insights gathered from the internal and external surveys, Experian proposed a defined organizational structure with a recommendation for the staffing level necessary under each functional area (Figure 2).

These surveys also identified clear gaps that needed to be addressed. By moving to this revised structure, the roles would be clarified and the focus on key outcomes would be enhanced.

The Risk Architecture team's interaction with the organization's current structure was of great importance to the client. Not only was an expanded set of roles also needed to for the team a clear goal, but the expanded roles also needed to complement and integrate with the existing layers of control and responsibility the organization had built over the years.

The Experian team developed an interaction and intra-action model that demonstrated the integration of the CRA team into the three lines of defense structure that was already in place. (Figure 3) The first line of defense, the operational area, was client-facing and reported to senior management. Policies were deployed and operational key performance indicators were monitored by this group. The second line of defense was the Senior Risk team, which included the functions of risk project, control and management, security, quality, inspection and compliance.

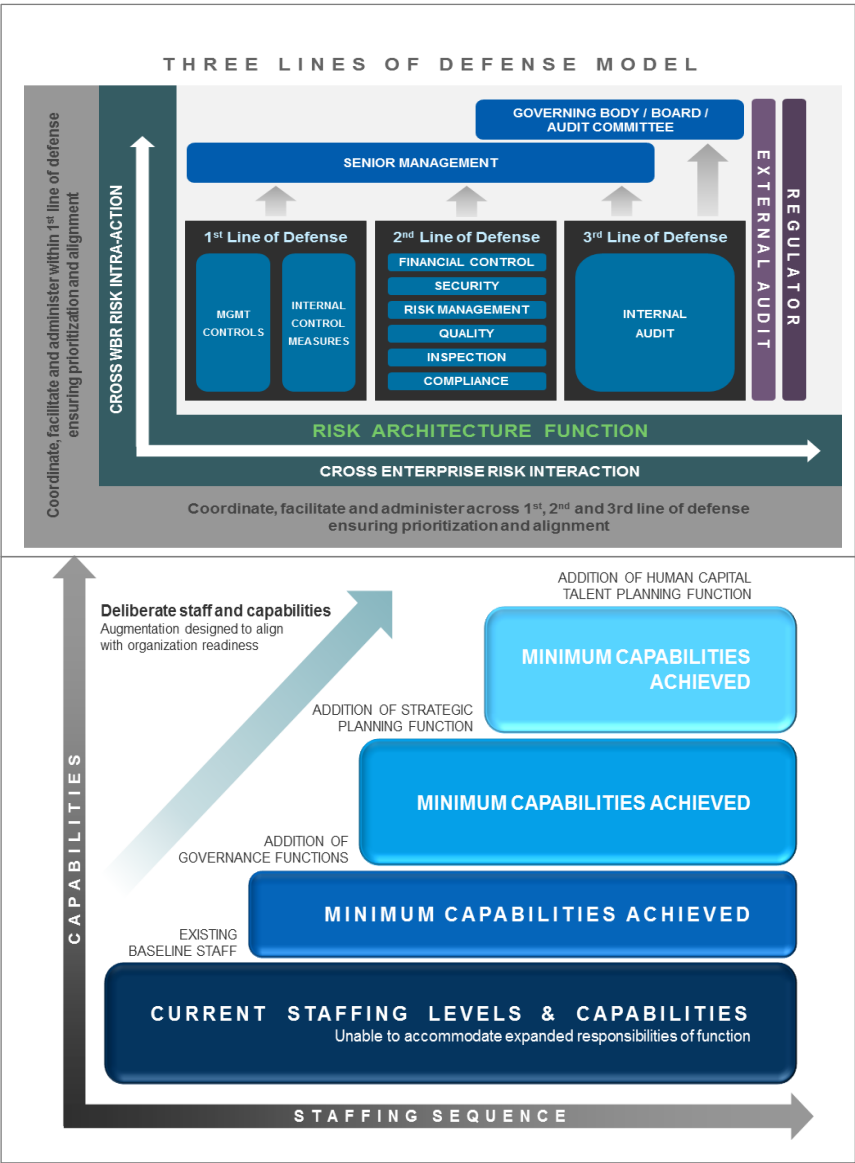
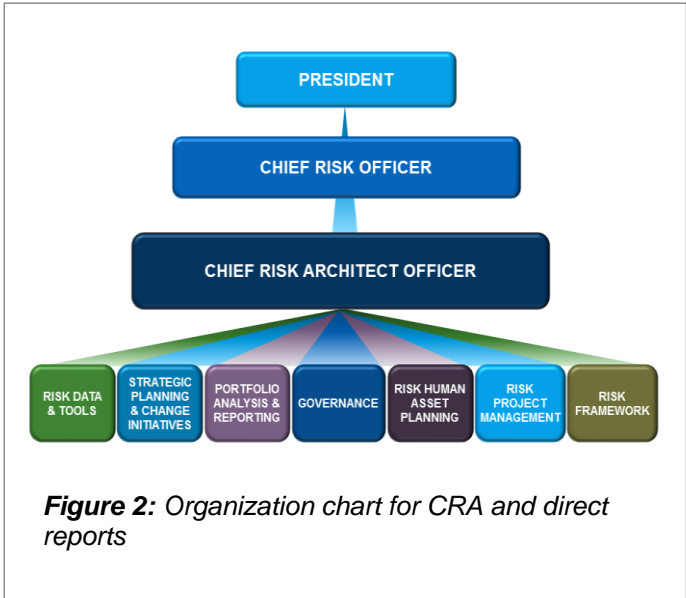
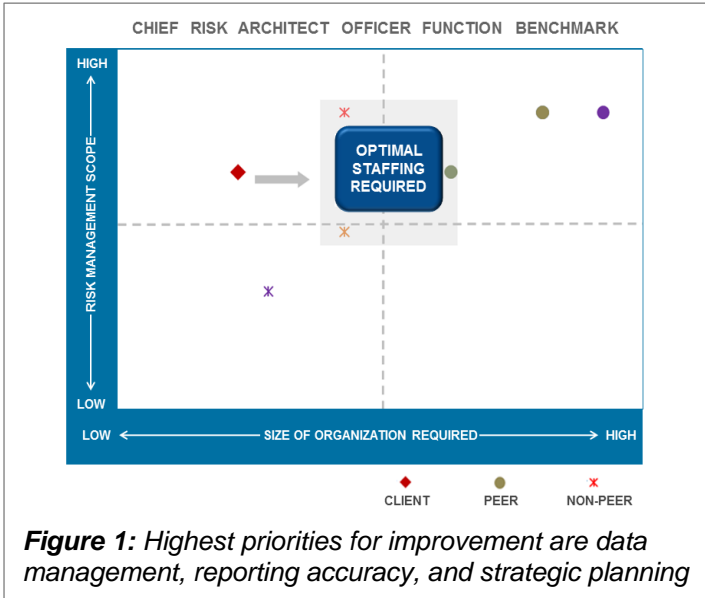


Figure 3: Three lines of defense model

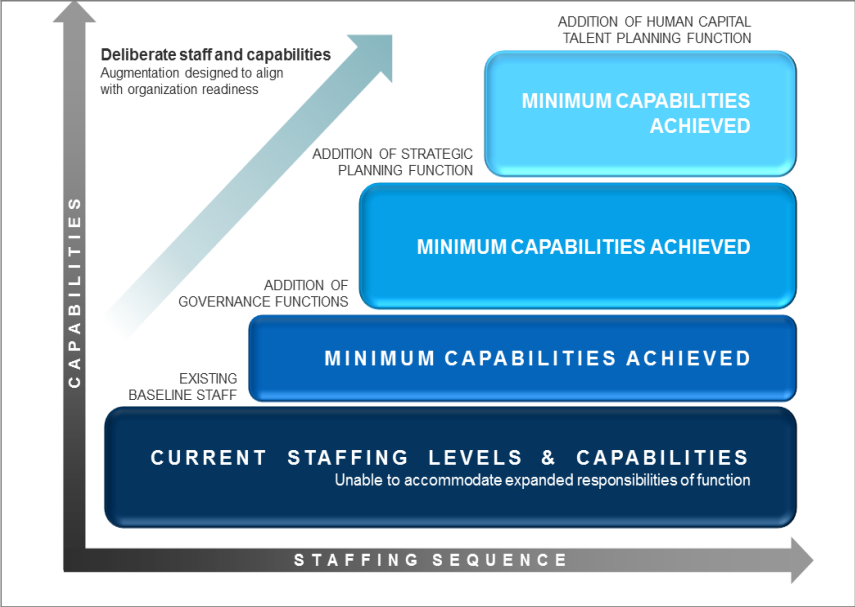


Figure 4: Staffing sequence and resource allocation for new risk architecture department

The third line of defense was internal audit, reporting to both senior management and the board. In the model, it appears as if the lines between each level are 'clean', however, this is often not the case. There is a great deal of intra-action between the three defense 'buckets'. This intra-action is what risk architecture navigates. When a risk issue occurs within an organization, it's much easier to have one 'go-to' person in Risk Architecture to simplify the process, insure compliance standards are considered and coordinate the issue across security, quality, risk policy and Risk Appetite goals. Heightened expectations for bank risk governance are constantly evolving, so it is absolutely necessary that these roles are in a position to help with the workflow, while ensuring that the customer experience does not deteriorate.

Results

Experian presented the results of the survey and roadmap to the new Risk Officer and the response was immediate. The approach of using the business review methodology to vet original assumptions was deemed appropriate. They were trying to evolve and appreciated the external view, saying "All initiatives should have this level of rigor to justify the expense."

The client now has a CRA in place and the staffing sequence and resource augmentation of the risk architecture department has begun (Figure 4). With Experian's partnership and roadmap, the client has a clear path for the Risk Architecture team to develop into a best-in-class part of the organization during the next twelve months.

Experian has worked with this client for many years, in various capacities. As a Global Consulting Practice, Experian pushes the door open to inform the client about other tools that have strong potential for use in their organization.

About Experian Consulting Services

Experian's business consultants provide clients with exceptional strategic credit-risk-management insight, detailed enhancement opportunities and deployment strategies. They ensure consistency through deep business-subject-matter expertise, client familiarity and a proven client-engagement methodology.

Experian builds a strong partnership with clients at all levels, delivering a balanced portfolio of improvements to ensure implementation plans are delivered and benefits are realized. Clients are left fully equipped and empowered to enhance and sustain profitability and focus in their business.

Experian has offices in more than 15 countries, serving clients in more than 50 countries and delivering more than 700 engagements worldwide with a rigorous focus on quantifiable benefits.