

# ENTERPRISE RISK MANAGEMENT SEMINAR

## Enterprise Risk Management in case of Financial Institutions

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# Risk



*Any event or action that may adversely affect an organization's ability to achieve its objectives and execute its strategies*

*Culture and Risk-Hofstede cultural Theory- organizations are different*

- *For quantifiable events, risk is often associated with the volatility of outcomes*
- *If you do not know it leave it*
- *Non-quantifiable events can also have significant financial costs*
- *The object of risk management is not to eliminate risk but to mitigate its effects*

# Great Depression



i. *Becoming more and more complex in the financial services sector-our business is risk-lending and insurance*

- i. *Cost versus benefit*
- ii. *People driven*
- iii. *Risk and innovation*



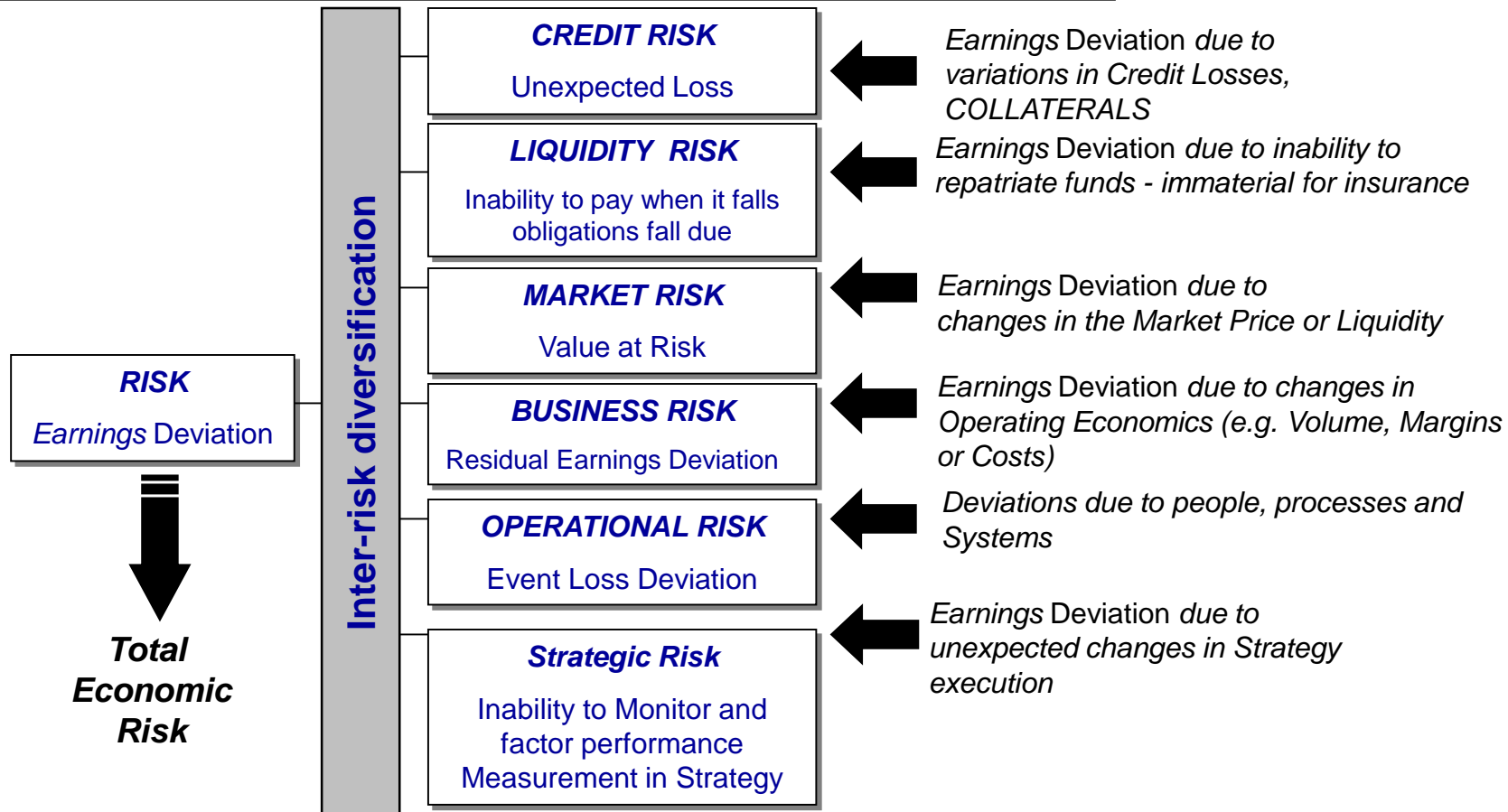
# Types of Risk in Financial Sector

1. Strategic Risk
2. Liquidity Risks
3. Market Risks
4. Credit Risks
5. Insurance Risk
6. Operational Risk

Guideline issued by IRA and CBK(FSA)

Emerging risk- Cultural, Fraud, Social media, Governance, I.C.T, business  
continuity

# Risk Types Correspond to a Possible Economic Loss



# ERM at a glance



- *Corporate-wide approach to dealing with risk;*
- *Appears defensive but it can be a great resource in running any complex business*
- *Increasingly seen as an indicator of sound management as it ensures objectives are achieved*
- *Essential for all financial institutions*
- *Notion of a Risk and Compliance Department*

# ERM at a glance



- *Regulators encourage ERM*
- *Companies that be able to distinguish between risks that can be mitigated and risks that can be capitalized and self insured get higher return*
- *With respect to ERM, there is a commonality of interests between policyholders and depositors, regulators and*

# Regulatory Aspects of Risk



➤ *Risk-based capital requirement*

➤ *Risk-based supervision*



# Why ERM



- *Achieve objectives while optimizing risk profile and protecting value*
- *Removes silos in risk management*
- *Provide relevant, reliable, and timely information to appropriate stakeholders*
- *Enable the measurement of the performance and effectiveness of the system."*

# The COSO Framework



## The Holy Trinity



# The components of the ERM Framework



# Implementing the ERM



- *Financial Institutions have identified and started adapting the Enterprise Risk Management Framework released by COSO as a framework to drive their initiatives in risk management beyond Basel norms and regulatory compliances.*
- *The COSO ERM framework has all the components that could help the institutions to stand a chance to derive business value while meeting compliance requirements.*

# Implementing the ERM



- *Chief Risk Officer (CRO) interacts with*
  - *Chief Financial Officer*
  - *Chief Investment Officer*
  - *Chief Information Officer*
  - *Chief Actuary*
  - *Head of Internal Audit*
  
- *Direct reporting to CEO is preferable*
  
- *Often reports to CFO*

# Implementing the ERM



## ➤ *Risk appetite and Universe*

- ✓ *Risk appetite is established through dialog between RM and the businesses*
  - *Strategically consider risk-reward tradeoffs*
- ✓ *Aggregate level risk tolerances are expressed holistically in terms of impact on earnings, volatility of revenues, capital, work force retention and reputation*

# Implementing the ERM



- ✓ *RM is involved at the outset in the budgeting and planning process*
  - *CRO participates at strategic planning sessions with senior management and/or the board*
  
- ✓ *The institution appoints a senior risk managers individuals with significant business experience and who may also have advanced degrees*

# Implementing the ERM



## ➤ *Risk aggregation and quantification*

- ✓ *In association with business units, managers decide upon appropriate global risk metrics that effectively and accurately assess the organization's risk exposures*
- ✓ *The company periodically provides senior management with a coherent picture of the risks to which the firm is exposed at any given point in time*



# Implementing the ERM



## ➤ *Risk disclosure*

- ✓ *Articulate to senior management all risks through clear high-quality internal reporting*
  - *Hold weekly, monthly, quarterly meetings with RM, the business, and senior management to discuss risks*
- ✓ *Ensure the board is well-engaged with ERM initiatives and is to some degree setting the tone*

# Challenges in Implementing Risk Mgt



Improving efficiency	<i>Achieving greater efficiencies in the risk and control processes, improving coordination, unifying and streamlining approaches.</i>
Challenging regulatory environment	<i>Ever changing regulatory demands, high degree of regulatory scrutiny, variation of regulations across jurisdictions, preparing to operationalize / compliance with Basel II</i>
Keeping pace with business growth and complexity	<i>Rapid business growth, competitive intensity, M&amp;A activity, global expansion, increasing product complexity, increasing customer expectations.</i>
Attracting and retaining talent	<i>Shortage of good talent in competitive markets, especially in specialized areas or emerging geographies</i>
Managing Change	<i>Dealing with people and organizational issues as new processes demand new methods of work</i>
Fear of compliance failures and emerging risks	<i>Fear of compliance failures despite best efforts, due to human error or unanticipated events; identifying and preparing for future risks.</i>

# Implementing Risk Management



## ➤ *Technical and quantifiable risks*

- ✓ *Clear company-wide definitions and classifications*
- ✓ *Consistent risk-measures*
- ✓ *Clear limits for risk tolerance*
- ✓ *Risk-specific criteria*

# Management of Risk 3-Lines



*Functions that own and manage risks-1st Line*

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*Functions that oversee risks-2nd Line*

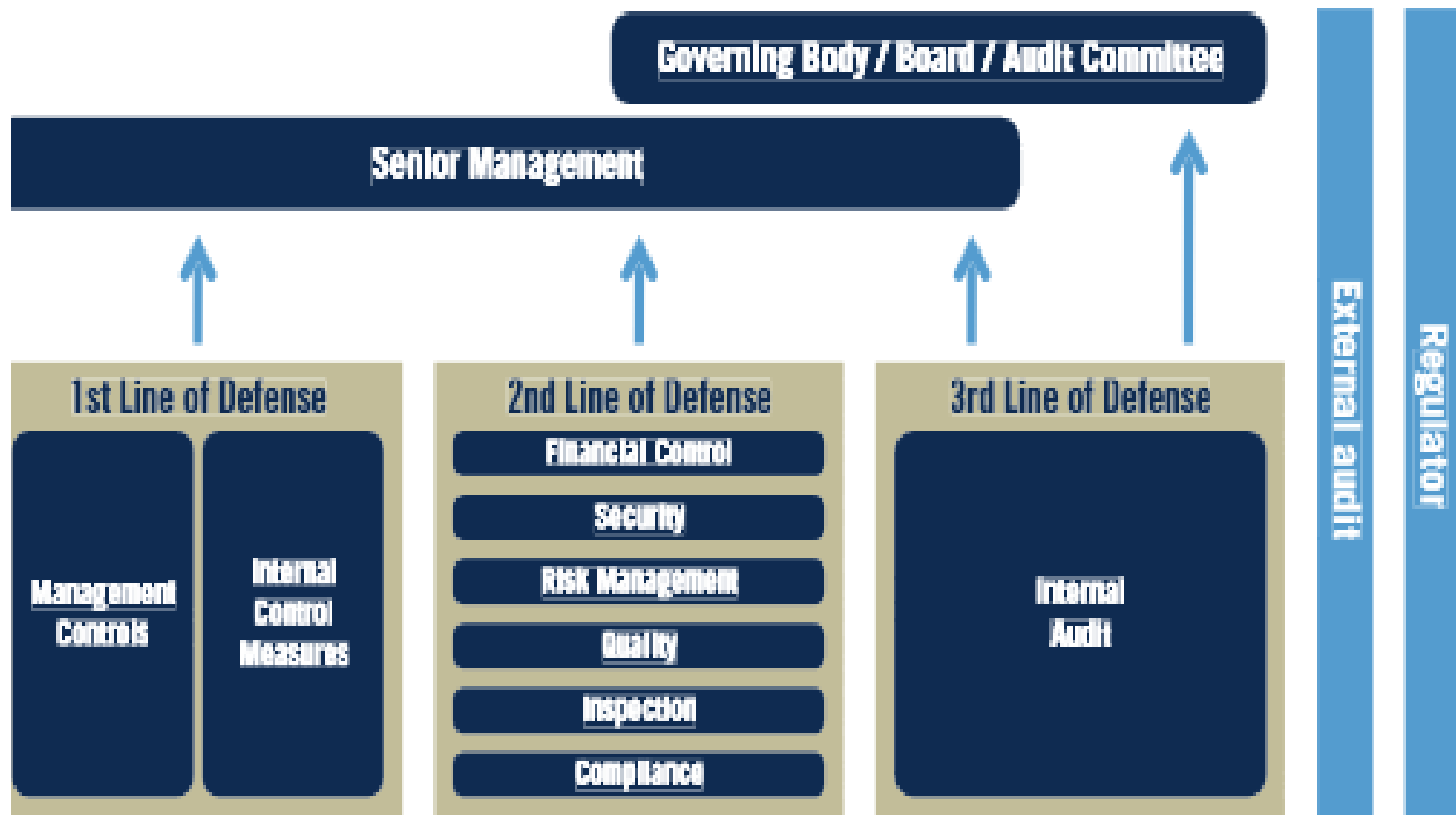
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*Functions that provide independent assurance-3rd*

*Operational managers develop and implement the organization's control and risk management processes and must be adequately skilled to perform these tasks within their area of operations*

# 3 lines of Defense

## The Three Lines of Defense Model

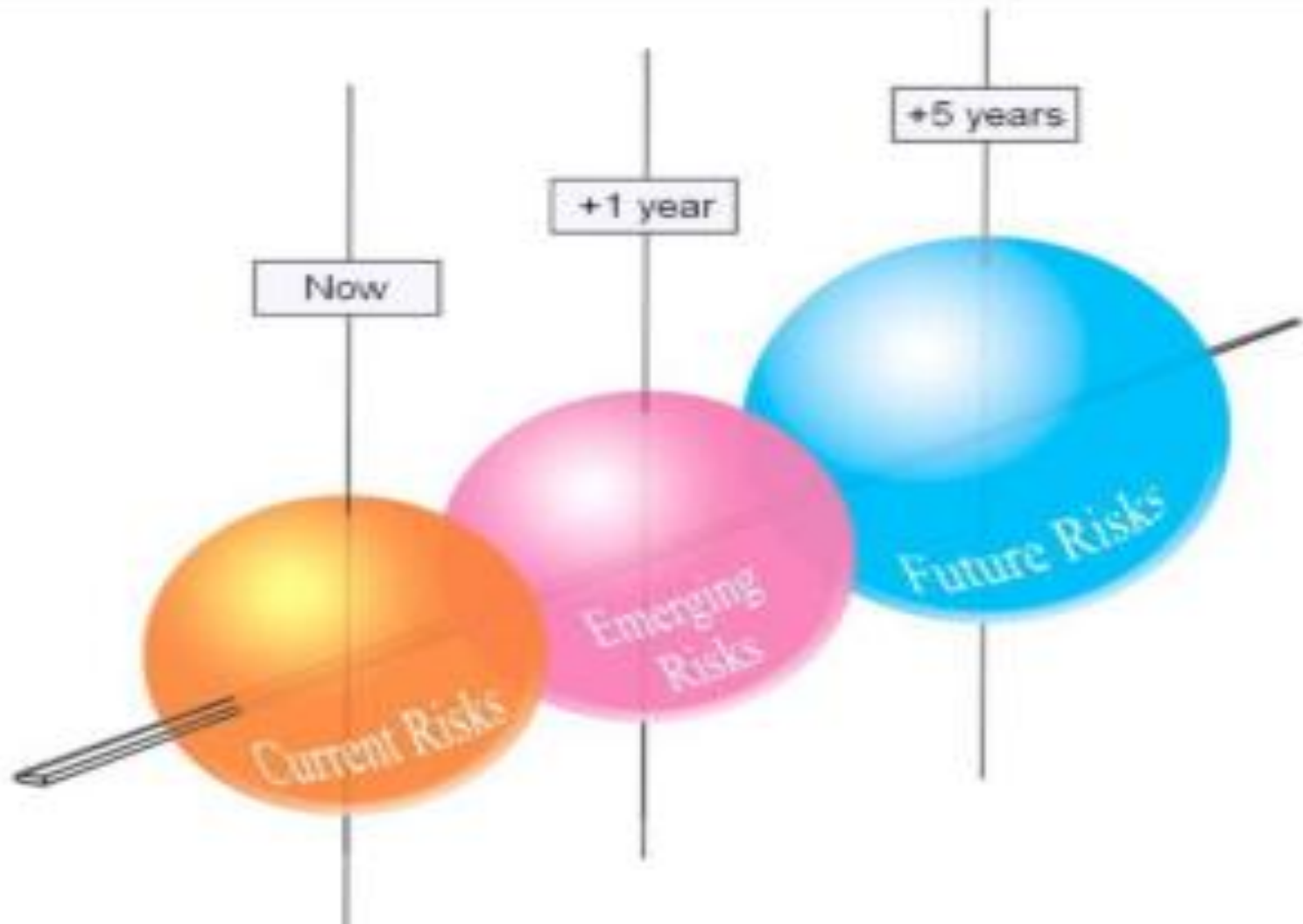


# Management of Risks



1. *Training and Mapping to Performance-K.P.I*
2. *Setting the right goodwill and tone at the top*
3. *Incidence and Escalation process*
4. *Involvement at the onset*

# Management of Risks



# Interactive Session

