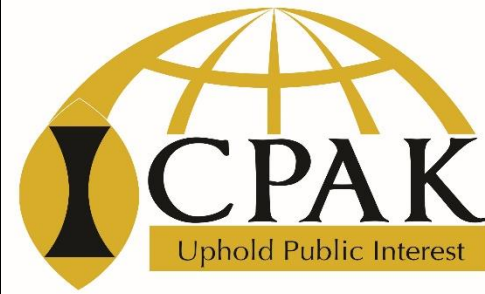# Regulatory and Market Trends Influencing Risk Culture

Presented by Edwin Odede
16 August 2018

What is risk culture?

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What are the aspects of risk culture of an organisation

Risk Culture

Tone at the Top	Governance	Decisions	Competency

| Risk Leadership	Dealing with Bad News	Accountability	Transparency	Risk Informed Decisions	Reward	Risk Resources	Risk Skills

Recent market events

1. Demolition of buildings on riparian land within Nairobi

2. Recent prosecution of senior government and corporate leaders

3. Technological developments – e.g. blockchain, digitisation of government records

3. Geopolitical risks – USA, Tanzania etc

Basel II
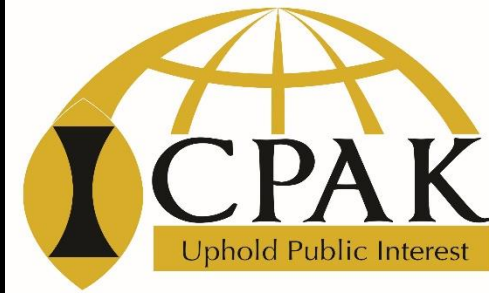
Basel II

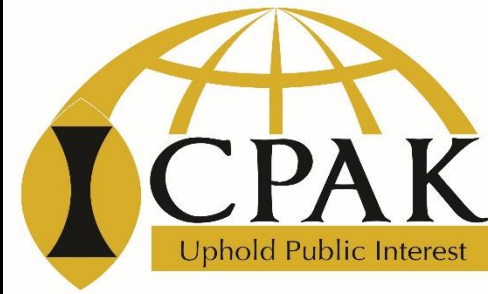| Quantitative Requirements	Governance & Supervision	Disclosure & Transparency
• Calculation of Risk Weighted Assets and capital requirements • Definition and eligibility of capital	• Supervisory Review Process (SREP) • Internal Capital Adequacy Assessment Process ICAAP)	• Standard reporting of quantitative and qualitative information
Pillar I - Calculate	**Pillar II - Use**	**Pillar III - Report**
• Credit risk – special treatment for securitisations • Market risk • Operational risk • Option for risk weighted assets calculation - standard approach Vs internal models	• Strong risk management and governance • Internal capital targets above Pillar 1 requirements, that are in line with the bank's risk profile and control environment	**Allow market participants to assess details regarding** • Scope of application • Risk exposures • Risk assessment process • Overall capital adequacy

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Solvency II

Solvency II

| Insurance risk	**Pillar I Quantitative Requirements**	**Pillar II Supervisory Review**	**Pillar III Market Discipline**
Market risk	• Reserving	• Quantitative requirements	• Transparency
Credit risk	• Regulations on minimum capital requirements	• Regulations on financial supervision	• Disclosure requirements
Liquidity risk			• Competition related elements
Operational risk	• Investment	• Capabilities and powers of regulators, areas of activity	

Conduct risk
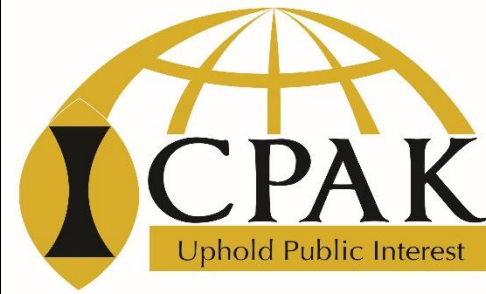
The Act defines corruption as:

- bribery

- fraud

- embezzlement/ misappropriation of public funds;

- abuse of office;

- breach of trust; or

- an offence involving dishonesty—

    - in connection with any tax, rate or imposed levied under any Act; or

    - under any written law relating to the elections of persons to public office
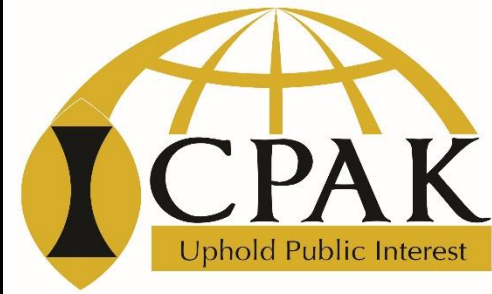
Anti-money laundering regulations..
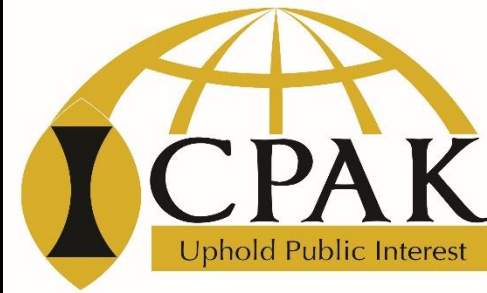
What measures should we put in place?

1. Identification
2. Monitoring
3. Reporting

Cybercrime
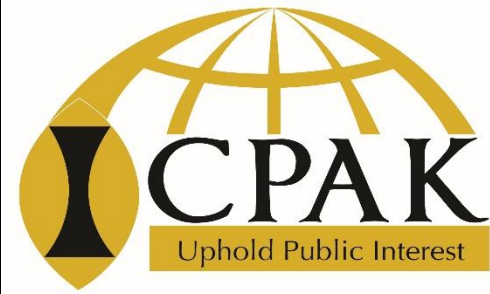
Key drivers..

1. Increasing number of attacks
2. Increasing sophistication of attacks
3. Increasing number of attackers
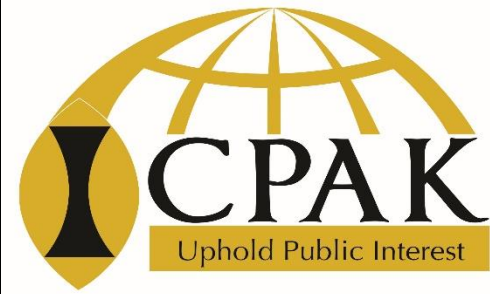4. Availability of hacking tools and software

CYBER THREAT LANDSCAPE

Tax legislation

Key drivers..

1. Kenyan tax law

2. Foreign Account Tax Compliance Act (FATCA)

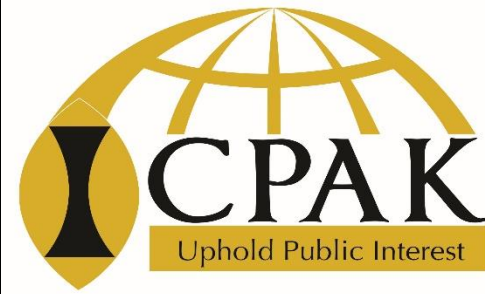3. Other regional tax legislation

4. Tax Information Exchange Agreements

Data privacy

Key drivers..

1 Computer Misuse and Cybercrimes Act

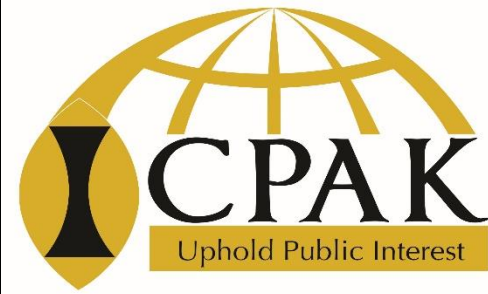2 General Data Protection Regulations (GDPR)

International Financial Reporting Standards (IFRS)

IFRS 9 Financial Instruments and IFRS 17 Insurance Contracts

- Key elements driving risk culture include:
  - Model risk management
  - Model risk reporting
  - Model and data governance
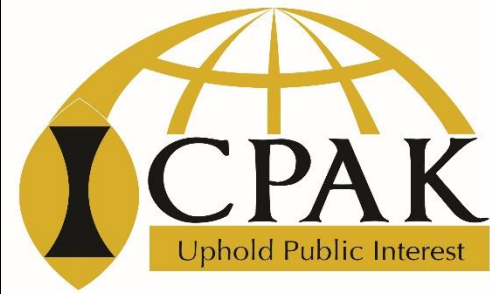 - Model inventory
  - Data quality

International Financial Reporting Standards (IFRS)

IFRS 9 Financial Instruments and IFRS 17 Insurance Contracts

- IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

- IFRS 17 recognizes that insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period.
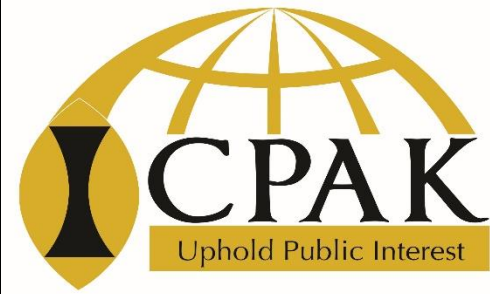
Conduct risk

Anti Corruption and Economic Crimes Act No 3 of 2003

This Act drive certain elements of business practice and risk culture:

➢ Conflicts of interest

➢ Remuneration

➢ Sales practice

➢ Corporate culture

Social media

Why should social media impact risk culture?

1. Social media channels and content can open up breaches of security.

2. Something gets posted you don't want others to see.

3. Too much power wielded by an individual.

3. Not having the ability to localize your message to a particular audience.

Other key considerations driving risk culture…
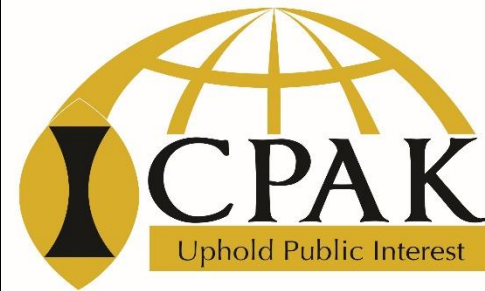
Compliance – ever changing compliance universe

① Regulatory (e.g. UFAA)

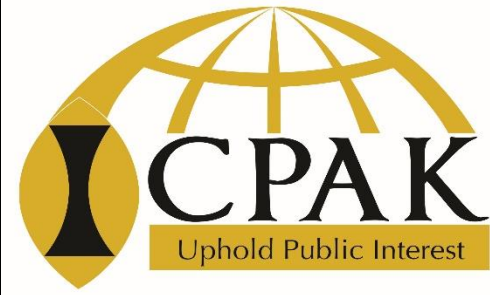② Legal and contractual obligations

③ Organisational policies and procedures

Third party risk management

1. Business continuity
2. Data and privacy risks
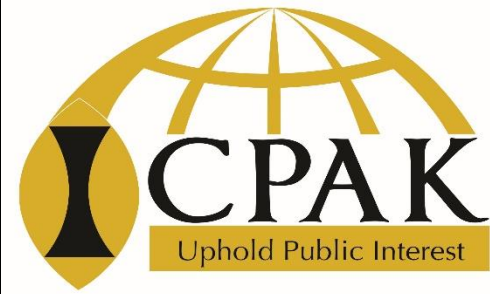3. Reputational risks
4. Social media footprint
5. Conduct risk

Other key considerations driving risk culture...

The power of NOW..

1. AirBnB

2. Facebook

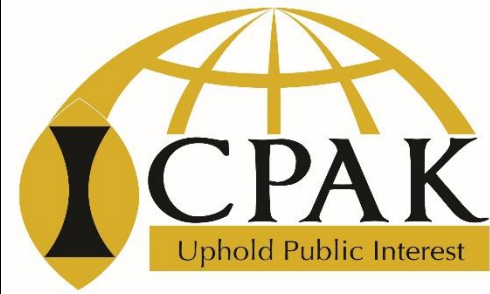3. Uber/ Taxify/ LittleRide

4. Netflix

In conclusion…

Consumers are becoming the ultimate regulators..

Risk management cannot be a "check box" activity if you want to succeed..

Staff and business partners must adopt and practice a sustainable and positive risk culture..

Business leaders must have the right risk mindset and lead from the front..
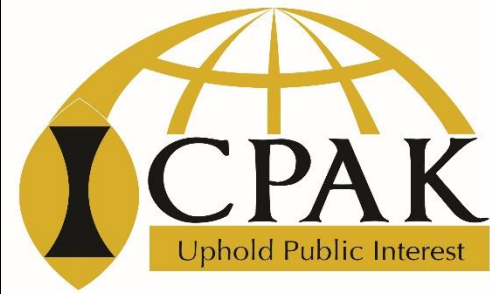
In conclusion…

The business landscape is only getting more competitive, therefore the organisations that are able to take more informed risks, drive firm-wide compliance, and demonstrate better governance will be the ones who lead with enduring value today, and into the future.…
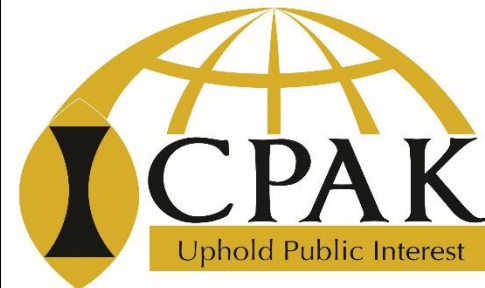
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In conclusion...
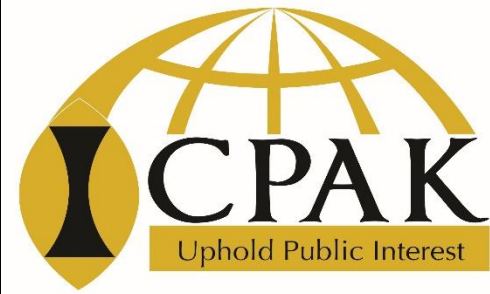
Risk in the future will be about fresh ideas and perspectives, innovating, as well as a high degree of leadership.

Q&A

Thank You

Implementation of new standards: Board oversight

Key decisions and interpretations of IFRS 9

1. What plans are in place to conclude on key decisions, build and test necessary models and infrastructure, execute dry/parallel runs and deliver high quality implementation by 2018?

2. What are the key accounting interpretations and judgements and why are they appropriate?

3. How will implementation decisions be monitored to ensure they remain appropriate?