

## ERM – Doing it for real

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## Contents

- Background to ERM within RLA
- What ERM means to RLA
- Key steps in the ERM development process
- Review of what's gone right/wrong
- Next steps in the process

## Background to ERM within RLA

As at March 2004:

- No ICA team
- No Risk function
- Very limited risk information available
- Low profile Internal Audit function
- Large, centralised Compliance function

## What ERM means to RLA

- Consistent approach to risk (and responsibility for risk) throughout the business
- The framework should be an enabler within the business
- Provide appropriate and useful MI to all levels of the business
- Strong alignment with business objectives
- "Enterprise" = "breadth" + "appropriateness"

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## Key Lessons Learned

- No single key activity
- Requires long-term Executive support
- Cannot be done overnight
- May require significant cultural change throughout the business

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## Key Step – ICA and Risk together

- Specifically ICA not treated as an actuarial function
- Corporate Risk reports to CEO
- Acts as independent check on RBS
- Ensures enough resource available
- ICA sits within Group Assurance
- ICA will ultimately be embedded within the wider risk universe

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### Key Step – Risk Process

- Driven by objectives
- Workshop-based followed by risk owner discussion
- Now moving towards assisted self-certification in some areas
- Inclusive at all levels of the business
- Clear targets and deadlines
- High visibility of planned risk mitigations
- Sign-off by Audit Committee

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### Key Step – Risk Measurement

- Simple scales used in workshops
- Detailed scales used with risk owners
- Multiple dimensions for impact score
- Single risk score used to rank risks
- Consistency with Internal Audit
- Consistency with ICA parameters
- Sign-off by Audit Committee

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### Key Step – Risk Appetite

- Series of statements relating to acceptable risk levels
- Covers both the overall risk profile and individual risks
- Actively used by risk owners
- Will need to evolve as risk maturity increases
- Sign-off by Audit Committee

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### Key Step – Risk Steering Group

- Made up of senior managers to represent the business
- Provides 2-way communication between Risk and the business
- Important driver of risk awareness and visibility
- Role of this group may expand to cover wider group assurance issues

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### Reasons for success of RSG

- Tightly-defined objectives
- Strict reporting requirements for attendees
- Attendees report back to senior management teams
- No Executive involvement

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### Key Step – Group Assurance Forum

- Consists of the department heads of the various group assurance functions
- Attended by two Executives
- Aimed at getting the group assurance functions working more closely and more efficiently
- Role of this group needs to become more operational

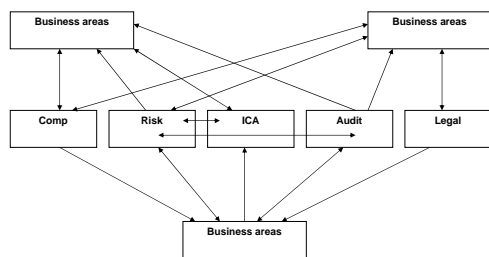
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## Reasons for failure of GAF

- Objectives not tightly-defined
- No reporting requirements for attendees
- No external reporting for attendees
- Executive involvement

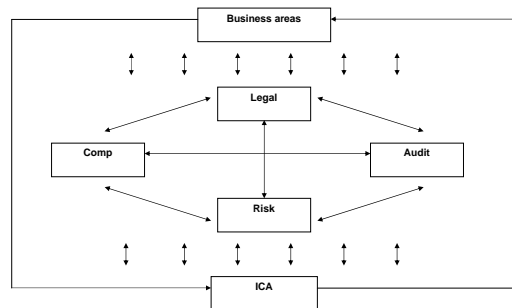
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## Previous (current?) framework position



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## Ideal framework position



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## Key Step – Aligning risk register & ICA

- ICA indicators/amounts held in risk register
- Risk register holds all types of risk
- Strong emphasis on quantification of risk
- Seen as a key communication and management tool
- Proving to be a significant challenge

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## Problems aligning ICA & risk register

- Main difficulties in Operational and Strategic risk
- Lack of loss data
- Lack of available practical modeling techniques
- Immaturity of risk information from the business
- Correlations and repetitions

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## Key step – Reporting risk information

- Usable; appropriate; pro-actively written
- Tailored for different layers of the business
- ICA-focused where appropriate
- Mixture of KPI's and detailed risk information
- Avoidance of “nebulous”

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## Main reporting items

- Performance of Risk function
  - Workshop progress
  - Business feedback
- Performance of business
  - Completed risk information
  - Progress against risk mitigations
  - Info on deferrals/delays
- Full risk information at appropriate levels

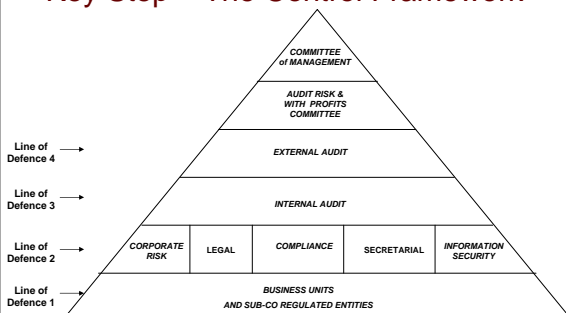
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## Improvements to reporting

- Coordinated risk output from Risk, Audit and Compliance
- More detailed ICA information
- Trend analyses on company risk profile
- Automation of the reporting process
- Better consistency across the risk register

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## Key Step – The Control Framework



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## Uses of the “pyramid”

- Helps improve focus within the “1<sup>st</sup> line”
- Gap analyses of the control functions
- Gap analyses of the control forums
- Helped to raise the profile within the business
- Useful reference for business decisions

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## Key Step – Risk and Audit together

Background:

- Limited contact between Risk and Audit
- Inconsistent messages to the business
- Different basic risk information being used
- Poor profile of the Audit function

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## Reasons why it works

- Functions remain separate within one department
- Independence maintained with suitable reporting line
- Strongly aligned processes now in place
- Activities based around the risk register
- Business view of Audit now “softened”
- Improved profile of Audit as a result

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### Risk function activities

- Identify risks through a series of risk workshops
- Categorise each risk for probability, impact and owner
- Identify a risk owner for each risk
- Agree risk mitigation plans with the risk owners
- Agree key risk indicators to monitor risk incidence
- Produce risk register for use in the business

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### Corresponding Audit function activities

- Provide expertise at appropriate workshops
- Suggest revised classifications or risk owners based on audit evidence
- Assess the processes and controls in operation
- Monitor suitability and effectiveness of key risk indicators
- Independent check of completeness and accuracy of the risk register during audit work

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### Key Steps - Other

- Execs and senior managers have a specific objective around risk management linked to bonus
- Each business unit senior management team has a standing risk agenda item
- New operating model being developed in line with the control framework
- Corporate standard for projects and initiatives – risk sign-off

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## Next Steps

- Get the Corporate Risk department working better with Compliance
  - Processes aligned
  - Consistency of approach
  - Better combined risk planning
  - Common risk information
- Revise the risk governance forums
- Complete aligning ICA and risk register
- Move from embedding process to embedding culture

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## Comments and questions

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