



Improving the risk governance process

Bill Schlich and Hank Prybylski expound on how and why an organisation-wide view of risk is still an aspiration for many banks

Efficiently managing risk on a global scale, although a goal for many financial institutions, remains an aspiration for the world's largest banks. That was one of major findings of a recent survey of 48 C-level executives from 36 of the largest global banks, which revealed that only 14% of respondents have a comprehensive view of risk across the various business lines and risk dimensions.

The inherent weaknesses in both institutional and industry-wide approaches to risk management within the banking industry have become increasingly apparent as the economic crisis has widened. Respondents to Ernst & Young's 2008 survey on risk governance agreed that siloed infrastructures; outmoded systems; disjointed, reactive reporting; inadequate predictive tools; and a dearth of interpretive, insightful risk analysis all contributed to the downfall.

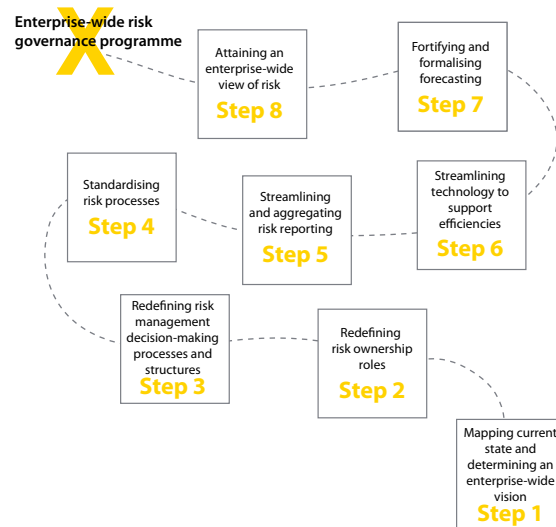
The extraordinary cumulative impact of these weaknesses has propelled the industry into action. More than 85% of the executives interviewed indicated that their banks are implementing a variety of projects designed to improve their risk governance processes.

There was widespread agreement among those surveyed that the discussion of risk must be elevated to the strategic level and not be viewed solely as an operational, process-improvement and transaction-oriented activity. Respondents widely concurred that their banks are taking a more holistic view of risk management across their enterprises. As one respondent stated: "We are doing more analysis of risk and paying more attention. Now risk has an important and equal seat at the table."

Companies are following similar paths in their efforts to build effective risk governance. The journey begins with setting the vision and progresses to the ultimate goal of achieving an organisation-wide view of risk. Roles and responsibilities, risk management structures and decision-making processes are being examined and redefined. Risk processes are being streamlined and standardised. Siloed and fragmented systems, still major barriers to organisation-wide risk management, are being addressed and changes implemented.

Reporting and forecasting, two important steps on the path to achieving a comprehensive view of risk across the enterprise, are taking centre stage as areas for improvement. All executives interviewed agreed that reporting and forecasting are critical to effective risk management, but few said they have successfully addressed either. Only 9% indicated that they have an enterprise-wide risk reporting process in place. Many executives described their risk reports as large "data dumps" that are difficult to review and absorb and are often unhelpful to the business decision-making process. And, while all agreed that the crisis has demonstrated a compelling need for more robust risk forecasting and stress testing, only 13% believe that they have a well-defined forecasting process.

Eight critical steps to an enterprise-wide governance programme



The changes required to institutionalise a strong risk culture are fundamental and far-reaching. Risk must become "everyone's business" throughout the organisation – from the front line to the functional areas. Responsibility and accountability for risk are intertwined as never before. All stakeholders from board members to business unit heads and their teams, must be more actively committed to identifying and mitigating risks.

While many of those interviewed remain preoccupied with front-line firefighting, some cautiously expressed the view that the crisis may ultimately prove beneficial on several fronts: it is forcing banks to regain control of their organisational structures, centralise risk activities and make instilling a risk-aware culture a true priority. They are hopeful that the crisis eventually will be remembered as a painful, but necessary, catalyst that drove fundamental, positive changes into the industry.



Bill Schlich
Global Banking & Capital Markets
Practice Leader
E: william.schlich@ey.com

Hank Prybylski
Global Financial Services
Risk Management Practice Leader
E: lawrence.prybylski@ey.com

An unabridged version of this article is available at www.ey.com/banking

The views expressed herein are those of the authors and do not necessarily reflect the views of Ernst & Young LLP