Banking Risk
Enhancing your enterprise-wide risk management framework
Can I align our compensation and remuneration structure with shareholder expectations, to promote and incentivise a consistent approach to risk taking?
Grant Thornton believes that risk management is an organisational capability, rather than an operational function.

What was once a regulatory and compliance-driven function, led by quantitative assessments, must now be a more proactive element of holistic, topdown business strategy.

The vastly changed and intensely regulated banking landscape, principally led by Basel III, has dictated that banks assess and review their risk frameworks.

Among the myriad industry standards and regulation that form the spine of an organisation’s risk management objectives, Grant Thornton believes that defining the strategic proposition behind a revised risk management framework is becoming an essential element of risk framework change.

With a renewed regulatory and political focus on banking, the implementation and maintenance of an effective, enterprise-wide risk management framework is a necessity. Increasingly, the need is to demonstrate how expected risk management standards influence whole bank behaviours.
The banking sector is undergoing a generational transformation in its relationship with the regulators. Forward-thinking CROs are adopting a proactive approach to this process. Regulatory mandates are governing internal change agendas, none more so than the increased rigour around risk and control framework requirements.

### Risk Ownership, Culture and Appetite

**Challenge:**
Allocate risk ownership and embed a firm-wide risk appetite in a less tangible environment, incorporating quantitative and qualitative risks.

**Industry Best Practice:**
- Definition of risk-aware business strategy
- Capture and measure qualitative risks
- Incorporate future risk projections
- Allocate resources according to risk profiles
- Embed a common, firm-wide risk vernacular

### Risk Governance

**Challenge:**
Establish a governance structure that incorporates an understanding of the variants between group and divisional risk structures.

**Industry Best Practice:**
- Embed a Board-led, top-down risk governance model
- Establish and leverage standardised, firm-wide risk management practices
- Institute a holistic ERM framework

### Risk Transparency

**Challenge:**
Categorise and communicate intangible risks and quantify potential impact, particularly in relation to forward-looking risk assessment.

**Industry Best Practice:**
- Conduct comprehensive stress-testing
- Apply intelligent rating methodologies
- Review existing shortcomings
- Establish firm-wide risk taxonomy

### Risk Processes

**Challenge:**
Embed risk-related controls in everyday business processes and procedures. Determine the risk-reward impact of strategic decisions on day-to-day business activities.

**Industry Best Practice:**
- Develop traceable and tangible process control points throughout business processes
- Conduct regular risk and control monitoring processes
- Clearly document and communicate standardised business processes
Although the remit and scope of risk management frameworks have become more clearly defined over the past few years, the regulators have not, as of yet decided to specify a defined framework that banks must use. Nevertheless, a stronger stance is being taken on the level of capital banks are required to hold, in addition to how they treat their customers and clients. The ability to clearly articulate risk management culture within the risk universe, coupled with the capability to evidence how material risks are managed in an operational, enterprise-wide framework is a prevalent point of scrutiny.
Holistic Enterprise Risk Management

Effective risk management in the banking sector is increasingly a matter of risk management culture, in addition to the traditional questions of quantification, risk appetite and governance. Historic organisational approaches are ever more ineffective. Therefore, when assessing an existing risk management framework, it is essential to adopt a holistic approach, which views risks as interdependent.

Fundamental Components of an Enterprise-wide Framework

Recent trends in ERM have led to an increased focus on transparency, particularly the need to assess both qualitative and quantitative management information to build an accurate risk profile. Moreover, the importance of firm-wide governance and culture have added a new dynamic to historic risk frameworks. Assessing intra-firm risk in a holistic manner has ensured that the notion of risk management has become more ‘enterprise-wide’ than ever.

<table>
<thead>
<tr>
<th>Risk Management Fundamentals</th>
<th>Objectives</th>
<th>Deliverables</th>
</tr>
</thead>
</table>
| Ensure On-going Compliance   | • Satisfy regulatory requirements  
• Implement industry best practice | ✓ Quantitative and qualitative Regulatory Reporting framework (ICAAP, ILAA, Basel)  
✓ Demonstrate industry best practice across business (KYC, Monitoring, Compliance) |
| Establish Organisational Governance | • Define C-Suite roles and responsibilities, including accountability for key risks  
• Establish firm-wide governance structures, ensuring an enterprise-wide approach to risk management | ✓ Clearly documented and communicated C-Suite role descriptions, e.g. CFO – accountable for oversight of firm-wide risk management  
✓ Plainly define Board responsibilities and accountabilities  
✓ Documented and communicated firm-wide reporting lines and escalation procedures  
✓ Defined risk ownership across management levels |
| Mitigate Potential Risks      | • Ensure both quantitative and qualitative risks are monitored and assessed, maintaining an economic and an accounting perspective | ✓ Implement integrated, enterprise-wide risk frameworks, controlling and monitoring existing and future risks  
✓ Maintain balanced and informative, firm-wide risk assessment logs, with balanced quantitative and qualitative assessments  
✓ Increase risk transparency, including effective use of informed risk models, VAR assessment, review of economic capital and regular stress-testing programmes |
| Embed a Risk Aware Culture    | • Define and embed a firm-wide risk culture  
• Establish a risk culture that encompasses the general awareness, attitude and behaviour of all employees and representatives  
• Implement an incentive system that cultivates a risk-aware culture, allied to the Firm’s risk appetite | ✓ Communicate a clear and tangible risk appetite  
✓ Improve firm-wide understanding and appreciation of risk and risk culture, delivering risk-aligned incentives and risk-adjusted performance measurement  
✓ Provide appropriate firm-wide people development programmes, enhancing risk awareness, knowledge and understanding |
Does the risk management framework adequately address conduct risk appetite and approach?

<table>
<thead>
<tr>
<th>Risk Management Fundamentals</th>
<th>Objectives</th>
<th>Deliverables</th>
</tr>
</thead>
</table>
| Safeguard Profitability      | Establish and embed an integrated approach to risk assessment and management to drive growth and profitability through **effective decision-making and seizing opportunities** proactively | ✓ Streamline and embed transparent and sustainable transfer pricing mechanisms  
✓ Deliver optimised asset-liability management processes  
✓ Establish robust processes to support effective deal-structuring, portfolio management and risk-based pricing |
| Inform Strategic Decision-making | Ensure decision-making processes are defined appropriately and countenanced by accurate, informative and relevant management information  
• Embed risk management frameworks to provide a meaningful contribution to a more **risk-informed decision-making process**, including risk-return assessment | ✓ Develop a targeted board and management information structure, enhancing transparency, providing support and embedding early warning measures  
✓ Enhance first line of defence, addressing effectiveness of risk and control indicators and adding appropriate training measures and incentive models  
✓ Ensure an integrated risk perspective exists, comprising risk, finance and capital functions |
| Promote Sustainable Growth   | Match the Firm’s growth objectives and strategic goals to the risk profile, incorporating wider market risks and economic foresight | ✓ Implement a flexible and scalable risk framework that can adapt to internal and external dynamics  
✓ Ensure risk frameworks, appetite and profiles are forward-looking, anticipating internal and external demands  
✓ Improve balance-sheet management, thus reducing capital held, de-leveraging and improving liquidity |
How Grant Thornton can help

Through a combination of our knowledge of the UK banking sector and a detailed understanding of the risk environment, we are able to assist firms in delivering practical solutions to meet specific enterprise-wide risk challenges.

We provide guidance and assurance to guarantee that these changes not only allow firms to capture and analyse risks, but are also delivered holistically, in line with the firm’s overarching business ambitions.
Credentials

FTSE 100 Bank
Management, Governance and Culture Review

The challenge: We assisted the PRA and FCA in their investigation into the causes of the failure of HBOS. We conducted a thorough review of the shortcomings in management, governance and culture that contributed to its demise. Moreover, we evaluated the potential impact CRD IV standards may have played in mitigating identified risks.

The benefits: The client gained a unique understanding of how to identify sub-optimal risk culture and an increased awareness of the UK’s forward-looking regulatory requirements. Moreover, the assessment of the firms’ capital adequacy provided further insight to the identified shortcomings, in addition to valuable foresight into the future application of these measures.

UK Clearing Bank
Review of Control and Management Framework for Market Risk

The challenge: Management was concerned with shortcomings in the metrics, monitoring and reporting of market risk. In particular, the way in which trading and concentration limits were set, communicated and monitored; providing an adequate second line of defence.

The benefits: Grant Thornton defined and established ownership and accountability for the control, monitoring and reporting of market risk, in line with regulatory requirements. This was achieved by consolidating a core set of source data to feed a user-specific dashboard. In addition, we agreed and embedded parameters by which indicators of market risk could be more effectively interrogated, principally using trader and desk-specific data.

Large UK Commercial Bank
Recovery and Resolution Plan Advisory

The challenge: The FSA was piloting the Recovery and Resolution Plan (RRP) regulations with the top six banks. The project was particularly complex because the regulations were new; however, Grant Thornton worked closely with the FSA Specialist RRP team in order to clarify the requirements.

The benefits: Grant Thornton drafted the RRP, partnering with our client to refine detailed requirements. Furthermore, we worked with the FSA, using insight from the requirements phase, to inform and refine the final regulations. The FSA commented that our assistance was invaluable and our final report was of high quality. Since then, we have worked with a number of institutions on their RRP plans, using this initial project as a benchmark for delivery.
Grant Thornton’s 4,500 UK employees within Advisory, Audit and Tax places us among the UK’s five largest professional services firms.

Our multi-disciplinary Financial Services Group uses its extensive knowledge of the banking sector to provide robust, independent and professional advice on today’s most important issues.

Our Enterprise Risk Management Group ensures our clients have access to the highest calibre individuals, with market leading industry experience and skills within the risk management arena. We count risk specialists, former regulators and ex-CROs among our experienced business advisors. This knowledge allows us to provide robust, independent and professional advice on today’s most important issues.

We take pride in the fact that we can view matters from a range of different perspectives.

Collaborative approach, quantitative output
We bring proven methodologies and processes which have been employed successfully across the industry. We adopt a highly collaborative and flexible approach, with a focus on:

- **accountability** – we establish buy-in and ownership from all parties involved to ensure we deliver genuine business benefits
- **quantitative outputs** – our methodologies are driven by thorough analysis and formulaic assessment to deliver genuinely useable solutions
- **efficiency** – we are nimble, deploying small teams that allow us to react quickly to change
- **sustainability** – we work to ensure all our deliverables offer long-term benefits and conduct a thorough handover of all knowledge capital.
This is what we do:
As one of the UK’s largest financial services advisory firms, we have conducted a wide range of engagements across the financial services and consulting spectrum.

**We have relevant experience**
We have deep and relevant experience across the financial services sector, particularly within capital markets and banking. We already work for many of the world’s largest banks, providing a wide range of consulting and advisory services. We understand this market and the challenges facing banks today, and will bring this experience to deliver the outcomes and assurance you require.

**We have strong brand values**
We pride ourselves on our independence and ‘telling it like it is’. We will provide you with robust advice and opinions, backed up by strong evidence. Where appropriate, we will make practical and workable recommendations to help you strengthen and develop your business. We always seek to work together with our clients to overcome business and IT challenges, delivering value-add solutions that provide longterm benefits.

**We know how to apply the rules**
Financial institutions are facing increasing scrutiny, both internally and from the Regulators. We help our clients interpret the rules published by local Regulators. In the UK, we have assisted the FSA to draft regulations (the better ones). We therefore know the relevant rules and requirements better than most and, by understanding what sits behind them, are able to take a proportionate and pragmatic view of how to apply them.

**We are credible**
We are credible and respected within the Financial Services industry, both by our clients and by the Regulators.

We have highly experienced, industry-leading experts across the sector and an excellent track record. As a result, most clients return for advice and support, knowing they will receive insightful, unbiased and valued solutions.
Contact us

Paul Garbutt
Partner
T 020 7865 2170
E paul.garbutt@uk.gt.com

Ewen Fleming
Partner
T 0131 659 8538
E ewen.a.fleming@uk.gt.com