

「SNAPSHOT」

LOADING KEYPASS

Unlocking the potential from
Non-Financial Risk Management
Frameworks

What are non-financial risk management frameworks?

Non-financial risk management frameworks, (including the coverage of; Operational, Financial Crime, Regulatory Compliance, Conduct and Reputational risks), provide an organisation with the structure, processes, methodologies, and tools required to understand and manage their risks and controls effectively.

These frameworks, defined by the second line of defence (i.e. Risk & Compliance teams) and executed by the first line of defence (i.e. the Business), are supported by underlying policies and procedures that enable an organisation to identify & assess, mitigate & manage, monitor and report their non-financial risks and controls.

Critical to the successful implementation and embedding of these frameworks are the defined risk governance structures and clarified risk management roles and responsibilities that underpin them.

Why are they important?

Non-financial risk management frameworks are both an obligation and an opportunity for organisations within Financial Services.

The effective management of non-financial risks is required to protect an organisation's capital; reducing the potentially significant financial and reputational consequences associated with them.

As risk threats, external shocks and regulatory requirements have evolved, the cost of control has proportionately increased - highlighting the need and opportunity for an efficient non-financial risk management framework. Whilst frameworks are often in place to manage specific non-financial risks, there is an opportunity to do this more effectively by creating an overarching Non-Financial Risk Framework.

The benefits from effective non-financial risk management frameworks include, but are not limited to, the ability to:

- Support **organisational objectives** and **reduce risk exposure**
- Provide clarity over who should own and be accountable for an organisation's risks and controls
- Lay the foundations for a strong and positive risk management **culture**
- Drive **consistent** risk management **practices**
- Facilitate the efficient **allocation** of risk management resources
- Improve 'risk-based' **decision making**

- **Reduce regulatory fines** and economic capital charges
- Protect customer, shareholder and regulatory **confidence**

What are the common challenges?

To successfully design, implement and embed an appropriate non-financial risk management framework is not without considerable challenge and, consequently, the benefits are rarely fully realised.

The sheer breadth of non-financial risks, combined with evolving and emerging external threats, means that the management of these risks is ever increasing in complexity and cost.

A framework must work for the organisation, complementing existing business processes and being both flexible to, and considerate of, conflicting priorities.

Common challenges that face our clients in Financial Services are:

1. Gaining essential **buy-in** and **support** for from the business.

Risk management processes, such as RCSAs and Control Testing, can place significant resource demands on first line teams. Without providing clear articulation of the purpose and benefits of these processes, and sufficient guidance for their execution, it is difficult to gain appropriate investment of time and resource.
2. Balancing external requirements with the need to make something that **works for the business**, avoiding non-value add **'box-tick'** processes.

To satisfy stakeholder demands, risk management processes can become complex - demanding a huge number of data capture points to support them. This complexity can come at the cost of stifling better **proactive** and **pragmatic** risk management - with individuals reluctant to challenge or divert from pre-established processes.
3. Remediating disparities in **risk expertise** to achieve framework understanding across the 1st Line of Defence:

Colleagues across the organisation are often unfamiliar with risk frameworks and their responsibilities within them, meaning they are unlikely to take appropriate risk management actions. Simple awareness of framework requirements will not be enough if risk and control owners, and their teams, do not have the knowledge to effectively carry out their risk management responsibilities.

4. Catering for varied and **increasingly complex business processes whilst dealing** with the breadth of **regulatory requirements**

As business processes evolve and emerge, the ability to understand and capture the risks and controls associated with them becomes increasingly unrealistic at a granular level. This challenge, that often manifests when configuring and scoping risk assessments and control testing, becomes exacerbated by the need to meet evolving regulatory expectations.

5. Creating **alignment across Non-Financial Risk** disciplines

The shifting focus on different non-financial risk threats, from Financial Crime to Conduct and Cyber, has led to the evolution of various risk specific frameworks and teams. With each having an opinion on how best to manage their risk type there is often divergence in risk management thinking. Defining a single framework requires alignment across these risk types and navigating inevitable internal politics.

How is the industry looking to evolve?

Non-Financial risk management continues to be of high priority within Financial Services, elevated by the fallout from COVID-19 and several major Cyber, Conduct, Technology and Financial Crime incidents.

To better manage non-financial risk and gain greater value from their frameworks, we see clients shifting their focus towards:

1. **Increasing the efficiency of risk management processes:** simplifying risk management processes and better aligning them to existing BAU processes - improving the adoption and effectiveness of frameworks and freeing capacity to more value generating activities
2. **Facilitating pro-active (rather than reactive) risk management:** exploring ways to increase automation and **incorporate artificial intelligence** to:
 - enhance controls performance
 - evolve leading risk indicators
 - drive forward looking risk assessments
3. **Delivering resilient and adaptable frameworks:** that can operate effectively whilst under business stress and through remote working scenarios. Framework processes and supporting systems & tools must be both accessible and operable under challenging circumstances, such as COVID-19
4. **Benefits (outcome) focused** frameworks: where tangible benefits in risk reduction and cost savings identified and evidenced

5. **Increasing First Line design input:** where those responsible for framework execution are more involved in the design of the framework and underlying processes

How to maximise the benefits?

A non-financial risk management framework can ultimately only be successful if the organisation's culture supports it. A poor risk culture can undermine even the best designed risk framework.

People can choose whether and how to comply with framework requirements and ultimately a culture which does not prioritise recognition of risk, or reward effective risk management, will not manage risk well.

Senior Managers should ensure they consider the risks relating to business decisions alongside commercial business cases and expectations for risk identification and assessment need to be clearly and consistently communicated, emphasising the benefits of open, transparent risk awareness.

To maximise the benefits from Non-Financial Risk Management Frameworks, and 'unlock their potential', the following considerations should be made across the development lifecycle:

Design:

- Involve (as much as possible) the first, second and third lines of defence. Whilst a balance is required to avoid 'over-design by committee', it is imperative that key stakeholders across the organisation have a voice and input. Without such input, the support for the framework will always be susceptible to challenge and resistance
- Avoid unclear or complex procedures; the simpler the procedure, the easier it will be to implement and embed. Guidance and training documents need to be clear and concise; telling the audience who needs to do what, when
- Tailor the framework to suit the organisation. Design needs to factor current business processes and the capacity and capability of individuals within the organisation; the framework must be proportionate and usable on a repeatable basis. The design must also ensure clarity of roles and pay attention to components that influence culture
- Create a common language and consistency across non-financial risk disciplines. The terminology and assessment approaches used across risk disciplines (such as the prioritisation of risks) must be aligned to support understanding and enable comparability for decision making



Implementation:

- **Generate awareness and understanding** of core risk management roles and responsibilities across the organisation. Regular and targeted **communication** and **training** is essential for ensuring that requirements are understood and appropriately implemented
- **Be realistic** over implementation targets and timelines. The capacity and capability of those who will implement the framework needs to be considered and understood. Overly ambitious targets and timelines will lead to a lack of understanding and poor-quality output, devaluing the framework. Over-stretching teams across the organisation will undermine support for the framework and limit its effectiveness
- Sell the benefits of positive, proactive risk management

Embedding:

- **Communicate regularly**, seeking to continuously raise risk management capability within the organisation, ensuring that there is enough awareness, knowledge and ability to effectively execute framework processes
- **Engage and support** counterparts across the organisation to provide sufficient guidance to those executing framework requirements, to provide challenge where appropriate, and to build relationships that will enable that 'challenge' to be effective
- **Seek feedback** and evolve the framework through a cycle of continuous improvement
- **Test** the level of framework embedding on a regular basis through a 'use test' around three core questions:
 - Is the Framework understood across the organisation?
 - Are the Framework policies and procedures used, followed and adhered to consistently across the organisation?
 - Does the Framework support decision making and help to drive a reduction in risk exposure?

How can BCS Consulting help?

BCS Consulting can leverage our extensive non-financial risk experience to provide industry leading framework solutions that are tailored to support clients to:

- Quickly design and implement frameworks aligned to their specific requirements
- Establish appropriate risk governance; defining policies and governance structures to help drive framework adoption and a positive risk culture
- Develop risk and control taxonomies and libraries; leveraging our own standard examples, to provide a common risk language that enables comparable risk practices and drives minimum standards
- Design and implement risk assessment approaches: from RCSAs to Scenario Analysis and Top & Emerging Risk processes
- Define fit-for-purpose risk management & mitigation practices that are aligned to risk appetite; driving efficiency of control and resource prioritisation
- Develop monitoring and reporting standards; using and defining key indicators and MI to inform management action and satisfy regulatory requirements
- Define roles, responsibilities and interaction models through a bespoke 'Three Lines of Defence' models
- Test Framework embedding through adoption and application of proven framework 'use tests'
- Support the selection, business requirements, design and implementation of Governance, Risk & Compliance software solutions as part of the framework implementation; leveraging our breadth of implementation experience across multiple NFR software vendors

Who should you speak to about Non-Financial Risk & Control Frameworks?

To find out more about how BCS Consulting can help with your non-financial risk and control frameworks, please get in touch with one of our key contacts listed below:

Robin Murray, Managing Director
Robin.Murray@bcscsconsulting.com

Robert Crewdson, Director
Robert.Crewdson@bcscsconsulting.com

Thomas Dickinson, Principal Consultant
Thomas.Dickinson@bcscsconsulting.com

Laura Davies, Senior Consultant
Laura.Davies@bcscsconsulting.com

SNAPSHOT

The publication's contents have been provided for information purposes only and every reasonable effort has been made to ensure the content's accuracy at the date of publication. Business Control Solutions plc accepts no responsibility or liability for any consequence resulting directly or indirectly from any action or inaction taken based on or made in reliance upon the publication's contents.

© Business Control Solutions plc 2020

This publication and its content is the copyright of Business Control Solutions plc and must not be stored, reproduced or disseminated in whole or in part except with the prior written consent of Business Control Solutions plc. Any derivatives of this publication shall be owned by Business Control Solutions plc.