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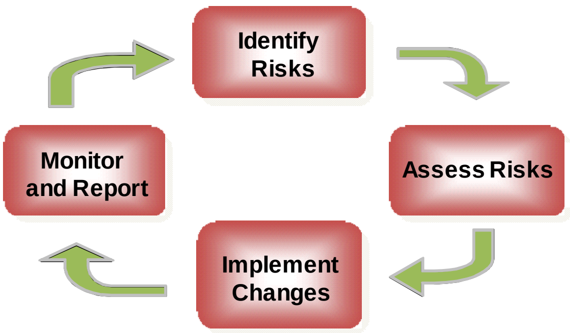
Enterprising Risk Managers

Summary
Despite the repeated request for more effective risk management by regulators, shareholders and society at large, few risk managers have changed their modus operandi. Many risk managers still struggle with the question how to strengthen their role in the bank. This hands-off approach is particularly noticeable among OpRisk managers. This may sound safe but it is self-destructive since it marginalises the risk function. As far as *running* the bank is concerned, the first line of defence holds the reigns of course. But when it comes to *changing* the bank, the second line of defence can take a far more active role. This newsletter outlines how OpRisk managers and project managers can become enterprising risk managers.

Dear reader,
The control cycle as depicted in the diagram to the right is familiar to all risk managers. Pictures like these have been used to explain the place of the various risk management programmes and to explain the risk managers' role. The diagram suggests coherence, a sure path to continuous improvement and how risk management helps being in control. All very pleasing characteristics. A closer inspection, however, reveals a crucial weakness to this simple diagram.



Run the bank

Of the four main focus points, (operational) risk managers typically cover only three. They spend a lot of time monitoring, identifying and assessing various risks, but they typically take a backseat when it comes to implementing changes. And not completely without reason. First of all, the business is by definition responsible and accountable for the risks in their processes, regardless of how risks are identified or by what means risks are identified. And secondly, since OpRisk covers all banking processes, many OpRisk managers feel out of their depth even as a sparring partner when they are confronted with a specific product or process. Often, they are simply no match for a seasoned line manager when it comes to *running* the bank.

But that does not mean that risk management can simply stand aside as the first line of defence gets on with actually managing risk. A pro-active risk management function requires that the second line of defence gets its hands dirty as well. The most logical way to do that is to be an active partner in projects aimed at c*hanging* the bank.

Change the bank

In projects that change the bank, the first line of defence is not alone in the drivers' seat. There are typically many stakeholders, multiple objectives, a range of interlinking issues to be addressed and many potential solutions to be explored. The skills required to manage that process are project management skills, rather than business skills. And although every project manager will have his preferences, a first class project manager can operate in any part of the bank, on any product and on any process. The fact that project managers and operational risk managers share the characteristic of cross-bank deployment has been underutilised by both groups.

The Operational Risk manager as a Project manager

The traditional role of risk managers in projects is limited to problem investigation, solution assessment and approval processes. But operational risk managers can take on a more pro-active role by performing some of the project management roles themselves and project managers would do well to take a more active interest in the risk management aspects of their work. There are six project management roles where OpRisk can play an active part. An enterprising operational risk manager can be the owner for the following tasks within projects:

- developing a high level planning;
- defining the scope, goals and deliverables;
- making a detailed planning;
- monitoring the implementation;
- executing quality assurance; and
- managing the project evaluation.

Note that the risk managers' role here is not restricted to monitoring, assessing or measuring risk only. Rather, the OpRisk manager can step into the shoes of the project manager to take the lead and be *responsible* for the delivery. This is where operational risk managers can show their grasp of the processes or product, understand the complexities of the choices and deal with the risks in changing the bank's processes.

Does this not transgress the risk manager's responsibility?

Those who see a strict division between the first and second line responsibility may take issue with risk managers performing these roles. In that view, risk managers would compromise their independence by becoming responsible for project delivery. There is indeed a fine line here. Risk management should not take over the business responsibility, but then again, neither should project managers. Risk managers should not become responsible for acceptance of the implementation, but then again, neither should project managers. To counter objections of risk managers taking on this role, we may also turn the tables and *add* a risk management role to project managers in a more explicit manner. That achieves the same objective of making risk management more pro-active.

Conclusion

Risk management plays second fiddle when it comes to *running* the bank, but should take an ownership role when it comes to *changing* the bank. One way to put that into practice is for operational risk managers to get deeply involved in projects by taking part of the project manager's role. As a start, banks should add (operational) risk management explicitly to the tasks and responsibilities of project managers.