GRAS Newsletter 62

September 2013

A Plain & Simple Risk Report

Summary
ORM reports should be fountains of information, eagerly awaited and true management tools. That implies that, in addition to updates on recent events, they should contain an overview from all control functions in the bank. That overview should focus on actions, deficiencies and their respective statuses, linked to KPIs whenever possible. This information must be collected from all control functions, since it hardly matters who has identified the deficiency, the action or the event.

Dear reader,
The occasional headline-grabbing events apart, most ORM reports do not make for very interesting reading. They can be dull to the point of nauseating, and worse can be uninformative or even confusing and misleading. Typically, the only section that gets proper attention is the list of recent events, which, however, seldom provides new or exciting information. Five circumstances aggravate this scant attention given to ORM reports. Some of these points can be fixed by better reports, some by better cooperation and some can only be managed through discipline.

What makes OpRisk reports dull	What makes OpRisk reports riveting
▪ More than any other control function, ORM relies on self-reporting, which usually yields rather mundane results.	Add observations, findings and examples from external sources to the risk report. Mere self-reporting is not a sufficient basis for a risk report.
▪ ORM seldom adds its own opinion to the self-reported data, which guaranteed that for the business, it contains almost no news.	Some opinion from ORM needs to be added, notably on the statuses of actions and deficiencies.
▪ The bulk of ORM work is slow and, in many cases, a drudge. No events, zero KRI breaches, X risks assessed, Y controls examined and a token action to 'Conduct additional staff training makes for a highly unspectacular reports to show.	Rather than focus on risk assessments (often with only marginally meaningful colour coded risks), the report should focus on events, outstanding actions on issues that lack sufficient actions. That way, the report focuses on what actually needs to be done rather than on the more abstract risks driving the actions.
▪ Attention is naturally drawn to Audit or Compliance reports, which cover also deal with operational issues. This is due to the fact that not closing an audit / compliance issue has far more serious consequences than failing to address an issue that was raised in an ORM programme.	Adding the *output* of Compliance and Audit programmes, i.e. the identified actions and deficiencies, the report becomes a *comprehensive* view of what is going on in the business, rather than a partial snapshot.
▪ Risk managers get all excited about risks: their rating, their classification, their drivers, their impact and their likelihood, etc. But even the most cooperative business manager is put off by too much of this risk-talk.	Risk owners get all excited about KPIs. Linking risks to KPIs may not win friends, but it will ensure undivided management attention.

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Grabbing the business' attention

Business managers keep a close eye on their achievements, as operationalised by KPIs. These KPIs are typically performance and revenue driven and Risk seldom plays an explicit role. From a recent survey[1], it appears that of the 250+ KPIs in 57 Retail banking related topics, exactly one KPI was directly risk related (Transaction Error Rate). And since KPIs are an instant cure for lack of management attention, *Transaction Error Rate* is likely to be first risk that a risk report will be closely examined for.

This suggests that, to get the management's undivided attention, we should link our risk reporting to KPIs. Also, we should stay away from our usual risk focus, and concentrate on what motivates and interests the first line of defence. Enter: a *Plain & Simple Report*.

A Plain and Simple Risk Report

Four sections make up a *Plain & Simple Risk Report,* all of which should have the business, if not the board and senior management, on the edge of their seats. The four sections are[2]:

I. What went wrong? (i.e. What are the Events)

II. What is the status of identified Actions?

III. What item[3] requires further action? (i.e. What lies outside the Risk Appetite?)

IV. What is the effect on KPIs?

The content of each of these sections is dynamic, and is intuitively clear to the business and management. Below you will find a brief discussion on each of the sections.

Content of Section I: What went wrong?

This is the element that most ORM reports already do quite well. They dutifully list amounts, dates, affected areas, case narrative etc. It is not uncommon, however, to see the narrative treated poorly, which makes it hard for those not directly involved to even understand what happened. Also, actions are not always identified with sufficient rigour. Those two aspects deserve more attention than they commonly get.

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[1] Lab Consulting Partnership Inc., KPI Collection for Retail Banking, February 2013. The report can be found at: http://opsdog.com/improvement/images/metrics_catalogs/banking/retail-banking-kpi-collection.pdf

[2] We have added colour coding to the sections, because no self respecting OpRisk report is complete without it. Also it livens up the page.

[3] Item can refer to *processes* requiring action, *products* requiring action, *business units* requiring action, *Systems* requiring actions etc etc, in fact any cross section of the bank.

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Content of Section II: What is the status of identified Actions?
Reporting on this can be improved in many risk reports. And yet this should be on the top of the agenda. The data covers the action detail, owner, planning and any threats to the completion. If the action is overdue, it requires a management response indication the consequences of failing to meet the target deadline and what is done to mitigate the effects.

Content of Section III: What item requires further action?
This section provides a link to risk appetite which will interest senior management. There may be concerns, deficiencies or known issues which are neither sufficiently controlled not have actions against them. Few ORM reports note this explicitly and thus become a good news show of everything that is being planned. Without section III this gives a misleading picture and will leave the readers of the report with a false sense of comfort.

Content of Section IV: What is the effect on KPIs?
Since KPIs are the prime motivators of managers, we must show to what extent the items of section I, II and III can affect their KPIs[4]. The content of this section starts with the KPIs and checks them against the losses, actions and identified concerns. The idea behind this is that by identifying the items that are expected to impact KPIs, we are automatically alerted to the remaining items with no KPI. But whereas the first line management may not get all that excited about things that do not impact their KPIs, the second line of defence should sit up and take notice. And in their report, they should make everybody take notice. Events and risks that do not impact KPIs are therefore, perversely, even more interesting from a risk management perspective than those that do.

Conclusion
John F. Kennedy is reputed to have said: *I don't think the intelligence reports are all that hot. Some days I get more out of the New York Times.* Our risk reports are in danger of resembling stale and dull intelligence reports. The way to liven up the risk reports is by making them directly relevant to the business as well as comprehensive in terms of coverage. That will take care of the unacceptable fragmentation regarding non-financial risks and it will shift the attention from mere risk reporting to active issue management and action tracking. And that is what banks need more than anything.

[4] Note that we are *not* talking about KRIs here. KRIs are indicators of risk, KPI are the direct performance measures and as such command a deeper respect.