

Risk Management Agenda 2018

Date: Jun 2018





Agenda:

- A1. Current environment
- A2. ICAAP Framework
- A3. Risk management – Question marks and Transformation Areas
- A4. Risk Management special focus: IT Risk



A1. Current environment in two words: Uncertainty and Complexity



At both global and local level

Fueled by Politics and Economics

Involving Cultural aspects and demographics

Amplified by Tech revolution



A2. ICAAP Framework – managing uncertainty and complexity



insures adequacy of internal capital to the risk profile

offers the tools for bank's decision & steering , next to the business plan, by optimal capital allocation based on a risk/return perspective

includes the forward looking component by testing its risk appetite in stress test scenarios , while applying results in the budgeting process

comprises the methodological framework for proper assessment of a bank's risk profile



A2. ICAAP Framework – managing uncertainty and complexity



linked to financial stability regulations but deeply rooted in the bank strategy /value creation through managing risks

normative perspective

- **multi-year assessment of the institution's ability to fulfill all of its capital-related regulatory and supervisory requirements and demands and to cope with other external constraints in ongoing basis over the mid term;**

economic perspective

- **Identification and quantification of all material risks that may cause economic losses and deplete internal capital; insure that its risks are adequately covered by internal capital**



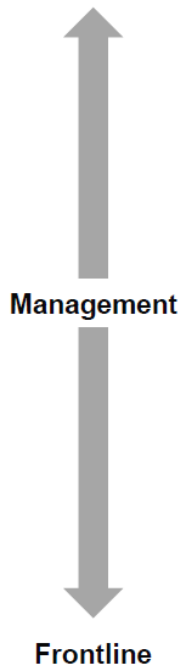
A2. ICAAP Framework– managing uncertainty and complexity



Board / Senior Management

Risk Appetite Statement (RAS)

- Qualitative & quantitative articulation
- Risk / Return



Policies, high level portfolio limits and controls

Risk profile reporting
(Key Indicator dashboards, risk map etc.)

Business line processes and decision making

Operational limits

KI monitoring

Hurdle rates

Breach management



A3. Risk Management - Question marks and Transformation Areas



Which new risks on the radar should be addressed first?

Are the present risk culture, processes and personnel structure still adequate?

How Integration of new technologies is to be done?

How to master the regulatory changes implementation without hindering the bank own personality?



A3. Risk Management - Question marks and Transformation Areas



Prerequisites for Risk Management Transformation

Putting the enablers in place:

1. Build unique data infrastructure to sustain Bank Steering and Analytics
2. Shared service centers with business units
3. Changing risk staffing strategy: focus on hiring Tech Savvy and Entrepreneurial talent
4. New way of working: agile
5. Collaboration with Regtechs/Fintechs

Digitization and Robotics for core risk processes

Changing customer expectations

- Automated decisions
- Tailored product & pricing

Better and faster risk decisions through the elimination of biases:

1. Digital Effort (focus on PI Digital Lending)
2. Increase automation in risk processes
3. Decision Rule Engine acting omni-channel and cross-client segments

Increased focus on certain Non – financial risk types :

1. Business Risk
2. Model Risk
3. Project Risk
4. IT Risk
5. Cybersecurity Risk



A3. Risk Management - Question marks and Transformation Areas



Advanced analytics and machine learning

Increase usage of technology and analytics as a risk muscle

- Machine learning & AI
- Big data
- Crowdsourcing

1. Transactional scorecard for non-retail lending (origination and Early Warning System)
2. Strengthen the oversight and risk anticipation capabilities

Regulatory Risk

Continued expansion of the breadth and depth of regulation. Expansion of regulatory framework challenges banks strategic degree of freedom

1. BCBS 239 - stronger data governance, metadata, data quality and reconciliation between Risk and Finance
2. IFRS9
3. MIFID, GDPR and many more

Balance-sheet optimization

Continued optimization within a regulatory framework

1. Macroeconomic Scenarios - Stress Testing & Credit Policy
2. RWA Optimisation



A4. Risk Management special focus: IT Risk



Strategic risk of IT

Forward looking, balanced and periodically updated strategy

- Embracing versus watching new technology
- Lack of integration between IT and business strategies
- Legacy technology

IT execution risk

Multiple IT projects running in parallel across multiple functional areas

- Budget overruns
- Delays or failure in delivery
- Lack of control over outsourcing

Running silosed IT infrastructure

- Numerous IT assets with lot of interdependencies
- Difficult to upgrade
- Digitalization risk

Data management risk

Data management aiming clients satisfaction, business decisions and regulatory requests

- Complex data architecture
- Data quality (redundancies, reconciliation and delayed data)
- Improper data classification
- Silosed reporting solutions
- Obsolete Analytics

Cyber security and incident response risk

- Cyber attacks and malware
- Data privacy breaches

IT resilience and continuity risk (including third party vendors)

- Focus on disaster recovery and continuity plan
- Third party capabilities

