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What Risk to Your Reputation is Worth Taking?

WHITE PAPER

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FINANCIAL INSIGHTS OPINION

Risk management is clearly all the rage. It is currently the top priority for bankers, regulators, politicians, shareholders and customers as something clearly went wrong with risk management during the years of excess and needs to be put right. Many are simply avoiding as much risk as they can, others are rebuilding their exposure to it (very successfully as seen by recent results) and some are weighing their options. But one thing is now certain — everyone agrees they need to be better informed about it, because reputation and survival, more than just business, are now at stake.

This paper discusses the complexity of the subject and its challenges and offers some guidance that financial institutions could consider as their internal debates look at how to improve this critical resource.

It is becoming accepted that managers need to understand the nature of the risk faced before deciding how much of it is appropriate for their industry or organisation. Once that critical definition is established it can be shared with others across the enterprise. More importantly, the process of risk optimisation can begin in order to firmly align commercial behaviour with risk appetite.

These actions can then form the foundation of the enterprise's business plan, created on the basis of informed decision making, rather than risking the consequences of ill-informed strategies, the flaws of which only materialise when the unexpected occurs.

Superior business information and the transformation of data in a timely fashion into actionable intelligence must be at the heart of the process. Leadership is required to make that happen.

Cultural Change

It is apparent that a fundamental change is taking place in the way in which financial institutions in general, and banks in particular, assess the risk they are prepared to take in order to generate profit. This process of change will be evolutionary rather than radical and will extend over the coming months and even years.

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Regardless of the specifics of credit, counterparty or liquidity risk, or the bigger pictures of enterprise, operational and reputation risks, it is the underlying culture that has to change. And yet cultural change is a notoriously difficult thing to effect, largely because it is so hard to define.

Nevertheless, risk is at the very heart of this industry and, if any good has come out of the recent seismic shocks, it is the acknowledgement that the understanding and management of risk now has to move to its rightful place at the centre of the business. Enforcing this cultural shift is no easy task and will require an ongoing commitment to the concept as well as investment in the tools required to ensure that risk analysis becomes integrated into the fabric of day-to-day business processes.

There is no "silver bullet" for a business practice as complex as this. But there can neither be an assumption of a return to "business as usual", nor regulatory impositions that straitjacket the industry to the point that it cannot deliver essential funding and investment services.

With hindsight, the calamities that have befallen the industry all look rather straightforward. "The fundamental point is again around transparency and knowing the risk of the instrument you are investing in. There is wisdom in the adage 'If you don't understand it don't buy it.'" Sound words from a speech by Verena Ross, the FSA's director of strategy and risk. But the bigger questions are, "Why has it taken so long to recognise this and why did so many institutions allow a culture that promoted ambiguity and ignorance to flourish?"

Restoring Confidence and Credibility

This paper is not intended to be a postmortem of the carnage that has left a trail of destruction across the global financial markets. Although some of that is inevitable, it is more an attempt to examine how the industry can redefine best practices in risk management to prevent it happening again. A complete change is required in the way in which the industry deals with risk, oversight and scrutiny. Only with such change can public confidence be restored in both regulation of the industry and its operating practices.

Quite simply, risk in all its manifestations has moved sharply up the executive agenda. No self-respecting executive of a bank or other institution that has the acceptance of risk as a fundamental part of its business model can now afford to ignore the consequences of being in the dark about risk exposures and other liabilities.

Too often in the past the management of risk across the business has been compartmentalised and consequently compromised. An over-reliance on quantitative models has ensured that risk analysis has lost its relevance within the business and disconnected risk from the profit-generating functions of the bank. Bridging this gap to optimise the value of risk intelligence lies at the heart of the cultural shift and the restoration of confidence in the industry.

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In short, fundamental business principles and working practices will have to change. Risk has to be managed "top down" and "bottom up" throughout the business — not just in one direction. Risk has to be assessed holistically and transparently, with every employee empowered by individual and collective responsibilities. Risk management has to become an integral part of a financial institution's culture — not a byproduct of it.

Too Big to Fail? Risk Awareness is the Key

As part of the heightened degree of risk awareness, at a systemic level there is also the debate about whether banks can be allowed to become "too big to fail". In a recent speech, Bank of England Governor Mervyn King said, "If some banks are thought to be too big to fail … they are too big." But he also stressed that banks must be aware of their own systemic significance, stating, "One important practical step would be to require any regulated bank itself to produce a plan for an orderly wind-down of its activities. That would provide the information to the authorities the absence of which made past decisions about the future of institutions difficult." In simple terms, he said, "Making a will should be as much a part of good housekeeping for banks as it is for the rest of us."

A recent survey by KPMG and the Economist Intelligence Unit (EIU) certainly supports the view that institutions need to take the risk assessment process more seriously, with 76% of bank executives surveyed believing that risk management continues to be stigmatised as a support function in their organisation. Furthermore, complexity has blurred lines of communication to the point where often, in the words of one CRO, "The left hand doesn't know what the right hand is doing any more." Unsurprisingly, the survey sees 85% of bank executives acknowledging that risk management procedures are being reviewed.

The Regulatory Agenda

These reviews cannot afford to be long and drawn out. Banks will have to start to initiate these changes immediately if they are to avoid being dictated to by the combined intent of regulators and politicians.

This intent is being driven by the efforts of the Financial Stability Board, mandated by the G20 meeting to coordinate a global response to monitoring financial stability and promoting and driving industry reforms. Given that these will have to appease the political masters, in turn answerable to rightfully angry (but often ill-informed) electorates, the industry risks being hamstrung by new working practices that could be counterproductive to real reform. In order to prevent this, the industry must take some initiatives in a responsible and considered manner.

Of course, the regulators themselves are under scrutiny over the role they played in this unfolding scenario. Wide differences in standards and oversight across different global jurisdictions serve to accentuate questions around whether or not regulators were either under-prepared or insufficiently qualified to deal with the complexities and challenges that the new age of banking was nurturing.

The rapid globalisation, of both the banking industry and the nature of the products and services it was developing, increased the complexities of their risk profiles. This was a major factor behind the Basel committee recommending the introduction of specific capital provisions for the greater risks emerging. How this will be developed and extended in the future will also be at the centre of intense debate in the months and years ahead.

There will also be more widespread adoption of these practices in the new world that will emerge. But this is also a debate that will see some financial institutions choose to forsake the potential profits that the complex new financial world offers. These institutions will argue in favour of a multitier approach to capital adequacy that sees more conservative business models rewarded with less capital allocation against lending that encompasses a lower risk profile.

However, those that wish to once again embrace more risk, and there will be many, must demonstrate a more effective and appropriate approach to risk management. In the opinion of Financial Insights, this refreshed approach must:

- Obtain a view across risk silos and strengthen enterprise decision making by improving the flow, visibility and access of data
- Ensure better understanding, organisation and utilisation of risk data
- Create an integrated risk management framework led by a risk appetite committee that embraces the business, the CRO and CFO teams
- Enhance the timeliness of risk communication across the enterprise to embed risk awareness into the fabric of day-to-day business processes
- Optimise the value of risk information to increase the intelligence and capital efficiency and agility of the organisation

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IN THIS WHITE PAPER

The focus of this discussion paper is to examine how financial institutions can transition to the more cohesive business model identified above, with risk awareness firmly integrated into standard operating practices. This does not require the implementation of monolithic new risk management systems to generate rafts of additional data; rather it demands making more effective use of existing risk information within the bank in order to promote:

- Greater insight
- Enhanced control
- Optimised risk-based performance

These three inter-related elements form the basis for much of this paper's analysis. Of course, there are a number of methodological issues for banks to address within the specialist framework of individual risk streams, but the intention here is to identify how risk awareness can be embedded into the business and used to enhance the way in which it functions.

This ultimately represents a fundamental shift away from traditional business models structured around profitability and P&L forecasting, to risk-weighted modelling and capital agility. If correctly applied these could not only show more accurate forecasts of eventual profitability, but deliver more profits.

The industry stands on the cusp of a dramatic change in respect to risk management, with a majority of financial services risk professionals no longer believing that the principles of risk management are sound. The Economist Intelligence Unit stated, after its survey of 334 senior risk managers, that, "The financial crisis has prompted a wholesale reassessment of risk management as institutions come to terms with a dramatically changed environment."

The complacency that was in evidence during the "golden decade" of excess has disappeared, along with the conviction that as long as a risk could be modelled and quantified then by definition it was being "managed". While some question the industry's appetite for change — and there is no doubt that many banks were blasé about risk culture prior to the sub-prime debacle — the fact is that conservatism will be trumped by the ability to leverage risk information intelligently to the benefit of overall performance. It is this that institutions must focus on.

This paper will suggest certain first steps and longer-term objectives that banks should be embracing. But the common theme is one of responsibility, which establishes the right balance between the various stakeholders. Equally, this is not just the establishment of a starting point, though that can be difficult enough, but often even more challenging is having the commitment to sustain it.

SITUATION OVERVIEW

So what exactly are we defining as the focus of essential risk management practices in a financial institution? According to the committee of European Banking Supervisors (CEBS), which effectively created the guidelines and working practices that form the backbone of Basel II, there are nine primary types of risk that financial institutions must consider when allocating capital weightings in their business models.

These are, in no particular order:

- Credit risk
- Market risk
- Interest rate risk
- Liquidity risk
- Operational risk
- Strategic risk
- Reputation risk
- Capital risk
- Earnings risk

Within these there are other subsets, but these are the primary considerations bank executives need to weigh to determine both the robustness of their organisation and its vulnerability to external and internal developments. Interestingly, these recommendations do not include "strategic risk" where losses might occur from poor strategic decisions taken by executives. Perhaps analysis of this nature must be left to the various executive committees, non-executive directors and ultimately the shareholders to decide. However, in order for those groups of interested parties to be able to take those decisions, it is critical for executive management to be provided with a clear analysis of risk factors that are identified by CEBS.

The Quest for Meaningful Risk Insight

- Obtain a view across risk silos and strengthen enterprise decision making by improving the flow, visibility and access of data

With so many risk types to manage across multiple lines of business and varying functions, it is unsurprising that in many financial institutions, risk management infrastructure has become so complex and dispersed. With multiple systems, models and processes in evidence, achieving meaningful risk insight across the enterprise has become almost impossible within an acceptable timeframe.

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The events of the past 12 to 18 months have shown the extent to which firmly entrenched risk management silos have hindered the ability to identify potentially catastrophic concentrations of risk at enterprise level. On the investment banking side, the inability of business units to collaborate effectively to assess overlapping risk factors is a clear demonstration of this. Moreover, the very fact that it took some financial institutions over three weeks to aggregate risk exposure to the stricken Lehman Brothers further suggests that silos have fundamentally undermined risk performance and still require more transparency.

Within the silos it is fair to say that there have been considerable advances in risk management. These advances have been assisted by more sophisticated technology solutions and modelling that have made significant progress in the identification, measurement and management of risk at granular levels. However, these advances count for little if they cannot be leveraged to produce a coherent picture of risk exposure across the enterprise.

The issues of aggregating risk up and out of these silos are certainly pertinent. Financial Insights has heard anecdotal evidence from banks indicating that the production of group risk reports can take over a month due to the manual nature of consolidating and aggregating data from individual risk streams and lines of business. This means that discussions at group risk level therefore become retrospective and reactive, rather than proactive. In turn the organisation loses its agility in dealing with changing business dynamics.

- Create an integrated risk management framework led by a risk appetite committee that embraces the business, the CRO and CFO teams

Quite clearly then a critical element of transitioning risk culture is to develop a more integrated risk management framework. While discussions of enterprise risk management (ERM) are often confusing due to a lack of clarity around the scope of ERM, integrated risk management represents a commitment to driving more timely and cohesive risk insight. The belief remains that banks have at their disposal the necessary information to develop a deeper understanding of risk, but access to and flow of that information has been impaired. Rectifying these impairments demands an in-depth understanding of both critical processes and data in order to share the necessary intelligence around the enterprise in an acceptable timeframe.

Of course, there is a substantial technological element required to open up information flow. However, equally important are the organisational changes demanded to ensure closer cooperation between critical functions within the bank. To this end, the establishment of a risk appetite committee that provides a forum for lines of business, finance and risk to discuss the wider impact of risk information is critical in setting the agenda. This high-level integration then sets the tone and platform for similar convergence further down the organisation.

- Ensure better understanding, organisation and utilisation of risk data

Inevitably a commitment to integrated risk management demands the support of robust data management — risk analysis is only as good as the underlying data that feeds it. Inaccurate or incomplete data can obviously mask the reality of the risks that are faced. A lack of understanding of the data that exists within the enterprise leaves any commitment to a better risk insight fundamentally flawed.

The current landscape does not look good in this regard. Evidence from our interviews with CROs and other bank executives indicates that many organisations are now stretched to the limit trying to deliver lists of belatedly detailed cross-examination questions coming from regulators since the second half of 2008. It is now clear from some of the more penetrating requests from regulators, finally alerted to the parlous state of some institutions' internal controls, that while the information to meet those requests certainly resides within the organisation, the capability to access it is severely restricted by the cumbersome and overly-complex nature of data repositories.

Such issues have plagued banking institutions for many years but have been brought sharply into focus by recent events. Data access has been shown to be confused, unreliable, untimely and entirely inappropriate to the agility that banking institutions must now exhibit to ensure their survival. Indeed, as one risk manager stressed to us, "It's all about delivering the right data, to the right people at the right time."

As suggested, a large part of the answer to the conundrum comes in the form of better organisation of data. But from an internal perspective firms also need to demonstrate a thorough strategic understanding of data utilisation. This infers being able to intelligently interrogate applicable data. Only through such a pragmatic approach and with intelligent understanding of risk factors and data use, can risk managers and the business be properly informed on a daily or even intra-day basis. Despite all the hype, from an enterprise perspective, risk management cannot be feasibly expected to operate in truly real time.

Risk data management practices have also been seriously undermined by the collapse of Lehman Brothers. As risk managers hurriedly tried to assess the impact of the collapse on their institutions, it became clear that the majority had little or no awareness of where key relevant data resided or indeed how it was being utilised. It is too simplistic to say that enterprise datawarehousing provides the answer to these problems. Without a clear understanding of data utilisation there is little hope of "delivering the right data to the right people …".

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- Enhance the timeliness of risk communication across the enterprise to embed risk awareness into the fabric of day-to-day business processes

Unfortunately, achieving better visibility of risk across the institution is only half the battle that financial institutions now face. The second part of the challenge is to disseminate that insight throughout the organisation in a format that is meaningful to employees and relevant to day-to-day business processes. Only when this is achieved will the prevailing risk culture be truly transformed and risk be appropriately controlled.

As a reflection of this, consider some further comments made by the FSA's Ross in the speech referred to at the start of this paper. Ross said, "Senior managers at firms that experienced larger unexpected losses also tolerated a more segregated approach to internal communication about risk management." She went on to say, "Some firms were found to have lacked an effective forum in which senior business managers and risk managers could meet to discuss emerging issues frequently."

The lesson here is stark. The communication of risk intelligence has to become more timely, more consistent and more relevant to the way in which the business operates. Only in this way can the entire organisation become stakeholders in the appropriate management of risk. In essence risk has to be made more accessible to those conducting business on the ground in order for it to become ingrained in decision making at all levels.

Generating such risk awareness depends to a large extent on the efficient production of risk reports through consistent and repeatable processes. Staff must be able to rely on the fact that they will receive accurate risk information in a timely manner and in a format that is applicable to the function that they perform. For instance, relationship managers need to be furnished with a comprehensive understanding of the way in which exposure to individual clients is changing on a daily basis. As another example, those involved in the management of client on-boarding need to be fully aware at all times of the institution's appetite for risk on an enterprise level, as well as the appetite in respect of specific individual clients. Simply providing a picture of the micro-environment is no longer sufficient, and employees need to understand the broader implications of the decisions that they make.

Only in this manner can the entire enterprise be unified in the management of risk. Risk should not be seen purely as a specialist function that is the sole preserve of "super-quants". Staff at all levels of the organisation need to take an active role in the management of risk, meaning that the risk function, finance and lines of business need to communicate with one another effectively and operate in harmony. Such a utopia will be driven by reliable access to relevant intelligence to allow for considered business decisions.

A Return to Common Sense: Reducing the Impact of the Tail

There is a school of thought that believes no matter how diligent or integrated the approach to risk management and how well risk is communicated, the fundamental flaws in the analytic methodology of risk management will always leave for a false sense of security.

This is known as "tail risk", based on the fact that standard risk-modelling techniques (assume to be applied correctly, using the right data and embracing the full liabilities of the business or market) will only ever assess risk up to 95% (or possibly 99% in some cases) of the likely outcomes. The so-called "tail" is therefore considered inconsequential and not worth factoring into risk management consideration. However, there are times (and the recent market conflagrations are seen by many as a prime example) when the size of that tail is the once-in-a-lifetime event that throws out all the other calculations that came before it. It had been assumed to be so far off the radar that there had been no point in factoring it into reasonable business equations.

"Black swan" events cannot and will not be so easily dismissed moving forwards. Modelling to defined confidence levels on set time horizons by definition leaves some risk unaccounted for on a quantitative basis. Disseminating risk information in a more intelligent manner and providing a more integrated picture of the enterprise risk position reduces the reliance on statistical modelling by reintroducing a mechanism for qualitative interpretation of risk information. This is the return to "common-sense" risk management that many in the industry have advocated in recent months.

The need for a qualitative overlay to quantitative risk analysis was highlighted as far back as 10 years ago, when one central banker (both he and his employer shall remain unnamed) said in a speech that "new tools [essentially he was referring to advances in modelling techniques] should not be regarded as guarantees against unexpected credit problems … It is unlikely these models will do away with the need for overriding judgments about economic prospects and the outlook for individual industries and sectors."

The concept of tail risk suggests that there are risks that cannot be seen and therefore cannot be measured. This is patently not true. It just means that greater cover must be provided for risks that cannot be measured. It means ultimately that if you do not like the risks (or odds) do not take the wager. Returning to our earlier reference — "if you don't understand it don't buy it."

And therein lies the conundrum. How much risk is the industry prepared to take and what store is it prepared to put by its analysis and the quality of the data used to construct that analysis?

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Optimising Risk-Based Performance

- Optimise the value of risk information to increase the intelligence and capital agility of the organisation

The optimisation of risk-based performance is the panacea for the banking community. Ultimately, despite a short-term aversion to risk in the immediate aftermath of the Lehman Brothers collapse, banking is all about taking risk.

Of course, some cynics believe it will be impossible to purge reckless risk-taking from the prevailing culture. Certainly, there are many extremely intelligent people in banking and many of them could see the problems with over-extended credit, unwisely priced risk and portfolio imbalances building up potential liabilities. But the nature of the industry's then prevailing environment meant that few were prepared to break ranks and risk losing business to competitors despite increasing warning signals of the risks involved.

Fundamentally, however, the entire process of assessing risk and of defining risk appetite within an organisation is now under the microscope. No longer can senior management afford to be rigid in their approach to risk, nor complacent in the ability of the organisation to react to changes in risk appetite. One of the key issues identified with the Individual Capital Adequacy Assessment Process (ICAAP) has been that risk appetite decisions made at the top of the organisation are simply not reflected swiftly enough lower down the institution.

With risk management now so tightly linked to capital agility this clearly has to change — lending decisions will be scrutinised on a much more holistic level and adjusted accordingly on an ad hoc basis. However, this can only be done effectively if the entire organisation operates in harmony, from senior management to risk management, to finance, to senior line of business heads, right down to relationship managers. Bringing about such a cohesive business process within the parameters established by traditional business practices is nigh on impossible. On the other hand, if risk is truly to transition its role within the business then it is time to raise the bar in terms of how business planning and modelling is approached. To this end, risk appetite setting and capital forecasting should form the basis of strategic business planning. Such a move would go some way to creating visibility into the banks' goals, enable alignment between functions carrying those goals, as well as delivering agility, governance and ownership.

This requires more investment in people and technology and will challenge those businesses that have focused budget priorities in the current business climate on reducing costs. It is therefore a time to look at intelligent technology spending, or applying budget to investments that strengthen the overall intelligence of the enterprise. It is time to raise the IQ level of the enterprise.

Given the industry's historic abhorrence of transparency on the grounds of competitive protection, it will have to go some way to appease the concerns of legitimate interested parties by demonstrating it has improved some intellectual capabilities, while at the same time embraced working practices that will allow these to flourish. Too often senior management has not been open to a culture that can challenge preconceived business methods. Decision making will have to be more collaborative from here on.

FUTURE OUTLOOK

At the start of 2009, in the face of catastrophic market turmoil and revelation upon revelation concerning bank performance, optimists clung to the hope that the arrival of President Barack Obama to the White House would lead to a restoration of confidence that has been so severely undermined by the events of 2008. It was one of Obama's legendary predecessors and self-acknowledged role model, John Kennedy, who said, "Only those who dare to fail greatly can ever achieve greatly."

It is a quotation that could be applied with hindsight to some of the more reckless policy paths banks embarked on at the start of this cycle. But it could equally be applied to the opportunities now offered to the industry to reinvent itself.

At this point in the post-credit-crunch cycle the immediate outlook for large parts of the industry remains distinctly uncertain. The industry that thrives five to 10 years from now will probably be significantly smaller than it is now as consolidation continues. Whether this is at the exhortation of governments, which might well remain significant shareholders in many financial institutions a decade from now, remains to be seen.

What is assured is that risk management will have taken a much higher seat at the top table of decision making in financial institutions. Getting the right calibre of people to fulfil these roles will remain a challenge for some time to come. It will require someone who can both deliver the right balance of qualitative and quantitative skills while also possessing sufficient authority (and personal capability to deliver it) to challenge front-line business units.

But just as important as the philosophical commitment to risk awareness will be the tools that allow that risk insight to be disseminated throughout the institution. These tools will deliver timely access to the right information about the bank's transactions, its liabilities, its customers and counterparties to give decision makers at all levels of the bank the authority they require to make properly informed judgments.

The key question management will be asked is, "How did our use of risk management information influence our business decisions?" Failure to answer this effectively for the benefit of either regulators or shareholders will not only require greater capital provisions against liabilities, hence restricting profitability, but also threaten the very existence of the entire institution.

The correct answer to that question will therefore only be possible if an integrated approach to risk management is embedded across the organisation and the value of risk-based information is optimised. It is the responsibility of the CEO and the rest of his board (in particular the CFO) to ensure this occurs, and that the chief risk officer gets accredited with the authority to make the transition to this sort of business model possible. The correct answer should also therefore release capital and improve profitability.

But the future will hold changes in the way risk management in banks is approached by all those concerned. The essence of an effective risk culture is to empower all employees to assert measures of risk control. Therefore the expectation is that risk will become a more integral part of the basic operating model with the belief that this will prevent the excesses of the past decade when the concept of risk control appeared so alien to so many in the industry.

CONCLUSIONS

So, at the heart of the risk management review we find three key areas that need to be addressed. The first is cultural, to embrace working practices that look at risk holistically across the enterprise; the second is structural, to enable businesses to have access to enterprisewide insight that is essential to decision making; and the third is practical, by instigating working practices that bring together the relevant vested interests from finance, risk and LOB to ensure cross-sectoral liabilities are acknowledged and measured.

Financial Insights therefore believes that a successful approach to more sophisticated risk management can only start at the top of the firm with solid support from senior management. Once the buy-in from senior management has been gained, priorities, direction, accountabilities and, most important, funding should follow. Executive support will be partly ensured by emphasising the financial benefits of risk avoidance that can protect banks from significant losses. More importantly, they will be more confident with the security of knowing their own positions are protected should external questions be asked. (Newspaper pictures of Bear Stearns executives being led away in handcuffs for questioning certainly focused a few executive minds when it came to risk management commitment.) But certainly better collaboration on risk processes between business units will also generate benefits through cost savings and avoidance of redundant processes.

Data leverage will be critical. All of the best-laid plans for integrated processes or enhancements to existing risk management can stall if the organisation's data model is not understood and evolved to meet the needs of all the processes. Nothing can be more frustrating to a firm's risk objectives than a bank and its key employees knowing that data exists but cannot be leveraged.

Another factor to consider is that cross-LOB risks are every bit as important as a direct risk to credit quality or capital. These interdependent risks can be hidden and more difficult to assess and control. Banks should take the time to consider risks within a specific business unit, and then ask themselves the key question, "How does that risk impact other business portfolios or business units?"

Collaboration among benchmarking, industry groups and contributing data to industry research efforts will also be critical to provide a return to the firm. Recognising there is a balance between providing legitimate benchmarking data and giving away intellectual property will benefit the firm by not conducting business in a vacuum. (There are therefore benefits to transparency.)

A classic example of risk collaboration is the credit reporting industry; by contributing to a consumer's account-level performance, the firm is able to gain a complete view of the consumer for risk assessment. In recent years, reciprocal exchanges for account performance data have launched in the telecommunications, utilities and small business lending segments. Collaboration can also take the form of industry associations and information sharing through conferences.

Organisational accountabilities for risk will enable tracking mechanisms that follow risk assessment processes through the life cycle of business activities. Banks should invest in the validation of risk policies and analytical tools with an eye toward process improvement. The accountability of validating processes that work is just as important as implementing risk processes in the first place, if not balanced by genuine interest.

Finally, these are all complex issues and there is no single right answer. The purpose here is to stimulate debate as change is occurring and will continue to do so — if only because both regulators and governments will need to be seen to be restoring their own reputations. It is nevertheless ironic that their rush to implement tighter regulatory oversight in the years ahead could be as damaging to the industry as has been the loose levels of regulatory compliance that have recently prevailed.

Looking ahead, the combination of much more robust business analysis based around rigorous risk management that uses the combination of the best available tools and an enterprisewide culture of risk acknowledgement will eventually appear normal. There is too much at stake for this not to occur.

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