

UK Finance Heads of Operational Risk Network

October Breakfast

BCS Consulting

10th October 2019

AGENDA

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INTRODUCTION

GOOD MORNING



ROBIN MURRAY
MANAGING DIRECTOR

Rob has over twenty years' experience working within the financial services sector as both an industry professional and management consultant. Having worked at NatWest Markets, Capco and Ernst & Young, Rob is now a Managing Director at BCS Consulting where he leads their Risk Practice. Specialising in Non-Financial Risk Management, he has worked for a large number of FS institutions, managing transformation programmes focused on risk management policies, processes and systems. Recently Rob has worked closely with clients developing enhanced risk and control frameworks and is currently the interim Head of Operational Risk for MUFG.



ROBERT CREWDSON
MANAGING CONSULTANT

Rob has spent over thirteen years' working in the financial services sector, and the last eight years with BCS Consulting where, as a Managing Consultant, he now leads the firm's Non-Financial Risk team. Rob's experience ranges from tier 1 global banks to insurance companies and smaller financial institutions, helping them address a range of complex challenges with particular focus on operational risk, conduct and regulatory change. He has supported framework development and implementation, operating model and process improvement, risk and control assessment, and the enhancement of management information and reporting.

INTRODUCTION – BCS CONSULTING

WHO ARE WE?

We are an employee-owned management consultancy committed to delivering excellence in everything we do.

It's a unique position to be in and one that inspires us all to work to the highest standards because OUR business depends on it.

What's good for our business is good for your business because it means that when your customers expect more choice, control, flexibility and value, you can rely on us to help you deliver it.



WHAT DO WE DO?

We provide outstanding consulting solutions for the digital world. Working as trusted partners, our consultants add value to projects from conception to delivery and can bend seamlessly into your existing teams to bring about change and embed it smoothly.

WHERE DO WE EXCEL?

We are focused on Financial Services, specifically Retail and Corporate Banking, Capital Markets, Insurance and Asset and Wealth Management where we can help maximise your potential in today's technology-driven financial landscape.

Three Lines of Defence (3LoD)

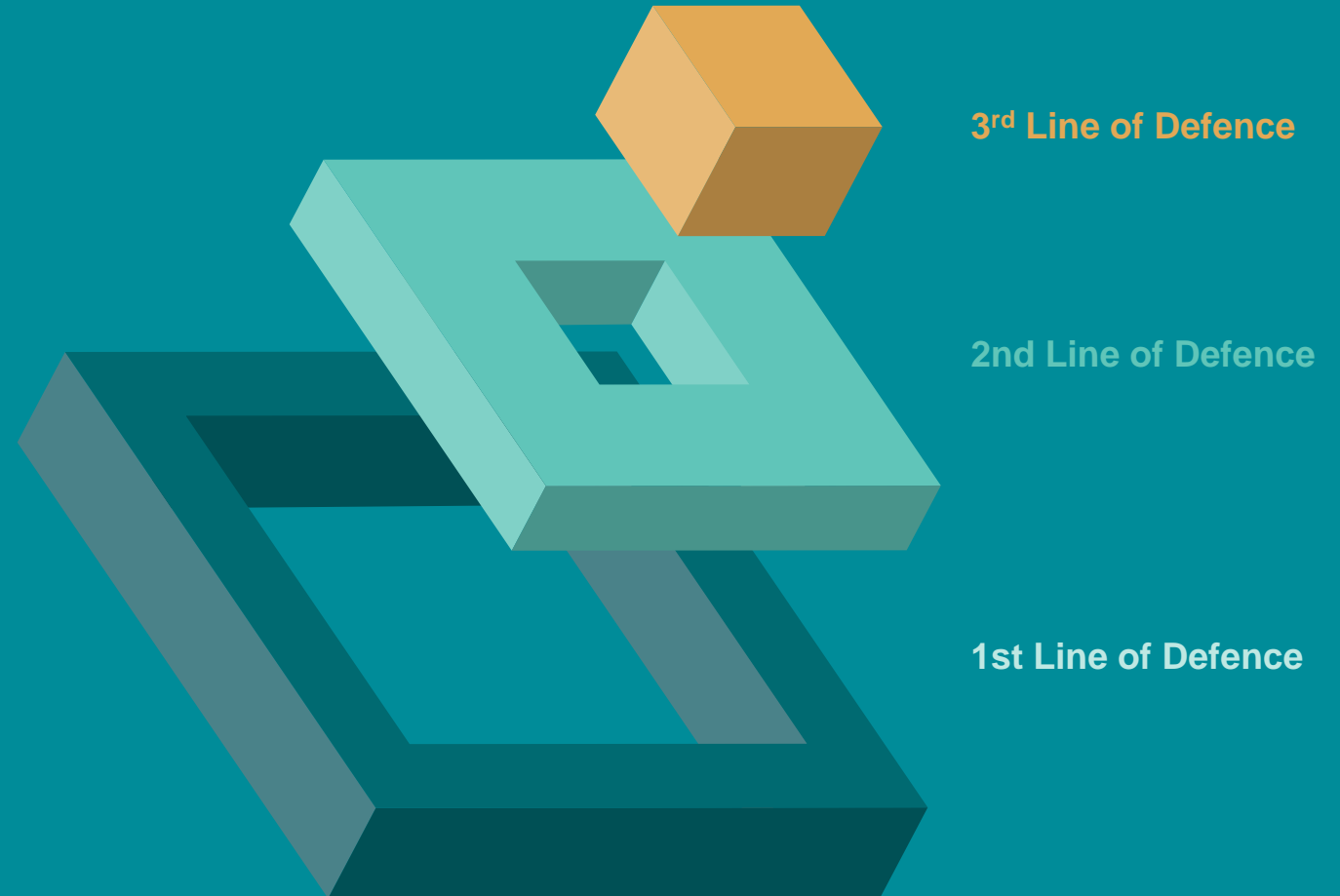


The Three Lines of Defence (3LoD)

The 3LoD is an industry standard organisational model (key to any effective Risk & Control Management Framework) designed to articulate the roles, responsibilities and interactions that enable an organisation's risk profile to be managed effectively

Key Drivers & Benefits

- Provides clarity of roles and responsibilities
- Drives ownership and accountability of risks & controls
- Enhances an organisation's ability to identify, assess, mitigate and manage risk
- Offers increased challenge to the risk environment enabling improved decision-making
- Supports a positive Risk Culture
- Enables regulatory compliance (BCBS principles, Institute of Internal Auditors, SMCR, PRA, FCA etc.)



Example – An ‘Activity-based’ 3LoD Model

The activity-based approach to 3LOD brings transparency to risk management and creates a clear accountability structure for each and every identified risk. With this structure in place, the responsibility of each line is never in question, whether the risk originates in the business or a function



3rd Line of Defence – Assurance

- Independently assures the adequacy and effectiveness of Risk Management Frameworks, their policies & processes and the 1st and 2nd Lines of Defence

The 3LoD consists of Internal Audit

2nd Line of Defence – Oversight & Advice

- Develops & manages the Risk Management Frameworks
- Defines & maintains associated policies and processes
- Provides expert advice
- Provides oversight & challenge

The 2LoD consists of the Risk Mgmt Functions and Risk Experts

- Enterprise Risk, Operational Risk etc. and 2nd Line Risk Experts in all Key Risk Areas (IT, Legal, Finance, People, Reg Compliance etc.)

1st Line of Defence – Risk & Control Ownership

- Risk Owners are accountable managing their risks
- Control Owners are accountable for managing their controls
- Risk & Control Owners can appropriately delegate their responsibilities

The 1LoD consists of Risk Owners, Control Owners and delegates

- Lines of Business and Support Functions 1st line

Implementing the 3LoD – Challenges & Enablers

The 3LoD may be an industry standard, but there is no standard 3LoD across the industry, because implementation is challenging. The principles of the 3LoD model should be applied in a way that meets an organisation's needs, but that's harder than it sounds...



Challenges

- Capability (in all 3 lines)
- Capacity and costs (balance across the 3 lines)
- Cultural – Acceptance, Proactive vs Reactive approaches, 'Us vs Them'
- Overlapping, confusing frameworks & policies
- Blurred lines of responsibility and disconnections
- Restrictive data, systems etc.
- Business development pressures
- Regulatory scrutiny

Enablers

- Alignment with org. structure and accountabilities
- Setting clear priorities based on materiality and scorecards, supported by training and comms
- Minimal risk & control management frameworks etc.
- Documented and agreed key indicators
- Appropriate collaboration between the LoDs
- Expertise and transitioning of people between the LoD
- Understanding sustainability and maturity
- The use of technology and 3rd parties



RCSAs



Operational Resilience





Expect **Excellence**

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