



Back to Basics—Lessons learned from recent governance, risk, and control failures

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Global and local financial regulators have reinforced their requirements for robust governance, risk management, and controls since the financial crisis in 2008 through new regulations, supervisory guidance, and focused examinations and inspections.

Several recent governance, risk management, and control failures in the financial services industry have made headline news, resulting in nearly \$14 billion¹ in financial impact and public enforcement action. These events signal that organizations have not done enough to protect themselves from risks arising from cross-border businesses and legal entities, as well as to operationalize core risk management frameworks, principles and requirements within the operating model and culture of their organizations.

This point of view synthesizes the most impactful themes from the recent incidents and regulatory actions, and offers practical

recommendations on what the Board, Senior Management, including business and risk functions, can do to immediately evaluate and address the types of vulnerabilities that led to these incidents.

It's time for an industry call to action to ensure foundational risk management and governance expectations are implemented and operational. In many respects, this is "Back to Basics". Urgency of actions should be calibrated to the size and complexity of the organization.

Thematic pain points

Despite years of effort and investment by many institutions, several pain points remain issues for organizations. Pain points are both top-down given overall lack of effective risk governance, accountability, and ownership from the Board to the Senior Management and across independent risk/compliance and internal audit; as well as horizontal across the enterprise, due to a lack of meaningful risk culture and effective risk processes, staffing models, infrastructure and frameworks that incentivize sound risk decisions and provide the full risk picture.

- Ownership and accountability are unclear due to poorly defined roles and responsibilities, resulting in mismanagement of risk
- Management and staff are under-resourced and conflicted, and face unrealistic 'dual-hatting' or 'multi-hatting' of responsibilities
- Governance structures and processes are ineffective and lack end-to-end enterprise connectivity
- Risk appetite and risk breaches are not credibly governed
- Extent of risk is not always evident, notably amongst complex cross-border and intra-business transactions and relationships
- Risk reporting and risk processes fail to 'connect the dots' across multiple business relationships at the enterprise-level
- Incentives to manage risk safely are not credibly embedded in organizations' performance management processes, and reporting and escalation challenges limit the Board's ability to hold front office units accountable

Practical levers for change

In order to operationalize core risk management frameworks, principles and requirements within the organization's operating model and culture, current practices and business processes must be enhanced.

Practical levers to facilitate change include:

- Facilitate credible and periodic testing of stress points/conflicts amongst Senior Management against realistic 'dual-hatting' guidelines
- Incorporate front office staffing/management composition trends in risk governance reporting
- Redefine risk appetite and breach governance processes including bright-line boundaries and decision-making protocols
- Re-engineer the incentive structure by embedding risk allocation metrics in compensation and performance decisions
- Evaluate tactical and longer-term adjustments to risk architecture, processes, and controls to ensure business risk reporting is prepared, monitored, and used for decision making/challenge
- Balance global versus regional and legal entity governance processes and ensure transparency of cross-border risk for global institutions
- Enhance infrastructure and invest in improved processes and controls to allow management to focus on managing risk and driving revenue

The scale and public nature of recent risk management and control failures puts the industry on notice in a way that should not be ignored or responded to without looking at differences between global, local, business, and entity dimensions. [In the attached point of view](#), we provide practical ways to address these vulnerabilities including call to action criteria and self-assessment questions tailored for each function. To find out how we can support you, please get in touch.

Endnote

1. Estimated regulatory settlements and operational losses (including implicit costs such as cost of remediation, business interruption, loss of customer confidence, and others) incurred by G-SIBs and other select risk incidents occurring from January 2020 to August 2021. This point of view has intentionally omitted reference to specific events or company names.

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