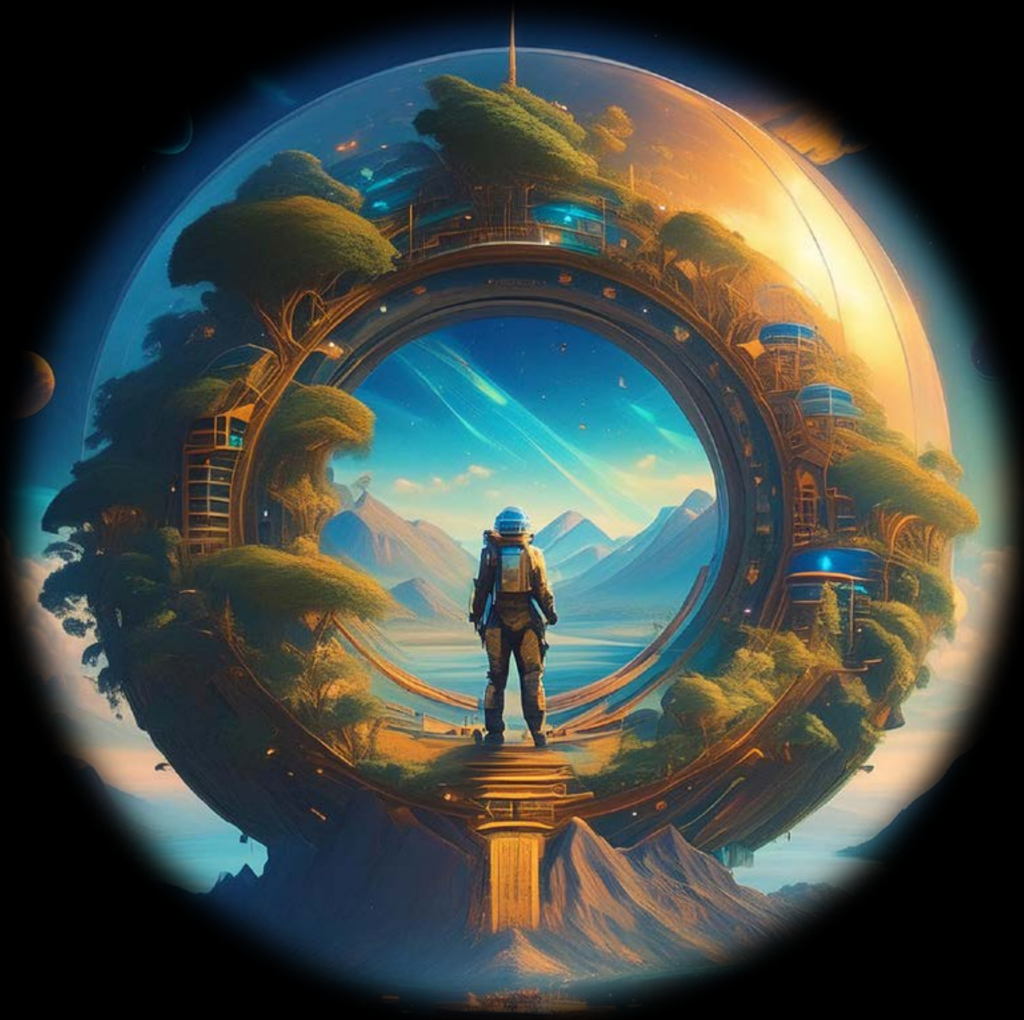

The Operational Readiness Risk Assessment (ORRA) approach

Management Summary

This article presents the Operational Readiness Risk Assessment (ORRA) approach, developed in the context of Aegon's combination of its Dutch business, Aegon Nederland (Aegon NL), with a.s.r. The combination was marked by a complex separation program due to a high degree of entanglement between Aegon NL and Aegon Group, involving over 1200 recognized entanglements that needed to be addressed to maintain business continuity after separation.

Given the complex nature of the disentanglement and the limitations of existing risk and control tools in such scenarios, the ORRA approach is specifically tailored to manage risks in transformation programs. This approach emphasizes the importance of operational readiness and the assessment of change-related risks, which traditional Risk & Control Self-Assessment (RCSA) or similar methodologies in the market may overlook. Key aspects of the ORRA approach include:

- Clear Definitions of Ready (DoR) and Definitions of Done (DoD), which set clear expectations for when ORRAs can commence, and when they are considered complete;
- A detailed execution process that involves risk identification, risk and control assessment, risk response, action management, and reporting and monitoring;
- Scenario analysis to evaluate interdependencies and combined risks across different workstreams; and
- Roles of the first, second, and third lines of defense and their cooperation to ensure comprehensive risk coverage and control design.

This article also provides an indicative timeline for ORRA implementation and underlines the benefits for various stakeholders, including line management, Risk and Compliance functions, Internal Audit, senior leadership, and regulators. It argues that the ORRA approach ensures that required controls are designed into processes from the outset, significantly improving risk management during strategic changes. The article also discusses potential pitfalls of the ORRA approach such as delays in meeting the DoR or lack of stakeholder buy-in and provides strategies to prevent these issues. Lessons learned from the application of the ORRA approach during Aegon's disentanglement suggest the importance of integrating ORRAs into program planning, defining the scope upfront, preparing training materials for process owners, and maintaining consistent communication with regulators.

In conclusion, the article presents the ORRA approach as a robust framework for managing operational risks in complex change programs. It underscores the need for a structured approach, stakeholder involvement, and regulatory engagement to successfully navigate the challenges posed by strategic transformations and ensure ongoing operational resilience. The insights created by applying the ORRA approach can be leveraged by organizations to enhance their risk management practices, particularly in the face of significant organizational changes.

1. Introduction

In October 2022, Aegon announced to the market that it would combine its Dutch business, Aegon NL, with a.s.r., which is a Netherlands-based insurance group operating in Life, Pension, General Insurance and Mortgages. Aegon NL also operates is also operating in the same markets and is therefore complementary to the a.s.r. footprint, creating one of the biggest insurance groups in the Dutch market.

The separation of Aegon NL from Aegon Group was extremely complex given the extent and complexity of entanglements of the involved entities. Over 1200 entanglements were recognized between Aegon NL and Aegon Group that required solutions for separating these activities, while still ensuring business continuity on both sides after the separation in a controlled manner. Timelines were both tight and ambitious, with little room or willingness to adjust them.

This meant there was a real risk of processes not operating in accordance with the solution designs after the separation. Examples being the security risk that information from Aegon Group would still be visible to Aegon NL staff and vice versa, and risks related to customer service or performance of financial reporting processes. Any operational issues that could occur post-close had to be mitigated within acceptable timelines, in line with the companies' business continuity standards. In the face of these risks, Risk and Compliance collaborated closely in Aegon's separation program, creating a dedicated second line workstream that guided the program's risk management and reported biweekly to the central Separation Management Office and Transformation Steering Committee.

This oversight workstream, centered at Aegon's Corporate Center, was responsible for harmonizing the risk management strategies and reports across Aegon NL and other entities involved in the separation, forming an integrated risk view of the program. The second line's key deliverables focused on:

- Ensuring separation solutions were in place and operational by Day-1;
- Maintaining a controlled environment post-separation;
- Logging material risk acceptances with proper governance; and
- Identifying and testing key risks and controls.

Because the standard Risk & Control Self-Assessment (RCSA) methodology and similar methodologies in the market are inadequate for addressing the unique risks associated with the dynamic scope and pace of a change program like this, a specialized risk management approach was required. To manage these evolving risks, the Operational Readiness Risk Assessment (ORRA) methodology was developed specifically for this program. An ORRA is a form of RCSA performed for a process that is not in production yet or is going through significant change, which would make the existing RCSA information obsolete. ORRAs are an "in control by design" approach that assures that key risks are identified and key controls to mitigate these risks are established and evaluated on design and existence prior to moving a new process into production. Each ORRA in turn was tailored to each workstream to be minimally intrusive, while still providing insights and an additional layer of assurance regarding operational readiness.

The primary goal of the ORRAs was to verify that post disentanglement, processes and solutions could function independently and be seamlessly transferred to a.s.r., or continue to function independently at Aegon NL, ensuring Aegon's continued control over its processes. The ORRAs focused not only on operational continuity but also incorporated all risk types from the existing risk taxonomy. Significantly, the ORRAs also included scenario analyses to manage dependencies and combined risks across different workstreams, enhancing overall risk oversight during the separation and supporting operational resilience. Have you faced similar challenges in your organization? Consider how the ORRA approach might address these effectively.

2. The Operational Readiness Risk Assessment approach

Starting with thorough scoping is paramount, as it determines the specific processes and business units that will be assessed, ensures that the right participants are involved down the line and that they have adequate preparation time. Before the ORRA meetings, a preliminary analysis of interdependencies between workstreams is conducted to identify overarching risk scenarios (see end of this chapter).

Furthermore, to prepare and be "ready" to commence the ORRAs in scope, it is advisable to clearly communicate a Definition of Ready (DoR) to stakeholders. The DoR includes the specific information and documentation that should be available for the ORRA to take place. In other words: if this threshold is not met, stakeholders agree that information is too scarce to perform a meaningful ORRA. Given the dynamic context in which ORRAs take place, it is recommended to add some flexibility in the DoR. This could for example mean that the items that constitute the DoR can be divided in must-haves and nice-to-haves, as long as it creates an agreed upon level of detail and completeness.

It is recommended to also discuss a Definition of Done (DoD) for the finalization of the ORRAs in the preparation phase. A DoD includes the specific items and output that are required to formally conclude the ORRA, and therefore serves as the target for stakeholders to work towards. Not having a clear and agreed upon DoD will result in a moving target, which in turn might lead to missing deadlines and/or resistance among stakeholders.

Examples of DoR items (non-exhaustive)

Considering the operational readiness of a process, examples of potential must-have insights are the (to-be) process design, supporting (IT) systems and applicable risk appetite statement. Nice-to-haves can include relevant previous risk assessments, audit findings and issue logs – especially if the change from the as-is to the to-be situation is small. When an entire new process is being designed and implemented, previous insights should be managed in a more considerate way since overlap and applicability will be limited.

Examples of DoD items (non-exhaustive)

The main risks have been identified and assessed, based on the applicable heat map. Each risk has a clear risk description. Each residual risk outside of risk appetite has been accepted or has a clear remediation plan with owner and deadline. Controls have been described using the applicable control standard (e.g., 5W1H). Outcomes have been logged in the agreed upon templates and (GRC) tooling. All reviews have been performed, in line with the applicable governance. Outcomes have been signed-off by the agreed upon manager(s). Key outcomes are copied into a clear and easy-to-understand format for senior reporting and decision-making.

The ORRA workshop can begin once the Definition of Ready (DoR) criteria are met. Unlike a conventional RCSA, the ORRA is designed for assessing readiness during change, particularly before new processes go live. It is conducted through collaborative sessions with stakeholders and experts relevant to the ORRA's scope.

During ORRA workshops, risks for the workstream in scope for that ORRA are identified, including those in the to-be process design and associated change risks. This step acknowledges the potential issues that might arise during the transition to the future state and prepares for them. Identified risks are then assessed, scored, and discussed, considering existing and future controls. However, as these future controls are often still in the design phase, their effectiveness cannot be fully tested during the ORRA, hence residual risk scores are based on estimates and assumptions.

Risk responses are then formulated for residual risks exceeding the organization's risk appetite, which may involve improving controls, redesigning processes, or transferring risks. Identified actions, such as control design improvements, are documented and tracked, ideally within a centralized governance, risk, and compliance (GRC) system.

The ORRA process culminates in the Definition of Done (DoD) phase, where all pre-defined required actions and outcomes are reviewed and confirmed to formally conclude the assessment. The DoD items, although organization-specific, should be standardized across the program to ensure consistency and transparency.

Upon completion, the results and progress of ORRAs are reported to relevant stakeholders within the change program and to the organization's leadership. Leadership monitors risk scores and the plans to address risks near the critical threshold. Regulators, particularly in merger contexts, may evaluate the actions taken and the outcomes of readiness assessments.

Following these steps will result in a comprehensive, stakeholder-engaging process designed to assess and ensure operational readiness in the face of organizational changes, with a strong focus on scoping, risk identification, control assessment, and thorough reporting and monitoring.

Scenario Analysis

In large organizational changes, various workstreams such as Finance, IT, and Procurement operate in separate yet interdependent domains. Success in one domain often hinges on the seamless operation of another. For example: business units relying on IT systems or procurement-managed contract systems. It is crucial to evaluate and interlink these interdependencies to ensure comprehensive risk management across workstreams. This means that, as part of each ORRA, backup scenarios should be considered, taking into account their reliance on other workstreams' effectiveness.

Ways to perform scenario analysis are to specifically identify areas where interdependencies might be overlooked or develop "what-if" scenarios with key business experts across the full scope. Another option is to reassess risks of previous (existing) assessments and determine if the risk mitigations are sufficient to mitigate the risk.

Scenarios in this context can emerge in numerous ways. For instance, if Treasury activities are moved to another entity of another firm (e.g., NewCo), but the involved professionals with essential treasury-specific knowledge do not move to the same entity (or in a different team composition) or vice versa, a potential risk could be the shortfall of skilled staff to manage post-separation Treasury processes. A contingency plan, like hiring external staff, must consider the ability to onboard these individuals at the required time. Although a fallback scenario may initially moderate the risk level within Treasury, it is essential to ensure that Procurement can facilitate these contracts to actually implement the fallback scenario.

If the backup scenario for Treasury depends on Procurement, which might experience a freeze, this interdependency must be recognized and managed. Failure to link risk mitigation across workstreams could elevate an otherwise medium-level risk to high or critical, due to compounding effects. Thus, effective change management requires a holistic risk assessment during the ORRA that accounts for the interconnectedness of workstreams and their respective fallback measures.

Traditional methods and assessments	Operational Readiness Risk Assessments
Include backward-looking and as-is assessments	Allow forward-looking assessments
Are an add-on to change work that is being done	Are an integral part of any major change
Focus on risks related to the project and its delivery	Focus on specific high-impact risks related to readiness of the future "Business as Usual"*
Can be inefficient and resource-consuming	Create efficiency through focus and transparency
Are geared towards Risk / Compliance	Are geared towards business and senior leadership
Result in a mixed bag of information for regulators	Mature and structure the information for regulators
Assess risks and controls for individual domains	Consider scenarios and interdependencies
Can be overwhelming in times of major changes	Integrate both known and new elements, for a holistic approach

**Or any "new" situation after a major change.*

3. Role of the first line and of the control functions

Assuming a three lines of defense model, the ORRA is a first- and second-line effort. First line stakeholders can include process owners, contract owners, control owners and (IT) experts.

First line stakeholders should gather information and documentation and participate in the ORRA to meet the DoR and DoD, as well as register the outcomes in the appropriate templates and tooling. As second line, Risk and/or Compliance provide clear and timely guidance and can optionally facilitate or drive the execution of the ORRA itself to empower the first line as much as possible and to timely meet the DoD in case of time pressure. The latter is especially advisable in case of a business-focused (first line) change program, in which the aforementioned stakeholders are occupied with the other required efforts and have limited time. The second line also plays a vital role in validating and approving the completion of each individual ORRA, based on the DoD.

From a second line perspective, it has proven to be useful to take sufficient time to understand existing meeting cadences, flows of information and documentation and other mechanisms for key first line stakeholders. Time to perform ORRAs will be limited and (time) pressure will be high, given the nature of the use of the ORRA approach in highly dynamic and changing environments. Tapping into existing information, documentation, reporting and meetings will therefore ensure that information and conversations do not have to be replicated.

Additionally, the second line plays a role in creating and maintaining engagement from the first line. Timely and transparent communication is essential in this case, especially regarding what is expected from the first line (for example, but not limited to the DoD and DoR, and reporting), by when (timelines should align with program milestones, such as go-live decisions by leadership and approvals from regulatory bodies, if applicable) and in which governance (reviews, reporting lines, escalation mechanisms, committees etc.). Acknowledging that this information might not be fully clear upfront can be mitigated by planning certain moments in time by when items might be amended or added – as long as "moving the goalposts" is limited as much as possible. Doing so allows the first line to organize itself around these requirements, work towards a shared goal and flag issues in time.

Expertise

It is key that the experts who are performing the ORRAs have a broad understanding of risks associated with both change and regular processes including for example IT, data, models, Finance and Compliance. Interdependencies between these different risk areas need to be easily understood and connected with the new designs of processes that are not operational yet, meaning no risk-related data is available. In most financial institutions, Risk and Compliance managers are organized towards specific functions or risk types. In this case, to perform the ORRAs in an efficient and effective manner, the experts might need to have a broader view than usual to capture the most important risks.

Potential roles and responsibilities during ORRAs

	Preparation	Workshop	Registration	Reporting
First line	Prepare based on the provided guidance and participate in kick-off session	Regular participation	Document outcomes of the ORRA in a correct, complete, and timely manner	Provide input for reporting
Second line	Execute gap assessment to meet the DoR	Support process owners with the DoR and DoD	Support change and business teams in case of substantive question	Report regularly to leadership and relevant regulators
Experts (First and/or second line)	Organize kick-off session, and create and share quality criteria and guidance regarding the ORRA approach	Support execution of ORRAs and provide qualitative input to workshops and coordination	Ensure high-quality documentation of risk responses and action plans	Provide input to reporting and enhance methodology when needed

4. How to implement the ORRA approach

Agree with key internal and external stakeholders, including regulatory bodies, whether performing ORRAs is the desired mechanism to apply during the upcoming change program.

Clearly explain the general approach, the role of the ORRAs, expectations from all first- and second-line stakeholders that are envisioned to be involved in the upcoming change, and timelines. Start creating buy-in from key stakeholders.

Share in more detail what is expected from first-line teams and their managers, including the DoR and DoD. First-line managers to bring their teams on board.

Change program progresses. DoR is monitored. Identify and onboard experts that will be part of the ORRAs later.

Start execution of ORRAs in case the DoR is met. Ensure that DoD is met for the executed ORRAs and start chasing the remaining DoRs. Outcomes can be included in regular reporting. Impediments should be mitigated.

Remaining DoRs should be met to start the execution of the remaining ORRAs. Comprehensive reporting and summaries should be created for required approvals, and first- and second-line approvals should be obtained. Remaining impediments should be escalated to the appropriate stakeholders and/or committees.

ORRA outcomes are finalized in the step before this and are treated as such in this stage; no changes or updates should be made. The formalized ORRA outcomes will be used as input for the final leadership and/or supervisory decisions.

5. Added value

The advantage of the ORRA approach is that process changes as part of a strategic program will follow the principles of control-by-design. Often, in substantial change programs, the proper identification of risks and the design of controls to mitigate the risks of fundamentally changed or newly designed processes is not an explicit part of the deliverables of a program. Applying the ORRA approach to change management helps to make control design an integral part of a change process and benefits the different stakeholders.

In the specific example of the disentanglement of the processes of Aegon NL from Aegon Group, the different stakeholders could rely on the outcomes of the ORRAs as an extra layer of assurance that business continuity of key processes would not be jeopardized on the day of the separation. In general, the ORRA approach can create added value for various groups of stakeholders. Some primary examples are listed below.

First line

Output documentation of the ORRAs describes key risks and controls for new processes and enables first line teams to perform control testing (design and existence, once implemented).

Second line

The second line will have the assurance that key risks have been identified and controls have been developed as part of the design process and they will be able to integrate the newly designed controls into their existing control framework.

Third line

Internal Audit can use the process and control documentation to update their risk map of the organization and prioritize follow-up audits based on the outcomes and thoroughness of the individual ORRAs.

Senior leadership (e.g., Management and Supervisory Board)

It is recommended to summarize the ORRA conclusions in a risk opinion for the board of the company. This opinion will be data-driven and based on the outcomes of the ORRAs, giving the board insight into the quality of the design of the risk and control framework of the changed or new processes and pointing out the areas that require specific attention. The level of comfort provided by the second line in this risk opinion can be based on the ORRA conclusions.

Regulators

In line with the assurance provided to the board of the company, the outcomes of the ORRAs can be shared with the regulators to give them insight into the role of risk management in the change process and the establishment of a functioning risk and control framework as part of the change. It is recommended to inform regulators about the ORRA approach at the start of the program, to explain the content of the approach, include their input (if any) and explain which deliverables they can expect from the second line as part of the change program.

6. Potential pitfalls and how to prevent them

	Potential pitfall	How to prevent
1	DoR is not met in time to start the execution of certain ORRAs, jeopardizing the timelines for delivering the desired level of completeness and quality	If all else fails: perform a best-effort execution of the ORRA and ensure that an action plan is created to address the remaining open items. Additionally, the new risks of not having all the required insights should be described, assessed (scored) and accepted through the appropriate governance if outside of appetite.
2	Missing or decreasing buy-in from stakeholders	Look into resourcing options if the suboptimal buy-in is due to capacity challenges. Adapt the approach to align with existing ways-of-working, meetings, cadences. Emphasize that whatever their scope of work is, it will need to get the final sign-off to get to the finish line, for which in turn the ORRAs are an agreed upon requirement. Ensure that the right managerial stakeholders are kept in the loop across the program.
3	Too much time is spent explaining the purpose and approach of the ORRA, instead of the execution	Focus on preventing this issue, rather than extinguishing it down the line. Use the (early) program meetings and platforms to reach as much people as possible and make them aware that the ORRAs will be performed and consider appointing ORRA ambassadors that are able to join smaller team meetings to explain and answer questions. Explore the opportunity for a custom e-learning that can be part of the DoR of the ORRA. At the same time: do always take a couple of minutes to make sure everybody in the ORRA meeting or workshop understands the purpose and approach.
4	Potential “showstoppers” have been identified during the ORRA	Consider this to be a successful outcome of the ORRA, since this is part of what the ORRA aims to uncover. Although it might feel as a setback, having identified critical issues enables you to explore, prioritize and address these issues in a more focused way. Depending on how the DoD has been formulated, closing these issues can be done as part of the ORRA itself or as a separate follow-up effort.
5	Essential stakeholders (such as certain experts) are (knowingly or unknowingly) absent during the ORRA execution	This should be prevented as much as possible since it will result in rework and potential discussions during or after the ORRA that will considerably delay the ORRA finalization. It is recommended to identify critical areas of expertise that might occur in scope of the ORRAs early on. Think: Privacy, Legal, IT etc. Available first- and second-line experts in those areas should be involved and informed in time (months before the first ORRA is performed, if possible) of the purpose, scope, and approach. During the ORRA execution, this should make it more straightforward to involve the right people and to ensure that the required knowledge is present during the ORRA execution. Additionally, it is recommended to validate the envisioned audience per individual ORRA prior to the workshop.

7. Lessons learned from the Aegon NL disentanglement

The ORRA approach was developed during the disentanglement of Aegon NL. The goal was to develop a risk assessment approach that would provide more comfort on the continuity of the disentangled entities post-closing. As described in this article, an ideal ORRA approach is initiated at the start of a change program and embedded in the change process. However, because (for this specific situation) the approach was developed along the way, it was incorporated in the existing approach of an already running program and tailored to the time, information, and capacity available in the program. This ensured that this would not lead to delays in the overall planning. The following lessons can be taken away from this experience.

Make ORRAs an integral part of program planning and deliverables
As shown in the proposed planning approach earlier in this article, being in agreement regarding approach, expected outcomes and scope at the start of the program is key to the success of performing ORRAs.

Clearly define upfront what the scope of the ORRAs should be
The DoR will define which items should be included as input to the ORRAs. For the Aegon disentanglement program, the DoR included process descriptions, solution designs, an overview of known issues and incidents including root cause analysis and known audit findings. If there would have been more time, the program would have included recent RCSAs, specific risk tolerances for the processes, entity level controls and minimum requirements from policies and standards. These are not all prerequisites for performing basic ORRAs, but the wider the scope of the DoR, the higher the level of assurance that the ORRAs will provide.

Develop training materials and prepare process owners before executing an ORRA
Most process owners will be familiar with RCSAs, but the specific focus and approach of an ORRA requires properly instructing process owners on expected outcomes, the approach, and their specific role in this. During a program there will not be time to develop this training material, meaning these should be created and validated ahead of time.

Keep regulators informed, before and during the program
During the Aegon disentanglement program, monthly meetings were held with the regulator to keep them informed and engaged on the risk oversight of the program. This worked well and prevented unforeseen surprises form the side the regulator.

8. Conclusion

This article presents the Operational Readiness Risk Assessment (ORRA) approach as a robust framework for managing operational risks in complex change programs. It underscores the need for a structured approach, stakeholder involvement, and regulatory engagement to successfully navigate the challenges posed by strategic transformations, and to ensure ongoing operational resilience.

The insights created by applying the ORRA approach can be leveraged by organizations to enhance their risk management practices, particularly in the face of significant organizational changes. The article also highlights the importance of transparency and proactive engagement with regulatory bodies to ensure compliance and foster a collaborative relationship.

Overall, the ORRA approach presented here serves as a valuable resource for organizations seeking to enhance their operational risk management practices, emphasizing the need for proactive measures, clear communication, and collaborative efforts to mitigate risks and maintain operational resilience in an ever-changing business landscape. ORRAs can help the business with strategic change programs by providing assurance on the quality of the risk and control framework of new or changed processes.

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Authors

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