Transform Your Risk Reporting by Injecting Insight and Predictive Analytics

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Every organization currently lies somewhere in the wide spectrum of risk program maturity. Whether your organization tracks risks in excel being updated periodically through assessments and testing, you use a modern risk management platform, or anywhere in between, you still have the opportunity to improve your risk program in a way that directly influences business results. Leveraging the data inside and outside of your organization to predict the trajectory of risks long before any planned testing, internal audit, or even worse, an examiner identifies issues will provide your organization insight into not only where its risks truly are today, but also where they are headed. This insight empowers your organization with a competitive differentiation to make more informed strategic decision by knowing where the organization is presently executing against its strategy and where the organization stacks up against the market. Imagine executive leadership recognizing the risk team as their competitive advantage rather than merely a cost of doing business.

You may ask yourself the following questions:

Do you want a risk program that goes beyond looking at historical data and includes predictive analytics?

Do you want your risk program to factor in internal and external data to predict the trajectory of risks?

Would it be helpful to know how internal activities and data within the bank impact your risk in real time?

If your answer to any of these questions is “Yes”, keep reading.

The limitations of contemporary risk management reporting

Contemporary risk reporting is often incomplete, inaccurate, out of date, and does not provide actionable intelligence. Risk intelligence should go beyond just reporting on the status of the last set of testing; it should help management proactively analyze and then remediate issues and course correct before the risk becomes reality. It should provide the Board of Directors greater fidelity in understanding all risk factors that might impact decision making. Providing such insights requires accurate and real-time reporting based on internal and external data that gives visibility into the trajectory of the bank’s risks. Unfortunately, manually compiling all this data and generating insights is a very resource-intensive task and because of that, prone to error. This makes an accurate, real-time view of risk difficult if not impossible.

The Three Lines of Defense

Analyzing the limitations of data capture and contemporary risk management reporting at each line of defense helps to clarify the problem inherent in today’s risk management solutions.

01 Line

Business Units

- Involved in day-to-day risk management
- Follow a risk process
- Apply internal controls and risk responses

02 Line

Risk and Compliance

- Oversee and challenge risk management
- Provide guidance and direction
- Develop risk management framework

03 Line

Audit

- Review 1st and 2nd lines
- Provide and independent perspective and challenge the process
- Objective and offer assurance

First Line of Defense – Business Units

The first line of defense is comprised of the Business Units, branches, client-facing employees and all other employees that are responsible for the different processes that occur within a bank. This includes the bank tellers, customer support agents, loan underwriters, Information Technology, etc. These Front-line employees are responsible for taking customer complaints, finding issues or errors in customer records, capturing any incident that occurs within the organization, securing and monitoring your infrastructure, and the list goes on and on. In short, the front line generates a tremendous amount of data.

Any list of Key Risk Indicators (KRIs) will include Consumer Complaints, Employee Complaints, Performance Reviews, Employee Engagement Survey data, Regulatory Findings, SARS, and various types of Transactional data from your core system. This is by no means a complete list, but one thing all of these KRIs have in common is that they are all driven by front-line input. Tellers take consumer complaints. Managers give performance reviews. HR performs Employee Engagement Surveys. Loan officers process loans and issue disclosures. The problem is that in most cases, the data captured by the front line goes into one or more silos and correlating these direct inputs to related risks is manual, labor intensive, error prone and far from real time.

Second Line of Defense – Risk & Compliance

The correlation of front-line data into usable input for risk falls upon the Second Line of Defense. The problem here is that leveraging the data generated by the front line to inform risk is also manual, labor intensive, error prone and far from real time. Because of the lag around data collection and generation of reports, Risk Managers and Executives are oftentimes looking at outdated data. This leads to long periods of time where issues are occurring with no visibility for the risk team. Couple this with the fact that Risk Managers and Executives have no simple way to incorporate external data into their risk framework and you have a situation where valuable insight is lost.

Third Line of Defense – Audit & the Board

From an audit perspective, the third line of defense shares many of the same problems the second line of defense has. They are looking at outdated, historical data that does not incorporate all the relevant internal and external data and are attempting draw conclusions from it.
The Board is making decisions based upon the business' risk profile. Should we acquire that bank? Should we expand into that new region? Should we roll out that new product line? Is our compliance really under control? Is this really what our risk profile looks like? Making those decisions without the full picture of internal and external risks (market, economic, compliance, etc.) puts the organization at a disadvantage. Looking at internal data only gives no relative comparison to industry peers and provides no visibility into how outside influences impact the organization.

The Path to Risk Program Maturity

"When eating an elephant take one bite at a time." - Creighton Abrams

Up to this point, risk has been outlined at a high level as a multi-faceted and large set of issues that are typically difficult to overcome. To say that solving all the above issues is simple would be disingenuous; this is not simple. However, there are several things that are relatively painless to do that will put you on the path to adding predictive capabilities to your risk program.

So where should you start? The siloed and historical data problem will be specifically addressed in a future white paper titled: Automating Control and Compliance Testing to turbo charge your Risk Program but for now, let's focus on ways to leverage internal and external data in order to provide insight into Risk.

"It does not do to leave a live dragon out of your calculations, if you live near one." - J.R.R Tolkien

Many organizations are ignoring data all around them that could have a profound impact upon their risk calculations and the decisions they make. Some sources of data are obvious, and some may take more effort to realize their relationship to evaluating and mitigating risk. Either way, first and foremost is to take a step back from the current day to day execution of your risk program and evaluate what potential data sources could be relevant by focusing on your corporate strategy and aligning indicators that would drive the success of those objectives.

There are many points of data within your organization, which when viewed in real time, have a direct corollary to risk, and while these are easier to leverage because the data resides within the organization, most organizations are not leveraging them very well or at all. There are also many points of data outside your organization which also have a direct correlation to risks. Market data. Economic data. Regulatory data. Benchmark data. Geopolitical data. These sources are somewhat more difficult to gather and incorporate, and very few organizations are leveraging them. No matter where you are at in the risk program maturity arch, there are solutions that will help you improve your risk program.

"We currently manage our risk via an RCSA matrix and periodic testing"

If you are at a small or mid-sized bank and managing your risk program through an Risk and Control Self-Assessment (RCSA) combined with some level of control testing and compliance testing, you should start with taking the data you currently track within spreadsheets and emails and moving it into a structured and dynamic RCSA that already incorporates a framework designed to overlay these internal and external insights over the top of your current risk data. This can be as simple as importing and massaging your data and configuring the insights and feeds that power them. Moving out of spreadsheets and email has many advantages over what you are doing today.

- Tremendous value-add with minimal disruption. Transferring what you manage today into a solution that allows your risk program to continue as it exists today while giving you the added benefit of better reporting and risk insight is an easy first step.
- If you choose the right solution, as your risk program matures, it will grow with you.

Examining the risk management maturity model for banks and how to leverage technology to grow and mature your risk program will be covered in a future whitepaper - Leveraging technology to seamlessness move over time from an RCSA to a full blown ERM, but for small and mid-sized banks today, simply moving out of spreadsheets while still leveraging the familiar spreadsheet-like paradigm, a dynamic RCSA, that can leverage internal and external data in order to gain insight into risk can quickly bring value to what you already do today with modest effort and tremendous up-side.

"We already have Risk Management Software"

If you already have a risk management solution, you should start with a framework designed to overlay these internal and external insights directly over the top of your existing risk program. The technology used to manage your risks really isn't important, because these frameworks are designed to work in conjunction with any risk management software. There are several advantages to this approach.

- Tremendous value-add with minimal disruption.
- Sunk costs. If you already have a risk management solution that you are happy with and which you've invested a lot of time and money putting in place, that time and money do not go to waste.
- No Retraining. Your staff is already familiar with the solution you are using.
- Low Risk. Ripping and replacing any solution carries risk; overlaying an insight framework is all value-add.

Conclusion

Long before testing of historical data identifies issues, leveraging data internal and external to your organization to predict the trajectory of risks can truly give your organization insight into not only where its risks lie today, but also where they are headed. Injecting predictive analytics into your risk program will unleash the full power of your proactive risk management efforts, empower your risk and compliance departments and inject confidence into the Board of Director's forward-looking decision making by giving them a competitive advantage.

If you would like to know how 360factors can help take the first step to injecting Predictive Insight into your risk management program, please reach out to us at…

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