



[www.pwc.com](http://www.pwc.com)

# *Risk mandate and organisation*

## A radical change agenda



A photograph of a man with short, dark hair and glasses, wearing a light pink button-down shirt. He is seated at a white table, looking down at a white tablet device he is holding in his hands. The background is slightly blurred, showing what appears to be a modern building with large windows.

# *Contents*

# Background and Introduction

## PwC study on Risk mandate and organisation



There is a clear recognition across banks of the need for Risk functions to evolve with the changing Risk and business environment. In our conversations, we have observed increased focus across banks on three key topics.

- Is Risk allocating adequate resources to new and emerging risks?
- Is Risk leveraging new technologies optimally or as effectively as the rest of the organisation?
- Is Risk analysis and MI available and accessible to support key business decisions?

For many banks, the answer to all of the above questions is a No; for most banks, significant operating model changes are needed to positively respond to these questions in future. PwC's global study of Risk functions in H1 2017\* focussed on eight topics which, we believe provide a comprehensive view of the Risk change agenda and its interaction with wider organisational issues.

**Fig1: PwC global study on the Risk mandate and organisational – Focus on eight areas of change**

The study covered 17 banks including 10 Global-Systematically Important Banks (G-SIBs) and 7 other large international banks and was based on interviews with senior risk executives complemented by a more detailed survey.



In this report, we set out the case for radical change, our key observations from the study, our point of view on the emerging future of the Risk function and key initiatives that we believe need to be prioritised now to deliver the required change.

\* PwC Global Study on Risk Mandate and Organisation - 2017



# Why is it different this time?

## Case for radical change

Risk functions have undergone significant transformation since the crisis, largely driven by regulatory scrutiny across all aspects of the operating model including models, disclosures, risk frameworks, governance and data. While many of these continue to be relevant, there are a number of new factors which make the case for radical change going forward. Cost reduction, for example, is a key priority for Risk in many banks which needs to be delivered without compromising on the control environment, as well as catering to an ever expanding risk landscape. Most banks believe that this would require further clarification of the risk mandate, as well as greater use of low cost locations and major infrastructure changes. Similarly on clarification of the risk mandate, the question of the role of Risk in three lines of defence is being actively debated, with a specific focus on more “difficult” issues like first line accountabilities around collections, advice, automated strategies and risk controls where the business may not have sufficient expertise.

**The survey highlights ambitious goals set by a number of banks whilst also recognising gaps in target state vision and the established roadmap**

### **Extension of mandate while materially scaling back costs**

The PwC study highlights an increasing recognition across banks of the need for Risk functions to rapidly evolve with the changing risk and business landscape. This includes: the growing prominence of non-financial risks such as Cyber, IT and Vendor risk, radical transformation of customer channels and competitive landscape and shrinking margins.

Many banks are also looking at material cost reduction through multiple levers including organisation structure,

location strategy, process simplification and clearer accountability across three lines of defence, with some banks targeting more than 20% reduction. While the Risk function constitutes a relatively small proportion of the total cost base, there are significant upstream and downstream linkages; investments in the Risk function could effectively target a much higher total cost base through related opportunities to reduce costs on risk activities in front office.



### **Lack of an established and agreed target state**

Based on the results of the recent study, PwC believes that banks will need to develop solutions which reflect their specific operating model features and challenges; however it is critical to develop a common shared view of the target end state which is widely accepted across the organisation. In many banks, the end state is still not fully defined.



There also continue to be differences between banks on how best to leverage risk investments like stress testing and economic capital in key business processes for example risk appetite, business performance, capital allocation, business planning and Pillar 2 assessment. There is also significant divergence in detailed methodologies underpinning the above processes.

**PwC notes an increasing recognition of the need to address more ‘difficult’ challenges including technology, regulation and the three lines of defence**

**Efficient delivery against regulation is crucial**

The need to comply with increasing regulatory requirements continues to be a key distraction for many banks in delivering effectively on the Risk mandate. Most banks have made limited progress on aligning regulatory change with the wider organisation transformation agenda and operating model or looking at approaches to extract more value from existing investments.

**Technology investment is seen as a key enabler**

Banks recognise the need for changes to existing infrastructure as well as the use of new technologies; however there is still a lack of clarity on the benefits case and a fear that some of the technology changes may be too difficult. While many banks are developing use cases for new technologies, there is a recognition that Risk is lagging behind the rest of the organisation and, in many cases, not well integrated to benefit from Group or firm wide investments.



**Integration and alignment across three lines of defence is a key success factor**

Many banks see significant yet untapped opportunities to better align data, processes, frameworks and analytics across different functions especially Risk, Finance and Treasury, as well as between Risk and Compliance. Banks are also actively exploring opportunities to better understand distribution of roles and responsibilities across the three lines of defence, with a specific focus on clear accountability and minimising duplication. As mentioned earlier,

this is increasingly moving into challenging areas where traditional roles played by Risk (example assurance, collections and regulatory advice) may need to be reallocated to first line or vice versa. In most cases, these will require changes to the operating model as well as skills and capabilities in different teams.



# Emerging future of Risk

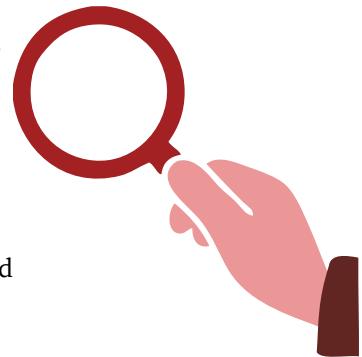


**The future Risk function is expected to be leaner and more agile with a holistic mandate covering all risk factors**

## Holistic mandate covering second line oversight of all risks

Risk functions are progressively transitioning towards an end-to-end risk oversight mandate with the Chief Risk Officer (CRO) ultimately accountable to the Board to ensure that the bank is operating under its defined appetite for all risks. This could represent a diametrically different approach for many banks with regard to some non-financial risks such Legal, Conduct or Cyber risk. The PwC study shows that over the past few years, the approach to these risks has often developed in opposite directions: on the one hand, CROs have tended to argue that

the function is not geared up to manage such risks, focusing instead on traditional risk types: (market, credit and operational risk); on the other hand, as the materiality and interconnectivity of non-financial risks continues to grow, the Risk function has been increasingly involved in overseeing these risks. Irrespective of the history, as the management of these risks becomes more mature, there is a need to better integrate these risks into enterprise wide risk management processes including Board reporting and risk appetite setting.



**Fig2: PwC global study on Risk mandate and organisation – Changing Risk landscape**

	<i>Risk is directly responsible for second line (Risk involved for ≥50% of participants)</i>	<i>Other function is responsible for second line (Risk involved for &lt;50% of participants)</i>	<i>Other function responsible where not Risk</i>
Third party vendor	✓		Procurement
Cyber risk	✓		IT
Technology	✓		IT
Compliance	✓		Compliance
Conduct	✓		Conduct/Security
Change execution	✓		
Geopolitical	✓		
Reputational	✓		
Business model viability		✓	
Legal		✓	Legal
Financial reporting		✓	Finance

## **Leaner and more senior teams with balanced skills across technology, business, regulation and analytics**

Increasing Front Office ownership and improvements in underlying data and infrastructure should ultimately lead to very limited resource allocated to data sourcing, manipulation and production, while encouraging broader risk-based decision making. This requires a leaner but more senior Risk team comprised of experienced practitioners and subject matter experts. In addition, as the risk landscape evolves to include a much bigger focus on new and emerging risks, there is a need to rebalance skills and resources to ensure these are effectively managed.

## ***Seamless linkage across modelling, reporting and surveillance through use of integrated tools***

With monitoring and surveillance becoming automated and real-time, we expect the gap between surveillance and reporting to narrow. In addition, technology and infrastructure enhancements will allow future risk models to be better embedded and integrated in decision-support tools. For example, this could include deploying machine-learning across credit decisioning but also in enabling predictive analytics to inform materiality-based oversight and allocation of scarce resources.

This should ultimately drive banks to integrate teams and infrastructure supporting different types of modelling, reporting and surveillance activities, ultimately creating common organisation-wide utilities. Risk's role would focus on calibrating and interpreting rather than data preparation, reporting, maintaining desktop models, etc. PwC also expects there will be a need to respond to rapid changes and use of helpful but unfamiliar technologies to drive more rapid development cycles (e.g. Agile, pilots, prototyping) than via traditional software development lifecycles.

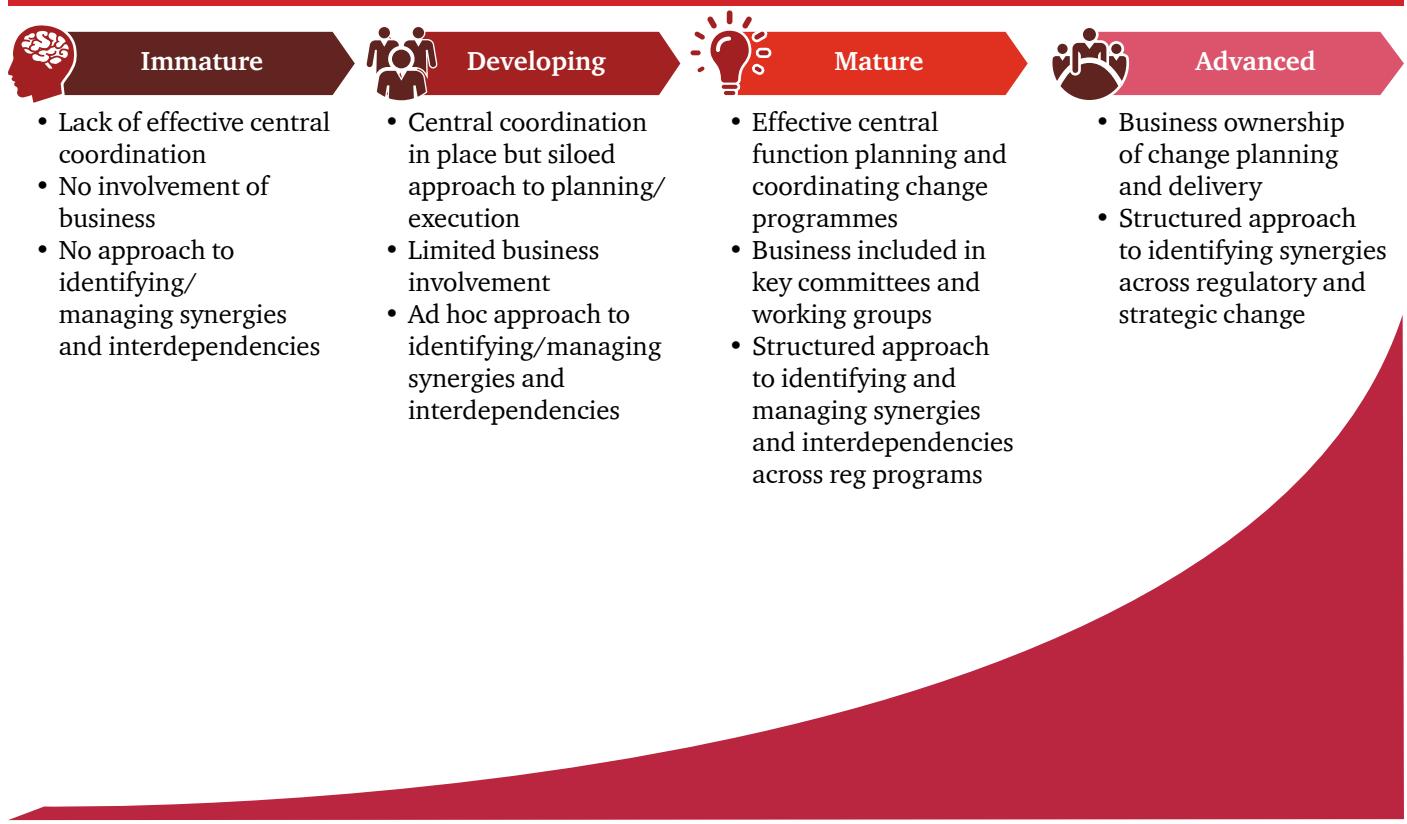
## ***Integrated into organisation change initiatives; agile in an evolving business and regulatory environment***

Outcome-driven alignment with other functions (especially Finance and Compliance) and Front Office across end-to-end processes is critical to ensure that Risk continues to respond effectively to changing business and regulatory environments. This would include better integration with the business on key investments to drive long term solutions and building target capabilities. For example, many banks have started to actively identify common impact areas (e.g. data, reporting, core platforms) to better capture dependencies between future regulations. Some have been working on identifying synergies with existing organisational priorities and required capabilities (e.g. customer service) to gain better business engagement on key risk and regulatory investments. Figure 3 on the next page provides PwC's view of the different stages of sophistication in delivering change – and the broad dispersion in maturity that we see across industry.

The future Risk function will also need to be better integrated with organisational change initiatives to support better alignment and effective use of technology investments. While some banks have done this well, with Risk effectively embedded in the technology roadmap, most see this as an area for development. Several banks have highlighted the limited benefits delivered for the Risk function from key front office investments. For example, insights from participants show that building a single customer view for cross-selling has not materially improved the organisation's view of integrated customer risk or risk adjusted profitability.



**Fig 3: Bank practices around the integration of Risk: A case for stepping up change management to build agility and future proofing**



**Low** → **Level of sophistication in managing/delivering change** → **High**

◆ Banks in sample-positioning based on interviews and additional PwC insights. Not all participants provided sufficient information for assessment.

- 
- Maturity of planning and execution of regulatory change remains low across industry
    - Most banks struggle with ineffective central coordination and complexity in scoping out impact of change
    - Capability to identify and manage dependencies and synergies remains limited
    - Project planning and delivery tend to target regulatory compliance with potential business benefits often only looked at post delivery
    - Achieving transition into BAU was mentioned by various bank as a persistent challenge
  - A smaller number of banks have invested in more sophisticated change management function over the last 2-3 years. Key practices include
    - Enhanced change governance through reduction in number of committees and enforcing accountability
    - Investments in structured frameworks for identifying and managing synergies support better scoping and up-front consideration of business
    - Integrating business into change programmes, with some banks going further in appointing business executives in charge of change execution
  - More sophisticated banks are moving away from the notion of targeting compliance at minimum cost
    - A limited subset of risk executives expressed that regulation is looked at in terms of intended outcomes rather than strict compliance
    - We observe an emerging awareness of the opportunity presented by using regulatory investments to build out the above capabilities but change management in most banks is not at the required level maturity



# Key priorities

**Achieving the target state is expected to be a complex multi-year journey, requiring senior Business, Finance and Risk sponsorship**

Delivery of change is a complex task. While some benefits can be realized in a 6-12 month time frame, others will take much longer and require strong governance and a structured approach to planning and delivering change. PwC sees particular challenges arising from the need to restructure multiple end-to-end business processes, building up capabilities to enable new ways of working, aligning and managing interests across functions and dealing with legacy infrastructure. Informed by the global study, below we set out PwC's view of key priorities within the Risk change agenda.

## Rationalisation across the three lines of defence



Despite persistent emphasis for a number of years, banks continue to face challenges in effective implementation including building up the appropriate skills within the first line. Also, unlike previous initiatives, cost and efficiency are key drivers: full ownership of risk by the first line; elimination of duplication of controls carried out by first, second and third line; and a re-focusing of efforts by the second line on review and challenge instead of owning and executing the controls. This also links closely with the need for Risk to take on a holistic mandate covering all risks; a clear delineation of roles is needed to achieve the objective effectively.

## Continued focus on risk culture and conduct

Across the industry the importance of risk culture continues to be emphasised, as effective management of current top risks such as Cyber very much depend on the extent to which a strong risk culture has been embedded. PwC expects this to remain an area of focus for several years as the role of Risk is clarified and practices become more mature for non-financial risks.



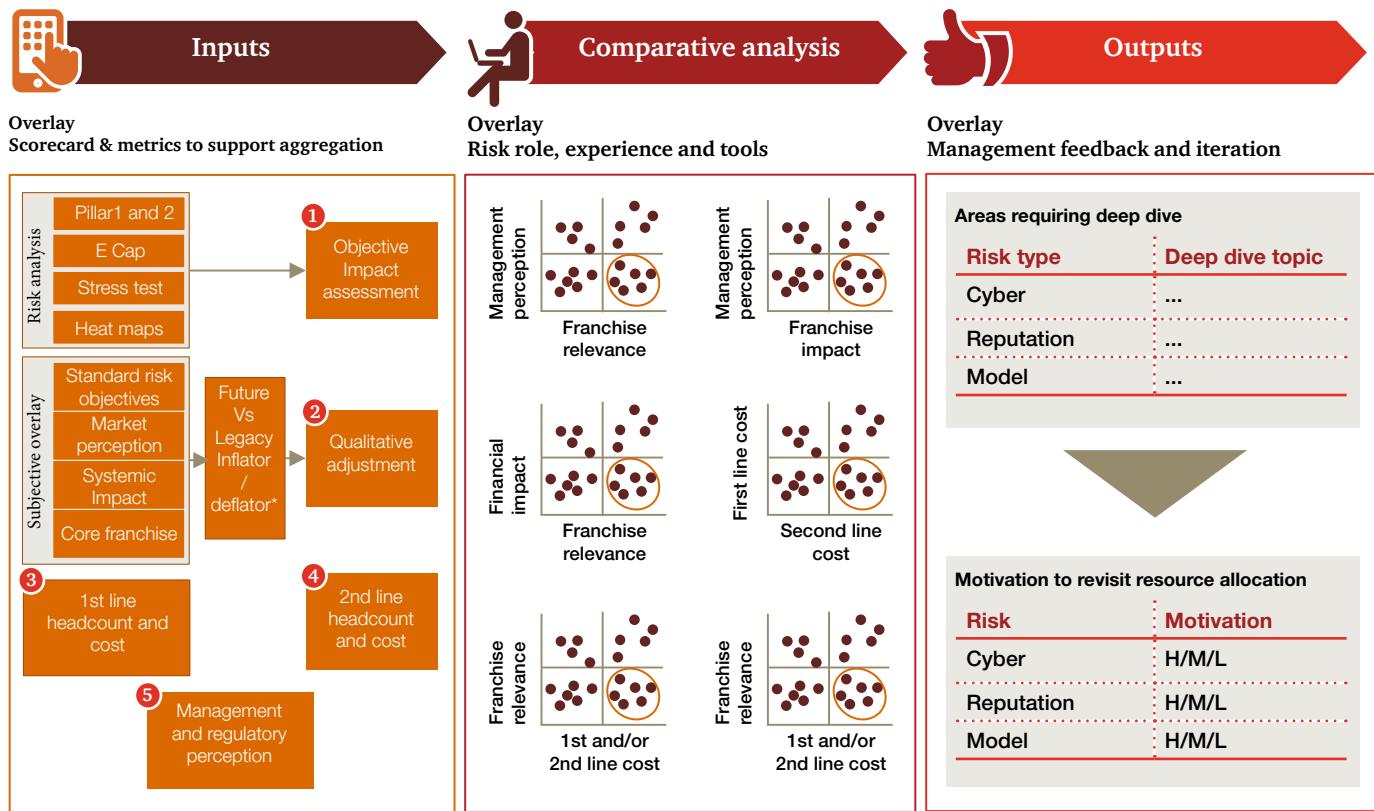
## Structured approach to achieving the target resource mix and skills



There is a universal recognition across banks that a material change in the Risk resource mix and skills is required, with limited progress made to date for most banks. A changing Risk landscape is increasingly driving the need for a close collaboration and reliance on expertise drawn from a range of internal and external sources outside the current Risk function. The need for change is further compounded by rapid changes in technology such as the use of machine learning and artificial intelligence, robotics, blockchain, increased digitisation. In addition, many banks are recognising the need for Risk to engage a range of stakeholders (e.g. business, regulators, shareholders) on how diverse risks are expected to evolve and the effectiveness of the various controls put in place. All of these are driving the need to reshape the Risk function to include broader data, technology, business and communication skills rather than conventional Risk skills.

**Fig 4: Illustrative PwC framework to assess resource allocation - many banks are looking at developing formal/informal frameworks to support the decision on the future shape and size of Risk**

Note: For illustration only. Additional details available on request.



### Revisiting and transforming the technology architecture

Given the sheer complexity of large firms' IT architecture, there is often a sense of "it's too hard". However there is firm recognition that technology and infrastructure changes are critical in cutting costs, improving accuracy and reducing turnaround times. This includes revisiting the core architecture and taking a strategic view on where it should go, as well as targeted investment in new technologies.

There are a number of key challenges which need to be resolved. Risk is often low down the list of organisational priorities when it comes to handing out the IT budget and is often not part of the core technology roadmap and business digitisation projects. In addition, a majority of Risk technology changes need to be delivered in conjunction with end-to-end process transformation, i.e. the need to redesign end-to-end processes rather than simply creating new ones to (i) make sure banks actually reap efficiency gains from the technology and (ii) avoid adding additional complexity.



\* Bespoke adjustments to emphasise risks likely to increase in materiality in future

**Fig 5: Planned investments in new technologies**

Focus areas	Planned investments/pilots	Other potential opportunities (limited investments made so far)
<b>Big data</b>		
<b>Machine learning/AI</b>	<ul style="list-style-type: none"> <li>• Automation of response to Compliance FAQs.</li> <li>• New approaches to risk modelling (e.g. credit decisioning).</li> </ul>	<ul style="list-style-type: none"> <li>• Unstructured data analysis, e.g. to enhance lending decisions and early warning indicators.</li> <li>• Media analysis e.g. reputation risk</li> <li>• Predictive analytics to support monitoring and controls.</li> </ul>
<b>Robotics and automation</b>	<ul style="list-style-type: none"> <li>• Regulation monitoring.</li> <li>• Credit decisioning.</li> <li>• Reporting, limit monitoring and controls.</li> </ul>	
<b>Blockchain</b>		<ul style="list-style-type: none"> <li>• Data reconciliation.</li> <li>• Authentication (e.g. documentation).</li> </ul>

Source: PwC analysis

### **Revisiting the location strategy**

Revisiting the location strategy is a priority for many banks including those already using low-cost delivery centres offshore. This is more than just offshoring low value-add tasks, with banks looking to move higher value-add processes to low cost delivery centers as well. On the other hand, given the increasing staff cost of offshore delivery centers, some banks are also looking at doing the reverse – taking some low-value add activities back onshore, but using automation (such as Robotic Process Automation) to get the necessary cost-efficiencies.

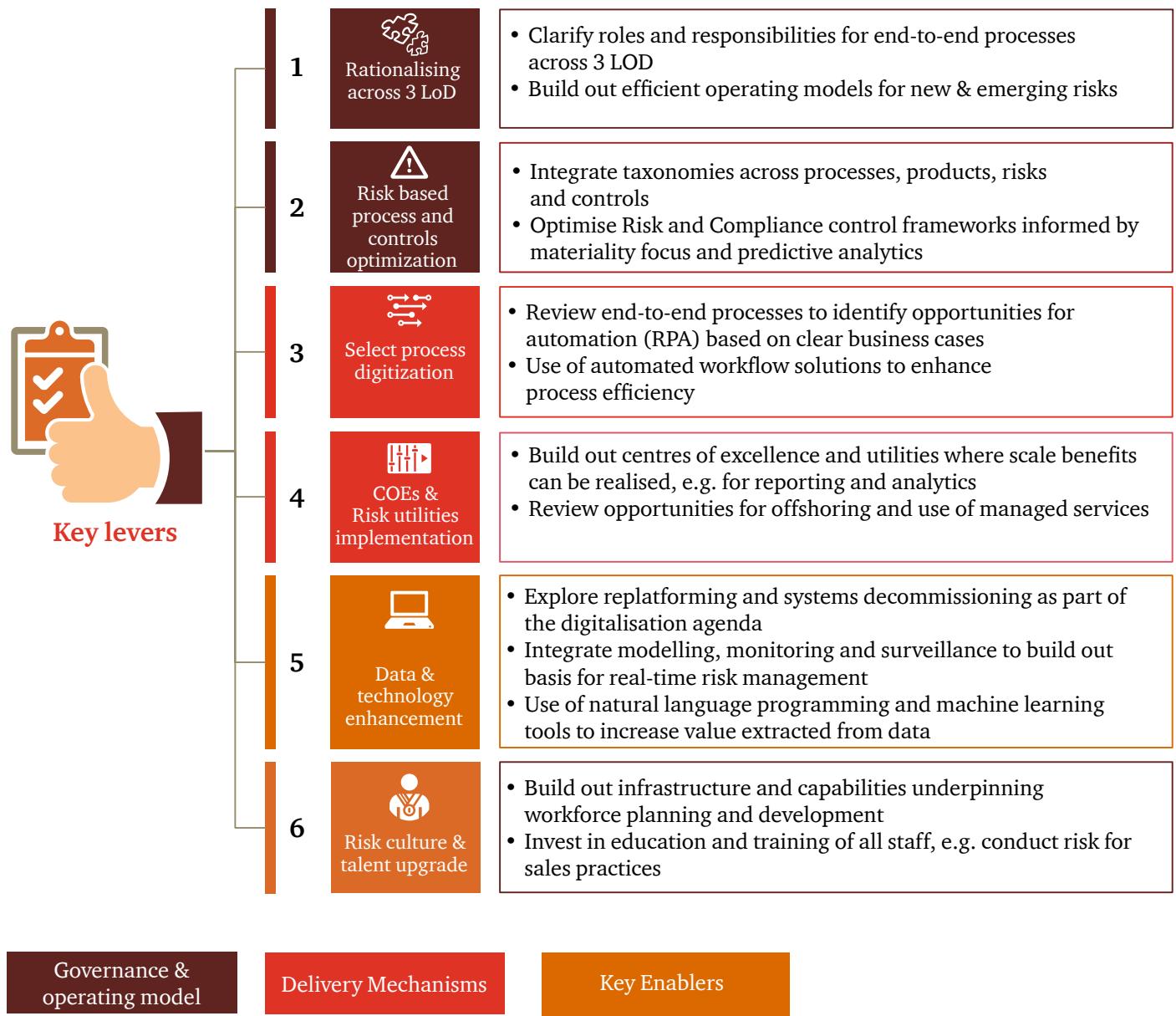


# Conclusion



While cost is a key driver of the transformation agenda, the overall focus is on increasing risk productivity so that risk outcomes are enhanced and required investments in new capabilities are funded. The increase in computing power, connectivity and the ability to tap into data open up possibilities to adopt different ways of working. As set out in this report, PwC sees an opportunity in integrating modelling, surveillance and reporting driven by technology, freeing up capacity to focus on value-add activities. Embracing and embedding new skills and technologies will be critical to remaining competitive – for example, faster decisioning and processing cycles will be important enablers of customer experience, as will nurturing and building skills around emerging risks like Cyber.

**Fig. 6 Institutions have six key levers at their disposal to enhance outcomes and increase productivity**



It is clear that changes will not happen overnight. Defining and working towards the future mandate and operating model and nurturing a risk-conscious culture will take time to put in place and require a deliberate and considered approach.



# Contacts



## Rami Feghali

**Partner**  
PwC France  
+33 1 56 57 71 27  
[rami.feghali@fr.pwc.com](mailto:rami.feghali@fr.pwc.com)

## Ajay Raina

**Director**  
PwC UK  
+44 7714 153427  
[ajay.raina@uk.pwc.com](mailto:ajay.raina@uk.pwc.com)

## Johannes Goldner

**Senior Manager**  
PwC UK  
+44 7738 845429  
[johannes.n.goldner@uk.pwc.com](mailto:johannes.n.goldner@uk.pwc.com)

## George Stylianides

**Global FS Risk Leader**  
PwC UK  
+44 20 7804 3364  
[george.e.stylianides@uk.pwc.com](mailto:george.e.stylianides@uk.pwc.com)

## Michael Alix

**FS Risk Leader**  
PwC US  
+1 646 471 3724  
[michael.alix@us.pwc.com](mailto:michael.alix@us.pwc.com)

## Chris Matten

**Partner**  
PwC Singapore  
+65 6236 3878  
[chris.matten@sg.pwc.com](mailto:chris.matten@sg.pwc.com)

## Roland Scheinert

**Partner**  
PwC Germany  
+49 69 9585 6691  
[roland.scheinert@de.pwc.com](mailto:roland.scheinert@de.pwc.com)

## Jai Sinha

**Partner**  
PwC US  
+1 212 551 6837  
[jai.sinha@us.pwc.com](mailto:jai.sinha@us.pwc.com)

## Dietmar Serbee

**Partner**  
PwC US  
+1 917 902 6382  
[dietmar.d.serbee@us.pwc.com](mailto:dietmar.d.serbee@us.pwc.com)



© 2017 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details. This proposal is protected under the copyright laws of the United States and other countries. This proposal contains information that is proprietary and confidential to PricewaterhouseCoopers LLP, and shall not be disclosed outside the recipient's company or duplicated, used or disclosed, in whole or in part, by the recipient for any purpose other than to evaluate this proposal. Any other use or disclosure, in whole or in part, of this information without the express written permission of PricewaterhouseCoopers LLP is prohibited.