

Institute of Risk Management
Special Interest Group – Financial Services

5th November 2008 10:30 – 12:30

Hiscox, 1 Great St Helen's, London, EC3A 7HX

Attendance:

Peter Docherty – Chairman (AEGON UK)	Karen Hudson (Swiss Re)
Lisa Sawyer (JLT)	Dave Canham (Norwich Union)
Val Amos (Hiscox)	Agi Mills (AXA)
Sue Houldey (Ecclesiastical)	Deborah Clark (Tokio Marine)
Filipe Araujo (Skandia)	Susan Young (Zurich Global Corporate)
Cathy Hawes (Pearl Group)	Simona Fionda (Barclaycard)
Ross McGee (Whittington Insurance)	Julian Phillips (JP Risk)
James Cole (Cognitix 360)	Maria Puddu
James Leslie (Standard Life)	Peter Phillpot (National Counties BS)

MINUTES

1. Welcome & Introductions

The Chairman welcomed everyone to the second session of the SIG and thanked Val Amos for offering to host the session at Hiscox. The topics for discussion on this occasion were Key Risk Indicators (KRIs) and Change Risk Management. It was also noted that due to the large concentration of members in the London area, future meetings would take place in London unless otherwise requested.

The participants then introduced themselves and role they currently hold within their respective organisations.

It was agreed in advance, that the minutes of the meeting would be informal, thereby not referring comments and discussion input directly to attendees.

2. Key Risk Indicators (KRIs)

The Chairman introduced the first topic of KRIs and opened the table up for discussion as to what KRIs were used for in their respective organisation, what type of information was communicated and the key challenges faced.

The main purpose for producing KRIs was to help with decision making within organisations, however, due to the nature of the data this would normally be targeted at the senior level, focusing heavily on capital requirements and investment risk. In the current economic climate, the importance of such information was growing considerably, however, there was still some doubt as to whether KRIs were used to genuinely inform decision making or solely for information purposes.

KRIs v KPIs

The group debated the differences between KRIs and KPIs, concluding that KPIs were primarily backward looking, whereas KRIs should be a more pro-active and forward looking measure. In addition, where possible, KRIs should also be linked to Risk Appetite in order to identify when agreed tolerance limits are about to breach or have been breached.

The majority of KRI information was for the purposes of Executive committees and is often on a quarterly basis, thereby leaving a lag period which if not filled by the appropriate forewarning could create delay between notification and action.

Strategic v Operational Reporting

The Chairman then circulated an example of a KRI dashboard that is used within an operational business unit, discussing the benefits of the fields that were highlighted within the report. The intention of BU level reporting is that when done consistently, the consolidation of information upwards becomes much easier and relevant to senior management. One of the key challenges is getting this level of consistency, in order to understand which areas of the business may pose the greatest risk, using similar metrics to determine so.

'What do management actually want?' was another key message, often the information provided isn't relevant or practicable for decision making, one participant advised that in their particular organisation there were 2,000 KRIs!

Another challenge is ensuring that KRIs where there is significant risk identified, are escalated appropriately and then fed back down through the organisation to influence BU behaviour. Often, the information that is escalated is not trusted by those who receive it, resulting in the 'so what' scenario leading to issues not being addressed as quickly as they should be.

Using External Data

The use of external information was also discussed, as often, third party information is preferred and 'trusted' more than internal data. The use of external data can also help to flag emerging risks that are being experienced in the wider industry, creating leading indicators for future risk exposures. The group also discussed the sharing of risk data, which has become more common in recent months via the ORIC project that was initiated by the ABI. The FSA has been pushing organisations to start sharing loss information, although questions were then posed as to what actually constitutes a loss, and the classification of underwriting losses, as there is a possibility of duplicating the charge for capital adequacy purposes.

The group was also reminded that the Loss Management SIG had been restarted and was looking for members; anyone wishing to participate should contact Dave Canham (canhamd@norwich-union.co.uk)

3. Change Risk Management

The second topic of the day was Change Risk Management, focusing on how this was managed in organisations, who was responsible for coordinating risk activity and good / bad experiences with current practice.

Categorisation of change risks:

- Projects (IT, Product Development etc)
- People (Restructures, Redundancy programmes etc)
- M&A
- Operational Transformation
- Regulatory
- Economic Environment

Thresholds for Involvement

One participant described current involvement at present with projects, outlining that they had full access to all projects and would decide which ones required involvement of risk. For others, there were specific financial thresholds that would determine whether risk functions would be involved; some organisations had specific change risk personnel within the function who would specifically look at risks on projects.

Thresholds were split between various factors, for example:

- **Cost / Man-days effort** (Risks attached to cost overruns, significant investment risks)
- **Schedule risks** (Tight delivery schedules, product launch deadlines etc)
- **Benefit realisation risks** (To ensure investment is realised e.g. avoid wasted efforts)
- **Regulatory** (High profile regulatory changes – may be lead by Compliance)
- **Business Impact** (Risks attached to projects that will have a high impact on business activity if problems were to arise)

Nature of Involvement

The involvement of the risk function varied across organisations, some were involved solely as a facilitator of the risks to the project, others were actively involved in the governance forums and steering groups associated with projects.

Some organisations preferred to adopt the 'challenge' role as opposed to having active involvement in management of project risk, with the ability to become more hands-on if the project required more active involvement. The risk function may also be required to formally sign-off the project specification and provide the ongoing challenge to delivery success.

The group then discussed the difference between the responsibility for risk management of change programmes being with the risk function as opposed to the change delivery function. It was felt that the expertise required to adequately identify and monitor risks was in the risk function, this approach also allowed the right people to be involved at the appropriate time.

Change Risks Reporting

Costs overspend is becoming a higher focus than previously, some firms are recording project failures as a loss on formal loss reports, which may then be eventually included on capital modelling exercises etc. In addition, the group felt strongly that project type risks should be a core element of any KRI reporting, one member highlighted that the FSA were also more aware of the risks attached to projects and were enquiring further when undertaking the ARROW II visit.

For 'showstopper' risks, a different approach may be adopted, this may relate to new product launch or major business change. The initial analysis would be done via questionnaire, this would highlight any operational issues that need consideration, it would also outline any impact on capital requirements and would finally require the sign-off of the Risk Committee prior to launch.

4. AOB

The agenda items for the next meeting of the group will be decided in advance of the next meeting, options include, Operational Risk Capital, Risk Appetite, Risk Governance Models etc, members will be asked to propose topics for consideration.

The Chairman asked the group whether it would be appropriate to distribute the list of members, as a way of allowing members to contact those in the relevant field, the group agreed and the list will be sent with the minutes of the meeting.

5. Next Meeting

Next meeting to be held on 10th February 2009 (venue to be confirmed in due course) in London.