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Accenture 2013 Global Risk Management Study

Focus on findings for the Banking and Capital Markets sector

Contents

Research and interviews were conducted by Accenture and Oxford Economics, who collaborated to write this report.

OXFORD ECONOMICS

About the research

This report on banking and capital markets firms is a sector-specific supplement to the Accenture 2013 Global Risk Management Study.[1]

The report is based on a quantitative survey of executives from 108 organizations in the banking and capital markets industries, as well as in-depth qualitative interviews with senior managers at banking and capital markets firms. Survey respondents were C-level executives involved in risk management decisions. Organizations were split among Europe (40%), North America (24%), Latin America (7%), and Asia Pacific (29%). Just under half the companies had annual revenues between $1 billion and $5 billion, and 52% had annual revenues over $5 billion. Respondents included Chief Risk Officers (CROs, 39%), Chief Executive Officers (CEOs, 11%), Chief Financial Officers (CFOs, 24%), and Chief Compliance Officers (CCOs, 25%).

Participants in our in-depth interviews were senior leaders at seven banking and capital markets firms across regions. They provide supporting insights for our data-driven research, while presenting useful perspectives from companies in the sector.

Executive summary

It may seem hard to believe after recent events, but the banking and capital markets firms we surveyed as part of our 2013 Global Risk Management Study believe risk levels will increase over the next two years. Financial risks are no longer the single biggest worry; legal risks now seem to be the top concern.

Most other sectors surveyed in this study do not feel as much risk pressure. Only energy and utilities companies think risks will increase more than do companies in banking and capital markets.

Despite all the focus on liquidity by regulators, only 37% of respondents feel that liquidity risks will rise. This underscores the fact that liquidity risk tends to be more cyclical than most other risks and needs sustained attention across cycles. It is also possible surveyed firms have not learned the lessons from the recent credit crunch.

Nevertheless, we found that respondents are raising the role of risk management and integrating it into their budgeting and planning (91% of respondents) and strategic planning (89%). Unlike many other industries, an enterprise wide CRO is very often in place at banks and capital markets firms.

Among banks and capital markets firms, 68% of respondents report an increase in staffing over the past year, which is significantly higher than any other surveyed industry. In fact, risk is one of the few organizational functions where staff levels are not being cut. Only two percent of surveyed organizations plan to reduce risk staff, an extremely low rate that might be surprising right now in any other organizational area. This is despite the fact respondents admit that as much as 25% of their staff's time is spent on low value-added activities such as cleansing data.

Not surprisingly, the other main area where respondents want to build capabilities is in risk data and technology. Only one percent of respondents claim they have achieved mastery here.

The focus is, or should be, on insights, not just data and analytics, but the path to building new capabilities can be difficult. Only 26% of respondents said that they are well prepared to monitor customer risk information. Capital markets firms, in particular, emphasized their focus on risk infrastructure upgrades, with 84% saying they planned to make changes in the next 12 to 18 months.

Regulations such as BCBS 239[2] have defined some of the required standards, but the need to manage risk data to the same standard as accounting data may likely make such data less useful for business decisions as timelines potentially suffer. We have seen this play out in the past with financial results. In any case, most companies can be seen to have significant work ahead of them.

While there is much still to be done with data and technology, some progress is apparently being made, with 82% of respondents reporting a high degree of coordination between the risk function and the front office in areas such as working from the same models, the same data sources and the same calculators.

Managing compliance with regulations continues to be a top priority, but evidently there are gaps. Nearly 40% of survey respondents said they are only "somewhat prepared" to meet the challenges associated with monitoring and managing the Basel III requirements. Insufficient proactive engagement with regulators and/or government is seen as a real challenge for capital markets firms; more than half of respondents criticized their management for a lack of integrated response to regulatory reform.

While compliance with regulations, risk-adjusted performance management and other focus areas such as improving capital allocation continue to be key goals, the reported focus on managing reputational risk has been a real surprise. In fact, managing reputational risk has emerged as the second most important goal, edging out even capital allocation. Survey respondents, unfortunately, saw their ability to manage reputational risk as one of the weakest areas of the risk function.

This seems a clear indication that a corner has been turned. Risk management should evolve beyond its core focus on financial risks as banking and capital markets companies seem to face tighter competition in an increasingly commoditized marketplace.

We explore these themes and more in the next few sections, starting with Section 1, "Breaking down the barriers to risk integration in banking," and Section 2, "Focusing on risk infrastructure and governance in capital markets." We then present survey respondents' goals for 2015—across both banking and capital markets—in Section 3.

We believe banks and capital markets companies should consider the following three areas, and these are discussed in more detail in Section 4:

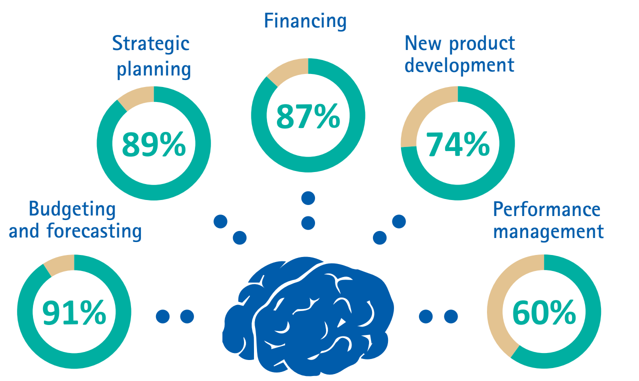
- Integrate risk with strategy and operations—infuse risk-adjusted behavior into business and operational processes
- Develop risk infrastructure and analytics—timely and reliable data that can address both regulatory and business needs
- Manage compliance through a transformational lens—centralized management in line with business objectives that also help deliver on regulatory requirements

Key findings

Top external pressures...

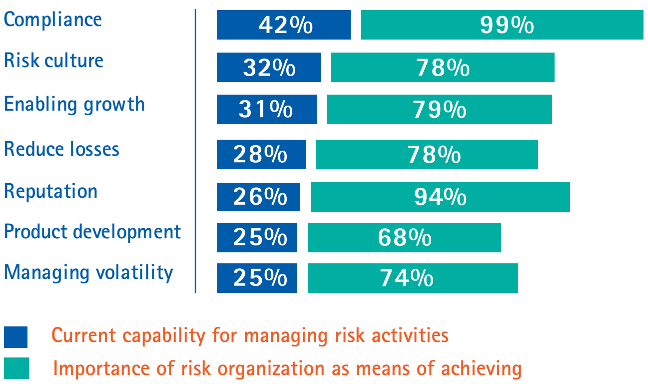
What risks do executives see rising most over the next two years?

Are causing banking and capital markets firms to integrate risk management into decision-making



Extent that risk management is integrated within other business functions

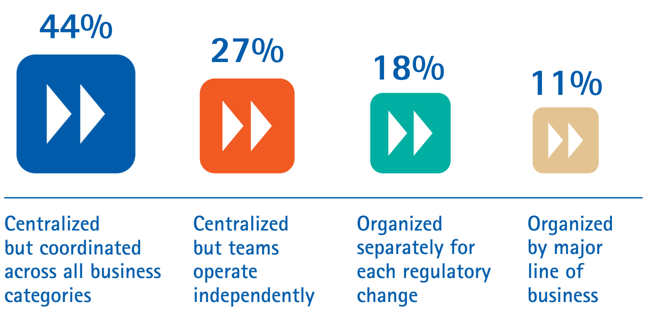
But there is still room for improvement in managing risk



For credit and operational risk, more than 60% of banks spend at least a quarter of their time on manual tasks

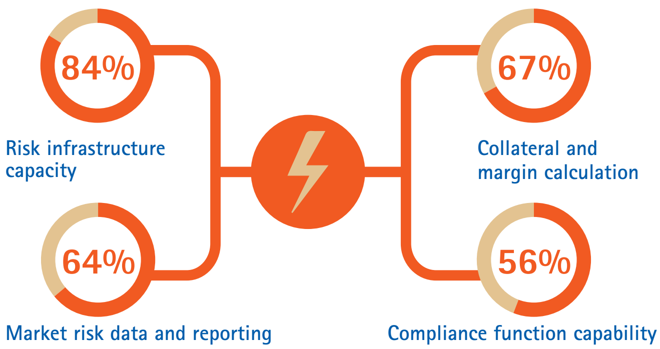
What percentage of the total analysis/reporting time in risk management is spent on manually performing tasks such as data management (collecting/aggregating/cleansing)?

Nearly half of capital markets firms take a proactive approach to regulatory change by centralizing compliance management



How are regulatory change programs currently managed and delivered in your organization?

84% of capital markets firms plan to upgrade risk infrastructure capacity over the next year or so



Focus areas for capital markets firms in next 12 to 18 months

For more information, please visit: www.accenture.com/globalriskmanagementresearch2013

Section 1

Breaking down barriers to risk integration in banking

Current pressures and priorities

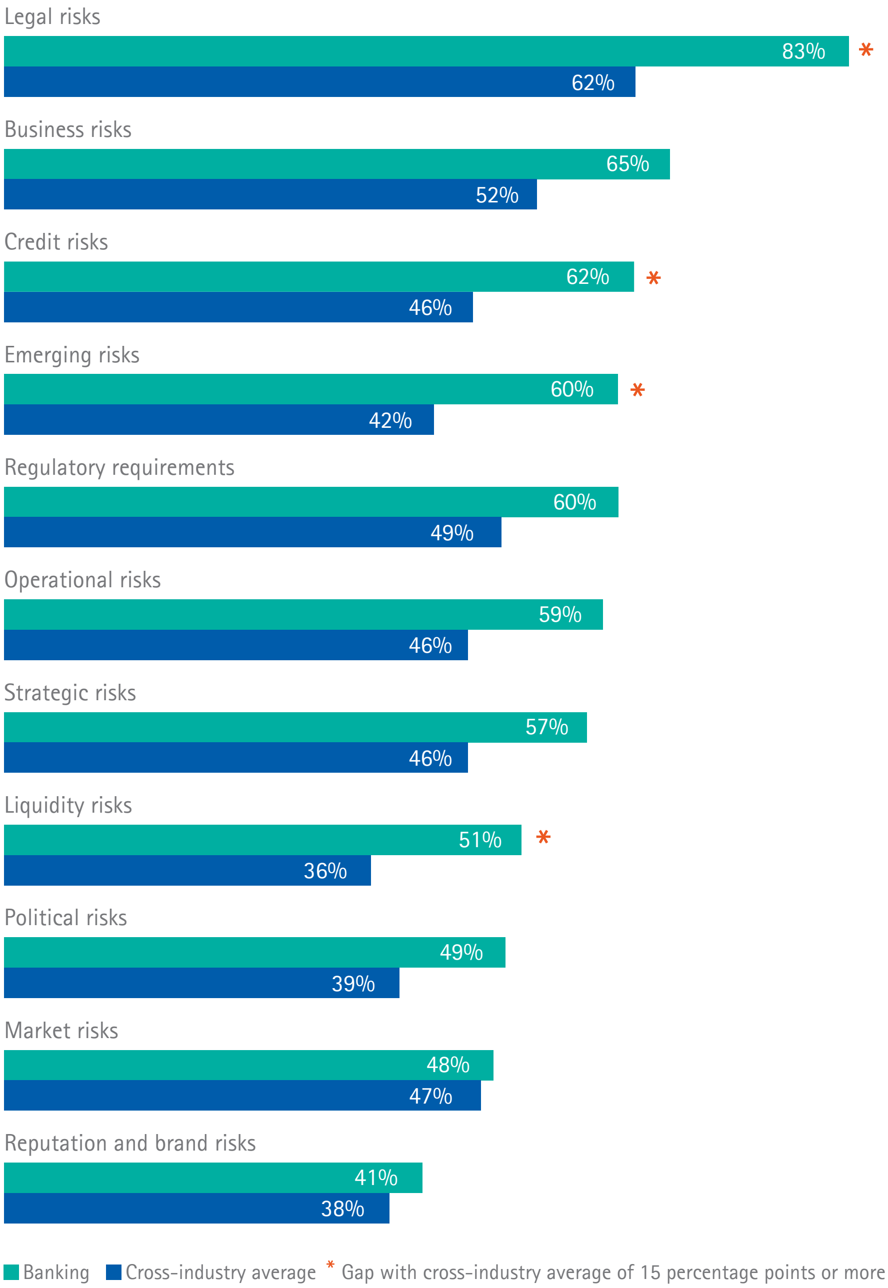
Since the global financial crisis peaked, banks have faced a range of pressures, including regulatory backlash, challenges to underlying business models, and fallout from the Eurozone crisis. It is little wonder that banks are more likely than any other industry we surveyed to forecast rising risks over the next two years.

There are four categories of risk surveyed that drive this difference: legal, credit, emerging, and liquidity risks; for each of these, the banking respondents forecast risks to rise by more than 15 percentage points beyond the cross-industry average (see Figure 1).

In this environment, expectations about the role the risk management function will play are also rising. For three goals surveyed, in particular, the proportion of banking respondents expecting the risk management function to play a significant role exceeds the cross-industry average by more than five percentage points (see Figure 2). These goals are improving capital allocation, managing liquidity, and reducing market or credit losses.

Figure 1. Risks forecast to rise over the next two years—Banking

How do you expect the following risks to change over the next 2 years? (Proportion expecting risks to "rise somewhat" or "risk significantly")



Source: Accenture 2013 Global Risk Management Study

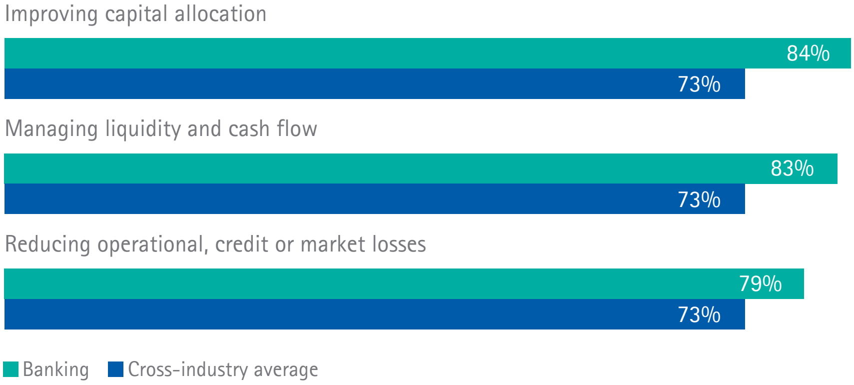
There are also two organizational goals surveyed for which the proportion of banking respondents expecting the risk management function to play a significant role has now become universal (rising to 100%—see Figure 3). These two additional goals are regulatory compliance and managing reputation risk.

These rising risks and organizational priorities comprise some of the current market pressures on risk managers in the banking industry. A common theme is the need to introduce risk management into business processes—including regulatory compliance, management of risks to reputation, assessment of risks emerging from the business environment, and capital and liquidity management.

In light of these pressures, it is perhaps unsurprising that, among all surveyed industries, the banking industry has the highest proportion reporting that a lack of integration with other business functions impedes overall risk management effectiveness (see Figure 4). This finding has a number of possible interpretations. One is that the enhanced capabilities of banking risk management functions create a tendency for the risk function to operate in a silo. Another possibility is that sector regulation has evolved to encompass more categories of risk (first credit, then market, and more recently operational and liquidity risk), leading to increased pressure for integration.

Figure 2. Expectations for the risk function's role vs. the cross-industry average—Banking

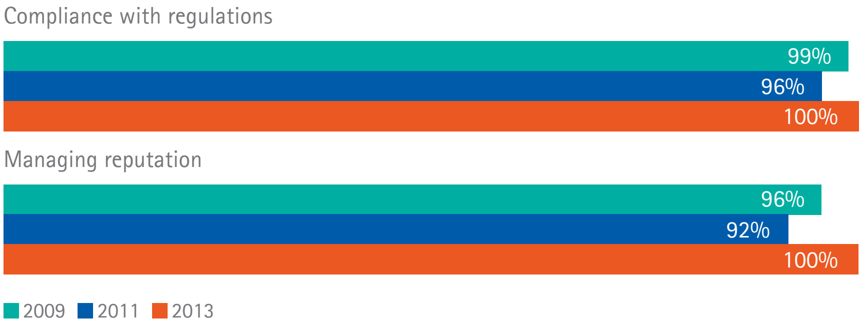
How would you rate the importance of your risk organization as a means of achieving the following? (Proportion saying "important" or "very important")



Source: Accenture 2013 Global Risk Management Study

Figure 3. Expectations for the risk function's role over time—Banking

How would you rate the importance of your risk organization as a means of achieving the following? (Proportion saying "important" or "very important")



Source: Accenture 2013 Global Risk Management Study

Figure 4. Lack of integration impedes effective risk management—Banking

To what extent does the following challenge impede the overall effectiveness of your organization's risk management function?—Lack of integration with other business functions (Proportion saying "to a great extent" or "to some extent")

Source: Accenture 2013 Global Risk Management Study

A final, perhaps more likely, interpretation is that the expectations of banks are higher than other industries. Banks have invested in risk function development and seek a return on their investment, in terms of benefits to the broader business, such as improved capital and liquidity management. To achieve these benefits, greater integration of risk management input is necessary.

Integrating risk input and the risk management function

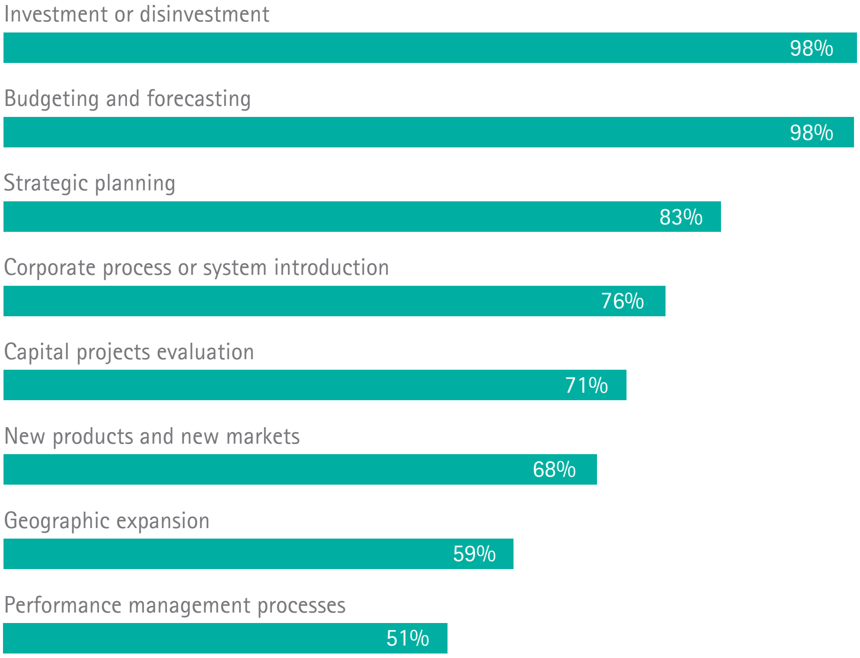
A number of banks are creating new tools and business processes that integrate risk management with the broader organization. "A challenge you face is how to integrate the risk appetite and risk perspective into the strategic planning process, says Tobias Guldimann, CRO of Credit Suisse. "This is because strategic planning is driven through the CFO, while risk appetite is more driven through the COO."

To enable this integration, Credit Suisse operationalized the bank's risk appetite statement. Turning the statement into a tool for strategic planning meant integrating economic capital, various risk metrics, and high-level country limits. "We integrated those into one statement and called it the risk appetite statement," says Mr. Guldimann. "We then expanded it to also cover liquidity, funding, and treasury." This produced a view of risk that is both high level and operational, and applicable on an almost one-to-one basis to all of the bank's global activities. It also can be integrated with the strategic planning process.

Across our survey participants, substantial progress has already been made in integrating risk management input into strategic decision-making. Some 83% of surveyed banks say the risk function is already integrated with strategic planning (see Figure 5). "Since 2007, risk management topics have been incorporated into strategic planning, mainly in relation to economic scenarios and capital requirements," says Rauélison Muniz, Executive Director of Risk Management at Caixa Economica Federal.

Figure 5. Integrating risk with decision-making processes—Banking

To what extent is the risk function currently included in your bank's decision-making process for the following areas? (Proportion saying "completely" or "to a great extent")



Source: Accenture 2013 Global Risk Management Study

That said, the debate continues over the role risk should play in strategic planning. Some risk managers feel only an active, decision-making role constitutes true strategic involvement.

While many banks have developed the capabilities in high-level scenario analysis needed to integrate risk management into areas such as strategic planning and budgeting, integration into performance management is notably less advanced. Only 51% of banks currently report a high level of integration in this area.

Infusing risk input into operational, capital, and liquidity management areas often requires further development of processes and systems. "We are doing work around databases and flows between our finance and risk functions," notes Wilfred Nagel, ING Group's CRO. The purpose of this work is to enhance predictive analysis about repayment and prepayment behavior, as well as liquidity issues.

While there is some regulatory impetus for such work, the primary aim is to introduce risk input into business processes. "It is driven mainly by the desire of the executive management team to more proactively steer the balance sheet and liquidity, and to manage liquidity more efficiently," Mr. Nagel explains. "Over the past two years, banks have added [huge amounts of] liquidity, but the question is, how much is enough?"

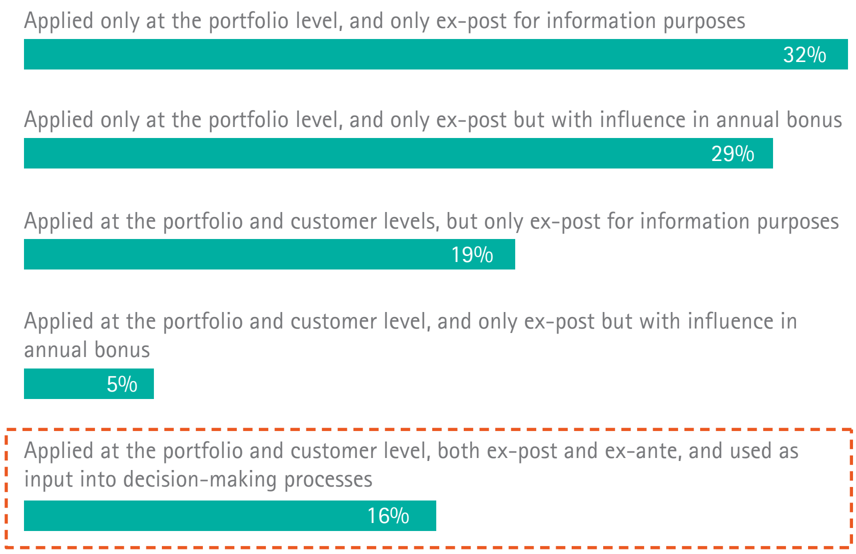
Developing sophisticated systems that will integrate the risk management function with areas such as performance evaluation is still a work in progress for many of our survey respondents. Sixty one percent of banks apply risk metrics only at the portfolio level on an ex-post basis (see Figure 6). Only 16% use risk metrics at both portfolio and customer level as an ex-ante input into decision-making and performance evaluation processes.

To deploy risk metrics on a more real-time basis, a focus on enhancing data quality and timeliness may be important. This can be difficult for banks that continue to spend a great deal of time on manual aspects of data management. New regulations from the Basel Committee on Banking Supervision (BCBS), for instance, require high-frequency reporting during crises.[3] To achieve this, banks may need to push risk controls to the first line of defense (the business units) and reporting to the second line of defense (the risk management function).

For credit and operational risk, more than 60% of respondents report spending at least a quarter of their time on manual tasks such as data collection, aggregation, and cleansing (see Figure 7). For the risk function to play a growing strategic role, it is preferable to spend more time creating business insight and less time on manual tasks, by enhancing automation of risk data. Réal Bellemare, Senior VP for Risk Management at Desjardins Group, says his risk function "continues to require human expertise in collecting data, and going forward we will add automated processes."

Figure 6. Using risk metrics in decision-making and performance evaluation—Banking

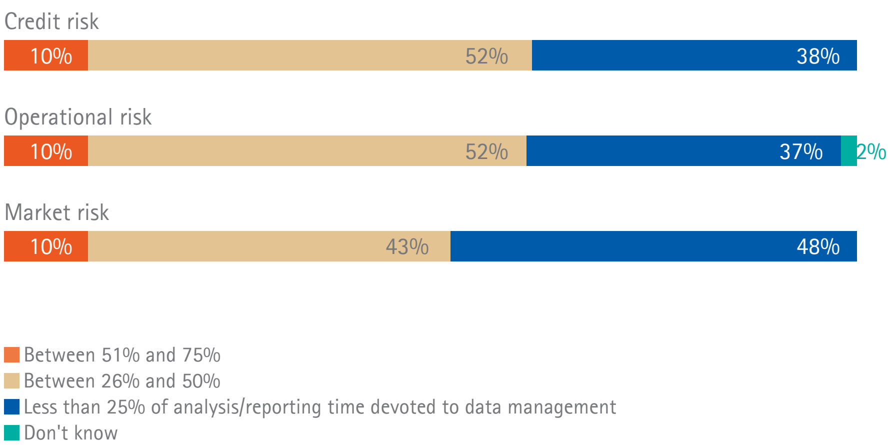
How are risk metrics (economic capital, expected loss, economic value added, etc.) embedded in your decision-making and performance evaluation processes?



Source: Accenture 2013 Global Risk Management Study

Figure 7. Risk management time devoted to manual tasks—Banking

What percentage of the total analysis/reporting time in risk management is spent on manually performing tasks such as data management (collecting/aggregating/cleansing)?



Note: Due to rounding, totals may not equal 100%
Source: Accenture 2013 Global Risk Management Study

Section 2

Focusing on risk infrastructure and governance in capital markets

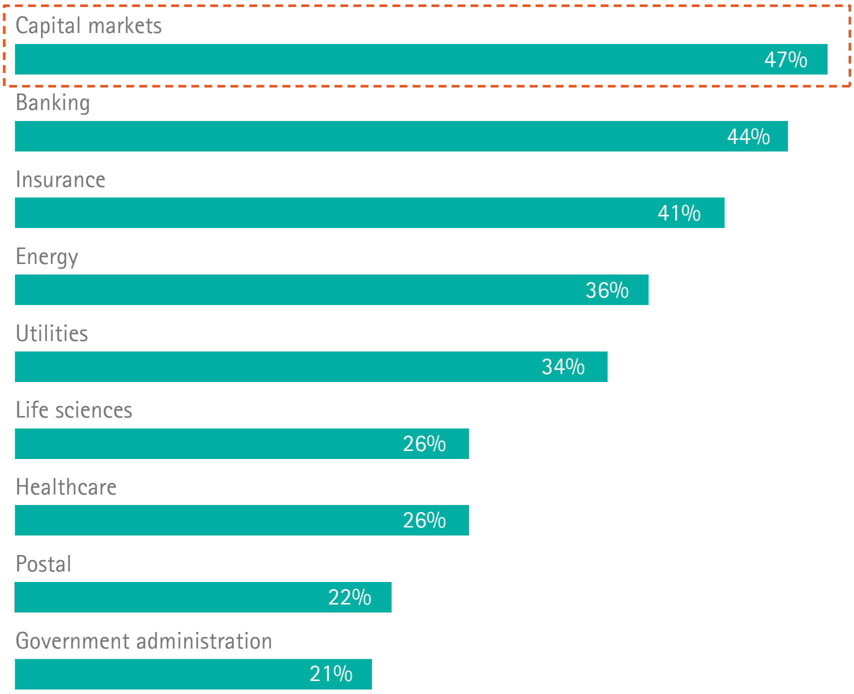
Current pressures and priorities

Capital markets firms have recently been buffeted by shocks, including quantitative easing, a commodity price super-cycle, and heightened political risk in Europe. It is therefore unsurprising that capital markets respondents are the most likely among industries we surveyed to report that the perceived importance of risk management has risen "to a great extent" over the past two years (see Figure 8). This finding is even more striking considering that the importance of risk management to the industry has been an ongoing trend for some time.

A central reason risk management has become more explicit is the pressure of regulation. When asked to rank the top three impacts of regulation, the most frequent choices of capital markets respondents are risk controls, risk reporting, and risk business processes (see Figure 9). One of the most striking survey findings on this theme, however, is the comprehensive impact of regulatory pressure. Five of the six areas we covered in the survey are ranked in the top three by at least 40% of respondents.

Figure 8. Rising importance of risk management—Capital markets

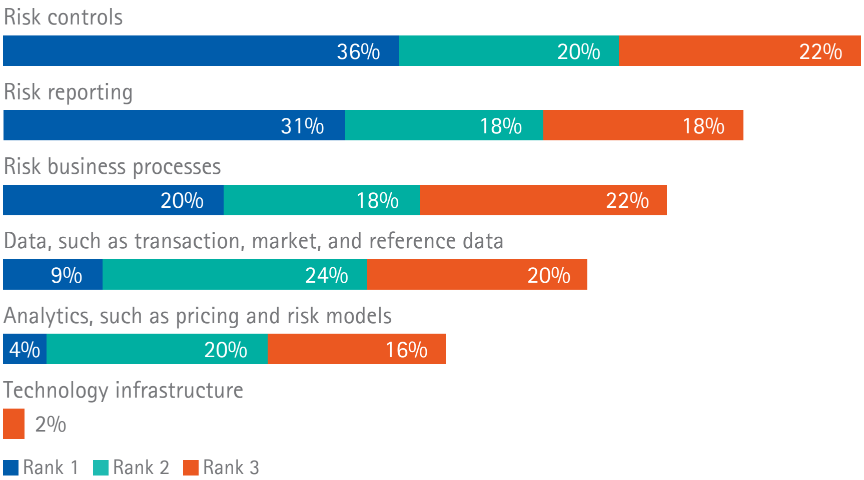
Is risk management a higher priority for your organization now than 2 years ago? (Proportion saying "to a great extent")



Source: Accenture 2013 Global Risk Management Study

Figure 9. Impact of regulation—Capital markets

What areas will be most significantly impacted by the various regulatory changes currently ongoing in the industry?



Source: Accenture 2013 Global Risk Management Study

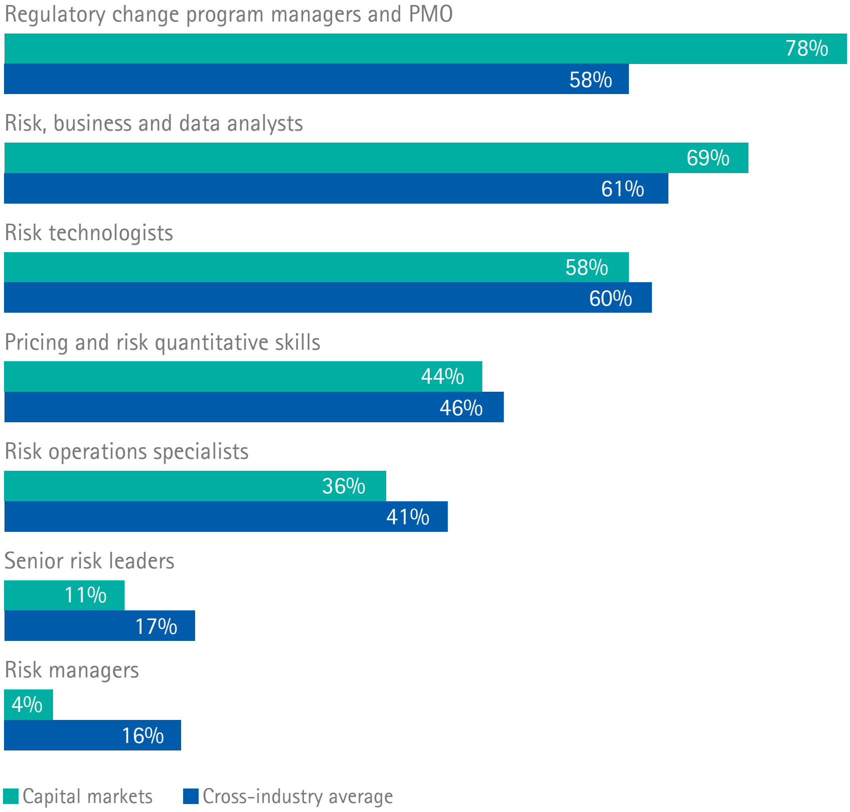
Faced with such comprehensive regulatory pressures, capital markets respondents are more likely than any other industry surveyed to report shortages of regulatory change management specialists (see Figure 10). There is a 20-percentage-point difference in survey results for this area in comparison with the cross-industry average. This is all the more striking because we find that capital markets respondents are less likely than average to report talent shortages in most of the other areas surveyed.

Addressing these staffing shortages means not simply adding personnel, but finding individuals with the skills that can address such comprehensive and prescriptive regulation in an integrated manner.

While regulatory pressures are intense, internal pressures are also high. Of those surveyed, there are three organizational goals for which the proportion of capital markets respondents expecting the risk management function to play an important role exceeds the cross-industry average by more than five percentage points (see Figure 11). These goals are risk-adjusted performance management, enabling long-term profitable growth, and improving capital allocation.

Figure 10. Staff shortages—Capital markets

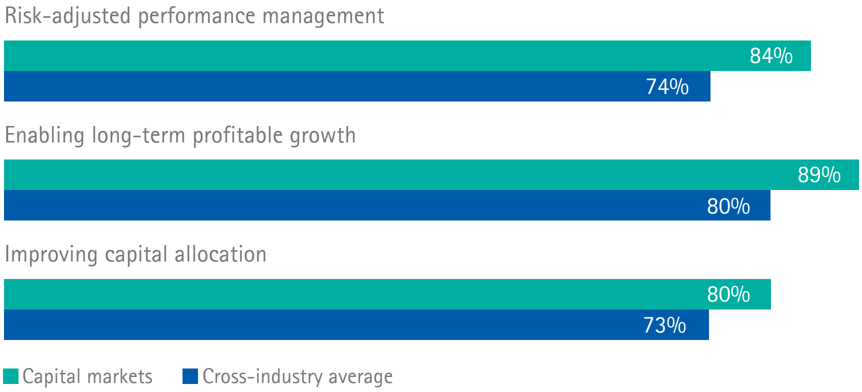
Where do you see the biggest shortage in risk management talent?



Source: Accenture 2013 Global Risk Management Study

Figure 11. Expectations for the risk management function's role—Capital markets

How would you rate the importance of your risk organization as a means of achieving the following? (Proportion saying "critical" or "important")



Source: Accenture 2013 Global Risk Management Study

"Risk management is meant to be a competitive advantage rather than a compliance exercise," says Credit Suisse's Mr. Guldimann. This advantage can be evaluated using hard numbers. For instance, Credit Suisse's provisions for losses have fallen over the past five years, he notes. "Some people might argue this was luck, but I would say it was part of conscious risk management decisions taken five or six years ago."

Redesigning risk governance and supporting infrastructure

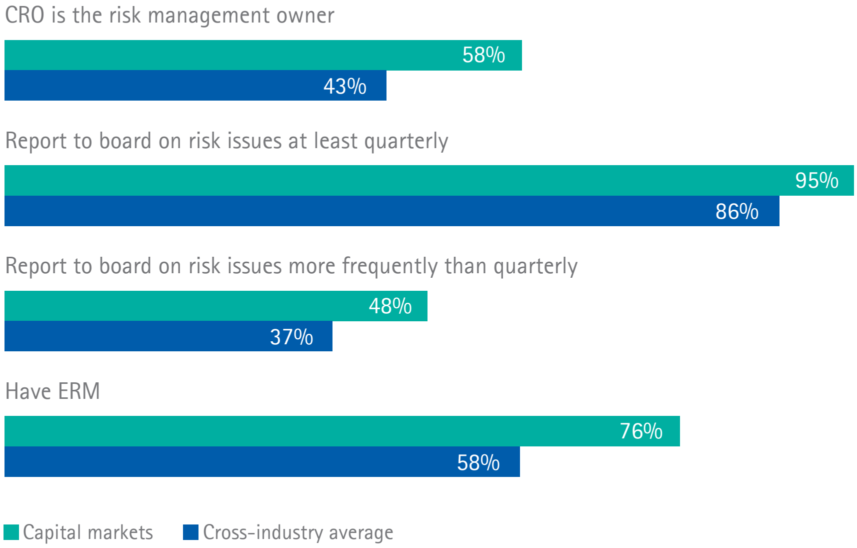
How can the risk management function in capital markets firms play this larger role—in managing regulatory pressures, enhancing risk-adjusted performance, and securing profitability? One element is risk governance: expanding the scope of risk management enterprise-wide and elevating risk management ownership to the executive-board level.

In this respect, capital markets firms lead other industries we surveyed (see Figure 12). These respondents are more likely to have the CRO as the risk management owner than any other industry. They are more likely to have the risk management owner report frequently on risk issues to the board than any other industry. They also are more likely to have an enterprise risk management (ERM) program in place.

While capital markets firms seem in agreement on the need to expand risk management's scope and role, they face a difficult trade-off between properly staffing each risk area and having an overly complex structure. "There has been a trend of giving more authority to business-unit CROs," says Amit Gupta, Managing Director with Accenture's Risk Management practice. Nearly two-thirds of industry respondents assign a global lead for each risk type, while 53% have a CRO for each geography and 29% have a CRO for each business line (see Figure 13). "We have risk functions closely aligned to divisions, but reporting to the CRO," notes Credit Suisse's Mr. Guldimann.

Figure 12. Standards of risk governance—Capital markets

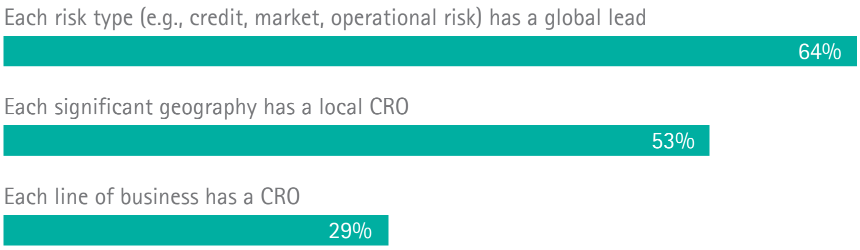
Who owns risk management in your organization? How frequently does the risk owner report to the board? Does your organization have an ERM program?



Source: Accenture 2013 Global Risk Management Study

Figure 13. Organization of risk governance—Capital markets

How is risk ownership and governance organized in your organization?



Source: Accenture 2013 Global Risk Management Study

Using an operating structure that involves joint management of risk by the central risk function and business units can have significant benefits. Empowered local risk functions in the divisions can help manage local risk issues, and local regulatory requirements, efficiently. "Just because they report to me, does not mean everything gets escalated to me," says Mr. Guldimann. Seventy-three percent of capital markets survey respondents use such a structure, where line-of-business heads and the CRO jointly manage risk (see Figure 14).

While capital markets firms can benefit from this joint governance structure, difficult questions must be asked about the underlying infrastructure and business processes. If risk analytics, processes, and reporting are different, will this lead to inefficiencies or, worse yet, friction in the working relationships between central and business-unit risk managers? Only 44% of capital markets firms surveyed say risk management and the front office leverage common underlying analytics. Only 38% say that the front office has integrated tools to make risk-informed trading decisions (see Figure 14). Integrating risk infrastructure and oversight may bring benefits to those firms that have not yet done so.

Integrating infrastructure supporting risk and finance is more common. More than 60% of capital markets respondents reported integration in this area (see Figure 15). Given rising independence of the CRO, this type of integration may be important in avoiding disputes that are based on different sources of data. Integrating analytics and integrating technology and operations teams is slightly less common and may be a goal to pursue as firms look towards 2015.

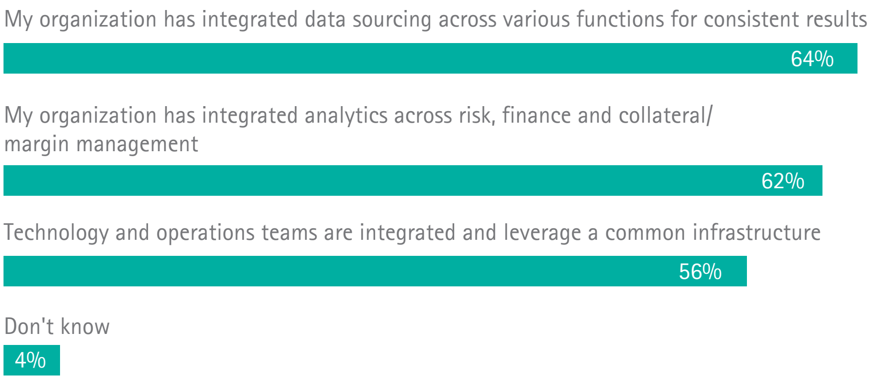
Figure 14. Integration of front office and risk management—Capital markets

What is the level of operational and strategic integration of front office and risk management?

Source: Accenture 2013 Global Risk Management Study

Figure 15. Infrastructure supporting risk and finance—Capital markets

What is the level of operational integration of risk with finance and other corporate functions?



Source: Accenture 2013 Global Risk Management Study

Section 3

Risk capability goals for 2015

Developing a high-performance organization in banking

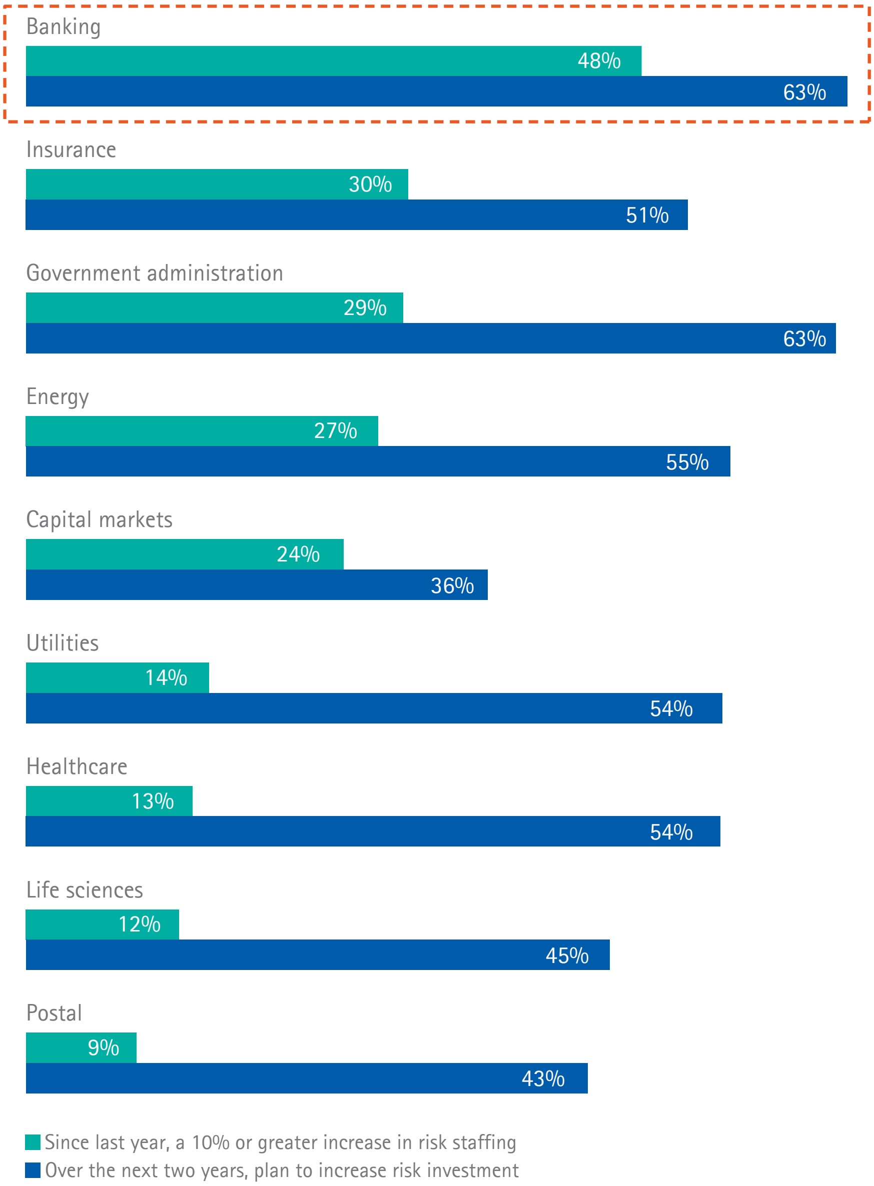
Across the industries we surveyed, banking is in a unique position: investment in risk capability development has increased dramatically and is not slowing down. The banking industry leads in the proportion of respondents reporting a 10% increase in risk staffing over the past year. It also leads in the proportion of respondents intending to increase investment in risk management over the next two years (see Figure 16).

This advance in capabilities is not limited to North American and European institutions. Firms in Asia also report a qualitative shift in capabilities. "If you would have sat in our credit committees about two years ago, you would have heard us talking about specific projects, appraising each project and discussing how much financing we should do and on what terms," says the CFO at an India-headquartered financial institution. "Today, you will hear us talking about the review of our
current exposure to various sectors and the various monitoring steps we have taken."

But what capability is the banking industry working to develop, as it looks ahead to 2015? These skills tend to be driven by the main pressures being faced by the industry, including external pressures for regulatory change and rising liquidity and credit risks. Internal pressures are also prioritizing capabilities needing development—such as demands for the risk management function to play a greater role in capital allocation and liquidity management.

Figure 16. Risk function investment—Banking

Compared to last year, how has the number of employees in your risk management organization changed? How will the total level of investment to develop risk management capabilities evolve in the next 2 years?



Source: Accenture 2013 Global Risk Management Study

On the regulatory front, banking respondents report that their greatest challenge among those surveyed relates to the mélange of sometimes-contradictory regulatory changes (see Figure 17). "There is more Balkanization, where regulators just consider their own markets," notes Credit Suisse's Mr. Guldimann.

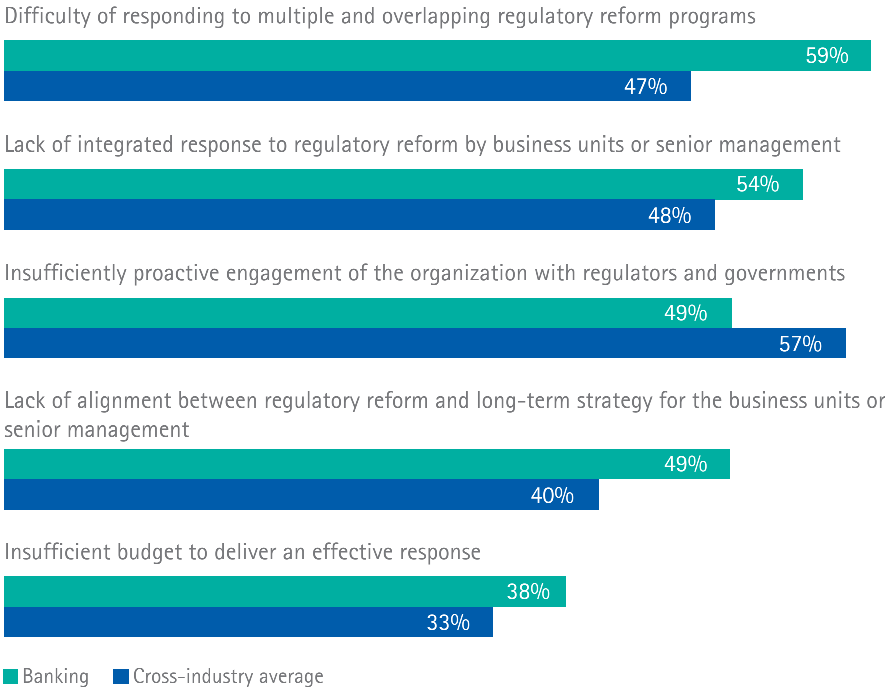
In light of often contradictory regulatory pressures, banks are increasingly adopting centralized approaches to compliance activity: 52% use a centralized program team, up from 36% in 2011 (see Figure 18). While much regulatory activity originates in advanced economies, banks headquartered in emerging markets are also feeling the pressure, and likewise responding with centralized approaches. "The risk area, compliance area, and regulatory area each do their own analysis and then we sit at the same table and come up with answers," says Luis Niño de Rivera, President and CEO of Banco Azteca.

A second area of capability that is a main focus for the banks we surveyed is analytics. Some development of analytics is driven by the growing focus on liquidity, where banks have a need for a more granular view of liquidity levels.

Analytics will also be important in achieving compliance-related goals in emerging markets' banks. "We created a structure inside risk that manages all regulatory demands related to capital management in the broadest sense," says Caixa Economica Federal's Mr. Muniz. "This unit has created important monitoring indicators to support decisions."

Figure 17. Impediments to compliance efficiency and effectiveness—Banking

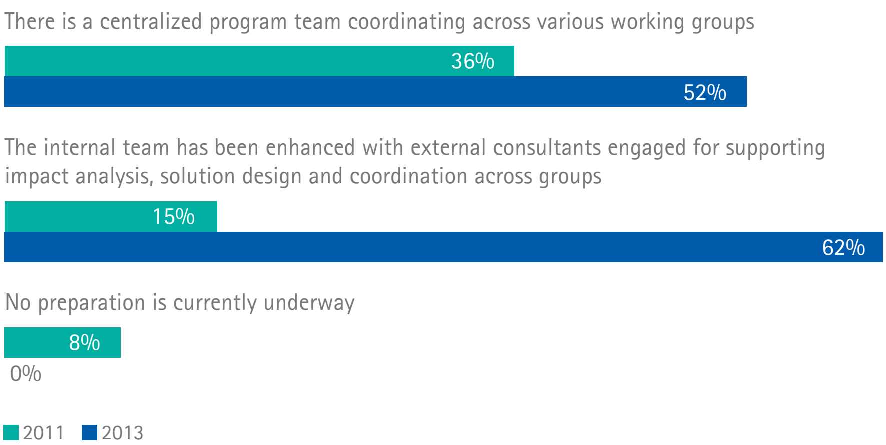
To what extent do the following challenges impede the effectiveness of your organization's response to regulatory change in your industry? (Proportion saying "completely" or "to a great extent")



Source: Accenture 2013 Global Risk Management Study

Figure 18. Compliance implementation approach—Banking

How is your organization responding to regulatory requirements such as Basel III?



Source: Accenture 2013 Global Risk Management Study

Looking at the specific capabilities banks plan to develop, we find further evidence of the comprehensive focus of the banking industry on risk capability development. At least 90% of banking respondents are currently engaged in, or plan to engage in, capability development initiatives for six of the seven areas of credit risk capabilities we surveyed (see Figure 19). The areas most frequently targeted for development are portfolio management, data management, and collections.

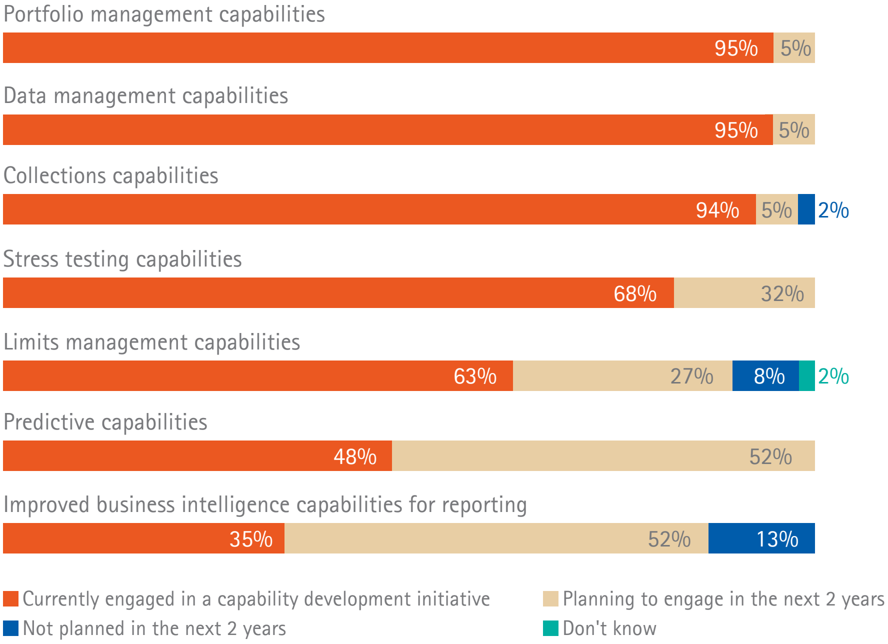
A particular area of focus for banks is stress testing and, more broadly, quantifying emerging risks beyond the traditional areas of credit, market, and operational risks. Stress testing is increasingly a cornerstone of regulatory requirements and is being taken up by major banks (see sidebar, "Stress testing at ING").

Credit Suisse's Mr. Guldimann advises that the key to quantification is making the numbers relevant to senior management. "Parametric risk figures such as VAR are not that simple to relate to in reality," he notes. "We have a scenario we call 'a severe flight to quality' that replicates what happened in 2008." When Credit Suisse runs this scenario, it tests to ensure it avoids ending up with a quarterly loss. The assessment is quantitative but the resulting figure is one the board can relate to and use to evaluate risk appetite.

Turning to operational risk and market risk capabilities, banks are expending an effort on capability development that is nearly as comprehensive (see Figures 20 and 21). For nearly all areas covered in our survey, the proportion of bank respondents developing, or planning to develop, capabilities is close to 90%. Current areas of focus among those surveyed are operational risk identification, business continuity, and portfolio management of market risks.

Figure 19. Credit risk capability development initiatives—Banking

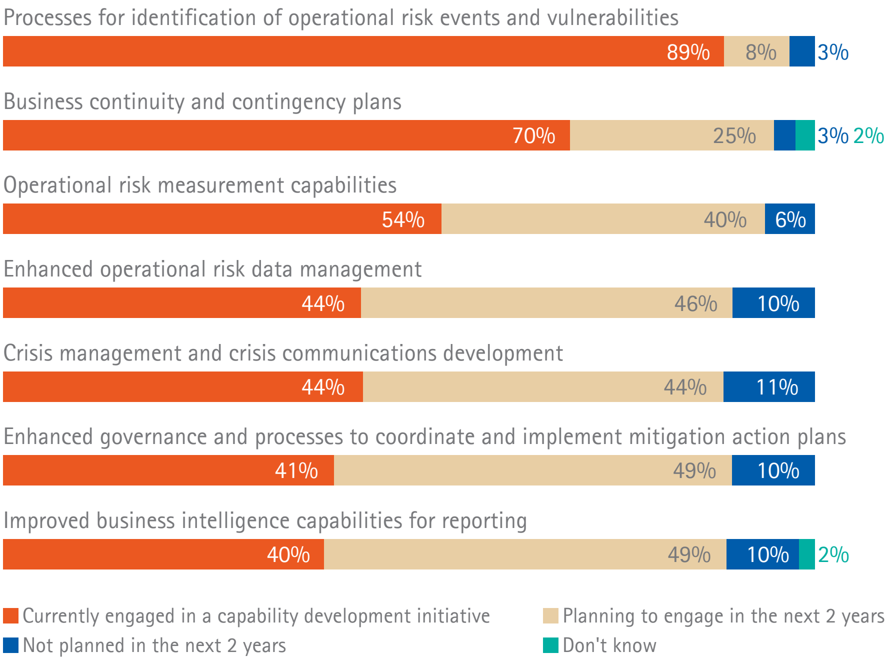
Below please identify your current or planned capability development initiatives in regard to credit risk management



Note: Due to rounding, totals may not equal 100%
Source: Accenture 2013 Global Risk Management Study

Figure 20. Operational risk capability development initiatives—Banking

Below please identify your current or planned capability development initiatives in regard to operational risk management



Note: Due to rounding, totals may not equal 100%
Source: Accenture 2013 Global Risk Management Study

Comparing current areas of focus with the areas of focus over the next two years, banks are clearly intending to move from capabilities required by regulation to more strategic and comprehensive topics, such as "predictive capabilities" and "improved business intelligence."

Developing a high-performance risk organization in capital markets

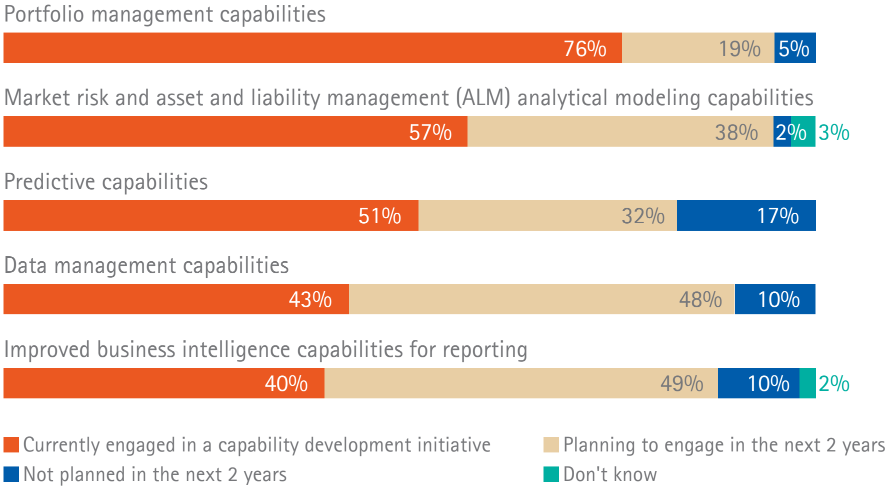
Looking ahead to 2015, what risk management capabilities do the surveyed capital markets firms intend to develop? As with banks, their areas of focus will partly be determined by current pressures and priorities. These include external pressures from regulation and internal pressures from higher expectations for the risk function's role in areas such as risk-adjusted performance management and improved capital allocation.

It is clear that over the next two years, many capital markets firms intend to enhance the foundations of technology, data, and analytics on which their risk capabilities are built. Asked about areas of focus over the next 12 to 18 months, 84% report plans for a risk infrastructure capacity upgrade. The next top-cited responses are risk-based collateral and margin calculation, and market risk data and reporting enhancements (see Figure 22).

Some of this focus on infrastructure undoubtedly reflects regulatory pressures. But other major drivers likely include the need to integrate infrastructure to support risk governance models that require close coordination between risk and finance, as well as central and local risk functions, discussed below. A focus on analytics likely also reflects the growing usage of technology-enabled business models such as high-frequency trading. In addition, analytics will be crucial in delivering on internal goals for improved risk function performance, in areas such as enhanced capital allocation.

Figure 21. Market risk capability development initiatives—Banking

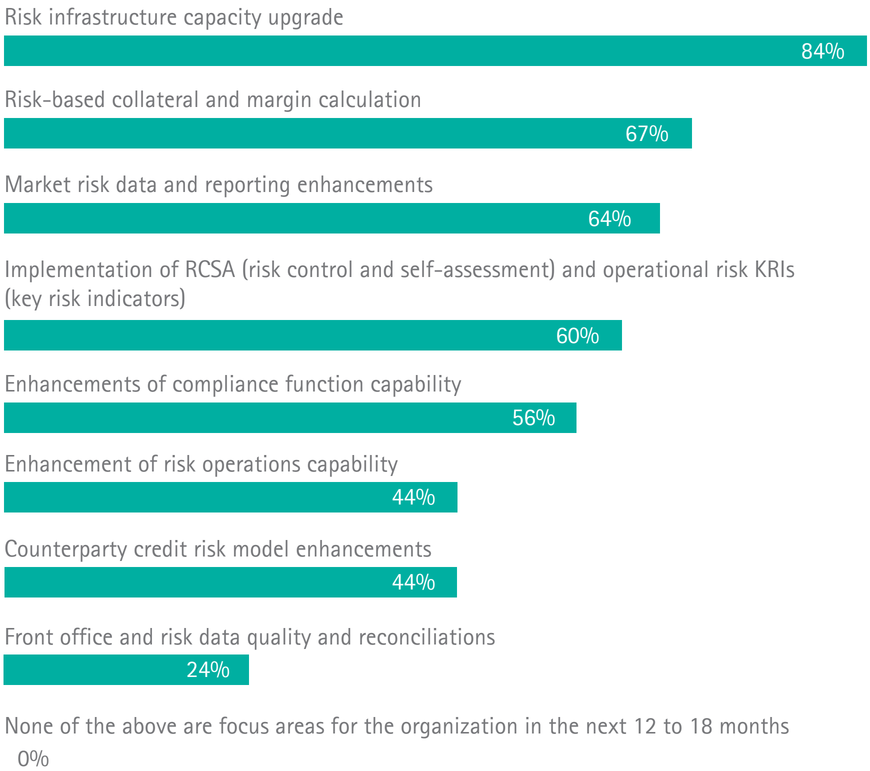
Below please identify your current or planned capability development initiatives in regard to market risk management (banking book)



Note: Due to rounding, totals may not equal 100%
Source: Accenture 2013 Global Risk Management Study

Figure 22. Capability development focus areas—Capital markets

Which of the following are focus areas for your organization in the next 12 to 18 months?



Source: Accenture 2013 Global Risk Management Study

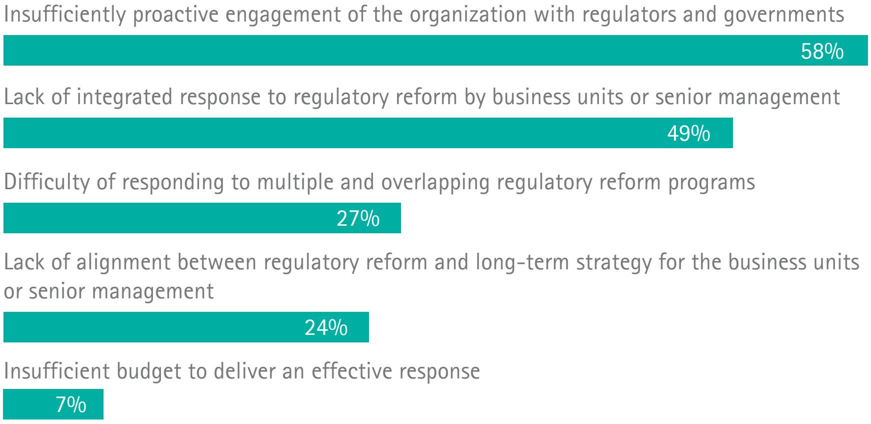
In contrast to retail banks, however, capital markets respondents report that among those difficulties surveyed, internal challenges are the main impediments to compliance effectiveness: particularly, insufficiently proactive engagement with regulators and lack of an integrated response to regulation (see Figure 23).

Many capital markets firms are enhancing their ability to take a proactive and integrated approach to regulation by centralizing compliance management. Our survey results indicate 44% of capital markets organizations currently use such an approach (see Figure 24).

As noted above, another central focus of capital markets firms over the next two years is development of risk infrastructure, including technology, data, and analytics. Looking to the main reported obstacles to risk analytics development, capital markets organizations most frequently report outdated legacy systems (44%) and lack of systems integration (33%)—see Figure 25. The capital markets industry is one of the few industries we surveyed where the most frequently reported obstacles to analytics do not relate to human resource issues, but rather to systems issues. This suggests that capital markets respondents' current focus on a "risk infrastructure capacity upgrade" is indeed an appropriate one.

Figure 23. Impediments to compliance efficiency and effectiveness —Capital markets

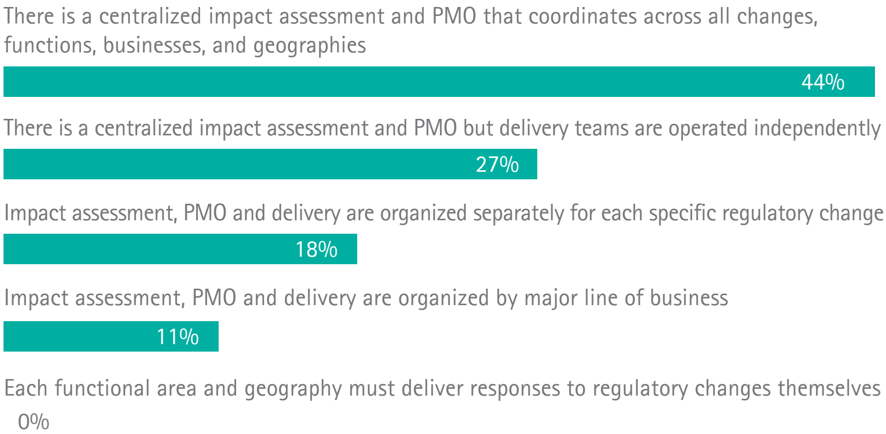
To what extent do the following challenges impede the effectiveness of your organization's response to regulatory change in your industry? (Proportion saying "completely" or "to a great extent")



Source: Accenture 2013 Global Risk Management Study

Figure 24. Compliance implementation—Capital markets

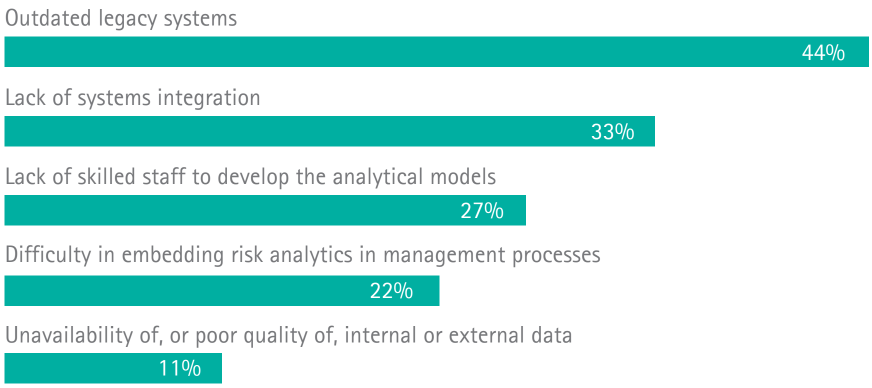
How are the various regulatory change programs currently managed and delivered in your organization?



Source: Accenture 2013 Global Risk Management Study

Figure 25. Impediments to effective use of risk analytics—Capital markets

To what extent do each of the following challenges impede the effectiveness of your organization's use of risk analytics? (Proportion of capital markets firms saying "completely" or "to a great extent")



Source: Accenture 2013 Global Risk Management Study

Stress testing at ING

According to Wilfred Nagel, CRO of ING Group, the financial crisis has resulted in a change in attitudes about the risk management toolkit. While confidence has declined in models and rankings, more emphasis falls on understanding the content of risk exposures and setting absolute limits. "Do not believe you can be better than the market in your judgment," he advises. "Instead, try to make sure that when you're wrong, it doesn't kill you."

In practice, this means looking beyond economic capital as the main measure of risk—and seeing beyond integrated, parameterized models as the central risk management tool. "It is very useful to take time now and then and come up with some nasty scenario and model what would happen," he says. This can produce an understanding of when absolute limits, rather than capital constraints, are the best way to manage exposure.

ING increasingly conducts company-wide and portfolio-specific stress tests as a supplementary tool to assess resilience to adverse market conditions. New methodologies integrate stress testing across business areas, asset classes, and risk types—including market, credit, liquidity, operational, and regulatory risks. And output is presented to the board.

There is, of course, extensive use of risk-appetite statements and economic capital models as well. Customer behavior and demographics bear on risk management and are therefore modeled and incorporated in the risk-appetite framework. And yet, a key to managing risk is the ability to take a step back from the day-to-day output of these models and consider plausible worst-case scenarios.

Section 4

Three things to do differently

1. Integrate risk with strategy and operations

Current pressures and priorities are leading respondent banks and capital markets firms to seek to infuse risk information and oversight in business processes and managed across the enterprise. With both banking and capital markets firms under more intense scrutiny from regulators and the public, missteps that damage reputation are undesirable. New cyber-attack risks and laws in areas such as customer protection[4] and anti-money-laundering[5] amplify the challenges of operational risk management.

Expectations are rising for the risk function to play a greater role in achieving broader business goals such as risk-adjusted performance management, enhancing capital allocation, and improving liquidity management. If the risk function is to play this greater role, it may wish to enhance risk integration with the front office, as well as integrating risk and finance.

There are legitimate debates about the precise role of the risk function—whether it should have "veto power" on strategic initiatives and whether each business unit or geography should have a CRO. But it is clear that firms are increasingly using risk function input on an ex-ante basis, to improve both strategic decision-making and capital allocation.

2. Develop risk infrastructure and analytics

Making such integration possible requires timely and reliable data, ideally integrated across the risk function and front office. Surveyed organizations report that they are developing comprehensive capabilities beyond those required by regulation, such as business intelligence and predictive analytics. Supported by timely data, these capabilities are designed to enable the risk function to play to the greater operational and strategic roles that are now expected.

Many governance models involve greater reporting independence of risk from finance, and joint management of risk by business unit and central risk functions. For these governance models to function effectively, disputes that originate from different sources of data will optimally be minimized, and working relationships must be excellent. A common risk infrastructure can be important to making these organizational structures function effectively.

3. Manage compliance through a transformational lens

Regulatory compliance can be a lever to achieve this transformation of the risk function. Many firms surveyed are developing a long-term plan for expanding the risk function, and are increasingly managing compliance requirements in a centralized manner. In this way, firms can leverage regulators' compliance demands to create risk function capabilities, such as predictive and business intelligence capabilities, which are useful in enhancing the performance of the broader business.

Conclusion

Following the global financial crisis, the banking and capital markets industries have been subject to relentless pressure. As each economic and financial risk has receded, new ones have arisen. As of mid-2013, tremendous uncertainty surrounds the unwinding of unconventional monetary policy and its asset-market impacts, while the Eurozone's structural and debt problems remain unresolved.

That said, the banking and capital markets industries are increasingly well prepared to meet the next set of challenges. These firms lead the industries we surveyed in developing many areas of risk capability and are likely to remain ahead of the curve in this respect in the next few years.

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[1] Accenture, "Global Risk Management Study 2013: Risk management for an era of greater uncertainty." September 2013. Accessed at: http://www.accenture.com/globalriskmanagementresearch2013

[2] Basel Committee on Banking Supervision, Principles for effective risk data aggregation and risk reporting. January 2013. http://www.bis.org/publ/bcbs239.pdf

[3] Basel Committee on Banking Supervision, Principles for effective risk data aggregation and risk reporting, January 2013. See http://www.bis.org/publ/bcbs239.htm

[4] Such as the Dodd-Frank Act in the US, which created the Consumer Financial Protection Bureau (among other consumer protection measures), and the Markets in Financial Instruments Directive 2 (MiFID2) in Europe

[5] For example, the USA PATRIOT Act of 2001, and in Europe, ongoing enhancements of the Anti-Money Laundering Directive

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Accenture Risk Management consulting services work with clients to create and implement integrated risk management capabilities designed to gain higher economic returns, improve shareholder value, and increase stakeholder confidence.

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