

## Control management practice benchmark summary report

### About this study

In 2017, ORX conducted a research study on control management practices to look at how financial firms manage their control frameworks and the data they collect to support the related processes. The findings of this study were published in the report **Understanding control management practices**.

In response to the strong interest among ORX members to conduct further research in this area, the Control management practice benchmark was conducted in mid-2018.

### Focus areas

As part of the project, a maturity matrix was developed further with a working group of five participating firms.

The maturity matrix addresses the key components of control management in six key areas: the control environment; frameworks; taxonomies and libraries; data and technology; control activities; and control monitoring.

Thirty-five financial institutions, including 29 banks and six insurers, took part in this study.

### Study summary

Financial service firms are facing two seemingly opposing priorities: on the one hand, to make the control environment more robust to cope with modern-day threats like cyber and conduct risk. On the other hand, to reduce the cost of control while margins are tight and the value of the three lines of defence model remains under scrutiny.

#### Most firms are progressing but still have some way to go

Figure 1 provides an overview of the average stage of development in each of the six focus areas of control management. Firms appear to be broadly at the mid-level of maturity with only a few identifying many areas of their control management practices as more advanced.

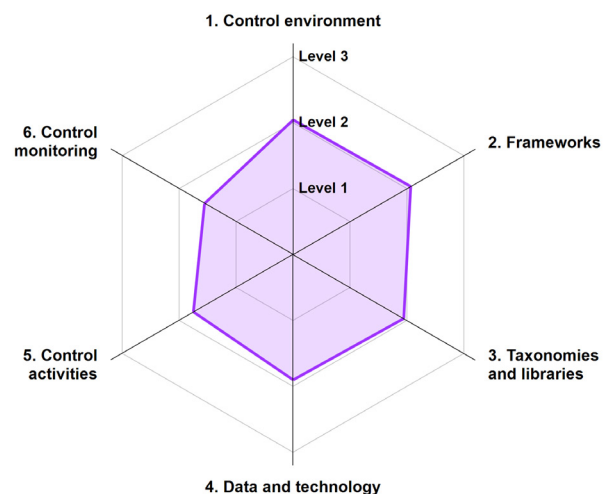
At first glance, this seems to indicate a classic evolution of practice that starts with the development of the written framework and associated roles and responsibilities (areas 1 and 2), before moving onto implementation and embedding of the tools and processes (areas 3 to 6).

Previous ORX research indicates that the classic path is more complex than this – it is more common for individual control frameworks to mature in isolation across an organisation. This means that one of the most significant barriers to maturity is the logistical and political challenge of bringing the diverse approaches together.

### The behavioural science of control management could underpin further cultural change

Our findings suggest that the tone from the top and the consideration of controls in senior decision-making is one of the most mature areas of the framework. However, driving changes in behaviour through clear roles and responsibilities, linked tightly to performance and incentives, will strengthen the control environment further.

Figure 1. The level of development of control management practices in the industry



# Control management practice benchmark summary report (continued)

## Adopting more consistent frameworks and methodologies creates building blocks for leaps in maturity

Establishing frameworks continues to be one of the strengths of operational risk teams, producing the highest levels of maturity. In most firms, an over-arching control framework has been established and individual frameworks at least in part aligned to it.

As part of this, many firms have recognised the benefits of establishing risk and control taxonomies. The taxonomies support a wide range of risk management processes and establish a common language that facilitates the dialogue about risks and controls in their organisations.

## Reducing the volume of controls can help achieve effectiveness and efficiency

Automating controls is a popular way to reduce the volume and make them more effective. Although most study participants think they have a good level of automation, our previous study found that on average, the degree of automation is 14 per cent, indicating there is plenty of scope to invest further.

## Control monitoring techniques have been slow to develop and offer the biggest opportunities

The two biggest challenges that firms report about monitoring the effectiveness of the control environment is increasing the coordination of monitoring activity across the three lines of defence and coming up with an effective resource model for testing.

When it comes to monitoring and managing the efficiency of the control environment, the key is defining the cost of control. Although over a third of firms report considering the cost of control in decision making, the absence of a single, clear, and widely adopted definition remains a challenge.

The next era of maturity looks set to be dominated by ongoing efforts to find that ideal balance of reducing the cost burden of operating and monitoring controls while being able to better evidence the effectiveness of the overall environment.

### What are practice benchmarks?

At ORX, we are working with the industry to develop practice benchmarks to help assess the maturity of an institution's operational risk management practices against the industry.

For each benchmark, ORX develops together with industry practitioners maturity matrices that address the key components of a specific risk management area. Each maturity description outlines the components at three increasing levels of maturity. The participating institutions self-assess against each maturity description to receive a customised benchmark report.

Although ORX runs the initial development of a new area of practice as a project, the individual benchmark reports can be provided at any time (see right side for how to receive your benchmark).

### Receive your own benchmark

The benchmark is **free for ORX members**. The cost for non-members is just £4,000 which is refundable if you become a member of ORX within a year.

If you would like to receive your own benchmark, or know more about our work on controls or our practice benchmarks, contact [support@orx.org](mailto:support@orx.org).

### Managing risk together

ORX believes many heads are better than one. We're here to bring the best minds of the international operational risk community together. By pooling our resources, sharing ideas, information and experiences, we can learn how best to manage, understand and measure operational risk and become less vulnerable to losses.

For more information about ORX, our research and our services, visit [www.orx.org](http://www.orx.org)

# O.R.X

**Disclaimer:** ORX has prepared this document with care and attention. ORX does not accept responsibility for any error or omissions. ORX does not warrant the accuracy of the advice, statement or recommendations in this document. ORX shall not be liable for any loss, expense, damage or claim arising from this document. The content of this document does not itself constitute a contractual agreement, and ORX accepts no obligation associated with this document except as expressly agreed in writing. © Operational Riskdata eXchange (ORX) 2018.

[www.orx.org](http://www.orx.org)  
+44 (0)1225 430 390