

Optimising Risk and Control Self-Assessment (RCSA)

A study of industry practices and future direction of travel 2019



Op risk Management



This report is the outcome of an ORX practice benchmark. Practice benchmarks help assess the maturity of an institution's operational risk management practices against the industry. Participating institutions self-assess against each maturity description to receive a customised benchmark report.

Find out how mature your RCSA practice is

Practice benchmarks aren't only available to ORX members. You can get an individual report benchmarking your practice for a small fee, even if you're not currently a member of ORX.

Practice benchmarks help you identify where you excel and where you could improve across different areas of risk management practice.

Take a look at page 7 of this report to see what benchmarks are currently available. Or, contact Roland Kennett to find out more:
roland.kennett@orx.org



Executive summary

RCSA is one of the most important tools in a firm's operational risk management and control framework. Its purpose is to enable a firm to manage and monitor its key operational risks and controls, overall helping to reduce the risk of adverse events occurring. Executed well, the RCSA can support a business in delivering on its overall objectives.

The RCSA should enable risks to be proactively managed and timely actions to be taken to address unacceptable levels of exposure and to ensure controls are effective.

ORX's 2019 study observed the following challenges with regards to practice within the industry:

1. RCSAs are often out of date
2. RCSAs are often not informative enough
3. RCSAs can be inefficient

1. The challenge of RCSAs being out of date

The move towards dynamic RCSAs

RCSAs should provide a current view of risks, an understanding of the current exposure to those risks and the ability to manage those risks within the firm's appetite. Over half of the institutions surveyed had moved, were in the process of moving, or are intending to move to an RCSA approach of combining regular and trigger-based RCSA (a hybrid approach). They felt that this approach was beneficial as they were seen as more efficient, focusing more on material risk issues (risk-based prioritisation) and regulators endorsed it.

Some who had moved to a purely trigger-based approach had found that regulators fed back that this was a step too far, and they still liked to see regular cyclical reviews. Those who had adopted a trigger-based hybrid approach were, however, finding that triggers were typically happening at the request of the 2nd line, so not fully embedded into business as usual activities. The industry is moving towards making practice more dynamic, optimising RCSA to increase efficiency.

2. The challenge of RCSAs not being informative enough

Is the RCSA process realising sufficient value?

Much time and resources are invested in running an RCSA process. However, there is a perception that the process has become more of a tick-box exercise. The ORX 2019 survey highlighted that although a considerable amount of time and effort has been spent setting up frameworks, policies and tooling, there seems to be a notable lack of success in using the RCSA to support business decision making. This has meant that RCSAs were not seen as delivering enough value. Very few organisations reported that the 1st line of defence use the RCSA as a key management tool for running the business.

Supporting the control environment

RCSA should support the maintenance of an efficient and robust control environment. However, this remains an area of weakness, with many institutions noting that RCSAs are not giving a clear view of control effectiveness. Improving the knowledge and capability on control selection by the 1st line and ensuring that this is supported with regular dialogue between the 1st and 2nd line was seen as a priority, along with establishing a central or relevant control library.

Senior management needs to act upon RCSA results

RCSA should enable a focus on the proactive management of risk, with the ability for escalation to senior management to consider actions. It was found that senior management does review and discuss RCSA information. However, it was felt that it is not sufficiently influencing business decisions and is not enabling institutions to be as proactive on risk management as intended.

"2nd line needs to step away from executing the RCSA and instead drive accountability and ownership for risk management into the 1st line."

3. The challenge of RCSA being inefficient

Ownership and accountability by the 1st line is still challenging

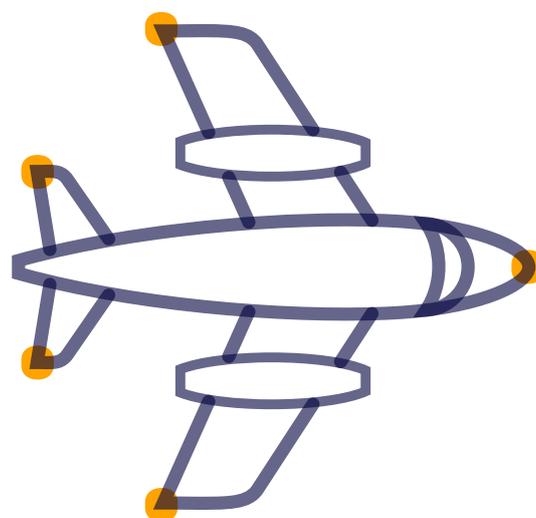
The 1st line of defence owns the risks and is responsible for the management of the risks. However, the challenge remains whether the 1st line is sufficiently skilled to be accountable and responsible for the relevant risks and controls, and whether there is a lack of focus, and consequently whether RCSA was sufficiently embedded. The 2nd line needs to step away from executing the RCSA and instead drive accountability and ownership for risk management into the 1st line. Orientating RCSAs by process seemed to be helping with 1st line buy-in. This was more easily understood and provided a language which the 1st line could understand and engage with, as opposed to RCSAs orientated by risk only.

Integrating and aligning various assessment approaches to drive efficiencies

The RCSA can be labour-intensive and too procedure focused. Some institutions have, or are trying to, move towards integrated and aligned risk assessment across their organisation (an umbrella approach). This is both in terms of systems and frameworks. There is a desire to have a GRC tool which is used by, and interacts with, other areas requiring 1st line to do assessments to ensure more cohesion and efficiencies. This would help greatly with 1st line buy-in and engagement, the nirvana being that a united approach should cover all relevant risks using one GRC system, instead of a number of risk assessment approaches burdening the 1st line.

Direction of travel of the industry:

- » Move towards a process-orientated RCSA rather than a purely risk-based orientation. Process-orientated RCSAs resonate more with the 1st line and thereby drive more buy-in. The major challenge was how to identify processes at the right level to ensure it adds value and aggregation, and the potential cost and time in moving towards this approach.
- » Move towards a hybrid of regular RCSAs and trigger-based RCSAs to provide a more dynamic view of current and emerging risks, and thereby manage accordingly.
- » Some institutions are moving away from assessing inherent risk and moving straight to looking at "residual" risk and control effectiveness. This is very much an emerging practice in the absence of clear definitions of residual risk.



About this report

Introduction

In response to strong interest among the ORX membership, this practice benchmark study was launched in mid-2019. Practice benchmarks are a tool to evaluate the maturity of an institution's risk management practices, and to compare it to that of other participating institutions using a "3 stages of development" model.

As part of the project, a maturity matrix was developed with the aid of an industry subject matter expert (SME) and working group of 12 participating financial firms.

The maturity matrix addresses the key components of the RCSA process in the following areas:

- Framework, policies and tools
- Scoping and inherent risk assessment
- Control assessment
- Residual risk management (assessment and remediation)
- Reporting
- Business strategy

Each of these key components were then broken down into sub-areas. For example, framework, policies and tools were broken into:

- Tone from the top
- Business awareness
- Clarity of roles and responsibilities
- Frequency of RCSAs
- Usage of RCSAs
- Level of governance

An overview of the 6 key components and their sub-areas in the maturity matrix is provided in Figure 2.

Each description outlines the components at three increasing levels of maturity. The overarching maturity levels can be seen at the bottom of this page (Figure 1). The 73 project participants then self-assessed themselves against the matrix.

The aggregated results and key findings from this exercise are presented in this report. When referring to the maturity levels, figures visualise the distribution of how firms assessed the maturity of their practice in aggregation across the 3 maturity levels.

In addition to the maturity matrix self-assessment, participants were surveyed on various aspects of RCSA practice to provide further insight into experiences and challenges the industry faces.

This report summaries the main findings from the survey alongside the discussions that happened during the roundtables and webinars.

Figure 1: The three levels of maturity in ORX practice benchmarks

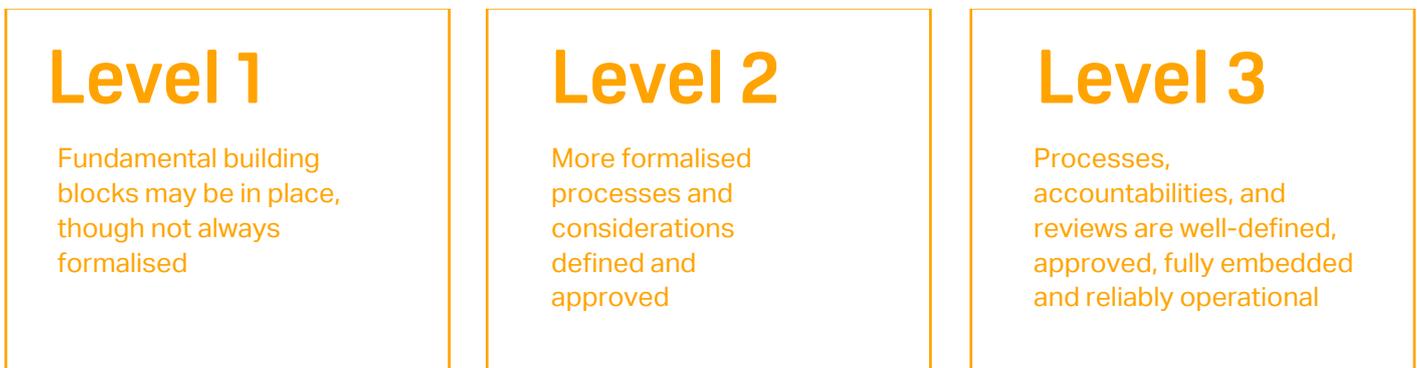


Figure 2: The 6 main components of the RCSA maturity matrix, broken down into the relevant sub-areas

Framework, policies and tools	Scoping and inherent risk assessment	Control assessment	Residual risk management (assessment & remediation)	Reporting	Business strategy
Tone from the top	Risk taxonomy	Control selection	Documentation of control issues	Risk reporting	Informs business decision
Business awareness	Risk identification	Control design effectiveness assessment	Action plan management	Control reporting	Drives investment and continuous improvement
Clarity of roles & responsibilities	Risk assessment (inherent)	Control operating effectiveness assessment	Risk acceptance in case of controls issues	Control issue and action plan reporting	
Frequency of RCSAs	Oversight and challenge process of risk assessments	Oversight and challenge process of control effectiveness assessment	Residual risk assessment	Roles and responsibilities	
Usage of RCSAs	Ownership, roles and responsibilities	Ownership, roles and responsibilities	Oversight and challenge process of risk assessment		
Level of governance	Governance	Critical control identification			
Risk rating matrix		Alignment to external frameworks and standards			
Scoping and configuration		Governance			
GRC system and tools					
Ownership and performance of assessment					
Overall challenge process					
Training					
RCSA sign off					

Basis of report

73 institutions participated in the practice benchmark

This report reflects:

- Their self-assessment against the maturity matrix
- Their responses to the survey
- Discussions from 2 roundtables in North America and Europe
- Discussions from 2 webinars with nearly 100 participants in attendance
- Steering group input from 12 global institutions

Operational risk 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.

Over time, this will develop into a holistic set of benchmarks covering all practice areas – it will be the de facto reference point for the maturity of operational risk in the industry.

For each benchmark, ORX develops maturity matrices together with industry practitioners. These 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. Please get in touch if you would like to benchmark yourself against another area of practice.



Recent practice benchmarks

Operational risk appetite (ORA) – Dec 2017

This study identified the current state of the industry regarding practice, maturity, and the lessons learnt from embedding ORA.

Outsourcing risk – Jun 2018

This study helped firms understand new risks and operational impacts that have emerged from outsourcing, in addition to enabling a benchmark of practice.

Control management practices – Aug 2018

This study aimed to identify strengths in control management practices, as well as areas for improvement.

Operational risk framework design – Mar 2019

This study enables participants to understand how their operational risk framework compares to others within the industry. Participants can see if their framework is more or less complex than others and whether they are an outlier.

Risk identification for scenario selection – Dec 2018

This practice benchmark looked at how firms decide which scenarios to run and why.

ICAAP Governance practice benchmark – Sep 2019

This practice benchmark enables participants to assess the maturity of their governance around operational risk ICAAP against their peers.

Scenario refresh & triggers practice benchmark – Aug 2019

This practice benchmark covers the scenario refresh and trigger process. Participants are able to benchmark themselves against their peers on a range of practices related to updating scenarios.

Upcoming practice benchmarks:

- Material risk identification
- Three lines of defence
- Loss data collection

Compare yourself to the industry with ORX practice benchmarks

All of our practice benchmarks are available for a one-off fee. Participation rates are dependent on the size of your organisation, and start at £2,000.

Contact Roland Kennett to find out more:
roland.kennett@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. We work closely with over 90 member firms to develop a deeper understanding of the discipline and practical tools. We set the agenda, maintain industry standards, and garner fresh insights.

ORX is owned and controlled on an equal basis by its members.

For more information about ORX, visit our website at www.orx.org

Contacts

Roland Kennett

Head of Membership and Service Development

roland.kennet@orx.org

Esther Renfrew

Senior Research Manager

esther.renfrew@orx.org

