
The future of Operational Risk

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Introductions – Andrew Smart

- ❑ Managing Partner of Manigent (www.manigent.com), a specialist management and technology consultancy focused on improving client's strategic execution via:
 - Corporate performance management
 - Risk Management
 - Project Portfolio Management
 - Business Intelligence

- ❑ 15 years experience working with organisations to enhance their management discussions, decision-making and action taking.

- ❑ Master of Business Administration (MBA) from Henley Management College.

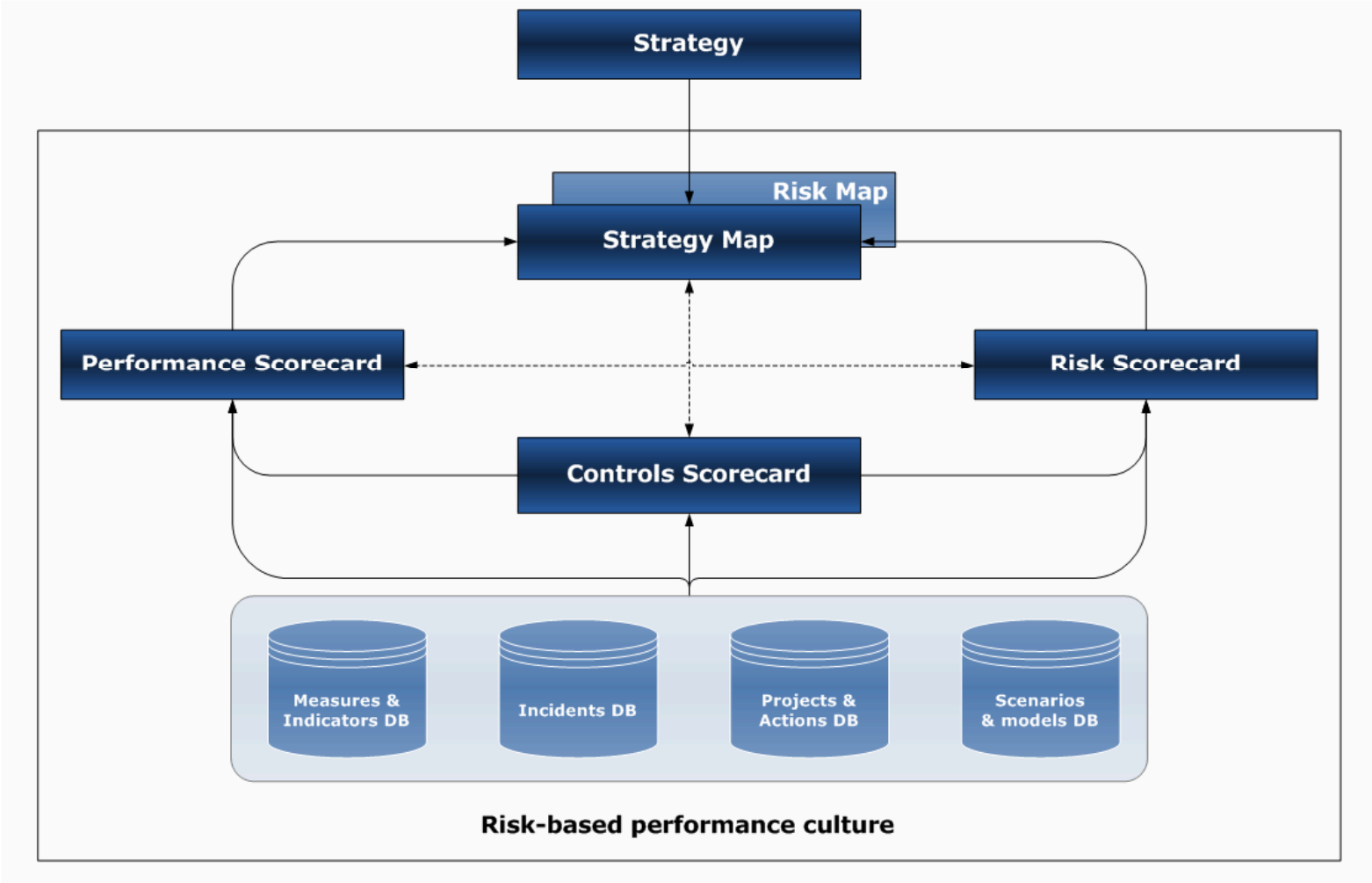
“the reason that a car has brakes is to allow it to go faster, and the same [applies to]... business and risk management” – Senior Insurance executive

My argument...

the future of operational risk management must be a future centred on strategic execution...

and the Risk-based performance methodology provides the tools to deliver this future.

Risk-based performance



Risk-based performance at an investment bank

❑ Business challenge

- develop the appropriate culture and implement supporting systems to respond to Basel 2, Sarbanes-Oxley and manage rapid business growth (organic and via M&A activities)
- overcome issues related to a failed Balanced Scorecard implementation and a metric only focus.

❑ Initial response

- COSO based framework
- external consultancy lead & driven implementation
- quickly found that a 'out of the box' framework didn't meet the requirements of all the stakeholders, didn't provide management information clarity or add value to the business

Risk-based performance at an investment bank (2)

□ Why Risk-based performance?

- provided a conceptual sound approach with the flexibility to meet specific organisational needs
- met the needs of multiple stakeholders (regulators, management and shareholders)
- globally scalable with increased information clarity

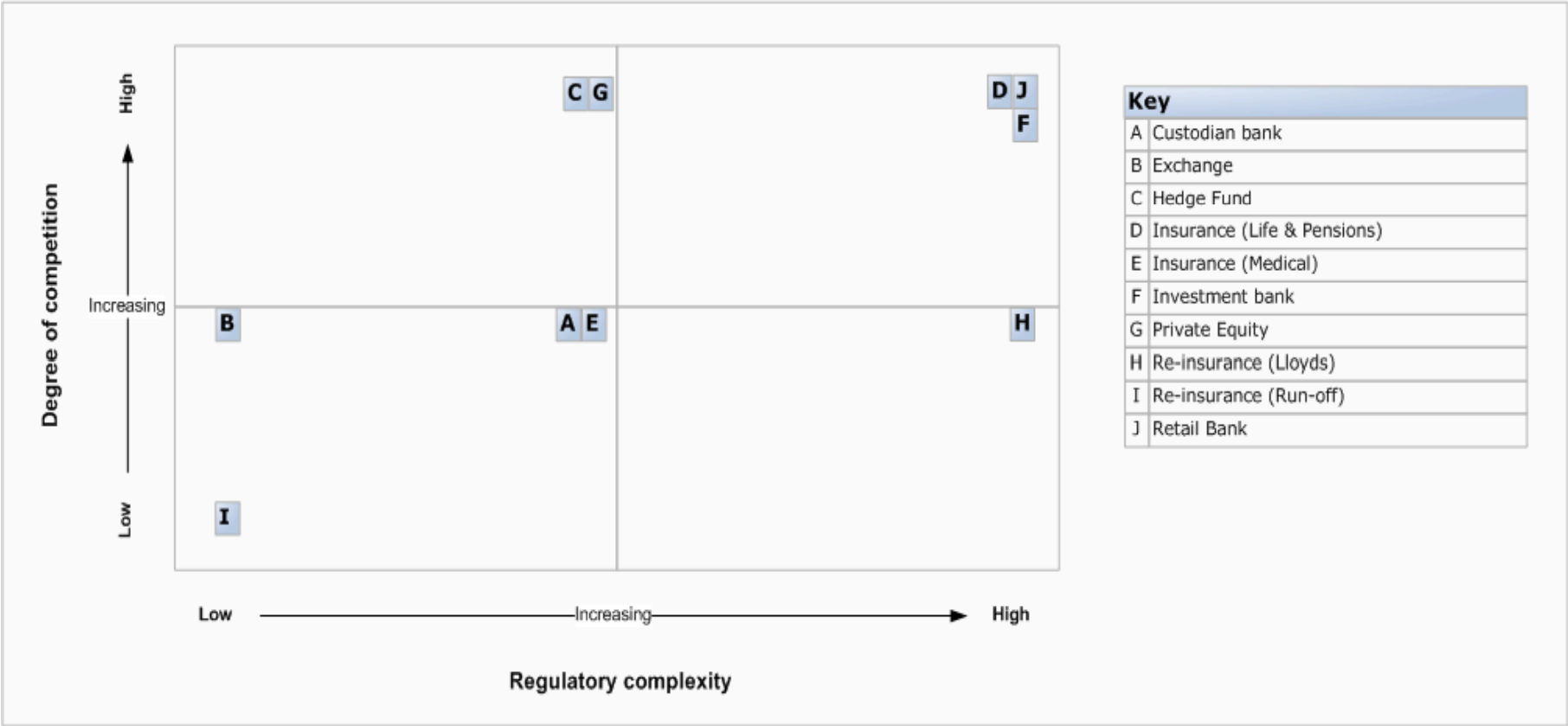
“finally, I have management information I can make decisions on” Global Head of IT

“Linking the scorecard to manage operational risk
seems like an excellent idea” – Professor Robert
Kaplan, 2006

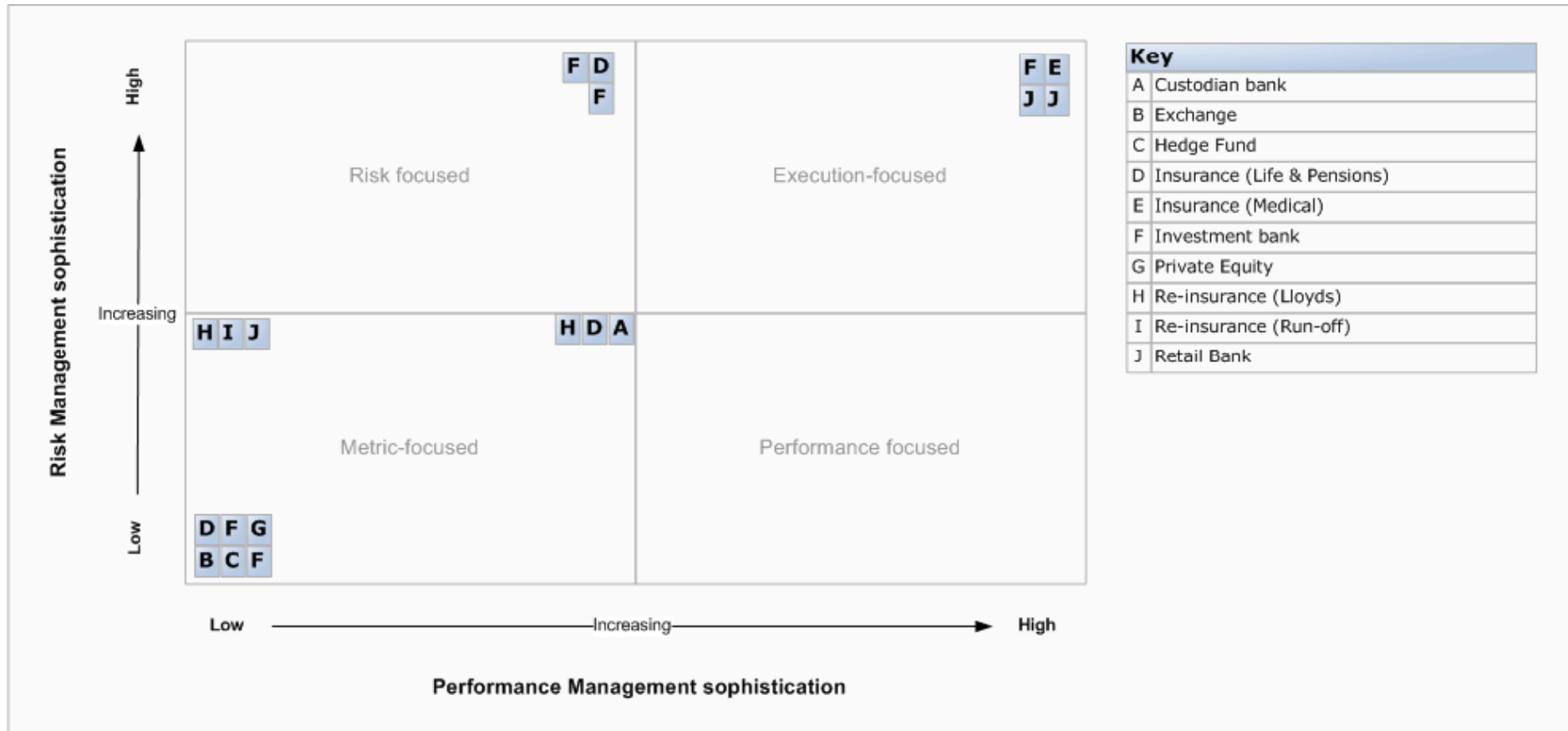
Research question

How can UK financial services organisations integrate and align their corporate performance management (CPM) and operational risk management (ORM) processes to enhance strategic execution?

Environmental context



Performance & Risk Matrix



“It is interesting, you read in Harvard Business Review about the widespread adoption of the Balanced Scorecard, however when you talk to colleagues in the industry you get a very different view” – Senior Banking executive

Summary

the future of operational risk management must be a future centred on strategic execution...

1. Setting the right organisational tone and developing the 'right' culture is a pressing issue.
2. Current performance and risk information is not correctly supporting strategic execution.
3. A performance only agenda is not meeting industry needs and arguably encouraging the wrong behaviours.

Summary

the Risk-based performance methodology provides the tools to deliver this future.

1. Use interaction between the Strategy Map and Risk Map to have the right management discussions, set the right tone and promote the development of an appropriate culture.
2. Differentiate between Measures and Indicators and between types of indicators to reduce information complexity and volume, whilst improving information quality.
3. Manage with one eye on performance and one eye on risk to drive the right behaviours and execute strategy.

Thank you