

The Future of Finance – A CRO Perspective

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THE FUTURE OF FINANCE - A CRO PERSPECTIVE

- The key developments affecting the banking industry
- The current state of the risk management discipline
- The challenges facing risk

THE KEY DEVELOPMENTS AFFECTING THE BANKING INDUSTRY

1. Inadequate profitability

- Higher capital
- Higher liquidity
- Increased regulatory compliance costs
- Huge regulatory fines/ settlements

2. Digitalisation & datafication

- Technology-induced change (e.g. blockchain; open banking)
- Transforming data into new forms of information and hence value
- Both definite threat and potential opportunity

THE ROLE OF THE BANKING CHIEF RISK OFFICER

- To ensure that an effective risk management framework is in place

An effective RMF:

- Identifies and measures all potentially material risks with sufficient accuracy
- Ensures risk appetite is set at the appropriate level for all material risks
- Ensures that all risks are managed so that there is a very high probability of remaining within risk appetite
- Specifies an effective overall architecture for the management and control of all material risks (governance, reporting etc) which ensures neither gaps nor overlaps

THE CURRENT STATE OF THE RISK MANAGEMENT DISCIPLINE IN BANKING

Five broad disciplines

1. Credit Risk
2. Market Risk
3. Liquidity Risk
4. Capital/Earnings Risk*
5. Operational Risk

Assessment of current state of discipline

Well Developed
Well Developed
Well Developed
Adequate
Inadequate

*(Incorporating franchise/ strategic risk)

THE IMPLICATIONS OF THE INDUSTRY CHALLENGES FOR RISK MANAGEMENT

Profitability challenges

1. Efficient processes
2. Effective control of operational risks

Digitisation & Datafication

3. Increases the range & complexity of operational risks
4. Increases the range of strategic threats

DIGITISATION: OPERATIONAL RISK IMPLICATIONS

- IT security
- Data security
- CRYPTO – key storage (blockchain)/distributed ledgers
- Algorithmic risk
- Operational resilience

CONCLUSIONS

- Get real on the discipline of operational risk management
- Recognise that operational efficiency, operational resilience and operational risk control go together
- Initial high investment in the above will pay off both defensively and offensively
- Failure to do so will result in franchise erosion risking strategic oblivion
- The CRO needs to be a force in insisting upon and driving a transformational improvement in operational standards