



EVERYTHING MATTERS

# CIR Summit

## Resilience in the Financial Sector

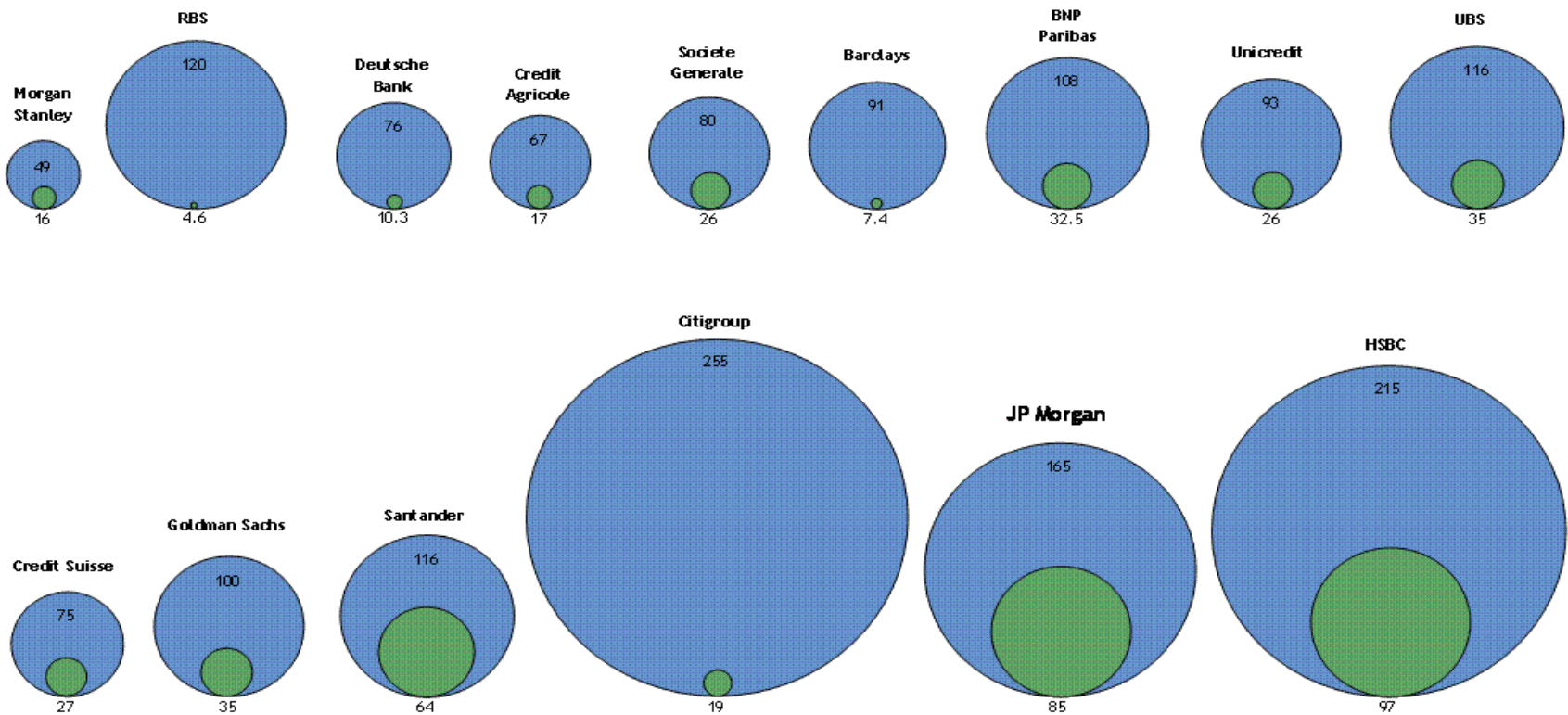
### Aligning Risk and Resilience

**Julia Graham**  
Chief Risk Officer DLA Piper  
Chair AIRMIC  
Chair BS31100

- A year ago RBS paid \$100bn for ABN Amro
- Today the amount they paid could now buy:
  - Citiank
  - Morgan Stanley
  - Goldman Sachs
  - Merrill Lynch
  - Deutsche Bank
  - Barclays
- With the change ..... they would be able to pick up GM, Ford, Chrysler - and the Honda F1 Team

## Banks: Market Cap

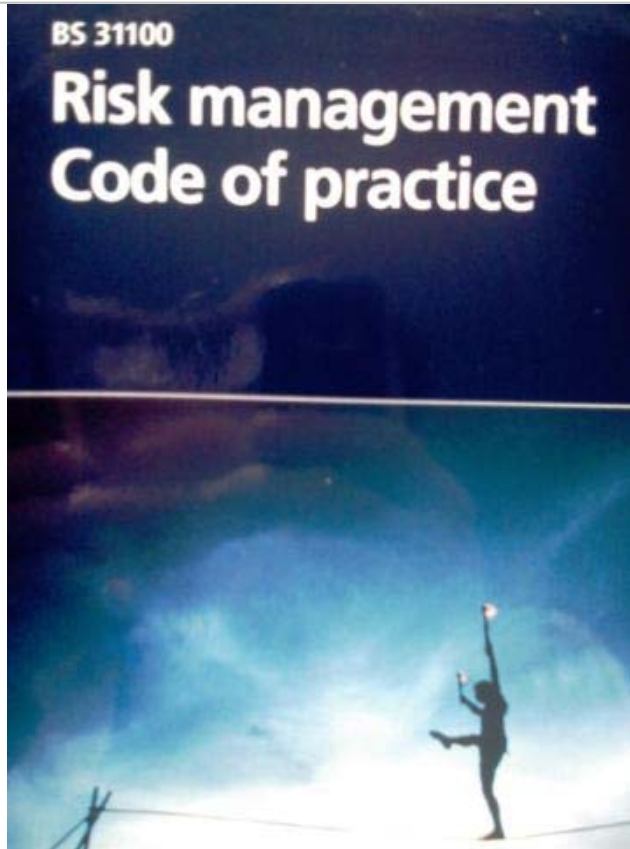
- Market Value as of January 20<sup>th</sup> 2009, \$Bn
- Market Value as of Q2 2007, \$Bn



J.P.Morgan

- The current world of risk is good and bad
  - Risk is the fall-guy for all things bad
  - Whistle blowing doesn't seem to have worked
- There has been a breakdown in the virtuous triangle
  - Governance
  - Risk
  - Compliance
  - The tide went out .....
- The environment poses opportunity and threat for risk managers
  - Stand up and lead
    - but be sure you have the knowledge and the skills
  - Sit down and follow
    - but the perceived value to the organisation may disappear if you do

- There are a number of models, frameworks and standards including:
  - AIRMIC/IRM/ALARM
  - BS31100
  - BS25999
  - ISO14001/9001/27001
  - COSO
- They share a number of key elements:
  - Purpose
  - Commitment
  - Capability
  - Learning



Establishing a “defined market need”

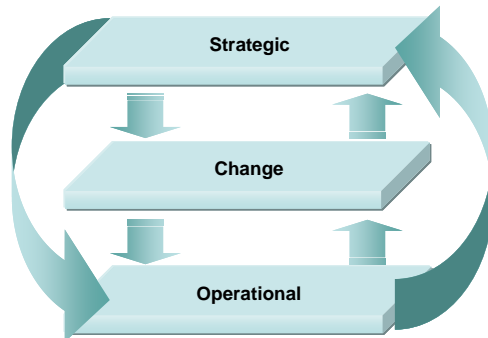
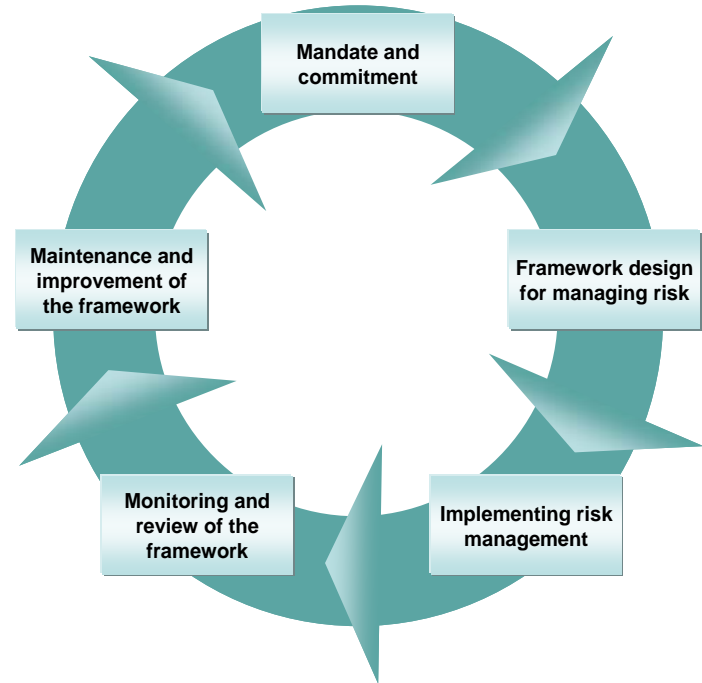
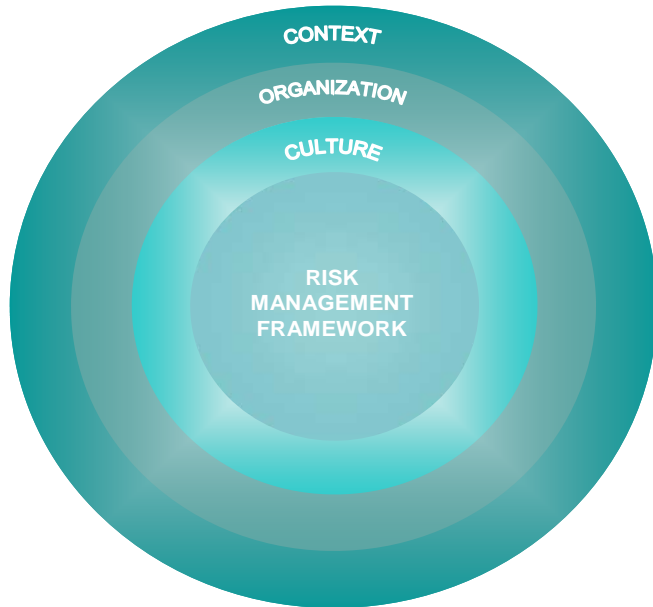
Process Includes:

- Proposal
- Acceptance
- Public Comment Period
- Approval
- Publication
- Review

## Contents:

- Vocabulary
- Principles
- Framework
- Process
- Developing risk management activities
- Annexes:
  - all types and sizes of organizations
  - jargon free
  - positive aspects of risk
  - culture
  - controls
  - risk maturity models
  - examples of risk management tools

# Synergy with BS25999



Future direction of the business

Turning strategy into action including Programme, Project and Change Management

Day-to-day operations including People, Processes, Information Security, H&S, Business Continuity etc.

# ERM - It's Risk Jim But Not As We Know It ...

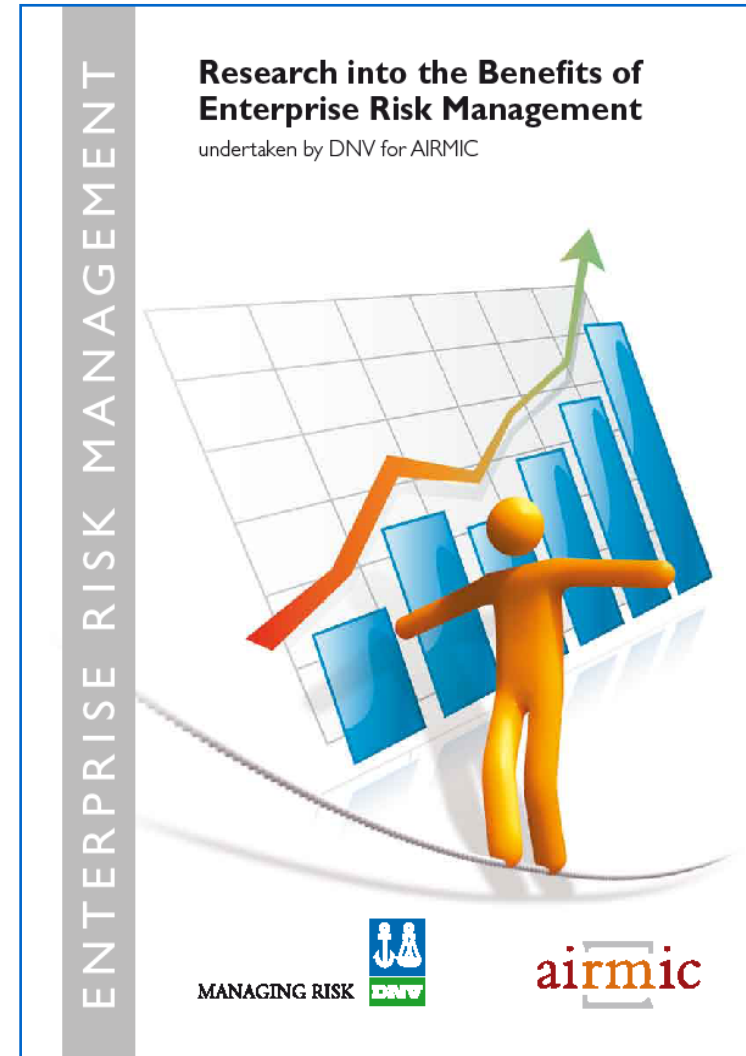


## Objectives

- Demonstrate benefits by a range of case studies that illustrate added value
- Identify the practical hallmarks of successful ERM
- Assist improved decision making
- Support the "virtuous triangle"

## Key findings

- Improved corporate governance and compliance
- By the delivery of risk assurance
- A suitable risk management framework
- A sustainable risk aware culture with policies and procedures
- A PACED approach
- Leaders and champions
- Benefits
- Targets, objectives and expectations
- Integrated and aligned with management activities



# Hallmarks of ERM Excellence

## Leadership

- Risk management effort is proportionate.
- Senior management is truly engaged (more than providing a budget, actually seek risk information for their decision making).

## People

- Excellent central technical-expertise for risk management.
- Risk management professionals seek continual improvement, collecting ideas internally and externally.
- All personnel (including senior staff) are trained in core risk management skills.

## Processes

- Use risk management as a thinking process (are not bogged down in the process).
- Risk management is embedded within core processes (so that key decisions can be made with good risk information).
- Greater emphasis on taking opportunities (upside risk).
- Sufficient effort on analysing risk.
- Risk management processes are consistent, such that risk information can be consolidated.

## Policy & strategy

- Risk management is carried out organisation-wide.
- Risk management activities are aligned with the organisation's Mission.

## Partnership & resources

- Sufficient effort and resources are given to treating risk (in addition to risk analysis).

- The rising tide of Global risk:
  - Oil and gas price spike
  - Food price volatility
  - Fiscal crises
  - Chronic disease
  - Asset price collapse
  - Slowing Chinese economy
  - Retrenchment from Global economy (emerging)
  - Retrenchment from Global economy (developed)
  - Liability regimes
  - Global governance gaps
  - Regulation cost

## **Financial**

1. The credit crunch +
2. Deepening recession \*

## **Strategic**

3. Non-traditional entrants +
4. Radical greening +
5. Executing alliances -  
and transactions

## **Compliance**

6. Regulation and compliance -

## **Operations**

7. Cost cutting +
8. Business model redundancy \*
9. Managing talent +
10. Reputation risks +

**Do we live in a riskier world?**

The world is changing at an ever increasing rate:

- turbulence
- uncertainty
- complexity
- connectivity
- consolidation
- globalisation
- climate change

Organisations face fast changing conditions:

- technology to terrorism, social responsibility to social unrest
- ...in a quickly evolving and mutating context

- We fear most what we can't easily manage
  - yet large unexpected risks drive history
- Most wars, pandemics and stock market crashes are predictable ... with hindsight
- Resilience is not a plan or a checklist
  - it is about culture and attitude
- The successful organisation:
  - adaptive
  - communicates
  - understands interdependencies
  - has situational awareness
  - exercises leadership

- The resilient organisation avoids silo management:
  - risk managers maintain risk registers
  - security managers conduct threat and vulnerability assessments
  - business continuity managers carry out business impact analyses... but it shouldn't matter where risks comes from - or who manages it
- An enterprise approach to risk management involves:
  - risk management as facilitators
  - business continuity managers as subject experts
  - avoiding duplication and inconsistencies and gaps
  - an integrated framework
  - business continuity as a key control

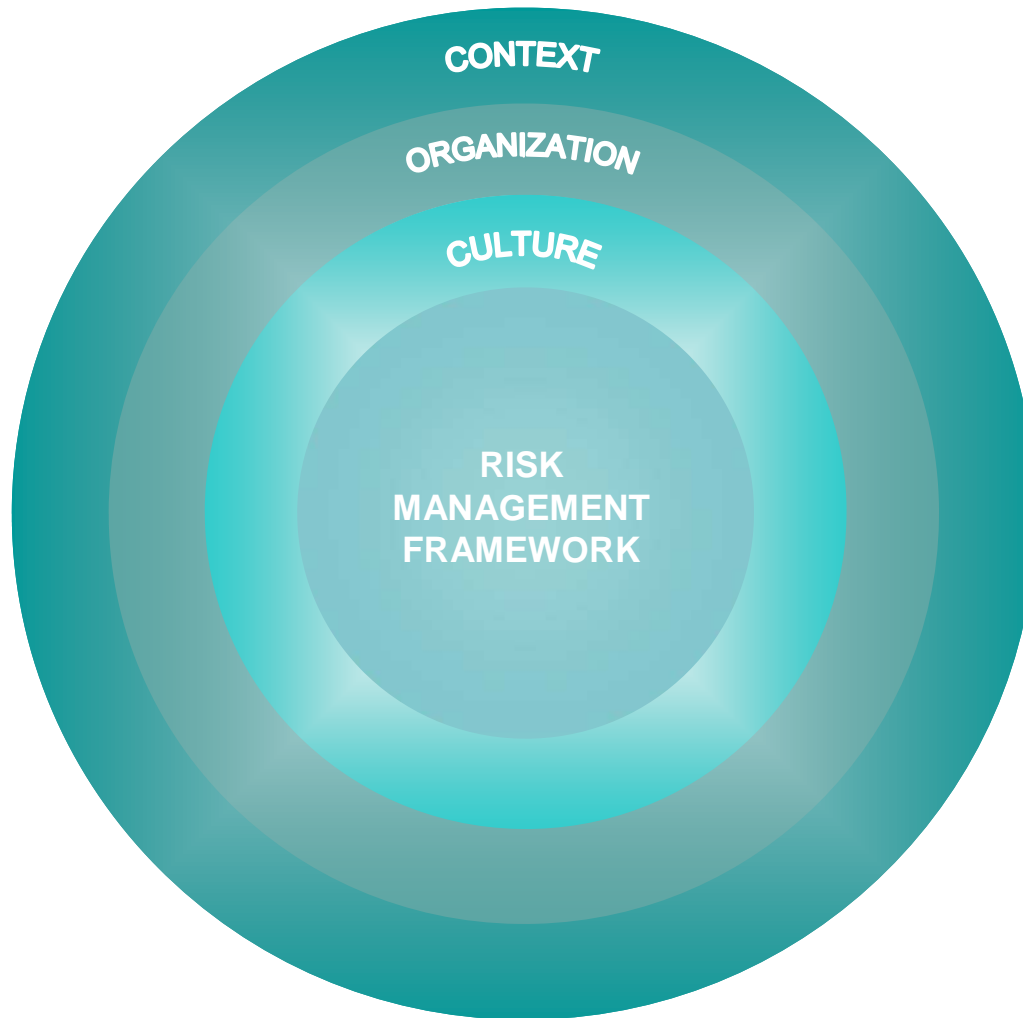
- Anticipates and understands emerging trends
- Understands the impact of threats on the business, supply chain, community and employees
- Develops and maintains supportive partnerships with critical stakeholders in their supply chain, sector and community
- Responds to and recovers from disruptions as a unified whole of organisation team
- Adapts to disruptions and react flexibly to restore routine functions and strengthen the organisation
- Ensures employees are willing and able to support the organisation to achieve objectives in times of adversity
- Leads with clear direction while enabling devolved problem solving

- The world's risk profile is increasing
- Organisations are inclined to manage the known and focus on process, documentation and compliance
- Resilient organisations have a greater awareness of the environment they operate within:
  - an ability to adapt to changing situations
  - non-hierarchical communications
- The likely impact of "Black Swan" risks is wider and longer-term than business continuity preparations have traditionally been designed for
- The resilient organisation learns and adapts
  - it evolves as risks evolve



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# Risk Managing in the Recession



- In a recession organisations are generally less able to meet their financial and regulatory obligations:
- How organisations plan and response can be critical
- Challenges are likely to come from what we cannot control:
  - suppliers
  - customers
  - landlords
  - tenants
  - financiers
  - insurers
- Director responsibilities are likely to be under pressure:
  - get informed - get fit

- The obvious:
  - investments - your own and your customers
  - captive - focus on transfer pricing and investment
  - fraud - a rising tide
  - supply chain assurance
- The less obvious:
  - the effect of customer risk assessment
  - Tax positions altered
  - customers lifting the floor boards - contracts challenged/renegotiated
  - property owner failure
  - insurer failure or tightening of terms
- The other risks in the profile have not gone away

- Fraud, misaccounting, bribery, corruption and criminal acts
- Decisions can be made in the heat of the moment
  - to be picked over for years to come
- Establish an ethical compliance culture:
  - code of conduct
  - whistle blowing that works
  - set the tone from the top
- Understand the law and your regulators
- Train and educate your people
- Be prepared




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# The Insurance Sector

## The customer perspective

1. Investment performance (11)
2. Equity markets (13)
3. Capital availability (26)
4. Macro-economic trends (-)
5. Too much regulation (1)
6. Risk management techniques (14)
7. Reinsurance security (27)
8. Complex instruments (19)
9. Actuarial assumptions (8)
10. Long tail liability (7)

- Differentiate the well risk managed organisation:
  - Act and look smart
  - Highlight recent developments/headlines
  - Illustrate the profile
  - Explain the organisation
  - Highlight the golden triangle:
    - Governance
    - Risk
    - Assurance
  - Demonstrate training, knowledge and communication
  - Evidence claims management and data
    - Anticipate responses to typical issues raised by underwriters
- Set minimum insurer and broker standards:
  - reservation of rights, claims management, speed of settlement
- Take the initiative

- Continuity of insurers to manage and pay claims is a risk
- Actions include:
  - Identify insurers and their affiliates
  - Conduct a risk assessment:
    - to understand cover, exposure, terms and conditions
  - Monitor insurer Outlook and Financial ratings
  - Monitor news 
  - Plan for worst case scenario:
    - triggers
    - transfer options
    - tail covers
    - risk is not confined to premium - look at claims too
- Have a plan
  - as with any plan - it's too late to plan once things go wrong

# Insurance Application



## DLA Piper International LLP Proposal 2008



International LLP has an established Training and Development Team and also has its own Risk Management Training Programme

## Governance

### **DLA Piper: The Global Organisation**

On 1 January 2005, DLA International LLP and the then recently merged Piper Rudnick Gray Cary LLP, established a Global Organisation by way of affiliation: with an oversight and coordination entity, DLA Piper Global LLP, a Delaware limited liability partnership. The Global Organisation operates under a common brand "DLA Piper" through two groups of practising entities, DLA Piper LLP (US) ("US LLP") and the practising entities that are governed by DLA Piper International LLP ("International LLP"). All principals in the practising entities governed by International LLP are members of International LLP. Following the affiliation in 2005 a commitment was given to review the structure three years after the Global Organisation was established. The Integration Committee which was established to carry out such review recommended that, reflecting relevant regulatory, tax and risk management considerations, a Swiss Verein was a better model to align the structure of DLA Piper's vision, and should replace DLA Piper Global LLP. The Integration Committee's recommendations were approved and during September 2008 a Swiss Verein was established under the name DLA Piper Global which has taken over the oversight and co-ordination of the Global Organisation. US LLP and International LLP are the only two members of DLA Piper Global. DLA Piper Global does not practise law nor is it a client-facing Organisation. DLA Piper Global LLP will be subsequently dissolved.

# Communication - Risk Management Brand



ity policy  
its multi-jurisdictional operations  
as a professional of a business  
the right for us to operate within the  
business  
including compliance and the DLA Piper  
team but needs to be a true engagement  
strategy with commercial focus and  
aligned the "right solutions" for each





## FUSION

Europe and Asia | North America

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Search  inFusion

Risk Management

Fusion > Support Areas > Risk Management

Home

Risk Management at DLA Piper

DLA Piper Way

Operational Risk

Regulatory Risk

Insurance

Training & Knowledge

## Welcome to the Risk Management site

Print Version



**Risk Management at DLA Piper** for the processes and tools which helps us control risks. Includes details of our approach, Risk Management team contacts, structure and policies and procedures



**Operational Risk** for guidance on safe business travel, travel insurance, online travel information, general insurances and the firm's policies on health & safety and wellbeing. Also for the firm's policies on environmental, security and business continuity management.



**Insurance** for guidance on how to notify a professional indemnity claim and information on the international claims handling procedures. Also details of how to notify a general insurance claim and guidance on external directors and officers appointments.



**DLA Piper Way** the firm's client/matter vetting and engagement toolkit - for guidance on, and procedures for, conflicts checking, know your client (AML) and client and matter vetting. Also for client engagement procedures, multi-jurisdictional (cross border) guidance and limitation of liability. In addition guidance on file and matter management, including ongoing AML obligations and file closing and archiving.



**Regulatory Risk** for policy and procedures on client identification and anti money laundering, financial services regulation and the firm's complaints procedure. Guidance on professional regulations including the Code of Conduct 2007.



**Training and Knowledge** for risk management as part of the training curriculum, e-learning modules, bulletins, articles and links to useful websites.

- Job requirements:
  - Position/seniority
  - Role
  - Responsibilities
  - Reporting line
  - Salary range
- Personal attributes:
  - Experience
  - Knowledge
  - Skills
  - Qualifications
  - Achievements

## Six routine mistakes:

- Relying on historical data
- Focusing on narrow measures
- Overlooking knowable risks
- Overlooking concealed risks
- Failing to communicate
- Not managing in real time

## To manage risk effectively:

- Choose the right data and metrics
- View the whole picture
- Understand how the parts move

- Resilient organisations:
  - have plans to manage outcomes, rather than scenarios
  - creating a capabilities-based approach
- An organisation may not be able to anticipate every scenario:
  - but it may create response capabilities that will be resilient no matter what the cause of disruption

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.”

*Charles Darwin*