

# ENTERPRISE RISK MANAGEMENT SURVEY, 2006

## Acknowledgments

The Board of Director's has formally endorsed RMA's role in enterprise risk management via the formation of a board level Enterprise Risk Management Council. The survey on Enterprise Risk Management was undertaken to provide high-level input on the current state of play of ERM in the financial services industry. These results are to be used as one of many inputs as the council begins to formalize their operating plan.

## Methodology

This report contains a detailed statistical analysis of the results of the survey titled *Enterprise Risk Management Survey*. The results analysis includes answers from all respondents who took the survey in the 29-day period from Wednesday, August 2, 2006 to Wednesday, August 30, 2006. Completed responses were received from 31 participating institutions during this time. The online survey contained questions on the perceived benefits, challenges and current practices encompassing ERM. The vast majority of the questions were multiple choice. We have provided each participant with results for each question using a simple frequency report presentation.

One of the highlights from the survey is that institutions are currently measuring the effectiveness of ERM from a favorable compliance/regulatory perspective. Over the near term, though, they expect ERM to improve both shareholder value and risk-adjusted profitability.

The final report presentation style is oriented toward showing overall aggregate results emphasizing the communication of facts over analysis. In some cases range and other financial metric measures were reported. RMA staff members contributing to the study were Charles Taylor, Mark Zmiewski, Fran Garritt, and Suzanne Wharton. The writing of the final report was undertaken by RMA.

## DISCLAIMER

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**1) What were your institution's total assets as of 6/30/2006 – in USD rounded to the nearest Billion?**

Response	Count	Percent
< \$25 Billion	8	25.81%
\$25.1 - \$75.0 Billion	8	25.81%
\$75.1 - \$150.0 Billion	7	22.58%
> \$150.0 Billion	8	25.81%

**2) What is your primary functional title?**

Response	Count	Percent
CEO	0	0.0%
President	0	0.0%
Chief Financial Officer	0	0.0%
Chief Risk Officer	13	46.4%
Chief Credit Officer	2	7.1%
Senior Line of Business Officer	1	3.6%
Operational Risk Officer	2	7.1%
Compliance Officer	1	3.6%
Other	9	32.1%

Other Responses:

- Project manager
- Chief Risk Policy Officer (2)
- Chief Credit and Risk Officer
- Director – ERM (2)
- Risk Policy Officer
- Credit Policy and Credit Administration
- Risk and Compliance Officer
- Executive - Risk Management

**3) What is the geographical scope of your bank's operations?**

Response	Count	Percent
Regional	20	66.67%
National	2	6.67%
Global	8	26.67%

- 4) Which of the following descriptions best identifies your current placement on the enterprise risk measurement/management continuum? *Participants indicated that they had closed in on an integrated approach.*

Siloed approach	Aggregated approach	Integrated approach	ERM
Risks are measured and managed independently.	Risk types are aggregated to facilitate discussion of the firm's overall risk position. Correlations between risks are generally not addressed.	Many major risk types are measured simultaneously, i.e., with correlation effects considered; however, the process tends to lack standardization.	Most major risk types are measured simultaneously, i.e., with correlation effects considered; with many of the processes automated and standardized.

- 5) What are the top three influences currently driving your ERM plans?

Item	Rank	Points
Regulatory expectations	1	37
Overall business complexity	2	21
Potential large exposure due to credit crisis	2	21
Disclosure requirements	4	16
New risk challenges posed by new types of risk exposure	5	14
Fraud/criminal activity	6	13
Business risk (e.g., mortgage origination cycle)	7	10
New risk challenges posed by new products or businesses	8	9
Potential large exposure due to operational risk failure	9	8
Technology	10	5
Other (please specify)	11	4
Potential large exposure due to structural interest rate event	11	4
Rate of growth	13	3
Catastrophic disaster(s) (e.g., new outbreak of terrorism)	14	2
Losses or surprises at other institutions	14	2
Historical losses or surprises at your institution	16	0

- 6) If you selected other, please specify.

- 1) Reduce volatility of results from non-strategic risks 2) Maximize earnings and financial strength 3) Minimize economic volatility.
- Basle II.
- Delivering real business value added.

**7) What are the main benefits that ERM implementation has brought to your institution? What are the benefits that your institution hopes to realize in 18-24 months?**

Benefit	Current	In 18-24 Months
Protected/enhanced shareholder value through improved stock price or better credit rating	19.4%	12.9%
Opportunity to identify and assess risk "in total"	45.2%	38.7%
Ability to apply consistent policies and standards	45.2%	19.4%
Improved systems capabilities	9.7%	16.1%
Reduced losses	16.1%	29.0%
Improved strategic decision making	12.9%	48.4%
Ability to set a common risk culture – risk appetite, language, etc.	48.4%	25.8%
Process improvement (improved efficiency)	12.9%	25.8%
Improved communications	38.7%	22.6%
Improved risk adjusted returns and fewer surprises	9.7%	29.0%
Improved understanding of risks and controls	48.4%	25.8%
Support for growth and strategic initiatives	6.5%	32.3%
Protection against catastrophic losses	0.0%	9.7%
Other	0.0%	3.2%

Other Responses:

- All of these are actually important. It's hard to make a top 3 choice.

**8) How does your institution currently measure the effectiveness of ERM? How does your institution plan to measure its effectiveness in 18-24 months?**

Measure of Effectiveness	Current	18-24 Months
Lower losses	22.6%	35.5%
Loss avoidance	22.6%	25.8%
Reduced volatility of earnings	25.8%	25.8%
Improved shareholder value	12.9%	41.9%
Favorably looked upon by regulators and market analysts	67.7%	41.9%
Quicker to market with products	9.7%	12.9%
Fewer deviations from compliance	48.4%	16.1%
Lower capital requirement	9.7%	25.8%
Improved audit results	35.5%	19.4%
Improved risk-adjusted profitability	19.4%	58.1%
Other	3.2%	3.2%

Other Responses:

- Better risk-adjusted capital allocation.
- Improved risk management in business decisions.

### 9) The management of what functions/activities is included in ERM?

Response	Count	Percent
Commercial credit	26	83.9%
Retail credit	24	77.4%
Asset/liability management (ALM)	20	64.5%
Market risk –trading	19	61.3%
Operational risk	22	71.0%
Legal	11	35.5%
Reputation	14	45.2%
Business	9	29.0%
Strategic	11	35.5%
Marketing	2	6.5%
Modeling	14	45.2%
Audit	12	38.7%
Finance	6	19.4%
Compliance	17	54.8%
Economic capital modeling	13	41.9%
Aggregated risk reporting	17	54.8%
Risk technology support	13	41.9%
Regulatory relations	19	61.3%
Other	3	9.7%

Other Responses:

- Insurance
- Sarbanes Oxley
- Risk and control self assessments

### 10) Has your institution established a separate ERM unit that is charged with managing or coordinating the management of material institutional risks?

Response	Count	Percent
Yes	13	44.8%
No	16	55.2%

Comment Responses:

- ERM is one of the responsibilities of a senior finance officer.
- Established in 2002 with broad enterprise wide responsibility.
- We have established an ERM Committee that is responsible to assess the aggregated risks, but do not have one individual or "unit" with this responsibility.
- Cross functional risks.

**11) Does the ERM unit have specific roles, responsibilities, and authority (i.e., it's not just a data / report gathering/aggregating unit)?**

Response	Count	Percent
Yes	14	51.9%
No	13	48.1%

**12) If yes, please list the unit's major activities.**

- Assignments for all major risk types - credit, market, interest, operations.
- ERM is a reporting, monitoring role.
- Credit approval. Economic capital. Internal credit review. Internal audit.
- Credit (wholesale and retail), model validation, regulatory relation/compliance monitoring
- The ERM unit is an active partner in policy setting, decision-making and strategic planning
- Strategies / instruments / methodology risk aggregation / analysis / reporting policies and guidelines review of risk profile
- All authority delegation, policy governance/approval, limit-setting (with the line), new products/initiatives governance, fraud detection and prevention, compliance, insurance risk management, among others.
- Manage organizational credit, operational, and market risks at a consolidated enterprise level.
- Implementation of Risk and Control Self-Assessments; Oversight of model risk management, regulatory interface.

**13) Do you have formal ERM policies (i.e. much like credit policies)?**

Response	Count	Percent
Yes	10	34.5%
No	18	62.1%
Not Sure	1	3.4%

**14) If yes, please provide the major themes that the policy addresses.**

- Risk identification, quantification, monitoring and control components.
- To identify, assess, quantify, mitigate, and manage the risks incurred by the corporation.
- Accountability controls and monitoring.
- Risk management objectives, risk appetite, risk policy, framework limits.
- Overall risk strategy and sub-strategies for separate risk types.
- Code of conduct, risk assessment, conflicts, segregation, operational controls.
- Corporate governance, conflicts of interest, roles/responsibilities, etc.
- Roles and definitions.

**15) If you have an ERM “management” committee, please indicate who is part of it.**

Response	Count	Percent
Entire executive management	12	38.7%
President/COO	5	16.1%
Chief Credit Officer or representative	11	35.5%
Operational Risk Officer	10	32.3%
Human resources	1	3.2%
Compliance	7	22.6%
Business unit heads	5	16.1%
Chief Executive Officer	4	12.9%
Chief Financial Officer or representative	8	25.8%
Chief Risk Officer or representative	10	32.3%
Sub-business-unit heads	3	9.7%
Audit	10	32.3%
Legal	7	22.6%
We do not have an ERM committee	2	6.5%
Other	5	16.1%

Other Responses:

- ALM.
- Being reviewed at the Board.
- Co-Chair of EWRM Committee.
- Chief information officer.
- The executive team serves this role, among others, but there are multiple committees, not just one. There is a Board level risk committee, plus several management committees chartered by the Board.
- Our ERM Committee process is represented by a group of committees: credit policy, ALCO, non-credit risk, fiduciary risk, executive.
- ERM coordinator; market officer.

**16) How often does the ERM management committee meet?**

Frequency	Count	Percent
Weekly	3	13.0%
Monthly	8	34.8%
Quarterly	7	30.4%
Ad-hoc	2	8.7%
Other	3	13.0%

Other Responses:

- Bi-monthly. (2)
- 24 times/year. (2)
- The executive team meets weekly. ERM is not the only agenda item.

**17) Do you have an ERM Board committee?**

Response	Count	Percent
Yes	9	31.0%
No	20	69.0%

**18) If yes, please indicate who from management is part of it.**

- CRO, CFO.
- CEO.
- CRO/ Heads of Risk Control and Global Credit Operations Corporates and Private Customers.
- No management members. The committee is composed entirely of non-management directors.
- All Board Members.
- The CEO, the chief risk officer and the treasurer.
- Four independent directors, supported my management. No management members.

**19) At what frequency is your organization currently able to aggregate risk exposure for ERM analysis, monitoring, and management purposes for the following levels?**

	Across a single type of risk	Across all risk types	Across a single business unit	Across all business units	Across all risks across all business units	Other
Monthly	18	9	11	7	7	1
Quarterly	6	12	7	11	10	0
Semi-Annually	0	0	1	0	0	0
Annually	1	1	2	1	1	0
Other	1	1	1	1	1	3
NA	1	3	2	4	5	1

20) What is the level of automation associated with the gathering of risk exposure for ERM analysis, monitoring, and management purposes?

	Across a single type of risk	Across all risk types	Across a single business unit	Across all business units	Across all risks across all business units	Other
Highly automated	4	1	1	1	1	0
Moderately automated	11	8	9	9	7	0
Lite Automation	4	6	6	5	5	1
Early stage of high automation	0	0	0	0	0	0
Early stage of moderate automation	0	0	0	0	0	0
Early stage of lite automation	0	0	0	0	0	0
Manual Process	4	9	8	7	9	1
Other	0	0	0	0	0	2

21) Which factors are routinely taken into consideration when establishing your institution's tolerance for risk in a business line?

Factor	Count	Percent
Capital availability	16	51.6%
Risk/reward trade off	23	74.2%
General/economic business climate	18	58.1%
Regulatory environment	20	64.5%
External measures of bank reputation	15	48.4%
Other	2	6.5%

Other Responses:

- Risk tolerance metrics are still under review
- Competitive advantage, management competencies

22) Is there a common risk language that is broadly used and understood throughout your organization?

Response	Count	Percent
Yes	21	75.0%
No	7	25.0%

23) If yes, please indicate if the following terms are used (frequency of use as part of routine correspondence) within the organization. (Please select 1 = minimal use to 7 = full use.)

(Percentages)	1	2	3	4	5	6	7	Overall Rating
Risk appetite	3.2%	3.2%	9.7%	9.7%	12.9%	25.8%	3.2%	4.7
Risk profile	3.2%	6.5%	3.2%	12.9%	12.9%	22.6%	6.5%	4.8
Risk thresholds/limits	0.0%	3.2%	0.0%	9.7%	19.4%	12.9%	22.6%	5.6
Intrinsic risk	9.7%	6.5%	9.7%	6.5%	12.9%	6.5%	3.2%	3.7
Residual risk	3.2%	6.5%	6.5%	16.1%	16.1%	9.7%	3.2%	4.3
Loss given default	3.2%	3.2%	9.7%	0.0%	9.7%	16.1%	25.8%	5.4
Probability of default	3.2%	3.2%	6.5%	3.2%	9.7%	16.1%	25.8%	5.4
Exposure at default	3.2%	3.2%	6.5%	9.7%	9.7%	16.1%	19.4%	5.1
Economic capital	9.7%	0.0%	0.0%	9.7%	12.9%	16.1%	19.4%	5.1
Other (please include in comments box)	0.0%	0.0%	0.0%	3.2%	0.0%	3.2%	0.0%	5.0

Comment Responses:

- Varies by risk type.
- VAR.
- Intrinsic and residual risks are only marginally useful because they are so subjective.

24) If yes, please indicate if the following terms are understood within the organization. (Please select from 1 = minimal understanding of term to 7 = full understanding of term.)

(Percentages)	1	2	3	4	5	6	7	Overall Rating
Risk appetite	3.2%	3.2%	6.5%	16.1%	16.1%	9.7%	9.7%	4.7
Risk profile	0.0%	9.7%	3.2%	16.1%	19.4%	9.7%	6.5%	4.6
Risk thresholds/limits	0.0%	3.2%	3.2%	3.2%	12.9%	19.4%	22.6%	5.7
Intrinsic risk	12.9%	9.7%	12.9%	3.2%	9.7%	3.2%	3.2%	3.2
Residual risk	6.5%	12.9%	9.7%	12.9%	9.7%	6.5%	3.2%	3.6
Loss given default	3.2%	3.2%	6.5%	6.5%	12.9%	19.4%	16.1%	5.1
Probability of default	3.2%	3.2%	3.2%	9.7%	9.7%	19.4%	16.1%	5.2
Exposure at default	6.5%	3.2%	6.5%	9.7%	19.4%	6.5%	12.9%	4.6
Economic capital	3.2%	3.2%	9.7%	6.5%	16.1%	19.4%	3.2%	4.6
Other (please include in comments box)	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	0.0%	6.0

Comment Responses:

- Varies by risk type.
- VAR.

**25) Please rate your agreement with the following statements regarding ERM within your organization. (Please check one box per statement, from 1 is strongly disagree to 7 is strongly agree.)**

Statement	1	2	3	4	5	6	7	Overall Rating
ERM is a board-level priority.	0.0%	0.0%	9.7%	6.5%	22.6%	19.4%	29.0%	4.9
Strategic business planning at the institution incorporates ERM.	0.0%	9.7%	9.7%	6.5%	32.3%	12.9%	12.9%	4.4
ERM has helped establish a clearly defined risk appetite for the institution and is understood throughout the organization.	3.2%	6.5%	16.1%	12.9%	25.8%	12.9%	6.5%	4.2
The roles and responsibilities of those involved in ERM are fully understood throughout the organization.	6.5%	9.7%	6.5%	16.1%	19.4%	19.4%	6.5%	4.2
The concepts of ERM are fully understood throughout the organization.	6.5%	16.1%	9.7%	22.6%	22.6%	3.2%	3.2%	3.6
An ERM committee is in place and operating effectively.	9.7%	6.5%	3.2%	12.9%	19.4%	19.4%	6.5%	4.2
A risk self-assessment process is used throughout the organization.	12.9%	3.2%	3.2%	16.1%	19.4%	16.1%	9.7%	4.0
ERM has helped our organization become more proactive in the management of risk.	3.2%	9.7%	3.2%	16.1%	32.3%	12.9%	3.2%	4.3
A robust ERM training program is in place.	16.1%	22.6%	6.5%	16.1%	9.7%	0.0%	6.5%	2.7
Systems and data are fully supportive of ERM initiatives.	6.5%	9.7%	16.1%	22.6%	19.4%	0.0%	6.5%	3.5
ERM has contributed to enhanced risk reporting.	3.2%	3.2%	9.7%	12.9%	19.4%	22.6%	9.7%	4.5
ERM-level reporting is routinely (at least monthly) prepared and shared with senior management.	3.2%	22.6%	6.5%	19.4%	19.4%	3.2%	9.7%	3.5
Reports that aggregate risk exposure by client are accurate, and well understood, with sound methodologies employed to aggregate the exposure.	6.5%	9.7%	6.5%	16.1%	19.4%	9.7%	9.7%	3.9
The organization has consistently prepared reliable data upon which to base ERM decisions.	6.5%	12.9%	6.5%	16.1%	19.4%	12.9%	3.2%	3.9
New products are reviewed and monitored from an ERM perspective.	3.2%	3.2%	0.0%	19.4%	25.8%	12.9%	16.1%	4.6
Our risk management and line of business professionals routinely escalate risks or losses from one level of management to another when thresholds are breached	3.2%	6.5%	0.0%	19.4%	19.4%	22.6%	9.7%	4.6
Definite targets for earnings volatility and bond ratings are set and clearly communicated to risk management and line of business professionals.	12.9%	16.1%	0.0%	9.7%	25.8%	12.9%	6.5%	3.8
Our culture openly encourages the reporting of risks and losses.	0.0%	3.2%	3.2%	6.5%	32.3%	22.6%	16.1%	5.0

**26) How is most ERM knowledge acquired?**

Method Acquired	Count	Percent
On the job	23	74.2%
Mentors	6	19.4%
In-house trainers – e.g., experienced senior managers	5	16.1%
Self-study material	7	22.6%
Web seminars or audio conferences	12	38.7%
Seminars/conferences external to the institution	17	54.8%
Industry discussion groups	14	45.2%
Reading	17	54.8%
Other	0	0.0%

Other Responses:

- In-house programs.

**27) What are the top three challenges impeding the advancement of the ERM framework within your institution currently and in the next 18-24 months?**

Challenges	Current	18-24 Months
Buy-in from middle management and staff	12.9%	16.1%
Speed of implementation	41.9%	25.8%
Level of detail/complexity vs. staff abilities	19.4%	25.8%
Level of detail/complexity vs. executive management's comfort with it	9.7%	38.7%
Winning line management support	22.6%	16.1%
Lack of required data	35.5%	16.1%
Inaccessibility of data	22.6%	16.1%
Quality of data	35.5%	25.8%
Staff and budget	35.5%	35.5%
Other	3.2%	0.0%

**28) If you selected other, please specify.**

- Cost vs. value.

**29) Please provide any additional comments that may help RMA understand Enterprise Risk Management within your organization.**

- ERM is at the initial stages of implementation.
- ERM is a fairly new unit in my organization. I have been in the position for less than a year, and there are only two employees dedicated to all areas of risk.
- ERM has only existed here for 3 years. Much progress has been made. Much is still to come, but we know where we're going and we have buy-in for getting there.
- Our silo approach provides adequate and pragmatic solutions to managing the various institutional risks of our industry at levels of risk we accept. Though siloed, it is very formalized, well documented, and it has effective. The cross-risk concerns have not reached a priority for us, and it is not yet valued at the highest executive or board level.
- We have embraced Sarbanes Oxley and have a well-developed credit culture. Most risk mgmt activities revolve around these areas. SOX is a very high priority, though "ERM" outside of the Credit and audit functions is not as developed. Systems to better measure credit, capital and ERM are in the development and installation stages with greater ERM information capabilities expected in 6-12 months.