

Key Risk Indicators (KRI) Survey September 2011

This RMA Survey was intended to capture the current status of key risk indicators (KRIs) across a range of institutions and also to gather detailed information on some of the key challenges that banks and other financial institutions face.

The survey was conducted by The Risk Management Association between July and September 2011. In preparing the analysis, RMA surveyed 18 financial institutions covering various asset sizes as presented below:

Asset size below \$1 billion – 2
Asset size \$1 billion to \$10 billion – 2
Asset size \$251 billion to \$500 billion – 2
Asset size over \$500 billion – 9

Background

According to the survey, nearly 67% of the surveyed institutions currently use KRIs, and nearly 28% of the institutions are in the development process. The majority of institutions (78%) use KRIs both at the corporate and business lines levels.

Findings

Our survey shows a preference for using Excel as a method for capturing KRIs: 62% of respondents said they use Excel only, while 31% use Excel and some other kind of system to capture KRIs. Based on the responses, we notice that capturing KRIs manually is more common than using the automated method.

Almost 78% of survey participants use an internally developed list as a main source of KRIs, and about 16% use information provided by other parties (a KRI database or consultants). Even if institutions use an internal KRI list, about 53% admitted the KRIs are not applied consistently across business units.

The top four reasons for using KRIs within the surveyed institutions are: risk and control self-assessment (RCSA), board reporting, scenario analysis, and capital modeling. We noticed some differences in the number of KRIs used in the organizations:

- 41% have 1-25 KRIs
- 12% have 26-50 KRIs
- 12% have 51-70 KRIs
- 6% have 76-100 KRIs
- 24% have more than 100 KRIs

When it comes to KRI numbers at the corporate level, the majority of respondents (65%) selected 1-25 KRIs. This was the top answer as well in regard to KRIs used in the lines of business (35%). As you will see in the detailed analysis, there is a nice mix of

KRI numbers used in the lines of business. When asked how useful KRIs are for the business lines on a scale of 1 to 7 (1 is not useful at all and 7 is very useful), 41% said their business lines find KRIs somewhat useful.

The survey also determined the key operational risk concerns of the executive teams. Out of the 12 operational risk topics listed on the survey, the following have been chosen as top priorities:

- Regulatory non-compliance (44%)
- System failure (33%)
- Improper business practice (28%)
- External fraud (28%)
- Internal fraud (28%)

The survey results revealed that institutions working on implementing their operational risk management program included “Establishing/Improving KRIs” (23%) as one of their primary focuses within the next 12 months. The other most important efforts included:

- Getting decision-makers to understand their risks and the institution’s appetite for them (33%)
- Improving the quality of loss data (22%)
- Establishing a strong risk management culture (22%)
- Improving IT systems supporting the risk management framework (22%)
- Establishing/Improving the scenario analysis program (17%)
- Establishing/Improving the risk control self-assessment program (17%)
- Improving internal reporting (17%)
- Improving documentation for regulatory purposes (17%)

Please see the pages following for a detailed analysis and to learn how the institutions integrate KRIs into operational risk reporting.

Do you use Key Risk Indicators (KRIs) in you operational risk practice?

Response	Count	Percent
Yes	12	66.7%
No (please explain in the below space)	1	5.6%
We are in the development process	5	27.8%

Do you use KRIs at the corporate level and/or in the business lines?

Response	Count	Percent
Corporate level	0	0.0%
Business lines	2	11.1%
Both at the corporate level and in the business lines	14	77.8%
Not sure	2	11.1%

Do you use a system or Excel for KRI capture?

Response	Count	Percent
System	1	6.3%
Excel	10	62.5%
Both	5	31.3%

What percentage of your KRIs are captured manually and automatically?

Manually?	Automatically?	Count	Percent
100	0	7	43.7%
95	5	1	0.06%
90	10	1	0.06%
80	20	1	0.06%
60	40	2	0.12%
50	50	3	0.18%
0	100	1	0.06%

Do you use KRIs to accelerate strategic imperatives?

Response	Count	Percent
Yes	5	31.3%
No	9	56.3%
Other	2	12.5%

Do you expect behavioral changes based on KRI measurements? Please explain your response in the 'Additional Comments' field

Response	Count	Percent
Yes	15	93.8%
No	1	6.3%

What are your source(s) of KRI?

Response	Count	Percent
Developed list internally	14	77.8%
Developed working with a consultant	1	5.6%
Subscribed to a database of KRIs	2	11.1%
Not sure	0	0.0%
Other (please specify)	4	22.2%

- TRAC.
- Lists developed independently by function owners – no corporate oversight.
- Audit resource.
- Linked to key risks and risk drivers as identified in RCSAs.

Are KRIs applied consistently across business units?

Response	Count	Percent
Yes	5	29.4%
No	9	52.9%
Not sure	3	17.6%

What are your KRIs used for (select all that apply)?

Response	Count	Percent
Board reporting	11	61.1%
Capital modeling	5	27.8%
Risk control self assessment (RCSA)	13	72.2%
Scenario analysis	6	33.3%
Not sure	1	5.6%
Other (please specify)	5	27.8%

- Part of risk monitoring that feed risk assessments and reporting.
- KRIs feed into a number of risk assessment processes and reports.
- Control environment changes as a result of projects.
- Process and risk monitoring – tactical level. Some part of RCSA process as an input.
- Still in the development stage.

Are your KRIs predictive of loss?

Response	Count	Percent
Yes	0	0.0%
No	5	29.4%
Not sure	3	17.6%
Sometimes	9	52.9%

How many KRIs do you have in the aggregate?

Response	Count	Percent
1 - 25	7	41.2%
26 - 50	2	11.8%
51 - 75	2	11.8%
76 - 100	1	5.9%
More than 100	4	23.5%
Not sure	1	5.9%

How many KRIs do you use at the corporate level?

Response	Count	Percent
1 - 25	11	64.7%
26 - 50	2	11.8%
51 - 75	1	5.9%
76 - 100	1	5.9%
More than 100	1	5.9%
Not sure	1	5.9%

How many KRIs are used in the lines of business?

Response	Count	Percent
1 - 25	6	35.3%
26 - 50	3	17.6%
51 - 75	3	17.6%
76 - 100	0	0.0%
More than 100	3	17.6%
Not sure	2	11.8%

How often do you review/update your KRIs?

Response	Count	Percent
Semi-annually	3	17.6%
Annually	6	35.3%
Every couple of years	1	5.9%
Not sure	1	5.9%
Other (please specify)	6	35.3%

- Currently in development.
- Quarterly.
- Selectively; will be developing more rigor.
- Frequency has not been determined.
- Don't have a standard list or corporate review process.
- Annually on the business lines and monthly on the risk side.
- Working on quarterly.

How useful do the business lines find KRIs to be? (1= not at all useful; 4= moderately useful; 7= very useful)

Response	Count	Percent
1 = Not at all useful	0	0.0%
2	1	5.9%
3	1	5.9%
4	5	29.4%
5	7	41.2%
6	1	5.9%
7= very useful	2	11.8%

How concerned is your organization's executive management team about the following operational risks? (1= not at all concerned; 7= very concerned)

	1	2	3	4	5	6	7
Manual/processing errors	0.0% (0)	5.6% (1)	11.1% (2)	22.2% (4)	27.8% (5)	22.2% (4)	11.1% (2)
Model errors	0.0% (0)	11.1% (2)	11.1% (2)	22.2% (4)	27.8% (5)	16.7% (3)	11.1% (2)
Improper business practices	5.6% (1)	11.1% (2)	0.0% (0)	11.1% (2)	22.2% (4)	22.2% (4)	27.8% (5)
Regulatory non-compliance	0.0% (0)	11.1% (2)	5.6% (1)	11.1% (2)	11.1% (2)	16.7% (3)	44.4% (8)
Breach of fiduciary duties	5.6% (1)	16.7% (3)	5.6% (1)	11.1% (2)	22.2% (4)	22.2% (4)	16.7% (3)
Business disruption	0.0% (0)	11.1% (2)	5.6% (1)	44.4% (8)	16.7% (3)	11.1% (2)	11.1% (2)
System failure	0.0% (0)	11.1% (2)	5.6% (1)	16.7% (3)	22.2% (4)	11.1% (2)	33.3% (6)
Damage to physical assets	5.6% (1)	38.9% (7)	16.7% (3)	11.1% (2)	22.2% (4)	5.6% (1)	0.0% (0)
Employee practices and workplace safety	5.6% (1)	27.8% (5)	11.1% (2)	16.7% (3)	27.8% (5)	0.0% (0)	11.1% (2)
External fraud	0.0% (0)	0.0% (0)	0.0% (0)	27.8% (5)	22.2% (4)	22.2% (4)	27.8% (5)
Internal fraud	0.0% (0)	5.6% (1)	16.7% (3)	27.8% (5)	16.7% (3)	5.6% (1)	27.8% (5)
Other (please specify)	0.0% (0)	100.0% (1)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)

In implementing your institution's operational risk management program over the next 12 months, where do you expect to focus your effort? (1= a small effort or no focus at all; 7= a major effort and a primary focus)

	1	2	3	4	5	6	7
Improving the quality of loss data	0.0% (0)	11.1% (2)	5.6% (1)	22.2% (4)	22.2% (4)	16.7% (3)	22.2% (4)
Establishing/improving the scenario analysis program	5.6% (1)	5.6% (1)	0.0% (0)	50.0% (9)	11.1% (2)	11.1% (2)	16.7% (3)
Establishing/improving KRIs	0.0% (0)	0.0% (0)	17.6% (3)	17.6% (3)	29.4% (5)	11.8% (2)	23.5% (4)
Establishing/improving the risk control self-assessment program	0.0% (0)	0.0% (0)	5.6% (1)	22.2% (4)	33.3% (6)	22.2% (4)	16.7% (3)
Establishing/improving capital modeling	0.0% (0)	11.1% (2)	16.7% (3)	27.8% (5)	27.8% (5)	5.6% (1)	11.1% (2)
Establishing/improving allocation and/or incentive schemes	23.5% (4)	5.9% (1)	23.5% (4)	11.8% (2)	29.4% (5)	5.9% (1)	0.0% (0)
Getting decision-makers to understand their risks and the institution's appetite for them	0.0% (0)	11.1% (2)	0.0% (0)	11.1% (2)	22.2% (4)	22.2% (4)	33.3% (6)
Establishing a strong risk management culture	0.0% (0)	11.1% (2)	11.1% (2)	27.8% (5)	11.1% (2)	16.7% (3)	22.2% (4)
Achieving convergence with other disciplines like audit and compliance	5.6% (1)	11.1% (2)	11.1% (2)	33.3% (6)	16.7% (3)	11.1% (2)	11.1% (2)
Improving IT systems supporting the risk management framework	0.0% (0)	11.1% (2)	11.1% (2)	16.7% (3)	33.3% (6)	5.6% (1)	22.2% (4)
Improving internal reporting	0.0% (0)	11.1% (2)	0.0% (0)	22.2% (4)	33.3% (6)	16.7% (3)	16.7% (3)
Improving documentation for regulatory purposes	0.0% (0)	11.1% (2)	5.6% (1)	22.2% (4)	27.8% (5)	16.7% (3)	16.7% (3)
Achieving Basel compliance	27.8% (5)	5.6% (1)	11.1% (2)	16.7% (3)	16.7% (3)	11.1% (2)	11.1% (2)
Other (please specify)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	100.0% (1)	0.0% (0)	0.0% (0)

How do you integrate KRIs into operational risk reporting?

- They are used to provide fact based support of operational risk issues and the overall statutes of enterprise operational risk.
- They help form the view of risk levels.
- Backup information to management reporting.
- We intend to use them to objectivity our monthly reporting of the operational risk environment of our organization.
- Monthly reporting.
- Through a COSO framework and SOX review, we apply a risk rating to our KRIs and generate quarterly reports on risk rating and changes in procedure that effect the risk rating. Then business line managers certify to the KRIs and the risk rating.
- Focus on the key ones back to the business objectives.
- KRIs are one section in a report that details results of risk assessments, loss data and other internal and external information (such as KRIs).
- KRIs are used for control environment monitoring along with leading and lagging indicators that will drive change or preparation on the part of the business and increased testing.
- Showing KRI with trend and % impact on EC/RWA by business line.
- As supporting elements under the risk assessment process. Used more tactically in business process and functions, not heavily utilized at a corporate level.
- KRIs form the majority of information tracked in our operational risk management dashboards which are reviewed by senior management oversight committees monthly.
- Still under development.

What type of institution do you represent?

Response	Count	Percent
Bank	17	94.4%
Broker-dealer/securities firm	0	0.0%
Insurance company	1	5.6%
Non-bank financial institution	0	0.0%
Other (please specify)	0	0.0%

What is your institution asset size?

Response	Count	Percent
< \$1 billion	2	13.3%
\$1 billion - \$10 billion	2	13.3%
\$11 billion - \$50 billion	0	0.0%
\$51 billion - \$100 billion	0	0.0%
\$101 billion - \$250 billion	0	0.0%
\$251 billion - \$500 billion	2	13.3%
>\$500 billion	9	60.0%