RETHINKING RISK MANAGEMENT

Welcome to our first annual RiskMinds International magazine

We are excited that over 650 of you have been able to join us this year for our 24th annual conference!

Over the past 24 years RiskMinds International has evolved with the risk management industry—the topics have changed, the speakers have changed (although there are still a few stars who have joined us every year!) and the event has steadily grown to the encyclopaedic proportions that it is today.

We hope you will agree that RiskMinds International really has become the annual gathering for the risk management community and we are working hard to ensure that you have the best experience possible. Whether it is hearing from your peers about the latest industry developments, understanding forthcoming regulatory initiatives, sharing challenges or experiences with people working in the same field as you or making new industry business connections, we hope that the event is a success for you.

With this magazine, we wanted to share some of the recent articles RiskMinds community members have written and let you know about some of our new initiatives. These include FutureRiskMinds, which is aimed at encouraging under-35 future leaders of risk to engage with the community, and Women In Risk, which is aimed at bringing more female voices to the global risk management stage.

Enjoy the conference and our first annual magazine!

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What keeps CROs up at night?

New to RiskMinds International this year is a panel session, bringing together some of the leading CROs to discuss the common “pain points” in the industry today, and ultimately answer the questions, “What keeps you up at night?”

Ahead of this, the RiskMinds team spoke to our panel, and other CROs speaking across the event, to gain an exclusive insight into what is keeping risk managers awake.

1. **CYPHER SECURITY**

   Out of all CROs questioned, 53% responded with Cyber Security as a “top 3” concern.

   This isn’t surprising, as our dependence on the internet has increased, so cybercrime has moved from obscurity, into the spotlight for not only the consumer, but also for corporate and international security concerns. Former Scotland Yard Detective Superintendent, Charlie McMurdie, gives it straight, “Cyber crime is cheap to commit and expensive to defend, criminals operate within the virtual environment and as such are not constrained by real world boundaries. It’s not by chance that they exploit the widely differing legal and regulatory regimes in place within different countries.”

   One respondent elaborated further, “The sheer complexity and exponential growth make cyber crime one of the most significant risks that keep me awake at night. I have spent a significant amount of time during the past year familiarizing myself with the nature and complexity of the threat vectors. It is incredibly difficult for organizations to protect themselves and I believe we are at a very early stage of the evolution of this risk type. We are bound to see significant incidents over the next few years.” Indeed, the recent breach of U.S. credit monitoring firm Equifax, which resulted in the leaking of personal information for around 143 million individuals, demonstrates that the scale and impact of data breaches are only increasing.

   Another senior CRO discussed the risk of social hacking within the realm of cyber-security, “Often enough people speak about cyber security, compliance, policies, and procedures, forgetting that after drafting any policy they should also work on its effective implementation. It might be quite hard to hack a server, but a poor password policy may result in the very same data breach in a much simpler way.”

   The fact of the matter is, the methods of would-be hackers have not changed dramatically—phishing—increasingly sophisticated spear phishing—is still amongst the most popular attack vectors. Simple employee awareness remains a major challenge.

2. **GEOPOLITICAL INSTABILITY**

   The CROs we panelled have a widespread geographical influence and responsibility, and so the current geopolitical climate was an expected top pain point. In fact, one third put it in their top 3 concerns, with some stating specific concerns with Trump and Brexit, and others pinpointing more localized pressures within their own markets.

   Delving into this a little further, one respondent said, “In general any risk which is hard to measure and might have systematic effects, like geopolitical risks. When it comes to risks which are hard to measure the complexity of having an effective strategy to mitigate that risk increases exponentially.”

   Recent election results in Germany, France, and the Netherlands may soothe the nerves of CROs concerned with the rise of right wing nationalistic populism, but that would ignore the strong showings by far right parties like Alternative for Germany (AfD) and the National Front in Europe. The forces and attitudes that contributed to the victory of Donald Trump in the U.S. and Brexit in the U.K. are still very much present, and could continue to pose a risk to markets as well as political stability.

3. **REGULATORY CHANGE**

   The third most popular pain point was regulatory change, with over 1/3 of our CROs stating this a pressing concern. As many in the risk management industry are aware, several new regulations are coming through and are due to go live in the new year, including IFRS9 and MiFID and Vonder. Even for companies well placed to handle the changes needed to implement new processes and requirements, the sheer volume of adjustments necessary is keeping some CROs awake past bedtime.

   “The burden of regulation is now monumental and potentially having unintended adverse consequences. While much of the regulation was proven to be necessary for the self-regulation as evidenced by the Global Financial Crisis, the overload of new regulations and their exhaustive implementation can impact the profitability of banks that isn’t necessary for a strong well capitalized banking industry. Risk managers can also ‘take their eye off the ball’ of the commercial risks as they are distracted with the reporting, governance, and bureaucracy of compliance,” stated one CRO.

   RiskMinds also ran a Regulation Digital Week, highlighting expert opinions on a range of regulations impacting the industry, through webinars and Q&As. Catch up on what was discussed by visiting the RiskMinds community page – knect365.com/riskminds

**OTHER PAIN POINTS**

While almost all the CROs agreed on at least one of the above risks as taking up prime real estate in the top three pain points, there were a variety of other responses which were highlighted too.

These include financial crime and fraud, risks arising from digitization and FinTech and traditional credit and market risks. The left chart shows the full range of responses to the question, and emphasizes the growing number of risks CROs must keep on their radar in order to be effective and ensure a sustainable and profitable business.
How can technology transformations ramp up customer-centric innovation?

Technology these days is driving our customers’ experience by ensuring simplicity, speed and convenience in daily interactions. The innovative solutions are always implemented having in mind the customer view, as we call it - an “outside-in” view. Technology can only be effective in ramping up the customer experience when it is used in conjunction with reimaging the customer journeys and eliminating all the pain points that customers experience with the current solutions. There is a big difference between ‘digitising’ and ‘digitalising’ the customer experience. In the first case it is a reactive activity of making the current analog experience digital, without really redesigning it and enhancing it using technology. An example of digitization is transforming a paper statement into a PDF file without really changing anything. You can, however, digitize the customer statement by making it interactive on the mobile application or through an internet banking. This can be achieved by providing automated categorization of transactions i.e. by showing how much we spend on food or petrol, enabling to set up budgets for spending or setting up goals for savings.

What are the key technology transformations?

The key technology transformations these days are related to Artificial Intelligence, Biometric Authentication of customers and authorization of their transactions and Cyber Security. The chatbot powered by Artificial Intelligence will take over a lot of what we call today “service plus” activities, such as customer requests for blocking and reissuing the credit cards etc., as well as will drive online selling processes. Biometric customer authentication and transaction authorization will lead to vastly simplifying the account opening process and will make it 100 per cent remote and digital. This move will revolutionize the customer onboarding and make the visit to the branch redundant. At the same time, it should lead to the elimination of signatures as customer biometric verification will make it so much more powerful and secure. Cyber security is viewed by many as the necessary foundation of technology-led transformation and I fully agree with that view. Simplicity should never jeopardize security and therefore the challenges standing ahead of making the customer experience secure are immense. Technology, however, is also driving that by providing multiple points of security that engage not only the core technical solutions, but also involves the customers in monitoring their accounts e.g. by providing them with a wide span of different alerts and notifications.

How has DBS Bank implemented these transformations with success?

DBS was a pioneer in the banking industry by implementing many of the solutions mentioned before into our internet and mobile applications. Examples include: the biometric authentication of digibank by DBS customers in India and Indonesia, our Virtual Assistant, which is an AI chatbot serving customers in India and Indonesia. That Virtual Assistant was recently also implemented on Facebook messenger in Singapore. We also integrated two more Fintech companies’ solutions to re-engine the transaction authorizations using soft tokens and the transaction search and categorization, mentioned by me before. Each of our new projects starts with defining so-called customer’s “jobs to be done” i.e. understanding what our customers really want to achieve and then designing the customer journeys around it, always using technology solutions.

What are the key challenges that DBS Bank has encountered with these transformations?

The biggest challenge with any transformation is always related to people. It requires a vast change of the company culture and can only be achieved by engaging employees at every level - from the top and the bottom. In my personal opinion no real transformation can ever be achieved if it does not have a strong buy-in and drive from the top management. We were lucky to have a CEO, who was personally dedicated to make the change into digital happen and so was the whole management team under him. Thanks to that support, its transformation happened across the organization and included not only business, operations or technology but it was equally big in the support units like legal, compliance or HR.

How is the Asian FinTech landscape paving the way for innovation in Financial Services?

I believe that Asia is playing an especially important role in the technology transformation – mostly driven by the Chinese giants - like Alibaba with Alipay, WeChat or Ping An. At the same time, Asia is home to a myriad of different FinTech startup companies that provide innovative solutions for the financial institutions to integrate with. Asian regulators are also very supportive in promoting their innovation that is API-enabled and is allowing the startup Fintech companies to smoothly plug into banking and other financial institutions, thus setting the pathway for Open Banking in Asia.

The Leaders’ statement issued after the 2009 G-20 meetings included the following para: “All OTC derivative transactions should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.” Eight years on, it seems appropriate to review the changes that this has led to.

The key objective immediately following the crisis was to reduce systemic risk by requiring more collateral to be posted when financial institutions trade with each other. This objective has largely been achieved. Standard transactions between financial institutions are cleared through CCPs and attract both initial margin and variation margin. Non-standard transactions between financial institutions continue to be traded bilaterally. But, following the 2011 G-20 meeting in Cannes, rules requiring initial and variation margin for these transactions are being implemented.

One result of these changes is that there has been a trend away from customized OTC derivatives toward more standard products. This should reduce systemic risk, but there are potential disadvantages.

There can be little doubt that reporting all OTC derivative transactions to trade repositories such as the Depository Trust and Clearing Corporation (DTCC) is desirable. It gives regulators the opportunity to recognize situations where unacceptable risks are being taken. It also creates more post-trade transparency.

No doubt policymakers and regulators were greatly influenced by the AIGasco. AIG Financial Products entered into many transactions where it guaranteed the AAA-rated securities created from the securitization and re-securitization of subprime mortgages. The performance of AIG Financial Products was guaranteed by its U.S. parent. It was not required to post collateral on its trades thereby providing AIG’s credit rating remained above AA. In mid-September, AIG’s credit rating fell below AA and it was unable to provide the required collateral only then did investors become aware of the risks that had been taken. A massive bailout followed.

A situation similar to AIG should never happen again. First, trade repositories would allow regulators to be more aware of the one-sided risks being taken, making it possible for them to step in earlier. Second, a company entering into trades similar to those of AIG would be required to post so much initial margin and variation margin that its appetite for hedging the trades would be greatly diminished. The least important, and least defensible, of the new regulations for OTC derivatives is the requirement that standard transactions between financial institutions be trade on electronic platforms. The motivation for this seems to be that, if OTC derivatives are traded like exchange-traded derivatives, there will be more price transparency and problems such as those observed during the crisis will be avoided. In fact, the problems during the crisis were caused by non-standard derivatives and there is no requirement that these be traded on electronic platforms.

There is a danger in trying to trade OTC derivatives in the same way as exchange traded derivatives... there are important differences between the two.

There was not a serious problem in the way OTC derivatives were traded pre-crisis. It is not clear that there was a lack of price transparency. Industry participants had access to reliable sources of price quotes. In any case, trade repositories should take care of any transparency issues. Trading OTC derivatives in the same way as exchange traded derivatives is therefore not necessary to achieve price transparency.

In addition, there is a danger in trying to trade OTC derivatives in the same way as exchange-traded derivatives. This is because there are important differences between the two. OTC derivatives trade intermittently whereas exchange-traded derivatives such as futures trade continuously. The size of a typical OTC derivative is much larger than that of a typical exchange-traded derivative. There are fewer market participants in the OTC market, but they are more sophisticated than the average participant in exchange-traded markets.

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Surviving and thriving in the low rates environment

We have been in a low interest rate environment for the last decade. Interest rates have not recovered to pre-financial crisis levels and the normalization from artificially low levels is unlikely until 2018 as illustrated by the huge ($4.6 bn) remaining balance sheet of the Fed.

While not primary driver, low interest rate environment has contributed to drop sales in major life insurance products such as Variable Annuities and General Account products. Although large fixed income allocations help reduce volatility, it becomes more challenging for assets to grow at guaranteed levels in a prolonged low rate environment:

■ On the one hand lower interest rates increase cost of capital, reserves from higher present value of expected claims, cost of hedging as options become more expensive
■ On the other hand lower interest rates increased difficulty in supporting minimum guaranteed rates in fixed account due to spread compression in general account, and decreased ROEs due to lower net income from higher reserve levels.

Unfortunately, too early expectations after 2009 of rising back up interest rates have pushed most writers to consider growing further and developing more generous thus riskier products at same price, as illustrated by high minimum guaranteed rates and withdrawals (e.g. 5-7% roll-up and guaranteed withdrawal rates, annual / quarterly / daily ratchets for VAs).

However, as interest rates have remained persistently low and volatile, fundamental de-risking measures have been implemented by most life insurers:

■ Product designs de-risking: higher fees (M&E and riders); lower benefits (lower roll-up rate, lower frequency of ratchets, lower guaranteed withdrawal rates; stricter asset allocation limits ( Higher mandatory minimum allocation to fixed / balanced accounts); restriction in ability of policyholders to "time the market"; restriction in number of equity funds; increased use of "tracker" funds; stricter governance in product approval process; possibility for the insurer to increase fees at discretion.
■ Most life insurers have also improved their risk management practices: increased use of volatility hedging; adding macro hedges to protect against steep interest rate drops

Such de-risking has not only provided healthier margins for new business, but has also strengthened life reinsurance markets. But it cannot fully mitigate the impact of persistently low interest rate environment, as illustrated by higher cost of hedging Variable Annuities, and difficulty in supporting rates in fixed account due to spread compression in General Account.

Still further solutions remain in order to survive and thrive in the low rates environment:

■ Decelerate distribution of Variable Annuities and General Account sales until interest rates mean-revert to sustainable long term levels is reasonable.
■ As persistent low interest rates have increased customers' concerns about fees triggered drastic changes in their behavior (lower lapse and partial withdrawals), retrieving resiliency in profitability requires to develop customer centric designs within a "rational" framework which balances benefits vs. fees.
■ Buyout initiatives which provides compensation to policyholder in exchange for product.
■ Develop alternative products such as Fixed Index Annuities which not only suffers less from guaranteed rates thanks to Market Value Adjusters and reset of guaranteed rates after short guarantee periods, but also benefits from Equity upside potential as illustrated by the 75% S&P500 growth since 2013.
In the spotlight: Regulation

Why the renewed interest in stress testing?

Riccardo Rebonato is Professor of Finance at EDHEC Business School and author of journal articles and books on Mathematical Finance, covering derivatives pricing, risk management and asset allocation. Risk management, prudential macro- and microprudential, portfolio allocation and, in general, the strategic analysis of financial and economic outcomes share the common unstated assumption that the past conveys useful statistical information about the future. Indeed, a large part of contemporary finance rests on modern portfolio theory, which in turn places at center stage the statistically determined vector of asset expected returns and their covariance matrix. In normal market conditions, the frequentist techniques that underpin these statistical analyses work well, and are perfectly justifiable. In these contexts, the role played by domain knowledge and subjective inputs to the determination of the statistical quantities of interest is limited – and often regarded with suspicion.

In recent years policy makers, regulators, portfolio managers and economic agents in general have been faced more and more frequently with situation of quasi-Knightian uncertainty. Take, as an example, the possible demise of the Euro. It is not clear what patches of past history could be relevant to provide ‘objective’ guidance about the expected outcomes of economic and financial variables. In these situations, subjective judgement and expert domain knowledge are forced to the fore. One enters the relatively unchartered territories of stress testing and scenario analysis. As unprecedented financial and macropolitical events (or at least the fear thereof) seem to have visited the third millennium with disconcerting regularity, it is not clear what past history could be relevant to provide objective guidance about the expected outcomes of economic and financial variables. In these situations, subjective judgement and expert domain knowledge are forced to the fore.

Unprecedented financial and macropolitical events seem to have visited the third millennium with disconcerting regularity.

Critical Implementation Issues for IFRS9

David Grüenberger, a leading IFRS9 expert in the regulatory area, and Head, Accounting & Regulatory Monitoring at Austrian FMA, discusses the key challenges for IFRS9 implementation.

IFRS9 gets increasingly important from a supervisory perspective. ESMA is starting to publish recent IFRS-enforcement decisions on critical areas around stage transfers and loss definitions. EBA has conducted its second impact study and published the final IFRS9 implementation study. The new stress testing methodology just came out, now focusing on IFRS9 provisions.

Although many critical implementation issues have not been outspoken and challenged up to now, accounting enforcers and banking supervisory are now actively using and enforcing IFRS9. The most striking and challenging advancement is probably the new stress testing methodology. EBA established a completely new concept of a forward forward-looking simulation, where banks simulate how they would calculate forward looking ECLs as of future balance sheet dates. The probabilistic nature of stress tests will also make simulations of IFRS9 (eg the staging) probabilistic. In addition, the “perfect foresight assumption” aligns the specifications of the stress scenarios with the accounting scenarios.

Another key topic are the triggers used to determine stage transfers. A wide variety of approaches have appeared recently and many auditors remain hesitant to communicate where they plan to set the boundaries, although some new Big-4 commentators try to define clear limits. Accounting enforcers have brought up some key topics, like the so-called “absolute triggers”, and organized EU-wide supervisory clearance on which triggers are be acceptable and which clearly not. A similar topic brought up for EU-supervisory clearance was the treatment of IBNR losses in the context of IFRS9, which were apparently neglected by some banks. Even though banks are now quite advanced in their implementation of IFRS9, they will need to check and perhaps update their approaches based on recent accounting enforcement decisions.

What is the state-of-play on resolution planning?

Daniel Mccarthy is a Head of Unit, Resolution Planning and Decisions at the Single Resolution Board. He leads the resolution teams for banks based in the Netherlands and Belgium, comprising a portfolio of sixteen banks including EU and US GSIBs, as well as other large and domestically focussed banks.

In 2016, the SRB drafted and adopted 92 resolution plans, covering the majority of 138 banking groups under our direct remit. This was an important starting point, defining core elements of a Resolution Plan including: determining the conditions for resolution or normal insolvency; the critical economic functions, membership of FMIs, interconnections and separability, the resolution point of entry, the preferred resolution tool(s), an indicative MREL calculation, maintaining operational continuity in resolution and a 1st resolvability assessment.

This work was achieved through the establishment of Internal Resolution Teams (IRTs) comprising the national resolution authorities in each jurisdiction a banking group had either a subsidiary or material branch in the Eurozone. For the eight EU GSIBs and other EU banking groups with operations outside the Eurozone, CMGs and Resolution Colleges were held to discuss the Group resolution plan with the host authorities and agree priorities for 2017.

Following the adoption of the plans, the IRTs have begun the detailed work alongside the banks to ensure the operational capabilities are in place to implement the plan in the event of a group’s failure. By its nature, this is a ‘front-loaded’ exercise involving many functions within a bank to ensure a coherent and integrated plan is in place. In response, a number of banks have taken the decision to establish a dedicated Recovery and Resolution team under the Finance or Risk functions, responsible for preparing and implementing an annual resolution work programme with specialist work streams to enhance resolvability, with quarterly progress reporting to the Board. We expect other banking groups will follow a similar approach to derive the synergies from this exercise.

In practical terms, the resolvability assessment identified a number of common potential impediments facing banks: the operationalisation of the bail-in tool; maintaining operational continuity of shared services and IT processes; access to FMIs in resolution; meeting funding needs in resolution; having sufficient MREL in terms of quantity, quality and location etc. To support this work, banks and their IRTs are working to define a series of technical notes and playbooks identifying the steps and procedures to be followed to implement the preferred strategy.

For more insights on IFRS9 go to knect365.com/riskminds

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Two key themes integral to the future risk landscape

Sunkanni Ogunyeye, Strategic Risk at RBS tells us how the industry is evolving.

The pace of innovation and disruption in the financial services industry is creating new opportunities for organisations. With new opportunities come new risks, both foreseen and unforeseen, and this inevitably alters the nature of risk management as we traditionally know it.

Risk management is evolving in response and is headed to a future where, by embracing technology, automation and analytics, it will enhance organisational strategy and operational effectiveness. I believe two key themes will be integral to the future risk management landscape:

1) Greater level of insight and wider risk coverage and;
2) Proactive risk management creating proactive relationships with customers

Greater level of insight and wider risk coverage

In the future, risk management will be interdisciplinary, with wider risk coverage. The progress being made in data insights and AI & automation will create and enhance a wide range of customer-centric solutions, such as answering queries; managing finances and predicting customer behaviour. Risk management will also benefit from development in these spaces. Progress in data & analytics will lead to more detailed insights and therefore more successful business decisions. Efficiency and accuracy in risk processes will improve once AI and automation is embedded into the risk management framework of financial services integration.

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Proactive risk management creating proactive relationships with customers

Future risk management will not be seen as an impediment to achieving strategic goals, but an enabler to achieve these goals by strengthening customer relationships and ensuring the best possible customer outcomes. Risk will be proactive with data, detecting when key changes are occurring in a customer’s life. This will enable the proactive identification of customer needs, without the customer having to inform their bank, and thus build a stronger and more nuanced relationship. This is in great contrast to risk management of today, which tends to be reactive or retrospective when addressing the issue of customer needs and whether they are being met.

There are numerous ways in which future risk management will fundamentally differ from the function as it is today. With the volume and diversity of innovation occurring today, it is inevitable that risk management will also have to change in how it operates, and will in turn add more value to businesses.
The Future of Risk Management

Here's what Harriet Morris-Sloane, Manager, Group Risk Governance and Appetite at HSBC Bank told us:

Over recent years risk teams in the financial services industry have grown in both their importance and remit to take their place centre stage in the decision making process. Thankfully gone are the days when risk management was viewed as a ‘backwater’ function sat in the corner of the darkest office in the building. The future of risk is one of broader coverage, collaboration, business focused support and adaptability. The exponential growth of risk is, in part, a consequence of the 2008 economic crisis, an increase in regulations and fines and an acknowledgement that as an industry we could do better. But it is also due to the subsequent value add demonstrated by dynamic risk functions. Words and phrases such as ‘risk appetite’ and ‘controls’ are used in the lexicon of everyday business. Risk now means more than traditional credit risk, in the future of risk we will need to be agile enough to keep pace with changes and increasing focus on non-financial risks now being integral to day-to-day decision making. Risk’s remit will continue to broaden, with risk managers advising across a wide range of matters, from the use of machine learning in credit to cyber threats. Whilst some of these risks sit within traditional ‘bread and butter’ work of risk management, some are new untested areas of risk. One of the challenges will be to support and enable our front line colleagues to deliver in these new expanding areas, supporting us to meet these challenges with clear thought and appropriate due process.

The impact and co-dependency of risks are also becoming ever more integrated. The future of risk is one of much stronger collaboration and interdependency. Risk management teams will need to provide a joined-up approach across traditionally siloed areas in order to trouble shoot, share information and better predict second order impacts of possible events. A broader remit, less clarity, and the fast pace of change will require risk management to be agile in its response; risk management teams have to be able to support and, at times, pioneer changes, and feel comfortable operating and advising in uncertainty and ambiguity. Risk now means more than traditional credit risk, with increasing focus on non-financial risks being integral to day-to-day decision making. Risk’s remit will continue to broaden, with risk managers advising across a wide range of matters, from the use of machine learning in credit to cyber threats. Whilst some of these risks sit within traditional ‘bread and butter’ work of risk management, some are new untested areas of risk. One of the challenges will be to support and enable our front line colleagues to deliver in these new expanding areas, supporting us to meet these challenges with clear thought and appropriate due process.

Here's what Rob Tuffnell, Director of Credit Risk Management, Europe & Asia, CIBC World Markets has to say:

Disrupting the disruption

In the field of credit risk, the much used phrase by Greek philosopher Heraclitus “change is the only constant in life” is becoming progressively more prevalent as disruption takes hold across multiple industries, making extending credit over a longer time period and placing reliance on uncertain forecasts, increasingly difficult. Whilst newspaper columns inches focus primarily upon the impact of technologies driving the fourth industrial revolution, disruption comes in many forms, and is starting to impact historically non-cyclical and stable industries, where from a risk perspective, you probably wouldn’t have expected to encounter significant losses. We need to understand whether people in our institutions know what disruption looks like.

Our world is in a state of flux. As well as political uncertainty and technological advances, society as a whole is facilitating an environment where disruption can thrive. By way of example, millennials drink less alcohol, and embrace technology more than their elders did. Consequently coffee shops have replaced pubs on the high street, and app only banks are breaking down the market share of their bricks and mortar peers. How can we approve 5 year money in such an environment? Even if we approved now, would we approve a refinance request in the future? Are the forecasts supporting a request actually any good? None of us have a crystal ball, and we are always susceptible to one off events catching us by surprise (e.g. impact of 9/11 on the aviation industry). Disruption is therefore a given. But whilst disruption is perceived as a progressive and futurist event, as risk professionals, adhering to proven and well-established mitigation strategies will help us manage disruption. Disruption comes in many forms, and is permanently changing industry. Disruption is therefore a given. But whilst disruption is perceived as a progressive and futurist event, as risk professionals, adhering to proven and well-established mitigation strategies will help us manage disruption head on.

Looking forward 10 years and anticipating changes as to how we might lend, driven by wider disruption, should be embedded into the company culture, and not just a box to tick in credit applications. The three line of defense model is vital in our efforts to do this. We need to understand whether people in our institutions know what disruption looks like. Do we question our clients as to how they will cope with change? Do our clients employ the right people to navigate this change? Are they playing an active part in adapting to change, or are they heading to the corporate graveyard to join the likes of Kodak and Blockbuster Video? Speak to those we lend to and ask sensible yet challenging questions. If our first line is not doing this, it is the role of the second line to speak up and ask them to do so.

As individual institutions we should constantly question whether our credit policy remains relevant, to ensure we are proactive towards disruption. Rather than wait for the first loss, anticipate which clients and sectors may be most vulnerable and act accordingly. Techniques first encountered in the classroom such as SWOT and Porter are key to understanding which segments of our portfolios are likely to be hit first. We can then change influence policy and lending guidelines accordingly.

Finally, engagement across all lines of defense is key. Looking forward 10 years and anticipating changes as to how we might lend, driven by wider disruption, should be embedded into the company culture, and not just a box to tick in credit applications. Asking questions and making decisions now when the impact may or may not materialize can be difficult, but is for the long-term benefit of our stakeholders and shareholders.
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We want to deliver a valuable, useful and memorable experience for the risk management community. Are we succeeding? Are there areas we can improve? Please let us know!

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