protiviti®
Face the Future with Confidence

Agile Risk Assessment – Reinventing RCSAs

The Building Blocks of Agile Risk Management

Protiviti's Agile Risk Management philosophy enables organizations to focus on growth, improve efficiency and become more effective in managing risk while providing greater value to business partners.

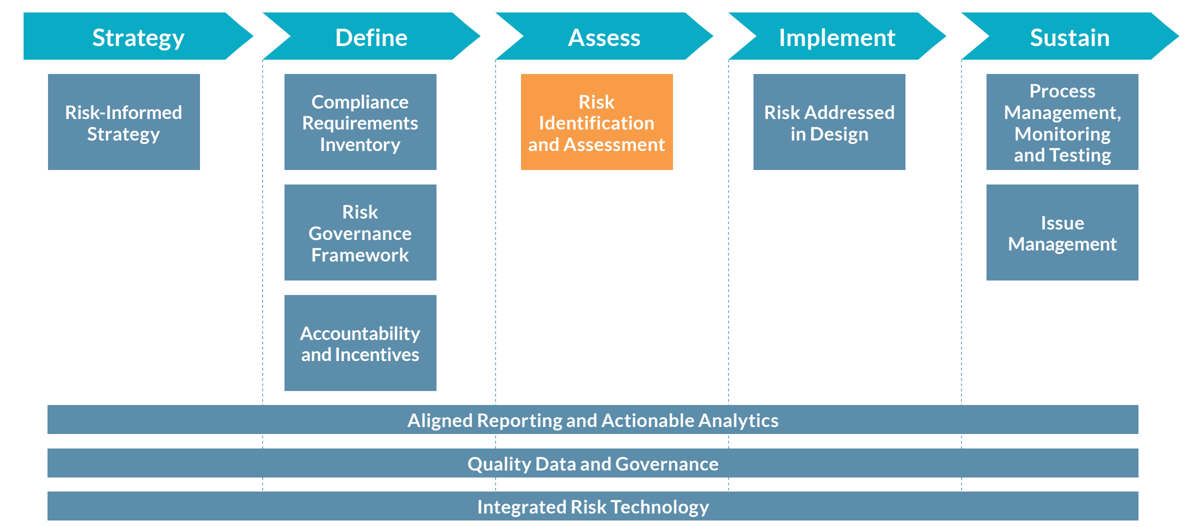
Effective risk identification and assessment are integral to an organization's success and improve strategic decision-making. Accurate and timely risk identification and assessment help to drive efficiencies and improve customer experiences in business processes. In this paper, we share Protiviti's perspective on establishing and sustaining leading practices for risk identification and assessments, specifically risk and control self-assessments (RCSAs), consistent with our Agile Risk Management philosophy.

Protiviti Agile Risk Management Philosophy

Value of Agile Risk Management

- Customer centricity
- Consistent experiences
- Agility
- Optimized performance
- Focus on growth
- Risk-enabled decisions

Target-State Methodology — Agile Risk Management



RCSA Challenges

The risk and control self-assessment (RCSA) is one of the most granular manifestations of an organization's risk profile. In the early days, the primary application of RCSAs was to establish business environment and internal control factors (BEICFs) under the Basel Accord for operational risk modeling. More recently, the use of RCSAs has evolved to be a more practical tool in managing operational risks. RCSAs present a profile of all risks across business units and supporting functions and evaluate the strength of the control environment. Although the RCSA can be a very important risk management tool, many organizations struggle with the level of organizational effort to complete the RCSAs, the quality and relevance of data, and the most effective use of results to inform business decisions.

RCSA Challenges

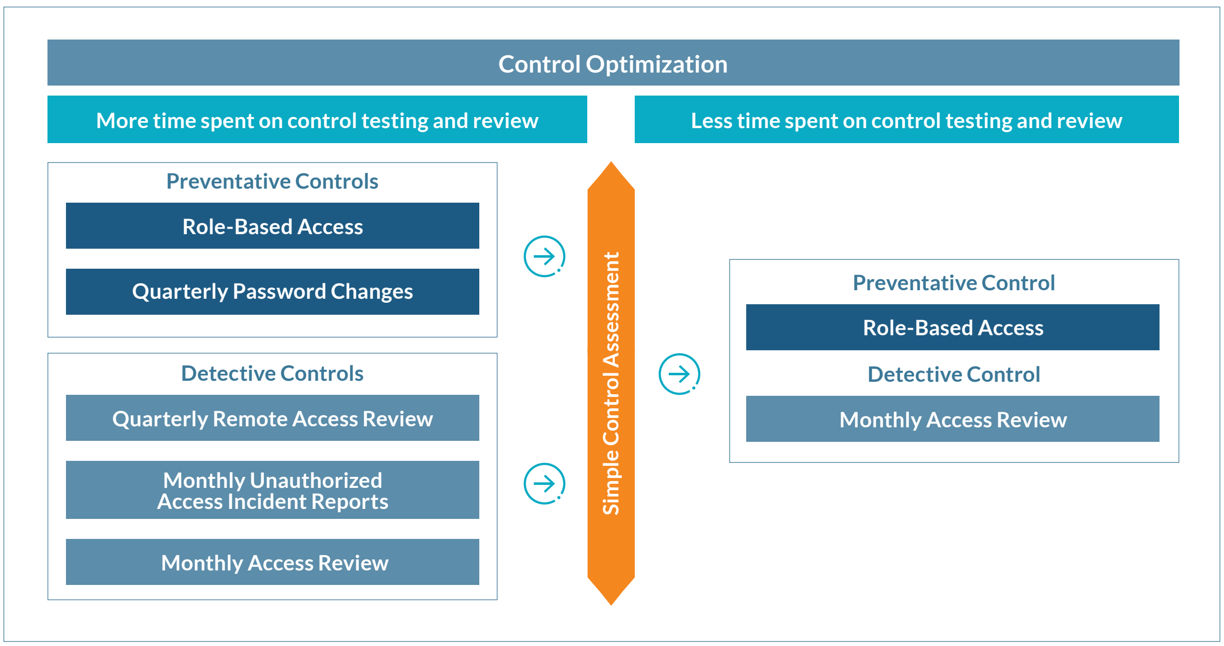
High Level of Organizational Effort	Lack of Just the Right Data	Using Results to Make Business Decisions
• Difficulty navigating and inputting data into RCSA-related software tools • GRC tools structured as a checklist with no automation • Business leader and process owner roles are complicated and undefined • RCSA workshops are largely unproductive and take individuals away from other tasks • Changes in processes, controls or technology are constantly happening and documentation does not keep up • Annual RCSA cycles can lead to stale information • Effective challenge from second-line risk and compliance teams becomes burdensome	• Full geographic or business unit reports could be in the hundreds or thousands of pages, which is overwhelming for completion and review • Leaders are unable to justify summary level or aggregate views • New data sources (e.g., security threats) are not always included to help inform risk ratings	• Results are generally in narrative form and do not include tailored content to prompt leaders to take action • Reporting is manual • Results are not dynamic and do not allow leaders to create scenarios or stress situations • Results are generally produced only on a quarterly basis

The RCSA has evolved to be an important tool that presents a profile of all risks across business units and supporting functions and evaluates the strength of the control environment.

Low-Hanging Fruit

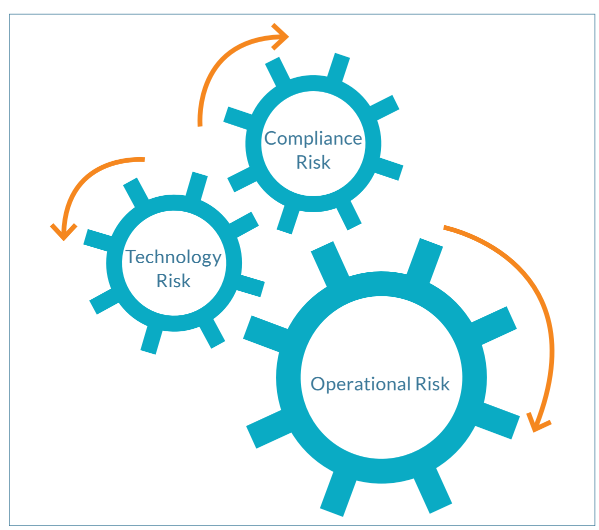
Tactical strategies can be implemented in the near term to overcome challenges without requiring wholesale technology or organizational model changes. Each of the considerations below, achievable in six to 12 months, will make the RCSA program more agile and more effective:

1. *Rationalize and Optimize Controls.* If there are multiple controls intended to mitigate one risk, a relatively simple exercise to determine the right controls can be extremely effective. An institution may find that one strong preventative control could allow for the phasing out of multiple detective controls. Similarly, an automated control could allow for the reduction of manual controls over the same risk. An example of a strong automated control would be one within the origination system that ensures standard, unmodifiable customer disclosures are sent automatically to customers. Does an analyst also need to perform a weekly manual review that disclosures were sent given the automated control? Likely not. This not only will reduce the number of controls tested, but, when done well across an entire control environment, it can lead to hard dollar savings in time, resources and spend.



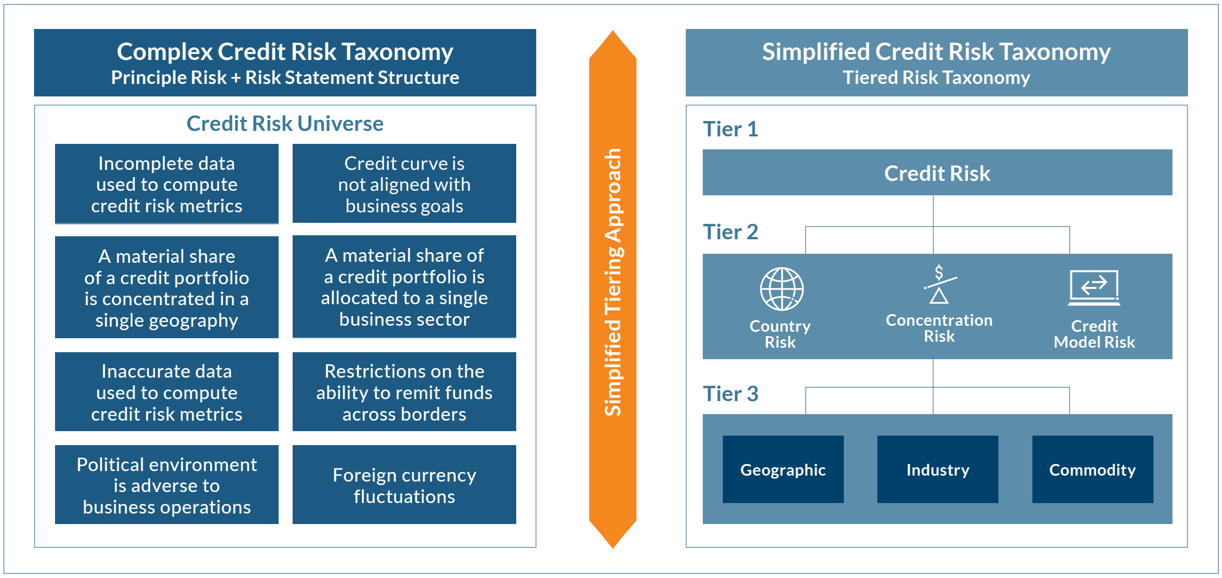
2. *Improve Coverage and Integration of Regulatory Compliance and Technology Risk.* Risk management and regulatory compliance programs intersect heavily in areas like risk identification and assessment and RCSAs. Integrating regulatory compliance risks and technology risks into the RCSA process at a meaningful level of detail allows for more effective and efficient management of the risks. Business units often rely on centralized functions to manage and

An institution may find that one strong preventative control could allow for the phasing out of multiple detective controls.



control for certain operational risks (e.g., IT risk, data management, project risk or AML). This can have the effect of normalizing risks and controls across various functional processes or business units when value would be gained from more granular levels of detail. For example, RCSAs could be more valuable to business owners if privacy risks and controls were documented at an application level rather than as a single privacy risk for a process that references centrally owned and managed privacy framework controls. Similarly, regulations mapped into risks at a law, rule, regulation or even citation level can provide much more insight to risk and process managers than those summarized at a category level such as Unfair Lending Practices. This level of regulatory risk mapping can allow business leaders to focus on specific areas of a process, components of a product or functional control owners.

3. *Simplify Taxonomies.* Process, risk and control taxonomies are most effective when they are standardized and consistent across lines of defense and stakeholders. Simplifying and standardizing taxonomies benefits all lines of defense as it becomes easier to understand the process, risk, and control environments.



4. *Incorporate Relevant Data Points.* Current RCSAs generally incorporate existing risk and compliance data, including internal losses, external losses, open issues, key risk indicators, scenarios, complaints and regulations. RCSAs can be enhanced to provide line of sight into additional available data points or data points that are generally collected as part of managing business processes, but are typically not included in the RCSA (e.g., time to process, error rates, customer complaints or system downtime). These additional data points can be used during risk assessment execution to provide insight into how businesses perform against their goals and objectives, inform the evaluation of inherent risks and the control environment, and ensure directional accuracy and consistency. For example, if there were some recent fraud losses and product processing times are higher than targets, the inherent risk should not be deemed low and strength of controls adequate.

5. *Improve Reporting and Visualization.* The output of the RCSAs can be improved by creating more relevant, meaningful, streamlined and actionable reporting based on trends, data analysis and scenario testing. Overall, the RCSA tool should be designed to better allow business leaders to fix problems, reallocate people, identify opportunities and align products for growth.

The RCSA structure can connect various points of existing data, including internal losses, external losses, open issues, key risk indicators, scenarios, complaints and regulations.

Next-Gen

Looking ahead, organizations should consider a vastly different process and target operating model for RCSAs that embraces new technology and provides insight on customer impact. Each of the considerations below is designed to make the organization more agile, improve key performance objectives and increase the value of the RCSA to the organization. These may be achievable within a 12- to 24-month time frame:

1. *Dynamic Updates for Change and Assessments —* Technology that is being deployed in the form of chatbots, artificial intelligence (AI) and automated assistants to serve financial institution customers can be utilized to improve the process by which RCSAs are updated and the risk and control assessment is completed. Organizations would benefit dramatically in time savings and would achieve more real-time RCSA results if updates and assessments were conducted in a behind-the-scenes method through normal business routines such as committee meetings, rapid-requirements gatherings and operational-planning workshops. Consider something as simple as configuring voice assistance devices (e.g., Amazon Echo or Google Home) to categorize information heard by different elements of an RCSA and make recommendations on how to update for new controls or if risk assessment ratings should change based on the discussion in a meeting. Taking this one step further, the voice-assistance device could then be utilized by the enterprise risk team to be an active and constant adviser to the business by providing information related to risks, controls and indicators within these meetings. As organizations struggle to staff second line functions for appropriate oversight and challenge, especially as many organizations are moving to more agile ways of business, this would help reduce manual effort required to administer and maintain the RCSA program, which can be redirected to more effectively identify, manage and mitigate risk.
2. *Customer and Business Performance Integration —* The goals of business leaders linked to operational excellence and customer satisfaction can be directly incorporated into the RCSA approach. The tenet of strong controls leading to consistent experiences and higher customer satisfaction could be manifested in the RCSA by including business and process performance data alongside risk and control data. If business and risk leaders could view high-risk processes, issues, failed controls, time to originate, cost of origination, defect rate and cohorts of customer-satisfaction scores for a mortgage origination process, they would be much better informed and equipped to balance risk with reward. For instance, if an organization has stable performance, strong controls and a great reputation for customer experience in home equity lending, could it push into other unsecured consumer lending, leveraging those processes and strong controls?
3. *Improve Forward Looking Capabilities —* The amount of data associated with RCSA activities supports robust and advanced analytics. The first of two effective applications of analytics can be used for forward-looking or predictive capabilities, such as identifying the probability of a control breakdown based on the increase in risk rating of a grouping of risks. This could also be used to identify commonalities and themes from one process or business — for example, determining what combination of risk ratings and control breakdowns were seen prior to high-severity issues or enforcement actions and having the ability to be in front of those issues in the future prior to the impact becoming unmanageable. The second application can be used to automate and assist in review and challenge of the RCSA. Machine learning can be used to extract the anomalies to make it easier for the second line of defense to challenge the RCSA results and determine if issues exist around risk ratings, risk acceptance or overrides.

In Conclusion

RCSAs have been in place for decades with very little change, and RCSAs and the amount of data available to include are getting only larger in scope and deeper in granularity. To stay ahead, agile organizations will not only need the RCSAs as their most comprehensive and valued risk tool but will also need the RCSA to provide much more valuable output with much less organizational input. Competitive advantages will be based on how organizations can use their risk and control data, particularly RCSA results, to make risk-informed, faster and smarter decisions that enable competitive advantage.

How Protiviti Can Help

Protiviti has a record of success helping clients to develop Agile Risk Management practices with the responsiveness required for an ever-changing business environment. We work with more than 75 percent of the world's largest financial institutions, which benefit from our collaborative team approach to resolving today's risk management challenges. Our professional consultants have varied industry and regulatory backgrounds that enable our unified financial services practice, with the seamless integration of risk and compliance, technology, data and analytics solutions, to develop customized Agile Risk Management approaches to meet tomorrow's challenges today.

Business, risk, compliance and internal audit groups need to work within an integrated framework with clear accountabilities that will lead to an aligned organization for making sound decisions. We address risk and operational excellence as two sides of the same coin, leading to agility and optimal performance. We understand how customer satisfaction and, in turn, growth have become elusive. While risk management is intended to drive growth, it too often becomes an inhibitor. Our expertise positions you at the forefront of effective risk management with a unique approach to reap both immediate and long-term benefits.

Contacts

Patrick Scott
Executive Vice President
+1.312.476.6397
patrick.scott@protiviti.com

Carol Beaumier
Senior Managing Director
+212.603.8337
carol.beaumier@protiviti.com

Michael Brauneis
Managing Director
+1.312.476.6327
michael.brauneis@protiviti.com

Matthew Moore
Managing Director
+1.704.972.9615
matthew.moore@protiviti.com

Michael Thor
Managing Director
+1.317.510.4685
michael.thor@protiviti.com

Ed Page
Managing Director
+1.312.476.6093
ed.page@protiviti.com

Matthew Perconte
Managing Director
+1.212.479.0692
matthew.perconte@protiviti.com

Peter Richardson
Managing Director
+44.20.7024.7527
peter.richardson@protiviti.co.uk

Giacomo Galli
Managing Director
+39.02.6550.6303
giacomo.galli@protiviti.it

protiviti®