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Enterprise Risk Management Journey

November 2009, Istanbul

AGENDA



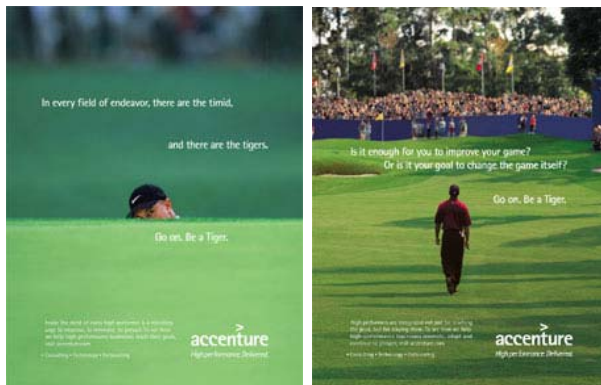
- ❑ **About Accenture Turkey**
- ❑ Setting the Stage to the Journey
- ❑ Insights and implications

Accenture is a global leader in Consulting, Technology and Outsourcing services



High performance. Delivered.

- Consulting
- Technology
- Outsourcing



- Accenture -

- Benefit to Clients -

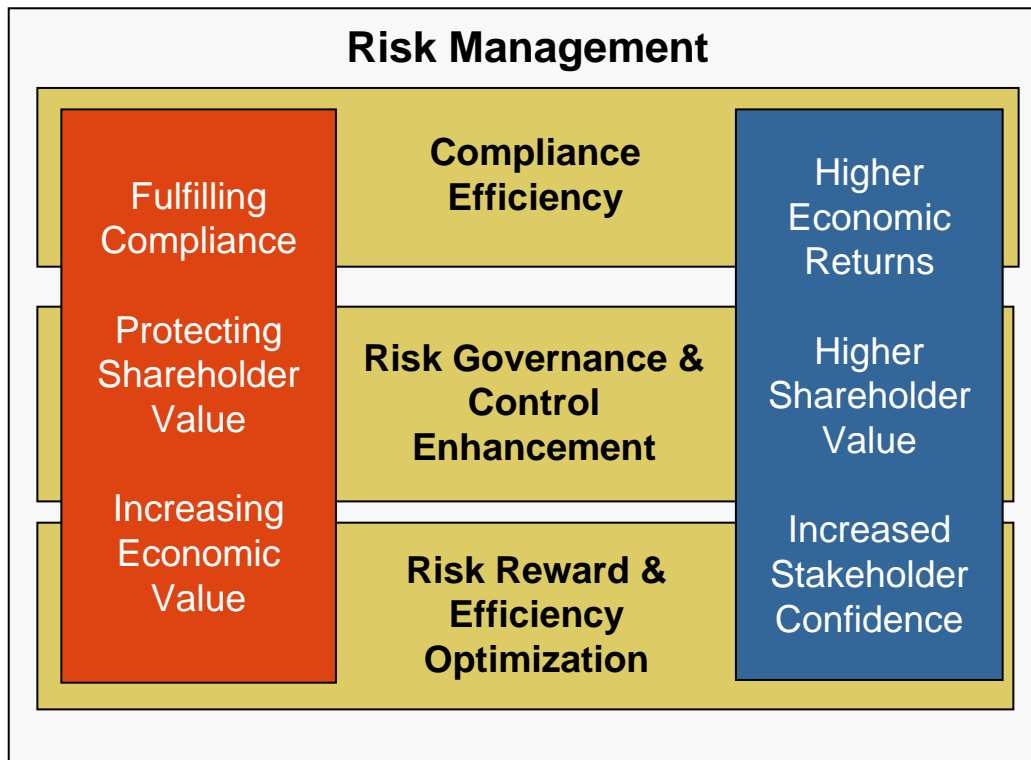
- | | |
|---|--|
| <ul style="list-style-type: none"> ▪ FY09 revenues of \$21,58 billion | <ul style="list-style-type: none"> ▪ A healthy, dynamic firm with growth that has paralleled our clients' success |
| <ul style="list-style-type: none"> ▪ Over 177,000 professionals in 52 countries and 200 offices | <ul style="list-style-type: none"> ▪ Seamless, global integrated capabilities |
| <ul style="list-style-type: none"> ▪ Significant annual investment in R&D and internal training | <ul style="list-style-type: none"> ▪ Leading edge client solutions and best human capital |
| <ul style="list-style-type: none"> ▪ Globally linked by Accenture knowledge management system, Knowledge Xchange® | <ul style="list-style-type: none"> ▪ A truly global team equipped with highly developed tools and best practices |
| <ul style="list-style-type: none"> ▪ Working with 96 of the Fortune Global 100 (magazine's) largest public companies | <ul style="list-style-type: none"> ▪ Delivery of maximum impact and value by selective matching of our consulting capabilities with client needs |
| <ul style="list-style-type: none"> ▪ More than 87 of Accenture's top 100 clients have been clients for >10 years | <ul style="list-style-type: none"> ▪ Commitment to realize long-term business value |

Competences and Skills in Business Integration, Corporate and Strategy Development, Business Architecture Design, Systems Implementation and Operation, Enterprise Management, Risk Management.

Our local Risk Management team focuses on transforming the risk management function from a series of isolated transactions to one of strategic scope and importance.



Risk Management encompasses all aspects of an entity, including investment, finance and operating decisions.



Value Delivered

- Fulfill compliance requirements at optimized cost (Basel II, Solvency II, MIFID, AML etc.)
- Increase profitability by utilizing risk-adjusted performance management methods and tools for product pricing
- Improve risk management capabilities, with immediate impact on ratings and shareholder/stakeholder value
- Improve stress testing capabilities and portfolio optimization tools to better anticipate crisis
- Optimize capital return
- Effective risk governance and operating models supported by an integrated risk and finance architecture

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Improving risk management capabilities enables companies to improve operational performance and increase stakeholder value



Improve shareholder value

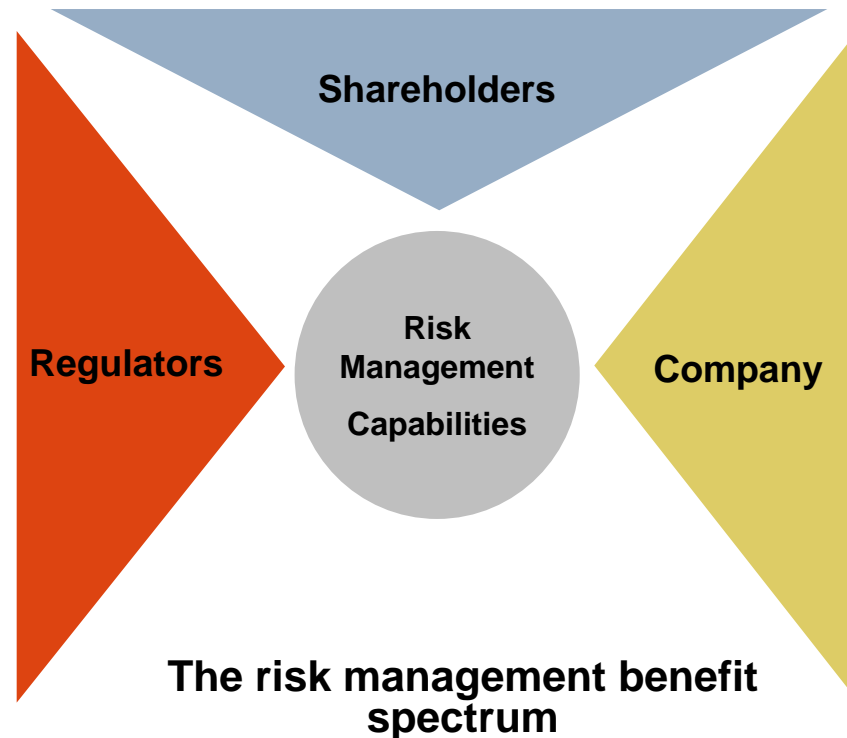
- Reduce surprises
- Reduce earnings volatility and
- Improve analysts' debt rating
- Ensure alignment between company's risk appetite and shareholder's risk appetite

Enhance risk management processes

- Enhance understanding of risks' impact on performance and return
- Increase efficiency of capital utilization
- Integrate risk management with key decision making processes
- Improve risk analytics
- Ensure risk management is aligned with performance management
- Integrate risk management systems

Improve relations with regulatory bodies

- Increase transparency
- Ensure stronger corporate governance
- Improve regulatory reporting
- Meet stock exchange requirements
- Respond to S&P's new ERM initiative



Companies face multiple business challenges while developing their risk management strategy and capabilities



Enabling better decision making capacity and sustainable profitability



Restoring trust among key stakeholders



Reduce rising costs due to business complexity and fragmented systems



Alignment with business strategy and integration with the firm's culture



Better integration throughout enterprise operations

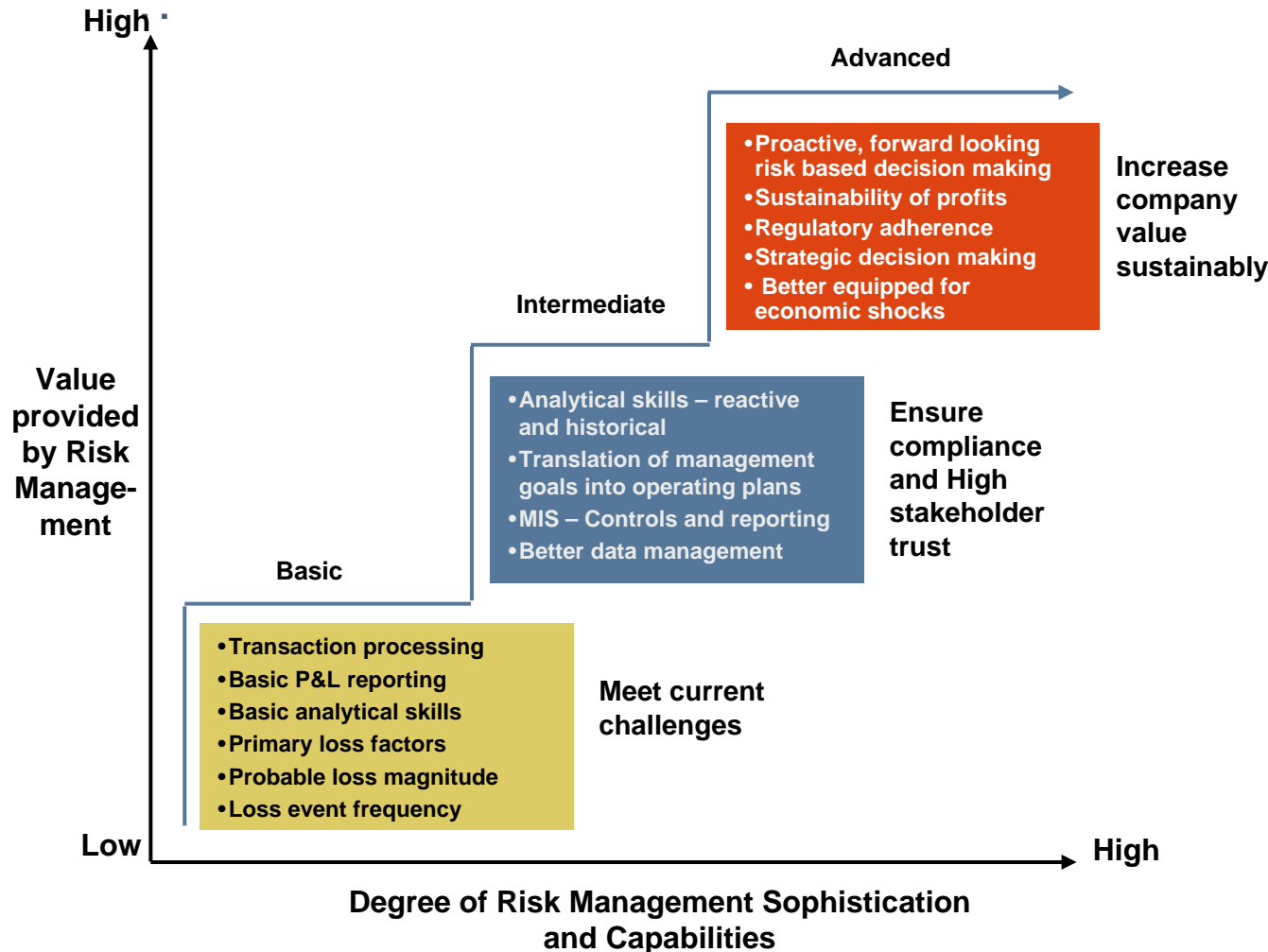


Increasing maturity of a company's risk management capabilities positions it to deliver higher value



Increased Focus on Building Risk Management Capabilities .

. . . Results in Increased Value



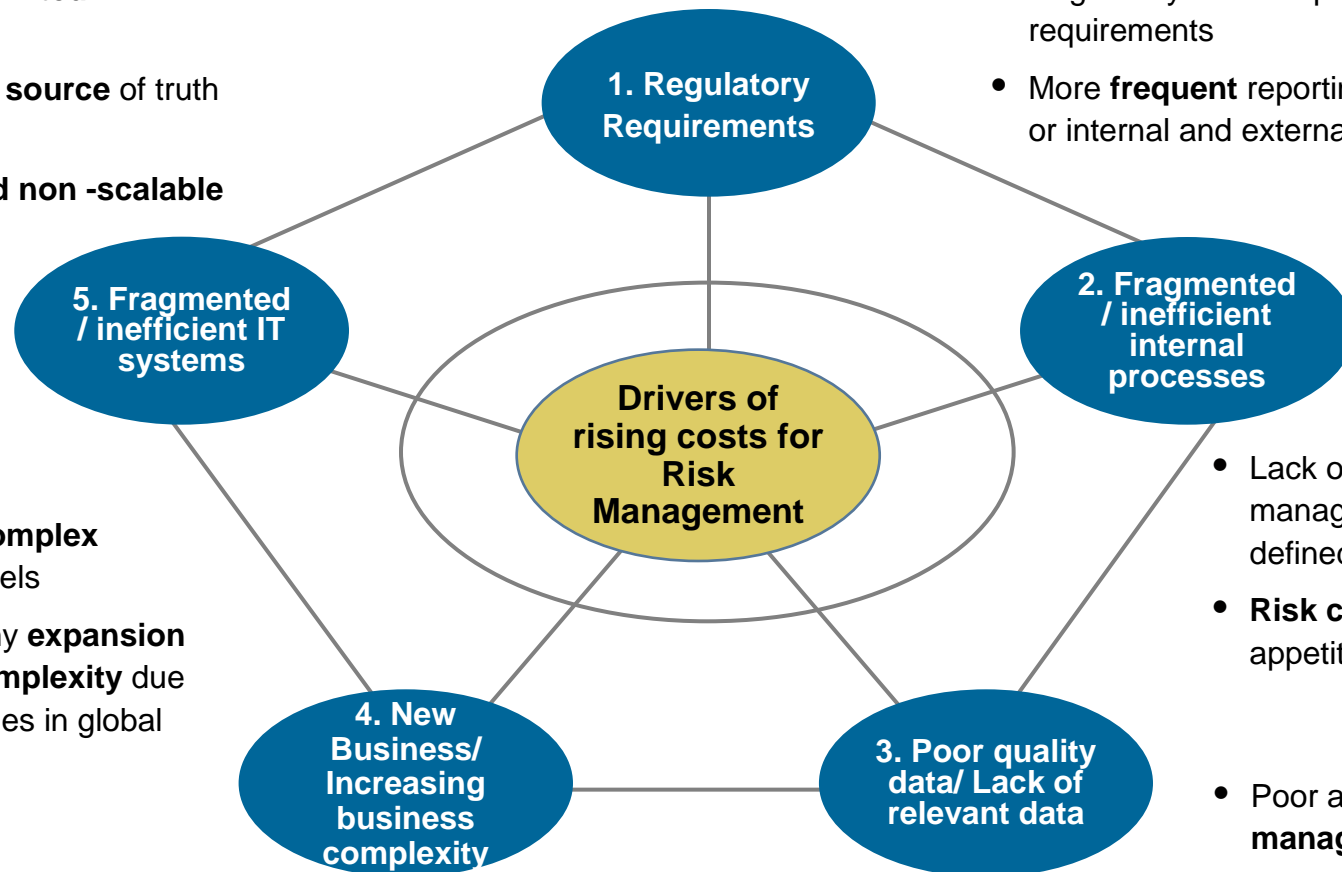
- Better decisions, both short term/operational and long term/strategic
- Culture and decision making focused on shareholder value creation
- Tighter linkage between strategy, performance metrics, and shareholder value creation
- More effective allocation of capital towards value creating opportunities

The cost of risk management has risen in recent years due to multiple reasons



- Multiple and fragmented systems with **limited** interoperability
- Lack of **single source** of truth for the data
- **Inefficient and non -scalable** architecture

- **Stringent** and **increasing** number of Regulatory and compliance requirements
- More **frequent** reporting requirements or internal and external compliance



- Increasingly **complex business** models
- Multi-geography **expansion** and **rising complexity** due to rapid changes in global economy

- Lack of standardized risk management processes and well defined roles and responsibilities
- **Risk culture** not aligned with risk appetite
- Poor and ill-defined **data management** capabilities
- Lack of **critical data** for managing risks and reporting

In the current scenario, there is a pressing need for firms to transform their risk management capabilities and move beyond pure compliance to value creation



The “best- in-class” risk management practices enables companies to:

1. Achieve the right balance between performance and risk.
2. Treat risk as a competitive differentiator to better manage the business, deliver sustainable shareholder returns and reduce the cost of risk management.
3. Integrate risk management practices and procedures throughout the enterprise to safeguard the achievement of targets while protecting against downside risks.
4. Instill a culture of risk consciousness to improve bottom lines and reputations and use incentives to align individual behavior with organizational goals

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Verbatim responses to Accenture's Global Risk Management Survey indicate that more firms are looking for qualitative measures due to failure of quantitative models recently and lack of reliable data



Verbatim Responses*

Lack of **buy-in** at all levels

Qualitative measures better

"Much more use of **qualitative** inputs after recent market events"

"Risk management is being extended. However '**buy-in**' is still an issue lower down the organization"

Qualitative measures more meaningful

"Quantitative measures do not always **deliver meaningful** results."

Lack of clear responsibility

"Not at **all integrated** to business process or decision making, silo function with **undefined responsibility**"

Benefits of using Qualitative versus Quantitative measures

Inclusion of Risk Management in Decision making process

"I feel we need **more qualitative** measures especially in **early stages** of projects to help initial guidance."

"The risk function is increasingly being used to introduce **discipline into the decision making process.**"

Qualitative measures preferred initially

Risk function used to introduce **disciplined decision making**

"In a changing environment there are a lot of risks where we do not have **reliable statistical data** to feed quantitative models. Therefore we prefer qualitative models"

Prefer **Qualitative** models due to lack of data

*Selective

There is greater awareness of the benefits of a top down approach, inclusion of business units, right training and better tools for the success of Integrated risk management initiatives



Verbatim Responses*

Relevant Training

“Relevant **training and comprehensive** rollout are required.”

Top Down Approach

“Combine/customize **methodology, framework,** structure and high level knowledge based on capabilities required by **top administration**”

Key success factors for developing integrated risk management capabilities

Increased Involvement of Business Unit Heads

“Increased involvement of the **business unit directors** (increase awareness, training ...)”

Right Tools and KPIs

“ We have a great exposure to market and liquidity risk and capital needs ... in that sense we are developing **all the tools and KPIs** needed in order to get an efficient allocation of the capital ”

“Software based solutions need to be **simple to run and simple to interpret.** Otherwise it becomes a problem of pulling the relevant information from the software.”

*Selective

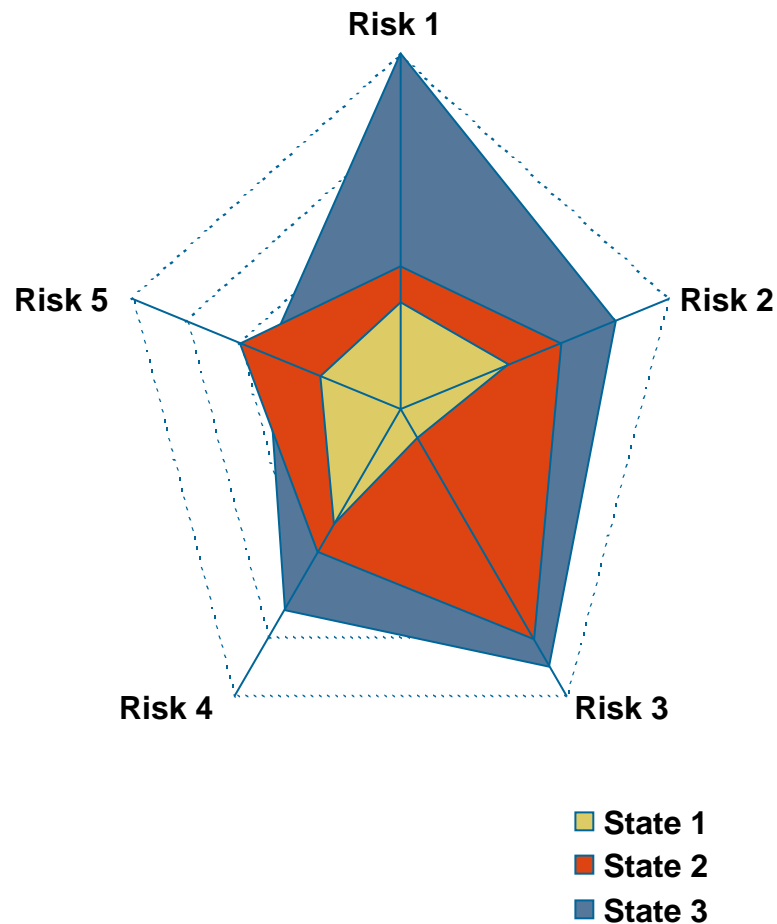
Simple and Easy Software

Implication 1: Develop integrated risk management capabilities



- Risk Management must be institutionalized, integrated and aligned with the operating model of the business
- To be effective, risk management must be normal and expected component of the meetings and reviews that are held
- Risk issues must inform governance and decision-making processes, the training people receive, the management and the leadership cultural behaviors expected throughout the organization and the reward structures in place
- Integrated risk management departs from fragmented and compartmentalized solutions already in place at many companies
- An effective response to any particular kind of risk—strategic, market, credit, liquidity or operational depends on rapidly and consistently gathering, aggregating and making sense of information from both internal and external sources

Implication 2: Improve the quality of information and the frequency of risk reporting



- Companies that are more competent in managing risk have a higher frequency of risk reporting to different stakeholders and are more likely to have standardized risk reporting procedures
- The quality of information and data is also critically important as effective risk management and internal controls depend on the information provided
- Companies that are more advanced in their risk management capabilities have attained a high degree of granularity in the risk data that supports their information reporting
- Attaining this level of granularity and specificity is a direct result of foundational risk management processes that have been embedded in the organizations
- Management needs the right information, in the right granularity, at the right moment to assess risks and take action

Implication 3: Risk-adjust the company's performance management process



- If inadequate coordination exists between risk management and performance management, executives may be improperly rewarded for the risk/return outcomes of their decisions
- It is important to employ risk-adjusted performance metrics – assessing potential rewards with some adjustment for risks
- Combining risk – adjusted metrics with traditional asset-liability management and profitability-performance measurements can provide a company with a more balanced view
- One of the issues is that companies struggle just as much to provide integrated performance management capabilities as they do to provide integrated risk management
- Only 20 percent of the respondents to Accenture's High Performance Finance Study described their enterprise performance management capabilities as "advanced"
- From a risk perspective, this means that many companies cannot adequately focus the risk management organization on what exactly it should be doing to drive risk-adjusted business performance

Implication 4: Increase the involvement of risk management in driving value creation



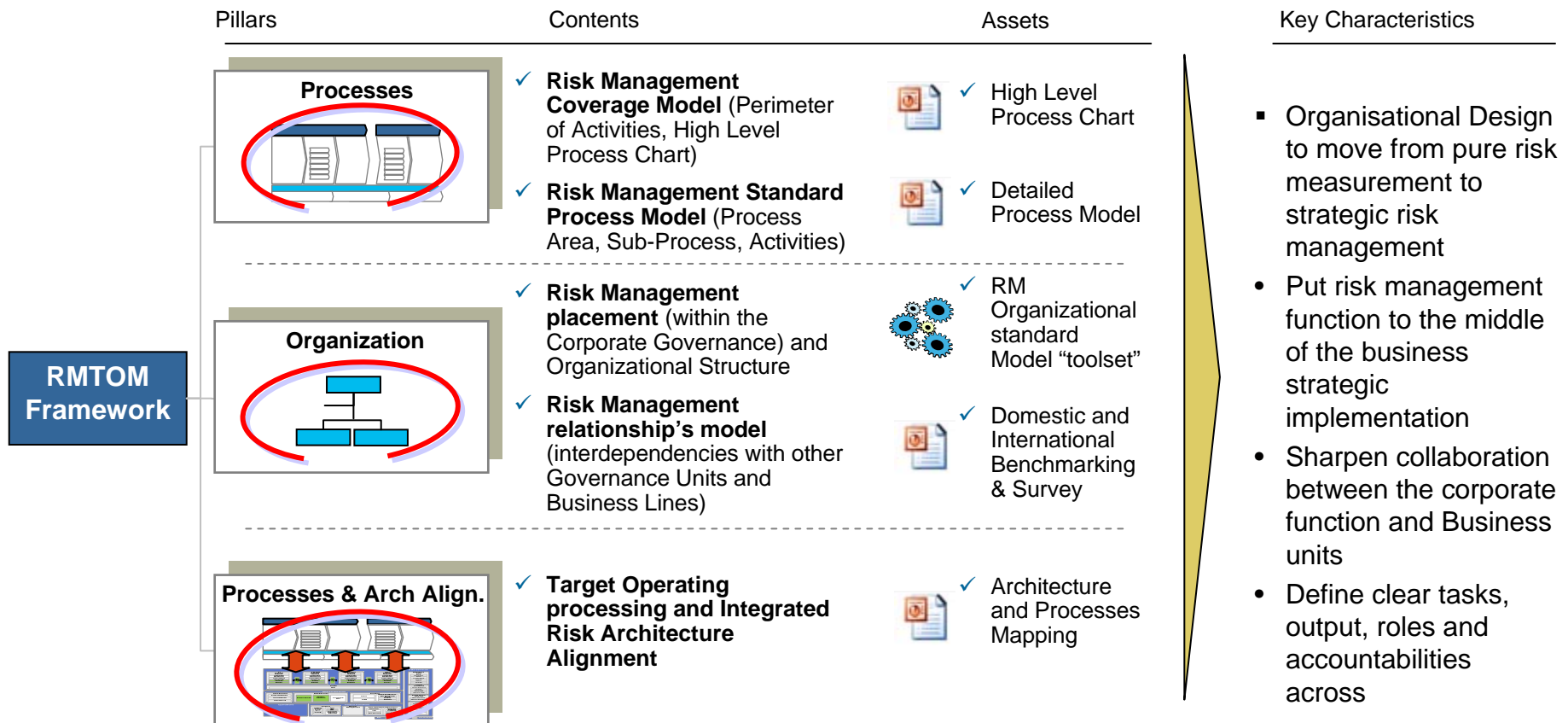
- Accenture believes that companies have an opportunity to employ integrated risk management as a competitive differentiator to create value while also protecting the interests of the shareholders and other key stakeholders in a cost-effective manner
- Improved compliance is an important goal, but higher goals must also be pursued
- Today, effective risk management is also a matter of using the information derived from risk assessment and analysis to make better decisions and drive growth
- Risk management becomes a proactive, ongoing initiative tasked with creating value, not simply a reactive exercise in protecting value or guarding against failure
- By optimizing both risks and rewards, companies with effective and integrated risk management link risk and profitability objectives which aids in improving strategic capital decisions and increase shareholder returns
- They also coordinate risk measurement, capital allocation, performance assessment and management across the enterprise in a better manner

The Risk Target Operating Model enables enterprises to move from pure compliance oriented risk function to a value business partner



Risk Target Operating Model

RTOM Key Components

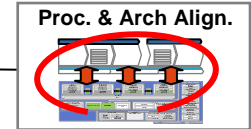


Integrating risk architecture requires a new classification of risk logical layers from source to reporting

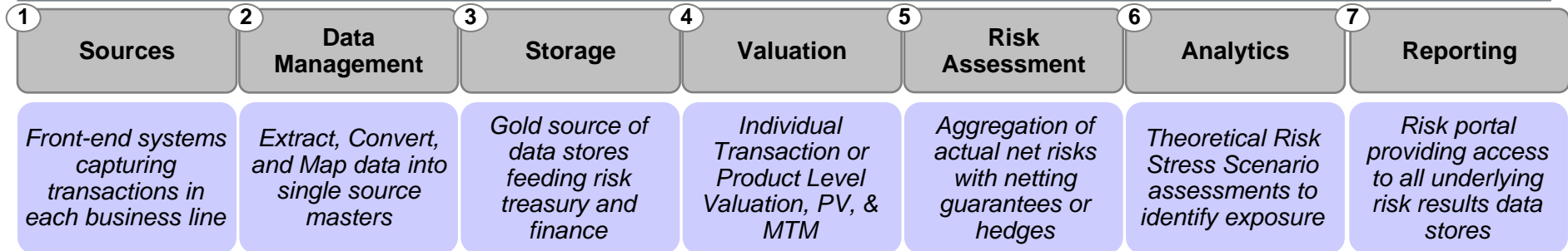


Risk Management IT Logical Architecture

RMTOM Framework



Risk logical layers



- Ensure full coverage
- Transactions
- Positions
- Portfolios
- Reference and market feeds
- Customer and counterparty data

- Single source data for risk and finance
- Consistent security, counterparty, and customer masters
- Up front Standardized data lowers variances, reconciliation, and cost
- Adjustments and Reconciliations done up front creates true book

- Convert data to Business support Views
- Capture data and history version requirements for all of middle/back office
- Store by element categories positions, counterparty, portfolios, market data, risk factors
- Reconciliations foot finance to risk

- Real MTM and Net Asset Valuations
- Risk metric calculations
- Transaction values
- Position values
- Portfolio values
- PV of Credits
- Proxy pricing illiquid positions or portfolios
- Performance metrics

- Aggregate Exposure by portfolio or sub-portfolio
- Netting of collateral
- Credit Rating
- Credit Scoring
- Duration of Cash
- Volatility of securities
- Comparison to Limits

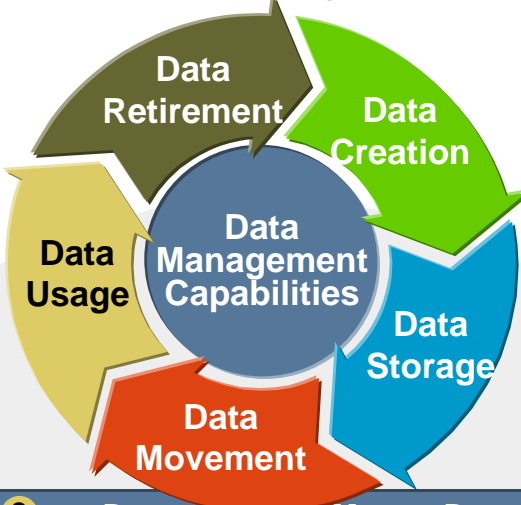
- Introduction of theoretical values
- Stress to identify potential exposure
- Test diversification and hedge effectiveness
- Product pricing
- Risk and regulatory capital allocation

- Flexible risk metrics base for reporting
- Pre-defined regulatory and compliance reports
- Ad hoc analysis



True Risk Data Management requires a holistic approach.

- ▶ Reliable and efficient provision of risk data
- ▶ Globally proven Accenture Information Management Solutions Data Management Framework



Framework & Methodology

Comprehensive set of processes, activities and templates to implement Risk Data Quality and Data Governance programs

1	Data Governance	2	Data Structure	3	Data Architecture	Master Data & Metadata	4	Data Quality	5	Data Security	6	
	<ul style="list-style-type: none"> • Data Ownership • Data Stewardship • Data Policies • Data Standards 		<ul style="list-style-type: none"> • Data Modeling • Data Taxonomy 		<ul style="list-style-type: none"> • Data Migration • Data Storage • Data Access • Data Archiving • Data Retirement 		<ul style="list-style-type: none"> • Master Data Management • Reference Data Management • Metadata Management 		<ul style="list-style-type: none"> • Data Profiling • Data Cleansing • Data Monitoring • Data Compliance • Data Traceability 		<ul style="list-style-type: none"> • Data Privacy • Data Retention 	

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