

After the storm: the future of risk management in the financial services industry

A summary of a report produced by the Economist Intelligence Unit and sponsored by SAS

Findings at a glance

- Reforms to risk management within institutions will be far-reaching and comprehensive.
- Transparency is a common theme of proposed reforms.
- Culture, expertise and data are the weak points in companies' risk management practices.

Overview

The Economist Intelligence Unit conducted a global survey on behalf of SAS to explore risk management issues facing financial services companies both today and beyond the current financial crisis. The survey, conducted in March 2009, included 344 senior executives from companies of various sizes around the world. This document provides a summary of report findings.

In the past 18 months, there have been numerous proposals for fixing perceived risk management deficiencies at the world's financial institutions. Industry bodies – e.g., the Financial Stability Forum and the Institute of International Finance – have published lengthy reports suggesting a wide range of reforms, while the Turner Report in the UK has proposed a new regulatory system for banking.

Gradually, a consensus is forming around what steps will be required to strengthen risk management – including, the granting of greater authority to risk managers, the strengthening of stress testing, greater disclosure of off-balance-sheet vehicles, caps on leverage, stronger regulation of rating agencies and central clearing for over-the-counter derivatives. Many survey respondents are also examining their own risk management practices, with a majority expecting to make significant changes.

This is a challenging time for financial institutions. There are barriers to change that

must be overcome – poor data quality or availability, lack of risk expertise at a senior level, or the absence of a robust organizational risk culture. The survey examines processes for implementing change and looks at some of the barriers that companies are encountering.

The final report – *After the storm: the future of risk management in the financial services industry* – discloses complete survey findings along with insights from industry experts and commentators.

The full report is available at
www.sas.com/ermresearch.

Report highlights

Risk management reforms will be far-reaching and comprehensive

Only one-third of respondents think that risk management principles in financial services remain sound. More than half say that they have conducted, or plan to conduct, a thorough overhaul of their risk management practices. Key focus areas are likely to be improvements to data quality and availability, the stronger risk governance, a move toward a firmwide approach to risk, and deeper integration of risk within business lines. Respondents say that reform is being driven primarily by executive management, but regulators are also starting to apply pressure.

Transparency is a common theme

Survey respondents said that greater disclosure of off-balance-sheet vehicles, stronger regulation of credit rating agencies, and the central clearing of over-the-counter derivatives were among the top four initiatives that they expect to have the greatest potential benefit. Although these initiatives are wide-ranging, they seem to have a common theme – namely, the requirement for greater transparency and disclosure to facilitate more effective management of systemic risk issues.

Culture, expertise and data are weak points in current risk management

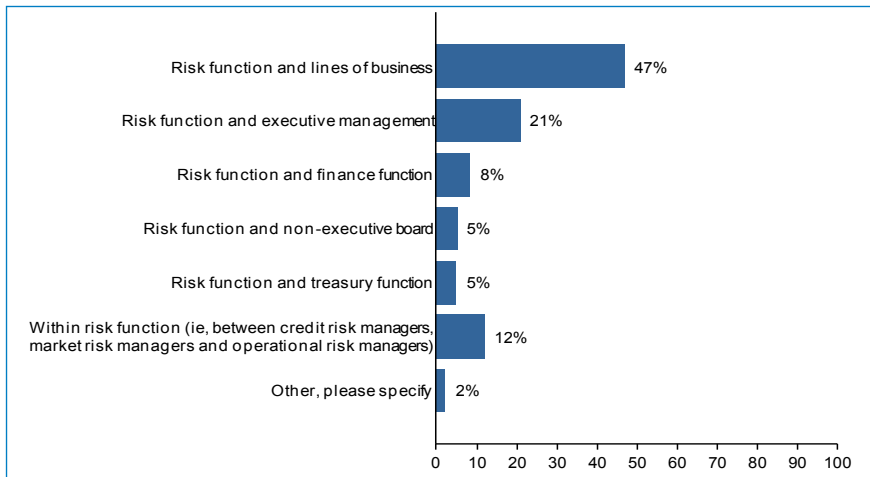
Respondents point to poor data quality, lack of expertise and a lack of risk culture among the broader business as being the most significant barriers to improving risk management in their own organizations. This lack of understanding between the risk function and the business seems to be significant. Asked about areas where communication most needs improvement, respondents point to channels between the risk function and lines of business. Elsewhere, just 40 percent of respondents say that the importance of risk management is widely understood throughout the company, suggesting that more needs to be done to embed risk culture and risk thinking more deeply in the institution.

General observations

- Almost two-thirds of respondents think that the principles of risk management are no longer sound.
- There is likely to be greater authority granted to risk managers, strengthened stress testing, greater disclosure of off-balance-sheet vehicles,



Over the next year, what do you expect to be the three key areas of focus in the management of risk in your organization?



Between which functions in your organization do you think that communication most needs improvement?

caps on leverage, stronger regulation of rating agencies, and central clearing for over-the-counter derivatives.

- Investment in risk management systems, processes and technologies is widely recognized as an essential step for many organizations.
- Close examination of the governance issues surrounding risk management is extremely important.

- Institutions will seek ways to gain a more complete picture of risk, assess exposures across business lines and aggregate these into a firmwide view.
- There will be clear winners and losers in the challenging years ahead. Institutions that overcome their risk management challenges – and put in place robust practices, processes and governance – are likely to have a clear advantage over those that do not take such a proactive approach.