

Integrated Risk Management Project implemented in 2005

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NATIONAL SAVINGS BANK
Sri Lanka***



Total Assets – US \$ 2.18 bn

Total Deposits – US \$ 1.98 bn

No. of Employees – 2,890

**3rd Largest bank in Sri Lanka
in terms of assets**

Outline

- ❑ Objectives of the IRM Project
- ❑ Value of this project
- ❑ Project Approach & Milestone Status
- ❑ Risk Management Oversight Structure
- ❑ Risk Map
 - ❑ Strategic
 - ❑ Market
 - ❑ Credit
 - ❑ Operations
 - ❑ Top 5 Risk
 - ❑ Steps Taken
 - ❑ Action Plan

Objectives Of The IRM Project

- ❑ Development of an **Integrated Risk Management (IRM) Framework** for NSB which includes
 - ❑ Risk Mgmt oversight structure – reporting & monitoring of risks
 - ❑ Risk Mgmt policy, reporting mechanisms, and risk parameters
 - ❑ Processes and mechanisms for risk identification, profiling
 - ❑ Assessment and treatment
- ❑ Development of a base line corporate **risk profile** for NSB
- ❑ Enabling **risk awareness** and **consciousness** amongst key personnel

The value of this project

- ❑ **Formalised risk management structure and processes** to drive the achievement of **NSB** strategic objectives.
- ❑ Reinforce and enhance existing risk management practices.
- ❑ Increased clarity on **risk ownership and accountability**
- ❑ **Improved market perception**
- ❑ **Enhanced corporate governance**
- ❑ **Improved decision making based on better risk management information**

Project Approach & Milestone Status

❑ Current State Assessment -

Assessment against office practices and internal control system to leverage on existing practices and identify areas of improvement benchmarked against best and localized practice.

Cont...

Project Approach & Milestone Status Cont...

❑ Risk Awareness Training

Creates awareness of risk management and lays the foundation for inculcation of risk culture within the Bank

Cont...

Project Approach & Milestone Status Cont...

❑ Survey, Risk Assessment

Interviews & Workshop

Identification of risks and gain
consensus on Risk That Matter to
Bank – interactive and participative
segment of the engagement

Cont...

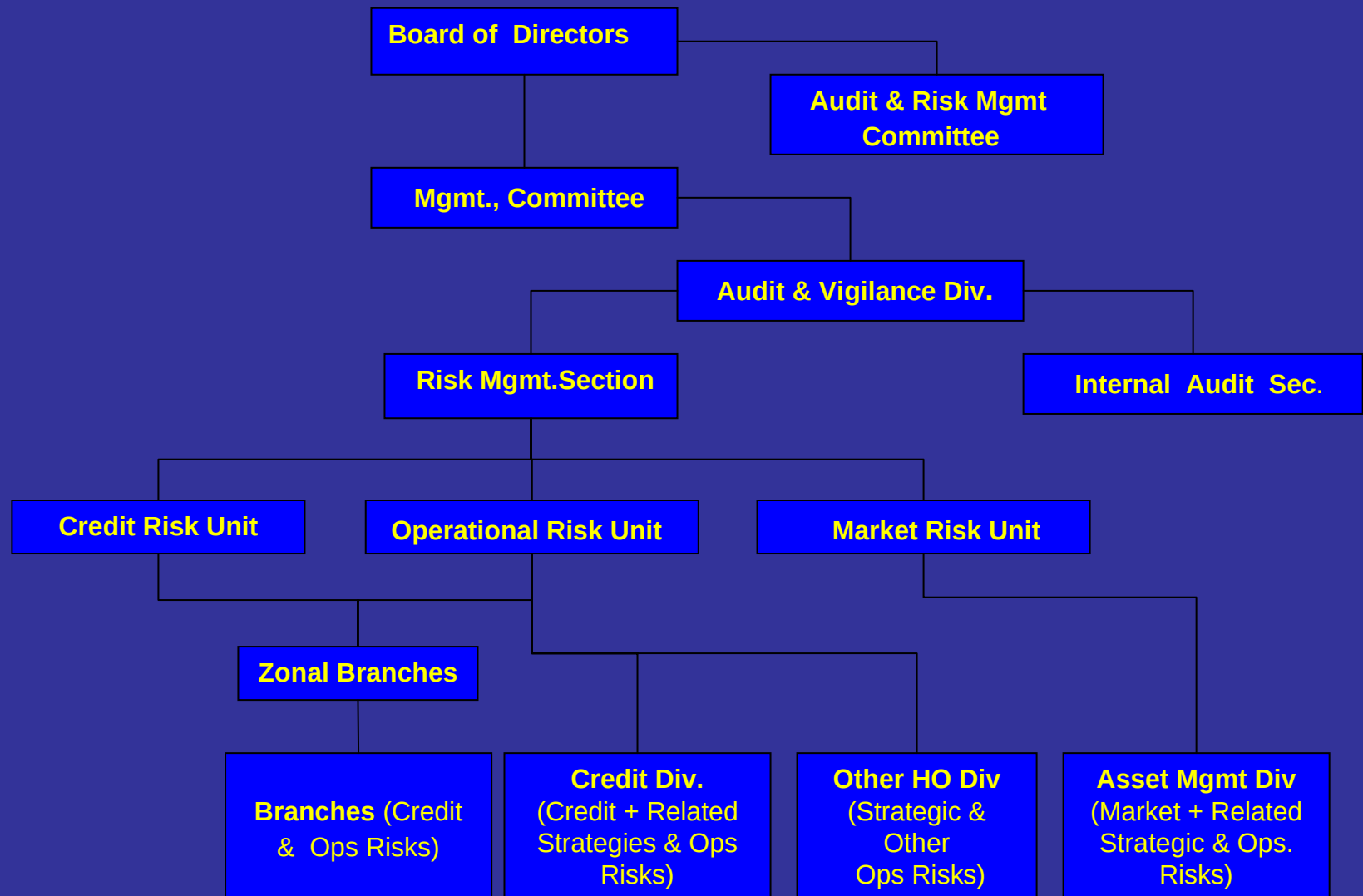
Project Approach & Milestone Status Cont...

❑ IRM Policy & Oversight

Structure and other Deliverables

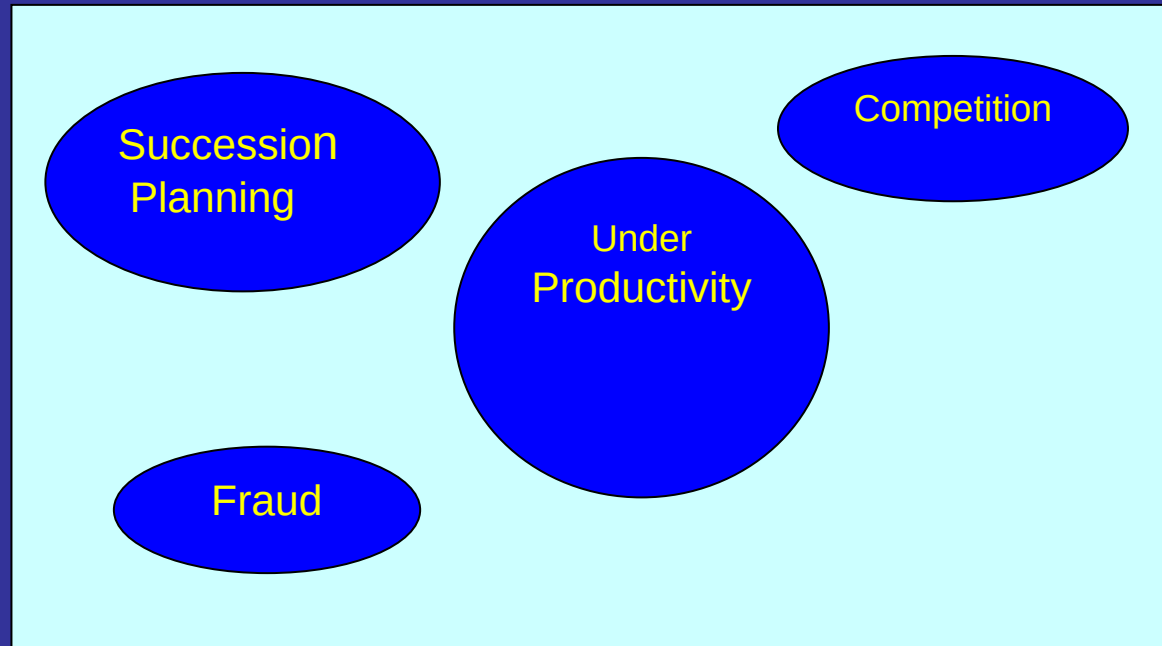
Development of Risk Policy and Oversight Structure and Framework for risk management in Bank's - roles, responsibilities and accountabilities for risk management

Risk Management Oversight Structure



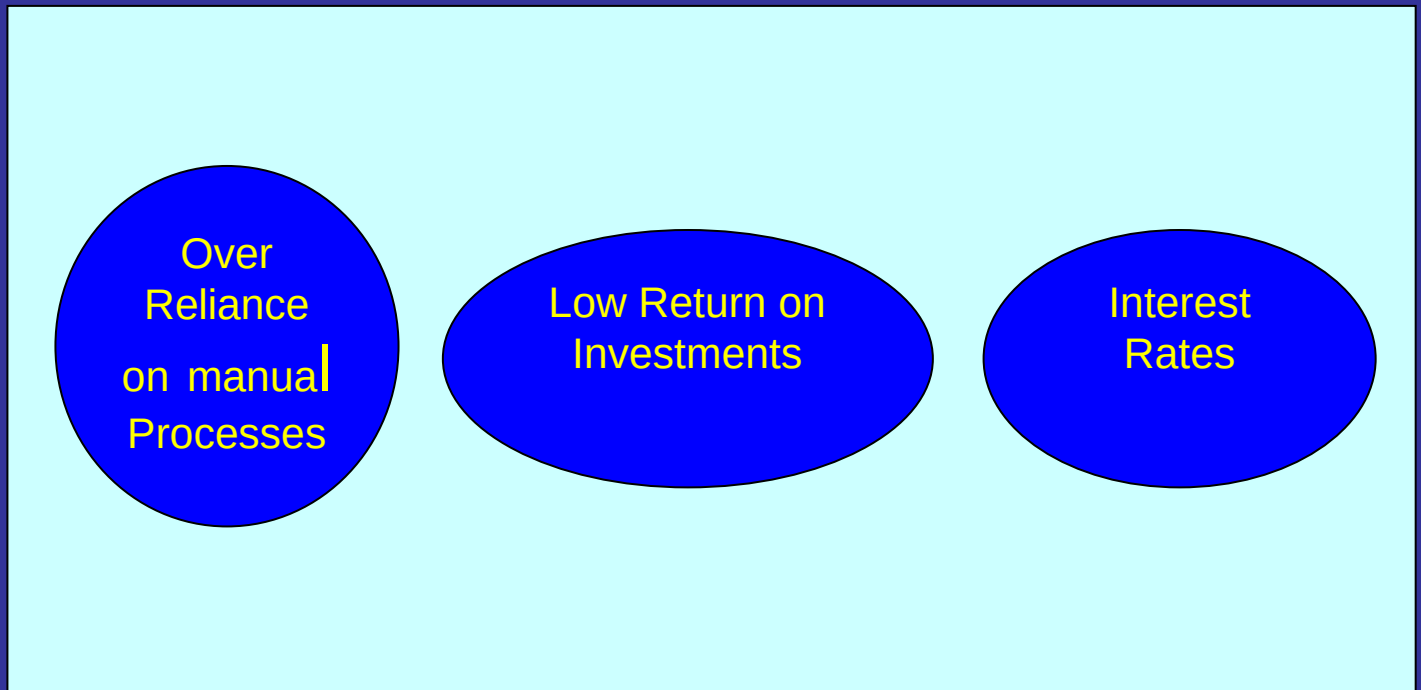
Risk Map – Strategic

- ❑ *Total identified: 8*
- ❑ *After deliberation: 4 key*



Risk Map – Market

- ❑ *Total identified 12*
- ❑ *After deliberation 3 Key*



Risk Map – Credit

- ❑ *Total identified 15*
- ❑ *After deliberation 10 Key*



Risk Map – Operations

- ❑ *Total identified 28*
- ❑ *After deliberation 10 Key*



Top 5 Risks Identified

Based on the consensus of the workshop

- 1. Implementation of key IT system*
- 2. Productivity of staff*
- 3. Interest rates exposure*
- 4. Competitors (deposit taking institutions)*
- 5. Succession Planning*

Steps Taken

- ❑ *Set up of the Risk Management Section within Audit & Vigilance Div.*
- ❑ *Implementation of Action Plans agreed at Risk Management Workshop*
- ❑ *Adoption of Risk Management Policies for Credit & Market Risks*
- ❑ *Rolling out of Risk Management Enabler (RME)*
- ❑ *Risk Awareness Briefing for Branch Managers*
- ❑ *Post Implementation Review on the IRM Project*

Action Plan

☐ **Improving Governance**

- ☐ *Redefine terms and references of committees*

☐ **Embracing an integrated risk management approach**

- ☐ *Establish a Risk Mgmt oversight structure and processes*
- ☐ *Establish a market and credit risk management policy and processes*

☐ **Enhancing operational excellence**

- ☐ *Improve IT infrastructure*
- ☐ *Rationalise management reporting*
- ☐ *Enhance internal control at head office and branches*
- ☐ *Relevant capabilities and competencies need to be enhanced*

☐ **Enhancing human capital**

- ☐ *Enhance capabilities and competencies*

THANK YOU

Roles & Responsibilities of the MC/Board In Relation to Risk Management

- *“Risk” must be managed by the people charged with overall responsibility for the day to day running of the business. Ultimate responsibility for establishing and maintaining appropriate risk management processes must, however, rest with the BOD/MC.*
 - *It is important to stress that it is the BOD through the MC are ultimately responsible for making risk management an integral part of the bank’s operations and aligning risk management to internal policies and procedures and ensuring that all risk based limits are adhered to by the business units.*
- Cont...

Roles & Responsibilities of the MC/Board In Relation to Risk Management Cont..

- *The Board through the MC should ensure that Bank wide risk management remains a key priority throughout the bank and that stakeholders' interests are considered explicitly as part of the overall approach to managing all risks.*

Roles & Responsibilities of the ARMC In Relation to Risk Management

<i>(a) <u>Establishing risk management structures</u></i>	<i>(b) <u>Establishing risk management processes</u></i>
1. Formalise NSB's Risk Management Policy (RMP)	1. Ensure structured & systematic process for risk identification, assessment & management
2. Ensure that NSB's RM strategy, framework and methodology have been implemented and consistently applied.	2. Champion annual enterprise-wide risk assessment exercises:
	3. Deliberate on outcome of risk assessment exercises; and 4. Review, evaluate and challenge the results ensuring alignment with NSB's risk management policy.

Roles & Responsibilities of the ARMC In Relation to Risk Management Cont..

<i>(c) <u>Embedding risk management capability</u></i>	<i><u>Establishing reporting and monitoring mechanism</u></i>
<i>1. Ensure that risk management process & culture are embedded throughout NSB</i> <i>- clear communication of strategy to relevant personnel; and</i> <i>- appropriate training in risk awareness & risk mgmt., conducted</i>	<i>1. Quarterly, obtain reporting and feedback from management.</i> <i>2. Quarterly, report on NSB's Risk Profile (risks, controls and mitigating action plans) to the Board; and</i> <i>3. Reporting on any major changes to the Risk profile to the Board.</i>

Roles & Responsibilities of the RMS in Relation to Risk Management

Risk Management Section (RMS)

- | | |
|---|--|
| <ul style="list-style-type: none">• <i>Organise the required risk management resources</i>• <i>Active monitoring of risk management Initiatives</i>• <i>Hold quarterly meetings with all Divisional DGMM / Head of Departments/ Branch Managers to discuss key risks</i>• <i>Assist ARMC in implementing the objectives outlined in the Risk Mgmt., Policy</i>• <i>Assist ARMC in reviewing and updating the existing risk profile</i>• <i>Assist ARMC in reviewing and reporting on the status of completion of action plans.</i> | <ul style="list-style-type: none">• <i>Champion the use of the risk mgmt., Software for enabling efficient data and information mgmt., of risks</i>• <i>Act as the administrator for the risk Mgmt., software</i>• <i>Provide information to ARMC through quarterly risk mgmt., software report</i>• <i>Prepare Risk Mgmt., reports for submission to ARMC</i>• <i>Ensure finalized risk profiles incorporate comments from ARMC and the Board</i> |
|---|--|

Roles and Responsibilities of Primary “Risk Owners” in Relation to Risk Management

- **“Risk is everyone’s business, everyone is accountable**
- **Best practice risk management in banks “risk owners” (business units, support units,**
- **Branches (all categories) and head office divisions) to be primarily responsible for managing risk in their respective area of operations**
- **Accordingly, the ALM Group is primarily responsible for managing its own equity price, interest rate, liquidity, credit, and operational risk, while this group is also responsible for managing the overall equity price, interest rate and liquidity risk of the whole bank**
- **The credit approval functions are primarily responsible for managing the credit risk of the Bank on a portfolio and bank wide basis. Branch and Zonal managers and Head Office division heads are primarily responsible for managing operational risk in their specific area of operations.**

Roles & Responsibilities of the Risk Management

Section (RMS) & Internal Audit Section (IAS)

- The RMS through the BOD/MC/ARMC sets risk policies and strategies in conjunction
- With the relevant business units.
- The prime function of IAS is to ensure that the approved risk management policies and procedures are implemented and to test their effectiveness during the audit of the business and support units
- The role of IAS as part of “risk based audit” is to see how the bank’s business and support units manage their risks. Such “risk based” audit procedures should be written into the audit programs
- Therefore, it is critically important to ensure that the RMS and IAS have the same perception and understanding of risk “speaking the same language”. IAS should not be developing criteria and risk definitions that are different to those of the RMS.