

Fast Track Customisation and Deployment of a Framework for Enterprise and Operational Risk Management

An Industry-wide Issue

New regulations (most notably Basel II, Sarbanes-Oxley and the Combined Code on Corporate Governance) dictate that all financial institutions, and many non-financial institutions, must introduce effective measures for Enterprise and Operational Risk Management. It is universally accepted that Enterprise and Operational Risk Management can only be effective if it is built upon the foundation of a risk classification framework that is tailored to the unique characteristics of the institution and applied in a consistent manner across the whole enterprise. The framework can then be used to:

- Identify areas of high risk and assess relative exposure across the institution
- Compare assessments of risk against historical performance (i.e. incidence of “Loss Events”)
- Prioritise investment in the development of mitigation strategies, processes and controls in line with the risk appetite of the institution
- Manage risk, in a manner that enables threats to be anticipated and countered
- Demonstrate to stakeholders and other third parties (Regulatory Bodies, Rating Agencies, etc.) that the effective management of risk forms an integral part of the business management process.

The Challenge for each Institution

In responding to this challenge, each institution has to develop a risk framework tailored to its individual requirements. However, institutions invariably experience difficulty in reaching agreement upon an enterprise-wide framework that effectively meets all identified needs, in line with their own distinctive:

- Risk policies and strategy
- Business profile, governance, organisation and culture
- Industry/company-specific risks, resulting controls, typical risk events and preferred risk indicators.

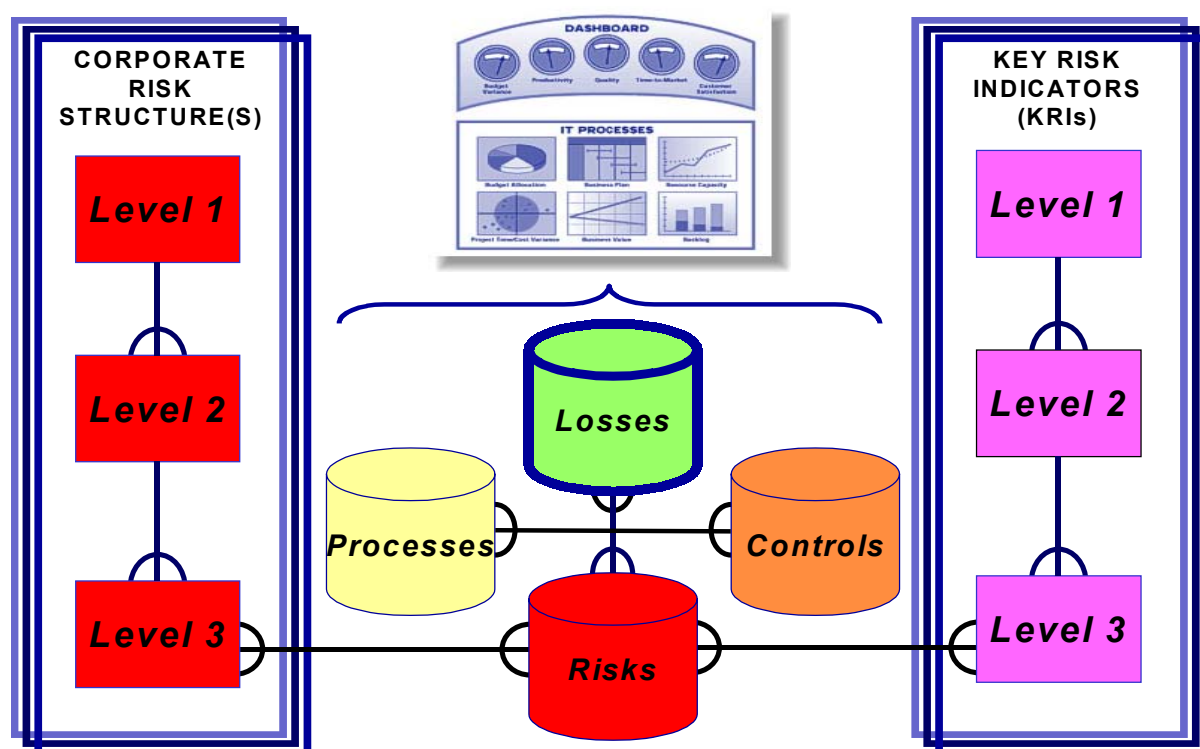


Fig 1: Key Components within a Risk Framework

The DXL Solution

DXL has joined forces with Rawlings & Co Ltd (see www.rawlco.co.uk) to develop a structured modular framework designed to drive and support the activities of each institution in responding to this challenge. This is based on two linked components:

1. **A template modular risk classification framework.** This integrates relevant elements from standard industry frameworks (e.g. COSO), adapts them to the needs of the relevant sector and adds industry-specific modules that are selected on the basis of the business profile of the institution. This provides a configurable core framework that can be customised to the unique needs of each organisation.
2. **A structured workshop-centred approach for tailoring this framework.** This approach is designed to customise the above core framework to meet the unique needs of each institution, whilst achieving the necessary buy-in across the organisation. It is based on a process summarised below:

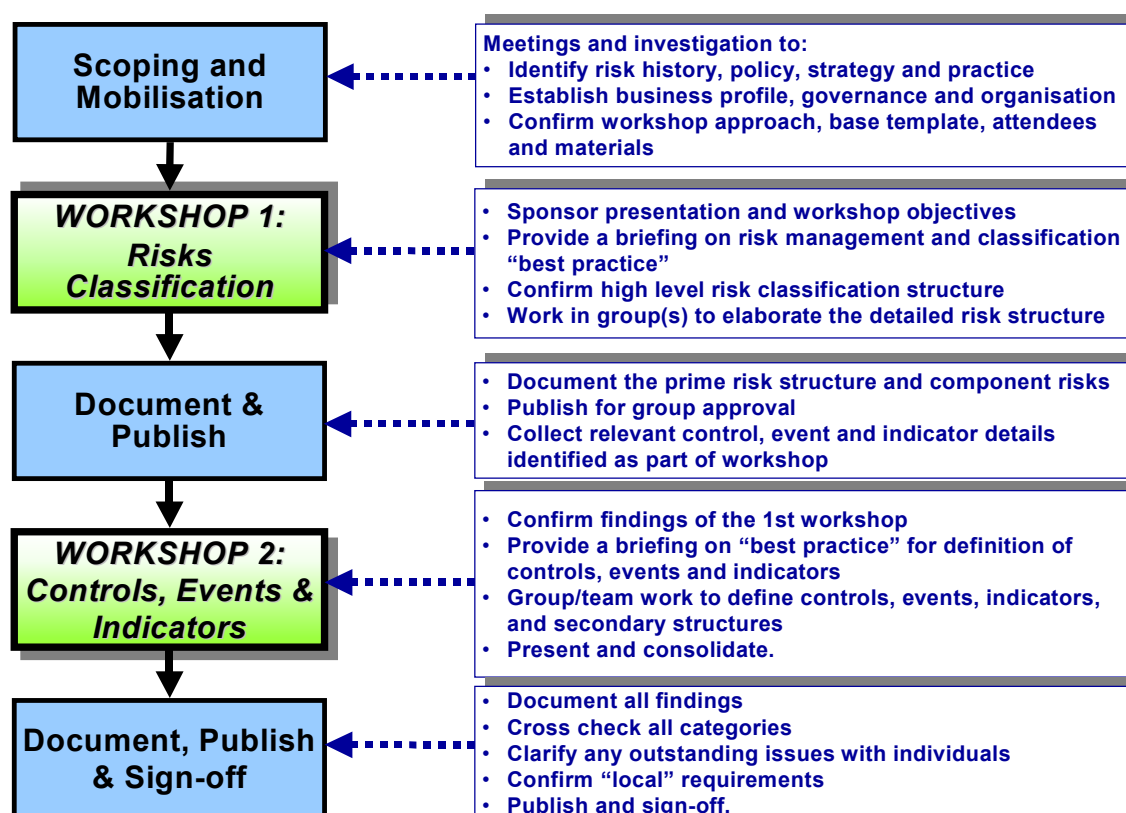


Fig 2: The DXL Offering

Benefits of the DXL Solution

The DXL approach provides:

- ✓ Rapid development of a firm-specific risk classification framework that is tailored to the institution’s unique business profile, organisation and culture, as well as its risk policies and strategy
- ✓ A means for achieving consensus across the organisation in respect of not only the definition of a risk classification structure(s), but also the framework that is to be adopted in managing the integration of controls, loss events and key risk indicators within a coherent approach to risk management
- ✓ Effective governance and deployment of enterprise and operational risk management, and
- ✓ **A rapid, focused and cost-effective approach to mobilisation of an enterprise-wide operational risk management programme.**