



EFFECTIVE LEADERSHIP FOR NEW RISK MANAGEMENT CHALLENGES

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EMPOWERING PEOPLE & BUSINESS
CONSULTING • COACHING • TRAINING

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1 My Experience...

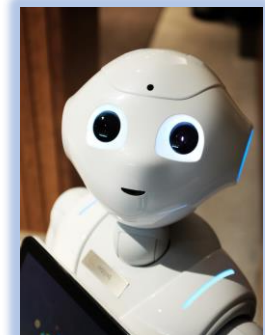
2 The Future of Work: Innovation, Diversity & Artificial Intelligence

3 Top 10 Risks Industry-Wide in 2020

4 Proactive Risk & Controls: Evolution of Governance, Risk & Controls

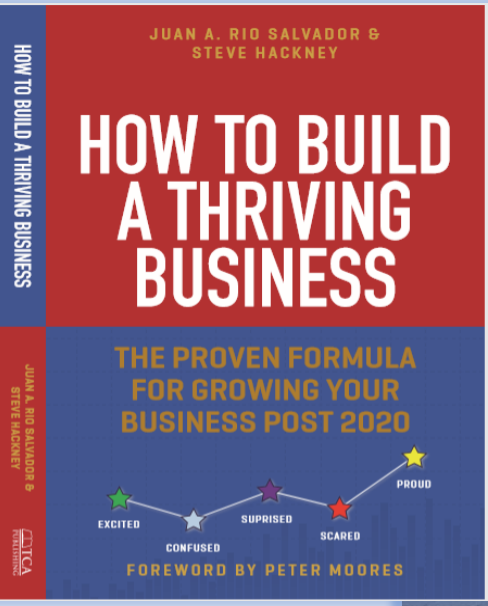
5 Regulatory Requirements & Culture: Performing with Integrity & Trust

6 Items for Discussion: 3 LOD / Regulation & Technological Innovation



1 My experience...

- 20+ year career as global business transformation leader and risk & controls expert; with passion for business efficiency, collaboration and innovation with a focus on customer service excellence
- Built trusted relationships and worked with clients and stakeholders in Europe and the U.S. I am excited for the future of work: A.I., leadership, continuous improvements, cryptocurrencies, etc.
- I love writing, travelling and running



1 My Experience... Rioxa Consulting (Rioxa.co)



- Rioxa is a business consulting, coaching & training company; committed to empower people and business to thrive with passion, flexibility & innovation
- We provide professional services that enable personal growth and economic progress; we are trusted partners, supporting business leaders in financial services & small-medium sized enterprises (SMEs)



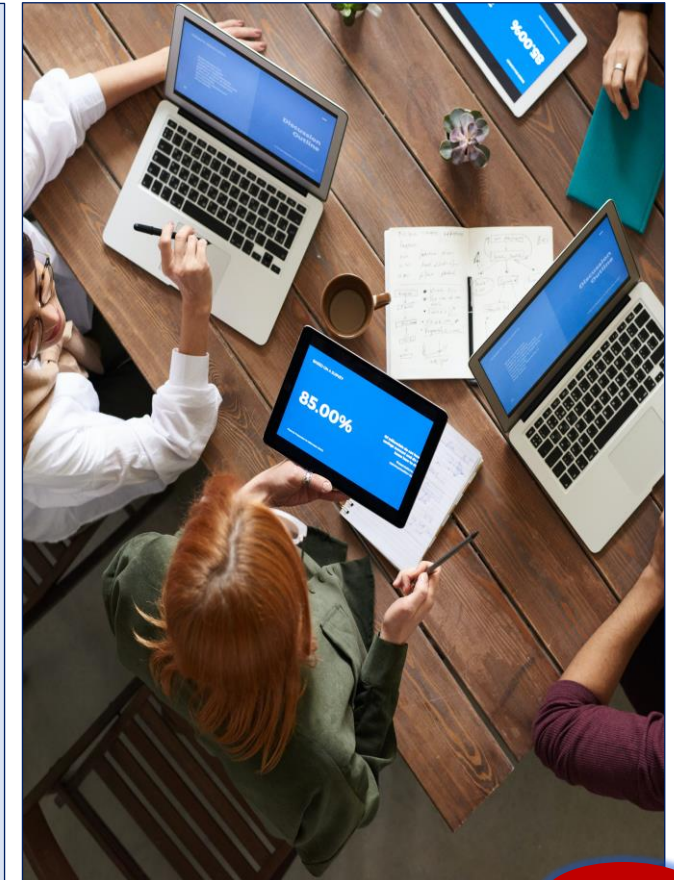
Values @ Rioxa.co :

- We believe in teamwork, respect and growth for our clients and ourselves
- We are committed to having fun & change: people first, who then drive results
- We reimagine “The Possible”, thinking big about the solutions to any challenge
- We we think “long-term collaboration”

2 The Future of Work: Innovation, from the Industrial Age to the Knowledge Age

- Knowledge Age or innovation-driven age, knowledge is a key asset for a society to create value. Based on collective intelligence: people collaboration and use of complementary expertise for specific purposes
- Innovation strategy: a plan to grow in technology or services, usually by research & development activities. Types: Incremental, Disruptive, Architectural, Radical Businesses

- 1 Focus on the challenge /Preparation:**
Define the scope, risk and complexity you plan to tackle and define a process with human behaviour in mind
- 2 Explore and derive ideas /Ideation:**
Understand the current situation/clients/users, deeply identify needs; document your observations and insights
- 3 Solution Concepts /Prototyping:**
Turn insights into ideas, make them real through concepts /prototypes: test them with clients and users
- 4 Solution and Pilot /Evaluation:**
Deploy the best solution in an early market test to validate and improve competitive advantage
- 5 Market and Scale / Implementation:**
Implement the solution on a large scale delivering value to your clients



2 The Future of Work: Diversity and Inclusion (D & I)

- Businesses need to implement new technology tools to align with key talent objectives, such as skills training, leadership development and diversity and inclusiveness (D&I)
- Embracing diverse teams, ideas and possibilities helps drive growth and progress. It should be a key part of how businesses are and how they strive to outperform others

D & I leadership strategies can attract talent, influence action and improve performance

- 1 Diversity:** employees should reflect a range of cultures and perspectives of the clients and locations across where they do business. This gives a powerful advantage that combines insights with broad knowledge.
- 2 Inclusion:** recognize that unique individuals, collaborative teams and inclusive leaders have far-reaching impact and are the engines of new ideas.
- 3 Co-botting:** Co-bots, or collaborative robots complement us. Humans and robots working together provide benefits but also affect D & I. Science Magazine highlighted that AI algorithms learn words and bias from human input. This could impact recruiting, learning,...



- Technological change is happening fast: digital workers (bots and robots) and human collaboration
 - E.g.: Contacting banks for a new or existing service: bots answer/transfer call/chat to a human
- A.I. & Blockchain technologies can make companies smarter and help them to perform more effectively

1 Robotic Process Automation, Machine Learning & Artificial Intelligence have valuable business applications. In my experience the level of adoption in companies goes as follows:

- RPA:** process automation of repetitive tasks – focus on doing
- ML:** use of algorithms based on the data that has been tagged – learning
- AI:** algorithms educate themselves to solve critical business problems

2 E- Money: FinTech start-ups in all spheres of financial services have disrupted money itself.

- Opportunities to reduce ecosystem costs, improve efficiency and extend the reach of financial services growth of e-commerce and apps

Blockchain: technology that supports cryptos, is simply a cloud-based ledger or shared database on public ledgers

- Corporate experimentation with private blockchains surge in wide range of industries



- In order to accelerate the digital transition companies need the right talent and agility to succeed. Inclusive, diverse teams outperform non-diverse teams in a variety of settings
- Global banking industry evolution requires digitalisation & cultural transformation
 - Innovation acceleration: start-ups investment, piloting new technologies, and testing new solutions & business

1 Innovation, diversity, FinTechs & A.I. enhance risk management

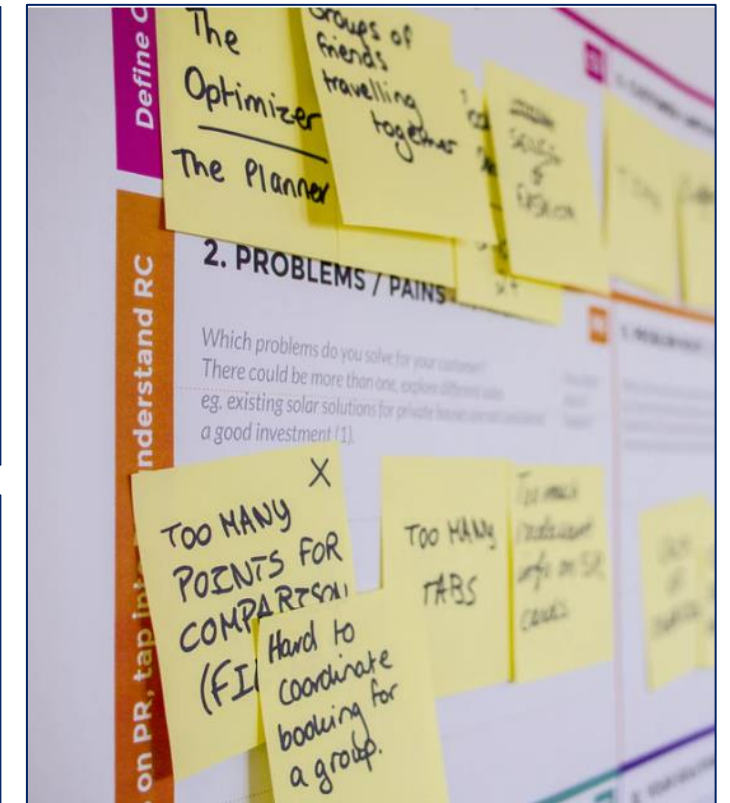
FinTechs and innovation labs undertake rapid research, experimentation and prototyping of next-generation technology

- Diverse and inclusive teams provide insights into the role that data science, RPA, ML and AI play in mitigating risk and regulation changes
- Blockchain & AI can enhance machine learning and enable AI to create and trade financial products

2 Diverse Talent and Discovery Approach – “What if?”

Seek fresh ideas and embrace disruption: collaborate with internal and external partners to drive innovation

- Diversity provides a platform for a broader discussion and challenge
- Understand changing behaviors & culture: smart clients, social media, etc.



3 Top 10 Biggest Risks in 2020 – Industry Wide

- Risks are evolving due to the new regulatory landscape, IT disruption and the “new normal” post Covid-19 pandemic. Update the process to include identifying, assessing and controlling threats
- New risk exposures and regulatory changes require proactive and predictive approaches, leadership strategies that influence, engage and encourage excellent performance.

- 1 Economic Recession /Geopolitical economic growth impact**
- 2 IT disruption: system failure /issues, “born digital” competitors**
- 3 Regulatory change: spirit & letter, supervision, systemic risk...**
- 4 Data Compromise & Cyber Threats: unauthorised access, IS issues**
- 5 Theft and fraud: conventional fraud losses, insider/rogue algorithms**
- 6 Outsourcing & 3rd party risk: reliance on networks of vendors**
- 7 New Skills Talent Shortage / Execution: Attract and retain the best**
- 8 Resilience Risk and culture: lack of identification and escalation**
- 9 Organisational change: Agile/ resistance to change/ geopolitical risk**
- 10 Customer loyalty and retention: Smarter customers**

Financial Risks

- 1 Credit Risk**
- 2 Market risk**
- 3 Operational risk**
- 4 Liquidity risk**
- 5 Business risk**
- 6 Reputational risk**
- 7 Systemic risk**
- 8 Conduct Risk**

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Source: Own experience, Risk.net - biggest op risks for 2020, McKinsey, Basel III

- Complianceweek/riskmanagement/top10riskstokeepexecutives
- Global survey by Protiviti and NC State University’s ERIM initiative
- McKinsey: regulatory cost for risk increased by more than 50 % over the last five years: TRIM and SREP, systemic risk (such as stress tests and Basel III), GDPR+

4 Proactive Risk & Controls: Governance, Risk & Compliance (GRC) Evolution

- Need to enhance governance & risk management frameworks: stricter regulatory obligations & interaction of new/different risk classes (conduct, data protection, and model risk)
- Assess GRC effectiveness: Ineffective implementation of technological change can increase risks

1 Governance, Risk & Compliance (GRC)

- Silos controls-based approach, evolving to enterprise approach (“eGRC”): Risk, compliance, governance function: audit, IT security, policy management,...
- Integrate data and systems: risk identification, assessment and mitigation
- Automate to eliminate redundancies, inefficiencies, increase productivity, through 3 LOD with partnerships
- Enhance Risk Management Information (Trend setting/industry standards).
- Automated risk reporting: real-time risk & business data needed

2 Enterprise Risk Management (ERM)

- Business discipline to oversee all areas of organizational exposure to risk (financial, operational, reporting, compliance, governance, strategic, reputational, etc.)
- Common framework approach, including governance and compliance
- Identification and assessment of goals, requirements, and root-cause risks, common denominator of every silo
- Enterprise-wide risk culture: mitigation strategies, user monitor effectiveness.
- Advanced analytics: predictive analytics & automated controls monitoring



- Regulatory risk: shape risk culture to keep pace with changes & “new normal” and the duty to act in a manner of public trust, confidence and integrity
- Set standards /guidelines to empower high-performing teams at the cutting-edge of innovative leadership

1 Conduct and Ethics Codes

- Design principles to conduct business honestly and with accountability
- Risk: mis-selling & unauthorised trading Regulatory reporting & returns integrity
- Ethics:** “whistle-blowers” process to report fraudulent, dishonest conduct,...

2 Senior Individuals Accountability

- UK’s Senior Managers and Certification Regime, similar initiatives are emerging
- Driving increased accountability through different mechanisms

3 Recovery and Resolution Planning

- Resolution capabilities and recovery planning overlap: valuation, identification and operational continuity of critical functions.
- Single Resolution Board (SRB): goal of making all of the banks resolvable
- Optimise approach: Board & senior management responsibility, streamlining banking group structure, obstacles, public disclosures
- Transform resolution planning into a strategic asset: improvements to governance and risk monitoring
- Master playbooks are one possibility for integrating the different resolution requirements



Source: Own experience Deloitte: Resolvability in the Eurozone | The path to becoming resolvable

- Srb.europa.eu: Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
- EU: The Bank Recovery and Resolution Directive (BRRD)

5 Regulatory requirements & culture: accuracy and timeliness of regulatory reporting

- ‘Basel IV’ aims to make the capital framework more robust and to improve confidence in the system:
 - banks need to rethink their strategy and coordinate constructive change to reduce cost & complexity
- Regulators/supervisors continue to take enforcement action where necessary

- 1 ‘Basel IV’:** reforms for more resilience & to increase confidence in the banking system. Fundamental Review of Trading Book, Net Stable Funding Ratio liquidity standards, etc.
- 2 Capital Requirements Directive IV:** banks capital adequacy framework, minimum capital: financial resources = or > than a % of Risk-Weighted Assets
- 3 EBA publishing for all CRD/ CRR firms:** Commission proposed centralising Pillar 3 reporting. To publish CRD 6/ CRR 3 in Q2 2020
- 4 EBA’s Outsourcing Guidelines,** IRB calculating own funds requirements, Jan 2021, changes may lead to increases in capital requirements
- 5 ECB’s supervision of TRIM:** modelling methodologies, governance frameworks, model risk management, data and IT, etc. Compliance with CRR/CRD & reduce RWA variability
- 6 Cryptocurrencies Regulation:** assess on a case-by-case basis, resource-intensive. Big tech lead: FB’s Libra, People’s Bank of China and others trying to offer own crypto
- 7 Other:** IBOR Reform / IFRS 9 (US GAAP) new accounting standard / SOC 1 Report



Source: Own experience, Eba.Europa.eu (Internal Rating Based and Credit Risk Mitigation (CRM)

- Targeted Review of Internal Models and Internal Model Method (IMM). EBA: Internal Model Approach
- Risk.net: FRTB (Market Risk capital requirements), Net Stable Funding Ratio is a liquidity standard (Assets & Liabilities) / Liquidity Coverage Ratio
- <https://www.pwc.com/gx/en/services/advisory/basel-iv.html>

- Strategically embed stress-testing within the business; use change initiatives to develop risk management capabilities. E.g. data, systems and processes.
- Take a holistic risk automation approach to meet supervisory expectations and reduce increasing costs

1 Stress-Testing Evolution

- Essential tool for supervisors to assess risks, vulnerabilities & risk management capabilities
- Conduct supervision & stress-testing scenarios for debt affordability or investment valuations & implications for vulnerable individuals and for climate change
- Automation is an enabler to connect risk data, IFRS 9, EBA Guidelines/TRIM and Basel IV
- Need to review account inter-firm contagion and adverse feedback loops between the financial sector and the real economy
- Keep stress testing frameworks simple vs true insight into the resilience of banks?

2 Investment Risk Requirements

- Fund liquidity - key priority. Investment managers to demonstrate a robust approach to fund stress testing and fund liquidity risk management.
- Governance oversight: portfolio managers evidence by management companies
- Firms to identify and prevent or manage conflicts of interest, both in investment management and product distribution
- ESMA: common supervisory action on UCITS fund liquidity management
- Reviews of UCITS 5 & AIFMD: investing in illiquid assets poses systemic risk



Source: Own experience, The Deloitte Center for Regulatory Strategy

- Deloitte: Basel III to "Basel IV": What changed?
- KPMG – Future of Stress Testing

- Banks have revised Basel's model to suit their risk profile, upgrading the model to improve corporate governance functionality should impact on risk culture
- Focus on optimising roles/responsibilities, activities/processes, and data/ automation



Industry-Wide Challenges

- Lack of accountability
- Roles & Responsibilities understanding
- Siloed departments & mindset
- Tone from the top / reacting not leading to conduct & compliance

- Coordination & communication
- Performing first line functions
- Use of technology & data
- Drive a change in mind-set

- Need more experience on data analytics approaches
- Lack senior managers with the required business background
- A.I. and M.L. understanding

Source: Own experience, Financial Stability Institute published [Occasional Paper No 11 'The four lines of defence model'](#) for financial institutions

- [Potential optimization opportunities in the 3LOD model](#) , pwc-3linesofdefencemodel.pdf

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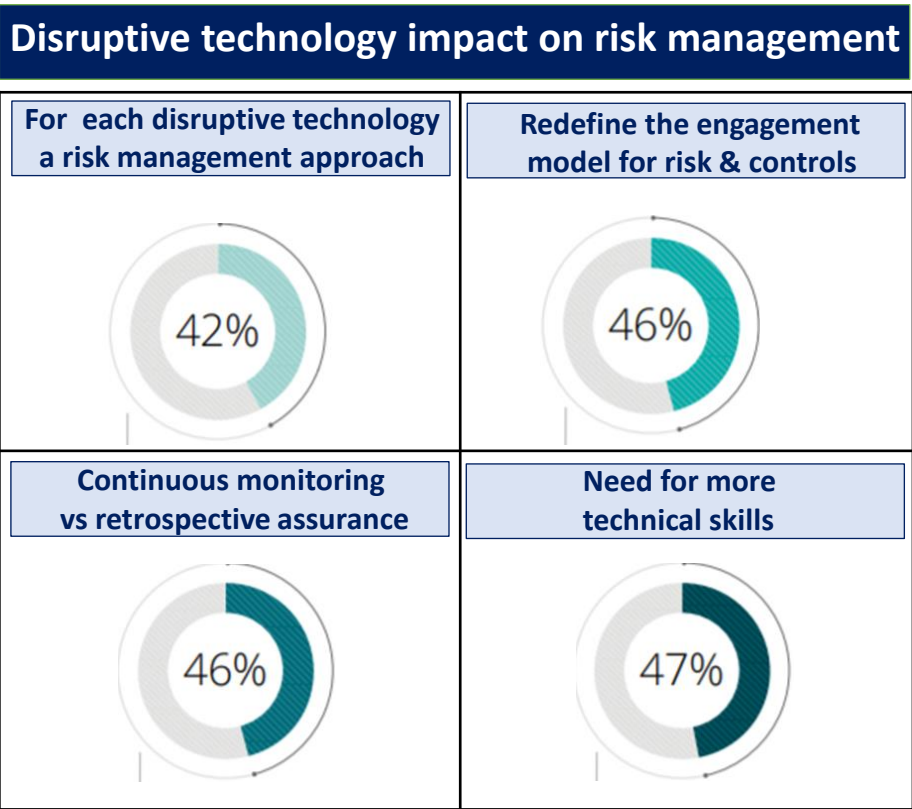
- Regulating technological innovation: policymakers and regulators will continue to be challenged by the need to respond to the pace and scale of technological change
- Financial services regulatory debate:** expand the regulatory perimeter, risks associated with increasing use of artificial intelligence, the impact of innovation on operational resilience and cyber security, and digital ethics

1 Risk Digital Revolution: Fin-Techs are innovating in all areas

- Digitalize risk management for strong & independent corporate oversight
- Aggregate risk data and risk reporting: Risk analytics and predictive intelligence Cybersecurity /FX /Risk Modelling Advisory
- RPA /bots, Machine Learning and Artificial Intelligence
- Globally, the emergence of tighter data localisation requirements will also introduce additional obstacles to cross-border data flows

2 Risk Management: Need for A.I. and Diverse Talent

- Diversity provides a platform for a broader risk discussion & challenge different backgrounds to understand changing behaviors and culture
- AI initiatives to meet bank regulations require corporate governance and individual accountability obligations.
- AI models will continue to grow, with firms increasingly adopting AI for lower risk activities, including to test or improve existing models



Source: Deloitte, Digital Risk Survey, Oct 2019

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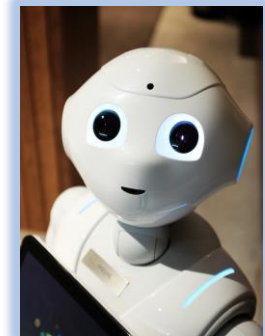
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Thank You – Questions...?

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Video Sources:

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- <https://www.youtube.com/watch?v=LidC5DbWk7A> (Machine Learning in Risk Management)
- <https://www.youtube.com/channel/UCosEew32vLFgApuGR048bBg> (PwC Basel IV Channel)
- <https://www.citigroup.com/citi/diversity/people.html> (Diversity)
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