Society of Actuaries in Ireland

ERM – A View from Compliance

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ERM – A view from Compliance

- Compliance risk
- Regulatory & ERM context
- Compliance function
- Compliance risk quantification
- Practitioner's toolkit
- Areas to watch
- Questions

JPMorgan to spend $4 billion on compliance and risk controls: WSJ

NEW YORK | Thu Sep 12, 2013 10:09pm EDT

Scandals cost JPMorgan $1 billion in fines

Thu Sep 19, 2013 6:02pm EDT

"***The compliance function is a critical component of how we manage risk across our firm***," JP Morgan Chase & Co , Sept 2013

"***JP Morgan was warned about risk controls***," NY Times June 2012

Compliance risk

- Impairment to business model, reputation or financial condition from failure to meet laws and regulations
- Main focus - conduct of regulated activities
- Key control function under Solvency II
- Significant source of reputational risk

Regulatory context

- Significant weight of regulation
- Local and international
- Principles -> principles + rules
- Themes
    - Governance structures
    - Pro-consumer: disclosure & transparency
    - Accountability
- Keeping pace is a challenge

Where on the risk spectrum?

Compliance Risk	
Factor	Measurement
Impact	High
Likelihood	Low/Medium - Increasing
Ability to quantify/model	Low
Mitigation	High (cost) - Increasing
Correlation with tail losses	Medium/High
Tolerance	Zero

ERM context

- Significant enterprise-wide risk
- Core part of risk management framework
- Holistic response
  - Integrated part of business activities & planning
  - Integration with other control functions
  - Consistent approach required – governance, language, tools, controls
  - ORSA
- Define upside (value-adding) as well as downside
- Essential part of business strategy planning

ERM framework approach

- Compliance function
- Compliance policy & framework
- Risk assessment
- Risk appetite
- Risk-based focus
- Governance
- Quantification
- Monitoring & Reporting

Compliance function

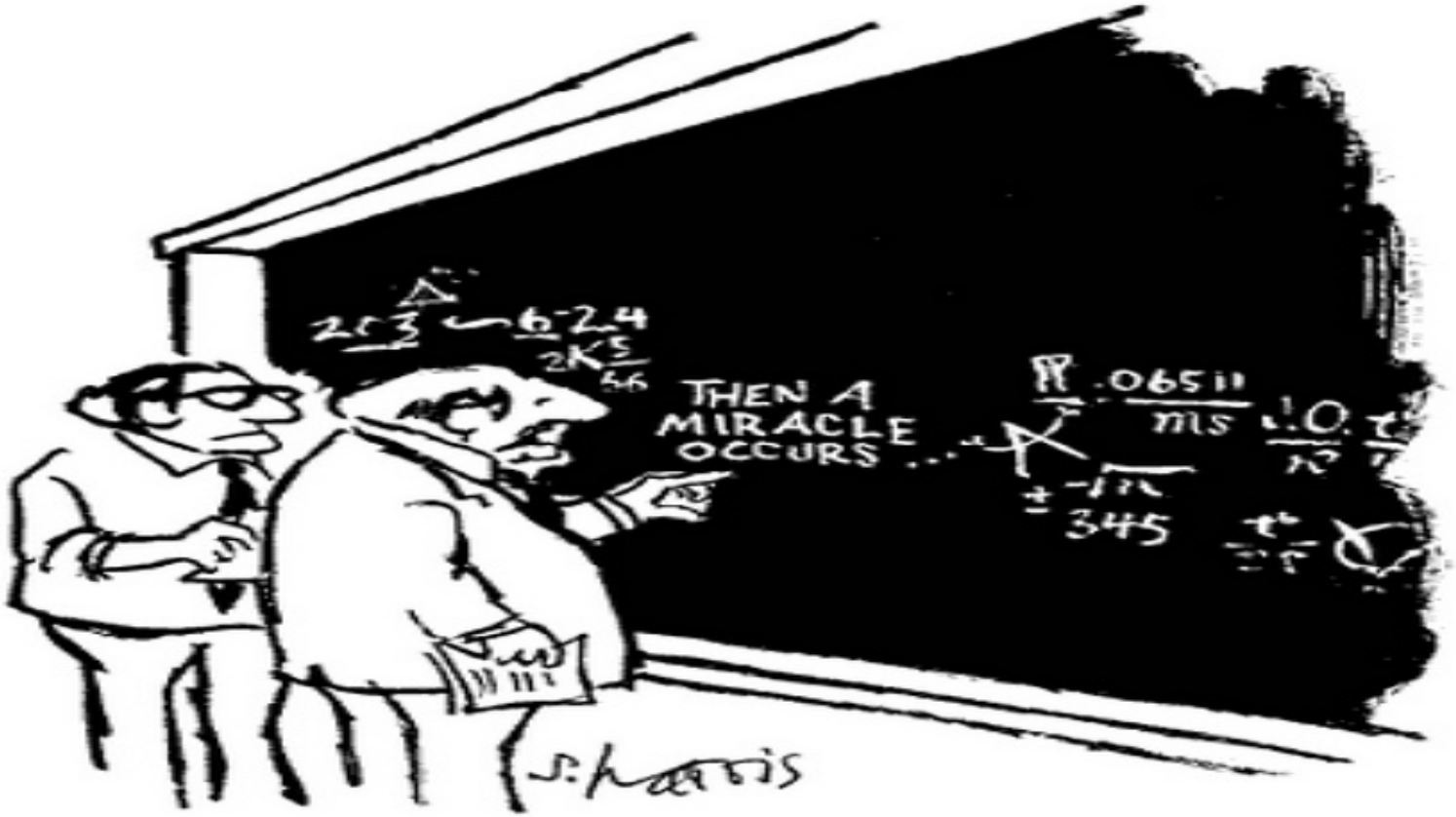
- Core control function
- Dual Identity – Business support, Independent assurance
- Centralised or devolved?
- Visibility
- Clarify the control lines
- Keeping pace with your stakeholders

Three lines of defence

Board of Directors

1st line: Management	• Own • Operate
2nd line: Control functions	• Design, Support • Challenge, Oversight, Assurance
3rd line: Internal Audit	• Assurance on 1st & 2nd

Compliance risk quantification



"I think you should be more explicit here in step two."

Compliance risk quantification

- No data?
  - Actual fines, Potential fines, Near misses
  - Loss register (past)
  - Key Risk Indicators for Compliance (current)
  - Risk assessment (future)
- Assessment: Qualitative approach
  - Significant compliance risks: “What could hurt us?”
  - Management validation of scenarios & outcomes
  - Range of possible impacts
  - Internal factors e.g. risk appetite, controls, business activities & plans
  - External factors e.g. PRISM rating, current & upstream regulation

Compliance effectiveness

- Know your business
- Communicating with your stakeholders
- Proportionate risk-based focus
- Personal and formal network
- Pro-active & forward-looking
- Strong & visible support from top down
- Stakeholder trust - showing you care!
- Mix of expertise
- The ability to say ‘stop’

Practitioner's toolkit

Integrated	Representation on key committees Sign-off role on projects & key business initiatives Clear lines with other control functions
Tone/Culture	Top team support/representation Share of CEO 'voice'
Communication	Newsletter; Intranet; Compliance day On-line training; Top team training; Business champions
Publicity	Successes and breaches Visibility at staff briefings Publicise your plans Report on tone/culture
Roles	Clarity on 1st line / 2nd lines of defence
Message	Consistent interpretation of regulatory principles Substance over form Consistent process for implementation of regulations

Practitioner's toolkit

Personal responsibility	Compliance declarations 1st line of defence responsibilities Managers with specific compliance objectives Fitness & Probity
Framework	Policy and framework Plans Policies and controls
Cycle of control	Closed loop Risk-based assessments Identify, monitor, report, action
Reporting	Tangible KRIs Scenario testing Regular 'State of Compliance' Scorecard
MIS	Follow the money – inflows and outflows See key 1st line and 3rd line reports

Some key areas to watch

- Remuneration
- Segregation of duties
- Understanding what your customers see
- Understanding the tail of the distribution
- Multiple parties in the product chain – who's got the risk?
- 'Specialist' products or business units
- Maintaining standards in a tough environment
- Be wary of herding and relativism - these are not mitigants

QUESTIONS?