Run the bank vs Change the bank

Summary
The banking industry, the perception of the banking industry and the expectations of the banking industry are under scrutiny and are developing fast. The banking process is set for significant changes in its product range, its operation and its governance. By using some borrowed tools to accommodate ‘changing the bank’ alongside the traditional tools designed to ‘run the bank’, the risk management function can play an active role to accommodate the change process and build a better bank.

Dear reader,
How is this for a platitude: ‘Risk management is at the core of the banking process’. It may indeed appear to be a solid home truth and yet, there is a profound change in what is expected of risk management today compared to, say, ten years ago, or even two years ago. Part of that can be explained by the change in banking per se. As banks are coming under increased scrutiny, and the age of unbridled product development is now history, so the role of risk management has shifted from purely facilitating growth to ever stricter rule making and more intense monitoring.

How risk management adapts
Risk management is adapting to this new role by expanding its staff, tightening procedures, re-examining models and adjusting parameters. Note that all these activities take place under the premise of banking as a going concern. It is best summarised by the sentiment that “to run the bank, we need to be extra careful in these times, and risk management must be vigilant in pursuing what it has been doing all along”. That sounds sensible enough.

At the same time, risk management is adapting to its new role in another way: by finding new areas of interest, different techniques and new roles and responsibilities. This is mainly the result of the fact that banks are going through a phase of profound change. They need to re-examine their scope, product range, market strategies, customer base, international presence, time horizon, stakeholder interests etc. All these aspects are likely to lead to a long term change programme, whereby many, if not all, banking processes will be revisited and repositioned. Think of it as a complete strategic re-orientation of nearly all banks. It is in that strategic re-orientation that risk management can and should play a major role. And it is for that role to ‘change the bank’ that risk management needs an additional set of tools and practices, apart from that needed to ‘run the bank’.

Consequences of ‘changing the bank’
Significant changes to complex organisations (like the restructuring taking place in many banks) are characterised by three aspects that make it completely different from business as usual (BAU) and piecemeal changes:

- A very long time horizon (several years being no exception);
- Implications that go well beyond the traditional silos (sometimes the silos are re-distributed over new units) and
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- Overall increases in uncertainty (in all aspects of the banking process).

As a result, many of the assumptions that risk managers routinely make are severely affected and sometimes even completely invalidated when the bank is going through such restructuring.

**Risk Management Tools to ‘change the bank’**

Significant change is cannot be successful without an overall long term plan, many additional detailed short terms plans, even smaller work packages, clearly enunciated roles and responsibilities during the changeover period, careful weighing of costs, benefits, risks and uncertainties, plus the active managed thereof, regular progress monitoring, feedback to stakeholders and the ability to adjust each of these elements as circumstances change.

I could have saved a paragraph there by saying: significant change cannot be successful without proper project management. Thus, the risk management tools to ‘change the bank’ come from the project manager’s toolbox. From that toolbox, let’s take three key tools and their application for risk management:

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<tr>
<th>Project Management tools</th>
<th>As used by Risk Management</th>
<th>Explanation</th>
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<tr>
<td>A) Defining work packages</td>
<td>Maintain a Matrix of pre-defined risk categories against actual work-packages</td>
<td>A work package is collection of tasks that are completed in 2 to 3 months. The complexity of the work requires a regular re-assessment of the risks identified in this Matrix (at least bi-monthly)</td>
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<td>B) Performing critical path analysis</td>
<td>Confront the Matrix with resources available to manage the risks. Discuss in the steering committee.</td>
<td>During transition, the management of risks can not be assumed to be covered by a one time assignment. Processes, people and systems will shift as a result of the transformation and hence, the Matrix must be re-aligned with the resources available to manage the risks</td>
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<tr>
<td>C) Instituting formal change management</td>
<td>Enforce that changes to the Matrix trigger discussions in the steering committee.</td>
<td>Any significant change programme will go through many small (and not so small) redefinitions of goals, work packages, time lines, resources and dependencies.</td>
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**Concluding remarks**

By explicitly acknowledging these tools (confronting each work package to pre-identified risks in a Matrix, performing critical path analysis with respect to risk in the Matrix and instituting formal Change Management), risk management can move beyond BAU. And in situations where the bank is in re-design, it is even imperative to move beyond BAU. Thus, it makes sense for risk management to develop a set of tools to suit these circumstances.