Example: Attitudes-focused

		Assessment	Source
13–16	**Attribute: Ensuring common understanding and awareness of risk**	Defined	Risk Maturity tool **Row 10**
	Survey Question:		
	Q13: Risk awareness and education is sufficiently promoted across my organization	Managed	
	Q14: Accurate reporting dashboards exist in my organization to provide visibility and indications of risk	Developing	
	Q15: I have all the tools available to me to analyze risk and make well-informed decisions	Basic	

Improvement opportunity

Improve understanding of Risk Appetite Statement and interdependencies between business plan and Risk Appetite Statement (including the description of roles and responsibilities, the importance of stress testing).

There are only quantitative statements in the Risk Appetite Statement. As a result, some divisions are having difficulties understanding the RAS, and in turn, implementing it in their daily operations.

It would be beneficial to include qualitative statements in the RAS as well. The understanding of the RAS limits could also be enhanced by explaining how and why the specific RAS indicators were chosen. Some of the Heads of department are not familiar with the current risk profile of the Bank. Having this information would enable them to increase risk awareness and potentially focus their effort/make better business decisions.

Recommendation

Provide a workshop/training to Head of departments (and relevant staff) about risk management principles with a detailed focus on the connection between
the RAS and the business plan. Explain RAS indicators so that managers can understand how their daily operations are constrained/influenced by them. Explain the role of the risk function in the RAS development (for example stress testing impacts) i.e., preventing from taking an excessive risk by the Bank.

For middle management (Head of divisions) prepare a focused training session on RAS taking into consideration roles and responsibility of given middle-manager. Decompose the RAS limits to the subset of detailed limits and assign them to Head of departments/divisions (cascading thus Board member sponsorship of RAS limit). The managers should be made responsible only for limits which they can actively influence.

Enhance the RAS with qualitative statements and explanation of chosen limits. (FSB, Principles for an effective risk appetite statement, 2013)

Example: Norms-focused

		Assessment	Source
10	**Attribute: Enforce the qualitative and quantitative aspects of the risk framework and risk appetite**	Defined	Risk Maturity tool **Row 26**

Improvement opportunity

The risk management framework is implemented in the Bank; there is outstanding awareness of RAS amongst the Bank´s employees (however, RAS is purely quantitative, the qualitative part is missing). Still, the following areas for improvement were observed in Business-As-Usual:

Liquidity risk management

There are no limits set up on the level of cumulative static liquidity gap report, RAS limits are used instead. RAS limits are rather simplistic and thus there is a risk
of misinterpretation of the liquidity situation of the Bank.

Market risk management

There is no limit set on the level of cumulative static interest rate risk gap. The Bank performs insufficient measurement of the risk (only up to 1YR, longer maturities treated by the high-level report) which is not in line with the IRRBB Basel regulation.

Transaction rate is used for discounting of loans when measuring interest rate risk. Stress testing performed is at the level of the regulatory minimum (one scenario).

Recommendation

Liquidity risk management:

- Establish limits on the level of cumulative static liquidity gap report, introduce Time-to-Wall as early warning indicator.

Market risk management:

- Establish limits on the level of cumulative static interest rate risk gap report.
- Enhance Interest rate gap report for maturities above 1YR with sufficient granularity of the time gaps; use yield curve for discounting of all products instead of transaction rate.
- Include additional scenarios for stress testing (e.g. change slope of the yield curve), introduce scenarios tailored to Bank’s risk profile.
- Perform projection of interest rate risk indicator (EVE) based on assumption of the current balance sheet run-off.

Note: Leading market practice would require to produce also dynamic gaps (liquidity, interest rate risk) taking into account business plan of the Bank.