

# Risk function effectiveness

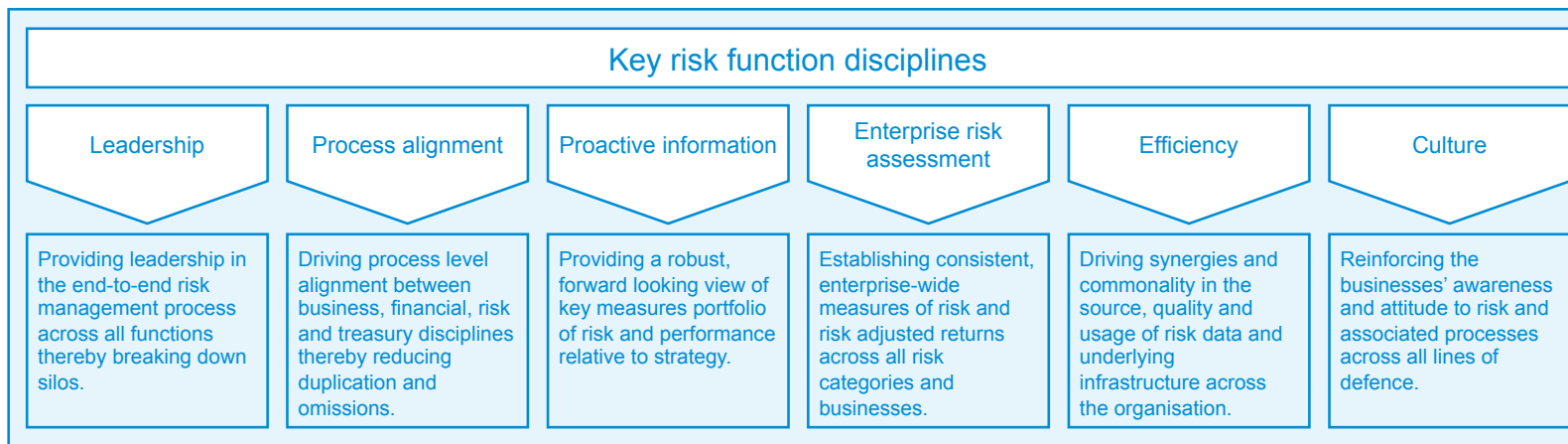
Whether driven by the recent crisis or by regulatory initiatives such as Solvency II, it is clear that changes within independent risk management functions are needed across the board. For banking institutions the change agenda is motivated by the need to ensure that control issues of the past are remedied and to develop improved stakeholder confidence in the reputation of its risk function. For other organisations, change is being driven by a need to develop a risk function that is fit for purpose for new regulatory driven initiatives. In either case, organisations face two key challenges.

## Key challenges

One: to ensure that lessons have been learnt and that the risk function delivers across several key disciplines. Organisations' starting point should be to re-visit the organisations lines of defence model, clarify the boundaries and interactions between them and re-define the responsibilities of the independent risk function. The risk function can then focus on enforcing a number of key disciplines.

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**Two:** to transparently demonstrate that the risk function is operating effectively through mutually agreed perceptions of an effective, and value adding, risk function. With the significant investment that is being made in the risk function and the resulting proliferation of new responsibilities, operating models, processes and infrastructure, it will not be long until challenges are raised, about the effectiveness, and resulting marginal cost benefit, of the risk function. Therefore stakeholders, both inside and outside risk, need to focus on ensuring that a clear framework is in place to evaluate the contribution and effectiveness of the new risk function.

PricewaterhouseCoopers has developed a proven track record in working with a range of banking and insurance clients in responding to these challenges, whether it is re-defining the risk function's operating model and responsibilities or establishing a framework for measuring the effectiveness of the risk function.