Risk and Capital Management – Insights

Strategic alignment of risk with the business

Failure to manage risk at a strategic level

In bleak times and fair, the success of a company depends greatly on how it translates its strategy into management of the business.

The recent crisis has demonstrated that in many financial institutions risk management broke down not only at the operational level but also, critically, in strategy selection and business planning.

Misunderstood portfolio concentrations, flawed funding models and poorly timed acquisitions were symptomatic of poor strategic risk management.

Taking strategic control

Most banks have taken firm control of the risk agenda, imposing and monitoring balance sheet limits, targeting risk weighted assets reductions and splitting core from non-core assets.

However, this has largely been reactive and focussed on mitigating downside risk. As the world emerges from recession there is a danger that banks will continue to de-risk at the expense of exploiting upside.

The strategically nimble - those that manage strategic risk successfully – will prevail.

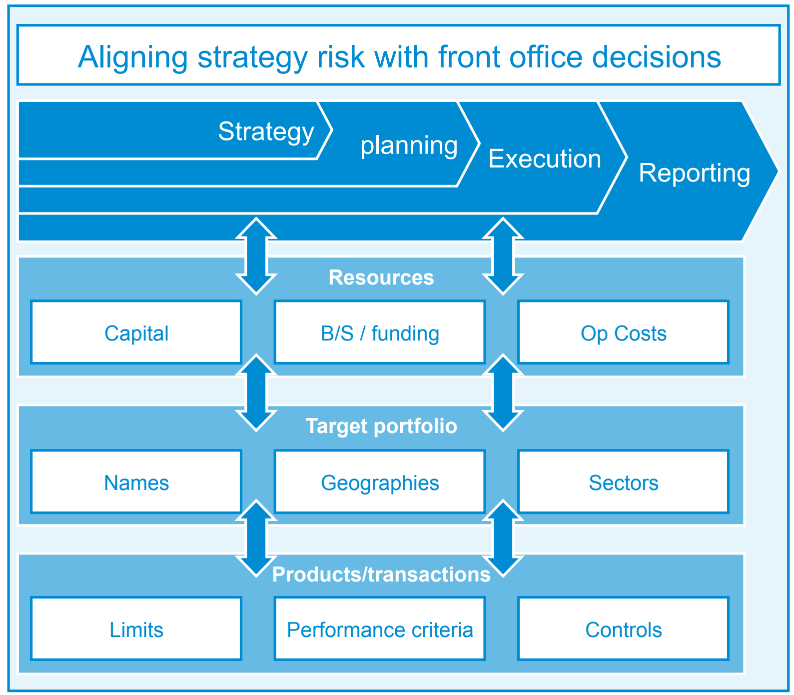
Aligning strategy, risk and the business

Recognition of the strategic importance of risk presents a significant opportunity to improve the strategic alignment of risk with the business.

At PwC, we are able to join our leading capabilities in strategy advice and risk and capital management with our end-to-end implementation capabilities.

What FS companies should be doing:

- Consolidate their positions following significant business changes
- Undertake independent, objective strategic reviews of the business
- Articulate three to five year business plans and strategy for the business based on the strategic review of the business
- Ensure the operational platform is aligned to the strategic plans for the business (e.g. scalability of growth areas)



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