

Risk & Reputation Workshops

David M Parody
Chief Operations Officer
Financial Services Commission



Koe make mangalongalo oku fakafoa vaka

Tongan proverb
It is always the hidden reef that sinks a canoe.



Workshop's Objective

- To provide a framework where you consider risks to your reputation and plan for its mitigation.



Format of the workshop

- Short presentation with overview of the three sessions
- Each workshop session will work on one aspect of the methodology
- The output of each session will be the input of the next
- Summary of findings



Risk Management Approaches



Maginot Line



Radar



Hierarchy of Risk Management



Identifying Risks

- To manage risk an organisation needs to know what risks it faces.
 - Initial Risk identification
 - Continuous risk identification
 - Documentation



Risks as Threats and Opportunities

- | | |
|--|--|
| <ul style="list-style-type: none">■ Threats<ul style="list-style-type: none">■ Level of exposure which is considered tolerable and justifiable should it be realised■ Compare the cost (financial or otherwise) of constraining the risk with the cost of the exposure should the exposure become a reality and find an acceptable balance. | <ul style="list-style-type: none">■ Opportunities<ul style="list-style-type: none">■ Consideration of how much one is prepared to actively put at risk to obtain the reward.■ Compare the value of potential benefits with the losses which might be incurred with or without realising the benefits. |
|--|--|



Categorising Risks

- Political
- Economic
- Socio cultural
- Technological
- Legal/Regulatory
- Environmental



Risks linked to Objectives

OBJECTIVE : To travel by car from A to B for a meeting at a certain time.

Failure to get from A to B on time for the meeting

Being late and missing the meeting

I don't have breakfast that morning so I get hungry

Traffic causes me to be late and miss the meeting

Severe weather prevents me from getting to the meeting

✗ This is simply the converse of the objective

✗ This is a statement of the impact of the risk, not the risk itself

✗ This does not impact on the achievement of the objective

✓ This is a risk which can be controlled by making sure I allow plenty of time to get to the destination

✓ This is a risk which I cannot control, but against which I can make a contingency plan.



Assessing Risks

- Principles for assessing risk
 - Structured process in which likelihood and impact is assessed for each risk
 - Record assessment in a way which facilitates monitoring and identification of risk priorities
 - Differentiate between Inherent and Residual Risk

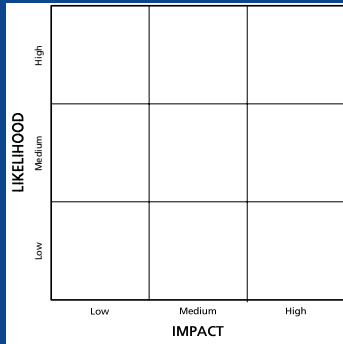


Risk Scales

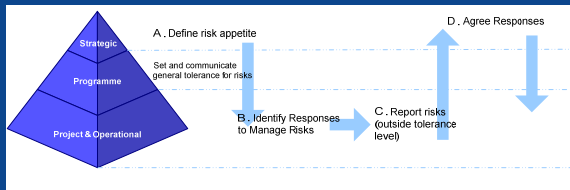
- | | |
|-----------------|------------------|
| ■ Impact | ■ Likelihood |
| ■ Low | ■ Low |
| ■ Medium | ■ Medium |
| ■ High | ■ High |
| ■ Insignificant | ■ Rare |
| ■ Minor | ■ Unlikely |
| ■ Moderate | ■ Possible |
| ■ Major | ■ Likely |
| ■ Catastrophic | ■ Almost Certain |



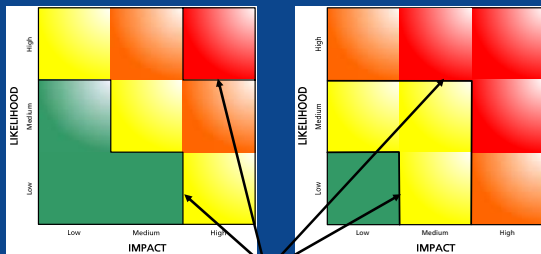
Simple Risk Matrix



Authority for defining the risk appetite



Setting Your Risk Appetite



Risk Appetite



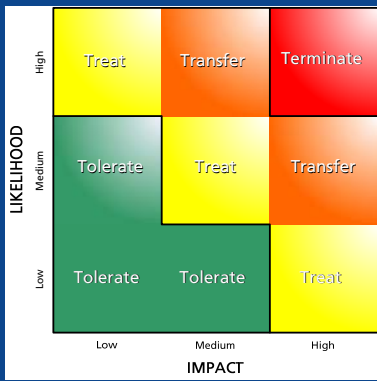
Addressing the risks

- Tolerate
- Treat
 - Preventative Controls
 - Corrective Controls
 - Directive Controls
 - Detective Controls
- Transfer
- Terminate

- Take the opportunity

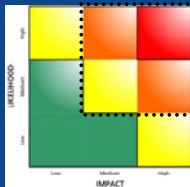


Addressing Risks

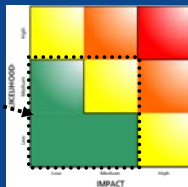


Inherent & Residual Risk

Inherent Risk



Residual Risk



Action Plan



Summary of workshops

- To protect your reputation you must first understand the risks
- Objectives may span more than one Risk Type
- Risks are not always threats
- Reputational risks are shared by firms and the jurisdiction
- Risks may be mitigated
- It is not the plan but the planning that is important



Further Reading

- The Orange Book – HM Treasury