



Values creation and preservation through risk management culture

Bank of Thailand
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Your speaker



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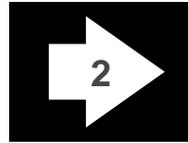
- Phansak is a Thailand Risk Consulting Leader, and responsible for Forensics, Financial Crime, and Risk and Regulations. He has extensive experiences in enterprise risk management, strategic risk, operational risk, fraud risk, and compliance risk.
- Phansak holds a MBA emphasis on Operations, Quality and Technology Management, and Marketing. He is also an active speaker about risk management having spoken at several events and institutions including the Institute of Internal Auditors of Thailand (IIAT), the Federation of Accounting Professions (FAP), The Securities Exchange Commission (SEC), Bank of Thailand (BoT), Thai Institute of Directors (IOD), and many listed companies.
- He also prepared articles about good governance, digital trust, crisis management, data governance, GRC, fraud risk management, and family business governance that were published in the press.



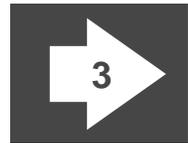
Agenda



Introduction to risk management



Benefits of integrating risk and business performance



Key questions to consider and the Board's role to manage risks



Risk culture



Q&A



How can we live in the world of worry

Nearly 40% of CEOs think their company will no longer be economically viable a decade from now, if it continues on its current path



Increasing regulatory requirements



New strategic risks, rapidly changing market developments



Growing public interest in companies' business activities



Development of new technologies



Business model disruption

“Various external factors drive the need for an effective risk management capability linked to strategy”

Enterprise Risk Management (ERM)

58% of Board members do not receive updates at every meeting on the amount of risk the company is taking



Our risk perspectives

Don't let fear drives your risk management

● Two sides of the same coin

Risk and performance issues can be addressed in an integrated way.

● How can risk management add value to the business

Boards are demanding more focused and forward-looking risk analysis (hindsight, insight and foresight).

● The importance of Chief Risk Officer

CROs are beginning to take their rightful seat at the top table of decision-making. CROs move from 'gatekeeper' to business partner.

● The payoffs of being a dynamic

Dynamics cite significant payoffs, which range from faster progression through their journey to higher-than-expected value in areas like better decision making.

● Risk and Reward

Organizations need to be able to provide the rewards, recognition and involvement in key business decisions that will attract the brightest and best into the risk profession.

An Enterprise Risk Management

Objective of ERM is to have “a broader view” of key risks.

Enterprise Risk Management (ERM) is a structured and disciplined approach, applied throughout an enterprise, which is designed to **identify and assess** risks that may affect the entity, and to **manage** the risks to be within the entity's risk appetite, to provide reasonable assurance that the entity's objectives will be achieved.

Key risks is a risk that can generate significant impact to the organization such as eroding of competitive advantage, changes in market position, lack of or no successor for critical position.

Therefore, **10-20 key risks** are expected from ERM exercise.



Strategic Risk versus Operational Risk

	Operational risk	Strategic risk
Description	Risk that affect an organizations' abilities to execute its plan	The uncertainties and untapped opportunities embedded in your strategic intent and how well they are executed
Trigger from	Mainly inside	Inside and Outside
Areas	Arise from errors, defects or omissions in process, IT or other systems	Strategy, business model, and external factors
Risk management	Typically managed from within the business	Assumptions testing, scenario planning, trend analysis, and war gaming
Agenda	BUs, Risk management, Internal Audit	Boards, C-suite

“How can I manage the conflicting demands of effective risk management, cost and regulatory scrutiny?”

“How do I demonstrate value from my risk management operating model and approach, while confirming that risk management activities are embedded in BAU decision-making?”

“How do I gain comfort that I am made aware of all key risks and issues?”

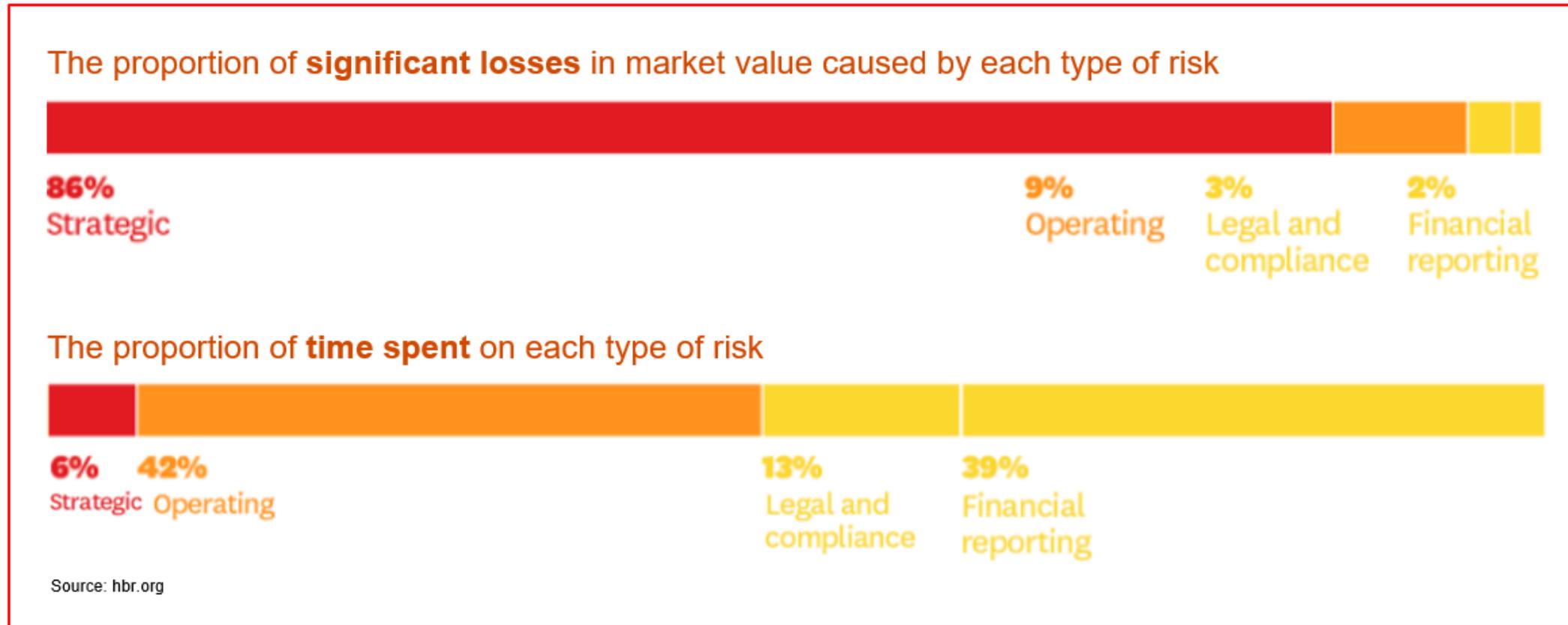
“How do I manage the constantly changing regulatory environment, regionally and globally, divisionally and functionally?”

“How do I use risk management as a way to make my business more efficient, to reduce manual intervention, and minimise risk and control errors?”



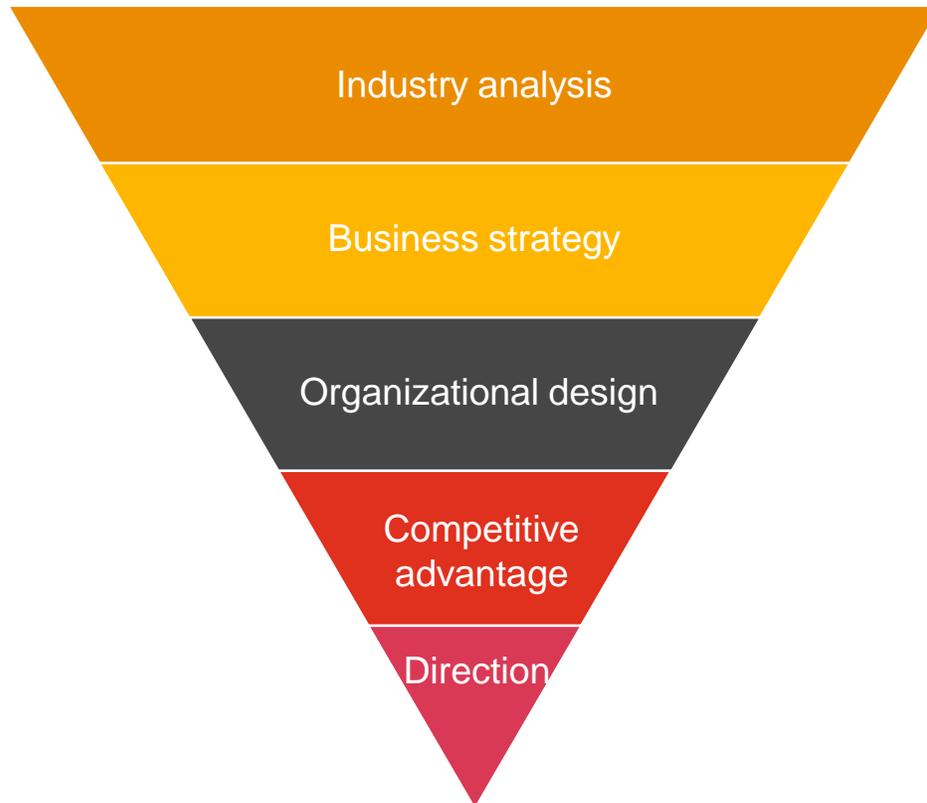
Looking for risk in all the wrong places

One of Harvard Business Review (HBR) articles made an analysis and mentioned about a problem with managing risk



Benefits of integrating risk and business performance

A comprehensive risk management allows senior management to assess the impact of risk management as well as opportunities to the business



An integrated approach to risk and performance management leads to:

- Driving management to provide more transparency on **both risk and performance**
- More informed **decision-making** and efficiencies;
- **Clear pathways** to raise significant risks via escalation and reporting channels that are timely and insightful;
- **Enhanced assurance** to the Board, Audit/Risk Committees, and the Management; and
- Exploit **value opportunities** and **sharpen your competitive advantages**.



Financial crime / Fraud risk

Financial institutions (FIs) are facing an increasingly complex regulatory landscape with new challenges associated with compliance, risk management and reporting.

- Increased adoption of mobile banking, innovations in payments and acceptability of cryptocurrency globally have resulted in a significant growth in transaction volumes.

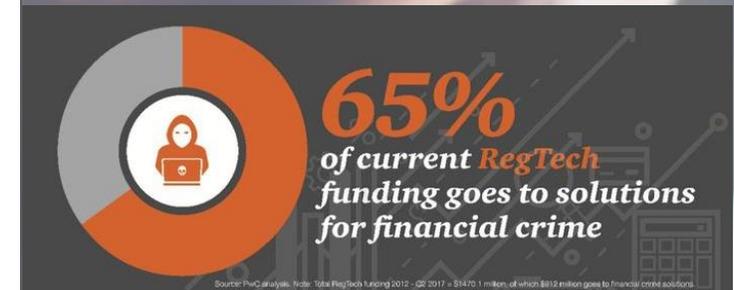
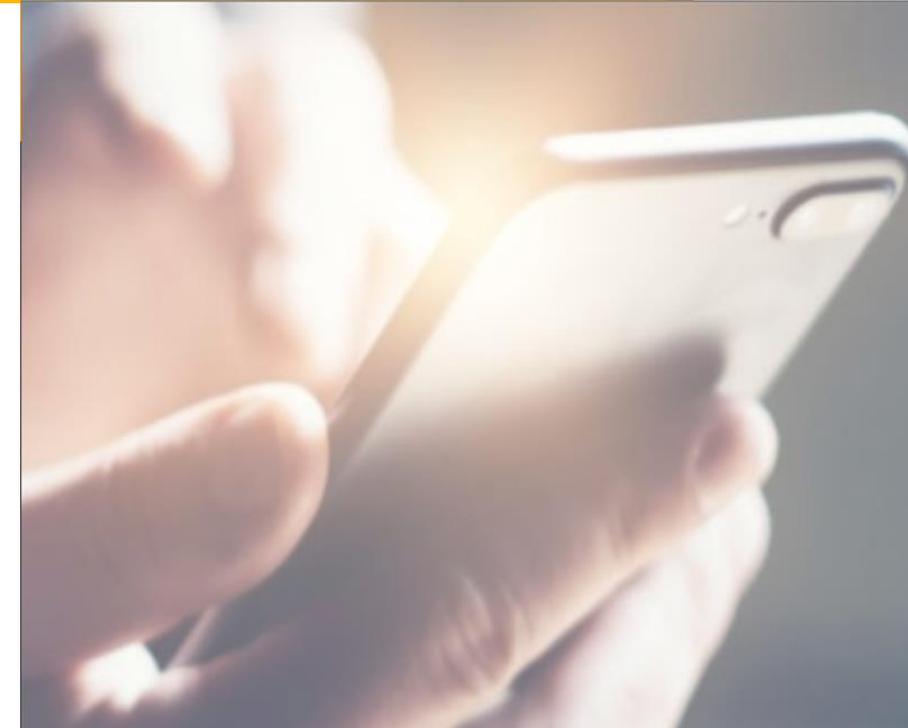
- **Card fraud** volume increased by 20% globally since 2017 with an estimated loss amount of:

860,000,000,000 Baht in 2019

- Global losses from **payment fraud** tripled from 2011 to:

971,700,000,000 Baht in 2020

- **COVID-19** further exacerbated fraud, money laundering (ML) and terrorist financing (TF) activities due to:
 - Surge in online payments during lockdown led to a spike in **Card Not Present fraud**;
 - Increase in online **real-time payments** allowing fraudsters to have a level of anonymity;
 - Job losses turning some individuals into **money mules**; or
 - Surge in **social engineering and cyber-crime** as people working from home.



How to win the game

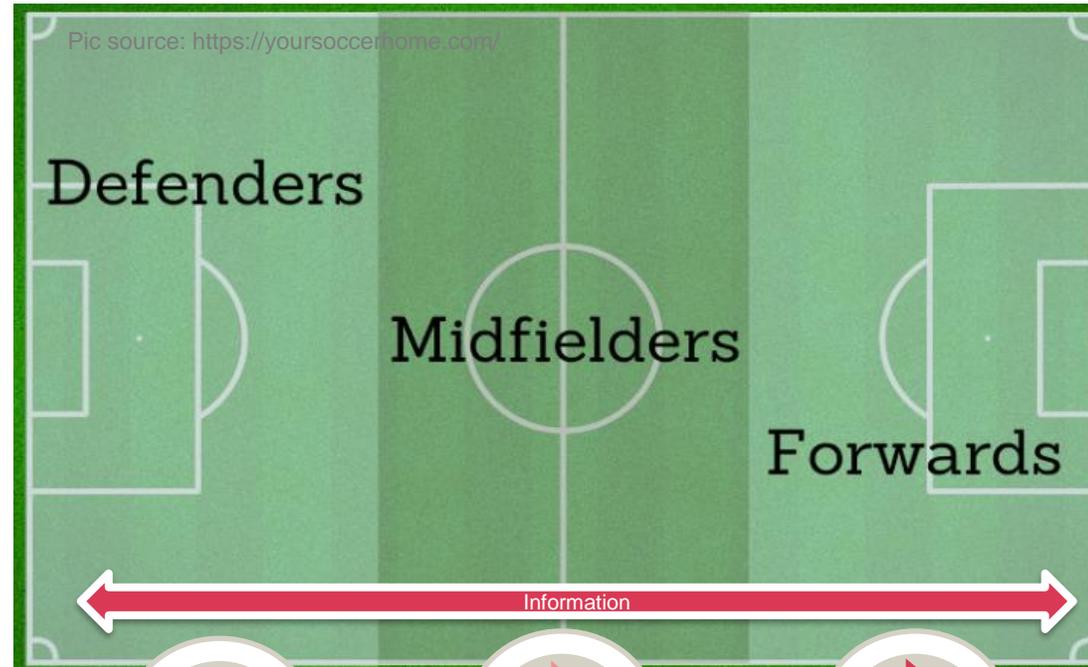
A good balance between performance and conformance



Data analysts



Manager
(Management)



3rd Line

Provide an independent assessment & assurance

2nd Line

Perform oversight and advisory to the BUs

1st Line

Risk and control owners



Fans/Supporters
(Shareholders)

Many organizations applied the three lines of defense

The debate gets hotter when a fraud or unwelcome incident is uncovered



Employees said

"management needs to responsible for this. It is their jobs!"

Management said

"Fraud and Internal audit teams have expertise. They have tools and techniques"

Fraud and Internal audit said

"We did not have enough manpower. We just made a random check. Process owner is the first line of defense"

Today's Trend and Risk Landscape

In this turbulent business environment, many executives find the need to revise and adapt their strategies and operating models at a rapid pace

Developing a fit-for-purpose ERM program that adapts to the ever changing risk landscape is a constant struggle.

Risk leaders want to enhance visibility into risks across their business, but are unsure of how to breakthrough current silos.

Three-quarters are planning on increasing spend across:

75% data analytics

74% process automation

72% technology to support the detection and monitoring of risks



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79%

of business & risk leaders report that keeping up with **the speed of digital and other transformations** is a **significant risk management challenge**

38%

report that their **risk function is not actively seeking external insights** to assess and monitor risks

39%

of business executive respondents say they are **making better decisions & achieving sustained outcomes by consulting with risk professionals early**

74%

are **increasing their spending toward adding technology and digital capabilities** to the risk function workforce

75%

of leaders say that **having technology systems that don't work together** is a **significant risk management challenge**

22%

of respondents are **realising benefits from defining or resetting risk appetite and risk thresholds**

Source: PwC 2022 Global Risk Survey

Key questions to consider and the Board's role to manage risks



Key questions to consider

Driver

What has prompted risk management discussions?

Stakeholders expectations		
Board of directors & audit committee	Executive leadership & management	Risk management, compliance & internal audit
Confidence that risks are being managed well	Risk-based strategic decision-making	Increased risk awareness & activity alignment

Objective

What is the organization trying to achieve?

Risk program objectives		
Governance	Operational	Strategic
Enhance risk awareness for the Board and Executives	Embed risk management activities into the businesses	Link risk management to strategic planning activities & objectives

Investment

What level of effort is needed to meet objectives?

Risk management capabilities				
Initial	Basic	Established	Advanced	Leading practice
Early discussions to shape risk management processes	Risk assessment focus with limited details and follow-up	Mature risk program integrated with some business processes	Proactive engagement by risk owners to apply advanced risk methods	Risk management integrated with strategy to exploit opportunities

Impact

How will the effort be sustained long-term?

Capability

What are current risk management capabilities?

Board's role to manage risks

Bringing risk expertise through risk committee or risk experts in the organization

Oversight on roles and responsibilities and risk appetite

Conversation among risk and audit committees and senior management

Supporting with adequate budgets for risk management activities

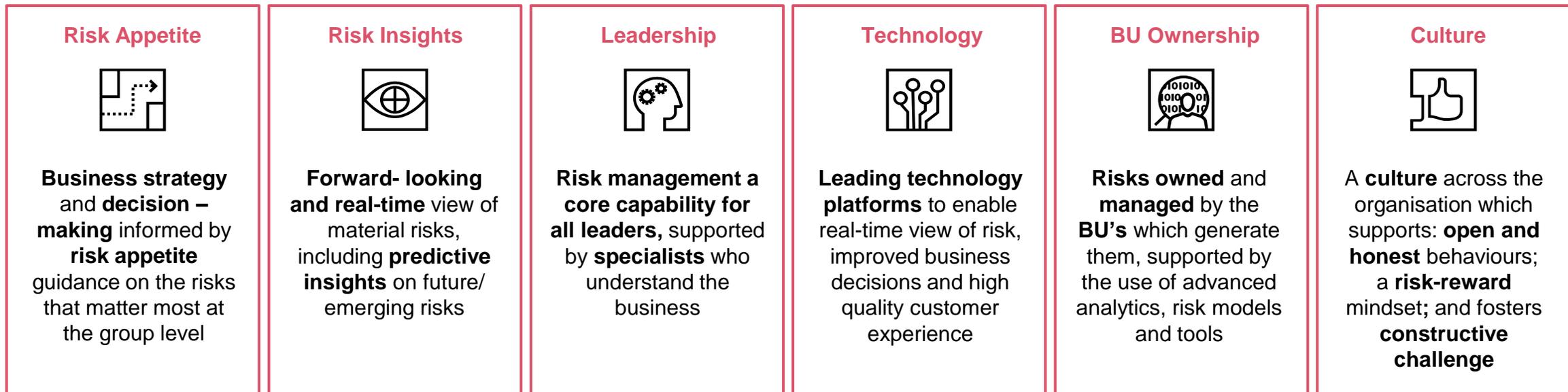
Improving risk information, reporting, data and analysis

Promoting risk culture

How to achieve effective risk management

An effective risk management operating model should be **forward-looking** in the management of all risks, while safeguarding the organisation through a robust control environment. It should be clear on the most material risks, who is accountable for them and provide some guard rails for managing them.

Key Principles: The business has primary ownership and accountability for understanding and managing risk, growth and return trade-offs. Risk functions provide support and challenge to the business in achieving these objectives and making decisions.



Key Risk Fundamentals

Fundamental Risk Elements

🔍 **WHY** do we need to manage risk?

Base Obligations

1

Business Objectives

Defined objectives to drive, support, or achieve business performance

2

Requirement Inventories

Repository of rules, laws, and regulation expectations

🔍 **HOW** do we evaluate risk?

Base Risk Methodology

3

Risk Taxonomy

Comprehensive, common, and stable set of risk categories

4

Risk Methodology

Standardised principles and approach to identify and evaluate risk

🔍 **WHAT** do we use to mitigate risk?

Base Measures

5

Policies & Procedures

Established guidelines to outline and direct firm operations and expectations

6

Control Inventories

Collection of controls to mitigate risks and meet business and regulatory objectives

7

In addition to having these six Key Risk Fundamentals, robust ERM Frameworks also identify, define, and outline key **Focus Risk Types**.

Material risk assessments prioritises Risk Types and apply an increased focus on emerging risk areas that have a substantive impact on a firm's ability to meet its Base Obligations

8

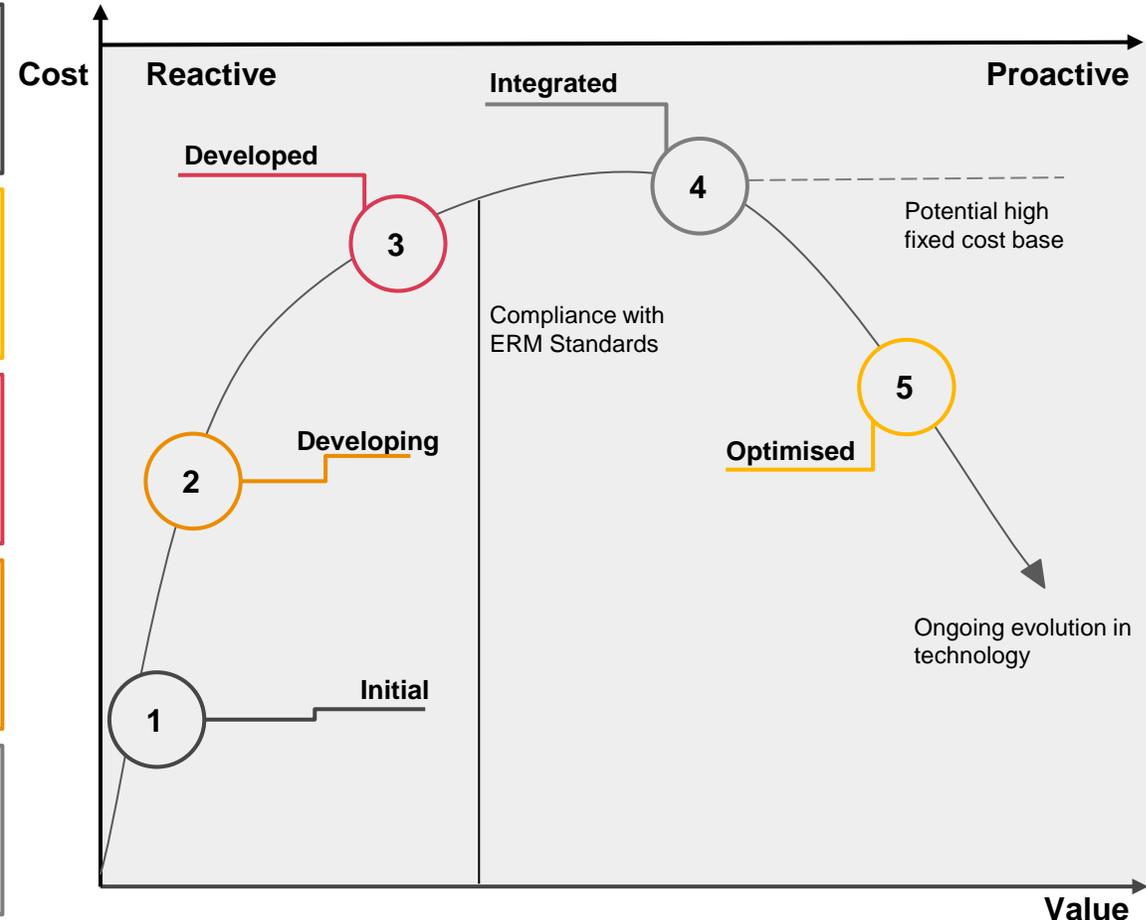
Robust ERM Frameworks also **Periodically Review, Refresh, and Ratify** these Risk Elements at different frequencies.

Robust ERM Frameworks helps align Base Obligations, mature the Base Risk Methodology, and enhance the Base Measures as the business landscape and market evolves

PwC ERM High level maturity model

A journey to implement risk management at your organization

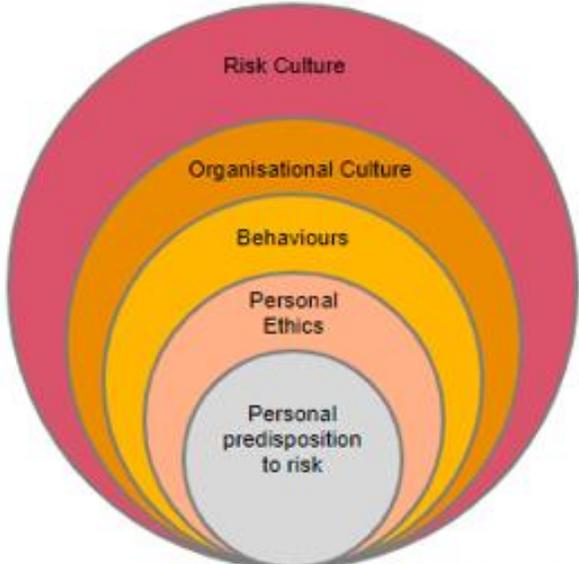
- 1 Initial** - Some Risk Management activities are in place, but processes are not formal and enterprise-wide. Significant improvements are required, this level of maturity is unlikely to be satisfactory to regulators or other stakeholders
- 2 Developing** - Risk Management criteria in place but not consistently applied. Risk management activities are not always holistic and are focused on control oversight. Stakeholders will expect focus remediation activities in priority areas.
- 3 Developed** - Risk Management Framework designed and broadly covers all components. Risk management processes and activities are not always communicated or embedded across the organisation. Stakeholders expect improvement opportunities to be addressed.
- 4 Integrated** - Risk Management Framework is well designed and the business strategy and culture is appropriately reflected. All the fundamentals are in place and they're fully embedded. Likely to withstand stakeholder scrutiny.
- 5 Optimised** - Risk Management frameworks and processes are fully embedded, value-adding and proactive. The Risk function anticipates and is responsive to change. The function makes use of effective business partnering, off or near-shore delivery models and a drawdown pool of specialist resource. Efficiency benefits are realised while remaining ahead of stakeholder expectations.



Introduction to Risk Culture

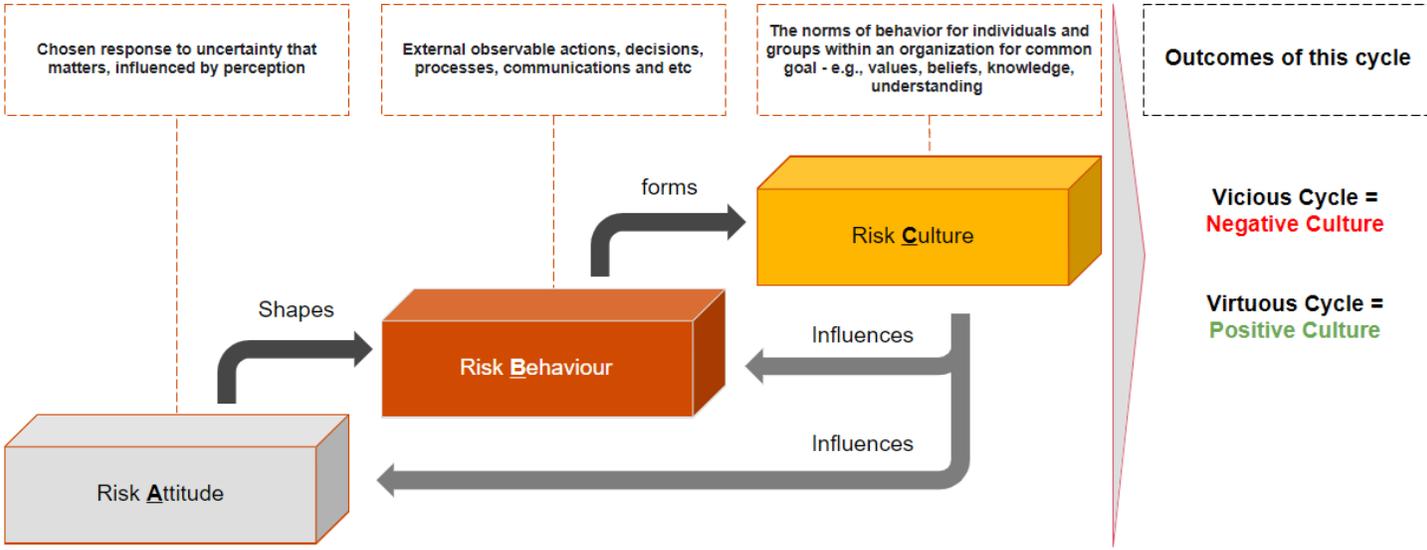
Definition of culture and conduct risks:

- The **Institute of Risk Management (IRM)** defines **Risk Culture** as the values, beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose. This applies to all organisations - including private companies, public bodies, governments and not-for-profit.



Source: Institute of Risk Management (IRM)

The A-B-C building blocks



Risk Culture is not being “Risk Averse” or “Risk Seeking” (these are CHOICES) or “the way we do things” (this is BEHAVIOUR).

An Overview of Risk Culture

Additionally, Culture is currently top of mind for senior management and its viewed as a critical risk area for companies to focus more on in order to execute their strategy, meet business objectives and manage their people and people related risks

Asia Pacific CEOs see key challenges in their people experience and culture



Only 41% believe current employee behaviours are mostly aligned to company values and direction.



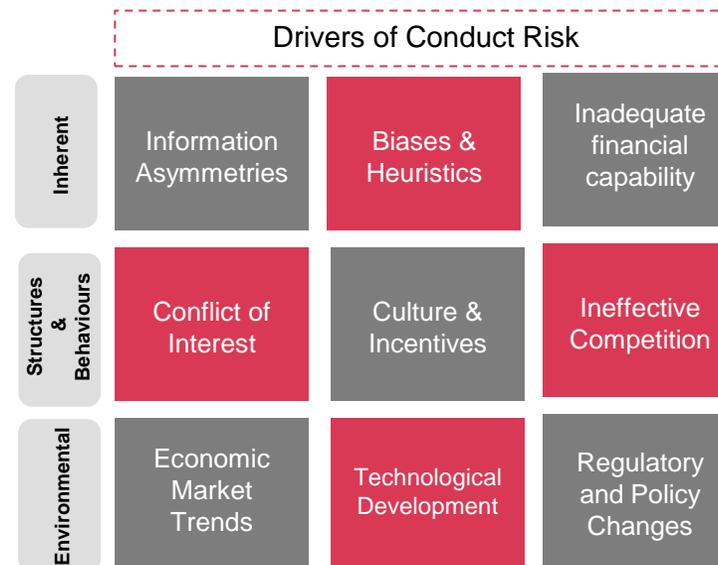
About half do not often encourage debate or dissent, nor do they tolerate small-scale failures.



73% do not often make independent strategic decisions for their function or division.

Source: PwC: Engage with Clients: Challenges faced by CEOs across Asia-Pacific January 2023

Conduct Risk arises from actions of an organisation or an individual that leads to adverse effect on market integrity, stability and customer relations



Source: Financial Conduct Authority (FCA)

Culture is what people do repeatedly when no one is watching, i.e., in absence of controls to help guide individual or group decision making



Q: Who is responsible? A: Everyone is!

Board of Directors

- **Oversee** if the organisation's Culture **aligns with its Risk Appetite** when making a **decision**

Management / Supervisors

- **Define** and **develop** Risk Appetite and Strategy
- **Translate** expected behavior into **Key Reinforcers**, enablement, enforcement, deterrence, and reward
- **Monitor** behavior using Key Risk Indicators (KRIs)
- **Communicate** and **update** accordingly

Business Units / Functions

- Perform business processes and make **decisions guided by** the organisation's **Risk Appetite**
- **Manage** risk levels to remain within boundaries
- **Escalate** concerns / questions to management

Heightened importance of Risk Culture

How does your people strategy differentiate you and tie in with your overall business, operational, and compliance strategy?



Core Competencies of Culture Management

Six different components that make up Culture Management



Key takeaways

It's about time to rethink about your risk management

- **Link risk management into strategy.**
- **Focus on the things that matter.**
- **Speed** of escalation in anticipating and mitigating risks.
- Transforming disparate **data** into meaningful information. Use data to help ensure risk system is dynamic.
- Start with a **deeper assessment of risk and reward** across your organization.
- **Communicate** with relevant stakeholders.
- Build a **productive risk culture**.





Q&A



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