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Optimizing Enterprise Risk Reporting: A Roadmap for Risk and Compliance Executives

By Laura Huntley and Brendan Mulvey



In the current banking landscape, where regulatory scrutiny and operational complexities are ever-increasing, enterprise risk reporting has become a critical component of a bank's risk management framework. Chief Risk Officers (CROs), Chief Compliance Officers (CCOs), and other risk executives and teams face the daunting task of aggregating data from disparate sources, aligning it with the bank's risk profile and appetite, and presenting it in a coherent manner that satisfies both regulatory requirements and the needs of senior management.

Given the breadth and complexity of this task, responsibility for effective risk reporting must be shared across all functions of the bank. For example, when it comes to complaints reporting, every department has a stake—compliance must assess regulatory risks, operational teams monitor process breakdowns, and reputational risk teams evaluate potential damage to the bank's public image. This collaborative

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approach is needed to ensure that every aspect of complaints, and their related risks, is measured, monitored, and reported effectively, creating a comprehensive view for senior management and regulators.

The challenge is clear: How can banks develop a reporting framework that not only meets these demands but also enhances their ability to respond to emerging risks in near real-time? The answer lies in a comprehensive strategy that addresses the core challenges of data quality and availability, efficiently synthesizes vast amounts of information into actionable insights, and establishes sustainable processes that prioritize determining the best courses of action over merely compiling reports. Such a strategy supports the creation of a dynamic risk reporting system—one that is driven by timely, reliable, and accessible data and offers an accurate, forward-looking view of the bank's risk profile.

Understanding the Current Landscape

Banks today operate in a highly complex environment, with multiple product lines generating vast amounts of data. This data, while rich in insights, is often siloed within different business units, making it difficult to aggregate and analyze effectively at the enterprise level. Compounding this issue, many banks continue to rely on legacy systems and technologies that were implemented without full consideration for evolving risk measurement and reporting needs. Over time, processes have often been patched with workarounds, breaking audit trails and hindering the ability to consistently aggregate and analyze data across the organization. These fragmented systems create blind spots in risk reporting, adding to the complexity of aligning reporting with the bank's overall risk profile and appetite, particularly considering that each product line may have different risk exposures and compliance requirements.

Many existing reporting frameworks are also static and retrospective, relying on periodic snapshots of data captured at fixed intervals, such as monthly or quarterly. These reports provide a historical view rather than reflecting real-time conditions, limiting the bank's ability to respond quickly to new and emerging risks. As a result, decision-makers are often forced to rely on outdated information, reducing the agility and responsiveness that regulators and senior management increasingly demand.

Furthermore, static reporting often involves manual data collection and aggregation, leading to delays and potential inaccuracies. This approach can make it difficult to balance leading indicators (which predict future risks) with lagging indicators (which reflect past performance), further complicating the bank's ability to maintain an accurate and responsive risk assessment in real-time.

The Need for Dynamic Risk Reporting

Dynamic risk reporting is a forward-looking approach that invests in real or near real-time data quality controls, ensures data is readily available to risk and compliance functions, and leverages advanced analytics to provide continuous oversight of the

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bank's risk and compliance landscape. By integrating key risk indicators (KRIs) and key performance indicators (KPIs) into the reporting framework, banks can monitor compliance in a way that is aligned with their risk appetite and then adjust strategies as new risks emerge.

That said, it is essential to ensure that KRIs and KPIs are viewed within the broader context of overall performance and risk appetite. For instance, if one compliance measure breaches its threshold while other indicators remain within acceptable levels, this does not automatically mean the bank's overall risk appetite has been breached. Risk appetite is an aggregate measure, and no single risk measure can fully represent the total risk posture. While banks may not yet have the capability to measure every intra-period fluctuation in real time, the goal is to begin building systems that can capture these insights more accurately over time. This underscores the need for systems that provide accurate, up-to-date data, allowing risk and compliance teams to monitor performance without overreacting to isolated fluctuations. Moreover, as banks work toward improving data availability and accuracy, they should focus on processes that support a balanced assessment of risk across the full reporting period. For example, intra-period breaches should be assessed within the broader context of whether the overall risk appetite remains within tolerance at the end of the period being measured.

Key to this approach is establishing a centralized data repository or appropriate integration to a central tool or utility (e.g., via application programming interfaces, or APIs) to allow for seamless integration of data from various business lines. This not only improves the accuracy and consistency of compliance reports but also enables the bank to respond to potential compliance issues before they escalate into regulatory concerns. Moreover, dynamic risk reporting should ensure comprehensive coverage across all risk areas, offering insights that are both deep and broad. By moving beyond traditional static reporting, this approach equips the bank with the tools to adapt swiftly to changing conditions, ensuring that both emerging risks and historical performance are considered in a unified, coherent strategy.

A Roadmap to Optimizing Enterprise Risk Reporting

Optimizing enterprise risk reporting involves the following, interconnected steps: centralize data, align reporting with risk appetite, apply data analytics, automate reporting, and engage bank leadership.

Step 1: Establish a Centralized Data Repository

The first step in optimizing enterprise risk reporting is to centralize data from across the organization. Governance, risk, and compliance (GRC) platforms can serve as the backbone for this centralization. The key is to figure out how to best leverage these existing tools to aggregate data from different systems, ensuring that the data is consistent, reliable, and accessible.

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In many cases, this involves enhancing the integration capabilities of GRC tools to pull data from various business lines, operational systems, and other relevant sources. One effective strategy is using a "data lake" managed by a dedicated data governance team to store large volumes of structured and unstructured data in its raw form, making it easier to aggregate, normalize, and analyze across the organization.

By utilizing a data lake in conjunction with GRC platforms, banks can achieve a more comprehensive and flexible data repository. This setup not only facilitates accurate and consistent risk reporting but also serves as the foundation for real-time monitoring and advanced analytics. Seamless integration of this repository with existing risk management solutions is critical to achieving a holistic view of the bank's compliance landscape, ensuring comprehensive coverage across all risk areas.

Step 2: Align Risk Reporting with Risk Appetite

Aligning risk reporting with the bank's risk appetite is essential for ensuring that risk management practices reflect established guidelines. The process starts by using the existing risk appetite statement as the foundation for setting risk appetite thresholds, measures, and underlying KRIs. However, while KRIs are critical for monitoring specific risks, they do not always directly align with risk appetite measures. Risk appetite reflects the bank's overall tolerance for risk at various levels, the bank's adherence to which is based on generally aggregated measures approved by the bank's board, whereas KRIs may focus on more granular, operational metrics that offer early warnings. Therefore, it is crucial to ensure that KRIs support, but do not overburden, the broader risk appetite framework.

Risk appetite metrics and KRIs should be structured into a hierarchy, where more granular metrics at the business or operational level provide early warnings of potential issues, while higher-level metrics, aligned with the risk appetite, are designed to capture aggregated or thematic risks. For example, a lower-level metric might track the percentage of compliance tasks completed ahead of schedule, while a higher-level risk appetite metric may monitor the overall compliance performance across the bank. A breach at the lower level should alert teams to take action, reducing the likelihood of breaches at higher levels. This approach prevents a scenario where the top-level risk appetite shows an issue without lower-level indicators reflecting problems, and vice versa, ensuring consistency across the reporting hierarchy.

Once these thresholds and KRIs are defined, they must be seamlessly integrated into the bank's automated monitoring systems. These systems should continuously track relevant risk metrics against the established thresholds, generating alerts when thresholds are approached or breached. A nuanced, weighted approach should be used to assess the significance of each breach within the broader context of the bank's risk appetite. For example, if one risk appetite measure breaches its threshold while others remain within tolerance, it does not necessarily mean the overall risk appetite

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has been breached. The goal is to create a system where risk metrics at lower levels can be acted upon early, preventing escalations that would affect enterprise-wide risk appetite.

Regular reviews and ongoing calibration of these thresholds and KRIs are essential to maintain their relevance and alignment with the bank's risk appetite. This process involves adjusting thresholds as necessary based on new data, regulatory changes, or shifts in the bank's strategic objectives. Establishing feedback loops with business units and senior management ensures that risk reporting remains practical, effective, and closely tied to the bank's operational realities. By structuring metrics into a hierarchy that correlates risk appetite measures with granular KRIs, the bank can monitor risks effectively and ensure that early warning signs are acted upon before they escalate into enterprise-wide concerns.

Step 3: Implement Advanced Analytics for Real-Time Monitoring

Implementing advanced analytics for real-time monitoring is a transformative step in enhancing the risk reporting framework. Technologies such as artificial intelligence, predictive modeling, business intelligence, and process and data mining capabilities, in isolation or combined, enable banks to move beyond traditional, retrospective risk management approaches by continuously analyzing vast amounts of data. These tools can detect patterns, correlations, and anomalies that may not be apparent through manual processes, allowing banks to identify potential compliance risks, like money laundering or fraud, long before they would be flagged by conventional methods.

The predictive capabilities of advanced analytics are particularly valuable, as they enable banks to anticipate and mitigate risks before they materialize. By using historical data to forecast potential future events, predictive modeling allows compliance teams to focus on the most likely areas of concern. This proactive approach is further strengthened by scenario analysis and stress testing, which assess the potential impact of various risk scenarios on the bank's compliance status, helping to identify vulnerabilities and prepare contingency plans.

To fully leverage the power of advanced analytics, it's essential to integrate these insights into a broader risk management strategy that reflects both immediate threats and long-term objectives. While leading indicators provide early warnings of emerging risks, they must be contextualized within the broader framework of the bank's historical performance and strategic goals. This means not just reacting to predictive signals, but continuously refining and validating these insights against actual outcomes (lagging indicators) to improve future predictions. By doing so, banks can create a dynamic feedback loop where predictive models are constantly adjusted based on real-world results, leading to increasingly accurate risk assessments and more resilient compliance strategies. This integrated approach ensures that the bank's risk management framework is both forward-looking and deeply informed by historical context, enabling a more comprehensive and balanced approach to managing risk.

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Step 4: Automate Reporting Processes

Automating the risk reporting process is essential for modernizing a bank's risk management framework. Traditionally, risk reporting has been manual, time-consuming, and prone to errors. By automating the collection, analysis, and presentation of compliance data, banks can significantly reduce the operational burden on their compliance teams. This ensures that data is consistently gathered from various sources, processed in real-time, and presented in a standardized format, resulting in reports that are both timely and reliable. Additionally, automation reduces compliance costs by streamlining processes that address heightened standards for risk data aggregation and reporting requirements, while also minimizing scrutiny around the accuracy of reported data.

Beyond improving efficiency, automation allows compliance teams to focus on higher-value activities, such as interpreting data, identifying emerging risks, and developing strategic responses. Automated systems can quickly flag potential issues, enabling compliance officers to spend more time on analysis rather than manual report generation. This shift enhances the overall effectiveness of the compliance function and promotes a more proactive approach to risk management.

Moreover, automation can be tailored to handle complex scenarios, such as managing in-month breaches that are reconciled by month-end without unnecessary escalations. By applying logic that distinguishes between temporary fluctuations and significant breaches, automation ensures that escalation processes are reserved for genuine risks. This refined approach supports a balanced and nuanced compliance management strategy, providing senior management with timely, actionable insights that strengthen the bank's governance and oversight functions.

Step 5: Engage Senior Management and the Board

Engaging senior management and the board is an integral step in the risk reporting process, ensuring that insights from data analysis are translated into informed, strategic decisions. Effective communication with these stakeholders requires crafting reports that are both informative and actionable. Compliance reports should provide a clear summary of the current compliance status, highlighting areas of concern and potential risks. This clarity helps senior management and the board quickly grasp the state of compliance and make decisions that align with the bank's overall risk management strategy.

In addition to summarizing the compliance status, it's essential to offer insights into emerging risks and recommend actions. By identifying trends and potential issues before they materialize, compliance teams can help the bank maintain a proactive approach to risk management. Recommendations should be specific, actionable, and aligned with the bank's risk appetite, ensuring they support broader strategic goals.

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The future of risk reporting in the banking industry will be shaped by advances in technology and data analytics.

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Establishing a feedback loop with senior management is key to keeping the risk reporting process dynamic and responsive. This ongoing dialogue ensures that reports evolve to meet the changing needs of the organization, incorporating insights from senior management and adjusting to new priorities or emerging risks. Integrating KRIs and KPIs into these reports enhances discussions around risk tolerance and strategic decision-making, ultimately supporting the organization's long-term success.

Regulatory Expectations and the Future of Risk Reporting

As regulators increasingly focus on the effectiveness of banks' compliance frameworks, dynamic risk reporting will become a key area of scrutiny. Banks that adopt a proactive approach to risk reporting—one that is supported by real-time data, advanced analytics, and centralized data feeds—will be better positioned to meet regulatory expectations and maintain a strong compliance posture.

Looking ahead, the future of risk reporting in the banking industry will be shaped by advances in technology and data analytics. Improvements in data quality, availability, and accessibility will play a pivotal role in ensuring that risk reporting is not only accurate but also timely and actionable. As banks continue to digitalize their operations, the ability to monitor compliance in real-time and adjust strategies in response to emerging risks will become a critical competitive advantage. These advancements will help banks maintain consistent oversight while reducing the operational burden on compliance teams and ensuring that data is readily available for decision-making and regulatory review.

Conclusion

Optimizing enterprise risk reporting is not just about meeting regulatory requirements; it is about enhancing the bank's ability to manage risks effectively and supporting strategic decision-making at the highest levels. By adopting a dynamic, data-driven approach to risk reporting, banks can ensure that they remain agile and resilient in an increasingly complex and uncertain environment.

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