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# Risk management by design

A customer-centric and  
relationship-driven approach  
to building trust

Within financial services, risk management is rarely thought of in terms of its impact on business transformation programs or on customer experience and engagement. But in highly dynamic and competitive markets, every part of the business — including risk management — must be viewed in terms of its ability to drive change, generate value and satisfy rising customer expectations.

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That's especially true in the realm of digital experiences and new product offerings, where risk management teams can help increase trust to build stronger customer relationships.

Risk management functions are certainly included in these new imperatives, even if the primary objective continues to be protecting the organization against a broad array of proliferating risks, including new and emerging risks. But risk management tactics can't add friction, slow processes or inhibit innovation. Rather, they must add value for customers, not just check the box on compliance. It's a fine balance to strike.

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As organizations transform their business models in response to tech-driven disruption and changing customer expectations, risk management functions must also reconfigure their approach and capabilities.

Amy Gennarini  
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That's why forward-looking financial services firms have turned to "risk management by design" – a fresh and customer-centric approach that embeds risk intelligence deeply into a range of critical customer-facing interactions across the customer journey, rather than orienting around traditional risk management processes. The idea is that advanced risk intelligence actually streamlines and enhances key touchpoints, such as opening accounts or applying for mortgage loans. It's the difference between being an enabler and being a roadblock.

The forces reshaping the financial services industry demand new thinking and approaches from risk management in **"Five actions to achieve adaptive risk management."**

At the same time, risk assessments and decisions take into account "upside risk" factors, such as future revenue streams and the lifetime relationship value of the customer. From an operational perspective, the goals are to identify risks sooner, design controls to support long-term monitoring and embed controls directly into infrastructure. Risk management decisioning should aim to maximize upside risk and minimize downside risk.

By enabling business transformation through agile practices, risk functions can help companies make decisions quicker and actually improve effectiveness and efficiency to keep up with – and even stay ahead of – customer expectations. For instance, more intelligent approaches to know-your-customer (KYC) checks can lead to customers being approved and onboarded more quickly. That helps the business (by satisfying customers and streamlining compliance) and protects the brand (by meeting regulatory requirements and avoiding high-risk customers).

The same principles apply to innovation cycles. Financial services firms need to move more quickly in driving change without increasing risk exposures. By embedding risk management into new product development, for instance, they can design offerings with known risks in mind, shorten review and approval timelines, and ultimately get products into market sooner. Plus, products should be designed with long-term monitoring in mind.

This article is part of a collection of insights about **trust by design**.

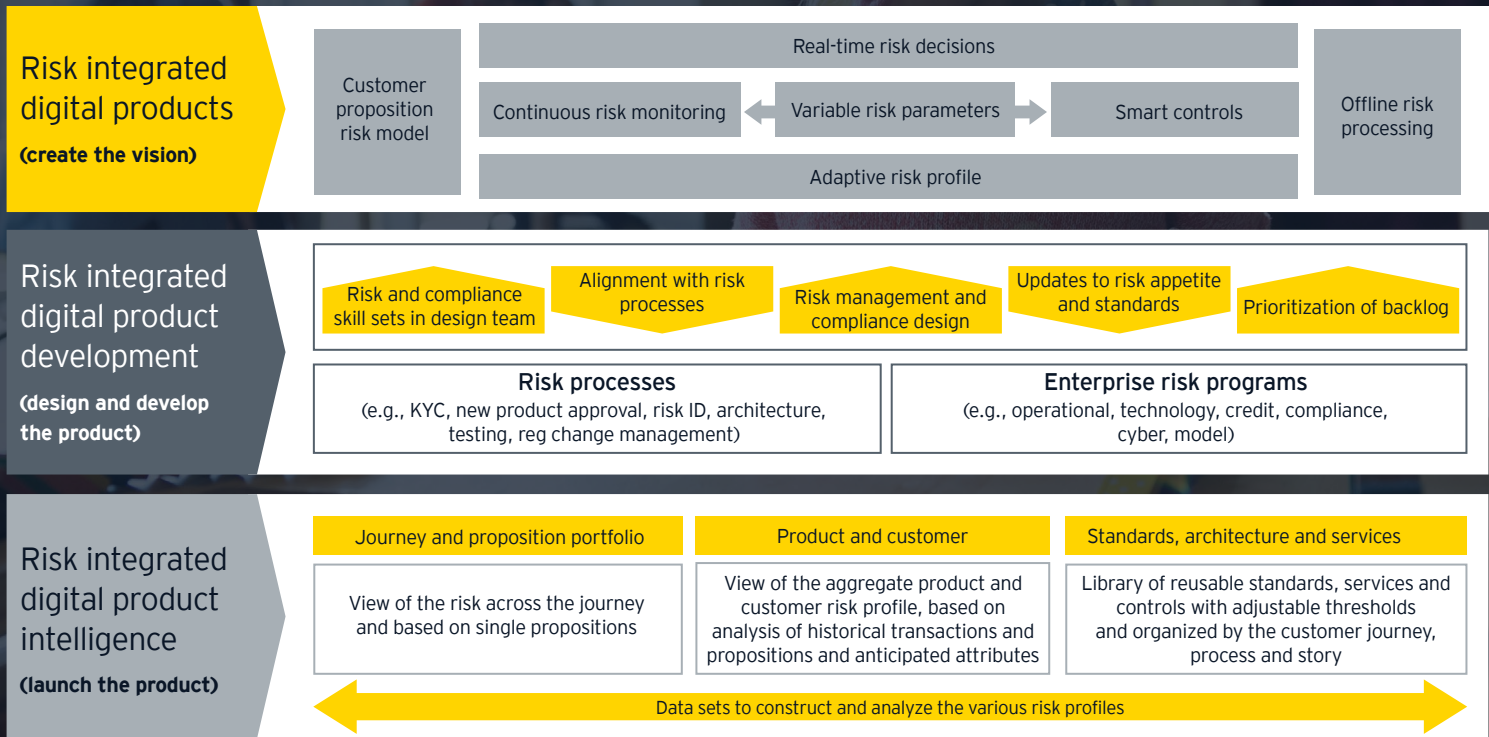
# Risk management by design

## FRAMEWORK

Risk management by design (RMBD) involves embedding risk management into the product development life cycle, resulting in accelerated risk identification, improved control definition and products that are designed to be monitored over the long term.

**Product teams should collaborate with risk partners during initial product design to:**

- ▶ Identify a broader set of attributes and aspects of client behaviors that impact key risk considerations
- ▶ Design and implement mechanisms that establish “guardrails” or controls to mitigate risk
- ▶ Implement data-driven activities to observe client behaviors and process execution in real time to monitor risks and identify new risks or necessary enhancements



# Deploying risk management by design



So how does it work? Involving risk teams early and often is key so they can gain a clear and comprehensive understanding of all customer touchpoints. For instance, they should engage in every phase of the product development process (e.g., mortgage origination) to ensure risk intelligence is embedded appropriately at every touchpoint and interaction.

## **Specifically, risk teams should be involved in the following steps:**

### **Decompose customer journeys**

The goal here is to understand all of the relevant capabilities, user stories, processes and services so that key attributes can be linked to a supporting data platform, such as governance, risk and compliance (GRC) and release management tools.

### **Identify existing risk events**

Risk teams can leverage decomposed customer journeys and risk attributes to extract existing risks from the risk library, as well as create new risk events.

### **Identify new and emerging risks**

GRC and release management tools enable the identification of new and emerging risks, as do continuous reviews of user stories, key capabilities, processes and relevant services. Ultimately, these can be integrated into an enhanced data model, with the goal that both the business and risk management functions use the same data.

### **Assess risk reduction and acceptance**

The next step is to assess projected risk exposures in light of the firm's established risk tolerances and thresholds. Product teams can then assess the appropriate treatment – such as designing and implementing controls and product mechanisms, or “guardrails,” to mitigate the risks or redesigning the process to avoid specific risks.

### **Capture risk profile**

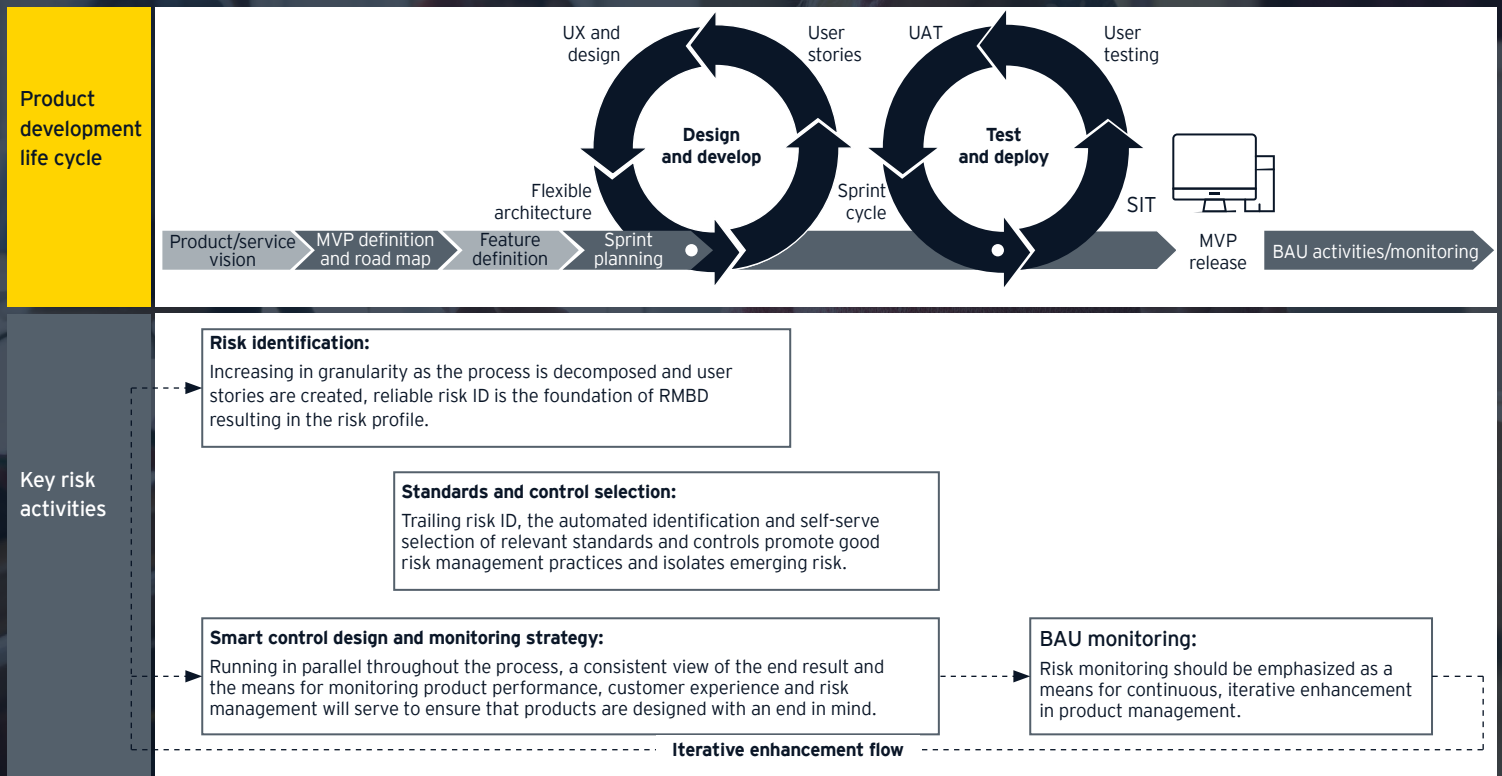
Lastly, risk teams can collate risk profiles for review, based on the decomposed journeys, the identified risk events and the related risk attributes.

# Risk management by design

## IN DIGITAL PRODUCT DEVELOPMENT

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Monitoring new processes once they become “business as usual” informs future design and change initiatives by identifying new risks and adjusting controls as necessary. Similarly, real-time observation and monitoring of customer behaviors and process performance can help identify new risks or necessary enhancements. A smart controls framework integrates active monitoring and automated controls for new digital products and real-time experiences, with linkages back to the services library. These controls can use live reference data to evaluate and control emerging risks.

As data linkages are refreshed over time, the risk-enabled product development process gets more efficient and intelligent. The controls library will become more consistent with greater opportunity for reuse. Over time, harnessing better data and applying advanced analytics will enable better monitoring of customer profiles, improved responsiveness to current needs and clearer visibility into future needs.

## The long-term goal of risk management by design – and four imperatives for achieving it

The path to greater risk intelligence in customer journeys is best taken via a phased approach that progresses along a series of maturity milestones – from proof of viability to advanced self-service models. There are many potential starting points in making the progression toward full maturity. Some firms may start with data and technology, but other organizations may be better served in addressing top-down people and cultural factors.

Firms starting with data mapping will manually link risk and control taxonomies to decomposed journeys and the business architecture. The second line of defense can assist the first line with manual data linkages for pilot products. Over time, these processes become repeatable with risks and controls embedded directly into data models and product management tools, and with users able to see risks and controls by feature or user story.

Firms starting with people and organizational factors may seek to address issues related to the operating model, establish training programs, look for new types of skills and talent, define an overarching strategy, or seek to shift the culture relative to risk’s relationship to product development and customer experiences.

The path to maturity isn’t an “either-or” proposition when it comes to data vs. people. Rather, financial services firms must strike the right balance. For instance, a more data-driven approach and well-defined linkages between taxonomies, plus the right talent, may enable risk management teams to make better decisions.

### **Throughout their evolution, financial services firms will seek to establish a set of integrated risk solutions, including:**

- Maintenance of relationships between business and product architecture and risk taxonomy
- Front-end self-service product risk management tools to enable business and risk teams to confirm and create such relationships
- Control microservices libraries for reuse in user stories
- Machine learning algorithms to recommend additional relationships

Ultimately, risk management by design can help create an advanced and efficient self-service model, based on access to sophisticated tool sets, that puts real risk management power in the hands of product and change teams that serve as the first line of defense. When machine learning is applied to integrated data sets, control recommendations for specific products can happen automatically. Control updates will be instantly reflected in code libraries as microservices, automating what has long been a largely manual process.

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Risk management will be essential to establishing the guidelines within which product teams must operate in self-service models; if they go outside of those guidelines, risk teams may be involved in approval processes. In addition, they will continue to provide an important, independent challenge function.

Whichever specific path that firms choose for the evolution into maturity, we believe financial services firms must embrace four key imperatives to effectively and efficiently manage the risk of change initiatives and product development. These steps, which are necessary to instill risk management by design capabilities, are:

1. Enable the culture and operating model to embed risk management through every stage of the product development life cycle, from initial vision to ongoing monitoring.
2. Train risk professionals on product development and agile concepts, while training product teams on risk and controls concepts.
3. Design repeatable processes to identify risks and evaluate controls, with an eye to defining a long-term strategy for risk management's role and ability to focus on risk monitoring, especially relative to emerging risks.
4. Develop or leverage integrated and dynamic risk solutions (refer to the prior section for a full list) that increase transparency of risks and controls for products and enable self-service decision-making.



## Risk management and customer trust

The intersection of risk management and customers is ultimately about trust. Personalization and protection go hand in hand. Responding quickly and transparently – which requires clear policies and advance plans for breach response – is a variable in the trust equation.

As financial services firms think differently about their customer relationships and digital offerings, they must also think differently about risk management's role in designing, building and monitoring them. The business and customers alike stand to benefit when greater risk intelligence is built directly into products and across every step of the customer journey. ■

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