

Institute of Actuaries ERM 2010 - It's all about opportunity

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Determined to be different

LIQUIDITY RISK

Liquidity risk arises from the mismatch in the cash flows generated from current and expected assets, liabilities and derivatives. The Group's liquidity policy is to ensure that it is able to meet retail withdrawals, repay wholesale funds as they fall due, and meet current lending requirements. It also ensures that it meets FSA liquidity rules, which require the Group to be able to meet its sterling obligations without recourse to the wholesale money markets for a period of at least five business days – *31 December 2006*.



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CBA Risk Appetite Framework

Wealth Management Implementation

- Structure
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Background

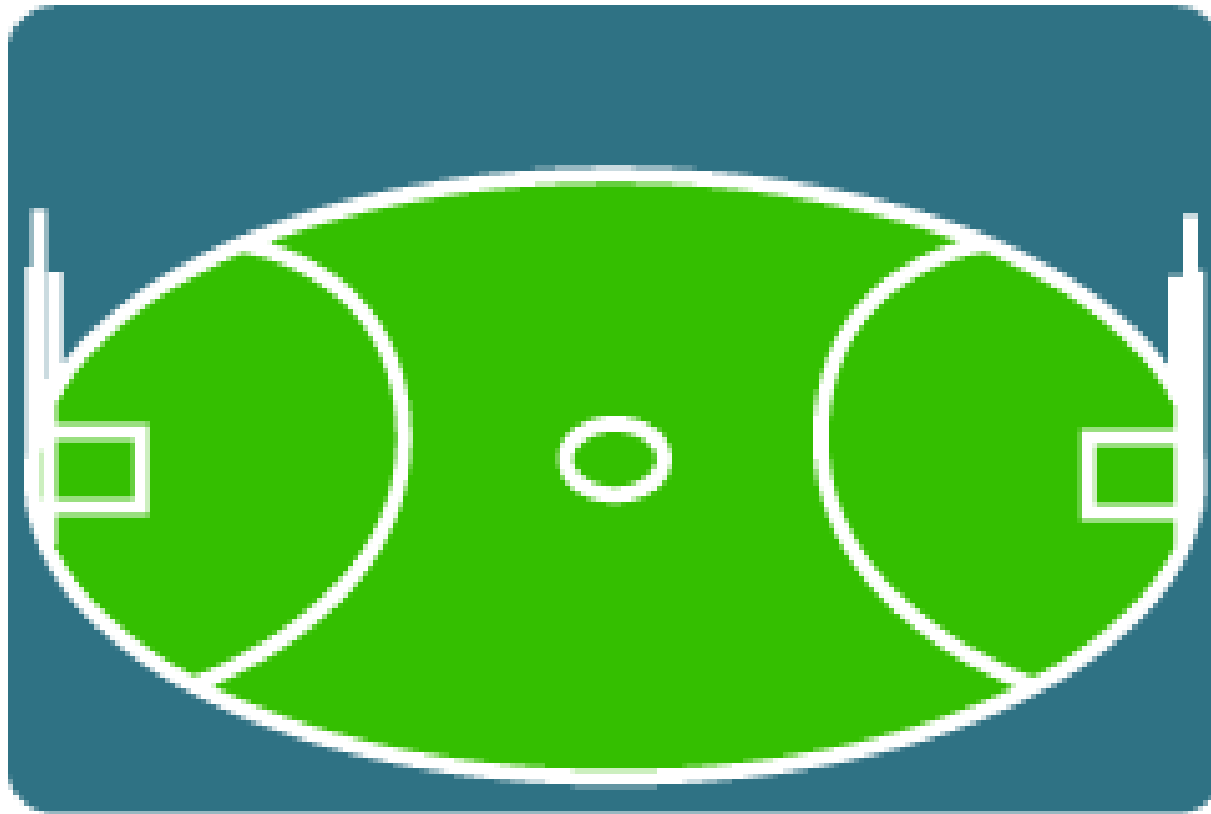
CBA Group Risk have introduced:

- a new Risk Appetite Framework for rollout by BU CRO's
- A comprehensive Risk Appetite Statement (RAS) providing requirements and guidance with respect to definitions, risk culture, boundaries and specific risk types

The CBA Board has approved the CBA RAS in August 2009

Business units have implemented BU-level and "Line of Business" RASs.

Risk Appetite – the Boundary Line



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Is this a Risk Appetite?

“We aim to have no more than 70% of our exposure to xyz”

“Our target is to have mortgage default rates that average at y percent”

“We seek to have operational losses that are not significantly misaligned with those of our peers”

Risk Appetite – Conceptual Definition

“The Risk Appetite of the Commonwealth Bank represents the **types and degree** of risk that the Group is **willing** to accept for its shareholders in its **strategic and business actions.**”

- A boundary on risk taking activities
- Quantitative and qualitative metrics
- Dynamic – reviewed with strategy

Four key components of the Risk Appetite Statement

Context

Conceptual definition of Risk Appetite

A simple, succinct statement of what we as an organisation mean by risk appetite

Risk Culture

A high level statement of intent with regard to risk; i.e., what we stand for in risk terms

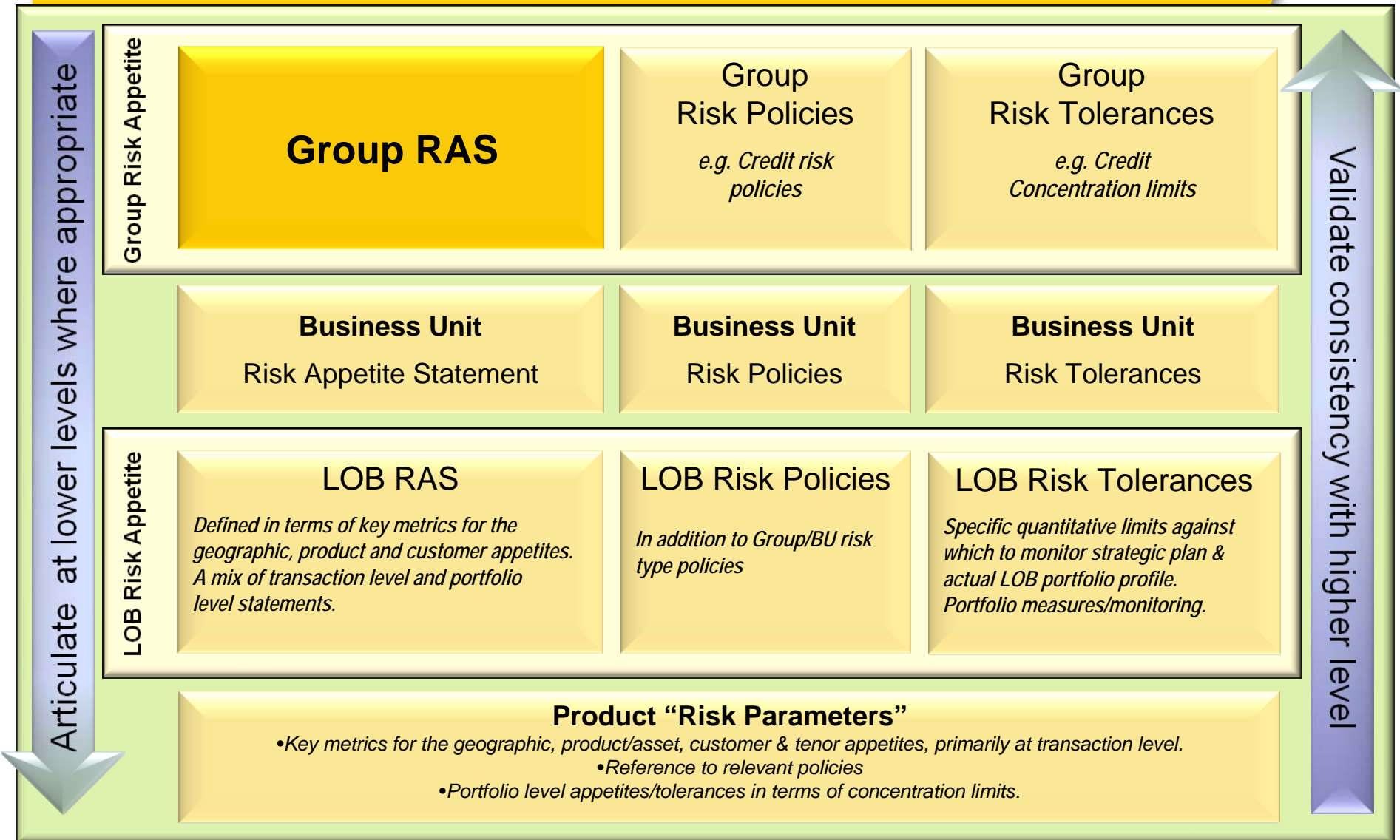
Risk Appetite Boundaries

More specific quantitative and qualitative elements that articulate to the business the boundaries of major risk drivers

Appetite for Specific Risk Types

Expressions on how particular risk types are controlled or managed and the acceptable relative levels of such risks

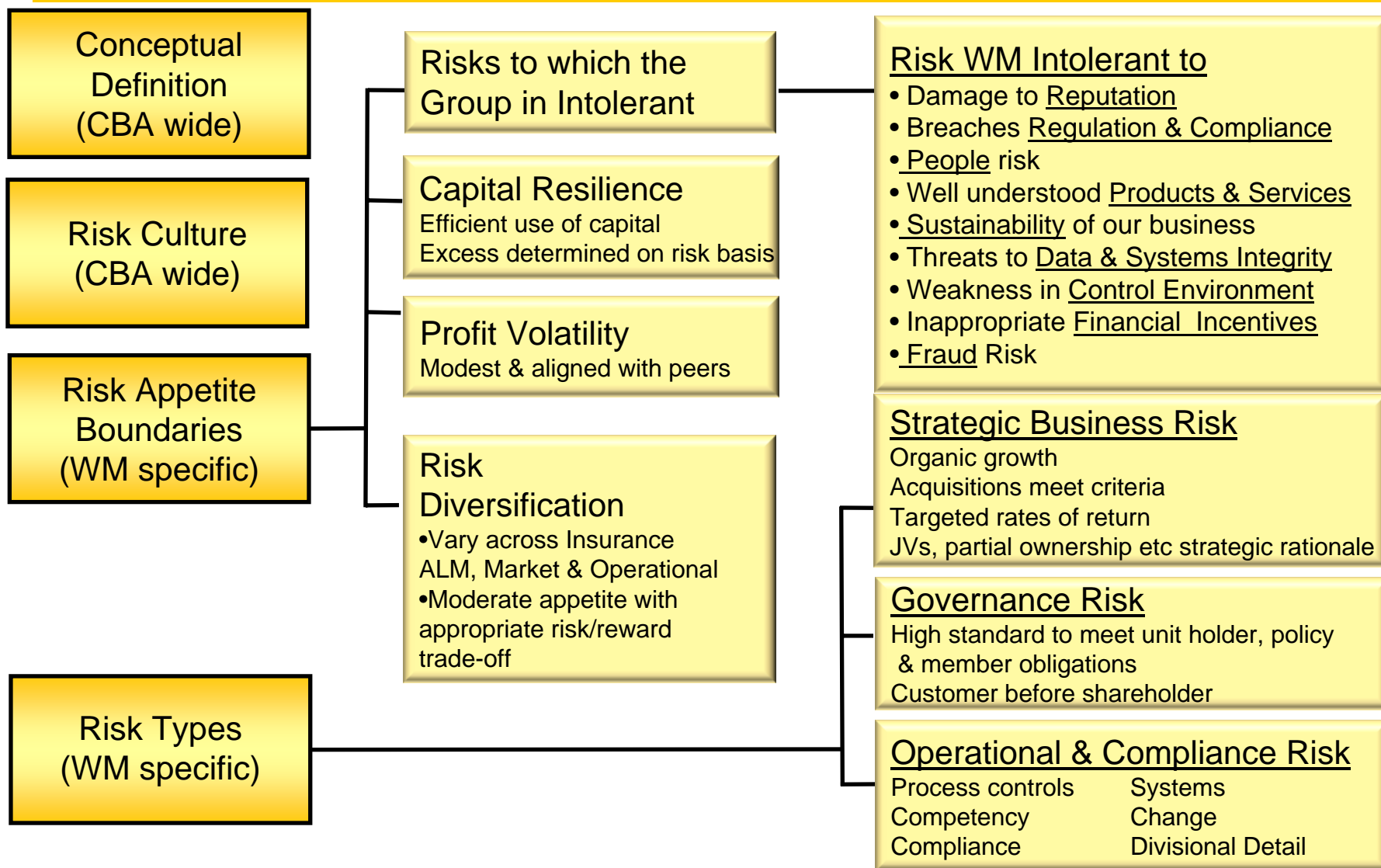
Cascading Group Risk Appetite



Wealth RAS Structure

Business Unit	Lines of Business (LoBs)
Wealth Management	Life Insurance (CMLA) General Insurance (CIL) Australian Funds Management (CFS) Global Funds Management (CFS GAM)

Risk Appetite Statement – Wealth Management



Wealth Implementation - Process

Workshop preparation, “question sets”

SME input

Executive-level workshops

Draft RAS – group format

Governance process – independent boards

LoB RAS approval

Wealth RAS sign off

Embedding Risk Appetite – INTEGRATION with...

Strategic Planning, both group-wide and
business unit

Governance calendar

Policies

Leadership messaging

- Face-to-face
- Mass communication e.g. intranet

HR agenda e.g. performance management
framework

Organisation-wide initiatives (piggy back) e.g.
customer service

Management reporting e.g. KRI dashboards



Learnings from the Process

Partnering with business “SME’s”

Planning e.g. question sets

Importance of workshop discussions

Right balance of metrics and principles

“Local colour”

A journey



Key Benefits

Facilitation of risk narrative

Reference point and guide for “Risk Culture” and family of risk initiatives and projects

Increased risk awareness beyond conceptual understanding

Rejuvenation of the risk “brand”

Improved relationships between risk and

- Businesses
- Other corporate/support functions

Stakeholder satisfaction

ERM 2010

- It's all about opportunity



Determined to be different

What has the lion's share of economic capital in my firm?...

