Aligned Assurance

Combining efforts of the three lines of defence at financial institutions

Combining forces: Embracing Aligned Assurance

Within financial institutions, a powerful approach known as Aligned Assurance is making waves in the world of risk management. Aligned Assurance is the practice of organizing and coordinating risk monitoring, reporting, and assurance processes across the functional boundaries of the 3 lines of defence (3LoD). Its primary objective is to establish a more interconnected and thorough approach for identifying, evaluating, and managing risks across the organization. This is driven by the recognition that risk management is a collective priority shared among the three lines of defence: the business, the risk and compliance function, and internal audit.

This is as true for financial institutions as it is for any other business. But whilst fortifying those lines of defence with the right people, processes, and technologies makes for a robust risk management foundation, we believe a more interconnected and coordinated approach is necessary to align with the modern and complex risk environment. This is where the compelling case for Aligned Assurance becomes clear.

As the name implies, Aligned Assurance is the practice of coordinating risk monitoring, reporting, and mitigation activities across the 3LoD framework, which provides more risk assurance across the organization.

Done right, Aligned Assurance strengthens the 3LoD framework. This leads to considerable benefits such as stronger coordination between risk management functions, clearer roles and responsibilities, the reduced potential for risks to be overlooked, and a more informed approach to risk management resource allocation. Moreover, we find that clients who embrace the concept of Aligned Assurance enjoy elevated leadership confidence due to enhanced reporting quality and consistency.

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Granted, these are the benefits that any organization can look forward to through an Aligned Assurance approach. From our extensive work with financial institutions, we have also observed that this strategy generates specific advantages in the financial field, such as:

Stronger regulatory compliance oversight

Under the Aligned Assurance models, stakeholders across all 3LoD work to ensure their institution meets regulatory requirements. This is crucial for avoiding penalties and maintaining the confidence of stakeholders.

Holistic risk management approach

A united approach to identifying, assessing, and managing risks in all corners of an organization ensures all bases are covered. This is especially important in large financial institutions whose teams across the three lines can be large and potentially siloed.

Enhanced organizational communication

Aligned Assurance creates a culture of collaboration and partnership across different teams responsible for risk management, leading to more consistent and timely communications between all stakeholders.

Improved customer trust

Financial institutions strengthen their customers' trust and industry reputations by demonstrating their commitment to risk management and regulatory compliance.

Where alignment goes astray

It is easy to call for alignment between an organization's risk management functions. In the financial sector, however, there are often barriers to achieving this cohesion. In some cases, teams may already be efficient in their own functions but working in silos, which may result in a misaligned operating model, where stakeholders make decisions without a clear understanding of the potential resulting risk. In other cases, it can stem from inadequate risk reporting practices or a lack of clarity around risk management roles, responsibilities, and practices. On a broader scale, the vision of a more aligned risk management strategy is held back by conflicting risk management priorities and goals.

These obstacles may seem imposing at first, but our experience is that each can be overcome to clear a path for Aligned Assurance.

KPMG's Four pillars of Aligned Assurance

There are tangible advantages to bolstering a 3LoD framework with Aligned Assurance capabilities. And in supporting our clients, KPMG has developed a four-pillar approach to accelerate the Aligned Assurance transformation:

- ***Overarching risk management framework:*** For Aligned Assurance to take root, financial institutions need a common understanding of risk management practices across the 3LoD. Moreover, organizations need to land on the risk oversight activities, roles, and guidelines they will need to employ whenever new risks are added to the Framework.

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- ***3LoD collaboration:*** Aligned Assurance thrives on the collaboration between all 3LoD, as well as a commitment from stakeholders within each line to follow a consistent risk management framework in which risk management activities are supported by the correct function, and their challenges and requirements are understood.
- ***Streamlined risk management activities:*** It is important that duplicated efforts are addressed and that only the necessary risk information is collected from each line of defence. Additionally, steps should be taken to avoid assurance fatigue in questionnaires, assessments, and audits by recognizing and addressing overlapping scope (e.g., IT, Cyber, Privacy, Operational Risk etc.).
- ***Strategic and intentional risk reporting:*** For optimal efficiency, it is key for Risk Management and Assurance functions to coordinate on the timing, content, and delivery of reports so that each tells a cohesive story. It also helps that each report is thoughtfully and deliberately created and timed with similar reports.

Putting the pillars into action

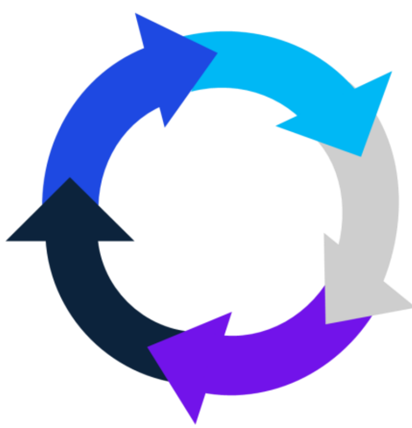
Five steps have proven effective in helping our financial services clients begin their Aligned Assurance journey.

1

The first move is to **determine the scope** of your risk management function.

2

The second step is **to build (or strengthen) trust** between all the above-mentioned people and teams entrusted to carry out assurance activities.



3

With that trust established, it is time to **identify crossovers, redundancies, and gaps** within the existing risk management approach and strategize solutions.

4

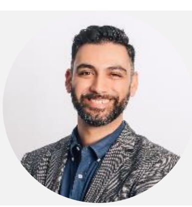
Once these issues are identified, we can confidently **build Aligned Assurance processes** that overcome these obstacles.

5

The final move is to **operationalize the plan**. Hitting "start" on your Aligned Assurance strategy requires an implementation roadmap with timelines, milestones, and roles and responsibilities around each process you aim to adopt.

Organizations thrive when teams are aligned. This is particularly true when it comes to risk management. From experience, we know how pursuing Aligned Assurance in the financial sector can form a united front against modern threats and help everyone sleep a bit easier. If you are ready to start breaking down the silos and want to build aligned assurance processes across your functions, our team is prepared to work with you to help guide your organization through the required evolution.

Contact us:



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