Enterprise Risk Management (ERM) Framework

1. Introduction

1.1. The Context of the Central Bank of Seychelles (CBS)

The context of CBS is fast-changing amidst today’s dynamic environment. Despite the rise in global financial stability risks in recent times, no country, not even the economic giants could have been prepared for the ‘economic tsunami’ brought about by the COVID-19 pandemic, which first emerged in late 2019. The unprecedented health crisis caused by the unsettled virus has unfolded into a challenging economic environment for countries across the globe due to the heightened uncertainty and setbacks to growth and confidence. Other effects, such as scarcity of resources, increased commodity prices and much slower economic growth have kept risks elevated in emerging markets and in our local jurisdiction. These developments have tightened financial conditions, reduced risk appetite, raised credit risks and continue to threaten balance sheet stability.

As a workplace, CBS has had to adapt to the new reality and find safer and more productive ways to engage its workforce to continue to deliver on its functions with minimal impact/disruption to the conventional ways of working. Despite having the necessary framework in place, such as the work from home arrangement having been already instilled within the CBS culture for several years, these practices have been adapted and reinforced with the new normal environment requiring their application on a more permanent basis. These steps have ensured that CBS and its employees can adapt and remain resilient to the challenges and changes brought about by the COVID-19 pandemic. With the more remote means of ‘being in the office’ assisted with the appropriate technologies, resources and control mechanisms to mitigate cybersecurity risks, staff can continue with their duties and interact with colleagues and stakeholders within the virtual environment, mitigating the risk of exposure to the virus.

The current reality has showcased that there is no room for complacency. There is, today, a growing need for a broad-based policy response to promote financial stability. As advanced economies continue to deal with crisis legacy issues, CBS needs to bolster its resilience to global headwinds and adapt to current realities while maintaining a firm and prudent approach
to continue delivering on the Bank’s objectives. This Framework is intended to enable CBS as a regulator to take a more macroprudential approach to the sector.

1.2. The Risk Management Unit (RMU) at CBS

CBS remains committed to pursuing sustainable economic growth and development of Seychelles through domestic price stability, financial soundness and consumer protection and organisation strengthening. Risk management is key to the achievement of this overall mission. ERM is all about building risk management capabilities throughout CBS. The Bank will not focus on ERM as an end to itself but as a means to support the organisation’s objectives. The key issue, therefore, is how ERM will provide value to CBS.

RMU launched the ERM Framework in February 2016. The aim was to ensure that risk management becomes a bank-wide responsibility. This approach to risk management would enable the Bank to consider the potential impact of all types of risks on processes, activities, stakeholders, products and services.

This framework has been designed to assist RMU to effectively implement Risk Management processes through clear documentation that is consistent with the international standard - ISO 31000 ‘Risk Management – Principles and guidelines’. The global financial crisis in 2008 demonstrated the importance of adequate risk management and since then, new risk management standards have been developed, including the ISO 31000:2018.

2. Risk Management

Risk Management is a central part of any organisation’s strategic management. It is the process whereby organisations methodically address the risks attached to their processes with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

Risk Management should be a continuous and developing process which runs throughout the organisation’s strategy and the implementation of that strategy. It must be integrated into the culture of the organisation with an effective policy and programme led by the most senior management. It must translate the strategy into tactical and operational objectives, assigning responsibility throughout the organisation with each manager and employee responsible for the management of risks as part of their everyday responsibilities. It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.
3. ISO Risk Management Framework

Enterprise Risk Management (ERM) is equivalent to the International Organisation for Standardisation (ISO) definition of “risk management framework.” The ISO definition of a risk management framework, and thus an ERM framework is:

‘a set of components that provide the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization’ (ISO Guide 73 “Risk Management- Vocabulary” 2009, Geneva)

In the ISO definition, the foundation include the policy, objectives, mandate, and commitment to manage risks and the arrangements include plans, resources, processes, relationships, accountabilities and activities.

An organization’s risk management framework exists only to facilitate the Risk Management Process (RMP), which should be used for any decision in the organisation. The RMP identifies the associated risks, assess the risks, treats the risks within an appropriate context, and is supported by risk communication and consultation as well as monitoring and review.

The ERM framework is integrated into the organisation’s overall strategic and operational policies and practices. There is one ERM framework at the organisational level and as many RMPs as there are decision/management positions – hundreds or even thousands. RMP is specified by the ERM framework and is the key risk management process.

The importance of risk management is recognised by ISO 31000, developed by a working group of international experts from more than 30 countries. The same working group also revised ISO Guide 73 (2002) in 2009, and it provides definition for risk management. **The ISO framework is current best practice for risk management frameworks. It incorporates best practice from COSO, PMI (Project Management Institute), the Australian and New Zealand Standard (AS/NZS 4360:2004) and other leading international risk management standards.**

While ISO 31000 leaves some latitude to the organisation for the specific framework and associated risk management process, it is expected that the generic ISO framework would be followed and the organisation’s ERM framework would be easily recognised as an ISO 31000
framework. This is necessary in order to realize the benefits of common understanding based on standard terminology and processes.

4. The CBS Risk Management Framework
The ISO 31000 (2009) has recently been reviewed and in line with the new ISO 31000 (2018) the CBS Risk Management Framework encompasses the following:

- Risk Management Policy that covers the Risk Management Principles to which Management and Board is committed to adhere to;
- Risk Appetite Statement which sets the parameters within which CBS is to operate effectively and efficiently;
- Risk Management Operational Guidelines detailing processes and procedures for efficient bank-wide risk management;
- The Business Continuity Management Systems (BCMS) which guides the organisation during a time of crisis;
- The Credit Impairment Policy which guides the organisation in respect of the credit impairment process.
Figure 1 — Principles, framework and process

Source: ISO 31000:2018