RISK GOVERNANCE:
A BENCHMARKING SURVEY

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ABOUT PRMIA

The Professional Risk Managers' International Association (www.prmia.org) is a higher standard for risk professionals, with more than 60 chapters around the world and over 61,000 members from 190 countries. As a non-profit, member-led association, PRMIA's mission is to provide a free and open forum for the promotion of sound risk management standards and practices globally. Its principal activities are certifications, publications, training, events, networking and online resources.

PRMIA members have access to a wealth of online resources including presentations and papers, blogs, news, publications and a Jobs Board with risk management job openings around the world. PRMIA's C-Suite membership connects a global network of 3,000 Chief Risk Officers and the most senior risk professionals. PRMIA offers over 150 meetings each year through its local chapters, giving members access to the best practices of the global risk profession and to a local network of colleagues, as well as webinars and webcasts on topics of current risk management interest. PRMIA's Professional Risk Manager (PRM) designation is endorsed by leading businesses and universities around the world and is the global standard for the world's top financial risk professionals. PRMIA's Associate PRM certification is designed for staff entering the risk management profession or for experienced professionals in other finance-related disciplines such as audit, accounting, legal and IT who need to understand fundamental risk management methods and practices. PRMIA's Professional Risk Managers Handbook, which forms the basis of the PRM designation, is a multi-volume reference work adopted by academic institutions worldwide. PRMIA's comprehensive suite of training programs offers in-house, classroom and online risk management training courses, both standalone and in partnership with some of the world's leading universities.

ABOUT CMRA

Capital Market Risk Advisors (www.cmra.com) is the pre-eminent financial advisory firm providing risk management advisory and litigation support services to investment and commercial banks, insurance companies, institutional investors, mutual funds, hedge funds, funds of funds, and other market participants. Founded in 1991, we offer clients a unique perspective based on founder Leslie Rahl and partners Barbara Lucas's and Peter Niculescu's collective 100+ years of hands-on experience in risk management, trading, portfolio management, development and implementation of legal and compliance programs, and knowledge of industry best practice.

Our advisory services include assessing risk exposures and advising on risk management and strategy, the valuation of complex or illiquid instruments, and benchmarking risk management and risk governance practices against best practice. We also advise senior managers and Boards with respect to all types of risk management and risk governance issues, developing risk appetite statements, advising on risk reporting and communication, and reviewing and drafting risk management and compliance policies and procedures.

As pioneers in the derivatives and mortgage businesses and seasoned veterans with front-line as well as Board, governance and regulatory experience, we at CMRA have played a leadership role in establishing best practices in financial services. Our ability to understand the quantitative details while simultaneously understanding Directors' needs uniquely qualifies us to "translate" and "demystify" complex issues for Boards.

The synergy between our advisory and financial forensic/litigation practices helps us provide clients with unique insight about what can and does go wrong in managing risk and informs our perspective in an unparalleled way. Additionally, our work with both the buy- and sell-sides of firms on six continents provides us with an unmatched point of view in solving seemingly intractable problems.

RISK GOVERNANCE SURVEY

EXECUTIVE SUMMARY

In the wake of the financial crisis, risk governance has emerged as a key topic. What role should a Board play in risk oversight? Should it have a risk committee? Who should the Chief Risk Officer report to? These and other questions are increasingly being debated in boardrooms around the world, as well as by politicians and regulators. Financial institutions especially are reevaluating their approach to risk management as regulators consider whether to impose new requirements. Indeed, a pending bill, introduced by Senator Schumer (D-NY) would require Boards to have risk committees.

In the midst of this debate, it is important to understand the approach financial institutions are currently taking to Risk Governance and the plans they have for the future. The attached survey, which was conducted jointly by PRMIA and Capital Market Risk Advisors, represents what we believe is the most comprehensive Risk Governance benchmarking exercise to date. Conducted over a two week period in July 2009, it reflects input from 121 financial institutions, including commercial and investment banks, insurance companies, asset managers, plan sponsors, sovereign wealth funds, endowments, hedge funds and fund of funds with respect to their current risk practices, including the degree to which their Boards are involved in risk governance, whether they have Chief Risk Officers or comparable officers in place, to whom CROs report, what their key functions are, how often they speak with the Board, whether in executive or in camera sessions, and other important information regarding their risk management functions. It also contains information about changes planned for the future, such as the creation of Board Risk Committees.

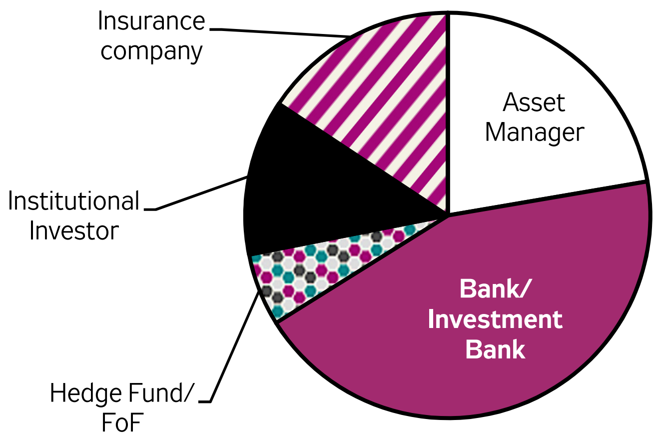
At no time in history has there been a greater need for companies to evaluate and strengthen risk governance. We are proud to have led this initiative and pleased to share the results.

Participants will receive detailed, customized results comparing their practices to those of their peer group.

RESPONDENT PROFILES

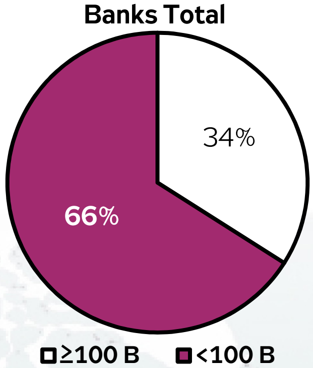
121 Firms responded to the survey. Banks/Investment Banks and Asset Managers were the categories with the largest number of responses.

Type of Institution

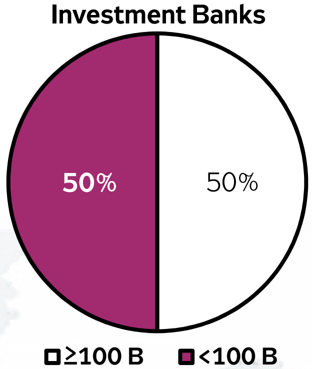


34% of the Banks/Investment Banks who provided their asset size have assets of ≥$100B.

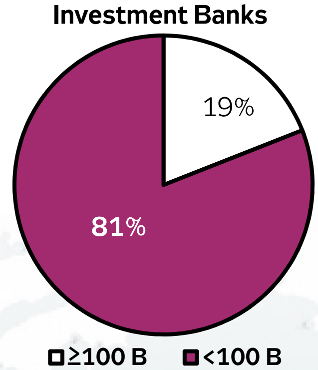
Banks/Investment Banks Total



U.S. Banks/ Investment Banks

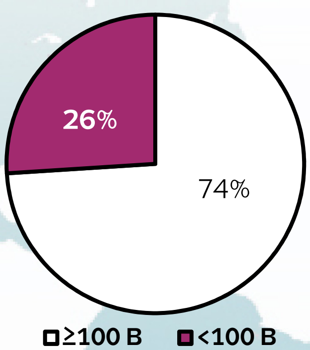


Foreign Banks/ Investment Banks

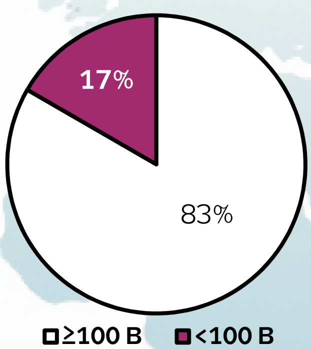


74% of Asset Managers providing their asset size have assets ≥$100B.

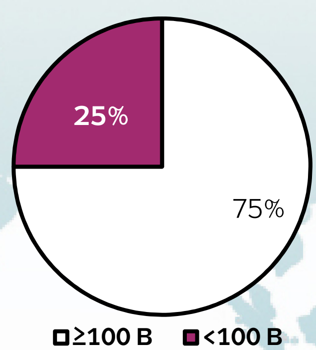
Total Asset Managers



U.S. Asset Managers



Foreign Asset Managers

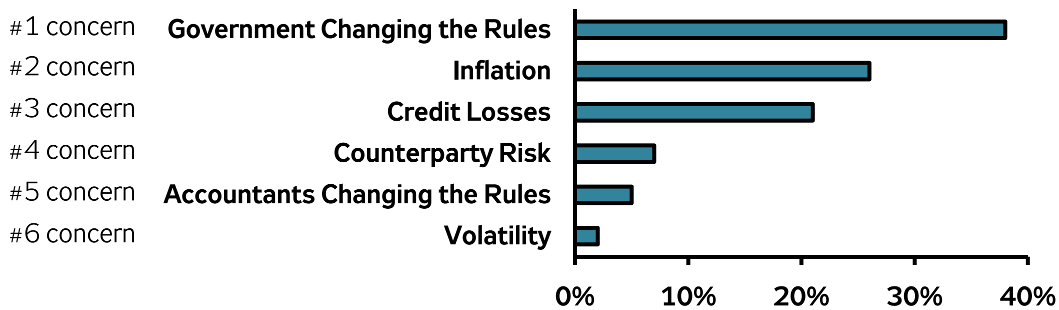


KEY FINDINGS

THE TOP CONCERNS OF RISK MANAGERS FOR THE 2nd HALF OF 2009

While overall respondents' top 3 concerns for the 2nd half of 2009 were Credit Losses, Volatility and "Government Changing the Rules," US respondents ranked "Government Changing the Rules" as their #1 concern, followed by inflation and credit.

US Respondents



CHIEF RISK OFFICER (CRO)

Across all respondent types, there is wide agreement on the need for a Chief Risk Officer, but opinion varies as to whether the CRO should have both a strategic/consultative role or just a control role.

- 70% of overall respondents have a CRO and an additional 15% have someone who is the functional equivalent of a CRO but has a different title.
- 25% of CROs are limited to a control role.

The need for the CRO to report at a very senior level and be independent of business is well-established.

- 70% of CROs report to the CEO, 14% to the CFO, and 16% to the Chairman of the Board.

The importance of the CRO having regular and unfettered access to the Board is still evolving.

- 44% of respondents with a Board and a CRO have executive/in-camera sessions at most meetings, while 13% have executive/in-camera sessions **ONLY** once a year, and 20% **NEVER** have such sessions.

RISK APPETITE STATEMENT

- 37% of overall respondents have a written "Risk Appetite Statement," and 23% are considering adopting one.

DOES BOARD APPROVE RISK POLICIES?

- 60% of Boards approve risk policies.

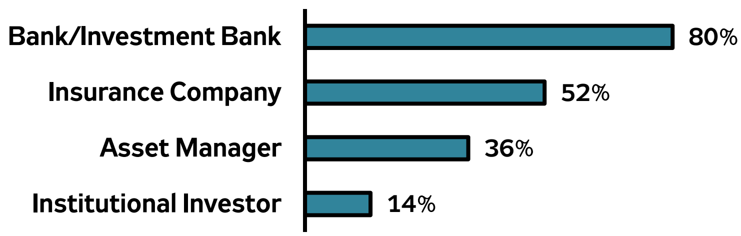
ADDITIONAL SURVEY RESULTS

BOARD RISK COMMITTEE

Whether or not to have a “Risk Committee” of the Board is a controversial issue despite Senator Schumer’s proposed legislation.

- 39% of overall respondents have a Risk Committee of the Board (but only 14% of Institutional Investors) and an additional 23% include risk as part of the mandate of the Audit Committee or other committee.
- 7% of overall respondents and 33% of Institutional Investors plan to create a Board Risk Committee.
- 18% **DON’T HAVE** a Board Risk Committee and **DON’T PLAN TO**.
- Most banks have a Board Risk Committee, but a much smaller percentage of non-Bank respondents who have a Board have a Risk Committee.

% with a Board Risk Committee

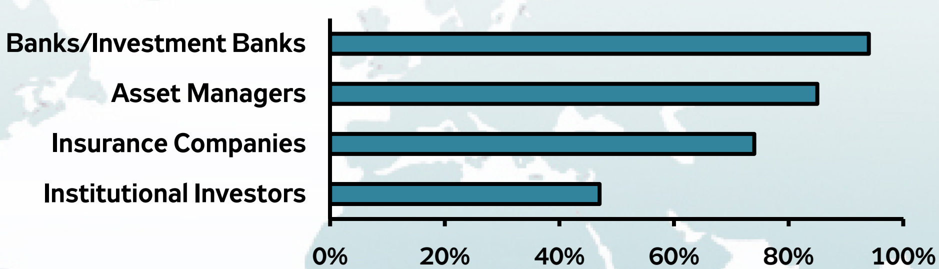


- While a small percentage of Banks and Asset Managers who do not currently have a Risk Committee plan to create one (4% and 7% respectively), 21% of Institutional Investors plan to create one.

CHIEF RISK OFFICER (CRO)

- 52% of respondents with a CRO include both control and strategic/consultative responsibilities in the CROs job description, while 25% only have control responsibilities.
- A smaller percentage of Institutional Investors and Insurance companies have a CRO or equivalent than other Financial Institutions.

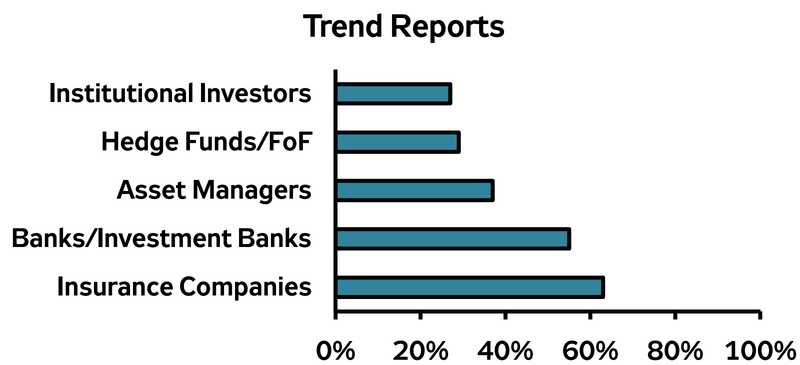
Percentage of Respondents with a CRO or Functional Equivalent

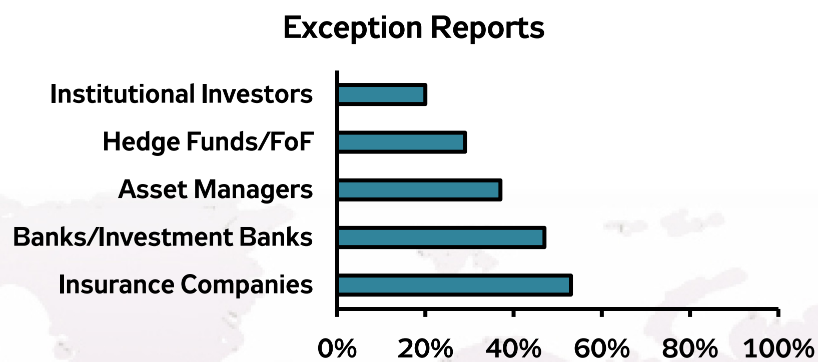


ADDITIONAL SURVEY RESULTS (CONTINUED)

RISKS COVERED AT BOARD MEETINGS

- While most respondents communicate to their Board about market and credit risk, only 57% of respondents report counterparty risk, 63% liquidity risk, and 61% operational risk.
- Institutional Investors are behind other Financial Institutions in incorporating credit and counterparty risk into their Board reporting.
- Only 48% of Boards receive trend analysis, and only 42% receive exception reports.
- A lower percentage of Institutional Investor Boards receive trend and exception reports than other Financial Institutions.





RISK APPETITE STATEMENTS

A higher percentage of Banks/Investment Banks (58%) have a Risk Appetite Statement currently, but a higher percentage of Insurance companies (37%) than other types of Financial Institutions are considering creating such a statement.

PARTICIPANTS

While many of the participants preferred to remain anonymous, the following have agreed to acknowledge their participation:

AIG
Ascent Brazil
Aspis Pronia
Banck Zachodni WBK S.A.
Canaccord
Commercial Bank of Dubai
Cooperative Bank of Karditsa
Daiwa Securities
Deutsche Asset Management
Employees Retirement System of Texas
Fortress
Guardian Life
Horizon Blue Cross Blue Shield of New Jersey
GIC
IDB Bank
Imene Investment Partners
Infiniti Capital
ING Investment Management
Kayne Anderson Capital Advisors
Lord Abbett
Man Group
MassMutual Financial Group
Nationwide Insurance
Old Mutual U.S. Life
OppenheimerFunds, Inc.
PAAMCO, LLC
Platinum Bank
Prudential Corporation Asia
Renaissance Investment Management
SDCERA
South Carolina Retirement System Investment Commission
State Street
Sun Trust
Weyerhauser Asset Management LLC