

# LIXI sets focus for 2009



Erik Fenna, chief executive, LIXI

Help from LIXI with the implementation of standards across the lending industry will be a key focus for 2009, according to LIXI chief executive Erik Fenna.

Fenna made the comments following the group's annual general meeting and board elections last month.

Fenna said the meeting capped off a "year of major developments" for the group.

"The AGM and the evening series strategy session that followed reaffirmed that LIXI was not just on the right track in the eyes of its members, but was setting a new path for leadership in the industry," Fenna said.

"LIXI received some tremendous feedback from the members present. Our work on technical projects and issues surrounding intellectual property and funding all received strong endorsement from our membership base.

"With a LIXI board member hosting each table of the evening series discussions, we received a very high level of constructive contributions.

"The output from each group allowed the board, especially our newly elected directors, to garner a wide range of industry feedback and to obtain a broader perspective of the issues.

"The clearest message we received is that LIXI members are pressing for more direct assistance with implementation from LIXI. We are hearing this very strongly.

"Assistance from consulting or direct implementation services is a clear growth path for us. Even more so, the LIXI membership is expressing a view that LIXI does have a role in this and is not just a standards body."

The LIXI board elections saw the

return of all seven sitting members including chairman John Heame.

Directors elected for 2009 include: Curtis Brager (NextGen. Net); Chris Carn (NAB Broker); Nick Carr (Allette), John de la Torre (The Home Loan Centre), Simon Elwig (Commonwealth Bank); John Hearne (QBE LMI), Simon Libbis (NECS); Joanne Mather (Mortgage Choice), Phil Naylor (MFAA) and Mike Thanos (LTX).

Brager, de la Torre and Libbis are newly elected directors..

Former directors Sean O'Brien and Neil Edwards retired.

Meanwhile, LIXI held an advisory panel lunch meeting late last month on Products distribution, inviting members interested in the distribution of lending product information - fees and interest rates - using the LIXI Products Standard to hear from experts involved in the process.

"We have a standard, we haven't had progress on implementation," Fenna said.

"So the panel discussion was held to work out what the hurdles to implementation are and what it's going to take to get over them.

"We're also in a position where several service providers have expressed interest in building a data feed and one of the questions posed was: 'do lenders send product information or do you have an intermediary that sends product information and the lenders have to update that intermediary?'

"I believe that improving lender systems to provide higher quality service is a protracted process, and an intermediary would be able to respond to changing requirements more efficiently."

## BRIAN GREIG



### Enterprise risk management – a job to be done

By Brian Greig, Insurance Segment Leader KPMG.

All business depends on the effective management of risk and uncertainty.

In essence, the return on investment is the price achieved for bearing risk in the pursuit of profit. And the two concepts of risk and reward are directly linked: higher risk attracts a higher price in the form of increased reward. In financial services, this relationship is perhaps more directly visible than in other business sectors. One of the fundamental responsibilities of management is to balance desired profit with acceptable risk.

Historically, however, one side of the equation received much more management attention than the other. Boards, senior executives and line managers focused on profit and all the factors which contributed to it – volume, growth, customer service, and cost control. Shareholders and other stakeholders similarly rated enterprises by the returns on investment they delivered. The management process was overwhelmingly directed at the profit side of the equation.

#### The growth of ERM

In recent years, this imbalance has steadily been redressed. In financial services, one of the primary drivers behind the increasing recognition of and concentration on risk management has been the developing regulatory framework. In Europe, Basel II and Solvency II have mandated a more explicit and demonstrable approach to risk management.

In addition, rating agencies have been paying increasing greater attention to companies' risk management arrangements. The concept of Enterprise Risk Management (ERM) has elevated the function from a subsidiary corner of the CFO's office to a core role. Many more banks and insurers have appointed Chief Risk Officers, reporting directly to the CEO and the board.

And yet, the credit crunch has revealed mismanagement of risk on a massive scale, initially by US sub-prime mortgage lenders and subsequently by virtually all classes of financial organisation across the US, Europe and beyond. Many, perhaps most, of the world's largest banks and insurers are left holding securities which carry risks they can't quantify.

Once the storm eventually passes, there is bound to be an intense focus on strengthening the framework of regulation and control to try to prevent a repeat of the events of recent months. But the role and practice of ERM within banks and insurers needs equal scrutiny. Clearly, much remains to be done!

#### Lessons to be learned

Part-way into the current crisis, in March 2008, the Senior Supervisors Group of the G7 Financial Stability Forum issued a report assessing a range of risk management practices among major global financial services organisations. The report attempted to identify where risk management failings had contributed to the crisis and, conversely, how

industry best practice had managed to mitigate its impact. Among the key conclusions were:

- In many cases, companies retained large exposures to collateralised debt obligations which 'far exceeded' their understanding of the risks involved.
- Many companies failed to understand their potential balance sheet growth and liquidity needs, and to price the risk correctly.
- Where major problems had been avoided, clear common factors were apparent: A comprehensive approach to the quantification of risk and exposures across the enterprise.
- Effective communication across the business and to senior management of quantitative and qualitative risk information.
- Critical judgment and discipline in valuing complex or potentially illiquid securities.
- Adaptive and responsive risk measurement processes and systems.

#### More to do

Surveys of financial services organisations tend to reveal that they believe that an effective risk management framework is in place to cover their core market, credit and liquidity risks, even if other risks – operational risk, business continuity risk and so on – are not yet as comprehensively covered. The experience of the last few months helps to demonstrate that even in respect of core risks this view is perhaps complacent.

The evidence suggests that ERM still needs significant strengthening even in the most conservatively managed businesses. An effective ERM framework has to be based on an explicit decision by the board about the company's risk appetite, risk limits and expectations of return. This is a fundamental corporate policy issue.

Assuming too much risk can lead to disastrous consequences in the form of heavy losses and retrenchment. But being overly cautious can lead to insufficient returns on investment or lost business opportunities and, ultimately, leave an organisation lagging the industry leaders.

The answers will vary from company to company. But they need to be clear and unambiguous, and communicated to managers and shareholders alike. In the end, however, effective ERM is as much about corporate culture as it is about systems and processes.

This implies the need for consistent and systematic communication and training across the company, and appropriate linkage to reward and recognition systems. The message is simple: better risk management leads to increased profit and lower risk of loss.

In a more uncertain world, where risks will remain high and profits under threat for some time to come, a more conservative balance may need to be struck between the fundamental factors of risk and reward. A stronger and more effective ERM function is an essential foundation for this.