Barclays Risk Management System Recommendations

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Abstract: Good risk management capability is the core competitiveness of commercial banks, and commercial banks can enhance their core competitiveness by building up their risk management mechanism. As the largest commercial bank in the UK, Barclays In constructing Barclays' own risk system, the authors drew on the strengths of Citibank, HSBC and Standard Chartered, namely the business units, the risk and compliance department and the audit department as the front, middle and back offices of the risk defence, with a certain degree of independence and centralisation in the business units. Based on the strengths of the above banks, we have designed a risk management system, focusing on recommendations to accelerate the development and application of risk management techniques and systems, consolidate assurance mechanisms for corporate governance, promote the effective discharge of risk management responsibilities by the Board of Directors, strengthen the supervisory capacity of the Supervisory Board and improve the internal audit mechanism as a complement to the risk management system.

Keywords: Risk Management; Barclays

1. Introduction

In this day and age, different institutions and individuals have different definitions of the core competencies of commercial banks. According to Porter (2005)[8], there are internal and external factors that affect the competitiveness of the industry; external factors have the same impact on all firms in the industry and are only relative, while internal factors are the key to competitiveness. The British journal The Banker evaluates the competitiveness of the world's leading commercial banks on the basis of Tier 1 capital, asset size, the soundness of the bank's operations, profitability and other composite indicators. However, the authors of this article argue that there is no substitute for risk management capability as the cornerstone of commercial bank competitiveness. As a member of the FTSE 350, Barclays has a significant market share in the UK commercial banking industry. However, there is still much room for improvement in the risk management mechanism. This article designs a risk management system for Barclays based on G20/OECD corporate governance principles and provides recommendations for its implementation.

2. Core Competence Building

Comprehensive risk management is a process implemented by an organisation's board, management and others, applied to strategy development and activities at all levels of the organisation, to identify potential events that could affect the organisation and to manage risk in accordance with the risk appetite of the business in order to provide reasonable assurance that organisational objectives are being met (COSO, 2004)[4]. Founded in 1862, Barclays is one of the largest commercial banks in the UK, operating in approximately 60 countries and with over 2,100 branches in the UK. Barclays' businesses include consumer and business banking, credit cards, mortgages, custody and leasing, in addition to providing private banking services (Barclays, 2022)[3].

In general, the elements of competitiveness of commercial banks include the ability to compete in the market, comprehensive customer service, profitability and risk management, etc. The level of competitiveness can be evaluated and analysed through indicators such as market share of business, capital margin, capital adequacy ratio and non-performing loan ratio. In contrast, other elements are also important components of general business competitiveness, except for risk management capability, which is a unique requirement for commercial banks. Commercial banks also cannot improve their business market competitiveness, comprehensive customer service capabilities, technological autonomy and profitability without improving their risk management capabilities.

Therefore, risk management capability is the cornerstone of the other competitive capabilities of commercial banks, and plays a supporting and guaranteeing role for other competitive capabilities, and is the core competitiveness of commercial banks.

Although Barclays is already among the largest commercial banks in the UK, the independence of its risk management system needs to be improved. The risk management department and personnel at the grassroots level are heavily influenced by the institution in which they work, resulting in a lack of independence in the performance of their duties and making it difficult to fully play their role in monitoring and controlling important risks. At the same time, Barclays' allocation of risk management staff to branches and other base organisations is mainly based on the number of staff and less on the volume and complexity of business, resulting in some base organisations being severely understaffed and unable to fully perform their duties.

In the aftermath of the 2008 global financial crisis, international regulators have fully learnt the profound lessons of the crisis, with capital regulation reform as the core and breakthrough point to fix the loopholes of supplementary capital regulation and strengthen the effectiveness of risk regulation. A corporate governance framework should promote transparent and fair markets and the efficient allocation of resources, and should also be consistent with the rule of law and support effective oversight and enforcement (G20/OECD Principles of Corporate Governance, 2015)[5] . Hence, the establishment of a risk management system can help to enhance the interests of all stakeholders and strengthen the transparency of accounting .

Nowadays, typical risk management structures that can be adapted to their own development characteristics include the chief risk officer management system represented by Citibank, the “two-line” reporting system represented by HSBC, and the matrix structure represented by Standard Chartered Bank. Although the above three models of risk management structure are different, they have some common features: firstly, they highlight the role of the business departments, risk and compliance departments and audit departments as the front, middle and back office lines of defence to defend against risks; secondly, they have a certain degree of independence, forming a risk management structure that is closely linked to the business departments but functionally independent; thirdly, they have a certain degree of independence. Third, it is centralised, with risk management departments at each level Group, regional and country - that are completely independent of the strategic business units, so that the various risk factors can be comprehensively aggregated and integrated from different levels. In terms of the breakdown of the risk management process, Citibank's risk management process includes several steps such as risk identification, assessment, approval and monitoring. HSBC's risk management process echoes its "two-line" risk management reporting system, which constrains the risks that may arise in credit operations by establishing an approval system, risk monitoring, auditing and non-performing loan recovery . Standard Chartered's risk management process is largely streamlined, separating operational authorisation from operational authorisation to avoid operational risk.

It follows that the design and implementation of a company-owned risk management system can contribute to the sustainable development of the company and its business.

3. Risk management system construction

The establishment of a commercial bank competitiveness evaluation system with risk management capability at its core, the strengthening of risk management mechanisms, the continuous optimisation of the components of risk management mechanisms and the enhancement of the overall synergy of the elements are the main directions and ways to enhance Barclays' core competitiveness. The development of a corporate governance framework should consider its impact on overall economic performance, market integrity and the incentive effect on market participants and promote transparent and well-functioning markets (G20/OECD, 2015)[5]. The construction of risk management Systems should focus on building the core competitiveness of commercial banks as the main starting point, starting from solving the bottlenecks that limit the risk management capacity of commercial banks, forward planning and increasing investment to make up for the shortcomings of risk management, the establishment and implementation of the system start with the following aspects.

The first step is to recommend accelerating the development and application of risk management technologies and systems. At this stage, risk managers are faced with the challenge of increasingly complex transaction structures, vast amounts of information and data, and growing risk exposures (Hopkin P, 2014)[6]. Managers should adhere to the governance concept of big data, pay attention to the collection, collation and analysis of historical data, improve risk measurement models and methods, fully explore various types of data information such as customer behaviour and capital flows, and apply advanced technologies such as mathematical and statistical models and financial engineering to improve the relevance and effectiveness of risk analysis.

Secondly, the mechanism for consolidating the safeguards of corporate governance. A shareholder referendum cannot govern a company, shareholding institutions are individuals and institutions with different interests, objectives, investment horizons and capabilities. In addition, the management of a company must be able to make business decisions quickly. Given these realities and the complexity of managing the affairs of a company in a rapidly evolving and changing market, shareholders are not expected to assume responsibility for managing the activities of the company. Responsibility for the strategy and operations of the company usually rests with the board of directors and the management team, which is selected, motivated and, if necessary, replaced by the board (G20/OECD, 2015)[5]. For historical reasons, most listed companies in South Korea are family-run by local zaibatsu. In 2016 (BBC NEWS)[1] , Lotte Chairman Sin Dong-bin and four other family members, including his father and company founder Sin Gak-ho, were charged with financial irregularities for using family influence to control company funds, harming shareholders and causing losses of around US$123 million to Lotte's companies. To avoid the harm caused by family-style management, decision-makers need to further increase the proportion of independent directors and external supervisors on the board of directors and supervisory board, strengthen external oversight, introduce advanced governance concepts, optimise the nomination process and criteria for directors, executives and supervisors, avoid the dominance of one share by the majority shareholder and provide practical ways for small and medium shareholders to participate in corporate governance. The rights of non-executive directors, independent directors, employee supervisors and external supervisors to participate in corporate governance should be effectively safeguarded, and the enthusiasm of each entity to participate in corporate governance should be mobilised.

Thirdly, the Board of Directors should be promoted to perform its risk management duties effectively. Board members should act in good faith, with due diligence and care, and in the company and its shareholders based on full knowledge of the situation (G20/OECD, 2015)[5]. The govern work process should strengthen the capacity of the board to perform its duties and give full play to the central role of the board in Barclays' risk management mechanism. In evaluating the performance of the board of directors, the focus should be on whether it has effectively performed its risk management decision-making function, and board members who fail to fulfil their risk management-related duties should be seriously held accountable.

Fourthly, the supervisory board's oversight capacity should be effectively strengthened. Barclays was the first financial institution to be exposed in the LIBOR manipulation scandal (BBC NEWS, 2012)[2] , paying a steep price in high fines and the departure of key personnel. In terms of risk management, there is a crucial role in monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse of related party transactions (G20/OECD, 2015)[5]. On the one hand, an effective performance evaluation system for the supervisory board should be established to strengthen its ability to perform its duties and effectively perform its oversight function over the board and senior management; at the same time, the central leadership role of the supervisory board over internal audit should be brought into play to enhance the independence and professionalism of its performance.

On the other hand, the risk management executive should actively guide the incentive mechanism. High ethical standards are in the long-term interest of the company and are a means of giving the company credibility and reliability not only in its day-to-day operations but also in its long-term commitments (G20/OECD, 2015)[5]. In practice, the board of directors and senior management should be guided to establish a correct view of development, performance and risk and set scientifically sound strategic positioning and business development goals from risk-adjusted returns to avoid the recurrence of the previous scandals.

The Fifth is to improve the internal audit mechanism. There was a time when the core internal management of Toshiba Corporation in Japan manipulated accounting operations and improperly profited by $1.2 billion (Nagata K, 2015)[7]. Therefore, regular disclosure of the company's financial position is key to enhancing corporate sustainability. The disclosure should include but not be limited to the following important information: the financial and operating results of the company. Audited financial statements showing a company's financial performance and position (usually including a balance sheet, income statement, cash flow statement and notes to the financial statements) are the most widely used source of corporate information (G20/OECD, 2015)[5]. To prevent internal auditors from colluding with the company's key core management and cooking the books, external audits need to be engaged at fixed reporting dates (e.g. quarterly and annual) to provide external and objective assurance to the board and shareholders. In terms of hiring an external auditor, to avoid nepotism, the external auditor should be recommended by the independent audit committee of the board of directors or equivalent and appointed directly by that committee/body or shareholders (G20/OECD, 2015)[5]. Only by improving the independence and professionalism of internal audits and increasing the coverage and frequency of internal audits can the predictability of the performance of duties be enhanced.

It is true that Barclays suffered a reputation crisis, but its active cooperation with the FSA during the investigation and the various substantial measures taken to repair the reputation crisis after the sanction can be regarded as a successful example of reputation repair and a prelude to future crisis communication efforts. Crisis PR can be seen as the last link in the risk management system, and in an objective sense belongs to reputation risk management. As unexpected events are intensively covered by the media, a strong shockwave of public opinion is formed, testing the ability of companies to deal with public opinion and emergency response, and the media's in-depth attention and supervision of companies inevitably has to face public and opinion comment, which can lead to public anger if not treated and handled correctly This is why the executive should pay attention to this part. This is why executors should pay attention to this part of the process, anticipate possible events and be prepared to deal with them at all times.

In this way, a sophisticated risk management system helps Barclays to identify and control risks in a timely manner, thereby improving the bank's competitiveness. The implementation of risk management also optimises the allocation of resources to the market, allowing the bank to clearly analyse the relationship between risk and profitability and to improve the allocation of resources to profitable conditions. The process of implementing risk management enables companies to be informed about the market and to evaluate financial products and services, so that they can make better forecasts of the value of their products. In the long term, this will enable Barclays to achieve greater returns in a highly competitive market.

4.Conclusion

In conclusion, although Barclays is one of the largest commercial banks in the UK, there is a need to improve the independence of its risk management system. In building Barclays' own risk system, the authors have drawn on the strengths of Citibank, HSBC and Standard Chartered, where the business units, risk and compliance and audit departments act as the front, middle and back-office defence against risk, with a degree of independence and centralisation of the business units. Based on the strengths of the above-mentioned banks, we have designed a risk management system that focuses on recommendations to accelerate the development and application of risk management techniques and systems, consolidate the assurance mechanisms for corporate governance, promote the effective discharge of risk management responsibilities by the board of directors, strengthen the supervisory board's oversight capacity and improve the internal audit mechanism as a complement to the risk management system. It is also recommended that more resources be invested in the implementation process to establish an internal control system and monitoring system. Only through a combination of knowledge and action will Barclays be able to undertake sustainable development and become invincible in the UK commercial banking system.

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