



TECHNICAL ASSISTANCE REPORT

SAMOA

Central Bank Risk Management

August 2024

Prepared By

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GLOSSARY

ABD	Accounts and Budget Department
AML/CTF	Anti-Money Laundering/Countering the Financing of Terrorism
BAC	Board Audit Committee
BCM	Business Continuity Management
BCSD	Banking and Currency Services Department
CBS	Central Bank of Samoa
CSD	Central Securities Depository
EC	Economics Department
ERM	Enterprise Risk Management
FMECD	Financial Markets and Exchange Control Department
FSDD	Financial Systems Development Department
FSRD	Financial Supervision and Regulatory Department
HRD	Human Resources Department
IA	Internal Audit
IMT	Incident Management Team
IORWG	International Operational Risk Working Group
IRR	Integrated Risk Report
ITD	Information Technology Department
LFID	Legal and Financial Intelligence Department
MCM	Monetary and Capital Markets Department
ORM	Operational Risk Management
PPD	Property and Procurement Department
RMC	Risk Management Committee
RMP	Risk Management Policy
RAS	Risk Appetite Statement
SRA	Strategic Risk Assessment
TA	Technical Assistance
ToR	Terms of Reference

PREFACE

At the request of the Central Bank of Samoa (CBS), a Monetary and Capital Markets (MCM) Department mission provided technical assistance (TA) on central bank risk management in Samoa from August 14 to 18, 2023. The mission was conducted by Paul Woods (MCM expert, Central Bank of Ireland) and Chris Aylmer (MCM expert, formerly with the Reserve Bank of Australia), and backstopped at headquarters by Ashraf Khan (MCM, Central Bank Operations Division).

The purpose of the mission was to continue to assist the CBS in establishing an Enterprise Risk Management (ERM) Framework. The onsite mission represented a follow-up to an earlier virtual mission completed in August-October 2021 that made a number of recommendations for the CBS to implement in order to strengthen its risk governance, ensure a structured and cohesive risk management framework, and to support leadership and staff across the CBS to cultivate a supporting risk culture. The objective of the onsite mission was to complete an independent review of the progress made by the CBS to date in the implementation of these recommendations. Additionally, the TA mission team sought to engage broadly with senior stakeholders across the CBS to: (i) further its diagnostic of the governance and operation of risk management; (ii) identify areas where further progress can be made; and (iii) provide guidance based on best practice internationally. Lastly, the TA mission provided specific guidance on the approach to enhancing the governance, operations, and incident response capabilities for business continuity management.

The TA mission was conducted by means of a desktop review of CBS documentation, with the documents reviewed listed in Appendix I. The desktop review was followed by meetings with the CBS officers and non-executive Board members onsite. The discussions with central bank staff included Mrs. Maiava Atalina AINU'Ū-ENARI (Governor), Mr. Gilbert Wongsin (Assistant Governor, Operations Group), and non-executive Board members, Mr. Tuala Pat Leota and Mr. Tuala Falani Chan Tung. A list of the CBS officers that participated in the meetings is provided in Appendix II, while a list of the meetings that took place in support of the onsite component of the TA mission are provided in Appendix III.

The mission team wishes to thank the leadership and staff of the CBS for its ongoing support, constructive engagement, and hospitality throughout the mission.

EXECUTIVE SUMMARY

The CBS has sought IMF assistance in the development of its enterprise-wide risk management framework. The work builds on findings from a 2021 IMF Safeguards Assessment of the Central Bank of Samoa (CBS), which identified a need to strengthen its risk management practices. Technical assistance (TA) was initially provided in August 2021, in the form of a virtual risk management diagnostic exercise which made a series of specific recommendations based on best practice internationally. The objective of the onsite mission was to review the progress by the CBS in implementing these recommendations, to provide practical guidance, and to support the CBS in enhancing its approach to business continuity management (BCM).

Progress is evident in implementing specific recommendations. The most notable of these is the progress in the development of a Risk Appetite Statement (RAS). The terms of reference (ToR) of the Board Audit Committee (BAC) have been amended to include oversight of risk management. Additionally, departments are engaged in compiling their respective risk registers, with each identifying a risk champion to support department-wide embedding of risk management processes.

Progress on the broader risk management recommendations has been slow. This is most evident in relation to establishing the Risk Management Committee (RMC), embedding the Three Lines Model, and incident reporting. While the members of the RMC have been identified, the ToR have not yet been approved, and the Committee has yet to be convened. Similarly, while the Three Lines Model is outlined within the draft Risk Management Policy (RMP), it has not been communicated to management or staff across the CBS, while the Risk Management function remains under-resourced to effectively discharge its Second Line risk management responsibilities. Additionally, incident information is not systematically captured across the CBS, and therefore the valuable risk insights from such incident analysis is not available to decision makers. Given this slow progress on some of the basic risk management recommendations, other important enhancements are falling significantly behind the recommended schedule. This includes ensuring that adequate time is allocated by the executive and Board for risk oversight, the development of Integrated Risk Reporting (IRR), incorporation of a top-down approach to risk identification and improvement of governance and practices for Business Continuity Management (BCM). These enhancements will need to be prioritized in the period ahead.

The onsite mission validated the original recommendations. Following the onsite engagements with non-executives, executives, and staff of the CBS, along with the detailed desktop review of documentation, the mission team's assessment is that the original recommendations and priorities to strengthen risk management remain very relevant. Nonetheless, a number of further recommendations have been made, as listed in Table 1 below, that should be treated as supplemental, and which are designed to support and guide the CBS with its continued implementation of the original recommendations.

Table 1. Key Recommendations

	Recommendation	Completion	Priority
Risk Governance			
R-A.	The Board Audit Committee (BAC) should re-weight its agenda. This is to ensure ongoing and proportionate oversight of risk management items, including monitoring the progress in implementing and embedding the remaining recommendations to enhance the risk management framework. This can be achieved by ensuring sufficient agenda time at each meeting is allocated to risk oversight, and that the BAC has been provided with a comprehensive IRR (as set out below).	Q2-2024	High
R-B.	Establish and embed the RMC. There is a requirement to finalize Terms of Reference (ToR) for the Risk Management Committee (RMC) and to convene regular meetings.	Q2-2024	High
R-C.	The Second Line risk function needs to prioritize development of an Integrated Risk Report. This IRR should be presented to the CBS RMC and BAC on a quarterly basis, refining and progressively integrating the reporting on risks across material risk categories. This recommendation aligns with a prior recommendation from the original risk management diagnostic TA. It is being restated as it remains a high priority.	Q3-2024	High
R-D.	Progressively expand the remit of RMC. There is a requirement to ensure that the remit of the RMC progressively covers all material categories of risk across the CBS, including financial risks.	Q4-2024	Medium
Embedding the Three Lines of Defense Model			
R-E.	Strengthen the tone from the top. There is a requirement for regular communication initiatives from executive leadership to promote the importance of adherence to the risk management framework, to clarify the important First Line responsibility of staff and to cultivate a culture of ‘all staff are risk managers.’	Q4-2024	High
R-F.	Strengthen Second Line risk management capacity. As part of the broader CBS strategic workforce management, there is a need to bolster the resources currently allocated for Second Line risk management activities. The co-location of the Second Line risk function within internal audit is exacerbating existing resource constraints, delaying progress on enhancing the ERM framework.	Q4-2024	High
R-G.	Develop supporting training material. There is a requirement to develop training material to support management and staff in understanding their risk management responsibilities (First Line).	Q4-2024	Medium
Business Continuity Management/Critical Incident Management			
R-G.	Further enhance the governance of BCM. Incorporate periodic oversight of BCM, as one specialized category of risk, into the ongoing agendas for the RMC and BAC.	Q4-2024	High
R-H.	Facilitate a structured response. Establish a critical Incident Management Team (IMT), and a supportive BCM framework, to support a standard and structured CBS-wide response approach to business continuity incidents.	Q2-2025	High
R-I.	Improve the BCM process. There is a need for the CBS to develop a Business Impact Assessment (BIA) template, which can be used to provide a standardized approach to documenting and prioritizing critical business processes, the associated critical dependencies, and to outline the alternate processes to be used in the event of a critical incident.	Q2-2025	Medium

Effective Business Continuity Management (BCM) relies on implementing a structured framework and supporting processes. While some components that could be incorporated into a BCM framework are in place, other important components are missing, such as having a formalized critical Incident Management Team (IMT) in place, with roles and responsibilities clearly defined, and the use of standardized Business Impact Assessments (BIAs) to identify and prioritize critical processes. Given capacity constraints within the Second Line risk management function, the CBS should consider additional resourcing to put BCM on a more structured footing.

The recommendations take account of the relative scale of the CBS. Implementing the recommendations will ensure that the CBS's approach to risk governance, and the risk management framework, embeds risk management practices and processes as an important responsibility of all management and staff, thereby reinforcing First Line responsibilities. This is particularly important in addressing constraints arising due to scale. The establishment and operation of the Risk Management Committee and the development of the Integrated Risk Report represent two key recommendations to strengthen risk governance. The flow of risk information should be timely, accurate, and provide actionable insights to governance committees in order for risk management to contribute value to safeguarding the CBS.

The positive impact of implementing the recommendations will increase with time. During the onsite engagements, risk management trends and developments impacting central banks internationally were considered, and highlighted the fact that risk exposures are broadening and, in some areas, deepening. These developments, coupled with consideration of the pipeline of major projects for the CBS, highlight the criticality of continuing to advance and embed a coherent enterprise risk management (ERM) framework.

Notwithstanding the work to be done, it was evident that the CBS is taking positive steps to cultivate its desired risk culture. It was evident from the onsite mission that the management and staff are cognizant of the benefits of adopting a structured and coherent approach to risk management, with the Governor and non-executive endorsing the need to further mature the risk culture and processes. However, given the resource constraints, care is required to ensure that prioritized action is taken to create momentum. This will require ensuring that the ERM Framework is positioned at the right organizational level, in order to support effective risk oversight and management. An effective ERM framework will be invaluable to the CBS, especially given its resource constraints, the broadening and deepening of risk categories (which are also influenced by external drivers) and the pipeline of important projects.

I. INTRODUCTION

1. The CBS is seeking to enhance its Enterprise Risk Management (ERM) framework, practices and processes, and to cultivate a supporting risk management culture. This follows the 2021 IMF Safeguards Assessment of the CBS which identified a need to strengthen its risk management practices. The CBS requested an IMF mission to provide technical assistance on central bank risk management. A virtual TA mission providing guidance on how to strengthen the ERM framework was provided during the period August–October 2021, and the final technical assistance (TA) report entitled, *Samoa—Central Bank Risk Management*, was provided to the CBS in September 2022.

2. The report focused on the approach to enhance risk management practices at the CBS. It included recommendations to improve risk governance and on enhancing specific components of the CBS ERM framework, and guidance on how to cultivate a supporting risk management culture. The report concluded that there would be merit in undertaking a follow-up TA mission to examine the progress that the CBS has made in implementing the recommendations and to provide supporting guidance as needed.

3. The terms for a follow-up TA mission were approved in early 2023, with two interrelated objectives. The first objective was to review the implementation of the recommendations as set out in the first TA report, to identify areas where further progress could be made and to provide supporting guidance as required. The second objective was to provide specific guidance on business continuity management, a specialist category of risk management that the CBS had identified as requiring attention. The agreed approach to the mission was to review relevant documents (a desktop review), engage with Internal Audit (the Third Line), who currently have shared responsibility for risk management (the Second Line), consult with CBS departmental management to better understand risk management practices at the CBS and ascertain progress against the recommendations, engage with the Governor and Assistant Governor – Operations Group, as the future chair of the Risk Management Committee, and to engage with non-executive Board members, including the Chair of the Board Audit Committee. It was also agreed that the follow-on mission would provide practical advice, guidance, and recommendations on how the CBS could further mature its risk management practices.

II. IMPLEMENTATION OF THE RECOMMENDATIONS

4. The previous TA report set out a structured approach for the phased strengthening of risk governance, supported by the implementation of key foundational elements of a risk management framework. The high priority recommendations to be completed within the first six months were to establish a Risk Management Committee (RMC), develop a Risk Management Policy (RMP), develop risk reporting templates to be leveraged by departments and to develop an Integrated Risk Report (IRR). The recommendation to develop a Risk Appetite Statement (RAS) and associated thresholds were targeted for completion within six to twelve months post the virtual TA mission.

5. Progress in implementing the recommendations is shown in Table 2 below.

Table 2. Recommendations from the Previous Report

Number	Recommendation	Progress	Priority
Risk Governance			
1.	Establish a Risk Management Committee.	Partial	High
2.	Develop Terms of Reference for the RMC.	Partial	High
3.	Draft a Risk Management Policy for approval by the Board.	Partial	High
4.	Clearly define risk management roles and responsibilities.	Partial	Not assigned
5.	Include risk oversight within the terms of reference (ToR) for the Board Audit Committee.	Completed	Not assigned
6.	Adopt the Three Lines Model of risk management.	Partial	Not assigned
7.	Identify a risk management expert (or champion) in each department.	Completed	High
8.	Include risk management as a recurring item on executive and Board agendas.	Incomplete	High
9.	Departments to complete risk reporting templates (in an accurate and timely manner).	Partial	High
10.	Risk management staff to develop a standard Integrated Risk Report (IRR).	Incomplete	Not assigned
11.	Consider having risk management staff work on risk management tasks only, with separate reporting lines.	Incomplete	Not assigned
Risk Identification and Assessment			
12.	Risk management staff to draft the methodology for risk identification and assessment (based on a bottom-up and top-down approach).	Incomplete (Top-down)	High
13.	RMC to review, input and endorse the final approach to risk identification.	Incomplete	High
14.	Align leadership and the Board on the frequency of Strategic Risk Assessments (SRA).	Incomplete	Not assigned
Risk Appetite Statement			
15.	Risk management staff to draft a first draft of a CBS Risk Appetite Statement (RAS).	Completed	High
16.	Risk management staff to engage departments to define appropriate tolerances and thresholds.	Completed	High
17.	Over time, each risk category in the RAS to be represented in the Integrated Risk Report (IRR).	Incomplete	High
18.	Risk management staff to document the output of departmental input to the RAS to ensure senior management alignment on the materiality of risks.	Partial	High
Business Continuity Management			
19.	Formalize the governance and procedures for business continuity management (BCM).	Incomplete	High
20.	Create a critical Incident Management Team (IMT).	Incomplete	High
Other			
21.	Cultivate a support risk management culture at all levels.	Incomplete	Not assigned
22.	Guide the Board, leadership and staff through ongoing risk seminars and training.	Incomplete	Not assigned
23.	Engage with peers and IORWG on risk management.	Partial	Not assigned

6. The CBS has implemented a number of the recommendations:

- Changes to the CBS Board Audit Committee terms of reference to include risk oversight (recommendation five, from prior TA). The revised charter of the BAC was approved by the CBS Board in August 2022.
- Risk management staff have completed an initial draft of the Risk Appetite Statement (R15) and engaged with departments to define appropriate tolerances and thresholds (R16). This information is set out within an appendix of the draft Risk Management Policy. Further work is required to embed an understanding of the RAS and its associated risk tolerances and thresholds across the CBS.
- A risk management champion has been identified in each department (R7). This is important to promote consistency by the First Line departments in applying the Second Line’s risk management framework and processes. This role has been taken on by each department manager, who are also the designated representatives on the Risk Management Committee.

7. Some high priority recommendations have not been advanced:

- While a Risk Management Committee has been established with the Assistant Governor, Operations Group as chair (R1), the terms of reference (ToR) have not yet been drafted and the Committee has yet to be convened (recommendation two, from prior TA). As a result, there is ineffective risk management oversight at an operational level—even to monitor implementation of the recommendations – thereby weakening CBS risk governance.
- A draft Risk Management Policy has been drafted (R3), though further work is required to finalize the document. During the onsite engagements, the TA mission team recommended that the RAS be separated into a standalone document, to simplify the ability to communicate the CBS risk appetite with internal and external stakeholders. Additionally, the RMP could clarify further the roles and responsibilities from the Board down in relation to risk oversight and risk management (R4). The Second Line could develop additional and more detailed guidance for internal use on how these expectations should be operationalized in practice.
- While the Three Lines Model is proposed within the draft RMP (R6), there is no indication of practical training of management and staff on their respective role in the management of risks under their remit. This training is important to ensure a clear understanding of First Line departmental responsibilities, including recognition of the delineation between Second Line risk management and Third Line internal control oversight responsibilities.

- While risk reporting templates are being used by departments to identify risks on an annual basis, and more frequently by some, there was evidence that this process is at an early stage of maturity, where the risk registers will require quality review by the Second Line.
- While the draft RAS has been completed, the follow-up step of ensuring senior management are aligned on the materiality of risks remains a work-in-progress (R18).

8. There has been limited progress on incident reporting. There is an absence of incidents being identified and registered in a systematic way (R9). As a result, the CBS is losing risk intelligence insights that could be leveraged to identify key control deficiencies and that would also support the prioritization of work by Internal Audit.

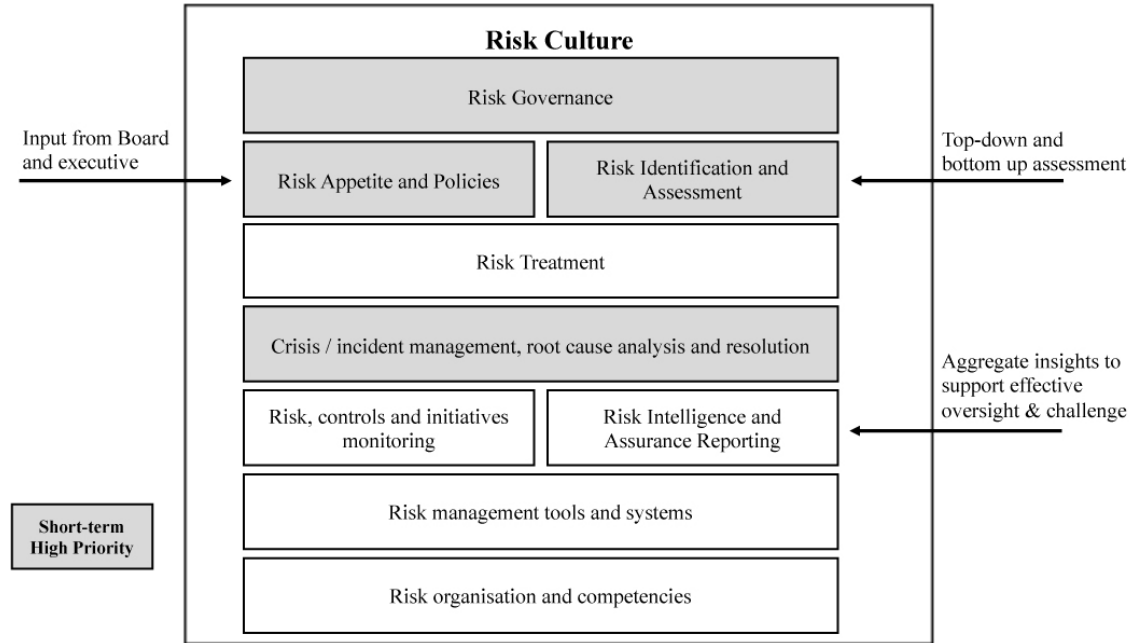
9. Risk oversight is hampered by the lack of integrated risk reporting and a top-down Strategic Risk Assessment (SRA). The CBS has yet to develop a top-down approach to identifying material risks, including those of a strategic nature (R12, R14), and given that the RMC has not yet convened (R13), there has been no progress on developing the Integrated Risk Reports required to support effective governance (R10, R17). This lack of transparency on the risk profile delays the ability of both the executive to discharge its risk management responsibility and the Board to discharge its risk oversight accountability, which impedes the ability to cultivate a supportive risk management culture across all levels of the CBS (R21).

10. There has been very limited training and peer engagement on risk management. The mission team did not observe progress in the provision of relevant seminars and training on risk management. Such seminars and training would typically be provided at Board, executive, management, and staff levels (R22). Additionally, there was no evidence of peer engagement with other central banks bilaterally, or via working groups such as the IORWG (R23).

11. The approach to Business Continuity Management remains at a nascent stage and requires much more development. Some of the foundational elements of a BCM framework have not been implemented (R19). While BCM remained ‘front of mind’ during the pandemic, it remains important for CBS to adopt a more structured and formal approach to this specialized category of risk, and to integrate the oversight of BCM with the RMC and BAC. There is a broader need to formalize a critical Incident Management Team (R20), to ensure a standardized and coherent response to any incidents.

12. The onsite mission further validated the recommendations from the original report. These recommendations were prioritized to assist the CBS in developing its ERMF, whereby the framework components self-reinforce each other, as illustrated in Figure 1.

Figure 1. Enterprise Risk Framework



Source: TA report on Central Bank Risk Management (September 2022).

III. RISK GOVERNANCE

A. Observations

13. The CBS is confronted with an increasingly challenging risk management environment. Despite a staff complement of just over one hundred, the CBS is required to discharge a complex central banking mandate, further complicated by new strategic initiatives and associated major projects underway. These projects include the Samoan Automated Transfer System (SATS)—a new national digital payments platform, the Central Securities Depository (CSD), the establishment of a central credit bureau, implementation of a revised AML/CTF regime and the building of a new disaster recovery site. As the risks confronting central banks broaden and become more complex, it is increasingly important that the CBS implements the recommendations from the September 2022 TA on risk management. During the recent onsite mission, the TA team presented on the emerging risks that arise in the context of discharging a central bank’s mandate, which highlighted both a broadening of the categories of risk exposure, while demonstrating that the risk exposures in specific categories are also deepening, including related to information technology, cybersecurity, and use of third parties.

14. Governance arrangements do not support risk oversight or management. Given the increasingly challenging risk environment, the need for effective governance to manage enterprise-wide risks becomes increasingly critical in order to safeguard the CBS and to support effective prioritization. This requires that the CBS finalize the terms of reference for the RMC, to ensure an executive level committee is focused on risk management, tracking progress, and inputting into impactful risk management prioritization decisions. The TA mission observed that

while the CBS currently co-locates the Second Line risk management function within the Third Line internal audit team, Second Line activity is significantly capacity constrained, and its role and associated activities are insufficiently delineated.

B. Recommendations

15. Reweighting the BAC agenda to ensure adequate time for risk oversight and embedding an effective RMC should be a priority. The BAC is accountable for risk oversight, which is a primary role of the Board, thereby requiring that proportionate agenda time (R-A) be allocated to reviewing and constructively challenging the risk exposures relative to the agreed risk appetite. It is important to ensure risk management is a recurring agenda item on executive and Board agendas (recommendation eight, from previous TA). The BAC's oversight must be supported through an effective executive level RMC, that is responsible for coordinating risk management across the CBS. This will require the finalization of the RMC ToR (R-B). Both the RMC and the BAC, to be responsible for risk management and risk oversight, are heavily dependent on the quality, flow and succinctness of accurate risk information made available to each. It is only through these governance committees having access to broad-based risk intelligence that they can effectively discharge their risk management responsibilities (RMC) and risk oversight accountabilities (BAC) and thereby cultivate an appropriate risk culture across the CBS.

16. The priority for the Second Line risk function should be to focus on producing an Integrated Risk Report (IRR). As the work on the RAS progresses further, the priority for the risk function is to compile a comprehensive and accurate view of risk exposures across the CBS, and to present this in simplified form, to both the RMC and BAC (R-C). The objective of the IRR is to provide a clear and objective quarterly update on the profile of each category of risk relative to the approved risk appetite for that category. The IRR represents a key tool supporting effective risk governance and oversight.

17. Aligned to the CBS strategic workforce management, there is a requirement to bolster the resourcing of the Second Line function. At present the CBS has not implemented a Second Line function that is independent of internal audit (recommendation eleven, from prior TA). At a minimum, there is an initial requirement to review the resource capacity allocated to Second Line risk management duties (R-F). This has a number of dimensions including: the number of staff specifically allocated to the function; the risk-related skills of those staff; and the training provided to them. In the medium to longer-term, the CBS should consider establishing an independent Second Line function, as the co-location of the Second Line risk function within internal audit is resulting in inadequate segregation of risk management capacity which will impede progress in maturing the CBS ERM framework.

18. Progressively expand the role of the RMC to include financial risk. While it is currently the case that the investment of Samoa's foreign exchange reserves is overseen by the CBS Investment Committee, this First Line committee should be independently supported by

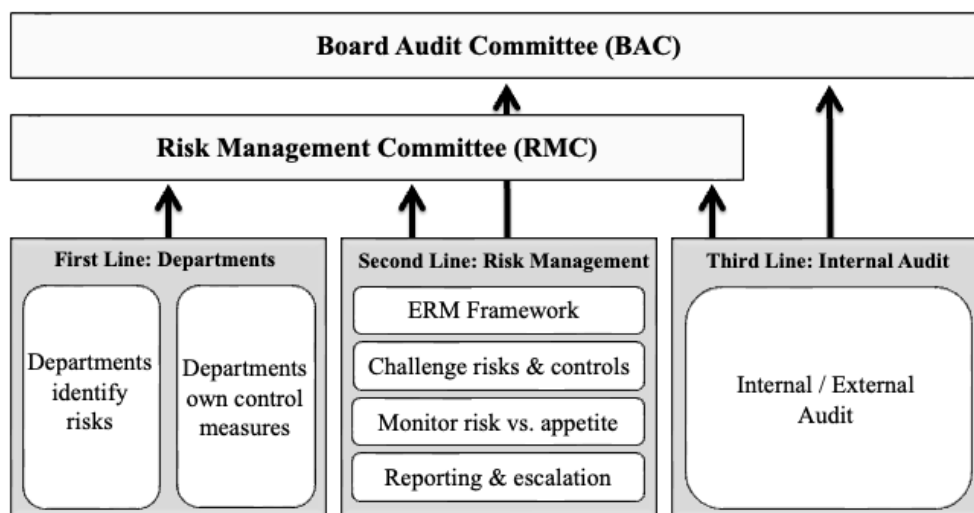
ensuring the RMC retains executive level risk oversight. In this capacity the RMC would constructively review and provide risk management guidance on financial risk issues such as limits frameworks, and concentration, credit, and market risk (R-D).

IV. THE THREE LINES MODEL AND RISK CULTURE

A. Observations

19. The Three Lines Model is a key enabler to effective risk management. The Model will enable the CBS to ensure broad-based risk management, despite limited resources, as it promotes risk ownership and consequently efficiency in risk mitigation, by mobilizing effective risk management at departmental level (First Line). The Three Lines Model will help cultivate a healthy risk culture; when effectively embedded, it ensures the components within the ERMF are self-reinforcing. These include ensuring a well-communicated risk management framework, a standard language to ensure consistent analytical rigor in assessing risks and incidents, strengthening risk information sharing across the CBS, and importantly a clear approach for how managers should role-model the desired risk management behaviors and standard. In the context of risk management, no program, project, or process is too complex for the risks not to be understood. The Three Lines Model is illustrated in Figure 2.

Figure 2. The Three Lines Model



Source: Mission team.

20. There is currently a limited understanding of the Three Lines Model. The model remains immature and is not embedded at the CBS. There is a requirement to communicate the benefits and requirements of the model to broader management and staff in order to cultivate a culture of “every staff member being a risk manager.” It is particularly important that all staff members contribute to risk management, and that the First Line is fully mobilized to help safeguard the CBS against material risks and incidents. This becomes all the more important

given broader organizational resource constraints. In this context, fully mobilizing and embedding the Three Lines Model helps to mitigate scale challenges.

B. Recommendations

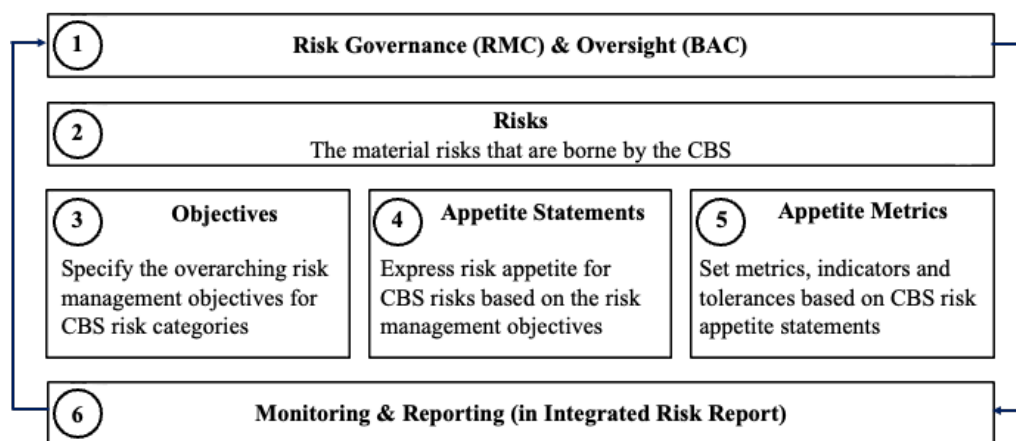
21. Progress has been made on developing the Risk Appetite Statement (RAS) and the Risk Management Policy (RMP). There is a need to ensure a recurring supportive tone from the top, formally communicating the importance of risk management (R-E). At the same time, it is desirable, where appropriate, for staff generating risk information to have visibility over how that information is being used. Staff raising issues should also be acknowledged where possible. This promotes a healthy risk management culture and ensures that it is more likely that staff will offer ongoing suggestions for improvement. Additionally, it is important to ensure the Second Line risk function has the capacity to support the First Line departments, by providing ongoing training to staff across the CBS on their respective risk management responsibilities (R-G).

V. RISK APPETITE, POLICIES, AND REPORTING

A. Observations

22. Progress has been made on developing the Risk Appetite Statement (RAS) and Risk Management Policy (RMP). The draft RAS, which is currently an appendix within the draft RMP, sets out the major categories of enterprise risk. The relevant departments have provided input to the Second Line function to determine draft tolerances and metrics for the aggregate RAS. Given the importance of the RAS, the TA team provided guidance to embed the risk appetite process and to consider separating the RAS into a standalone document which can be cascaded widely to internal stakeholders.¹ The guidance on the approach to the risk appetite process is presented in the figure below.

Figure 3. The Risk Appetite Process



Source: Mission team.

¹ A redacted version could also be published to transparently communicate the risk appetite to external stakeholders.

B. Recommendations

23. The development of a standard Integrated Risk Report (IRR) represents an important priority. An IRR is required to report to the RMC and BAC on the evolution of the risk profile for each category of risk and how the risk profile relates to the defined and endorsed risk appetite thresholds. The core objective of this standard report is to support effective governance, by facilitating members of the RMC and BAC to quickly and transparently access and assess the risk profile across the CBS, and to use this risk intelligence to guide their constructive challenge and provide effective oversight and feedback on risk management. As such, the IRR represents a key governance and communication vehicle and provides a consistent basis for reporting on risk exposures to both the RMC and the BAC.

VI. BUSINESS CONTINUITY/CRITICAL INCIDENT MANAGEMENT

A. Observations

24. The approach to business continuity management needs substantial development. There is a need for the RMC and the BAC to have oversight of business continuity arrangements. It is important to recognize that BCM represents one specialized category of risk. The risk appetite for business continuity should also be defined, which could include sub-statements relating to the acceptable recovery time for business processes deemed to be critical (such as within four hours), or higher-level thresholds, such as the disaster recovery time (DR) for information technology. It is also important to have a standardized approach to critical incident management.

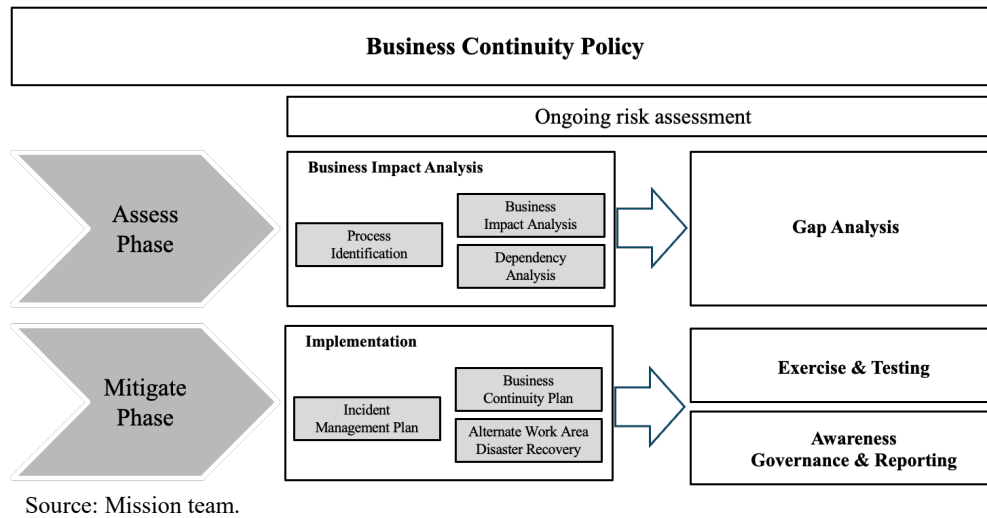
25. A structural review of BCM is required. It was observed that the Three Lines Model has not been applied to BCM. This would require the Second Line, or another area within operations, to coordinate BCM, and broader and consistent participation from departments. Given capacity constraints within the Second Line, this requires additional resourcing in order to ensure this work was completed effectively and without detracting from the broader risk management workload. The key elements of an effective business continuity framework are shown in Figure 4 below. They are:

- *Identification* of critical processes as part of a Business Impact Analysis (BIA).
- Risk *assessment* to evaluate the likelihood and potential impact of reasonably foreseeable internal and external threats which could result in a business disruption.
- Risk *management*, which is driven by the BIA and risk assessment where the business continuity plans are developed (including the formation of an Incident Management Team) and documented.
- *Training, exercises, and testing.*

- *Monitoring, updating, and reporting.*

The framework approach to structuring BCM is illustrated in Figure 4.

Figure 4. Business Continuity Management Framework



B. Recommendations

26. There is a need to ensure oversight of BCM by RMC and BAC. Business continuity represents one specialized category of risk. However, the co-ordination required to ensure an effective response readiness across the CBS is considerable. It is important therefore that both the RMC and BAC are maintaining oversight and periodically seeking assurance that the approach to BCM is appropriate (R-G).

27. Develop a CBS-wide approach to BCM. The approach would be reflected in a Business Continuity Management Policy. Importantly, a co-ordination capacity would have to be built that did not have a negative impact on other risk management initiatives. As such, the mission team would recommend formalizing an Incident Management Team (IMT). Regular updates on BCM ‘response readiness’ should be provided in the IRR (R-H).

28. Undertake a Business Impact Analysis. An effective BIA offers many benefits, including the ability to determine what business processes exist, the criticality of each process as it relates to achieving the CBS’s operational and strategic priorities, what resources each process requires to function effectively, including dependencies on third parties, and the impact to CBS, should the process become unavailable. With this information, CBS can better identify interdependencies, develop appropriate recovery plans, and make informed decisions (R-I).

VII. OTHER OBSERVATIONS

29. There is an opportunity for departmental management teams to periodically present on their risks once the RMC is established. Given the importance of embedding the Three Lines Model, particularly in the context of limited resources, every opportunity should be leveraged to reinforce risk ownership and the culture of all staff having risk management as part of their role. This culture can be reinforced by the RMC inviting departments to present on their risk profile, including the priorities for risk mitigation and learnings from recent incidents. This ensures that management and staff across departments get broader exposure to the work of the RMC, which will both support embedding the role of the RMC and reinforce a supportive tone from the top.

30. Recognize the core interlinkage between risk governance and risk culture. The Board, BAC, executive and RMC play a core role in cultivating an appropriate risk culture across the CBS. This requires a consistent assertive and supportive tone, to drive clarity of understanding on the material risks, the underlying risk and incident trends, and the risk mitigation priorities. As noted earlier, this requires a timely flow of relevant and accurate risk information up and down the organization. Such two-way cascading of risk information and constructive challenge and input from governance committees should foster momentum and a sense of urgency to ensure effective risk management across the CBS, role modelled and evidenced by positive attitudes and behaviors towards risk management at the departmental level. The key elements for driving an effective risk culture at CBS are illustrated in Figure 5. In the absence of any component, the desired risk culture will be weakened.

Figure 5. Cultivating Risk Culture at the CBS



Source: Mission team.

VIII. CONCLUDING REMARKS

31. The CBS is on a journey to enhance and embed enterprise risk management practices. Following the previous technical assistance, some positive steps have been taken, but further work is required to enhance risk governance, especially to improve the Executive’s ability to manage risk within its approved risk appetite, and to enhance the Board’s oversight of material risk exposures. While progress has been made, particularly with regard to drafting the Risk Appetite Statement, work is required to operationally establish the Risk Management Committee and to develop Integrated Risk Reporting. Together, the implementation of these priority recommendations will enhance the CBS risk governance.

32. Effective risk management will help safeguard the CBS in discharging its mandate now and into the future. Throughout the onsite mission, the importance of effective risk governance and management was communicated, especially in the context of the increasing complexity of risk exposures, which are both broadening and deepening in nature. The report emphasizes that when resources are constrained, the effective embedding of the Three Lines Model becomes all the more important, to cultivate a culture of “all staff being risk managers.” Throughout the TA mission, the team noted the external mandate-related pressures on the CBS, and how effective risk governance and oversight can play a pivotal role in safeguarding the reputation, credibility, and independence of the CBS, by demonstrating effective governance, accountability and transparency. The implementation of the priority recommendations as set out will significantly enhance the CBS risk governance.

33. Follow-up TA. There would be merit in actively monitoring progress in implementation of the recommendations, via a quarterly virtual review, followed by a more comprehensive on-site review after a period of one year.

APPENDIX I. DOCUMENTS REVIEWED OR CONSULTED BY THE MISSION

In addition to the artefacts made available to the mission team for its previous report the following documents were reviewed.

#	Document Title	Date of Issue	Description
1	Draft Risk Management Policy	Current	The draft Risk Management Policy. It has been circulated internally within the CBS for comment.
2	Board Audit Committee Terms of Reference	August 2022	The amended Terms of Reference for the Board Audit Committee. It was amended to include oversight of the CBS's risk management practices.
3	CBS Risk Register Template	Current	The risk register template used by all departments within the CBS.

APPENDIX II. LIST OF PEOPLE MET

The mission team met with the following staff and Board members of the CBS.

Governor

Mrs. Maiava Atalina AINU'Ū-ENARI, Governor

Deputy Governors

Mr. Gilbert Wongsin, Assistant Governor (Operations Group)

Mr. Seve Benjamin Pereira, Assistant Governor (Policy Group)

CBS Board Members

Mr. Tuala Pat Leota, Non-executive Director and Chair of the Board Audit Committee

Mr. Tuala Falani Chan Tung, Non-executive Director

Management

Mr Sili Ti'a Peniamina Tauati, Manager, Accounts and Budgets, ABD

Mr Karras Lui, Manager, Economics, ED

Mrs. Jane Aoina, Manager, Human Resources, HRD

Mrs. Tapusina Asalele, Manager, Financial Supervision and Regulation, FSRD

Mrs. Tuigamala Lanna Lome-Ieremia, Manager, Financial System Development, FSRD

Ms. Alai Lea Collins, Manager, Banking Currency Services, BCSD

Mr. Gafatasi Patū, Manager, Legal/Financial Intelligence Unit (FIU), LFID

Mrs. Sili Matafai Margaret Tafuna'i, Manager, Financial Markets, FMD

Ms. Erema Chan Poe, Manager, Internal Audit, IA

Mr. Lealaitagomoa I'amafana Akerei, Manager Property and Procurement, PPD

Mr. Fa'anuu'uali'i Isara, Assistant Manager, Property and IT

Mr. Alofaifo Seleni, Assistant Manager, Financial Supervision and Regulation, FSRD

Mrs. Aiulu Tolovaa, Assistant Manager, Economics (ED)

Mr. Tu'utatau Mika Leo, Assistant Manager, Banking and Currency, BCSD

Mrs. Magele Capricorn Tooala, Assistant Manager, Domestic Markets, FMD

Mr. Jeremaia Fau, Assistant Manager, International Markets, FMD

Ms. Siavata Nofoaiga, Assistant Manager, Insurance, FSRD

Mr. Lemauga Sioa Sioa, Assistant Manager, Legal/FIU, LFID

Mrs. Leoi Hill, Assistant Manager, Accounts and Budgets, ABD

Ms. Tofilau Muriel Schuster, Assistant Manager, Human Resources, HRD

Mr. Chrislane Meredith, Assistant Manager, Information Technology, ITD

Mrs. Taumuli Saena-Papalii, Executive Assistant

APPENDIX III. SCHEDULE OF MEETINGS

#	Session	Date	Duration (hours)
1	Meeting with Chairman of the Risk Management Committee (RMC) and the broader risk team.	Aug. 15, 2023	1.5
2	Meeting with the Assistant Governor (Operations Group), management teams of the Accounts and Budget Department, Human Resources Department, Property & Procurement Department, and the Internal Auditor.	Aug. 15, 2023	1.5
3	Meeting with the Assistant Governor (Operations Group) and management teams of the Banking and Currency Services Department, and the Internal Auditor.	Aug. 15, 2023	1.5
4	Meeting with the Assistant Governor (Operations Group), representatives from the Economics Department and the Internal Auditor.	Aug. 16, 2023	0.75
5	Meeting with the Assistant Governor (Operations Group), representatives from the Financial Markets Department, and the Internal Auditor.	Aug. 16, 2023	0.75
6	Meeting with Assistant Governor (Operations Group), representatives from the Financial Supervision and Regulatory Department and the Internal Auditor.	Aug. 16, 2023	0.75
7	Meeting with the Assistant Governor (Operations Group), representatives from the Legal and Financial Intelligence Department and the Internal Auditor.	Aug. 16, 2023	0.75
8	Meeting with the Governor and the Internal Auditor.	Aug. 17, 2023	1
9	Meeting with two non-executive members of the Board, including the Chair of the Board Audit Committee.	Aug. 17, 2023	1.5
10	Concluding Session with the Governor, Assistant Governor (Operations Group) and the Management Committee.	Aug. 17, 2023	2