Enterprise Risk Management (ERM)

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The Enterprise Risk Management (ERM) of *Banco de la República* (the Central Bank of Colombia, *Banrep*) is a set of policies, strategies, practices, procedures, methodologies, controls, and/or limits established to identify, measure, control, monitor, and report the organization's risks in a timely manner, supporting *Banrep*'s decision-making. The ERM consists of policies, Risk Appetite Framework (RAF), governance structure, and the stages for risk management.

Below are details about the RAF and the governance structure of the ERM:



Risk Appetite Framework (RAF)

The RAF is the set of methodologies, procedures, controls, and alert levels used to establish, communicate, and monitor risk appetite, meaning the exposure that *Banrep* is willing to accept while performing its functions.

It applies to all the risks of *Banrep* and includes:

- **General RAF policies:** These define the guidelines for managing the RAF across the organization.
- **Risk Appetite Statement (RAS):**
  - Qualitative Statement
  - Quantitative Statement (internal indicators used for monitoring process risks).

Banco de la República's **Qualitative Risk Appetite Statement (RAS)** is:

"*Banco de la República* is conservative regarding the risks it takes on; therefore, it has low tolerance for both financial and non-financial risks. Regarding fraud, corruption, or criminal activities, *Banrep* has zero tolerance due to its high standards of transparency and ethics.1

Consequently, *Banrep* incorporates these aspects into its decision-making process, prioritizing the fulfillment of its constitutional duties, and manages its risks through management systems, policies, processes, and control schemes aimed at mitigating the potential impacts arising from their materialization".

Risk TypeAcceptable Risk Level Without RiskLowModerateHigh**Financial Risks**-X--Market Risk-X
Risk-X--Credit Risk-X--**Non-Financial Risks**-X--Operational Risk-X--Fraud RiskX---Other Risks-X--Money
Laundering and Terrorist Financing Risk (ML/TF)X---Environmental Risk-X--Third-Party Supplier F
Reputational Risk-X-- Governance Structure for Risk Management



Banrep risk management governance is based on the Three Lines Model1 as shown below:

Strategic Line

Board of Directors

Administrative Council

Office of the Deputy Executive Governor

Risk Committee[2]

Audit Committee

Institutional Committee for Internal Control Coordination

First Line



Who: Banrep areas and macro-process, process, and project leaders

Role: Risk-taking and self-control

Objective: Fulfill the mission or corporate objective of their process by implementing self-controls

Second Line



Who: Banrep's Middle Office (Office for Risk Management and other support areas)[3]

Role: Supports decision-making and risk control

Objective: Independently and comprehensively assess, provide an opinion, and monitor the level of relevant risks across the organization

Third Line



Who: Internal Control

Role: Independent assurance

Objective: Evaluate the effectiveness of the Internal Control System[4] and, as part of this evaluation, review the compliance with ERM policies and controls.

General Audit

1 This model is proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and allows for the integration of Risk Management into Process-Based Management, clearly defining the roles and responsibilities of business units and control units within the process. This model was adopted by the *Departamento Administrativo de la Función Pública - DAFP* (Public Service Administrative Department) to support the Internal Control Standard Model (MECI in Spanish)
2 Internal Resolution 01 of 2020. The Board of Directors of *Banrep* established the Risk Committee as an advisory and support body to the Board of Directors and Administrative Council regarding the Integrated Risk Management System.
3 Departments and units performing second-line functions at *Banrep* (Middle Office).
4 Risk management is one of the five components of the Internal Control System.

1 ? *"Los riesgos de fraude, corrupción y lavado de activos y financiación del terrorismo son inherentes a la actividad del Banco y al desarrollo normal de sus procesos. Por eso, aunque no pueden eliminarse por completo, el Banco declara no tener apetito por ellos, es decir que nunca los asumirá de forma voluntaria ni como medio para lograr sus objetivos. Su gestión busca mantener el riesgo residual en el nivel más bajo posible, con controles preventivos, de detección y de respuesta.*

De forma coherente, el Banco tiene cero tolerancia ante la ocurrencia de eventos de esta naturaleza, sin importar su cuantía, frecuencia o impacto, por lo cual actuará de inmediato para investigarlos, corregirlos o mitigarlos".

Fuente: https://www.banrep.gov.co/en/bank/corporate-governance/enterprise-risk-management