

Non Financial Risk in a commodity trading environment: our approach

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Agenda

- Risk department's role in a trading company: focus on non-financial risk management
- Understanding culture and embedding it into the risk framework
- Non-financial risk management - case study: evolution of Operational Risk
- Future challenges for non-financial risk management
- Main Takeaways

Eni Trading & Shipping: the global trading arm of Eni



Eni trading and shipping (“ETS”):

- ETS is the trading arm of Eni S.p.A., an Italian multinational oil and gas company operating in 79 countries
- Centralized cross-commodity trading & shipping
- Unique combination of upstream, midstream and downstream assets
- Focused on customers’ needs: identify & develop solutions which work best for them



- Operating 24/7 - cross 3 main time zones
- >450,000 transactions/year

Annual Key Figures

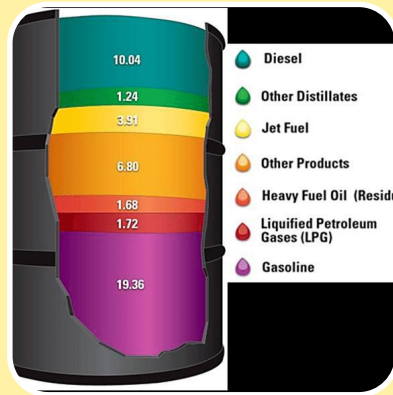
equity commercialization	~ 220 Mboe
crudes & products for our system	~ 180 Mboe
crudes & products trading	~ 420 Mboe
gas trading & execution	~ 800 Mboe
# shipping voyages	~ 2600



ETS: range of products



Crude



Products



Gas

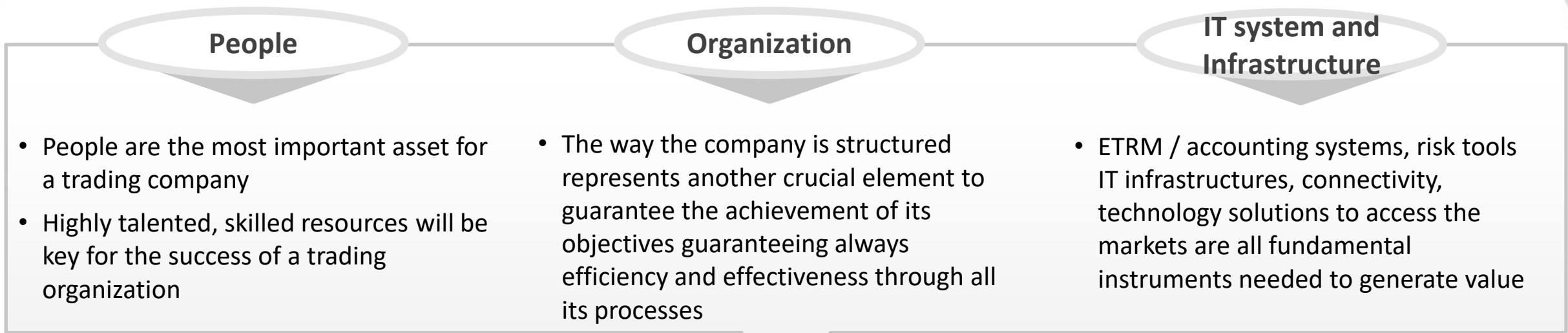


Power

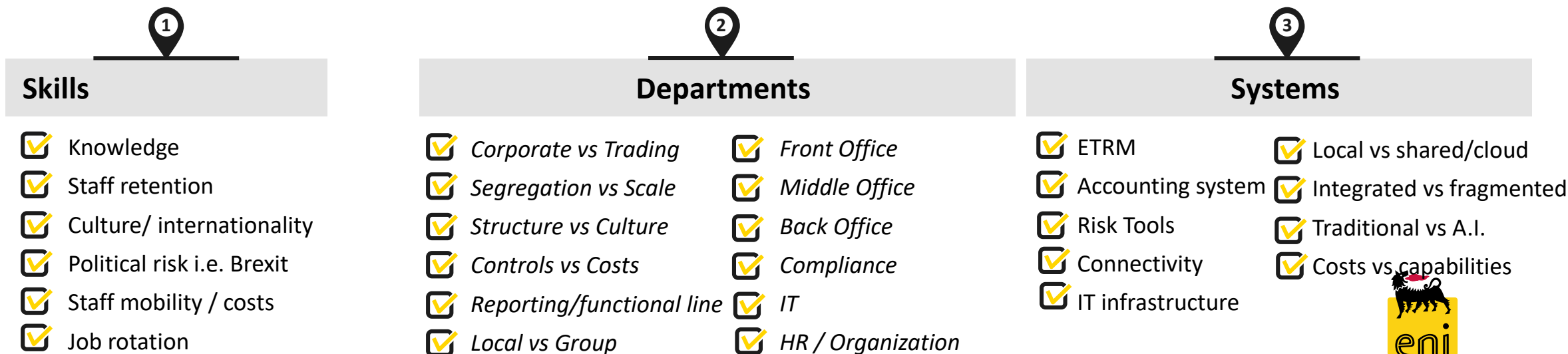


LNG

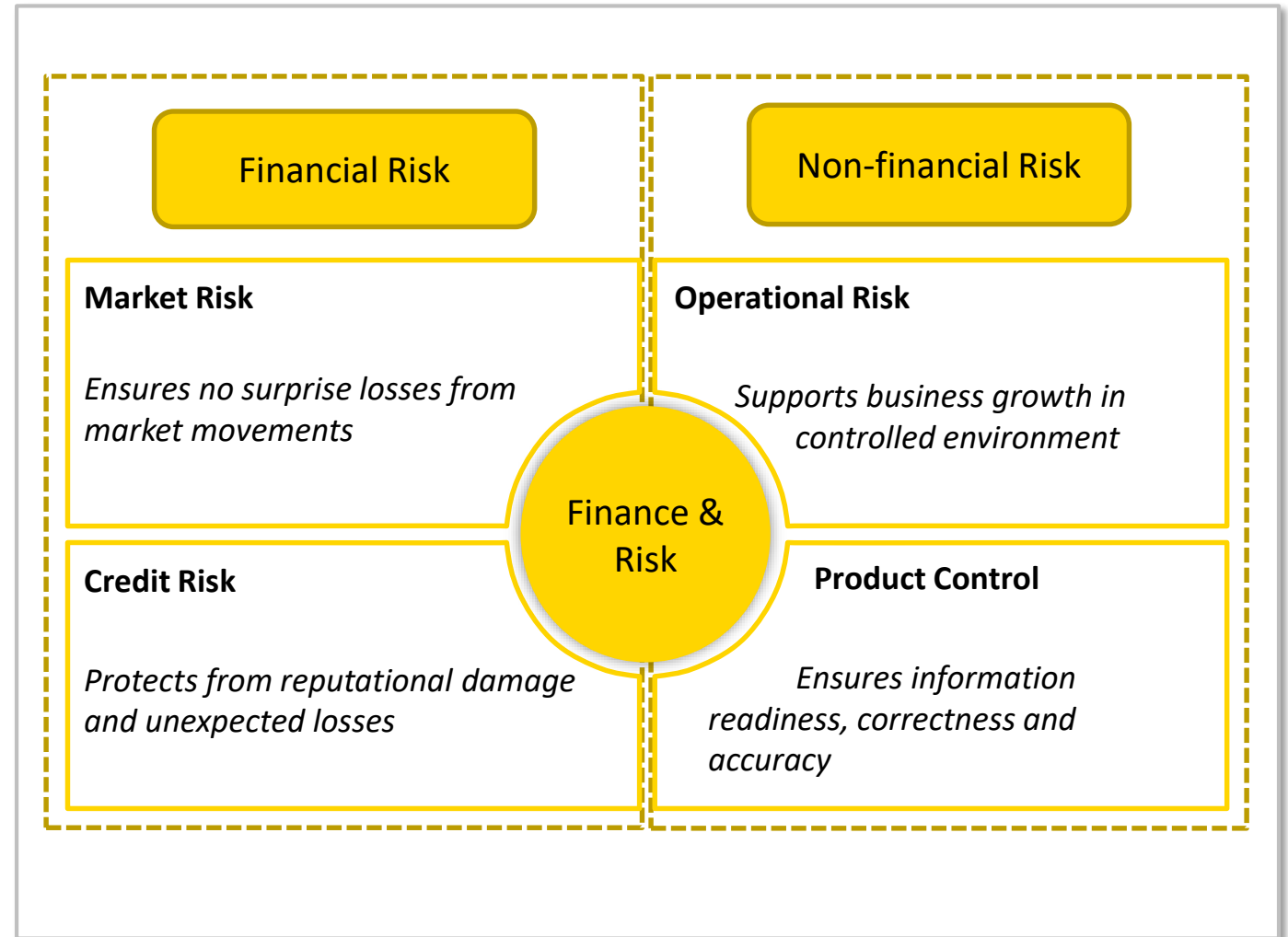
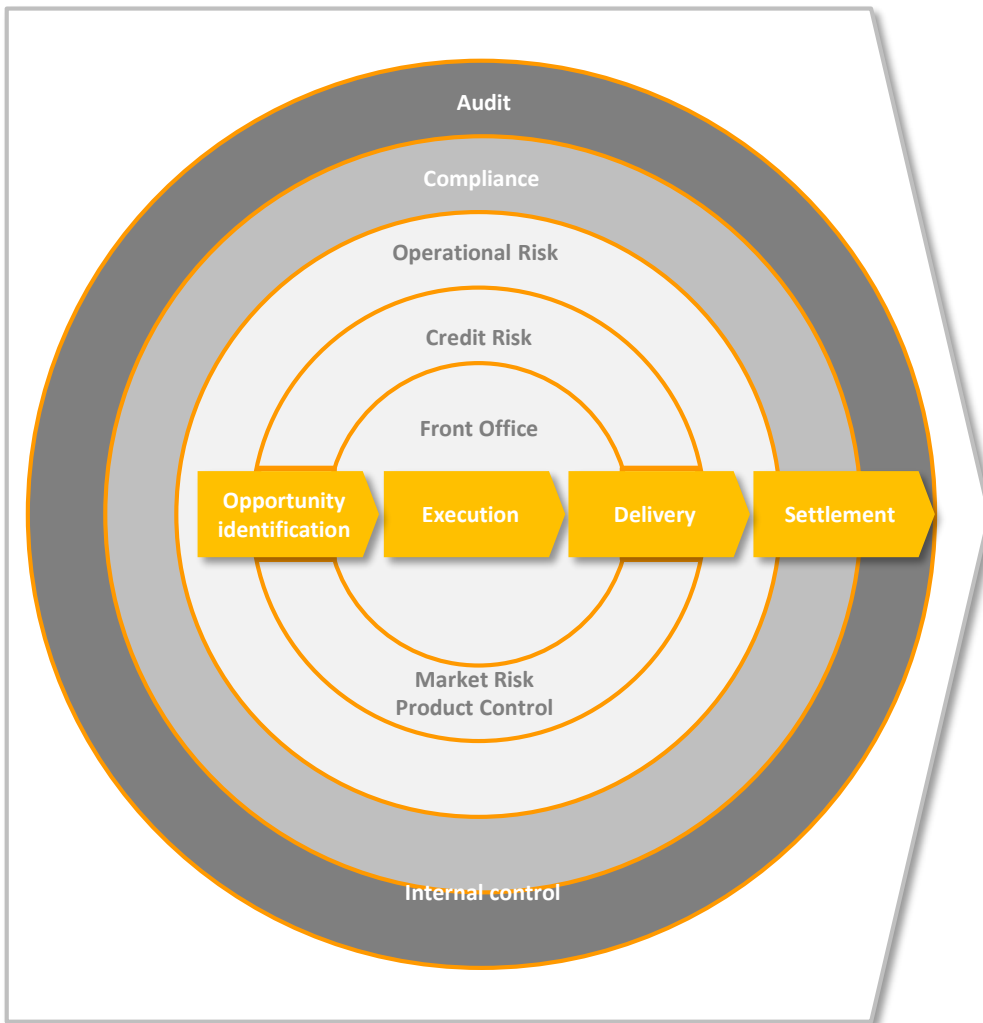
Trading critical dependency on 3 key factors



EACH WITH ITS OWN CHALLENGES



ETS: risk control functions organization



Enhancing value working in an integrated way

- **Split** between Financial and Non-Financial Risk **doesn't mean segregation.**
- **Integration** among Risk functions is fundamental to enhance controls' effectiveness

Main challenges:

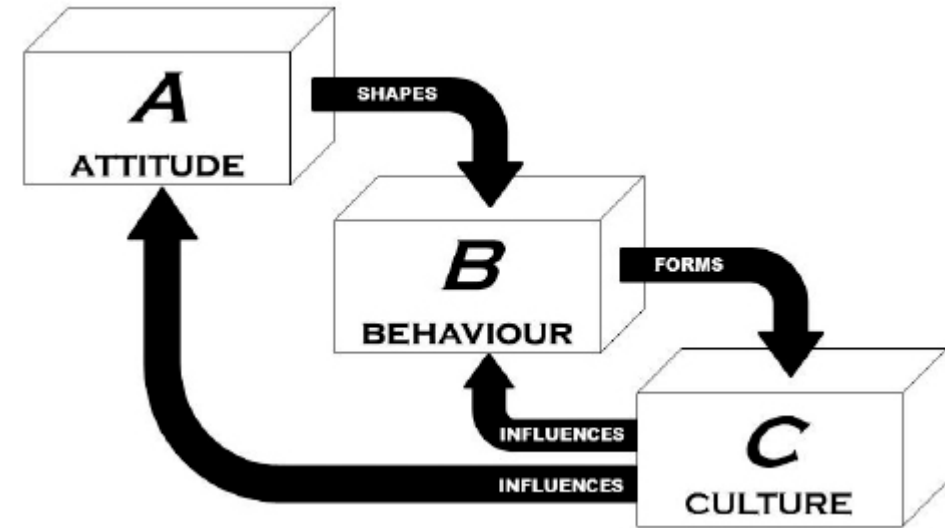
- ✓ Organization vs Integration
- ✓ **Corporate Culture**
- ✓ Different skill set required
- ✓ Need to focus with dedicated resources
- ✓ Split between Product Control and Market Risk
- ✓ Processes integration and sharing of info
- ✓ Effectiveness in fraud detection



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Definition of culture and relation with other company's factors



A-B-C Model of Culture

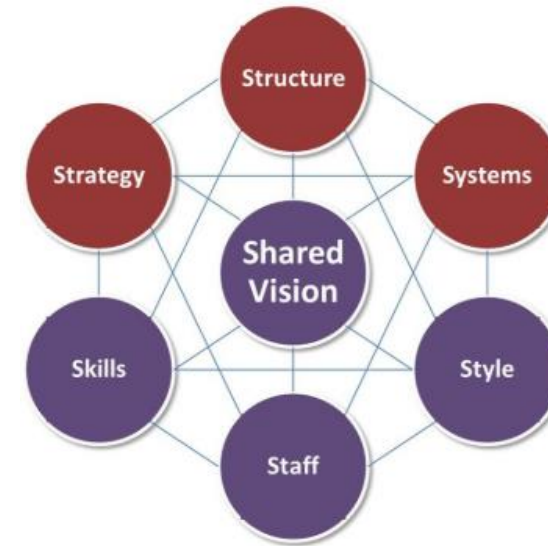
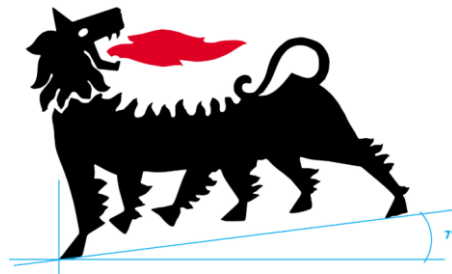
- **Culture** of a group arises from the repeated **Behaviour** of its members
- **Behaviour** of the group and its forming individual is shaped by underlying **Attitudes**
- Both **Behaviour** and **Attitudes** are influenced by **Culture**



Definition of culture and relation with other company's factors

- **Culture** includes unobservable and observable aspects
- **Unobservable aspects** are shared values, beliefs and assumptions
- **Observable aspects** are behavioural norms (e.g. slogans, statement) and artifacts (e.g. symbols, stories, facilities, awards)

"We are constantly putting ourselves to the test and searching for new, more effective solutions, even though **we recognise that many of our 'traditional' methods often remain the best.** We believe that team success is more valuable and enduring than individual achievement".



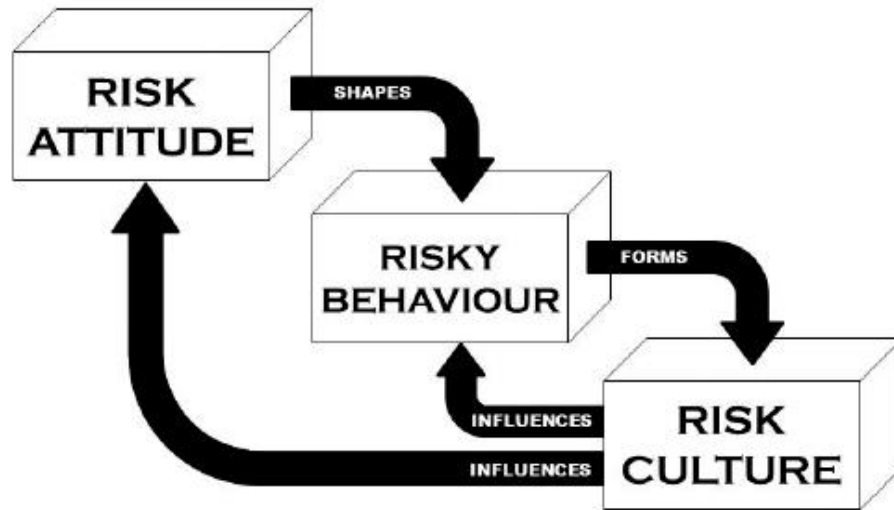
hard Ss

soft Ss

The McKinsey 7S Framework

Strategy	Plan to achieve competitive advantage
Structure	Way in which authority is distributed
System	Processes to manage the organization
Staffing	People and their capabilities
Skills	Distinctive competencies of the organization
Style	Management's leadership style
Shared Values	Values widely shared that serve as guiding principles

Definition of Risk Culture and impacts on Risk Management



Risk-related version of ABC model

- **Risk attitude:** chosen position adopted by an individual or group towards risk, influenced by risk perception”
- **Risk behaviour:** external observable risk-related actions, (e.g. risk-based decision making)
- **Risk culture:** “the values, beliefs, knowledge and understanding about risk, shared by a group of people with a common purpose”.

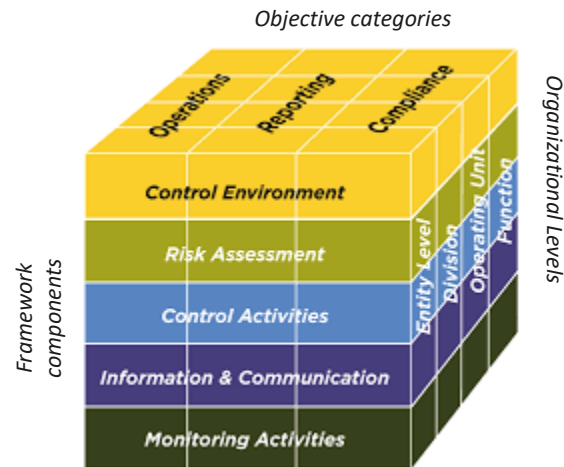
Risk Culture affects Risk Management



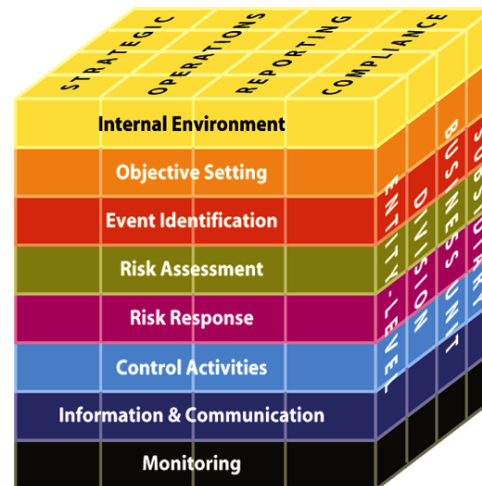
Understanding company's risk culture is fundamental to set an appropriate risk framework!

Evolution of Risk Management Framework

- Risk frameworks have evolved overtime, addressing many critical 21st century business challenges mainly represented by:
 - evolving markets
 - rapid innovation
 - new regulatory requirements



COSO I (2004)



COSO II (2013)

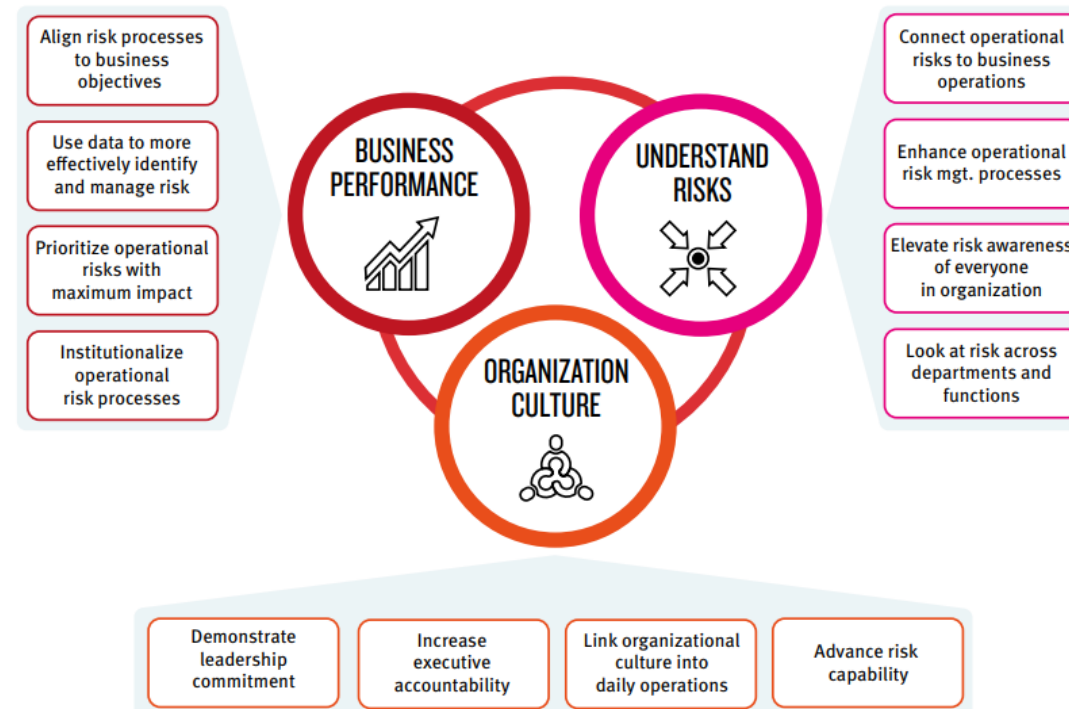


COSO III (2017)

- From cube to helix: Risk Management framework from Value Preservation to Value Creation
- Emphasis on “Culture” - helping people make decisions while understanding the importance of culture in shaping those decisions

Instill culture in Operational Risk Management Framework

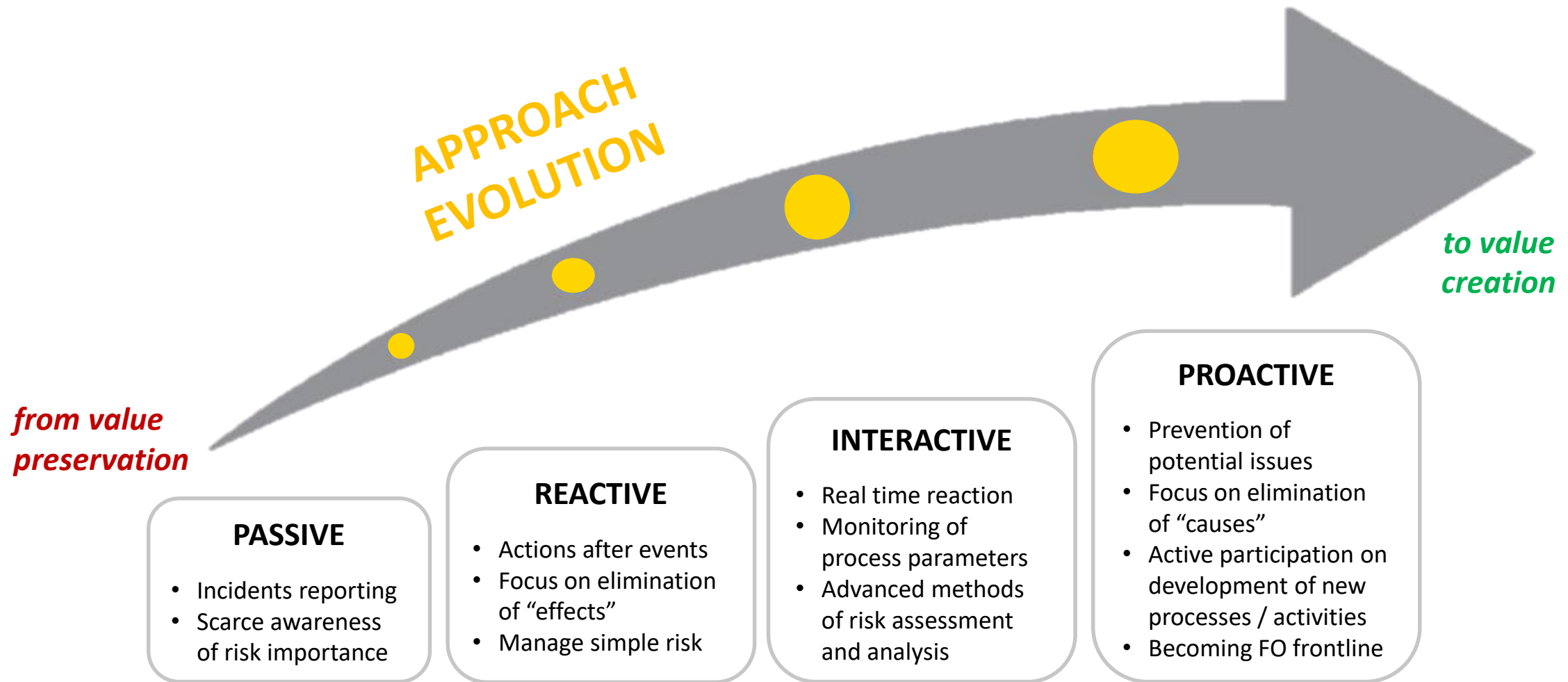
- **“Three of every four executives felt operational risks in their companies were inadequately managed”**
(DuPont Sustainable Solution – Global Survey 2019)
- Main challenges: leader/workforce misalignment, performance management, ORM capabilities, mindsets and behaviours, processes
- How to better manage operational risk and improve organisational performance (3 key areas)



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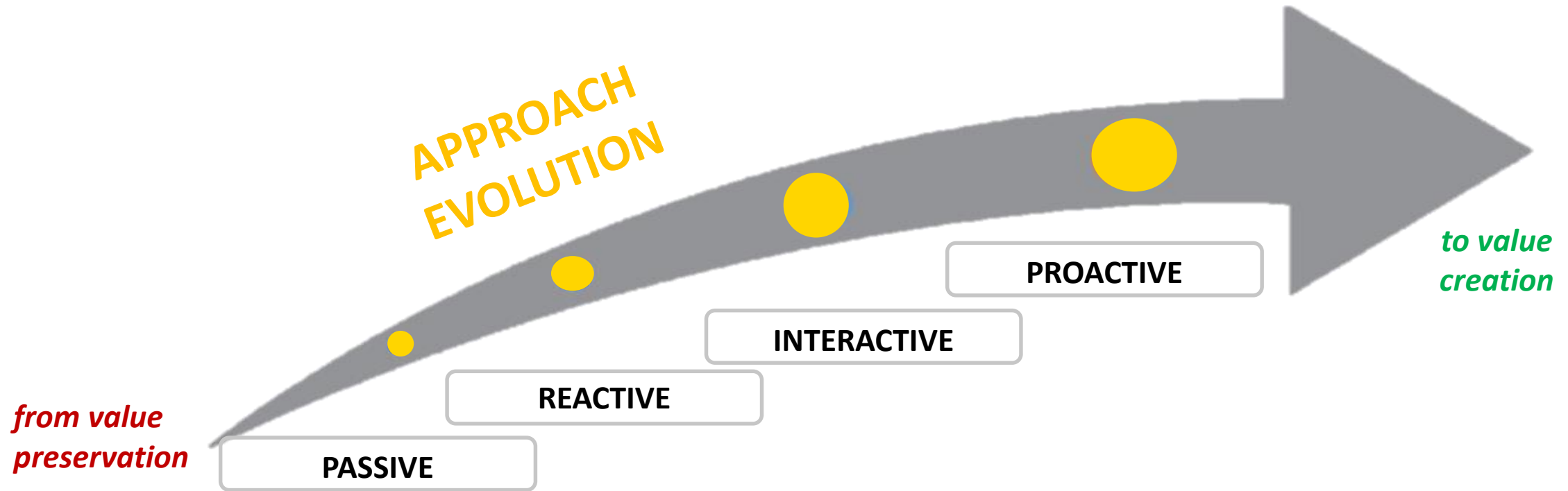
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Evolution of Operational Risk within a fast-paced trading company



- Over the years, also the role of Operational Risk has changed, refocusing its core activities

Question



**WHICH APPROACH HAS OPERATIONAL RISK ADOPTED
IN YOUR COMPANY?**

- **PASSIVE**
- **REACTIVE**
- **INTERACTIVE**
- **PROACTIVE**

Operational Risk - Traditional activity

Incidents management

Identification

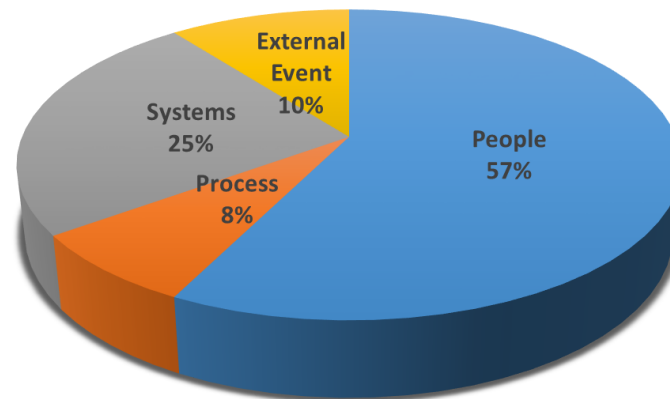
- Errors identified in the execution of procedures are managed as incidents
- All incidents are stored in a database

Analysis / Intervention

- Analysis of causes is carried out for each incident (e.g. human error, procedure design, system error, ...)
- Mitigation actions are identified to reduce the probability that the error can be repeated

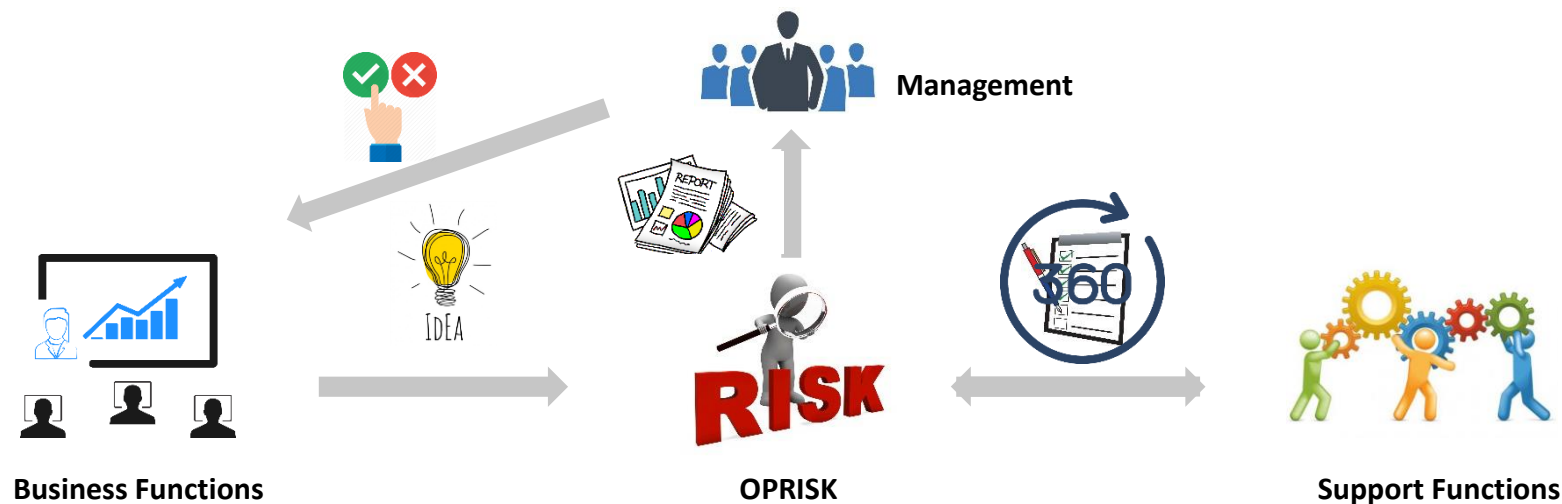
Monitoring

- Incidents and trends are monitored on weekly and monthly dashboards to check on mitigation's effectiveness
- Dashboards are shared to ensure the business is aware of risks and take ownership of potential actions

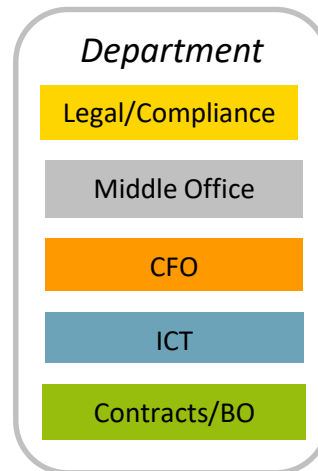


Strengthening of traditional activities to provide a more effective business support

- Operational Risk **re-focused** its core activity along two main streams
 - **Traditional activity** - improved and adapted to the new business requirements with the final aim of providing added-value information on risks/incidents and **promoting process efficiency**
 - On the other side, growth and fast-pace environment characterizing a trading firm lead to an imminent need of creating a risk aware environment to **facilitate new business development**
- ↓
- Operational Risk plays a new role in the identification and management of risks connected to new activities, to advice management with a 360-degree analysis of related pros and cons.



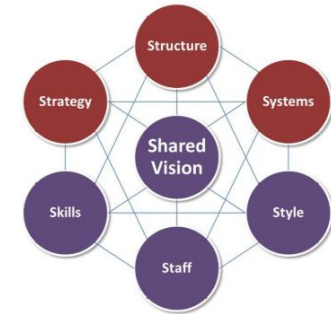
Spreading risk awareness while facilitating development of new business activities



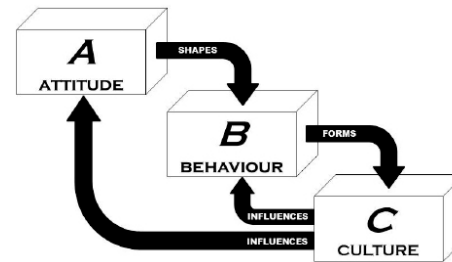
- Enhancing awareness of risk among business functions
- Make support functions aware of new market trends and ready to set new controls/procedure to enable new business to flow in a risk-aware environment

Leverage on risk culture and shared values for promoting behavioural changes

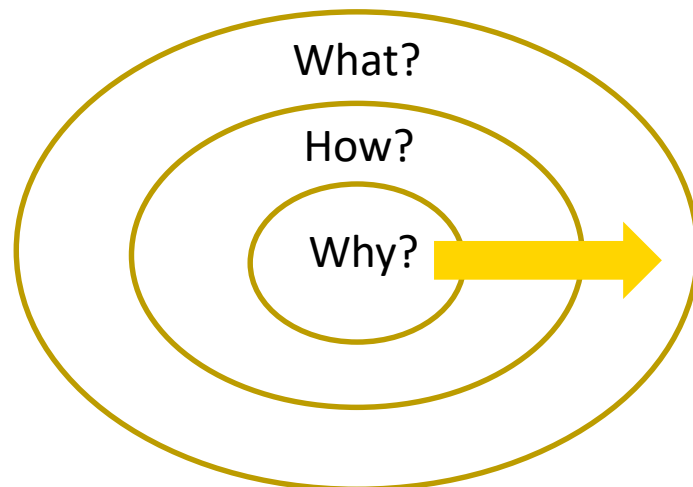
- New role for Operational Risk implies new processes, new behaviours, new skills..
 - Alignment among the “Ss” (*7S Framework*)



- How to influence people's behaviours?
 - Leveraging on culture (*A-B-C model*)



- How to convince business functions to follow new processes that seem to slow their standard activity?



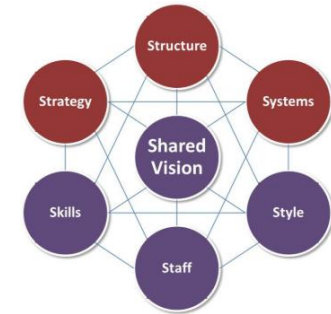
THE GOLDEN CIRCLE (Sinek)

“People don’t buy WHAT you do, they buy WHY you do it!”

- **Why:** enable new business to flow in risk-aware environment, facilitating management approval
- **How:** involving company’s experts of relevant fields
- **What:** a process which defines a 360-degree analysis of new business activity prior approval

Question

- New role for Operational Risk implies new processes, new behaviours, **new skills**..
 - Alignment among the “Ss” (*7S Framework*)



WHAT IS THE DIFFICULTY LEVEL EXPERIENCED BY YOUR COMPANY IN RECRUITING PROFILES WITH A SKILL-SET SUITABLE FOR OPERATIONAL RISK ROLE?

- ***HIGH***
- ***MEDIUM***
- ***LOW***
- ***DON'T KNOW***

Product Control: another key player in Non-financial Risk management

- ✓ Product Control's **main purpose**: guarantee that **ETRM systems** correctly, accurately and timely **reflect** what has been **traded** in the market.
- ✓ It is an integral part of a company's internal control environment surrounding the trading activities.
- ✓ Product Control is an independent oversight function that, through validation & surveillance on transactions and market data, **enables other departments to monitor risk metrics** with correct and accurate information safeguarding the company from various risks.



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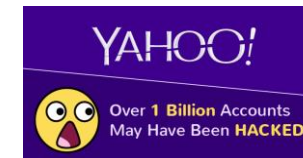
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Future challenges for Non-financial Risk management

- Artificial intelligence and robots are taking the stage in trading activity leading to new opportunities and threats for risk managers
- Manual activities replaced by automation leads to several benefits:
 - Cycle time reduction
 - Management of relevant amount of data to elaborate more accurate risk forecasting model
 - Deeper analysis supporting decision making



- Cyber attack, hackers and ICT threats represent major downside



- Technology innovations will not impact the importance of risk culture in the risk framework definition

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Main Takeaways

- Operational Risk and Product Control have a fundamental role in non-financial risk management
- Split between Financial and Non-Financial Risk management still requires full integration among risk functions
- Even though there is not a specific recipe to implement an ideal risk frameworks, they are still relevantly influenced / based on the company's risk culture, shared values and accepted risk appetite
- Operational Risk is today more focused on management of risks related to new business activities, playing as first line of defence
- Product Control represents deeper layer of defence, monitoring consistency and integrity of trading activity