



SOLOMON ISLANDS

TECHNICAL ASSISTANCE REPORT – CENTRAL BANK RISK MANAGEMENT

October 2022

This Technical Assistance Paper on Solomon Islands was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in August–September 2021.

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Central Bank Risk Management

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Prepared By

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Department**

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GLOSSARY

| | |
|---------|---|
| AML/CFT | Anti-Money Laundering/Countering the Financing of Terrorism |
| BAC | Board Audit Committee |
| BCM | Business Continuity Management |
| CBSI | Central Bank of Solomon Islands |
| ERM | Enterprise Risk Management |
| HRCSD | Human Resources and Corporate Services Department |
| IAU | Internal Audit Unit |
| ICTD | Information and Communication Technology Department |
| IMF | International Monetary Fund |
| IMT | Incident Management Team |
| MCM | Monetary and Capital Markets Department |
| ORM | Operational Risk Management |
| PFTAC | Pacific Technical Assistance Center |
| RAS | Risk Appetite Statement |
| RMCCD | Risk Management and Corporate Communications Department |
| RMU | Risk Management Unit |
| SRA | Strategic Risk Assessment |
| TA | Technical Assistance |

PREFACE

At the request of the Central Bank of Solomon Islands (CBSI), a Monetary and Capital Markets (MCM) Department mission provided technical assistance (TA) on central bank risk management during the period of August–September 2021. The mission was conducted by Mr. Paul Woods (MCM expert, Central Bank of Ireland) and Mr. Chris Aylmer (MCM expert, formerly with the Reserve Bank of Australia), and backstopped at IMF headquarters by Ashraf Khan (MCM, Central Bank Operations Division).

The purpose of the mission was to guide CBSI on how to establish an Enterprise Risk Management (ERM) framework, with emphasis on the foundational components and initiatives required to strengthen risk governance and to foster the internal risk culture.

The virtual mission was conducted by means of a desk review of relevant CBSI documents and via video-conferences with presentations and discussions with CBSI officers. The documents that were reviewed are listed in Appendix I. Officers participating in the discussions included Dr. Luke Forau (Governor), Mr. Raynold Moveni (Deputy Governor), Ms. Christina Lasaga (Non-executive Director), Mr. David K.C. Quan (Non-executive Director), Bob Pollard (Non-executive Director), Mr. Marlon Houkarawa (Management Advisor, Operations) and Mr. Michael Kikiolo (Management Advisor, Policy). Appendix II provides a list of CBSI officers that participated in the meetings, including the broader management representation from departments. Appendix III provides the schedule of meetings, including the presentations on best practice in risk management provided to the executive leadership and to representatives of the Board.

The mission team wishes to thank the CBSI for their cooperation, engagement and constructive feedback provided throughout the TA engagement.

EXECUTIVE SUMMARY

The objective was to guide CBSI on developing its risk management framework. In 2021, as part of its updated strategic plan (2020-2024), the CBSI established a Risk Management and Corporate Communications Department (RMCCD). The TA mission focused on providing structured guidance in relation to how to progress with the phased implementation of an ERM framework, and to work to establish:

- **A strengthened risk culture**, such that: (i) the governor and the Board can subscribe to the need and benefit that will be provided by a coherent and structured approach to risk management; (ii) are bought in to communicate this to the wider organization; and (iii) are clear on what their respective roles and responsibilities are, those of the departmental management teams, the RMCCD and its sub Risk Management Unit (RMU), the Board Audit and Risk Committee, and the broader board.
- **Guidance on how to strengthen CBSI risk governance**, including: (i) the central coordinating role of the RMU; (ii) highlighting how the RMU should progressively advance its responsibilities as second line of defense, including prioritizing risk framework components, integrating risk reporting, and cultivating the embedding of risk related responsibilities of all of the departmental management (first line of defense); (iii) improving risk oversight for senior leadership and the board; and (iv) ensuring clarity on the delineation of the role of risk management (second line) vis-à-vis internal audit (third line).

The key recommendations from the mission are outlined in Table 1 below.

Table 1. Key Recommendations

| | Recommendations for Implementation | Priority | Timeframe |
|--|--|----------|-------------|
| <i>Enhance CBSI Risk Governance</i> | | | |
| 1 | <p>Risk Management Unit (RMU) to develop a standard risk report to be presented to the CBSI leadership team and the board on a quarterly basis, refining and progressively integrating the reporting on risks across material risk categories.</p> <p>All departmental management teams to be responsible for ensuring their support to complete risk reporting templates in an accurate and timely manner, reviewing and endorsing all content provided to the RMU to be incorporated into the bank-wide integrated risk reports overseen by the board.</p> | High | 3-6 months |
| 2 | <p>Establish an executive Risk Working Group (RWG), chaired by the deputy governor, with departmental management representation (first line of defense).</p> <p>RMU to develop the draft ToR for the RWG, and to act as its secretariat, coordinating its agenda, including recurring risk items, circulating the minutes, actions and action owners.</p> | High | 3-6 months |
| <i>Progress Phased Implementation of the CBSI Risk Management Framework</i> | | | |
| 3 | <p>RMU to draft the methodology for risk identification, with the approach to combine the bottom-up perspective from the operational risk management (ORM) assessments with an annual top-down strategic risk assessment (SRA).</p> <p>RWG to review, input and endorse the final approach to risk identification, the output of which will form the basis for risk assessment intelligence provided to the senior leadership and board.</p> | High | 6-12 months |
| 4 | <p>RMU to prepare the first draft of a CBSI Risk Appetite Statement (RAS). This document will define the risk thresholds for CBSI, across financial and operational categories of risk. This RAS should be refined using an annual governance review cycle.</p> <p>Each risk category articulated in the RAS to be also represented within the integrated risk report over time provided to the executive leadership and board each quarter.</p> <p>RMU to engage with specialist risk experts within departments to define appropriate risk thresholds, including related to reserve management and information technology and information security.</p> | High | 6-12 months |
| 5 | <p>RMU to document output from RWG review of risks and risk thresholds to ensure senior management alignment on the materiality of risks, and to represent this in the integrated risk reporting, which should help form the basis of quarterly recommendations to leadership and Board on risk treatment priorities.</p> | High | 6-12 months |

These recommendations reflect careful consideration to ensure they represent priorities to advance the CBSI's risk management and risk governance maturity. In advancing these, the CBSI will be able to strengthen its internal risk culture, and oversight of risk and risk treatment strategies, all aligned to effective risk prioritization.

There is an obligation on CBSI leadership to ensure that RMU is appropriately resourced to progress with the implementation of the recommendations within the timeframes outlined, as these recommendations have been set taking due account of the limited resources that the CBSI will be able to allocate to the RMU. It will also be important to ensure senior leadership representation on the RWG, combined with strengthening the tone from the top and risk oversight from the board.

It is recommended that a follow up to this TA be scheduled for six to nine months from the start of the mission, to examine the extent to which the CBSI have been able to implement the mission's recommendations and to provide follow up guidance and support as appropriate. An interim check-in should be completed within three months of the mission concluding, to provide timely feedback to CBSI on any follow-up queries arising as the recommendations are being implemented.