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Briefing Doc

EMI and PI Risk Management Framework



Detailed Briefing Document

Risk Management Arrangements for UK EMIs and PIs

Summary: This document provides guidance on establishing a robust Risk Management Framework (RMF) for Electronic Money Institutions (EMIs) and Payment Institutions (PIs) authorised in the UK. It outlines the essential components, stages, and best practices for effective risk management, ensuring compliance with regulatory requirements outlined in the Electronic Money Regulations 2011 (EMR) and the Payment Service Regulations 2017 (PSR).

Key Themes:

Regulatory Compliance: UK authorised EMIs and PIs are obligated to maintain "adequate internal control mechanisms, including sound administrative, risk management and accounting procedures" proportionate to their business scale and complexity. A well-defined RMF ensures compliance and enables firms to effectively identify, manage, monitor, and report risks.

Comprehensive Framework: A comprehensive RMF encompasses policies, procedures, assigned responsibilities, a Risk Register, a Business Continuity Plan/Disaster Recovery Plan, a Wind Down Plan, and Board Reporting mechanisms.

Continuous Risk Management: Risk management is an ongoing process involving six distinct stages: Identify, Record, Assess, Mitigate, Monitor, and Report. This cyclical approach ensures risks are consistently identified, evaluated, and addressed.

Important Ideas/Facts:

Risk Identification is Crucial: "Firstly, risks must be identified so they can be managed. Unidentified risks cannot be managed and will continue to pose a danger to the business." Effective risk identification, potentially through staff training and routine reviews, forms the foundation of a successful RMF.

Prioritisation of Risks: "Resources, whether financial or human, will be required to control a risk; it is therefore unlikely that a business would be able to control all of the risks that it faces." Assessing risk severity allows businesses to allocate resources efficiently, prioritising the most critical risks.

The Risk Register as a Central Tool: The Risk Register acts as the core document within the RMF, capturing details like risk descriptions, assessments, ownership, mitigation controls, and residual risk levels.

Dynamic Risk Environment: "The assessment of each risk and the effectiveness of the mitigating controls that have been applied to it will then need to be monitored." Ongoing monitoring recognises that the nature of risks and the effectiveness of controls can change over time.

Importance of Reporting: "Reporting information should be provided to those who are responsible for risk management, e.g. the Board (and any relevant Committees), department heads, etc., to facilitate their oversight activities." Regular reporting ensures transparency and facilitates informed decision-making by relevant stakeholders.

Next Steps:

Develop or refine your organisation's RMF based on the guidance provided, ensuring alignment with your specific business activities, size, and risk profile.

Implement the RMF through clear policies, procedures, and assigned responsibilities, supported by appropriate training and communication.

Regularly review and update the RMF to maintain its effectiveness in a dynamic risk environment.

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