

Why Ongoing Manager Monitoring Matters

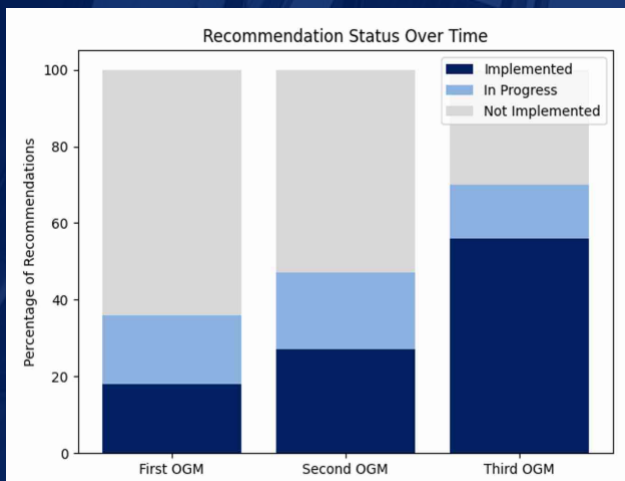
ORC

Turning Operational Due Diligence Into Active Risk Reduction

Operational risk evolves through growth, staff turnover, system changes, outsourcing and many other factors. Evidence from ORC's repeated monitoring cycles shows that Ongoing Manager Monitoring ("OGM") materially improves remediation outcomes and surfaces emerging risks that would not be identified through Initial Operational Due Diligence ("ODD") alone.

OGM Drives Measurable Risk Reduction

As part of an ODD exercise, ORC provides asset managers with phased, proportionate remediation recommendations to address the risks identified in the exercise. OGM allows ORC to monitor the progress of implementation of these recommendations and the corresponding impact on the risk rating of the investment.



Across the successive OGM cycles that ORC has performed on behalf of its clients



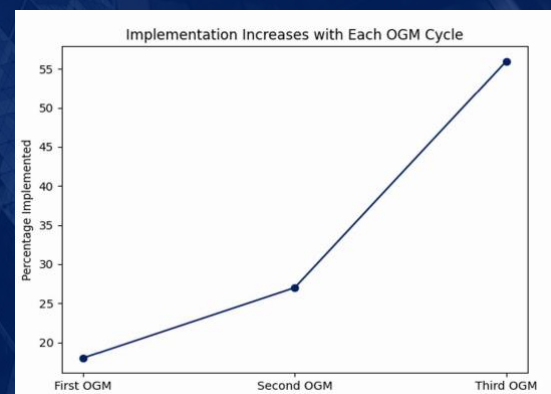
Maria Long
Partner

“ ODD provides an essential point-in-time view of operational risk; OGM is what ensures that risk is actively reduced, controls are strengthened, and new issues are identified as managers and operating environments evolve. ”

the evidence shows that as manager's understand due diligence is ongoing, the volume of implemented recommendations increases from around 18% at the first review, to around 27% in the second and reaching approximately 56% by later cycles. Demonstrating that OGM converts identified weaknesses into implemented controls rather than allowing issues to persist indefinitely.

OGM Accelerates Remediation Over Time

Looking at the same managers over time, it is clear that implementation accelerates with repeat monitoring:



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OGM introduces accountability, challenge and follow up, turning recommendations into outcomes.

OGM Identifies Emerging Risks

OGM exercises not only monitor progress towards the implementation of recommendations, but it also includes risk-based periodic assessments of operational, governance and control changes. This is important as operational risk is not static.



While more than 50% of the managers in ORC's OGM solution improved their risk rating over time by implementing the recommendations, approximately 6% of managers experienced a deterioration in risk. For investors, being aware of an increased risk is arguably more important. Key drivers of these risk changes, as identified by OGM, include regulatory fines, key staff turnover and a continued refusal to operate in an institutional way.

What Happens If You Don't Do OGM?

Operational issues identified during an ODD remain unresolved, or the very least unmonitored and unchallenged. There is also a risk that control weaknesses can worsen without visibility.

New risks can also arise, driven by organizational change, growth or regulatory issues and without monitoring, investors are exposed to avoidable operational surprises. ODD tells you where a manager stood. OGM tells you whether risk is improving, or emerging.

The Bottom Line

If the objective is real operational risk reduction rather than just point-in-time assessment, ODD alone is not sufficient. OGM is how operational risk is actively managed.

“Operational risk doesn't reduce itself. OGM is how investors move from identifying weaknesses to ensuring they are actually fixed.”



Nigel Morriss
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