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Making banking's first line simple, nimble, and AI-powered

3 moves to a more effective and efficient risk management

Three big moves to build the FLRM function of the future

First line risk management (FLRM) functions have an opportunity to deliver a step change in both **effectiveness and efficiency.** Over the next five years, FLRM teams can reduce the cost of key non-financial risk activities, such as risk assessments and control testing, by 30% to 50% versus today's cost base. At the same time, they can strengthen risk outcomes by refocusing their mandate, simplifying, and standardizing risk programs, and embracing an AI-first way of working.

The buildup of these FLRM functions —often referred to as the "control function(s)" or "Line 1B" — has been in response to rising expectations for increased ownership by the first line when managing non-financial risks. The specific configuration of an FLRM function is shaped by each bank's idiosyncrasies, such as regulatory feedback, shift of activities from second line to first line, overall organizational structure, and leaders' evolving scope. Over time, these functions have expanded to cover a wide range of risk management activities that are often highly manual and costly to execute, limiting effectiveness and efficiency.

Conditions are now **ripe for a reset** in FLRM, driven by the ongoing easing of regulatory pressure, the evolving maturity of risk programs, and the step change in artificial intelligence (AI) capabilities to accelerate efficiency and effectiveness.

FLRM leaders can seize this moment by following three practical moves we expect to accelerate in the industry over the next five years:

1. **Strategically centralize FLRM activities** to clarify scope, concentrate expertise, and capture scale benefits
2. **Simplify and standardize risk programs and right-size teams** so FLRM can do more with less and shift effort from reactive testing to proactive monitoring
3. **Embrace AI to re-engineer, not just optimize** — redesigning FLRM workflows around AI agents while humans focus on decision making and oversight.

Together, these moves provide a high-level "how-to" roadmap that includes strategic focus on where to add the most value, a revised FLRM operating model, and **redesigned processes and technology — with AI at the core.**

1. Strategically centralize FLRM activities

FLRM leaders should take a deliberate view on **which risk management activities are best centralized** in FLRM versus left in the businesses or with the second line. The shift to FLRM functions of risk management execution responsibilities from both the second line and proliferated, ad hoc first-line teams is already underway.

Over the next three years, as risk programs mature and there is an increased focus on efficiency and effectiveness, the transition to FLRM is likely to intensify. Organizations will pursue a more strategic approach to consolidating activities in FLRM functions better positioned to drive efficiencies. Meanwhile, the second line will maintain its role in setting up the risk framework and will conduct a lighter, more risk-based review, challenge, and oversight of the first line. Meanwhile, the responsibility for simplifying and right-sizing programs, particularly in the first line, will fall under FLRM functions, enabling first-line accountability for managing risks.

Delivering this strategic centralization starts with clarifying the scope of FLRM, based on where the highest return on investment can be delivered.

At leading banks, FLRM functions focus on enterprise and core operational and regulatory compliance risk programs, including risk appetite, issues management, operational resilience, and risk and control self-assessments (RCSAs). They are responsible for a consistent set of risk management activities, including control testing, execution of risk programs, and consolidated front-line risk reporting. We expect the trend toward scope convergence to continue, as banks empower FLRM to refocus on core enterprise risk and non-financial risk programs that drive risk reduction and FLRM functions to capitalize on synergies across related activities.

The rise of the chief control officer

Increasingly, large banks are establishing the role of a senior executive — often referred to as a chief control officer, reporting into the bank-wide chief operations officer or chief administrative officer — with an enterprise-wide mandate and either direct or shared management of control officers in the lines of business.

The rise of this enterprise role is not a phenomenon limited to first-line risk management. For over a decade, there has been an increased shift to enterprise shared utilities across corporate functions such as finance, operations, and human resources, among others.

Most banks have adopted a hub-and-spoke organizational structure for their FLRM function, with the enterprise hub led by a chief control officer, and spokes extending across most lines of business and corporate functions. However, enterprise centralization is by no means universal: Some banks — albeit a minority — have preferred to adopt a federated approach to drive FLRM from the lines of business.

Regardless of the chosen model, the mandate for FLRM is clear: **do not evolve into a proxy of the second line of defense.** FLRM will have to know and work closely with the business and focus on tailoring the programs to add the most value to the institution.

Exhibit 1: Common FLRM operating models to balance standardization, scale, and proximity to the business

Model	Description	Considerations
Centralized utility	• Enterprise hub led by chief control officer • Consolidates shared first line of defense risk management activities in central utility	• Central utility drives standardization and consistency • Lower degree of business unit ownership may foster a perception of control as a police officer or pseudo second line of defense
Hub-and-spoke	• Enterprise hub led by chief control officer sets common standards and consolidates shared risk activities • Business unit-specific control officers maintain business unit specialization	• Balances centralization with proximity to business unit • Requires strong governance to clearly define roles and prevent duplication
Federated	• Dedicated control teams in each business unit, led by business unit-specific control officer	• Dedicated control teams tailored to business unit-specific needs • Potential for duplication and inconsistency in activities across teams, driving inefficiency

Source: Oliver Wyman analysis

2. Simplify and standardize risk programs and right-size teams to do more with less

Once the FLRM mandate and operating model are clarified, FLRM leaders should **simplify and standardize risk programs and right-size their teams.** Today, at larger banks, FLRM functions account for 1% to 2% of the bank's total operating cost base. We believe that FLRM functions can drive **cost savings** of anywhere from **30% to 50%** over the next five years, based on our discussions with senior executives at large banks and Oliver Wyman's analysis of the potential of AI to improve productivity and efficiency.[1]

We expect FLRM functions to converge on scope — executing enterprise risk and core non-financial risk management programs. This convergence will be accompanied by a rebalancing of how risk management resources are allocated, accelerating the transition from reactive activities (such as control testing) to more proactive ones (such as monitoring) that allow for earlier action and enhanced risk mitigation.

Across the industry, FLRM function size is converging, driven by two competing forces:

- Global Systemically Important Banks and larger banks have expanded their FLRM functions over the past decade, often driven by regulatory pressures, but are now looking to right-size as their programs mature
- As regional/super-regional banks grow, they are looking to consolidate more risk management activities in their FLRM functions to drive effectiveness and efficiency. With the recent easing in regulatory pressures, there will be a **growing mandate to do more with less**, prompting FLRM leaders to focus on simplifying data and processes, while eliminating redundancies. We see similar knock-on effects in the cost base of second line and internal audit functions as FLRM drives program simplification and standardization.

The tension that FLRM leaders will have to navigate is how to deliver in a tightened cost environment. The ask of the FLRM function from the chief executive officer and chief financial officer to do more with less creates challenges for FLRM leaders, but it also brings an opportunity to rethink and refocus FLRM programs.

1 The CEO Agenda 2025, Oliver Wyman x NYSE industry survey.

In our discussions, FLRM executives are overwhelmingly focused on simplifying FLRM data and processes as their top priority to drive efficiency and priority. Identified opportunities include:

- Consolidating shared risk management activities that require scale, such as standing up a centralized utility for first-line control testing or know your customer operations
- Reducing layers of duplication and complexity, such as consolidating ad hoc first-line teams performing overlapping activities — in part, a result of addressing regulatory commitments
- Better integration and coordination across programs, such as improving connectivity across RCSA issue management, monitoring plans, and other targeted risk assessments

Levers for simplification and standardization include **organizational restructuring, scoping correctly by risk type and risk management activity** and increasingly prioritizing the use of **AI solutions** to drive efficiency. Indeed, initial AI use cases have shown potential for run-cost savings of 30% to 50% in FLRM activities like control testing, reporting, and risk and control assessments.[2]

2 Oliver Wyman analysis including The CEO Agenda 2025, Oliver Wyman x NYSE industry survey.

3. Embrace AI to reengineer, not just optimize

Finally, FLRM leaders should embrace an **AI-first approach** to reengineering risk workflows. Leading banks are transitioning from targeted use cases, where AI is applied as a band-aid to existing workflows, to reengineered processes with AI-powered workflow. To unlock step changes in efficiency and effectiveness, FLRM program workflows should be reimagined with intelligent AI agents responsible for execution, allowing humans to focus on decision making and review. We are starting to identify clear AI use cases, starting with control testing, reporting, and risk and control assessments. There is also strong potential to extend these cases across the whole risk management lifecycle, including AI-powered reengineering, which will be the primary lever in the double-digit reduction of run-costs over the next three to five years.

To move toward this future, FLRM leaders at large banks are prioritizing AI use cases that move the needle in terms of risk outcomes and cost savings, as well as those that can be reused across the control management landscape, including:

- **Near real-time control monitoring**, which focuses on shifting from manual, sample-based assurance/testing to automated approaches that enable more comprehensive coverage and near-time monitoring of controls
- **Control optimization**, which involves using AI to identify optimization opportunities, such as the consolidation of duplicate controls or the automation of manual controls
- **Proactive risk assessments** that shift banks away from using point-in-time and other backward-looking risk assessments, such as RCSAs, to more dynamic, higher frequency assessments that provide more timely risk profiles

From here, banks should focus **on harmonizing processes and data, upskilling the workforce** so it can design and interact with AI agents, and **building strong partnerships** across teams to avoid disruption of the three lines of defense model.

Closing Thoughts

The incorporation of AI, along with changes in the regulatory cycle, has created the perfect conditions for a reset of banking risk management programs — **a reshaping of fundamentals that will take place over the next five years.** Our view is that bank leaders will empower FLRM functions to drive this change because of the function's expertise in driving execution, proximity to the business, and incentives to couple effectiveness with efficiency.

Over the next five years, we expect to see FLRM functions lead to cost savings in key non-financial risk management activities, such as risk assessments and control testing. This will be accomplished using a combination of centralizing shared risk management activities, simplifying risk programs and right-sizing teams to be nimbler, and using AI to re-imagine workflows and deliver superior risk outcomes. Risk program automation, simplification, and standardization will also result in a lower cost base for the second line and internal audit functions.

Banks have a window of time to build **a simpler, nimbler, and more outcome-oriented FLRM.** Institutions that embrace this shift — by centralizing intelligently, simplifying and standardizing programs, and reengineering workflows with AI — will deliver materially better risk management efficiency and effectiveness, while strengthening their control environment.

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