

A 1LoD Report



1st Line Risk & Control

DEEP DIVE

Forecast 2025

Rethinking Roles, Responsibility and Risk in the 1st Line



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Rethinking Roles, Responsibility and Risk in the 1st Line

Key takeaways

Right-size the 1st line, don't duplicate the 2nd line

Firms are shifting towards leaner, outcome-focused 1st line teams, avoiding unnecessary overlap with 2nd line responsibilities while enhancing accountability.

Own the risk, not just the process

Risk functions must move beyond process ownership to strategic enablement, embedding the thinking or strategy about risk directly into business decision-making from the outset.

Simplify before you automate

The most effective control environments start by redesigning processes to eliminate unnecessary layers. Automation works best when applied to what truly matters.

Culture first, technology second

True control transformation is driven by mindset shifts and collaboration across the 3 lines. Technology enables, but culture sustains.

Third-party risk is your risk

Institutions can no longer place sole dependence on their vendors or shared platforms to be responsible for managing risk. Regulators hold firms fully accountable for the weaknesses of their supply chains.

From patchwork to proactive: build real-time control intelligence

Continuous control measurement, insights driven by Artificial Intelligence (AI), and real-time monitoring are replacing reactive, manual detective controls as the new standard.

Regulatory Overview: Eric Chandler, Vice President for Strategy and Program Risk, The Financial Industry Regulatory Authority

As innovation accelerates, firms must balance technological change with regulatory responsibilities to protect investors and guarantee market integrity. FINRA's 2025 Regulatory Oversight Report highlights three key areas of concern: cybersecurity, investor fraud, and third-party risk.

As cybersecurity threats become ever more sophisticated, banks must adopt a holistic approach to enhance their systems. Solutions include implementing advanced systems for detecting threats, conducting regular assessments, and fostering a culture of cybersecurity awareness within the bank. The consequences of not addressing the issue include breach of customer data, reputational damage, and investigation for failing to meet their regulatory obligations.

Investor fraud involving the adversarial use of generative AI has increased sharply, and FINRA is closely monitoring this development.

Third-party risk is also a concern. Many firms rely on common vendors which can lead to a concentration of risk and operational vulnerability. FINRA wants to see thorough due diligence, continuous monitoring, and clear vendor contracts to mitigate such exposure. Sharing information with other firms about incidents involving third-party vendors is critical to mitigating broader harm.

Ultimately, 1st line teams must become proactive guardians of their firms' values and resilience, creating the right kind of risk culture for the future.

Rethinking Roles, Risk Ownership and Regulatory Readiness

Even after a decade of regulatory development and reform, firms have fallen short of their potential: Speakers described the industry's risk controls as relatively immature and lacking in standardisation.

A recurring theme was the importance of building better partnerships across the 3 lines of defence. Participants stressed the importance of greater clarity of roles, but this is often lacking in practice. Several speakers stressed the need for greater integration and collaboration between the 1st and 2nd lines, particularly in the early stages of business strategy development. The 2nd line needs to be more involved as a risk steward, one panellist said, adding that this could prove difficult if it is "an advisory partner and a policeman at the same time." Another speaker said that the collision between these roles "starts with our culture", and that "ultimately everyone has the same objective. Once you can align around that commonality, the 1st line is really well positioned to drive that collaboration and risk culture across the organisation."

The 1st line's role in cross-functional collaboration is critical. Participants described the 1st line as uniquely positioned to act as the connective tissue between the business, compliance, and risk. This position gives it both influence and responsibility. "We own the culture, we own the risk, we own the strategy, and we own making sure it gets executed in the right way," said one speaker, adding that culture is at the heart of ensuring effective synergies between the lines of defence.

Speakers said that over the past few years, many firms have allowed the 1st line to expand and, as one participant put it, become "a bit too bloated". In some cases it even duplicates the functions of the 2nd line,



"I find the 1LoD events to be an invaluable part of my ability to keep the hand on the pulse of the Risk & Control community of practice and stay on trend."

LANA VANNEREM, RISK DIRECTOR, MASTERCARD

creating a second 2nd line within the business, according to one speaker, especially in cases where compliance activities have been shifted without overhauling the underlying process.

Participants agreed that the 1st line should be right-sized, but not simply through cost-cutting. Instead, the goal should be to build leaner teams that focus on material risks and are supported by leveraging automation and shared services, one speaker said. "It's about shifting from owning processes to owning outcomes," they added. The future 1st line should not only be more agile, but also more focused on delivering value through targeted intervention and forward-looking oversight.

Several participants drew a distinction between unnecessary duplication and what they termed "duplication by design". In critical risk areas, both the 1st and 2nd lines require parallel expertise so that they can perform effective challenge and oversight. The key, they said, was not to eliminate duplication entirely but, as one participant put it, to "ensure the right people with the right expertise are making the check and challenge process as lean and specialised as it can be."

Despite concern about regulatory divergence, particularly between the US, UK, and EU, most participants agreed that banks had reached "peak regulation." They suggested that any rolling back of regulations might not necessarily reduce the burden on firms, and in some cases could even increase the effects of fragmentation and operational challenges. "If we're having to create very divergent processes, then that will certainly add complexity," one speaker warned.

The consensus view among participants was that 1st line functions need to evolve not only in form, but in mindset. Risk professionals should see themselves as control owners and strategic enablers. The goal is to go beyond box-ticking by anticipating and adapting.



"I found the sessions very helpful in highlighting key concerns and challenges across the industry. It gave me a broader perspective beyond my day-to-day role."

ANDRESSA DEL GUERRA, CONTROL BUSINESS PARTNER,
BARCLAYS



No Safety in Numbers: Rethinking Third-Party Risks, Cyber Risks and Horizon Scanning



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Although internal cyber-defences are regarded as robust, incidents affecting major institutions underscore the vulnerability posed by external service providers. "Often your risk assessments aren't fit for purpose for third-party suppliers, you need an alternative framework that gives you different metrics," one speaker said. Participants agreed that reliance on the shared nature of vendor platforms was no longer defensible: Regulators increasingly hold firms accountable for the failures of their supply chains. As another speaker put it, "There's no safety in numbers anymore...you are accountable for those third-party vendors that you place a reliance on." One of the speakers suggested a solution to this dilemma: "The key takeaway is to identify where you have those critical dependencies and see if you have continued business planning."

The reality of balancing emerging risks with known risk remediation presents a significant operational dilemma. "We are inundated, whether it's audit findings or existing regulatory findings, so finding time to conduct horizon-scanning in an effective manner is a challenge," one speaker said. Plus, the question of where horizon-scanning sits in the organisation is up for debate. As one speaker put it, "The reason it sits in the 1st line is because there's not only the advisory arm to it, but a project to execute."

Some firms have started to integrate horizon-scanning into their risk governance more systematically. One speaker described a model where 1st and 2nd line functions collaborated closely, with dedicated transformation teams scanning for upcoming regulatory changes, particularly those affecting reporting frameworks. The speaker explained that this was executed by "looking at the applicability, your lines of business, which ones are riskier, which are not, and then leveraging that into your budget so you can get in front of it and foresee it coming down the pipe."

One participant described using generative AI to "go back multi years, multi regulators, map it all to your own taxonomy...and to see where we're seeing a trend in locations, regulators or fines." However, such efforts remain fragmented across regions, and the use of AI-driven regulatory scanning tools is still in its infancy.



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Another problem discussed by participants was the issue of layered controls. "We are adding more controls to our risk framework, which is great because we're reducing inherent risk, but we are seeing layered controls that are doing the same thing," one of the speakers said. One participant described how their firm had started to use MI (Management Information) to identify where risk and control frameworks were becoming unwieldy. The goal was not only to prevent breaches, but also to avoid risk frameworks becoming so complex that they undermined effective front-line supervision.

One participant said the solution to effectively foreseeing emerging risks was simple: referencing the FINRA Annual Regulatory Oversight Report, banks should use regulatory reports "as an indicator of what the regulator considers to be a priority. There are tools that we have readily available to us which should be part of all organisations' horizon-scanning." These expectations, however, vary by regulator which proves challenging when operating in multiple regions. "Keeping the majority under a standardized approach generally saves cost, but having that awareness and doing things from that global and local perspective is one of the challenges we have," one speaker said.

When it comes to incorporating emerging risks into control frameworks, there is a shared recognition that most risks only enter formal programmes once they begin to generate external pressure. The discussion on climate risk is a good example: although discussed for over a decade, it only became operationally significant "when it starts to impact the business," a speaker said.

Financial institutions are increasingly aware of their exposure to emerging risks, but many are constrained by legacy structures and limited resources. While some are beginning to deploy innovative tools such as generative AI, the broader challenge remains strategic: Build organisations that can learn from external shocks, act early, and continuously adapt.


Culture First, Technology Second: Unlocking Automation's True Potential in the 1st Line

Automation allows risk and control teams to create more efficient processes. However, such efforts remain fragmented across regions, and the use of AI-driven regulatory scanning tools is still in its early stages. "What automation does is it allows your people to focus on higher-value tasks such as horizon-scanning, and all the important processes that so far, machines don't do for us right now," remarked one participant.

Automation has improved both the precision and scope of control processes because it relies on "clean data and complete data." However, participants stressed that automation does not simply mean deploying complex AI systems. It also includes more practical tools such as workflow systems, dashboards, and internal chatbots that streamline administrative tasks and improve communication. One speaker gave the example of "working with a third party around key control indicators", adding that "discovering what elements of our process we can automate which will eliminate manual error has improved our ability to service our customers."

Participants discussed the barriers to automation within the 1st line. "Inertia is real. You have your legacy systems, you are competing with regulatory mandates, you are operating in cost-conscious environments," one speaker said. Another gave an alternative perspective: "It is not about the frameworks, it is about the people and how our mindset is around the frameworks. If you're going to follow that in a very rigid orthodox manner, then I think the frameworks can hinder you." The speakers agreed that the whole framework must enable innovation and automation, because the technology will not revolutionise the 1st line on its own. One of the speakers said: "The first thing we need to do is to understand the process, because sometimes instead of technology automation, you can kill a process...so I'm spending a lot of time understanding why we have certain processes in the first place."

Several speakers stressed the importance of embedding the analysis of risk within the business processes rather than treating control activities as external or additional



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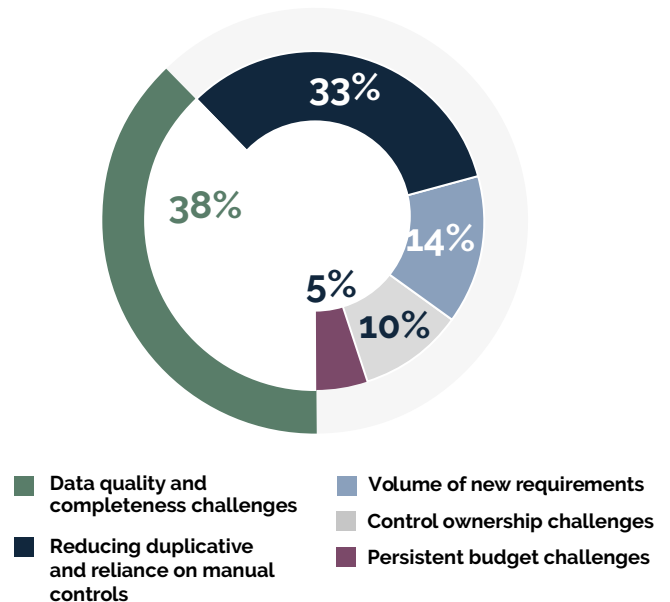


requirements. One speaker said that in their bank, it is “all about the business. What’s the business value of doing the Risk and Control Self-Assessment (RCSA)? What’s the business value of doing this control?”. They said this is particularly important in the current regulatory landscape as “you can’t use the stick to say we’re going to do this because the regulator tells us to...it’s more about are we doing this because it’s the right thing to do, to help the customer?”. Therefore, adopting a business value and customer-centric lens for the control framework alongside automation is key to driving efficiency in controls.

The final question of the debate was perhaps the most provocative. Participants were asked to choose between two priorities: leveraging technology to improve oversight and efficiency, or fostering a shift in organisational culture and attitudes towards risk. While some highlighted the vast potential of technology to deliver scalable solutions and unlock operational efficiencies, the majority leaned towards cultural transformation as the foundation. As one speaker put it, “With the right mindset and culture, people will seek out the right tools and solutions themselves.”

While technology offers powerful tools for efficiency and scale, it is culture that determines whether those tools are adopted and sustained effectively. The path forward, it seems, lies in pursuing both, with cultural alignment as the foundation and automation as the enabler.

What is the biggest obstacle to achieving a robust and proactive 1st Line control framework in 2025?



“The 1st Line Risk & Control Deep Dive was an ideal combination of keynote sessions and roundtable discussions.

It was great that the event was separated into two 3-hour sessions. I enjoyed the dialogue with colleagues at peer institutions as well as the keynote panels.”

ASHLEY SIMON, CO-GLOBAL HEAD AND AMERICAS HEAD OF IB CCO SUPERVISION & CONTROLS, BARCLAYS



Rewiring Controls to be Simpler, Automated and Aligned with the Business

The final theme covered the key obstacles to achieving a robust control framework. One panellist described several problems inside their firm: "An over-reliance on manual processes, lack of standardisation, inconsistency of application and inadequate monitoring." One way to combat these issues, they said, is to ensure adequate "monitoring of the design and effectiveness of your controls wherever they operate in their local context."

Another speaker identified similar issues at their firm which could be managed by reframing their perspective on their controls: "If we were designing this from scratch, what would the control environment look like? Every time there's an issue, we add another control. What we're not good at is stepping back and redesigning the whole thing."

Lessons from past events, particularly the Covid-19 pandemic, shaped how banks identified their most critical controls. "If we think back to Covid, what did we focus on? How do we keep delivering for our clients? How do we keep the industry alive? What were the controls that we really focused on?" reflected one

participant. These resilience-focused reflections allowed institutions to sharpen their focus on the essential few controls that safeguarded operations during a challenging period. "If a control is not key, then why do we have it?" one speaker asked.

One of the biggest challenges is the historic build-up of manual detective controls, which have often been implemented as short-term fixes but have become permanent. "Too many times, when there's a control break, we patch it up with a manual detective control and too many times, that's where it stays," one speaker said. Another said it is "part of a control officer's role to prevent that build-up of controls." The solution involves prioritising automation, simplification, and better control design. "It's not about having more locks on the door, it's about having one really good lock and an alarm system," said one speaker.

Independent challenge was also seen as critical to breaking the cycle of control owners assessing their own controls. One speaker questioned, "If you live and



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breathe a control, how can you be objective about its design?". Continuous control measurement has become essential for proactive risk management. Periodic or annual testing no longer offers sufficient assurance, particularly as the financial services industry has moved towards real-time processing. "There may have been a time when manual reconciliations were fine, but not anymore. Mistakes can be through your pipes in seconds and cash is out the door," a speaker said.

Technology is playing a bigger role in helping institutions to understand the effectiveness of their controls across the business. Some firms use external benchmarking providers to compare their frameworks to peers. "We leverage industry datasets that give us an objective view of where our control framework sits compared to others," explained one participant. AI and machine learning are also beginning to offer new opportunities to streamline control frameworks and expose thematic risks. "AI can scan issues and events to tell us what the themes are, allowing us to proactively address them rather than read through everything manually," explained one speaker.

Looking ahead, participants conjured up a vision of a control utopia built on automation, preventative design, and real-time insights. As one panellist described it, "In utopia, controls are implemented at point of development, rather than retrospectively afterwards. You start creating an environment where things are more automated and more data driven."

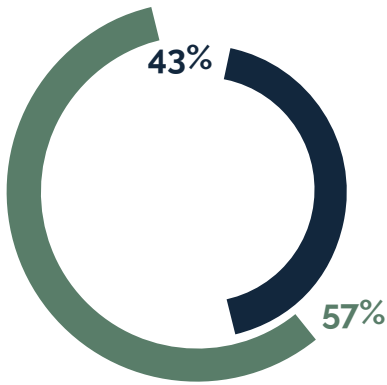
This information was taken from the 1st Line Risk and Control Deep Dive on 29 & 30 April 2025.

"Really informative and relevant insights on key questions facing 1LOD Control roles. Conversations went beyond surface level commentary, which was refreshing."

MIKE MAURIELLO, CONTROL BUSINESS PARTNER,
BARCLAYS

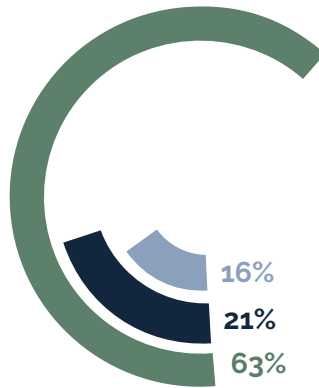


If I had to choose, I think the greatest benefit to risk and control in my firm is:



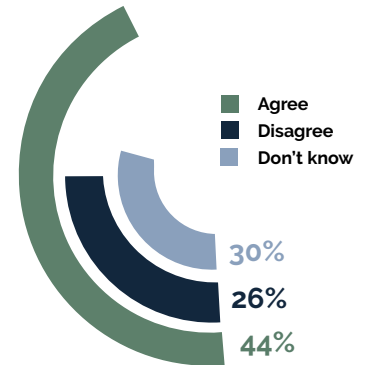
- Leveraging advancements in technology to enhance efficiency and oversight
- Fostering a widespread, positive shift in mindsets, attitudes and culture towards risk and control

Are you currently using Generative AI to help with risk identification?



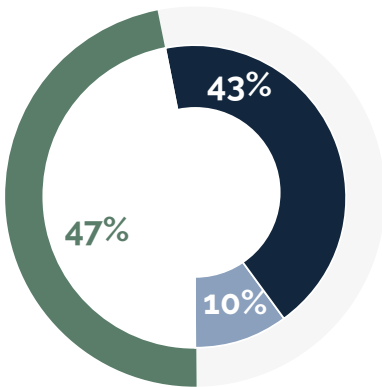
- Not yet but we are in the design/planning phase to allow us to do so
- Yes
- No and we currently have no active work going on in this space to do so

If we look at developments in the US, the UK and even Europe, it is now clear that we have reached 'peak regulation'.



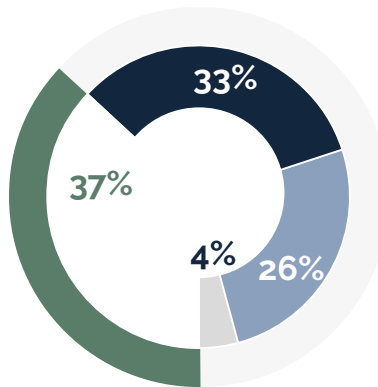
- Agree
- Disagree
- Don't know

The three lines model at my organisation is



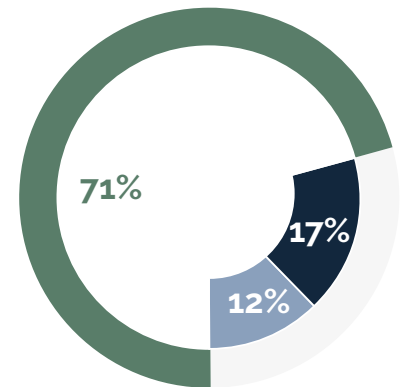
- Mostly fixed: there is still some debate over which line should be responsible for which activities
- Still in development: there is significant debate over which line should be responsible for which activities
- Fixed: roles, responsibilities, accountabilities are fully defined for each line

Has your company been impacted by a cyber event in the last year and if so, was it an internal event or a third party impacting you?



- Yes, both internal and third party
- Yes third party impact
- Yes internal impact
- No

With respect to the adoption of AI, I see the focus for the next 12 months as:



- Implementing pilots and proofs-of-concept to further learn about how best to leverage new capabilities
- Scaled implementation in specific areas of Risk and Control
- Scaled implementation in a number of different areas of Risk and Control

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