



# The Risk Manager of Tomorrow

# What have risk managers learned from GFC?

## Contributing factors

### 1. Inadequate focus on risk culture and behaviours

- ▶ Lack of alignment between risk management and business strategy
- ▶ Lack of commitment to risk management by the Board / Executive
- ▶ Failure to define and communicate risk appetite and tolerances
- ▶ Failure to integrate risk management into performance measurement and reward processes
- ▶ Inadequate communication and cooperation regarding risk management
- ▶ Inadequate risk management competence and capabilities

### 2. False sense of security regarding high-impact/low-probability risks

- ▶ Lack of sophisticated scenario building and contingency planning
- ▶ Overreliance on statistical models with incomplete understanding, or inadequate challenge, of the underlying assumptions
- ▶ Adoption of a reactive, compliance-driven approach, rather than a proactive, forward looking stance, to risk management
- ▶ Inadequate monitoring of high-impact/low-probability risks through the use of key risk indicators and 'early-warning systems'

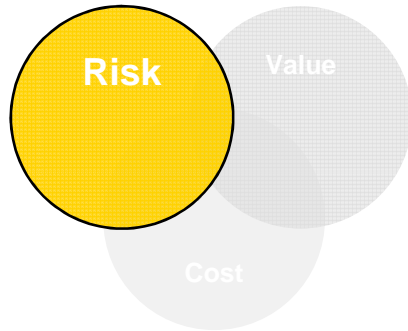
### 3. Lack of quantification of non-financial risks

- ▶ Use of predictive models limited to financial risks
- ▶ Current predictive methods are not yet sophisticated enough to quantify non-financial risks
- ▶ Inadequate use of key risk indicators for non-financial risks
- ▶ Overreliance on 'qualitative' risk assessments in many industries beyond Financial Services and Energy

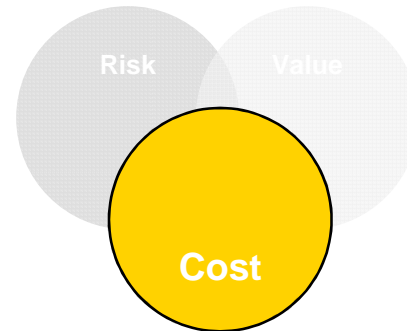
### 4. Failure to recognise risk interrelationships

- ▶ Lack of sophisticated scenario planning which takes into account risk interrelationships
- ▶ Lack of alignment and coordination between functions and business units, and across risk types and geographies, to facilitate communication around risks and promote awareness of how risks may interrelate
- ▶ Lack of integrated reporting that makes explicit the links between risks and how these will impact the business
- ▶ Inadequate understanding of the organisation's risk universe

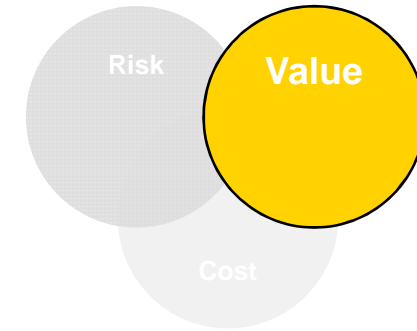
# Today's leading risk practices



- ▶ Common risk management framework aligns all risk functions
- ▶ Strategic risk assessment linked to business planning cycle
- ▶ Clearly defined risk management roles and responsibilities: especially Board and Exec
- ▶ Risk-Assurance map (owned by ARMC)
- ▶ Risk reporting is provided to stakeholders to support decisions and enable performance



- ▶ Risk overlaps and redundancies are rationalized or eliminated
- ▶ Risk coverage focused on high priority risks versus low risk areas
- ▶ Outsourcing / off-shoring used to get the right skills at the best cost
- ▶ Technology and knowledge management is leveraged to improve productivity
- ▶ Technically proficient resources minimize the time required to assess, test and report risks



- ▶ Well defined Risk appetite linked to strategy
- ▶ Risk function provides the confidence to take risk as opposed to avoid risk
- ▶ Risk function provides process improvement suggestions
- ▶ Risk function contributes to the oversight and ongoing assessment of the company's most strategic initiatives (e.g., capital programs, acquisition integration, etc.)
- ▶ Remuneration linked to risk

---

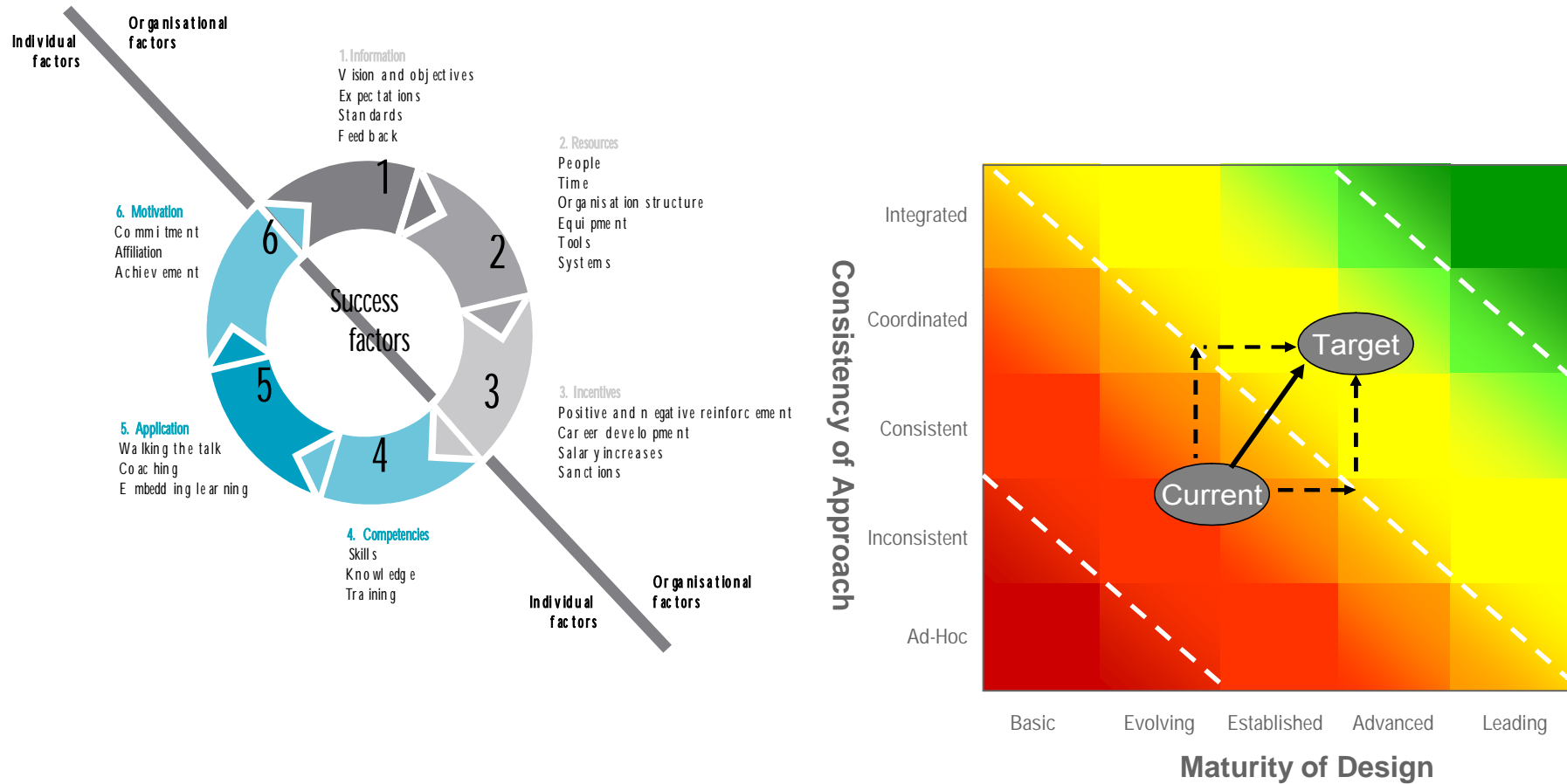
# EY's Points of View

---

- ▶ Risk Critical Success Factors
  - ▶ Well understood appetite clearly linked to strategy
  - ▶ Formal Framework
  - ▶ Behavioural engineering considerations
  - ▶ Clear Lines of Defence
  - ▶ Right skills

# Behavioural Engineering Considerations

## The Behavioural Engineering Maturity Model



---

# Competencies of the future

---

CRO=eyes/ears/nose of the organisation

- ▶ Commercial and strategic
- ▶ Communication and influence
- ▶ Strong financial
- ▶ Business understanding
- ▶ Confidante
- ▶ Objective and fresh view/Devil's Advocate

# What happens on day 1001?

---

Day 1000



Day 1001?



---

# Where from? Where to?

---

- ▶ Business analysts
- ▶ Internal auditors
- ▶ Ratings agencies
- ▶ Management consultants
- ▶ COO
- ▶ CEO
- ▶ GM
- ▶ Board

---

# What about today?

---

- ▶ Do risk managers today have access to the right information and relationships to be truly effective and discharge responsibilities?



Thank you