

Beyond box-ticking

A new era for risk governance

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About this research

In May 2009, The Economist Intelligence Unit surveyed 364 executives around the world about their approach to risk management and corporate governance. The survey was sponsored by ACE and KPMG.

Respondents represent a wide range of industries and regions, with roughly one-third each from Asia and Australasia, North America and Western Europe. Approximately 50% of respondents represent businesses with annual revenue of more than US\$500m. All respondents have influence over, or responsibility for, strategic decisions on risk management at their companies and around 57% are C-level or board-level executives.

The author of this report was Phil Davis and the editor was Rob Mitchell. Paul Kielstra also contributed to the report. The findings expressed in this summary do not necessarily reflect the views of the sponsors. Our thanks are due to the survey respondents for their time and insight.



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Executive summary

The boardroom has always been the preserve of the gifted, the ambitious and the self-confident. In Anglo-Saxon business culture, board-level executives wield substantial power and, while other stakeholders have a voice, it is predominantly the views of these top few board members that count in terms of business planning and strategy.

This dominance – previously unquestioned by all but the most powerful shareholders – has recently become a matter of urgent debate. The credit crisis and subsequent global recession have exposed failings in planning and strategy that have led to loss of business, sharply reduced earnings and, in some cases, bankruptcy. While many companies have blamed extraordinary economic conditions for their difficulties, investors and other stakeholders have come to see the corporate world as part of the problem. In particular, they are examining closely whether corporate governance and the oversight of risk have been sufficiently rigorous, and whether the relationship between the board and the business has been uncomfortably cosy.

In May 2009, the Economist Intelligence Unit conducted a global survey on behalf of ACE and KPMG to explore the extent to which companies are changing their approach to risk governance in the wake of the financial crisis. The survey attracted 364 participants from a wide variety of sectors and regions. The report that follows presents the highlights of those survey findings along with related additional insights drawn from industry experts and commentators. Key findings from this research include the following:

- **Companies recognise the need for greater risk expertise, but there is a reluctance to recruit it in some areas.** Although the majority of respondents to our survey believe that levels of risk expertise are high among senior executives in their organisation, they are less complimentary about risk awareness among non-executives and board committees, as well as among the broader business. Yet despite recognising these gaps in knowledge, the survey reveals a surprising reluctance to recruit risk expertise, particularly at the top of the organisation. More than half of respondents say that they have no plans to recruit a chief risk officer, and slightly less than half say that they do not intend to recruit a board-level executive with overall responsibility for risk management. With a high proportion of respondents saying that a “risk culture” depends on strong direction from the top of the organisation, an absence of expertise at board level suggests that many companies will find it difficult to embed a greater awareness and understanding of risk in their business.



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- **Financial constraints are hampering necessary investments in risk management.** Asked about the main barriers to effective risk governance in their business over the past year, respondents point to poor data quality and availability, lack of expertise and ineffective tools and technology as the main challenges. Yet asked about the main barriers in the year ahead, a lack of financial resources eclipses all other concerns. These expected budgetary constraints may explain why, when respondents are asked about their main priorities for risk management, they say that they intend to focus on processes, rather than data, technology, or recruitment. Process improvements generate easy, relatively inexpensive benefits but, on their own, they will not go far enough to address more fundamental risk management deficiencies. The underlying problems with data, expertise and technology, which they identified before concerns about cash rose to the fore, are likely to remain.
- **Compliance, controls and monitoring are consuming a disproportionate amount of time, but risk managers' real priorities lie elsewhere.** Respondents to our survey point to the identification of new risks as the most important role and responsibility of risk management. But asked how they allocate their time, it is compliance, controls and monitoring that consume the lion's share of their resources. With a disproportionate amount of time being spent on the more mechanical aspects of the role, risk managers may be neglecting the responsibilities that they have identified as being most important. This trend is likely to be exacerbated by a rising compliance burden, a shortage of resources, and increasing pressure on risk functions to put in place rigorous controls.
- **More needs to be done to ensure that the right risk information is reaching the right people.** Only around one-third of respondents think that their organisation is effective at ensuring information about risk is reaching the right people. There is also limited confidence in risk reporting: one-third again think that risk reporting is effective at providing an aggregate view of risk exposure, while only 30% think that it is effective at providing information that is tailored to its audience. Better risk reporting will depend on improved communication and understanding between risk functions and their intended audience. Only then can information be provided that is relevant, timely and pitched at an appropriate technical level.
- **There is a window of opportunity for chief risk officers to take on a more strategic role.** It is notable that, in the majority of companies, chief risk officers play no role in major strategic initiatives: just 44% of CROs are actively involved in M&A activity, for example, and just 36% in product development. Equally, only 47% of respondents believe that their organisation is effective at linking risk with corporate strategy. Yet at a time when risk is dominating boardroom agendas, there is a rare and valuable opportunity for senior risk professionals to take a seat at the top table, and to make themselves an indispensable part of any discussion about the future of the business.



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Key points

- The creation of a pervasive risk culture has been an elusive goal for many companies
- Board-level executives must convey a clear message that risk is part of everyone's job
- Communication is all too often weak between risk functions and the broader business
- Building a risk culture means speaking in terms that the whole company understands

Building a risk culture

Any chief executive worthy of the title knows that risk management is central to the company's well-being and future success. When planning any major strategic initiative, he or she will insist on a careful assessment of the threats that could derail it. And no boardroom agenda would be complete without a discussion of any major emerging risks that could pose a threat to the reputation or earnings of the company.

Risk is inextricably bound together with business success – and failure. And yet for many companies, risk management is a discipline that exists only in small pockets of the organisation. There may be board-level executives who have a thorough grounding in its principles and application, and there may be a risk management team stuffed with highly specialised professionals. But in many cases, the creation of a broader “risk culture” throughout the organisation – and the integration of risk with the strategic goals of the company – remain elusive prospects.

There are a number of historical and structural factors that have hampered the construction of a risk culture. First, many companies continue to hold an outdated view that risk management is a stand-alone, support function that mainly deals with buying insurance, compliance and the monitoring of internal controls. According to this perception, risk functions are a “cost centre” that adds little value to the business.

There are good reasons for the dichotomy between the risk function and the wider business. Especially in the financial sector, boards of directors encouraged the risk management team to be kept separate from revenue-generating parts of the business in order to preserve independence and prevent conflicts of interest. But this worthy goal has had unfortunate consequences. By keeping risk management at arm's length, it automatically becomes siloed from the rest of the organisation. Its views are not incorporated into business strategy and potentially positive synergies are not being realised.

At a time when discussions about risk are foremost in the mind of executives from all sectors and regions, a re-evaluation of the scope of risk management, and its role as part of the broader business, seems overdue. Rather than see risk management as a niche, highly technical discipline, senior executives need to consider how to instil a broader awareness and understanding of risk throughout the business. This requires a careful assessment of the way in which information is disseminated through the company, the role of business leaders and, in its broadest sense, the governance of the organisation.



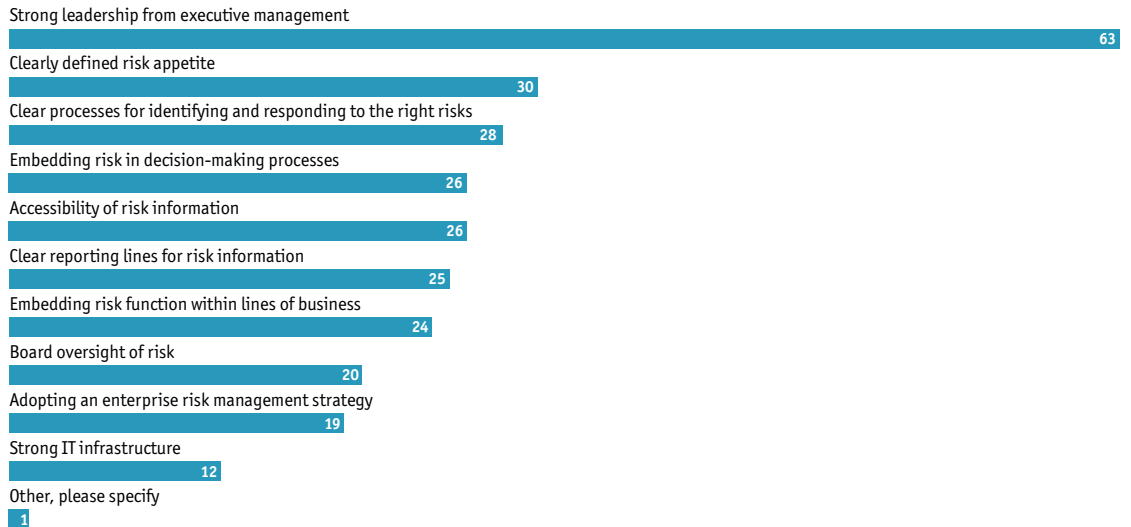
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Which of the following qualities do you think are most important to instil a “risk culture” within your organisation?

Please select up to three.

(% respondents)



Setting the tone

Board-level executives’ responsibility for risk does not stop at the creation of policy. The chief executive and his or her team must also be able to communicate the risk philosophy and culture to the whole organisation and ensure that everyone is aware of the risks they run on a daily basis. Indeed, respondents to our survey highlight strong leadership as being by far the most vital ingredient of a risk culture. No other factor comes close in terms of importance.

“The role of the board and senior management is central,” says Michael Hamar, former chief risk officer at National Australia Bank. “If there is any thought that either the board or executive management are just going through the motions, you will never get an appropriate risk culture installed. They are absolutely and completely at the heart of getting it right.”

Senior managers should convey a clear message that risk should be seen as part of every employee’s job, not just something that is taken care of by a small cadre of risk professionals. “Risk is not the responsibility of somebody in isolation,” says Barbara Lucas, a partner at Capital Market Risk Advisors. “It is everybody’s responsibility.”

In addition to instilling a broader culture of risk, senior executives must put their full weight and influence behind the specialised risk functions. Without support from management, risk managers can become marginalised and the company’s rules can be ignored. Such an atmosphere can have far-reaching effects: if the management fails to enforce risk management regulations, their employees can come to view all of the institution’s rules as being open to interpretation.

One of the biggest obstacles to creating a fully functioning risk culture can be a lack of visibility from the top to the bottom of an organisation. So while board members may have been fully involved in creating the risk framework, they may be unable to make it work adequately because they are not informed when line managers and other employees fall foul of it. In colloquial terms, they are left “out of the loop”.



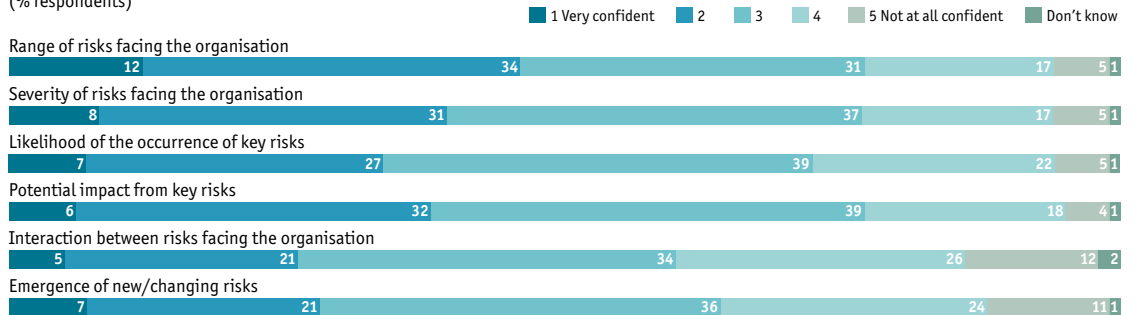
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How confident are you that there is broad understanding throughout your organisation of the following?

Please rate on a scale of 1 to 5, where 1=Very confident and 5=Not at all confident.

(% respondents)



“Boards tend to live in a partial assurance vacuum,” says Andrew Chambers, head of the corporate governance committee at the Association of Chartered Certified Accountants. “The risks are known by management but the board does not get to hear about them. The board only gets the assurance that management chooses to give them. It is relatively rare that managers report candidly to the audit committee and the board because of the disincentives of doing so.”

In general, the senior risk professionals that responded to our survey admit that they have found it difficult to achieve a pervasive risk culture. Just 32% think their organisation is effective at instilling an awareness of risk throughout the organisation. In addition, less than one-third of respondents are confident that there is broad understanding in the business of the likelihood of the occurrence of key risks, the interaction between risks facing the organisation and the emergence of new risks.

Gerald Ashley, a risk consultant and academic, says that joined-up thinking and joined-up risk management are rare commodities. “What many people can’t realise amid all the noise about risk management is that we are really just talking about ‘management’,” he says. “To manage a company means to manage risk.”

Mr Ashley believes that pressure from stakeholders to implement documented and auditable processes does not actually foment understanding between risk professionals and business executives and managers. “I am concerned that many people believe that the answer to it all is rules-based systems that are detached from the management of the business itself,” he says.

Certainly the respondents to our survey have limited confidence in the quality of the relationship between risk functions and the broader organisation. Asked where they thought communication was at its weakest, they point to the interface between risk and the business units.

Conveying the message

The process of creating a risk culture is time-consuming and complex. There is no single template for developing it, no single path to follow and there is likely to be resistance at every major step of the way. But the consequences of not creating a healthy risk culture can be dire. Duncan Wiggetts, an expert in risk governance at global law firm DLA Piper has carried out a number of investigations into corporate failures and is well aware of the pitfalls. “During many of the investigations, it became clear that the problem would have been solved a lot earlier if the right risk processes and procedures had been in place,” he says.

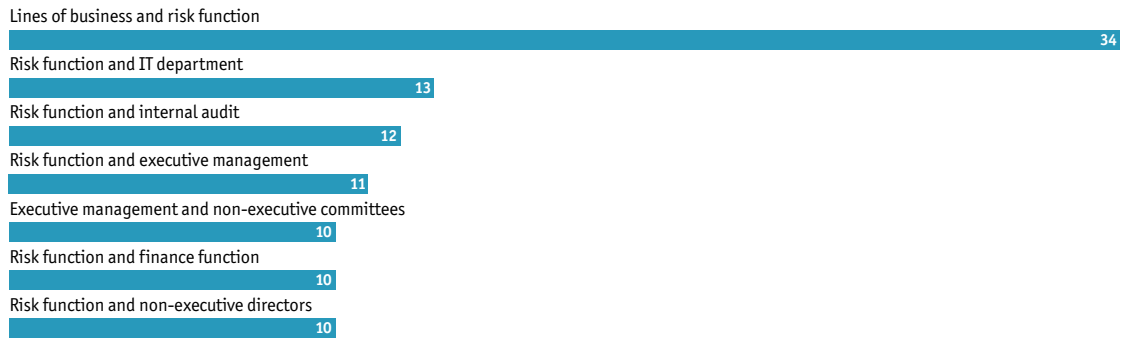
Mr Wiggetts cites the example of an ethics training session he helped to design for the senior management of a company. “In his introduction, the chairman made it clear that the rules the



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Between which of the following individuals/departments/ functions in your organisation is communication least effective?
(% respondents)



company had recently broken were ‘unfair’,” he says. “In one fell swoop, he undermined everything we were trying to achieve.” That all important “buy-in” from senior management must be clearly and unambiguously demonstrated to the rest of the organisation, he believes.

Senior executives at Marsh, the insurance brokers, have taken steps to put exactly this thinking into practice. They were heavily featured in a recent e-learning module on risk management that was obligatory for all employees. It was introduced by the CEO, who also talked in depth about a recent transaction and how risk issues were built into the accompanying contract. In addition, the chairman contributed a segment on the risk appetite of the company.

“You need to be creative in how you impart messages,” says Matt Kimber, UK chief risk officer at Marsh. “And if you want to build a culture, you need to talk in terms that people can understand. That means describing things in everyday language, not in the language that people in the risk function might use among themselves.”

Incentives: driving a wedge between risk and the business

Vincent O’Neil, a US-based risk management expert, points to executive compensation as a major reason why the relationship between the risk function and the business has been dysfunctional. “We need incentives, I’m not against them at all,” says Mr O’Neil. “But if you incentivise people to work harder, it is natural they are going to be more aggressive in their approach. Some people will always be tempted to violate the rules if it leads to a higher bonus.”

To mitigate this risk, line managers need to keep a more careful watch on behaviour and, importantly, communicate with people when they see breaches or potential breaches of discipline. “You don’t necessarily have to mete out punishment, often just speaking to people and letting them know you are watching is enough,” says Mr O’Neil. “But if you know about rule-breaking and say nothing

because it benefits your business unit, you are asking for trouble. In that case, you have to ask yourself what rules they may be breaking that you don’t know about.”

While the availability and value of tangible incentives may have fallen in the wake of the credit crisis and the subsequent economic downturn, the temptation to take unacceptable risks may have become even greater in the post-crisis environment. “Fraud has become a significant risk area in this climate,” says Mr Wiggetts, an expert in risk governance at global law firm DLA Piper. Executives may be less concerned about hitting targets to achieve bonuses, but they are even more highly incentivised now – by the fear of losing their jobs or their whole companies.

One way to offset this risk is to allocate direct responsibility for managing the risk of wrongdoing in each business unit. If everyone in the unit is aware of procedures and reporting lines, they will be more likely to work within the rules or to report the malfeasance of colleagues.



Key points

- Confidence in the risk expertise of executive managers is fairly high, although there are doubts about the knowledge of non-executives
- Most companies admit that not enough board time is spent discussing risk issues
- Filling audit committee posts with highly qualified individuals is a challenge for many companies
- Despite recognising shortcomings in expertise, companies are reluctant to recruit to fill gaps

Gaps in corporate risk expertise

With risk culture determined first and foremost by the leadership of the organisation, companies should ensure that their executive and non-executive managers have the requisite understanding and knowledge of risk concepts and practice. By and large, respondents to our survey are reasonably confident in the level of expertise displayed by senior executive managers. Almost three-quarters say that the level of risk expertise held by the CEO is effective, while 70% believe that the risk expertise of the CFO is also up to scratch.

Chris Roebuck, former global head of talent management and development at UBS who now advises clients in both the public and private sectors, says there are nevertheless gaps in expertise. Few chief executives, for example, have undertaken any formal risk training. “They should have some level of basic training, just to know the key risk issues to watch out for and the right questions to ask,” he says. “If they can’t even ask the right questions, that is dangerous for operational performance.”

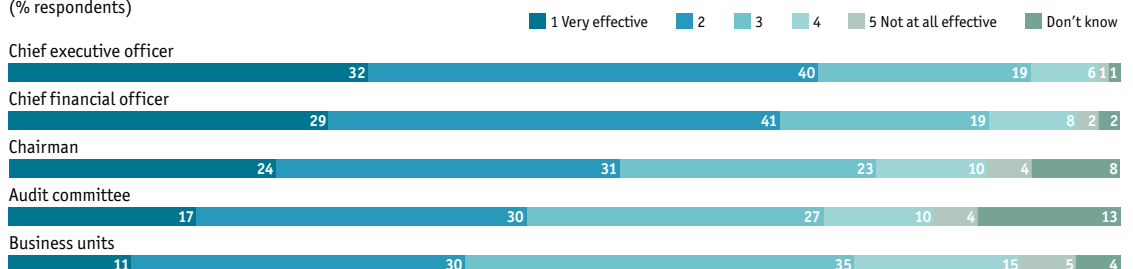
Perceived expertise levels vary according to the geographic location and size of company. Top executives of North American companies, for instance, are perceived to possess less risk knowledge than their counterparts in Europe and Asia. At the same time, executives at smaller companies are generally felt to have less expertise. Among companies with global revenues of less than US\$1bn, 63% of chief financial officers are believed to have strong expertise, compared with 78% of CFOs at companies with revenues of more than US\$1bn.

But while smaller companies may have less developed formal risk practices, this does not necessarily mean that they are worse at dealing with risk than their larger counterparts. “Some of the best risk

How would you rate the level of risk expertise among the following individuals/entities within your business?

Please rate on a scale of 1 to 5, where 1=Very effective and 5=Not at all effective.

(% respondents)





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managers in the world are people who run small businesses,” says Andrew White, global head of risk management at Thomson Reuters. “They make it their business to know what is happening day-to-day in their companies. Above all, they know that the thing that will kill the company is not what is easily predicted, but what is improbable. They do ‘what if’ scenarios in their own mind the whole time, which is the basis of good risk management.”

Many respondents to the survey – across geographies and company sizes – admit that their companies do not spend enough time at board level discussing risk issues. Just 30% think that their organisation is effective at allocating sufficient time at board level to discussion of risk.

The urgency of such discussion is often only created after a negative event for the company, says Mr Wiggetts. “Companies tend to fall into two camps: those that have suffered a shock to the system and have woken up to the concept of risk, and those who haven’t – yet.”

Although top-level executives are, for the most part, seen as effective in dealing with risk issues, the perception among respondents is that there is considerably less expertise among non-executives. Just 55% of respondents believe that the chairman is effective in terms of his or her risk expertise, while just 46% say that the audit committee is effective in this regard.

One of the problems with establishing a high-quality audit committee is a lack of suitably qualified candidates. The concept of an audit committee was created following fears among non-executive directors that they could be signing off company accounts and statements without really understanding the contents. They feared that they could be liable for any mis-statements or fraud that was subsequently uncovered.

The committee was a forum for discussion, but then its scope was expanded to include a review of the organisation’s internal controls, risk management and compliance. It also became responsible for appointing an external auditor. In short, audit committee members require considerable knowledge of the firm, the industry and financial processes if they are to fulfil their role of protecting the business against human error. In addition, many accountants are ruled out from becoming independent directors because of the potential conflict of interest.

“The challenge is that there are few people available who can do all this,” says Mr Chambers. “Why should the finance director of a FTSE 100 company earning £500,000 or £1m a year make himself available for £30,000–£50,000, joining another board as an independent director and almost certainly being made chairman of the audit committee? The risk-reward ratio is not right.”

The further down the corporate chain, the less risk expertise is in evidence, with just 41% of respondents believing risk expertise in each of the business units is effective. This falls to 34% in companies with global revenues of less than \$1bn, compared with 52% for larger corporations.

This perception may have arisen because, in many companies, business units are effectively autonomous and their business-specific practices are not necessarily visible to other entities in the organisation. Malcolm Zack, audit director of Brakes Group, a supplier to the UK catering industry, says that business units can be effective in identifying, assessing and managing risks if they are given the right frameworks, structure, help and guidance. The role of the central risk function is then to make business areas more self-sufficient and help embed risk management as a regular management process.

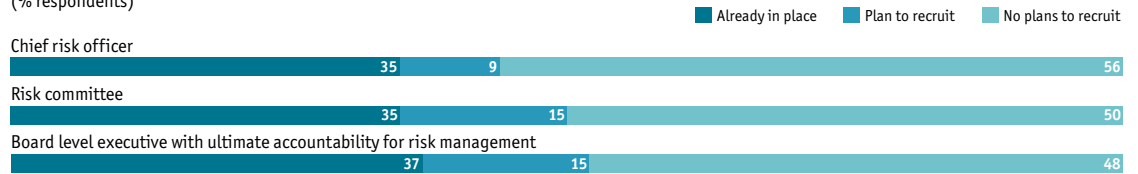


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Has your organisation recruited, or does it plan to recruit, the following individuals or entities?

(% respondents)



“In our business, it is down to the business areas to identify what their individual business risks are and assess them,” he says. “In our case, this means using a risk map or risk and control dashboards. We facilitate that process. Some parts of the business can do it quite well with little support from us, while others will need prompting and some will always need more direct help.”

Despite recognising that there is a lack of expertise in the rump of organisations, many companies are unwilling to make organisational changes to address this deficiency. Although half of respondents have a risk committee in place or plan to appoint one, half of respondents do not have one and, furthermore, have no intention of making new appointments to create one.

Mr Chambers believes that there has been excessive “foot-dragging” by companies over the setting up of risk committees. But he thinks that, in the UK at least, the updated Combined Code on Corporate Governance and the recent publication of the Walker report may help to tilt the balance. “Everyone says that strengthening risk requirements will impede companies and kill the goose that lays the golden egg,” he says. “The fact is, corporate governance has not worked and boards have not been good at keeping their eye on risk.”



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Key points

- Companies lack confidence in their ability to get risk information to the right people at the right time
- Risk professionals need to do more to ensure that their value is understood by senior executives
- Survey respondents point to shortcomings in the quality and timeliness of risk reporting
- Quantitative techniques are not enough; human judgment is also vital to successful risk management

The importance of communication

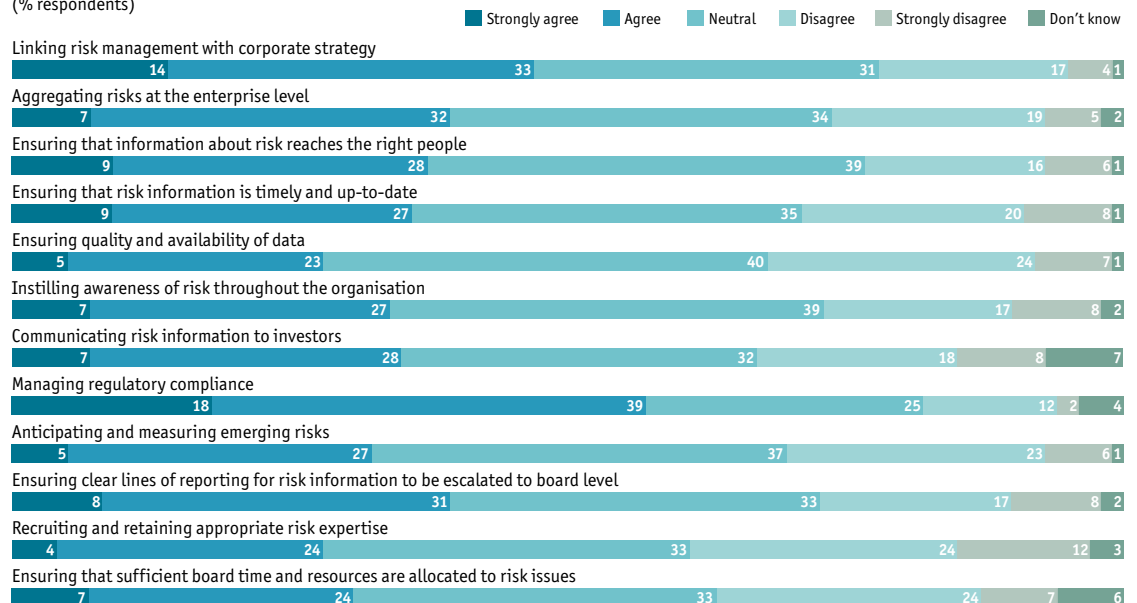
Clear, frequent communication between the board and business, and across functional boundaries, is an essential part of effective risk governance. It is all very well putting in place solid risk management policies and practices at board level, but these are rendered useless if they are not communicated adequately and implemented throughout the corporate value chain. The future viability of organisations that fail to carry out this communication is no more assured than for companies that have failed to introduce systems at all.

The survey findings suggest that more needs to be done to ensure the relevance and timeliness of risk information. Respondents point to numerous areas of weakness in this area. Just over one-third think that their organisation is effective at ensuring that the right information about risk is reaching the right people. And only 36% think that their organisation is effective at ensuring that risk information is timely and up-to-date. The communication of risk information to the board is also

How would you rate the effectiveness of your organisation at the following activities?

Please rate on a scale of 1 to 5, where 1=Highly effective and 5=Not at all effective.

(% respondents)





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Training: an enabler of better risk governance

The risk function, it is widely agreed, should bear part of the responsibility for turning ideology into concrete action. The most obvious and effective way of achieving this is through training and education.

Vincent O'Neil, a US-based risk management expert, suggests that training is not a one-off event, but a process. "Companies need to carry out continuous, interactive training," he says. In addition to formal training – which should take place at least once a quarter on average – there needs to be a follow-up campaign, which could be executed using as simple a tool as e-mail. This would update managers and staff on events within the company and in the outside world that illustrate poor or excellent risk practices. "You need people to get over skepticism of both training and risk governance, so you need to be as interactive as possible," says Mr O'Neil.

Credibility can be enhanced by the participation of senior

management in training, from the CEO down. "I feel management itself should deliver at least some of the training," says Mr O'Neil. "It packs more of a punch hearing your team leader say that something is important rather than from an external training company."

Senior management also plays a vital role in creating a sustainable level of risk awareness and should take the opportunity to provide instruction on risk issues themselves. From breakfast speeches to classroom-style training and off-site seminars, there are many ways for leaders to reinforce the institution's dedication to risk management.

A formal risk management certification course to learn the fundamentals of the discipline could also help to create risk awareness at all levels of the organisation. Employees who complete the course and receive certification would not only understand the importance of risk management but also know what to look for in terms of risky or fraudulent activity. This is particularly relevant today, since research has shown that such behaviour is substantially more prevalent during periods of economic uncertainty.

seen as a problem area, with only 40% believing that their organisation is good at ensuring clear lines of reporting to allow risk information to be escalated. So, where are the majority of companies going wrong and what can they do to improve communication?

Certainly, the risk function has a leading role to play in efforts to communicate information about risk. If its involvement in strategy is open to question in some companies, its part in creating risk awareness is not. Joachim Adebayo Adenusi, corporate risk manager for Essex County Council, says that it is up to the risk function to win hearts and minds. "The role of the risk manager is not to do risk management for people, it's to help people see risk management as a performance driver," he says.

Risk executives questioned for this report suggest that the profession should do more than it has done in the past to convince colleagues of the need to focus on risks at all times. "If the value proposition is not understood by executives, it is perhaps our own fault for not explaining it adequately," says Mike Walker, vice-president for business risk management at Metronet Rail and a director of the Institute of Risk Management. "We need to provide reports that have meaning and purpose. If the weight of the report and the level of detail are too great, it ceases to have meaning and is not useful for senior managers."

At the same time, the risk function requires support in the form of visible buy-in from senior executives. "Our CEO supports the sharing of risk knowledge and sees it as the way forward," says Mr Zack. "This certainly helps the business manage risks more effectively."

Shortcomings in reporting

As well as failings in communication, respondents to the survey also point to limited confidence in the effectiveness of risk reporting. Just 34% believe that risk reporting at their companies is effective at providing an aggregate view of risk exposure, while only 30% think that the company is effective



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How effective is your organisation's risk reporting at enabling the following activities?

Please rate on a scale of 1 to 5, where 1=Very effective and 5=Not at all effective.

(% respondents)



at providing information that is tailored to its audience. In other words, transparency – which has become a buzzword among stakeholders and investors alike as hidden risks have surfaced over the past year or so – could be significantly improved.

Many in the profession are frustrated that they are expected to produce lengthy reports from state-of-the-art systems that were designed to slice and dice data but not necessarily to extract meaningful information. Some warn that this emphasis on technology not only failed to help prevent losses in the recent downturn, but could lead companies into even more dangerous situations. “We must be careful not to fall into the trap of solely using quantitative techniques and neglecting judgment,” says Lawrence Dunn, a director of RiskMetrics, a leading shareholder consultancy.



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Key points

- Only around one-third of companies have appointed a chief risk officer
- Even when there is a CRO in place, less than half are involved in major strategic decisions
- Risk managers should show themselves to be commercially minded; it is not enough simply to say “no”

A time of opportunity for chief risk officers

If ever there was a time for chief risk officers to force their way into the boardroom and demand that the risk function be represented at the top table, surely it is now. While some CROs already have a seat at the table, others do not and find it hard to have their concerns about aspects of the business taken seriously.

Yet the vast majority of businesses do not employ a CRO or equivalent at all. Just 35% of companies in the survey have a CRO, and this figure falls to 33% in Europe and 28% in Asia. The role is most entrenched in North America, where 42% of corporations have created this position.

Even once a CRO is in place, there is no guarantee that he or she will play a role in key strategic initiatives. Among respondents to our survey, less than half say that their CRO or equivalent is involved in mergers and acquisitions, financial strategy, product development or forecasting.

This perplexes many risk professionals, who believe that the recession has reinforced the value of carrying out a secure evaluation of the risk/reward equation before making any major decisions. The CRO should, they argue, play a role in helping to determine the future of their organisations. “The whole purpose of risk management is to find the optimal balance between risk and reward consistent with whatever your objectives are,” says Ms Lucas. “That is a strategic function.”

Mr Roebuck believes that the key is for CROs to make themselves indispensable. “A good CRO has technical expertise, but also the ability to make everyone around the table aware of their roles as risk managers,” he says.

The lack of representation of the risk function at a senior level amounts to considerably more than a bruised ego for the CRO or highest-ranking risk officer. It can engender a lack of corporate cohesion, explaining why less than half of respondents think that their organisation is effective at linking risk management with corporate strategy.

Mr Kimber says that CROs will gain traction in the boardroom if they show themselves to be commercially-minded. “The risk manager’s job is not to say ‘no’, it is to solve the issues that the executives face, unless the risk is substantially outside the firm’s appetite for risk,” he says. “A company does not make money unless it takes risk. But it must take risks knowledgeably.”

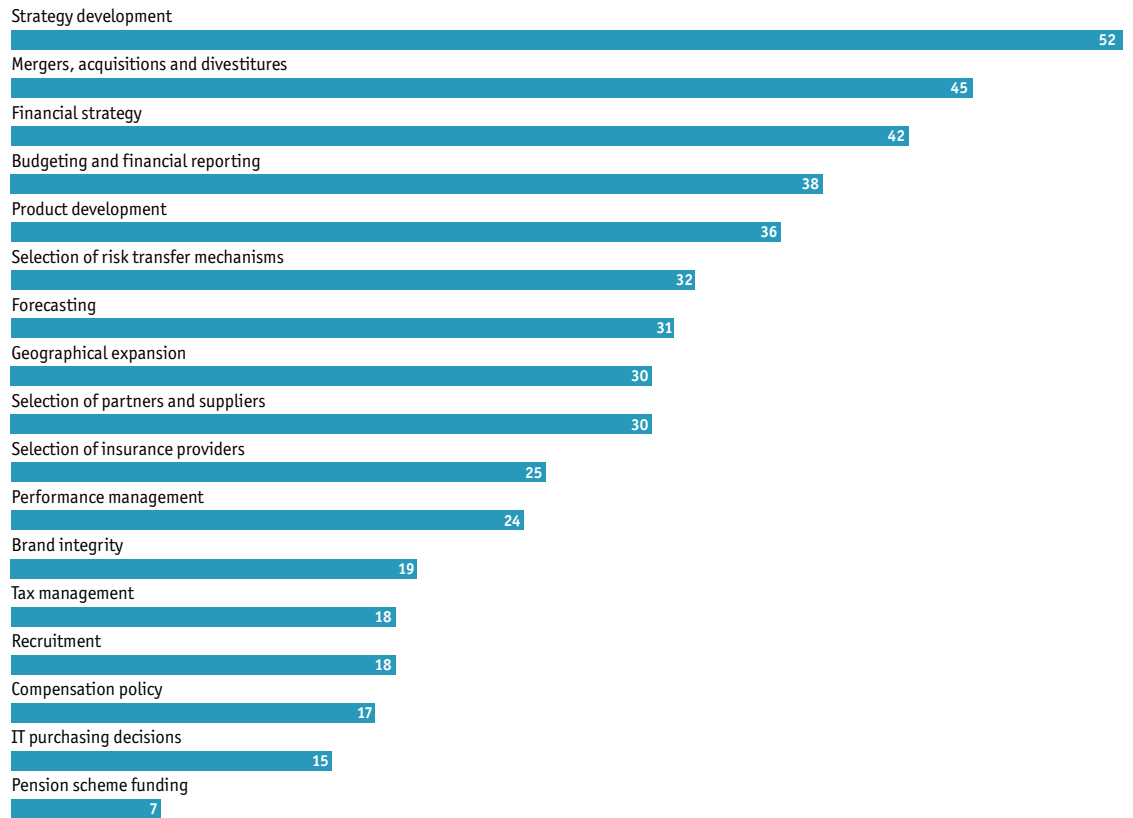
The key to establishing credibility is to take a common-sense perspective, he believes. This means realising that most businesses are focused on shareholder value, requiring the CRO to have an eye on



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In which of the following activities does your chief risk officer (or equivalent) play an active role? Please select all that apply.
(% respondents)



the fundamentals as well as helping executives to avoid potential pitfalls. “As a CRO, if you can do that more consistently than your competitors then you are likely to produce higher margins in your business lines,” he adds.

Andrew Marshall, chief risk officer for business intelligence and investigations at Kroll, says that the CRO should be regarded as an authority on the business. “They should be in the role because their insights are highly regarded, because they are the kind of person you would be turning to anyway for insights,” he says. “There should be understanding that is sought, not just the checking of a box.”



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Key points

- Risk managers spend a disproportionate amount of time on compliance and monitoring activities
- Risk identification is seen as the most important aspect of the risk managers' role, and yet the focus on compliance and monitoring means it attracts limited resources

More than just compliance

For the risk management function to help improve business decisions, it needs to focus on big picture issues. "If you try to turn risk management into a tick box approach, then you will miss the inter-relationships between the various types of risk," says Steve Fowler, chief executive of the Institute of Risk Management.

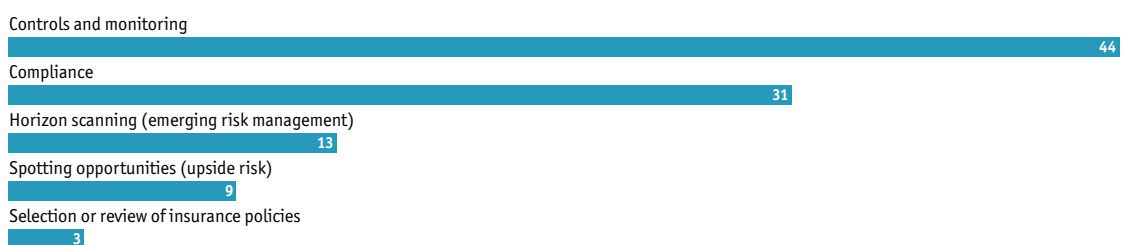
Yet it is clear that, all too often, risk managers are spending their time on the more mechanical aspects of the role. Asked about the activities that consume most time and resources in their organisation, respondents point to controls and monitoring, and compliance as taking up the largest proportion. By contrast, they say that horizon scanning and spotting opportunities typically consume far less resources – probably because there is little time left once the controls and compliance obligations are met.

And yet, when respondents are asked about the most important objectives of the risk management function, the identification of new and emerging risks is seen as the top priority. These findings, taken together, suggest that the controls and compliance aspects of the role are consuming a disproportionate amount of time, and preventing risk managers from carrying out vital activities that allow the company to keep pace with the changing risk environment.

With so much effort being expended on compliance and controls activities, it comes as little surprise that risk professionals find it difficult to support the company's broader strategic direction. Less than half of respondents believe the risk function in their company effectively supports the improvement of shareholder value.

Which of the following risk management activities consumes most time and resources in your organisation?

(% respondents)





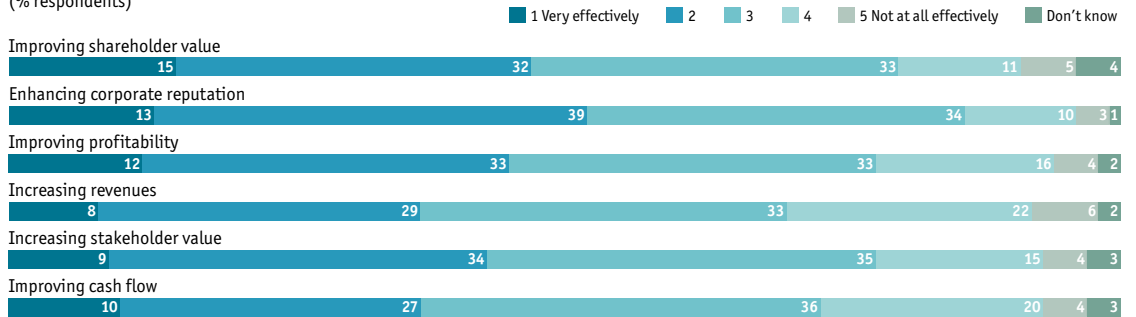
Beyond box-ticking

A new era for risk governance

How effectively does risk management in your organisation support the following goals?

Please rate on a scale of 1 to 5, where 1=Very effectively and 5=Not at all effectively.

(% respondents)



Traditional, ingrained views and expectations of the risk function in many companies can also prevent risk professionals from fulfilling a wider brief. “We spend a lot of time explaining to internal and external audit departments what we are doing,” says Mr Walker. “It was important to demonstrate not only that we were carrying out risk management but the detail of how we did it also needed to be explained. It could sometimes be hard to get on with the real job of identifying risk.”



Beyond box-ticking

A new era for risk governance

Key points

- Companies recognise the need to strengthen risk management but a lack of financial resources is impeding investment
- When companies are making investments, it is on process rather than expertise, technology or data
- A focus on process improvement alone is unlikely to address underlying risk deficiencies

The resources conundrum

Many companies recognise that they need to beef up their risk management and governance processes, but it is not yet evident that they are investing to improve performance. This is perhaps to be expected, given that many companies are still in financial survival mode after the economic and market shocks of the past year. Revenues have fallen as consumers and business customers retrench, and cashflow has become the leading concern in an environment where banks are unable or unwilling to provide liquidity to anything other than the most stable businesses with the strongest balance sheets.

Certainly, concerns about budgets are weighing heavily on the minds of risk professionals in our survey. The findings highlight how, in the past, poor data quality and availability and a lack of expertise were seen as the most significant barriers to effective risk management. But looking ahead to the next year, respondents expect a lack of financial resources to be the biggest constraint.

This lack of resources has an impact on companies' priorities when it comes to improving their risk management. Indeed, asked whether they expected to prioritise people, processes, data or technology in their risk management efforts over the next 12 months, respondents cited processes as their main area of focus. This requires a reallocation of internal resources but far less capital expenditure and suggests that, rather than making investments in either recruitment or large-scale systems, companies are seeking to extract greater value from what they already have.

Metronet is a case in point. "We need to focus on process and that really doesn't cost that much," says Mr Walker. "It is not difficult or expensive to rewrite the risk management framework. Taking the story to senior executives to develop the argument is the hard part."

But a focus on processes is not likely to achieve all the objectives set by or expected of the risk function. The survey reveals a yearning by companies to do more. Although lack of financial resources is expected to be the biggest barrier to effective risk governance over the next year, other problems, such as a lack of expertise and inadequate technology will not go away. If anything, they will become more acute, which means that the most pressing shortcomings in risk will continue to remain unaddressed.

Mr White says that improving data is particularly crucial in the quest for better risk management. "There are limitations to information management created by a lack of adequate systems," he says. "Some companies have a dozen different systems built up over decades and that means information



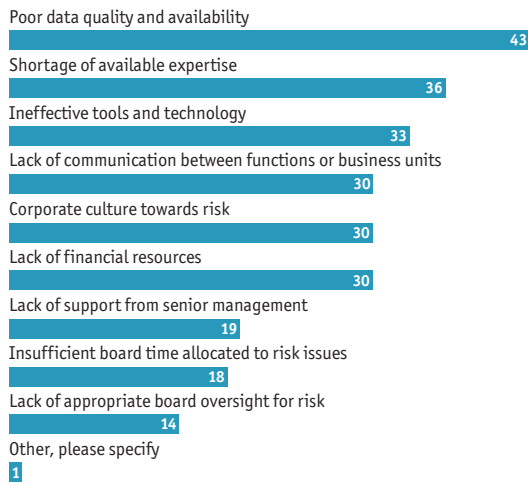
Beyond box-ticking

A new era for risk governance

In the past year, what have been the most significant barriers to effective risk governance in your organisation, and what do you expect to be the most significant over the coming year? Please select up to three in each column.

(% respondents)

Past year



Next year



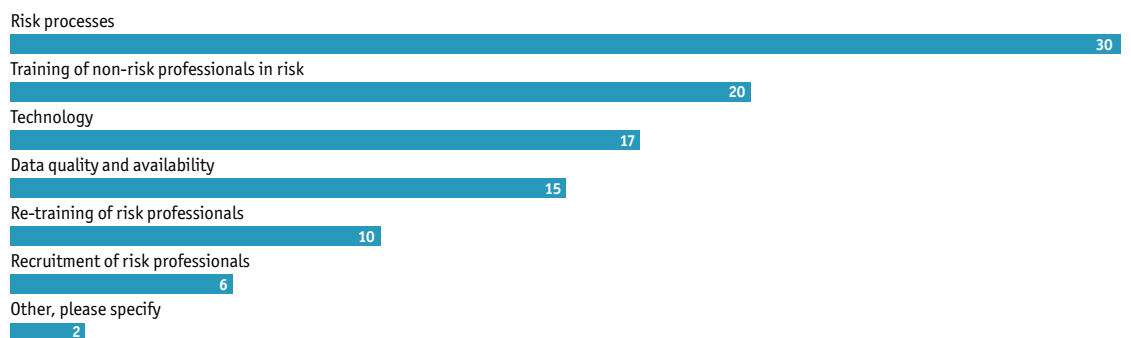
can't get to the right place at the right time. Make no mistake, risk management is predicated to a large degree on information management."

Faced with a combination of pressing priorities but a lack of resources, a number of companies have decided to bite the bullet and hire to fill gaps in their risk infrastructure. This is particularly true in banking, where risk weaknesses were exposed at an earlier stage and to a much larger extent. Many banks have moved to address deficiencies to satisfy the demands of regulators and investors, as well as bolstering internal processes.

Lloyds TSB, for one, has prioritised the risk function. Despite shedding thousands of jobs across its worldwide entities in the wake of the financial crisis, it has created 70 new roles in its risk function. Some industry professionals, however, warn that the wholesale hiring of risk professionals is not necessarily the best use of limited resources. "There is too much reliance on number crunchers and mathematics in general," says Mr White. He believes that companies should be seeking to hire "old-fashioned" business managers who harbour a healthy degree of skepticism. "You need to buy in experience of the real world," he says.

Over the next 12 months, which of the following aspects of risk management will the main priority for your organisation?

(% respondents)





Beyond box-ticking

A new era for risk governance

Conclusion

If they did not know it before the crisis, companies are now acutely aware that risk management and risk governance is not about box-ticking. A box-ticking approach to the management of strategic risks is, in a post-crisis environment, more likely than ever to lead to corporate ruin.

The survey results, encouragingly, reveal widespread understanding of this point. In terms of the factors that would stimulate greater interest in risk governance in the future, executives cited the need for cost reduction and efficiency, and losses in revenue or market share as the biggest drivers. In other words, risk governance is perceived to have a direct impact on both the top and bottom lines of the profit and loss account.

But there is a dilemma here for many businesses. Although they are aware that increased investment in risk governance would be beneficial, few believe they can actually afford an overhaul of current risk practices.

The answer may lie in a reprioritisation of spending budgets. Planned expenditure on important but non-essential activities, such as marketing, sales and administration, may have to be reined in, at least in the short term. While the finance department does not, in the main, take kindly to new expenditure items, it needs to consider seriously making an exception for risk governance activities.

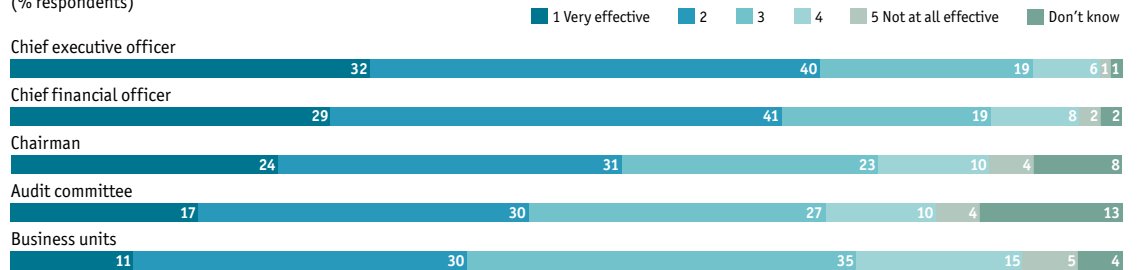
Without a transformation in this area, the entire business model could be at risk. Everything else in the business should stem from the setting of risk appetite and the capacity to work within limits imposed by it. With a sound risk governance framework, all functions within the business can work together towards a common goal. That, more than any other individual action, will help to produce a stronger top and bottom line, and everything in between.

Appendix: Survey results

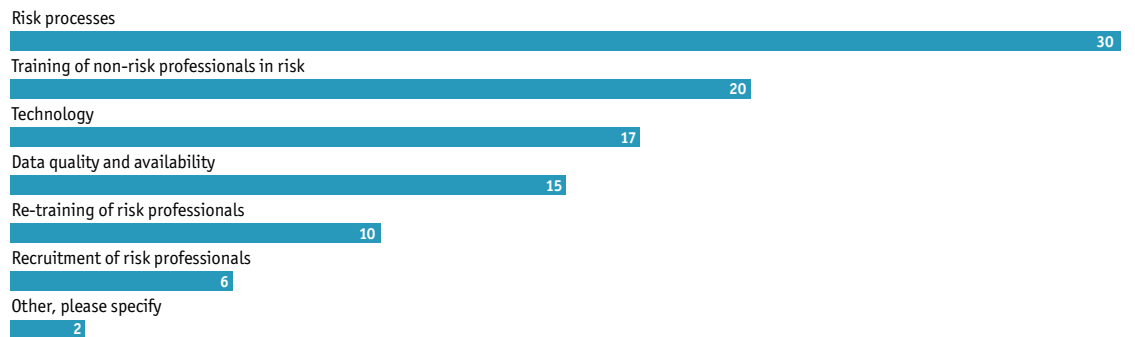
Do you have responsibility for, or influence over, strategic decisions on risk management in your company?
(% respondents)



How would you rate the level of risk expertise among the following individuals/entities within your business?
Please rate on a scale of 1 to 5, where 1=Very effective and 5=Not at all effective.
(% respondents)



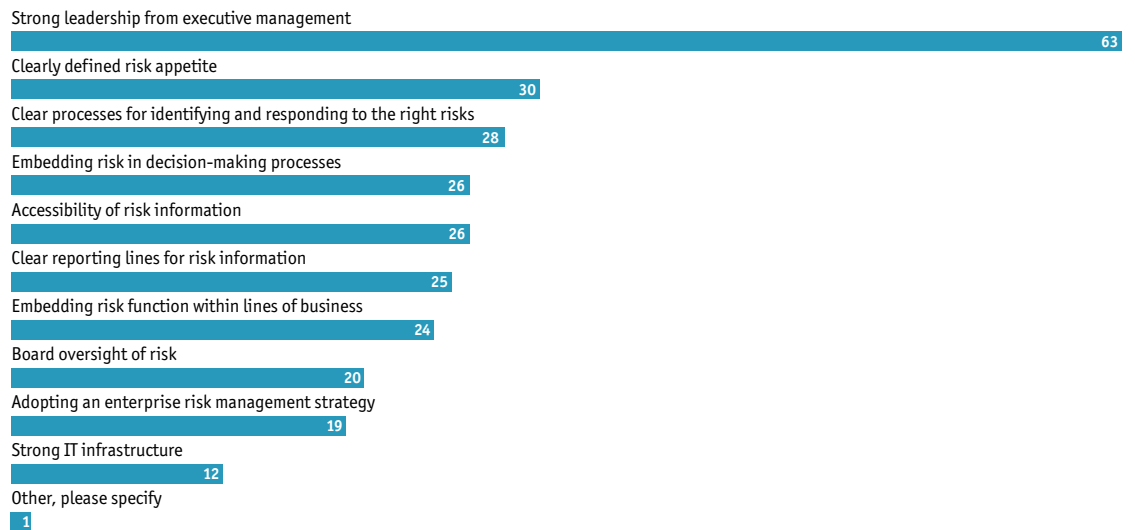
Over the next 12 months, which of the following aspects of risk management will the main priority for your organisation?
(% respondents)



In the past year, what have been the most significant barriers to effective risk governance in your organisation, and what do you expect to be the most significant over the coming year? Please select up to three in each column.
(% respondents)



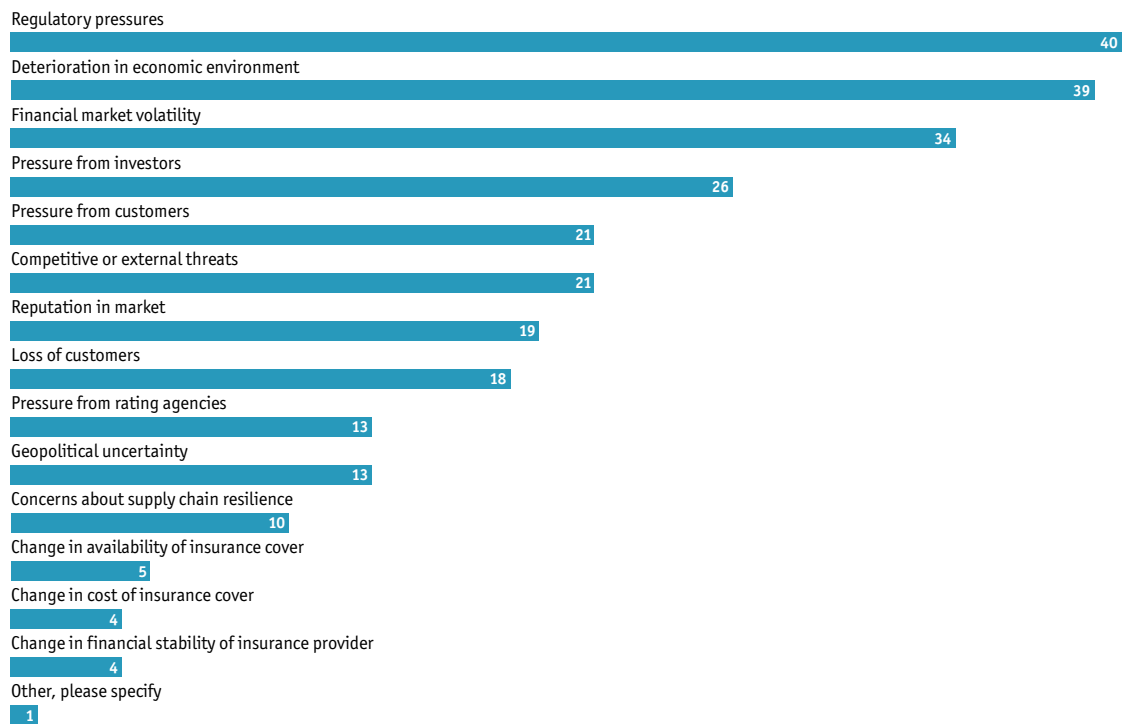
Which of the following qualities do you think are most important to instil a “risk culture” within your organisation? Please select up to three.
(% respondents)



Which of the following internal factors will most influence your organisation's interest in risk governance over the next 12 months? Please select up to three.
(% respondents)



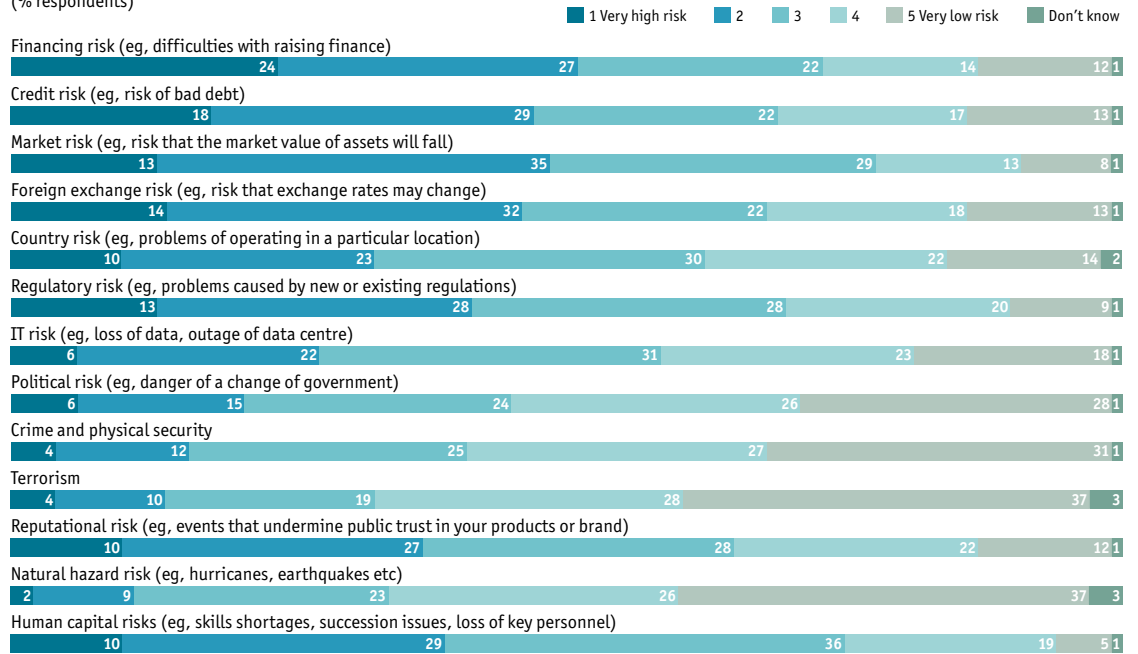
Which of the following external factors will most influence your organisation's interest in risk governance over the next 12 months? Please select up to three.
(% respondents)



How significant a threat do the following risks pose to your company's global business operation today?

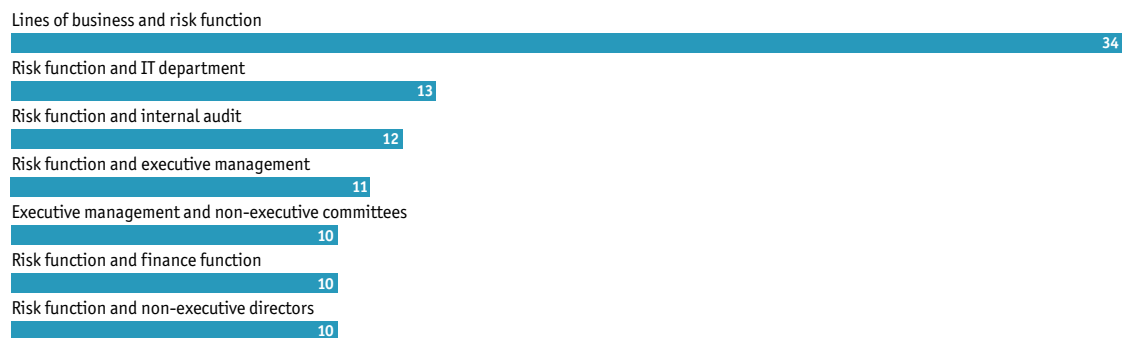
Please rate on a scale of 1 to 5, where 1=Very high risk and 5=Very low risk.

(% respondents)



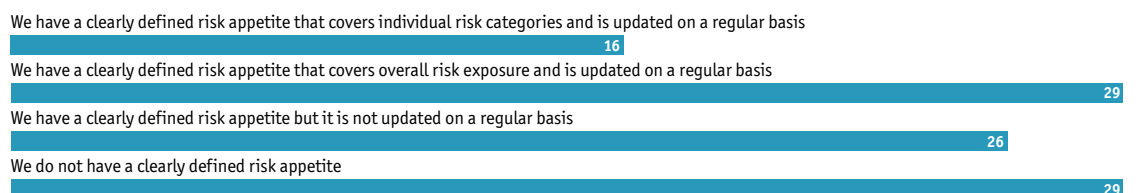
Between which of the following individuals/departments/ functions in your organisation is communication least effective?

(% respondents)



Which of the following statements most closely corresponds with the situation in your company?

(% respondents)



How effective is your organisation's risk reporting at enabling the following activities?

Please rate on a scale of 1 to 5, where 1=Very effective and 5=Not at all effective.

(% respondents)



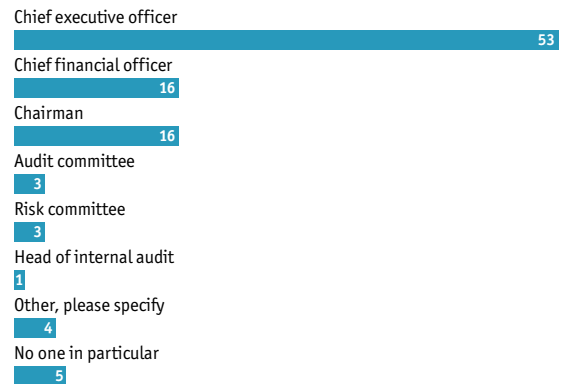
Who in your organisation has ultimate responsibility for risk management content and process?

(% respondents)



To whom does the most senior executive within the risk function report?

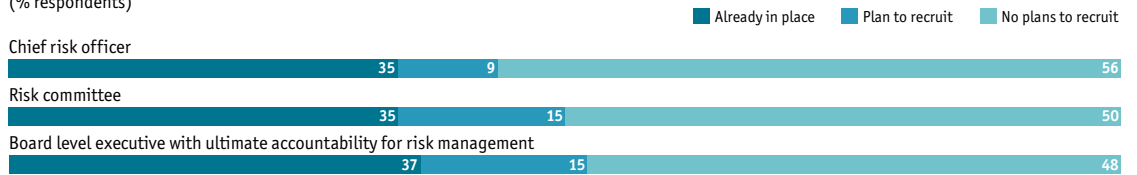
(% respondents)



Which of the following risk management activities consumes most time and resources in your organisation?
(% respondents)



Has your organisation recruited, or does it plan to recruit, the following individuals or entities?
(% respondents)



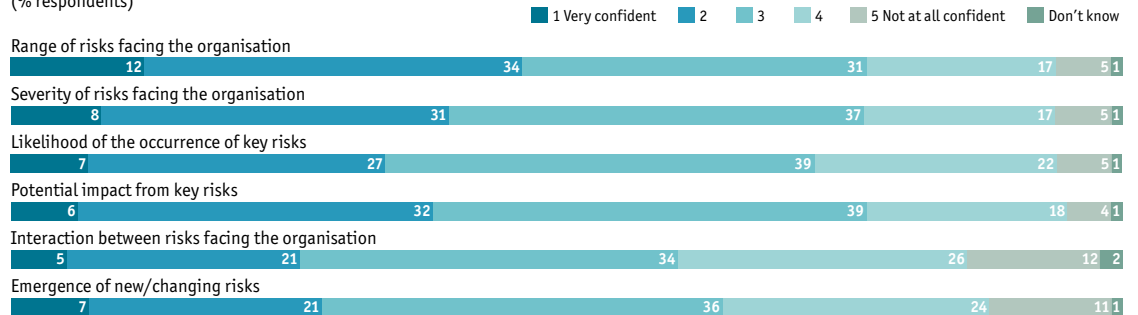
What, in your judgement, are the most important objectives of the risk management function?
Please select no more than three objectives.
(% respondents)



How confident are you that there is broad understanding throughout your organisation of the following?

Please rate on a scale of 1 to 5, where 1=Very confident and 5=Not at all confident.

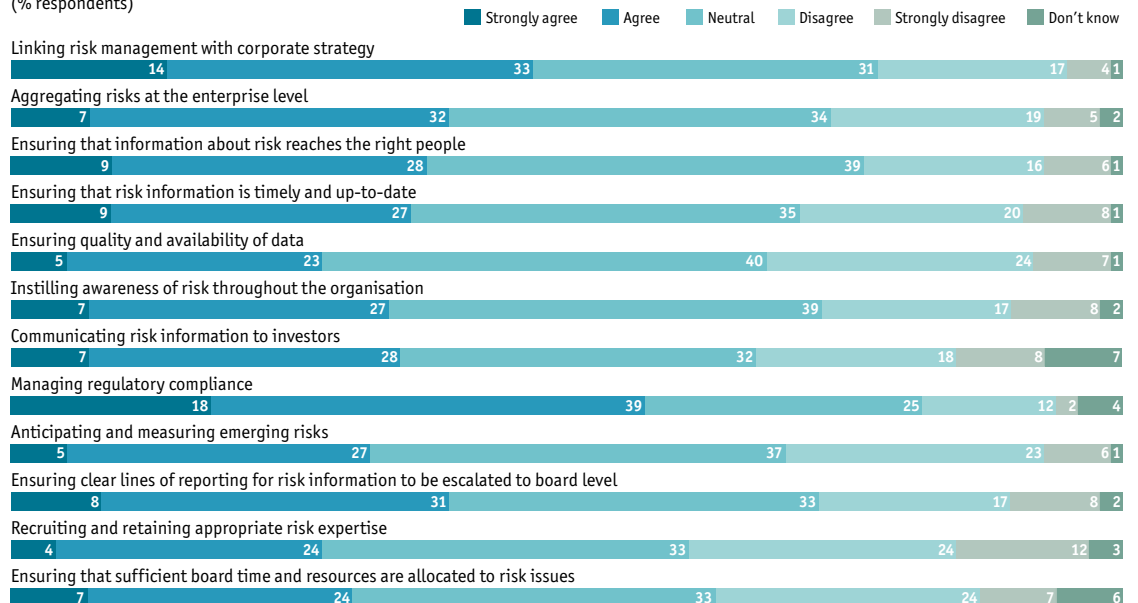
(% respondents)



How would you rate the effectiveness of your organisation at the following activities?

Please rate on a scale of 1 to 5, where 1=Highly effective and 5=Not at all effective.

(% respondents)

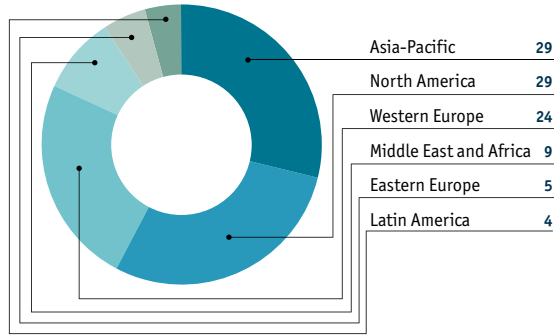


Please indicate whether you agree or disagree with the following statements.

(% respondents)



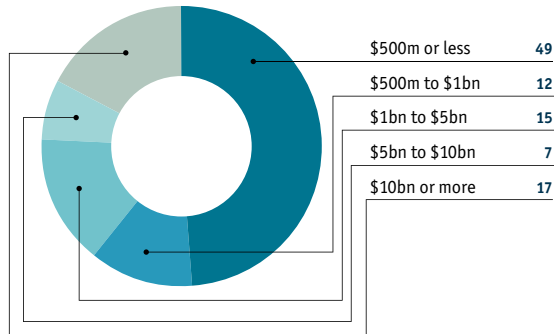
In which region are you personally based?
(% respondents)



What is your primary industry?
(% respondents)

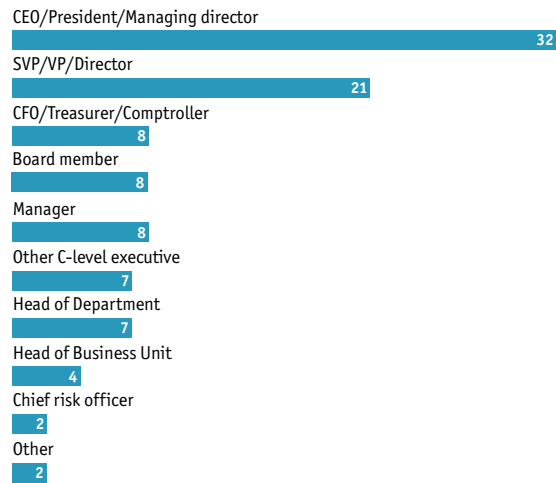


What are your company's annual global revenues in US dollars?
(% respondents)



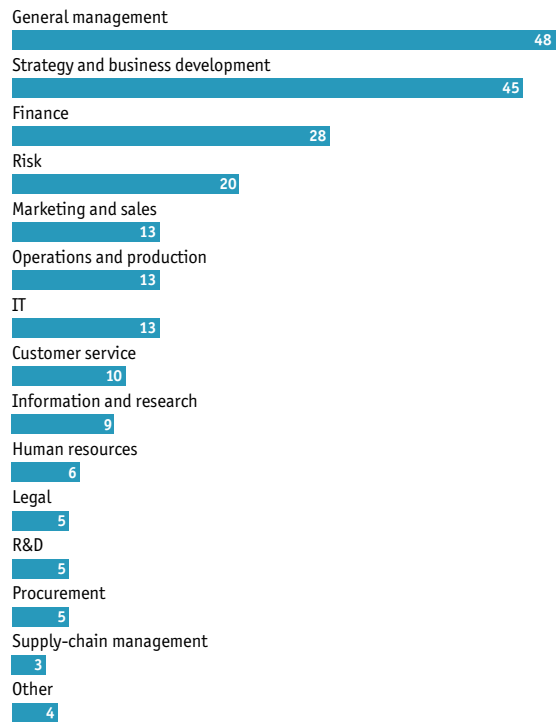
What is your title?

(% respondents)



What are your main functional roles?

Please choose no more than three functions.
(% respondents)



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