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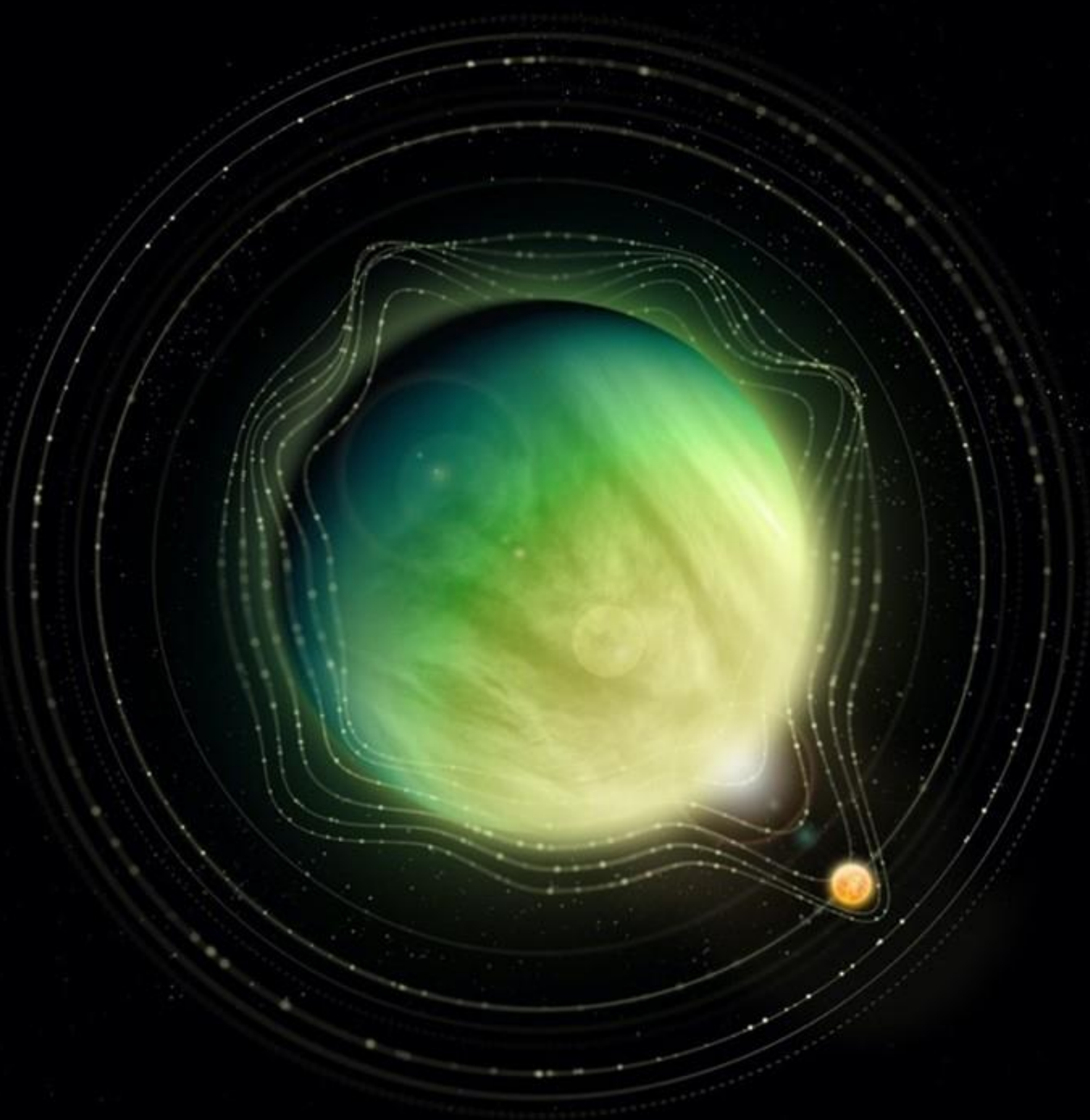


Integrated Risk Management

Improving Your Risk Governance Practices

MAKING AN IMPACT THAT MATTERS since 1845

Risk Management vs Risk Governance

Risk Management

Encompasses risk identification and assessment, and monitoring, mitigating, reporting, and responding to risks. This occurs in the business, with functions such as cybersecurity, human resources, operational risk management, credit, and others providing support.

Risk Governance

Includes maintaining a strong culture, setting policies and procedures, monitoring risk profile, appetite, and tolerances, and providing assurance and oversight of risk management.

In short, risk management is a subset of risk governance, and both go hand in hand. Risk governance provides a framework in which effective risk management takes place. Sound risk governance results in: Risk management that includes but extends well beyond regulatory compliance. Risk-related practices that engage the business units and positions them to make better decisions. Greater visibility into risks, drivers of risks, and the effectiveness of risk-related practices. More effective deployment of not only risk management resources, but all resources.

Risk Management in the 21st Century

Recent years have severely tested risk governance and risk management capabilities at most organizations.

Given the impacts of the COVID-19 pandemic and various cyberattacks, weather events, and political and social developments, it's a wonder that risk managers and the executive teams and boards who oversee them can keep pace with the challenges they face.

In fact, some have not kept pace; others have been led to question their approaches to risk. This is understandable. It is also a signal that risk-related practices of the past are often inadequate to the present challenges, let alone the future:

Risk Related Challenges

- Ongoing digitalization of business models, processes, relationships, transactions, and currencies.
- Widespread use of alliances, partnerships, and other elements of the extended enterprise.
- Evolving, often uncoordinated regulatory regimes within a globalized business environment.
- Shifting social forces, ranging from environmentally conscious customers to activist investors.
- Economic uncertainty due to COVID-19 and its lingering impact.
- Downward pressure on budgets and headcounts amid mounting competitive pressures.

Under these circumstances, senior executives and boards often need to improve their grip on risk governance, which sets the tone for and oversees risk management. This does not necessarily mean either tightening or loosening your grip on risk governance. It means establishing and maintaining optimal risk governance.

Optimal risk governance boosts performance by enabling risk-based decision making, which balances value creation and asset protection. It enables the executive team and board to fulfill their risk-related responsibilities by clarifying risks to the enterprise and obtaining assurance that those risks have been addressed. It builds trust by providing visibility into risks as well as assurance to stakeholders that they are being addressed.

What should Changed?
– Avoid Performative Risk Governance

In some organizations, risk governance is undertaken in a performative manner. Risks are identified, tracked, reported, and acted upon in habitual ways, and these tasks are seen as routine chores rather than vital activities.

Organizations engaged in performative risk governance tend to:

Confuse risk management with regulatory compliance:

Regulators focus on known risks and on their own needs, not on unknown risks and the organization's needs. Compliance should be automated to the extent possible, so people can focus on important emerging risks.

Aim mainly to minimize or avoid risk:

Risk taking is essential to value creation, and leaders who focus primarily on risk avoidance can be out-maneuvered by more aggressive competitors. Informed risk taking for value creation can generate superior results.

Manage risks in silos, through patchwork solutions:

Evolving risks call for new solutions, but adopting new solutions can lead to lack of coordination. A coordinated—and integrated—approach results in lower costs, greater transparency, and reduced risk.

Underinvest in risk management:

Mistaking risk management for compliance or a side-issue leads executives to underinvest in the people, processes, and technologies needed to address risk. Yet those are the resources needed to prosper in today's business environment.

Make risk governance difficult:

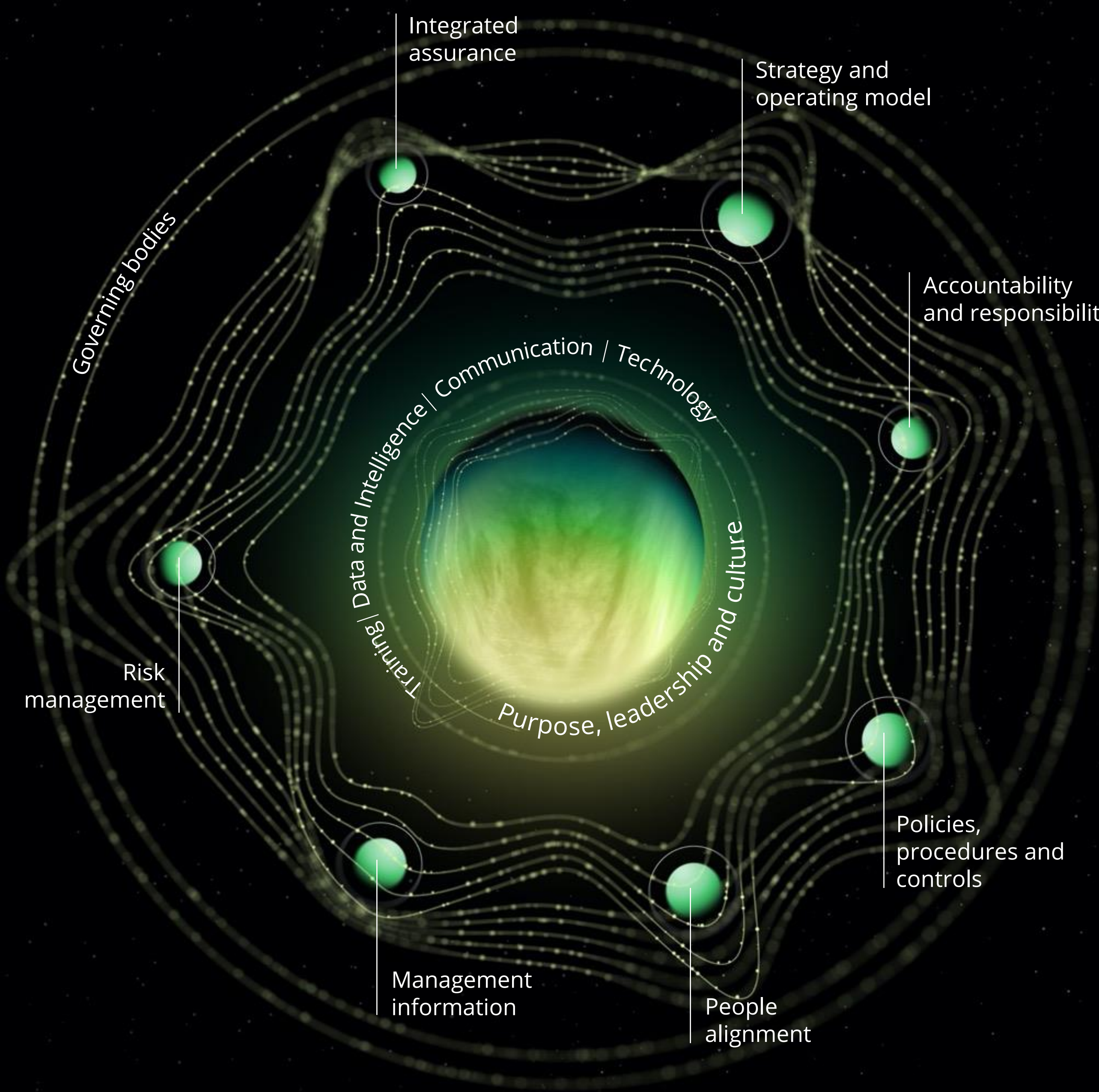
Lack of a coordinated, enterprise-wide approach to risk makes risk management and risk governance close to impossible. An integrated approach enables better decisions and results as well as more effective and efficient risk governance.

These mistakes can put an enterprise in a defensive crouch, when it should be playing offense and capitalizing on opportunities. Any one of these mistakes may indicate that your executive team or board is settling for performative risk management, and that you need a better grip on risk governance.

Where and How to Start

Improving your approach to risk governance depends on how clear, practical, and robust your existing system of risk governance is. One good place to start making it clearer, more practical, and more robust would be to consider your existing governance framework.

To assist you in this process, we provide our governance wheel.



Deloitte's Governance wheel

The governance wheel summarizes the elements of corporate governance and the levers that the board and management can use to implement governance. While the extent and emphasis will vary, the elements of this governance wheel will be found in most organizations. Breaking governance down into these seven components enables an executive team or board to consider the relative strength of each component.

Strategy and operating model

Management sets the business strategy and develops the operating model with the board's input, approval, and oversight.

Accountability and responsibility

Management is accountable to the board and the board is responsible for governance of the organization and oversight of management's performance.

Risk management

Uncertainty and risk accompanies virtually every business decision and initiative; therefore, oversight of risk and risk management is essential to corporate governance.

Policies, procedures, and controls

Policies, procedures, and controls translate the strategy and operating model—and accountabilities and responsibilities— to activities that people can perform as part of their jobs.

People alignment

Policies, procedures, and controls are most effectively implemented by people who are aligned with the purpose, mission, and goals of the organization, under the leadership and guidance of management.

Management information

People need information on the processes and controls they are using as they do their jobs, just as management needs information on the operational and financial performance of the organization.

Integrated assurance

Both management and the board need assurance that systems are delivering accurate information and controls are effective; integrated assurance provides an enterprise view of the accuracy and effectiveness of the organization's information systems and controls.

Key Considerations

- Has your executive team and board developed an integrated, enterprise-wide view of risk?
- Do you consider that view when making decisions and allocating resources?
- Have you automated regulatory (and internal) compliance to the greatest extent possible?
- Have you taken full advantage of risk scanning, sensing, and reporting technologies?
- Do you link risk monitoring capabilities with clear issue escalation and risk remediation procedures?
- Do you feel you have adequately identified risks beyond those well-known in your industry and organization, including economic, environmental, social, political, and reputational risks?
- Do you identify and track emerging risks?
- Have you aligned your risk strategy and your business strategy?
- Have you linked hiring practices, incentives, rewards, and other behavioral levers with your risk and business strategies?

How we help

Our team of deep subject matter specialists across industries can help you achieve better awareness, understanding and executive alignment of top risks, including current and future risk mitigation plans.

We work with leaders collaboratively to shape the vision, mandate, and design of a new or enhanced enterprise risk program that aligns with their organization's strategy, ambitions, culture, and operating model.

We leverage proven methodologies, tools, and accelerators to help organizations design, implement, and integrate an enhanced ERM program or capability that fits the unique needs and operating rhythm of the business.

Get in touch

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