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Risk Angles
Exercising risk oversight

This edition of Risk Angles focuses on the different ways in which boards of directors can sharpen their focus on risk. We then take a closer look at global practices regarding board-level risk committees and the benefits and insights such a committee could equip the board with in order to make more informed decisions when mitigating risk.

Boards of directors are working hard to define and fulfil their risk governance and risk oversight roles and responsibilities. The changing economic, business, competitive and regulatory landscapes ensure that this work will continually evolve, so staying abreast (or ahead) of developments is the order of the day, both locally and globally. Within that context, and given competing responsibilities, boards need to prioritise their risk oversight efforts toward the most productive and impactful areas that assist management in ways that benefit shareholders and other stakeholders the most.

Question	Deloitte point of view
What key risk areas should boards be focused on right now?	The board has to understand the risks the organisation faces, as well as management's processes for identifying, reporting and managing those risks. Both the risks and the relevant processes must be discussed and understood. Boards must foster an open, ongoing conversation about risk with management. Key risk areas for most organisations include strategic, financial, operational, regulatory, compliance, legal, technology and reputational risk. Given the proliferation of personal devices and social media, two risk areas that currently deserve special focus are cyber-crime and reputation risk.
What structures can assist the board in exercising risk oversight?	While the full board is responsible for risk oversight, most boards exercise that oversight to varying degrees through board-level committees. For instance, the audit committee is often charged with overall risk oversight and for monitoring related controls. Similarly, the remuneration committee typically oversees risk in remuneration plans. Essentially, the board must allocate oversight of critical risks to the appropriate committee and make sure that each committee understands both the risks and the risk management processes in the areas they oversee. In addition, the full board should be discussing risk on a regular basis to coordinate individual committee activity. Lastly, a board may not need to establish a board-level risk committee, although that is often an option worth considering.

Question	Deloitte point of view
How can the board enhance risk culture?	Boards can create a positive environment by setting a tone where employees are comfortable challenging one other, including authority figures, about risk-taking. They can promote transparency, ownership, and accountability around risk. They can also help management to enhance the risk culture through resource allocations, training programs and risk culture surveys. Most importantly, the board should see that incentives, rewards and performance systems are aligned with a focus on sound risk management, compliance and controls — as well as value creation.
What do boards need to know about risk management maturity?	In this context, maturity refers to the levels of formality, quality, transparency and integration of risk management approaches, processes and systems. This includes a means of measuring, monitoring, reporting, mitigating and managing risks of all types. Effective risk governance calls for a regular assessment of the maturity of the organisation's capabilities. A model that relates characteristics of capabilities to levels of risk management maturity — such as, fragmented, top-down, integrated, or risk intelligent — can help organisations gauge where they are and how to chart a path to the next level.
How can the board help stakeholders understand the organisation's risk story?	The key is to use disclosures to provide visibility into the risks that the organisation faces and how risk governance and management work. Disclosures can explain the roles of the board and its committees, and processes for overseeing and managing risks. The board should ensure clear, plain-language disclosures and encourage supplementing risk disclosures with quantitative or qualitative analysis. Discussing the full range of risks — and management's methods of addressing them — in a specific, concise, relevant manner will bolster stakeholders' confidence in the organisation's risk governance and management capabilities.

A closer look: Board risk committees around the world

To address increasing risk-related responsibilities and, often, to respond to regulatory changes, a large number of boards have established board-level risk committees. These include dedicated, stand-alone risk committees, as well as combined, hybrid committees (such as an audit and risk committee or asset management and risk committee). Of course, the full board remains responsible for risk and risk oversight; however, a risk committee of either type can further formalise the means and mechanisms by which the board carries out its risk-related responsibilities.

Whichever means they choose, boards must fulfil their risk-related roles and responsibilities as effectively as possible. Depending on the organisation, its industry, its risks, and its regulatory and risk governance needs, a board-level risk committee may enable the board to:

- Assert and articulate its risk-related roles and responsibilities more clearly and forcefully;
- Establish its oversight of strategic risks, as well as the scope of its oversight of operational, financial, compliance, and other risks;
- Task specific board members, external directors, and other individuals with overseeing risk and interacting with management and the Chief Risk Officer;
- Recruit board members with greater risk-related experience and expertise;
- Keep the board more fully informed regarding risks, risk exposures and the risk management infrastructure;
- Improve advice provided to management regarding risk, response plans and major decisions, such as mergers, acquisitions and entry into new markets or new lines of business.

Of course, a board-level risk committee requires resources, including funding, expertise and time. Moreover, the foregoing items are risk oversight responsibilities that any board must fulfil. So we emphasise that a board need not establish a committee to fulfil those responsibilities, but that a board needs to consider — and periodically reconsider — the means by which it fulfils them.

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