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Emerging challenges in ERM

Roundtable

Emerging challenges in enterprise risk management

CIR's most recent roundtable was held under Chatham House Rule amongst twelve senior risk professionals from financial services, banking, professional services, infrastructure, industry, housing and risk software sectors to explore the emerging challenges in ERM

Chairman: I find it fascinating that in 2022, some – even large – organisations still struggle, culturally, to recognise the value of risk management. Let's explore this in the context of emerging challenges across enterprise risk management. What are your views and experiences of the key issues?

Risk professional in infrastructure: I see a degree of resistance when it comes to engaging the wider business in ERM. They will participate 'if they must'. Perhaps they may not fully understand the value of ERM, as the benefits have never been properly explained to them. I don't think we explain the 'so what?' factor clearly enough.

Risk professional in financial services: I don't think there's a common definition in some organisations as to what ERM is.

Risk professional in infrastructure: That is the challenge.

Risk professional in financial services: For a bank, enterprise risk can drift into prudential risk, as opposed to what many people now think of as ERM, which is really more about resilience for my organisation. Another key challenge is that, because ERM is so ill-defined, anything with the word 'risk' involved can become ERM... and that means that queries from colleagues on, say, country exposure, get directed to ERM as a catch-all solution.

There's no common industry definition, and I'm not even sure many firms define enterprise risk very well – around what it really means for them as an organisation.

This problem is exacerbated if you have consultants working on different projects – all with different definitions for ERM.

Understanding the fundamentals

Chairman: Even though I've been a student of risk management for over 20 years, I believe we still have a long way to go in understanding this subject clearly.

Risk professional in financial services: I have to ask: How different is a risk assessment to an assessment of the business case and commercial benefits of a particular action?

Risk professional in professional services: That is an important consideration. When we look at risk, it is not one solo 'thing'. Risk is part of managing an enterprise. It's part of any project, it's part of management. But still, today, people think about risk only when there's a problem, and then come to us to fix it.

Risk professional in insurance: I recognise that situation!

Risk professional in professional services: I don't think this is a new idea, but I believe that when the message genuinely comes from the top, it becomes naturally embedded in the process. If management understands the benefits of thinking about risk, they will necessarily drive it downwards, and everyone else will start to see the benefits as well.

Risk professional in financial services: Do we think that risk needs a rebrand? Would 'risk and opportunity management', or 'opportunity and risk management' be better?

Risk professional in professional services: I've heard this discussed a lot. Would it be too controversial to ask if we even need to talk about risk at all?

Risk professional in insurance: I don't have risk in my title for that reason.

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My job title focuses on strategy and assurance. I don't think we need to pick out 'risk' per se. We've just started looking at risk culture, but it's not risk culture that we are really exploring – it's the holistic culture of the organisation.

Risk professional in infrastructure: We have a number of enterprise risk managers at our firm and it is hard to articulate clearly what we do. Often our infrastructure public sector clients will ask me how I am managing their risks, and I have to explain to them that they are for *them* to manage. So, in a way, it doesn't matter what we're called. I'm frequently asked, 'can I have ERM?' But you're a project, so, what do you want to do with that?

You can have the best risk management system in the world, but if the enterprise that you work in doesn't have anything, well, it's not ERM.

Risk professional in banking: I think defining ERM is not only good for the business, but good for us as risk professionals. My company recently invited a number of CROs and heads of risk from a fintech to a risk session. When asked about their problems, they cite challenges integrating of measuring risk. That's why enterprise risk, as a concept, was formed in the first place – to solve those inherent challenges.

"Where does ESG fit into the wider emerging risk conversation? In the context of all the other challenges we are facing, how can we now integrate ESG?"

I think there are different challenges that enterprise risk is facing, and that's compounded (obviously as a result of Covid) in the last two or three years. The problem, I think – and I'm being critical of us as risk professionals – is that we still don't understand the business well enough.

The second issue is that sometimes we lack vision and leadership. So many risk professionals are still taking a tick-box approach, and that needs to change so that instead we are ahead of the business, and ahead of regulators. Let's face it, our regulators are not always visionary leaders themselves.

Risk professional in insurance: I agree. We're still very reactive.

Addressing ESG

Chairman: Of course, it's not enough just to highlight problems. So what can we do to solve these issues? And where does ESG fit into the wider emerging risk conversation? In the context of all the other challenges we are facing, how can we now integrate ESG?

Risk professional in insurance: It's quite interesting to see what's happened with ESG, in that, like risk, we've created new job titles for it – rather than integrate it. It's the new thing. It's the new focus. Which is interesting, given the conversation we've just been having about the use of risk and then the maturity of risk. Will we then remove that, and integrate it back into the business, when we think it's mature enough?

It would be interesting to see whether everyone else does similar, or tries to integrate it, across the business. But that's how, typically, we give the focus to an issue – to make it prominent.

Risk software provider: From a software supply perspective, we can see the benefit of having ESG integrated,

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but that's not what customers currently appear to want. We have an ESG capability as part of our integrated risk management solution as we believe that synergy is important to a high-level conversation about all these risks.

Risk professional in financial services: Just as we discussed a definitional problem with ERM, I think there's an even bigger one with ESG. The environment element has been very much in focus for a while, and governance increasingly so, but the social piece became much more important earlier in the year. I also perceive that for some issues there's a balance between the ESG elements, as benefits in one can impact the others.

Measuring impact

Chairman: Where does the conversation about carbon credits come into all this?

Risk professional in infrastructure: From an infrastructure project perspective, I think it's still a very misunderstood concept. Everyone in the room wants to pretend they know what the answer to all this is, but so often ESG is so siloed as to be of little help.

Risk professional in professional services: I think you're right. We are starting to hear a lot more discussion on how carbon can be assessed, its impact measured, and what the scoring mechanism is.

Risk professional in infrastructure: I am beginning to be asked for risk models on carbon, but I don't yet fully understand the question – and they don't really know what they're asking for – but they know they need it for modelling...

Risk professional in professional services: They definitely need it!

Risk professional in financial services: The ESG discussion can potentially be headline-driven. When we talked about the environment when I was at school – which was longer ago than I care to admit – we were told that nuclear was bad, because it produced toxic waste that lasts thousands of years, and adversely impacts the environment. Today, conversations about nuclear are completely different. Now, when we talk about environment, there's much more focus on carbon emissions.

I think people associate the headlines they read with what they think environmental, social and governance issues are, and that's what they then respond to – which is really as you'd expect.

Risk professional in infrastructure: It also depends on what background you have. I have worked in nuclear, and feel more comfortable because of the level of knowledge I have about it. I know that it's more risky for me to take a flight to the US than being near nuclear waste that we have in the UK. It's all about education. Maybe the same can be applied to the discussion about ESG – people don't have enough knowledge yet, and are acting on incomplete data.

Risk professional in banking: Yes, I think there are two other things we could consider when seeing to solve this problem. The first is an operational issue. We should find ways to better integrate ourselves with the ESG team, and establish an agreed taxonomy. As many of us agree, ESG is actually part of risk management, so this is achievable.

The second thing – and this is just my personal opinion – is that I truly think we can, and need, to do a better job in challenging the business, as far as ESG is concerned. Let's take the example of greenwashing. To me, as a risk professional, that's absolutely unacceptable. Risk professionals should be there challenging this kind of activity. We need to actually call them out, and explain what a high-risk endeavour

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this is, and how that translates to reputational risk.

Risk professional in financial services: I agree that a common taxonomy would be really helpful – not necessarily a 'golden source', but at least a common source.

Risk professional in housing: In housing, quite a lot of money lending comes from Australia and Japan. We've had lenders and banks from those countries really putting an emphasis on ESG, in a sector that's not quite ready for it yet.

Risk consultant in housing: I think we're going to see quite a lot of that, particularly in housing, where lenders are specifically partnering with organisations that can demonstrate their social purpose. It's hugely important in social housing, particularly if we want to access new sources of borrowing. It's also a win-win because it drives the right behaviour, but it is a shame that it is not the greater good behind this drive. In the end, though, it may not matter what drives it...

Finding solutions

Chairman: That's an interesting way to look at it. Somehow, something is forcing us to do something, and we have to present at least some information to comply. But the understanding of what that is, and what we need to do, is still somewhat lacking.

I wonder whether we're acknowledging similarities between our ongoing challenges with ERM and developments across the ESG spectrum – the taxonomy, the definition of titles the understanding..?

The word 'sustainability' itself has been around for a while now. It's not new, and businesses operate on the assumption that it will itself be sustainable – that it will continue to trade for a long time. Part of our job – if we take the word 'risk' out of the equation – is to help our companies stay in business over a long period of time, to act as adviser to the business, to support it in achieving its goals, create value, make a profit – or support whatever the goals of the organisation are.

Risk professional in financial services: I agree with you, though in some cases the time horizon is different. With some climate risks, there are long time frames for some of the risks to manifest, and that doesn't align with personal incentives, and may lead some to conclude that it's not their problem.

Risk professional in insurance: We still look at risk in too short a timeframe. When we talk about risks, we talk about those risks that will affect the business in the next six or 12 months. Long-term risks are those that are three to five years off. We don't talk about risks with a longer time horizon – say, 10, 15, 20 years, because they're not proximate enough. Risks that fall under the ESG umbrella require much longer-term thinking.

"I distinctly remember a board member telling us that because some ESG risks were so far into the future, what could we do? If we all feel like that, what progress are we ever going to make?"

Risk consultant in housing: We recently had a conversation around reviewing our risk register, and somebody floated their idea that it should include ESG elements. I distinctly remember one of the board members asking the room that because some of the risks were so far into the future, what could possibly be done? The trouble is, that if we all feel like that, what progress are we ever going to make?

Chairman: Is looking at timeframes not part of what you're doing in strategy? I've reviewed and audited lots of strategy documents – and if anyone is thinking a SWOT analysis is enough for assessing strategic risks, please don't! It has no value! Then the question is: when you're looking at your strategy plan, would it not consider governance in the future? Or your social issues, the environment, and your people?

Risk professional in financial services: Yes, five years into the future.

Risk professional in professional services: Around 10 or 15 for us.

Chairman: So we could have a short, medium, or long-term strategy, which most organisations try to put together now. Earlier we discussed the possibility that 'risk assessment' and 'business assessment' are the same. I wonder if, from a risk perspective, even if we do use the word 'risk', are we really helping people to think about the effect of uncertainties on objectives?

They're already thinking about it, anyway. Whenever a colleague is worried about not being able to deliver at work, they're really thinking about risk. As human beings, we are naturally wired to assess threats and opportunities.

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With this in mind, I think that until we, as risk professionals, are able to stand at the heart of the business and operationalise the technical jargon such that it resonates with others, and not overwhelm colleagues with risk terminologies, then I think we'll start making inroads. The question is, how do we get there?

Risk professional in insurance: We've just completed the process of redefining our purpose to make it really clear that what we are there for is to help the business execute its strategy safely. That's it. That's how we explain what we do now. It's amazing what that has achieved. It makes sense to operations, it makes sense to finance, it makes sense to all departments. And it's clear to them now that we are a part of the overall success of the business, not sat on the sidelines.

It was, in the end, a really simple thing to do – just being really clear about what we're there for. We're not there to tell them they can't do something, we're there to support them in actually doing it.

Chairman: That's amazing! What else can we do? What can we say?

Risk professional in banking: I totally agree with your sentiment, but I think in reality it becomes really difficult, because for risk to actually drive value, we need to be involved in strategy. We can't come in later, flagging a big risk. We need to start being involved from the outset, when they actually devise the strategy.

I go back to my earlier point about risk needing more leaders and visionaries, who can actually have that conversation with the business, negotiate with them, and create a case as to why we need to be involved from the outset.

Risk professional in financial services: I think tone matters here. As risk professionals, are we there to say 'no', or can we instead offer to work together on finding a 'yes', which is how we help facilitate strategy and implement new ideas.

Risk professional in professional services: It's going back to the word, challenge, isn't it? I see that we're there to challenge, but it's how to challenge. If you go in with 'I'm here to challenge', then as soon as you walk in, they are thinking 'oh no, it's the risk lady again!' I'm supposed to be there to help, but the challenge is actually to help. So, how do we change that rhetoric?

Risk professional in infrastructure: I think the situation in infrastructure is improving, but only through learning hard lessons. There's an appreciation now that I need to be there in the initial set-up, not two months down the line.

That way, they can appreciate the value of our role, and we can challenge quite comfortably, because we've been there from the beginning, instead of someone who's just turned up and is then expected to fix things through some kind of consultancy.

Risk professional in banking: I think there needs to be a balance, though. Let's not forget that we just came out of a global financial crisis.

There's a reason why we provide the challenge and the oversight, and there are regulatory regimes to support that. So, let's not forget that in regulated industries, we've got an important role to play there.

"Do we lack the academic rigour or the quality of thought in the field of risk? You cannot be a CFO without being a chartered accountant, but there are a lot of CROs that are no part of any risk fraternity"

Risk professional in financial services: If I'm involved at the start of a discussion, I can challenge without it coming across badly. The dynamic is improved if you are conducting more of a scenario analysis in that meeting.

Risk professional in infrastructure: Yes, we don't want to come across as the 'fun police'. We actually want the business to do well.

Chairman: I think that's the point. We need to be able to convey that we want them to do well. How do we present the perception that we're there to help?

Risk professional in housing: I have a legal background, and solicitors and lawyers have the same reputation of saying 'no, you cannot do that' – without explaining why. I think there's been a bit of a transformation there, though, that's improved their reputation, by finding ways to add value.

Chairman: What's your experience of the use of the term 'control' in risk management? It kind of conveys a sense of supervision or monitoring, which puts people off. But how can we put ourselves in the middle of commercial or strategic deals – even if we're not invited?

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Risk professional in infrastructure: I think we need to convey that we can add value. Then they let you come into the conversation. I like it when I get a phone call saying, 'so, I've done this or that, or I'm thinking about doing this... could you just look over it?' They're prepared for your opinion, once they've seen what you can do, once you've demonstrated your worth, and shown them that you're not there to just criticise.

RISK SOFTWARE PROVIDER: I think when you get buy in from the top, from the CEO, that message is easier to drive home.

Risk professional in financial services: I think that coming from the CEO is even more powerful than it coming from the CRO. If they are seen to be holding risk up as a standard that's important to them as a CEO, that's far more powerful.

Risk professional in banking: For me, good governance is how we press home our messaging. In capitalism and as business individuals, there will always been a group of people who run after the money, who try to cut corners and controls. The way we shift that culture or mindset is by getting the basics right, which means getting the initial governance right. If the chairman of a major banking group sends an email to all, saying no-one can travel or come out of their homes, whilst he's actually taking a private jet and cruising around, or attending Wimbledon, that's the wrong tone to set. And there's still a lot of work to be done in that regard.

GRC

Chairman: What has happened to GRC?

Risk professional in housing: In housing, GRC is emerging as something that is now being embraced by the sector, and is now gaining momentum, as opposed to the other way around.

Risk professional in insurance: That's not my experience in the insurance industry. It's not something we use regularly anymore.

Risk professional in infrastructure: In infrastructure it's not something I really have much to do with.

Risk professional in professional services: The same for us.

Risk professional in banking: We go through cycles in the financial sector. For the last three years there was no talk of GRC, but now we are trying to bring it back. I think the challenge we see is that GRC systems are meant not only for risk, but also for compliance, internal audit, vendor risk management and third party analysis. Normally, risk will own it – the development and the implementation – and that creates a disconnect, because that doesn't satisfy internal audit, so, I think there needs to be some kind of joint ownership.

The second challenge we see is around configuration. With Archer, or IBM Open Systems, for instance, they can be configured, and that phase takes about three quarters, but by the time you reach Q4, the business has changed, the risks have changed. There needs to be a flexibility in implementing those GRC systems.

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Risk professional in financial services: I've perhaps got a different experience of GRC systems, in that it was not owned by risk. It wasn't owned by any second line function. It was the DNA of the organisation in the way they ran, and how they did everything.

They didn't call it GRC, though. It was just the way they managed and ran the business.

Looking ahead

Chairman: Considering all these issues in the round, what do we want to see happening in the next few years?

Risk professional in infrastructure: Do we not use the word risk and instead go for resilience? Because that's future proofing, or dealing with knocks? I've had discussions before about whether it is risk, or if it's resilience that we're actually trying to create in our companies.

Chairman: Do we lack the academic rigour or the quality of thought in the field of risk? I say this will all respect: you cannot be a CFO without being a chartered accountant, but there are a lot of CROs that are no part of any risk fraternity.

Risk professional in financial services: I'm not sure that qualifications really do qualify you to be a CFO or a risk professional, or anything else, when you get to that level of seniority.
The best risk people I know all take the initiative, and have diversity of experience and views that they bring to the table, and actually, in times of crisis, an element of reassurance.

Risk professional in insurance: We've tried to define our capabilities, and some

of it is the soft skills element, and some of it is more technical. So, we split it into two, and I think there is a place for both.

I come from an office background. I've got people who work for me who come from an audit / Big Four background, and it's that mix of experience and different techniques that actually creates the best team. What I find that we miss are such tools and techniques as war-gaming scenarios. We perhaps have a lack of engagement with the research and the academic side of things.

Risk professional in infrastructure: I have two people on my team with risk management degrees. The best risk professionals in our teams have been something other than a risk manager.

Chairman: From what I am hearing, the word 'risk', the reputation, branding or the image of the risk professional or department, is still a problem.

We're still struggling with the idea of dropping the word completely; and to start considering the term as part of the normal day-to-day running of the business, and considering all the effects of uncertainty on our activities.

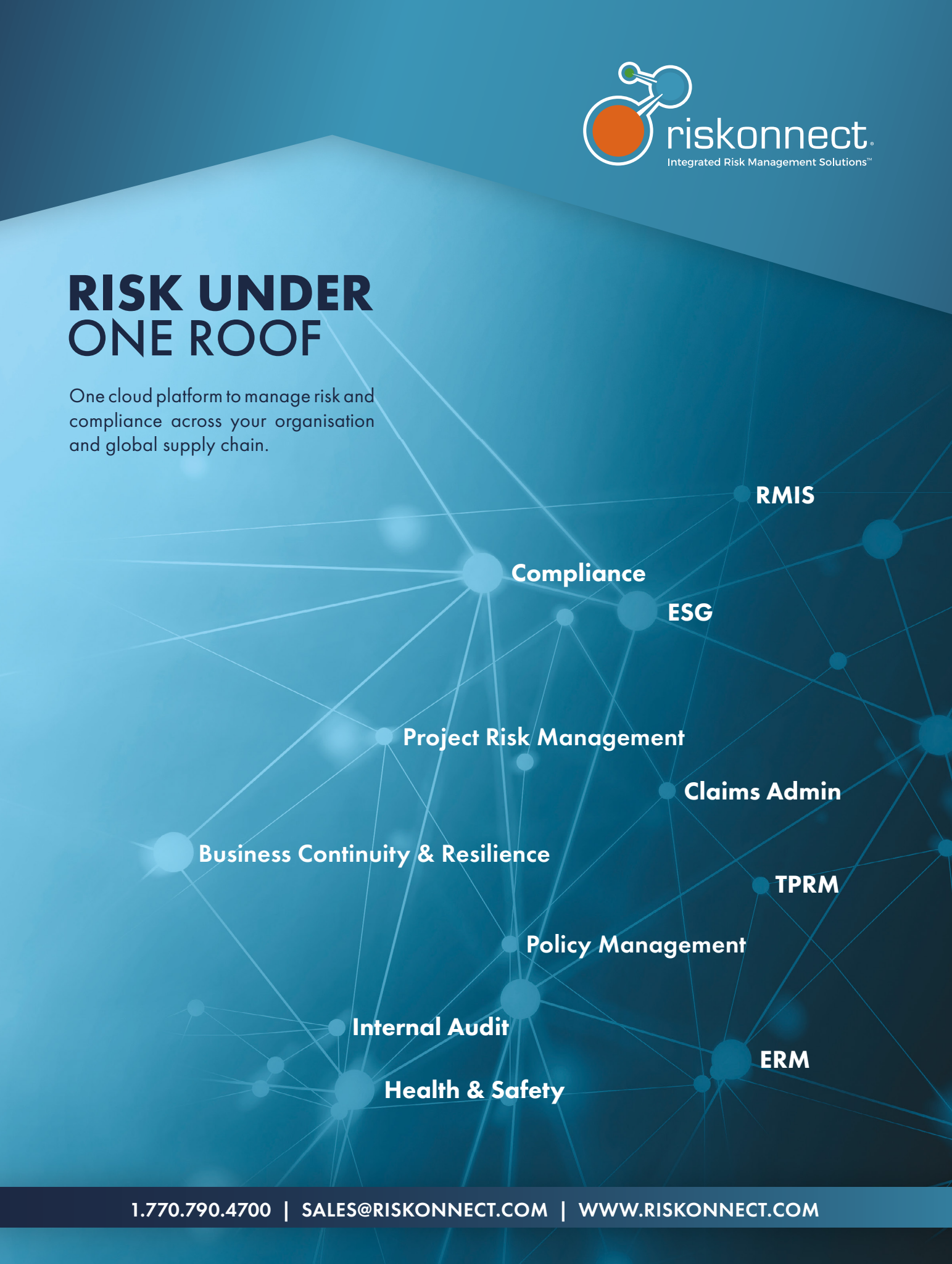
We are facing a considerable challenge when it comes to ESG – how to define it, how to talk about it, and over what timeframe.

And then there's the issue of governance, and the role of risk as part of it.

Then there are concerns about how much we know the business. As risk managers, it seems worthwhile to consider carefully whether or not we should position ourselves to be seen differently, and how we might offer thoughts, ideas or suggestions more proactively.

And is a risk register really risk management? Or do we need to be looking at heat maps? Are those tools really useful? Can we get into a place where the risk register can be used side-by-side for decision making?

These are really important questions that are worth careful consideration.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