



# Agenda

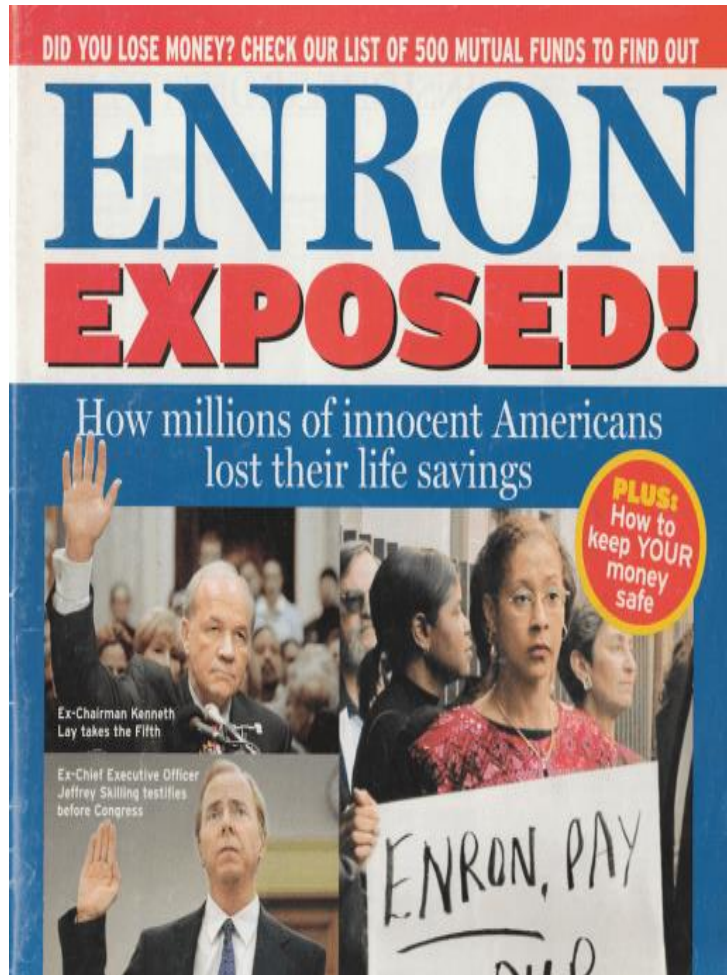
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Objective: To discuss and hopefully answer the following questions:

- Why is risk governance important?
- How do risk committees fit into corporate risk governance?
- What is the role and responsibility of the risk committee?
- What makes an effective risk committee?
- How will risk committees need to adapt in the future?

What are your expectations?

## Why risk governance?



# Corporate crises continue to have a significant impact

## How VW tried to cover up the emissions scandal

By Theo Leggett  
Business correspondent, BBC News

5 May 2018



Diesel emissions scandal



Former VW boss Martin Winterkorn authorised a cover-up, allege US p

# 50%



## Corfu children's deaths: Thomas Cook 'breached duty of care'

13 May 2015



Parents Sharon Wood and Neil Shepherd: "Thomas Cook failed"

## Bell Pottinger reputation muddled by South African scandal

City PR firm and international influencer admits 'deep concern' over work for Guptas



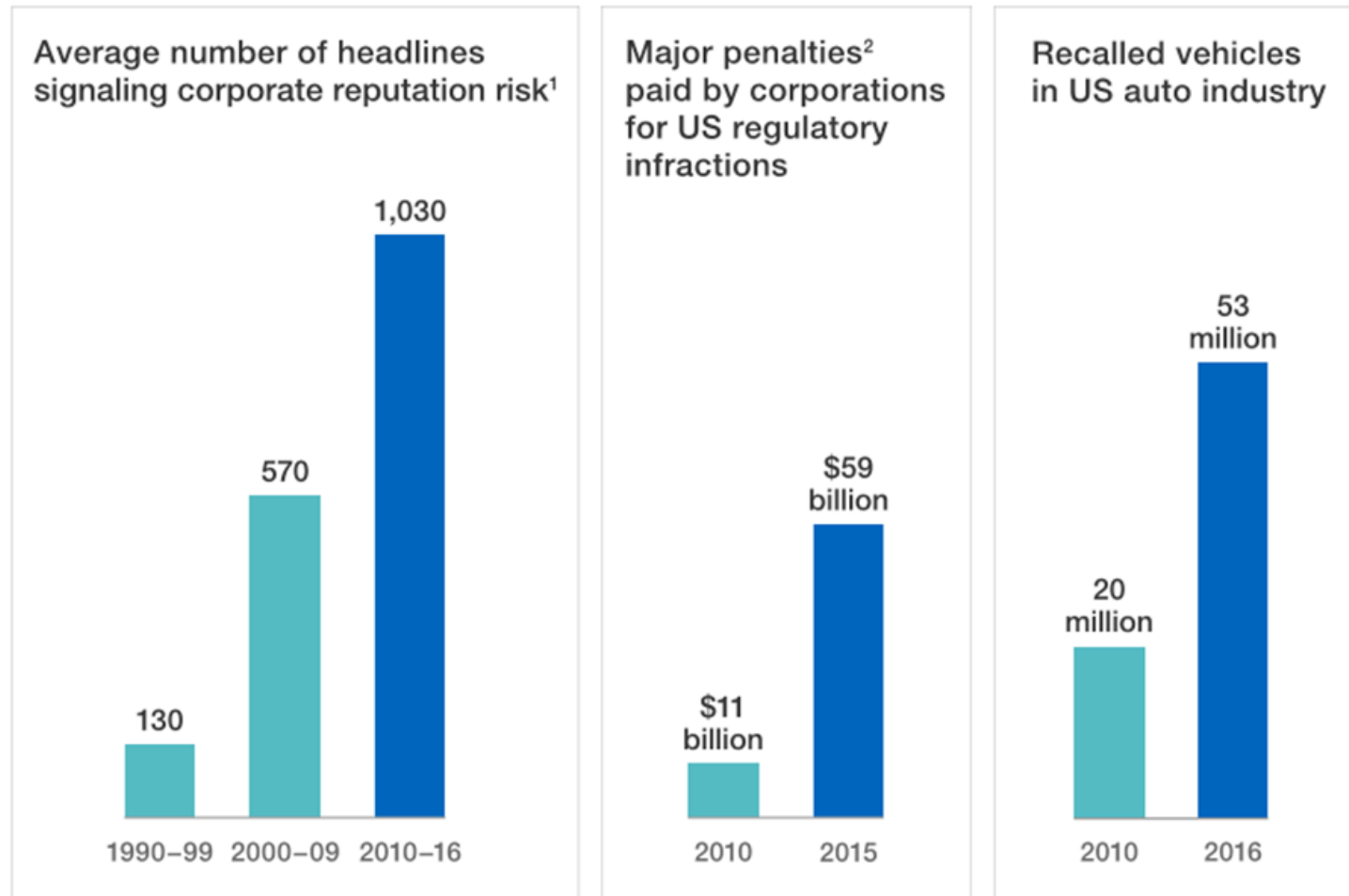
Protesters outside the Gupta family home in Saxonwold © AFP

Joseph Cotterill in Johannesburg and David Bond in London JULY 7, 2017



## More company incidents are turning into full-blown corporate crises

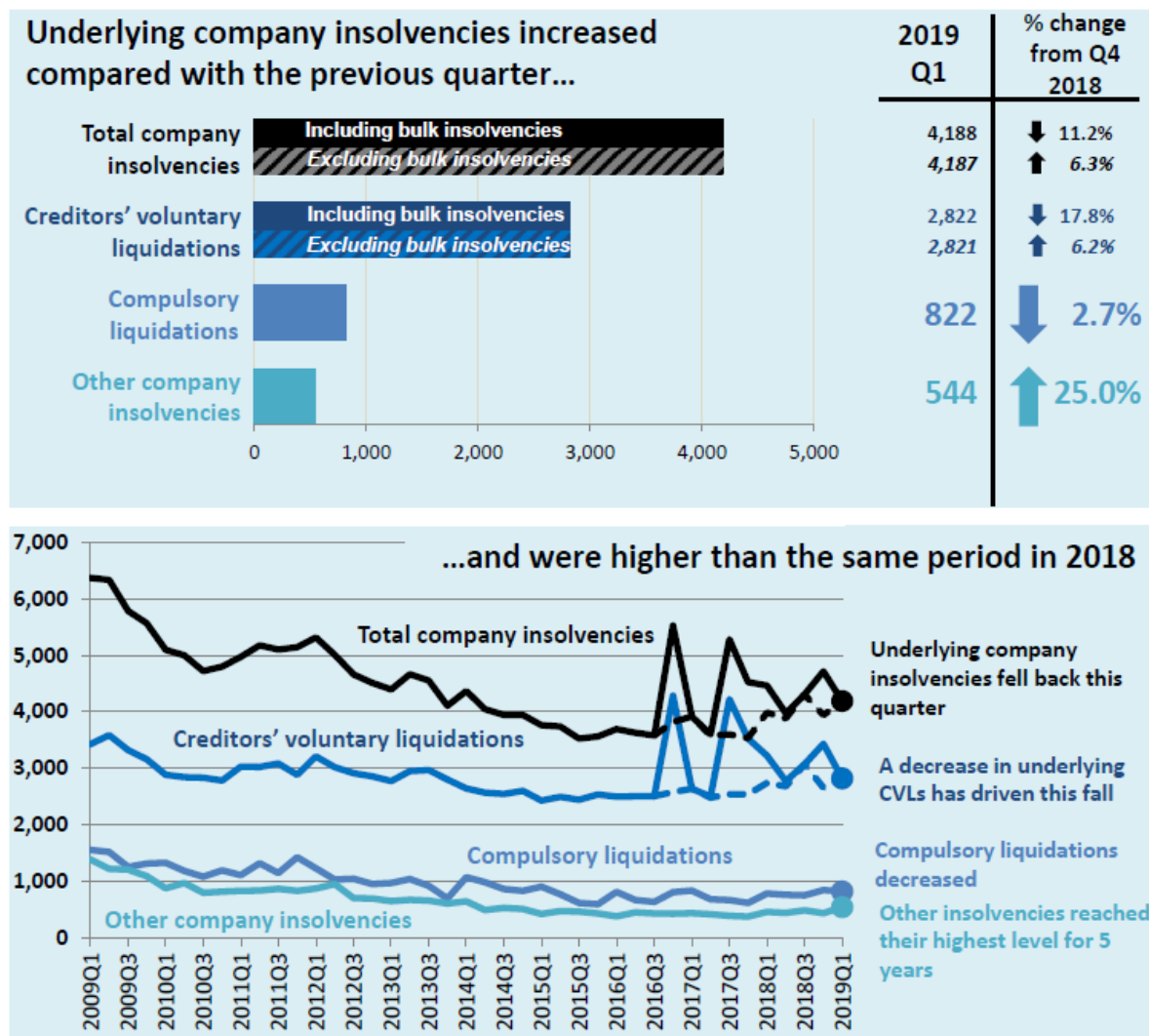
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Source: <https://www.mckinsey.it/idee/are-you-prepared-for-a-corporate-crisis>



# We're operating in an increasingly unpredictable environment



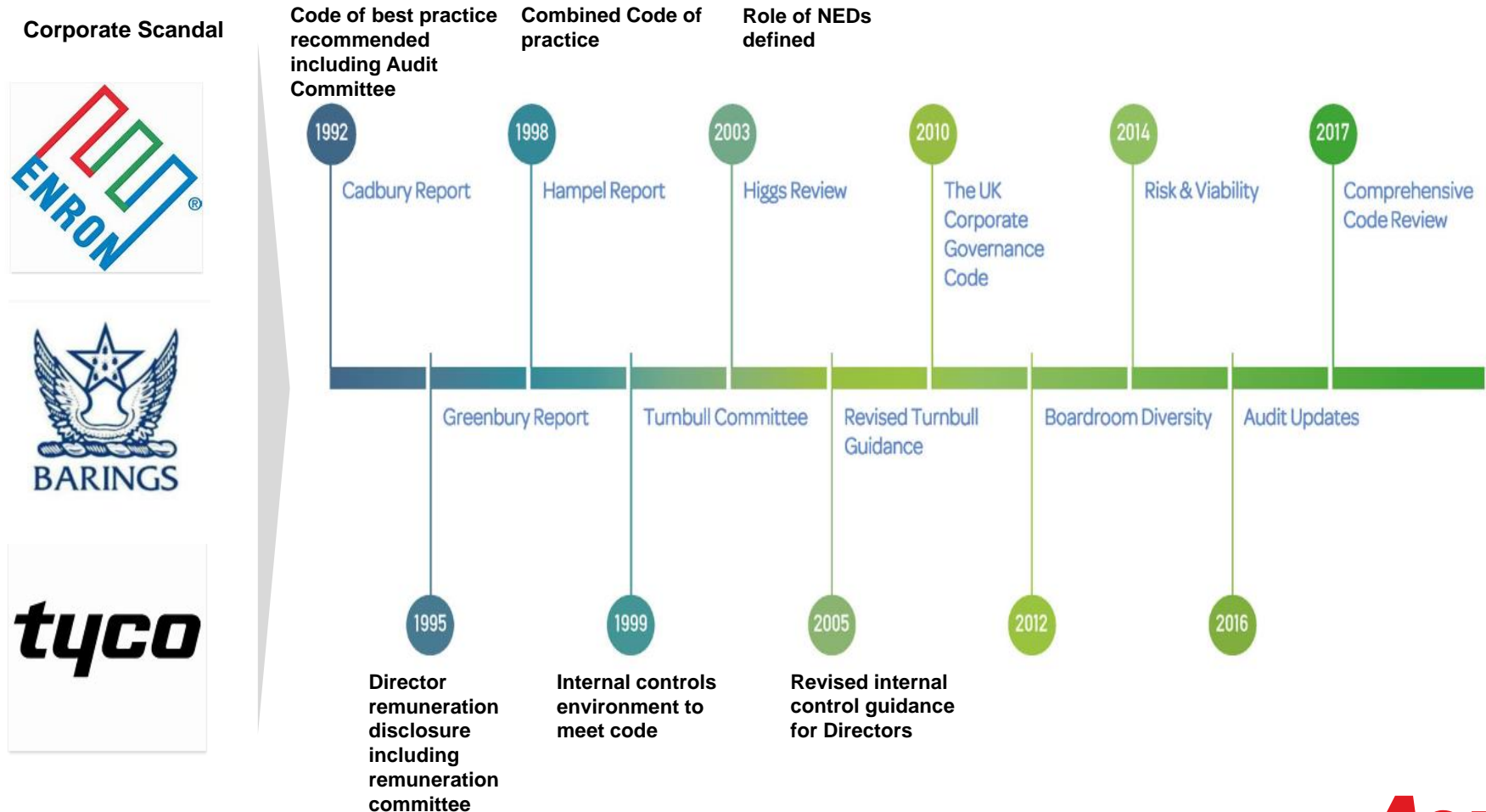
Source: <https://www.gov.uk/government/collections/insolvency-statistics>

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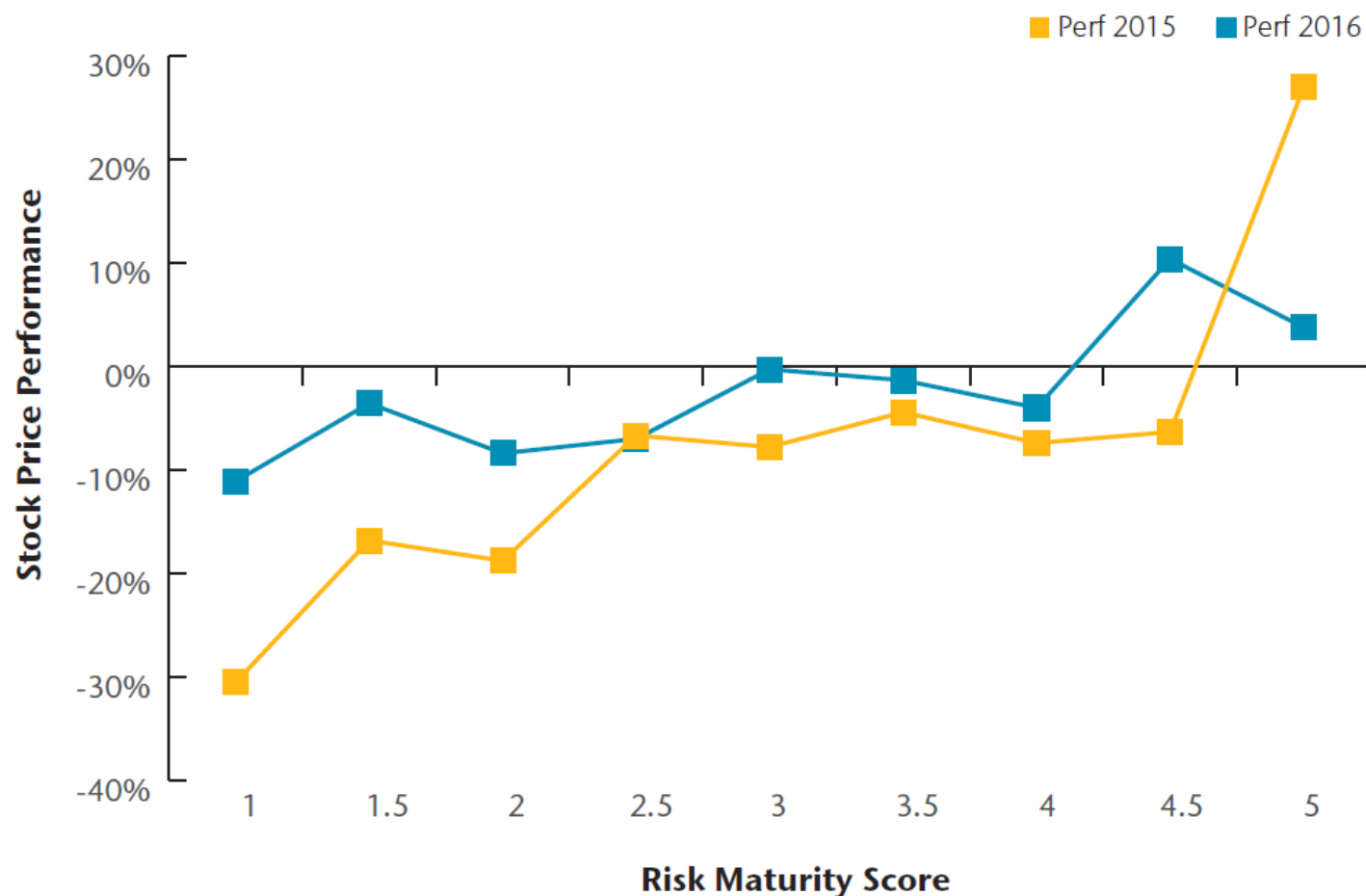
# Corporate risk governance has been maturing over the last 30 years

Corporate Governance has been refined over the last 30 years in response to numerous corporate scandals where executives have misled shareholders and the public. Risk committees are becoming increasingly common



## Effective risk governance can add significant value

In partnership with Wharton Business School, Aon run a Global Risk Maturity Index. The tool provides a unique benchmark on data related to risk maturity, specific to all aspects of risk frameworks including people, process & system.

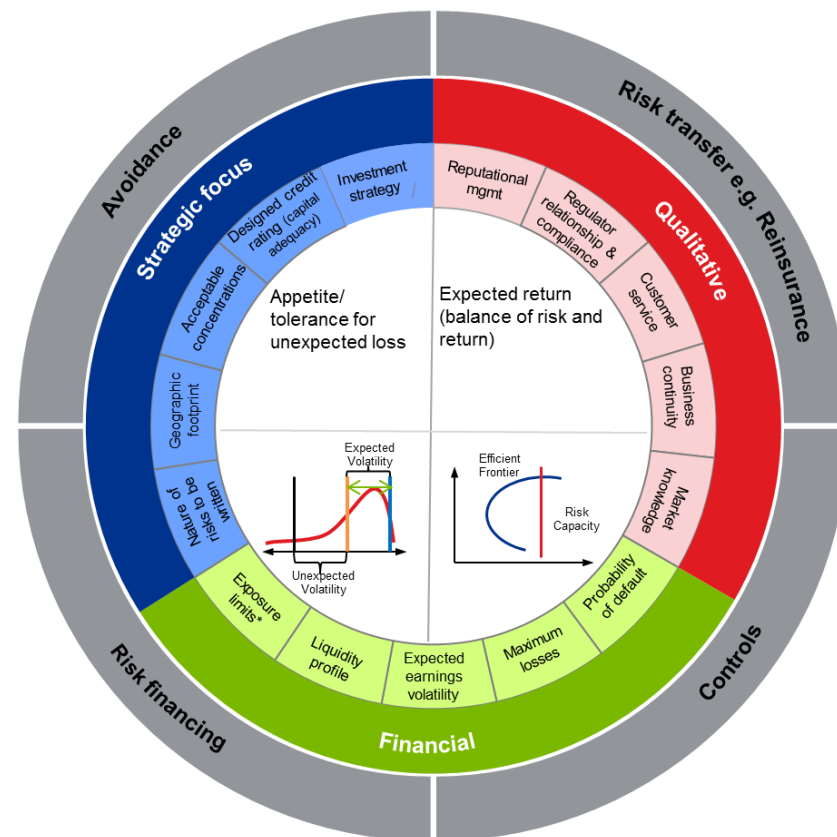


Source: <https://www.aon.com/rmi/default.jsp>



# What are the components of risk maturity?

Aon defines risk maturity across 10 areas. The concept of the risk committee is the fundamental principle linking the elements together to provide a holistic view of which risk to transfer, control, avoid or finance and provides a communication channel to the Board



# Where do risk committees fit into a risk governance framework?

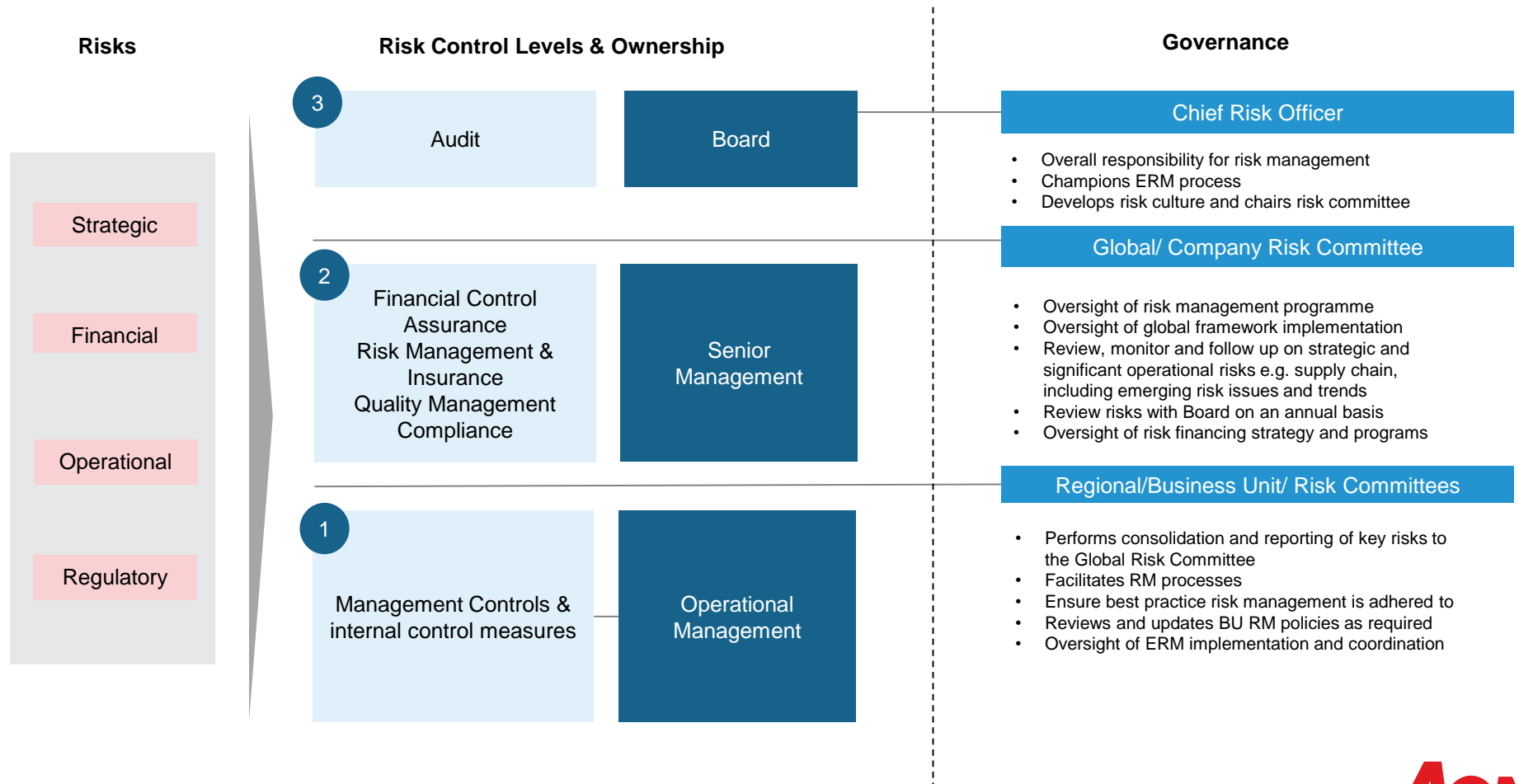


## 4 Core Areas of Risk Management

- 1 Governance Framework:** aligned with the Company's strategic objectives, providing top level oversight by the Board, clear ownership and accountability for risks, appropriate independence to various risk stakeholders as well as clear escalating and reporting channels.
- 2 Risk Management System:** details the Company's strategic objectives in documented Risk Policies. For each and every risk, day-to-day concrete limits and operational checkpoints as well as functional identification, measurement, mitigation and monitoring processes are documented.
- 3 Internal Control System** based on a process map, defining the architecture of processes required to manage the Company in accordance with its Governance and risk management frameworks.
- 4 Risk Register** combining operational and risk management processes to deliver a descriptive analysis of all material risks threatening at least one of the Company's global strategy objectives.

## But it depends on the organisation...

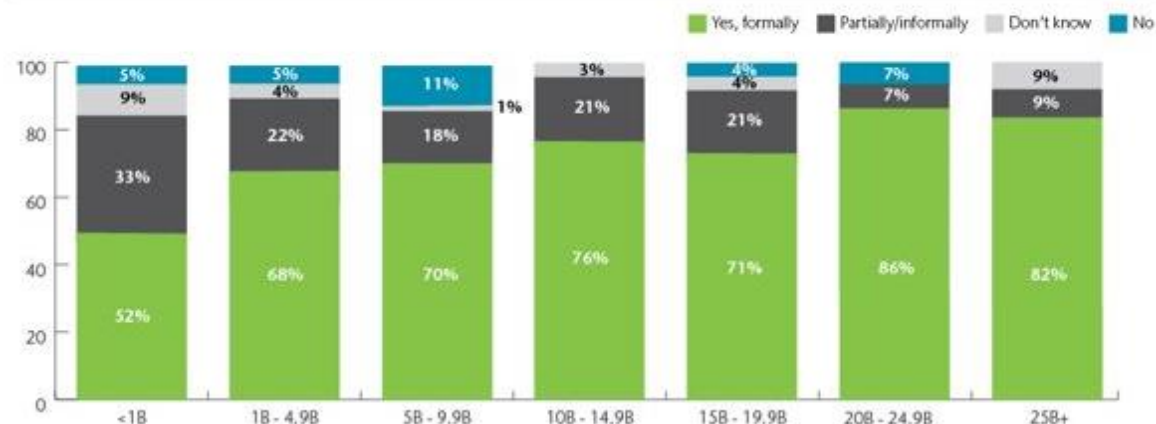
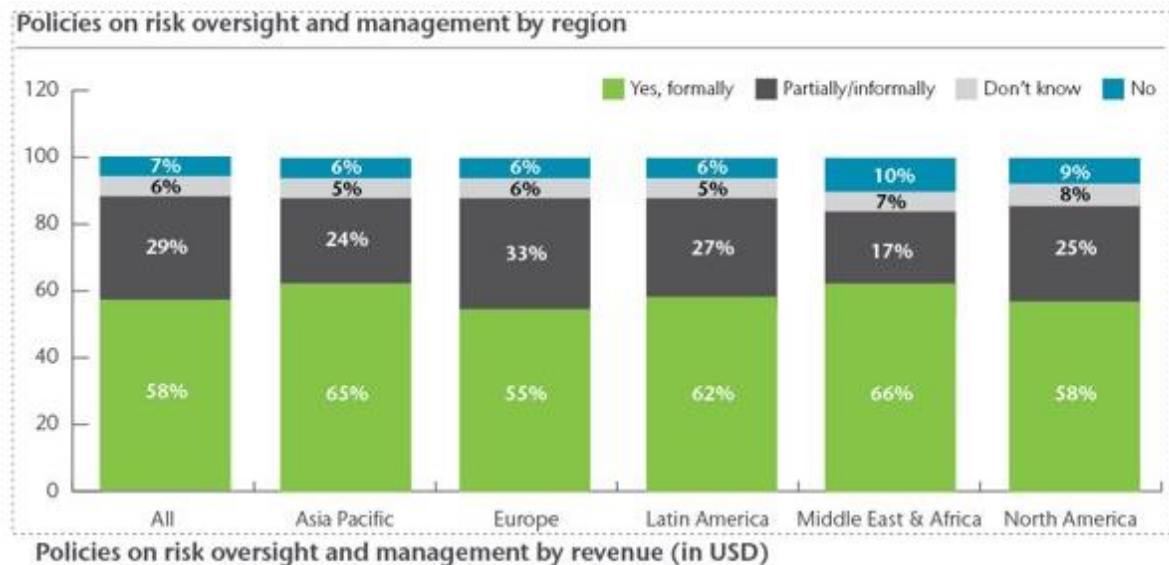
Three lines of defence defines governance, risk and assurance across three levels of control. Risk & Assurance work from the second line of defence to monitor the robustness of the control framework. But this depends on the organisation



## A significant percentage of companies informally oversee risk

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Has your Board of Directors or a Board Committee established policies on risk oversight and management?



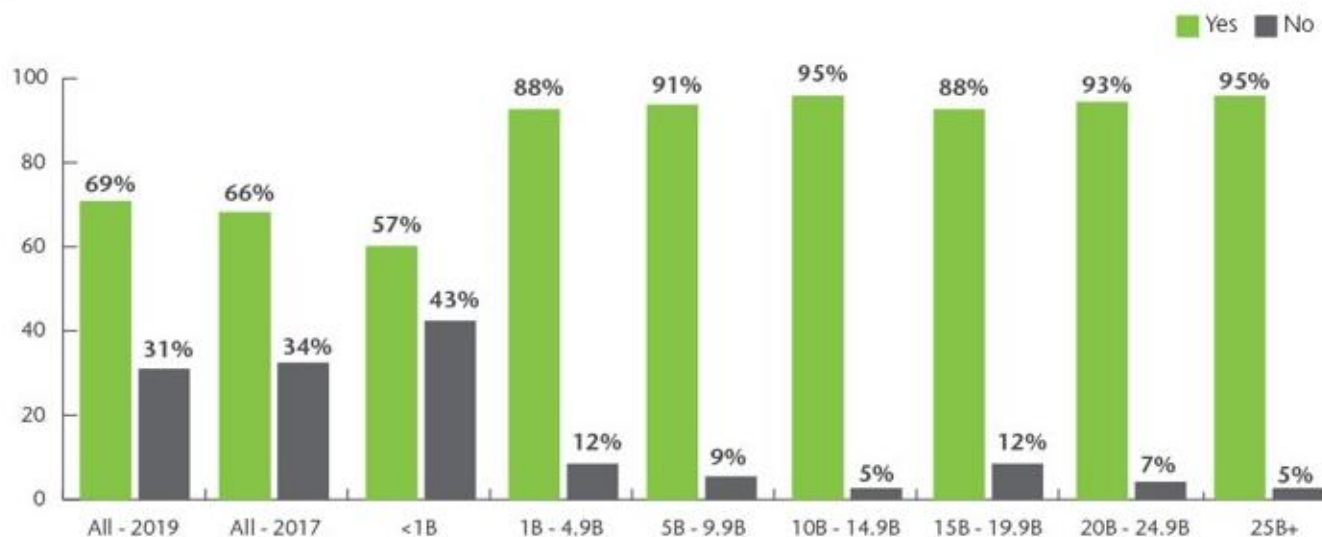
Source: <https://www.aon.com/2019-top-global-risks-management-economics-geopolitics-brand-damage-insights/index.html>

## Although formal risk management departments are on the increase

# Q

Does your organization have a formal risk management / insurance department / function?

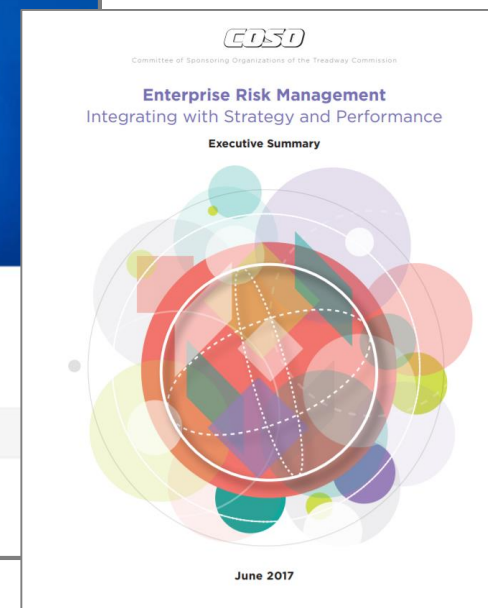
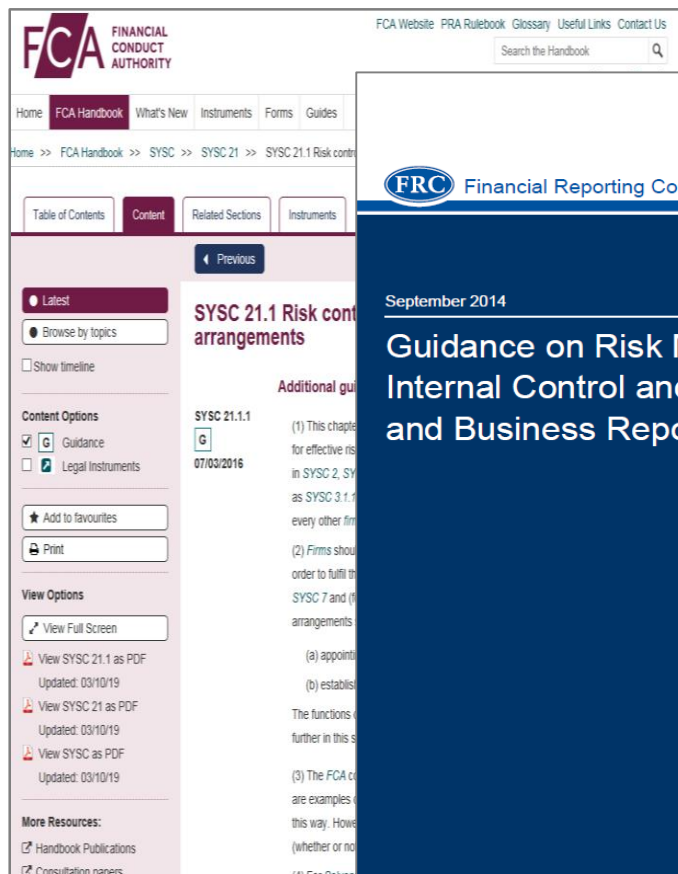
Formal risk management/insurance department by revenue (in USD)



Source: <https://www.aon.com/2019-top-global-risks-management-economics-geopolitics-brand-damage-insights/index.html>



# Detailed guidance on risk committees is difficult to find



- Board risk committees are becoming increasingly common since publication in 2012
- SYSC Chapter 21 provides some guidance
- The September 2014 FRC guidance on Risks & Control has increased focus
- But once established the board risk committee needs to tailor it's role to enhance the organisation risk framework

Source <https://www.frc.org.uk/getattachment/d672c107-b1fb-4051-84b0-f5b83a1b93f6/Guidance-on-Risk-Management-Internal-Control-and-Related-Reporting.pdf>



## Question 1: What do you think is the role of the risk committee? (5 minutes discussion then feedback)

# Risk Coalition – Risk guidance paper in consultation

Risk committee roles and responsibilities continue to evolve as the market recognises the increasing importance of good risk management linked to performance. The risk coalition is developing a consultancy document on risk principles

The Risk Coalition would like to thank the following sponsors and supporting organisations and observers who have contributed to the production of this consultation document. Their support and inputs have been invaluable and are greatly appreciated.

**Sponsors and supporting organisations**

HERMES  
CROWE  
euroclear  
Chartered Banker  
LSB  
irm  
Chartered Institute of Internal Auditors  
airmic  
PRMIA INSTITUTE  
CISI  
IIO  
European Risk Management Council  
tomorrow's company  
INSTITUTE OF OPERATIONAL RISK  
Institute and Faculty of Actuaries

**Observers**

FRC Financial Reporting Council  
BANKING STANDARDS BOARD  
NEDoB Board  
NEDA NON-EXECUTIVE DIRECTORS' ASSOCIATION

2 THE RISK COALITION RESEARCH COMPANY CONSULTATION DOCUMENT



Source: <https://riskcoalition.org.uk/consultation>

# Risk Coalition - Risk committee role & responsibilities (In consultation)

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## **Board accountability**

The board risk committee is an advisory committee<sup>3</sup> to the board. Its aim is to facilitate focused and informed board discussions on risk-related matters. The board retains ultimate accountability for the adequacy and effectiveness of the organisation's risk management arrangements.

## **Composition and membership**

The board risk committee should be formed of independent non-executive directors and apply chair, membership, competence, performance evaluation and succession planning criteria as outlined in the UK Corporate Governance Code ('the Code') for board committees.

## **Risk strategy and risk appetite**

The board risk committee should provide the board with advice on the continued appropriateness of the board-set risk strategy and risk appetite in light of the organisation's purpose, values, corporate strategy and strategic objectives.

## **Principal risks and continued viability**

The board risk committee should assess and advise the board on the organisation's principal current and emerging risks and how these may impact the organisation's corporate strategy and strategic objectives, and the continued viability of its business model.

## **Risk culture and remuneration**

The board risk committee should consider and periodically report to the board whether the organisation's purpose, values and board-approved risk culture expectations are appropriately embedded in the organisation's risk strategy and risk appetite, and are reflected in observed behaviours and decisions.

## **Risk information and reporting**

The board risk committee should assess and advise the board on the quality and appropriateness of the organisation's risk information and reporting.

## **Risk management and internal control systems**

In conjunction with the audit committee (where relevant), the board risk committee should monitor and periodically advise the board on the overall effectiveness of the organisation's risk arrangements.

## **Chief risk officer and risk function independence**

The board risk committee should safeguard the independence and oversee the performance of the chief risk officer and the second line risk function.

Source: <https://riskcoalition.org.uk/consultation>



# Risk Coalition - Underpinned by risk function principles



Source: <https://riskcoalition.org.uk/consultation>





**Question 2: What challenges do you see to effective risk committees? (5 minutes discussion then feedback)**

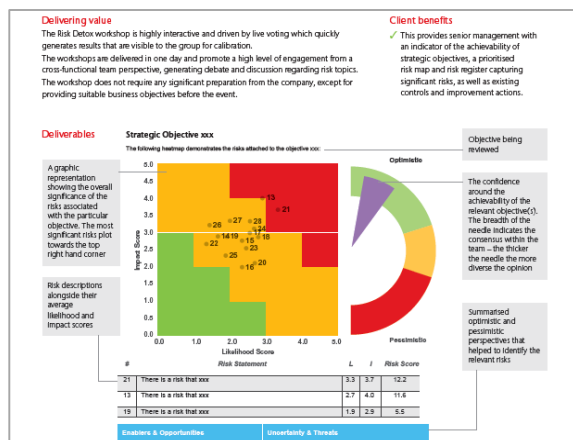
# What makes an effective risk committee?

## Characteristics

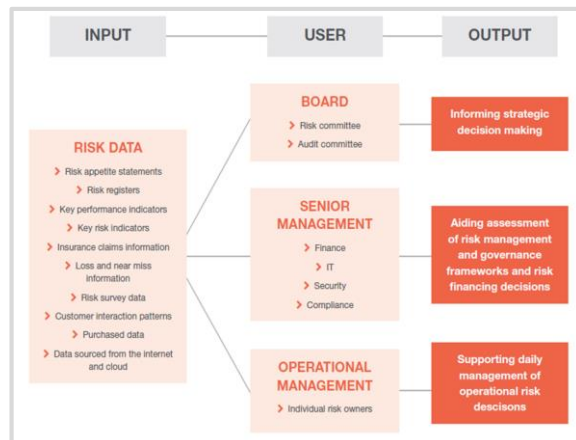
- Has the right people with the right skills
- Understands the breadth of risks facing the company
- Clear roles and responsibilities
- Appropriately mature risk framework and processes
- Access to resources – human and financial – to fulfil mandate
- Access to high quality risk information
- Regular communication with key stakeholders i.e. regulators
- Ongoing education and periodic evaluation

## Useful Methodology & Tools?

### Board & Committee Risk Reviews



### Risk Information Systems



### Committee Effectiveness Evaluation

Circle one number for each statement	Insufficient knowledge	Strongly disagree	Disagree	Agree	Strongly agree
<b>Composition and quality</b>					
1. The designated risk expert meets the definition of "expert" as agreed to by the committee and the board.	0	1	2	3	4
2. Risk committee members have the appropriate qualifications to meet the objectives of the risk committee's charter, including appropriate risk background/qualifications.	0	1	2	3	4
3. The risk committee demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively.	0	1	2	3	4
4. The risk committee demonstrates appropriate industry knowledge and includes a diversity of experiences and backgrounds.	0	1	2	3	4
5. The risk committee participates in a continuing education program to enhance its members' understanding of relevant risk management and industry-specific issues.	0	1	2	3	4
6. The risk committee reviews its charter annually to determine whether its responsibilities are described adequately and recommends changes to the board for approval.	0	1	2	3	4
7. New risk committee members participate in an orientation program to educate them on the company, their responsibilities, and the company's risk management and oversight policies and practices.	0	1	2	3	4
8. The risk committee chairman is an effective leader.	0	1	2	3	4
9. The risk committee, in conjunction with the nominations, creates a succession and rotation plan for risk committee members, including the risk committee chairman.	0	1	2	3	4
<b>Understanding the business and associated risks</b>					
10. The risk committee oversees or knows that the full board or other committees are overseeing significant risks that may directly or indirectly affect the company. Examples include: • Regulatory and legal requirements • Concentrations (e.g., suppliers and customers) • Market and competitive trends • Financing and liquidity needs • Financial exposures • Business continuity	0	1	2	3	4



# Aon Risk Survey - Top 10 risks in the next three years

2019 Top 10



Projected 2022



Source: <https://www.aon.com/2019-top-global-risks-management-economics-geopolitics-brand-damage-insights/index.html>

## Aon Risk Survey - Top 5 risks in the next 3 years by region

Q

**Please indicate what you perceive the TOP FIVE KEY RISKS to your organization will be three (3) years from now**

Top 5 risks in the next 3 years by region

	Asia Pacific	Europe	Latin America	Middle East & Africa	North America
1	Economic slowdown/slow recovery	Accelerated rates of change in market factors	Accelerated rates of change in market factors	Economic slowdown/slow recovery	Cyber attacks / data breach
2	Cash flow / liquidity risk	Economic slowdown/slow recovery	Commodity price risk	Cyber attacks / data breach	Failure to innovate / meet customer needs
3	Increasing competition	Commodity price risk	Economic slowdown/slow recovery	Exchange rate fluctuation	Failure to attract or retain top talent
4	Accelerated rates of change in market factors	Cyber attacks / data breach	Cash flow / liquidity risk	Commodity price risk	Economic slowdown/slow recovery
5	Damage to reputation / brand	Increasing competition	Business interruption	Political risk / uncertainty	Aging workforce & related health issues



## Summary

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**Any Questions?**