

# The Many Hats of the CRO... and the Impact on Risk Culture

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# Kaplan and Mikes

Active and intrusive processes that

1. are capable of **challenging** existing assumptions about the world within and outside the organization;
2. communicate risk information with the use of distinct **tools** (such as risk maps, stress tests, and scenarios);
3. collectively address **gaps** in the control of risks that other control functions (such as internal audit and other boundary controls) leave unaddressed; and, in doing so,
4. **complement**—but do not displace—existing management control practices.



# Enterprise Risk Management

## Key Elements:

- Articulated framework and process
  - Why and how we will assess risk to strategic objectives
  - Key roles, responsibilities, and authorities
- Criteria
  - Risk Appetite (willingness to accept uncertainty)
  - Calibrated risk criteria (Impact, strength of controls, etc)
- Enterprise-wide application
  - Assessment/evaluation of key risks
  - Integration into key business processes
- Reporting
  - Key risks, status, mitigation strategy, forward-looking



# Characteristics of the Organization that matter

- Organization, Culture, and Capability
- Strategic context
- Risk Environment





# Organization, Culture, and Capability

- Engagement of Board, CEO
- Specialized risk functions, capabilities
- Degree of centralization
- Culture
  - What aspects?
- Maturity and Longevity





# Strategic Context

- What is the role of risk in creating value?
- Owners and other stakeholders
- Risk Appetite, especially reputational risk-aversion
- Influence of history, regulation



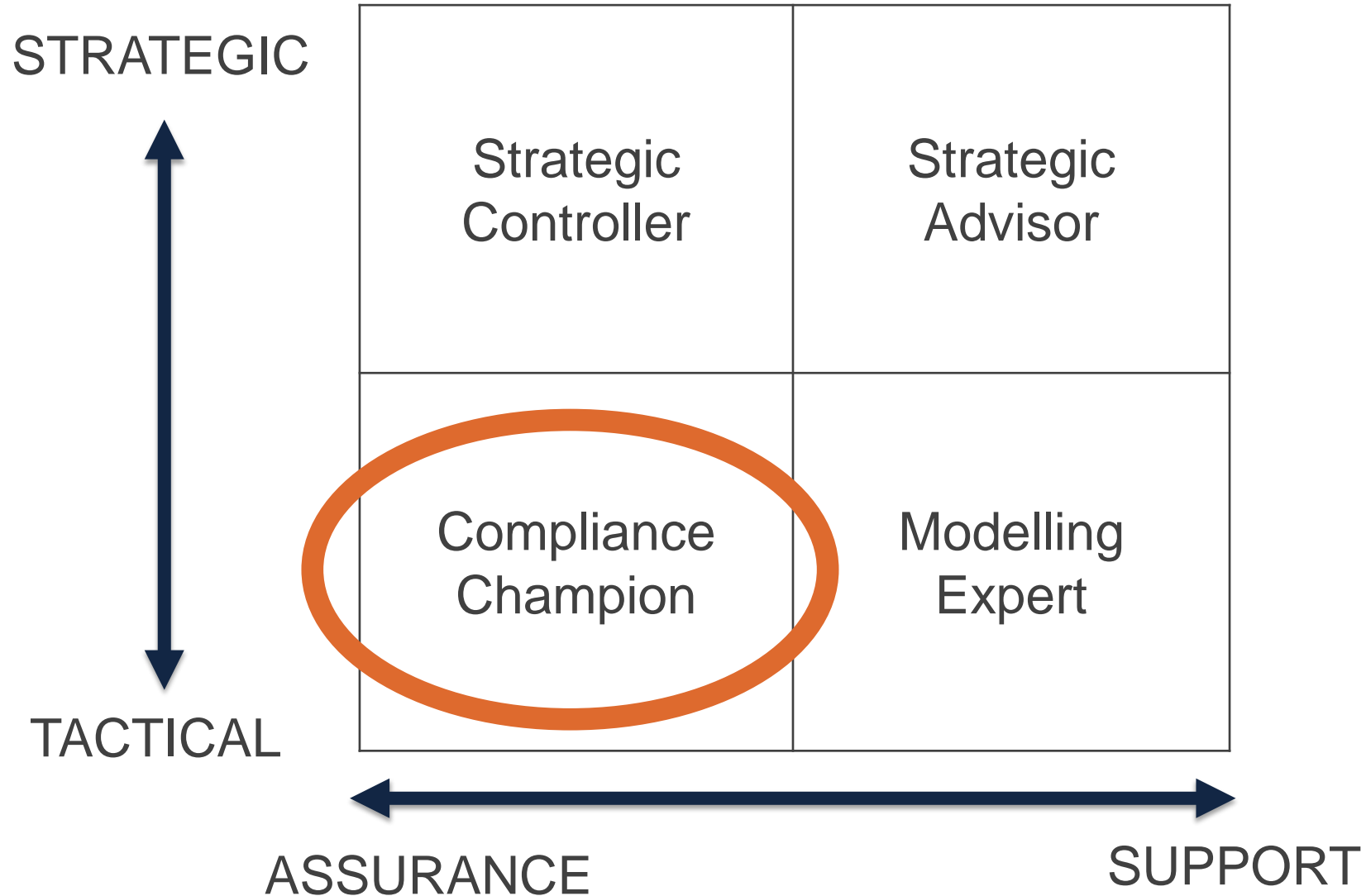


# Risk Environment

- Mix of risks faced
  - Preventable
  - Strategic
  - External
- Volatility, severity



# Risk Function (CRO) Role







# Potential CRO Roles – Compliance Champion

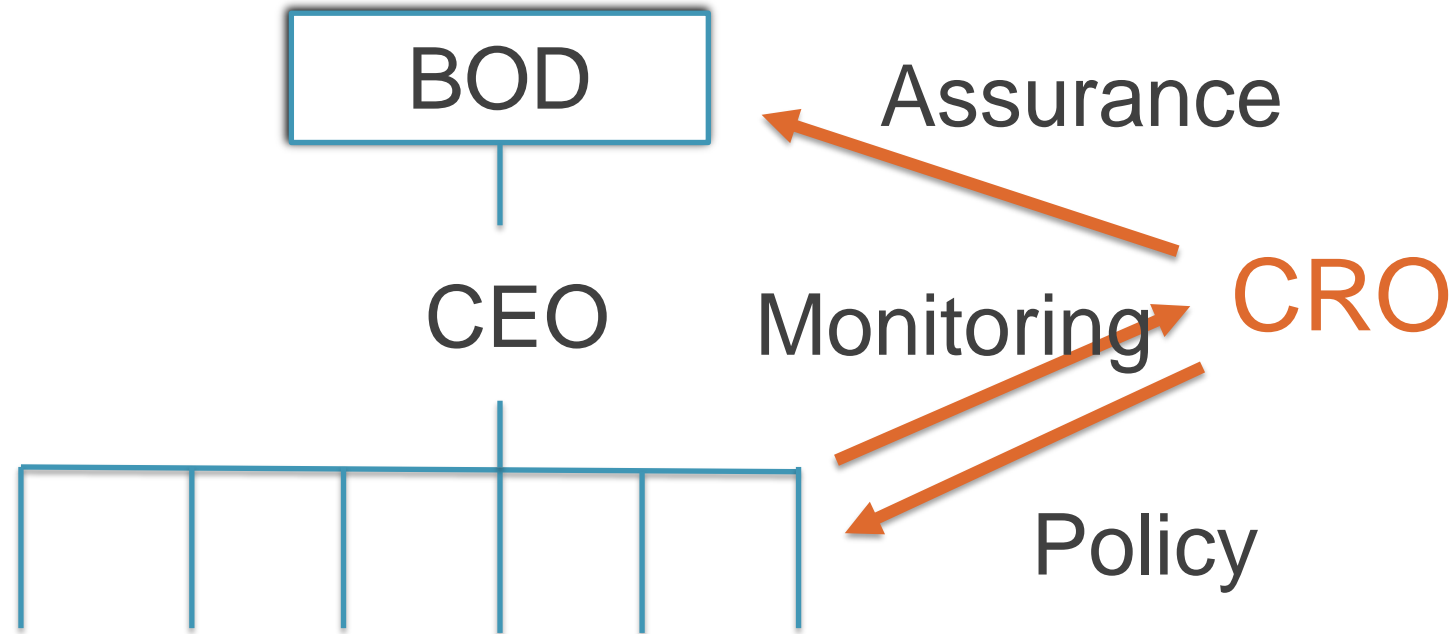
## Developer of "Risk Policy Framework"

- Set boundaries of acceptable risk taking; pressure risk owners to take appropriate action in setting boundaries and ensuring compliance





# Compliance Champion



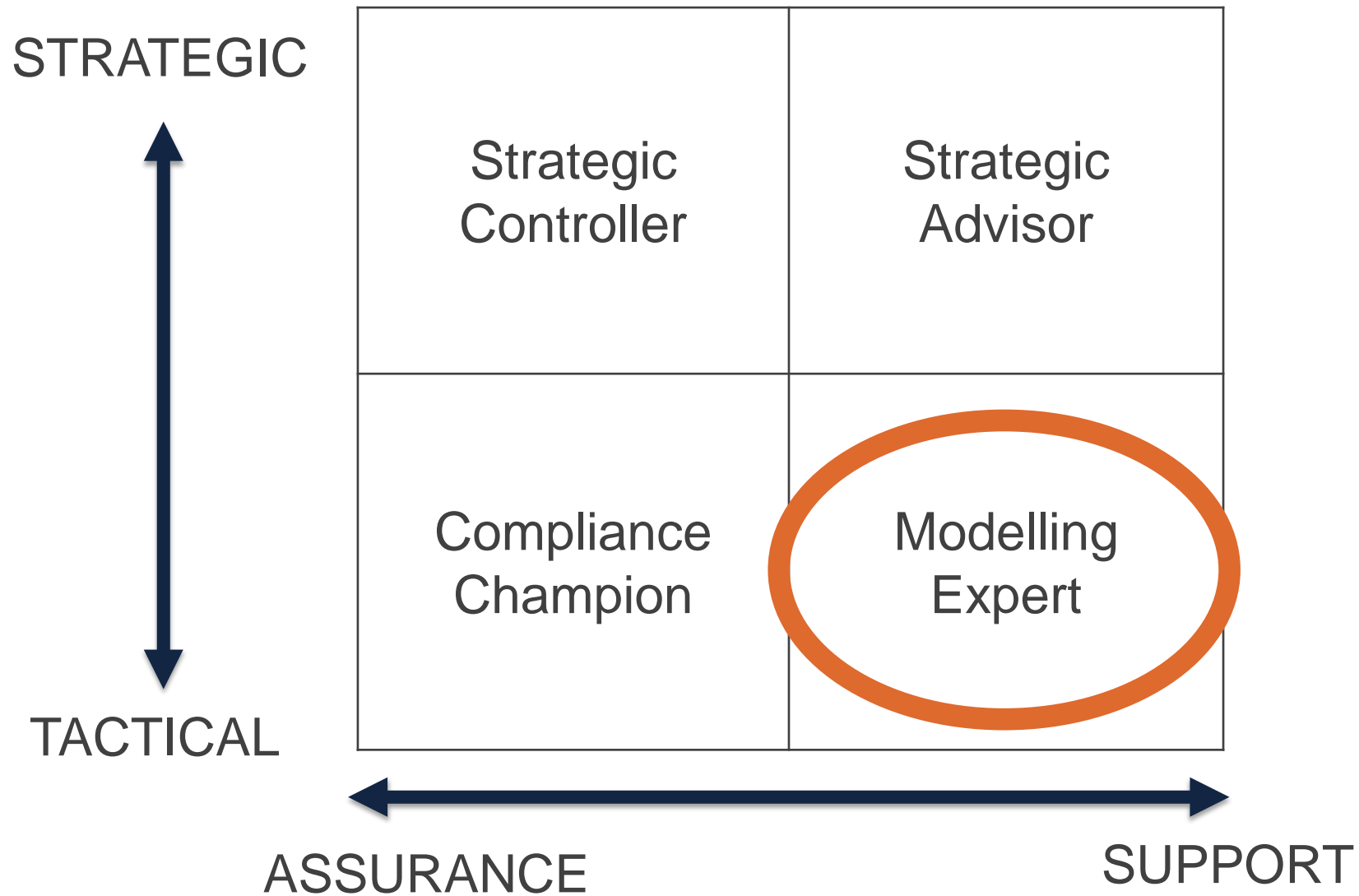


# Potential CRO Roles – Compliance Champion

## Developer of "Risk Policy Framework"

- Set boundaries of acceptable risk taking; pressure risk owners to take appropriate action in setting boundaries and ensuring compliance
- **Benefits:**
  - Clarity and shared understanding on risk ownership and tolerance
  - Consistent language and communication

# Risk Function (CRO) Role





# Potential CRO Roles – Modelling Expert

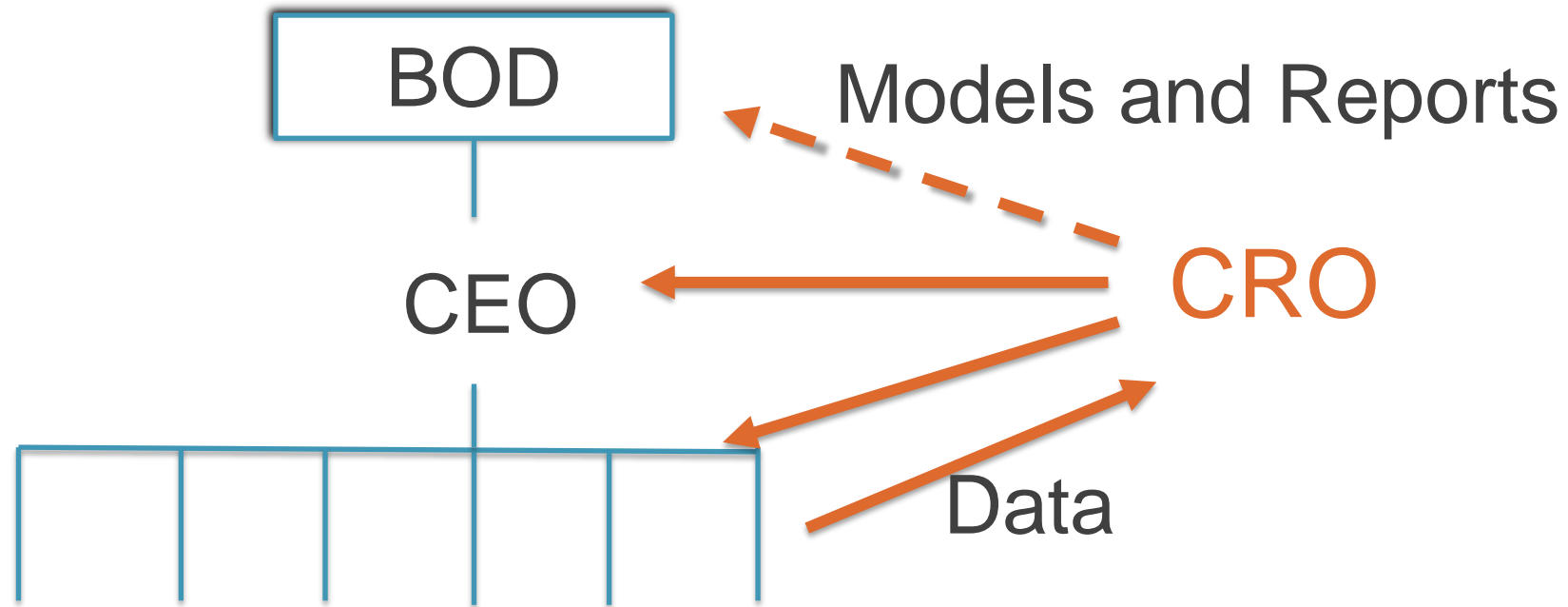
Develop and apply risk models,  
processes and information systems

- Risk quantification and aggregation
- Identification  
diversification/concentration
- Risk based capital allocation and  
other decision making





# Modelling Expert





# Potential CRO Roles – Modelling Expert

- Develop and apply risk models, processes and information systems
  - Risk quantification and aggregation
  - Identification diversification/concentration
  - Risk based capital allocation and other decision making
- **Benefits:**
  - Homogenous decision framework
  - Face-validity (quantitative)

# Risk Function (CRO) Role







# Potential CRO Roles – Strategic Controller

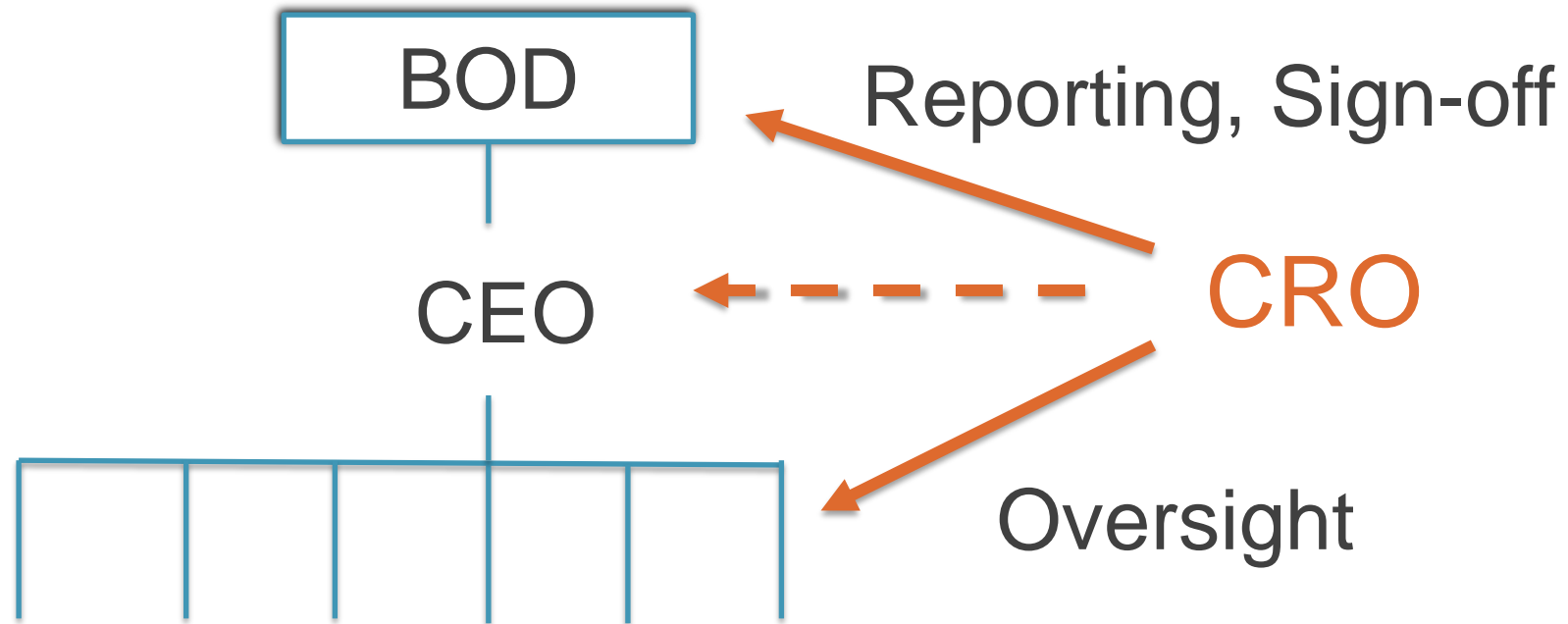
Direct role in strategic decision making based on absolute and relative risk

- Validate and approve basis for proposals and capital investments
- Risk adjusted performance management





# Strategic Controller

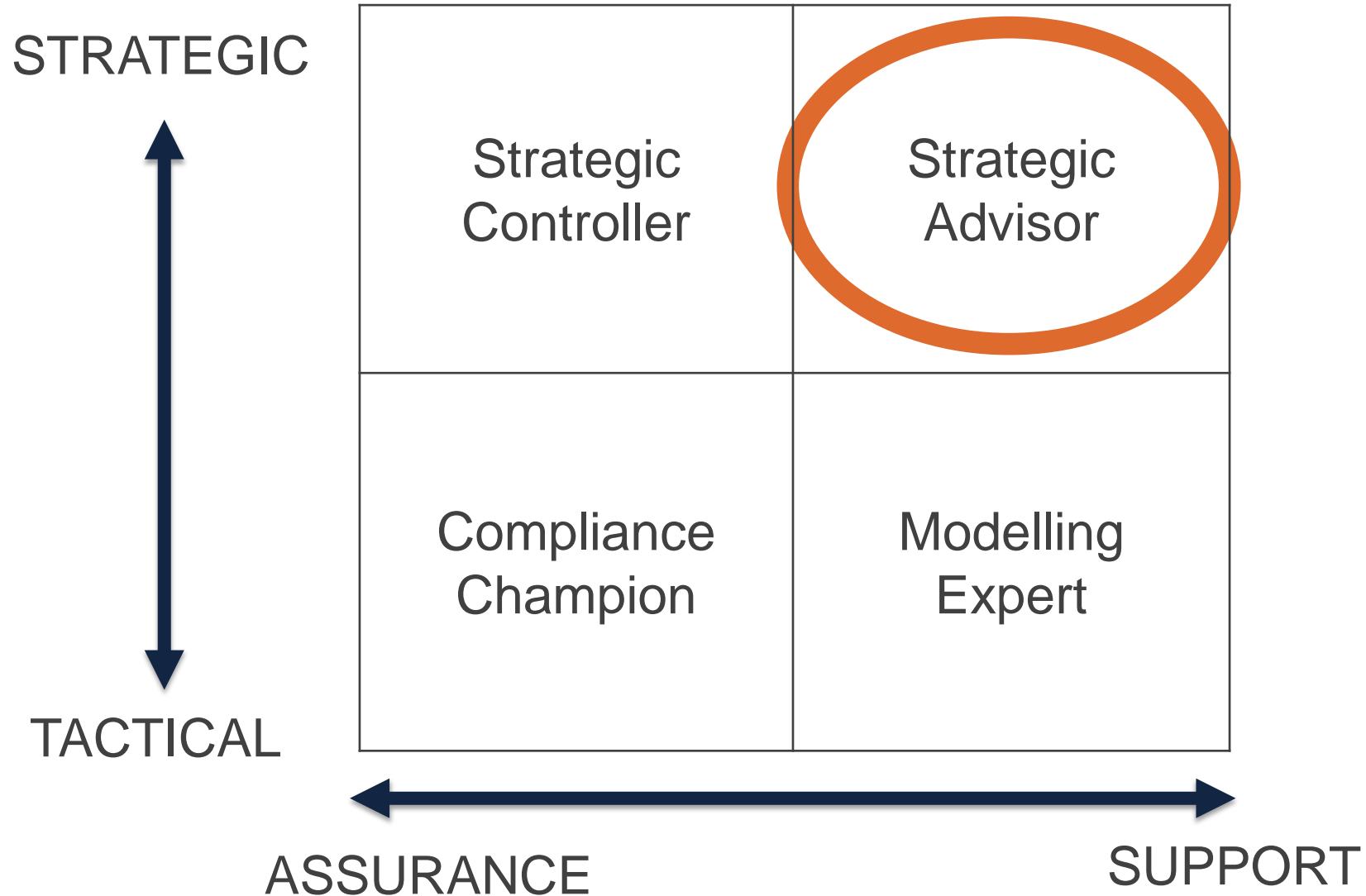




## Potential CRO Roles – Strategic Controller

- Direct role in strategic decision making based on absolute and relative risk
  - Validate and approve basis for proposals and capital investments
  - Risk adjusted performance management
- **Benefits:**
  - “objectivity” and assurance

# Risk Function (CRO) Role





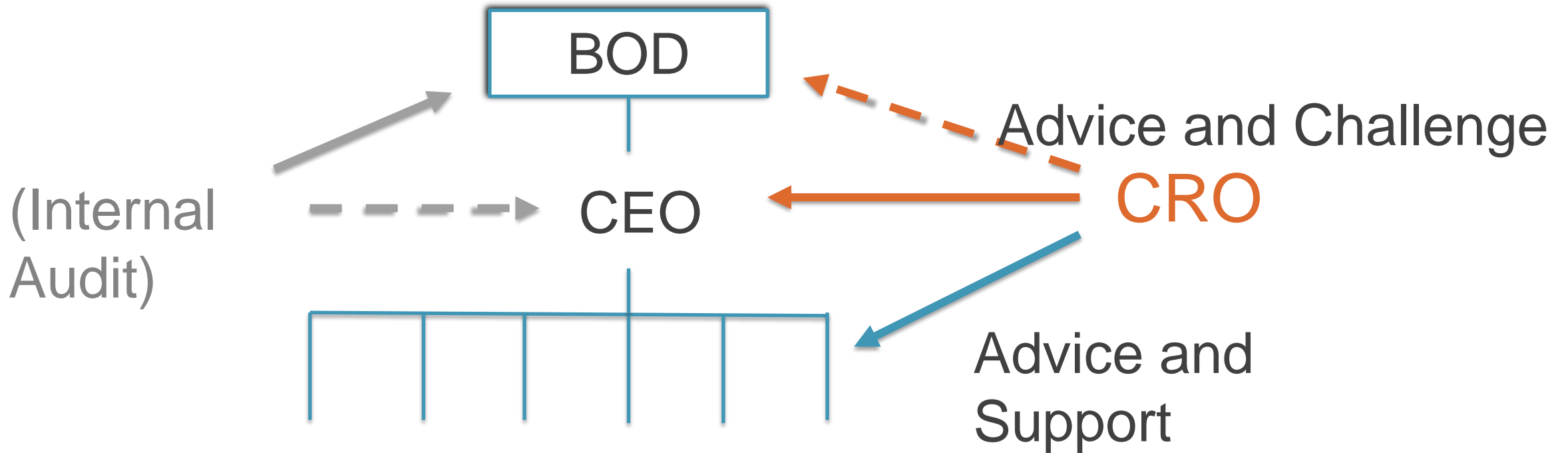
## Potential CRO Roles – Strategic Advisor

Influence Board and executive activity through quantitative and non-quantifiable challenge of assumptions that underlie business plans and proposals





# Strategic Advisor





## Potential CRO Roles – Strategic Advisor

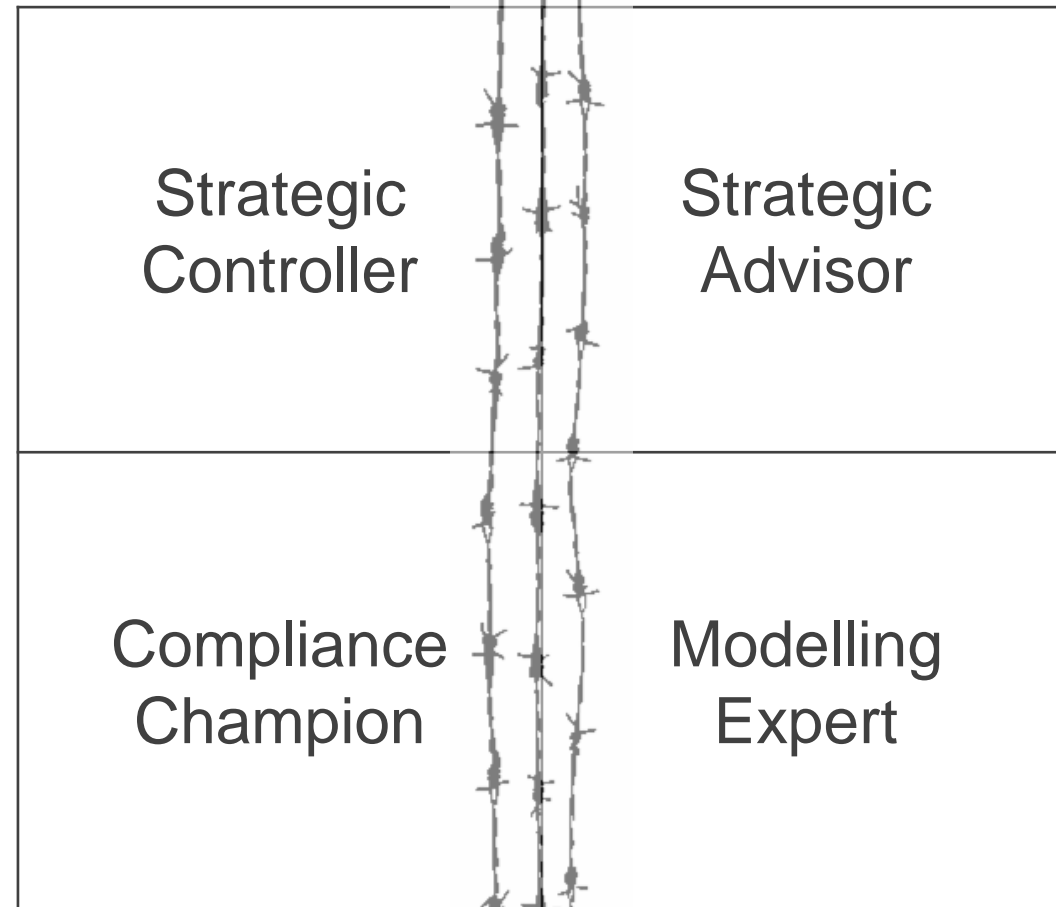
- Influence Board and executive activity through quantitative and non-quantifiable challenge of assumptions that underlie business plans and proposals
- **Benefits:**
  - Avoid overreliance on predictive models
  - Clarity on accountability

# Risk Function (CRO) Role

STRATEGIC



TACTICAL



ASSURANCE



SUPPORT



# Key Points to consider

- Context and role of risk-taking
- What else exists
- Don't blend assurance with “support”

# Questions?



erm • internal audit • policy mgmt • compliance • irpm • esq • claims admin • rmis • health & safety • bcr • project risk mgmt

DISCOVER

**RISK** UNDER  
**ONE** **ROOF**  
*Confidential*



# Connect with me.

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