

# Part II: The risk conductor

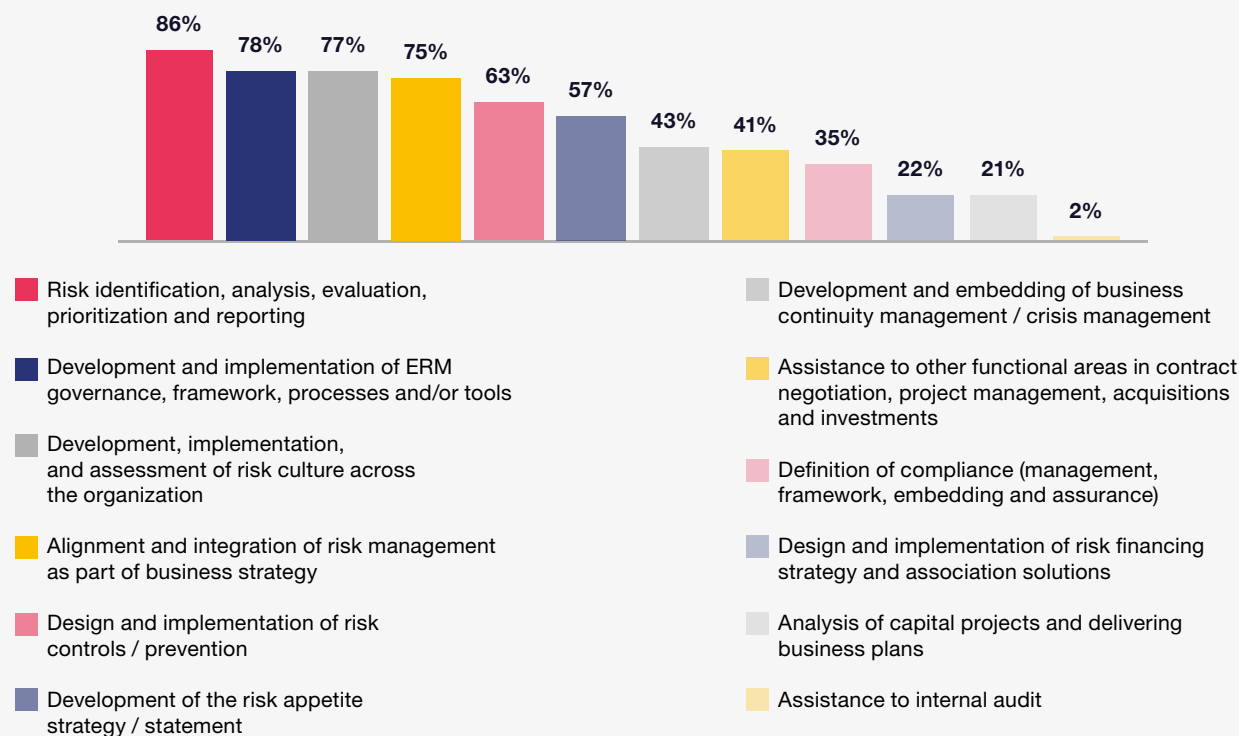
## ERM and insurance management, two different but related practices with one goal: managing risks



of risk managers say that the internal recognition of their function is increasing.

### ERM activities

Which of the following activities are under your responsibility?



*Embedding risk management in the strategy and culture of organisations is an increasing role of risk managers.*

The principal activities of risk managers in charge of ERM are:

#### Operational activities

- Risk identification, analysis, evaluation, prioritisation and reporting (86%);
- Development and implementation of ERM governance, framework, processes and/or tools (78%);
- Design and implementation of risk controls/prevention (63%).

#### Strategic activities

- Development, implementation, and assessment of risk culture across the organisation (77%);
- Alignment and integration of risk management as part of business strategy (75%);
- Development of the risk appetite strategy/statement (57%).

There has been a steady development of strategic activities of the risk managers in charge of ERM. Only 68% of them were in charge of the development and implementation of the risk culture across their

organisations in 2016. This figure is now 77%. In 2016, 62% were in charge of the alignment and integration of risk management as part of business strategy. Today, it is 75%.

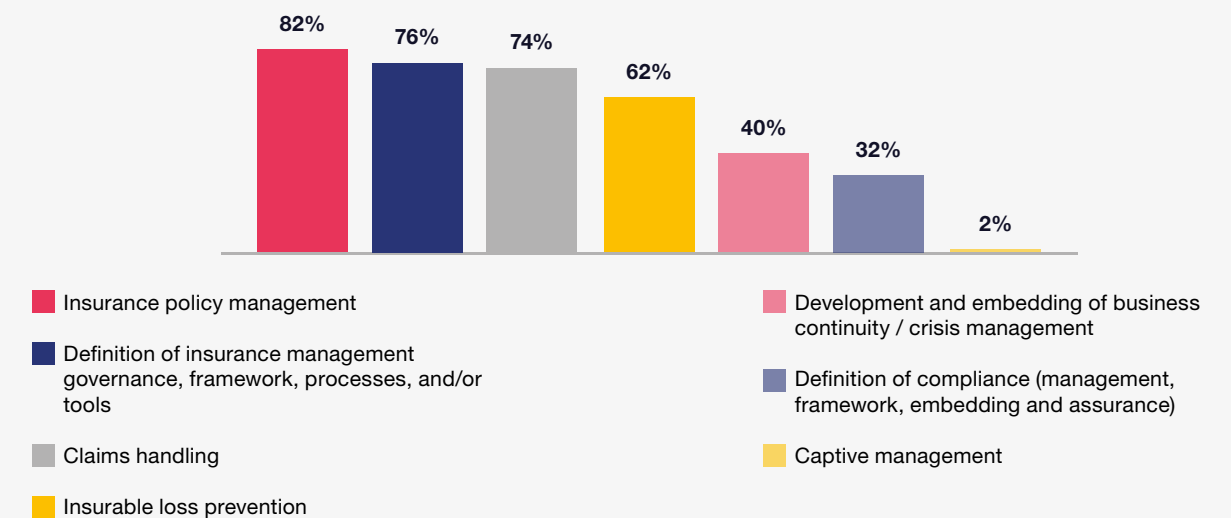
*Risk managers are taking on more strategic responsibilities.*

Three main differences on the scope of responsibilities are noticeable among geographical areas. They are mainly due to the position of the risk management function within the organisations but also to specificities in each country.

- In Western Europe, 70% of risk managers have risk controls and prevention as part of their activities while only 38% of Central and Eastern Europe risk managers are in charge of this activity;
- 60% of risk managers in Northern Europe are in charge of business continuity/crisis management but they are only 21% of risk managers from Central and Eastern Europe to perform this activity.

### IM activities

Which of the following activities are under your responsibility?



Risk managers in charge of insurance management had a continuity of responsibilities in comparison with 2016, when 86% of respondents were in charge of insurance management.

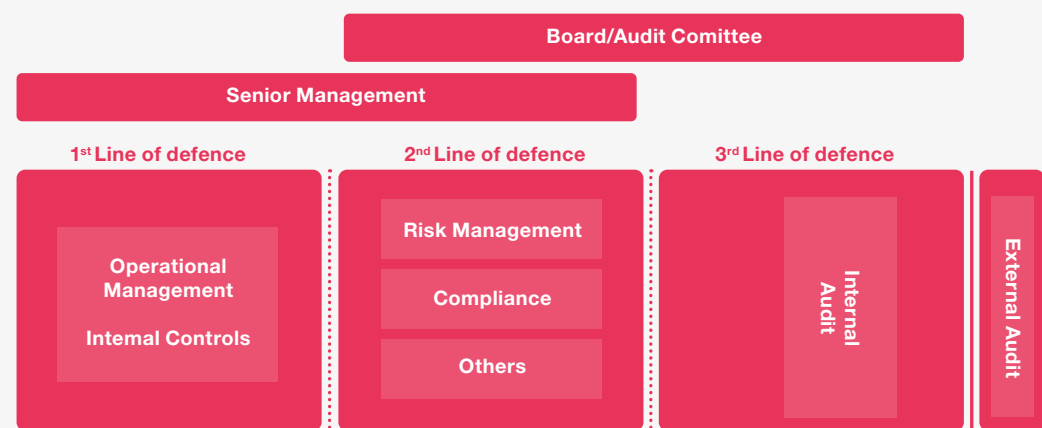
# The risk manager, a strategic and interconnected position within the organisation

## Risk managers' reporting lines within governance

The risk manager is becoming more collaborative across the 3 Lines of Defence.

### Guidance on the 8th EU Company Law Directive article 41 (FERMA/ECIIA)

#### Three Lines of Defence Model



« The board is responsible for the oversight of the company's risk management and control framework. Everyone in the company plays a role in effectively managing risks, but the primary responsibility for risk management, and control is delegated to the appropriate management level within the company.

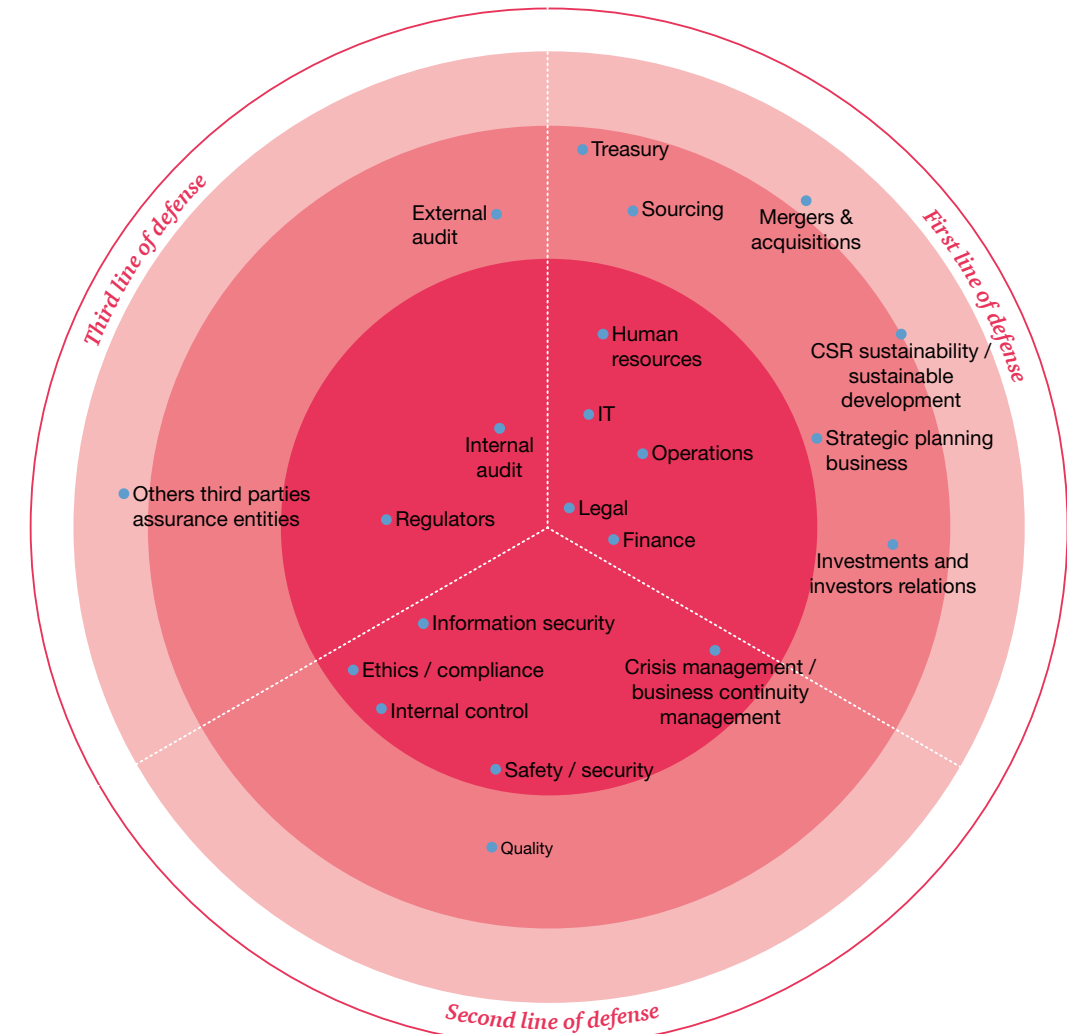
The CEO and the CFO have the final responsibility to the board for the risk management and control framework. To fulfil these duties effectively, they seek assurance from various sources within the organisation. FERMA and ECIIA support the « three lines of defence » model as a benchmark for future regulatory guidance. »

Source: <http://www.ferma.eu/blog/2014/10/ferma-ecii-a-respond-corporate-transparency-requirements-launch-new-guidance-document/>

# Different levels of interactions

Different levels of interactions between various functions remain:

- First rank partners – with whom the risk management function has a regular or very close relationship, based on a clear mandate;
- Second rank partners – with whom the risk management function has a more distant relationship and occasional collaboration;
- Third rank partners – with whom relationships can be improved as there is little or no relationship or involvement.



# Development of the impact of other risk related functions on the risk manager's role

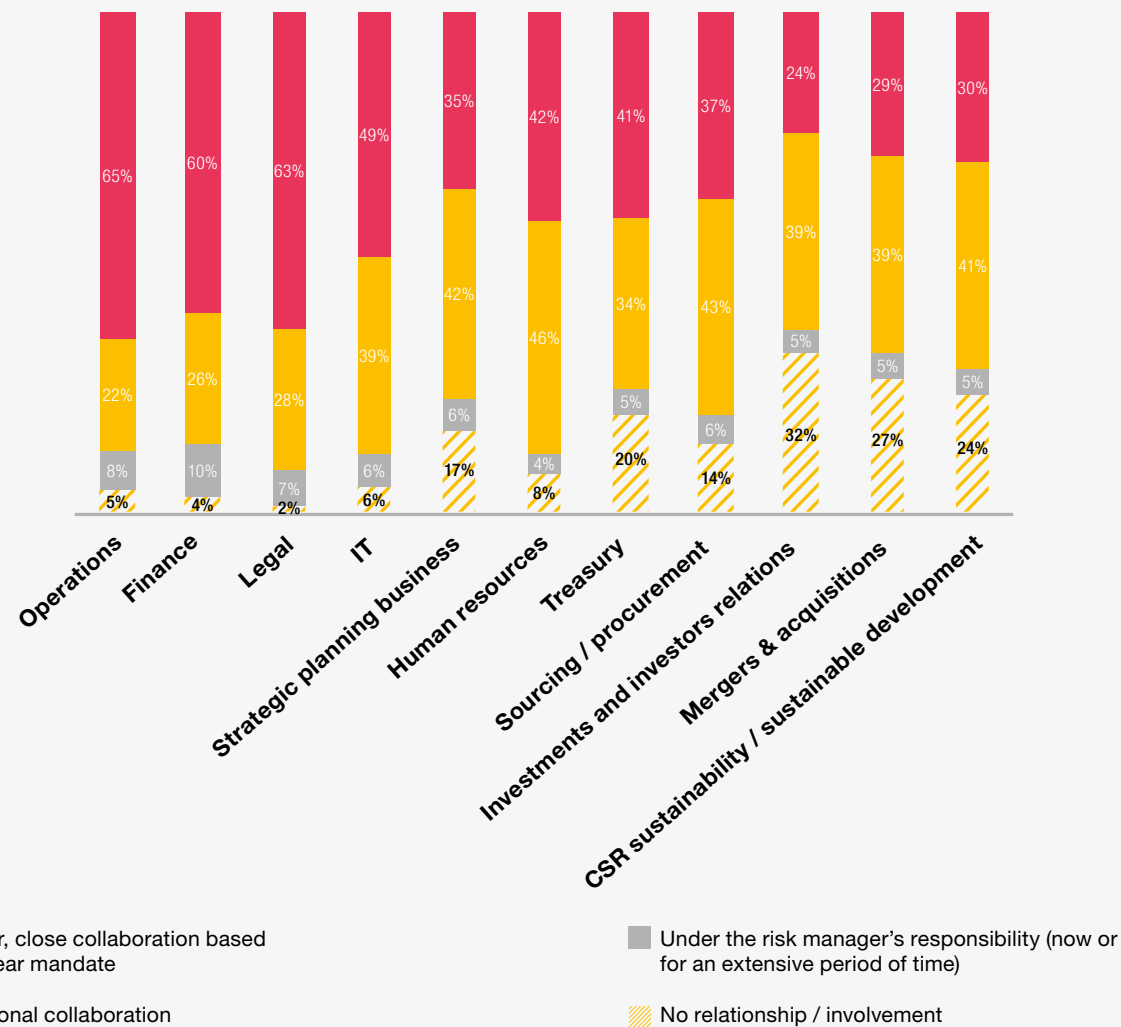
65%

of risk managers interviewed act as a risk conductor within their company consolidating information from other risk-related functions to give a clear and comprehensive view to the top management.

Even if the development of other functions across the organisation can affect the extent of the risk manager's role, he/she is reinforcing the connections and collaboration with all lines of defence. The risk manager's role as a risk conductor has then been emphasised. Only 15% of respondents indicate that the risk manager is losing control over specific areas of risk.



## The first line of defence



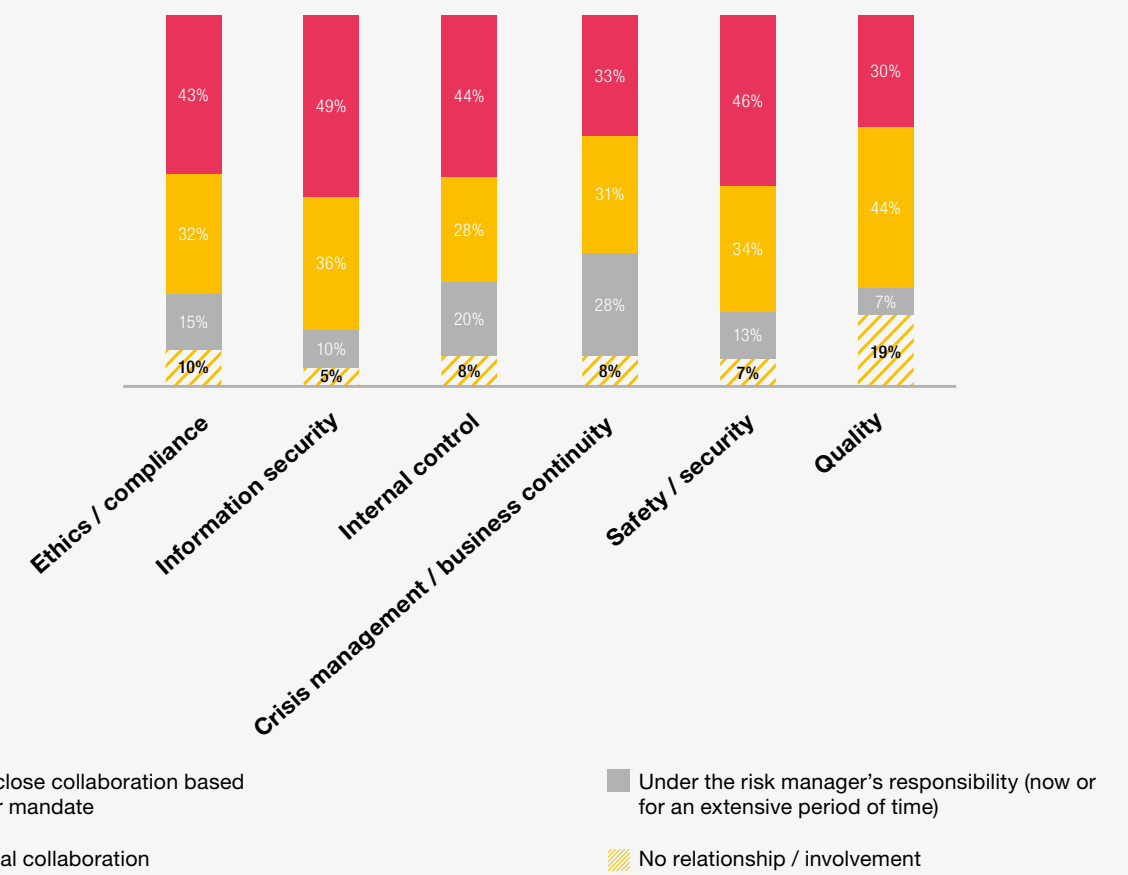
**Collaboration with operations, finance and legal remain important, while it has intensified with IT.**

Overall, collaborations between risk managers and the first line of defence are close and strengthening. Risk managers are improving their understanding of operational issues and, therefore, can better support business units.

The 2016 FERMA Survey showed weak communication between IT departments and risk management, despite the rise of IT-related risks, but this has changed. Strengthening this relationship has become essential to building good knowledge of technological risks and adapting risk management strategy. In 2018, more than half said they had a close, regular collaboration with IT, and a strong relationship with information security as shown below.



## The second line of defence



Risk managers have a particularly close relationship with the 2nd line of defence. We expect a reinforcement of the relationships with ethics and compliance and information security due to recent

regulations such as the Non-Financial Reporting Directive and the General Data Protection Regulation (GDPR).

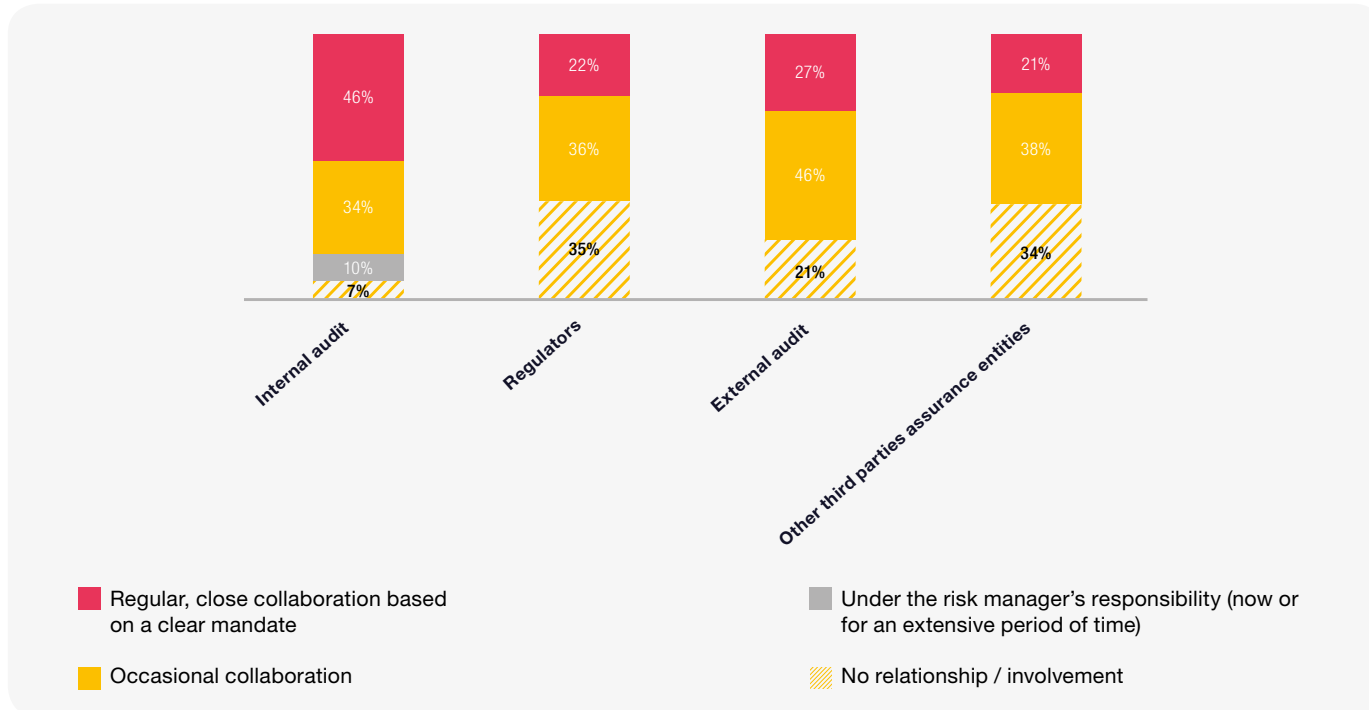
**28%** of risk managers have crisis management as part of their responsibilities.

The PwC survey *CEO Pulse on Crisis*<sup>2</sup> indicates that 65% of CEOs experienced a crisis in the past three years and 40% of them believe they will face at least one crisis in the next three years.

<sup>2</sup> <https://www.pwc.com/gx/en/ceo-agenda/pulse/crisis.html>

### 3

## The third line of defence



Internal audit remains an important partner for the risk manager to provide a reasonable assurance on the effectiveness of the mitigation plans.



« The risk manager can be in the driver seat of risk management for the organisation. However, to achieve this goal and to being considered as a business partner by the top management to the operations, he or she needs to win its credibility.

For this purpose, the risk manager needs a clear understanding of the company's business, organisation and more important, of its daily operations difficulties.

Nevertheless, coming from operation is not sufficient. An appropriate qualification / certification is mandatory. Risk management is a technical function with a proper methodology.

Today, I can confirm that I am in a position of risk conductor by analysing and assessing group risks and by receiving recognition from both operations and top management.

Regarding operations, I am able to help with technical issues and the future difficulties of the organisation.

The senior management should not view risk management with complacency as we can help organisations prevent major issues and spot opportunities by implementing a concrete and precise risk appetite.

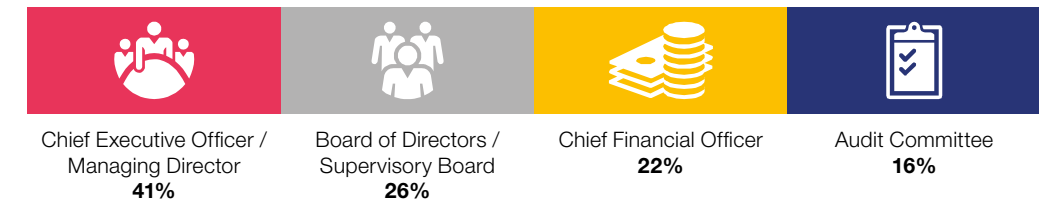
From my perspective, I definitely became a risk conductor with my appointment as the risk coordinator of the crisis management team. »

**Yves Brants, Head of Risk Management, NRB**

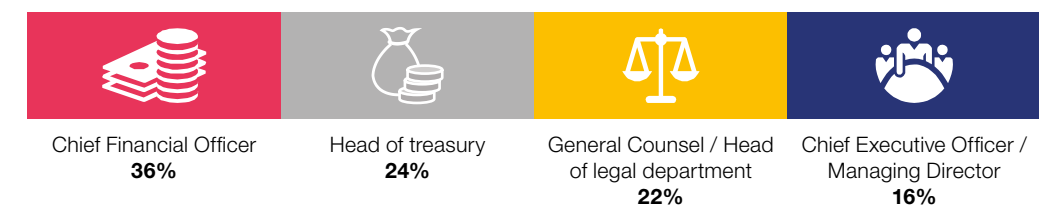
## The risk manager, a strategic adviser for the organisation

In 2018, 83% of risk managers said they report to the board or top level, compared with 67% in 2016.

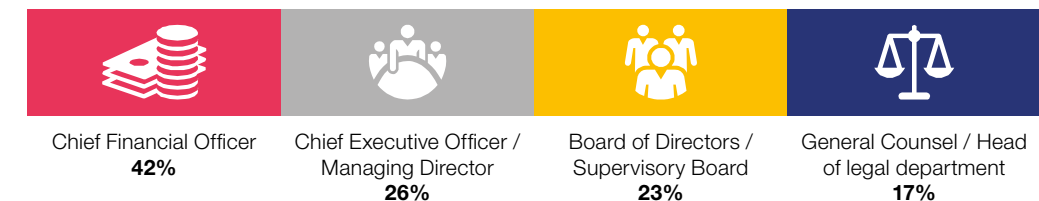
### ERM managers' reporting line



### IM managers' reporting line



### ERM/IM managers' reporting line



## Risk management within the strategic process

Risk managers are taking more strategic responsibilities with the development of ERM:

76%

of risk managers assess risks that could affect the relevance and viability of their organisation's strategy and objectives.

47%

of risk managers assess risks related to the different strategies considered by their organisation during its strategy definition.

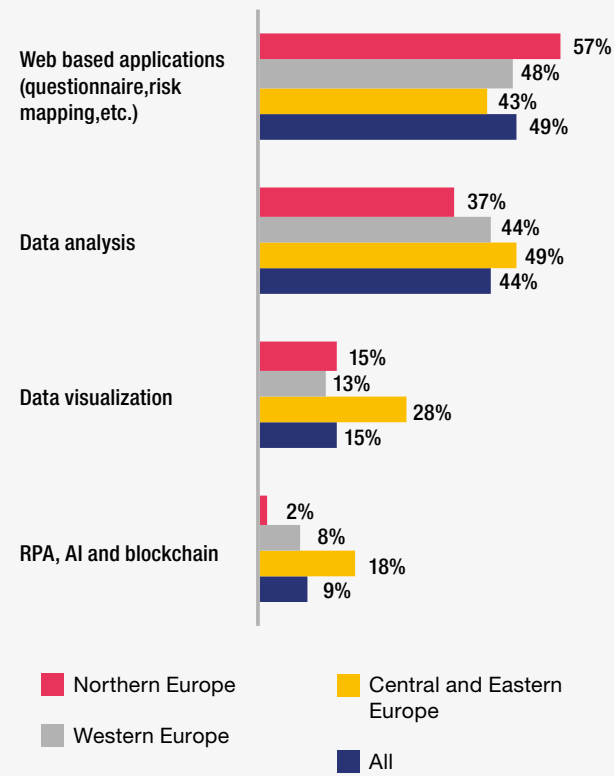
41%

of risk managers assess risks related to the non-alignment of their organisation's strategy with its mission, vision and core values.

<sup>2</sup> <https://www.pwc.com/gx/en/ceo-agenda/pulse/crisis.html>

# Risk management and innovation

## Technology used to perform risk / insurance activities



Previously, many risk managers used locally based IT tools such as governance, risk management and compliance software mainly for reporting activities (risk registers, mapping and dashboards). Today, these applications are still dominant but increasingly newer technologies, such as data analysis, data visualisation, robotic process automation (RPA), artificial intelligence (AI) and blockchain, are allowing risk managers to improve their capabilities to identify, assess, treat and monitor risks.

Even if **20%** of the risk managers do not use any technological tools to perform their risk / insurance activities, since 2014.

Such innovations make it possible for risk managers to manipulate large amount of data, perform more analyses with larger samples and bring out increasingly useful information. Therefore, they can better appreciate how risks are interconnected and be more proactive and predictive.

**18%** of risk managers in Central and Eastern Europe use robotic process automation, artificial intelligence and blockchain to perform risk and insurance activities.



Central and Eastern Europe seem to be a step ahead of other regions in terms of the use of new technologies to perform risk and insurance activities.

## Help understand risks arising from emerging technologies

### How do you deal with risks arising from emerging technologies?



As organisations face pressure to innovate, a considerable proportion of risk managers are helping them manage risk

exposures from new initiatives before adoption and strike the right risk-reward balance.



PwC 2018 Risk in Review study  
Managing risks and enabling growth in the age of innovation:

From October 2017 to December 2017, PwC surveyed 1 535 risk executives at organisations headquartered in 76 countries. Key findings clearly indicate the importance of the risk management within the innovation process of organisations.

As organisations increasingly face pressure to innovate, risk executives need to help their organisations strike the right risk-reward balance to succeed.

- An average of 71% of the most advanced risk practitioners have a high degree of confidence in the ability of their risk management program to effectively manage artificial intelligence, internet of things and robotics risks.

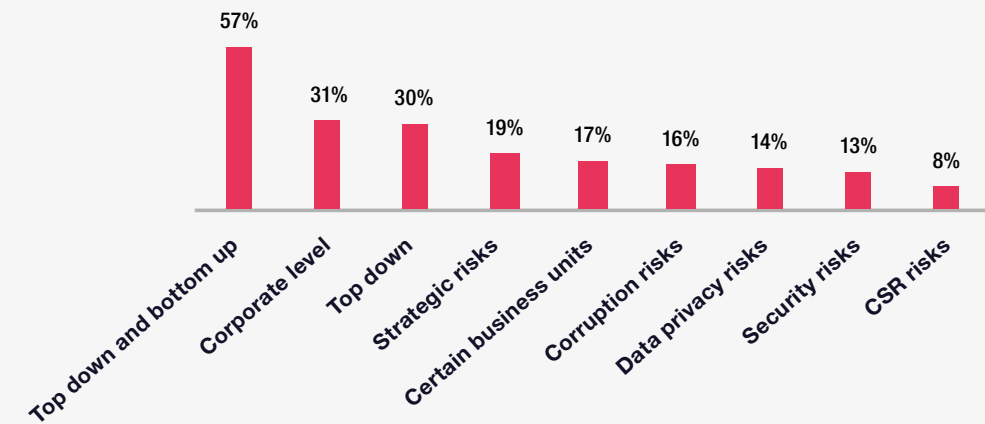
- 57% of the most advanced risk practitioners declare that their risk management program is able to influence decisions related to the implementation of new technologies to materially improve existing products or customer experience

- The risk management function proposes risk-assessed alternatives to specific activities for 58% of the most advanced risk practitioners.

Source: <https://www.pwc.com/us/en/services/risk-assurance/library/risk-in-reviewstudy.html>

## ERM is diversifying risk mapping

### To what extent does your organisation prioritise risks by mapping them?



Risk mapping remains one of the most important activities on the risk manager's agenda and is part of his/her role as a risk conductor. At the same time, it is evolving.

Until now, risk maps have been conducted at corporate level or at division level. Henceforth, risk managers are also developing specific risk maps, linked to new regulations or requirements, such as data protection in Europe.