

The Deloitte logo, consisting of the word "Deloitte" in a bold, blue, sans-serif font, followed by a small green dot.

# Practical challenges in managing risk Becoming Risk Intelligent

Mark Victor, 20 May 2015



Setting the context

# Components of risk

## Nine Principles for Building a Risk Intelligent Enterprise

Governing Bodies Responsibility

Roles & Responsibilities

Common Definition of Risk

Common Risk Framework

Common Risk Infrastructure

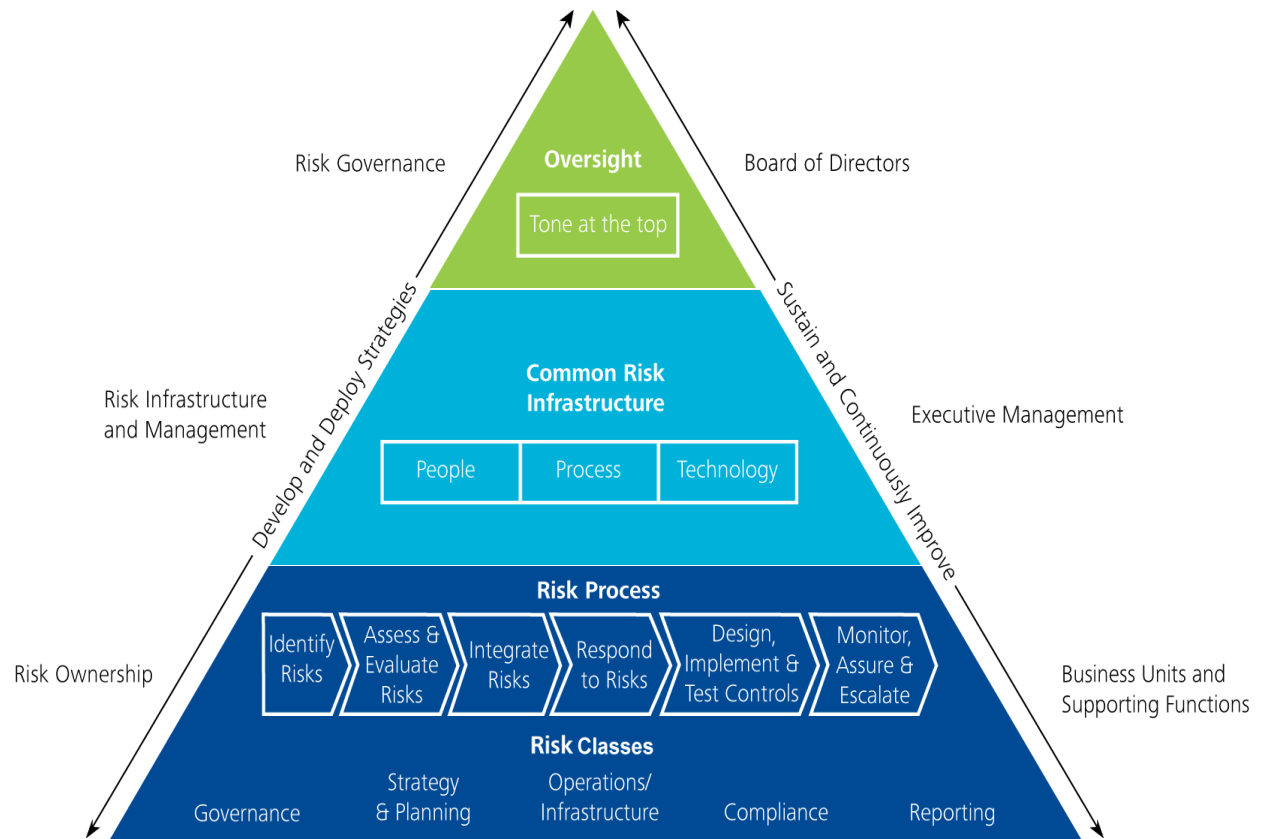
Executive Management Responsibility

Objective Assurance and Monitoring

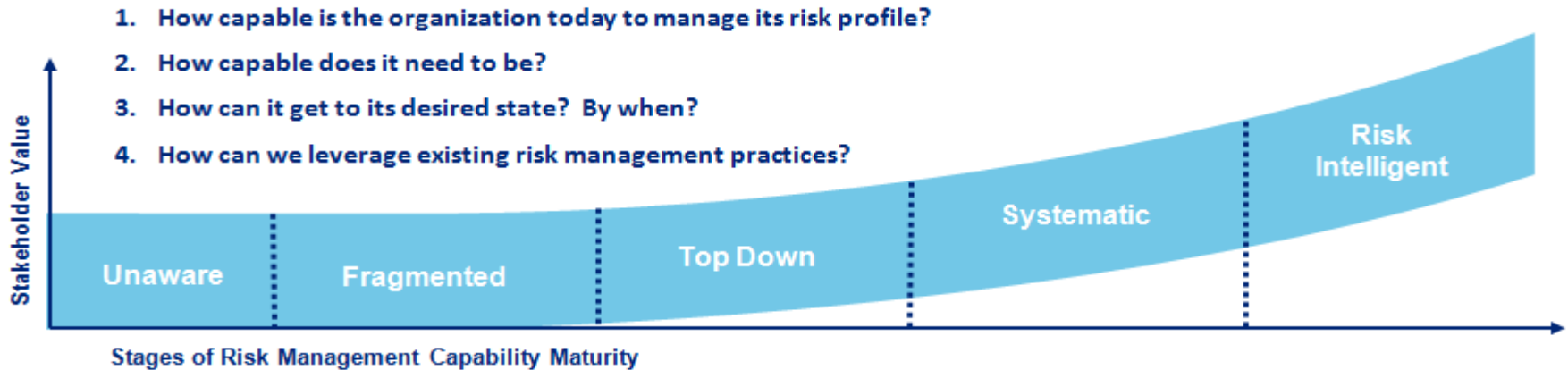
Business Unit Responsibility

Support of Pervasive Functions

## The Risk Intelligent Enterprise



# Risk Maturity



Typical Symptoms				
Unaware	Fragmented	Top Down	Systematic	Risk Intelligent

- Ad hoc/chaotic
- Depends primarily on individual heroics, capabilities, and verbal wisdom

- Independent risk management activities
- Limited focus on the linkage between risks
- Limited alignment of risk to strategies
- Disparate monitoring & reporting functions

- Common framework, program statement, policy
- Routine risk assessments
- Communication of top strategic risks to the Board
- Executive/Steering Committee
- Knowledge sharing across risk functions
- Awareness activities
- Formal risk consulting
- Dedicated team

- Coordinated risk management activities across silos
- Risk appetite is fully defined
- Enterprise-wide risk monitoring, measuring, and reporting
- Technology implementation
- Contingency plans and escalation procedures
- Risk management training

- Risk discussion is embedded in strategic planning, capital allocation, product development, etc.
- Early warning risk indicators used
- Linkage to performance measures and incentives
- Risk modeling/scenarios
- Industry benchmarking used regularly

# Challenges

# Integrated thinking

- How integrated is your function with other risk and control functions?
- What is your definition of integration (beyond coordination and meetings)?
- What are the hand offs and touch points?
- How is reporting integrated or at least aligned to other functions?
- What are the touch points with management?

## Governance

Composition Ethics / Conduct Reporting

## Operating framework

Framework Tools Culture Response Monitoring Reporting

Reputational risk Regulatory / Legal risks Fraud risk Tax risk

Sustainability risk People risk Operations risk

## Risk mitigation strategies

## Control framework

Program management Financial Operational Infrastructure

Legal & regulatory compliance

IT applications & data management

## Assurance

Risk aligned, integrated, efficient, effective, sustainable

Performance & Reporting

Strategy

# Definition of risk

Risk Intelligence Map

Governance	Strategy and Planning				Operations/Infrastructure						Compliance	Reporting	
• Do you have a complete picture of your organisation's risk universe of map that everyone understands and the principle risks?													
• Inherent universe versus current residual universe													
• Is the definition of risk accepted and adopted across the organisation?													
• How comprehensive is your risk taxonomy?													
• Are you focussing on downside risk?													
• Risks of and to the strategy													
• Do you understand the interconnectedness of your risk profile and impact of one risk on others?													

# Beyond the policy and framework

- **Standards help to contextualise the methods, but are less effective at defining the operating model**
- **Alignment to other frameworks**
- **Focus on risk identification and reporting, but the crux of risk management is the middle of the value chain**
- **Process and design thinking – embed into business process**
- **Integration with the broader organisational operating model**

\* OCEG Red book tailored for iGRC



# Service delivery model

- Does the business understand how you deliver service to them?
- Have you carefully designed your operating and service delivery model as a risk functions, taking consideration of the organisations operating model?
- How would you currently define your model and how effective is it at delivering on your mandate?
- To what extent do you play a value adding business partner role with management, particularly at a BU or operational level

# Link to strategy and performance

- **Are you integrally involved in strategic conversations?**
- **How clearly can you articulate the link from strategy to performance?**
- **What impact do the results of the risk management activities have on the strategy or performance measurement?**
- **Does management feel the impact of risk management activities on their strategy and performance?**
- **Do you understand the drivers of value across the business**

# Ownership

- **Are accountabilities clear to everyone across the business?**
- **Does business talk risk language and think risk in every context (e.g. SHE)?**
- **Is risk a once a year activity or is it embedded in day to day operations?**
- **How do you help embed risk as an integrated activity into the business beyond providing the framework?**

4<sup>th</sup> line of defence  
Board and Committee structures

3<sup>rd</sup> line of defence  
Internal Audit, SOX and External Audit

2<sup>nd</sup> line of defence  
Group Risk Management, Legal, Regulatory  
Compliance, Environmental, Health and Safety

1<sup>st</sup> line of defence  
Management

# Culture

## Organisational culture

- **Do people understand why risk is important beyond the regulatory need to comply?**
- **Leveraging risk management to drive provide the insights to inform decisions about the allocation of resources**
- **Alignment of performance standards**
- **A better chance for business success**

## Risk culture framework



# Decision making

- **Is risk even considered when making critical business decisions?**
- **What role do you play in the decisions that business makes?**
- **What information and insights do you provide to assist business in making the right decisions?**
- **Do you measure the cost and benefits of managing and mitigating risks key to the business (total cost of risk)?**
- **Can you measure the total cost of risk / cost of control on the business?**
- **Can you measure the value contribution of risk?**



# Indicators and Monitoring

- **Management and monitoring is perhaps more critical than identification**
- **Monitoring is not only the ambit of Internal Audit**
- **How regularly are you monitoring the levels of critical risks and the actions taken to mitigate?**
- **Have you identified a key set of indicators that will support management to respond appropriately – part of the larger set of performance indicators**
- **How do indicators link to the level of appetite the organisation has to tolerate risk?**
- **How are causal factors leveraged on a strategic basis to inform responses by the business?**

# Skills and business acumen

- **Position of risk managers within the organisation**
- **Keeping abreast of latest risk advances**
- **EQ more than IQ**
- **Knowledge and understanding of the business**
- **Ability to develop insights based on a complex set of data**
- **Business experience and acumen**
- **More senior and experienced teams (cost benefit equation)**



# Systems and data

- Do you have a risk system to help enable the management of risk?
- How effective do you think it is helping to develop the right insights and provide an enabling tool to the business in managing risk?
- How integrated is it to other business systems and knowledge bases?
- What is the quality of data like?
- Can you develop insights and views for management based on the data collected?
- Quality of information and reporting



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