EXPLORING THE RISK COMMITTEE ADVANTAGE
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As the preeminent organization dedicated to advancing the practice of risk management, RIMS, the Risk Management Society™, is a global not-for-profit organization representing more than 3,500 industrial, service, nonprofit, charitable and government entities throughout the world. Founded in 1950, RIMS brings networking, professional development and education opportunities to its membership of more than 11,000 risk management professionals located in more than 60 countries. For more information on RIMS, visit www.RIMS.org.
INTRODUCTION

The financial crisis of 2008 is considered by many the worst financial collapse since the Great Depression. Its impact damaged and destroyed some of the world’s most established financial institutions, and its ripple effect nearly brought the entire U.S. economy, as well as many other economies around the world, to a grinding halt.

There are many opinions as to the cause of this crisis. The U.S. Senate’s Levin Coburn Report concluded that the crisis was the result of “high risk, complex financial products; undisclosed conflicts of interest; the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street.” The Financial Crisis Inquiry Commission concluded that the financial crisis was avoidable, and was caused by “dramatic failures of corporate governance and risk management at many systemically important financial institutions.”

The lack of risk management controls or the deterioration of risk management controls allowed human error, distraction and even greed to flourish in the affected organizations. Blinded by profits and profit based incentives, boardrooms and C-suites solely focused on financial gain with little or no concern for the consequences of ignoring established risk management controls.

The financial crisis also emphasized the increasing velocity and complexity of risks that materially impact organizations, reinforcing boards’ increased expectations of their risk departments. The RIMS Marsh Excellence in Risk Management IX report (published in 2012) found that 87% of companies with annual revenues in excess of $1 billion had increased expectations of their risk management departments. In addition to encouraging risk professionals to take on a more strategic role within the organization, many organizations and their risk departments are integrating an enterprise-wide approach to strengthen their risk management capabilities and controls.

In order to monitor risks that influence the various business units throughout an organization, many have turned to risk committees: a composite of executives who each bring varying skills and perspectives and can contribute to the overall success of the risk identification, assessment and mitigation process.

In fact, of the 1,322 risk managers and top executives who participated in the Excellence in Risk Management IX study, the largest percentage of respondents chose “risk committee” as the primary communication pathway through which emerging risk information is integrated into their organization’s risk management decision making process.

Based on interviews with practicing risk professionals from RIMS Board of Directors, this executive report defines the risk committee concept with insight on the types of committees and roles risk professionals can take during its implementation, facilitation and the communication of its findings. The report also highlights the value of developing a strong operational risk committee, while reviewing regulations and potential challenges.

RISK COMMITTEE REGULATION IN THE UNITED STATES

In 2009, U.S. President Barack Obama called for a “sweeping overhaul of the United States financial regulatory system, a transformation on a scale not seen since the reforms that followed the Great Depression.”

RIMS provided input to the development of the wording that would become the Dodd-Frank Act, and a year after the President proposed the need for this systemic change the bill became law.

The final version of the Dodd-Frank Act addresses redundancies, the lack of transparency and the absence of regulation, and is designed to prevent future activities that could potentially lead to another economic collapse. Part of the government’s plan to enforce stricter regulations on financial institutions is a requirement to form a risk committee.

According to the law, the Board of Governors requires that publicly traded financial institutions (not banks) establish a risk committee. The bill includes other risk committee requirements including responsibility for oversight of the enterprise-wide risk management practice. The risk committee should include independent directors and at least one risk management expert who has experience identifying, assessing and managing risk exposures of large, complex firms.

While Dodd-Frank Act was specifically aimed at national/global financial institutions, regulations mandating the formation of a risk committee for non-financial institutions vary on a state-by-state basis.

“There is a lot of regulation that touches the surface of risk management and the formation of a risk committee, but there is very little that actually mandates it for every organization,” said John Phelps, director of business risk solutions for Blue Cross & Blue Shield of Florida, Inc. and the 2013 RIMS president. “But the regulations that were designed for financial institutions have become a best-practice and have been quickly adopted by other industries. Now if you want to stay competitive, adapting to these requirements is something your organization needs to achieve.”

1 Senate Financial Crisis Report, 2011
2 Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States
DEFINING A RISK COMMITTEE

“Risk committees come in many different flavors,” Phelps said. Like risk programs, the risk committee depends on the size of the organization, the industry, regulations and expectations set by the organization’s board of directors.

Typically, the variations of risk committees can be categorized into three distinct varieties, each possessing their own set of characteristics and objectives:

The first type of risk committee is a Committee of the Board. This risk committee is generally part of the organization’s highest level governance. The Committee of the Board is designed to address the board’s oversight responsibility for risk management including long-term strategic risks. Occasionally, this type of risk committee would be actively involved in vetting strategic decisions, the evolution of the organization’s risk portfolio and, possibly, changes in business strategy such as entering a new market or industry. A Committee of the Board is most appropriate for an organization that truly understands that management of their risks is an important ingredient for achieving strategy.

The C-Suite Risk Committee is more common in smaller organizations and may consist of the entire C-suite or just a few members. In larger organizations, the C-Suite Risk Committee would include one or two members of the C-suite—possibly the chief risk officer or the chief financial officer—and members of the risk management team. Generally, the work of this type of risk committee includes reviewing strategic risks, as well as those high-value risks that cut across different divisions and/or impede or enhance an opportunity for the organization to achieve its strategic objectives.

The third type is an Operational Risk Committee. This type of risk committee includes a mix of vice presidents and directors. And, as the name suggests, the purpose of this committee is to address operational risks as opposed to strategic, long-range risks. The Operational Risk Committee can have three primary oversight responsibilities:

- Identifying the organization’s exposures;
- Developing a risk control program; and/or
- Influencing the risk financing strategy.

The type of risk committee that best suits an organization is a function of who should have governance or oversight. “The more strategic an issue, the higher it is on the food chain for governance,” Phelps said. “The more tactical, the lower on the food chain. Our strategic risks are reported into the audit committee of the board level committee because the board has oversight responsibility. Our profile risks are a constellation of operational and strategic risks. Those are reported to an operational risk committee.”

According to Rick Roberts, director of risk management and employee benefits at Ensign-Bickford Industries, Inc. and RIMS 2015 president, “Members of the risk committee need to be people who know the business. At Ensign-Bickford, in the manufacturing industry, the employees in operations can provide great insight about business operational risks. They know how the product is designed, how it is put together, they know how it’s used and who buys it. Any risk that can come up, from the time the first piece of material is bought, to assembly, to packaging, to distribution; they will have the first-hand knowledge. Whoever you can bring in from that chain is crucial to the risk dialogue.”

Gordon Adams, chief risk officer at Tri-Marine International and a RIMS board director, recommends including a Board Liaison. “You do want a board liaison on the risk committee, especially if you’re a public company,” he said. “This will give you a designated person who may or may not sit in on risk committee meetings but who has access to the board and can communicate recommendations, data and reports as necessary.”

The size of the organization and its operations will determine the size of the risk committee. Risk committees should range anywhere from eight to 12 people. Selecting risk committee members is often a board director function, but risk professionals implementing this risk management strategy for their organizations may assume this responsibility. Gloria Brosius, director of risk management and insurance programs for Farm Credit Council Services, Inc. and a RIMS board director, added “You have to be strategic about selecting people for the risk committee. You need to have the right people in the room, but too many people can be counterproductive.”

RISK PROFESSIONAL’S ROLE: SPECTATOR, FACILITATOR, COORDINATOR

Besides initiating the concept of establishing a risk committee and selecting its members, the risk professional also has the opportunity to take on three different roles to ensure the committee meets its objectives: spectator, facilitator or coordinator.

One of the greatest advantages to forming a risk committee is the opportunity to procure information and ideas from a select group of executives and managers. In the spectator role, a risk professional refrains from influencing the risk dialogue, establishing the priority of the organization’s risks and, perhaps most importantly, selecting or determining innovative solutions for addressing potential risks. In this role, the spectator can take meeting notes or assign this task to a junior risk manager or analyst, giving them valuable exposure to this intensive risk management process.

In most organizations, the risk professional takes on the role of either facilitator or coordinator—and sometimes a combination of both.

As a facilitator, the risk professional must ensure that the participants are imparting the right information by guiding the conversation. The facilitator has a responsibility to provide the committee with updates on changes in the business—whether
those changes are operational or strategic—as well as industry
trends. In this role, the risk professional should query and chal-
lenge what is said in order to fully develop a concept or issue and
explore risks from a 360-degree perspective.

In addition, “risk professionals must be prepared to break the
silence,” Phelps said. “For those awkward instances where the
conversation comes to a lull, we should have a list of actual or
potential risks in our ‘back pocket’ to spark the room’s energy.”

The task of arranging the logistics of the risk committee meet-
ings often falls within the risk professional’s responsibilities. As a
coordinator, the risk professional will set the date, location and
the agenda to drive discussion for the meetings.

In both the facilitator and coordinator roles, risk professionals
will have the responsibility to keep the team current and engaged
throughout the year and not just in periodic meetings. This
can include risk profile updates to support a report, highlight-
ing a specific risk for comment and detailing successes or adverse
events. An internal committee blog can also be a useful tool.

The number of times a risk committee meets during the year
often depends on the organization. Roberts suggested that, “the
‘greener’ your risk committee is, the more often they should meet.
For these new committees, you might want to start off by meet-
ing once a month and then scale it back as you see fit.” Others
believed that meetings should be more regimented. “The risk
committee should meet twice a year or quarterly,” Brosius said.
“To account for members’ travel or work schedules, the meet-
ings could be set in conjunction with the organization’s board of
directors’ meetings.”

While opinions differ on frequency, there is consensus that the
meetings should be held in-person. “In-person risk com-
mittee meetings are crucial,” Adams said. “There are far too many
distractions to facilitate them over the phone or via other tech-
nologies, especially when dealing with risks or opportunities that
could have a lasting impact on the future of the organization.”

**SETTING OBJECTIVES**

Once an organization’s senior leadership approves the establish-
ment of a risk committee and the members of the risk committee
are selected, it is the risk professional’s job to execute, implement
and drive the group activity. Setting objectives for the risk com-
mittee and a risk management process for the group is paramount.

“Ideally, risk professionals should be a big part of setting the goals
and objectives of a risk committee,” Brosius said. “It is the busi-
ness we’re in and we have a better understanding of terminology
and a deeper understanding of all of the insurables and uninsur-
able risks our business can face.”

Risk committees are generally given a board-approved charter or
a mandate that clearly defines the committee’s responsibilities.

“These charters should not be too long or too detailed because
you want to have some flexibility,” Brosius said. “You don’t want
to be constrained by a set of rules. You want risk committees to
be fluid enough to address all of the risks you need addressed
throughout the year.”

A risk committee charter should define:

1. The purpose of the risk committee.
2. The group’s focus. Will they focus on the organization’s
   strategy or just operations? And, if operations, what specific
   business areas, if not all?
3. The risk committee’s responsibility with regard to
governance.
4. Skills sets required of risk committee members, the member
   mix by profession, job or position and service terms.
5. Meeting structure, including how often the committee
   meets, as well as who it delivers its recommendations to
   and the timing of those meetings.
6. Responsibilities and deliverables. This could include
developing risk appetite and risk tolerance statements.
7. A process for reporting and monitoring findings.

Adams reminded risk professionals that they are not alone
when getting their risk committee started and developing a risk
committee charter. In regards to his organization, he said,
“Operationally, no company does everything we do, but a lot of
companies do bits and pieces. We do a lot of benchmarking and
find best practices for those bits and pieces. When you put it all
together, then you generally have a strategy and some direction.”

**IMPORTANCE OF COMMUNICATION**

Just as important as conversation during in-person risk com-
mite meetings, a process for communication before and after those
meetings is essential to the success of the committee.

The flow of information to and from the risk committee can be
framed as a “push and pull” dynamic. With a risk committee in
place, risk professionals have an outlet to “push out” information
to department leaders that might prompt them to reassess their
business processes or even identify new exposures. From the risk
committee, risk professionals will “pull” information about new
developments and oversee mitigation plans.

This “push and pull” dynamic brings to the forefront risk issues of
which specific business units might be unaware. A risk committee
gives operations managers an open venue to share concerns and
receive feedback from colleagues.

“At my organization, the risk committee acts as an advisory group
to my risk management department, but it also allows me to push
out risk information to the entire organization from one place,”
Phelps said.
The result of these conversations might be to add a new exposure to the risk professional’s inventory of risks, which may require additional conversations with leadership or multiple department leaders on the issue’s progress, priority and/or likelihood. In other cases, a full risk assessment might be required.

THE VALUE OF A RISK COMMITTEE

One of the greatest advantages to forming a risk committee is its ability to help create a more risk-aware culture throughout the organization. With most or all of the business operations represented on the risk committee, communication about new projects, initiatives and information about other departmental exposures creates a more informed workforce, as well as one that incorporates risk management practices into daily routines.

“There is probably nothing more important to driving risk management principles into the operations of the business than culture,” Phelps said. “The risk committee helps drive the identification, evaluation and mitigation of risk directly into the company culture. It’s a way to ‘mainline’ risk management as part of the way business is done in an organization. Too often, companies see identification, evaluation and mitigation of risk as a ‘bolt on’ to their real work. It isn’t. It’s part of how they do their real work. The risk committee is part of overall risk governance, and risk governance should drive the company culture.”

Risk committees also generate new information for the board to consider when shaping strategy. “When there’s something out of the ordinary—a public relations or reputational damage issue or when you’re making a challenging acquisition—the risk committee can be an effective tool to advise the board, or provide information above and beyond what the risk management department might be able to provide in a normal risk review and analysis,” Adams said.

“For both the board and the risk management department, a risk committee can formalize the process for addressing risks,” Roberts added. “Because of its structure, a risk committee will help put a time line on resolution so that the risk is avoided or mitigated and the organization is able to protect assets, or, if it’s an opportunity, quickly take action so that you don’t miss the chance to potentially increase revenue.”

CHALLENGES

Just as no two risk programs or risk committees are alike, the challenges organizations will encounter forming their committees, as well as the challenges that will arise during the group’s risk management process, will also vary.

There are some very basic and fundamental challenges that will arise in the formation and logistics of a risk committee. “Time constraints will always be an issue,” Roberts said. “The operational leaders throughout the organization that you have identified as ideal candidates for the risk committee have limited time for such an initiative. Unless leadership attaches this responsibility to them, getting that initial buy-in from your colleagues will be extremely difficult.”

This is why gaining board buy-in for all risk management initiatives—including the formation of a risk committee—is essential to the success of the program. Thankfully, this is not the onerous task it once was. “Getting buy-in from leadership is easier now,” Brosius said. “Natural disasters, economic implosions, cyberattacks have organizations on high alert. Today, many more boards appreciate the value of strong risk management capabilities.”

Getting the C-suite or a board liaison involved with the risk committee will benefit the organization as they are the ones who have the authority or influence to make the organization more risk aware. With access to other C-suite members and the board of directors, a leadership liaison will be an extremely valuable agent to drive the escalation of the risk process. To prevent that high-level member from potentially inhibiting the free exchange of ideas often discussed in a risk committee meeting, he or she might be excluded from committee meetings. Instead, the liaison would become a part of the reporting/communication process.

Risks that overlap two or more departments remain a challenge. “While a risk committee is beneficial in identifying overlapping risks, there can be disagreement and confusion as to the appropriate mitigation strategy,” Phelps said.

Consider the example of a significant risk to human resources that can only be fixed with the assistance of the information technology department (IT). If IT does not understand the severity, velocity or likelihood of the risk, this project might fall lower on their list of priorities. In this scenario, the risk professional has the option of either coordinatin an opportunity for the two operation managers to discuss the exposure or escalating the risk to leadership’s attention.

Therein lies an additional challenge: to whom does the risk management committee report? For example, a risk committee that reports to legal, internal audit, treasury or even accounting, might encounter difficulty delivering risk committee derived information to leadership.

Also, the person or department responsible for the risk committee can influence the process. For example, if the committee reports to the CFO, there is likely to be a heavy concentration on financial risks. If it reports to general counsel, then heavy emphasis could be placed on liability and regulatory issues. Prior to commencement of risk committee operations, the reporting structure and process should be outlined in detail and potential influencers should be identified and considered by the committee.

Issues discovered in one’s area of responsibility could also make risk committees members apprehensive about divulging critical information. Even though the focus is on addressing risks, the committee should be conscious about documentation and how it is retained. For this reason, many committees include an attorney.
In a room full of non-risk professionals, convincing everyone to focus on the organization’s “big picture” strategic risk objectives can be difficult. “Having committee members see things on a global or a strategic scale can be a challenge,” Adams said. “There is no question that each committee member brings a very valuable and specialized expertise to the table. Getting them to think outside of their practice areas and about the strategic objectives of the entire organization is not just a challenge for the committee but rather an opportunity for risk professionals to truly highlight the value they can deliver to the organization.”

“To drive the conversation so it addresses strategic issues risk committee meetings can be ‘seeded’ with a pre-circulated agenda and possibly samples and examples of the types of things to be addressed, a process example, and procedural guidelines,” he said. “By influencing the conversation risk professionals can get people thinking in the right vein prior to the meeting, shifting their focus from silo issues to ones that impact the overall success and future of the organization.”

CONCLUSION

Effective risk management entails much more than the implementation of a risk financing program to protect organizational assets. Risk management departments must act as a knowledge center with the ability to collect and analyze information from individual business units to ensure that each one understands the risks taken and how they are aligned with the organization's strategic objectives.

In the 2014 RIMS Marsh Excellence in Risk Management XI report, survey participants were asked to identify “the biggest gaps in the performance of my organization’s risk management function.” For the C-suite respondents, highest on their list was the education of others on key risk management practices, and second was integrating them with operations. For the risk professionals who were surveyed, their top performance gap was integration with operations.

Risk committees have proven to be an effective tool for risk professionals to bridge the operational gap, understand more deeply the risks taken and educate key stakeholders throughout the organization about the entities’ risk strategy, tolerance and appetite.

Risk committees are often linked to the practice of enterprise risk management, which provides the risk department with a holistic view and understanding of the organization’s operations. Perhaps more importantly, it provides a direct connection with members from those business units to discuss imminent threats and opportunities.

An integral component of an enterprise risk management program is the presence of a corporate culture open to the idea that risk management can positively impact future success. Risk committees can be instrumental in fostering such a culture. “Breaking down the silos within an organization and getting everyone thinking about risk is a goal toward which many risk professionals aim,” Roberts said. “A risk committee is a sure-fire way to achieve this fundamental risk management objective.”

Each risk committee is different, and each will have different members, responsibilities, methods of communication and challenges. But what all risk committees share in common is a proven process for promoting a risk-aware workforce that is prepared to make intelligent decisions to enhance the organization’s ability to analyze its operations and achieve and exceed strategic objectives.