ERM: BOTH ART AND SCIENCE AT INVESCO

By Russ Banham

RIMS

For more than 80 years (if one counts the history of a predecessor firm), Invesco Ltd. has dedicated itself to delivering an investment experience for its clients “to help them get more out of life,” as its advertising states. Today, the independent investment management firm manages more than $836 billion of client money across a comprehensive range of asset classes in over twenty countries. That’s a lot of investment risk to manage, but it does not describe the other threats to the company’s business.

These risks are the focus of Suzanne Christensen, a former auditor who was hired as Invesco’s head of enterprise risk in 2011. Prior to her arrival, the firm had already built a solid framework for ERM. Christensen’s task was to sharpen the dialogue with risk owners across Invesco’s business areas to improve the status quo. In the six years since, she has taken these conversations to a new level by creating an annual forum where the risk owners gather to discuss continuous improvements in their collective and individual management of enterprise risk.

RIMS sat down recently with Christensen to discuss her evolutionary approach to ERM.

RIMS: You have some experience in shepherding an ERM program, having developed and deployed the ERM process at Franklin Templeton, another large investment firm. Was this experience useful to you in your work at Invesco?

Christensen: Every experience is useful to one’s career progression; we’re always learning and the world does not sit still. But ERM is not a ‘plug and play’ system. Even though Franklin Templeton and Invesco are essentially in the same business, the ERM programs are different. Each program must fit the culture of an organization, which by nature will make ERM different from one place to the next. I understood the culture and how decisions were made at Franklin Templeton, having worked there for over twenty years. This was not the case when I first came to Invesco. I had to embed myself in the organization to get a feel for it.

RIMS: What prepared you in leading the ERM program at your former company?

Christensen: I come from an auditing background, having started my career at Ernst. I had grown up in the corporate finance arena and had enjoyed a variety of financial roles over the years. In the post-financial crisis period we were trying to rationalize a whole bunch of things. There was a lot of pressure on us and other investment firms. Our internal auditor and the head of compliance were at odds over perceived overlaps in areas of responsibility. The CFO asked me to help sort things out. He then said, ‘By the way I want you to also take on enterprise risk.’ So I ended up in charge of that and our Sarbanes-Oxley function. We were one of the first firms to be required to implement Section 404 of the legislation, which was a scramble due to the initial tight timeline. I soon became known as someone who could take on a challenge and run large programs. But the ERM project was my introduction to the world of risk. To be honest, I loved it.

RIMS: What did you love?

Christensen: It gave me license to get out in the organization and talk with people, learn about their risks and help them. Given my financial background, I had a different perspective that I could bring to bear on their risks, helping them make better decisions.
RIMS: Shortly thereafter, Invesco came calling. The firm already had an ERM program in place. What was it about the opportunity that convinced you to hire on?

Christensen: The CFO mentioned that Invesco had retained a consultant to implement the ERM program and he wanted to put more meat on the bones. He wanted me to improve the process and provide better reporting. What also appealed to me was the ERM framework that was in place. It had been thoughtfully constructed, combining components of ISO 31000 and the COSO framework. It didn’t fully favor one or the other, representing what I felt was a well-working blended and balanced approach. A good dashboard featuring the top risks also was in place, and the reporting mechanism was solid. Finally, as the lead for the corporate risk management committee, I would need to ensure that risk is embedded in the firm’s strategy and day-to-day decision-making. It was all very appealing. I simply needed to keep what was already working fine and take it to the next level.

RIMS: How did you start working toward this objective?

Christensen: I identified the people in each business area that had responsibility for risk and initiated a dialogue. We have more than 7,000 employees here, so I can’t say this was a ‘bottom-up’ approach. Rather it was a ‘middle-up’ approach. I wanted to be sure we were all in sync. It was easy to find the right people. We have both regional risk groups and functional risk groups, such as our finance risk committee and our IT risk group. We had also formed committees that focused on specific concentrations of risk, such as fraud risks or cyber risks. And we have risk professionals in compliance and internal audit that do their own risk concentrations of risk, such as fraud risks or cyber risks. And we have risk management committee, I would need to ensure that risk is embedded in the firm’s strategy and day-to-day decision-making. It was all very appealing. I simply needed to keep what was already working fine and take it to the next level.

RIMS: What did you ask of them once they had been identified?

Christensen: I asked them to submit a risk assessment based on the standard framework, which comprised their perspectives on risk probabilities, trends and impacts. Once this was in hand, my team aggregated and consolidated the risk-based data. We then brought these risk professionals together at headquarters—there’s about twenty five of them altogether—at a full-day risk forum. Everyone is required to come here in person, even if they work abroad.

RIMS: So the creation of the Risk Forum was a response to the CFO’s interest in furthering Invesco’s risk management program?

Christensen: Yes, it’s our way of determining if we missed something, such as considering the synergies of risk across the organization. Maybe we’re doubling down in one place, which may be just fine since we’re large and diversified. Or maybe this isn’t fine. We have these conversations where we challenge each other.

RIMS: Are Invesco’s top risks identified and assessed at the risk forum?

Christensen: Yes and no. We try not to force the top risks, stipulating that these specific exposures are our top ten or top fifteen risks. Rather, we review all the risks in terms of their probability and impact. If they happen to fall within our orange and red categories on the dashboard, then they become our top risks—whatever the number. This way we’re not locked into focusing on the top ten risks when number eleven might be just as important. It’s not uncommon for what we call our mezzanine or middle risks to rise to the top.

RIMS: What else occurs at the risk forum?

Christensen: At the end of the day, everyone is smarter. Each risk professional takes what they’ve learned back to their risk committees for additional discussions. The top risks are then brought to the corporate risk management committee for further review. People again challenge the recommendations. Ultimately, the list goes to the board as a refresh, becoming the baseline programming for the dashboard and ongoing reporting.

RIMS: Are there any technology tools you’re using to take the program to the next level?

Christensen: Getting everyone to understand the risk assessment process has consumed much of our attention. In this regard, we use an ERM software solution for certain aspects of our risk processes. It helps everyone appreciate how our risk management practices come together to provide a unified view of the risk and control environment across functions. The solution houses risk data and is scalable, but it’s not a consolidation system where we roll up the risks like in a P&L. We’ve implemented it in a big way in the UK, and are in the process of determining whether to implement it enterprise-wide.

RIMS: Can you provide an example where the enhancements in ERM since you hired on at Invesco have resulted in a positive outcome that otherwise might not have been realized?

Christensen: One that comes immediately to mind came out of a risk forum. We were talking about the increased use of derivatives in our investment portfolios and the demand for more derivatives by our clients. During the gathering, we drilled down into where the derivatives were being supported. They showed up in the investment space, in the operational area, and in trading, but we had always looked at them in a disaggregated way. This was not a big deal from an individual business area standpoint, but when we pulled it all together, we were surprised by how much it turned out to be. We saw the trend lines (of continuing and increased use) and realized we needed to get in front of this.

RIMS: Did you get in front of it?

Christensen: We did. We decided to form a specific risk committee focused on derivatives, with programming around it to keep things in check. Had we not had everyone in one place at the risk forum to discuss their respective areas of risk, I’m not sure we would have realized just how pervasive, global and cross-functional the use of derivatives was. You can’t manage risks unless you know you have them.