The RIMS Strategic and Enterprise Risk Center presents:

Q&A

Deb Barnes

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SHIFTING TO RISK OPTIMIZATION

By Russ Banham

RIMS

In January 2017, Deb Barnes took charge of investment risk management at QIC, a large Queensland government-owned investment company. Over the past four years, she has led an effort to balance QIC's ERM program, finding the right equilibrium between strategic risk optimization and the traditional elimination and mitigation of risks with little-to-no commercial upside.

Some of these ideas emerged from the now-Deputy Chief Risk Officer's studies at the executive education programs in advanced risk management at Wharton and Harvard Business School (HBS). Buoyed by case studies supporting the commercial value of risk optimization, Barnes lobbied QIC's senior management and Board to greenlight a more strategic approach to risk. RIMS met remotely with Barnes in September 2020 to explore her journey.

RIMS: Is it fair to say that QIC's ERM approach, prior to the new one, was focused almost entirely on eliminating and mitigating risks?

Barnes: There are some risks you absolutely want to eliminate and plenty others you don't. We were focused too much on the former and not giving enough attention to the risks that could have a significant commercial upside.

RIMS: How did you set out to get this understanding?

Barnes: Well, we first needed to foster trust with our frontline colleagues across the company. That required developing personal relationships, which would yield high quality conversations and debate. With this trust in place, we could challenge our colleagues, asking them if we were taking on enough risk with a particular product. Based on the response, we could ask them, 'but is it risky enough?'

RIMS: And how did that go?

Barnes: Funny you ask. First, we learned that language is important. Risks have this connotation of being something you need to reduce or remove. We needed to explain what being a 'risk owner' really means, the accountability inherent in this responsibility

RIMS: When did these ideas—the need to advocate a more balanced approach to risk—coalesce for you?

Barnes: They sprang from my studies in advanced risk management at HBS and Wharton (2016-2018). At Wharton, we reviewed a wonderfully written case study involving a UBS shareholder report from 2008. The report was a self-reflection of sorts, in which UBS explained why the organization had incurred these large losses that year. I highlighted what I felt were the key themes, which all had to do with culture, and in particular, aligning behaviors and incentives. A week later, the APRA (Australian Prudential Regulatory Authority) issued a report on the Commonwealth Bank of Australia that had these same themes in it. It just struck me that this was important stuff.

RIMS: And you took actions based on this realization?

Barnes: I did. Previously, there was some sentiment within the organization that the risk management team owned the risks. We used a risk structure common in the banking sector called "Three Lines of Defense." I changed the terminology in the ERM program to the "Three Lines of Accountability" to reinforce that everyone is accountable for managing risk. We then sat down with leaders from each business unit to discuss which risks their team owned and why they owned them. We also reiterated that while the risk team are here to provide the tools to help you manage them, the risks are ultimately yours.

RIMS: What was the reaction among senior management and the board to the new approach?

Barnes: In response to the Australian Royal Commission, I wrote three reports for the Board Risk Committee in which I offered various recommendations to further strengthen our risk framework. They were written as actionable points to encourage debate; not just a bunch of nice words with no substance. Some executives queried a few points, but we ultimately agreed to implement all the recommendations.

RIMS: Can you provide an example of a key recommendation?

Barnes: One of the most simple and effective changes was the introduction of 'coffee roulettes,' where senior risk team members meet with frontline colleagues on a random basis in regular coffee meetings. The goal was to get to know our peers as people and capture the heartbeat of the organization's culture. We wanted to engage in conversations with them about their world and what was happening in it. They may not bring up a major risk flare but even if they provide just a piece of it, it helps us to form a bigger picture.

RIMS: It goes back to what you were saying earlier about trust.

Barnes: The first 20 seconds of any meeting or interaction really sets the tone. You get that right and it opens the door for much better conversations. It's so simple and free to do but can have a great impact.

RIMS: What was most important to you to get across in these coffee roulettes?

Barnes: The fact that the risk team is a connector with a responsibility to champion a safe risk environment across the organization.

RIMS: Did it help that the Board had approved a more strategic approach to taking on more risk?

Barnes: Absolutely. We had been given a mandate from the board on how to execute the risk strategy. We took pains to bring risk to life in our presentations. Through narrative, infographics and diagrams, our reports illustrate what is inside our risk appetite and outside it. I had learned at HBS to make sure risk reports tell a compelling story. That helps keep the audience engaged and ensures a higher quality discussion, which is ultimately what you want. RIMS' resources on strategic risk management are also incredibly valuable. Just last week I wrote a paper on managing reputation risk that sourced RIMS' recent publication titled, *Closing the Gaps on Reputational Risk Management.*

RIMS: Can you explain how the risk appetite reporting has changed at QIC?

Barnes: The most impactful change occurred when we introduced a discipline of reporting between three and five risks we feel are 'worthy of discussion' to our Board

Risk Committee, which is composed of seven of our nine non-executive directors. Maybe the risk is changing in velocity or magnitude, hence its inclusion in the report. Our goal is to foster a debate to ensure we really understand our risk environment. These can be messy, earthy conversations, where I might debate a point with a committee member, but our directors know our interest is in fully protecting the organization.

RIMS: It is atypical for a risk professional to venture an opposing opinion to such a high-ranking business leader.

Barnes: I learned at HBS that you need to choose your fights. In good times, anyone can be a good risk manager. But when things get tough, that is when you need to really step into the role and do it well, even if it requires difficult conversations. Your job is not to be liked, but to speak the truth. There are times when you have to disagree but how you purchase the right to express your message is critical. You must first earn people's trust and always be respectful of your audience.

RIMS: HBS case studies have been widely influential on decision-making. What particular case studies resonated with you in terms of risk optimization?

Barnes: All of them resonated. In fact, we ended up implementing aspects from 14 of the 16 case studies. If I had to choose one though, the Columbia Space Shuttle disaster really drove home the need to ensure early and effective escalation of risk within an organization. That too, was a key learning from both the UBS Shareholder Report and the Australian Royal Commission, so it's certainly something that needs continual reinforcement. ■

Russ Banham is a Pulitzer-nominated financial journalist and best-selling author.