

BUILDING ERM ON A FOUNDATION OF TRUST

By Russ Banham



RIMS

For eighty years, the Teacher Retirement System of Texas (TRS) has served the needs of public education employees in the Lone Star State. During its first year of existence, more than 38,000 eligible teachers participated in TRS, which is chartered to provide retirement and health care benefits to teachers and other employees of the state's public schools, colleges and universities.

TRS is responsible for investing pension funds and managing employee benefits, a fiduciary duty that now extends to nearly 1.5 million participants.

In 2007, TRS hired Jay LeBlanc as its director of risk management and strategic planning to launch its inaugural Enterprise Risk Management (ERM) program. LeBlanc had previously served as an internal auditor in the Texas Comptroller of Public Accounts (the state's chief tax collector). The government agency had entrusted him to develop and deploy its ERM strategy.

RIMS sat down recently with LeBlanc to discuss his approach to implementing ERM successfully.

RIMS: Looking at your resume, you've enjoyed a long career as an internal auditor in a number of industries, including oil & gas, real estate, hospitality and government. What made you interested in risk management?

LeBlanc: As a former auditor, I'm naturally curious about risks. When I was an internal auditor at the Texas Comptroller of Public Accounts, they became interested in ERM and reached out to me in 2003 to set it up. Somehow I was in the right place at the right time, but I knew very little on the subject. I went to seminars and read as many books and online articles on the topic that I could find. I was completely self-taught.

RIMS: What were some of the things you learned as you rolled out the strategy at the Texas Comptroller of Public Accounts?

LeBlanc: The first challenge I realized was getting people to acknowledge that risk is not a bad thing. This was not the easiest thing to do there or at TRS either. People become concerned that if they disclose their risks, it will reflect poorly on them. I needed to communicate that we all must deal with risks, and the key is how we appropriately manage them. I literally went around, person-to-person, conveying the message that it is okay to have risk. This entailed a lot of relationship building. I pursued the same process here.

RIMS: Did TRS reach out to you because of your prior experience implementing ERM?

LeBlanc: Yes, the chief audit executive here at the time, he has since retired, was interested in setting it up. I worked hard in the beginning to build a foundation of trust that ERM would be beneficial. I did that by personally reaching to people to determine what their risks and controls. It was more of a challenge here to obtain everyone's trust initially because I was an outsider. Even though I was not hired as an auditor, I'd been put in the internal audit organization, which made it even more difficult. I realized that people felt I was going to take their risk-related information and turn it over to internal audit, which was not the case at all. When I relieved them of this worry, the channels started to open.

RIMS: So you eventually overcame the trust issues.

LeBlanc: Purely through personal contact—people skills. I met with people in almost every department here for a period of 18 months. This bottom-up approach was different than my prior implementation, but it was needed to build trust. During the period, I also facilitated risk assessment workshops, where we together examined the department's activities

and objectives to identify risks and the (effectiveness of current) controls. We then rated the latter. This was great on an individual department level, but rolling up all this information for executive management oversight was overwhelming.

RIMS: Did you migrate to a top-down approach at this juncture?

LeBlanc: Yes we did. And it helped set the stage for where we are today, shifting the pendulum on the risk culture. I had heard at a RIMS conference once that it takes an organization four to six years to realize a shift in the risk culture. But none of this would have happened, in my opinion, had I not put in the hard work meeting with people personally in the workshops. Gradually, the word got out that the workshops were useful and important, and that it was okay to talk about risks. People started to realize that they had a voice in identifying and managing risk. And that created a culture of risk ownership.

RIMS: Can you elaborate on the change in culture?

LeBlanc: We have three different types of businesses that we manage in our pension system. The first is investments, the second is benefits administration, and the third is the administration of two health care plans. All three businesses are different from a risk standpoint. With investments, the people entrusted with this responsibility simply have to be risk takers; it goes with the territory. But on the other side of the house with health care and pension administration, the people in these businesses are not risk takers. In fact, they're risk averse. Consequently, they didn't have as much appreciation for risk as others here. We needed to get across to them in particular that risk is not necessarily a bad thing. And we eventually succeeded in that.

RIMS: Prior to the top-down ERM implementation, had you identified the organization's major risks?

LeBlanc: Yes and the way we did it was very efficient. After the risk assessment workshops, I sent an email to the 13 people on the executive management team here that included one question—what each considered to be the top ten risks TRS faces. It was that simple. I didn't get into our risk controls at all; I just wanted to know what they considered to be the top risks. I got back a broad array of responses that I ultimately consolidated into 23 categories of risk, such as business continuity, procurement and contracts, records management, regulatory compliance, and so on. This led to the development of our Stoplight Report, which lists all the risk categories on one page, encapsulating the current risk level in each category.

RIMS: Please elaborate on the purpose and use of the report.

LeBlanc: Each report includes a stoplight risk level represented by a color, with red indicating 'high,' orange indicating 'elevated,' yellow 'caution,' blue 'guarded,' and green 'low.' Each of the 23 risk categories has a little bubble next to it containing one of these colors, such as blue for 'business continuity.' There's another legend in the report that consists of three

arrows representing the expected risk level trend in a category over the next 12 to 24 months—one arrow for 'increase,' another for 'decrease' and the third for 'remains constant.' For example, the category 'business continuity' might have a blue bubble and an arrow representing a risk 'increase' over the next one to two years. Our Board of Trustees is then provided the report to quickly focus in on a particular category of risk.

RIMS: How often is the Stoplight report updated?

LeBlanc: We issue the report on a quarterly basis, but each category is updated at least annually, though not all at the same time. Some categories are updated frequently. We try to rotate our updates so they're not all completed at the same time, given the amount of work required. For instance, we continue to facilitate a risk assessment workshop prior to updating each category, which requires assembling a cross-functional group of people here who know something about that category. Each category also has a specific risk owner entrusted with overall oversight of the category's risks. In a facilitated meeting, we all get in a room and talk about the risk landscape, discussing what may have changed since the last time we issued the report.

RIMS: What happens then?

LeBlanc: The particular risk owner of a category reports on the changes in the risk landscape to our Internal Risk Oversight Committee, which is chaired by our executive director. It was a big win for us to develop this committee, which meets quarterly. Previously, I used to present the insights on a particular category culled from the workshop, but now we have the risk owner do it. This is good for several reasons, chief among them the change it compelled in our risk culture. People were taking risk management seriously because executive management was asking questions of them. It was a turning point.

RIMS: Are there other elements of the ERM program that have proven beneficial to TRS through the years?

LeBlanc: Yes, we created an informal public pension fund ERM peer group that meets once a year with our peers at other teacher retirement systems. About 13 public pension systems doing ERM participate, including those in New York, California, South Carolina, Florida, Wisconsin, a few in Canada, and even New Zealand. It's been insightful to share our practices with our peers and learn from them at the same time.

RIMS: With regard to best practices, is there a particular story you would like to share where TRS' ERM program resulted in a successful change in strategy or operations?

LeBlanc: One that comes to mind was when our former Chief Information Officer publicly stated that the Stoplight Report had raised serious questions about our legacy IT systems. This led to a serious discussion to upgrade our benefits administration system. While I would imagine this would have happened anyway at some point in the future, it happened faster because of the ERM program's contributions. The CIO's comments got the board's attention.