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***Managing enterprise risk: From
Insight to Foresight – The Changing
Role of the CRO & Risk Based
Strategic Decisioning***

**2nd International BSEC Conference – Risk Management
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Enterprise risk management and strategic decision-making

Risk management needs to be understood in the context of what an organization is trying to achieve rather than what it wants to avoid.

Enterprise Risk management can be defined as a system of decisions directed towards what needs to be done in order to reduce the uncertainty surrounding expected outcomes.



Enterprise risk management and strategic decision-making

ERM applied to strategic decisions = strategic risk management

The principle risk is that a company's strategy misses or mistakes the direction of critical future developments. A critical part of strategy development therefore includes bringing to mind possibilities that are currently not part of the company's thought processes: how to think the unthinkable?



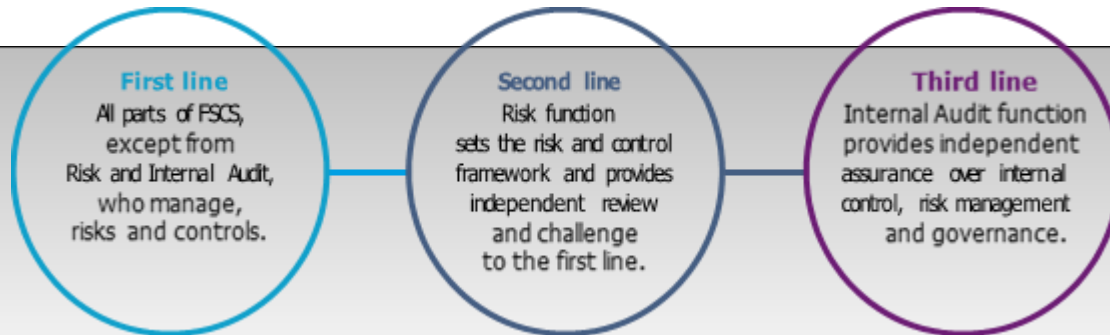
Nassim Taleb has coined the term “Black Swan” to describe unpredictable, extreme impact events. A black swan is an outlier, an event that lies beyond the realm of normal expectations and organisations seem little prepared for these..

Emerging trends in energy risk – what is on the CRO radar

- Digital disruption & technological enhancements – AI
- Transition to a low carbon economy
- Geo-political risks and energy security
- Increasing focus on financial crime/ethical conduct
- 3rd party risk management
- Cyber risk and information security
- Data protection
- Continued focus on customer journey and detriment – retail energy and distribution



CRO accountabilities and the three lines of defence



Risk oversight - The CRO is responsible for ensuring robust, independent **oversight and challenge** of risk management activities across the Scheme

Risk reporting – The chief risk officer provides the board risk committee **with independent assurance** that first line management’s reporting of risks is both complete and fairly stated - provides the board risk committee with their independent **view of** the organisation’s principal **current and emerging risks**

Risk management framework – the risk chief risk officer **designs and facilitates the implementation and efficient operation** of a robust risk management framework

Risk appetite & tolerance – the chief risk officer develops and monitors a portfolio of **risk appetite framework metrics**, in addition to those used by first line management, to support its independent **monitoring** of the **organisation’s risk profile**.

Skills Required for the Future



Not just yet.....

A Threatening New World: The chief risk officer (CRO) has always walked a fine line to balance the need to protect the business with the need to run it, but these are challenging times. Managing risk and meeting regulatory requirements are difficult, and emerging risks are exacerbating an already complex task. Cyber-risk, in particular, brings a new set of threats that are global and internet-based and proliferate quickly

Skills Required for the Future

The modern CRO is culmination of at least three “generations” of an evolving role

To understand the significance of what might be required of CRO 3.0, here is a perspective on CRO’s role transition since mid-1990s.*

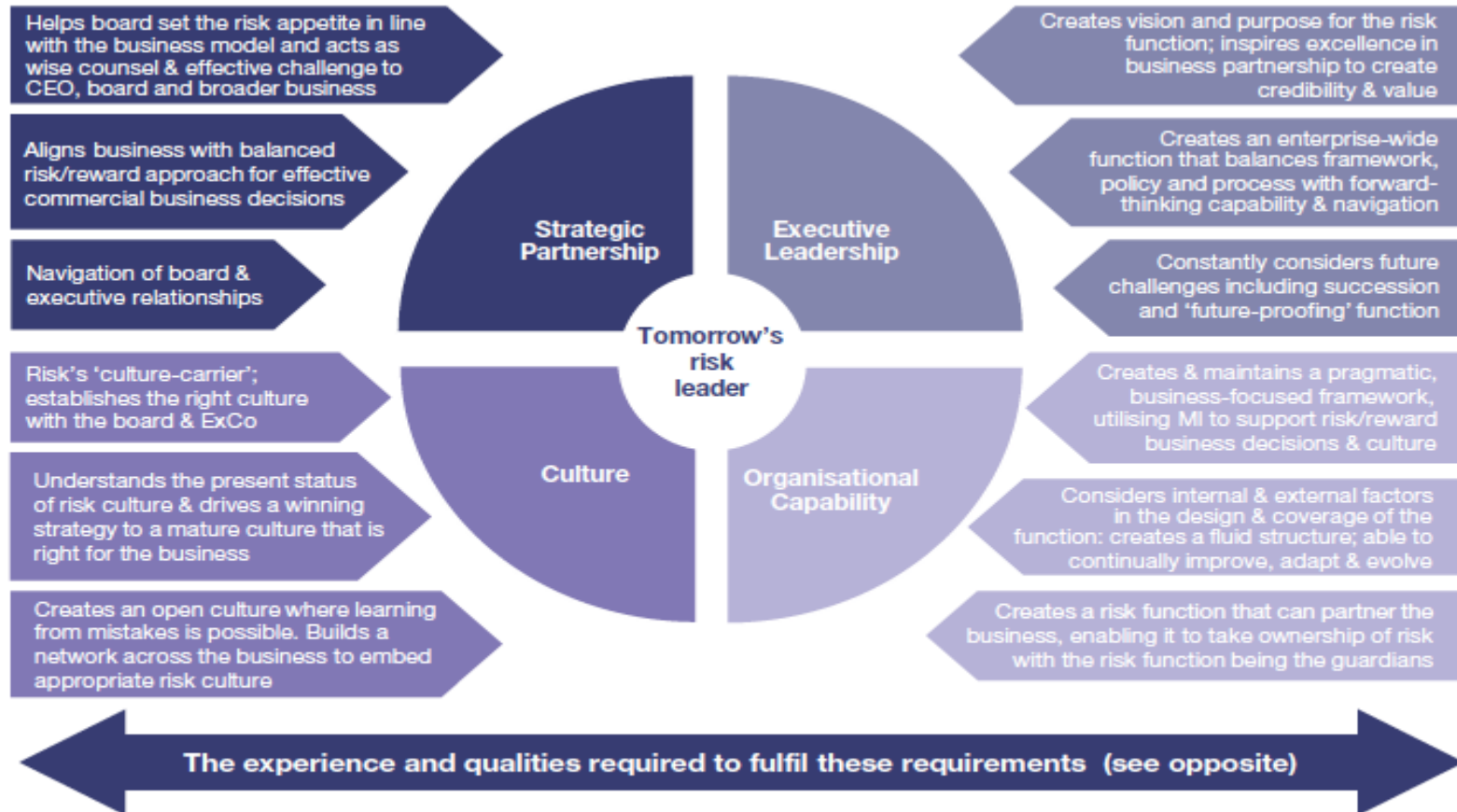


Skills Required for the Future

CRO needs skills to support future changes to ERM

Traditional Risk Management	Enterprise Risk Management
Risk Management driven by Historic Events	Driven by both by historic and forward looking
Downside Risk Management	Managing Downsides and Opportunity
Focus on fewer Risks	Focus on Multiple & Emerging Risks
Risk mitigation	Risk optimisation
Tactical – Short Term Management	Strategic - Longer term Management
“Silo like Risk Management”	“Collaborative Risk Management”

Skills Required for the Future – CRO's Challenge



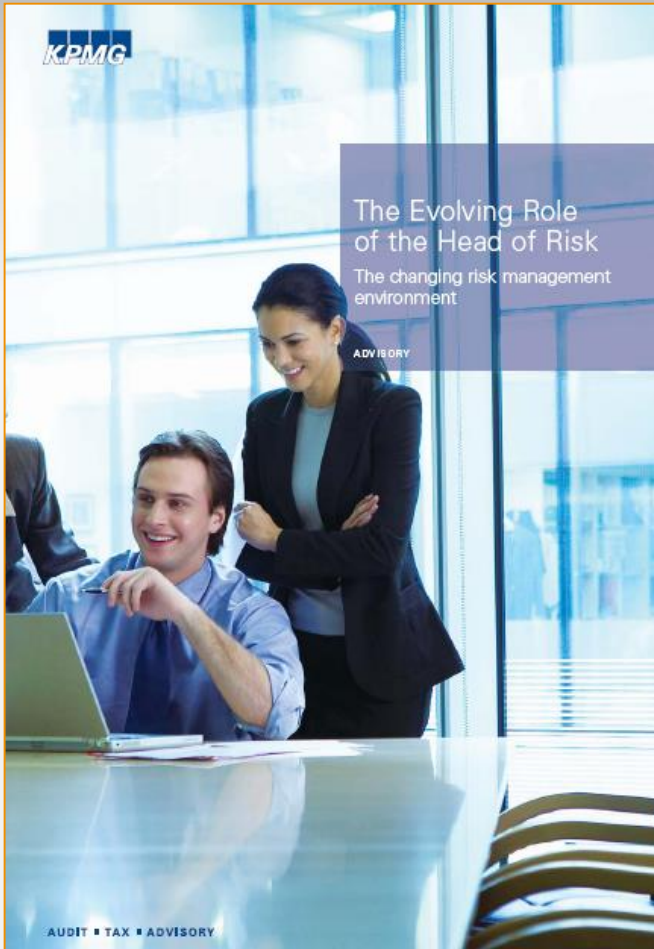
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Skills Required for the Future

Summary – the rise of a new breed of Chief Risk Officer

In summary, the CRO of tomorrow requires a **wider, more strategic** set of skills to fulfil the leadership role that is required. No longer will the role be solely focused on Risk downside, but one where they play a key part in the **commercial success of the business**. CROs need to shift the focus **from Compliance to Customer, from Controls to Efficiency** and lastly, but most importantly, from the **Transactional to the Strategic**. As part of this transition, businesses need to ensure they have the right people at the right time, and with the appropriate skills

Skills Required for the Future – focus on change management



- “Many organisations have learnt that the introduction of risk processes is insufficient to fundamentally **change behaviours...**
- To encourage desired behaviours often requires a campaign of **change management...**
- CRO’s and Heads of Risk should be facilitators with an ability to **influence change in risk-related behaviours.**”
- This implies a different skill set to that held by many current risk professionals

Skills Required for the Future – what does a future CRO look like?

- Senior-level executive capable of contributing across a wide range of business issues
- Not necessarily an expert on all areas of risk or someone able to model risks
- Someone who gathers an excellent team of risk experts and professionals around them
- With the ability to challenge management when necessary
- Someone with the CEO's ear
- Gravitas and credibility with peers
- Overall - a communicator and a facilitator

Application of the CRO skills - Linking risk & strategy: insight vs foresight

Fortune Telling or Intelligent Fortunes?

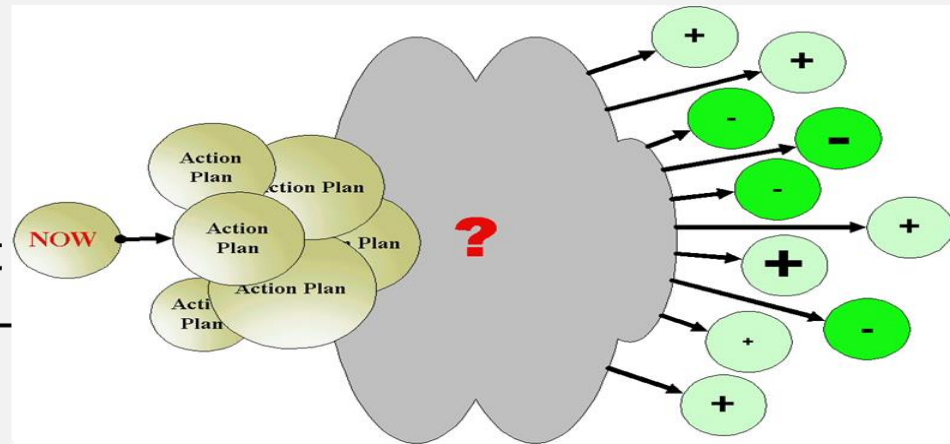
“Through Hills men shall ride, And no horse or ass by their side, Under water men shall walk, Shall ride, shall sleep, shall talk, In the air men shall be seen.....

Mother Shipton, (1500's)

“We can never avoid the dilemma that all our knowledge is of the past, while our decisions are about the future”

Gro Harlem Brundtland,
Former Director General World, Health
Organisation

- Today's choices create the future –we need to consider current decisions in this context
- Movie –“Sliding Doors” – how sensitive is your future to today's decisions ?



**Foresight creates anticipative intelligence
for improving today's choices**

I-Risk Group

Creating Strategic Value for Global Enterprises

The data challenge

When does business data become risk data?

- **What data should be collected?**
- **How should this data be stored, arranged, and networked?**
- **What business outcomes should be targeted?**

What about data governance beyond risk management?