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RISK MANAGEMENT  
SEMINAR 2012

# Governance, ERM and Key Risks for 2012

## FERMA European Risk Management Benchmarking Survey 2012

Jean-Michel Paris, Ernst & Young

**LIVING AND  
WORKING IN A  
RISKIER WORLD**

VERSAILLES, FRANCE  
22-23 October 2012  
Palais des Congrès  
de Versailles



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- 1. A shifting regulatory environment**
- 2. Risk governance**
- 3. Risk convergence?**
- 4. Risk priorities**



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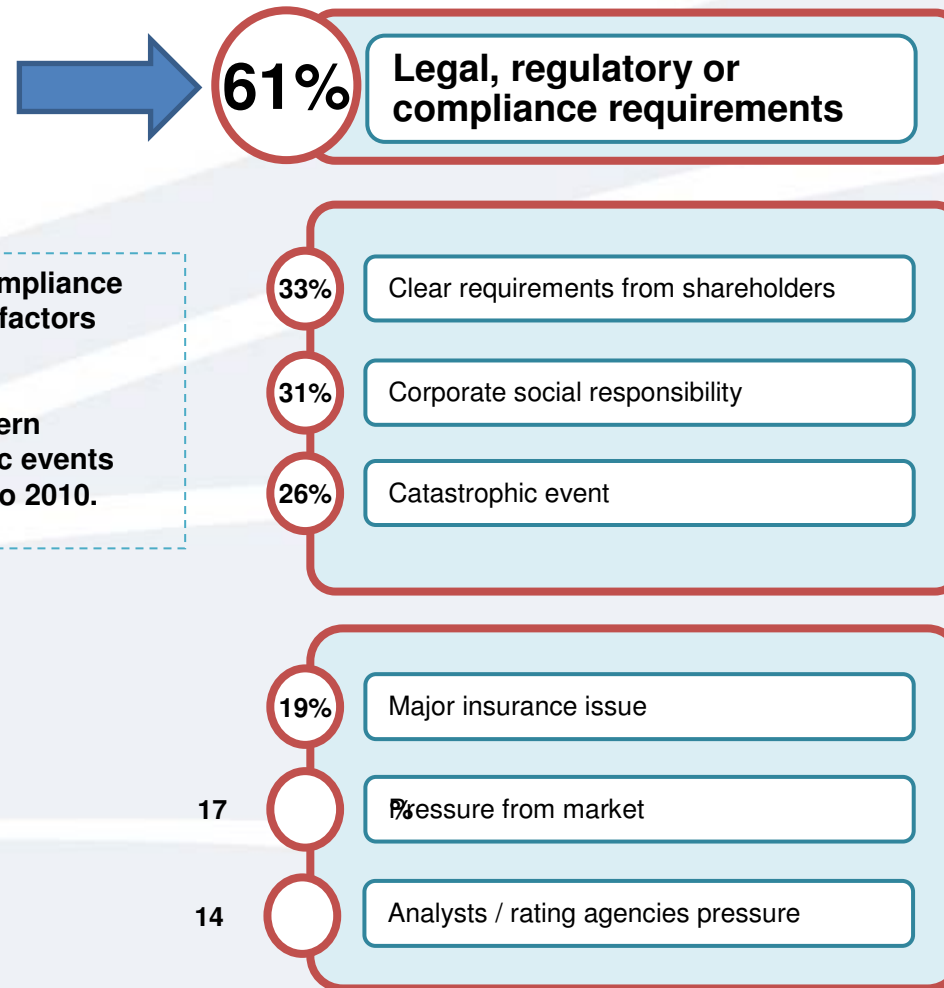


**1.**

# A shifting regulatory environment



# Major external factors triggering Risk Management



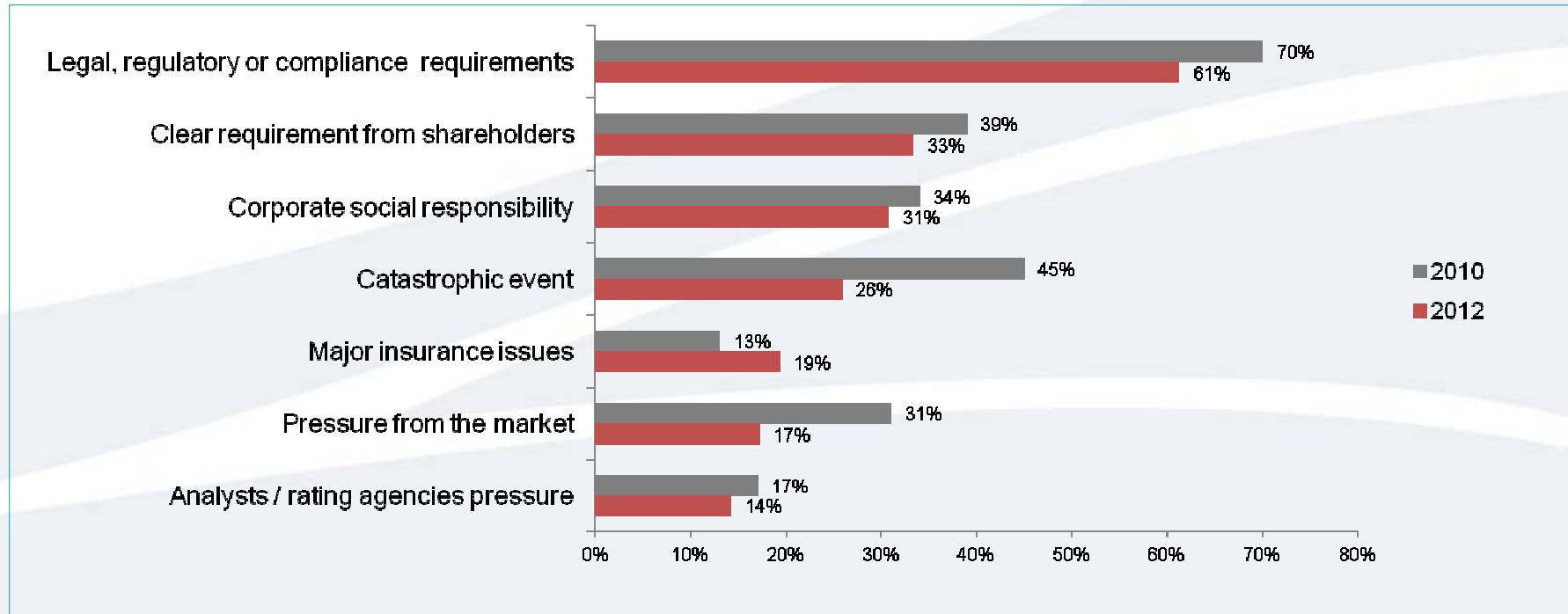
As in the 2010 and 2008 study (see next page), compliance and legal requirements remain the main external factors triggering Risk Management within companies.

Corporate social responsibility is still a key concern especially for listed companies while catastrophic events are less considered as a main trigger compared to 2010.

\* Multiple choice question



# Major external factors triggering Risk Management



\* Multiple choice question



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# A brief reminder on the 8<sup>th</sup> EU Directive

**Boards are to...**

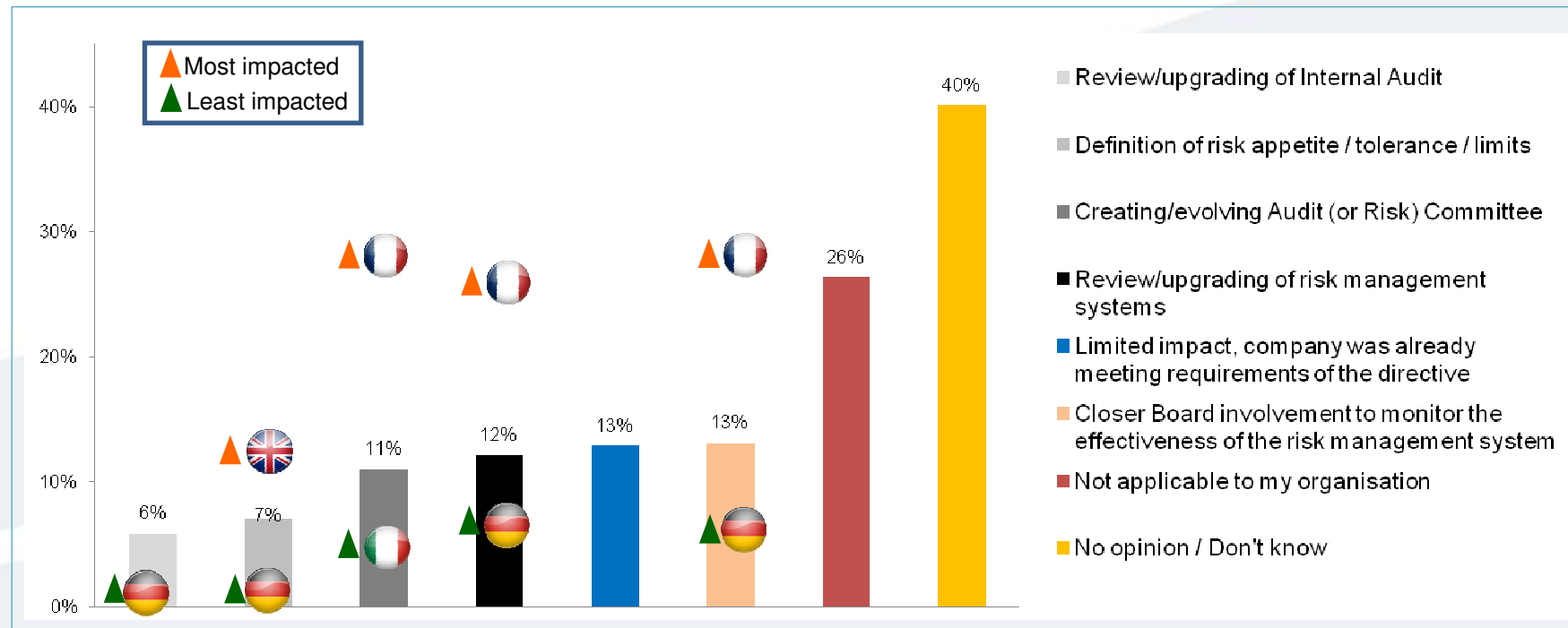
***“monitor the effectiveness of the  
risk management and internal control  
systems”***

*\* Multiple choice question*



# Impact of the regulatory environment: 8<sup>th</sup> EU Directive

## Overview of impacts



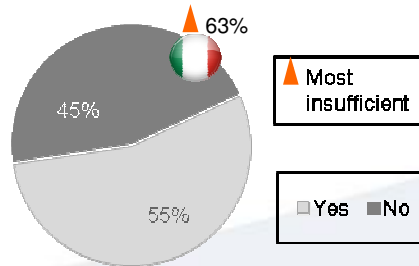
**The impacts of the EU 8<sup>th</sup> Directive are still poorly assessed and understood by a large number of Risk and Insurance Managers.**



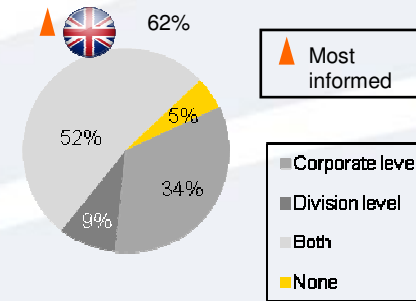
# Impact of the regulatory environment: 8<sup>th</sup> EU Directive

## Impacts on Executive Committees

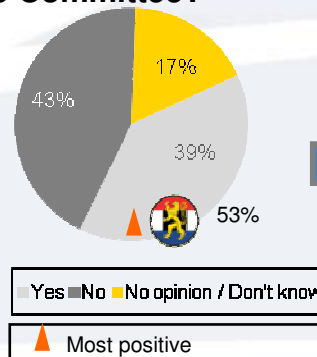
Sufficient time available on the Executive Committee agenda to present the results of Risk Management reviews?



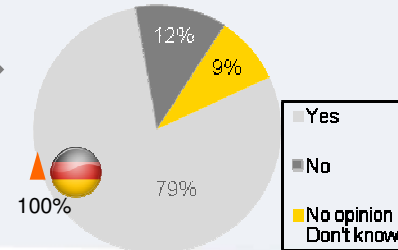
Executive Committee informed of major risks of the company or group at each level?



Definition of the risk appetite by the Executive Committee?



Approval of risk appetite by the Board?



**Executives Committees still slow to take effects of EU 8<sup>th</sup> Directive on board**

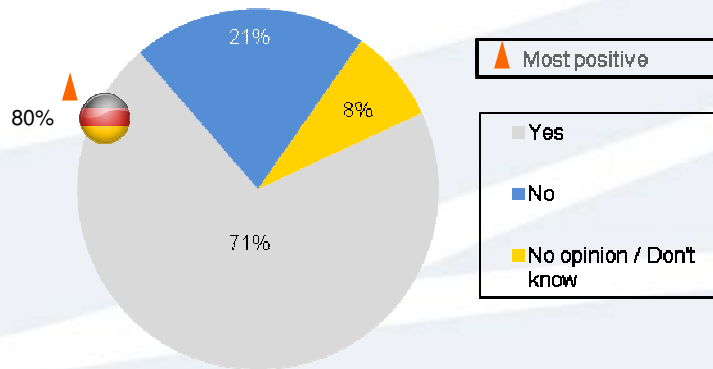




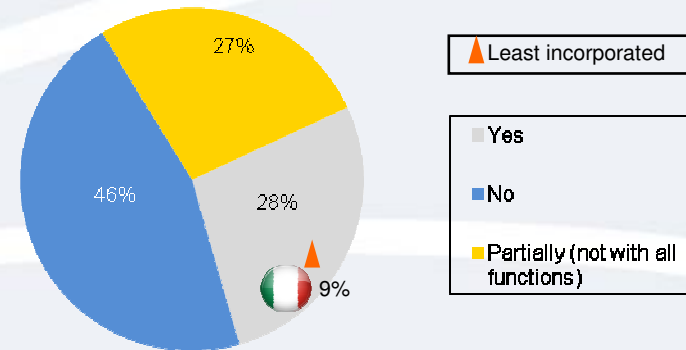
# Impact of the regulatory environment: 8<sup>th</sup> EU Directive

## Impacts on Executive Committees

Managers formally made responsible for each risk?



Risk Management function incorporated into a "corporate governance division" with internal control, internal audit, ethics/compliance?

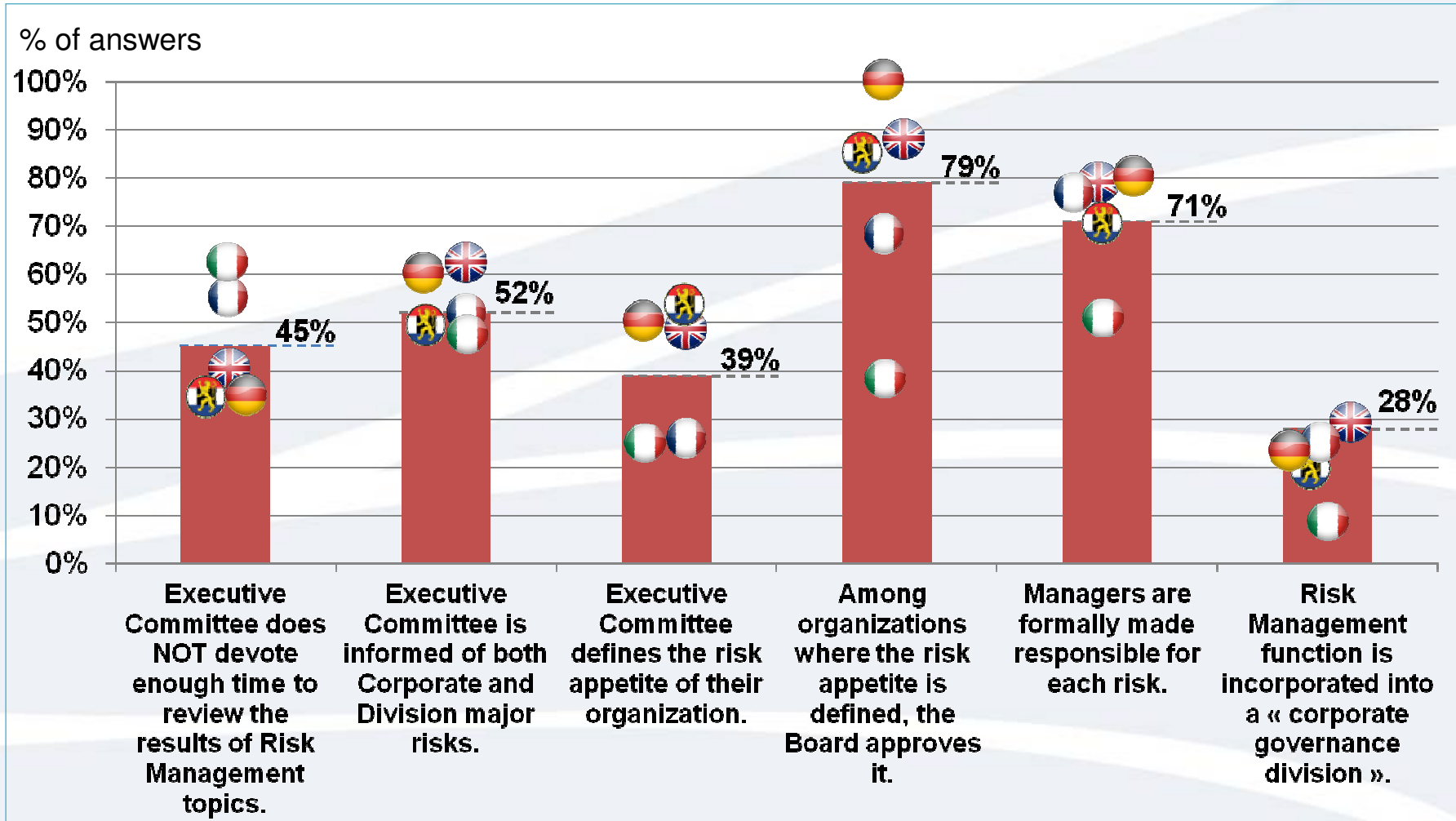


**More than two thirds of respondents indicate that identified risks are attributed to managers who are responsible for their management**



# Impact of the regulatory environment: 8<sup>th</sup> EU Directive

## Country focus





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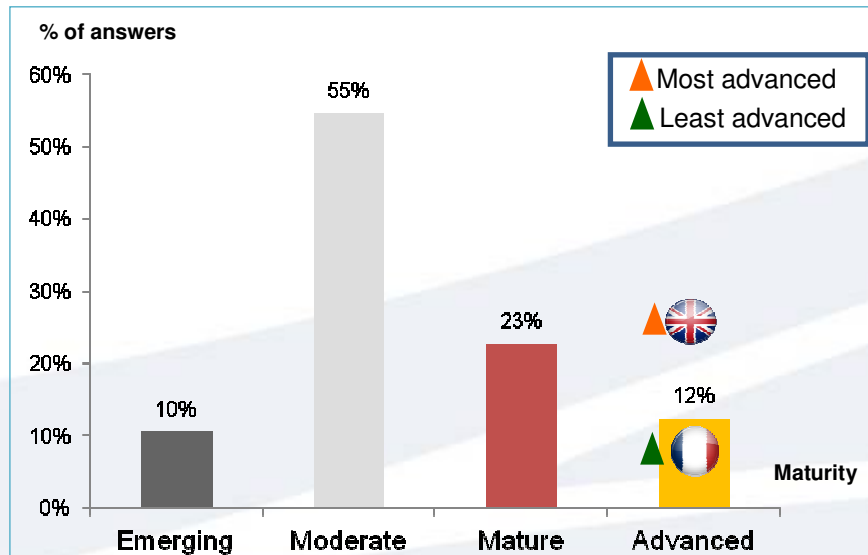
**2.**

## **Risk Governance**



# Mandate of the Board, Audit and/or Risk Committee

## A limited scope and a mandate to be clarified



### CAPTION

#### Mandate of the Board, Audit and/or Risk Committee:

- 1) Monitor the effectiveness of the Risk Management system
- 2) Monitor and ensure the compliance of Risk Management framework with respect to standards / local regulations
- 3) Challenge the company's risk appetite
- 4) Challenge the company's Risk Management strategy
- 5) Challenge residual risk exposure and relevance of existing mitigation actions

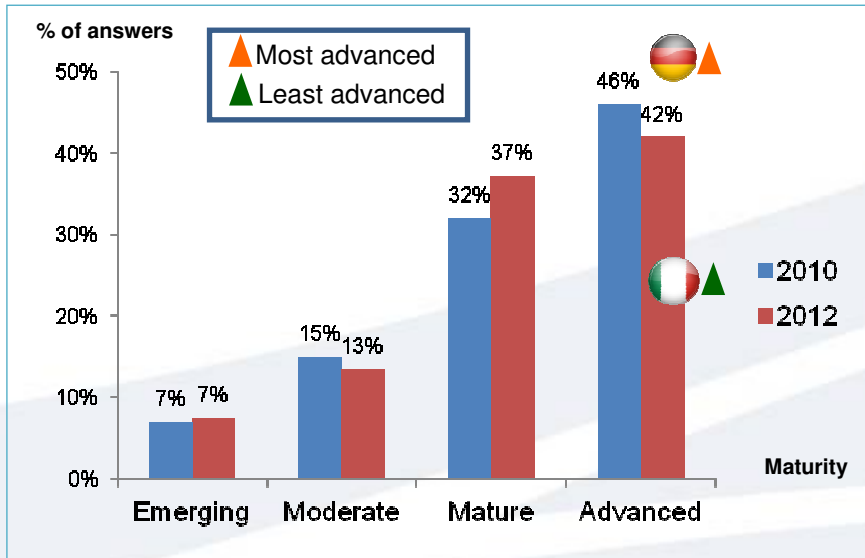
*Emerging:* no criteria included  
*Moderate:* 1 or 2 criteria included  
*Mature:* 3 or 4 criteria included  
*Advanced:* all criteria included

The mandate assigned to the Board, Audit and/or Risk Committee remains limited to specific areas (55%) or unclear (10%).



# Board oversight

## A close and regular relationship



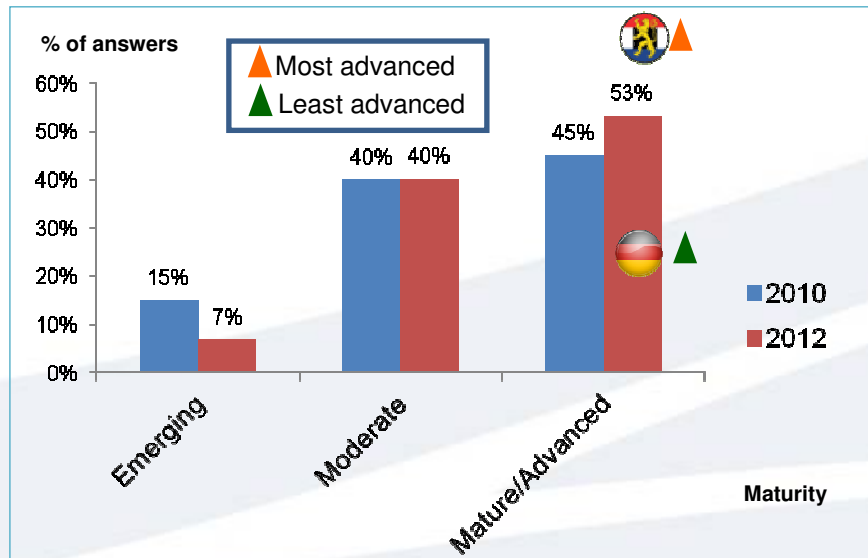
CAPTION			
<i>Emerging</i>	<i>Moderate</i>	<i>Mature</i>	<i>Advanced</i>
No mechanism in place to ensure Risk Management interaction with the Board of Directors / Supervisory board / Audit Committee	Interaction with these Committees on an as needed basis	Topic of Risk Management dealt with at least on an annual basis	Risk Management completely embedded in reporting to the Board

**Risk Management activity is globally correctly embedded in reporting to “the board” (79%) and Risk Management topic is generally formally addressed by the board at least on an annual basis.**



# Risk management - Reporting line

## Increasing reporting at Top level



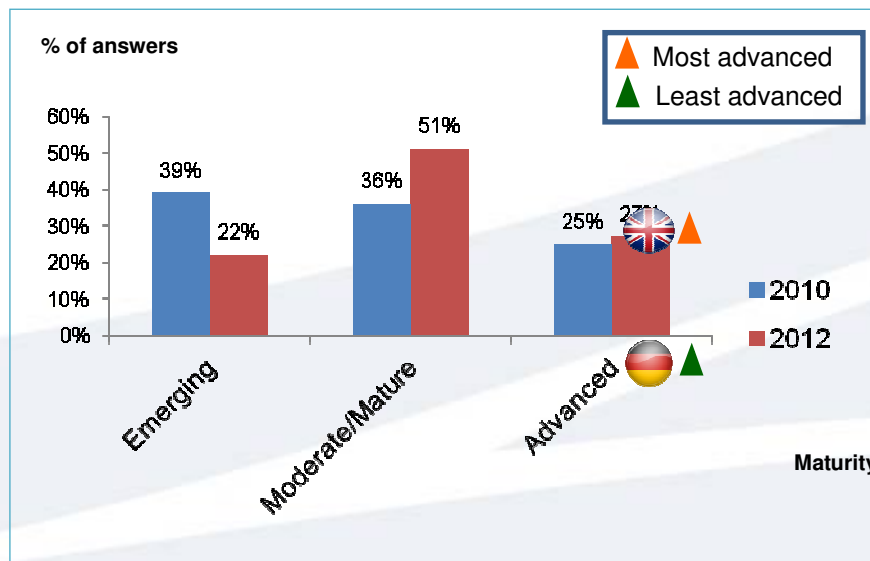
CAPTION		
<i>Emerging</i>	<i>Moderate</i>	<i>Mature/Advanced</i>
Reports to other function or department	Reports to CFO, General counsel/Head of Legal Department, Head of Internal Audit	Reports to Audit (and/or risk) Committee, Board of Directors/Supervisory Board, CEO/Managing Director or General/Company secretary

**Risk Management function globally reports at Top Management level (93%), but reporting at CFO level (36%) still remains widespread among certain countries such as Italy (59%), Germany (55%) and UK (41%).**



# Independent assessment of risk management framework

## Towards a growing involvement of Internal Audit



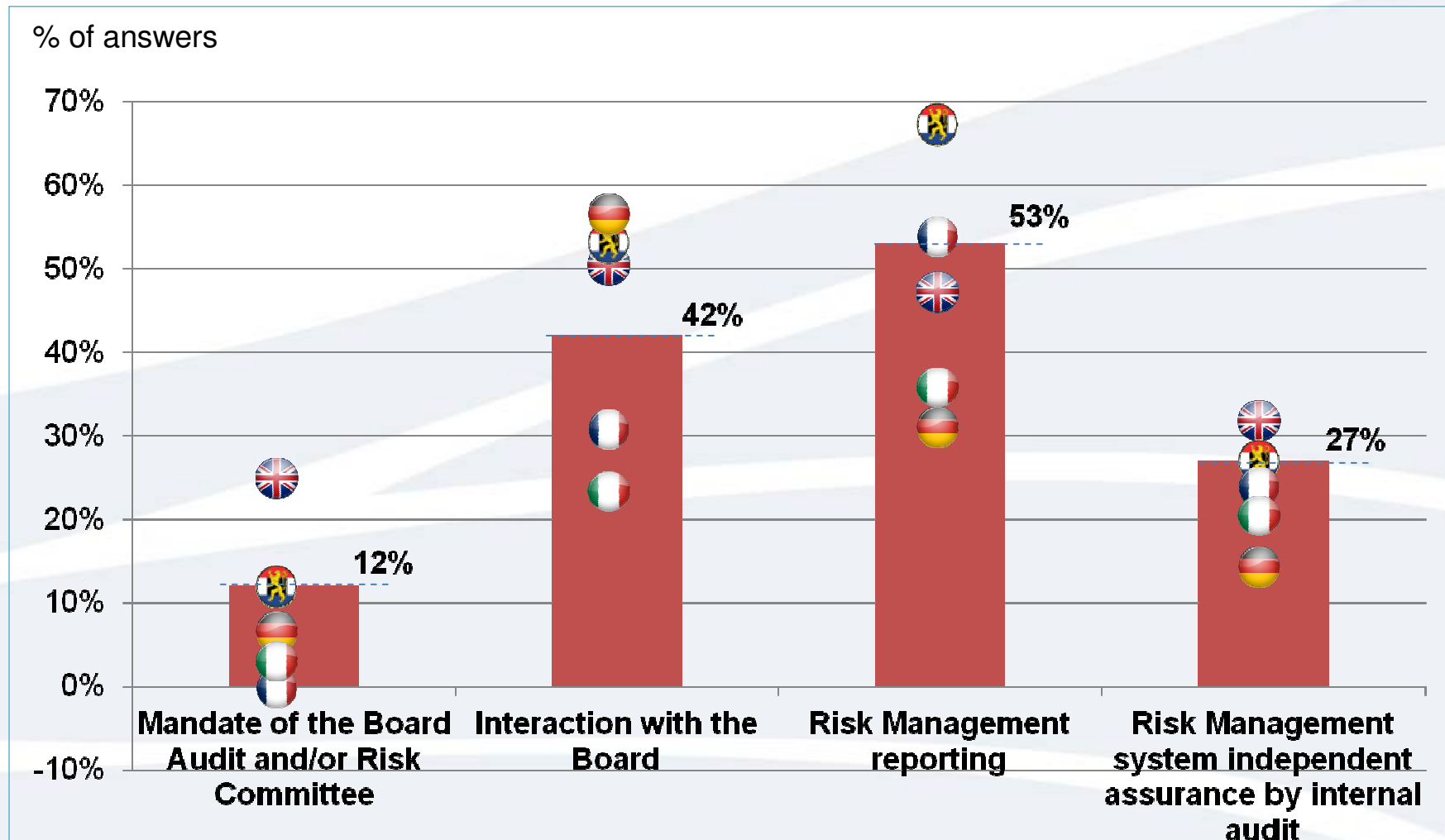
CAPTION		
<i>Emerging</i>	<i>Moderate / Mature</i>	<i>Advanced</i>
No independent assurance provided by the Internal Audit	Partially independent assurance provided in collaboration with others parties	Complete independent assurance provided by Internal Audit

Globally, Internal Audit is increasingly involved in the process of providing an independent assurance on the quality/efficiency of the Risk Management system but its role could be strengthened.



# Risk governance

## Country focus (advanced practices)







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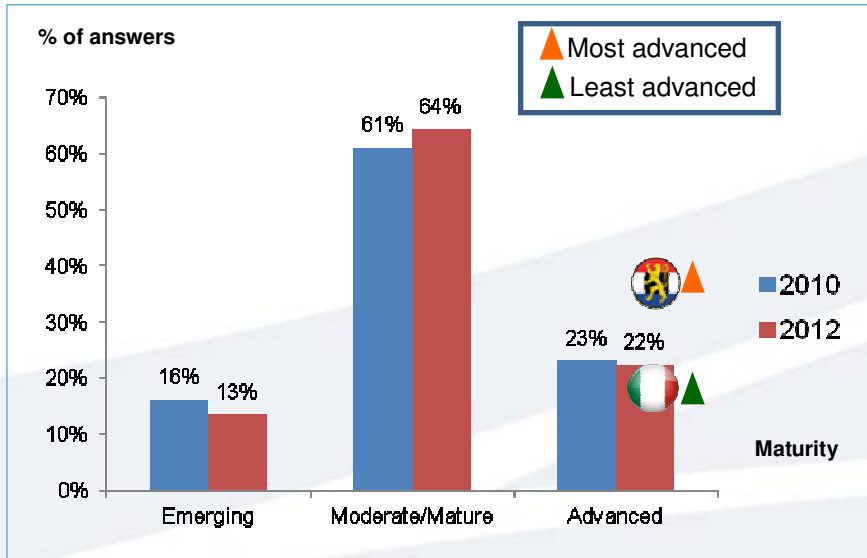
**3.**

**Risk Convergence?**



# Alignment of Risk management functions

## Foundations in place for further coordination



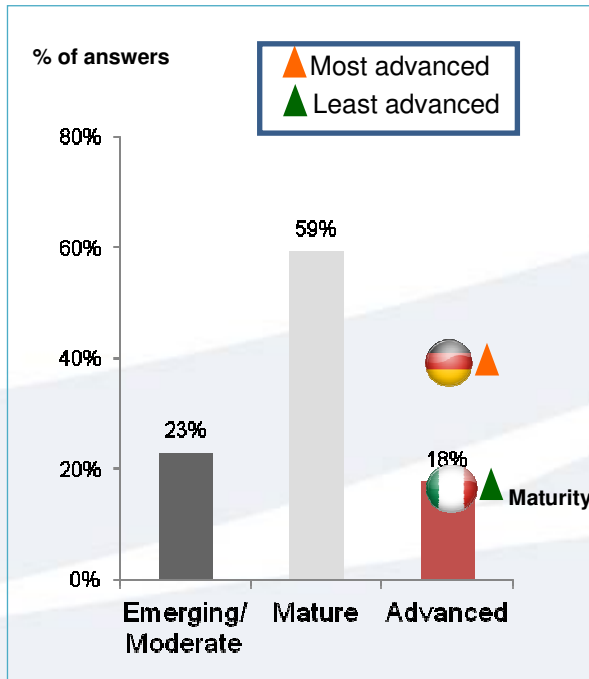
CAPTION		
<i>Emerging</i>	<i>Moderate/Mature</i>	<i>Advanced</i>
Risk functions ( <i>risk mgt, internal audit, internal control, EHS, quality, compliance</i> ) are working independently	Some coordination exists between the different risk functions	Full risk functions coordination in place

The different risk functions are no longer working “in silos”, however their level of coordination remains limited.

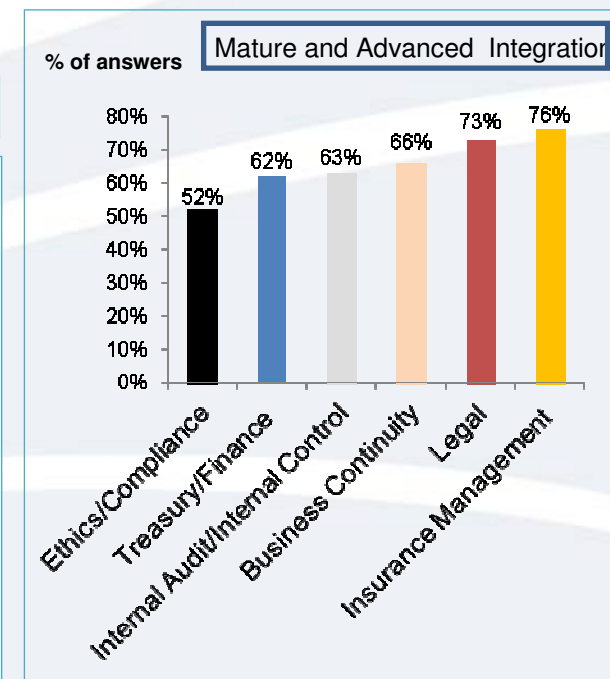


# Alignment of Risk management functions

## Coordination but no integration



CAPTION		
<i>Emerging/ Moderate</i>	<i>Mature</i>	<i>Advanced</i>
No or limited integration of Risk Management with other functions	Risk Management is closely cooperating with other functions	Very close integration of Risk Management with other functions

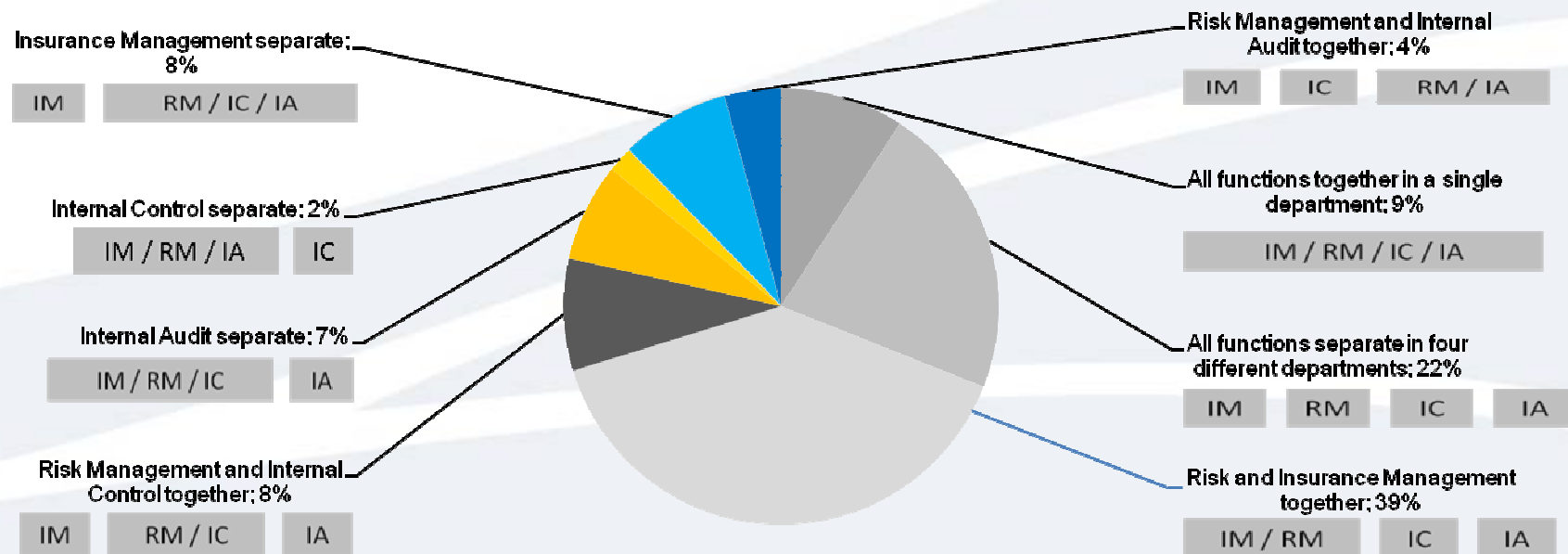


**Risk Management works closely with other departments but integration is not systematic**



# Risk management organisation

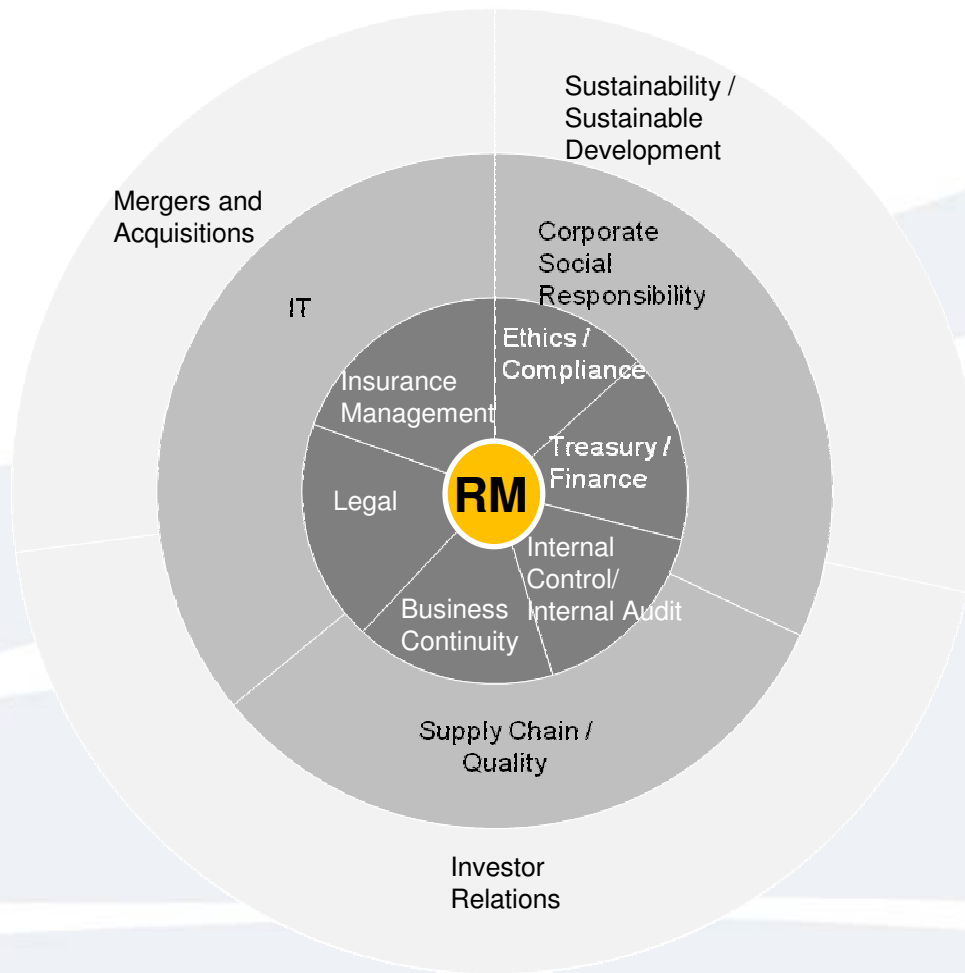
## Relationships between Insurance Management, Internal Control and Internal Audit






**Risk and Insurance Management: The most common partnership**



# Alignment of Risk management functions



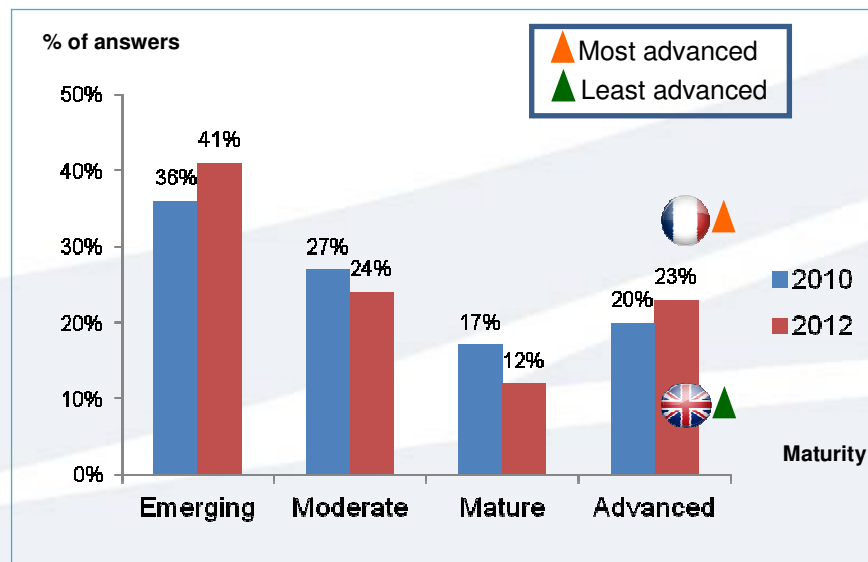
**Coordination but no  
integration**

-  Risk Management first-rank partners  
*Close (3) or very close (4) relationship > 60%*
-  Risk Management second-rank partners  
*Emerging (2) relationship >30%*
-  Risk Management third-rank partners  
*No relationship (1) > 20%*



# Risk management and Internal Audit

## A growing relationship but still too limited synergies



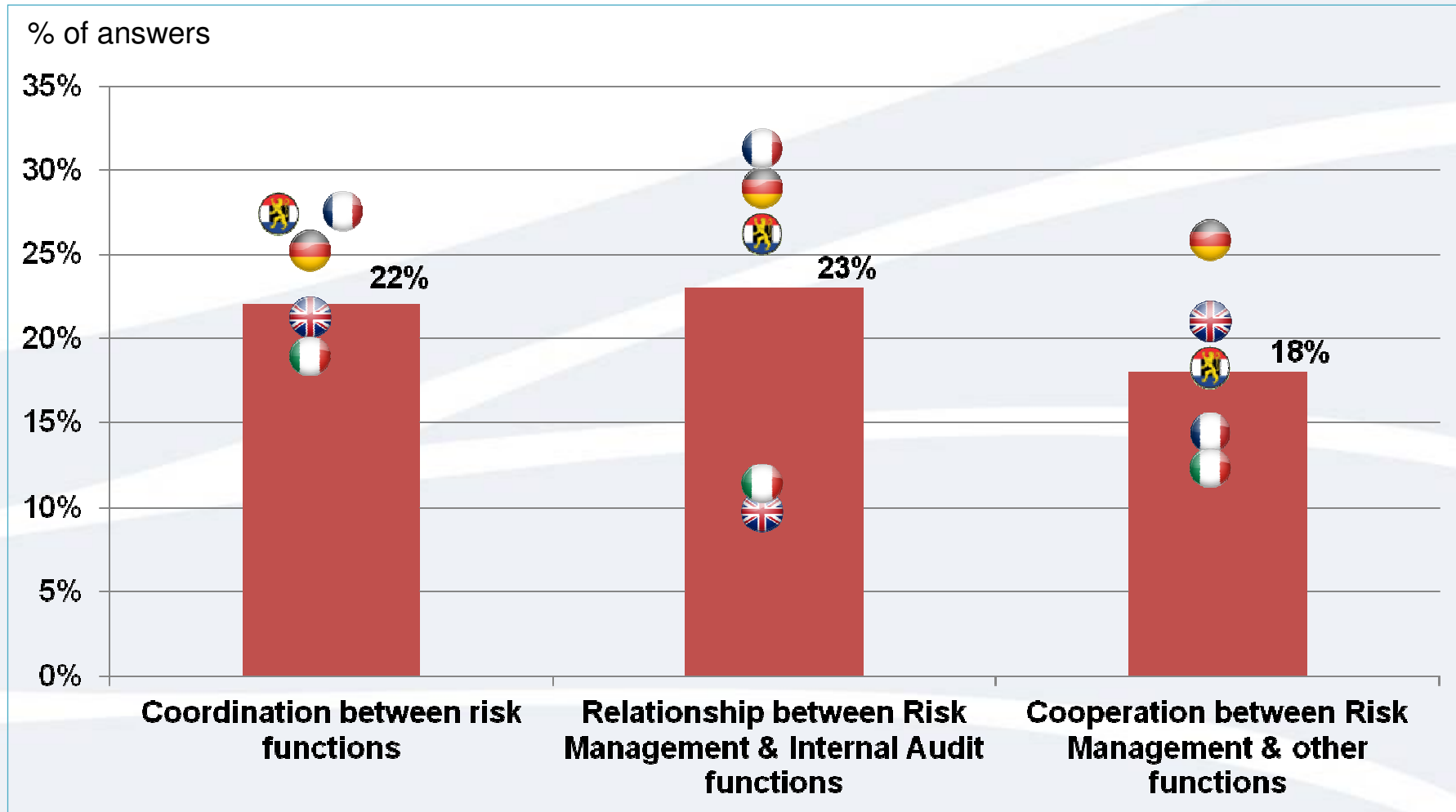
CAPTION			
<i>Emerging</i>	<i>Moderate</i>	<i>Mature</i>	<i>Advanced</i>
No particular relationship between Risk Management and Internal Audit functions and/or separate reporting lines	Mutual reporting – coordination/ cooperation on a limited basis	Coordination and cooperation on the audit plan	Very close relationship between the two functions

**A minimum level of coordination between the two functions is now in place for most European companies.**



# Alignment of Risk management functions

Country focus (advanced practices)





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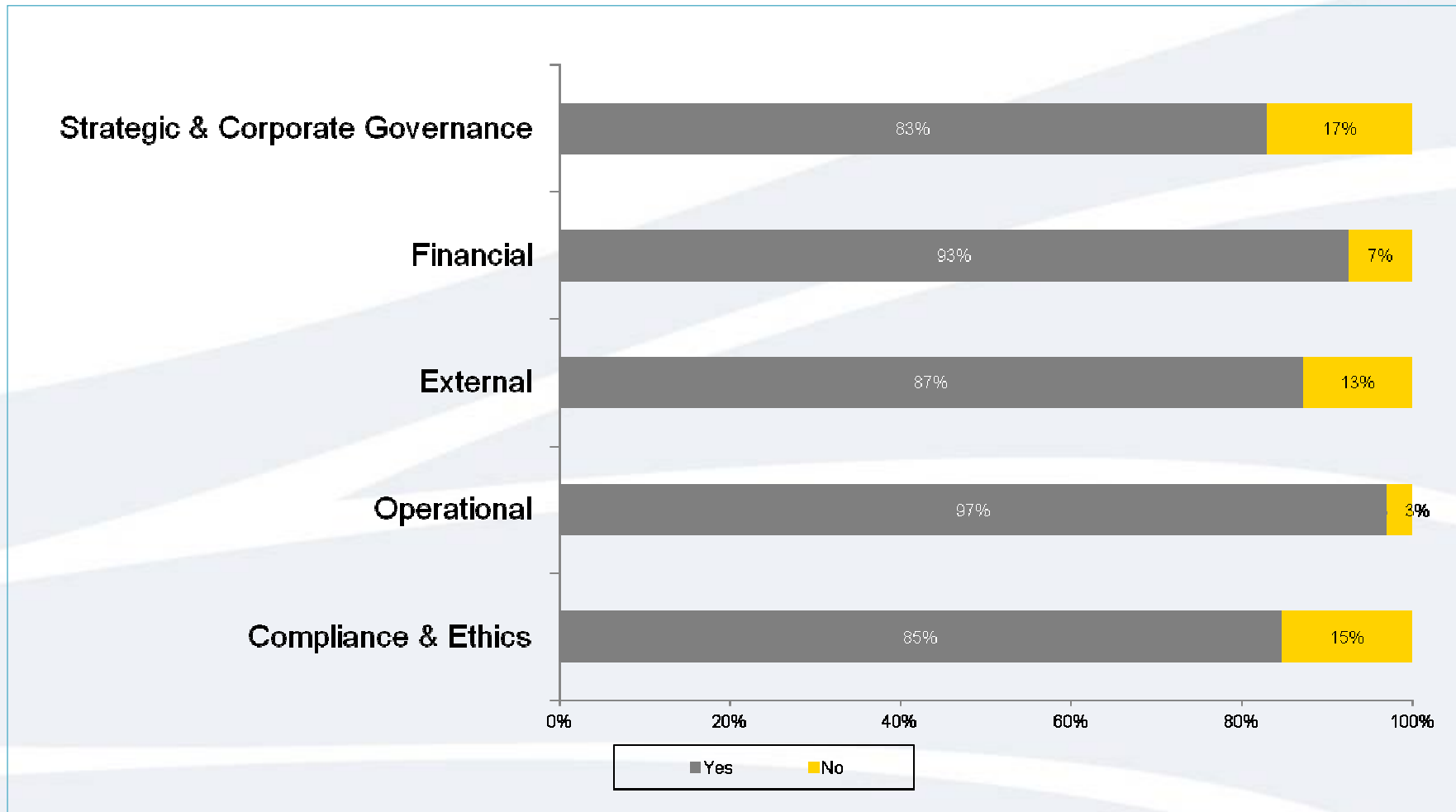
**4.**

## **2012 Risk Priorities**





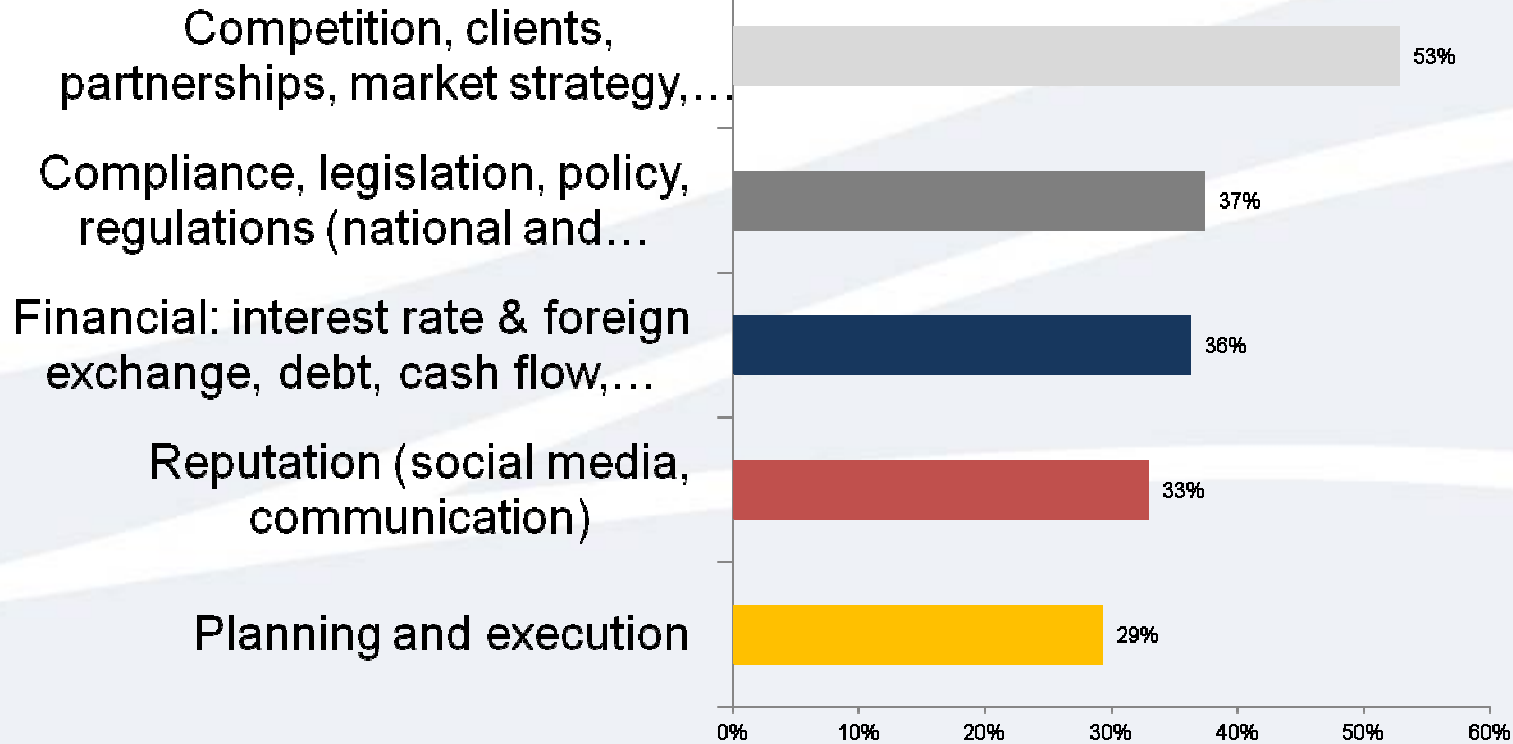
# Risk management remit





# 2012 Risk importance

## Top 5 Risks





# 2012 Risk priorities

	Risk importance		
	2012	2010	Variation
Competition, clients, partnerships, market strategy, market	53%	53%	0%
Compliance, legislation, policy, regulations (national and international)	37%	45%	-8%
Financial: interest rate & foreign exchange, debt, cash flow, sovereign debt	36%	31%	5%
Reputation (social media, communication)	33%	New 2012	New 2012
Planning and execution	29%	33%	-4%
Market risks (commodity price shocks, real estate market volatility)	29%	14%	15%
Supply chain, business continuity	26%	31%	-5%
Production, quality, cost cutting	24%	32%	-8%
Human resources / key people, social security (labour)	21%	15%	6%
Political, expansion of government's role	21%	New 2012	New 2012
IT / IS / data	20%	23%	-3%
Safety, health and security	19%	22%	-3%
Corporate governance	17%	20%	-3%
Assets (buildings, equipment)	17%	24%	-7%
Ethics, corporate social responsibility, fraud	17%	17%	0%
Social, economical issues	16%	30%	-13%
Environment, sustainable development, climate change	13%	16%	-3%
Product design, safety and liability	12%	20%	-8%
Access to credit	11%	17%	-6%
Treasury	10%	7%	3%
Internal control	10%	11%	-1%
Liability(ies) of the company or corporate directors and officers	9%	12%	-3%
Civil, general, professional, criminal or cyber criminality	7%	10%	-3%
Dynamics, M&A	6%	9%	-2%
Assets (cash, intellectual property)	5%	9%	-4%



# Risk Appetite by risk category

Companies' risk appetite driven by risk category rather than risk significance

