Constructive Engagement Through Effective Board Risk Oversight

Enabling the Chief Risk Officer’s Success

SECOND IN A SERIES
Introduction

While the risk oversight process is not a one-size-fits-all process, there are fundamental principles that make it work. In defining the attributes of an engaged board from a risk oversight perspective, our intent is to help boards provide risk oversight in a manner that ensures a balance between the stature and resources allocated to a firm’s revenue-generating businesses on the one hand and to the reporting and control functions on the other, so that neither one is too disproportionately strong relative to the other.

In Protiviti’s white paper, *The Name of the Game Is Risk: Secrets of the Winning Hand*, we introduced five secrets for enabling a successful chief risk officer (CRO) in the post-financial crisis era. While there is much discussion and continued developments regarding enhanced oversight (e.g., more rules and regulations, increased transparency and better governance, among other issues), the question arises as to whether such changes will make a significant difference going forward. If the secrets we cited in the aforementioned white paper are not addressed, we believe the changes being implemented across the financial services industry will likely fall short of expectations.

One of the secrets we introduced for enabling the CRO’s success is constructive board engagement, including effective risk oversight. Through the risk oversight process, board members understand the risks inherent in the corporate strategy and management’s risk appetite in executing the strategy, watch for signs or instances of excessive risk-taking and provide input to executive management from time to time regarding critical risk issues. While more common sense than a “secret,” effective board risk oversight is vital to the CRO’s success. Without it, the CRO hasn’t a chance.

In this second installment of our *CRO Series*, we will take an in-depth look at this topic. First, we will discuss the key success factors in ensuring effective board risk oversight. Second, we will consider the views of directors of financial services companies from a survey we conducted to address the current state of board risk oversight. Finally, we will discuss steps boards can take to improve their risk oversight and how CROs can assist them in taking those steps. This last discussion is important because an engaged board creates an environment that facilitates the CRO’s success.

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Key Success Factors

While board risk oversight is not a one-size-fits-all process, there are fundamental principles that make it work. In defining the attributes of an engaged board from a risk oversight perspective, our intent is to help boards provide risk oversight in a manner that ensures a balance between the stature and resources allocated to a firm’s revenue-generating businesses on the one hand and to the reporting and control functions on the other, so that neither one is too disproportionately strong relative to the other.

This state of risk oversight engagement exists when the following attributes are present:

1. The board’s risk oversight strengthens the organization’s risk management capabilities.
2. The board understands the risks and critical assumptions inherent in the corporate strategy and obtains objective information from internal and external sources about those assumptions.
3. The board understands the risk appetite of management in executing the strategy.
4. The board is satisfied with the quality, volume and timeliness of the risk information it receives from management.
5. The board is continually alert for organizational dysfunctional behavior that can lead to excessive risk-taking or compromise the risk management process.
6. The board provides input to executive management regarding critical risk issues on a timely basis.

While these attributes may not cover the waterfront, they represent key success factors that go a long way toward ensuring the risk oversight process is impactful, which sets the tone for an effectively functioning CRO.
The Current State of Risk Oversight: View of the Directors’ Community

While the Sarbanes-Oxley Act increased the attention by many boards on financial reporting matters and the quality of the underlying processes, the financial crisis was a game changer for risk oversight. The regulatory response to the crisis intensified the spotlight on the board’s risk oversight responsibilities.

Protiviti’s Board Risk Oversight Survey, commissioned by the Committee of Sponsoring Organizations (COSO), was released in December 2010. Based on observations from more than 200 directors, 25 percent of whom were serving financial services companies, this survey provides a view of the current state of risk oversight and the necessary improvements straight from the board community.²

While the Sarbanes-Oxley Act increased the attention by many boards on financial reporting matters and the quality of the underlying processes, the financial crisis was a game changer for risk oversight. The regulatory response to the crisis (e.g., Dodd-Frank Act and Basel Committee changes³) intensified the spotlight on the board’s risk oversight responsibilities. Over the past two years, we have seen many examples of executives and directors collaborating to define the board’s role in risk oversight and lay the fundamental building blocks of effective risk oversight. It is no surprise that board members are making new demands of their company’s executives and of the CRO, in particular.

With these powerful drivers of change in play, the financial services respondents who participated in the Protiviti survey confirmed that progress has taken place in the industry to improve the quality of board risk oversight. For example, 10 percent of respondents described this oversight as “highly effective,” while 60 percent rated it “effective.” Room for improvement remains, as evidenced by the 30 percent of the financial services respondents who described their board’s risk oversight as needing various levels of improvement (27 percent) or as “ineffective” (3 percent). Regarding specifics, we have organized observations according to the six key success factors introduced earlier.

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Within many financial institutions, efforts are under way to better understand the boundaries and limits that the organization sets on behavior in implementing its strategy and business model.

1. Strengthen the Organization’s Risk Management Capabilities

Although the Protiviti survey focused exclusively on the perspective of board members and we are drawing survey findings exclusively from directors serving on boards of financial services institutions, the quality of risk oversight hinges on the effectiveness of the organization’s overall risk management capabilities and supporting processes. This inextricable link makes the board’s ongoing monitoring of organizational risk management processes vital to the success of its risk oversight duties. This monitoring clearly requires improvement, as only 18 percent of financial services respondents reported that they are satisfied with the monitoring of the risk management process, including monitoring the environment for changes that might affect the corporate strategy and associated risks. Additionally, 16 percent of the respondents reported that no monitoring of the process is conducted, while 39 percent indicated that monitoring occurs only on an ad hoc or as-needed basis.

2. Understand the Risks and Critical Assumptions Inherent in the Corporate Strategy and Obtain Objective Information From Internal and External Sources About Those Assumptions

With respect to the board developing an understanding of – and appropriately challenging – the organization’s strategy and its underlying assumptions and inherent risks, 71 percent of the financial services respondents noted that improvements were needed in the board’s oversight. Of these respondents, 16 percent indicated the process of understanding the key risks and assumptions inherent in the corporate strategy and monitoring relevant information about those risks and assumptions is not done at all, while 45 percent noted it is conducted on an as-needed or ad hoc basis.

3. Understand the Risk Appetite of Management in Executing the Strategy

The survey results suggest that within many financial institutions efforts are under way to better understand the boundaries and limits that the organization sets on behavior in implementing its strategy and business model. However, while respondents generally indicated they have routine discussions regarding risks that are acceptable for the organization to take, only 13 percent reported that this activity is sufficient for the board’s purposes. Moreover, only 21 percent of respondents said their board approves management’s expression of risk appetite to enable management to establish appropriate limits on risk-taking activities to cascade downward into the organization.
While many financial institutions have a process to inform the board regarding the most significant risks and how those risks are being managed, there are relatively few organizations where this process is sufficiently defined and rigorous. There are also opportunities to improve processes to notify the board when the organization has exceeded its risk limits, and to ensure that risk issues are addressed in an appropriate and timely manner.

4. Ensure the Quality, Volume and Timeliness of the Risk Information Received From Management

Survey respondents from the financial services industry indicated that they receive a relatively comprehensive set of risk information on at least an annual basis. This information includes, but is not limited to, high-level summaries of the top risks for the enterprise as a whole and its operating units; periodic overviews of management’s methodologies used to assess, prioritize and measure risk; key risk indicators; and summaries of significant changes in the assumptions and inherent risks underlying the strategy and their effect on the business. However, the survey also indicates that two forms of important risk information – summaries of emerging risks and forward-looking scenario analyses – are often excluded from formal risk-reporting activities. Although the importance of both types of information has grown as market complexity and volatility have increased, 36 percent of respondents receive summaries of emerging risks only on an ad hoc basis or not at all, and 44 percent of respondents receive scenario analyses only on an ad hoc basis or not at all. These findings reveal an opportunity for financial institutions to improve the board risk-reporting process.

5. Watch for Organizational Dysfunctional Behavior That Can Lead to Excessive Risk-Taking or Compromise the Risk Management Process

Eight of 10 financial services respondents noted that improvements were needed in the board’s monitoring of the company’s culture and incentive compensation structure to ensure that the proper tone is set toward risk management. One of 10 reported that this monitoring is not done at all.

6. Provide Input to Executive Management Regarding Critical Risk Issues on a Timely Basis

The survey results suggest that while many financial institutions have a process to inform the board regarding the most significant risks and how they are being managed, there are relatively few organizations where this process is sufficiently defined and rigorous. Based on the survey’s findings, there are also opportunities to improve processes to notify the board when the organization has exceeded its risk limits, and to ensure that risk issues are addressed in an appropriate and timely manner. Improvement in these areas would enhance the board’s ability to advise management on risk issues in a timely manner.

In late 2008, as the financial crisis was coming to a head, the Senior Supervisors Group (SSG), which is comprised of senior executives from the bank supervisory authorities of various countries, prepared a report based on input from 20 major global financial institutions. The results of this report are highlighted on the next page. Interestingly, these results are reasonably consistent with the results of the Protiviti survey, which was undertaken more than two years later.
Highlights of the SSG Report

Following are highlights of findings from the report provided by the SSG, relative to the role of the board of directors during the period leading up to the financial crisis:

1. Almost all of the firms had taken steps to improve their liquidity risk management processes and reporting; however, SSG indicated that considerable work remained to improve the areas of governance, incentives, internal controls and IT infrastructure.

2. Firms reported enhancements to and increased use of stress testing to convey risk to senior management and boards, although significant gaps remained in their ability to conduct firmwide tests. Willingness to consider extreme scenarios when conducting stress tests and scenario analysis, despite looking back at events leading up to the financial crisis, remained an issue for some firms.

3. The SSG saw inadequate evidence of active board involvement in setting and approving the risk appetite such that directors understood the implications of the institution’s risk-taking. In several cases, senior managers admitted there was a disparity between the risks that the firms took and those that their boards perceived the firms to be taking.

4. SSG noted that firms rarely compiled for their boards relevant measures of risk (for example, based on economic capital or stress tests), a view of how risk levels compare with limits, the level of capital that the firm would need to maintain after sustaining a loss of the magnitude of the risk measure, and the actions that management could take to restore capital after sustaining a loss.

5. In general, SSG saw a need for firms to take significant additional action to institutionalize recent changes they had initiated regarding board and senior management oversight, articulation of risk appetite, incentives and controls by ingraining them in firm culture, and for boards to evaluate the effectiveness of these actions in bringing about the desired results.

6. Several firms discussed recent efforts to train board members to better understand the complexity of the firm’s risks through new director orientations, ongoing seminars, individual tutorials or the engagement of third parties.

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4 Risk Management Lessons from the Global Banking Crisis of 2008, October 2009, issued by the SSG, which is comprised of senior executives from the bank supervisory authorities of the United States, Canada, France, Germany, Japan, Switzerland, United Kingdom and other countries. The SSG asked 20 major global financial institutions in their respective regulatory jurisdictions to assess their risk management processes to ascertain whether there were any gaps with previously issued industry or supervisory recommendations. The surveyed financial institutions completed these self-assessments during the first quarter of 2009, presented the results to both their boards of directors and their primary supervisors, and then submitted the results to the respective SSG member. The various submissions were used by the SSG to compile its report, which is available at http://www.sec.gov/news/press/2009/report102109.pdf.
Steps Boards Can Take to Improve Risk Oversight

Could boards have made more of a difference in staving off the financial crisis? The view from the directors’ community would suggest that many believe improvements in board risk oversight are needed. The regulator view would appear to assert that boards could have been more effective in their risk oversight. In addition to the report from the SSG, both the Basel Committee on Banking Supervision and the Federal Reserve Board have weighed in. For example, in October 2010, the Basel Committee issued principles for enhancing sound corporate governance practices at banking organizations. Among other things, these principles focused on such topics as the:

- Role, qualifications and composition of the board
- Need for an independent risk management function, a compliance function and an internal audit function
- Importance of identifying, assessing and monitoring risks
- Risk management, compliance and internal control infrastructures keeping pace with the changing environment
- Board’s oversight of the design and operation of the compensation system to ensure it is appropriate and consistent with the bank’s culture, long-term business and risk strategy, performance, and control environment
- Board and senior management understanding of the bank’s operational structure and risks

In January 2012, the Federal Reserve Board proposed Regulation YY to implement certain changes required by Sections 165 and 166 of the Dodd-Frank Act to require the board to impose “enhanced prudential standards” on certain domestic bank holding companies, as well as other companies. These standards address several key areas, including risk-based capital requirements and leverage limits, liquidity, single-counterparty credit limits, risk management and risk committees, stress testing, debt-to-equity limits, and early remediation.

At the very least, having gained a better understanding of the costs of failure in managing the risks of a financial institution, boards of directors (as well as senior executives) are incented to give their institutions’ risk management functions greater resources, independence, authority and influence.
Boards should understand the critical assumptions and inherent opportunities and risks that make or break the successful execution of the strategy and ensure a process is in place to monitor changes in the business or regulatory environment that could impact those key factors.

As the preceding discussion demonstrates, there exist numerous opportunities to improve board risk oversight. Following are concrete steps boards can take with respect to the six key success factors:

1. Strengthen the Organization’s Risk Management Capabilities

Risk oversight is only as good as the underlying risk management capabilities of the enterprise. To that end, there are several fundamental considerations for boards:

- If risk is an afterthought to strategy and risk management is a mere appendage to performance management, directors should ask why. Boards should insist that risk be integrated with the institution’s core management processes, such as strategy-setting, business planning and performance management.

- Financial institutions should have in place a formal, structured process for monitoring and reporting to the board critical enterprise risks and emerging risks on an ongoing firmwide and individual entity basis. An effective reporting process informs the board’s risk oversight.

- There should be an effectively functioning independent risk management function, including a CRO (or equivalent), a compliance function and an internal audit function, each with sufficient authority, stature, independence, resources and access to the board.

- The sophistication of a bank’s risk management, compliance and internal control infrastructures should keep pace with changes to its risk profile (including its growth) and to the external risk landscape.

In the United States, any regulations finalized by the Federal Reserve that call for the board to impose “enhanced prudential standards,” as noted earlier, will require attention by both directors and management.

2. Understand the Risks and Critical Assumptions Inherent in the Corporate Strategy and Obtain Objective Information From Internal and External Sources About Those Assumptions

Boards should understand the critical assumptions and inherent opportunities and risks that make or break the successful execution of the strategy and ensure a process is in place to monitor changes in the business and regulatory environment that could impact those key factors. Following are some steps for boards to consider in this regard:

- At least annually, boards should focus on whether management’s periodic assessments of developments in the business and regulatory environment have resulted in changes in the critical assumptions underlying the organization’s strategy and the effect of such changes on the organization’s business model. Change is inevitable: The question is whether it is helping or hurting.

- Boards should encourage employment of techniques that foster out-of-the-box, big-picture thinking focused on the critical assumptions to assess the strategic risks and uncertainties the enterprise faces. While this is a matter of judgment, it boils down to selecting the assumptions that management would most fear becoming invalid. This understanding can provide a powerful focus for risk management.
Boards of directors and senior management need to make well-informed judgments – not only about risk management but also about their firms’ forward-looking business strategies and the opportunities and risks they present. Given the complexity of the business environment, boards need to ensure that executives avoid the overconfidence often driven by the degree of success managers have experienced in the past and the quality and coherence of the story line these managers construct regarding the future they envision. Overconfidence is a powerful source of illusions, and a single view of the future can be very dangerous in the financial markets.

3. Understand the Risk Appetite of Management in Executing the Strategy

Strong and active engagement by a financial institution’s board of directors and executive management plays a central role in ensuring that a rigorous risk appetite dialogue is implemented at the highest levels in the firm, including in the boardroom, and that the results of this dialogue are driven down into the organization in an appropriate manner. The Basel Committee recommends that the board monitor senior management’s actions to ensure they are consistent with the strategy and policies it has approved, including the risk appetite.
**Strong and active engagement by a financial institution’s board of directors and executive management plays a central role in ensuring that a rigorous risk appetite dialogue is implemented at the highest levels in the firm.**

To that end, the SSG makes the following assertions:

- Risk appetite frameworks are found to be more effective when generated by highly engaged boards of directors working closely with the CEO, CFO and CRO because these individuals have the strongest ability to influence business strategy and risk management decisions.

- The CEO’s commitment to a risk appetite framework and the strength of the CRO’s relationship with the board of directors in explaining key risk issues are two vital fundamentals according to the SSG.

- The implementation of a risk appetite framework necessitates strong relationships and communication between the CRO and other executives and business line leaders. Strong communication among these individuals allows the management team to translate effectively the board’s expectations of risk appetite into the firm’s day-to-day operations. To this point, the board should ensure that senior management establishes strong accountability and limit structures to translate the risk appetite articulation into clear incentives and constraints for business lines.

4. **Ensure the Quality, Volume and Timeliness of the Risk Information Received From Management**

We hear many complaints from directors about risk reporting (e.g., being inundated with too much data and information, making it virtually impossible for them to unearth key nuggets of insight; that is, if there are any in the mountain of data provided). If the board wants relevant information about the enterprise’s risks and how they are managed, it should ask for it and accept nothing less. Directors should understand the risks requiring oversight and ask for the necessary information. But they shouldn’t rely solely on management. They should look for external sources as well. They should insist that risk-reporting packages:

- Include a high-level summary of the top risks for the enterprise as a whole and its operating units, including how they have changed over time.

- Provide risk updates, such as trends in key risk indicators and a summary of emerging risks that warrant board attention, including the external environment, as too often risk updates are solely inwardly focused.

- Highlight insights on results of scenario analyses evaluating the impact of changes in key external variables impacting the organization.

- Summarize significant changes in the assumptions and inherent risks underlying the strategy and their effect on the enterprise’s business model and risk profile.

- Report on the effectiveness of responses for mitigating the top risks.

- Point out when limits for key risks are exceeded or approached, or when there are near misses.

- Disclose significant gaps in capabilities for managing key risks and the status of initiatives to address those gaps.

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The financial crisis provides many examples of deficiencies in the enterprise’s “tone at the top” and culture that compromised risk management. It is the board’s job to watch out for dysfunctional behavior.

5. Watch for Organizational Dysfunctional Behavior That Can Lead to Excessive Risk-Taking or Compromise the Risk Management Process

The financial crisis provides many examples of deficiencies in the enterprise’s “tone at the top” and culture that compromised risk management. It is the board’s job to watch out for such dysfunctional behavior. For example, such behavior can be characterized by, among other things, a short-term focus on making the numbers, senior management ignoring the warning signs posted by the risk management function, an incentive compensation structure driving unacceptable risk-taking, an “eat what you kill” culture, inadequate resources provided to risk management and risk management viewed as a mere compliance function. While balancing value creation and preservation, as well as emphasizing short-term and long-term objectives, is a relatively straightforward concept, it requires effective leadership and discipline to pull it off. The question for the board is: Will the CEO and executive management team heed the warning signs at the crucial moment?

6. Provide Input to Executive Management Regarding Critical Risk Issues on a Timely Basis

The Basel Committee asserts that frank and timely internal communication is needed within the bank about risk, both across the organization and through reporting to the board and senior management. To accomplish this objective, the board should consider the following steps to position it to ask the tough and probing questions about risk and risk management:

• Ensure the composition of the board’s membership includes the necessary industry knowledge and expertise that enables it to recognize and focus on key industry and business issues giving rise to risk.

• Agree with management on the risk-related matters that should be escalated to the board, addressing the what, when and why.

• Formulate an independent directors’ view of risk by obtaining other sources of insights on risk and industry issues rather than relying solely on management’s understanding.

• Insist that the board be engaged by executive management on critical risk issues in a timely and appropriate manner before key decisions are made.

One additional step that directors should consider is to incorporate appropriate questions relating to risk oversight in the board’s periodic evaluation of board performance effectiveness. According to the COSO/Protiviti survey, more than half (52 percent) of boards serving financial institutions do not evaluate the effectiveness of their risk oversight process.
### Key Requirements of Board Risk Committees

<table>
<thead>
<tr>
<th>Board Risk Committee (BRC) Establishment</th>
<th>Basel*</th>
<th>Dodd-Frank Act</th>
<th>Federal Reserve Board’s Enhancement Proposal</th>
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</thead>
<tbody>
<tr>
<td><strong>BRC required</strong></td>
<td></td>
<td>BRC required at non-bank financial services companies and publicly traded bank holding companies with assets greater than US$10 billion</td>
<td>Same as Dodd-Frank Act</td>
</tr>
<tr>
<td><strong>Basel Steering Committee (Management Level) and Executive Risk Management Committee required</strong></td>
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<tr>
<td><strong>Maintain understanding of all major business lines, capital market activity and all associated risks</strong></td>
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<td>Oversee enterprisewide risk management practices</td>
<td>Same as Dodd-Frank Act</td>
</tr>
<tr>
<td><strong>Ensure accountability and lines of authority are clearly delineated</strong></td>
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<td></td>
<td>Review and approve liquidity risk management strategies, policies and processes established by senior management</td>
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<tr>
<td><strong>Ensure link between risk and incentive compensation programs</strong></td>
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<td><strong>Provide a charter for each committee defining its mandate, scope and procedures</strong></td>
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<td>Provide documentation sufficient for compliance with regulations</td>
<td>Develop a formal, written charter and meet regularly to discuss and document enterprisewide risk management decisions</td>
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<td><strong>Define institution’s risk appetite; set prudential bank activity limits</strong></td>
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<td></td>
<td>Include in risk framework policies and procedures relating to risk management governance, risk management practices, risk limits, risk control infrastructure, timely implementation of corrective actions, specification of authority, and integration of risk management objectives in management goals and compensation structure</td>
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<tr>
<td><strong>Develop detailed policies that integrate cross-departmental perspectives of business and control functions defining all material risks and acceptable activities</strong></td>
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<td><strong>Document qualification and compliance with Basel on a quarterly basis</strong></td>
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(Chart continues on next page.)
While balancing value creation and preservation, as well as emphasizing short-term and long-term objectives, is a relatively straightforward concept, it requires effective leadership and discipline to pull it off. The question for the board is: Will the CEO and executive management team heed the warning signs at the crucial moment?

<table>
<thead>
<tr>
<th>Understand Business Dynamics and Impact of Change</th>
<th>Basel*</th>
<th>Dodd-Frank Act</th>
<th>Federal Reserve Board’s Enhancement Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify and review changes in firmwide risk and ensure appropriate infrastructure and controls are in place prior to introduction of new products or business activities</td>
<td>Include at least one “risk management expert” having experience in identifying, assessing and managing exposures of large, complex firms</td>
<td>Review cash flow projections and liquidity stress testing processes, limits, buffers, results and other liquidity information regularly</td>
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<tr>
<td>Ensure businesses use the same metrics and models that drive the Basel capital (use test)</td>
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<td></td>
<td>Integrate risk management and control objectives in management goals and the company’s compensation structure</td>
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</table>

<table>
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<tr>
<th>Maintenance of Independence</th>
<th>Ensure bank’s risk function and CRO (or equivalent):</th>
<th>Ensure BRC includes appropriate number of independent directors</th>
<th>Ensure BRC is chaired by an independent director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is independent of individual business lines and reports directly to the CEO and board of directors</td>
<td>Ensures BRC includes appropriate number of independent directors</td>
<td>Ensure CRO reports directly to the BRC and CEO</td>
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<tr>
<td>Passes “Credible Challenge” and is more than just reporting lines</td>
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*Basel lists responsibilities under board and senior management oversight due to differences in competencies in different legal jurisdictions.

Citations:
How the CRO Can Assist Boards

It should be apparent from the discussion so far that the CRO can be an effective facilitator and enabler with respect to all six key success factors leading to constructive board engagement. But the impact is not a one-way street. Effective board risk oversight forces discussion of critical issues that can:

• Strengthen the CRO’s positioning within the organization.
• Force integrity to the discipline of risk management.
• Establish a learning curve for risk management across the organization.
• Ensure appropriate incentives are set for value-creating pursuits.

These are the other four secrets underlying a successful CRO.

In terms of the role the CRO can play in assisting boards with improving their risk oversight, there is not a single one-size-fits-all approach. Exactly what a CRO can contribute depends on a number of factors. First and foremost, there is the board’s agenda (i.e., what does the board need done, and what assistance does it require of management to do it?). Second, there is the nature of the institution’s risks and the effectiveness of its capabilities for managing those risks (i.e., the greater the gaps in managing the institution’s risks, the more limited the CRO will be in assisting the board). Finally, there is the positioning of the CRO within the organization, and the depth and breadth of his or her relationships with senior executives and business line leaders. The stronger those relationships, the more effective the CRO will be in assisting the board’s risk oversight process.

The Protiviti survey identified several common obstacles to board-level risk oversight. Nearly all of the respondents reported that there are one or more impediments to improving board risk oversight in the financial services industry. The five obstacles selected most often were:

• Organizational culture, e.g., risk management is viewed as a compliance activity, treated as an appendage to performance management, etc. (identified by 30 percent of respondents)
• Availability of dedicated resources (22 percent)
• Lack of perceived value of pursuing an enterprise risk management (ERM) approach to risk management (20 percent)
• Lack of understanding/acceptance of ERM by board members (20 percent)
• More pressing needs, e.g., executing strategy and/or making sure the organization survives (18 percent)
The current state of board risk oversight and the obstacles to improvement present a challenge as well as motivation to CROs. By focusing on the obstacles, the CRO – in collaboration with his or her management colleagues – can help elevate the effectiveness of board risk oversight.

**Conclusion**

The financial crisis provided a clear object lesson as to the cost of an unengaged or unaware board on matters of risk that threaten the longer-term viability of an institution and its business model. Directors serving financial institutions believe there are opportunities to improve board risk oversight, as do regulators. With increased complexities in the way financial services firms do business in the global marketplace, along with more opportunities for surprises, it is imperative that boards are satisfied they have an effective risk oversight process in place. CROs can help improve the board's engagement in risk oversight such that it contributes greater value to the organization’s longer-term performance. Conversely, effective board risk oversight will better position the CRO for success, helping to enable the CRO, and the organization itself, to hold the “winning hand.”

**Risk Oversight Success Factors**

- Strengthen risk management
- Understand critical risks/assumptions
- Understand risk appetite
- Ensure satisfaction with risk information
- Be alert for dysfunctional behavior
- Provide timely input
About Protiviti

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE® 1000 and Global 500 companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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Our consultants are experienced professionals. Many have decades of experience working in the financial services industry. Located in offices across the globe, they include former industry executives, former regulators and a broad range of subject-matter experts who have firsthand knowledge of the issues on which they provide advice. Our internal commitment to training ensures that our consultants remain current on important industry issues. Armed with tested tools and methodologies, our consultants provide pragmatic, cost-effective and value-added solutions to your company.

At Protiviti, we understand the challenges faced by financial services companies. Our solutions are designed to help your company turn these challenges into competitive advantages.

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- Alexandria
- Atlanta
- Baltimore
- Boston
- Charlotte
- Chicago
- Cincinnati
- Cleveland
- Dallas
- Denver
- Fort Lauderdale
- Houston
- Kansas City
- Los Angeles
- Minneapolis
- New York
- Orlando
- Philadelphia
- Phoenix
- Pittsburgh
- Portland
- Richmond
- Sacramento
- Salt Lake City
- San Francisco
- San Jose
- Seattle
- Stamford
- St. Louis
- Tampa
- Washington, D.C.
- Woodbridge

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