



# Bringing Operational Risk Management at the Boardroom Table



Pierre G. Noel  
Executive, Worldwide Risk Management & Information Security  
[pierre.noel@hk.ibm.com](mailto:pierre.noel@hk.ibm.com)

# What Risks?



- Welcome to the Year of Risks Management
  - Increased Incidents...
- Complacency – Dealing with established culture
  - We have been operating for xxx years, we are fine...
- Operational Risks vs Other Corporate Risks
- Many organizations do not have ERM ingrained in their corporate culture
  - Some have it only partially.. and not at the board level
    - Credit Risk exposure
    - Engineering Risks - Airlines
    - Manufacturing Risks - Food / Pharmaceutical

# Why Making the Board Involved?

- **Regulatory Constraints - Directors' responsibility**
- **Evolution / Maturity**
  - **Perception that Boardroom decisions need risks inputs**
- **ERM appears on the Board's Radar Zone**
  - **Regulation**
  - **Rating Agencies**
  - **Significant Incident**





# Why Making the Board Involved?

## ● Help Fighting Rubber-Stamping

- *I am not going to question this proposal submitted to the board, for I don't have enough visibility on the insights*
- *Also, I don't want to look stupid asking silly question*

## ● Enable the Board Members to ask the right questions

- *What are the risks?*
- *What could go wrong with this project?*



# Typical Difficulties

- **Complacency**
- **Lack of Effective Communication** between the risk management team and the Board
  - Techno Lingo
  - Unappetizing Voluminous Risk Reports
  - Misalignment with Business Concerns
- **Capture & Communicate the Risk Appetite of the Organization**
  - 'Fight conventional wisdom' - you are not going to ask the board for that, they are too busy...
- **Proper Governance**
- **What about you?**



***How are CROs compensated?***

# Success Factors

- Effective Communication
  - Relentless Translation of Risk Information into Business Context
- 'In your face' (culture dependent)
  - CRO needs to be vocal & controversial
    - MSFT making their code 'secure'
    - Bringing a telling picture to a board discussion
- Find a Champion / Mentor within the Board
- CRO has direct access to the Board and participate to Boardroom discussions
  - To that goal, he/she has to be relevant to the Business Discussion



# Corporate Governance

## Accountability Principle

- There must be someone (not a group of people, a human being) who has difficulty to sleep at night because managing the risks associated with the organization is her responsibility, and she will be fired if something goes wrong
- All the stakeholders must be identified and brought together in the context of Corporate Governance

Who does what?

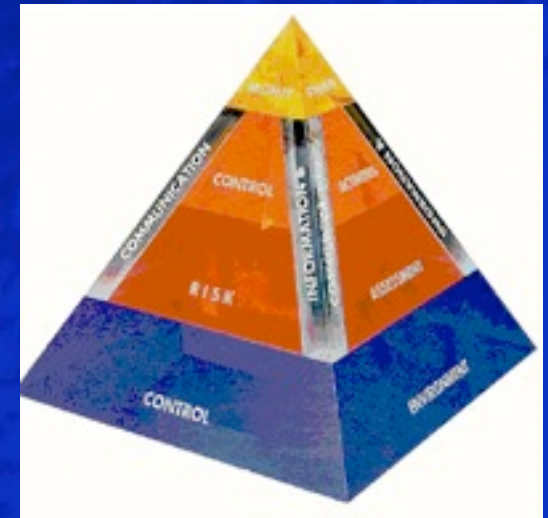
Who resolves issues and takes final decisions?

How do you escalate concerns or issues?



# Risk Appetite

- The decision as to which risks are acceptable and which risks are not is an evolving concept within an organization
- As the Organization matures, its risk appetite evolves
- Decisions on risks acceptance/tolerance needs to be addressed by the executive management
  - Establish a communication mechanism to seek feedback on risk appetite from the Board
  - Give them an opportunity to reflect on what they want the organization to stand for





# Corporate Risk Measurement



- What qualifies
  - Severe Risk
  - Serious Risk
  - Low Risk
- In the eyes of a stakeholders, some incidents might appear more important than they are
- Corporate-wide, there must be an agreement on how to rate risk severity
  - Severe: Operation Disruption for more than a week / Significant reputation loss
  - Serious: Operation Disruption of a day / overall cost below \$10M
  - Low: Operation Disruption less than a day / overall cost below \$1M

# Loss Database



- **Monitoring**

- Every incident needs to be captured
- Difficulty lies in human beings...
- Incidents & near misses feed the Loss Database

- **Measurement**

- Reflect on Controls' effectiveness
- Feed into the Risk Matrix

- **Dashboard**

- Main interface to the Board & CEO
- Reflects Measurements

*Communicating Business Facts to the Board*



# Bringing Operational Risk Management at the Boardroom Table



Pierre G. Noel  
Executive, Worldwide Risk Management & Information Security  
[pierre.noel@hk.ibm.com](mailto:pierre.noel@hk.ibm.com)