

Board Governance and Emerging Risks in the 21st Century



Organised by American International Group, Inc. (AIG), the European Confederation of Directors' Associations (ecoDa) and the Federation of European Risk Management Associations (FERMA)



Cercle de Lorraine, Brussels, 10 July 2015

The perspectives of Board members and Risk Managers were brought together in a unique opportunity for discussion at this conference. Since the financial crisis, the risk oversight responsibilities of directors and supervisory Board members have been increasingly emphasized. However, are Boards up to the challenge? They are tasked with a variety of crucial risk-related responsibilities, including defining the organisation's risk tolerance, gaining assurance concerning the robustness of risk management policies and controls, and promoting an appropriate risk culture throughout the organisation. Realistically, they will only succeed if they form an active partnership with Risk Managers and other risk-related functions. For the risk management profession, this is a major opportunity – to evolve from the role of technical specialist to that of strategic Board advisor, with significant influence over a wide range of corporate decision-making.

The conference began by stressing that business without risk does not exist. However, there needs to be a good balance between sound risk management and efficient entrepreneurship if companies want to survive in these challenging times.



“Boards need to control risks and to grab the right opportunities. They need the courage for innovation and to look forward. In the business environment that we live in, doing nothing might be the biggest risk of all.” (Philippe De Backer, MEP)

A good risk conversation is more essential than ever to the success of business. Faced with disruptive new business models, companies must take risks to succeed. They must also manage the challenge of compliance with ever greater levels of regulation and demands for disclosure. To do so, there must be two-way communication about risk management at Board and Board committee level and with internal risk functions. The Risk Manager should be viewed as a useful contributor to the boardroom discussion.

The seminar tackled the risk conversation from different perspectives: the Board, non-executive directors, risk and audit committees, risk functions within the group and external auditors. It then looked forward to how emerging risks can be brought into the spotlight.

The risk conversation at Board level



Boards are always thinking about risks and rewards. They are two sides of the same coin.

*“Both dimensions are ever-present in all management and Board discussions.”
(Patrick Zurstrassen, ecoDa)*



There is a material difference in the nature of the risk conversation between highly regulated financial services companies and other sectors.

“In financial services, discussion of risk can occupy two hours of a day’s Board meeting but this is generally related to financial assets and liabilities, such as market risk, liquidity, credit and duration.” (Patrick Zurstrassen, ecoDa)

“Banking and insurance are somewhat unique in the sense that they have a heavy ERM (enterprise risk management) framework driven by regulation. But I am convinced, nevertheless, that some of the best practices coming from the financial services should be part of the tool box of any business or industry.” (Emmanuel Brulé, AIG)

Board members have to be immersed in the activities of the companies with which they are involved. They need to play an integral part in the risk conversation and understand what makes a successful risk decision in the company’s specific context.



*“You have to really join into this. This is not a couple of meetings here and there.”
(Carin Gorter, Supervisory Board Member)*

“A good risk committee is important and it has to sit at the level where your company needs it.” (Marie-Gemma Dequae, FERMA)



Boards must not abdicate their responsibilities to risk committees, Risk Managers and internal auditors.

*“At least six different functions can or do report risk issues to the Board.”
(Anna Korbut, FERMA).*

“All risk committee minutes should be tabled at Board level for further discussion and any special reports produced by the chair of the risk committee should be discussed promptly at the next Board meeting.” (Andrew Chambers, FEE, ACCA).

Consideration of risk-reward ratios in the various business divisions, and over different time frames, is the key to effective strategic planning and central to Board discussions over strategy choices. It should also underpin day-to-day business management decision-making.

The risk management function(s) in the company should be charged with the responsibility of providing relevant, reliable and timely input to those considerations. Such input should take into the account the business growth targets that need to be achieved and the capital cost hurdles that need to be beaten in order for the company to remain competitive. Entrepreneurial risk-taking is not an option but an operational necessity.



"It is important to get a right balance between historical bottom-up approaches from risk or operational managers and a fresh top-down view at Board level. The content of risk management reports has to be fully understood and discussed at Board level. It is important to connect the information escalated bottom up and the top down conversations."
(Jonathan Blackhurst, Capita plc)

"Boards need to see the results of testing some scenario to see how it would impact their risk appetite. It is very important as it allows testing the optimism or the resilience of some business assumptions. It is critical to get a holistic view. Without a definition of what is risk appetite, it is difficult to progress." (Emmanuel Brulé, AIG)

"Non-executive directors on Boards often lack the confidence to be an effective challenger of strategy. They may ask a few intelligent questions but then back off from denying approval to the executive of their strategic proposals." (Andrew Chambers, FEE, ACCA)

Since the financial crisis, new regulatory demands and increased focus on risk management, monitoring and compliance have added significantly to the Board oversight workload.



"Boards' agendas are overloaded." (Roger Barker, ecoDa, the Institute of Directors)

Boards need better assurance from the internal audit function and the risk management function. Lack of clarity and consistency over the Risk Manager's status and organisational position compounds the problem.



"As risk becomes a higher priority for all Boards - there is a greater opportunity (and need) for Risk Managers to take on a more strategic role within the businesses they operate in - rather than purely focusing on insurance for risk transfer." (Charlie Kitson, AIG)

"We should recognize the heterogeneity in demands made on Risk Managers by Boards and the way Risk Managers report to Boards. What is valid for one company is not necessary valid and/or appropriate for another company." (Christopher Lajtha, ADAGEO)

Boards should ask themselves: What do they want from a Risk Manager?



"Boards need to articulate what kind of information they want."
(Christopher Lajtha, ADAGEO)

A starting point has to be an open dialogue between the Risk Manager, the senior executives and the Board.



"Too often top executive teams control the flow of information through to the Board to the extent that the Board may be kept in the dark about important issues and risks."
(Andrew Chambers, FEE, ACCA)

"Risk Managers and internal auditors need to be present at risk committees and audit committees." (Andrew Chambers, FEE, ACCA)

"Can 'formal presentation' activities really be considered as a dialogue by the parties?"
(Anna Korbut, FERMA)

Risk Managers must simplify their language to help Board members shift from “risk awareness” to “risk intelligence” and so improve the quality of the risk conversation at Board level. Clear language is one of the top priorities if the risk conversation is to become useful for decision-making. Each of the various risk functions, including the Board itself, has its own jargon.



“People engagement is critical. If they want to speak together, they need the same language.” (Emmanuel Brulé, AIG)

“Risk Managers need to be straight forward and highlight clear moments when companies might ‘cross the line’.” (Jonathan Blackhurst, Capita plc)

“The creation of a risk forum at management level can help Risk Managers to provide the Board with clear messages.” (Emmanuel Brulé, AIG)

The risk management profession faces new challenges.



“Educating Boards is a huge opportunity for Risk Managers to become strategic boardrooms advisors. Are they ready for this new role?” (Roger Barker, Institute of Directors)

The extent to which external auditors should challenge assurances from the Board and senior management has been an issue since the financial crisis. The International Accounting and Auditing Standard Board is producing new and revised auditor reporting standards.



“This will provide for more robust interactions and communication amongst users of accounts, auditors and those charged with governance.” (Marc Pickeur, IAASB)

The Impact of Emerging and Future Risks

Risks like geopolitical risks are back on the agenda and need a more global approach. Emerging risks are associated with: new technologies, complex interconnected supply chains and new political and economic challenges. The risks emerging from these developments are generally unanticipated and not widely understood. Disruptive technologies are both opportunities and threats to business. There will be winners and losers.

"The sooner the better for companies to anticipate new risks."
(Marie-Gemma Dequae, FERMA)

"Don't miss the future." (Marie-Gemma Dequae, FERMA)

Environmental, social and governance (ESG) risks are becoming more important for companies and it is important that international investors assess the degree to which companies take into account ESG expectations.

"Business behaviour misconducts are responsible for the largest regulatory fines."
(Ornella Di Iorio, Vigeo)

Using data analytics to examine unstructured external information, social media, emails and so on, can help companies to spot new risk areas very quickly.

"If you don't, someone else will do it for you!" (Carin Gorter, Supervisory Board Member)

The new risks require different kinds of governance and all those risks need to be included into strategic planning.

"Companies need to translate those risks into company "own risks" to be able to respond to the changing landscape." (Adriana Cavaliere, SWIFT)

"It is important to question what the company will be doing in 10 or 20 years from now, but also question if the assumptions underlying the current strategy are still valid taking these new risks into consideration." (Carin Gorter, Supervisory Board Member)

The World Economic Forum Global Risks Report, published in January every year, provides a good starting point to assess the changing risk landscape.

"It can be used as the basis for a recurring scenario analysis involving the Board and management."
(Adriana Cavaliere, SWIFT)

Diversity of professional profile in the boardroom can help to better analyse and understand the variety of new risks.

"It is important in the boardrooms to have a person being contradictory in order to look if things can be done differently. Also the new generation can help the Board to better understand certain new risks." (Carin Gorter, Supervisory Board Member)

“Regulators should also be careful about the burden they place on companies, listed companies in particular, because smaller listed companies are struggling to come to terms with all regulatory demands and reporting requirements.” (Philippe De Backer, MEP)

Risk and its importance in the boardroom will not diminish in terms of its complexity and importance, if anything, the responsibilities of Boards and Risk Managers will increase. As this debate develops, ecoDa, FERMA and AIG plan to continue the discussion.

**Presentations from the event are now available
on the FERMA and ecoDa websites www.ferma.eu
and www.ecoda.org**



FERMATM
Federation of European
Risk Management Associations



Board Governance and Emerging Risks in the C21 - Speakers Biographies

KEYNOTE SPEAKER

Dr. Philippe De Backer , Member of the European Parliament



Philippe De Backer holds a PhD in biotechnology from Ghent University and an MBA from Solvay Business School.

Before joining the European Parliament, Philippe worked as Technology Transfer Officer at CRP-Santé and as analyst at Vesalius Biocapital, a Luxembourg based venture capital firm specialised in the life-sciences. He has an expertise in the valorisation of IP developed by public research institutes and setting-up early ventures in the life-sciences.

Philippe is currently a Member of the European Parliament where he is a full member of the Industry, Technology, Research and Energy Committee. He is a substitute Member of the Economy and Monetary Affairs Committee.

As a liberal, Philippe truly believes that it is his duty to take up responsibility in the community and actively work for the society and the people that live in it. He believes strongly in individual liberty, self-development, free markets and equal starting chances for everybody.

Philippe De Backer

Member of the European Parliament

SECOND KEYNOTE SPEAKER

Marc Pickeur , Member of the International Auditing and Assurance Standards Board



Marc Pickeur joined the International Auditing and Assurance Standards Board (IAASB) in January 2012. He is the Co-Chair of the IAASB's Financial Institutions Working Group. He previously served on the IAASB's International Auditing Practice Statement (IAPS) 1000 Task Force and IAPS Status and Authority Working Group.

Mr. Pickeur is a retired expert-senior advisor in the prudential policy and financial stability department of the National Bank of Belgium www.nbb.be/pub/home.htm. He was a member of the Basel Committee's <http://www.bis.org/bcbs> Accounting Experts Group (previously the Accounting Task Force), former chair of its auditing subgroup, and a former representative of the Basel Committee on the Monitoring Group www.iosco.org/monitoring_group. He is also a former member of the CEBS Expert Group on Financial Information, and the former chair of its subgroup on reporting. Before his appointment, Mr. Pickeur was part of the Consultative Advisory Groups for the IAASB and the International Ethics Standards Board for Accountants.

Marc Pickeur

Member of the International Auditing and Assurance Standards Board (IAASB)

PANEL 1

THE RISK CONVERSATION AT BOARD LEVEL



**Christopher Lajtha , Independent Risk & insurance Management Resource,
ADAGEO / RCN**



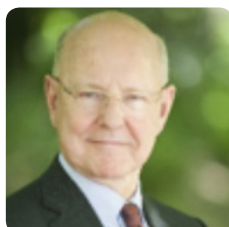
Christopher Lajtha became an independent risk management resource in 2005. He provides an extensive range of strategic and operational support to multinational companies.

Chris has spent over 35 years in risk management including 12 years as Corporate Risk & Insurance Manager at Schlumberger. He has travelled extensively and worked in the UK, the USA and France. His areas of focus include risk management strategy & resourcing, risk governance, crisis response and multinational insurance management issues..

Christopher Lajtha

Independent Risk & insurance Management Resource, ADAGEO / RCN

Patrick Zurstrassen , Honorary Chair of ecoDa, Independent Board Member



Mr Patrick Zurstrassen is an Honorary Chair of ecoDa since April 2014. He acted as the chairman of ecoDa from 2011-2014. Belgian citizen and Luxembourg resident, Patrick Zurstrassen has worked more than 25 years for “Credit Agricole Indosuez” Group in Belgium, France and Luxembourg. He currently acts as an independent director on the boards and board committees of several companies, listed or non-listed, mainly in the financial sector. His funds mandates belong to groups such as La Baloise, Barclays, Goldman Sachs, Le Foyer, Jupiter, Lombard Odier, Natixis, Pioneer [UniCredit group].

He participates to the works of several fund management and investment professional bodies, including ALFI, the Association of Luxembourg Fund Industry and FEFSI-EFAMA, the European Fund and Asset Management Association that he both chaired. He has been founding chairman of ILA, the Institute of Luxembourg Directors. He sits on several advisory committees of the “Commission de Surveillance du Secteur Financier” in Luxembourg. He is a member of the Private Sector Advisory Group of the Global Corporate Governance Forum. He is an affiliated member of the CFA Institute as well as a member of the Institut Français des Administrateurs, the International Corporate Governance Network, the European Corporate Governance Institute and the National Association of Corporate Directors [USA].

Graduated as civil engineer [U. Liège, Belgium], MSc [U. Leeds, UK] and MBA [UCLA, USA], Patrick Zurstrassen has lectured finance at the Université Catholique de Louvain in Belgium for 25 years. He is certified director of ILA from the INSEAD International Directors Program.

Patrick Zurstrassen

Honorary Chair of ecoDa, Independent Board Member



Eur Ing Professor Andrew D Chambers, Chair, corporate governance & and company law at FEE; member, ACCA's global corporate governance forum.



Andrew is professor emeritus of London's City University where he was Dean of Cass Business School, London and the world's first professor in internal auditing. He was founder general editor of Blackwell's International Journal of Auditing. In 2012–13 Andrew was a member of the UK committee on Internal Audit Guidance for Financial Services. He represented the Association of Chartered Certified Accountants on IIA's International Internal Audit Standards Board from 2008-14. Author of Chambers' Corporate Governance Handbook (6th ed, April 2014, Bloomsbury, ISBN 978 1 78043 482 7, 1,100 pps), Tolley's Internal Auditor's Handbook (2nd ed., 2009, ISBN 9781405735674, 750 pps), and The Operational Auditing Handbook - Auditing Business & I.T. Processes (2nd ed., Wiley, April 2010, ISBN 0470744766, 884pps). Andrew is now Academic Director for FTMS (www.ftmsglobal.com).

Eur Ing Professor Andrew D Chambers

Independent Risk & insurance Management Resource, ADAGEO / RCN

Jonathan Blackhurst , Head of Risk Management, Capita plc



Jonathan Blackhurst is responsible for creating and implementing risk management strategy for the Capita group where he has been based since 2013. His role encompasses multiple businesses across over 80 countries and requires an adaptable yet consistent approach. Jonathan studied his degree in Oxford, where he also gained his first Masters, his second being an MSc in Risk Management. A fellow of the Institute of Risk Management and a member of their Audit and Risk Committee, in 2005 he was recognised as the European Young Risk Manager of the year by the Strategic Risk Awards. He has over 13 years' experience working across multiple industries both in house and at consultancy.

Jonathan Blackhurst

Head of Risk Management, Capita plc



Anna Korbut, Executive Risk Manager, NefteTransService



Anna Korbut is executive risk manager for NefteTransService, a railway cargo operator. She has a background in history and political social studies, economics and management. For her MBA, she wrote a thesis on key aspects of enterprise risk management (ERM) strategy and practice for companies. She is Vice President of RusRisk.

Anna Korbut
Executive Risk Manager, NefteTransService

PANEL 2

THE IMPACT OF EMERGING AND FUTURE RISKS

Roger Barker, Adviser to ecoDa board, Director of Corporate Governance and Professional Standards at the Institute of Directors (UK)



Dr. Roger Barker is Director of Corporate Governance and Professional Standards at the Institute of Directors (UK). He is Senior Advisor to the Board of ecoDa (European Confederation of Directors' Associations) and Chairman of the ecoDa education committee. He is a board member of European Women on Boards ASBL. He sits on several corporate governance advisory boards, including those of the Institute of Chartered Accountants in England and Wales (ICAEW) and ISS European Governance Exchange.

Dr. Barker is a visiting lecturer at the Said Business School (University of Oxford), ESSEC (Paris), UCL (London), Birkbeck (London) and the Ministry of Defence (UK). Dr. Barker's book - Corporate Governance, Competition, and Political Parties: Explaining Corporate Governance Change in Europe – was published by Oxford University Press in 2010. He is also the author of the IoD's main guide to the role of the board, The Effective Board: Building Individual and Board Success (Kogan Page, 2010).

During the first part of his career, Dr. Barker spent 13 years as an investment banker, in London and Zürich, with UBS and Bank Vontobel. He is the holder of a doctorate on corporate governance from Oxford University, where he was a Lecturer at Merton College, and also has undergraduate and postgraduate degrees in economics, finance and political science from the universities of Cambridge, Southampton and Cardiff.

Roger Barker
Adviser to ecoDa board, Director of Corporate Governance and Professional Standards at the Institute of Directors (UK)



Carin Gorter, Member of the Supervisory Board of ING (and of several insurance companies).



Carin Gorter holds two supervisory board roles in insurance companies (VGZ and TVM), one supervisory board role in banking (ING) and one in a government controlled company (CBR). She is the chair or member of the audit and risk committee in those companies.

She held formally executive roles in operations and IT, product control and internal audit and her last executive role was SEVP legal, compliance and security at ABNAMRO. She has a Master's degree Economics and is a CPA.

Carin Gorter

Member of the Supervisory Board of ING (and of several insurance companies)

Marie Gemma Dequae, FERMA Scientific Adviser, former Group risk & insurance manager (Bekaert), Non-Executive Director, Belfius Bank and Belfius Insurance



Marie Gemma Dequae is FERMA's scientific advisor and was President of FERMA from 2005-2009. Her professional experience involved 23 years as group risk and insurance manager for the Belgian materials production group Bekaert. Marie is now a board member of Belfius Bank and Belfius Insurance in Belgium. She has a PhD in applied economics, and before going into industry, she taught economics and finance at the Catholic University of Leuven and at the business school Vlekho in Brussels.

Marie Gemma Dequae

FERMA Scientific Adviser, former Group risk & insurance manager (Bekaert), Non-Executive Director, Belfius Bank and Belfius Insurance

Adriana Cavaliere, Enterprise Risk Manager, SWIFT



Adriana Cavaliere is Enterprise Risk Manager at SWIFT, the global provider of secure financial messaging services. She is an experienced risk and finance management professional, holding a master in commercial engineering as well as a degree in risk management. Adriana is member of the board of BELRIM.

Adriana Cavaliere

Enterprise Risk Manager, SWIFT



Ornella Di Iorio, Research Manager, EUROSIF - Vigeo



Ornella Di Iorio is a graduate in Economics (Bocconi University, Milan) and holder of a MSc in Economics (UCL, London). She worked as a consultant at the International Labour Office (ILO) and then at the Organisation for the Economic Cooperation and Development (OECD) before joining the Rating department of Vigeo in 2006. She is specialised in Corporate Governance issues and in Industry sectors.

Ornella Di Iorio

Research Manager, EUROSIF - Vigeo

CLOSING SPEECH

Emmanuel Brulé , Chief Risk Officer, AIG



Since April 2014 Emmanuel Brulé is Chief Risk Officer EMEA for AIG Property Casualty.

From July 2010 to March 2014 Mr. Brulé was President Commercial Insurance Europe then EMEA, responsible for Property & Casualty, Marine & Energy, Specialty and Aviation across all customers' segments.

From July 2008 to June 2010 Mr. Brulé was General Manager for the Swiss branch of AIG Europe S.A.

Emmanuel Brulé

Chief Risk Officer, AIG