

Report on the Accenture 2011 Global Risk Management Study

Risk management as a source of competitive
advantage and high performance

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About the research

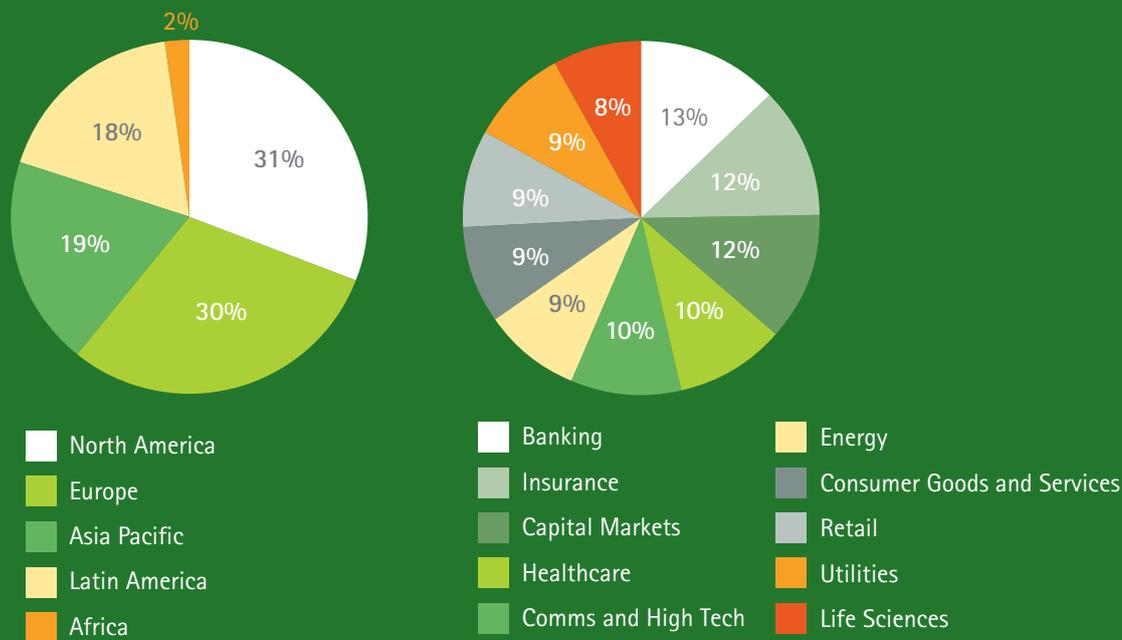
One of the largest risk management surveys of its kind, the Accenture 2011 Global Risk Management Study finds that advanced risk management capabilities are high on the executive agenda and now seen as a critical business driver and source of sustained growth and long-term competitive advantage.

The Accenture 2011 Global Risk Management Study is based on a quantitative survey of executives from 397 companies across ten industries. All respondents were C-level executives involved in risk management decisions at their companies; organizations were split primarily among Europe, North America, Latin America and Asia Pacific. Different-sized companies were also represented: about half the companies represented had annual revenues over US\$5 billion; one-fourth had revenues between US\$1 billion and US\$5 billion; the

remaining quarter had revenues between US\$500 million and US\$1 billion.

In addition to the quantitative survey, additional in-depth interviews were conducted with a number of executives whose views are also represented in the survey findings. These interviews enabled us to probe many of the key issues and further explore lessons and perspectives of some of the leading companies. Reflections from these executives are included throughout this report.

A breakdown of geographies and industries



Note: Due to rounding, total may not equal 100 percent.

Foreword



Steve Culp
Managing Director

Welcome to the Accenture 2011 Global Risk Management Study

Over the past months we have had the pleasure of conducting our global risk management survey and interviewing key executives—all the while, of course, working with our clients to improve their risk management capabilities and help them drive better business outcomes. The research results and our clients' experiences are remarkably consistent.

Executives understand that the challenges facing their organizations have never been greater. They are increasingly looking to risk management leaders to provide guidance on the path ahead, mitigating critical risks and enabling long-term sustainable growth. As a result, depending on your vantage point, it is either a great time or a stressful time to be a risk professional. Or perhaps both.

What we are witnessing, especially as we compare the 2011 results with the findings from our last survey in 2009, is a clear maturation of risk management capabilities across all industries—a rapid march up the business value chain and the development of governance and organizational structures that give risk a voice at the executive table.

Both the survey results and our in-depth executive interviews have produced clear insights across industries and geographies: Risk management capabilities are more critical, more connected, more strategic and overall more valuable to enterprises as they execute their business plans. As a result, companies are spending more time and effort advancing their risk management capabilities as a business priority.

In conducting the research and discussing the results with our clients, a number of themes have risen to the top:

Holistic capabilities

The executive mindset is broadening, and risk management is becoming both more comprehensive and more integrated—whether in decision making or in formalizing enterprise risk management programs or in the restructuring of the risk management organization and its leadership. We see this holistic, integrated characteristic as critical to achieving high performance through effective risk management.

Leading practices

The gap between the “best and the rest” when it comes to positioning, leveraging and executing risk management is increasing. The risk management function is rapidly changing and virtually every executive is looking for peers with whom to share experiences and from whom to learn. Our global report is rich with the personal reflections of many executives with risk management responsibilities within their companies. In addition, to facilitate and encourage dialogue, we have created a dedicated thought leadership website on which you can find a wealth of materials exploring leading practices. You can access the site at: bit.ly/accntureriskmanagement.

Industry specificity

Executives want to compare and contrast their experiences with peers from many types of companies, but especially with leaders within their own industry. Having access to both perspectives can generate new ways of thinking, and also give executives the confidence to push these practices into their own organizations. In addition to

this global report, we have also created industry-specific analyses, and these can be found on our dedicated Global Risk Management Research website: www.accenture.com/GlobalRiskManagementResearch2011. We hope you will take some time to explore the abundant material on this site.

Pragmatism

One message we have heard loud and clear is the need to identify practical steps that can be taken to address the risk management capability gaps which may exist within an organization. Towards that end, we have developed a short diagnostic tool that enables you to benchmark your organization's risk management capabilities against industry leaders (which we have termed “Risk Masters”), see the comparative results and gain access to leading practices and materials to help close any gaps you discover. The Accenture Risk Mastery Diagnostic can be found at: www.accenture.com/GlobalRiskManagementDiagnostic2011

I hope that you enjoy and benefit from the Accenture 2011 Global Risk Management Study. We especially value your feedback and the opportunity to speak with you regarding your own experiences in generating competitive advantage from risk management. Please take a moment to contact us; we look forward to hearing from you.

Steve Culp
Managing Director
Accenture Risk Management



Executive overview

Risk management that enables long-term competitive advantage

From reactive to proactive: That's an effective short summary of the renewed corporate attitude toward risk management—comparing the findings of Accenture's 2011 Global Risk Management study with our 2009 survey. Two years ago, the business community was still in a state of shock, only beginning to recover from a global economic meltdown. Then, risk management looked a lot more like crisis management than a forward looking, enterprise-wide approach to effectively manage the spectrum of business risks in a way that enables sustainable, long-term growth.

Today, across industries and around the world, executives are much more likely than they were two years ago to have invested in and advanced their risk management capabilities, and almost all executives surveyed indicated that risk management is a higher priority now than it was in 2009. Companies have increasingly initiated comprehensive enterprise risk management programs and are more likely to have in place C-level executive oversight to ensure that risk is being managed at a more strategic level. In short, risk management capabilities are not only prevalent and a target of investments—they are also more strategic and aligned with growth strategies, and they are helping companies achieve their most important business priorities.

Why is risk management getting so much attention? The volatility and complexity of the marketplace are still primary drivers, to be sure. Volatility in cash flow planning and commodity markets, and in risk exposure in general, are vexing issues in most industries. Companies are also dealing with multiple elements of their business on a worldwide scope, requiring new forms of coordination

to be effective in living their global operating models. The electronic, online, "always-connected" nature of business also presents numerous risks of fraud, espionage and cyber-crime.

Risk management as a source of competitive advantage

Beyond the immediate pressures of global markets, more demanding customers and dramatic industry change is a growing recognition that companies have an opportunity to drive competitive advantage from their risk management capabilities, enabling long-term profitable growth and sustained future profitability.

This means that risk management at the top-performing companies is now more closely integrated with strategic planning and is conducted proactively, with an eye on how such capabilities might help a company move into new markets faster or pursue other evolving growth strategies. At its best, risk management is a matter of balance—the balance between a company's appetite for risks and its ability to manage them. An advanced risk management capability includes the ability to understand and manage what Accenture calls "risk-bearing

capacity"—a company's capacity to take on new opportunities (which by definition will include a share of risk), as well as its ability to withstand the economic shocks should those risks become issues. Neither too cautious nor too reckless, the best companies use their risk management capabilities to adjust either their capacity or their appetite to make more prudent—and ultimately successful—investment decisions.

As the Global Risk Manager for a European products manufacturer noted in a research interview, "Key risk performance indicators and specific, focused risk analyses are now more often included in investment and strategic decisions." The Chief Risk Officer of a global reinsurance company told us that the firm's enterprise risk management framework "is really tailored to the company to turn it into a competitive advantage."

Meeting the coming challenges

Surveyed executives also noted that stiff challenges lie ahead when it comes to developing risk management capabilities that are adequate to the needs of the business in the future.

- The types of risks to which companies are exposed, as well as their severity, are growing according to surveyed executives. Companies are increasingly concerned about the spectrum of risks—from supply chain to operations to regulation to reputation. Financial fraud and crime are on the rise.
- Despite major investments to improve risk capabilities, critical exposures persist, especially given companies' inability to improve their risk measurement capabilities sufficiently. Risk management needs to support positive business growth, not only protect against negative occurrences, so companies need a better way to assess their risk-bearing capacity.
- Organizational silos and outdated information systems prevent many enterprises from adequately sharing information that could mitigate risks more effectively. Better organizational structures and underpinning systems are essential if the challenge of integration is to be met.
- Performance gaps exist between companies' expectations for risk management and what is actually achieved. Executives want risk management to be a driver for sustained future profitability, and they understand the importance of infusing a risk culture throughout their organization, but too few companies are achieving those goals.
- Cost pressures continue unabated—requiring effective management both in terms of cost of operations and in terms of investment decisions—though other concerns are rising as well. (see Figure 1.) Executives see a growing need to align risk management with the overall business strategy, respond to regulatory demands and improve their modeling and analytics capabilities.

Learning from the Risk Masters

Some companies are leading the way when it comes to driving competitive advantage from their risk management capabilities. The Accenture 2011 Global Risk Management Study identified a set of Risk Masters—about 10 percent of the almost 400 companies surveyed—whose risk management capabilities are superior to their peer set.

Accenture believes that by studying the Risk Masters and learning how they have effectively advanced their risk management capabilities, organizations can gain practical insights as they look to enhance their own risk management processes, technologies and talent. The advanced capabilities of the Risk Masters stand as a set of directional goals and working examples for all companies that seek to generate competitive advantage and high performance from their risk management strategies and capabilities.

Based on survey analysis, the following risk management capabilities rose to the top when it comes to mastering a new generation of risk management:

- Look to create shareholder value from risk management. Risk Masters are especially adept at creating processes and mechanisms that link risk to business performance.
- Involve the risk organization in key decision-making processes. The risk management organization needs to be included in activities such as strategic planning, objective setting and incentives, financing decisions and performance management processes.
- Improve the sophistication of measurement, modeling and analytics to anticipate risks in an increasingly complex environment. Risk Masters are more likely to measure a fuller spectrum of risk types, and they have a higher commitment to analytics and risk modeling.
- Go beyond a compliance mindset of risk management to deliver more complete business solutions that drive competitive differentiation. Top-performing companies are better at managing regulation and

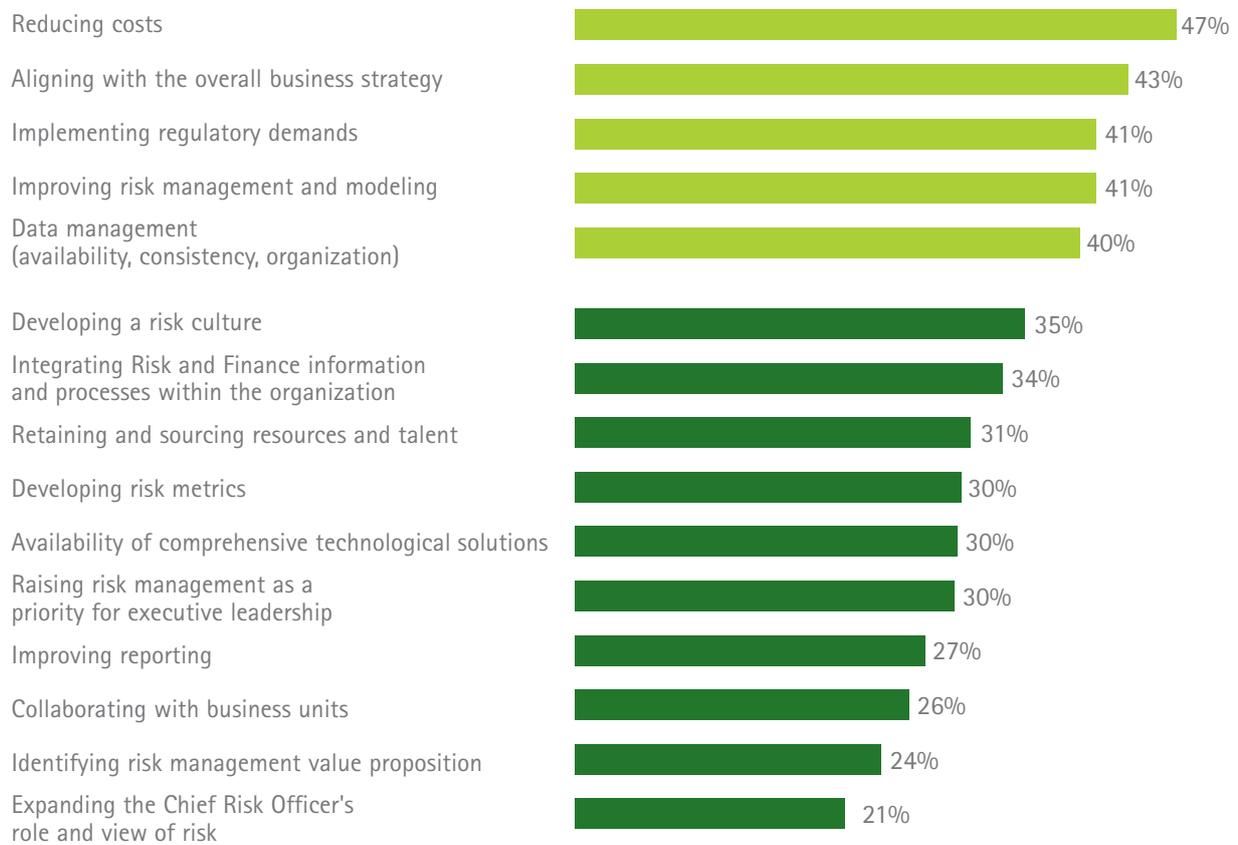
compliance in a way that also delivers better business performance. Risk Masters are also better at developing relationships with regulatory agencies.

- Integrate risk management capabilities across business units and organizational structures. Much higher percentages of Risk Masters excel at the integration required for effective risk management, something that requires a commitment to evolving organizational capabilities over a multi-year program of change.
- Establish a dedicated, C-level risk executive with oversight and visibility across the business. Top performers separate themselves from the pack by having in place a dedicated risk executive with sufficient visibility and leverage to influence risk management capabilities across the entire organization.
- Infuse risk awareness across the organizational culture. It is vital to have in place mechanisms to create and distribute more broadly across the organization an awareness of risk exposure, detailed training and the means to mitigate risks.
- Invest in continuous improvement. Risk management is an ongoing, evolving capability. The world changes rapidly and companies must be nimble in terms of staying ahead of the curve when it comes to meeting the risks and challenges ahead.

In a world of continued dramatic change—economic, marketplace, business and technological—companies committed to driving shareholder value and strategic business outputs from their risk management capabilities will be better placed to achieve long-term competitive advantage and high performance.

Figure 1 Future risk management challenges

What will be the main challenges for your risk organization in the next two years?



■ Top 5 challenges



Major findings

The Accenture 2011 Global Risk Management Study is one of the largest risk surveys conducted, with almost 400 executives surveyed across 10 major industries and all major geographies. (For more, see 'About the Research'.)

The study began with a set of hypotheses about the increasingly complex business environment and the distinctive risk management capabilities that need to be in place to survive and thrive in that environment. These hypotheses included:

- Increasing volatility and growing complexity make risk critical and central to all industries operating in today's business world.
- Although heightened awareness of the importance of risk exists, critical exposures persist and the benefits of enhanced risk capabilities have yet to be realized.
- Top-performing organizations transform risk management into a value-enhancing capability where risk is used as a competitive differentiator.
- Failure to link risk management to growth and value means leaving money on the table, and, consequently, the failure to achieve high performance.

Each of these hypotheses was borne out by the survey findings. As seen in the report, executives are acutely aware of the importance of advanced risk management both to meet pressing needs and to create advantage in the future. Many challenges remain, but for the most part, most of the senior executives across all industries are prepared to invest in what it takes to protect their customer relationships, ensure compliance and advance their competitive market positions.

The report on the survey findings is in three parts:

Part 1 details survey results related to the increased emphasis being placed on risk management by today's executives.

Part 2 discusses the challenges ahead as seen through the eyes of risk management executives.

Part 3 provides more detail about how Risk Masters differ from their peers and what all companies might do to emulate their risk management strategies and capabilities.



1

The increasing importance of effective risk management

Results from the Accenture 2011 Global Risk Management Study support the following key insights related to the heightened importance of risk management capabilities in meeting today's business challenges and opportunities.

Risk insight 1

Increasing volatility and growing complexity make risk management central and strategic to all industries

More than 80 percent of companies surveyed, across all industries, consider their risk area to be a key management function that helps them deal with marketplace volatility and organizational complexity. Eighty-six percent identify the risk management function as a driver to help them deal effectively with the increasing volatility of the economic and financial environment; 83 percent see the function as driving better management of organizational complexity.

Interestingly, financial services firms (banking and capital markets) and insurance companies were only slightly more likely to focus on risk management as a support for managing external volatility—reinforcing the view that risk management is increasingly important across all industry segments. (See Figure 2.)

For almost all companies, risk management is a higher priority today than it was two years ago. (See Figure 3.) Ninety-eight percent of respondents indicated this was so, and 60 percent indicated it was so “to a great extent.” That number was higher for financial services firms (70 percent) and insurance companies (69 percent).

Changing regulations and fallout from the economic crisis are clearly drivers behind higher-than-average responses for these industries—but not the only ones. According to the Risk Director of an Asia Pacific financial services firm, “Risk is a higher priority for us than two years ago because business and risk complexity are changing—driven by regulation, competition, customer expectations, technology, processes, environmental issues and new products, as well as macroeconomic and market factors. Business and risk complexity are rising faster than the current risk management function can keep up. Hence, we are now enhancing our risk management capabilities to enable our organization to keep pace with those complexities.”

From a geographic perspective, slightly fewer executives in North America (53 percent) state that risk management is a higher priority today “to a great extent” compared with Europe (62 percent) and Asia Pacific (65 percent). This finding is most likely due to the fact that many North American companies have been investing in risk management as a priority for several years. However, leading practices and abilities to share risk management lessons are clearly multi-directional in today’s global environment. All companies need to look both East and West in seeking out important insights from today’s best companies.

Perhaps not surprisingly, the bigger the company, the more likely it considers risk a higher priority today than two years ago. Sixty-seven percent of companies with annual revenues over US\$5 billion stress risk as a top priority compared with 52 percent of companies with revenues under US\$1 billion.

One of the key differences between Risk Masters and their peer group shows up immediately in this first insight about the nurturing of the risk management function as a means to deal with marketplace challenges. (For more detail about risk management mastery, see Part 3 of this report.) Sixty-nine percent of Risk Masters believe risk management is a higher priority for their companies today than two years ago, compared with 59 percent of their peers. Sixty-four percent of Risk Masters recognize their risk management organization at the highest level of importance to managing the increasing volatility of the economic and financial environment, compared with 35 percent of non-Risk Masters. And 52 percent of Risk Masters recognize their risk management organization as important to managing the growing complexity of their internal organization, compared to just 27 percent of the other companies.

In short, the Risk Masters acknowledge risk management as a key priority for their companies and plan and invest accordingly. As the Chief Risk Officer of one of the companies in our survey put it, “A high-quality and efficient risk management function is among the top strategic goals of the company, ranking second only to growth and profitability.”

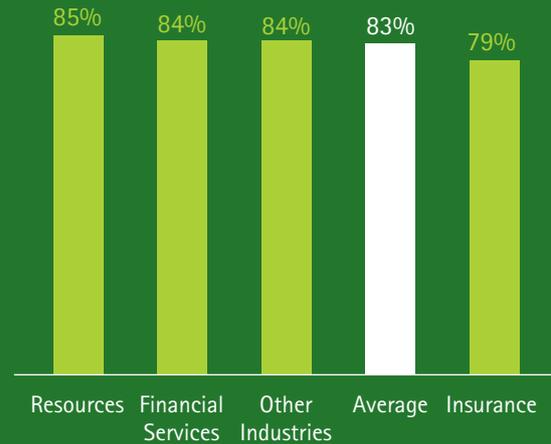
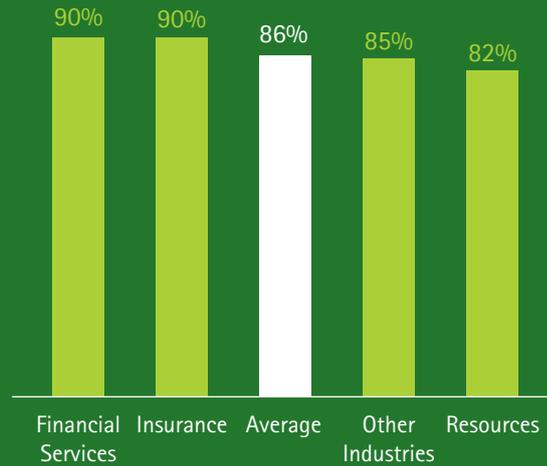
Figure 2

Risk management capabilities are seen across industries as critical for managing volatility and organizational complexity

How would you rate the importance of your risk organization as a driver to achieve the following?

Managing the increasing volatility of the economic and financial environment (external focus)

Managing the growing complexity of the organization (internal focus)



■ % of Critical and Important

Note:

Financial Services includes Banking and Capital Markets.
 Resources includes Utilities and Energy.
 Other Industries includes: Consumer Goods, Retail, Life Sciences, Healthcare and Communications and High Tech.

Figure 3

For almost all companies, risk is a higher priority today

Is risk management a higher priority for your company now than 2 years ago?



■ Not at all ■ Yes, to a limited extent
■ No, less of a priority ■ Yes, to a great extent

Risk insight 2

Executives see their risk management capabilities as important to future profitability and long-term growth

Beyond simply seeing risk management as a top priority, Risk Masters view the risk management function as a more proactive partner to the business, helping to drive growth and sustained profitability. Almost all respondents felt that their risk management capabilities provide at least some source of competitive advantage, a finding consistent across industries.

About half the companies surveyed (49 percent) see their risk organization as a critical driver for enabling long-term profitable growth; another 42 percent saw their risk management capabilities as "important" to growth. Almost identical numbers (48 percent) saw risk management as critical to sustained future profitability, with another 45 percent believing it to be "important." (See Figure 4.)

These are high percentages. Put another way, 91 percent and 93 percent of executives, respectively, see the risk management function as important or critical to growth and profitability. The Risk Director for an Asia Pacific financial services firm states this importance explicitly: "Our risk organization and functions were established to support and enable our organization to achieve strategic goals such as sustainable growth and profitability, competitive advantages and capital management. Put simply, we recognize risk as a part of the strategic agenda."

From an industry perspective, retailers find their risk management function to be a source of competitive advantage, with capabilities that include more efficient capital allocation and reductions in cost of capital. At 37 percent, consumer goods and services is the least likely industry to believe the risk function is a source of competitive advantage and of higher performance relative to competitors.

Our risk organization and functions were established to support and enable our organization to achieve strategic goals such as sustainable growth and profitability.

By generally wide margins, Risk Masters were significantly more likely to see the risk organization as a driver of several important business benefits. (See Figure 5.) For example, 67 percent of Risk Masters hold their risk management capabilities to be a driver

of sustainable future profitability compared with 46 percent of the others, a 21 point difference. Similar gaps were found in other business benefits to be derived from effective risk management:

- Reduced operational, credit or market losses: 74 percent of Risk Masters versus 34 percent of others (40 point difference)
- Infusing a risk culture in the organization: 69 percent versus 36 percent (33 points)
- Positive comments from analysts: 55 percent versus 23 percent (32 points)
- Managing reputation: 62 percent versus 35 percent (27 points).

As further support, the link between risk management and profitability has been validated by other independent, academic studies. A 2009 research initiative from the University of Gothenburg, for example, found that credit risk management had a positive impact on profitability for the commercial banks in the study. The findings revealed that credit risk management had a positive impact on profitability at all four banks studied. Capital adequacy ratio (CAR) contributed positively to banks' profitability as measured by return on equity (ROE), while non-performing loan ratio (NPLR) showed negative effects.¹

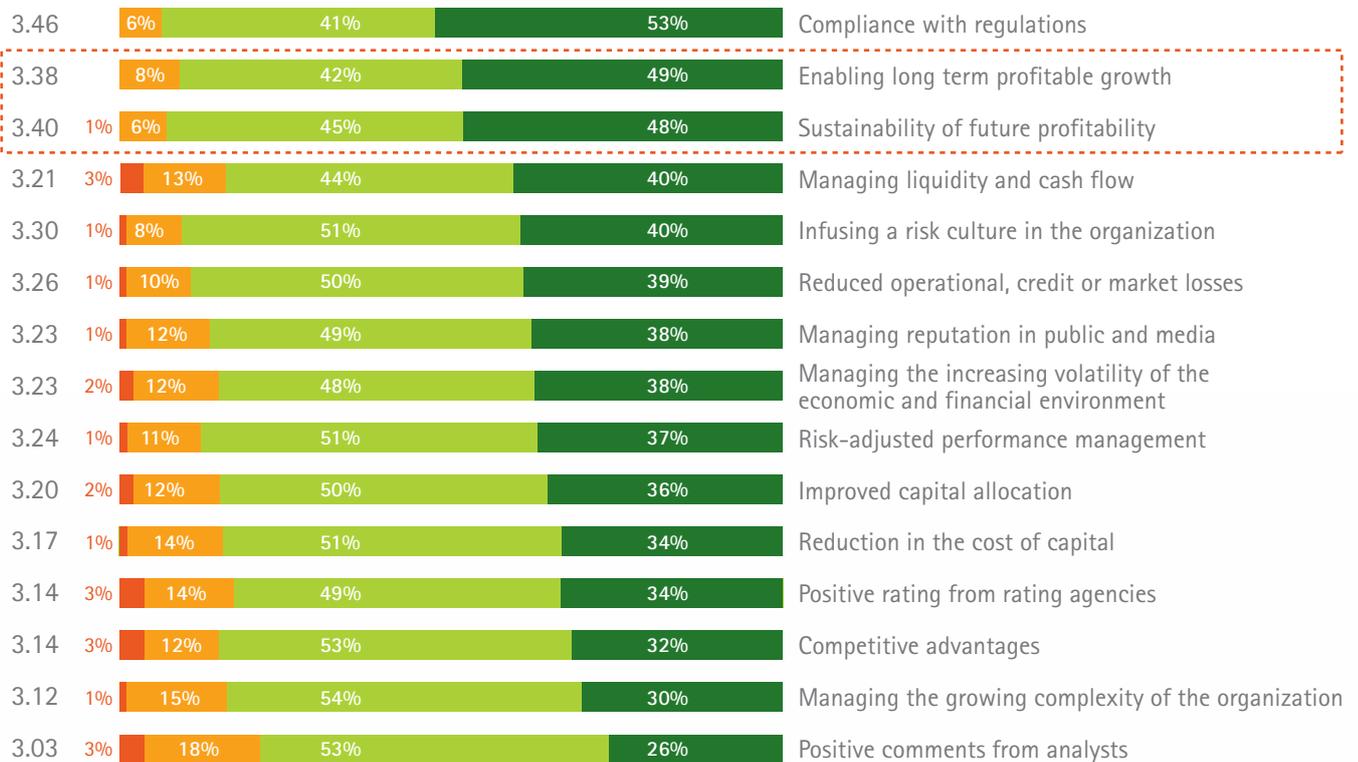
As seen in the detailed discussion of risk mastery in Part 3, supporting growth and profitability will depend on a number of advancements that improve the risk management function's ability to be proactive and to achieve a more strategic reach.

Figure 4

In addition to managing compliance, risk management is seen as an enabler of long-term growth and profitability

What is the importance to your organization as a driver to achieve the following?

Average



■ Not important at all ■ Important
■ Not really important ■ Critical

Figure 5 Risk Masters are more likely to use their risk management capabilities to drive important business benefits

How would you rate the importance of your risk organization as a driver to achieve the following?



*No significant difference between Risk Masters and non-Risk Masters.



Risk insight 3

Companies are implementing comprehensive enterprise risk management programs

As a sign of the increasing importance of risk both in managing market events and in driving better business performance, we find that companies are investing: they are taking risk management seriously from a structural and technological perspective and spending in smart ways to make it more durable.

More than 80 percent of survey respondents overall have an enterprise risk management (ERM) program in place or plan to have one in the next two years. And the existence of ERM programs correlates strongly with risk mastery. High percentages of Risk Masters (90 percent) have an ERM program in existence today, compared with only 64 percent of non-Risk Masters. (See Figure 6.)

As seen in some of the findings discussed previously, financial services firms are above the survey average in this area: 79 percent have existing ERM programs compared to the survey average of 67 percent. Resources companies—utilities and energy—were below the average at 56 percent. This is perhaps due to the fact that this industry has historically had very specific risk management initiatives across both their upstream and downstream operations, so these companies are therefore starting from a higher base.

Interesting geographical differences were apparent from the survey results. Companies in Latin America, for example, are especially likely to have ERM programs—an almost unanimous 99 percent of those surveyed. European companies were the least likely to have an ERM program at 52 percent; North America was also below the survey average at 60 percent.

Several of the executives interviewed stressed recent work within their risk management function to create a more comprehensive ERM framework. At one Asia Pacific financial services firm, management has recently reviewed its ERM blueprint as a path toward managing risk more comprehensively and in an integrated fashion. Noted the executive, “We understand that the best approach for capturing and using risk measures is an integrated approach.” The company has also established an Enterprise Risk Management Division and a Policies & Governance Unit, a reconfiguration of its previously existing Risk Management Division, to enhance its firmwide risk management capabilities.

In accord with the earlier point about risk management as a support for business performance, Accenture believes that one of the primary benefits of a comprehensive enterprise risk management capability is its symbiotic relationship with performance management. Risk management and performance management are really two sides of the same coin. A certain tension must exist, since the risk function exists in part to rein in behaviors that could damage the company and keep entrepreneurial activities within reasonable limits. However, there are times when a strong risk management capability should encourage a company to probe those limits. With closer integration, the risk and performance sides of the organization are kept in sync, working together toward the common goal of driving growth and profitability. If it is to be accurate, measuring performance management must account more comprehensively for risk.

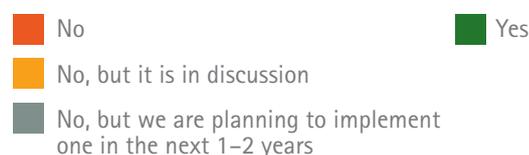
Figure 6 Risk Masters are more likely than their peers to have an existing enterprise risk management program

Does your company have an Enterprise Risk Management (ERM) program?

Risk Masters



Non-Risk Masters



Note: Due to rounding figures might not total 100%

Risk insight 4

Companies are establishing C-level oversight of the risk management function

Compared to the situation in 2009, we find that there has been an increase in appointments of Chief Risk Officers (CROs) or their equivalent—executives who in most cases own the primary responsibility for risk management.

Over two-thirds of all survey respondents have a CRO operating with that title. Another 20 percent have an executive in the role fulfilling those responsibilities, though without the title. Financial services companies are more likely to have an executive in place with the CRO title (84 percent); insurance companies (71 percent) are also above the survey average of 64 percent.

Almost half of the executives surveyed (45 percent) say the majority of risk management is owned by the CRO, up from only 33 percent in 2009. (See Figure 7.) A higher proportion of financial services and insurance firms have CROs owning risk management—59 percent and 54 percent, respectively, compared with the survey average of 45 percent.

From an industry perspective, insurance companies are more likely to have their risk executive reporting directly to the CEO—88 percent, compared to the survey average of 79 percent. Geographically, Latin American business appears to stress the importance of a direct reporting relationship of the risk executive to the CEO: 100 percent of Latin American respondents have a risk owner reporting directly to the top executive; in North America, only 70 percent of risk owners report to the CEO.

The presence of CROs is not limited only to large companies. Indeed, higher percentages of companies with revenues of US\$500 million to US\$1 billion (73 percent) have a CRO in place, compared with 63 percent of companies whose revenues exceed US\$5 billion.

What is the optimal structure for organizing the risk organization, in terms of centralization versus operating directly within the business units? Here, no dominant model has emerged, because effective risk management needs to reflect and integrate with the culture of the organization to be part of how things get done well, not exist as a separate function sitting above, below or alongside the core business processes. Forty-four percent of respondents have a single, centralized risk management function operating at the corporate level; 50 percent have an amalgam, with risk functions at both corporate

and business-unit level. Only 6 percent are totally decentralized, with risk managed only in the business units.

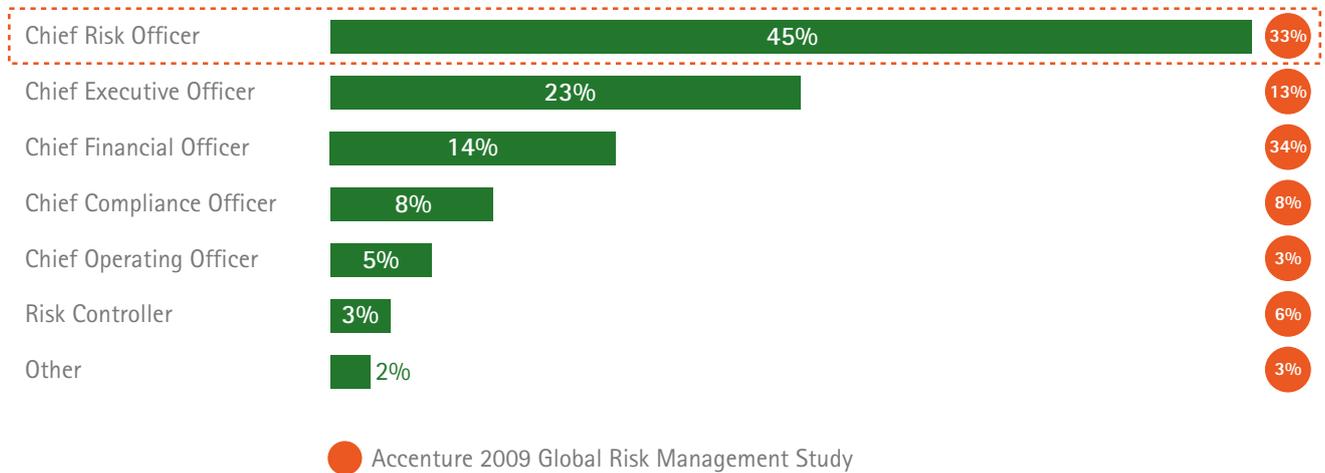
Financial services and insurance companies, largely organized internally between credit, market and operations areas, typically manage risks in a decentralized manner. Among non-financial firms, retailers are most likely to have an executive with assigned risk responsibilities and have a centralized risk management function.

What's the key takeaway with regard to executive oversight of the risk management function and the manner in which it is structured? Above all, the criticality of risk management is being recognized and supported by investments in capabilities but, equally important, by the way it is staffed and connected to the day-to-day flow of business.

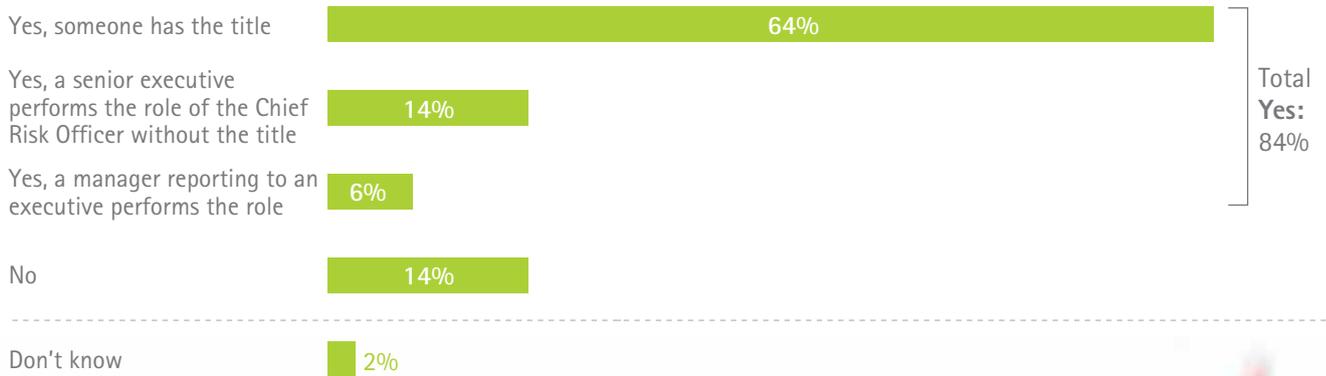
Financial services and insurance companies, largely organized internally between credit, market and operations areas, typically manage risks in a decentralized manner.

Figure 7
Compared to the Accenture 2009 Global Risk Management Study, more companies now have in place a Chief Risk Officer who owns risk management

Who primarily owns risk management in your organization?



Does your company have a Chief Risk Officer?



Risk insight 5

Executives expect their investments in risk management to increase over the next two years

As the importance of risk management expands, and as companies increasingly view the risk management function not only as a preventive capability but also as a performance enabler, one would expect spending levels to rise accordingly. This is indeed the expectation of the executives surveyed in the Accenture 2011 Global Risk Management Study.

Eighty-three percent of respondents see risk management investments (which includes salary and benefits for risk employees, professional services, technology costs, facilities and travel) increasing in the next two years. Of those, 21 percent foresee a significant increase (more than 20 percent) while 62 percent foresee an increase of less than 20 percent. (See Figure 8.)

Spending is already fairly significant. More than half of the companies surveyed have invested at least US\$25 million over the past two years in risk management capabilities. Fifteen percent of respondents have invested between US\$50 million and US\$100 million. About 1 in 10 has invested above US\$250 million. (See Figure 9.)

Looking ahead, the largest investment increase in risk management capabilities will be in financial services: 90 percent of respondents from the finance industry foresee significant or moderate investment increases, compared to the survey average of 83 percent.

Geographically, Latin American companies foresee larger risk management investments than other parts of the world: 90 percent foresee significant or moderate investment increases, compared to the survey average of 83 percent. Asia Pacific and North America are slightly under the average, at 82 percent and 81 percent, respectively.

The largest companies, perhaps not surprisingly, will continue to invest at comparatively higher levels. Among companies with revenues exceeding US\$5 billion, 88 percent of executives foresee significant or moderate investment increases, compared to the survey average of 83 percent.

What enhancements in particular do companies intend to invest in? The top answers were: data quality; management and architecture; analytics and risk modeling; and better integration of risk processes with finance processes. However, many other areas are also slated for investment, including performance management, IT infrastructure, process re-engineering and automation. (See Figure 10.)

Figure 8
Companies expect to invest in their risk management capabilities in the coming years

How will the total level of investment to develop risk management capabilities evolve in the next two years?

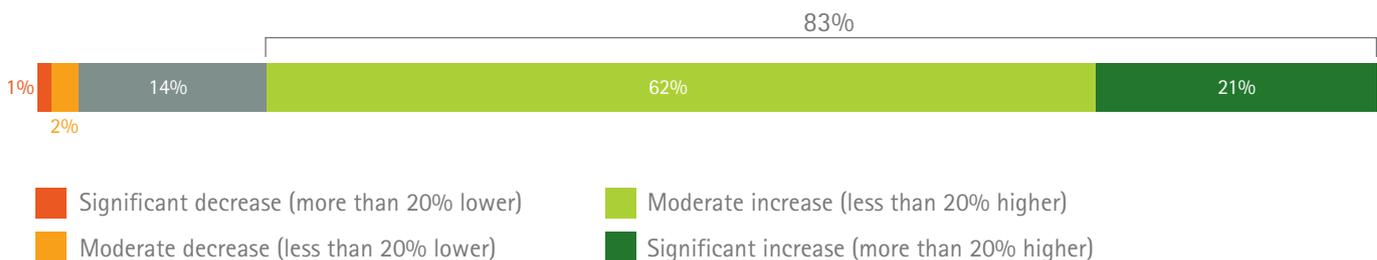


Figure 9

Companies are making significant investments in their risk management capabilities

What is the total approximate investment your company has made at the global level, to develop its risk management capabilities over the last two years?

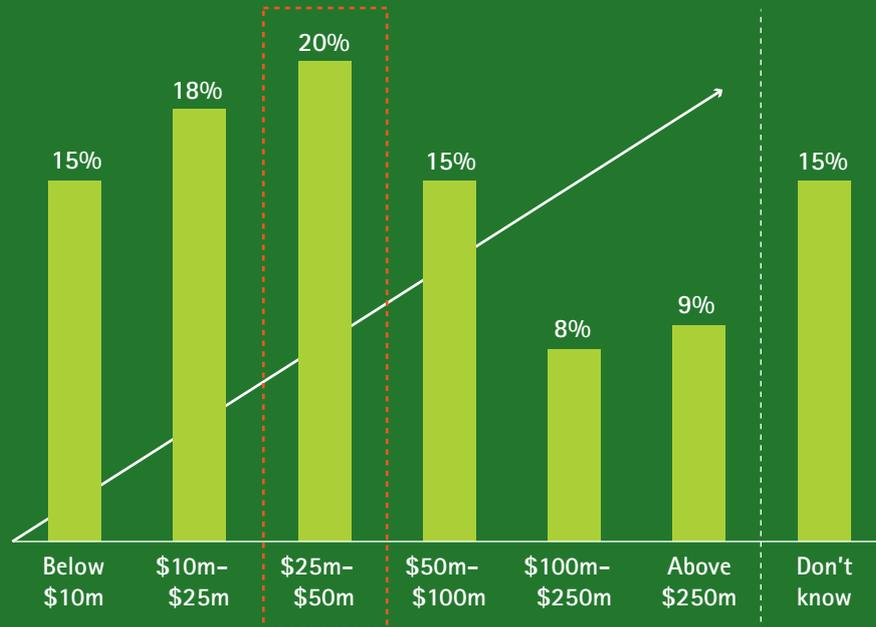
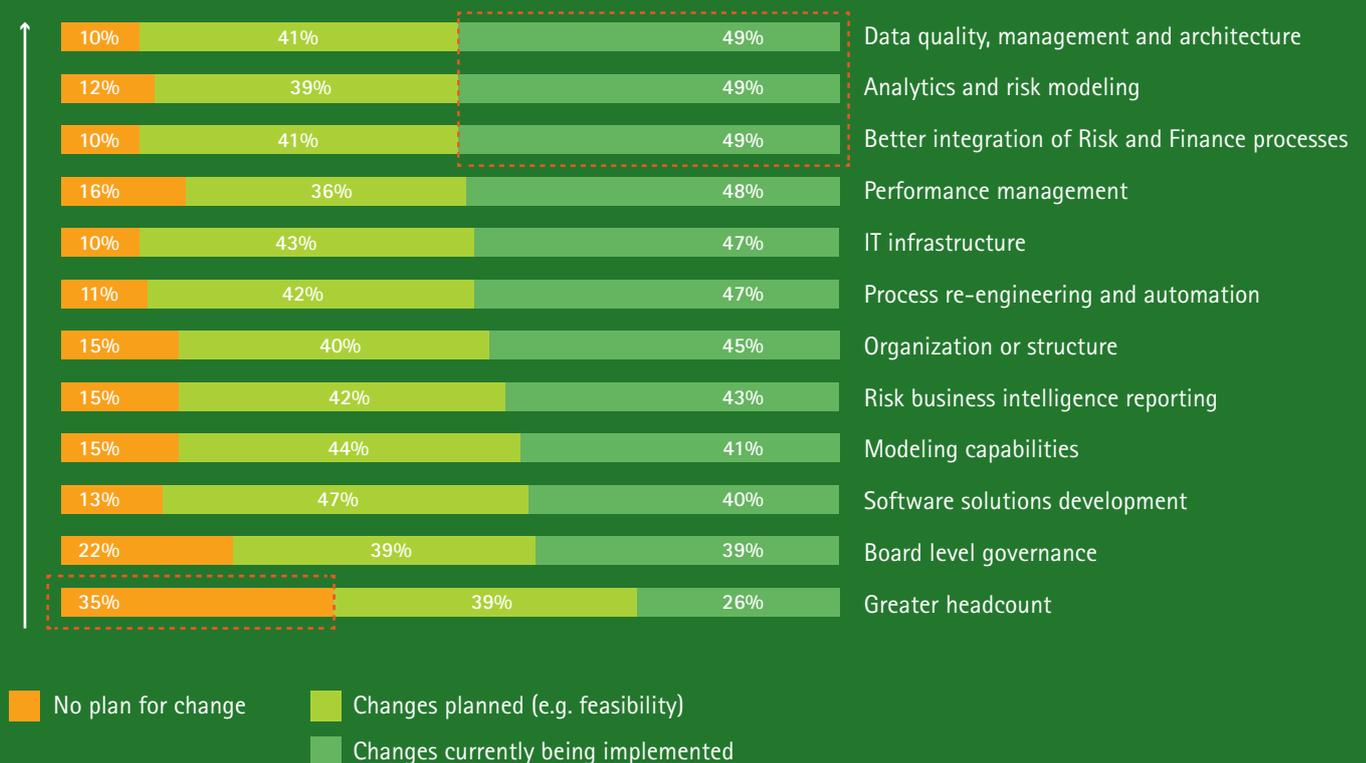


Figure 10

Companies intend to invest in a range of important risk management capabilities

What changes are you currently undertaking or considering for the next two years in order to enhance your risk organization?



■ No plan for change
 ■ Changes planned (e.g. feasibility)
 ■ Changes currently being implemented

Risk management at Accenture: leading by example

Achieving high performance is important at Accenture—for our clients and for ourselves as well—and within our own company we continue to pursue risk mastery, evolving our risk management processes as a source of competitive advantage.

For example, Accenture has a Chief Performance Officer responsible for enterprise risk management, client delivery quality and process excellence. This executive reports to the Audit Committee and Board of Directors and also to the CEO regarding enterprise risk management. The objective of this structural and reporting arrangement is to make sure our eye is always on the end game: achieving high performance for our business and our clients.

Achieving that end requires taking an “eyes wide open” approach to identifying and understanding risk so that it is managed and mitigated properly to minimize its impact on business performance. Risk mitigation is critical, but it’s a means to the greater end of improving the business and seizing opportunities—maximizing business performance by minimizing risk impact.

Risk assessment is a vital part of the overall process of risk management: identifying, prioritizing and validating existing and emerging business risks. As a means of incorporating risk management within our daily business operations, risk assessment has been embedded into Accenture’s processes for pursuing new businesses or services. Our growth strategy involves taking on new offerings as well as complex and more pioneering work in emerging markets. Being successful at this strategy requires consistent, upfront analysis of Accenture’s capability to execute on these new business or services. In our view, effective risk management thus becomes an enabler of continued growth rather than an inhibitor.

At the same time, it’s important for companies to avoid getting stuck only in the assessment phase. So we’ve put the primary focus on action—on risk management and monitoring. We assign executive-level ownership of top risks—executives responsible for implementing proper accountability and processes for consistent risk management across the globe. These owners have accountability for the business performance and underlying risks as part of their natural, ongoing duties; it’s not just an administrative overlay. Risks are analyzed in relation to their relevant business performance objectives, and key risk indicators are identified to provide predictability into that performance. Being proactive is key: identifying key risk indicators allows us to “look around the corner” to focus on prevention and detection instead of on recovery only.

Finally, stewardship and a risk-aware culture are also paramount. Risk management is a collective responsibility. Though risk owners are identified for all top business risks to ensure proper stewardship and accountability, risks as a whole are owned by Accenture’s Executive Committee. Executive meetings include a standing discussion on top business risks, and increasingly risk owners are being asked to facilitate a deep dive on individual risks for further management discussion. As well, we continue to look for opportunities to build risk management more naturally into our business operations, such as in our quality management process for new client contracts.

All in all, our emphasis on proactive approaches to risk management, and the governance and management structures we have in place, mean that, when it comes to risk management, we’re playing to win, as opposed to playing not to lose.

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2

Meeting the coming challenges

Although the risk management insights discussed in Part 1 point generally to a positive view of the importance of risk management and of its potential impact on business performance, the survey results also underscore a series of deeper concerns.

As business volatility increases and as risks become more complex and widespread, the exposures remaining in many companies point to the need for increased focus in several key areas.

The five challenges outlined on the following pages were most apparent from the Accenture research.

Challenge 1

The types and magnitude of risks are increasing

One of the key conclusions arising from the survey results as well as executive interviews is that companies have growing concerns about a broader spectrum of risks, including those related to the supply chain, operations, regulation and reputation.

Regulatory risk, for example, is a common concern. Eighty-nine percent of respondents indicated that their company's regulatory risk will increase in the next two years. Over one-third said it is increasing significantly. As an executive with one European financial services firm put it, "One of the big challenges of risk management is to comply with rapid and continuously changing regulatory requirements. Staying up to date is not easy considering that new guidelines and recommendations are published almost weekly by the different authorities."

Increases in regulatory risk will be more significant in financial services: 62 percent of surveyed executives in banking and capital markets say their regulatory risk is increasing significantly, compared to the survey average of 39 percent. (See Figure 11.) The regulatory environment of global companies is especially challenging. As the executive of one global insurance firm put it, "The fluid regulatory environment in the insurance industry, especially internationally, has been the primary driver of the changes taking

place in our organization." Differences in governmental approaches around the world can be vexing. In North America, for example, companies may perceive they have some leverage with regulators; in Asia, on the other hand, companies may have less influence when it comes to regulatory reform.

At the regional level, increases in regulatory risk will be more significant in Europe. Fifty percent of European executives indicate their regulatory risk is increasing significantly.

Another area causing considerable consternation is financial fraud and crime. Ninety-three percent of survey respondents indicate that financial crime and fraud are more challenging to address than two years ago, and 57 percent say this is true "to a great extent." According to Accenture's recent report on fraud and financial crime, "Joining the Dots: Developing a Coordinated, Strategic Approach to Fraud and Financial Crime," a strong business case exists for stronger efforts to fight financial fraud. The financial and reputational risks from

One of the big challenges of risk management is to comply with rapid and continuously changing regulatory requirements.

fraud have increased at a time when organizations' focus on driving costs down have cut resources available for fraud prevention and detection. However, risks are increasing.

An estimated 87 percent of U.S. companies have been affected by fraud. And according to the National Fraud Authority's annual fraud indicator for 2011, fraud in the private sector costs the U.K. economy an estimated £11 billion (US\$19 billion) per year.²

Life sciences firms have a higher-than-average number of respondents who believe that financial fraud has increased to a great extent. These companies have experienced a spike in fraudulent drugs, a loss of products due to theft, and increased regulatory scrutiny related to both issues.

Figure 11

The impact of regulatory risk is felt differently across industries

In the next two years, to what extent will regulatory risk change in your industry?

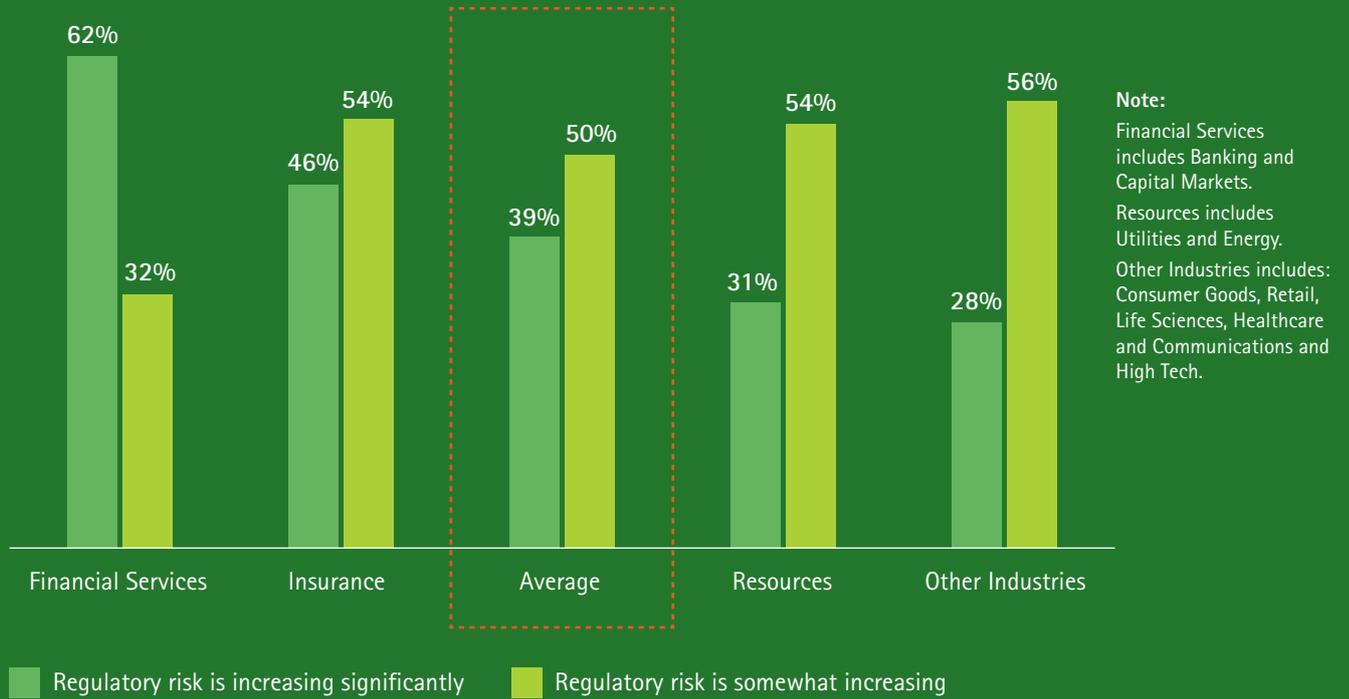


Figure 12

Relatively high percentages of companies are not currently measuring important categories of risks

Is your company currently measuring the following risks or planning to in the next two years?



Healthcare firms also have a higher-than-average number of respondents believing that financial fraud has increased to a great extent.

The communications and high tech industry, at 95 percent, is also at the top in believing that financial crime and fraud are more sophisticated and challenging to address than two years ago. This may be due, in part, to the global and complex supply chain operations on which these companies depend, and to the need of high-tech firms to protect their intellectual property.

Companies are pursuing a wide range of initiatives to address these risks, including prevention training, improving technology and improving data analytics. A higher share of Risk Masters have ongoing measures to address more sophisticated financial crime.

In addition to preventive measures, companies are also performing root-cause analyses to prevent future instances of fraud and crime from occurring. At an Asia Pacific financial services firm, the company examines each instance when a new type of crime or fraud has occurred, determining which built-in controls failed to operate properly or what processes were inadequate to prevent the crime or fraud. Based on that analysis, the company then addresses the existing gap by creating new controls or enhancing existing ones.

Accenture's "Joining the Dots" research report on fraud and financial crime, as well as ongoing client experience, points to three principles that can serve as a foundation for more effective fraud prevention and detection:

1. Anti-fraud activities should be centralized within the organization.

Centralized fraud management can perform analyses across products, channels and business units, deploying mitigation strategies, rules and models that are refreshed regularly to keep up with changes in fraud trends.

2. The relationship among customer experience, fraud prevention and detection, risk management and cost reduction should be strengthened.

Fraud prevention and detection strategies and reporting metrics should be in line with strategic objectives. As customers shop around more, how firms are seen to protect their clients from fraud risk can be very important. However, to maintain their reputation, companies will need to invest to stay ahead of the game, for instance by enhancing fraud detection analytics.

3. Fraud systems, technologies and tools should be layered to increase efficiency in fraud detection.

Dynamic changes in fraud activities require proactive investment in systems, technologies and tools to prevent and detect fraud and to stay a step ahead of fraudsters. Where applicable, fraud systems, technologies and tools should be leveraged across the industry to increase information-sharing and reduce costs.

Improving a company's crisis management capabilities in light of an extended spectrum of risks is also critical to achieving high performance. Large-scale crises, whether stemming from catastrophic events, managerial misconduct or other causes, can have a significant effect on earnings and share prices. Occasionally companies come back stronger than ever following a crisis, but some have disappeared altogether, either through liquidation or merger, while others have suffered from lingering reputational damage.

Another recent Accenture report, "Corporate Crisis Management: Preparing for a Rapid Response to Unexpected Events,"³ details four essential elements for more effective crisis management:

1. Prepare for unexpected failures.

Crises usually occur because some aspect of risk management has failed. Crisis management needs to be an extension of the overall approach to risk management, not a distinct activity. Integrating both of these activities with the business is essential. Just as risk management should be treated as a key business process,

inseparable from other aspects of the business cycle including sales, manufacturing, and distribution, so is the case with high performance crisis management.

2. Ensure that crisis management operates across structures, functions and divisions, both vertical and horizontal.

The crisis does not care how the company is structured. In any real crisis situation, problems quickly leave organizational confines and become the concern of the entire company. Crisis management, therefore, must be established in such a way as to be effective across different operations and functions.

3. Recognize the crisis as early as possible, and take quick, decisive action.

There are numerous examples of crises that could have been headed off if identified and acted upon earlier. While there may be operational penalties for inaction or late action, there are even more significant reputational consequences from being seen as hesitant or indecisive. The company should start positioning itself for response, recovery and growth as soon as the crisis is identified.

4. Communicate thoroughly, effectively and frequently with all audiences.

Company management cannot prepare for every conceivable crisis. They can, however, prepare a communications framework that will facilitate rapid communication and rapid response to changing events.

Crisis planning should evolve with the organization's own strategy, focus and people. Once a crisis occurs, however, the organization should be ready to act on two levels: first, to contain and control the immediate damage; and second, even while this is taking place, to begin the process of recovery and growth.

Challenge 2

Despite major investments to improve risk capabilities, critical exposures persist

Companies are not shying from their responsibilities to invest in improved risk capabilities. We found that more than half of respondents (52 percent) have invested at least US\$25 million over the past couple of years in such capabilities. Of these, about 10 percent have invested more than US\$250 million and the focus to ensure that these investments provide returns for the organization is also increasing. Companies recognize that the impetus for increased investments in risk management is to improve controls and regulatory processes; however, they are also getting better at measuring the return on those investments, beyond simply the cost of doing business.

However, despite the efforts and investments to date, critical exposures remain. More than a quarter of respondents are not measuring major risk items (see Figure 12):

- 50 percent of companies are not measuring emerging risks.
- 57 percent do not measure political risks.
- 44 percent do not measure reputational risks.
- From 27 percent to 28 percent of companies are not measuring major financial risks, including business, market and credit risks.

Although the conclusion here may be obvious, companies cannot manage effectively what they do not measure. These measurement gaps expose them to potentially harmful business and marketplace risks, and also create a situation where assessing improvement and progress becomes impossible or, perhaps worse, merely anecdotal.

Measurement also becomes a factor as companies strive to move beyond merely reactive understandings of risk management to develop a capability

that can proactively support the business. The capacity to effectively understand and bear risk to support profitable growth involves much more than just sound financial management and the building of capital reserves. It involves the ability to assess what we call an organization's "risk-bearing capacity."⁴ Risk-bearing capacity also expands the traditional idea of risk management beyond financial resources, focusing a company on a broader picture of operations, management processes, systems, culture and leadership that can increase resiliency in the face of setbacks, and improve their agility in the pursuit of new opportunities. Companies are accustomed to "playing defense" when it comes to risk management; ongoing attention to risk-bearing capacity enables them to "play offense" better, as well—to pursue business opportunities with sufficient guidance.

A risk-bearing capacity analysis looks at five corporate dimensions individually and in interaction with one another:

1. Financial strength

A distillation of established financial measures and ratios such as cash flow at risk and debt equity.

2. Management capacity

An evaluation of the effectiveness of management processes, and how well they are employed to add value to the shareholder.

3. Competitive dynamics

A company's position in the marketplace relative to competitors and market trends—past, present and future.

4. Operational flexibility

An evaluation of a company's ability to react to market trends and developments while still maintaining strategic focus and financial continuity.

5. Risk management systems

The people, technology, systems and processes that a company employs to identify, measure, mitigate and monitor its risk exposures and that protect its solvency and stability during extreme events.

Challenge 3

Organizational silos are preventing effective integration of risk management structures and responsibilities

Across most types of risks, from 15 percent to 24 percent of survey respondents note that their risk management approach is not integrated, and that silos remain. For approximately 40 percent to 50 percent of the executives surveyed, management of major risks is only “somewhat” integrated. (See Figure 13.)

One of the companies we studied as part of our research, for example, retains an organizational structure in which risk management refers primarily to actions taken to minimize risk within a particular function or process. No integrated, company-wide view is therefore available. The company sees this as a significant gap and is now taking action to help balance the considerations of risk and opportunity in a more holistic manner.

More effective organizational structures and governance systems are essential if this integration challenge is to be addressed. At one bank participating in our research study, the risk area is linked to the credit, controllership, global risk and asset operations leadership. A governance structure or internal control system starts with a supervisory board but then extends to the board of directors, to the internal audit function, and then to other boards including planning, security management, internal controls, strategy and risk management.

Each of these areas has a direct interest in the bank's risk management

capability, and the work is brought together and integrated through the work of three committees that are a part of the Risk Management Board:

1. Operational risk
2. Credit risk
3. Liquidity and market risk.

These committees report to the Global Risk Committee

This structure enables the bank to have centralized management while responding to regulators' demands that each area of the bank retain individual responsibility as well. The Risk Management Board has a manager responsible for consolidating everything ranging from control and overall management to policies. All areas relating to operational, market and credit risks are managed and consolidated by the Risk Management Board. As this example makes clear, the risk management function needs to have a seat at the leadership table to embed and support effective risk management within the organization.

Survey results show definitively that the level of risk integration is

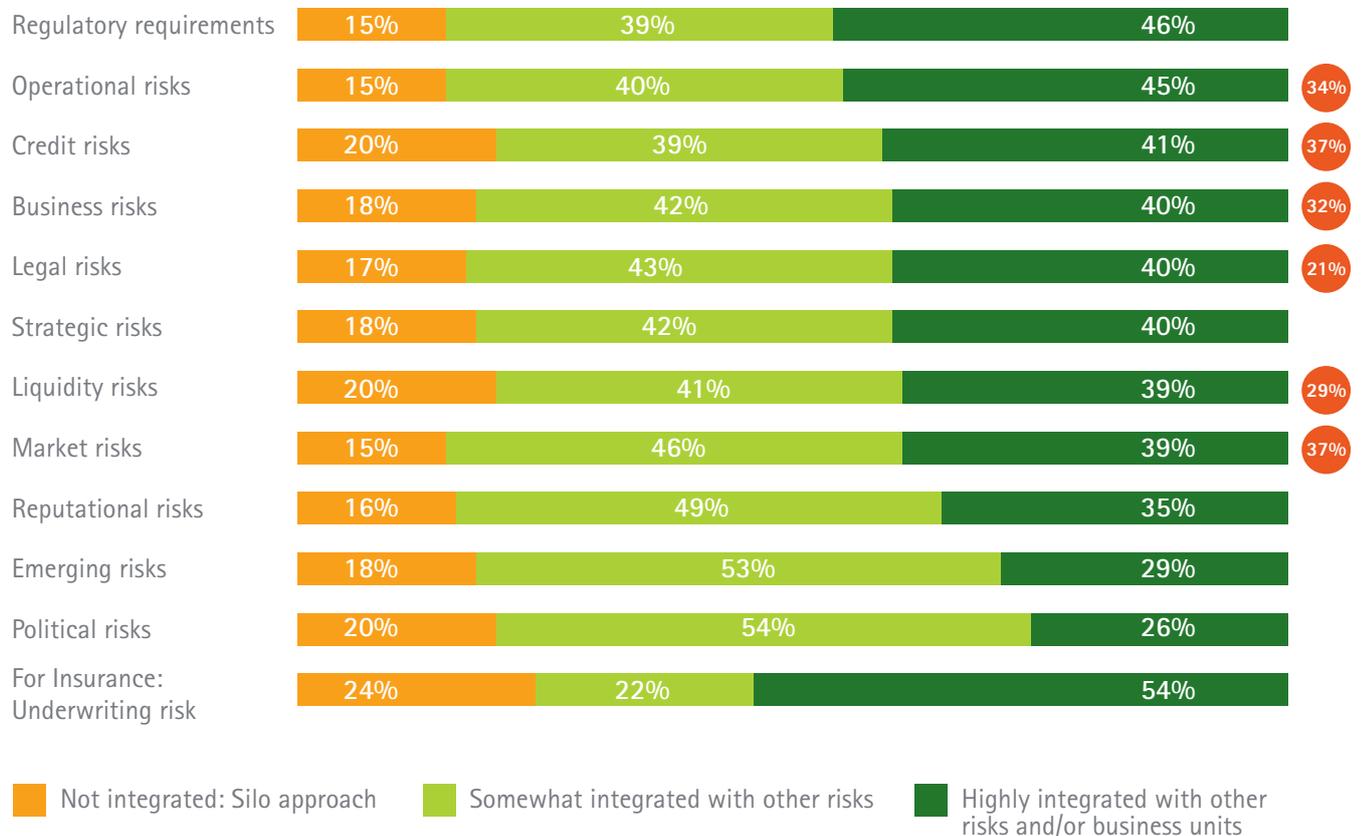
higher among the Risk Masters. Risk Masters are far more likely to describe numerous risk categories as “highly integrated.” For example, 64 percent of Risk Masters describe business risks as being highly integrated, compared with only 37 percent of non-Risk Masters. Other significant gaps between Risk Masters and others when it comes to risk integration include:

- **Liquidity risks**
70 percent of Risk Masters say this is highly integrated, compared with 36 percent of others.
- **Legal risks**
69 percent versus 36 percent.
- **Operational risks**
67 percent versus 42 percent.
- **Regulatory requirements**
67 percent versus 44 percent.

The trend for leading organizations to manage risks in a more holistic, integrated and strategic manner is very clear. However, making the decision to approach risk management in this way is only the first step; it's in the execution of that vision where the value is created.

Figure 13 Integration of risk management structures is improving, but silos remain in several areas

What would best describe your approach for the capture and use of risk measures?



● Accenture 2009 Global Risk Management Study
 % of respondents who said "Highly integrated"



Challenge 4

Companies experience performance gaps between expectations for risk management and what is achieved

Respondents to the 2011 Global Risk Management Study have high expectations for what their risk function should be able to accomplish—though the actual performance of the function generally does not live up to those expectations.

(See Figure 14.)

For example, 93 percent of respondents indicate that the risk organization is important as a driver for sustained future profitability, but only 76 percent say their risk organization has achieved that goal.

Other gaps include:

- Reduction in the cost of capital (14 percentage point gap)
- Achieving competitive advantage (13 percent)
- Risk-adjusted performance management (13 percent).

Another notable gap concerns the inability of many companies to infuse a risk culture throughout their organization. Risk management cannot be merely a standalone function; it requires dedicated leadership, but the entire organization must act as effective stewards for risk. If a broader culture of risk awareness is not created, companies will struggle to realize the full benefits possible.

Most performance gaps are larger among non-Risk Masters. For example, in an area such as the ability of risk management to help reduce the cost of capital, a gap of 15 percentage points exists among non-Risk Masters, compared with no gap at all among Risk Masters. For “enabling long-term profitable growth,” the performance gap among Risk Masters is only 2 percent (95 percent to 93 percent) compared with an 11-point gap among the peer set (90 percent to 79 percent).

These gaps reinforce the importance of execution and for risk management leaders to have sound business cases for their change programs. Only by managing the change efforts with rigorous discipline and a focus on outcomes can the inherent value opportunity (or required cost reduction) be realized.

If a broader culture of risk awareness is not created, companies will struggle to realize the full benefits possible.

Figure 14

Gaps exist between executives' expectations for the risk management function and what it actually achieves

How would you rate the importance of your risk organization as a driver to achieve the following?

To what extent have risk capabilities helped your organization achieve the following?



Challenge 5

Cost reduction and alignment of risk management with overall business strategy are ongoing executive concerns

Over the next two years, according to the survey findings, the main challenges for the risk organization will be reducing costs and aligning with the overall business strategy. Forty-seven percent of respondents named "reducing costs" as a top-five challenge, up from 38 percent two years ago. And 43 percent named "aligning risk with the overall business strategy" as a significant challenge, up from 37 percent in 2009. (See Figure 15.)

These two challenges are closely related. That is, given the significant investments required to improve risk management capabilities, aligning those capabilities with business needs is vital. Investments must be made based on measurable business cases because companies have to ensure they are getting an adequate return on the investment. In general, companies are moving beyond a reactive, compliance mindset to a proactive risk management capability that produces business results.

Other important challenges noted by participants were:

- "Implementing regulatory demands" and "improving risk measurement and modeling," each named by 41 percent of respondents.
- "Availability and consistency of data management," cited by 40 percent of respondents.

Risk Masters were more likely to be focused on risk measurement and modeling than their peers, and slightly less concerned with cost reduction. Because Risk Masters are

already more likely to have aligned their risk management capabilities with business strategy, this was less of a concern to them compared with others (36 percent to 44 percent). Risk Masters are more interested in technology solutions than non-Risk Masters (38 percent to 29 percent).

One means for creating and maintaining better alignment between the risk management function and business strategy is through the use of what Accenture calls Integrated Risk and Performance Management (IRPM). The IRPM framework provides a set of business processes, methodologies and supporting technologies that give companies a new, risk-conscious way to monitor and manage corporate performance and improve decision making. The framework supports institutions in overcoming today's siloed approach to risk and performance management, and helps ensure that decisions are made based on broader visibility across the organization.

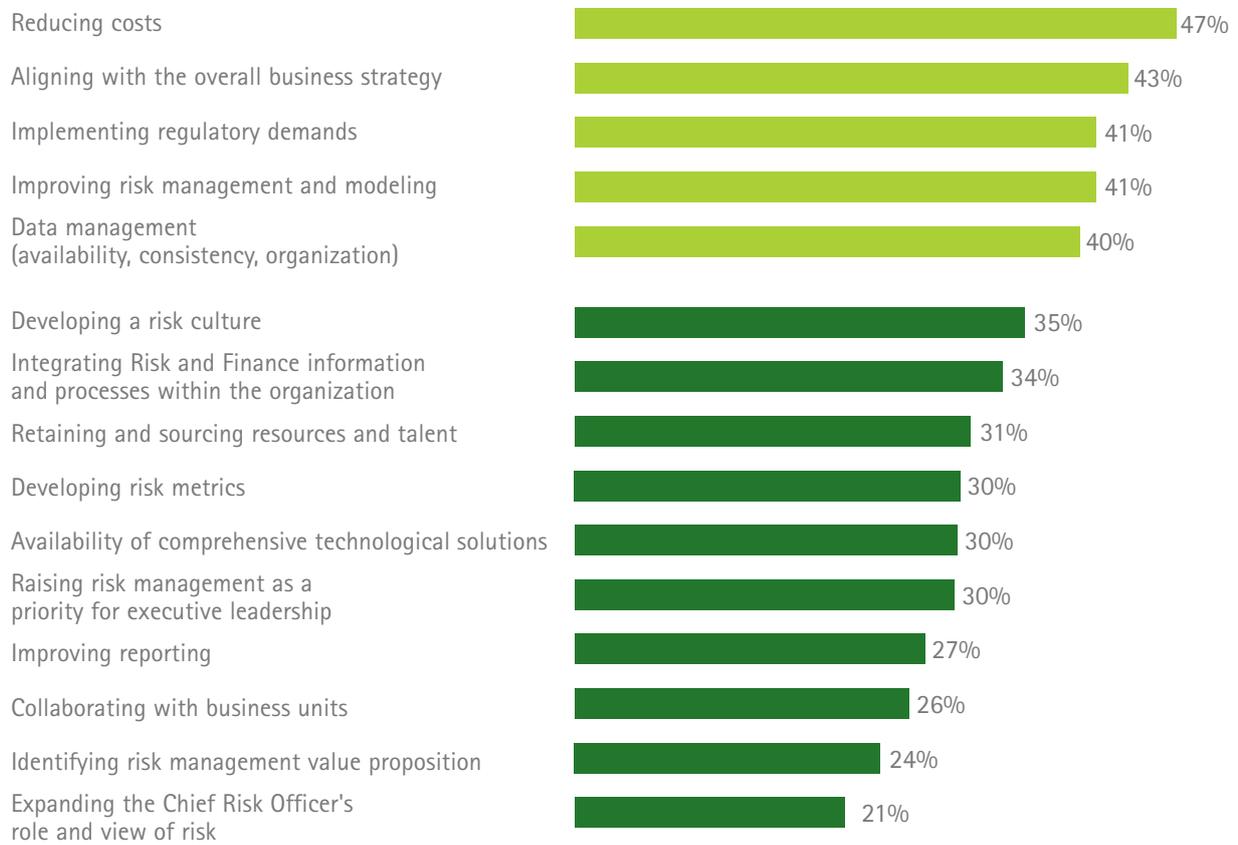
Forty-seven percent of respondents named "reducing costs" as a top-five challenge, up from 38 percent two years ago.

The IRPM Framework uses standard financial and risk-adjusted key performance indicators (KPIs) to provide alternative lenses on corporate performance in order to drive increased risk-adjusted returns. The framework provides a mechanism for aligning the goals and KPIs of individual managers to those of the organization as a whole. The strategy and objectives identified by corporate leadership flow through to the setting of objectives, and reporting on performance, at all levels of the organization. This is achieved by breaking down corporate, risk-related measures into lower-level metrics for use within the company.

Figure 15

The top challenges for risk management organizations will be reducing costs and alignment with business strategy

What will be the main challenges for your risk organization in the next two years?



■ Top 5 challenges



As this capability is fully realized and understood, the board and executive team can better view and manage the performance of the organization. In turn, C-suite executives, business unit managers and compliance officers are empowered to take timely action to protect and enhance capital, and ultimately increase shareholder value.

Accenture's experience has shown that effective implementation of the IRPM Framework provides organizations with the ability to manage risk-based performance across multiple views, while also providing a path for improving return on equity (ROE) by up to 1.5 percentage points, risk-adjusted return on capital (RAROC) by 2 percentage points or more and

economic profit margin by up to 11 percent.⁵

Overcoming the challenges

The types and magnitude of risks are increasing, and so are costs. In spite of significant investments in risk management structures and technologies, companies remain vulnerable to a host of business, operational and regulatory risks, and to crime and fraud that are exacerbated by the digital, online nature of today's business environment. Structural and governance issues often prevent companies and their executives from gaining sufficient visibility across the business in an integrated fashion

to anticipate and mitigate risks, especially given the global nature of operations.

Yet our analysis of the survey data, as well as conversations with a variety of risk executives, highlights several clear paths to risk mastery: keys to planning and managing a proactive risk management function capable of anticipating threats to the business, while simultaneously providing guidance to entrepreneurial executives looking toward a new wave of growth.



3

Achieving risk mastery

The large sample size of the Accenture 2011 Global Risk Management Study enabled the identification, with statistical validity, of a subset of companies deemed to be “Risk Masters”—companies whose practices and capabilities across a set of factors including existing ERM programs, analytics and integration with decision-making processes.

Mastery is multi-dimensional. It requires a mix of governance, process, technology and talent, and it also requires commitment to improvement and consistency over time.



Achieving risk mastery

Although Risk Masters constitute just over 10 percent of the total number of companies surveyed the route to mastery is neither mysterious nor impossible. There is no standard formula, but by understanding what the Risk Masters do, others can gain insight and apply these insights within their own organizations. It is important to note that there is no single roadmap to risk management mastery; however, by understanding what these risk management leaders are doing in their organizations, our experience has shown that others can more rapidly target enhancements in their own approach. The elements of mastery stand as a set of considerations for achieving a risk management capability that can generate competitive differentiation within any industry.

What is a Risk Master?

Risk Masters most frequently have advanced risk capabilities in the areas that are most important to their organization and overall business strategy. These companies comprise approximately 10 percent of the companies participating in the Accenture 2011 Global Risk Management Survey. They apply risk management capabilities across the enterprise effectively to mitigate risk and also to drive competitive advantage. The Risk Masters include risk in the decision-making processes of the organization across strategy, capital planning and performance management.

In doing so, these companies fully integrate their risk organization into business operations, establishing risk policies based on their appetite for risk, and they delineate processes for managing risks which are communicated across the enterprise. These activities are underpinned with robust analytic capabilities that support efficient compliance processes and provide strategic insight.



Mastery capability 1

Raise the bar on risk management as a driver of shareholder value

Almost two-thirds of Risk Masters (64 percent) indicate that their risk management capabilities provide competitive advantage to “a great extent,” compared with only 42 percent of the peer set. (See Figure 16.) Masters are also more likely to identify risk as a higher priority.

Risk Masters are especially attuned to their risk management function as a driver of specific benefits. For example, 74 percent of Risk Masters see the risk organization as critical to reducing operational, credit and market losses compared with only 34 percent of non-Risk Masters—a significant, 40 percentage-point gap. Sixty-seven percent of Risk Masters believe that the risk management function drives sustained future profitability while only 46 percent of peers hold this to be so. Fifty-seven percent of Risk Masters state that their risk capabilities have helped them manage the increasing volatility of the economic and financial environment, compared with only 25 percent of non-Risk Masters.

Risk Masters are particularly adept at putting in place the processes and mechanisms whereby risk is linked to business performance. For example, one banking risk executive spoke of the mechanisms put in place at his institution whereby risks are weighted and reported every month, and official recommendations for internal controls and other areas of the bank are made. With regard to market risk, the bank has established an overall limit for losses, which is then distributed to all of the bank’s areas, with each area responsible for reporting related actions which then rolls up to control activities that adjust the risk limits. The firm’s Risk Management Board recently approved a set of risk appetite and tolerance indicators that are presented to the Board of Directors for evaluation and approval. The limits, including operational risk, are weighed against results.

The Chief Risk Officer for one global bank noted that another key success factor is the ability to translate business goals into specific risk and business measures. “The most important factor is understanding the Board’s and stockholders’ wants and needs, and then translating those into business measures to be carried out on a daily basis. Our Board is continuously informed of all issues regarding risk management, through a risk committee that is integrated with the Board. Ultimately, our objective is to make the Bank a leading example of risk management, one recognized internationally for our capabilities in this area.”

Figure 16

Risk Masters are more likely to see the risk function as a source of competitive advantage

Is your risk function a source of competitive advantage, and therefore a source of higher performance in relative to competitors?

Risk Masters



0%

Non-Risk Masters



■ Risk management function is not creating an advantage

■ Yes, to some extent—we are performing at a higher level

■ Yes, to a great extent—we are performing at a higher level

Mastery capability 2

Involve the risk organization in key decision-making processes

This year's Global Risk Management Study found that, compared with the 2009 survey, risk management is now far more involved in most business decisions. For example, 51 percent of respondents say the risk organization is involved in merger and acquisition decisions "to a great extent," up from only 37 percent in 2009.

About the same number of respondents say risk management is at the table in the strategic planning process. A significant rise can be seen in risk management's involvement in budgeting and forecasting, up from 33 percent in 2009 to 45 percent today. In objective setting and incentives, the risk organization is now involved to a great extent among 39 percent of respondents, compared with only 27 percent in 2009.

Companies in the financial services industries are more likely than others to involve the risk function to a great extent in several key decision-making areas. For example, 72 percent of the insurance companies in the survey involve the risk function in decisions about mergers and acquisitions, compared to the survey average of 51 percent. Seventy-two percent of the banking firms bring the risk function into discussions about the introduction of new products and systems, above the average of 45 percent. And 56 percent of capital markets firms surveyed involve risk in budgeting and forecasting processes, compared with the average of 45 percent.

Most importantly, large gaps exist between the Risk Masters and non-Risk Masters in the extent to which risk management is involved in several key decision processes. (See Figure 17.) For example, 79 percent of Risk Masters say their risk function is involved to a great extent in strategic planning, while only 46 percent of non-Risk Masters say this is so. An equal percentage of Risk Masters, 79 percent, involve the risk organization in objective setting and incentives,

compared with only 34 percent of non-Risk Masters.

Other significant gaps are found in areas such as performance management processes and outsourcing/multisourcing decisions.

The involvement of the risk organization in significant business decision-making is clearly a work in progress for many companies. For example, the Chief Risk Officer of a global reinsurance company noted that, at his company, risk management is fully integrated in strategic, long-term business planning (a three-year plan) as well as in the annual budget process. These are processes during which things like capital allocation and risk tolerance are defined.

On the other hand, the risk organization is less involved in discussions of risk/reward and in growth/profitability planning. The focus is more on the reactive dimension of risk management than on the proactive dimension.

Accenture believes that, by involving the risk function in key business decisions, companies can link risk and profitability objectives, improve strategic capital decisions and increase shareholder returns. They can better coordinate risk measurement, capital allocation and performance management across the enterprise. To a great extent, the visibility of risk management at the highest levels of an organization is what enables risk management to become a proactive force for guiding the business toward new opportunities.

Accenture believes that, by involving the risk function in key business decisions, companies can link risk and profitability objectives, improve strategic capital decisions and increase shareholder returns.

Figure 17

Risk Masters are more likely to involve the risk function in key decision processes

To what extent is the risk function currently included in the decision making process of your organization regarding the following areas?



Mastery capability 3

Improve the sophistication of measurement and modeling

As noted in Part 2 of the report, many of the ongoing risk exposures to which companies are subjecting themselves are rooted in a failure to adequately measure, model and analyze a broader array of risk types. Too often, the risk management function is reactive in its approach, wasting valuable time and effort on collecting, consolidating and aligning multiple data sources as opposed to having the time to effectively leverage information enabling more complete analysis and the evaluation of future risk scenarios.

Risk Masters, by contrast, are significantly distinguished in the area of measurement. Much higher proportions of Risk Masters are currently measuring the fuller spectrum of risk types. For example, 90 percent of Risk Masters measure strategic risks, compared with just 63 percent of peers; 95 percent measure business risks, while only 70 percent of non-Risk Masters do so. (See Figure 18.)

Financial services firms have the highest prevalence of sophisticated measurement programs. Among non-financial firms, retailers have the highest risk modeling scores. This is likely a function of the intensive data and information typically held in this industry regarding customers and markets—something required to compete effectively within tight margins.

The importance of assessing emerging risk

In emerging risk, something noted by all respondents as a high-investment area in the coming years, Risk Masters also exceed their peers, 79 percent to 46 percent. A recent Accenture report on emerging risk, "Confronting the Unknown: How Financial Institutions Can Manage Emerging Risk"⁶, details the kinds of planning and preparation needed to handle new kinds of risks, which are often not well measured or well understood. Some of these risks are those without historical precedent,

such as a terrorist attack. Another type takes the form of a recognized risk that exceeds commonly anticipated "worst case" scenarios, such as the price of oil reaching US\$200 per barrel. Such risks, when they materialize, can damage organizations' finances, reputations, strategies and operations.

Due to the systemic nature of emerging risk, and the severe potential impact of such events, companies with slight advantages in detecting and managing emerging risks can obtain significant competitive opportunities.

Accenture holds that it is vital for emerging risks to be integrated into a company's existing enterprise risk management framework. To do so, these risks should be considered as part of the strategic planning process, with a direct link to top-down risk appetite. Firms can initiate brainstorming sessions to gather input from both senior management and from associates closer to day-to-day activities. Once the input is captured, it should be thoroughly scanned and analyzed for relevant risk factors.

To identify risks that do not have a historical precedent, firms should consult additional internal and external resources. These can include academics, thought leaders, trusted consultancies, industry groups, economists and others. Once they have been identified and analyzed, firms

Due to the systemic nature of emerging risk, and the severe potential impact of such events, companies with slight advantages in detecting and managing emerging risks can obtain significant competitive opportunities.

should develop a risk taxonomy, with emerging risks categorized according to the organization's existing risk classification system. Finally, companies should look outside their own industry to challenge the norm and ensure that insights from other industries are incorporated into the new model. Risk tolerances can then be set at either the key risk or at the risk category level.

Analytics and risk mastery

Risk Masters also have a significantly higher commitment to analytics and risk modeling. Sixty-four percent of Risk Masters are undertaking analytics and modeling programs to enhance their risk organization, compared with just 47 percent of non-Risk Masters.

At one global financial services firm, the organization has established strong analytical capabilities that are used across all types of critical risks being managed: credit, market and operations. The firm has, in fact, created a specific analytics unit that builds and supports the internal analytical models and tools used across business units, especially in the area of credit risk for different customer segments and products.

One key point to note is that Risk Masters understand the relationship between better structures and better measurement. That is, better visibility and understanding across the business is vital to achieving accuracy in measurement and analytics. Here is a case in point. At one of the financial services firms in our study, management conducted a gap analysis several years ago to determine what risk measures were in place to support business improvements as opposed to merely meeting regulatory demands. Following this analysis, the Risk Committee was integrated with the

bank's Board of Directors and a process was established for governing the centralization of products, including new product release. This, in turn, led to the creation of a committee for product analysis. A compensation system for analyzing results and findings relating to the risk management area was developed. The risk and finance areas were unified, helping to align strategic decisions, and the new organization was placed under the oversight of a Chief Risk Officer.

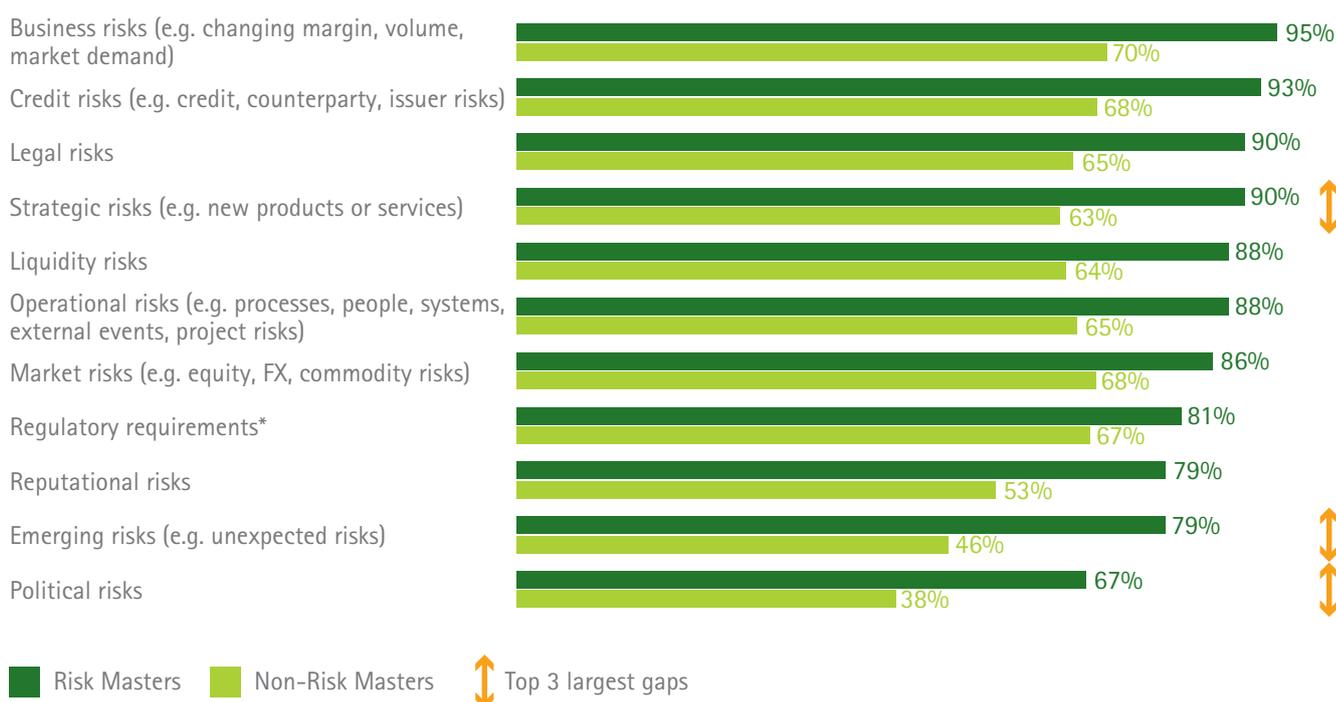
Greater sophistication in metrics has been one of the important results of these structural moves. For example, a calculation of capital transactions for shareholders was deployed, incentives for employees are now linked to risk management decisions, and a new risk appetite calculation has been deployed in the bank and is being expanded to its subsidiaries.

Ultimately, as one CRO noted in an interview, risk measurement and analysis tools function to augment

the human skills of a company and to enable experts to do what they do best. According to this executive, "Our continuous improvement of risk tools and processes helps us maintain a high level of risk awareness and alignment with the business; but the tools and processes also release employees from basic number crunching and enable them to use their capabilities for deeper analysis."

Figure 18
Risk Masters are more likely than their peers to measure a broad spectrum of risk types

Is your company currently measuring the following risks or planning to in the next two years?



*No significant difference between Risk Masters and non-Risk Masters.

Mastery capability 4

Go beyond a compliance mindset to deliver more complete business solutions that can achieve differentiation

The chief executive in charge of finance programs at a global insurance firm in our study made an insightful comment during an interview. He noted that one of the major changes in the risk management function of the company over the past two years has been the effect of regulation and the consequent change in the compliance mindset of the firm.

The executive noted, “The difference between two years ago and today is Solvency II (SII) regulation. For our firm, SII is not just a matter of compliance, it is considered as a way to improve the financial performance of the company through optimized decision making and better management.” A bank’s CRO made a similar statement: “Basel-related issues are not only regulatory, but also highly integrated with business objectives and performance.”

This is a key mastery point: looking at the area of regulation and compliance in such a way as to fuel better performance and competitive advantage. The Risk Masters in our

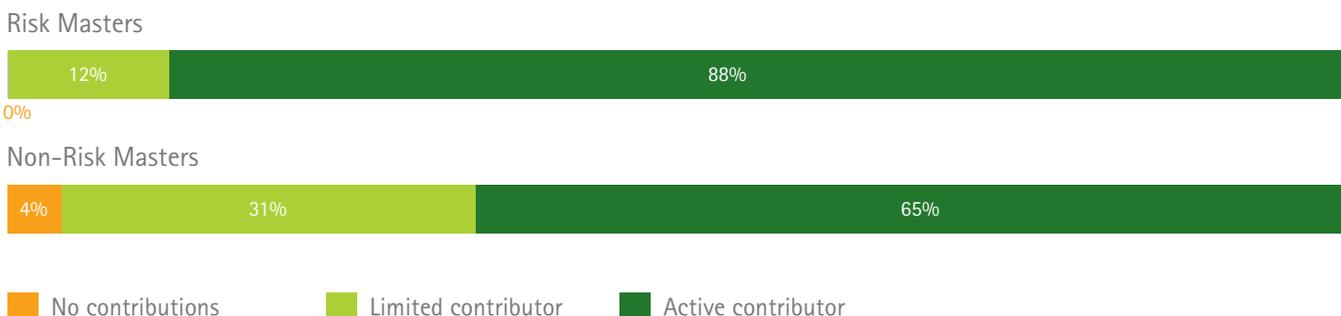
study indicate they are distinctly better at managing compliance: three-quarters of them state that compliance is completely achieved through the help of risk capabilities, compared with only 46 percent of non-Risk Masters.

One of the specific related tactics at which Risk Masters excel is in improving relationships with regulatory agencies. Over half of the total number of survey respondents (54 percent) noted that it is very important to develop relationships with regulatory agencies for future reform. In addition, 68 percent are actively establishing direction for reform. Among Risk Masters, however, that number rises to 88 percent. (See Figure 19.)

From an industry perspective, developing relationships with regulatory agencies for future reform is more important in the financial services and insurance industries—70 percent and 69 percent, respectively, compared with the survey average of 54 percent. Larger organizations are also more apt to desire closer relationships with regulatory agencies than smaller ones. Geographically, a higher proportion of companies in Latin America are most actively influencing risk regulation in their industries—97 percent, compared with the survey average of 68 percent. North America is lower than the average at 53 percent.

Figure 19
Risk Masters are active in seeking to influence risk regulation in their industries

How active is your company in influencing risk regulation in your industry or geography (e.g. establishing direction for industry reform)?



Mastery capability 5

Integrate risk management capabilities across the organization

Among the striking gaps between the performance of Risk Masters and their peers are those that appear in the area of risk integration. Across all types of risk, Risk Masters excel at integration. (See Figure 20.) For example, in handling liquidity risks, 70 percent of Risk Masters approach the matter in an integrated fashion compared with only 36 percent of non-Risk Masters.

Other significant gaps include:

- Legal risks: Integrated at 69% of Risk Masters, compared to 36% of others
- Operational risks: 67% to 42%
- Regulatory requirements: 67% to 44%
- Business risks: 64% to 37%
- Strategic risks: 63% to 37%.

As the CRO of a global reinsurance company put it, "An integrated vision of risks is absolutely necessary, not only in terms of consolidation of risks

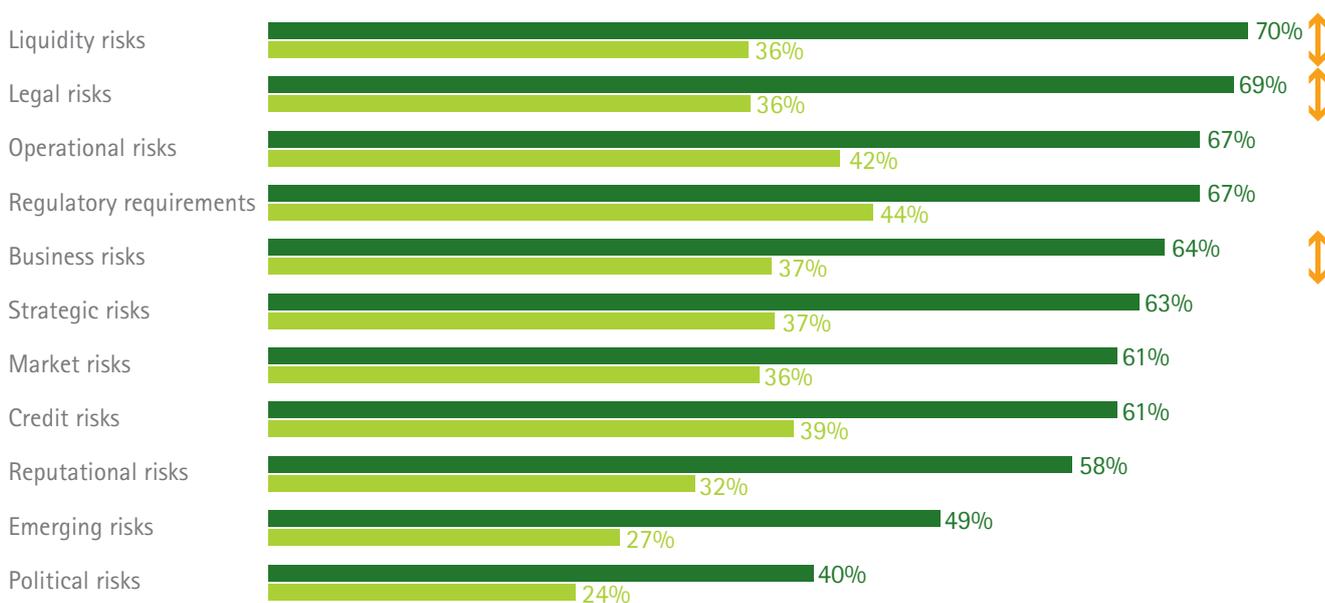
at the entity level, but also across entities, per business line. Our risk management approach is integrated: risk is clearly taken into account in the process for making key decisions, because the risk management function is always associated with that process."

This integration is challenging, to be sure, and takes time to accomplish. Setting a destination and then

managing the longer-term journey are critical. Multiple needs and urgencies clamor for the attention and resources of a company. But by keeping the end in mind when it comes to integrated risk management and then acting consistently and proactively—instead of in a reactive, tactical manner—companies can make steady progress toward their ultimate goal of integration.

Figure 20
Risk Masters excel at risk integration

Which risks are highly integrated into your decision-making process?



Risk Masters
 Non-Risk Masters

 ↑↓ Top 3 largest gaps

Mastery capability 6

Establish a dedicated risk executive with oversight and visibility across the business

One way that Risk Masters are separating themselves from the pack is by having a risk executive highly placed in the company—one with broad oversight but also with broad visibility and influence and backed by a dedicated risk management organization. This can ensure that risk and performance management are being conducted in a more strategic manner. This risk executive should be closely connected to the top leadership of the company, ensuring that risk investments are strategic and that a more proactive risk management culture is created and sustained.

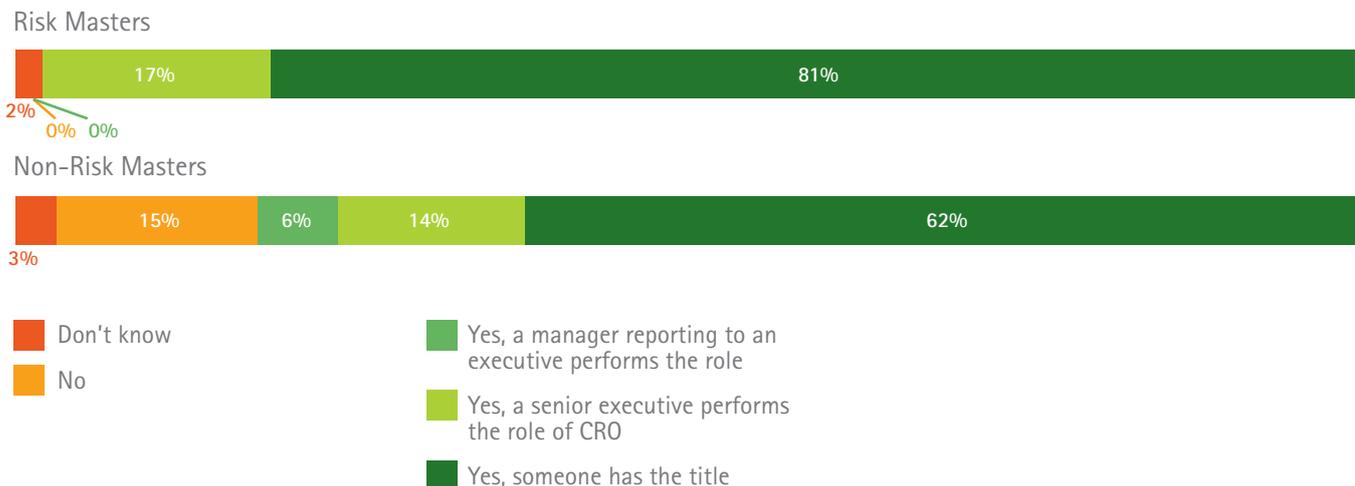
Risk Masters are more likely to have risk management owned by a Chief Risk Officer—55 percent compared to 43 percent among other participants. Risk Masters are also more likely to have a risk executive with the CRO title (81 percent versus 62 percent). (See Figure 21.) This may indicate that Risk Masters more readily acknowledge the importance of centralized leadership, with a C-level executive as an influential part of top management.

Indeed, it is the reporting relationship—and the inclusion of the head risk executive at the top level in setting and executing the broader business strategy—that is ultimately more important than the title itself. Risk Masters are more likely to have their risk executive reporting directly to the CEO (91 percent versus 78 percent for non-Risk Masters). At one global reinsurance company, for example, the Chief Risk Officer is positioned

at the Group level, reporting directly to the Group Chief Executive Officer and serving on the Executive Committee. Although we see this as an increasingly common aspect for Risk Masters, there are still many organizations outside this group where the risk management function is a step removed from executive leadership.

Figure 21
Risk Masters are more likely than their peers to have a risk executive with the title of Chief Risk Officer

Does your company have a Chief Risk Officer?



Mastery capability 7

Infuse risk awareness across the organizational culture

One of the critical points to be made about risk management is that no amount of technology, no amount of strategy and planning, can ever protect a company 100 percent. The reason: people are fallible, especially in the face of the growing complexity of business. The strongest systems and measures can be foiled by people who are uncommitted, uninformed or untrained. Informed people adapt and evolve with the changing conditions and complexity. Systems typically do not.

Because systems are often perceived to be based on best practices, however, they can let an organization down, sometimes with catastrophic results. One of the issues that many financial services companies faced in the most recent economic crisis was that the underpinning risk models were believed to be sound; thus people did not adequately challenge them or question their underlying presumptions.

Consequently, one of the key factors separating Risk Masters from their peers is their commitment to infusing an awareness of risk exposure and the means to mitigate risks—as well as more detailed tacit knowledge and training—across the corporate culture. Sixty-two percent of Risk Masters say that risk capabilities have helped them infuse a risk culture in the organization, compared with only 30 percent of non-Risk Masters.

From a broader perspective, people and skills are critical components in achieving risk mastery. One CRO with whom we spoke placed the challenge of the people dimension on the same level as increased regulatory risk and the challenge of organizational integration. The company has lost a number of critical resources in its risk management practice and the executive faces the challenge of replacing the knowledge that was held by those people. More employees need to be trained in the basics and then, on top of that, advanced skills in analytics and other areas must be located and/or developed.

Risk Masters emphasize the importance of managing risk as part of everyone's daily activities. With a more pervasive risk culture, people at all levels instinctively look for risks and consider their impacts when making decisions and performing their tasks.

From a broader perspective, people and skills are critical components in achieving risk mastery.

Mastery capability 8

Invest in continuous improvement

A final performance gap between Risk Masters and their peers comes in the area of future investments, and in the goals of those investments. Across the board, asked about various kinds of enhancements to the risk organization being planned, Risk Masters were more likely to have improvement plans in place. (See Figure 22.)

For example, 67 percent of Risk Masters are currently undertaking plans for better integration of risk and finance processes, compared with 47 percent of their peers. Sixty-four percent of Risk Masters are at work on better analytics and risk modeling capabilities, while only 47 percent of non-Risk Masters have such plans.

In general, the data points to the conclusion that achieving risk mastery depends on investments in continuous improvement. Those that fail to invest at the proper level or who do so tactically, without an overall risk management vision in place, will underperform. Our survey found that 45 percent of Risk Masters invested more than US\$50 million over the last two years, while only 30 percent of non-Risk Masters invested at that level. Ninety percent of Risk Masters expect an increase in investment compared to 83 percent of their peers.

As an example of the types of continuous improvements being pursued, one of the Asia Pacific financial services firms in our study

has a broad set of plans in place for investments in areas including organization, analytics and IT. Organizationally, the bank has enhanced its firmwide risk control function by establishing a new Enterprise Risk Management Division and Policies & Governance Unit, as mentioned earlier. In addition, the company has assigned a Chief Business Risk Officer (CBRO) with the responsibility for overseeing risk associated with the company's business, and established an Enhanced Business Risk Review Unit responsible for reviewing credit processes, loan policies implementation and the loan portfolio on a daily basis.

In the area of analytics and modeling the bank intends to improve its loan portfolio planning tools including a risk concentration model and a loan pricing model; retail and non-retail internal rating system; and models for probability of default (PD) and loss given default (LGD). Finally, the bank is investing in a risk information system which includes an enterprise

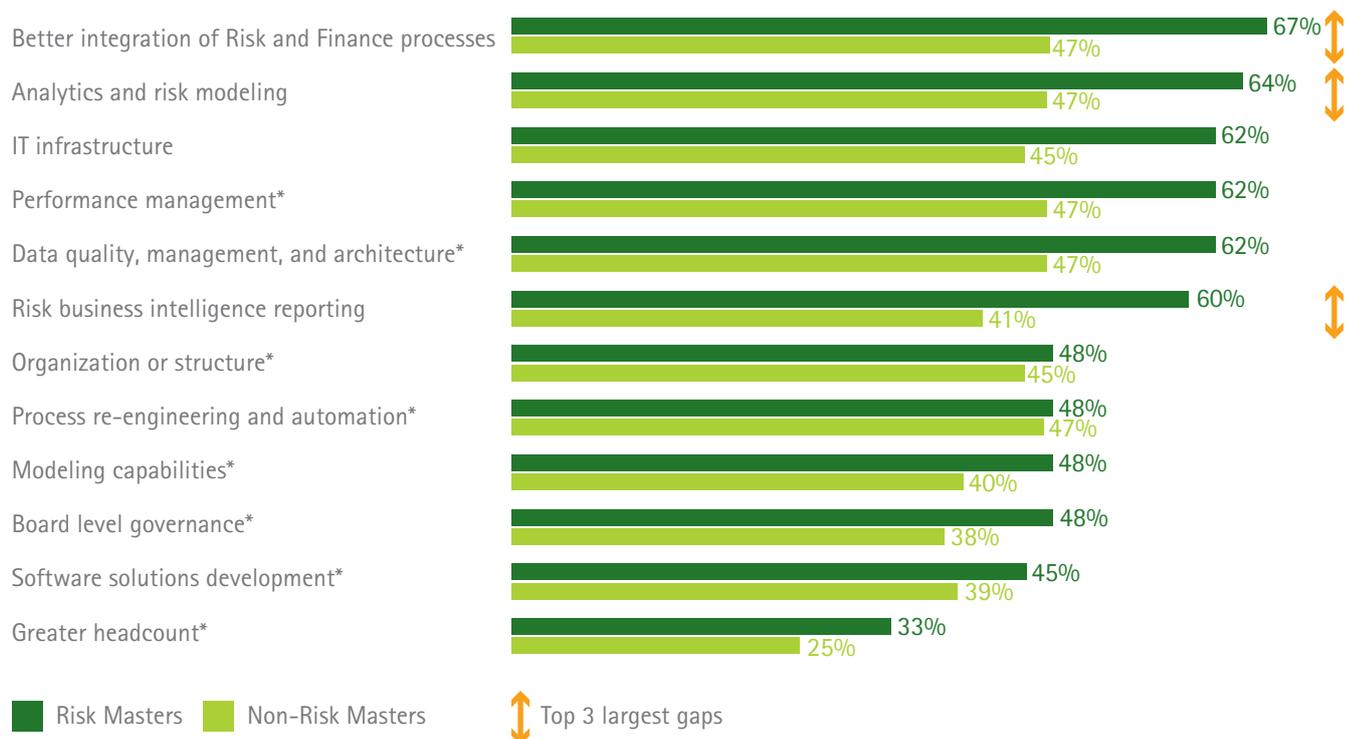
data warehouse, an Electronic Loan Origination System and an internal rating system.

As noted earlier, technology alone is not the answer to improving a company's risk management capabilities. However, the effective use of technology in areas such as analytics is increasingly an important differentiator enabling leading organizations to stay ahead of the competition, helping them to focus their time and attention on the issues that matter most.



Figure 22
Risk Masters are more likely than non-Risk Masters to be investing in significant risk management improvement initiatives

What changes are you currently undertaking or considering for the next 2 years in order to enhance your risk organization?



*No significant difference between Risk Masters and non-Risk Masters.

Conclusion

Today's marketplace and economic situation are moving too quickly for companies to be merely reactive when it comes to their risk management capabilities; the shelf life of those capabilities is very short unless they are refreshed in an ongoing, continuous manner—and unless they are driven by business needs and goals. As the Accenture 2011 Global Risk Management Study makes clear, risk management is now becoming, for leading companies, a means of supporting growth and future profitability.

The executives we surveyed and spoke with in our study acknowledge the growing importance of their risk management capability because of growing volatility and business complexity. More companies are putting in place comprehensive risk management programs. They are also making significant investments in risk management; yet critical exposures remain.

Companies that are able to master a range of integrated elements—involving risk management in key decision-making processes, putting in place leadership with board-level visibility and infusing risk awareness across the organization—are creating the means to differentiate themselves from the competition. The Risk Masters have set a very high bar: they are looking beyond reactive, compliance-oriented mindsets and are seeking, through their risk management investments, to create shareholder value and achieve high performance.

Appendix

Appendix

Tracking the growing importance of risk management

As the Accenture 2011 Global Risk Management Study makes clear, risk management is now more strategic than ever, vital not only in protecting against risks but in driving growth and shareholder value. But in what specific ways can we see the growing importance of risk management capabilities to companies around the world?

Several data points are worth noting. First, compared to survey data from 2009, the risk function is now far more involved in a range of important business decisions. As **Figure A1** shows, this trend is evident in decision areas such as health and safety, budgeting and forecasting, and objective setting and incentives.

Second, as noted in the report, the criticality of risk management is being recognized and supported by investments in capabilities but, equally important, by the way it is staffed and connected to the day-to-day flow of business. The presence of Chief Risk Officers who report directly to the CEO is one important sign of this change. As **Figure A2** demonstrates, companies

are now far more likely than in 2009 to have a Chief Risk Officer in place.

Finally, integration of risk management and measurement—a capability linked to risk mastery—is more prevalent than it was two years ago. As **Figure A3** shows, we see increases in integration in several areas, especially legal risks, operational risks and liquidity risks.

Figure A1
Involvement of the risk function in key decision-making processes—2011 versus 2009

To what extent is the risk function currently included in the decision making process of your organization regarding the following areas?

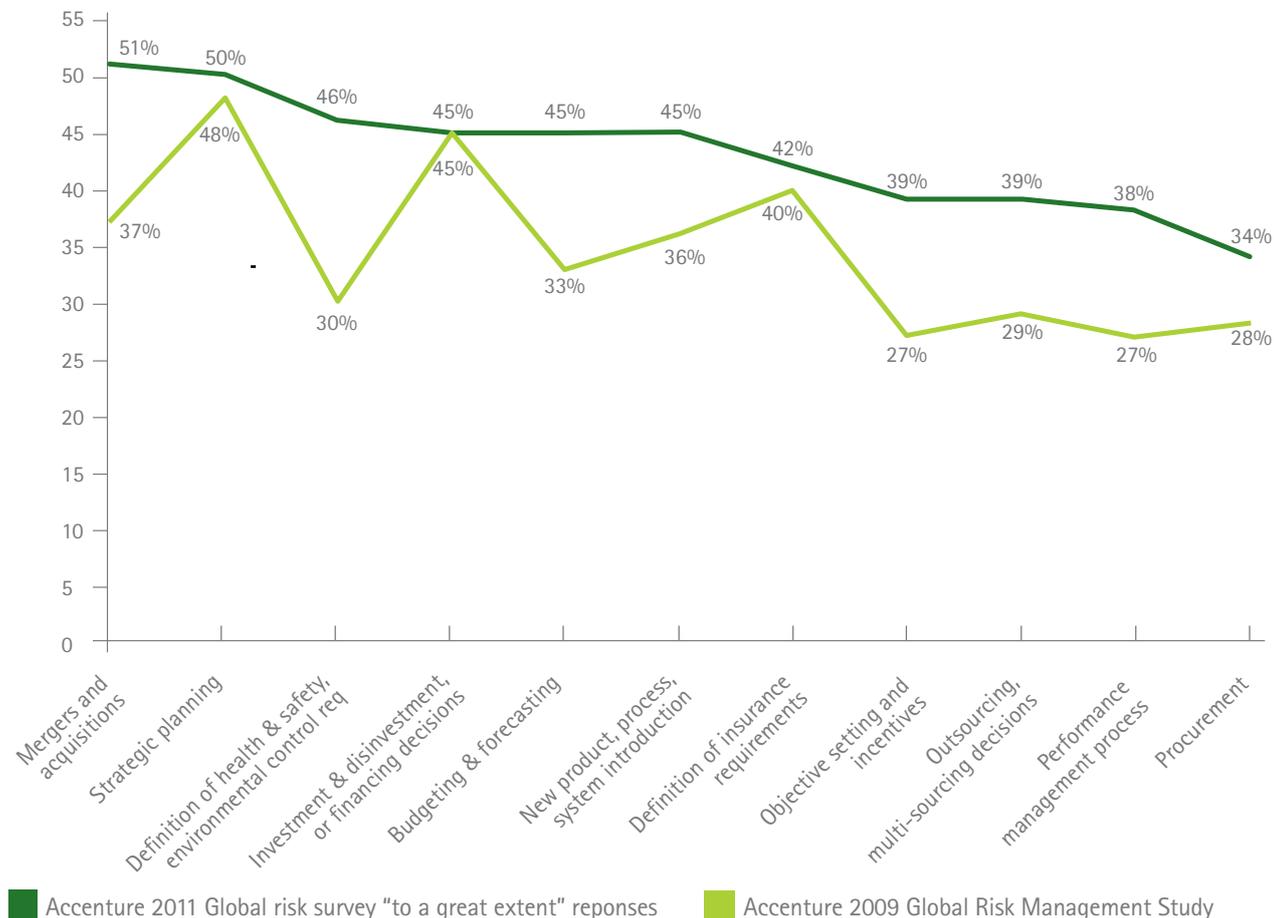


Figure A2

Companies today are more likely than they were in 2009 to have a Chief Risk Officer who owns and manages the risk organization

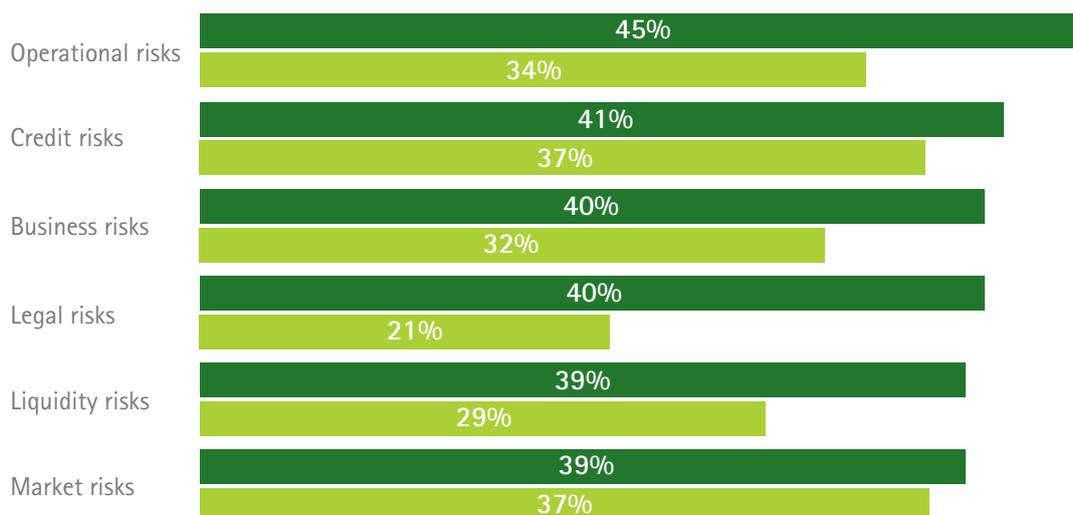
Who primarily owns risk management in your organization?



Figure A3

Integration of risk management and measurement is more prevalent than it was two years ago

What would best describe your approach for the capture and use of risk measures?



Accenture 2011 Global Risk Management Study "Highly integrated with other risks and/or Business Units" responses

Accenture 2009 Global Risk Management Study "Highly integrated with other risks and/or Business Units" responses

Sample: Respondents who indicate risks measured or planned

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