



The Institute of Risk Management
SOUTH AFRICA

BEST PRACTICE STATEMENT

(dated May 2007)

ROLES AND RESPONSIBILITIES:

GROUP RISK MANAGER/CHIEF RISK OFFICER (CRO)/

HEAD OF RISK

**IMPORTANT: The contents of this document are privileged for Institute
Member use only**

INTRODUCTION

Although risk management has risen in prominence in recent years, it is not a new phenomenon. However, it was only about a decade ago that organisations began to realise the value of risk management as an integral component of business operations and an important contributor to the sustainability of organisations and the protection of shareholder value. Until the early 1990s risk management tended to be equated with loss prevention through insurance buying or hedging of financial risk with derivatives.

Since then the focus has shifted to an enterprise-wide risk management approach. This is a holistic, integrated, forward-looking and process-orientated approach to managing all key business risks, not just financial ones, with the intent of maximising shareholder value for the enterprise as a whole. It provides a whole new paradigm on risk management as illustrated below:

Traditional approaches

Fragmented

Negative

Reactive

Ad hoc

Cost-based

Narrowly focused

New paradigm

Integrated

Positive

Proactive

Continuous

Value - based

Broadly focused

RESPONSIBILITIES OF THE CHIEF RISK OFFICER

As the ERM champion, the CRO facilitates the execution of ERM processes and infrastructure as a key enabler to achieving the business objectives of the organisation. More specifically, the CRO:

- Assists the Board and senior management to establish and communicate the organisation's ERM objectives and direction
- Assists management with integrating risk management with the strategy development process
- Assists the CEO and the Executive Committee to develop and communicate risk management policies, risk appetite and risk limits
- Assists in developing risk mitigation strategies for the organisation's critical risks and for monitoring these risks
- Establishes, communicates and facilitates the use of appropriate ERM methodologies, tools and techniques
- Works with business units to establish, maintain and continuously improve risk management capabilities
- Facilitates enterprise-wide risk assessments and monitors priority risks across the organisation
- Implements appropriate risk reporting to the CEO, Executive Committee, Board and senior management
- Ensures effective alignment between the ERM process and internal audit and risk financing
- Conducts risk management education and training from time to time
- Assists the CEO and the executive committee with capital and resource allocation decisions
- Provide an independent view regarding proposed business plans and transactions

- Develop project risk management capabilities within the organisation
- Develop and implement an IT strategy to support ERM

In many organisations, the CRO is also responsible for risk financing. In these cases, his/her risk financing responsibilities typically include the following:

- Arrange a sound and least-cost risk financing protection package.
 - Purchase conventional insurance (*optional*).
 - Put in place alternative risk-financing facilities.
- Purchase conventional insurance in accordance with the corporate risk management strategy.

For example:

- Packaging the portfolio, selecting an insurer, pricing considerations, financial strength of insurers, claims management capabilities, service plan.
- Determine the risk-bearing capacity of the enterprise and arrange self-insurance portfolio options as in keeping with risk management strategy, including financing options for the cost of risk retention.
- Implement risk-financing innovations and motivations, e.g. retrospective rebates, deductible pricing, cost incentives for risk improvement..

KEY COMPETENCIES

CRO's for large, complex multinational companies are senior executives with at least 12-15 years of business experience. The years of experience required may be lesser depending on the size and complexity of the company. For a small to medium sized company 4-6 years of business experience may suffice. Set out below are the key skill sets they need to possess:

- a sound understanding of ERM principles and philosophy
- ability to think strategically
- excellent communication skills
- excellent facilitation skills
- able to organise and motivate others, who in many cases may be in a more senior position
- ability to work with all levels of management and across business units and departments

- broad understanding of all key areas of the organisation
- have a strong presence and can interact effectively with the Board, CEO and senior management
- keen and effective team player
- ability to analyse and interpret large volumes of data
- creative problem solving
- ability to manage time and subordinates effectively
- an ability to understand and interpret financial information and principles

REFERENCES

- Doctoral thesis – “Supply Chain Risk Management – a Logistics Perspective” by RD Bredell
- Risk manager job description – Society of Risk Managers
- Guide to ERM – Frequently asked questions - Protiviti

ACKNOWLEDGEMENT

The Institute acknowledges the work of the Education and Technical Committee in preparing this Statement.

NOTE: This Best Practice Statement is the property of The Institute of Risk Management South Africa and may not be used or quoted without acknowledgement to the Institute.