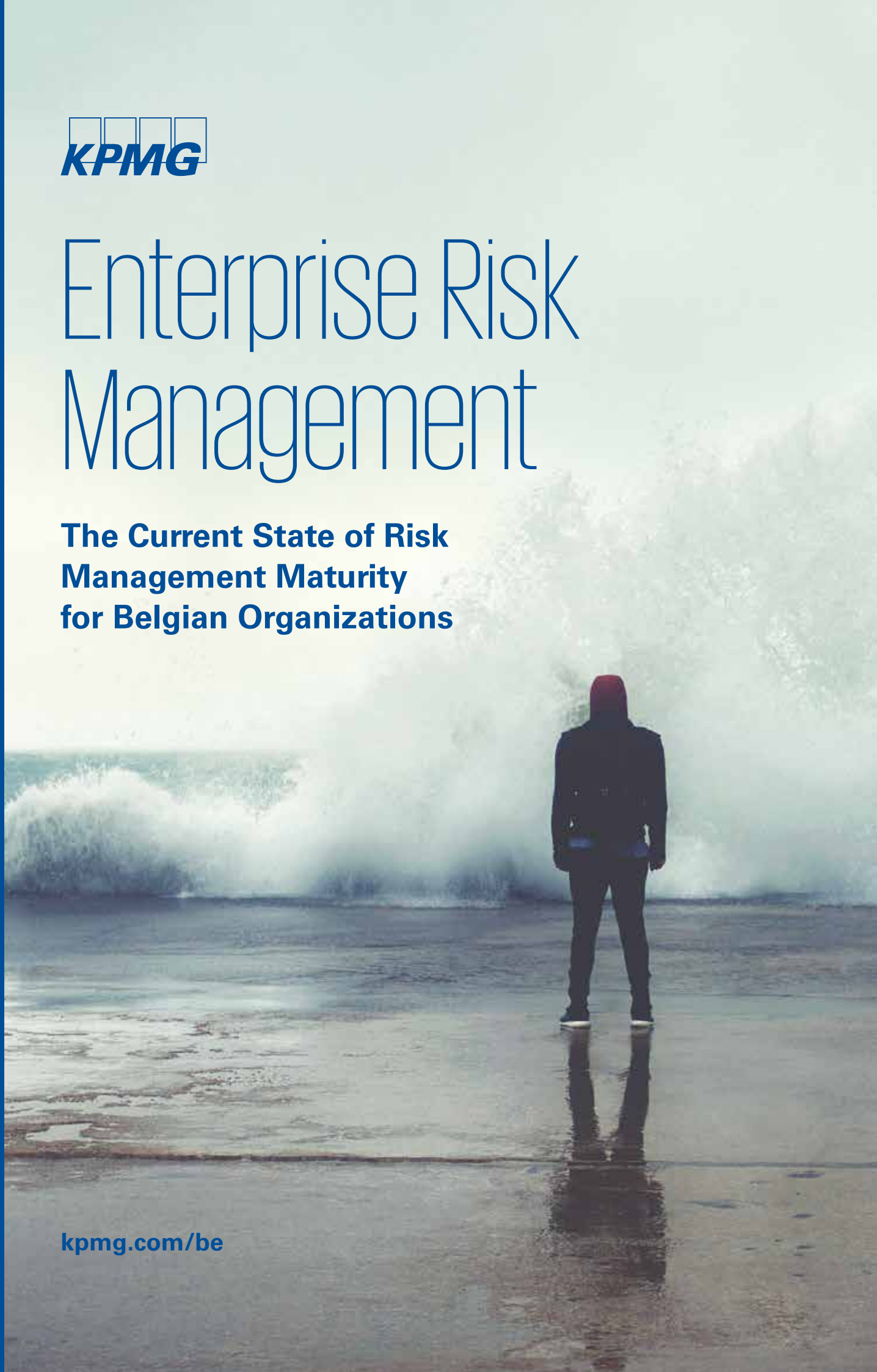
KPMG

Enterprise Risk Management

The Current State of Risk Management Maturity for Belgian Organizations



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Introduction

As the world becomes increasingly more complex, the speed of change creates great uncertainty that can impact organizations overnight – both positively and negatively. There are risks everywhere: from economic and political uncertainty to technology advances, from business model disruption to data breaches and cyber threats, from regulatory changes to employee theft and stakeholder demands for higher transparency. As a result, organizations around the world are looking to risk management as one of their top challenges if they are to strengthen their organizational governance.

Of course, business leaders understand the reality that to generate returns we must be willing to take risks. The key is that we must manage the risks that we take. In fact, boards of directors and senior management teams realize the need to manage risks to their business models and strategic plans proactively rather than reactively.

Since the early 2000s, Enterprise Risk Management (ERM), or risk management, has become a central focus for business leaders. Organizations worldwide have had to address the increased demands from their various stakeholders and thus enhance how they manage their risks. The ultimate goal of an effective risk management process is to strengthen the organization's ability to identify, manage, and monitor risks that might affect the organization's ability to achieve its objectives.

A recent survey conducted by KPMG's Audit Committee Institute (ACI)[1] has asked worldwide audit committees to identify their principal challenges and priorities in the year ahead. According to the results, the three priorities for Belgian audit committees are, in order of importance: (1) maintaining the control environment in the company's extended organization, (2) managing cyber security risk, and (3) evaluating the effectiveness of risk management program or process. In this survey, we also learned that 30% of Belgian organizations consider that they have a robust, mature risk management program or process in place; 48% have somewhat implemented risk management even if it still requires substantial work; 13% are still in the planning or development stage; and only 4% have no active and formal effort to implement a risk management program.

The purpose of this study is to build on the results of the 2017 Global Audit Committee Pulse Survey and to describe the risk management approach of Belgian organizations to better understand their current state of risk management maturity. This research report summarizes input from 105 Belgian organizations in the last quarter of 2017. It provides insights on risk management and the different maturity levels within these companies. The survey respondents are mostly internal audit professionals.

[1] The 2017 Global Audit Committee Pulse Survey.

Takeaways

— When it comes to risks, 34% of Belgian organizations have a dedicated committee whose role is to discuss risk matters. The role of these committees is to assist boards in fulfilling their responsibilities in respect to control and risks. Additionally, 48% have appointed a Chief Risk Officer to lead the risk management program or process. This is aligned to the provision given by the Belgian Code of Corporate Governance which requires that the board should set up specialized committees to analyze specific risk related issues and advise the board on these issues.

— The two most frequent risk activities performed by Belgian organizations are managing risks and receiving assurance on both the risk management and assessment, including identification and evaluation. This is in line with a provision from the Belgian Code of Corporate Governance which recommends review of the implementation of the internal control and risk framework proposed by executive management.

— Both the use of data and technology to support risk management programs or processes and establishing a risk culture within the organization are underdeveloped in Belgian organizations.

— The top three priorities from a risk perspective for Belgian organizations in the coming years are: strengthen the risk culture, consider emerging risks, and increasing regulatory requirements and expectations.

— The most important drivers of risk management implementation are: compliance with listing requirements or regulations and sharpening organizational strategy. The process of connecting strategy and calibrating risk is becoming more important – and more challenging – than ever. The Belgian Code of Corporate Governance suggests that the board should pursue sustainable value creation. As a result, the board needs to determine the company's risk appetite in order to achieve the strategic company objectives. In this year's ACI annual view on the board agenda, the importance of aligning risk and strategy comes up as well. So the ACI will launch a survey in collaboration with Vlerick to focus more specifically on this relationship between board strategy and risk.

— More than 50% of respondents suggest that implementing a risk management program or process allows them to develop risk-based internal controls, improve the board's monitoring role and encourage organizational governance.

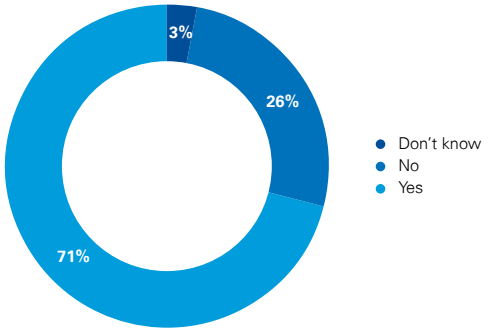
— Most frequent barriers and challenges encountered when implementing risk management are a shortage of resources and competing priorities.

Key Findings

Risk Management Framework

We found that seven out of ten Belgian organizations have 'somewhat' implemented a risk management program or process.

Figure 1 - Risk management program in place in the organization



The most frequent activities linked to risk management in Belgian organizations include: (1) managing risk mitigation responses and action plans, testing, validation and assurance over the effectiveness of risk management (73%), (2) risk assessment through risk definition and taxonomy, identification of risks, assessment, prioritization, scenario analysis and stress testing (73%), and (3) risk governance through board oversight and committee, risk guidance, roles and responsibilities (63%). On the other hand, the areas where Belgian organizations still have opportunities improve relate to the use of data and technology (only 27% of respondents) and fostering a risk conscious culture (46%).

Figure 2 - Frequency of risk activities in a risk management program

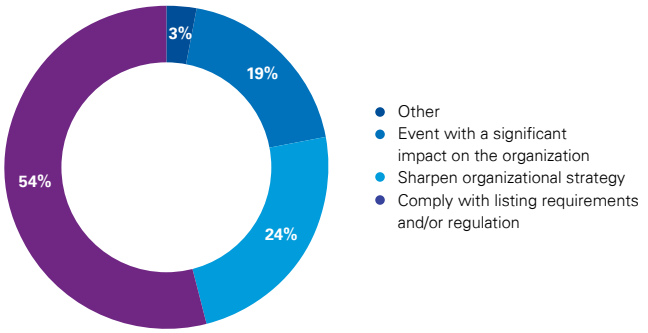
Multiple answers allowed

Risk Management Drivers

When we ask why Belgian organizations launch risk management processes, what we find is pressure from external and internal regulators motivates 54% of respondents. This represents an important driver. They mentioned that these pressures somewhat explain why Belgian organizations have decided to implement a risk management program or process. Overall it seems to be viewed as a good practice. External pressures are magnified by recent and ongoing updates to the standards, like the revised COSO 'Enterprise Risk Management - Integrating with Strategy and Performance' in 2017.

However, risk management is not only a compliance exercise. 24% of Belgian organizations reveal that they use their risk management program or process to sharpen their organizational strategy and to improve and inform decision-making. This perception goes in the same direction as the revision of the COSO ERM framework in 2017 which suggests a closer link between risk management and strategic planning. Finally, for some, a driver is a surprise event with a significant impact on the organization, such as events that lead to losses in revenue or missed production targets.

Figure 3 - Driver of risk management implementation

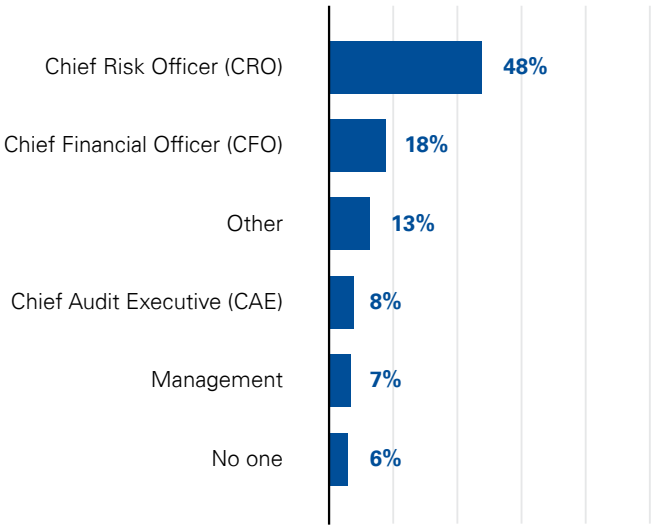


Risk Management Leadership Structure

The risk governance structure refers to a structure that governs the way ERM is to be executed within an organization. That governance structure ensures oversight of risk management policies and processes and provides assurance that risk management processes are adequate and appropriate. Board-level participation in the governance structure is critical. Boards may be responsible for approving and monitoring strategy and setting strategic direction. They are in a unique position, which allows them to ensure that strategy and risk are aligned, by setting risk appetite, evaluating strategic risks and providing checks and balances for management decisions. In practice, boards are often assisted by specialized individuals and committees to help them execute their risk management duties.

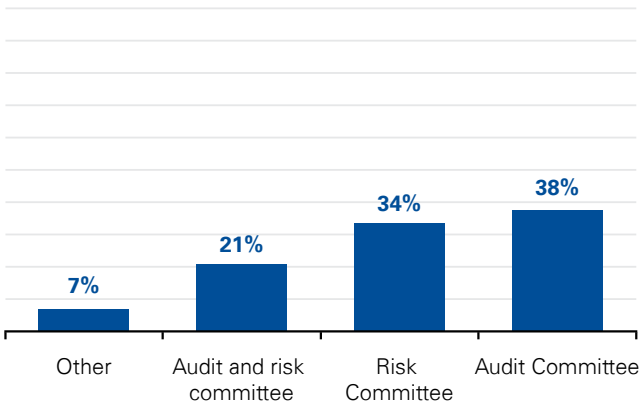
We have asked all survey participants to state what profiles within their company is responsible for leading the risk management initiative. In almost half of the cases, the Chief Risk Officer (CRO) is responsible. The Chief Financial Officer (CFO), the Chief Audit Executive (CAE) and Management are also mentioned. Interestingly, 6% of Belgian organizations admit that they have not yet assigned the responsibility to lead the risk management to a specific job function.

Figure 4 - Responsibility for leading the risk management initiative



Moreover, 82% of the board of directors have assigned the responsibility for overseeing the risk management program or process to one of their committees. Around one-third of them assign the Audit Committee to this role; another third specifically to a Risk Committee and 21% to a joint Audit and Risk Committee.

Figure 5 - Presence of a board committee overseeing the risk management program



Risk Culture

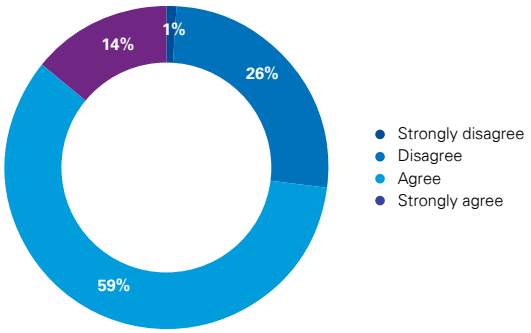
Risk culture is 'the way we do things around here'. It describes the set of values, beliefs, knowledge, attitudes and understanding about risk shared in an organization. An effective risk culture is functional when people know what actions they take are linked to potential risks and are committed to acting in such a way as to minimize exposure to those risks for the organization. They stand firm in the face of risk management breakdown and/or the temptation to disregard (or beat) the risk management program or process. The role of an effective risk culture is to guide and put limits on individual and group behavior, thus making the organization stronger than a forceful or devious individual or group occupying a powerful position. In fact, a strong risk culture is a key element to implement risk processes and to prepare to launch a risk management approach.

Effective risk culture and behavior is:

- Consistent from top to bottom, throughout all functions in the enterprise
- Continuously communicated and modeled
- Enhanced by appropriate behavior incentives
- Embedded in decision making
- Facilitated by a risk executive, such as a CRO

An important insight to take from the bar graph below is that when we raise the question "to what extent is risk culture embedded in your organization", almost three-quarters of Belgian organizations agree or strongly agree with the fact that the risk culture is embedded in their organization. Alternatively, 27% of respondents suggest that there is considerable room for improvement to better embed risk culture within their organizations.

Figure 6 - Embededness of risk culture



Value and Benefits vs. Barriers and Challenges

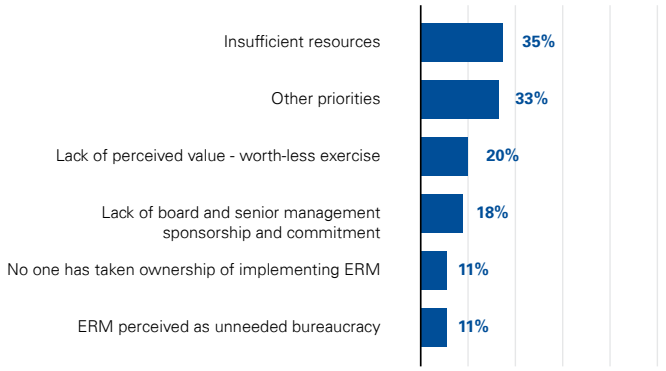
Risk management can be very beneficial if adequately implemented. Among the most frequently experienced benefits, our respondents mentioned (1) the formulation of risk-based internal controls, (2) the improvement of the board of directors' monitoring role, and (3) the enhancement of governance and legislative compliance.

Figure 7 - Benefits of risk management

Multiple answers allowed

We have also asked respondents whether they encountered barriers while implementing risk management processes. Participants mention that they would like additional resources to ensure an effective process (35%). The second most recurring barrier is the fact that companies have competing priorities; this is applicable for 33% of the respondents. Finally, 20% of respondents fail to perceive the value of risk management. This can be the case when those in strategic planning do not yet listen to those providing risk management insights or when the risk management leader views risk management as a strategic tool, while acknowledging that others in the organization tend to see risk management as merely a compliance exercise, consisting of a simple tick the box.

Figure 8 - Barriers and challenges of risk management implementation

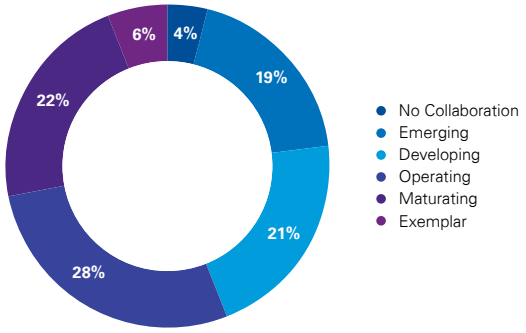


Multiple answers allowed

Risk Management Collaboration

As internal auditors and risk professionals are often seen as risk experts in the organization, we have asked respondents whether their Internal Audit Function and their Risk Management Team collaborate. Collectively, 56% of Belgian organizations consider the collaboration between their risk management experts and internal auditors to be exemplar, maturing, or operating. That means that 44% of respondents feel they are not sufficiently coordinating their activities, this is a practice which can potentially lead to viewing risk in isolation.

Figure 9 - Collaboration between risk managers and internal auditors



Calls to action

To conclude our survey, we have called for organizations to identify the list of their top three priorities for the next two years. The three most important topics are: (1) establish and embed of an appropriate risk culture throughout the entire organization, (2) identify and manage new and emerging risks, and (3) prepare for the increase in regulatory requirements and expectations.

Figure 10 - Top priorities for the upcoming two years

Survey respondents

Results are based on a survey conducted in the last quarter of 2017. Using both online and paper surveys, 105 Belgian business leaders provided us with insights that provided input on risk management and its maturity within Belgian organizations.

Figure 11 - Type of organization

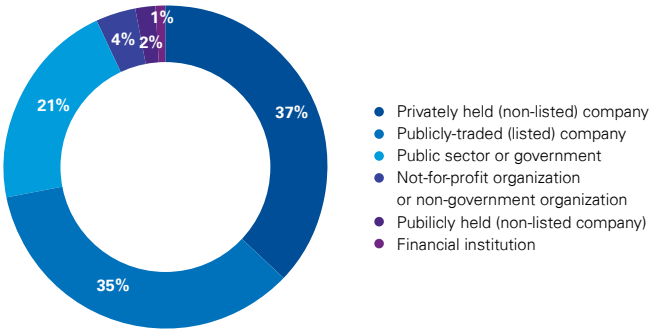


Figure 12 - Industry/Sector

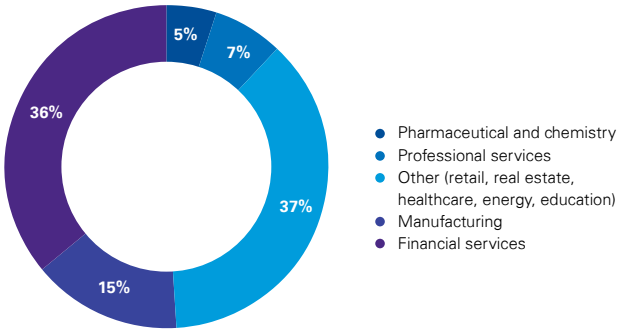
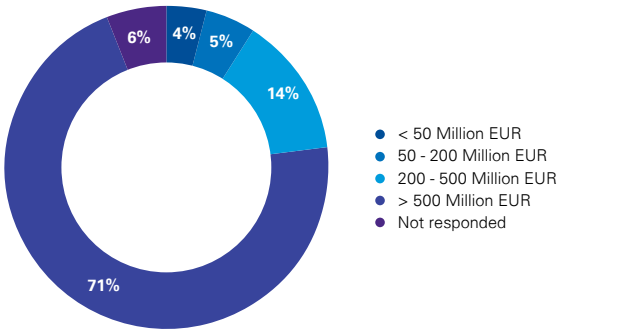


Figure 13 - Annual revenue of the organization as of December 31, 2016



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