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Ready, Set!

It's Time for Action

June 2016

Addressing the maturity of risk management in the Dutch Caribbean & Suriname.

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Executive summary

Globally, risk management has been an area of focus for organizations for some time. Studies and surveys are confirming an ongoing maturity process, with shifting views and changing trends. Specifically the speed of change and its diversity has challenged organizations. This has called for smarter risk management that puts the organizations strategy at its center and a strong risk culture at its core.

The Caribbean region has not been immune to these developments.

Recently changes are finding their way into the Caribbean quicker and with more intensity. Therefore, we think it is about time we assess the prevailing views and overall maturity of risk management across the Dutch Caribbean & Suriname.

The key findings of the survey, which create the basis of this report are:

01 Risk management is not yet fully embedded in the strategic planning process.

02 Roles and responsibilities in regards to risk management are not yet clearly defined.

03 Many organizations have targets for achieving the desired organizational culture, however they need to improve how this is supported by their risk culture program. Attention must be directed to aspects such as: accountability, tone at the top and the role of human resources.

04 There is a significant opportunity for improving of the risk reporting process. Risk information must be accurate and tailored to the needs of the various stakeholders.

05 Risk monitoring has yet to be formalized to an extent that is appropriate for validating that risks are being managed within risk appetite and tolerances.

06 Organizations are mainly focused on addressing financial, regulatory and compliance risks, while drivers including cyber security and operational efficiency that are front of mind globally, are receiving less effort.

07 An opportunity exists to increase the effectiveness of risk management as many organizations use neither technology nor risk analytics to expedite risk management.

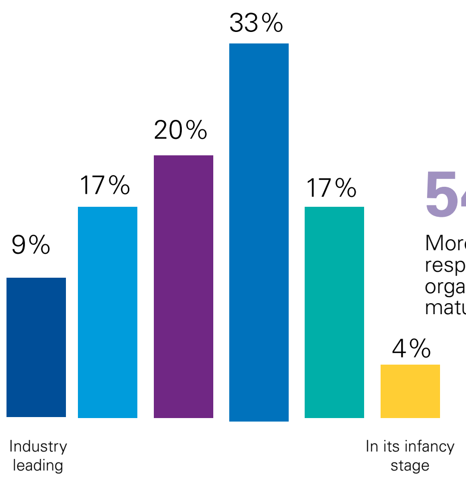
08 According to the survey the top three opportunities for enhancing the effectiveness of the risk management framework are:
- Enhancing risk awareness across the organization.
- Further alignment of risk management with the organization's strategy.
- Improving the overall skills of the risk management function.

A more strategy centric approach to risk management

Risks are inherently viewed as something to eliminate or avoid. While this is true for those risks that provide no benefit when taking them, there are opportunities whereby calculated risk-taking can create value. This requires an approach in which risk management should be fully embedded in the strategic planning process, delivering a strategy that is risk-based and designed to identify risk opportunities and capitalize on their value. Thereby creating a competitive advantage.

More than half (54 percent) of the respondents rate their organization's risk management maturity below average. This is the same percentage as those who indicate that risk management is not fully integrated as part of the strategic planning process. Perhaps this suggests that adopting a more strategy centric approach to risk management, could be a significant step forward in maturity.

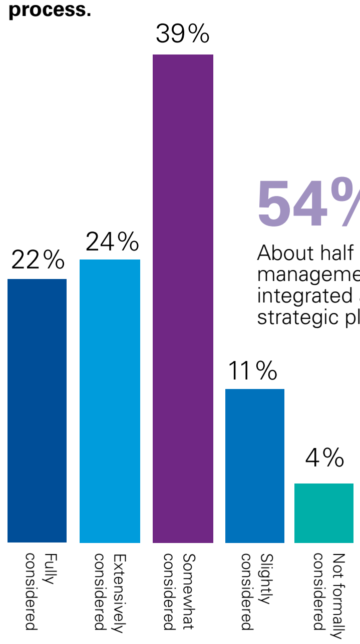
Chart 1: Rate your organization's maturity with regard to risk management.



54%

More than half of the respondents rate their organization's risk management maturity below average.

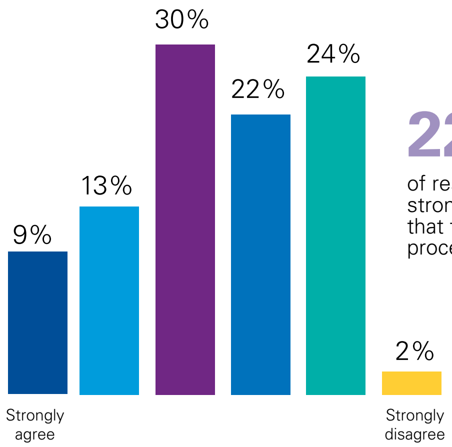
Chart 2: Extent in which risks are considered as part of your organization's strategic planning process.



54%

About half indicate that risk management is not fully integrated as part of the strategic planning process.

Chart 3: I consider my organization's risk management process to be effective, such that existing and emerging risks are being properly managed throughout the organization.



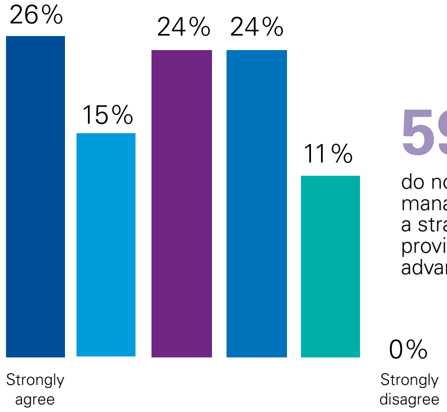
22% of respondents either strongly or mostly agree that their risk management process is effective.

Risk management needs to be **fully embedded** in the strategic planning process, delivering a strategy that is risk-based and **designed** to identify risk opportunities and capitalize on their value.

As 59 percent do not perceive risk management to be a strategic tool that provides a competitive advantage, significant work needs to be done to change this perception before risk-based-strategies can be embraced by organizations.

While the remaining 46 percent rate their overall risk management as mature, only 22 percent of respondents either strongly or mostly agree that their risk management process is effective. This would wrongfully suggest that for risk management to qualify as mature, risk management itself does not always have to be effective.

Chart 4: Our risk management process is considered to be a strategic tool that gives the organization a unique competitive advantage.



59% do not perceive risk management to be a strategic tool that provides a competitive advantage.

Further formalization of roles and responsibilities required

While there are some positives to report, almost two-thirds (60 percent) of the respondents indicate that roles and responsibilities are not clearly defined and 15 percent indicate that no ownership for the risk management framework is assigned. Important for the embedding of risk management in the organization is the establishment of clearly defined roles, responsibilities and accountabilities.

In general, roles and responsibilities are designed in accordance with the three lines of defense model. In this model, the second line as owner of the risk management framework is responsible for developing and implementing a consistent approach, garnishing a holistic view as well as supporting and challenging the business. Over one-thirds (37 percent) of organizations report that ownership of the risk management framework rests with the CEO.

While support for risk management from the top of the firm including the CEO, is critical to the success, standards recommend allocation of ownership to an individual independent from the first line. Organizations have to be mindful for potential conflicts of interest and natural bias, whereby one favors information that supports their position. This could be specifically relevant to a CEO who is responsible for the overall performance of an organization.

"... Organizations have to be mindful for **potential** conflicts of interest and natural bias, whereby one favors information that **supports** their position..."

Chart 5: Roles and responsibilities with regards to risk management are clearly defined to ensure that our organization operates within agreed risk tolerance.

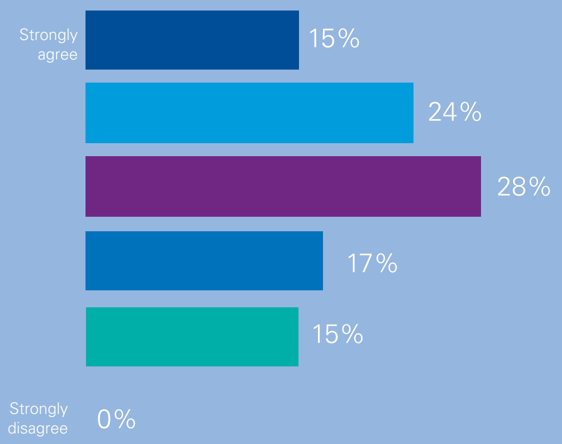
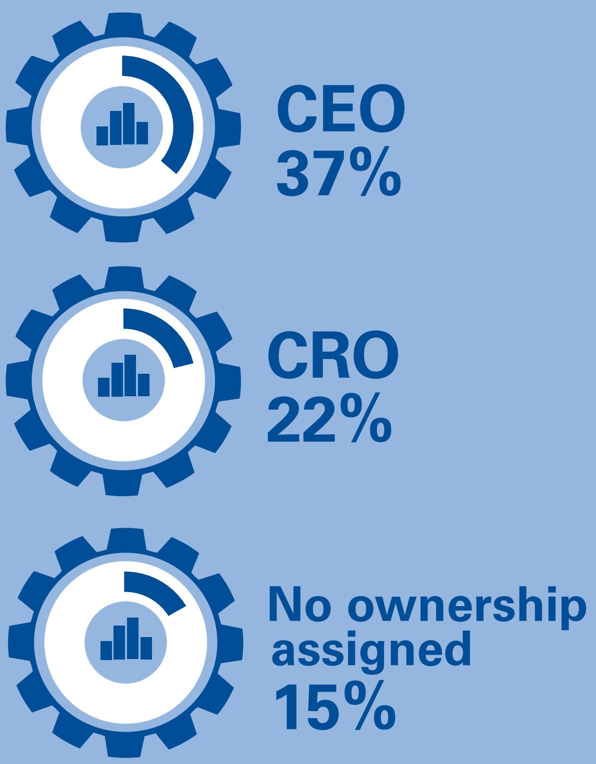
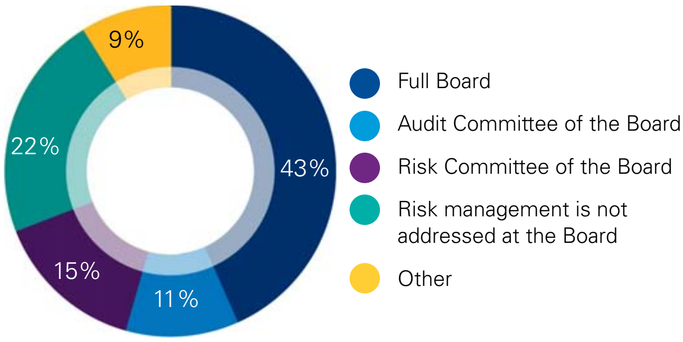


Chart 6: The individual within your organization who is responsible for the risk management framework.



On a positive note, approximately one quarter (22 percent) has responsibility for the risk management framework assigned to a Risk Officer, with more than three-quarters of these risk officers fulfilling this role at C-level as the dedicated CRO. Globally, organizations have made good progress in implementing this better practice. It not only raises the stature of the risk officer, but also provides the authority to intellectually challenge the first line.

Chart 5: Manner in which risk management is addressed at the Board level.



Another critical element for sound risk governance, is the monitoring of the effectiveness of the framework, for which the Board is responsible. Almost a quarter (22 percent) of the respondents indicate that risk management is not addressed at Board level, suggesting a potential gap in Board supervision.

Periodic assessment of the framework's effectiveness, through monitoring against roadmaps and treatment plans (amongst other methods), is a key instrument for the ongoing development of risk management within the organization.

As the survey results indicate, the establishment of risk governance through roles and responsibilities is an area for significant improvement. While formalization of the roles and responsibilities of individuals within the framework is key, just as important is the coordination across the three lines. Well-defined roles and responsibilities should not only create individual accountability but also address the coordination efforts.

Focus on risk culture, yet no clear targets

Despite increased investments in risk management and compliance functions, control failures are still making headlines in the news. So why is this still happening? Globally, weak risk culture has been identified as a key root cause, which has made it a top priority for organizations and regulators today. Yet, making risk culture tangible is proving to be a challenge.

Approximately a quarter (26 percent) of the respondents have strengthening of their risk culture as a top three priority, with 11 percent rating it number one. Despite this encouraging number, the survey indicates that risk culture programs are not yet fully up to par. Only nine (9) percent of organizations have a formalized and clearly communicated risk culture program. Three-quarters (72 percent) report that either clearer communication or further formalization is required. An effective risk culture program cannot lack either element.

Clear communication establishes belief and commitment towards managing risks. It is how senior executives create risk awareness by helping members of the organization to understand the risk concepts that they face, while performing their daily activities. Moreover, communication conveys that risk management is a clear priority.

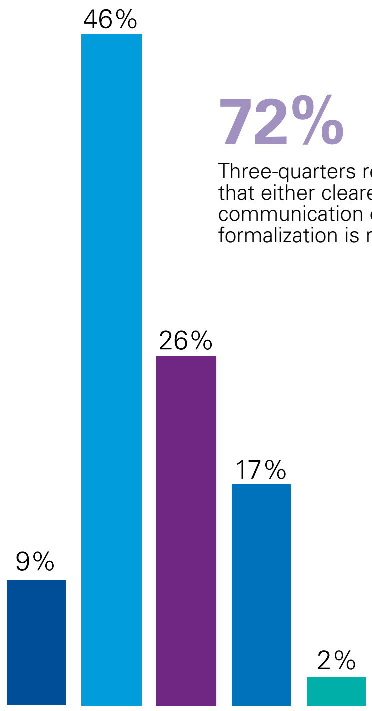
Communication not only encourages sound risk management, it also sets the stage for executives and employees to share information and work together towards managing risks.

A well-designed culture program supports this process by providing a prominent and systematic approach, one that promotes a consistent message about the risk appetite of the organization and the desired risk attitudes and behaviors.

As more than half (56 percent) of the respondents report enhancement of awareness amongst their top three opportunities, organizations should assess whether their existing culture program is supportive to this process. They might need to address their risk culture program first.

Commendably, almost half (47 percent) indicate that they have developed targets for achieving the desired organizational culture, with another 22 percent agreeing to a lesser extent that they have targets in place. However, underlying elements that are key to achieving these targets, i.e. accountability, tone at the top and the role of Human Resources (HR) are not equally developed.

Chart 8: My organization has a formalized risk culture program which is clearly communicated.

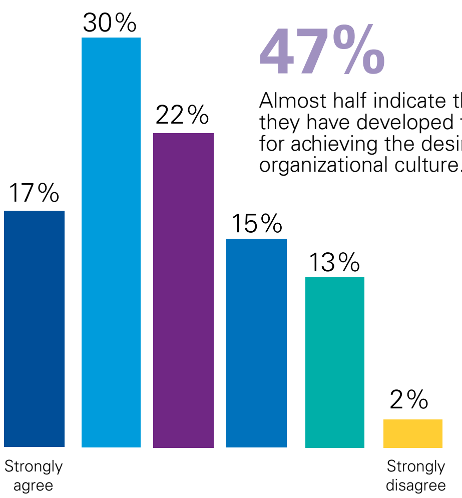


72%

Three-quarters report that either clearer communication or further formalization is required.

- Formalized and clearly communicated
- Formalized, but not clearly/consistently communicated
- Informal but clearly communicated
- Informal and not communicated
- A risk culture program has not been considered in our organization

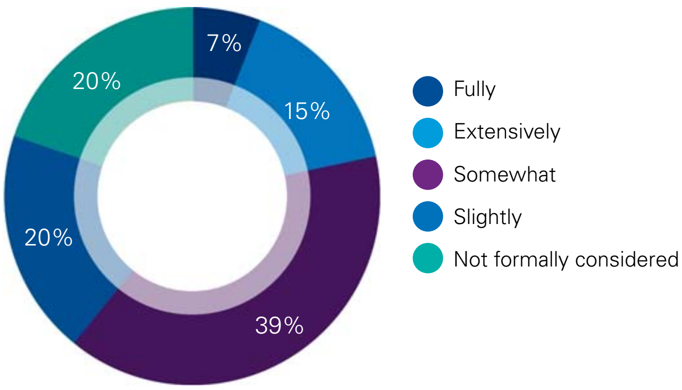
Chart 9: My organization has targets for achieving the desired organizational culture.



47%

Almost half indicate that they have developed targets for achieving the desired organizational culture.

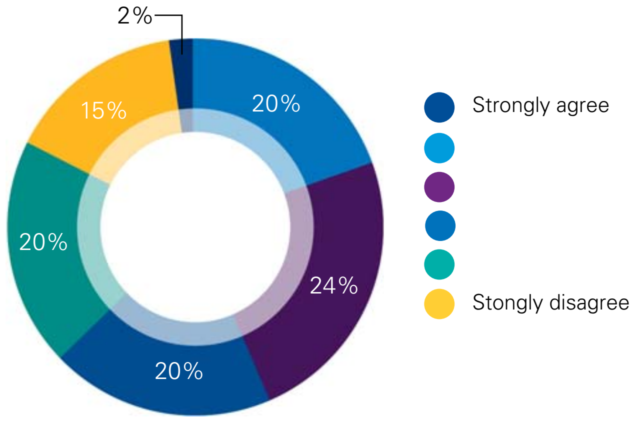
Chart 10: Employees are made accountable for managing risk through consideration of risk management-related performance measures and incentives.



79%

More than three-quarters state that only limited consideration is applied for making employees accountable for risk management through performance measures and incentives.

Chart 11: Making sure the organization stays within the risk appetite is a top priority for the senior executives and it is frequently communicated, formally and informally.



56%

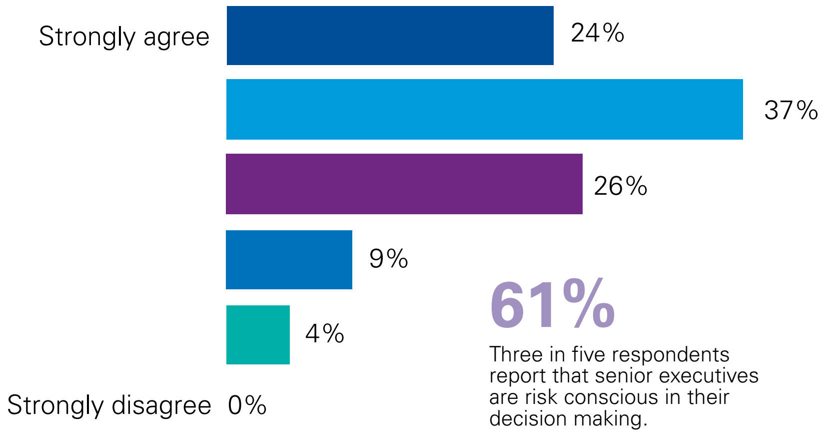
The majority considers staying within risk apetite less important.

More than three-quarters (79 percent) state that only limited consideration is applied for making employees accountable for risk management through performance measures and incentives. Lack of accountability could create a situation in which employees do not embrace ownership for managing risk and lack the commitment. Ownership involves: timely identification, management and escalation of risks. It must be evident to employees that responsible risk behavior is rewarded, while undesired behavior has clear consequences.

Demonstrating responsible risk behavior starts with the tone at the top. Staying within the risk appetite is a top priority for senior executives, according to 44 percent of the respondents. A cause for concern is the majority (56 percent) which considers this less important.

This could undermine the targeted risk culture. Senior executives who do not yet fully consider adherence to appetite a top priority, should. Leading by example influences employee perceptions and ultimately their behavior. If the board and senior executives 'walk the talk' by consistently exhibiting integrity and ethical behavior, other members of the organization will follow their lead.

Chart 12: Senior executives are risk conscious in their decision making (e.g. refusing to compromise on organizational standards and policies to expedite matters, exceeding tolerances, etc.).



61%

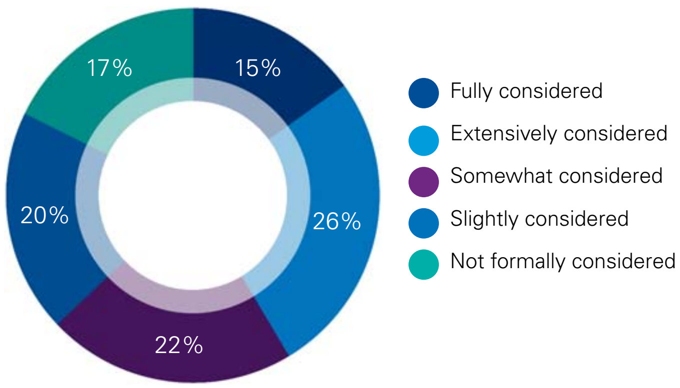
Three in five respondents report that senior executives are risk conscious in their decision making.

Fortunately, three in five respondents (61 percent) report that senior executives are risk conscious in their decision making. However as the majority perceives it not important to stay within appetite, the depth of their risk consideration is unclear. Not only should they themselves exhibit the desired risk awareness, they should be able to convey this awareness to those who look to them for guidance.

Also important for developing the targeted risk culture is having the right risk management skills and experience within the organization. This consideration should not be limited to dedicated risk officers but should apply to all members of the organization. Human Resources (HR) has a key role to play here. HR should monitor the alignment between the required and existing skills and experience through the recruitment, retention and employee development efforts. Furthermore, HR can drive the appropriate risk behavior, by supporting the development of relevant performance measurements and incentives. Of the respondents, 41 percent acknowledges this crucial role of HR within risk management. For an almost equal number significant progress is yet to be made in the incorporation of HR as part of risk management.

The increased focus on risk management does not only impact expectations towards employees, but also forces boards and committees to enhance their understanding of risk management, improve their ability to challenge the effectiveness of frameworks and requires them to take a more active role in the management of the organizations risk profile and its existing risk culture.

Chart 13: Skills and competencies related to risk management are considered when conducting the human resources function (e.g. recruitment, training, aptitude, etc.).



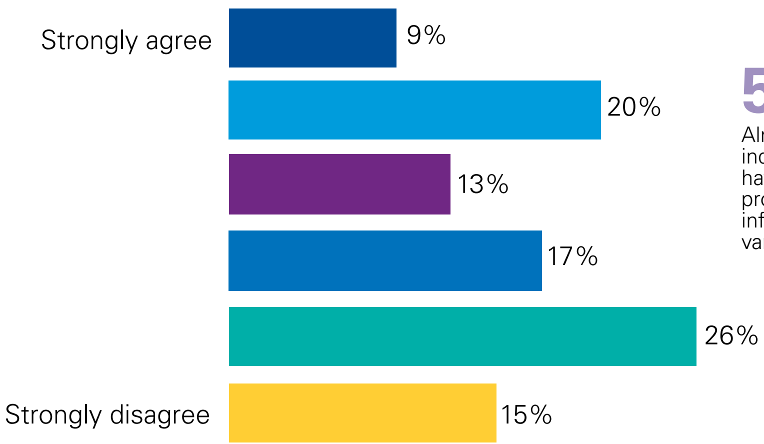
41%

Almost half acknowledge the crucial role of HR in risk management.

Tailoring risk information to the different stakeholders

For everyone to perform their responsibilities they require timely information that is concise, complete, accurate but also tailored to their requirements. A risk owner requires different information, with a different level of detail than for example the Chief Risk Officer (CRO) or the Board. Information requirements can even differ between individual risk owners. A tailored and well aligned risk reporting process, enhances the efficiency and effectiveness of risk management. As almost three-fifths (58 percent) of respondents indicate that they disagree on having developed a risk reporting process that is tailored to the information requirements of the various stakeholders, there is significant opportunity for improvement.

Chart 14: My organization has developed a risk reporting process that is tailored to the information requirements of the different stakeholders.



58%

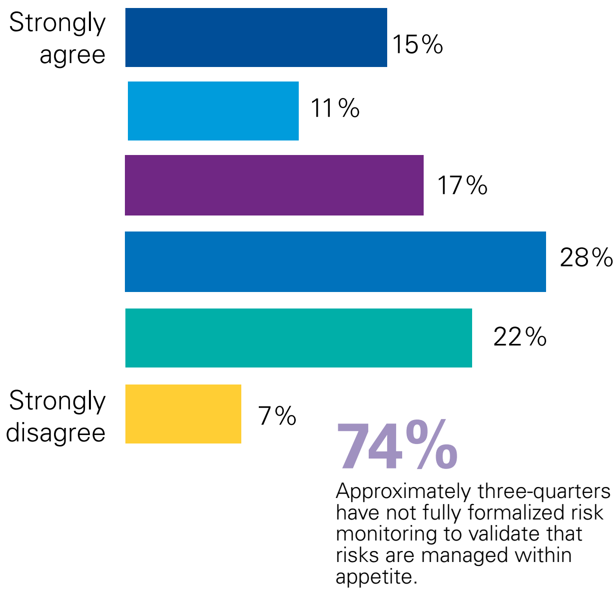
Almost three-fifths of respondents indicate that they disagree on having developed a risk reporting process that is tailored to the information requirements of the various stakeholders.

Risk information must give an exact representation and be accurate, allowing stakeholders to be confident that they can use this information to effectively manage risks. This confidence enables them to make well-informed critical decisions and validate that the organization's activities to respond, mitigate or manage risk are having the desired effect. The risk reports that present this information must be easy to understand, while still adequately covering information about risks which at times can be very complex. Moreover, reporting should be frequent enough to support timely action when issues are detected.

About a quarter (26 percent) of organizations have formalized risk monitoring to validate that risks are managed within appetite.

Approximately three-quarters (74 percent) however, have not fully formalized this, with 57 percent disagreeing to a certain extent.

Chart 15: My organization has implemented formalized risk monitoring to validate that risks are managed within the risk appetite.



While 74 percent has not fully formalized monitoring to manage risks within appetite, about four in five (83 percent) indicate that risk appetite is considered to a certain extent in daily decisions. Without (fully) formalized monitoring, the effective consideration of the appetite in the daily decisions, could be at risk. The lack of proper risk monitoring, makes it harder to reasonably conclude that risks are not exceeding tolerances.

A similar observation is made with regards to the effectiveness of treatment plans that are developed to address residual risks that are outside of appetite. Almost three-fifths (59 percent) of respondents have not implemented treatment plan monitoring to a full extent. Thereby potentially not validating that risks are adequately mitigated.

For organizations treatment plan and appetite monitoring are important tools to validate the effectiveness of their risk management framework.

Chart 16: The extent to which your organization's risk appetite is considered in day to day business decisions.

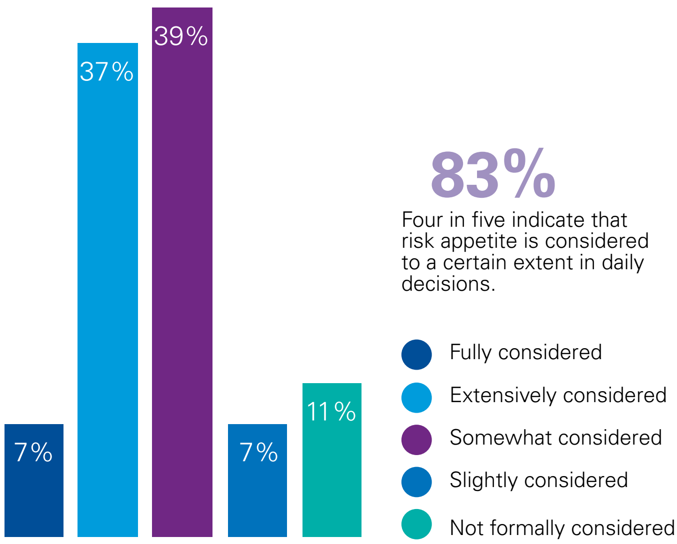
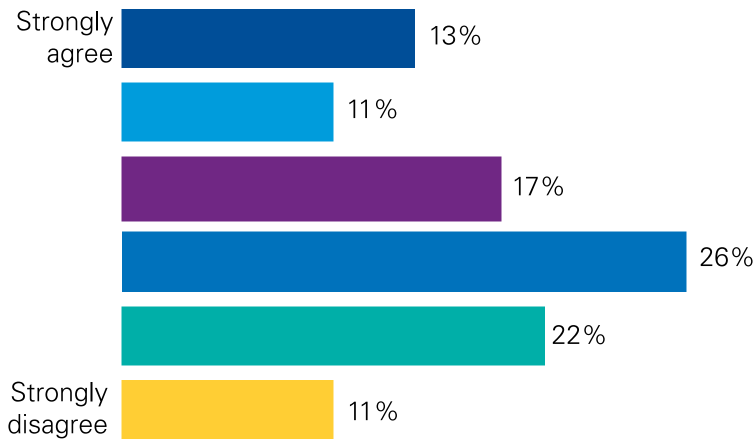


Chart 16: My organization monitors the implementation and effectiveness of treatment plans that have been developed for residual risks that exceed the risk appetite.



59%

Almost three-fifths of respondents have not implemented treatment plan monitoring to a full extent.

Setting sights on the trending risk drivers

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Chart 18: Estimated percentage of effort spent by your organization addressing each risk type or driver.

The global risk landscape is constantly changing. Organizations that wish to survive in this environment know that they must keep a watchful eye on trends and developments. Such diligence is necessary, not only to identify the risks that threaten their strategic objectives today, but to identify those that may threaten their whole existence tomorrow. Good examples are the disruptive and often technology-driven innovations such as Uber and Airbnb that quickly establish a strong foothold in an industry by undermining the traditional business model.

We asked respondents to rate the effort they spent addressing various risk drivers. The results show a strong devotion of effort to both financial and regulatory/compliance risk drivers. Indicating that these drivers have remained top of mind, especially in the financial services sector where regulatory requirements are ever-increasing.

Other risk drivers in the top five included: capital projects, data privacy and fraud. Globally data privacy and data security have been prevailing issues. Organizations and their data are now, more connected than ever before, to the trusted third parties they do business with. The challenge is no longer limited to ensuring that your organization handles data in a responsible and secure manner, but whether the business partners you work with are doing the same.

Fraud remains a key risk. Better financial controls have sparked a rise of collusion between those conspiring to commit fraud. By working together, conspirators can circumvent certain controls.

Of note is that operational efficiency and cyber security did not make the top five risk drivers. Globally these drivers are often ranked high, specifically highlighted by the increased efforts to address cyber security and improve cost to income ratios.

Today technology connects organizations to clients all over the world. Unfortunately, it also gives parties with malicious intent easier access to networks. A breach can result in great financial loss and reputational damage.

The effort towards operational efficiency currently stems from the struggle for revenue growth. Organizations are improving their bottom line through cost reductions, while simultaneously increasing productivity and enhancing customer experience.

With such a great number of risks populating the risk landscape, it becomes increasingly important to prioritize risks and risk efforts. Optimizing risk management efforts promotes a robust and holistic enterprise-wide approach that is ultimately more cost efficient, while addressing risks that matter.

Organizations should not be afraid to consider certain risk drivers well-managed, which allows these drivers to be retired from their priority list so that efforts can be refocused.

Expedite risk management through data & technology

Today's technology creates significant opportunities to enhance the risk management efforts within organizations. Real-time risk reporting and trend analysis are just a few examples of how these technologies can be implemented to expedite risk management.

52 percent within the Dutch Caribbean & Suriname report that the use of technology to support risk management is in its infancy and 66 percent indicate that risk analytics is not yet adopted.

While only one in ten (11 percent) rank the increased use of data analytics in their top three opportunities for enhancing the risk management framework, this could provide a very efficient tool for many organizations to quickly make significant strides in the overall maturity.

Using technology for risk management can greatly enhance an organizations ability to identify, gather, analyze, aggregate and report risk information. When implementing technology, the size and complexity of an organization should be considered. Technological solutions can range from Excel - for smaller organizations that tend to have fewer and less complex risk profiles - to more comprehensive programs specifically designed for enterprise-wide risk management. Technology often supports the organization in taking a consistent approach to risk management. If operated stand-alone it can have adverse effects, creating silos where each department uses their own tools and methodologies. This impedes proper risk monitoring and reporting. It can also stand in the way of sharing information, including valuable lessons learned and better practices. This danger is specifically relevant for those organizations that operate multiple systems. 22 percent of the respondents indicate that they operate multiple systems.

Noteworthy is that more than two-fifths (43 percent) of organizations apply scenario planning for risk monitoring. With 66 percent acknowledging that risk analytics is not embedded, there is potential to strengthen the scenario analysis and identify meaningful trends and correlations through the use of in-depth data analytics.

Similarly, as 59 percent use Key Risk Indicators (KRIs) as a tool to monitor risks, data-analytics can support the development of new and more relevant leading KRIs. These serve as an early warning system for increasing levels of material and emerging risks.

Chart 19: Methodologies your organization applies for risk monitoring.

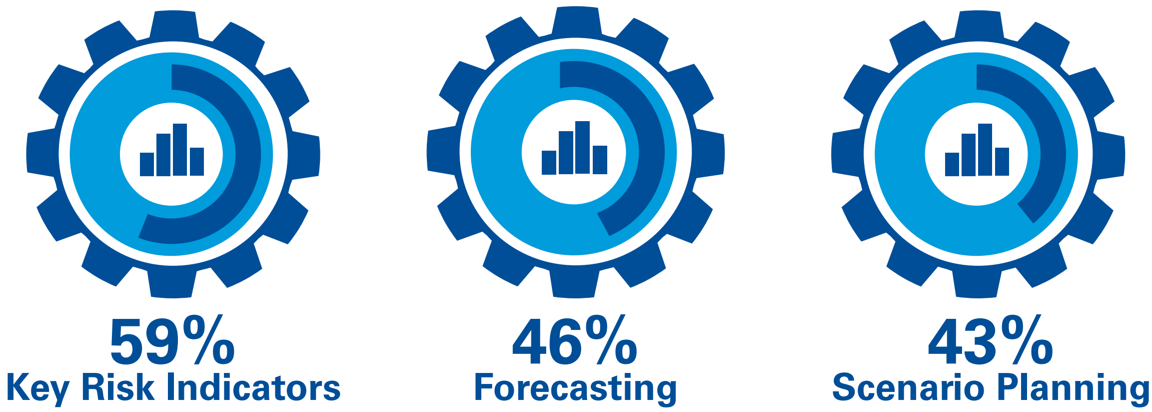


Chart 20: Use of technology by your organization to expedite or support its risk management process.

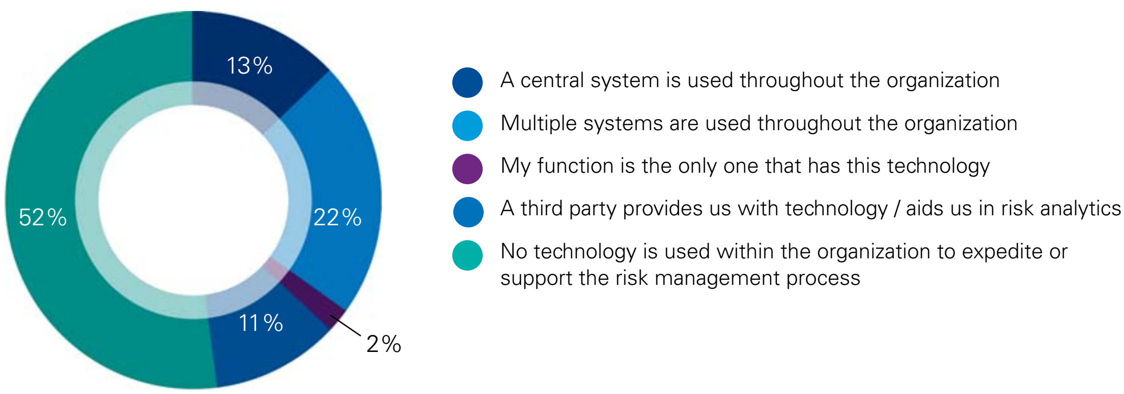
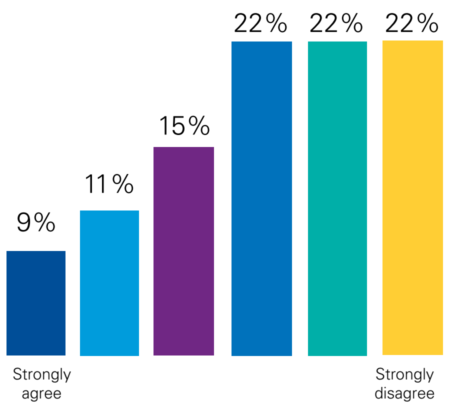


Chart 21: My organization applies risk analytics to identify meaningful patterns in risks and other data.



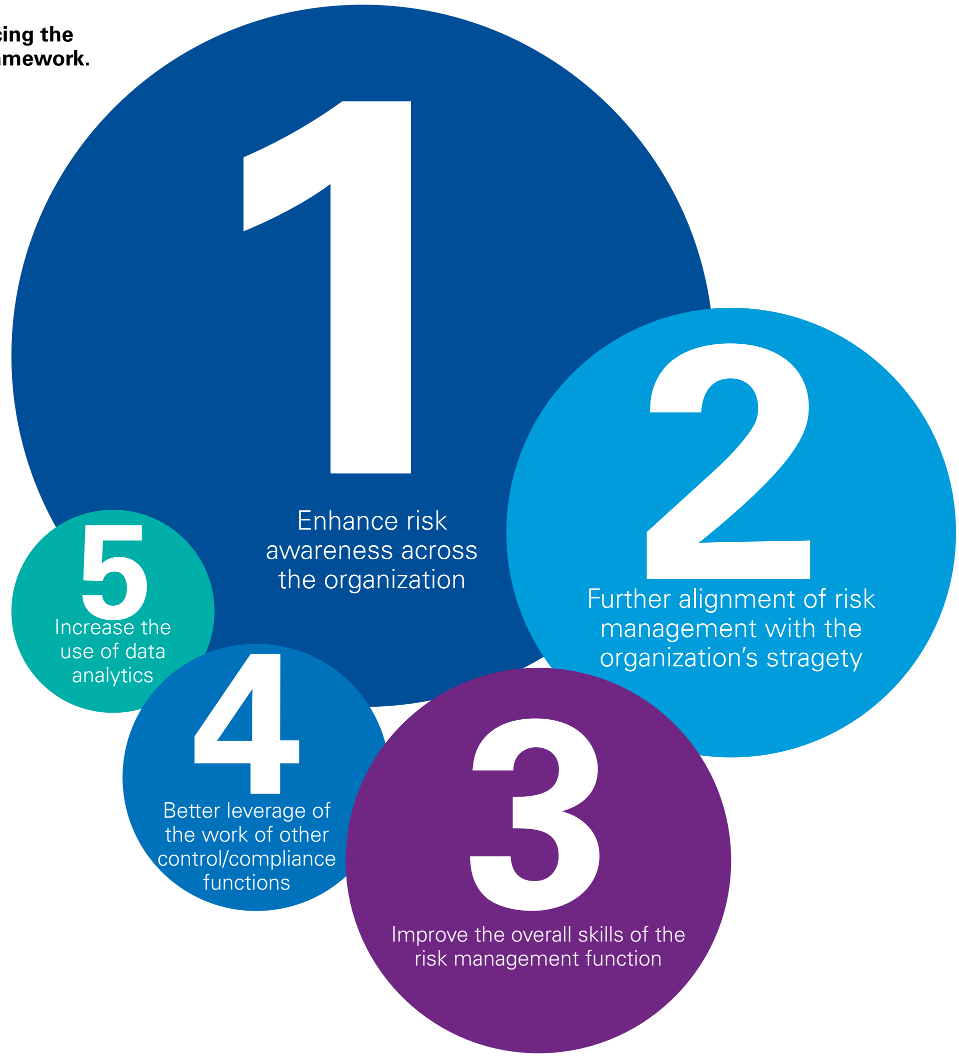
The top opportunities for enhancing the risk management framework

According to our survey, organizations have a common view when identifying the number one opportunity for improving their risk management framework. Enhancement of risk awareness across the organization is by far, the top issue on their agenda.

While risk awareness stands out and is a common theme, respondents indicate differing views when considering their other opportunities. As distant runner-ups to enhancing risk awareness are the further alignment of risk management with the organization's strategy and improvement of the overall skills of the risk management function.

Not making the top three, but receiving an almost equal amount of votes, is the use of data analytics and better leveraging the work of other control/compliance functions.
This indicates that aside from improving risk awareness, efficiency is to be gained in the operational aspects of risk management.

Chart 22:The top opportunities for enhancing the effectiveness of your risk management framework.



Conclusion

A MORE STRATEGY CENTRIC APPROACH TO RISK MANAGEMENT

Inherently risks are perceived as something to avoid and this might be the reason why a majority does not yet perceive risk management as a strategic tool that provides a unique competitive advantage. However value can be created by benefiting from the upside of risks. This requires risk management to be fully embedded and aligned with the organization's strategic planning process, resulting in strategy that is risk-based and designed to identify risk opportunities and capitalize on their value.

FURTHER FORMALIZATION OF ROLES AND RESPONSIBILITIES REQUIRED

From the survey it can be concluded that formalization of roles and responsibilities requires significant effort. Important for the embedding of risk management in the organization is the establishment of clearly defined roles, responsibilities and accountabilities. Common practice is designing these in accordance with the three lines of defense model. The Dutch Caribbean & Suriname have made good progress in implementing independent risk officers at C-level.

FOCUS ON RISK CULTURE, YET NO CLEAR TARGETS

Three-quarters report that either clearer communication or further formalization of their risk culture program is required. An effective risk culture program cannot lack either element. Clear communication establishes belief and commitment towards managing risks.

Formalization provides a systematic approach that promotes a consistent message about the risk appetite of the organization and the desired risk attitudes and behaviors.

While almost half indicate that they have developed targets for achieving the desired organizational culture, underlying elements that are key to achieving these targets, i.e. accountability, tone at the top and the role of HR are not equally developed.

TAILORING RISK INFORMATION TO THE DIFFERENT STAKEHOLDERS

With almost three-fifths of respondents indicating that they disagree on having developed a risk reporting process that is tailored to the information requirements of the various stakeholders, there is significant opportunity for improvement. Tailored information enables stakeholders to make well-informed critical decisions and validate that the organization's activities to respond, mitigate or manage risk are having the desired effect.

THE TOP OPPORTUNITIES FOR ENHANCING OF THE RISK MANAGEMENT FRAMEWORK

Enhancing risk awareness is by far the respondents top agenda item, outranking the remaining priorities three to one. As a prerequisite of risk awareness, risk culture supports this process by providing a prominent and systematic approach.
To incorporate risk awareness within an organization's DNA, they might first need to enhance the efficacy of their risk culture program.

Survey Methodology

Our 2016 Risk Management Survey was conducted between March and April 2016 and was open to corporations operating in the Dutch Caribbean & Suriname. The objective of the survey was to understand how organizations view their risk management maturity and what they consider their top priorities for improvement. Almost 50 organizations participated, represented by members of the C-suite, board audit committees and various risk and/or compliance executives. The majority of the survey responses were collected through the completion of our online survey, with some supplemented by face-to-face in-depth interviews.

We sincerely thank all participants for their invaluable insights.

46 respondents

18 industry sectors

9 territories

Chart 23:
Your role within the organization.

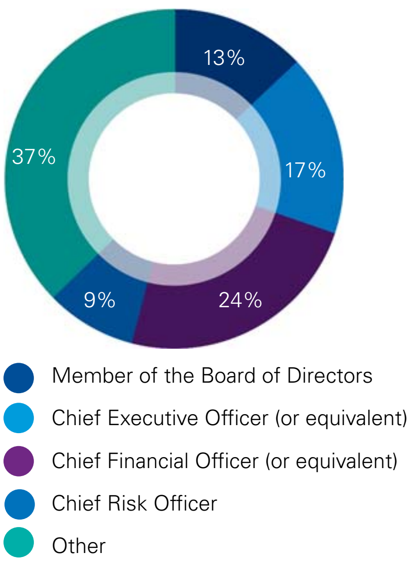


Chart 24:
The industry in which your organization operates.

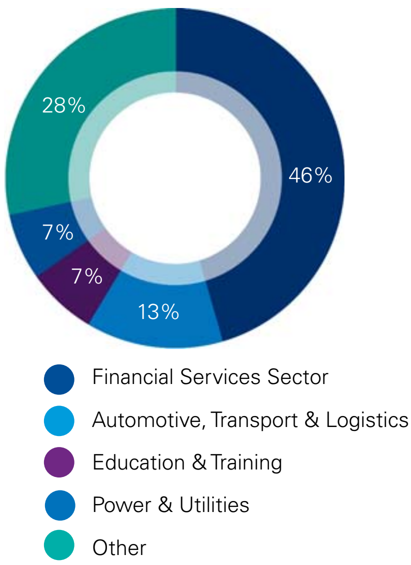


Chart 25:
Location of your organization's main office (HQ).

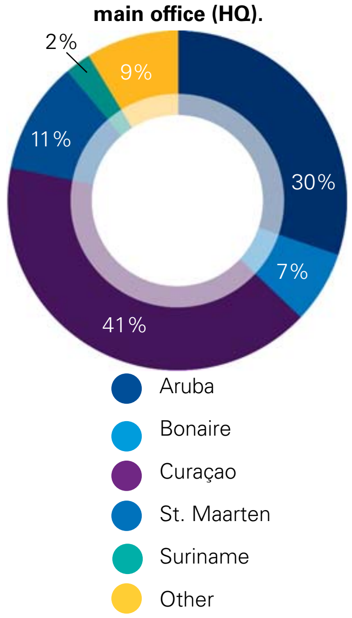
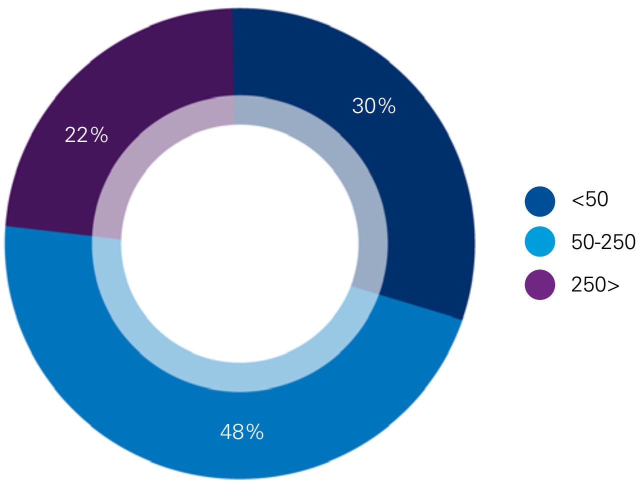


Chart 26:
Amount of full time employees withinin your organization

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