EXECUTIVE REPORT

2020 ENTERPRISE RISK MANAGEMENT BENCHMARK SURVEY

RIMS
the risk management society

2020 ENTERPRISE RISK MANAGEMENT BENCHMARK SURVEY

Analysis

Carol Fox

Publications Editor

Morgan O'Rourke

Art Director

Nick Nguyen

RIMS, *the* risk management society®, is a global not-for-profit committed to advancing the practice of risk management throughout the world. We bring networking, professional development, certification, and education opportunities to our membership of 10,000 risk management professionals in over 60 countries. Founded in 1950, the Society represents more than 3,500 industrial, service, nonprofit, charitable and government entities globally. For more information about RIMS, visit www.RIMS.org.

METHODOLOGY

Responses collected via a web link from end of July 2020 to mid-September 2020. We received 288 responses to the ERM survey from more than 14 different industries and 613 responses to the ERM COVID-19 survey. For questions concerning methodology and analysis, please write content@rims.org.

2020 RIMS ERM BENCHMARK SURVEY

Every few years, RIMS conducts a benchmark survey on enterprise risk management (ERM) to gain perspective on how ERM programs are changing. This year's benchmark survey includes insights on changes to respondents' ERM programs due to the shifting landscape brought on by COVID-19 as well as a new section on where and how risk management professionals are serving on boards of directors.

HIGHLIGHTS

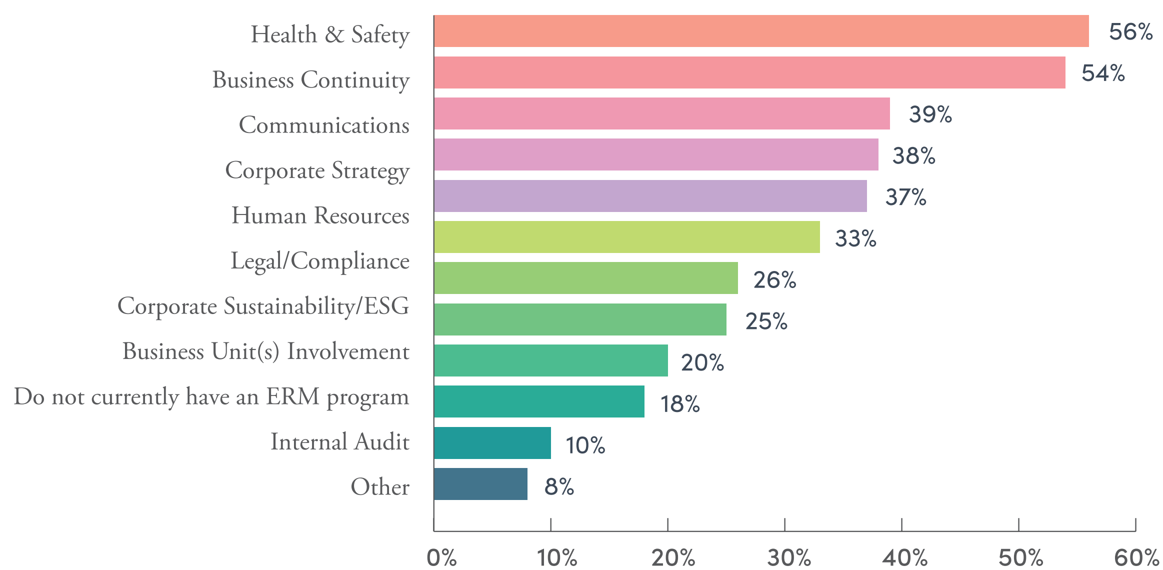
- Enterprise risk management is here to stay, although it continues to evolve as evidenced by the results of this survey compared to prior years.
- The priority value gained from ERM has shifted in the last decade from protection to portfolio views and increasing certainty in meeting strategic and operational objectives
- Improving decision-making was cited by 33% of respondents as either a primary or secondary value, ahead of compliance with regulatory and legal requirements (26%).
- Just over 30% of the respondents indicated that they have not developed risk appetite/tolerance statements, compared to 49% in 2017, which supports the noted increased management focus on integrating risk appetite with strategy setting and execution.
- Respondents reported that their ERM programs are most effective in helping organizations to act on identified important and relevant risks (possibly driven by an immediate need to act in response to COVID-19), use assessments in decision-making, and integrate accountability for risk into governance practices.
- While risk registers and risk maps are still used by the majority of respondents in risk reporting, portfolio views and the use of KPIs and KRIs appear to be gaining traction.
- 2020 may prove to be the turning point for risk management professionals to swing from an internal reporting/compliance concentration to developing higher satisfaction ratings with practices having greater strategic impact.

ERM CHANGES IN RESPONSE TO COVID-19

Because of COVID-19, entire business models have been disrupted. Priorities have changed. Decisions are clouded by uncertainty. How have enterprise risk management practices adjusted in the face of such unsettling forces? As a supplement to our *ERM Benchmark Survey,* over 600 people answered the following questions related to COVID-19 response (results total more than 100% as multiple responses were allowed):

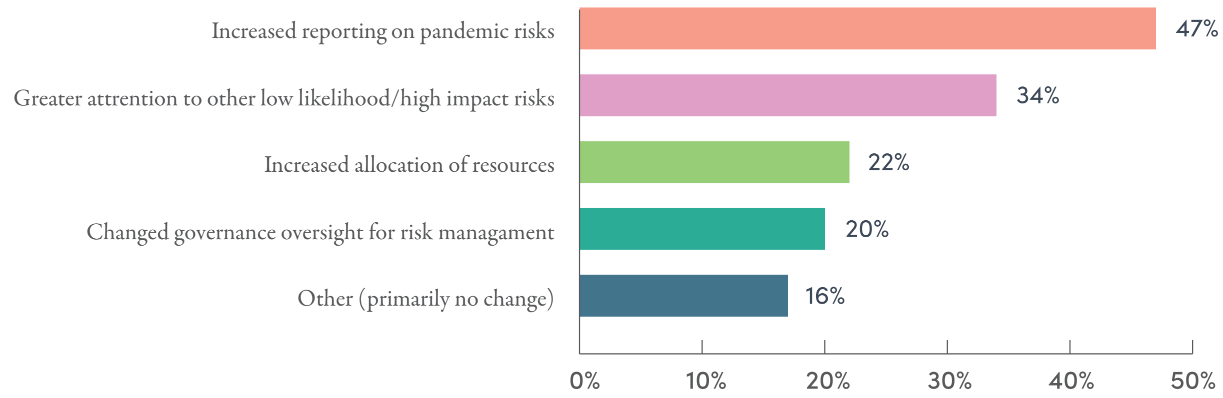
In which areas has the focus of your firm's ERM program changed due to COVID-19?

Not surprisingly, over 50% of respondents cited health and safety and business continuity as the prominent areas of focus in a pandemic environment. Nearly 40% of the respondents cited communications, corporate strategy and technology as heightened areas of focus given the need to communicate with multiple stakeholders, resulting business disruptions, and increased use of technology to adapt to a remote and dispersed workforce. Over 25% noted that corporate sustainability (environmental, social and governance) areas took on increased focus. Eighteen percent indicated that the organization currently does not have an ERM program in place.



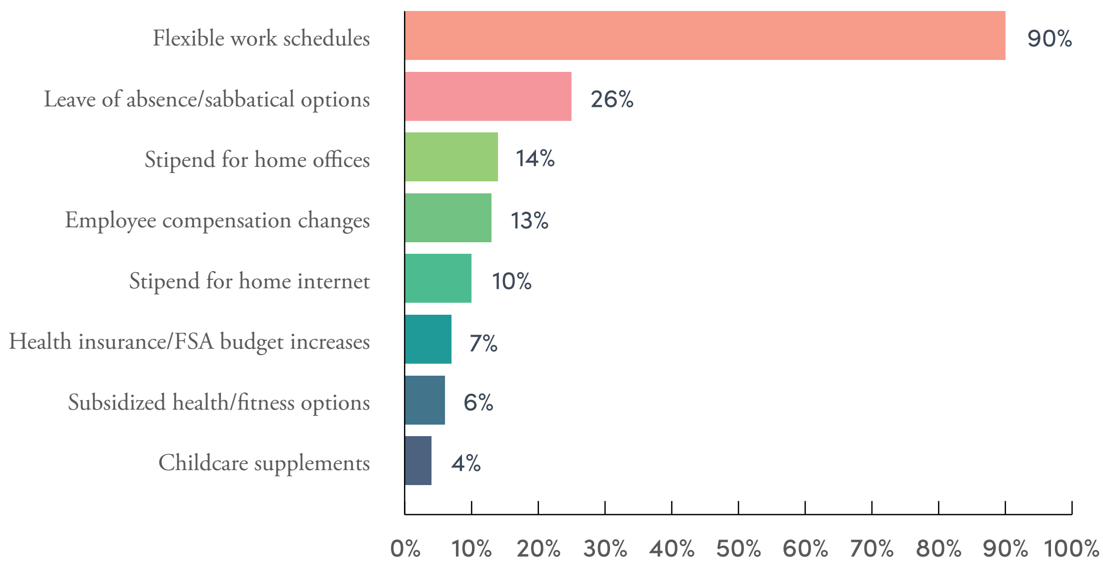
How did COVID-19 change your assessment and reporting of low-likelihood/high-impact risks?

Given the dynamic and disruptive nature of the pandemic, board members and management alike needed up-to-date reports to inform decisions regarding strategy, continued operations, and the health and safety of employees and customers. While some respondents indicated that their programs already paid attention to low-likelihood/high-impact risks, 34% reported a high focus in this area, perhaps signaling a deeper appreciation that high-impact risks need greater attention, regardless of likelihood. The good news for risk management professionals is that 22% of the respondents saw an increased allocation of resources, again signaling an increasing appreciation for the contribution of risk management. Interestingly, approximately 20% of the respondents indicated that COVID-19 changed governance oversight of risk management (described as new executive leadership, management-level committee oversight, board-level oversight). The COVID-19 pandemic triggered both increased scrutiny and visibility of risk management as it highlighted the interdependencies of risk throughout an organization's ecosystem.



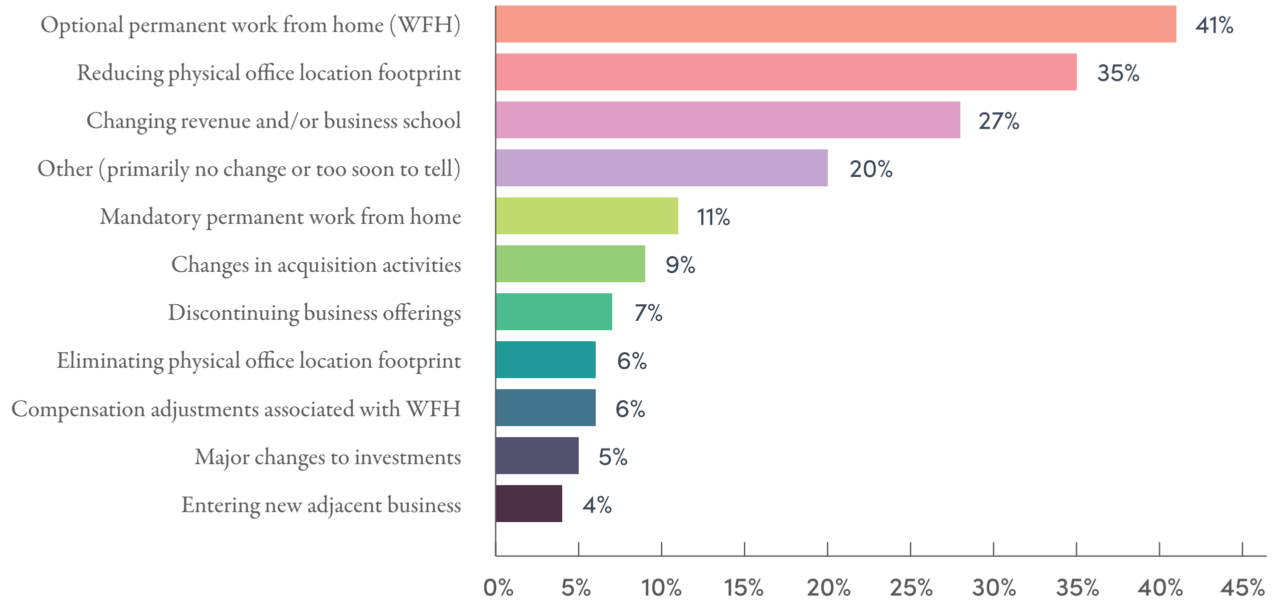
What health and productivity changes were made for employees in response to COVID-19?

A vast majority of respondents reported that they introduced flexible work schedules as employers grappled with caring for the needs of the organization and the needs of their employees. About a quarter offered leave of absence and sabbatical options rather than forced furloughs or layoffs. Fewer respondents reported that their organizations recognized the expenses that employees are absorbing in working from home by providing a stipend for the use of home offices (14%) and home internet (10%). About 13% reported employee compensation changes, whether in increases for essential workers or in reductions based on reduced revenues or fewer work hours. Less than 10% of respondents reported changes in health benefits and childcare supplements.



What long-term changes were made in operations in response to COVID-19?

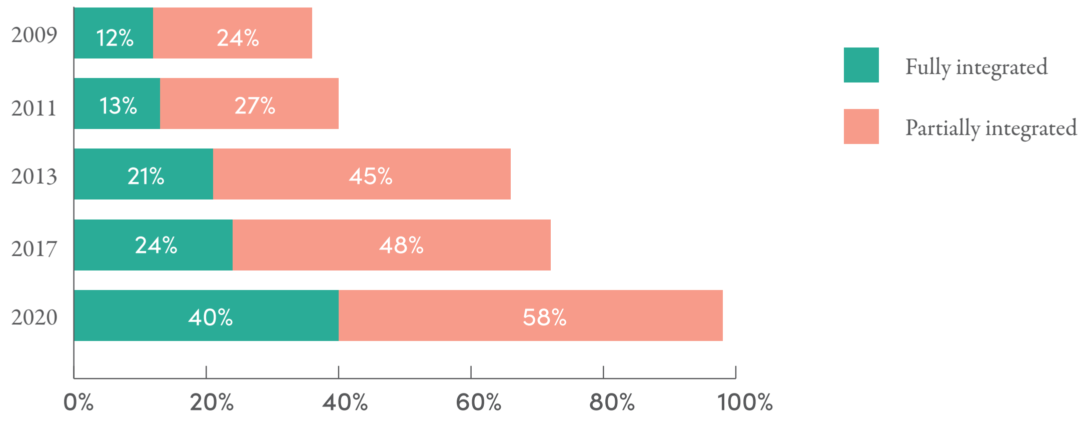
As lockdowns occurred and state and local governments mandated restrictions for reopening, organizations moved to a more permanent remote workforce, whether mandatory or optional. Social distancing in office locations changed the capacity of the office footprint. In response, about 35% of the respondents indicated their organizations had reduced the footprint of their office locations, with over 6% permanently eliminating office spaces. The impact to revenue or business model affected nearly 20% of the respondents, with 9% making changes in acquisition activities and 7% discontinuing business offerings. Less than 5% appeared to take advantage of the disruption by entering new adjacent businesses.



ALIGNMENT, VALUE, EFFECTIVENESS AND SATISFACTION IN ERM

To what extent has your organization adopted or is considering an enterprise risk management (ERM) program?

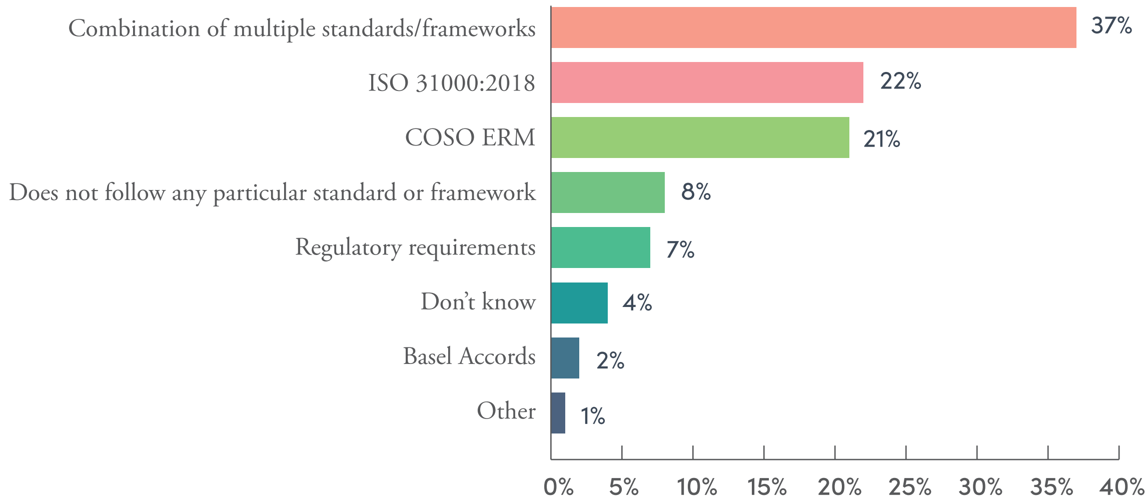
Of the nearly 300 responses received, approximately 80% reported that their organizations have an ERM program. No longer are we talking about tipping points and general adoption rates as we were in 2013 when 66% of the respondents stated that they had fully or partially integrated program or in 2017 when three-quarters reported either full or partial integration[1]. Of those with ERM programs in 2020, 98% reported that the program was either fully (40%) or partially integrated (58%). These responses indicate that enterprise risk management is now an accepted mainstream business discipline. That said, work still needs to be done to make ERM fully integrated, agile and proactive.



[1] "Fully integrated ERM program" was described as "practiced at corporate level AND within EVERY operation/business unit and resource function." "Partially integrated ERM programs" was described as "practiced at corporate level OR at one or more operational / business unit or resource function levels."

To which framework does your ERM program most closely align?

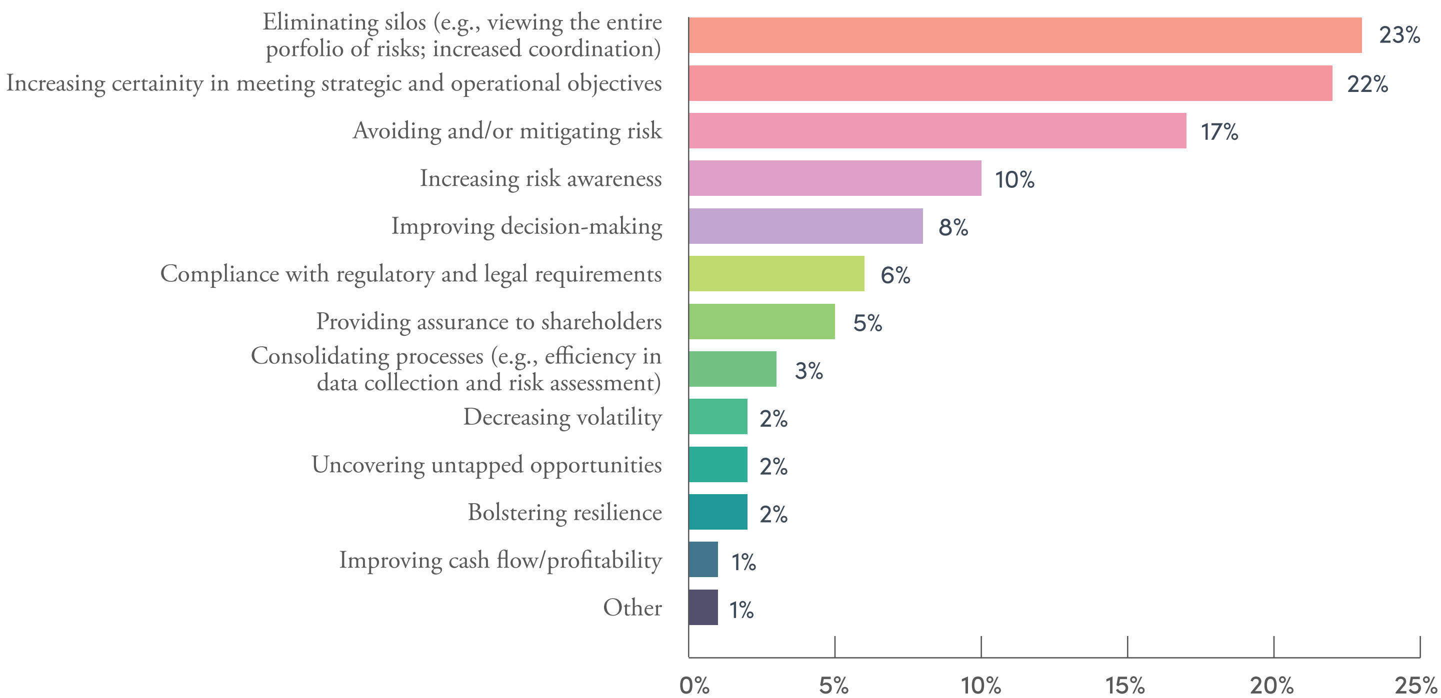
COSO and ISO are recognized as the two main sources for risk management guidance. Over 40% of respondents adopt one or the other. However, more than a third of the responding organizations build customized approaches based on multiple sources and are influenced to some degree by these two prevailing frameworks. The pervasive influence of ISO 31000, COSO ERM and regulatory requirements (such as NAIC's ORSA) is evident in the reduction in programs reporting that they are unaligned with any standard or framework (from 26% in 2013 to 20% in 2017 to less than 10% in 2020).



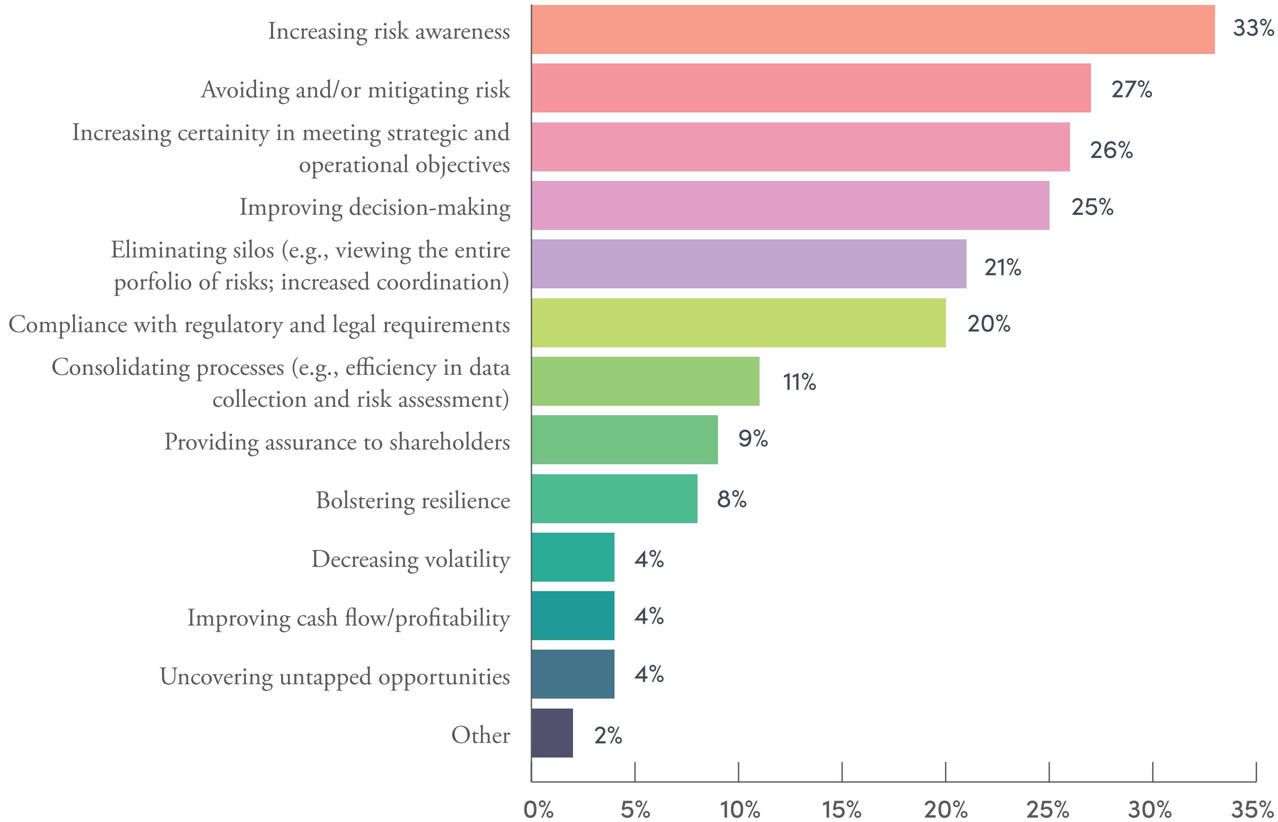
What is the primary and secondary value gained from your ERM program?

The priority value gained from ERM has shifted in the last decade. In 2011, we reported that nearly half found the primary value to be in protection, while only one-quarter found it to be in increased certainty for achieving the organization's strategic and operational objectives. In 2017, the top five cited in order of importance were in: avoiding and/or mitigating risk, increasing risk awareness, eliminating silos, increased certainty in meeting strategic and operational objectives, and compliance with regulatory and legal requirements. In 2020, the primary value shifted to eliminating silos and increasing certainty in meeting strategic and operational objectives. While avoiding and/or mitigating risk and increasing risk awareness remain in the top five, improving decision-making was cited as a primary and secondary value (8% primary value and 25% secondary value), ahead of compliance with regulatory and legal requirements. Although the 2020 survey was conducted during the COVID-19 crisis, only 2% cited "bolstering resilience" as either a primary or secondary value.

The primary value we gain from our ERM program is:

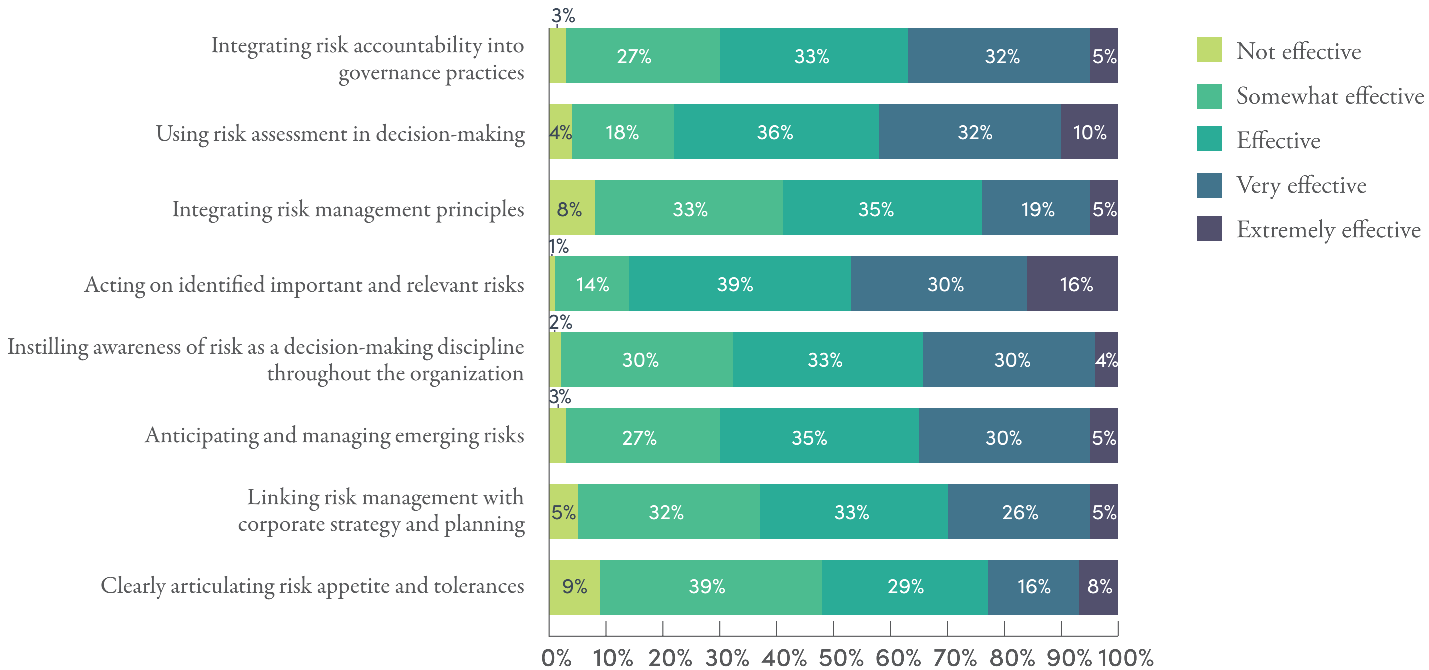


The secondary value we gain from our ERM program is:



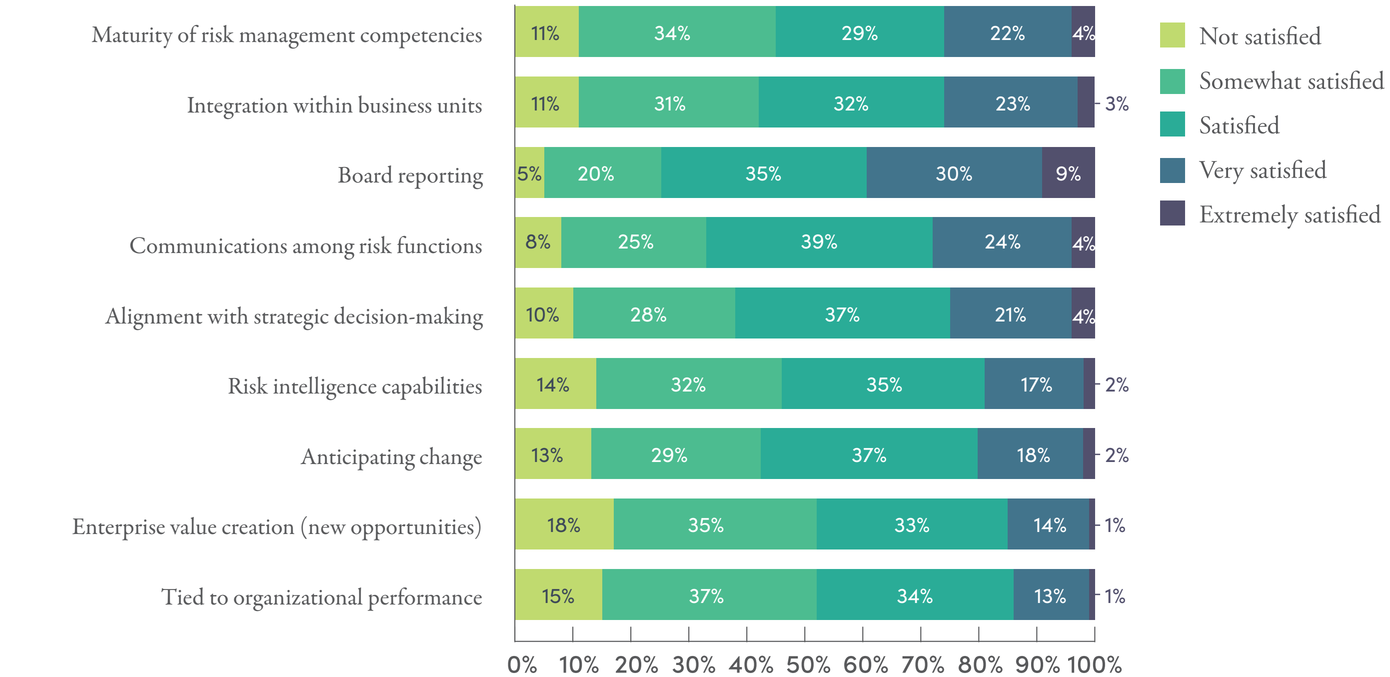
How would you rate the effectiveness of your organization in the following areas?

Respondents reported that their ERM programs are most effective in helping organizations to act on identified important and relevant risks (possibly driven by an immediate need to act in response to COVID-19), use assessments in decision-making, and integrate accountability for risk into governance practices. It is encouraging that effectiveness ratings overall are higher than in past years, perhaps through maturing practices and greater integration. Articulating risk appetite and tolerances remains the greatest challenge in effectiveness with over 40% reporting that this area is somewhat effective or not effective at all, which mirrors 2017 results.



Are you satisfied with the following elements of your organization's ERM practices over the past year?

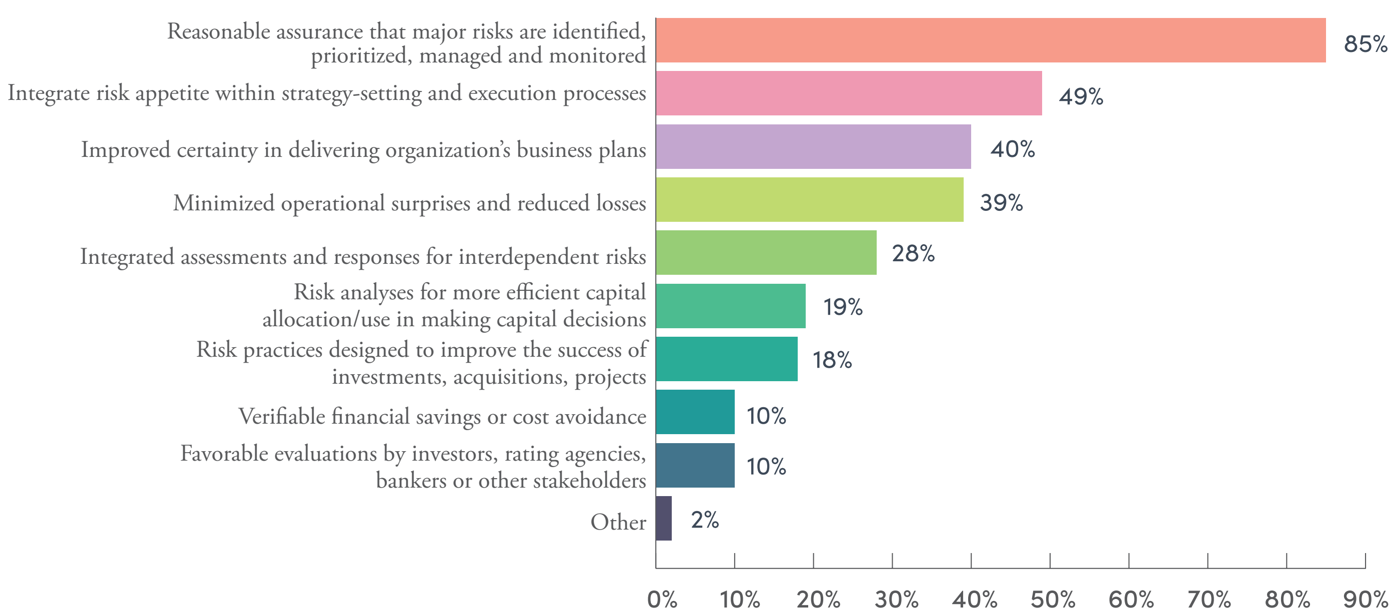
Respondents are most satisfied with board reporting and communication among risk functions, which seems to signal positive breakthroughs in breaking down internal silos. Given that enterprise value creation and tying ERM to organizational performance rated among the lowest in satisfaction (with more than 50% not satisfied or somewhat satisfied), 2020 may prove to be the turning point for risk management professionals to swing from an internal reporting/compliance concentration to developing higher satisfaction ratings with practices having greater strategic impact.



MANAGEMENT, STRATEGY, INFLUENCE AND REPORTING

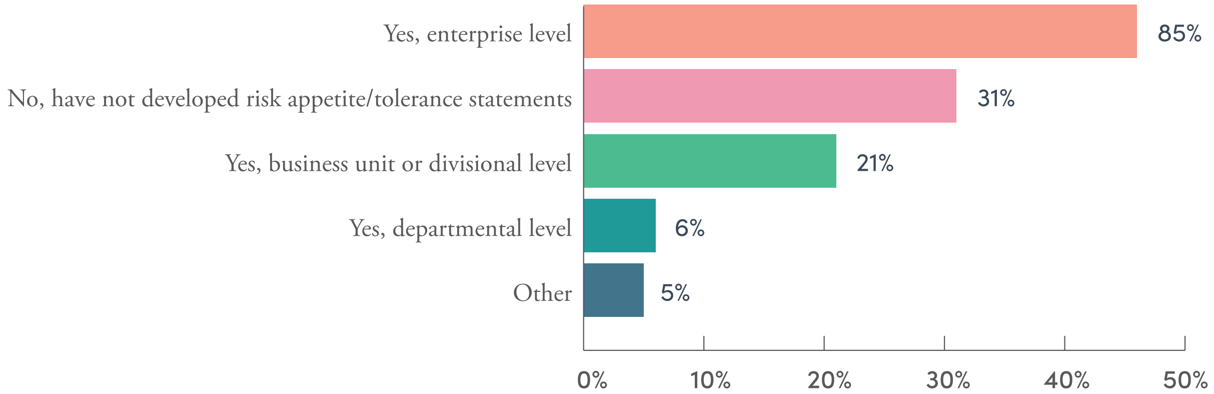
What does executive management expect the ERM program to deliver?

Clearly, executive management relies on the ERM program to provide reasonable assurance that major risks are managed. These are table stakes for any program. The key difference is in the dramatic shift in minimizing operational surprises and reducing losses as a key management expectation (from 54% in 2017 to 39% in 2020), while integrating risk appetite within strategy-setting and execution processes has taken on a higher priority over other expectations. Only 10% noted financial savings or favorable evaluations by rating agencies as a key management expectation.



Have you developed risk appetite and/or risk tolerance statements within your organization?

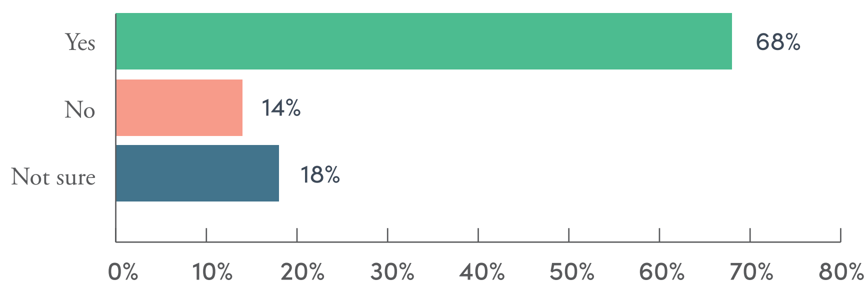
Just over 30% of the respondents indicated that they have not developed risk appetite/tolerance statements, compared to 49% in 2017, which supports the noted increased management focus on integrating risk appetite with strategy setting and execution. One respondent noted that while they had "developed [risk appetite statements] a long time ago, [we] need to start over." This is a great reminder that the importance of risk appetite statements is not the statements themselves as they easily can become stagnant. The importance is how the discussions about modifying and applying the statements help inform decisions about strategy setting and execution and boundaries for action.



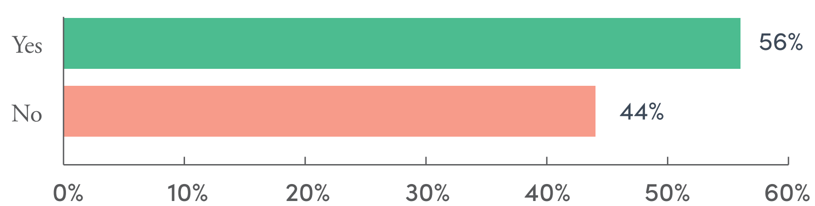
Does your organization incorporate ERM into discussions and planning around strategy?

A slightly higher percentage of respondents reported that insights from the ERM program are used to inform and influence corporate strategy compared to 2017 (68% and 61% respectively). About 56% reported that they directly participate in the strategic planning process.

Are insights from your organization's ERM program being used to inform and influence corporate strategy?



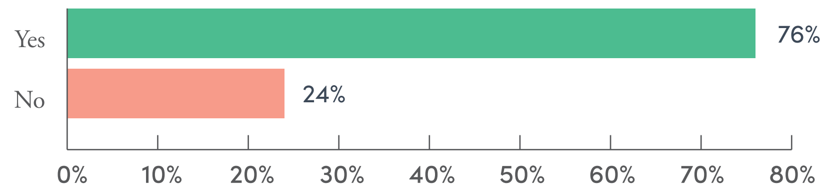
In your current capacity, do you participate in the strategic planning process of your organization?



How are risk insights being used to make business decsions?

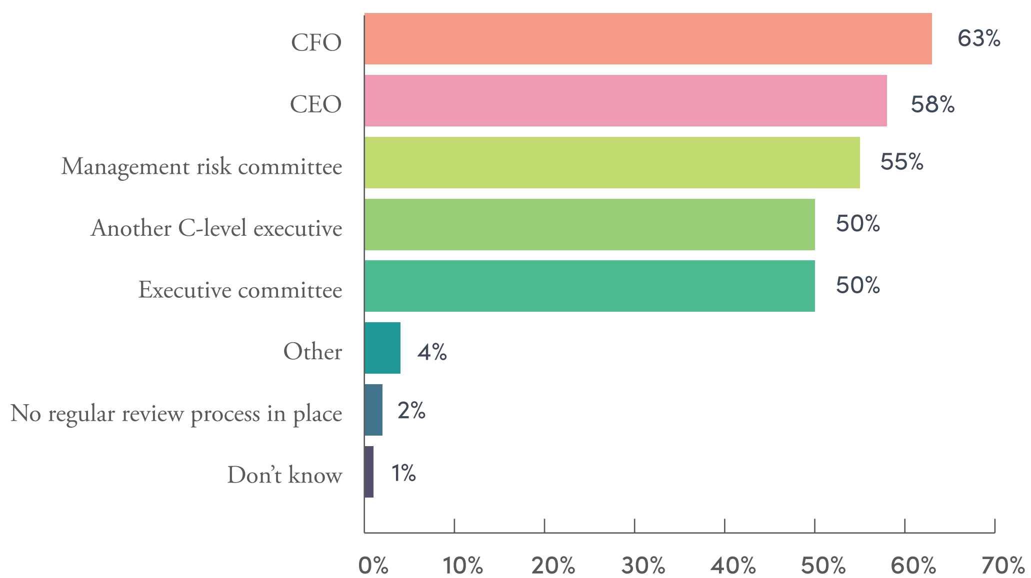
Three-quarters of the respondents believe that the board and senior management apply risk insights from ERM in business decisions. When asked to provide examples of situations in which senior leadership and the board applied risk insights to make a business decision, the responses included a variety of applications, with a number focusing on implementing COVID-19 protocols and execution of business continuity plans, as well as tapping business opportunities related to the pandemic. Others cited risk assessments related to decisions regarding mergers and acquisitions and significant captial projects, including a few who cited decisions that were made to divest a subsidiary or to not pursue an opportunity. Other types of decisions in which risk insights were used include projects, such as new construction, IT implementations and 5G rollout. Decisions regarding prioritization included those related to human resource planning and investments/expenditures. A number of respondents noted that risk insights are used in decisions regarding product concentration and captial allocation based on risk appetite and tolerance guidelines.

In your view, does your senior leadership team and board apply the risk insights you provide in your current role to make business decisions



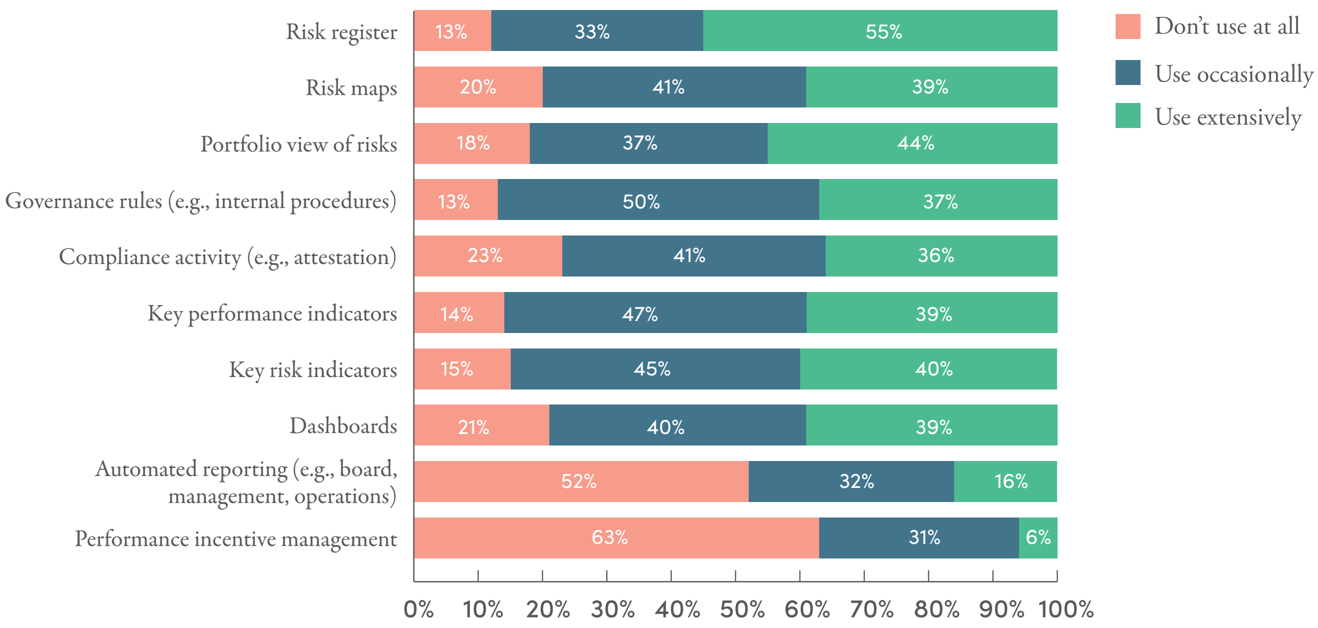
Who reviews ERM reports?

Just over half reponded that their reports were reviewed by the CFO (63%), the CEO (58%) or a management risk committee (55%). This begs the question of whether risk reports themselves are truly infoming decisions or whether other types of engagement by risk professionals are driving business decisions.



What tools do you use to monitor and report on risk today?

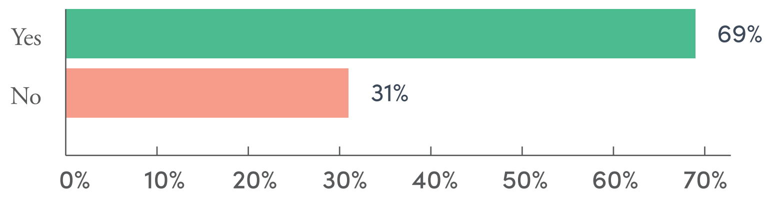
While risk registers and risk maps are still used by the majority of respondents, portfolio views and the use of KPIs and KRIs appear to be gaining traction. With boards and management requiring deeper understanding of the risks related to specific objectives (as reflected in the decision examples cited above), risk professionals may want to reconsider the usefulness of risk registers and risk maps as reporting mechanisms. While risk registers may be useful to the risk professional in categorizing risk as part of the assessment process, the question is whether this sorting actually informs decisions as much as the risk assessments themselves. Are other types of reporting, such as KPIs, KRIs and dashboards, more helpful in providing risk insights? Interestingly, less than 50% use any type of automated reporting, and even fewer tie risk management to performance.

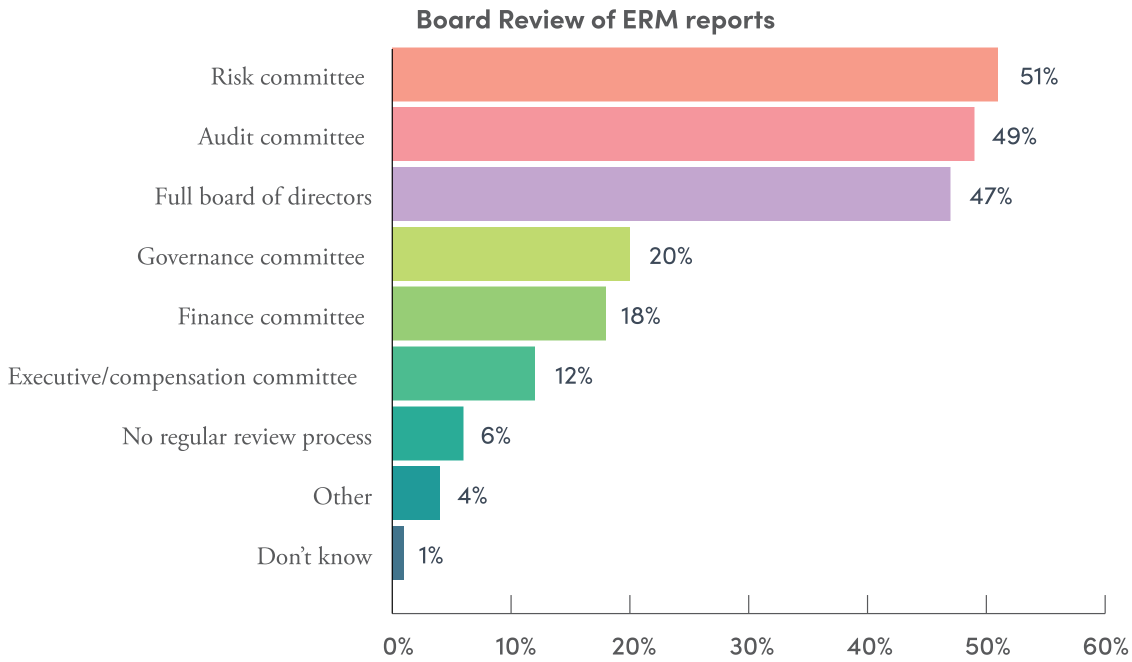


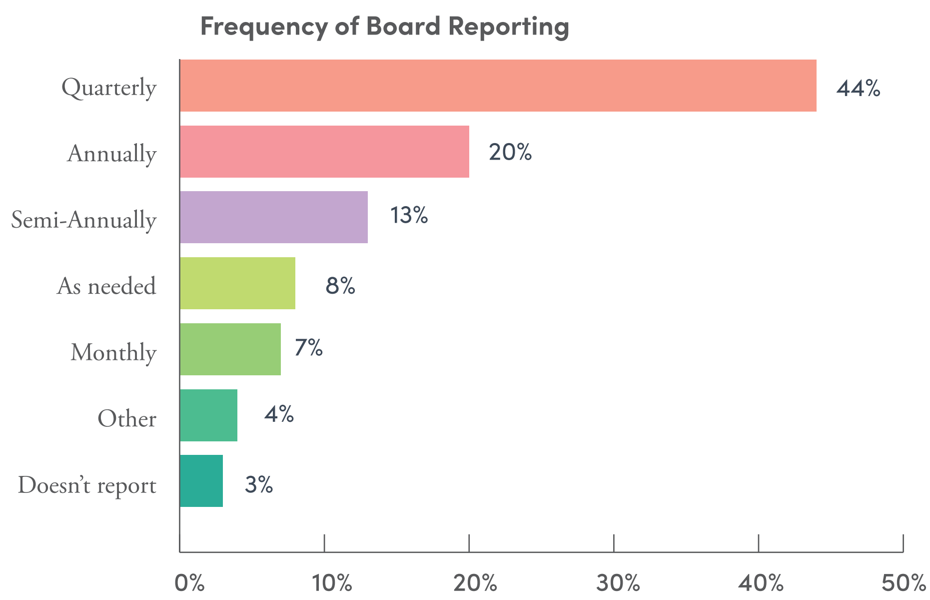
BOARD ENGAGEMENT

Respondents reported a high satisfaction with board risk reporting. Nearly 70% reported that they directly engage with board members, primarily with risk and audit committees, as well as the full board, based on the responses as to who reviews ERM reports. Reporting frequency, at least on a formal basis, has not changed significantly from 2017.

In your current capacity, do you engage directly with you organization's board members, board-level risk committee or equivalent?




Board Review of ERM reports
Risk committee
Audit committee
Full board of directors
Governance committee
Finance committee
Executive/compensation committee
No regular review process
Other
Don't know
51%
49%
47%
20%
18%
12%
6%
4%
1%
0%
10%
20%
30%
40%
50%
60%

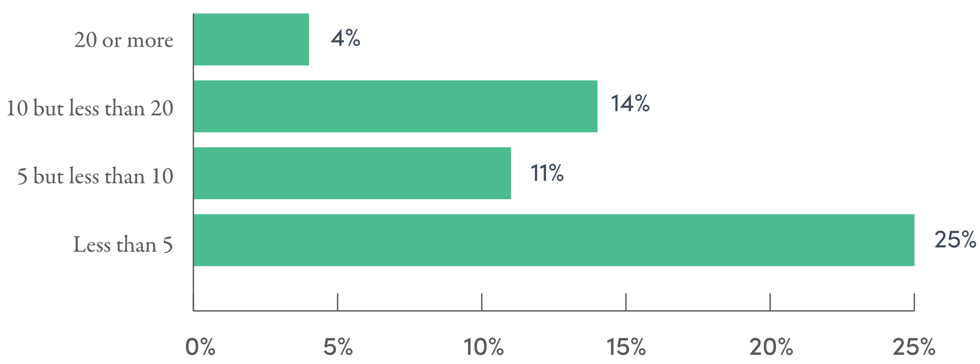

Frequency of Board Reporting
Quarterly
Annually
Semi-Annually
As needed
Monthly
Other
Doesn't report
44%
20%
13%
8%
7%
4%
3%
0%
10%
20%
30%
40%
50%

BOARD SERVICE

New to our report this year is a focus on risk professionals and board service. As stakeholders clamor for greater board accountability and oversight of risk, logic would dictate that more boards would seek those with deep competency in this area to join their ranks. So far, however, that largely has not been the case. Perhaps 2020 will serve as a clarion call for risk professionals to pursue greater board service.

Over 25% of our ERM respondents reported that they serve on the board of directors or trustees for an organization. Years of board service varied from less than five years to over 20 years. Seventeen percent of those serving on boards reported that they serve on their company board, with the remainder serving on the board of another organization. When asked what types of boards they served on, over 75% responded that they served on not-for-profit boards, 9% serve on privately held for-profit boards, and the rest were divided between non-government organizations and public entities. None served on publicly held, for-profit boards.

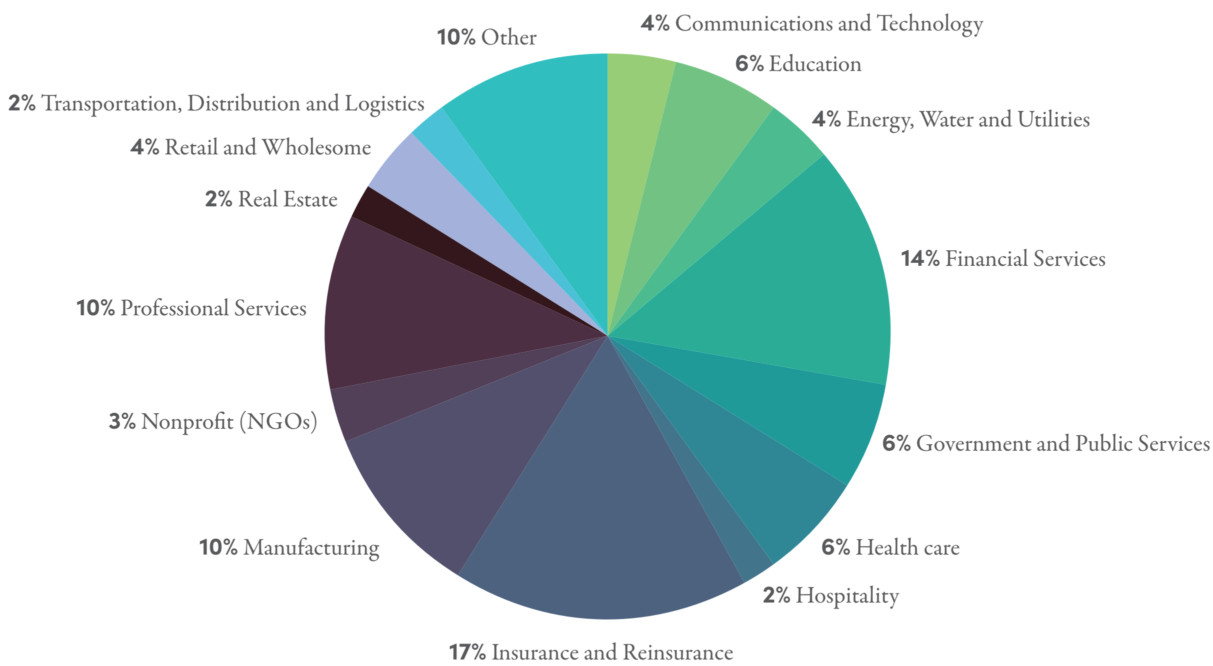
Years of Board Service



DEMOGRAPHICS

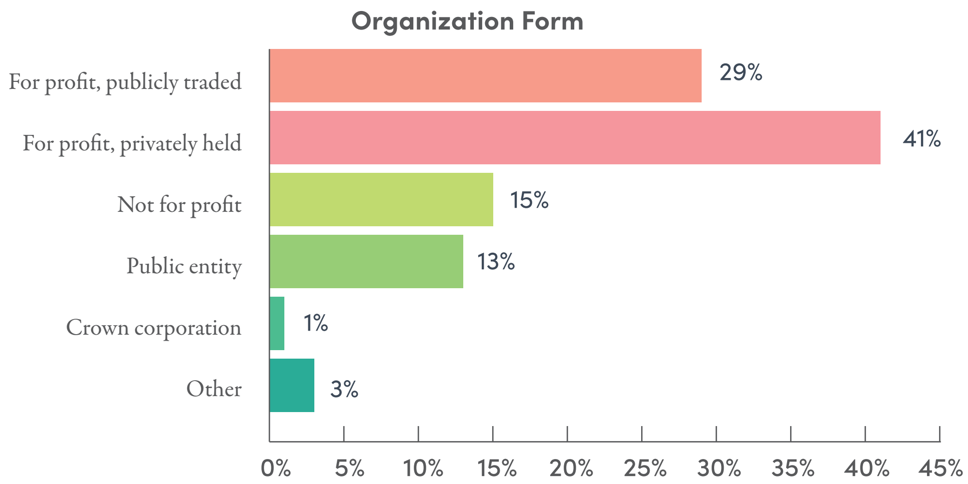
PRIMARY INDUSTRY

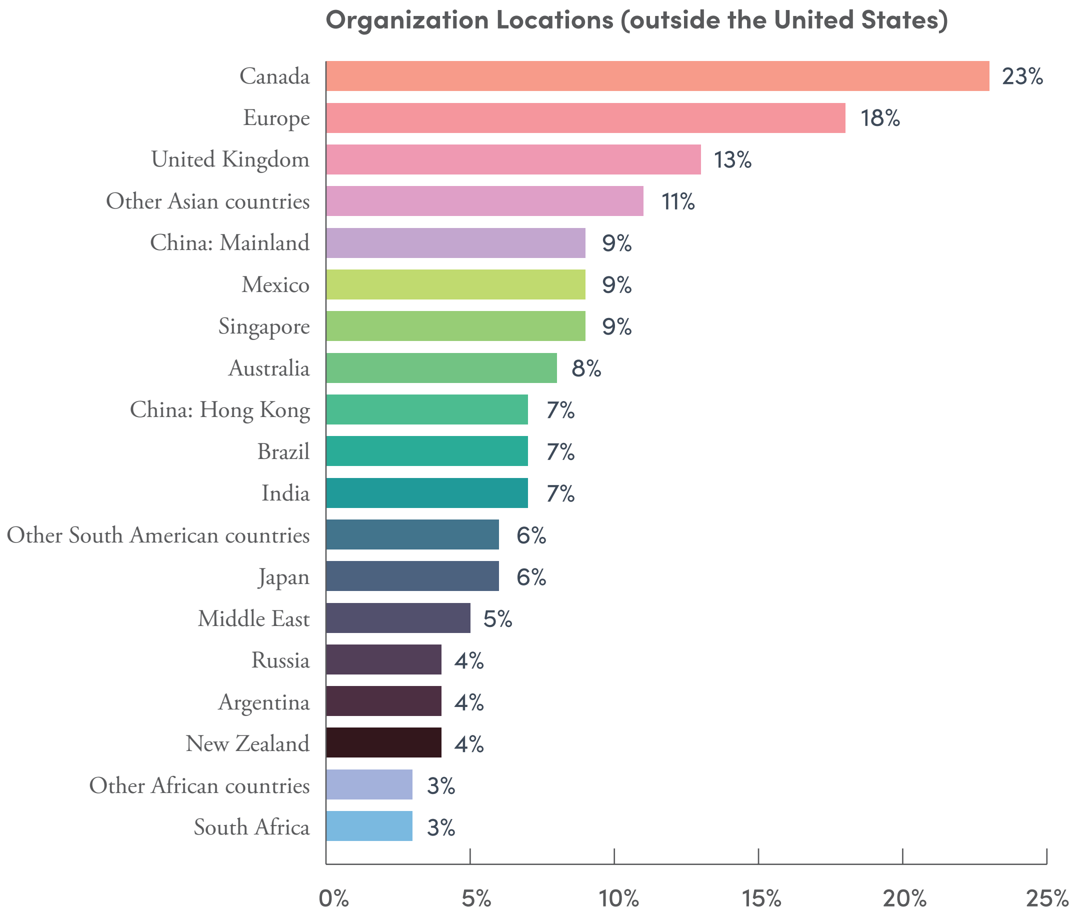
The "other" category reflects organizations with less than five respondents and includes industries such as Aviation, Agriculture, Forestry and Fishing, Engineering and Construction, Gaming, Media, Mining and Quarrying, Petrochemicals, Oil and Gas Exploration & Production, Pharmaceutical, Biotech, and Tourism.

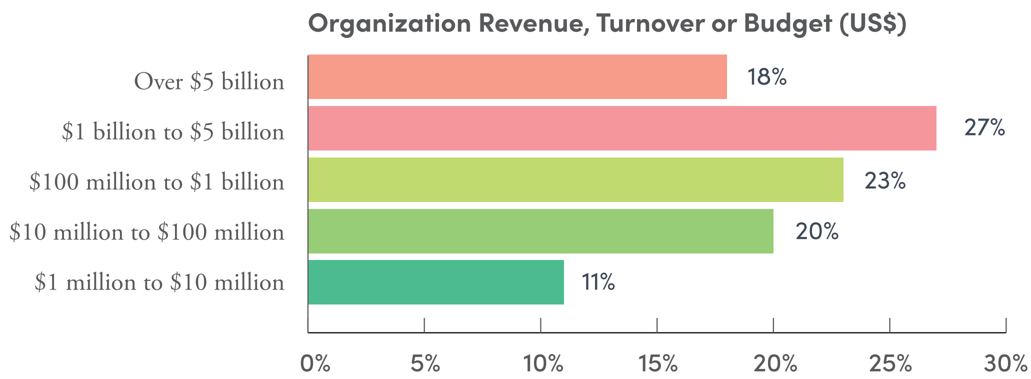


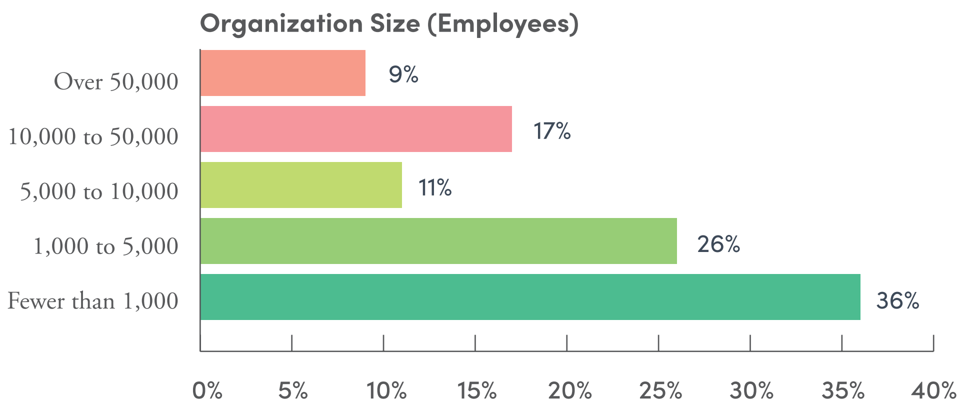
ORGANIZATION

Respondents were largely from those maintaining headquarters or operations in the United States (71%). The balance of respondents represented a global perspective. As multiple answers were allowed, the totals do not equal 100%.



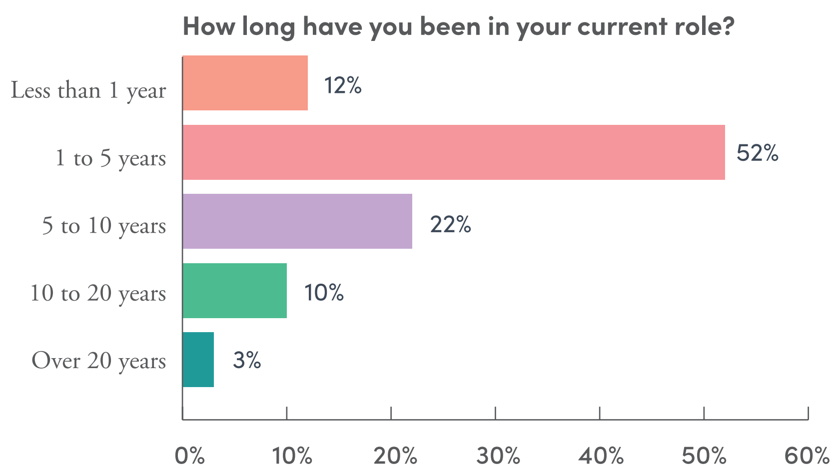

Organization Locations (outside the United States)
Canada 23%
Europe 18%
United Kingdom 13%
Other Asian countries 11%
China: Mainland 9%
Mexico 9%
Singapore 9%
Australia 8%
China: Hong Kong 7%
Brazil 7%
India 7%
Other South American countries 6%
Japan 6%
Middle East 5%
Russia 4%
Argentina 4%
New Zealand 4%
Other African countries 3%
South Africa 3%
0% 5% 10% 15% 20% 25%


Organization Revenue, Turnover or Budget (US$)
Over $5 billion 18%
$1 billion to $5 billion 27%
$100 million to $1 billion 23%
$10 million to $100 million 20%
$1 million to $10 million 11%
0% 5% 10% 15% 20% 25% 30%


Organization Size (Employees)
Over 50,000 9%
10,000 to 50,000 17%
5,000 to 10,000 11%
1,000 to 5,000 26%
Fewer than 1,000 36%
0% 5% 10% 15% 20% 25% 30% 35% 40%

RESPONDENTS

Respondents primarily held the title of Director of Risk Management, and the majority had more than a decade of experience in risk management. The top three reasons why repsondents were hired for their current role were: business acumen (47%), risk identification, assessment and prioritization (39%), and enterprise risk management (38%).



What technical capabilities were you hired for in your current role?