



CEB Risk Management Leadership Council

# **State of the ERM Function**

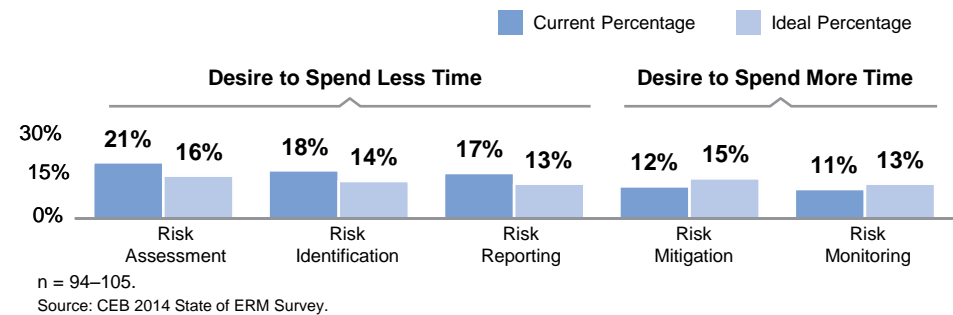
*2014 Survey Key Findings Preview*

# MOVING FROM RISK ASSESSMENT TO RISK MANAGEMENT

## Desire to Shift Focus

ERM teams see diminishing returns from their time spent identifying and assessing the potential effect of risks to the organization. The predominant view is that these risks, once identified and assessed, are not adequately managed in the business. When asked where they would ideally spend their time, most ERM teams indicate they would spend more time ensuring risks are appropriately mitigated and monitored.

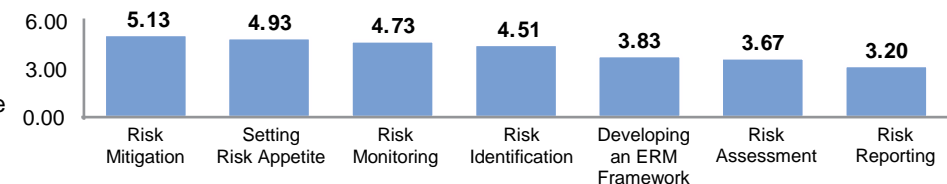
Time Spent by ERM  
Percentage of Respondents



## Risk Mitigation Among Top Development Areas

Our Activity Priority Index<sup>a</sup> suggests that ERM teams need to participate more effectively in the development and execution of risk mitigation strategies, given the importance they assign to this activity. They are constrained by their lack of subject matter expertise in specific risk areas, making it difficult to provide useful, prescriptive guidance to risk owners. ERM teams also struggle to evaluate the effectiveness of mitigation strategies and therefore rely on risk owners' assurance on the mitigation plans' performance.

ERM Development Areas  
Activity Priority Index<sup>a</sup>

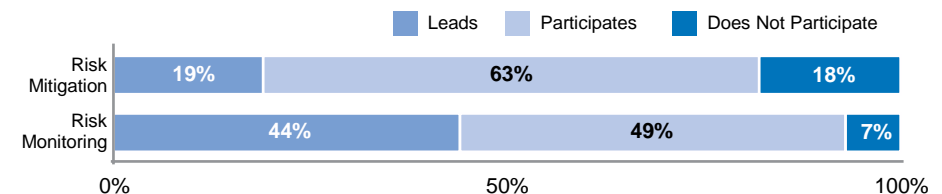


n = 104-108.  
Source: CEB 2014 State of ERM Survey.  
<sup>a</sup> Activity Priority Index = Importance Score x (Importance Score - Effectiveness Score)

## An Evolving Role in Risk Mitigation

Many ERM teams participate in risk mitigation by pressure-testing the assumptions of risk owners and sharing best practices from throughout the organization. Despite assumptions that ERM is only supposed to monitor and report on risk mitigation, one in five ERM teams is leading risk mitigation activities in its organization. Progressive ERM teams help risk owners develop smart risk indicators to accurately track risk mitigation effectiveness.

ERM's Participation in Risk Monitoring and Mitigation  
Percentage of Respondents



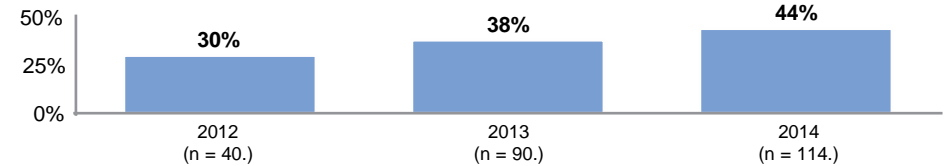
n = 114.  
Source: CEB 2014 State of ERM Survey.

# ERM LEADING THE EFFORT ON RISK APPETITE

## Articulation of Formal Risk Appetite Is More Prevalent

To align risk taking at all levels with the direction set by senior leadership, organizations are increasingly turning to formal statements of risk appetite. This process typically begins with developing consensus among the senior leadership on the risk-taking posture and capacity of the firm. Progressive ERM teams establish frameworks to ascertain the risk–reward trade-offs the organization is willing to make in pursuit of its objectives.

Incidence of Formal Risk Appetite Statements  
Percentage of Respondents

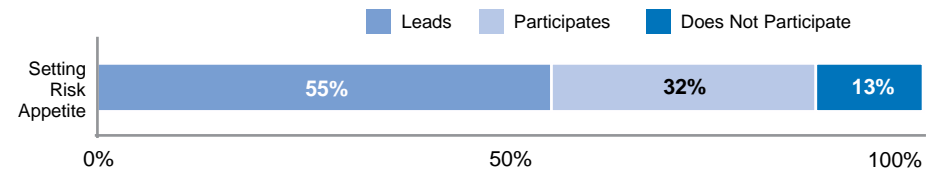


Source: CEB Risk State of ERM Function Survey.

## ERM Taking a Leading Role in Setting Risk Appetite

Setting risk appetite is another activity that ERM teams self-evaluated as a major area of development. However, ERM teams are increasingly taking a lead in facilitating the conversation about risk appetite in their organizations. The percentage of ERM teams leading the risk appetite process has increased from 39% in 2013 to 55% in 2014.

Level of ERM's Participation  
Percentage of Respondents



n = 110.

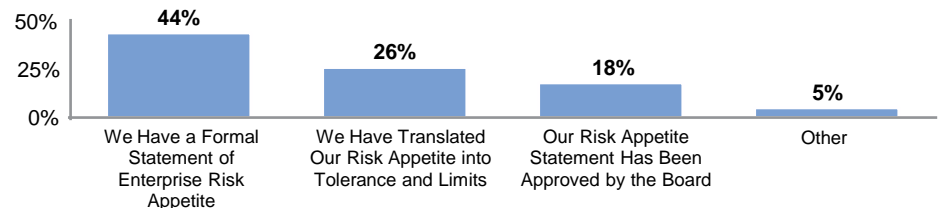
Source: CEB 2014 State of ERM Survey.

<sup>a</sup> Activity Priority Index = Importance Score x (Importance Score – Effectiveness Score)

## Difficult to Make Risk Appetite Statements Actionable

Articulations of enterprise-level risk appetite are typically high-level statements indicating the type (and amount) of risk the organization is willing to assume. Organizations struggle to provide actionable guidance to decision makers by translating these high-level statements into specific thresholds and tolerances. Even in the absence of a formal enterprise-level statement, some organizations have successfully used tolerance levels to create risk triggers for timely issue escalation.

Current Status of Risk Appetite Articulation  
Percentage of Respondents



n = 114.

Source: CEB 2014 State of ERM Survey. Note: Totals may not equal 100% due to rounding.

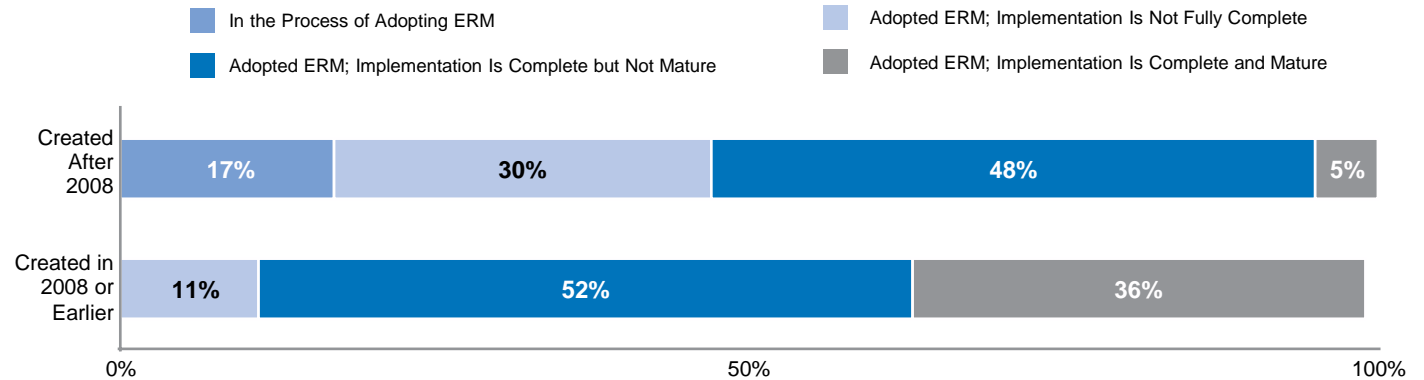
Even among ERM functions established more than five years ago, almost two-thirds indicate their implementation is not mature.

- In addition, 1 in 10 ERM functions plans to reorganize, further suggesting that some organizations are struggling to find a successful ERM model.
- ERM teams see integration with business activities as the best way to enhance their organizational impact.

**Implementation Tip for Practitioners:** Use our ERM Functional Maturity Diagnostic to identify development areas and focus your risk management investments.

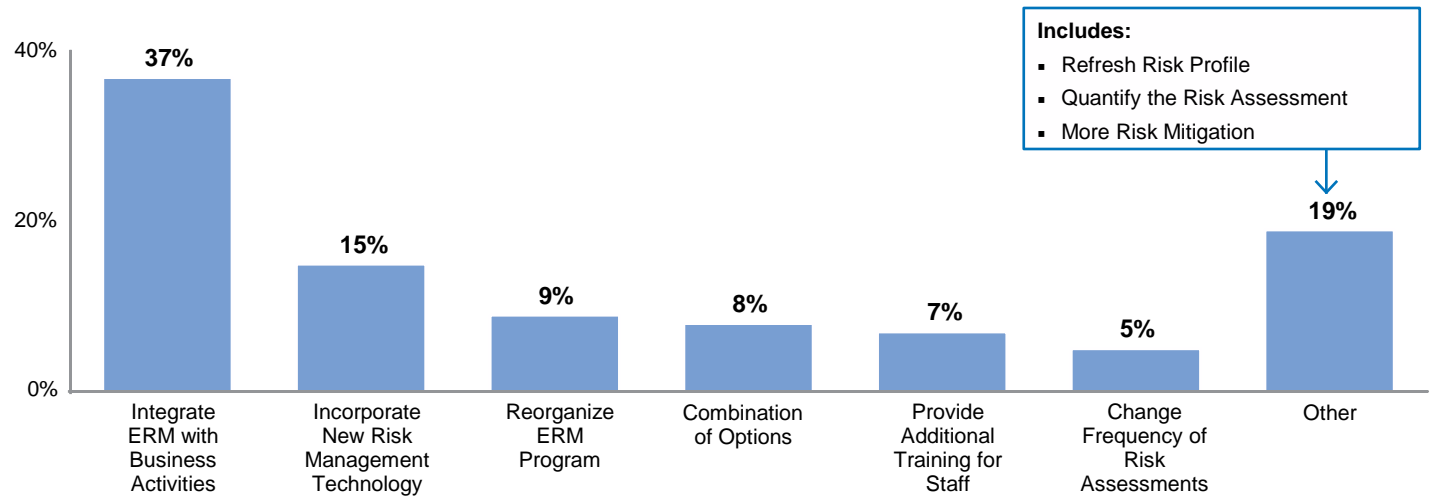
## ERM MATURITY IS ELUSIVE

Maturity of ERM Implementation  
Percentage of Respondents



n = 108.  
Source: CEB 2014 State of ERM Survey. Note: Totals may not equal 100% due to rounding.

Planned ERM Initiatives Over the Next 24 Months  
Percentage of Respondents



n = 111.  
Source: CEB 2014 State of ERM Survey.

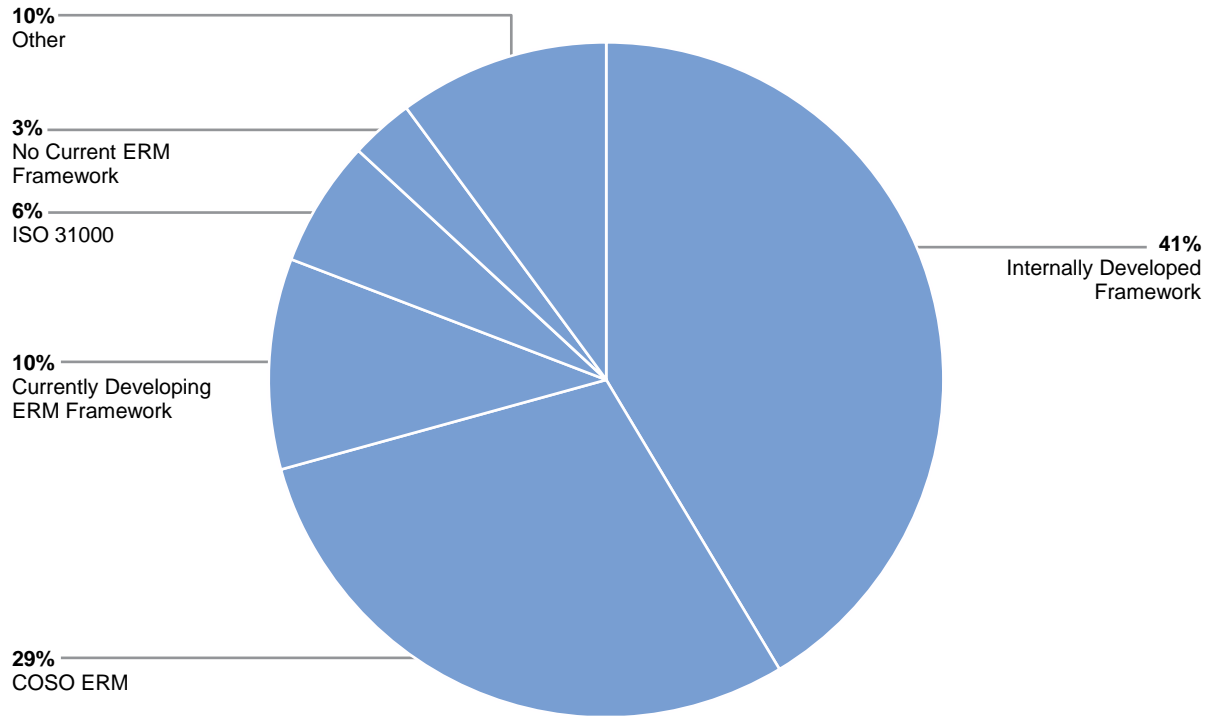


Forty-one percent of respondents develop their ERM framework internally to incorporate firm- or industry-specific factors.

- Respondents also noted use of COSO and ISO 31000 as guides.
- One in six ERM functions established after the financial crisis is still developing its ERM framework.

## ERM FRAMEWORKS LACK A COMMON STANDARD

ERM Framework Adopted  
Percentage of Respondents



n = 115.

Source: CEB 2014 State of ERM Survey.

Note: Totals may not equal 100% due to rounding.

**Other Includes:**

- Blend of COSO and ISO
- Own Risk and Solvency Assessment

**The COSO ERM framework is more likely to be used by:**

- Nonregulated (36%) compared to regulated (22%) organizations
- Public (32%) compared to private (23%) organizations



**Implementation Tip for Practitioners:** Set clear guidelines for risk

management at the enterprise level. CEB's Risk Exchange houses dozens of frameworks and policy documents shared by your peers.

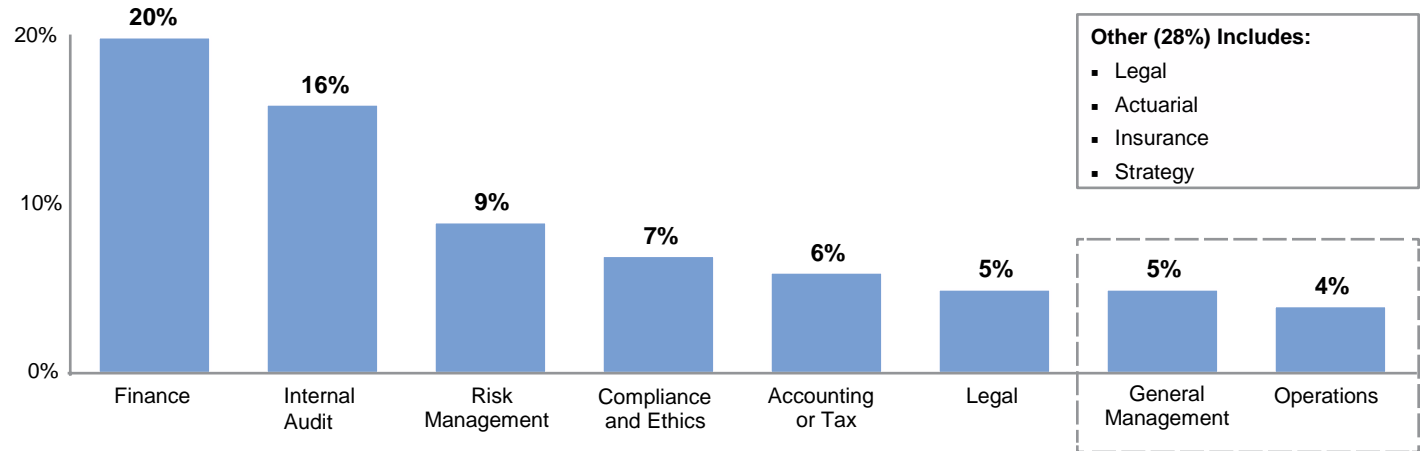


Although ERM teams plan to integrate better with business processes, heads of ERM rarely come from an operations or general management background.

- ERM's reporting relationships also remain dispersed, suggesting they lack a standard governance structure.

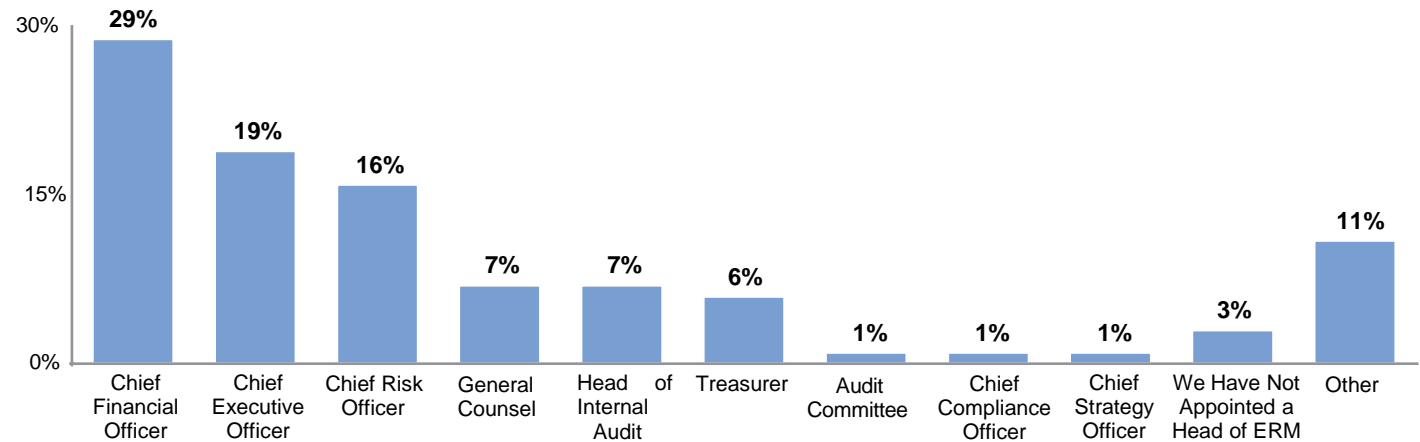
## ERM LEADERS HAVE DIVERSE BACKGROUNDS

Primary Professional Background of Head of ERM  
Percentage of Respondents



n = 115.  
Source: CEB 2014 State of ERM Survey.

Head of ERM Reporting Relationship  
Percentage of Respondents



n = 102.  
Source: CEB 2014 State of ERM Survey. Note: Totals may not equal 100% due to rounding.