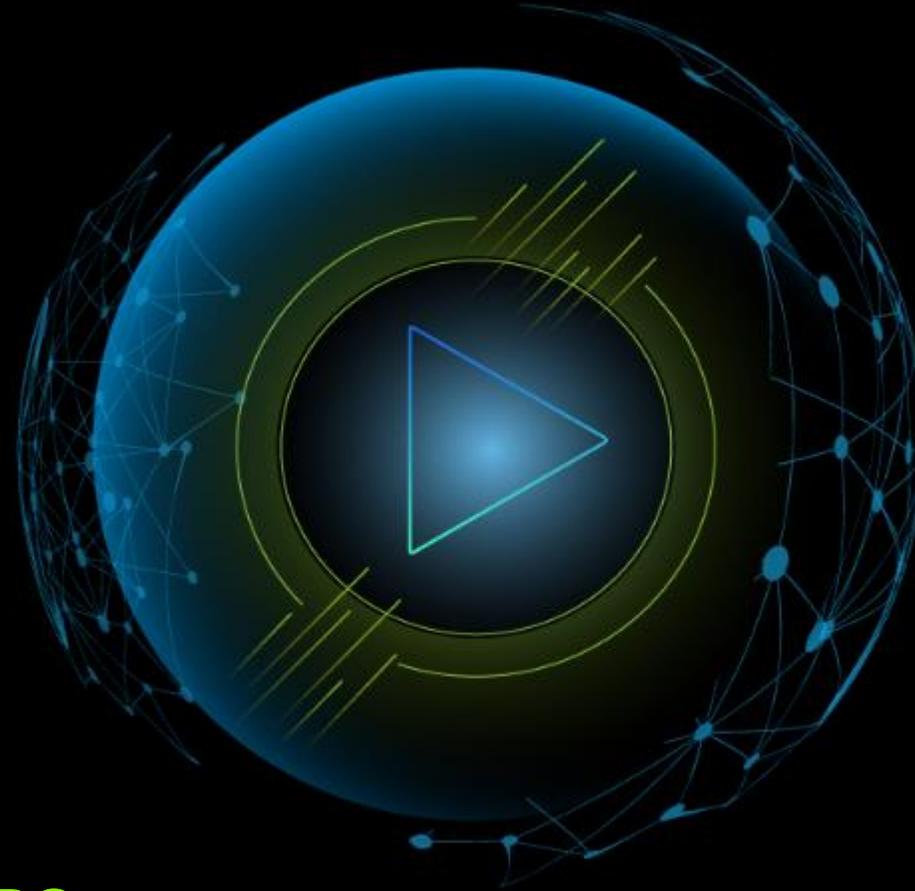


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The Evolving role of the CRO

29 July 2021



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Driving Forces of Risk Management

In the past, risk management was often an exercise in fear and avoidance, with organizations focused primarily on completing necessary, compliance-driven activities. But that's changing. Many leaders are now viewing risks in terms of their potential to *power performance and value*.



What are the biggest drivers of value creation?

- Leading intelligence and foresight
- Top talent and operating model
- Superior product development
- Strong supply chain & distribution channels
- Superb resiliency
- Innovative culture and mindset
- Proactive brand and reputation management



What do senior executives want from risk management?

- Predictive capabilities (insight & foresight)
- Better decision making
- Better awareness and understanding of risk
- Better performance, more for less
- More value protection
- Assurance (a more confident business)
- Risk based resource allocation
- Sustained competitive advantage

Enhanced alignment across strategy and the business



Better **alignment between ERM and strategy**, planning and business units / functions, as well as with other risk and resilience areas such as crisis management, business continuity planning, compliance, and internal audit.

More frequent discussion of risks and tradeoffs



Increased frequency and **robustness of risk governance and tradeoff discussions** on top enterprise and emerging risks to business, strategy and reputation – supported by data and insights.

Clear governance and operating model



Establishment of a senior executive with oversight of ERM and a management risk committee with senior representation from the business to enable more frequent **sharing of risk information**, discussion of **risk interdependencies**, and **cross-functional collaboration** on risk treatment strategies

Proactive approach for strategic & emerging risk



Enhancing focus on **strategic and emerging risk** in addition to known operational and compliance risks, leveraging tools and capabilities such as scenario planning, simulations, assumptions testing, and risk sensing & analytics to be **more proactive about risk**.

Strategic Risk Transformation

In order for Risk Transformation to occur, a comprehensive Framework needs to be applied to align the Risk Strategy to how the Organisation is managed. Managing risk is about taking steps to enhance value while meeting core business needs.

What are the principles that enable the organization to create, deliver and capture value?

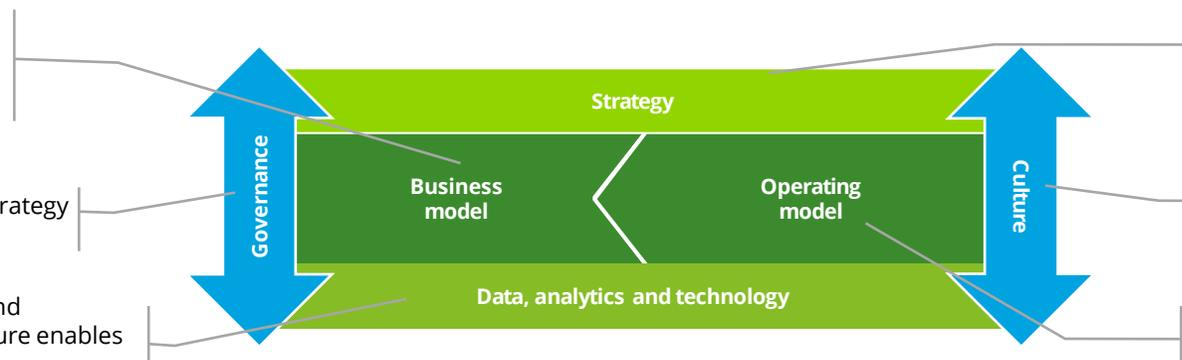
What oversight ensures the strategy is executed?

What data, analytics and technology infrastructure enables execution?

What vision drives the organization and what high-level choices has the company made to achieve it?

What shared values guide the organization?

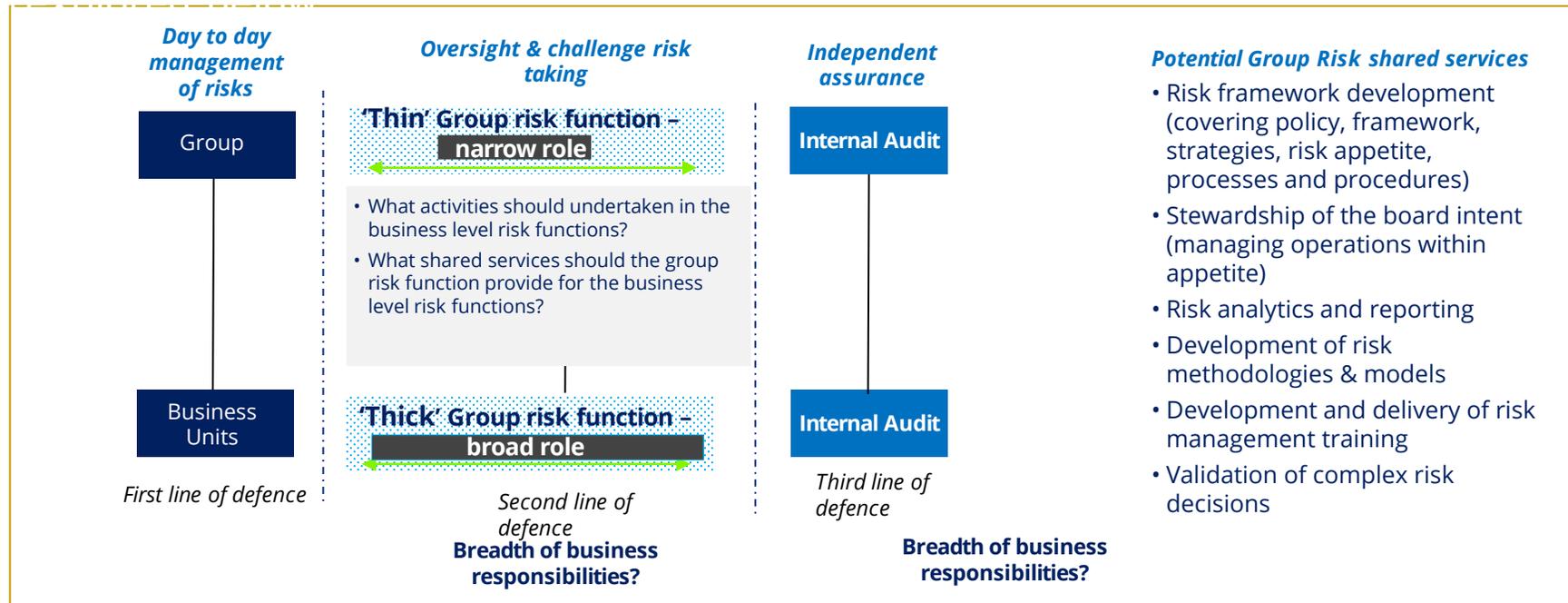
How should execution be structured?



Strategy — What are the risks to the strategy and the risks of the strategy?	Governance and culture — How is risk oversight ensured and how are behaviors guided by the risk culture?	Business and operating model — How is risk managed?	Data, analytics, and technology — How is risk measured and monitored?
<ul style="list-style-type: none"> • C-suite and board manage risks to strategy proactively • Transactional and portfolio risks are well-understood • Risk infrastructure is aligned with business strategy • Capital allocation is in line with risk appetite • Sources of change in external/macro environment are factored into strategy 	<ul style="list-style-type: none"> • C-suite and board seek to establish a risk intelligent culture • Employees are rewarded and compensated for superior risk management practices • The enterprise governance framework is well understood and integrated with risk management programs 	<ul style="list-style-type: none"> • Risk is managed throughout the organization with well-defined roles and responsibilities • There are clear handoffs between businesses and control functions (including those related to financial crime) • Processes and controls are efficient, standardized, and understood (including shared services and/or centers of excellence) 	<ul style="list-style-type: none"> • Complete aggregated risk data is processed and reported in real-time • Analytics allow for ad hoc analysis of stresses and scenarios related to global positions • Finance and risk data are integrated • Data quality is treated as a strategic asset • Data is adequately protected from cyber threats
<ul style="list-style-type: none"> • Strategic ERM & risk mitigation strategies • Business & Digital Innovation • Risk Appetite • Risk sensing • Scenario modelling / Digital twin • Economic modelling & forecasting • Business resilience & Crisis response 	<ul style="list-style-type: none"> • Governance maturity & effectiveness • Board & EXCO Labs • Trust & Ethical culture • Brand & Reputation • Stakeholder management & engagement • Responsible & Sustainable business 	<ul style="list-style-type: none"> • Leadership and talent risk management • Culture & change • Organizational capability & maturity • CRO/CCO/CLO/CISO transition Labs • Business and operating model design • Program risk and assurance 	<ul style="list-style-type: none"> • Insights Driven Organisation • Risk quantification & modelling • Risk analytics and continuous monitoring • Digital risk solutions • GRC technology implementation

Evolving risk operating models

'Thick' or 'thin' risk functions can be considered in two dimensions; firstly the allocation of responsibilities to the 1st or 2nd line of defence and secondly the allocation of responsibilities between 2nd line and business level risk functions.



Considerations

- The **size, complexity and risk profile** of the businesses
- The **overall operating philosophy** of Origin (e.g. centralised versus decentralised approach)
- The **overall governance structure of the group**, including the role of group, regions, business units, product lines and its legal and regulated entity structure
- The maturity of risk management practices**
- The availability of specialist resource and / or the **need to optimise the use of specialist risk resources**
- The **need for specific / sophisticated risk management approaches** that are more closely aligned to the nature and complexity of Origin's business including regulatory requirements.

Common observations

- Inconsistency in application of the risk frameworks dilutes the value of the central function therefore having the right Champions (with knowledge and capacity) in the business is critical.
- Having Risk Champions operate at "the right level" within business units is essential to ensure oversight is maintained.
- Business Units and Programs tend to 'go it alone' - usually because their precede framework doesn't suit their specific needs.



Key benefits

- Increases the 'value add' of group function
- Facilitates greater group level control and helps ensure consistency of approach
- May support increased segregation of business level conflicts of interest
- Enables centres of excellence to be established that support group-wide resource / cost efficiencies
- Enables Origin to access expertise that would not be economical to maintain at the business unit level

Key concerns

- Increases the headcount and cost base of the group function
- Businesses may not support group level involvement
- Group framework may need to be tailored at project level resulting in dilution of cost / resource efficiencies
- Non-tailoring of the group framework may result in the application of generic / suboptimal risk management practices at a business unit level

Digital risk solutions – the next generation of GRC

Designing and deploying focussed digital tools, enables the organisation is better equipped to Anticipate, Advise and Assure, with a more proactive and predictive response to risk.

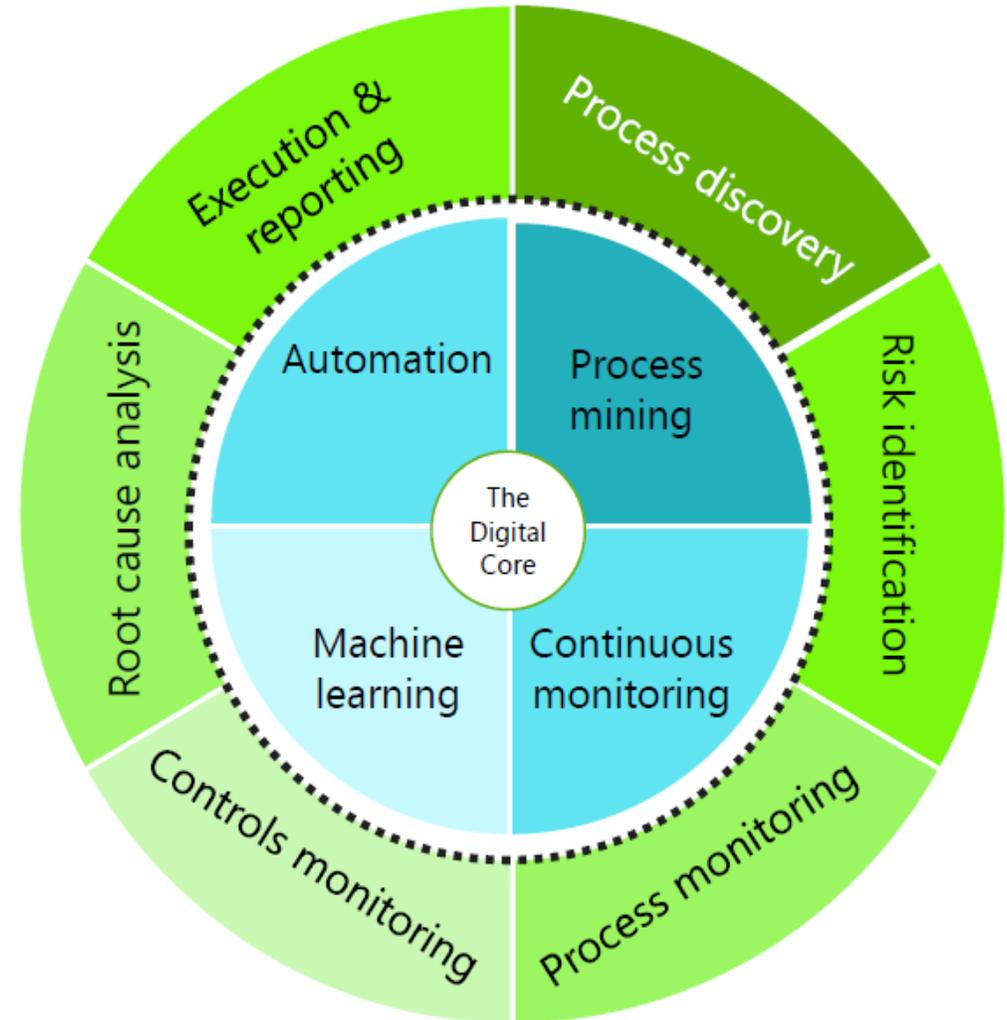
Using **analytical approaches**:

- Full population, continuous testing
- Process and control KRIs developed for executives across all lines of defence
- Exceptions addressed shortly after they occur. This increases the value add of the Risk Management function.

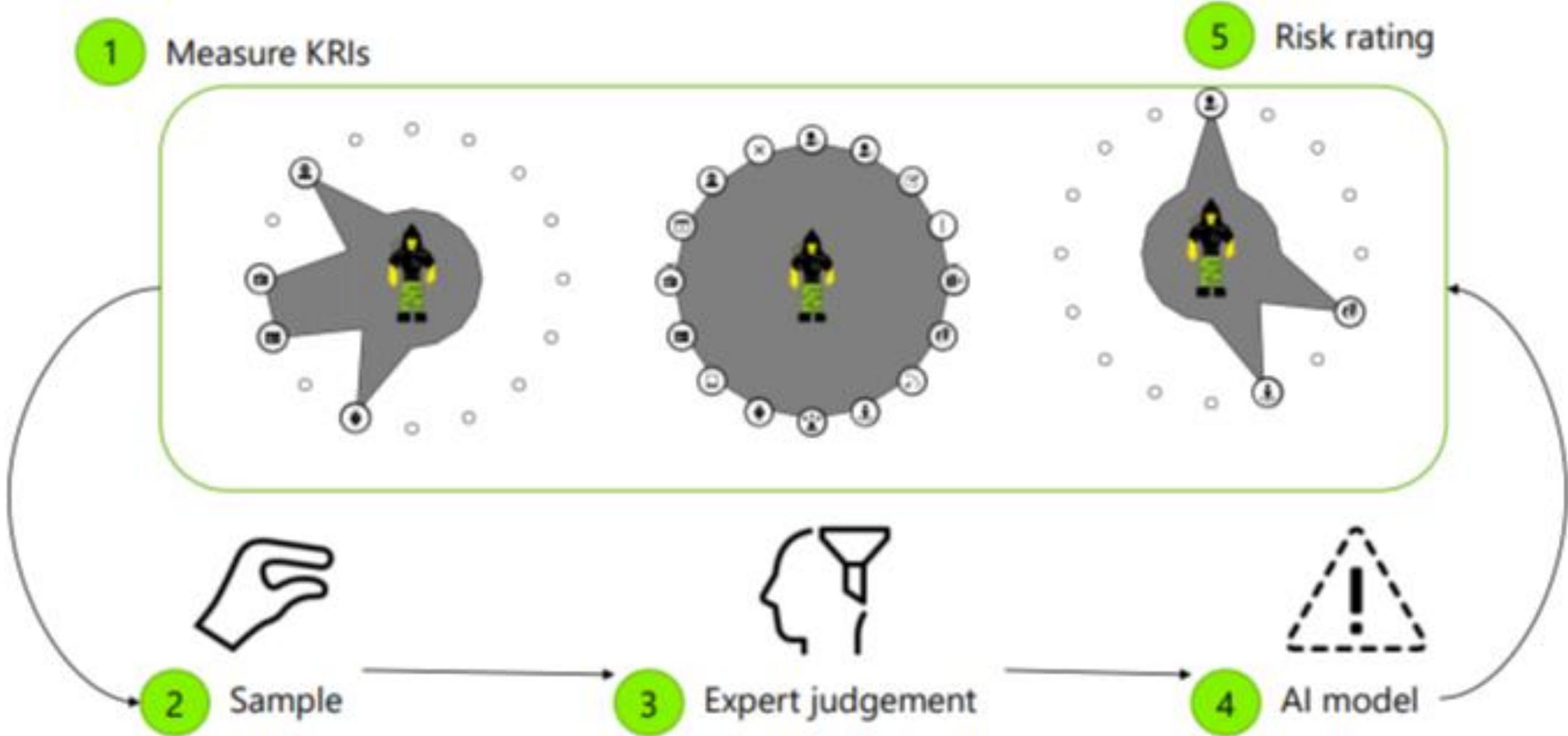
Machine learning enables better root cause analysis, and separates the signal from the noise.

Automation drives efficiency:

- Execution of analytical work.
- Generation of risk and status reports
- Performance of tasks that were previously manual, such as the verification of system records against supporting documentation using our Inspect bot.

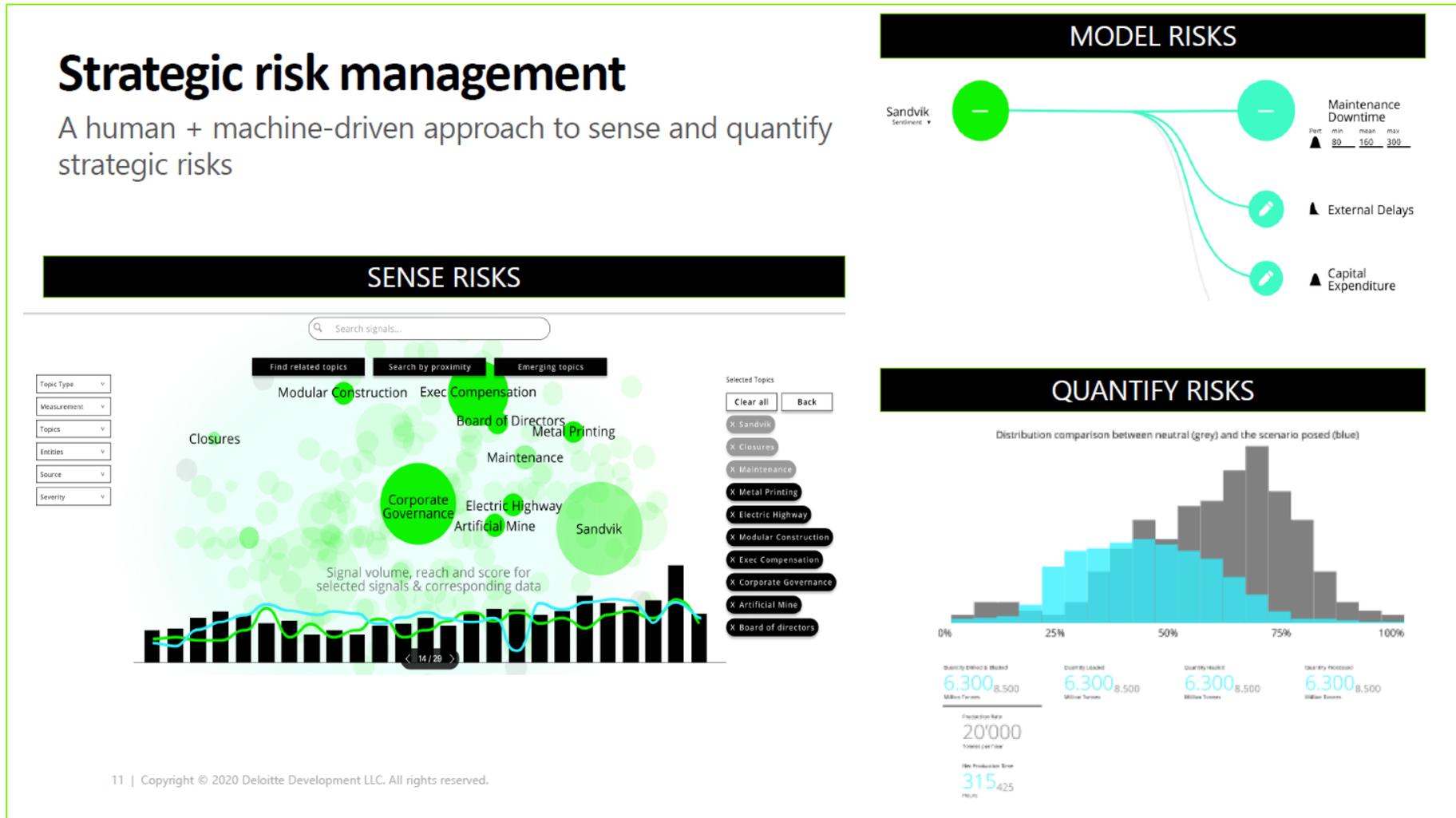


Building risk expert systems



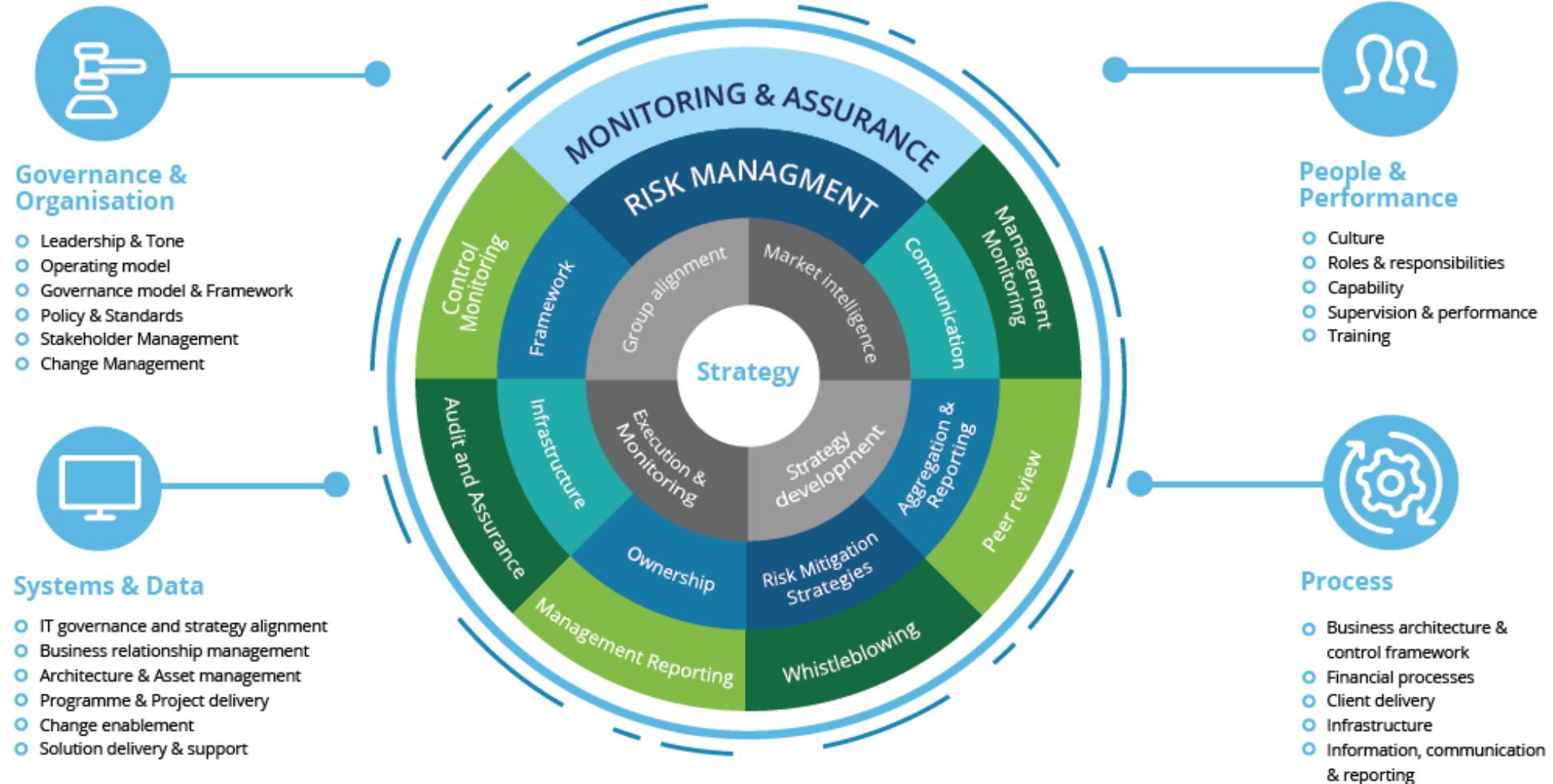
External risk sensing and Internal risk monitoring

Leveraging external and internal risk data to provide more continuous Risk Intelligence and enable proactive risk management and decision making.

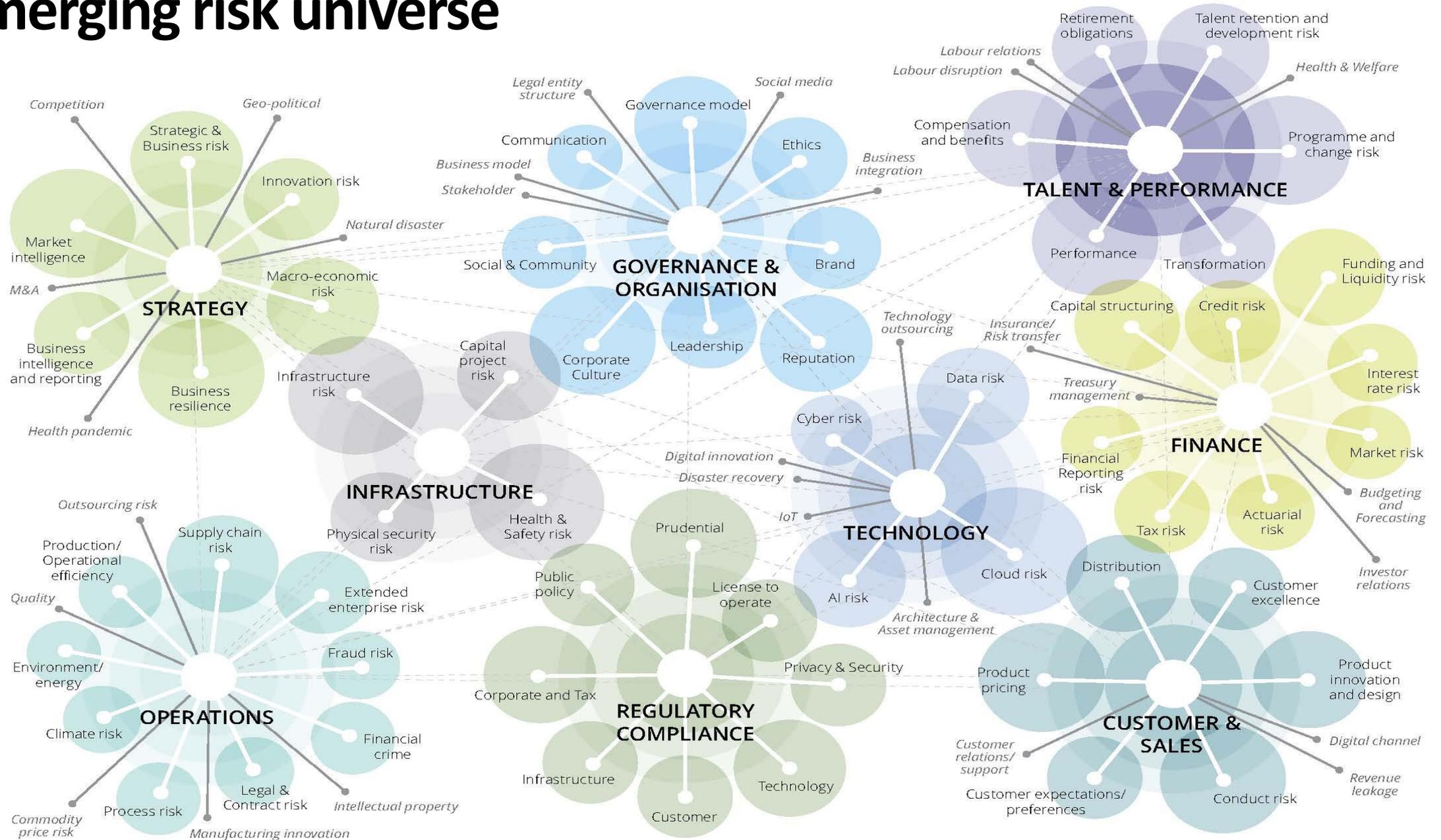


Building a more capable and resilient organisation

Need to challenge the extent to which the current organisational capabilities support the strategy, taking consideration of the current levels of maturity of core business components and required maturity levels to deliver sustainable performance.



Emerging risk universe





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