

Enterprise Risk Management Benchmarking Study: A Focus on Financial Institutions



The Global Risk Institute, in partnership with the Conference Board of Canada and the Chartered Professional Accountants of Canada, has conducted a benchmarking survey of enterprise risk management (ERM) practices across different industries. In this foreword, we highlight ERM practices in the financial services industry and discuss how they compare to other industries' practices. It is important to keep in mind that there is no one-size-fits-all approach to ERM. A firm should invest in ERM in proportion to the size and complexity of the risks to which it is exposed. As such, the goal of this comparison is not to determine which practices are 'best' but merely to showcase some key differences.

ERM in Financial Services

According to the survey, 54% of financial institutions (FIs) have fully integrated ERM programs, compared to 20% in other industries (Figure 1). Given the complexity of their risk profiles and the stringency of their regulatory environment, it is unsurprisingly that FIs tend to have more integrated ERM practices.

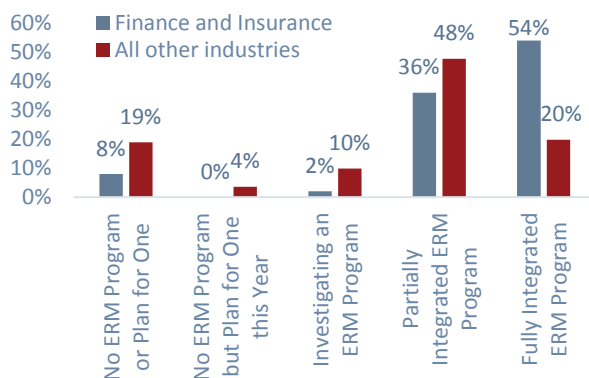


Figure 1. To what extent has your organization adopted ERM?

64% of FIs have Chief Risk Officers who are responsible for ERM functions, while 16% of companies in other industries have CROs who oversee these tasks.

Prioritized Risks

For financial services respondents, reputational, financial, and technological risks were the highest priorities (Figure 2). Similarly other industries prioritized reputational and financial risks, but placed less emphasis on technological and legal risks and more emphasis on operational risk.

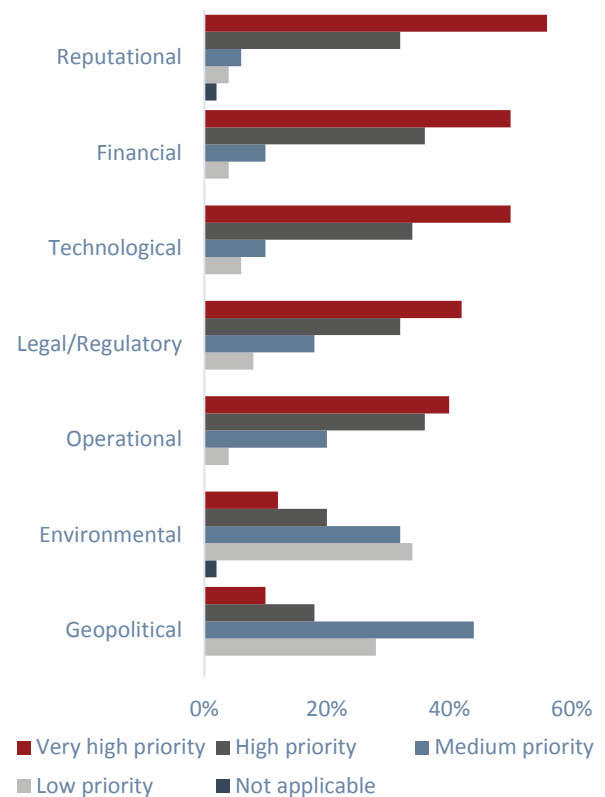


Figure 2. What level of priority does your organization place on the following risks? (FIs only)

Although reputational risk was identified as the highest priority risk, the majority of the respondents noted that ERM is not fully integrated in the marketing and sales process. (Figure 3) This is particularly interesting when considering that many recent reputational mishaps (e.g. Wells Fargo) have been driven by imprudent sales and marketing practices.

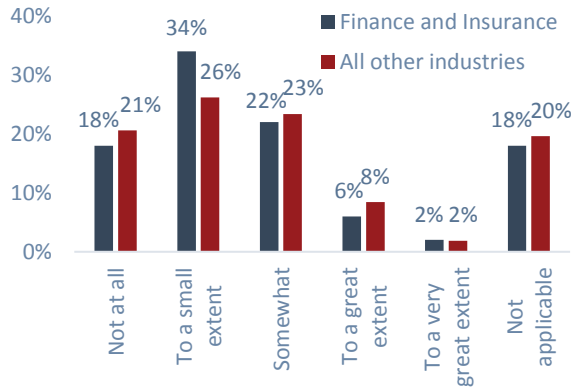


Figure 3. To what extent is ERM integrated with the marketing and sales processes and functions?

Resource Allocation

According to our survey, 36% of FIs have more than five employees completely dedicated to ERM, while 53% of firms in other industries at most one employee devoted to ERM (Figure 4a). Further, 78% of firms in other industries have five or fewer employees that spend at least 20% of their time on ERM, whereas 44% of FIs have at least six employees who devote this much time to ERM (Figure 4b).

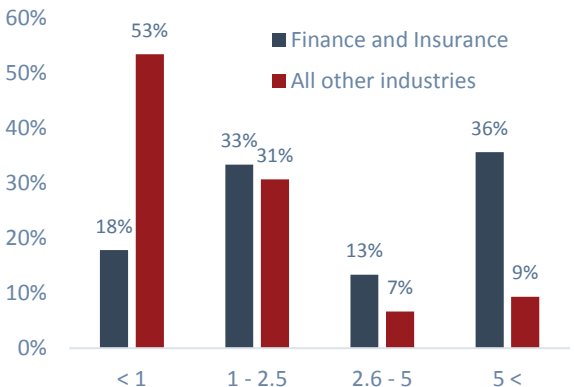


Figure 4a. How many full-time equivalents spend all of their time on ERM?

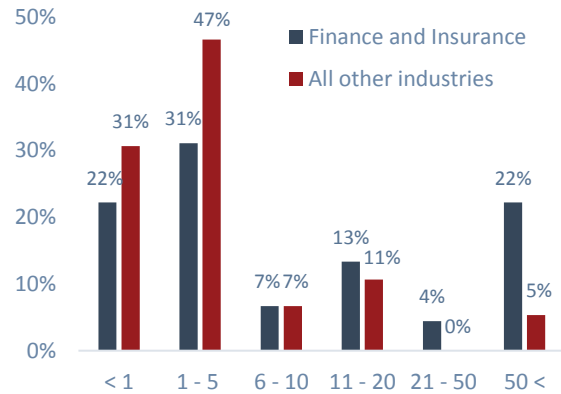


Figure 4b. Aside from those in 3a, how many full-time equivalents spend at least 20% of their time on ERM?

Across all industries, respondents listed regulatory pressure, stakeholder expectations, and program upgrades as the most important factors in determining how to appropriately allocate their resources (Figure 5).



Figure 5. To what extent do these factors positively influence your firm's ERM resourcing? (FIs only)

Usage of Technologies in ERM

Technological progress is revolutionizing all aspects of the financial services sector, and ERM is no exception. Many of our respondents indicated that they have begun to investigate or have made plans to implement new technologies to help automate their ERM functions. 75% of respondents, in fact, have started to investigate the usage of advanced analytics, and one third of this group have already begun to implement it. Data visualization was the next most-used technology, with 33% of respondents having begun to investigate it. Lastly, 19% of financial institutions have begun to investigate the use of Artificial Intelligence in ERM, although only 2% have already started to use it (Figure 6).

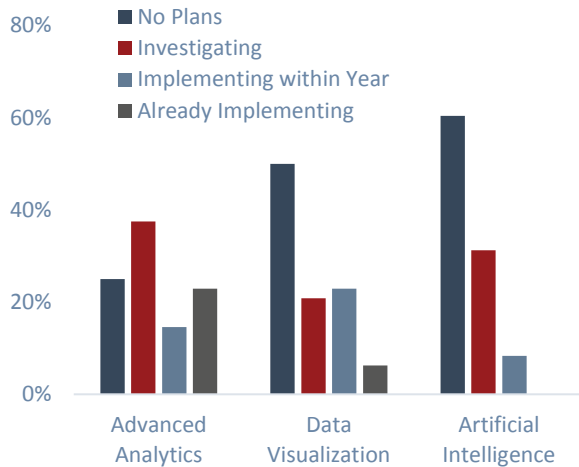


Figure 6. Does your organization make use of the following automated tools to enhance the ERM process? (FIs only)

Conclusion

There are a significant number of studies that have demonstrated the effectiveness of ERM frameworks. Interestingly, however, 33% of FIs in our survey responded that ERM fosters little resilience to, or fast recovery from, risk failures (Figure 7). This suggests that there remains a greater need to raise the profile of ERM programs and demonstrate the value that can be derived from increasing ERM capabilities.

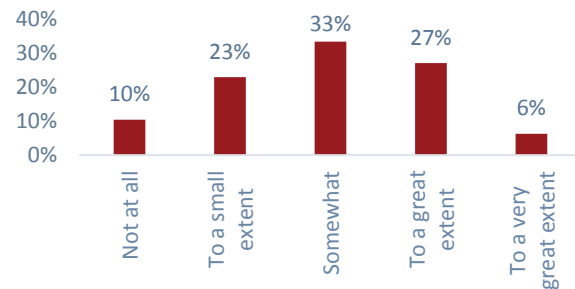


Figure 7. Does ERM fosters resilience and fast recovery from risk failures in your organization? (FIs only)