EXPERT RISK AND COMPLIANCE

# HANDLE WITH CARE

**Katarzyna Saganowska**, Risk and Compliance Director at TMF Group, explains explains the role of boards of directors in internal risk management.

The time when boards of directors could rely solely on the management assistance to oversee and manage risk is a thing of the past today. Challenging economic times imposed  complex legal issues on the boards. It is a tough wake-up call for some boards of directors to delve deeper into their organization's risk management practices. The awareness of risk in business means that boards must factor risk as an integral part of their routine by defining their organizational strategy. In fact it is in line with a simple conclusion: Boards define strategies, and strategies always involve risks. Today's businesses are wrought with complexities and litigiousness like never before. Technology and security issues can potentially destroy organizations overnight. Risk management and board practices around it may vary from one organization to another, but the final goal is to make risk recognized, acknowledged and, in effect, handled. The way to do it is different for every organization. However, the most straightforward way to estimate and allocate the responsibilities of the board of directors for risk management is to deal with each threat factor in five steps.

## ASSESS

The board, working with the support of internal functions like security; compliance; IT and others, has to identify the risks in each area of the company's operations: financial, legal, fiduciary, delivery and others. It is not expected from board members to have a sufficient amount of expertise in each area but it is strongly required that all members have a clear understanding of the possible consequences of taking on risk.

## RESPOND

The board of directors formally delegates risk management to respective departments. However, it still remains responsible, regardless of who is actually handling that particular operational area within the company. With this, the board's aim is simply to establish best practices on risk management, from a domestic and global standpoint.

## CONTROL

The board's prerogative is to oversee the high-level process of handling identified risk and implement strategy adjustments, if necessary. In practice, board members serve on various committees in sync with their area of expertise, guaranteeing compliance and transparency.


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The board should not take a direct role in managing risks. The board's role should be limited to risk oversight of management as well as dealing with corporate issues that affect risk. Boards can fulfill their role in risk oversight by developing policies and procedures around risk that are consistent with the organization's strategy and risk appetite. They can also follow up on management's implementation of risk management policies and procedures and and ensure such function as they intend. Alternatively, boards can take steps to foster risk awareness, and encourage an organizational culture of risk adjusting awareness.

## COMMUNICATE

Clear and active communication at each step of taking the above mentioned actions is also one of the board responsibilities in risk management. Obviously, the competence is usually delegated to the internal communications departmen  or steering committees. To cover all risk areas effectively, committees should be coordinated so that communication between them takes place both horizontally and vertically.
Additionally, all risk-management-related decisions and activities have to be documented and transmitted to the individuals in charge to ensure proper audit trail for internal and external audits.

## ANALYZE

Risk management analysis that boards undertake serve two purposes: to establish guidelines for further actions and to make the evaluation of the board's effectiveness. In practice, it is sufficient that at least once a year, the board looks back at risk-handling practices in place, consider input from key stakeholders and department representatives, and, if necessary, modify the strategy.

## CONCLUSIONS

The current regulatory landscape continues to impose a need for tightening scrutiny over company risk management. Boards of directors are held accountable for managing risk properly. As a side effect, a stronger role is attached to the rules of corporate governance which are meant to provide the internal response systems to risk prone scenarios by forming policies that steer risk management frameworks.
These emerging trends are forcing boards to assess past organizational exposures to risks and also demand boards to be forward-thinking about overseeing current risks exposures and minimizing the impact of potential crises or disruptive events.
Finding the right balance between taking risk and managing risk is a challenging exercise. Yet, boards have to do it and as such become natural owners of risk.