

The Board Imperative: How can data and tech turn risk into confidence? (PART 3)



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Effective use of data and technology to manage and report on enterprise risks is a top priority that differentiates leading businesses.

(CONTINUED FROM PREVIOUS EDITION)

Forward-looking and focused on new threats: how risk reporting needs to improve

In fact, risk reporting to boards - identified by our analysis of over 20 factors as the second-most important determinant of effective risk management - also has much room for improvement. Fewer than 20% of boards are extremely confident in risk reporting on a number of specific areas.

According to our survey, boards' top priorities are that reporting:

- ▶ Is forward-looking and predictive
- ▶ Covers emerging and atypical risks
- ▶ Includes external and internal data
- ▶ Covers risk-mitigation initiatives and processes
- ▶ Includes competitive intelligence and peer benchmarks

Alejandra Martínez S., a member of Mexico's Board of Directors Leadership Network and board member at various financial sector entities, provides a concrete example. "Risk reporting is very static and historic and not forward-looking, so I've asked management to engage with the wider business about trying to figure out potential new risks that may arise and then report on those," she says. "One early finding is that ESG reporting is just focused on governance. So, they are evaluating how they can improve identification, reporting and mitigation of environmental and societal risks."

Yet boards must resist the temptation simply to ask for more and more reporting. After all, if it is not properly ordered and prioritized, an abundance of information can sometimes muddy, rather than clarify, the picture. As Charlie Bancroft, a board member at GSK, says: "When you have so much information, can you really see the trees as you see the entirety of the forest?" Therefore, boards must work closely with those reporting risk to determine what they should and should not include.

Questions for the board to consider

The board has a vital role to play in ensuring that data and technology are employed to facilitate risk management. Here are some questions to ask yourselves:

1 Does your board understand the role that technology and data can play in enhancing risk management? As covered in our first article in this series, this can be achieved by expert training, internal coaching, and considering the need for this expertise when filling future board vacancies. "You need to make sure that the board has one or two people who know their stuff on technology," confirms Brendan McDonagh, Deputy Chair at AIB. "They don't necessarily have to be an ex-senior executive of a major technology company. They just have to have had solid technology experience and operations experience. Because at the board level you want them to look at the big picture."

2 Have you allocated sufficient resources for risk management technology? Significant expenditure will likely require board approval. Boards must, therefore, allocate sufficient budget for investments in technology and the required skill sets.

3 Are you holding management to account on how they use data and technology for risk management? "Boards definitely need to buy into new technology and question whether it's being used, but it's more important to know how these technologies are being used by the business to get insights about risk," explains Craig Jackson, board director and Audit Committee Chair, Paloma Rheem Global. "Whether it's machine learning or artificial intelligence, there are some powerful tools emerging that can be used for risk management. But are they really being used for risk management at the moment? It's up to the board to find out and make sure that they are."

4 Is there a strategy in place to overcome the expected obstacles? There are some significant challenges to implementing a data and technology-driven approach to risk management. Boards must ensure that management has a strategy for overcoming the obstacles, with a particular focus on skills. And as with any data and technology-driven transformation strategy, cybersecurity and data privacy considerations should be integral from the get-go, so that new risks aren't introduced as a result.

5 Has the board clearly defined what is required of management in terms of risk reporting? Boards must work with management to ensure that risk reporting is forward-looking and predictive; covers emerging and atypical risks; and includes internal and external data.

Boards may think that they can leave management to develop a strategy for employing technology to monitor and mitigate risk; however, they do need to oversee that it's used to its full potential. This may require boards themselves to move up the learning curve in terms of understanding all the benefits that technology can deliver.

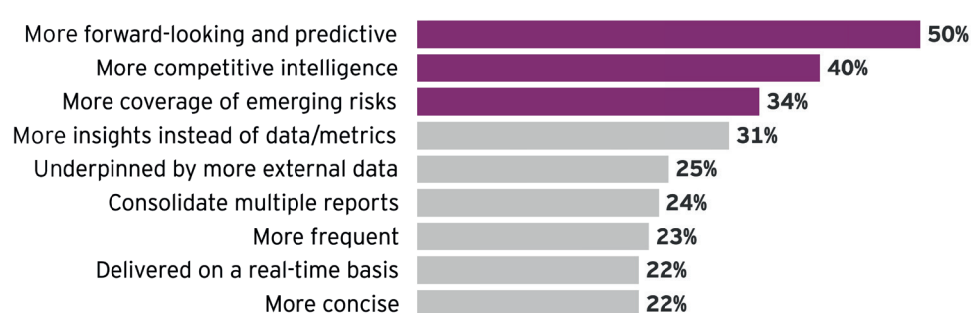
Summary

Our research shows that more than many other key indicators, effective risk management is predicated on extensive use of technology to identify and manage risk and the breadth and depth of risk reporting to the board. Boards can and should prioritize catalyzing change so that enterprise risk functions are capitalizing on newly available automation, AI and reporting tools. ■

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How boards would like the risk reporting they receive from the business to improve



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