

The State of Risk Management Today:

A workshop on the role of Risk Managers and Internal Auditors



We are pleased to thank our sponsor:

The State of Risk Management Today: A workshop on the role of Risk Managers and Internal Auditors

WELCOME words:

Tommaso CAPURSO

Senior Audit Manager, SNCB
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Why this workshop today ?

Today's organizations are exposed to a wide range of risks.

Managers try to mitigate these risks : generic risks + “black swans”.

They take responsibility and actions to safely operate their business at an accepted level of risk.

They need the support of effective risk management processes (culture ? maturity ?...).

In the area of risk management, managers can rely on :

- Risk managers, who develop and keep dynamic and alive the risk management processes throughout the whole organisation
- Internal auditors, who evaluate and help to improve the effectiveness of these risk management processes

Risk managers and internal auditors :

- have thus complementary finalities
- look at the same reality, however, with different eyes or perspectives.

AGENDA (Part 1)

9:40	What does the management board need and expect from a Risk Management function?	Cécile COUNE CEO Aviabel
10:10	What does the Audit Committee need and expect from the Internal Audit function in terms of coverage of risk management?	Josiane VAN WAESBERGHE Head of Internal Audit, Federal Public Service Mobility and Transport
10:40	The Implementation and Maturity of Risk Management Systems in Belgium	Gaëtan LEFEVRE President Belgian Risk Management Association (BELRIM)
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Cécile COUNE
CEO Aviabel

**What does the management board need
and expect from a risk management
function?**

A view based on several CEO positions in the
insurance sector

The financial crisis made the importance of risk management abundantly clear



The additional challenge of Solvency II in the insurance industry



Strategic risk management



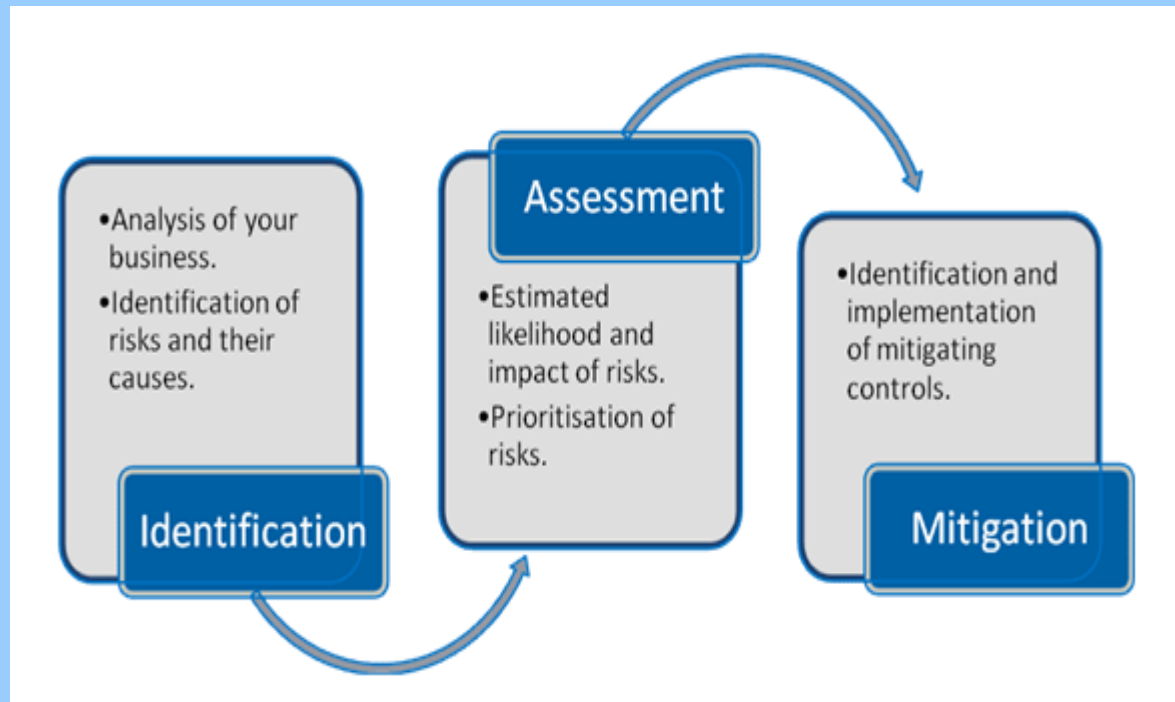
Organization of the risk management function



Risk Management as an intrinsic part of every business decision



The 3 phases of risk management



Risks analysis in the insurance business

Internal (from running the business, from growing the business)

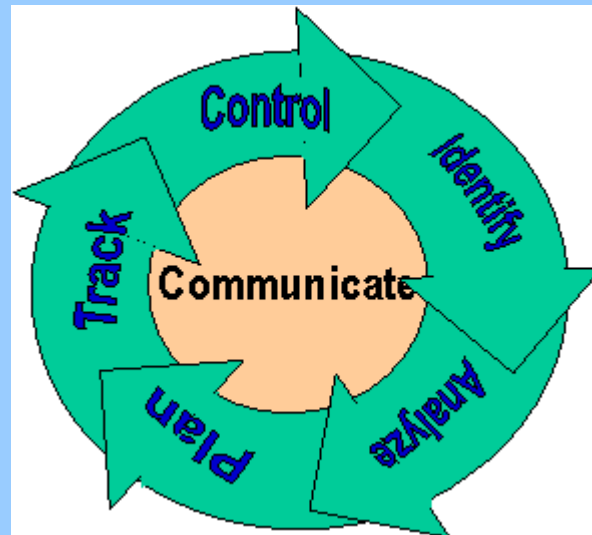
vs. External (regulatory, economical situation...)

Major types of risk:

Insurance, Credit, Market, Operational, Liquidity

Risk appetite vs. risk tolerance

Internal audit vs. Risk management



The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.



Who sets the agenda?



Coordination





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Josiane VAN WAESBERGHE

Head of Internal Audit, Federal Public Service Mobility
and Transport

Member of 3 Audit Committees in the Public Sector

What does the Audit Committee need and expect from the Internal Audit function in terms of coverage of risk management?



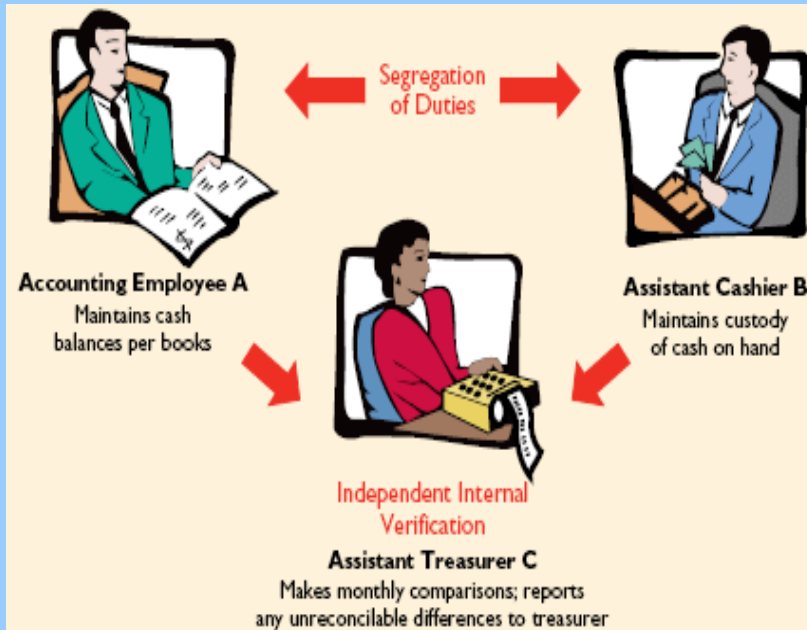
- How to avoid excessive (negative) risks without compromising or crippling our “entrepreneurship” aimed at responding to useful opportunities
- How do I do this with minimal overhead for everyone?
- What is the right balance between risk (averse) management and creative (risk taking) entrepreneurship ?



- Risk management (RM) should start from the core activities of the agency or policy area to which it belongs and be tailored to the organization
- RM is part of the decision process
- RM should address different types of risks (strategic and operational - business risks)



- Completeness
- Accuracy
- True and fair view of the accounting
- Timeliness (including timely data processing)
- Segregation of duties
- Clear responsibilities

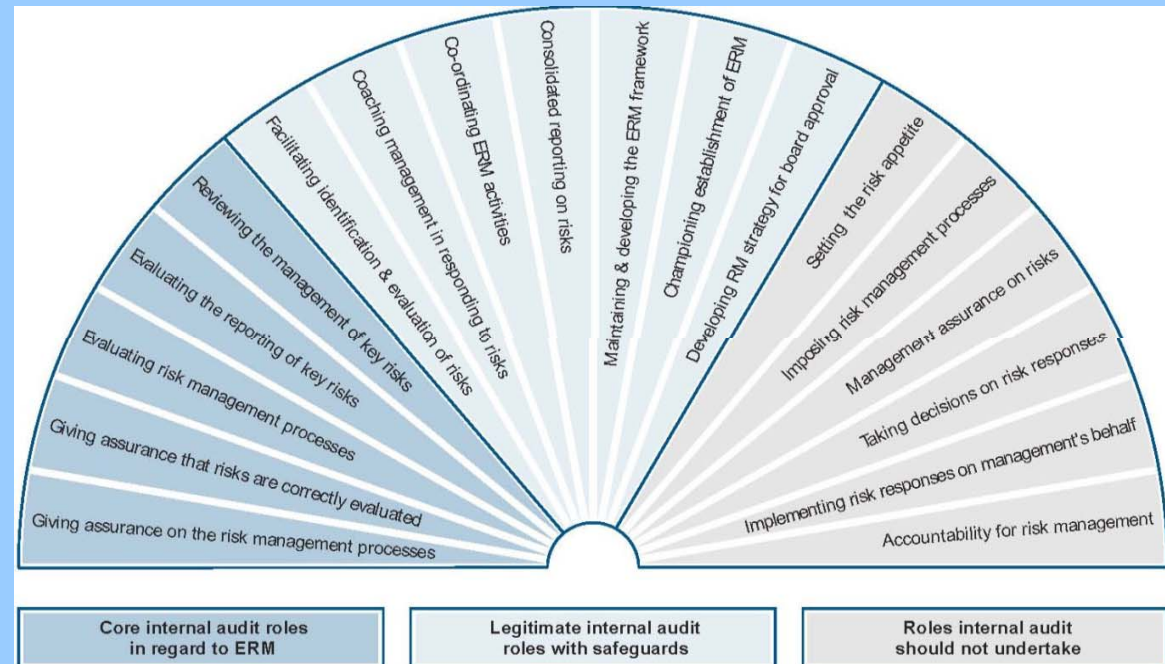




- Do we have a system or method to detect and treat risks?
- What are those risks?
- Can we discuss them openly?
- Do we ask the right questions?
- Are we sufficiently « armed » against significant risks ?
- How are RM results presented?
- Can we evaluate and monitor RM ?



- Is internal audit competent in RM?
- Does IA coordinate with RM? Does IA use RM's input?
- Has internal audit sufficient authority and maturity to talk to management about risks?
- Safeguards in IA RM activities?
- IA risk analysis ok?
- IA RM evaluation ok?



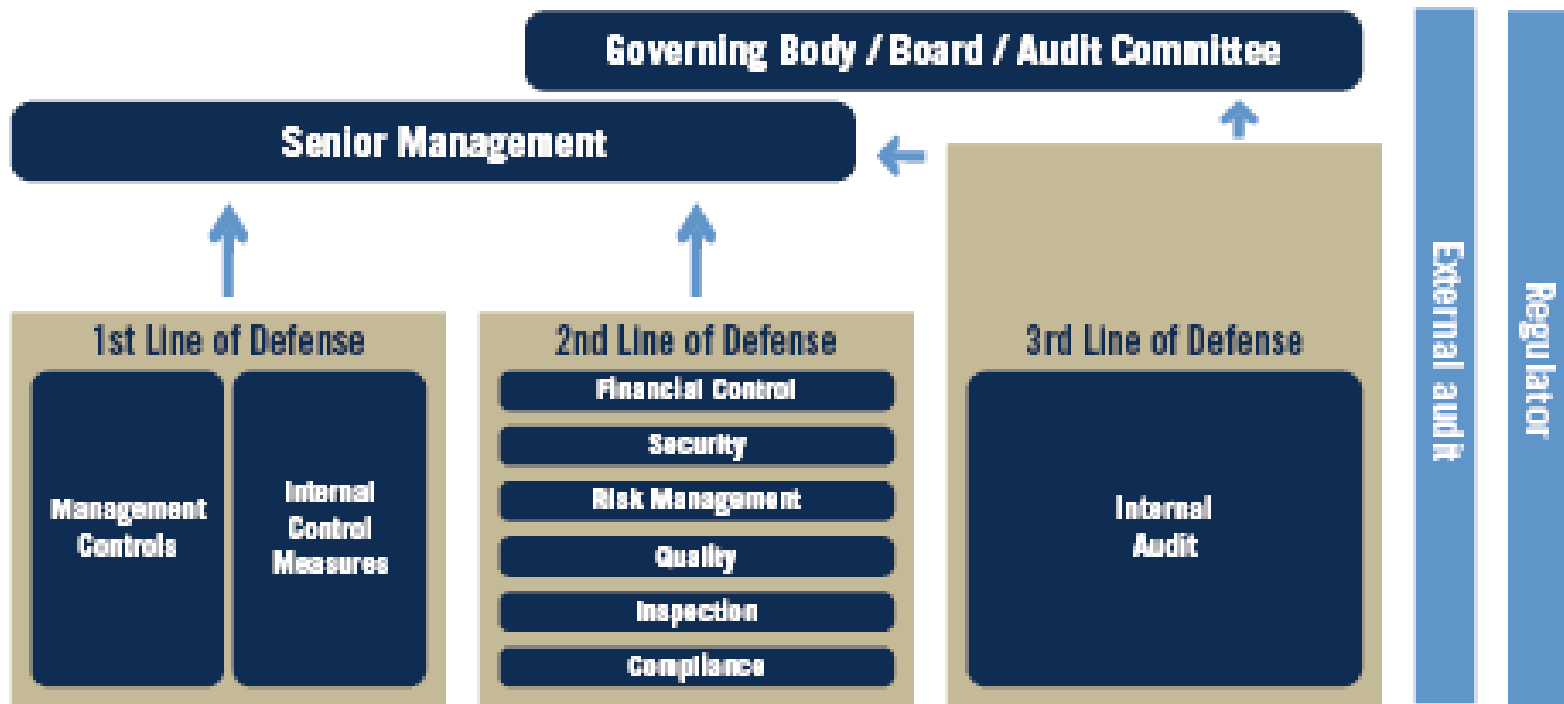


- Corporate Governance
 - Code Daems: reference code for listed companies and autonomous public companies
 - Code Buysse: for unlisted companies
- Public sector: IA and RM in legislation

Governing bodies and senior management are responsible and accountable

- Establishing governance structures
- Setting objectives
- Defining strategies
- Defining and implementing processes to best manage risk to accomplish the objectives
- Overseeing risk management

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

First line of defense : operational management

- Operational managers **own** and **manage** risks
 - Responsible for implementing corrective actions to address process and control deficiencies
 - Maintain effective internal controls and execute risk and control procedures on a day-to-day basis
 - Identify, assess, control and mitigate risks
 - Guide the development and implementation of internal policies and procedures, that serve as controls
 - Ensure that activities are consistent with goals and objectives
 - Supervise execution of those procedures

Second line of defense: risk management and other “assurance” functions

- Ensure that first line of defense is properly designed and is operating as intended
- Each function has some degree of independence from the first line of defense but they are management functions
- Assisting management in developing processes and controls to manage risks
- Providing guidance, facilitation and training on risk management
- Monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting and timely remediation of deficiencies

Third line of defense : Internal audit

- Independent and objective assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives
- Conditions: establish and maintain an independent, adequately and competently staffed Internal Audit function
 - IIA standards
 - Reporting lines

Additional lines of defense: External auditors, regulators and other external bodies

- Outside but important role in governance and control structure
- When coordinated effectively: providing additional assurance
- ***When not coordinated: significant weight on the organization***
- Risk information is generally less available to the organization (independence) or extensive than that of the internal lines of defense

Coordinating the three lines of defense

All 3 lines should exist in some form

- Risk management is strongest with 3 separate and clearly identified lines of defense, which are using a **common ground**
 - e.g. a common risk model, with independent positions regarding the risks in this model and the risk analysis
- Combining of functions: clear communication of the impact, also to the governing body
- Dual responsibilities: consider separating them
- **Sharing** of information and knowledge
- Coordinating activities to foster efficiency and effectiveness: **beware of “overload”**





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Gaëtan LEFEVRE
President BELRIM

The Implementation and Maturity of Risk Management Systems in Belgium

- **Risk Management – Internal Audit perspective**
- **Keys to Understanding the diversity of Risk Management in a riskier world**
 - **Benchmarking Survey 2012 (FERMA)**
- **Conditions in order to give Risk Management a decisive role within the business**

Risk Management – Internal Audit Perspective

- **Risk Management:**
develops risk policies and methodologies, co-ordinates risk based activities, support to the management “owner of the risks” and compiles risks information.
=> Risk monitoring
- **Internal Audit:**
audits the risks process and provides assurance to the board that the process is under control.
=> Risk assurance

Diversity of Risk Management in a riskier world

- 6th biennial benchmarking survey conducted by FERMA in collaboration with Axa Corporate Solutions and Ernst & Young
- Survey (41 questions)
- Structure:
 - Introduction
 - Risk Governance
 - Risk Management practices
 - Insurance Management

Diversity of Risk Management in a riskier world

Introduction

- Survey received 809 responses from 22 national associations.
- BeNeLux: 13%
- 72% of respondents in charge of Risk Management and / or Insurance
- 55% companies with turnover above €2 billion
- 59% companies with more than 5000 employees

Diversity of Risk Management in a riskier world

Risk Governance:

- **Main factors triggering Risk Management:** compliance & legal requirements (61%), shareholders (33%), social responsibility (31%), catastrophic event (26%), major insurance issues (19%)
- **Risk Management objectives:** provide assurance that major risks are under control (76%), minimize operational losses (63%), align risk appetite and strategy (36%)
- **Risk Management standards:** internal framework (37%), Coso (29%), ISO 31000 (25%)

Diversity of Risk Management in a riskier world

Risk Management practices:

- RM function globally report to: CFO (36%), CEO (23%), Board of Directors (18%), Audit Committee (14%), Legal (9%)
- Different risks functions are no longer working « in silos », but level of coordination remains limited
- Companies with more mature RM practices generate the highest growth in EBITDA

Diversity of Risk Management in a riskier world

Insurance management

- « *Back to basics* »
- **Consequence of financial & economic climate:** strengthen loss prevention activity (57%), LTA / Roll over (40%), robust insurers (32%), acceleration of claims settlement (24%)
- **Areas for improvement:** efficiency in claims settlement (43%), tailor made policy (36%), new insurance coverage (30%), design of global program (28%)
- **Top 3 issues with effect to insurance:** NatCat (51%), Solvency II (49%), liability claims (43%)

Conditions in order to give Risk Management a decisive role within the business

- To be **efficient** and to prove its **added value**
- To be **legitimate**
- To be **credible** to the Top Management and/or the Audit Committee
- To have **excellent relationships** within the company
- To be **known** and **recognized** by the outside world

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Jean-Michel CASSIERS

President of IIABel Board

The State of Internal Audit Coverage of Risk Management in Belgium

Agenda

- Functions with specific roles and responsibilities
- Insights to consider in the evolution of the IA role
- Key Success Factors
- IA perspectives and opportunities

1. Two complementary functions

2. Insights to consider

3. Key Success Factors

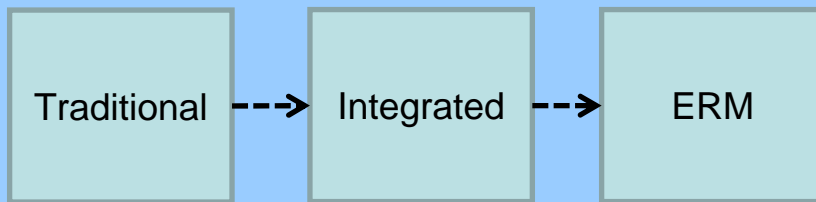
4. Conclusions

Two functions in evolution

RM

IA

Old definition → New definition :



- **independent & objective activity**
 - **assurance & consulting**
 - **add value**
 - **evaluate & improve the effectiveness of :**
 - governance
 - **risk management**
 - control
- } processes

Insights to consider in the evolution of the IA role

1. Two complementary functions

2. Insights to consider

3. Key Success Factors

4. Conclusions

1. Direction from the top

Has the audit committee asked internal auditing...

■ Yes ■ No

to provide an opinion on any individual programs or areas related to risk management?



to provide an opinion on the organization's overall risk management processes?



to perform specific audits of any components of risk management?

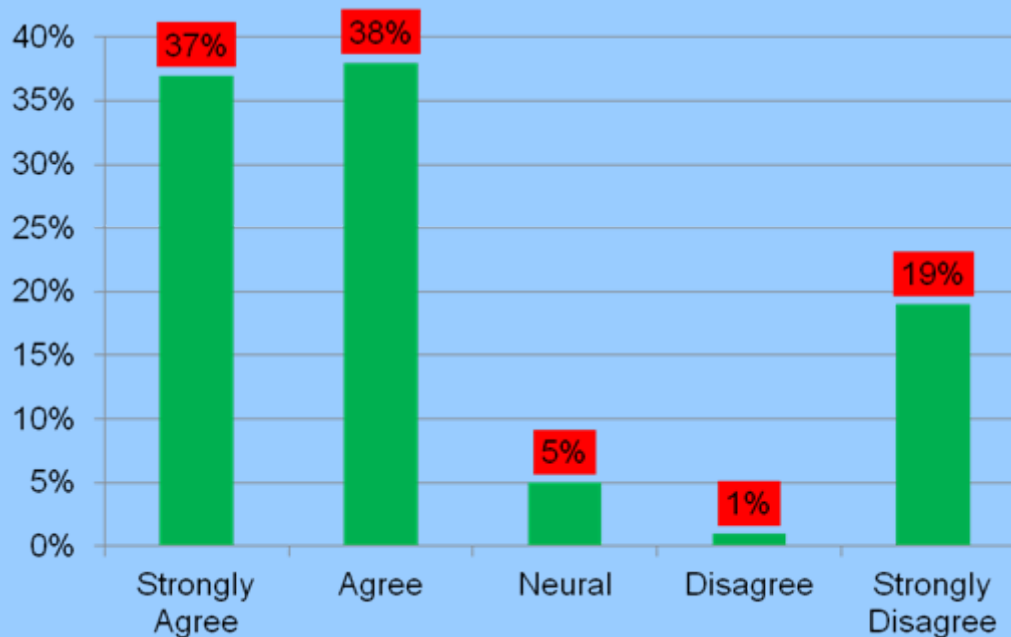


for recommendations or advice on enhancing the organization's risk management processes?



1. Direction from the top

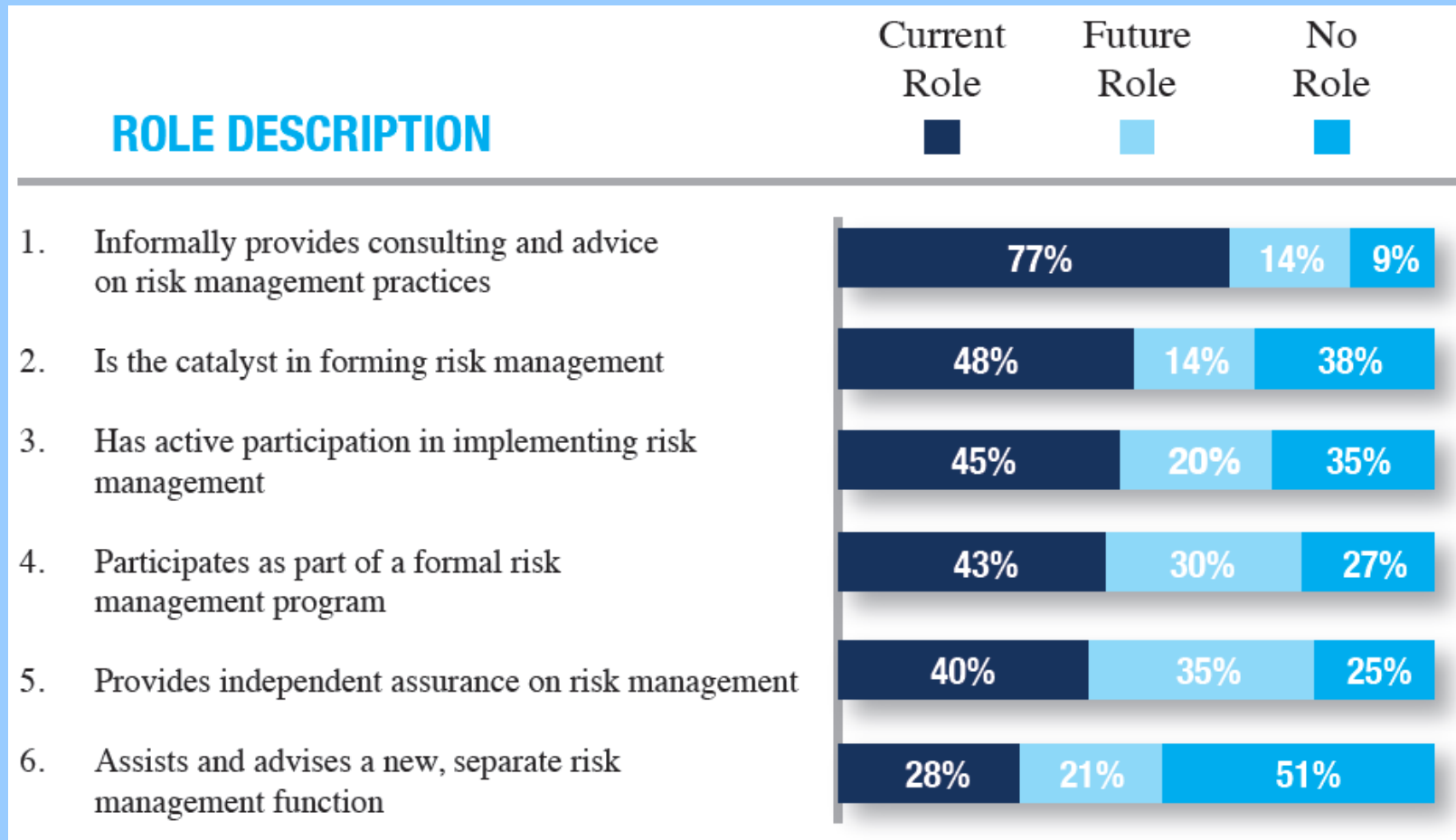
How much do you agree or disagree that there is an emerging need for the audit committee to have better insight into the organization's risk management processes?



2. Current roles for IA according to IIA Position Paper (ERM)

- Core internal audit roles
- Legitimate roles with safeguards
- Not to undertake roles

3. Potential roles (GAIN Flash survey results)



4. Internal audit roles with strategic risks

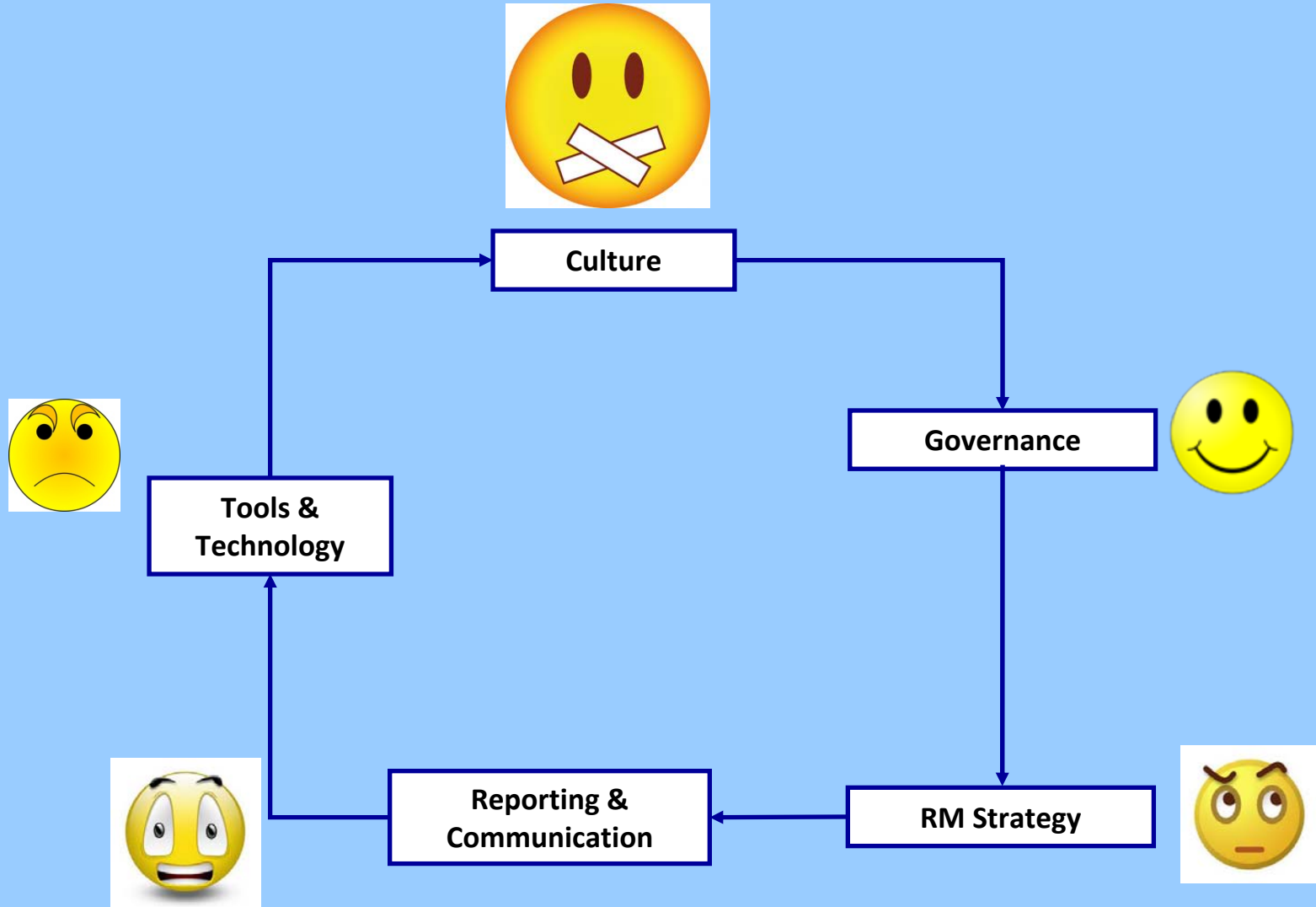
- Ensuring RM presents **most significant risks** to shareholders
- Reviewing **business plans, risks embedded** in the strategies and risk monitoring
- Continuously monitoring and assessing **stakeholder expectations**
- Building **stronger relationship** with other risk and control business functions

5. Some skills needed to succeed

- Understanding the business
- Risk analysis and control assessment techniques
- Understanding of the risk frameworks & methodologies
- Good communication skills

6. Opportunities to add greater value

- **Break down the silos** and focus on managing risk effectively across the organization
- Forging a **collaborative alliance** particularly with Risk Managers



1. Two complementary functions

2. Insights to consider

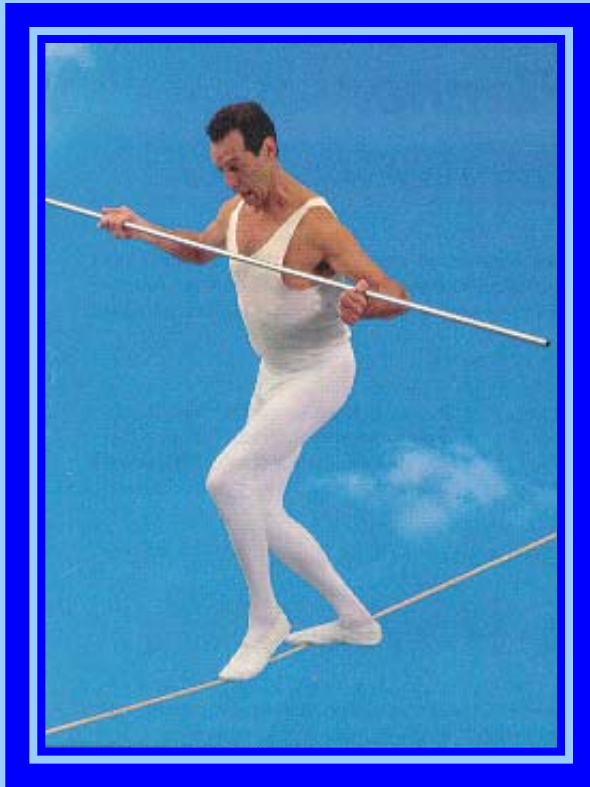
3. Key Success Factors

4. Conclusions

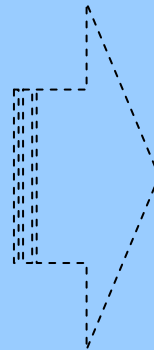
IA perspectives and opportunities

- Provide specific **assurance and recommendations** on RM
- Seek **sound dialog** with audit committees and senior management for increased expectations
- **Educate and train** audit committees and management
- Perform more risk management **consulting services**
- Evaluate **strategic risks**
- Adjust Internal Audit **competencies**

The result of forging a RM/IA strategic alliance



From a heroic
RM process



To a robust
RM process

1. Two complementary functions

2. Insights to consider

3. Key Success Factors

4. Conclusions

Main references and to go further...

- “Is ERM failing?”, March 2012 State of the internal audit profession study”, PwC , [“10 Reasons Why Your Enterprise Risk Management Program Won’t Work”](#)
- The IIA White Paper / March 2011 “Internal Auditing’s Role in Risk Management “ (IIA Research Foundation & Oracle)
- “Risk management and internal audit : forging a collaborative alliance », RIMS & The IIA, 2012
- Quelles relations entre l’audit interne et la gestion des risques? De la séparation stricte des fonctions à un service regroupé. In Audit et contrôle interne, n°208, IFACI, 2012
- Navigating Risk, in Internal Auditor, IIA, June 2011
- « Guide to ERM. Frequently asked questions », PROTIVITI, 2006



AGENDA (Part 2)

11:40	<p><u>Panel Discussion</u>: risk managers and internal auditors share their vision and experience</p> <p>Moderated by Sabine DESANTOINE, Insurable Risk Manager, ING Belgium</p>	<p>Patrick CLAUDE Corporate Risk Manager, ArcelorMittal</p> <p>Michel DENNERY Deputy Chief Risk Officer, GDF Suez – Vice-President of FERMA</p> <p>Edmond BETTEX Audit Manager, Belgacom Group</p> <p>Rudi HEX Audit Program Manager, KBC Group – Past President, The Institute of Internal Auditors – Belgium</p>
12:35	Conference Closure	<p>Gaëtan LEFEVRE, President of BELRIM</p> <p>And Jean-Michel CASSIERS, President of IIABel Board</p>

PANEL DISCUSSION

RISK MANAGERS:

Patrick CLAUDE

Corporate Risk Manager, ArcelorMittal

Michel DENNERY

Deputy Chief Risk Officer, GDF Suez

Vice-President of FERMA

INTERNAL AUDITORS:

Edmond BETTEX

Audit Manager, Belgacom Group

Rudi HEX

Audit Program Manager, KBC Group

Past President IIABel

PANEL DISCUSSION

1. The respective roles of Risk Management and Internal Audit, including any legal or regulatory framework
2. Organisation
3. Complementary roles and synergies
4. Conclusions: Evolution and challenges

1.1. Explain the purpose and responsibility of your position as “Corporate Risk Manager” at ArcelorMittal

P. CLAUDE:

Ambassador, facilitator of the Risk Management processes

Secretary of the Board risk committee and of the Group risk committee

- 1.2. From the Internal Audit side, what's your position in your organisation?
What's the purpose of the internal audit activity?
What's your view on the Internal Audit's role regarding the processes of risk management?

E. BETTEX:

- Internal Audit organization \neq Risk Management organization
 - **Internal Audit:**
 - ✓ Risk control level assessment
 - ✓ Reports to audit committee
 - ✓ Risk based audit plan (ERM, audits & follow up, benchmark,...).
 - **Risk Management:**
 - ✓ Continuous risk management based on scenarios - “stress tests”
 - ✓ Reports to the CFO
- IA's added value in Risk Management:
 - Combined ERM exercise
 - Mutual continuous exchange of information → RM & IA are **complementary**
 - IA measures the field reality with independence and objectivity

1.3. In your role as Internal Auditor,

- What are your interactions regarding risks with business operations ? other stakeholders?
- What is your role vs. the role of other stakeholders in the risk management process?

R. HEX:

- Input from audit is actively requested in setting up the risk management framework
- Audit provides input but does not take responsibility for risk management. Audit is the 3rd Line of Defense
- Audit is not involved in the risk self-assessment done by the business

- 1.4. Your role as “Deputy Chief Risk Officer” at GDF SUEZ and your position as Vice-President of FERMA allow you to have a global view of risk management.
Please outline for us who the key stakeholders are.

M. DENNERY:

- Internal stakeholders: essential for motivating the risk management approach & process
 - ✓ Chairman and Board of Directors: the top of governance is key
 - ✓ CEO & ExCo members – especially top operational managers
 - ✓ Line Managers by creating a risk culture
- External stakeholders:
 - ✓ Financial analysts: by providing numerous analyses on companies, sectors and giving accurate advice on your risks
 - ✓ Rating agencies: by delivering ranking and rating based on analysis and arguments (e.g. negative outlook)
 - ✓ Sector’s surveys: very useful to identify emerging risks

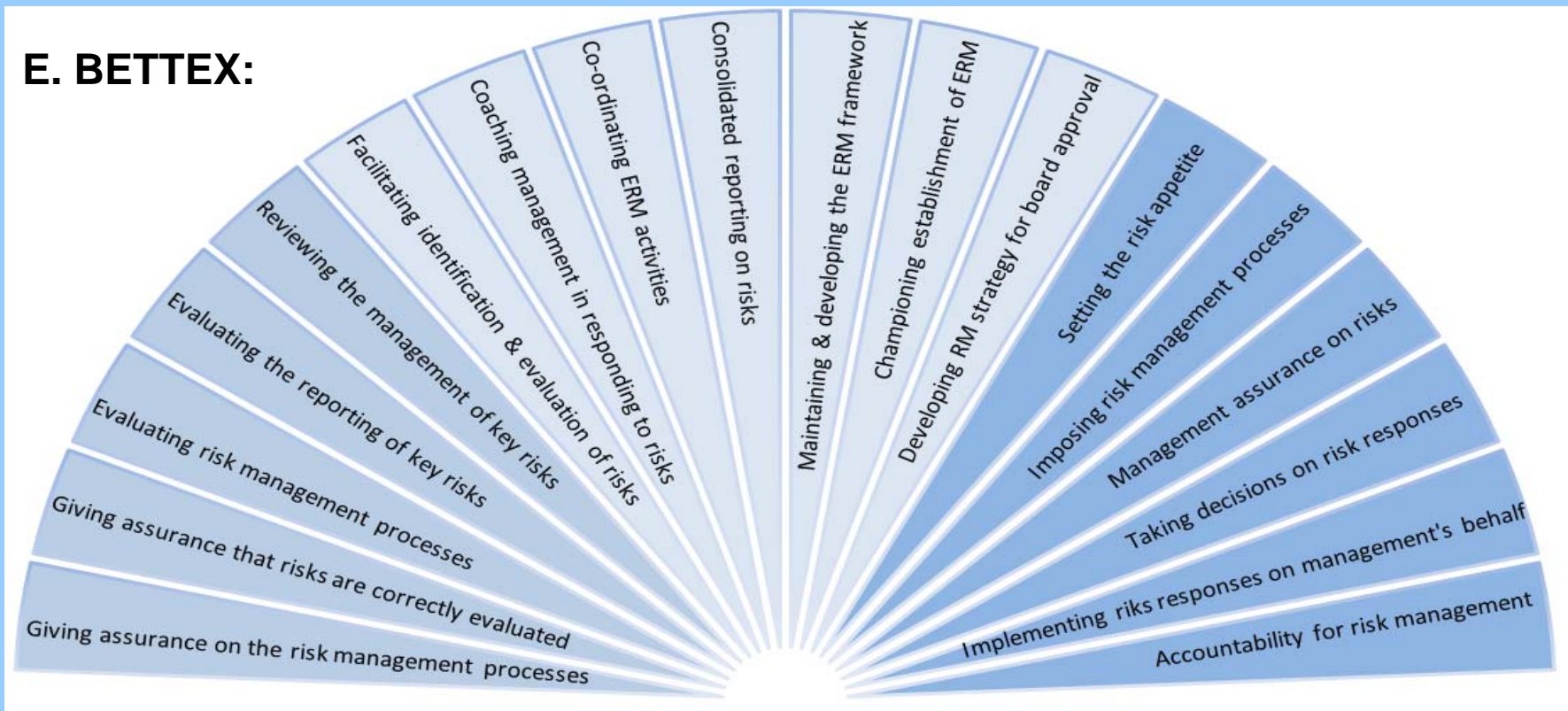
1.5 And in practice, what do you see as the key success factors and barriers to the establishment and effectiveness of overall risk management within an organization?

M. DENNERY:

- Key factors :
All depends on the way they are used (resulting in success factors or barriers)
- Relying on operational experiences
- Being curious, critical and pragmatic
- Being persistent, obstinate
- Being diplomat

1.6 The core of Internal Auditing is primarily the evaluation of the internal control system. How far & in what ways can Internal Audit be involved in each of the three processes to evaluate and improve their effectiveness : Corporate Governance, Risk Management, Internal Control ?
Are there specific points or overlap about the way you approach these 3 processes?

E. BETTEX:



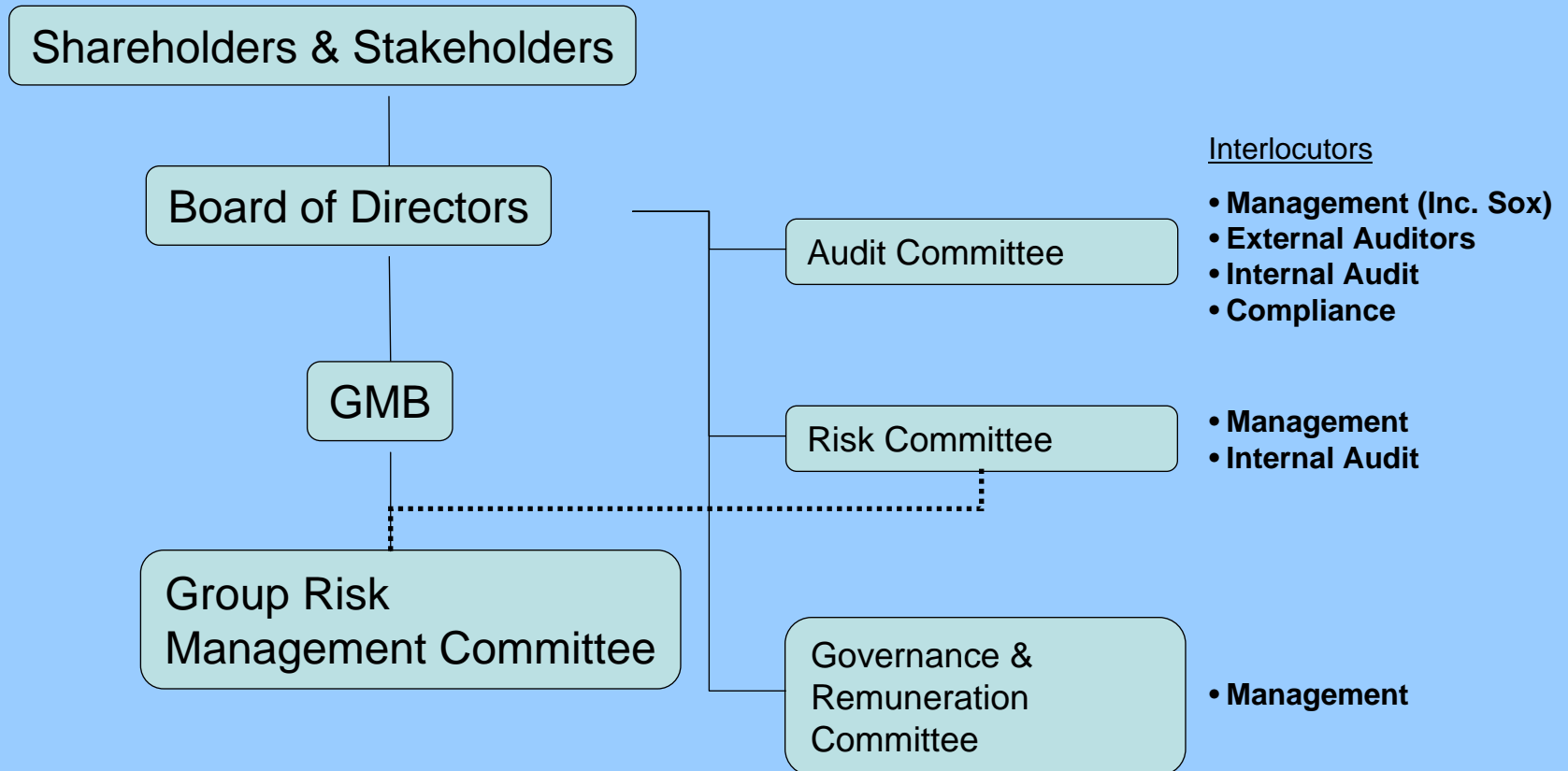
Core Internal audit roles
In regard to ERM

Legitimate internal audit
Roles with safeguards

Roles internal audit
Should not undertake

2.1. Once organizational structure is in place, how does each party operate and carry out its specific roles? What are the roles of the Audit Committee and Risk Committee?

P. CLAUDE:



2.1. Once organizational structure is in place, how each party operates and carry out their specific roles? What are the roles of the Audit Committee and Risk Committee?

P. CLAUDE:

- Roles and responsibilities defined in the RM handbook
- Each manager is responsible
- Board of Directors: overall and ultimate responsibility that management has implemented and is operating an effective and efficient risk management system
- Audit Committee: focus on key risk areas relative to financial reporting, compliance with laws and regulations...
- Risk committee: supports the Board of Directors in fulfilling its responsibilities with the monitoring and review of the key risks of the group, the risk management framework and process of ArcelorMittal.

2.2 Independence and objectivity of Internal Audit opinions and recommendations. The famous Dual Reporting Line: What is it? Why is it needed? Added value? Conflict of interest?

R. HEX:

- Internal Audit should always report directly into the Board of Directors or to the Audit Committee, when existing.
- This unique reporting line :
 - guarantees the independence of the audit function
 - clearly states who is the primary client to be served by Internal Audit.
- The recently issued Basel document on the internal audit function in banks clearly introduces this principle of reporting directly to the Board of Directors or Audit Committee.

3.1. Are Internal Audit and Risk Management the perfect complements to each other? Is there duplication, antagonism, common understanding?

P. CLAUDE:

- RM:
Support managers in managing their risks which identifies assurance needs

- IA:
 - Provide managers with an opinion about their risks and how they are in control
 - Give an opinion about effectiveness and efficiency of RM

4.1 How do you see the evolution of the various functions involved in risk governance? Especially for “risk” functions, should we expect to see significant organizational changes?

M. DENNERY:

- The trend = reduction of all functional lines
- When the function is mature, it's time to rationalize it
Are you risk-reduction oriented or risk-analyzing oriented?
- Connections with internal control and internal audit exist (e.g. control, QSE mgt) and synergies need to be used.
- In conclusion, today remain two major risks for companies:
 - reduce their defense against risks, which means finding the way to rationalize and optimize resources
 - not daring to take enough risks

4.2 Vision of the future for the Internal Audit profession:

What are the challenges and key issues that arise in the Internal Audit Department to effectively carry out its role vis-à-vis Risk Management?

R. HEX:

- The biggest and most key element: the professionalism of the auditor
- Get the right people with the right knowledge on board



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Jean-Michel CASSIERS

President of IIABel Board

Gaëtan LEFEVRE

President of BELRIM

Conference closure

We would like to thank our sponsor

KPMG Advisory – Risk Consulting
Internal Audit, Risk & Compliance Services

