A refocus on risk and resilience

Enterprise risk management (ERM) UK survey 2021

Executive summary

The Deloitte enterprise risk management (ERM) UK survey 2021* focuses on the impact of the risk function in the wake of the COVID-19 pandemic. It builds on Deloitte's recent global risk management survey to provide an up-to-date view of current UK risk management practices, including the level of risk management maturity, technology enablement and impact of COVID-19 on the risk function.
*See page 27 for the respondents profile.

The global pandemic has demonstrated how the value of risk management needs to evolve. The accelerated adoption of technology, changing global landscape and changes to working practices have surfaced new risks and opportunities. Whilst our data highlighted the importance of planning for extreme disruptions of business and therefore heightened levels of strategic and operational resilience, it also shows companies remain divided as to how prepared they are today for the kind of risks they have faced over the last year - or are likely to face in the future.

In recent years and particularly since the Global Financial Crisis of 2008, organisations have been growing more conscious of risk and the need to build resilience to shocks. Budgets for identifying, tracking and managing risk have been growing steadily.

This emerging corporate risk awareness was put to the test by COVID-19. The pandemic stressed networks and values to an extent that few organisations could have imagined, despite the fact that a global pandemic has been a standard scenario consideration for risk teams for many years.

The challenges presented by the COVID-19 pandemic also pushed corporate risk management functions into the spotlight, highlighting they are essential parts of the corporate whole. Whilst the challenges encouraged risk functions to mature and progress, it is clear the maturity process has much further to run with the added need for agility as technology evolves and the operating environment changes. This journey to maturity and build enterprise-wide resilience offers risk functions the potential to become internal business partners who facilitate risk-based decision making at the most senior levels of the organisation. The contribution of risk management to greater post-pandemic resilience remains an essential but ongoing work in progress.

Several key risk management trends to note from the survey results are as follows:

- Corporate risk functions increasingly occupy the **strategic** stage
- Risk management structures are typically **centralised**, relying on **specialised skills**
- Many companies still need to assess **risk appetite** and manage **risk culture**
- COVID-19 revealed the need to more closely link **risk and resilience**
- **Emerging Risks** can become real threats much faster than anticipated
- **Technology** and automation are more becoming critical but often under-used

Key findings

Several key risk management trends emerge from the survey results:

Technology and automation are critical but often under-used

Less than **23%** of companies employ a technology enablement strategy to help deliver their risk strategy, with only **34%** routinely using risk dashboarding and graphic visualisations to present risk reports

Corporate risk functions increasingly occupy the **strategic** stage

64% of companies report to the CFO or CEO as the corporate sponsor of risk

Emerging Risks can become real threats much faster than anticipated

46% of companies report they have established horizon scanning to facilitate risk identification. Only 30% of companies say they have clear visibility on the risk response measures and tools available to them to respond to shocks

Risk management structures are typically **centralised**, relying on specialised **skills**

41% of companies believe that a risk focused professional qualification is ideal

86% of companies believe in varying degrees that their organisation needs to be more resilient, with only 5% of companies indicating that their ERM systems are fully integrated with other corporate functions

COVID-19 revealed the need to increase focus on **resilience** and better integrate **ERM** systems

57% of companies are yet to fully articulate their risk appetite and 64% feel that they are in the early stage of their journey towards assessing, establishing and embedding risk culture

Many companies still need to assess **risk appetite** and manage **risk culture**

1 Volatility, unpredictability, and the COVID-19 shock

1. Volatility, unpredictability, and the COVID-19 shock

> I see a risk in companies aligning their practice to one specific challenge like COVID-19. The shape of the next threat will be different, so don't adapt to a single event. Look broader.
>
> **Chief Risk Officer**
> *Global communications company*

Despite the increasing demands on risk management functions and greater exposure to Boards and senior leadership teams, our results show little desire to change budgeting and resourcing levels as a result. It is likely that the increased scope and profile of ERM over the last two decades may in part account for the relatively small changes to the size and cost of their corporate risk functions that businesses are currently reporting.

Our survey shows that fewer than **5%** of corporations either have changed or plan to change their budgeting for risk management following the COVID-19 pandemic. Around a quarter of respondents allocate up to £1 million in annual budget and **16%** allocate more than £1 million.

The pandemic has taught companies several important risk management lessons. One is that in a globalised, interconnected, and digitised world risks need to be seen holistically: vulnerabilities in one part of a corporate system do not remain isolated, but cascade throughout the system. And many companies are concluding that risk management should be distinguished from forecasting: good risk management is not only about predicting events but about fostering institutional agility.

A need for Resilience

The COVID-19 crisis has forced many organisations to confront the extent of their resilience in the face of high impact events.

Recent Deloitte research in collaboration with Cranfield University and the National Preparedness Commission has shown that systemic but reactive risk processes may not be sufficient to ensure resilience in the face of uncertainty and shocks.

Our data shows that whilst more than **80%** of respondents are confident in their ability to identify **high impact events** that can lead to shocks, only **30%** believe that they have clear visibility of the measures, options and levers available when shocks or disruptions occur.

It is not surprising then that **86%** of respondents believe in varying degrees that their organisation needs to be **more resilient**.

FIGURE 1
Do you feel that your organisation needs to be more resilient?

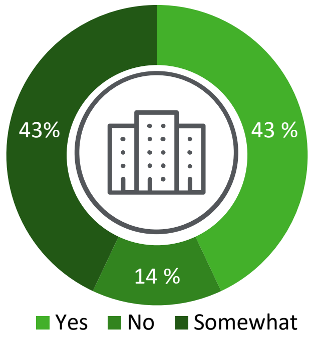
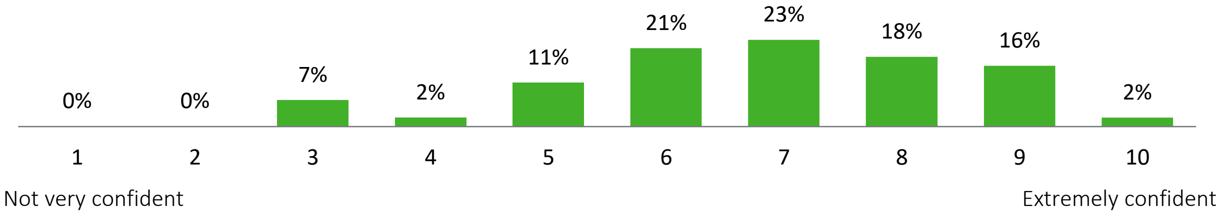


FIGURE 2
How confident are you in your ability to identify high impact events?



1. Volatility, unpredictability, and the COVID-19 shock

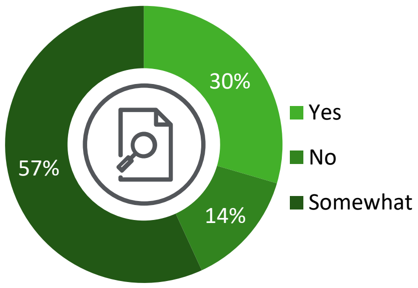
Becoming resilient

Future resilience may call for more than reactive risk management: our research suggests that risk management means not only thinking through organisational fallibility and understanding the connected impacts of crises, but also making strategic choices as to whether risk should be managed defensively or aggressively and whether consistency or flexibility is the correct stance.

Preparedness in terms of actionable plans is the broadest measure of risk management effectiveness. However, preparedness for shocks and disruptions has been revealed as low. Only **30%** of respondents believe that they have clear visibility of the measures, options and levers available when shocks or disruptions occur and 57% somewhat feel that they have the visibility.

FIGURE 3

Do you have clear visibility of the measures, options and levers available when shocks or disruptions occur?



Companies do now have a clearer sense of where their vulnerabilities lie. Over half of companies say they have now reviewed financial portfolios, supply chains and new ways of working for susceptibility to shocks, and more are still in the process of review. Perhaps unsurprisingly supply chains have been seen as potentially the weakest link in the operational chain, followed closely by internal ways of working and how organisations will interact with both customers and markets.

FIGURE 4

Have you assessed your existing financial portfolios, supply chains and new ways of working to identify vulnerabilities to failures or when shocks occur?

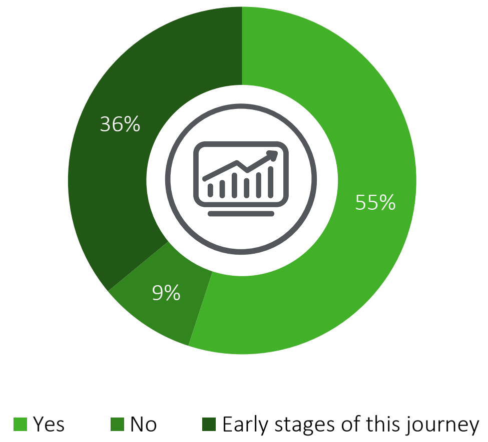
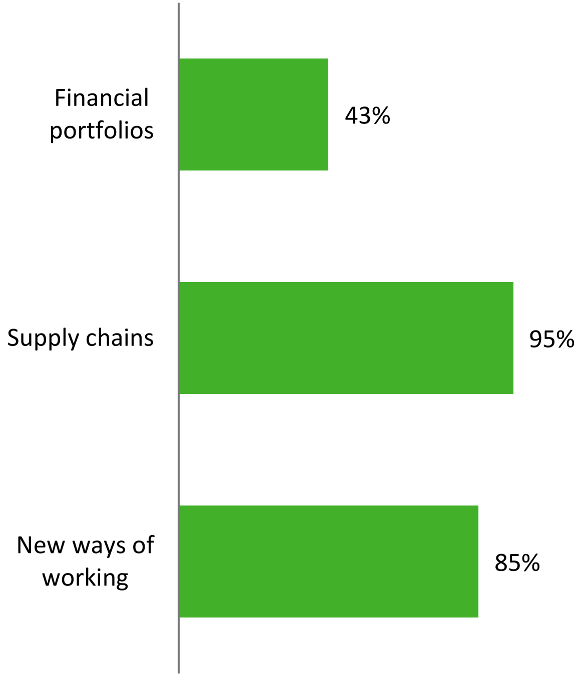


FIGURE 5

If yes or early stages of this journey, which of these areas have you assessed?



Do organisations now have confidence that they are sufficiently resilient in the face of shocks? Given the reservations over the role and capacity of risk management revealed elsewhere in the survey it comes as little surprise that enterprise risk managers in almost all companies surveyed (86%) still see the need for more resilience.

1. Volatility, unpredictability, and the COVID-19 shock

Interview: The COVID-19 shock

The Chief Risk Officer (CRO) of a global resources company says that even though pandemics were one of the risks the ERM function had modelled, the true impact of COVID-19 still came as a surprise.

'The surprise was the speed and domino impact of the pandemic, triggering other risks in its wake. We are a resilient business but clearly our operations and customers were impacted by the disruption of COVID and in ways we could never have envisaged.

This has provided a key learning for us: we won't be looking at risks in a standalone way anymore, and we will be doing a lot more work on scenarios.'

'One result of all this is that we are now accelerating investment in automation and new production techniques – we know that if we face something so disruptive in the future we can't just rely on a small band of individuals keeping the lights on for us.'

'We are going to use technology to look further and wider for emerging risks. But in the end it comes back to the risk team to figure out what those risks mean to our organisation. Technology can bring some order to lots of the data out there, but that's no substitute for analytical thinking and interpretation.'

2 The position of the risk function within the organisation

2. The position of the risk function within the organisation

The survey reveals significant differences in the way corporations view and operationalise risk management. There are differences in the strategic weight given to risk management, and as a result great differences in the extent to which risk management is integrated with other corporate functions.

In this survey we find that ERM reporting lines are suggestive of a strategic role: almost half of respondents report to the CFO as corporate sponsor of risk, and over a quarter report to the CEO or the COO. Only 11% report to a company secretariat or other body.

The risk line of defence
The survey found ERM functions are largely organized into one of three operating models. Almost half (46%) balance the global function with regional risk champions reporting on a dotted line basis into the global function. 27% have a global function with no regional or local teams, whilst 16% have a global function with hard reporting lines from local teams.

FIGURE 6

Who is the Executive Sponsor for Risk Management within your organisation?

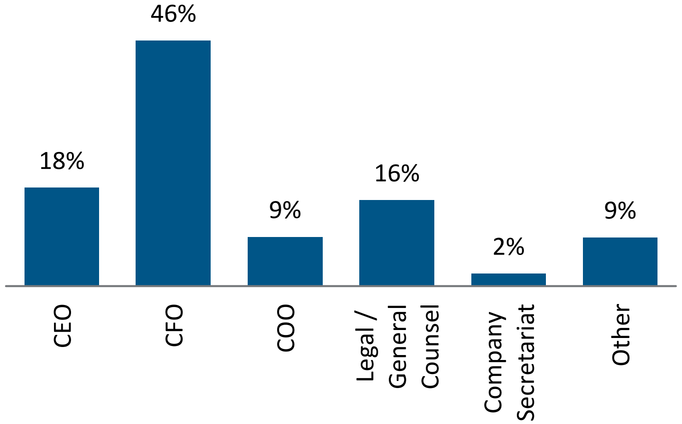
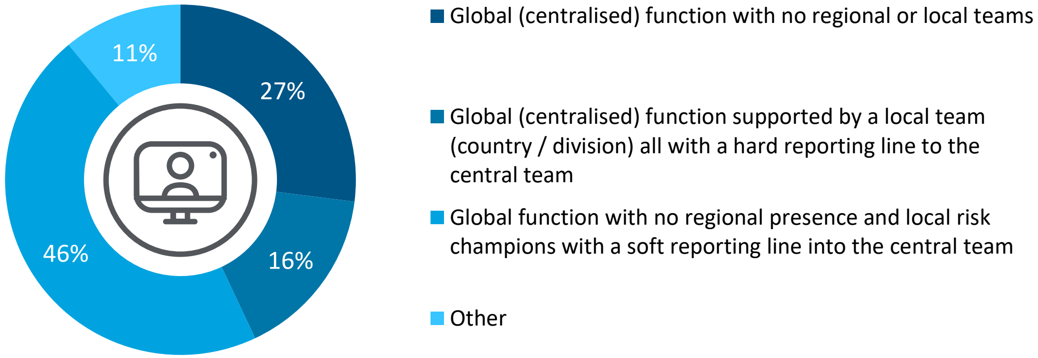


FIGURE 7

What is the operating structure of your Risk Function i.e. global (centralised) vs regional vs localised?

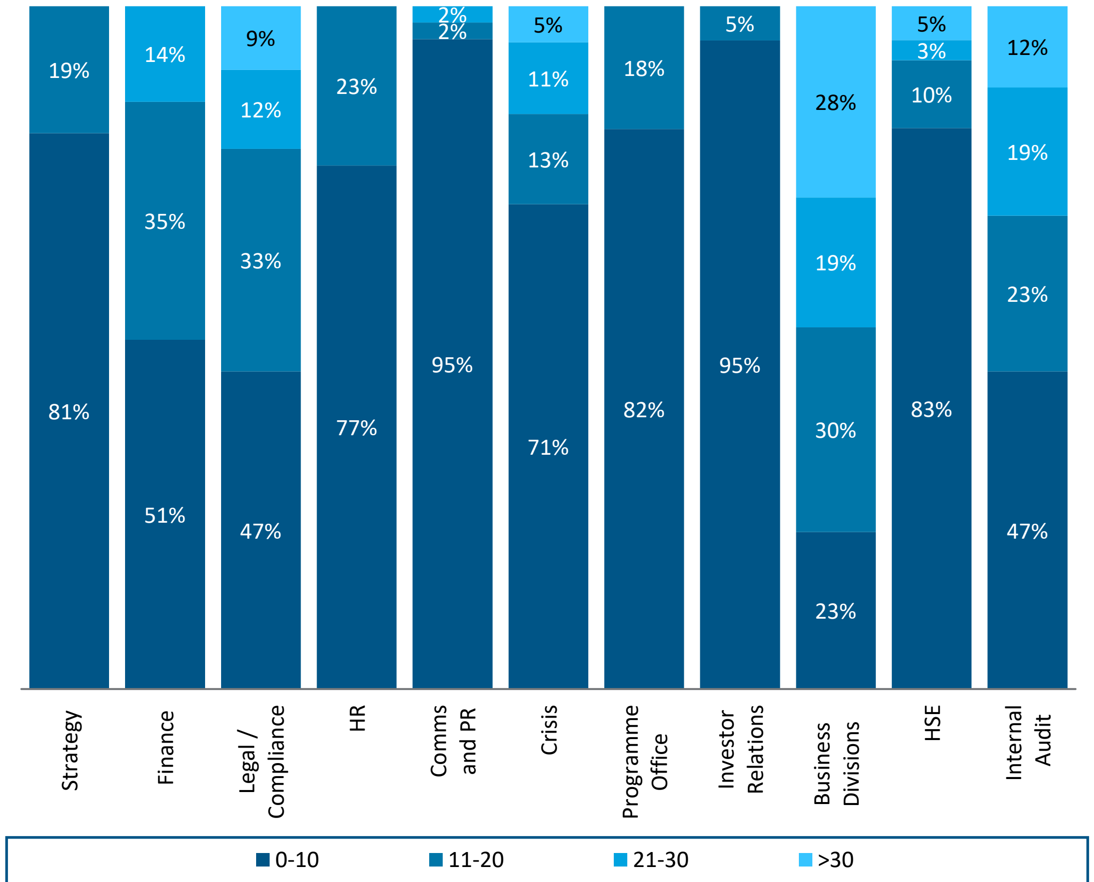


2. The position of the risk function within the organisation

Corporate risk functions collaborate with all business functions to varying degrees, offering strategic and operational support. We asked participants who their respective risk functions interact and apply the risk management approach with across their group functions and/or operating divisions of the business.

FIGURE 8

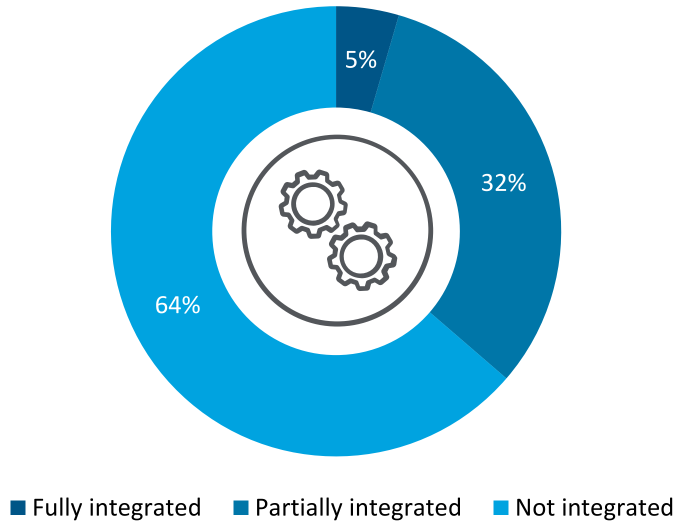
% of time spent working with these functions:



Key: Percentage of ERM functional time allocated to working with respective functions and operating divisions.

FIGURE 9

What is the level of integration between the risk management systems and other business management systems across your organisation e.g. management systems, compliance frameworks, quality systems?



The survey finds considerable differences in the structure and level of integration of the corporate risk function systems. A mere 5% of companies said that the systems within their corporate risk function was fully integrated with other corporate functions including management, compliance and quality.

2. The position of the risk function within the organisation

Interview: The dual role of risk

The Chief Risk Officer of a global communications company says that effective risk management requires a dual skill set: strong foundations in the tried and tested principles of the risk management, together with the ability to act flexibility.

'I think you always have to keep the basics of risk management in clear sight, and be careful not to over-respond to situations. If you have a good foundation in risk principles you will always be able to use that as a platform. But on top of that you need agility.'

'We know the environment is volatile, that is why we need basic principles and strong data that we can follow. But what do you do where there is no data? That is when you need the ability to be flexible, to extrapolate, to use intuition and experience.'

'I think the stresses we have been through recently have been a massive opportunity to learn and improve practice. For us the key thing has been to recognise the velocity of change. It has encouraged us to change the way we do things, moving to more agile management based on fast-moving small teams, all designed to produce insights that are valuable in the context of broader corporate goals.'

3 The structure of the risk function

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2.The position of the risk function within the organisation
3.The structure of the risk function
4.Risk strategy and reporting
5.Risk management techniques and processes
Conclusion

3. The structure of the risk function

Even before the COVID-19 pandemic companies were spending more money and more time on managing risk to build resilience. Almost half the companies in this survey have risk functions that have been established for more than ten years, and over half conduct all risk management entirely in-house.

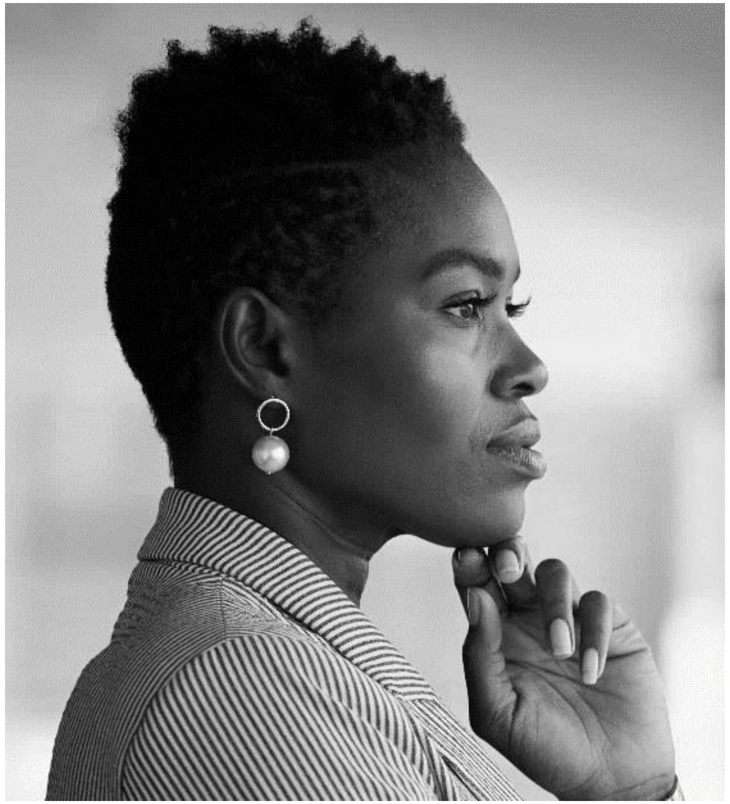


FIGURE 10

How long has the risk function within your organisation been running for?

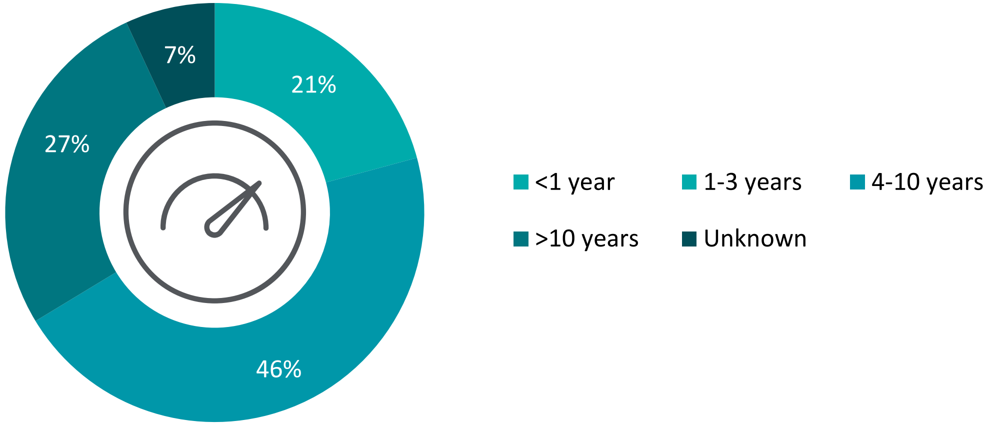
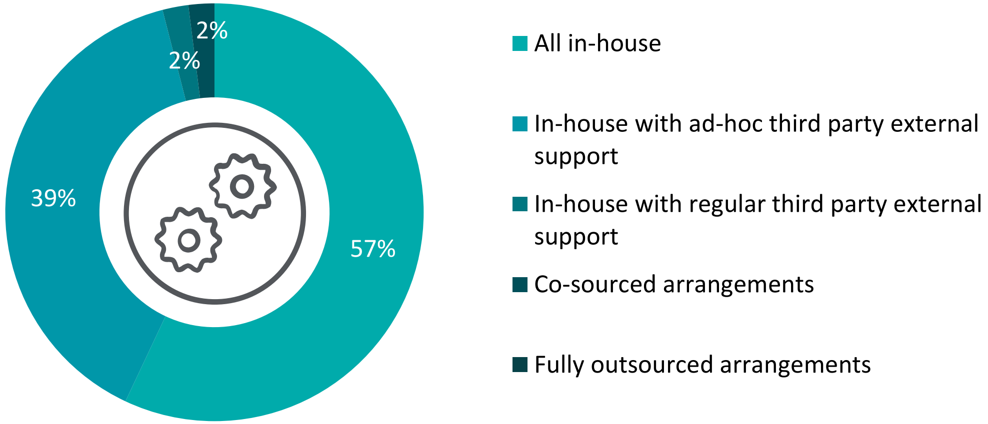


FIGURE 11

How do you deliver your day-to-day work and activities?



3. The structure of the risk function

Staffing, skills and learning

Staffing

Risk teams are typically small: over 80% of companies in our sample have five or fewer full-time risk professionals in the central team, and over 60% have 20 or fewer part-time risk professionals in the wider corporate network. In 41% of companies there is no more than one full time risk professional, and no more than six in the full-time/part-time team combined.

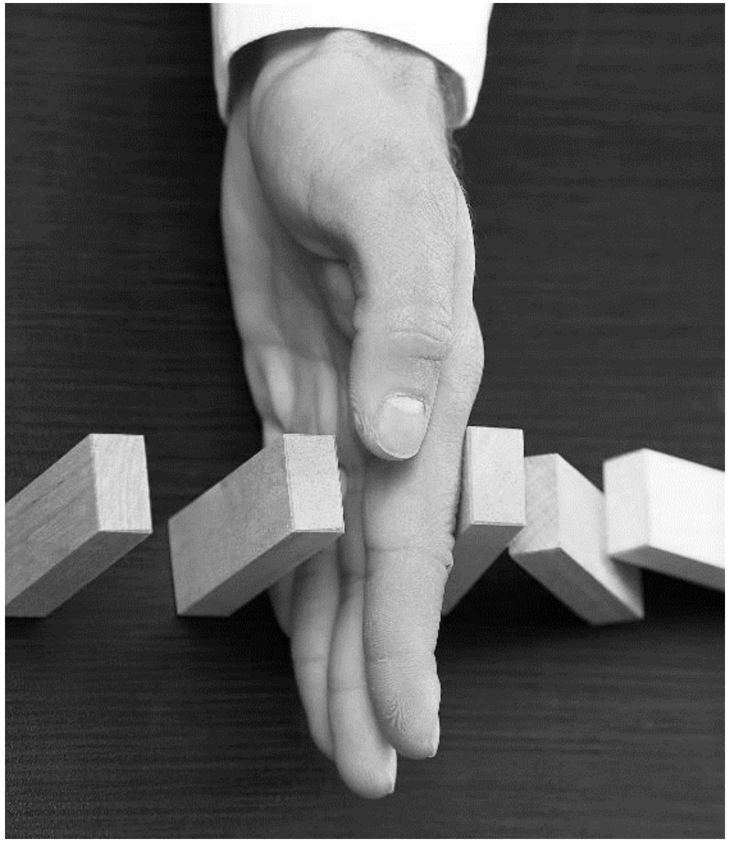


FIGURE 12

How many risk professionals do you have in your central risk management function/team?

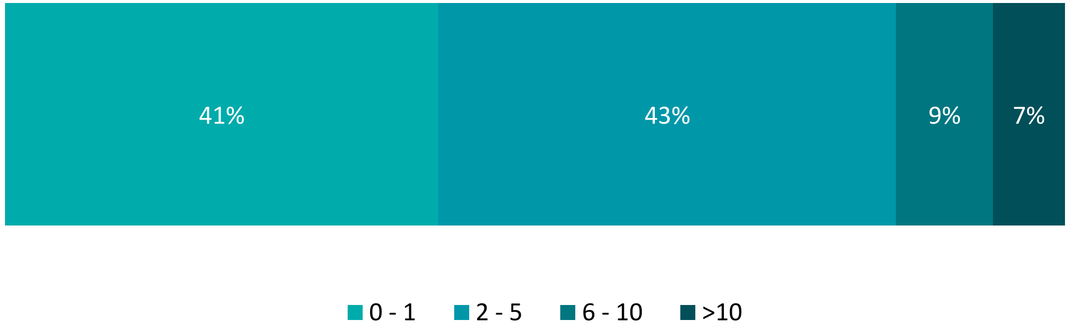
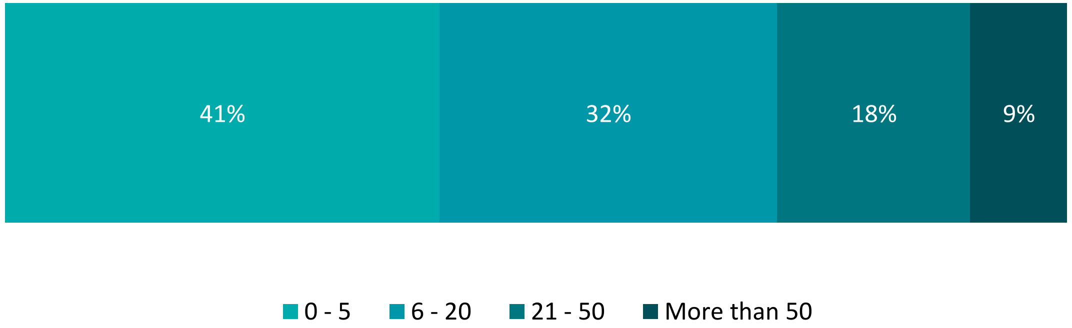


FIGURE 13

How many part time equivalents do you have in your business that do some risk management activities?



3. The structure of the risk function

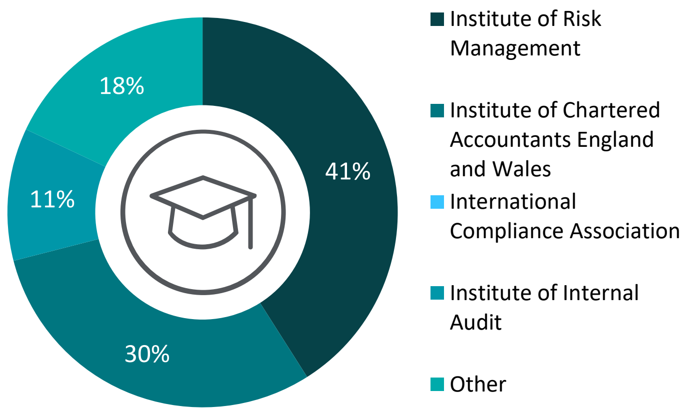
Skills

With an increasingly **diverse** remit, modern ERM professionals have a **broad skillset** to meet the evolving needs of their role.

The risk management skillset must include the ability to work cross-functionally, not least because other key functions outside of ERM such as treasury have the tools and data to identify and visualise risk. Budget constraints on wider risk learning in the organisation may be holding back integration: where non-ERM staff lack risk awareness, they may also lack the knowledge and tools to engage with the corporate risk function.

FIGURE 14

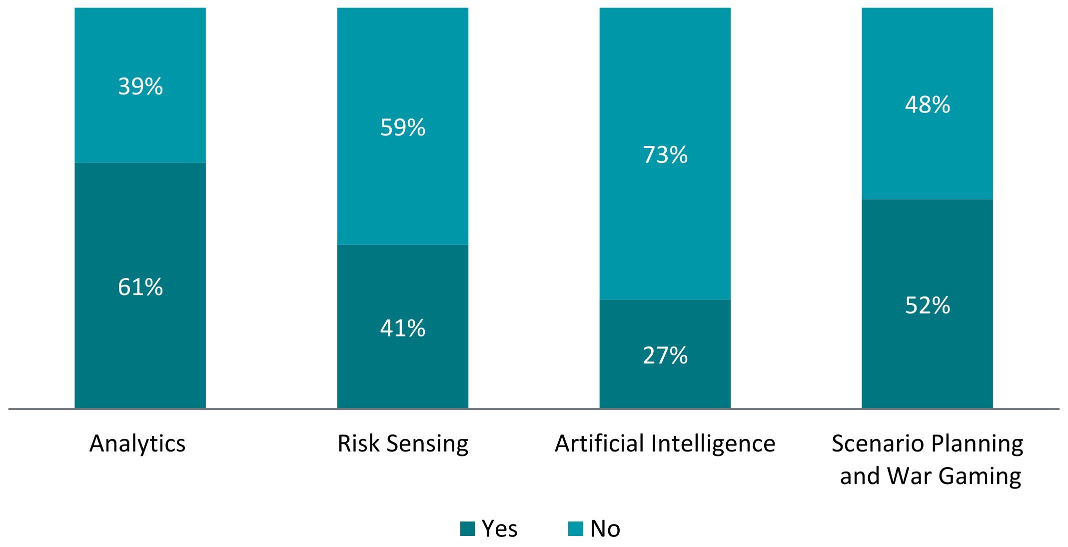
What is the typical professional qualification of your risk function?



The risk remit is wide. With so many bases to cover, increasingly corporations value formal risk credentials. We asked companies in the survey which risk qualifications were typical in their corporate risk function. Accreditation from the Institute of Risk Management (which offers broad ERM qualifications as well as certificates in financial services risk, digital risk and supply chain risk) was most common (41% of respondents) although accountancy and audit qualifications were also reported.

FIGURE 15

Are you able to attract risk management professionals with future-ready skills such as AI, analytics, risk sensing?



When it comes to attracting specialised skills in emerging technologies, the survey suggests that risk functions struggle. Significantly more than half of companies report difficulty in attracting skills in risk sensing and artificial intelligence for risk. Almost half of companies report difficulty in attracting scenario planning skills, and a significant minority (39%) say that attracting skills in data analytics for risk is also difficult. These are the 'future ready' skills of risk management, and arguably represent the single biggest area of challenge for ERM.

3. The structure of the risk function

Learning

Although almost 70% of companies in the survey believe that the learning and development budget for the central risk function is adequate, that falls to only around a third of companies reporting adequate budgets for risk learning in the wider organisation.

FIGURE 16

Is the learning and development budget sufficient to support staff development and learning of risk within the central risk team?

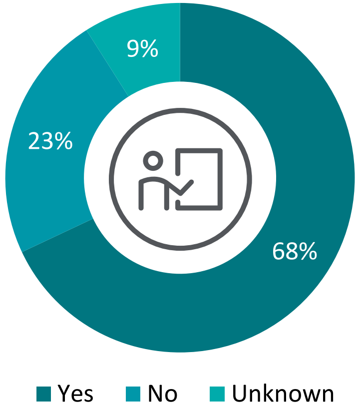
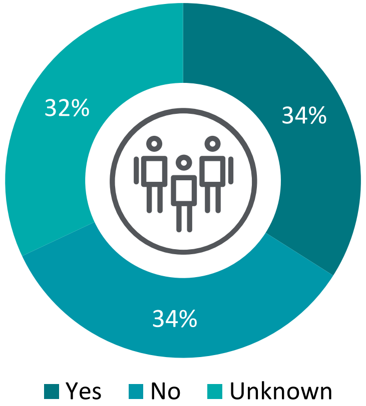


FIGURE 17

Is the learning and development budget sufficient to support staff development and learning of risk within the wider organisation?



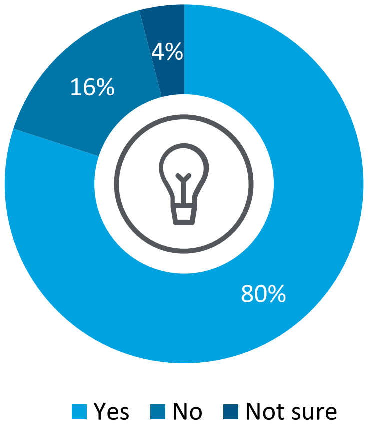
4 Risk strategy and reporting

4. Risk strategy and reporting

Risk management demands a **clear vision** and **strategy:** Targets cannot be set without strategy, and value is difficult to measure. As might be expected most companies report they have clarity on strategy. What is surprising is the number of companies (20%) that report they do not have such a strategy, or are not sure. This figure suggests a continuing lack of clarity over the role of risk management in a significant minority of companies.

FIGURE 18

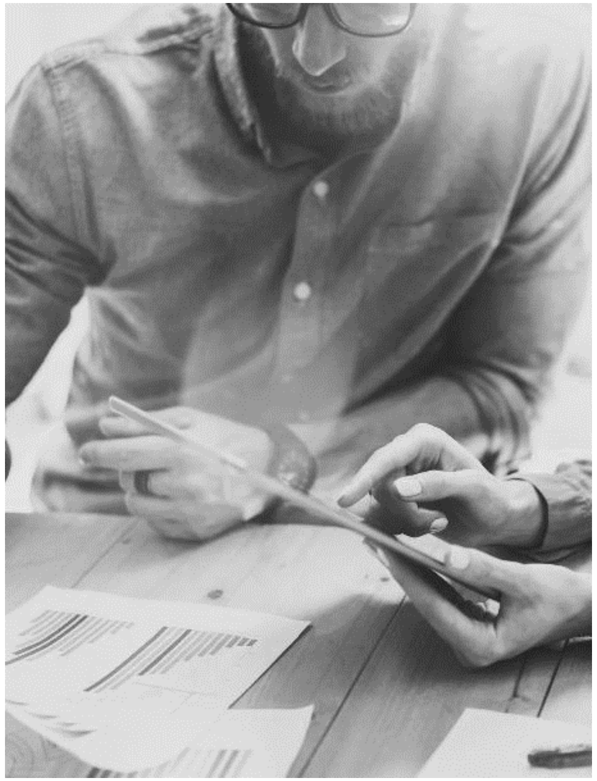
Does your organisation/function have a well-defined risk management strategy that sets out the purpose and vision of the function?



4. Risk strategy and reporting

C-suite Reporting

As risk management grows in strategic importance, the need to present risks and mitigations succinctly and persuasively at C-suite level to drive decision making also grows. Only a third of companies (34%) in this survey say they routinely use risk dashboarding and graphic visualisations to present risk reports, with roughly another third (36%) only experimenting with visualisations.



Companies plan higher intensity risk reporting

In this survey UK corporations tell us that the main impact of COVID-19 on risk management has been on how they report on risk, with the frequency of risk reports to the board and to executive management set to increase.

FIGURE 20

How frequently does the risk function interact with/ report to the Board and Executive Management?

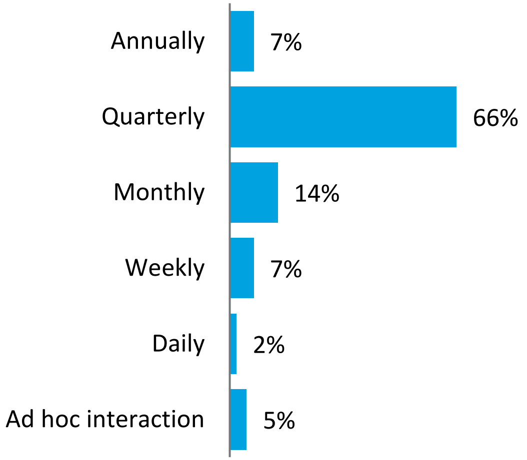
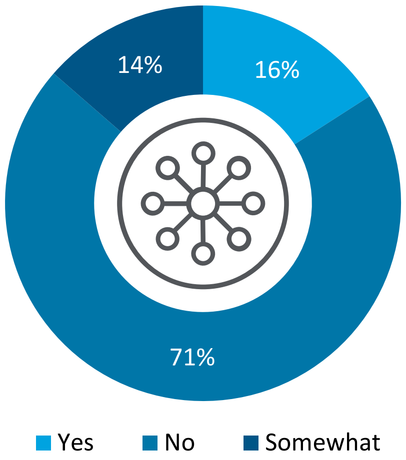


FIGURE 21

Has the COVID-19 situation changed this/do you feel this should now be more frequent?



The survey shows significant change in the intensity of reporting on risk at board and executive management level. In almost 90% of companies the corporate risk function already reports to executives and the board either quarterly or more frequently, and almost a quarter report monthly or more frequently. This is a high level of reporting intensity and post-COVID it is set to rise further, with almost 30% of companies saying that reporting either should or will become more frequent.

4. Risk strategy and reporting

As risk management grows in strategic importance, the need to present risks and mitigations succinctly and persuasively at C-suite level to drive decision making also grows.

FIGURE 22

How satisfied are you with the timeliness, availability and quality of the MI and risk data that you receive?

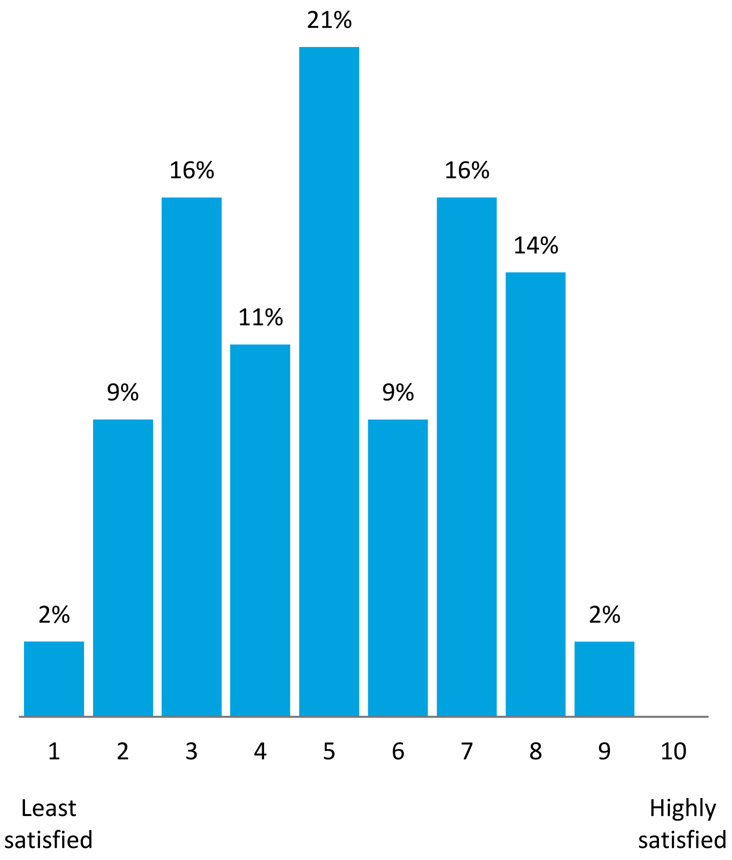


FIGURE 23

Do you utilise any risk visualisation tools/dashboarding/infographics to present to the Board/Exec Management?

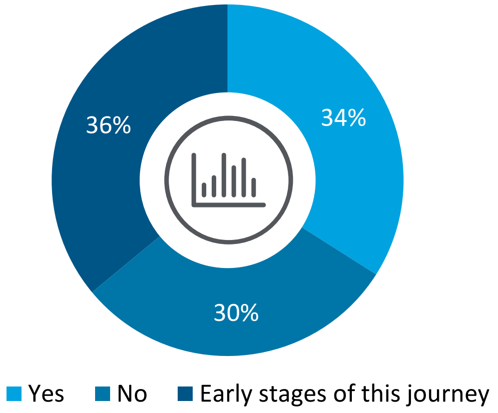
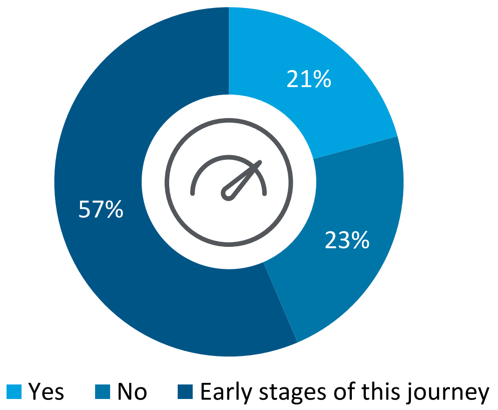


FIGURE 24

Have you defined a suite of key risk indicators/metrics at a strategic or operational risk level that are reported at an appropriate committee within your organisation?



4. Risk strategy and reporting

Interview: Risk strategy, a work in progress

The Chief Risk Officer of a global energy company says that ERM has to work harder to define risk strategy.

'We have a risk system where we record risks that the business is exposed to. It is difficult to navigate and I would like to be able to use the data more effectively, it is an area that needs better thinking as the quality of outputs and reports is quite basic.'

'But I'm always on the lookout for ways of looking at the relationship between risk and strategy – this continues to be an important area for us.'

'We are now doing more work with our strategy team. Horizon scanning features heavily in the work they do and we are beginning to incorporate and participate in more of their activities in this space. We haven't found a way to bring that back into our risk framework but after COVID we are participating in more of the discussions and considerations being held by our strategic planning teams in a way we would have not done only 12 months ago.'

5 Risk management techniques and processes

5. Risk management techniques and processes

ERM has a role in identifying opportunities and cost of risks early using a robust framework

The COVID-19 pandemic has challenged every dimension of risk management, from forecasting to scenario planning and mitigation. Risk officers are now asking themselves anew what risks their companies should manage, and how should they manage them?

No single lens can encompass risks as diverse as the emergence of specific new technologies with the capacity to disrupt long established industries and the sudden transformation of the global economy by an unexpected pandemic. We believe that multiple lenses are needed to view and interpret the risk universe – fewer than half the companies in the survey have established a clear picture of their risk universe.

FIGURE 25

Have you established a 'risk universe' for your organisation that allows you to focus and priorities Board and Executive attention?

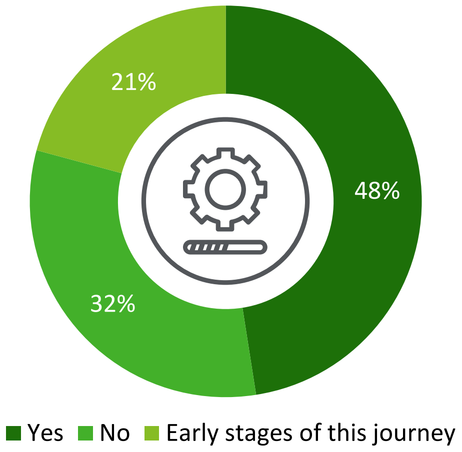
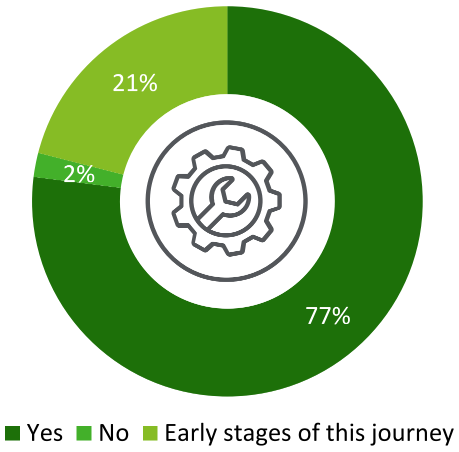


FIGURE 26

Does your organisation/function have an established risk management framework that details out the approach to identify risks, risk assessment, treat and manage risks, monitor risks and report on risks?



A large majority of companies in the survey (77%) say they are confident in their risk management frameworks, although a significant minority of just over one fifth say they are still on the journey towards building adequate risk frameworks.

5. Risk management techniques and processes

As the COVID-19 pandemic has made very clear all companies need to create a formalised framework to manage both active and emerging risks, including extreme impact risks.

Emerging risks are typically risk factors where background knowledge may be inadequate and risks may be difficult to quantify, yet which could become tipping points where the terms on which companies do business are quite quickly changed dramatically.

> We have working sessions to formally think through emerging risks. But we know we have a job to do in coordinating this and we could benefit from us being more structured in approach.
>
> **Chief Risk Officer**
> *Global energy business*

The survey shows that companies are using horizon scanning and scenario planning to identify emerging risks and evolve their risk and mitigation strategies – but that in a very large proportion of cases this is a work in progress. Fewer than half the companies in the survey (46%) report established horizon scanning programmes in their risk management practices, and little over a quarter of companies (27%) report established scenario planning and wargaming programmes.

FIGURE 27

Do you/your organisation conduct 'horizon scanning' to identify emerging risk areas/early warning indicators/issues?

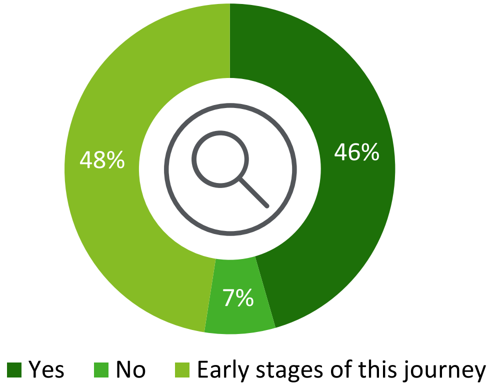
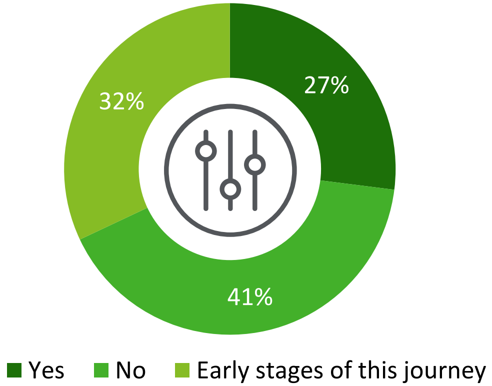
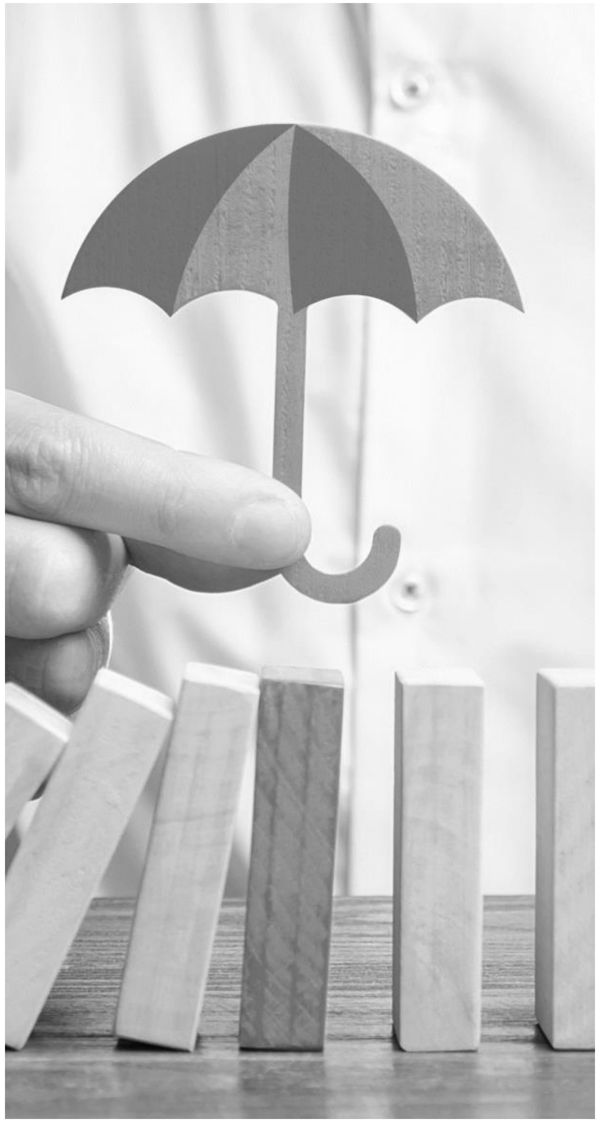


FIGURE 28

Do you/your organisation conduct 'scenario planning and wargaming' to prepare for unforeseen catastrophic events?





5. Risk management techniques and processes

That risk management, like other corporate functions, faces challenges in implementing new risk sensing and visualisation technology is not in doubt. The most common corporate response to questions about risk technology and its benefits is ‘there is still work to be done’. This is reflected in the survey results. When asked about the timeliness, availability and quality of the risk data available to corporate risk functions, a large proportion of companies (59%) say they are no more than half-way satisfied with their data, and no companies gave a maximum 10/10 score to their data quality.

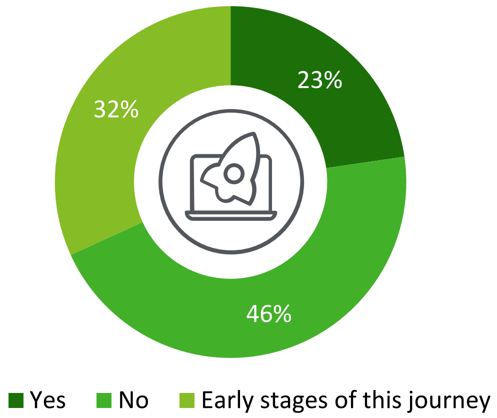
Technology, disruption and emerging risk are lenses that help form a working risk framework to identify, manage and report on risks.

The three lenses all look at the same thing: risk to business. The categories are less important than the fact they encourage organisations to see risk as widely as possible, and to allocate resources appropriately. Changes in the business environment, changes in markets and changes in technologies all bring new opportunities as well as potential costs. The role of ERM is to identify those opportunities and costs early.

Companies and their risk officers should consider **technology** as both a risk and an opportunity. In the current technology cycle the key factor has been the creation of transformative technologies such as artificial intelligence and automation using large scale data sets. These technologies have the capacity to develop new industries but also to bring **disruption** of existing operations and business models.

FIGURE 29

Do you have a technology enablement strategy to help you deliver your risk strategy/plan of work efficiently?

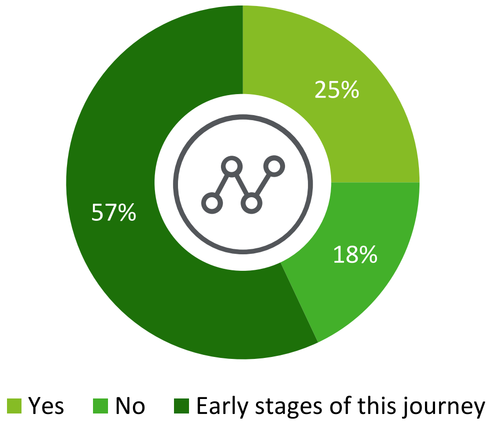


5. Risk management techniques and processes

Stress testing of the underlying assumptions of the strategy is key in identifying risks or threats to achieving the strategy. This was also reported by a minority of companies, although many more say these approaches are in process. We conclude that for many organisations while the foundations of risk management are in place, the function has yet to develop the tools to work as a strategic partner in the corporate ecosystem.

FIGURE 19

Have you stress tested the underlying assumptions to your organisation strategy to help you identify risks or threats to achieving your strategy?



Risk appetite and risk culture

The concepts of ERM continue to evolve, and much of the terminology lacks accepted definition. That is certainly true of both risk appetite and risk culture. Our view is that these ideas are best applied to two very different aspects of risk management.

FIGURE 30

Have you articulated 'risk appetite' within your organisation?

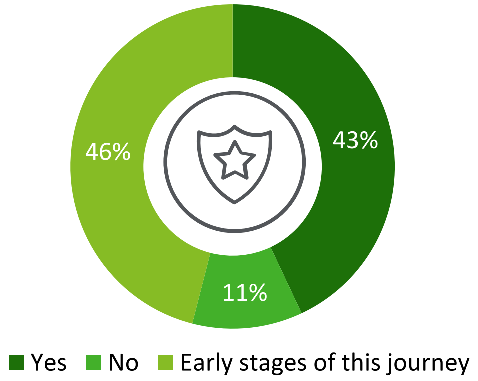
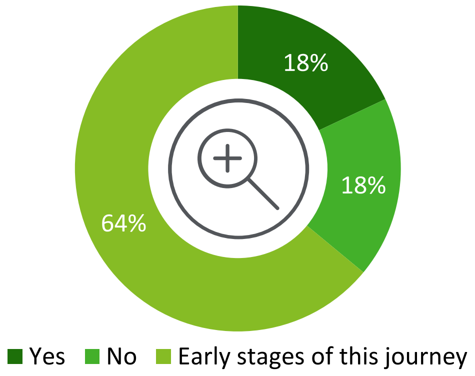


FIGURE 31

Have you assessed, established and embedded the 'risk culture' across your organisation?



By **risk appetite** we mean **the level of risk an organisation considers appropriate to a particular process or business line**. Risk appetite is not a single value: appetite will vary not only by organisations, but also within organisations – yet fewer than half of organisations in the survey say they have firmly articulated their risk appetite.

Without a clear statement of risk appetite, it is not possible to effectively measure and shape risk culture. **Risk culture is the way an organisation and its officers actually behave with regards to risk** – and fewer than one fifth of companies in this survey say they have assessed clearly their risk culture.

Conclusion

The evolving landscape

The year of the global pandemic has highlighted the importance of planning for extreme disruptions of business, and the very real fact that emerging risks can become active threats much faster than many businesses anticipated.

The accelerated adoption of technology and changes to working practices have and will continue to surface new risks and opportunities.

So, what does this mean for the risk practitioners?

To thrive in the new normal, risk leaders must act now to flex, align and respond quickly to volatile economic conditions and changing work practices, while continually monitoring which changes are temporary responses to the pandemic and which are destined to become permanent.

Having clarity around what the **purpose** is of the risk function; what its **position** within the organisation should be; what types of risk management **processes** the risk function should focus on; what the **people** requirements are in terms of skills, qualifications and development; what **products** or output the function should generate to add value to their organisation, will help risk professionals create a function which meets the unique opportunities and challenges of their organisation.

The ERM discipline has evolved rapidly, becoming more institutionalised and establishing strategic credentials. As risk functions continue their journey to maturity and build enterprise-wide resilience in the post-pandemic world, they are presented with an opportunity to facilitate risk-based decision making at the most senior levels of the organisation. This challenge can be met by moving beyond its niche, and integrate its processes and thinking throughout the organisation and embedding enterprise wide resilience that ERM professionals in this survey say is essential… or risk becoming obsolete.

*Respondents profile

A total of 44 UK-listed organisations, of which over 30 had revenues in excess of £1 billion, completed a survey on the evolution of their enterprise risk management function. The survey was conducted between early January 2021 and early February 2021. It was completed by 28 executives with the designation Chief Risk Officer or equivalent, with the remainder having other designations. The respondents included companies in consumer businesses, financial services, life sciences, manufacturing, technology, real estate and the public sector. Three supplementary in-depth interviews were also conducted.

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