BOARD RISK COMMITTEE

BOARD RISK REPORT

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PERSPECTIVES ON BOARD RISK COMMITTEE EFFECTIVENESS FROM A CURRENT AUDIT COMMITTEE CHAIR

In this month's Risk Report we've interviewed long-time Synovus Financial Corporation Board member Joseph Prochaska, Jr. Joe is currently Chair of the Synovus Audit Committee and was founding Chair of the firm's Risk Committee, on which he still serves.

Board risk committees, especially in the financial services sector, have operated for more than a decade. Have they fulfilled their promise? How can risk committees further enhance their value to ensure optimal risk management oversight?

I believe risk committees have fulfilled their promise. Risk Committees provide an informed, outside perspective of management's actions and efforts around the risks facing their organizations. They also challenge management about how effectively those risks are being managed. helping to identify areas needing improvement and additional focus and highlight areas of organizational strength that can be leveraged. And these committees can help management identify the criteria to critique their enterprise risk management (ERM) program.

It's important to understand that while Risk Committees do not own every risk overseen by a board, the Risk Committee should ensure that all risks are taken into account regardless of risks that naturally reside in different board committees. Well-functioning Risk Committees help the entire Board by assisting in ensuring that all major risks are catalogued and that there is a clear delineation of who within an organization owns each risk and who provides risk management. Risk committees can also help the board feel confident that all identified risks are being overseen from the proper board committee. The risk grid (illustrated below) shows how a generic financial services company may allocate different risks.

Risk Committees routinely focus on emerging risks and ensure that organizations maintain appropriate risk apertures. This "horizon scanning" process has added material value to governing boards by bringing appropriate focus to the full range of emerging risks and ensuring that those risks are properly socialized both on boards and within management. In that way, they have relieved the full board of some of the related burdens, while providing a broader perspective on how the company's risk management can help inform strategic planning and execution.

Questions for board members:
- Does management and the Board have a process for periodically surveying for emerging risks?
- Is this list of emerging risks synthesized into an active, prioritized document?
- Does management then work the list and inform the Board of their direction, concern, or action on these items?
- Does the Board provide feedback, not just on the list, but on their priority and on managements' actions related to them?

How have you viewed the relationship between risk and audit committees on the boards on which you've served? How can those relationships be optimized?

Traditionally the word "risk" was incorporated into audit committee charters, which were primarily concerned with financial risks and focused on past performance, GAAP conformance, and regulatory compliance.

Risk Committees, by design, are forward thinking, examining what could happen and how, when risks occur, and how those risks can be most effectively mitigated. These committees encourage and may participate in regular scenario testing (for example, through tabletop exercises) to help the organization document that plans for material disruption recovery are complete and viable.

I believe risk and audit committees function best when cross-pollination occurs through sharing members and/or chairs across committees. Participation by the audit committee, as well as the whole Board annually, in challenging the risk grid is helpful. It forces everyone to think and challenge the status quo. Joint meetings can be held when topics of interest intersect and outside resources may be used to counsel, coach and/inform both committees.

Questions for board members:
- How effectively have risk and audit committees functioned in their complementary roles?
- How often does your board update its risk grid, or equivalent device?

Some boards have structured committees to focus on a particular set of issues, e.g., technology committees (which among other things may focus on cyber security, AI, etc.) and public responsibility committees (that among other things may oversee ESG activities and ESG risk management). When should boards consider setting up such specialized committees?

First, let's make a distinction between "specialized" committees versus "special" committees. "Special" committees of the Board are typically not standing committees and are chartered for a single purpose. And when that purpose has been fulfilled these committees usually disband.

Examples might include:
- Investigate a shareholder complaint by neutral Board members.
- Address the concerns or plans raised by an activist investor.
- Oversee the remediation of a major cyber breach where conflicts may be perceived among board members.
- Review a merger/acquisition proposal where some of the Board may be conflicted or, for a designated period of time, extra focus is needed and desired.

“Specialized” committees are ones that address a specific area of concern. These areas should have a focus where extra attention is needed for an extended period of time, even if the committee is not permanent. These can be committees of the Board or, alternatively, a sub-committee of an active committee, such as the risk committee.

Examples include:

- A company may be implementing a new critical information technology (IT) system over a period of years. Although IT may be overseen by the Risk Committee, a specialized sub-committee with more frequent meetings and focused concentration may be warranted.
- For a public company with broad “retail” appeal that has as part of its corporate goals/mission to give back and to act for the overall good – a Public Responsibility committee may be warranted.
- A company that has suffered a material cyber breach may need an extended effort to overhaul its cyber management oversight. This could be a stand-alone committee or a sub committee of the assigned cyber oversight committee, such as a risk committee.

Questions for boards to consider:

- Does your board have a set of issues that requires a special, prolonged focus that would overtax existing committee structures?
- How can organizations without risk committees judge when establishing such a committee makes sense?
- Many boards have had pandemic disruptions in their risk profiles for years:
- To what extent has planning for severe pandemic disruptions been adequate in our COVID-19 environment?
- Were cascading risks routinely considered such as pandemic plus wildfires or unusually severe storms?
- What could have been done differently to improve outcomes?

ABOUT THE AUTHOR

Joseph J. Prochaska, Jr. is the retired Executive Vice President and Chief Accounting Officer of MetLife, Inc. Joe is currently the Chair of the Audit Committee at Synovus Financial Corporation. In 2011 Joe stood up Synovus’ first Board Risk Committee on which he still serves and which he chaired for several years. In 2018 he was named to National Association of Corporate Directors (NACD) Directorship 100, which “honors board members who serve as role models in promoting exemplary board leadership and courage in the board room.” Joe serves on the Board of Directors of the Santa Fe Group.”

WHO WE ARE

The Board Risk Committee (BRC) is a non-competitive thought leadership peer forum dedicated to Board Risk Committee members and Chief Risk Officers (CROs). The BRC is a trusted place for the exchange of ideas, best practices, and topics of interest. BRC is affiliated with The Santa Fe Group (SFG). SFG is a strategic advisory company providing unparalleled expertise to leading financial institutions, healthcare payers and providers, law firms, educational institutions, retailers, utilities, and other critical infrastructure organizations.