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2021 Lessons: New Risks - New Challenges for Board Risk Oversight New Partnership Results in Valuable Risk Oversight Guidance

By Susan C. Keating and Catherine A. Allen

During the past year, the Board Risk Committee (BRC) has held several events in partnership with board and investment related organizations such as BlackRock, Inc., the Corporate Board Forum, Shared Assessments and Women Corporate Directors. In each of these webinars and events, the BRC has brought experts in cybersecurity, ESG, supply chain risk, privacy, compliance, and other operational risks to both educate, and facilitate discussions, with corporate board members on the topic of risks boards should address. The discussions have also included the ways boards might create better oversight and governance.

This month's *Board Risk Report* includes thoughts from Susan C. Keating, CEO of Women Corporate Directors Foundation (WCD), and Catherine A. Allen, Founder and Chairman of the Board Risk Committee (BRC), on the value of board risk committees and the types of risks boards are facing today, as well as the value of bringing together experts and corporate board directors to discuss these risks.

"WCD members have shared that the ongoing operational risks boards are facing continues to be of importance and great concern. Our collaboration with BRC on education, research, and thought leadership has fostered an increased focus on considering what happens and possible alternatives when the unthinkable actually comes to pass—such as the collapse of the global supply chain to a health crisis that spans every country in the world."

Susan C. Keating

Chief Executive Officer, Women Corporate Directors Foundation (WCD)

The Unthinkable: 10 Elements of Post-Pandemic Risk Oversight Essential to Boards Today

In September 2020, the WCD/BRC partnership began with a risk oversight webinar proving so popular, attendees asked for a second, with over 400 corporate board directors attending. The resulting white paper from those webinars, *The Unthinkable: 10 Elements of Post-Pandemic Risk Oversight Essential to Boards Today*, is now available on the WCD and BRC websites.

[CLICK HERE TO DOWNLOAD THE WHITE PAPER](#)

White paper featured experts:

- Christopher Burt, Co-Founder and Director of the U.K. Risk Coalition
- Jackie Daylor, former national managing partner for Audit Quality and Professional Practice at KPMG LLP
- Agnes Bundy Scanlan, Esq., President of The Cambridge Group LLC, who chairs risk and audit committees on her public boards
- Catherine Allen, Chairman of the Board Risk Committee and Shared Assessments, who has set up, and chaired risk committees on several public boards

White paper overview:

In a matter of weeks, pandemic-related consequences exposed significant gaps in risk management. COVID 19 caused significant economic disruptions and immobilized much of society at a speed unimaginable just a few months earlier.

The unprecedented confluence of pandemic-related threats, climate-related events and social unrest has, for the first time, elevated oversight of operational risks to become as important as other key duties on many boards. The continuing energy around these types of operational risks will create cascading consequences, and will place significant additional burdens on those organizations lacking board-level Risk Committees. In response, a wide range of companies outside of financial services have begun to establish board risk committees.

KEY FACT: The [Dodd-Frank Act](#) requirement for large financial institutions to establish a Risk Committee of the board came after the last financial crisis.

VALUABLE RISK OVERSIGHT GUIDANCE - WHITE PAPER HIGHLIGHTS

Examine the Advantages of Adding a Risk Committee

The complexities of risk today have spread far and wide into areas that may test the content knowledge of board members whose expertise is focused on financial and compliance issues. Risk committees provide the opportunity to 1) better focus on operational risk 2) include members with experience in areas such as cybersecurity, IT, compliance, third-party risk management, privacy, etc. and 3) leverage those enhanced backgrounds and cross committee membership protocols to provide a more effective operational risk perspective for all board members.

The addition of Risk Committees has the added benefit of reducing pressure on Audit Committees while chartering a separate committee with examining risks and opportunities that lie ahead.

Keep an Eye on What Can go Very Wrong, Very Quickly

Boards typically concentrate on the top, highly visible, three to five risks. Simultaneously, boards must maintain a long-term focus on risks with a low probability of occurrence, but which nonetheless pose a significant operational and/or financial impact.

The liquidity crisis stemming from the COVID-19 shutdowns put many companies in a dangerous financial position virtually overnight and created serious security concerns as firms pivoted to environments where the overwhelming majority of employees worked from home. The incidence of ransomware and cybersecurity hacks since COVID have risen dramatically. The cascading consequences of cyber attacks on critical infrastructure such as water and electric, rapid flooding caused by climate change, and social unrest due to employee and customer boycotts and demonstrations that impact business continuity are all examples of risks that seemed far less likely a few years ago.

Today's risk landscape is considerably more complex than it was even a few years ago and as a consequence it can be more difficult to see emerging issues. Board risk oversight structures should be periodically re-examined to ensure continued effectiveness.

Reputational Risks Lie Everywhere

Protecting an organization's brand and reputation is an ongoing challenge in the age of social media and instant (and sometimes fake) news. Often it is the Risk Committee that considers the immediate risk consequences from corporate activities and then deals with incident impact.

New business strategies and products, especially in the digital space, have the potential to create a wide range of reputational risks:

- Inadequate software due diligence leaves the door open to security breaches of critical information
- Inadequate protection of intellectual property associated with current, planned or even far down the road initiatives

The incidence of deep fakes is increasing at a time when their consequences are becoming more serious. An emerging challenge for boards is to understand the potential impact of deep fake attacks and the degree to which their organizations are equipped to deal with them.

Other common reputational risks include a security breach of critical information such as customer or employee data, nefarious acts by employees, and a perceived lack of corporate responsibility on everything from hiring practices to harming the environment.

Considerations for Boards

- Does your company maintain a complete inventory of its critical risks?
- Do your firm's risk management activities result in a consistent, enterprise-wide view of the top risks?
- Does your company consider less likely risks with high potential for serious organizational consequences?
- How should your company think about risk and reward?

- What risks are acceptable to your organization, and how do those risks align with your business strategy?
- Does your organization maintain crisis readiness plans and is your company prepared for a worst-case scenario?
- Has your company developed black-line scenarios tied to specific issues where your firm will not compromise, even for risks with a low likelihood of occurrence?
- Does your organization have a “common risk language?”
- How is leadership, in the C-Suite and the boardroom, keeping pace with developments in the operating environment to ensure robust discussions about existential threats, competitive advantages, and where the organization is placing its bets?
- Does your board’s existing membership and committee structure facilitate appropriate oversight of the firm’s risks and crisis readiness?

ABOUT THE AUTHORS

Susan C. Keating

Chief Executive Officer, Women Corporate Directors Foundation (WCD)

Susan C. Keating is chief executive officer of the Women Corporate Directors Foundation (WCD). Prior to joining WCD, Susan was president and chief executive officer of the National Foundation for Credit Counseling (NFCC), the largest and longest serving nonprofit credit counseling organization in the United States. Under her leadership NFCC members improved the financial well-being of 26 million people with the support of \$88 million in funding for housing programs and \$36 million for other programs promoting financial wellness and stability. Susan spent 29 years in financial services before moving into the nonprofit sector, serving as president and chief executive of Allfirst Financial, Inc., the 43rd largest U.S. bank, and the largest U.S. holding of Allied Irish Banks plc (AIB Group). Her additional experience includes executive positions with NationsBank, MNC Financial and First Bank System.



Catherine A. Allen

Founder and Chairman of the Board, Board Risk Committee (BRC)

Catherine sits on a number of Corporate, University and Nonprofit Boards, including, in the past, Synovus Financial, El Paso Electric Company, Stewart Information Services, and NBS Technologies where she set up, chaired, and sat on a number of Risk Committees. She currently sits on the boards of RiskSense, CRI Advantage, the Belief Agency and PocketPatient MD. She is on the Advisory Board of WCD. She was named one of the NACD 100 Most influential Directors in 2018. She speaks to Board Directors and writes often on the topics of emerging technologies, cybersecurity, third party risk management, and the need for Risk Committees.



A NOTE FROM THE BOARD RISK COMMITTEE

The Board Risk Committee has much to be grateful for in our first year, including our valued relationship with WCD. All of us at the Board Risk Committee wish you a safe and healthy holiday season and New Year.

BRC Board of Directors:

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To learn more about the BRC Board of Directors and to sign up for the Board Risk Report, the monthly publication of the BRC, visit BoardRiskCommittee.org

WHO WE ARE

The Board Risk Committee (BRC) is a non-profit, 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. *The Board Risk Report is the monthly publication of the BRC.*

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