

CRO Stakeholder Communications

Chris Freese, FSA, MAAA  
Principal Financial Group

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Agenda

- Stakeholder identification
- Risk governance framework
- Communicating with stakeholders
- Communication approaches
- Success Indicators

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Principal Financial Group Snapshot

- A global investment management leader in 18 countries with 19.5 million customers
- Over \$530 million of assets under management world-wide
- Headquartered in Des Moines, Iowa with 15,000 employees globally
- Offer a variety of retirement, asset management, and insurance products to domestic and global clients

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### 3 Lines of Defense Framework

1 <sup>st</sup> Line	2 <sup>nd</sup> Line	3 <sup>rd</sup> Line
<b>Who?</b> <ul style="list-style-type: none"><li>• <i>Management Team</i></li><li>• <i>Owner of the Risks</i></li></ul> <b>Role?</b> <ul style="list-style-type: none"><li>• <i>Identify, assess, manage risks</i></li></ul>	<b>Who?</b> <ul style="list-style-type: none"><li>• <i>Risk Management Teams</i></li></ul> <b>Role?</b> <ul style="list-style-type: none"><li>• <i>Set standards, guidance, monitor &amp; coordinate</i></li></ul>	<b>Who?</b> <ul style="list-style-type: none"><li>• <i>Internal Audit</i></li></ul> <b>Role?</b> <ul style="list-style-type: none"><li>• <i>Assurance that 1<sup>st</sup> &amp; 2<sup>nd</sup> line operate as intended</i></li><li>• <i>Direct accountability to board</i></li></ul>

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### Identifying Your Stakeholders

- CEO & Senior Management
- Enterprise Risk Management Committee(s)
- Board of Directors
- Company Investors
- Customers
- Auditors (Internal & External)
- Regulators

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### Assessing the Lay of the Land

- Is the CRO's role defined in a way to insure success?
  - Board approved risk appetite statement
  - Clear expectations
  - Unrestricted access
  - Independence
- What the risk culture is like
- Governance Framework

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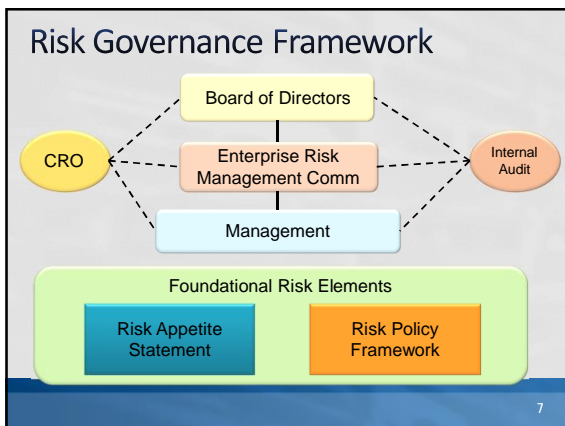
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- ### Working with the CEO
- Selling the value of risk management
    - Demonstrating importance in strategic decisions
    - Draw “Line of sight” to risk governance/framework
  - Being a trusted advisor
    - Finding (creating) opportunities to share opinions
    - Basing advice on useful data and analysis
  - Staying objective & high-level
    - Showing risk & reward
    - Staying out of the weeds
    - The role sometimes requires “no”
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- ### CEO’s Impact on Risk Management
- Role Modeling: Setting the “tone at the top”
  - Promoting a risk astute (risk aware) culture
  - Establishing risk appetite and strategy
  - Defining roles and policies relating to risk management
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### CRO-CEO Communications

- Enterprise view of risk
- Risk incidents
- Risk management strategies
- CEO & CRO sharing own views of risk
  - Insights into what is valued & prioritized
  - Emerging risks
- Strategies for risk communications with others
- Risk education

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### Interacting with Management Risk Committee

- CRO responsible for agendas and materials
- Viewed as management team decision body regarding risk
- Responsibility for insuring compliance with approved risk appetite & strategy
- Opportunity to incorporate risk analysis into strategic decision making
- Board risk material & presentations should be shared with committee

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### Communicating with the Board

- Staying strategic
  - Focus on foundational items like risk appetite statement, independence, business strategy
  - Demonstrating how the risk program is functioning
- Reporting
  - Items of significance such as risks and breaches
  - Emerging risks
- Executive session
  - Permits the CRO to escalate appropriate issues
  - Receive unfiltered feedback from Board

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### Board's Role in Risk Management

- Approving risk framework and risk appetite
- Supporting the independence of the risk function
- Creating the expectation of a risk aware culture

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### How Investors See Risk Management

- Viewed as a necessary function
- Disclosure of key material risks and risk framework in reporting documents
  - e.g., 10-K, Proxy Statement, Annual Report, etc.
- CRO accessibility to investors
- Must balance confidentiality with transparency

14

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### CRO Relationship with Internal Audit

- 3<sup>rd</sup> Line of Defense in risk framework
  - Audit of the 1<sup>st</sup> two lines of defense
- Collaboration opportunity on risk assurance
- Communication of risk reporting and audit results

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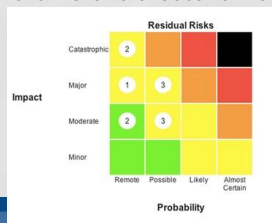
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### Communication Tips

- Guiding Principle: The K.I.S.S. rule applies!
- Making it relatable
- A picture is worth a thousand words



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### Avoiding the Derailers

- Limited disclosure of information
- "Black Box" analysis
- Being too tactical
- Lawyers

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### How to Know You are Successful

- Risk culture assessment
- Strategy and risk being discussed together
- Wide understanding of organization's risk appetite & framework
- CRO actively sought out

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## In Conclusion

- Understand your audience and their "lens"
- Insure that your position is understood
- Be strategic

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