

IRM Cyprus Regional Group

Minutes of the 3rd Meeting

Location: **Bank of Cyprus, Ayia Paraskevi, Nicosia**

Date / Time: **4th May 2011 – 19:00 (CY Time)**

Present IRM: Socrates Coudounaris (SC) – Nest Investments Holdings Ltd
 Andreas Aggeli (AA) – Partners PS
 Dr Maurice Ewing (MEw) – Conquer Risk training
 Dr Alan Waring (AW) – Dr Alan Waring & Associates
 Petros Florides (PF) – World Vision International

Present IoD: Evdokimos Xenophonos (EX) - IoD, President of Cyprus Branch
 John Defteras (JD) – J&P
 Demitrakis Ioannou (DI) – IoD
 Akis Pegasiou (AP) – MD Hellenic Petroleum Cyprus Ltd
 Petros Florides (PF) – World Vision International

Other Invitees: Maria Christofidou (MCh) – Bank of Cyprus Group Market Risk Manager
 Agni Jacovides (AJ) – Bank of Cyprus Group Operational Risk Manager
 Dora-Maria Defteras (DD) (Barrister at Law)
 Irene Karamanou (IK) – Bank of Cyprus Board member
 Panicos Papamichael (PP) – Partner at Deloitte

Agenda #	Matters Discussed / Decided	Action By
	<p>IRM / IoD Joint Round table discussion on:</p> <p>‘EU Green Paper on Corporate Governance – A structured approach to ERM and the requirements of ISO 31000’</p> <p>The IRM Cyprus Regional Group in conjunction with the Cyprus IoD held a joint round-table discussion on the barriers to implementing ERM within corporations in Cyprus. The event was triggered by the EU Green Paper “The EU corporate governance framework’ and IRM’s ‘Structured approach to Risk Management’.</p> <p>EX thanked all those present and opened the round-table discussion based on the preliminary work that had been prepared by IRM Cyprus Regional Group members in response to the EU Green paper.</p>	



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PF suggested that the round table discussions concentrate on 'Barriers within corporate boards taking a serious interest in ERM' and, specifically, discuss the following questions contained in the EU Green Paper:

- (11) Do you agree that the board should approve and take responsibility for the company's 'risk appetite' and report it meaningfully to shareholders? Should these disclosure arrangements also include relevant key societal risks?
- (12) Do you agree that the board should ensure that the company's risk management arrangements are effective and commensurate with the company's risk profile?

Whilst there was unanimity that the answer to both questions is an unequivocal "Yes", the real discussion to be had was how to ensure this is the case in substance, and not only form.

EX reiterated that good governances within the BoD should include have a Risk Committee in place, a well versed and qualified CRO who has the same standing and respect within the organizations as that of a CFO.

AW stated that a lot of people in senior positions/ Board members believe sincerely but wrongly that they are actually doing sufficient risk management since they believe that it is an automatic part of their job. Furthermore, the scope and effectiveness of risk management is highly dependent on the culture and attitude within an organisation. What usually happens is that there is lack of direct involvement by the Board and that RM is done on a delegated basis with a 'mechanistic tick box' approach. Very often, Boards imagine wrongly that a Group Risk Department (which is actually the insurance buying department) satisfies all risk management requirements.

EX explained that ERM and the role of the CRO has not been clearly defined as has been the case with other sectors i.e. the role of the CFO within an organization.

AJ explained that Operational risk has always existed within any organization but not as function. Within the banking environment, there needs to be instilled a function and the culture of Operational Risk. She went on to state that 'Top Management do not like to be told bad things' whether this is the need for Business continuity management or crisis management and everyone agreed on this point.

Furthermore it was suggested that ERM is a platform to be used in educating the Board members.



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MEw went to say that ‘even banks (who have been practicing RM under Basel II) are having problems in implementing Risk Management’ and that Boards need to be educated on risk. Boards have specific skills in governing and oversight functions but don’t know much about RM.

AW stated that Risk Management and the language and terminology of risk management have different meanings to different professions, audiences and industries. For example, Operational Risk, Market Risk, CRO etc are terms created by the finance sector for their purposes and do not mean much to other sectors such as manufacturing, construction, property, oil & gas, leisure/tourism and retail. He suggested that there should be a common platform and approach to ERM and how it relates to Corporate Governance, which is a purpose of ISO 31000.

EX reiterated that the Risk Committee should consist of well versed and educated individuals and concurred that further training should be given to Board members in order for them to gain risk expertise. Moreover, it is vital that the right people are recruited onto the Board with the appropriate RM skill set.

EX reaffirmed that Operational risks exist within each department, reporting bottom up to the CRO and the Risk Committee. It is a misconception that the management of the company is the sole owner of risk. The Board should understand their role in Risk Management and what they need to be doing.

IK mentioned that it is easy to over-regulate and questioned how to best achieve ERM within an organization. The Financial services sector already has policies and procedures and regulation in place but within the retail industry, ERM would be highly dependant on the size of the organization and typically the function would be combined within the Internal Audit function.

EX (with several present concurring) cautioned against combining the functions of a Board Risk Committee with those of the Audit Committee, as their functions are different and their respective memberships should be different. A merged approach should be resisted even in smaller organisations.

EX reiterated that risks exist within every company no matter how large or small. It should be the responsibility of the management to ensure adequate risk management, including Business Continuity and Crisis management and insurance arrangements for the limited exposures that could be insured.

MCh questioned how the BoD can carry on with the effective monitoring of risks within an organization, since the burden on the BoD is large and ultimately the BoD would be liable, if things went wrong.



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AW said that many Board Risk Committees carry out risk monitoring partly via requiring business units to submit quarterly risk reports with standardized headings and partly via regular direct communication between the Risk Committee chairman and the Group Risk Manager/CRO drawing on the professional risk management function's work.

PP stated that awareness on risk management is typically limited at board level, suggesting that BoD need to go to basic principles i.e. that of optimized risk taking and that there is no other place than the BoD to take on this responsibility. BOD need to set the risk appetite and the framework within the organization and then somehow implement this within the organization.

PP went on to state that the interconnectivity of risk exists within any organization and it is the breaking down of silos that could enhance and protect the reputation of an organization. Bringing the Arthur Andersen example, PP said that no one ever expected them to shut down even days before the events unfolded.

DD questioned what could constitute the 'bait' for selling risk management to an organization. Knowledge exists within an organization and the power of such knowledge needs to be best utilized.

PF suggested that we need to emphasize the 'upside' component of risk management (i.e. managing opportunities), and not just refer to downside risks (i.e. managing threats), so as to captivate Directors and help them understand the strategic nature and value of managing risks. By 'speaking the directors language', Directors will become engaged with the function. He further stated that it needs to be understood the extent to which the Directors should, and should not, be involved in the management of risk as opposed to the setting of risk appetite and obtaining assurance and verification that proper internal controls are in place (e.g. Risk Committee, CRO, Internal Audit etc). Moreover, the technical nature of managing risks should be left to others, whereas Directors should focus on their strategic and oversight role.

PP affirmed the strategic nature of risk management and referred to the development of 'risk intelligence' that can be leveraged for competitive advantage.

AJ emphasized the type of information that eludes the company. Even though there are controls in place, how does one measure the value to the organization by having ERM.

AW noted that in his experience most large organisations' risk management is inward looking and few have a 'risk noticing' function to alert them to external issues (whether opportunity risks or threats). Boards need to have a short, medium and longer term (10 years ahead) alerting system and a world-wide scope.



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MEw stated that from his experience the 'New EU' member states are mostly dominated by Audit professionals and suggested that there should be a clear separation between the Audit and risk function within an organization. There was general concurrence from attendees.

PP stated that the Audit function has been gradually expanding to include expertise from Actuaries, Mathematicians and statisticians. He emphasized that there should be a link within the business with key monitoring indicators.

AW suggested that in order to get the Boards and managements generally to implement ERM there should be clear KPI's i.e. 'what's in it for me' and these should be written into job descriptions. Furthermore, tutoring and educating the BoD is paramount and necessary. However, he cautioned against expecting radical and rapid improvements in attitude from education alone. His own and general experience showed that whereas individual directors often understand and accept the logic of Risk Management, they also often resist implementing it with commitment as it may run counter to their own perceived personal interests and/or the Board's culture.

MEw suggested that practitioners need to be able to speak the language of the BoD and Executives and somehow use ERM as a solution to their problems.

PP has seen a recent rise in industry specialists and those persons are being heard by the BOD's.

AW agreed that no Board or even its Risk Committee can expect to possess all the required technical expertise on all significant risk exposures. But it should be able to rely on specialists from within the Group Risk function or from delegated technical functions, whether inside the organisation or obtained externally. Some organisations already have a Risk Director who is on the Board e.g. aviation, railway companies. His/her job is partly to interpret expert reports and testimony for the Board and its Risk Committee.

EX stated that the importance of ERM should be emphasized through training programmes of the IoD explaining the risk/ reward philosophy. Regrettably, the captains of industry often do not really want Corporate Governance as they claim it interferes with them running the company. This seems to be an excuse for their being left to 'see what they can get away with'. This culture of 'what can I get away with?' has to be eliminated.

DI stated that BoD need to be appraised every year and this is currently not the norm where a culture of complacency exists.



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SC stated that the BOD should ‘not shoot the messenger’ i.e. the CRO who is raising uncomfortable but necessary facts about the organization’s risk exposures. Agreeing, that there is a culture issue, SC reiterated that ERM is a way of life and that there should be a culture of risk management that is bred and embedded within the organization that is firstly endorsed by the BoD i.e. a top down approach.

AP questioned whether ERM could be implemented through (tighter) regulation.

PP suggested that there is far too much evidence of there being a judgmental element and a soft audit approach and raised as an example the CYSEC statement on Risk Management.

SC went on to say that in agreement with what has been said such compliance statements are often simply ‘copy-paste’ and that most probably there is ‘lip service being paid to risk management’ as opposed to real implementation within an organization.

AJ stated that from her experience Operational RM was imposed upon them by regulators and that the organization had to listen to the risk managers. Their attention was raised when the scenario of being fined by the regulator was one way of implementing risk management with a financial services institution.

MEw suggested that it should be possible to carve a way that is applicable to Cyprus based institutions and brought Bermuda as an example where institutions have found a way to adapt international best practices in a local manner.

EX suggested that the IoD/ IRM Cyprus Regional Group need to upgrade the understanding of Risk Management to Board members within Cypriot industry as a whole and not just the finance sector. He further stated that regulators are only concerned with regulated financial organizations and that risk management is practised in them purely for compliance purposes. Finance sector BODs are therefore getting away with the most cost effective way to not practice ERM within their institutions.

AA suggested that BOD should have a vision and a desire to accomplish their stated objectives. Therefore, there needs to be a tool that will help organizations achieve the longer term objectives of the organization. By moving away from compliance (compliance alone does not lead to success e.g. Enron), short termism is detrimental to achieving the stated objectives and the vision of the company. People need to have more commitment and understand that the benefits of ERM are wide-reaching to all levels within an organization, being in line with a behaviour that is ethical.



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AW stressed the importance of having a strong long term ‘risk champion’ on the Board, even if his/her title is not Risk Director. Following the Grangemouth Refinery disasters in the late 1980s and 1990’s, with a new CEO BP went through a ‘shake-up’ where risk, particularly major hazard risks to oil & gas and refinery installations, became part of everyone’s agenda. However, that culture change gradually became ossified and routinized into a compliance approach where corners were cut and a ‘what can we get away with?’ mentality set in. The results are evident in the Alaskan environmental cases, the Texas Refinery fires and explosions and the Deepwater Horizon disaster. Short term blitzes by CEOs don’t work.

CONCLUSION:

DD suggested that there should be emphasis placed on ways to generate profit. ERM could act as a ‘secret intelligence’ mission explaining the clear cost-benefit advantages in order to convince the BoD.

MEw suggested that BOD understand the ‘risk is an enabler to achieving corporate goals’ and avoiding/controlling those risks that could potentially steer an organization off course.

AJ suggested that BOD need to see our point of view and one way of doing that is to grab their attention on something ‘big’ even if it is a fear factor e.g. telling the BOD that they would need to purchase D&O Liability insurance.

PP suggested that in our efforts to raise awareness to the BoD’s, IRM could potentially hold series of events that are industry focused.

MEw suggested that based on current developments in both Cyprus and Greece, ERM can be positioned as ‘helping organizations staying in business’ and this would be important to the Directors in Cyprus.

SC reaffirmed that above and the profound complacency that currently exists within Cyprus while expecting things to get better of their own accord. Sometime ignorance is bliss and that ‘we have been doing things here for the past 25 years in this way’ is the mentality hurdle that the IRM Cyprus Regional Group needs to overcome.



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<p>EX suggested that:</p> <ol style="list-style-type: none">1. A training programme be tailored for Directors on ERM2. Professional bodies like IoD and IRM should aspire to train Boards on ethics and corporate values3. Explaining to BOD new legislation(s) coming in i.e. Basel III and use this as 'stick and carrot'.4. A way forward be found for seeking assistance from the EU to help us to influence the penetration of ERM within all sectors and organizations, not only those who are regulated.5. A joint IoD/IRM committee to be formed in order to formally respond on the EU Green Paper. <p>There being no other business the meeting was terminated at 21:00</p>	
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Approvals

Socrates Coudounaris
