

ERM VIDEO INSIGHTS

Transcript of Laurie Brooks and Bonnie Hancock *Understanding the Board's Role in Risk Oversight*

Bonnie: Hi I'm Bonnie Hancock; the Executive Director of the Enterprise Risk Management Initiative in North Carolina State University. And I have here with me, Laurie Brooks, who chairs the risk committee of the board directors of Provident Financial Services, which is the parent of the oldest community bank in New Jersey. Just to kick us off, Lauri, I'd like for you to describe for us what the role of the board is in risk oversight and how that differs from the role of management?

Laurie: Oversight is the key word. I mean managements job is to manage the risks, to identify them, to manage them, to monitor them, to be actively engaged with them. The board's role is to oversee that process. And it is a process. So you want to make sure that the process is complete and focused, as we will talk about later. You always want to make sure the results of the process inform the strategic planning of the board, because if you're not incorporating strategic planning and relating the two together then you're missing the whole point.

Bonnie: Okay, so why is the ERM process so valuable to you, as a board member?

Laurie: First off, it gives you a broad view of risks across the enterprise for all the different activities that the organization is engaged in. Whereas the individual groups within management tend to think of it in a more siloed approach. They think about what impacts them, not what impacts the whole enterprise. The second thing it does, is allows you to prioritize, categorize and prioritize the risk, so that you can think about what's most important in allocating resources. And the other thing that it does, that a lot of people miss, is when you look at risk, you have to look at the flip side and say is there an opportunity here too? People tend to forget that you don't generate a return without taking risk, in order to generate that return you want to make sure that you're not missing opportunities.

Bonnie: Yeah, that's a great point. We do tend to always think of risk from the negative and not necessarily from the opportunity side, but there's certainly something that you can do with that. You want be focused in the positive too, that helps it to be more valuable, for sure. Well how do you evaluate that process? How do you evaluate management's process with respect to ERM?

Laurie: Well because it is a cyclical process, as I mentioned earlier, you want to make sure that it's complete. That you're not just starting with identifying the risks and then figuring out a mitigation plan and forgetting to look at what are the results of that mitigation. And forgetting to look at, okay, once you've rounded that circle and you've created a new strategic objective based on that mitigation, what risks come out of that? So you have to keep the process going. You also want to make sure it's appropriately focused. As organizations grow, as they obtain more assets and the ability to take on

more risk, is the risk function growing commensurately so that you have the right people in place to monitor the activities of the organization?

Bonnie: Okay, great, great. Yeah, I have to listen to that strategic connection and that important information. So thinking about the information that you get as a director on risks, how does that information sort of inform the agenda, for both the board and the committees?

Laurie: I'll talk about from the perspective of the two committees I sit on. I chair the risk committee of the board and I sit on the compensation committee. So for the risk committee of the board our primary concern is to make sure that when we are looking at the whole process of enterprise risk management that it's informing the strategic planning sessions of the full board. We also work very closely with the audit committee, because the audit committee is trying to assure that the internal controls that we have in place, many of which are generated by the risk process, are making sure that our financial reporting is accurate. So we work closely with the audit committee, it informs their agenda as well as ours. We often have joint meetings. Audit will meet first, their last half hour will meet together on topics that are of interest to both committees and then our committee will meet. We also work very closely with the compensation committee, and I sit on the compensation committee because one of the things that ERM can do is inform the whole incentive process and to make sure that you are incenting people to take the right risks and you're not incenting them to take risks that you don't want them to take.

Bonnie: Right, right. I've found some of the same things on the boards where I serve; that having that view of the strategic risk, they tend to be you're most significant ones, they line up well with strategy but then there's also some challenges in coordinating across committees because a lot of different committees are touching risks, but different aspects of the same risk, right?

Laurie: Yes, in fact when we formed the risk committee it was a big conversation about how do we divide things up because audit was kind of taking on that function initially, and then when we realized that there were way too many things on the audit committee's plate. We had to kind of go down, line item by line item, and say okay, this belongs to audit and this belongs to risk. And there's still some points of negotiation where we are saying, okay, you know what, that is really more about financial reporting, we don't need to look at that, let audit do it.

Bonnie: Great, great. To close up, what advice would you give to other directors in terms of providing effective risk oversight?

Laurie: First of all, to make sure that it's informing the strategic planning process and that you're closing the whole loop in terms of what enterprise risk management does, that's really the key component. The second thing is to make sure that you stay informed because enterprise risk management is an evolving process, even though it really relates back to what we always called strategic planning in the past, it's really the

best way to do strategic planning, but it changes, and there are evolving techniques, processes, things that you can do differently. So being involved, for instance, with North Carolina State's ERM program, has really been a great opportunity for me to see what current thinking and developments are in the ERM space. Another good place to go would be to NACD's peer-to-peer, where you can find out what your peers in your industry are doing from an ERM perspective.

Bonnie: Yeah, that's a great point. Not only are the risks constantly changing but the way people look at the process of managing risk is constantly changing.

Laurie: And new tools. You know people come up with new tools and new ways of looking at things. We've been talking about some great ones today.

Bonnie: Yeah, wonderful. Well thank you so much Lauri for spending the time with us and sharing your insights as a director providing risk oversight. I really appreciate it.

Laurie: Thank you for inviting me, it's always a pleasure.