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Who's best qualified for the CRO hot seat?

With banks globally facing an ever-growing volume and variety of risks, chief risk officers (CROs) find themselves wearing more hats and engaged with a swiftly multiplying range of issues. Here, two experts discuss how the role has evolved in recent years and the characteristics and competencies required to be an effective CRO.

What skills are needed to be a CRO?

David Coleman, Vice President, CRO, European Bank for Reconstruction and Development: One of the skills that you need to develop is influence. In my experience, in the past, risk was often tolerated because it was a regulatory need.

What I mean by this is that risk officers were able to have sway over others because they could use the threat of having this 'nasty' regulator standing behind them. But in actual fact, CROs must have the ability to influence their peers rather than just use this kind of blunt force of regulation.

Since the global financial crisis of 2008, most management teams have evolved to the point where they understand that risk is an essential decision-making part of the business. This, in turn, makes influence a lot easier.

You must also have the ability to explain complex issues in a simple manner. This will help you reach the people who are making the big decisions. If, as CRO, you think about presenting to the board, it is clear it will consist of people with a range of skills and backgrounds. Some of them will be familiar with risk from a technical point of view, and some of them won't. But you must have the ability to reach them all. It's about making complex and sometimes unfamiliar concepts easy to understand.

Greg Jones, CRO, Europe and Asia Region, TD Securities: Your communication must be crystal clear. You can't just say things loosely in a meeting. If it's important, it should be sent in an email and it needs to be clear.

You also need to be empowered to say 'no' to the business and to be able to control it.

For example, when dealing with a business that's large and active there is great deal of risk to manage. You might have systems that are failing, cyber concerns that aren't managed, regulatory pressures and governance gaps in terms of documentation. These are all non-financial risks [NFRs]. But the golden rule is that you can't deprioritise NFR in favour of financial risk.

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In the same way that we have to hand out decision authority for the management of financial risk, we have to hand out that decision authority for management of NFR.

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What's more, those in operational risk must also be willing to say 'no' to the business. They're not there to just report and facilitate – they are there to control.

Say, for example, that there is outstanding documentation, such as a signed letter from a counterparty or anything else that means the framework isn't finalised, then you have to say 'no' to the business; they're not ready to go until you say they're ready to do so. Consistency and standards have to be upheld at all times.

We must ensure that when we allow something to happen, that that decision has ticked the relevant boxes, and that we are satisfied that nothing critical has been overlooked or has been circumvented.

What characteristics and competencies are required to be an effective CRO?
Jones: I transitioned from being Head of Market Risk to a CRO, so I'll tackle this question from that perspective. As Head of Market Risk, commercial awareness was critical, as was an understanding of the portfolio and the market environment. But when you become a CRO, you must learn not to do everything yourself – and instead, make sure that your heads of functions are doing what is required of them.

You have to raise yourself up a level and make sure that your structure reflects that too. If it doesn't, not only will it not work for you personally, but it won't be good for your function and how you approach risk because you won't be able to maintain that complete cross-section operational view.

You have to take yourself out of all prior roles and have a truly oversight function. You should stop producing and only evaluate. Evaluation enables you to plan, but production does not.

It's crucial that if you say something to the business, you stick to it – and don't contradict yourself, unless there's real justification to do so later down the line.

Saying that, you must be willing to reconsider – but only if the reasons to do so are extremely strong. And you must question yourself harder than you question the business.

You must be able to delegate well – but in a careful and managed way so that you can fully trust the outcomes of the situation. And when you've delegated authority, don't override that authority unless it's wrong. You must show that the use of the authority that has been granted is appropriate.

Who tends to gravitate towards working in risk?
Coleman: In my view, risk management has traditionally been an area that attracts introverts. Extroverts tend to gravitate more towards roles that involve selling – but introverts find selling harder. Instead, they have skills that are beneficial in risk management – such as intelligence, impact, influence, and leadership. All of these help any professional, not only CROs, to take people on a journey with them.

What does 'stress testing' mean in relation to the CRO role?
Jones: When driving, you have to know how fast to go on an unfamiliar road. Without stress testing, all you have is your rear-view mirror to guide you by looking back at your financial results to tell you how well you're doing.

But stress testing enables you to switch on the headlights and look into the future. This means you can put limits in place, which is akin to putting up flashing road signs that will alert you when going too fast.

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Or say, for example, that the business has to make a decision – and that decision is whether to go faster along that section of road or slow down before everything gets out of control. You might opt to go faster because the road surface is really good. Or it might be raining, so you might want to slow down because the surface could be unpredictable. Stress testing enables you to spot these hazards and make choices accordingly.

How do professionals get into risk?

Coleman: Traditionally, people started in a bank – so this could mean in retail, an investment bank or as a generalist supporting business objectives. They might have joined to support delivery and sales to clients – whether that's the man or woman in the street or big businesses.

They would have learnt the basic credit and risk skills and might have even become involved in persuading their own risk function to say 'yes' to certain decisions. This could have led to a secondment, during which they might have realised how well suited they were to the role from a personality and skill set point of view.

How has the CRO role evolved?

Jones: Financial risk has now become both a mature and stable discipline. Today, the ability that financial companies have to manage financial risk is very much set in stone.

There are, of course, new considerations coming in, such as concentrations and comprehensive testing of risks, but where we've seen real change is the uplift in NFR management.

All regulators have published expectations on third-party risk management and vendor management. For example, how do we ensure that our service agents are not exposing our data? Or, if we employ a quantitative company, how do we apply the same standards to their models as to our models. This is where, for me, there's been a real evolution.

We're also seeing headcount in NFR – but as part of a risk team – grow and grow. And these roles are so varied, because there are so many sources of NFR out there to manage. So, as a result, it's about ensuring that within a growing team, commercial awareness is still very much relied upon.

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Coleman: Over the past 30 to 40 years, there has been a move whereby credit risk and market risk have grown into operational risk. And now this has expanded to an enterprise-wide risk management approach, which includes taking into account a broad range of topics, including strategic risks, business model risks and the potential failure of key suppliers.

The range of skills required has also changed. At the EBRD, I'm not a technical expert but I'm the business sponsor for many of our IT change programmes and for our new data centres. I'm also the current business sponsor for what's called 'next generation security operations', which is the next upgrade of our cyber defences.

We are, of course, bringing in IT experts, but as the businessperson with the clearest interest in pursuing this, I'm their interface. I help to advocate and explain what we're doing and why we're doing it.

I've been in a range of senior risk positions for 30 years – and there's been a great deal of change during that time, which has led to me having to learn to cover these new topics and areas.

Climate change is another example. I mandated to our risk team that all of our credit employees had to undertake a climate risk course. Some people completed theirs spread over a longer period of time, while others went for more concentrated attendance.

In the past, we would have conducted assessments of the future cash flow from a client in a more simplistic way. But today, we're being asked to assess, for example, if they are likely to go out of business as a result of a climate event or due to regulations. This is something to which we've very much had to adapt.

Six years ago, when the EBRD signed up to the Task Force on Climate-Related Financial Disclosures (TCFD), I had a broad understanding of how we as an organisation attempted to prevent our impact on the planet – both as a business and through our clients. But looking at this in terms of how climate change affects our business and our asset was completely new. We started to build the team back then, and now we're busy embedding it. Not just through training, but through our policies and practices and across the entire organisation. CB

CROs in stats*

25%
Over the past five years the numbers of CROs in organisations worldwide has risen by 25%, indicating that more businesses are recognising the need for this critical position.

70%
Today an impressive 70% of firms have dedicated CROs, up from 55% half a decade ago.

85%
A significant 85% of FIs, meanwhile, have dedicated CRO positions.

70%
A notable 70% of companies now look to their CRO when considering matters related to digital safety and compliance regulations.

4-5
The average tenure for a CRO is around between four and five years.

82%
In a survey by Riskonnect, 82% of respondents said their risk management team headcount has increased or remained the same in the past six months.

6%
However, just 6% plan to hire one within the next year.

28%
Nearly one-third of companies (28%) reported budget increases for risk management technology, despite current economic conditions.

23%
Just 23% of survey respondents say they're very confident in the accuracy, quality and actionability of their risk management data.

5%
Only 5% are very confident in their ability to extract, aggregate, and report on risk insights to fuel decisions.

70%
A sizeable 70% of respondents said they have adequate collaboration across the different lines of defence for financial risk and 69% said the same about operational risk.

Source: 2023 New Generation of Risk Survey, Riskonnect