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BOARD STEWARDSHIP

Enabling Future Boards

E-BOOK \ BOARD COMMITTEE SERIES

ALL ABOUT RISK MANAGEMENT COMMITTEE (RMC)

JANUARY 2025 EDITION

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BOARD STEWARDSHIP

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About Board Stewardship

With Shailesh Haribhakti as Advisory Board Chairman, 'Board Stewardship' founded by Vikesh Wallia, is a global first initiative since 13th April 2021 for the board community, with a website, daily newsletter, monthly e-magazine and Linkedin page, to serve daily news, views and board opportunities. Our inspiration comes from over 20,000 readers, 10,000+ subscribers, eminent subject matter expert contributors and advertisers. Our audience comprises of Board Members, Independent Directors, Key Management Persons, CXOs, Compliance Professionals and Product and Service providers to the board community.

ABOUT THE BOARD STEWARDSHIP LOGO

Our logo and symbol depict the board's responsibilities and relationship with stakeholders.

- The six-sided hexagon symbol, as part of the Board Stewardship logo, reflects the six key stakeholders in the enterprise – **Investor, Customer, Employee, Supplier, Society, and Environment.**
- The hexagon also depicts two hands coming together – which reflects upon the dual duties of a board steward, the fiduciary responsibility and the duty of care.
- The third element of our logo is the **S** in the centre, i.e. **Stewardship**. This clearly symbolises that Boards have to follow the values of stewardship

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Non-Executive Chairman & Independent Director on multiple Boards

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Vikesh Wallia
Former Board Member Times of India Group, Steward of Board Community

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Disclaimer

The views expressed in the book are the author's personal and do not necessarily reflect the views of the publisher or editor.

In case of any suggestions/feedback your comments are welcome, do write to us at :
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Please feel free to quote from the book with due acknowledgement to
boardstewardship.com

Experts' Verdict

Huzeifa Unwala

Founder and Senior Partner
JHS Associates LLP
Risk Management Advisor

It's an excellent work done by Hersh Shah on the subject of Risk Management and its role at Board Committee level. He has explained the whole process of Risk Management Committee so well. My best wishes to Board Stewardship and Hersh for the success of this e-book for the benefit of Board community at large.

Giridhar Sanjeevi

Founder & CEO, Banyan Tree Partners
Former CFO - Indian Hotels, Diageo

My compliments to Hersh and Board Stewardship for bringing out this publication for the benefit of existing and aspiring Independent Directors seeking greater depth in managing Risk Management Committees. Risk management has been best explained in this short e-book and I am sure readers would love this.

Sunil Deshmukh

IMA Global Board Chair
Executive & Sustainability Coach
Board Director & Advisor

I am amazed with the quality of content given by Hersh Shah at such young age, for this e-book on 'All About Risk Management Committee'. He has an excellent depth on the subject of Risk Management. This will be a treasure for readers to learn a lot on Board Committee on Risk Management.

Harshit Baxi

Seasoned Risk, Audit, Compliance & Governance Professional
Qualified Independent Director and member of the Board of Governors- IIA, Mumbai

Risk Management committee plays pivotal role & helps Board ensure that risk management practices facilitate company meet its strategic objectives & enhance stakeholder's confidence through the appropriate risk governance, oversight and sustenance of risk culture. The RMC's role is integral in strengthening overall Corporate Governance to achieve sustainable business outcomes.

Vikesh
Wallia

Managing Director & Editor, Board Stewardship

Thank you for downloading this e-book in your quest to be a great Risk Management Committee member.

Board Stewardship is first of its kind global initiative to provide a platform to board community for the latest news, views and opportunities. Our content providers are subject matter experts, and we provide this at no cost to our subscribers. Our newsletter subscribers have now desired for content on board practices and processes and this e-book on your screen is an effort in the same direction. This is once more a first free of cost offer to our subscribers, this e-book is available for free download to all our subscribers.

Continuous learning is an integral part of Stewardship Values. In our core purpose of 'enabling future boards' with Stewardship Values, continuous update of knowledge is a great need of the board stewards. While knowledge in regulatory context with relevant jargons is a great need and enough books are available to fulfil such a need, the practical experience sharing context is equally important with simple jargon free content. Board Stewardship found a gap and a discussion with Shailesh Haribhakti our Chairman of Advisory Board, led the idea of this free e-book, which is born under his guidance. We are grateful that few subject-matter experts and authors with Independent Director Profiles have agreed to be generous and gave us their valuable time for the same.

In our first attempt, we are bringing out a series of short, easy to read and always available handy e-book in your phone or laptop. We begin with Board Committees as these are the very backbone of every successful board. Anyone wanting to do more on boards would like to focus and contribute through the board committee route. Our authors have given us excellent content for such e-books on Board Committees and I am sure our readers will enjoy reading these e-books multiple times and acquire greater depth on Board Committee matters.

This e-book on RMC is very important as it covers the key aspects of Proactive Risk Identification, Risk Mitigation Strategy, Compliance, Stakeholder Confidence, Operational Efficiency and Protection of Reputation Risk

Hersh Shah, a Chartered Accountant (CA) has worked with KPMG India and abroad, and is now CEO of IRM India Affiliate. He has great expertise across Corporate Finance, Organisational Leadership and ERM at such a young age. He is also an advisor to many Boards on enhancing the performance of RMCs, and his experience such as this has been the source behind the excellence of this book.

Hope you enjoy reading and this book helps you in acquiring in-depth knowledge about RMC. Wishing you a successful journey as an Independent Director and May you contribute on multiple Boards as RMC member!

Please share your feedback with me on vikesh@boardstewardship.com and help us do this better

SHAILESH
HARIBHAKTI

Chairman, Advisory Board, Board Stewardship
Chairman, Shailesh Haribhakti & Associates

In his inimitable, masterly manner Hersh has created a guidebook on risk management that is going to be a perpetual source of reference for students and practitioners of the subject. Key insights he provides:

Technology Enhances Risk Management Processes

By automating tasks, improving data analysis, and providing real-time insights, technology enhances various aspects of risk management.

Risk Assessment and Modelling

Advanced analytics tools enable organisations to analyse historical data and simulate various scenarios. This capability allows businesses to prioritise risks effectively and allocate resources where they are needed most.

Data Management

Technology facilitates efficient data collection and reporting, generating real-time insights that improve transparency and compliance. By centralising data management, organisations can ensure that all stakeholders have access to the information they need to make informed decisions.

Automated Monitoring

Automated systems can detect anomalies and potential risks in real time, allowing organisations to respond swiftly to emerging threats. This proactive approach helps mitigate risks before they escalate into more significant issues.

Collaboration

Integrated platforms enhance communication among stakeholders, ensuring coordinated efforts in risk management. By fostering collaboration across departments, organisations can develop a more holistic approach to identifying and managing risks.

Strategic Decision-Making

Technology aligns risk management with business goals, enabling informed decision-making and proactive risk mitigation strategies. This alignment ensures that risk considerations are integrated into the overall strategic framework of the organisation.

Impact of Real-Time Risk Insights on Business Decision-Making

Real-time risk insights significantly influence business decision-making by enabling organisations to respond swiftly to changing conditions. The effects include:

1. **Proactive Responses:** With access to real-time data, companies can anticipate market shifts and customer needs, allowing them to seize opportunities or mitigate risks before they escalate. This proactive stance is crucial for maintaining a competitive edge.
2. **Enhanced Decision Speed:** Real-time insights facilitate quicker decision-making processes, improving operational efficiency and responsiveness to market dynamics. Organisations can act decisively based on the latest information rather than relying on outdated data.
3. **Improved Customer Experience:** Businesses can tailor their services based on immediate insights into customer behaviour, fostering loyalty and satisfaction. Understanding customer preferences in real time allows for personalised interactions that enhance overall experience.
4. **Operational Efficiency:** Continuous monitoring of performance helps identify issues early, reducing downtime and optimising resource allocation. By addressing potential problems proactively, organisations can maintain smooth operations.
5. **Data-Driven Strategies:** Real-time analytics support informed decision-making by aligning business strategies with current trends. This data-driven approach enhances competitive advantage, as organisations can pivot quickly in response to market changes.

Here's wishing the book an enviable downloads record!

INTRODUCTORY NOTE

CS Binacaa **Verma**

IICA Certified Independent Director

Board Stewardship is an initiative and platform for Board Community. Risk is inherent in every business, whether it is of financial nature or non-financial nature. Thus, management of the risk is very important. Risk management begins with the risk identification, analysing the risk factors, making assessment of the risk and mitigation of the risk. Better risk management techniques provide early warning signals so that the same may get addressed in time. As Independent Director, it's imperative to assess and take appropriate steps for mitigation of risks for all strategic and key approvals for the company. Risk management is very vast and broad aspect to make policies and systems for safer and better future of the Company. The risk management function should be under the overall guidance and supervision of the Chief Risk Officer (CRO) with a clearly defined role. The sound management of insurance in pursuit of development of a strong risk management system and mitigation strategies, insurers shall set up a separate Risk Management Committee to implement the company's Risk Management Strategy.

Risk is an important element of corporate functioning and governance. There should be a clearly established process of identifying, analysing and treating risks especially in digital world. A Cyber Security and Digital Financial Operation Handbook, is very important for each and every corporate today. An Appropriate control procedure in the form of a risk management plan must be put in place to manage risk throughout the organisation. The plan should cover activities as diverse as review of operating performance, effective use of information technology, contracting out and outsourcing.

Our Author is Hersh Shah, CEO of IRM's India Affiliate (world's leading certifying body for Enterprise Risk Management examinations across 140 countries). He is also India's Youngest Enterprise Risk Expert, advocating risk management since the age of 21 and speaks on CNBCTV18 and writes for various journals, media houses and newspaper.

I am happy to be associated for making this e-book a guide and help to our Associates and Dynamic audience, Independent Directors and aspiring Independent Directors.

Best wishes with regards!

Hersh Shah

Chief Executive Officer
Institute of Risk Management (IRM) - India Affiliate
India's Youngest Enterprise Risk Management Expert
Advisor for Multiple Boards

The world as it stands today is a global village. Against this landscape, Board Directors are overburdened and operating under time constraints.

A Board is tasked with multiple duties and in order to enhance its efficiency and meet its objectives, the Board strategically forms specialised committees. The committees work independently but are ultimately accountable to the Board of Directors. Board Committees possess vast experience in focused areas and conduct in-depth assessments that support the Board's decision making process. Strong governance by the Board can be achieved only through effective management of its committees.

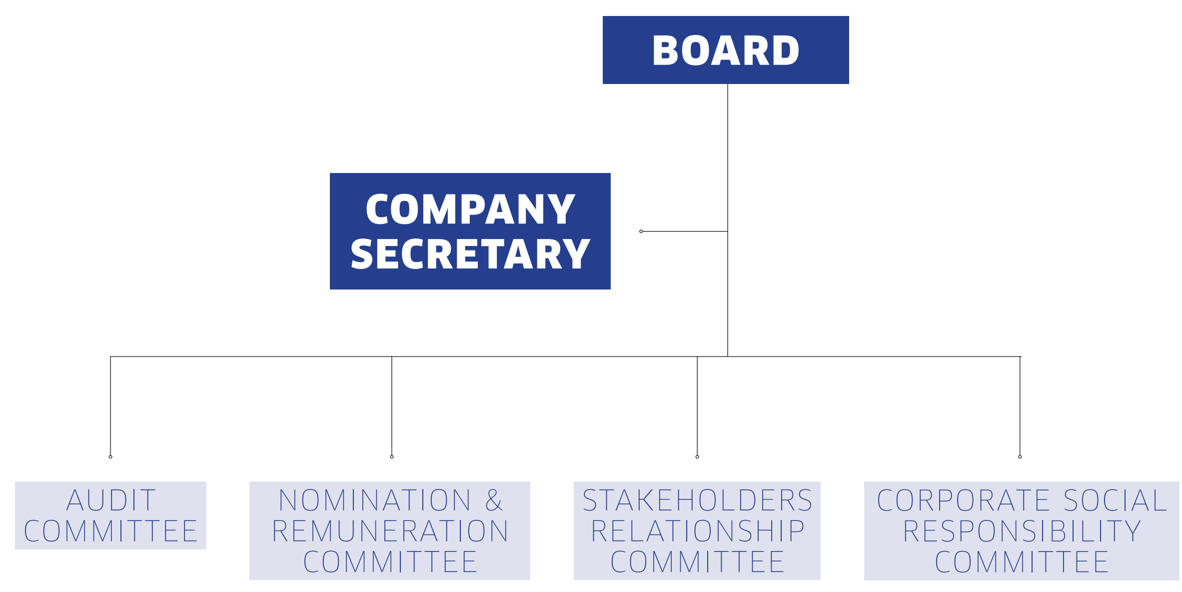
In the realm of Corporate Governance, the Risk Management Committee monitors a corporation's risk and enforces risk management policies for its global operations. The existence of this committee is paramount to ensuring the long-term growth of a company. The Risk Management Committee promotes risk readiness through techniques such as scenario planning and stress testing. As companies steer through challenges in compliance and operations, the Risk Management Committee is instrumental in upholding accountability within all organisational levels.

The SEBI LODR Regulations, 2015 deems it compulsory for the top 1000 listed entities by market capitalisation to set up a Risk Management Committee. The role and responsibilities of this Committee are outlined in the LODR Regulations. Similarly, The Company Law Committee Report of 2022 recommended the formation of a Risk Management Committee as a specific committee of the Board, for certain types of companies as decided by the Central Government.

This e-book is a detailed resource for understanding how holistic risk management can be achieved by instituting a Risk Management Committee in companies. It contains insights, case studies and recommendations that can enhance the effectiveness of this Committee. The various responsibilities of the Risk Management Committee such as analysing and monitoring risks, preparation of its reports and stakeholder engagement have been highlighted through the inclusion of concepts, legal frameworks and examples. The knowledge and strategies shared in this book will be of immense value to executives in leadership roles and individuals with a keen interest in Corporate Governance.

I wish to express my gratitude to Mr. Shailesh Haribhakti & Mr. Vikesh Walia for granting me the opportunity to contribute in this initiative. I would also like to extend my thanks to CS Binacaa Verma for her support. The topic of Governance is nuanced and ever-evolving. I would appreciate any feedback that can contribute to ensuring optimal performance at the Board level, for organisations to achieve the pinnacle of success.

HOW BOARDS WORK THE NEED FOR COMMITTEES



The structure of Indian corporate boards is designed to provide oversight of management and ensure that the company operates in the shareholders' best interest. These boards are subject to multiple rules and regulations, primarily enforced by the Companies Act, 2013, and the SEBI (Securities and Exchange Board of India) guidelines, particularly for companies listed on the stock exchanges. In India, the board's composition, functions, and various committees are organised in a manner that fosters transparency, accountability, and effective governance. In this discussion, we will explore the functioning of the board and provide a comprehensive overview of the various types of committees commonly associated with a board, as well as their respective responsibilities.

Functioning of Indian Boards

Structure

An Indian board typically comprises executive and non-executive directors, including Independent Directors. Executive directors are members of the company's management team, while non-executive directors do not participate in the company's daily operations. Independent Directors play a vital role in reducing conflicts of interest and ensuring that decisions are made in the company's and shareholders' best interests.

Convenings

Boards must convene a minimum of four times annually, ensuring that no more than 120 days elapse between consecutive meetings. These meetings are vital for making important decisions that are part of a long-term plan, evaluating how well the company is doing, and making sure that the company follows all the necessary rules and regulations.

Roles and Obligations

The board's main responsibilities encompass establishing the company's strategic goals, choosing and hiring the CEO, supervising management's performance, ensuring effective risk management and internal controls, and upholding regulatory compliance. In addition, they are obligated to fulfill their fiduciary duty by safeguarding the shareholders' interests.

Board Sub-committees

Boards frequently assign specific responsibilities to specialised committees in order to efficiently oversee different aspects of governance. Below are several prominent committees that exist within Indian boards:

1. **Audit Committee:** The Audit Committee aids the board in overseeing and supervising the financial practices, internal controls, and financial reporting processes of the company.

2. **Nominations and Remuneration Committee:** This committee is tasked with determining the amount and structure of compensation for directors and key executives.

3. **Corporate Social Responsibility (CSR) Committee:** The CSR Committee is responsible for developing and proposing a corporate social responsibility policy to the board, outlining the specific activities that the company will undertake.

4. **Risk Management Committee (RMC):** The primary responsibility of this committee is to identify potential risks within the company's operations and establish effective risk management systems.

5. **Stakeholders Relationship Committee:** The primary objective of this committee is to address and resolve the concerns and complaints of shareholders and stakeholders. Indian corporate boards have the option to establish additional specialised committees, apart from the core committees. These specialised committees are created to address specific operational needs and strategic objectives of the company. Here are supplementary committees that are frequently encountered:

6. **Investment Committee:** The Investment Committee is accountable for supervising the company's investment strategy and policies.

7. **Finance Committee:** The Finance Committee aids the board in supervising the financial condition of the company.

8. **Executive Committee**: An Executive Committee functions as a smaller subgroup of the primary board and has the authority to make decisions in between full board meetings, especially in cases of pressing matters that demand immediate action.

9. **Compliance Committee:** The primary responsibility of this committee is to guarantee the company's adherence to legal and regulatory mandates, as well as internal codes and policies.

10. **Technology Committee:** With the increasing importance of technology in business operations, certain boards have implemented Technology Committees to supervise the strategic aspects of technology and innovation.

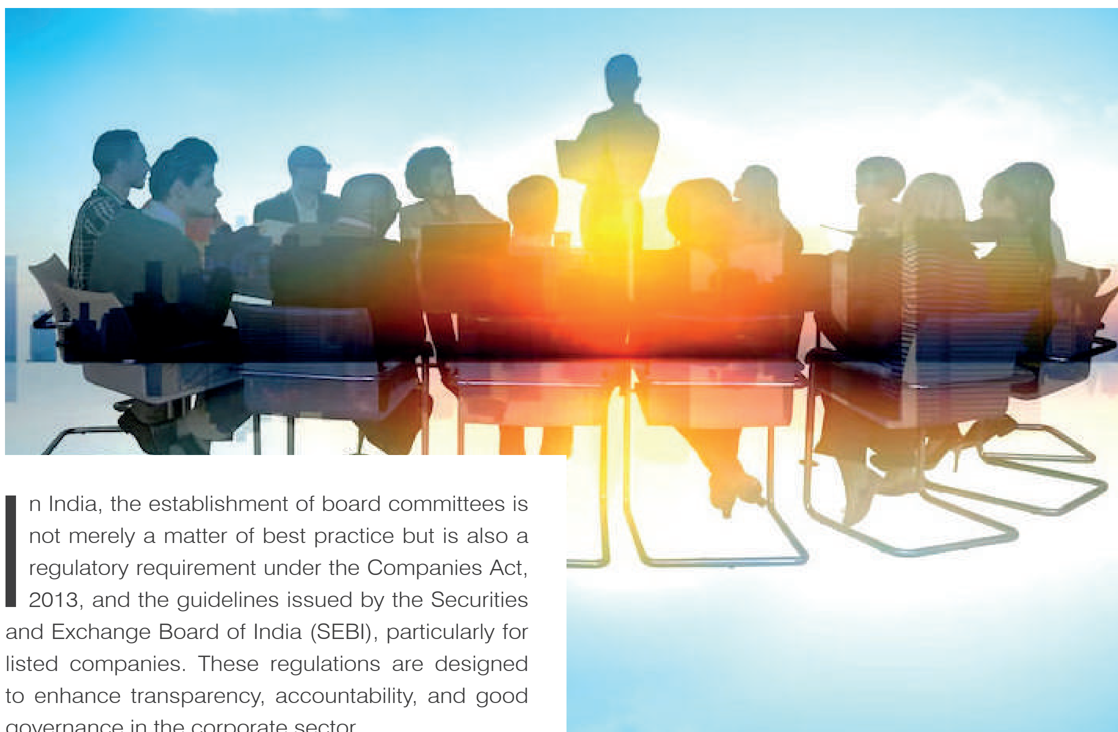
11. **Sustainability Committee:** This committee is tasked with incorporating sustainability into the company's practices and policies. It evaluates and provides guidance on issues pertaining to environmental impact, social responsibility, and economic sustainability.

Through the allocation of distinct responsibilities to various committees, the board is able to effectively oversee intricate matters, enabling it to better address strategic challenges and operational requirements. Usually, a committee is led by a seasoned board member who brings specialised knowledge and supervision to their specific area of concentration. These specialised committees improve the board's capacity to govern and supervise various aspects of a company, including financial investments and technology strategy. This, in turn, helps to ensure comprehensive governance and strategic oversight.

The Importance of Board Independence and Effectiveness

In order for a board to be effective, it is crucial that it operates autonomously from the company's management. Having Independent Directors on the board ensures that it can carry out its responsibilities effectively without being unduly influenced by the company's management. These areas, namely executive compensation, succession planning, and financial reporting, hold significant importance.

REGULATORY NEED FOR COMMITTEE



In India, the establishment of board committees is not merely a matter of best practice but is also a regulatory requirement under the Companies Act, 2013, and the guidelines issued by the Securities and Exchange Board of India (SEBI), particularly for listed companies. These regulations are designed to enhance transparency, accountability, and good governance in the corporate sector.

Regulatory Framework under the Companies Act, 2013

1. **Audit Committee:** Under Section 177 of the Companies Act, 2013, the formation of an Audit Committee is mandatory for every listed company and certain other public companies meeting specified criteria (based on capital and turnover). The Audit Committee must consist of a minimum of three directors with Independent Directors forming a majority. It is tasked with the oversight of the company's financial reporting process, the audit of its financial statements, the effectiveness of internal control systems, and compliance with applicable laws. The Audit Committee also has the responsibility to recommend the appointment and remuneration of auditors, review findings of any internal investigations, and approve related-party transactions.

2. **Nomination and Remuneration Committee:** Section 178 of the Companies Act mandates the establishment of a Nomination and Remuneration Committee for all listed companies and certain classes of public companies. This committee is responsible for identifying persons who are qualified to become directors and who may be appointed in senior management, recommending to the board their appointment and remuneration. The members of this committee are to be directors, with at least half being independent.

3. **Stakeholders Relationship Committee:** The same section also requires the formation of a Stakeholders Relationship Committee for companies with a large number of shareholders. The main function of this committee is to resolve the grievances of shareholders, debenture holders, and other security holders.

4. **Corporate Social Responsibility Committee:** The Companies Act, 2013, under Section 135, mandates that every company with a net worth of Rs 500 crore or more, or a turnover of Rs 1000 crore or more, or a net profit of Rs 5 crore or more during any financial year must have a CSR Committee. This committee is responsible for formulating and monitoring the CSR Policy of the company.

PERFORMANCE NEED FOR BOARD COMMITTEES

Board committees play a critical role in enhancing the performance and governance of corporations, especially in complex and dynamic markets like India. These committees allow for specialised attention to key areas such as audit, risk management, nominations, remuneration, and more, ensuring that expertise and focused oversight guide critical business decisions. This e-book examines the performance need for various board committees in the Indian context, detailing how they contribute to organisational effectiveness, compliance, and strategic alignment.

Introduction to the Role of Board Committees

Board committees are established to handle complex tasks that require specialised knowledge or dedicated focus, which the full board might not be able to manage due to constraints of time or expertise. In India, where businesses navigate a rapidly changing economic landscape, regulatory updates, and growing international presence, these committees are vital in supporting the board's decision-making process by handling detailed work and providing informed recommendations.

Audit Committee

Critical Oversight and Financial Integrity

The Audit Committee is crucial for financial oversight, a role that includes the review of financial statements, oversight of the company's internal audit function, and interaction with external auditors. In the Indian context, where financial discrepancies can significantly impact market perception and investor trust, the Audit Committee's role in ensuring accuracy and transparency in financial reporting is critical. This committee also plays a vital role in fraud prevention and risk assessment, key areas in maintaining Corporate Governance standards that protect shareholder interests.

Compliance with Regulatory Requirements

In India, adherence to the norms set by regulatory bodies like the Securities and Exchange Board of India (SEBI) and provisions under the Companies Act, 2013, is non-negotiable. The Audit Committee ensures that the company complies with all statutory and regulatory requirements, thereby avoiding potential legal pitfalls and sanctions.

Nomination and Remuneration Committee

Talent Management and Strategic Alignment

This committee guides the board in matters of high-level recruitment, retention, and succession planning. In the fast-paced Indian corporate environment, attracting and retaining top talent is essential for maintaining competitive advantage. The Nomination and Remuneration Committee plays a strategic role by aligning executive and director compensation with the long-term goals of the company, ensuring that incentives promote the achievement of these goals without encouraging undue risk-taking.

Enhancing Board Effectiveness and Diversity

The committee also ensures that the board remains diverse, effective, and fully equipped to meet future challenges. This includes evaluating board performance and recommending new appointments to fill skill gaps, which is particularly important in adapting to technological advancements and changing market dynamics.

Risk Management Committee

Proactive Risk Identification and Mitigation

Given India's susceptibility to both market and operational risks, from financial fluctuations and political instability to catastrophic events like Covid-19 and corporate fraud, the Risk Management Committee's role in identifying and mitigating risks is indispensable. This committee helps the company prepare for and swiftly respond to risks, preserving the company's assets and shareholder value.

Supporting Sustainable Growth

By ensuring that risks are managed proactively, the Risk Management Committee supports sustainable growth. This is particularly relevant in India, where rapid growth opportunities are often accompanied by substantial risks.

Corporate Social Responsibility (CSR) Committee

Fulfilling Statutory Obligations and Ethical Governance

The CSR Committee is mandated under Indian law for certain companies, which must spend a minimum of 2% of their average net profits towards corporate social responsibility. This committee ensures that CSR activities align with the company's ethos and regulatory expectations, which not only complies with the legal framework but also boosts corporate reputation and stakeholder trust.

Enhancing Community Engagement and Brand Value

In India, where socio-economic impact is significant for corporate reputation, the CSR Committee's role in overseeing and guiding CSR initiatives can enhance brand value and community engagement, directly impacting the company's public perception and long-term success.

Stakeholders Relationship Committee

Enhancing Investor Relations and Trust

This committee addresses grievances from shareholders and ensures their concerns are resolved promptly, which is crucial in maintaining investor trust and confidence. In India, with its large and diverse investor base, effective communication and grievance redressal are essential for sustaining investor relations and enhancing corporate transparency.

Regulatory Compliance and Shareholder Advocacy

The Stakeholders Relationship Committee also ensures that the company adheres to shareholder rights as prescribed by law, advocating for shareholder interests and ensuring their voices are heard in Corporate Governance.

In the Indian corporate sector, board committees are not just regulatory requirements but essential components that significantly enhance organisational performance and governance. By delegating specific responsibilities to specialised committees, companies can focus on critical areas with the needed expertise and attention. This structure supports not only compliance with India's strict regulatory environment but also promotes operational efficiency, strategic decision-making, and effective management of both opportunities and risks. Through robust committee functions, companies can achieve their strategic objectives while maintaining high standards of governance, ultimately safeguarding and enhancing shareholder value.

EVOLUTION OF THE RISK MANAGEMENT COMMITTEE AND INTRODUCTION TO ENTERPRISE RISK MANAGEMENT (ERM)

The concept of risk management in Corporate Governance has evolved significantly over the years, particularly in India, where economic liberalisation and the subsequent increase in global business interactions necessitated a more formal approach to managing risk. The development of Risk Management Committees (RMCs) in India can be traced back through several stages of regulatory enhancements, economic liberalisation, increased globalisation of various markets and practical implementations, influenced by both global standards and local corporate scandals.

Early Developments and Global Influence

Risk management practices have existed in businesses of all sizes in varying degrees of sophistication because risk is inherent in many activities of a business. Formal risk management practices in India, and governance of the same, became stronger with the liberalisation of the Indian economy in the early 1990s, which brought a surge of foreign investment and a more significant presence of multinational companies many of which were listed in their home stock exchanges. These changes introduced new complexities in corporate operations, prompting Indian companies to consider international best practices in governance, including those related to risk management.

Global incidents such as the 2008 financial crisis further underscored the importance of risk management. This period highlighted vulnerabilities in financial systems worldwide, demonstrating how interconnected and susceptible to risk the global markets had become. In response, regulatory bodies across the world, including in India, began to focus more on formal risk management processes.

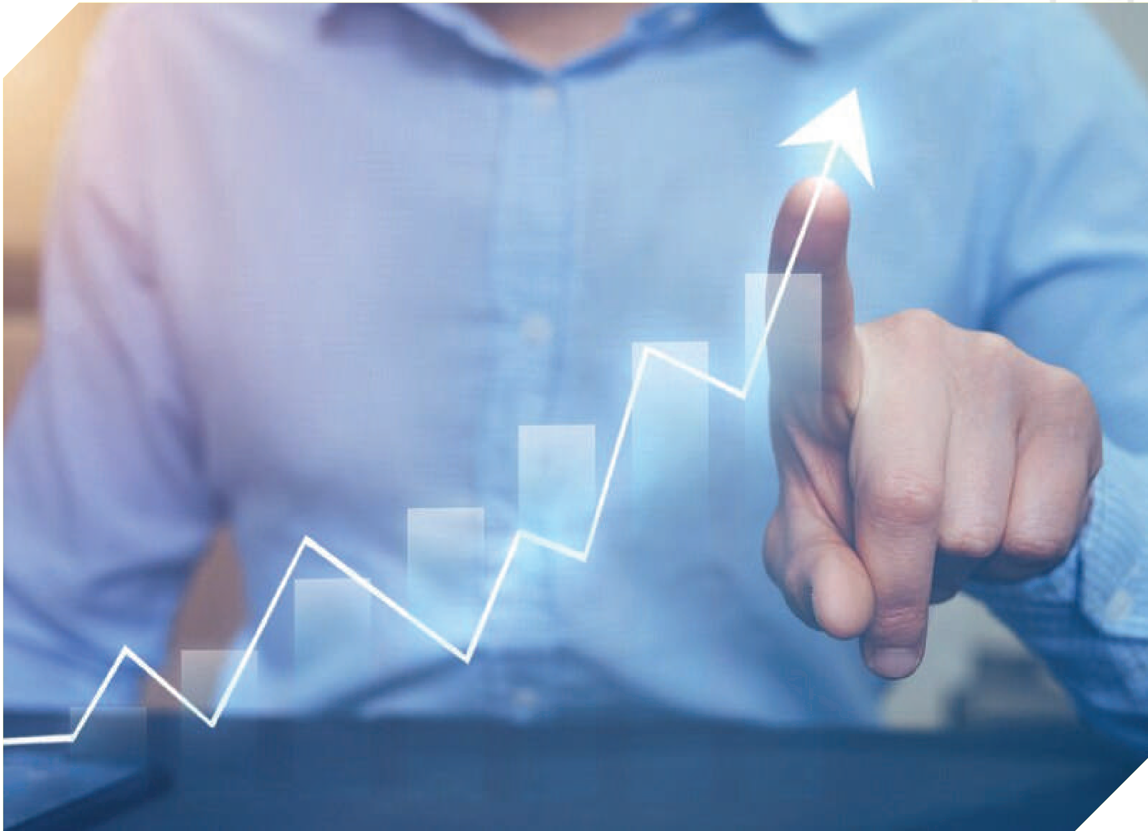
Regulatory Milestones

1. SEBI's Clause 49

The first significant step towards formal risk management in India was the introduction of Clause 49 in the Listing Agreement by the Securities and Exchange Board of India (SEBI) in 2004. This clause was inspired by the Sarbanes-Oxley Act in the US and focused on improving Corporate Governance standards in Indian listed companies. Although it initially did not mandate the formation of a Risk Management Committee, it laid the groundwork for systematic risk oversight by requiring companies to lay down procedures to inform board members about risk assessment and minimisation procedures.

2. Companies Act, 2013

The next major regulatory framework, the Companies Act of 2013, provided a more structured approach to Corporate Governance but still did not mandate the formation of a Risk Management



Committee. However, it did emphasise the board's responsibility to devise proper systems for risk management and to ensure their implementation.

One of the recommendations made by the Company Law Committee in the Report of 2022 is to require certain companies to establish a Risk Management Committee. It is important to mention that according to section 134(3) (n) of the Companies Act, 2013, the Board Report is required to include a statement about the creation and execution of a Risk Management Policy for the company. This policy should identify potential risks that could endanger the company's existence. According to section 177(4)(vii) of the Companies Act, 2013, the Audit Committee is required to assess the internal financial controls and risk management systems of the company. Furthermore, according to Part II of Schedule IV of the Companies Act, 2013, an Independent Director of a company is obligated to provide an unbiased assessment during board discussions concerning the company's risk management systems. The Companies Act, 2013 does not explicitly include any provisions regarding the establishment of a Risk Management Committee.

The recent occurrence of tail events such as COVID pandemic and the emerging climate risk have brought in recognition that effective risk management enables a company to operate efficiently and promotes its growth. The Company Law Committee has proposed the addition of fresh regulations in the Companies Act, 2013 regarding the establishment of a separate Risk Management Committee, as a distinct committee of the board, for specific categories of companies as determined by the central government. It will be intriguing to monitor subsequent advancements in this matter.

3. SEBI (LODR) Regulations, 2015

The turning point for Risk Management Committees came with the SEBI (Listing Obligations and Disclosure Requirements) Regulations in 2015. These regulations specifically mandated the establishment of a Risk Management Committee for the top 1000 listed entities by market capitalisation. The LODR regulations detailed the composition, role, and responsibilities of the RMC, which included identifying elements of risk in the company, implementing effective mitigation measures, and monitoring the management of risks.

Evolution and Expansion of Responsibilities

Over the years, as the business environment in India became more dynamic and complex, the scope of risk management expanded. Initially focused mainly on financial risks, the mandate of RMCs gradually encompassed operational, strategic, compliance, and reputational risks.

Post-2015, following global trends and with further amendments to the SEBI (LODR) Regulations, the role of the Risk Management Committee has become more robust in many companies, often integrating

sustainability and cyber security risks into their purview. Companies are now expected to have a holistic enterprise-wide risk management framework that is proactive rather than merely reactive.

In recent years, with scandals and crises, there has been a renewed focus on enhancing the effectiveness of Risk Management Committees. These events have led to stricter regulatory requirements and higher expectations for corporate accountability in risk management practices. Additionally, with the advent of digital transformation and data privacy concerns, cyber risk management has become a critical component of RMCs.

Enterprise Risk Management (ERM)

The Institute of Risk Management, headquartered in the UK, present in 140 countries, is the world's leading certifying body for ERM exams with designations and qualified route to Fellowship for Chief Risk Officers (CRO). It defines ERM as "an integrated and joined up approach to managing all areas risks across an organisation and its extended networks." This means that ERM goes much beyond the traditional financial risk approach and covers study of the entire Risk Universe. According to IRM's Risk Appetite and Tolerance Guide, Risk Universe is the full range of risks that could impact, positively or negatively, on the ability to meet long-term objectives.

Furthermore, the Committee of Sponsoring Organisations (COSO) in its 2004 framework has defined ERM as "a process, affected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

In an increasingly volatile and uncertain world, where the pace of change is accelerating, and the potential for both threats and opportunities is growing, ERM provides a structured way for organisations to navigate these challenges, thrive and drive exponential growth by embedding risk-based decision making in every strategy.

CONSTITUTION OF THE RISK MANAGEMENT COMMITTEE

Constitution and Composition

According to SEBI's LODR Regulations, the Risk Management Committee should comprise at least three members, a majority of whom should be members of the Board of Directors, including at least one Independent Director. The chairperson of the committee is typically an Independent Director. The inclusion of senior executives, such as the CFO or the head of risk management (CRO), is also common, although they may not have voting rights if they are not board members.

Roles and Responsibilities

The RMC's primary role is to oversee the company's risk management framework, ensuring that all significant risks are identified, assessed, and managed effectively. Key responsibilities include:

- **Risk Assessment:** Identifying and analysing potential risks that could affect business operations.
- **Risk Management Policies:** Developing and implementing risk management policies and procedures.
- **Monitoring:** Continuously monitoring the risk environment and the effectiveness of the risk management strategies in place.
- **Crisis Management:** Establishing protocols for handling sudden financial, operational, or reputational crises.

Best Practices

1. **Integrated Risk Management Approach:** Leading companies adopt an integrated risk management approach where risks are not managed in silos but are viewed across the organisation to understand interdependencies.

2. **Technology Utilisation:** Utilising AI, advanced analytics and risk management software to predict and mitigate risks efficiently. This includes tools for real-time risk assessment and scenario analysis.

3. **Understanding the outcomes:** Developing, understanding and continuously re-assessing the risk models creates a culture of quantifying the outcomes of various risks, including risks arising out of extreme events. Risk adjusted capital and returns on such capital, provides sharper insights into the financial impact of all risks including operational risks.

4. **Regular Training and Awareness:** Developing a qualified CRO and IRM-certified champions or conducting regular certified training sessions for business leaders from reputed institutions like the IRM, helps raise awareness about risk factors and encourages a risk-conscious culture within the organisation.

5. **Stakeholder Engagement:** Engaging various stakeholders, including suppliers, customers, and regulators, in the risk management process to gain diverse perspectives and enhance risk preparedness.

In order to gain a practical understanding of the operations of Risk Management Committees (RMCs), it is beneficial to examine their functioning in different industries and regions. Here are some examples that are based on common practices observed in various sectors and regions. These examples demonstrate the structure and functionality of RMCs in effectively mitigating risks.

Example 1: Financial Industry, North America

The Risk Management Committee (RMC) in a prominent North American bank consists of five members, three of whom are Independent Directors specialising in finance, risk management, and compliance. The team consists of a Chief Risk Officer (CRO) and a non-executive director who specialises in cyber security. This composition enables the committee to address a wide range of risks, encompassing financial, operational, and digital risks. The committee convenes on a quarterly basis and as needed for urgent matters. The system employs sophisticated risk assessment tools to oversee credit risk, market risk, and operational risk. It incorporates real-time data analytics to evaluate the level of risk exposure. The Risk Management Committee (RMC) has direct reporting lines to the board and possesses the power to enlist external consultants to conduct autonomous risk evaluations, particularly for novel financial offerings or services.

Example 2: Manufacturing Sector in Europe

A prominent European manufacturing company has formed a Risk Management Committee (RMC) consisting of two Independent Directors, with one serving as the committee's chairperson. The committee also includes the Chief Executive Officer (CEO) and the leaders of the Supply Chain and Quality Control departments. This risk management course places a strong emphasis on operational and supply chain risks, as they are particularly relevant to the nature of the business. The committee has formulated an all-encompassing risk management framework that incorporates routine safety audits, quality inspections, and evaluations of supplier risks. Furthermore, it has successfully integrated a resilient incident reporting system that directly contributes to the risk management process, guaranteeing prompt reaction and adjustment to possible disruptions.

Example 3: Technology Firm, Asia-Pacific

In an Asia-Pacific-based technology company, the RMC is chaired by an Independent Director with a background in IT and cyber security. Other members include the CRO, the Chief Information Officer (CIO), and two non-executive directors with experience in international business and innovation. Given the fast-paced nature of the tech industry, the committee prioritises cybersecurity, intellectual property risks, and strategic risks related to rapid technological changes. The RMC uses scenario planning and stress testing to evaluate the company's resilience against various potential technological disruptions. It also oversees the company's data protection policies to comply with international data security standards.

Example 4: Energy Sector, Middle East

A leading energy company in the Middle East has an RMC comprising the CRO, two Independent Directors with experience in environmental policy and energy markets, and the heads of Regulatory Affairs and Health, Safety, and Environment (HSE). This committee's focus is heavily on environmental risks, regulatory compliance, and geopolitical risks affecting energy prices and supply chain stability. The RMC regularly reviews environmental impact assessments and ensures compliance with both local and international environmental regulations. It also monitors geopolitical developments closely and prepares contingency plans accordingly.

Example 5: Retail Sector, Global

A global retail giant has an RMC that includes the CRO, an Independent Director with expertise in global market trends, the head of Global Operations, and the head of Consumer Insights. This setup allows the RMC to handle a wide range of risks, from supply chain disruptions to changes in consumer behaviour and market trends. The committee uses predictive analytics to assess market risks and consumer trends to adjust business strategies proactively. It also focuses on building a resilient supply chain capable of withstanding various global disruptions such as pandemics or political instability.

Example 6: Insurance Company, Global

In a global insurance company, the Risk Management Committee focuses on critical risks such as asset-liability management (ALM) in the life insurance and pensions sectors and catastrophe risk in the general insurance sector. The committee includes Independent Directors with actuarial expertise, the Chief Risk Officer (CRO), and heads of Underwriting and Claims departments. They oversee ALM tools to ensure assets match liabilities and employ catastrophe modelling to prepare for and mitigate potential large-scale losses, ensuring robust risk alignment with insurance portfolios and regulatory compliance.

Example 7: Non-Banking Financial Company (NBFC), India

An NBFC in India prioritises managing credit risk, given the high potential for loan defaults. The Risk Management Committee, comprising the CRO, financial experts, and compliance officers, focuses on robust credit assessment frameworks, monitoring loan disbursement, and ensuring adherence to stringent regulatory environments. This committee's strategies include implementing advanced credit scoring models and regulatory compliance checks to mitigate financial risks and enhance loan recovery processes.

Example 8: Consumer Tech or Fintech Start-up, Preparing for IPO

A consumer tech or fintech start up nearing an IPO faces significant risks related to regulatory compliance, cyber security, and market changes. The Risk Management Committee, including Independent Directors with technology and finance backgrounds, the CRO, and legal advisors, ensures compliance with financial regulations critical for IPO readiness, oversees cyber security measures to protect data and technology infrastructure, and strategises to adapt to rapidly evolving market conditions to maintain competitive advantage.

These examples illustrate how RMCs are tailored to meet the specific needs of different industries and geographical regions, emphasising the importance of expertise, independence, and strategic foresight in their constitution. By addressing the unique challenges and risks faced by each company, these committees play a crucial role in safeguarding the interests of the stakeholders and ensuring the sustainable growth of the business. The constitution of the Risk Management Committee in Indian companies, as guided by SEBI and reflected in the practices of leading companies, shows a robust framework designed to handle a comprehensive array of risks. Best practices indicate a move towards integrated risk management, leveraging technology, promoting risk-aware culture, and engaging various stakeholders. These elements help enhance the effectiveness of risk management practices, ensuring not only regulatory compliance but also fostering resilience and long-term sustainability in the dynamic business environment of India.

PROFILE OF COMMITTEE MEMBERS

Compliance Obligations

According to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the top 1000 companies listed by market capitalisation must form a Risk Management Committee. The regulation specifies the following prerequisites for the composition of the RMC:

- **Composition:** The committee must have a minimum of three members, with the majority being individuals who are part of the company's Board of Directors, and at least one member who is an Independent Director.
- **Chairperson:** The ideal candidate for the chairperson of the Risk Management Committee should be a board member with a robust expertise in risk management. Unlike the Audit Committee, the chairperson of the RMC is not required to be an Independent Director.
- **Expertise Requirement:** Although not specifically required by SEBI, it is commonly recommended that Risk Management Committee members possess expertise in risk management, finance, operations, or related fields to efficiently supervise the organisation's risk management procedures.

Committee Members' Profiles: Optimal Approaches

When creating the profile of RMC members, organisations should take into account a combination of experience, expertise, and capacity to contribute to efficient risk management. Below are some recommended guidelines for the profiles of RMC members in India:

1. Wide-ranging Proficiency

- **Financial Expertise:** Committee members with a robust finance background, like CFOs or financial analysts, are advantageous due to the significant financial risks faced by most businesses.
- **Industry Expertise:** Members who possess extensive knowledge and expertise in the specific industry in which the company operates can offer valuable insights into the distinct risks encountered by the organisation.
- **Technical Skills:** Including members with technical expertise in companies operating in sectors such as IT, pharmaceuticals, or manufacturing can enhance the identification of operational risks.

- **Certification:** Earning the globally recognised designation / fellowship in ERM from IRM could be a significant value adds in shaping the risk culture and enhancing the risk maturity. The designations awarded by the IRM, are the world's most highly respected titles for enterprise risk management (ERM) professionals. Achieving success in ERM, after passing IRM's rigorous qualifications and demonstrating relevant work experience, signifies expertise and proficiency of the essential knowledge and skills needed to manage enterprise-wide risks across sectors and economies, including cybersecurity, supply chain, climate change, reputation, and more.

2. Experience in Managing Risk

Ideally, members should possess demonstrated expertise in international risk management frameworks and methodologies including COSO 2017, ISO 31000 and IRM's Risk Culture Framework. Examples of relevant experience may encompass prior positions as risk officers, risk management consultants, or academic credentials in the field of risk management.

3 Experience in Leadership and Governance

The presence of committee members with experience in board or senior management positions can improve the committee's comprehension of the potential effects of risks on strategic goals. These individuals are frequently skilled at harmonising risk management strategies with business objectives.

4. Expertise in Legal and Compliance

In light of the growing intricacy of regulatory environments, it is essential to have individuals with legal and compliance proficiency to effectively recognise and handle regulatory risks.

5. Global Exposure

Having employees with international business experience can be beneficial for companies that operate globally. These individuals possess the ability to provide valuable perspectives on geopolitical risks, cross-border regulatory matters, and global market dynamics.

Execution and Operation

- **Meetings:** It is imperative that the RMC convenes on a regular basis, with a minimum frequency of once every three months, in order to assess the current risk environment, assess the effectiveness of risk management procedures, and make any necessary adjustments to the risk management strategy.
- **Training:** It is important for members to continuously receive training in emerging risk management techniques and stay updated on changes in the regulatory environment in order to remain effective in their roles.
- **Reporting:** The RMC is required to regularly provide updates to the Board of Directors regarding risk assessment, management, and mitigation strategies.

The effectiveness of the Risk Management Committee in India is primarily determined by the varied expertise and extensive experience of its members. The regulatory requirements establish a basis, but optimal methods indicate that a combination of industry expertise, technical abilities, and governance experience is crucial for the RMC to operate efficiently. This composition guarantees that the committee can provide thorough supervision and strategic direction in handling the wide range of risks that contemporary corporations encounter.

MANDATORY BOARD COMMITTEE REPORT

In India, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, particularly mandate the formation and reporting obligations of the RMC for listed companies. These regulations ensure that the RMC reports regularly to the board about the risk management activities and the status of risk exposure of the company. Compliance with these regulations is not merely a legal formality but a critical component of Corporate Governance that enhances transparency and accountability. The Companies Act, 2013 does not explicitly mandate a Risk Management Committee for all companies but does require certain classes of companies to have an adequate risk management framework. The Act emphasises that the board is responsible for framing, implementing, and monitoring the risk management plan of the company.

Format of the Report

Executive Summary

This section should quickly convey the most important findings and actions regarding risk management within the organisation. It should include:

- **Key Risks Identified:** A summary of the most critical risks that could impact the organisation, sorted by priority.
- **Major Actions Taken:** Brief descriptions of major mitigation efforts and their outcomes.
- **Overall Risk Posture:** A general assessment of the organisation's risk landscape compared to the previous period.

Introduction

The introduction should set the context for the report by detailing:

- **Purpose of the Report:** Clearly state the objectives of the report, such as updating the board on the effectiveness of risk management strategies or highlighting changes in the risk profile.
- **Reporting Period:** Define the time frame covered by the report.
- **Overview of Risk Management Framework:** Describe the key components of the risk management system used by the organisation, including any standard methodologies or frameworks (e.g., ISO 31000, COSO 2004 and 2017, IRM Risk Culture, and IRM Risk Management Standard).

Detailed Risk Assessment

This crucial section forms the core of the report and should be thorough:

- **Risk Inventory:** List each identified risk and categorise them (e.g., strategic, operational, financial, technological, and compliance-related).
- **Risk Impact and Likelihood:** Utilise a scoring system to rate the potential impact (high, medium, and low) and likelihood (frequent, possible, and rare) of each risk.
- **Current Status:** Update on the current status of these risks, noting any changes since the last report. This can include new risks that have emerged and risks that have been successfully mitigated or resolved.

Risk Mitigation Actions

Detail the actions taken to manage identified risks:

- **Action Plans:** Describe specific measures implemented to mitigate each significant risk, including resource allocation, process changes, and control mechanisms.
- **Effectiveness of Actions:** Evaluate the success of these measures in reducing risk exposure, supported by data and analysis.
- **Adjustments and Improvements:** Note any necessary adjustments to existing strategies or new strategies implemented since the last reporting period.

Emerging Risks

Forward-looking insights are critical for proactive risk management:

- **Trends and Predictions:** Analyse internal and external trends that could indicate potential risks, using data analytics, market research, and forecasting techniques.
- **Potential Impact:** Assess the possible effects of these emerging risks on the organisation's operations and strategic goals.
- **Preventive Strategies:** Suggest preventive measures and early response strategies to manage these potential risks effectively.

Compliance and Regulatory Issues

An overview of regulatory landscapes and compliance matters:

- **Regulatory Changes:** Update on any new regulations or changes in the legal environment that impact the organisation.
- **Compliance Status:** Assess the organisation's compliance with applicable laws and regulations, noting any areas of concern or non-compliance.
- **Corrective Actions:** If applicable, detail the steps taken to address compliance issues.

Recommendations

Provide clear and actionable recommendations for the board's consideration:

- **Strategic Decisions:** Propose high-level strategic changes or decisions required to manage risk effectively.
- **Resource Allocation:** Recommend changes in resource allocation to better manage identified risks or to prepare for emerging risks.
- **Policy Updates:** Suggest updates to risk management policies to enhance their effectiveness or to address new challenges.

Appendix and Supporting Information

- **Statistical Data and Analysis:** Include detailed data tables, graphs, and charts that support the risk assessments and conclusions drawn in the report.
- **Methodologies Used:** Describe the methodologies used for risk assessment and management, providing context to the analysis presented in the report.
- **External Sources:** Reference any external sources or benchmarks used for comparison or analysis.

By providing a detailed and structured report as outlined above, the Risk Management Committee can ensure that the board receives all necessary information to understand the organisation's risk landscape thoroughly and make informed decisions. This approach not only supports effective governance but also aligns risk management activities with the organisation's strategic objectives.

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

The SEBI (LODR) Regulations, 2015, reinforce and expand upon the requirements of the Companies Act, 2013, for listed companies. These regulations ensure that listed companies adhere to higher standards of governance and disclosure.

1. Audit Committee

Regulation 18 of SEBI (LODR) requires that the Audit Committee must have a minimum of three members, two-thirds of whom should be Independent Directors. The chairman of the committee must be an Independent

Director. This committee has broader powers under the LODR than under the Companies Act, including the examination of the financial statement and the scrutiny of inter-corporate loans and investments.

2. Nomination and Remuneration Committee

Under Regulation 19 of SEBI (LODR), the Nomination and Remuneration Committee is required to ensure proper compliance regarding the composition of the Board of Directors and it also oversees the process for board appointments and the remuneration policy. This committee's role is critical in aligning remuneration with the performance of the company and its directors, ensuring that the remuneration is reflective of the company's objectives.

3. Stakeholders Relationship Committee

Regulation 20 specifies the role of the Stakeholders Relationship Committee in addressing grievances of shareholders and other security holders. It is crucial for enhancing investor trust and ensuring that grievances are handled efficiently.

4. Risk Management Committee

Though not mandated under the Companies Act, Regulation 21 of SEBI (LODR) recommends that the top 1000 listed entities by market capitalisation appoint a Risk Management Committee. The committee is tasked with framing the risk management policy and monitoring risks related to the business.

The regulatory need for board committees in India under the Companies Act, 2013, and SEBI regulations is a critical element of Corporate Governance, ensuring that companies operate not only with efficiency but with integrity and transparency. These committees play pivotal roles in financial oversight, executive compensation, risk management, and stakeholder engagement, thereby supporting the company's long-term strategy and compliance with legal obligations. This regulatory framework helps in safeguarding the interests of all stakeholders, promoting fairness, and enhancing the company's value and reputation in the long term.

In addition to Companies Act 2013 and SEBI (LODR), there are requirements of Board level Committees by sectoral regulators applicable to listed and unlisted companies operating in these sectors.

MUST-AVOID MISTAKES

When it comes to risk management, certain common pitfalls can significantly undermine the effectiveness of a Risk Management Committee (RMC). Identifying and understanding these mistakes is crucial for any RMC to avoid blunders that could lead to severe consequences for their organisation. Below, we'll explore these must-avoid mistakes in more detail, illustrating them with scenarios to better understand the potential repercussions.

1. Overlooking Emerging Risks

- **Mistake:** Failing to account for new or emerging risks in the risk assessment process.
- **Blunder:** Suppose an RMC at a large manufacturing firm focused solely on operational and financial risks, neglecting emerging technological risks such as cyber threats. A cyber-attack occurs, leading to significant data loss and operational disruption because no pre-emptive cyber risk assessments or mitigation strategies were in place.
- **Consequence:** The Company faces huge financial losses, regulatory penalties for data breaches, and severe reputational damage, impacting investor confidence and customer trust.

2. Lack of Specific Details

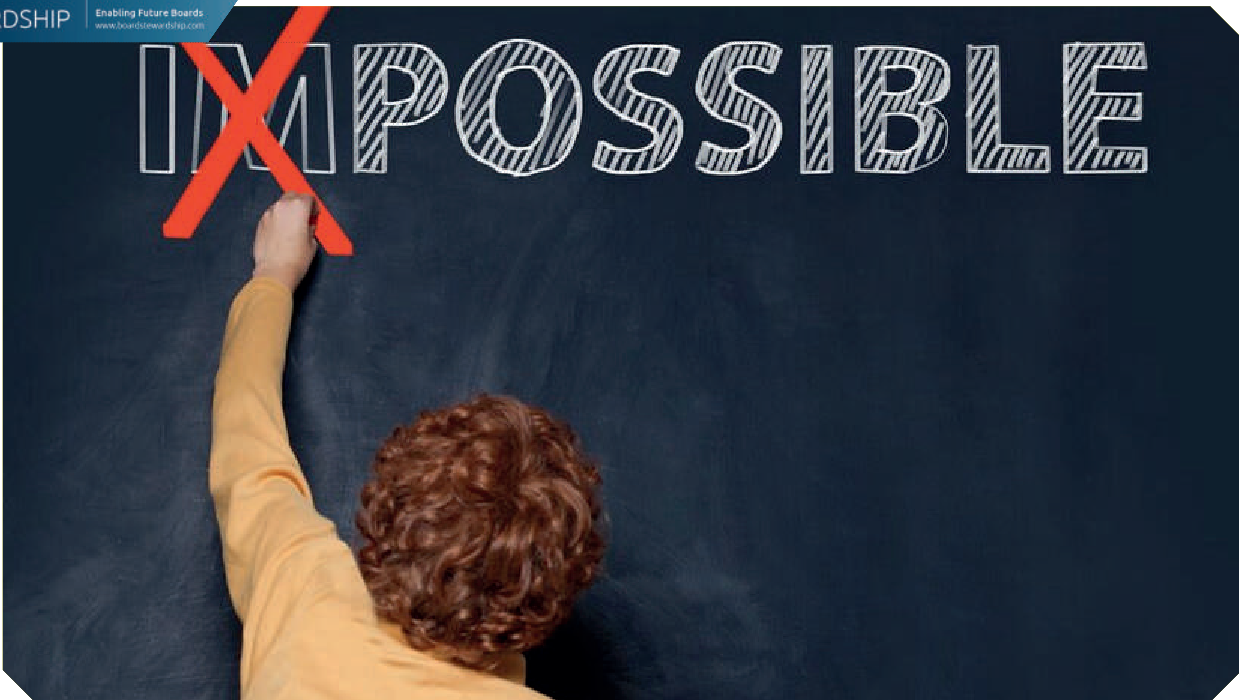
- **Mistake:** Providing vague or non-specific information in risk reports, which does not offer actionable insights.
- **Blunder:** An RMC issues a report stating "there are potential risks associated with market changes," without specifying the types of market changes anticipated, the specific risks involved, or the sectors of the market most likely to be affected.
- **Consequence:** The board is unable to take any preventive measures due to the lack of specific details, resulting in significant losses when a sudden shift in consumer preferences disrupts the market. The generic nature of the report leads to ineffective decision-making at the strategic level.

3. Inadequate Follow-Up on Previous Reports

- **Mistake:** Not providing updates or follow-ups on risks and mitigation measures previously reported.
- **Blunder:** An RMC previously identified a critical compliance risk related to new environmental regulations but failed to follow up in subsequent reports on actions taken or the current status of this risk.
- **Consequence:** The board assumes that the issue has been resolved or is under control, but in reality, the risk remains un-mitigated. Eventually, the company faces legal action for non-compliance, resulting in fines and enforced operational shutdowns.

4. Ignoring Non-Financial Risks

- **Mistake:** Concentrating solely on financial risks while ignoring operational, strategic, regulatory or reputational risks.
- **Blunder:** An RMC at a pharmaceutical company focuses primarily on financial risks such as currency fluctuations and cost escalations, while paying little attention to clinical trial failures or drug safety issues, viewing these as purely operational matters outside their remit.
- **Consequence:** When multiple clinical trials



fail due to inadequate oversight of safety protocols, the company not only faces regulatory setbacks but also suffers from massive R&D sunk costs, delayed market entry for new products, and a tarnished reputation in the industry.

5. Risk viewed in a negative light

- **Mistake:** Viewing the risk function and the governance around risk as a non-value added activity and treating it as something that is required to satisfy regulatory requirements.
- **Blunder:** Risks identified and mitigations suggested by the management function were taken lightly by the management and did not get the required attention at RMC level. This leads to inadequate attention to credit risk in a NBFC resulting in high level of defaults.
- **Consequence:** The NBFC's capital requirement shoots up dramatically even as the rating agencies downgraded the company. This not only led to a high cost of capital but also damaged the future business severely.

6. Poor Communication with Stakeholders

- **Mistake:** Ineffective communication of risk management strategies and outcomes to stakeholders, including employees, investors, and regulators.
- **Blunder:** The RMC develops a comprehensive strategy for managing supply chain risks but fails to communicate these plans effectively to suppliers and logistics partners.
- **Consequence:** When a major supply chain disruption occurs, partners are unprepared to implement the contingency strategies, leading to a breakdown in operations and severe delivery delays that damage customer relationships.

Best Practices to Avoid These Mistakes

1. **Comprehensive Risk Scanning:** Regularly update and expand the risk scanning process to include new types of risks, such as technological, geopolitical, and environmental risks.
2. **Qualified CRO:** Several organisations are now realising the value of a qualified CRO who has completed / earned the IRM Fellowship in Enterprise Risk Management. A qualified and IRM-certified CRO has the experience and expertise to effectively drive risk leadership with the skills to manage risks in any and every area.
3. **Involving all business departments and support functions:** Identifying and developing IRM-certified risk champions who are business owners could be an excellent way to get them involved in risk identification and mitigation.
4. **Detail-Oriented Reporting:** Ensure that all reports are detailed, with specific information on the nature of risks, potential impacts, and recommended actions.
5. **Consistent Follow-Up:** Develop a systematic approach to follow up on all identified risks and the effectiveness of mitigation strategies in each reporting cycle.
6. **Holistic Risk Assessment:** Adopt a broad perspective on risk that includes financial, operational, strategic, and reputational risks.
7. **Effective Communication:** Establish strong communication channels within the organisation and with external stakeholders to ensure everyone is informed and prepared to manage risks effectively.

By recognising and avoiding these common mistakes, RMCs can greatly enhance their effectiveness, contributing significantly to the overall resilience and success of their organisations. Effective reporting by the Risk Management Committee is crucial for informed decision-making at the board level. By adhering to regulatory requirements, following a structured format, including essential sections, avoiding common pitfalls, and embracing best practices, RMCs can significantly enhance the strategic value of their reports, thereby strengthening the overall risk posture of the organisation.

HOW DOES RMC BOARD COMMITTEE DELIVER MOST TO CORPORATE GOVERNANCE

The Risk Management Committee (RMC) plays a vital role in Corporate Governance by ensuring that risks are adequately identified, assessed, managed, and mitigated. Effective Enterprise Risk Management (ERM) and a robust risk culture are key elements in ensuring that Corporate Governance frameworks function as intended. This chapter explores the connection between ERM and Corporate Governance, the importance of a risk culture, and best practices for effective Corporate Governance.

The Interlinkage of ERM and Corporate Governance

Enterprise Risk Management (ERM) is a strategic business discipline that supports the achievement of an organisation's objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio. ERM is integral to good Corporate Governance practices for several reasons:

- **Alignment with Objectives:** ERM ensures that the organisation's risks are managed in alignment with its overall strategic objectives. This alignment is crucial for effective Corporate Governance as it ensures that the board's strategic directives are implemented with a clear understanding of risk implications, enhancing decision-making processes.
- **Risk Identification and Assessment:** ERM involves the systematic identification and assessment of potential risks that might affect the organisation. This process is critical for Corporate Governance because it directly influences the strategic planning and operational policies that the board implements.
- **Risk Monitoring and Reporting:** Continuous monitoring and reporting of risks are key components of ERM that feed into the Corporate Governance framework. This enables the board to stay informed about the organisation's risk landscape and the effectiveness of strategies deployed to manage risks, ensuring that the organisation can respond proactively to changes in its internal and external environments.

- **Compliance and Controls:** ERM frameworks help ensure that adequate controls are in place to manage and mitigate risks, especially compliance-related risks. This supports Corporate Governance by ensuring that the organisation adheres to laws, regulations, and ethical standards, thereby avoiding legal or regulatory penalties and reputational damage.
- **Enhancing Board Risk Oversight:** Effective ERM enhances the board's ability to oversee risk. It provides the board with tools and processes to ensure that they can fulfill their responsibilities in overseeing the development and execution of an effective risk management strategy.

Importance of Risk Culture

Risk Culture refers to the norms and traditions of behaviour of individuals and of groups within an organisation that determine the way in which they identify, understand, discuss, and act on the risks the organisation confronts and the risks it takes. The culture within an organisation significantly influences the effectiveness of its risk management practices.

10 Aspects of Risk Culture from IRM's Risk Culture Guide:

1. **Leadership and Governance:** Effective risk culture starts at the top. Leaders and the board must demonstrate their commitment to risk management through their actions and decisions.
2. **Understanding of Risk Appetite:** Organisations must clearly define and communicate their risk appetite to ensure that all levels of the organisation operate within these parameters.
3. **Incentives:** The incentives and rewards system should support risk-taking behaviour that is in line with the organisation's risk appetite and should penalise behaviours that exceed this appetite.
4. **Risk Communication:** Open communication about risks is essential. All staff should feel encouraged to speak openly about risks and have the channels to do so.
5. **Risk Training and Awareness:** Ongoing training and development programs should be in place to ensure that all employees understand risk and its impact on the organisation.
6. **Accountability:** Individuals and teams should be held accountable for managing risk within their areas of responsibility in line with the agreed risk framework.
7. **Risk Assessment and Management Tools:** Staff should have access to appropriate tools to identify, assess, manage, and report risks.
8. **Integration of Risk Management into Decision Making:** Risk management should be embedded in the decision-making process, not just a compliance or reporting function.
9. **Monitoring and Reporting:** There should be effective mechanisms for monitoring and reporting risks to all stakeholders, providing transparency and early warning of risk exposure.
10. **Organisational Learning:** Organisations should learn from past mistakes and successes in risk management to continuously improve their risk management capabilities.

Best Practices for Effective Corporate Governance

Effective Corporate Governance is crucial for enhancing the value provided to shareholders and other stakeholders. Here are some best practices:

1. **Strong Board Independence**: Ensure that the board has a sufficient number of Independent Directors who can provide objective judgment.
2. **Diversity:** Board diversity in terms of expertise, gender, age, and cultural background can enhance decision-making through a range of perspectives and experiences.
3. **Clear Governance Structures:** There should be clear lines of authority and responsibility across the organisation. This includes well-defined roles for the CEO, the board, and other executives.
4. **Ethics and Compliance**: Promote an organisational culture that prioritises ethical behaviour and compliance with laws and regulations.
5. **Risk Management Integration:** Integrate risk management into company strategy and operation, ensuring that strategic planning and business decisions consider potential risks and their impacts.
6. **Regular Evaluation:** Boards should regularly review and update governance practices and policies to adapt to new challenges and ensure continuous improvement.
7. **Transparency**: Regular and clear communication with stakeholders about the organisation's activities, decisions, and performance supports accountability and trust.
8. **Effective Audit Practices:** Implement robust internal and external audit functions to ensure independent and critical review of financial and operational processes.
9. **Stakeholder Engagement**: Engage effectively with stakeholders to understand their views and incorporate their insights into the governance framework.
10. **Succession Planning**: Have clear succession plans for key executives and board members to ensure stability and retention of institutional knowledge.

Through the effective interlinkage of ERM and Corporate Governance, fostering a strong risk culture, and adhering to best practices in governance, organisations can achieve sustained growth and success, mitigating risks while capitalising on opportunities.

HOW INDEPENDENT DIRECTORS CONTRIBUTE TO THE RMC COMMITTEE

In Corporate Governance, Independent Directors (IDs) hold a pivotal role, particularly within the Risk Management Committee (RMC), where their unbiased oversight can significantly enhance the effectiveness of risk management strategies. These directors bring external perspectives, expertise, and judgement free from the internal politics and conflicts that might affect other board members. This detailed analysis explores how Independent Directors contribute to the RMC, outlining specific actions they can undertake and illustrating their impact through hypothetical case studies.

How Independent Directors Contribute to the Risk Management Committee

Objective Oversight

Independent Directors provide a level of oversight that is unbiased by internal dynamics, which is crucial for genuine risk assessment and management. Their primary loyalty is to shareholder interests and the overall health of the organisation, rather than to the company's management. This position allows them to challenge the management more freely and push for deeper investigations into risk-related issues that might otherwise be overlooked or undervalued by internal members who are potentially vested in the status quo.

Expertise and Experience

Often, Independent Directors come with a wealth of experience and expertise from other companies and industries, which can provide valuable insights into risk management practices that the company might not have considered. Their diverse backgrounds enable them to view problems from different angles and suggest innovative solutions.

Enhancing Credibility

The presence of Independent Directors in the RMC also enhances the credibility of the committee's work, both within the company and with external stakeholders, such as investors and regulators. Their involvement reassures stakeholders that the company is committed to rigorous governance practices and thorough risk management.

Ten Things Independent Directors Can Do in the Risk Management Committee

1. **Advocate for Strong Risk Management Frameworks:** Push for the establishment or enhancement of risk management frameworks that align with the best practices and industry standards (i.e. ISO, COSO, and IRM).
2. **Facilitate Comprehensive Risk Assessments:** Ensure that the risk assessments are thorough and include not only financial risks but also operational, strategic, and reputational risks.
3. **Promote for Good Risk Leadership and Risk-Aware Culture:** Advocate for an IRM-qualified CRO who is an expert in ERM and promote a company culture that understands and respects risk management across all levels of the organisation.
4. **Monitor Risk Management Processes:** Regularly review and monitor the implementation of risk management strategies to ensure they are effective and adjusted as necessary.
5. **Challenge Risk Assumptions:** Question assumptions made in risk assessments and management strategies to avoid complacency and encourage continuous improvement.
6. **Guide on Regulatory Compliance:** Use their expertise to help the company navigate complex regulatory environments and ensure compliance with all applicable laws and standards.
7. **Communicate with Stakeholders:** Help communicate risk management policies and practices to stakeholders to enhance transparency and trust.
8. **Lead by Example in Crisis Management:** Take active roles during crises, guiding the company through risk mitigation and management phases effectively.
9. **Encourage Integration of ERM with Corporate Strategy:** Advocate for the integration of enterprise risk management (ERM) with the overall corporate strategy to ensure that risk considerations are always part of strategic decision-making.
10. **Educate the Board and Management on Emerging Risks:** Keep the board and management informed about emerging risks and global best practices in risk management.

5 Case Studies of Companies Where Independent Directors Made a Difference. The Company Names have been masked to maintain confidentiality.

Case Study 1: TechGlobal Inc.

- **Situation:** TechGlobal faced significant cyber security risks that threatened its intellectual property and customer data.
- **Contribution:** An Independent Director with cyber security expertise recommended implementing advanced security protocols and regular third-party audits, which the company adopted, preventing potential breaches.

Case Study 2: HealthPharm Corp.

- **Situation:** HealthPharm Corp. was navigating complex new healthcare regulations and compliance issues.
- **Contribution:** The Independent Directors on the RMC initiated a comprehensive compliance training program for the board and senior management, significantly reducing legal risks and enhancing regulatory compliance.

Case Study 3: GreenAuto Co.

- **Situation:** GreenAuto Co. faced operational risks related to the sourcing of sustainable materials.
- **Contribution:** An Independent Director advocated for the adoption of a more robust supply chain management system that included risk assessments of all suppliers, particularly those providing critical sustainable materials, which stabilised production and reduced supply chain risks.

Case Study 4: LuxeResorts International

- **Situation:** LuxeResorts faced strategic risks from changing consumer preferences and economic downturns impacting the luxury travel market.
- **Contribution:** The Independent Directors pushed for a diversified investment strategy that included budget and mid-tier offerings, which helped mitigate the risks associated with economic fluctuations.

Case Study 5: AgriTech Solutions

- **Situation:** AgriTech Solutions was vulnerable to reputational risks due to potential environmental impacts of its products.
- **Contribution:** Independent Directors led the development of a comprehensive environmental impact assessment protocol for new products and a corporate social responsibility (CSR) program that enhanced the company's reputation and mitigated potential environmental risks.

Independent Directors are crucial to the Risk Management Committees, where they bring impartiality, expertise, and a commitment to governance that strengthens risk management practices. By actively participating in the risk management process, challenging assumptions, and leveraging their diverse experiences, Independent Directors help safeguard the interests of the company and its stakeholders against a wide array of risks. Their contributions, as illustrated in the hypothetical case studies, show the significant positive impact they can have on a company's risk management effectiveness and overall Corporate Governance.

SUMMARY, GUIDANCE AND CONCLUSION

Navigating the intricate risk landscape is a critical challenge for organisations striving to achieve their strategic objectives. Central to this challenge is the task of defining the organisation's risk appetite—the nature and extent of risks that the board is willing to accept in pursuit of its goals. In this context, the Risk Management Committee plays a pivotal role in establishing and governing this risk appetite, ensuring it aligns seamlessly with the organisation's overarching strategy and risk management capabilities.

The Risk Management Committee is essential for identifying, assessing, and mitigating a broad spectrum of risks, ranging from financial and operational to strategic and reputational threats. Its responsibilities include conducting thorough risk assessments and developing comprehensive risk management strategies that safeguard stakeholder interests and bolster investor confidence. By fostering a culture of proactive risk awareness within the organisation, the committee enhances decision-making processes and encourages constructive debate on significant issues, ensuring that risk considerations are integrated into the company's strategic objectives.

To effectively fulfil its role, the committee must possess a diverse range of skills and expertise. Members should include individuals with industry-specific knowledge, risk management experience, and international insights. This varied perspective enriches discussions and allows the committee to navigate complex risk scenarios adeptly. Furthermore, the committee is responsible for establishing key risk indicators (KRIs) and key control indicators (KCIs), which are crucial for monitoring and managing risk exposure at tactical and operational levels. The governance of the risk appetite framework falls under the purview of the Risk Management Committee, which is tasked with the approval, measurement, and monitoring of risk appetite.

This necessitates an honest assessment of the organisation's risk capacity—encompassing the financial, intangible, and human resources available for managing risk—as well as its risk management maturity, which reflects the skills, knowledge, and attitudes of its personnel alongside the sophistication of its risk management processes and systems. In India's dynamic business environment, the significance of the Risk Management Committee has been reinforced by regulatory frameworks such as the Companies Act of 2013 and guidelines from the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. These regulations mandate the establishment of the committee for the Top 1000 listed companies, recognising the critical role it plays in effective Corporate Governance. By ensuring that risk management strategies are comprehensive and well-integrated into the organisation's operations, the committee enhances organisational resilience in an era marked by digital disruption and regulatory changes. The establishment of this specialised committee underscores the growing importance of holistic risk management in India's corporate landscape. As organisations expand globally and confront emerging challenges, the Risk Management Committee becomes increasingly vital for providing focused oversight and strategic guidance. Its proactive engagement in risk assessment and mitigation not only addresses potential threats but also promotes resilient and sustainable growth. Ultimately, the proactive integration of the Risk Management Committee's insights and strategies into the boardroom will be crucial for driving sustainable growth and success. By aligning risk management practices with the organisation's strategic objectives, the committee empowers the organisation to make informed decisions that balance risk and reward, contributing to long-term shareholder value and solidifying its position in a competitive market.

Conclusion

Effective risk management is increasingly recognised as a cornerstone of Corporate Governance and

sustainable business practices worldwide. As organisations face an array of complex challenges—from regulatory compliance to market volatility—the necessity of comprehensive risk management frameworks becomes paramount. This need is reflected in the diverse regulatory approaches adopted by different countries, each emphasising the importance of risk oversight in fostering organisational integrity and protecting stakeholder interests. In the United Kingdom, the UK Corporate Governance Code mandates that Boards of Directors implement robust risk management frameworks, with a requirement to review their effectiveness annually. This emphasis is further reinforced by the Financial Conduct Authority (FCA) Handbook, which stresses the necessity of internal controls and risk oversight. The FCA's guidelines help ensure that firms maintain high governance standards, ultimately serving to protect the interests of stakeholders, including investors, employees, and customers. In the United States, the Dodd-Frank Act significantly influences the regulatory landscape, particularly for financial institutions.

- This legislation imposes stringent requirements, including comprehensive stress testing and enhanced disclosures regarding potential risks. Such measures promote transparency and accountability, allowing investors to make informed decisions. Additionally, SEC Regulation S-K mandates that publicly traded companies disclose material risks in their filings, ensuring that potential vulnerabilities affecting investments are adequately communicated.
- In Asia, The Corporate Governance Code in Singapore further encourages listed companies to implement sound risk management and internal control systems, promoting a culture of responsibility that resonates throughout the corporate landscape. Australia mirrors this commitment through the Australian Prudential Regulation Authority (APRA) Prudential Standard CPS 220, which obliges authorised deposit-taking institutions (ADIs) to maintain effective risk management frameworks. Additionally, the ASX Corporate Governance Council Principles and Recommendations emphasise the importance of clear disclosure in annual reports, ensuring that Australian companies remain vigilant in their risk management practices.
- Collectively, these mandates across various jurisdictions highlight a global recognition of the importance of risk management in maintaining organisational integrity and safeguarding stakeholder interests. The establishment of risk management committees has emerged as a best practice within this framework, with these committees responsible for overseeing risk management policies and ensuring compliance with regulatory requirements. They also play a critical role in fostering a culture of risk awareness throughout the organisation. In conclusion, effective risk management is not just a regulatory obligation, it is a fundamental aspect of long-term business success.
- The frameworks established in the UK, US, Singapore, and Australia demonstrate a collective commitment to fostering transparency, accountability, and proactive risk management. As organisations navigate increasingly complex risk landscapes, the role of risk management committees becomes crucial in guiding them toward resilience and sustainable growth. By embracing these mandates and promoting a culture of risk awareness, companies can better protect their assets, build stakeholder trust, and thrive in a dynamic global market.

Key words

1. Corporate Governance
2. Compliance
3. Transparency
4. Accountability
5. Ensuring effective risk management
6. Upholding regulatory compliance
7. Potential risks
8. Substantial risks
9. Sustainability
10. Economic liberalisation
11. Increased globalisation
12. Global influence
13. Risk assessment
14. Minimisation procedures
15. Internal financial controls
16. Risk management systems
17. Integrating sustainability and cyber security risks
18. Corporate accountability
19. Risk Appetite and Tolerance Guide
20. Risk appetite
21. Potential risks
22. Risk environment and the effectiveness
23. Integrated risk management
24. Real-time risk assessment
25. Chief Risk Officer
26. Comprehensive strategy

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RISK MANAGEMENT

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