2023 Chief Risk Officer Survey

Navigating compounding threats and emerging opportunities in a fast-moving world

visit.kpmg.us/RiskServices

Table of contents

01 Introduction

Volatile market conditions. Geopolitical instability. Rapid innovation and technological change. Increased business transformation and digitization. Mounting compliance requirements. Stakeholder attention on environmental and social issues.

Across industries, organizations are facing more threats and operating in an increasingly complex risk landscape. Risk functions are balancing pressures to protect against a plethora of fast-moving changes and risks across the business landscape, while also preparing for increased regulation.

Attention is growing on how organizations strategically anticipate and proactively respond to signals, threats, and potential opportunity that positions risk management as a source of competitive advantage. Keeping up with regulations remains a crucial risk-function capability. But today's risk leaders are being asked to do much more than purely back-office compliance. The pressure is on now to align the risk strategy to the growth strategy and enhance overall trust and resilience.

Against these dual challenges, having a robust, modern risk function has never been more vital to an organization's health and future—nor more challenging to create and sustain.

Momentum around risk transformation is mounting as the linkage between business stability and growth becomes clearer, and risk leaders are planning and executing their organizational and technology evolution. Moving forward, aligning risk strategy to business strategy is a top area risk functions are focused on strengthening, but there is work to be done: Today, it is regulators, not boards and C-suite leaders, who are creating the most pressure and interest around risk management.

This report sheds light on how enterprise risk functions are balancing transformation strategies and initiatives around their immediate and long-term priorities to better navigate shifting pressures and threats, take advantage of the latest digital trends, and effectively meet the demands of a new unfolding reality. It is what we set out to investigate through our 2023 KPMG Chief Risk Officer Survey.

Reflecting data from 390 U.S. risk executives, and analysis and perspectives of KPMG Risk Advisory partners, this report unpacks the survey insights to explore current and future challenges, opportunities, priorities, and approaches across five intersecting drivers of risk transformation, all underpinned by shifting technology disruptions and opportunity.

Five intersecting drivers

De-risking: Organizations' efforts to reduce risk exposure and hedge against expected market conditions

Growth or strategic change: Organizations' organic or inorganic growth, change in products, services, delivery channels, and/or other large-scale strategic initiatives

Compliance risk: New or emerging regulatory requirements, non-compliance with existing requirements, or need to enhance the relationship with oversight authorities

Effectiveness and efficiency: Increase the quality, consistency, extensibility, and confidence in risk management requirements and outputs

Cost takeout: Reduce the overall costs associated with the governance, maintenance, oversight, and execution of risk requirements and practices

Research highlights

De-risking

Of the four top future challenges that risk executives identified, they feel least prepared to address economic downturn/recession and geopolitical risks while they feel slightly more prepared for regulatory/compliance risks.

Risk leaders are far more confident about their ability to handle cybersecurity threats/data breaches today. But they cited this as their second-leading risk challenge and 53% consider cybersecurity measures a priority risk area to modernize.

Growth or strategic change

82% of CROs say they have a high level of support from the C-suite in terms of sufficient budget and attention to risk management.

Risk activities set to be strengthened most over the next 2 years: Emerging risk and trend analysis, risk strategy alignment with the business, and data analytics and predictive modelling.

Compliance risk

Regulatory/ compliance issues are the biggest expected risk management challenges in the next 2-5 years.

Regulators/ government agencies and stakeholders/investors are creating the most pressure and interest around risk management.

Effectiveness and efficiency

88% of companies will increase risk management budgets by at least 5% in the next 12 months.

Artificial Intelligence (AI)/ Machine Learning (ML) are by far the most vital digital tools to accelerate risk management processes now and in 2-5 years, followed by cloud and cyber solutions.

The top measures cited for empowering risk teams: Improving data, analytics and visualizations/dashboards; increasing training for employees in targeted areas; and increasing diligence in policy management, controls, and employee accountability.

Cost takeout

The top areas organizations will consider outsourcing/ co-sourcing: Strategic risk management and planning; financial risk analysis, including market, liquidity, and credit risks; cyber security and threat protection services; and technology-driven risk management, such as AI/ML implementation and oversight.

01
02
03
04
05
06
07
08

02 De-risking

Organizations' efforts to reduce risk exposure and hedge against expected market conditions.

Key findings *(Figures 1 and 2)*

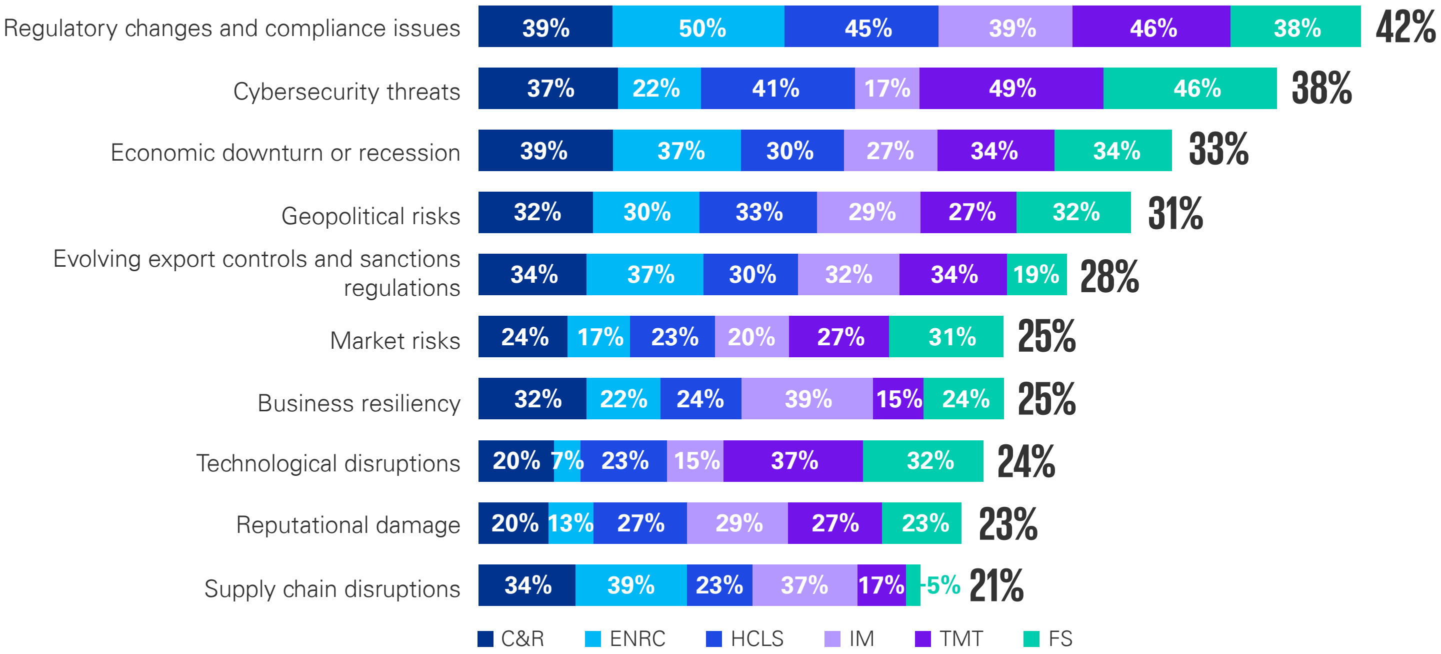
Of the four top future challenges that risk executives identified, they feel least prepared to address economic downturn/recession (40 percent) moderately prepared or worse) and geopolitical risks (37 percent), while they are slightly more prepared for regulatory/compliance risks (28 percent).

Risk leaders are far more confident about their ability to handle cybersecurity threats/data breaches today, with 80 percent feeling well prepared. But they cited this as their second-leading risk challenge, and 53 percent consider cybersecurity measures a priority risk area to modernize in the next two years.

There is a lack of consensus about the top risk challenges ahead: No individual risk factor is identified as a top risk challenge by more than 50 percent of respondents.

Figure 1. Biggest challenges within next 2-5 years

What do you think are the biggest challenges your organization will face within the next 2-5 years?



Notes: N = 390. Industries surveyed: Consumer and Retail; Energy, Natural Resources & Chemicals; Healthcare and Life Sciences; Industrial Manufacturing; Technology, Media & Telecommunications; and Financial Services. Multiple select: Select up to 5, Only the top 10 options selected by respondents have been displayed in this graphic

Key findings *(Figure 2)*

Across nearly all risk challenges, the largest companies rate themselves well prepared.

Technology disruption and outdated systems (e.g., generative AI) rank as a middle-of-the-road threat, and 70 percent of respondents say they are well prepared or very well prepared to address these risks.

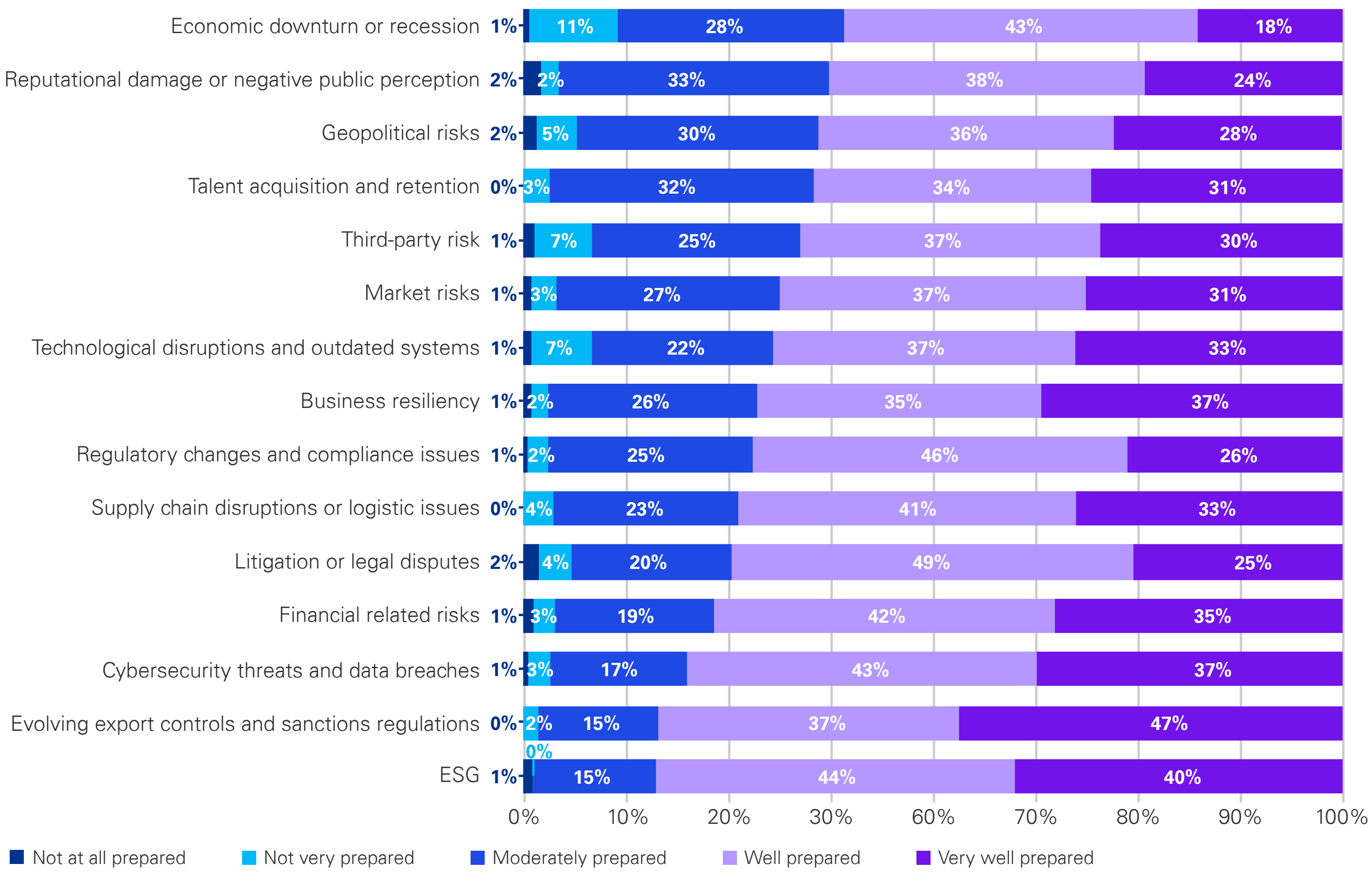
Other key findings

Barely one-third of companies (35 percent) use predictive modeling to anticipate potential risks.

Thirty-nine percent of risk leaders say they use cybersecurity solutions to accelerate risk management processes, tied as the second most valuable digital tool.

Figure 2. Preparedness to address risk challenges

Of the challenges you selected, how prepared is your organization to respond to and appropriately manage these risks?



Note: Only respondents who selected categories as a top challenge (Figure 1) rated their preparedness.

Drivers

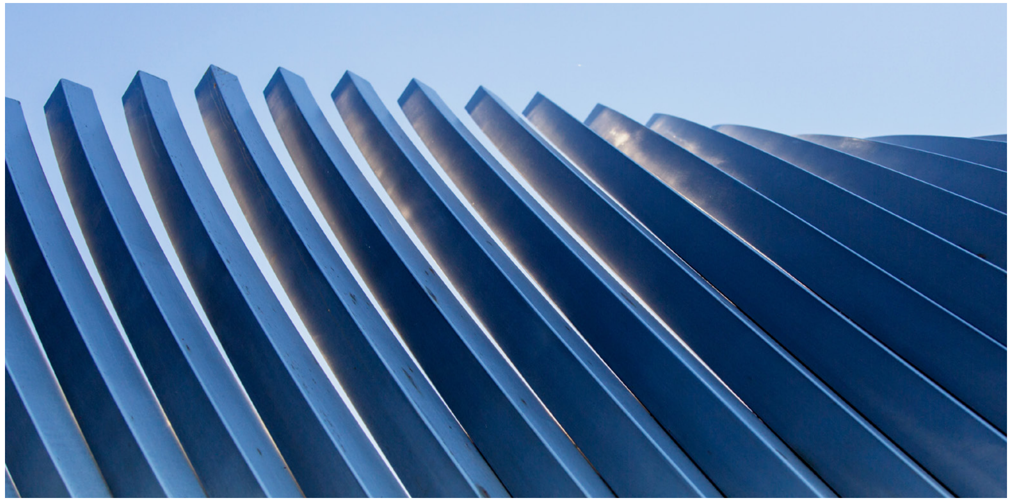
- Most organizations find themselves in an economic, geopolitical, and fiscal environment characterized by multiple, highly complex issues that create tremendous uncertainty. These interrelated risks create a cumulative effect of compound volatility. Managing compounding risks is a significant challenge as they cross many risk function siloes, meaning no one person is on the hook, but everyone is affected. Major disruptions—e.g., climate events with massive impacts on sectors and portfolios; large bank failures and contagions; wars, trade conflicts, and supply chain failures—are happening at greater frequencies and exacerbating the total level and scope of risks to organizations.
- According to KPMG research, U.S. CEOs cite geopolitics and political uncertainty, as well as emerging and disruptive technology, as top risks posing the greatest threats to growth over the next three years.[1]
- Companies are good at responding to crises, but not preparing for them. Highly volatile risk areas—economic and geopolitical issues—are especially challenging to anticipate and plan for. Investing to protect the business from a very rare event is difficult since most risk functions estimate the most likely risk events using complicated math based on historic patterns. Further, boards and management generally have a hard time making ROI tradeoffs for high impact but very unlikely events.
- Companies are also intent on strengthening cyber security measures to safeguard against potential threats—another rapidly evolving risk area with lots of unknowns. This is despite the fact that risk leaders feel relatively comfortable with their organization's current level of cyber preparedness. CEOs have a more skeptical view: 72 percent agree cybercrime and insecurity would negatively impact their prosperity.[2]

[1] 2023 KPMG U.S. CEO Survey
[2] Ibid.

Recommendations

Integrate technology to embed risk information closer to where risk is managed

- Integrating technologies to embed risk management closer to the point of risk origin can better equip and empower the organization to execute its high-stakes risk management activities with greater speed, precision, insight, and agility. Invest in a modern, centralized risk technology architecture based on platform and solution integration across the organization to capitalize on the latest risk intelligence tools and collect and analyze data across risk domains, surface insights, identify risks, and accelerate decision-making.
- Stronger data integration between risk and the business and across disparate systems also unlocks greater understanding about compounding effects across multiple risk disciplines. Rather than looking at risks in a silo, it helps surface insights about the interconnectedness of decisions, events, activities, or findings across functions.
- Building system interdependencies can also help enable the use of finance data, which is usually granular and precise, alongside risk data to drive better decisions.



Develop a comprehensive data strategy for producing and disseminating risk insights to all stakeholders

- Elevate risk awareness and strengthen resiliency by improving understanding of vulnerabilities through storage, maintenance, and analysis of data and using advanced dashboarding capabilities to enable real-time and continuous monitoring.
- Providing greater transparency on risk analytics and insights will significantly improve an organization's risk profile. With clarity on what the risks are, stakeholders across the enterprise can quickly prioritize action and act to address risks when they are not comfortable.
- Indeed, unlocking powerful data analytic capabilities is a crucial de-risking enabler. Improving the structure, access, and quality of data will enable risk teams to get more value from the information they are already harvesting.
- Improving connectivity of data is especially powerful, as it gives organizations greater insights quicker and in real time, which can enable proactive risk management.
- Moving from qualitative to quantitative, data-driven risk assessments and decision-making will also help organizations spot and act on risk signals to reduce risk exposure and impact and adopt a more proactive risk posture.

Reimagine scenario, crisis, and continuity planning

- Risks you cannot control are hard to feel good about. Boards and leaders continue to ask "what if" questions, putting stress on the organization to answer and prepare, including enhancing scenario planning capabilities.
- Building resilience concepts into the risk management framework will help ensure first line risk processes and controls stand firm in the event of disruption (e.g. COVID-19, 2023 bank market stress events, geo-political sanctions).
- To hedge against unusual risks, allocate more "time, talent, and treasure" to improving understanding of and planning for the "tails"—the less likely, very but high-impact risks.
- Since some risks simply can't be well planned for, it is also critical to look at business continuity and crisis planning and management through a new lens. Resilience plans must go beyond documenting how to get core platforms back up and running and incorporate robust processes to minimize disruption to the marketplace, customers, and employees if and when events happen.
- While complex, external risks like economic downturn, geopolitical instability, and the COVID-19 pandemic certainly may require enhanced attention, don't forget the array of other risks facing enterprises. Despite organizations operating in an era of compound volatility, organizations generally say they feel prepared to address risk challenges.

Keep pace with technology change

- With technology evolving faster than cybersecurity, risk management, and governance, companies should thoroughly assess changes to vulnerabilities due to the integration of emerging technologies across the enterprise.
- Generative AI in particular is disrupting business at unprecedented scale and speed, and it poses a unique set of challenges. Organizations should move quickly to establish clear ethical guidelines and standards for the development and use of generative AI technologies.

Despite organizations operating in an era of compound volatility, organizations generally say they feel prepared to address risk challenges.

03 Growth or strategic change

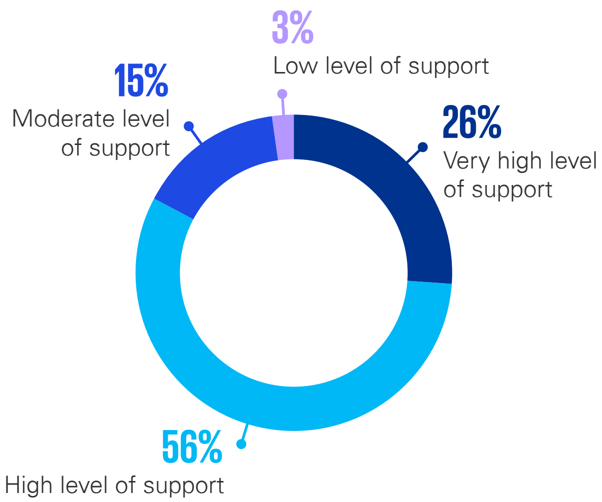
Organizations' organic or inorganic growth, change in products, services, delivery channels, and other large-scale strategic initiatives

Key findings *(Figure 3)*

Four out of five CROs (82 percent) say they have a high level of support from the C-suite in terms of sufficient budget and attention to risk management. Most of those who lack support say they want greater alignment of risk management to business strategy.

Figure 3. C-suite support for risk management

How would you rate the level of support the risk function receives from the C-suite and senior management, in terms of sufficient budget, C-suite attention to support risk management efforts, and overall alignment of the risk management business strategy?



Note: N = 390, Single select: Rate from 1-5

Key findings *(Figure 4)*

The top three strategies risk leaders think can better align risk with the strategic goals of the business: Providing training and resources for employees on risk management and corporate strategy alignment; analyzing risk mitigation successes and updating the corporate strategy accordingly; and fostering a strong risk and compliance culture as part of enterprise-wide strategy.

Figure 4. Strategies to align risk and strategic goals of business

Looking ahead over the next 2-5 years, what can your organization do to effectively align or continue to align risk objectives to the strategic goals and priorities of the business?

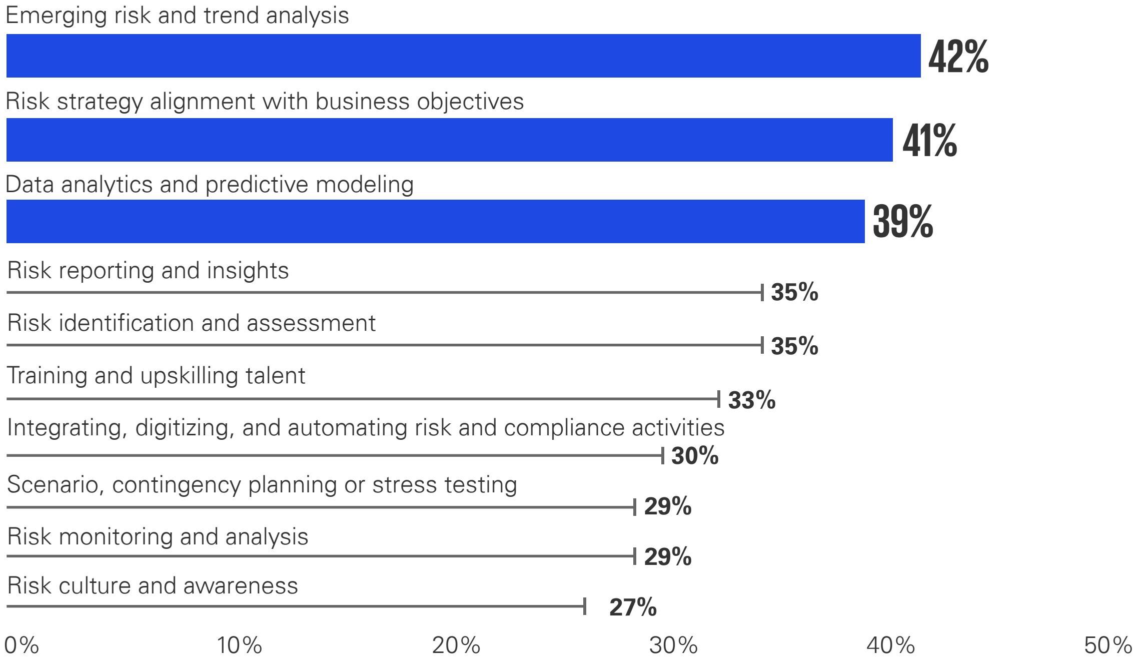
Note: N =390, Multiple select

Key findings *(Figure 5)*

The risk activities set to be strengthened most over the next two years: Emerging risk and trend analysis, risk strategy alignment with the business, and data analytics and predictive modeling.

Figure 5. Risk activities set to be strengthened in the next 2 years

Which risk management framework components and activities within your risk organization will be enhanced/strengthened the most over the next 2 years?



Note: N = 390, Multiple select

Drivers

- Enterprises increasingly recognize the value of strategic risk management as risk teams shift their posture from being backward looking and control focused to a more proactive posture as forward-looking business partners.
- Linking risk to strategy enables the risk organization to demonstrate value for the cost of risk beyond compliance, such as by leveraging rich data sets to provide more insights more proactively and support better business decisioning. As a result, strengthening risk strategy alignment with the business has become a priority for risk leaders to ensure the organization is focused on the right risks at the right time to help drive organizational value.
- At the same time, risk groups often do not work close enough with the business to ensure its direction and activities support strategic organizational goals.
- The ability to "sell" risk management is a serious problem. Risk leaders often struggle to rally leaders with different priorities to invest in risk management. When programs and investments are pushed to the side, it hurts the effectiveness of the risk function, leaving risk teams focused on meeting requirements versus affecting positive change.
- Rapid market, technology, industry, and regulatory changes are forcing companies to evolve their strategies, operations, and business models very quickly. As enterprises urgently pivot to stay in front of such velocity of change, risk organizations must adapt just as quickly. Because changes in the environment are inevitability accompanied by new and changing risks.

Strengthening risk strategy alignment with the business has become a priority for risk leaders to ensure the organization is focused on the right risks at the right time to help drive organizational value.

Recommendations

Empower risk talent as business advisers

- Investing in business-savvy risk talent who are capable and empowered to ask and respond to tough strategic questions and bring an independent point of view will help risk functions challenge the business when required and contribute greater overall business value.
- Ensure trusted, respected risk professionals who sit outside of independent functions report high enough in the hierarchy to affect positive strategic change and help drive a risk mindset up and down the organization.
- Elevating training is a must, particularly around strategic thinking skills. Risk leaders will need to bring strategic insights that create value aligned to the business objectives to earn regular inclusion in strategic business discussions.

Update the risk framework to align with business goals and execute it with agility

- To make progress on strategic enterprise risk management, incorporating shifting risks and strategic changes into the risk framework should be a key risk transformation goal.
- Helping the organization make decisions and investments where there is greater certainty of upside and reduced severity of downside will enhance the risk function's value to the enterprise. As such, the risk framework should be designed to surface and disseminate information that business decision makers should know but don't know, provide informed perspectives on "what if" scenarios," and tap the brakes when appropriate.
- It is also important to know when to veer away from the playbook. Executing the risk framework blindly, without asking strategic, forward-looking questions can cause risk leaders to miss important opportunities.

04 Compliance risk

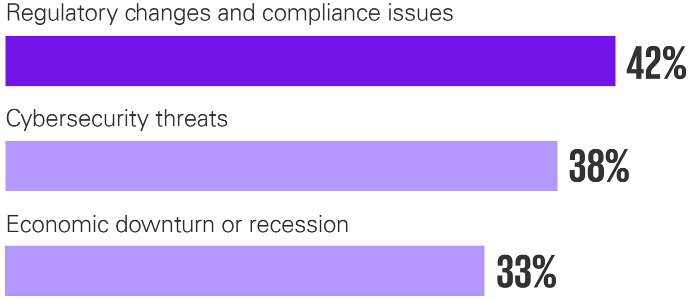
New or emerging regulatory requirements, non-compliance with existing requirements, or need to enhance the relationship with oversight authorities

Key findings *(Figure 6)*

Regulatory/compliance issues are the biggest expected risk management challenges in the next two to five years.

Figure 6. Most CROs say regulatory changes and compliance issues are a top challenge

What do you think are the biggest challenges your organization will face within the next 2-5 years?



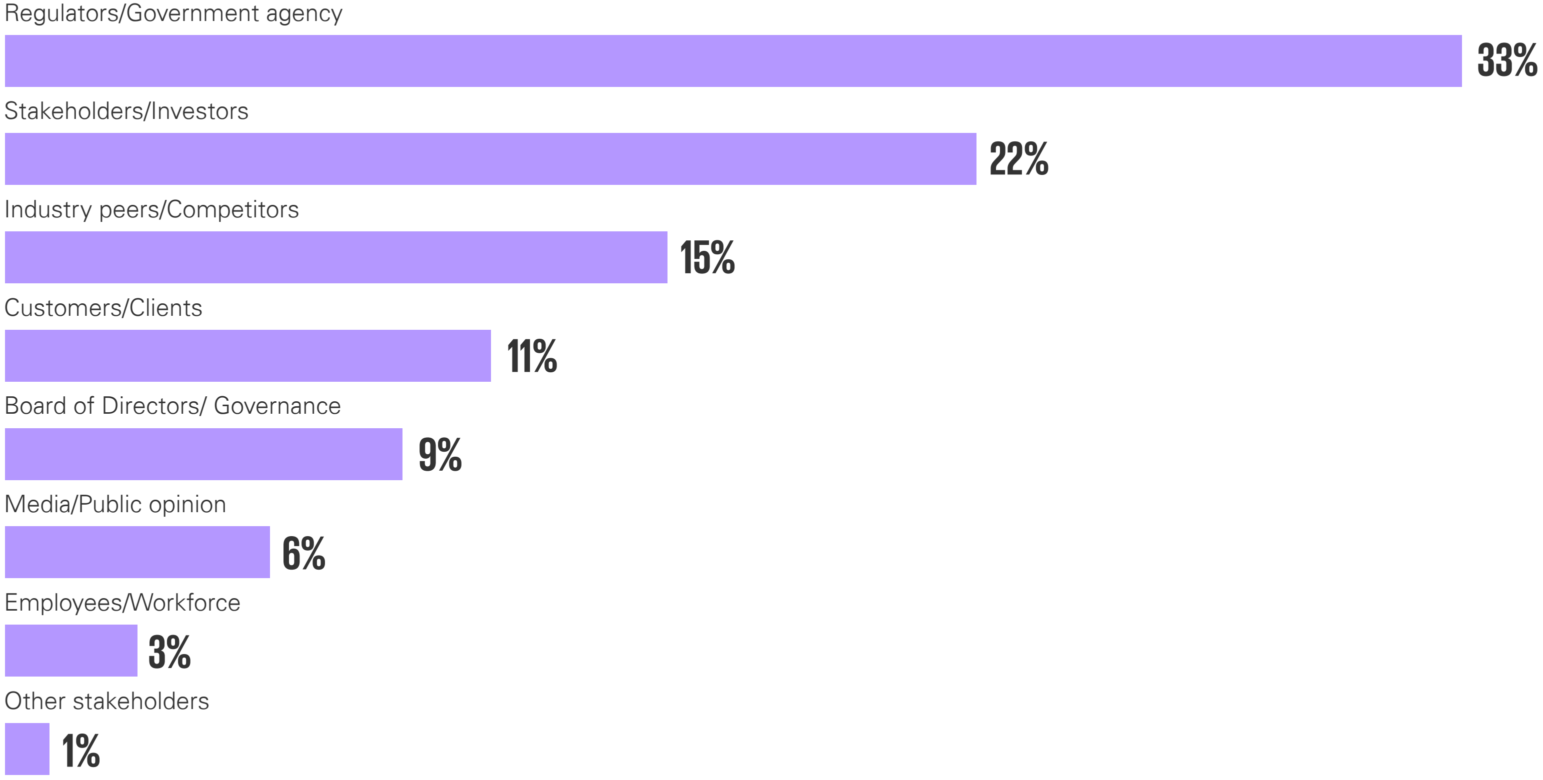
Notes: N = 390, Multiple select: Select up to 5, Only the top 3 options selected by respondents have been displayed in this graphic

Key findings *(Figure 7)*

Regulators/government agencies (33 percent) and stakeholders/investors (22 percent) are creating the most pressure and interest around risk management.

Figure 7. Sources of pressure and heightened expectations on risk functions

As it relates to risk management, from which of the following stakeholders are you getting the most pressure, interest, and/or heightened expectations?



Notes: N = 390, Single select, Other stakeholders included Senior management/CEO

01
02
03
04
05
06
07
08

Drivers

- The pace, scale, and complexity of regulatory activity (e.g., SEC, large global regulations), coupled with economic pressures and quickly evolving technological advances, increase risks and add to business as usual compliance operations.
- The expanding "regulatory perimeter" increases the breadth of examinations and investigations, using existing regulations and jurisdictional authority.
- Regulators and boards will look for demonstrable evidence of compliance critical challenge, domain skills, and dynamic risk assessment, as well as proper resourcing and investment.
- Rulemakings and enforcement actions consider robustness of risk frameworks across Risk and Compliance with more focus on corporate and individual accountability.
- In addition to board and regulator/examiner pressures, investors/shareholders, customers, employees, and the general public (e.g., through social media) may exert pressures on companies and hold them accountable for their strategies, operations, and compliance activities.

Building scalable and integrated risk and compliance programs will help risk deliver the same or expanded capability, but in a more efficient way, and also allow for the onboarding or adaptation of the existing risk framework to manage new or evolving compliance risks.

[3] 2023 KPMG U.S. CEO Survey

Recommendations

Align compliance risk activities with strategic business priorities

- Prioritize compliance risks as integral with strategic business priorities and funding. Build compliance assessments and controls upfront and ongoing, as a core element to business strategy.
- Expend effort to understand the principles that regulators are looking to see the organization embrace, in addition to the formal regulatory obligations, and align the risk strategy to meet those objectives.
- While it might require significant changes to the risk function, don't shortcut potential issues with regulators or other stakeholders and be sure to appropriately assess potential risk impacts. Invest accordingly to help ensure small problems don't become big.

Optimize and modernize compliance risk capabilities

- Building scalable and integrated risk and compliance programs will help risk deliver the same or expanded capability, but in a more efficient way, and also allow for the onboarding or adaptation of the existing risk framework to manage new or evolving compliance risks.
- Organizations can also do more with less by adopting the principle of simplification across risk frameworks, technology, information and reporting, and services provided to the organization.

Add value beyond compliance risks

- Risk and compliance teams should have a focus not only in preventing, detecting and responding to compliance risks but in driving trust across the commercial needs of the business.

05 Effectiveness and efficiency

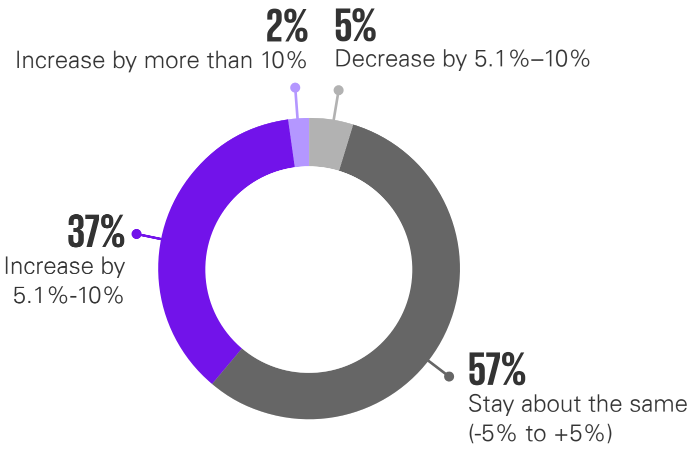
Increase the quality, consistency, extensibility, and confidence in risk management requirements and outputs

Key findings *(Figure 8)*

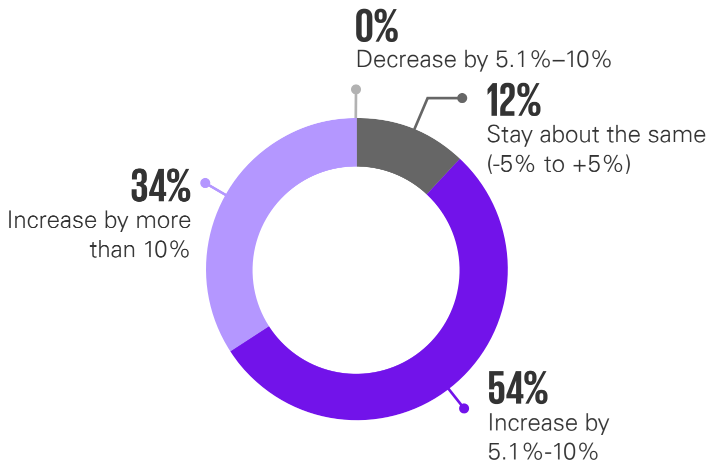
Eighty-eight percent of companies will increase risk management budgets by at least 5 percent in the next 12 months.

Figure 8. Risk management budget allocation

How has the budget for your organization's risk management efforts changed within the LAST 12 months?



How will that budget change in the NEXT 12 months?



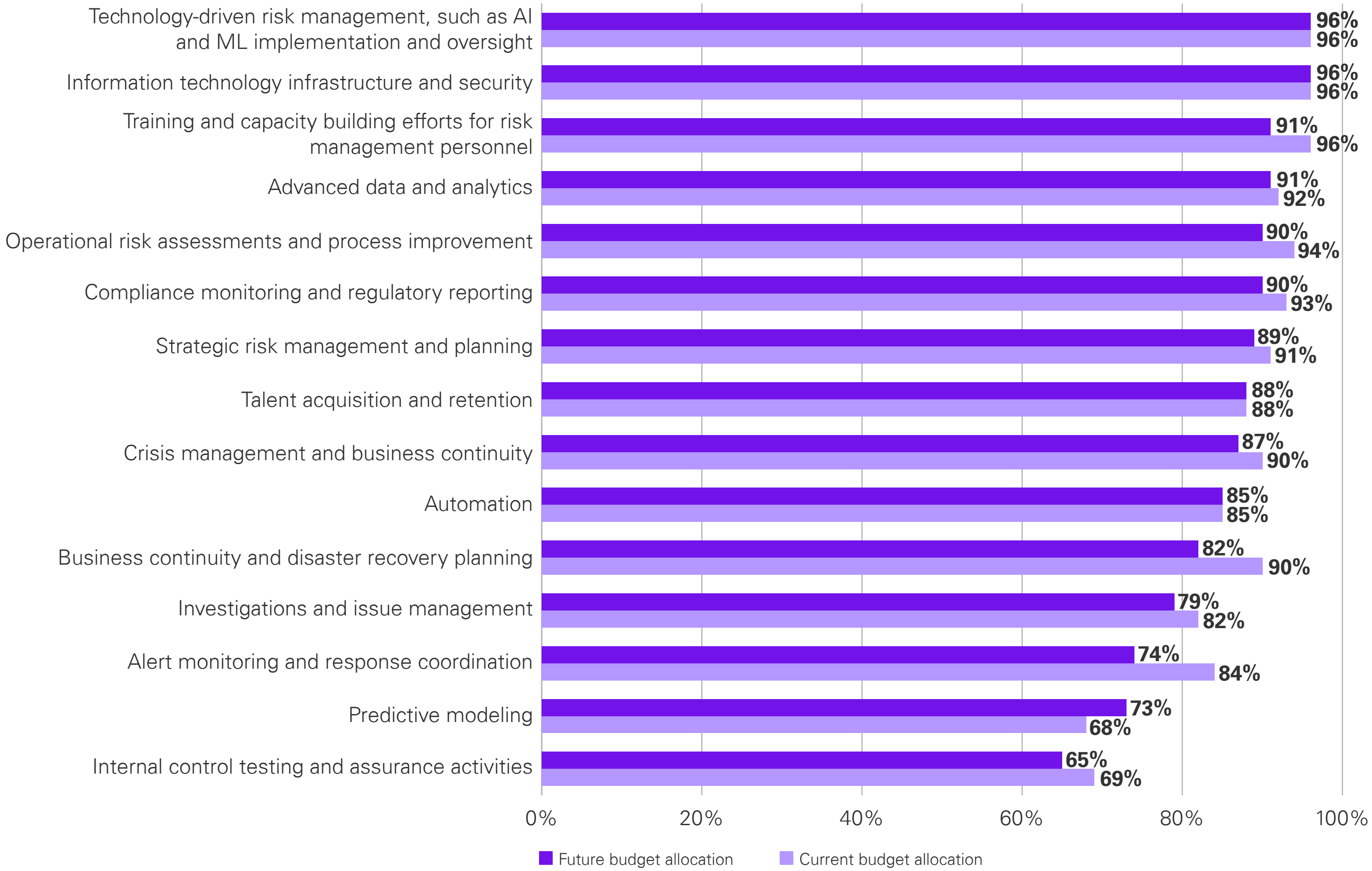
Note: N = 390, single select, total might not add up to 100% due to rounding off error

Key findings *(Figure 9)*

Those organizations planning to increase their risk management budgets intend to lean heavily into technology, data and analytics, and building the skills of their teams. The top four priority areas for greater resource allocation are technology-driven risk management, IT infrastructure and security, advanced data and analytics, and training and capacity-building efforts for risk management personnel.

Figure 9. Variance in budget allocations today vs. next 12 months

How is your risk management budget allocated today? How do you anticipate allocating your risk management budget for the next 12 months? Variance shown below.



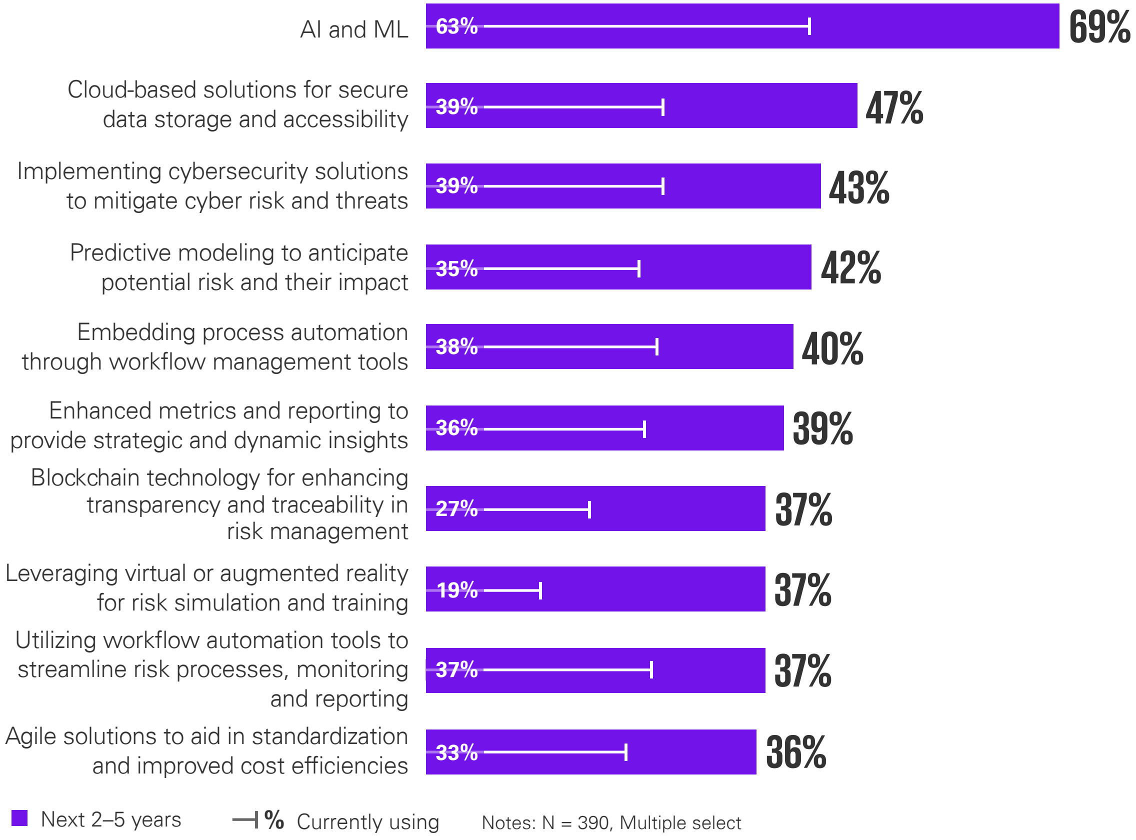
Note: N = 390; shows comparison of how respondents allocated percentage of budget across selections that sum to 100% respective for "today" and "next 12 months".

Key findings *(Figure 10)*

AI/ML are the most vital digital tools to accelerate risk management processes now and in two to five years, followed by cloud and cyber solutions.

Figure 10. Top digital tools/solutions to accelerate risk management processes

Which digital tools/solutions are you using to accelerate risk management processes within your organization? Looking ahead to the next 2-5 years, which digital tools/solutions do you believe would further assist and optimize your risk management processes?



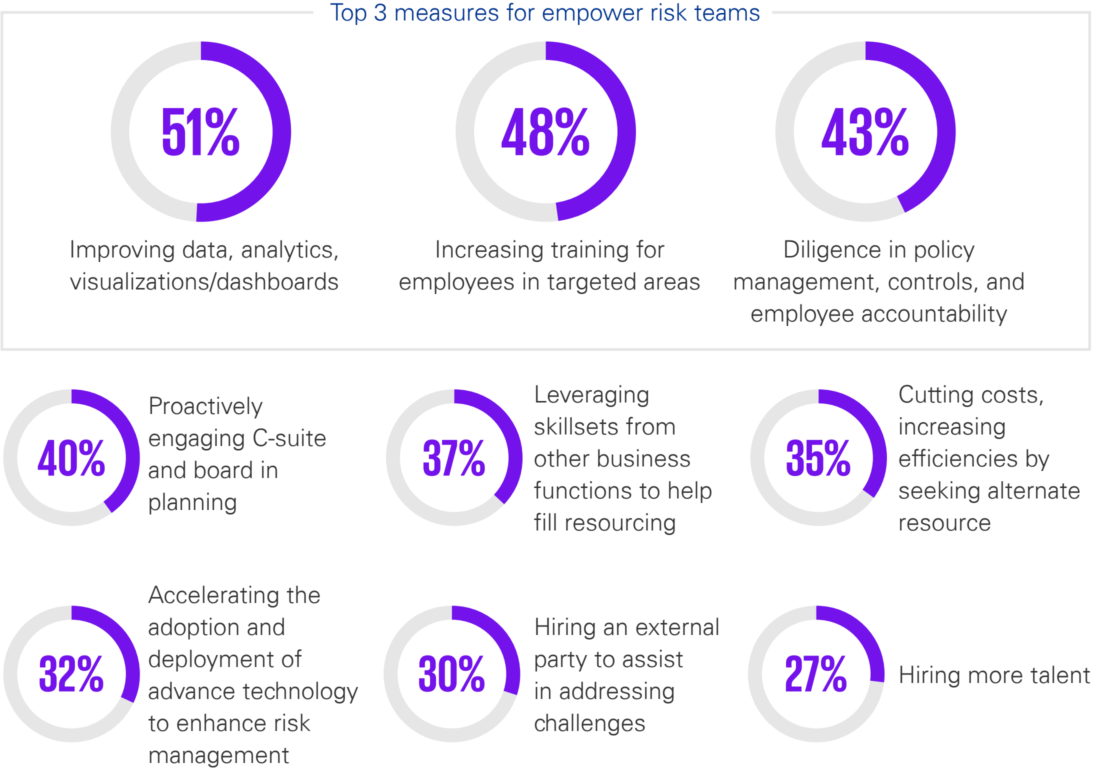
Notes: N = 390, Multiple select

Key findings *(Figure 11)*

The top measures for empowering risk teams: Improving data, analytics, and visualizations/ dashboards; increasing training for employees in targeted areas; and increasing diligence in policy management, controls, and employee accountability.

Figure 11. Focus areas for preparing to address risk challenges

How are you empowering your team to prepare for and address these challenges?



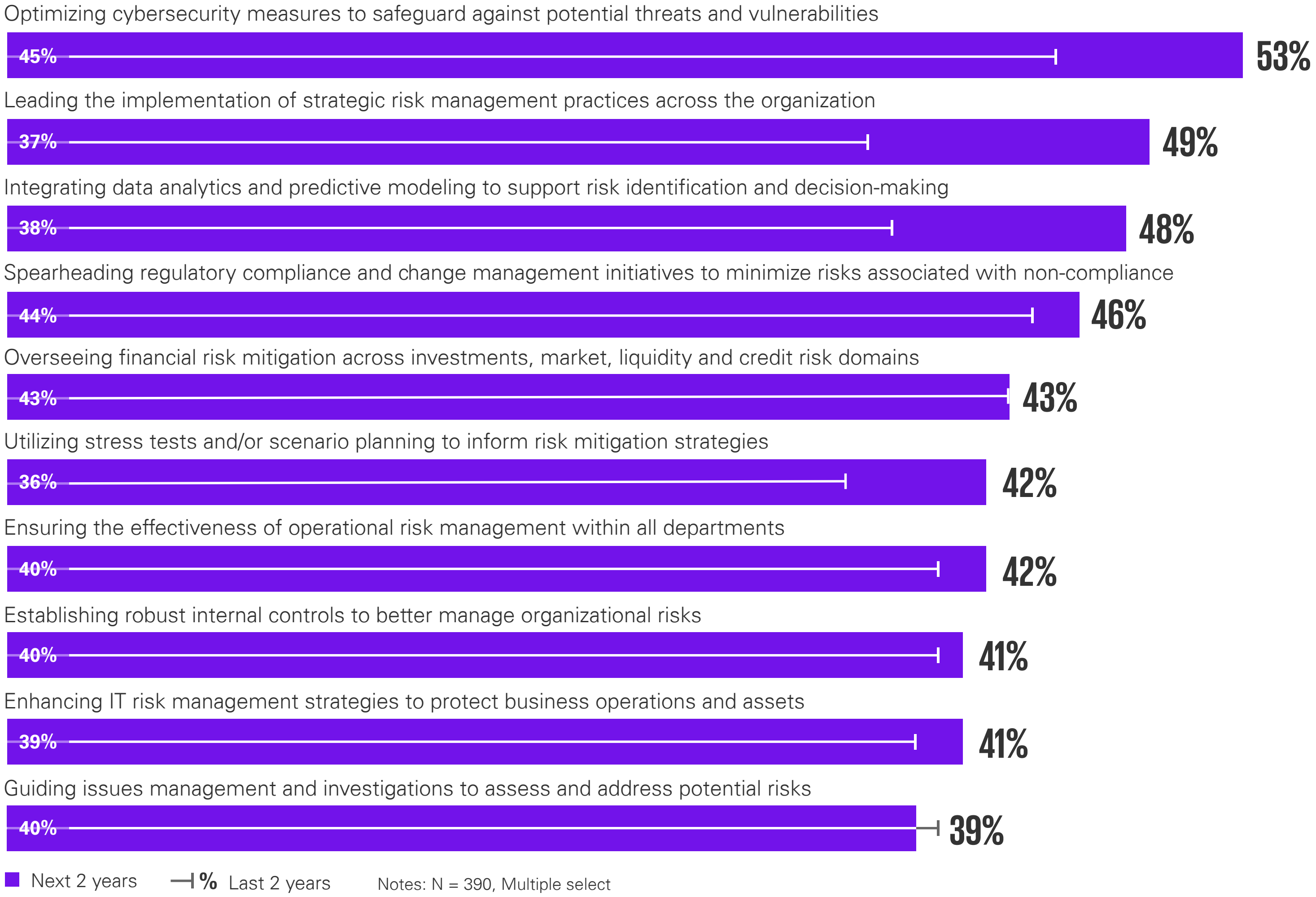
Notes: N = 390, Multiple select

Key findings *(Figure 12)*

The risk areas CROs say are the greatest priority to modernize in the next two years: Optimizing cyber security measures to safeguard against potential threats and vulnerabilities; leading the implementation of strategic risk management practices across the organization; and integrating data analytics and predictive modeling to support risk identification and decision-making.

Figure 12. Risk area modernization priorities

Which risk areas in your organization have you already advanced or modernized within the last 2 years? Which risk areas in your organization have the greatest priority to advance or modernize in the next 2 years?



Notes: N = 390, Multiple select

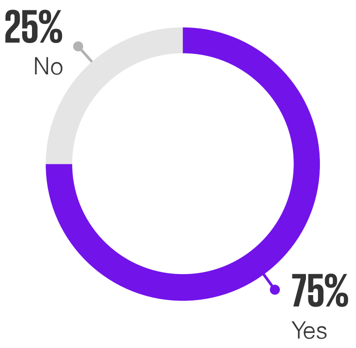
01
02
03
04
05
06
07
08

Key findings *(Figure 13)*

Three-quarters of companies use AI and ML in their risk management practices, with the leading use cases being monitoring success of implemented tools and considering technical feasibility and alignment with organizational capabilities.

Figure 13. Digital tools and solutions for optimizing risk management processes and use cases for AI

Does your organization utilize AI and ML in its risk management practices?

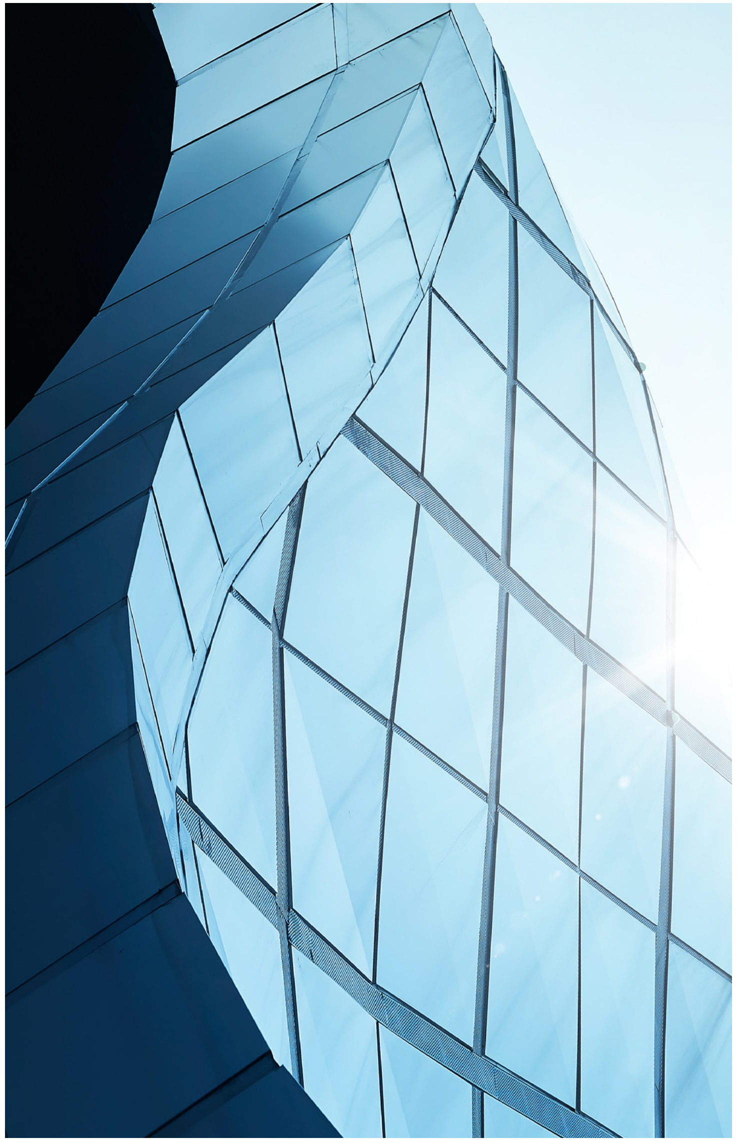


Notes: N = 390, Single select

For which of the following use cases does your organization use AI and ML in your risk management practices?

- 51% Monitor the success of implemented AI and ML
- 50% Consider the technical feasibility and current state
- 49% Collaborate with industry peers
- 46% Identify the specific risks associated
- 44% Engage cross-functional teams of stakeholders
- 37% To conduct a cost-benefit analysis

Notes: N = 294, Multiple select

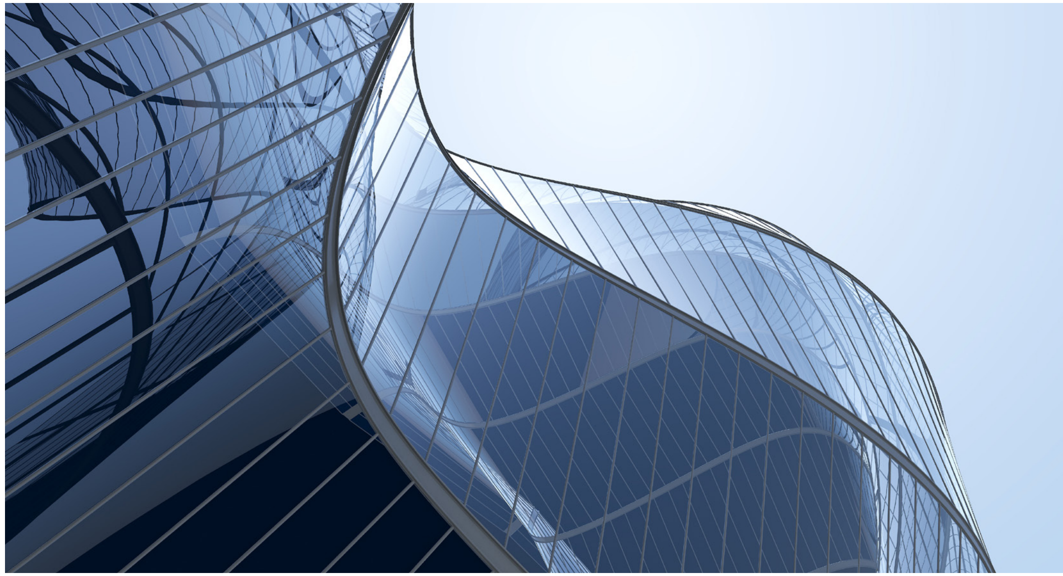


Drivers

- Today's risk functions face a tall order to actively contribute to their long-term viability, growth, prosperity, and trust. Building and managing the complex array of elements required to carry out risk efforts requires new levels of flexibility, capability, scalability, and interoperability.
- Technology-related risks are becoming a larger part of the enterprise risk portfolio. Greater use of technology throughout the enterprise is increasing external cyber and data threats, which move rapidly and can become destructive quickly. Meanwhile, risk organizations are integrating technology to deliver risk services more efficiently and flatten the cost curve as inflation threatens revenue growth.
- With risk management budgets set to rise this year, many companies are investing now for future returns. In the coming years, enhancing their technological capabilities will allow them to do more with less or the same. Enterprises are making upfront investments in tools, infrastructure, datasets, and skillsets for risk management, with the overall objective of effectiveness of risk management and compliance to drive long-term ROI through increased efficiencies and decreased costs.
- As they integrate new technology, risk functions are also adopting a "trust-but-verify" mindset, including reinvesting in risk by doubling down on supervision of the control environment.

With risk management budgets set to rise this year, many companies are investing now for future returns. In the coming years, enhancing their technology capabilities will allow them to do more with less or the same.

- Digital transformation will be critical to driving efficiency and effectiveness of risk activities. Legacy compliance solutions are disparate and task-specific, making it time- and cost-intensive to assemble a complete picture of the organization's risk exposure, let alone detect and respond to issues before they occur. The good news is that the perception that digital acceleration itself is a risk is being challenged. Leading risk functions are generating genuine, measurable value from digital acceleration and showing others how to be successful and what good looks like.
- AI/ML is recognized as an especially high-potential area. However, risk managers are primarily focused on how the business uses AI, not how to use AI for risk management itself, and many enterprises are struggling for real use cases. Generative AI is particularly tricky to implement for risk, given the lack of accepted methodologies for managing and regulating models and validating outputs.



Recommendations

Let business strategy guide modernization efforts

- Technology is at the heart of efforts to improve risk efficiency and effectiveness. A leading digital environment enables the risk function to embed risk management closer to the point of risk origin, automate routine processes and reduce manual efforts, and accelerate access to risk information from across the business. Organizations that use modern technology to improve, update, and enhance their risk function are better able to meet heightened expectations and turn risk management into a competitive advantage.
- The most successful risk functions leverage the power of technology convergence. Take a broad view of technologies, knitting them together to empower one another to support larger enterprise goals.
- Individual digital tools can help drive specific outcomes. But collectively, they are especially powerful, transforming the risk ecosystem into one that can respond to changing circumstances and improve over time.

Technology is at the heart of efforts to improve risk efficiency and effectiveness. Organizations that use modern technology to improve, update, and enhance their risk function are better able to meet and even exceed expectations—turning risk management into a future competitive advantage.

- Ensure digital acceleration of the risk function is in sync with the organization's transformation goals. Integrating strategically selected digital tools and techniques into risk processes in a way that is aligned to where the organization is headed can meaningfully propel its transformation.
- Assess technology effectiveness in the risk function honestly. Overestimating technical capabilities will stifle value realization from digital investments. While respondents have a relatively high degree of confidence in their capabilities to implement new tools, they have not yet identified real use cases for them and are still kicking the tires.

Support technology changes with organizational changes

- Anchor digitization beyond technology to include people and process. Day-to-day mindsets and behaviors of everyone in the risk function should contribute to risk's transformation, shifting the focus from building one-off solutions to sustaining an integrated, digital-first strategy and operating model in risk.
- The skill sets for delivering risk services are changing. To manage the challenges in front of them, risk functions will need to acquire or upskill talent, especially in technical areas. Supplementing risk professionals with technical resources, including big data skills and the ability to build and use emerging technologies, will be important to future readiness.
- Enhancing risk preparation is largely being done internally, with a focus on training and analytics. Consider also how external partners can help close technical and other gaps, and enhance existing risk management capabilities.

06 Cost takeout

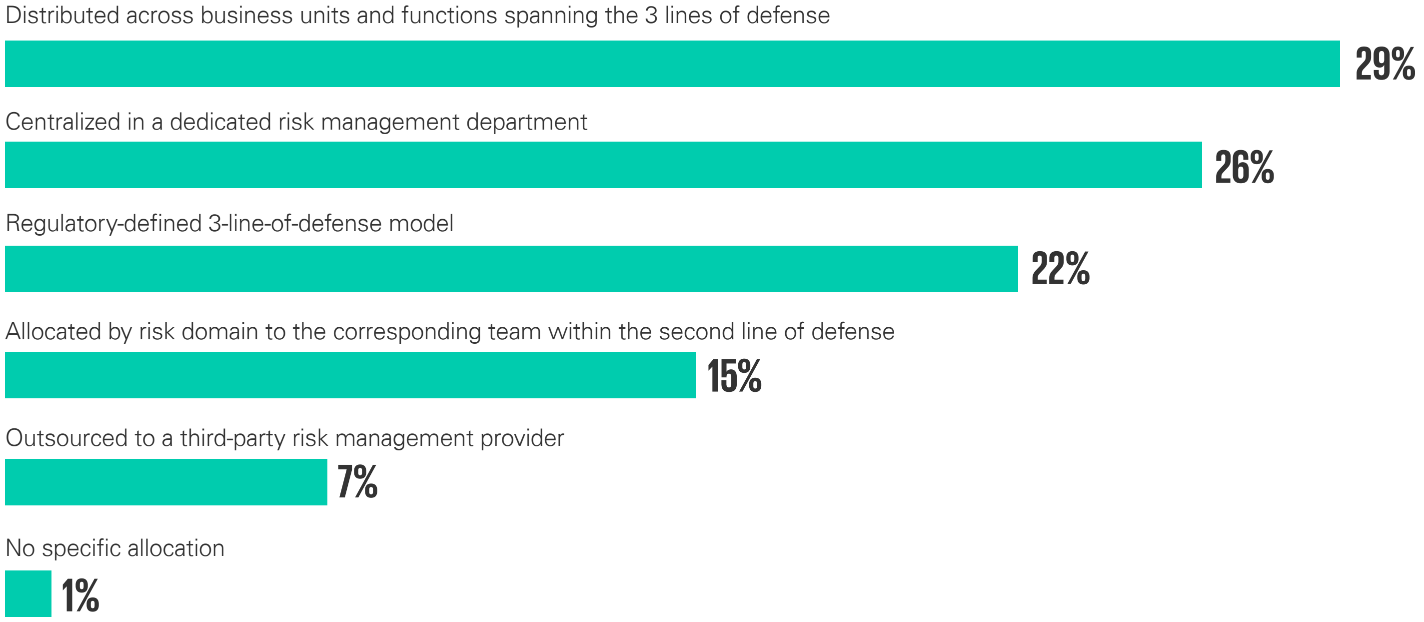
Reduce the overall costs associated with the governance, maintenance, oversight, and execution of risk requirements and practices

Key findings *(Figure 14)*

> Just 7 percent of companies outsource risk management roles, responsibilities, and accountabilities to a third-party risk management provider.

Figure 14. Risk management organizational models

How are risk management roles, responsibilities, and accountabilities allocated across various business units and functions?



Notes: N = 390, Single select

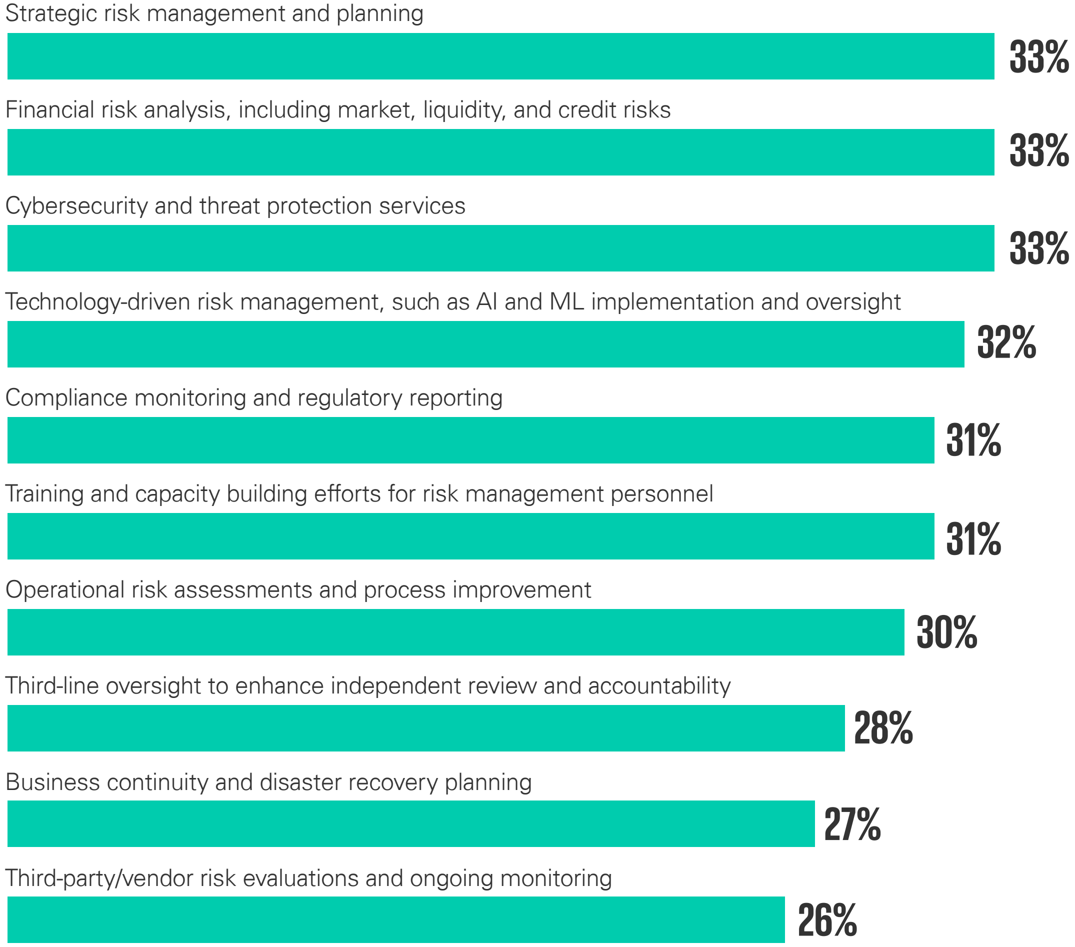
01
02
03
04
05
06
07
08

Key findings *(Figure 15)*

The top areas organizations will consider outsourcing/co-sourcing: Strategic risk management and planning (33 percent); financial risk analysis, including market, liquidity, and credit risks (33 percent); cybersecurity and threat protection services (33 percent); and technology-driven risk management, such as AI/ML implementation and oversight (32 percent).

Figure 15. Risk management areas considered for outsourcing

Which areas of risk management within your organization would you consider outsourcing or co-sourcing to external partners in order to enhance the efficiency and effectiveness of risk mitigation strategies?



Notes: N = 390, Multiple select

Drivers

- Managing the cost of maintaining effective, regulatory-compliant programs is an ongoing challenge for CROs. Ever-evolving expectations on risk continue to add to operating costs associated with risk management oversight and execution.
- Overall economic uncertainty and organizational cost-control pressures in some sectors are also increasing the need to minimize costs and improve efficiencies across the enterprise, with risk functions increasingly expected to contribute to overall organizational cost-cutting targets.
- Outsourcing of routine risk management activities may be poised to rise. There is increasing willingness among risk leaders to leverage outsourcing to enhance the efficiency and effectiveness of risk mitigation, with companies exploring managed services for simple risk processes, such as SOX testing and model validation. This includes traditional outsourcing as well as "risk as a service"—a form of managed services that leverage cloud technology to automate risk business processes.
- Pure outsourcing of risk—taking out the entire risk function—is less common. Very few companies use third-party risk management outsourcing as a delivery model, but around one-third say they will consider it across most areas of risk management.
- Incremental cost-cutting may sacrifice quality, which is unacceptable for the high-stakes risk activities. Risk functions need practical and strategic approaches for reducing spending and flattening the cost curve in a way that does not diminish the value the risk function delivers to the organization.

Risk-as-a-service offers opportunities to gain efficiency and cut costs, but firms must always remember that they are outsourcing the risk activity—not the risk itself.

Recommendations

Balance efficiencies and effectiveness

- A modern risk management operating model makes the best use of technology, location strategy, and talent pools to lower costs while maintaining or improving risk posture. Start by understanding what is driving incremental spending in risk management before launching cost-cutting efforts. Consider direct spend categories but also cost avoidance categories, which are often unintended outcomes of an ineffective risk infrastructure.
- Yield maximum and sustainable savings by prioritizing cost takeout efforts on the largest controllable contributors, balanced with the up-front investment required and the speed to realize savings.
- Consider the wide range of strategic cost takeout efforts at their disposal. Cost-reduction levers and cost-saving opportunities will vary by organization based on their objectives and current models but may include: Entity rationalization; product and channel simplification; global sourcing; operating model centralization and consolidation; and risk process automation and streamlining.

Make better use of cost-effective talent markets without compromising risk posture

- Use lower-cost third-party vendors to execute select risk management oversight or execution activities as a key cost takeout lever. It can especially drive value in complicated, high-risk areas with significant investor attention, such as cyber security and ESG, where many organizations lack methodologies and skills to validate their information.
- Weigh outsourcing and co-sourcing decisions against the process changes and additional resources required to maintain the required level of risk control and governance. Remember that core elements of risk management should never be outsourced as the risk is too great, and risk leaders must find a boundary where the organization can maintain quality without inadvertently creating new third-party risk.

07 How KPMG can help

KPMG Risk Services brings the strategic vision and technical edge to help you earn the trust of your stakeholders. Our deep industry skills concentrated in risk, regulation, cyber, and ESG, and our time-tested change experience, create one powerful capability.

KPMG teams help you anticipate and balance risk to generate value and a competitive advantage across your enterprise. By incorporating a detailed approach to risk, compliance, cyber, and ESG, we can help you identify new opportunities.

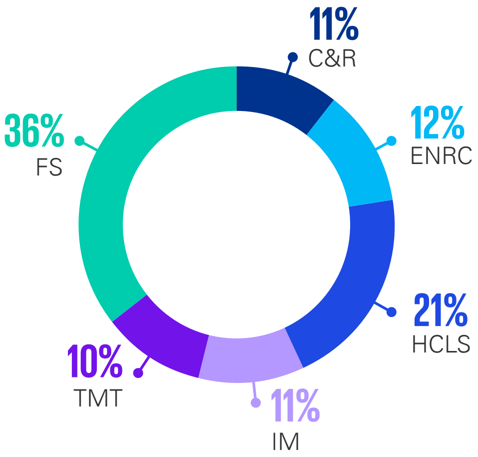
We are obsessively focused on the delivery of your strategy, your priorities, and your agenda. Using tools and solutions that accelerate your modernization journey and balance risk, we then apply deep domain knowledge across the spectrum of risk and regulatory issues, combined with our skills in risk, technology, and consulting to help drive borderless collaboration to convert the opportunities of risk into a sustainable competitive advantage for your organization.

Learn more: visit.kpmg.us/RiskServices

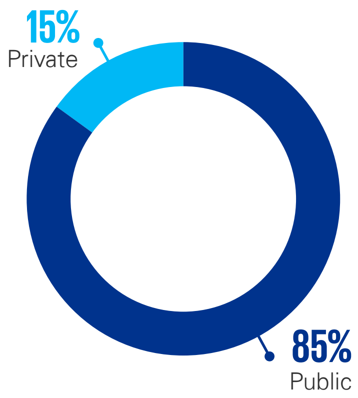
08 Research methodology

From July to September 2023, KPMG conducted an online survey of 390 enterprise risk officers representing U.S. organizations across six industry sectors with at least $4 billion in annual sales or $25 billion in assets under management (AUM). The research is designed to track trends in enterprise risk management and provide an outlook on the future of the enterprise risk function. Survey questions explore risk officer views on current and expected trends in the following areas: Risks and readiness; activities and investments; roles and approaches; and maturity and modernization.

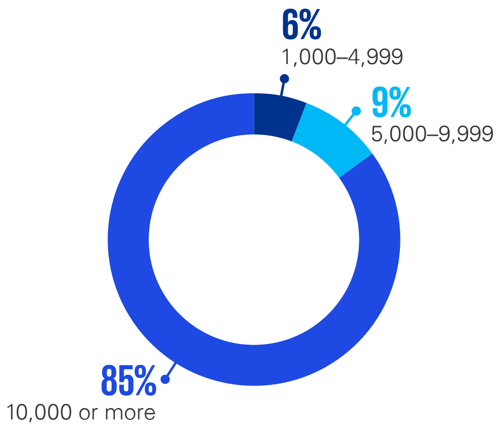
Organizational sector



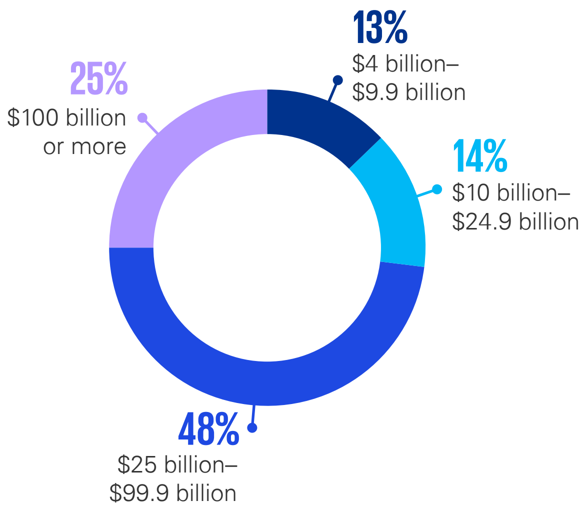
Organization type



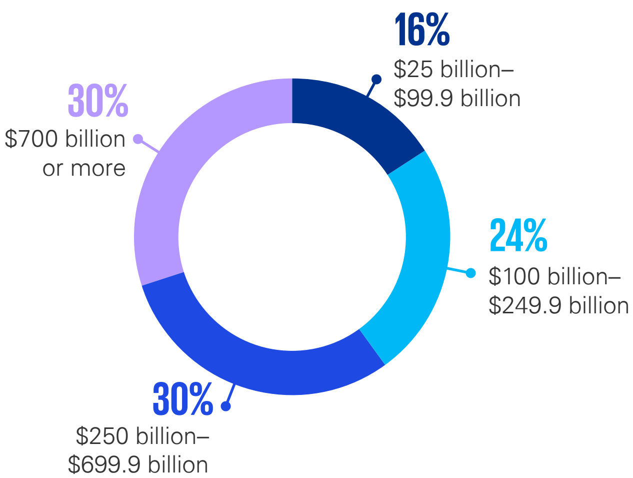
Full-time employees in the company (Globally)



Company's annual revenue



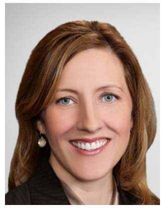
Size of company's assets (FS respondents only)



Notes: N=390; Single select; Percentages may not total 100 due to rounding.

Authors

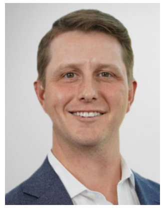
Tim Phelps
Principal, Risk Services Leader
tgphelps@kpmg.com



Emily Frolick
Partner, US Trusted Leader
efrolick@kpmg.com

Brian Hart
Principal, Financial Services Risk, Regulatory & Compliance Network Leader
bhart@kpmg.com

Lisa Rawls
Principal, Americas GRC Services Network Leader
lisarawls@kpmg.com

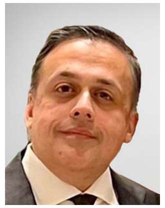


Cameron W. Burke
Principal, Financial Services Risk, Regulatory & Compliance
cburke@kpmg.com

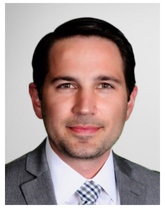
Joey Gyengo
Principal, Advisory, and U.S. Enterprise Risk Management Solution Lead
jgyengo@kpmg.com

Amy Matsuo
Principal and National Leader Compliance Transformation & Regulatory Insights
amatsuo@kpmg.com

Brent McDaniel
Partner, Forensic
bmcdaniel@kpmg.com

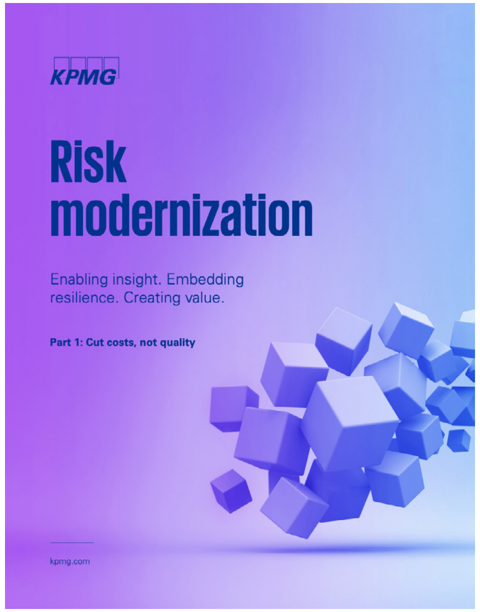


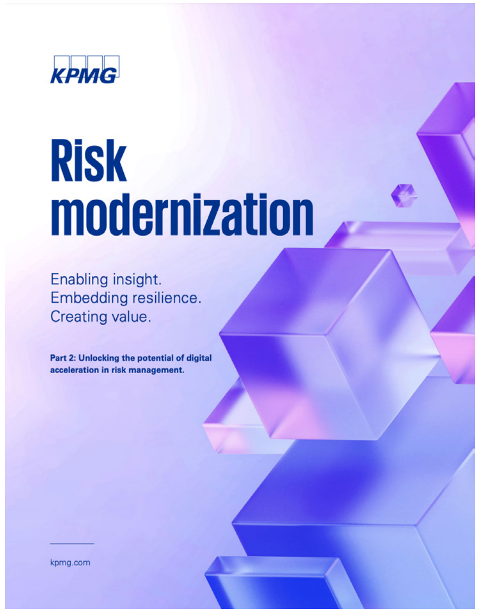
KB Babar
Managing Director, Advisory Financial Services Risk, Regulatory & Compliance
kbabar@kpmg.com



Nickolas Schweitzer
Managing Director, GRC Services
nschweiger@kpmg.com

Related thought leadership





Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

DASD-2023-13365

kpmg.com/socialmedia