INSURANCE THOUGHT LEADERSHIP

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Who Should Manage the Risk Manager?

Summary:

It actually doesn't matter as long as two important criteria are met, but here are five reasons why Internal Audit is a good home.

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It really doesn't matter... The first conclusion I make in the video is that it actually doesn't matter where risk manager sits as long as two important criteria are met:

- *Direct access to decision makers* - risk managers must be close enough to the decision makers to be able to support the risk management integration into business processes and decision making and be able to reinforce risk management culture. This requires some level of seniority to be able to participate in the decision making and reach executives or Board members when required.
- *Access to information* - risk managers need unfiltered access to various sources of information, including internal audit findings, IT data, production data, financial and accounting information, compliance data and so on. This requires good relationships with key information owners and established communication channels that will allow risk managers to use corporate data for risk analysis on a daily basis. The second criteria is the most important in my mind.

As long as these two criteria are met the risk manager will be able to fulfill his role almost anywhere within the organizational structure. ***See also:*** ***Top 10 Mistakes to Avoid as a New Risk Manager*** **...but it helps to sit with Internal Audit** My personal experience was reporting to Head of Strategy, CFO, CEO, Chair of the Audit Committee and the Head of Internal Audit. And while, it's unique to every organization and does depend to a large degree on the personal relationship with the supervisor/sponsor, I found that sitting together with Internal Audit makes perfect sense, because:

- *Internal audit doesn't own many risks*, so there is less pressure on risk managers to withhold information or exclude data from risk analysis. The opposite could be reporting to a CFO. Finance department originates and owns a lot of risks. I have come across companies where risk managers who reported to the CFO were pressured to exclude financial risks from the analysis or were prevented from integrating risk analysis into financial business processes.

- Internal audit has *direct communication channel with the Board and the Audit Committee.* This helps to integrate risk management into strategic decision making.
- *Access to financial and operational company data.* Internal auditors usually have full access to company data and facilities, which is invaluable when performing timely and accurate risk analysis.
- *Access to audit findings, non-compliances, control weaknesses and so on.* Internal audit is a gold mine of data that can significantly improve quality of risk analysis. I was very fortunate to be able to communicate with Internal auditors on a daily basis. Their input helped me dramatically improve my risk analysis and hence improve the quality of the overall decision making in the company.
- *Risk management can also improve Internal audit planning and auditing procedures.* The relationship works both ways.
- *Higher ethical expectations from Internal audit.*

There are of course arguments against having risk management and internal audit in one department. I am sure you have thought of a few right now. Most of them are not real. I encourage you to write your arguments for and against in the comments below and I will try to respond to each one. ***See also: Rising Risks of Medicare Audits*** Lack of independence and conflict of interest are usually quoted as the main logic for separating risk management and internal audit. I find this quite naive: first to seriously think Internal audit is truly independent is a bit of stretch and second lack of independence with risk management in particular is literally the least of Internal auditor's problems. I summarize my thoughts on the 3 lines of defense in the following video: Please comment, share and like.

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