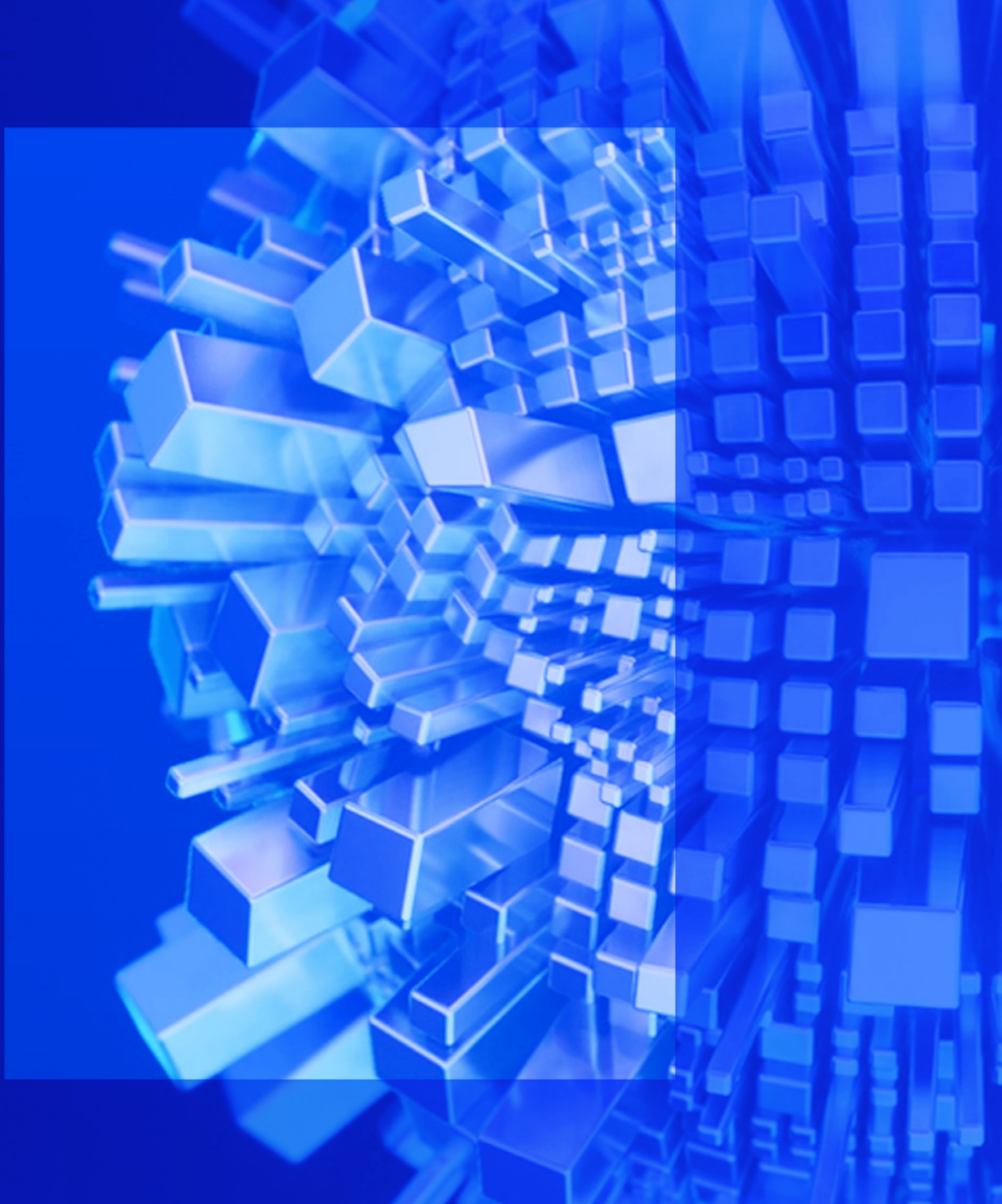
KPMG

Chief Risk Officer Survey

Industry perspective:

Energy, Natural Resources, and Chemicals



read.kpmg.us/CROSurvey

Introduction

The pressure is on for companies to align their risk strategies to their growth strategies and enhance overall trust and resilience. Doing so requires a robust risk function that utilizes the latest and greatest technologies to proactively manage and respond to various and evolving risks. Moreover, businesses need to provide their diverse teams with ongoing learning opportunities to help mitigate risk in their daily roles.

To better understand the specific issues facing corporations, KPMG conducted the 2023 Chief Risk Officer Survey. U.S. respondents included organizations across six industries with at least $4 billion in annual sales or $25 billion in assets under management. A survey report was recently released sharing feedback from these risk executives regarding their points of view about the current state of enterprise risk management, as well as their outlooks for the future of enterprise risk functions.

Taking a deeper dive into those survey responses, this report highlights key takeaways from CROs at 46 U.S.-based Energy, Natural Resources, and Chemicals (ENRC) companies regarding their top priorities, challenges, and intentions. Their responses, presented with comparisons to other industries, indicate which areas these leaders perceive are most vital to improving risk management practices across ENRC businesses.

We found that ENRC risk leaders are most challenged by regulatory changes and compliance issues, supply chain disruptions, economic downturn, and environmental, social and governance (ESG) issues. They also have a strong desire to continue digitization across the enterprise to enhance their function's overall efficiency and effectiveness while experiencing ongoing financial constraints. To navigate their biggest obstacles, risk executives in ENRC tell us they have their sights set on driving optimization through better use of high-powered risk management tools, such as artificial intelligence (AI) and machine learning (ML), to get ahead—and stay ahead—of evolving compliance regulations. CROs in ENRC also intend to focus on leveraging skill sets from other business functions and increasing efforts in policy management, controls, and employee accountability. They also plan to look at ways to improve data analytics and consider outsourcing or co-sourcing certain tasks.

In this report, we also provide actionable recommendations that ENRC companies can use to strengthen their risk management practices, both within their functions and across their organizations. This guidance is aligned to key data insights from our survey, as they pertain to five intersecting drivers of risk transformation (Exhibit 1).

Exhibit 1. 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, and 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

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De-risking

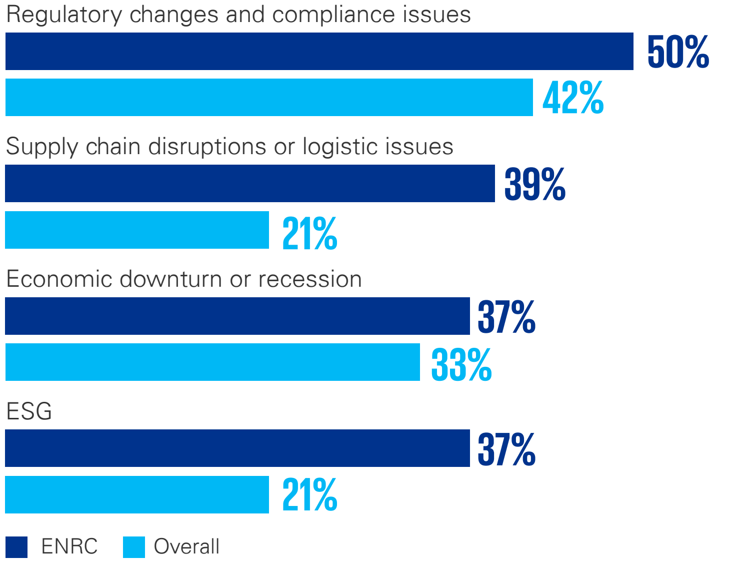
Organizations' efforts to reduce risk exposure and hedge against expected market conditions

Key findings

- To develop a robust de-risking strategy that prepares risk functions to tackle their biggest concerns, half of CROs cite regulatory changes and compliance issues as the top challenges ENRC will face over the next two to five years. That figure is higher than in any other sector. Especially when thinking about the looming regulations on emissions that have the industry scrambling, this underscores the crucial need for organizations to remain on their toes so they can adapt to the ever-changing regulatory landscape and guarantee strict adherence to complicated regulations. ENRC businesses are also challenged by supply chain disruptions or logistics issues (39 percent), economic downturn or recession, and ESG (both 37 percent), each of which also has a strong compliance component to it (Exhibit 2).
- To help mitigate some of their biggest risk hurdles, CROs in ENRC say the top three areas they will focus on addressing are: leveraging skill sets from other business functions (52 percent), diligence in policy management and improving data analytics (both 48 percent), and cutting costs (41 percent). Notably, with more than half of CROs saying they leverage skill sets from outside their functions to help fill gaps in resources and skills, it is clear ENRC companies are capitalizing on their employees' diverse knowledge and fostering cross-functional collaboration to address risk management challenges. Additionally, for many ENRC businesses, improving data and analytics is key for de-risking because of its crucial role in discovering accurate and actionable insights for important decision-making.

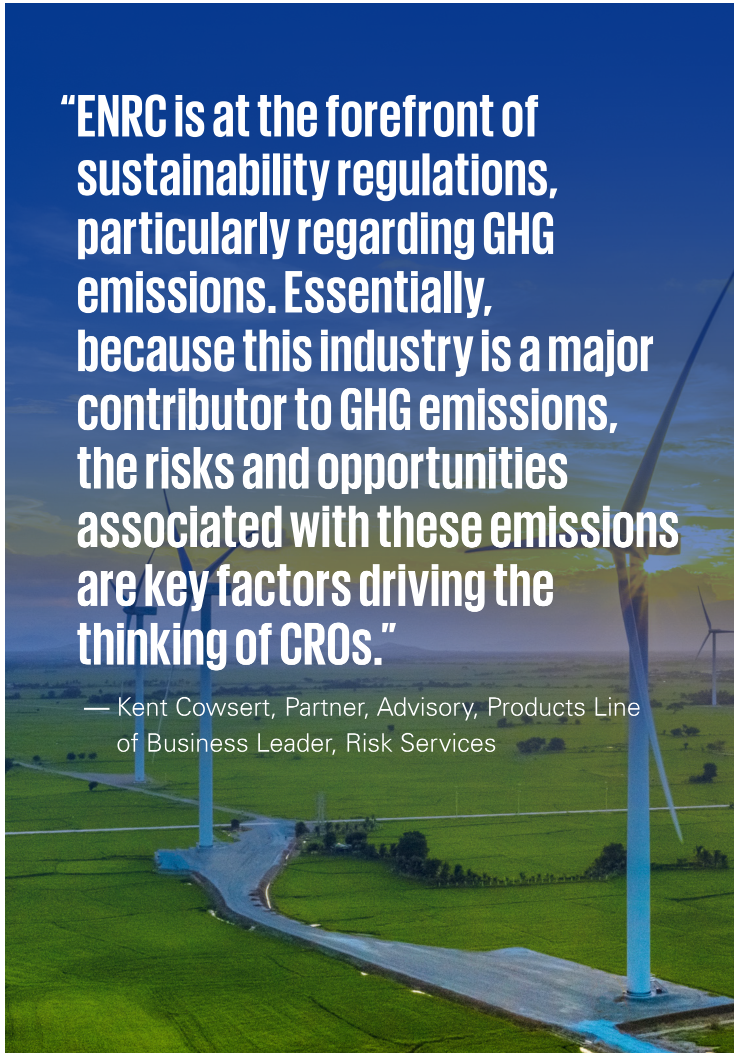
Exhibit 2. Top challenges your organization will face within the next 2-5 years

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



Recommendations

- Due to new (and sometimes conflicting) compliance regulations worldwide, ENRC projects are often held up in certain regions. To overcome these delays, businesses need a proactive risk management strategy. Doing so means integrating technologies to embed risk information closer to where risk is managed to help save time in meeting compliance goals in the long run.
- Risk leaders should also look at ways to improve governance and enhance controls to reduce risk throughout all areas of their businesses—especially since the majority of ENRC CROs tap skills and resources from outside their departments. Some examples include enhanced risk management policies that help all employees think about de-risking opportunities in their daily roles, advanced data analytics and cybersecurity tools, risk-friendly work streams, and ongoing risk management trainings.



"ENRC is at the forefront of sustainability regulations, particularly regarding GHG emissions. Essentially, because this industry is a major contributor to GHG emissions, the risks and opportunities associated with these emissions are key factors driving the thinking of CROs."

— Kent Cowsert, Partner, Advisory, Products Line of Business Leader, Risk Services

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Growth or strategic change

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

Key findings

- More and more, organizations are looking to align their risk objectives with companywide growth strategies to ensure their organizations are focused on the right risks at the right time to help drive organizational value. Comparing each sector, CROs in ENRC plan to embed risk even further into their business strategies (61 percent) as a key factor in achieving this alignment goal (Exhibit 3).
- To support harmony between risk management strategy and business growth, risk teams need significant buy-in from the top down. Most ENRC organizations (83 percent) feel they have high levels of support from their C-suites, in terms of sufficient budgeting, C-suite attention around risk management efforts, and overall alignment of risk management business strategies.

Exhibit 3. Strategies to align risk and strategic goals of the business

Q. 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?

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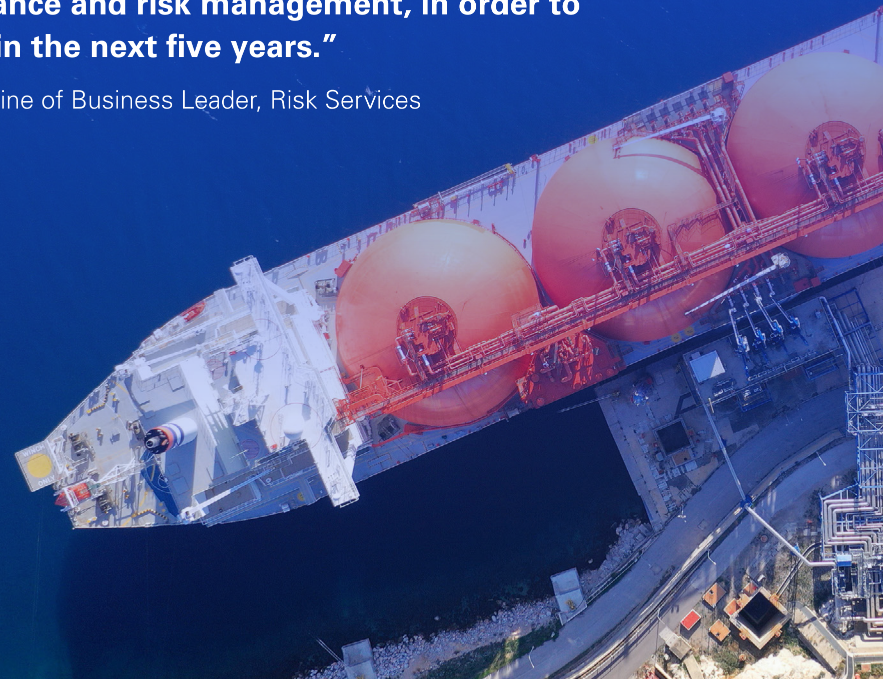
Recommendations

- Investing in highly capable and business-savvy talent can help risk functions challenge businesses when needed and contribute considerable value. Even the most skilled risk professionals need continued training, particularly around strategic thinking, so they can deliver beneficial insights that align to overall company objectives. They can also identify better ways to bring risk management into and across areas that have been operating in silos.
- To avoid mistakes and major product delays to enhance growth, training should be available for employees outside of risk departments who deal with risk and compliance. Educating each team around risk can make all the difference in how efficiently a product or service goes to market in multiple regions. At the same time, educating risk teams to better understand business goals and challenges is also beneficial so that they can help identify better ways to support business growth by enabling an aligned risk and business strategy.

"Many oil, gas, and power utility companies are spending huge amounts of money on technology and embracing opportunities for modernization of their enterprise platforms. They're not doing this to be proactive. Rather, they need stronger technology penetration in operations and back office, including solid governance and risk management, in order to catch up to modern practices within the next five years."

— Kent Cowsert, Partner, Advisory, Products Line of Business Leader, Risk Services



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Compliance risk

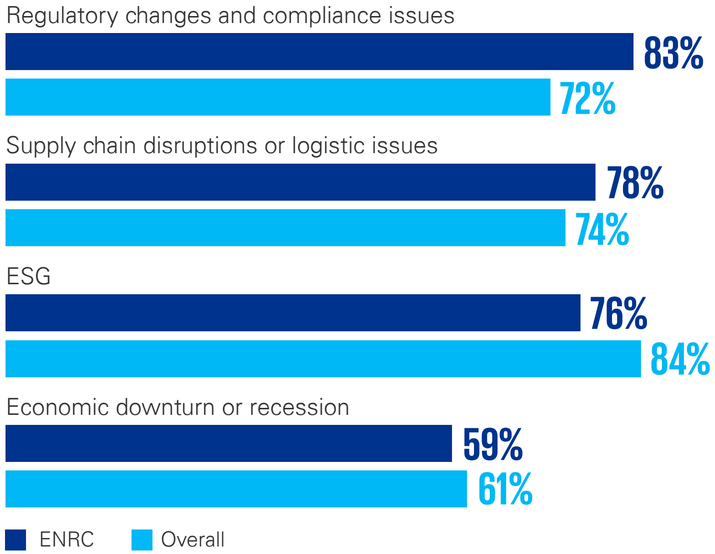
New or emerging regulatory requirements, non-compliance with existing requirements, or need to enhance the relationship with oversight authorities

Key findings

- Among ENRC risk executives who consider regulatory changes and compliance issues a top challenge, 83 percent report feeling well prepared or very well prepared to respond to and appropriately manage this risk (Exhibit 4). Their confidence is notable given that many ENRC leaders see this industry as the starting point for pending emissions regulations that continue to evolve and differ regionally.
- Even though ENRC risk leaders are quite confident with regulatory compliance challenges, more than half (52 percent) still consider fostering a strong risk and compliance culture as part of enterprise-wide strategy important over the next 2-5 years.The vast majority of ENRC respondents (74 percent) place their organizations in the two most advanced stages of compliance maturity, and very few (9 percent) rank their corporations in the baseline stage. In contrast, many risk leaders in ENRC rate their peers as less mature, saying 57 percent are still in the baseline stage of compliance. This finding is consistent with ENRC CROs' confidence in their preparedness to take on regulatory changes and compliance issues.

Exhibit 4. Preparedness to address risk challenges

Q. Of the top challenges your organization will face within the next 2-5 years that you selected, how prepared is your organization to respond to and appropriately manage these risks?



Percentages represent respondents who answered "Well prepared" or "Very well prepared."

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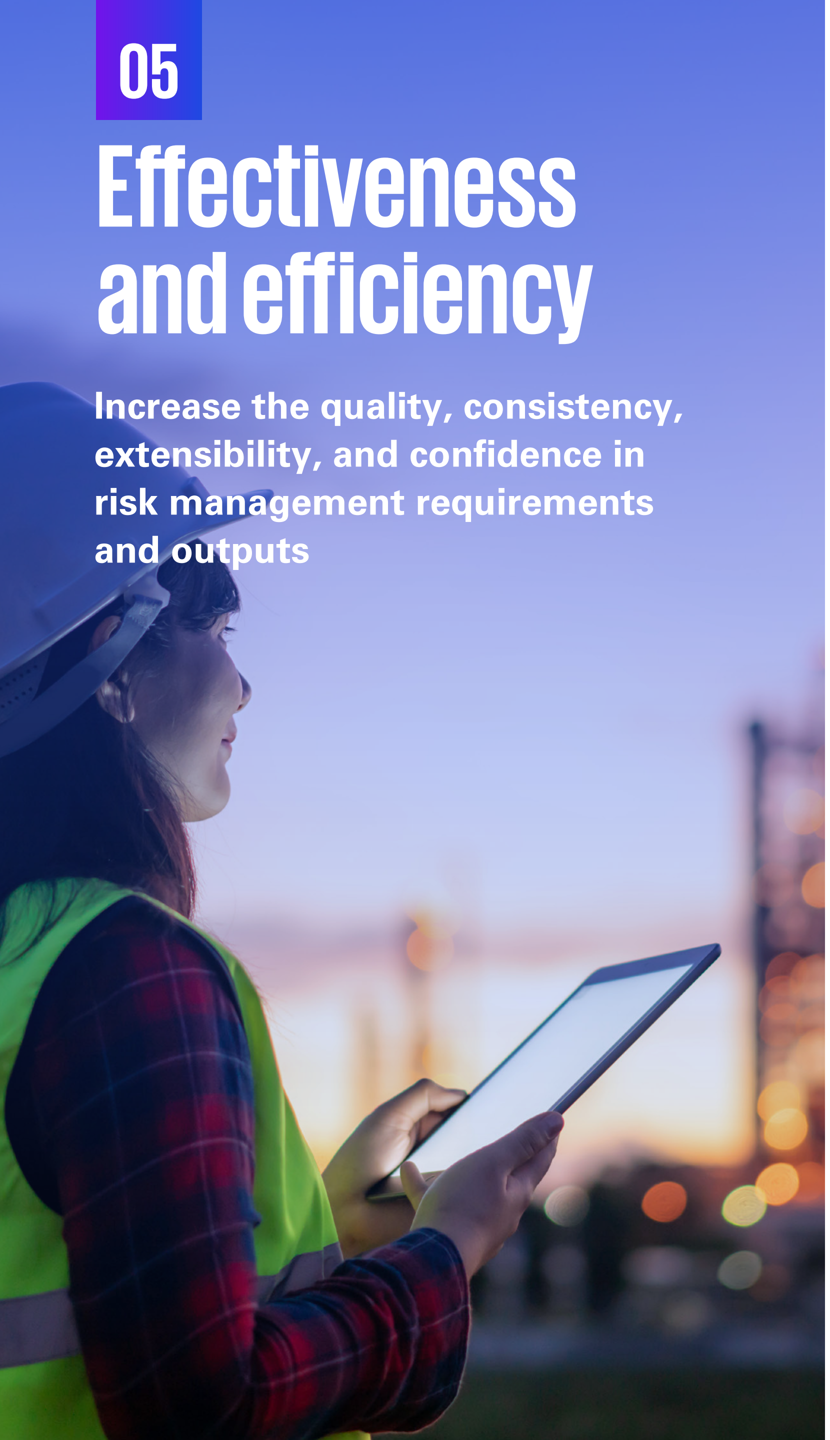
Recommendations

- From the start, prepare to make changes to adhere to a variety of different and, at times, conflicting regulatory requirements. For example, built-in privacy assessments should be included wherever possible before product launch. A healthy budget is also key to preparing for unknown hurdles that may arise from complex regulations in varying regions.
- Recognize compliance risk as integral to strategic business priorities by building compliance assessments, expanding efforts to understand the principles that regulators are looking to see, and appropriately assessing all potential risk impacts.
- Getting ahead of the game when it comes to compliance requires the latest and greatest technologies, such as AI, ML, and automation. Modernizing compliance risk capabilities by building scalable and integrated risk and compliance programs can help risk deliver the same or expanded capabilities, but in a more efficient way. Simplification across risk frameworks, technology, monitoring and reporting, and services is also helpful to the organization as a whole.
- The SEC's final rules for climate disclosure requirements are another compliance challenge, along with global and regional sustainability reporting, including the EU's Corporate Sustainability Reporting Directive requirements and California state climate requirements. ENRC CROs must ensure these sustainability risks are defined, understood, and have strong mitigants for compliance at a global scale as well as monitor increasing U.S. legal challenges to climate reporting.



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Effectiveness and efficiency

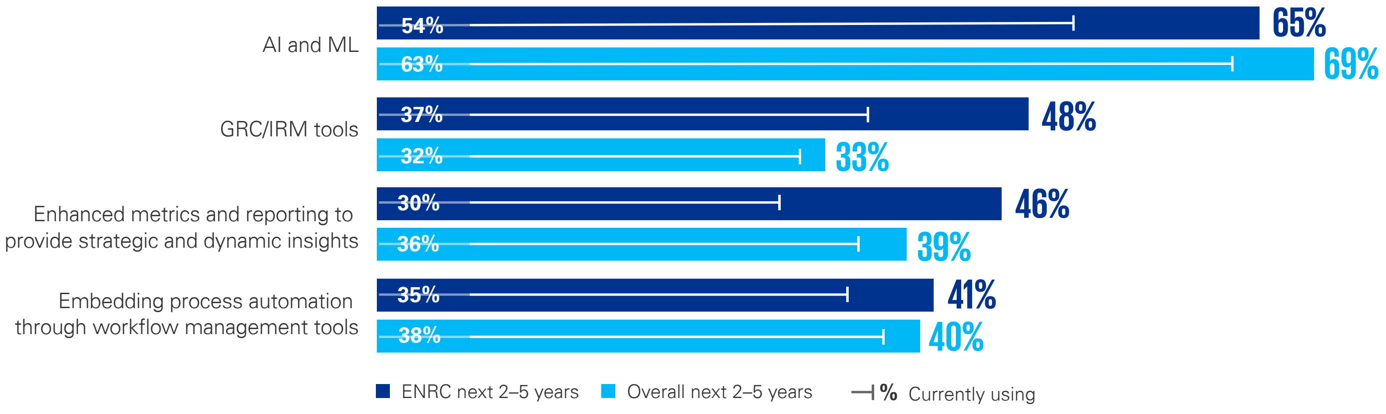
Increase the quality, consistency, extensibility, and confidence in risk management requirements and outputs

Key findings

- For budget allocation, the biggest priorities for ENRC risk executives are strategic risk management and planning (89 percent) and compliance monitoring and regulatory reporting (87 percent). Within the next year, these are expected to remain the most-funded areas, and allocations will stay unchanged, according to ENRC respondents. Remarkably, training and capacity building efforts for risk management personnel was the topmost priority today (91 percent), but 4 percent fewer ENRC leaders prioritized allocation over the next year. This could indicate some risk leaders have already upskilled their risk management teams with recent training investments. Regardless, investing in each of these three areas increases the overall value and efficiency of risk management functions.
- ENRC has been leaning on digital tools and solutions to accelerate risk management processes. So far, industry leaders say they have leveraged AI and ML (54 percent); governance, risk, and compliance/integrated risk management tools (37 percent); and embedded process automation through workflow management tools (35 percent). Over the next two to five years, ENRC risk leaders will rely even more on each of these digital solutions: AI and ML (65 percent), GRC/IRM tools (48 percent), and process automation through workflow management tools (41 percent). Interestingly, ENRC CROs tell us they will also enhance their effectiveness by increasing their use of better metrics and reporting to provide risk management teams with stronger strategic insights (a 16 percent jump over the next two to five years) (Exhibit 5).

Exhibit 5. Tools to optimize risk management

Q. 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?



Recommendations

- Modern technology allows companies to improve, update, and enhance their risk functions so they can 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, reduce manual efforts, and accelerate access to risk information. Combining the best digital tools across the risk ecosystem is the best way to empower and proactively transform how risks are detected and addressed.
- As digitization is expanded, organizations must also evolve to support new tools and practices. This can help sustain efficiency through an integrated, digital-first strategy and operating model, rather than building one-off solutions created in a vacuum.

"Risk teams in ENRC are consistently undersized, with leaders wearing many other hats. There is effort to better define and rationalize key governance, risk, and compliance accountabilities and operations in the sector. In collaboration with service providers and partners, getting this right 'now' will be key to enabling change and evolution in digital technology adoption and ongoing regulatory compliance."

— Joshua Galvan, Principal,
Advisory, Technology Risk

Cost takeout and optimization

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

Key findings

- When deciding on cost-saving measures, most risk leaders in ENRC would consider outsourcing or co-sourcing certain functions. More than most other sectors, ESG risk management was selected as the top area ENRC risk executives would consider outsourcing (46 percent), followed by risk and compliance oversight, and third-line oversight to enhance independent review and accountability (both 37 percent) (Exhibit 6). These responses show that ENRC businesses understand the growing importance of ESG-related risk, as well as the need for ongoing accountability, particularly around compliance-related risk. It is also clear they see the benefits of having specialized expertise to manage and address these risks, including how each can affect long-term business sustainability.
- In general, risk can cause major delays in project timelines and add hefty unforeseen costs. Accordingly, it makes sense why the majority of ENRC respondents are looking to modernize their technological capabilities. In fact, one of their top modernization priorities has been integrating data analytics and predictive modeling to support risk identification and decision-making within the last two years (41 percent), which they will place significantly more focus on (59 percent) within the next two years. What is more, their use of stress tests and/or scenario planning is gaining traction to inform risk mitigation strategies, jumping from 22 percent over the past two years to 43 percent over the next two years.

Exhibit 6. Risk management organizational models

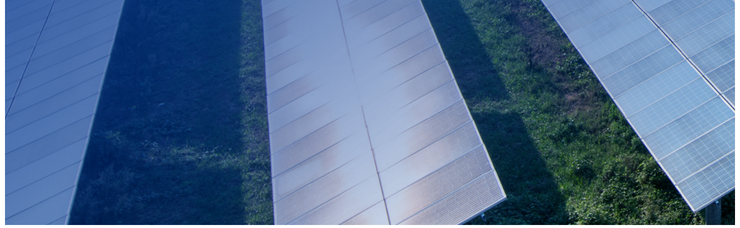
Q. Which areas of risk management within your organization would you consider outsourcing or co-sourcing to external partners in order to enhance the efficiency and effectiveness of risk mitigation strategies?

Recommendations

- Alignment of risk and overall business strategies can help organizations strike a balance between cost savings and optimization. With technology at the heart of risk management, finding a middle ground between implementing the best tools for each risk area and choosing which tasks should be outsourced is vital to an optimized risk function.
- Outsourcing and co-sourcing can result in tremendous cost savings, but also be a lever for other long-term outcomes, such as growth, speed, and enhanced reputation. Relying on vendors that specialize in certain complicated areas, such as ESG and compliance oversight, takes the burden off organizations to handle the entire risk ecosystem, all at once, and all on their own. Third parties can deliver necessary methodologies, technology, and skills that some risk organizations may lack.
- Create an ongoing and enterprise-wide risk management strategy that ensures third-party vendors are worth the investment. Since risk associated with third parties can so heavily impact the companies that partner with them, rigorous vetting must be performed.
- Weigh outsourcing and co-sourcing decisions against the process changes and additional resources required to maintain the necessary level of risk control and governance. Remember that core elements of risk management should never be outsourced as the risk is too great.
- Continue modernization efforts, including the adoption of advanced technologies and processes, to help leaders make well-informed decisions that keep cost savings in mind.

"Modern managed services are very different from traditional outsourcing models based on labor arbitrage for transactional work. Today's leading providers are strategic collaborators. They combine advanced tech, data management, and sector expertise to deliver critical risk processes, such as cybersecurity and regulatory compliance, with outcomes like stakeholder trust, customer retention, and resilience. They can also reduce total cost of operations by as much as 15 to 45 percent, without prohibitive upfront capital investments."

— David Brown, Principal, Advisory, Global Head, Managed Services



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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 ENRC industry skills concentrated in risk, regulation, cyber, and ESG, and our time-tested change experience, create one powerful capability.

KPMG teams can 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

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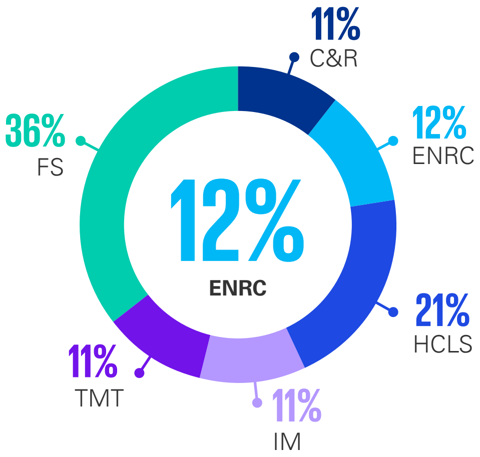
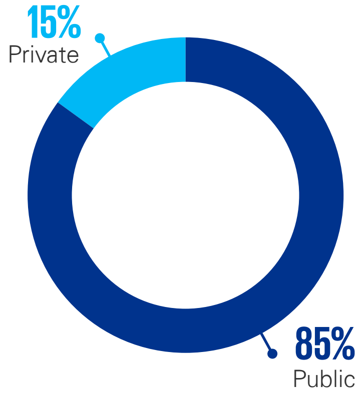
Research methodology

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. Forty-six respondents participated from the ENRC sectors. Our 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.

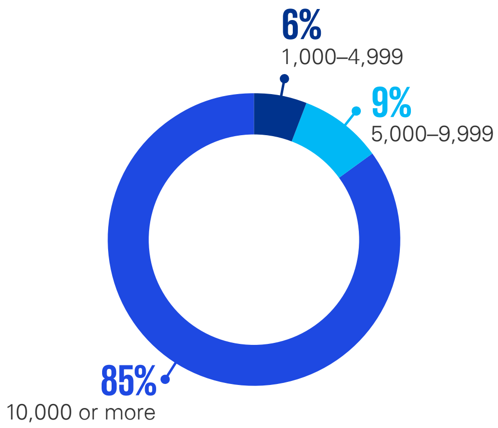
Organizational sector



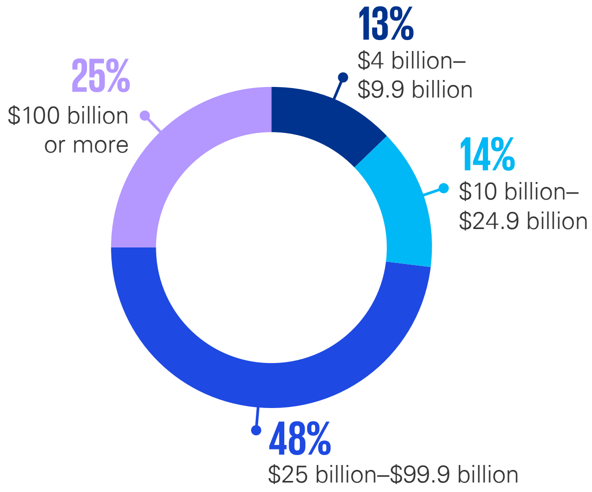
Organization type



Full-time employees in the company (Globally)



Company's annual revenue



Of the 390 enterprise risk officers responding to the survey, 46 respondents (~12%) participated from the ENRC sectors.

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

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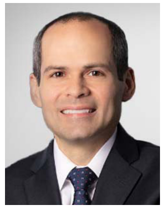

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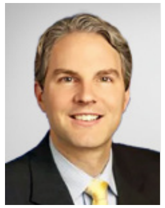

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KPMG is recognized as a leader in risk consulting

Financial risk

Third party assurance

Client advocacy in risk*

KPMG ranked No. 1 across multiple risk categories in Source's report, *Perceptions of Risk Firms in 2023*.

The Source study, *Perceptions of Risk Firms 2023*, is based on a U.S. client and prospect perception survey about risk consulting firms, led by Source. It reveals what 300 senior users in the U.S. think about the 16 leading risk advisory firms and examines how clients see firms differently as they move from awareness, to shortlisting a firm, to becoming a direct client. The report is intended to help in understanding each firm's positioning in the market and the overall competitive landscape in which they operate. For more information please visit: https://www.sourceglobalresearch.com/

*Advocacy score is based on the percentage of KPMG client respondents that say they would use the firm again and would put their personal reputation on the line for the firm.

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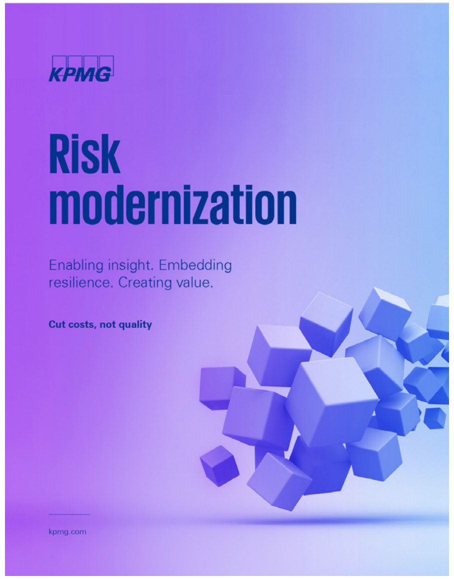

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