



Risk and Audit Committee

Agenda Item 7b

November 17, 2020

Item Name: Enterprise Risk Management Framework Review

Program: Enterprise Risk Management

Item Type: Information

Executive Summary

The purpose of this item is to update the Risk and Audit Committee (Committee) on the current state of CalPERS' enterprise risks. The Enterprise Risk Management Division (ERMD) collectively worked with cross-functional workgroups comprised of subject matter experts (SMEs), senior leaders, and the executive team to review and update all Enterprise Risk Profiles (Profiles) to align with the organization's current perception of these risks reflected in the updated Enterprise Risk Management Heat Map (Attachment 5). In addition, after deliberation, Climate Change and Long-Term Care were added to the Enterprise Risk Management Dashboard (Attachment 1) as independent risks. Finally, a new Developing Risk Report is being introduced into the Enterprise Risk Management Framework to inform the Committee of risks that are not yet well understood that are being evaluated and monitored (Attachment 4).

Strategic Plan

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization.

Background

The annual Enterprise Risk Assessment began in June 2020 with ERMD facilitating workshops comprised of cross-functional team members and senior leader SMEs from throughout the organization to review and update the Enterprise Profiles (Attachment 2). Current risk drivers, the strength of current internal controls, and future mitigations were discussed at length and reflect a high-level view of the current assessment of enterprise risks and corresponding mitigations in place.

ERMD led SMEs and senior leaders in a voting exercise to evaluate all enterprise risks. Risks were scored in the areas of probability, impact, and velocity. Risk probability is defined as the likelihood that a given risk event will occur. Risk impact is the extent to which a risk event might

affect the enterprise. Risk velocity is the speed of onset in which the organization feels the impact if a risk event occurs. Once scored, the risks were reviewed by the Integrated Assurance Risk Council (IARC) which is a risk focused committee that includes all executive team members. After deliberation, IARC directed ERMD to develop stand-alone Profiles for Climate Change and Long-Term Care to reinforce the importance of these items to the organization from a risk perspective (Attachment 3). The next step in maturing the Enterprise Risk Framework, is to include developing risks into the Annual Enterprise Risk Assessment to scan the horizon for any potential risks that should be further analyzed and monitored. These include risks identified by internal and external sources that have the potential to cause harm, but are not yet well understood. ERMD surveyed SMEs and senior leaders to determine if they were aware of risks that did not presently appear on the Profiles. ERMD also researched what other organizations considered top risks that were not yet well understood. After discussing risks that are either missing or not yet well understood with senior leaders and executives, we identified developing risks we are closely monitoring including: a) Extended COVID-19 wave, b) The new working model, c) Policy uncertainty and social instability, and d) Third party risk (Attachment 4).

Variances in scores from the prior year were discussed with the executive team. The scoring results for FY 2020-21 are reflected as the points plotted on the Heat Map for Committee review (Attachment 5).

Analysis

The following is a high-level summary of changes to the Risk Profiles and scoring results. The profiles are continuously refined with each risk assessment cycle and have been revised to read more clearly and concisely taking into consideration the current COVID-19 pandemic. Descriptions of the attached risk reports are also included.

Risk Profiles:

Benefit Administration:

- Increase in impact risk score due to a period of elevated wait times for members affecting timely benefit administration; High Impact/Low Probability.

Business Continuity:

- Overall business continuity risk has been significantly reduced due to the completion of business continuity plans for each program area. As depicted on the Heat Map there was a slight increase in probability with significant reduction to impact and velocity; High Impact/Low Probability.

Governance and Control Environment:

- Increase in impact and probability due to the need to strengthen some controls; High Impact/High Probability.

Health Care Administration:

- Decrease in impact and probability from the prior year; risk profile aligned to updated strategic goal of high-quality affordable health care approved by Board in July 2020; High Impact/Low Probability.

Information Security:

- Risk level decreased in impact and probability from prior year due to the implementation of increased security measures and controls; risk profile aligned to National Institute of Standards and Technology Cybersecurity Framework; High Impact/High Probability.

Pension Funding:

- Increase in impact and probability risk score due to financial stress on employers and investment performance below discount rate. Risk level is slightly elevated from prior year; High Impact/High Probability.

Stakeholder Confidence:

- Risk level remains consistent with prior year, however improved stakeholder survey results indicate slight decrease; High Impact/Low Probability.

Talent Management:

- Decrease in impact and increase in probability risk scores; Risk remains the same from prior year; COVID 19 risk driver was added to the profile; High Impact/Low Probability.

Risk Reporting:

The updated enterprise risk reports are as follows:

- **Enterprise Risk Dashboard** (Attachment 1) – provides the current rating of the top risks, risk categories, and risk statements identifying Board Committee and executive oversight.
- **Enterprise Risk Management Profiles** (Attachment 2) – provides the Committee with detailed information on each enterprise risk. The Profiles are aligned to the CalPERS Strategic Plan for 2017-22 and include the functional objective, risk statement and analysis, risk drivers and associated mitigation measures in place, current residual risk rating, and future mitigation measures, where applicable.
- **Proposed Enterprise Risk Profiles** (Attachment 3) – provides the Committee with the new Climate Risk and Long Term Care Profiles that are aligned to the CalPERS Strategic Plan for 2017-22 and include the functional objective, risk statement and analysis, risk drivers and associated mitigation measures in place, current residual risk rating, and future mitigation measures, where applicable.
- **Developing Risks Report** (Attachment 4) – provides a summary of the top four developing risks we are monitoring that are not yet well understood.
- **Risk Heat Map** (Attachment 5) – illustrates the prioritization of the Enterprise Risks and appropriate urgency of response.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – Enterprise Risk Management Dashboard

Attachment 2 – Enterprise Risk Profiles

Attachment 3 – Proposed Enterprise Risk Profiles

Attachment 4 – Developing Risks Report

Attachment 5 – Enterprise Risk Management Heat Map

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