



The CRO Brief

Risk as Competitive Advantage

Experience-driven insights for Chief Risk Officers and senior executives seeking to align risk with strategy and performance

★ Issue Four, Want Business Value from Your Risk Management Framework? Anchor on Business Objectives!

Series One: From Compliance to Commercial Risk Leadership

In Australia, many financial services organisations have spent the past decade strengthening their risk management frameworks.

This is entirely understandable.

Successive waves of regulatory reform — from heightened governance expectations following the Royal Commission, to detailed prudential standards covering operational risk, outsourcing and information security — have fundamentally reshaped how organisations think about risk.

In this environment, it is easy to see how the perceived “customer” of the risk framework can shift from the board and executive team to the regulator.

Over time, many organisations have unconsciously optimised their frameworks for compliance. The focus becomes satisfying regulatory expectations rather than supporting business objectives.

The consequence is subtle - but important.

Risk frameworks become well-constructed and well-documented — but underutilised in executing strategy and driving performance.

Anchoring Your Framework

There is a simple but often overlooked truth.

You do not extract business value from a risk management framework by accident. You construct it from the start.

The framework will directly reflect what it has been anchored to from the outset. In practice, most organisations anchor from one of two starting points:

1. Achieving business objectives
2. Meeting regulatory requirements

These are quite different anchor points.

And the choice between them shapes everything that follows.

Anchoring on Business Objectives

When a risk framework is anchored on business objectives, it starts with a different set of questions.

- What are we trying to achieve?
- What needs to go right for us to succeed?
- What assumptions are we making?
- What trade-offs are we prepared to make?

This approach naturally surfaces the risk exposures that matter most. These are then captured in a Risk Appetite Statement (RAS), articulating acceptable working ranges and triggers.

Decision quality improves as risk-return trade-offs are now explicit, enabling faster and more confident executive and board decisions. Earnings and capital are better protected through identification of relevant emerging risks and subsequently more disciplined control.

Strategic execution becomes more robust as risk appetite aligns with growth priorities, investment sequencing and resource allocation. Customer outcomes improve through stronger product governance, operational resilience and fair value delivery.

At the same time, organisational resilience strengthens. Critical services are protected, and preparedness for disruption improves.

Perhaps most importantly, culture shifts.

Challenge becomes more constructive and purposeful. And people feel permissioned to innovate by taking measured risks — knowing that failure, when managed well, is part of learning rather than something to be avoided at all costs.

Importantly, frameworks anchored in this way will often satisfy the majority of regulatory expectations as a by-product of being well constructed.

Anchoring on Regulatory Requirements

By contrast, frameworks anchored primarily to meet regulatory requirements tend to follow a different path.

Regulation, by design, establishes rules and expectations. It defines the operating parameters within which organisations must operate.

When frameworks are built around these requirements, the focus naturally shifts toward the risk of breaching those rules.

This creates a subtle but important distortion.

Breaches of rules are not matters of judgement. There is no acceptable level or materiality threshold for non-compliance. They are constraints — not risk trade-offs.

When these are incorporated into the framework as “risks”, trade-off logic and materiality are lost. The framework becomes document-heavy, process-driven and increasingly focused on monitoring adherence rather than supporting informed decision-making.

Over time, it begins to resemble a compliance framework in all but name.

Significant effort is invested in maintaining artefacts and aligning to new standards. Yet executives are often left questioning whether the framework is genuinely helping them run the business more effectively.

What This Means for Executives

Most organisations do not consciously choose to deprioritise business value in their risk frameworks.

They start with the best of intentions.

However, when frameworks are anchored on external regulatory requirements, rather than internal business objectives, the outcome is largely predetermined.

Materiality becomes diluted. Effort is spread across documenting compliance rather than focusing on the risks that matter most. And the framework becomes something the organisation maintains — rather than something it uses.

This is where the opportunity lies.

Objectives and risks are two sides of the same coin.

The more tightly risks are aligned to business objectives, the more effectively the framework supports performance.

It is also important to recognise that the mechanics of a risk framework have, to a large extent, been commoditised. Standards, guidance and regulatory expectations provide a well-defined blueprint.

Competitive advantage is not derived from the framework itself. It is derived from how clearly risk appetite is aligned to business objectives — and how effectively this is implemented through the organisation.

Practical Takeaways

If you want to extract real value from your risk management framework, start by being explicit about its purpose.

Anchor it on business objectives — not just to satisfy external expectations.

Focus on the risk exposures that are strategically important to your business objectives. Be clear on the trade-offs the organisation is prepared, and not prepared, to make.

Recognise that competitive advantage does not come from the mechanics of the framework. It comes from how risk appetite is aligned with — and embedded in — business decision-making.

Leading organisations are increasingly repositioning their risk frameworks as decision architectures.

Regulators provide important guidance on the mechanics of frameworks, but it is not their role to define how an organisation should take risk.

When risk frameworks are anchored on business objectives, they not only support performance — they are also far more likely to meet regulatory expectations as a natural consequence.

Note: Under the Australian Prudential Standard CPS 230, organisations may use critical operations as a practical proxy for business objectives (outside of strategic objectives).