



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 Six, Reposition Your Risk Function to Drive Organisational Capability

Series One: From Compliance to Commercial Risk Leadership

A couple of years ago, I made an observation to my CEO.

In a perfect world, you wouldn't need a risk management function. The first line would explore context, challenge assumptions, recognise exposures and make informed decisions. It would design and test controls, learn from outcomes and continuously improve.

External stakeholders would trust these processes. Independent validation would be unnecessary.

He paused, smiled, and said: *"Well... that isn't going to happen, is it?"*

He was right. But it raises an important question. If the risk function only exists because organisations and the people in them are imperfect, what role should it play to create the greatest value?

Core Insight

Risk functions are uniquely positioned — and uniquely empowered — to drive organisational capability.

Yet many organisations remain unclear on what that role should be. Too often, the risk function is defined by what it takes on, rather than what it enables. Responsibilities drift toward execution, ownership and process, rather than capability building.

This is where value is lost.

The real opportunity lies in repositioning the risk function as a coach to the organisation. In this role, risk brings structure, perspective and challenge to decision-making, helping the first line think more clearly about uncertainty, trade-offs and consequences.

It also brings something few other functions can — independence. Because risk operates outside business reporting lines, it can provide honest, unfiltered feedback on what is working and what is not. It can challenge assumptions, test thinking and surface issues that might otherwise remain hidden.

This only works if independence is properly understood. Operational independence relates to reporting lines — not to disengagement from the business. In fact, the opposite is true.

Risk functions add the most value when they are involved early in decision-making. When they are present at the point where options are still open, assumptions can be tested and alternatives explored.

When excluded from early engagement, risk is reduced to post-decision review. At that point, context is incomplete and positions are already formed. What is sought is not challenge, but validation.

And when challenge does come, it is often resisted. This is a structural consequence of engaging too late.

Regulatory expectations reinforce this. Australian Prudential Standard CPS 220 (Risk Management) is explicit: “The CRO must be involved in, and have the authority to provide effective challenge to activities and decisions that may materially affect the organisation’s risk profile.” That cannot happen if risk is brought in after decisions are made.

In a coaching role, the risk function also brings deep subject matter expertise. It understands how to identify, assess and mitigate risk, and can help the first line explore alternative control designs, understand trade-offs and strengthen decision quality.

But this is where discipline is required. The risk function must stay in the coaching role — not step onto the field.

The Costly Distraction

If you want to erode a risk function's capacity, there is a simple way to do it.

Ask it to take on control testing.

There is no question that controls must be tested. However, nowhere in risk management standards or prudential guidance is it suggested that this responsibility should sit with the second line. Control testing belongs at the source — with control owners — or with internal audit where independent assurance is required.

When the second line takes on testing, accountability weakens. The first line is no longer directly responsible for demonstrating control effectiveness, and understanding of risk exposures declines as those closest to the risk are no longer the ones testing it.

Responsiveness also slows. Control deficiencies are identified during periodic control assessment cycles rather than in real time, creating a lag between failure and remediation.

At the same time, the risk functions capacity is consumed. Testing is resource-intensive, difficult to scale and often process-heavy. It draws risk functions into backward-looking assurance activity, rather than forward-looking decision support.

Over time, the risk function begins to resemble an audit function.

This is not just inefficient — it is a misallocation of capability.

What This Means for Executives

Executives have a clear choice to make. Do you want your risk function to take on existing responsibilities from the first line, or do you want it to build capability across the organisation?

The difference is significant.

In a coaching role, the risk function strengthens how decisions are made. It improves how uncertainty is understood and how trade-offs are managed. It builds capability that compounds over time.

This is far more valuable than reallocating tasks.

It also requires clarity. Operational independence should not be confused with disengagement. Risk must be involved early, particularly in material decisions and in

forward looking scenario analysis and stress testing This is where it adds the most value.

At the same time, accountability must remain with the first line. If risk takes over control design, testing or execution, it weakens ownership and reduces capability where it matters most.

This would also create duplication. Many organisations now have control testing occurring across first line, second line and audit. This is inefficient, confusing and ultimately undermines accountability.

Clear delineation matters.

The first line owns and tests controls. Audit provides independent assurance. Risk supports, challenges and enables.

When this model is applied well, organisations move faster, respond more effectively and build stronger capability.

Practical Takeaways

If you want real value from your risk function, reposition it as a capability builder — not a task owner.

Deploy risk resources early in decision-making, where they can shape outcomes rather than review them. Focus the function on forward-looking activities, including scenario analysis, stress testing and response planning.

Push control testing back to control owners and avoid duplication across assurance functions. Ensure risk supports the first line in developing mitigation strategies — but does not take them over.

The true value of a risk function is not in what it does for the organisation. It is in how it enables the organisation to think, decide and perform more effectively.