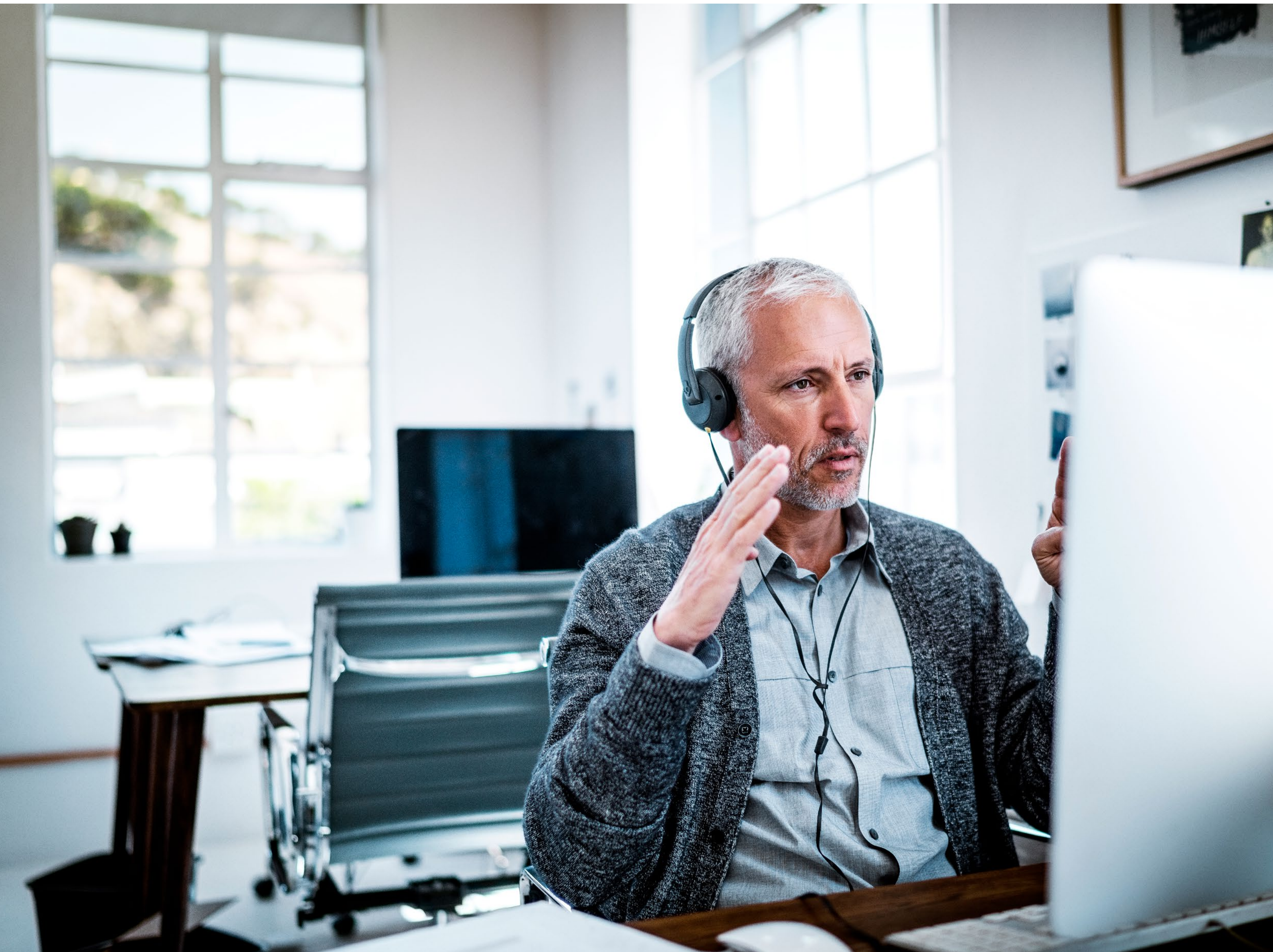
Driving Digital Resilience

A HOW-TO GUIDE FOR FINANCIAL SERVICES BOARDS



4 Key Strategies for Financial Boards to Drive Digital Resilience

A crisis can uncover an organization's inability to adapt to unforeseen challenges, or it can present new opportunities. While many industries struggled in 2020 to adapt to the challenges caused by the COVID-19 pandemic, the financial services industry adapted to the new dynamic relatively swiftly and efficiently. Financial organizations accelerated their digital roadmaps to create productive virtual environments for distributed teams, and they established largely seamless transitions to digital channels and touchpoints for customers.

Leaders are now shifting gears, widening their lens from short-term success to long-term sustainable growth. Consequently, **digital resilience** has emerged as a prime focus for financial boards that want to ensure their organizations not only survive the next crisis, but actively thrive. Below are four key strategies for boards to create an enterprise-wide culture of resilience.

1. Align technology with business strategy

Technology has become essential to an organization's strategic objectives and operational models. The role of technology within the organization can no longer be viewed as a siloed function but must be elevated as an integral aspect of operating. As companies navigated the challenges of the pandemic, these siloes started to come down.

"Technology became a team sport in 2020. It was not just for IT," says Martin Davis, EVP & CIO, Southern Company, and Board Member, Southern State Corporation and CenterState Bank N.A. "Technology was required for every company across every industry. Everybody had to play to be successful."

For boards to take an active role in ensuring alignment between technology and business, there need to be open channels of communication among leaders, management and technology teams.

> "When there is a digital problem, [directors often] turn to technology [teams] and say, 'Fix it.' That's always the wrong way to go. It is a business opportunity and challenge that needs to be handled cross-functionally."

Gary Reiner
Board Member, Citi & HPE; Operating Partner, General Atlantic

Disruptions caused by the pandemic have highlighted the critical role of technology in crisis management and business continuity. As boards rethink their strategy for business resilience, they need to account for technology's role in enabling a robust yet agile foundation for organizations to pivot and stabilize.

"Digital resiliency is business resiliency. The fact that now, end-to-end, people are thinking about their business through a digital lens tells us that we can be much more fluid going forward," says Maria Morris, Board Member at Wells Fargo and S&P Global, and Former Executive Vice President at MetLife. "That is the definition of resiliency: the fluidity with which we can make change."

Recommended actions:

- [ ] **Empower management to respond in the moment** by developing an agile, flexible operation from the top down to react quickly to changing markets, demands and environments.
- [ ] **Facilitate secure communication among boards, executives and management teams** to make collaborative decisions around urgent digital initiatives. Support this collaboration with a digital governance platform that enables rapid implementation across the organization.
- [ ] **Revise board metrics to go beyond traditional measures of "on time" and "on budget."** Track the progress made on initiatives tied to larger business goals such as agility, customer centricity and overall security, thus enabling the organization to be more resilient.

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2. Enable strategic operational risk management

New ways of working have introduced layers of complexity to financial institutions' already complicated risk environment. To navigate this dynamic risk landscape, boards need to empower their companies to embed strategic risk management frameworks that provide risk oversight and transparency across the entire organization.

> "The more resilient we are digitally, the better served we are from an operational risk perspective. Boards are starting to get that connection. Technology does not sit on the side – operational risk and reputational risk are big pieces that have to be reviewed when you think about funding digital innovations."

Maria Morris
Board Member, Wells Fargo and S&P Global; Former Executive Vice President, MetLife

Financial institutions are pressed to anticipate risks well in advance, and to develop and support rock-solid infrastructures across all their subsidiaries. Organizations need a solution that supports future growth while also ensuring compliance and identifying risks and reputational red flags. Investment in better risk, compliance, entity governance and reputational monitoring software accelerates operational maturity. This enhances an organization's ability to achieve the three most important goals of any business: growth, profitability and brand equity.

Boards should focus on strengthening their organization's operational governance. Mismanaged or undermanaged operational governance can often be a challenge due to the fragmented and decentralized nature of business today. It can cause poor information flow, inefficient coordination between teams, slow market response times and costly blind spots. To ensure effective oversight and provide strong outcomes at all times, companies must proactively re-evaluate their operational governance workflows, so practices, policies and plans are up-to-date, effective and ready when needed.

Recommended actions:

- ☐ **Anticipate and manage operational risk by using predictive models**. Access to the right compliance tools can also help assess third-party risk to the business and ensure the proper controls are in place to identify and mitigate risks.
- ☐ **Support sustainable growth by improving governance practices** to strengthen your company's long-term viability, enhance value and pave the way for growth. Address governance deficits to ensure your organization is well equipped to prevent and manage operational risks.
- ☐ **Protect brand reputation by monitoring your peers** on key risk and compliance topics; measure industry and company perception; and anticipate material legal, regulatory and reputational risks.

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3. Evaluate the board's ability to manage modern challenges

As businesses come to grips with the new, post-pandemic normal, topics in boardrooms are widening well beyond the traditional pursuit of growth and revenue to new priorities focused on the evolving business landscape: managing new risks posed by accelerated innovations, addressing activist demands, and spearheading environmental, social and governance (ESG) initiatives. Tackling this wide range of issues calls for diverse perspectives and diverse representation on the board. "Everything is evolving, and you need people that are going to challenge the old ways of doing things," says Morris.

> "More and more boards are reaching out to technologists, reaching out to individuals with cyber skills to make sure they cover the gaps they have on their boards. Talent is going to be important – not only within employee ranks and management, but within the boards as well, especially around diversity and inclusion."

Martin Davis
Executive Vice President & Chief Information Officer, Southern Company; Board Member, Southern State Corporation and CenterState Bank N.A.

Board diversity, in particular, has come under scrutiny, with investors and activists demanding increased representation across social and ethnic groups. In 2020, 49% of directors surveyed said that somebody on the board should be replaced, with 21% saying that two or more directors should go.*

Yet many boards limit their board expansion with a restricted talent pool and by relying on a small number of recruiter networks or references. This can compromise the organization's success; a board's inability to refresh itself thwarts innovation, diversity and growth. Building diversity in the leadership pipeline ensures boards gain contrasting insights, different voices and unique perspectives, all of which are critical to improved business performance and enhanced

Recommended actions:

- ☐ **Replace traditional methods of board recruitment** from within the organization or restricted reference networks with processes and tools that can help build a more diverse board.
- ☐ **Access a platform like Diligent Director Network,** which provides nominating committees with data from across 24 global markets and 40 indexes – including more than 5,500 companies and detailed biographies of more than 250,000 directors and executives.
- ☐ **Ensure that your board composition reflects the organization's diversity needs** in terms of skill sets, perspective, experience and demographics (including ethnicity, race, level of experience, gender and geography). Board composition also should represent constituent voices and align with strategic goals.

4. Equip boards with actionable cyber risk oversight

It is estimated that eight in 10 organizations fast-tracked digital transformation programs in 2020, with 74% investing in on-demand digital services and 79% re-inventing their business models.*

Digitization at this pace has often focused on adaptability, at times overlooking the gaps and vulnerabilities created in the process. Digitization at this scale has also meant increased exposure, opening up a larger attack surface for cyber threats. Moreover, the magnitude of cyberattacks at SolarWinds and FireEye have exposed the vulnerabilities of the global network on which the new business models are built.

> "Whenever you have to pivot quickly [...] you can create gaps in your process, gaps in your technology, your controls, your cyber capabilities. A lot of companies, although they pivoted very quickly, are now doing the cleanup and gap closures around some of those particular areas."

Martin Davis
Executive Vice President & Chief Information Officer, Southern Company; Board Member, Southern State Corporation and CenterState Bank N.A.

Cybersecurity has long been on the radar of financial boards. But as digital resilience becomes core to operating models, boards must take a more hands-on approach, ask the right questions and place cybersecurity prominently on the board agenda. Additionally, boards must model the security-first behavior they expect the organization to adopt.

Board members need not be experts on cybersecurity, but they need to be prepared to ask management: What steps is the organization taking to improve its security and compliance posture? How do our cybersecurity capabilities stack up against those of our competition? Boards need to understand that it's no longer a matter of the cybersecurity of the organization alone, but also the posture and preparedness of suppliers, integrations and employees. Conventional risk-management systems need to be replaced with new models of cyber risk oversight that provide boards, executives and management with a comprehensive view into the organization's risk-preparedness plan and highlight potential threats across the business ecosystem.

Recommended actions:

- ☐ **Equip boards with the information they need** for adequate cybersecurity risk oversight: cybersecurity frameworks detailing where data is and how it operates, cyber management strategies led by someone with cross-organizational responsibility, and an economic and empirical risk assessment.
- ☐ **Find alternatives to unsecure, legacy communication channels**. Many directors use unsecure channels such as personal email and texting to communicate about their organization's most sensitive topics. Organizations must secure board and executive communication with an encrypted messaging platform that protects sensitive company information, while keeping people informed of relevant updates in real time.
- ☐ **Implement a risk dashboard to facilitate board visibility**. As boards transition to new styles of oversight, they need more information, delivered more efficiently and frequently. Implement a risk dashboard that offers directors clear visibility into cybersecurity risk factors affecting their organization, peers, competitors and third parties.

* https://www.delltechnologies.com/en-us/perspectives/digital-transformation-index.htm#scroll=off

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The Need for Modern Governance

For organizations to thrive in these dynamic times, leadership and governance practices must continue evolving.

Organizations need to reassess, reprioritize and reinvent their strategies. Boards must continue to digitize their practices to drive resiliency and transform corporate governance into a strategic advantage.

Modern governance equips organizations with the security, foresight and accountability to withstand challenges and drive change. Diligent enables this transformation through its modern governance solutions that empower boards, management teams and organizations with the technology, insights and processes they need to endure and thrive.

About Diligent

Diligent is the pioneer in modern governance. Our trusted, cloud-based applications streamline the day-to-day work of board management and committees, support secure collaboration, manage subsidiary and entity data, and deliver insights that empower company leaders to make better decisions in today's complex landscape. With the largest global network of corporate directors and executives, Diligent is relied on by more than 19,000 organisations and nearly 700,000 leaders in over 90 countries. With award-winning customer service across the globe, Diligent serves more than 50% of the Fortune 1000, 70% of the FTSE 100 and 65% of the ASX.

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