# Enterprise Risk

Winter 2019 / www.enterpriseriskmag.com
The official magazine of the Institute of Risk Management

**Discovery and disruption:** IRM's 10th Risk Leaders conference / **Buyer beware:** Supply chain contracts / **The diversity business:** Why variety makes sense / **Different dispositions:** Subjective risk

**THE SEARCH FOR INSIGHT**
Risk management software supplement included with this issue.

**Seize the day:** Emilio Granados Franco on keeping the long-term in focus at the World Economic Forum

Symbiant®

This is what users say about

# SYMBIANT RISK AND AUDIT Management Software

Includes a populated risk library to get you up and running in no time

"The perfect risk management solution"

"Highly recommended"

"Very impressed"

"Excellent value for money"

TRY IT FREE

"Easy upgrade from spreadsheet "

SYMBIANT®
MULTI AWARD WINNING

20 Years OF AWARD WINNING SOFTWARE

from less than
£1
a month
per user

A Total solution that allows your business to collaborate and manage Risk, Audit and Compliance with per user prices starting at less than **£1 a month**

**Risk Registers, KRI, Incident Management, Questionnaires, Action Tracking, Audit Management, Assessments, Controls management...**

To find out more or to arrange a free trial visit: **www.symbiant.uk**

Trusted by names you know from Charities to Banks, Government to PLC.
Symbiant is a Registered Trademark of Symbiant Ltd

Enterprise Risk

Winter 2019

**Editor**
Arthur Piper

**Produced by**
Smith de Wint
Cobden Place, 5 Cobden Chambers
Pelham Street, Nottingham, NG1 2ED
Tel: +44 (0)115 958 2024
risk@sdw.co.uk
www.sdw.co.uk

**Sponsorship and Advertising Sales Manager**
Redactive Media
IRMsales@redactive.co.uk
Tel: +44(0)20 7324 2753

Enterprise Risk is the official publication of the Institute of Risk Management (IRM).

**ISSN 2397-8848**

**About the IRM**
The IRM is the leading professional body for Enterprise Risk Management (ERM). We drive excellence in managing risk to ensure organisations are ready for the opportunities and threats of the future. We do this by providing internationally recognised qualifications and training, publishing research and guidance, and setting professional standards.

For over 30 years our qualifications have been the global choice of qualification for risk professionals and their employers. We are a not-for-profit body, with members working in all industries, in all risk disciplines and in all sectors around the world.

**Institute of Risk Management**
2nd Floor, Sackville House, 143-149
Fenchurch Street, London, EC3M 6BN
Tel: +44 (0)20 7709 9808
Fax: +44 (0)20 7709 0716
enquiries@theirm.org
www.theirm.org

Copyright © 2019 Institute of Risk Management. All rights reserved. Reproduction without written permission is strictly forbidden. The views of outside contributors are not necessarily the views of IRM, its editor or its staff.

irm
Developing risk professionals

THE INSTITUTE OF OPERATIONAL RISK

MIX
Paper from responsible sources
FSC® C017177
FSC www.fsc.org

# Editorial

## The uses of pessimism

I have recently become interested in the concept of pessimism. It first appeared in 1794 and means "the worst condition possible" according to the Oxford English Dictionary. More importantly, it gets its meaning largely in opposition to the pre-existing concept of optimism – which appeared first in 1759.

The word optimism was initially used to describe the worldview of the philosopher Gottfried Wilhelm Leibniz. He argued that the actual world is the "best of all possible worlds", because it had been chosen by the divine creator as the world in which most good could be obtained at the cost of the least evil. Optimism, then, has a trade-off between good and evil built in.

Pessimism, on the other hand, seems to be more extreme because it suggests that this world is the worst possible world – full stop.

I had been thinking of this after my interview with Emilio Granados Franco, which you can find on pages 10-14 of this issue. He says that in his risk assessment work for the World Economic Forum, his team focuses solely on the pessimistic side of global threats. Immersing oneself in doom and gloom day after day is hard work and incompatible, he believes, with being able to switch attitudes quickly and think of all the opportunities those threats may also represent. That work is done by other teams at the organisation.

> **Pessimism runs through risk management's role like the words in a stick of rock**

Pessimism runs through risk management's role like the words in a stick of rock. It is a necessary but depressing task.

Perhaps risk departments should be structured around those two polarities. The pessimists, dressed in black, no doubt, come in and upset everyone. Then, the optimists, wearing glittery jackets perhaps, arrive and find the potential silver lining in the seemingly impenetrable clouds of threat.

Geoff Trickey's article – *Different dispositions* – argues that risk managers should at least understand how different people see risks within the organisation (see pages 28-32). Someone's subjective view of the risks they face can affect their behaviour and reduce or increase the impact of certain threats. Understanding the subjective styles within the risk management team also seems like a useful exercise to consider. At the very least, it would help you decide who to sit next to at the Christmas party.

**Arthur Piper**
*Editor*

# Hawkins

Leaders in forensic investigation

Specialist forensic investigation services for the global insurance, legal and risk management professions.

- Acoustics & Audiology
- Civil & Structural Engineering
- Contamination
- Digital Forensics
- Electrical
- Engineering
- Escape of Water, Gas & Fluids
- Fire & Explosion
- Fraud
- Hydrology
- Materials Failure
- Personal Injury
- Power & Energy
- Process Engineering
- Railways
- Road Traffic Collisions
- Shipping & Marine
- Vehicle, Plant & Machinery

**Contact Hawkins 24 Hrs:**

| | | | |
|---|---|---|---|
| **UK** | **+44 207 481 4897** | **Hong Kong** | **+852 2548 0577** |
| **Dubai** | **+971 4372 1262** | **Singapore** | **+65 6202 9280** |

**www.hawkins.biz**

# Contents

*Winter 2019*

10

## FEATURES

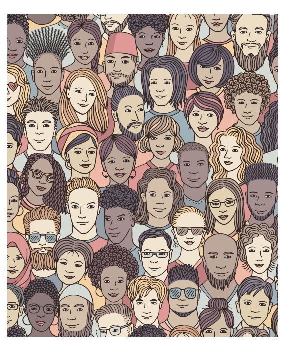


## REGULARS




16

20



24

28


SAI360

The World's Learning Risk Platform

# Software Solutions to Optimize your Risk & Compliance Programs

- Vendor Risk Management
- Regulatory Compliance
- GDPR/Data Privacy
- Operational Risk Management
- Cybersecurity Risk
- Internal Control
- Business Continuity
- Ethics & Compliance Learning

solutions to advance confidently

For more information visit **www.saiglobal.com**
email: info.emea@saiglobal.com or bwise@saiglobal.com

SAI Global ABN 67 050 611 642 ©2019 SAI Global. The SAI Global name and logo are trademarks of SAI Global. All Rights Reserved. 33150 1119

SAI GLOBAL | BWise®

# Supplying help

*The IRM's new Supply Chain Risk Management Certificate helps professionals get to grips with a crucially important area of modern business, says Nick Wildgoose*

As digitalisation has greatly extended the trading and operational capabilities of companies around the world, the robustness and transparency of the supply chain has moved centre stage for many risk managers. Not only do these networks face threats from cyber-risk and poorly drawn contracts (see Chris Kelly's feature *Buyer beware* in this issue on pages 20-23), but geopolitical events and climate change introduce hugely different but equally unpredictable challenges.

In fact, supply chains are at the heart of how many organisations drive value. There are supply chain disruptions and reputational incidents happening every day that could have been better managed to protect this value.

## Certificate

To help risk managers support their organisations facing these challenges, the IRM has created a new Supply Chain Risk Management Certificate, in association with the Supply Chain Risk Management Consortiun, to add to its growing portfolio of qualifications. The qualification introduces the concepts of supply chain risk management and equips risk practitioners and others involved in managing their supply chains with the ability to apply their risk management knowledge in a world where value is increasingly added via the supply chain.

It also explains how globalised outsourcing, digital disruption, specialisation and just-in-time delivery are changing the risk in supply chains for many organisations. It looks at how appropriate risk management tools and techniques can be applied, adapted and developed in an increasing digital context. The qualification provides a broad understanding of supply chain risk management principles and practices.

## Benefits

Risk professionals who take the course will be able to demonstrate an understanding of how supply chains operate and the risk implications of ongoing developments from various perspectives including those of the public and private sectors. In addition, they will be able to help their organisation implement the appropriate governance frameworks across extended organisational boundaries and understand the need to ensure "cross-functional" thinking and measurement. And finally, they will be able to explain the nature and impact of the major sources of disruption and other risks that supply chains face and understand how these can differ by industry.

**There are supply chain disruptions and reputational incidents happening every day that could have been better managed to protect this value**

"Our new qualification will help organisations of all types understand and manage their supply chain risks," said Iain Wright CMIRM, chair of the IRM, when launching the certificate. "No organisation can manage risk in isolation. Everyone has not only a supply chain but also an entire extended enterprise that determines their risk environment. Globalisation, digital technology and business disruption also mean that these environments are becoming more complex. Risk professionals need to be on top of this issue."

The qualification is delivered by online supported distance learning and assessed by multiple choice questions in over 5,000 exam centres worldwide. Enrolments will be opening in February 2020 for those wishing to register for the December 2020 exam session.

More information can be found here: www.theirm.org/scrm

**Nick Wildgoose is an independent supply chain risk consultant who helped the IRM devise the certificate programme.**

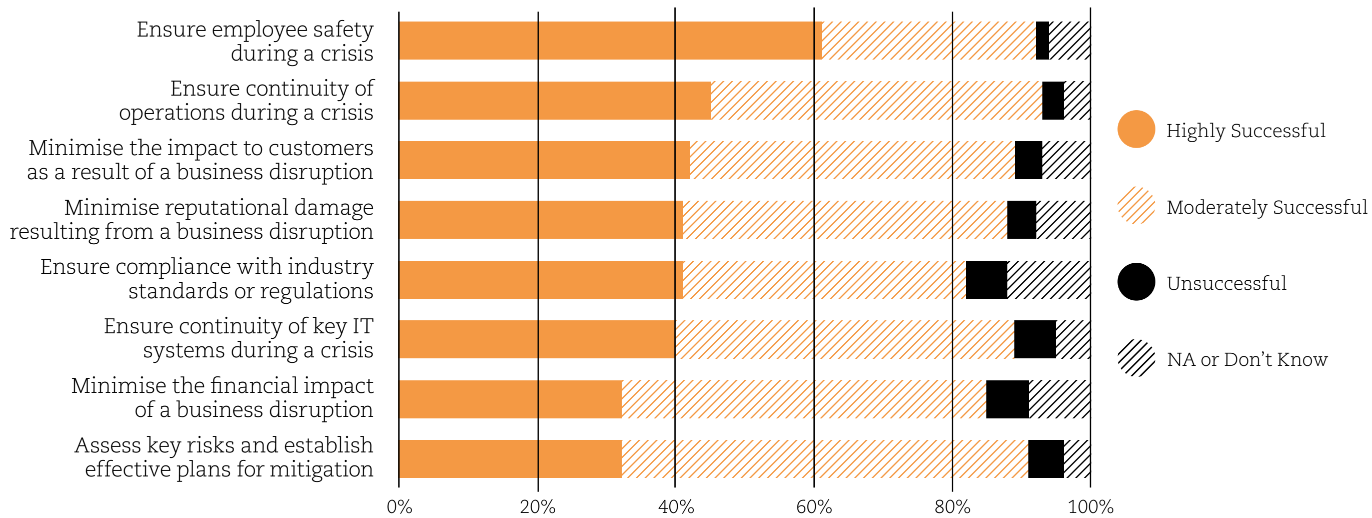
# Trending

DATA

The latest stories and news affecting the wider business environment as interpreted by our infographics team

## Business continuity plans meet with mixed success

### Level of success in achieving objectives




*Source: Business continuity benchmark study 2019, Assurance and Clearview*

## Financial crime key regulatory challenges

**Customer due diligence requirements for financial institutions**

2018 **55%**

2019 **43%**

**General data protection regulation**

2018 **31%**

2019 **28%**

**Dodd-Frank**

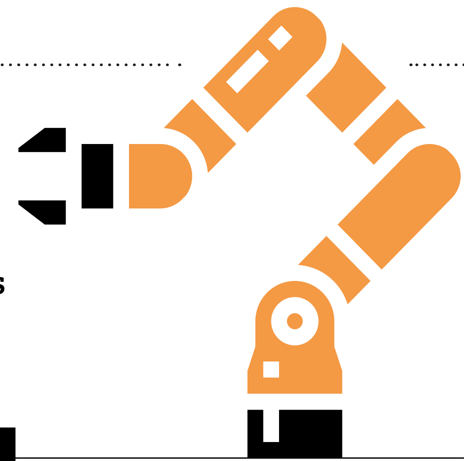
2018 **26%**

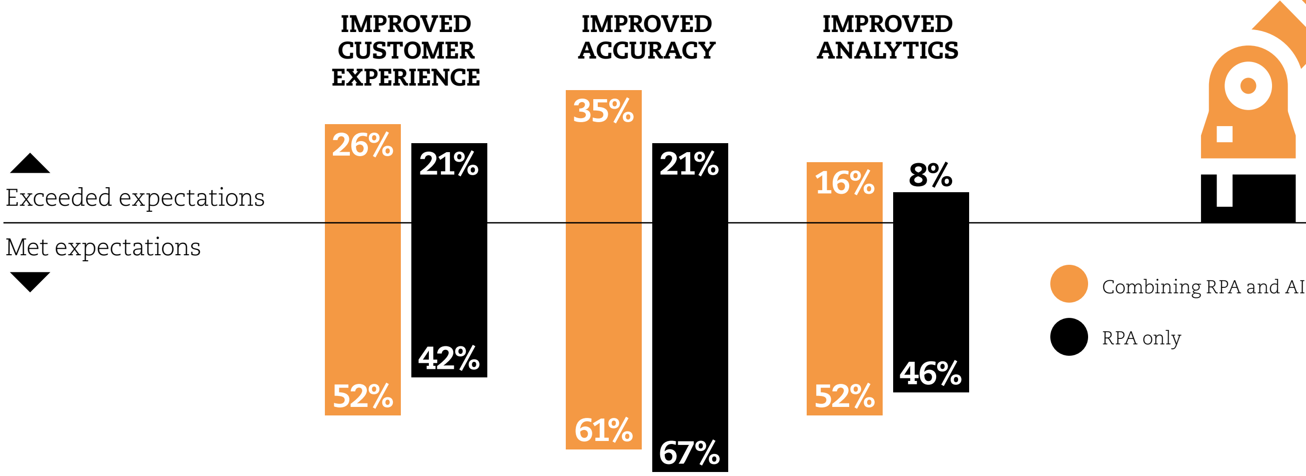
2019 **28%**

*Source: Anti-money laundering insights report, Thomson Reuters, 2019*

# Automation boosts productivity

Automations combining robotic process engineering and artificial intelligence yield best results

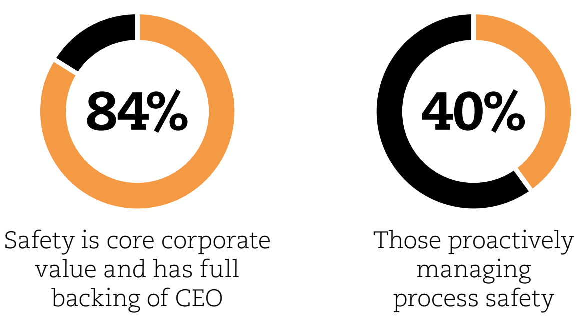




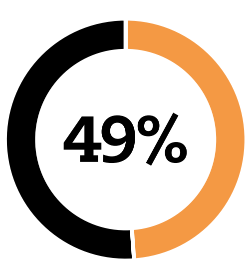

*Source: Automation with intelligence, Deloitte Insights, 2019*

## Stuck in a rut

Businesses fall short on intentions over process safety and operational risk management

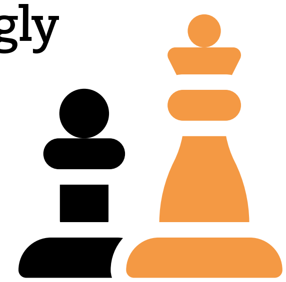


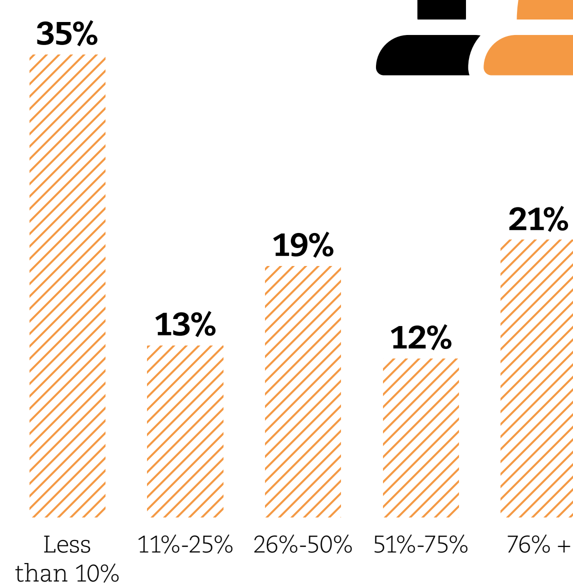

**Leading cause of gap between intentions and reality – Loss of key personnel**




*Source: Process safety and operational management 2019 industry report part one, Sphera*

## Risk management software used only sparingly on strategic risks






*Source: The search for insight: risk management software supplement, Enterprise Risk/Protecht (see supplement to this issue)*

# Seize the day

Too many businesses focus on urgent rather than structural threats. Emilio Granados Franco, head of global risks and geopolitical agenda at the World Economic Forum, urges a change of approach

BY ARTHUR PIPER

> Why should a particular business be concerned with biodiversity?

Almost 13,000 business professionals believe that the threat of a new fiscal crisis is their most pressing risk, according to a report published in October by the World Economic Forum (WEF), the international organisation for public–private cooperation. Cyberattacks, unemployment – or underemployment – energy price shocks, failures of national governance and profound social instability follow in a list that is typically depressing.

It is easy to see from the evidence in the report – *Regional risks for doing business 2019* – why such a crisis may be on the horizon. The global economy has never regained the vigour it had before the collapse of the mortgage-backed bond market in 2008 and the financial convulsions that followed as instability spread through global markets and countries. Since then, growth patterns have been muted and, more recently, production has slowed in all seven of the world's largest economies. Although there are wide regional differences, global debt is at a record high of 225% of GDP. Low growth, plus high levels of debt, could easily tip the world into fiscal trouble.

Collating such information and establishing the likely impacts on business, governments and communities is the job of Emilio Granados Franco, head of global risks and geopolitical agenda at WEF. He is the report's lead author and in charge of the WEF's highly influential

risk programme that, among other things, produces the organisation's annual *Global risks report*.

## Existential threat

The first thing we touch on are the top risks facing not just businesses but governments and communities around the world. He agrees that fiscal risk is one of the top three threats along with cyber-risk and the state of the environment – the last of which did not make the global top ten among the aggregated figures in the business report. In fact, Granados Franco says that one of the worst impacts of a fiscal crisis is that it would prevent people dealing with existential problems that need to stay high on the agenda.

"The state of the environment is an existential threat to humanity, to business, and I would say it is the core risk threatening our way of life," he says. "We talk about the economic as a short-term risk that would require immediate action, but the environmental is a transcendent risk that requires continuous action. It might seem like a long-term risk but the reality is that time is running out."

Granados Franco wants to help businesses understand that the opportunity to mitigate longer-term risks should not be swept under the carpet each time a short-term crisis hits. While many risk management departments, for instance, do analyse emerging risk to gain some foresight about the potential impact of future threats, not enough deeply consider how current risks are interconnected.

"Why should a particular business be concerned with biodiversity? Or why should a company in country A be concerned with a health emergency in country B 5,000 miles away?" he asks. "Because there are interconnections. While they may not be clear, the state of the world right now is so connected that not thinking about these interconnections could be quite a handicap."

> **It would be very difficult to do business on a dying planet**

> **Having the same team detecting risk and coming up with the solution is overambitious**

He believes that some organisations are beginning to get the message. In Asia-Pacific, natural catastrophes are seen as the main risk of doing business, and failure to adapt to climate change is a top risk in North America, but environmental risks are still blind spots in most regions. Even so, many global companies have renewed their programmes to reduce their impact on the environment because it makes business sense to lessen the effect of extreme weather on supply chains and production capacity in the long term. "It would be very difficult to do business on a dying planet, and many companies are aware of that and committed to the effort,'" he says.

## Joined up

He says that companies do not always think clearly about how risks are seen by different demographics. For instance, the younger generation has become increasingly louder and more influential on a range of issues – from the environment to race and gender. Since those people will be the consumers of tomorrow, he believes that anticipating how they will react (or not) to evolving risks is fundamental for business. In addition, he advocates an exercise in what he calls regressive thinking – the ability of executives to imagine that a risk has already crystallised. "Let a company assume that sea levels have risen by 10 per cent. Take that as a fact and ask how they would be affected and what could they have done in advance to mitigate the risk," he explains.

But businesses cannot act in isolation to ward off every threat. Public–private initiatives also play a key role in those efforts, he believes. While cyberattacks have happened since the internet became a reality, for example, global co-ordination to tackle the threat is only just beginning. That is partly because not all regions have digitalised to the same extent and partly because governments have been

## CAROL OUKO-MISIKO

Carol Ouko-Misiko, CMIRM, was appointed to the WEF's *Global risks report* advisory board in September 2019. The advisory board provides advice and guidance on the process and the content for the *Global risks report 2020*.

Ouko-Misiko is a senior member of IRM and plays a key role in managing the IRM's East Africa regional group. She is group chief risk officer for Britam Holdings Plc where she oversees risk management across seven countries: Kenya, Uganda, Tanzania, Rwanda, South Sudan, Malawi and Mozambique.

"It is a great honour and privilege to be appointed to the World Economic Forum's *Global risks report* advisory board and to represent the IRM providing my professional input from an African perspective," Ouko-Misiko said following the appointment.

Emilio Granados Franco, head of the WEF's global risks and geopolitical agenda, said: "Carol Ouko-Misiko joins our advisory board at a time when Africa's role in shaping the future of the world is becoming more important. Her experience managing risk in East Africa will play a key role in expanding the scope of the *Global risks report*."

slow to co-ordinate their efforts.

Granados Franco is optimistic that work in these areas can be productive of change, despite some scepticism around the effectiveness of the multilateral system. Ongoing communication, information sharing and a willingness to listen to different perspectives are all vital. But while global risk does require global co-operation, it is not exclusive of regional co-ordination when the circumstances are right.

"For example, with climate change, while it is a risk that has global implications, a bottom-up approach could be quite useful to tackle specific regional problems," he says. "Individual action multiplied by millions of people is also effective – it is easy to be an individual contributing to a global action."

On the other hand, regional and individual actions are no substitute for global co-operation, he believes, for two key reasons. Governments and businesses have longer time horizons for planning and can exert influence for periods that exceed the lifespan of individuals or small pressure groups. Second, younger generations may not have lived through global risk events and may not have the information and wisdom needed to deal effectively with every issue. "That time-based experience is one that global institutions have the privilege of using to their advantage," he says. That is why joined-up thinking is critical – action needs to be co-ordinated from top to bottom.

## Organised pessimism

Granados Franco describes his role as being "a bit tragic" because he is often a harbinger of bad news. "I would say we are the grim reapers," he says jokingly, "because my team's job is to identify, analyse and, if possible, pinpoint the origin of global risk." Those efforts are co-ordinated along three main lines: the annual *Global risks report*, the *Regional risks for doing business report* and what he refers to as landscape reports that are designed to foment action at a more local level. "For those countries that want to be more influential in mitigating global risk, we provide them with a point of view for their region, with objective information and ways to help them develop ideas," he explains.

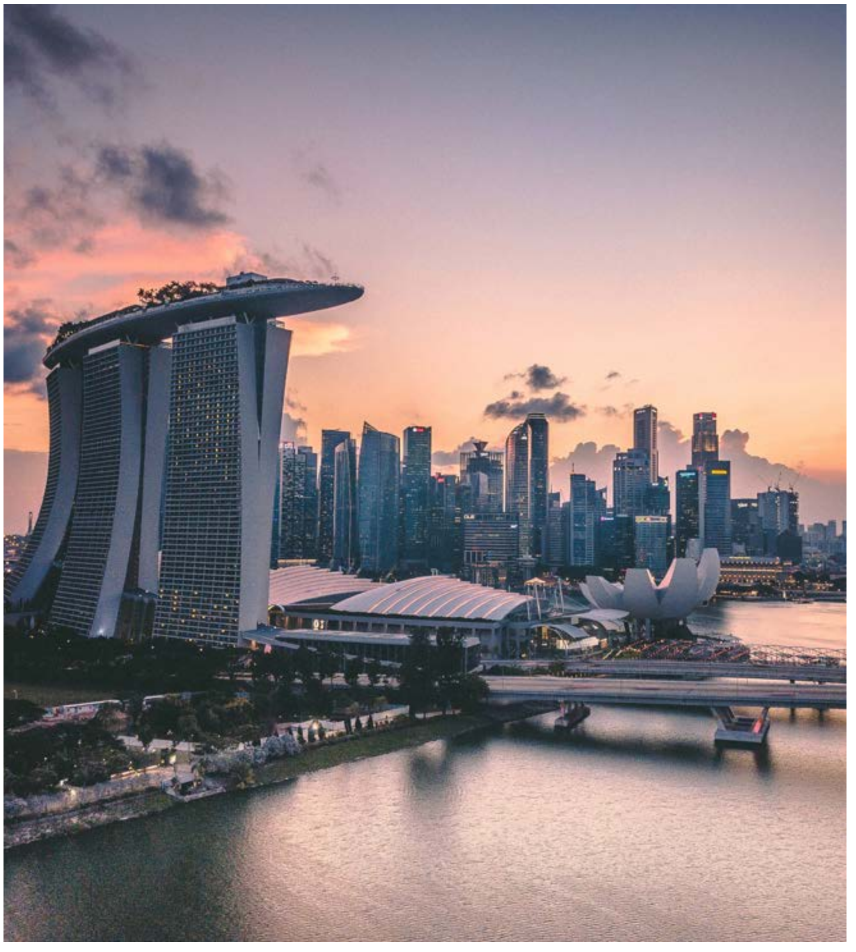
But his role falls short of producing specific solutions to the risks his group identifies. That is carried out by specific thematic centres – such as WEF's Centre for the Fourth Industrial Revolution – that dig down into the reports and think creatively about possible actions or policies the issues identified present. "From my perspective, having the same team detecting risk and coming up with the solution is overambitious," he says. "We try to solve the bias the team would have because of their pessimistic line of work by separating it from the optimistic part of creating solutions."

Granados Franco is often dealing with events that have not yet happened, and so hard information can be scarce. Producing information through the Global Risks Perception Survey is an attempt to create data, even if it only represents the subjective views of its participants. Relying on trend analysis is equally insufficient. Even though most risks that materialise begin as trends, those environmental, social or technological developments may reverse or fizzle out. The second main challenge to his work is the related attitudes of either hopelessness or scepticism among stakeholders. Individuals and smaller enterprises and organisations need to feel that there is something they can do to make a difference. Larger organisations, on the other hand, need to balance their short-term focus on urgent risks – such as fiscal crisis – and act in time to prevent slow-burning threats becoming an even more dangerous reality in the future.

## Generalists

Granados Franco runs a small team of five – two Americans, a Swiss person, a British person and himself, a Mexican. They have different backgrounds and have worked in various industries – all specialists in their own fields. If he had the budget, he says he would diversify his team further by employing people from other parts of the world and even broader backgrounds. The qualities he values most are strong analytical skills, open-mindedness and having good communication skills. His own background is in economics, and he has tried to introduce more statistical rigour to the work by streamlining the global survey and making clear distinctions between objective data and value-based judgments.

While data is crucial, it is not enough on its own because of the emerging nature of many of the risks the group encounter, he says. That is why they consult widely among experts in different fields – and he



**Above:** A WEF event is planned for Singapore in 2020

> **Being exposed personally to a global risk completely changes the way you see it**

recommends that risk managers do the same. In addition, the team holds workshops around the world to ensure that regional sensitivities and trends are accounted for. Recent events include meetings in in Geneva – the home of WEF – New York and Washington DC with another planned in Singapore in 2020.

"The workshops throughout the world help us to depart from our comfort zones, to expose ourselves to different ways of thinking," he says. "For a risk expert, getting comfortable in your situation is a risk itself."

## Reality checks

When Granados Franco was a young man studying at the Instituto Tecnológico Autónomo de México (ITAM), he was torn between a career in law or a career in maths. When he chose economics, he believed it would be an amalgam of the two disciplines – even though it did not turn out that way. But he has stuck with his interests and has tried to bring them together through a career in economics because, as he sees it, health, climate, technology, politics and entertainment are all affected by economic decisions.

But his approach is equally driven by his personal experiences. His dislike of short-termism comes from the time he worked in government in Mexico. "We would spend perhaps eight months developing a policy, but then something would happen that would require everyone's attention immediately, so the longer-term plan would be secondary or even crossed off entirely," he says. "That was both frustrating and a common denominator – because there is a short-term crisis, it doesn't mean that the long term-situation has just been overcome."

Perhaps his most salient career-defining moment came more recently though. In September 19, 2017, he was attending the UN General Assembly in New York when a 7.1 magnitude earthquake hit his home city destroying hundreds of buildings and causing almost 400 fatalities. Within hours, he found himself back in the streets of Mexico City liaising with two international rescue brigades. "I'm an economist, so my job was about formulas and being in an office," he says. "Just being on the ground and not behind a desk, not working with a computer, but in the chaos that came with that situation was life-changing. Being exposed personally to a global risk completely changes the way you see it."

"Theory becomes absolutely secondary to practice for one," he explains. "Basic needs are called that for a reason. Some of us are lucky enough to think about these global risks from another type of perspective, academically, rather than personally. The reality is that for many people that is not the case. You have to put yourself in that situation – go beyond the numbers, right?"

That is why he believes that risk work is so important. It is an opportunity to gather the data, make effective plans and put them into action before it is too late. The value of global bodies such as WEF resides precisely in their ability to help those who do not have access to that information to see what is coming and prepare. Not tomorrow – today.


**ABAC Center of Excellence Limited** provides expert audit of your existing anti-corruption and third-party risk management system (ABAC) to assess effectiveness and vulnerabilities, while **ensuring your organisation adequately complies with FCPA regulations, UK Bribery Act laws, Anti-Money Laundering regulations, and other global, regional and local regulations.**

These assessments also define the level of business integrity within your organisation to **ensure that the code of international business conduct is followed properly and conflicts of interest are averted**. In doing so, a thorough gap analysis and assessment of your risk management processes can protect the organisation from damaging litigation and **safeguard your business in the global marketplace.**

Powered by: CRI | GROUP Corporate Research and Investigations

Ask us about ISO37001 Training & Certification in depth:

**abacgroup.com**

(scan me for more)

info@ABACgroup.com
**t:** +44 207 868 1575 or +44 207 868 1471

**Omoye Osebor | Client Services Officer**
e: omoye.osebor@ABACgroup.com

**Lisa Verlander | Training Specialist**
e: lisa.verlander@ABACgroup.com

ABAC ANTI-BRIBERY ANTI-CORRUPTION CENTER OF EXCELLENCE

**Global Leader** in Risk, Compliance and Anti-Bribery Management Systems

# Discovery and disruption

Risk managers are learning to balance complex risk areas with becoming better generalists, as delegates at IRM's 10th annual Risk Leaders conference heard

BY ARTHUR PIPER


"Over the past 25 years, being a generalist has become a more important skill for risk managers than being good at calculation," Lakshmi Shyam-Sunder, vice president and World Bank group chief risk officer, told attendees at IRM's 10th Risk Leaders conference – A decade of discovery and disruption – in London this November. While she had started her career at the bank focusing almost solely on market risk, non-financial risks now comprised the majority of her work.

"The old tools are necessary, but far from enough to deal with geo-political risk," she said. "Politics have preoccupied us more than I would have ever believed."

She said that there had been a dramatic increase in the levels of uncertainty. The decades-long relationship between monetary policy and the markets had broken down following the 2008 financial crisis – not least because of the proliferation of unusual financial instruments, such as quantitative easing, that had become more widespread. She said that has inverted traditional relationships. "The US Federal Reserve System (Fed) now reacts to markets,

> **Borrowing levels in advanced countries is not sustainable**


**Above:** Professor Daniel Ralph, co-founder of the Cambridge Centre for Risk Studies

> With the proliferation of technology, companies have greater reach and an opportunity for improved productivity. But the threats are also greater

rather than markets reacting to what the Fed says and does," she said.

## Borrowing

Borrowing levels in advanced countries is not sustainable, she believed. While households and corporations had reined back their borrowing since the financial crisis began, government borrowing had continued to go up. Further afield, Argentina, Turkey, South Africa and Saudi Arabia gave her cause for concern. But, she said, while the World Bank had been the traditional first port of call for such countries – controlling, to a certain extent, the debt available – now they were borrowing from countries that did not belong to the select Paris Club, an informal group of countries that work to find sustainable solutions to indebted countries that struggle to repay. That meant that some countries were effectively mortgaging their natural assets, such as oil and land, with the risk that those could be forfeited if repayments were not made.

Since David Malpass started his five-year term as president of the World Bank in April 2019, the organisation has focused more on corporate governance. "Under the new president, governance is getting more precedence, so that we are lending on the condition of reforms at institutions within those countries to whom we lend," she explained. Those with poor governance received no money, but they received technical advice aimed at bringing their processes in line with international best practice. Despite the apparent breakdown of multilateral action by the world's governments, she said that the bank's stakeholders provided more money than ever to support its activities.

## Cyber-risk

In his opening remarks to the conference, IRM chair Socrates Coudounaris CFIRM said that since Risk Leaders had started, there had been an explosion in cyber-crime. An estimated four billion records were breached in 2019, compared with three million in 2009, he said. "With the proliferation of technology, companies have greater reach and an opportunity for improved productivity," he said, "but the threats are also greater – not just within the business, in the supply chain." He also announced new IRM guidance on hiring a chief risk officer (see *Hiring a great CRO* page 18).

Jim Winters, managing director, global fraud management, at Barclays, talked attendees through the bank's increasingly sophisticated efforts to combat cyber-fraud. Compared to other forms of financial transactions, he said that mobile banking was relatively safe. In part, that is because banks are using more sophisticated authentication technologies and processes, he explained.

"Biometric profiling can sound very scary," he said, "but it is very clever." He said that such technologies can be used to track how customers use their devices. Using a profile based on that behaviour, advanced analytics, machine learning and biometric profiling together can detect subtle changes in customer activity

**Above:** Attendees networking at the exhibition stands

**Above:** Jim Winters, managing director, global fraud management, at Barclays

> **When you take advantage of another person by cutting payment, extending payment terms unilaterally, the response is often ugly**

that can flag up potential fraud risk.

"Contextualised data is the key to fraud prevention," he said. "The most important facet of fraud detection is understanding customer behaviour and enabling customers to control the parameters on their own accounts."

## Short-sightedness

"What is the risk of your client saying, 'I don't like you?'" Robert Trent, professor of supply chain management at Lehigh University, asked the conference. Trent said that one of the main reasons companies got this response from their customers was financial myopia. "Financial myopia is the inability to comprehend, anticipate or be concerned about the longer-term consequences that result from shorter-term actions that affect adversely one or more parties within a value chain," he said. It also referred to an all-too-common lack of imagination, foresight or intellectual insight on behalf of those concerned, he added.

For example, too many organisations use their large size to exert cohesive power in their supply chains. In one instance, a major US corporation pays its invoices to suppliers in 90 days or over and still expects a large discount on its orders. Some suppliers have responded by increasing their prices and have not collaborated with the business by sharing new ideas or by giving other enhanced service offerings. Other suppliers sack difficult customers. As a result, such financial myopia increases corporate risk.

"When you take advantage of another person by cutting payment, extending payment terms unilaterally, the response is often ugly," he says. "On the other hand, fair treatment can and does results in the type of benevolent behaviour from suppliers that can provide competitive advantage."

Supplier satisfaction surveys show that very different industries agree on the four most important customer performance measurements. They rated highly customers who demonstrate ethical and respectful behaviour, pay in a reasonable time, offer opportunities for a longer-term business relationship and provide a fair financial return on their investment.

"Benevolent behaviour correlates with satisfied suppliers, and preferred customer status can lead to benefits that are not available to all customers – something that can create competitive advantage and even strategic advantage," he said.

## Unpredictable

While large, unpredictable events such as wars, hurricanes and major lawsuits are possible, they tend to be unpredictable, said Professor Daniel Ralph, co-founder of the Cambridge Centre for Risk Studies, in a keynote

### HIRING A GREAT CRO


IRM new guidance on hiring for the most senior risk positions at the conference. The guidance – *How to hire a great chief risk officer* – remarks on a shortage of candidates for senior level positions and calls on organisations to ensure that their professional development schemes and succession plans nurture sufficient talent for the future. IRM is also introducing a new advisory service to provide candidate assessment support for organisations around the world seeking to make top-level risk appointments.

address launching the IRM-sponsored study *Scenario applications: Stress testing companies in the energy value chain*.

"It is not possible to predict the timing and severity of any particular event," he told delegates. "Nevertheless, planning around unpredictable events can be an effective component to a company's risk management preparations. This is at the heart of the wide and continuing push for companies, as well as governmental agencies and not-for-profit organisations, to declare their risk exposures analogous to the way they declare asset values."

The study considers the impacts to the energy value chain across the selected three scenarios: a geopolitical crisis in the Middle East, a hurricane in the Gulf of Mexico and liability risk in the form of litigation against carbon emissions. The risks showed some thematic similarities, he said, but there were marked differences.

"Scenarios can be either driven by physical consequences with threats to people and facilities, or by financial impacts from fines, legal proceedings or other material costs," he said. The qualitative scenario assessments showed that response capacity and mitigations tended to cluster in four categories across the energy value chain: operations, information and reporting, financials and reputation.

Dr Paul Burgess, senior advisor at the Cambridge Centre for Risk Studies, told the audience that their research showed that while 53 per cent of risk managers said they used scenarios in their work, few had a structured framework for doing so. "Risk managers should try to be more objective," he said. "If they could place all the risks on the same footing and expressed as, for instance, 'enterprise value at risk', they would be able to compare widely different types of risk more systematically."

Burgess announced the publication of the IRM-sponsored case study *Risk management for the consumer sectors*. The report focuses on a quantitative view of a company's balance sheet to six stress test scenarios that represent a wide range of disparate and differing types of risk. It aims to build an integrated view of these different risk factors across the business.

## Next generation

A panel session – Talking about our generation – discussed how risk roles are likely to develop over the next few years. "Artificial intelligence (AI) is going to change the way we do our jobs, and we will be competing against machines with very different capabilities," said Karlene Agard GradIRM, founder of ARAVUN, a mega-projects consultancy. "We will need to look for things that we can do better than machines, such as focusing on leadership and empathy." Alex Deas CMIRM, head of risk and value management at Network Rail, said that risk management would be needed to offer challenge. "Algorithms are human creations with human biases," he said. "So, there is a role for humans to challenge the assumptions going into the models being used."

Chris Hanlon, operational risk manager at Monzo Bank, said that risk managers should embrace AI as it entered their businesses – and their risk management processes. He pointed to the talk by Jim Winters of Barclays where AI and other advanced technologies were being used to help in the fight against cyber-fraud. The most recent research by IRM shows that about four in ten risk managers are looking to introduce AI into their own processes over the next one to three years (see *The search for insight Enterprise risk* magazine supplement).

Delegates enjoyed break-out sessions on issues such as money laundering, dynamic risk profiling and the lessons learnt from the evolution of risk management systems. They took away food for thought, not just about the past decade of discovery and disruption, but about the challenges the profession faces in the future.

**Below:** Chris Hanlon, operational risk manager at Monzo Bank, and Alex Deas CMIRM, head of risk and value management at Network Rail

> **Artificial intelligence is going to change the way we do our jobs, and we will be competing against machines with very different capabilities**

# Buyer beware

Contracts are at the heart of all supply chain arrangements, but the risks associated with them can be large, complex and hard to detect and manage

BY CHRISTOPHER KELLY

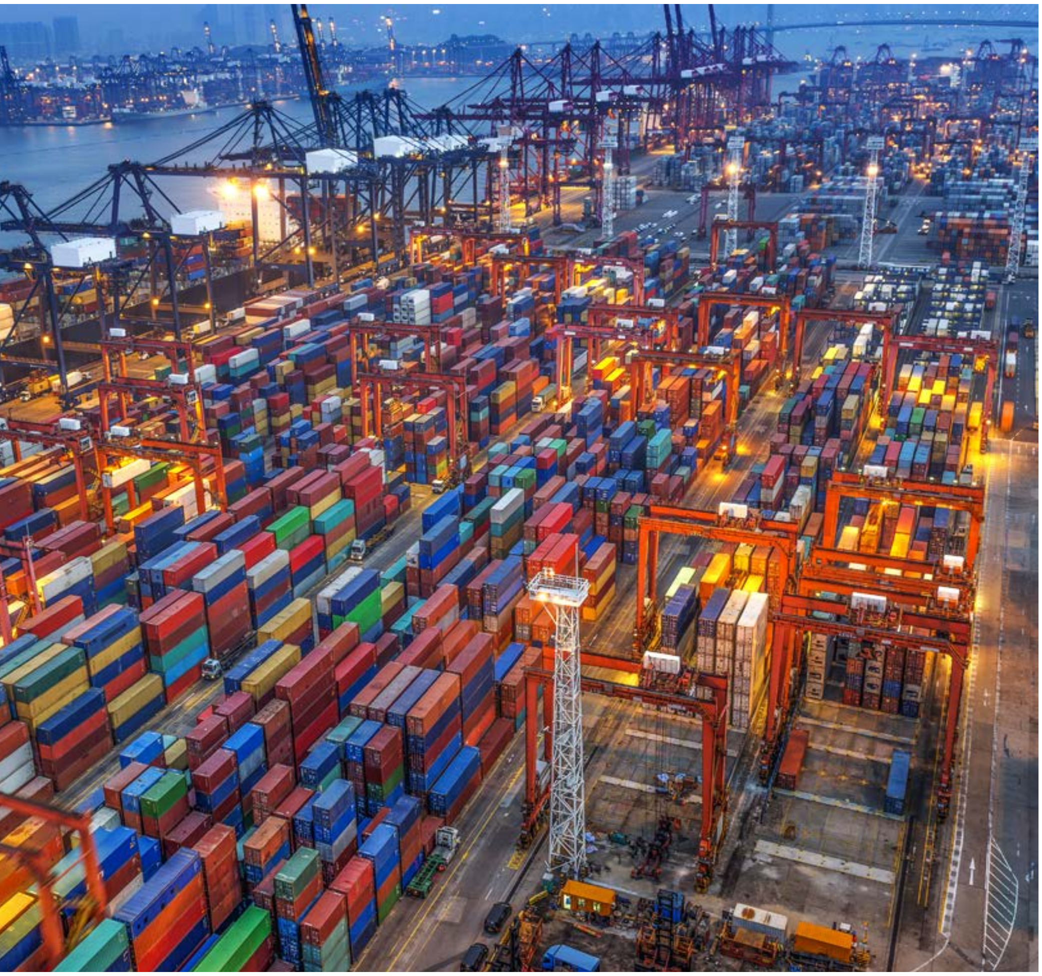
Multi-million-pound contracts for construction of new assets, IT system implementations or major consultancy projects can entail complex supply chains with career-busting risks including budget blowouts, timetable slippages, supplier bankruptcies and fraud. Risk managers have a vital role to play in identifying those risks and in working with the organisation's other assurance functions to eliminate them.

Commercial pressures in supplier–buyer dynamics may encourage inducements to either secure a new contract relationship or maintain or expand an existing one. Supplier sales personnel anxious to meet targets and achieve bonuses may offer gifts, entertainment and other kickbacks to win new work. The buying organisation's managers in turn know these pressures exist and are sometimes willing to accept and even solicit benefits in exchange for awarding large contracts.

> The problem for the risk manager is that kickbacks usually sit outside the accounting system making them hard to detect

## Checking behaviour

The problem for the risk manager is that these kickbacks usually sit outside the accounting system making them hard to detect. Longstanding or exclusive relationships between management and contractors, multiple contract extensions, repetitive requisitioning or invoice approvals by the same manager can all be tell-tale signs. While



> Consultancy firms are well known for selling their most experienced partners and directors but delivering the engagement with semi-qualified juniors and cheaper off-shore personnel

kickback arrangements are typically secret, guilt, envy or resentment by knowledgeable personnel can serve risk management's needs. Through whistleblowing and gift declaration processes, careful evidence-gathering and confidentiality assurances, behavioural risks are discoverable.

It can help if contractors are aware of the buyer's whistleblowing and gift declaration processes. Contractors are sometimes willing to report concerns where they feel buyers in management have pressured them to provide gifts or entertainment. In other cases, contractors have been willing to report concerns where their competitors have used gifts to distort fair play. Circularising contractors with an annual email or letter informing them of the whistleblowing and gift policies can be effective. This serves a dual purpose: as a warning to those engaged in wrongdoing and as a safe communication route for those who may have information to divulge.

## Knowledge risks

Because major projects typically endure over several years and are inherently complex – both as to operational delivery and legal complexity – continuity of managerial oversight is essential. Oversight committees should be minuted and consistently attended to build collective knowledge within the buying organisation as the project progresses. In the worst example I have seen to date, the contractor of a public sector infrastructure maintenance contract had kept the same manager in charge for a decade while the public sector buyer had maintained zero managerial continuity. The contractor had a history of charging arbitrary additional costs, and when we asked the public sector buying organisation for the contract we were directed to a pile of boxes and told, "We think it's in there." Unsurprisingly the buyer's naivety was used to the contractor's advantage.

Perhaps not so much a cost, but a leakage of value can also occur through the development of intellectual property or efficiencies arising from value engineering. Ideally any such savings will be shared between the buying organisation and the contractor. But unless this is written into the contract, the contractor is likely to be the only beneficiary.

## Contract risks

The type of contract will largely determine the resultant risks. An arm's length market tender exercise will normally result in a contract which can adopt one, or a hybrid of, fixed price, variable cost or target cost (with the final variance shared with the contractor once costs are finalised). It is wise to invest the time studying the contract as each type has reasonably predictable risks to the buying organisation.

In fixed-price contracts, the buying organisation can take comfort from

> **The contractor supply chain can multiply their earnings by layering overhead charges upon overhead charges across vertical sub-contractor and sub-sub-contractor hierarchies**

knowing the end cost with certainty, perhaps with provision for staged payments based on the achievement of delivery milestones, and maybe a retention allowance payable to the contractor after contract completion to protect the buying organisation against defects. Although the fixed price of the contract may appear to eliminate risk, it is usually otherwise.

As the contractor probably won the fixed-price contract by being the cheapest, they may seek to slash costs by delivering inferior workmanship, inferior labour, accelerated stage payments or add-on costs such as tools or safety gear which the buying organisation had assumed were part of the agreed fixed price. Similarly, consultancy firms are well known for selling their most experienced partners and directors but delivering the engagement with semi-qualified juniors and cheaper off-shore personnel. If quality parameters were not written into the contract, they were not agreed.

Another menacing scenario is the contractor who charges upfront for work not completed then goes out of business. Risk managers should ensure stage payments are determined in accordance with the contract and the stage of completion and workmanship quality, for instance, are signed-off by the buying organisation's quantity surveyors.

During contract delivery, the buying organisation itself may change the original specification or timetable. Fixed-price contracts usually include variation orders to take account of such changes and liquidated damages if either party obstructs the project. Once signed, a shrewd contractor will hand the contract to their commercial department to start drafting variation orders and claims against the buyer before the ink has dried. If the buying organisation's scrutiny and authorisation of variation orders is weak, significant cost escalation can follow, negating the assumed certainty of the fixed-price contract. In this way what was originally thought by the board to be a fixed-price contract can mutate into a budget-blowing variable-cost contract.

## Variable risks

Variable-cost contracts are sometimes called "time and materials", "cost-plus" or "schedule of rates" and involve actual costs plus an agreed percentage for overhead and profit, often without an upper ceiling on the eventual cost. The contractor's

> **With an understanding of the contractual allowable and disallowable costs, the risk manager has a useful role to play in directing the audit team towards the detailed checks needed**

commercial bias is normally to charge the highest possible rate, and to maximise the volume of quantities and labour hours to be charged.

To counter the main risks, it is important that the rate, and future inflation percentage, have been appropriately determined at the time of contract agreement, are identical to the rate actually invoiced, and that the variable quantities of materials and labour hours are supported by verified goods delivery notes and timesheets which can be checked by the buyer's auditors back to attendance logs, swipe in/out cards or biometrics. Where machinery hire is charged, a plant register should show termination of plant no longer in use with review and sign-off by the buying organisation.

Besides those basic rate and quantity checks, risk management may find it profitable to examine whether non-chargeable hours have also been charged such as administration, rework, sickness, training or holidays. If the contract includes an overhead percentage, then overhead costs should not also be charged as this would be cost duplication. As well as duplicate overhead charging, I have seen contractors sometimes charge accrued future costs a decade in advance of being incurred, estimated costs calculated in the contractors' favour without ever being actualised and even the cost of the contractor's Christmas party. All were disallowable under the contract's definitions and therefore refundable. If the contractor has multiple projects, it is also possible they may seek to replicate recovery of the same material or labour costs across those multiple projects. Non-descriptive contractor invoices and resistance to inquiries may signal that these kinds of cost games are being played.

Another scam is where contractors overcharge through layering their overhead and profit percentages across their own supply chain. In this way the contractor supply chain can multiply their earnings by layering overhead charges upon overhead charges across vertical sub-contractor and sub-sub-contractor hierarchies. The remedy is to require the contractor to market test any sub-contract work and not merely award it to related parties.

Some contracts will include volume discounts which are triggered when pre-determined volumes are reached. The burden is on the buying organisation to remain alert to ensure discounts are applied once volume criteria are reached.

## Right to audit

Major contracts should include a right of audit clause – if not, then that itself is a risk finding. The buying organisation's auditors should be actively involved in contract assurance – if not, then that too is a risk finding. With an understanding of the contractual allowable and disallowable costs, the risk manager has a useful role to play in directing the audit team towards the detailed checks needed. The auditors should first reconcile the contractor's claims for payment to the accounting system in order to ensure all cost data has been captured at the outset. They should then download the contractor's payment transactions to mine for duplicated costs, double charging of sales taxes and text searches on phrases such as "rework", "entertainment", "function", "party", "hotel". The auditors can use the contract's disallowable costs as search terms. Another useful line of inquiry is whether the contractor has obtained discounts or credit notes from their own supply chain but not passed those on to the buying organisation. Even if a right of audit does not exist in the contract, the risk manager may succeed in persuading the contractor to oblige an audit if only to maintain their valued commercial relationship. Every finding is a recoverable cost.

## Cost contract risks

While the above two contract types put the onus of governance on the buying organisation, target-cost contracts usually involve an ostensibly friendly shared governance arrangement between the buyer and contractor. The target cost will have an associated gain-share if the final cost comes below target, or a pain-share if the final cost exceeds target. Philosophically speaking, a target cost contract should align the commercial interests of the buyer and contractor.

But those appearances can deceive. The pain versus gain formula may mean that it is asymmetrically lucrative for the contractor to overcharge their own costs – even if this results in target-cost overspend – because the buying organisation will subsidise the contractor's margin through the pain-share device. Cost exaggeration could also occur if costs are managed by the contractor's accountants rather than those of the buyer or an impartial third party.

An effective mindset is to assume you have been overcharged and then use risk management expertise for search and recovery. In multi-million-pound contracts one per cent to two per cent recoveries are not unusual, making the exercise very worthwhile. A further dividend arises from improved buyer understanding of contract risks, procurement controls and contractor activities, with the most lurid risk discoveries becoming corporate legend via the media. Contract risk is at the heart of supply chain risk management and should be high on the agenda in our increasingly interdependent business world.

**Dr Christopher Kelly is a partner at Kelly & Yang, Melbourne, Australia: www.kellyandyang.com**

# The diversity business

Risk managers can help organisations make their diversity and inclusion programmes pay real-world dividends

BY IVANA VASIC

The geopolitical and economic uncertainty that has so far characterised the 21st century continues to throw up surprises. The organisations that will thrive in the coming decades are those that are agile enough to adjust to quick and broad societal change, including the increasing imperative to make their organisations reflect the diversity of society. Failing to take measures to improve diversity and inclusion in an organisation is a risk – as is failing to do so well – and risk managers can play a pivotal role in supporting these complex cultural change efforts.

While one could always argue about the relationship between cause and effect, it is undeniable that successful diversity and inclusion efforts in companies are correlated with better business performance. Research by the consultant BCG shows that diversity minimises group think, boosts innovation, improves resilience in uncertainty and is a predictor of company growth because companies with diverse leadership more frequently launch new products and services. Martine Ferland, president and chief executive officer of the global HR consulting firm Mercer, recently said that when at least one woman was on the sales team at her business, the overall win rate increased by 28 per cent compared with all-male teams. In addition, a high level of diversity in boards' skills, knowledge and experience results in better

**Successful diversity and inclusion efforts in companies are correlated with better business performance**

risk identification, assessment and response, according to the Association of Chartered Certified Accountants.

## Diversity makes business sense

Reputation is at stake more than ever. Partners and suppliers want to work with companies that have a positive reputation, and customers want to spend money with companies that represent them. For instance, news of Sainsbury's four-day sign language employee training, and renaming one storefront Signsbury's, was shared 2,500 times on social media in the month that followed – giving the high-street grocer a boost in its reputation among consumers.

Embracing diversity and inclusion delivers business benefits and positive reputation, making it an imperative for companies who wish to survive an increasingly turbulent marketplace, where consumers have unprecedented power in digital social spaces.

As companies begin to realise the business benefits of diverse organisations, they begin to recognise the requirement for specialist skills. Pegged to be the fastest-growing segment within human resources, there has been a 20 per cent increase in executive and senior executive diversity and inclusion vacancies in the last two years, according to the online jobs website Indeed.com.

## Avoiding the pitfalls

But a failure to appropriately deliver diversity and inclusion initiatives does not only have the risk of failure of those initiatives. *Harvard Business Review* analysed three decades' worth of data from approximately 800 US firms and found that mandatory diversity training and grievance systems are rarely effective and can be followed by retaliation by the transgressor or their in-group in the form of ridicule of the victim, demotion or worse. This reduces the likelihood of people reporting further concerns, creating even bigger staff retention issues than before the introduction of such programmes.

> “Mandatory diversity training and grievance systems are rarely effective

The issue at hand is actually about inclusion, and organisations that simply “add diversity and stir” open themselves up to complications. Firstly, diverse teams take time to reach consensus and negotiate differing norms, chewing up business time and money and requiring proactive management. Furthermore, if the leader is not “walking the (proverbial) talk” by modelling inclusive behaviour, they fail to leverage the powerful impact

## POTENTIAL SOURCES FOR DIVERSITY AND INCLUSION INSIGHTS

| STRATEGIC AREA OF RISK | EXAMPLE SOURCES OF KEY RISK INDICATORS |
|---|---|
| **People** | • Staff surveys on attitudes and commitment<br>• Nature and number of complaints<br>• Pay-gap data across key groups<br>• Turnover and retention data across key groups<br>• Absenteeism figures across key groups<br>• Take-up of flexible working across key groups<br>• Take-up of parental leave across key groups<br>• Take-up of mentoring programmes across key groups |
| **Process** | • Recruitment:<br>– Application numbers and diversity<br>– Blind recruitment outcomes<br>– Recruitment panel diversity<br>– Questions linked to values<br>– Diversity and inclusion expertise required for appropriate roles<br>• Existence of clear policy and staff familiarity of process with parental leave, flexible working, bullying, harassment, etc.<br>• Line manager support and training |
| **Systems** | • Performance management<br>• Recognition, promotion and remuneration<br>• Learning and development |
| **Product or service** | • Customer feedback and satisfaction<br>• Customer diversity |

this can have. Feelings of inclusion in companies are strongly correlated with improved team performance, decision quality and collaboration.

Importantly, the terms are often used together or interchangeably, but there is a distinct difference between equality, diversity and inclusion. Using the right language and recognising that each of these areas could be supported by different types of activity could help organisations prioritise which efforts will bring most value to their own businesses.

## Creating clarity

As an illustration, one business may need to ensure senior black, Asian and minority ethnic (BAME) staff feel included in key decision-making while another may need to find ways of growing the female recruitment pool for entry-level positions. For any intervention to be successful, it has to be targeted and appropriate for the specific organisation and aligned with strategic business objectives.

This requires a clarity in defining the opportunities and risks for the business and, importantly, a competency in cultural change management. Any diversity and inclusion practitioner is likely to agree that this should be understood as a programme of cultural change and not a tick-box list of activities if the business is to reap any bottom-line benefits.

Diversity and inclusion efforts will have cost implications. Ensuring the business has the right skills, whether from in-house staff or from external consultants, is critical to the success

> “Diverse teams take time to reach consensus and negotiate differing norms, chewing up business time and money and requiring proactive management

of any programme. On one hand, costs should be viewed as necessary mitigation for risks related to staff retention and effectiveness, recruiting talent, cost to management time in dealing with any concerns, loss of trust or reputation with customers and the cost of any legal action. On the other, costs should be seen as the necessary investment required for the opportunity to boost innovation, decision-making, customer appeal and reputation, and ultimately profits.

Like any other strategic priority for a business, effective diversity and inclusion initiatives are successful when they are derived from data and insights, and measured in a meaningful way. To support this, diversity and inclusion can be built into the risk register in the same way as risks about product faults or fluctuations in the dollar–pound exchange rate. The approach should be to view diversity and inclusion through the lens of reputational and people risks. Not only does this make the concerns more tangible, but also these risks are well understood by boards and executive management in the way they relate to profit margins – helping to make it a business priority.

## Key questions

Leadership should ask the following questions. How do we know whether our staff feel included? How do our customers perceive our commitment to diversity, and does this affect their buying choices? How could we diversify our thinking to create more tailored products and services or retain our customer base? How are we addressing our vulnerabilities in these areas to protect against loss of trust or reputation? Are the mitigating activities being tracked and measured for impact?

Who owns the activity and how should they be held to account?

Risk managers can add great value to these discussions. By virtue of their role, risk managers have a well-developed toolkit for understanding diverse perspectives and distilling complex issues into clear and understandable concerns and action plans. Practised in the nuanced language required to define and quantify risk, risk managers also understand their organisation's vulnerabilities and strengths very well. They connect streams of intelligence, activity and data and ensure ownership and accountability exist.

As an illustration, to mitigate the potential risk of reputational and financial fallout arising from a case of discriminatory behaviour, risk managers would seek evidence on the effectiveness of existing controls (for example, manager training, whistleblowing policy and process); identify the leading risk indicators (for instance, a trigger for more than one complaint regarding the same individual in staff feedback mechanisms); and seek evidence of progress of required mitigation (such as training, trust reparation activity, internal and external messaging, or social media monitoring); see *Potential sources for diversity and inclusion insights*. Risk managers would also record who is responsible and accountable for bringing the decided actions to fruition.

This is a really practical application of operationalising strategic objectives and understanding the impediments to their delivery – the bread and butter of a risk manager's role.

Furthermore, it is often the case that diversity and inclusion staff are embedded into human resources teams, but the work of ensuring the opportunities are maximised and risks are minimised should be business-wide. Diversity and inclusion employees may not be privy to conversations about strategic direction or investment, but when these efforts are viewed through the risk/opportunity lens the perspective changes and the concerns become more tangible – raising the profile and connecting to strategic imperatives.

## Diversity in the profession

Given that diversity is beneficial across industries, the same holds within the profession of risk management. Because there are numerous roles and specialisms of risk management (such as strategic, operational, safety, compliance, cybersecurity) the data on the diversity of each of these sectors is not held in one place that is easy to analyse. However, the evidence available shows that there is a fair way to go for equality, diversity and inclusion to be evident in the risk management profession.

> **Risk managers have a well-developed toolkit for understanding diverse perspectives and distilling complex issues into clear and understandable concerns and action plans**

For example, a study by the analyst Gartner found that only a quarter of security risk executives are women. Another, by the Chartered Insurance Institute, found that women's earnings are significantly more likely fall within the lowest pay band. The research found that insurance professionals work on average five hours more than their contracts – an expectation that negatively impacts the career progressions of anyone who is in a caring role in their home life.

This is concerning for the profession. The needs of the future workforce are changing, and the onus is on companies to win and retain talent by evidencing how they meet these needs. Over 80 per cent of 10,000 millennials in a well-cited PwC survey said that an employer's policy on diversity, equality and workforce inclusion is an important factor in deciding whether to work for them.

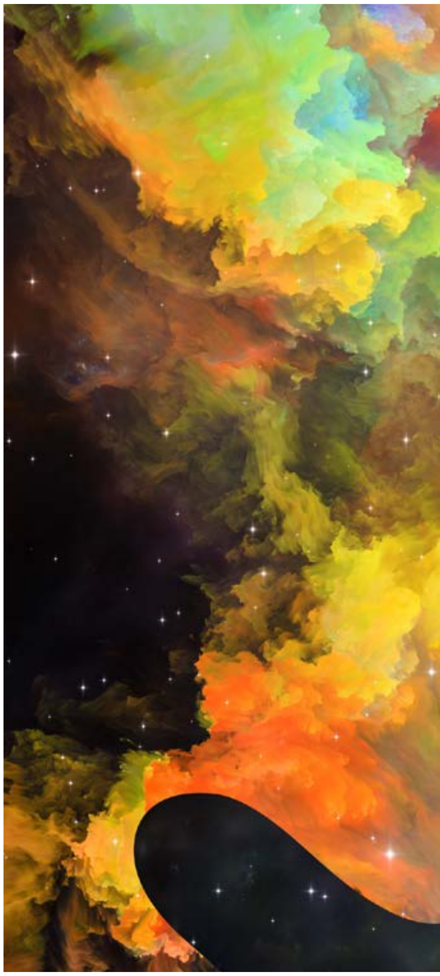
Diversity therefore has a large role in keeping our industry alive with the best future talent, and would only broaden our ability to make an effective contribution to our own organisations. As risk managers of today, we all have a part to play in ensuring that diversity and inclusion is effectively embedded in our organisations and reflected in future faces of our profession.

**Ivana Vasic is the strategic planning and risk analyst at the Royal Veterinary College. She campaigns for equality and publishes her EDI research.**

# Different dispositions

Subjective risk is often overlooked by risk managers as being too difficult to deal with. Yet having a diversity of risk dispositions on a team can be a great strength

BY GEOFF TRICKEY



Financial professionals know a great deal about risk. The risk they know about is numerical, statistical, probabilistic and based on precedent and economic history. This is the world of economists, actuaries, underwriters, financial intermediaries and many risk managers. This analytic view of risk is designed to improve financial prediction and decision-making. It might be referred to as objective risk – although, at every point, professional judgment is a necessary component.

Subjective risk, on the other hand, is something that financial professionals do not specialise in and often know very little about. Rather than focusing on the dangers and uncertainties that may upset our plans in the outside world, subjective risk focuses on individuals and how they are wired. It is about individual risk dispositions: the personal and intimate experience of risk; the way that an individual reacts; their feelings and emotions; and their resilience, expectations and the way personal perceptions of risk are calibrated. How do these dispositions influence interpretations of events? How do they impact on the thousands of decisions a person makes every day at different levels of consciousness?

> **Subjective risk is often discounted as a source of error, irrationality, misunderstanding or bias**

From a risk manager's viewpoint, subjective risk is often discounted as a source of error, irrationality, misunderstanding or bias. The distinction between subjective and objective risk is illustrated when someone

discounts a debilitating fear of flying (subjective risk) because the chances of being killed are a mere 10,000,000:1 (objective risk). But subjective risk is of considerable material importance. It is what drives all the decisions and often erratic behaviours that create the events and statistics from which objective risk is retrospectively calculated. Risk managers could learn important lessons by focusing on this often-neglected perspective.

## Regulation vs organisational development

The two main options on the table to address the failure of financial institutions focus on regulation and organisational development. In *A short history of financial euphoria*, the late, renowned economist Ken Galbraith argued that "mass insanity" has repeatedly gripped the financial world over the centuries. As waves of euphoria surge through the sector, sober judgment and restraint are swept away, all contrarian views are derided and groupthink rules.

Galbraith's view of the cyclical pattern of failure in the world of finance is mirrored in alternating demands for heavy-touch regulation (to get things back on the rails) and light-touch regulation (to free up entrepreneurial spirit). Whether financial regulation has or has not ever been a success is still argued by economists of different persuasions. The framework for regulation and constraint may have provided a basis for periods of relative calm, but the financial world is in continuous flux, and the results seem never to have provided sufficient defences to stave off the next crisis.

The alternative to externally imposed constraint is some form of internal development designed to improve the performance of the industry's professionals. The array of such corrective offerings made available by major consultancies have not escaped criticism. "It is clear

> **Decision-making at a deep level is tied to emotional, subjective influences**

that banks are wasting their money on 'solutioneering' or expensive unproven programmes peddled by consultants to address risk culture," Associate Professor Alessandra Capezio of the Australian National University has recently written.

Culture change has been reified within the financial sector as the essential focus for change. But culture is an elusive and intangible concept. Unless it can be defined operationally, this is just kicking the issue into the long grass. Culture is a consequence of the traditions, processes and behaviours of those employed and, as an end product of a process, it cannot tangibly be altered except through the people of which it is composed.

Organisational customs and practices are influenced by the attraction and selection of the people it requires to do the job. Successive waves of people passing through leave their mark in terms of their dispositions, habits and mores. In Benjamin Schneider's influential and pragmatic view on organisational culture, it is the people that make the place. On this basis, if you want to influence organisational culture, then the current employees are the obvious levers of change.

The practical reality is that the kinds of change envisaged as a response to financial sector problems need to dig deep. This is not a matter of tinkering at the edges. Broad generalisations about culture have to be realised through changes at the granular level – the level of the individual. To achieve this, it is essential to appreciate the realities of human nature and deal with them. The concept of "depth of intervention", outlined by TG Cummings and CG Worley in 2009, recognises that management of change requires a consideration of the psychological makeup and personality of employees and the challenges that the proposed change would involve for them. This is the territory of subjective risk – the kind of risk less familiar to financial professionals.

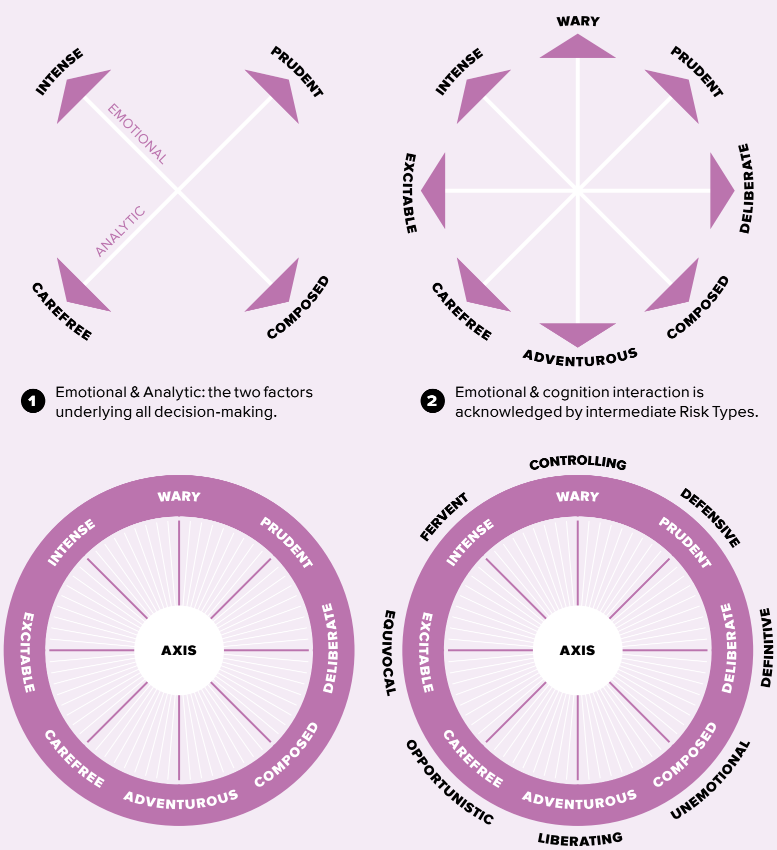
## Emotion and cognition

Trends in current neuroscience recognise that two separate neurological systems are involved in any decision-making process – one is concerned with emotion and the other with cognition. For example, the neuroscientist Antonio Damasio says that interactions between these systems create the structures for a wide spectrum of individual differences that are expressed in personality and in risk-related behaviour. Decision-making at a deep level is, therefore, tied to emotional, subjective influences.

Cognition concerns our 'need to know', to make sense of events and of life. This is a rigid priority for some, but the loosest of frameworks for others. The former are troubled by uncertainty and welcome rules and structure. The latter are curious and embrace new opportunities and new ways of doing things.

Emotion is about strength of feelings. Some are anxious and easily unnerved. Their hair-triggered vigilance makes them the natural alarm raisers of our species. Those at the other extreme

### RISK TYPE COMPASS®




1 Emotional & Analytic: the two factors underlying all decision-making.

2 Emotional & cognition interaction is acknowledged by intermediate Risk Types.

3 The continuously incremented 360-degree spectrum of risk dispostions.

4 How Risk Type affects decision making styles.

> Ensuring that there is diversity in risk dispositions around the table acts as an antidote to groupthink

remain calm and composed in situations that would terrify others; they are the last to run for cover.

The majority of people fall somewhere between these four extremes, which also provide the basis for a compass-style model of risk dispositions. Interaction between emotion and cognition creates a rich variety of dispositions that are mapped throughout the 360° spectrum of a Risk Type Compass® – shown here, for example, on a spectrum segmented into eight distinctive Risk Types.

Risk Types provide a systematic taxonomy supporting the quantification of human factor risk and differentiating individuals according to the ways that they deal with risk and are disposed to make decisions.

## Challenges

More than a million people are employed within the UK financial sector, and every one of them brings their risk dispositions into work with them every day. Teams and working groups will vary considerably because in the population as a whole the eight Risk Types are evenly distributed. These core personality dispositions change very little over a working lifetime, and they have a persistent influence on decision-making. There are no right or wrong Risk Types, but to harness these diverse talents, they need to be recognised and addressed.

The changes required in the financial sector are not going to be dealt with by exhortation to do better, by running courses or by campaigns, slogans or optimistic annual report statements. The known challenges to stability and clear thinking are herd behaviour, groupthink, risk-polarisation and cognitive dissonance, factors on which Risk Type can wield significant influence.

## The approach

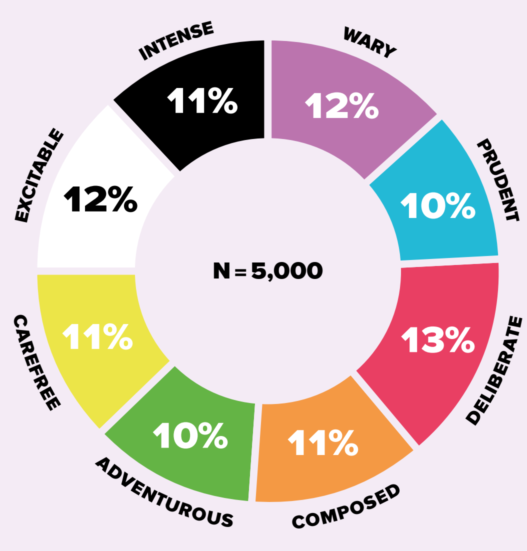
Ensuring that there is diversity in risk dispositions around the table acts as an antidote to groupthink. It allows issues to be considered from several perspectives and encourages the expression of contrarian viewpoints. This may sound adversarial, but in team sports there are defenders and attackers on the same team chasing the same goals. The defenders are alert to danger, the strikers alert to opportunity – so as long as the aims and allegiances are aligned, diversity of risk dispositions makes the team stronger and more effective. This may be less comfortable than a cosy consensus among like-minded colleagues, but it is likely to be a safer bet.

Every Risk Type has its contribution to make. The ability to utilise these insights and to bring them to fruition benefits everybody. Individuals then have a well-defined foundation on which to develop risk-awareness and personal responsibility. At the group level, appreciation of the balance or distinctiveness of the group and its dynamics highlights potential blind spots and biases and increases team effectiveness. At an organisational level, the risk landscape highlights the relative risk dispositions of teams, divisions and departments and allows cross-department comparisons, strategic planning, decisions based on team audits, staff redeployment and rebalancing.

The aim of organisational change cannot be to alter people's deeper nature. A better and more realisable objective is to recognise this reality, to address it and to turn it to advantage. Each Risk Type makes its own distinctive contribution to survival. The aim now is no different than it has always been – to maintain that crucial balance between risk and opportunity, to succeed and to survive.

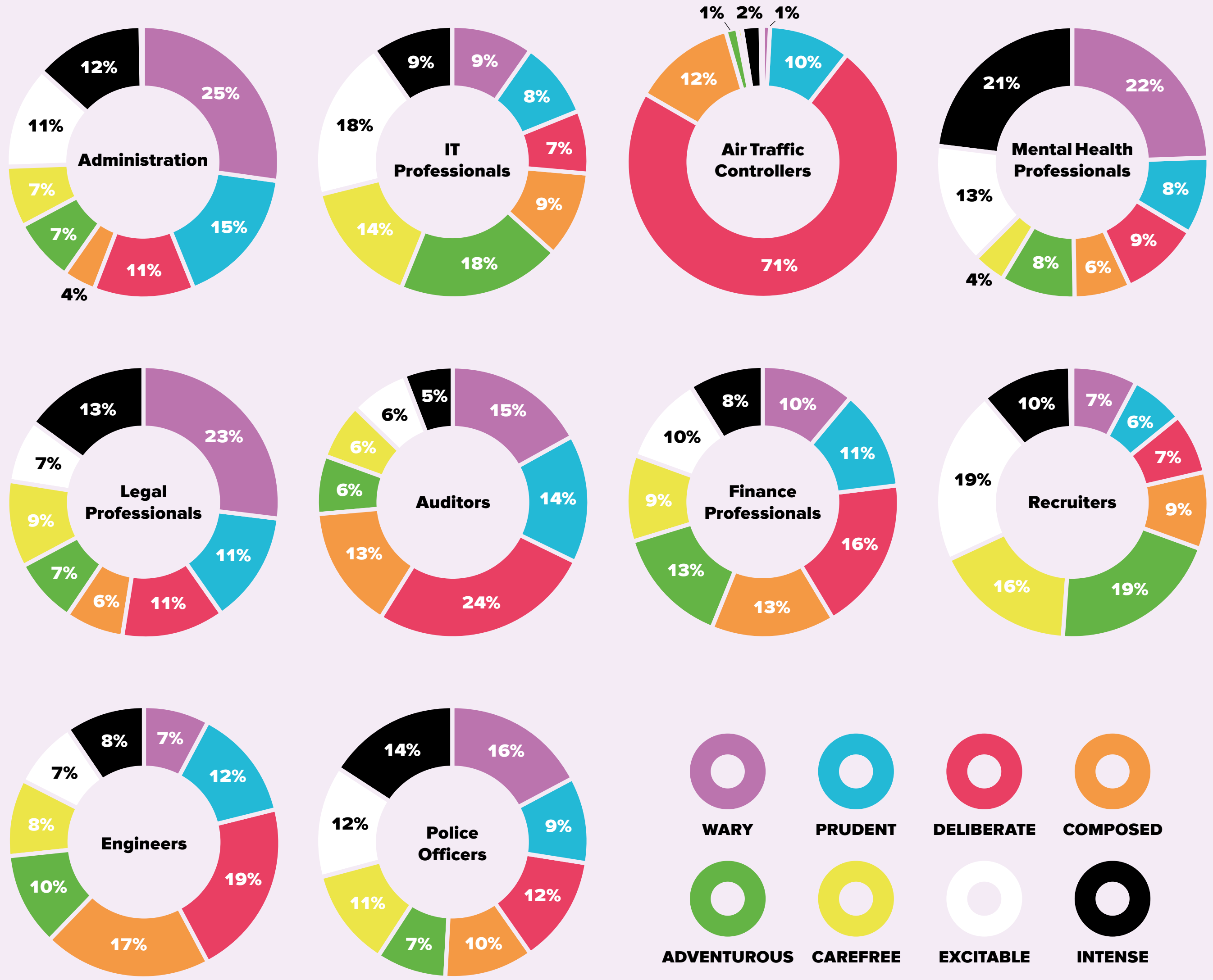
As this article has argued, within the totality of risk there is a crucial distinction to be made between objective and subjective risk. The financial world is well-versed in the former, but not in the latter. Banking crises arise, firstly, because financial markets are inherently volatile and unpredictable (matters of objective risk), and secondly because judgment

**PREVALENCE OF THE EIGHT RISK TYPES**




> "So as long as aims and allegiances are aligned, diversity of risk dispositions makes the team stronger and more effective

## RISK TYPE BALANCE VARIES ACROSS ORGANISATIONS AND PROFESSIONS




and decision-making are susceptible to the risk dispositions of individuals throughout the organisation (matters of subjective risk). The possibility of identifying and reliably measuring the distinctive risk dispositions of any individual contributes to a potent conceptual framework within which to manage human factor risk. This is a vehicle of proven effectiveness in the development of individuals, the audit and development of teams and a reliable, pragmatic and objective basis for risk culture analysis.

The Risk Type Compass® provides a taxonomy and a working vocabulary. Diversity of risk dispositions within any team or organisation is a potential problem if not recognised, and a potent survival factor when it is. Appreciation of the complementary nature of the different Risk Types and their even distribution are levelling factors that make the objective of mutual respect for different risk dispositions eminently realisable.

The legacy of the financial crisis has been toxic in its focus on deficiencies, blame, uncertain boundaries of acceptability and preoccupation with integrity. Maybe what is needed is a fresh start and the openness, optimism and inclusiveness implied above. Combined with a purposeful culture of coaching and development, this might be a good place to begin.

**Geoff Trickey is chief executive officer of Psychological Consultancy Limited: www.psychological-consultancy.com**

# Together on climate change

*IRM has been highlighting the need for action on climate change – now it's time to take that initiative to the next level*

This year may go down in UK history as the tipping point for climate change protest going mainstream. The UK-wide pressure group Extinction Rebellion, for instance, has attracted thousands of people willing to take direct, unlawful action to provoke businesses and government. Extreme weather events across the world have persuaded such groups immediate action is necessary to check the worst effects of the phenomenon. The message is everyone has a role to play.

Not surprisingly, climate change is rapidly rising up organisational risk registers, according to delegates who attended a climate change symposium organised by IRM and hosted by LexisNexis in October this year. As businesses and society at large are becoming more aware of the effects to future generations, corporations are being held to account and coming under increasing scrutiny to take their corporate social responsibilities seriously.

## Pressing issue

The issue has been bubbling up at IRM. In 2018, for instance, in IRM's *Risk Agenda 2025* project, risk managers identified key risks for future consideration, among which was the global response to climate change. IRM's 2018 report with the Cambridge Centre for Risk Studies *Perspectives of global corporations* also acknowledged that climate change was a recognised risk area, although there was concern that it was seen as a long-term issue and not a short-term priority.

The recent symposium has helped develop IRM's initiatives in this area. "It was great to see so many attending the climate change event and to have the engagement in breakout groups which produced some really good ideas," Clive Thompson, CFIRM, deputy chair IRM, chair of the interest groups committee, said following the event. "We are developing a Climate Change Interest Group to take the initiative forward and will shortly be calling for volunteers who would like to become more involved in driving this important subject forward."

## Essay winners

In order to help generate new thinking about risk management and climate change, IRM highlighted its climate change essay competition, which had two winners in 2019 – Sam Brandom, IRMCert, risk manager at Shawbrook Bank Limited, and Dr Jayne Matthews, IRMCert, an independent consultant.

Brandom argued in his essay *Risk management and climate change – a new model* that there needed to be not only a cultural shift towards collaborative efforts on climate change but also a pooling of resources. But he warned that leaders needed to make a shift away from the idea that climate change could somehow be undone and advocated a move towards collective action. "For too long we have failed to make the jump from perception to acknowledgement – this is the jump we must first make, before any further action can take place," he wrote.

> **IRM is developing a Climate Change Interest Group to take the initiative forward and will shortly be calling for volunteers**

Dr Matthews focused on the networked nature of modern business life in her essay *Managing the tenuous threads of the supply chain*. She also urged businesses to take a more collaborative approach in their risk management efforts.

"It is no longer possible, simply to, for example, look at the likelihood of a raw material price increase and its effect on a business. The business must look further down the chain to reduce the possibility by supporting the farmers or primary producers," she wrote. That approach would entail everybody in the supply chain, including consumers, retailers and manufacturers, playing a role. IRM is hoping to play a constructive role in this process and would urge risk managers to get involved in its new Climate Change Interest Group.

**For details, please contact:**
**events@theirm.org**

Institute of Risk Management

# IRM Training

Industry-leading training courses delivered by risk experts for over 30 years

## Benefits of IRM training:

Practical & intractive training

Industry expert trainers

CPD & accreditation

## Training courses include:

- Risk Essentials Masterclass
- Senior Risk Masterclass
- Fundamentals of Risk Management (FoRM)
- Choosing and Using Key Risk Indicators
- Embedding Risk Management
- Managing Risk in a Digital World
- Project Risk Management
- Optimising Risk Workshops
- Organisational Resilience
- Risk Champions
- Risk Culture
- Risk Management for Infrastructure
- Risk Management for Oil & Gas
- Root Cause Analysis

Find out more at:

**www.theirm.org/training-mag**
**training@theirm.org**

irm
Developing risk professionals

## Due diligence solutions

Minimise risk by maximising the data that supports your most critical business decisions. LexisNexis is a leading provider of aggregated global content and powerful business intelligence tools. Protect your organisation from the risk of heavy fines and damage to corporate reputation by accessing the information you need on people, companies and countries. Our cost effective and flexible product modules include: PEP, sanctions, watch list and negative news screening. Enhanced due diligence and reporting. Proactive supply-chain and third-party risk media monitoring. Outsourced due diligence, compliance and risk advisory. Content integration and data feeds (APIs) into proprietary systems.

**Rebecca Gillingham**
**+44 (0) 20 7400 2809**
**bis@lexisnexis.co.uk**
**bis.lexisnexis.co.uk**
**LexisNexis**
**30 Farringdon Street**
**London**
**EC4A 4HH**

## Empowering your resilience

C2 is an established Business Continuity software provider with a continuing commitment to its customers to evolve with the market. Our mission is to provide intuitive and innovative solutions for the global business resilience market and reshape the industry as we know it today. Our Business Continuity Software is used to alleviate and assist with the day to day management of an organisation's Business Continuity Management System requirements. We provide BCM software and practical solutions to some of the world's largest utility companies, world leading finance and investment organisations, global telecom organisations and more. Find out more: https://continuity2.com/

**Richard McGlave**
**+44 (0) 845 094 44 02**
**info@continuity2.com**
**continuity2.com**
**Prism House, Scottish Enterprise Technology Park**
**East Kilbride, Glasgow, UK**
**G75 0QF**

## Enterprise risk management and risk analysis software

riskHive are an established global provider of professional cloud, intranet and desktop solutions for the management and analysis of RAID (risks, issues, assumptions and dependencies). Being low maintenance, highly configurable and cloud based, the Enterprise Risk Manager application can get you online in under 24 hours, supporting your existing processes and terminology. Easily import existing risk information to quickly produce a consolidated risk portfolio. Relied on by customers ranging from New Zealand through the Middle East to Northern Europe riskHive deliver a truly global ERM solution with a truly enterprise 'all-in' licence.

**Ian Baker or Doug Oldfield**
**+44 (0) 1275 545874**
**ian.baker@riskhive.com**
**doug.oldfield@riskhive.com**
**www.riskhive.com**
**riskHive Software Services Ltd.**
**Dilkush, Farlers End**
**Bristol, BS48 4PG**

**To advertise here contact:** Redactive Media IRMsales@redactive.co.uk +44(0)20 7324 2753

## Financial risk management and Solvency II software

RemitRix helps insurers manage financial and actuarial risks by harnessing the power of Machine Learning to improve actuarial predictions. Our product RemitRix Agile is a web based financial risk management platform. RemitRix Agile includes classical risk management tools such as ESG, VaR, Solvency II full solution, optimization tools and more. It is easy to deploy and manage. It is planned to fully integrate with our future actuarial solution.

**Effi Mor**
**+44 (0) 20 3608 3987**
**info@remitrix.com**
**www.remitrix.com**
**RemitRix**
**Shoham Street 8**
**Ramat Gan**
**Israel**

## Risk and audit management software solutions

Symbiant are one of the world's leading providers of Risk and Audit management software. The solution is designed for collaboration and comes as a complete suite which can be separated in to Audit or Risk sets. Symbiant is designed for non Risk / Audit specialists to use, simple and intuitive but with a lot of back end flexibility and automated functions. CIO magazine have rated Symbiant as one of the top 20 risk solutions in the World. They have off the shelf or custom solutions to fit all budgets and requirements. Install on your own infrastructure or SaaS. 30 day free trial.

**Andrew Birch**
**+44 (0) 113 314 3339**
**irm@symbiant.co.uk**
**www.symbiant.co.uk**
**Symbiant**
**1 Whitehall Quay**
**Leeds, LS1 4HR**
**United Kingdom**

## Risk management software

Since 2014, Origami Risk is the only company that has been consistently recognised for delivering client success, innovation, and stability, while bringing new ideas and advanced features to the RMIS market. Origami Risk's innovative software is designed with the latest technology and a focus on performance and ease-of-use, providing integrated solutions to the entire insurance value chain, serving Risk Managers, Brokers, TPAs and Carriers. It features powerful workflow, advanced reporting and analysis tools, and intuitive features to improve productivity and better manage total cost of risk—saving our clients time and money and enabling them to be more successful. Learn more at www.origamirisk.com

**Neil Scotcher**
**+44 (0) 16179 17740**
**nscotcher@origamirisk.com**
**www.origamirisk.com**
**30 Moorgate**
**London**
**EC2R 6PJ**


**To advertise here contact:** Redactive Media IRMsales@redactive.co.uk +44(0)20 7324 2753

## Risk management software

PROTECHT
Redefining Risk

In today's rapidly evolving world, business models and organisations are facing increased change and unprecedented levels of scrutiny. With change comes complexity, challenging risk managers to redefine the way they lead an organisation's approach to and implementation of risk management. Protecht helps organisations through deep understanding, monitoring and management of risk. We provide the complete risk solution—comprised of world-class enterprise risk management, compliance, training and advisory services—to government organisations, key regulators and businesses of all sizes across the world. With 20+ years at the forefront of risk and compliance solutions, millions of incidents managed across thousands of individual risks, and over 25 thousand people attending our training courses to date, we're one of the most respected and influential voices in risk.

**Keith Davies**
**+44 (0) 7828 163 802**
**keith.davies@protechtgroup.com**
**www.protechtgroup.com**
**131 Finsbury Pavement**
**London**
**EC2A 1NT**
**United Kingdom**

## Risk management software

Xactium
The 'i' in Risk

Xactium is a cloud based GRC software provider that helps Risk Managers to transform the way that organisations value and manage their enterprise risk. As the central risk platform used by the FCA to supervise the market, it has also been adopted by a wide range of financial organisations such as Direct Line Group, JLT, MS Amlin, Leeds Building Society and Argo Group. Xactium is the world's first enterprise risk-intelligent system, with the revolutionary use of embedded AI (Artificial Intelligence), 3D visualisation and automation that dramatically improves efficiency and creates innovative analytics. Reporting is made easy and timely, and predictive insights enable senior managers to prioritise resources. Overall, Xactium releases more time and resource for the risk team to help promote best practice and demonstrate the value of risk across the business through actionable insight.

**Andrew Firth**
**+44 (0) 114 2505 315**
**andrew.firth@xactium.com**
**www.xactium.com**
**Xactium House**
**28 Kenwood Park Road**
**Sheffield**
**S7 1NF**

## Risk management training

irm

As the world's leading enterprise risk management institute, we know what great risk management looks like, and what risk management professionals need to know, do and deliver to succeed. What's more, we understand how training works and we are experts in designing and delivering courses that provide the tools and motivation to make change happen. Our short courses and tailored in-house learning and development solutions support hundreds of organisations every year, both in the UK and internationally. Some courses, like the Fundamentals of Risk Management, cover the broad range of ERM skills, whilst others take an in-depth look at specific topics, e.g. Risk Analysis, Risk Appetite and Tolerance, Managing Risk Culture, and Identifying Key Risk Indicators.

**Sanjay Himatsingani**
**+44 (0) 20 7709 4114**
**sanjay.himatsingani@theirm.org**
**www.theirm.org/training**
**IRM Training**
**Sackville House,**
**143-149 Fenchurch Street,**
**London, EC3M 6BN**

**To advertise here contact:** Redactive Media IRMsales@redactive.co.uk +44(0)20 7324 2753

# Digital Marx

*A new critique of digital capitalism is haunted by the ethical questions raised during the first industrial revolution*

In times of economic and social crisis, the value-based philosophy of Karl Marx often re-emerges in places where it had long been forgotten. Recently, a disparate group of scholars have been inspired by his writings – along with those of other critical theorists – to analyse the technology behemoths in Silicon Valley.

Perhaps the most interesting of these analyses is one by Shoshana Zuboff, whose tome *The age of surveillance capitalism* caused something of a stir when it came out this year. Zuboff's critique is vibrant and timely and poses the question, where does the value in digital internet companies come from and who owns it?

## Capital

It is worth a short detour into Marx to understand the direction of her critique. Marx was interested in how working people create value in the labour process. When a worker adds his or her labour power to raw material, he or she creates value in the "fire of production," Marx wrote in his major work *Capital*. It is a kind of alchemical process where living energy transforms dead things into valuable objects.

These commodities have use value – either as finished products, or as new raw materials to go back into the production process. But additional value is created when the capitalist sells those products for a profit – and this is surplus value. It is this surplus that enables capital to become powerful – "a live monster that is fruitful and multiplies" – and a form of wealth from which the worker is excluded, despite being its creator.

Zuboff riffs on this analysis in the digital world. When services such as Facebook and Google get going, they need the labour power of users. Initially, a virtuous circle exists. The technology company provides


the platform, people use it and their behaviour is analysed. Those elements that lead to service improvements are fed back into the system – the rest is deleted, forming a kind of "data exhaust".

## Ends in themselves

The benefits are reciprocal. "People were treated as ends in themselves, the subjects of a non-market, self-contained cycle that was perfectly aligned with Google's stated mission 'to organise the world's information, making it universally accessible and useful,'" writes Zuboff. In Marx's terms, this is the use value phase of development.

Until 2000, Google had very little interest in advertising revenue. But the dot com bubble burst that year. US venture capitalists were badly burnt and

> Capital is a live monster that is fruitful and multiplies

looked to the remaining new technology companies for assurance that they would make money. In Zuboff's narrative, this led to the discovery of behavioural surplus. The very data that had been treated as "exhaust" could be used to sell highly-targeted advertising to users without their knowledge of how that data was being used against them.

## Rights

"In other words," she writes, "Google would no longer mine behavioural data strictly to improve service for users but rather to read users' minds for the purposes of matching ads to interests, as those interests are deduced from the collateral traces of online behaviour."

This narrative puts the idea of data privacy in a new light. People are angry when their behavioural data is collected, traded and used against them – think Cambridge Analytica – not because their privacy has been breached, but because the value they have created has been abused. The nineteenth century, it would seem, is not quite over.

# Is your ERM framework solution agile enough?

Whether you call it ‘agileGRC’ or ‘Integrated Risk Management’, the riskHive is the solution


The riskHive is a highly secure, very configurable ‘works-right-out-of-the-box’ ERM Portfolio application. It can be easily aligned with your risk framework to quickly and effectively deploy a global ERM toolset. With simultaneous multiple currency support, a browser-based user interface that can instantly switch between over 70 languages and an ‘Unlimited User’ licence, the riskHive is truly the enterprise risk solution.

Its main screens and reports can be designed to replicate existing forms and documents and so help you to transition quickly and seamlessly from spreadsheets to database with all the associated benefits and enhancements yet with minimal training and reduced initial set-up, configuration and commissioning costs.

So whatever you call your risk solution, the riskHive is the cost-effective, fast-deployment toolset you need.

Talk to us if you:
- Need to consolidate multiple excel or word risk registers
- Want easy automated or single-click monthly reporting
- Want full visibility of risk throughout your organisation
- Have difficulty in understanding how risks interconnect
- Lack a single version of the truth in your organisation
- Want to give your Board and Shareholders even more confidence in your risk and compliance reporting

Find out more at www.riskhive.com or contact us for a demonstration at info@riskhive.com or talk to us on +44 (0)1275 545874

riskHive
Software Solutions

# A MODERN COMPLIANCE MANAGEMENT SYSTEM WITH AN INTEGRATED SMCR SOLUTION


**SMCR SUPPORT**
Xactium has extended its cloud based compliance application to include full support for the end to end SMCR process.

**COMPLIANCE PROGRAMME MANAGEMENT**
Enables your compliance team to effectively manage multiple recurring compliance programme activities.

**INCIDENT & BREACH MANAGEMENT**
Centrally track your compliance breaches and incidents.

**COMPLIANCE ACTIVITY TRACKING**
Capture and track your upcoming compliance activities and tasks.

**CONDUCT COMPLIANCE**
Monitor and report on the status of all employee personal investments, in line with FCA regulation.

**POLICY MANAGEMENT**
Log all your internal policy documentation directly into the system.

**TRAINING COURSES**
Log all employee training activities.

**REGULATION TRACKING**
Track all key regulations relevant to your organisation.

**If you would like more information please visit**
**www.xactium.com/xactium-compliance-management**
**or contact sales@xactium.com**

Xactium
Compliance

# Enterprise Risk

www.enterpriseriskmag.com

The official magazine of the Institute of Risk Management

## The search for insight

Risk management software supplement

**Risk at the speed of business:** interview with Protecht's David Bergmark / **Survey results / IRM revamps qualifications**

PROTECHT
Redefining Risk

PROTECHT
Redefining Risk

# Never look at risk the same way again.

Dynamically manage all your risks in a single platform: Risks, Compliance, Health and Safety, Internal Audit, Incident, KRIs, BCP, and more.

## CHOOSE FROM PRE-BUILT REGISTERS OR DESIGN YOUR OWN.

- Health and Safety Management
- Internal Audit Management
- Incident Management Reporting
- IT Security Risk Management
- Business Continuity Management
- Policy Management

UNITED KINGDOM, EUROPE & MIDDLE EAST
+44 (0) 7828 163 802
First Floor, 60 Gresham St.
London EC2V 7BB, UK

AUSTRALIA, ASIA PACIFIC & AMERICAS
+61 2 8005 1265
Level 8, 299 Elizabeth St.
Sydney NSW 2000, Australia

protechtgroup.com

sales@protechtgroup.com

# Introduction

As businesses continue to digitise both their own operations and to become increasingly networked with customers and suppliers, the opportunity for risk managers to tap into an unprecedented flow of information has never been greater. The mantra of agile business has its parallel in real-time risk management. The holy grail of embedded risk management – where frontline staff use software to continuously manage their own risk – seems a hair's breadth away.

But enterprises in all sectors are in a state of transition. To find out how well organisations are placed to get the most from their risk management departments and the software they use, *Enterprise Risk* has produced this special supplement in association with our partner Protecht. Over the past couple of months, we have canvassed the views of over 100 risk managers both through a special survey and in one-to-one interviews.

> **Our survey shows that organisations need better data governance and more integrated systems before they can achieve their risk management software goals**

Understanding what to do to maximise the value risk management software provides is relatively simple. As David Bergmark, chief executive officer at The Protecht Group, says in his interview: "Return on investment in risk management software is generated from efficiencies gained in data collection, transition of that data through various approval levels and insightful reporting to various stakeholders."

In practice, our survey shows that organisations need better data governance and more integrated systems before they can achieve those goals. Few have managed to digitise their entire organisations – often because companies have grown through awkward mergers and acquisitions with data spread unintegrated within unloved silos. Fewer still have properly linked their risk management processes to every part of their operations.

On the other hand, four out of ten respondents said they are introducing artificial intelligence processes in their risk management systems within the coming one to three years.

Another theme that emerged was the need for increased skills and training. That is why IRM has been busy refreshing both the content and delivery mechanisms of its qualifications to make more use of technology and add to its international reach, as Doug Smith, an IRM qualifications expert, explains on page 16.

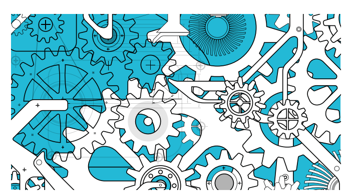
As well as gaining insight into how organisations are faring in this important field, I hope you gain some useful ideas to implement in your own enterprise.

**Arthur Piper**
*Editor*

# Contents










Thanks to the team at Protecht for sponsoring and making possible this supplement. Thanks to Carole Walker, head of risk and counter fraud, at the funding research body UK Research and Innovation and Alastair Allison, director of Enterprise Risk Management at Bupa Insurance Ltd for working on the questionnaire for the survey – and for sharing their insights on the results. Thanks also to Karlene Agard founder of ARAVUN, a mega-projects consultancy, and Alex Deas, head of risk and value management at Network Rail, for their additional insights. Thanks to Doug Smith, IRM's special advisor on qualifications, for taking time during his holiday to write his contribution. Thanks to everyone who took the time to complete the survey questionnaire. Finally, thanks to Ash Khan, IRM's marketing manager, for helping heroically with the survey questionnaire.

PROTECHT
Redefining Risk

# Risk at the speed of business

Using risk management software properly accelerates business decision-making and helps organisations create value from their strategies, says David Bergmark

**What are the most common couple of failings that businesses make when they implement risk management software?**
The first mistake that people make when they implement risk management software is that they fail to have a clear plan of what it is they want to achieve with the software. Integrated risk management software can cover many areas such as risk and control assessment, metrics, incident reporting, internal audit and more. At times, there can be conflicting requirements across the various stakeholder groups which can cause delays in the implementation of the software. The second mistake is a failure to engage end users early in the design process. The more engaged the end users are, the more likely they will be willing to support the rollout and process.

**What are the main couple of practical steps that they should take to overcome those?**
Have a project committee that's responsible for overseeing decisions that relate to the design, build and execution of the project plan for the implementation of the risk software. That project committee needs a firm hand to

> The first mistake that people make when they implement risk management software is that they fail to have a clear plan of what it is they want to achieve with the software

make the harder decisions to keep the project on track and get stakeholders to compromise when needed.

**Apart from the project committee, what other practical steps would you recommend?**
Make sure that the business analyst has clearly understood the requirements of the various stakeholders that are looking to implement the software. The business analyst needs to clearly understand what fields are going to be on the data input forms, the workflows associated with the forms and what reporting is required for key stakeholders before the build commences.

**What are the two or three things risk managers can do to maximise their return on investment in risk management software?**
Return on investment in risk management software is generated from efficiencies gained in data collection, transition of that data through various approval levels and insightful reporting to various stakeholders.

An integrated solution allows easier collection of data across the entire organisation by providing a single platform for users to enter data into web-based forms. Once entered, efficiencies can be gained in terms of automatic notification and dissemination of that data through the workflow engine that is attached to the solution. It removes time-consuming and error-prone distribution of data previously done by email and Excel spreadsheets. For example, sending out attestation questionnaires to the first line can be automated, along with reminder emails, on a rolling basis. The risk and compliance team are relieved of what

> **Risk managers do play an important role in supporting strategic decision-making because, in the end, risk management is all about outcome management**

> **The risk management software should also have a clear connection between the divisional risks and strategy**

was previously a highly manual task.

For risk managers that are using Excel, reporting and dashboard visualisation of that data can also be time-consuming to prepare. Having an embedded analytics engine in the application allows great visualisation of the data to be done much more efficiently. Dashboards are live with the data as soon as it is entered, allowing risk managers and stakeholders to make risk-based decisions faster.

Return on investment is therefore gained by maximising efficiencies in these three areas.

**Boards sometimes complain that risk managers do not play enough of a role in supporting strategic decision-making. What couple of ways can they leverage risk management software to make that a reality?**

Risk managers do play an important role in supporting strategic decision-making, because, in the end, risk management is all about outcome management. If we are aware of our risks that are related to strategic decisions, we are going to be better positioned to achieve those strategic objectives.

A board should have a risk appetite statement that covers not only risks that have a downside such as safety and business disruption, but also strategic risks that have an upside – new products and geographic expansion as examples. The board should be able to articulate with the risk manager how much appetite they have for obtaining gain from those strategic decisions, and what risks they're willing to take to achieve those gains.

In terms of using software to facilitate that decision-making, I think the first thing software can do is produce an integrated risk profile for all of the key risks that have been articulated in the risk appetite statement.

In Protecht.ERM we connect internal audit findings, incidents, metrics and more to the key risks. As a result, the board can receive more real-time information as to how each of those key risks, regardless of whether they are strategic or operational, are being managed and monitored within the organisation. As such, I firmly believe it will help decision-making around further investments related to the risks.

The risk management software should also have a clear connection between the divisional risks and strategy. If this connection is established, then the divisions will have a better understanding that the risks they are managing impact strategy and as a result feel more engaged with the risk framework.

**Do you feel technologies such as artificial intelligence and data mining are going to transform risk management software over the next couple of years?**

Starting with the AI question, we feel machine learning will be more relevant for the risk management space. We have already seen it put into practice for credit decisions and now facial recognition, relevant for law enforcement (and casinos!). In the enterprise risk management software, I expect it to guide first-line users through the risk assessment and incident capture process. Once the deep-learning algorithm error rates fall below those of humans, which is starting to happen in more areas, take up will accelerate.

Data mining, on the other hand, looks for patterns in large data sets. A large data set is typically at least millions of records. In enterprise risk management areas (incidents, audit findings as examples), I personally don't feel there is enough data for true data mining to be that relevant. I do, however, see that visualisation of the smaller data sets using analytics

**Below left to Right:** David Bergmark, Chief Executive Officer; Keith Davies, Director Sales and Operations, UK & Europe; Gary Lynam, Director of Risk Advisory, UK & Europe, and David Tattam, Director Research and Training

**Above:** Forum organised by Protecht in London in September 2019 – ERM The Six Essentials

> **Redefine risk as a practice that allows your organisation to go faster, rather than hinder it**

**Below:** RiskInMotion dashboard from the Protecht.ERM system


engines will help identify patterns more efficiently. As an example, if we can see that the majority of incidents happen with a certain two-hour period, we can start to investigate why and take corrective action. Being able to aggregate that information up into more meaningful dashboards that support decision-making at a higher level is the important thing.

**What do you think are the top critical items for a company to think about when it comes to risk management at the moment?**
The number-one item is the tone from the top. Executives and boards need to actively support risk management by viewing it as an enabler rather than a regulatory cost to the business. Redefine risk as a practice that allows your organisation to go faster, rather than hinder it. Boards, therefore, need to be proactive in setting the risk appetite statement. Executives need to be proactive in communicating the risk appetite statement throughout the organisation and making sure risk data is aggregated across all lines to help identify emerging or systemic risks. The business – the first line of defence in the three lines model – must have ownership of its risks and their related management.

The second critical item is that the data that's being captured and reported through risk systems must be used effectively. Many of the findings that came out of The Australian Prudential Regulation Authority (APRA) inquiry to The Commonwealth Bank of Australia (CBA), indicated that there were a lot of resources devoted to risk management activities, but information derived from those activities was not actioned. One example was that internal audit findings were outstanding for more than three years, even though they were of a high priority or critical nature. We need to use the information captured to formulate actions that have owners and a clear time horizon for implementation.

Finally, the views of different stakeholders need to be balanced, such that organisations need to give equal consideration to shareholders and customers. The APRA report had a very simple message here: ask "Should we?" instead of "Can we?"

**How does Protecht help its clients with those critical items?**
The Protecht Group supports companies across the entire lifecycle of risk management. Firstly, to support risk management education, we produce a substantial amount of risk-related technical content. We do that through free monthly webinars as well as our client community portal that allows risk managers to communicate with each other and continually improve their knowledge. We also provide live public courses and in-house training to support development. Much of that content is freely available on our website (www.protechtgroup.com).

Our implementation teams are also experienced risk practitioners and hence are able to guide risk managers on connecting risk management concepts to Protecht.ERM, our integrated risk management solution. It is a platform to support all areas of the risk framework – risk assessment, metrics, compliance, incidents, internal audit findings, treatment plans, business continuity and EHS.

Once the data is captured, the workflow engine disseminates information efficiently, and the analytics engine allows great visualisation of the data into meaningful dashboards. Risk profiles are alive with connected information – #RiskInMotion.

**David Bergmark is chief executive officer at The Protecht Group.**

# The search for insight

Many organisations need better data governance to fully benefit from their risk management software, according to a new Enterprise Risk/Protecht survey. But with investment in artificial intelligence rapidly increasing, change is on the way

BY ARTHUR PIPER

The world is increasingly digital. For businesses, that not only means challenges to business models, additional compliance with tougher data privacy regulations and creating effective systems for managing data – it opens new opportunities to capture insight from customers in real time and gain competitive advantage in the marketplace.

Risk managers have a critical role to play in this area. But only if they have access to timely data from across the entire business that they can analyse and that supports their enterprise risk management strategies. That requires creating joined-up systems so that information on all risk areas is available in a timely way for decision-making. With the professional skills and knowledge to identify, analyse and explain the threats and opportunities associated with risk, risk professionals can help enterprises achieve their strategic objectives.

This magazine supplement, produced by IRM in association with Protecht, provides insight into how well risk management software is helping business move towards that vision. This report is based on a survey of risk managers of around 100 risk professionals – *The search for insight* – and interviews with senior risk professionals. The results show that while risk software plays a key role in analysing data and supporting decision-making, many

> **There is no alignment between IT governance and risk management**

> **There is a lack of adequate risk management skills, especially on identifying new threats to the business**

organisations do not have adequate data governance to provide timely, quality data to risk professionals. In addition, some risk software strategies struggle to report on all strategic risks and often do not make use of the available data in the business. But businesses are investing in risk management tools and technologies – and, over the next one to three years, respondents anticipate integrating more artificial intelligence programs into their risk processes.

## Strategy and governance

Most organisations (65 per cent) reported having a clear data strategy that is well communicated throughout the business – supported, largely, by formalised IT governance practices. But there was a consistently large minority that scored weakly in these areas, so that around four out of ten respondents concluded that the IT governance practices in their organisations are not fit for purpose.

One risk manager explained the main shortcoming in his or her organisation in bleak terms: "Data management is only accessible to a single IT manager. There is no integration of data management between the IT department and our risk department. The risks are managed in silos and more often than not, this relationship causes more problems than solutions."

Responsibilities for handling and storing data and standardised reporting requirements are also not as strong as they might be, particularly given the requirements of increased regulatory attention on data privacy and financial information. For instance, Europe's General Data Protection Regulation, which came into effect in 2018, requires organisations to have a designated data officer and has stringent rules governing reporting data breaches to both the regulators and customers. Solvency II also has increased compliance requirements around data quality. Getting ready for such regulatory changes has often been seen as a compliance exercise, but it could have been used by businesses as an opportunity to strengthen data governance and streamline IT systems. The survey raises questions about how far organisations have taken that approach in practice given that three out of ten organisations said they struggled in this area.

"Despite regulatory trends on data privacy and quality, it seems that the specific requirements for regulations have not been carried across to the way data is managed in the whole business in many cases outside the pure regulatory need," says Alastair Allison CMIRM, director of Enterprise Risk Management at Bupa Insurance Ltd. "And while I would see the survey results as broadly positive in the amount of businesses that have good IT governance structures and processes, there are some areas and organisations where those structures need some attention."

## Exploiting data

Exploiting data for competitive advantage requires more than implementing frameworks and policies. Organisations must be able to have access to all available data and assess the quality of that data in real time in order to enable risk-aware decision-making. In this area, most businesses seem to be failing. Sixty per cent of respondents said that their organisation's governance framework had weak or poor measurements to define and organise data based on its quality (see *How far does your IT governance framework define and organise data based on quality?*). In addition, IT governance

> We built our own risk management software because we wanted a system that we could understand well and were able to change easily

frameworks in those enterprises surveyed tended towards inflexibility because they were relatively poor at managing change – a potentially risky position to be in in a fast-moving digitalised world (see *How far does your IT governance framework have clear processes for managing change?*).

There can be too little integration of data into risk management software. "Many companies have evolved over decades, have gone through multiple mergers and acquisitions and, in many cases, those disparate systems have never been unified," says Alex Deas CMIRM, head of risk and value management at Network Rail. "It is mostly the more recent tech start-ups, which are digital-first companies, that are likely to have all the relevant data to hand."

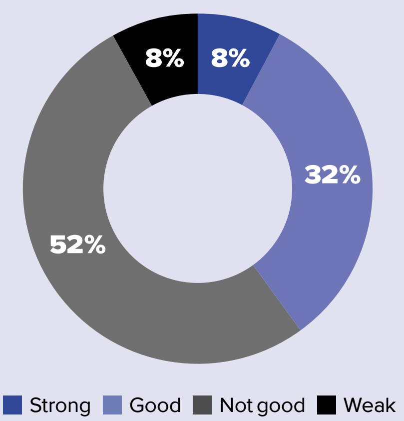
On the other hand, different risk management software systems can contribute to the problem. Network Rail, for instance, has three best-in-class risk management programs. The problem is, they can be poor at working in unison. "A lack of integration can move risk management's work from value add to reporting," he says. "That puts the risk manager in the role of a desk-based skilled administrator, rather than a business partner doing things in the enterprise."

## How software is used

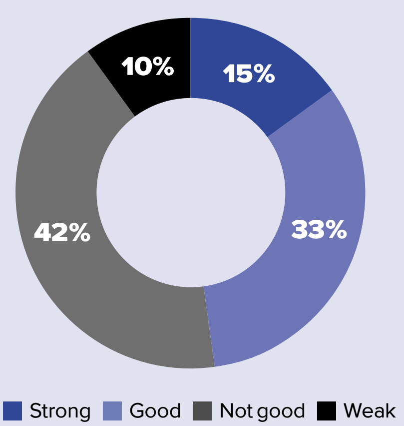
The most common facility used in risk management software among respondents was operational risk, which was included in 81 per cent of respondents' systems (see *What aspects of risk management does your risk management software include?*). Enterprise risk management was the next most common feature, followed closely by strategic risk. Despite the fact that over half of the software systems in place had the facility to help manage strategic risk, only 21 per cent of respondents managed more than 76 per cent of strategic risks with used these readily available tools – the most common response (35 per cent) was that they only managed 10 per cent of those risks, or fewer (see *What proportion of your key strategic risks do you manage using risk management software?*). This suggests that risk managers in many organisations are failing to achieve the full benefits from their investment in risk management software.

Alastair Allison sees the issue in terms of a clash of thinking styles between executives and risk management professionals. "Executives often do not think in the sort of linear way that fits with how risk management software works," he says. "In my experience, if you are expecting executives to use those tools, you are going to be disappointed." At Bupa Insurance, Allison organises an annual workshop to capture the executives' views about what they see as the key risks to their strategic objectives and emerging risks to the longer-term interests of

**How far does your IT governance framework define and organise data based on quality?**




**How far does your IT governance framework have clear processes for managing change?**




**What aspects of risk management does your risk management software include?**

Institute of Risk Management

# International Certificate in Enterprise Risk Management

## Deadline for June 2020 exams: 31 December 2019

### New for 2020

Supported online learning from anywhere around the world

Assessed by multiple choice questions

5000+ exam centres globally

**Roberta Prentice, IRMCert**
Senior Manager, Conduct Risk and Risk Culture, Westpac Bank, New Zealand

"The IRM Certificate in ERM provided me with the essential toolkit I needed to consolidate my career change to risk management, and provides evidence of my competence. It provided a broader range of theoretical knowledge than what I might have gained 'learned by doing' as a specialist in a single risk class."

Find out and book your course at:

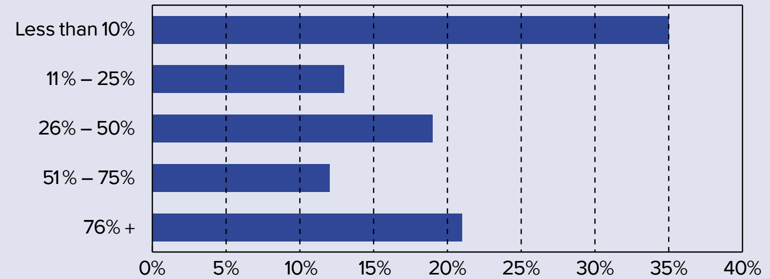
**www.theirm.org/erm-mag**

irm

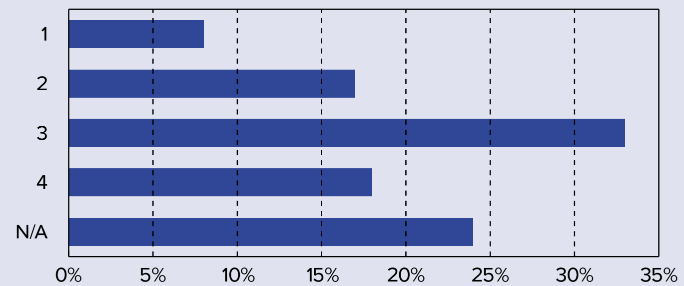
Developing risk professionals

> A lot of manual intervention is needed for both analysis and reporting, and also for conversion into other formats when more than one risk is being looked at

**What proportion of your key strategic risks do you manage using risk management software?**

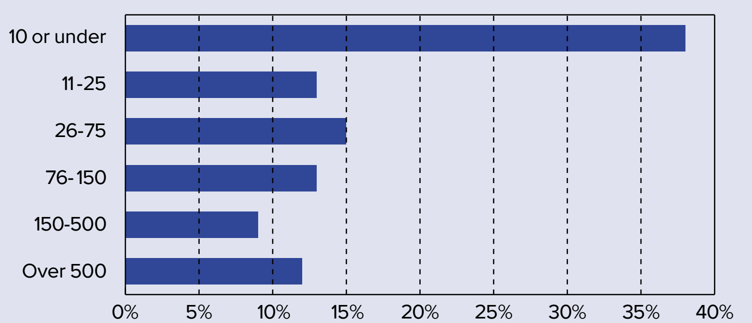



**Where both professional risk managers and others use the software, how far does tailoring its capabilities to the benefit of the end user conflict with the ability of risk managers to get the most from the software?**




Scale: 1 = A lot, 4 = Not much

**Approximately how many people use your risk management software?**

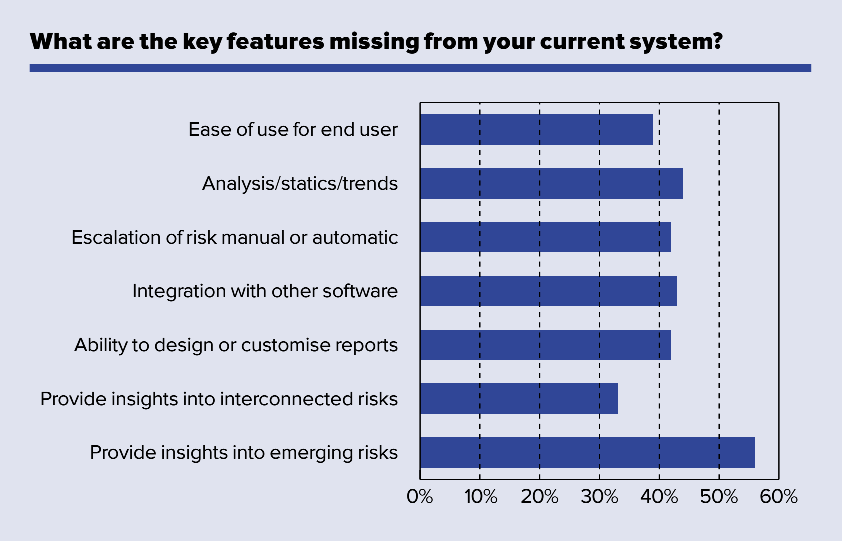



Bupa. A risk professional collects that information at the workshop and feeds it into the risk tool so that those views are captured and subsequently managed through effective remediation plans and funded, strategic initiatives. The embedded risk managers in the functions then keep them alive through and on behalf of accountable executives.

Most systems (64 per cent) belonging to survey respondents were used by risk professionals and other stakeholders, with the remainder used solely by members of the risk team. Total numbers using such systems vary widely. Where the system was shared, there was a preference to enable stakeholders to manage all risk areas rather than solely those associated with strategic risk. Most risk managers who shared their systems with stakeholders said that it worked without conflicting too much with their ability to get the most from the software, see middle table opposite.

"There is quite a high proportion of respondents limiting the use of their risk management software to risk professionals," Carole Walker CFIRM, head of risk and counter fraud at funding research body UK Research and Innovation, says. "When we talk about embedding risk management within the business, this use of the software can be a barrier to that goal, especially where the software is only used in key areas." She says that when updating risks is seen as the risk professional's role, it is easy for managers and risk owners to avoid taking responsibility for the risk. In addition, if managers are waiting for risk professionals to come and help them with inputting data, or producing reports, there is likely to be a time lag, which could result in some risk data being missing from the system for a month or two, perhaps.

Over half of respondents (57 per cent) said they purchased a commercially available risk management solution – the remainder either built their own or used a mix of commercial software with built elements. Anecdotally, the reasons for building a solution from scratch ranged from cost-cutting to tailoring the system to




> A barrier to adopting AI is the inability to address the risk associated with the accuracy and appropriateness of the AI model and its prediction algorithms

a particular industry sector.

"It would have been expensive to purchase a risk management solution, so we needed to cut down on costs," said one respondent. "Hence, we purchased the part relating to accounting and human resources and designed the operations system on our own." In the free responses describing the key features that they had developed in the systems they built in-house, respondents typically said they wanted software that was easily customisable at a local level, that linked and tracked risks, and that enabled enterprise-wide risk management.

## Insight

About half of respondents who said that they had purchased packages also said they failed to provide the level of insight needed off the shelf, with about the same number saying that they had had to adapt the system quite a lot to get the results they wanted. Overall, 64 per cent of respondents said they were happy that the risk management software solution delivered what it had promised to. Nevertheless, just over half of respondents said they were undecided as to whether they would change systems within the coming 12 months. In the free-style response section to that question, respondents said they were actively considering upgrading their systems. "We are currently gathering requirements needed to make us more efficient and combine risk, compliance, issue management and audit systems," said one. "Many cloud-based products appear available now that may meet our requirements," said another.

For a detailed overview of how well respondents said their software performed (see *How well do current risk management solutions work?*). The top feature cited as missing from current solutions was the ability to provide insight into emerging risk (see *What are the key features missing from your current software?*). However, when respondents were asked what key features they would like to see added to their current tools, most opted for increasing their ability to analyse data and trends, and to improve the ease of use of the program.

Deas is not surprised that ease of use is an abiding issue for risk software. "With better ease of use, risk managers can shift the risk administration and ownership of risk more readily into the first line of defence," he says. "Users want something that can operate like a simple application on their phones." For risk managers, that means spending less time helping managers fill in boxes in their software and more time discussing risk and helping management make better decisions.

Today, though, the survey points to a core of respondents who want better software in areas such as on emerging risks and systems integration. "Users are looking for more sophistication, which reflects how people want their systems to integrate throughout the business," Carole Walker says. "This is important as we don't want the risk management software to become the silo."

## Risk software tomorrow

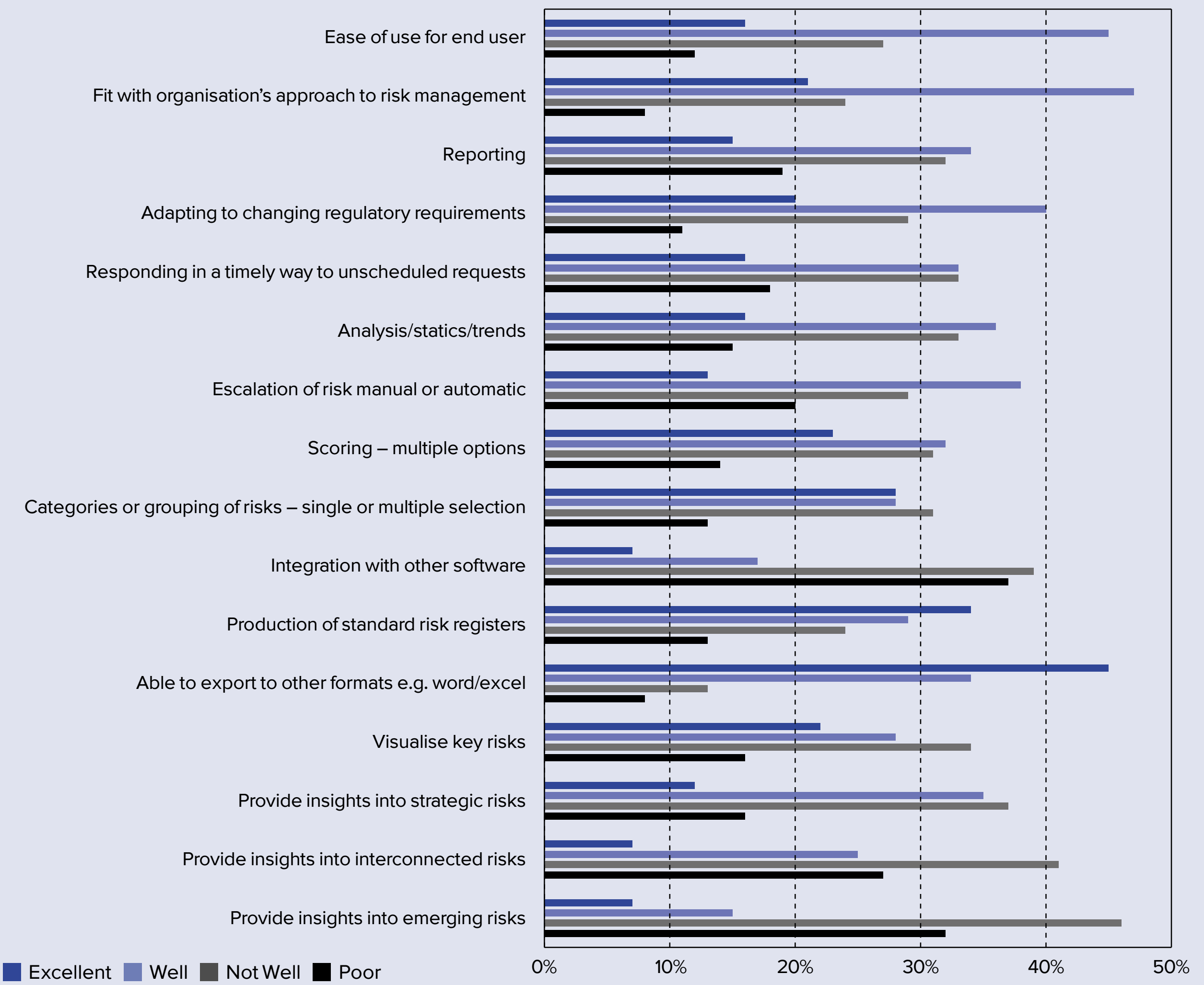
In 2017, IRM conducted a year-long project to discover what risk management would look like in the future – Risk Agenda 2025. Although the project did not specifically address risk management software, participants agreed that by 2025, risk departments would be adopting advanced technologies in their toolkits.

Roll forward two years and the signs are that this prediction is beginning to come true. While only one in ten respondents to this software survey said they currently used artificial intelligence in their risk management processes today, four in ten said they would be doing so within the next one to three years.

Attendees at this year's IRM 10th Risk Leaders 2019 annual conference – *A decade of discovery and disruption* – heard last month how Barclays has implemented artificial intelligence in its fraud risk management processes. That included an increased use of customer biometrics and contextualised customer data – neither of which would be possible without AI and sophisticated data analytics.

Over one third of respondents (36 per cent) said that they planned to use AI in their operational

How well do current risk management solutions work?




> **The application of AI capabilities is seen as being more important elsewhere, first**

risk processes – the next largest categories being enterprise-wide risk and horizon scanning.

"Given the large percentage of chief risk officers taking part in this survey, it is encouraging that so many organisations say they are planning to begin using AI in their risk management processes from 2020," Karlene Agard GradIRM and founder of ARAVUN, a mega-projects consultancy, says. Agard, who was involved in IRM's Risk Agenda 2025 project, believes that finding suggests risk departments are planning to use such tools earlier than anticipated. But she worries that some of the barriers to doing so are more perceived than real.

For instance, several survey respondents said that there was a lack of investment in AI – even to the extent that some organisations are not prepared to put resources into risk evaluation of its potential benefits. "There seems to be a belief that AI is expensive to implement," she says. "AI depends less on manual processes and more on automation, so it is ultimately a less expensive option – and it is likely to free up risk managers' time to add more value."

It is possible that the next couple of years will be a tipping point for risk management's ability to get the most from its software. Those organisations that focus on their data governance and on integrating data and systems will be in a better position to support strategic decision-making with risk insights. As risk software becomes more integrated and easier to use, management and automated systems will take on more of the daily risk administration. That will free up risk professionals to add more relevant value to their stakeholders. Some businesses are nearer to that ideal than others – but with a large proportion of respondents beginning to invest in AI in the short term, change is certainly on its way.

Institute of Risk Management

# Why risk it? Get qualified

Advance your career with the IRM

## IRM Certificates include:

| | | | |
|---|---|---|---|
| International Certificate in Enterprise Risk Management | International Certificate in Financial Services Risk Management | Digital Risk Management Certificate | Supply Chain Risk Management Certificate |

## Coming soon Supply Chain Risk Management Certificate

- The essential qualification for tomorrow's risk practitioner
- What risks are hidden in your supply chain? Identify, analyse & prevent
- Enrolment opens February 2020 for December 2020 exams
- Introductory price - **£995**

## New for 2020:

Supported online learning from anywhere around the world

Assessed by multiple choice questions

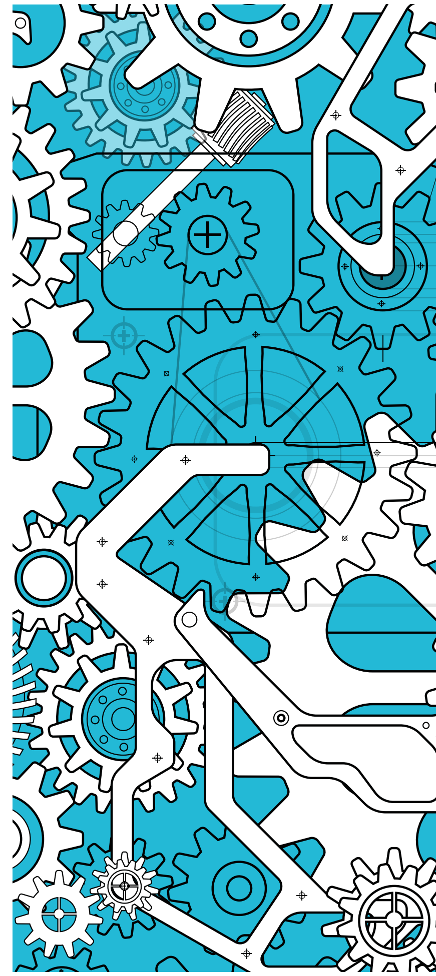
5000+ exam centres globally

Find out more at:

**www.theirm.org/quals-mag**

irm

Developing risk professionals



# Reconfigured for success

IRM is refreshing both the content and delivery mechanisms of its qualifications to make more use of technology and add to its international reach

BY DOUG SMITH

Doug Smith

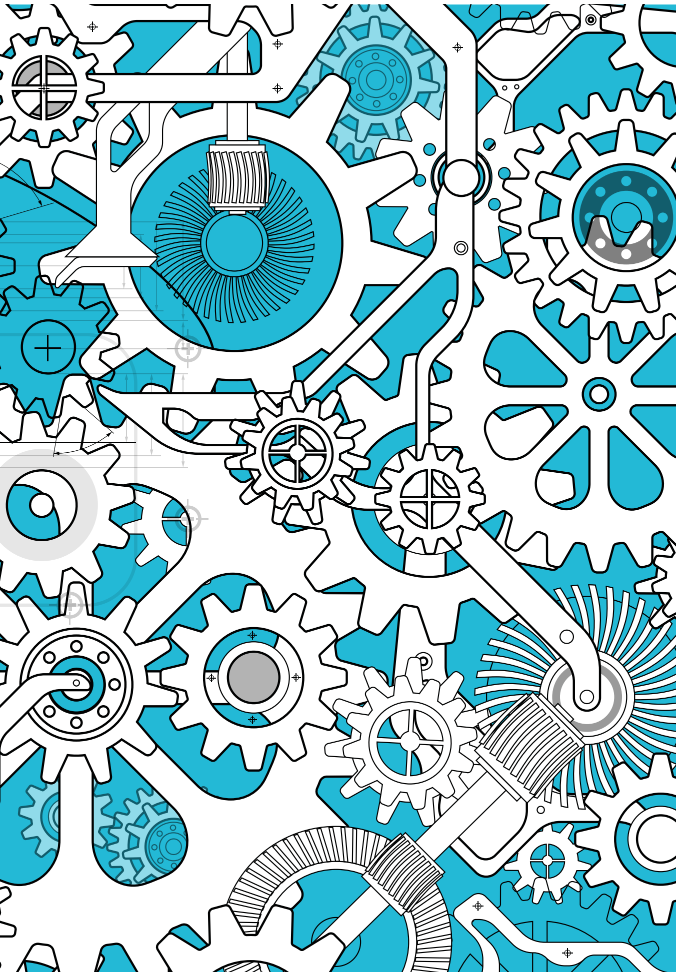
Qualifications are an essential tool for risk managers. Not only are they a natural stepping stone for career progression, but they can provide the latest knowledge and techniques that enable risk professionals to add value to their organisations.

As the leading global provider of risk qualifications, IRM is continually working to make its offering more relevant to today's businesses (see *IRM qualifications*). Two essential entry-level qualifications for today's digital world are the International Certificate in Enterprise Risk Management and the Digital Risk Management  Certificate.

The former enables participants to get a solid grip on the fundamentals of enterprise risk management (ERM) and provides the knowledge and tools to help organisations benefit from the insights the discipline can provide. The latter is designed to help risk managers get up to speed with the implications of new digital technologies and possible ways to manage the evolving risks and opportunities they bring. As this survey shows, risk management software is developing quickly, and to get the most benefit, users have to have a proper understanding of both risk management and the digital landscape in which it is increasingly used.

A further entry-level qualification – the International Certificate in Financial Services Risk Management – is available for those working in that sector. IRM's new Supply Chain Risk Management Certificate will be opening

**"As the leading global provider of risk qualifications, IRM is continually working to make its offering more relevant to today's businesses**



## NEW DIPLOMA MODULES

**MODULE 3** This provides a brief recap on the issues studied in the International Certificate in Enterprise Risk Management (that exam provides Module 1 and 2 in the suite of exams) and then enables in-depth study in risk assessment and risk treatment and control. Risk assessment consists of two parts: risk identification and risk analysis stage.

**MODULE 4** This second module in the diploma stage is designed to examine organisational oversight of risk management and the responsibilities at the highest level. It delves into the areas of corporate governance and decision-making, organisational performance and review of risk management, organisational culture, strategic risk and leadership. It is designed so that the student will understand the internal issues in organisational risk management.

**MODULE 5** This module is designed to enable students to examine risk and risk management as it relates to organisational resilience at a strategic level and to society as a whole. Organisational resilience is compared to ERM, and students will study key elements in building resilience and in developing business continuity and crises management. The module also takes students into the realms of risk perception and risk communications.

**MODULE 6** This module is designed to allow the student free choice in undertaking a specific and specialist piece of work in his or her own field. It will consist of a work-based project which is of particular interest to the student and/or employer. It will be an original, realistic, feasible risk management work-based project that adds to the student's own professional development and contributes to furthering risk management knowledge, ethos or practice in his or her own workplace or that of others or society in general.

for enrolment in February 2020 for those wishing to register for the December 2020 exam session.

## Global choice

IRM's International Diploma in Risk Management has been the global choice of qualification with risk professionals and their employers for the past 30 years. This post-graduate level qualification has been developed by internationally recognised academics and industry practitioners to provide risk professionals with the knowledge and skills to manage risk and maximise opportunities in any organisation. But the world moves quickly, and we are constantly striving to keep all of our qualifications up to date, support our students and ensure our assessment of students has a practical focus.

This year we have made four major steps to further modernise IRM qualifications. These initiatives include switching to multiple choice questions (MCQs) assessment for all certificate-level modules, reviewing Modules 3 to 6 of the International Diploma (see New diploma modules), introducing a new online learning management system (LMS) and gaining Ofqual recognition – a major initiative as IRM continues to expand its international reach. It is only right that as we enter the Fourth Industrial Revolution, we modernise both the content and the delivery mechanisms of IRM qualifications.

Students will benefit from moving to MCQs by receiving results faster, marking being more objective and results that can be robustly validated. In addition, by embracing technology for MCQs, we will be able to eliminate many appeals and test the course modules in their entirety. To help us with this journey we have partnered with Pearson VUE.

## Internationally recognised

Pearson VUE gives IRM access to over 5,000 sites in 180 countries, which will become increasingly important as IRM continues to internationalise. Students have more choice of venue and, in the case of some international students, reduced travel costs to sit exams. Pearson VUE is internationally recognised and will provide us with a secure platform and an independent robust analysis of the results.

In reviewing the content of the diploma, we took all the feedback from stakeholders on board and at the IRM Risk Leaders' conference in 2019 issued the latest proposed syllabus for final comment. Not only will the assessment be more practical but also there will be no more examinations, and a semi-flexible submission regime utilising the new LMS. The main changes mean that the risk management knowledge will be included in the new Modules 3-5, and the new Module 6 will be a project-type assignment and all assessments will be written work-based assignments submitted through the new LMS. This means that students will no longer have to take time off work to travel and sit exams.

## Embracing technology

As part of the theme of supporting students better, embracing technology and providing stimulating learning materials, we decided to move away from just PDFs and books to a more flexible and accessible learning platform. The LMS we have chosen is Moodle, used by the majority of universities in the UK. This will give our students the opportunity to study at their own pace in any location without having to carry any books with them. The LMS will be available on smartphones, notebooks, laptops and desktops. We can also bring a number of platforms together in one place, for forums, webinars, tutorials etc.

The first qualification to be operational, aptly, will be Digital Risk Management. The rest will follow in 2020. All the quizzes and activities will be incorporated in the LMS, which means we can track students' progress and provide encouragement when necessary.

IRM is planning to submit an application to Ofqual (the recognised framework regulatory body in England and Wales) in the first quarter of 2020. This is a major initiative that requires a total review of how qualifications are governed, delivered and assessed. Placing our qualifications on the Regulated Qualifications Framework (RQF) will give national and international recognition of the level that our diploma qualifications are set at, which is master's level. Students will be able to persuade employers of the international value of the qualification. This will also help us with other stakeholders such as our partner universities.

The initiative will require a major effort on the part of our qualifications' team, HR and finance team and student support team. However, the benefits are substantial and worth it. We are reviewing every single document produced in relation to qualifications to ensure that they are fit for purpose, adding and/or replacing where appropriate. We have created a virtual awarding body that will act independently (under board governance) in all awarding matters. At the heart of all of this are our students and members.

**Doug Smith, FIRM, was IRM chief examiner until February 2019 and is now a specialist adviser working on the project to refresh IRM's qualification suite.**

### IRM QUALIFICATIONS

#### International Certificate in Enterprise Risk Management

The qualification provides an introduction to the principles, concepts and practice of risk and risk management; an understanding of the multi-disciplinary nature of risk management within any type of organisation; an understanding of current risk management thinking, standards and regulations across the world; and entry route to the *International Diploma in Risk Management*.

#### International Certificate in Financial Services Risk Management

The qualification provides an introduction to the principles, concepts and practice of risk and risk management; an understanding of the multi-disciplinary nature of risk management within a financial services organisation; an understanding of current risk management thinking, standards and regulations across the world; and entry route to the *International Diploma in Risk Management*.

#### International Diploma in Risk Management

For 30 years, IRM's International Diploma in Risk Management has been the global choice of qualification with risk professionals and their employers. This post-graduate-level qualification has been developed by internationally recognised academics and industry practitioners to provide risk professionals with the knowledge and skills to manage risk and maximise opportunities in any organisation. The diploma aims to develop the ability to design and implement risk management strategies; proficiency in selecting and applying the tools and techniques required to assess and treat risks; a critical understanding of the relationship between risk management, governance, internal control and compliance; and the ability to make informed risk management decisions for current and emerging risks, and to critically appraise real-life case studies from different sectors and countries.

#### Digital Risk Management Certificate

The Digital Risk Management Certificate is the ideal qualification for anyone looking to develop an understanding of risk management in the digital era. The qualification has been designed to introduce learners to digital disruption, its causes and consequences, and to equip individuals with the tools and techniques to apply their skills in an increasingly digital world.

#### Supply Chain Risk Management Certificate

This qualification introduces the concepts of supply chain risk management and equips risk practitioners with the ability to apply their risk management knowledge in a world where value is increasingly added via a supply chain. It explains how globalised outsourcing, specialisation and just-in-time production are changing the risk environments for many organisations. It looks at how appropriate risk management tools and techniques can be applied, adapted and developed in an increasing digital context. The qualification provides a broad understanding of supply chain risk management principles and practices.

**For more information, please visit: https://www.theirm.org/qualifications**

## About IRM

The IRM is the leading professional body for Enterprise Risk Management. We help build excellence in risk management to improve the way organisations work.

We provide globally recognised qualifications and training, publish research and thought leadership and set professional standards, which define the knowledge, skills and behaviours today's risk professionals need to meet the demands of an increasingly complex and challenging business environment.

IRM members work in many roles, in all industries and across the public, private and not-for-profit sectors around the world. We are independent and not-for-profit.

**theirm.org**

irm

Developing risk professionals

## The Protecht Group

20 years redefining the way the world thinks about risk.

Protecht helps organisations through deep understanding, monitoring and management of risk. We provide the complete risk solution—comprised of world-class enterprise risk management, compliance, training and advisory services—to government organisations, key regulators and businesses of all sizes across the world.

With 20+ years at the forefront of risk and compliance solutions, millions of incidents managed across thousands of individual risks, and over 25 thousand people attending our training courses to date, we're one of the most respected and influential voices in risk.

**protechtgroup.com**

## Protecht.ERM

Dynamically manage all your risks in a single platform, including: Risks, Compliance, Health and Safety, Internal Audit, Incidents and KRIs.

Protecht.ERM helps risk managers focus on the right things. It automates the manual and time-consuming processes of managing the collection and analysis of risk information across your organisation.

Key functionalities include:

- A complete GRC/IRM platform
- Mobile App
- Dynamic Form Builder
- Workflow management
- Bulk Update
- Integration with other systems
- BI and Risk Analytics Dashboards & Reporting
- Optional Regulatory Content

**https://www.protechtgroup.com/risk-management-software/enterprise-risk-management**

PROTECHT
Redefining Risk

PROTECHT

# Redefining the way the world thinks about risk

For over 20 years, we have been pioneering the future of risk management.

RISK SOFTWARE

RISK ADVISORY

RISK TRAINING

protechtgroup.com