Enterprise Risk

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The official magazine of the Institute of Risk Management

Imagining plausible futures: IRM's East Africa Regional Interest Group is growing rapidly to support a burgeoning risk management profession – and the organisations they serve – as co-founder Carol Misiko explains

Building rapport: how getting engagement within teams and with stakeholders is critical for success / **Maximum headspace:** developing better strategies for making sense of risk / **Integrating sustainability:** new guidance to help bring together risk and sustainability efforts / **Raising the bar:** how AI can help compliance with Consumer Duty regulations


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Enterprise Risk

Winter 2023

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

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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

Editorial

Creative tensions

How comfortable are you with other people, and is it the risk manager's job to put colleagues at ease? In his article for this issue of Enterprise Risk (*Building rapport*, pages 16-19), Tom Clare considers how far risk professionals should adopt the role of a counsellor in their relationships with business partners.

Initially floated as a joke, Clare noticed that there is little doubt that talking about risk with management and the board can be stressful. There can be a lot at stake, and conflicting opinions may be held strongly and expressed with force. That is why delivering results as a risk manager entails the need to "interact, build relationships, reflect opinions back and foster an environment where people want to share information with you," Clare concluded. In other words, risk managers need to be good at building rapport, and that sometimes may resemble adopting the role of counsellor.

Developing skills

Nurturing such competencies is not something that risk managers should leave to chance. But with so many technical aspects to the profession's remit, risk managers often allow the development of those skills to languish on the long-term to-do list. In fact, it can be easy to get going. Being less technical with your intended audience is just one good piece of advice Clare offers. Coming across as an equal, as part of a team that hopes to address common problems and achieve shared goals, can be another effective strategy. But Clare warns that it may feel like an uncomfortable process of both the risk manager and the business partners he or she aims to help.

Carol Misiko's journey offers a good example of how strong such collaborations can be – not just at work, but in helping build up the risk profession more generally (*Imagining plausible futures*, pages 10-15). Sharing a feeling of isolation with her friend and colleague Dorothy Maseke one day, she wondered how many other risk professionals might benefit from a regular meet-up to discuss the issues they faced. That conversation was the beginning of IRM's East Africa Regional Interest Group, now numbering over 300 people.

Leveraging discomfort

Misiko notes that risk managers are not in control of the actions that management and the board take. "We are not in the driver's seat, we do not make the risk-taking decisions, but what we do is influence how people think about decisions," she says.

Both Clare and Misiko acknowledge that being in such a position can be uncomfortable for all concerned. But Misiko sees her role as being not to smooth that discomfort, but to make it productive. "Risk management is here to make sure that we have a good amount of tension in the business because that allows for optimal decision-making, and we need to get people comfortable with that tension," she says.

Being comfortable with tension, then, is a useful takeaway lesson from these pieces. Developing that ability can not only strengthen one's own capabilities as a professional, but it can also help improve the level of creative tension in the organisation as a whole.

Arthur Piper
Editor


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Reputation risk

Good risk management can enhance customer and shareholder satisfaction

In today's interconnected and information-driven world, reputation is a company's most valuable asset. A strong reputation can attract and retain customers, foster investor confidence, and drive business growth. Conversely, a damaged reputation can lead to lost sales, decreased stock prices, and even legal and regulatory action.

As risk managers, you play a critical role in protecting and enhancing your company's reputation. By effectively managing risks, you can help to prevent crises that could damage your company's standing. You can also develop and implement strategies to proactively manage your company's reputation, ensuring that it remains positive and aligned with your company's values.

Links

There are several key links between good risk management and reputation management. First, risk management helps to prevent crises. Crises can have a devastating impact on a company's reputation. By effectively managing risks, you can help to prevent crises from happening in the first place. This will not only protect your company's reputation but also save you from the time, money, and resources that would be required to respond to a crisis. Building open links with marketing, communications and PR teams to develop a crisis management plan is an important tool in the stakeholder management plan.

Second, risk management helps to build trust. When customers and investors see that a company is well managed and takes risk seriously, they are more likely to trust that company. This trust is essential for building strong relationships with customers and investors, which in turn leads to increased customer satisfaction and shareholder value. Finally, risk management requires clear and open communication. This communication can help to build trust with customers and investors, and it can also help to prevent misunderstandings that could damage your company's reputation.

When things do go wrong, it is important to have a good crisis management plan in place. This will help you to communicate quickly and effectively, control the narrative and protect your company's reputation. By following these steps, you can help to minimise the damage to your company's reputation and restore stakeholder confidence.

Reputation management

As a risk manager, it is important to have strong relationships with your marketing and communications teams and other departments across the organisation. These relationships will help you to identify and assess risks, develop and implement risk management strategies, and communicate risks effectively. By working together, you can create a culture of risk awareness and preparedness throughout your organisation. This will help to protect your company's reputation and ensure that it is well positioned for long-term success.

Risk management helps to put customers first. In any crisis, it is important to remember that your customers, shareholders and stakeholders are the ones who are most likely to be affected. By taking a customer-centric approach to risk management (and your marketing communications operations), you can ensure that your company is always putting their needs first.

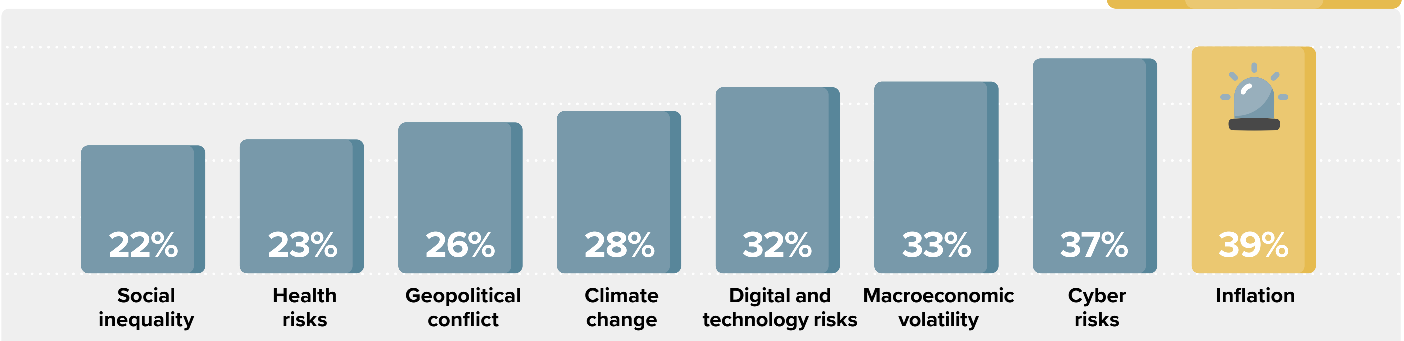
Vicky Robinson, FCIM, is head of marketing and communications at IRM.

Trending

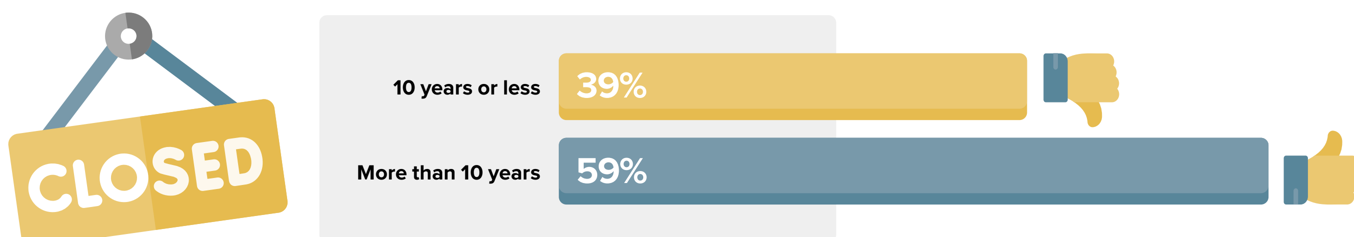
DATA

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

Inflation tops executive worry list



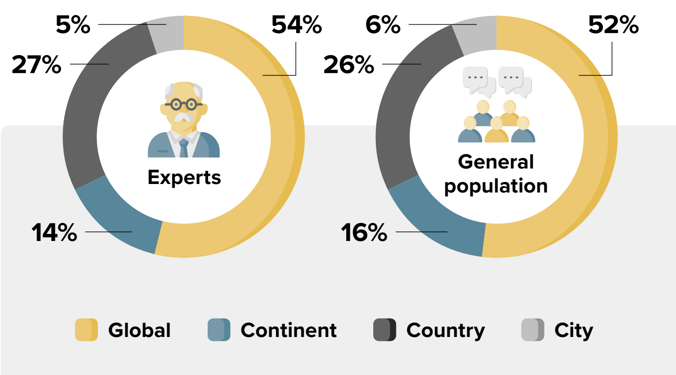
And 4 in 10 do not believe their companies will survive the coming decade:



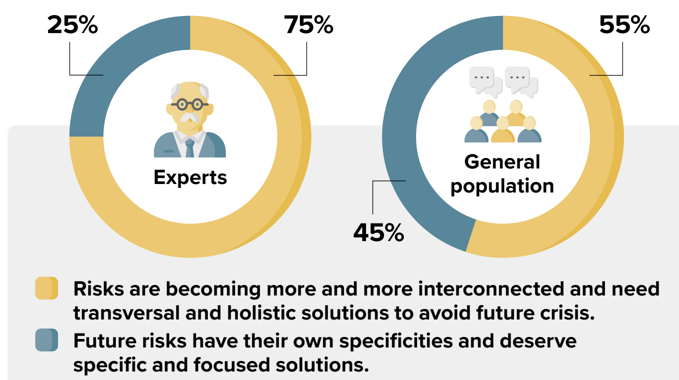
Source: PwC's *Global risk survey 2023*

Public swings behind global solutions to risks

Most effective level of decision making according to experts and general population



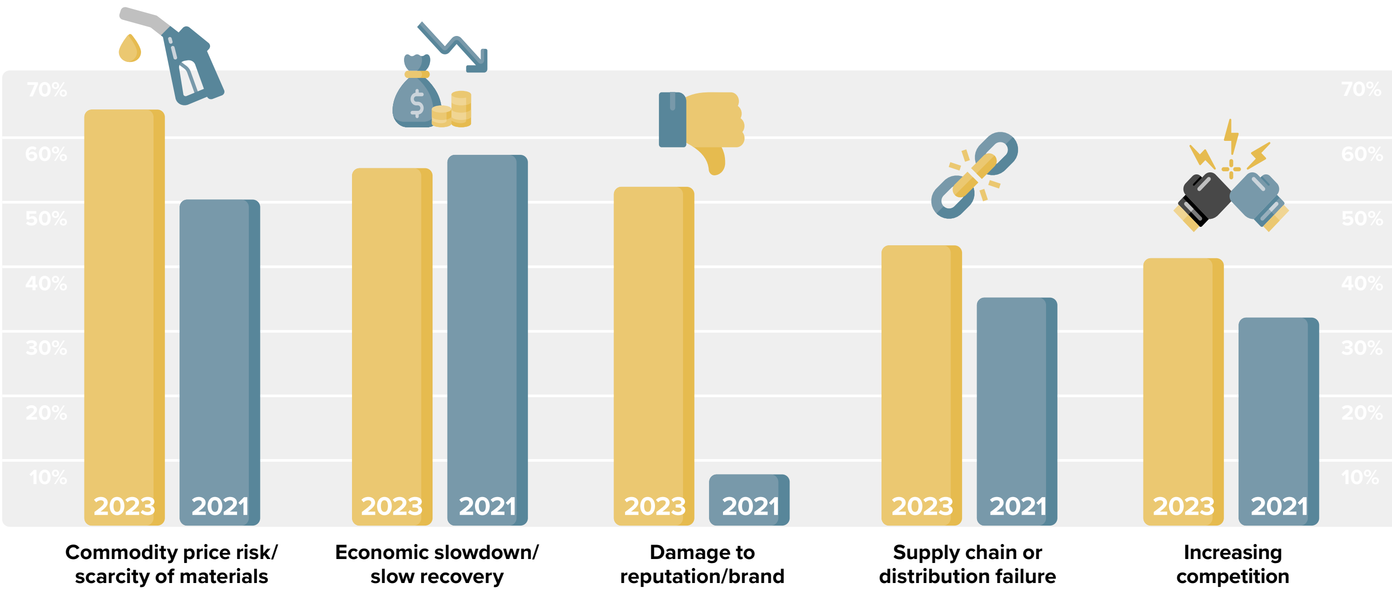
More interconnected risks need more holistic solutions



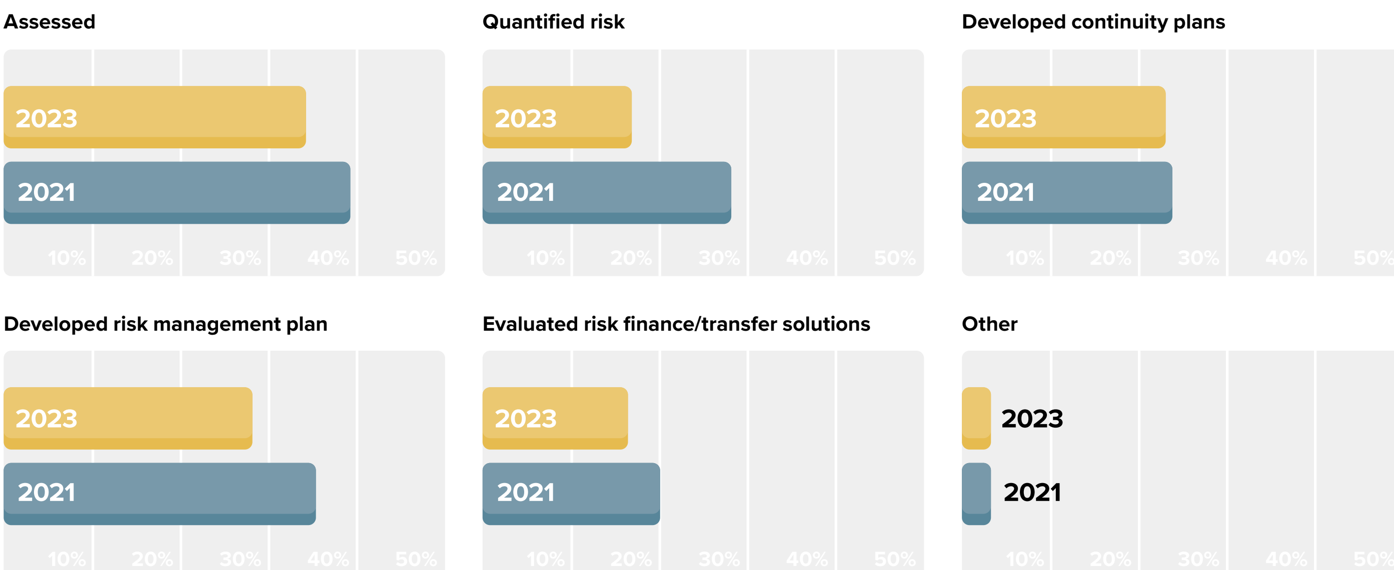
Source: *Future risks report 2023*, AXA

Losses from damage to brand and reputation rise rapidly

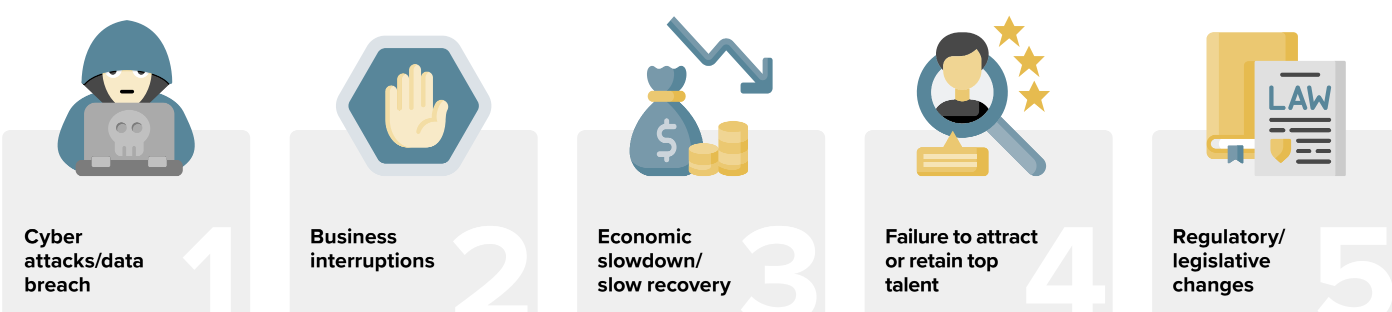
Loss of income, top five risks:



But risk mitigation action drops sharply across all categories:



Finally, top five current risks:



Source: Aon, *Global risk management survey 2023*

Imagining plausible futures

BY ARTHUR PIPER

IRM's East Africa Regional Interest Group is growing rapidly to support a burgeoning risk management profession, as one of its founders, Carol Misiko, explains

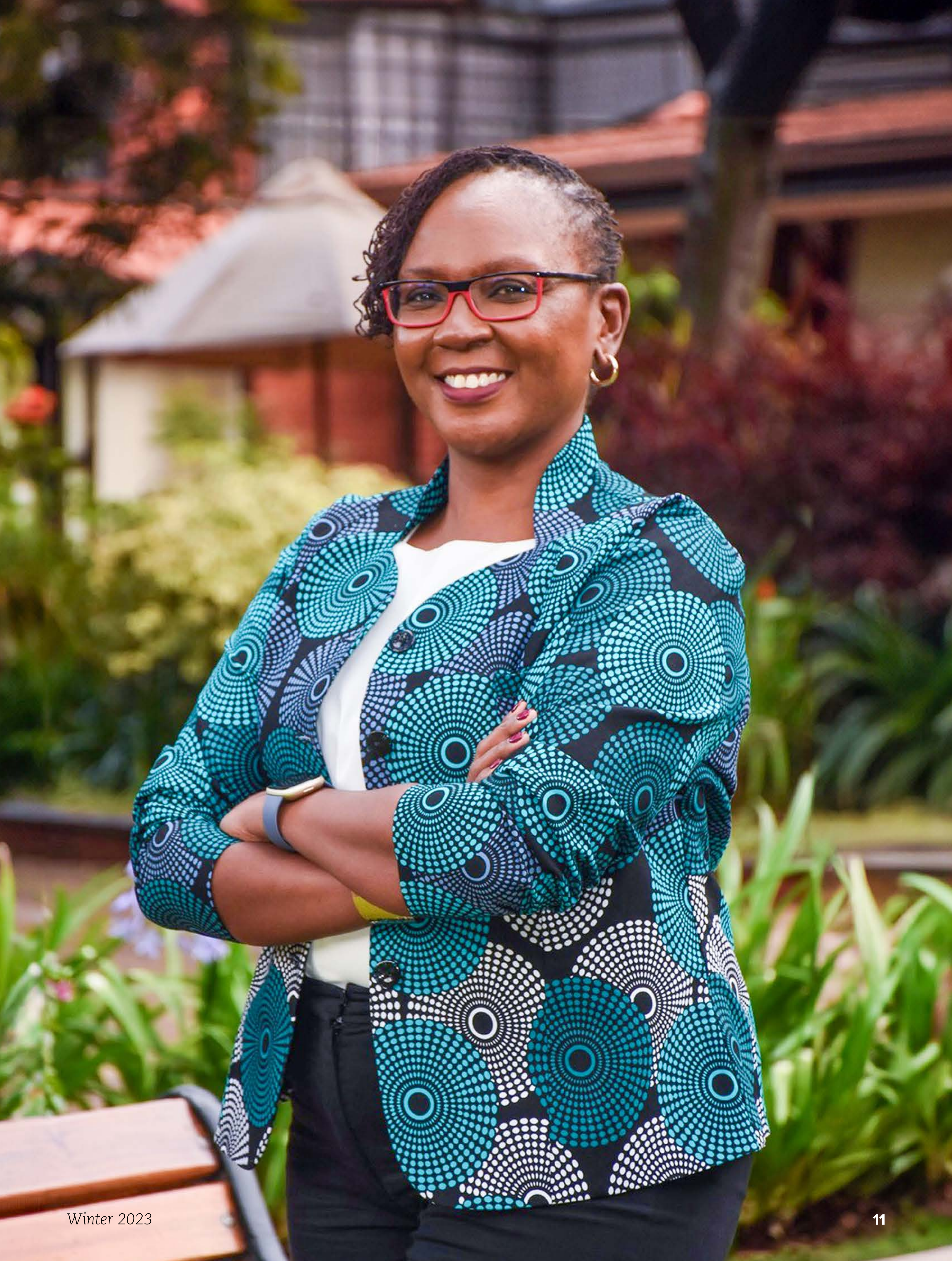
East Africa is one of the fastest-growing economic areas on the globe – and the fastest in Africa as a whole. For example, growth rates in countries such as Ethiopia, Kenya, Rwanda and Tanzania averaged around 6 per cent in 2023 – compared with less than 1 per cent in the eurozone. And by 2040, the region is expected to account for 29 per cent of Africa's GDP – up from 21 per cent in 2022 and from just 14 per cent in 2000.

The region is vibrant. It has a huge youth demographic – 77 per cent of the population in Uganda, for instance, is below 25 years of age. Urban growth is burgeoning and the take-up of digital services – particularly since the COVID-19 pandemic – has been widespread and rapid. That has accelerated financial inclusion and seen Nairobi hosting several tech hubs and start-ups, which has earned the city the name of Silicon Savannah. As if that were not enough, East Africa has significant natural resources – from solar and geothermal power sources to coal, oil, diamonds and gold.

Some of its recent growth has been aided by investment from China, part of its Belt and Road Initiative, which has seen the creation of huge infrastructure projects. Those have included, for example, the Karimenu II Dam in Kenya, the Maputo-Katembe suspension bridge in Mozambique and multiple railroad projects, such as the Addis Ababa-Djibouti Railway in Ethiopia.

External pressures

Yet weaknesses in the region that existed prior to the pandemic have come to the fore in a world increasingly rent by war and ravaged by climate change. East Africa's worst drought in 40 years saw millions displaced from their homes in Ethiopia, Kenya and Somalia – and the rain that came in November 2023 ushered in widespread flooding. The reappearance of the El Niño weather system, which pushes the Pacific jet stream east, has heated up the ocean and played havoc with wind patterns, forcing spikes in rainfall. That has increased infrastructure and supply chain disruption – the latter made worse by wars in Ukraine and now the Middle East. In addition, the higher cost of goods and raw



materials has boosted inflation, triggering a cost-of-living crisis and higher unemployment.

Enterprises are feeling the squeeze. "One of the biggest impacts on businesses has been access to capital," says Carol Misiko, CFIRM, group sustainability, risk and compliance executive at the insurer Old Mutual Group East Africa. With less money because of a drop in investor confidence, organisations are unable to innovate – or they simply go bust. As a net importer of goods, East African businesses are dependent on imports, the price of which has risen sharply and, in areas such as grain supply, a backlog of supplies. And, as more companies go belly up, Misiko worries that the fight for talent will intensify further because people will seek work outside the region.

Karimenu II Dam in Kenya

Risk awareness

Naturally, risk talk has become more prevalent in board rooms – and for good reason. "The organisations that are surviving are the ones who have applied some level of strategic foresight into their thinking and planning," she says. This approach was evident in some businesses before COVID-19 and among most now. Two- or three-year business plans based on half a dozen assumptions have been ripped up and replaced with plans that have more flexible parameters and deeper insights into how and where risk is likely to emerge and impact.

"Those who are identifying the driving forces of change and exploring their interactions can plan better by imagining a range of plausible futures," she says. "When considering a full range of plausible futures, you also think what those mean from a capital perspective, a liquidity perspective and a people talent, and potential partnership point of view."

This approach has resulted in fewer businesses looking to go solo in areas where they can join forces with compatible enterprises to build more sustainable ecosystems. And they are investing in leadership and culture as well as technology and data analytics.

Misiko points to the insurance industry – where she has spent most of her professional life –- as a typical case study. As a mature sector it has found itself sometimes out of step with the nature and velocity of change that has hit the market – and struggling to grasp the potential opportunities that poses. Traditional approaches to products and services are unsuited to a younger, more mobile generation that want services quickly and tailored to their flexible, digital lifestyles. Having better tools to analyse the vast amounts of data generated by this demographic is helping insurance companies refresh their products offerings – sometimes in collaboration with high-tech specialists from the Silicon Savannah.

Commercial acumen

Not surprisingly, these trends have also shaken up risk management practices. Historically, risk management and internal audit have been closely aligned in many organisations across the region, but, Misiko says, that has fostered approaches that tend towards identifying lagging indicators of risk. With a more complex, fast-moving threat landscape, that can leave businesses lacking risk insight in their decision-making processes: a dangerous position to be in.

Misiko says that bringing in more risk professionals with commercial acumen is a critical step in creating processes that focus on forward-looking indicators: "The skills mix within

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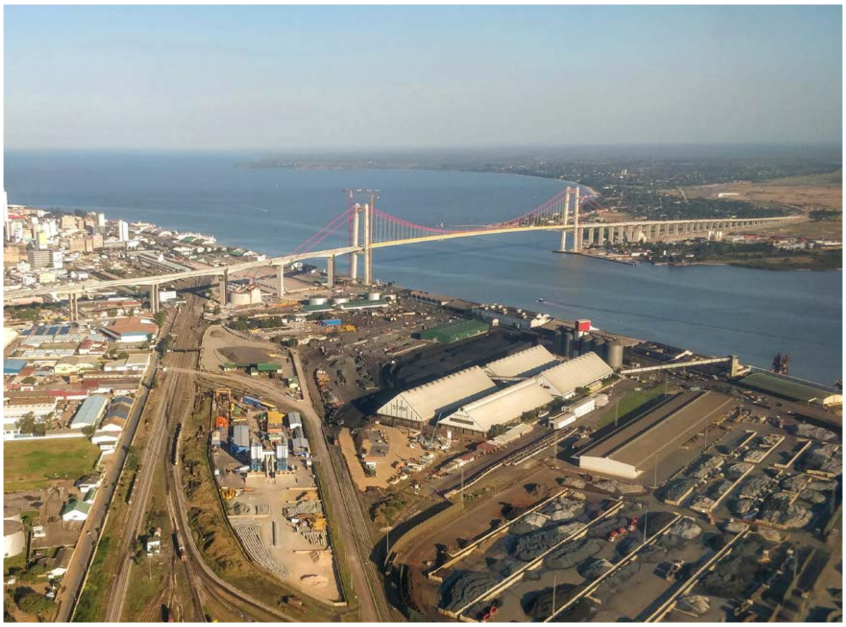


Maputo-Katembe suspension bridge in Mozambique

the risk department has to include commercial acumen and the ability to speak the language of strategic decision-making." Risk professionals must develop skills to be able to interpret data from the external environment and the internal environment in a way that supports that strategic decision-making. Understanding that their work serves a broader commercial and potentially social purpose should also underpin their attitude.

When I ask what do risk managers typically get wrong in their approach, she says that it is a question that has taken her about seven years to work out an adequate answer to.

"As risk managers, we often underestimate the role of cultural and political nuances within an organisation and the extent to which they really drive its true risk culture," she says. "It is not so much about exactly what the data says, it is not so much what the model says, but it is what people think about the outputs and the biases they come with to the organisation." That is because it can be organisational politics and power plays that drive whether businesses take the right risks or not. Since these factors can be the bedrock of organisational culture, risk managers need to be aware of how their recommendations and findings will be received and acted upon – and why, if they are neglected, that has happened.

Light-bulb moment

This realisation struck Misiko during Module 5 of the International Diploma in Risk Management run by IRM, which specifically dealt with biases that come from groupthink – a phenomenon where people who spend a lot of time together develop similar thought patterns. It was a real light-bulb moment and, when she returned to work, she began communicating with stakeholders much more deliberately, including seeking help from the business to improve her practice. "It actually got me out of sitting in the back room looking at models, looking at papers, drawing up my risk register and just going to spend time with people – talking with people. I spoke to senior managers and CEOs who helped me to understand why certain recommendations I had made were not accepted when they had seemed like common sense to me," she says. "That really helped me understand the psychology of people working as first line managers."

For Misiko, this approach helps to achieve a better integration of risk management throughout the business – from the boardroom to the front line. How? Because once Misiko had pushed herself to communicate more widely, she began to be seen as a core part of the decision-making team and was invited to attend meetings for strategies that had not yet got off the ground. The perception of risk management changed from being something that managers felt had to be endured because of regulatory requirements, to a process that could help them take better decisions in a more agile and responsive way.

But that does not make it a cosy process. "It is good to make it clear to management that while we are a partner, we are not here to make them feel comfortable," she says. Bringing different perspectives can create some creative friction: "Risk management is here to make sure that we have a good amount of tension in the business because that allows for optimal decision-making, and we need to get people comfortable with that tension."

Developing practices

Not surprisingly, risk management began to develop in East Africa as

> **Those who are identifying the driving forces of change and exploring their interactions can plan better by imagining a range of plausible futures**

banking regulations from Europe started to take hold. Kenya, for instance, began to implement the Basel I requirements on credit risk from 1994 and adopted the risk management guidelines published with Basel II in 2013. The insurance sector, telecommunications industry and, more recently, government agencies have

> **The skills mix within the risk department has to include commercial acumen and the ability to speak the language of strategic decision-making**

followed a similar trajectory in countries across the region – with risk management becoming a more standard practice even in some manufacturing and other non-regulated industries. While internal audit and risk management are still often too closely aligned, demand is growing for better training and education in risk management practices in organisations of all shapes and sizes.

In 2015, Misiko decided to team up with colleague Dorothy Maseke to create IRM's East Africa Regional Interest Group. "One day we sat down and said, 'Surely we can't be the only two people thinking about risk in this region,'" she recalls. Initially, they would meet up when they were sitting for IRM exams and find other people who were struggling to get to grips with some thorny risk management problems. So, while she credits Maseke with the initial idea, they both worked to create a support group backed by IRM for sharing information and meeting in person. They

> **Risk management is here to make sure that we have a good amount of tension in the business because that allows for optimal decision-making, and we need to get people comfortable with that tension**

Carol Misiko (left) with colleague Dorothy Maseke (right)

would get together in somebody's office and eventually persuaded a leading consulting firm to sponsor them to meet in hotels so that they could invite more people.

From an initial cohort of about 10 people in 2015, the group grew significantly in 2019 – just before COVID-19 pushed events and meetings online. Today, it boasts a membership of over 300 risk professionals in the region. With greater size and a proactive approach to expanding its reach, the group has achieved recognition among other organisations in East Africa: most recently at the Africa Climate Summit, an event that attracted about 20,000 participants, including 20 heads of state and many global leaders.

Misiko and Maseke approached the leadership of the summit as it was creating its agenda and offered to help. They worked with the various heads of the summit's work streams to think through potential risks to the event and brainstorm solutions. "Initially people invited us in almost like a tick-box exercise, but the real value emerged as we started talking and changing the tone of the conversation around risk so that people understood that we were there to help them make better decisions," she says.

Entry to ERM

Early in Misiko's career, she stumbled upon ERM by accident. Working in credit risk management, she saw an advert for a programme run by the Swedish Development Agency on the topic. Not thinking too much of it, she applied and was one of two Kenyans accepted on the course. Surprisingly, it was a real hands-on event: talking to bankers, training and going through real-life scenarios. So, six months later, when Kenya introduced regulations mandating risk management in every financial institution, she landed the role of head of the risk management department at her then employer Housing Finance and later on ICEA Lion Group in Nairobi, Kenya. While she had her experience from Sweden to help, she enrolled for IRM's Certificate in International Risk Management programme, which, she recalled, "became my best friend in my journey."

That journey has seen her move to create new risk management departments several times, including at her current role where she works at Old Mutual Group East Africa. Working in disparate companies has reinforced her belief that while practitioners must get a firm grip on the technical aspects of risk management, being successful and adding value to the organisation requires softer skills too because it is often through those that one can connect directly to its culture.

First, she says, focusing on critical and analytical thinking is a must: "Any successful person on a global stage, whether you're an influencer, whether you're a CEO, or a risk manager, you cannot do that without understanding the times, and that requires analytical thinking." Critically understanding the impacts of risk on your organisation, on your project, or on your area of interest, then cultivating the ability to analyse, assess and make good decisions is key.

But that ability must be coupled with a strong communication and influencing skills. "We are not in the driver's seat, we do not make the risk-taking decisions, but what we do is to influence how people think about decisions, how people think about circumstances and how they apply knowledge and information to those decisions that need to be made – that is a soft skill and it is the most overlooked side of risk management."

Building rapport

BY TOM CLARE

While technical knowledge is essential in risk management, getting engagement within teams and with stakeholders is critical for success

Throughout my career, and in conversations with other risk managers, I've often heard that when we're at our most successful we seem to be adopting the role of the counsellor for the team. Perhaps there's more to it than a joke among colleagues? Getting engagement across our teams requires you to develop rapport with a diverse group of stakeholders quickly. For instance, to address potentially stressful and/or challenging subjects, understanding a problem, and reflecting what you're hearing, in a way that helps brings people together to understand and contribute, is how we can respond to threats or opportunities.

I've received the benefit of an excellent counselling relationship in my personal life. During this time, I have also studied to become a qualified coach and mentor through the Institute of Leadership and Management. This has got me thinking that perhaps counselling, coaching and mentoring type-competencies are critical for us to develop and refine, to help unlock the benefits of an effective risk management process.

Counselling, coaching, mentoring

A range of definitions exist for all these roles, but they tend to focus on working with clients, being a trusted contact and using tools and techniques to help promote change and for their clients to navigate problems or concerns. Sound familiar?

Consider a risk manager. We must identify, evaluate, help ensure responses are implemented and regularly evaluate the success of an activity. Along with this, we are often charged with training and developing the organisation's understanding in risk management and suggesting ways to mature or develop the approach we take. To deliver any of these, we need to interact, build relationships, reflect opinions back and foster an environment where people want to share information with you – or it will be incredibly difficult to provide your value as a risk manager. What's key to this? Developing rapport.

Rapport

Rapport is the foundation of an effective relationship between

> **“Perhaps counselling, coaching and mentoring type-competencies are critical for us to develop and refine, to help unlock the benefits of an effective risk management process**

people – it fosters trust and allows it to develop. Sometimes it comes naturally to someone you interact with; other times you may need to build it through finding common interests or backgrounds in an open way.

Trust is a mutual thing between individuals. It means someone can feel they can be open about their vulnerabilities with you, and at the same time, feel comfortable that you can act in a "trust-worthy" way when they interact with you. So how do you build it with those involved in the risk process?

Be an equal. Thinking about your own experiences in the workplace, when have you been most receptive to working with someone? Risk can be seen as a complicated process to many and difficult to follow. Come across as the specialist speaking a different language or making it feel like their homework is being marked will rarely get the results you need. Be clear you're here to work together to help someone understand the risk process and for you to get what you need.

Be genuinely interested. Ask questions. Learn what makes someone tick. Diving straight into work questions might not always be the right approach for some people, while others want straight and to the point. We all come to work with different motivations, so be open, curious and if someone wants to talk about their family or their day for the first part of a meeting to gain that common ground – go with it.

Listen and show you're listening. It sounds simple, but pay attention to what someone says without judgement, try not to interject with your own opinions and take the information in. If someone's taking the time to explain what's going on in their area relevant to risk, show them the courtesy of paying attention to it. Summarise what you've heard and ask clarifying questions – people like and want to feel understood when they've explained something and that they've been listened to.

"Diving straight into work questions might not always be the right approach for some people, while others want straight and to the point

Noticing the difference

Let people know they've helped. We've all had that flat feeling in various stages of our careers of going to great lengths to support something and afterwards getting no acknowledgement for it. If someone has supported you in the risk process, let them know you appreciate it beyond a simple thank you. Was there a specific part they really helped on? Did their strengths in an area help solve a problem? Letting them know will show you noticed the difference they made and will help build a relationship for next time.

Understand how you are both feeling on the day. Are you in the right frame of mind for a meeting? Are you tired, frustrated, or has your calendar been blown apart from problems in the day? We give so much in our non-verbal communication that people will make judgements on how, or if, they want to work with you. Be in the space to listen, focus and work with someone – and if you're not there and time allows, perhaps rearrange the meeting. Similarly, if you've gone into a meeting with someone and they look demonstrably stressed or upset, explore if there's a way to help them get into the mindset

> **Too often when we get lost in technical details, the stresses of deadlines and challenges of our work, we can forget how essential rapport is between people is to enable an effective risk process**

for your meeting – do they need to vent about something? Is there something funny you can share to help distract?

Some may consider these the basic foundations of interacting with people – I would suggest they are. All too often when we get lost in technical details, the stresses of deadlines and challenges of our work, we can forget how essential rapport is between people to enable an effective risk process.

Keep these important steps in your interactions with others in the risk process. If you can foster positive relationships with your key stakeholders along these lines, people will want to keep coming back and most importantly know to come to you to discuss risk concerns – helping to create an open, involved risk culture.

Heal thyself

How do you develop this as a risk manager? To some, it may come naturally; others might need a more conscious effort to bring this skillset to the fore. But we all can. You can develop this critical skill set for any team or organisation you work for in a variety of ways.

Develop a range of experience. You can read about it, you can see it in the textbooks, but there's nothing quite like practical experience in risk management to develop. Gain exposure to a variety of teams, projects, departments. Each one will have a diverse range of people and challenges being faced that will require you to adapt and evolve your skills in this area. Keep this in mind throughout your career in terms of where you can go next and what you can learn or take from it.

Develop your skills. Many organisations may offer routes into training courses to develop in these areas. Consider courses in coaching, mentoring, communicating, presenting and even listening effectively – you might be surprised at what you can learn or refresh your knowledge on.

Practice. Some organisations may have schemes in place to connect you with people looking for a mentor, or it may come through ad hoc conversations in your workplace. This will give you the practical experience in developing these skills, and it doesn't have to be risk focused. Are there opportunities in your personal life where you could volunteer? If you don't routinely provide training, consider developing training for your organisation to practise communicating risk information to a range of people. Perhaps an introductory course explaining risk to other areas to raise awareness could be a good place to begin? You may have a rough start, but each time you become more comfortable with building relationships with people, it becomes easier for next time.

Use the power of self-reflection. Sometimes the most challenging aspects can lead to powerful insights for our development. In any counselling, coaching or mentoring role, the importance of reviewing your own performance, and how you can develop and adapt from it, is critical – take the same approach in your risk career. After a meeting with someone, after interacting at a board or delivering a presentation, *ask yourself* – how did I do? What worked, what didn't, what could I do better for next time? This process can be uncomfortable, but in doing so you're revealing the areas of genuine development you should focus on to improve your confidence in these areas.

More than meets the eye

The technical skills required to perform a risk management role are essential. Understanding risk practice, theory and how you apply these in your teams and organisations should be a foundation of the development of anyone. However, not everyone has the benefit of your training and can immediately contribute to the risk process. If you don't prioritise your development in building and managing relationships with people, being able to adapt your message to a wide audience, all with their own individual motivators and interests, you'll be restricting yourself and the organisation in developing a more effective risk culture.

So be the counsellor. Be the coach. Be the mentor. Be inquisitive, be open minded, adapt your message to different people, challenge in a constructive manner, and perhaps by adopting the mindset of these professions you'll be getting a whole new level of engagement in the risk process, as people want to get more involved and assist your organisation's risk management process.

Tom Clare, CFIRM, is a senior risk manager for Defence Equipment & Support, an organisation within the UK Ministry of Defence responsible for procuring and supporting equipment for the UK armed forces. He is also a committee member for the Risk Leadership in Challenging Projects, Programmes and Organisations Special Interest Group for IRM. For further information on Defence Equipment & Support, please visit www.des.mod.uk.

Maximum headspace

BY ELMAR KUTSCH

Project risk management frameworks do not always do justice to the complexity of real-life projects and need better strategies for making sense of risk

Project risk management is a crucial tool for project managers, aimed at mitigating the adverse effects of risks by preventing their occurrence and managing their impact on the project's performance when they do arise. However, it is important to understand that risk management is not a foolproof or formulaic solution guaranteeing success. Instead, it serves to increase the likelihood of meeting the project's objectives.

While it helps reduce uncertainty, some level of unpredictability always remains, typically decreasing as the project progresses and goals are achieved. That is why a more nuanced understanding of risk management is needed than that provided by traditional approaches that primarily focus on probability and impact.

Frameworks

Risk management frameworks, such as those recommended by the Office of Government Commerce (OGC), the Association for Project Management (APM) or the Project Management Institute (PMI), provide structured approaches for identifying and evaluating risks that include two key phases.

First, the identification phase involves various techniques to help stakeholders anticipate potential negative events. Common methods include using risk checklists, reviewing lessons learnt from past projects, conducting risk identification workshops, creating risk matrices and cause and effect diagrams, and performing gap analyses.

Second, following such identification the risks are then assessed. The aim of risk assessment is to evaluate risks based on their likelihood and impact. This process may involve quantitative or qualitative methods or a combination of both, often reflected in a risk register: a widely used approach for assessing, prioritising and ranking risks is the probability-impact grid, matrix or diagram (PIG, PIM or PID). These tools typically use a 3x3 or 5x5 grid to categorise risks into levels of increasing severity based on their probability and impact.

Despite these professional standards in risk management often being presented as the definitive guide to understanding and managing project risks, one must ponder whether this prescribed approach truly aligns with the realistic and practical interpretations of risk that project managers encounter. Do these frameworks genuinely reflect the complexities and nuances of how project managers make sense of risks in real-world project management?

“ Risk management is not a foolproof or formulaic solution guaranteeing success

The process of sensemaking

In cognitive science, sensemaking is identified as the method of structuring thoughts, data, and experiences into coherent and meaningful interpretations. This active process transforms raw data into organised information, empowering individuals to craft logical explanations that help them to navigate the uncertainties and ambiguities they encounter effectively. These rational narratives are pivotal for facilitating informed decision-making and guiding actions in complex scenarios.

Moving beyond the somewhat simplistic framework of interpreting project risks merely in terms of probability and impact, my colleagues and I embarked on a comprehensive research endeavour. This study, which was published in 2021 in the International Journal of Project Management, delves into the intricate processes by which managers frame and comprehend unforeseen events during the implementation of projects. The paper, "How managers frame and make sense of unexpected events in project implementation" (co-authored by Elmar Kutsch, Ibrat Djabbarov and Mark Hall), explores the nuanced and often complex ways in which project managers navigate and interpret the uncertainties and challenges that arise unexpectedly in their

FORMS OF SENSE-MAKING AND MODIFYING FRAMES OVER TIME

	EPISODE 1	EPISODE 2	EPISODE 3	EPISODE 4	EPISODE 5
Frame	Manageability frame is formed	Manageability frame is questioned	Manageability frame is abandoned	Collective attentiveness is forming	Collective attentiveness is dominant
Interpretive task	Giving certainty	Sense-breaking	Sense-demanding	Sense-exchanging	Resourceful sensemaking
	Certain, measurable, unambiguous, manageable, owned	Objective evaluation, attributable failure	Not knowable, immeasurable, ambiguous	Collectively attributable	Desirable outcome, Collective attribution of success
Predominant question to address	What does manageability mean to us?	What the failure to manage risk (could) have meant to us?	What is a workable meaning of risk that will have enabled us to recover from failure?	What is a workable meaning of risk that will (would have) provide(d) us maintaining a commercially sound relationship?	What has the management of risk meant overall to us?

Source: Adapted from Kutsch, Djabbarov and Hall, 2021

> **These unexpected events led to a questioning of the effectiveness of the probabilistic risk management process, as it failed to anticipate and mitigate these risks**

projects. That can be seen in the figure *Forms of sense-making and modifying frames over time.*

Five phases

Our study observed how project managers altered their approach to risk management across five distinct phases of a major project.

In the initial phase (Episode 1), the dominant approach to risk management was rooted in establishing certainty through the measurement of clear-cut risks, primarily using the standard metrics of probability and impact. This approach aligned closely with the conventional method of deciphering meaning in project risks through a probabilistic risk management process.

However, this initial approach faced a significant challenge in the next (Episode 2) when unforeseen issues impacted the project. These unexpected events led to a questioning of the effectiveness of the probabilistic risk management process, as it failed to anticipate and mitigate these risks. This resulted in heightened tensions among project managers and a realisation that the traditional probabilistic approach was no longer adequate.

Despite these challenges, the project managers did not abandon the probabilistic approach, as recommended in many project management frameworks. Instead (Episode 3), they sought a new interpretation, a new way of making sense of risks, pondering over the question "How can we define risk in a way that allows us to recover from our initial failure to foresee and mitigate these risks?" During this phase, the focus shifted from updating risk registers to developing a resilient strategy for handling unanticipated issues, leading to a de-emphasis on the traditional risk registers.

In Episode 4, the project managers adopted a hybrid approach to risk and issue management. This approach was designed to maintain the strained relationships with stakeholders and sponsors. The new sensemaking framework prioritised realistic and accountable risk management over the sole focus on probability and impact, acknowledging the limitations of the initial approach.

Finally, at the project's

> **Ironically, although this method was deemed inadequate during the early stages of the project, project managers ultimately circled back to it**

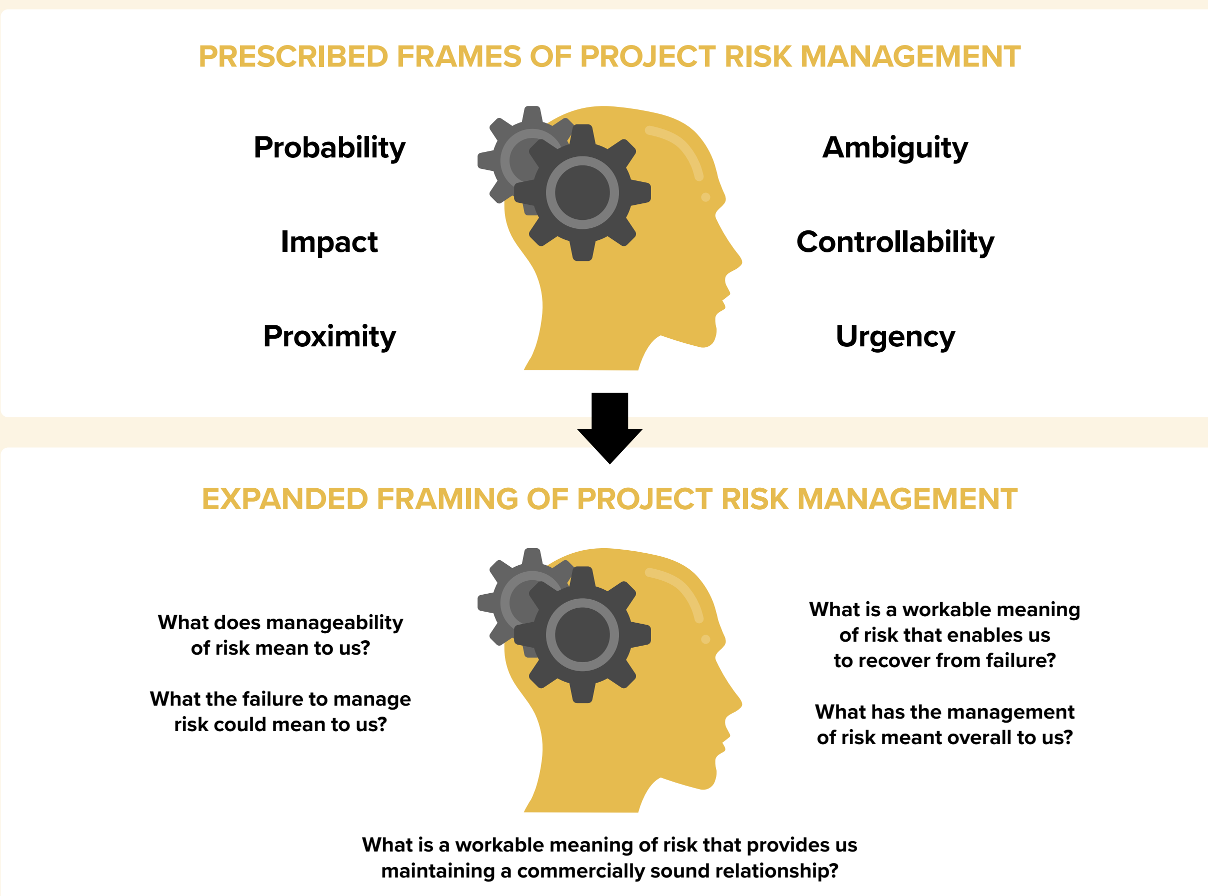
conclusion (Episode 5), there was a reflective acknowledgment that future projects should revisit the initial approach of managing risks based on probability and impact, as used in Episode 1. Ironically, although this method was deemed inadequate during the early stages of the project, project managers ultimately circled back to it. This decision highlighted a paradox in their sensemaking journey, as they reverted to a traditional view of making sense of risk (probability and impact), despite the performative challenges experienced in adhering to this sensemaking frame earlier in the project.

Expanding the framework

In the face of uncertainty and ambiguity, as project managers, we often gravitate towards risk management processes that appear logical and offer a semblance of certainty, even if this sense of security might be illusory. Naturally, we find ourselves drawn to risk management methodologies that are straightforward, universally applicable and widely endorsed as fundamentally correct. These methods provide a comforting, albeit sometimes deceptive, clarity in an otherwise complex environment.

However, this comforting, supposedly self-evidently correct frame of sensemaking often finds itself at odds with the unpredictable nature of reality. The reality of project management is not one that can be fully grasped or navigated using only traditional risk assessment – probability and impact. These

EXPANDING THE FRAME



Source: Adapted from Kutsch, Djabbarov and Hall, 2021 two variables, while foundational, are insufficient to fully account for the myriad of unforeseen challenges and complexities that arise in the course of managing a project. To truly adapt to and make sense of these unpredictable elements, we need to broaden our risk management approach by incorporating additional dimensions into our sensemaking process.

Therefore, it becomes imperative to consider integrating more variables, posed as sense-breaking and sense-giving questions, into our risk management strategy. These

Sensemaking approach

Broadening the scope of your risk management approach can significantly aid in achieving a more nuanced understanding of project risks, though it is important to acknowledge that sensemaking of risk may never be entirely comprehensive. The ultimate benchmark for any risk management strategy lies in its ability to define a practical and enduring set of sensemaking frames of risk, one that remains relevant and applicable throughout the entire lifespan of a project.

The essence of effective risk management is not just

consultations to understand their sensemaking frames on potential risks and mitigation strategies, thereby ensuring that the risk management process is aligned with the expectations and concerns of all involved parties.

Additionally, developing a culture of continuous learning within the project team can enhance the effectiveness of your risk management. Encouraging team members to share their experiences, insights and lessons learnt from dealing with risks can foster a more informed and proactive approach to future risk management.

> **The ultimate benchmark for any risk management strategy lies in its ability to define a practical and enduring set of sensemaking frames of risk**

additional questions should aim to provide a more holistic understanding of the project landscape, taking into account factors that go beyond the standard metrics. For instance, questions addressing the inherent ambiguity of information, the proximity of risks to critical project milestones, the urgency of response required and the ability to recover from materialised risk can offer deeper insights. Including these dimensions can enhance our ability to make comprehensive and informed decisions, allowing us to better anticipate and navigate the myriad uncertainties inherent in project management.

By expanding our toolkit of risk assessment variables, we can evolve our risk management practices to be more reflective of the complex, dynamic and often unpredictable nature of projects. This enhanced approach not only improves our ability to manage risks more effectively but also empowers us to lead our projects with greater confidence, agility and resilience in the face of uncertainty.

about assessing risks based on probability and impact; it is about evolving and adapting your approach to meet the changing demands of the project environment. This involves integrating additional sensemaking processes that add depth and context to your risk management strategy. For instance, considering the ambiguity of information can provide insights into the reliability and clarity of the data at hand. Assessing the proximity of potential risks to critical project milestones can help in prioritising and strategising responses. Evaluating the urgency of risks enables a more timely and appropriate response, while understanding the controllability of different factors can guide decision-making towards more feasible and impactful actions.

Moreover, incorporating a sensemaking approach that values stakeholder perspectives and insights can lead to a more collaborative and inclusive risk management process. This could involve regular stakeholder

To make your project management more meaningful and effective, it is crucial to make sense of risks beyond the traditional metrics of probability and impact. Integrating additional sensemaking processes and questions, prioritising stakeholder engagement and fostering a culture of continuous learning can provide a more holistic and effective approach to managing project risks. This expanded perspective not only aids in navigating the complexities of project management but also ensures that your risk management strategies stand the test of time and remain relevant throughout the project's lifecycle.

Elmar Kutsch is associate professor in risk management at the School of Management, Cranfield University. His most recent book is published by Routledge: *Organisational resilience: navigating paradoxical tensions.*

Integrating sustainability

BY IAN DAVIES, STEVE FOWLER AND MARK BOULT

New guidance aims to help risk managers bring together their risk and sustainability efforts

Only a few months ago, the general consensus was that the world would all be driving battery electric vehicles (EVs) in only a few years' time and that petrol and diesel would be consigned to history. How quickly things change. There is now an increasing realisation that EVs aren't as green as had previously been assumed, particularly when today's power generation systems and the environmental cost of recycling older vehicles are concerned. These factors, coupled with the higher construction cost of EVs, poor public charging infrastructures and better understanding of alternatives such as synthetic petrol vehicles, are all combining to change the playing field.

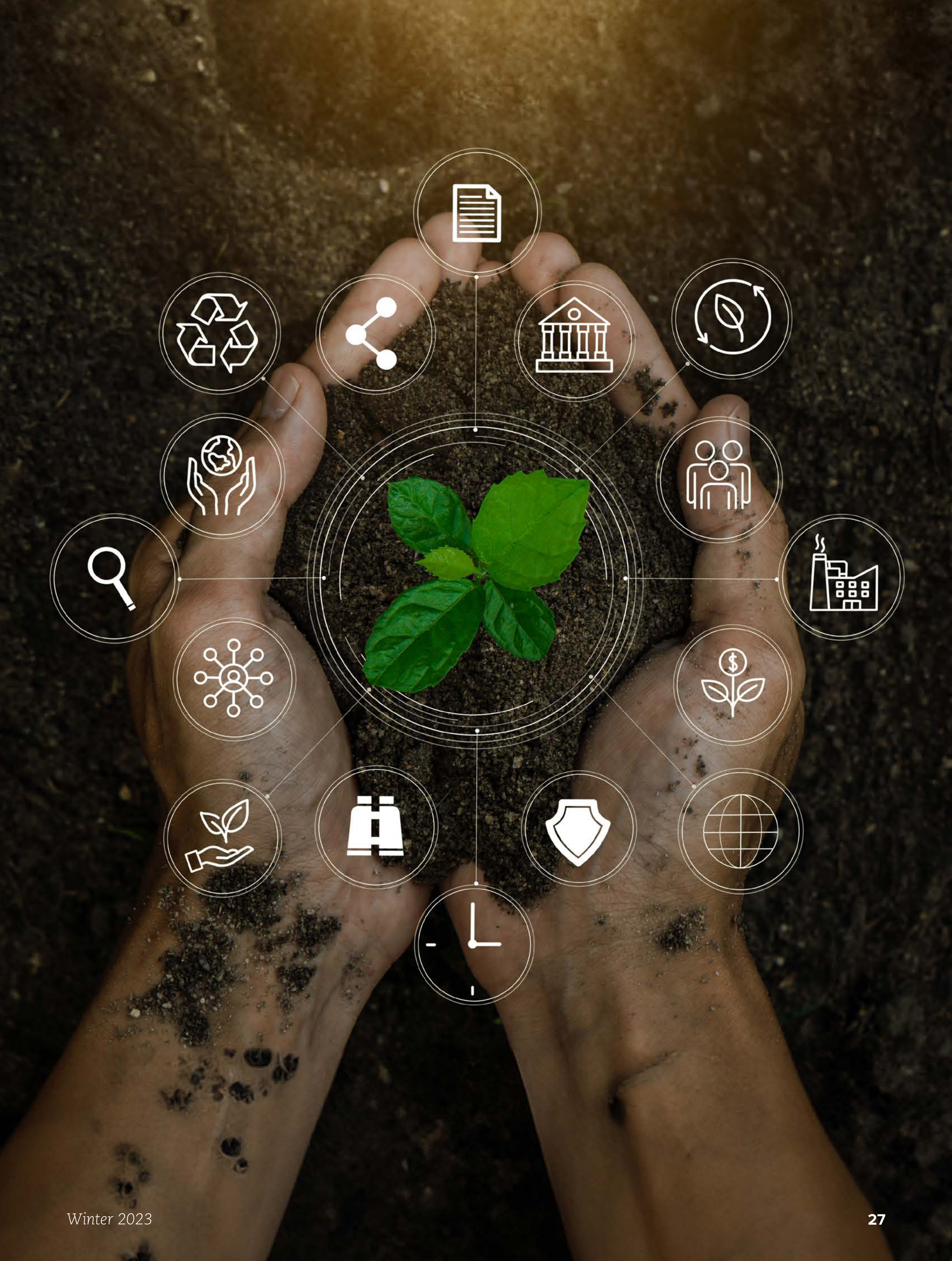
People like simple solutions, but the picture is often more complex. What looks to be the best way forward will change as we learn from our experience and research. Good risk management involves continually understanding what is happening today, challenging what we are doing and keeping our eyes open and looking into the future. For risk managers this makes us think about such things as understanding our context and environment, reassessing risks, identifying emerging risks, scenario planning and horizon scanning.

Risk and sustainability

Sustainability should always be looked at on a long-term basis, taking into account all factors of a system, organisation or indeed a vehicle, to be properly understood. Short-term fixes or taking a narrow view of a system or product will rarely give the right longer-term result.

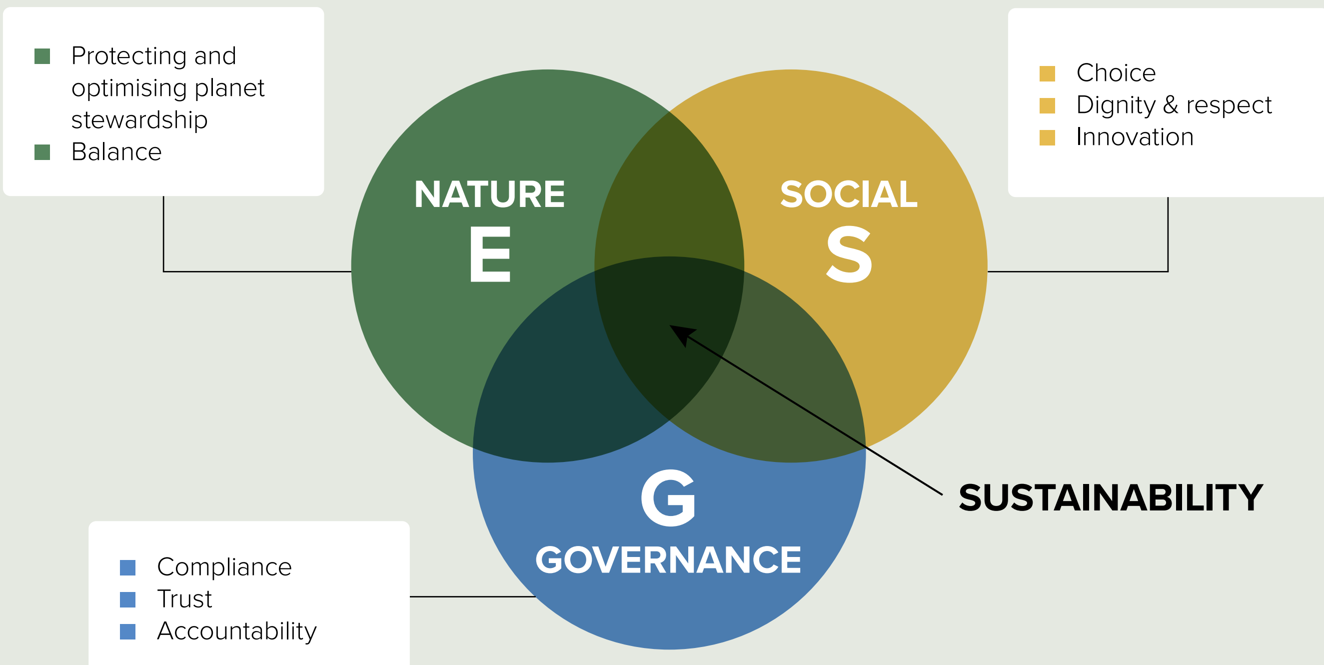
This is no different to the

> **Good risk management involves continually understanding what is happening today, challenging what we are doing and keeping our eyes open and looking into the future**



> **“Risk and sustainability is a new set of guidance principles for organisations covering how to use structured risk management frameworks and processes to achieve sustainability goals**

ESG



Source: Adapted from Gordon, S (2022) and Jeroen Kraaijenbrink (2019).

approach that organisations take when following an enterprise-wide (or ERM) approach to risk management. Organisations should consider the long term as well as today’s pressures, together with both opportunities as well as threats, and take into account all areas of an operation as well as its impact on all key stakeholders, rather than just owners or shareholders. Indeed, evidence is emerging that those who take a longer-term, more sustainable strategy are more successful.

Risk and sustainability is a new set of guidance principles for organisations covering how to use structured risk management frameworks and processes to achieve sustainability goals. It has been developed by Continuity Forum working together with members of the British Standards Institute’s committee for risk management standards following consultation with over 800 people drawn from both the risk management and sustainability sectors. The guidance explains how to apply risk management principles to set and achieve practical sustainability goals. It demonstrates how any organisation, irrespective of size, can use existing systems and processes to address such issues – without adding unnecessary complexity or cost (See *Risk and sustainability key points*).

Successful business

What does it mean to be a successful business today? The answer in the past was good and consistent returns to today’s shareholders. Over the last 20 years, a different understanding has emerged: success means meeting the needs of all current and future stakeholders, including investors, employees, customers, suppliers and society. The fundamental question asked of business leaders has changed in recent years from “How much money do you make?” to “How do you make that money?” The expectation of stakeholders today is that organisations commit to moral and social principles and deliver on them.

In addition to committing to these principles, organisations today must also have clarity of purpose and demonstrate their sustainability credentials. In fact, sustainability is not a new expression – its origins are in the 1987 United Nations Brundtland

Image credit: Ricardo Gomez Angel / Unsplash.com

> **Effective risk management takes a holistic approach that is grounded in an organisation's core purpose, strategy and decision-making**

RISK AND SUSTAINABILITY KEY POINTS

- The world is facing profound challenges. Organisations need to adapt to these challenges and seize new opportunities. Risk management has an absolutely critical role in this.
- Success today means meeting the needs of all stakeholders, including investors, employees, customers, suppliers and society.
- Organisations can immediately apply risk management principles and processes to improve the effectiveness of their sustainability efforts and accelerate positive change.
- Organisations today are expected to commit to moral and social principles, have clarity of purpose and be able to demonstrate their sustainability credentials.
- Sustainability pays. There is evidence that businesses that take a longer-term, more sustainable strategy are more successful.
- Sustainability reporting should be accurate, honest and transparent, and go beyond legal compliance to create positive value.
- Good risk management practice has a lot in common with the needs of sustainability strategy: looking beyond the short-term to longer-term challenges, thinking beyond threats to opportunities and considering how individual risks interact.
- The global risk management standard ISO 31000:2018 provides a template for success.

Commission report Our Common Future. There, sustainability is defined as "meeting the needs of the present without compromising the ability of future generations to meet their own needs".

This definition is used throughout the guidance. It covers a broad view and embraces the UN's own Sustainable Development Goals and other commonly used terms, including ESG.

Addressing sustainability does not need to place an additional burden on your organisation's existing systems and processes. Properly designed and implemented risk management can be leveraged to define and achieve sustainability targets, without added systems or bureaucracy.

Holistic approach

Effective risk management takes a holistic approach that is grounded in an organisation's core purpose, strategy and decision-making and considers not just short-term perspectives, but also value over the longer term. It also recognises that risk can present significant opportunities as well as threats. It applies across the enterprise, top to bottom, inwards and outwards, and considers both past experiences and future trends.

Due to their nature and characteristics, sustainability risks may differ from other types of risk you may have historically focused on (see *Sustainability issues and risks*). Investing time and money in solutions where the benefits may be intangible or only realised

Image credit: Appolinary Kalashnikova / Unsplash.com

SUSTAINABILITY ISSUES AND RISKS

- May be **intangible** and have a **strong moral and social element**, both of which need to be considered.
- Are **very broad**, as illustrated by the UN having 17 very different Sustainable Development Goals.
- **May appear suddenly**, because:
  - Their importance is **heightened** by media, political or social **agendas**.
  - Their impact is **unexpected** and identified late or by chance.
  - Initially they are **immaterial**, but over time they become material as their origin grows (e.g. new technology).
- May be global in their consequence requiring an aligned approach to mitigation across organisations.
- Require operational changes, for example, different raw materials or sources.
- Are potentially already identified in existing decisions but not explicitly valued.
- May have long time horizons (e.g. climate-related risks).

> **Balancing the benefits for and impacts on different areas of sustainability such as climate, water, poverty and equality is a challenge**

over the long term can make justifying investment challenging. However, telling the story while being transparent and reporting progress can positively impact your organisation's reputation and hence performance.

The guidance is designed to help organisations integrating risk management and sustainability in five key areas. First, sustainability efforts should align with your organisation's purpose and vision. You will also need to look as far into the future as possible. Many sustainability risks will take years to evolve. As a risk manager, helping your organisation to set a sustainable direction, with appropriate objectives, will help it to more naturally align its systems, activities and culture to deliver sustainable success.

Second, risk managers must determine where to focus actions and efforts. As risk professionals know all too well, risks are wide ranging and interrelated. This is also true for sustainability risk, as illustrated by the 17 sustainability areas identified by the UN and the World Economic Forum's Global Risk Reports. To be effective, as in risk management, you need to focus efforts on where they are most needed and will be most effective. You can follow the risk process and draw on

identification, assessment and prioritisation methods applied in risk and sustainability. These will help ensure a good understanding of the context, identify the sustainability impacts and risks for your organisation. You should also consider your organisations extended enterprise, and then assess and evaluate them to determine which material areas to focus on, i.e. the areas where efforts to be more sustainable are needed.

Decision-making

Third, risk managers should build sustainability aspects into their risk decision-making tools. Balancing the benefits for and impacts on different areas of sustainability such as climate, water, poverty and equality is a challenge. The guidance does not prescribe which tools to use, but gives tips on how to adapt your traditional risk management toolkit to help negotiate the pitfalls when balancing competing sustainability risks.

Fourth, the guidance aims to help assess which issues need immediate action and which need to address root causes over a longer time span. And fifth, the guidance ends with the topic of communication and the potential value and dangers associated with sustainability reporting. It should be noted that compulsory reporting of sustainability issues is changing rapidly in both scope and the organisations which are required to report. There are numerous examples of companies which have harmed their reputations or financial stability by either deliberately or mistakenly making misleading statements regarding their "green" credentials. Get it right, however, and it can be a great advantage to your organisation both in financial terms and intangibles such as employee attraction, retention and morale. Risk managers should support their organisations to manage these risks both in terms of opportunities and threats.

These key focus areas should help risk managers to leverage their risk management systems and processes, tools and expertise to enable organisations to be more sustainable, to realise opportunities and minimise threats – and to realise and protect value for all your current and future stakeholders. ER

Ian Davies, Steve Fowler (CFIRM) and Mark Boult (CFIRM), all members of the team who undertook the research and writing of the guidance.

DOWNLOADS

The Risk and Sustainability 2023 documents suite can be accessed free of charge using the QR code below, or by visiting: https://simplebooklet.com/risksustainability2023

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Raising the bar

BY GARY LYNAM

The FCA's new Consumer Duty aims to raise protection for customers and presents an opportunity for firms to harness the power of AI to help them comply

The financial sector has long been associated with a complex array of rules and regulations aiming to protect both consumers and the industry itself. However, these measures have frequently been reactive, designed and implemented in the aftermath of a crisis or scandal. In the latest move designed to raise standards and protect consumers, the introduction of the Consumer Duty standard by the Financial Conduct Authority marks a new and highly proactive approach, prompting the sector to prioritise consumer interests.

There can be no doubt that the FCA intends to make Consumer Duty achieve the objectives set out for it. Recent analysis published by the FT, for example, suggests that it represents "a big change in how they regulate" and that "those still hoping that the duty is … a box-ticking exercise have been put on notice." Against this backdrop, however, these changes and the advantages offered by new technology mean the Duty is likely to positively alter the market dynamic, benefiting organisations who are savvy enough to adapt quickly.

In practical terms, the FCA has the power to impose significant financial penalties on firms that breach Consumer Duty, with the level of fine varying according to the severity of the breach. On its first day, for instance, the FCA issued 146 alerts about crypto asset promotions and a 14-point action plan to ensure banks and building societies are passing on interest rate rises to savers appropriately. Those banks that cannot demonstrate fair value by the end of 2023 face "robust action". The industry should expect to see significantly more enforcement action from the FCA in the months and years ahead.

Understanding Consumer Duty

The Consumer Duty regulations, which came into force on July 31 this year, mandates financial services companies to uphold transparency and accountability when offering their products and services to the public. The initiative stems from years of corporate malpractices, with the PPI scandal being one of the most high-profile examples seen in recent decades.

Instead of a conventional tick-box approach to compliance, Consumer Duty adopts a proactive, consumer-centric model. As explained by the FCA in its public announcement, "The Consumer Duty will lead to a major shift in financial services and will promote competition and growth based on high standards. As the Duty raises the bar for the firms we regulate, it will prevent some harm from happening and will make it easier for us to act quickly and assertively when we spot new problems."

> **The FCA has the power to impose significant financial penalties on firms that breach Consumer Duty**

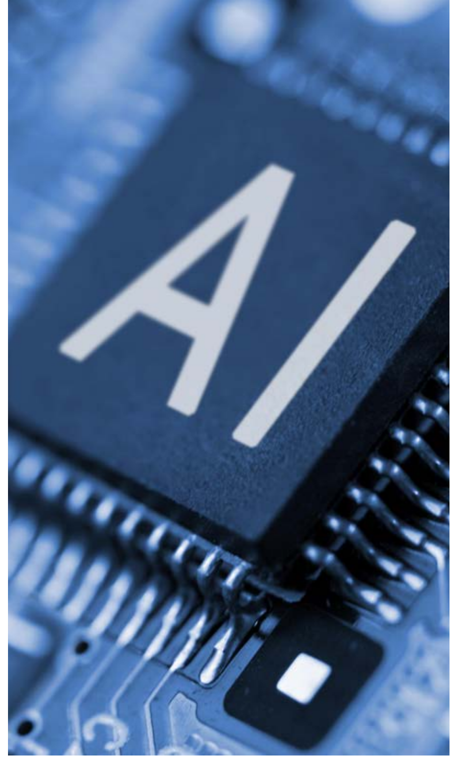
AI to the rescue

AI can help organisations with the outcomes financial organisations must now meet in four key areas: communications, products and services, customer service, and price and value. It can do so

FIVE KEY TAKEAWAYS

1. The Consumer Duty regulations promote a proactive, consumer-centric approach, requiring financial services organisations to prioritise customer interests.
2. AI's role in ensuring compliance with this framework is invaluable, offering swift detection and resolution of non-compliant areas.
3. For successful AI integration, compliance managers must ensure quality data input, clear product suitability processes, effective training and real-time alert mechanisms.
4. The introduction of AI in compliance necessitates a shift in skillsets, emphasising efficiency, process and technological capabilities.
5. Balancing profitability and regulatory compliance is a major challenge. AI will be pivotal in ensuring the right balance by bringing a mix of speed, accuracy and objectivity.

“Instead of a conventional tick-box approach to compliance, Consumer Duty adopts a proactive, consumer-centric model



by providing better real-time analysis of data, improving objective decision-making and enhancing risk management.

By continuously monitoring all communications, for example – be they advertisements, product disclosures or direct customer interactions – AI can quickly spot non-compliant information or the potential for misunderstandings. Imagine a scenario where a financial advertisement is being prepared for public release – AI can analyse the content against predefined regulatory guidelines and instantly notify risk managers of any discrepancies.

Furthermore, with AI's objective decision-making capabilities, potential biases or non-neutral language can be detected and corrected, ensuring unbiased, clear and effective communication. In a sector where miscommunication can have serious consequences, AI can add an additional layer of vigilance, safeguarding both the organisation and its customers.

Predictive algorithms can also anticipate communication-based risks, allowing for proactive measures to be added to risk processes rather than reacting to customer complaints, as is often the case with current approaches. By processing large volumes of messaging data, subtle issues around tone, framing or selectivity in the information provided can also be identified.

In communications, AI can help ensure marketing and customer communications are transparent, clear and not misleading. With access to up-to-date customer data, AI systems can analyse in real time to detect potential mismatches between messaging and a consumer's situation. For example, inappropriate product recommendations or incomplete information could be flagged before messages are sent out.

Overall, AI brings speed, accuracy and objectivity to the analysis of communications. The goal should be to provide customers with transparent information to make informed decisions while avoiding unfair pressure or exploitation.

Products and services

For organisations focused on the impact of Consumer Duty on their product and service strategy, AI is likely to deliver significant insight and impact. For example, the use of real-time analysis can help ensure that products align with market needs, whereby the launch of an investment product, for instance, can be supported by AI-based analysis of its suitability for different consumer segments based on current market conditions.

In addition, applying objective decision-making means that product recommendations are devoid of human biases, while AI algorithms can match consumers with the most suitable financial products based on their profile, needs and financial aspirations, helping to boost satisfaction.

In broader terms, AI can also streamline the wider product and service risk management process. By continually monitoring product performance and customer feedback, AI can identify potential areas of risk, allowing for swift remediation. If a specific financial product is underperforming or causing customer grievances, AI can flag this, ensuring that the product is re-evaluated or modified accordingly.

Customer service

Across the financial sector, customer service is an area that remains under continual scrutiny, but where can AI be applied to maximise quality and efficiency? One key area is the way customer queries and grievances are addressed, with more advanced and effective AI-powered chatbots providing more accurate and effective responses to common queries, ensuring the 24/7 customer support this technology has often failed to deliver.

Added to this is AI's capacity to implement objective decision-making. If a customer raises a grievance, AI can assess the situation impartially, ensuring that the resolution is fair and in line with the company's policies. This eliminates any potential human biases or emotions that could sway existing decision-making process.

Moreover, AI's improved risk management means that customer service departments can anticipate possible issues. Predictive algorithms can foresee spikes in customer queries or potential areas of contention, allowing teams to be better prepared and resourced, ensuring consistent and high-quality service.

> **In a sector where miscommunication can have serious consequences, AI can add an additional layer of vigilance, safeguarding both the organisation and its customers**

CONSUMER DUTY

Consumer Duty revolves around four outcomes that financial services organisations must adhere to:

1. Communications: Use clear and concise language, tested via market research and quality controlled by organisations, such as the Plain English Campaign.
2. Products and Services: Identify what each is designed to deliver, and deploy a solution to automatically track, monitor and analyse performance, with red flags to enable a proactive response.
3. Customer Service: Make sure it is easy and user-friendly to communicate with customers and measure engagement across multiple channels. For example, is the use of chatbots a help or a hindrance?
4. Price and Value: Perform a fair value assessment against the competition, highlighting tangible benefits compared to other products.

Price and value

In the context of financial services, pricing can be a highly nuanced process, but AI has the potential to offer some significant advantages. Through real-time market analysis, for instance, AI ensures that product pricing remains competitive, providing genuine value to customers. If there's a shift in the market landscape, AI can adjust product prices dynamically, ensuring they align with current market value.

AI's objective decision-making can also play a role here by ensuring that pricing strategies are not influenced by external pressures or internal biases. Instead, prices can be set based on empirical data, ensuring fairness and value.

Finally, AI's enhanced risk management capabilities safeguard organisations from potential pricing-related regulatory pitfalls. If, for instance, a pricing strategy is inadvertently skewed against a particular demographic, AI can detect this discrepancy and alert risk managers, ensuring corrective measures are taken promptly and without the need for regulatory enforcement action and the associated issues of reputational damage and financial impact.

Blending technology and strategy

As the industry moves towards an AI-augmented landscape, there's a key question that must be addressed: what does this mean for today's risk managers?

In an ideal world, the future risk professional will demonstrate a strong blend of tech-savvy capabilities and strategic foresight. While AI will be a tool in their arsenal, the true value will come from interpreting AI's insights and aligning them with the company's broader vision.

This transition means that compliance and risk managers will have to continuously upskill and understand the nuances of AI and its implications. They need to ensure that while leveraging technology, the human touch in decision-making is not lost. In addition, as businesses come to increasingly rely on AI, maintaining trust becomes paramount, while internally, teams need to be confident in the AI's outputs. Externally, consumers must trust that they are receiving fair and unbiased service.

In the event of discrepancies being identified, swift action and transparent communication will be essential. Any erosion in trust can have lasting repercussions, underscoring the importance of maintaining integrity in processes. In this context, risk and compliance managers should not be afraid of the potential impact of AI on their future roles; they should be reassured that their skills and experience will be more essential than ever.

The future landscape

The integration of AI in regulatory compliance signifies more than just a technological shift. It heralds a transformation in the skills required for risk managers, emphasising efficiency and process over conventional methods.

Furthermore, the dual challenge of ensuring profitability while adhering to regulations requires a delicate balance. While risk managers focus on the risk/reward trade-offs, compliance delves into the permissible boundaries. In both areas, AI will be a game-changer and – used effectively – will enable compliance and risk managers to deliver the best of both worlds: balancing the needs of consumers protected by Consumer Duty with maximising organisational and business performance. ER

Gary Lynam is managing director, EMEA at Protecht.

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+44 (0) 20 3978 1360

info@protechtgroup.com

www.protechtgroup.com

77 New Cavendish Street
The Harley Building
London W1W 6XB
United Kingdom

I-Risk manager

The jobs of white-collar workers are most at risk from AI, according to a new government report

While risk managers are not specifically mentioned in the UK government's most recent report on AI and jobs, there is plenty of cause for concern. It is the first time the impact of large language models (LLMs) has been included in such a government survey, and the message is clear – white-collar workers will be heavily impacted.

"The list of occupations most exposed to large language modelling includes many of the same occupations exposed to AI more generally," the report concludes, "with both lists including solicitors, psychologists and management consultants and business analysts." Let us say for argument's sake that risk managers fall under the category of "business-related associate professionals" – they are in the top ten of jobs under threat from AI (but not LLMs specifically).

Communication is key

Short of becoming an elite sports player, or a forklift truck driver, risk managers may have to redefine what their jobs mean. Over the past few years, this trend has been taking place anyway if numerous interviews in this magazine are a reasonable prediction of the direction of travel for the profession.

Today, many chief risk officers and heads of risk see communication skills and

interpersonal relationships as the most important attributes for many senior risk managers. First, a great deal of data crunching and analysis is automated or is in the process of becoming so. While machines are prone to error, the quantity of data they can process at speed cannot be matched by humans. But, second and more importantly, no amount of quantitative analysis can persuade a division manager or a board to take good, risk-informed decisions. Only a person can do that.

Wide-ranging consequences

Small teams of personable, risk experts supported by AI are likely to become the norm – but with consequences. First, where will those senior people come from when there are few junior staff coming through the ranks? Even if they are co-opted from the business, which happens today, responding to new threats and opportunities will be difficult without an experienced risk team.

Second, as new, more sophisticated approaches to risk develop, the underlying conceptual framework that risk software relies on will need to be changed. Programmers will do the physical work, but who will do the conceptual work on risk in the first place? Will only those risks that can be accurately quantified make their way onto the board agenda – and at what cost?

The risk profession could become hollowed out. More broadly, mass unemployment among white-collar workers will strip much of the spending power out of our consumer-oriented societies. That could be a huge risk for companies aiming to serve consumers in non-essential commodities – there will be fewer consumers and many of the ones that survive will be lower-paid workers: roofers, tilers, and those in "elementary construction occupations," according to the report.

Paying people to do nothing is unlikely to solve the problem – something that has been called a basic income guarantee. Not because it will create a "nation of slackers" – there will be little work anyway, so slacking will be normal – but because no government would want to be the first to do so as the impact on immigration would be intense.

In fact, the risk of AI to the profession itself cannot be worked out by machines – but is a pressing question that demands an answer soon.


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