BIIA NEWSLETTER

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Insights on Risk Management

The Rise of Uncertainty Drives Changes in the Role of Risk Management

BIIA's editor-in-chief has recently met with **Steven R. Culp, Senior Management Director of Accenture Financial & Risk Services** to discuss the findings of the Accenture's Global Risk Management Study 2013.

The most significant message from this study is that the role of risk management is rapidly changing. This will have implications for suppliers of risk management tools and solutions. According to the study 98% of firms surveyed give a higher priority to risk management now than they did two years ago, and that 81% of risk managers discuss risk regularly with their company's board of directors. At one time, risk management in many companies could be described as "the department that says no". Today one could characterize risk management more as "the department that enables execution". BIIA has observed this trend for some time where risk management works hand-in-hand with sales. Many companies appear to organize around customers (being customer centric) focusing on profitability and knowing every aspect of the business and supply chain that impacts the end-user.

How does Accenture see risk management changing?

1. There appears much more connectivity with - and from - the top. The proportion of surveyed organizations having a CRO (Credit Risk Officer), with or without that formal title, has risen from 78% in 2011 to a near-universal 96% in 2013.
2. Accenture sees risk management as being much more integrated and connected, playing a much larger role in decision – making across the organization – particularly in budgeting, investment / divestment, and strategy.
3. Companies see risk management as enabling growth and innovation. In order to survive – and to grow – every company should strive to innovate and move its business forward. Simply pushing forward without understanding and mitigating the risks ahead could ultimately lead to disaster in some form.

There are challenges for the risk function:

1. One of the central issues is the availability of talent. There is not enough overall talent, and the existing risk team often may lack many of the softer skills needed for effectiveness in roles which are closer to the business and strategy execution. 2013 research has also revealed that both risk technologies and regulatory change program managers are reported to be in short supply.
2. Research participants also cite the challenge of improving the ability to turn data into insights. The volume of data is ever-increasing, as is the number of systems, reporting tools and end-user-applications.
3. For those in the consumer credit field the regulatory concerns were, of course, high on the list of challenges. Responding organizations seem to have, in general, improved their compliance management effectiveness but continue to be challenged by the pace and scale of regulatory change.

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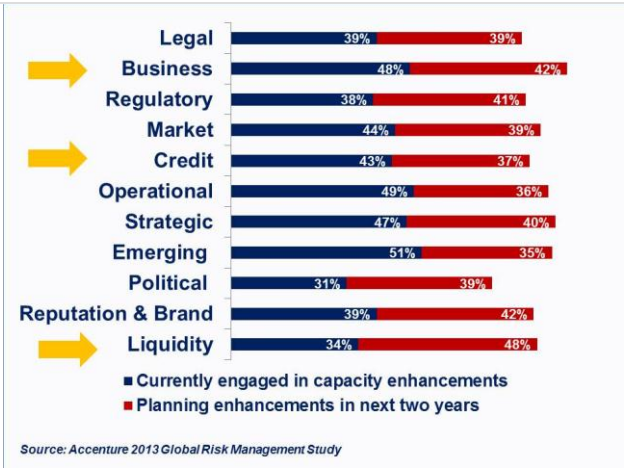
What are Risk Managers worried about?

Steve Culp stated: "… the risk factors covered in the Accenture survey are expected to increase over the next two years. Those who thought they had space to catch a breath, are likely to be disappointed". You can largely blame regulatory pressures, but as economic uncertainties in global markets persist, it raises business risk (chart risk factors). Nevertheless there is a gap between accomplishments and catch-up: Companies who are engaged in risk capabilities have been largely forced by regulation (based on industry specific pressures). The laggards are being coerced by external and internal pressures (regulatory, dependency on large clients and geographic location of businesses, supply chain issues etc.) evidenced by their focus on business and strategic risks.



Risk Masters: What sets them apart?

Culp defines "Risk Masters" as organizations with highly developed risk capabilities: "Risk Masters include risk considerations in the decision-making process across strategy, capital planning and performance management. They also integrate their risk organizations into operations, establishing risk policies based on their organization's appetite for risk!" **Risk Masters:**

1. Are more likely to have a CRO in charge of risk management
2. Have more board involvement (rank higher on the management hierarchy than before)
3. Face fewer impediments to the overall effectiveness of their risk management functions
4. Have a more integrated risk management function that plays an elevated role
5. Are more focused on strategic and emerging risk
6. Are better at recruiting, retaining, and training staff
7. **Are ahead of the curve in using Big Data and analytics**

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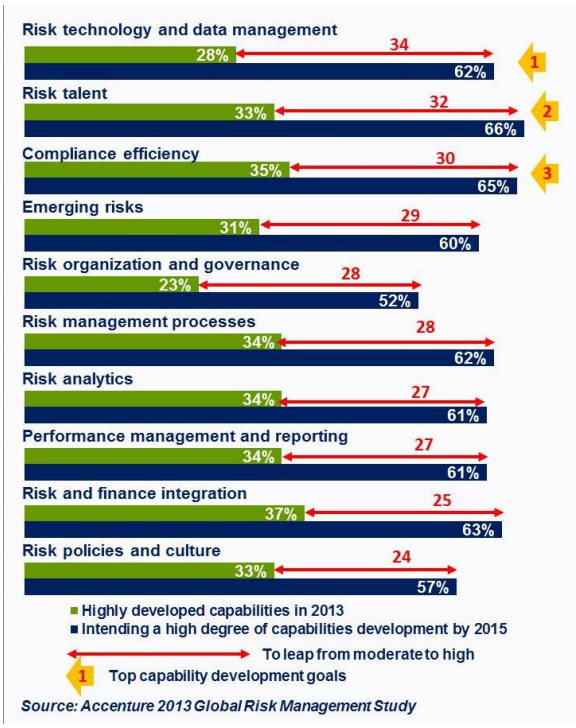

Where are the gaps? Unsurprisingly the most developed areas of risk capabilities today are risk and finance integration, and compliance efficiency. The least developed area is risk organization and governance, where only 23% of respondents consider themselves advanced.

Noteworthy are the gaps in risk technology and data management, risk talent followed by compliance efficiency. For those respondents who wish to improve their capabilities risk technology and data management ranked first (52% of respondents). Risk talent (51%) and risk analytics (50%).

Accenture identified a number of obstacles retarding progress:

In the area of risk analytics: Lack of skilled staff (50%), difficulties in imbedding risk analytics in management processes (44%) and outdated legacy systems (44%).

Talent shortage in risk management: Shortage of skilled personnel (54%), weakness in recruiting strategy (50%), insufficient training programs (50%), weakness in retention strategy or programs (41%) and high compensation (38%).

Four Things to Do Differently:

Steven Culp believes that many organizations have made great strides in developing risk management functions, but others have been left behind. Nearly all surveyed firms give a higher priority to risk management now than two years ago, but there is still much room for improvement. He recommends four things to do:

1. **Treat risk as a "people game" developing risk staff with business acumen** – risk staff must have a deep understanding of the broader business
2. **Look ahead, as new types of risks are relentless**, and develop capabilities that match tomorrow's risks. Risk capabilities must be in concert with business development plans and should be leading, rather than lagging
3. **Manage regulations through a transformational lens**. Many industries are being forced to rethink their business models, processes and data structures to better enable effective regulatory solutions.
4. **Focus on insight, not just data and analytics, and develop the "human element" of risk technology**. It is important not to miss the forest for the trees: technology, data and analytics can only have value if their insight can be put into action.

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Implications for Credit Risk Management Solutions Providers:

The study provides good insights into how risk management is expected to develop. The study is based on risk management strategies of large corporations, such as banking, capital markets, energy, healthcare, insurance, utilities etc. It is already the playing field for large information solutions providers such as Experian, Equifax, TransUnion, FICO, D&B and many others providing analytics, software tools, platforms, not to forget content. Nevertheless the evolution of new risk management practices will not stop with large corporations. Such practices will migrate to other sectors and in particular to mid-size companies, which face similar risk management challenges as their larger peers.

The talent shortage reverberates throughout the study: The **talent shortage in risk management** will hit smaller firms harder than larger ones. As the competition over talents heats up, compensation rises and smaller companies will struggle in managing their credit risk. In hindsight one could say the talent shortage was 'man made' as companies appear to have only recently recognized the value of credit risk management as a strategic asset in managing both liquidity and growth. Trade credit risk managers in particular ranked low in a company's management hierarchy. Credit manager may rejoice by the prospects of moving up in the organizational hierarchy with increased responsibilities and compensation. Perhaps training institutions will move into the void in turning out more talent. In the meantime the cost of the human element in risk management will rise and companies most likely will offset the higher compensation expenses with lower cost information solutions. Information providers with the most cost effective risk management solutions may benefit from this development.

Smaller companies, who find it hard to attract credit management talent, may have to turn to providers of tools in credit assessment and accounts receivables management or outsource these functions. Some may seek refuge in credit insurance by laying off credit risk entirely and relying on the judgment of credit insurance decision systems and underwriters. BIIA's member Tinubu Square is an excellent example of how risk management platforms relying on alternative data sources and underwriter's assessment can serve as an effective outsourcing mechanism for credit management.

The other talent shortage relates to analytics: Corporations with large risk management processes and information solutions providers will be competing for such scarce resources. The latter should watch out not to be left behind in recruitment and retention. Compensation will rise and with it the relative position within a corporation. Since analytics are becoming an essential component in risk assessment, the shortage in data scientists will compound the problem of the overall talent shortage in risk management.

Focus on Insights: The aim to improve risk data and technology is the most frequently reported capability goal by survey respondents. As Steve Culp points out in his conclusions: "Data quality is fundamental to the successful operation of a modern risk management function" – "Obstacles such as data quality must be overcome". Such statements must be music to the ears of information providers, especially for those who follow the maxim: data is not information and information is not knowledge.

Source: Steve Culp, Accenture interviewed by Joachim C Bartels Editor-in-Chief and Managing Director of BIIA

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