Risk Convergence: Myth or Reality?

Emma Price, Director, Risk Advisory, Strategic Thought Group

Risk convergence is the process of integrating different risk functions to streamline risk management. Bringing all risk and opportunity information together means better informed strategic decision-making. But how close are we to the meeting the goal of risk convergence?

The reality of the past
In recent years risk management, regulatory and compliance requirements have become increasingly complex and intrusive. This has resulted in the growth of an ad-hoc approach to risk management. Multiple 'risk silos' have evolved resulting in:

- Senior management receiving multiple risk reports which do not provide an enterprise view of risk and opportunity.
- Multiple requests for similar risk information from different risk functions and for different purposes (Internal Audit, Risk, Compliance, HSE) resulting in 'risk fatigue'.
- Risk management is seen as being handled by 'someone else' not as an integral part of everyone’s job.
- Risk data is being stored in multiple places and in different formats eg complex spreadsheets, online and paper documents, databases, in-house and third party specialist risk software. Resulting in information falling through the cracks and decision makers missing the big picture.

Now is the time to take an enterprise approach to risk
The rising costs, lack of visible returns and the exposure of the board caused by gaps in risk information, has seen an increasing need for a re-think on risk, this time with an enterprise approach from the outset.

A common risk framework and single risk management software system such as Active Risk Manager from Strategic Thought will make risk convergence much simpler to achieve.

What benefits will risk convergence deliver?
Converging risk management into an enterprise-wide framework will provide a platform to deliver the true picture of risk to the Board and offers scope for significant cost savings.

Other benefits which organisations have reported include:
- More complete, better quality risk management information is available more quickly to drive better decision making at all levels – with drill-down into underlying detail
- Clear, streamlined risk processes and procedures are both cost and time efficient
- All risk functions, committees and teams can be aligned and given clear mandates and scope
- Co-ordinated and effective use of human, financial and IT resources with reduced duplication of effort
- Risk management changes from being seen as a cost and a chore, to a strategic tool to improve business performance and increase certainty
- Enhanced engagement and ownership from business users who are less deterred by the perceived burden of their risk responsibilities
- Improved communication across risk functions allows sharing of best practice, identification of opportunities for enhancements/efficiencies and support for common risk objectives

Strategic risks in the context of corporate risks and strategies
The biggest gains from risk convergence will be seen when information collected bottom-up through the organisation is visible at senior management levels and can be reassessed in the context of corporate objectives and strategic risks identified by the board.

The ability to see the bigger picture allows the board to spot emerging risks which could have major impacts on business performance, corporate reputation and shareholder value. For example, risks rated as low impact or mitigated in a certain way at lower levels of the organisation can become business critical when seen in context of risks from other areas, clashing demands on scarce resources or set against strategic objectives. Taking the enterprise view will allow management to make informed strategic decisions.

Risk convergence can now be a reality when enabled by an enterprise-wide risk management system and process. Aiming for risk convergence in the right way will benefit every organisation and give the board more confidence that they are making the right decisions for the right reasons.

Ten proven steps to achieve risk convergence

1. Identify the business case for change prior to the start of the convergence project
2. Name an executive level sponsor to drive the convergence initiative
3. Communicate regularly and consult at all stages with key stakeholders
4. Set and communicate the risk appetite deemed appropriate for the business and do not underestimate the change management and training necessary to embed the resulting ‘risk culture’ which is required at all levels of the business
5. Develop a clear map to address overlaps and gaps in the mandates and scope of the existing risk functions and systems
6. Develop an organisation-wide risk and control process which includes a common risk language
7. Document revised governance processes
8. Establish a central repository where all risk information is stored with a common data structure
9. Establish a ‘community of practice’ to ensure effective communication with regards to risk to share lessons learned and best practice
10. Implement a process of continuous review and monitoring