The Future of Risk Management in an Uncertain World

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Risks present both challenges and opportunities. The taking of reasonable and calculated risks is at the heart of entrepreneurship—it is essential for innovation and progress. Innovation itself can be risky, but not innovating may be even more risky. Not taking risks can erode competitiveness and lead to stagnation.

Innovation and possible impacts are important areas for consideration. Indeed, some developments may have particular consequences for the risk and insurance management community. Big data and public information analysis may evolve to such as extent that so much will be known about what is likely to happen to particular individuals that the commercial justification and viability of the pooling of some risks may be questioned, limited or ended. On a more personal note, many repetitive and logic-based risk management tasks can be automated. The more routine, repetitive, structured and rule based activities of average or typical knowledge workers and risk management professionals will increasingly be replaced by automated and digital solutions, and expert systems.

Uncertainty is pervasive, from the unpredictability of political and economic events to the relentless pace of innovation, discovery and scientific advance, and from the impacts of disruptive technologies to the emergence of new business models and markets. We have come to expect the unexpected. We are no longer surprised by surprises. There are consequences for risk managers and risk management. Are our existing approaches still valid and up-to-date? Do risk management and governance practices need to be refined, or do they have to be re-invented? Are outdated models and practices the biggest risk of all?

Risk management approaches, practices and techniques need to reflect the inter-connected nature of contemporary corporations which are networks of relationships with customers, suppliers and business partners. Too often they stop at the boundaries of organisations rather than embrace the whole of such networks, which may only be as strong as their weakest elements.

Myths and Realities of Risk Management

Is the notion that we are managing risks a myth or a reality? Why does achievement lag so far behind aspiration? Where in our changing world is the innovation in our thinking about risk management and governance practice? Risk management professionals need to be realistic and, where appropriate and as requirements and circumstances change, accept the limitations of current risk management practices and recognize the dangers of using out-of-date approaches and models. They should aim to anticipate challenges and recognise failures and be prepared to handle them and more forward.

And what failures need to be recognized? Perhaps the continued focus on mitigating the risks we already know about rather than developing the awareness, resilience and flexibility to quickly identify, analyse and address new and unexpected risks as they arise. Rather than just focus on mitigating and avoiding some categories of risks, risk management professionals should devote more effort to being ready to capitalise on new opportunities. They should be objective and sceptical when assessing, critiquing and reporting upon the risks of their company's core business strategies and business models. In this and other areas they should give honest advice and counsel.

Furthermore, why do we still undertake annual reviews and report annually when changes occur more frequently? Why do we measure performance against objectives that were set when different market conditions, priorities, or even business models may have applied? As the nature and sources of risks change, processes, systems, business models, governance arrangements and risk management practices need to be flexible and adaptive as well as robust and resilient if they are to remain relevant, current and vital.

Board and Corporate Responses

Boards have also been slow to respond to changing contexts and new realities. How relevant are concepts such as vision, mission, values, goals, objectives and strategy in uncertain contexts in which disruptions abound? How useful are current expressions and contemporary practices in these areas?

Risk managers need to consider these questions and counsel boards on how they might best proceed. Are risk management professionals prepared to be accountable for the advice they give and their scanning, scrutiny and assessment of the risk environment? How objective, independent and effective are risk management professionals at critiquing and reporting upon the risks of their employer's core business strategies and business models?

Processes can become straight-jackets rather than motivating factors as requirements and priorities change and new possibilities become apparent. Practices such as monthly board meetings, corporate planning and annual reporting may create a drag on progress where change is relentless and intervals between reinventions dramatically shorten. Reports should be continually updated as events unfold, activities occur and risks are reassessed.

The risk management community should monitor trends, technological and other developments, and changing management and board priorities and practices, assess their impacts upon risk management practices and consider what they could do to help people and organisations to cope and adapt. Risk management professionals should be embedded within business units and actively support them rather than standing on the side lines, or cocooned in a distant head office.

Thirty years ago I enjoyed a stimulating visit to Xerox PARC, an "open innovation" research and development company in Palo Alto, California, with a distinguished reputation for its contributions to information technology and hardware systems. Even so, I left my role at Rank Xerox (a joint venture between the Xerox Corporation of the United States and the Rank Organisation of the United Kingdom). I felt the priority the company put upon top-down policy deployment, immediate objectives, meeting plan and compliance would undermine its strategy to move into integrated office systems. It did not surprise me when Xerox eventually outsourced its own systems. Prevailing corporate practices can represent a significant risk. Xerox celebrated quality awards for heritage activities rather than create a business model, capabilities and new ways of operating that would make the visions of the Xerox PARC community a reality. Past achievements in a different situation are no guarantee of future success.

The point is: top-down approaches can stifle creativity. The risk of unfulfilled potential and missed opportunities is especially high where there is inflexibility, limited challenge and a lack of freedom and diversity of thinking. Direction is about thinking as well as doing. Directors can play a key role in challenging traditional assumptions, conventional wisdom and prevailing practices. They are expected to exercise individual judgement and take a wider range of interests into account. They are accountable to stakeholders for avoiding self-interest, resisting vested interests and focusing on what is best for the companies on whose boards they serve. One of the surest ways of building trust and reducing strategic risk is to build an effective board of competent directors.

Risk management professionals should have, and impart to others, a balanced as opposed to a negative view of risk. As risk and return can often be related, the management of risk should include establishing or clarifying risk appetite and determining what level of risk is appropriate in a particular situation given aspirations, ambitions and the relevant risk appetite. They should also consider what they could do to increase the competence of directors, the effectiveness of boards and the standards of corporate governance.

Openness and Diversity

Xerox PARC recruited degree majors from disciplines that approached problems differently. Introducing them into research groups increased creativity. People should be encouraged to challenge the status quo. They should be supported and allowed to work, learn and collaborate in ways, and at times and places, that best allow them to give of their best and be creative and productive. People should be encouraged to be open about problems and to suggest solutions. They should be helped to learn from mistakes and failure and to build upon achievements. If particular constraints are necessary and desirable, their rationale needs to be understood. People should be rewarded for considering better ways of achieving their original purpose.

Risk management professionals need to ensure that what they do is understood. They should endeavour to operate in ways that add value and contribute to more effective decision making, such as different strategies, policies, processes and practices according to requirements, circumstances and possibilities. Risk managers who encourage standardisation and uniformity to reduce risk should consider the "lost opportunity" costs of such a policy.

Pro-active and Positive Approaches to Entrepreneurship, Creativity and Innovation

Business leaders need to discuss, consult and consider where creativity, innovation and entrepreneurship are most needed. What should they be applied to and for what purpose? What might their relevance, significance and value be for customers and prospects? Should they take a wider range of interests into account when deciding when, where and for whom to be creative, innovative and entrepreneurial?

For many companies to become more effective incubators of new ventures, corporate policies, rules, guidelines, standards, codes and compliance practices may need to change. Options, choices and possibilities are multiplying. As new business and economic models emerge, past strengths can become sources of weakness and vulnerability. Directors need to be alert to defensive responses and attempts to protect vested interests. The

possibility of such a response or interest may have been identified as a risk, but what is most helpful to directors is advice and support on how best to address them.

Risk management professionals, in turn, need to become more proactive and widen their perspective. They should be proactive rather than defensive, and able and willing to suggest solutions rather than just report problems. Their experience, expertise and understanding of risk should enable them to suggest alternatives and new courses of action. Risk management professionals should do more to encourage diversity, variety and contending ideas.

Risk management professionals also need to be prepared to innovate and explore. The risk management community must play its part in addressing future applications of disruptive technologies. For example, risk management professionals should take steps now to anticipate the risks associated with various adoptions of block-chain technology and consider possible next steps.

Risk Management as a Profession

Moving forward, risk management should be portrayed as a caring profession – concerned with protecting people as individuals and in their families, communities and organisations. Risk management professionals should be prepared to be accountable for the advice they give and their scanning, scrutiny and assessment of the risk environment. As professionals they should behave responsibly, fairly and with integrity. They should act to protect the interests of their employers, clients and the general public. If risk practitioners want risk management to be accepted as a recognised profession, they much accept and discharge the responsibilities this involves, for example to protect employers, clients and the public and not to be overly led and unduly influenced by their own self-interests.

Risk and its management should be an integral element of primary, secondary and tertiary education. It should have an important place in the business and public administration curricula, with particular attention given to the role of risk in decision making. It should also be an integral element of the preparation of the members of most if not all professions. In the face of unfolding events, professional qualifications - and even the shared experience of professionals when and where relevant - can quickly become out of date. Continuing professional development is required, along with real time updating in certain areas.

The Risk Management Community Can Make a Difference

The risk management community needs to be realistic in relation to its professional profile and influence at board level. It needs to develop members that have the breadth of experience and perspective to advise on the business and risk consequences of different corporate goals, objectives, policies, practices, priorities and strategies.

As professional advisors, the risk management community needs to become involved in public debates. Governments, societies and boards sometimes face difficult choices when protecting people from some risks can leave them open to other risks. Because risk impacts upon so many aspects of people's lives, the risk management community should contribute to public debates in areas in which it has expertise and standing in order to make a difference for the public good. The risk management community can develop and should discharge a representational role, not just in relation to the interests of risk management professionals themselves, but in other areas of public concern such as sustainability and risks associated with climate change.

Note

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