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Risk management: Back to basics

As the risk environment becomes more complex and fast paced, organisations are being challenged with managing new and rapidly changing risks.

Although risk may be presented in new forms, a fundamental aspect of successful risk management is to maintain and embed a simple and clear process which is consistently used and understood throughout the organisation.

Many people will be all too familiar with the risk management cycle, however, truly understanding it and embedding it into organisation's processes is vital.

Preparation

Before initiating the risk management cycle there are a number of key elements that organisations should have in place to support a robust risk process.

Templates

Having a template that is routinely used across services and departments ensures that there is consistency across the organisation.

It improves clarity, reduces complexity, and enables identification of cross cutting risks and interdependencies.

Establish the context

Managing threats in challenging environments means that teams need to ensure they are clear on what type of risk needs to be identified, recognising the current environment and context that they are operating in.

Understanding what risks are controlled by business-as-usual activity and what may need additional management will support effective risk identification.

Guidance

The scale and scope of risk will differ depending on the context of each team, however, providing additional information regarding the type and scale of risk encourages good practice.

This could include additional information in the risk matrix, risk categories and examples.

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Step one: Risk identification

Identifying the right risks is the first and often hardest step in the cycle. Teams which do not routinely and consciously have risk identification discussions or partake in identification activities often assume that the key risks are known and understood. The risk process outlined by the risk cycle ensures that risk-based decision making is embedded into the organisation.

Without a central place to record risk or opportunity to collectively discuss risk, people's experience, priorities and understanding of risk can vary.

For a team to successfully identify risk at any level in their organisation, the following steps should be taken:

- **Start with the team's goals and objectives** including corporate objectives, service plans and team targets, to understand what barriers may prevent the targets being achieved.
- **Set aside allocated time in team meetings to collectively review and discuss risk** so that it is not left until the end of year or quarter. This could include, for example, building time in one-to-one discussions.
- **Use risk frameworks and tools to aid discussions**. Some frequently used frameworks include SWOT, PESTLE (Fig. 1), and Risk Mapping.

Figure 1: PESTLE - A framework to ensure that all risks are identified and to reduce any gaps in identification.

Political
- Elections and Member roles
- Government changes

Economic
- Funding
- Grants
- Local growth
- Trade

Social
- Deprivation
- Health
- Resources
- Community support
- Social care

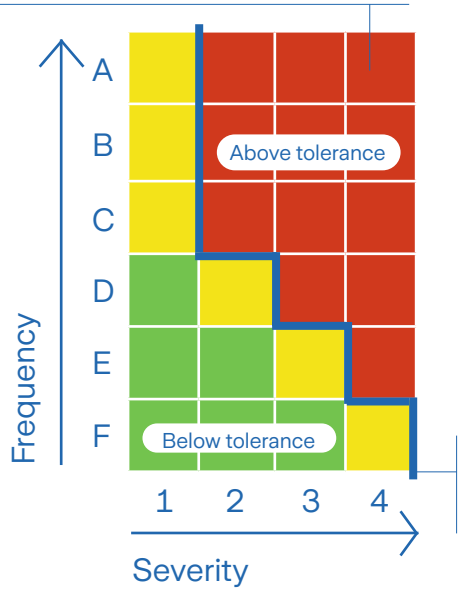
Technological
- Transformation
- Digital inequality
- Data migration
- Information governance
- Cyber

Environmental
- Climate Change
- Extreme weather
- Biodiversity

Legal
- Regulatory change
- Compliance
- Statutory duties

Figure 2: Risk matrix

The intolerable area is shown in red.
The tolerable area is shown by the yellow (known as the watch-list) and green squares.



The blue thick line is the predefined **Risk Tolerance Boundary**, used to differentiate between tolerable risks and those requiring more attention.

Step two: Risk assessment and evaluation

Once risks have been identified, assessing the priority of each threat and opportunity enables and supports collective agreement over where additional focus and resource may be required to manage risk.

Risk scoring does not have to be complicated or an exact science. Using a risk matrix (Fig.2) allows you to prioritise your key threats and ensure your resources are targeting appropriately.

Although many organisations will have a risk matrix in place to aid the assessment, confusion is sometimes caused by a lack of understanding or lack of information about what each score means. Where possible, ensure that some context about what each score in the matrix means.

Finally, scoring should not be an individual's task. Unless risk is being assessed by quantitative metrics (such as financial targets), scoring is subjective because of the theoretical nature of risk management. Consequently, encouraging people with different skills and experience (where relevant) to assess the risk will aid a more accurate evaluation of the risk.

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Step three: Risk control

As part of business as usual there will be many controls in place to prevent or reduce inherent risk, however, the purpose of stage three is to understand and implement the best course of action above and beyond every day activity, to manage risk effectively as possible.

In some cases, choosing to control and manage the risk is not always the best option. Consideration needs to be given to terminating any activity linked to the risk, choosing not to act and to accept the risk or deciding to transfer the risks to a third party.

Using the 'Four T's' process (Tolerate, Transfer, Terminate and Treat) when deciding on how to manage risk is a useful way to ensure that risk owners have considered all options.

As well as reviewing where new controls need to be added to manage the risk, it is important to recognise and review the controls that are already in place. Assessing their effectiveness, if they are still required and relevant and their costs over time ensure that the most appropriate method of managing risk is in place.

Key things to remember when implementing controls:

- **Preventative controls should have a direct correlation** to the cause and source of risk
- **Mitigating controls should have a link to the impact and consequences** of a risk
- **Control effectiveness may change over time** depending on the context and environment; therefore, controls should be monitored as part of the risk process
- **Controls should be measurable, live and specific** so risk owners can track their impact on the risk
- As controls are implemented, the risk assessment stage should **highlight that the risk is reducing if the controls are working as effectively** as intended

Step four: Risk monitoring and reporting

Although it is the last stage of the cycle, risk monitoring and reporting is just as critical as the earlier steps. Specifically, risk reporting is a key opportunity to review and qualify and encourage further debate about each risk to ensure its being managed as effectively as possible. Utilising management teams, boards and committees view of risk adds an additional lens and further expertise and knowledge into the review process.

When monitoring and reporting on risk ensure that:

- The risk report format and template should **highlight the key information** for the audience
- The monitoring and reporting process should be **a two-way conversation** that enables a more effective risk management cycle
- Monitoring risk should **highlight the effectiveness of risk controls** and provide an indication of where risk is decreasing and increasing

For any organisation, with or without dedicated risk management resource, ensuring there is a clear and understanding process embedded at each level of the organisation is key.

Although risk culture is hard to develop quickly, the more equipped and resilient organisations are the ones who:

- Encourage regular risk discussions and reviews
- Have consistent templates and guidance which are actively used
- Use risk to drive decision making
- Dynamic and active risk logs / registers that are centred on the achievement of targets

We're here to support you. Whether that's evaluating your risk maturity, identifying risk, or helping to develop and embed risk management solutions, our experts can help.

For further information, get in touch with your Risk and Insurance Consultant or usual Zurich Municipal contact.

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