Perspectives on the future of risk
Choosing our future

The Institute of Risk Management (IRM) is celebrating the 30th anniversary of its founding by exploring the future direction the profession of risk management is likely to take. In this report, we have gathered the wisdom of some of our key stakeholders and members on the opportunities and threats the profession faces – and how they are likely to impact risk management by 2025.

In one version of the future, risk managers work closely with their boards. Risk controls are fully embedded in the frontline, freeing risk functions to focus on strategic risk, mitigating emerging threats and optimising opportunities. They embrace technology and create networks that bring stakeholders together for a mature conversation on the uncertainties their businesses face.

The other version of the future sees risk management as a back-office, compliance function. It is remote from the board, has no leadership role and is, in the worst-case scenario, replaced by technology.

While the latter vision is bleak, the good news is that it is largely within our power as risk managers to choose our future. Through the Institute’s leadership, and in collaboration with the wider risk community, our aim is to start developing that positive response with the Risk Agenda 2025 project.

Perspectives on the future of risk marks the beginning of that process. The themes, ideas and provocations in these pages are intended to spark debate, constructive criticism, fresh thinking and, eventually, practical solutions for the challenges ahead.

I urge institute members and others with an interest in our future to get involved. Visit our website (www.theirm.org/risk-agenda-2025), complete our Risk Agenda 2025 survey, attend workshops and events and express your views. You will find further details on page 11 of this document. Your opinions and suggestions will feed into the conversation on the future direction of our industry and inform the IRM’s thinking and strategy in the years to come.

I want to thank the people who gave their time and effort to make this document possible: Richard Archer at BT Business, Gabriel Bernardino of the European Insurance and Occupational Pensions Authority, Sarah Blackburn at NHS Digital, Dame Judith Hackitt of EEF, Mark Goyder of Tomorrow’s Company, Iain Pickard of Strategia Worldwide, and Peter Swabey of ICSA: The Governance Institute. We have worked with Sword Active Risk (www.sword-activerisk.com) as our technology partner on this project and Mark Brown’s comments are particularly revealing.

I hope you enjoy this first part of the Risk Agenda 2025. It has taken 30 years to get this far, but we look firmly to the future.

Clive Thompson
Risk Agenda 2025 Chair and Senior Projects Director at Willis Towers Watson
“One of the biggest risks companies now face is the speed at which they can be destroyed,” says Mark Goyder. “If a customer chooses to say something derogatory about your products, you can find yourself in a great spiral of lost business and lost reputation with things moving at such a pace that it’s hard to control.”

Together with the growing threat of cyberattack, Goyder believes such trends mean that risk management needs to change tack to stay relevant. “The answer does not lie in more formal risk management,” he says. Instead, he says organisations need to start “living their values” and having the type of leadership and governance that makes such an approach possible.

In most examples of corporate failure, someone in the business knew what was happening, he believes. But corporate culture is often not robust enough for those people either to come forward, or to be heard. Similarly, strict controls over communications channels such as social media can tend to backfire as, when things inevitably go wrong, the public believes that the organisation has something damaging to hide.

“When organisations try to suppress things, they generally end up with the worst possible outcome,” he says. “Having people from chief executives and board members to risk managers being approachable and in conversation is better.”

In too many organisations risk managers are attached to the outdated image of the business being like a machine. His preferred metaphor is that organisations are more like biological systems open to feedback and adaptability. The machine image implies that the business is a separate, controllable entity with discreet parts (silos) and distinctive hierarchies. Instead, he says, businesses are part of a chaotic environment, trying to quickly adapt to huge geopolitical and technological trends.

“That’s the backcloth against which it is very hard for traditional risk management to be up to the challenge of tomorrow’s environment,” he says. “In future, the board needs to be the risk committee and the risk manager the specialist who is clearly focusing the board’s mind on risk and helping foster a risk mentality.”

Risk management’s role would be to embed a risk mentality throughout the organisation’s frontline. That could entail, for example, risk managers working for a few weeks in each part of the business to see and hear what was happening – an exercise that is currently practiced in only a few organisations. “Your key relationships are your antennae,” he says.

Creating a business where risk management is part of the general culture is not easy, he admits. Nor will it happen overnight. Businesses will need to seek out best practice and adapt it to their own ways of working. They will need to introduce new ways of recognising and rewarding excellence too so that the business can continue to adapt.

“Relationships are key to learning,” he says, “and learning is fed freely throughout the organisation. People who problem solve, speak out, identify risk early are recognised as outstanding and celebrated as such.”

In future, Goyder says he would like to see a complete simplification of governance to make space in the board’s agenda for more intelligent and informed conversation. He would also like to see some form of institutionalisation of the voice of stakeholders to give greater authority to those engaged with the company from the outside.

Over the next few years, he believes there will be some high-profile, rapid corporate collapses and some impressive disrupters. “If you want to see agility you have to invest even more in a long-term way in building the right culture. Agility requires you to rely on the extended organisation, which is not something you can impose by following a manual or completing a risk register.”
Dame Judith Hackitt

Chair of the UK manufacturing trade body EEF

“The key issue for all businesses today, including manufacturing, is uncertainty” says Dame Judith Hackitt. The decision for the UK to leave the European Union in June last year and continuing geopolitical unrest has pushed the issue to the top of the industrial agenda.

Over the next two years, the most pressing concern is whether manufacturers will continue to have favourable trading arrangements with Europe – without unnecessary tariffs and customs controls. In addition, she says industries must be able to continue to attract people with the right skills.

On both counts she sees room for optimism. She is encouraged by the government’s commitment to an industrial strategy, which includes an acknowledgement that apprenticeships must equip workers with the right level of technological skill to enter tomorrow’s more automated industries.

On top of these issues, increased digitalisation presents some huge challenges to both manufacturers and to society in general, she believes. “What is digitisation and automation going to mean in terms of data, the extent to which people’s jobs are going to be replaced, and the whole social structure around work and employment?” she asks. “There are some massive opportunities there in the future and some risks that are being thought about and anticipated.”

Against this backdrop, risk managers need to help make businesses more resilient. “You have to keep moving forward,” she says, “but at the same time you have got to build in resilience that enables you to deal with things that might come at you unexpectedly, or to deal with changes of direction. What we ought to have learned over the last three years is that you cannot predict what is going to happen.”

In future, risk managers must help their organisations think about the almost unthinkable and make plans in case such extreme events materialise. Few organisations had well thought-out plans for coping with a vote taking the UK out of the European Union.

The role requires new thinking. “The only way to try to manage the future is to be horizon-scanning, be forward-looking and to work through scenario plans – no matter how unlikely those events seem,” she says. “Using the past as a predictor of the future is definitely old hat and risk managers need to grasp that reality.”

One of the greatest skills risk managers of 2025 will bring to the table is the ability to help the whole organisation think through such scenarios. She believes that risk managers need to seek out the maverick thinkers in their organisations and to give them a platform where they can be heard and taken seriously.

“Risk managers need to facilitate that and help give maverick thinkers a voice, support them and get the organisation to recognise the importance of these views, rather than treating them as something to keep quiet about and put into a box,” she says.

She would like to see risk management at a more senior level within some businesses. Today it can be regarded too much as a compliance function.

“By 2025, if we are doing this well, the head of risk will have the ear of the board, be reporting directly to it, and will be regularly running or facilitating conversations at the board about what is happening and what the internal and external risks are,” she says. While technology will be an enabler, the ability to engage and communicate effectively at the top level of the business will be crucial.

“I would like to see some of those maverick thinkers being recognised for the value that they can bring, and promoted into some of those risk management positions, because they would bring some new thinking to the table,” she says. “We need risk managers to be a bit more disruptive.”
Mark Brown
Sword Active Risk

“The truth is, at executive level and board level, people don’t always fully appreciate the value of risk management and how it can deliver bottom-line results to the business,” says Mark Brown. That is not to say the profile of risk management has not risen. But the emphasis has been on viewing risk management from a compliance and governance perspective, rather than seeing it as an activity that can foster business growth.

Over the past five years, companies have been using risk management to help with cost reduction programmes, he says. And while there is still work to be done in areas such as looking at opportunity losses – lost accounts, failed products and virus attacks, for example – Brown would like to see risk managers become more proactively involved in driving business growth.

“Deriving the upside from risk management entails exactly the same process – the same assessment and quantification,” he says. “But rather than having a risk mitigation strategy to reduce risk, you have a handling strategy to increase the likelihood of achieving opportunity.”

Over the next few years, Brown says there is a real opportunity for risk management to raise its profile and status within organisations. Businesses often use high-profile risk leaders to overhaul their risk management processes. When these innovators move on, it is important for the replacement risk manager to continue to develop risk management processes, rather than simply running what has already been put in place.

Lack of innovation is likely to damage both the profession and businesses. “As with all elements of business, the existing model must evolve so that it continues to support the growth and development of the business strategy,” Brown, states.

Risk managers need to grasp the opportunity to make the case that their functions should be contributing to business growth, he says: “By taking this proactive role in promoting business change and opportunity, risk managers will benefit the business and raise their profile within the organisation.”

Such a role requires a broader skills base. “Risk managers need to think about how they can best develop their ability levels.” Brown, further comments: “In future, they will need to be prepared to advise on issues such as major initiatives or events including acquisitions and mergers, expansion into new markets, introducing new product lines, corporate finance and the development of business strategy, for example.”

Brown says those heads of risk with limited enterprise-wide visibility today could explore forming partnerships with other progressive departments, such as IT, to drive change. In addition, by forming such collaborations they can use technology more effectively to help them become more proactive in new risk areas and innovative projects.

At present, the promised benefits of being able to leverage big data in risk management is largely unrealised, he says – estimating that only 1% of businesses can pull in and analyse internal and external data in a meaningful way. With boardroom support, this opportunity could be realised. He detects a lack of appetite to invest in the necessary risk management technology across the whole organisation. Often, most divisions have the capability, but without enterprise-wide capacity, the benefits cannot be achieved.

By 2025, he believes risk managers will be able to act as a catalyst for the sharing of information on risk across the whole business.

“The only real way of succeeding in an environment where everything is a lot tighter financially, and moving much faster, is for information to be shared,” he says. In future, risk managers will be bringing together historical information, minority reports, market trends, and experts through virtual platforms for an informed and intelligent conversation on risk.

“It will be like social media in an advanced form,” he says. “The head of risk in future will be a new, more dynamic and powerful role where the risk manager becomes an agent for change and, in so doing, takes their place at the boardroom table as chief risk officer (CRO). The CRO will oversee the enterprise-wide sharing of comprehensive risk intelligence that will enable the organisation to take advantage of opportunities proactively, locking in profits identified in the business case, as well as mitigating risks.”
“Risk management is starting to be seen from a board perspective as a function important for business planning and strategic decision making,” says Gabriel Bernardino. The introduction of Solvency II and its Own Risk and Solvency Assessment (ORSA) in 2016 changed insurers’ stance towards risk management practices, he believes.

Traditional backward-looking practices of creating long risk reports and risk registers have done little to help organisations think strategically about the risks they face. And while the industry is still in transition, he sees positive changes that entail more forward-looking risk practices.

“We are seeing a more holistic approach to risks,” he says. “We don’t want the focus on risk management resulting in nice reports and nice pictures only. We expect boards to take decisions on products, distribution channels, investments, and capital structures, for example, influenced by risk considerations, not solely based on an isolated, business perspective.”

The risk management function needs to be sufficiently resourced and staffed, including professionals with adequate risk management skills. Furthermore, risk functions need better operational independence from their boards. For example, he believes the chief risk officer (CRO) – where one exists – should not report to the chief finance officer (CFO) because of potential conflicts of interest. Where CFOs focus primarily on financial risk, CROs should be free to take a holistic approach. Insurance companies need to be aware and need to manage the potential conflicts of interest that may arise when implementing such key functions.

Solvency II should not be considered as a compliance exercise. “What we really want from a governance perspective is to have sound risk management processes as an integral part of business strategy and management action,” he says. “That’s really added value. That entails going on substance and not on a tick-the-box compliance exercise.”

Over the next few years, he expects risk management to continue to evolve. Going beyond a compliance approach requires the right tone from the top. Expectations about risk management need to be clearly understood. ORSA has highlighted some shortcomings to current risk management practice.

“Risk managers need to be more aware of the risks out there that you cannot precisely calculate or predict,” he says. “But you can see them coming and you can assess what kinds of strategies you can adopt to deal with them without knowing the exact outcomes. Again it comes back to taking a holistic view.” While better data analytics will help, he says, going beyond the quantifiable will become more important.

He urges insurers to use the regulatory requirements to develop risk management in a holistic way and to promote a culture of risk throughout the organisation emanating from the top. “Go on content, go on substance and have an ambience in the company where you create the possibility of having challenge in the board,” he says. “Most of all, have a forward-looking approach to risk.”

“There is often a lack of deep analysis and work in areas such as operational risk and reputational risk, which tend to be much more qualitative,” he says. It is critical for risk managers to get out of their comfort zones and tackle these issues. “This kind of risk management requires a more in-depth understanding of the business itself and an increasing need to go beyond pure financial risk,” he says.

He sees the biggest challenges to the industry in next eight years or so coming from a “cocktail” comprising the macro-economic environment, technological change and consumer expectations. He believes digitalisation, for example, could be much more disruptive than some believe.

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“Like in all organisations in the UK, cyber threats are rising, and maintaining effective cyber security defences will remain an ongoing challenge for the NHS over the next few years,” says Sarah Blackburn. The NHS needs systems that are running around the clock. And health data is a potentially attractive target for cybercriminals because of the personal nature of information the organisation collects from both staff and patients.

She says NHS Digital is responding to this challenge by setting up a range of services for NHS organisations to help them to make the best choices for themselves on cyber security. This includes broadcasting known risks, providing free cyber assessments, and offering practical support if ever a breach occurs.

Resourcing is also a major challenge. “Funding cuts have had an impact, of course, but the public sector needs to raise its game in attracting and retaining skilled people, as well as upskilling existing staff,” she says.

That is not easy, since in some specialist areas, public sector pay lags the private sector. But the NHS has been investing in IT graduate programmes and apprenticeships, for example, to train and prepare for the future. “It is more difficult attract fully-minted IT professionals,” she says, “so we are training our own – and our retention and job satisfaction rates are fantastic.”

From a risk management perspective, Blackburn says that the NHS and other public sector bodies are beginning to understand how risks are inter-related and invest in systems to combat overlap. A couple of years ago, she explains, it would have been possible for two separate operational risk management projects to be running simultaneously in the same organisation. That is now less likely, although there is still too little effort to share best practice on risk between the many disciplines that are involved in mitigating it on a daily basis.

And while audit committees pick up on risk and financial reporting issues, she believes risk management needs a better profile.

“A lot of people on the operational side, even some non-executive directors, do not place enough importance on having good risk management professionals in place,” she says. “There is often not enough drive from the top to give risk management high enough profile – so you don’t often get chief risk officers. Why should the risks facing public sector organisations be relegated to an administrative role?”

In future, Blackburn believes risks managers will need to learn how to communicate in extremely sophisticated ways, so they can help people understand the concepts of risk management without using jargon. She believes this could help bridge the current lack of co-ordination on risk between the various specialists working in the sector. With better communication skills, risk managers could play that crucial role.

“In an increasingly specialised world, who is bringing it all together?” she asks. “It needs a risk committee at the top of the organisation comprised of people who can weave things together so that generalists and specialists can work effectively at managing the interconnected risks their organisations face.”

Over the next few years, she believes that machine learning and artificial intelligence programs are likely to have a major impact on the health service and its relation to risk. She says that people need to be trained to ask questions in the right way, so their machine colleagues can produce the right data. Such machines are growing smarter, she says. But working out the parameters of human-machine interaction, and the risk appetites associated with those encounters, will be a major challenge and opportunity for risk managers.
“Genuine strategic risk management is where you take a comprehensive approach – understanding every angle of the environment and risk in the broader sense,” says Iain Pickard. While risk management is one side of this equation – thorough strategic planning is the other.

“Unfortunately, proper strategic planning is often woeful,” he says. That is because too few organisations truly understand the complexity of the environment in which they operate. They often focus on technical risks without considering the context in which those threats arise. In addition, problems can be embedded into a project at the planning stage and, by the time risk management gets involved, it is too late to easily mitigate those issues.

“The real danger of this fragmentation is that companies do not understand the interdependencies between the different risks they face,” Pickard says. A classic example is where businesses working in danger zones bring in guards and guns, without reaching out to the communities in which they operate.

“To understand the security picture, you need to understand the country in which you are operating – the political and social dynamic causing unrest, for example, and what to do not to become part of the problem,” he says.

Pickard believes an integrated approach to strategy and risk management will become essential in future. He sees an increase in the trends driving geopolitical complexity, which are likely to be complicated by the further digitisation of commerce and industry.

As Pickard sees it, on the geo-political front the disrupters to business include the need for organisations in a hyper-networked world to be more transparent and to deliver information immediately. They also need to engage with stakeholders in a more meaningful way – at the very moment distrust of business is growing.

He prefers to talk of the risks, as well as the opportunities, posed by the digitalisation agenda, rather than cyber-risk in the narrowest sense of the word, because he believes much future risk will come from threats to business operations. In the mining world, for example, the internet of things means that if a tyre wears thin on a huge truck, the sensor in the tyre will set in chain a series of manufacturing and logistical events that result in a new tyre appearing on site the next day. “If a business is reliant on that chain working across a global web, which it will be, that creates a whole new vulnerability,” he says.

Organisations that fail to get to grips with this emerging landscape could be blind to new opportunities. “We are already seeing some boards becoming more risk averse and expressing increased caution in risk appetite,” he says. “In future, if you are the head of a US corporation, for example, and great opportunities arise in sub-Saharan Africa and you don’t have the right risk management capabilities, all you will see is a place you do not understand and in which you cannot operate.”

“Iain Pickard
Strategia Worldwide

“We are already seeing some boards becoming more risk averse and expressing increased caution in risk appetite”
Richard Archer

“The thing about emerging risks is that they are hard to spot,” says Richard Archer. He believes it helps if risk managers can make a distinction between emerging risks and new risks. He defines an emerging risk as one that is likely to be just coming over the horizon for the first time, which makes it extremely difficult to detect. For example, before the first human BSE victim, the risk was not on anyone’s radar. By contrast, new risks have normally been faced by others already.

He believes that many risk managers today could do a better job of looking for and analysing new external risks. Organisations tend to have a good grasp of what is happening internally while the external environment is less well understood because it is complex and not under their control and can change rapidly.

“If you want to know what data risks you have, you can run a project to find out,” he says. “But potential changes to customers and markets are harder to discover.”

In the telecommunications industry, Archer sees continuous change as a fact of life. “If anything, the pace of change will probably increase,” he says.

To help people identify new and emerging risks in BT, it is not unusual for over half of the time given to a risk assessment to be spent on risk identification.

To help people better identify risks, and to get people to want to do it, BT risk professionals spend time coaching teams. “It’s very easy in risk management to get fast improvements just by being authoritarian – saying, ‘do it this way, do it now,’” he says. “The downside of that is when you’re not in the room, they may not want to do it. So although coaching takes longer in the short term, it is more helpful in the long run. Coaching supports growth. But coaching is not as easy – you need to learn to really listen”.

In future, he believes risk managers will also need to widen their toolbox of techniques and approaches.

He says the fastest way to learn is as a consultant, where you are exposed to a wide range of techniques and where you get invaluable experience applying them practically. “The best way to learn is on the job and under pressure. The text books give you much of the theory, but you have to learn what works too.”
Peter Swabey  
ICSA

“Over the past few years, board-level responsibility for risk management has been given more prominence, not just by regulators such as the Financial Reporting Council, but by investors particularly,” says Peter Swabey. This interest in risk has filtered down to the wider public and the press, which he says is “a really important change.”

He believes this focus has helped embed board responsibility for risk in many companies, even though some others still lack an understanding of the consequences of the risks they face. In addition, companies’ risk management and reporting are not always well coordinated. That can lead to well-managed organisations failing to communicate to investors their ability to take advantage of the opportunities they face.

When risks do materialise, social media and the internet have made it more difficult for boards to control the message. “Today, you must be more agile and respond to issues within hours – otherwise, you become reactive and other people can shape your communications.”

While these challenges have helped boards value risk management, some organisations still regard the function as a business prevention activity. ICSA’s research says that, in recent years, chief risk officers have increasingly been presenting directly to the board and boards, in turn, have been better at getting executives to recognise the value of risk management. The situation is a work in progress.

Over the next few years, Swabey sees the role of the non-executive director becoming more challenging. Despite the surprising amount of time non-executive directors spend working for their organisations compared with that for which they are contracted, he says their roles are becoming increasingly difficult because of the additional levels of oversight they are expected to exercise. During the major bank failures, some non-executive directors were criticised for not having deeper technical expertise in the products the banks were offering. But he sees this as an unreasonable expectation given the limited time they have to spend on the role.

“Going forward, my challenge to risk managers is to identify the right metrics and data and turn it into the information non-executives need to perform their roles effectively,” Swabey says.

Many chief risk officers and risk or audit committee chairs will need to develop a closer relationship for this to happen. “The periodic appearance of the chief risk officer in front of the board is a good thing. It’s an opportunity for the board to make clear what information it wants,” he says.

Big data and analytics will make the information available to the board more comprehensive, but also potentially less helpful. “One of the most important parts of the risk manager’s job in future will be to reduce the tsunami of data into something that is manageable and useful,” Swabey says.

In organisations that get the relationship between non-executive directors and risk managers right, Swabey believes that by 2025 risk management will fulfil less of an audit and compliance role and occupy more of a leadership position. That view is driven by his belief that much more of the everyday risk management that businesses need to do will be embedded within the frontline of organisations.

“The more people are cognisant of risk, the more people are doing risk management in their everyday jobs, the easier it will be for people to focus on what is coming down the track, rather than what is happening each day,” he says.

Risk managers will be freer to focus on those external threats that are not solely related to the internal workings of the company. “There will still be disasters from time to time, but companies will have a better chance of seeing them coming and better ways of dealing with them.”
The publication of *Perspectives on the Future of Risk* marks the beginning of IRM’s *Risk Agenda 2025* project. The purpose of this initiative is to stimulate debate within the risk community by examining how enterprise risk management might be delivered in 2025 and by then proposing different ways that the risk management profession might prepare itself for the possible future scenarios.

The contribution of IRM members and other stakeholders will be critical for the quality and inclusiveness of the project’s output. Here are some of the ways in which you can get involved:

- Complete the Risk Agenda 2015 Survey
- Attend one of our Regional Roadshows
- Participate in online debate via our LinkedIn Group
- Come to the annual *Risk Leaders* conference in November, where the full results will be announced and debated

A website supporting this project can be found at [www.theirm.org/thebigdebate](http://www.theirm.org/thebigdebate). There you’ll find links to the survey, information on how to book onto a Regional Roadshow, read contributions to the debate provided by experts and other interested parties, and much more.

Initial findings from the survey will also be presented at Sword Active Risk’s Active Risk Manager conference in London on 22 June 2017 – see [www.armgcc.com/london](http://www.armgcc.com/london) for more details.

#RiskAgenda2025
Sword Active Risk

Sword Active Risk, provides one of the world’s leading Risk Management software solutions called Active Risk Manager (ARM). ARM provides a simple, secure, centralised, web-based system that meets the risk management needs of individual departments, and the organisation as a whole. ARM was built to be simple and easy to use, it accelerates the adoption of consistent risk management processes across operations and projects. ARM drives value by providing a complete and integrated risk management system that ensures greater visibility of critical risks, reduces surprises and provides a complete audit trail across the enterprise.

Institute of Risk Management

IRM is the leading professional body for enterprise risk management. We are an independent, not-for-profit organisation that champions excellence in managing risk to improve organisational performance.

We do this by providing internationally recognised qualifications and training, publishing research and guidance and setting professional standards across the world. Our members work in all industries, in all risk disciplines and across the public, private and not-for-profit sectors.