

Economic Effectiveness of Risk Management Systems

- Nicola Crawford
- "Risk management leaders in Energy" conference
- Istanbul 15 & 16 May 2018



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Introduction & Context



What today's presentation is not...



Definitive : no-one can offer a set of 'Answers' : all we will do today is illustrate some - but by no means all - of the 'Questions'.....

The intent of today's presentation is to answer the question – “ what is the economic effectiveness of risk management systems”



Overview

1. Introduction
2. Measuring the value of risk management outcomes
3. Measuring the value of factors that derive risk management outcomes
4. Economic effectiveness factors - examples

Introduction

What is economic effectiveness?

Ration of inputs to outputs

“..the means of measuring the outcomes of a business activity given the comparison (ratio) of value of the obtained effects to the factors invested in order to achieve them”

Poskart 2014, Central Eastern European Journal of Management Economics, Vol.2, No.3, 179 - 187

Introduction

What is a risk management system?

The overall approach for identifying, assessing, managing and monitoring risks



Economic Effectiveness of Risk Management Systems



The measurement of the value of risk management outcomes / measurement of the value in factors invested to derive the outcomes

Measuring the value of risk management outcomes

How do you measure something that may not actually happen?!

Outcomes of risk management gauged in two ways

- Value creation
- Value protection



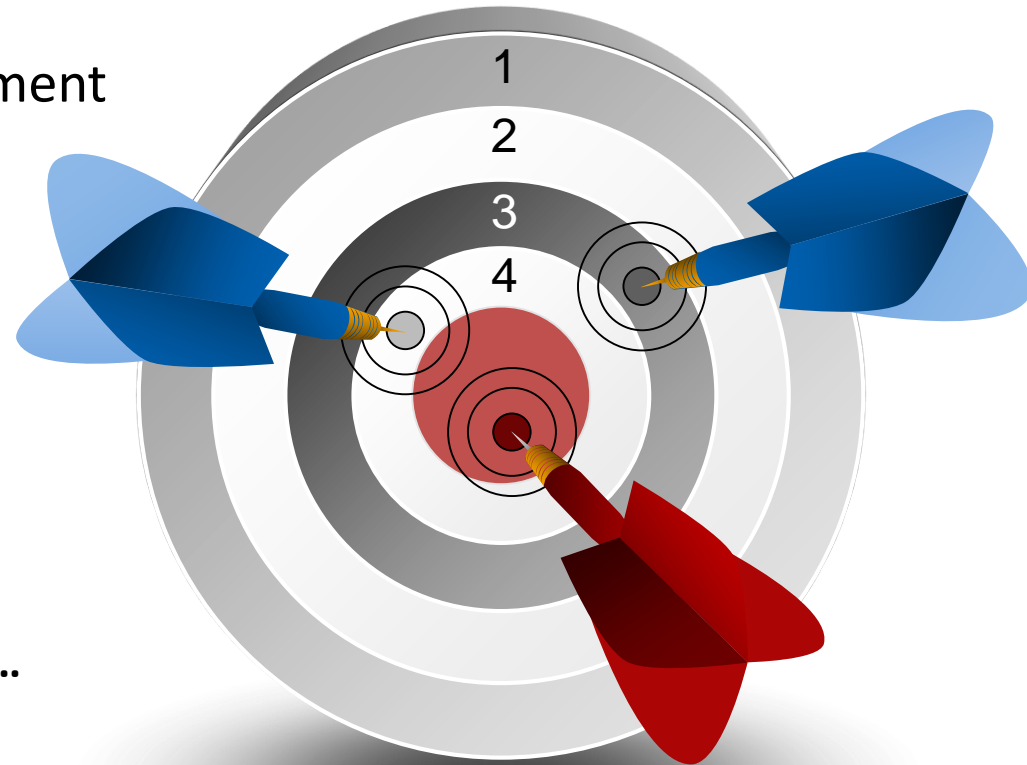
Measuring the value of risk management outcomes



How do you measure something that may not actually happen?!

Outcomes of risk management gauged in two ways

- Value creation
- Value protection



Underpinned by risk appetite...

Measuring the value of risk management outcomes

An effective Risk Appetite Statement helps...

- **...aligning** the
 - Organisation
 - People
 - Processes
- ...in **establishing** and
- **...maintaining**



- the **necessary infrastructure** to
 - ...effectively **monitor** and
 - **...respond** to risks

Measuring the value of factors that derive risk management outcomes



- The scope/focus of the risk management system
- Nature of the risks the organisation is exposed to
- Level of capability to manage risks (maturity)



Measuring the value of factors that derive risk management outcomes

Governance & focus of the risk management system is key

- Risk is forward-looking not retrospective
 - Internal Audits role within risk management is one of taking a risk based approach and cooperation with risk management department
 - By Looking forward organisations can be more resilient to changes in market or geopolitical environment.
- Risk is managed at all levels of an organisation and led from the top
 - Board, Directorates, Departments, Joint Ventures (Partnerships), Supply Chain and Assets(megaprojects)/Projects
 - Integrate Project Risk Management and Project Risk Analysis with Enterprise Risk Management as part of informed decision making

Measuring the value of factors that derive risk management outcomes

Risk Profile

- Initial findings of the Oil and Gas Survey show that the three major risks that have impacted the most and will continue to be a threat going forward are :
 - Oil Price (consistently low for last few years)
 - Global Economy
 - Skills Gap

Risk profile changes over time, at the mercy of / subject to external events – review RM in a formal, structured, relevant way to maintain effectiveness – key risk indicators

Measuring the value of factors that derive risk management outcomes



Risk Profile



- Adapting the business's management of risks to address subsidiaries, joint ventures or foreign Assets/Megaprojects
- Consider future Objectives (do we want to do business in Europe? North America? Asia?)
 - Consider Regulatory (environmental, HSE, etc.) requirements, common business practices for these countries

Measuring the value of factors that derive risk management outcomes



- Elements of a sound risk system – links to maturity
 - System = people, processes, culture, & supporting technology
 - Understanding of the business is key – embedding risk into decision-making both operational and strategic + supported by Board & Execs = true ERM = effective RM
 - Link to Regulations – ensure management are cognizant of the constraints and expectations
 - Risk-taking should fall within the risk appetite of the organisation
 - Adaptability to change
- Risk Survey suggests the following are in need of improvement :
 - Risk Culture (training, awareness, communication of policy, tone at the top)
 - Risk Software

Measuring the value of factors that derive risk management outcomes

- **Risk Maturity**
 - According to survey, many organisations use Risk Maturity or will be developing soon
 - Useful as a roadmap
 - Useful for self assessment
 - Take part in the survey?



Economic effectiveness factors - examples

- Lower cost of insurance
- Lower number of compensatory pay-outs and regulatory fines
- Benchmarking performance with peer organisations (e.g.: profitability, growth, governance rating, cost of financing).
- Lower claims from contractors (or more successful defense in court) on major projects
- Strong reputation can open opportunities in new markets (Europe, North America) = economic value
- Better decision making when entering new territories (better preparation, success and potentially not entering at all avoiding large losses)
- Better project delivery outcomes