

UNDERSTANDING RISK IN A NEW PARADIGM

For many financial organisations, and insurance companies are no different in this respect, compliance and risk management are historically considered backroom functions; a necessary by-product of regulatory requirements, set apart from the core business.

2008 may be considered the year when 'Risk' finally comes in from the cold.

Société Générale's chief executive, Frédéric Oudéa has recently said France's second-biggest bank would become stronger than before the rogue trading scandal that cost it €4.9bn (\$7.6bn) of losses. He said the bank's "Fighting Back" programme to invest €100m in strengthening its controls would put it at the forefront of industry norms.

This planned investment should be seen in the context of a new understanding of risk whereby robust risk practices are not considered solely preventative. There may be an element of acting after the horse has galloped through the stable door about Société Générale's decision to make such a weighty investment in risk at this stage. However, the decision indicates a mature understanding of the new risk paradigm whereby taking an enterprise view of risk can bring a new energy to your business. In this context, the thinking is that by knowing your data more intimately, and by promoting a reinvigorated perspective of integrated risk management based on intelligent application of data, companies will be better protected against negative activity as well as better equipped to compete and succeed.

This more enterprising view of risk means that companies are becoming more enterprising with risk. It's not a matter of binding the management programme to the checklist of the regulator: that's the old way, the wasteful way of addressing risk.

The new way – and the direction in which many organisations are now travelling – involves a re-examination of data collected across all domains of business operation. A bank preparing its Basel regulatory returns will derive data from building and validating and applying its models. Insurance companies are taking a closer look at the records they hold on claims, premiums, fees and expenses, with the intent of improving risk responsiveness, cross selling and product performance. Building societies are drilling into their mortgage books to understand historic data better, improve profiling of customers and provide for future client needs in a more innovative manner.

Across sectors from financial services through energy and telecoms to professional services, companies are discovering that by knowing their data better, they are able to cross-pollinate between product portfolios into new client markets and to uncover new opportunities in strategic propositions based purely on data previously only used for regulatory box ticking, that they already own, yet never really manipulated.

The results achieved when companies take this enterprising view of risk demonstrate the opportunities. In one case an insurance company improved its sales conversion rate by 20% purely by mining data already within the organisation.

Risk management is predicated on awareness of the business, and informed risk-conscious action is what safeguards company assets while still beating the competition.

Every company in Ireland owns or sources enough facts and figures each year to pack the data warehouse to the rafters, yet often these data records are used for one purpose only – to provide pro forma reporting to a regulator, or perhaps to detect fraud after the event. Exploiting this data to

sustain profitable growth wasn't a priority or perhaps even a necessity in the Celtic Tiger era. But success is a lousy teacher: it seduces smart people into thinking they can't lose. Bill Gates said that. He knows risk. And he knows data. Attempting to manage risk without knowing your data is like forecasting the weather by feeling your bunions: you might get lucky and be right once in a while, but you're missing out on consistent logical patterns.

Intelligent management of risk data involves going beyond the confines of regulation and using this new risk awareness to improve competitiveness, protect assets, and enhance processes and systems. The data used for protective risk management correctly applied can also enable companies to understand the opportunities within their business information. Simple as it may sound, understanding your business intelligence allows you to build a more intelligent business. Data originating from one area can open your organisation to opportunities elsewhere.

There are great associated benefits to such a risk strategy, not least of which are a better cost allocation per data item, and enhanced employee satisfaction at working in a smarter environment.

To make data into information, build knowledge, store wisdom, and provide a truthful picture of a risk-intelligent organisation requires some thinking. A reimagining of corporate risk culture is a likely factor for success. Planning is key: foresight of potential risk events is crucial for a business to be stabilised by risk-intelligent data. As is common sense, the data you uncover in a stand-alone project or in one array of products needs to be built into a flexible enterprise risk system, so that you don't have to go scrabbling for knowledge again the next time a risk event occurs or you need to change tack to deal with new challenges. Intelligent management of risk data provides competitive energy and business motivation, once you know what's there and what it can do for you.

If Irish companies are to keep pace with the competitive financial services environment which will emerge from the financial crises for which fiscal 2008 will be remembered, we will need to reform our perspective on risk management. Only by investing in understanding, and manipulating data can organisations truly understand business risk, and build the intelligence to use this to exploit business opportunities.

LORCÁN Ó HUALLACHÁIN
SEPTEMBER 2008

DISTINCT is an Irish Business Consultancy, providing leading edge Management Consultancy and Business Intelligence Services to national and multinational financial services companies in Ireland and the United Kingdom. www.distinct.ie