Necessity and invention

Have harder economic times helped spur risk management creativity and innovation asks Graham Buck?

Enterprise risk management (ERM) has been a distinct driver of innovative thinking in risk mitigation; less glamorously so has the impact of the recession. Innovation may be seasonless, but necessity is known as the mother of invention. So when resources and markets are strained, new ideas tend to result; risk departments need to achieve as much, but often with more limited resources and fewer staff.

One area most evidently in need of an injection of new ideas on risk is in the finance sector, suggests Mike Hamm, UK managing director at Fernbach. "One of the primary failures of the current crisis was the inability of the finance world to consider the possibility of extreme scenarios – that is to concoct doomsday situations," he suggests. "This could be the result of heavy optimism during the boom, or down to a lack of creativity."

There is certainly evidence of more innovative thinking in risk management, but the degree depends largely on the corporate culture within each organisation says Mark Dunn, manager, risk and compliance services at LexisNexis. Compliance and risk management are still regarded as less than essential by many, particularly in a recession, as they are not outward-facing activities directly involved with sales. "Some firms have adopted a knee-jerk response to the recession and are getting rid on non-customer facing staff first," he reports. "The better firms, however, see recession as an opportunity to get their house in order. They realise that risk needs to be at the very centre of the business, so are closely scrutinising their processes and controls."

Another optimist is Daniel Melo, EMEA solutions management director at decision management group FICO.

He is confident that constraints in money and resources will not act as a brake on creative risk management. "Given the economic crisis and the move toward recovery, risk management is gaining momentum and a significant voice in driving business decisions on the front end," he says. "As such there is more of a focus on 'better' and 'connected' decisions which work across risk, marketing, IT and finance.

"The 'connected' decision considering parameters of economic impact is a central part of strategy, making smarter decisions through leveraging insights, capabilities, data, logic and scores from another application or area of the lifecycle."

> "Difficult times tend to quash creativity and companies become nervous and less willing to take risk"

Dunn adds that ERM is valuable in highlighting the overlap of activities carried out by different teams within the organisation, such as corporate security, anti-fraud and anti-money laundering, human resources and credit checking. Each may have worked in isolation despite employing similar systems and databases, but have increasingly made use of synergies and saved on cost. The trend has extended beyond the financial services industry to global organisations such as those in the telecommunications and utilities sectors.

"They are using their in-house resources to reduce outsourcing costs," he adds. "Instead of employing external consultants, they go to their own people and their expertise.

"It all involves making your resources 'sweat' a little more in order to achieve the best return on investment. This isn't just a UK trend, but one seen across a range of major businesses that operate globally."

Creative centres

Innovative thinking is evident in many parts of the globe, including central and eastern Europe where banks and lenders employ pre-collection to engage with customers who surpass certain levels of risk to alert them at an early stage says Melo. This could be simply through educating them or substituting a high-risk product with one that is 'safer'.

"Using collection as a service rather than a process is a new and much-needed approach for the industry. Banks in these regions have experienced a high-speed increase of credit and face many new customers without credit experience," he says. "Pre-collection produces a manageable benefit they can use to limit their own exposure to risk."

According to Wolfgang Fabisch, chief executive of software group b-next, good ideas invariably result when research is located near business. He believes the most useful work is achieved by organisations and universities close to financial centres such as New York, London and Frankfurt.

"We have a lot of very innovative thinkers in this area in Germany," he reports. "Our group closely cooperates with the University of Frankfurt and the University of Osnabrück within the areas of risk measurement and operational risks, and it's a win-win situation for everyone."

Does he believe that hard times spark more creative risk management, or does it thrive better in good times when more staff/resources are available?

Fabisch replies that the group has worked with banks since the 1980s in developing software for trading control and compliance – long enough to see a pattern emerge of creative and valuable ideas developing when the economy is in a downturn, but often only being implemented once the business environment improves. "This is mostly because of resource availability, but partly also because implementing and testing new ideas takes time," he suggests. "It's an area where specialised providers can help by moving faster, so that new solutions based on standard software can be quickly implemented when they're really needed."

Hamm remarks that innovation and creativity depend more on the nature of the company and its people rather than the economic background. "If they are conservative in nature, difficult times tend to quash creativity and they become nervous and less willing to take risk. With less risk-averse organisations or people, restrictive times force them to think 'out of the box' and creativity will increase."

Which areas of risk management have most lacked creativity and would benefit from an infusion of new ideas? "One area that requires urgent thinking is how to assess and strengthen a risk culture and identify ways to drive change in the organisation's mindset - so that from the board to the field agent, the risk angle is taken into consideration when making decisions," suggests José Margo, chief risk officer at Groupama Insurance. "So moving from 'procedure focused culture' where people see risk management as a compliance exercise to a 'risk mindset culture' with people proactively thinking about risk issues requires a major effort." ■

IRM's Innovation, Value Creation and Opportunity SIG

The Special Interest Group's latest project is a 'recession watch' initiative, gathering information and resources on the impact of the recession on risk management . The group will lead a workshop at the Professional Development Forum in April on the topic *'The credit crunch was forseeable: risk management is no longer a creditable business tool'*.

Graham Buck is editor of Risk Management Professional