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EXPOSED

**The hidden
value of risk**

**Accenture 2017
Global Risk Management Study
Executive Summary**

Since 2009, Accenture has conducted regular in-depth research on the risk management function, focused on financial institutions.

Our studies have shown the evolution of the risk function over time—from 2009’s emphasis on crisis management to today’s more integrated, fluid and maturing discipline. Rather than a controlling function to be circumnavigated, risk management has become more connected and has increased both its value and its level of collaboration with the business.

THE EVOLUTION OF RISK MANAGEMENT

The risk management function has made significant progress in three important dimensions: integration, technology and people.

INTEGRATION

In 2009, risk management was often siloed. But the function’s influence was growing, and by 2011 better risk capabilities were seen as a key means of embedding a stronger risk culture in the organization. By 2013, Chief Risk Officers (CROs) wielded measurably increased influence, often with a direct line to the Chief Executive Officer (CEO), while regularly interacting with the board on specific areas of organizational concern. Two years later, we found that CROs were continuing to extend their levels of connectivity and increasingly playing a key role in topics such as strategic planning.

TECHNOLOGY

In 2009, IT systems were fragmented and inefficient at capturing, measuring and reporting risk. Two years later, risk functions pushed much more aggressively to improve the risk technology landscape, but issues persisted around systems integration and availability of capabilities—as we found in our 2013 study. By 2015, some progress was being made and technology was increasingly being viewed as a platform for innovation as well as an opportunity to reduce costs—through both simplification and new tools.

PEOPLE

In 2009, in the wake of the global financial crisis, the sudden demand for risk professionals far outstripped supply, and many respondents said that talent was the most significant challenge they faced. Two years later, headcount was increasing in the risk function. Despite this investment, risk functions were struggling to find the specialized capabilities they needed. By 2013, demand for skills in risk-related technologies significantly outstripped supply; in 2015, respondents

reported even stronger demand for data management and analysis capabilities to help them better manage risk, taking advantage of the newer technologies and analytics tools.

Over the years we have witnessed the growing importance and influence of risk management and the function. Despite the progress, there is still much work to do. Below are some of the highlights from past studies, which show how the nature of risk management within the financial services industry has changed over the last eight years.

	2009	2011	2013	2015	2017
<p>ACHIEVING BALANCE</p> <p>The gap between risk and finance has been closing but there is still more progress that needs to be made</p>	<p>Risk silos Only 15% had an integrated IT risk infrastructure</p>	<p>Towards a new risk culture 84% said risk capabilities help engender a risk culture in the organization</p>	<p>Direct line to the CEO 96% of risk owners reported directly to the CEO, up from 82% in 2011</p>	<p>CRO at the executive table 79% said the CRO is important to strategic planning decisions</p>	<p>Still closing the risk-finance gap 38% said finance and risk leaders work closely, but don't input jointly to corporate strategy</p>
<p>HARNESSING TECHNOLOGY</p> <p>Technology in risk management has evolved over the years to drive innovation and strategic decision-making</p>	<p>Tech not fit for purpose 92% said that fragmented, inefficient IT systems are increasing the cost of risk management</p>	<p>Tech as newest strategic priority 77% reported extensive or significant need for analytics to address risk magnitude and frequency</p>	<p>Systems integration still a barrier Adoption of analytics growing but 45% said systems integration still a barrier</p>	<p>Building analytical capabilities 67% plan to increase investment in big data and analytics over the next two years</p>	<p>The power of automation to come Only 13% are realizing Robotic Process Automation's (RPA) full potential</p>
<p>EVOLVING TALENT</p> <p>Over the years, organizations have responded to the changing demand for specialized risk skills</p>	<p>Risk resource in short supply 32% stated they see resources and talent as a significant challenge</p>	<p>Rising headcount 53% planned greater headcount to enhance risk organization</p>	<p>Lack of specialized tech skills Risk technologists (64%), risk business and data analysts (62%) were skills in shortest supply</p>	<p>Demand for data specialists Data management (34%) and data analysis (32%) were anticipated as the skills most in demand</p>	<p>Emerging tech capabilities 69% said shortage of skills in new and emerging technologies impedes the effectiveness of their risk management function</p>

Source: Accenture Global Risk Management Studies, 2009 to 2017

RISK MANAGEMENT IN 2017

Today, we find a function that has made considerable progress since our initial examination back in 2009. Smart technologies—cloud enablement, machine learning, biometrics, big data and analytics—are gradually being embedded. More respondents are reporting the integration of risk analytics within planning and decision-making. And while still in its early days, risk management is starting to explore the potential of emerging technologies such as artificial intelligence (AI), building on a base of RPA.

The integration of risk management with the business continues, but progress is frustratingly slow in some areas. The aspiration for closer collaboration between risk management and finance is there, but integration remains fairly limited, with siloed data a key challenge. This manifests itself in many ways, such as a lack of coordination across risk categories, and between risk and the broader business.

Since 2009, talent has been a key barrier to risk management effectiveness. Unsurprisingly, this continues in 2017. The stakeholders and tools in the risk management space have always changed faster than the capabilities executing the function. As the pace of change only accelerates, this becomes more apparent. As a result, respondents continue to report capability shortages—particularly in specialized areas.

These challenges—skills shortages and a lack of integration with the rest of the business—are likely to persist. For one thing, risk functions tell us that they operate today in a highly cost-constrained environment: 91 percent of respondents to the Accenture 2017 Global Risk Management Study say that cost pressures are leading to sub-optimal risk management outcomes.

And new risks are emerging. Cyber risk, for example, which was barely mentioned by our study respondents five years ago, has leapt to the top of the list of concerns. Dealing with these sorts of emerging risks requires organizations to invest in new capabilities, promote better integration across the business, and focus on smart technologies.

ADDRESSING TODAY'S CHALLENGES

The more effective risk functions have earned strategic influence in the organization and have been empowered to invest in the overall development of the function. Despite the obvious cost pressures faced by the risk function, resources are still being made available—and developed—if a strong case has been made for investment.

Our study finds that these investments are taking place across three areas:

1. Deep integration of risk across the business

With a strong foundation of common data and a “single version of the truth,” risk teams are able to improve integration between the risk function and the rest of the organization.

2. Harnessing smart technology

With the right leadership, strategy and discipline in place, risk teams can be supported to invest wisely and appropriately in the quality of data and smart technologies as well as the platforms to support big data and analytics. This is both enhancing efficiency and improving risk outcomes.

3. Risk talent redefined

The risk function is creating a broader base of risk capabilities that incorporates strong functional experience as well as the skills needed to exploit new tools, business models and technologies. This broad base helps to align the function’s skills with the multiple demands of the entity and better support the business model transformation taking place in many financial institutions.

The future “success” of the risk function depends on balanced investing across all three areas so that it can carry out its work holistically. Few of the respondents to our study, however, say that their organizations are actually doing this.

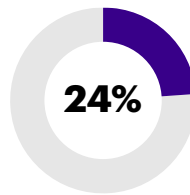
Against this backdrop, let’s explore how companies are addressing each of the three dimensions to advance the capabilities and impact of their risk functions.

1. DEEP INTEGRATION OF RISK ACROSS THE BUSINESS

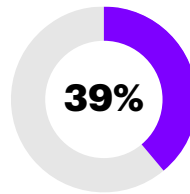
Despite advances in the application of technologies across risk management, coordination of risk activities remains a challenge for the function. Risk data types and activities still too often exist in silos and are not easily standardized or connected in order to provide a centralized, aggregate view.

At the root of this lack of connectivity is the challenge of creating a common data platform, with consistent, complete and comparable data that can serve as a foundation for the organization's reporting, analytics and decision making. Without this, turf wars (or at least confusion) could ensue over which set of data to use. This further impedes integration and prevents a combined leadership team from establishing a shared perspective and purpose. Decisions based on common data allow the leadership team to both improve business outcomes and recognize risk implications.

Our 2017 study respondents confirm that there is a lack of coordination across risk activities in the function:

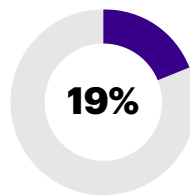


Today, 24 percent say that their risk management activities are coordinated across risk types.

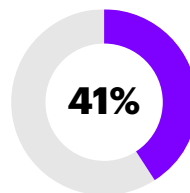


This rises to (only) 39 percent when they are asked about how they expect the situation to look in two years' time.

There is a similar situation when looking at coordination across lines of business:

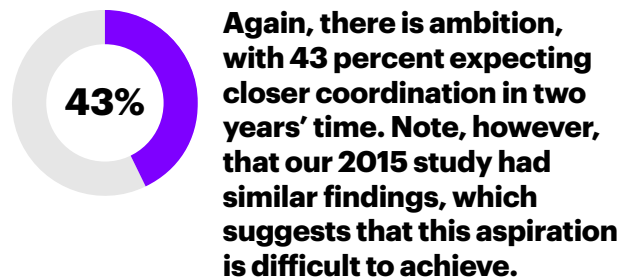


Today, only 19 percent say that their risk management activities are coordinated across specific lines of business.

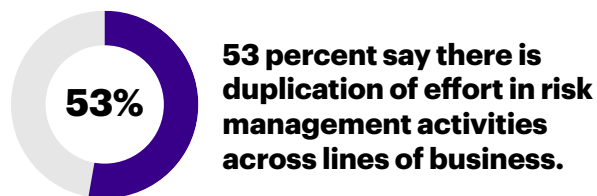


This rises to 41 percent when they are asked about how they expect the situation to look in two years' time.

The integration of risk and finance is also progressing slowly—despite many years of predictions that this would improve:



Such a lack of coordination often leads to inefficiencies and increases the challenges faced by risk teams:



The Integrators

The Integrators are those in our 2017 study that have made the most progress in integrating risk with the wider business. They operate effectively with multiple dimensions of the business, often up to the group level, bringing together risk management activities in a consistent way. They represent 15 percent of the sample.

Interestingly, the Integrators outperform their counterparts across almost all risk key performance indicators (KPIs), such as risk/return ratios, number and frequency of conduct issues, and volume of serious data breaches. They are also significantly more likely than other respondents to coordinate risk management centrally across specific lines of business, and are twice as likely to have a fully integrated finance and risk model.

They are better at balancing the management of risk at the local level with organization-wide risk priorities. Less than half (49 percent) report that local markets struggle to balance the management of risk at the local level with organization-wide risk priorities, compared with nearly two-thirds (62 percent) in the remainder of the sample. As a group, the Integrators are much more likely to be adopting a standardized model to manage risk.

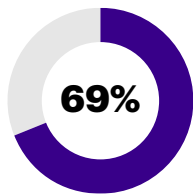
2. HARNESSING SMART TECHNOLOGY

The adoption of smart technologies is leading to greater efficiency and productivity in the risk function.

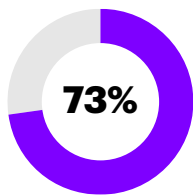
But it is important to note that cost is not the only reason for adopting these technologies. Companies are also seeking greater accuracy and control, increased agility and improved risk analysis and insight from these investments.

Risk functions are still only in the early stages of adopting many of these technologies, however. Only a minority of respondents say they are highly proficient at incorporating these technologies into the risk management function.

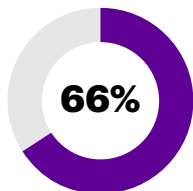
There are a number of challenges preventing wider adoption across the 2017 study respondents:



69 percent say that legacy technologies within the risk function impede effectiveness.



73 percent say that increased velocity, variety and volume of data impede effectiveness.



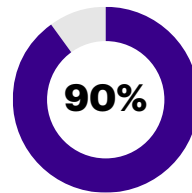
66 percent say that a lack of the right capabilities is an important barrier.

The Smart Technologists

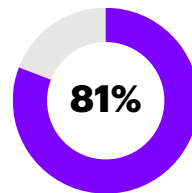
Our 2017 study shows that there is a small but clear group of organizations that have made more progress than most in embedding smart technology into the risk function. These “Smart Technologists” represent 15 percent of the sample and have high proficiency in at least one of these three technologies: RPA, data analytics or cloud. Their adoption is more advanced than that of their peers, and they have a low reliance on legacy tools. Compared with peers, a greater number of Smart Technologists are highly proficient in using AI and machine learning.

Smart Technologists perform a lot better than the rest of the sample on a number of dimensions. They are much more likely to be industry-leading or ahead of their peers in identifying, quantifying, monitoring and mitigating risk. They are also much more likely to display high performance across the majority of risk KPIs.

Furthermore, Smart Technologists are much better at managing cyber risk:



90 percent have a cyber risk management function that is able to effectively support the IT function, by accurately reporting cyber risks to the board.

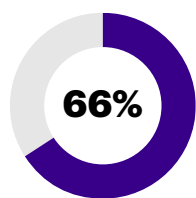


81 percent have business process controls that include the threat of cyber risk.

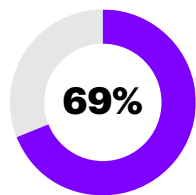
3. RISK TALENT REDEFINED

In recent years, most financial institutions have invested significantly in risk capabilities and headcount. Yet talent shortages remain a major problem: the time it takes to find the right talent, integrate them and also continuously adapt to the changing demands of the function create a situation where the benefit to the risk function develops slowly.

Our 2017 study findings support this:



66 percent of respondents say that a shortage of core risk management talent and skills impedes the effectiveness of the risk function.

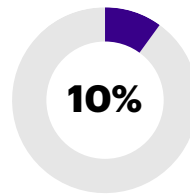


69 percent say that a shortage of skills in new and emerging technologies impedes the effectiveness of the risk function.

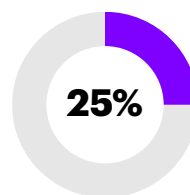
Another key challenge is striking the right balance between experience and wisdom on the one hand, and a deep understanding of current digital and technology tools on the other.

Few risk functions have cracked the code on how to rapidly develop risk functions that combine the insights, knowledge and experience of established industry risk professionals and also tap into a new generation who bring necessary technology and data skills to further strengthen the function and impact. This blending of capabilities, with fewer lines of separation between those with traditional risk skills and experience and those with more advanced data technology skills, is a trend that we see becoming more mainstream.

Some respondents seem confident that they will be able to at least partly address these shortages in the next two years, but the situation is very likely to remain difficult:



Today, only 10 percent of respondents say that their risk teams have the internal resources to carry out the functions they are asked to perform, even in specialized areas such as modeling or emerging risks.



But 25 percent of respondents hope to be in this position in two years' time.

This 25 percent of respondents may be overconfident in their assessment that the situation will improve, given the wider shortages of talent they have identified. Indeed, there is little change here compared with our 2015 study results.

What other options can be considered to help fill the talent gap? Looking outside the existing workforce to extend or enhance the team is increasingly common. About half of this year's study respondents expect to increase their use of outsourcing in areas such as technology implementation, risk-reporting and risk measure calculation.

And looking at the emerging trends in the industry, we also expect developments such as the "liquid workforce" to contribute to the make-up of the risk function as companies seek specialist skills for specific areas of expertise—rather than simply hire employees as full time staff.

The Multi-Disciplinarians

There are a group of companies, representing 10 percent of the total 2017 sample, that demonstrate the strongest ability to bring all three dimensions of the risk capabilities into place. We call this group the Multi-Disciplinarians as they effectively bring together a broad base of skills, aligning internal resources across crucial specialist areas.

Almost 60 percent of this group say they are responding to cost pressures by aligning management and employee skills with the changing needs of the risk function, compared with just 45 percent in the rest of the sample. Combining agility and focus play a key role in how they approach resource allocation.

They are less likely to experience a shortage of core risk management capabilities or skills in new and emerging technologies (57 percent compared with 70 percent in the rest of the sample).

The Multi-Disciplinarian respondents are also more effective in their commercial awareness (90 percent compared with 77 percent) and their ability to apply analytics to risk management than the remainder of the sample. They are also moving now on the technology agenda, and are strengthening their understanding of emerging technology risks as a top priority for the year ahead.

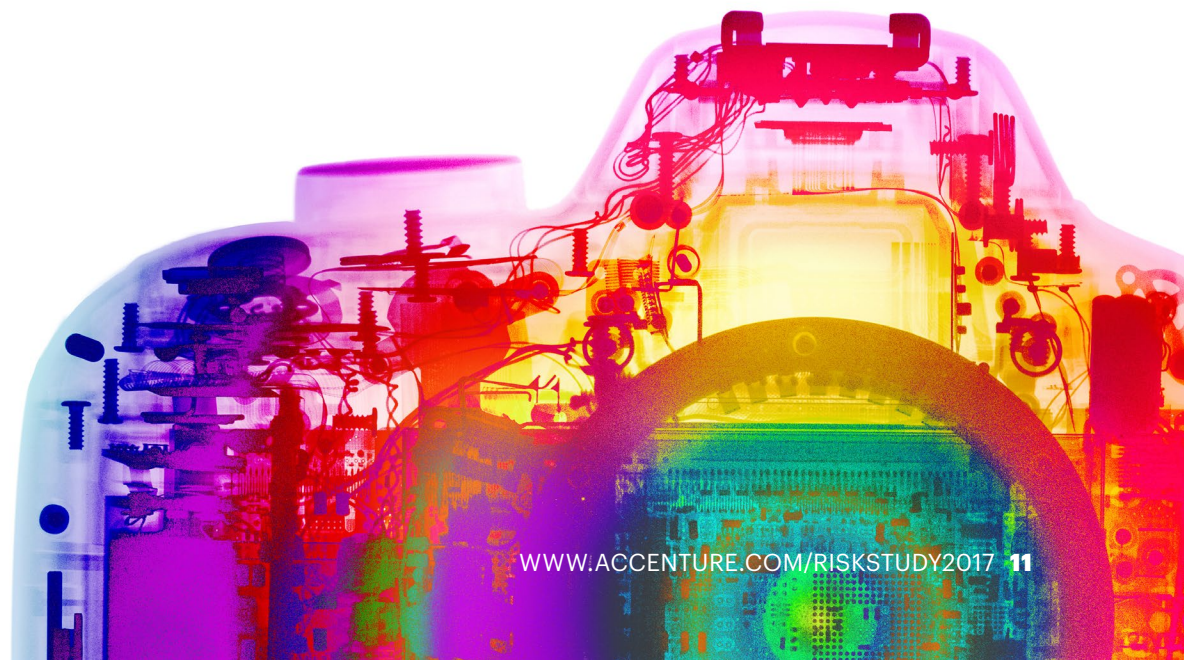
A CONTINUOUS EVOLUTION

It is increasingly understood that the world and business will never move as slow as it does today. Things are only going to get faster, more connected, and in some ways more complex.

For the risk function, this is the primary challenge. Staying ahead of the next wave of risks—whether operational, financial, or technological—requires a continuous evolution of the function on each of the dimensions explored earlier in this document.

We have been researching and reporting on the function since 2009. In these eight years we have seen tremendous change on multiple dimensions and we expect to see even more in the next eight, as digital becomes increasingly mainstream, and emerging technologies such as robotics and AI become more embedded in the way organizations operate and transact.

One thing we can be sure of: effective risk management and the influence and importance of the function can only increase as a result. The companies that are able to put in place the right risk capabilities and effectively operate in this environment will be well positioned for growth. But that has always been true. Today it is simply more evident.



ABOUT THE RESEARCH

The Accenture 2017 Global Risk Management Study is the fifth edition of our study first published in 2009. It is based on a telephone survey (computer-assisted telephone interviewing, CATI) conducted by Longitude Research on behalf of Accenture between January 2017 and February 2017 among 475 senior risk management executives.

For more information on the study, visit www.accenture.com/RiskStudy2017

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