KPMG

Harnessing opportunity in ERM 2.0

Governance, risk and compliance services

October 2022

KPMG Lower Gulf

ERM 2.0

Business models have continued to grow in complexity over the past 50 years – from simple and local risk exposures to the current environment of complex and global exposures. Risk management has evolved along with the business model changes, from individual, transaction-based decisions based on a combination of judgment and insurance as a primary mode of risk transfer to looking at aggregated portfolios of risk enabled by robust analytical tools.

The traditional risk assessment model is a static risk management methodology that focuses on risk at a single point of time with limited usage of data and analytics. The assessment is significantly subjective, and it does not have the ability to identify the critical clusters or inter-related and co-related risks. These risk management methods do not consider structural breaks, interconnectedness, and the velocity with which risks can impact operations.

With significant changes in dynamics, stakeholders interests are moving towards the quantification of the impact these enterprise risks have on the achievement of an organization's objective, not merely in the short term but over the course of next 1-2 years. They increasingly demand more sophisticated data models leveraging new technology which can predict the impact of the operating environment on the overall organizational risk profile.

To solve this dilemma, the need of the hour is a risk assessment model which assesses the impact and likelihood of interconnected risk clusters at an enterprise level. This model should be an advanced risk visualization tool which presents a risk profile in multiple dimensions with risk quantifications of events along with simulation stress testing models. The model should be designed with an application of statistical tools, multi-factor models advanced data and analytics (D&A). The model should be able to identify key KPIs, the most sensitive drivers to be tracked and actionable assurance insights to facilitate management decision making.

KPMG, leveraging its technological expertise and experience in implementing multiple ERMs assignments globally, provides solutions that assist companies advance in their ERM maturity journey. K-RISSE addresses the need for risk quantification and scenario assessment, helping companies answer "What if" questions and providing predictions.

Complementing K-RISSE is our Risk Appetite Monitoring tool which helps companies evaluate the impact of risk in terms of its effect on organization objectives. This is achieved by building key risk indicators which are linked to KPIs, and operationalizing these via technology enabled tools.

K-RISSE: executive summary

The K-RISSE framework model enables companies to automate and transform enterprise risk management (ERM) from a siloed risk-driven approach to a holistic risk-integrated strategy tool that enables businesses to make the right decisions and track KPIs. It uses various multi-factor models and stress testing scenarios.

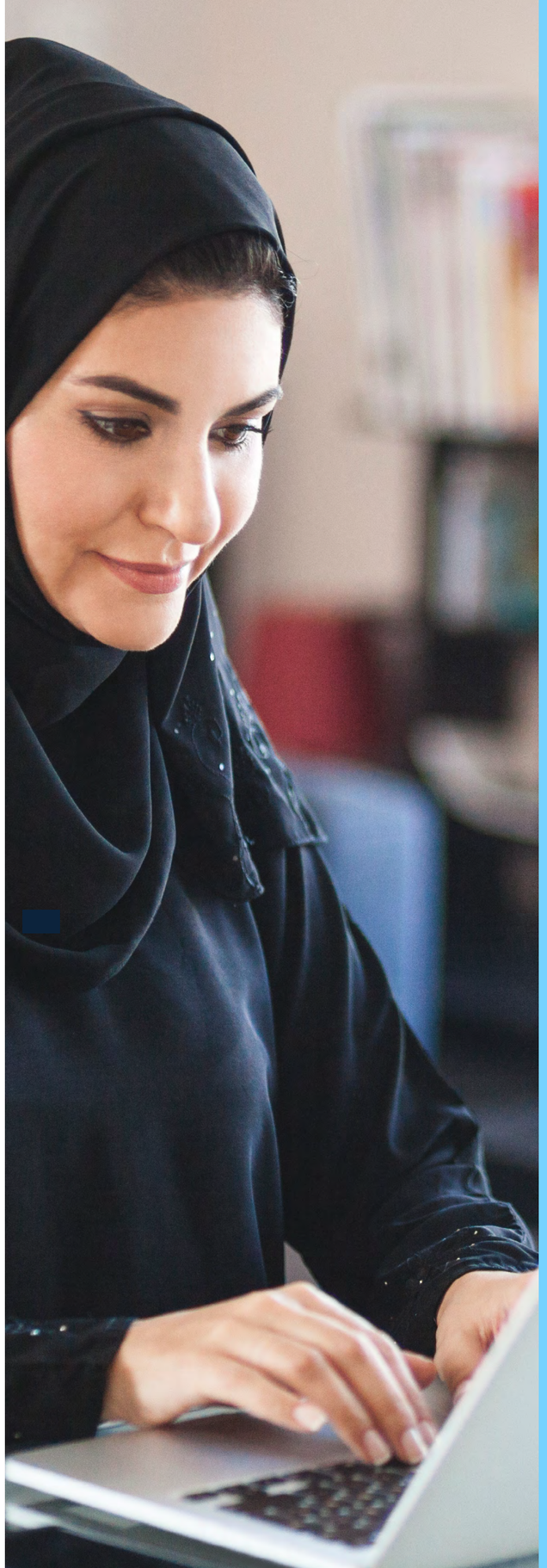
Key functionalities of K-RISSE

Customized data model/ quantification tool: quantified data models customized as per client needs and the nature of the risks

Business enabling: generates actionable assurance insight to facilitate management decision making

Visual insight and interactive dashboards: transforms large data sets into intelligent, dynamic and interactive dashboards. Connects and integrates with all kinds of data systems and formats

Continuous monitoring: continuous monitoring of KPIs, automation, maturity, etc. and exception reporting



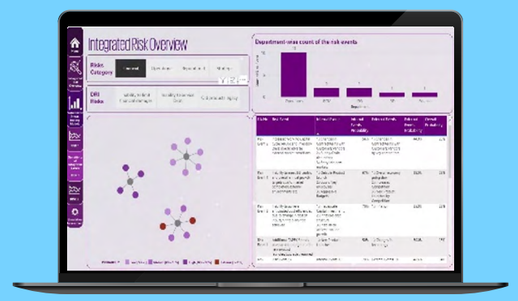
Benefits of K-RISSE

A common language: communicating risk findings in a common language gives stakeholders the power to respond to risk more effectively as they understand the business implications better and can align and prioritize risks collectively.

A more objective approach: risk quantification reduces subjectivity, aligning investments more closely with business objectives and risk appetite. It also allows for greater consistency in comparing various business risks.

Proactive risk monitoring: highlights the exceptions in near real-time as events occur. It alerts management with adequate response time to act as well as react, and make informed data backed decisions.

Illustrative Dashboard of K-RISSE



How K-RISSE works

Company profiling based on the strategy and long-term/short-term objectives/budgets

Risk knots/clustering based on integrated and inter-related risks

Repository of revenue/ cost/growth drivers based on company profiling and risk clusters

Selection of drivers based on **correlation/ sensitivity models**

Dynamic multi-factor models for key risks

Integrated KPIs based on linkages across organization wide objectives and enterprise risks

Illustrative example of a financial model

01

K-RISSE risk: inability to service debt/non-compliance to loan covenants leading to increased interest cost

02

Inter-related enterprise risks: inability to meet BU-centric and overall annual growth targets and credit risk

03

Risk levers/ drivers	Risk events	Clustered risk profile
Risk driver (1): no. of lost time incidents (LTI) and vacant positions for skilled QHSE (Quality, Health, Safety and Environment) personnel	**Risk events (1):** accidents involving fatalities	Reputational loss damage resulting from internal or external adverse events/ PR, major health, safety and environmental incidents/accidents (fire event, equipment failure, fatalities, casualties) and frauds attracting media coverage.
Risk driver (2): no. of WB complaints	**Risk events (2):** frauds involving financial/ reputational damage	
Risk driver (direct): social media sentiment analysis	**Risk events (direct):** fall in social media sentiment analysis scores	

Risk Appetite Monitoring Tool: executive summary

The Risk Appetite Monitoring Tool facilitates alignment of the company's strategy with its risk management framework. The tool provides a deep-dive analysis of organizational KPIs to deliver insight on the range of acceptable deviations from the KPI targets and align with the risk appetite of the organization to meet its objectives. This tool transforms the Risk Assessment methodology from a category-based approach to a KPI centric approach, which enables businesses to make effective decisions and monitor performance:

Linking risk management framework to strategy

Developing risk appetite and tolerance

Designing and operationalizing an automated reporting tool

Case study – a success story

Case

Separate functions developed their own analytics, and were relying on their own datasets. That led to inefficient analysis of siloed data to assess risks across business verticals of a leading insurance company.

Challenge

Consolidating data to create a dynamic, holistic view of the risks faced by the business.

Solution

A tool that combines risk, controls and analytics under a single umbrella, and tracks more than 100 Key Risk Indicators (KRIs) across business processes. Conducts continuous analysis of data stored and creates dashboards that illustrate risk drivers and red flags.

Result

KRIs embedded within the first and second lines of defense, and business executives can track critical enterprise risks improving both effectiveness and efficiency, improving the:

- Overall governance of the risk analytics process
- Guidance on day-to-day operations of the continuous risk monitoring tool
- Increased speed-to-value, with rapid deployment of a standardized service model.

For further details, please contact:

Sudhir Arvind
Partner | Governance, Risk &
Compliance Services, Advisory
+971 50 238 0378
sarvind@kpmg.com

Siddharth Behal
Partner | Governance, Risk &
Compliance Services, Advisory
+971 56 524 9402
siddharthbehal@kpmg.com

Firas Haddad
Partner | Governance, Risk &
Compliance Services, Advisory
+971 56 501 8293
fhaddad@kpmg.com

Nagaraj Uchil
Director | Governance,
Risk & Compliance Services, Advisory
+971 56 508 5139
nagarajuchil1@kpmg.com

Mahendra Khiani
Director | Governance,
Risk & Compliance Services, Advisory
+971 56 501 6743
mkhiani@kpmg.com

www.kpmg.com/ae
www.kpmg.com/om

Follow KPMG Lower Gulf on:

@kpmg_lowergulf

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG Lower Gulf Limited, licensed in the United Arab Emirates, and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Designed by Creative UAE

Publication name: Next Gen GRCS series - ERM 2.0

Publication number: 4347

Publication date: October 2022