KPMG

Dynamic Risk Assessment (DRA)

Industrial Manufacturing

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Industrial Manufacturing - Focus on growth

Manufacturers are highly focused on achieving new growth; many expect to be aggressive in their search for new opportunities. Yet with limited baseline growth expected in most markets, successful manufacturers will need to outperform their rivals. The only certainty is that there will be winners and losers.

Manufacturers face many challenges in achieving new growth. Sector convergence is setting industries and organizations on multiple collision courses, creating both opportunities and threats in the shape of new markets, channels, technologies, propositions and behaviors. As has always been the case, disruption creates opportunities for those with the vision, will and skill to move quickly.

As the lifespan of business models reduces, the task of allocating capital and generating return on investment is becoming more challenging. Organizations are under pressure to be more agile and efficient, which introduces more risk.

Leadership needs to understand and better predict trends; the correct portfolio of products, services and markets will need to be identified; and—based on this information—investments will need to be concentrated on the opportunities and threats that best align with the growth and portfolio ambitions of the organization.

Risk Management 1.0 – the traditional approach – does a good job of generating defensive responses to risks or threats and developing governance disciplines to safeguard stakeholders' interests. But typically, it doesn't do a great job of identifying opportunities or "mega trends" and formulating responses to them. Responsibilities are stuck in the defensive mindset. The risk organization is seen as responsible for covering the downside of risk. Auditors, legal counsel and risk committees are set up as the "no" guys. But who is responsible for the upside of risk?

That's why KPMG developed a new approach designed to help organizations transform risk into value. Dynamic Risk Assessment (DRA) is designed to focus on both upside and downside of risk. We focus in on both sides of the coin, helping clients analyze observable "mega trends" to find the opportunities in risk that allow them to gain a competitive edge.

What makes DRA unique

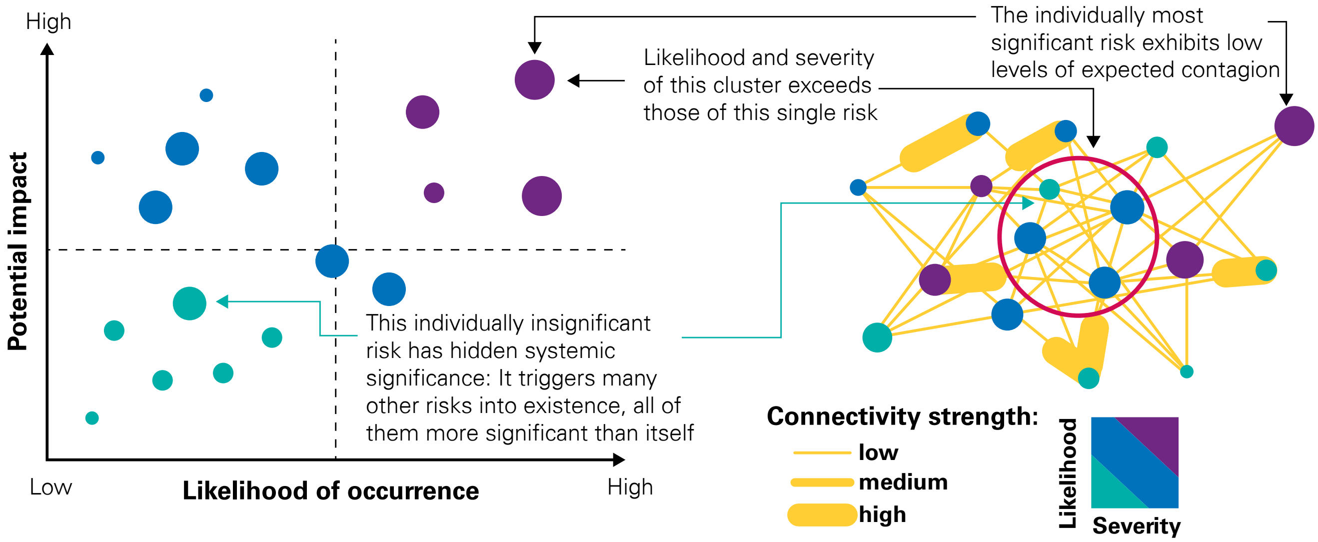
DRA is a proprietary methodology developed by KPMG to help bring a better understanding of the risks organizations face in today's complex world. DRA takes an unprecedented approach to gaining insights into clients' risk environments by pinpointing central risks and shedding new light on the risk mitigation strategies.

In today's highly interconnected and volatile world, dominated by new technology and emerging business models, the past is no longer a reliable guide to the future. Past data is a poor fit for the future as the forces and trends that shape our future have increasingly not manifested themselves before. Moreover, risks combine. They spill over into each other—they don't manifest neatly in isolation—and we no longer have the luxury of dealing with risks discretely.

There is a need to advance beyond historical risk analyses comprising two-dimensional depictions of expected probability and severity, and consider a third, and indeed a fourth dimension: velocity and contagion. This, together with the consideration of global trends that are shaping our world, is what DRA encompasses.

DRA vs. Traditional Risk Assessment

Traditional, two dimensional risk map | **Inter-connected view**

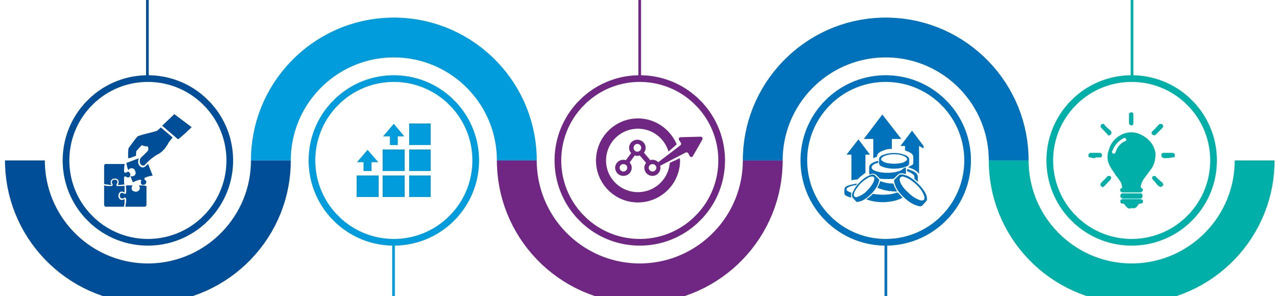


Certain risks connect more to each other than all other risks in the network, forming clusters.

DRA applies graph theory, the science of expert elicitation, actuarial modeling, sophisticated mathematics and financial mathematical algorithms, advanced data & analytics (D&A) and accounting science to assessments from experienced risk and non-risk frontline and back-office individuals within the business. This is done in a KPMG proprietary (and patent pending) methodology to identify, connect and visualize risk in four dimensions.

The DRA methodology combines qualitative and quantitative data to help identify:

- Your greatest systemic risk exposures, combinations and risk clusters to inform a risk mitigation plan
- How risks will impact each other in the network and how they behave in a dynamic manner over time
- A framework to revisit your risk tolerance and overall risk management strategy



- The impact of "mega trends" and their effects on your business
- Insights that may help you improve mitigation of systemically critical risks, to aid you in developing an investment strategy to counter those weaknesses

The DRA process

Typically, the end-to-end DRA process takes six to eight weeks, with the key steps outlined below:

1. Landscape articulation

KPMG works with key stakeholders to identify the key risks facing the organization.

2. DRA Survey

Key stakeholders complete an online survey, for the collection of data on the characteristics of the risks facing the organization.

The survey requires approx. 45 min to complete.

3. KPMG Analysis

KPMG applies advanced network theory to the survey responses to identify the organization's interconnected risks and opportunity network, and it's dynamics.

4. Follow Up Workshop

KPMG discuss the findings with the key stakeholders.

5. KPMG Deliver Dynamic Risk Assessment Report

The DRA report is discussed with the client to form part of strategic planning and ongoing monitoring.

Contact us

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