



The Impact of Integrated Risk Management

An Illustrative Quantitative Analysis of IRM



Integrated Risk Management (IRM) combines individual areas of risk management into a cohesive approach to reduce the potential effect of adverse events.

Archer views six major areas of IRM as follows:

- **Environmental, Social, Governance (ESG)** - the risks associated with the new paradigms of the modern enterprise and key indicators of a companies' long-term viability;
- **Enterprise and Operational Risk** – the risks to strategic objectives and within operations that affect everyday delivery of products and services;
- **IT & Security** – the risks associated with the technology infrastructure as organizations lean hard on technology innovation for stability and growth;
- **Audit and Regulatory Compliance** – the ever-present shifting landscape of legal and industry requirements;
- **Business Resiliency** – the expectations of the 'always on, always there' organization; and
- **Third Party Governance** – the risk of the expanding, complex network of relationships so crucial to the organization's success.

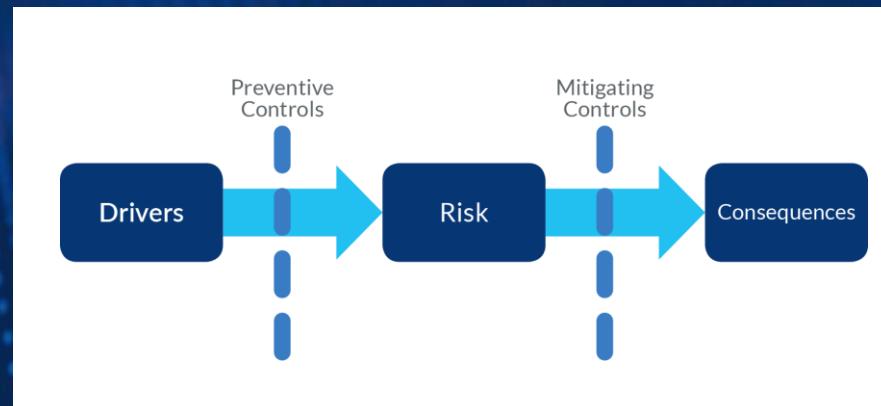
At the core of Integrated Risk Management is the ability for the business to make risk informed decisions - meaning business stakeholders are presented a clear and concise picture of the interdependent nature of risk, the potential impacts and the ability of the organization to weather negative events.

Most often, the benefits an organization sees in taking this more strategic and comprehensive approach to risk management are evident in many different types of metrics such as fewer compliance violations, less disruptions, and more effective responses to operational events. This eBook explores another way to view the impact of IRM through the lens of a quantitative Bow Tie Analysis .

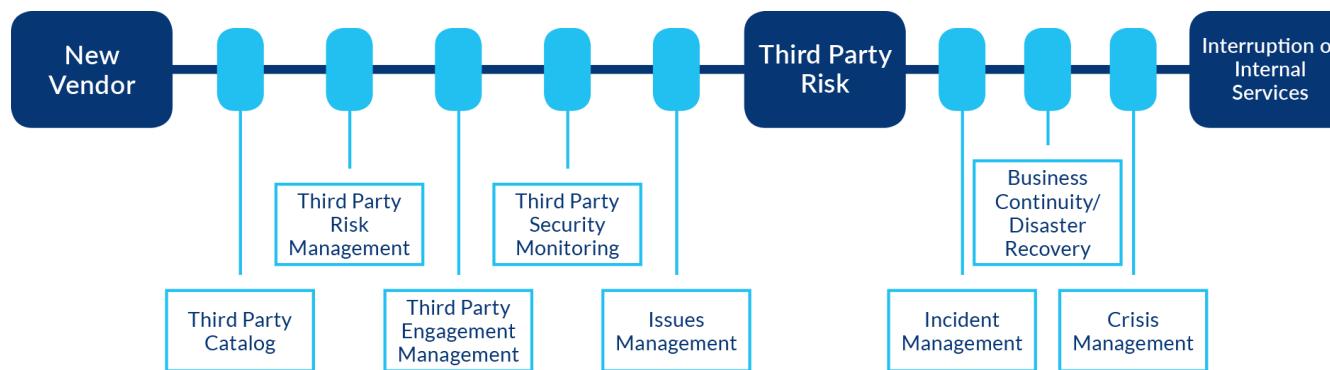
The Bow Tie analysis provides a method to analyze the overall affect of an integrated approach to risk management by quantifying the financial exposure.

The Bow Tie analysis is depicted as follows:

- Drivers are actions, events or circumstances that could cause a Risk, or Risk Event.
- Each Risk Event can have multiple Consequences. These Consequences could be financial losses, reputational harm or other negative effects for the organization.
- Controls are put in place to prevent the Driver from causing the Risk event and controls are put in place to mitigate the consequences and reduce the impact. Preventive Controls attempt to reduce the probability the Risk Event happens; Mitigating Controls attempt to reduce the impact of the consequences.

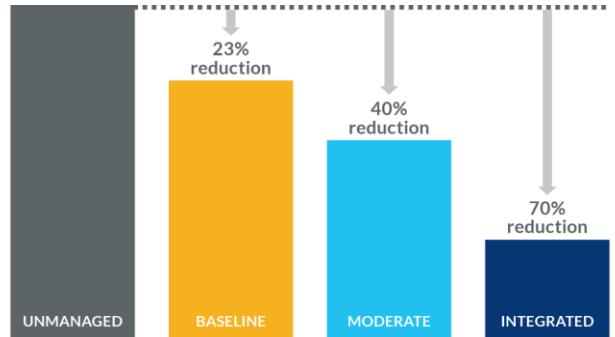


Bow Tie analysis is often used to analyze individual risk events but can also be applied at the macro level. For purposes of an illustrative example of this type of approach, Archer Insight was used to create multiple Bow Tie analyses of integrated risk management elements and determine a measurable impact. Bow Tie models were created for Environmental, Social, Governance (ESG), Resiliency, Third Party, Regulatory Compliance, and IT and Security risk. Common drivers and consequences were mapped to each of these risk events. The control set utilized was comprised of Archer use cases, representing major activities and processes of an integrated risk management program.



This is one example of a mapping between a Driver, Controls and a Consequence related to third party risk.

The Power of Quantification



The effect of control scenarios on aggregated financial exposure

To complete the analysis of the effect of effective IRM practices, three control scenarios were created and controls were assigned success probabilities based on the nature of the control and the program state.

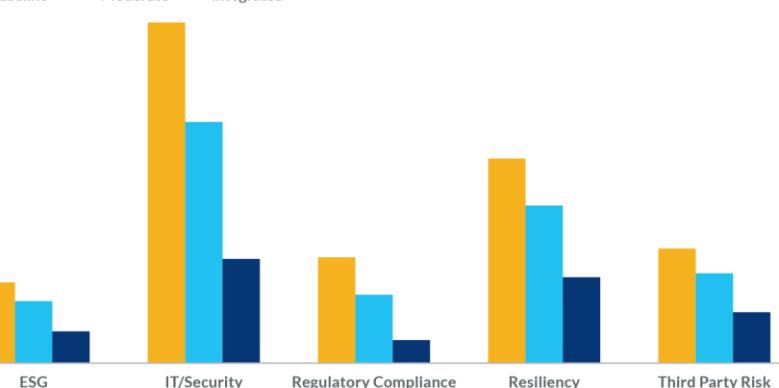
Baseline - The Baseline state represents a risk management program where control effectiveness is minimal representing early-stage programs or a very siloed approaches to managing risk. Each control was weighted as “1/4 effectiveness”.

Moderate - The Moderate state represents a mid-stage program where controls are more effective representing programs in flight towards an integrated approach. Each control was weighted as “1/2 effectiveness”.

Integrated – The Integrated state represents a mature program with highly effective controls. Each control was weighted as “full effectiveness”.

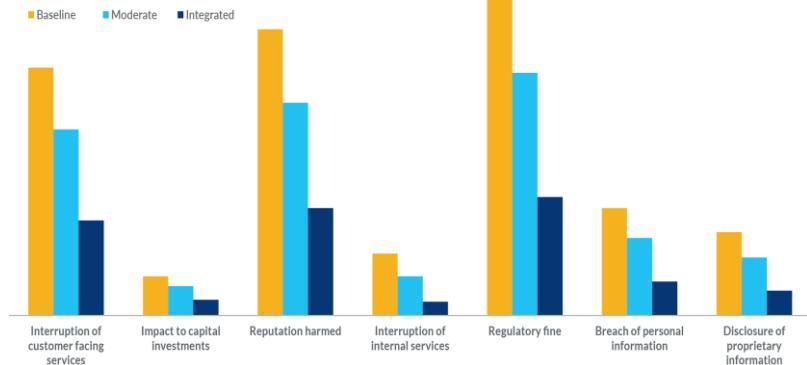
The control scenarios resulted in **significant reductions** of risk exposure via aggregated financial exposure, frequency of risk events and frequency of consequences.

■ Baseline ■ Moderate ■ Integrated



The effect of control scenarios on risk event frequency

■ Baseline ■ Moderate ■ Integrated

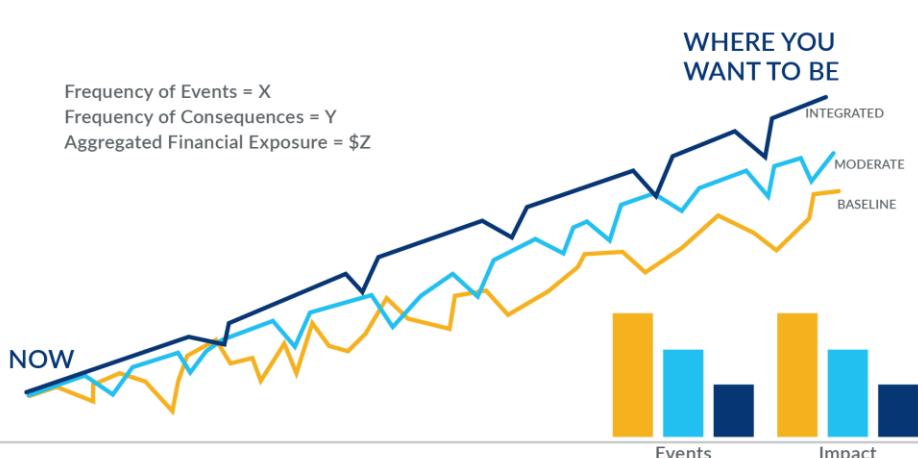


The effect of control scenarios on consequence frequency

KEY FINDINGS

The intent of this analysis was to apply quantitative analysis at an extreme macro level to identify the impact of an integrated approach to risk management. While most often the effectiveness of risk management programs is measured qualitatively, the application of bow tie analysis and the quantification capabilities of Archer Insight provides a view into a more tangible impact in terms of reduction of financial loss exposure, risk events and consequences. This illustrative example resulted in findings that, if applied in an actual organization with accurate, defensible inputs, would yield significant appreciation of the value and benefits of integrated risk management strategy.

Risk management must take into consideration where your organization is headed. Risks can stand in the way of that journey. It is important to understand fundamentally the inputs risk management can provide into the decision-making process.



- An IRM program that includes the risk and compliance processes enabled by Archer could reduce overall operational risk financial loss exposure by 40 – 70% depending on the effectiveness of the program.
- The analysis indicated a reduction of risk events (negative events) by significant rates.
- The analysis indicated a reduction of consequences events by the significant rates.



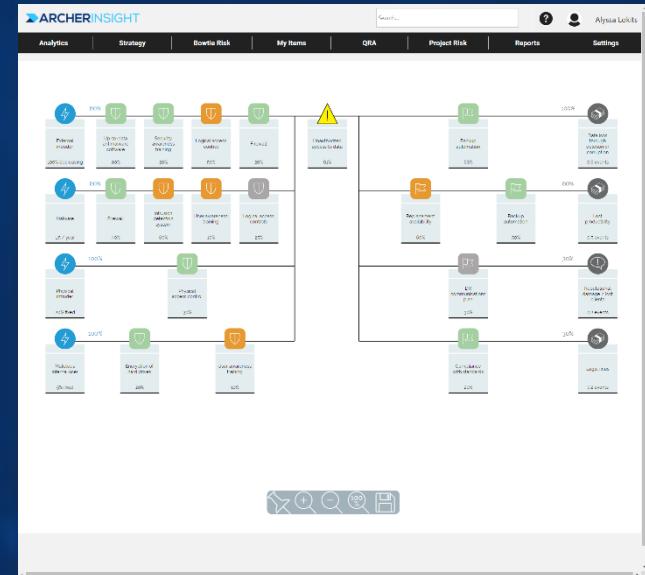
For more information, read the full analysis white paper.

DOWNLOAD

Archer Insight

Archer Insight is a suite of enterprise-wide risk quantification capabilities for business leaders designed to deliver a complete view of enterprise risks, improve resilience, and ensure achievement of strategic goals.

This innovative solution provides business leaders with more precision in an aggregated view of risks that allows them to ensure compliance and better protect your business from disruption. Using Archer Insight, organizations can conduct risk quantification analysis, monitor, and report on their risk management programs and then provide business leaders and decision-makers with quantitative, transparent, and actionable information needed to make strategic business decisions.



Archer Insight is entirely quantitative, enabling you to combine all threats to your organization and truly understand the risks and consequences that matter. The solution makes quantitative risk management logical, defensible, and straightforward by providing a full set of tools and features for understanding and managing all types of risk in one platform: operational, strategic, cyber-security, health and safety, investment, and reputational risk.

Learn more at:
<https://www.archerirm.com/archer-insight-risk-quantification>

About Archer

Archer is a leading provider of integrated risk management (IRM) solutions that enable customers to improve strategic decision making and operational resilience with a modern technology platform that supports qualitative and quantitative analysis driven by both business and IT impacts. As true pioneers in GRC software, Archer remains solely dedicated to helping customers manage risk and compliance domains, from traditional operational risk to emerging issues such as ESG. With over 20 years in the risk management industry, the Archer customer base represents one of the largest pure risk management communities globally, with more than 1,200 customers including more than 50% of the Fortune 500.

For more information visit www.ArcherIRM.com.



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Archer Integrated Risk Management

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