EBOOK

Lessons Learned from the Recent Banking Failures

Four Key Actions for Your Risk Management Strategy

The risk around the corner...

In a world where risks are abundant and ever-present, effective risk management can mean the difference between success and failure for businesses. The recent well-publicized failures in mid-sized banking institutions are cautionary tales of companies that, while seemingly focused on financial services, carry important lessons for all companies. These high-profile breakdowns serve as stark reminders of the importance of risk management and are just the tip of the iceberg when it comes to the day-to-day decisions made in today's fast-paced and ever-changing business landscape.

These are **four major trends and actions** you should consider as you develop your risk management strategy.

- The Emergence of the Chief Risk Officer
- Preparing for the Perfect Storm
- Reimagining Risk Analysis
- Integrated Risk Management as an Enterprise Capability

Risk management should enable nuanced discussions within the business on where the business can accelerate and where the business must optimize controls.

The Emergence of the Chief Risk Officer

Over the last five years, the role of the Chief Risk Officer (CRO) has evolved significantly driven by factors such as increasing regulatory requirements, heightened public scrutiny, and technological advancements. The CRO's responsibilities have expanded beyond traditional risk management to include oversight of a wider range of areas, such as cybersecurity, resiliency, data privacy, and environmental, social, and governance (ESG) risks.

Risk Identification

Find, recognize and describe the risks that can prevent an organization from achieving its objectives.

Risk Analysis

Inspect risks and possible scenarios that could lead to adverse conditions for the business.

Risk Mitigation and Trade-off

Present strategies for the business to consider a range of treatment options.

Reporting and Monitoring

Monitor and review of the management of risk includes staying abreast of changes in the business and monitoring events triggered by risk.

ACTION

Assign a Chief Risk Officer or equivalent that has the resources, executive influence and sufficiently broad mandate to inform business strategy.

Preparing for the Perfect Storm

Organizations face a litany of risks today. Keeping the common, known operational risks in check is important. However, there are low probability/high impact risks that may not receive the attention they deserve. These risks can be existential in nature for some organizations. The collapse of several financial institutions are prime examples of circumstances where connected risks had low likelihoods, but the combination of factors was disastrous.

It is extremely difficult to isolate a potential adverse event and insulate it from the rest of the organization. While an analysis of an individual event may signal a low risk, a combination of low probability events can cascade to a broader impact. The domino effect of internal and external factors can lead to a much higher impact. Understanding the connections between risks is important to develop effective strategies to mitigate and manage them. By identifying the potential cascading effects of risks, organizations can take proactive steps to reduce the impact of risk and improve resilience.

ACTION

Evaluate combinations of risk scenarios taking into consideration low probability/high impact events to identify potential "perfect storms".

Reimagining Risk Analysis

Within the modern enterprise, the wide variety of potential risk drivers, controls and consequences can create an intricate web of relationships. The uncertainty surrounding certain business scenarios requires a level of inspection and analysis that qualitative analysis simple does not reach.

Approaching critical risks with qualitative analysis is a recipe for disaster. Not only are some of these risks too important to not analyze properly, there are major cost or profit optimization opportunities inherent in understanding financial impacts.

Risk analysis should deliver a consistent approach to analyze these relationships and utilize statistical and mathematical principles at scale. The transition to risk quantification, via these principles, enables a more faithful representation of probable impacts and allows executive management to better differentiate potential adverse scenarios.

Decision-makers are missing critical details that enable them to differentiate risks due to output from qualitative risk analysis.

ACTION

Evaluate current risk analysis methodologies and transition to quantitative, statistical based approaches. The goal should be to achieve a comprehensive approach that allows for aggregation of risk at the enterprise level.

Integrated Risk Management as an Enterprise Capability

Organizations have turned to enterprise systems like Customer Relationship Management (CRM) and Human Capital Management (HCM) to manage complex parts of the business.

These systems provide a range of benefits including:

- Improved efficiency
- Better data management
- Improved decision-making
- Enhanced collaboration
- Scalability

The emergence of the CRO as an executive leadership position and the challenges in coordinating risk management activities have combined to create an enterprise level need for a technology solution dedicated and designed for the specific purpose of risk management.

An Integrated Risk Management (IRM) platform is as necessary as an HR or CRM platform and should support the various risk management functions. Because it is specifically designed for the risk management function, an IRM platform, can provide a holistic view of risks and the impact on the organization.

ACTION

Evaluate the existing support technologies utilized for risk management and determine how activities can be blended into an integrated strategy supported by a dedicated system designed for risk management.

Discover More

Archer is a leading provider of integrated risk management (IRM) solutions that enable customers to improve strategic decision-making and business 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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