



RISK DOCTOR BRIEFING

AFTER THE CRISIS – THEN WHAT?

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Many people blame the current global financial crisis on a failure of risk management. They say that risk professionals should have been in the best position to foresee what was coming and warn the rest of us. If the forward-looking radar of risk management was unable to spot the danger signs, then it can be of little use in future. Perhaps we should rely on something else to make sure that we don't make a similar mistake again.

Risk specialists tell a different story. They claim that they did indeed recognise the warning signs of overexposure in the financial markets and they raised these concerns within their organisations, but they were overruled by the business lines. It seems as if risk practitioners told their colleagues about the dangers and the decision was made to go ahead and take the risk anyway.

It is hard to judge at this point which of these versions of history are right, and perhaps the truth lies somewhere between the two. However attention is now turning to what should be done once the current crisis is over. The following suggestions might prove useful as elements of a solution.

- *Avoid over-regulation.* There is an increasing call for much tighter regulation of the sectors that caused the problems we are seeing today. This may be a mistake for two reasons. Firstly, regulations are usually developed in response to a specific set of circumstances. In particular they are designed to prevent a recurrence of the current difficulties. However like generals who tend to use the strategies and tactics of the last war to fight the next one, such retrospective action is likely to be ineffective. Future challenges will be different from past ones, and they will need to be addressed using different approaches. Secondly, over-regulation can stifle creativity and innovation, and prevent us from developing the new ways of thinking and doing business that will be appropriate for the future. We need a level of regulation which is appropriate: not so restrictive that it will hold us back from the right level of risk-taking, but not so loose that it will allow the mistakes of the past to be repeated.
- *Recognise the role of risk management.* Senior management must view the contribution of their risk specialists as valuable input to both strategic and tactical decision-making. The risk management function must no longer be seen as the "Business Prevention Department", always raising objections and trying to stop people from making progress or profits. Instead the insights and recommendations that arise from the risk process should be welcomed, providing early warning of those uncertainties that matter, and allowing proactive action to be taken. This may mean raising the profile of risk management within the organisation, setting it on an equal footing with the business lines, with board-level representation and accountability.
- *Talk the same language.* Too often risk practitioners use their own jargon and fail to communicate their message clearly. Risk specialists need to express their findings and advice in language that will be understood by those who need to hear it. This means not talking about risk registers, Monte Carlo simulation or probability-impact grids. Instead they must present risk results in terms of what matters to the people who receive the information. Senior management are interested in strategy, business value and competitive advantage. Technical experts are more concerned with functionality and performance. Risk communication should not be an afterthought but should receive careful attention and planning.
- *Remember that risk includes opportunity.* Not all risk is bad, and aggressive attempts to reduce risk too far will prevent us from exploiting the upside and capturing the rewards that appropriate risk-taking offers. Seeking opportunities through the risk process can create competitive advantage, maximise value and provide innovative solutions. A proper emphasis on this positive side of the risk equation will bring significant benefits as we emerge from the current crisis and move forward into the new unknown.

We face an uncertain future and no-one can be sure what the post-crisis world will look like. We can however be sure that being successful will require an effective approach to dealing with uncertainty, and risk management will play an important part in that success.