RISK MANAGEMENT - FRAMEWORK AND STRATEGY

The Phrase "**Risk Management**" is used to refer to the procedures that help organizations identifies, understanding, assessing, and managing their risks will increase the likelihood of their success while minimising the consequences and chances of failure.

Advantages of Risk Management:

Strategic planning involves risk management heavily. It is crucial to effective project management. The main objectives of a successful risk management strategy are to detect and evaluate potential hazards. Following are some of the main benefits of risk management:

- In the long run, risk management always saves a large amount of money and reduces the need for fire fighting. It creates solid contingency plans.
- It can aid in making plans and getting ready for chances that present themselves throughout a project or business.
- Strategic and corporate planning is enhanced by risk management. By reducing legal action or avoiding breakages, it lowers costs.
- It establishes greater dependability among the interested parties, resulting in increased reputation.
- Reliable Risk Management procedures comfort significant stakeholders across the entire firm.

Steps in Risk Management Process

The process of risk management consists of the following sequential steps:

I. RISK IDENTIFICATION:

Effective risk management depends on accurate risk identification; hence this is the first stage of the risk management strategy. Risk managers will not be able to control these unidentified risks if they are unsuccessful in recognising all potential losses or gains that pose a threat to the firm.

Classifying organisational risks based on their various categories is the first responsibility of risk management.

Process of Risk Identification:

The following actions should be taken as part of an efficient risk detection process:

1. **Creating a systematic process** - The risk identification process should begin with project objectives and success factors.

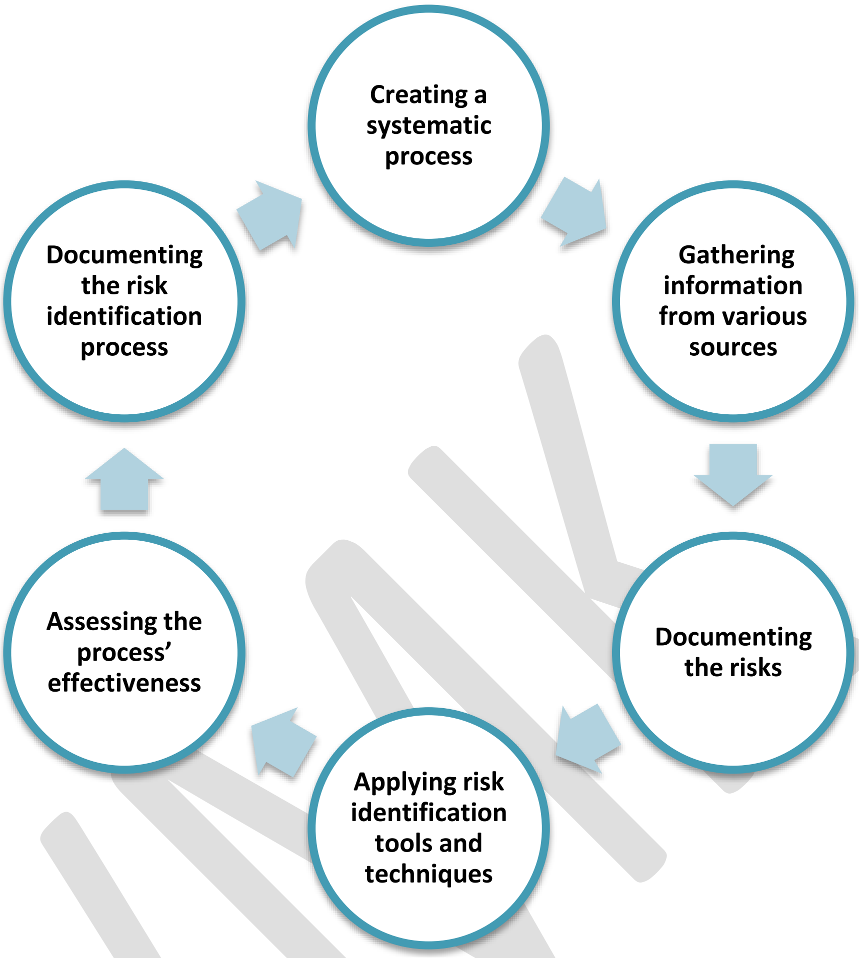
2. **Gathering information from various sources** - Reliable and high-quality information is essential for effective risk management.

3. **Applying risk identification tools and techniques** - The choice of the best suitable techniques will depend on the types of risks and activities, as well as organizational maturity.

4. **Documenting the risks -** Identified risks should be documented in a risk register and a risk breakdown structure, along with its causes and consequences.

5. **Documenting the risk identification process** - To improve and ease the risk identification process for future projects, the approach, participants, and scope of the process should be recorded.

6. **Assessing the process' effectiveness** - To improve it for future use, the effectiveness of the chosen process should be critically assessed after the project is completed.



II. RISK ANALYSIS:

The analysis of the risk, which comes after the identification of the risk factors, aids in the detection and management of prospective issues that could jeopardise important business efforts or projects. To do a risk analysis, first list the potential dangers and then calculate the likelihood that they'll come to pass. The analysis ought to be impartial and sector-specific.

Risk analysis is useful in many situations like:

- While planning projects, to help in anticipating and neutralizing possible problems.
- While deciding whether or not to move forward with a project.
- While improving safety and managing potential risks in the workplace.
- While preparing for events such as equipment or technology failure, theft, staff sickness, or natural disasters.

- While planning for changes in environment, such as new competitors coming into the market, or changes to government policy.
- When all the permutations-combinations of possible events/ threats are listed while analyzing the risk parameters and the steps taken to manage such risks, the risk matrix is designed / popped-up before the decision making and implementing authority.

Process of Risk Analysis

The risk analysis includes the following two process:

1. Identify Threats
2. Estimate Risk

Identify Threats: Identification of current and potential hazards is the first stage in risk analysis. These might originate from a wide range of sources. For example, they might be:

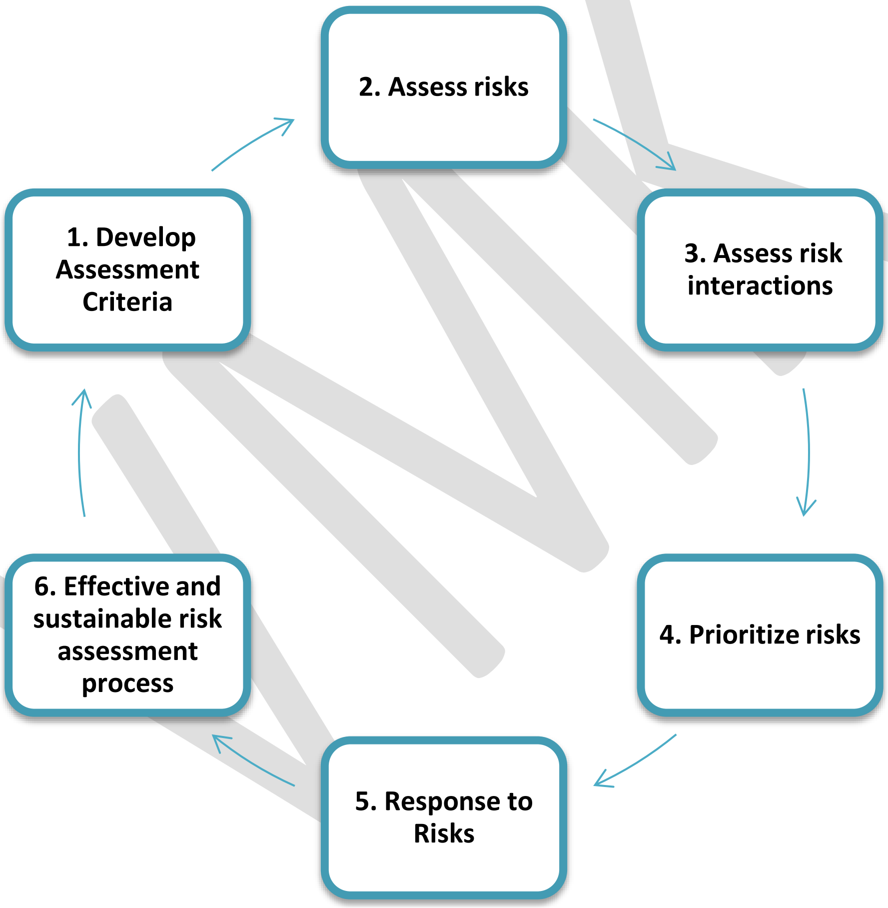
- **Human** – Illness, death, injury, or other loss of a key individual.
- **Operational** – Disruption to supplies and operations, loss of access to essential assets, or failures in distribution.
- **Reputational** – Loss of customer or employee confidence, or damage to market reputation.
- **Procedural** – Failures of accountability, internal systems, or controls, or from fraud. Project – Going over budget, taking too long on key tasks, or experiencing issues with product or service quality.
- **Financial** – Business failure, stock market fluctuations, interest rate changes, or non-availability of funding.
- **Technical** – Advances in technology, or from technical failure. Natural – Weather, natural disasters, or disease.
- **Political** – Changes in tax, public opinion, government policy, or foreign influence. Structural – Dangerous chemicals, poor lighting, falling boxes, or any situation where staff, products, or technology can be harmed.

Estimate Risk: After threats have been identified, it is necessary to determine their likelihood of materialising as well as their potential impact. Making the best assessment of the likelihood that the event will occur and multiplying it by how much it will cost to get things back on track are two methods of doing this. “Risk Value is the product of Event Probability and Event Cost”.

III. RISK ASSESSMENT

Businesses determine the importance of each risk to achieving their overall objectives through risk assessment. Enterprises need a practical, long-lasting, and simple risk assessment procedure in order to achieve this. It's important to keep the process organised and disciplined. It must be properly scaled for the size, complexity, and geographic reach of the company.

Process of Risk Assessment:



IV. HANDLING OF RISK

Risk ownership needs to be distributed. The people handling risks need to have their responsibilities and accountability allocated. When a danger materialises, the affected parties should note it and inform the appropriate authorities so that prompt action can be taken to reduce it. Risk management options include the following:

1. Risk Avoidance

Risk Avoidance means to avoid taking or choosing of less risky business/project. For example one may avoid investing in stock market due to price volatility in stock prices and may prefer to invest in debt instruments.

2. Risk Retention/absorption

Because insurance cannot be acquired for this sort of risk or because it may be too expensive to cover the risk, the company handles the inevitable risk internally instead, which is far more cost-effective. Retained dangers typically occur more frequently but are less serious. Since a deductible is a small risk that can reduce insurance premiums for greater risks, it is a typical example of risk retention to save money. There are two different retention techniques for limiting losses, as follows:

- Active Risk Retention: When a risk is kept in mind when developing a management strategy after carefully considering potential losses and their sources.
- Passive Risk Retention: where risk retention happened because of carelessness. Such a risk is unknown, or the risk taker either doesn’t understand the risk or thinks it’s less of a risk than it is.

3. Risk Reduction

Physical risk reduction, also known as loss prevention, is frequently the most effective way to handle any risk situation, and in most cases, it is possible to take precautions to lower the likelihood of loss. The planning stage of any project is the optimal time to consider risk reduction methods because new project when a significant improvement may be made with little or no additional expense. The cautious remark regarding risk reduction is that expenditures should, to the extent possible, be tied to potential savings in losses and other risk costs in the future; in other words, risk prevention generally should be evaluated in the same way as other investment projects.

4. **Risk Transfer**

The costs of certain possible losses are being legally assigned to another party. As it deals with risks that may be transferred to a company that specialises in absorbing them for a fee, "risks insurance" is to occupy a significant position. Typically, there are three main ways to transfer losses:

- By Tort
- By contract other than insurance
- By contract of insurance.

The main method of risk transfer is insurance.

Risk Mitigation:

Taking action to lessen negative impacts is referred to as risk mitigation. The practise of reducing or eliminating unacceptable risks associated with an organization's activities is known as risk mitigation. Risk mitigation strategies can be used to lessen the seriousness of the effects of the risk, lessen the likelihood that the risk will materialise, or lessen the exposure of the organisation to the risk. The risk mitigation stage entails creating plans for managing, removing, or reducing risk to a manageable level.

Once risks have been identified and assessed, the strategies to manage the risk fall into one or more of the following categories:

1. **Transfer Risk**

Execution is typically fought with hazards in project assignments or diverse exercises. When working together, various agencies make sure to transfer risks in their respective fields to another agency that is more suited to handle them for a fee. This is where the idea of core competence comes into play, and anytime a certain agency, person, or corporation discovers that it is dealing in a field that it lacks the core competence to handle, it seeks the assistance of another agency that has the particular core competence to transfer its own risk. The risk, which might take the shape of reputational damage or poor performance, is managed through transfer.

2. Risk Retention or Tolerate Risk

Retaining the risk is what it is. Accepting a loss as it happens is doing so. This type of insurance includes true self-insurance. For tiny risks where the cost of insurance would outweigh the overall losses incurred over time, risk retention is a practical strategy. By default, all risks that are not eliminated, diminished, or transferred are preserved. This covers hazards that are so significant or catastrophic that they cannot be covered by insurance or whose premiums are unaffordable.

3. Reduce Risk

There will be a much higher number of risks in this category. The goal of treatment is more likely to control the risk to a tolerable level than to completely eliminate it. Internal controls are initiatives taken within the organisation that are intended to limit risk to acceptable levels, even though their consequences may be felt outside the organisation.

If the outsourcer can show greater capacity at managing or lowering risks, outsourcing could serve as an example of risk reduction. In this situation, businesses only outsource a portion of their departmental needs. For instance, a business might manage its own operations while contracting out solely its software development, hard good manufacturing, or customer service requirements to another organisation. With less concern for the manufacturing process, the corporation can focus more on commercial development.

4. **Avoid Risk**

The exposure to loss due to a certain risk is entirely eliminated as a result of this strategy. It can be proven by refraining from taking on the dangerous endeavour or ceasing an activity to prevent risk. This indicates that no projects involving risk are carried on. As an alternative, a project might be abandoned in the middle to lessen risk.

It is not engaging in a potentially dangerous activity. An illustration would be to refrain from purchasing a property or company in order to avoid the associated liability. Another option would be to avoid flying altogether to avoid the chance of an aircraft hijacking. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits.

5. **Combine Risk**

When a company is exposed to two or three dangers, they work together to lower the overall risk. This tactic works best when dealing with financial risk. To lower risk, various financial instruments, such as shares and debentures, are combined into one portfolio.

6. **Sharing Risk**

Insurance is a method of sharing risk for a consideration. For example by paying insurance premium the company shares the risk with companies and the insurance companies themselves share their risk by doing re-insurance.

7. **Hedging Risk**

Exposure of funds to fluctuations in foreign exchange rates, prices etc., bring about financial risks resulting in losses or gain. The downside risk is often taken care.

Fraud Risk Management:

Fraud is a deliberate action to deceive another person with the intention of gaining some things. Fraud can loosely be defined as "any behavior by which one person intends to gain a dishonest advantage over another". In other words, fraud is an act or omission which is intended to cause wrongful gain to one person and wrongful loss to the other, either by way of concealment of facts or otherwise.

Fraud Risk Management Processes:

Identifying Risks → Assessing Risks → Responding to Risks → Monitoring and reviewing risks → Reporting Risk

➢ Identifying Risks

For a corporation to effectively manage its fraud risk, it is absolutely essential to identify risks. It is important to determine which workers and departments are most likely to perpetrate fraud and what strategies they might take. Risk identification calls for employee brainstorming. Prioritizing the risks comes next after risk identification. Prioritizing risks is crucial when there isn't enough time or money to mitigate the effects of current risks. As a result, businesses tackle hazards that require prompt attention and stop losses.

➢ Assessing Risks

Based on several examples, organisations should recognise problems and develop appropriate solutions in order to resolve them. Although this is a good and legitimate technique to handle problems, businesses need to go above and above. They should start by attempting to identify the causes of the hazards. The root causes of the risk should be addressed. They should also consider how those risks might impact the company.

- **Responding to Risks**

After recognising and evaluating the risks, companies should take the best action they can. They must develop risk-mitigation plans and choose who will be in charge of carrying them out. Additionally, they should take the appropriate steps to stop the risks from happening again. Additionally, businesses should consider what to do in the event that same risks recur in the future.

- **Monitoring and reviewing risks**

The process of managing fraud risk is on-going. Risk assessment is therefore never carried out. To be able to adjust simply and swiftly to changing situations and environments, businesses need to continuously monitor and analyse their fraud risk management. Additionally, new dangers could materialise at any time, so businesses should be ready for them as soon as possible.

- **Reporting risks**

Companies can reduce the risk of losing important information and receiving questionable findings by adopting an effective fraud risk management strategy. When reporting concerns, one should act objectively, take concrete steps, and offer advise on how to reduce the likelihood of fraud.

Role of Company Secretary in Risk Management:

The Company Secretaries are **governance professionals** whose role is to enforce a compliance framework to safeguard the integrity of the organization and to promote high standards of ethical behaviour. He has a significant role in assisting the board of the organization to achieve its vision and strategy.

The activities of the governance professional encompass legal and regulatory duties and obligations and additional responsibilities assigned by the employer. However, in essence, the functions of a Governance Professional include:

- Advising on best practice in governance, risk management and compliance.
- Championing the compliance framework to safeguard organizational integrity.
- Promoting and acting as a 'sounding board' on standards of ethical and corporate behaviour.
- Balancing the interests of the Board or governing body, management and other stakeholders.

A Company Secretary can ensure that the following questions [an illustrative list] are effectively addressed at the board level:

- What is the organization's risk management philosophy?
- Is that philosophy clearly understood by all personnel?
- What are the relationships among ERM, performance, and value?
- How is ERM integrated within organizational initiatives?
- What is the desired risk culture of the organization and at what point has its risk appetite been set?
- What strategic objectives have been set for the organization and what strategies have been or will be implemented to achieve those objectives?
- What related operational objectives have been set to add and preserve value?
- What internal and external factors and events might positively or negatively impact the organization's ability to implement its strategies and achieve its objectives?
- What is the organization's level of risk tolerance?

- ❖ Is the chosen risk response appropriate for and in line with the risk tolerance level?
- ❖ Are appropriate control activities (i.e., approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties) in place at every level throughout the organization?
- ❖ Is communication effective — from the top down, across, and from the bottom up the organization?
- ❖ How effective is the process currently in place for exchanging information with external parties?
- ❖ What is the process for assessing the presence and performance quality of all eight ERM components over time?

Reputation Risk:

Reputation Risk as the risk arising from **negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties** or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets).

This risk do not usually have direct and immediate financial impact on the business, but the consequences are very serious and later do have significant financial impact if the risks is not controlled at the initial stage.

Loss of Reputation has long lasting damages like:

- It destroys the Brand Value;
- Steep downtrend in Share Value;
- Ruined of Strategic Relationship;
- Regulatory relationship is damaged which leads to stringent norms;
- Recruitment to fetch qualified staff as well the retention of the old employees becomes difficult.

Reputation Risk Management:

For managing the reputation risk, the following principles are worth noting:

- Integration of risk while formulating business strategy;
- Effective board oversight;
- Image building through effective communication;
- Promoting compliance culture to have good governance;
- Persistently following up the Corporate Values;
- Due care, interaction and feedback from the stakeholders;
- Strong internal checks and controls Peer review and evaluating the company's performance;
- Quality report/ newsletter publications;
- Cultural alignments.

Conclusion:

In conclusion, a comprehensive risk management framework, driven by careful identification, analysis, and strategic response, is integral to achieving long-term organizational success and sustainability. Properly managing risks ensures the protection of assets, enhances corporate reputation, and provides confidence to stakeholders.

Properly managing risk provides several key benefits that can enhance the overall success and sustainability of an organization. Here are the main benefits:

1. **Financial Savings and Cost Reduction**

Minimizes Losses: Identifying and mitigating risks early prevents financial losses due to unforeseen events, emergencies, or poor decision-making;

Lower Insurance Premiums: A robust risk management strategy can lead to lower insurance premiums by demonstrating that the organization has effective risk controls in place;

Avoids "Firefighting": By addressing risks proactively, the need for crisis management or "firefighting" is reduced, ultimately saving time, effort, and resources.

2. **Improved Decision-Making**

Better Planning and Forecasting: Effective risk management allows organizations to make well-informed decisions by understanding potential challenges and opportunities;

Identifying Opportunities: Risk management helps to not only avoid negative risks but also uncover potential opportunities that can be exploited, enhancing business growth;

Informed Risk-Taking: With a clear understanding of risks, organizations can take calculated risks that align with their strategic goals, without unnecessarily exposing themselves to significant threats.

3. **Increased Organizational Resilience**

Preparedness for Disruptions: Organizations that manage risks effectively are better prepared for disruptions, such as market shifts, technological failures, or natural disasters. This leads to quicker recovery and continued operations;

Contingency Planning: A structured risk management approach ensures that there are contingency plans in place to handle any identified risks, making the organization more adaptable to unexpected changes.

4. **Enhanced Reputation and Stakeholder Confidence**

Trust and Credibility: Effective risk management increases trust among stakeholders (investors, clients, employees, regulators) because they see the organization as proactive and responsible;

Stronger Relationships: By mitigating risks, an organization can avoid issues that could harm relationships with customers, suppliers, or regulatory bodies;

Increased Investor Confidence: Investors are more likely to invest in organizations that show a mature understanding and management of risks, as it reduces the potential for significant losses.

5. **Regulatory Compliance and Legal Protection**

Avoidance of Legal Liabilities: Proactive risk management helps organizations comply with legal and regulatory requirements, thus avoiding costly fines, penalties, and lawsuits;

Minimizing Reputational Damage: By preventing issues like fraud, unethical practices, or non-compliance, organizations avoid reputational damage that can lead to customer loss and reduced market value.

6. **Operational Efficiency**

Streamlined Processes: Risk management often leads to the identification of inefficiencies or gaps in processes, which, when addressed, improve the overall efficiency of operations;

Better Resource Allocation: It helps organizations allocate resources more effectively, prioritizing areas that have the greatest potential impact on their goals.

7. **Improved Strategic Planning and Execution**

   Alignment with Objectives: Risk management ensures that potential risks to strategic objectives are considered and addressed, enhancing the likelihood of success;

   Stronger Long-Term Strategy: By understanding risks, organizations can better anticipate market conditions and external factors, which aids in crafting a more robust, forward-thinking strategy.

8. **Employee Engagement and Safety**

   Health and Safety: Effective risk management ensures a safe working environment, reducing the likelihood of accidents, injuries, or work-related illnesses;

   Employee Morale: Employees feel more secure when they know that the organization takes their safety and well-being seriously, leading to higher morale and retention rates.

9. **Competitive Advantage**

   Better Market Position: Organizations that effectively manage risks are more likely to outmaneuver competitors who fail to do so. They can navigate challenges smoothly and seize market opportunities more quickly;

   Reputation as a Safe Investment: Firms that demonstrate strong risk management practices are often seen as more stable, which can attract more business opportunities and partnerships.

10. **Sustainable Growth**

    Long-Term Stability: Properly managing risk ensures that an organization doesn't take on more than it can handle, fostering sustainable and steady growth over time;

Adaptability to Change: With a structured risk management process, organizations are better equipped to handle changes in technology, customer behaviour, and market trends, ensuring longevity in a competitive environment.

In Summary:

Proper risk management not only safeguards the organization from unforeseen negative impacts but also provides strategic advantages like cost savings, improved decision-making, and stronger relationships with stakeholders. It helps organizations stay resilient, efficient, and competitive, while ensuring long-term success.