Three ways CROs can **reduce overspend** while **maintaining risk function effectiveness**

In the current business environment – with a seemingly constant demand for regulatory reform, concerns about Brexit and an intense focus on costs – the cost of compliance and risk management continues to rise. In many cases, this increase is a consequence of the expanding remit and size of risk functions. However, these functions are still under the same pressure as other functions to optimise costs.

Chief Risk Officers (CROs) all share the same challenge; how to identify areas where spend can be reduced without damaging the performance of the function and the overall risk performance of their firm. Their worry, quite rightly, is that indiscriminate cuts to the risk function could limit its effectiveness in performing its vital role or, worse, cause it to cease functioning altogether.

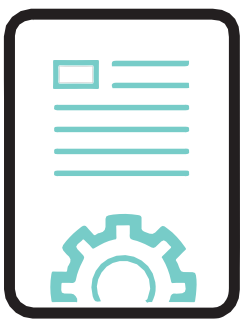
Managed in the right way, CROs can (and should) identify those costs that can be removed, while at the same time identifying the areas where they can invest to continue to support the needs of the business. Unless they take pro-active action regarding expenditures, they run the risk that a future cost-reduction exercise forces their hand and draws them in to wider-ranging cuts, over which they have limited influence.

Where to start?

In theory, no aspect of the risk function should be out of scope. That said, the most robust approach to the cost challenge is to carry out an end-to-end review of direct and indirect expense. When we support clients, we promote a zero-based budgeting approach where – starting from a blank page – the true costs of the function are built up, free from previous budgets, history and bias. Once identified, each line of expenditure is then challenged, to establish the extent to which it is a necessary cost, whether it is at the right level and if it is aligned to the strategic aims of the business. The resultant book of costs reflects a true view of the expense of the service/function, and informs decisions about any costs that are unnecessary, misaligned or too high.

Notwithstanding the above, in our experience there are three areas where overspending is common.

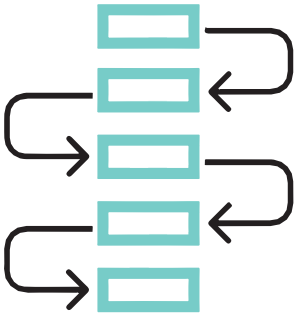
1. (Re)Confirming the risk mandate and engagement model



Growth in risk functions can often be fast and disjointed. As a result, many organisations find that there is an inconstant approach to how their teams are structured, what they focus on and how they work together, both internally and with business stakeholders. In some cases, risk teams find that they inadvertently duplicate activities or create mixed messages about priorities and ways of working.

Our experience is that (re)confirming the mandate for risk and how it works with the business can increase risk function productivity by as much as 20%. This is achieved either by more effective teaming within the risk function itself, clarity about accountabilities and moving more work to the business, or better engagement with the business about risk priorities and ways of working.

2. Automation



Many organisations find it challenging to automate risk processes. Common barriers to adoption include a view that the process is too complex, that oversight and control by staff is necessary, that the tools are too expensive or that automation will introduce too high a level of operational risk. However, developments in technology mean that the cost of automation continues to fall while its reliability and performance continues to rise, thereby strengthening the business case for automation.

Automation can deliver benefits for risk in two ways:

i. Firstly, risk effort can be reduced by leveraging automation tools, so the cost of staffing risk activities falls

ii. Secondly, automation of business activities increases compliance and reduces errors, reducing the need for risk function advice or intervention

Our experience is that, in some cases, use of automation can reduce risk staff costs by as much as 25%. Of course, as a business case, automation does not only reduce staff costs, but creates the opportunity for improvements in quality and customer experience. So, the value of risk functions in exploring opportunities can often have wider business support.

3. Analytics-led risk management



Risk functions must be responsive to the ever-changing risk landscape faced by the business, yet there is no exact science for measuring risk. Therefore, keeping on top of shifting risk priorities is challenging and often results in resources being spread too thinly to be truly effective, or effort being wasted in delivering non-critical risk activities.

Analytics can build measurement parameters that help create a unified baseline of risk across an organisation, pulling together many strands of risk into one unified view. This can help establish and examine all likely risk scenarios and provide a better understanding of the potential risk impact, thereby directing sufficient attention and resource to the biggest risks.

For some time, analytics have been used largely to create business intelligence – i.e. highlighting facts and reporting past and current performance. Today however, risk analytics are more focused on data exploration, structured and unstructured data segmentation, statistical clustering, predictive modelling, event simulation and scenario analysis.

Our experience is that, by embedding analytics deeply into the risk function and taking a more intelligent approach to intervention and mitigation, CROs can more closely monitor performance through risk sensitivity analysis, model key risk event scenarios, and take advantage of the inherent cost reduction opportunities.

Protecting risk performance

As with all cost reduction opportunities, the areas highlighted above need careful analysis to ensure that any planned changes or cuts do not lead to a reduction in risk management performance or other, unintended consequences. Once a plan for reduction is underway, CROs and their teams need to keep a close eye on risk levels and risk management performance, so that any issues can be quickly identified and managed.

We believe that there is much to be gained from risk functions taking a proactive approach to exploring cost reduction opportunities, both in the short and long-term. In the short-term, CROs will find immediate cost benefits through reshaping the structure and focus of their functions. In the longer-term, this process enables them to create a function that is more agile and able to invest in ways that better support the business objectives of the future.

The potential impact of disregarding this approach is that risk workloads and costs continue to increase exponentially until, at some point, an indiscriminate, business-led, cost-reduction exercise forces costs out of risk, undermining the function's ability to operate. This can lead to an unintended increase in the risk profile of the firm and a consequent additional increase in risk workload and cost.

TORI London +44 (0) 20 7025 5555
TORI New York +1 212 6181970

toriglobal.com
info@toriglobal.com