GRC today

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GRC today

Insights in Governance, Risk and Compliance.

The GRC Today is an international publication from KPMG's Advisory Risk Consulting practice and seeks to update you on developments in the field of Governance, Risk and Compliance (GRC). Topics include amongst others: new laws and regulations, soft controls, GRC tooling, leading practices and case studies. The GRC Today is distributed to a wide audience to provide insights and food for thought on their GRC journey.

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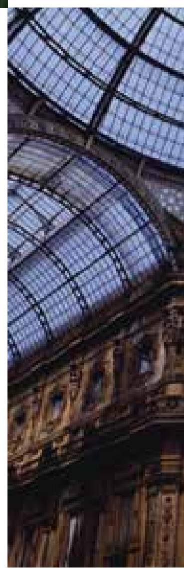


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Client case —

Volvo Group:

Building the case for electric buses

About the Volvo Group

The Volvo Group is one of the world's leading manufacturers of trucks buses, construction equipment and marine and industrial engines. The Group also provides complete solutions for financing and service. The group, with its headquarters in Gothenburg, Sweden, employs about 100,000 people, has production facilities in 18 countries and sells its products in more than 190 markets. In 2015 the Volvo Group's net sales amounted to around US$37 billion.

Transforming to a low-carbon economy brings disruptive changes to many industry sectors. Industry leaders must not only deal with disruption effectively, but also identify the upside of risks and act on those opportunities.

In the transport sector, Volvo Group of Sweden, supported by KPMG in Sweden, has carried out pioneering work on the case for low-carbon electric buses by building environmental and social impacts into the total cost of ownership. We asked Niklas Gustafsson, Volvo Group's Chief Sustainability Officer, how this analysis has helped to reinforce Volvo Group's position as a leader in sustainable transport solutions.

There is a shift to cleaner, quieter and more efficient cities

Momentum is building worldwide behind a technological shift towards low-carbon city transport including fully electric bus systems. The C40 Cities Climate Leadership Group is committed to accelerate the implementation of ultra-low emission bus technologies and 23 of its members have signed the Clean Bus Declaration calling on the finance and transport sectors to support them through technology innovation and financing.

Fully electric buses have significant environmental and social advantages because they are exhaust-free, almost noiseless and can shorten travel time, helping to create cleaner, quieter and more efficient cities. The buses can even operate indoors which offers new opportunities for innovation in city planning and transport routing. All this translates into a market with attractive growth prospects.

The global electric bus market is expected to grow at a compound annual growth rate of 28 percent between 2014 and 2020, and to reach an estimated annual sales volume approaching 35,000 units by 2020.[1] Volvo Group is already embarking on a mission to address this demand.

True cost of ownership goes beyond direct financial costs

Municipalities and transport authorities must base their investment decisions on the best available data which traditionally focuses solely on direct financial costs. Costs related to environmental and social impacts are rarely factored in because relevant data is not easily available. That is why Volvo Group decided to take a leadership role and quantify the environmental and social value created by its electric buses.

"Standard investment appraisals do not take into account all of the costs that impact society and the environment. Therefore, to quantify all of the aspects, we calculated the monetary value of an electric bus line," says Mr. Gustafsson.

The objective of the analysis was to understand how the total cost of electric buses compares with that of diesel and biogas buses when social and

1 Persistence Market Research, 2015, Global Market Study on Electric Bus.

The buses can even operate indoors which offers new opportunities for innovation in city planning and transport routing. All this translates into a market with attractive growth prospects.

> **In order to apply the methodology to the client's specific case, we needed insight from many Volvo Group stakeholders to identify environmental and social factors that have a material impact.**

environmental impacts are taken into account. In order to do so, Volvo Group chose to work with finance and sustainability professionals from KPMG member firms and to develop an approach called True Total Cost of Ownership (TrueTCO). This methodology monetizes the environmental and socio-economic impacts of an organization and/or its products and services - in other words, it quantifies them in financial terms.

The process identifies material environmental and social impacts

Volvo Group and KPMG's Sustainability practice in Sweden carried out a comprehensive stakeholder dialogue and materiality analysis to identify the socio-economic and environmental impacts to be quantified in financial terms in Volvo Group's TrueTCO analysis.

Speaking about the process, Daniel Dellham, the partner leading the project for KPMG in Sweden says: "In order to apply the methodology to the client's specific case, we needed insight from many Volvo Group stakeholders to identify environmental and social factors that have a material impact.

"We consulted with many stakeholders, both from within Volvo Group and external ones like city and transport authorities, environmental NGOs and universities. This extensive dialogue helped to ensure we covered all relevant perspectives for Volvo, as well as to create support and buy-in to the process."

Once all factors material to TrueTCO had been identified, the central challenge was to find credible and robust data to monetize what are traditionally perceived as non-financial impacts. For example, traffic noise can adversely affect people and has been linked to health issues such as heart conditions and stress. The True TCO analysis required the team to apply a financial cost per person per year to account for the adverse effects of traffic noise.

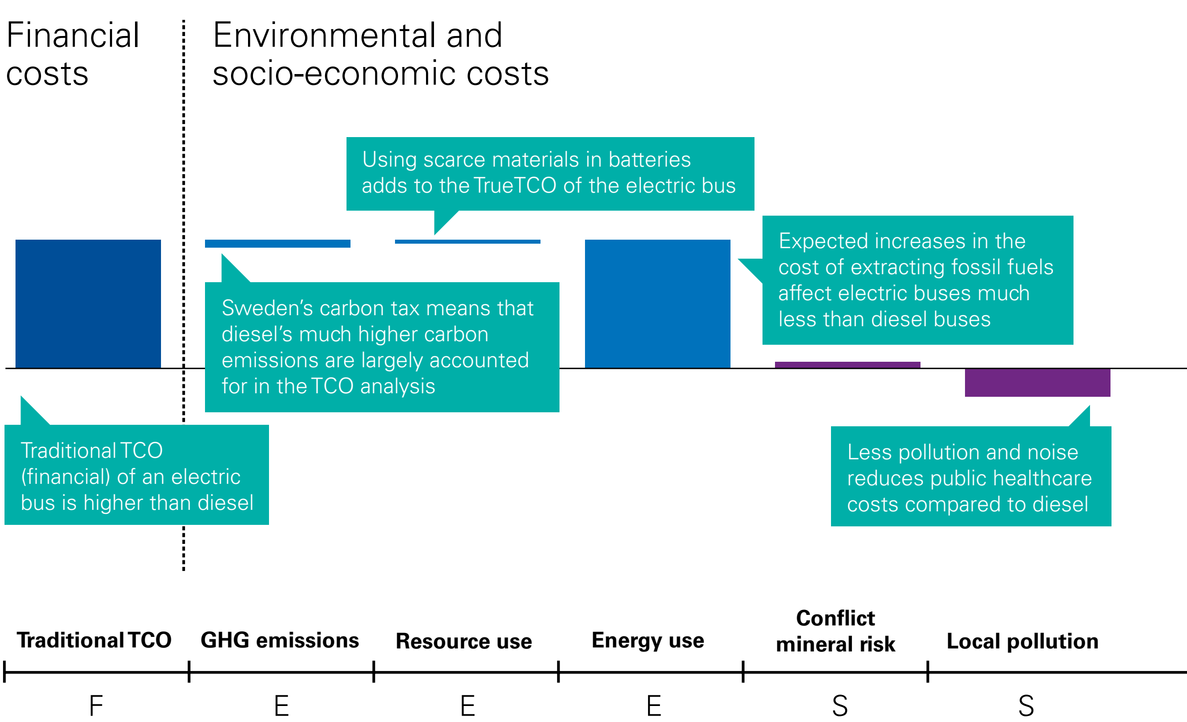
True Total Cost of Ownership transforms the conventional view of costs

Traditional financial cost-of-ownership analyses suggests that the cost of owning electric buses is higher than owning buses based on conventional technologies. However, the picture changes dramatically when the TrueTCO is calculated and environmental and socio-economic impacts are also taken into account.

The TrueTCO of electric buses is significantly lower than that of biogas and diesel buses. Furthermore, electric is the only technology that sees a reduction in ownership costs when the TrueTCO lens is applied.

KPMG True Value Analysis

Comparison of True Total Cost of Ownership of electric bus vs diesel bus



Source: GRC Today, October 2016, KPMG International

"The results show that irrespective of the number of parameters taken into consideration, electric buses comprise the leading public transport solution," says Mr Gustafsson.

The value bridge below demonstrates how the True TCO analysis changes the conventional view of costs. The bars represent the difference in costs between an electric bus and a diesel bus. The bar on the far left shows that the TrueTCO of an electric bus is higher than that of a diesel bus when only direct financial costs are taken into account. The bar on the far right shows that the TrueTCO of an electric bus is lower than that of a diesel bus when the costs of environmental and socio-economic impacts are taken into account.

Savings to society could be significant

"Electric buses are an excellent example of an innovation that can create substantial value for society," says Mr. Dellham, of KPMG in Sweden.

"Our analysis was based on a city with about half a million inhabitants and 400 buses. If all city buses in Sweden were electric, it could save Swedish society approximately US$225 million per year, of which US$45 million would be public healthcare savings."

True TCO could help to transform urban environments worldwide

The TrueTCO analysis has helped Volvo Group to increase awareness of the environmental and socio-economic impacts of city transport. It can also help city municipalities and transport authorities worldwide to make decisions on city planning and the future development of their transport systems. It is a strong example of how business can drive sustainable innovation and change by quantifying external social and environmental impacts that, until now, have usually been unpriced.

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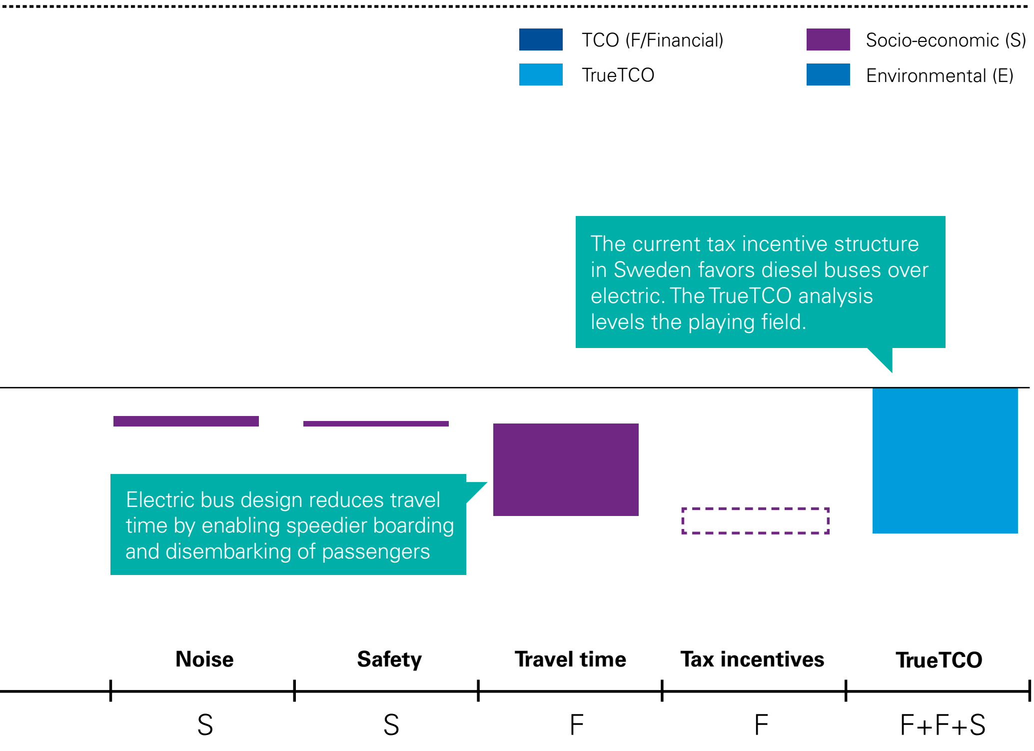
TrueTCO per bus per year



Risk-based strategies

The story of how one company confronted the risks and opportunities of its growth strategy.

A traditional risk management approach would not be the right vehicle to lead a strategic and tactical response to marketplace signals of change, yet risk was central to the company's earnings challenges.

Context — a company under pressure

The chairman of an agricultural services company was worried about the acquisition targets and investment choices being proposed by management. Under pressure to improve bottom-line performance, management showed a bias towards acquiring high-risk targets with unknown track records.

The company had recently been bought out by venture capital shareholders with aggressive ambitions to increase its earnings. The new shareholders had concerns about the company's financial performance and placed high expectations on management. The core business was stable but its income had stagnated. Other areas of the business had varying financial results.

Given the company's mature market, management was under pressure to look offshore and into new sectors with its expansion plans. Management had experienced several acquisition failures before, but were currently looking at a dozen new prospects with renewed optimism. In particular, the chief executive was enthusiastic about investing into disruptive innovations. He recognized that the industry was transforming and he had a desire to leverage signals of change into opportunity, to develop a culture of leadership in innovation. After all, companies that turn a blind eye to disruptive innovation do so at their own peril, he believed.

The concerned chairman didn't want to hinder the growth strategy but he saw a clear tension between governance and entrepreneurialism. The company's investment committee governed investment proposals on a case-by-case basis, but had no tools to evaluate them against parameters such as risk capacity, risk appetite, or the potential impact of failure on the group's fragile earnings.

The chairman believed that the company needed a more strategic approach to risk appetite, so he called the company's Risk Executive for help. A conventional enterprise risk management approach for risk appetite had been in place for some time but it didn't contribute any strategic insights.

A traditional risk management approach would not be the right vehicle to lead a strategic and tactical response to marketplace signals of change, yet risk was central to the company's earnings challenges. The company needed a new set of tools that would help it to strike the right balance between risk and reward. It needed a more analytical approach to identifying under-performing and outmoded products, services, models, processes. Management and the board needed to better understand the risk capacity of the existing business and its capacity for risk-taking. The company needed tools to help management gauge the risk/reward profile of potential new ventures in the context of existing earnings dynamics, and needed a set of dashboards to communicate risk/reward profiles to the board of directors. It needed a change management process to achieve acceptance and adoption of these tools, and ultimately, it needed deeper insights to balance the debate between strategy and risk.

The Risk Executive turned to KPMG for help.

A risk-based strategy

The KPMG team designed and implemented a 5-step risk-based strategy process for the company. This delivered deeper insights into the risk-reward profile of the company's existing portfolio of services, and enabled it to take investment decisions based on improved insights into risk/reward parameters. Development of the risk-based strategy was achieved as follows.

Step 1 — Corporate Portfolio Management

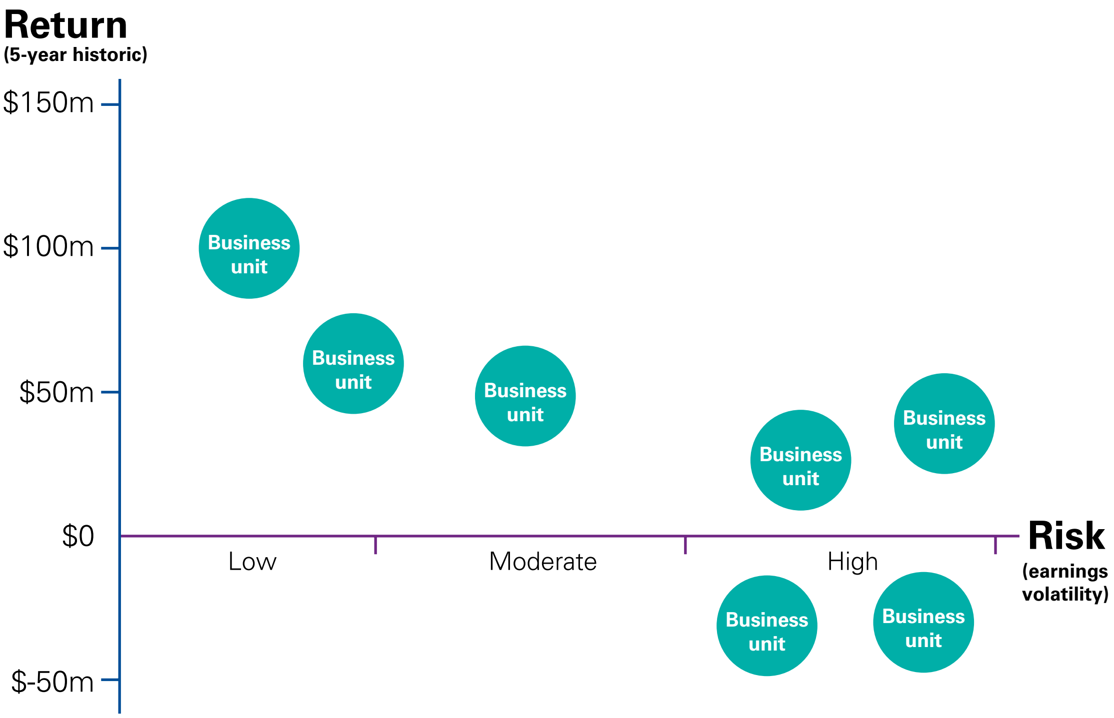
The first step was to develop insights into the existing business' risk/reward dynamics. It was essential to help eliminate the subjectivity that had been allowed to shape investment decisions of the past, characterized by varying risk-taking propensities and political persuasiveness.

Risk in the company's existing portfolio of income streams was measured statistically for Profit before Tax and for operating profit margin. This revealed which services and subsidiaries had patterns of growth and stability, and which were vulnerable or bleeding money.

A strategic lens was then developed for the portfolio of subsidiaries and services. Corporate Portfolio Management matrixes were used to achieve this, such as market attractiveness vs competitive position, market growth vs relative market share, a pioneer/migrator/settler matrix, innovation portfolio vs risk matrix, and a core competencies matrix. These were overlaid with a dashboard of shortlisted opportunities, a group risk appetite heat map and the group risk dashboard.

"It needed a change management process to achieve acceptance and adoption of these tools, and ultimately, it needed deeper insights to balance the debate between strategy and risk."

Figure 1: Risk/reward



All amounts are in US dollars
Source: GRC Today, October 2016, KPMG International

Step 2 — Signals of change

The second step was to provide management with insights into marketplace signals of change that could pose significant risks to vulnerable parts of the existing business — or that could present potential opportunities for investment.

This involved a research process that uncovered several dozen marketplace innovations and creative solutions that could be adopted and adapted by the company. Many of them were already being used by early adopters in the company's sector; others were trending in society at large. Management gained deeper insights into societal trends such as smart cities, design thinking and the sharing economy; and technology trends such as robotics, smart materials and the internet of things. Relevant trends to the company's customers were identified such as wearables, facial recognition, and the quantified self; and others relating to financial services such as peer-to-peer lending, crowd-funding, and mobile wallets.

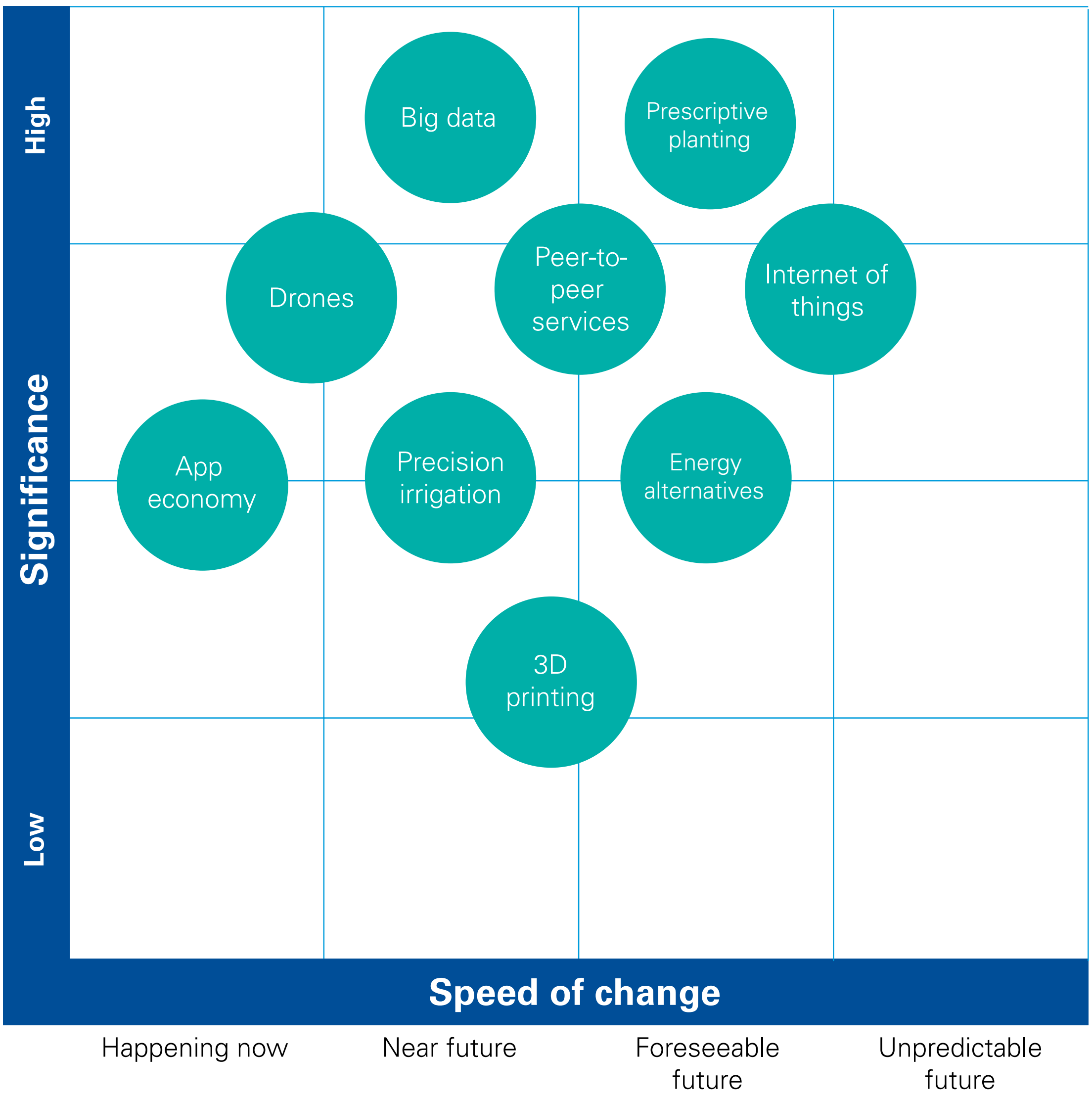
The significance of relevant signals of change was measured and used as raw material for identifying potential new products, services, alliances, acquisitions and ventures. Those signals of change that posed potential risks were factored into the company's risk governance processes.

Trend analysis was performed to predict potential changes in the industry sector value chain. Strategic dialogue ensued with an examination of where the company has performance weaknesses that makes it vulnerable to disruptive innovation, which earnings are at risk; which processes are outmoded, inefficient, unpopular or time-consuming, and where are the signs of decline, earnings volatility, or competitive vulnerability?

Step 3 — Risk appetite

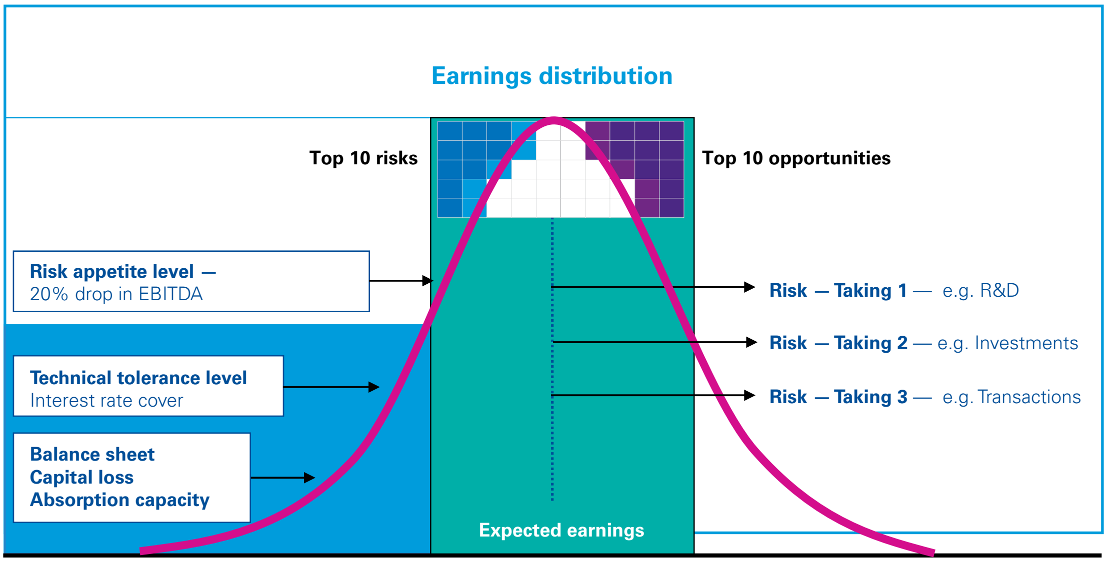
A critical point to address was to align appetites for risk across the executive team and also between the executive team and the board of directors. Determining the right appetite for risk

Figure 2: Signals of change



Source: GRC Today, October 2016, KPMG International

Figure 3: Risk appetite optimization



Source: GRC Today, October 2016, KPMG International

involved an analysis of available capital, resources and strategic imperatives. What is the total value at risk to capital posed by the company's current risk profile? What is the company's financial capacity for further risk-taking ventures?

Management and the board were challenged to determine how much risk the organization is willing to accept in pursuit of value and growth. The management team had historically based their forecasts on erroneous scenarios of success rather than on measured research. Management were alerted to the academic research which shows that poor performance often increases risk-taking propensity — which aggravates poor performance.

Step 4 — Create opportunities by leveraging signals of change

Management was then encouraged to complete a process of ideas-generation across the entire portfolio and business model per the results of the risk and opportunity assessments. The team was challenged to make calculated risk-taking decisions to craft its investment proposals to the board based on the insights gained from the first three steps. The resulting decisions resulted in a series of improvement projects, selective investments, a cost optimisation exercise, and the development of a digitisation strategy.

Step 5 — Ongoing monitoring

The risk-based strategies intervention highlighted that management had perception problems with regards to signals of change. Indicators of marketplace change were ignored. Management had become habituated to the dynamics of the marketplace, and often missed the relevance and significance of change and trends. Customer expectations were changing but management disregarded them in preference for misconceived quick fixes to the bottom line. Management addressed this by adopting a series of dashboards to bring visibility to the trends and disruptive changes facing the business.

The world has changed, and now the company has appropriate tools to respond.

No matter where you look, change is in the air. Some see it as innovation. Others see risk. But no matter what kind of change you're looking at, you can be sure of one thing: How you do business will never be the same again. Gaining new insights can make all the difference, by helping you make sense of all the chaos, and transform risk and change…into opportunity.

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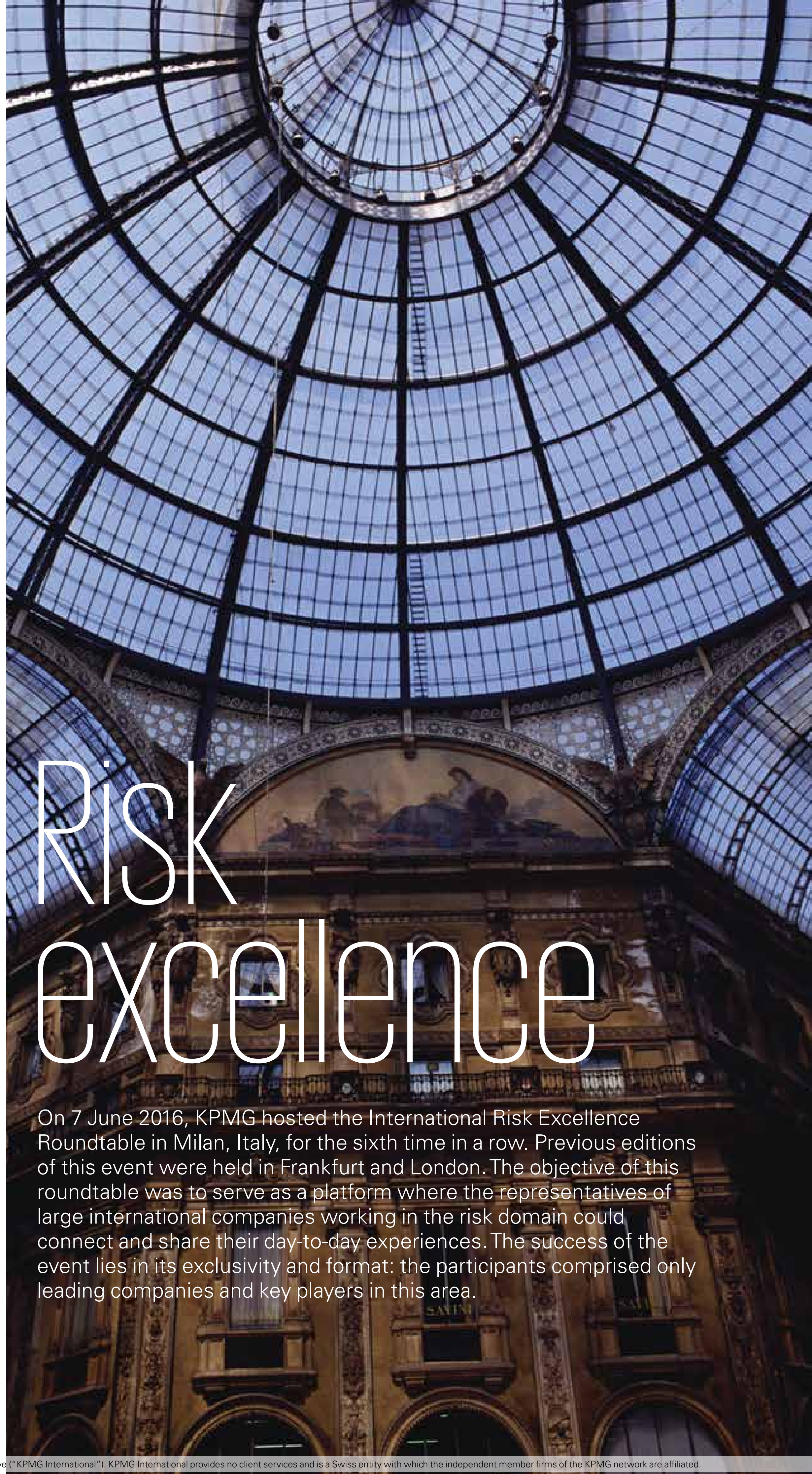
> The objective of this roundtable was to serve as a platform where the representatives of large international companies working in the risk domain could connect and share their day-to-day experiences.



Risk excellence

On 7 June 2016, KPMG hosted the International Risk Excellence Roundtable in Milan, Italy, for the sixth time in a row. Previous editions of this event were held in Frankfurt and London. The objective of this roundtable was to serve as a platform where the representatives of large international companies working in the risk domain could connect and share their day-to-day experiences. The success of the event lies in its exclusivity and format: the participants comprised only leading companies and key players in this area.

During the welcome session, we asked the participants to identify the challenges they had been facing. Some of the challenges mentioned by many of them were:

Challenges

- Moving risk management closer to the business, by providing them with a common methodology
- Creating a consistent level of internal control across the organization
- Defining an integrated view on risk for management
- Defining the risk appetite of the organization, together with management
- Supporting risk culture in the organization
- Integrating risk management with performance management
- Formalizing governance around risk management
- Integrating risk management with strategic thinking
- Driving ownership of risk management at a board level

Following the welcome session, three rounds of discussion were held on the following topics:

1. Rebalancing the three lines of defense

In this discussion, the participants responded to the question "Are we focusing on the right risks that really matter?" This question was triggered by the gap noticed between the enterprise risks appraised and the control efforts made.

2. Bringing risk to the business

A short presentation marked the beginning of the discussion, where some of the results of a recent study conducted by KPMG were shared, revealing the common concerns among CEOs of losing relevance in the market and facing the risk of not having the right business model. In addition to these risks, disruptive changes and innovations were perceived as major risks.

3. Risk reporting

The final discussion was opened with an introduction to the recent regulatory developments, corporate failures and some insights from the boardroom. Several research and survey findings have revealed that the boardroom tends to focus more on the top risks identified through the risk assessment process than on risk and strategy discussions, struggling to challenge the decisions of senior management. A large number of board members believe that time allocated to risk management and strategy planning in the boardroom agenda is significantly inadequate.

These rounds of discussion were characterized by an open and enthusiastic participation of all the representatives, which made the 6th International Risk Excellence Roundtable an enriching and a highly insightful event.

We thank all the participants for making the event a huge success and look forward to your active participation next year.

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The compliance investment

Realizing the value of compliance through greater effectiveness, efficiency, and sustainability.

> **"Chief Compliance Officers (CCOs) sit at the center of a compliance framework that demands the ability to work across functions and provides an opportunity to look at the breadth of risks facing their organization."**

Organizations today are challenged to address a confluence of regulatory and business changes that are putting new demands on compliance. The pace of regulatory change, convergence in global regulation, competition from new market entrants, and increased consumer and technology demands have created a complex environment for compliance leaders across all industries. Adding to this challenge is the risk of reputational damage and significant financial penalties that frequently accompany compliance failures.

For some organizations, compliance costs and inherent risks have dictated significant changes in product offerings and business operations. However, many are now viewing compliance as an investment and not simply as a cost. These organizations are realizing that business and operational value such as better quality data and an improved customer experience, can be derived from anticipating risks and meeting regulatory requirements. This makes compliance an increasingly integrated part of the business investment strategy.

Chief Compliance Officers (CCOs) sit at the center of a compliance framework that demands the ability to work across functions and provides an opportunity to look at the breadth of risks facing their organization. With greater integration and agility as the goals, compliance leaders can take immediate steps to enhance compliance effectiveness, efficiency, and sustainability to further realize the value of compliance.

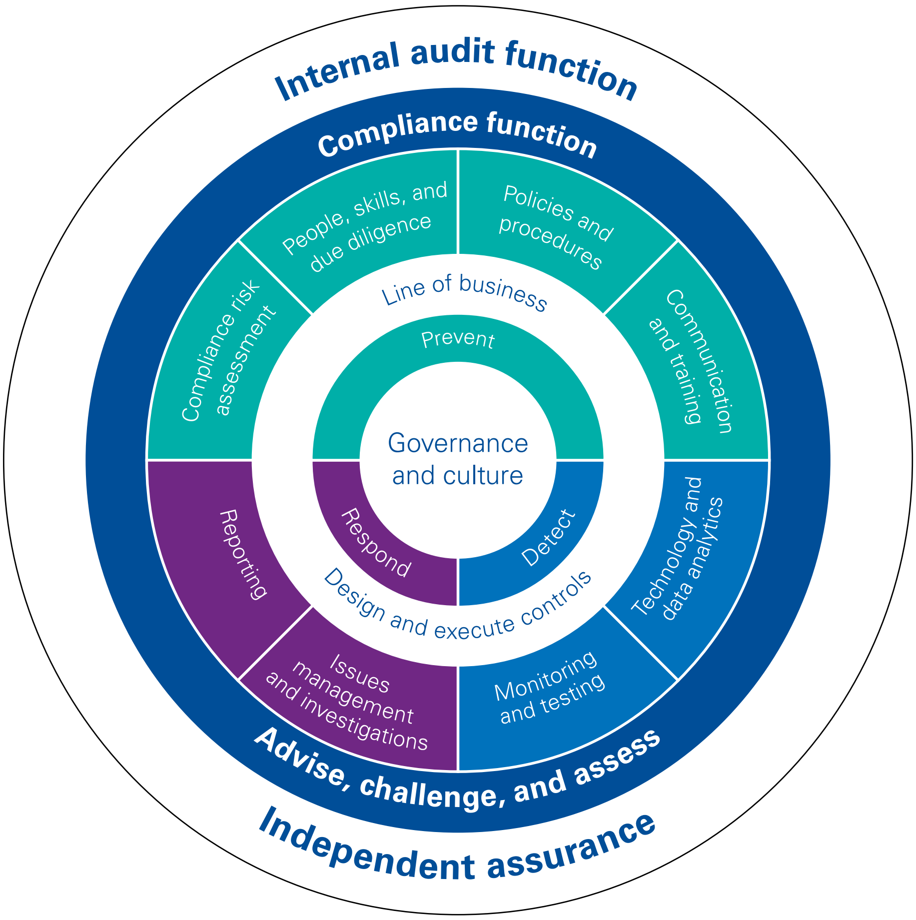
The compliance journey

A framework for compliance encompasses multiple components that drive prevention, detection and response across the three "lines of defense." In a compliance framework, the business process owners are the first line of defense, compliance and centralized risk management functions are the second line of defense, and internal audit is the third line. The three lines of defense model aids organizations in promoting compliance agility, identifying emerging risks, and clarifying the compliance program's strengths and weaknesses.

KPMG LLP (US) has developed a proprietary compliance program framework that consists of eight program components, with culture and accountability at the core (see Figure 1).

> The three lines of defense model aids organizations in promoting compliance agility, identifying emerging risks, and clarifying the compliance program's strengths and weaknesses.

Figure 1: KPMG's compliance program framework



Regardless of the maturity of an organization's compliance framework across all eight program elements, compliance leaders recognize that their organizations need to improve to derive greater compliance value. As organizations journey along the continuum, and shift their focus to more prevention and detection efforts, they also tend to transition to greater program centralization, integration, and sustainability. They thus derive a greater value from their investment.

For most organizations, the compliance journey remains a continual evolution and alignment between regulatory requirements and expectations as well as the organization's risk profile, culture, strategic and financial objectives, and business and operating models.

Identifying compliance enhancements

As compliance leaders contemplate how to advance in their compliance journey, there are several actions that compliance leaders can consider to move toward greater agility and proactive compliance management while enhancing their compliance effectiveness, efficiency, and sustainability.

Review the "strategic" vision for compliance: Compliance leaders should determine if the current compliance approach is meeting the organization's needs. It is imperative that compliance leaders have an understanding and vision for their compliance program that considers their existing and desired program structure, supporting technology, and the coordination and communication lines that are needed to enhance effectiveness, sustainability and efficiency. This includes alignment and integration with the business, as well as partnering with the business throughout key decision-making periods.

"This includes alignment and integration with the business, as well as partnering with the business throughout key decision-making periods."

In addition, compliance leaders must be attuned to the fact that if they enhance one area of their compliance program this can have significant impacts on other compliance program components. Given the interconnected nature of a compliance program, regulators are increasingly seeking a single and consistent compliance view across organizations.

Perform an enterprise-wide risk assessment: Compliance leaders and the board of directors need an enterprise-wide risk assessment in order to have a holistic understanding of the organization's risk universe, the materiality of those risks, and, in particular, its systemic risks. Organizations increasingly recognize the importance of an annual enterprise-wide risk assessment, and many use their risk assessments as a strategic input for their audit plan and program enhancement decisions. Further, regularly scheduled risk assessments can also help compliance leaders improve their resource allocations and staffing models.

If compliance leaders conduct assessments in silos or focused on specific regulations, with limited aggregation enterprise-wide, systemic risks across the enterprise and across regulations may not become apparent. For that reason, it is vitally important that compliance leaders have a process in place for aggregating quantitative and qualitative data enterprise-wide and to identify residual exposure *across* the organization. This is also essential for the Board's evaluation of whether the organization's residual risk is consistent with its risk tolerance and desired risk profile, or to determine what changes to the business or strategy are needed to bring residual risk back into alignment.

Ensure an effective three lines of defense: Organizations can also evaluate if their three lines of defense are being used effectively. Compliance leaders should confirm that roles and responsibilities for each line of defense are clearly defined and appropriately aligned with each line's mandate, and that the rationale for any overlap in responsibilities is clearly understood. One particular area of focus by compliance leaders today is on further defining the first line's role in monitoring and quality assurance reviews. By allocating monitoring and review responsibilities to the first line, compliance leaders craft a more preventive approach to compliance, and find value in instilling greater accountability.

As part of its three lines of defense analysis, compliance leaders can also benefit from clearly defining what compliance matters are within the compliance function's mandate versus what is the responsibility of operational and business units (with indirect compliance input and coverage as needed). Such analysis similarly helps organizations to better understand and document its compliance program and coverage.

Assess the organization's "culture of compliance": A "culture of compliance" requires an organization to demonstrate the values of integrity, trust and respect for the law. Regulators are increasingly focusing on an organization's compliance culture and recognizing it to be an essential preventive control against many forms of misconduct. Regulators often view the lack of a culture of compliance as the root cause of misconduct within an organization.

To embed a culture of compliance, an organization must have established guidelines, and employees at all levels must be held accountable in accordance with these guidelines and without exception. The board and senior management must not only establish the core values and expectations for their organization but must also act consistent with those values and expectations at all times. Compliance leaders should also periodically confirm the existence of the compliance culture, and determine if the culture is embedded consistently across its business and operational units. One way to accomplish this is through a "cultural assessment." This assessment enables the compliance leaders to understand whether people are comfortable with the culture of the organization, how employees view organizational justice, how management decides ethical issues, and if employees are willing to identify issues without fear of retaliation.

Assess current technology: Technology and data analytics are essential tools for organizations in preventing, detecting, and responding to potential compliance misconduct. In recent years, organizations have faced a significant transition to digital content and records as well as changes to their core platform systems. They also need to further aggregate their compliance risk indicators and may be challenged by regulatory requirements to link their compliance performance to their operational metrics. Organizations are also increasingly concentrating on refining their predictive indicators, which necessitate certain technology functionality as well.

Yet, many organizations still have legacy technology systems or disparate systems across the organization, a consequence of organizational expansion or mergers and acquisitions. Importantly, existing technology may also lack the requisite functionality to link compliance to operational metrics and aggregate predictive metrics. To address these changing market and operational circumstances, organizations are increasingly implementing tools for governance, risk management and compliance (GRC), case management, or other embedded technology to support their compliance program.

These operational changes require compliance to be up front in the design of systems and changes. Further, these changes necessitate a transition to more centralized and integrated technology infrastructure across the organization as well as to more robust data analytic capabilities.

Proactively address regulatory change: Managing regulatory change is a significant challenge that can put organizations in a reactive position, especially when an organization operates in diverse businesses, in highly regulated industries or in multiple jurisdictions. Yet this approach limits the time an organization has to assess needed changes and arrive at the right solution for their organization. For this reason, organizations must be able to adapt proactively to the changing regulatory environment.

By establishing a regulatory change management process that identifies and tracks potential regulations and evaluates their impact on the organization, compliance leaders are better positioned to address these changes when they come to fruition. A regulatory change management process should provide for an aligned view across portfolios in order to understand the global interdependencies among other strategic initiatives and regulations. This can improve operational efficiency and enhance cross-border coordination across multiple jurisdictions.

Conclusion: The value of compliance

Viewing compliance as an investment, as opposed to as simply a cost, can help measure its return during ongoing compliance improvements, while simultaneously propelling the organization toward greater effectiveness, sustainability, agility and efficiencies in its compliance efforts. For example, while an investment in technology, cultural change, or strategic evaluations of the program is a real cost, it can result in significant effectiveness and efficiencies including process improvement, control enhancements, and improved customer experiences, which can be hard to quantify, but impactful nevertheless. In taking the above actions, compliance leaders will be positioned to refine their compliance approach and to realize increased value.

"Organizations are also increasingly concentrating on refining their predictive indicators, which necessitate certain technology functionality as well."

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Three lessons for risk management from golf

> **It's the same with data analytics. You can have sophisticated business intelligence software running daily reporting on a range of indicators, but if you don't have a framework to identify risk areas as they arise and an established process for review and escalation of issues, then these tools are redundant.**

I love golf. And like many people, I find golf to be a cruel mistress. Just when I think I've got her measured — she pulls the rug out from under my feet and I have to re-evaluate everything I know about her. Risk is the same — you can never conquer it — you can only learn to read the conditions and manage your game to achieve the best outcomes.

Even if you know nothing about the game, I think there are some things about golf that are universal, and can help us all find a better way to do what we're doing in the world of GRC.

There is a tradeoff between risk and return

When you're standing at the tee, do you drive over the bunker, which you can probably make in one shot, or do you take two shots to go around it? Of course, the answer is 'it depends'. It depends on your skill, your experience, whether you are at the beginning of the round, and can afford to miss a few shots, or at the crucial end stages of the game where every swing is critical. Put simply — it depends on your risk appetite.

Your risk appetite allows you to navigate that narrow pathway between risks which are threats and those which are opportunities. A clearly defined risk appetite, which has been communicated and understood throughout the business empowers you and your team to make optimal decisions.

Technology is not the solution

Technology is merely a tool that enhances performance. You can have the best wood that money can buy and an app that gives precise GPS-calculated distances and real time analysis of your swing, but if you don't have a solid drive, consistent putting performance on the green and an ability to keep calm in a bunker, all that technology is wasted.

It's the same with data analytics. You can have sophisticated business intelligence software running daily reporting on a range of indicators, but if you don't have a framework to identify risk areas as they arise and an established process for review and escalation of issues, then these tools are redundant. To really leverage the investment made in such software, risk metrics need to be incorporated into the business metrics that are being monitored and a robust process for escalation and resolution needs to be established and communicated across the organization.

Complacency is your worst enemy

Just because you've hit a shot a thousand times before, it doesn't mean you'll make it onto the green this time. Your handicap and your past performance are no guarantee of how you're going to perform today. You need to be continually aware of and focused on every element of your game.

In risk management too, complacency can be fatal. If boards think that they already understand all the risks and do not encourage a culture of openness, and of escalation and action on issues as they arise, it promotes a weak risk culture. This was at the heart of many of the issues in the global financial crisis, where boards turned a blind eye to a culture of excessive risk taking due to the high level of profits that were being earned. Emphasizing risk culture addresses the impact that an organization's culture can have on the prevention of unacceptable risks and the identification of emerging risks. Building knowledge and understanding of risk at every level leads to the promotion of risk awareness throughout the organizational structure.

As Bobby Jones, a famous golfer in the 1920s and 30s, and founder of the US Masters said, 'I never learned anything from a match that I won', and we don't learn anything about risk management when everything is going well. Like every shot on a golf course, we need to support a culture which encourages staff to report it when they make a mistake or something goes wrong, and critically assess how it can be done better the next time. Only through this focus on continual improvement can we minimize organizational risks and lower our handicaps.

Regards,

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