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Planning Risk Management

Summary
To what extent is risk management a case of following the rule book, of ticking boxes and of passive monitoring using some standard tool or pre-defined model? And, conversely, to what degree is risk management a case of improvising and following an open ended research approach? As a first thought, perhaps it is a case of planned versus unplanned tasks. Upon reflection, however, another dichotomy suggests itself, that of approaches taken. Understanding this, and understanding how the different approaches impact the work risk managers do is useful for anybody working in risk management.

Dear reader,
There is a guilty pleasure in carrying out routine tasks. It may not be the first thing you mention at a party, but performing a task you have done hundreds of times takes us well into our comfort zone. And despite the bad press that comfort zones receive in management courses and motivational speeches, there is a reason they are called a comfort zones. They are comfortable. But apart from the feeling of luxury, comfort zones also provide a safe environment in which to perform tasks which, by virtue of mere repetition, we become experts at. As such, there is a personal reward for routine. From a corporate perspective, there is actually a similar reward. Businesses that carry out mostly routine tasks can become really good at carrying out these tasks, and may, in six sigma terms, become black belt performers. In one interpretation, routine is tantamount to tasks that known long in advanced, can be planned and regularly occur at specified intervals. How does that work for Risk Management and can we make risk management a routine task?

Scheduled tasks
Much of risk management follows a typical control cycle and can be planned. These are typically the recurring tasks revolving around risk identification, assessment, prioritisation and monitoring. For each of these tasks, a multitude of templates, checklists, techniques, tools, models and standards have been developed. As a result, the business of risk management in banks has to some extent been formalised. This is good for consistency, collaborative work and allows for a quick review/audit whenever needed. Seen from that angle, risk management is just like any other business or support function, a routine task requiring no more than clearly defined procedures.

Unscheduled tasks
And then there are the surprises. Despite the modelling, the analysis and forecasts, risk events can not be predicted and hence every incident or event is fundamentally unplanned. For simple, relatively minor incidents, a fixed approach may still be warranted, simply taking down the specifics of the incident, the more or less standard response, and report the case closed.

The involvement of risk management in resolving larger or more complex events, however, and in addressing the fundamental causes of such events is really a research project and is fraught will all the uncertainties surrounding research. That research may be completed by a single person within a day, but it may also take a team of 30 experts from various disciplines over 2 years to get to the bottom of it. This pertains not only to events. Even in a ‘routine’ risk assessment, complex situations may arise that require additional analysis, further research or suddenly involve extra involvement from other parts of the business or support services. In fact, as soon as risk management moves beyond compliance checking and passive monitoring, the number of unplanned activities increases manifestly. But apart from out ability to schedule work, there is another angle we can take, that of the *approach* to risk management tasks.

Approaches to risk management

Some risk management tasks can be conducted in what I call a ‘closed’ form. This closed form applies when we can follow a given set of steps, with known time lines, fixed responsibilities and more or less predictable outcomes. Performing standard risk assessments and following up on simple, minor incidents falls in this category. But a different approach is sometimes needed. That of a more experimental, open, research like mode which requires improvisation and typically does not obey fixed patterns. Using these two dichotomies, we can make the following matrix:

REGULARITY / APPROACH	Regular scheduled work	Incidental unscheduled work
Following a closed, pre-determined mode	**A.** -Performing assessments -Creating disaster recovery scenarios	**C.** -Follow up on simple, minor incidents -Adjusting portfolios after rate changes
Following an open, research mode	**B.** -Follow up on assessments -Selecting Risk Indicators -Large scale conversions	**D.** -Invoking a disaster recovery scenario - Follow up on complex, major incidents

This matrix can be used when we need to define or explain the role of risk management. There is some work that recurs regularly, like performing assessments or updating a business continuity plan. Also, defining risk indicators or performing conversion can all be planned in advance. But the latter two do require a different approach than the first two: they require an ‘open’ approach, since the outcome is inherently unknown and the process must constantly be fine tuned as it is executed. Conversely, certain incidental jobs do not require a research approach at all, like adjusting portfolios after a rate change which can be automated to a high degree.

Conclusion

It turns out that what really defines the different aspects of risk management is not so much whether it can be planned or not, but what approach is taken in dealing with risk management issues. Some banks see risk management as a ‘closed’ activity, much of which can be automated and put down in standard templates and procedures. Others focus more on an ‘open’ approach, which gives risk management a different role, namely that of a research and expert group rather. Both approaches have their place, but confusing the two could lead to misunderstandings between the risk management department and the rest of the bank, including senior management.