

# Risk Management in COVID -19 and beyond

White Paper V 1.0

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# 01

## INTRODUCTION

The COVID-19 pandemic has impacted communities and economies around the world. From basic social behaviors, day to day activities to working arrangements - how we live our lives and work has changed dramatically. This paper presents the finding on impacts the pandemic has had on Risk Management and correlations with organisations risk maturity.

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# 1 INTRODUCTION

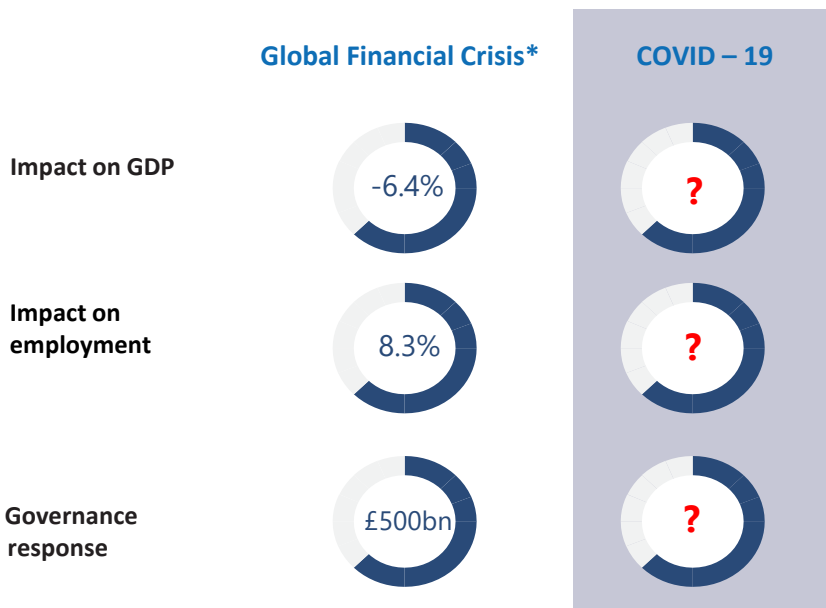
## 1.1 Background

The COVID-19 pandemic has impacted communities and economies around the world. From basic social behaviors and activities through to working arrangements - how we live our lives and work has changed dramatically over the past couple of months. This unexpected disruption has tested all businesses across the world including their operational resilience and business continuity plans.

Managing and understanding risk forms a fundamental part of the success of every organization, amongst various other factors. Ultimately, Risk Management allows a business to identify and manage things that may threaten the achievement of their objectives and purpose. This includes identifying and managing unexpected external events, like COVID -19.

There are numerous examples in history where external events have resulted in significant business disruption and impacted economies worldwide.

The impact of some of those events was enormous and it took years for companies and economies to recover. The Global Financial Crisis caused the deepest recession observed since the Second World War and had a significant impact on UK economy. The impacts of the COVID 19 Pandemic are still unknown and won't be fully understood for some time yet...



\*Source - [www.parliament.uk/documents/commons/lib/research/key\\_issues/Key-Issues-Recession-and-recovery.pdf](http://www.parliament.uk/documents/commons/lib/research/key_issues/Key-Issues-Recession-and-recovery.pdf)

Following the Global Financial Crisis, the changes required in the sector were clearly noted by the regulators. It was the introduction of Solvency II that brought Risk Management some more focus as to the role it should play in organisations – protecting customers holdings, ensuring firms understood their risks and risk being used in key decision making.

COVID -19 has reminded us of the value and the importance of the right approach to Risk Management and the role it should play within each organisation.

## 1.2 Focus areas

It is clear that some external events cannot be foreseen. What firms can do is prepare; and that is risk management.

So, let's explore:

*why some companies, when faced with external events, do not cope as well and go into financial difficulties relatively quickly whilst others are far more resilient, bounce back, learn quickly and develop?*

The key components of the risk management framework are present in all organisations within Financial Services – they have to be as it is a regulatory requirement. The difference is how firms embed risk management – how it is adopted and used within the business. Whilst risk management may be technically mature in terms of the tools and techniques used, this is often not relatable to those in the business – risk can be unnecessarily complicated and disproportionate.

Risk Management should not be seen as a tick box exercise but one at the forefront and centre of an organisation, where risk, along with other factors, is actively used to support decision making.

The pandemic has challenged and affected some business sectors more than others. There is early evidence that suggests firms that have a more mature and embedded risk management framework have responded better than some of their peers.

Acceleration of digital and electronic signatures has been observed across number of sectors as a result of the lockdown.

Decision making process in this respect was smoother for those organisations who understood their risks and impacts better. As this move away from wet signatures has provided a solution for the organisations, it has also presented some obstacles to overcome in some firms, as they experienced hurdles in getting internal compliance departments to realise that the benefits outweigh the risks. There is of course a fraud risk related to this move, however, a wet signature is not free from that risk either. The benefits include preventing delays and minimising applications not being completed because of the current requirements of wet signatures.\* Acting quickly reduced impact on other risks faced by the company ie operational risk, conduct risks, financial risk.

*\*Source -Digital signature benefits outweigh risks, Carol Knight*

We can therefore assume that those firms with a more mature risk management framework, that is well embedded in the business, may help a business respond more effectively to events such as COVID 19. Risk Management will not be the only factor, but it will play a part in how a firm understands the threats, its response and crisis plan and how decisions need to be made.

There are some key areas of Risk Management Framework that are worth considering in light of the pandemic. These are:

- Risks
- Extreme Scenarios
- Risk and Control environment

# 02

## Considerations

**Game changer , or a reminder...?**

# 2 CONSIDERATIONS

## 2.1 Risks

What does the situation look like a few weeks down the line, since the crisis hit?

As with anything, firms are at different stages in their response to the pandemic. Some companies have performed detailed risk assessments and analysed the impacts straight after the start of the pandemic, some have completed and continue monitoring the risks and impacts as the situation progresses, reassessing on an ongoing basis whereas some are still in the process of performing the assessment.

It is important that all the impacted risks are reassessed, any new risks are identified and as the pandemic unfolds, these should be regularly reviewed and continually monitored.

Given the dynamic changes to the way we perform business these days, it is important to understand any changes to our inherent risks (those with no controls) to ensure that we have a better understanding of the areas that need to be addressed in the first instance.

Key risks impacted by COVID-19 can be grouped as follows:



### Financial Risks

- Credit & Counterparty Risk
- Market Risk
- Liquidity Risk
- Insurance Risk



### Operational Risks

- People
- Processes
- Systems
- Conduct



### Strategic Risks

- Long term objectives

## 2.1.1 Operational Risk

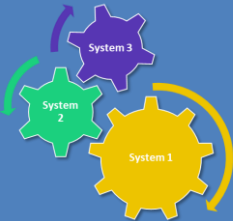
One of the most common risks impacted by the pandemic is operational risk – a risk of something happening as a result of system, process or people failure.

Key considerations within the current climate include, but are not limited to:



### People:

- Health & Safety of employees
- Ability to work from home
- Ability to maintain social distancing
- Increased or reduced demand of people



### Systems:

- Provision of technology to support remote working
- Information Security considerations
- Bandwidth and performance of systems



### Process:

- Process errors
- Changes to process required to accommodate for remote working i.e. no wet signatures
- Potential weakened control environment, especially where processes are highly manual with a large number of hand offs



### Conduct Risk:

- Ensuring customers are treated fairly – there will no doubt be impacts to service levels
- Risk of fraud may be greater; especially targeting vulnerable customers

Keeping risk assessments up to date and almost a “living and breathing” document, as opposed to something that is just updated on a quarterly basis, can help with the decision making; in particular around implementing process changes remotely.



# Scenario Analysis and Testing

## 2.3 Scenario analysis and testing



*Hope for the best  
plan for worst*

Unfortunately the role of scenario testing and analysis is often poorly understood and its practice is limited. Whilst many organisations do undertake scenario planning, they are often treated as tick box exercise and it can be difficult to relate the scenarios back to everyday risk management.

Scenarios help prepare for potential outcomes, of what could happen, on an extreme scale. These are the hypotheses that should help the boards, execs to consider potential opportunities and risks the future may hold, assisting them in driving better decisions today.

In current circumstances, scenarios can help businesses understand what the potential “new normal” could look like.

This year’s annual stress testing has been cancelled by the Regulators in Europe; however it has gone ahead in US. Whilst undergoing the Federal Reserve’s annual stress test to see how well they can withstand a severe economic downturn, the biggest global banks were also preparing for a real life stress test in response to the pandemic and the recession it will inevitably caused. One of the biggest players, JP Morgan, said it is well prepared for global recession, but if the severity of the downturn reached critical levels the bank may be forced to take actions to defend its capital, including cutting its dividend. Running stress tests for an extremely adverse scenario - assuming a contraction of gross domestic product of 35% and US unemployment peaking at 14% in the fourth quarter - JP Morgan’s board would likely consider suspending the dividend.\*

*\*Source - JP Morgan prepares for real life stress test, Philip Scipio*

Sound scenarios will help firms to prepare for the future. Scenarios can help to prepare for the unknown.

Within the current climate, scenarios should be informed by the following areas:

- Social – considering the impacts of health and safety of employees, customers, suppliers, wider communities
- Economic – demand vs supply, supply chain issues
- Government response – any controls that need to be reassessed, removed or introduced as the restrictions are being lifted

# **Risk and control environment**

## 2.4 Risk and control environment

Due consideration should be given to Business Processes and the Control environment. The Risk & Control Self Assessment (RCSA) process is about everyone understanding the risks they help manage and the effectiveness of the controls used to manage those risks. As part of the process the impact and likelihood of a risk occurring both before controls (inherent) and after controls & actions (residual) is being assessed.

Controls are any actions taken by management to manage risk. Controls should either reduce the impact or likelihood of that risk occurring. The focus often lies in key controls, which can be defined as controls that are required to provide reasonable assurance that material errors will be prevented or detected in a timely manner. If a key control fails it will typically result in an adverse impact, usually financial.

Putting the current situation to one side for a minute, the reality is that numerous business processes may lack appropriate controls under the traditional, office based BAU environment. Where any such gaps are recognised, these should be reviewed, and those ineffective or missing key controls should be addressed in the first instance to prevent risks from materialising.

As the situation evolves, controls should be continuously assessed alongside the risks. There are number of new controls being put in place, some temporarily, some expected to be evolved and improved in the coming months but if not monitored regularly, their effectiveness may not bring desired outcomes.

As new risks emerge through the crisis, it is vital that firms remain vigilant to these new threats and respond accordingly. Risk of Financial Crime has substantially increased during the pandemic. London City police alone reported a 400 per cent increase in reported coronavirus-related financial crime during the last month. It remains to be the firm's responsibility to oversee and ensure the efficacy of its financial crime systems and controls.

Firms must do all they can to maintain effective systems and controls to prevent, detect and deter financial crime.

Whilst acceleration of digital and electronic signatures has provided a solution to some problems, it has also presented risks and some obstacles for firms to overcome. There is of course a fraud risk to consider, however, a wet signature is not free from that risk either. No firm relies solely on a signature and it is combination of controls in place that will provide the process with most security ie ID checks.

The appreciation of the challenges of moving to remote working during lockdown has been great. However, whilst there has been more flexibility, regulatory expectations remain the same. Firms must maintain appropriate measures to assess the fitness of their teams. This covers oversight of key operational activities. And their risk and control environment. Evidencing actions taken during this time will undoubtedly be subject to regulatory scrutiny as we return to a post-pandemic new normal.\*

*\*Source - Firms need right systems to prevent financial crime, Simon Collins*

For more information on Controls please see our paper – [The Controls Evolution](#)

03

**Case Study**

## 3 CASE STUDY

At Simplify, we have helped number of companies with embedding risk into the business. As the situation around COVID – 19 unfolds, it 's become evident that those firms who invested in building their risk management capabilities may respond far better when COVID 19 had the hit.

### 3.1 Overview

We have recently supported a Life and Pensions provider to help increase the maturity of their risk team. We worked closely with the head of operational risk to document the target operating model including a new organisational design, new risk processes (e.g RCSA, Risk Event Management) and MI / reporting requirements and helped deliver training to the wider team to help embed risk into the business.

### 3.2 Approach

We brought our operating model methodology to firstly map out the current environment and to understand the level of maturity within the function. We used that model to help drive the definition of a target and identified the key deliverables that would help transition the business towards the target state.

We worked closely with the stakeholders to workshop the new risk processes and we delivered training to help embed some of the learning. We supported the team in running the new processes and created an action plan with a clearly defined roadmap.

### 3.3 Results

In under six months we transformed the function, redesigned its key processes, increased the capability of the team and addressed a number of audit and regulator concerns.

We also provided visibility of the control framework and overall risk environment, creating a baseline to build out a roadmap for continued evolution of the function.

*“Simplify did a fantastic job, helping embed a new standard for process mapping and supporting our team through the activity.*

*We now have a set of process maps that enable us to understand our control environment and provide us with a baseline from which to grow”*

Head of Operational Risk

# 04

## Summary

*"Perfection is the enemy of the good. Speed trumps perfection... The greatest error is not to move. The greatest error is to be paralysed by the fear of failure."*

*Dr Michael J Ryan's  
World Health Organization executive director*

## 4.1 Summary

*The survey result undertaken by IRM shows that 94% of respondents believe the case for risk management has been strengthened by the pandemic experience.\**

*\* Source - COVID-19 Pandemic Global Risk Management Response, IRM*

The period of business disruption that all businesses now face will certainly prompt new ways of thinking about risk management and the role it should play within the organisation. Whilst for many businesses' survival is the key priority, focusing on their risk management practices should come to the forefront of their agenda as businesses will continue to be exposed to other external events.

As we are entering into the next phase and lifting of some of the restrictions begins, business owners and executives should consider not only how they get back to normal but also adapt their business to the 'new normal'; and how risk management can help a business recover in a controlled manner.

### *What will the new world of risk management look like?*

There is certainly no one size fits all and needs to be proportionate. For risk management to work, it needs to be embedded within the culture.

***"Perfection is the enemy of the good. Speed trumps perfection... The greatest error is not to move. The greatest error is to be paralysed by the fear of failure."***





# Get your business Fit for the Future

**We will help you thrive, not just survive**

For help with defining, embedding or simplifying your risk management framework and processes, get in touch with us today:

Visit [simplifyconsulting.co.uk](https://simplifyconsulting.co.uk) or email  
[info@simplifyconsulting.co.uk](mailto:info@simplifyconsulting.co.uk)