Risk modernization

Enabling insight.
Embedding resilience.
Creating value.

**New ways of working in Risk –
Modernizing the risk delivery model**

kpmg.com

Bringing risk management transformation to life

Welcome to the fourth in our series of articles focusing on risk modernization and the challenges and opportunities it presents. Done correctly, risk modernization provides the risk function and the overall organization with an array of benefits related to efficiency, effectiveness, growth, and compliance.

In our first article, we focused on exploring practical approaches to reduce spend without sacrificing the quality of risk management outcomes. In our second article, we focused on rapidly shifting behaviors and converting tasks from manual to digital. In our third, we examined the process of implementing a modern technology architecture.

This article focuses on the need for an organization, and more specifically the risk management function, to transform faster than ever before to accommodate new and emerging ways of working. In today's dynamic business landscape, organizations are experiencing an unprecedented acceleration in their pace of transformation, and this impacts the ways risk is delivered, sourced, and located. The rapid evolution and dissemination of technology, changing consumer expectations, competitive pressures, and the ever-present demand for innovation have compelled companies to reassess their strategies and embrace change more readily than ever before.

Companies are now required to adapt to new technologies (e.g., generative artificial intelligence [AI], core function and process automation, and advanced tooling) to stay relevant and competitive. Also, as consumer preferences, needs, and expectations continue to shift, companies must adapt to these changes and transform their products, services, and operations accordingly. With all those factors in play, companies are evolving faster than ever to remain viable and relevant—and risk organizations must transform how they are delivering risk to meet the changes across value streams and the business. In this article, we explore four areas that organizations should focus on as part of their transformation efforts.

Modernizing the risk delivery model

In our first article, we highlighted five transformation drivers (Exhibit 1), which most risk organizations have initiatives underway to support. As organizations think about these drivers, they are prompted to reexamine how their risk functions operate to identify new solutions to meet the demands of rapid change. To navigate this evolving landscape, businesses are seeking transformation across their strategy, technology, people, and service delivery. The subsequent sections of this article dive into the critical aspects that are being reimagined in response to these drivers, exploring what and how organizations are transforming, and providing considerations that must be thought through to effectively address these challenges.

A focus on these specific risk drivers will empower businesses to enhance the most important aspects of their risk management operation. The results of doing so can yield efficiencies and growth when it comes to overall merger and acquisition activity, hedging against economic downturn, adapting to new or emerging regulations, and reducing operational costs.

Exhibit 1. Risk transformation achieved by modernizing delivery models

Four opportunities to simplify how risk works

As organizations confront the urgency to transform in today's fast-paced and competitive environment, it is important to examine the key impacted areas: strategy, technology, people, and service delivery. This section highlights how businesses are embracing agile and resilient organizational models to navigate the complex business world, adopting cutting-edge technologies to enhance risk management capabilities, upskilling their teams for emerging challenges, and evaluating their service delivery models to maximize operational efficiency. A comprehensive understanding of these areas can empower organizations to better adapt and shape their risk functions, ensuring continued success. Although each of these areas provides various approaches, there are considerations that must be thought through to help ensure a successful transformation.

1 Strategy

Increasing agility and resilience

Organizations are adopting more strategic and agile models in response to the rapidly evolving business environment characterized by growing complexity, increased competition, and emerging technologies. By integrating risk management into the overall strategy, prioritizing responsiveness and adaptability, and fostering cross-functional collaboration, organizations can build stronger resilience, ensure regulatory compliance, maintain competitiveness, and enable sustainable growth. In fact, in the 2023 KPMG Chief Risk Officer Survey, 47 percent of respondents indicated that providing employees with training and resources on risk management and corporate strategy alignment is critical to effectively align or continue to align risk objectives to the business's strategic goals and priorities.

Risk managers are embracing strategic and agile models to:

- **Develop** adaptable risk management frameworks that easily adjust in response to changing business conditions or emerging/evolving risks, such as cybersecurity threats, climate change, or supply chain disruptions. This may involve regularly revisiting and updating positions, process, and technologies.
- **Reevaluate** key performance indicators (KPIs) and reporting mechanisms to ensure the effectiveness of risk management initiatives. This can refine and improve risk management practices based on performance evaluations and lessons learned. In the 2023 KPMG Chief Risk Officer Survey, 35 percent said that risk reporting and insights were the most critical factors to enhance an organization's risk resiliency over the next two years.
- **Foster** avenues of clear communication and collaboration between departments by sharing information, perspectives, and best practices through centralized functions and working groups. This facilitates a more comprehensive understanding of risks, encourages joint problem-solving, supports decision-making, and promotes a shared understanding of risk management goals.

- **Rationalize** risk accountabilities across legal entity, functional, and organizational roles. Balance the push for efficiency with the need for redundancy in critical risk functions to ensure there are backup mechanisms in place. The elimination of role redundancies, inefficiencies, and confusion can enable stronger risk accountability.
- **Harness** hybrid and remote work arrangements to further bolster the resiliency of risk management functions.
- **Utilize** integrated systems (i.e., single platform, linked systems, and data repositories) to enhance the user experience, provide elevated risk awareness, and meet ongoing risk demands with greater efficiency and speed. In the 2023 KPMG Chief Risk Officer Survey, 24 percent of respondents indicated that technological disruptions and outdated systems are the biggest challenges an organization will face within the next 2–5 years.
- **Monitor** data in real time to provide faster insights into risks and enhance risk decisioning, allowing managers to determine if there is a risk and respond to that potential risk quickly before there is potential damage.

Considerations:

- An adaptable risk management approach requires continuous evaluation of methodologies and practices.
- Quantifying and demonstrating the effectiveness and impact of risk management efforts can be difficult. Developing clear performance metrics, benchmarks, and reporting mechanisms is essential.
- Encouraging cross-functional collaboration for effective risk management can be challenging. Breaking down silos, fostering collaboration, and creating a shared understanding of risk management objectives require strong leadership and constant effort.
- Elimination of roles can introduce additional risk for organizations. Ensuring critical functions are staffed is key to striking the right balance.
- Managing resources in different time zones and geographic locations is challenging. Ensuring effective remote management of teams is critical.

New ways of working: By the numbers

Generative AI's transformative impact and the major benefits—and one watchout—executives expect*

65% believe it will have a significant impact on their organization—far above every other emerging technology

72% expect it to increase employee productivity

65% predict it will change how people work

66% think it will encourage innovation

39% believe it could lead to decreased social interactions and human connections with coworkers

*All statistics from the 2023 KPMG Generative AI Survey

2 Technology

Integrating AI and unifying the technology vision

Organizations are increasingly implementing tools (e.g., generative AI, machine learning [ML], data analytics, automated control testing, and real-time reporting) to enhance their risk management capabilities. By implementing these tools, organizations not only can better identify and mitigate risks, and improve their decision-making process, but also can achieve greater efficiency, reduce manual tasks, and understand risks in real time. And when it comes to increasing efficiencies, respondents in the 2023 KPMG Chief Risk Officer Survey indicated that AI and ML would play critical roles in accelerating risk management processes within their organizations in both the current (63 percent) and future (69 percent) state. Emphasis should also be placed on getting decision-making risk data into the hands of decision-makers in real time through incorporating risk information in business productivity reports, as well as tools and dashboards.

Risk managers are leveraging technology to:

- **Automate** manual and repetitive processes, such as risk assessments, compliance checks, data collection, and surveillance. This enables them to offload low-value process execution for more focus on core services as well as cost savings through reduced resource needs for time-intensive manual tasks. In the 2023 KPMG Chief Risk Officer Survey, 40 percent of respondents indicated that increasing the use of technology and AI is critical to effectively align or continue to align risk objectives to the strategic goals and priorities of the business.
- **Identify** patterns, trends, and potential risks that would be difficult or impossible for human risk managers to detect.

Considerations:

- Ensure compliance with regulations, industry standards, and appropriate security measures is in place. Create policies and procedures around the ethical use and practice of these technologies.
- Adopting new technologies or methodologies requires specialized knowledge and expertise. It can be challenging to find people with the necessary skills and experience. Resources need to understand the tools, query the logic, and decipher the outcomes to present to management.
- Implement controls and appropriate monitoring to ensure the tools are working as intended.
- Integration with existing systems and processes can be challenging and time-consuming.
- Utilizing technology for transformation entails expenses related to the development and implementation of solutions, enhancing internal resources or collaborating with external partners, and establishing the necessary infrastructure.

3 People

Capability uplift and capacity optimization

Organizations are having to rethink their approach to the labor market as employees have more options and are seeking flexibility in their jobs. There continues to be intense competition to attract and retain talent. By investing in their people, organizations can better ensure they have the right people with the right skills to meet the demands of the new risk management function. In the 2023 KPMG Chief Risk Officer Survey, 48 percent of respondents stated that increasing training for employees in targeted areas would empower them to prepare for and address risk challenges.

Risk managers should focus on the following:

- **Rationalize** the current risk organization resourcing allocated to risk functions, including workload, skills, and task distribution, to ensure the staffing meets the future demands for business process, technology, and risk programs. This helps to optimize resourcing plans and strategy, including identifying areas of development need, gaps in staffing, and time surplus to ensure risk functions are adequately staffed.
- **Supplement** teams with new job types (e.g., technologists, data scientists) to meet the increased focus on new and emerging technologies. This drives greater output and consistency of risk function by leveraging technology skill set to produce consistent results with greater efficiency.
- **Leverage** hybrid working arrangements, such as remote work, to expand the talent pool. This allows for access to resources across a larger population, enabling the organization to find best fit talent for the risk function needs.
- **Perform** ongoing capacity evaluations and forecasting. Continuing evaluation of risk program indicates what is and is not working, which helps regularly identify new areas of need in the organization to address staffing objectives.
- **Revise** risk workforce management and retention strategy to enhance employee growth and provide career-development programs that foster professional development and guarantee a well-equipped workforce. Ensure resources are trained on evolving risk expectations and skills to enhance overall performance and productivity. In the 2023 KPMG Chief Risk Officer Survey, 33 percent indicated that training and upskilling talent are key risk activities that will be strengthened over the next two years.

[1, 2, 3] KPMG American Worker Pulse Survey 2023

[4] KPMG 2023 US Talent Trends Survey

[5] The 2023 KPMG US CEO Outlook

New ways of working: By the numbers

Future-thinking organizations are seizing the opportunity to reshape their workforce and believe it will have a significant impact on their organization—far above every other emerging technology.

Younger generations (51 percent–60 percent) and baby boomers (38 pecent) believe new skills are necessary and their organizations are investing in reskilling to bridge the gap.[1]

74% of executive and senior-manager respondents plan to invest in reskilling in the next 3 years.[2]

80% of executive and senior-manager respondents are confident in using the latest technology for reskilling.[3]

42% of employees feel their organization is doing a good or excellent job in AI and generative AI upskilling, while the majority are satisfied with upskilling opportunities.[4]

43% of US chief executive officers are placing capital investment in developing their workforce's skills and capabilities.[5]

Considerations:

- Finding the right balance of resources across risk functions can be challenging. If not done correctly, then teams can be left short staffed or in a surplus.
- Budget constraints must be balanced against investments needed for training, improved technology, and flexible work arrangements.
- As technology advances, job descriptions must be updated to reflect added responsibilities, novel skill sets, and new roles.
- Staffing and oversight of new functions require an upleveling of skills not only for staff, but also management.
- With remote or hybrid work arrangements, coordinating teams across time zones can present logistical challenges. Efficient communication and collaboration tools must be implemented. In addition, internal partnerships should be strengthened between functional business leaders, and relationships with external partners and vendors should be improved to drive better risk outcomes.
- Striking the right balance of function and efficiency in employee deployment requires diligence, routine oversight, and ongoing management focus.
- Employees may resist adopting new technologies or skill sets, fearing job displacement, or added complexity. Addressing concerns through transparent communication, reassurance, and an effective change management strategy is essential.
- Recognize potential challenges associated with high turnover and market demand for skilled risk professionals, and take proactive measures such as offering competitive compensation, comprehensive benefits, and growth opportunities to help retain top talent.

4 Service delivery

Establishment of centralized functions, nearshore, or low-cost facilities

Companies are increasingly turning to different service delivery models (e.g., offshoring, outsourcing, and centralized internal functions) as strategic business decisions to reduce costs, enhance operational efficiency, and access a diverse global talent pool. By delegating noncore functions to specialized service providers and leveraging resources in other countries, businesses can focus on their core competencies, therefore fostering innovation and maintaining a competitive edge. **Each service delivery model provides several benefits for risk managers:**

Nearshoring or offshoring

Offshoring standardized, repeatable activities to lower-cost solutions (e.g., countries with lower labor and operational costs) will reduce overall expenses significantly while still receiving quality services. Also, companies can tap into the global talent pool and work with experts with extensive knowledge and experience in risk management. This enables them to allocate resources more effectively towards core business operations and growth initiatives while enhancing risk mitigation strategies and improving their overall capabilities.

Considerations:

- Time zone differences and managing multiple locations can add challenges to communication and project coordination.
- Loss of control over the outsourced activities can occur due to delegated responsibilities. This may result in some employees feeling no longer responsible for the outcomes of those tasks.
- Hidden costs to manage outsourcing relationships, such as training, travel, and communication infrastructure, can erode cost advantages.
- Evaluating performance of offshore employees may be more challenging due to limited in-person interaction, making it difficult for managers to assess performance accurately.

Outsourcing

Outsourcing risk as a service can be achieved by using third parties to execute select risk management activities on behalf of first, second, and third line risk functions. Doing so affords a cost-effective option for sourcing risk talent for key organizational needs, while also permitting chief risk officers to deploy in-house talent on more mission-critical needs. Also, this puts greater focus among in-house resources on strategy and growth activities. In the 2023 KPMG Chief Risk Officer Survey, 33 percent responded they would exclusively consider outsourcing (1) strategic risk management and planning, (2) financial risk analysis, and (3) cybersecurity and threat protection services to enhance the efficiency and effectiveness of risk mitigation strategies.

Considerations:

- Reliance on outsourcing partners can create dependence, making it difficult for companies to transition functions back in-house or switch providers when necessary, leading to vulnerability.
- Utilizing outsourcing activities requires quantifiable and relevant performance metrics that align with the organization’s objectives and the outsourcing provider’s deliverables. Both parties must agree on KPIs and service level agreements.

Centralized internal service functions

- Establish centralized internal service functions, center of excellence (e.g., testing), and shared utility functions (e.g., reporting) to deliver risk functions to the enterprise. This ensures standardized risk management processes, methodologies, and tools across the organization and provides specialized in-house experts and resources. Additionally, it offers a deep understanding of best practices and industry trends and establishes better visibility and understanding of potential risks across the organization by facilitating communication and coordination between different business units and teams. Finally, it serves as a hub for sharing best practices, technical know-how, and lessons learned from previous risk management initiatives.

Considerations:

- Establishing centralized functions requires consistent and clear communication between the enterprise (e.g., line of business, risk areas, executive leadership) to ensure practices are aligned to strategic objectives. Additionally, centralized risk functions, such as testing, can introduce challenges related to expertise and oversight.

Each of the four mechanisms that fuel new ways of working offers its own solutions and outcomes and, in turn, impacts the risk transformation drivers in meaningful and measurable ways. To be successful, organizations must consider the unique challenges and hurdles that come with these types of transformations. Each of the four areas can stand on its own and provide its own distinct benefits; however, taking a more holistic view and driving change across all these areas can facilitate a more efficient and effective risk management operation.

Finally, there needs to be a recognition that change is not stagnant and that these approaches are part of a journey of continuous improvement that not only will help an organization become nimble in the short term, but also stay nimble over the long term. Thus, organizations must embed a continuous improvement mindset to identify, evaluate, and implement incremental changes or enhancements. This approach fosters a culture in which individuals and organizations are proactive, open to change, and focused on growth and optimization that enables organizations to identify opportunities for further enhancements and refine their approach over time.

1 Strategy
Increasing agility and resilience

2 Technology
Integrating AI and unifying the technology vision

3 People
Capability uplift and capacity optimization

4 Service delivery
Establishment of centralized functions, nearshore, or low-cost facilities

Where do you start?

Organizations should consider their own unique situations and maturity when undertaking transformation efforts. This type of change requires a thoughtful and strategic approach and should be done with great care to maximize the new and emerging ways of working. Before launching any specific initiatives, organizations should evaluate your current risk function to identify specific areas within the four mechanisms that are "ripe" for optimization, including:

- **Strategy.** Adopt flexible risk management frameworks, reassess KPIs, promote transparent communication and teamwork, and streamline risk responsibilities to strengthen the handling of evolving risks in a dynamic business landscape.
- **Tech.** Improve efficiency by automating repetitive tasks, detecting emerging trends and threats, using interconnected systems, and monitoring data in real time to enable quicker insights and decision-making for proactive risk management.
- **People.** Examine ways to rationalize risk function resources, integrate various job roles, utilize hybrid work setups, conduct regular capacity assessments, and update workforce management tactics to create a proficient, adaptive, and skilled workforce prepared for future challenges and managing emerging risks.
- **Service delivery.** Pursue a three-tiered strategy to offshore/multishore talent while simultaneously pursuing automation and outsourcing of more operational tasks to optimize the cost/value ratio of risk spend. This will drive efficient resource distribution, enhanced risk reduction strategies, and collaborative exchange of best practices across the organization.

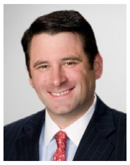
Transformation is a long and complex journey that requires meticulous planning, continuous effort, and unwavering commitment from all levels of an organization. It involves a series of carefully orchestrated changes to the existing structure, culture, processes, and strategies aimed at fostering innovation, enhancing efficiency, and boosting overall performance. Embarking upon this transformational road can be initially challenging as it necessitates the willingness to challenge established norms, embrace change, and navigate uncharted territories, yet perseverance and adaptability will lead to success. Regular assessments and feedback loops are crucial to ensure that the organization stays on the right track and makes any necessary adjustments to reach the desired state. Ultimately, the long road to establishing new ways of working through transformation may be demanding, but the resulting improvements and increased competitive advantage make it essential.

How KPMG can help

KPMG helps clients along every step of the risk transformation journey, including assessing the risk management approach and strategy, implementing tools, analyzing resource allocation, and taking on risk management activities. Using tools and solutions that accelerate your modernization journey and balance risk, we then apply deep domain knowledge across the spectrum of risk and regulatory issues, combined with our skills in risk, technology, and consulting to help convert the opportunities of risk into a sustainable competitive advantage for your organization. Additionally, we provide Managed Services risk and compliance solutions that can increase efficiencies, speed, and scale by combining expertise, data management, analytics, and advanced technology to digitize policies, automate processes, and monitor high volumes of transactions. To learn more about how we can help with any of the topics in this series, please reach out to our authors.

Learn more: visit.kpmg.us/RiskServices

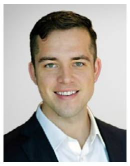
Contact us



Brian Hart
Principal, Financial Services Risk, Regulatory & Compliance Network Leader
212-954-3093
bhart@kpmg.com

Lisa Rawls
Principal, Americas GRC Technology Services Network Leader
703-286-8591
lisarawls@kpmg.com

Cameron W. Burke
Principal, Financial Services Risk, Regulatory & Compliance
404-222-3139
cburke@kpmg.com



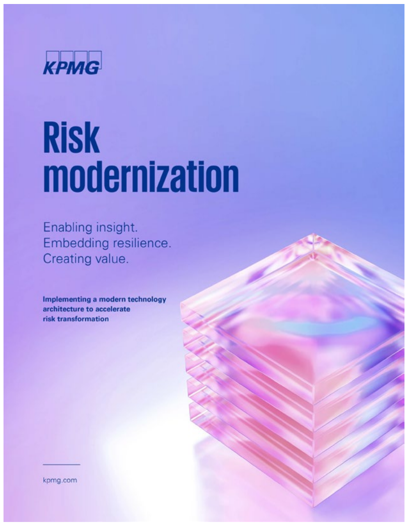
Colin O'Brien
Director, Financial Services Risk, Regulatory & Compliance
704-953-4919
cjobrien@kpmg.com

John Hardwick
Director, Financial Services Risk, Regulatory & Compliance
267-256-7000
johnhardwick@kpmg.com

Related thought leadership:

Risk modernization – Cut costs, not quality

Risk modernization – Unlocking the potential of digital acceleration in risk management



Risk modernization – Implementing a modern technology architecture

Please visit us: | **kpmg.com** | **Subscribe**

DASD-2024-14451