Future of risk

Building a trusted risk function in a riskier world.

Executive summary

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Introduction

Today, managing risk is riskier than ever.

In the ever-evolving risk landscape, businesses are facing an array of reputational, environmental, regulatory and societal forces. At the same time, risk functions are under growing pressure to reduce costs, while also addressing "tech debt" and a universal talent shortage.

And unfortunately, using the same recipe — and merely increasing the scale of your risk operation — is no longer viable. To progress, the C-suite needs to change its mindset to fully embrace risk as an enabler and an asset that can drive value. Without that collective focus, the opportunities arising from a modern risk environment cannot be properly captured.

To meet these challenges, organizations should fundamentally transform their approach to risk. This involves giving the business clarity into the structure, function, purpose, and value of risk, and aligning enterprise risk management with the strategic objectives of the business. It also requires building enterprise risk capabilities, shifting the risk function from "compliance and control" to value creation, and leveraging technology, including artificial intelligence (AI), and generative AI (gen AI).

To explore how executives expect their organizations to manage external and internal risks in a rapidly changing business environment, KPMG International conducted a global survey of 400 executives in February and March of 2024.

Our findings show that risk management professionals are very aware that the world has become more unpredictable. Their number one focus in the next one to three years is to proactively adapt to new risk types such as AI, geopolitical, reputation, sustainability, IT and cyber risks. Their second-biggest priority is to adopt advanced analytics and AI for risk management.

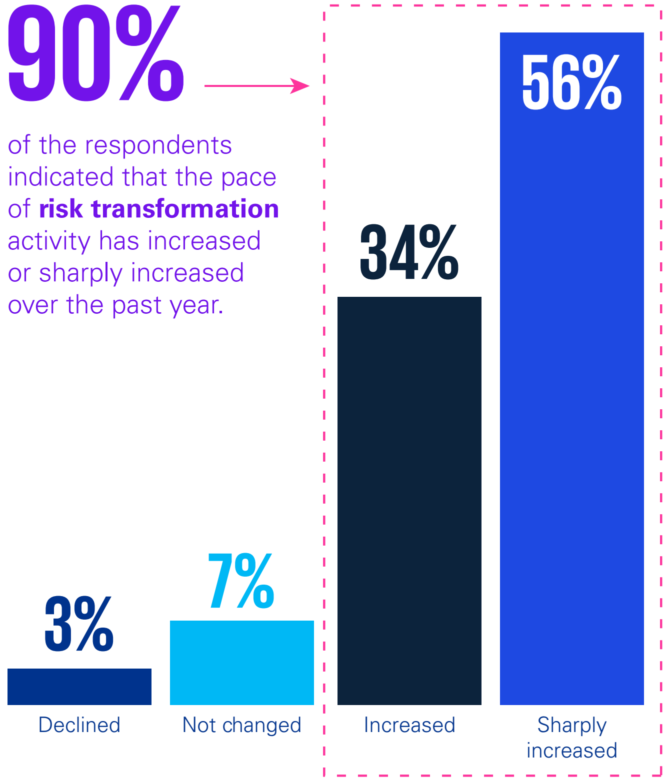
Additionally, a vast majority (90 percent) of our survey respondents say that the pace of risk management transformation, fueled by technological disruptors, has increased, with 56 percent indicating that it has risen sharply.

As risk functions grapple with these rising external risks and internal challenges, they need to become more closely aligned with strategic objectives and value-creation, calling for ever-closer collaboration across the organization.

Pace of risk transformation

90%

of the respondents indicated that the pace of **risk transformation** activity has increased or sharply increased over the past year.



Source: KPMG International Survey, 2024

Key insights

61% of executives expect to see a **significant increase in the level of risk** they will be responsible for in the next three to five years.

#1 For C-Suite executives, the number one factor driving a successful risk transformation is **leadership that fosters a risk-aware culture and prioritizes risk management throughout the organization.**

67% of chief risk officers (CROs) and risk professionals say **risk data brings an increased awareness and understanding** of potential risks and their impact on the organization.

71% of CROs and risk managers say the **integration of systems, domains and processes** can significantly enhance the effectiveness of risk-related decision-making.

41% of executives expect to spend **more than half of their risk management budget on technology** in the next 12 months compared with just **28%** in the previous year.

#1 **AI and gen AI** are by far the most popular type of technologies for **managing additional risk responsibilities** in the next three to five years.

Key risk types that leaders expect to focus on in coming years

	All others	CRO	CEO+COO
Innovation and technological risk	42%	58%	51%
Geopolitical risk	28%	58%	41%
Regulatory and compliance risk	47%	56%	58%
Strategic risk	49%	60%	57%
Operational risk	40%	49%	59%

■ All others ■ CRO ■ CEO+COO

AI and gen AI are by far the most popular type of technologies for managing additional risk responsibilities in the next three to five years.

Five strategic imperatives for the risk function

Changing the formula for risk calls for a dramatic rethink in the way risk is managed. This process should include a greater role for other parts of the organization, more alignment and integration between risk and the business, and a need to perceive risk as adding value rather than simply avoiding damage.

1

The C-suite must become the R-suite

Risk is the business of every member of the C-suite, and CROs should spread risk ownership across the organization, working with business leaders to build risk into their strategy and make it part of their everyday thinking.

2

Risk as a value creator across the business

Key decisions by the risk function should begin and end by answering the question: how will this next step add value to the business? Such an approach can help transform risk from the "department of 'no'" to a service that consistently creates value — inspiring everyone across the organization to incorporate risk into their everyday decision-making.

3

Integrate and connect risk into business decision-making

Decisions affecting one office or department can have a ripple effect on all the others, and this applies to risk, too. This means that risk management should be effectively embedded in decision-making throughout the organization, ideally as part of an "ERP for risk" system.

Key actions

- Proactively address enterprise risks.
- Empower leaders with accurate, timely, risk data.
- Build resilience to adapt to disruptive events, using data insights to predict and respond.

- Develop a value-based risk framework, to better assess the pros and cons of strategic and operational decisions.
- Reinforce the first line of defense to take greater responsibility for risk.
- Define data requirements and reporting to better inform risk models.
- Use risk insights to educate the business via dashboards and other visual tools.

- Review the current risk technology landscape to identify gaps.
- Align all stakeholders around single or fewer platforms and common governance systems.
- Modernize and optimize for impact, using managed services and automation.

4

Leverage digital acceleration and data analytics

New technology helps risk professionals to manage change better, although it also brings fresh risks like cybersecurity and AI bias. As organizations digitize and embrace AI, they need to gain trust in its application, preferable via fewer platforms that use common data.

5

Build a risk-centric workforce

Investments in AI and gen AI call for a workforce with the skills to deploy these technologies. To do this, organizations should identify the impact of technology, upskill workers and re-orient the operating model towards value.

Key actions

- Embed data analytics to identify threats and trends earlier.
- Improve data quality via common data architecture and governance.
- Place trust at the heart of AI usage, carefully testing and monitoring its usage.

- Change the perception of the risk function from "feared" to "trusted value creators."
- Encourage self-reflection to better understand wider risks, to become more proactive and resilient.
- Invest in AI, data science, analytics and cyber skills.

Making risk less risky: Five steps toward transforming risk management

Here is a brief roadmap to a future where risk management not only protects a business from uncertainty, but also creates value.

1

Establish a risk vision.

To initiate a more risk-aware culture, organize a workshop with the C-suite and key stakeholders, with the aim of making risk management a core, strategic capability.

2

Develop an enterprise-wide, risk management strategy.

The risk strategy — which should align directly with the organization's strategic goals — outlines key risk areas and integrates risk management into business processes.

3

Develop a communication plan.

This sets the objectives of risk management transformation, along with appropriate communication channels, to gain support across the C-suite and through the organization.

4

Identify risk management skills and plan to fill any gaps.

Once you have carried out a skills audit, the organization can start training and, in some cases, recruitment, including a risk management mentorship program.

5

Create a data quality improvement plan.

The aim is to enhance the accuracy, timeliness, and completeness of risk management data, by assessing and improving data governance, collection, storage and analysis.

About the KPMG 2024 risk survey

To give us insights into what is happening in the world of risk, KPMG International surveyed 400, mostly C-level senior executives from a range of sectors.

Participants:

400 senior executives, mostly C-level

218 in risk management; majority lead risk management teams

Geography:

160 in North America

126 in Europe

114 in China, Japan, and Australia

Sectors:

11 sectors, with **80+** in financial services, technology, and energy and natural resources.

Company size:

All companies generate over **US$500** **million annually.**

Over half of executives work for companies with more than **US$10** **billion in annual revenue.**

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