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Is Risk Management a Buzz Word?

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ARNAUD MIKOLAJCZYK EXPLORES THE EVOLUTION OF THE RISK MANAGER'S ROLE, EMPHASIZING THE ENDURING GOAL OF QUANTIFICATION. FROM FINANCIAL TO NON-FINANCIAL CHALLENGES, THE MODERN RISK MANAGER ADDS VALUE THROUGH ADAPTABILITY AND STRATEGIC DECISION-MAKING, TRANSFORMING FROM AN "ULTRA-SPECIALIST" TO A VERSATILE GENERALIST.

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How has the risk manager role evolved with diverse risks?
The goal for the risk manager never changed, it is and remains quantification. The evolution mainly lies with the diversification of risks they need to handle. Historically, the focus was on a few well-known and specific risks. These included market, leverage, concentration, and counterparty risks that were "easily" quantifiable. Today, the risk manager must adopt a holistic approach using more qualitative assessment methodologies to derive the required quantification. This can be seen when looking at operational, liquidity, or sustainability risk. Thus, the role of the risk manager has evolved from one of an "ultra-specialist," strongly focusing on quantifying market and related risks, to one of a generalist. The risk manager must be able to understand and embrace the challenges of modeling in a wider and more diverse risk environment including geopolitical, regulatory, IT, or sustainability risks, to name a few. Finally, the evolution of their role is coupled with the evolution of asset classes arising from the development of alternative illiquid strategies focusing for example on private equity or real estate which require a different (and most of the time bespoke) approach to risk management.

How does a risk manager adapt to non-financial challenges like sustainability and regulations?
Existing regulations have been in place for a considerable duration, yet they ultimately anticipate only modest innovations. New regulations are expected to be published shortly which could bring some new challenges. Most of the time, regulations are principle-based and thus subject to interpretation. It requires adaptability on the part of the risk manager when it comes to regulation, as interpretations are changing together with the regulator's expectations. They must adapt and adjust their processes (if not methodologies) to meet the "new" requirements or expectations. When it comes to sustainability, the paradigm shifts significantly in this context, where the emphasis is on creating most, if not all, elements, encompassing data and knowledge. As we know, sustainability data, when it exists, remains difficult to evaluate and might be incomplete. Building adequate datasets and knowledge will take time. Nevertheless, consideration of sustainability, at least in the EU, appears to be a deep-rooted trend that will take market participants time to embrace fully and efficiently. This highlights the importance of the common-sense approach currently prevailing.

What value can the risk manager add to the business?
The risk manager tends to be seen as a cost to a business. However, adequate management of risk also brings value in terms of competitive advantage, cost reduction, stakeholder confidence, operational continuity, efficiency, and resilience. The risk manager has and provides an understanding of potential risks by quantifying those facing a business. A risk manager can thus help decision-makers make better-informed strategic decisions at all levels. By enabling the identification and mitigation of risks, they help avoid unnecessary costs and/or losses (e.g. non-compliance fines or reputational damages). In addition, stakeholders tend to be more confident in a business with a proactive approach to risk management. It is worth noting that, with their holistic role, by identifying risks linked to operations and/or processes and addressing their root causes, the risk manager can help ensure continuity and enhance the efficiency of the business. Ultimately, when managing risks effectively a business becomes more resilient and adaptable as it can respond more effectively to changes to its business environment.

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