

# Managing risk in turbulent times

## Part 3: Moving ahead of the times

ADVISORY

Business leaders need to appreciate that bad times are not here to stay; what comes down, must go up. Businesses need to stay flexible and vigilant to move ahead.

In the run up to the credit crisis, banks' risk governance, risk culture and incentive, and remuneration policies were the three areas where the management of risk let them down the most.

*KPMG 2008 Global Survey  
Never Again - Risk Management in  
Banking Beyond the Credit Crisis*

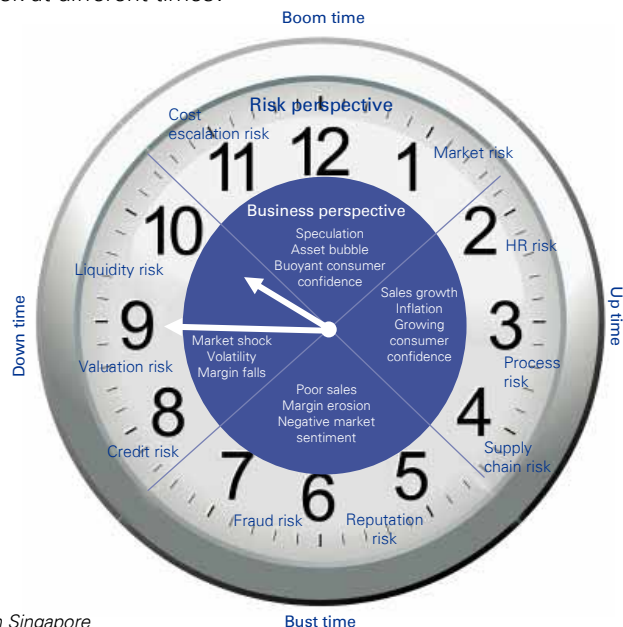
Business cycles are well, cyclical. This is stating the obvious, but business leaders need to remember that bad times are not here to stay. The economy will turn around and businesses need to be ready when the upswing happens - opportunities and risks are two sides of the same coin.

### Becoming a more intelligent enterprise

From a risk perspective, an intelligent enterprise is one that is prepared to respond to changes to their business. This is in contrast to an enterprise which is merely aware of the risks which may have an impact on their business. Regardless of the state of the economy, most businesses which have thought about, and planned a strategic response to a changing business environment, are ahead of the times. A dynamic risk management programme is critical to providing some early warning indicators to the changing business environment.

### Create your own risk clock

Can you visualise a complete economic cycle for your business? What business or market indicators signal a change in the state of the economy? Which areas are of the highest risk at different times?



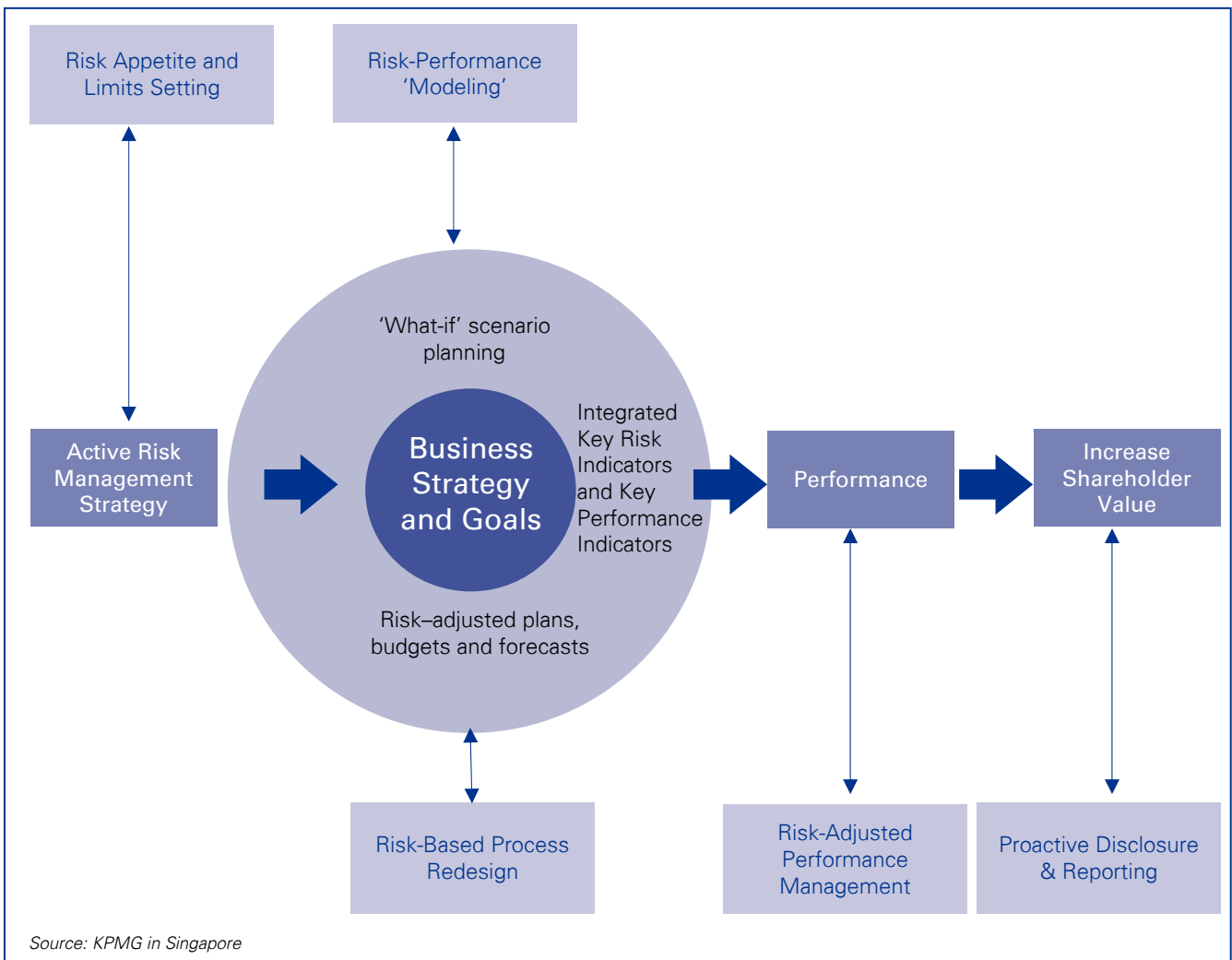
The 'Risk Clock' is a visual representation of the peaks and troughs throughout the economic cycle for your business. Each industry and business has its own version, and it is a useful exercise to create one, using it to deliberately recognise the factors which can have an impact your business.

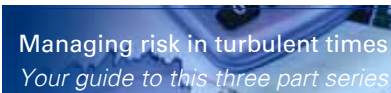
Today, the clock may be pointing to 'Down time', with businesses experiencing market shock, volatility and lower margins. This is coupled with increased exposure to valuation risk, credit risk and liquidity risk. However, when the clock turns towards 'Boom time', will your business be ready with the necessary responses?

**Re-look and re-boot your risk management programme**

While the turbulent times today have made some businesses frantic, feel vulnerable or even threatened, risk management issues should not be ignored. Risk cannot be eliminated – only managed and minimised. Companies can take decisive action to try to manage and hedge their risk model to address market conditions as they change.

If you have not already done so, you may wish to take a closer look at the risk management programme for your business soon. Is there anything you can do to improve the programme? Continual proactive managing of risks should remain key to increasing shareholder value in the long run, aiding businesses to forge ahead of the competition.





**Managing risk in turbulent times**  
*Your guide to this three part series*

**Part 1:**

**Getting the fundamentals in place**

- Why risk should not be managed in silos
- Take the risk-readiness "health check"
- Tips to improve your risk-readiness in turbulent times

**Part 2:**

**Staying the course**

- How to stay centred during the good times and the bad times
- Focus your energies using 'STAR Track'

**Part 3:**

**Moving ahead of the times**

- Becoming a more intelligent enterprise
- Creating your own "risk clock"
- Why you should re-boot your risk management programme

An active risk management strategy should contribute towards business strategy and goals. Together with scenario planning, plans, budgets, forecasts and integrated key performance indicators, businesses can chart a more decisive path towards better performance and increased shareholder value.

In your pursuit of your business strategy and goals, do consider if:

- Risk appetite and tolerance levels are defined and commonly understood
- The business is prepared for the 'what-ifs', i.e. emerging circumstances and the 'black swan', or highly improbable events
- Management plans, policies and processes are risk-adjusted
- Behaviour is encouraged where individuals do not take excessive risks in their pursuit for performance (for example, through risk-adjusted performance and incentive management)
- Shareholders are proactively managed through timely and transparent disclosure of appropriate issues

Do your responses suggest a need to 're-boot' your risk management programme? Has it performed up to mark to help you to manage your business?

For businesses which are starting to develop a risk culture, there are many things that need to be looked into. A risk management programme needs to be enterprise-wide, and not managed in silos. A risk culture needs to start from the top and be part of the business strategy. A risk management function needs to be independent, and free from organisational pressure or influence.

There are now signs that the goal of improving risk management is steadily moving up the corporate agenda - risk management is here to stay. The current crisis has flagged the importance of risk management on a global scale. We will not be predicting when the next crisis will be, but we can predict our response for when it happens. When an organisation is under severe stress, the risk culture can help ensure that 'doing the right thing' doesn't give way to 'doing whatever it takes'.



## Contact us

This is the third of a three-part series that looks at managing risks during turbulent times. To receive back issues of the toolkit series with our compliments, please email [riskadvisory@kpmg.com.sg](mailto:riskadvisory@kpmg.com.sg)

### About KPMG's Risk Advisory Services

KPMG's Risk Advisory Services is a leading risk advisory practice that has gained market recognition through its many successful projects with local and global businesses.

Our multi-disciplinary approach draws on the expertise and insight of our audit, tax and advisory practices within KPMG in Singapore and member firms around the world. We aim to help clients respond to the challenges of governance, risk and conformance in a way that enhances both their business performance and corporate reputation.

### Managing in a downturn

The Financial Times in association with KPMG member firms have produced an exclusive four-part series entitled, **Mastering Management: Managing in a downturn**. The series provides a comprehensive guide to the latest research and ideas on how to manage in a downturn, featuring commissioned articles from the world's top business thinkers.

**Part One: Surveying the damage**

**Part Two: Getting through the crisis**

**Part Three: Looking beyond the crisis**

**Part Four: The future business environment**

To read or download the issues, please visit [www.kpmg.com/succeeding](http://www.kpmg.com/succeeding)

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