



Enterprise Risk Radar

H1 2021

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Foreword

Risk - A certainty in a time of uncertainty

Although the world is still reeling from the health and economic implications of Covid-19, we will eventually stabilize and move forward. Now is the time for leaders to find new ways of sustaining and developing business practices, as we align with changing norms.

Few people could have predicted the spread of Covid-19 and fewer still would have been prepared for such a crisis. At such a time, it is essential to recognize the importance of risk management and its role in proactively supporting growth and sustainability.

In this publication, we highlight crucial trends, leading practices and potential approaches to advancing enterprise risk management activities.



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The evolution of risk management

Over the past 60 years, business models became more complex: from simple and local risks, organizations are now exposed to a global risk environment. Risk management has evolved along with business models. From making individual, transaction-based decisions grounded in a combination of judgment and underwriting criteria, organizations are now looking at aggregated portfolios of risk enabled by more robust analytical tools.

The timeline below shows us the evolution of risk management from the 1960s to today. Since the financial crisis, risk has become increasingly relevant due to regulatory changes. Initially, risk management, as a practice, was largely defined by the purchasing of insurance—a strategy to manage downside risk, with no attention paid to the upside.

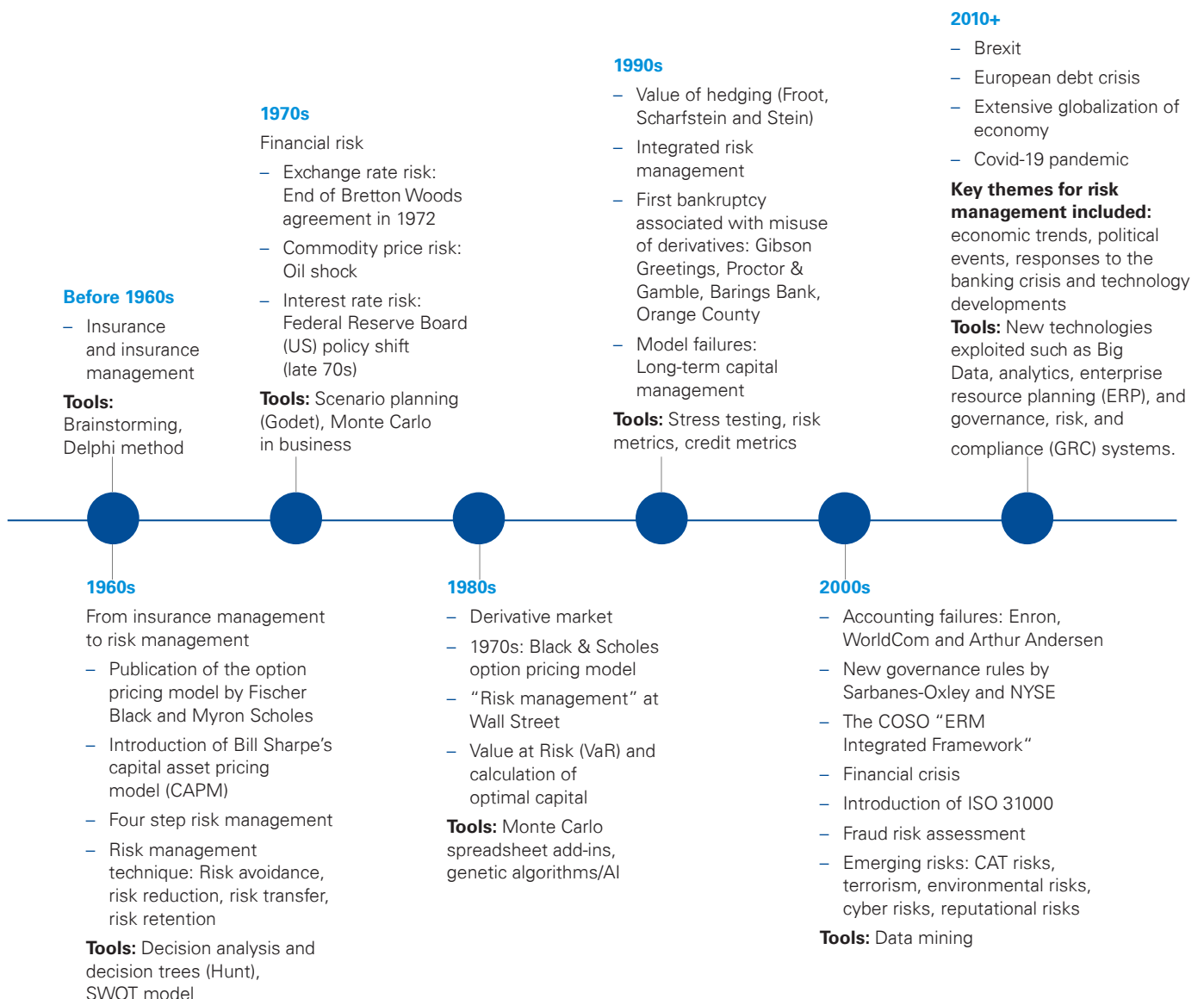
In the 1980s, risk management reached a critical point, when risk could start to be effectively priced and mitigated. This can

be traced back to publication of the option pricing model by Fischer Black and Myron Scholes, as well as the introduction of Bill Sharpe's capital asset pricing model (CAPM).

Suddenly, what had existed as latent demand materialized as a need made more urgent by the end of the Bretton Woods exchange-rate regime and the OPEC oil shock.

Over the last 40 years, many significant financial or economic crises were not adequately foreseen and/or prevented. For example, despite the use of extensive risk identification, companies and governments failed to anticipate both the global financial crisis and the impact it would have on the world's economy.

In response to these emerging changes in the business environment and global business needs, companies need to adopt a tailored approach to risk management.



Maturity risk continuum

ERM Maturity Assessment Tool

Companies need to continuously evaluate, improvise and upgrade risk management practices in line with complex structures. One way to assess the effectiveness of an existing risk management framework vis-à-vis best practices is to undertake a maturity assessment. This provides immediate insight into actions/improvement areas organizations need to address in order to continue maturing.

The Enterprise Risk Management (ERM) Maturity Assessment Tool offers support when determining the maturity of risk

management in an organization. Results generated by the Tool provide the user with insight on their current state of ERM maturity and how to reach their target state.

The Tool considers a broad spectrum of parameters, including but not limited to: risk appetite, risk governance, risk culture, risk identification and assessment, risk monitoring, risk reporting and usage of data, and technology in risk management. Please find KPMG's Tool [here](#).

Expected outcome

ERM maturity assessment results will help gauge the maturity of your organization's risk management practices by assessing the following aspects:



Evaluation of risk when developing the organization's strategic objectives



Governance/oversight of risk-related activities



Values, behavior and overall environment within the organization with respect to risk-related matters



Identification, evaluation and measurement of risks that may impact the achievement of an organization's objectives



Effectiveness of risk mitigation and continuous monitoring to ensure risks are adequately managed

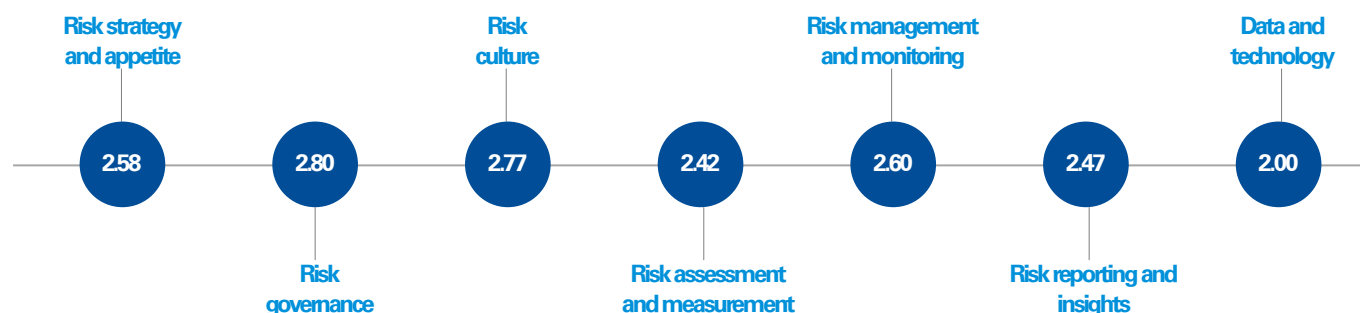


Periodic reporting of risk events and related information, as well as strengths and weaknesses of risk management activities within the organization



Use of data and technology (risk tools, systems, software, technology, etc.) to facilitate risk management

Current maturity across the continuum in the ME region (Per KPMG findings)



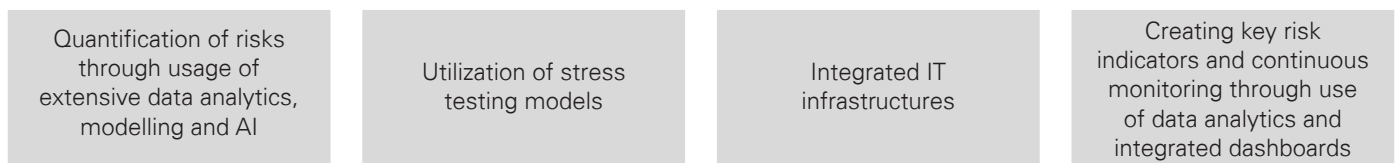
Scale of 1-5, where 1 is the lowest level of maturity and 5 is considered fully mature

Digitized risk management

“The world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow.” - Rupert Murdoch

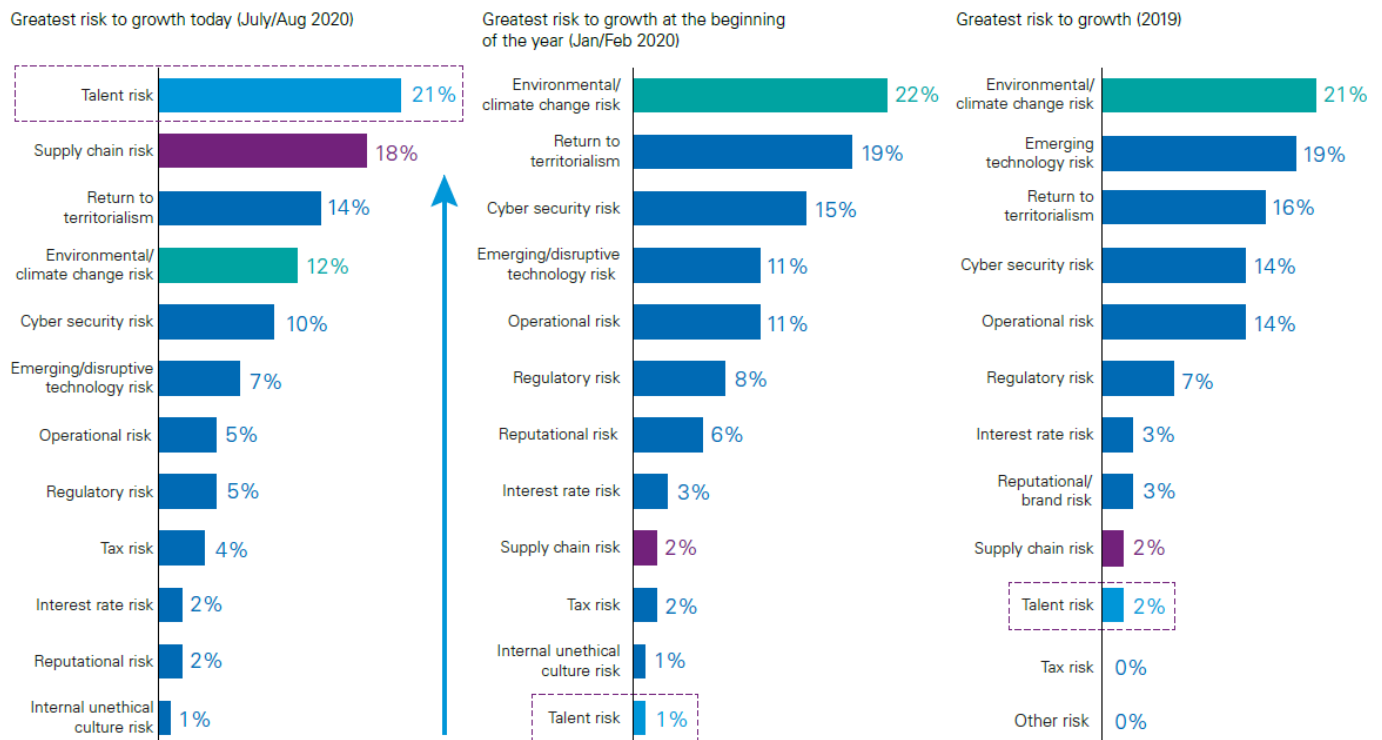
In this interconnected and dynamic world, companies must deal with evolving risks daily. Changes in the external environment bring about shifts in internal structures, processes and technologies, which may lead to blind spots. Companies need to continuously assess and re-evaluate internal and external risk profiles and mitigation strategies needed to respond to new scenarios.

Companies are increasingly adopting new technologies to bring in efficiencies, and the risk management function is no exception. Various models of automation and digitization have been adopted by organizations to take them to the next level of the maturity continuum:



There is a strong case for investing in data analytics and digitized risk management, as maturity risk assessment results for the region highlight a need for upskilling and investments.

Changing threats to growth



Source: KPMG 2020 CEO Outlook COVID-19 Special Edition

Automation may require careful evaluation of various factors, such as availability of resources, an organization’s current priorities and challenges, as well as long-term objectives. Modular approaches have been effective where small pilot projects are introduced incrementally. This “implement and learn” approach helps to achieve objectives more effectively.

Rate of change

Enterprise Risk Profile (ERP) – Rapid Response Toolkit

Organizations are facing perhaps some of the most challenging times in their existence. As a result, resources are largely dedicated to firefighting. For some, this has also meant significant changes in their operations, processes and technologies.

KPMG has prepared a rapid assessment toolkit for organizations to assess changes in their environment within four key components i.e. technology, operations, business impact areas

and finance and reporting. While not exhaustive, this short survey helps reflect changes in the overall environment in which an organization operates. This may also indicate whether an organization should consider a refresh of its enterprise risk management.

You can find the assessment [here](#). Companies will receive a personalized report within two working days.

Creating strong risk culture

“Culture eats strategy for breakfast” - Peter Drucker

Research has highlighted how cultural drivers affect behavior. These generic factors form the base of organizational culture and influence the actual risk behavior of people. When the appropriate cultural drivers are developed, the likelihood of desired behavior increases, and the risk of undesirable behavior

is mitigated; risk management processes are more effective and commonly accepted.

Based on our experience and KPMG’s framework, we believe the following pillars support strong risk culture, which organizations should continuously re-assess:



Clarity

Are rules, risk policies and procedures accurate, concrete, and complete and do employees understand what is expected?



Involvement

Do employees feel accountable for the proper use of risks? Do policies and take ownership for the strategy of the organization?



Role-modeling

Does management lead by example and display leadership, especially regarding risk management?



Openness

Is it normal to discuss (latent) risks and is there an atmosphere of both challenge and mutual respect?



Enforcement

Are employees rewarded for responsible behavior and is irresponsible behavior disciplined?



Improvement

Are incidents and ‘near misses’ evaluated to determine potential risks? Do employees feel they learn from their mistakes?



Practicability

Do the organization’s targets correspond to the risk appetite and overall risk strategy? Are employees enabled to do what is requested of them in terms of managing risks?

There are multiple options for companies looking to continuously evaluate their risk culture. For example, risk culture surveys may be used on a periodic basis. This can be followed with focus tools and instruments to emphasize the critical aspects of each pillar, such as cascading statements and metrics, related role descriptions and expectations, policies and processes and management information. A sample resource toolkit for risk culture survey can be found as an appendix to this publication.

How KPMG can assist

KPMG – Risk Integrated Simulated Strategy Enabler (K-RISSE)

The K-RISSE Framework Model enables companies to automate and transform ERM from a siloed, risk-driven approach to a holistic risk integrated strategy tool. This enables

businesses to make more informed decisions and track the appropriate KPIs. It uses various multi-factor models and stress testing scenarios.

Source agnostic

Connect and integrate with all kinds of data systems and formats. Customizable as per client needs and the nature of the inter-related risks

Visual insights

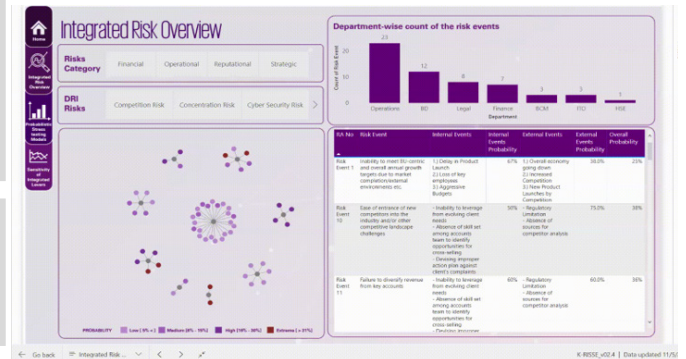
Transforms large data sets into intelligent, dynamic and interactive dashboards

Business enabling

Generates actionable assurance insights to facilitate management decision making

Continuous monitoring

Continuous monitoring of KPIs, automation, maturity, etc. and exception reporting



Dynamic Risk Assessment

Dynamic Risk Assessment (DRA) is an evolution in risk assessment. It considers the traditional measures of risk severity and likelihood.

- The DRA process uses the scientific consensus methodology of expert elicitation to collect data for analysis and network theory in order to identify, connect and visualize risk in four dimensions.

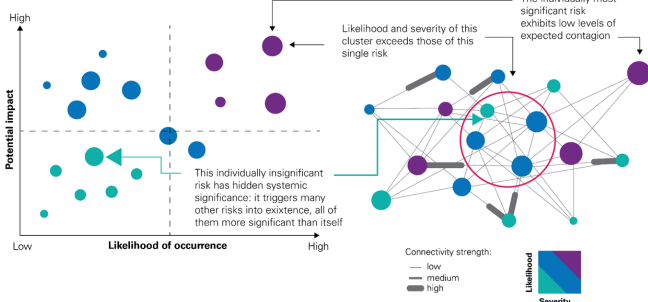
DRA also takes into account interconnectedness (risks that link together) and velocity (expected speed at which risks will affect operations).

A step-by-step methodology can be used to assess, evaluate, identify interconnectedness and visualize risks in a four-dimensional model with adequate controls/mitigation plans in place to minimize risk exposure:

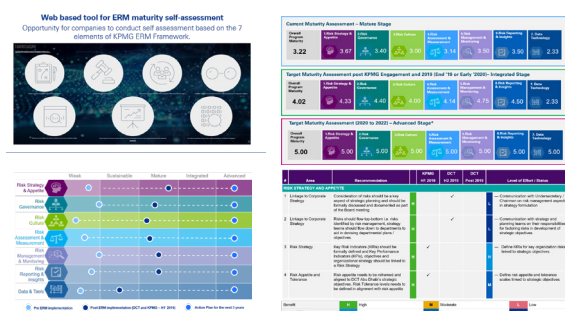
- Understand the systemic risk profile of an organization via risk assessment interviews with key management personnel
- Evaluate risks based on risk impact, likelihood of occurrence and risk velocity
- Determine whether individual risks can be expected to cluster together to form key concentrations of single risks (interconnectivity)
- Determine whether individual risks may not necessarily form part of a risk cluster, yet pose significant contagion risk by virtue of the second order contagion
- Plot risks in the form of a 4D model/risk interconnectedness map
- Develop dimension-wise controls and recommend mitigation plans where gaps exist

Traditional, two- dimensional risk map

Inter-connected view



ERM Maturity Assessment



The Maturity Assessment Tool is based on KPMG's proprietary Enterprise Risk Management framework, which combines leading risk management standards - namely COSO and ISO 31000. For each component of the framework, the attributes are rated on five maturity levels. The Tool provides a means for determining the overall maturity of ERM practices within the organization.

Sample risk culture survey questionnaire



Clarity

- I understand my organization's mission, vision and strategy.
- I define risk as events with negative outcomes.
- For me, only events which are tangible and can be measured should be considered as risks.



Involvement

- I am aware of the clear qualitative and quantitative parameters within which I am required to manage risks.
- I am aware of the defined escalation mechanism in the event of any risks materializing in the organization.
- In my opinion, the core members of the business functions should participate in the risk management process.



Role modeling

- I know my organization assesses the risk associated with acquisitions, strategic alliances and has a mechanism in place to address it.
- I believe that management encourages the business to conduct its affairs in accordance with the applicable laws and in a moral and honest manner.
- I am fully aware that management has zero tolerance for fraud and misconduct.



Practicability

- Sufficient information, including external market data, is readily available, which I can use for my decision making, if required.
- I take a conscious effort to consider risk information as part of my decision-making process.
- Management IT systems, reports and applications give me sufficient information to aid in risk identification and management.



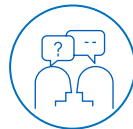
Enforcement

- It is my responsibility to identify and manage risks which emanate within the purview of my role.
- I believe that risk awareness is recognized as a key pre-requisite for management personnel across the organization.
- My accountability on managing risks is clearly mapped to my job description and targets.



Improvement

- I believe my organization performs the necessary analysis with respect to risks that may have materialized (for the organization and its competition), as learning for the future.



Openness

- I believe that the organization's culture encourages a proactive attitude among employees with regards to risk taking.
- People within my division/organization are comfortable in discussing risks or are not afraid to raise difficult issues.
- My management is approachable when it comes to bringing key risks to their attention.
- The leaders of my division/organization are receptive to all communications about risk, including bad news.
- I am aware that the organization analyzes risks associated with any contractual arrangements or obligations (such as those with business partners, suppliers, customers, etc.).
- I know that the organization encourages employees to come forward and report incidents of fraud and misconduct.
- I believe that the organization encourages its partners (supply chain partners, distributors, customers, etc.) to openly discuss risks that they might face (shortage of a key raw material, break-down of logistic channels due to strikes, etc.) which may have an impact on the company.

About KPMG

For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 227,000 professionals in over 146 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm is well established in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan and the Lebanon. Established in 1973, KPMG in the UAE and Oman employs 1,485 people across four offices, including about 100 partners and directors.

Our latest initiative, KPMG IMPACT, aims to help clients future-proof their businesses amid times of increasing focus towards issues such as climate change and social inequality. The goal is to help them achieve success across 17 major Sustainable Development Goals (SDGs) and become more resilient and socially conscious. For FY21, the firm has earmarked a global budget of USD 1.43 million for the initiative.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are:



Integrity: We do what is right.



Excellence: We never stop learning and improving.



Courage: We think and act boldly.



Together: We respect each other and draw strength from our differences.



For Better: We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars – exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams – are the foundation of our firm.

Contact us

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