



# Professional Practice Solutions

Detail makes a masterpiece

## Post-event summary

### Insight Dinner – Tuesday 25 September 2018

#### Risk Transformation and the increasing role of Technology

KPMG's Professional Practice Solutions team were again proud to host another successful Insight Dinner on Tuesday 25 September in KPMG's client meeting and engagement space at Number Twenty Grosvenor Street, London.

The event was hosted by Gary Hinton, Deal Advisory Director in KPMG's Professional Practice Solutions team; Fiona Fry, Senior Partner KPMG; and Katie Clinton, KPMG UK Head of Internal Audit, Risk and Compliance Services.

The topic of discussion was "Risk transformation and the increasing role of technology" and covered issues facing professional services firms, particularly legal practices, and strategies that we have seen to be transforming the approach to risk management. Fiona and Katie share their high level summary of topics discussed and themes to consider below.

Please do [get in touch](#) if you would like to explore anything you feel would be beneficial to you and/or your firm.

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## Overview

Risk management is becoming increasingly important for all businesses, with the accounting, financial services and legal professions all under additional scrutiny from different stakeholders and influencers. This scrutiny can be partly attributed to the increased complexity of the regulatory environment and increased public lens, ranging from GDPR and Information Security to Gender Pay Gap; Money Laundering to Diversity; and Whistle blowing helplines to Living Wage Reporting. As a result of this environment, which can be exacerbated by social media and can result in significant brand and reputational damage, risk management needs to be a critical part of ongoing governance.

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## From Fiona Fry

Fiona has spent the past 25 years dealing with the challenge of managing risk, both as a regulator (IMRO/FSA) and as a Partner at KPMG. Fiona explored some of the key challenges she sees within the professions, highlighted some of the actions KPMG has been undertaking in recent years and shone a light on the areas she sees creating the greatest risk to the legal profession, as well as exploring how organisations may respond to these risks. The key takeaways from Fiona included:

## From Fiona Fry

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- Whilst the accounting profession has seen a number of risk management challenges over the past few years, there are signs that this may soon extend to the legal profession, including the role that law firms need to play in preventing money laundering; on the size of their fees in relation to work where firms are in distress; and questioning the openness of the profession on matters such as gender diversity and pay gap.
- All professional practices need to consider their approach to governance and risk management, especially given that:
  - Many organisations have an **out of date governance and risk management** process.
  - **Changes to regulation** are becoming increasingly common, often driven due to political reasons.
  - There is often a **denial within organisations** to the risks that may materialise, or to the extent which they may impact.
  - With **increased public scrutiny and media attention**, all organisations need to be alert to the risks they face, and the extent to which those risks are beginning to crystallise into bigger issues or even crises.
- Many professions are facing a number of emerging risks, and whilst it is easy to take a simplistic view that a number of these won't impact, we believe that many of them will hit all professional practices in the near future. A large number of organisations are seeing fee pressure as a result of clients challenging on the value of work and technological developments allowing new competitors to perform elements of work at a fraction of the cost.
- There is a need now to implement more formal governance arrangements and risk frameworks that:
  - Clearly identify the core risks to implementing strategy.
  - Identify and assess the changes taking place in the business, political and social environments.
  - Understand and monitor the risk appetite for different types of business.
  - Ensure that fees and charging structures stand up to scrutiny and demonstrate the value that is being added.
- Firms need to understand where the issues and risks lie within their business and proactively start managing these. Firms need to start thinking about risks in the context of how these would be reported in the tabloids; even if issues that materialise may not be deliberate, this is not an acceptable excuse.
- Fiona set out the benefits of the partnership model, but that there is a need for many partnerships to become more corporate in their approach. As an example, risk management within a partnership model is often a part-time role, coupled with fee earning responsibilities. Many organisations are moving to dedicated risk teams; balanced Partner scorecards which assess performance not only on fee generation but also on quality and risk compliance; and costs of non-compliance to Partners (fines) becoming more material. This is a difficult balance to achieve at the same time that all partnerships are trying to attract and retain the best talent.

## Considerations for how you are managing risk

1. Ask yourselves whether you are being dispassionate enough in your analysis of your risks, especially emerging risks, and your response to the recent challenges hitting the headlines in respect of the legal profession.
2. Challenge yourselves as to whether you really understand who the external commentators are, what their views are and the extent that these commentators' views could change the very destiny of your organisation/profession.
3. Develop a clear plan for how you can influence those external commentators' views and engage with them differently and crucially: sit in their shoes, which is a powerful way of helping you/your organisation and your profession really hold the proverbial mirror up.

## From Katie Clinton

Katie then provided her insight into helping clients design and transition towards the risk function of the future, using the experience she has gained over the past 18 years in internal audit, extended assurance and transformation. Katie set out examples of work KPMG is undertaking with our clients to support them on their journey specifically considering:

- The context of a rapidly evolving risk landscape.
- What the key features of good risk management are.
- Where organisations might start their journey.
- What the key capabilities are that may need to be built or bought in.

Change and disruption are here to stay and there is a constant balancing act of protecting clients, alongside growth and innovation.

### Legal profession risk landscape

Katie noted the convergence of risks across sectors - a number of risks facing professional practices, and especially the legal sector, are also being seen in other industries and sectors, notably financial services. The SRA also sets out its risk outlook for 2018/19 and includes risks such as cyber protection, diversity, information security; and integrity and ethics to name a few.

### Features of good risk management

- **Identifying, focusing and responding to the right risks** (i.e. linking the firm's mission, values and strategy to the risk management process).
- **Considering both upside versus downside risk** (i.e. determining the risk appetite and the extent to which the organisation is willing to accept risks in the pursuit of opportunities).
- **Risk management structure and governance** (i.e. establishing the responsibility for risk management, and ensuring that the Risk Committee isn't the only part of the organisation responsible for risk management).
- **Risk culture** (i.e. risk management must be driven by senior Partners and individual goals aligned with this).
- **Value added risk and compliance processes** (i.e. risk management needs to transform from being controls and compliance focused to advising on, and anticipating organisational risks).

### Typical transformation journey

- **Understand the current and desired future state of the enterprise risk management framework:**
  - How are enterprise risks currently identified, evaluated and prioritised?
  - How effective and dynamic is your Enterprise Risk Management framework?
  - Where are the hot spots and blind spots of capability?
- Develop the **case for change**, articulating the benefits, setting out the costs and ensuring that there is sponsorship for the transformation.
- Develop a **programme plan** and mobilise the **right resources** to deliver.
- Ensure the **business is accountable** for, and **incentivised** to deliver the transformation.

Ensure the transformation plan not only comprises of **people and process change**, but consideration is given to how this can be supported by **the use of technology**.

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## What capabilities should you start investing in?

The answer to this largely **depends on the current and desired state of maturity**, but it is key to understand how **technology, data, people and processes** can improve the **efficiency and effectiveness** of your risk management approach. It is also important to realise that the transformation journey can take time, and in some instances as much as five years.

## 1. Technology

Technology is an increasingly important, or even critical, lever for doing more for less, in a more consistent and controlled manner. It is important to consider whether the **platform(s) used to manage and monitor risks and workflow and document management systems** are fit for purpose; relevant; and cost effective to maintain and update' or whether they need upgrading.

## 2. Data

The ability to harness and analyse increasingly **higher volumes and variety of data** at speed is essential, whether you are a Managing Partner, General Counsel, lawyer, legal librarian or paralegal.

- **Investment in data management** capabilities will be critical to accessing, storing, enriching and utilising data for better decision making.
- **Data is an asset**, and the cleaner and richer the data you are playing with, the more accurate, insightful and cost-effective your services will be.
- **Data analytics** is offering value to legal practitioners right now in areas such as patent and trademark law; copyright; securities; anti-trust; and commercial litigation. It will also increasingly support strategic planning; business development; and marketing activities by scanning for industry trends; performance of competitor firms; and individual lawyers in specific jurisdictions.

## 3. People and process

To deliver improvement, it is essential that there is the **right team, skillset and culture**.

As the cost and barriers to processing and analysing data decreases, conversely the **value of human judgement increases**. This is especially true in the legal profession where the nuances and expertise required to provide appropriate legal counsel will always remain core to the profession.

**People will need reskilling** for a world in which repetitive, standardised tasks are replaced by automated solutions, and lawyers have access to powerful tools capable of drawing out new legal insights, mined from ever increasing, massive data sets.

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## In summary

So in the context of a rapidly changing risk landscape where reputational risk is scoring at the highest levels ever and scrutiny on organisational decision-making is at an all-time high, risk transformation has become a priority. The risk of not getting this right is significant – from increasing regulatory scrutiny and censure; from not getting the hygiene factors right; to reputational damage resulting from poor decision making.

The three key messages to take from Katie's session are:

- **Tone at the top is critical** – Partners walking the walk is crucial to making effective risk management happen.
- **Technology** can improve the efficiency and effectiveness of client service but it's also important to get the foundations in place and ensure that quality is consistently delivered.
- **It all comes back to the people** – are the right kind of behaviours being incentivised? Are there consequences as a result of not complying? Will people understand what doing the right thing looks like and will they do it?

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## Our events in the professional services sector

This dinner was one in a series to bring you thought-provoking insight into real-time topical issues and challenges that you're likely to be grappling with. If you would like to continue to receive insights; sector updates and event invitations from our Professional Practice Solutions team then please opt in to our subscription Professional Services and Partner Perspectives via the KPMG preference centre: [www.kpmg.co.uk/professional-services-perspectives](http://www.kpmg.co.uk/professional-services-perspectives) where you'll be able to manage your subscriptions and sign up to wider topics.

If there are any subjects you would like to see covered at a future event, please let us know.

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## KPMG in the professional services sector

We have brought together some of the best professionals from across our firm with relevant insight and experience in the professional services sector. We co-ordinate and deliver a collaborative approach to your business whatever challenges you encounter – looking to the future and the bigger picture with you. Our [service offering document](#) gives you an overview of our specialists. Please also take a look at [our Professional Services website](#) where you will find more insight and details about our sector-focused team.

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



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