

Clarence Risk

Enterprise risk and technology firms

Why isn't it working?

March 2020



Background

Technology firms are moving in to financial services as a means to acquire more data points from their customers

Over the past few years we have witnessed the ‘rise and rise’ of technology firms. As these firms move from start-up to growth phase, they are beginning to explore new avenues to diversify from their core product offerings to acquire more data points from their customers

Technology firms are moving in to financial services and payments space dominated by traditional financial services and payments firms

- Grab, a ride sharing to food delivery technology firm operating in a number of countries across Southeast Asia, has moved in to providing consumer mobile wallet services
- Blockchain/cryptocurrency firms, such as Diginex, have entered financial services through acquiring certain asset management licenses from the SFC in Hong Kong¹

Although the levels of sophistication and maturity of technology platforms in their respective ‘core’ products vary, their journeys towards implementing and embedding an enterprise risk and internal controls environment that effectively provides senior management with the tools and management information (“MI”) still remains nascent at best

1. June 6, 2019 - "Diginex launches one of Hong Kong's first regulated asset managers focused solely on digital asset strategies"
<https://www.diginex.com/news/diginex-launches-one-of-hong-kongs-first-regulated-asset-managers-focused-solely-on-digital-asset-strategies/>

Challenges

Technology firms face operating model and execution challenges when establishing their enterprise risk function and controls environment

- **Difference in technology firms' vs 'traditional' financial services operating models**
 - Agile operating models are typically deployed in technology firms, but much less so in typical risk & controls functions, may not always operate harmoniously with each other, leading to asynchronous analysis, review and decision-making and culture and operational conflicts
 - Enterprise risk functions in technology firms are usually housed in Finance functions, which tends to view enterprise risk from an ICFR¹ viewpoint, in contrast to viewing it as a function that supports senior management and board members in making strategic, risk-based decisions
- **Multi-product execution**
 - Technology firms typically develop multiple new products at breakneck speeds to stay relevant and deliver market leading innovations to their customers. Managing multiple product deliveries that may have variations of nuanced effects on the firm's business model and potentially the overall strategy and direction of the firm, both positively and negatively, leads to amplified levels of execution risk
 - Having a solid, comprehensive handle of the intricacies of all new product developments is fundamental in ensuring that they will not significantly risk the operations of the firm

Consequences

Technology firms face operating model and execution challenges when establishing their enterprise risk function and controls environment

Firms with ineffective operating models where risk & controls functions do not operate in coherence with their business functions, coupled with a less robust framework for managing execution risks associated with developing a number of new products may threaten the achievement of a firm's strategic goals, objectives and financial performance

- Strategic decisions made by senior management and the Board are less-informed, inaccurate and/or based on outdated information, with the risk & controls function not meeting business' requirements due to incompatible operating models
- Senior management / Board decisions being made that may impede the ability for the firm to meet its strategic goals. Reasons this happens includes:
 - Improperly established risk and controls framework, policies and procedures environment
 - Risk governance structure not appropriately designed and operationalised to cater to an agile operating model
 - Technology tools not available or not fit for purpose for effective identification, measurement, monitoring and mitigation of key risks in the firm.
- Inability to comprehensively develop, manage, monitor and mitigate risks associated with the development of new products and features on a firm's technology platform due to
 - Poorly established, codified or embedded risk governance of the development of new products and features
 - Weak assessment and monitoring of new product development, launch and post-launch risks to a firm's strategy and operations

Solutions

While there are clear challenges for technology firms in designing, building and implementing conventional enterprise risk management functions, there are key initiatives required for firm's to have a solid grasp of their risk & controls environment. This includes:

- Developing a hybrid, agile/risk operating model that compliments a technology firm's operating model; a governance structure, and risk & controls framework that is adept to a fast-paced technology development environment that supports, not hinders, the firm's goals and objectives
- Instilling a risk management mentality throughout the firm, particularly during product development process, not just including risk management at the '90% completion stage'
- Ensuring a three lines of defence model is fully embedded throughout the firm
- Building 'future proof' enterprise risk management technology tools that captures the firm's risk & controls universe, providing senior management and the Board with up-to-date MI to assist in strategic decision-making
- Developing effective and ongoing training and development programmes at all levels that promotes and supports a healthy understanding and practice of risk management throughout the firm



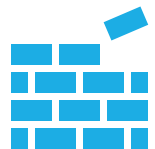
Next steps

Actions your firm can take to minimise and mitigate your enterprise risks

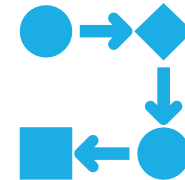


Undertake a high-level review of the current GRC universe within the lense of the 3LOD model

- Frameworks, policies, procedures documentation, including new product development framework
- Risk & Controls environment inventory assessment



Greenfield development or restructuring of existing ERM function and/or R&C environment



How Clarence Risk can help

Clarence Risk specializes in providing risk management, governance and controls, risk transformation and risk strategy advisory services

Risk Management

Designing, developing, implementing and embedding enterprise risk management frameworks. assisting senior management and the board with making strategic risk decisions through the identification, measurement, monitoring and mitigation of risks throughout the organization

Governance & Controls

Assist firms' senior management and board in determining the most suitable rules conventions, processes and mechanism by which information flow and risk-based decisions are made and embedded throughout the firm

Effective and timely identification, analysis, management and dissemination of risks throughout the firm to support risk-based oversight and decision-making throughout the firm is essential in managing and mitigating potential risks faced by firms.

Risk Transformation

Design, build and embed a risk function that works in harmony with your business operations

Digitization strategy for governance, risk and controls activities

Board & EXCO advisory

Enterprise risk management / risk function optimization

Controls automation strategy and implementation program management

Risk Strategy

Risk appetite review, diagnostics and calibration

Bank / risk culture reviews

Thematic risk identification, review and assessment strategy development

Clarence Risk

Risk Management | Governance & Controls | Risk Transformation | Risk Strategy

Clarence Risk helps our clients find lasting risk management solutions. The firm provides high quality, sustainable risk management solutions with our clients while upholding our core values of trust, mutual respect, integrity, and professionalism in everything we do

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