

Addressing Systemic Risk through Risk Policy

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Our World

- Confronts challenges which defy simple solutions
- Innovative ways of thinking about ways to solve them are required
- Challenge is to make economy and society more resilient
 - Better able to deal with sudden shocks
 - Challenges from our interconnectedness and interdependence
 - Scientific and technological advances
 - Resilience also means able to take advantage of opportunities
- Crises offer opportunity to change how we see and deal with the world

What we know about Crises

- We know
 - Crises happen
 - Someone always said it would but no-one listened
 - Experts are nearly always able to explain in retrospect why the disaster happened
- Question: How do we know who to listen to and when to stop System failures happening?

Moving Forward

- Recognise that new times require new thinking
 - New thinking about the nature of systemic risk
 - New thinking about risk policy
- Being prepared to question the adequacy of current policies and risk management practices
- Being prepared to accept deeper change in the manner by which risks are identified and brought under management

Nature of Systemic Risk

- The products and services we use and rely upon are provided by systems
- Humans create systems; they are a combination of people and technology
- Each system is a Network of individuals, organisations and institutions
- When systems fail they have consequences for all those connected to them
 - Consequences cannot be quarantined
- Things can happen quickly

Nature of Current Risk Thinking

- We think risk is about balancing probabilities and costs
 - If something is improbable we shouldn't spend too much
 - Equation is $\text{Risk} = \text{Likelihood} \times \text{Consequences}$
- In some areas this is the wrong emphasis

Some risks are so 'unthinkable', the question is not cost but how to spend to reduce vulnerability

Nature of Risk Management Thinking

- Executives and senior managers almost never anticipate major risk events
- Those who manage risks are not directed to manage risks that have the potential to be catastrophic
- What is missing is Risk Policy

Australian Risk Policy Institute

- Identified the gap in Risk Policy
- GFC drove demands to rethink, redesign, rebuild how we approach systemic risk
- Responded with release of the Risk Policy Model in August 2010
 - RPM is the world's first Risk Policy Framework and Methodology to address Systemic Risk

ARPI's New Approach to Systemic Risk

- Accepts that failure of systems is possible
- Elevates Risk Policy to anticipate and avoid major risks
- Uses a systemic and rigorous method of risk identification and management

New Risk Equation

- Knowledge required is Knowledge of Vulnerabilities, Threats and Threat Actors
 - Vulnerability is precursor to Consequence
 - Equation is $\text{Risk} = \text{Vulnerability} \times \text{Threat} \times \text{Threat Actor}$
 - Time provided by warnings is critical to decision making
- Recognises that risk lives in networks; knowledge of risk lives there as well
- Collaboration will be required to access this knowledge to determine risk and act on it

Change of Organisation Perspective

- Move from organisation-centric to network-centric thinking and acting
 - No single organisation has knowledge of vulnerabilities and threats
 - No single organisation has control over ‘treatment’
- Protective measures have to be put in place on some multi-organisational basis
 - Solutions will be implemented through Networks
 - Solutions will be a combination of Risk Policy, Risk Management and Risk Governance

Way Forward

- Leaders willing to govern: to decide a direction and issue commands
 - Fully appreciating that no system assumes its own failure
 - Executives don't expect the unexpected
 - Leaders have to stand outside their normal ways of seeing their job and organisation
- Leaders recognising that organisations have to change the intent of risk management
- Leadership will be accomplished through use of a systemic and rigorous method of risk identification and management

ARPI's Position on Policy

- Managing risks strategically is an issue of Risk Policy
- Governance of risks is informed and guided by the risk policy
- Risk Management is the manner by which the risk governance achieves the risk policy
- Risk Management is reliant upon a rigorous framework implemented with rigour.

This structure applies in any network from an organisation up to and including a global network.

Australian Risk Policy Institute

- Mission
 - Elevate Risk Policy, locally and globally
 - Shift risk management onto solid footings using a rigorous framework implemented with rigour
- Leaders attracted to ARPI
 - They are or feel responsible for doing better at anticipating major risks
 - They need new rules and tools—tools fit for purpose
 - They need a means to create a collective recognition that this change needs to occur

ARPI and Risk Policy Model

- Risk Policy Model responds to World Economic Forum call to: rethink, redesign, rebuild to avoid Systemic Risk
- Risk Policy Model enables Governments and Business to address risks to systems in a Smart Way
- ARPI and Risk Policy Model – Demonstrating Australian global leadership – the Smart Way

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