Risk Management –Emergence, Obligations & what it means for Community Housing Providers

This article examines the emergence of risk management as the governance tool of choice for Australia's regulators and the key challenges facing the Community Housing Sector in implementing risk management systems effectively.

Emergence of Risk Management as the Regulators' Tool of Choice

Peter Bernstein in his 1997 book "Against the Gods: The Remarkable History of Risk", traces the origins of modern concepts of risk back to the 1200 & 1300's. It is a simple fact that we all practice risk management every day, both as private individuals and as business managers, whether it be insuring an asset, or simply weighing future options against a set of events we believe may occur. So if we are all practicing risk management, what's all the fuss about?

To understand what all the fuss is about, you need to understand the evolution of risk management within the corporate world and how expectations and obligations with respect to risk management have changed markedly over the past 5 to 10 years.

The "big end of town" has, for a long time, known the considerable benefits that can be gained from implementing risk management programs. Whilst they initially focused on finance based risks and insurable hazards, over the years other sub-disciplines of risk began to be recognised, leading to the emergence, in the late 1990's, of what is now referred to as Enterprise Risk Management (ERM). As the name suggests, ERM involves consideration of risk on an enterprise-wide level, extending well beyond the traditional risk categories to encompass every facet of an organization's operations from the board room to the front desk.

With other management processes such as total quality management (TQM) and process re-engineering being written off as fads, experienced managers may well have had some justification for arguing that risk management generally, and ERM in particular, would meet a similar fate. Then a strange thing happened. Law makers and regulators started to create obligations for organisations to implement risk management programs.

Workplace Health and Safety laws across Australia have long required employers to implement formal risk management programs within their workplaces and in the early to mid-2000's, new laws and regulations were introduced that compelled financial services licensees, ASX listed entities and reporting entities under anti-money laundering legislation to follow suit.

Continuing the regulatory trend the Evidence Guidelines published by the NSW Registrar of Community Housing, through Performance Areas 4.4 (Sound Governance) and 6.3 (Protection of Government Investment) require Class 1 & 2 providers to implement a risk management framework which is consistent with the International Risk Management Standard ISO AS/NZ 31000: 2009.

Defining the Risk Management Obligation

In simple terms risk management is a business methodology that assists directors and managers to predict future events which may impact (either positively or negatively) on their organisation's activities and to use structured processes to take appropriate actions to address the impact of these events.
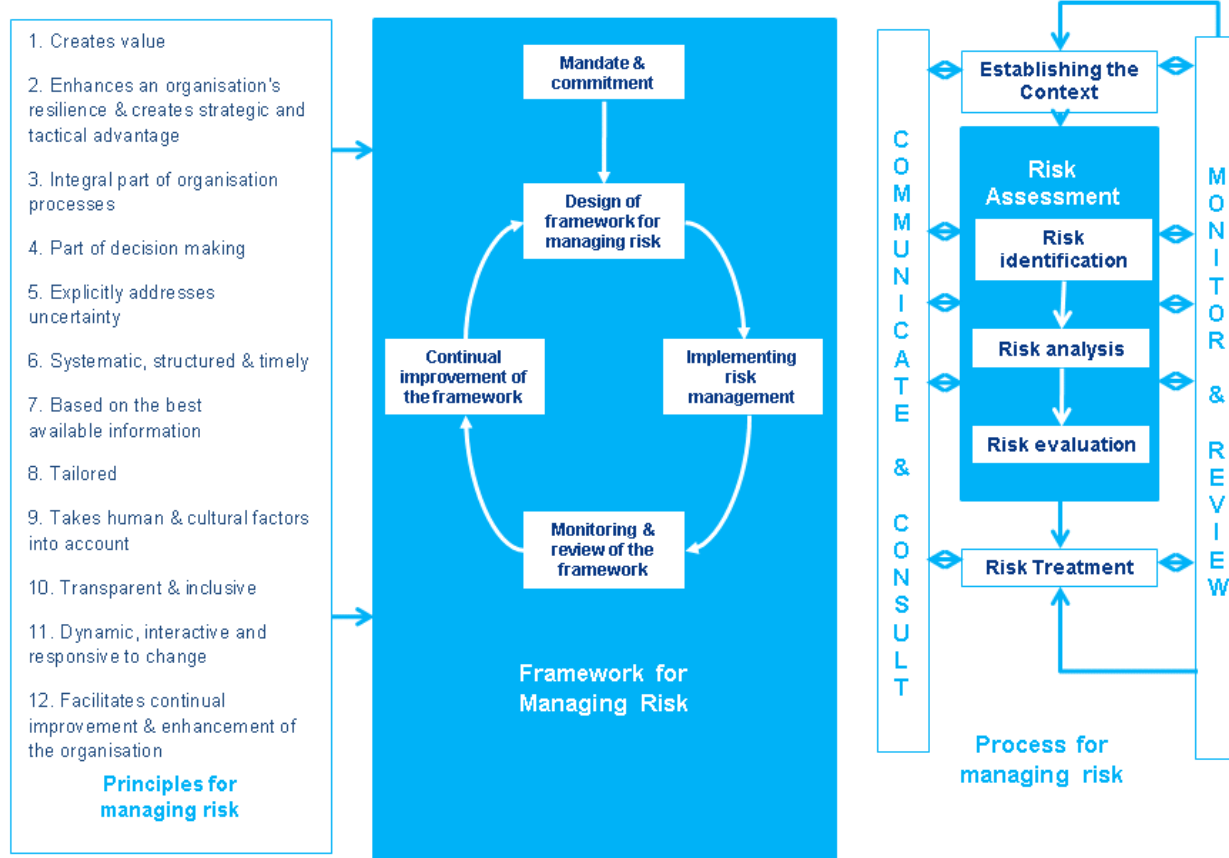
The International Risk Management Standard ISO AS/NZ 31000 (*refer to Figure 1*) published in November 2009 (which succeeded the Australian Risk Management Standard (AS/NZ 4360), provides the benchmark for Community Housing Providers to follow.

Figure 1 – ISO AS/NZ 31000 International Risk Management Standard – Three Inter-related Building Blocks

11 Principles
Risk Management Framework
Risk Management Process

1. Creates value

2. Enhances an organisation's resilience & creates strategic and tactical advantage

3. Integral part of organisation processes

4. Part of decision making

5. Explicitly addresses uncertainty

6. Systematic, structured & timely

7. Based on the best available information

8. Tailored

9. Takes human & cultural factors into account

10. Transparent & inclusive

11. Dynamic, interactive and responsive to change

12. Facilitates continual improvement & enhancement of the organisation

Principles for managing risk

Mandate & commitment

Design of framework for managing risk

Continual improvement of the framework

Implementing risk management

Monitoring & review of the framework

Framework for Managing Risk

Establishing the Context

Risk Assessment

Risk identification

Risk analysis

Risk evaluation

Risk Treatment

COMMUNICATE & CONSULT

MONITOR & REVIEW

Process for managing risk

What ISO AS/NZ 31000 does, that the former Australian Standard (AS/NZ 4360) didn't, is:

- clearly articulate the key attributes that enable a risk management program to be managed effectively (these are referred to as the 11 Principles); and
- make it clear that the 7 Step Risk Management Process (which was, more or less, adapted from AS/NZ 4360) must be implemented through an effective Risk Management Framework that will allow it to be embedded at all levels throughout an organisation.

ISO 31000 draws together the 11 Risk Management Principles, the Risk Management Framework and the 7 Step Risk Management Process as three interrelated building blocks, all of which work together to ensure that a risk management program is implemented effectively.

What does ISO 31000 mean for Community Housing Providers?

For those organisations that have been proactive in their risk management practices, the 11 Risk Management Principles, and the concept of a Risk Management Framework, are nothing new. Whilst you may not have used exactly the same terminology, the practical guidance offered by ISO 31000 will be familiar.

For those organisations that still think that risk management is something you do once a year, and have a documented risk management program which means little to staff, senior management and/or the board of directors … well you may be in for a bit of a shock.

There is no doubt that for Community Housing Providers mandated to implement effective risk management programs, AS/NZ ISO 31000 substantially ups the ante by:

- making the principles of risk management explicit (they were merely implied under AS/NZ 4360); and
- providing a lot more guidance on the framework that organisations need to create in order to properly integrate and embed risk management at all levels.

    Consider, for example, whether in your organisation:

- risk management is an integral part of all organisational processes, including policy development and strategic planning;
- risk management is dynamic, interactive and responsive to change, and helps decision makers make informed choices and prioritise actions;
- specific risks are owned by individuals who have the accountability and authority to manage those risks; and
- you have established a robust system to continuously identify, assess, control, monitor and report risks.

ISO 31000 makes it clear that these are the types of outcomes that are expected from an effective risk management system. If there was any doubt under AS/NZ 4360 it has now been removed. Risk management clearly involves a lot more than simply documenting a program, formulating a risk register on an excel spreadsheet and tabling it with the board.