



Are You Getting the Most Out Of Your ERM, IRM, and GRC Strategies?

How CFOs are driving risk management with commercial data and advanced data analytics

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Introduction

Risk management has received a great deal of attention from international accounting bodies, regulators, and risk management associations, and numerous guidelines have been developed to help companies manage and mitigate credit, receivables, compliance, and supplier risk. Most of these guidelines follow three conceptual frameworks, namely enterprise risk management (ERM), integrated risk management (IRM), and governance, risk, and compliance (GRC).

In tandem, a market for risk management software has emerged based on these frameworks. The expected growth of this sector speaks to the importance of effectively navigating an increasingly complex risk environment. In 2020, the global market for risk management software was valued at \$9.87 billion, and it is expected to reach \$25.07 billion by 2027.¹

Whether companies follow these frameworks in their entirety, draw from the range of concepts therein, or subscribe to the software solutions built around them, the extent to which any risk management strategy or technology can succeed depends on access to quality data.

In this playbook, we define ERM, IRM, and GRC and discuss how quality risk management data and advanced data analytics lie at the core of risk management frameworks. By the end of the playbook, you will understand:

- The importance of commercial data in managing risk
- How a commercial data provider can help your company improve financial and operational risk management and prepare for ongoing external shocks

What is ERM, IRM, and GRC?

“Managing risk today is not really a different task than it has been in the past, it’s just gotten much more difficult because we’re so globally interconnected ... and those connections are inherently fragile.”

Brian Farley,
Vice President, Third-Party Risk and Compliance,
Dun & Bradstreet

The conceptual differences between ERM, IRM, and GRC are nuanced. Companies will choose the best model for their business, and in order to demonstrate their commitment to risk management, will publicly report that they follow one of the three generally accepted conceptual frameworks. Most companies follow the COSO ERM and ISO 31000 frameworks that embody elements of all three, and most risk management software is designed to support those frameworks (see Table 1).

Table One: **Most commonly used risk management frameworks**

1. COSO ERM Framework
 2. ISO 31000
 3. RIMS Risk Maturity Model ERM Framework
 4. Professional Standards Framework, Institute of Risk Management
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For chief financial officers (CFOs), the important factors are that the company adheres to a generally accepted risk management framework and that its resources are managed with the appropriate controls in place to mitigate financial, operational, compliance, and reputational risk. To that end, what CFOs care about are the relevance, accuracy, and timeliness of the data informing their strategy and practices around managing risk.



Risk management defined

Enterprise Risk Management

“ERM is the process of identifying and methodically addressing the potential events that represent risks to the achievement of strategic objectives, or to opportunities to gain competitive advantage. ... The fundamental elements of ERM are the assessment of significant risks and the implementation of suitable risk responses. ... Other important ERM concepts include the risk philosophy or risk strategy, risk culture and risk appetite. ... Management responsibilities include the risk architecture or infrastructure, documentation of procedures or risk management protocols, training, monitoring, and reporting on risks and risk management activities.”²

Integrated Risk Management

IRM is defined as “a set of practices and processes supported by a risk-aware culture and enabling technologies, that improves decision making and performance through an integrated view of how well an organization manages its unique set of risks. ... To understand the full scope of risk, organizations require a comprehensive view across all business units and risk and compliance functions, as well as key business partners, suppliers, and outsourced entities.”³

Governance, Risk, and Compliance

GRC is the capability, or integrated collection of capabilities, that enables an organization to reliably achieve objectives, address uncertainty, and act with integrity, and includes the governance, assurance, and management of performance, risk, and compliance. GRC goes beyond the critical roles of governance, risk, and compliance. GRC includes other key areas such as internal audit, compliance, risk, legal, finance, IT, HR, as well as the lines of business, executive suite, and the board itself.⁴



The role of commercial data in managing risk

“CFOs need to be more proactive because black swans travel in flocks.”

Brian Farley,

Vice President, Third-Party Risk and Compliance,
Dun & Bradstreet

Best-in-class, commercial data and data analytics

Underlying risk management frameworks and the technology solutions related to managing risk is data. Today, more than ever, CFOs need to understand how changes in credit, receivables, compliance, and supplier risk can affect their business. We only need to point to the disruptions in business continuity during the COVID-19 pandemic to recognize the importance of knowing the financial health and sustainability of one’s suppliers and customers.

Most financial organizations, however, don’t have the internal resources to continuously monitor risk across their credit portfolios, accounts receivable and collections processes, compliance efforts, or supply chain. Therefore, companies are increasingly partnering with data and data management solutions providers to supplement and unify their existing data, enhance analysis and modeling, and create more useful, actionable insights.



A note on the interconnectivity of risk

While it's entirely possible to identify specific types of risk in isolation, it's well known that risk and its ramifications are highly interconnected. Historically, it's the interconnectivity and complexity of risk that have been extremely difficult to model, let alone manage. Today, however, over 300 ERM, IRM, and GRC technology solutions powered by artificial intelligence (AI) have emerged to help unravel risk connectivity.

A portfolio view of your credit customers and suppliers

Dun & Bradstreet's global commercial data and insights, delivered through the solutions they power, help clients screen potential customers and suppliers, actively monitor account changes, streamline their reporting processes, and drive operational efficiency through automation. These types of solutions aggregate information on a variety of dimensions, allowing clients to obtain a portfolio view of risk for credit applicants, existing credit customers, prospective suppliers, or current suppliers.

Predicting financial risk

"Historically, we are best known for our financial risk data associated with individual businesses," said Brian Farley, vice president of third-party risk and compliance at Dun & Bradstreet. "Not only do we gather descriptive data around the financial health of hundreds of millions of companies globally, but we also provide predictive indicators that assign probabilities to future adverse business outcomes, such as bankruptcy.

"History tells you something about the future," Farley said, "and what we do is collect historical data and predict business outcomes based on those inputs. For example, if lawsuits of a particular type and size have been associated with business disruptions generally, then when a lawsuit of that type and size is filed against a specific business, we're in a position to gauge the probability and impact of an adverse outcome."

Flocks of black swans

Dun & Bradstreet's team of data scientists and economists also reports on country risk, including things such as political events or natural disasters. The company can leverage location data to identify affected areas and companies, then issue timely alerts about businesses that could potentially be affected. "We've started to describe these things as black swan events," Farley said, "but who knew that black swans traveled in such large flocks? Take the Suez Canal blockage, the Ukraine war, the contamination issue and then flooding at the Abbott baby formula plant ... This isn't the exception; these disruptions happen all the time and are extremely costly."⁵

"It's the information from outside the context of the buyer-seller relationship that the commercial data provider really brings to the table."

Brian Farley,
Vice President, Third-Party Risk and Compliance,
Dun & Bradstreet

Mastering the data is a fundamental building block

A multinational corporation can have thousands of locations with the same or similar legal name, but assigning a number to each entity creates a unique identifier. Ensuring that a company has an identifier for each of its suppliers or credit applicants, and that it can aggregate the right information to the right supplier or potential customer, is central to the identity verification process. "Being able to monitor and understand what's happening with the business is step one," Farley explained. "You have to be able to associate the right information with the right business to begin with. Once we've established that connection, the flow of information is simple," he added. "Similarly, with our identity verification solution, our clients have an easier time aggregating their own experiential data to any individual customer or supplier." That's the linchpin of creating internal efficiencies around understanding credit, receivables, compliance, and supplier risk, he said.

“Data sources aren’t all created equal. Sometimes self-reporting can be very accurate. Sometimes self-reporting is, frankly, just an attempt at fraud. We need to be able to get at the real story.”

Brian Farley,
Vice President, Third-Party Risk and Compliance,
Dun & Bradstreet

Grading the reliability of data sources

A multi-faceted approach to creating, curating, and maintaining data can help ensure the information is not only useful, but also meaningful. While data can be sourced from tens of thousands of public sources, Dun & Bradstreet also has proprietary and owned data that is not available elsewhere. It uses multi-sourcing as a way to help verify the data. “As we leverage sources over time,” Farley said, “we use AI tech and other learning algorithms to understand which of the sources has been more definitive — who’s more thorough, and what’s just noise.”





Top five ways CFOs can benefit from business risk data, predictive scores, and analytics:

1

Dynamic business intelligence via automated platforms allows CFOs to make better decisions on how to manage customers, suppliers, and other third parties across the lifecycle of the business relationship.

2

Business risk data informs custom models that streamline customer acquisition/onboarding and also slashes due diligence time, helping CFOs drive profitable growth.

3

Allows CFOs to obtain insights necessary to help anticipate potential customer or supplier risk, onboard the right credit customers at the right terms, optimize the entire supply chain, and maximize buying power.

4

Enables finance teams to keep up with ever-expanding, ever-changing regulatory frameworks more efficiently.

5

Helps CFOs identify risk interconnectivity and the effects of black swan events on customers and suppliers.



Conclusion

ERM, IRM, and GRC have emerged as the three main categories of risk management and risk management technologies. Most companies comply with the COSO risk management framework or ISO 31000. CFOs are increasingly turning to best-in-class providers of commercial data and data analytics to help them better understand credit, receivables, compliance, and supplier risk, the interconnectivity of risk, and the effects of black swan events. Dun & Bradstreet's data and analytical insights, and its risk solutions, help provide historical financial data and offer predictive analytics to inform clients of impending risk events related to existing or prospective credit customers, as well as current or potential suppliers.

For more information on how Dun & Bradstreet helps organizations with financial and operational risk management expertise and solutions, visit dnb.com/risk-management.

Sources

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5. For example, Ever Given was holding up an estimated \$9.6 billion of trade along the Suez Canal each day, \$400 million an hour, or \$6.7 million a minute. The blockage was forecast to cost global trade between \$6 billion and \$10 billion a week and reduce annual trade growth by 0.2 to 0.4 percentage points. The cost of renting some vessels to ship cargo to and from Asia and the Middle East had jumped 47% to \$2.2 million. “The cost of the Suez Canal blockage,” BBC News, March 29, 2021.

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