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RISKPOST

RISK NZ MEMBER NEWSLETTER
MAY 2018



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IN THIS EDITION...

1. A word from the Chair
3. From the Editor
4. RiskNZ Standards Update
5. 2018 RiskNZ Membership Survey
6. Practitioners Day 2018
7. Our AGM
8. Notes from the Wellington Breakfast Networking Forum
10. From Risk Management to Resilience
12. Project: Organisational Risk and Compliance – Qualification Review
13. The Changing Face of Terrorism
16. Finding Opportunity Risks in Failure
17. NZ Spreads a Wider Net to Detect Money Laundering
20. Abstract: Informing Decision-Making in the Face of Adversity
21. RiskNZ Information

A WORD FROM THE CHAIR

NIGEL TOMS – Chair, RiskNZ

Welcome to the second edition of RiskPost for 2018. Thanks again to Sally Pulley for her continuing efforts as Editor of RiskPost and congratulations on behalf of all members of the Management Board on her recent election as Deputy Chair of RiskNZ.

The AGM will be upon us shortly at lunchtime on 31 May 2018 and will include a presentation by one of our new Board Members, Brent Sutton, titled “How can risk management be an effective tool in the management of health and safety related risk?”

With the current move to incorporate a risk based approach in many disciplines and standards, this presentation is likely to have relevance to many members. Please come and join us both to listen to the presentation and to provide your views on the proposed Business Plan for the year.

Preparations for the RiskNZ Practitioners Day on Wednesday 12 September 2018 are continuing. The objective of the day is to provide presentations and guidance that will enhance the capabilities of the risk management community, so please save the date and come and join us. More information on the details of the event will follow shortly.

A WORD FROM THE CHAIR CONTINUED...

It has been a year of change and challenge with both the Executive Officer (EO), and more recently the Administrative Officer (AO), moving on. This provided the Management Board with an opportunity to reflect and rethink the EO and AO roles to improve our support to members, and to recruit valuable skills to modernise our systems. The good news is that we are close to completing arrangements for the appointment of a new Executive Officer and interim arrangements for Administrative and Website support are in place. I hope to provide more good news on this in the near future.

This EO and AO transition has resulted in some short term challenges and I would like to apologise for any issues with the operation of the website.

I believe that the Management Board and Consultant Pages temporarily disappeared whilst updates were being completed.

Many of you will know that I work for a Utility and am therefore interested in the challenges associated with both Risk and Resilience. An article based on my April 2018 lunchtime seminar presentation is included on pages 10/11. I have discussed this topic with a number of members since the event, including Pradeep Navalkar, and we would welcome your views on this area.

Looking internationally my interest was drawn to the current situation surrounding Tesla and its many subsidiaries whose products include electric cars and clean energy storage.

Tesla has had a meteoric rise and its advanced technology is impressive. However, while revenues for the last quarter were \$US 3.4 billion, at the same time it posted record losses of \$US 784.6 million.

While the market and news channels focused their attention on the antics of Tesla's CEO Elon Musk, and the share price dropped, I turned my attention to their risk management thinking past and present.

The past position is easier to understand; pure research is pure risk and a venture of this type often fails due to insufficient funds to get to the position where they can move into profit and/or convince the banks and market to continue to provide support. In that position moving forward means taking these risks and minimising the impact wherever possible to maintain required progress.

Accepting that Tesla has now passed this initial start-up phase, what position should the Chief Risk Officer be advocating now? The options could include:

1. Keep going – planned production increases and reduced costs due to increased production automation will pull us into profit and all will bow before us.
2. Steady the ship, make some minor changes to reduce losses and move towards break-even increasing market confidence.
3. Get conservative in a hurry, reduce expenditure and exposure on the lower performers and focus everything on the big winners and get them into profits fast. The downside is that some of the meteoric progress of the past is sacrificed for a period until good profits are achieved. Conservative has not really been Tesla's style to date, but this would provide time to make these temporary changes on Tesla's own terms.

While apologising that my analysis is an oversimplification of a very complex issue, my personal view is that market confidence is fickle and two more poor quarterly performances especially with increasing losses could leave Tesla being forced to act to save itself from some form of insolvency. There are many significant risks associated with new car production and some of these are entirely capable of producing very poor financial results.

So while I am very much in favour of a progressive and proactive approach to risk management, I believe you have to consider the current and potential future environment, and at this time, I think that acting to manage down the risk even at the temporary loss of progress in some areas is a small price to pay for ensuring the companies continuance.

It would be wise to remember the lessons of history, Nikola Tesla while brilliant, and whose name was chosen to name this company, died a poor man!!!

I personally would like them to succeed as the environment will be the better for it in the long term. I continue to watch the evolving position and the risk stance they will adopt with interest.

FROM THE EDITOR

SALLY PULLEY - RiskNZ Deputy Chair

Thank you for the strong levels of interest in contributing to RiskPost.

This edition includes a range of articles on differing topics. As Editor, my continued intent is to include a variety of articles and content, that not only provide reference materials, but will also be thought provoking, and perhaps trigger new trains of thought. You may agree with articles and opinion pieces, or you may not.

RiskPost 2018 will provide a series of articles on specific topics across Editions. For example: Kristin Hoskin provides a series of updates on what is happening in the 'standards space'; Miles Crawford has provided a second article on risk modeling; and Kerry Grass has contributed an initial article on the Anti-Money Laundering and Countering Financing of Terrorism Act 2009. (This updates an earlier article that Kerry contributed to a Thompson Reuters publication).

Please provide feedback on these articles - we would like to know how best to focus future content.

Nigel Toms' lunchtime seminar raised a number of questions from the audience. There have been some interesting questions and feedback on the work required to build risk management systems to drive improvements in organisational resilience. Pradeep Navalkar and Nigel seek your comments and questions - see pages 10/11 for more details.

If you see an interesting article in a magazine or on a website, that would be of wider interest to RiskNZ members, please let me know. RiskNZ will seek the rights to republish, or provide links to the content, on the website and in RiskPost.

And finally, I wish to thank the Management Board for recently electing me as Deputy Chair of RiskNZ. It is an honour.

RiskPost Editions 3 and 4 will be published in August and November. Members of RiskNZ have already indicated that they wish to contribute to these editions, and I expect that we will 'kick-off' series of articles on several new topics.

As always, RiskNZ is waiting to hear from any member with insights into risk management, whether that be their own insight, or reflecting on what others have written or said.

A reminder email will be issued prior to each Edition providing the cut off date for the submission of articles.

One particular area of thinking that I would like to explore in future editions is Risk and Opportunity. I have received feedback that it is too early to start to talk about any impacts of the revised ISO 31000:2018. However, as noted in the February edition of RiskPost, RiskNZ has received questions about how people and organisations should discuss the effect(s) of uncertainty on objectives, in ways that allow opportunities to be identified and managed to advantage. For those wanting to contribute thoughtful and insightful pieces on this topic - this is your chance.

Please send me an email at editor@risknz.org.nz

CALL FOR CONTRIBUTIONS

RISKNZ STANDARDS UPDATE

KRISTIN HOSKIN - RiskNZ Management Board Member

ISO 45001 Occupational health and safety management systems – Requirements to develop a systematic approach to managing health and safety is intended to be identically adopted later this year.

Public consultation period has still to happen but will likely occur in the next month or two.

OB-007 is working on HB436. This project to develop a handbook for ISO 31000 has been progressing rapidly in the last few months and will be the main item discussed at the May meeting.

As most of you know the new ISO Risk Management Standard was released in February. The AS/NZS 31000 will be an identical adoption but with a different (local) preface. If needed urgently, the ISO and UK versions are available through those respective Standards websites. The AS/NZS one will likely be released late this year.

The handbook (HB436) is intended to help provide clarity on aspects that may require explanation or supporting examples to better understand them, particularly within the Australian and New Zealand context. It will hopefully fill gaps left by the withdrawal of documents supporting the previous version of the Risk Management Standard as well as assisting with variations between the 2009 and 2018 version.

If any member has an interest in a particular risk related standard, or Standards Australia/Standards New Zealand activity, and wants further information please do contact me at kristin@risknz.org.nz

2018 RISKNZ MEMBERSHIP SURVEY

In March we ran a survey of the membership. Thank you to all members who took part. Some of the answers asked for ideas about improvement and opportunity suggestions. Due to the variety of answers these are not summarised below but have been collated and put to the Board for working into the coming year's activities, including the Practitioners Day in September. Over 108 suggestions for ways we can improve RiskNZ were put forward, so it may take a little while to action them all, but they are on the hit list!

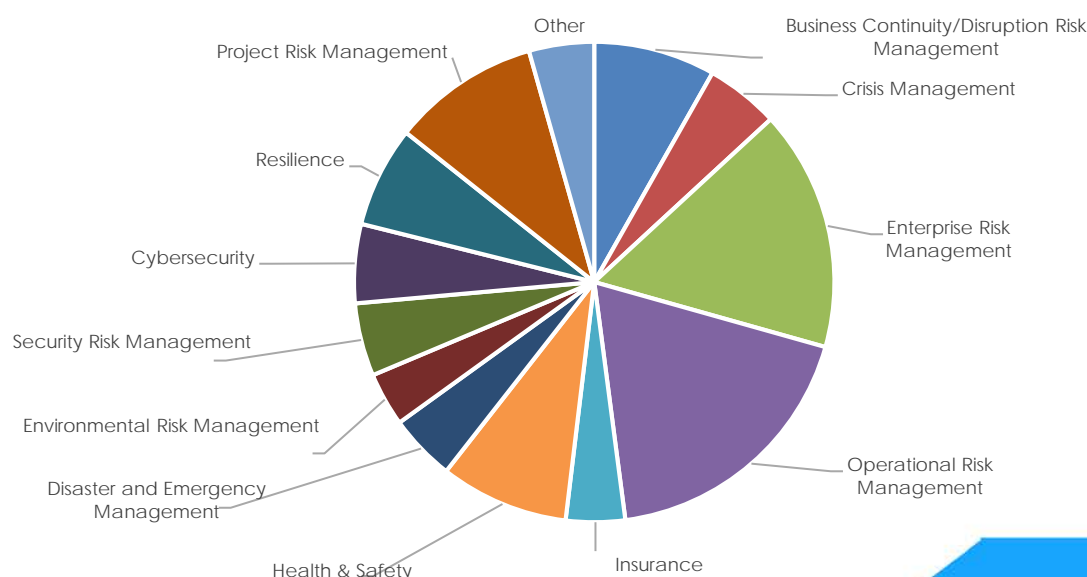
As you have probably been eagerly awaiting outcomes from the survey; the following is a summary of some of the more easily analysed results. A full report will follow in the next month or two. Preliminary results tell us all a little about who we are, what we do, and the ways we work together to advance risk management in New Zealand (and elsewhere).

In total 50 members took part in the survey and of those:

- 56% were individual members and 44% were corporate nominated, or corporate nominated (voting) members.
- 72% of the respondents identify as working predominantly in Wellington or Auckland, with Canterbury being the third most populous member base at 16%
- Just over half the respondents work in the public sector (55%), and approximately half work full time in risk management.
- We are 2/3 self-described strategists, analysts, and advisors - with 59% working in corporate/strategic management.
- The benefit of membership members most want to see improved is information on risk tools, followed by the website, lunchtime seminars, and advocating for good practice (in that order).
- Respondents were in favour of electronic voting at AGMs (81%) and for special general meetings (72%). In terms of electronic proxy voting response was also favourable - at AGMS (64%) and at SGMS (59%).
- The majority of members think a searchable membership directory would be useful
- A speaker was suggested for future events such as the upcoming seminar day. We have approached them to see if they are available and affordable.
- Reading and presentation attendance are the two most popular ways respondents have used to improve their practice of risk management, followed by training courses and networking.
- Networking is the number one way respondents contribute to improving risk management in New Zealand followed by consulting and delivering presentations/public speaking.

As noted, these are preliminary outcomes and a full report will be released once it is finished. Once again, thank you very much to everyone who took part.

How often do you work on the following types of risk management?





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PRACTITIONERS DAY 2018

PRACTICE TO PERFORMANCE: RISK MANAGEMENT IN ACTION



Platinum Sponsor and Host:
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RiskNZ is pleased to announce that our Professional Development Event of the year will be held on September 12, 2018 at the Civil Aviation Authority's meeting suite in Wellington. It will be followed by our Annual Awards presentation.

There will be speaker sessions, including a forum with all the available speakers from the day taking part.

Suggestions from our recent survey on potential speakers has been heard. Once we have finished approaching those that were suggested we will announce the programme – probably in a couple of weeks' time.

The theme of the day is Practice to Performance: Risk management in action

While sessions will be applicable to all, the objective is that the day is to help you sharpen up your tools, so you can put them to work straight away – practical applications; rather than theory.

Please mark your calendar, it is going to be a great day. And stay alert for our next announcement

P.S. sponsorship opportunities are available with attractive benefits – contact kristin@risknz.org.nz to find out more.

OUR AGM

Our Annual General Meeting is scheduled for 12:00pm on Thursday 31 May 2018, with audio links provided between Auckland, Christchurch, Wellington and individual dial-in. More information and registration details are available on the home page of the RiskNZ website <http://www.risknz.org.nz>

Brent Sutton is our guest speaker who will be talking on: "How can risk management be an effective tool in the management of health and safety related risk?". Brent is a new member of the Management Board, see page 21 for Brent's profile.

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NOTES FROM THE WELLINGTON BREAKFAST NETWORKING FORUM - 7 MARCH 2018

Forum Topic: 'Challenges and ways forward for developing a mature risk management culture'

Developing a new work culture is challenging, let alone developing a risk management culture where the benefits are uncertain and often intangible.

Challenges in developing a mature risk management culture include: building engagement in a high turn-over environment, varying risk perceptions, and concentration on more salient business objectives.

Considering this, the next Wellington Breakfast Networking Forum will focus on what other risk maturity challenges we face, and how we as risk managers have, or could overcome them to develop a more mature organisational risk management culture.

What are key ingredients of a mature risk management culture?

- Senior leadership support.
- A clear risk appetite.
- Discussion of the risk appetite.
- Risk based discussions throughout the organisation.

Have people seen a mature risk culture in their work?

- In some parts of the business but not across the whole.
- It is great to have it at the strategic/governance level of the business but if you can't get it there, work on developing it at operational level.
- The challenge is getting buy-in with constant change across the business.
- We are getting it from the executive but we are still trying to expand it into front-line staff
- The tendency is to see it siloed in an organisation.
- A mature organisation wide risk culture is cyclical, it comes and goes depending on events, the organisational environment and leaders.
- Risk can be looked at in a static way in the executive rather than in a dynamic way (as is shown in the lower levels).

Is a mature organisation-wide risk management culture an unattainable position?

- It is very rare to get a mature risk management practice. We get a lot of organisational risk management maturity achieved through the heroic efforts of individuals, but this maturity lapses once they move on.
- Tone from the top is needed – strong governance.

How do we operate within this environment and be able to add value?

- View change and staff turn-over as an opportunity to further develop organisational risk maturity (with fresh mind sets), rather than as a disruption.
- Don't waste a good crisis!
- Mistakes are opportunities to review what happened, show value, and gain buy-in for risk management.
- Be explicit that organisational risk maturity is an objective of a risk strategy. Define the core components of a strong risk culture and work towards them.
- There is no set strategy for developing organisational risk maturity. What works in one organisation will not work in another. Ask "what works here and how do we hang onto that?"
- While organisations might look to make risk part of the description/KPI for roles across the organisation, this hasn't worked when tried in the past. They are hard to measure against the substantive role.
- It's about people relationships.
- Step back from focussing on organisational risk maturity and gain an overview of the organisational behaviour and culture.

What does this look like in practice?

- Communication is critical
- Regular informative reports
- Stories are really useful
- Show continuous improvement
- Discuss "what must go right" and how people ensure this happens.

RISKNZ BREAKFAST NETWORKING FORUMS

The RiskNZ Wellington Breakfast Networking Forums are an opportunity for RiskNZ members to meet and talk about risk management outside of workplace meetings or conferences and seminars. The 'breakfast meetings' enable experienced and newer risk practitioners to share their thoughts and experiences with risk management.

Each meeting is relaxed and collegial, has a definite practical focus, and is led by a different person on their chosen risk-based topic. Topics for discussion are picked for their relevance and interest for attendees. All attendees are encouraged to get involved, either giving or questioning the points made within the conversation.

The Wellington meetings usually take place every second month, but can be more frequent if members want to meet and discuss a particularly salient topic.

Recommendations for future RiskNZ Wellington Breakfast Networking Forum topics are always being sought, so please send any topic you would like to discuss to Miles Crawford at miles@risknz.org.nz

Kristin Hoskin has recently kicked-off a RiskNZ Breakfast Forum in Christchurch. Worley Parsons, who provided a delicious assortment of pastries and fruit for members to dine on while discussing risk, hosted the first Christchurch forum. The theme was "a problem shared is a problem halved" and had 6 attendees. The next Christchurch breakfast will be held at Ecan, in late July/early August.

If you are interested in more details of the Christchurch forum please contact Kristin at kristin@risknz.org.nz

FROM RISK MANAGEMENT TO RESILIENCE

NIGEL TOMS - *RiskNZ Chair*

At the April 2018 Risk NZ lunchtime seminar, I presented on the challenges of unpredictable extreme events requiring Chief Risk Officers and Risk Managers to extend their thinking beyond Enterprise and Project Risk Management to develop programs to improve Organisational Resilience.

There have been some interesting questions and feedback on the work required to build risk management systems to drive required improvements in organisational resilience and I have revisited some of the key points in this article.

Please accept my apologies if my article lends itself to a utilities centric business, risk and resilience can be applied to all business types and the approach to resilience will be dictated by organisational type and circumstances.

First it is important to recognise that what is proposed is not abandonment of a risk-based approach in favour of enhancing business resilience, but the complimentary use of risk to guide resilience development.

Most initial work is likely to focus on the development of a small number of critical business continuity and contingency plans (BCPs) designed to address the highest business risks where the remaining or residual risk after completion of mitigation actions remains at an unacceptably high level. Formats differ; however, all plans should incorporate these key components:

- Communicate – including escalating to the appropriate management level and stakeholder engagement
- Make safe
- Resourcing – internal resources to assign and specialist external support identified
- Short term fix – what can practically be done to maintain service to the customer
- Longer term – actions to fully repair or replace

It is also common for organisations who face many similar challenges, e.g. service outages, to have an overarching “Incident Management Plan” designed to provide a standardised approach to their management.

The next stage is to use existing information about the business to target resilience actions. It is useful to consider:

- Previous failures and issues
- The most critical assets, staff and services

- Processes and systems where loss will have the biggest impact
- Levels of critical reserves/stocks held
- Agreed service levels and how these may be varied in extreme events

When considering assets, while this is very useful for identifying areas for strengthening and duplication e.g. additional investment in redundancy to reduce risk, it should be noted that the most effective time to incorporate these requirements is at the design stage rather than retrofitting or upgrading existing capability.

Frequently overlooked when completing these assessments are:

- Critical materials/suppliers
- Critical contractors

New ways of working including Just In Time and lowered on site stock levels may save money. However, unless carefully managed, they can increase vulnerability, especially in extreme events.

In addition, there are other challenges when considering critical contractors and suppliers including:

- The requirements of the contract terms and conditions – if no stipulations have been included relating to service levels in extreme events, the additional support required may not be forthcoming.
- Your critical contractors and suppliers may carry reserves but levels may be based on the assumption that only one customer requires additional support. Their ability to respond to a larger incident with high client demand may be less clear.

In these cases, the first actions are to review agreements and most critically to meet them and discuss the position. While accepting that organisations have different bargaining powers, mutual understanding is always beneficial.

When considering key BCPs, remember the obvious!

All organisations require:

- Electricity
- Water/Sewerage
- Telecommunications

- IS Systems capability

Recent storms in Auckland highlighted the possibility of outages. If continued operation of the business is essential, actions to address losses of these services need to be in place.

Finally approaches to unforeseeable extreme events that go beyond organisations normal capabilities even with good preparedness and BCPs needs to be considered.

To begin, we should accept that we are likely to face a series of circumstances, that when combined could generate such challenges. The normally conservative UK Met Office made the following key points in a study in 2017:

- There is an increased risk of unprecedented winter downpours
- High risk of record-breaking rainfall in the coming decade
- These could exceed existing records by 30%

This brings us to the requirement for organisations to increase their 'adaptive capacity'. This is the sum of all the organisational components that would enable it to react and adapt including:

- Leadership and management
- Change ready people and systems
- Operations and technology
- Extended support networks and relationships

Within these, two areas I would like to highlight are:

- The capabilities of the organisations staff – their ability to work beyond their normal roles is the key to successfully meeting these new challenges. Ways to make them more capable when required to adapt and change need to be actively pursued.
- Networks and relationships will need to be extended with mutual support and other agreements in place in advance of any events to allow additional support and capability to be accessed. This requires work to build and maintain relationships including training together to provide required assistance in challenging times.

I am sure that this appears daunting, however, this is work that must be built on over time. In addition, regular testing will be required to ensure that required response levels are achieved when required.

There are no excuses. For businesses to survive and thrive, the sum of all their response capabilities needs to be enhanced. The Tasman Tempest last year and the storms in Auckland in the last few months are clear indicators of more challenging times ahead. Those who have invested the effort to be prepared will be those best placed to thrive in these uncertain and challenging times.

COMMENTS + CALLS FOR RESPONSE

As Nigel notes, there have been some interesting questions and feedback on the work required to build risk management systems to drive improvements in organisational resilience.

At the lunchtime seminar, Pradeep Navalkar asked a question (from the Wellington venue) about "Knowing where you stand with Service Providers". Pradeep also had other questions that could not be addressed given the tight timeframes of the seminar environment.

Members in the Government sector may already know Pradeep as the Convenor of the Government Sector IT Disaster Recovery Forum. Pradeep holds the role of Principal Advisor ICT Service Continuity Management at MBIE.

RiskNZ would like to know if Nigel's article (a follow-on from his presentation at the seminar) has triggered questions that you would like to ask?

If there is a high level of interest in this topic, there are a number of options available to support ongoing discussions: RiskNZ could convene a Special Interest Group; a Special Interest Blog; or a LinkedIn Group, for example.

Please email editor@risknz.org.nz if you have questions and/or are interested in ongoing discussions about this topic. I am happy to pass emails directly on to Pradeep on request.

PROJECT: ORGANISATIONAL RISK AND COMPLIANCE – QUALIFICATION REVIEW

What is the project?

The Industry Training Organisation, Skills, has formed a Working Group of industry experts to review two qualifications that are of relevance to those who work in the risk and compliance field.

The Working Group will determine whether the qualifications are fit-for-purpose and will continue to meet the sector's needs over the next five years.

The qualifications under review are:

1. New Zealand Certificate in Organisational Risk and Compliance (Level 4); and
2. New Zealand Diploma in Organisational Risk and Compliance (Level 6).

What is a qualification review?

Every five years, NZQA (New Zealand Qualifications Authority) qualifications are reviewed by Tertiary Education Organisations with the help of subject-matter experts. The reviews are carried out to ensure qualifications are relevant and fit for purpose. If you'd like more information on the review process, visit the New Zealand Qualifications Authority website.

What is the purpose of these qualifications?

Both qualifications are context-neutral, and the skills learnt are transferrable across the public and private sectors. The current Level 4 qualification allows people to develop a set of knowledge and skills to support the operation of effective organisation-wide risk and compliance management systems. The current Level 6 qualification focuses on arming people with knowledge and skills, which will assist them in the development and implementation of effective organisation-wide risk and compliance management systems.

How can I get involved?

Provide feedback on the draft qualifications

Once the initial drafts of each qualification have been reviewed, we will be seeking your feedback. This will be around July this year.

If you would like to be kept informed between now and then, please click [here](#).

When will we know the outcome of the review?

The project is expected to be completed by November. If you would like to be advised of the outcome, please click [here](#) to get in touch with Project Manager – Evangeleen Joseph.

EVANGELEEN (EVA) JOSEPH

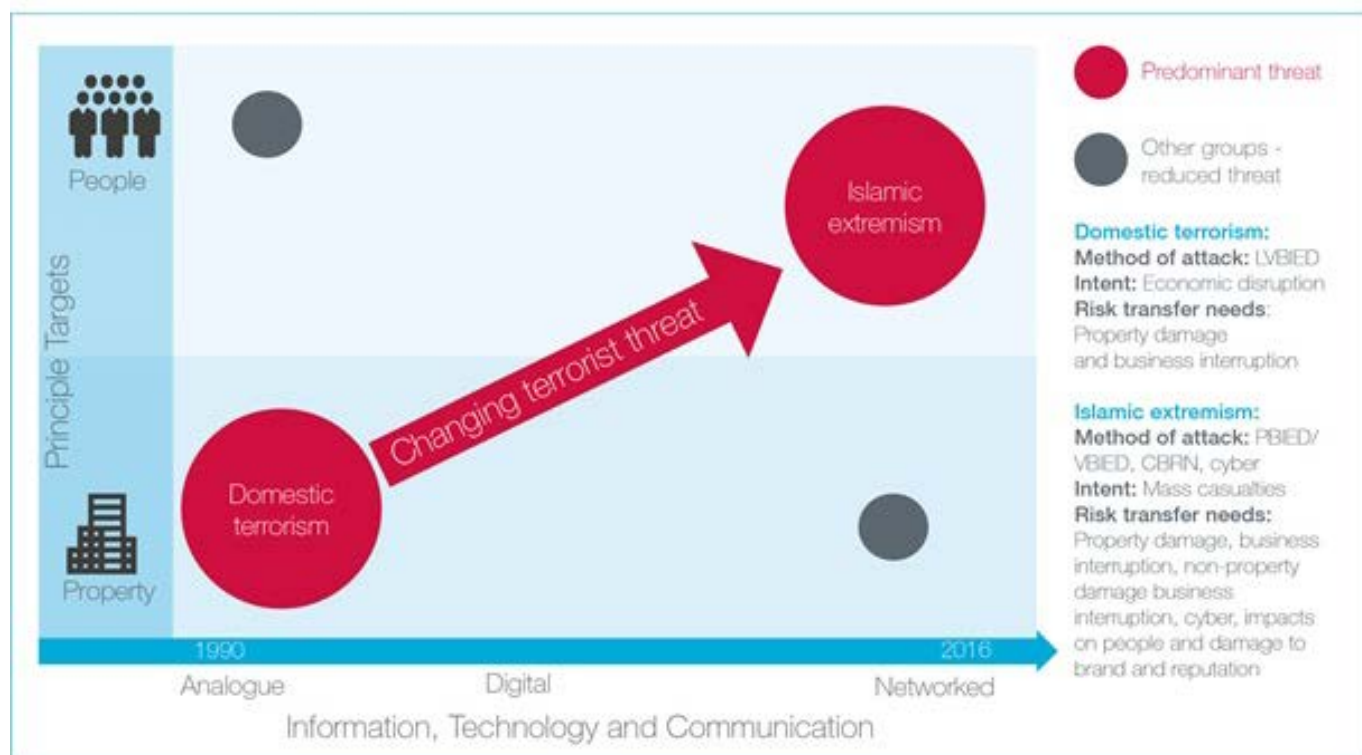
Eva is a Qualifications Adviser with Industry Training Organisation, Skills.

She has successfully worked with the Regulatory Body representatives, Industry Advisory Groups, subject-matter experts, and Tertiary Education Organisations to ensure qualifications meet current and future skill needs.

Under Eva's guidance qualification and unit standard development/reviews are conducted efficiently, effectively and in accordance with NZQA rules and Skills processes.

THE CHANGING FACE OF TERRORISM

DEBORAH FISHER - From RiskNZ Principal Sponsor, JLT



The scope of terrorism risk has changed significantly in recent years by becoming more diverse and dispersed, bringing significant changes to businesses' risk transfer needs.

Gaps in traditional terrorism insurance cover are being exposed as a result, with terror-related risks surfacing around impacts on people, loss of attraction, reputational damage and cyber, as well as property.

The graphic illustrates that the nature of a terrorism threat has changed since the 1990s, when the risk was characterised by groups (typically with domestic agendas) targeting high-value properties with large vehicle-borne improvised explosive devices to achieve political ends. By 2016, attacks were more likely to be carried out by lone wolves or small cells intent on causing mass civilian casualties rather than economic disruption.

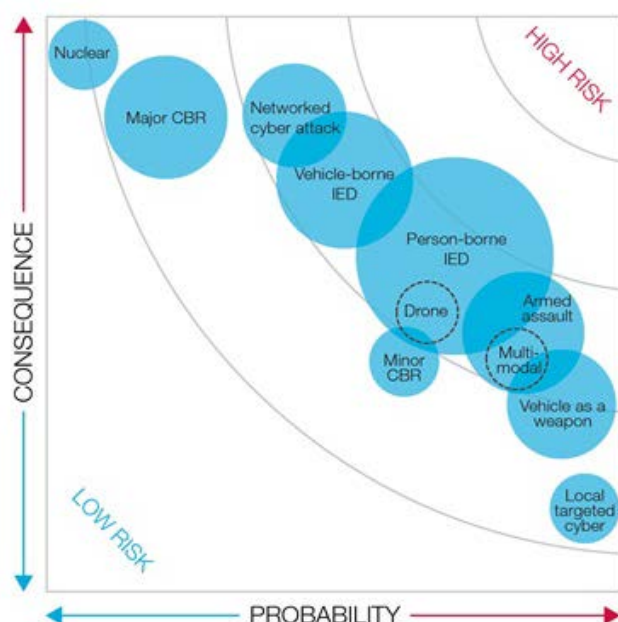
In addition to horrific loss of life, however, a range of businesses have been caught up in the fallout after being forced to either close for prolonged periods or halt operations despite a lack of direct physical damage occurring.

Global business involved in offshore trading, and small and medium-sized enterprises (SMEs) in particular, suffered significant (and often critical) financial losses as a result. Now more than ever, businesses are looking to the insurance market to mitigate the broad range of threats they face. With property damage no longer necessarily the primary loss driver, the limitations of traditional terrorism insurance products have been exposed as they require a physical damage trigger to pay a claim. In response, specialty insurers have developed new, broader coverage's that include loss of attraction, active shooter and cyber.

Long-held definitions have also come under review as some recent attacks have blurred the distinctions between terrorism, malicious acts and workplace violence. As a result, pressure is building on the terrorism insurance market to provide new solutions to meet the impact of this evolving environment. This too is compelling insurers to broaden risk appetites and adopt new approaches to account for the complexities that the new threat landscape brings.

RETHINKING TERRORISM

Today's multifaceted terrorist threat poses difficult and complex challenges to the business community and insurance sector alike. The below graphic is an illustration of today's terrorism threat landscape.



Cafés, bars, clubs and small music venues have been impacted by localised attacks in recent years. But, at the same time, terrorist groups continue to harbor ambitions of launching major terrorist attacks around the world. So, whilst the focus of recent attacks has been on people (with businesses of all sizes, including SMEs, also often suffering both direct and indirect economic consequences), substantial damage to property remains a real danger.

The progress made by the insurance market so far represents a major step forward in narrowing terrorism protection insurance gaps. But more needs to be done. Specifically, capacity for new forms of cover continues to be relatively modest when compared to more conventional insurable terrorism risks.

Perhaps even more importantly, awareness of these new risks need to be extended beyond large corporations familiar with the intricacies of transferring terrorism and terrorism related risks.

Long-standing insurance coverage delineations may therefore not be sustainable for the long term – businesses want and need broader cover. Definitions that have traditionally served the market now risk becoming a distraction as the lines between terrorism and malicious acts and workplace violence become increasingly blurred. There have also been a number of un-attributable but probable state acts, relating to cyber, strikes, riots and civil commotions and physical attacks.

These also challenge the utility of defined perils.

State terrorism pools are also likely to be crucial in facilitating this. Pools have a unique opportunity to increase penetration and better position economies to recover from future attacks given their scale and influence in the market, along with the direct distribution channels they have built. Certain pools have already taken bold steps to narrow protection gaps by extending coverages to include new risks such as cyber and non-property damage losses.

Over time, this could stimulate further competition in the insurance market and increase the supply of new types of cover as more offer additional capacity to meet rising demands.

The insurance market generally needs to respond decisively to the fast-changing nature of terrorism. Although significant progress has been made in the last couple of years, there is still more to do in order to deliver a sustainable proposition that offers comprehensive protection to businesses.



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FINDING OPPORTUNITY RISKS IN FAILURE

In a risk-averse culture, threats are top-of-mind. This generates a negative outlook and instils a fear of failure. A more constructive approach is to treat any failure as an opportunity to identify learnings through the lens of continuous improvement and reframe the experience to extract maximum value. A particularly useful method of finding opportunity risks is a lessons-learned workshop.

Holding a lessons-learned workshop as a post event/milestone analysis enables managers and their teams to reflect on project activities, get closure and make gains from hindsight. As a minimum the workshop should review what went well and not so well and consider what would be done differently next time. Key focus areas will be people, process and resources. From the discussion of deliverables and what was or was not achieved, new opportunities and potential improvements are enabled to emerge. A refreshed view of risks for the new landscape can also be developed.

For those wanting to consider failure from a deeper context, Hillson, in his essay "Concepts of Failure"¹, distinguishes six dimensions of failure.

| DIMENSION OF FAILURE | DESCRIPTION | FAILURE COMMENT |
|----------------------|--|--|
| Technical failure | Failure to reach a required performance standard | <i>'It doesn't work'</i> |
| Competence failure | Failure to achieve the objective due to lack of ability | <i>'I couldn't do it'</i> |
| Moral failure | Achieving success in a way that breaks moral/ethical standards | <i>'I cheated'</i> |
| Parameter failure | When there are multiple success criteria, it is possible to succeed in some and fail in others | <i>'Okay except for being too late/too costly/too slow...'</i> |
| Hierarchical failure | Failure at one level but not at another, e.g. a project that delivers on time and to budget but not the expected value | <i>'Okay for you but not for me'</i> |
| Subjective failure | Where acceptance criteria are subjective, intuitive, hidden or not articulated, success may still be seen as failure | <i>'I don't like it'</i> |

These dimensions provide an alternate review framework for participants to contemplate the results and their experiences from a completely different perspective.

Finding opportunity from failures can result in benefits such as:

- Uncovering enhancements to systems or processes
- How best to get buy-in from stakeholders?
- New insights about customers or markets
- Helping managers recognise personal growth and professional development

The best way to avoid failure may seem to be to do nothing but that represents a failure in itself. Progress comes from accepting the risk of failure and, should that risk be realised, seeking out resulting opportunities and improvements to create the most successful outcome possible.

¹ *Concepts of failure* Hillson, D. from 'The Failure Files - perspectives on failure' Triarchy Press (2011)

SUE TREZISE - Sue-lutions Ltd

Sue Trezise is an independent risk advisor providing specialist assistance to government, businesses and community organisations. Her cross-sector experience and pragmatic approach help boards, CEOs and managers embed risk thinking to improve strategic decision making and business performance. An experienced facilitator, Sue assists communication between technical experts and non-technical stakeholders and makes managing risk practical and effective.

NEW ZEALAND SPREADS A WIDER NET TO DETECT MONEY LAUNDERING

KERRY GRASS – *Anti-Money Laundering Consultants Limited*

2018 brings significant changes to our legal and accounting¹ professionals following their transition to 'reporting entities' under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the Act). These changes occur for lawyers from 1 July 2018 and impact upon accountants from 1 October 2018. So, what does this mean?

The Act obligates reporting entities to implement effective policies, procedures and controls with the objective of detecting and reporting suspicious activity that may indicate their clients are committing money laundering or financing of terrorism.

The Act already covers a wide variety of industry participants ranging from banking corporations, lenders, foreign exchange traders, money remittance services, through to single brokerage firms. These businesses transitioned to reporting entities from 1 July 2013. Five years on Phase 2 of the legislative framework will take effect.

The first obligation is to carry out a business risk assessment. The purpose of this assessment is for business owners, managers and controllers to have an understanding of the types of risks they face and therefore the likelihood of ML or FT occurring. Where higher risk is identified, the expectation is for policies, procedures and controls to sufficiently mitigate and manage that risk.

The Act provides for businesses to draw on their expertise and to take the lead in assessing risks. To ensure there is a certain level of structure to their risk methodology, the Act prescribes key criteria that must be examined. These include the, (1) Nature, size and complexity of a business, (2) Customers, (3) Products and services, (4) Methods of delivering the products and services, (5) Institutions dealt with and (6) Geographies.

RISK ASSESSMENT METHODOLOGY

As mentioned earlier, the objective of a risk assessment is to identify criteria within a business that represents vulnerability to ML/ FT. Once vulnerabilities have been detected the prevalence of each needs to be measured.

How businesses approach their risk assessments will depend on a number of factors including staff resourcing, risk management expertise and their knowledge of money laundering and financing of terrorism. It should be noted that the Department of Internal Affairs (DIA) will be supervising the legal and accounting sectors. The DIA has provided some useful guidelines for each sector. These guidelines can be accessed from this link: [DIA](#)

DATA QUALITY

To enable an effective risk assessment the starting point is to have adequate data — both qualitative and quantitative. Quantitative data provides a numerical overview of a situation, allowing the underlying data to be measured. Qualitative data on the other hand can be used to provide reasoning, or to show a theme or concept. If quality of data is absent, the risk assessment will be incomplete and non-effective. Any problems with data quality is also indicative of problems in achieving obligations for continuing due diligence (see Section 31 of the Act). Continuing due diligence requires the business to have knowledge of the nature and purpose of a customer's relationship, with the objective of detecting transactions that appear suspicious in context with the customer's profile.

¹ This includes bookkeepers and tax agents

KEY RISK INDICATORS

To reiterate, the primary risk categories are (1) Nature, size and complexity of business, (2) Customers, (3) Products/services, (4) Methods of delivery, (5) Institutions and (6) Geographies. These categories represent the source of the threat of ML/FT occurring. The risk variables that influence the primary risk categories are known as key risk indicators (KRIs).

The number of KRIs applied will be dependent somewhat on the availability of business data. Because KRIs play a critical role in any risk management framework, selecting KRIs requires a qualified judgement. Any errors in selecting the most appropriate KRIs will result in weaknesses of the risk process. Businesses that lack the expertise to identify risk variables should make use of reputable public sources.

MEASURING RISK

Each KRI requires a metric threshold and each threshold should link to a rating scale. A rating scale could be a simple 3-point process (high, medium, low) or 5-point (very low, low, medium, high, and very high). A simple numeric descriptive value could be 1 (low) to 5 (very high). To demonstrate the points above, a KRI of “international transaction volume” has been included for the analysis of nature, size and complexity of business. The rationale for selecting this KRI is that transferring funds offshore is a common typology of money laundering. Using a four-point rating scale, the metric threshold may look as follows — though the data and tables below are for illustrative purposes only.

MEASURING INTERNATIONAL TRANSACTIONS

| VERY LOW | LOW | MEDIUM | HIGH |
|---------------------------------------|--|--|---|
| NO INTERNATIONAL RECEIPTS OR PAYMENTS | INTERNATIONAL RECEIPTS AND PAYMENTS > 0.01%-5% OF TOTAL TRANSACTION VOLUME PER ANNUM | INTERNATIONAL RECEIPTS AND PAYMENTS > 5%-20% OF TOTAL TRANSACTION VOLUME PER ANNUM | INTERNATIONAL RECEIPTS AND PAYMENTS > 20% OF TOTAL TRANSACTION VOLUME PER ANNUM |

Metrics reflect the approach to risk determination and risk appetite. In the example shown above the high-risk rating for international business used a metric >20 percent. A business with an appetite for greater risk may have adopted a higher threshold. When a business operates with a high-risk appetite, it is imperative that their systems for monitoring and managing risks are robust and frequently reviewed.

COLLATING DATA

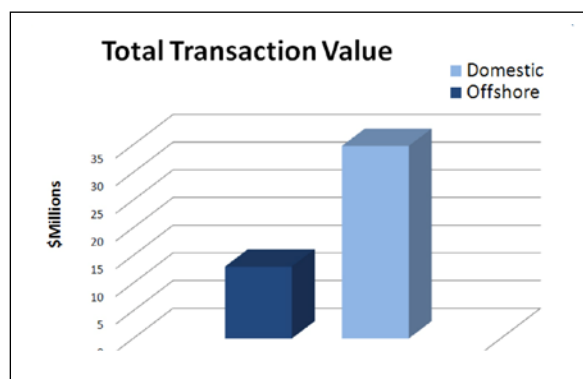
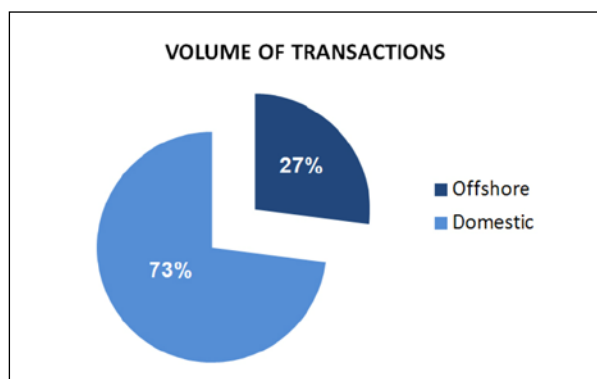
Once the risk variables, ratings and metrics have been determined, relevant business data is required to be collated. Staying with the measurement of international transactions, the quality of data can be examined in terms of the following factors:

- **Nature, size and complexity of business** — can the volume and value of transactions from offshore jurisdictions be measured? What is the total proportion of international transactions in comparison to domestic transactions – both in value and volume?
- **Geography risk** — what is the total proportion of international transactions from any given jurisdiction?
- What is the **jurisdiction risk**, such as corruption levels?

Using data in this manner allows real risks to be identified. For example, if Company A transacts 60 percent of its business from offshore but its transactions are limited to Australia and Company B contributes only 40 percent of business to international transactions with 30 percent to the Middle East region — evaluation of geography risk would determine Company B is representing a higher risk entity.

GRAPHICAL CHARTS

Setting out the proportion of higher risk areas in your business can be undertaken through illustrative charts that are easy to interpret. A couple of examples are set out below:



PENALTIES

The consequences of non-compliance under the Act are severe. A single breach for some offences can result in a financial penalty against the business as high as \$5 million. For individuals penalties can include a term of imprisonment of not more than 2 years and fines up to \$300,000. In September last year, following an investigation and prosecution by the Department of Internal Affairs (DIA) against a money bureau business, the High Court found there had been serious, systematic deficiencies and imposed a fine of \$5.3 million. Since that time there has been a further investigation and prosecution where it was suggested by the DIA that the starting point for penalty should be \$2.6 million.

TIMELINE

The risk assessment is only one of the many obligations that businesses must complete prior to their implementation deadline. In the next article I will provide information on the types of procedures and controls that businesses may consider in order to meet their obligations of ongoing due diligence.

KERRY GRASS

Kerry Grass has held the status of a Certified Anti-Money Laundering Specialist since 2005.

She has worked in anti-money laundering positions with government in three jurisdictions. Since 2010 she has worked in a private capacity as an AML advisory expert and in 2013 she partnered with software engineers to develop AML360.

AML360 is now recognised as a leading global software vendor in anti-money laundering compliance.

ABSTRACT: INFORMING DECISION-MAKING IN THE FACE OF ADVERSITY

The cumulative impacts from natural hazards on our social and economic environments are unsustainable. As risk is dynamic and continues to change we require strong risk tools to provide credible loss and impact assessments both before and crucially during emergencies. It is essential these tools need to be simple and functional so they may be practically applied by a range of users. With over ten years' research development and having been applied in a range of national emergencies in recent years, the RiskScape programme delivers a portfolio of risk-based knowledge, guidance, data, software and communication.

While New Zealand has a well-documented history of earthquakes and natural events, the complexity and associated impacts of the M7.8 Kaikoura earthquake in November 2016 were largely unanticipated so soon after the 2010 Canterbury earthquake sequence which devastated the city of Christchurch. New Zealand's RiskScape research programme has served the country well over the last decade providing immediate loss estimates to support central and local government response activities and planning for a range of natural hazard events, including these earthquakes. Furthermore, significant advances in modelling infrastructure impacts and economic losses has provided stakeholders with detailed loss estimates to understand their susceptibility from these and future events.

This programme contributes significantly to delivering the Sendai Framework for Disaster Risk Reduction 2015 at a national and Pacific region level.

This session will workshop the lessons researchers and practitioners together have learnt from recent hazard events and discuss how these have shaped how risk modelling is informing recovery and increasing resilience.

While the benefits of risk and impact modelling tools have been proven in the New Zealand context, these tools and expertise are now being applied internationally in Samoa, Vanuatu and Indonesia. Our vision is to not only increase the use of risk tools globally but ensure that our global economic and social environments are more sustainable as a result of risk-informed decision-making. This session will address elements that are critical to using risk tools now and, in the future, with a focus on:

- Real time impact and loss forecasting requirements.
- Using risk information to communicate uncertainty
- The challenges of underlying risk data and some solutions!
- A demonstration of current risk tools being used in New Zealand and the Pacific Island Countries.

RiskNZ Management Board member Miles Crawford is co-presenting a workshop titled '*Informing decision-making in the face of adversity*' at the Understanding Risk Forum, 14-18 May, Mexico City.

Miles will join with researchers from GNS Science to present the workshop, which focusses on the use of risk modelling to assess and communicate natural hazard risk. The abstract for the workshop is set out above.

Understanding Risk (UR) is the preeminent platform for collaboration, knowledge sharing, and innovation in identifying and assessing disaster risk. The UR community (over 7,000 experts and practitioners) convenes every two years at UR Forums – five-day events that highlight best practices, facilitate non-traditional partnerships and showcase the latest technical know-how in disaster risk identification.

For more information please refer to: <https://understandrisk.org/>

INTRODUCING OUR TWO NEW MANAGEMENT BOARD MEMBERS

Please congratulate our new Management Board members who joined the Board on 1 March 2018

BRENT SUTTON



Brent brings over 17 years' experience in occupational risk management and health and safety to Safety Associates. Working in partnership with clients, providing practical advice to address health and safety risks and develop strategies, Brent drives improvements in safety culture. He is well regarded as a safety coach and for assisting clients to understand the importance of safety governance, setting clear and understandable safety objectives, and providing safety leadership.

Brent is also a specialist in H&S critical event management of serious harm and fatality incidents and works with insurers and legal firms on WorkSafe NZ enforcement matters.

Brent was recently appointed to the board of RiskNZ Inc, RiskNZ is the sector body in New Zealand bringing together people and organisations managing risk.

DARROCH TODD

I am the Risk Manager for ATEED (Auckland Tourism, Events and Economic Development), an Auckland Council owned company. I am responsible for risk, audit, policy, security, and business continuity.

During my 23 years' experience as a Police Officer, I project managed and implemented two significant national programmes - a new national operational threat assessment model, and a new lessons learnt programme. I was the exercise coordinator for 2 all-of-government counter terrorism exercises, and an exercise evaluator for national exercises. For 6 years I represented the New Zealand Government on the Australasian National Counter Terrorism Committee (NCTC).

Prior to retiring from the NZ Police, I managed the NZ Police National Security Office, and was responsible for counter terrorism, national security, counter terrorism exercise planning, organisational security, border security, search and rescue, and disaster security identification.

For 3 years I was seconded to the Department for Prime Minister and Cabinet as a senior Policy Advisor. This role required me to write cabinet papers, as well as briefing papers for the CE and Prime Minister, while at the same time developing national strategies for New Zealand's security. This involved leading a number of multi-agency senior working groups, as well as completing the business continuity plan for parliament.

Prior to joining ATEED, I taught Business Studies, Economics and Accounting at Mount Albert Grammar School. I have a varied academic background, with a Bachelor of Arts (Philosophy and Social Anthropology), and a graduate Diploma in Business from Auckland University, as well as a Diploma in Policing and Diploma in Teaching from Massey University. I am close to finishing a Masters in Strategic Studies from Victoria University.

The proud dad of ten year old twins and husband to my long suffering wife for coming up to 30 years. A Cantabrian by birth, and a lover of Wellington, I now thoroughly enjoy living in Auckland.



INFORMATION FOR CONTRIBUTORS

During 2018 two further editions of RiskPost will be published in August and November.

RiskNZ strongly encourages all members to contribute items for this newsletter on practices, developments or issues in your particular area of risk management. Contributions should be sent to editor@risknz.org.nz. Articles are welcome at any time; please contact the editor if you wish to discuss an article. As a reminder, the editor will issue a call for articles for each Edition.

RiskPost provides a service for the display of notices and advertisements that are aligned with RiskNZ's objectives. Members are welcome to submit notices and advertising material to RiskNZ. Notices may describe an activity or service, or advertise a risk management vacancy. Notices should not exceed 150 words of plain text, inclusive of all contact and reference details.

Advertisements can be included in RiskPost and delivered by email to the RiskNZ membership base. RiskNZ's charges for advertising in RiskPost and by email vary dependent upon membership status, and the nature and scale of the advertisement.

For further details on RiskNZ's submissions of notices, advertising, and relevant changes, please send an email to the Administration Officer: adminofficer@risknz.org.nz, or contact the editor.

RiskNZ
PO Box 5890
Wellington 6140

Membership of RiskNZ is open to any person of good character or an organisation engaged in or with an interest in the practice, study, teaching or application of risk management.

RiskNZ is keen to attract a wide range of Individual and Corporate members representing all the different aspects of risk management knowledge and practice. This includes those with direct involvement in the field and those with a personal or community interest.

Apply online at
<http://www.risknz.org.nz/join-risknz/>



RISKNZ INFORMATION

An update on the 2017-2018 Business Plan (as at 18 May 2018) is available on the members section of the RiskNZ website. Please click [here](#) to view the update.

THE MANAGEMENT BOARD AND OFFICERS OF RISKNZ ARE

| | | | |
|------------|--------------|-------------------------|--------------|
| Chair: | Nigel Toms | Deputy Chair: | Sally Pulley |
| Secretary: | Jim Harknett | Administration Officer: | Vacant |
| Treasurer: | Gary Taylor | Executive Officer: | Vacant |

Management Board Members:

| | |
|----------------|--------------|
| Miles Crawford | Jane Rollin |
| Kristin Hoskin | Brent Sutton |
| Stephen Hunt | Darroch Todd |