KPMG
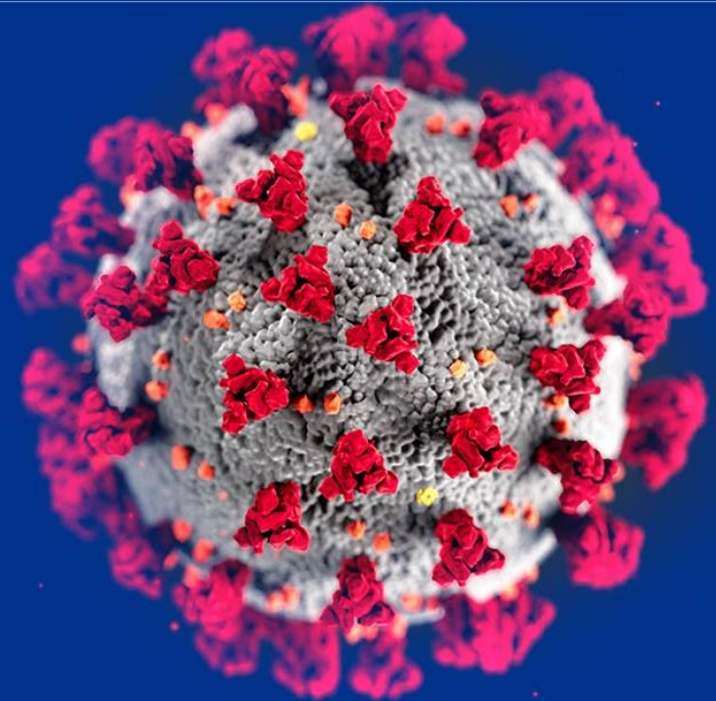
Risk Management During COVID-19

Contents

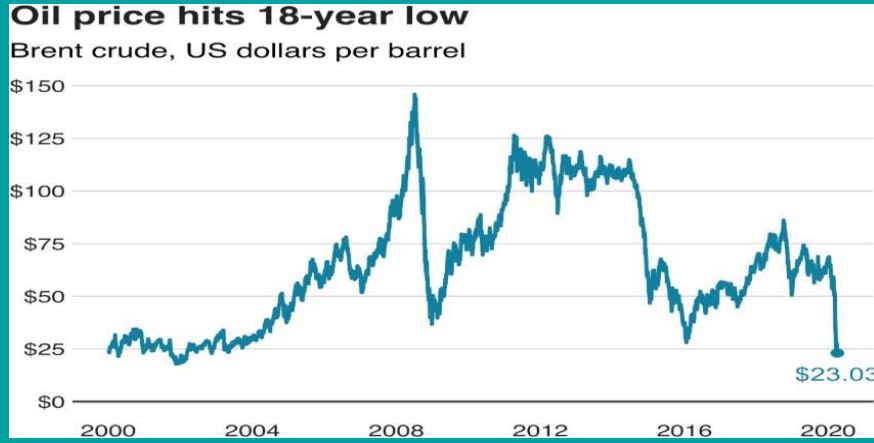# Risk Management During COVID-19

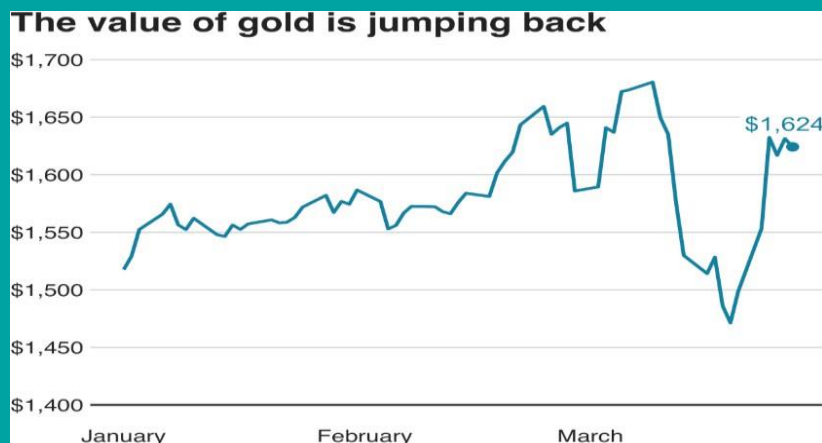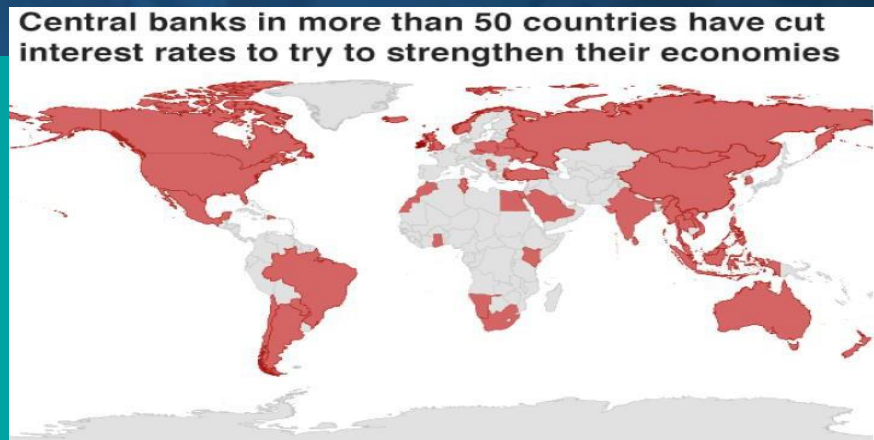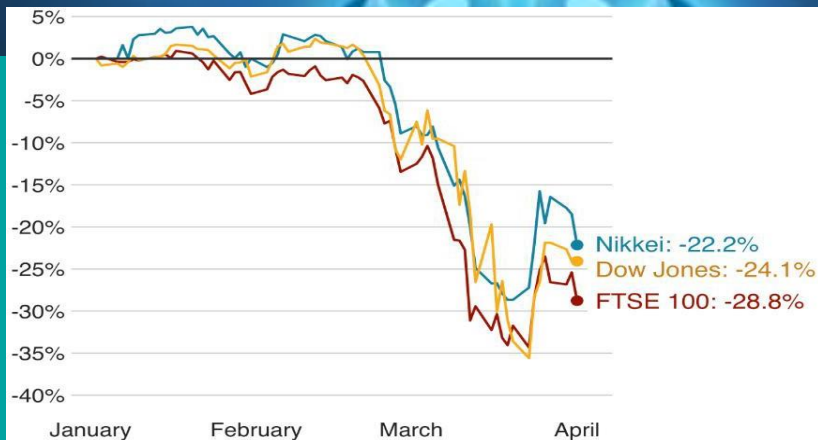COVID-19
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Introduction

- The outbreak of the novel coronavirus, COVID-19, that began in China in 2019 was declared a global pandemic by the World Health Organisation (WHO) on 11 March 2020.

- The pandemic is having an unprecedented impact on the global economy and businesses by disrupting supply chains, travel, production and consumption, threatening operations and financial markets.

- Given the far-reaching business impact of the pandemic, what risk management strategies need to be put in place and protocols to be instituted to monitor performance by business to shape a path through the pandemic and minimise the lasting negative impacts?

- There is the need implement emergence response framework to help manage new risks your business might be facing and develop resilience for future planning.

The objectives of *Risk Management During COVID-19* is to help participants understand:

- General overview of the COVID-19 pandemic

- Key elements of enterprise risk management (ERM)

- How to leverage the key elements of ERM to build a resilient business in the wake of the COVID-19 pandemic.

Introduction

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▶ What are your thoughts?

5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%

January   February   March   April

Nikkei: -22.2%
Dow Jones: -24.1%
FTSE 100: -28.8%

Central banks in more than 50 countries have cut interest rates to try to strengthen their economies

The value of gold is jumping back

$1,700
$1,650
$1,600
$1,550
$1,500
$1,450
$1,400

January   February   March

$1,624

Oil price hits 18-year low
Brent crude, US dollars per barrel

$150
$125
$100
$75
$50
$25
$0

2000   2004   2008   2012   2016   2020

$23.03

▶ What are your thoughts?

What is Risk?

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What will de-rail us from achieving our objectives?

"Effect of uncertainty on objectives"

ISO31000:2009

- Will it Happen?
- When?
- How?

- Financial
- Growth
- Brand and Reputation
- Corporate Social Responsibility

What is Risk?

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The Meaning of Risk is Evolving

Prior Thinking	Current Thinking
A way of **preserving** value by avoiding risk	A way of **creating** sustainable value by embracing risk
Focus on **what has happened**	Focus on **what could happen**

Key Risk Concepts

▶ Risk Management During COVID-19

- **Risk Management:** A process effected by the Board, management and other personnel designed to identify potential events that may affect the organization, and manage risk to be within its tolerance, to provide reasonable assurance regarding the achievement of objectives.

▶ **Risk Capacity:** The level of risk the organization is not prepared to exceed or is not financially capable of exceeding. Risk capacity may be defined: as a financial measure; by the level of variability of results the organization can survive; the maximum fall in income the organization can, or is willing, to tolerate; or any other quantifiable measure the organization chooses.

▶ **Risk Appetite:** The level of risk which an organisation is prepared to tolerate in its business and within which management operate.

▶ **Risk Assessment:** A process that allows organisations to consider the extent to which potential events have an impact on the achievement of organisational objectives. Organisations need to identify, assess and evaluate risks and controls to construct their risk portfolio.

▶ • **Likelihood of Occurrence:** The probability that a particular risk will occur. These probabilities range from rare to almost certain and are evaluated against an organisation's set time period (generally one year).

▶ **Impact, Magnitude:** Significance of a particular risk to an entity. The significance of a particular risk can range from insignificant to catastrophic. Magnitude of impact is determined with respect to an organisation's risk appetite , risk capacity, and organisational objectives.

▶ **Inherent Risk:** The amount of risk that exists in the absence of controls.

▶ **Residual Risk:** The risk remaining after considering the effectiveness of management's risk responses.

▶ **Risk Categories**: The means by which organizations determine how they will group risks together. The grouping of risks with similar characteristics is used in establishing the organization's Risk Portfolio. Ultimately determined by the organisation, the characteristics used to define risk categories typically reflect the organisation's business model, industry or other factor that drives risk within the organization. Consequently risk categorization differs between organizations as well as industries.

▶ **Risk Response:** Any action taken by management to enhance the likelihood that established objectives and goals will be achieved by mitigating risks.

KPMG Global ERM Framework

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Data & Technology

Risk Governance

Risk Assessment & Measurement

Risk Strategy & Appetite

Risk Reporting & Insights

Risk Management & Monitoring

Risk Culture

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- Residual risk takes into account the effectiveness of controls and risk response, and often changes the level of risk from its original inherent state (position without any controls or response)

- The residual risk outcome is the starting point for consideration of the impact of the risk on the achievement of business goals and objectives in relation to stated risk appetite and tolerance.

	1	2	3
Likelihood	Rare	Possible	Likely
Impact	Low	Moderate	High

Risk Response Strategies
- ➢ Avoid
- ➢ Accept
- ➢ Mitigate/Control
- ➢ Transfer

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Risk Management

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3 Lines of Defense

Risk assessment is performed utilising the three lines of defense governance model, taking into account key information from functional risk owners that is supported and administered by a centralised ERM team, and periodically evaluated by an independent party.

Regulators / Internal & External Audit	**Third** LINE OF DEFENSE	**INDEPENDENT ASSURANCE** ▪ Liaise with senior executives and board ▪ Report on risk assessment and governance ▪ Oversight of risk management content/processes ▪ Provide assurance that risk management processes are adequate and appropriate
Enterprise Risk Management	**Second** LINE OF DEFENSE	**OVERSEE RISKS** ▪ Establish policy and process for risk management ▪ Provide guidance and coordination across business lines ▪ Identify and initiate enterprise opportunities for change ▪ Liaison between third line of defense and first line of defense ▪ Oversight over certain risk areas (e.g., compliance with regulation)
Business Line	**First** LINE OF DEFENSE	**OWN AND MANAGE RISKS** ▪ Manage risks/implement actions to manage and treat risk ▪ Comply with risk management process ▪ Implement risk management processes where applicable

(right-side labels: Regulators / Internal & External Audit; Enterprise Risk Management; Business Line)

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Key Risks and Responses

Some of the key risks SMEs are facing in the midst of the COVID-19 pandemic include:

- Financial risk
- Collapsing demand and access to liquidity
- Cybersecurity and fraud
- Disrupted supply chain
- Accessing inputs and managing inventory
- Managing the work environment
- Data and communication

In order to ensure business continuity during the COVID-19, SMEs must implement a robust emergency response framework.

The components of the emergency response framework include the following:

- Governance
- Risk Assessment
- Human Resources
- Supply Chain
- Financial
- Communication
- Cyber Security and Fraud
- Health and Safety
- Monitoring Protocols

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Governance

The approach to dealing with COVID-19 impacts should be comprehensive and robust.

The governance model should include the following:
- Treat your response and reaction to the impact of the COVID-19 as a project, which requires careful consideration, planning and on-going monitoring.

- Appoint a specific individual, who is suitably experienced and competent to oversee the delivery of the COVID-19 contingency plan, and ensure all parts of the business are included and, where possible assign specific responsibilities to at least one representative from each area.

- Implement a framework, which enables progress updates and issues or risks to be swiftly escalated to key decision makers.

- Consider whether the COVID-19 Project Team and Senior Leaders of the business are receiving the required level of management information (MI) in order to monitor the impact of COVID-19 and the success of the actions being undertaken.

- Ensure the COVID-19 Project Team provides periodic update and new insights on the pandemic to key decision makers of the business.

The Project Team :

❖ liaises internally with government authorities and health agencies to obtain useful information on matters such as updates on the outbreak, government response plans (implemented and soon-to-be implemented) which could impact business operations

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Risk Assessment

Undertake an assessment of key risks and vulnerabilities to your business arising from the impact of COVID-19.

- Approach this by considering the different ways (scenarios) the COVID-19 will impact your business

- For each of the identified risks, consider if you have adequate measures, plans or controls to mitigate or manage the impact of those risks to an acceptable level

- Create a risk register for the key risks identified with their likelihood of occurring, impact on the business and the controls to mitigate these risks.

- Prioritise addressing those risk which are most likely to cause the greatest disruption and impact to your business and employees

- Review and update the assessment on a regular basis to ensure efforts and resources are deployed where they are most needed

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Financial

Although the financial implications for COVID-19 are difficult to predict, it is important that you start forecasting for how it will impact your business financially.

- Undertake regular forecasting of your financial position and determine how these changes may change as a result of the risks identified to your business.

- Consider and plan against exposure to external conditions including changes in interest rate, volatility in financial markets and changes to foreign exchange.

- Regularly review the Government web site to determine whether your business and its employees can take advantage of the financial support initiatives it has announced, including availability of loans and grants, subsidies, tax incentives, etc.

- The Government has set aside GHC600 million of the Coronavirus Alleviation Programme (CAP) Fund to target micro, small and medium-sized enterprises (MSMEs). The implementation agency is the National Board for Small Scale Industries (NBSSI).

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Human Resource

- Conduct and regularly review risk assessments to ensure a safe place of work for employees and third parties

- Ensure that there is a programme in place to deliver frequent messages to employees on the actions being undertaken by the business in response to COVID-19 and that, where possible, support is being provided to employees

- Use tools such as WhatsApp to create groups, whereby teams can interact with other, and also as a way to quickly notify someone if individuals are unexpectedly taken ill

- Give employees clear guidance on when they should report to work and when they should stay away

- Risk assess meetings and events

- Review impact of incentive elements of remuneration packages

- Ensure you know about staff that are at higher risk because of pre-existing health conditions and take actions accordingly

- Confirm employee contact information is current and distributed appropriately

- Update organisation intranet site with links to the World Health Organization (WHO), governmental health alert websites, national and international health websites. The intranet should also include information on safety for employees in partnership with the organisations health providers

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Supply Chain

There is the need to ensure internal supply chains and delivery mechanisms can cope with demand to provide the highest quality customer experience. This can be achieved by maintaining supply chain resilience through proactive engagement and collaboration with critical third party suppliers.

Supply chain considerations include the following:

▪ Identify critical suppliers and vendors as defined by the business
▪ Align supply chain activities with government directives and interventions
▪ Engage all critical supply chain providers/ third parties to identify their operational approach/ contingency plans in providing vital products/services
▪ Work with the business to identify alternative vendors/suppliers who can support the business operations
▪ Develop and integrate a control structure for exports from highly impacted countries

- Determine the location of the vendors/suppliers and define supplier routes and explore transportation alternatives
- Review contracts with key customers and suppliers to understand liability in the event of supply shortages
- Review vendor/supplier continuity plans
- Develop plans for surge buying before, during, and between pandemic waves
- Obtain line of sight for which orders will be potentially impacted
- Obtain visibility into the tiers of your supply chain to assess overall impact
- Obtain transparency into what are the critical materials with the highest impact, if applicable
- Evaluate inventory positions and manufacturing priorities, if applicable

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Communication

Communication overload can be a major challenge as large amounts of information is directed to the general public from various sources. It is imperative that information (World Health Organisation, Ministry of Health and etc) that is shared with staff is accurate, consistent and timely. Delays or changes in communication at one level can have a "ripple effect" and hinder communication efforts broadly.

Key considerations for effective communication include the following:

- Identify sources of information (World Health Organisation, Ministry of Health and etc)
- Identify a single point of contact/source of information to internal and external stakeholders and media
- Develop communication vehicles and frequencies targeting:
  - ❖ Employees
  - ❖ Customers/Clients
  - ❖ Supply Chain
  - ❖ Service Providers/Vendors

- Develop a communication plan to facilitate consistent internal and external communications
- Determine the appropriate level of communication consistent with an organisation's protocol—keep employees informed with regular situation updates as well as actions taken without introducing unnecessary stress
- Determine appropriate level of communication with clients
- Educate staff to prevent the spread of misinformation

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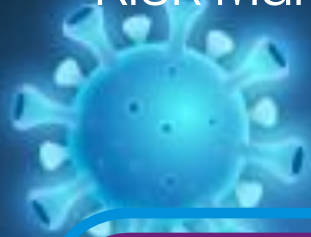
Cyber Security and Fraud

Businesses need to remain vigilant for malicious phishing emails seeking to exploit interest in the Coronavirus. There is the need to exercise caution in handling any unofficial email with subject line, attachments, or hyperlinks related to Coronavirus, even if it appears to originate from a trusted source. Be wary of fraudulent social media pleas, calls, texts, or donation websites relating to the COVID-19.

- Enhance cyber and information security awareness amongst your teams, warning them of the heightened risk of COVID-19 themed phishing attacks

- Ensure finance processes require finance teams to confirm any requests for large payments during the COVID-19 pandemic. This confirmation can help guard against the increased risk of business email compromise. Ideally, use a different channel such as phoning or texting to confirm an email request

- Review access rights of employees and third parties to ensure access granted is on a business need basis

- Ensure increased monitoring of cybersecurity events and avoid the use of non-secure/public channels for information transfer

- Validate essential tools needed to work remotely are available (i.e., laptops, VPN, internet access, etc.)

- Confirm critical processes can be performed remotely or identify an alternative

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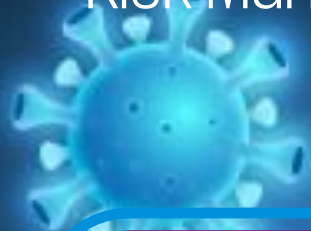
Health and Safety

Health and safety professionals play a key role in helping organisations protect employees, communicate accurately and effectively about current and emerging risks and ensure business continuity when a pandemic event threatens to disrupt normal operations.

Key activities to consider include the following:

▪ Direct leadership to follow relevant guidelines published by leading global authorities and national institutions (World Health Organisation, Ministry of Health)

▪ Inventory hand sanitisers, ensuring appropriate distribution of devices near restrooms, kitchens and common areas

▪ Assess employee health and safety risks

❖ Have employees travelled to locations where infections are prevalent?

❖ Have any employees been exposed to the virus?

❖ Are people showing symptoms ?

❖ How many people have called in sick over the last week?

▪ Increase cleaning/fumigation of organisations premises

▪ Identify/confirm and communicate first aid kit suppliers of the organisation

- Educate staff on hygiene, prevention, containment and recovery
- Agree protocols with health service providers for enhanced emergency treatments
- Establish arrangements with police and ambulance services for emergencies

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Monitoring Protocols

There sis the need to ensure that protocols are in place to adequately monitor the evolving situation. Information gathered from monitoring of internal and external factors is used to adapt the entity's response in line with the Risk Management Plan.

Key information to be considered for monitoring include:

External Factors
- Current state of infection within the country
- Updates on the pandemic from global and local health agencies
- Government response plans (implemented and soon-to-be implemented)
- Statistical trends about the outbreak and indicators that may have significant business impact
- Publications from the media and/or other covert sources on infected personnel of the Organisation
- Regulatory requirements
- Communications to external stakeholders

Internal Factors
- Number of infected personnel in the Organisation
- Number of self-quarantined personnel

- Number of sick leave requests during the outbreak
- Personnel productivity
- Financial loss on the business/ Impact on revenue
- Impact on critical processes
- Impact on service delivery to customers
- Insurance coverage
- Communications to internal stakeholders

Questions ? Answers ?