



University
of Economics
in Katowice



your place

your space



your future

INSIGHT INTO THE DEVELOPMENT OF RISK MANAGEMENT PRACTICES IN POLAND

Monika Wieczorek-Kosmala

London, 25th September 2015

The presentation based on the paper:

M.Wieczorek-Kosmala, *Insight into the development of risk management practices in Poland*, „Risk Management”

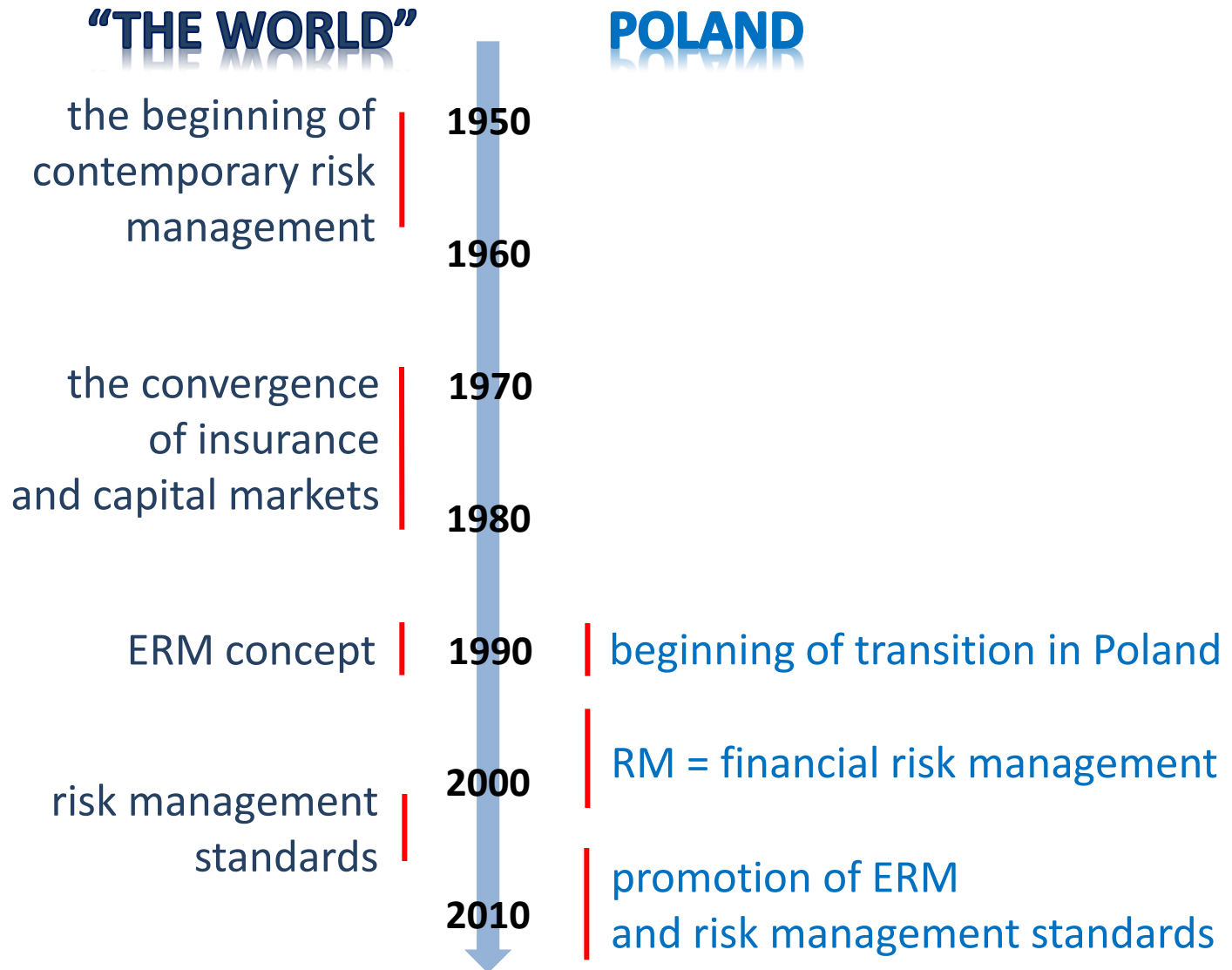
Vol. 17, No. 1, 40-64; doi:10.1057/rm.2015.6

**(The research is funded by the National Science Centre in Poland,
granted with the decision No. DEC-2011/01/D/HS4/04003)**

- Lack of rigorous academic research in the topic
- The study offers some initial observations that may enhance further queries or be used as proxies



INTRODUCTION



"THE WORLD"

POLAND

the beginning of contemporary risk management

1950

1960

the convergence of insurance and capital markets

1970

1980

ERM concept

1990

beginning of transition in Poland

risk management standards

2000

RM = financial risk management

2010

promotion of ERM and risk management standards



INTRODUCTION

FINANCIAL SECTOR

BANKING SECTOR

INSURANCE SECTOR

The interest in RM driven by rigorous EU regulations

NON-FINANCIAL SECTOR

Obligations – companies listed on WSE (corporate governance regulations in the body of 'best practice' guidelines)

PUBLIC FINANCE SECTOR

Since 2009, law regulations concerning public finance system (addressing auditing and internal control issues)



RESEARCH DESIGN & METHODOLOGY

recent observations in Poland:

**PRACTICAL IMPLEMENTATION OF RISK MANAGEMENT
IS GROWING**

RESEARCH AREAS OF CONCERN

DRIVERS OF RISK
MANAGEMENT
IMPLEMENTATION
AND ITS EXPECTED
OUTCOMES

APPROACHES
TO RISK
IDENTIFICATION

ORGANISATION
OF RISK
MANAGEMENT
IN THE **PROCEDURAL**
CONTEXT

Is the Polish practice far from “global” experience?



RESEARCH DESIGN & METHODOLOGY

DIFFERENCES: POLISH vs. GLOBAL EXPERIENCE

DRIVERS OF RISK
MANAGEMENT
IMPLEMENTATION
AND ITS EXPECTED
OUTCOMES

Q1. Are regulation and compliance more important drivers of risk management implementation?

Q2. Do regulation-related benefits dominate over other types of benefits of risk management implementation?

APPROACHES
TO RISK
IDENTIFICATION

Q3. Is the role of the management board experience in risk identification more important?

RESEARCH DESIGN & METHODOLOGY

DIFFERENCES: POLISH vs. GLOBAL EXPERIENCE

ORGANISATION
OF RISK
MANAGEMENT
IN THE **PROCEDURAL**
CONTEXT

Q4. Is the formal risk management department less common?

Q5. In the absence of a risk management department, is the responsibility for risk placed on financial divisions or rather at the board level?

Q6. What is the management board approach to risk management?

Q7. Is risk reported to financial divisions or rather to the board level?



RESEARCH DESIGN & METHODOLOGY

SOURCE OF DATA: AON Risk Management Surveys
Biannual survey, 1st edition in 2007 (Poland since 2009)

	GLOBAL SURVEY			POLISH SURVEY		
	2009	2011	2013	2009	2011	2013
No of respondents	551	960	1415	106 ^{a)}	73 ^{b)}	234
No of countries	40	58	70			
Respondents with revenues below 1 billion USD	26%	50%	64%	n.a.	n.a.	82%
Respondents by ownership:						
publicly-owned	56%	44%	57%	13%	18%	13%
privately-owned	37%	40%	28%	87%	75%	70%
other	7%	16%	15%	0%	7%	17%
The share of respondents representing financial sector	7%	7%	10%	n.a.	12%	13%

a) companies with the revenues above 50M of PLN of which 95% is generated in the territory of Europe

b) organisations with revenues above 20M of PLN of which 95% is generated in the territory of Europe

Source: Own study based on AON (2009), AON, (2011), AON, (2013), Słobosz & Ziomko (2009), Słobosz et al. (2011), Przywecki et al. (2013)



RESULTS AND DISCUSSION

DRIVERS OF RISK MANAGEMENT IMPLEMENTATION

	2009		2011		2013	
	<i>Polish survey</i>	<i>Global survey</i>	<i>Polish survey</i>	<i>Global survey</i>	<i>Polish survey</i>	<i>Global survey</i>
Risk-related						
Economic volatility	60%	43%	46%	50%	62%	47%
Natural weather events	11%	20%	19%	14%	10%	18%
Political uncertainty	n.a.	6%	1%	11%	6%	15%
Stakeholders-related						
Demand from investors for greater disclosure and accountability	34%	27%	34%	22%	34%	22%
Pressure from customers	15%	17%	14%	18%	33%	20%
Increased focus from regulators	22%	35%	17%	38%	22%	34%

EXPECTED BENEFITS OF RISK MANAGEMENT IMPLEMENTATION

	2009		2011		2013	
	<i>Polish survey</i>	<i>Global survey</i>	<i>Polish survey</i>	<i>Global survey</i>	<i>Polish survey</i>	<i>Global survey</i>
Regulations						
Improved standards of governance	42%	37%	41%	41%	54%	46%
Improved internal controls	39%	50%	44%	55%	54%	55%
Strategic-decisive context						
More informed decisions on risk taking / risk retention	64%	67%	64%	71%	61%	65%
Improved business continuity planning	21%	40%	37%	40%	29%	40%
Improved business strategy	32%	48%	31%	23%	10%	22%
Financial management context						
Increased shareholder value	n.a.	39%	14%	46%	38%	47%
Increased return on investment	16%	16%	10%	18%	12%	18%
Lower total cost of insurable risk	30%	69%	41%	61%	16%	52%
Reduced compliance costs	n.a.	26%	3%	29%	13%	25%

APPROACHES TO RISK IDENTIFICATION

10 TOP RISKS

Polish survey 2013	Rank	Global survey 2013
Economic slowdown/slow recovery	1	Economic slowdown/slow recovery
Increasing competition	2	Regulatory/legislative changes
Cash flow / liquidity risk	3	Increasing competition
<u>Receivables / trade credit</u>	4	<u>Damage to reputation</u>
Regulatory/legislative changes	5	<u>Failure to attract or to retain top talent</u>
<u>Exchange rate risk</u>	6	<u>Failure to innovate/meet customer needs</u>
Commodity price risk	7	<u>Business interruption</u>
<u>Technological breakdown</u>	8	Commodity price risk
<u>Theft, fraud and corruption</u>	9	Cash flow / liquidity risk
<u>Third party liability</u>	10	<u>Political risk / uncertainties</u>

APPROACHES TO RISK IDENTIFICATION

METHODS USED TO IDENTIFY MAJOR RISKS

	2009		2011		2013	
	Polish survey ^{a)}	Global survey ^{a)}	Polish survey ^{b)}	Global survey ^{a)}	Polish survey ^{b)}	Global survey ^{b)}
Board and / or management discussion of risk during annual planning, risk assessment or other processes	62%	18%	54%	12%	48%	60%
Senior management judgment and experience	21%	40%	24%	43%	31%	58%
Formal risk registers (structured enterprise wide risk identification process, risk information from other function-led processes)	8%	28%	20%	39%	19%	78%
Industry analysis, external reports	8%	4%	13%	3%	7%	30%

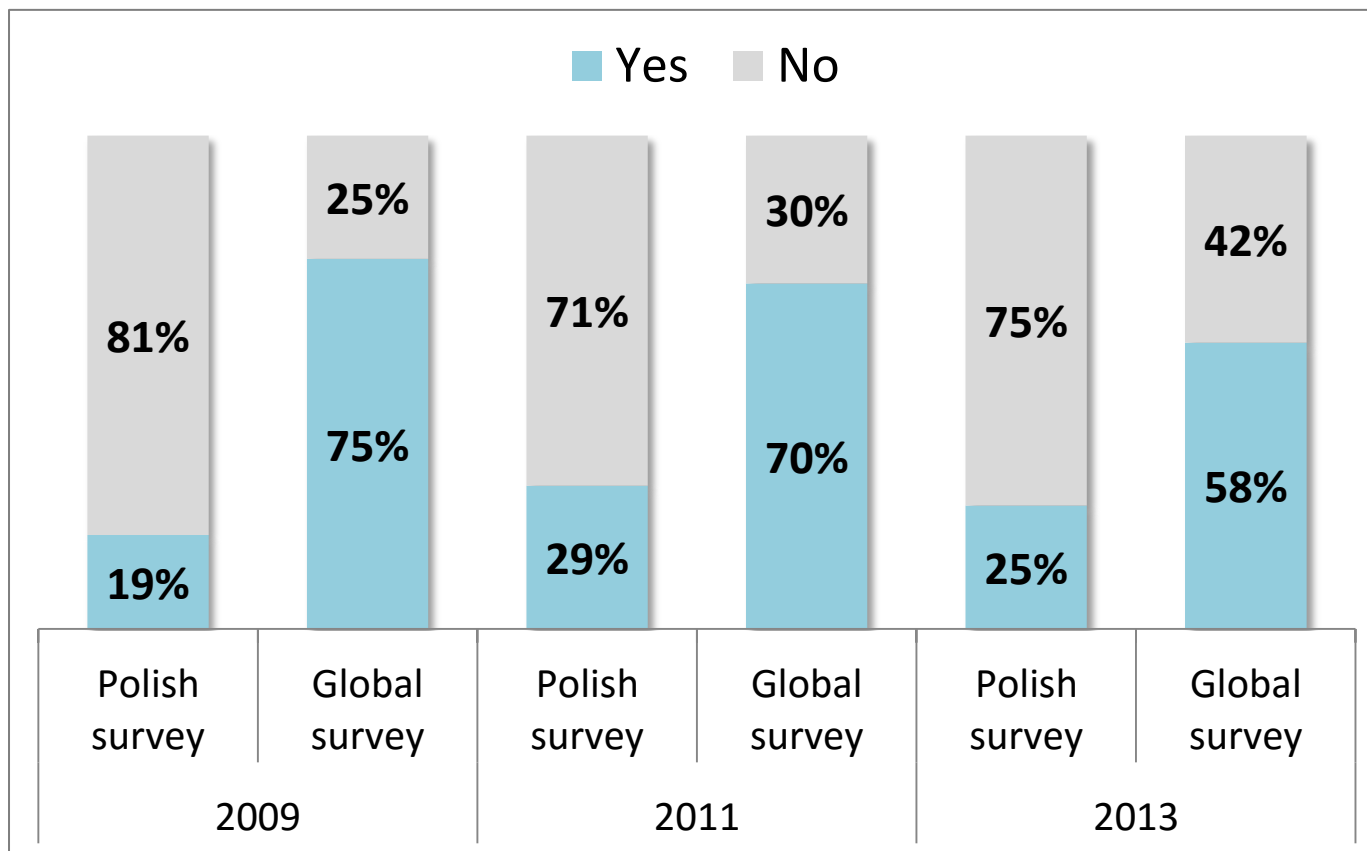
a) respondents were asked to indicate one, leading method

b) respondents were asked to rank leading methods and more than one answer was allowed



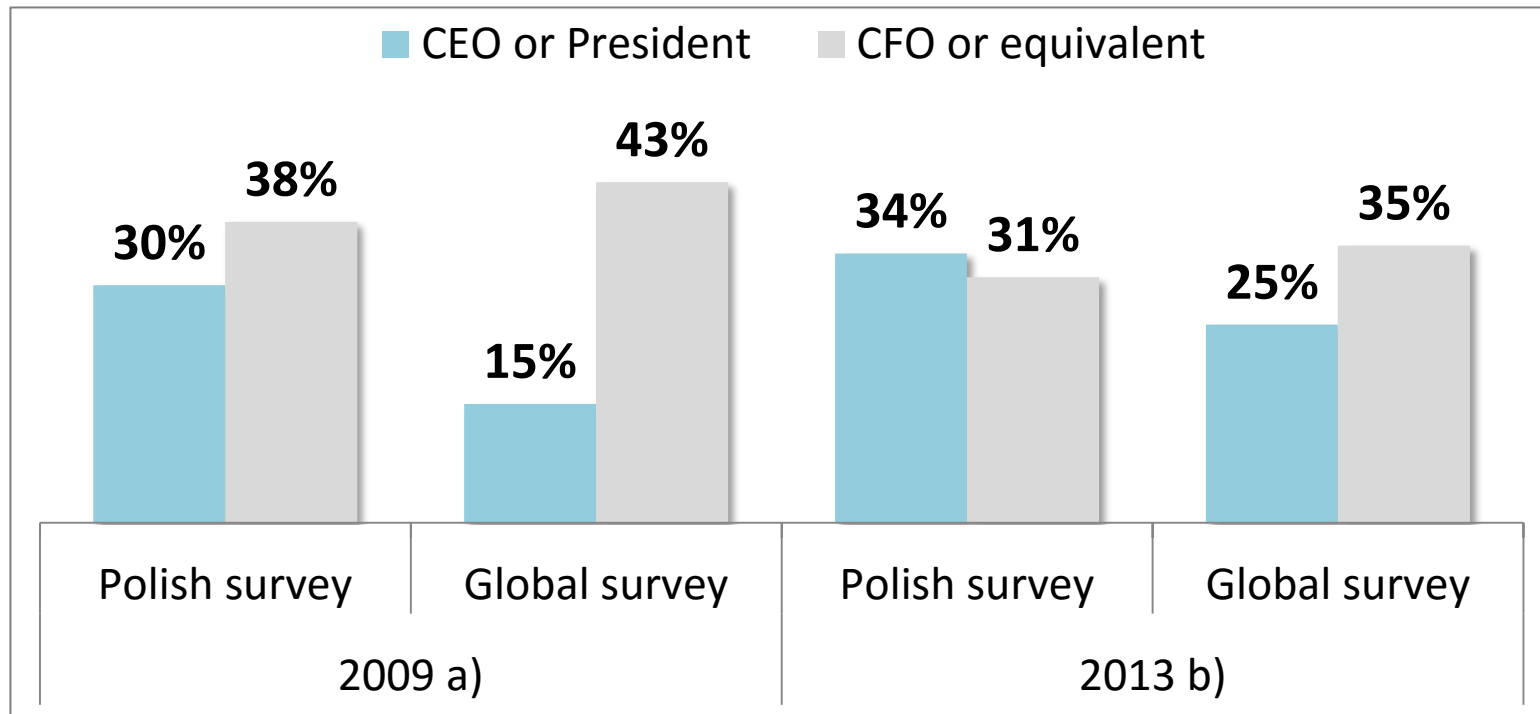
ORGANISATION OF RISK MANAGEMENT

THE PRESENCE OF FORMAL RM DEPARTMENT



ORGANISATION OF RISK MANAGEMENT

RESPONSIBILITY FOR RISK IN THE ABSENCE OF FORMAL RM DEPARTMENT

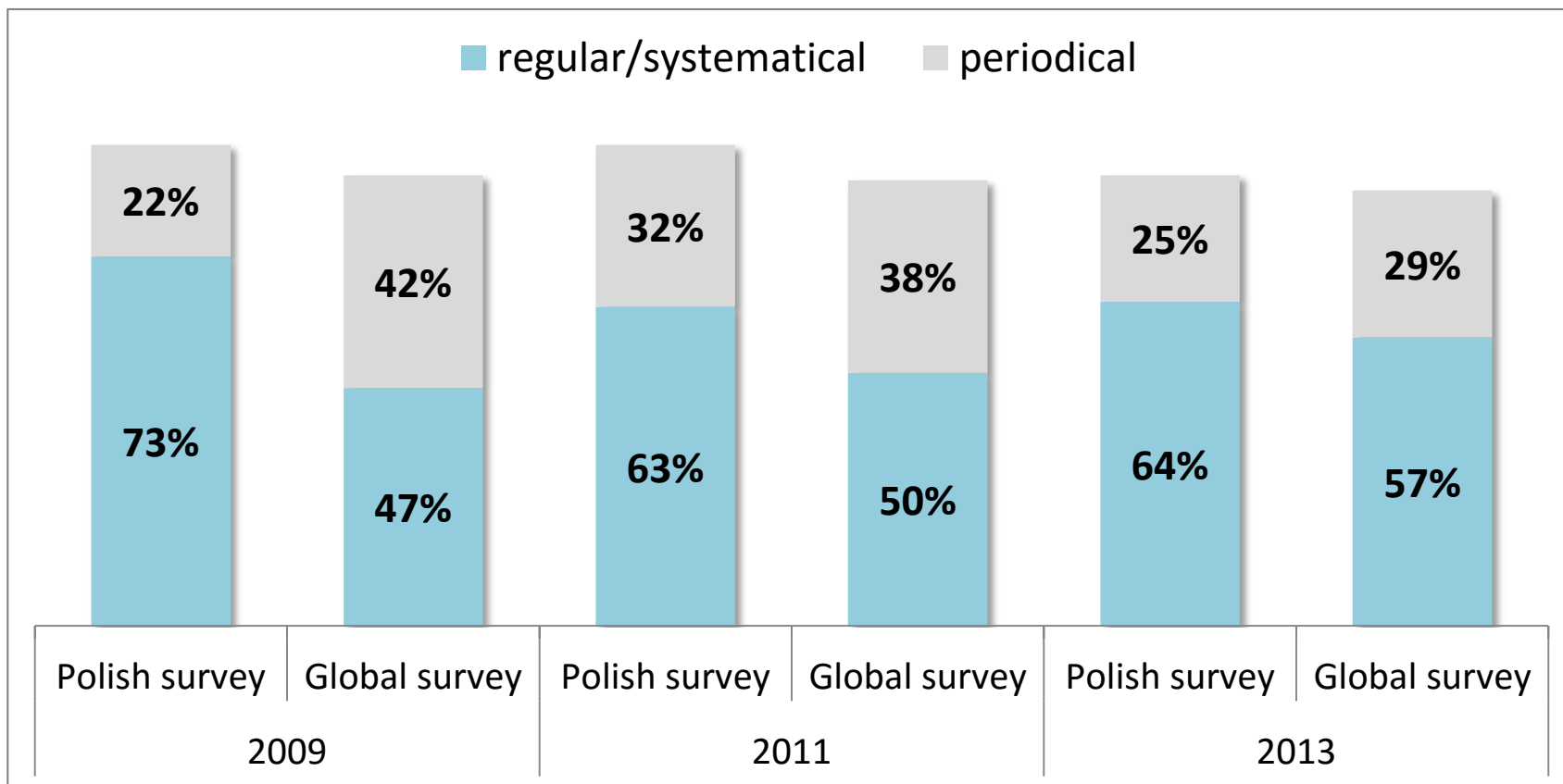


a) respondents were asked to indicate one, leading method

b) respondents were asked to rank leading methods and more than one answer was allowed

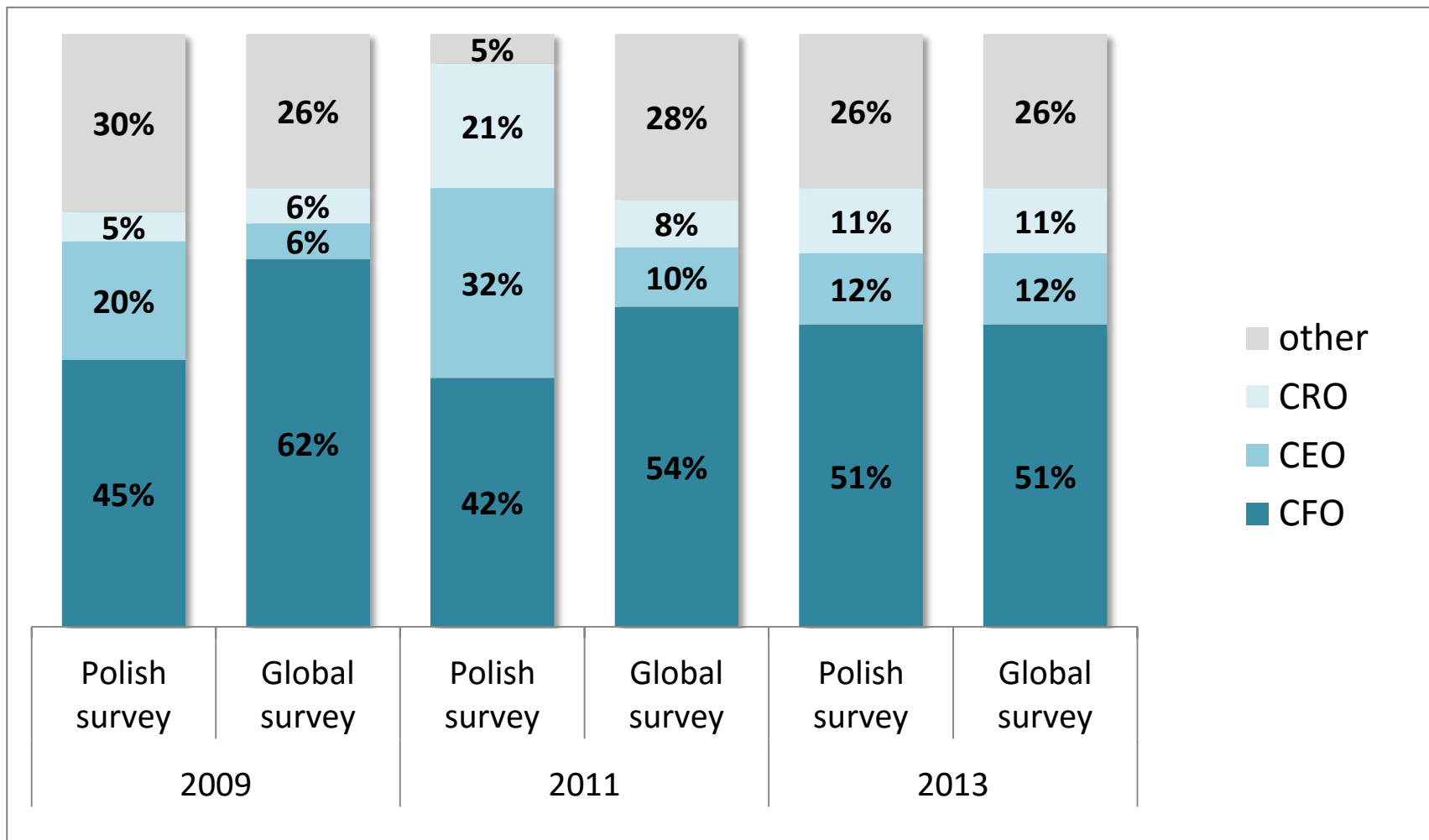
ORGANISATION OF RISK MANAGEMENT

CURRENT APPROACH TO RISK MANAGEMENT AT BOARD LEVEL



ORGANISATION OF RISK MANAGEMENT

RISK REPORTING



Conclusions

- Within the past 10 years RM idea was widely popularised in Poland, thus Polish RM practices in many aspects seem not so remote from global trends
- Regulation and compliance important **driver** of RM implementation in Poland (similarly as globally)
- Regulation-based **benefits** of RM remain relatively important in Poland (globally – not)
 - improved standards of governance
 - implementation of internal control



- Risk identification in Poland relies more on experience-based methods (not compiled with other methods, as it is observed globally)
- High involvement of management board in RM process
 - regular (globally – periodical)
 - Importance of financial divisions in RM process

Thank your for your attention





University
of Economics
in Katowice

www.ue.katowice.pl