



Risk management during times of crisis

Health check of crisis-relevant risk management measures

In these times of crisis, normally forward-looking risk management has been completely taken over by the here-and-now crisis management of the COVID-19 pandemic – or has it?

Dramatic changes in business and industry are often causing disruption to likelihoods of occurrence, correlations, and scope of damage. Risks that only recently had seemed unlikely and manageable may now be entirely realistic and may pose a major threat to organizations' business objectives. The business objectives themselves are also in flux, leading to radical changes in the risks and opportunities defined as deviations from targets.

The present crisis raises the following key question in particular: How will the current situation and other potential developments affect the company's risk-bearing capacity and, consequently, its continued existence as a going concern?

This has significant repercussions and gives rise to a need for clarification for the risk management function, such as:

- In which areas of risk in the company is the immediate focus on acute risk management owing to the crisis?

- What effect does the change in the company's risk position have on the earnings forecast?
- Are there significant correlations between risks, or do new ones have to be recognized?
- Are the review period and the level of granularity geared to the needs of the decision-makers (and supervisory bodies)? Or is it now necessary to analyze at shorter range but in greater detail?
- Does the risk culture in the company allow the risk management function to envision extreme scenarios or is thinking taboo?
- In which areas do specific risk management measures need to be adapted (above all expanded, but also selectively cut back as required)?
- Are risks defined as earnings divergences that must now be translated into a liquidity effect if liquidity is currently the main risk parameter?

The risk management function's main achievement during the crisis is to look ahead; along with controlling, risk management enables confident handling of the dramatically changed scenario.

Examples of possible support services:

Short term:

- Ad-hoc analysis of the risk-bearing capacity by simulating the effects of the crisis on EBIT and cash flow, especially for earnings and distribution risks
- Assistance with analysis of new or significantly changed risks
- Development and creation of a risk response program for holistic and acute crisis management
- Health check of the risk management system (RMS) to identify any necessary adjustments in response to the crisis

Medium term:

- Creation of risk and opportunity scenarios with the aid of advanced analytics
- Sustainable development of the RMS based on lessons learned from the crisis and RMS benchmark analyses
- Assurance over the RMS's appropriateness or effectiveness in accordance with IDW AuS 981

Our team of experts is happy to assist you with these challenges!



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