

When Transformation is risky and not mandatory...just ask the Dodo

Transforming Information & Risk Management to enable Transformational Government

In the interests of economy, the Dodo evolved to lose its power of flight and to build its nest on the ground...but that lack of foresight led to its extinction.

The job of risk management has never been more difficult and the need to transform traditional approaches to service delivery is about to make the task of risk management in the public sector feel almost impossible. Risk managers are under increasing pressure to help their organisations cope with an increasingly complex and fast moving environment. This includes the need to balance a set of seemingly irreconcilable sets of forces; demands for innovation, improved service, greater transparency and collaboration plus the empowerment of staff and citizens, yet at the same time the need to improve accountability and compliance and reduce costs.



However, risk managers are not alone – managers in all functions, across all industries and geographies are under growing pressure to ‘do more with less’ and, in response to the increasingly uncertain and rapidly changing environment, to be more agile in general.

To date, the main response of the UK Public Sector has been simply to work harder via a series of cost-cutting efficiency drives but this no longer enough to close the gap between almost infinite demands and increasingly finite resources. The only answer is therefore to work smarter – using improved information management to turn the ‘data deluge’, that past investment in IT systems are increasingly surfacing, into meaningful insights to transform organisational performance. Such insight is used for a wide variety of business-critical purposes including informing policy & strategy, improving processes and efficiency, improving customer service and overall enterprise performance management & alignment.

Similarly, risk management professionals are also having to transform their own approaches because, although transformation brings with it new risks, incremental improvement of the status-quo is no longer sufficient. Indeed, SAS would argue that risk professionals need to be the early adopters and champions of ‘Enterprise Intelligence’. Professional risk management requires not just the use of better hindsight, available from historical data (the focus of traditional Business Intelligence), but also the predictive foresight delivered by the use of advanced analytics. Analytics allow not only the identification of hidden trends and root causes, but also the ability to model the future and to optimise decisions in risk mitigation.

There are numerous examples globally of the advanced use of predictive analytics to manage public sector risk including in social and economic policy formulation and combating risks to safety and security. The latter includes applications to detect, anticipate and prevent risks in defence, crime, prisoner release, natural disasters and pandemics. Fraud is another area where prevention is better than cure and where the use of advanced analytics is increasingly regarded as essential.

Nevertheless, such examples remain relatively rare and, overall, research by both industry analysts and SAS demonstrates that the public sector’s use of even traditional, ‘rear view mirror’ Business Intelligence (BI) is lagging behind that of the private sector. Moreover that gap is set to grow as more and more private sector organisations evolve up the ‘Information

Evolution' maturity curve and use BI to turn past investment in IT into insight that drives real business benefits.

This growing 'intelligence gap' will in turn increase the financial and reputation risk to the public sector as, for example, it fails to meet the increasing customer service expectations fuelled by the private sector's use of more effective customer insight and when criminals migrate to the channels of least resistance.

Yet the public sector has the opportunity to learn from the mistakes of the private sector early adopters. For example, in the area of fraud, many private sector companies adopted BI initially within finance to identify criminal activity and credit score new customers. Meanwhile, marketers bought their own, incompatible BI tools to target customers, many of whom were already on finance's risk register. This lack of integration often resulted in applications for services, accounts, loans etc taking longer to process, as time consuming and costly internal wrestling matches took place and errors escalated. Too often the net result was extra cost and risk for service providers and consumers alike.

Financial and other service organisations have therefore evolved to share data both within their own organisations and across industry to get the combined marketing and risk insights from one integrated platform. This provides frontline staff with pre-qualified limits for all products, helping customers obtain a decision in real time. This stems from an approach based on a thorough understanding of customer needs driving the redesign of internal processes to maximise effectiveness. The end result is not only reduced costs and risks, but increased revenue and profitability.

Using such best practice and our experience in helping many public and private sector organisations to tackle fraud as a model, SAS has developed a shared service proposition across multiple Local Authorities (LAs) which can be paid for on a subscription basis. It is designed to replace the current costly and less effective silo approach to fraud that has in effect created an anti-fraud 'arms race' between neighbouring LAs. The proposition enables greater collaboration between LAs and makes advanced analytic tools available to all, delivering a shared insight into the c.80% of organised cross boundary fraud. In addition, the service will use customer insight to detect and reduce errors (now estimated to account for more than double losses due to fraud), reduce costs and maximise revenues.

Such 'evolutionary leaps' are now essential to the public sector. Transforming information management to work smarter and to anticipate change is increasingly critical to all disciplines, particularly to risk managers.

In contrast, the Dodo adopted an incremental improvement approach based on historical precedent to become increasingly well adapted to life on the ground....but its failure to anticipate new threats cost it dearly.

Bart Patrick, Head of Insurance Practice, SAS UK.