Key Risk Indicators

Hello and welcome to another Comcover microbite. My name is Kate and I will be joined in a moment by my colleague Peter. Today we're exploring Key Risk Indicators. Key risk indicators or KRI are metrics for measuring the likelihood that the combined probability of an event and its consequences will exceed your entity's risk appetite. As such they provide early warning for when an activity or project may be at risk.

Key Risk Indicators can be 'Lagging', when data is monitored retrospectively, or 'Leading' which signals that risk events could occur. 'Leading' Key Risk Indicators are more likely to aid management taking action in advance of risks, while 'Lagging' indicators are typically easier to identify and measure as they tell you about what has already happened. A good way to develop key risk indicators is to utilise this four step process:

- Step 1: Identification – Key Risk Indicators are most effective when they are measurable, trackable, predictable and informative. It is important to identify available data that relates to the risks being measured.
- Step 2: Selection – Focus on indicators that should track changes in the risk profile. A mix of 'Lag' and 'Lead' indicators is usually best. The selection of indicators also need to consider the entity's risk appetite. Note that KRIs can also be very useful for risks with a rare likelihood but extreme consequences.
- Step 3: Reporting – Determine the right escalation and reporting framework, including how frequent the indicators are tracked. Reports should identify trends and movements in risk. The frequency of these reports should be dependent on the risk rating.

- and Step 4: Action – Prepare action plans for when Key Risk Indicators show that tolerance thresholds have been exceeded; a threshold being the limit of an indicator that must be exceeded before action is taken to manage the risk. These actions must be documented in a plan that includes specific activities, ownership and timeframes.

Let's now step through an example of a Key Risk Indicator being used. Working in your HR Branch you have identified understaffing as a potential risk.

To determine appropriate Indicators for this risk, you should consider the **source of the risk**, and possible '**Lagging**' and '**Leading**' indicators. Then work out how the indicators might be measured, and what thresholds would be appropriate based on risk appetite and tolerance.

With these considerations in mind, a 'Lagging' Indicator for this risk could be the number of voluntary resignations per month. This works well as it is **measurable, trackable, informative, reliable, and readily available**.

A number of thresholds could be set, for example GREEN, AMBER, and RED with appropriate actions for each one. For example the green threshold is one voluntary resignation or less per month with no action required. Amber is 2-4 voluntary resignations per month with an action to report to the head of HR and Red, is 5 or more voluntary resignations per month with an action to report to the Executive Committee.

For this example, data is readily available from HR and action to understand the reasons for leaving can begin when the amber threshold is triggered. This could be done through exit interviews, looking at staff engagement survey results or one-on-one meetings with key people.

As a ‘Leading’ Indicator for this specific risk, you and your colleagues within HR could gather data from a staff engagement survey or leverage data already available through the APS Census.

So why are Key Risk Indicators useful? Because there are clear benefits from identifying and using them. **One, they support risk assessments.** Key Risk Indicators make risk assessments more reliable and informative for management, and can provide early warnings as to when a risk may be imminent.

Two, they facilitate the proactive management of emerging risks. Key Risk Indicators help identify emerging risks by creating a framework to scan for what is on the horizon.

Three, trending. Key Risk Indicators help management track risk trends, which helps to identify areas needing greater investment.

And four, risk appetite. Monitoring Key Risk Indicators provides management some assurance that the entity is operating within its appetite for risk.

To help you identify and implement suitable Key Risk Indicators here are some practical tips:

- **Limit the number of Key Risk Indicators, focusing on high or critical risks –** while a risk may be linked to many Key Risk Indicators, it's best to select 2 or 3 of the most reliable and informative, as this adds rigour to your risk assessment

- **Data** – work closely with the relevant parts of your entity to determine how you will measure your Key Risk Indicators and where suitable data can be sourced.

- **Dashboard reporting –** report Key Risk Indicators on a dashboard. The simple use of colour can alert management to those areas where attention is required.
- **Review thresholds and trigger points over time** – this will ensure that Key Risk Indicators stay aligned with your entity's risk appetite.

In closing, Key Risk Indicators are a useful tool. They provide early warning as to when an activity or project may be at risk, they make risk assessments more informative for management and, they provide a framework for scanning what is on the horizon.

To establish effective Key Risk Indicators, don't forget to identify what reliable data is already available and ensure that your KRIs are measurable, trackable, predictable and informative. Also think about your stakeholders and others who may have visibility of the risk which may assist in designing KRIs.

Before you leave, please be sure to complete the survey below to help us tailor future microbites and learning programs to your needs. If you would like further information, please refer to Comcover's information sheet on Key Risk Indicators which is available on our website. If you would like any assistance with this subject or others, please leave your name and contact details below or reach out to us at comcover@comcover.com.au.