Big Data is changing the face of risk management

24 May 2016 – As the business environment continues to evolve, bringing a new set of challenges and threats to organisations, risk managers across the globe are beginning to harness the power of Big Data to accurately predict and manage risks more efficiently.

Yudhvir Seetharam, Head of Analytics at FNB Business, says stricter regulatory requirements and compliance penalties have prompted businesses in the financial services sector to find new ways to effectively evaluate and manage risks. Consequently, Big Data is now being actively used as a key risk management indicator to identify problems and address them quickly before they impact on the reputation and bottom line of businesses.

"It is therefore not surprising that more and more organisations are investing in Big Data to enhance the predictive power of their risk models to enable business leaders to make more informed decisions," says Seetharam.

Moreover, the ability to manipulate historical records, to detect hidden operational glitches, and use the insight to improve operational efficiency and cut costs is giving businesses a competitive edge.

"From a South African perspective, Big Data is still a fairly new concept and many risk managers have not yet incorporated it into their risk models, due to a of lack of knowledge and understanding," says Seetharam, as he explains some of the challenges they face.

Firstly, it is unfair to expect risk managers to become Big Data experts overnight. Businesses should appoint qualified data scientists that have the expertise to handle large volumes of data, store and analyse it accordingly.

"Simply tasking an employee to store and derive insight from data often leads to disappointment and misconceptions about the effectiveness of Big Data," cautions Seetharam.

Secondly, Big Data is more effective when used in conjunction with other tools to improve risk management, meaning that it should be incorporated into the broader risk management strategy of a business, which must be updated regularly in line with changes in the economy.

Lastly, incorporating Big Data into the business should be viewed as a long term investment. Although it will initially be costly for the businesses to employ data scientists and get the necessary infrastructure to manage and analyse large volumes of data, the business will save costs in the long run.

"This is because the data is already there and can be proactively used to detect and mitigate costly risks, assisting business leaders to deal with challenges and make more informed decisions about the future growth of their companies," says Seetharam.

Developments in technology, coupled with economic uncertainty are presenting businesses with a number of operational risks, ranging from compliance and fraud, to credit and reputational risks. Yet, when used effectively, as a risk management tool, Big Data can be an ideal solution to many of these challenges.

"In fact, not using Big Data to improve risk management will become the biggest threat for businesses in the near future. As more case studies on Big Data become available, we are likely to see many businesses in South Africa incorporating Big Data into their risk management strategies," concludes Seetharam.