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aurims
Australasian Universities Risk & Insurance Management Society

Presentation:
Big risks in the tertiary sector

The Future of Universities – Adapting to Change, Innovation and Disruption
AURIMS Conference 2019, 3-5 April, Melbourne

Dr Dale F Cooper

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Agenda

1. What on earth are big risks?
2. Where should we look for big risks?
3. Simple scenarios based on trends
4. More complex scenarios for strategic thinking
5. Value of enterprise risk management
6. Final thoughts

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What on earth are big risks?

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Big risks?

One CEO's view of big risks:

- High levels of risk (combination of consequences and likelihood), with the current controls
- High potential maximum consequences
- Low control effectiveness
- 'What keeps me awake at night?'

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Some data (not necessarily information!)

Sample of 26 'big risk' surveys and articles

- 5 from higher education
- 368 risks in total
- Quick (and highly subjective) grouping into 27 general categories

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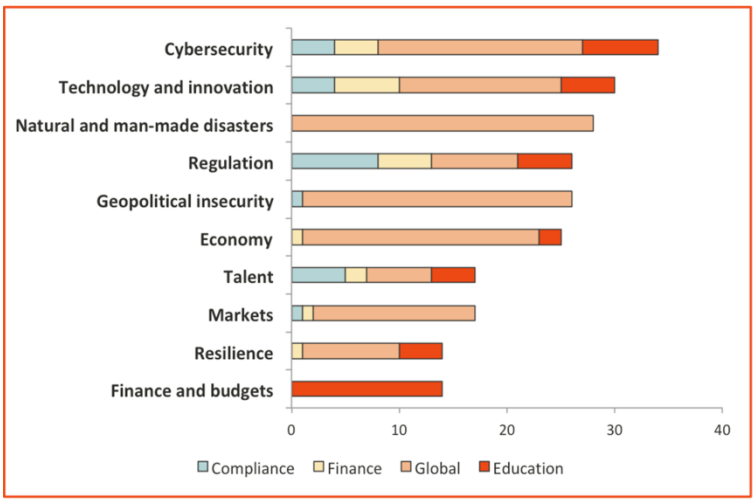
Overall patterns

The top 10 groups cover two thirds of the risks



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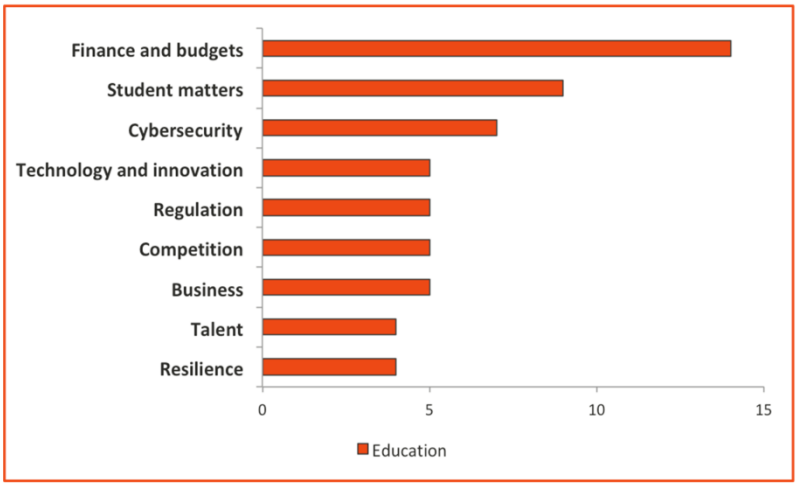
Education sector (5 sets of data)

Funding is a key focus for higher education



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Education 'big risks'

Category	Topics
Finance	• Funding uncertainty, grants, government policy, costs, financial performance
Student matters	• Student experience and welfare • Recruitment and retention; quality
Cyber security	• Information governance and security; privacy; social engineering attacks
Technology and innovation	• Digital integration and integrity; IT support for the institution; contribution to student experience • Advanced technology, AI; IT leadership
Regulation	• Compliance; regulatory burdens; government policy
Competition	• Competition for students; international competition
Business	• Organisational performance; staff relations
Talent	• Staff development; competition for qualified faculty

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What can we learn from this?

There is some agreement about broad categories of big risks

- But great variation in the detail
- And not many surprises

There is no easy consensus

- Risks range from 'nuisances' to existential threats
- There are many points of view

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The most interesting risks have long-term implications

We understand tactical, operational risks quite well

- They might be messy, but we know how to tackle them in most cases

Strategic risks tend to have longer-term implications and are more difficult to resolve

- The environment is often complex, with many interacting components
- We may not recognise a threat exists, or how serious it might be, until it is upon us

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Where should we look for the big risks?

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What might indicate a big risk?

Trends leading beyond our current experience

- Boiling frogs

Examples of events, including rare catastrophes, that are outside our experience or that catch us by surprise

- Black Swans
- Perfect storms

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Characteristics of 'interesting' big risks

Significant uncertainty and many divergent opinions

Potentially large impacts, only partially knowable

Non-linear impacts over extended timeframes

Complex, messy interaction effects

Unpredictable human responses

Situations outside the comfort zone for people and organisations, so existing processes and culture may no longer work

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Challenges (1)

We need to be careful to avoid long term thinking being confined to the frame of reference we currently use to understand the world

It's not too hard to watch out for the things you know you should be worried about

Being able to spot things you hadn't thought of until they start to emerge is a different challenge

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Challenges (2)

There are foreseeable long terms trends that we can start to consider immediately

- Increasing population, increasing proportion of the population expecting a higher standard of living, and expecting better education for their children …

But simple extrapolation of trends is unlikely to be sufficient

- It would be prudent to accept that there will be things we care about that we haven't identified and so can't plan for yet
- We need a way of maintaining a lookout for the unexpected

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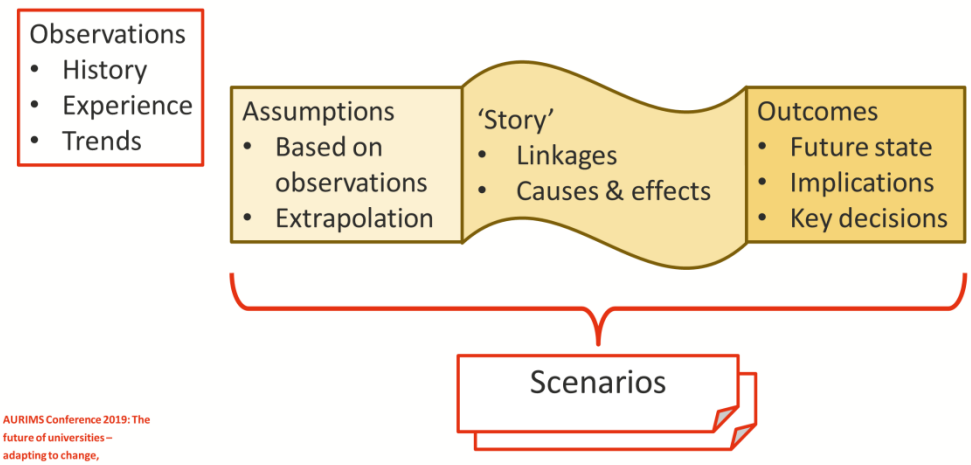
Scenario analysis can provide a useful way forward



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Scenarios need to be both credible and useful

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Characteristics of a *credible* scenario

The assumptions should be believable

- They should be forward-looking, and take into account anticipated trends and changes
- They may include changes with low likelihoods

The outcomes should be believable

- They should be linked logically to the assumptions
- There should be a good 'story' that explains the links
- The scenario should be internally consistent

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Characteristics of a *useful* scenario

It should be credible

It should be directly relevant to the organisation

It should have impacts that are important for the organisation

It should stimulate productive thinking about the future

- It should lead to a point where major change or a major decision is inevitable, and thus generate discussion about what changes, threats and opportunities might arise

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Simple scenarios based on trends

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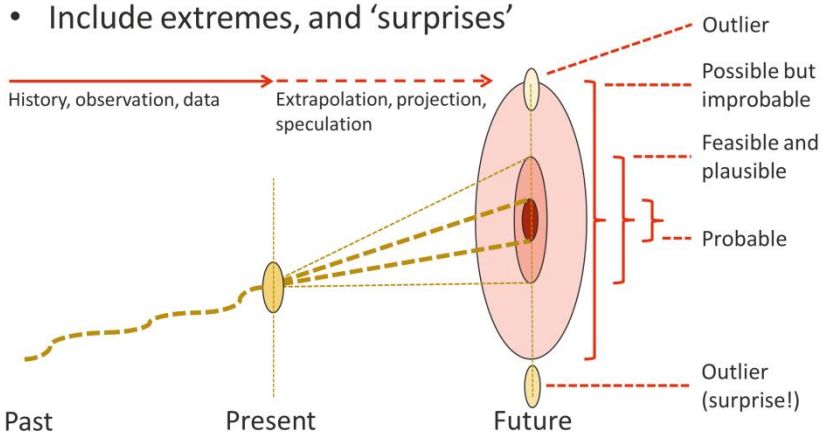
Developing scenarios from trends

Start with assumptions and simple projections

- Project current trends
- Include extremes, and 'surprises'



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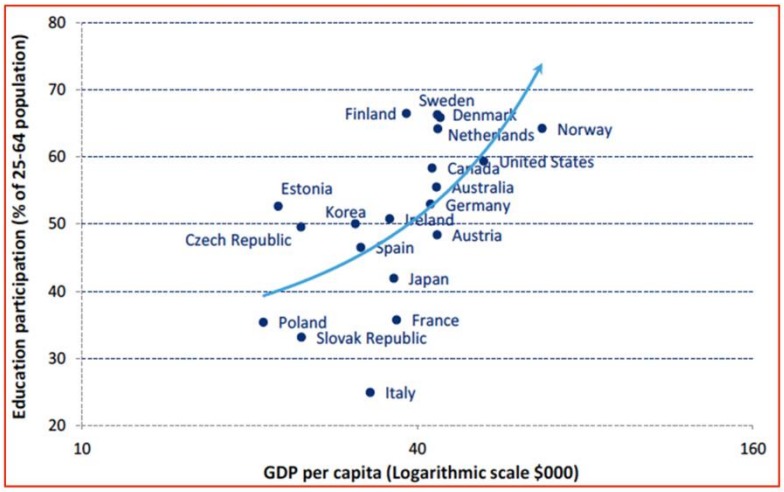
Trends in participation in education



1% increase in GDP/capita generates 1.1% growth in higher education participation
GDP growth in China and India 6-8% pa

Source: OECD, Deloitte Access Economics

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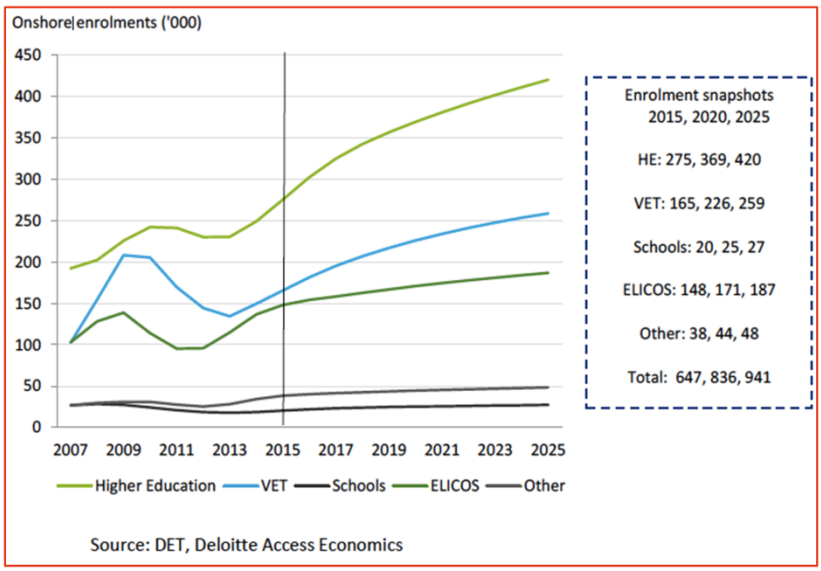
International learners in Australia



Source: DET, Deloitte Access Economics

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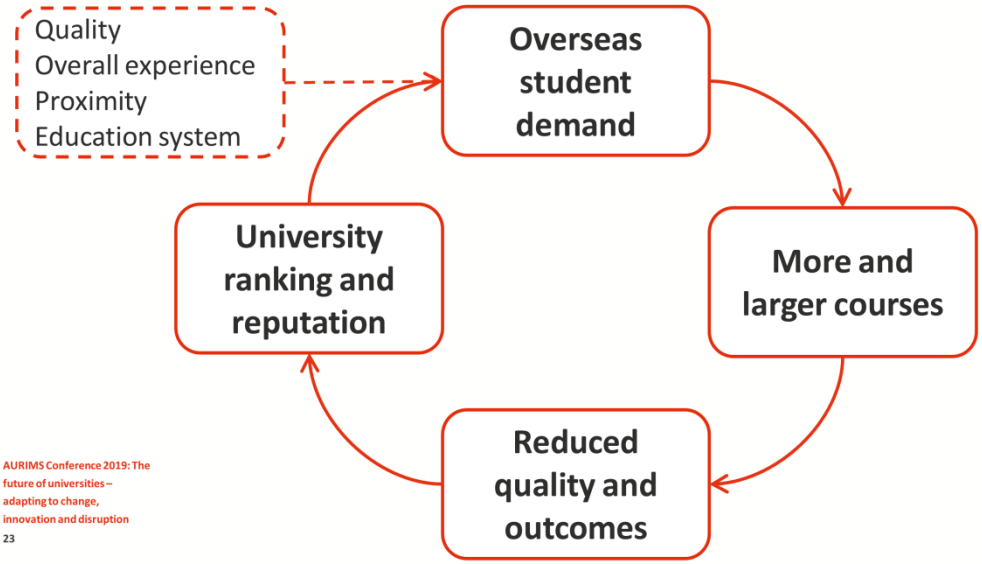
Simple high-demand scenario



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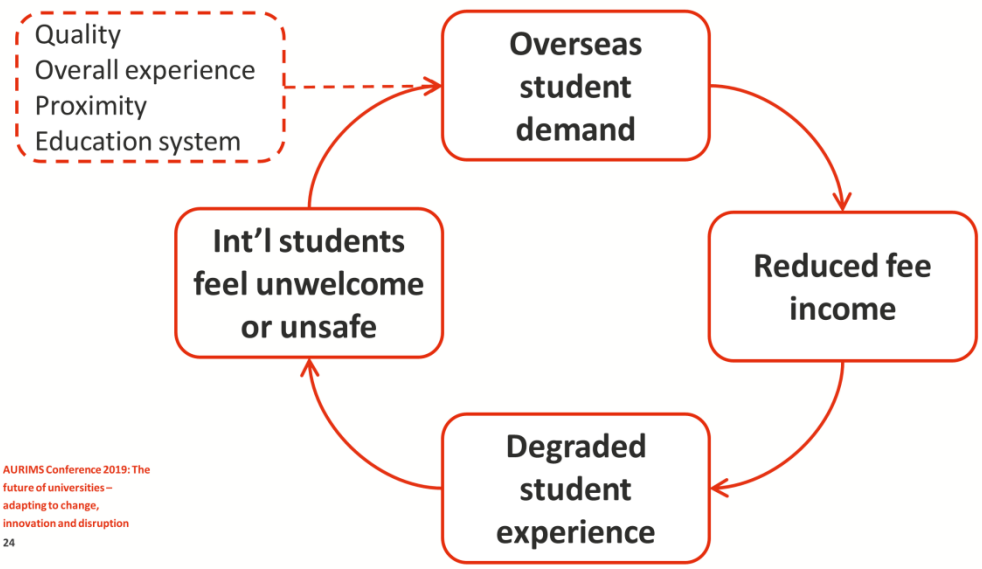
Simple reduced-demand scenario



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More complex scenarios for strategic thinking

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Disruptive forces driving change (EY)

1	**Changing world of work**	Technology disruption in the workplace
2	**Blurring industry boundaries**	Non-traditional rivals offer educational services
3	**Evolving digital behaviour**	Learners become consumers of educational services
4	**Increasing international competition**	Competition for rankings, students and academics
5	**Rise of continuous learning**	Education as a continuous process

Source: EY (2018), Can the universities of today lead learning for tomorrow? www.ey.com/au/futureuniversity

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Scenario drivers (EY)

1	**Government role**	Activist or hands-off Government or industry funding Capped or uncapped fees
2	**Demand conditions**	Learner demographics Learner objectives
3	**Technology conditions**	Technology integration Technology as a service Prominence of AI
4	**Sector structure and rivalry**	Degree of protection, external rivals Integration with industry Connection of research and learning

Source: EY (2018), Can the universities of today lead learning for tomorrow? www.ey.com/au/futureuniversity

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Many permutations reduced to four scenarios for 2030 (EY)

… four divergent yet plausible views of Australia's higher education landscape in 2030

Champion university	Universities as strategic national assets; traditional degree programs; streamlined operations
Commercial university	Financially independent universities; work-integrated learning; close collaboration with industry
Disruptor university	Deregulated sector; continuous learners; on-demand micro-certificates; technology disruption; new markets and services; increased competition
Virtual university	Integrated universities and vocational institutes; training and employability focus; flexible, online, unbundled courses; shared digital platforms

Source: EY (2018), Can the universities of today lead learning for tomorrow? www.ey.com/au/futureuniversity

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Another scenario generator

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The 12 Critical Uncertainties of International Education

EXTERNAL INFLUENCES			INTERNAL INFLUENCES		
THE INTERNATIONAL SCHOOL MARKET			CURRICULUM CONTENT		
Expatriate	◯	Local	Less is more	◯	More and more
INNOVATION			THE ROLE OF THE TEACHER		
Emerging markets	◯	Western-centric	Increasingly irrelevant	◯	Increasingly relevant
GEOPOLITICAL INFLUENCES			THE SHAPE OF THE SCHOOL DAY & YEAR		
Regional and local	◯	Open and global	Anytime, anywhere	◯	Broken into blocks, sequences, and semesters
HIGHER EDUCATION & FUTURE OF WORK			SCHOOL NETWORKS AND PARTNERSHIPS		
Results focused	◯	Experience focused	A new generation of open and collaborative networks	◯	Increasingly competitive and isolated
POPULATION & WEALTH			THE SCHOOL CAMPUS		
Distributed	◯	Concentrated	Increasingly virtual	◯	Tied to a physical location
ARTIFICIAL INTELLIGENCE & LIFE AFTER THE INTERNET			DECISION-MAKING STRUCTURES		
Revolution against the machines	◯	Adoption of the machines	Distributed	◯	Centralised

Source: David Willows (2018) *Tripping the switch: the 12 critical uncertainties of international education*

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Developing and selecting scenarios

Set the scene

Work out what you want to explore

Identify the main drivers of change

Set relevant parameters, options and ranges

Form the notional universe

There may be a very large set of potential combinations
- Usually there are far too many to look at in detail

They might not all be explicit

Filter and focus

Aim for a small and workable set of outline scenarios

Make sure they are all
- Credible
- Useful

Analyse

Expand the scenarios and their implications

Develop options to
- Enhance resilience
- Exploit opportunities

Identify any immediate actions

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Specific things to think about

For each scenario:

- Do we have a suitable business model for creating, delivering and capturing value?
- Could we cope with future disruption, given our current capabilities?
- What do we need to do now to make us more resilient?
- Is there a credible and sustainable transformation pathway from where we are now?
- Should we conduct some experiments to prepare ourselves for different futures?
- Are there opportunities we can exploit?

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Value of enterprise risk management

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ERM adds value to organisations

There is empirical evidence that sound ERM contributes to:

- Better business performance
- More reliable performance (lower volatility)
- Lower property losses and improved resilience

Many of these outcomes are attributed to the support that ERM provides for better decision making

When identifying and addressing the 'big risks', don't let the strategic planners do it by themselves

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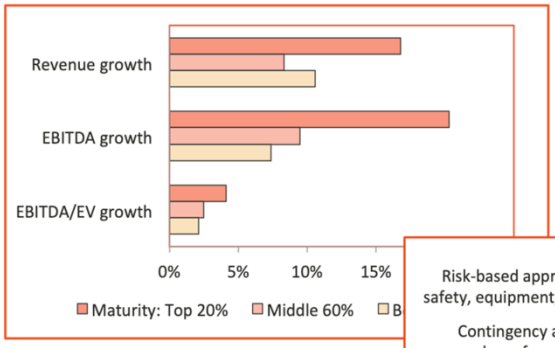
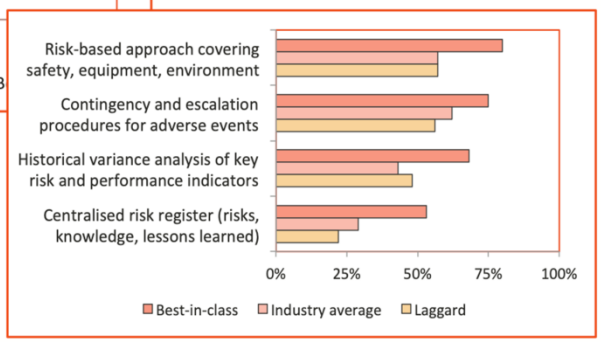
ERM contributes to better performance …





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Source: Ernst & Young (2012), Aberdeen (2013)

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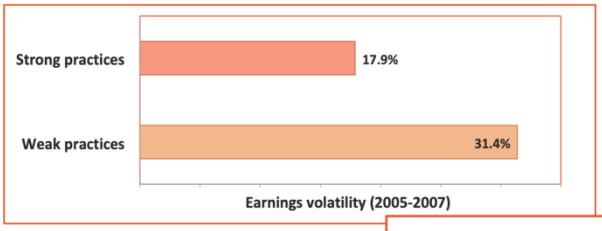
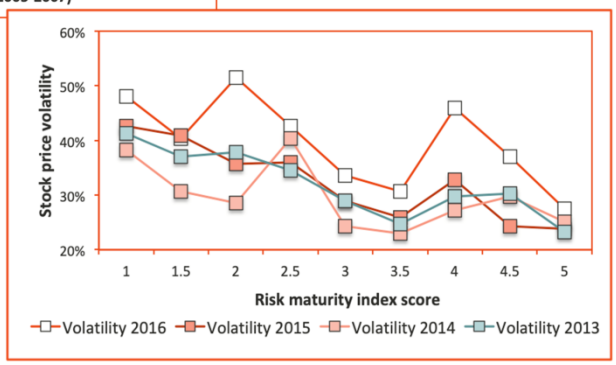
… more reliable performance …





Source: FM Global and Oxford Metrica (2010), Aon (2017)

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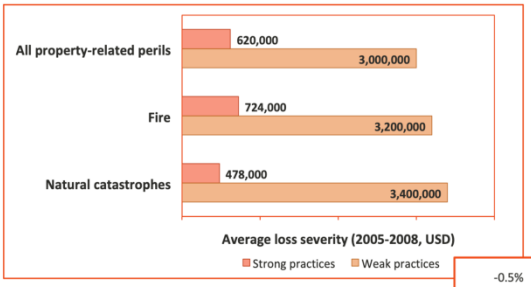
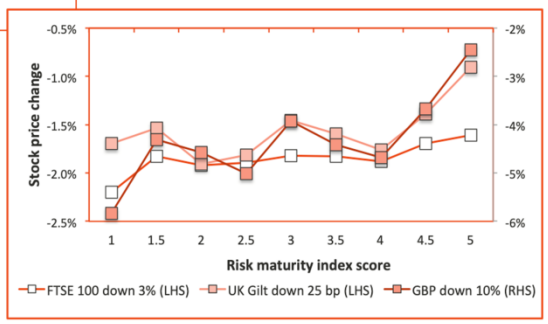
… lower losses and greater resilience





Source: FM Global and Oxford Metrica (2010), Aon (2017)

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Final thoughts

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Final thoughts

Simple risk management processes are unlikely to be sufficient for 'big risks'

- You need to look where the black swans nest
- Where we are now may not be a good starting point

Use scenarios to identify possible futures

- Conduct risk assessments from these new starting points

Evaluate treatment options from the perspectives of

- Resilience, to deal with threats and major disruptions
- Strategic positioning, to capture opportunities

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Contact

Dr Dale F Cooper
Director
Cooper@Broadleaf.com.au
+61 419 433 184

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For more information on ERM and value creation, see http://broadleaf.com.au/resource-material/showing-that-effective-risk-management-adds-value/

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