

► TBR EVENT PERSPECTIVE



BE BOLD AND GET MOVING: PWC ON RISK, DIGITAL TRANSFORMATION AND EMBRACING DATA

PWC RISK SUMMIT

*Boston; March 27-28,
2019*

For the second year in a row, TBR attended PwC's annual Risk Summit, a client-centric event geared toward sharing lessons learned among client risk professionals and presenting PwC's thinking on risk and successes to date to the analyst community. This year the summit featured multiple client panels and created a clear picture of issues most prominent in the Risk space.

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With risk permeating every business conversation and PwC accelerating investments in digital-related offerings, including PwC Connected Solutions, which sits within its Risk and Regulatory Platform business, the firm has prepared for the next wave of opportunities. Trading on trust remains at the core, especially as the politics of data continue to disrupt PwC and its clients. Becoming customer zero keeps PwC consistent with peers, while pulling in risk differentiates, particularly against non-Big Four competitors. But the firm creates a good use case for embracing digital when it comes to managing risk. PwC's broad spectrum of capabilities, including digital risk solutions, internal audit support, cyber and privacy advisory, due diligence, and third-party certification, add necessary dimension to its risk practice. They also help PwC protect its spot in the market as the shift to digital operations elevates the strategic importance of risk and compliance functions.

► 'BY RETHINKING RISK, YOU CREATE CONFIDENCE AT SCALE'

Across client panels, which featured risk and IT professionals from various industries and countries, similar themes emerged, including the evolution of understanding the value of smart risk-taking ([Being a smarter risk taker through digital transformation](#), a recent PwC paper). Additionally, panelists, attendees, and PwC risk and consulting specialists spoke of the profound shift from managing and containing risk to leveraging risk processes and profiles to build transparency and confidence in an organization and enhancing trust with customers and partners. The similarities among the professionals' comments created layers of emphasis, particularly around trust and scale. One client noted, "Companies that know and



manage risk smartly, build trust with their customers [and] move faster themselves.” The client explained that risk management enables his company to build trust with customers faster and react to security issues more quickly than competitors. When a futurist spoke about emerging technologies and their impact on future organizations, he peppered his remarks with comments around the ethics of powerful technologies. The underlying questions: “Is the system trustworthy?” and “Can we trust the people [working those systems?]”

Trust’s centrality to consulting, especially around emerging technologies, has been raised repeatedly in recent years, with PwC leaders often invoking trust as a differentiator for them in the marketplace. At this event, TBR noted a shift in PwC’s emphasis on trust, as the firm’s leaders frequently mentioned trust as a critical element in their clients’ ecosystems. One PwC leader noted that SEC reporting provides transparency, but PwC can provide the connective tissue between companies to allow enhanced trust, especially in the beneficial, and legal, sharing of data, best practices and common desired outcomes. In TBR’s view, this shift toward serving as a trusted bridge between PwC clients will likely become an increasing point of emphasis for the firm as it seeks to demonstrate a unique service in the risk and digital transformation space.

SCALE RISK MANAGEMENT ACROSS AN ORGANIZATION THROUGH DEVELOPING TALENT

The PwC client who reintroduced PwC’s tagline, “by rethinking risk, you create confidence at scale” succinctly pulled together two recurring thoughts across this year’s Risk Summit: talent and digital transformation. Multiple clients and PwC professionals spoke of the importance of talent. One client stated, “The first priority is to develop talent,” even as they recognized that decreasing budgets for risk management and increasing competition for skilled IT talent resulted in pressure to expand an appreciation for risk more widely across an organization — or essentially to scale risk management practices through education and analytics-based decision making. Not surprisingly, all of these issues and opportunities fall well within the scope of PwC’s expertise.

RISK AND DIGITAL TRANSFORMATION: SEEING ACROSS AN ORGANIZATION’S FULL SPECTRUM

During the summit’s first day, a client lamented that organizations too often have teams, even divisions, engaged in “hobbies” or “running initiatives” around digital transformation — none of them coordinated — creating “disjointed” efforts and an inability to set strategic priorities or achieve scale. While an admittedly biased assertion, risk professionals believe a well-run, fully aware risk practice, with vision across an organization’s entire operations, could provide connectivity, resolving conflicts and bringing into strategic alignment all the hobbies and initiatives. In TBR’s experience, this disjointed reality has been raised repeatedly, often as the problem new CIOs bring in consultants to solve. Starting from a risk

In extensive reporting on PwC’s embrace of its BXT framework, TBR noted the changing approach to consulting is permeating the rest of the firm. At this summit, BXT did not figure prominently on the main stage. However, multiple PwC partners mentioned it during discussions as important to the Risk practice’s evolution with the rest of the firm, particularly as risk management was embedded in PwC’s digital transformation engagements. Further, many PwC clients spoke about risk as fundamental to BXT, including an appreciation for how their talent expected improved technology-enabled experiences and an understanding that risk management had to be aligned to business outcomes. In TBR’s view, this subtle shift within PwC bodes well for the ambitious targets set by the Risk practice.



perspective, rather than an IT perspective or even distinct line-of-business initiatives, could be a more holistic and sustainable approach. The summit attendees did not raise new issues with respect to digital transformation, but repeatedly saw the same issues through risk lenses.

- Digital transformation initiatives must scale but must also be flexible enough to evolve with new decisions, new business models and new ideas. Flexibility must be constrained by the impacts on overall company risk.
- Ideas can come from across the organization, but the executive team must drive digital transformation initiatives. With risk a board-level issue, marrying digital transformation initiatives and risk at the top increases the chances for a project's success.

▮ 'EMBRACE DATA' TO MANAGE RISK THROUGH DIGITAL TRANSFORMATION

On the second day of the Risk Summit, a PwC client encouraged summit attendees to “embrace data” and expounded on wanting to become a data-driven organization versus truly embracing data. This financial sector SVP's comments summed up two days of discussion around data, with nearly every speaker and panel member mentioning the importance of data. As trust and scale contributed to the layers of emphasis, data provided the foundation. Embracing data, as described by the client and reinforced by others, included going beyond data collection, cleansing, management, storage, manipulation, analysis and sharing to include two critical implications: investment in the capability to do all those things securely and commitment from the senior-most levels of an organization to sustain these efforts around data. While TBR has heard similar sentiments across IT services vendors and IT-centric consultancies, within the confines of risk management, TBR had not heard such a clear and expansive understanding of data.

Highlights from the summit's extensive discussions around data in the context of risk and digital transformation include:

- One PwC partner noted that today's risks are more frequently human-driven and that humans are less predictable than the weather (i.e., a tornado hitting a supply chain could cause less damage than a malicious or incompetent human). With enhanced analytics, companies can use data to get a sense of where humans are going, predict where human trends are starting to move, and thereby get ahead of the policy risks inherent in human behavior.
- As companies share data within the organization, data sharing is integral to the digital environment, leading to increased opportunity (for PwC) and responsibility to keep data secure and private within an ecosystem.

Recently installed GE Digital Chief Operating Officer Karthik Suri, a GE alum returned to the company after experience with native cloud companies including eBay and Yahoo, along with Jason Pett, PwC's U.S. Risk Assurance leader, presented a compelling case for finding leaders who are well versed in traditional and cloud-native business models and can serve as trusted arbiters when change management disagreements pose the risk of derailing the initiative. While every innovation and technology discussion includes talk of “fast failure” and “agile,” these approaches may not fly in jet engine software code or turbine manufacturing, for example. By having knowledge of both worlds, Suri can broker those disputes between new and old technologies, which are as important to mitigating risk as the control mechanisms in place based on governing policies.



- Connecting trust and data, one PwC client said, “The first step in digital trust is an assumption that you know your data. There’s a lot of folks who just do not know their data. Where is the data, how is it classified, and how are you protected?” From a risk perspective, this emphasis on challenging assumptions about data strikes TBR as the connective tissue between the IT department and Risk practice, an opening for all risk-oriented consultancies.

➤ ‘ASSURED SOLUTIONS’ NOT SOFTWARE

Like most events TBR has attended, this year’s Risk Summit included a rundown of the Risk practice, with some essential details on the business as a whole and highlights around specific areas where PwC believes it differentiates from peers. (TBR will include detailed facts and figures in its upcoming *Management Consulting Benchmark Profile: PwC*.) Among the areas PwC partners emphasized, two stood out as critical to understanding the firm and the Risk practice: embracing digital as a firm and welcoming new business models and new revenue streams. On the first day, PwC mentioned on the main stage and in multiple side discussions its new program around “Digital Accelerators,” individuals within PwC tasked with championing the transition to digital across the entire firm. As described to TBR, these professionals have the opportunity to switch from a standard career track to a two-year technology immersion journey, to include lowering utilization rates and dedicating 30% of their time to helping the firm become more digital. PwC expected to select 500 professionals from among 1,000 applicants but was surprised when 3,600 volunteered for this role. In PwC’s words, “[These professionals] are the disruption in the firm. When you start to do something differently, their job is to say “no” to managers and partners and show them the new way to get that done.” TBR has not met any of the 500 Digital Accelerators and has not yet heard directly the reaction from those mid- and senior-level partners receiving advice from young consultants, but the program dovetails well with efforts the firm has launched in recent years, including BXT, shifting the mindset from traditional consulting, tax and audit to new engagements and new business models.

The second major emphasis from PwC at the Risk Summit was new consulting business models, to include selling software and adopting new revenue streams. In recent years, TBR has noted the ways PwC has shifted its business model to developing and selling software “as a Service,” providing managed services, and even extending into markets not traditionally associated with Big Four firms. At the Risk Summit, PwC partners explained that these “alternative revenues,” particularly in the form of software, provided useful extensions of PwC’s business with specific clients but did not fundamentally change PwC’s business model. Further, the firm would not become a software vendor but would provide “quality assured solutions” built on the trust inherent in PwC’s reputation, brand and track record. In TBR’s view, PwC’s willingness to engage in new business models, particularly around software “as a Service,” is not new; expanding Risk offerings with “assured solutions” naturally builds on the firm’s changes.

➤ WHAT COMES NEXT?

Risk Management, like all aspects impacted by emerging technologies and shifting business models, will need to adjust to pressures to become a measured revenue contributor, even as the regulatory requirements change. Having stand-alone enterprise rules and monitoring systems digitally optimized will be imperative prior to moving forward on automated ecosystem integrations. Enterprises have to be bold and get moving if they are to capitalize on what looms large on the near-term technological horizon.

Enterprise buyers’ move from silo-driven focus to common risk taxonomy, enabled by a common data platform and utilized by all lines of defense — risk management (first line), lawyers (second line), internal audit (third line) — presents an opportunity for PwC, which is going to market through integrated scale and adopting internally many of the solutions it offers. While all three lines need to be as close to the business as possible, they also need to remain independent. TBR will monitor PwC’s ability to capitalize on trends such as common data models, especially as the question of who is liable



for managing customer data remains. As digital transformation tends to be process-specific, the ability to reduce the risk of redundant efforts and increase the likelihood of harmonious integration of digitized processes positions PwC well with buyers seeking to manage several digital transformation initiatives simultaneously. With reputational risk remaining front and center, PwC will be tasked with ensuring it communicates digital trust to stakeholders while remaining in compliance.

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