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Thought Leadership Paper
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Managing Risk In The Age Of Digital Transformation



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Project Director:

Chris Taylor,
Sr. Market Impact Consultant

Contributing Research:

Forrester's Security and Risk
research group

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Proper risk management, as a part of digital transformation, can bolster business outcomes, such as increased customer trust and better business planning and decision making.



Executive Summary

Digital transformation has fundamentally changed the way companies in the financial services industry do business. The COVID-19 pandemic is further accelerating this transformation. These changes can be a boon for business in areas such as efficiency, personalization, and insights. However, these changes can be equally detrimental to companies that fail to manage the new and emerging risks these digital initiatives can bring. In today's interconnected, rapidly transforming digital economy, holistic risk management is critical for driving business success.

Holistic risk management looks at the micro- and macro-level impact of transformation and can be critical to success in today's interconnected, rapidly transforming digital economy. In 2018, Visa published a [study](#), in partnership with Forrester, that took a micro-level view of digital transformation and uncovered that adopting new payment capabilities introduces significant business risk for banks, fintechs, and merchants. However, effectively managing those risks leads to greater business success in areas such as customer satisfaction, business reputation, and cost reduction.

A new study, commissioned by Visa with Forrester in 2019, takes a greater macro-level view. The online survey of 577 security and risk leaders from companies across Africa, Asia Pacific, Europe, Latin America, the Middle East, and North America explores the digital trends that are transforming the financial services market overall and the need for firms to evolve their risk management strategies with a bigger picture in mind. The research found that proper risk management, as a part of digital transformation, can bolster business outcomes, such as increased customer trust and better business planning and decision making. While Forrester conducted the research prior to the COVID-19 pandemic, we still consider the findings and recommendations to be relevant, if not more so now, as the pandemic puts greater urgency on business leaders to evolve their risk management functions to navigate a post-COVID-19 world.

KEY FINDINGS

- › **Most companies see moderate to high levels of risk in adopting digital transformation initiatives.** More than half of firms surveyed expect at least moderate levels of risk across all transformation initiatives.
- › **Most companies feel unprepared to address risk concerns brought on by digital transformation efforts.** On average, just one in three respondents feels very prepared to deliver on key risk management priorities. Respondents cited risk identification and mitigation as two primary challenges.
- › **Companies plan to prioritize investment in risk management to support digital transformation initiatives.** Nearly 80% of decision makers indicated that risk management will be a growing focus for their companies over the next two years. Outcomes are focused on risk mitigation, building customer loyalty, and improving business process efficiency and decision making.

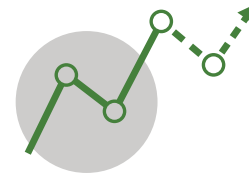
A Digital Future Demands Holistic Risk Management

A business's digital transformation can take on many forms:

- › New customer-facing applications to reimagine the user experience.
- › Investments in new technologies and human capital to improve operational efficiency.
- › Leveraging artificial intelligence (AI) and predictive analytics to better serve customers or provide new value sources.

While the benefits of these changes are clear, each one of these initiatives carries with it inherent risks that companies must manage as part of the change. Holistic risk management ensures that digital transformation efforts are successfully implemented without leaving the business vulnerable.

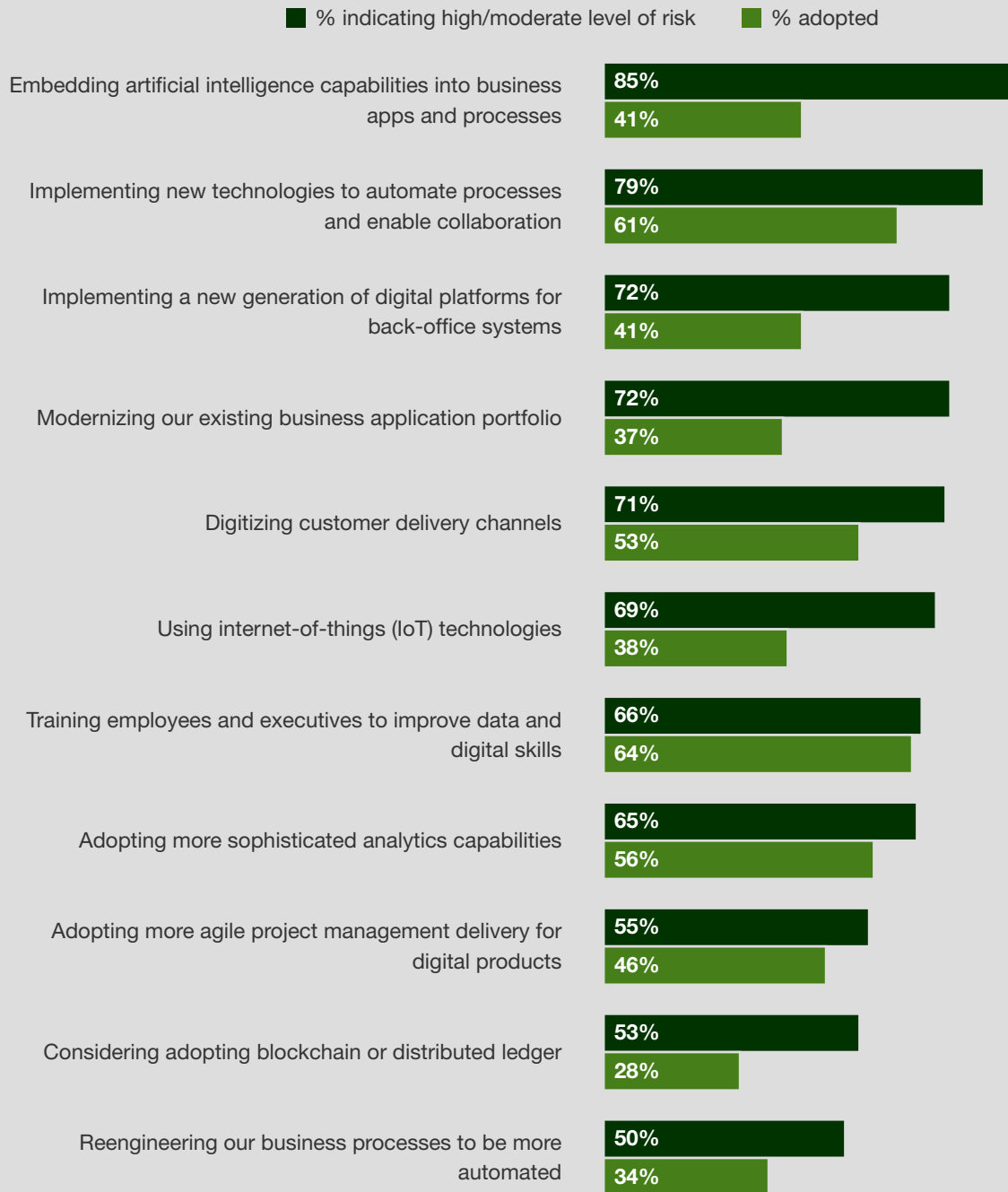
For 73% of respondents' companies, digital transformation spans multiple business functions, which substantially increases risk. More than half of decision makers expect moderate to high levels of risk across all transformation initiatives (see Figure 1). For certain initiatives, the perceived risk was much higher. For example, 85% of companies surveyed see high levels of risk in embedded AI capabilities. Despite these risks, most companies can't afford to ignore certain digital initiatives, especially in highly competitive industries. Vigilant risk management, therefore, is critical.



For 73% of respondents' companies, digital transformation spans multiple business functions, which substantially increases risk.

Figure 1

Most Companies Perceive High To Moderate Risk In Digital Transformation Initiatives



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services

Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

PRIORITIZING RISK MANAGEMENT

Companies recognize that digital transformation provides an opportunity to evaluate and improve risk management capabilities. Evolving their risk functions provides a foundation for greater digital adoption, and decision makers expect that will drive several benefits (see Figure 2):

- › **Earlier detection of control failures.** This was the top expected outcome for improving risk management, cited by 58% of respondents. Companies that better identify and mitigate risk will be more prepared to avoid or minimize negative consequences of control failures that could lead to financial loss or business disruption.
- › **Greater customer trust and loyalty.** Customers value security and privacy. Companies that engage in digital transformation with customer well-being in mind will better retain consumer confidence. In our survey, 55% of respondents cited increased customer trust as a key outcome of improving risk management capabilities.
- › **Improved risk visibility and insights to drive efficiency and support business decisions.** The right risk management tools can provide companies with troves of data that they can use to drive efficiency of business processes, an expected outcome for more than 50% of respondents. Similarly, 43% of companies surveyed expect risk data to help support board-level discussions and decisions. Visibility and the use of risk data can help ensure that both strategic and tactical business decisions are grounded in the assessment of risk, driving greater success down the road.

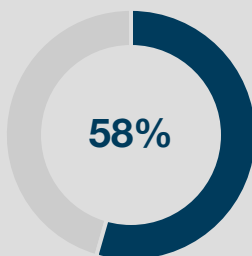


Visibility and the use of risk data can help ensure that both strategic and tactical business decisions are grounded in the assessment of risk.

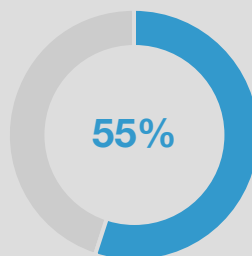
Figure 2

“What are the key business outcomes/benefits your company expects to achieve through improved risk management?”

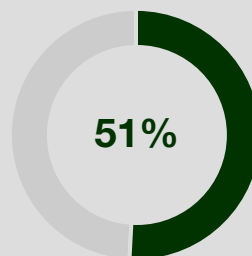
“Improve early detection and lower impact of control/risk failures”



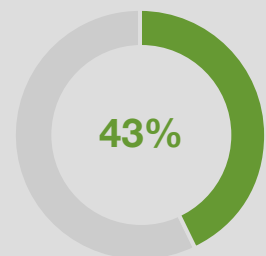
“Improve customer trust/loyalty”



“Improve efficiency/streamlining of business processes”



“Better using risk data in board-level discussions to make strategic decisions”



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services

Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

Challenges To Addressing New And Emerging Risks

The rapid pace of digital transformation adds to risk management complexity. Fifty-three percent of risk professionals surveyed believe that risk management is more complex today than it was two years ago, and 63% expect it to become even more complex over the next two years. Many organizations do not feel prepared to manage these new risks: 43% of respondents reported that they do not have the proper tools and resources to offset the risks that digital transformation efforts introduce. This rapid change is bringing about various challenges (see Figure 3):

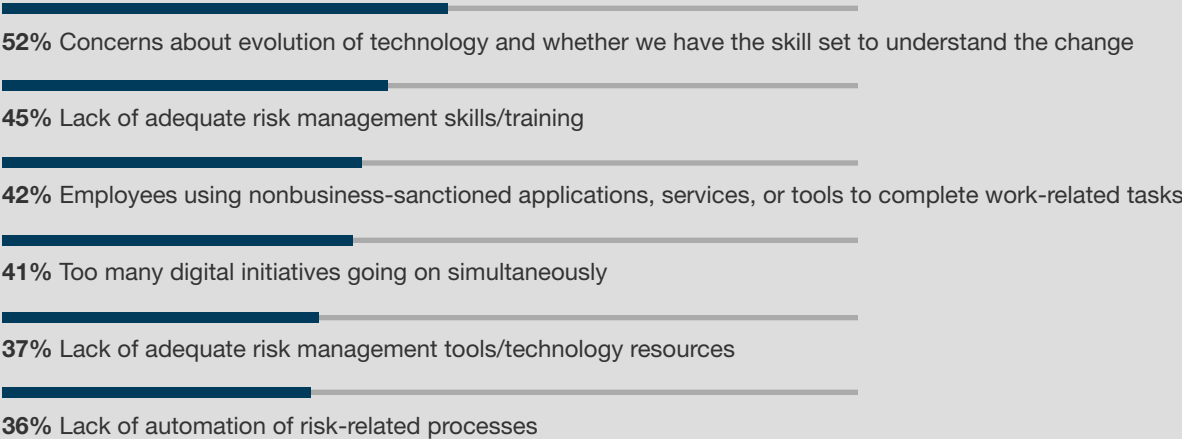
- › **Concerns about the evolution of technology.** Many companies feel overwhelmed trying to keep up with the constant advances of modern technology. As technology evolves and companies continuously expand their digital transformation efforts, 52% of respondents surveyed are concerned that tracking new risks will be increasingly more challenging.
- › **Lack of internal skills and expertise.** Nearly half (45%) of firms surveyed said a lack of adequate risk management skills and training was their top challenge. Holistic risk management requires the identification, assessment, mitigation, and risk reporting across all business units. Companies need employees who can effectively manage these various risk components.
- › **Difficulty managing multiple digital initiatives in parallel.** More than 40% of those surveyed cited too many simultaneous digital initiatives as a risk management challenge: 73% of respondents' companies have digital transformation initiatives spanning either multiple business functions or the entire enterprise. Managing and accounting for all these efforts is a task that many risk teams are not properly equipped to manage.



63% of risk professionals expect risk management become even more complex over the next two years.

Figure 3

“What risk management challenges does your company face?” (Select all that apply)



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services
 Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

CYBER AND FINANCIAL RISK ARE TOP CONCERNS

Many facets of risk — cyber, financial, operational, regulatory, third-party, and reputational — are worth exploring as companies approach new risk management investments and decisions, but two aspects stood out in our survey:

- › **Cyber risk.** Forrester described in a recent report that 2019 was the year of “breach fatigue,” citing notable breaches of major social media companies and financial services providers, and many companies are feeling the weight of those attacks. Cyber risk is the No. 1 area of risk companies are concerned about, yet our survey shows that many are ill-equipped to manage those risks (see Figure 4).
- › **Financial risk.** Just over 50% of respondents feel their companies are completely or highly prepared with the proper staff, skills, and budget to address financial risk — the lowest among any other risk type and an alarming statistic. Financial risk ranked second among the areas of risk companies are most concerned about when it comes to digital transformation.

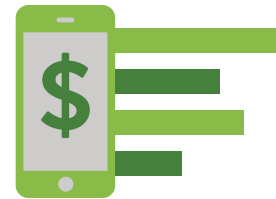


Figure 4

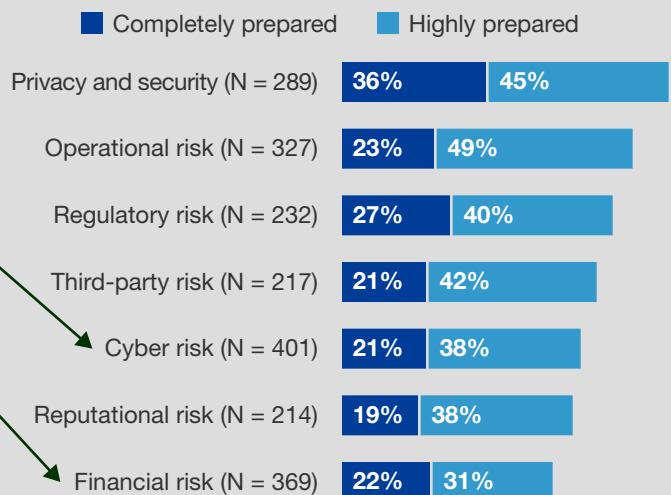
Companies Feel Underprepared To Address The Areas Of Risks They Are Most Concerned About

Top ranked areas of risk companies are most concerned about as they engage in new digital transformation initiatives



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services

Preparedness to address different risks introduced by digital transformation initiatives



Base: Variable respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services

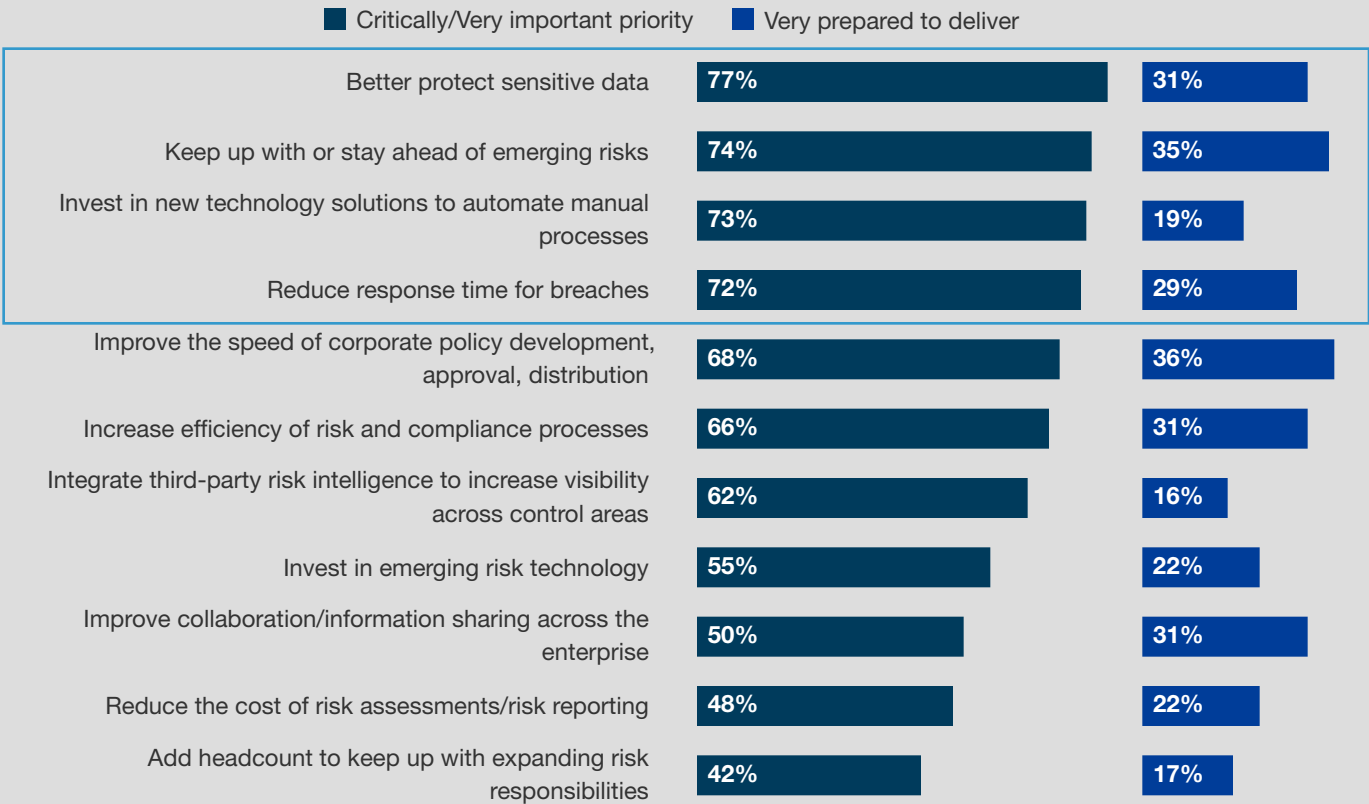
Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

CONFIDENCE IS LOW ON MEETING RISK PRIORITIES

Companies today juggle multiple risk management priorities such as data protection, staying ahead of emerging risks, technology improvements, and reducing response time. Risk functions have a strong influence on technology decision making, but only 33% of respondents reported that risk functions have a strong influence on business decisions. This can lead to challenges with managing risk down the line. For example, less than one-third of decision makers surveyed feel very prepared to deliver on their top risk management priorities, despite nearly 75% saying those priorities are very or critically important (see Figure 5). Companies wanting to better manage risk need to ensure it is not an afterthought to the business decision-making process.

Failure to properly manage risk amid various challenges (e.g., the increasing complexity of technology, lack of risk preparedness, and limited influence of risk decision makers) could leave companies in vulnerable positions if not catastrophic ones. Respondents reported that data breaches (inclusive of sensitive business data and customer or employee personal data) and loss of customers, both of which can ultimately impact a company’s revenue and reputation, were the top two consequences of failed risk management that caused them greatest concern (see Figure 6).

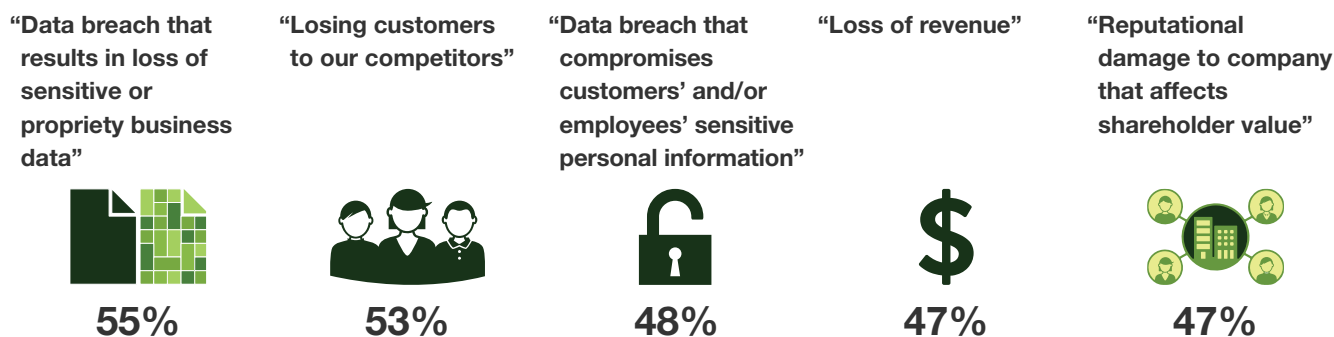
Figure 5: On Average, Less Than One-Third Of Companies Feel Very Prepared To Deliver On Risk Mitigation Priorities



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services
 Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

Figure 6

“What consequences of failed risk management are companies most concerned about?” (Top five responses shown)



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services

Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

Building A Risk Foundation For A Digital-First Enterprise

Security and risk leaders recognize the importance of holistic risk management as digital transformation efforts mature. That said, companies should focus on three key efforts to more confidently engage in transformation initiatives while minimizing risk (see Figure 7):

- › **Investing in technology and resources.** Having the right technology to make risk management processes more efficient is a high priority for risk leaders. Ninety-nine percent of respondents’ companies today are using at least one risk management tool or platform, including security analytics platforms; governance, risk, and compliance platforms; supplier risk and performance management platforms; and external risk intelligence. These tools give companies greater confidence in compliance, enable more automation of risk processes, ensure better accuracy with assessments, and even improve customer confidence as companies work toward their ideal state for risk management.
- › **Developing a risk-focused, risk-aware culture.** Companies can’t solely rely on risk management technology to solve their digital transformation challenges. Organizational change also needs to occur, which is why 58% of security and risk leaders surveyed are rethinking their internal strategies, policies, and processes; and 53% are improving privacy policies for customer and employee data. These strategies also include ensuring employees have the right skills or training to enforce and manage risk policies and processes.
- › **Improving core competencies in business analytics.** When we asked respondents what new skill sets or capabilities their ideal risk management function would possess, the top response was advanced data and analytics skills (64%). Capturing risk data across an organization is important, but companies must be able to take that data further and turn it into valuable business insight. With only 33% of companies feeling that risk has a strong impact on business decisions, effective analytics can play a critical role in bringing risk insights into broader business discussions.

Figure 7

Key Efforts For Better Risk Management



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services

Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

Key Recommendations

Digital transformation is a critical step for companies that want to compete and succeed in today's economy, yet it carries inherent risks. Executing holistic risk management practices into the digital transformation process early can leave risk and business decision makers more confident advancing forward. However, the pandemic has forced an acceleration of digital transformation for many industries, offering very little time to prepare, but it's not too late. Ultimately, efforts to improve risk management and business resilience now can drive long-term positive business outcomes well beyond the COVID-19 crisis, such as improved customer loyalty, reduced impact of risk control failures, and more informed business decision making and planning.

To help your organization turn holistic risk management into a competitive advantage, Forrester recommends the following:



Identify and prioritize key digital transformation initiatives and the necessary risk management capabilities for each. Determine what changes are most important to your company and be aware of the risk considerations. You can't eliminate risk, but you can prepare for it with careful planning. Retrofitting risk protection after the fact will slow down your digital transformation and even impact your customer experience. Approach digital transformation in manageable phases to ensure you can apply the proper risk protections at each step.



Recognize that change is constant and stay ahead of emerging risks. Risk management isn't static; it's constantly changing in response to market dynamics. Firms should not only manage present risks but also plan for risks that are on the horizon. Leverage data from risk management systems to inform and improve ongoing business and technology decisions.

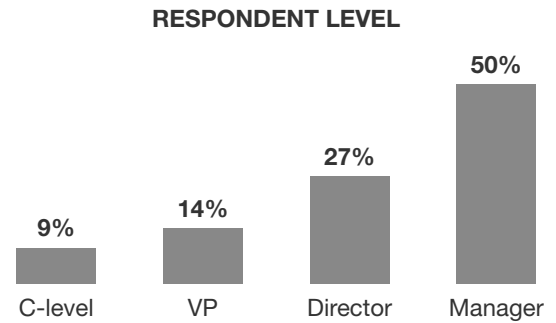
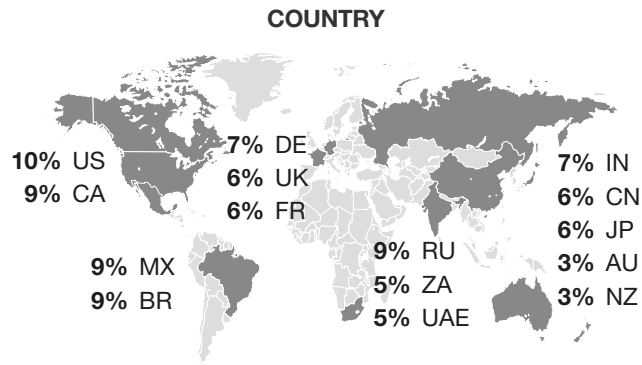


Bring risk functions to the technology and business decision-making tables. Risk management is more than a menagerie of technologies; it's a strategy to protect your greatest assets. Investing in technology can help automate and streamline risk and compliance, but it won't compensate for a lack of process. Start with a risk management strategy that aligns with strategic business goals, then select technologies to enable them.

Appendix A: Methodology

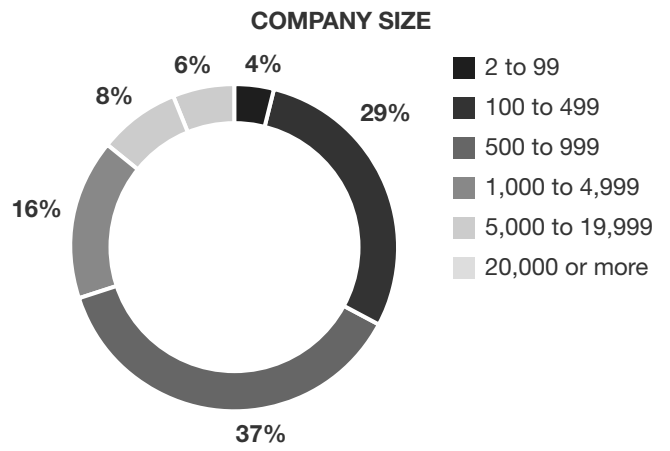
In this study, Forrester surveyed 577 security and risk professionals across companies in North America, Latin America, Western Europe, Central Europe/Middle East/Africa (CEMEA), and Asia Pacific. Survey participants included decision makers from fintech, retail banking, and merchant companies. Respondents were offered a small incentive as a thank you for time spent on the survey. The study was completed in July 2019.

Appendix B: Demographics



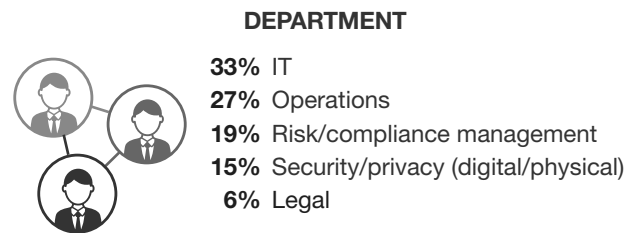
- 19% North America
- 18% Latin America
- 18% CEMEA
- 19% Western Europe
- 26% APAC

Note: Percentages may not total 100 because of rounding.



INDUSTRY GROUPINGS 27%

Fintech 27%	Financial technology	
Retail banking 31%	Issuer and acquirer	14%
	Acquirer only	10%
	Issuer only	7%
Merchants 42%	Retail and restaurants	
	Consumer services	10%
	Telecommunications	7%
	Entertainment	2%



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services
 Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019



RESPONSIBILITY

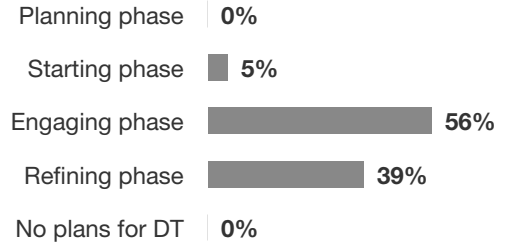
Digital transformation initiatives

13% Final decision maker
28% Part of team deciding
59% Influence decisions

Selecting/evaluating risk management solutions

19% Final decision maker
46% Part of team deciding
35% Influence decisions

STAGE IN DT JOURNEY



Base: 577 respondents involved with onboarding, implementing, or managing risk/security of new technology or digital products or services
 Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, July 2019

Appendix C: Endnotes

¹ Source: "Predictions 2020: Cybersecurity," Forrester Research, Inc., October 2019