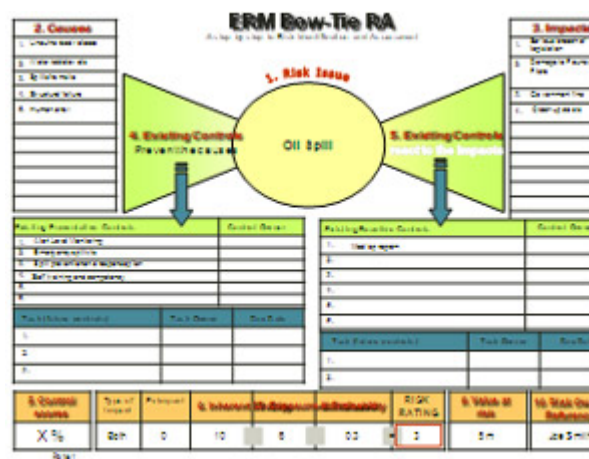


Bow Tie Risk Assessment

Moving from qualitative risk evaluation to semi quantitative risk evaluation

Many organisations only recognise the need for one risk assessment/ risk evaluation tool within their risk management arsenal. In many cases, this provides for serious limitations in the ability to truly understand the key variables affecting any risk factor. Many organisations also believe that one risk identification/ evaluation tool cannot co-exist along other tools as there is an inherent belief that different methodologies are then required.

This is not the case, as different tools can co-exist within one organisation, utilizing a common rating methodology. One of the tools often used by Mondial Consultants, an Enterprise Risk consulting specialist, to gain a better understanding of significant risks facing an organisation is the ERM 'Bow Tie'. Although not new, this tool is often misused and misunderstood to the point where many use the bow tie as a different diagrammatic representation of a normal risk register.



A properly constructed and facilitated bow tie, allows for some detailed FMECA (Failure Mode Effect Cause Analysis) on a risk that a traditional risk identification/ evaluation approach does not. As a start, it allows the various underlying causal factors of a risk to be unpacked and understood, sometimes using semi- quantitative data, or qualitative data. Once all causal linkages are understood, analysed and documented; the users typically then spend time in creating an understanding of all of the consequences or impacts of a risk, as they relate to the underlying causes.

From experience, this process alone provides a degree of risk granularity not otherwise available through a normal risk register. The value does not stop here. The next step is in documenting all controls employed by the organisation to manage a particular risk. As opposed to many other tools, the bow tie allows for the current controls to be broken down in various categories such as the reliability of the control, based on its design characteristics, whether the control is aimed at preventing the underlying causal factors (preventative or mitigating controls), or whether the control is aimed at reducing or reacting to the impact (reactive controls).

Many a times, the risk owners have not, prior to the use of a bow tie, clearly delineated what the controls were aimed at and this information alone often provides a realization that either the wrong controls are in place or that the controls are aimed at the wrong thing, like for example insurance which is only aimed at the impact and not the causes.

In the next issue, we discuss linking controls to causes and impacts, rating controls, and how to design and prioritise further mitigating factors.