



Project Risk Management

The mortgage industry is an industry built on risk—interest-rate risk and default risk are two examples—and successful lenders take necessary steps to mitigate these risks. But when it comes to technology projects, it is infrequent that we see adequate risk analysis and mitigation activities being performed. This is especially odd if you consider that a project, by definition (according to the Project Management Institute, Newtown Square, Pennsylvania), is unique and temporary, and is therefore likely to face risks that are not well understood.

Just as underwriters use a structured process to assess the risk of a loan, CC Pace believes that project managers should use a structured process to assess the risk of a project, so it can be mitigated and project failure avoided. In this column, I provide an introduction to that process, including the tools CC Pace uses to perform project risk analysis, and explain why and how you should use them.

There are two major areas of project risk management: *risk analysis*, an upfront project planning activity; and *risk control*, an ongoing project-management activity.

Risk analysis consists of risk assessment and risk reduction. Risk assessment is determining what could cause the project to fail, estimating how likely it is to happen and what would be the consequence of it happening. Then after those questions are answered, the process includes determining what could be done to mitigate the risk or what a contingency would be if the risk occurred.

Risk control consists of risk tracking and risk reporting. Risk tracking is monitoring the risks on the list, as well as looking for new risks. Risk reporting is just that—reporting on the results of the risk tracking to ensure the results are well-communicated.

Our firm's good friend and associate, Rob Thomsett, founder of Thomsett International Pty. Ltd., New Gisborne, Australia, has devoted much of his life to learning and teaching about what makes truly suc-

cessful projects succeed. Over the years, Thomsett has developed a number of tools for project risk management, some of which are available on CC Pace's Web site at www.ccpace.com/project_management_tools.htm. Thomsett has described five generic types of risk that projects face: project risk, business risk, benefit-realization risk, support risk and personal risk.

Project risks are the factors that could cause the project to fail. For example, in a system-development project, a project

cal risk. The lender should ask: "Is there any other lender our size with our channels currently using the system?" In the cases I am thinking of, the answer was clearly no, and, as such, the risk of failure was high from the start.

How would you mitigate this risk? First, the lender could have performed a scalability test before purchasing the system, to understand that "out of the box" it was fundamentally capable of scaling. Then, the lender could have established an ongoing scalability test environment so it could

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risk would be that the build did not satisfy the business requirements. During the initial risk assessment, one would examine the probability that the requirements will be stable for the course of development. If there is high probability of the requirements being unstable, then the risk-mitigation strategy would be to use an appropriate development methodology that accommodates change. A project with unstable requirements is a better candidate to develop using agile methodologies onshore, for instance, than it is to develop using a waterfall/change-control methodology offshore.

Other examples involve technical risk. There have been a number of high-profile loan origination system (LOS) implementations that have failed because the system did not scale to the lender's size. Scalability testing is an easy way to assess techni-

understand how the changes that it and the software vendor were making affected the system and how different hardware options affected performance. By putting each new release and build through that test environment, the lender could ensure that the ability to scale was not compromised along the way.

Business risks entail the impacts on or exposures to the organization if the project fails. Suppose, for example, that a wholesale nonprime lender implements a new product, pricing and eligibility (PPE) engine, but it turns out to be of low quality—so the answers it returns are often invalid, and the business has to pull the system offline. The business would risk losing significant business in this case. The obvious mitigation strategy would be to test the PPE—first internally, and then externally with select brokers.



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Benefit-realization risks are the factors that could cause the business not to receive the projected benefits from the project, even if the implementation is successful. If a subprime lender implements a new automated underwriting system but fails to change its internal processes and job descriptions (which would mean that underwriters are still decisioning every loan), then the organization is unlikely to achieve a return on investment (ROI) on that project. A mitigation strategy would be to ensure that there is a related project plan for the change-management component, and that new behaviors are motivated.

Support risks are the factors that could cause the organization to absorb significantly more cost to support whatever the project is implementing. Continuing with our PPE example earlier, suppose the initial delivery of the PPE was successful, but the rules were coded poorly and, as a result, the engine was very complex to maintain. The system could require more resources to maintain than budgeted for in the business case. Even worse, the engine could decision a class of borrowers incorrectly, leaving the company open to a lawsuit. Mitigation strategies would include having a robust regression-testing capability, a well-documented process and multiple people trained in the support functions.

Personal risks are the impacts on your career or life if the project fails (or, sometimes, succeeds). Projects that rank high in the other risk categories probably carry high personal risk. If you are a project manager of a high-risk project, you should have honest discussions with your stakeholders and potential team members.

As our industry's operations are built on active risk management, it is hoped we will see more projects with active risk management, and that this column has provided some insights as to how to ensure more successful projects.

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