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Systems at Risk | Episode 4

Mike Prokop, Director of Digital Transformation & Sustainability, The Alliance Risk Group

David Greely sits down with Mike Prokop, Director of Sustainability & Digital Transformation at The Alliance Risk Group, to learn how Prokop's 30+ years in energy markets and risk management shape his view of the maturing LNG market and how the emerging operational and reputation risks presented by climate change and net zero pledges inform his work with Alliance.

Mike Prokop (00s):
The risk manager has been at the forefront of all of these different twists and turns in the marketplace and for those that are listening, that are risk professionals, your task, unfortunately is continuing to become broader and more important. We are now focusing, not just on bar models and all these different things that you know, we used to be able to calculate with decent data and that type of thing. Now we're having to worry about, okay, we're bringing in data, should we worry about cyber risk, is it good data, has it been corrupted and then all the way down to all of the different things going around climate change, a lot of that is a risk. So here we are as risk officers and risk professionals, it does tend to fall upon us and it's a great responsibility for any firm.

Announcer (46s):
Welcome to Smarter Markets, a weekly podcast, featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together, we examine the questions are we facing a crisis of information or a crisis of trust and will building smarter markets be the antidote?

David Greely (01m 11s):
Welcome back to systems at risk on Smarter Markets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Mike Prokop Managing Director in Digital Transformation and Sustainability at Alliance Risk Group. Mike has more than 30 years of experience in the energy risk management industry and has advised numerous companies in the natural gas, crude oil, power, and LNG markets. Mike was a member of the CFTC's Energy and Environmental Markets Advisory Committee for 12 years since its founding in 2008. Hello, Mike, welcome to Smarter Markets.

Mike Prokop (01m 45s):
Well, good afternoon, David, and thank you for having me appreciate that.

David Greely (01m 48s):
Absolutely. I want to start off today getting your thoughts on current energy market conditions. We have high and volatile energy prices, war in Ukraine, sanctions on Russia, Central Banks tightening, bond yields, rising and equity prices falling. You've been managing risk in these markets for 30 years. Have you ever seen anything like this and what advice would you give to a risk manager in this environment?

Mike Prokop (02m 12s):
Well, boy, what a, what a first question to start with. Yes, this is a difficult situation globally. These things have happened before. Okay. So we've been involved in, you know, events beyond our control, such as wars. When I started back in the late 80s, you know, my first, you know, exposure to something like this was the Gulf war. I was actually down on the floor at that time clerking and had a chance to practice my old rugby skills as I tried to get tickets into the back and things like that, but in all seriousness, these markets have experienced great times of volatility, you know, add into that things like 09/11, terrible tragedies like that. Even they run up in oil prices in 2008 which are Storm Uri, which I'll probably talk about a little bit, hopefully later, you know, these adverse events are something that risk really need to be mindful of and be as ready as possible for them to consider all options that should they occur.

David Greely (03m 06s):
And what, what does part of that getting ready process look like for a professional risk manager?

Mike Prokop (03m 11s):
So, you know, really it comes down to resilience. You, you have to think of risk resilience in many facets and it is preparation. It is, you know, if you will, what is possible, you know, we talk about black swans and gray rhinos and all sorts of things as they're defined. So it's a bit of a dart board when it comes to that, but the more you prepare the better off you'll be, I believe should some type of event like this occur and you really have to know your markets and I think really that comes down to a great deal of communication from all facets of the organization, from the trading group, obviously to, even on the physical side, transportation storage and things, wherever your business lives and, and thrives the risk officer today really needs to be in touch with these areas.

David Greely (03m 58s):
And one market that risk managers probably need to know a lot more about now is the LNG, the liquefied natural gas market, which has certainly entered the spotlight over the past six months with the EU looking to bring in lots more LNG in order to offset the loss of Russian gas supplies and this is a market that it's still developing still maturing and given that this is a, a market that's in that earlier stage of developing and maturing than say the oil market or some of the, the biggest established global markets, how does one responsibly manage risk in a market like the LNG market and what are the challenges and what tools do risk managers still need to be effective?

Mike Prokop (04m 40s):
Sure. So multifaceted question and a good one at that, you know, this market has gone the last 71 days. I believe it is now from a market of opportunity and as you've pointed out a market of necessity, there is a great deal of need and wants of our LNG capabilities here in the United States. Our global outreach needs to be even bigger than it was before very quickly. It is an integral part of if you will helping the Ukrainian people and those adversely affected in Eastern Europe to handle these unfortunate times which are only going to get worse as the next winter comes up, right. So now is the time for this market to really take the spotlight and advance, you know, what are some of the challenges the challenges remain the same in the LNG market as they were before.

Mike Prokop (05m 30s):
It's, it's always about transportation. It's about verifiable usable and correct indices that directly define the LNG as a commodity itself you know, not necessarily relying on other commodities, such as crews we have in the past that helps us with pricing and it helps us, you know, get product to where it needs to be and also produce the product and then also, obviously we have another ramp up situation, you know, reminds me of, of what we've always heard about. You know, none of us are young, young enough to remember this, but you know, the ramp up for getting ready for something like World War II. I mean the infrastructure ramp up of terminals and the ability to transport needs to happen more sooner than later than ever before and we're seeing that right now with a lot of very good companies popping up to really help out in this situation.

David Greely (06m 19s):
And I think you, you, you keep raising a good point of risk management is part of the business. It's not an adjunct or a bold on, but in order for the business to accomplish its objectives, risk management needs to be in lockstep in a way. I was just curious what is like that as you're building a business, you know, you've done a lot of advisory work and energy. It's an area what's grown through, you know, now LNG prior decade Shell. How does the risk manager work with the rest of the business?

Mike Prokop (06m 53s):
So it's interesting because I, you know, I've, I've had the good fortune to be part of the Committee of Chief Risk Officers since 2004 and remain there as well today. We've been through the rough and tumble in the tough times. It was, it was originally born out of market access and the challenges to that giving price reporting back at the time and then again, you know, the run up in oil prices and all of the different challenges we've seen since the risk manager has been at the forefront of all of these different twists and turns in the marketplace and for those that are listening, that are risk professionals, your task, unfortunately is continuing to become broader and more important. We are now focusing, not just on bar models and, you know GMAR and all these different things that you know, we used to be able to calculate with, with decent data and that type of thing.

Mike Prokop (07m 48s):
Now we're having to worry about, okay, we're bringing in data. Should we worry about cyber risk, is it good data, has it been corrupted and then all the way down to all of the different things going around climate change and even sustainability and regulatory reporting that may be on the threshold for a lot of this stuff. A lot of that is a risk, whether you define it as a typical risk that a risk officer looks at,

or now they may be involved in sustainability risk, cyber risk, even digital transformation risk, and things like that. This is what has come of these markets and a lot of it's due to the increase in technology, the betterment of technology for a lot of these areas to be reported on become visible and actually able to communicate as well effectively, but again, here we are as risk officers and risk professionals. It does tend to fall upon us and it's a great responsibility for any firm.

David Greely (08m 43s):
Yeah and I want to return to some of those points on data security and sustainability, but you brought up, you know, one of your colleagues, Bob Anderson at the CCRO with your work with the Committee of Chief Risk Officers, and some of the focus taking it back to the LNG market has been on the need for being able to price long term contracts to value So you can actually have a number, that means something to write on the books And you had brought up yourself the need for, for indices and I was wondering, you know, in terms of things that the LNG market needs, you know, how big is the, the need for that sort of price and what happens when you don't have one

Mike Prokop (09m 22s):
Tremendously huge need and I'm going to go back to my old adage that I probably started in telling myself in 1985, when I used to settle margins every day at an FCM, it's all about the data. Okay and that is such a broad statement, but it's the accessibility of the data accessibility to correct data accessibility, to relevant data and all the things that go in between and also now, you know, with the advent of all the issues we're seeing with cyber secure data, right. So we have in-house data could be our own trading data that we're completing on a daily basis could be different data streams we're bringing from the outside, but all of these things, you know, help perfect the risk management program at any firm and also, you know, really when it comes down to the data without good data and relevant data, all of your modeling, all of the data scientists you've employed and, and the rest are left in a quandary.

Mike Prokop (10m 19s):
If, if they don't have the tools they need, and really it comes down to the proper indices, not necessarily, you know, the more we have locational indices that are relevant, there's less guesswork if you will, or creative risk management work around, you know, deciding what a price should be in a particular location that doesn't have an index and things of that nature and then of course, it's the posting of the index. Do we have, you know, reliable posting by sources that are known in the marketplace to do a great job doing that, are they involved. It helps grow markets because transparency, visibility, availability for these data points are exactly what helps the market grow.

David Greely (11m 03s):
And in terms of growing markets and growing businesses, you know, we talked about LNG and the role it's going to play in the energy transition. There are a lot of other commodities that are gonna be required and at large scale for the energy transition, you know, examples include the various metals required to make batteries for electric vehicles, hydrogen for use in industry and transportation where batteries may not be effective. What special risk management challenge does this create both for the individual risk manager, but for the industry as a whole, when we're becoming increasingly reliant on commodities without well-developed markets and data structures,

Mike Prokop (11m 44s):
Well, you, you may have just opened Pandora's box again, because you've named two areas now that bring in a whole another area of risk that again, our risk professionals are responsible for. So think about let's do battery technology, first, many of the base metals and the rare earth ingredients, if you will, that go into a good battery are not found here in the United States. So you're now dealing with the new international sourcing of these base products to create a battery. So many of that's done actually offshore. So you think about all of the great moves that have been made by Tesla and Chevy and Ford to produce these fantastic new electric vehicles. They need batteries. They're now dependent on the whole world situation with perhaps, you know, tariff fights and, you know, availability metals, non-conflict availability and all of these things, even AML and all these different things that a risk officer needs to really be aware of as well as others in the firm, but it makes it a challenge.

Mike Prokop (12m 47s):
And it goes into the economics of whether or not serious companies in this area are gonna go into that business. Can we, you know, is there a model out there, and I'm sure it'll be discussed in many levels where we import the base products to create batteries and then actually produce them here and those types of things. Conversely, does it make more sense maybe to start producing more vehicles in where some of these things are located even in South America to actually produce the vehicles there so that everything's put together

at the same place. Interesting modeling and modeling is always near and dear to a risk officer. Going into hydrogen, hydrogen is not new. You know, it's been in the air for a long time, but we have different ways of creating hydrogen brings us back into the climate space where we need to be very conscious of this.

Mike Prokop (13m 37s):
And I'll maybe even test you and test others, but, you know, we have the green, the blue and the gray production areas. We even now have pink if you've heard this out there. So, it's hydrogen produced through the use of power from a nuclear power plant. So with all of these considerations, hydrogen is a fantastic fuel source. It is still working through the throes of the difficulties as any, you know, newer energy source and that is economics, the economics around the production, transportation, storage usage, you know, the off take, create a whole bunch of hydrogen and full salt caverns with it, but are we gonna use it and that means, you know, good folks like Nicola and Ballard and others that are out in the marketplace that are producing vehicles, transportation way means to actually take the hydrogen off and use it are, you know, trying to make great strides as well.

Mike Prokop (14m 31s):
I can maybe point to one thing, and this is the way market markets also get going. Reminds me of the old natural gas days is we're being very active right now with an organization, a non-profit organization here in Houston called the Center for Houston's Future led by Brett Perlman, who is a former Texas PUC Commissioner. They're in conjunction with the greater Houston Partnership, which has been around some great long time now here in the Houston area, talking about the you know, the business community here in Houston, but when you look at a model like Houston and as the term hydrogen hub gets thrown around from time to time, you look at the dynamics of the geography and the geospatial and spatial finance aspects of locating something like a hydrogen hub in a specific area.

Mike Prokop (15m 20s):
You have one of the top three ports in the United States. You have a phenomenal highway system going through that goes right across the east to west coast of the United States, endless rail production capabilities, storage capabilities, pipeline, you know, all the working parts are there. It looks like industry is really coming together on this, trying to put a lot of great thought together to work out how this could happen. We've seen other hub ideas growing and popping up out of even New York, North Dakota New Mexico and others and it makes sense because you know, the more geographical, you know, locale or various geographical locales you have for the distribution of hydrogen, that one, you know, big what if is the off take, can you make that off take more economical in order for that hydrogen to be used, and the next best commodity, if you will, for energy

David Greely (16m 13s):
And along with the proliferation of colors of hydrogen, you know, you've really pointed to a proliferation of risks and you know, a realignment of what will we mean specifically by energy security, what will, you know, if you have traditionally in the oil market, we look to the Middle East, the OPEC countries as the suppliers, as you said, as you move into a world of electric vehicles and batteries much more reliance on China, much more reliance on Africa for a lot of those commodities and the processing of them and then a redefinition of, you know, places like Houston, you know, being the center of the pet chem industry and the oil industry in the US, then perhaps moving to being a, a hydrogen hub. So a real lots of things to think through and lots of risks to manage and with this proliferation of risks, I feel like for a risk manager risk is probably, you know, the thing that went wrong that you should have thought about beforehand, probably is how it often feels and so I wanted to talk to you with all these risks. It does highlight the need potentially for better risk management frameworks and I know in your work, in your work with the CCRO, there's been a call for, you know, what's being called integrated risk management And can you describe the integrated risk management approach and why it's important?

Mike Prokop (17m 32s):
Yeah, no. Sure. Thank you. This has been a hot topic in many, many, many fields, including the CCRO and conferences that have been going on and the need for this has really come back to a lot of adverse events that we touched on before and even more that we didn't touch on colonial pipeline, cyber-attacks and things like that. In the work that we do and there's a good graphic on our website if I may direct people there, which is the allianceriskgroup.com, you'll see a wheel there that basically denotes the four main pillars of integrated risk management as we define them. This all started with really operational and risk resilience. Okay. So going back to what we were discussing before the what ifs and if the, what if comes to be, what do you do, right. So then it looks in further to bring in this new area of really stewardship risk, which we define as ESG and sustainability in general, moving around, obviously cyber risk and cyber comes into all of these areas.

Mike Prokop (18m 40s):
And as we found out and protecting our data, making sure the data is clean, that's coming in and of course, making sure our employees aren't answering emails that they shouldn't be answering and everything in between and then finally something very near and dear to my heart and has been for years is digital transformation and people throw that term around perhaps loosely at times to, you know, talk about just process automation or process efficiency and things like that. But it goes so much further than that and it, it could be, you know, entire new risk platforms. It could be the way even, you know, your workforce is perhaps stationed in office, remote, all those types of things and once again, risk around digital transformation also comes down to cyber element as well. What really took off around integrated risk management and why, you know, I get to ask this all the time.

Mike Prokop (19m 35s):
Well, we have, you know, enterprise risk management ERM versus IRM what's the difference, So enterprise risk management at the time when this term was, and still is, had very widely used and accepted, it was a matter of and at the behest of the technology that was available at the time you started seeing things just developing, like, you know, entire Oracle platforms or SAP platforms and things like that, but it led itself more to a very siloed approach for overall management for the firm and of course, as we said, the, the responsibilities for the risk manager are growing and growing. So, you know, a lot of this is falling on the risk manager. So with that, what we started looking at well over a year ago now is integrated risk management, where we actually look to break down the silos that were created through enterprise risk management and have more of a transparent, open communication between all of these different areas that we've pointed out.

Mike Prokop (20m 35s):
And as many other areas, but we see those four as the main pillars with the end result, hoping to be two things, very clear and very transparent and very real time communication up to the C-suite and the board of any organization and the other thing is the development now and we went through this for so many years the creation of a risk playbook for risk managers, okay. So in a quick definition of this will help see the big picture, but, you know, the risk playbook was always something of, we all know that nobody's going to be in their job for 50 years, I'm working on it, but not, not there yet. So people change jobs, people change roles, processes change, systems change therefore risk change markets change. You may have started out as a natural gas company now you're producing LNG.

Mike Prokop (21m 22s):
Now you're getting into big sustainable solutions, things like that. So that has to change. It's a living document that helps people understand what the risks are to a company and how to address them and it even goes so far in a good risk playbook as things like exact people's names, roles, even supplier, firm names and roles, things like that included. So that old risk playbook has now in that siloed enterprise environment now moved into being a integrated risk playbook. It has the additions and the inclusions of all of these different groups that we've mentioned and it has to, because once again the risk is many times falling upon the risk officer or the risk manager. So that communication, that transparency, when something like a horrific event, it could be, you know, another war starting, it could be another nine 11, or even just a colonial pipeline, cyber-attack, ransom ware attacks, something like that, even to its own firm, they're ready or they're as prepared as they can be and I'll add one more thing. It is not something you take and stick on the shelf and say point to it all the time and say, hey, we've got this. No, because, within probably a matter of weeks it becomes completely ineffective names have changed, roles have changed, products have changed, market risks have changed. Even technologies changed moving faster than it ever has before. It has to be a living document that's kept up to date at all times.

David Greely (22m 53s):
And you've alluded to it to a few interesting incidents, like the cyber-attack on the colonial pipeline. I was wondering, can you give us an example, tell us a story about a risk management failure that was caused in large part, by the lack of taking an integrated approach by being too stuck in our silos.

Mike Prokop (23m 12s):
You know, I would point to, you know, the current environment around sustainability reporting, this is an unattributed rumor, but there was always a rumor out that it's been shared many times over that there actually was a senior C-suite official that on an earnings call was pressed about their carbon footprint and what their plan was for carbon reduction and things like that kind of picked a number up and went with it and there was no backbone, no work done to actually create a number and boy, did they get back on that and create a number very quickly and unfortunately then the responsibility of getting to that number then became, oh, this is regardless, the usual strategy is let's, let's go for this number in the future and here's how we get there to holy cow, we got to get to this number. How the

heck do we get there, so that to me is a integrated risk management failure. You know, I hate to say risk management failure because, you know, then again, it falls directly upon the, the risk manager themselves. It is more and more becoming that integrated risk management is following with the responsibilities falling with the risk manager. So, you know, you can almost say if they are responsible for sustainability risk and ESG risk and overall, and you know, everything like that and yeah, it's, it's a big responsibility.

David Greely (24m 32s):
And I think it's been surprising to many people how quickly sustainability and ESG seem to migrate from the marketing department to operations and risk management and you know, if that story is a true one, it sounds like the, the CEO didn't realize how quickly that migration had occurred and so I wanted to talk to you a little bit about some of these new types of risk. You've mentioned the need to focus on, you know, the risks posed by sustainability, the risks posed by digital transformation and you've talked about a little bit, but like, can you put together for us what risks fall under sustainability, because I can imagine, you know, there's risk to operations and assets that a changing climate poses. So, you know, are we gonna have more hurricanes and floods and what's that going to do? There's also though, as you said, the reputational risk of, you know, are your sustainability efforts viewed as good enough to the stakeholders, are you keeping and making progress towards your net zero pledges, do these all fall under that umbrella of sustainability and I'm sure I'd be missing six other things as well

Mike Prokop (25m 41s):
At least probably you and I both would and as we look at this, but you know what great question, because it goes back to something you just threw out. You mentioned the marketing department, many listening to this right now will probably be aware and if you're not, you should be as there's a number of stories out there, you'll hear the term green washing. This is something that the SEC now is taken very seriously. So as remember we have Gary Gensler now at the helm of the SEC, and he was our former Chairman of the CFTC when Dodd Frank was brought down from legislation and brought to the CFTC for regulation. He is very thorough and very good at what he does. So the SEC enforcement group is now looking through claims that companies are making and seeing if they are actually with merit.

Mike Prokop (26m 27s):
And if, basically at this time, I would have to assume that they, if they look that they have a look and feel of being something maybe too wild and bold, and perhaps not even sustainable that they may, you know, that company may be getting a call for inquiring, but it is a reputation risk then. So yeah, this is all tied in. So if you get called to the SEC and a fine comes down, fines are made public whether it's for CFTC SEC and that affects who your trading counterparties are and a lot of folks that have credit models that take into account, has this counterparty ever faced any regulatory rejections or fines or anything like that, or findings it's a big deal. So that's what it comes down to and then, you know, this, this world just keeps getting bigger, too.

Mike Prokop (27m 17s):
So as far as a changing climate that has been a moving dark board, basically. So now we are able to keep the dark board still, I think, with, with the data science that we're employing to look at these models, we've perfected more models as I mentioned before, things like spatial and geospatial finance techniques and things. So there's more predictability in these changes, but still we cannot be a 100% accurate or foresee the future you know, we'd be top of the trading market if we could, right. So a change of climate also decides how well you look to the future. So your long term strategy and the markets that you're looking at, like a market like LNG that has, you know, a good sustainability factor is proliferating now globally, that may be the model to be in, to handle a great deal of additional climate change.

Mike Prokop (28m 13s):
We have to look at how are some of these technologies, are these new markets also contributing to climate change you know, we mentioned the different colors of hydrogen things and there's been put, you know, various pushes from different areas for, you know, more nuclear builds and things like that. Well, what are we potentially doing to the environment and the world around that and then of course, let's not forget that things like ESG aren't just about environment there's the S and the G too, so that the social impact, and also the overall governance model that you're following this company. The social aspect of this is very, very large, very, very important. So you have a multinational oil company that goes into drill and somewhere in Africa, and they just, you know, there, there aren't a lot of regulatory responsibilities as far as bringing back, you know, the land, as you found it after you're done a lot of companies.

Mike Prokop (29m 07s):
And I'm gonna say the vast, vast majority that I've seen are extremely responsible. They go in and hire the local people. They are very careful and practice very much the same environmental responsibilities that they do here in United States and they, you know, reform the lands back to the way they were as best they can, but with that, you know, climate change is something that's here. It may not be so much something that's of debate as it had been in the past because of more advanced science around it. I would say as again a risk manager putting, you know, your perhaps personal views aside, it's a risk that has to be managed and should be thought of that way absolutely.

David Greely (29m 51s):
And this might be a little bit of a broad brush question, but in your experience, how focused do you see companies being on these sorts of sustainability risks and, and how focused should they be?

Mike Prokop (30m 04s):
A lot, so it reminds me, you know, I was thinking about, I had a comment I had to make to someone that I was sitting with around this and I compared it to Dodd Frank, you know, Dodd Frank came around so quickly. It was basically a legislative whiteboard for the CFTC to then regulate and, you know, the CFTC had open hearings and we all tried to work with them as best we could and things, but there were deadlines to be made, right and it heavily affected the energy industry. I see this as the same thing right now, this whole area, again of risk around reporting is becoming hugely important. Not only looking at overall ESG claims and reporting and statements to be made, but now we have scope one, two and three aspects that we have to be extremely careful on how we calculate in waiting for, you know, responsible regulations to come up and how we're going to address that.

Mike Prokop (31m 02s):
That's another topic that we're trying to tackle within the ESG working group at the CCR and there's been a lot of great advancements too in platforms and such that we've been working with as far as reporting capabilities and things. It comes down to another aspect of this, like we did with Dodd Frank and a good way to manage the hysteria is that industry comes together to do this. We are very fortunate that I have found and I've been involved in a lot of different regulations and different re regulatory bodies around the world. Here in the United States we tend to have a very collaborative regulatory environment, especially in energy for CFTC and others are very keen on reaching out to industry for best practices and they even when large associations, like the CCRO and others put together what they feel is a best practice or a standard, our regulators take it seriously and they take it into consideration and I think they have perhaps a slightly lower level of hubris in some of the others in the world and they realize they don't know everything. So an informed regulator is the best regulator. So while it is a very busy, very important time right now in this industry to get it right, I think that the appropriate time, the appropriate energy toward the responsible solution is being taken.

David Greely (32m 27s):
A level of effort and impact for, you know, this focus on sustainability risk. That's comparable to Dodd Frank, that's saying something and we haven't gotten to the digital part yet. So I wanted to take a, to ask you about some of the risks posed by digital transformation and when you say digital transformation, like, does that include cyber risk and, and data security, or is that separate

Mike Prokop (32m 53s:
All very related and there's certain instances that we've seen too, where even the most innocent, digitally transformative task was taken by someone in a company could have been robotic process automation in its early days, or tinkering with AI and machine learning and things of that nature that actually inadvertently opened up perhaps back doors and small windows into a data environment that should not be there and as the evil empires out there are people mostly sitting in their basements trying to figure out ways into major companies, continue to proliferate. Those things will get pinged, and those things will get found at some point. So again, back to the integrated risk management model, there is a reason why we have those two as the two main pillars of the four is that cyber needs to be aware of what those in that are digitally transforming or doing.

Mike Prokop (33m 50s):
And we can further define that in a moment, but also the folks that are doing digital transformation need to be very aware of what the cyber folks are doing and what are the risks out there and the threats. So, but going back to digital transformation, you know, part of this is, is having a clear definition and clear strategy of what you're trying to do. Are you trying to simply just better your accounts receivable accounts available system. Do you want to make a broad step and a big step into something like a industry led Blockchain model something like the Blockchain for energy folks are doing so well right now with very specific tasks. So those opportunities are

out there. They can be shiny objects. They have to be thought of though in the large picture of an integrated environment of what is best for your particular firm and then think about what's maybe best for industry as well, because a healthy industry that's a transformed and in efficient industry is also good for the, the firm as well.

David Greely (34m 48s):
And you pointed out there, you know, once again the proliferation of threats that can come from, you know, people sitting in their basement and I was curious, you know, companies have been collecting and collecting more private data and are sitting on more and more private data and that was always an asset, but given the, the risks around and the responsibility for protecting that data, is that becoming a larger and larger burden and are we getting to a point or can you foresee a point where having all that private data is gonna start to become a liability?

Mike Prokop (35m 22s):
Two things about that, so one is the, the growth of databases and the size of it, literally the size of databases. I've also been through if you will transformation of sorts, where do we get big server banks, do we go to, you know, outside, you know, server locations and what about backup servers and all these different things that are available to cloud and so while those, those opportunities to, if you will desegregate and broaden your footprint of warehousing data became more relevant, the cloud came around and then there was a great deal of, you know unknown maybe some, if you will apprehension around cloud, you know, where is, where is, what is the cloud, where is my data going for feel or touch it percent to now when you look at the technologies that are advancing very quickly, they demand cloud.

Mike Prokop (36m 20s):
And I believe it is coming of its day and I know many folks in the industry that were very apprehensive about it originally that are now taking a serious look at it again and especially when you start talking about, as I mentioned, some of these collaborative efforts and ecosystems that are popping up in not only energy industry, but across various industries, they demand cloud presence because of just the sheer amount of data and then the assurance of the access to the data you know, once again the integrity of the data is it the right data and is it clean data, so from a cyber-aspect and one of the worst things that can happen is someone gets access to your internal data and we all know is energy companies out there that that's sacrosanct, that is our secret sauce and how we model it is even the cherry on the top, if you will, but, if that somehow goes out to some kind of ransom ware attack where it could be proliferated out to the public massive damage, massive damage could occur to an entity. So it's something that really, really keep an eye.

David Greely (37m 26s):
You mentioned the cloud and I remember saying a risk manager's coffee mug that had stamped on it the cloud is just someone else's serve. It sound curious, you know, given that this data is sacrosanct, where do you think the risk management best practices in this area are heading now?

Mike Prokop (37m 45s):
You know, think about risk management in general, first off for the role of the risk manager or I get directly to that answer. I would say, you know, the reliance on that clean data and retrievable data by the risk folks and I say not only the risk folks, but that means that also the people managing risks, the hedge desks and everything else that need access to that data is strategically important and has to be protected and perfected quicker access to data and the right data makes it a better program, absolutely. So on top of that, the risk management best practices that we're seeing these days, again, come back to the integrated risk management model. Okay. So it is an open pipeline of communication and transparency between these groups and that is the groups of protect cyber protection, data protection, data, standardization, data science, and modeling and also risk management that really have changed the environment of what we're doing.

Mike Prokop (38m 49s):
And it's directly again responsible because of the changes in technology. Technology is advanced so quickly and is even going quicker each day than we've ever seen before and, you know, technology should be embraced, but it also should be considered and considered from a risk standpoint of just is the company ready to handle something like this is the industry ready and just because it is there, is it a wise investment at this time in the overall business plan and strategy plan for a company to embrace it may be something you want to put down the road a bit.

David Greely (39m 27s):
And before we wrap up, I just wanted to ask you know, a good risk manager sees and prepares for potential threats where others don't see them. So while I have you here, what is an industry, do you think we're not seeing that we need to start preparing for?

Mike Prokop (39m 42s):
Well, you know, what keeps me up at night as someone that's been in this market for some time and speaking with risk managers that have their finger on the pulse of every company that they've worked at grid security is, a massive, massive topic, especially in the stage of increased conflict around the world. We've touched on that already, but, you know, it's interesting how these conflicts are now taking place and they're, they're being done remotely. Grid security is just a big topic. There's many ways that, you know, something like this could be affected, but you know, we need to really take that into account when we're looking at our risk programs and it's a big way out.

David Greely (40:24):
And that's the electrical power grid.

Mike Prokop (40m 27s):
Yeah. I, and I'm gonna put it into the transportation grid as well. So it starts with the electric power grid. Everything stops if we don't have power, but then it's the, if you will, the grid of transportation. So what if there is some adverse action that's taken that shuts down shipping again, we saw, you know, pipeline come down for a time that was because they, they couldn't tell what they were putting out to the clients and how to build them for it and things like that. That was the ransom mortar attack on the colonial. These risks are real and to stick our head in the sand and say, this could never happen is a very short sided look. expect The unexpected, but just be prepared as best as you can to handle the unexpected through a, a very resilient risk program.

David Greely (41m 20s):
Thanks again, to Mike Prokop, Managing Director at the Alliance Risk Group. We hope you enjoyed the episode. Join us next week when our guests will be Carrie Jaquith, Global Head of Digital Product at Abaxx Technologies. We will be discussing the role of digital product at the intersection of data and risk management.

Announcer (41m 39s):
That concludes this week's episode of Smarter Markets by Abaxx. For episode transcripts and additional episode information, including research editorial and video content, please visit smartermarkets.media. Smarter Markets is 100% listener-driven. So please help more people discover the podcast by leaving a review on Apple Podcast, Spotify, YouTube, or your favorite podcast platform. Smarter Markets is presented for informational and entertainment purposes only. The information presented on Smarter Markets should not be construed as investment advice. Always consult a licensed investment professional before making investment decisions. The views and opinions expressed on Smarter Markets are those of the participants and do not necessarily reflect those of the show's hosts or producer. Smarter Markets, it's hosts, guests, employees, and Producer Abaxx Technologies shall not be held liable for losses resulting from investment decisions based on informational viewpoints presented on Smarter Markets. Thank you for listening, and please join us again next week.