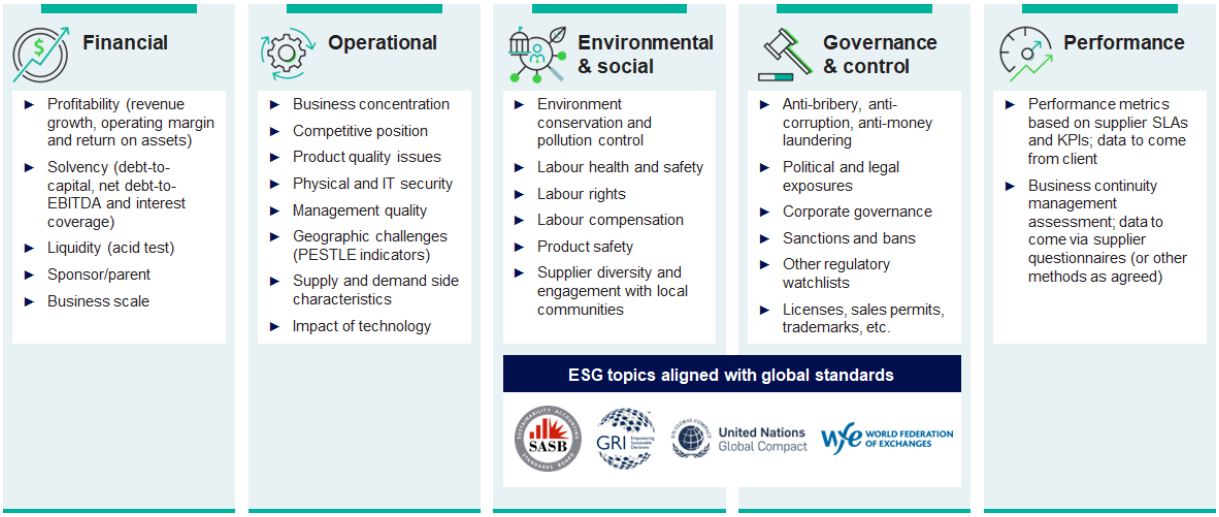
SmartRisk PRO – Risk Assessment Methodology

Background

SmartRisk PRO is a 360° continuous supplier risk assessment platform covering financial, operational, ESG, cybersecurity, compliance, governance, reputational, and performance-related risks. The assessment combines external intelligence, third-party data, supplier disclosures, client/internal data where available, AI/ML processing, and analyst validation.

Risk domains and coverage

The in-depth intelligence covers the following areas:



Data for risk analysis

The platform uses multiple data types:

<u>Enriched public data</u>

- News media
- Regulatory websites
- Company registrars
- National and global statistical organizations
- Other public disclosures
- Country, category, logistics, weather, and regulatory feeds
- SME knowledge and inputs

<u>Third-party data (foundational data, no third-party ratings)</u>

- Credit and financial data
- ESG / sustainability data
- Compliance and regulatory information
- Dynamic cybersecurity feeds or scans

<u>Client and internal data</u>

Where provided and scoped, the model can use:

- Supplier SLAs/KPIs
- SRM inputs

Supplier disclosures
Supplier disclosures via DDQ responses may be used as input for cyber, privacy, compliance, BCP, QMS, EHS and other areas.

Risk assessment process

SmartRisk PRO uses a proprietary and multi-layer rating model. The key components are:

- **Base Risk Rating (BRR)**
  Base Risk Rating is the starting point calculated for each sub-risk and risk type using underlying risk parameters. It uses well-defined rubric model to determine the right rating for a given parameter value or situation. This rating reflects historical and structural risk factors depicting the "state of affairs" on the date of deployment.

- **Risk Event Rating (RER)**
  Risk Event Rating is assigned to each risk event feed based on its materiality after the date of deployment. Risk events may come from news media, social media, regulatory websites, public sources, or third-party sources. This rating depicts materiality ratings of risk events identified through ongoing monitoring of risk signals.

- **Adjusted Risk Rating (ARR)**
  Adjusted Risk Rating combines the Base Risk Rating and Risk Event Rating. It gets updated dynamically when new risk event feeds are identified for a supplier. Its purpose is to capture the changing risk profile of a supplier over time. This rating represents the latest or up-to-date risk rating or exposure of a supplier.

- **Residual Risk Rating (RRR)**
  Residual Risk Rating is optional rating provided by an SRM manager after risk mitigation, that is after controls are put in place and verified. It overrides Adjusted Risk Rating when applied. The platform supports switching back to adjusted risk ratings.

- **Overall Risk Rating (ORR)**
  The overall risk rating is a dynamically weighted average of adjusted risk ratings across sub-risks and risk types. The dynamic weighting is specifically intended to prevent significant disruptive events from getting diluted by traditional weighting across many risk parameters.

Risk rating configuration

SmartRisk PRO's scoring model is dynamic rather than static.

- The overall risk rating is a dynamically weighted average of adjusted ratings. This means that the system automatically adjusts weights to show "real" risk when a singular event has material implications. This helps high-risk indicators surface sooner.
- This approach is superior to traditional weight-based models because disruptive events are not subdued by averaging across multiple parameters.

In practical terms, the impact of a major risk event gets amplified in the overall rating even if other risk aspects are stable or show low variance.

Clients can configure weights for:

- Risk types, such as financial, operational, environmental & social, governance & control
- Sub-risks
- Risk coverage

- Assessment frequency
- Notifications
- Custom parameters

Once configured the scoring engine applies the weights automatically.

- The rating logic is standardized and not editable by clients, which is an industry-standard practice for any intelligence solution (e.g., credit ratings, ESG scores, cyber scores). This is intended to ensure consistent and repeatable outputs.
- Sub-risk ratings, risk type ratings, and overall risk ratings are computed automatically once validated inputs are loaded into the system.

Human-in-the-loop validation

SmartRisk PRO uses an AI + HI model, where AI and automation support scale and speed, while analysts validate data and outputs.

Analyst validation applies to:

- Machine-filtered risk signals
- Risk event classification
- Risk event ratings
- Supplier data completeness and accuracy
- AI-generated risk outlook
- Base risk ratings
- Adjusted risk rating
- Supporting notes

For news media specifically, trained analysts review machine-generated risk event classifications and ratings and update them if needed. Only validated data is published.

Risk ratings are dynamic but subject to expert review.

- BRR and ARR are compared periodically by risk specialists. ARR may be revised upward or downward if it does not reflect the “reality” of the supplier’s risk position.
- The supporting notes against risk parameters may also be updated in such cases.
- ARR may also be revised immediately in case of high-risk events expected to have material business impact.

The purpose of aforesaid review is to prevent over- or under-estimation of risk.