

ERM-57 Course: Enterprise-Wide Risk Management: Developing and Implementing

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Introduction to ERM 57

- ▶ Background of Instructors
 - Kristina Narvaez
 - Erike Young
- ▶ The exam
 - How to schedule – <http://www.aicpcu.org/register/Examreg.htm>
 - Oct 15 – Dec 15 testing window
 - Cost – \$270
 - Format
 - 6–8 short-answer essays and 4–5 comprehensive application cases, each with several essay questions
 - 3 hour exam

Study Session Schedule

- ▶ Aug. 18 Intro and Chapter 1
- ▶ Aug. 25 Chapter 2 and 3
- ▶ Sept. 1 Chapter 4
- ▶ Sept. 8 Chapter 5 and 6
- ▶ Sept. 15 Chapter 7 and 8
- ▶ Sept. 22 Chapter 9
- ▶ Sept. 29 Chapter 10 and 11
- ▶ Oct. 6 Chapter 12 and 13
- ▶ Oct 13 Chapter 14 and 15

Structured Review

How to make the most of this review:

- ▶ Mute the phones
- ▶ Take notes, but don't waste effort copying slides. (Slides will be available for download)
- ▶ Questions are important. Yet time is limited to cover all of the material.
- ▶ Goal is to cover all chapters in 10 weeks - average of 2 chapters per meeting
- ▶ The primary purpose is to pass national exam.

Studying the Material

SUGGESTION: Read the Educational Objectives in the course guide BEFORE reading the text.

- ▶ Educational Objectives
- ▶ Terms and Phrases
- ▶ Text Exhibits
- ▶ Chapter Summary
- ▶ Course Guide Review Questions
- ▶ Course Guide Application Questions

Objectives of Chapter 1: Advantages of Enterprise-Wide Risk Management

- ▶ Explain how an organization can improve its strategic decision making by incorporating enterprise-wide risk management
- ▶ Contrast traditional risk management and ERM
- ▶ Explain why ERM is an effective approach to use to face business uncertainties
- ▶ Summarize the major risk management frameworks and standards

Improving Strategic Decision Making with ERM

- ▶ Integrating ERM into strategic decision making process is key
- ▶ ERM can address potentially devastating threats
- ▶ It exploit opportunities by incorporating ERM principles into the current business model
- ▶ ERM can be used to manage unwanted variations from expectation

Benefits of Using ERM

- ▶ Enhance decision making
- ▶ Increase profitability
- ▶ Reduce volatility
- ▶ Improve ability to meet strategic goals
- ▶ Increase management accountability
- ▶ Breaking silos—seeing risk from holistic approach
- ▶ Develop business continuity

United Grain Growers

- ▶ Used ERM to increase their stock price
- ▶ Identified six top risks: 1) effects of weather on grain volume 2) environmental risk 3) credit risk 4) commodity price and basis risk 5) counterparty exposure and 6) inventory risk
- ▶ Developed a value-at-risk modeling
- ▶ Took a holistic approach to their risks

Integrating ERM and Strategic Planning

- ▶ Develop ERM goals (establish the internal and external context)
- ▶ Identify risk (risk assessment)
- ▶ Analyze, evaluate and prioritize critical risk (risk assessment)
- ▶ Treat critical risk, considering priority (risk treatment)
- ▶ Monitor critical risks (monitor and review)

Washington Department of Transportation Strategic Objectives

- ▶ **Safety**– To provide for and improve the safety and security of transportation customers and the transportation system
- ▶ **Preservation**–To maintain, preserve and extend the life and utility of prior investments in transportation system and services
- ▶ **Mobility**– To improve the predictable movement of goods and people throughout Washington State

Washington State Department of Transportation Strategic Objectives

- ▶ **Environment**–To enhance Washington’s quality of life through transportation investments that promote energy conservation, enhance healthy communities and protect the environment
- ▶ **Stewardship**–to continuously improve the quality effectiveness and efficiency of the transportation system
- ▶ **Economic Vitality**–To promote and develop transportation systems that stimulate, support and enhance the movement of people and goods to ensure a prosperous economy.

Developing ERM Goals

- ▶ Clearly state the goal
- ▶ What are the obstacles in meeting the goals
- ▶ Evaluate upside and downside of risk
- ▶ Prioritize risks
- ▶ Determine proper risk treatment
- ▶ Capture risk intelligence
- ▶ Communicate results to decision makers

WSDOT ERM Goals

Under Safety Strategic Objective here are some of WSDOT ERM Goals:

- ▶ Reduce fatal and serious injury collisions
- ▶ Reduce the risk of bridge collapse due to Mother Nature
- ▶ Prevent, mitigate and respond to acts of terrorism

Other Sample ERM Goals

- ▶ Identify opportunities for and threats for achieving organizational goals
- ▶ Anticipate and recognize emerging risks
- ▶ Optimize risk taking by considering risk appetite and risk tolerance (risk position)
- ▶ Increase management accountability and risk-based performance management
- ▶ Design and enhance appropriate management controls to more effectively and efficiently reduce defects and minimize loss

What If Scenarios.....

- ▶ A competitor emerges in our market?
- ▶ Regulators change and double the amount of time need to develop our products?
- ▶ Consumer demands a greener product?
- ▶ Our company's unique manufacturing competencies are needed for an emerging product?
- ▶ Favorable exchange rates makes our products more competitive?
- ▶ Frost in Florida decreases crop yield for our major competitors?

Standard & Poor's Review on an Organization's ERM Program

- ▶ What are the organization's top risks, how big are they, and how often are they likely to occur? How often is the top risks?
- ▶ What is management doing about top risk?
- ▶ What size quarterly operating or cash loss has management and the board agreed to as tolerable?

Standard & Poor's Review on an Organization's ERM Program

- ▶ Describe the staff responsible for risk management programs and their place in the organization chart. How do you measure the success of risk management activities?
- ▶ How would a loss from a key risk affect incentive compensation of top management and planning/budget?

Standard & Poor's Review on an Organization's ERM Program

- ▶ What discussion about risk management have taken place at the board level or among top management when strategic decisions were made in the past?
- ▶ Give an example, of how your company responded to a recent "surprise" in your industry. How did the surprise end up affecting your company differently than others?

Four Major Differences Between Traditional Management and ERM

- ▶ **Risk Categories**—strategic, financial, operational, hazard, reputation, environment, compliance, human capital, and technology.
- ▶ **Strategic Integration**— Traditional risk management looks at pure risk and hazard risk. ERM takes a **holistic approach** to risk
- ▶ **Performance Metrics**—How do we measure success? Not just activity based, but result driven.
- ▶ **Organizational Structure**—ERM is decentralized and integrated to all levels of organization

Traditional RM vs. ERM

Traditional

Concerned with pure risk and speculative risk

Focused on preventing or reducing potential hazard or operational losses

Reduce Potential Claims

ERM

Concerned with global array of risks

Focused on strategic, financial, operational, hazard, compliance, environment, human capital, reputation, and technology risks

Risk Optimization

Enhanced Decision Making

- ▶ **Increased Profitability**– Monitors systemic risk inherent in the organization that can adversely affect its long-term financial outlook
- ▶ **Reduced Volatility**– Examines areas that could affect cash flows
- ▶ **Improved Ability to Meet Strategic Goals**– Identify risks that would impede growth and achievement
- ▶ **Increased Management Accountability**– Managers become responsible for the risks they oversee

Improved Risk Communication

- ▶ **Management Consensus**– Creating a corporate culture that embraces risk as an additional component
- ▶ **Stakeholder Acceptance**–Managers' understanding that the way they manage will have a positive impact on the organization

ERM Frameworks and Standards

- ▶ **ISO 31000:2009**–Scope is to enable all strategic, management and operational tasks of an organization throughout projects, functions, and processes to be aligned to a common set of risk management objectives
- ▶ **BC 31100**–The code establishes principles and terminology for risk management and provides recommendations for the model, framework, process, and implementation of risk management

ERM Frameworks and Standards

- ▶ **COSO II**–Defines ERM as a process driven from an organization’s board of directors that establishes an organization–wide strategy to manage risk within its risk appetite
- ▶ **AS/NZS 4360**–Is intended to provide a broad overview of risk management. Organizations interpret this guide in the context of their own environment

ERM Framework and Standards

- ▶ **FERMA**–The standard recognizes that risk has both an upside and downside. Its components allow organizations to report compliance with best practices.
- ▶ **Basel II & Solvency II**– Basel II was established as an international standard that banking regulators can use when creating regulations regarding amount of capital banks need in reserve. Solvency II for insurance firms in Europe

Sample Test Questions for Ch.1

- ▶ Provide an example of the upside of risk ?
- ▶ Explain how ERM strategic integration varies from traditional risk management ?
- ▶ Explain how ERM differs from traditional risk management with regards to organizational structure ?
- ▶ Summarize the two important benefits of the ERM approach?

Sample Test Question for Ch.1

- ▶ Explain how an ERM approach increases profitability ?
- ▶ Explain how an ERM approach can result in reduced earnings volatility for an organization ?
- ▶ Explain how ERM process can lead to increased management accountability

Sample Test Questions for Ch.1

- ▶ Summarize how management consensus is achieved in an organization utilizing an ERM approach ?
- ▶ Describe how an ERM approach will improve an organization's acceptance by internal and external stakeholders