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Enterprise Risk Management

a structure for managing risks

by Chris Lewin23rd November 2005

Enterprise Risk Management

Bringing it all together

- Holistic management of risk (not just silos)
- Culture and communications
- Role of Board and other players
- Management of various types of risk
- Where are we now?

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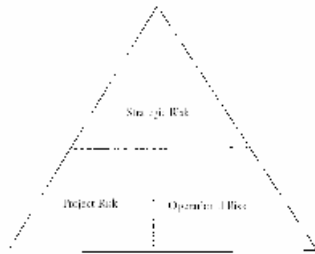
The three principles of ERM

- Focused corporate risk strategy, led by Board
- Robust and holistic risk management framework
- Effective culture and processes

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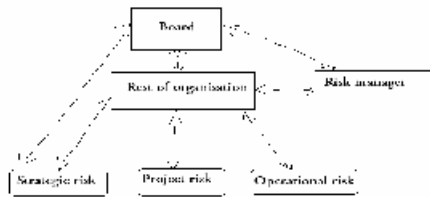
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Types of risk



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Modeling the Uncertainty of the Future

Holistic Management of Risk



Culture

- Should be open, consultative, risk conscious
- Accountability, not blame
- Learn from near misses
- Good two-way internal communications
- "Can do" culture not incompatible

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Role of the Board

- Understands risk, contains sufficient diversity, provides risk leadership
- Focuses on risks to purpose & main objectives
- Identifies & manages the “top ten” threats and opportunities
- Determines overall risk-management policy
- Reviews risks regularly

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Role of Risk Manager

- Facilitates the process, keeps track of risks
- Helps Board to avoid surprises
- Does not normally manage risks
- Source of good practice
- Liaises with line managers and assists them
- Ensures “follow through”

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Role of line managers

- Manage all levels of risk
- Assist Board to manage the “top ten”
- Embed risk management in all processes
- Ensure appropriate culture exists
- Encourage staff to be threat- and opportunity-conscious

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Role of staff

- Comment on risk management strategy
 - Report on emerging or intensified risks
 - Report on defective procedures
 - Report failures to operate procedures properly
 - Suggest ways of threat mitigation
 - Suggest ideas for increasing opportunities
- (Good feedback mechanism needed, no inhibitions)

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Management of strategic risk

- Have system to manage foreseeable risks
- Deal with unknown risks
- Seek robust responses
- Avoid self-inflicted wounds
- Study embedded processes
- Use tools – horizon scanning, concept mapping, pattern recognition, risk grouping

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Management of project risks

- Use RAMP
- Identify and analyse risks
- Develop set of responses to give risk efficiency
- Identify residual risks
- Use investment model and scenario analysis to get probability distribution of outcomes
- Decision
- Carry risk response plan through to implementation

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Management of operational risks

- Brainstorm at various organisational levels
- Identify, analyse, respond
- Embed the risk management system
- Health and Safety
- Use of insurance
- Watch out for chain reactions
- Crisis management

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Where are we now?

Recent Lloyds survey –

- Many boards have failed to embed risk management
- Two-thirds of boards untrained
- Regulatory demands still dominant
- Too much reliance on insurance industry?

But recent McKinsey report –

- 76% of Board members wanted to spend more time
- Early results of ERM said to be encouraging

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Self-assessment check

Give your organisation marks out of 10 –

- Board's risk leadership, diversity, time to think, regular updates
- Board manages key threats /opportunities itself
- Good culture & two-way communications on risk
- Holistic risk-management
- Use of horizon scanning, concept mapping, pattern recognition, RAMP
- Enough follow through on risks

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Conclusion

- Need for Board leadership and holistic approach to risk
- Board itself should be involved on key threats and opportunities
- Culture, communications, good risk-management framework are vital
- Risk management processes must be embedded
- Moves towards ERM will gather momentum

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