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Strengthening ERM: A Key to Success in a Volatile Environment

#AuditBoardWebinars

Our Speaker

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- Over 20 years of Risk Management, Audit and Compliance
- Ernst & Young Alumni
- Developed & implemented Enterprise Risk Management & Compliance programs
- Served clients in several industries including Financial Services, Healthcare, High Technology and Manufacturing

Learning Objectives

- Explain the value proposition of a risk mature organization to business stakeholders
- Anticipate the challenges of developing a mature Enterprise Risk Management program
- Assess an organization's level of risk maturity
- Explore actionable best practices to develop or advance an ERM program in today's volatile risk environment

What is Risk Maturity

- A way to evaluate the maturity of your Risk Management Program
- A few different models
  - ISO (https://www.iso.org/iso-31000-risk-management.html)
  - Risk Management Society (https://www.rims.org/resources/strategic-enterprise-risk-center/risk-maturity-model)
  - AON (https://aon.com/risk-maturity-index)
- Maturity is usually evaluated using a number of criteria

Maturity Levels

Mature / Advanced	**The organization has a well-developed ability to identify, measure, manage and monitor risks; risk management processes are dynamic and adapt to changing risks and business cycles** ✔ Formal statements of risk appetite and tolerance exist and guide decision making ✔ Risk and risk management information is explicitly considered in decision processes ✔ Analysis is consistently applied, incorporating qualitative & quantitative techniques ✔ Risk management is viewed as providing a competitive advantage with a focus on optimizing risk-reward trade-offs
Semi Mature / Operational	**There is a clear understanding of the organization's key risks and also a consistent execution of activities to address these risks; some functional areas may employ more sophisticated techniques** ✔ The set of loss and tolerance guidelines are predetermined or developing ✔ Explicit consideration of risk and risk management information is taken in key decisions ✔ Analysis is consistently applied, incorporating both qualitative and quantitative techniques
Progressive / Defined	**The organization understands and is addressing its key risks; capabilities to measure, manage and monitor risks are in place but may be inconsistent across the organization** ✔ Guidelines for loss and risk tolerance are less developed ✔ Risk and risk management information is considered informally / implicitly in decision making ✔ Analysis is consistently applied, with a focus on qualitative approaches
Early Starter / Basic	**There is inconsistent understanding, management and monitoring of key risks across the organization; capabilities to consistently identify, assess, manage and monitor risks are limited** ✔ Risk management activities occur at the functional level rather than the enterprise level ✔ Risk management activities emphasize compliance ✔ Risk management information is considered informally or implicitly in decision making, often on adhoc basis
Immature / Initial	**If the organization identifies and addresses risks it is done within silos only; components and activities of the risk management process are limited in scope and implemented in an ad-hoc manner**

Value Proposition of a Risk Mature Organization

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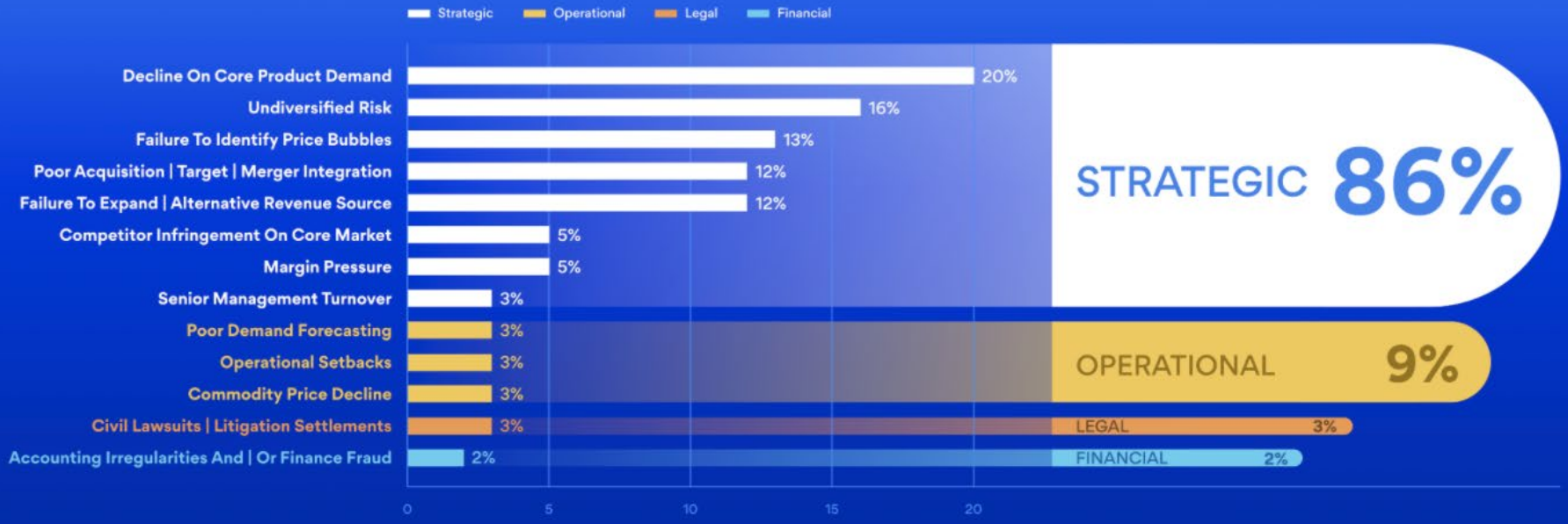
Root Causes of Decline by Risk Type

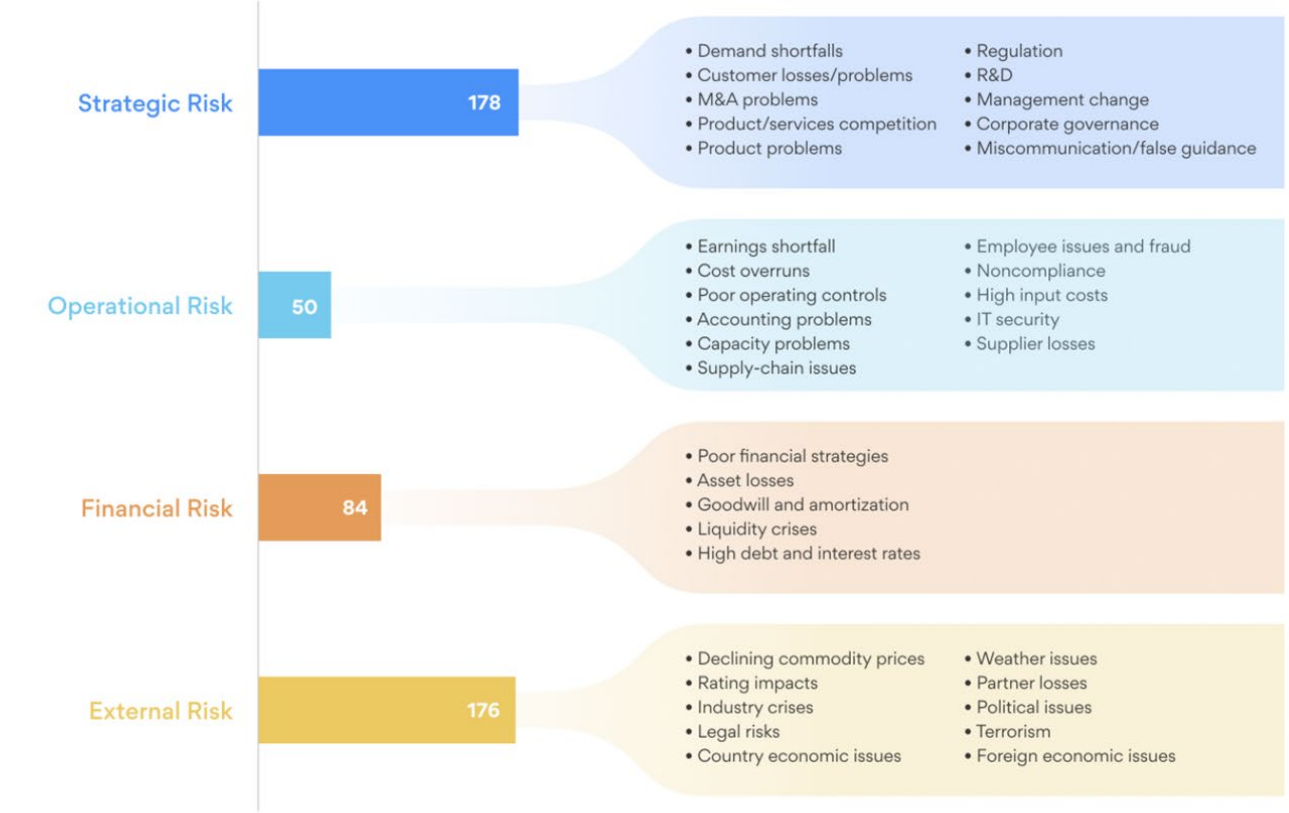
Share Price Decline Drivers
Market Capitalization in the Fortune 500



CEB Baseline	Strategic	Operational	Legal & Comp	Financial
2009 (Fortune 1000) - 50% Decline	68%	14%	6%	12%
2015 (Fortune 500) - 40% Decline	86%	9%	3%	2%

Source: Corporate Executive Board & Deloitte

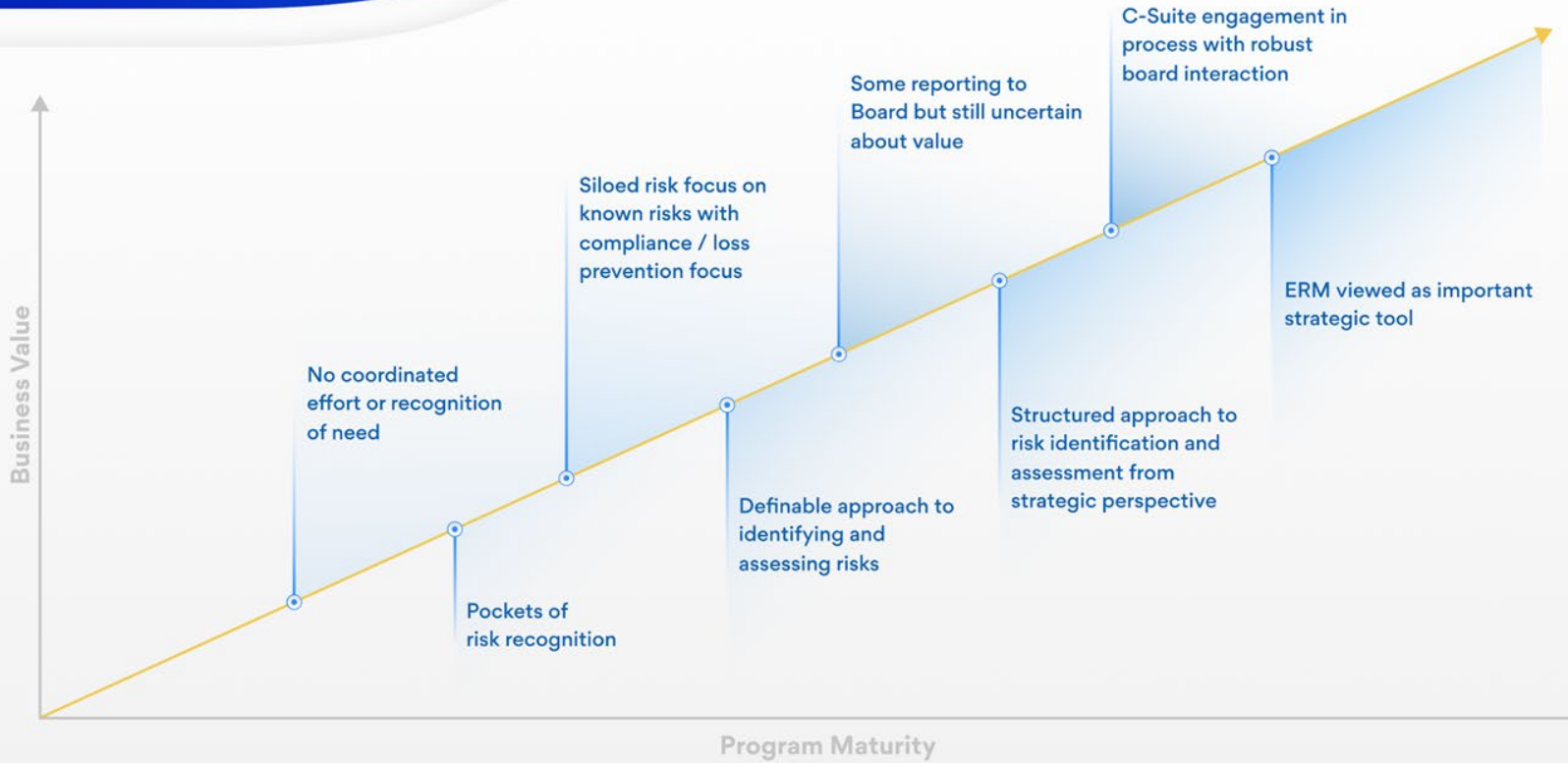
Frequency of risk events across 100 public companies with largest value drops



Deloitte, The Value Killers Revisited: A Risk Management Study, 2014.

Enterprise Risk Management

Maturity Evolution



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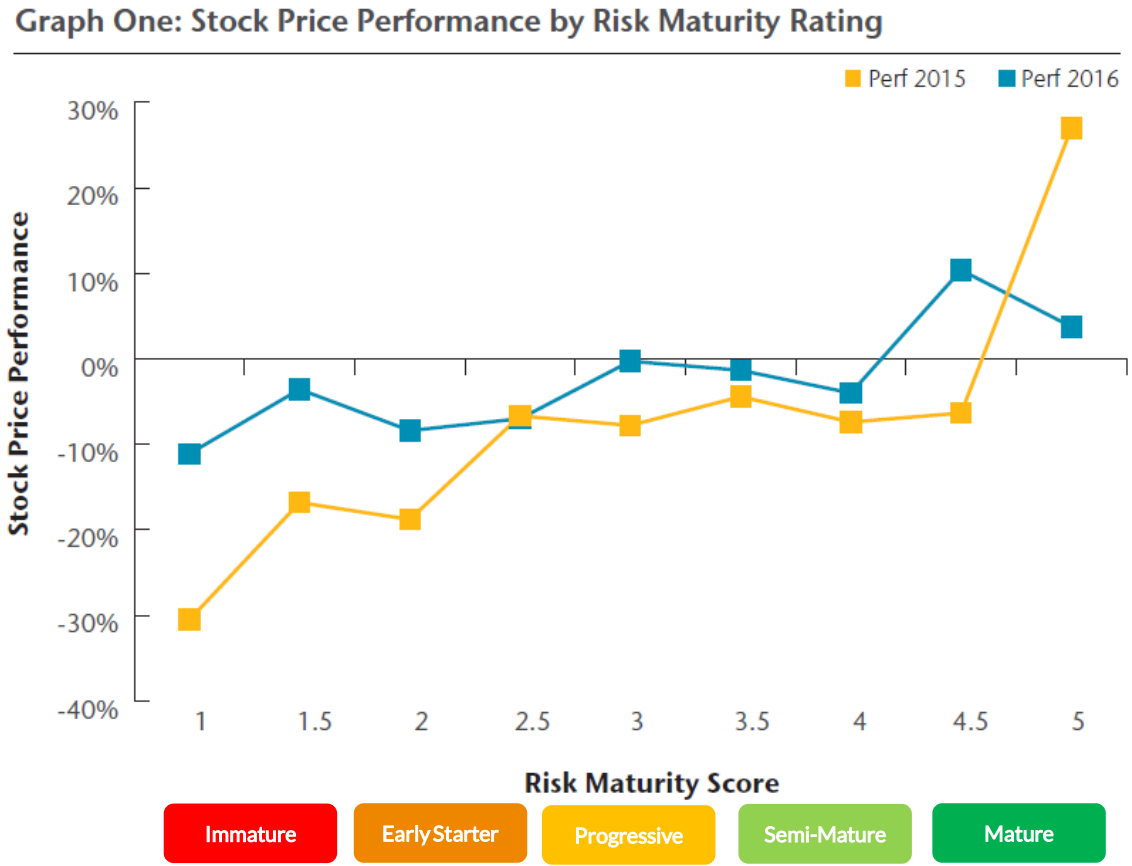
The Relationship between Risk Management and Stock Price Performance



Source: AON 2017 Risk Maturity Index Insight Report

Strategic Risks Destroy the Greatest Value

Share price impact and audit time allocation across risk categories

n = 61

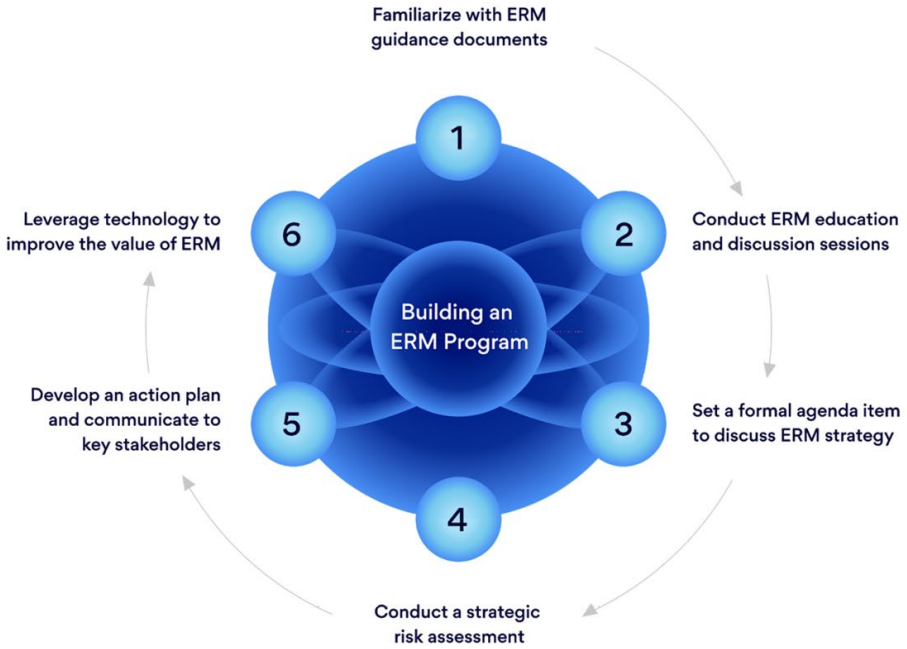
Likelihood of Occurrence
Percentage of Risk Failure Leading to a Significant Market Decline

Executive Time Spent
Percentage of Time Spent by Audit Departments on Risk Types

Source: Corporate Executive Board | Gartner, Reducing Risk Management's Organizational Drag, 2014.

The Nine Characteristics of Advanced Risk Maturity

Steps for Building an ERM Program



[9] Aon, Risk Maturity Index Insight Report, 2017.

ERM Guidance Documents

- COSO ERM Framework
- Creating and Protecting Value
- ISO 31000
- RIMS Risk Maturity Model (RMM)
- The IIA's International Professional Practices Framework (IPPF)
- The Open Compliance and Ethics Group's Red Book

ERM Education / Discussion Sessions

- Conduct ERM education / discussion sessions with the board & senior management
- Establish that the objective of ERM is to help the organization achieve its strategic goals
- Communicate the importance of embedding ERM into strategy

Discuss ERM Strategies, Objectives, and Expectations

- Identify an executive or Board member to drive ERM initiatives
- Establish an executive-level risk committee to support the risk leader
- Develop a formal risk management charter that includes a risk appetite statement

Strategic Risk Assessment

- Identify key strategies
- Identify risks related to key strategies
- Identify external and emerging risks
- Develop an action plan
- Communicate with the board and senior management

Leveraging Technology

- Centralize risk management
- Facilitate collaboration between different risk management stakeholders
- Integrate risk activities to create greater alignment between audit, risk, and compliance groups and improve decision making
- Automate risk assessment process
- Provide visibility into risk trends and mitigation activities

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Q&A

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Questions? Email events@auditboard.com.