Risky Business

How to Incorporate Enterprise Risk Management

into Your Business Strategy

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Did you get up early to exercise?

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Did you drive here today?

Did you buckle up?

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Let's talk about risk

- The dictionary defines risk as "the possibility that something bad or unpleasant (such as an injury or a loss) will happen"
- Just like each individual has their own risk tolerance, every company will also have their own risk profile, unique to them.
- There is a wide range of acceptable risk mitigation activities that will be co-developed at the highest levels of the organization
- There are multiple strategies to mitigate, or reduce, your risk exposure, but the strongest is a proactive, risk aware, control minded strategy

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How Risk Management is Evolving

Traditional Risk Management

- Compliance issues addressed separately
- Safety & emergency management handled separately
- Purchases insurance to cover risks
- A "sliced" approach - risks not integrated or managed broadly across the organization
- Risk management ownership ad hoc at high levels of organization
- Risk management activity is expensive, limited

Strategic Risk Management

- Risk is opportunity - balanced approach
- Proactive about preventing and reducing risk
- Integrates claims management, contracts review, special event, prevention & training, insurance and risk transfer techniques
- Lowers insurance costs (over time)
- More collaboration - as business units are willing participants
- Risk management ownership at activity level

What Does Enterprise Risk Management Really Mean?

Best in class Enterprise Risk Management programs have the following characteristics:

- Avoid the "silo mentality"
- No transfer of risk to another part of the organization – team approach
- Seamless integration across the organization
- Supported by executive management
- Creation of a risk culture throughout – not just the "tone at the top"
- Change in behavior – increased risk awareness
- Ownership by all

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Why is Looking at Risk Important?

- Protecting profits
- Fewer surprises – shorter reaction and recovery time
- Improved efficiencies
- Highly looked upon by third parties – regulators and investors
- More efficient responses to regulatory or reporting requirements
- The process gives valuable insight to key members of management

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Reasons Why Companies Don't Implement Enterprise Risk Management Systems

- Competing priorities
- Perceived or real organizational drag
- Limited resources
- Lack of perceived value
- Lack of systems integration
- Difficulty staying in front of new regulations and changing business initiatives
- Current reactive risk responses

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Key Risks Typically Overlooked or Undermanaged

- Fraud risk
- Cyber security and mobility (IT)
- Due diligence
- International acquisition / integration
- HR compliance
- Succession planning

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Most Common DRP Response

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Keys to Implementing a Successful ERM Program into your Business Strategy

- Take it slow – Rome wasn't build in a day
- Leverage your resources – establish a cross functional team
- Clearly develop and articulate the organization's strategy, mission and goals – align activities accordingly
- Show executive management support
- Empower and hold each other accountable – everyone is responsible for risk management
- Transparency goal
- Dynamic process that supports your dynamic business

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Where to Start?

- Identify your risk universe
  - Consider existing risk documentation – both internally and industry wide
  - Think outside of the box – place into common risk categories including financial, regulatory, reputation, environmental, fraud, etc.
  - Don't consider controls at this point – inherent risk
- Prioritize your business risk
  - Rank significance – how big of an impact would the risk have if it were to occur
  - Rank likelihood – how likely is it to actually occur?
- Identify top risks based on above analysis

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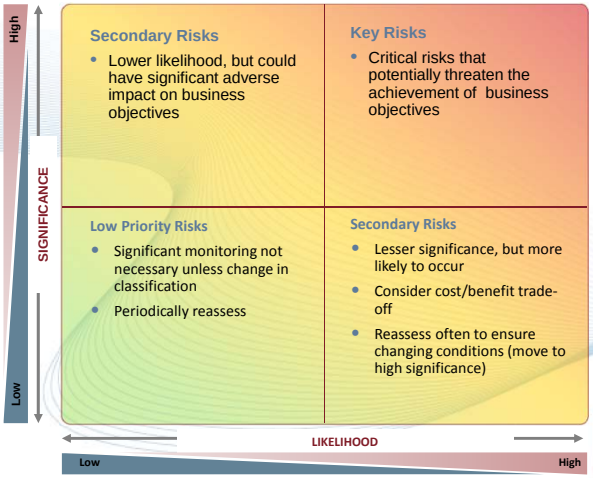
Sample Risk Rating Interpretation

The graphic below depicts how the risk map on the following slide can be interpreted – risk responses should be developed starting with those risks found in the upper-right quadrant.



13 Source: Knowledgeleader.com

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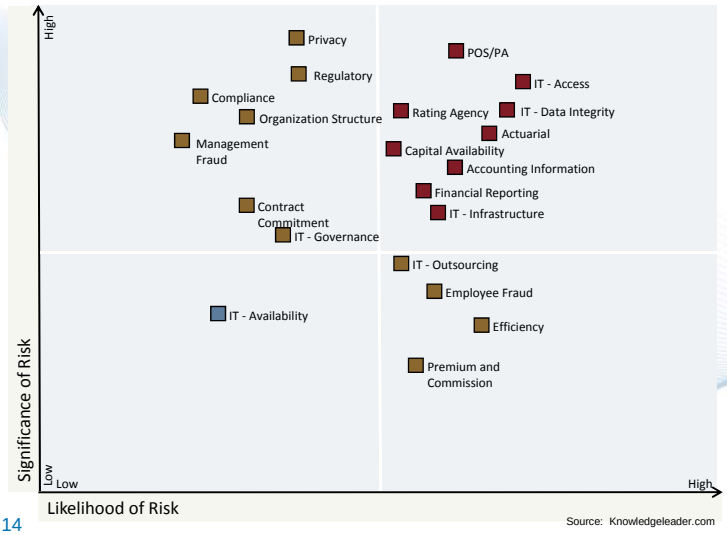
Sample Risk Map



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The Plan

- Incorporate risk management capabilities and mitigating controls
  - Identify control activities
  - Determine risk coverage (internal audit, external audit, insurance, no coverage – accept, etc.)
  - Determine gaps in coverage
- Formalize action plans to address identified control gaps
- Test the effectiveness of the controls
- Continual monitoring and reworking of plan

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Sample Risk Assessment Matrix

Risk Type		Risk Category	Risk Name	Risk Definition	Significance	Likelihood	Potential Risk Events
18	Process Risk	Operations	Human Resources Risk	A lack of requisite knowledge, skills and experiences among employees, HR compliance with laws and regulations (e.g. ADA, COBRA), or a lack of HR policies and procedures limits the ability of the company to effectively deliver quality products and manage overall business risk, and can adversely impact reputation and income.			A. Shortages in banking-experienced personnel in the marketplace creates difficulties in hiring qualified personnel. B. Inadequate and inconsistent training or experience for personnel to execute important tasks (may be driven by BU vs. HR). C. Employees engage in misconduct (e.g. harassment, fraud, unsafe practices). D. Turnover and inability to retain staff (can be driven by negative publicity associated with restatement, morale, training, and compensation); inability to retain key senior-level personnel.

Owner	Risk Response / Control Activity	Test / KRI / Monitoring	Target	Risk Coverage	Test Result	Action Plan / Due Date	Comments
HR Director	A. Multiple recruiter relationships and touchpoints with potential candidates	A. Monitoring # candidates in the pipeline	A. Three pipeline candidates	HR Management			
HR Director	B. Annual mandatory training for HR staff regarding ADA, WC, OSHA, and COBRA	B. Review of training candidates	B. 100% compliance with training	Internal Audit			
HR Director	C. Fraud policy and hotline in place, annual training on Code of Ethics, etc.	C. Annual associate survey on awareness, trending of complaints	C. X% complaints trending	Internal Audit / General Counsel			

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Questions?

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Thank You!

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