



Integrating risk management with strategic planning – it can be done!

VMIA Risk Conference
21 October 2009

 ERNST & YOUNG
Quality In Everything We Do

Agenda

- ▶ Is risk management broken?
- ▶ An integration model
- ▶ Risk behaviours and culture
- ▶ Implications for the risk executive

Is risk management broken?

Models

“Beware of Geeks bearing formulas”*

- ▶ Prevalence of and reliance on quantitative models
- ▶ Lack of challenge on underlying assumptions
- ▶ Little knowledge of model limitations
- ▶ Lack of appropriate stress testing
- ▶ Lack of consideration of inter-connectedness of risk

*Warren Buffett, Letter to Shareholders

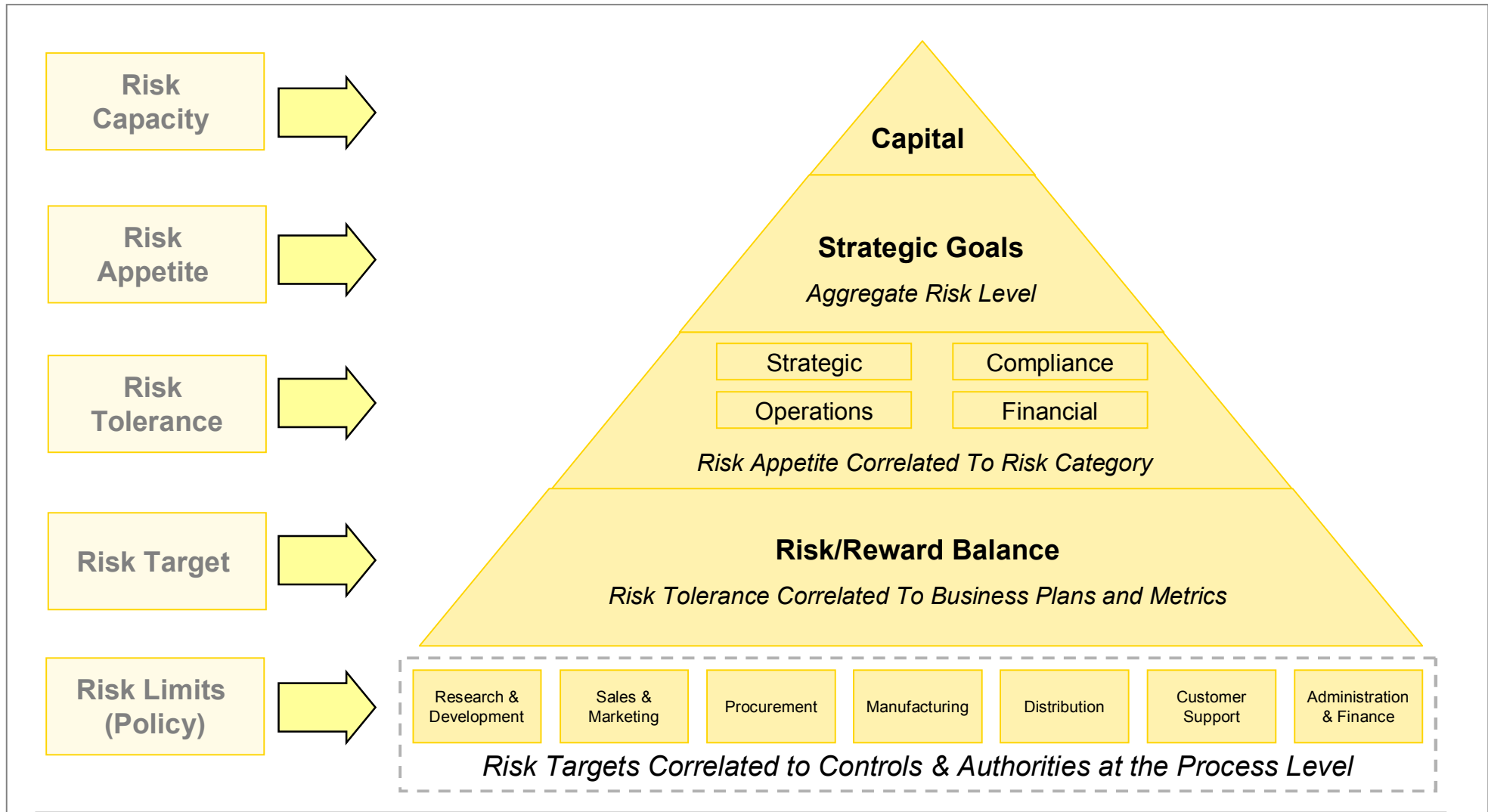
Is risk management broken?

Risk appetite & monitoring

I want bad news to travel quickly

- ▶ Limited articulation and dissemination of risk appetite or tolerance
- ▶ Organisational “filters” or silos limit information flows
- ▶ Control is often not commensurate with risk
- ▶ Lack of attention on low-probability but high-impact risks

Is risk management broken? Understanding “Risk Appetite”



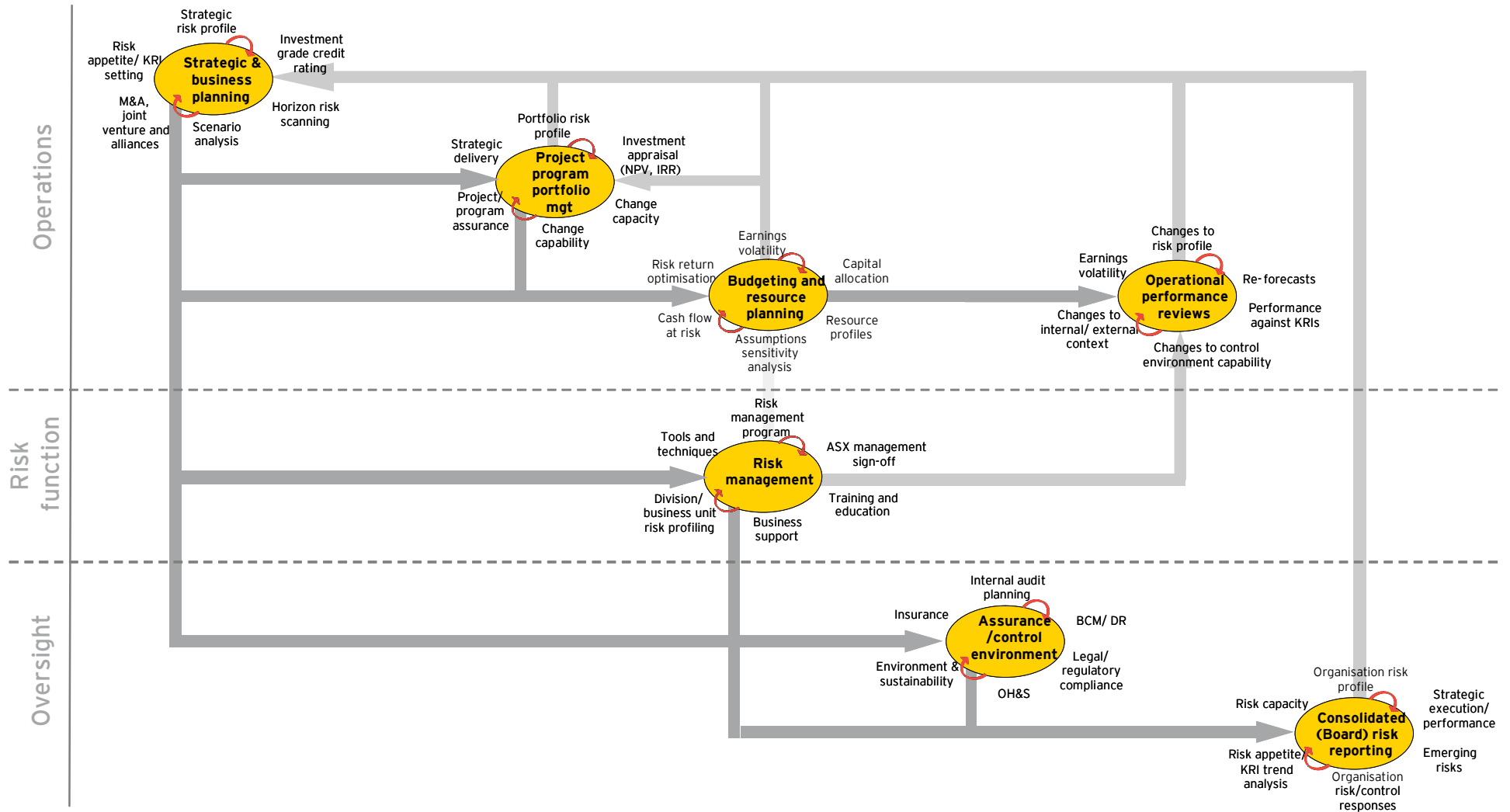
So, is risk management broken?

Risk management is bruised
but not broken

- ▶ Fundamentals are in place in many organisations
- ▶ There is a need to learn from past failings
- ▶ Improve the capability and degree to which it is embedded
- ▶ Rely less on quantitative models
- ▶ Manage exposure, not just probability weightings
- ▶ Don't forget behaviours and culture

An integrated model

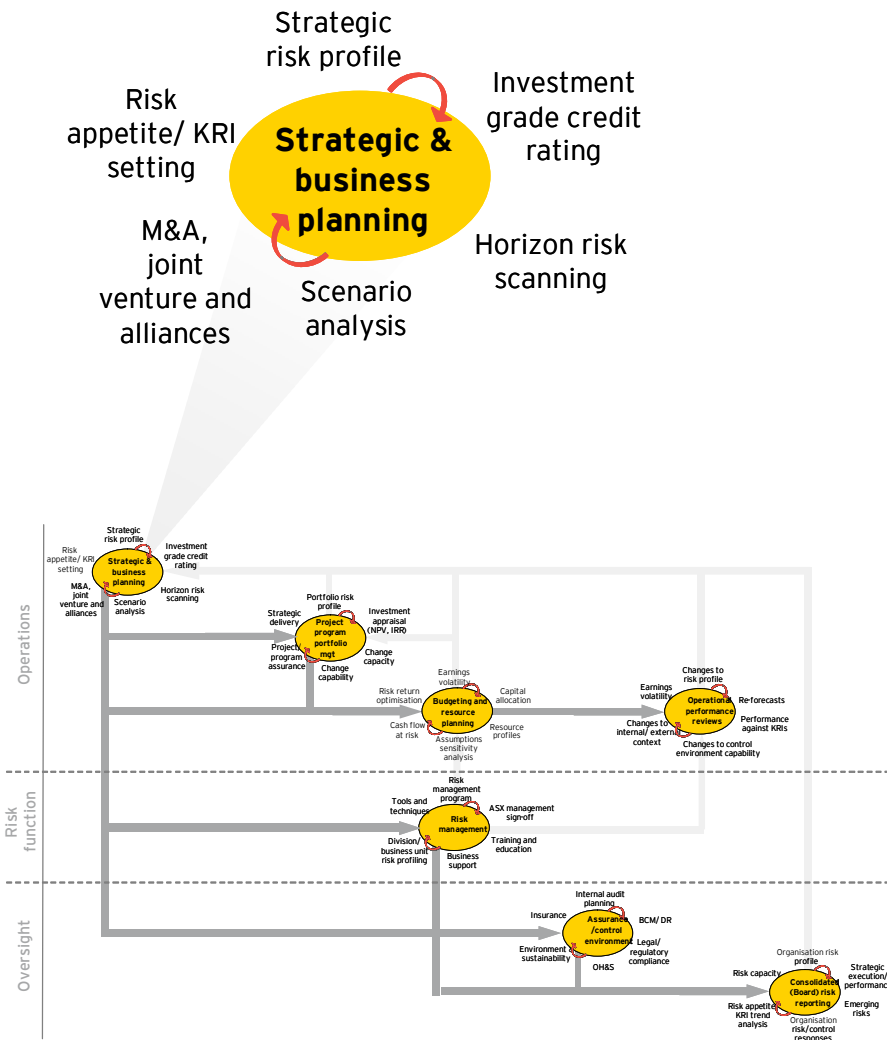
Enterprise risk management: delivering on a promise



Strategic and business planning

Statements

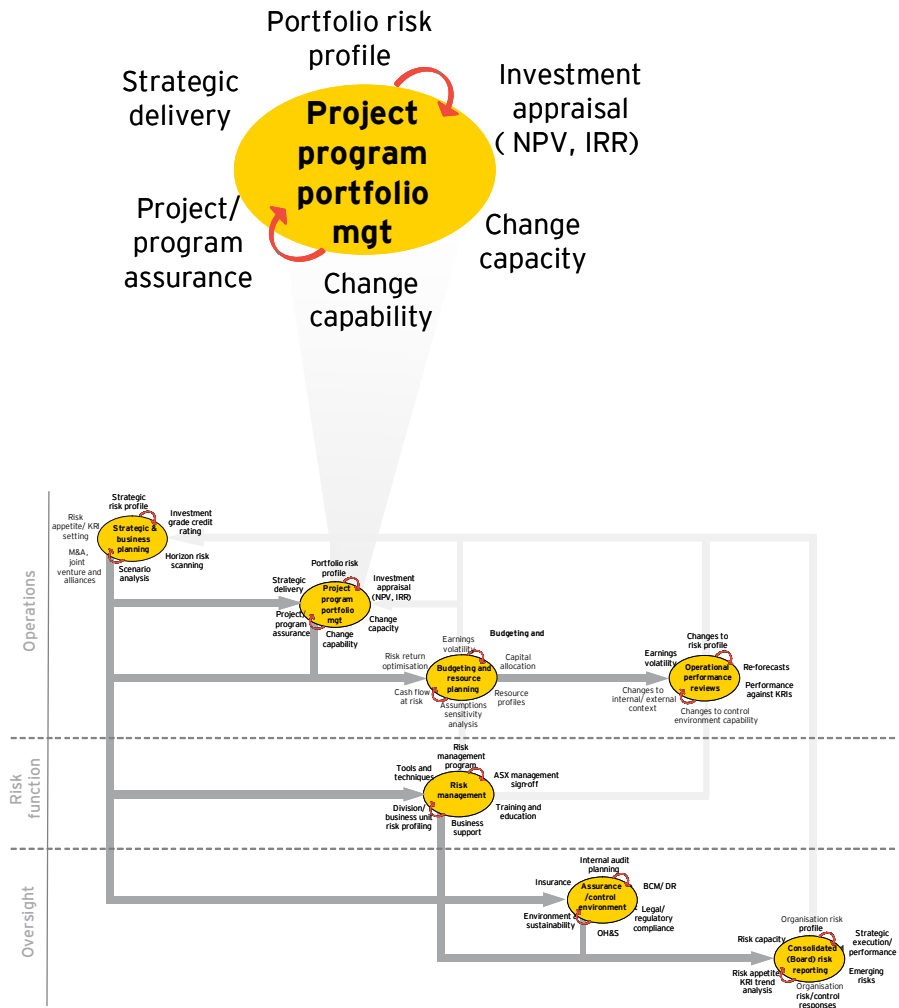
We develop our strategy and business plans within our defined and agreed risk appetite, tolerances, limits and policies.



Project, program and portfolio management

Statements

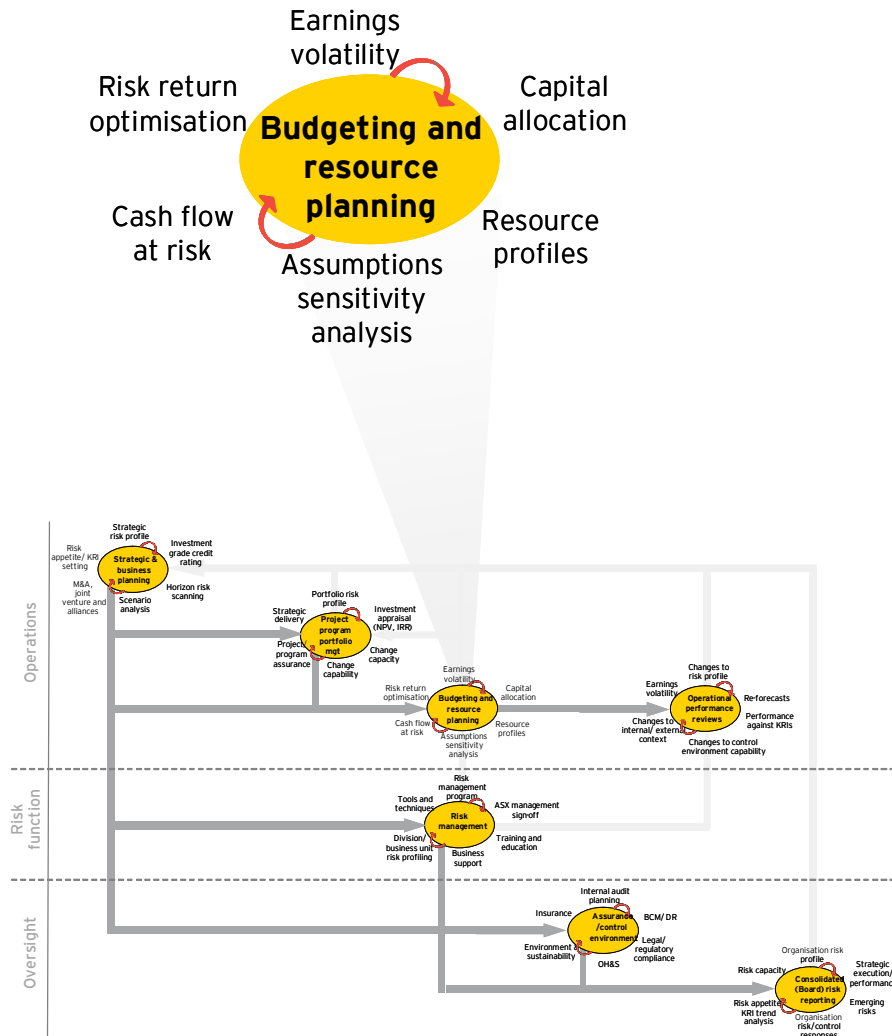
We factor in all the relevant risks when selecting projects and programs in the investment appraisal process.



Budgeting and resource planning

Statements

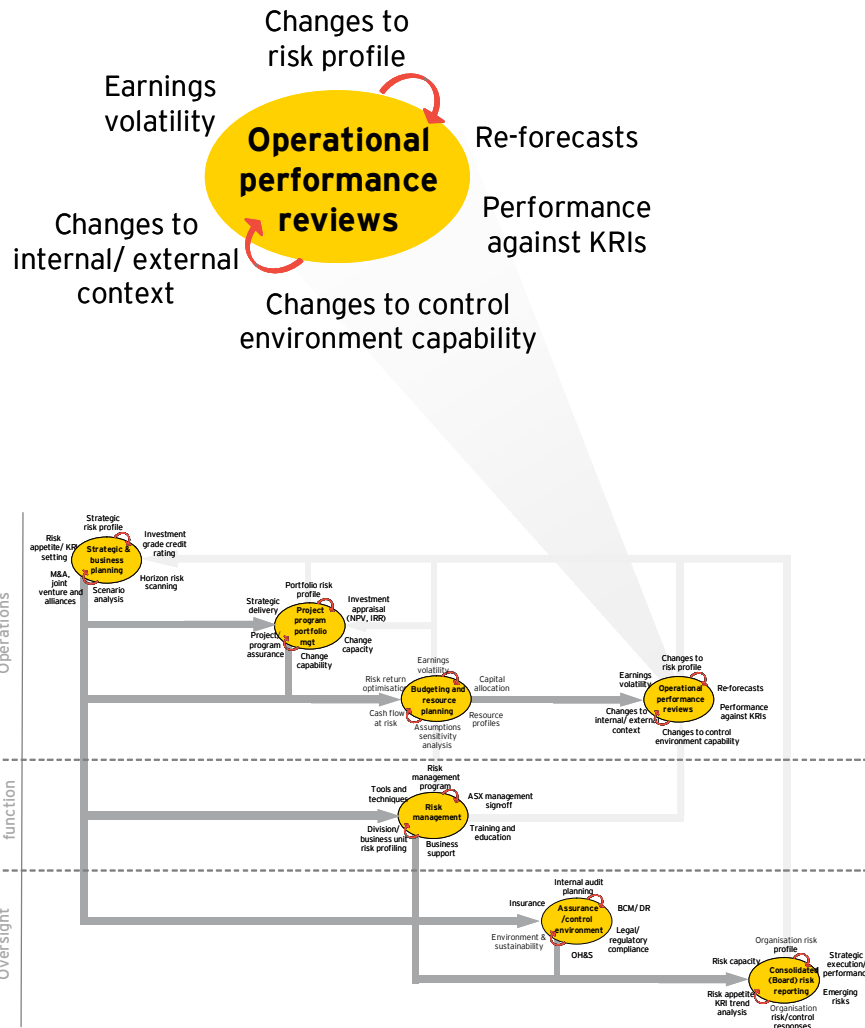
We understand how changes to our risk profile impact underlying budgetary assumptions (and vice versa).



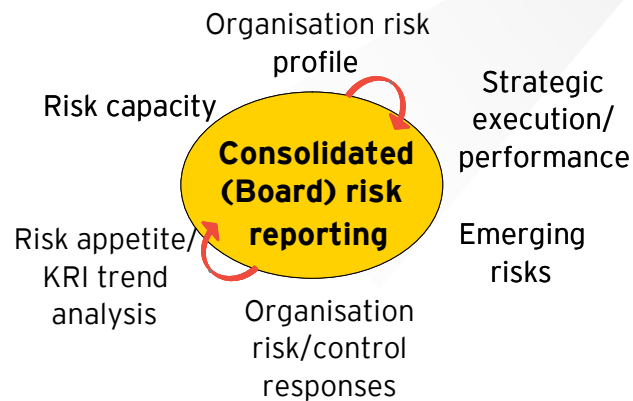
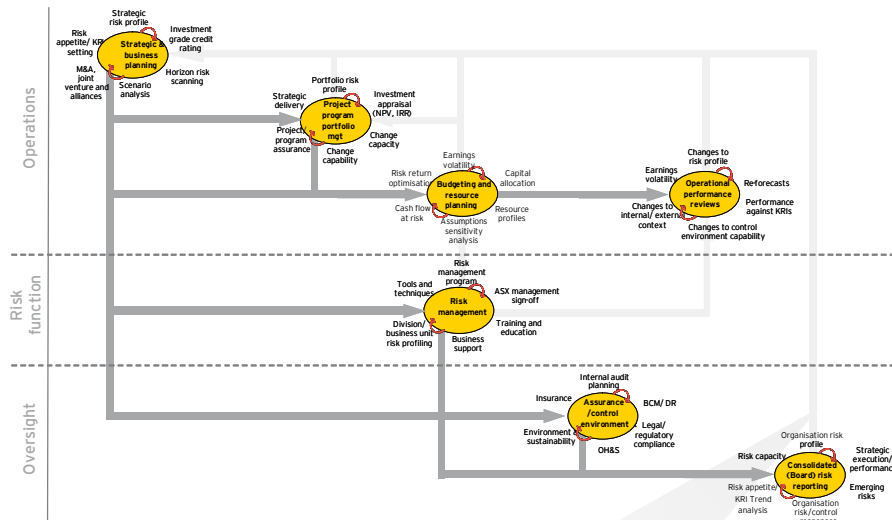
Operational performance reviews

Statements

Our business performance processes take into account how well we manage our risks in relation to the delivery of our financial KPIs (e.g. revenue/ earnings, cash flow, cost base, return on assets).



Consolidated (Board) risk reporting



Statements

We believe the Executive or Board receives the right risk information in a usable format, in a timely manner, to enable them to prioritise their responses and make effective decisions.

Risk culture and behaviours

How important is culture to risk management? How do you influence behaviours to improve risk management?

- ▶ Culture is a stronger determinant of risk management outcome than policy and process.
- ▶ Culture is largely driven by a combination of values and incentives.
 - e.g. Do we filter messages or disclose them and seek to solve?
 - e.g. Do incentives drive the right behaviour / risk management?
- ▶ Because these things are hard to measure, we tend not to actively manage them. However, just because it is difficult doesn't mean it is not worth doing.
- ▶ Increasingly sophisticated change management and behavioural modelling tools are allowing us to gain insights into how behaviours can be modified to increase risk management effectiveness.

Implications for the risk executive

Competencies for the future?

- ▶ Eyes, ears and nose of organisations – to be able to smell the smoke under the door
- ▶ Commercial and strategic skills
- ▶ Communication and change skills
- ▶ Strong financial background
- ▶ Understand the business
- ▶ Objective and fresh views and approach
- ▶ Direct relationship (confidence) with AC/RC/Chairman
- ▶ Place at the top table



Thank you