

BRIEFING SHEET

WILLIS ENTERPRISE & RISK FINANCE

ENTERPRISE RISK MANAGEMENT

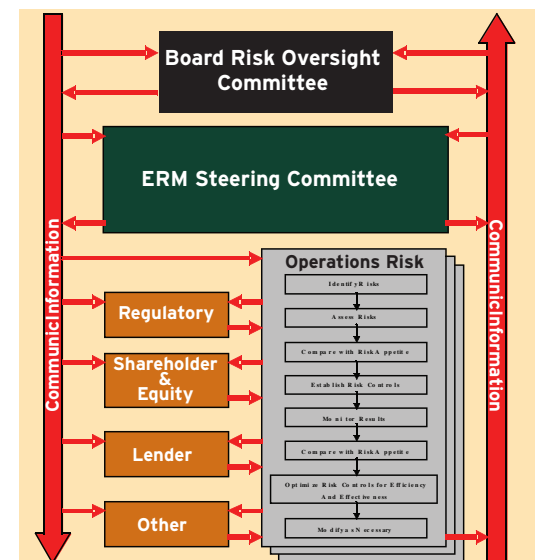
WHAT IS ENTERPRISE RISK MANAGEMENT?

ERM's purpose is to manage risk consistently and effectively across an organization's functions and business units. To accomplish this, ERM typically incorporates the following components.

- Agreed risk management goals, objectives and metrics
- Assignment of roles and responsibilities for managing risk
- Board level policy setting concerning risk appetite and risk tolerance
- Effective communications about risk issues up and down the organizational hierarchy
- A consistent ongoing approach to identify and evaluate risk along with more effective balancing of risk and reward in decision-making
- Development of risk mitigation Action Plans at the most appropriate levels
- An efficient structure to embed risk awareness, processes and terminology throughout the organization (as illustrated in this diagram)

While the foregoing are basic requirements of an ERM program, they do not guarantee its ultimate success. Deriving the full value from ERM is achieved at a deeper level of implementation.

ENTERPRISE RISK MANAGEMENT ORGANIZATIONAL STRUCTURE



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IMPLEMENTING A SUCCESSFUL ERM PROGRAM

It is not uncommon to find well intentioned ERM programs that are launched with all the requisite senior level support and funding gradually deteriorate over time into “form filling” exercises. In order to avoid this pitfall, below are what we consider at Willis to be the key success factors to building a sustainable program that consistently delivers value.

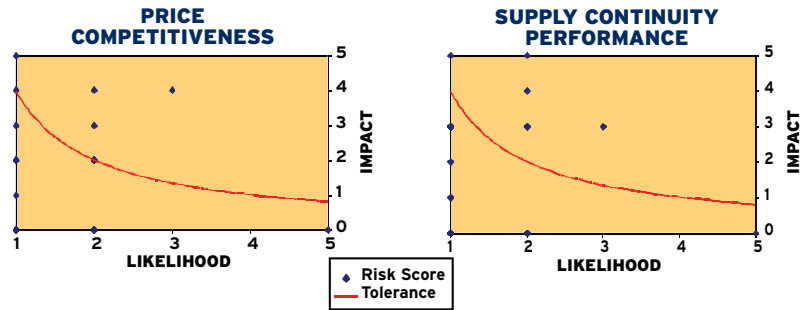
- Risk assessment processes robust enough to regularly surface unknown or emerging risks
- Incremental rather than “all-at-once” implementation
- Going beyond qualitative risk assessment to quantitative measurement where appropriate
- Securing ownership and buy-in of ERM at the operational level
- Linking the measurement of risk, particularly in qualitative risk assessments, directly to the critical variables that most affect the organization’s performance, as further explained below

CONNECTING TO THE ORGANIZATION’S KEY PERFORMANCE INDICATORS

Assessing the impact and likelihood of risks in relation to an organization’s individual performance indicators directly connects each risk to strategic and business unit planning and ultimately to business unit budgeting. It therefore establishes ERM’s immediate relevancy to decision making in a very clear and meaningful way.

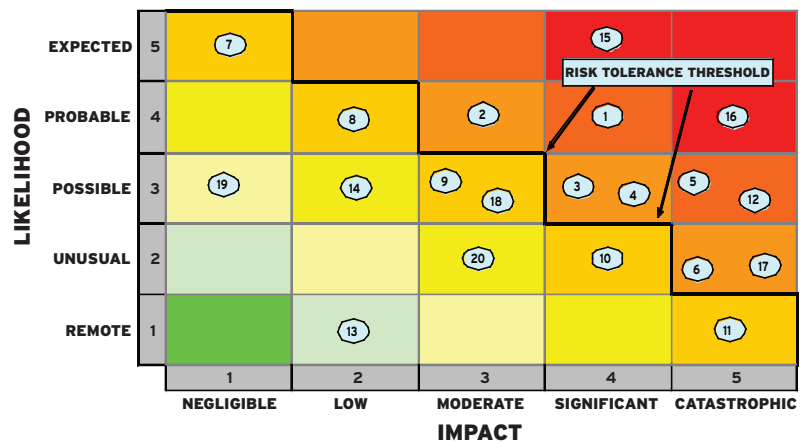
Once risks are assessed in relation to key performance indicators, information is available to decision makers as to the main causes of performance volatility deserving the most attention.

For example, below is an illustration of risk assessment output relating to two key performance indicators (price competitiveness and supply chain continuity). Individually rated risk scenarios are measured against the risk tolerance for each. Risk scenarios that are above the tolerance level require priority attention in business planning and budgeting.



GETTING STARTED

Because it is critical that ERM breaks down silos and operates across an organization, there must be clear and visible commitment from the top. Those individuals who will be responsible for the ERM program should establish key ERM objectives, desired deliverables and how the value of ERM activities will be measured. Early activities should include an analysis of the current organizational approach to risk management, evaluation of the organization’s risk tolerance and an initial risk assessment to establish the existing risk profile. The latter is often represented in a risk map or risk matrix as illustrated below.



WHY GO THROUGH THIS PROCESS?

External stakeholders – even rating agencies – are explicitly taking into account the effectiveness of a company’s ERM in their evaluations. This fact alone makes the benefit of solid ERM process very tangible.

But there is much more...

- Using a systematic approach to identify and understand threats to the organization will result in more effective planning, decision-making and governance
- Assigning employees at all levels distinct responsibility for addressing risk and giving them the tools to do so will result in more effective and consistent execution of those plans and decisions
- Systematic processes to measure and mitigate risk will reduce cost by lowering the likelihood and impact of unforeseen loss events and reduce volatility of results

In the final analysis, an effective ERM program extends beyond effective loss management and risk financing to the creation of value by helping an organization better assess and capitalize on their opportunities.

CONTACT

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