ERM

Speaking the Language of Risk

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An Introduction to ERM
So... What is ERM?

Enterprise Risk Management is a formally structured process designed to:

• Support the achievement of strategic goals and objectives

• Identify potential threats and manage them within the organization’s tolerance for risk

• Maintain a balanced view of risk and reward

• Involve all levels of the business

• Provide assurances to Executive Management and Board of Directors (and other key stakeholders) through reporting and feedback
OK....What does that mean?

ERM is simply a decision enablement tool for organizations to make better risk-based decisions

• Historically viewed as a mechanism to mitigate or avoid risk inherent to the business

• Trends showing ERM being positioned as key to defining future competitive advantages (taking advantage of risk to the benefit of the organization)
**The ERM Framework**

- **Risk Universe:** All the possible risks that an organization could experience

- **Prioritize:** Limiting focus to those risk of greatest impact/likelihood of occurrence

- **Risk Assessment:** Objective/Subjective evaluation of the key risks' potential impact based on business' strategic plan and business objectives

- **Risk Evaluation:** Sometimes referred to as "forced ranking" - Clearly defines the risk priorities of the organization

- **Risk Mitigation:** Organization's efforts to actively manage risk identified...different from remediation of audit findings

- **Reporting:** Critical to the ongoing feedback of the entire process

*Graphic Credit: Deloitte and Touche, LLP*
Revised COSO ERM Framework
Risk Culture as a Driver of ERM
The ERM "Delicate Balance"

**Hard Side**
- Measures and reporting
- Risk oversight committees
- Policies & procedures
- Risk assessments
- Risk limits
- Audit processes
- Systems

**Soft Side**
- Risk awareness
- People
- Skills
- Integrity
- Incentives
- Culture & values
- Trust & communication
Risk Culture Initiatives to Consider

1. Establish and communicate the desired culture and core principles (Risk Policy and Procedure)
2. Conduct baseline and annual employee surveys on current state vs. desired state, and develop strategies to close gaps
3. Organize local town halls and workshops to discuss risk and ERM, as well as board, management, and regulatory expectations
4. Provide training and post-mortem reviews to influence employee behavior (beware of “case law”)
5. Align reward and incentive systems with risk management objectives
Linkage Between Performance Measurements and Risk Culture

• Performance measures and incentives are critical drivers of risk culture

• Business value and benefits of a risk-aware culture
  ◦ Reduction in the cost of capital and insurance
  ◦ Alignment and rationalization of risk, compliance and audit activities
  ◦ Improve investment decisions including exit strategies
  ◦ Enhance reputation risk management
The Process of ERM
The Process

- Risk assessment
- Aggregate
- Scenario analysis
- Dashboarding, KRI
- Reporting

Distributed data ownership
Manual aggregation
Changing process and scenarios
Timeliness and accuracy
Useable and useful
Risk Assessment & Aggregation

Key Processes to gather and prioritize risk data and information

Requires interactions of the risk owners, management, and even Board

Mechanism to define risk priorities and areas of mitigation focus

Typical ERM Risk Assessments could include surveys, facilitated sessions, self-assessments, forced rankings
Scenario Analysis

Process of tying risk information and assessment results to the potential impact on achievement of strategic goals and objectives

Identifies both barriers AND opportunities

Helps drive future strategic imperative refresh and risk mitigation activities
Dashboarding and KRI

The visual depiction of risk (typically through use of heat maps and other visuals)

KRI provides parameters against which organizations measure their risk (Risk Tolerance, Risk Appetite)

Could be the core elements of any risk reporting that is done
Reporting

Ongoing communication of risk across the organization (Board, Executive Management, Business Line Management)

Should be organized as actionable to various audiences and not simply a report-out

Drives and fosters ongoing conversations on risk, specifically around emerging risk
Internal Audit Involvement in ERM
Audit's Role in ERM

The role of internal audit in Enterprise-wide Risk Management

Core internal audit roles in regard to ERM
- Evaluating risk management processes
- Giving assurance that risks are correctly evaluated
- Giving assurance on the risk management processes

Legitimate internal audit roles with safeguards
- Facilitating identification & evaluation of risks
- Reviewing the management of key risks
- Coordinating management in responding to risks
- Consolidating reporting on risks
- Coordinating ERM activities
- Developing & implementing the ERM framework
- Championing establishment of ERM
- Maintaining & developing the ERM framework
- Improving risk management processes
- Managing assurance on risks
- Taking decisions on risk responses
- Implementing risk responses on management's behalf
- Accountability for risk management

Roles internal audit should not undertake
- Setting the risk appetite

Graphic Credit: IIA
ERM and Audit: Why Can't We Be Friends?

• **Collaboration is Key**
  ◦ Risk Assessments
  ◦ Audit Reports
  ◦ Audit/Risk Committee Presentations
  ◦ Ongoing Risk Mitigations/Risk Prioritization

• **View Each Other as Resources**
  ◦ Think about having audit directly involved in the annual Enterprise Risk Assessment process
  ◦ Consult with ERM as part of all pre-work on all audits

• **Synchronization is the Ultimate Goal (INTEGRATED RISK)**
  ◦ Audit Plan in sync with ERM Risk Priorities
  ◦ Reporting Processes feed off of each other for a more comprehensive, coordinated output
Deriving Value from ERM
ERM Value? Difficult to Quantify

• Numerous studies conducted on quantifiable value for ERM Programs
  ◦ But are narrow in their scope and approach

• Difficulty is in quantifying the risks that were avoided through an effective risk management program
  ◦ “But-for causation”

• Overview and analysis of the risk studies conducted

• Blueprint for outlining value for ERM Programs
ERM Studies Suggest Strong Value Correlations

• Study #1: ERM’s impact on overall firm value for US Insurance Industry¹:
  ◦ Found that “ERM Premium” is statistically and economically significant
  ◦ Approximately 17% of firm’s value

• Study #2: 2006-2011 Study on ERM Maturity correlation to market valuation of public companies²:
  ◦ Study found a 25% positive market valuation impact for firms with a mature ERM Program

Areas of Focus and Priority for ERM
Hot ERM Topics for 2017 and Beyond

• **Systemic Risk and Potential Failure**
  ◦ Business Continuity/Disaster Recovery
  ◦ "Too Big To Fail" (Financial Services)

• **Geopolitical Conflict**
  ◦ Safety and Security of Employees, Contractors, Goods, Critical 3rd Parties
  ◦ Humanitarian Concerns

• **Globalization**
  ◦ World Economy, International Currency Issues (BREXIT), Import/Export, Trade Sanctions and Embargoes
Hot ERM Topics for 2017 and Beyond

• **Cyber Risk/IP Protection**
  ◦ Constant attack of organizational intellectual property
  ◦ Will never be able to mitigate this risk 100%, will always be present

• **REPUTATION**
  ◦ Single largest area of concern for Business Leadership, Executive Teams and Boards of Directors
  ◦ Deals with not only the actual risks posed to an organizations, but also the perception of risk as observed by an outside third party
  ◦ Managed through strong ERM as well as crisis management
Resources for ERM
KEY ERM RESOURCES

Workiva's ERM Web Page

- Plethora of Case Studies, Whitepapers and archived Webinars Featuring prominent ERM thought leader, James Lam

NC STATE ENTERPRISE RISK MANAGEMENT INITIATIVE

- Main Web Page: [https://erm.ncsu.edu/](https://erm.ncsu.edu/)
- ERM Articles: [https://erm.ncsu.edu/library](https://erm.ncsu.edu/library)
- ERM Research/Reports: [https://erm.ncsu.edu/library/research](https://erm.ncsu.edu/library/research)

World Economic Forum's 2016 Report on Global Risks

Thank You!

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