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Risk Management Principles and Practice

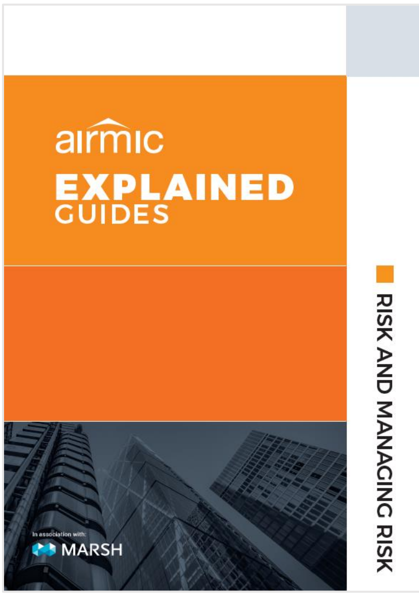
David Stark and Fiona Davidge

9th February 2021

1. Introductions, Overview & Objectives

Introductions and Explained Guide Overview

- Introducing Fiona and David
  - Fiona Davidge - Enterprise Risk Manager with the Wellcome Trust
  - David Stark - leader of Marsh Advisory UK and Ireland's Enterprise Risk Services Practice
- Introduction to the Guide



This Webinar takes you through key risk principles and then expands into the risk practices that ensure you deliver them effectively.

Learning objectives:

By the end of the session you should be able to understand:

- Risk definitions
- The key risk principles
- Why they matter
- What good risk management practices look like

Risk and Risk Management Definitions

International Organisation for Standardisation (ISO) definition:

“Risk is the effect of uncertainty on objectives”

1

Risk:

An uncertain event impacting on the outcome of defined objectives.

Both an opportunity and a threat.

2

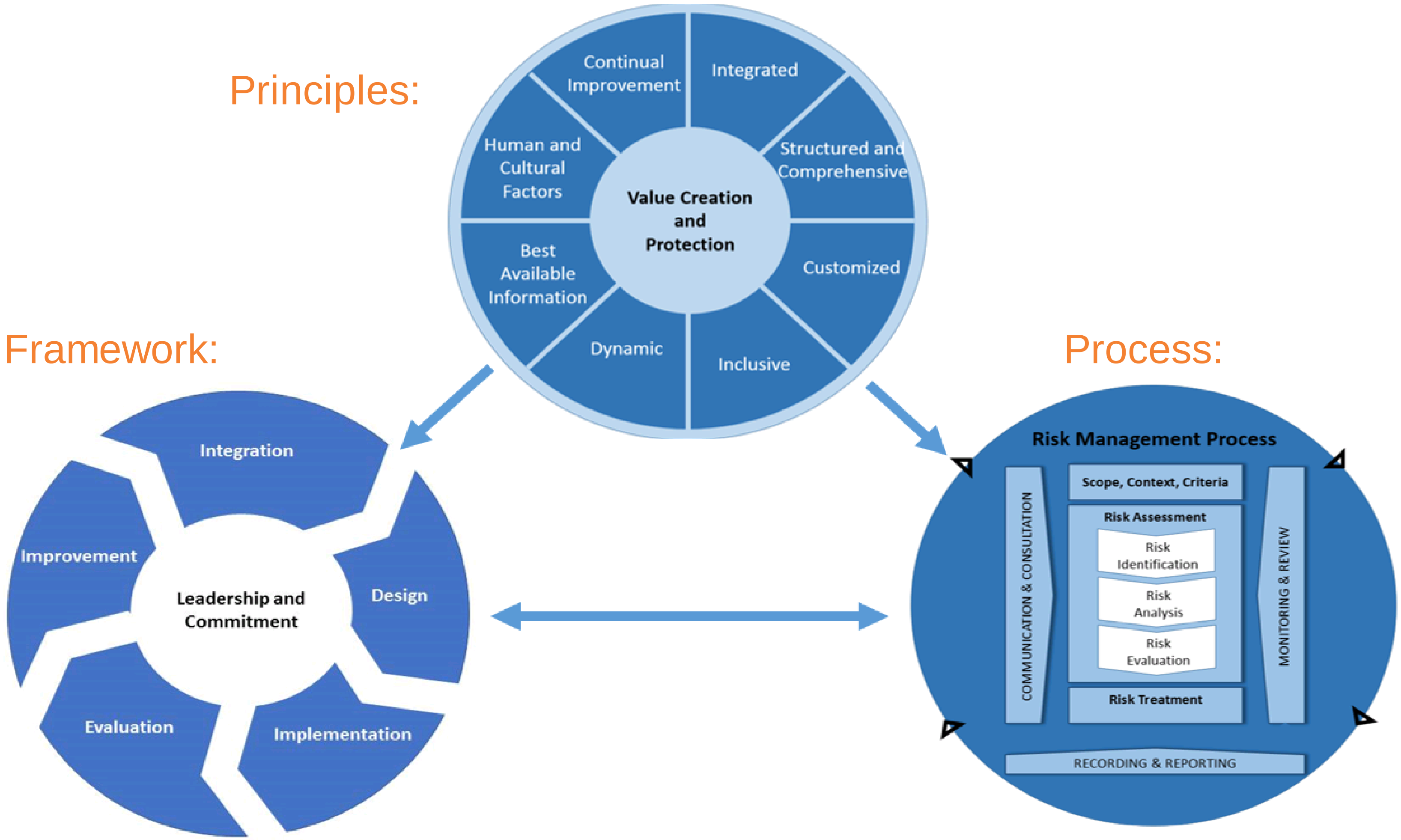
Risk Management:

Co-ordinated activities which direct and control an organisation with regards to risk.

(ISO31000)

2. Global Standards and Guidance

Risk Management Standards
ISO 31000:2018



Risk Management Standards
COSO (updated, 2016)

- Emphasises the relationship between:
    1. Risk.
    2. Value.
    3. Performance.

- Focuses on integration of ERM into all aspects of organisational operations.

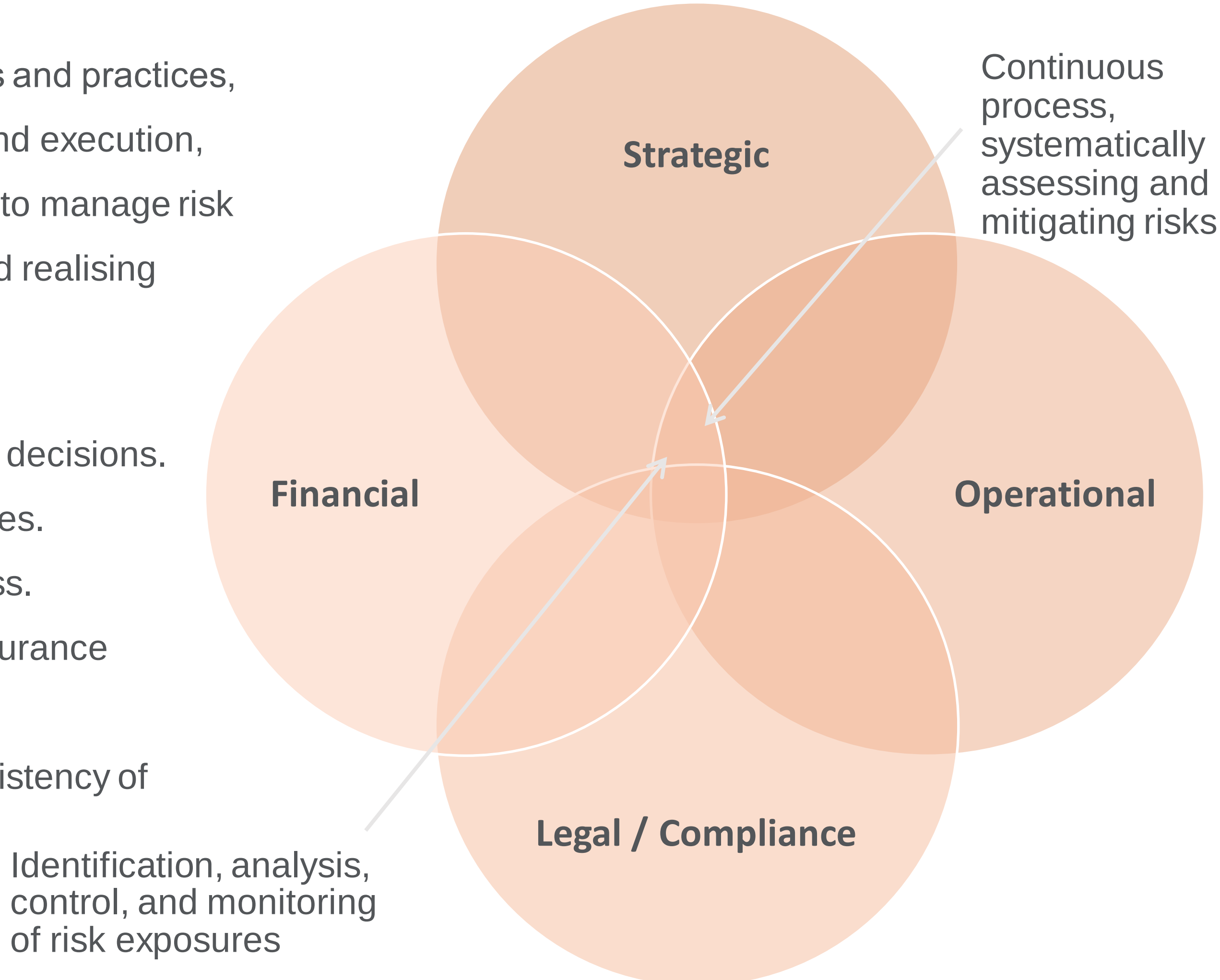
Introduction to Enterprise Risk Management (ERM)

ERM definition (COSO):

- "…the culture, capabilities and practices, integrated with strategy and execution, that organisations rely on to manage risk in creating, preserving and realising value…"

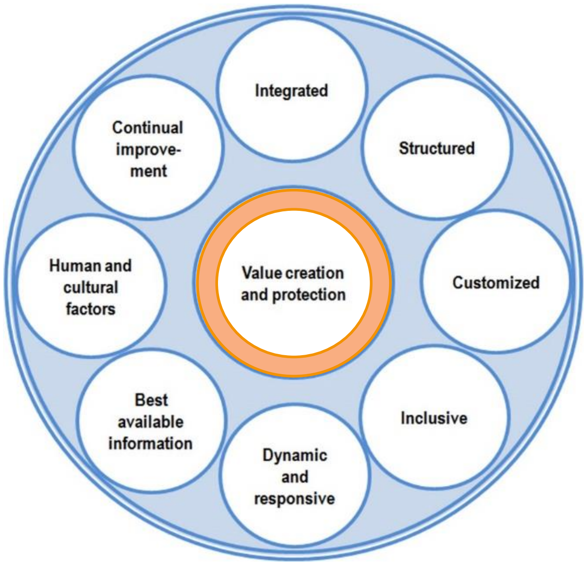
Benefits of ERM:

- Enhanced management decisions.
- Achievement of objectives.
- Promoted risk awareness.
- Reduced losses and insurance claims.
- Improved skill sets/consistency of approach.



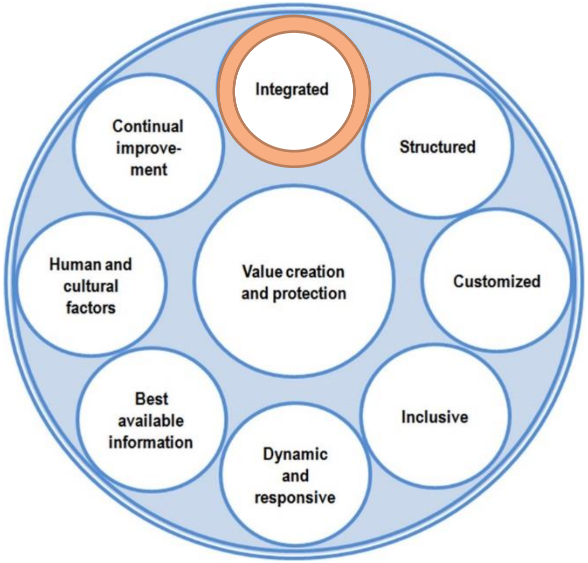
3. Key Risk Principles

Value creation and protection



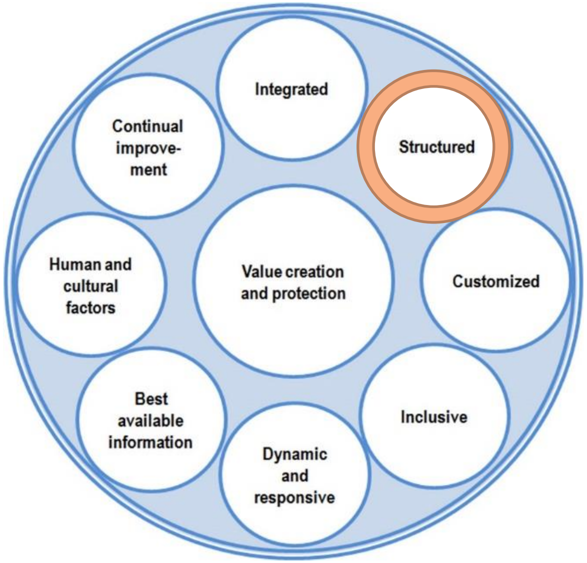
- Sits at the heart to reflect the purpose of risk management
- Create value by managing uncertainty
- Creating value can be expressed in many ways, including how well objectives are being achieved
- Value protection seeks to identify, understand and manage risks to objectives on an ongoing basis

Integrated



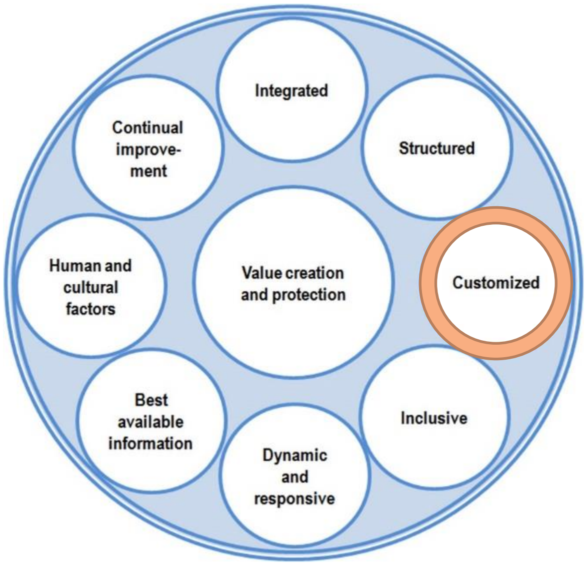
- Risk management should be an integral part of all activities
- It should not exist as a stand-alone activity but be a part of all processes, including strategic planning, operational, financial, legal, IT, project and change management
- Integrated into wherever decisions are being made and discussions are being held
- This will enable the organization to grasp new opportunities whilst reducing the risk of business threats to it in a controlled manner

Structured



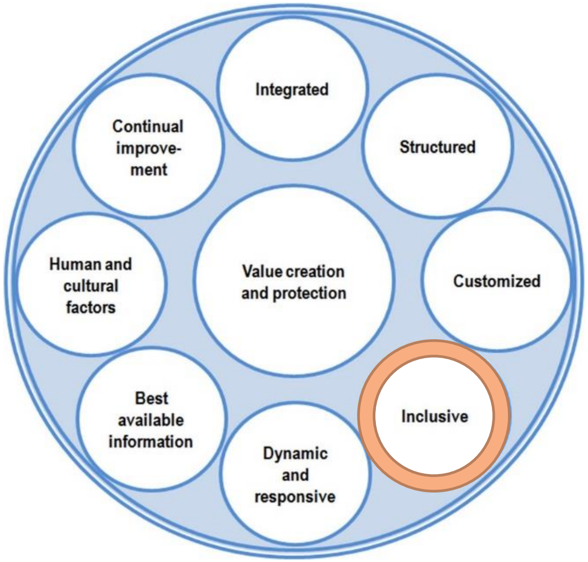
- A structured and comprehensive approach contributes to consistent and comparable results
- Risk assessment should be approached in a consistent way across different parts of the organization, allowing for decisions to be taken with confidence and avoiding duplication of effort
- The risk management framework should comprehensively cover all areas of risk, both internal and external
- However it should not be overly bureaucratic

Customised



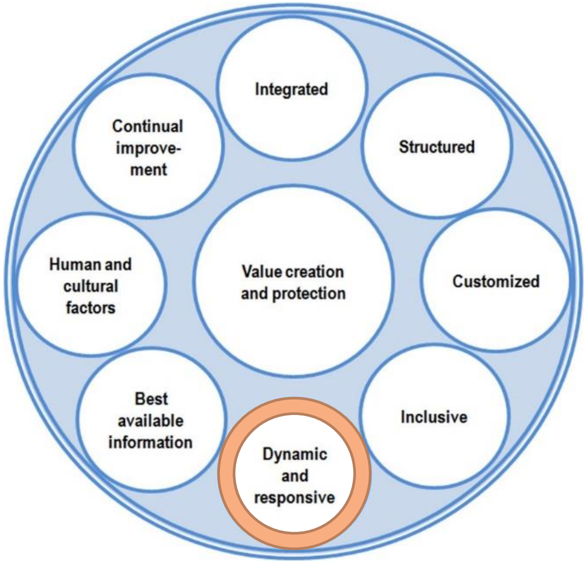
- The framework and process(s) need to be customized and proportionate to the organization's external and internal context
- Related to the objectives at all levels

Inclusive



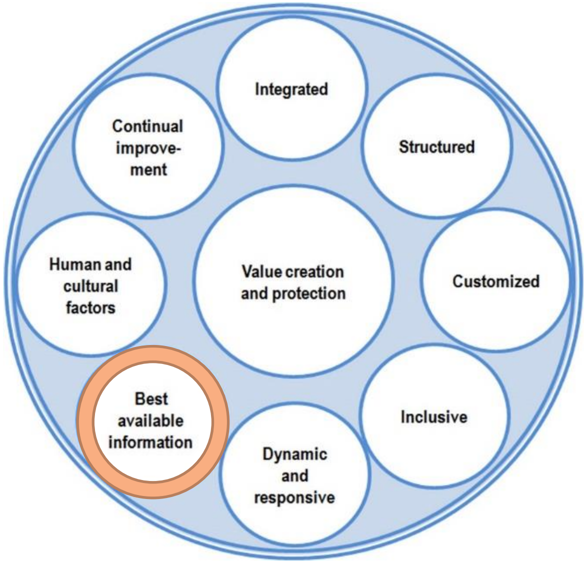
- Appropriate and timely involvement of stakeholders enables their knowledge, views and perceptions to be considered
- All levels of staff have a part to play
- This all results in improved awareness and informed risk management

Dynamic and responsive



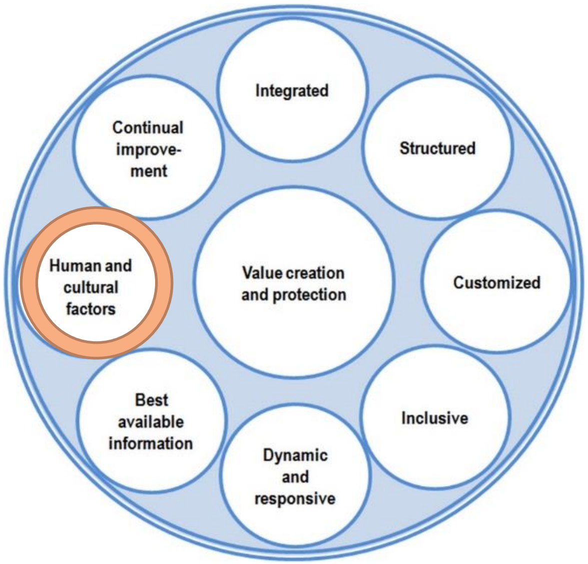
- Risks can emerge, change or disappear as your external and internal context changes
- Risk management needs to anticipate, detect, acknowledge and respond to those changes in an appropriate and timely manner
- Dynamic can also mean that the profile or shape of a 'known' risk is being aggravated by changing external conditions (such as higher taxes on sugar in food and drink products, tightening environmental regulation or a trade war) or become more consequential due to internal factors (more aggressive strategic ambitions, lower resilience due to cost-cutting measures or challenges in embedding new values and behaviours to reflect repurposing initiatives).

Best available information



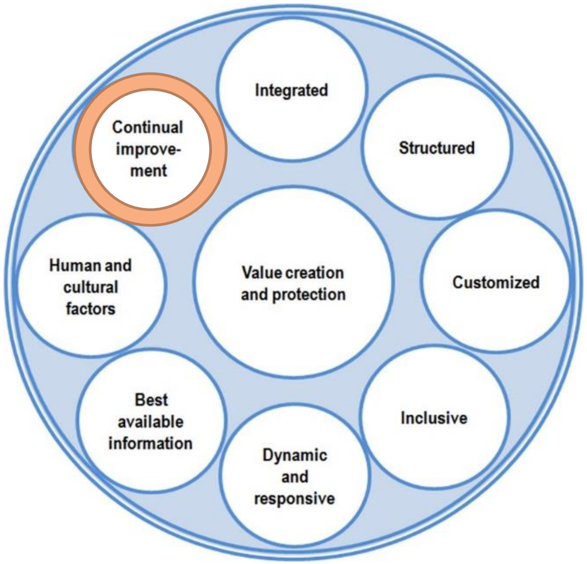
- Inputs can be based on historical and current information, as well as future expectations
- Sources of risk data can include subjective opinion, empirical data and forecast information
- Data should be as accurate as possible and verifiable (emerging risk data can never be totally relied upon because there is so much uncertainty in respect of these new and volatile risks)
- Risk perception and attitudes may vary widely across the organization and people should be aware of biases which may distort information
- People need to be curious and any sources of information to keep informed
- Collaboration with other functions is essential in a world where risks are connected, not siloed.

Human and cultural factors



- Human behaviour and culture significantly influence all aspects of risk management at every level and stage
- The culture of an organization affects the behaviours, attitudes and decision-making ability of its people
- Risk culture is the culture of an organization viewed through a risk lens
- It enables individuals to appreciate how their actions can impact on the wider business and support them in responding appropriately to new and different scenarios

Continual improvement



- Risk management is continually improved through learning and experience
- The framework should be reviewed in conjunction with other critical business processes on a regular basis
- Staff should feel free to make their opinions known without fear of blame or recrimination

4. Risk Practice Considerations

Governance & framework

Key considerations:

1 Policies and procedures – set the mandate and guide implementation.

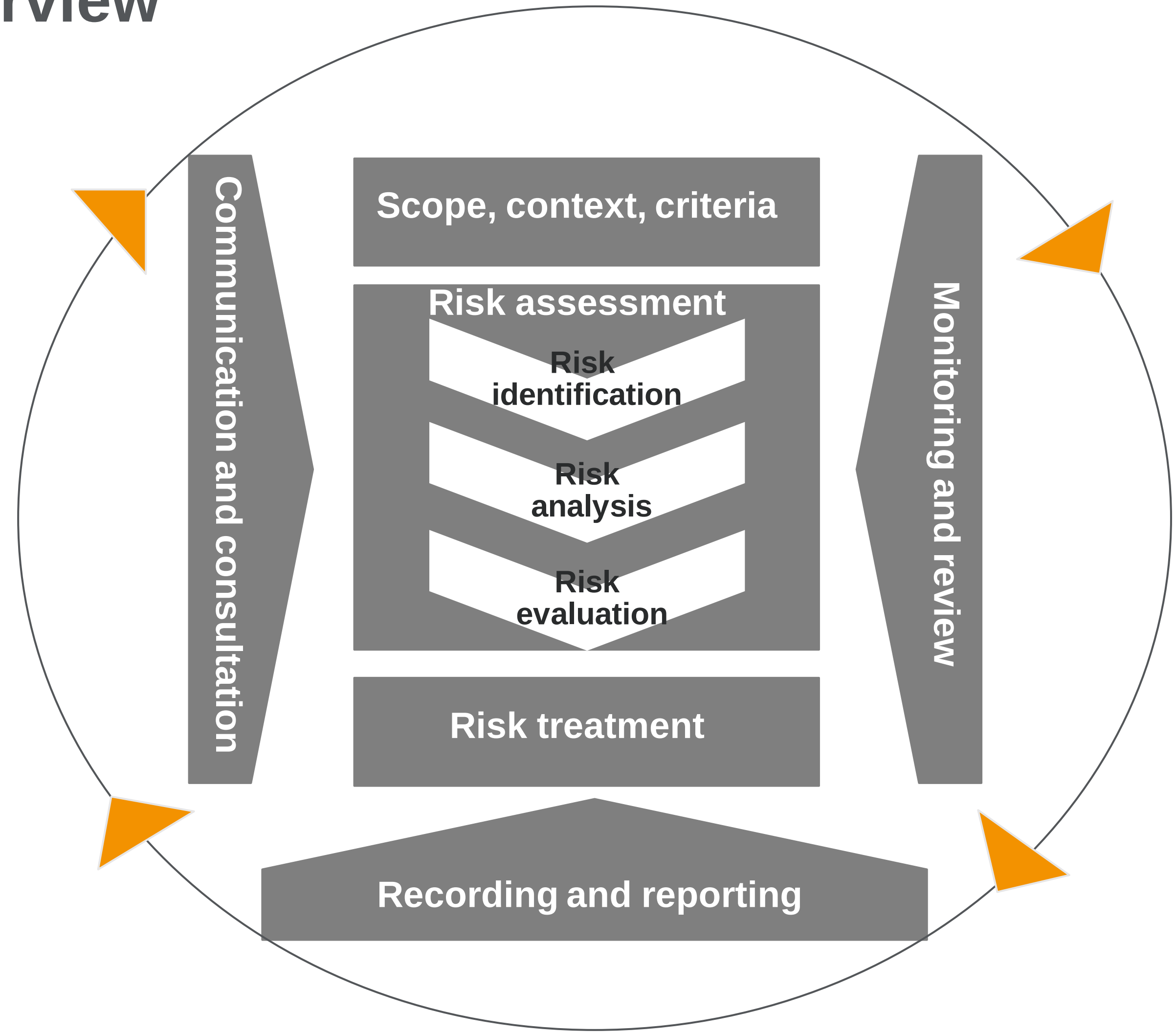
2 Appetite and tolerance.

3 Oversight, assurance, and reporting.

Source: ISO31000:2018, Risk Management Framework.

Risk Process Overview

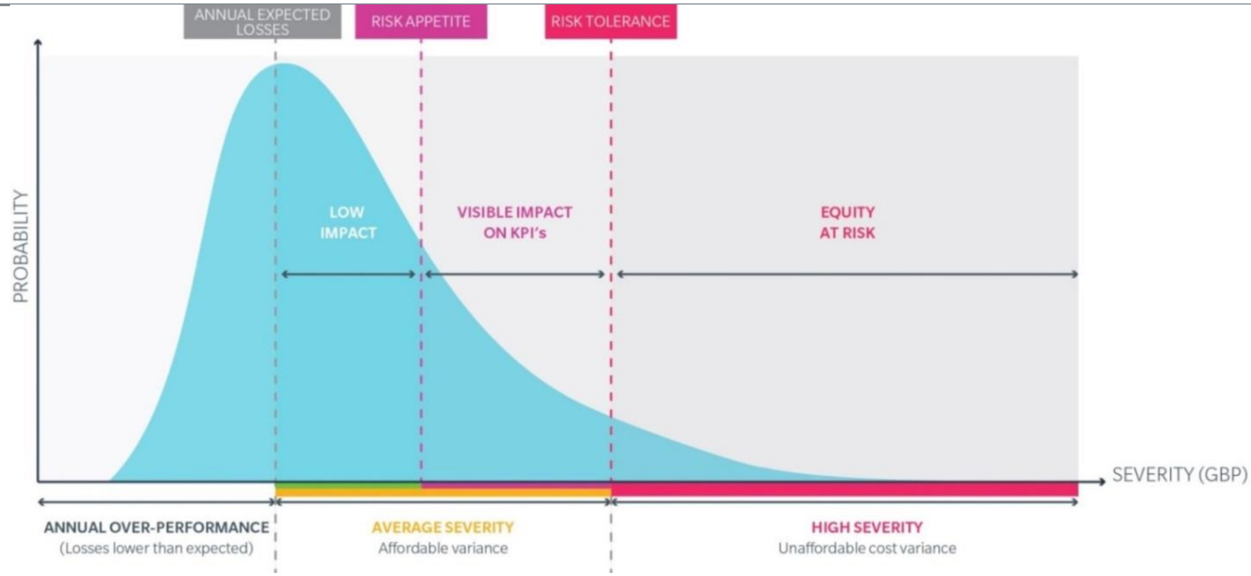
Structured Methodology to Identify, Define, and Assess Risks to Business Strategy, Performance and Operational Effectiveness



Source: ISO 31000:2018

Risk Appetite and Tolerance

Risk Appetite	Risk Tolerance
WILLINGNESS to take risk.	**ABILITY** to take risk.
How much of each risk type are we prepared to take?	What can the balance sheet withstand before the corporation is mortally wounded?
Formalise risk appetite through completing risk appetite matrix and risk appetite statement.	
Compare risk profile to risk appetite to implement suitable risk mitigating actions.	



Source: Marsh

Identification of risks – threats and opportunities

- Identify internal and external sources of risks (threats and opportunities).
- Determine causes, consequences, categorisation, connectivity, and ownership.
- Monitor constantly evolving internal and external risk landscape for new and developing risk issues.

Examples of new and developing risk issues:

Risk articulation

- Process should involve all relevant stakeholders, ensuring:
  - Risks are comprehensively assessed.
  - A group wide perspective and ownership.
- Risks should be properly articulated, ensuring:
  - Everyone understands the risk, its causes, and consequences

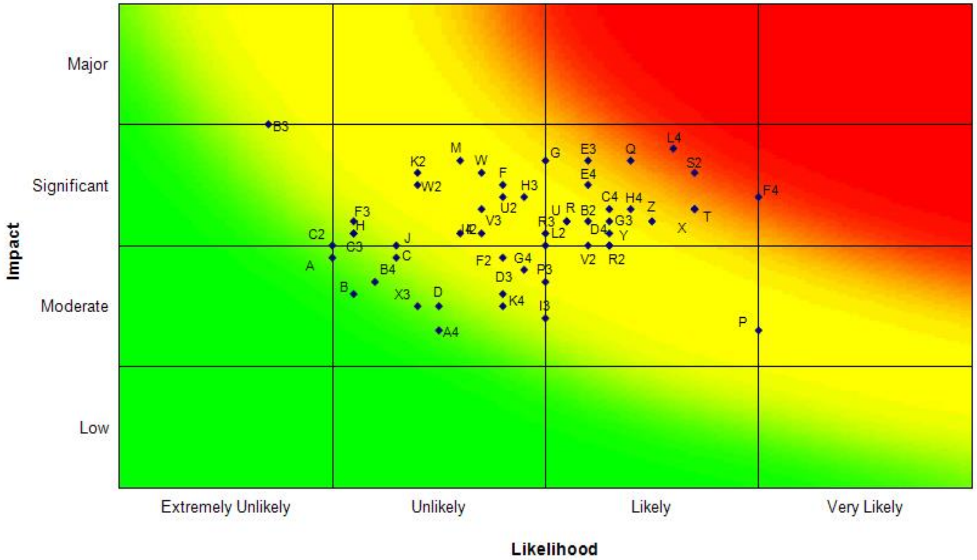
THREAT/ OPPORTUNITY → CAUSES → CONSEQUENCES

  - Effective controls are in place.
- Risks are recorded in a risk register/database.
- Progressive companies will:
  - Consider the risks of major decisions.
  - Think about emerging risks.

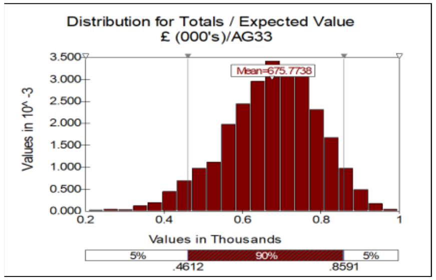
Risk analysis

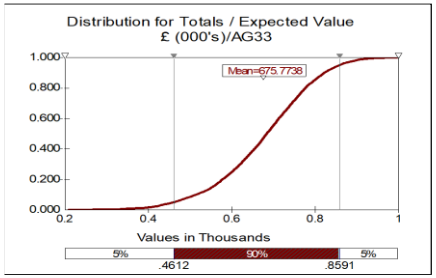
- Qualitative analysis across multiple impacts for both inherent (gross) and residual (net) risks.
- Quantitative analysis to determine financial exposure.
- Review against appetite.

Example risk map:



Project risk quantitative output:





Summary Information	
Workbook Name	Exercise3.xls
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Number of Iterations	5000
Number of Inputs	16
Number of Outputs	1
Sampling Type	Latin Hypercube
Simulation Start Time	24/11/2006 17:09
Simulation Stop Time	24/11/2006 17:09
Simulation Duration	00:00:13
Random Seed	1810104675

Summary Statistics			
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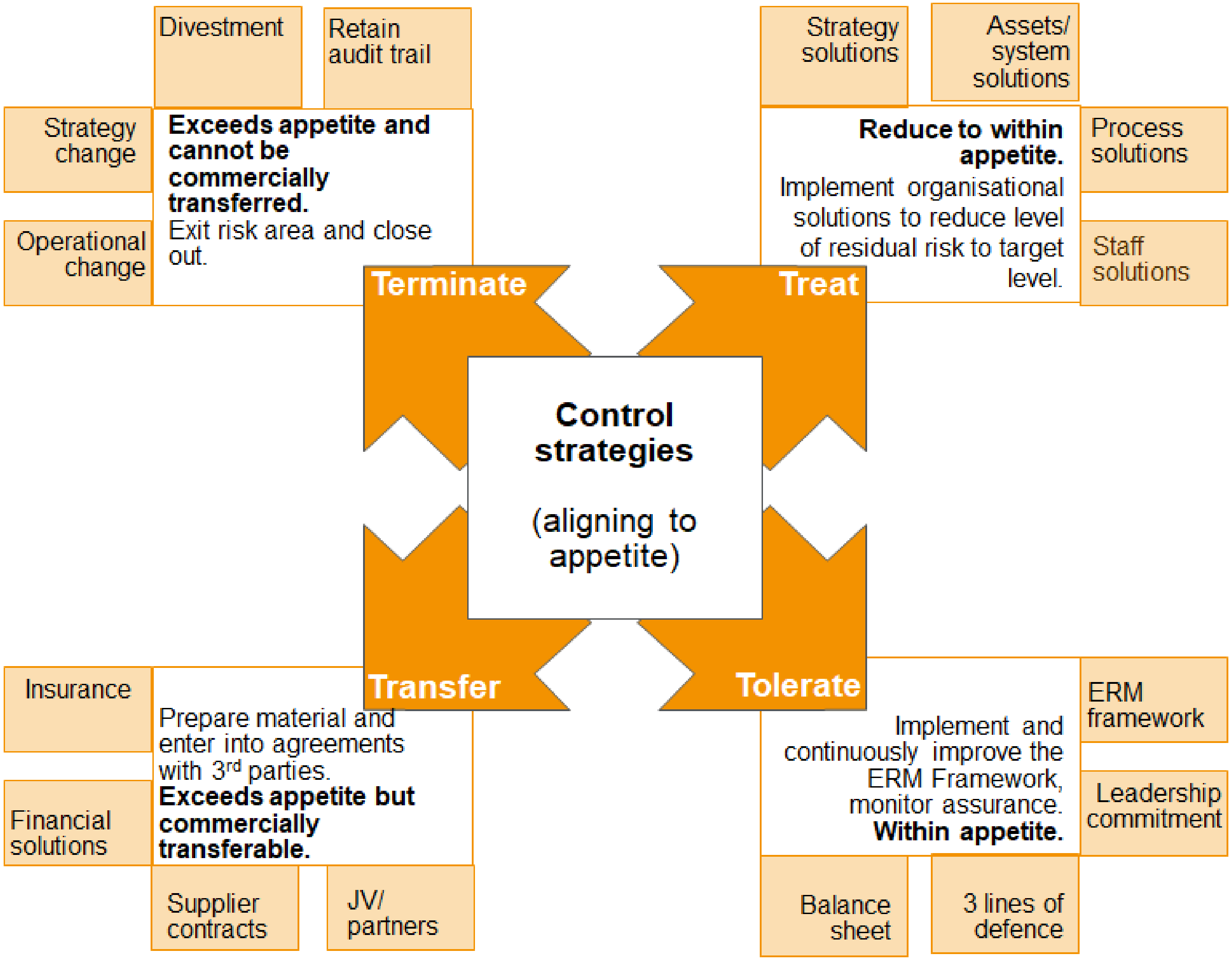
Maximum	996.9084473	10%	513.4162598
Mean	675.7737962	15%	552.8639526
Std Dev	119.518731	20%	578.4676514
Variance	14284.72707	25%	600.9631348
Skewness	-0.397036222	30%	620.4137573
Kurtosis	3.10451144	35%	636.8275146
Median	683.8195801	40%	654.5809937
Mode	607.848938	45%	670.2627563
Left X	461.22229	50%	683.8195801
Left P	5%	55%	698.7078247
Right X	859.1275024	60%	712.8604126
Right P	95%	65%	728.8535767
Diff X	397.9052124	70%	744.1127319
Diff P	90%	75%	760.4390869
#Errors	0	80%	776.9193726
Filter Min		85%	797.7344971
Filter Max		90%	822.1275635
#Filtered	0	95%	859.1275024

Source: Marsh

Risk treatment



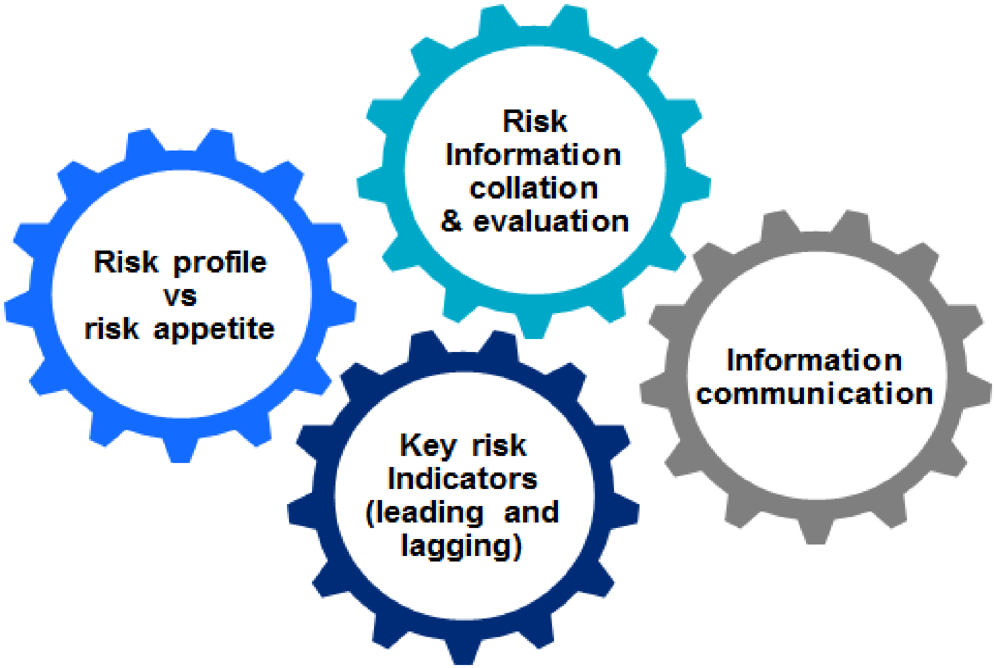
Source: Marsh

Risk communication, monitoring and reporting

1 Communicate the risk management programme through the risk register or Risk Management Information System (RMIS).

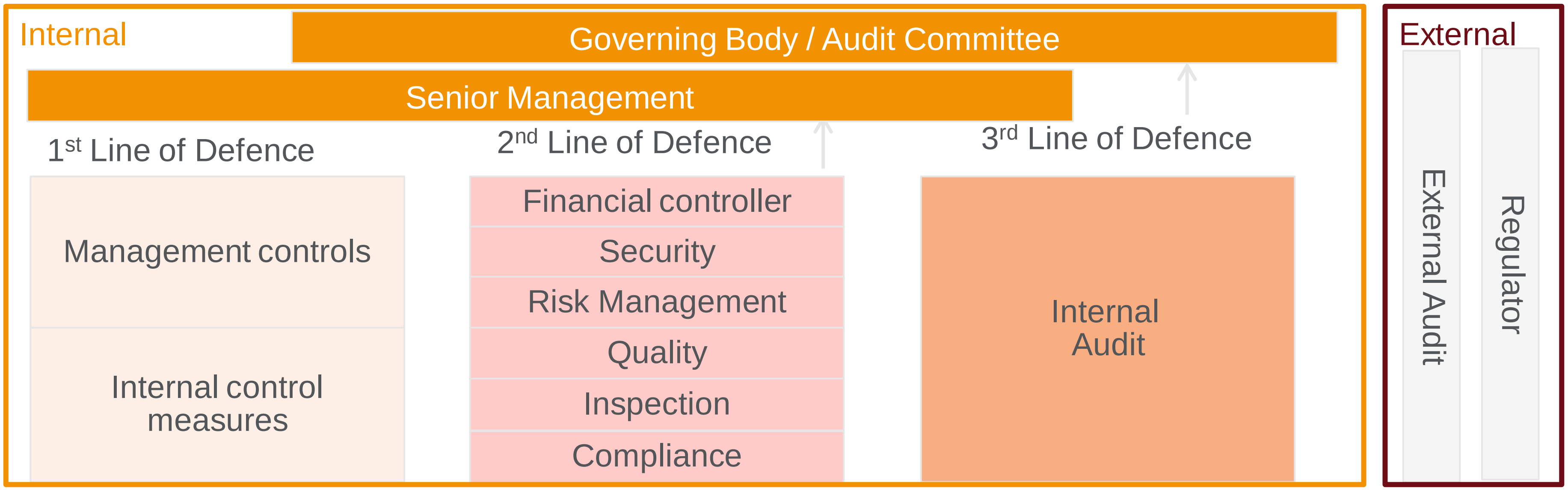
2 Formalise monitoring.

3 Report externally.



Roles and responsibilities

1. Front line employees.
2. Compliance and risk.
3. Internal audit.



Source: Marsh

The Changing Role of the Risk Function – 2nd Line Role

Source: Marsh

Risk culture

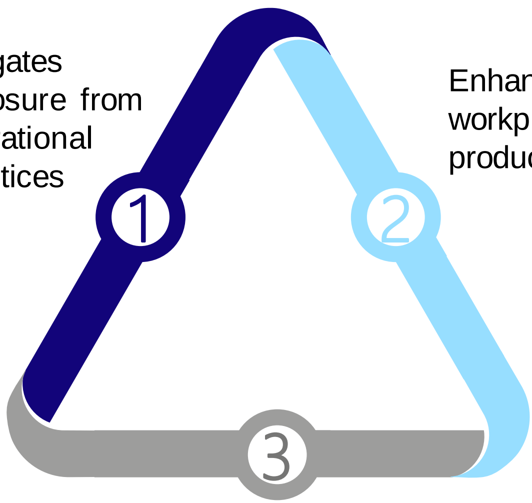
Risk culture refers to the behavioural norms of people with regard to the risks presented by strategy execution and business operations

Strong risk culture

Provides 3 key benefits:

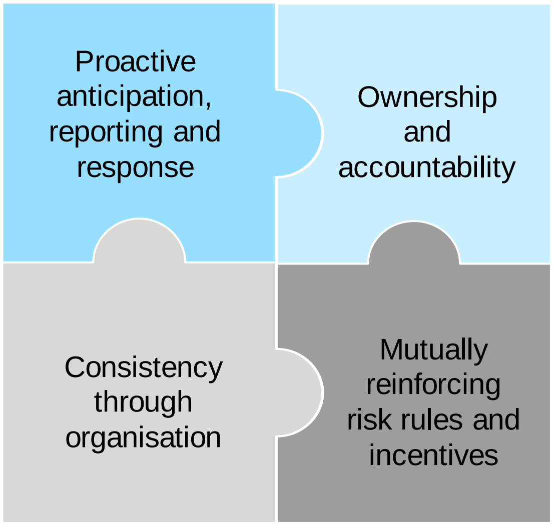
Mitigates exposure from operational practices

Enhances workplace productivity



Averts incidents with significant consequences

Evolves of 4 principles:



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Source: Marsh

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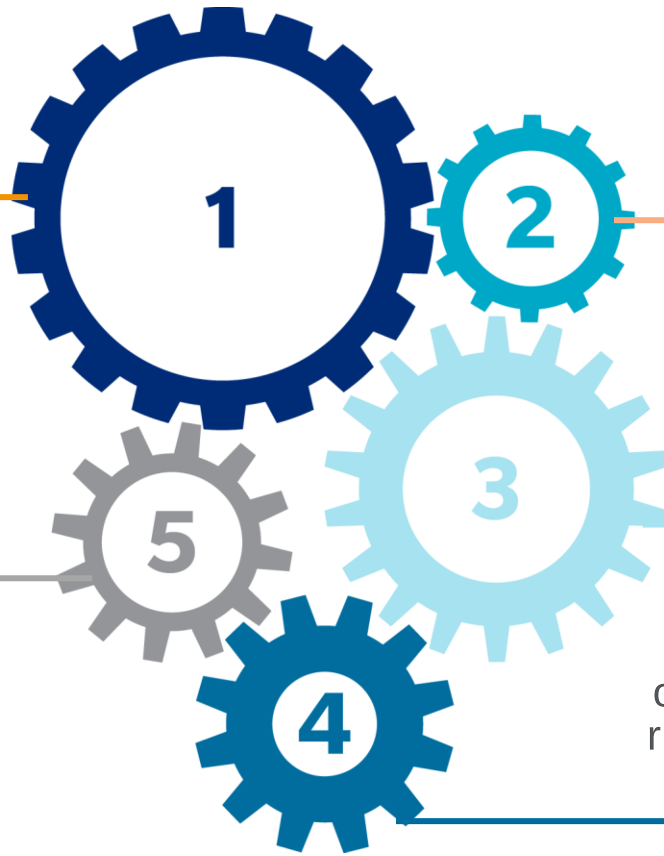
Leadership Commitment, Culture, Roles, and Responsibilities

Recognise the internal values, beliefs, knowledge, and understanding about risk.

Create a risk aware culture, constantly learning from experiences.



Set risk management objectives, risk strategy, and day to day controls.

Consistent communication from senior management.

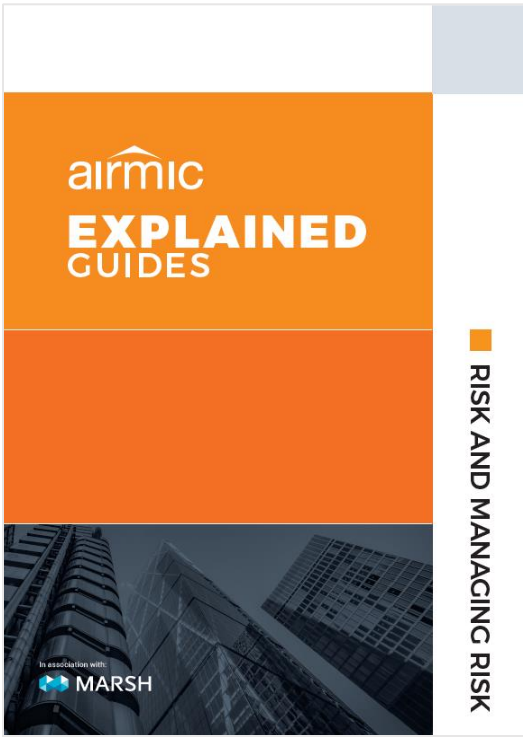
Specify accountability for and ownership of specific risks and risk areas, as well as roles and responsibilities.

5. Summary and Q&A

Summary

Next steps:

Discuss the Principles and Practices discussed (as well as covered in the *Explained Guide)* with your colleagues and review your risk management framework to ensure it protects and delivers value.



This Webinar has taken you through key risk principles and the risk practices that ensure you deliver them effectively.

Learning objectives:

You should now be able to understand:

- The key risk principles
- Why they matter
- What good risk management practices look like

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Questions?

Thanks for attending