

Enterprise Risk Management

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Enterprise Risk Management

- Balancing risk and controls to improve business performance
 - Practical implementation of ERM
 - Getting value for ERM efforts



危機

Risk

Opportunity

Enterprise Risk Management

Risk

- A random event that may affect a person or entity adversely

Enterprise

- Scope

Management

- A structured and methodical approach

Perspectives on RM

| Traditional RM | ERM |
|-----------------------|-------------|
| Silos | Holistic |
| Ad hoc | Continuous |
| Narrow focus | Broad Focus |

Enterprise Risk Management

“Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

Enterprise Risk Management

- “A decision-making discipline that addresses variation in company goals.”

Joanna Makomaski
Co-Author *ERM for Dummies*

Enterprise-Wide Risks

Financial

Hazard

Operational

Strategic

Financial and Hazard Risks

- Financial risk
 - Market; credit; interest; foreign exchange ...
- Hazard risk
 - Natural disasters; accidents; fire ...

Operational and Strategic Risks

- Operational risk
 - “Risk of losses resulting from inadequate or failed internal processes, people and systems, or external events” (Basel II)
- Strategic risk
 - “*risk* stemming from an inability to adapt to changes in the environment such as changes in customer priorities, competitive conditions and geopolitical developments”

Risk Universe

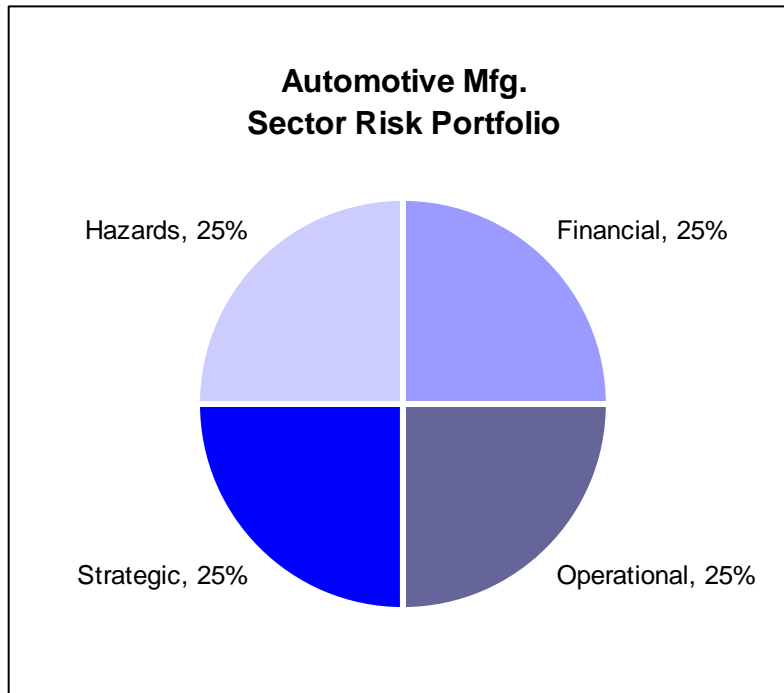
| Financial | |
|---------------|---------|
| Credit | FX rate |
| Market | ... |
| Interest rate | |

| Operational | |
|-------------|--------------|
| IT problems | Product def. |
| Fraud | ... |
| Legal | |

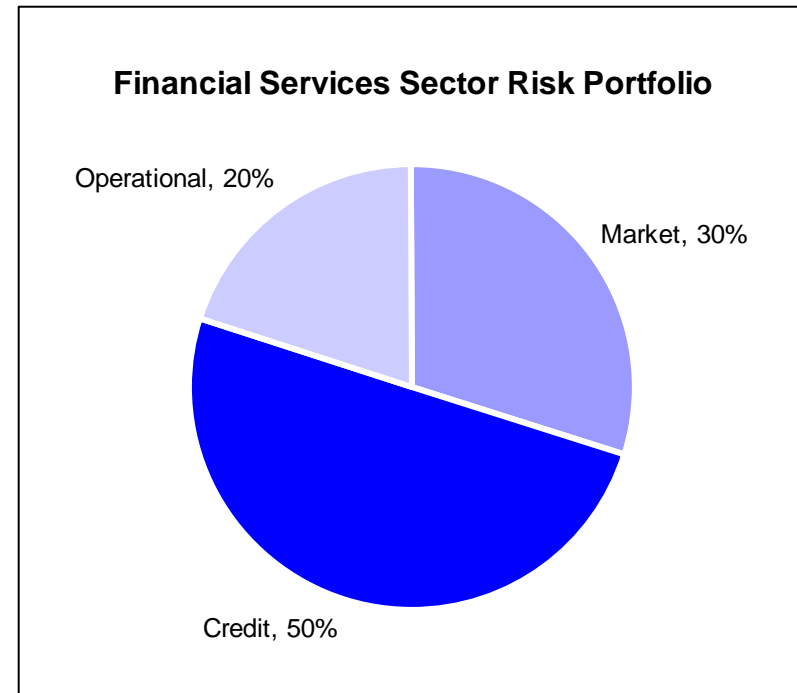
| Strategic | |
|------------|------------|
| Industry | Competitor |
| Technology | ... |
| Brand | |

| Hazard | |
|------------|-----------|
| Fire | Hurricane |
| Flood | ... |
| Earthquake | |

Risk Composition at GM



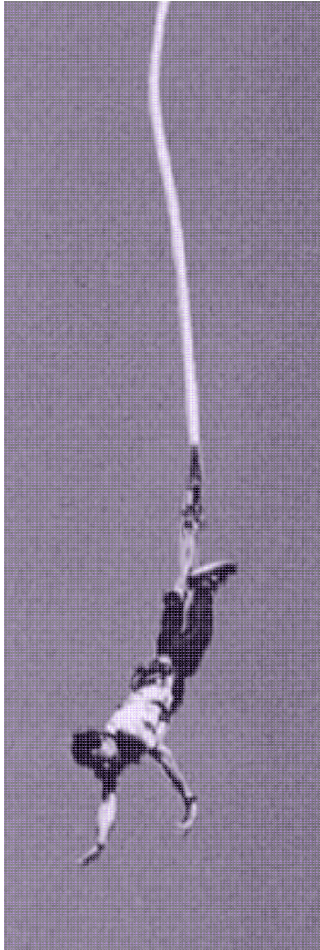
- Primarily physical assets
- Financial regulations have SOX have driven reporting and risk management to date



- Primarily financial assets
- Focus on market and credit risk driven by capital adequacy

Framework & Process

Risk Management Process

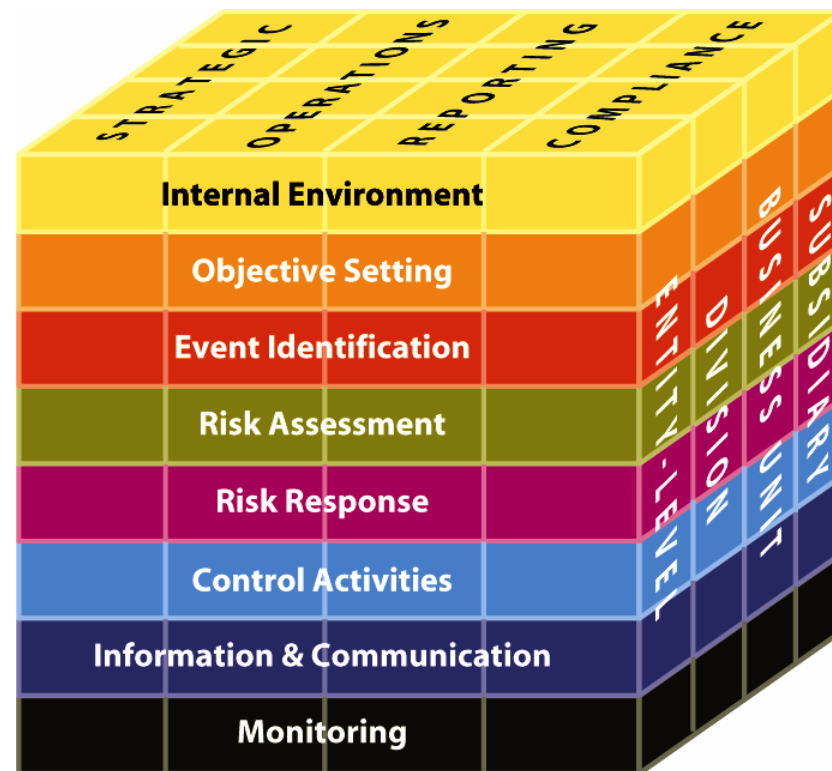


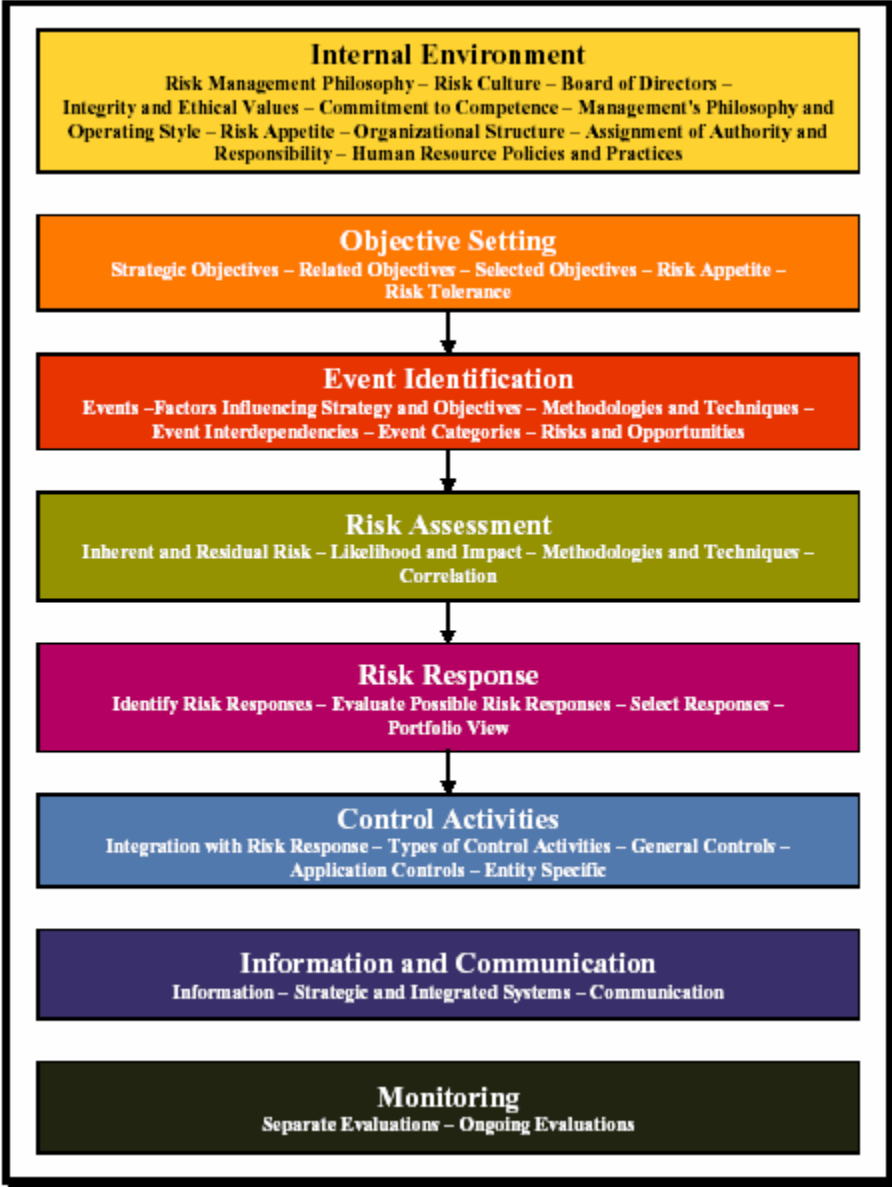
- Set strategy and objectives
- Identify risks
- Assess risks

Then...

- Manage risks
- Control risks
- Communicate and monitor
- Revisit strategy and objectives

COSO Framework





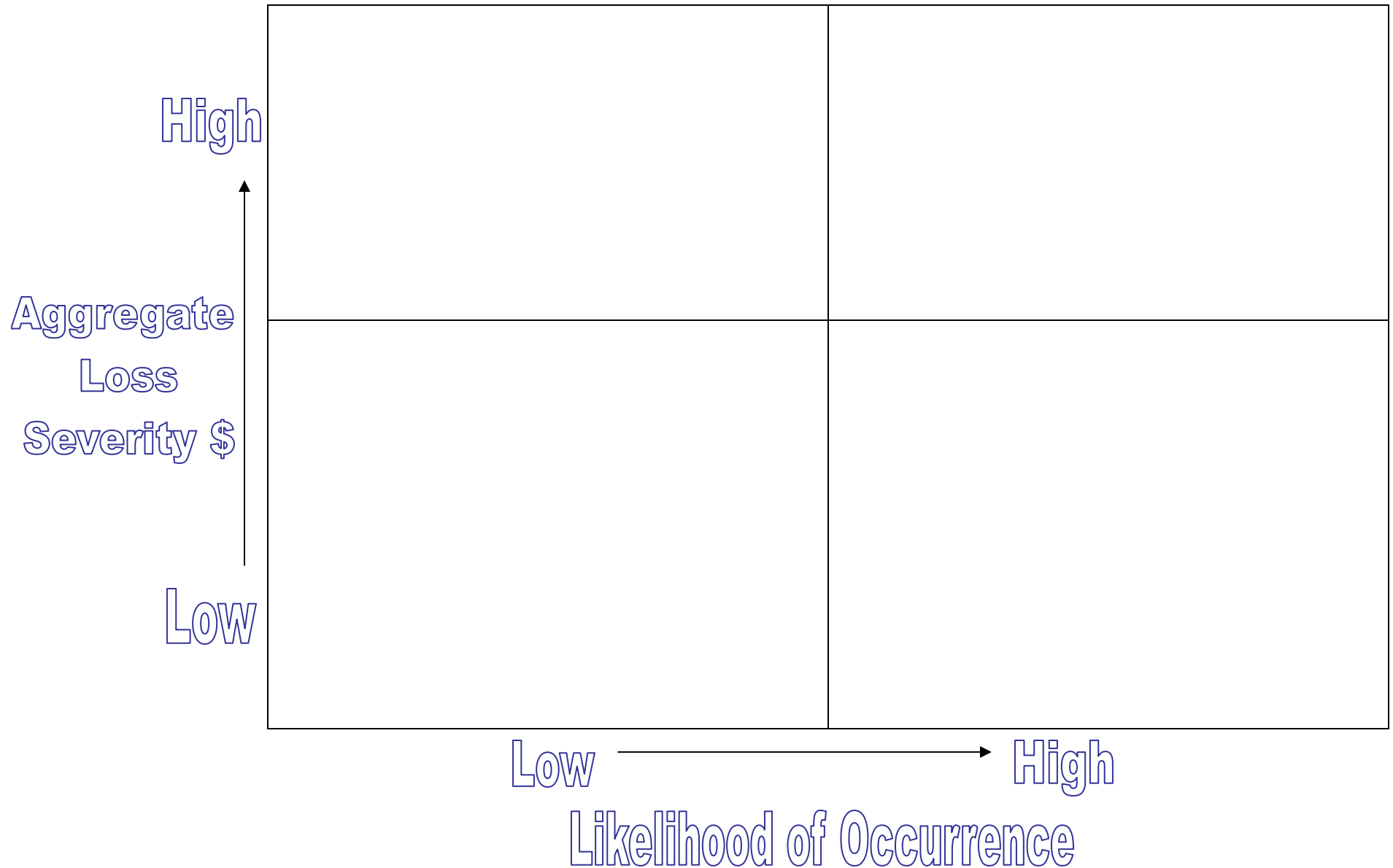
Case Study: GM

GM

- Company information
- Risk identification
- Risk assessment
- Risk mapping

Example Subjective Risk Map

Expert Opinion Only, Not Based on Any Statistical Analysis



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