

NZ Society for Risk Management

Key note speech 23 October 2014 Liz Taylor, FIRM FBCI Chartered Insurance Practitioner Author of Practical Enterprise Risk Management ISBN 9780749470531











Risk managers learning new skills





About the Polish burglar and risk taking

- Good risk management is
 - Imperative for managing successful change
 - About
 - anticipating and diminishing threats
 - protecting sources of value
 - enabling value-creating risks to be taken in a calculated way, with reduced likelihood of failure or loss.
 - Done well, it enables an organisation to seize opportunities to create and protect value for all its stakeholders
- It is not about keeping the ship in harbour



- Some ERM models are abstract and are captured by a risk-by-list mentality that ultimately diminishes their relevance.
- Others don't take the helicopter view across the broad spectrum of risks and therefore don't pass muster at Board level as truly reflecting an institution's risk profile.

Accenture survey 2013

- Executives from 446 organizations
- Seven industries & two public services subsectors
- All C-level executives involved in risk management decisions.
- Geography: Europe (35%), North America (31%), Latin America (9%), and Asia Pacific (25%).
- Revenues: About half the companies (46%) had annual revenues over \$5 billion, and 54% between \$1 billion and \$5 billion.
- Respondents
 - Chief Risk Officers, (CROs, 25%), Chief Executive Officers, (CEOs, 20%), Chief Financial Officers, (CFOs, 25%), Chief Compliance Officers, (CCOs, 22%), and Chief Operating Officers (COOs), risk controllers, and internal auditors (combined 8%)



Gaps between ERM importance and achievement

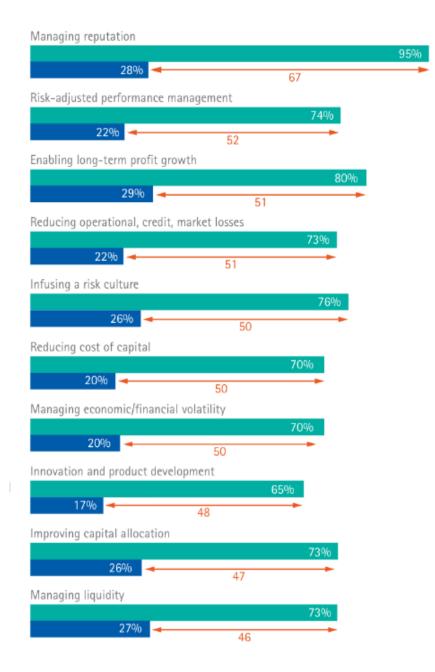
Questions:

To what extent have risk capabilities helped your organisation achieve the following.... Vs

How would you rate the importance of your risk organisation as a means of achieving the following

Total share of surveyed respondents who rated the risk organization as "critical" or "important" in achieving the goal

- Total share of surveyed respondents who feel their risk capabilities have helped achieve the goal "to a great extent"
- --- Gap, in percentage points, between importance and achievement

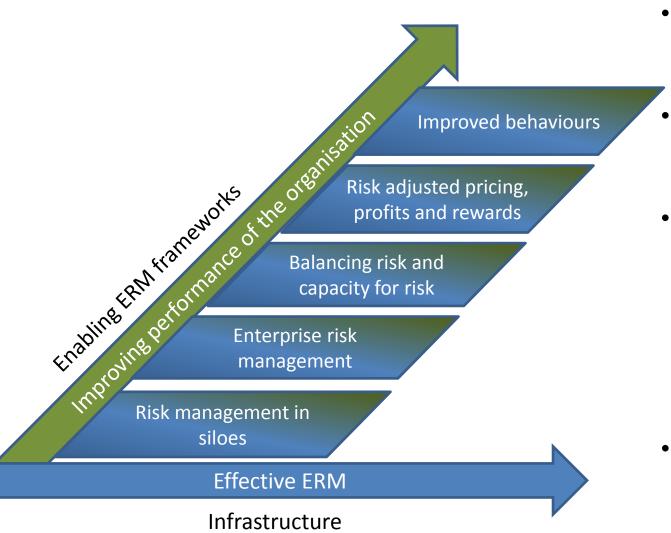


Let's study the stats

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#	Area of focus for Senior Management vs delivery by ERM					
1	Managing reputation risk	67				
2	Risk adjusted performance management	52				
3	Enabling long term growth	51				
4	Reducing operational, credit and market losses	51				
5	Infusing a risk culture	50				
6	Reducing cost of capital	50				
7	Managing economic volatility	50				
8	Innovation and product development	48				
9	Improving capital allocation	48				
10	Managing liquidity	46				

Maturity Model



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- Move from managing risk in siloes to ERM
- Move from ERM to balancing risk with capacity for risk
- Leading to risk adjusted performance measurement, pricing and remuneration model
- Ultimately leading to better behaviours



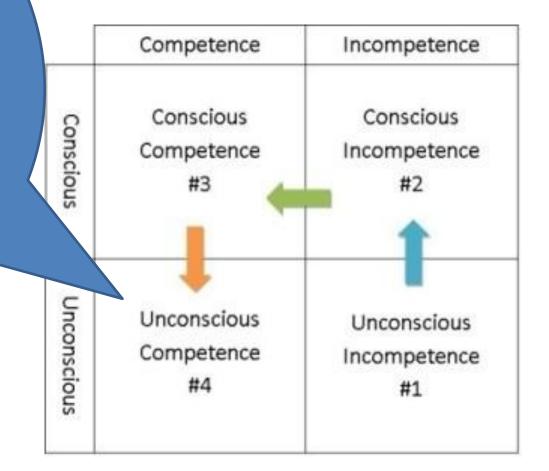
Drivers for change

<u>Old</u> Risk Management behaviours	New Risk Management behaviours				
Concentrate on threats	Concentrate on threats & opportunities				
Manage risk limits	Set boundaries for behaviour using risk appetite				
Identify risks based on objectives	Identify risks based on future changes in the business and key drivers for change				
Measure risk on likelihood and impact	 Measure risk on Stakeholder expectations Linkages with strategic objectives Inter-linkages of risks Inter-dependencies of risks 				
Treat risks using four T's and DDPC	Minimise threats and open up opportunities				
Concentrate on delivering improved business outcomes	Concentrate on delivering risk based profit and reward measurements driving improved behaviours and stakeholder risk management				

Unconscious competence in ERM should lead to better behaviours as well as • improved liquidity • capital management • stakeholder risk

management

Maturity in ERM



The words around Maturity

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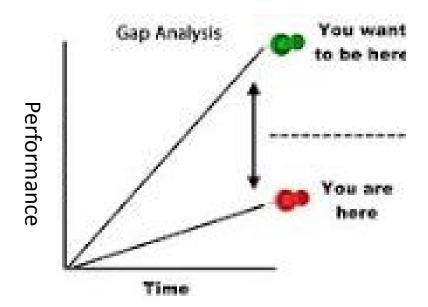
		Inputs					Outputs		
Consciousness		Leader- ship	Frame- works	2 nd line Resources	1 st line Capabilities /competence	Processes	Models	Reporting	Improved VAR and behaviours
	Improved behaviours	Role models	Conduct, CSR, sustainabili ty and ethics are core	Partners seconding people to learn	Risk managers become CROs in other organisations	RM processes seamless with mainstream biz processes	RM indicators modelled simultaneous ly with stress and scenario testing	ERM MI driving corporate strategy	Successful innovation and entrepreneuria lism evident throughout business
	Risk adjusted pricing, profits & rewards	Driven, interested, demanding driven by stakeholder needs	RM included in Remunerat ion and profit calc	Risk experts also trained in actuarial and statistical skills	Key business risk managers become innovators and internal entrepreneurs	Stake-holder RM processes given prominence	Drivers are risk based for pricing, remuneratio n and profit calcs	Driving business planning and budgeting	Blame culture replaced with one of learning and innovation
	Balancing risks with capacity for risk	Proactive and particip ating	Clear def's of capacity as part of risk appetite,	CRO and team become "risk experts" handing "risk manager" to business	Professional education underway for key business risk managers	ERM includes risk appetite, key risk indicators and capacity for risk	Based on numbers and forecasts	Overarching picture of risk and capacity driving risk appetite	Permitted boundaries for risk taking allowed
	ERM combined approach	Reactive but supportive	Opportunit y and threat	CRO appointed with team	Training commenced	Risk register in infancy	None except where regulatory driven	Basic risk reports produced	Not yet in place but under discussion
	RM in siloes	Compliance focus	Basic and adhoc	Risk manager appointed	Audit focussed	Based on control assurance	None except where regulatory driven	Ad hoc, confusing and multi language	Blame culture pervades, people afraid to take risk decisions

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- Moving from unconscious incompetence to conscious incompetence.....
- How do we know what we don't know that we are terrible at?
- A first step is to think about where we are now... and where we want to be..
- Then to measure and address the gap





Thank you Liz Taylor, FIRM FBCI

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