



# Enterprise Risk Management: Risk, innovation and opportunity creation

*Reserve Bank of New Zealand*



*Presented by:  
Steve Gordon and Willie Shum  
3 February 2015*





# An Outline

1

- Introduction
- What is Enterprise Risk Management?
- Seven Key Principles
- The Reserve Bank's ERM Model
- ERM in Action
- Seven Key Principles – in Detail
- Conclusion
- Questions and Answers





# Introduction

2



The fishermen know that the sea is dangerous and the storm terrible, but they have never found these dangers sufficient reason for remaining ashore.

– The letters of Vincent van Gogh to his brother 1872 – 1886





# What is Enterprise Risk Management?

3

- Enterprise Risk Management (ERM) includes the methods and processes used by organisations to manage risks, innovation and seize opportunities related to the achievement of their vision and strategic objectives.
- By identifying and proactively addressing risks, an organisation can protect and create value for their stakeholders, including owners, employees, customers, regulators, and society overall.







# ERM – 7 Key Principles

4

1. Executive buy-in
2. Enterprise Risk Management with a capital “E”
3. Engagement and communication
4. Institutional fit
5. Strategic alignment
6. Business integration
7. Focus on what really matters



ENTERPRISE RISK  
MANAGEMENT



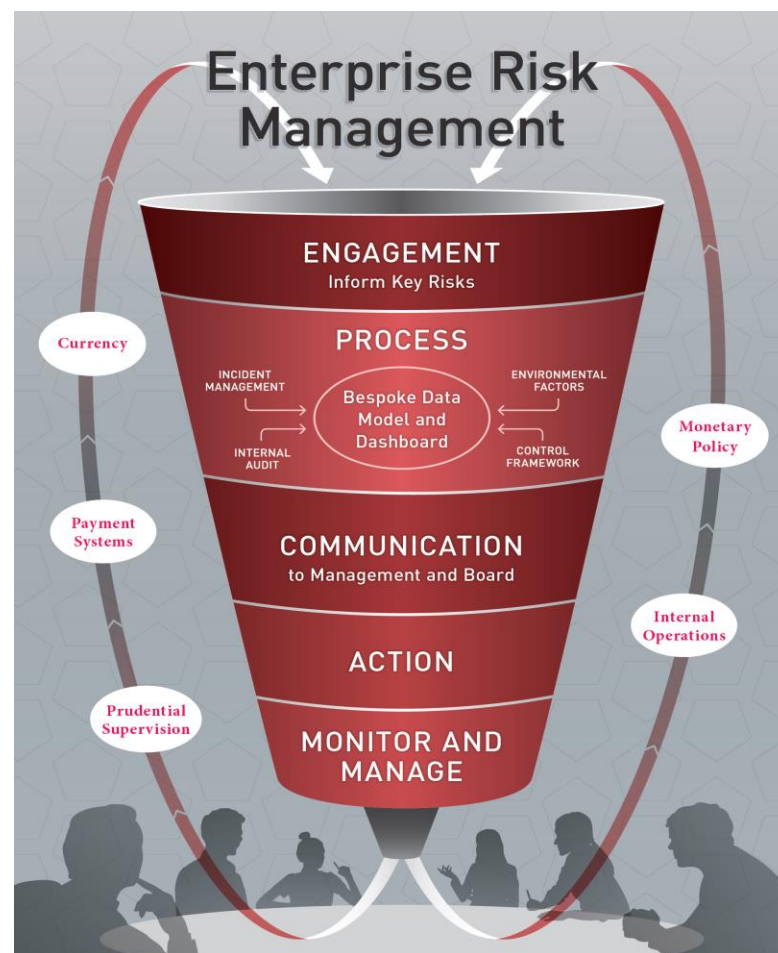


# The Reserve Bank's ERM Model

5

The key elements of our ERM Model:

- Engagement
- Process
- Communication
- Action
- Monitor and Manage



ENTERPRISE RISK  
MANAGEMENT

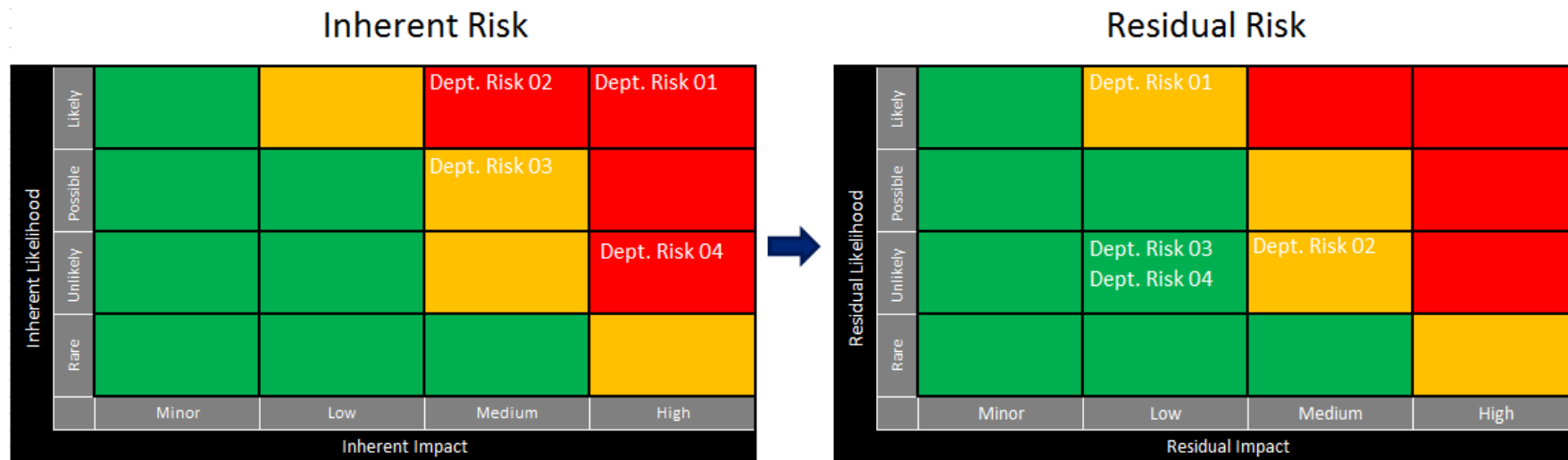


# ERM in action

## - Engagement

6

- The ERM Lead community and Senior Management identify the enterprise risks that have the potential to materially impact the Bank's objectives.
- Inherent risks are assessed based on likelihood and impact. Following the identification/evaluation of embedded controls, the residual likelihood and impact of the risks are reassessed.



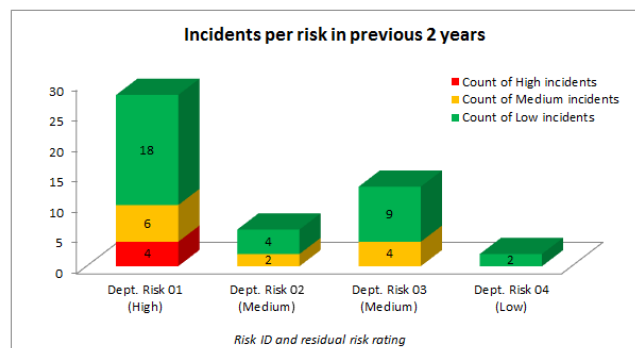
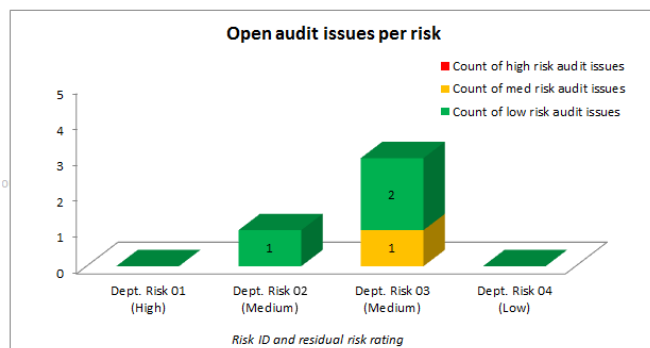


# ERM in action – Process 7

## (bespoke data model and dashboard)

- The ERM data model integrates Internal Audit and Incident Management data with identified enterprise risks.
- This information helps further inform both the presence and effectiveness of risk mitigation activities.

### Department ABC



Risk ID	Risk Description	Residual Risk Rating
Dept. Risk 01	Description of Risk 01	High
Dept. Risk 02	Description of Risk 02	Medium
Dept. Risk 03	Description of Risk 03	Medium
Dept. Risk 04	Description of Risk 04	Low

Audit Issues	
No. Open	No. Overdue
0	0
1	0
3	2
0	0

Incidents	
No. in previous 2 years	Direct financial cost
28	\$120,000
6	\$0
13	\$320,000
2	\$0





# ERM in action – Process 8

## (bespoke data model and dashboard)

- Environmental factors are identified and their impact on the inherent risk ratings are periodically assessed.
- Actions in place to manage risk are scrutinised and inform the assessment of the overall risk and the projected trend.

Inherent Risk Profile		
Risk ID	Risk Statement	Inherent Risk Outlook
Dept. Risk 01	Risk Statement	↔
Dept. Risk 02	Risk Statement	↔
Dept. Risk 03	Risk Statement	↓
Dept. Risk 04	Risk Statement	↑

Risk Management Status		
Actions in Place to Manage Risk	Current Residual Risk Profile	Residual Risk Trend (6-month Projection)
Action and controls	High	↓
Action and controls	High	↓
Action and controls	Medium	↔
Action and controls	Medium	↑





# ERM in action – Communication, Action and Monitoring/Managing

9

- Regular board reporting – largely automated, both qualitative and quantitative.
- Regular ERM Lead engagement to ensure identified risks are current, accurately assessed and have relevant treatment plans.
- Empower staff to make informed decisions and allocate resources based on residual risk.
- Management oversight and monitoring is a continuous process.







# Consequence of a Payment System Failure

## 10



### Treasury Committee

House of Commons, Committee Office 7 Millbank London SW1P 3JA  
Tel 020 7219 5769 Fax 020 7219 2069 Email [treascom@parliament.uk](mailto:treascom@parliament.uk) Website  
[www.parliament.uk/treascom](http://www.parliament.uk/treascom)

Dr Mark Carney Esq  
Governor  
Bank of England  
Threadneedle Street  
London EC2R 8AH

20 October 2014

Dear Dr Carney,

The Bank's announcement of an independent inquiry into the failure today of the RTGS system is welcome. The appointment of an independent reviewer to get to the bottom of such a serious episode as this is appropriate.

The Treasury Committee may want to meet the independent reviewer when he or she has been identified.

I will be placing this letter in the public domain.

Yours sincerely,

As '8bt

PP

ANDREW TYRIE  
CHAIRMAN OF THE TREASURY COMMITTEE

9.08pm

21:08



**Renee Stiles**

@stiles\_renee

Follow

As safe as the Bank of England? [gu.com/p/42t92](http://gu.com/p/42t92) High value payment system crashes.

9:03 AM - 21 Oct 2014



**Bank of England payment system crashes leaving homebuyers in limbo**

Bank apologises for failure of system used for large transfers as governor Mark Carney orders urgent investigation

The Guardian @guardian

1 RETWEET



ENTERPRISE RISK  
MANAGEMENT



# Principle One – Executive buy-in

11

- RBNZ has one of the broadest sets of functions amongst its global central bank peers.
- At the outset our approach was to obtain extensive buy-in. Embedding ERM, and therefore reducing risk, was identified as one of the Bank's strategic priorities.
- Support from the top is a necessity in order to get the right focus, resources and attention for ERM.
- Without the buy-in from each executive group across the institution and the Board, ERM initiatives will fail.



ENTERPRISE RISK  
MANAGEMENT





# Principle Two - Enterprise Risk Management with a capital “E” 12

- Our ERM model was developed in-house, following an extensive review of the relevant standards and research into how other institutions were approaching risk management.
- Some ERM initiatives often don't succeed because they are too abstract, 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.
- We tailored the solution so that the ERM model is capable of covering all functions, integrating strategic, operational and project risks, and factor in the related external level risks.





# Principle Three - Engagement and Communication

## 13

- Stakeholder engagement is a major part of our ERM framework and spans the Board, Governors, leadership team, and the wider staff population.
- Effective engagement promotes two-way conversation around how risks are being seen, managed, and where necessary treated.
- We established an ERM Lead community that consists of selected senior staff who collectively represent every function across the Bank.





# Principle Four – Institutional Fit

14

- Following the initial consultation period, it was decided a bespoke ERM framework would be designed and implemented.
- Two key foundation criteria were “fit” and ability to deploy across all business areas.
- It was tailored to ensure it has the right “fit” relative to the look and feel of the institution.
- Businesses have unique cultures and values, ways of doing things, and accepted working protocols and ERM solutions need to blend in; otherwise they may not be embraced or effectively used.





# Principle Five – Strategic Alignment

15

- Strategic risk considerations are an integral part of our ERM model.
- Enterprise risk assessment factors in broad matters that could impact the institution as a whole in achieving its strategic priorities.
- These range from stakeholder relationship management, effective communication, managing reputation risk, having adequate people capability and financial funding to facilitate strategic execution.
- All of these matters are the subject of considerable Senior Management focus, and supported by a governance structure that facilitates continuous monitoring and active discussion.



ENTERPRISE RISK  
MANAGEMENT







# Principle Six - Business Integration

16

- A sound methodology (risk taxonomy and associated risk measures) is necessary that allows for effective, repeatable, and consistent assessment and reporting of all risk.
- Incident management is a key part of ERM. We call it Proactive Problem Management or PPM, and see it as a continuous improvement mechanism.
- There is a high level of integration of risk information – Internal Audit, Incident Management, ERM Lead community, environmental factors and treatment plans all contribute to the identification, assessment, treatment and monitoring of risk.





# Principle Seven - Focus on what really matters

17

- Bringing all of the above together is executive business focus – key ingredients for innovation and opportunity creation.
- We limit risk profiling to a contained set of important risks that align to our objectives and initiatives as outlined in the Bank's statement of intent.
- By focusing on what really matters, the Bank's leadership team regularly review the risk profile, and the Board receive a formal "whole of institution" report twice yearly.
- Every member of the senior management team can articulate in detail the current enterprise risk profile across the institution and the main issues associated with each major project initiative that is linked to a strategic priority.





# Conclusion

18

- At the Reserve Bank, Enterprise Risk Management is highly visible. Through the establishment of the ERM Framework, risk is now part of daily Senior Management discussion and decision making.
- Feedback received from Senior Management and the Board has been very positive.
- ERM is a powerful tool that can identify opportunity and drive innovation.
- The goal of ERM is not risk avoidance, but risk awareness, risk management, and indeed calculated risk taking.



ENTERPRISE RISK  
MANAGEMENT



“If you risk nothing, then you  
risk everything.”

– Geena Davis

(Virginia Elizabeth "Geena" Davis is an American actress, film producer, writer, former fashion model, and a women's Olympics archery team semi-finalist.)





# Q's & A's

20

