

“What is ERM?”

CRO Round Table
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What is ERM?

What is ERM?

Every entity exists to provide value for its stakeholders

All entities face uncertainty

How much risk is acceptable?

How much risk does the entity accept?

Optimal balance between risk and return

What is ERM?

Classical Risk Management

- Avoidance
- Reduction
- Transfer
- Retention

What is ERM?

Enterprise Risk Management

Decision framework

Strategic planning

Operations management

Internal controls

What is ERM?

The alternative?

- Uninformed decisions
- Inadequate use of modeling
- Blind faith in models
- Strategic irrelevance
- Inefficient operations
- Silo mentality
- Surprises

What is ERM?

Does ERM help companies make better risk management decisions?

Does ERM help companies make better business decisions?

How much better? Is the marginal value of ERM worth the marginal cost?

What is ERM?

- Relevant only if Risk Appetite is clearly stated
 - Risk Tolerance measures are relevant
 - Risk Tolerances are measurable
- Relevant only if all possibilities are considered

What is ERM?

Can we model future risk distributions?

Only if all risks are included

Insurance risk

Investment risk

Operational risk

Strategic risk

What is ERM?

Can we model future risk distributions?

Only if all risks are accurately parameterized

Frequency & severity modeling

Complete distributions

Parameter risk

Reserve risk

Correlations / copulas

Contagion

What is ERM?

Governance

- Board-level reporting
- Independence

Culture

- Senior management support
- Clear roles
- Incentive links

What is ERM?

What is ERM motivation?

Proactive

- Driven by company needs & vision

- Anticipate applications

- Can be built on

Reactive

- Only to satisfy minimum requirements

- May still evolve

- Kicking and screaming

What is ERM?

Measurement

- Risk identification
- Consistent view of risk across organization
- Clear understanding of risk tolerance measures

What is ERM?

Attitude

How valuable is ERM?

Range of appropriate tools

Quality of analysis

Timing

Communication

How much is ERM valued?

Communication

Follow-up / responsibility

What is ERM?

Ask questions

Make honest assumptions

Build in full distribution of possible outcomes

Take responsibility

What did we miss last time?

What could happen next time?

More often than not, the industry is aware of the potential for the next “catastrophe” but hasn’t taken sufficient steps to address the risk in advance

If you’re not aware and involved, you can’t be improving the system

It’s not “somebody else’s problem”