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# Leveraging ISO31000 for ERM Success



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# Agenda

- **How ISO 31000 Aligns with ERM Priorities**
- **Strategy as the core competency of high performing ERM**
- **Where does Strategic Risk Management (SRM) fit in?**
- **How ISO 31000 can facilitate success in ERM**
- **What is the next level for progressive ERM?**

# Risk and Risk Management per ISO GUIDE 73

**RISK** : the effect of uncertainty on objectives

**RISK MANAGEMENT**: coordinated activities to direct and control an organization with regard to risk

***DOES IT NEED TO BE ANY MORE COMPLICATED  
THAN THIS?***

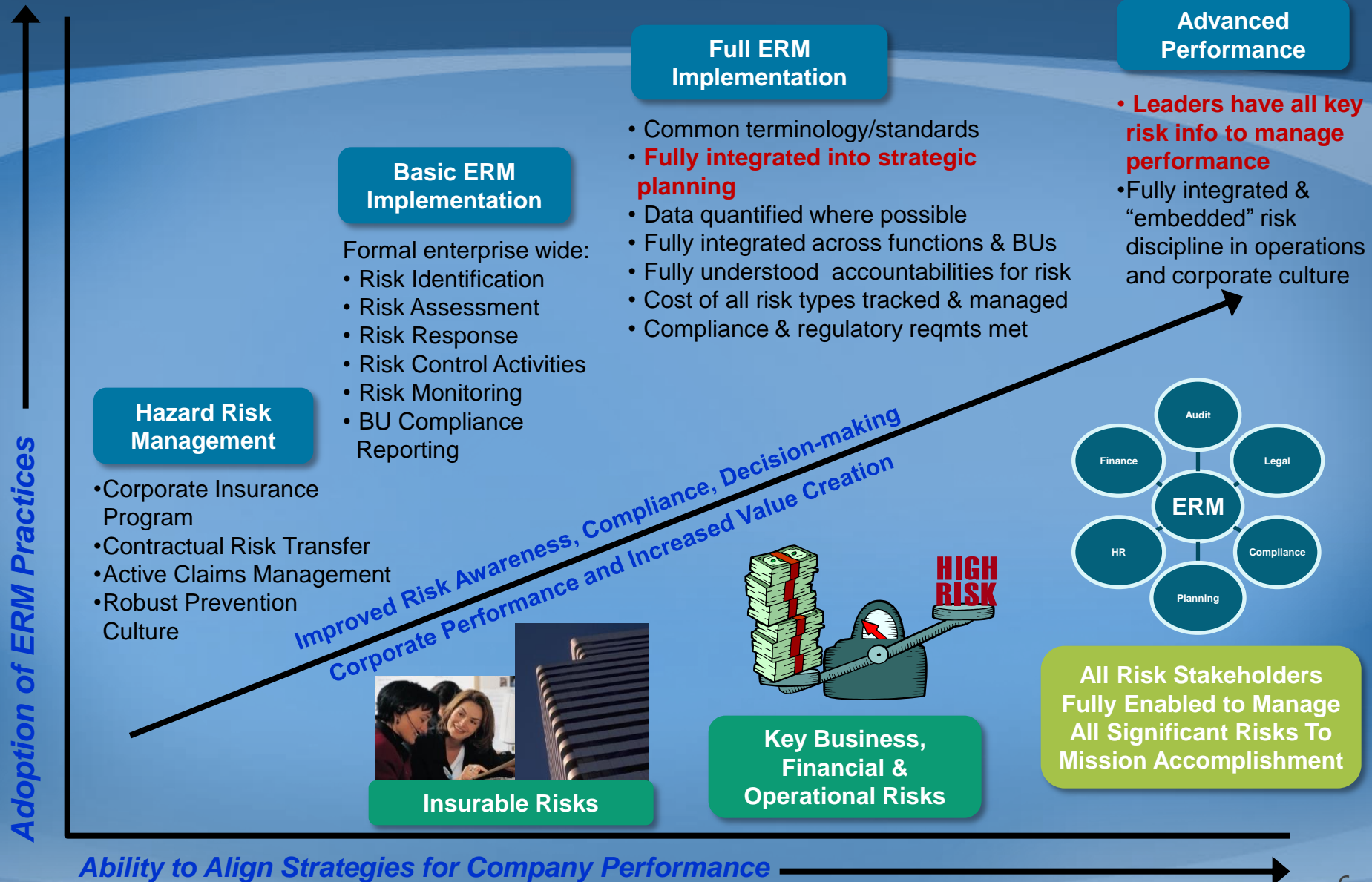


# RISK MGMT - SIMPLY STATED

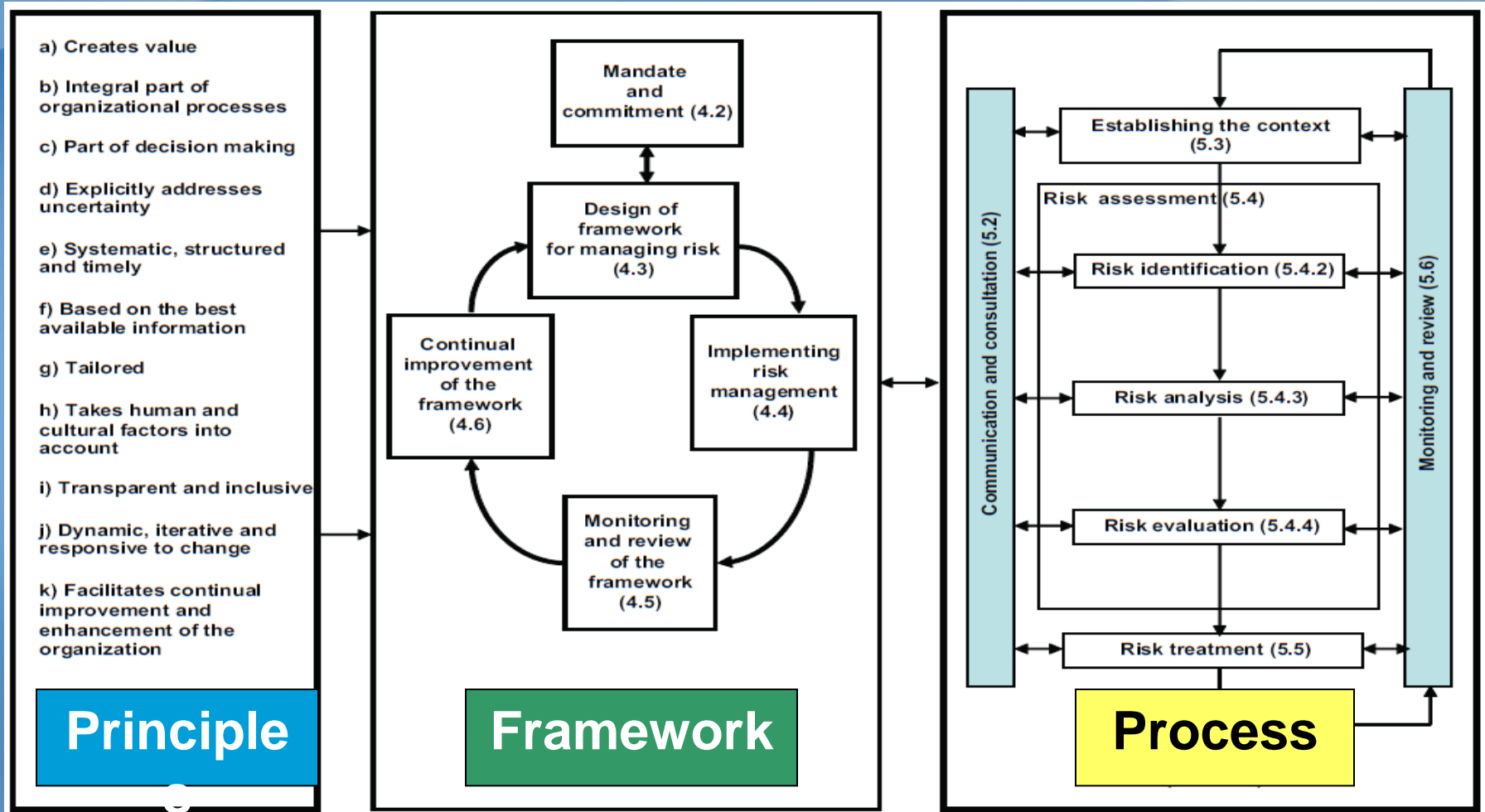
- Is a discipline that establishes and governs an orchestrating framework for the management of risk, enterprise-wide
- Its purpose is to help company's deliver consistent company performance
- Improves decision-making by supplying current and relevant risk information and analysis
- Is effected by the Board, carried-out by Management and applied to planning, budgeting, business performance review and decision-making

***The Consistency of Standards Facilitates Successful Deployment***

# Risk Management Capability Evolution



# ISO 31000 - Risk Management



## ISO 31000 standard recognized as national risk management standard, worldwide



**G31000**



**ISO 31000 standard recognized as national risk management standard**



# Why aren't ERM Frameworks/Programs More Successful?



- Most ERM Programs are built on “Governance” or “Compliance” models
  - Value: “Did we do it? Good.”
- Measures are rarely in meaningful terms
- Not a KEY role in performance management, planning, budgeting and strategy formation
- Limited in scope and focus
- Not a “day-to-day” part of decision making
- Not based on or tied to a standard or tight framework

# Why Did “ERM” Fail During the Financial Crisis?

## Or did it?

- Misguided focus on risk processes vs. agility
- Large amounts of info; no evaluation of risk interconnectedness
- A “check the box” risk management mentality
- Over reliance on statistical models
- Cultures of risk acceptance w/o regard to risk appetite, tolerance or capacity
- Compensation structures that rewarded excessive risk-taking
- Inadequate risk governance/oversight structures

# Conclusions from the Financial Crisis

- Risk Mgmt not integrated into planning, budgeting, performance review and decision-making
- Focusing on risk registries, “top 10” lists or compliance-based assessments
- Being disconnected from company objectives and performance
- Insufficient C-suite and Board level understanding, buy-in and mandate
- Absence of a standard to follow or common risk language
- Siloed and unaligned risk management efforts
- Poorly designed compensation and incentives structures
- Risk Management perceived as a necessary evil
- Ambiguous ownership of and accountability for risks

# The Yin and Yang of Standards

## What Standards Are

- A collection of best practices and guidelines
- Developed collaboratively
- Evolutionary
- Can be for management systems, products, services or procedures

## What Standards Are Not

- Regulations
- Just controls
- Necessarily “how to implement” documents
- Certifications
- The only way
- Guarantees of success



# Drivers for a Global Risk Standard

- **Multinational companies operating in many countries around the globe**
- **A need to set priorities and address risks based on global importance**
- **Need for consistent process for communications**
- **Need to demonstrate that effective and reliable methods used**
- **Granularity of many sub-standards**

# Why Risk Managers Should Use Standards

- Set of benchmarked tools and processes
- Systematically identify risks and problems
- Enables problem-solving and decision-making
- Inclusive process
- Specialized training
- Establishes operational controls/procedures
- Measurable/verifiable goals and methods for accomplishing identified objectives
- Protect reputation and brand
- Model for continual improvement

**Proactively improve organizational resilience  
and sustainability**

# How ISO 31000 can Facilitate Success in ERM?



# Two Critical Elements

- **Standardization** driving process efficiency and effectiveness
- **Embedding** a standard driven risk strategy into the risk culture for decision-making and planning
  - Customized to:
    - Culture
    - Management Needs
    - Governance Expectations
    - Consumer Expectations
    - Regulatory Expectations



# ERM Outcomes

- An effective risk management program should lead to specific outcomes for the organization:
  - **Improved and Better Protected Reputation**
  - **Higher Profits**
  - **More efficient operations, service**
  - **Higher Stock Valuation**
  - **Fewer Surprises**

# Align Risk to Business Priorities



**Risks tie to the processes of key and/or profitable products or services**

# An Emphasis on Decision-making



Excellent

Well established capabilities to identify, measure & manage all risk exposures & losses within tolerances. Consistently optimize risk adjusted returns. Risk and risk management always important considerations

Strong

Capabilities to identify, measure and manage all risk exposures & losses within tolerances. Not fully developed process to optimize risk adjusted returns. Risk and risk management usually important considerations.

Adequate

Capabilities to identify, measure and manage all risk exposures & losses within tolerances. Not fully developed process to optimize risk adjusted returns. Risk and risk management usually important considerations. Unexpected losses more likely as a result

Weak

Limited capabilities to identify, measure and manage all risk exposures & losses within tolerances. Losses not expected to be limited. Risk Management Program non-existent or totally compliance.

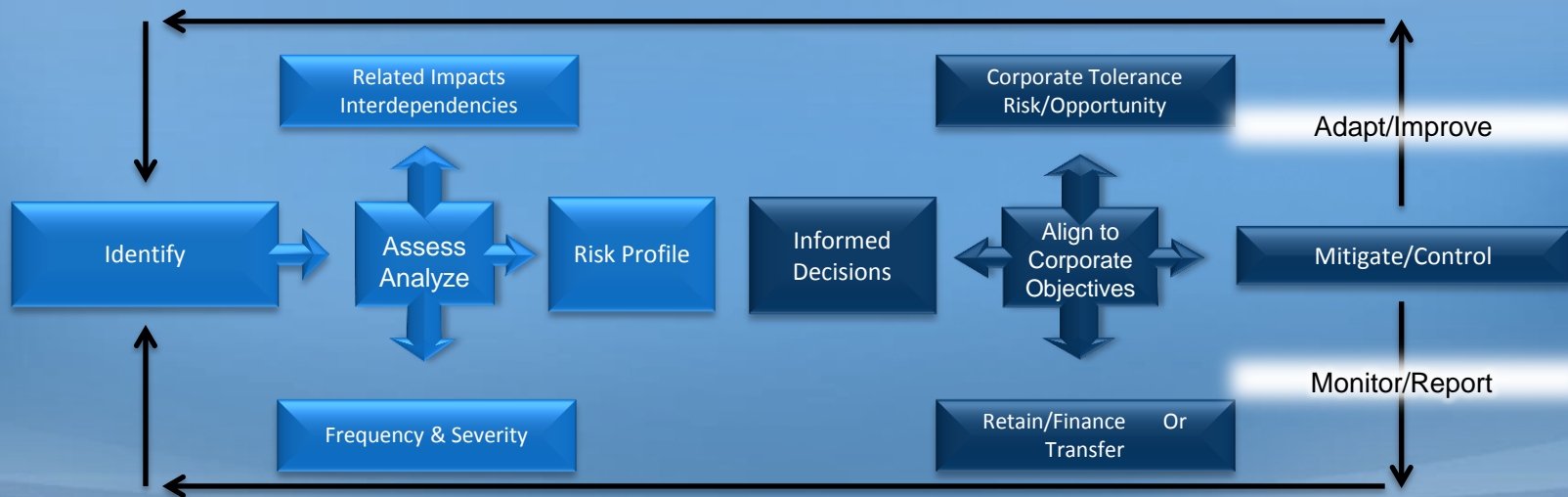
# Where does Strategic Risk Management (SRM) fit in?





# Strategic Risk Management

- **Strategic Risk Management (“SRM”)** is a business discipline that drives deliberation and action regarding uncertainties and untapped opportunities that affect an organization’s strategy and strategy execution.
- **Guiding Principles of SRM:**
  - Primary component of an organization’s ERM process
  - Ultimate goal is protecting and enhancing shareholder value
  - Effected by boards of directors, executive management and others
  - A strategic approach to risk and managing uncertainty is necessary to achieve company objectives
  - Continuous process



# Why Strategic Risk Management?

- **Strategy** An organization's strategic plans will determine the actions the organization will take at any stage of the planning period as circumstances change.
- **Strategic risks** are those internal or external uncertainties, *whether event or trend driven*, which impact an organization's strategies and/or the implementation of its strategies.

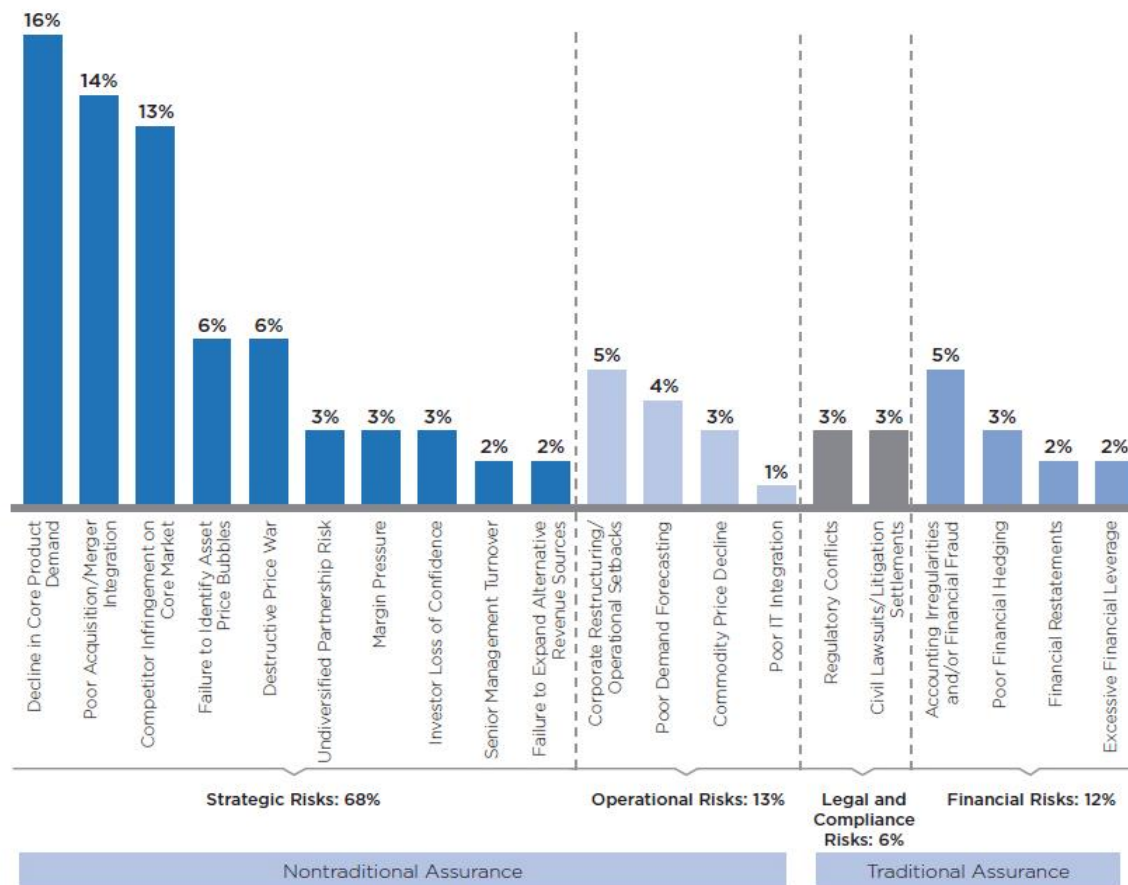
# What Risks Matter More?

Strategic risks continue to have greater negative impact on stock price than more easily auditable risk areas.

- This analysis looks at root causes underlying market capitalization declines of 50% or more in a single year.
- Percentages refer to frequency of occurrence of each factor in the sample population.

## ROOT CAUSES OF DECLINE

Market Capitalization Decline Drivers  
Top 20% of Fortune 1,000 (1998–2009)

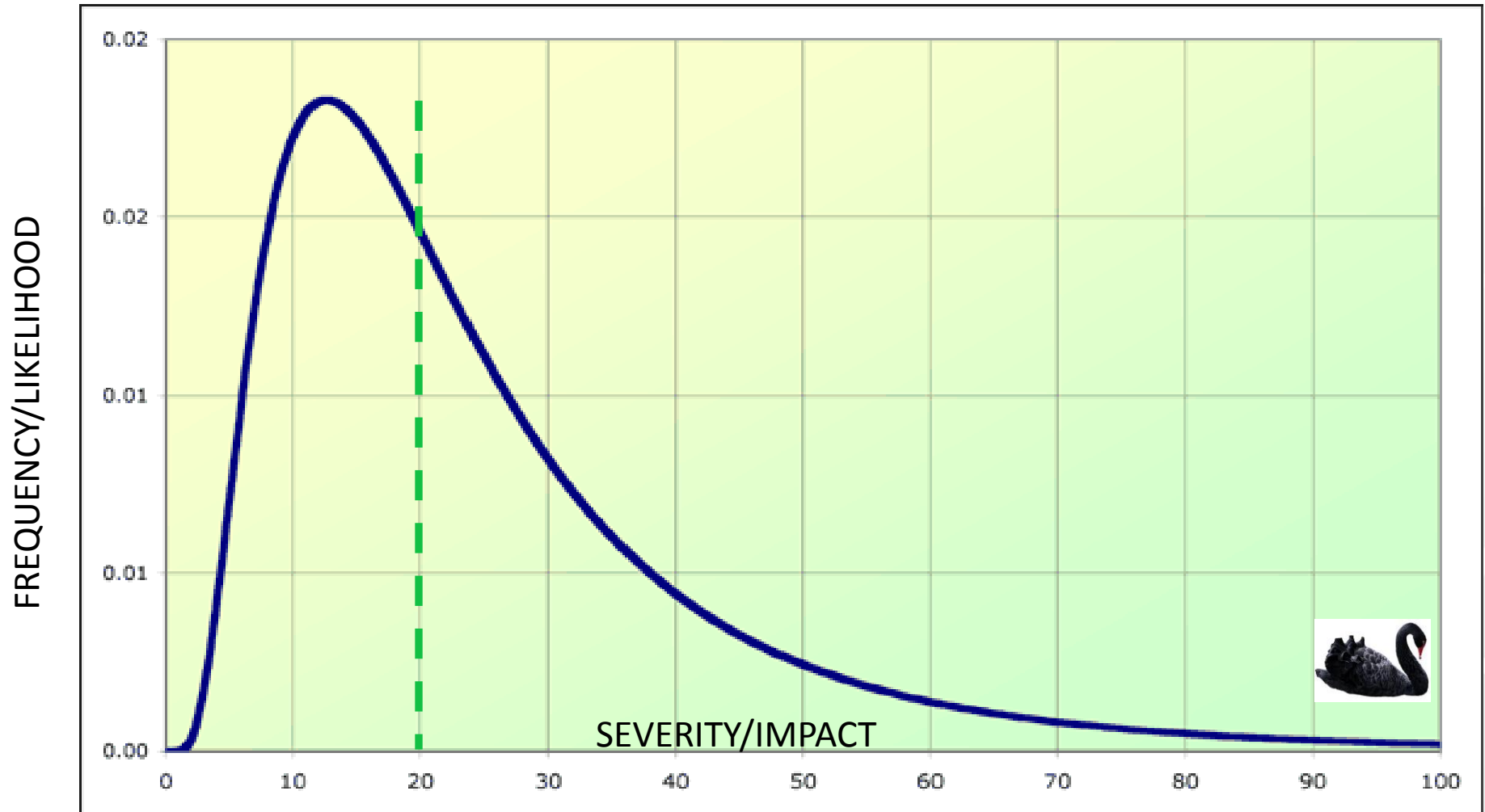


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n = 128.

# Managing the most critical risks





# Strategic Risk Management Approach

- Expected vs. unexpected risks
  - Identifying
  - Assessing
  - Measuring
- Risk Appetite and Tolerances
  - Weighting and prioritizing risk
- Emerging and dynamic risk assessments
- Reporting on strategic risks

## Common Elements:

- Volatility
- High uncertainty
  - Impact
  - Likelihood
  - Relevance
- Ambiguity
- Complexity
- Lack of consensus
- Difficult to communicate
- Questionable ownership

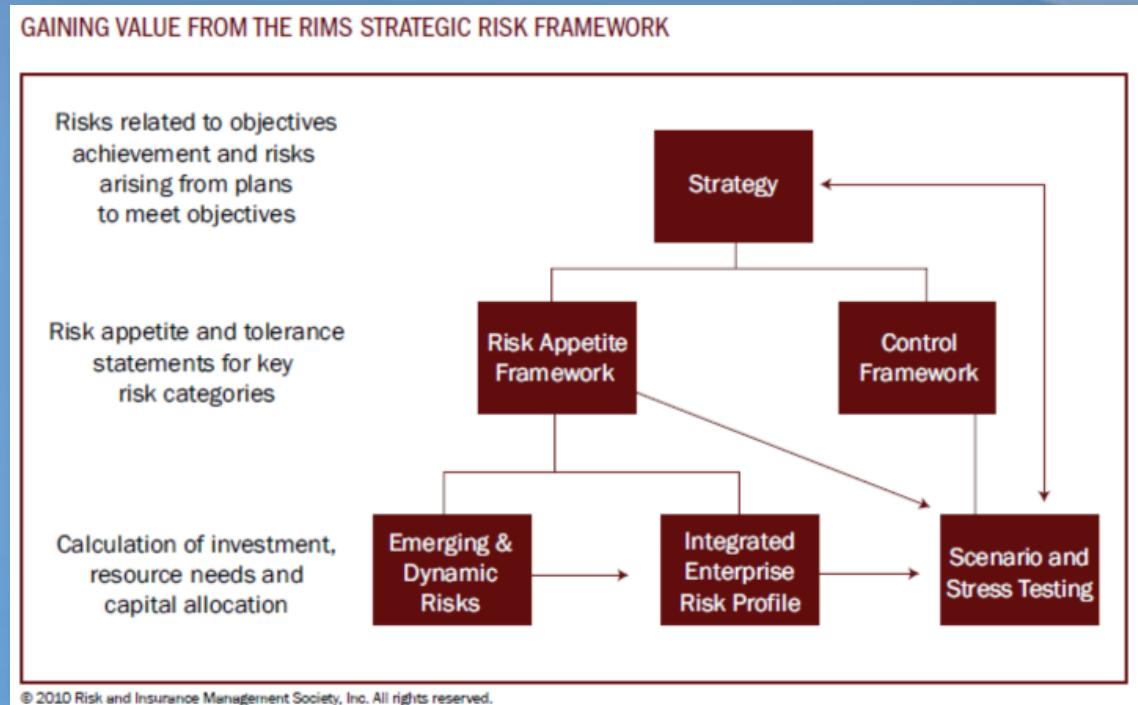


# Strategy as the Core Competency of High Performing ERM



# SRM Guiding Principles: Aligned with 31000

- A. Value-driven
- B. Reflective
- C. Structured
- D. Informed
- E. Dynamic
- F. Process-based
- G. Condition-based
- H. Consequential
- I. Interdisciplinary
- J. Scenario-driven



Source: RIMS What Is SRM?

# ERM Priorities and 31000 Principles

## ERM Priorities:

- Address all significant risks
- Break down risk silos
- Measures tied to results
- Embed risk rigor in processes
- Critical to fully informed planning & decision-making
- Produces actionable data
- Focused on the things that matter most
- Relies on cross functional collaboration
- Enable management to risk appetite

## ISO Principles:

- Explicitly addresses uncertainty
- Transparent and inclusive
- Part of decision making
- Integral part of org processes
- Part of decision making
- Part of decision making
- Creates Value
- Takes human and cultural factors into account
- Dynamic iterative and responsive to change



# Linking Strategy to Risk Management

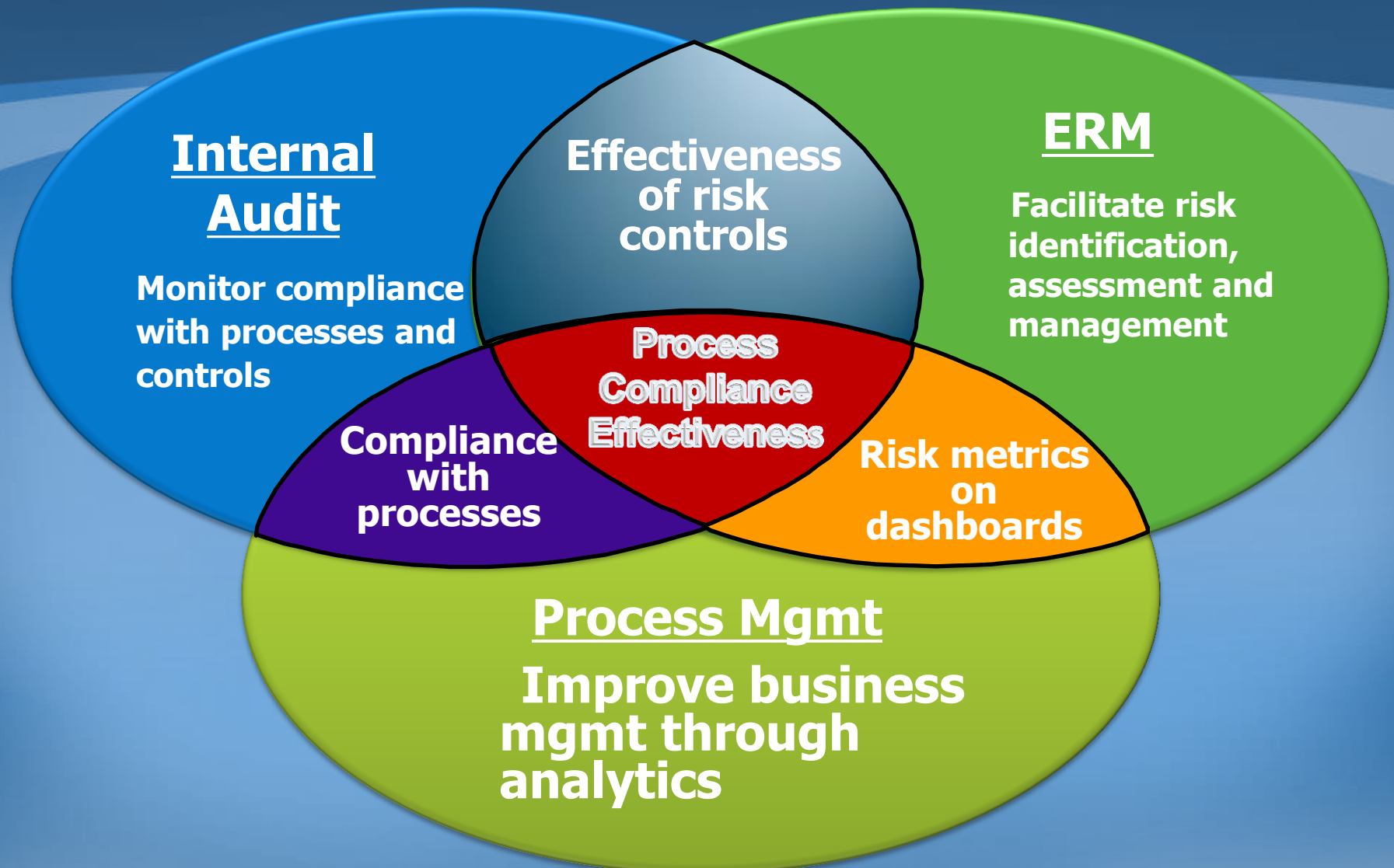
## ERM Process

- Includes a strategic look at risk, e.g. dynamic risk assessment
- Includes scenario building based on identified emerging risks

## Strategic Planning Process

- Includes an assessment of how risks can affect goals and objectives
- Includes scenario building to visualize goal achievement

# Functional & Stakeholder Alignment



**Audit and Process Efficiency Functions are Important Risk Stakeholders**

# Most Critical Components of Risk-Strategy Alignment



# Components of Best-in-Class Risk Management



Including these key elements in your Risk Management Strategy will support Best in Class results

# What really matters in ERM?

- Consistency
- Rigor
- Interpretability
- Clarity
- Measureability
- Downside protection
- Value creation
- Embedded risk culture
- Managing to appetite parameters
- Aligning, if not integrating with strategy and objectives



# Key Challenges for Risk Management

Risk challenges are increasingly priorities for execs and boards, including:

- Understanding what risks are most threatening to mission accomplishment
- Connecting actionable risk information to goals & strategy
- Managing critical risk interdependencies
- Getting ahead of emerging risks
- Controlling risks brought to the firm by third parties
- Fostering a strong ethics and risk culture
- Addressing low-frequency, high-impact risks proactively
- Providing timely information on key risks not effectively mitigated

**ALL THESE CHALLENGES ARE ADDRESSED IN COMPREHENSIVE ERM  
ENABLED BY ISO 31000 AS A GUIDING FRAMEWORK**

# Parting Thought

*“A decision that doesn’t involve risk probably isn’t a decision.”*

– Peter Drucker



# Contact information



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S E D G W I C K



# Christopher E. Mandel, RF, CPCU, ARM-E SVP, Strategic Solutions, Sedgwick, Inc. & the Director of the Sedgwick Institute



Christopher E. Mandel is the SVP for Strategic Solutions at Sedgwick and the Director of the Sedgwick Institute. In both roles he is engaged in helping Sedgwick chart its future through the long term planning for products, services and strategic solutions for this claims and productivity management firm. He is also co-founder and EVP, Professional Services for rPM3 Solutions, LLC as well as founder and president of Excellence in Risk Management, LLC. both independent consulting firms specializing in governance, risk and compliance, with a special emphasis on enterprise risk management. rPM3 Solutions holds a patent for a unique risk measurement process known as ARQ™. Prior to electing early retirement and for ten years from 2001-2010, Mr. Mandel was head of enterprise risk management for USAA Group, a \$165 billion diversified financial services organization. At USAA, he designed, developed and led the enterprise-wide risk management and corporate insurance centers of excellence. He also served as President and Vice Chairman, Enterprise Indemnity CIC, Inc., an Arizona based alternative risk financing facility.

Mr. Mandel has more than 25 years of experience in risk management and insurance in large, global corporates. He has pioneered the development of cross-enterprise risk management capabilities resulting in S&P rating USAA as “excellent and a leader in ERM” from 2006 through 2010. In 2007, Treasury and Risk Magazine bestowed the Alexander Hamilton Award for “Excellence in ERM” on USAA. Mr. Mandel has been a long term senior leader in the Risk and Insurance Management Society including being elected President and Chief Risk Officer and was named Risk Manager of the Year in 2004. He also received RIMS’ Goodell Award (2016) for lifetime achievement.

Mr. Mandel’s deep, wide and diverse experience in all facets of risk management and insurance allows him to offer those interested in managing risk with excellence to engage him to provide everything from a comprehensive strategy and complete ERM framework to targeted guidance, tools, techniques and/or training. Mr. Mandel’s innovative approach to making risk a key strategically placed and results oriented function results from solidly connecting risk management outputs to a company’s key performance metrics and ultimately, mission accomplishment.

Mr. Mandel received his B.S. in Business Management from Virginia Polytechnic Institute and State University and an MBA in finance from George Mason University. He holds the CCSA, CPCU, ARM and AIC designations and is a frequent industry speaker, teacher and writer. He writes the “Risk Innovation” column for Risk and Insurance magazine and *in 2008 was elected a member of Risk Who’s Who (RWW). He also wrote the Ask a Risk Manager column for Business Insurance from 1996 through 2008.*

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