

MERCER OLIVER WYMAN

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ORIMS professional development day Enterprise Risk Management

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Marsh & McLennan Companies

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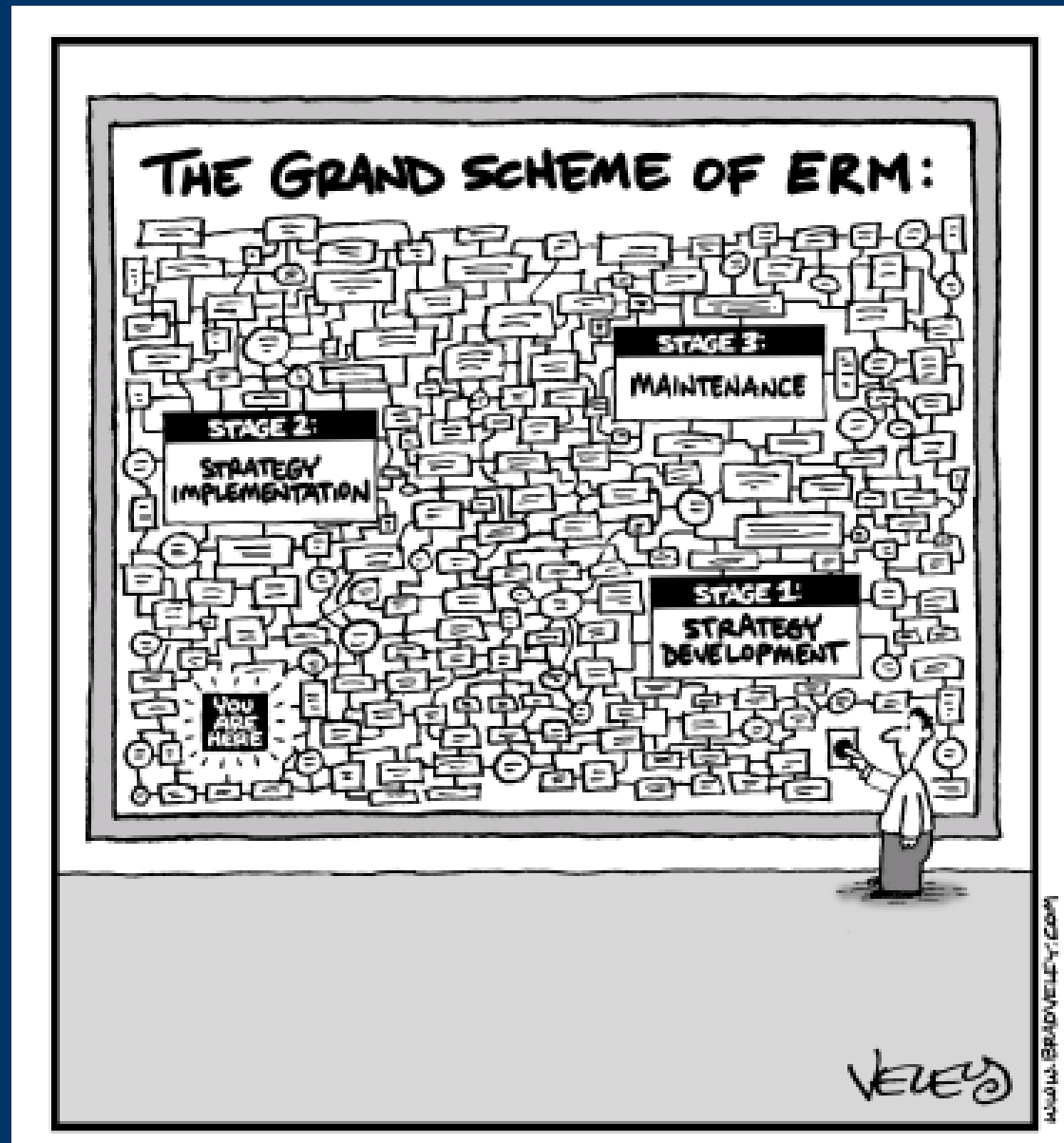
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ERM – You can't get there from here . . .



Section 1

What's driving ERM?

ERM key drivers

External

- Pressure from
 - Key stakeholders (e.g. debt holders, rating agencies, investor community, exchanges)
 - Corporate governance requirements
 - Regulatory (e.g. SOX, Bill 198)
 - Legislative (e.g. SOX) – extension into broader RM
 - Other
 - COSO ERM framework adoption
 - International risk management standards
 - Federal government
- Shareholder advocacy
- Need for greater disclosure and transparency

Internal

- Pressure from the Board and Audit Committee to understand the risk profile
- Desire for improved informed decision-making and communications
- Need to demonstrate a continuous sustainable ERM process and framework
- Limited tolerance for surprises
- Desire to align risk with strategy and key decision-making
- Desire for increased understanding and quantification of strategic and operational risks
- Desire to increase ability to identify, quantify, measure and monitor risks across the organization

ERM provides answers to critical Board questions

- What are the most critical risks for our organization and its strategies?
- Are we taking the right amount of risk across the organization?
- Are we taking the right risks?
- Do we understand the risks we are taking?
- Are our risk management capabilities across the organization aligned with the risks we are taking?
- Is risk management integrated with on-going business planning and operations?
- How do we provide effective oversight of the organization's risk management?

Assessing ERM readiness

- Does management agree on the corporate risk profile for your organization?
- How is the corporate risk profile derived?
- Is the corporate risk profile continuously updated?
- Does management know the real level of impact and likelihood for these risks?
- Does management understand how effectively these critical risks are being managed?
- For risks that are undermanaged, does your organization have a plan in place to improve the management of these risks and how is this plan tracked/monitored?
- For risks that are overmanaged, does your organization have a plan in place to improve the management of these risks?

Assessing ERM readiness (cont'd)

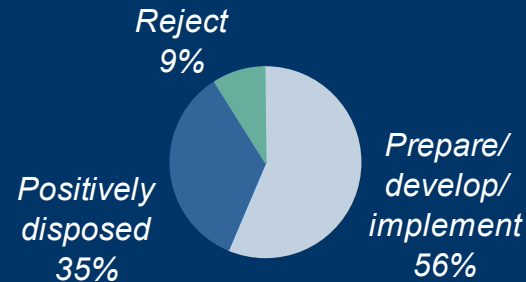
- Does your organization take inconsistent levels of risks?
- What is your organization's risk appetite?
- How do your strategies align with your risk appetite?
- Is risk management an integral part of your organization? If not, why not?
- What governance structure is in place at the board and management level to ensure appropriate understanding and analysis of risk information?
- How is risk information communicated to external stakeholders, i.e. analysts, debt holders, shareholders, etc.?

Section 2

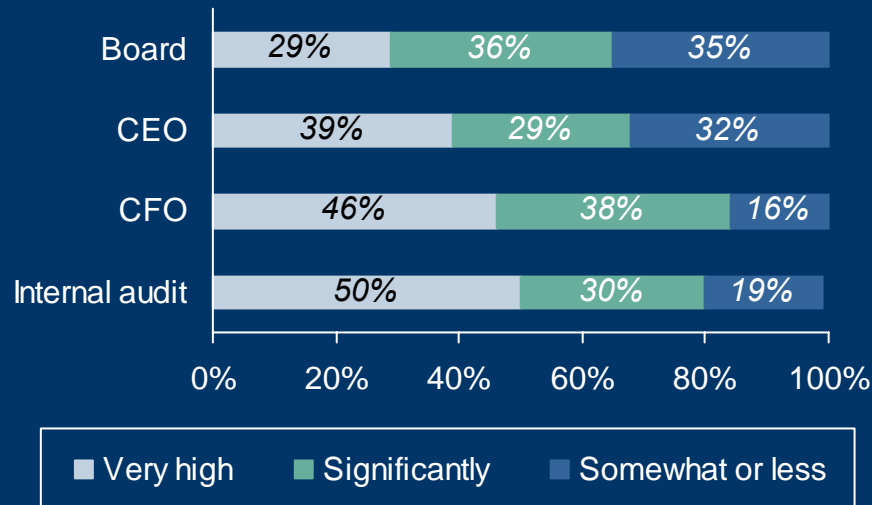
Conference Board findings – US and Canada

Selected findings from the US Conference Board's ERM survey

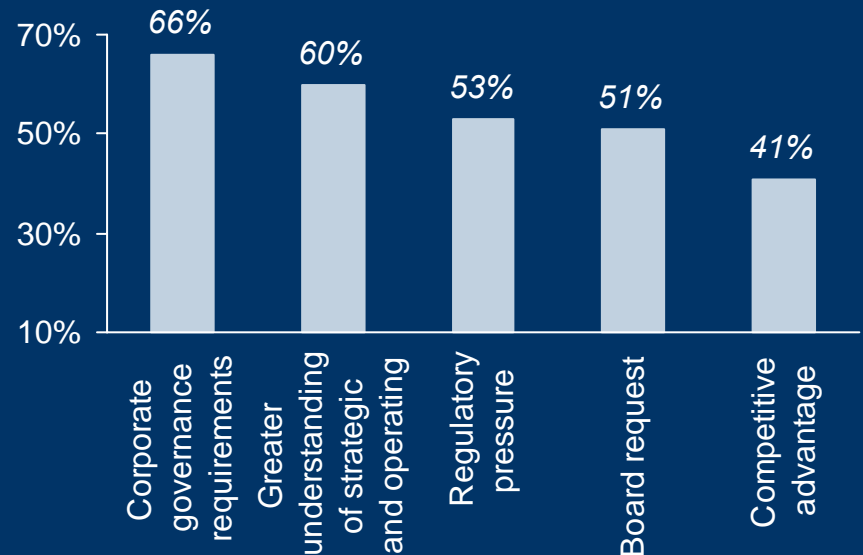
A majority of companies are choosing ERM



ERM is seen as an increasingly important responsibility by the . . .



Primary drivers for implementing ERM



Highest priority ERM objectives

- 1 Ensure risk issues are explicitly considered in decision making
- 2 Avoid surprises and 'predictable' failures
- 3 Align risk exposures and mitigation programs
- 4 Institute more rigorous risk measurement
- 5 Integrate ERM into other corporate practices like strategic planning

ERM: Inside and out – Conference Board of Canada/ Mercer Oliver Wyman Survey

Why conduct the survey?

- To fill a marked information gap: knew little about how to benchmark ERM
- The need to know more about what is being done in ERM because of the changing governance landscape (corporate scandals, ensuing financial/governance legislation, etc.) that spurred an increase in ERM activity

Approaches to ERM

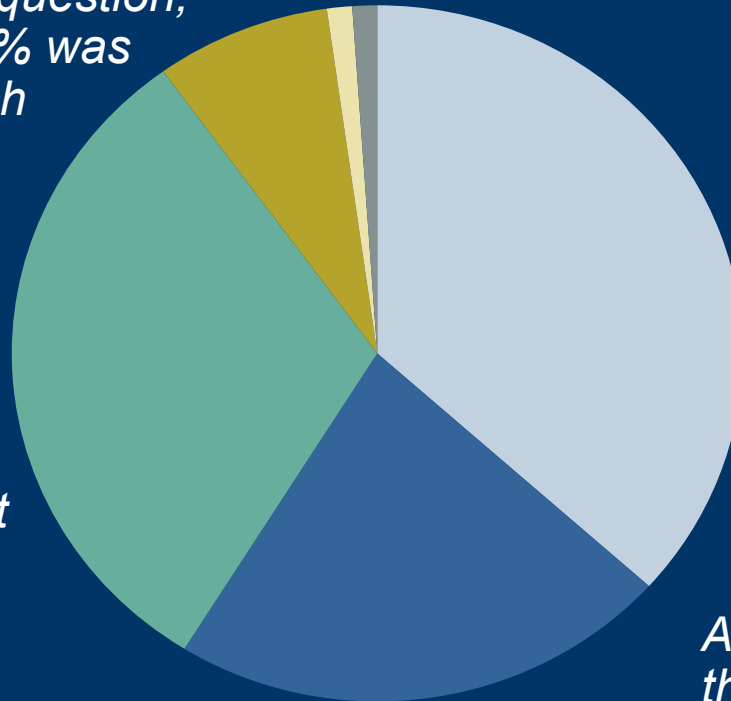
Three approaches to ERM exist

*7% did not answer the question;
1% had no structure; 1% was
strategizing its approach*

*A combined approach
that has a central
policy and process
owner with corporate
strategic oversight
responsibilities: 33 %*

*A decentralized control
of the risk management
process: 28%*

*A centralized control of
the risk management
process: 30%*



Risk management group that facilitates ERM

- 61% of organizations have such a group
- 54% of these organizations also have an allocated annual budget
- 41% of respondents do not have full-time staff dedicated to ERM
- 57% have staff, ranging from part-time to 20 full-time staff
- 57% of organizations have a CRO/risk executive

Embedding ERM into business units

Organizations have structured their business operations to include

- Reporting of ERM linked to business units: 27%
- Establishing metrics for reporting risk management performance: 24%
- Allocating capital to business units: 20%
- Evaluating ERM achievements in business units: 12%
- Accessing ERM software for communicating ERM results: 8%

ERM integration



Corporate risk profile

- Corporate risk profiles are prepared at 65% of organizations and updated when corporate risk tolerances are reviewed
- However, a substantial number of organizations do not identify and prioritize earnings drivers (link risk to earnings)
 - Case study example at end

Risk analysis and response

- Organizations are erring on the side of caution
- 29% of respondents said they publish a risk analysis and response in their MD&A
- 7% said they publish a risk analysis and response, but not as part of their MD&A
- 51% do not publish a complete risk analysis and response for their constituencies (13% did not provide an answer to the question)

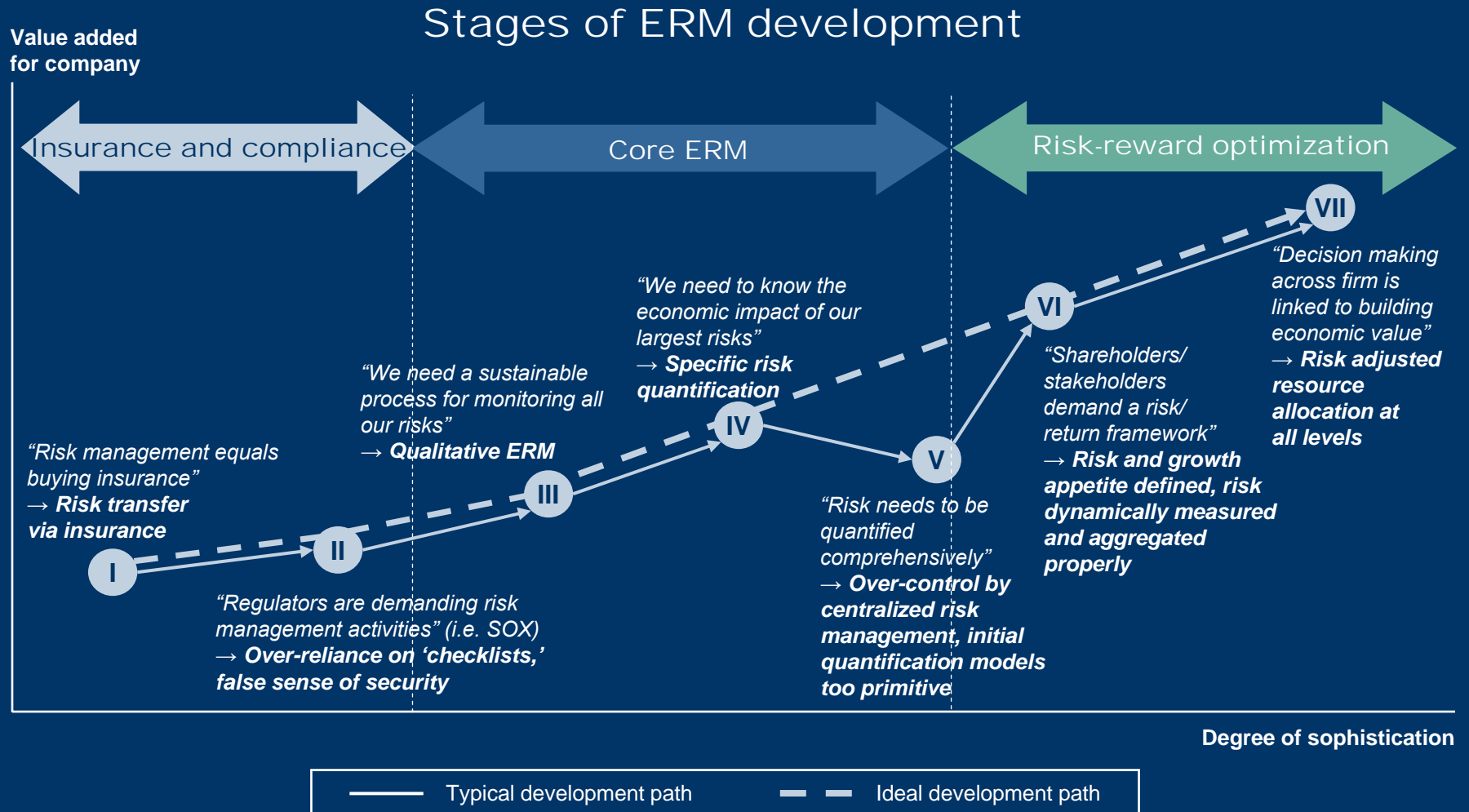
Moving forward: What should be on your radar screen?

- ERM needs to be more transparent and usable at the operational level
- Risk metrics should be aligned with the corporate scorecard
- The success of ERM should be measured against tangible results
- The ERM process should be used to provide accurate, reliable, forward-looking information to stakeholders

Moving forward: What should be on your radar screen?

- Using appropriate qualitative and quantitative approaches to risk will secure optimal results and better integration with key decision-making processes
- Independently assess the ERM process to ensure objectivity and enhance transparency with stakeholders
- Linking risk to the risk appetite of the organization – are risks within or outside of the appetite of the company and in line with stakeholder expectations?
- Important to integrate strategic planning process, as well as other key corporate processes (i.e. annual planning, business continuity, disaster recovery) and ERM

Evolutionary path of ERM....you can get there from here



Keys for ERM sustainability

- Commitment from Board and senior management
- Integrating into key decision-making processes
- Establishing metrics for risk management performance (RM process and individual risk mitigation)
- Customized approach – one size does not fit all
- Blend of quantitative and qualitative techniques
- Close connection to strategic and financial management