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1E – Identifying and Assessing Emerging Risks – What's on the Horizon

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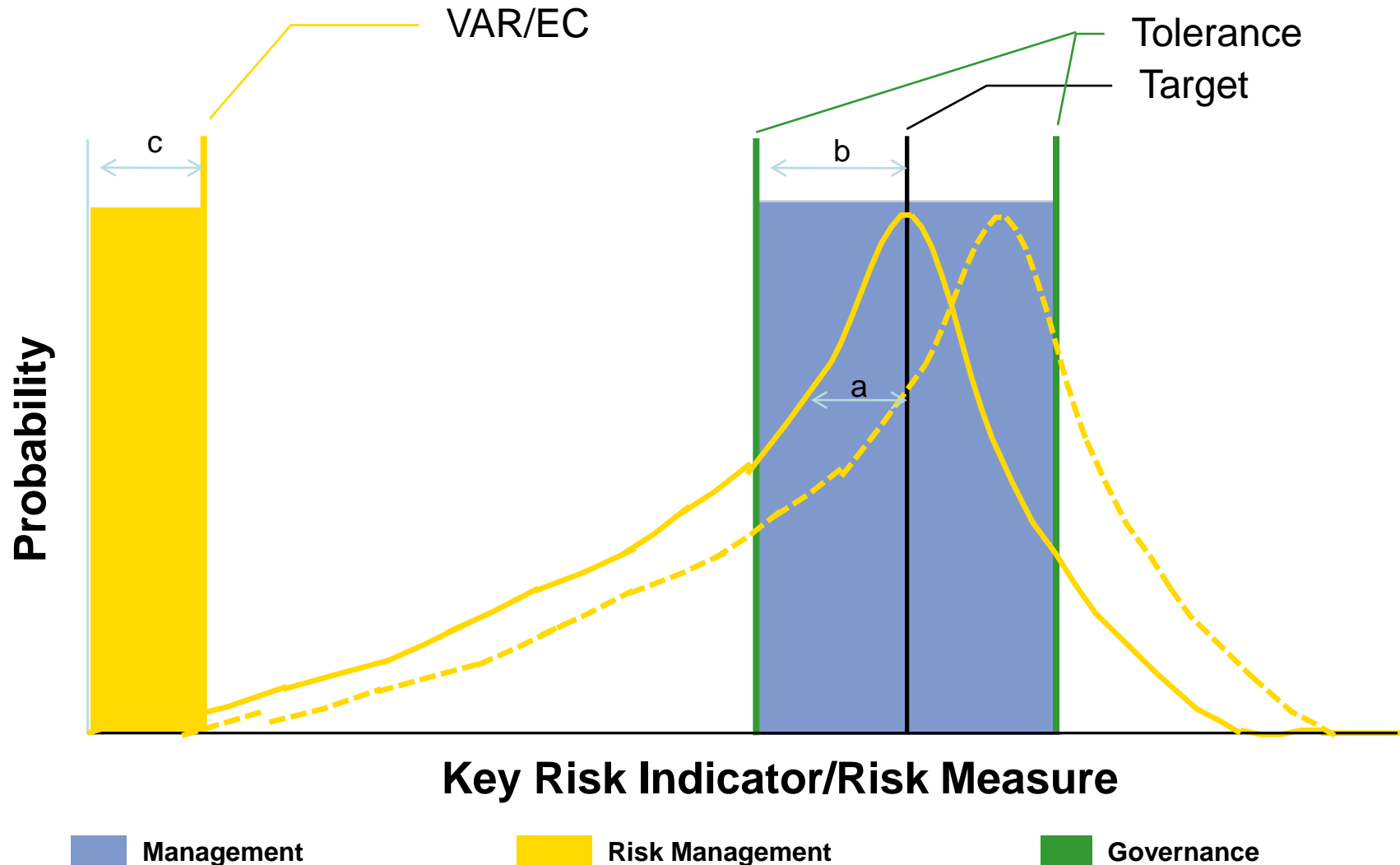
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Introduction

- A sustainable ERM culture is based on achieving the above noted, that is, risk management must be embedded into the management processes throughout the organization to be successful
- Obstacles to fully embedding ERM become real when an ERM program focuses narrowly on specific ERM activities:
 - Quantification – “its all about the numbers”
 - Controls – “its all about SOX”
 - Transfer – “its all about insurance”
- We will explore culture through the lens of 4 ERM myths – illustrating the pitfalls and solutions that support embedding ERM into management processes
- Sustainability is achieved through supporting management in risk considerations, decision-making and reporting - “it’s all about practical implementation”

ERM Myth #4.

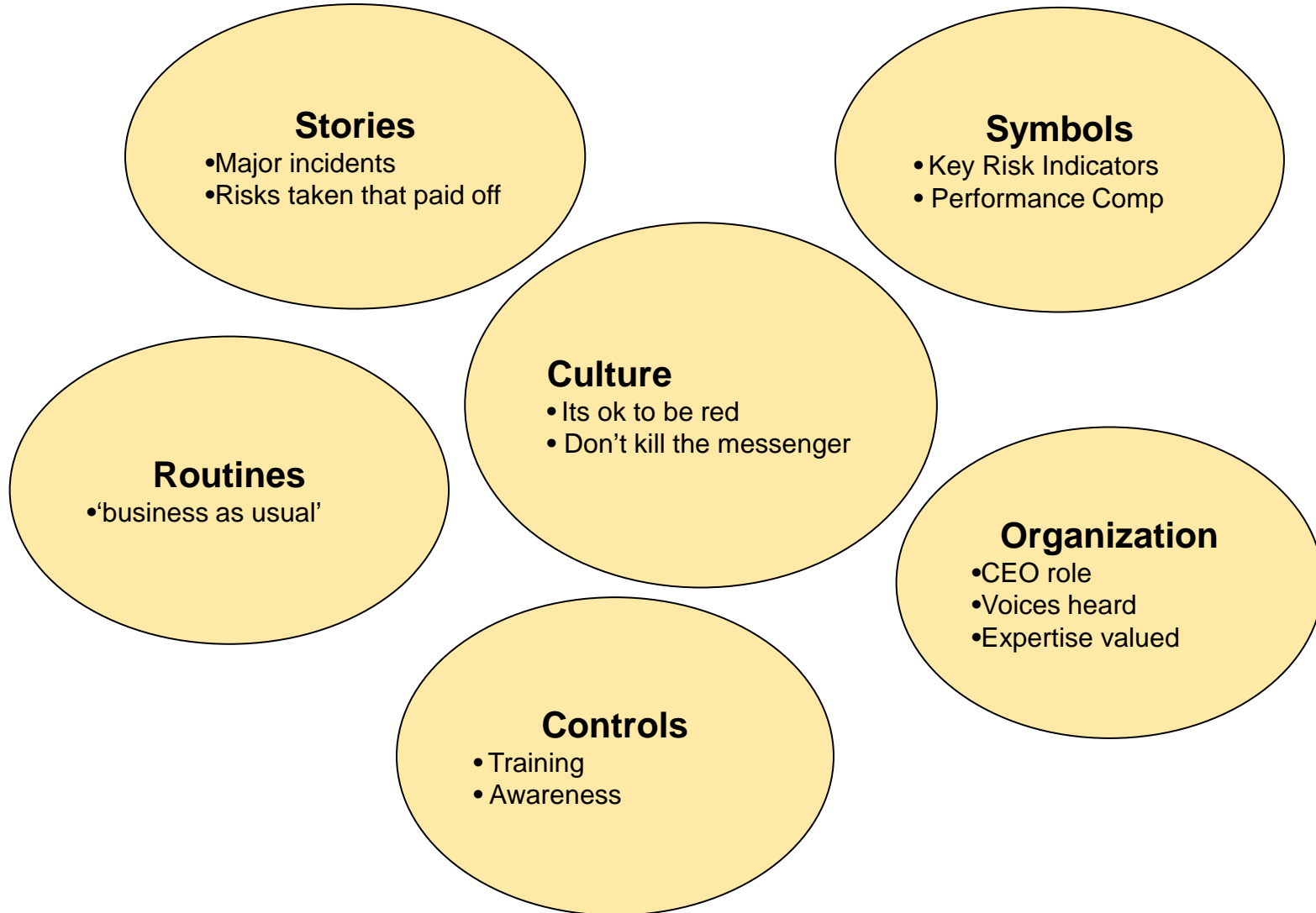
Risk is What Happens to You in the Tail



You'll always miss 100% of the shots you don't take. ~Wayne Gretzky

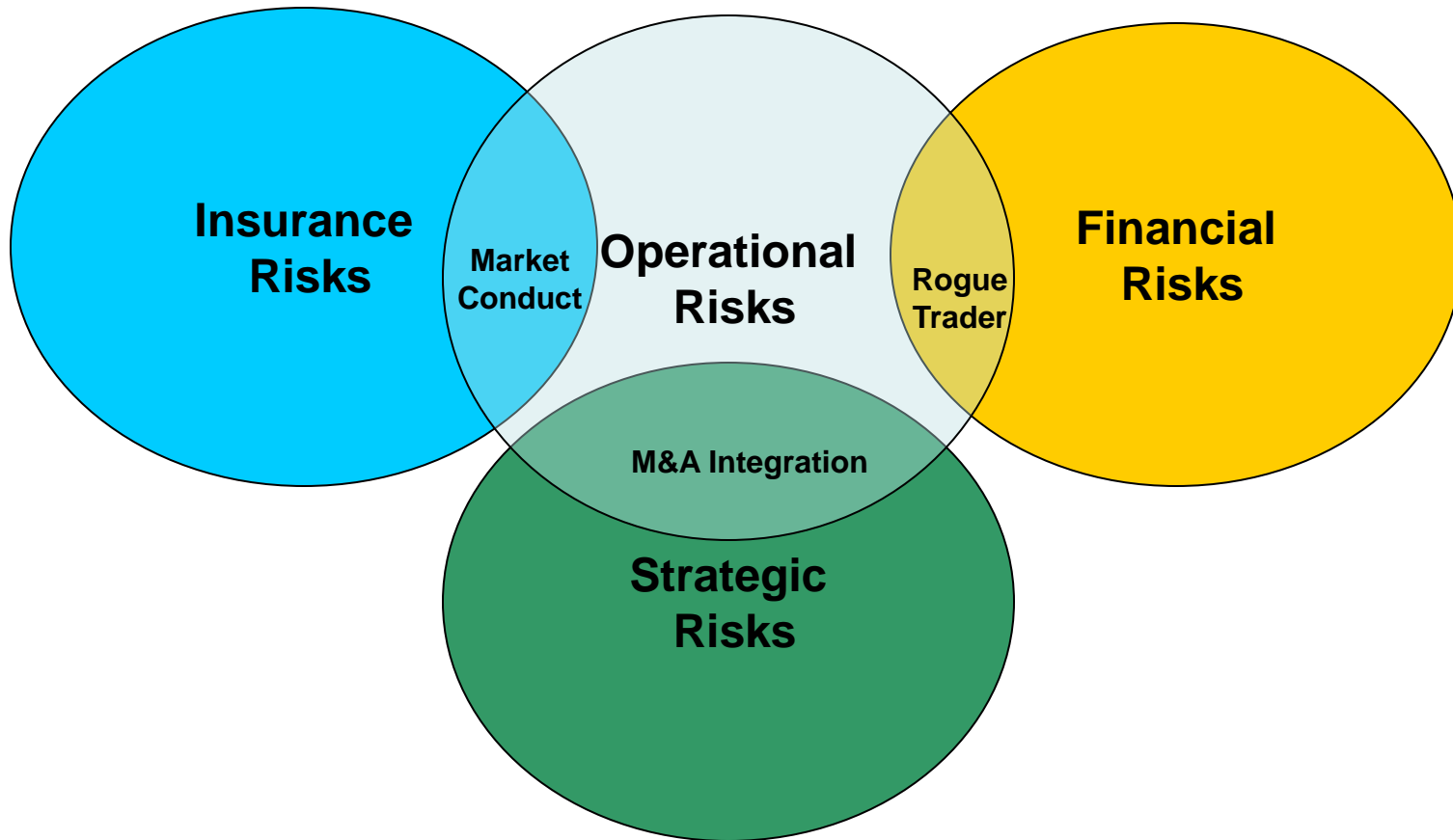
ERM Myth #3.

Risk is managed through capital and risk transfer



ERM Myth 2. Risks fit neatly into categories

Experience shows that the overlap areas have resulted in catastrophic risk events (e.g. rogue traders, market conduct etc.)



Not everything that can be counted, counts and not everything that counts can be counted” – Albert Einstein

ERM Myth #1. More Risk Governance is Good



Embedding Risk Culture; Practicality is the Key

- Risk management is not a project or an initiative
 - it is an enhancement to a business model and to management's processes
- Risk management informs the business in its decision-making:
 - it doesn't make decisions for the business
- Risk management strikes a balance of quantification, controls and a variety of risk mitigation techniques
- Risk management clearly supports risk-taking by the business
 - While providing clearly articulated risk appetite and tolerance statements to promote risk-taking in a structured manner
- Risk management is talking about, considering, discussing and embedding risk techniques into the activities of the organization

The Challenge: How do we improve our awareness and capabilities surrounding the risks that matter most?

Material

- Raise the bar in the way that we identify, assess, manage and report on risks by focusing on material risks to the business.

Top Down

- Avoid reliance on bottom up risk identification process and find new ways to identify important risks.

Integrated

- Eliminate silo view of risks by focusing on the integration of financial and operational risks across the organization.

Proactive

- Take better steps to anticipate prospective risks rather than reacting to issues as they materialize.

Action

- Directly incite action to help us to monitor and prepare for potential emerging risks.

Exercise #1 – Identifying external trends and emerging risks

Facilitators Guide: How do we identify scenarios?

- What are the events that keep you up at night?
- Which events could trigger a £1 billion loss to the franchise?
- How could your company's name get into the news in an unflattering way?
- What events is the organization underprepared for?
- What events will fundamentally change the way the business operates?

Exercise #2 –

Using emerging risk discussions to create “war gaming”

What are War Games?

What they are	What they are not
➤ Scenario based discussions about potential detailed events	➤ Detailed exploration of a single individual risk
➤ Open discussion where brainstorming is required	➤ Formal discussion without creative thinking
➤ Cross functional debate where all executives contribute	➤ Discussion dominated by the perceived expert on related risk
➤ Finding ways the organization can exploit a potentially risky scenario	➤ Always focused on downside mitigation
➤ Development of action items for which participants are accountable	➤ Purely an academic exercise
➤ An input to our stress and scenario testing by identifying risks that could impair our capital base	

War games should be engaging debates triggering outside the box thinking with a purpose.

War Game Process – How do we conduct a war game?

Preparation

- Meet with an expert to discuss the scenario and what could happen
- Create a short high level summary of the activity

Session

- Start with a short high level introduction
- Facilitate the session
 1. Detailed Description
 2. Game plan within the event
 3. Immediate actions

Follow Up

- Complete write up of the session
- Agree actions with action owners
- Complete routine follow ups to ensure progress

Describe the scenario?

- What are the series of events that could happen?
- What would our competitors do?
- How will the regulators react?
- What happens to the operations of the company?
- What happens to the balance sheet of the company?
- How will customers react?
- How will investors react?
- Which of our risk are impacted by the scenario?

What actions would we take once the event has started?

- How would we know the event has started?
- What are we likely to do vs what should the organization be doing?
- How do we ensure that we remain solvent?
- How do we ensure that we are still able to sell our products?
- How can we capitalize on the situation?
- Will our actions change based on the severity of the event?

What actions should we take now?

- What can we do to better prepare for the event?
- Should we change the risk profile of the organization so that we are better able to respond?
- What processes should be developed?
- Should we be operating in different markets, distribution strategies, or products?
- Who is accountable for making sure that the actions are completed?

Do we have enough information?

- What management information is currently available to monitor the risk?
- What information do we need to develop so that we can monitor the risk?
- Should we run financial models to better understand the risk?
- Do we need to complete more research?

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