# Checking in With Your ERM Program

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# Session Objectives

- Understand the importance of creating a sustainable framework for managing risk
- Learn how ERM supports decision making
- Consider ways to link risk to what matters most – and “sell” it to decision makers
- Training and resources



Dorothy Gjerdrum
Arthur J Gallagher & Co.



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Yuma County, AZ

# Agenda

- Overview of ERM – why, what and key concepts
- The ISO framework
- Examples from the public sector
- Understanding *your* organization
- Training and resources

# Overview of ERM

- Reasons we need a broader approach to managing risk
  - Some of the limitations of “traditional” risk management
  - Challenges facing public entities
  - Global risks
- Why ERM?
- Defining ERM – key concepts and intention
- Reasons that public sector entities are embracing ERM

# *Why* should we take a broader approach to risk?

- Insurance companies estimate that only 20-30% of all risks are insurable
- Global interconnectedness forces us to think more broadly – for example:
  - Viruses and pandemics
  - Cyber attacks
  - World economy & supply chain risks
- Now more than ever, we need *all* stakeholders to be *risk aware*

# Infographic: The Risk List

*Risk & Insurance – June 1, 2015*

**Six Challenges for Public Entities:**

1. Cyber
2. Law enforcement activities
3. Crumbling infrastructure
4. Emerging technologies
5. Eroding tort caps
6. Distracted drivers

http://www.riskandinsurance.com/6-challenges-for-public-entities-2/

# Infographic: The Risk List

*Risk & Insurance – June 1, 2015*

| Six Challenges: | Mitigated via Insurance? |
| --- | --- |
| 1. Cyber | 1. Partially |
| 2. Law enforcement activities | 2. Partially |
| 3. Crumbling infrastructure | 3. Partially |
| 4. Emerging technologies | 4. Maybe – maybe not? |
| 5. Eroding tort caps | 5. No – maybe? |
| 6. Distracted drivers | 6. Probably not |

# *Why* ERM?

## To *maximize* opportunities

- An opportunity for students to travel to an important culinary contest, but the event occurred during uprisings in Egypt – the "Arab Spring"
- Six students & one faculty member participated *because* they assessed both risk & opportunity and decided it was a worthy endeavor. They were able to minimize downside risk – and train on code of conduct, cultural context & travel contingencies
- Result: Awarded silver medal!



The Emirates Salon Culinaire

Organised by the Emirates Culinary Guild

Endorsed by the World Association of Chefs' Societies

WORLD ASSOCIATION OF CHEFS SOCIETIES

# *Why* ERM?

To *manage* complex risks

## Warrant: Swain student said ISIS wanted school attack

Leah Buletti, lbuletti@citizen-times.com 6:18 p.m. EST December 18, 2015



(Photo: Citizen-Times file photo)

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BRYSON CITY - A Swain County High School student told a fellow student he was from ISIS and the terror organization wanted him to blow up his school, according to a search warrant.

The student also searched for information online about making explosives with household materials, said Hitler was his role model and told authorities he had watched almost every ISIS propaganda video, according to a search warrant written to search the student's Bryson City home.

The student, who is not being identified, has not been charged, Swain County Sheriff Curtis Cochran said Friday.

December 18, 2015

http://www.citizen-times.com/story/news/crime/2015/12/17/swain-high-searched-after-bomb-threat/77500198/

# *Why* ERM?

## To *prove* financial worthiness

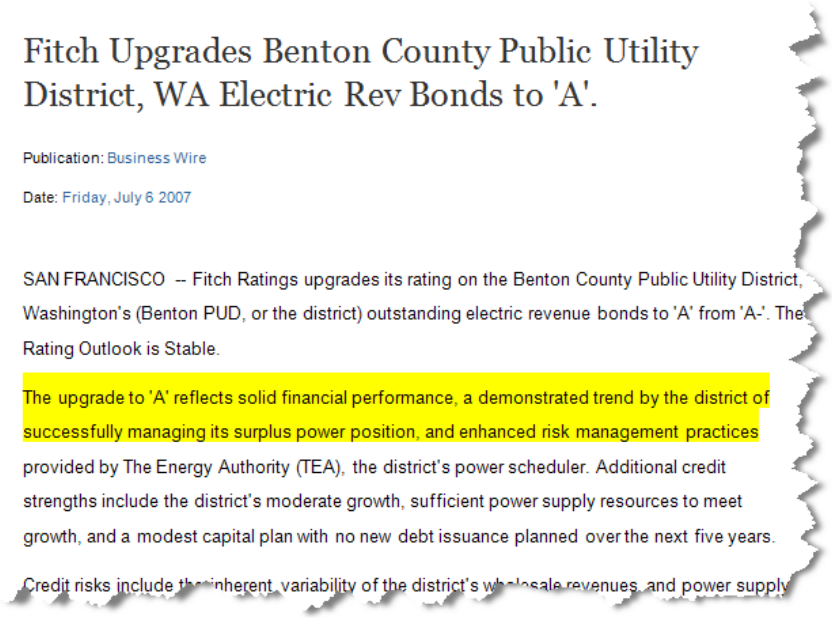
The McGraw-Hill Companies

STANDARD &POOR'S

On its web site, Standard and Poor's recognized the **University of CA** for its ERM program.

> "The UC has implemented a system-wide enterprise risk management information system which, in our opinion, is a credit strength."

September 9, 2010 – Ratings Direct Global Credit Portal



Fitch Upgrades Benton County Public Utility District, WA Electric Rev Bonds to 'A'.

Publication: Business Wire

Date: Friday, July 6 2007

SAN FRANCISCO -- Fitch Ratings upgrades its rating on the Benton County Public Utility District, Washington's (Benton PUD, or the district) outstanding electric revenue bonds to 'A' from 'A-'. The Rating Outlook is Stable.

The upgrade to 'A' reflects solid financial performance, a demonstrated trend by the district of successfully managing its surplus power position, and enhanced risk management practices provided by The Energy Authority (TEA), the district's power scheduler. Additional credit strengths include the district's moderate growth, sufficient power supply resources to meet growth, and a modest capital plan with no new debt issuance planned over the next five years.

Credit risks include the inherent variability of the district's wholesale revenues and power supply

# *Why* ERM?

## To make *better decisions*

*The Baltimore Sun*
July 16, 2008

An underground fire shut down power to 30 residential and commercial buildings in Baltimore and took nearly 10 hours to control. Baltimore's utility lines are part of the city's aging infrastructure – carrying electricity, cable, telephone, street light and fiber-optic service through 3.7 million feet of conduits. The cost to update the >100 year-old system is $900 million.



# Defining ERM

**Enterprise Risk Management** describes a broader approach to managing risk.

It is a coordinated effort to direct and control all activities related to risk.

It defines risk as the **effect of uncertainty on objectives**. It therefore ties the management of risk to what is most important to the organization.

The **responsibility for managing risk** is spread across the organization to those who have accountability and authority – **risk owners**.

# The Intent of ERM

- To *manage risk* better to support opportunities
- To identify, assess and prepare for *what could go wrong*
- To focus on *what's most important* to the organization and its stakeholders – and link key risks to key goals & objectives

# ERM – Key Concepts

- It identifies a broad range of risks – beyond insurable risks
- It prioritizes risks in alignment with mission & objectives
- It spreads “ownership” to those who have direct control
- It requires facilitation & leadership skills
- It takes multiple years to implement

- ERM is risk management of the future…

# Key Reasons to Implement ERM

- Bond rating
- Better & more thorough decision making
- Response to regulatory oversight
- Peer influence
- Governing board members' influence
- Desire to be a progressive industry leader
- To manage resources more effectively

# Polling Question:
# What's your level of interest?



# The ISO Framework for Managing Risk

The **principles** provide the foundation and describe the qualities of effective risk manage-ment in an organization

The **framework** manages the overall process and its full integration into the organization

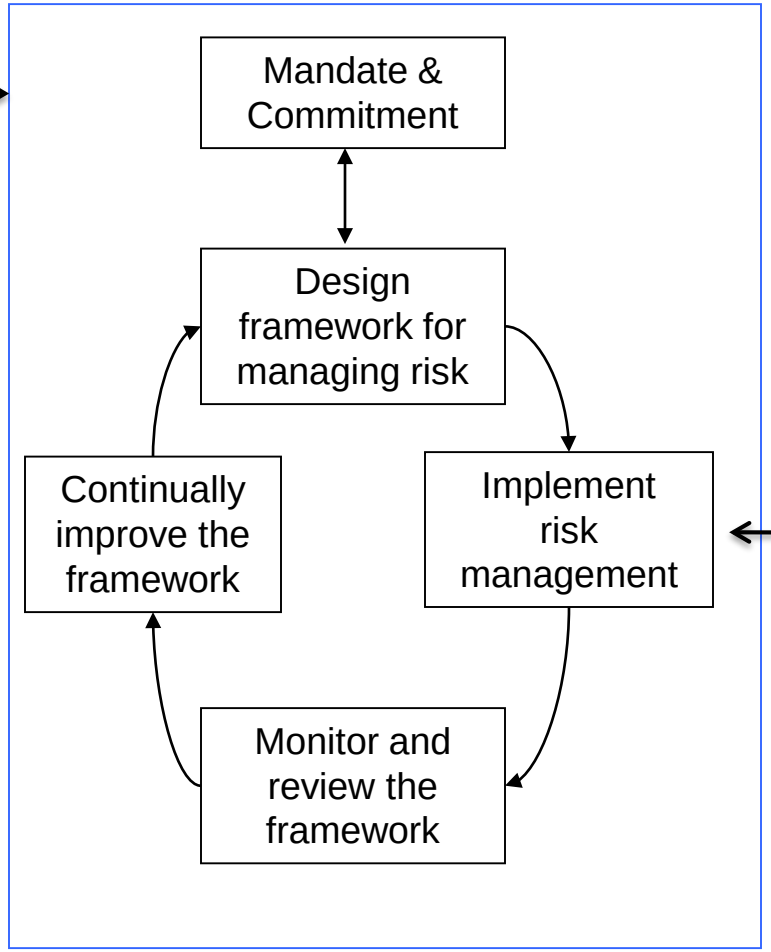
The **process** for managing risk focuses on individual or groups of risks, their identification, analysis, evaluation and treatment

Monitoring & review, continual improvement and communication occur throughout

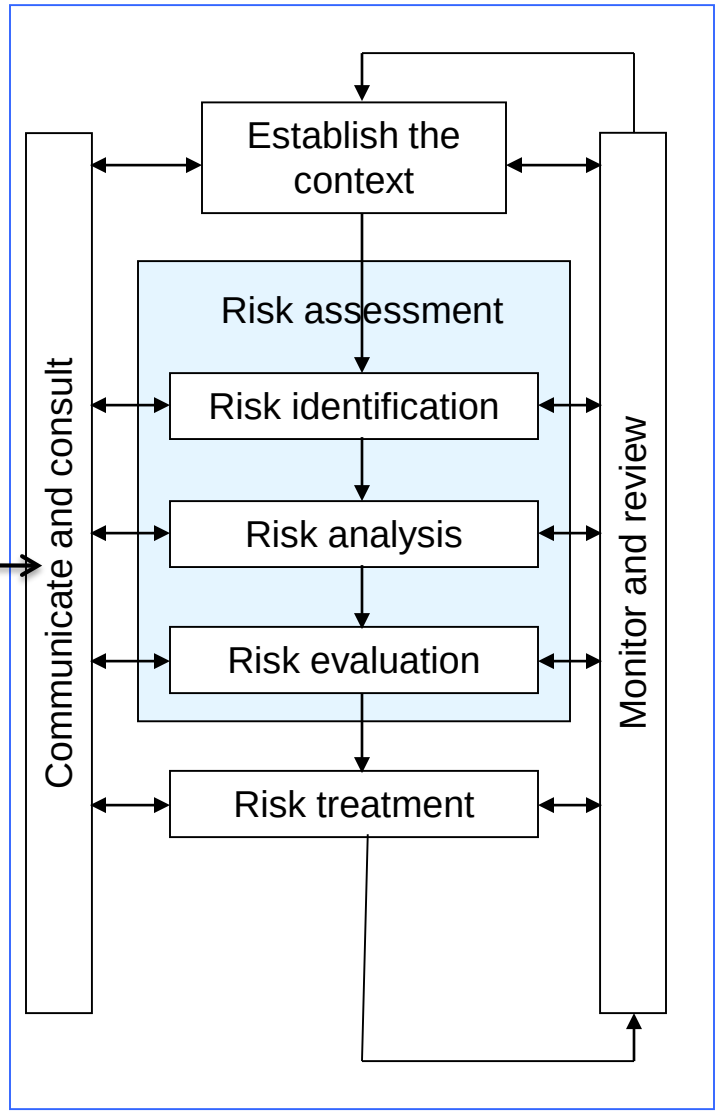
## Principles

- Creates value
- Part of org. processes
- Part of decision making
- Explicitly addresses uncertainty
- Systematic, structured & timely
- Based on best avail info
- Tailored
- Takes human & cultural factors into account
- Transparent & inclusive
- Dynamic, iterative & responsive to change
- Facilitates continual improvement

## Framework




## RM Process




ANSI/ASSE/ISO 31000: 2009

# Principles

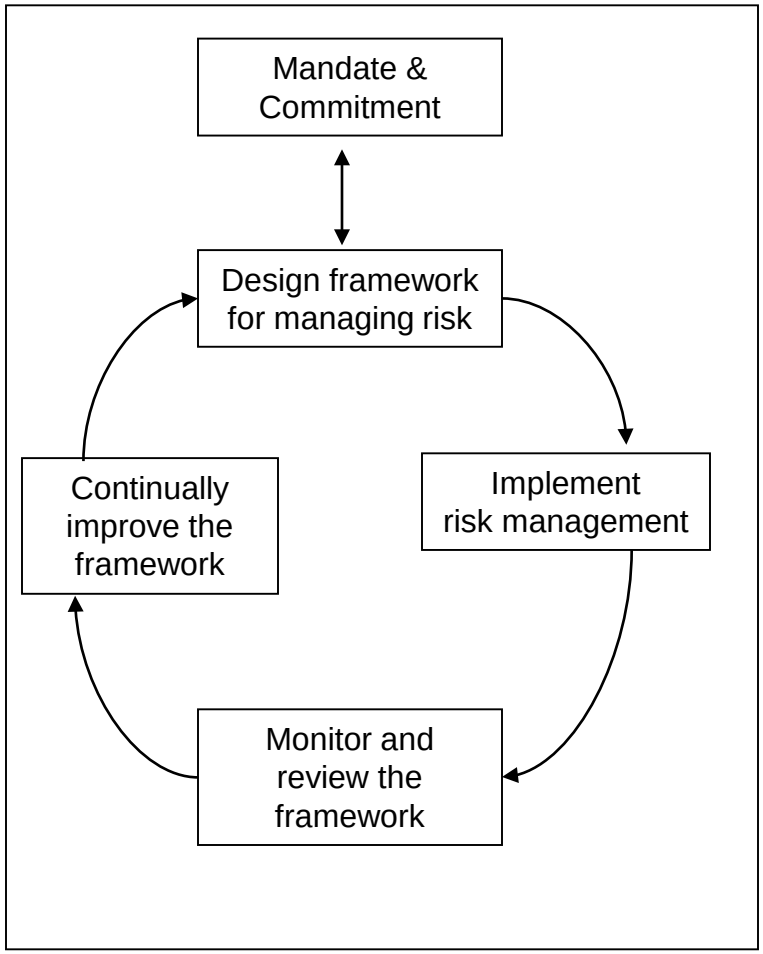
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- Takes human & cultural factors into account
- Transparent & inclusive
- Dynamic, iterative & responsive to change
- Facilitates continual improvement & enhancement of the organization

The principles provide guidance on the rationale for managing risk and the characteristics of effective risk management

These shape the design and structure of your *framework* for managing risk

The principles can assist in continual improvement and serve as a “maturity model” for implementation

# Framework



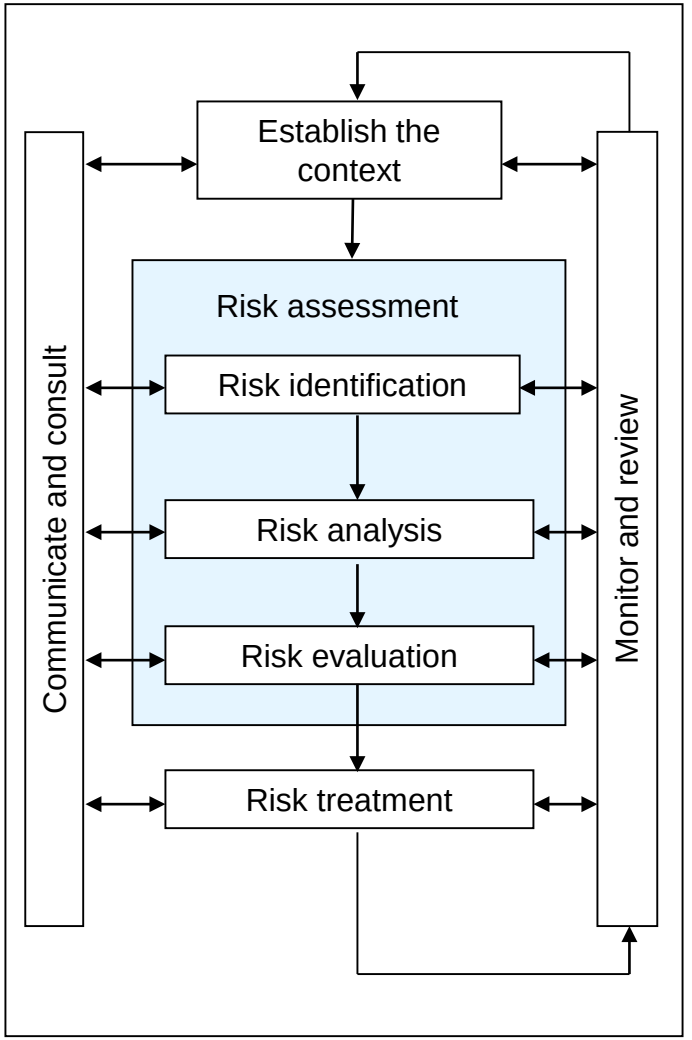

Based upon a model of continual improvement, the framework is what will *sustain* your risk management efforts

This assures that you are consistent, *process*-focused and held accountable

Building the framework includes *planning* for implementation, monitoring & review and communication

- The *context* applies to both the organization as a whole and the specific project, risk or portfolio of risks
- Several elements take stakeholder interest and *perceptions* into account
- Monitor and review – continually asks: “Do we have this right?”
- Communication and consultation is how the management of risk stays *connected* and *relevant*
- The same consistent process used across the organization

## RM Process



# Do You Have a Sustainable Framework?

Key components of a sustainable framework:

- Mandate and commitment
- Accountability for risks and for overall framework
- The consideration of uncertainty/risk in organizational processes, decisions and activities
- Communication
- Continual improvement

# Are Public Entities Really Implementing ERM?

- Federal agencies
- State governments and provinces
- School districts
- Cities and counties
- Special districts (especially utilities)
- Governmental pools

# Yuma County, AZ




- Began with commitment from county administrator
- Educated department heads
- Created ERDT & ERC
- Secured software to record and track risk data
- Developed a two-year plan for risk workshops
- Results reported to ERC, County Administrator & Board

# ERC & ERDT

The Charters describe:

- The overall purpose
- Membership
- Roles
- Reporting
- Meetings/Attendance
- Decision-Making

Expectations from ISO 31000:

- ✓ Understand & manage risks to achieving objectives
- ✓ Risks prioritized to organizational goals and objectives
- ✓ Risk explicitly considered in decision-making
- ✓ Stakeholders understand roles and responsibilities
- ✓ Communication
- ✓ Continual improvement

# Enterprise Risk Committee

Overall Purpose:

The ERC is responsible for alignment of organizational risk management strategies, acts as the supporter of the County's ERM program and works closely with the ERDT.

The ERC seeks to understand opportunities to use the process pro-actively as a method to reduce uncertainty and support achievement of Yuma County's goals and objectives.

# Applying ERM to a District-Wide Problem

- Hundreds of Community-Based Organizations in school sites across the district
- Traditional risk management approach had limited impact
  - Created policies and procedures
  - Online reporting & request for approval
  - Tools and training
- Central admin rules versus individual school site needs

# ERM Used to Create Solutions

- Cross-functional team worked through the process
  - Broad representation kept discussions “real”
  - Support was developed through influence and leadership
  - Deeper understanding and engagement
- Existing strategic tools were utilized – ROCI and BSC
  - Strong links to principal’s/school’s strategic objectives
  - Support for organizational learning
- Focus changed to *support for* and *enabling* decision making (vs. enforcement, mandates)

# Applying *ERM* to Decision Making

No ERM: Decision-Making Process



Which software solution?



Everyone goes their own way

More expensive
Lack of continuity
Duplicated efforts
Poor product selection

Applying ERM to a Decision



Which software solution?

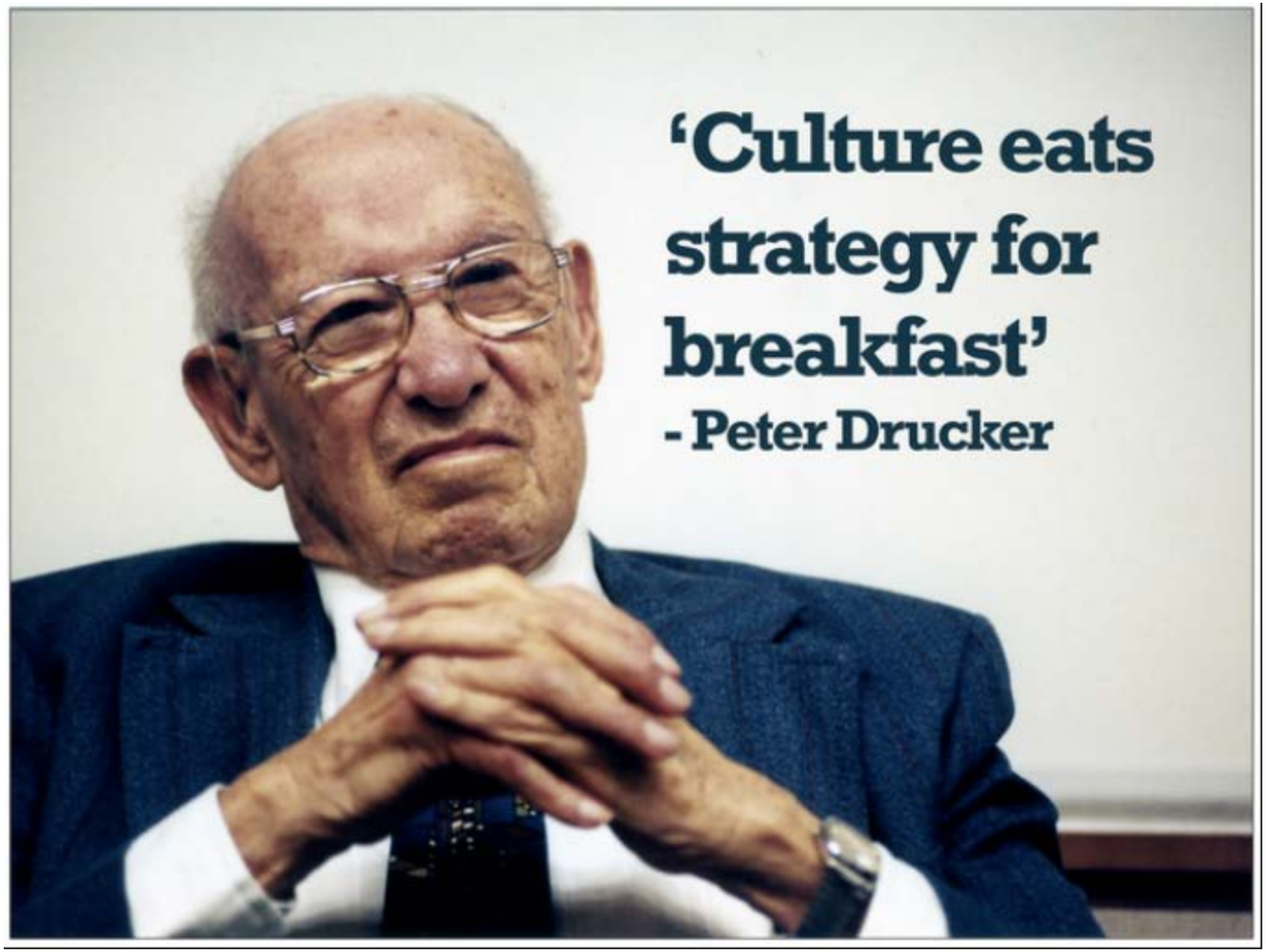


All stakeholders meet to discuss similar objectives/risks

Cost effective
Continuity of use
Improved efficiency
Good product selection

# Understanding *Your* Organization

- Mission or Purpose – as defined by statute or leaders
- Strategic plan – vision for the future
- Goals and objectives – for the organization as a whole and for departments and subgroups
- Organizational structure and hierarchy
- Culture – artifacts, patterns of behavior, beliefs and values, underlying assumptions
- Governance – accountability & decision making


'Culture eats strategy for breakfast'
- Peter Drucker

# ERM Best Practice

- Risk assessment process is robust, with clear criteria, guidelines for escalation, inclusion of dissenting opinions & “thinking the unthinkable”
- Use standardized language and processes
- Use simple, user friendly tools to encourage adoption
- Integrate ERM with strategic planning and existing processes
- Embrace continuous improvement & communication

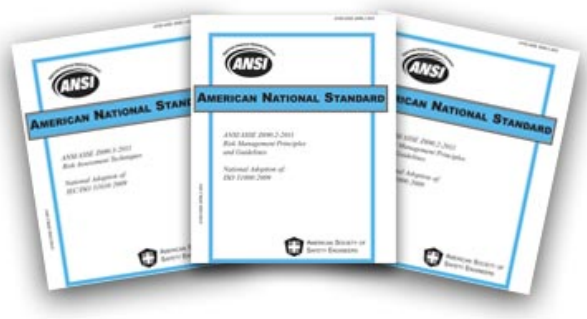
# ISO 31000: The US Perspective

- Adopted as the US Standard by ANSI
- Available from ASSE or ANSI



**ANSI/ASSE Z690-PACKAGE**
ANSI/ASSE Z690 Standards Package

**ANSI/ASSE Z690.1-2011 Vocabulary for Risk Management**
(identical national adoption of ISO Guide 73:2009)
**ANSI/ASSE Z690.2-2011 Risk Management—Principles and Guidelines**
(identical national adoption of ISO 31000:2009)
**ANSI/ASSE Z690.3-2011 Risk Assessment Techniques**
(identical national adoption of ISO/IEC 31010:2009)




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# How to Implement ERM Using ISO 31000

Three-part training (in 2015):

- Webinar – How to apply the standard
- Workshop – Introduction
- Workshop – Implementation

- Info at [www.primacentral.org](http://www.primacentral.org)

# Resources From PRIMA

- Annual conference – track on ERM
- Webinar series
- In-house training
- ERM chat group – PRIMA Talk

# Your Speakers

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