PRIMA'S 2018 RISK MANAGEMENT
WEBINAR SERIES

Executive Teams and the Use of ISO 31000 in Decision Making

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National Director
Gallagher ERM Practice

Agenda

- Defining ERM
- Mission, Objectives and Uncertainty
- Governance and Risk
- Varying Levels of ERM Implementation
- Using ERM in Decision-Making
- Role of Senior Leaders

Defining ERM

Risk

Traditional Definition

The possibility that something bad or unpleasant will happen.

Merriam-Webster

Risk Management

Traditional Definition

Minimizing the adverse effects of accidental losses.

The Institutes

Risk

Broadened Definition

Risk

Broadened Definition

The effect of uncertainty on objectives.

ISO 31000

Risk Management

Broadened Definition

Coordinated activities to direct and control an organization with regard to risk.

ISO 31000

The Changing Focus of Risk Management

Transactional

Historic Risk Management

- Insurance
- Specific hazards
- No compliance input
- Separate safety & emergency management
- "Silo" approach
- Risk Manager = insurance buyer

Risk is bad – focus is on transferring risk

Integrated

Advanced Risk Management

- Alternative risk transfer techniques
- Proactive prevention & risk reduction
- Integrated approach to claims, contracts, insurance, etc.
- Increased education & accountability
- Collaboration across departments
- Risk Manager *may* be the risk owner

Risk is an expense – focus is on reducing cost-of-risk

Strategic

Enterprise-Wide Risk Management

- Broad range of risks analyzed
- Combination of risk controls & opportunities
- ERM alignment with strategy
- Helps manage growth, allocate capital & resources
- Risks owned by SME's
- Greater availability of risk mitigation and analytical tools
- Risk Manager = risk moderator, partner, leader; *not* the owner of every risk

Risk is uncertainty – focus is on optimizing risk to achieve goals

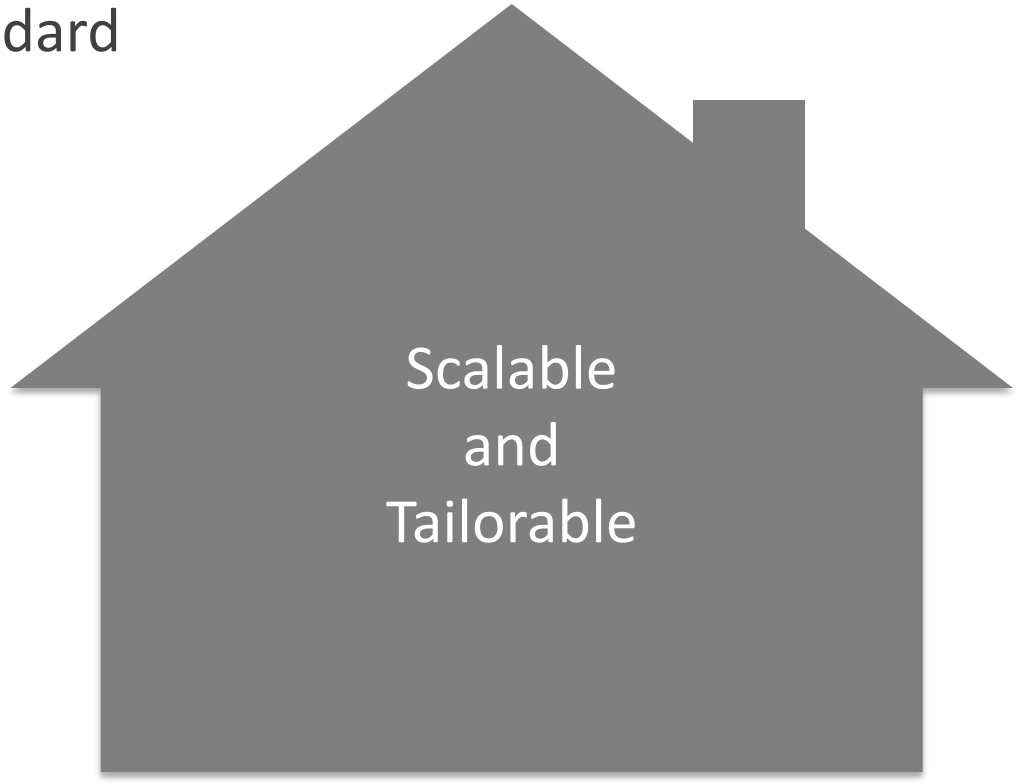
ISO 31000

The International Risk Management Standard

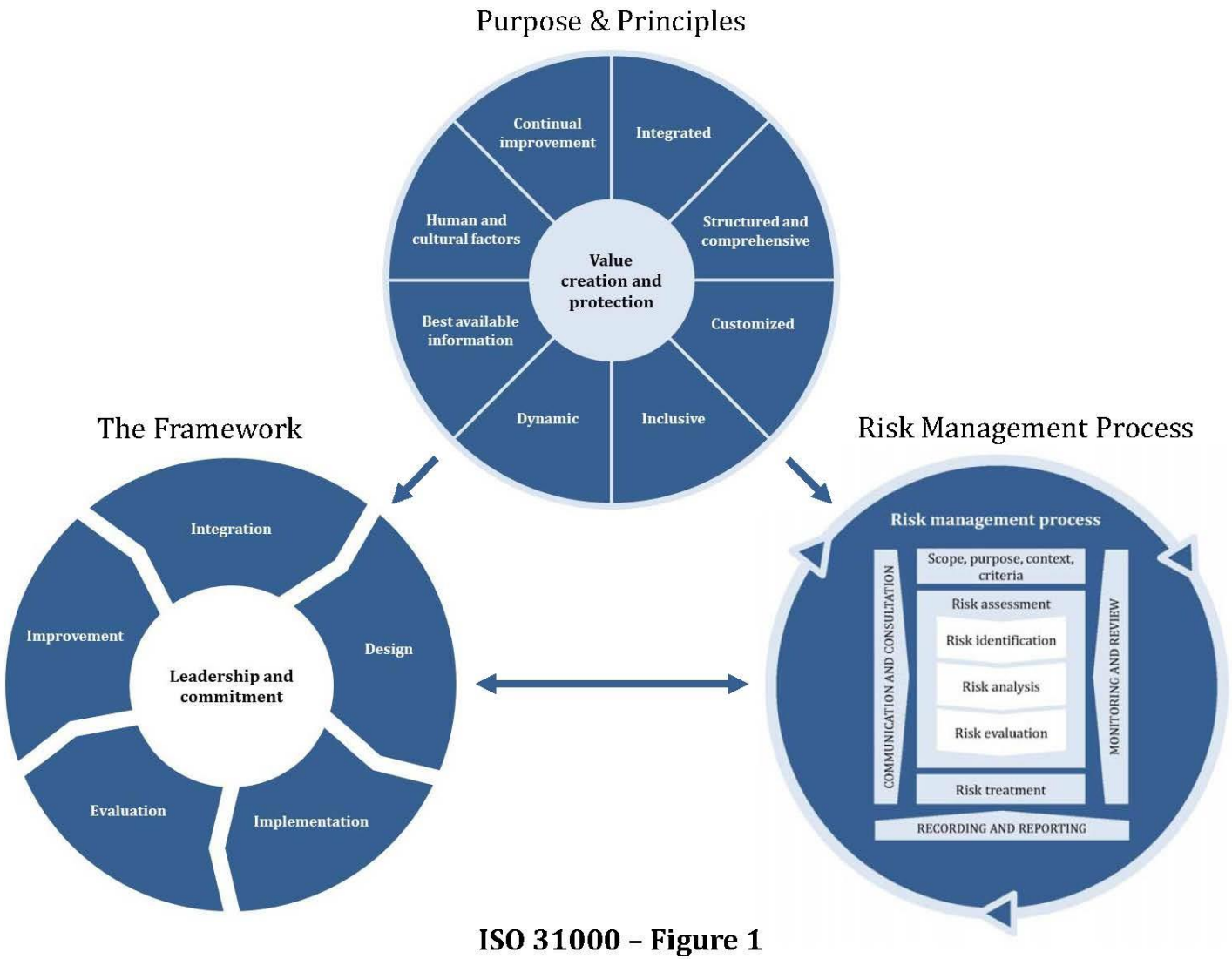


ISO 31000

The International Risk Management Standard



ISO 31000 Risk Management Model



ISO 31000 – Figure 1

Mission, Objectives and Uncertainty

Why is Risk Management Important?

1. All organizations exist to achieve their objectives.

2. Many internal and external factors affect those objectives, causing uncertainty about whether the organization will achieve its objectives.

3. The effect this uncertainty has on an organization's objectives is "risk."

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In summary, the management of risk is central to the livelihood and success of all organizations.

The *New View* of Risk

RISK can be a threat or opportunity

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Anything that can harm, prevent, delay, ***or enhance*** an organization's ability to achieve objectives = RISK

The *New View* of Risk



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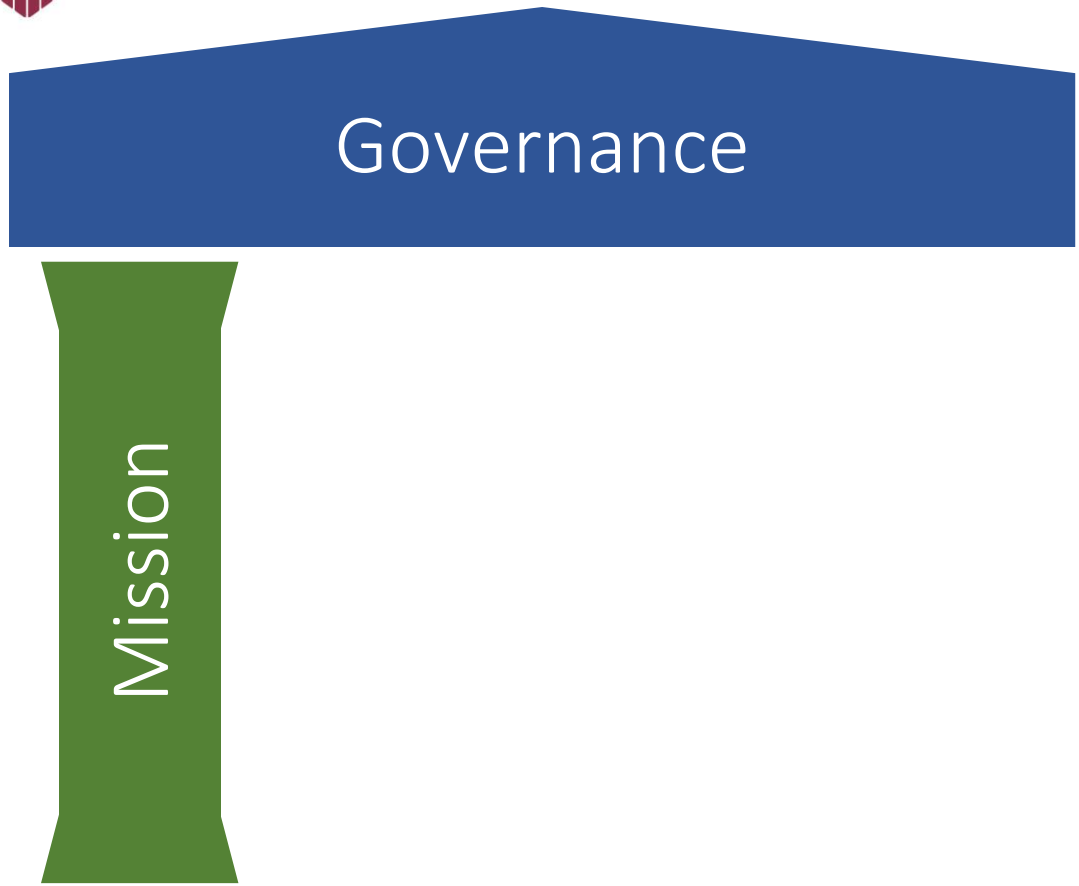


Governance and Risk

ERM as an Integral Pillar of Governance



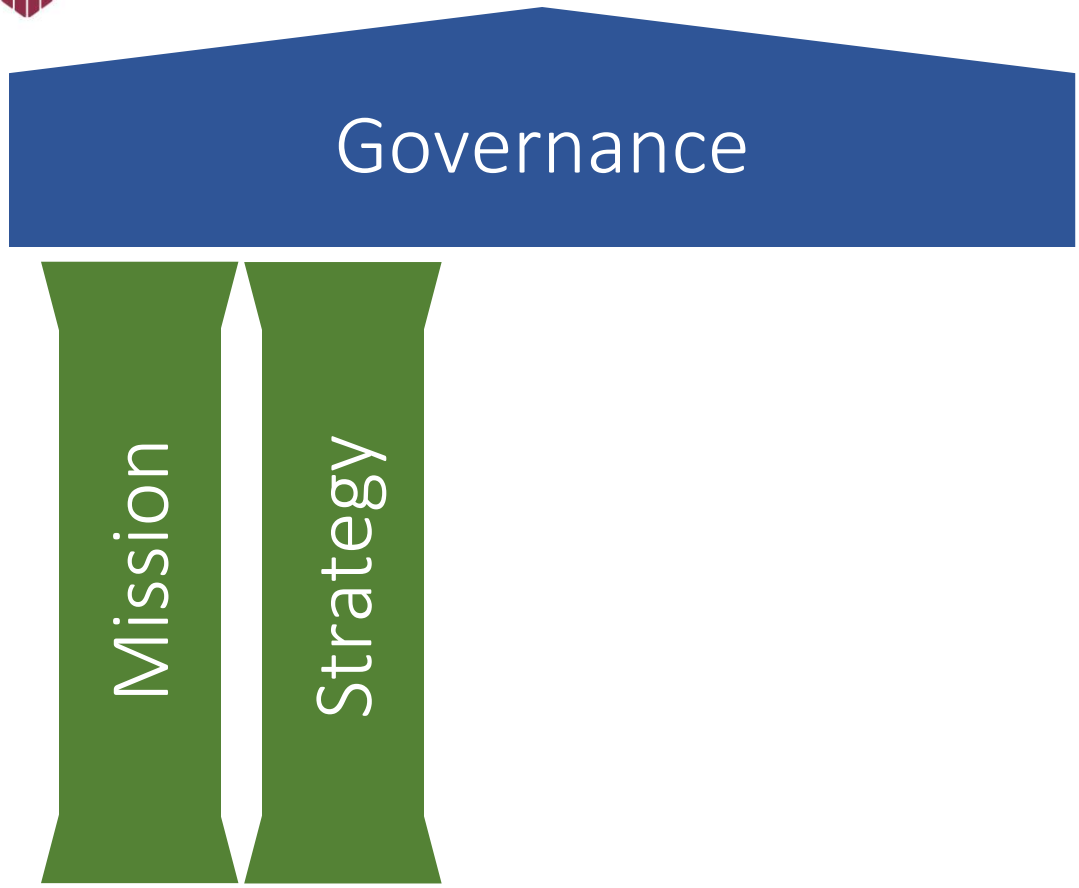
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Mission

The board sets the overall mission and objectives of the entity and insists that its culture and values are aligned with that mission.

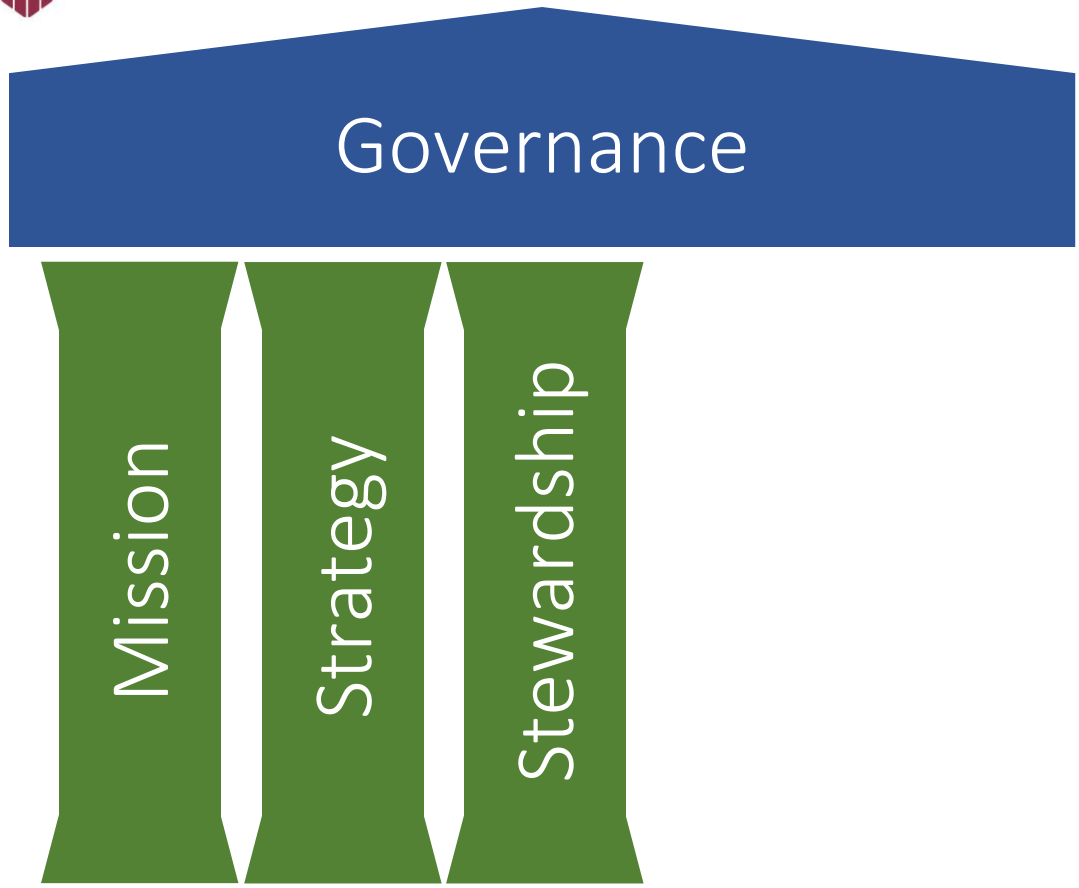
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Strategy

Senior leadership, in conjunction with the board, develop strategic plans to carry out the organization's mission and objectives.

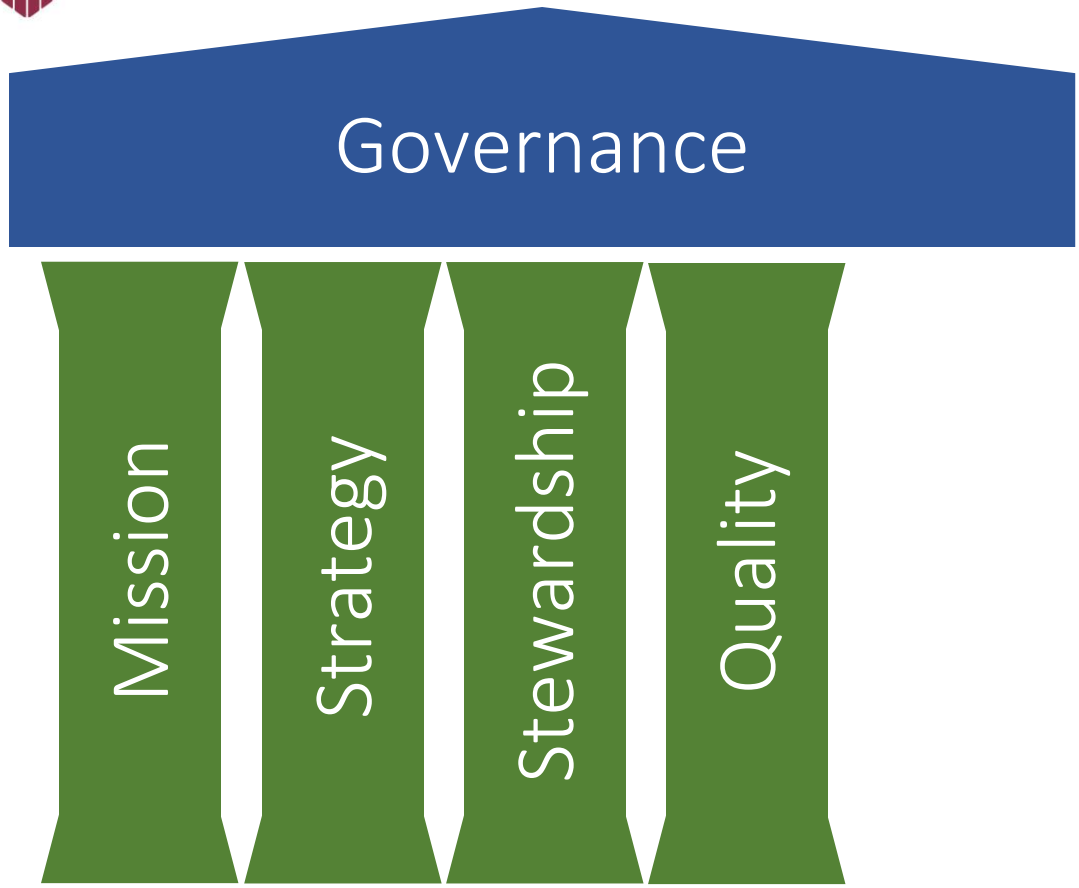
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Stewardship

Financial resources are developed and maintained to ensure the mission and strategic plans are adequately funded.

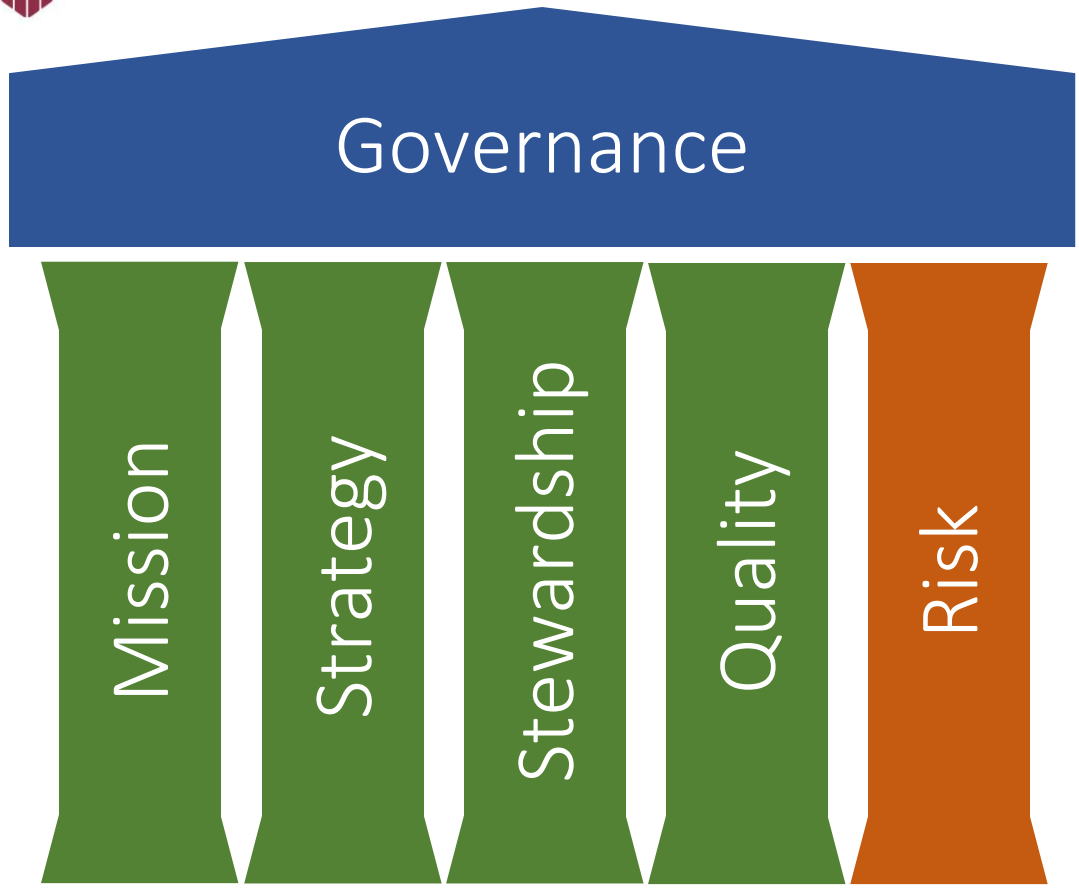
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Quality

The quality of the entity's programs are planned for and tested in order to maintain demand for the "product" in the long-term.

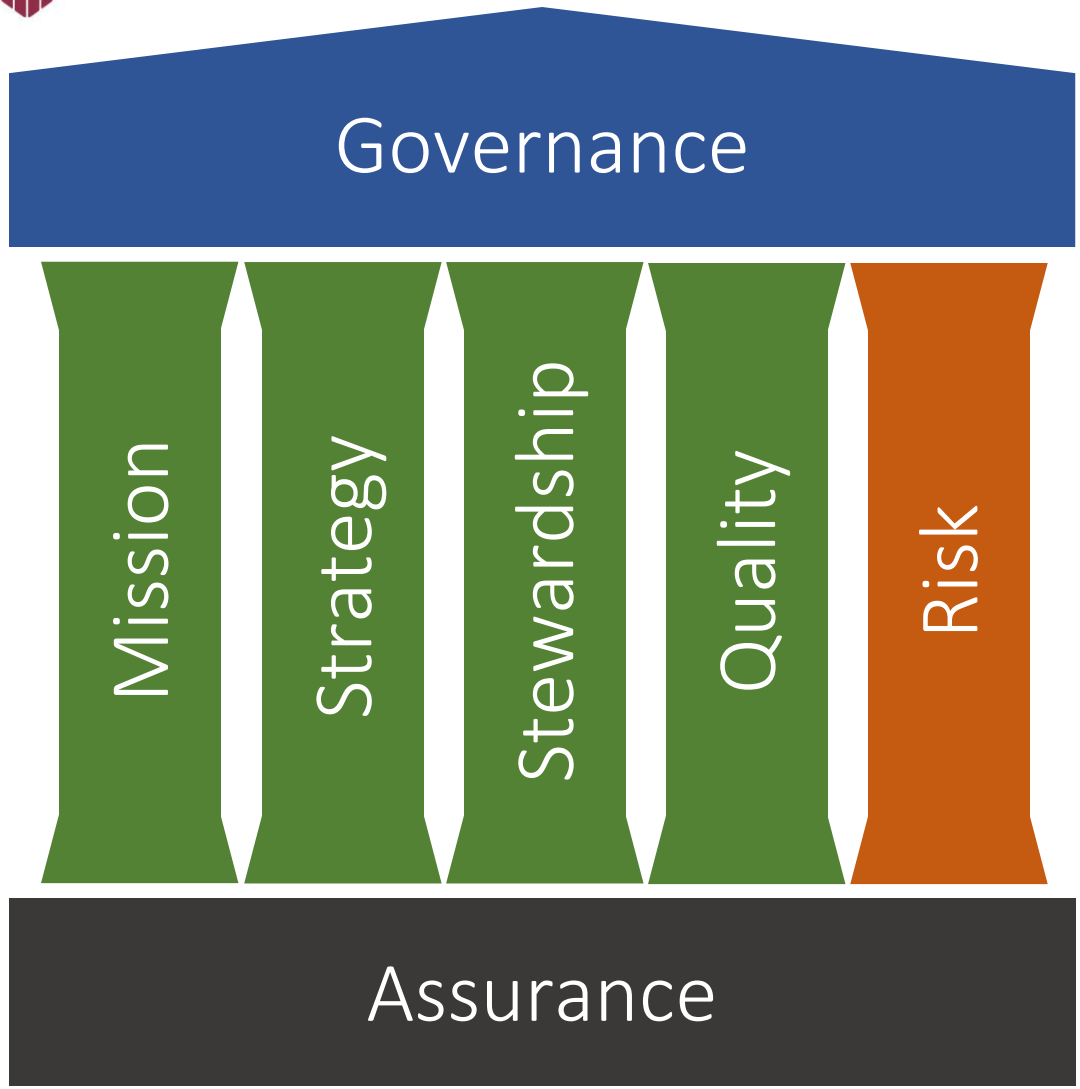
ERM as an Integral Pillar of Governance



Risk

Risks to the entity in meeting its organizational objectives, including threats and opportunities, are identified, assessed, and treated.

ERM as an Integral Pillar of Governance



Assurance

A strong management structure and culture is maintained to ensure proper reporting and accountability, and internal and external audits are utilized to bring board assurance.

Case for ERM in Decision-Making

"When we first began our URM (University Risk Management) program in 2013, I could not have imagined the value proposition that was about to transcend our institution. What started out as mostly defensive and guarded discussions of threats and barriers to achieving the University mission, quickly and completely turned around into a ***robust conversation about opportunities and strategic planning***. Our senior-level risk committee meetings are lively and well-represented. It is amazing how our cross-functional committee, while ***staying focused on our risk and compliance-based decisioning model***, is ***driving real innovation and progress*** throughout the University."

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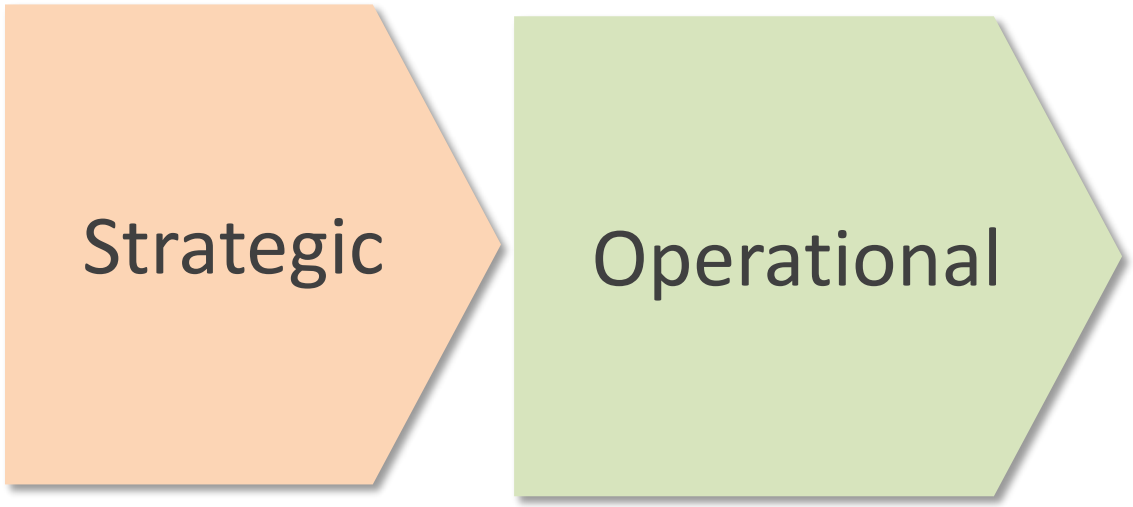
Varying Levels of ERM Implementation

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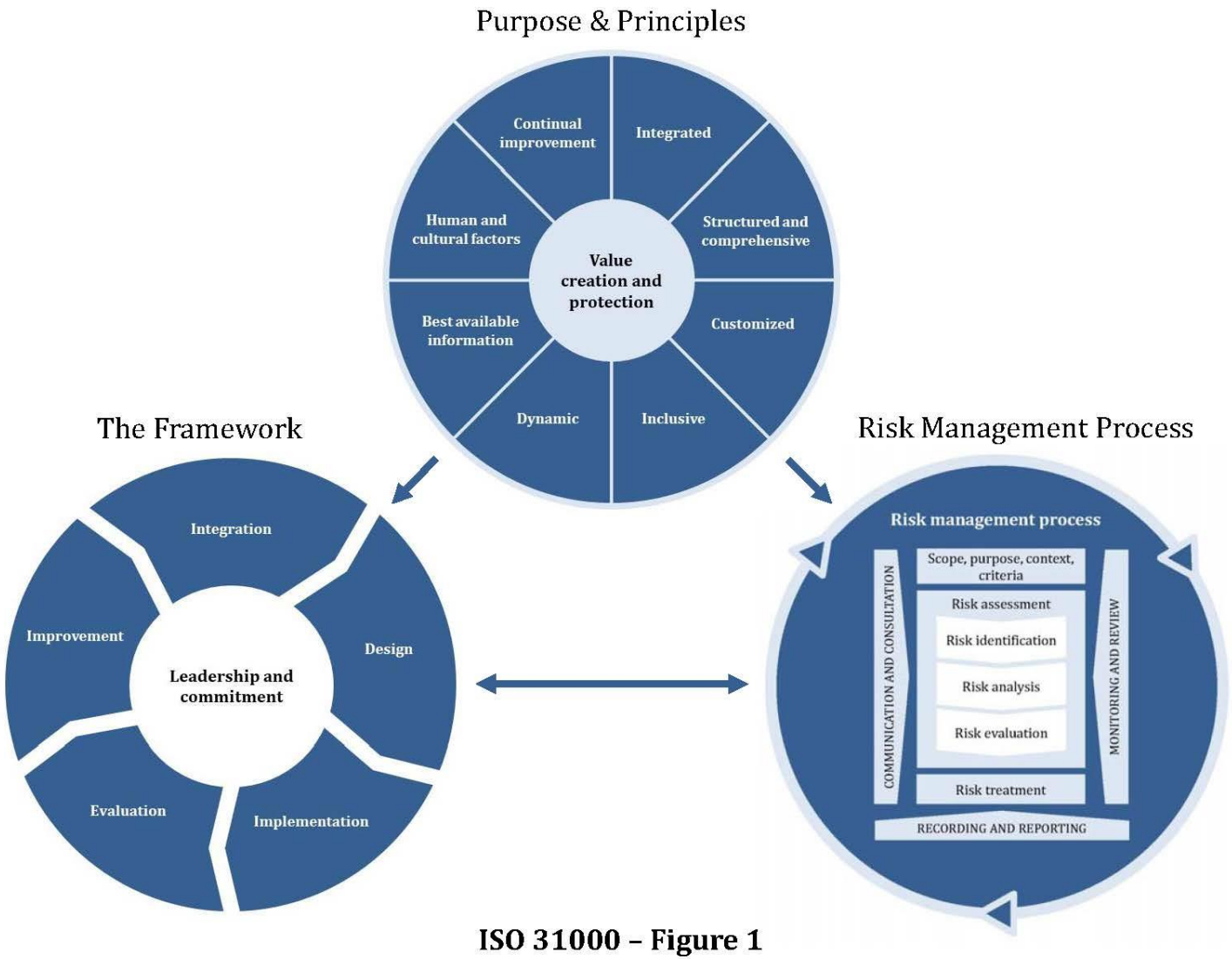


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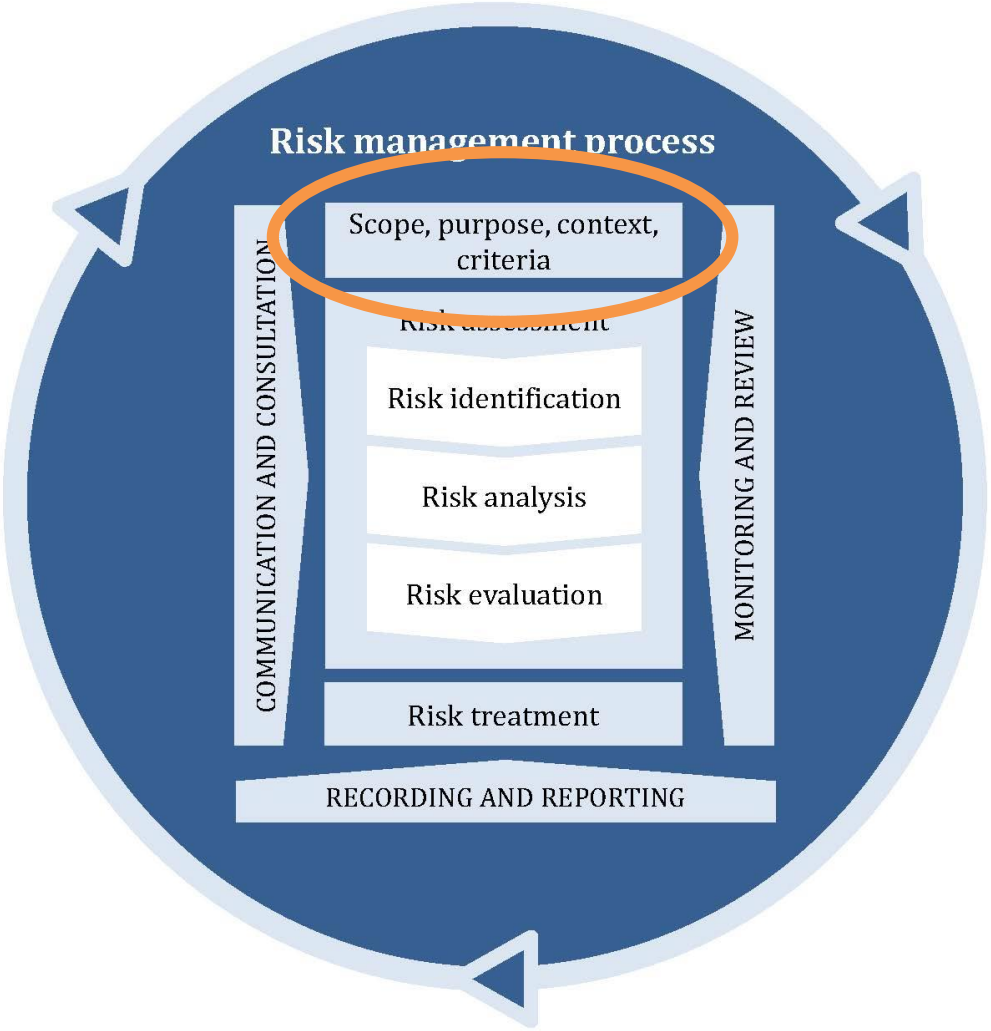
Using ERM in Decision-Making

ISO 31000 Risk Management Model

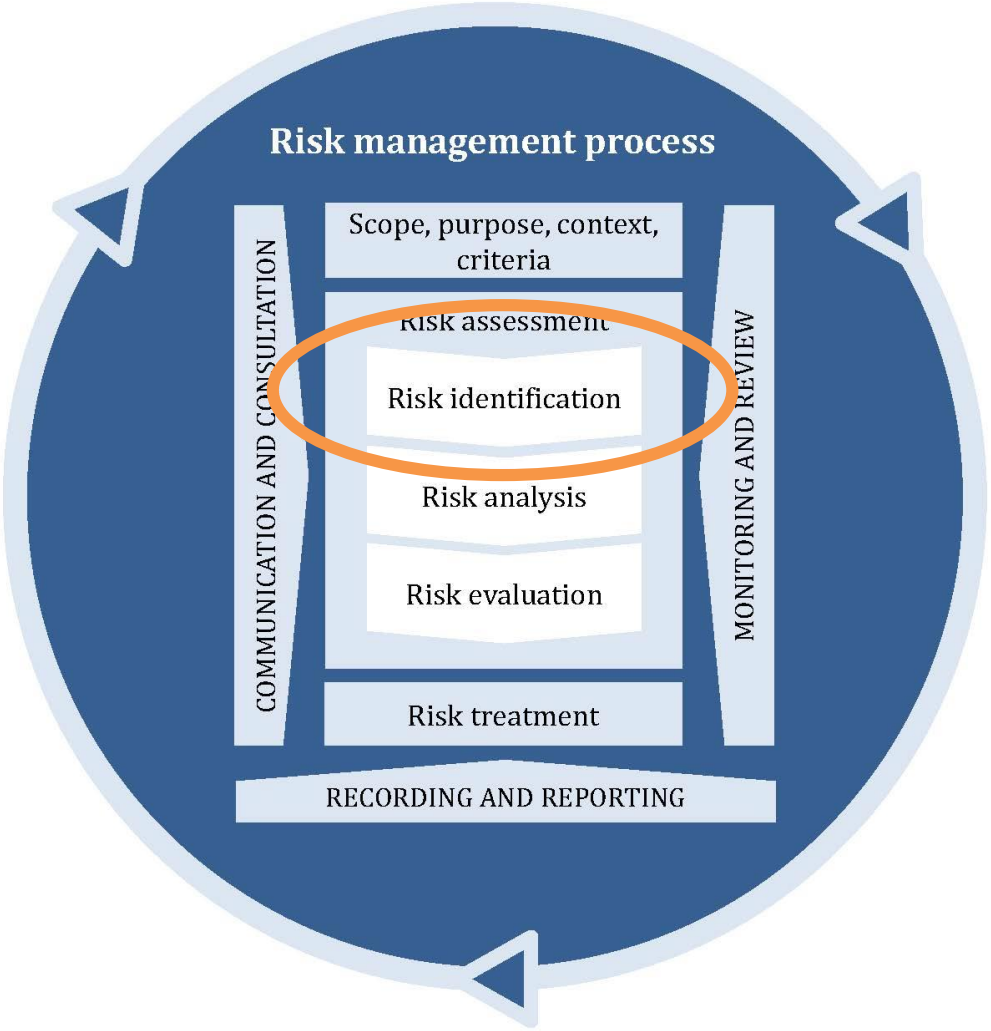


ISO 31000 – Figure 1

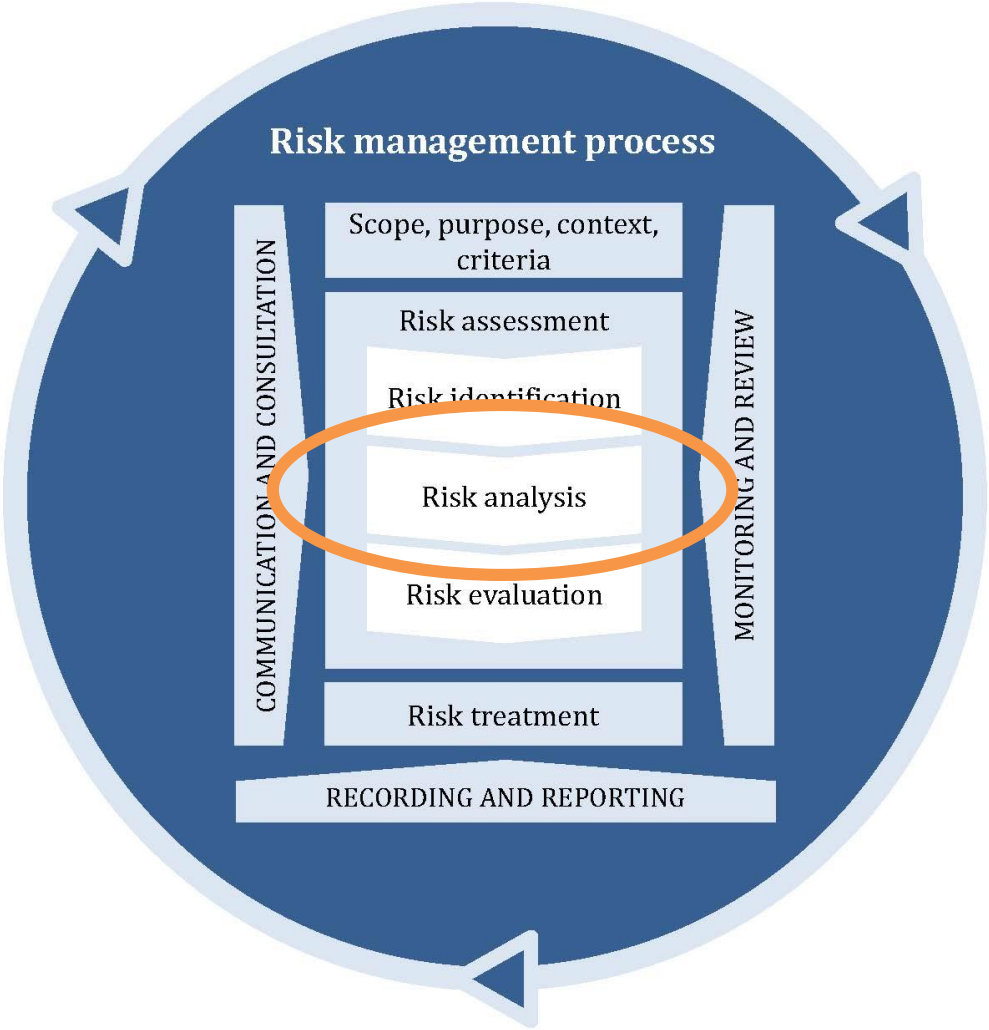
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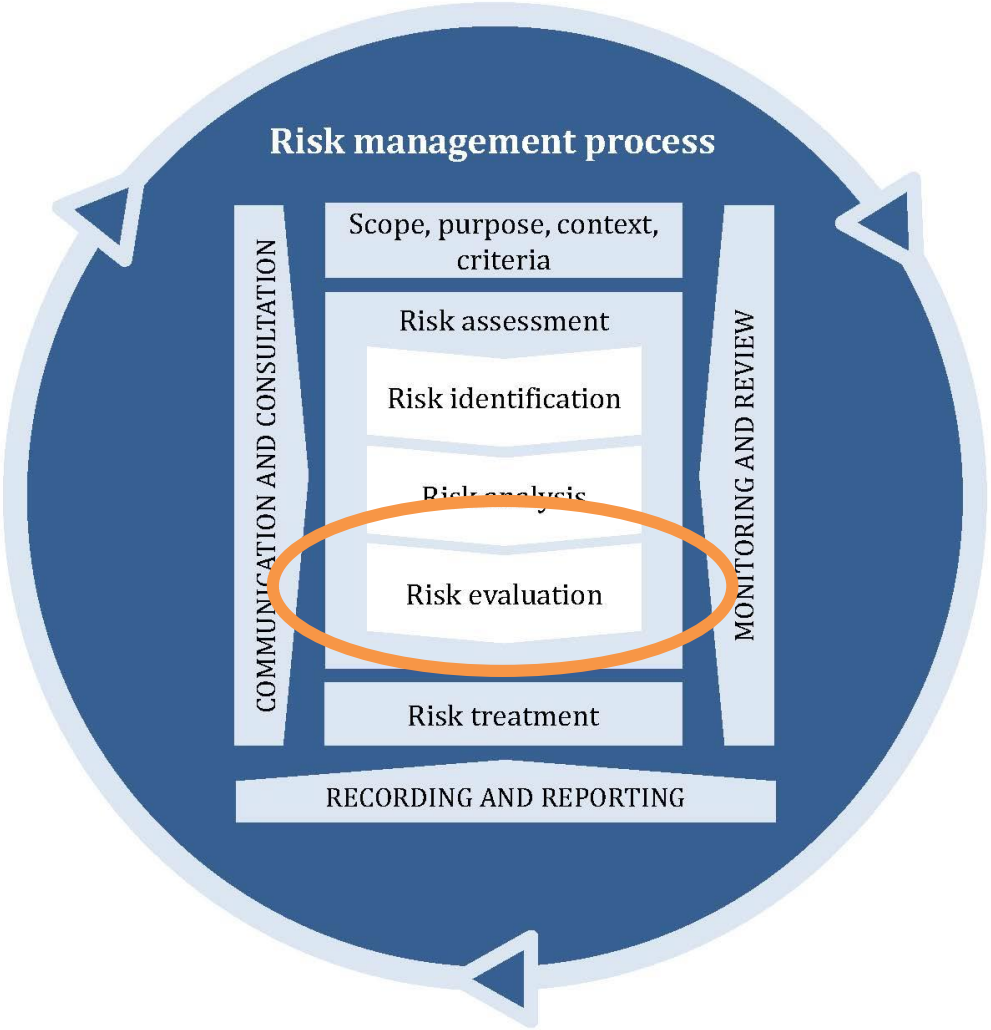
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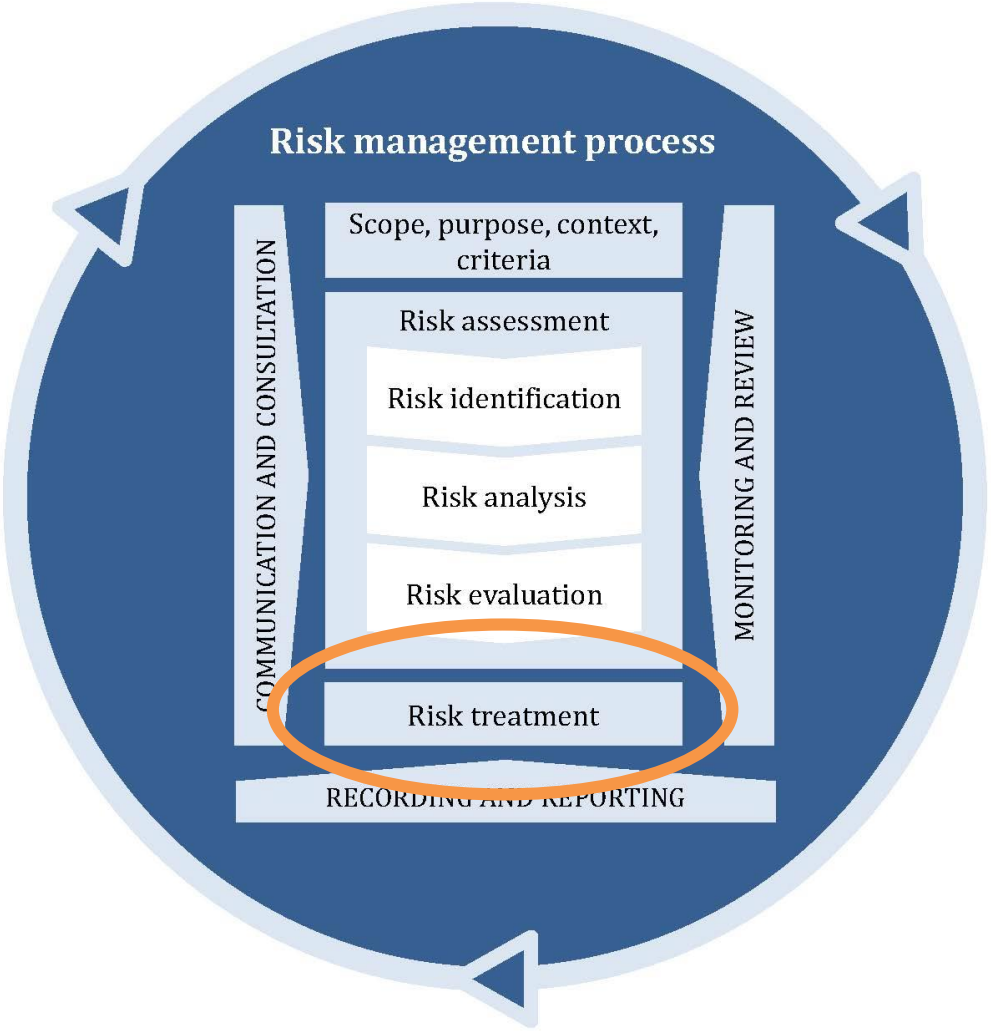
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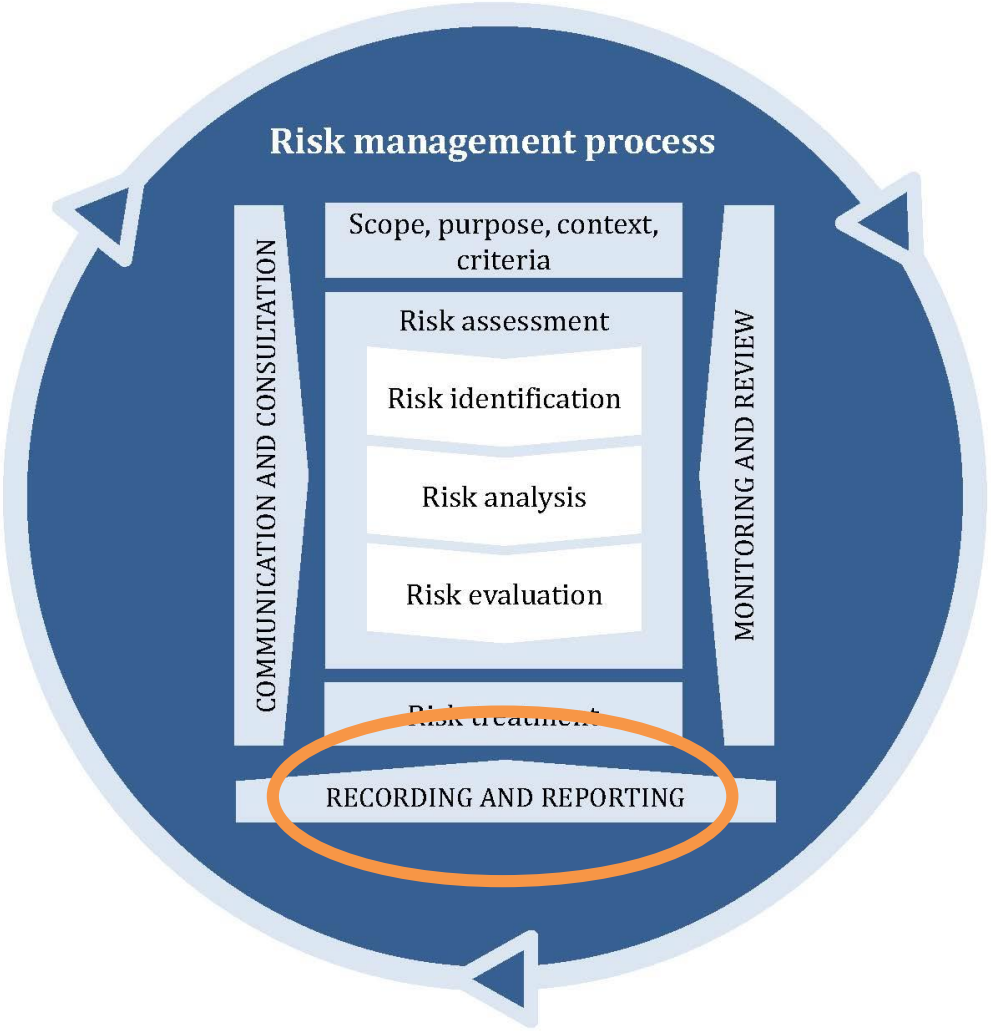
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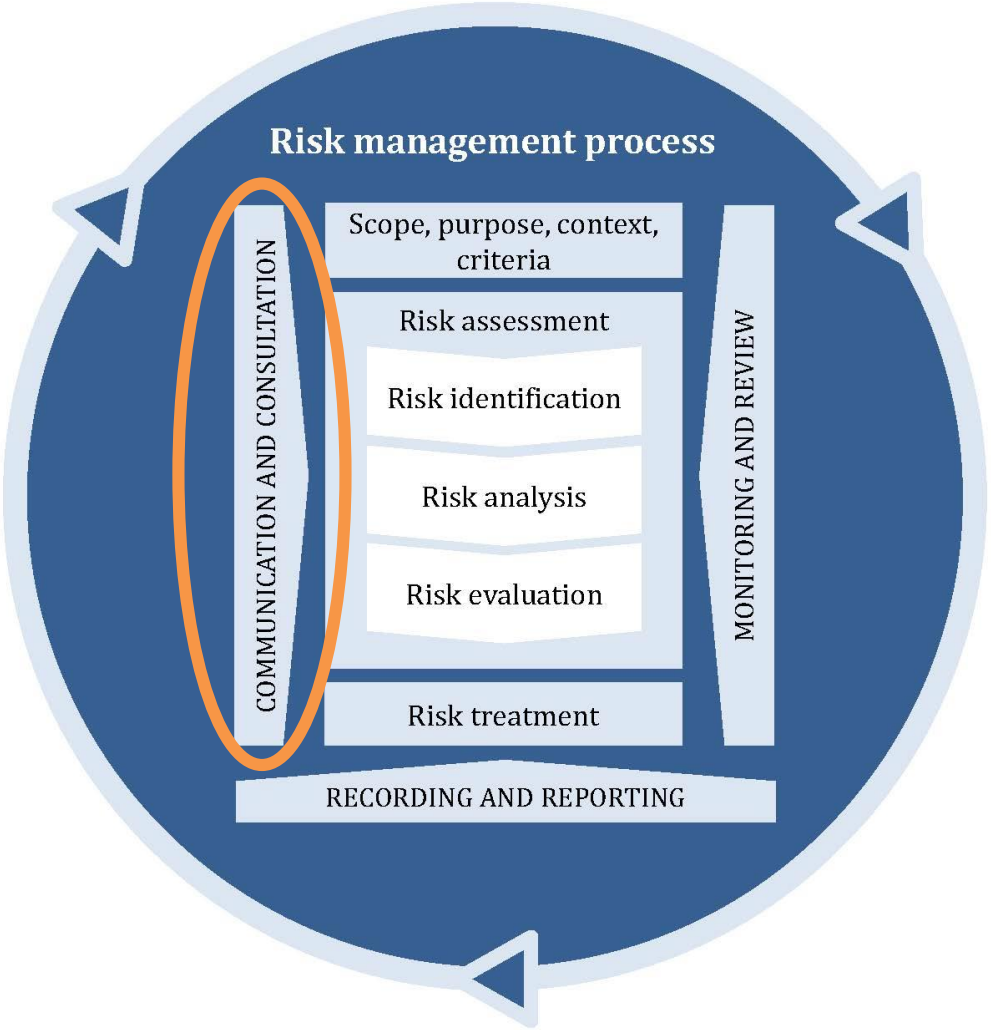
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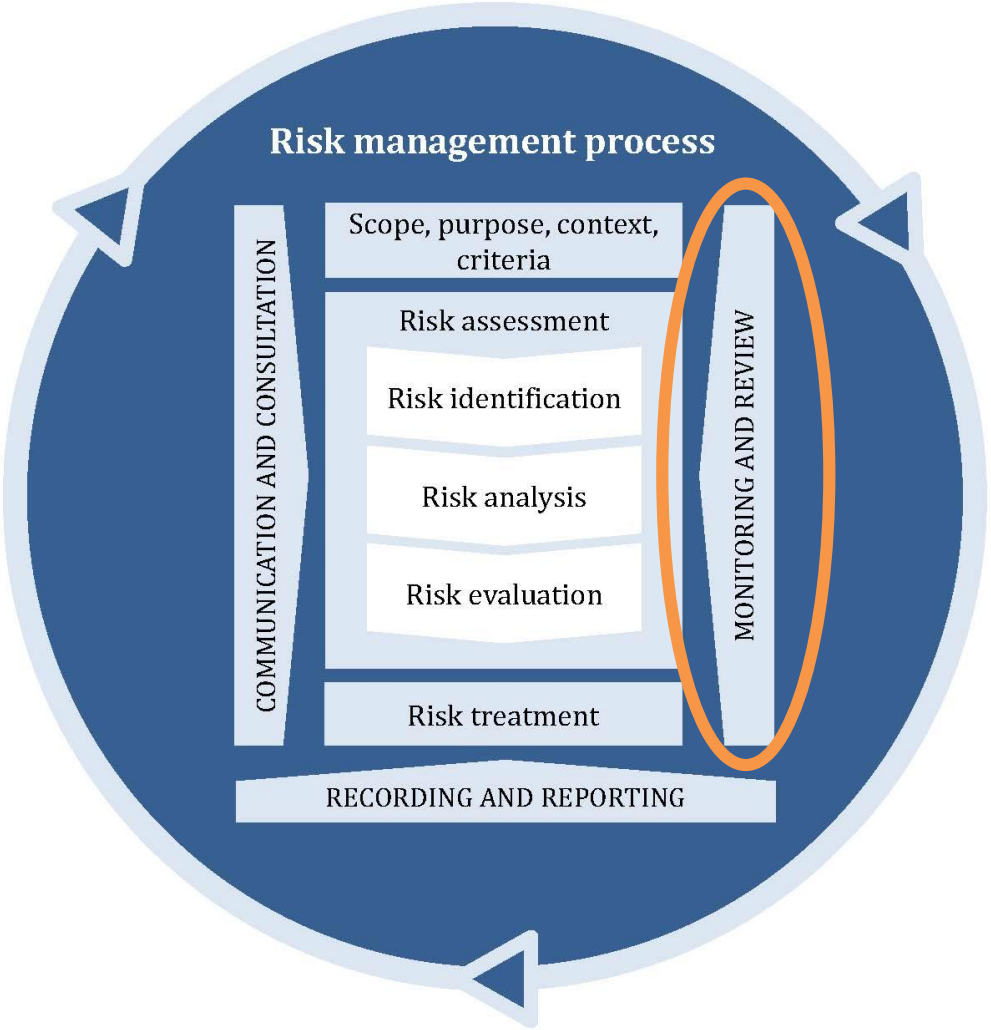
ISO 31000 Risk Management Model



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Role of Senior Leaders

Centralized Oversight- Decentralized Implementation

		Oversight	
		Centralized	**Decentralized**
Implementation	**Centralized**	Where some have developed, but centralized implementation requires significant staff and does not take advantage of current subject matter expertise	
	Decentralized	Oversight is at highest levels, including board, but implementation is pushed out to experienced subject matter experts through risk and compliance “ownership”	Where most entities have been, although with some limited departmental oversight, but does not incorporate board-level reporting and accountability

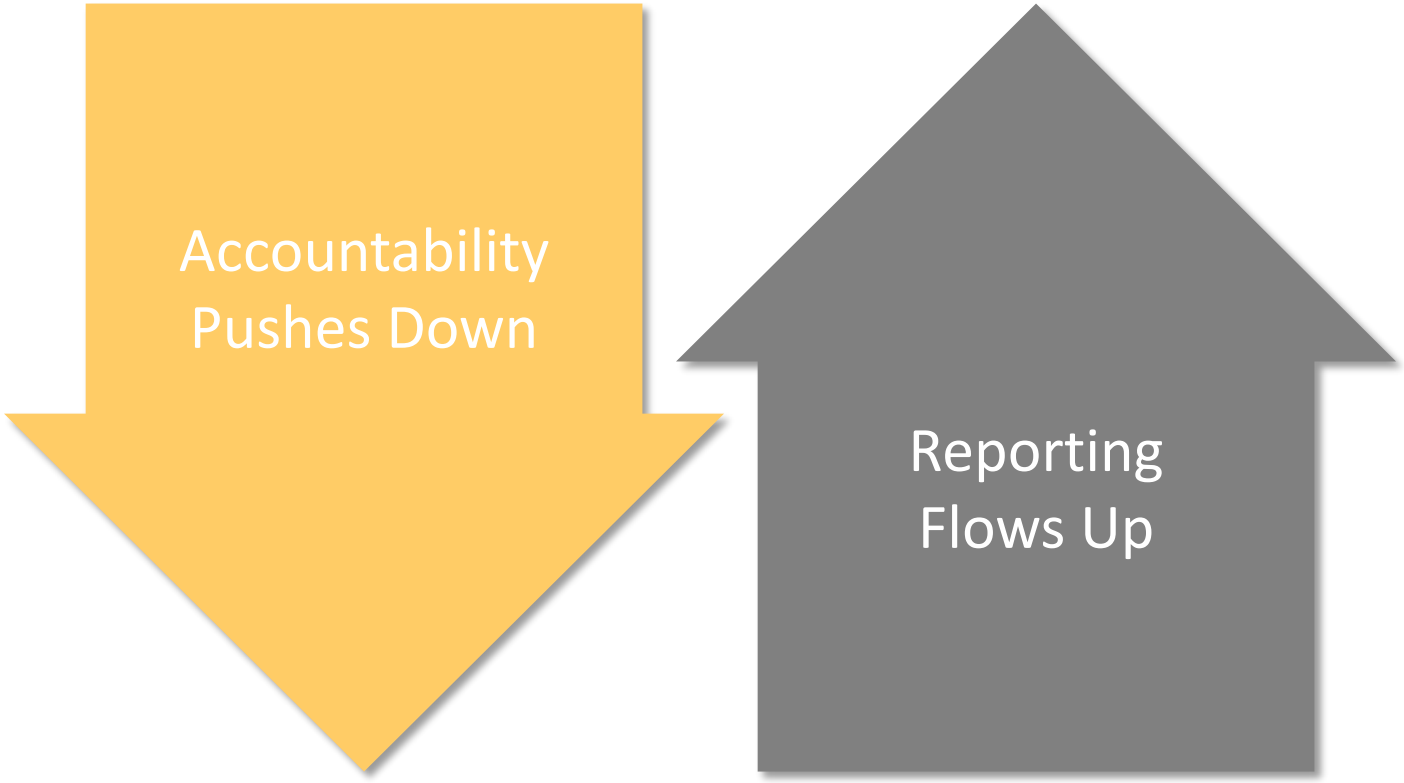
Integrated into Existing Business Practices

- Not new functions
- Incorporated into:
  - Strategic Planning
  - Quality Improvement
  - Budgeting
  - Employee Engagement
  - Committee Structure
  - Decision-Making
  - …..

Employment of “Ownership” Model is Critical

- Pushing work out to subject matter experts is essential to success
- Risk owners:
  - Develop risk treatment plans
  - Assemble work teams
  - Communicate and report
  - Monitor and evaluate
- At what level of the organization should ownership reside?

Reporting & Accountability Clearly Addressed



Role of Senior Leaders



Questions?