Anticipate and shape business outcomes

How to become a Risk Intelligent company?

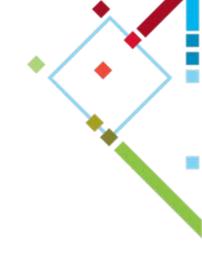
Joris Bulens Deloitte



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Agenda

- 1. Defining a risk
- 2. Risk Management
- 3. Implementation of Risk Management
- 4. Critical success factors
- 5. Q&A





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1. Defining a risk

A. Definition

"Risk is the potential for loss or diminished opportunity for gain caused by factors that can adversely affect the achievement of a company's objectives."





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1. Defining a risk







FreakingNews.com

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1. Defining a risk

B. Inherent vs. residual risk (cont'd)

Inherent Risk

The risk to your company in the absence of any actions you might take to alter either the likelihood/vulnerability or impact (i.e. the risk that exists before you address it)

Fire

Controls

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Fire sprinkler installation

Residual Risk

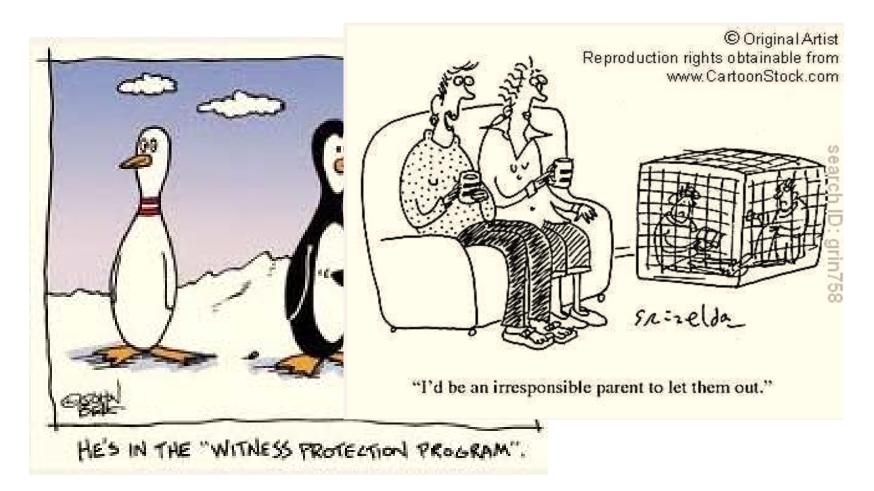
The risk that remains after you have attempted to mitigate the inherent risk (i.e. your vulnerability or exposure)



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1. Defining a risk

B. Inherent vs. residual risk (cont'd)





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Defining a risk

C. Rewarded vs. unrewarded risk

Managing risks to future growth

Rewarded Risks

- New Product Development
- Increased Revenue
- Increased Market Share

Create Shareholders Value

Preserve Shareholders Value Unrewarded Risks

- Penalties, Fines
- Losses
- Lawsuits

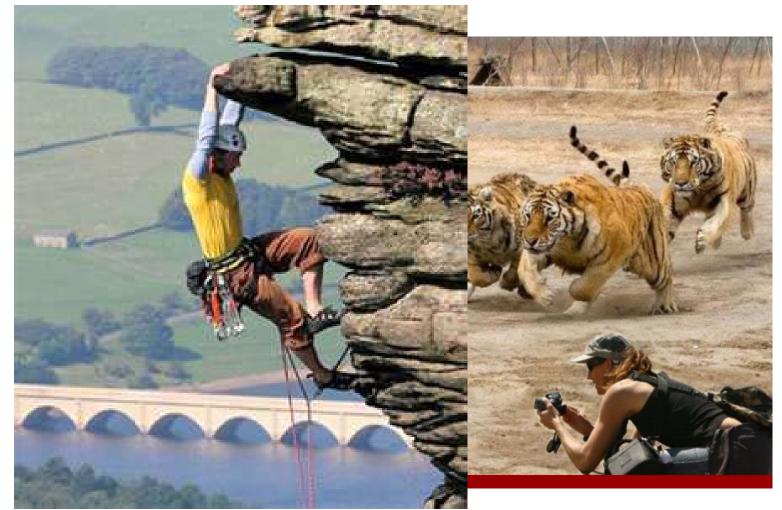
Managing risks to existing assets



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1. Defining a risk

C. Rewarded vs. Unrewarded Risks



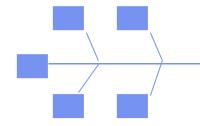


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Defining a risk

D. Risk scene overview









Objectives

Risks

Controls

Risk Management

What does the enterprise want to achieve?

- Strategic
- Operational
- Reporting
- Compliance

How can the enterprise fail to achieve its value objectives?

What can the enterprise do to mitigate its risks?

How should the enterprise manage its risks?

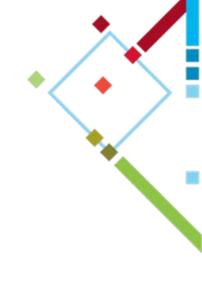
What is the vulerability to faillure?



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2. Risk Management

A. Definition

"Risk Management is a process, effected by an entity's board of directors, management and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Breaking this definition into its **key elements**, the important components of risk management are:

- Board and senior management are involved
- Risk is linked with <u>strategy</u>
- ■Risk management spans the entire enterprise
- ■Risk management reflects the organization's <u>risk appetite</u>
- ■The goal is <u>reasonable assurance</u>, not certainty
- ■The focus is primarily on <u>objectives</u> (and only secondarily on process)



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2. Risk Management

B. Risk Intelligence Maturity

Ad-hoc/chaotic; depends primarily on individual heroics, capabilities and verbal wisdom

1: Tribal & Heroic

Reaction to adverse events by specialists Discrete roles established for small set of risks Typically finance, insurance, compliance

2: Specialist silos

Tone set at the top
Policies, procedures,
risk authorities
defined and
communicated
Business function
Primarily qualitative
Reactive

3: Top-down

Integrated response to adverse events
Performance-linked metrics
Rapid escalation
Cultural transformation underway
Bottom-up
Proactive

Built into decisionmaking

Conformance with
enterprise risk
management
processes is
incentivized
Intelligent risk-taking
Sustainable

"Risk management
is everyone's job"

4: Systematic

5: Risk intelligent

Un-rewarded risk

Rewarded risk

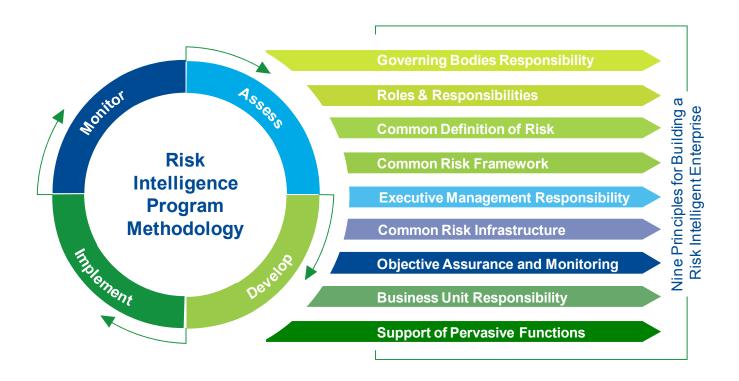


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2. Risk Management

C.1 Methodology

Deloitte's Risk Intelligence Program Methodology:





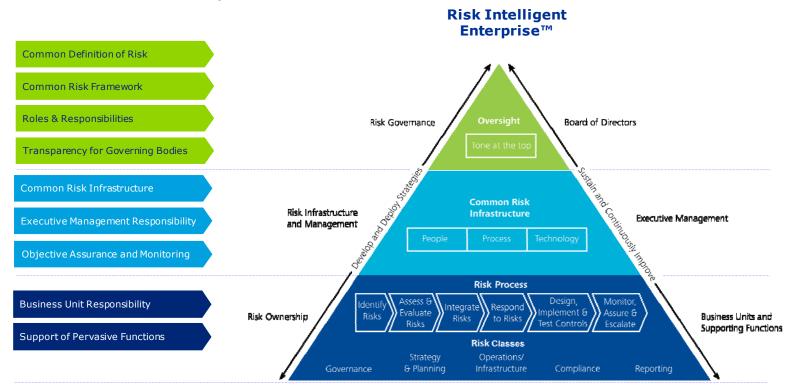
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2. Risk Management

C.2 Risk Intelligence

Risk intelligent Enterprise:

- Right balance between risk & reward
- Simultaneous focus on value protection & value creation

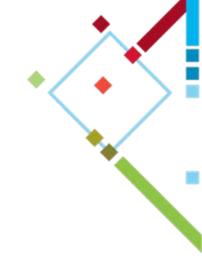




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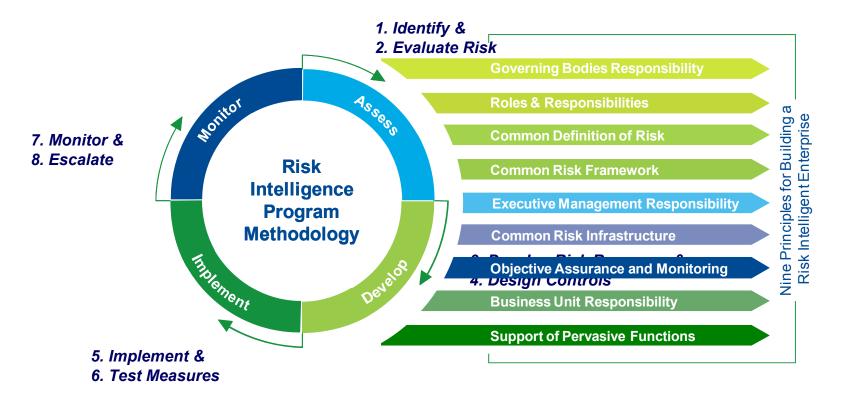




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3. Implementation of Risk Management

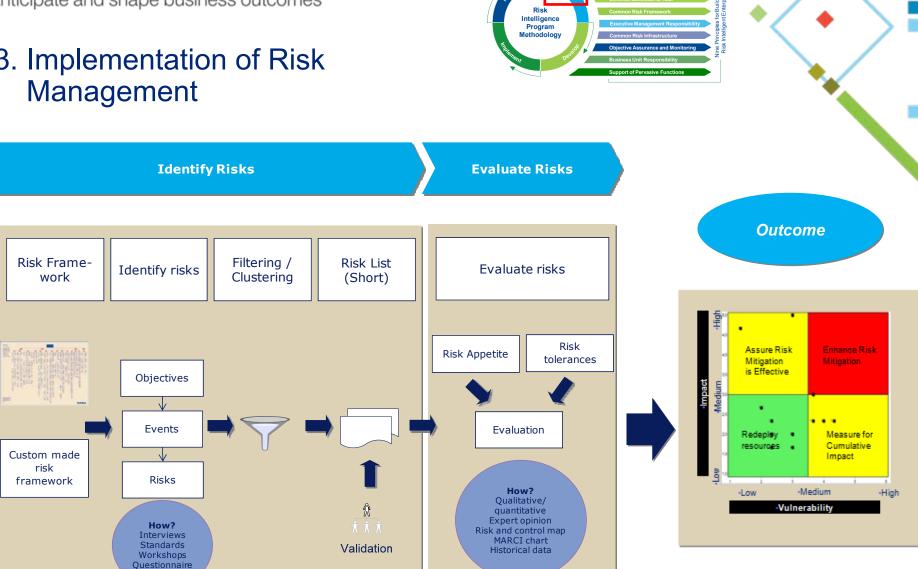
Deloitte's Risk Intelligence Program Methodology:





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3. Implementation of Risk Management



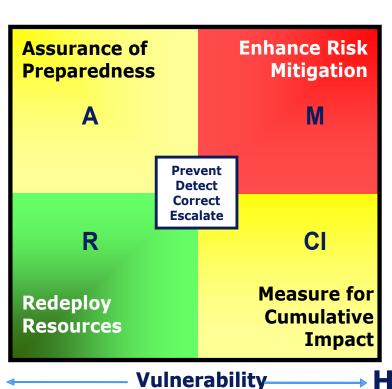


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3. Implementation of Risk Management

MARCI - Chart





NET (RESIDUAL) RISK



- Mitigate Management strategies to reduce or minimize the impact of or the vulnerability to a risk
- Assure Increased level of confidence that risk exposures are within the organization's Risk Appetite
- Redeploy Resources Determine if risk management resources are better deployed elsewhere
- Cumulative Impact Investigate further to determine the aggregate impact of a number of small impacting risks

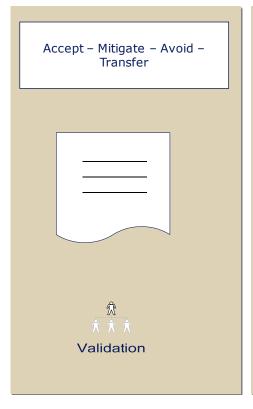


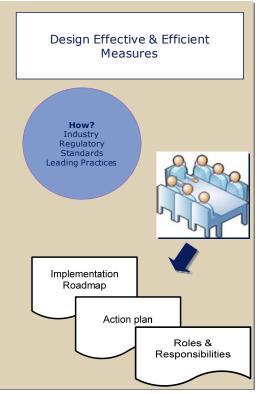
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3. Implementation of Risk Management











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3. Implementation of Risk Management







Steps taken to prevent the occurrence of adverse events

- Cease activity
- Divestment of operations
- Prohibit

Mitigate



Steps taken to reduce either the occurrence or impact or both

- Define accountability
- Ensure adequate skill sets
- Develop Business Continuity Plan
- Install key controls

Transfer



Insurance

Steps taken to shift loss or liability associated with adverse events to third parties

- Insure
- Outsource

Accept



Informed decisions to fully bear the impact of any event

 No action is taken



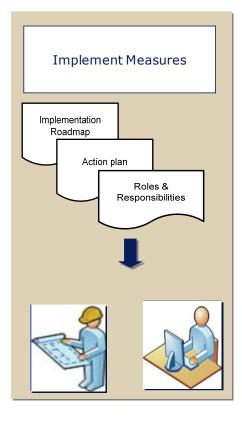
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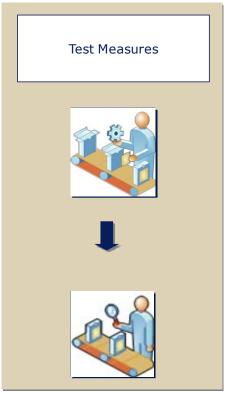
3. Implementation of Risk Management



Implement Measures

Test Measures





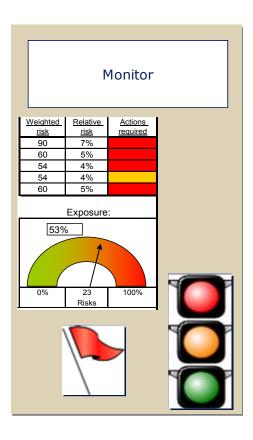


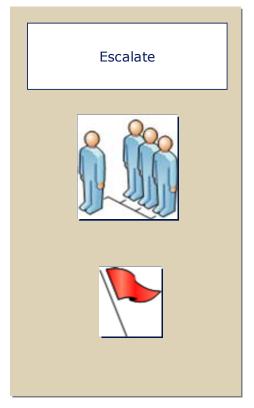
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3. Implementation of Risk Management



Monitor Escalate







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Critical success factors

- Buy-in from Board of Directors & Senior Management
- Clear & sufficient resource allocation
- Formulate a clear & common definition of risk for your company
- Create a solid RM Framework to avoid incompleteness (methodology)
- Clear ownership, also for risks transcending functions/departments (no grey zones)
- Work with measurable KPI's/KRI's
- Set up a good reporting structure & follow-up on progress
- Implement a supporting tool that fit your company's needs
- Assess once, satisfy many!



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Thank you

