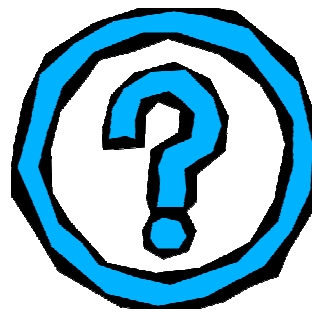


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# Enterprise Risk Management

On-Line Distance Learning  
Q & A Webinar

- ▶ COSO as an ERM standard
- ▶ ERM organizational design



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- ▶ Why is the COSO, the most popular ERM standard when it focuses on the adverse effect of risk management?



## COSO ERM ... a recap

- ▶ Considered the most popular structure in the US
- ▶ Definition of ERM offered by COSO is purposely broad
  
- ▶ Definition
- ▶ “ERM is a process, effected by an entity's board of directors, management and personnel, applied in 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”

## Why is COSO so popular?

- ▶ COSO's mission "... to provide thought leadership through the development of comprehensive frameworks and guidance on Enterprise Risk Management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations"
- ▶ Five sponsoring organisations
- ▶ First published in 1992



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- ▶ Why is the COSO, the most popular ERM standard when it focuses on *the adverse effect of risk management?*
- ▶ Exploitation of risk
- ▶ Risk can have a positive effect



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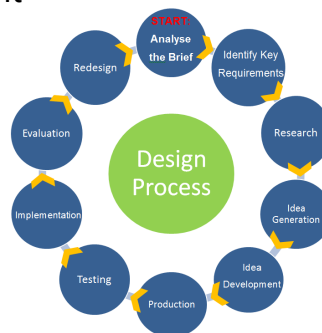
- ▶ When considering the key factors in the implementation of ERM, what do you look out for when it comes to the Organisational design



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## Organisational Design for ERM

- ▶ No best practice yet
- ▶ Centralising risk management
- ▶ Chief Risk Officer (CRO)



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## Organisational Design for ERM – First Steps

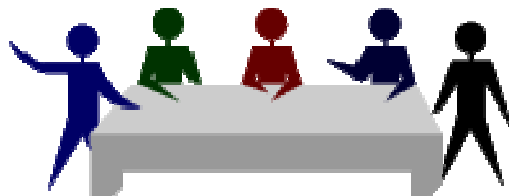
- ▶ Ask the right questions
- ▶ ERM framework
- ▶ Mission and strategic objectives
- ▶ Organisational knowledge of the function
- ▶ Responsibility for authorizing, taking, controlling, and evaluating each type of risk
- ▶ Performance methodologies
- ▶ Risk culture
- ▶ Accountabilities



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## The Role of the Chief Risk Officer (CRO)

- ▶ Skills needed
- ▶ Level of awareness
- ▶ Pro-active focus
- ▶ Good communicator
- ▶ Risk roles – market – credit – operational
- ▶ Key criteria that the CRO has to match



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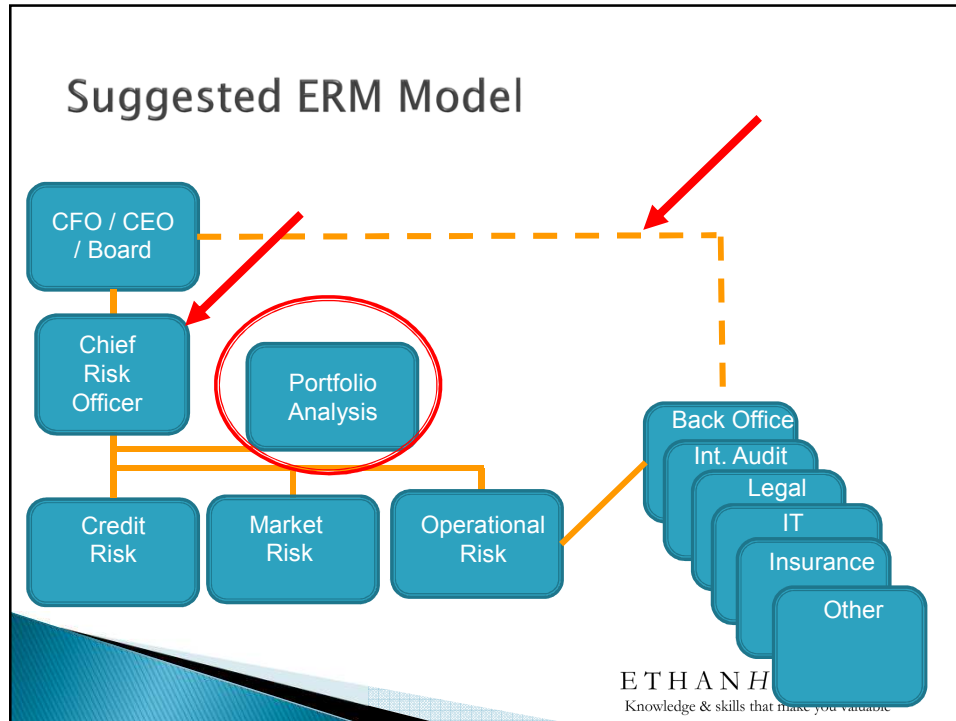
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### Organisational Models for ERM

- ▶ Financial Risk Model
  - Financial risks only (Market & Credit)
  - Operational risk management fragmented
  - Focus on policy, measurement & analysis (NOT exposures)
- ▶ All Risks Model
  - Credit, Market & Operational risks
  - Mainly consultative (monitoring & reporting)
- ▶ Risk Governance Model
  - Credit, Market & Operational risks
  - Model is more managerial
  - CRO a 'watchdog'
  - CRO responsible for Internal Audit / Compliance
  - Credit & market risk officers

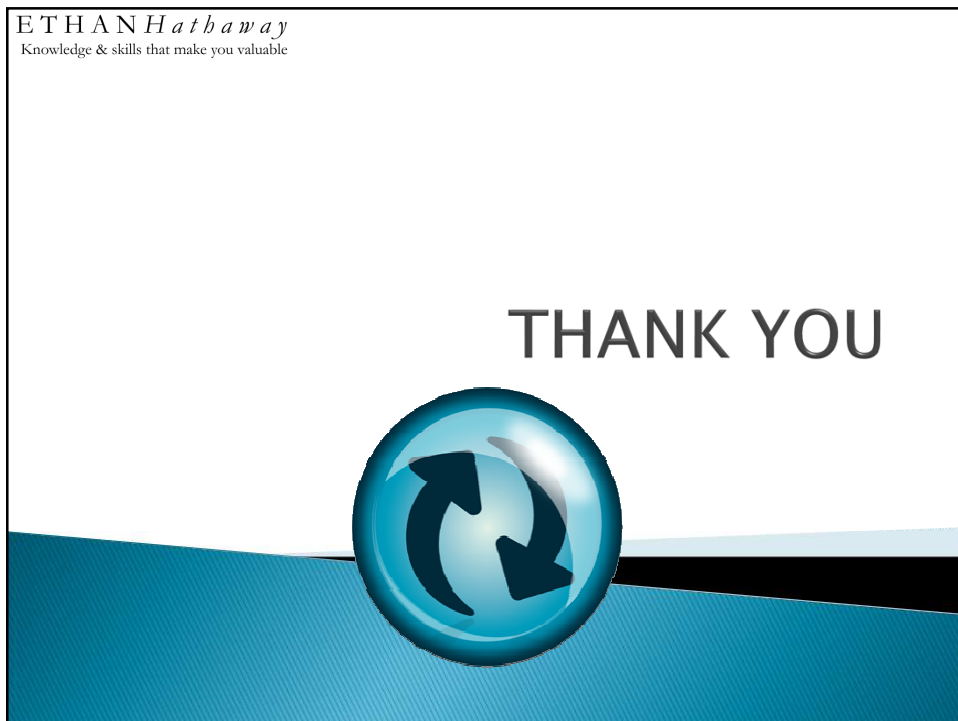
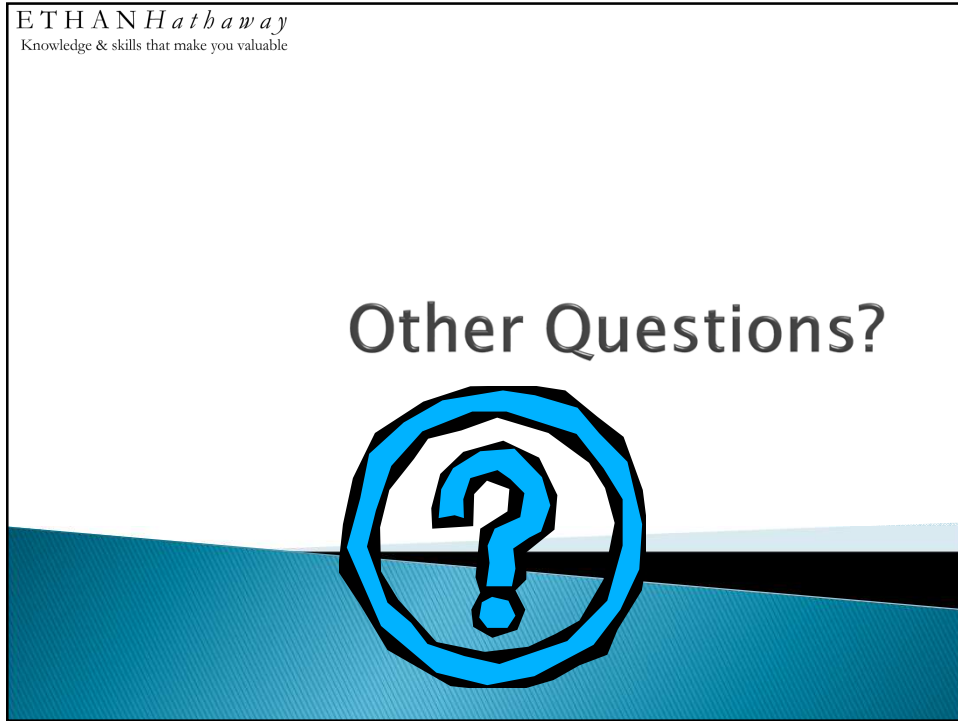
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### Implementation Issues

- ▶ Starting point
- ▶ CRO authority & power
- ▶ Operational risk
- ▶ Authority, staff support & reporting lines
- ▶ 'Soft' factors (people & culture)
- ▶ Potential dangers

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