

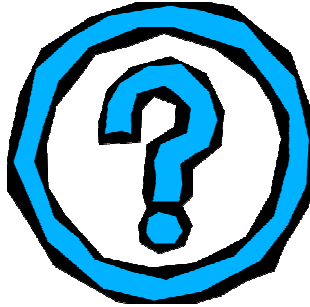
Enterprise Risk Management

On-Line Distance Learning
Q & A Webinar

- ▶ Risk philosophy
- ▶ Performing a risk assessment
- ▶ Determining the risk appetite
- ▶ Impact & Probability
- ▶ Risk tolerance – government & public sector
- ▶ How do companies determine their top risks?



- ▶ How do you determine the risk philosophy?

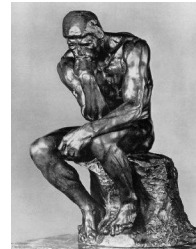


ETHAN *Hathaway*
Knowledge & skills that make you valuable

Overall Risk Management Philosophy

- ▶ Concept that taking risks is required in order to seek rewards and to fulfill the organisation's mission
- ▶ These risks must be assessed
- ▶ Mitigation strategies

- ▶ Key players
 - Board of Directors via Audit and Risk Committee
 - External Auditor / Internal Auditor
 - Risk Management Officer
 - Department Heads



ETHAN *Hathaway*
Knowledge & skills that make you valuable

Key Responsibilities of the Risk Committee

- ▶ Oversight
- ▶ Formal risk management policy
- ▶ Design / undertake ERM activities
- ▶ Discuss / Review policies
- ▶ Set tone & culture
- ▶ Monitor
- ▶ Active risk management
- ▶ Review



ETHAN *Hathaway*
Knowledge & skills that make you valuable

Operational Level Activities

- ▶ Heads of Departments
- ▶ Internal Audit
- ▶ External Audit
- ▶ Risk Management Officer
 - ▶ Identification
 - ▶ Ranking (probability & impact)
 - ▶ Type of control measures
 - ▶ Residual risks
 - ▶ Monitor, review & communicate



ETHAN *Hathaway*
Knowledge & skills that make you valuable

Ethan *Hathaway*

Tel: (+852) 2273 4393 Fax: (+852) 3014 0721 Email: support@ethanhathaway.com

Website: www.ethanhathaway.com

A Description of the Firm's Risk Management Policy

- ▶ Financial risks
- ▶ Main financial instruments
- ▶ Policies and guidelines
- ▶ Objective of financial risk management
- ▶ Main risks
- ▶ Operational risks



ETHAN *Hathaway*
Knowledge & skills that make you valuable

- ▶ How do you perform the risk assessment? What is the procedure?



ETHAN *Hathaway*
Knowledge & skills that make you valuable

How to do a Risk Assessment

- ▶ Identify the risks
- ▶ What / who may be harmed
- ▶ Determine probability / impact
- ▶ Control measures
- ▶ Record your findings
- ▶ Review and update



ETHAN *Hathaway*
Knowledge & skills that make you valuable

- ▶ Who determines the risk appetite? Is it the board, CRO or management?



ETHAN *Hathaway*
Knowledge & skills that make you valuable

Who Determines the Risk Appetite?

- ▶ Executive Management & the Board
- ▶ Risk appetite
- ▶ Risk tolerance
- ▶ Risk culture

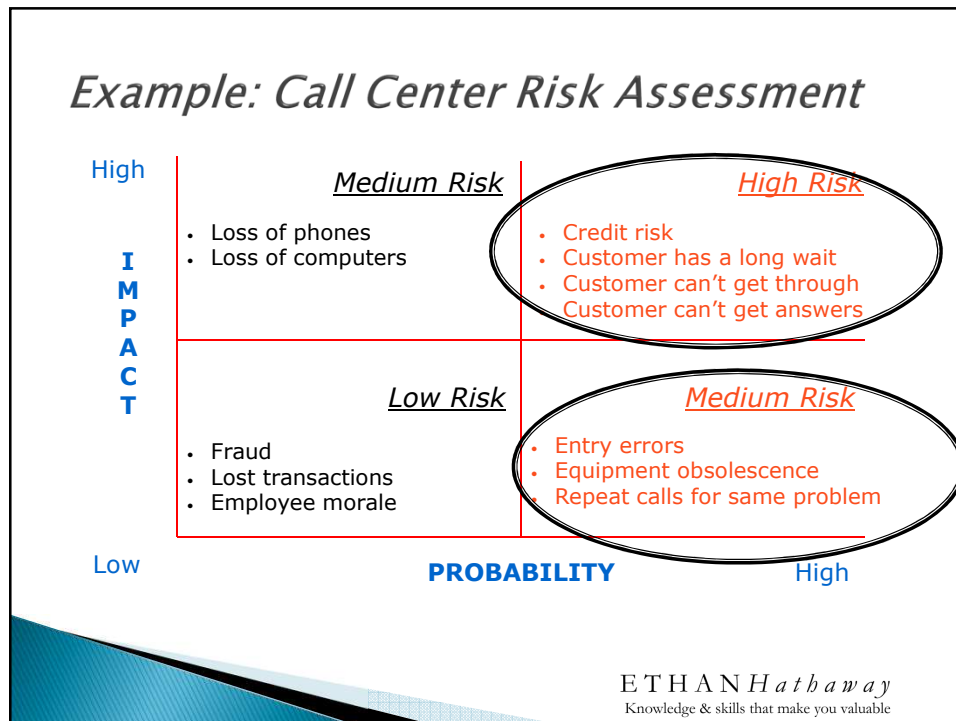
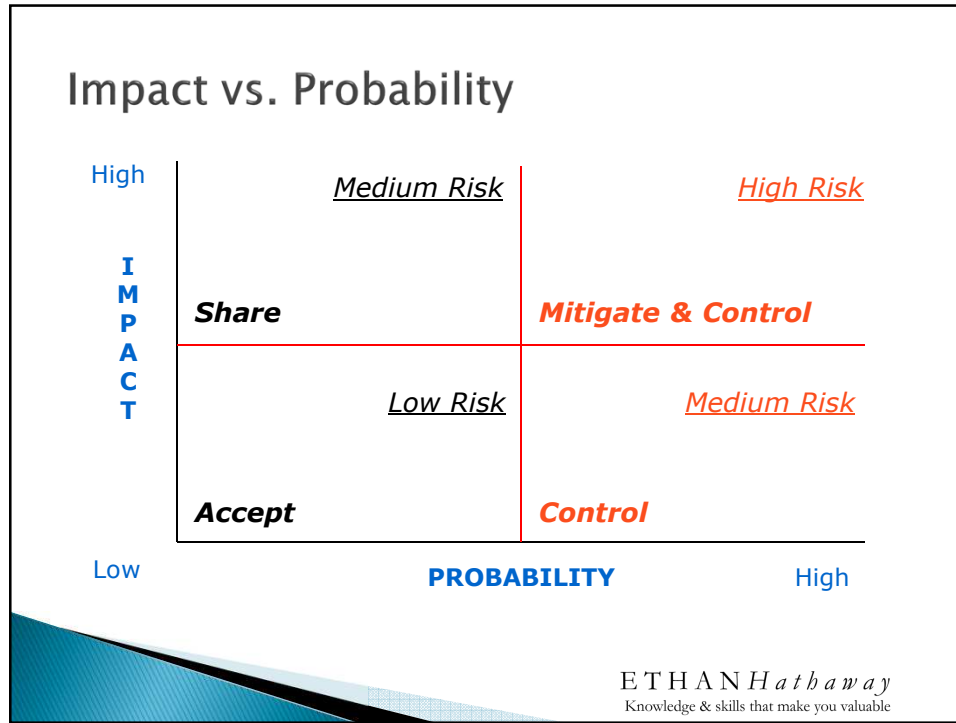


ETHAN *Hathaway*
Knowledge & skills that make you valuable

- ▶ In looking at Impact vs Probability (slide 28 Module 1 / 2), events in the high risk zone should be “mitigated and controlled” while those in the medium risk zone should be “controlled”.
- ▶ What is the difference between “mitigate” vs “control”?
- ▶ Can you give an example of a mitigation vs a control measure, using the example on slide 29 (Call Center Risk Assessment). (Module 1 & 2)



ETHAN *Hathaway*
Knowledge & skills that make you valuable



- ▶ In the Risk Tolerance Matrix (slide 5, Module 4), it is easier to identify indicators, with thresholds set in line with the risk appetite, for private sector or for-profit organisations where financial and investment considerations are the focus..
- ▶ But what about in government agencies or other public sector entities, how does one define risk appetite and tolerances in such organisations?



ETHAN *Hathaway*
Knowledge & skills that make you valuable

The Metrics of Risk Tolerance

- ▶ Challenges in Calculating and Articulating Risk Appetite
- ▶ Common Methods for Expressing Risk Appetites



ETHAN *Hathaway*
Knowledge & skills that make you valuable

Ethan *Hathaway*

Tel: (+852) 2273 4393 Fax: (+852) 3014 0721 Email: support@ethanhathaway.com

Website: www.ethanhathaway.com

Challenges in Calculating and Articulating Risk Appetite and Tolerance

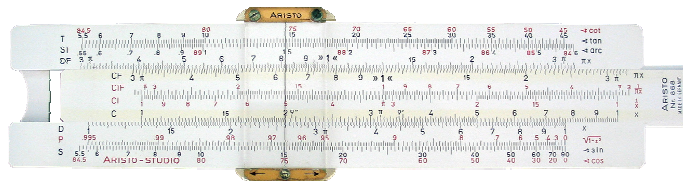
- ▶ Different definitions
- ▶ Risk appetite – qualitative and quantitative
- ▶ Few examples



ETHAN *Hathaway*
Knowledge & skills that make you valuable

Common Methods for Expressing Risk Appetite

- ▶ Probability/Impact grid
- ▶ Balance sheet based expressions
- ▶ Change in credit ratings
- ▶ Profit & loss measures
- ▶ Value based measures
- ▶ Limits or targets for key indicators
- ▶ Qualitative statements



ETHAN *Hathaway*
Knowledge & skills that make you valuable

Ethan *Hathaway*

Tel: (+852) 2273 4393 Fax: (+852) 3014 0721 Email: support@ethanhathaway.com

Website: www.ethanhathaway.com

The ERM Funnel – Risk Tolerance Matrix

IMPACT / OUTCOME	HIGH RISK THRESHOLDS
Financial <ul style="list-style-type: none"> • Liquidity • Earnings • Cash Flow • Disclosure 	<ul style="list-style-type: none"> • Loan covenant violations • PXX million (P1 / share) • PXX million borrowing cost impact • Material disclosure is false, omitted
People <ul style="list-style-type: none"> • Health & Safety • Code of Conduct • Turnover & Morale 	<ul style="list-style-type: none"> • Deaths, significant injuries • Reportable violations • High turnover

ETHAN *Hathaway*
 Knowledge & skills that make you valuable

- ▶ “How do companies determine their top risks when consolidating from their various business units, when the nature of risks each business unit faces can be very different? For example, one business unit may have concerns about market exposure risk, while another more focused on operations may have very specific process risks. How does one standardise the risk assessment criteria in a quantifiable way for such diverse risks?”



ETHAN *Hathaway*
 Knowledge & skills that make you valuable

How do Companies Determine their Top Risks?

▶ Risk appetite

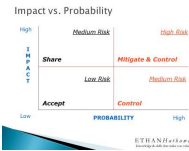
Who Determines the Risk Appetite?

- Executive Management & the Board
- Risk appetite
- Risk tolerance
- Risk culture



ETHAN *Hathaway*

▶ Impact / Probability



ETHAN *Hathaway*

▶ Challenges in Calculating and Articulating Risk Appetite and Tolerance

Challenges in Calculating and Articulating Risk Appetite and Tolerance

- Different definitions
- Risk appetite - qualitative and quantitative
- Few examples



ETHAN *Hathaway*

ETHAN *Hathaway*
 Knowledge & skills that make you valuable

Other Questions?



Ethan *Hathaway*

Tel: (+852) 2273 4393 Fax: (+852) 3014 0721 Email: support@ethanhathaway.com

Website: www.ethanhathaway.com

ETHAN *Hathaway*

Knowledge & skills that make you valuable



Ethan *Hathaway*

Tel: (+852) 2273 4393 Fax: (+852) 3014 0721 Email: support@ethanhathaway.com

Website: www.ethanhathaway.com