



Enterprise Risk Management a Must in 2011 and Beyond

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Overview

The Casualty Actuarial Society (CAS) has defined Enterprise Risk Management (ERM) as "The discipline by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organization's short- and long-term value to its stakeholders."

Current economic conditions and increasing globalization are forcing many companies to take an overarching approach to managing risk. ERM can help organizations reduce losses and may allow them to retain more risk, reducing premiums. Since risks also represent opportunities, ERM can help your business compete more effectively. You should also realize that, as your business grows and diversifies, your clients and strategic partners may require you to adopt the ERM discipline.

CAS has created a framework to help your organization consider and implement ERM. Along one axis of this framework are the various types of risks your business encounters. The other axis comprises the steps your organization will take to identify, prioritize and manage each identified risk.

Types of Risk

CAS identifies four risk classes that today's businesses face

Hazard

Fire and natural disasters (which may involve business interruption), injuries to your employees or to visitors, and product recalls or liability from product defects.

Financial

Credit and liquidity, commodities risk (cost of raw materials), and exchange risk (from fluctuations in currency valuations).

Operational

Labor relations and union demands, succession planning, and risks in the reliability and efficiency of tooling and manufacturing processes, including supply chain risk.

Strategic



Fluctuations in market price and demand, competition, regulatory/political issues, and technological advances that could render your products obsolete.

Assigning risks to specific classes is not as important as recognizing that ERM must address all risk factors that can affect a business's value.

Steps in the ERM Process

CAS recommends that you take the following steps to implement ERM in your organization.

1. Establish Context

Identify your organization's strengths, weaknesses, opportunities and threats ("SWOT" analysis). Identify the stakeholders, which include employees, customers, shareholders, and the community. Define your organization's objectives, the strategies you will use to achieve them, and the way you will measure your success. Finally, identify the degree of risk management coordination that currently exists within your organization.

2. Identify Risks

Identify both the conditions and events that represent risks to or opportunities for your organization.

3. Analyze / Quantify Risks

This is perhaps the most technical of these steps. You must predict the probability or likelihood of each risk occurring so that you can prioritize your responses (see #5). There are various qualitative and quantitative methods available to perform this analysis.

4. Integrate Risks

You must merge the individual risks identified above to produce an aggregate risk profile, which measures the impacts of the risk on your organization's performance.

5. Assess / Prioritize Risks

Using the profile produced above, you must prioritize the risks according to their potential impact on your business. This will allow you to plan your response to each risk.

6. Treat / Exploit Risks

At this point you decide how to handle each risk / opportunity. For example, you can choose to transfer (insure against), retain (self-insure), or avoid (change business processes) risks.

7. Monitor and Review



Once you have a plan in place, you must monitor your performance over the short and long term, adapt and adjust your plan accordingly, and feed the results back into the context-setting step (Step #1), where the entire process repeats.

Clearly, ERM is a deep and complex process. It requires you and your management team to consider every aspect of your business, both as it currently operates and as you expect it to change in the future. ERM provides great challenges to your organization, but it can open up great rewards as you globalize and grow. ERM can help you and your business through this process and into a more robust and profitable future.