Capturing the Upside of ERM

ERM Annual Conference

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Managing Director

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'Talk of town today'

Kenya Airways' stay in the skies troubled with new Sh29 billion loss By Paul Wafula from StandardMedia

Sh500b State funds cannot be accounted for, says Auditor General Edward Ouko By Lillian Kiarie from StandardMedia

Kenya's commercial banks lose $9.4m to fraud in just six months By ALLAN OLINGO, The EastAfrican

Kenya insurers lose Sh260m to fraudsters in three months BY Nicholas Waitathu StandardMedia

YET WE HAVE:

- **The Mwongozo – Code of Governance for SC's**
- **IRA Risk Management Guidelines**
- **CBK Prudential Guidelines on Risk Management etc etc**

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Agenda

1. Capturing the upside of ERM
2. What really is ERM & RISK?
3. Risk culture & management oversight
4. Risk appetite
5. Linking strategy, planning and risk
6. Risk intelligence

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‘Capturing the upside of ERM’

Traditional Risk Management:

- Negative association
- Focused on compliance
- Restricts risk taking

The Upside of Risk Management:

- Realisation of commercial benefits
- Risk capital – ‘less’?
- Efficient cost of capital
- Avoidable losses
- Improved stakeholder relations
- Less surprises
- Better response to risk issues
- Better risk-return outcomes

‘Capturing the upside of ERM’

In order to capture/achieve the upside of ERM, firms need to focus on the following:

- ✓ Risk culture & management oversight
- ✓ Risk appetite
- ✓ Linking strategy, planning and risk
- ✓ Risk intelligence

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Enterprise Risk Management

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

Source: COSO Enterprise Risk Management – Integrated Framework. 2004. COSO.

'Agreeable but practically difficult to convey the meaning…'

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Enterprise Risk Management in simple language

- Managing all risks under a common and consistent framework including policies, risk appetite and reporting
- Managing risks across the enterprise using systems and processes that are as integrated as possible.
- Cordinated activities in a firm through use of better information and the improved management of all risks/uncertainties/issues which threaten the achievement of the firm's objectives

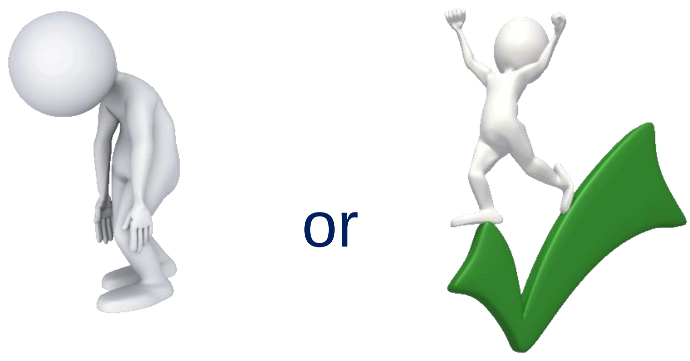
Risk defined

Risk: ***the effect of uncertainty on objectives***

ISO 31000: Risk Management - Principles and Guidelines

Risk Management *is really* ***Objectives Management*** *is really* ***Outcome Management***

Perception of Risk



Hindrance?

Enabler?

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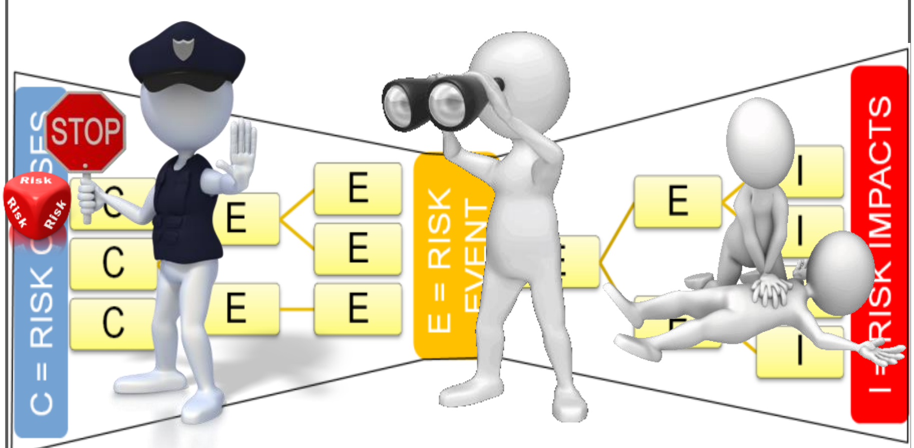
Risk life line



Preventive

Detective

Corrective

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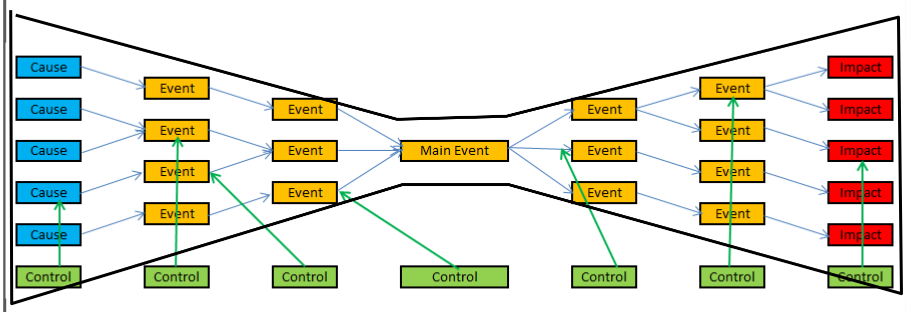
Risk is ……



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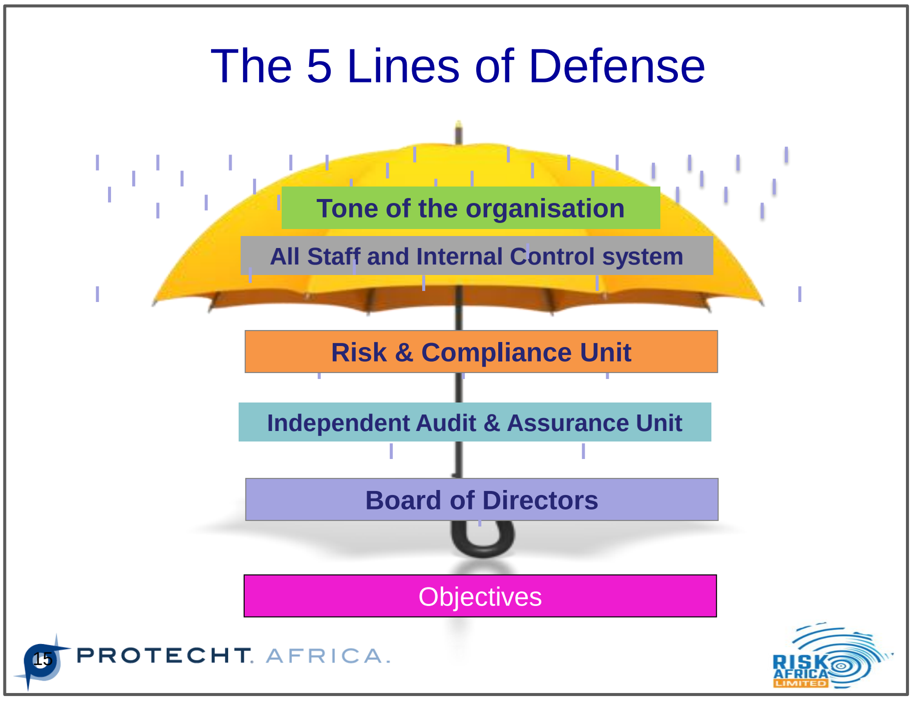
The 5 Lines of Defense
Tone of the organisation
All Staff and Internal Control system
Risk & Compliance Unit
Independent Audit & Assurance Unit
Board of Directors
Objectives
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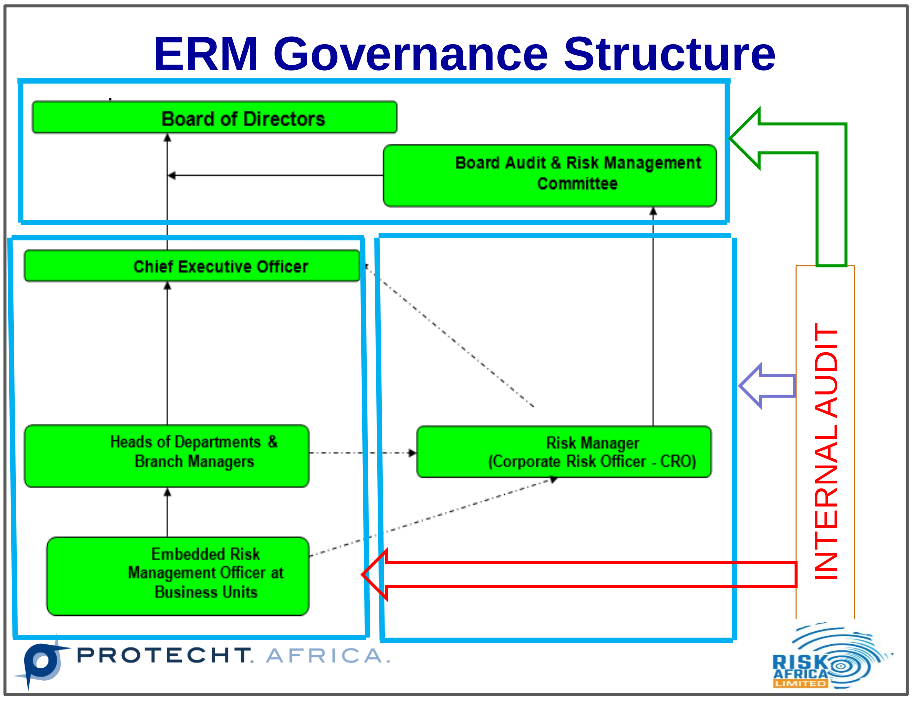
ERM Governance Structure
Board of Directors
Board Audit & Risk Management Committee
Chief Executive Officer
Heads of Departments & Branch Managers
Risk Manager (Corporate Risk Officer - CRO)
Embedded Risk Management Officer at Business Units
INTERNAL AUDIT
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Examples of First level placement/advertisements of ERM in Kenya

Safaricom
Director – Risk Management

KCB Making the Difference
Chief Risk Officer

eabl Celebrating Life
Director – Group Controls Compliance and Ethics

EQUITY Bank
Gen Manager – Risk

National Bank
Chief Risk Officer

Britam With you every step of the way
Group Risk Manager

Kenya Revenue Authority
Commissioner Risk, Strategy & Innovation

Implementing a risk culture

1. The leadership MUST communicate, explain and support the risk function.
2. All staff MUST be treated equally in all issues of risk – no 'stars' or control islands
3. Review induction materials and training programmes for all staff to promote risk awareness – risk conscious staff
4. Risk-based performance reward system – not a short-term/process focus but outcome based
5. Pay the risk manager good money and position them at the top management level
6. Measure the return on risk management practices and broadcast organisation-wide
7. Celebrate interim success
8. Look for indicators of lack of commitment among managers

Risk culture drawbacks

1. Management vs Board wars
2. Centralised vs Business Unit risk management wars
3. Theory vs Practise
4. Meeting regulatory requirements vs Value for ERM

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Risk Appetite Statement "RAS"

The amount and type of risk that a firm is prepared to retain / take / accept / tolerate in pursuit of its objectives.

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How does it look like?

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Framework for articulation - Steps

1. Identify the objectives / goals of the firm (from strategic/ business plans). Objectives need to be SMART (Specific, Measurable, Attainable, Relevant and Timely)
2. Define escalation and action requirements for each "zone" (Red, Amber, Green)
3. For the objectives, define the levels between Green / Amber and Amber / Red
4. Likelihood and consequence matrix
   a) Define "zones".
   b) Determine Likelihood and Consequence scales to assess risks
5. Define value statements of the firm e.g. zero tolerance to sexual harassment
6. Identify key risk categories under which appetite will be determined using KRIs
7. Identify which indicators will be used to track each key risk
8. Set the Green to Amber and Amber to Red thresholds for each indicator

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Capturing the benefits of RAS

- ✓ Must be part of reporting
- ✓ Must be embedded in all decision making
- ✓ Must be discussed in Board and Management meetings
- ✓ Actions must be seen to arise from RAS outcomes
- ✓ Must be tailored to the firm
- ✓ Adopted by Management and the Board – 'the Agency Theory'

If poorly done and implemented:

1. It leads to slower response to changes in the risk environment
2. It can lead to inefficient risk portfolios
3. There can be internal misunderstanding on firms RAS
4. Impedes proper application of the control cycle to manage risk taking in terms of monitoring actual risk experience against a plan
5. Risk management process may be inconsistent as the evaluation of risks on risk registers is not done against a fixed standard.

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Ultimate Outcome/Performance Management

Making Decisions on a Reward / Risk basis

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Strategic Risk

The risk of making sub optimal decisions concerning strategic matters of the organisation, the risks of executing strategies and the risk to the business once the strategy is executed.

Components of Strategic risk:

Decision Risk - Not selecting and following the optimal strategy.

Execution Risk - Not executing the change strategy successfully.

Delivered/Benefits Risk: The risk of the strategy not achieving the expected net benefits that were used as a basis for the initial strategy decision.

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Linking strategy with ERM

In order to monitor the key strategic risks over time and provide a basis for Management & Board risk reporting, S-M-A-R-T Key Risk Indicators & Performance Indicators should be put in place.

Performance reviews and Continous monitoring of the strategic plan MUST be based on these indicators.

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RISK ANALYTICS

TURN YOUR DATA INTO RISK ANALYTICS

Risk Intelligence and Risk Management: What is the big deal?

- Due to technological advances and general transparency, the data collected is now more important for risk management than it has ever been before due to various changes in:
  - **Scope**: the range of topics from ever expanding sources of data is now readily available
  - **Scale**: the sheer quantity of data collected is unprecedented and is expected to grow by 40% per year worldwide
  - **Detail**: due to mobile phones, internet, and other technologies, minute details on people can now be tracked at an almost real-time level
  - **Speed**: modern IT systems allow organizations to quickly access information, enabling near real-time feedback about decision making
- Risk Intelligence offers a means of transforming these data assets into actionable insights that can be used to significantly impact performance.

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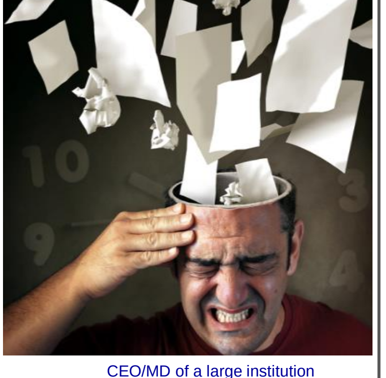
Why risk intelligence?

Boeing 787 cockpit



CEO/MD of a large institution

Which on one would you rather be?

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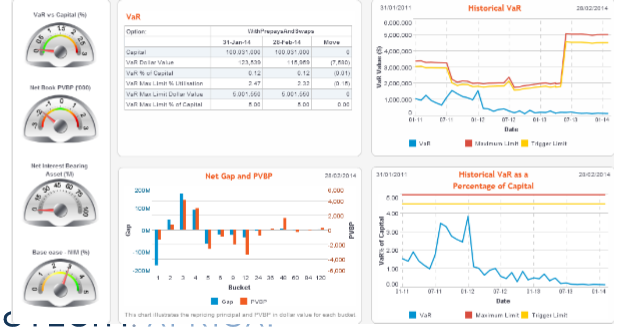
Risk Intelligence

What it is:

Providing **intelligence** to management from data and information to make decisions on uncertainties faced by the organisation.



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Edward Snowden case 2013:

In a December 2013 letter to the people of Brazil, Snowden wrote:

"There is a huge difference between legal programs, legitimate spying ... and these programs of dragnet mass surveillance that put entire populations under an all-seeing eye and save copies forever ... These programs were never about terrorism: they're about economic spying, social control, and diplomatic manipulation. They're about power."

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Developing a risk analytics capability

"The journey from the traditional business which is dominated by historical data and focus on what has happened to one that is strategic and where risk management is an integral part of every business decision is primarily a journey from relative ignorance and lack of data, through the harnessing of relevant quality data sets to the turning of that data into intelligence"……David Tattam.

The journey is not easy and needs to be travelled in a controlled and progressive manner.

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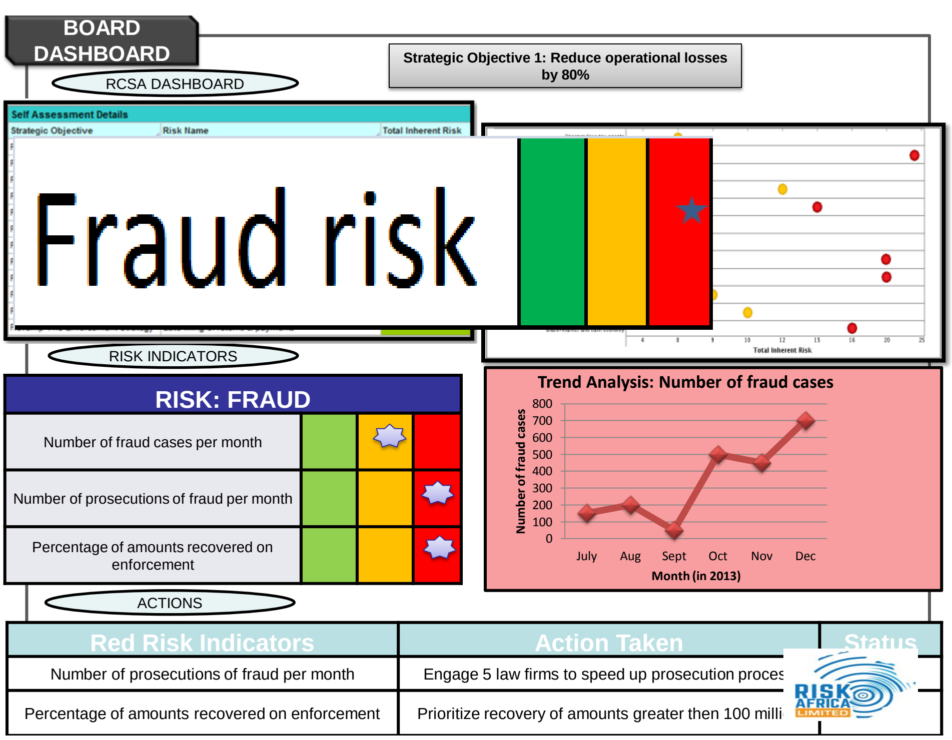
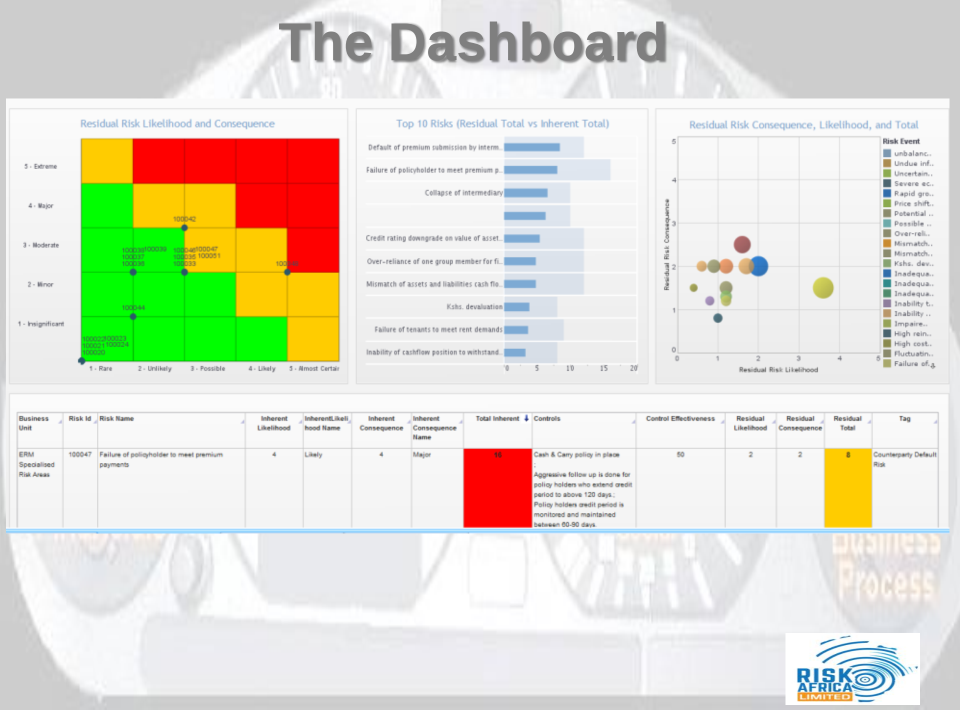
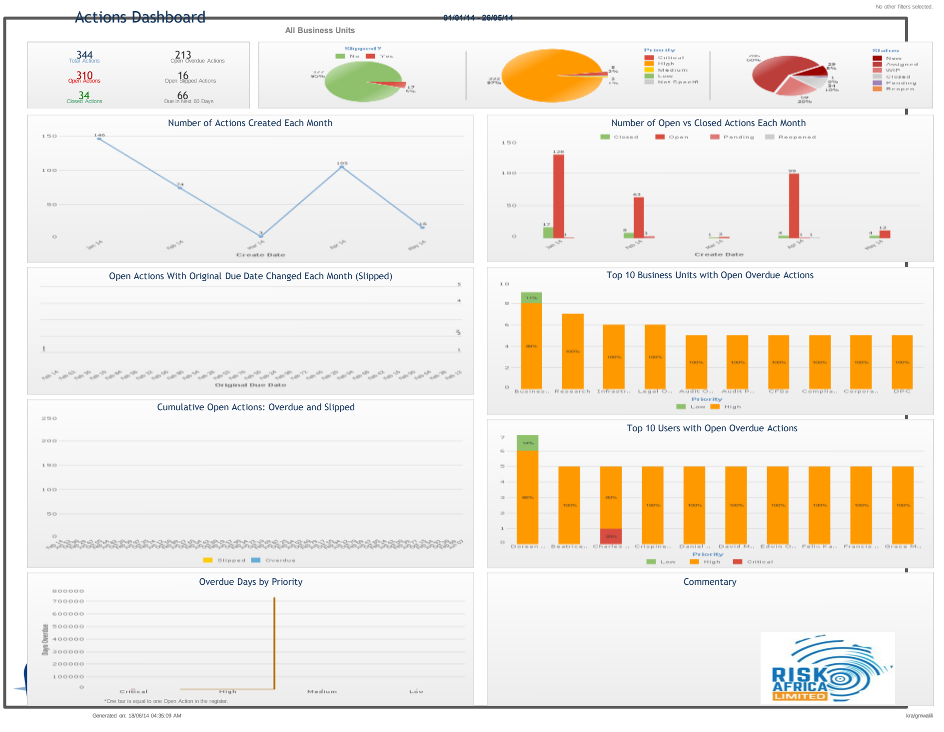
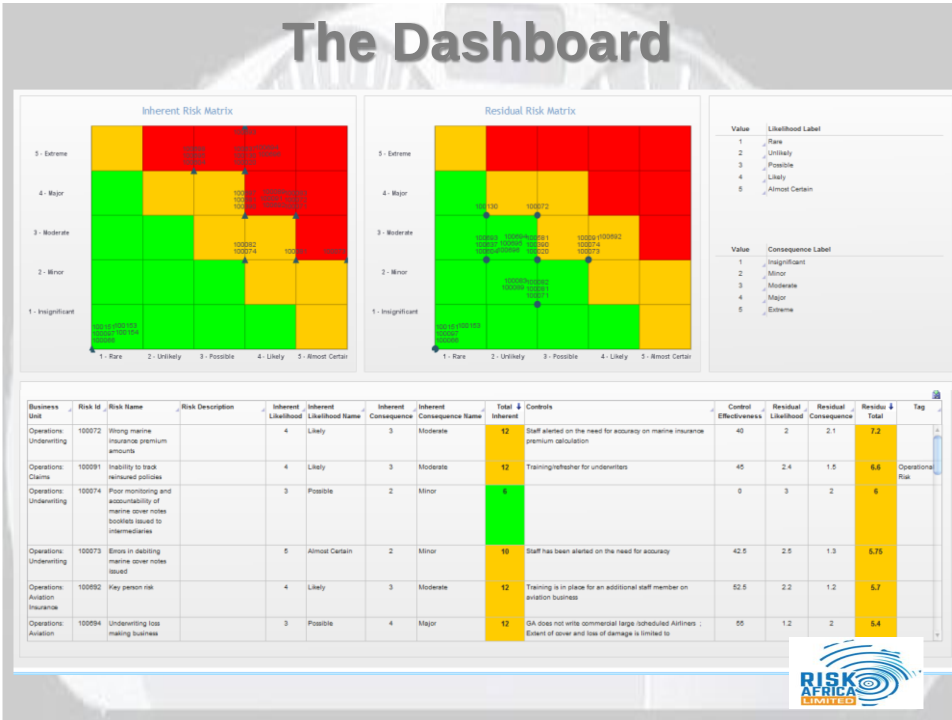



The Dashboard
Residual Risk Likelihood and Consequence
Top 10 Risks (Residual Total vs Inherent Total)
Residual Risk Consequence, Likelihood, and Total


Actions Dashboard
All Business Units
Number of Actions Created Each Month
Number of Open vs Closed Actions Each Month
Open Actions With Original Due Date Changed Each Month (Slipped)
Top 10 Business Units with Open Overdue Actions
Cumulative Open Actions: Overdue and Slipped
Top 10 Users with Open Overdue Actions
Overdue Days by Priority
Commentary


The Dashboard
Inherent Risk Matrix
Residual Risk Matrix
5 - Extreme
4 - Major
3 - Moderate
2 - Minor
1 - Insignificant
1 - Rare
2 - Unlikely
3 - Possible
4 - Likely
5 - Almost Certain
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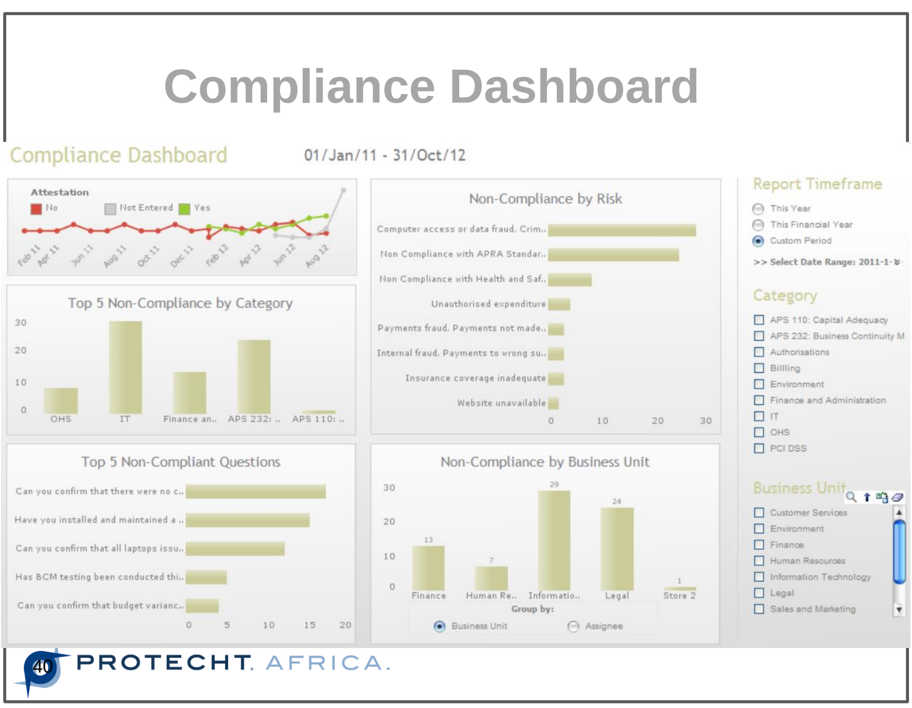
Compliance Dashboard
Compliance Dashboard
01/Jan/11 - 31/Oct/12
Attestation
No
Not Entered
Yes
Non-Compliance by Risk
Computer access or data fraud, Crim..
Non Compliance with APRA Standar..
Non Compliance with Health and Saf..
Unauthorised expenditure
Payments fraud, Payments not made..
Internal fraud, Payments to wrong su..
Insurance coverage inadequate
Website unavailable
Report Timeframe
This Year
This Financial Year
Custom Period
>> Select Date Range: 2011-1-
Category
APS 110: Capital Adequacy
APS 232: Business Continuity M
Authorisations
Billling
Environment
Finance and Administration
IT
OHS
PCI DSS
Top 5 Non-Compliance by Category
OHS
IT
Finance an..
APS 232: ..
APS 110: ..
Top 5 Non-Compliant Questions
Can you confirm that there were no c..
Have you installed and maintained a ..
Can you confirm that all laptops issu..
Has BCM testing been conducted thi..
Can you confirm that budget varianc..
Non-Compliance by Business Unit
Finance
Human Re..
Informatio..
Legal
Store 2
Group by:
Business Unit
Assignee
Business Unit
Customer Services
Environment
Finance
Human Resources
Information Technology
Legal
Sales and Marketing
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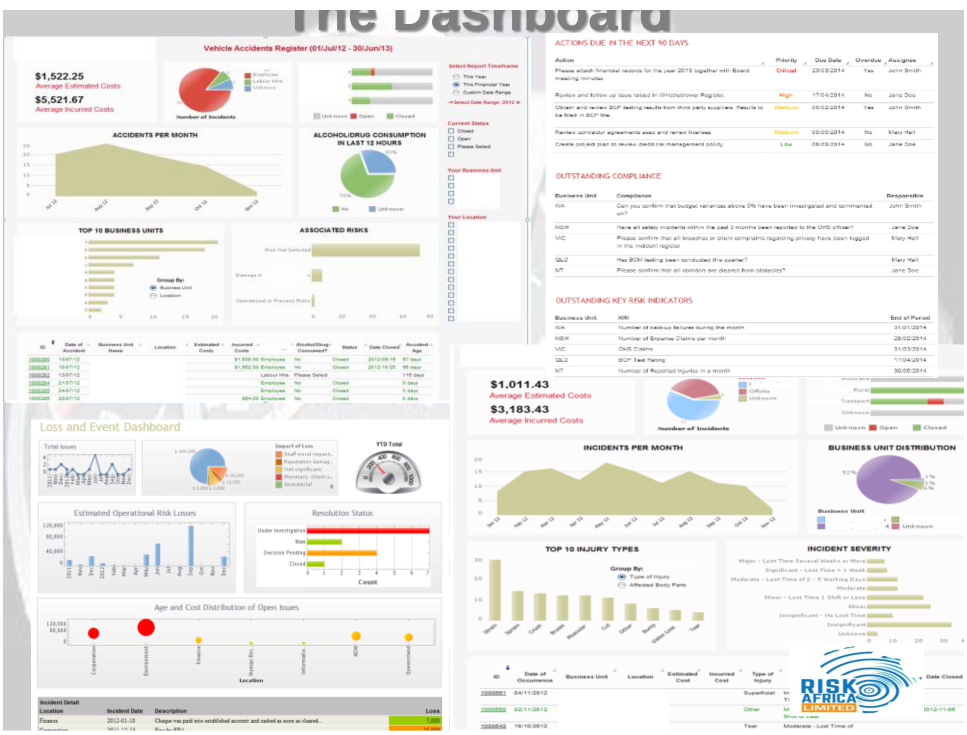
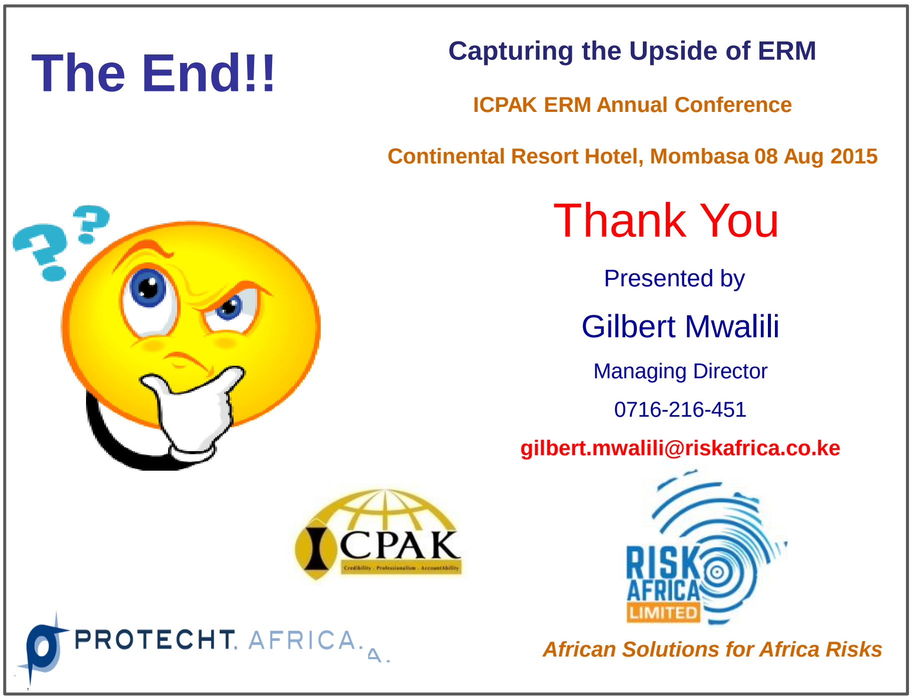
Capturing upside of ERM




The End!!
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Thank You
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African Solutions for Africa Risks