



Linking Strategy and Risk Management

Financial Services Solution limited Presentation

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Agenda

- Introduction
- ✓ Business Value Creation Agenda
- ✓ Leading Practice- Risk Management & Strategy Linkage
- ✓ Value Creation- Linking Risk & Strategy
- ✓ Strategy, Risk Management & Performance –Examples
- ✓ Enterprise Risk Management as a Strategic Tool - Prerequisites
- ❖ Questions & Answers

Introduction-Interactive Session #1 – 10 minutes

- ❑ Introduce yourselves to others at your table.
- ❑ Recap – Share something on personal experience in Risk management and highlight the expectation of this training.
- ❑ Pick 1- Identify a risk and link it to business goal – discuss it as both a threat, opportunity and response.
- ❑ Report to the large group-pick a spokesperson.

Introduction-Risk Governance Process Commentaries

Risk comes from not knowing what you are doing; if you don't understand, then don't do it. ‘*Warren Buffet*’

The governance framework is there to encourage the **efficient use** of resources and equally to require **accountability** for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. “*Sir Adrian Cadbury, UK, Commission Report: Corporate Governance 1992*”

The biggest risk is not taking any risk... In a world that changing really quickly, the only strategy that is guaranteed to fail is not taking risks.
‘*Mark Zuckerberg*’

Introduction -Basic Principles, Concepts, Definitions

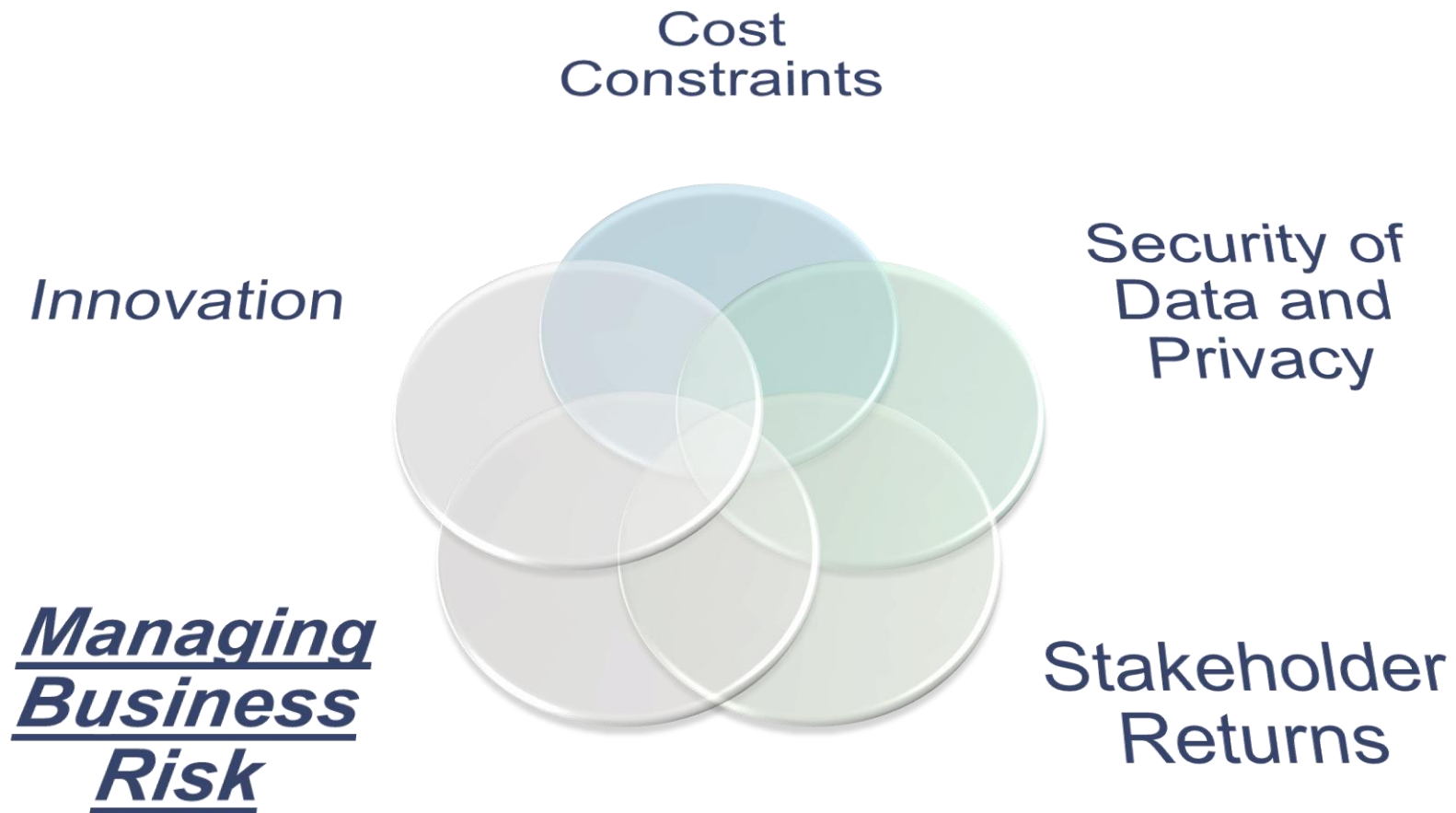
RISK

Risk is **ANYTHING** that may affect the achievement of an organization's objectives- ISO 31000

“ERM defined as ... a process, effected by an entity's board of directors, management and other personnel, 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

Introduction-Top Five Business Issues (Gartner)



Introduction -Today's Global Challenge

Focus concurrently on key horizons:



Attaining risk resilience help organization achieve winning performance.

Skills, expertise knowhow borrowed from Risk Management Best Practices and calibrated to suit the specific business type and industry are key to achieve this footing

Introduction - Risk Management Basis

Underlying Principles:

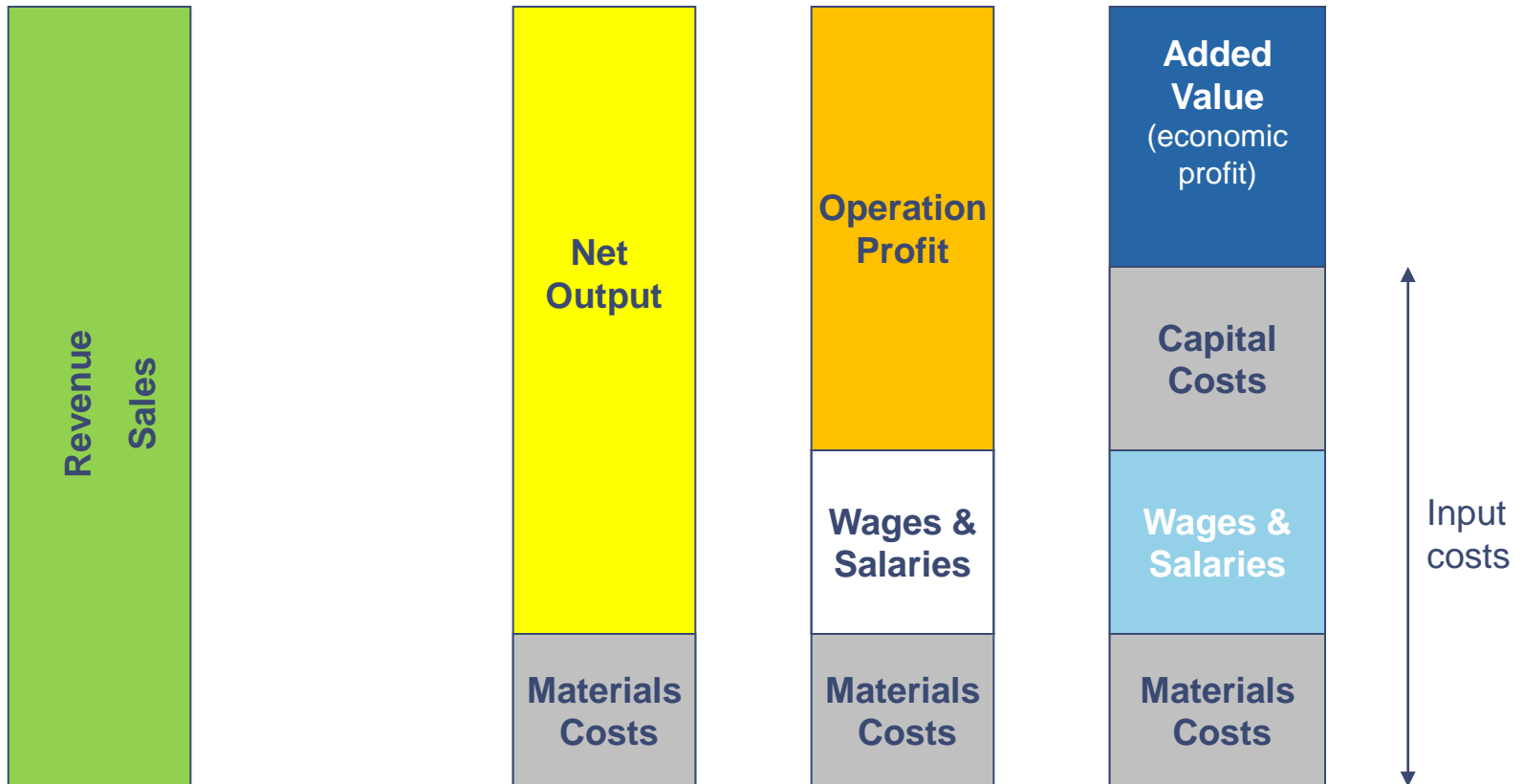
- Value is created, preserved, or eroded by management decisions in all activities, from setting strategy to operating the enterprise day-to-day.
- Every entity, whether for-profit or not, exists to realize value for its stakeholders

RM supports value creation by enabling management to:

- Deal effectively with potential future events that create uncertainty on strategy.
- Respond in a manner that reduces the likelihood of downside outcomes and increases the upside to strategy.

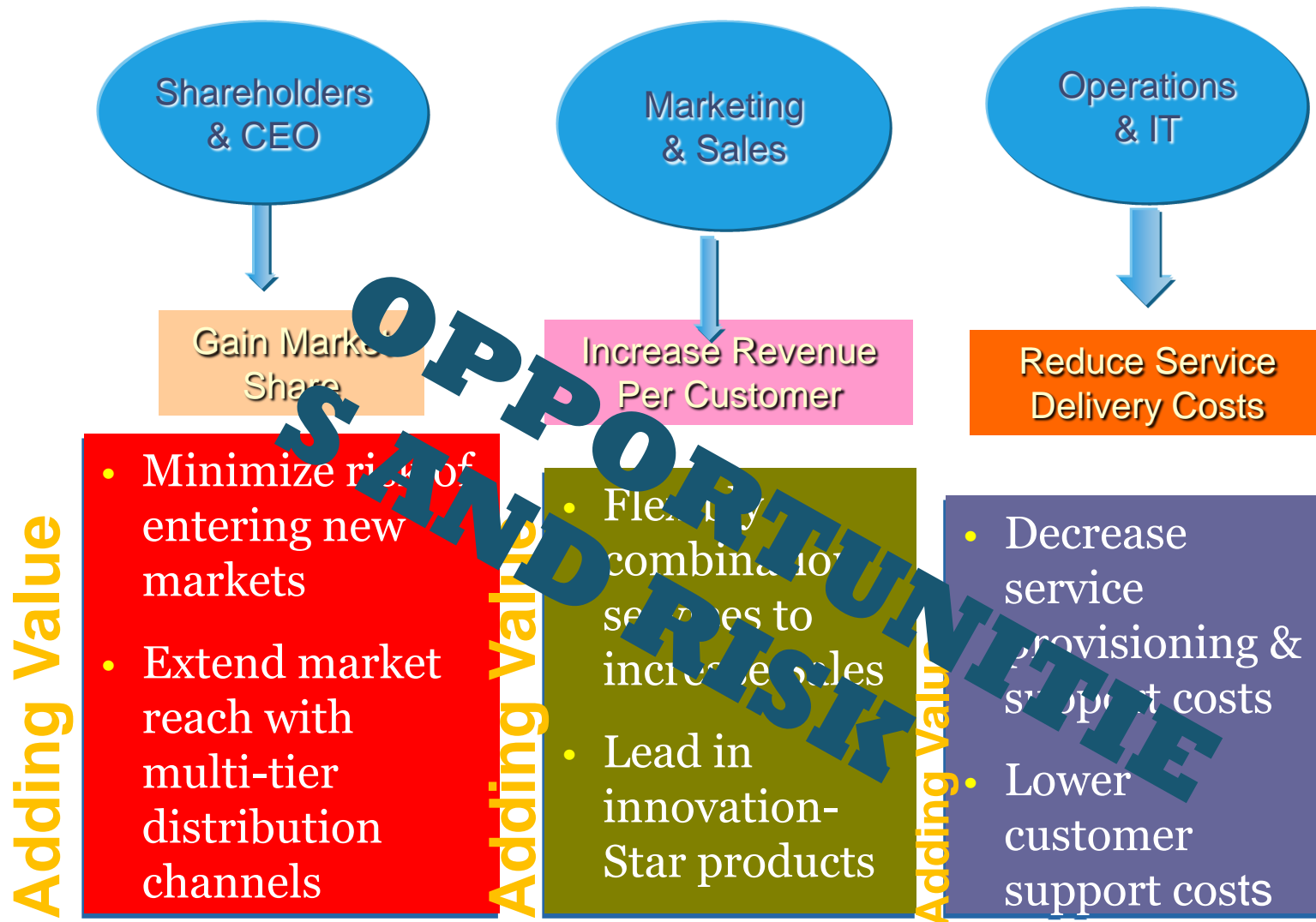
Value Creation Agenda-Risk and Strategy

Value Chain -Profitability Measures



Value Creation Agenda-Risk and Strategy

What Corporate Strategy



Leading Practice in Linking Risk & Strategy

ISO 31000 Principal Dimensions

1. Risk Management Creates and Protects Value

Risk management contributes to the demonstrable achievement of objectives and improvement of performance in, for example, human health and safety, security, legal and regulatory compliance, public acceptance, environmental protection, product quality, project management, efficiency in operations, governance and reputation.

2. Risk Management is an Integral Part of all Organizational Processes

Risk management is not a stand-alone activity that is separate from the main activities and processes of the organization. Risk management is part of the responsibilities of management and an integral part of all organizational processes, including strategic planning and all project and change management processes.

3. Risk Management is Part of Decision Making

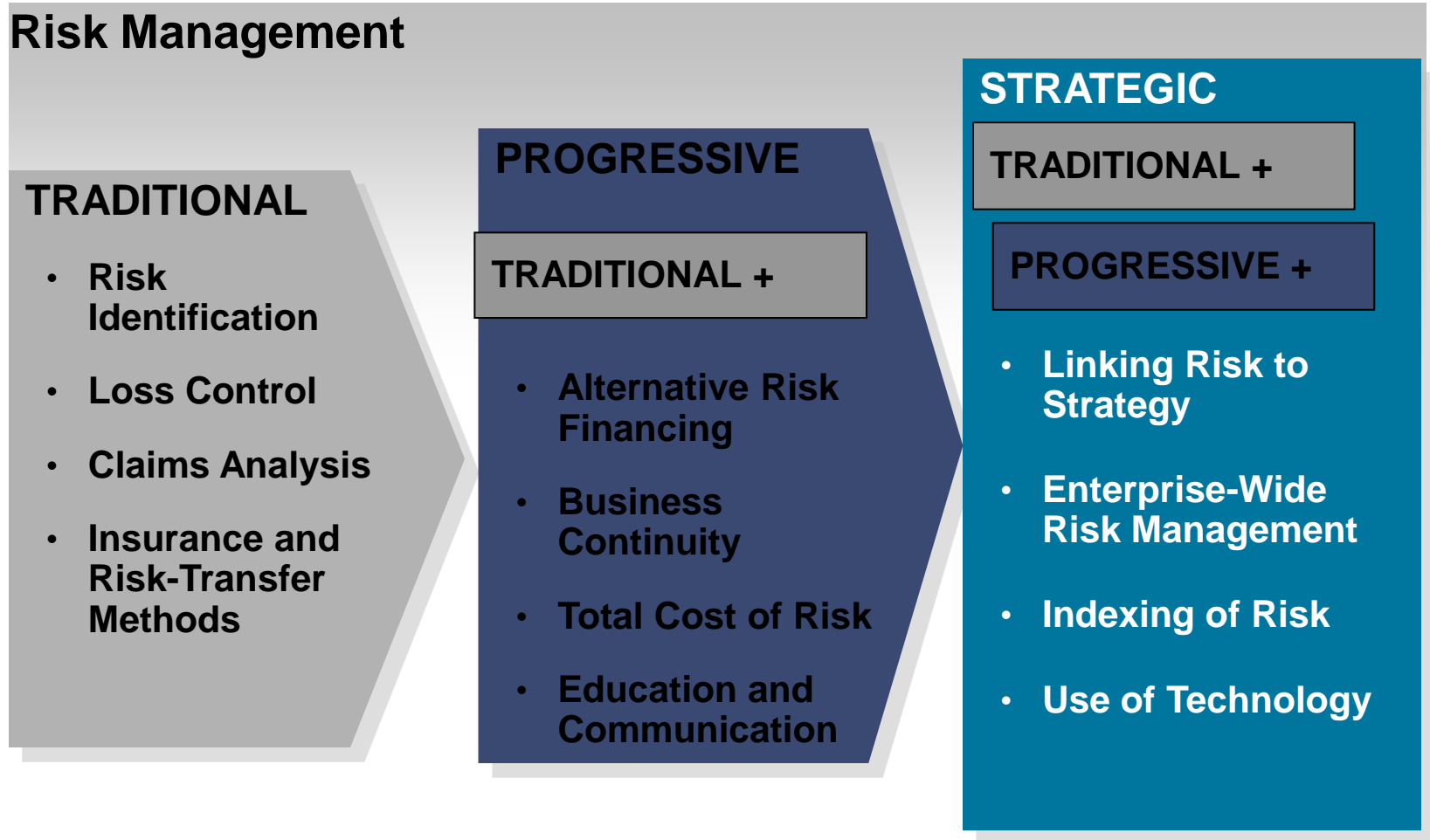
Risk management helps decision makers make informed choices, prioritize actions and distinguish among alternative courses of action.

4. Risk Management Explicitly Addresses Uncertainty

Risk management explicitly takes account of uncertainty, the nature of that uncertainty, and how it can be addressed.

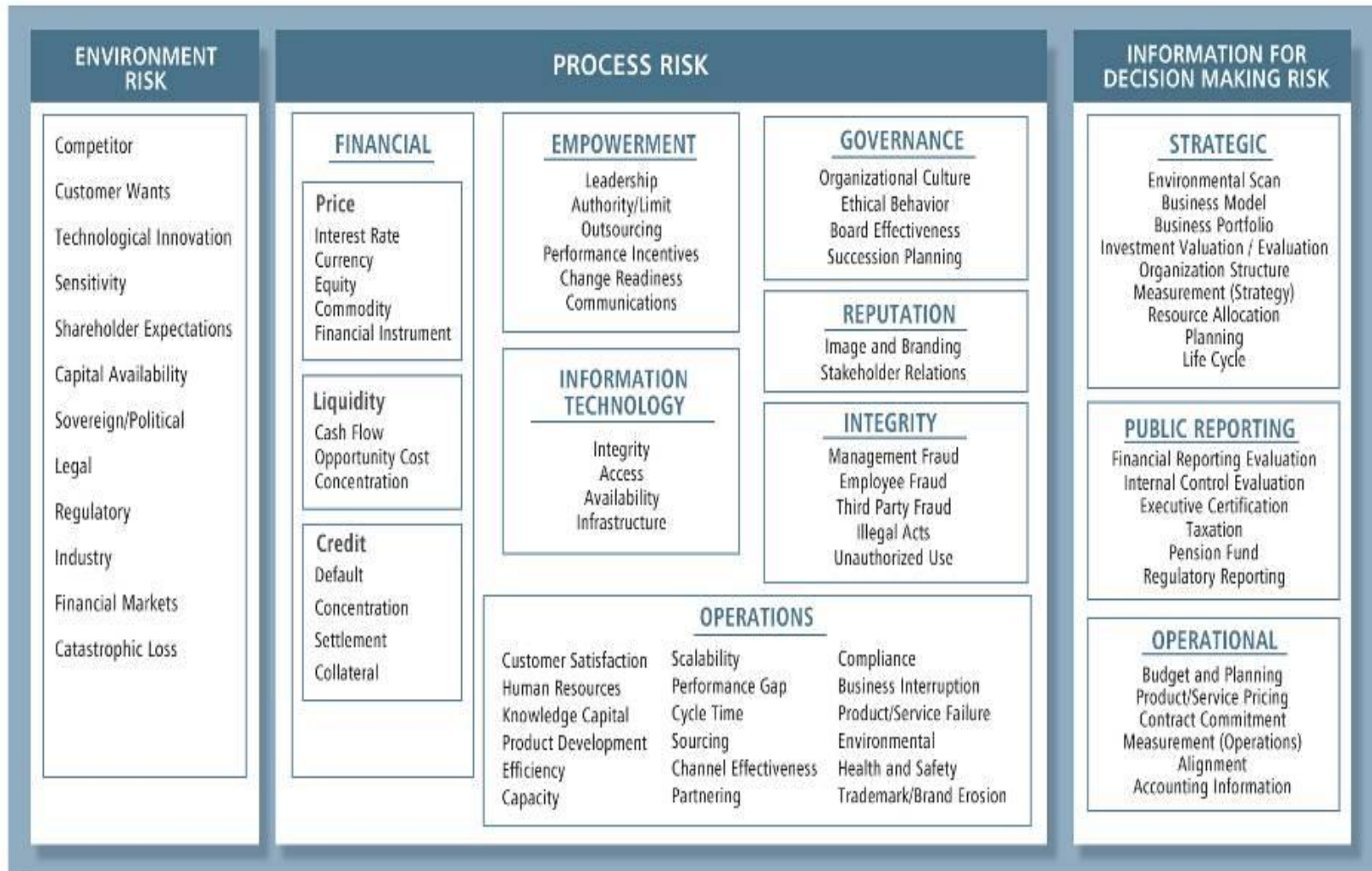
Leading Practice in Linking Risk & Strategy

Management Maturity Level



Leading Practice in Linking Risk & Strategy

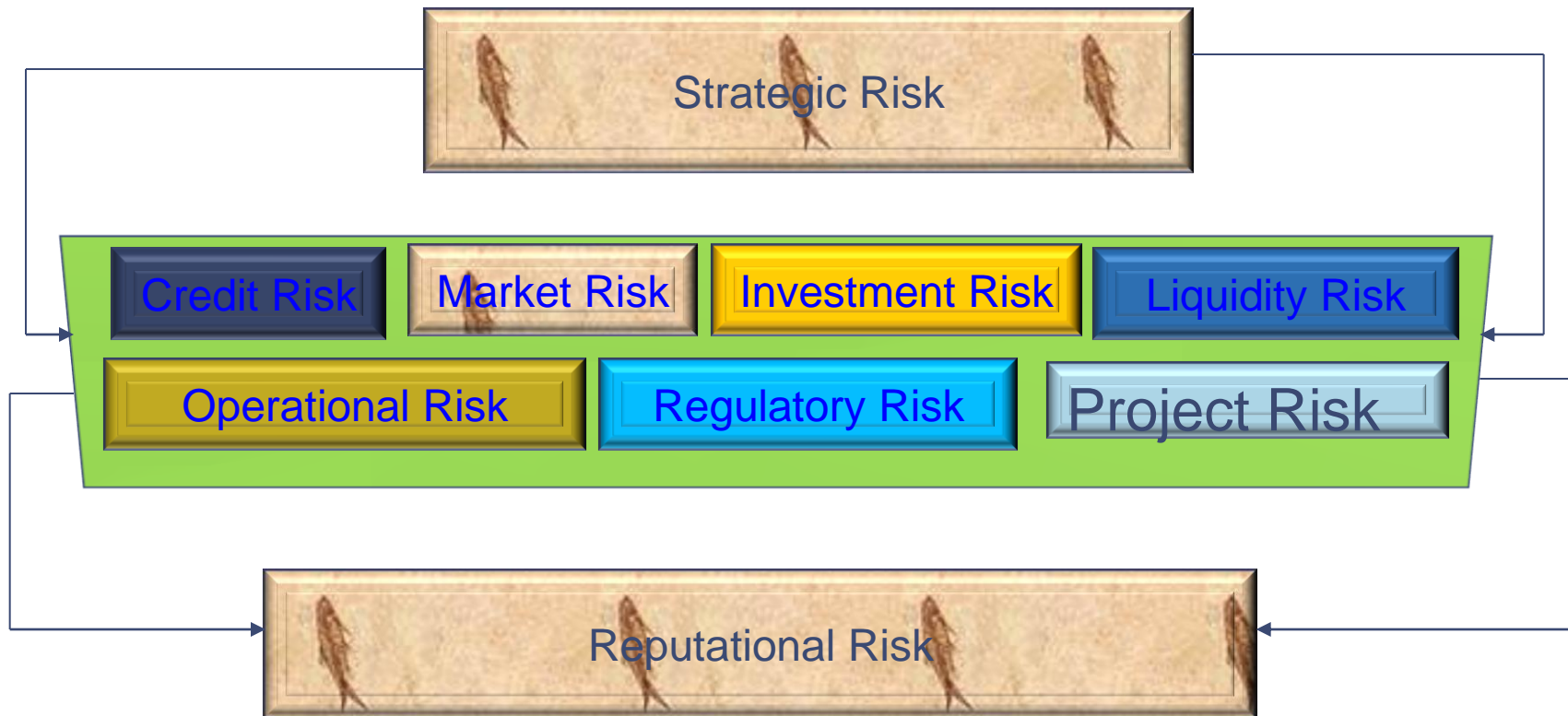
Corporate Risk Universe



Leading Practice in Linking Risk & Strategy

Risk Framework-Common Risk Types

Each Risk is part of the whole –Driven by strategy



Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation

Value Creation- Linking Risk & Strategy

Why Risk Management ?

Increase Risk Awareness;

What could affect the achievement of objectives?

What could change?

What could go wrong?

What could go right?

Increase Understanding of Risk – Sensitivities. What makes my risks increase/decrease/disappear?

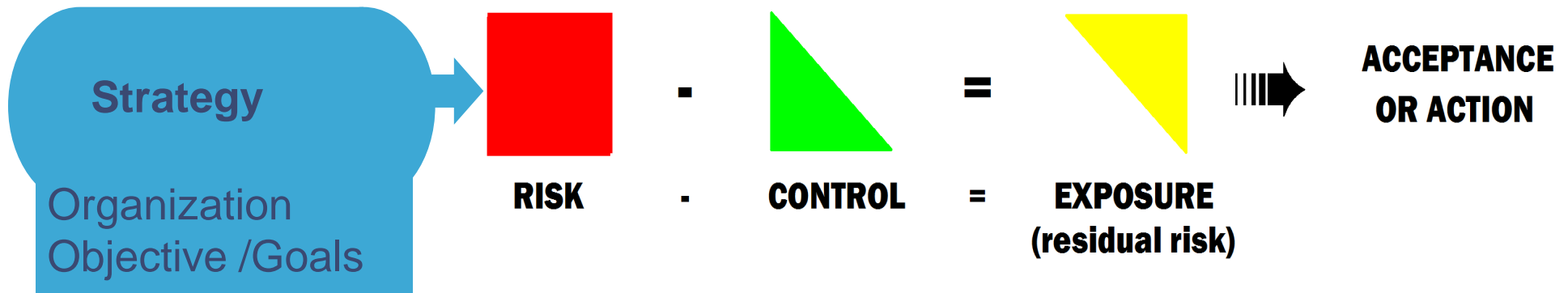
Promote a “healthy” Risk Culture – It’s safe to talk about risk.
Open and transparent.

Develop Common Language-Develop a common and consistent approach to risk across the organization. Not intuition-based.

Value Creation- Linking Risk & Strategy

Risk Management Basics

- Risk (uncertainty) may affect the achievement of objectives.
- Effective mitigation strategies/controls can reduce negative risks or increase opportunities.
- Residual risk is the level of risk after evaluating the effectiveness of controls.
- Acceptance and action should be based on residual risk levels.



Value Creation- Linking Risk & Strategy

How ERM adds Value

ERM Protects and creates value for firms stakeholders, including owners, employees, customers, regulators, and society overall Risk Management will;

1. Downside Risk Mitigated & Managed
2. Value Preserved –Revenue Leaks & Fraud Loss saving (and Optimization of Sales)
3. Risk Capital Reduced
4. Investor Confidence
5. Customer Confidence
6. Confidence in FR
7. Saved Litigation Cost
8. Reduced Reputation Risks

Value Creation- Linking Risk & Strategy

Risk Types Links to core Mandate (COSO ERM)

Strategic – *Goals of the Organization*

Operational – *Processes that Achieve Goals*

Financial – *Safeguarding Assets*

Compliance – *Laws and Regulations*

Reputational – *Public Image*

Source – COSO ERM

Value Creation- Linking Risk & Strategy Risk

Common Linkages Focus Areas

Risk Type	Definitions	Risk Factors
Business and Strategic Risks	Risks related to business factors such as macro-economics and other external conditions, and the company's strategic response	Revenue Growth / M&A
		Portfolio Shift
		Valuation enhancement
		Cost Management
		Business Continuity
Financial Risks	Risks related to financial performance including future return on investment, financial statement integrity, and impact of divestitures and acquisitions	Financial goals realization
		Tax Planning / Tax Audits
		Liquidity
		Market / Credit Risk
		FX Risk / Interest Rate Risk
Operational Risks	Risks of loss resulting from inadequate or failed internal processes, people, and systems. Most of these risks are managed by central corporate support units and executed locally by the Divisions	Economic Factors
		Information Security
		Technological Advances
		Legal
		Employee Retention
Regulatory Compliance Risks	Risks of a regulatory environment that are managed by each business line and affect the ability to meet earnings targets. In addition, business units are exposed to overall reputation in the marketplace	Ownership Interests / Conflicts
		Confidentiality of Proprietary Processes & Data
		Regulatory Oversight / Legal
		Privacy
		Geopolitical Risks affecting International Operations

Value Creation- Linking Risk & Strategy

Risk- Today's Risk Factors

Identified Priorities

- Organizational structure
- Effectiveness and security of outsourced operations
- Global contracting
- Information security
- Business continuity

Business and Strategic Risk Areas

- Accelerate organic revenue growth (e.g., Global 3 screen strategy)
- Portfolio shift
- Cost leadership/ realization of cost savings
- Valuation enhancement to all stakeholders
- General economic conditions and demand
- Customer procurement patterns/ competing product offerings
- Customer consolidation

Financial Risk Factors

- Technological advances
- Customer acceptance/ criticism
- Ownership interest conflicts
- Substantial indebtedness/ Liquidity
- Tax planning/ tax audits
- Financial GAAP changes

Operational Risk Factors

- Company wide integration and alignment to strategy
- IT disruption
- Fraud and Corruption
- Employee retention
- Service disruption
- Confidentiality of proprietary processes and data

Regulatory Compliance Risk Factors

- Regulatory oversight
- Geopolitical risks affecting international operations

Conclusion

- Managing of Risk is at the forefront of today's economy.
- The impact of today's Risk is on a large scale and often global.
- Currently, there is an under-investment in preparedness and mitigation of Risk.
- Applying ERM principles to Emerging Risk can help protect and create value and enhance performance (Financial and Operational excellence).
- Organizational agility to address Emerging Risk becomes a source of competitive advantage and survival
- Risk is relevant at an operational business unit level and most importantly at the executive, strategic planning level.

QUESTIONS???

