

# Maturing the Integration of ERM and Strategy: Presentation by:

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# Presentation agenda



- ❑ Strategy and ERM
- ❑ Future focused ERM content
- ❑ Risk appetite – A single view
- ❑ Developing tailored, proportionate ERM processes
- ❑ Synergies across the Three Lines of Defense
- ❑ Recap



*Strategy and risk – Joined at the hip....*

“If you aren’t constantly assessing strategy and risk, and adjusting as you go, there’s no way you’re keeping pace as a business”

# Strategy and ERM



*In today's markets, businesses continue to experience an escalating pace of change—disruptive technologies, innovative business models, new forms of competition, changing geopolitics.*

*As the world forms new norms, calibrating strategy to emerging risks and opportunities is key for every company.*



Source: Klick.com

# Strategy



Boards are dedicating more time to strategy: undertaking a **more active role** in the shaping, development and ongoing testing of strategic plans

***Strategy – Deciding where to play and how to win***

# Strategic decisions



*Carefully planned strategies are essential across all business issues including:*



**Growth:** top line focus



**Cost improvement:** bottom line focus



**Deal assessment:** focus on buying/selling businesses and implementing strategic alliances



**Enterprise-wide transformation:** focus on the end-to-end strategy



**Portfolio adjustment:** optimizing synergies and fit within portfolios (businesses, products or services)

# Decision making



*In the context of strategy, enterprise risk management is not only about managing risks, but making decisions with risks in mind.*

*So why do Boards and senior management sometimes make wrong decisions?*

# Why strategy fails



- 1. Not considering and assessing alternatives in decisions making – Inadequate use of decision trees*
- 2. Not making decisions with risks in mind – Inadequate sensitivity analysis*
- 3. Identifying risk wrongly, resulting in an incomplete inventory of business risks – i.e. creating the wrong content*
- 4. Strategy is not stress tested for systemic and emerging risks*
- 5. Outdated risk management processes – Data and analytics not embedded in the risk management process*

# Benefits of ERM



## ERM Helps Enhance Performance and Protect Value

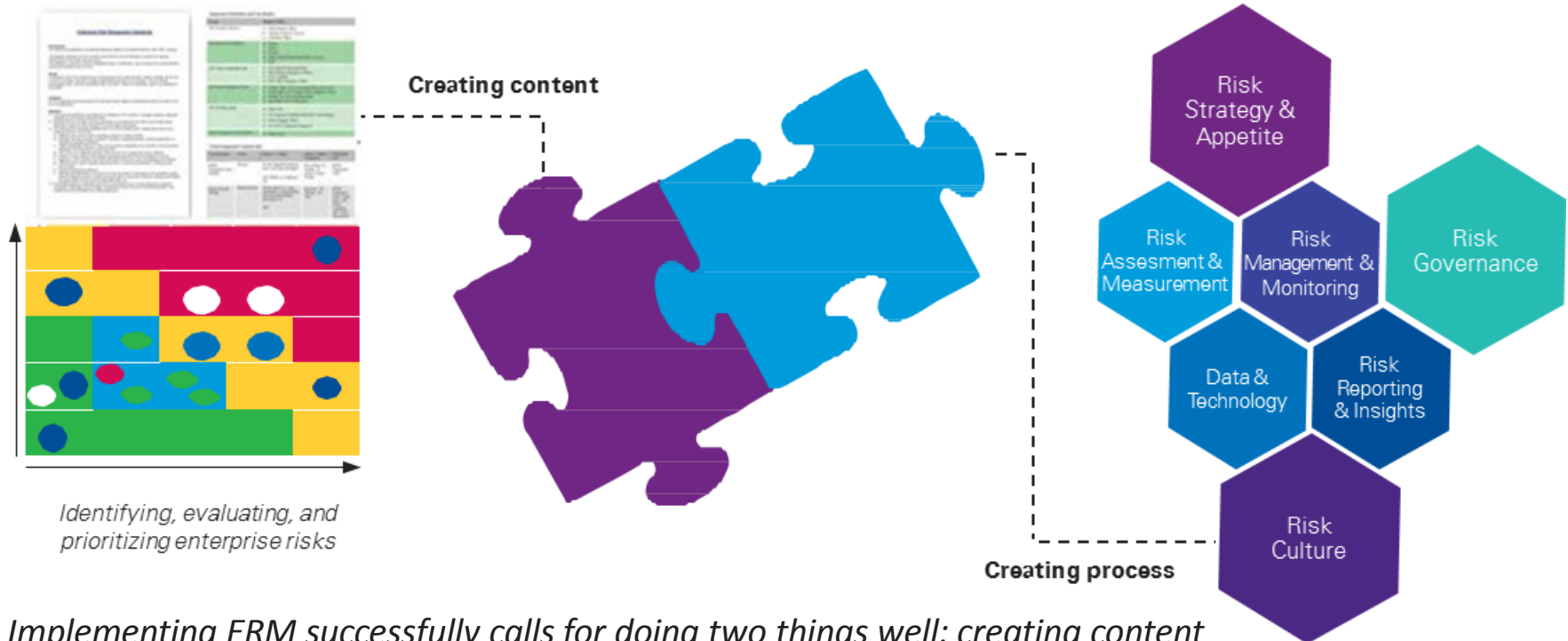
### Using ERM, organizations can:

- Increase probability of meeting strategic objectives
- Integrate risk and strategic planning, investment, and M&A
- Allocate and evaluate capital based on risk-based performance
- Reduce cash flow volatility using derivatives, insurance, or improved controls
- Reduce losses and identify opportunity through coordinated enterprise risk monitoring and reporting
- Reduce costs through risk consolidation and cross- functional efficiencies/synergies across the three lines of defense

# ERM Fundamentals

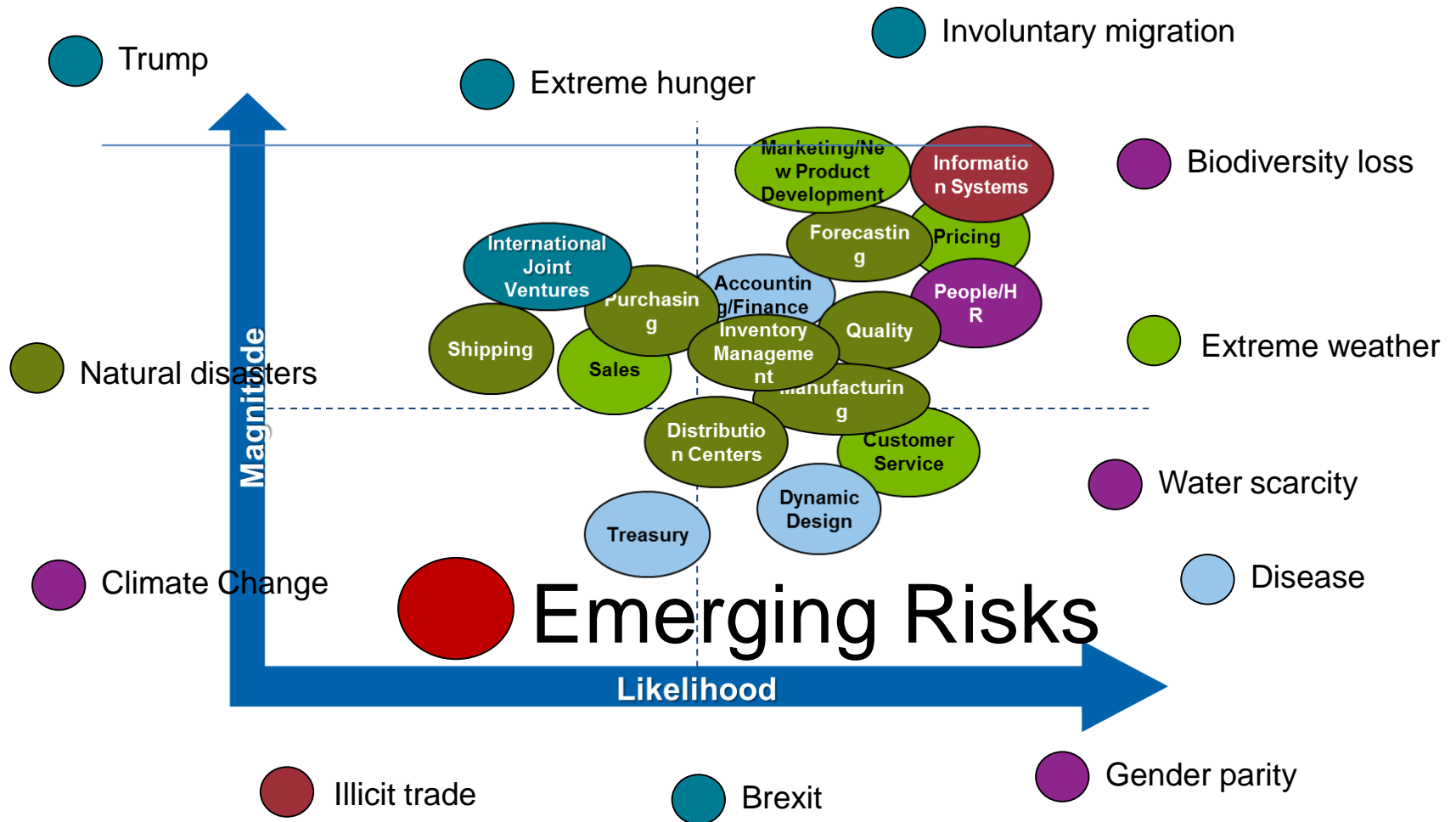


***Building and maintaining a dynamic and sustainable Enterprise Risk Management program is critical***



***Implementing ERM successfully calls for doing two things well: creating content and creating process.***

# Future focused ERM content

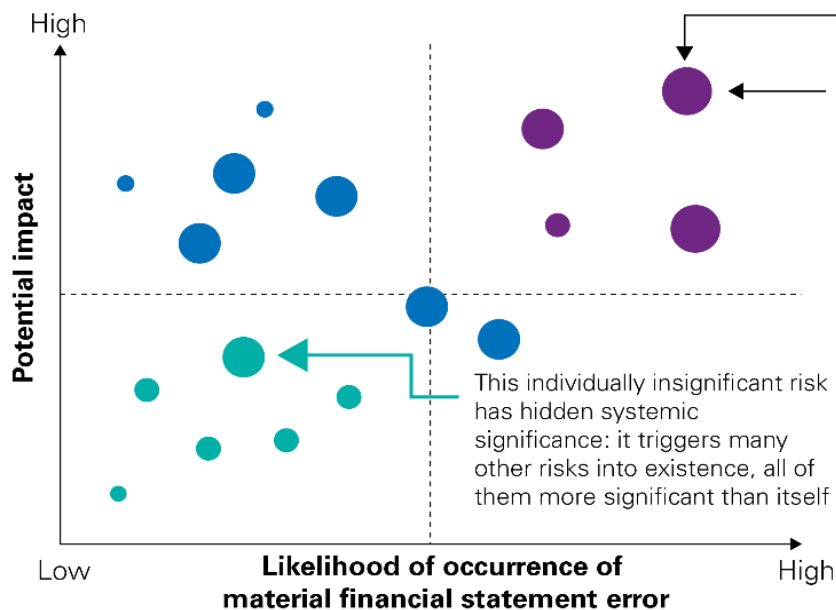


# Future focused ERM content

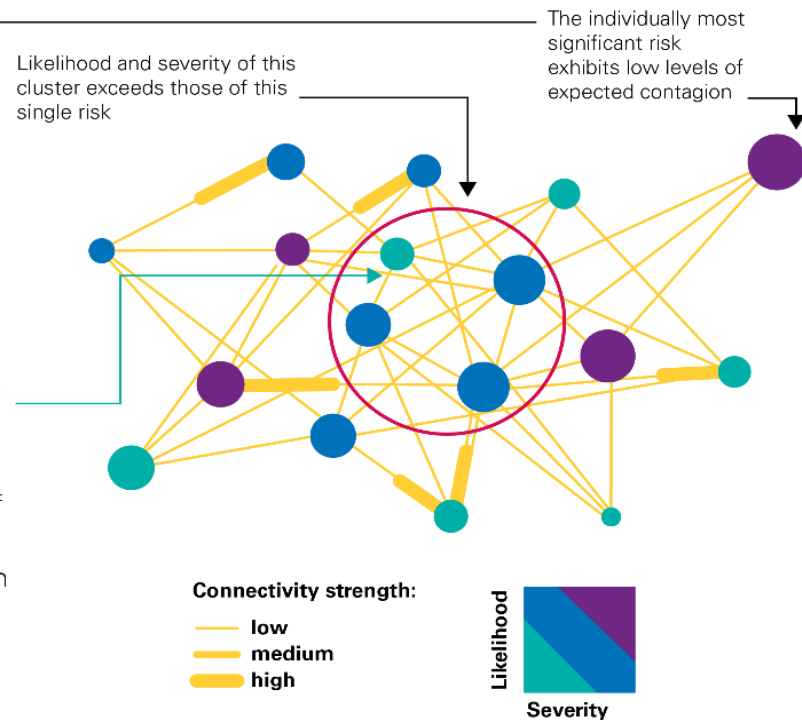


We are required to consider a third, and also a fourth dimension: velocity and contagion. This — together with the consideration of the global trends that are shaping our world — is what DRA does.

## Traditional, two dimensional risk map



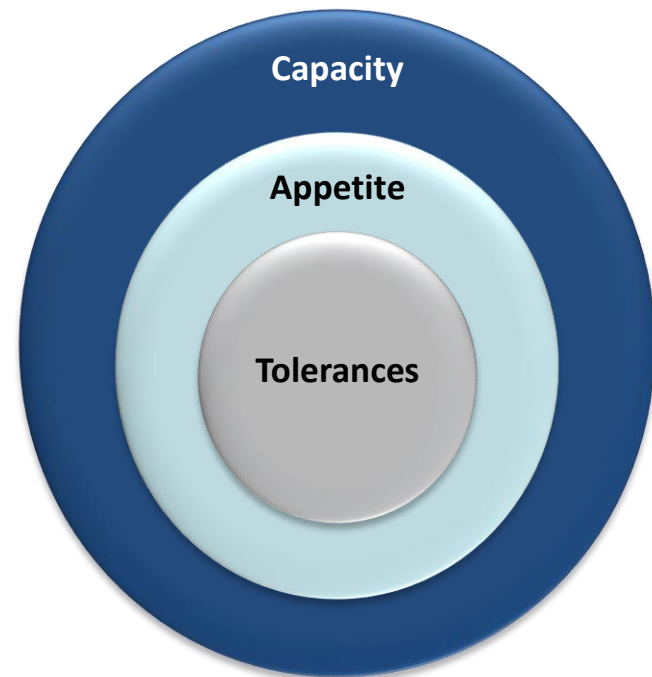
## Inter-connected view



# Single view of risk appetite



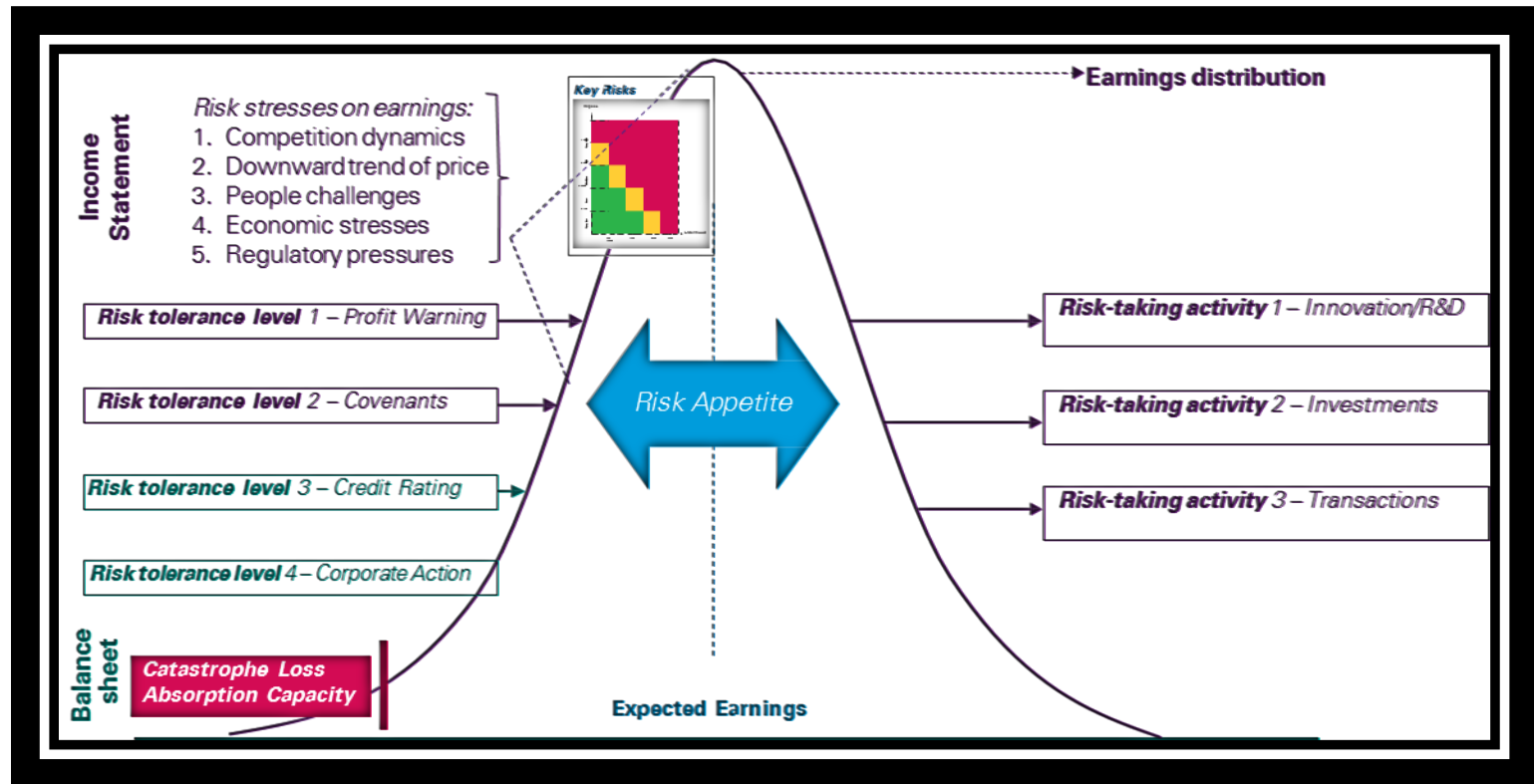
- Establishing a clear risk appetite—the overall level of risk that an entity is willing to take—supports companies in achieving both strategic and financial objectives.
- Many companies still view risk appetite solely as a line not to cross, but leading organizations use it to determine whether they can and should be taking more risk.
- Developing a more clearly defined, board-endorsed risk appetite, and using this to both promote the right risk culture and take a harder look at the “upside” of risk-taking, are front and center of leading edge ERM practices.



# Single view of risk appetite



*Is your analysis data driven??*



*Implementing ERM successfully calls for doing two things well: creating content and creating process.*

# Tailored, proportionate ERM processes



- Many risk management mechanisms often lack a unifying vision and clear objectives—processes have been built without a clear view of what the “desired state” is for ERM in the company.


*Consequently, the potential benefits of ERM as a strategic value tool remain unrealized.*

- Leaders take varying approaches to ERM, depending on the size and needs of the organization and its risk profile.

*An assessment of ERM maturity supports leaders in gaining an appreciation of the gaps in their current efforts and agreeing a way forward that ensures that the ERM program delivers value for the company.*

# ERM maturity levels

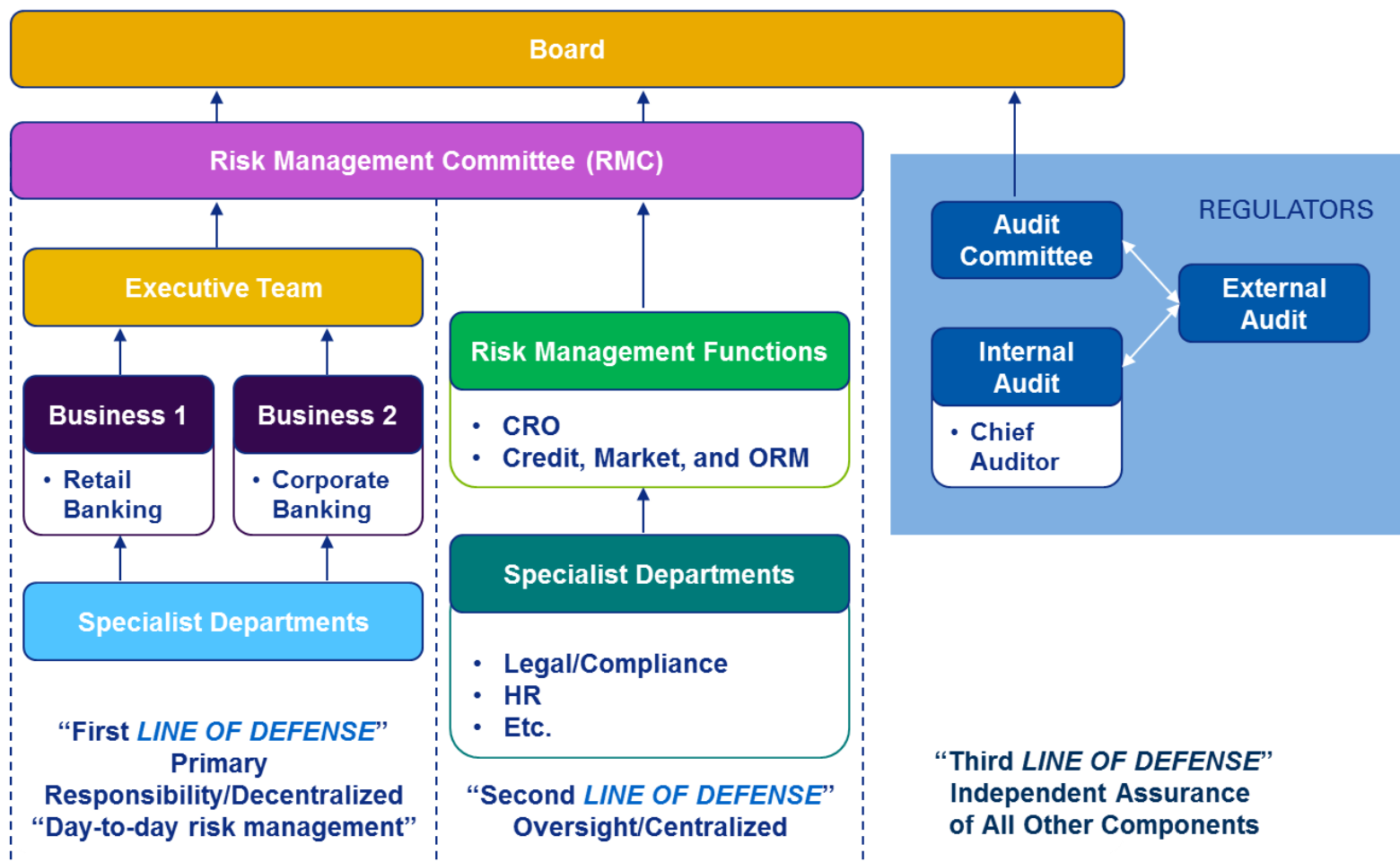


 Risk Strategy & Appetite	 Risk Governance	 Risk Culture	 Risk Assessment & Measurement	 Risk Management & Monitoring	 Risk Reporting & Insights	 Data & Technology
Linkage to Corporate Strategy	Board Oversight & Committee	Knowledge & Understanding	Risk Definition & Taxonomy	Risk Mitigation, Response & Action Plans	Risk Reporting	Data Quality & Governance
Risk Strategy	Company Risk Operating Structure	Belief & Commitment	Risk Identification	Testing, Validation & Management's Assurance	Business/ Operational Requirements	Risk Analytics
Risk Appetite & Tolerance	Risk Guidance	Competencies & Context	Assessment & Prioritization	Monitoring	Board & Senior Management Requirements	Technology Enablement
	Roles & Responsibilities	Action & Determination	Quantitative Methods & Modeling	Risk in Projects/ Initiatives	External Requirements	
	Decision Support		Risk Aggregation, Correlation & Concentration			
			Scenario Analysis & Stress Testing			
			Capital & Performance Management			

# Synergies across the 3LoD



## MODEL FOR RISK ROLES AND RESPONSIBILITIES



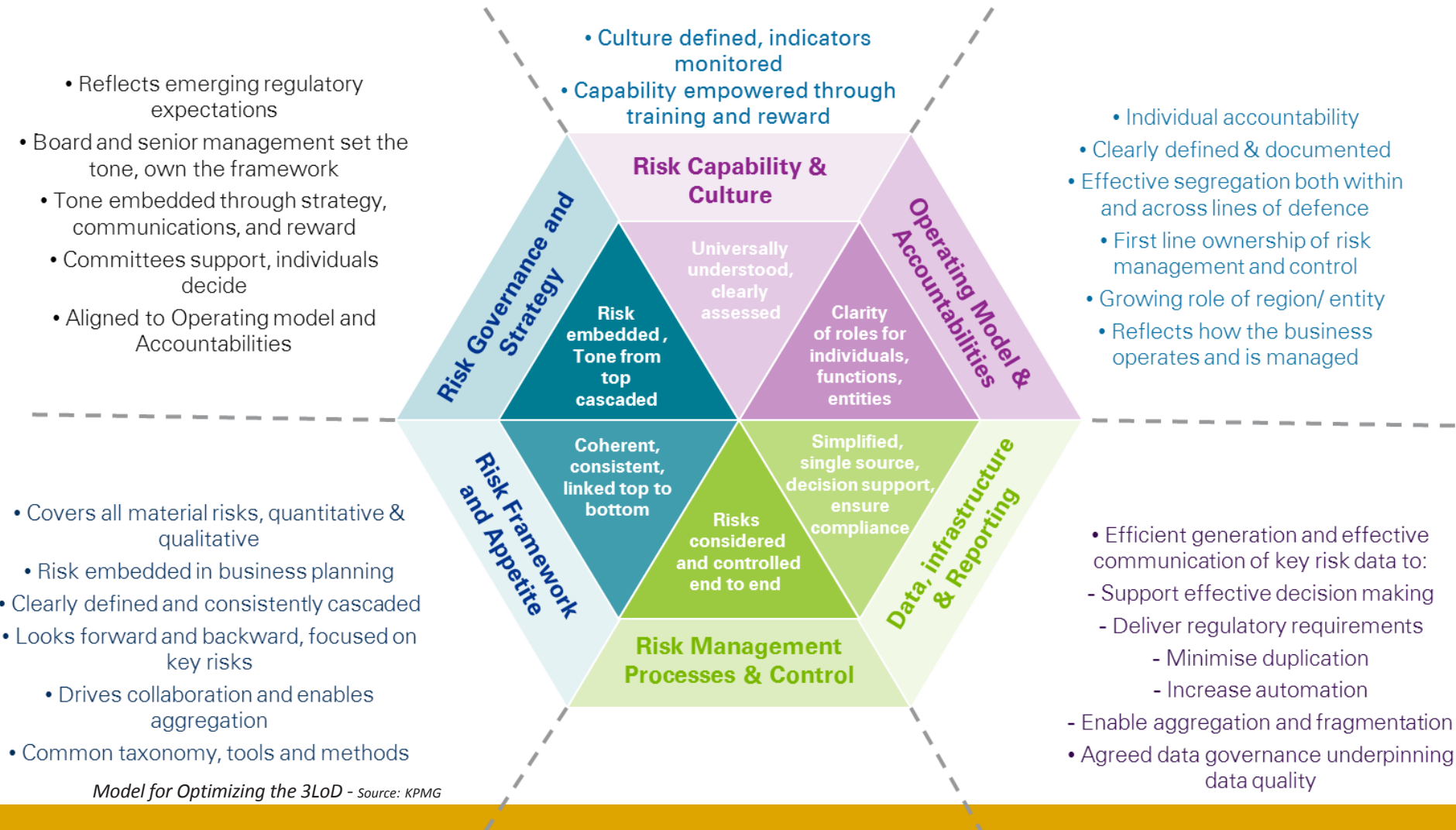
# Why the 3LoD fails



## *Reasons for failure of the three lines of defense*

- General lack of documentation
- Trust rather than formality
- Lack of clear apportionment and delegation
- Insufficient explicit & verifiable oversight
- Insufficient awareness of regulatory expectations

# Optimizing the 3LoD



# Optimizing the 3LoD



## ***Risk Governance and Strategy***

- Reflects emerging regulatory expectations
- Board and senior management set the tone, own the framework
- Tone embedded through strategy, communications, and reward
- Aligned to Operating model and Accountabilities

***Risk embedded , Tone from top cascaded***

# Optimizing the 3LoD



## ***Risk Framework and Appetite***

- Covers all material risks, quantitative & qualitative
- Risk embedded in business planning
- Clearly defined and consistently cascaded
- Looks forward and backward, focused on key risks
- Drives collaboration and enables aggregation
- Common taxonomy, tools and methods

***Coherent, consistent, linked top to bottom***

# Optimizing the 3LoD



## ***Risk Capability & Culture***

- Culture defined, indicators monitored
- Capability empowered through training and reward

***Universally understood, clearly assessed***

# Optimizing the 3LoD



## *Operating Model & Accountabilities*

- Individual accountability
- Clearly defined & documented roles
- Effective segregation both within and across lines of defense
- First line ownership of risk management and control
- Reflects how the business operates and is managed

*Clarity of roles for individuals, functions and entities*

# Optimizing the 3LoD



## ***Data, infrastructure & Reporting***

Efficient generation and effective communication of key risk data to:

- Support effective decision making
- Deliver regulatory requirements
- Minimize duplication
- Increase automation
- Enable aggregation and fragmentation
- Data governance underpinning data quality

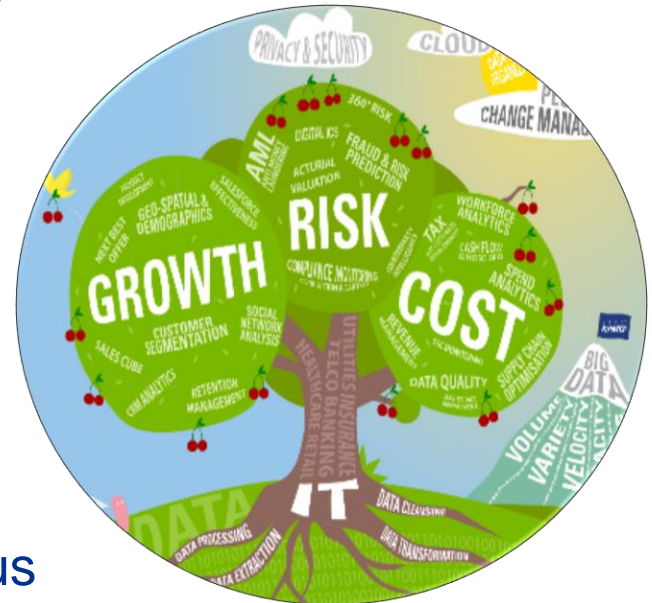
***Simplified, single source, decision support, ensure compliance***

# Summary



To integrate ERM and Strategy and build synergies across the enterprise, organizations need to do the following:

- Develop future focused ERM content
- Have a single view of risk appetite
- Develop tailored, data driven and proportionate ERM processes
- Optimise the 3LoD model across the various assurance levels



# Q&A



Questi

