

Enterprise Risk Management Models



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Agenda

- Risk are bad?
- ERM Current Tools and Techniques.

Risk are bad?

- "Risk in itself is not bad, what is bad is risk that is mismanaged, misunderstood, mispriced, or unintended."

(Suzanne Labarge, CRO, Royal bank of Canada)

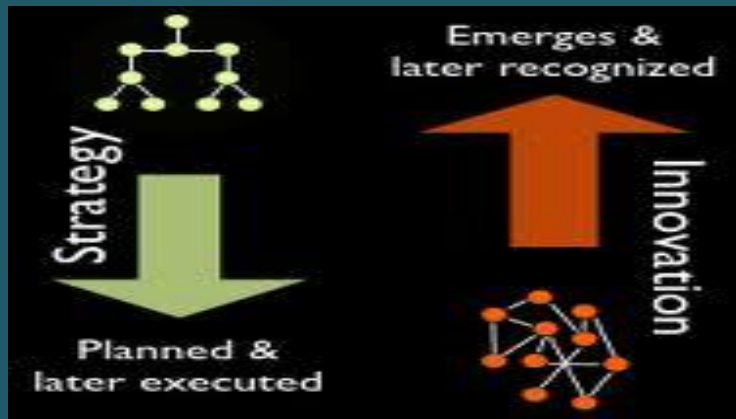
- Risks are opportunities for a firm to incorporate in value creation process.



Risk are bad?

- Enterprise Risk Management (ERM) aligns corporate strategy, process, people, technology, and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces as it create value.

(Whitepaper: Enterprise Risk Management, KPMG)



Risk are bad?

- New era of risk management should cover not only finance and insurable hazards but extending to operation, strategic, reputation, regulatory, and information risks as well.



Risk are bad?

- New era of Risk Management has moved from the traditional risk mitigation and control toward risk portfolio optimization (corporate wide ERM).



ERM Current Tools and Techniques

- Major questions in risk management
 - What types of risk are we facing?
 - How to measure and compare such risks with peers and competitors?
 - What are consequences of assuming such risks on business we are operating?
 - What level of risk appetite firm should take?
 - How to manage such risks?

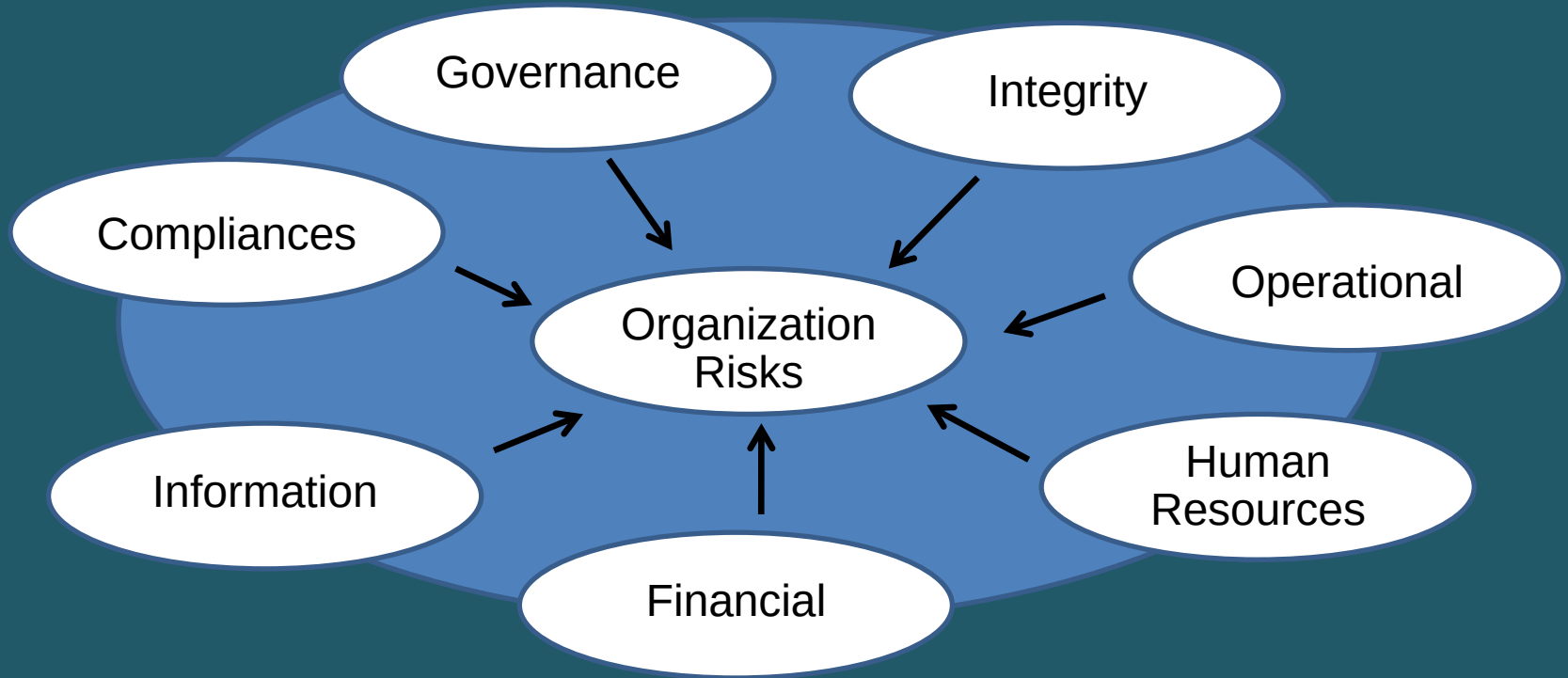
ERM Current Tools and Techniques

- Basic Tools
 - Business Risk Matrix (Risk identification and assessment tool)

		A	B	C	D	E
		Negligible	Minor	Moderate	Significant	Severe
E	Very Likely	Low Med	Medium	Med Hi	High	High
D	Likely	Low	Low Med	Medium	Med Hi	High
C	Possible	Low	Low Med	Medium	Med Hi	Med Hi
B	Unlikely	Low	Low Med	Low Med	Medium	Med Hi
A	Very Unlikely	Low	Low	Low Med	Medium	Medium

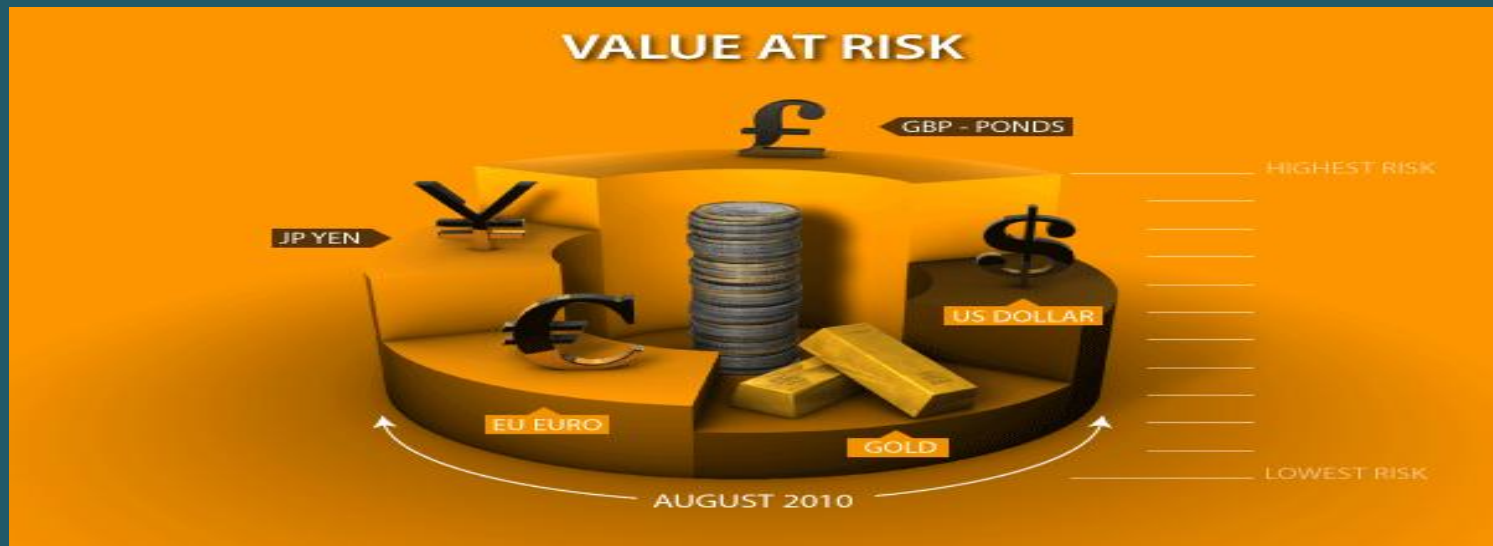
ERM Current Tools and Techniques

- Categorization Tool (Risk prioritize cover beyond traditional financial hazards)



ERM Current Tools and Techniques

- Financial Quantification Tools (Risk quantification and assessment)
 - Value at Risk
 - Options theory
 - Risk-adjusted returns on assets or equity



ERM Current Tools and Techniques

- Having systematically assessed and categorized associated risks, the following steps is to determine which risks should be decentralized or decentralized.
- Centralized risk management is managing risk at “corporate level”, i.e., strategic risk, reputation risk, or risks that required specialized skills that cannot be duplicated at divisions. These risks may be referred to as “Enterprise-wide Risks”.

ERM Current Tools and Techniques

- Decentralized risk management is managing risk at “divisions or processes” or day-to-day risk management basis.

Note: Most risk managers are unable to translate risk information into action steps that can drive business value.