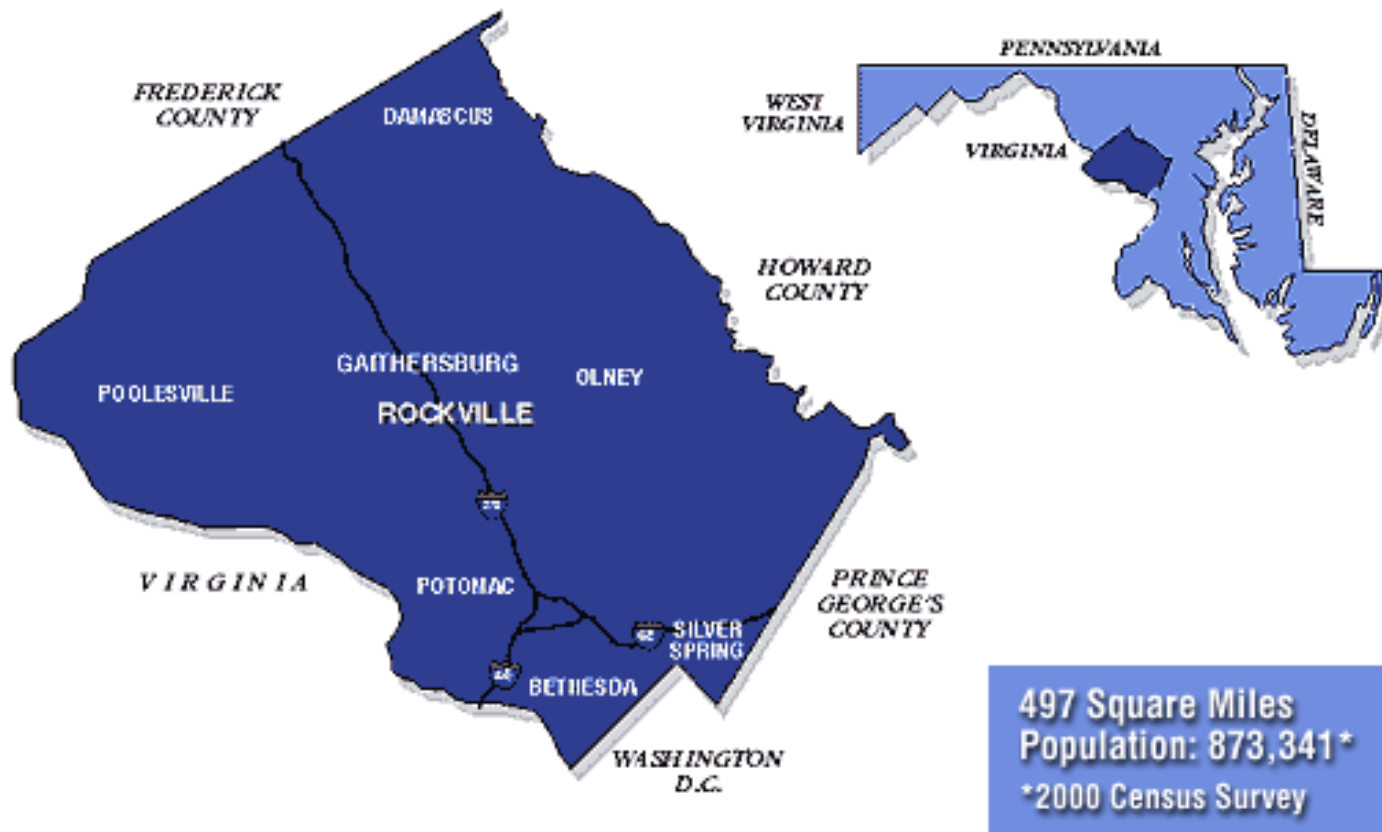


“ERM—From Theory to Practice”

Terry Fleming
2010 RIMS President

Montgomery County, Maryland



About RIMS

- **“Excellence in Risk Management” report**
 - 67% want to adopt more strategic approach
- **Standards and Practices Committee**
 - *Shaping* guidelines for profession, increase profile
 - *Help to make Society* primary source in developing global risk management standards

About RIMS

- **“A Practical Guide to Insurance Broker Compensation and Potential Conflicts of Interest for the Risk Manager”**
 - *Empowers* risk managers to press for greater transparency in relationship with brokers
 - *Regulatory* reform in their own states

Goals As RIMS President

- *Further* efforts to maintain leadership in ERM
- *Continue* to advocate for risk management related legislation and regulation
- *Support* efforts to develop international strategy
- *Support* efforts to encourage students to enter risk management careers
- *Encourage* more peer-to-peer benchmarking, sharing of best practices

Presentation Goal:
Steps to build an
ERM corporate culture

RIMS Risk Maturity Model



Definition of ERM

- *Strategic* business discipline, addresses full spectrum of risks, manages the combined impact of those risks as an interrelated risk portfolio
- *Represents* a significant evolution beyond previous approaches to risk management

Definition of ERM

- *Encompasses* all areas of organizational exposure to risk
- *Prioritizes*, manages exposures as interrelated risk portfolio
- *Evaluates* risk portfolio in context of internal, external environments, systems, circumstances, stakeholders

Definition of ERM

- *Recognizes* individual risks across organization are interrelated
- *Provides* structured process for management of all risks
- *Views* effective management of risk as competitive advantage
- *Seeks* to embed risk management as component in critical decisions

**ERM is not a guarantee all risks
will be eliminated, or company
will not have losses**

**Aligning with long-term goals,
objectives, to embed into
corporate culture**

**Mission, goals and objectives *must*
be clearly and simply communicated**

ERM Principles

- **Identify**
- **Assess**
- **Evaluate**
- **Mitigate and/or exploit opportunities**
- **Monitor**

Identify

Basic principle

Gather list of risks that matter to senior leadership, board of directors, shareholders

Identify

- *What* could go wrong?
- *What* must go right for us to succeed?
- *Where* are we vulnerable?
- *Which* assets do we need to protect?
- *Do we* have liquid assets or assets with alternative uses?
- *How* could our operations be disrupted?

Identify

- *How* do we know whether or not we are achieving objectives?
- *What* do we spend the most money on?
- *How* do we bill and collect our revenues?
- *Which* activities are regulated?
- *What* are our greatest legal exposures?

Assess

- *Process* of determining which risks are more critical than others
- *Determining* how individual risks might be related to one another

Assess

- **Rank the risks:**
 - *Gains* buy-in on which risks are most important
 - *Requires* consideration of potential impact/consequences, probability/likelihood of event occurring

Assess

9 - 10
Major



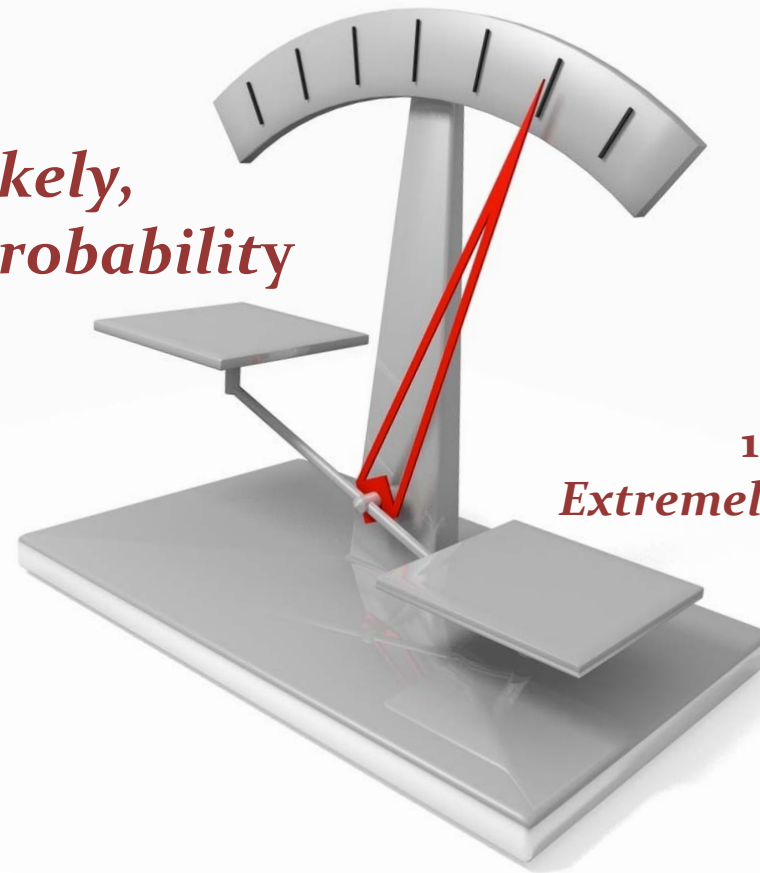
Rank to determine
severity of risk

1 - 2
Insignificant

Assess

Rating for “risk likelihood”

9-10
*Highly likely,
at least 90% probability*



1-2
Extremely unlikely

Evaluate

- **Decide:**
 - *How* to balance between potential good and bad outcomes
 - *Which risks* need to be addressed, to reduce or mitigate exposure

Mitigate and/or exploit opportunities

- **Develop steps to:**
 - *Reduce* risks, uncertainties
 - *Increase* potential benefits

Monitor

- **How do you know whether your risk management process has been effective?**
 - *By monitoring* timeliness, effectiveness of the steps to reduce risks, boost gains

Monitor

- **If not monitored, mitigation might lose effectiveness over time:**
 - *Mitigation* activity might slow down or decrease over time
 - *Nature* of risk might change that mitigation is no longer effective

Benefits of Creating an ERM Culture

- *Boards* identifying, mitigating risks in other ways; ERM is the choice
- *Regulators* looking at boards, risk management in different way than prior to financial crisis
- *Fear* of onerous legislative initiatives providing impetus to demonstrate capable of implementing controls

Benefits of Creating an ERM Culture

- *Creates* risk-aware culture
- *Identifies*, manages cross-enterprise risk
- *Provides* integrated management reporting
- *Focuses* on most important risks
- *Enhances* risk response decision

How is risk management changing?

- **Over past 30 years:**
 - *Transition* from insurance buyer to operational risk manager
 - *Increase* in interdepartmental collaboration

How is risk management changing?

- **Today, ERM can play role to:**
 - *Support* company's objectives, strategic goals
 - *Improve* earnings and cash flow
 - *Manage* growth
 - *Capture* opportunities
 - *Allocate* capital, resources appropriately

Implementing ERM main goal

Identify major risks across entire organization, assure they are appropriately assessed and managed





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FORWARD
THINK
RISK

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**Domo Arigato. Gozaimasu.
Shigatsu-ni Boston de aimashou.**