

By the time you hear the thunder, it's too late to build the ark (Anonymous)

Risk Acceptance to Risk Management – Leadership's Shift of a Risk Tolerance perspective in a global economy

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- ❑ Over 20 years global experience

- ❑ Top Ten Boardroom Topics
- ❑ Enterprise Risk Management Definitions and Guidelines
- ❑ Framework Components and Characteristics
- ❑ Management Responsibilities
- ❑ Q&A

- Fiscal and economic uncertainty
- Mobile and social media
- Cybersecurity
- Reputation risk
- Executive compensation
- Health care reform
- Board composition
- Need and ability to retain key talent
- Increasing regulation
- Information overload

(Atkin Gump Strauss Hauer and Feld LLP 12/2/12)



ERM is a strategic business discipline that supports the achievement of an organization’s objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio.

ERM represents a significant evolution beyond previous approaches to risk management in that it:

Definitions and Guidelines

What is Enterprise Risk Management (“ERM”)?



1. Encompasses all areas of organizational exposure to risk (financial, operational, reporting, compliance, governance, strategic, reputational, etc.);
2. Prioritizes and manages those exposures as an interrelated risk portfolio rather than as individual “silos”;
3. Evaluates the risk portfolio in the context of all significant internal and external environments, systems, circumstances, and stakeholders;
4. Recognizes that individual risks across the organization are interrelated and can create a combined exposure that differs from the sum of the individual risks;
5. Provides a structured process for the management of all risks, whether those risks are primarily quantitative or qualitative in nature;
6. Views the effective management of risk as a competitive advantage; and
7. Seeks to embed risk management as a component in all critical decisions throughout the organization.

<https://www.rims.org/resources/ERM/Pages/WhatisERM.aspx>

Framework Components and Characteristics

Primary driver is the perception of *risk* and its impact on *culture*

- ❑ Risk profile – comprised of risk attitude, appetite and tolerance levels
- ❑ Risk attitude – organization’s approach to assess and eventually pursue, retain, take or turn away from risk
- ❑ Risk appetite – amount and type of risk that an organization is willing to pursue or retain
- ❑ Risk tolerance – organization’s or stakeholder’s readiness to bear the risk after risk treatment in order to achieve its objectives.
- ❑ Influenced by legal and regulatory requirements



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Framework Components and Characteristics

- Identify Risks in relation to the business drivers
- Evaluate Risks – tendency to underestimate
- Prioritize Risks
- Collaborate on mitigations
- Monitor and adjust



Framework Components and Characteristics

What to do with risks?

- **Avoidance:** exiting the activities giving rise to risk.
- **Reduction:** taking action to reduce the likelihood or impact related to the risk.
- **Alternative Actions:** deciding and considering other feasible steps to minimize risks.
- **Share or Insure:** transferring or sharing a portion of the risk, to finance it.
- **Accept:** no action is taken, due to a cost/benefit decision



Framework Components and Characteristics

Components:

- Ethics and Integrity
- Mission, Vision and Strategy
- Governance structures and Processes
- Operational, Financial, Risk Management Performance
- Executive Leadership
- Stakeholder Expectations
- Self Assessment

Characteristics:

- Ownership
- Coordination
- Relevant
- Clear and understandable
- Concise
- Easily accessible
- Laws and regulations
- Current



Management Responsibilities



- Planning: Management develops strategic, financial, operational, and other plans to meet goals and objectives defined in the strategy.
- Operations: Management executes plans through operations related to production, sales, marketing, distribution, risk management, human resources, finance, and other functions across the organization.
- Reporting: Management reports operating results through financial reporting and other reports specified by Board, Executives, regulatory authorities or securities exchange listing requirements.
- Compliance: Management designs and operates internal controls including methods and tools for conducting operations in compliance with Board or Executive direction, legal and regulatory requirements.

Framework Components and Characteristics

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- Establish/adopt a corporate philosophy or mission
- Identify risk profile (risk attitude, appetite, and tolerance levels)
- Design an assurance methodology for ethical behavior and compliance with laws and regulations
- Design corporate governance structures, policies, and processes
- Design monitoring processes (Board and Management composition, allocation of accountability and responsibilities)
- Identify and assign stakeholder management and communication activities
- Implement a Board or Management level self-assessment process



Questions?

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