



ERM – adding value to business

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ERM – being functional vs. being bureaucratic

Enterprise risk management is 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 risk to be within its **risk appetite**, to provide reasonable assurance regarding the achievement of **entity objectives**.

Source: COSO, Enterprise Risk Management — Integrated Framework, September 2004

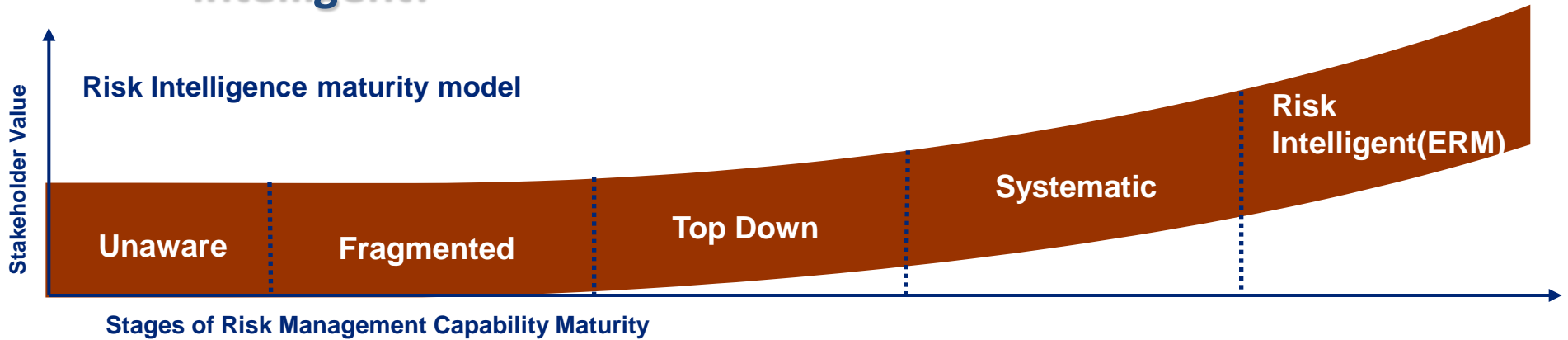


The case for ERM only became stronger than ever before post the 2008 financial crisis!





ERM paves the way for organizations' to become risk intelligent!

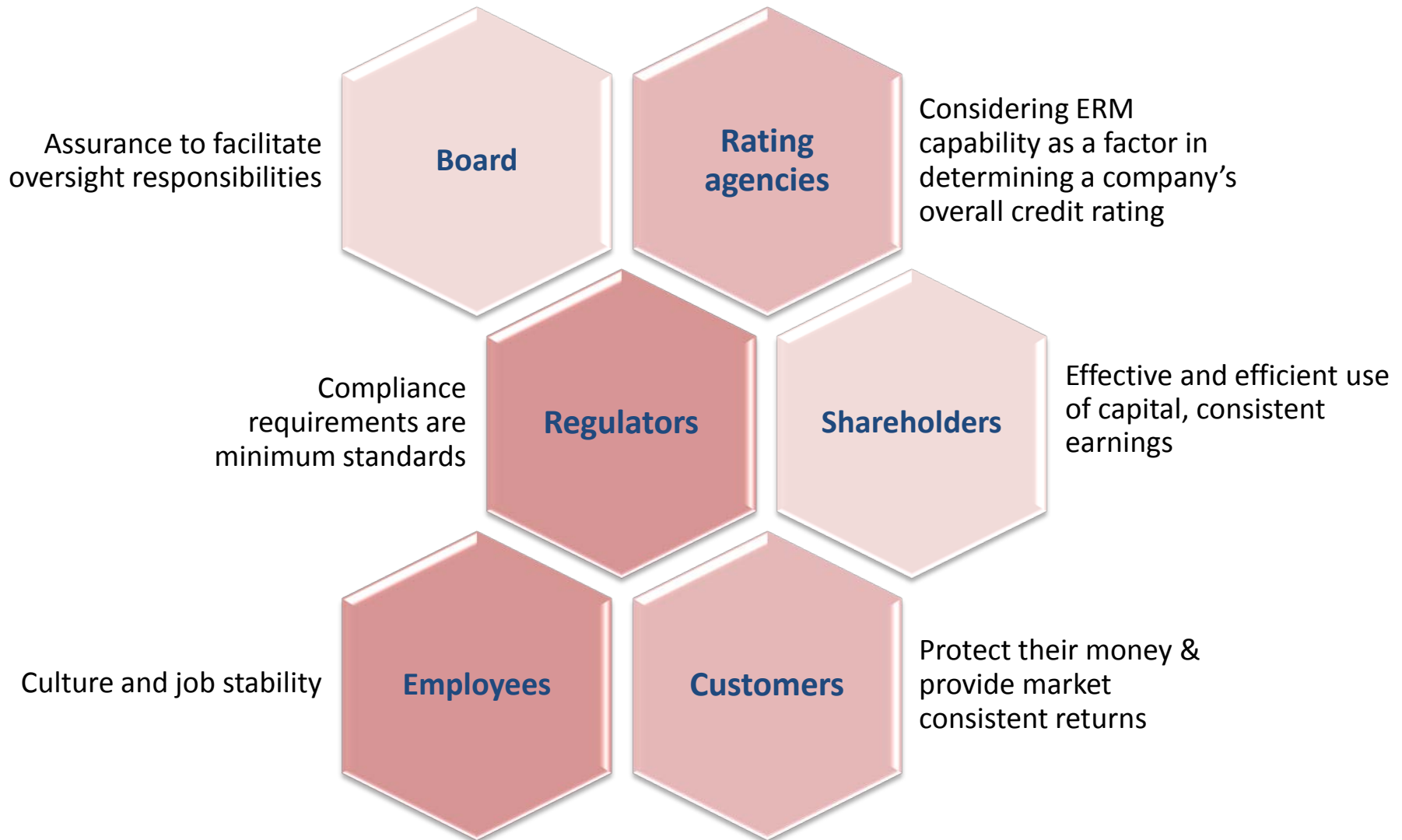


Typical Symptoms				
Unaware	Fragmented	Top Down	Systematic	Risk Intelligent
<ul style="list-style-type: none"> • Ad hoc/chaotic • Depends primarily on individual heroics, capabilities, and verbal wisdom 	<ul style="list-style-type: none"> • Independent risk management activities • Limited focus on the linkage between risks • Limited alignment of risk to strategies • Disparate monitoring & reporting functions 	<ul style="list-style-type: none"> • Common framework, program statement, policy • Routine risk assessments • Communication of top strategic risks to the Board • Executive/Steering Committee • Knowledge sharing across risk functions • Awareness activities • Formal risk consulting • Dedicated team 	<ul style="list-style-type: none"> • Coordinated risk management activities across silos • Risk appetite is fully defined • Enterprise-wide risk monitoring, measuring, and reporting • Technology implementation • Contingency plans and escalation procedures • Risk management training 	<ul style="list-style-type: none"> • Risk discussion is embedded in strategic planning, capital allocation, product development, etc. • Early warning risk indicators used • Linkage to performance measures and incentives • Risk modeling/scenarios • Industry benchmarking used regularly

Source: Deloitte

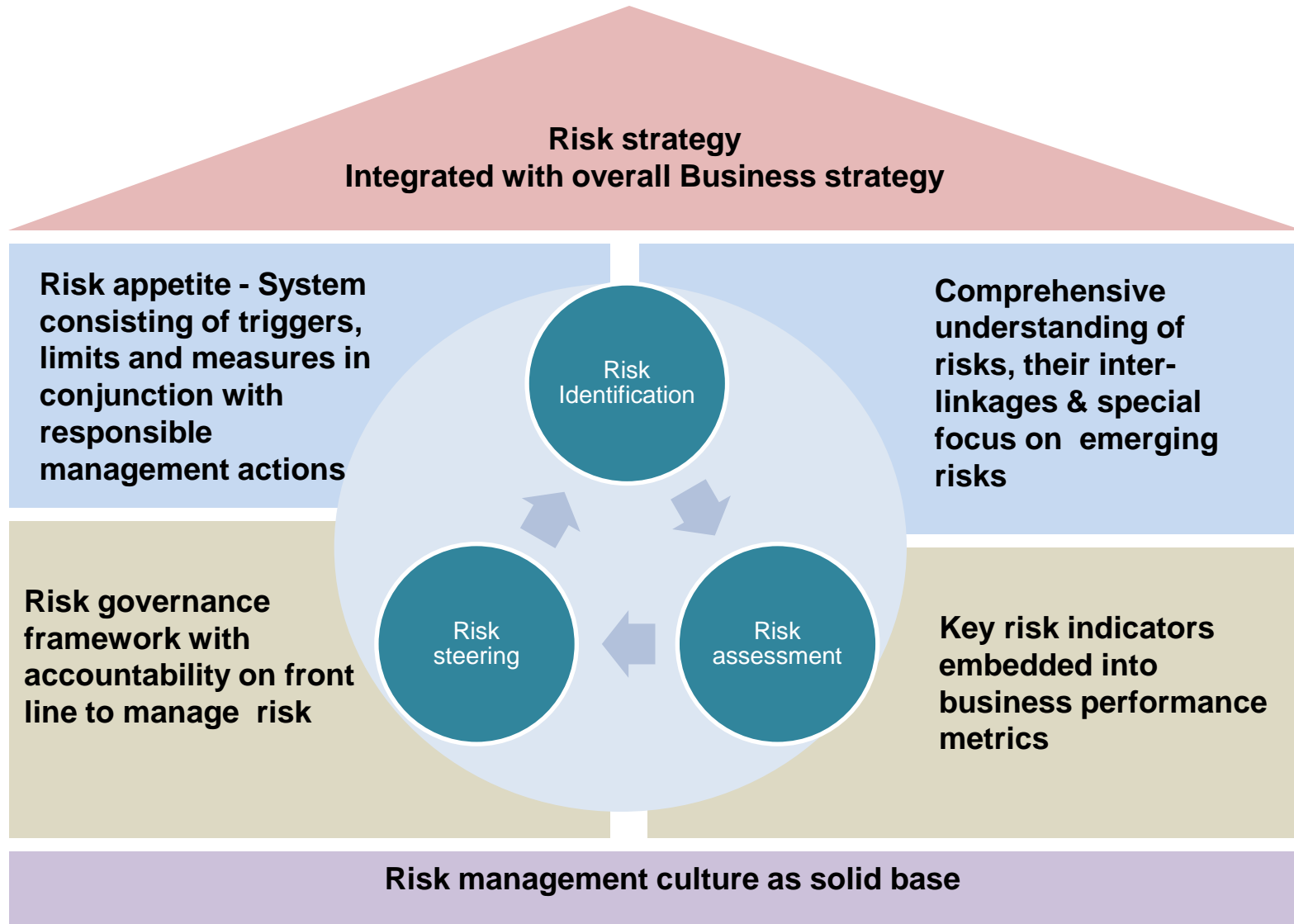


ERM provides value to multiple stakeholders





One needs to have all the building blocks in place for a robust ERM framework





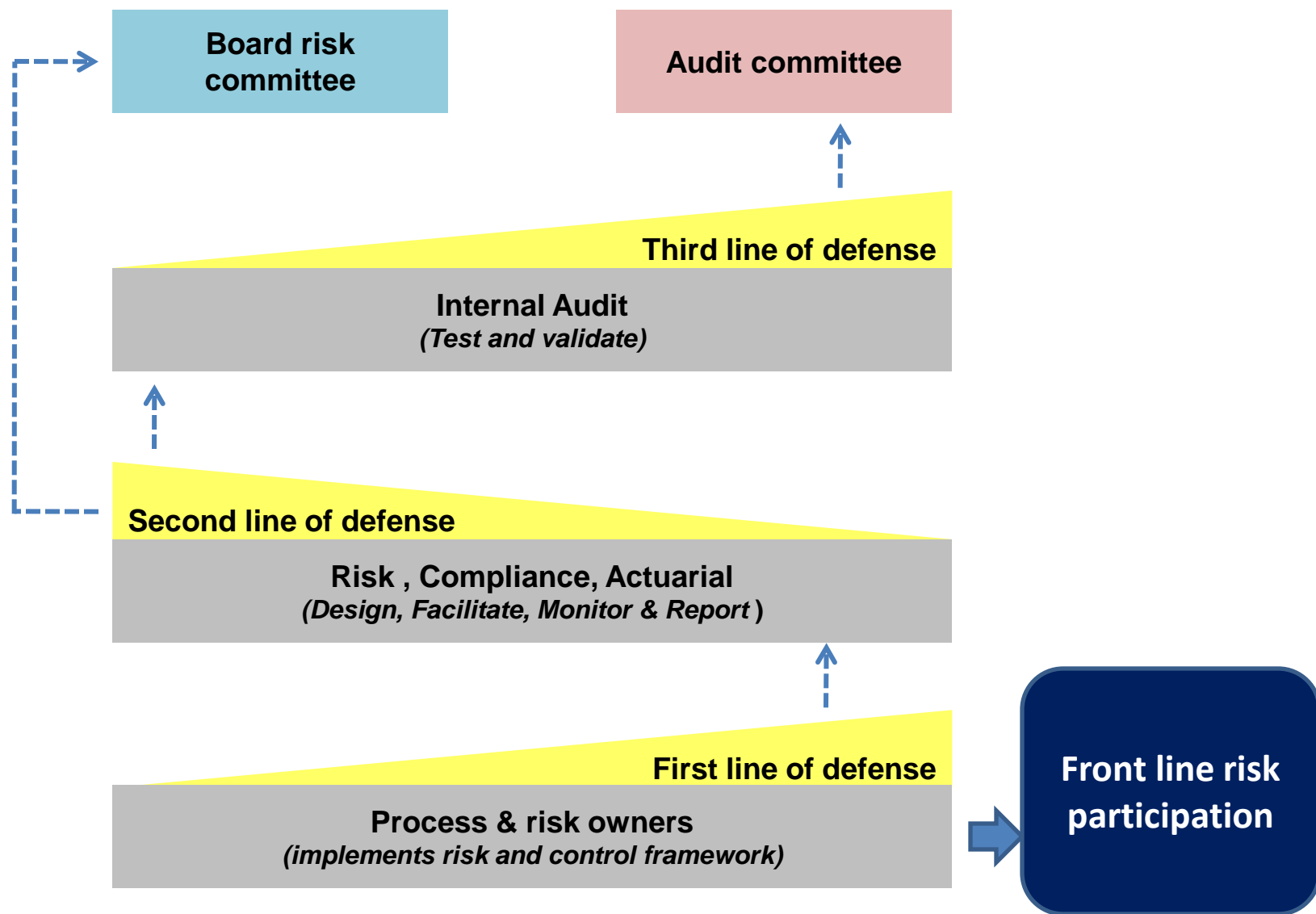
Any ERM framework cannot be successful unless you have built an organizational culture that values risk management!

“Culture is one of the most precious things that a company has, so you must work harder on it than anything else”.

- Herbert Kelleher, Founder and former CEO South West Airlines.

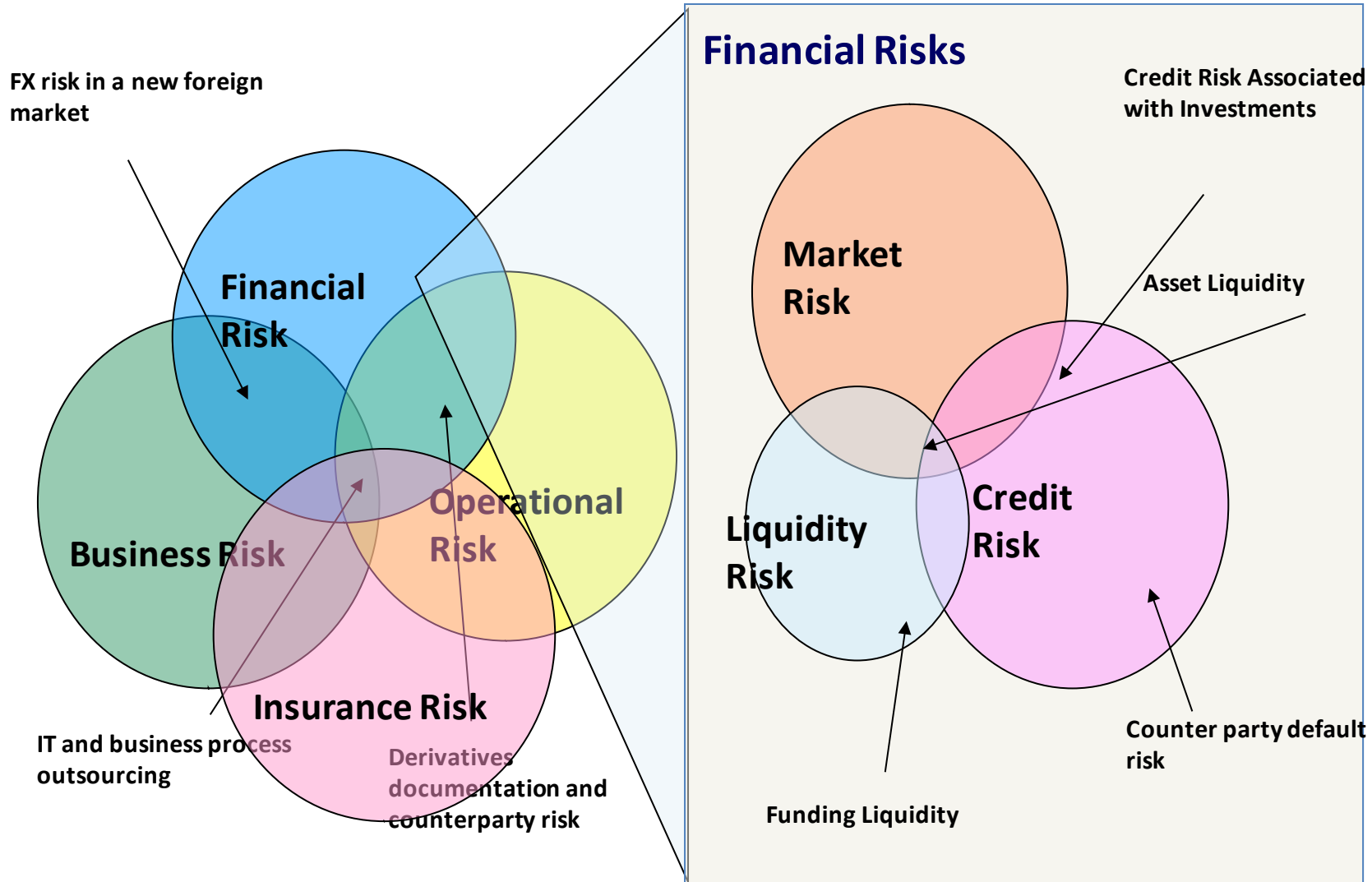


ERM advocates establishing the 3 lines of defense governance framework that helps establish ownership of risk with business



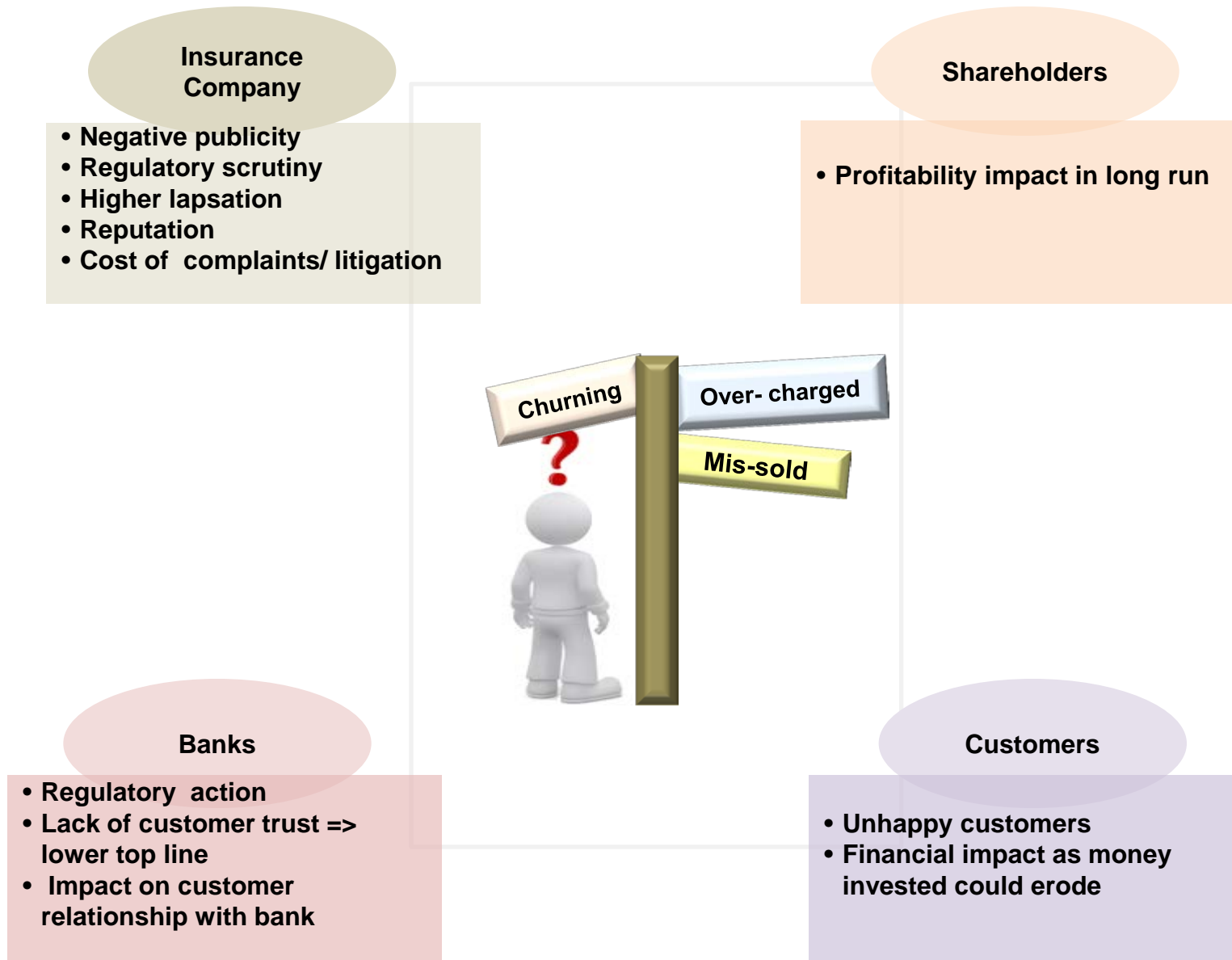


Risks faced by companies are highly interdependent & ERM helps understand these inter linkages better...



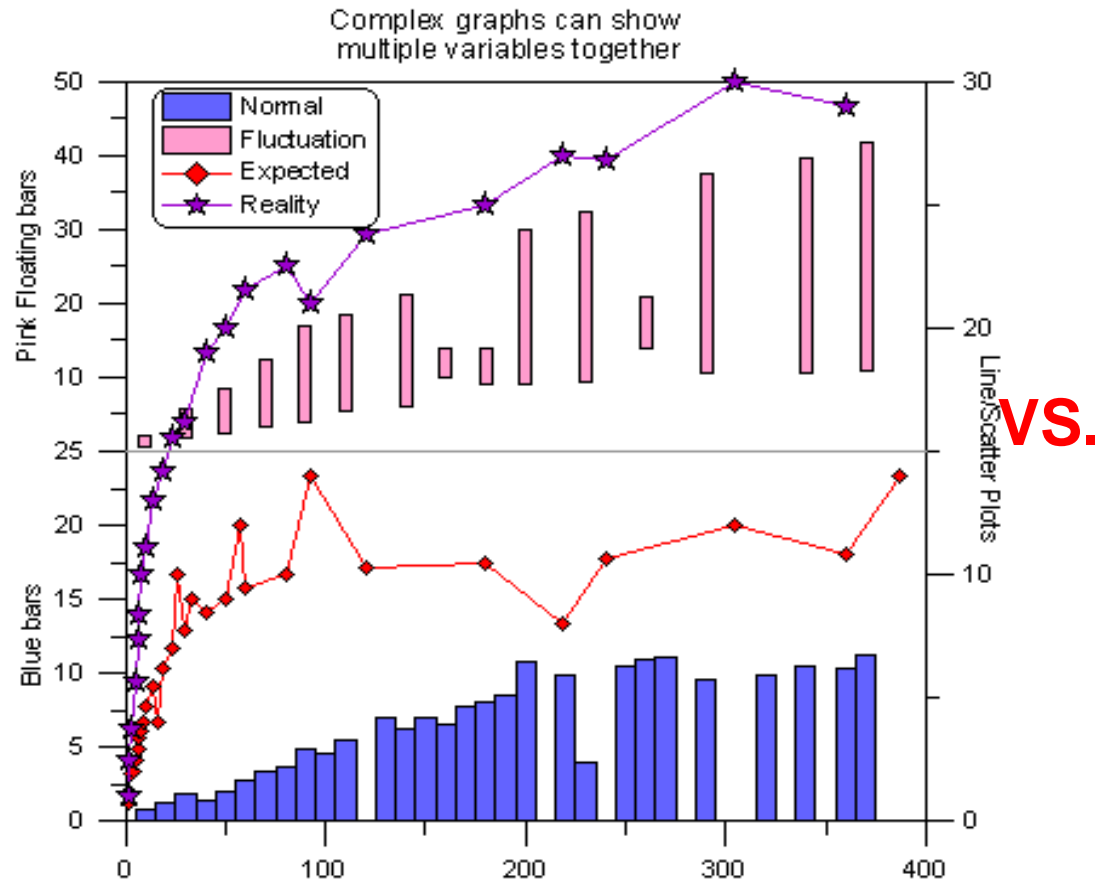


Lets look at an example...





The assessment of risks and their presentation must be easy to comprehend and facilitate management decision making...

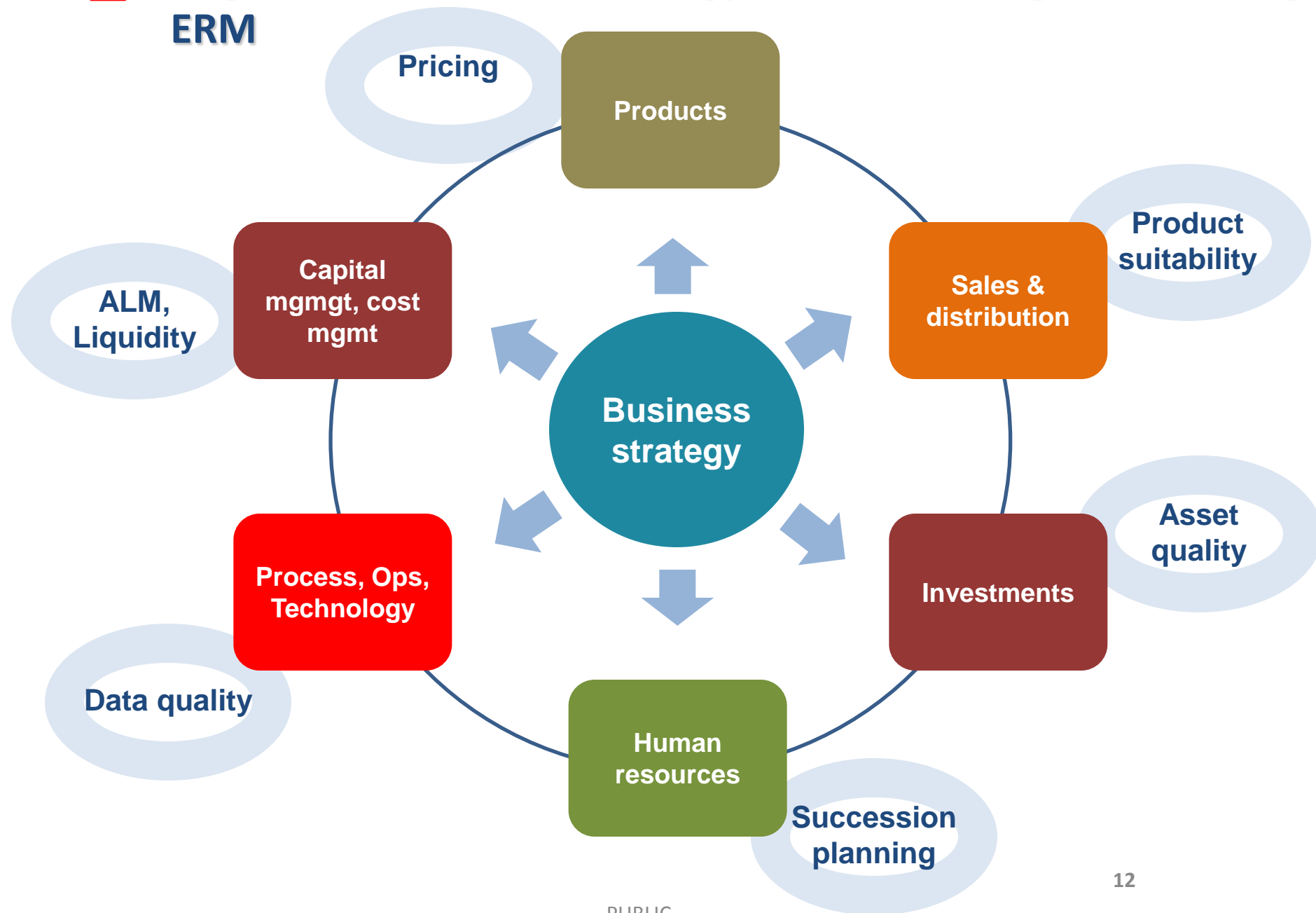


	Current	Projection
Financial Management/ AOP Performance	W	W
Capital & ALM		
Capital	S	S
Liquidity Risk	S	S
Model Risk	S	S
Insurance		
Mortality/ Claims experience	S	S
Lapses/ persistency risk	W	W
Credit Risk		
Investment credit	S	S
Reinsurance counterparty	S	S
Market Risk	S	S
Commentary: Red & Amber rated		

The above are illustrative examples

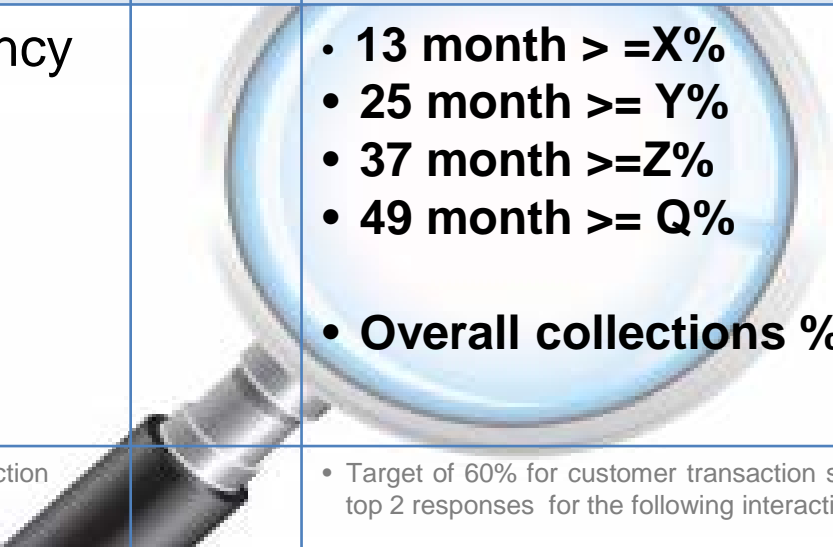
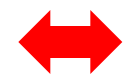






Alignment of business strategy with risk management through ERM



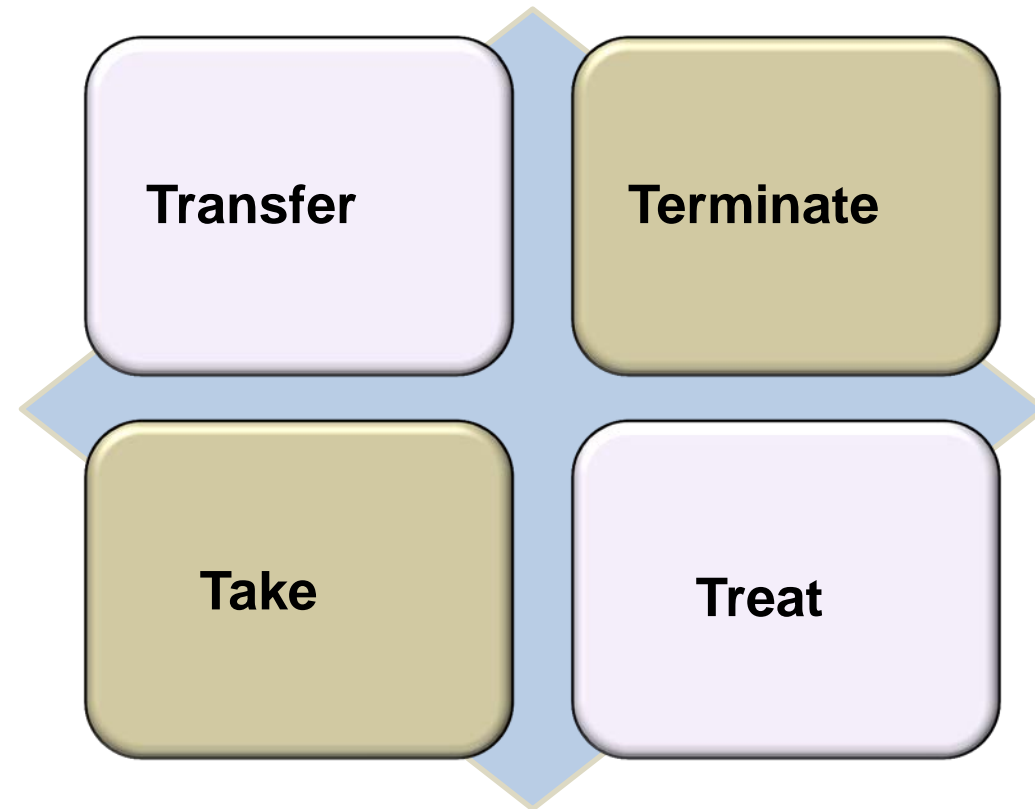
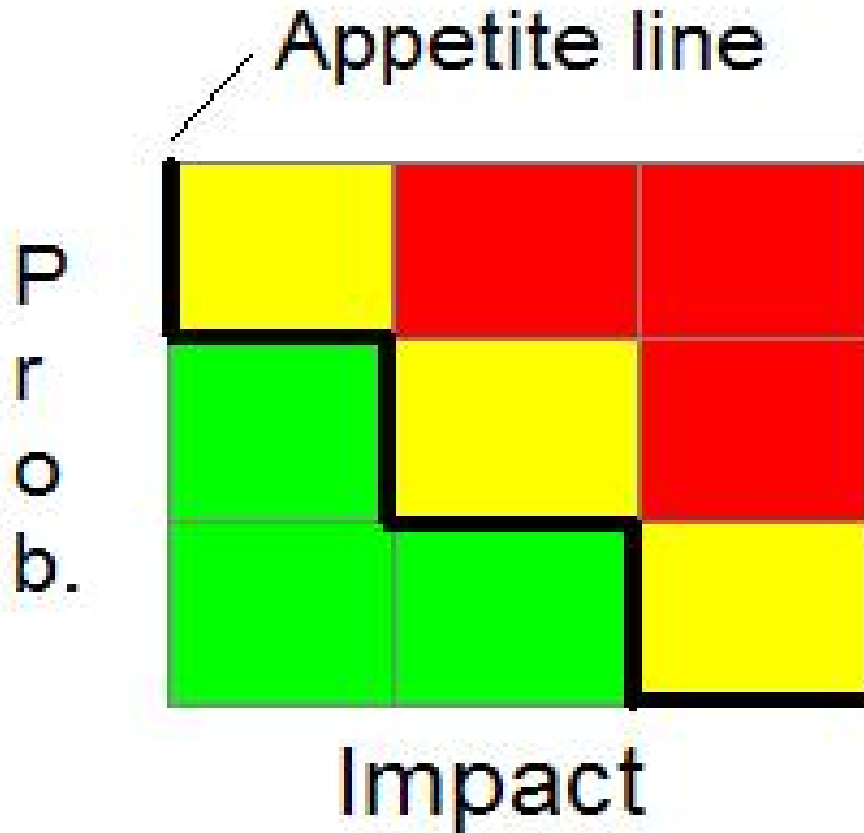


Linking key risk indicators with business performance metrics & integrating the two can help unlock value for the business...

Business performance metrics			
Key Result Area	Owner	Key Performance Indicator/ Targets	Vs plan
Persistency		 <ul style="list-style-type: none">• 13 month $\geq X\%$• 25 month $\geq Y\%$• 37 month $\geq Z\%$• 49 month $\geq Q\%$ • Overall collections %	
Customer Satisfaction		<ul style="list-style-type: none">• Target of 60% for customer transaction survey scores of the top 2 responses for the following interaction points	
Propensity to use self-service channels for policy servicing transactions		<ul style="list-style-type: none">• % of servicing transactions through online, and self-service channels / OTC channels : X%	
Propensity to use automated payment		<ul style="list-style-type: none">• % of standing instruction penetration – channel-wise differentiation	
Reputation		<ul style="list-style-type: none">• Adverse media and regulator comment within management control limits	



ERM requires organizations' to establish a risk appetite to guide business decision making



Business strategy must be aligned with the risk appetite

Round up



- Risk culture plays a vital role
- Good & effective governance is crucial-Frontline has a key role to play
- Risks not to be looked in silos, important to understand the inter-linkages
- The real value add will come by aligning risk management strategies with business objectives
- Risk appetite helps guide business decision making



Everyone is a Risk Manager



Does one need a crystal ball to manage risk?



Video>>>



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Thank you