

Risk Management

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Lecture 7

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تسعى لتكون الكيان الأول الذي يتبنى مبدأ المجتمع التعليمي
التعاوني ويقدم العلم مقابل العمل للتنمية وبناء المجتمعات.

MGM 510

Risk Management



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Topics to Cover in Week 7

- Enterprise Risk Management
- Features of Enterprise Risk Management
- Definition of enterprise risk management
- Benefits of enterprise risk management
- ERM and business continuity
- Importance of Resilience



- the term enterprise or enterprise-wide risk management (ERM) that is now the most widely used and generally accepted terminology for this broader approach.
- The fundamental idea behind the ERM approach is to move away from the practice of risk management as the separate management of individual risks.



- ERM takes a unifyingتوحيد, broader and more integrated approach.
- The ERM approach means that an organization looks at all the risks that it faces across all of the operations that it undertakes.



- ERM is concerned with the management of the risks that can impact the objectives, key dependencies or core processes of the organization
- ERM is concerned with the management of opportunities, as well as the management of control and hazard risks.



- With the ERM approach, the relationship between risks is identified by the fact that two or more risks can have an impact on the same activity or objective.
- The ERM approach is based on looking at the objective, key dependency or core process and evaluating all of the risks that could impact the item being evaluated.



- Organizations practice risk management in a number of different ways.
- However, there are many common features to most of these approaches.



- Following section gives an overview of the features of enterprise risk management as a comparison to the silo-based approach whereby risk management tools and techniques are applied to different types of risks independently.



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Features of Enterprise Risk Management

- 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' of risk.
- 3 Evaluates the risk portfolio in the context of all significant internal and external contexts, 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.

يشمل جميع مجالات التعرض للمخاطر (المالية ، التشغيلية ، وإعداد التقارير ، والامتثال ، والحوكمة ، والاستراتيجية ، والسمعة ، وما إلى ذلك).

تحديد أولويات وإدارة هذه التعرضات كمحفظة مخاطر مترابطة بدلا من "صوامع" فردية للمخاطر.

يقيم محفظة المخاطر في سياق جميع المخاطر الداخلية الهامة والسياقات الخارجية والنظم والظروف وأصحاب المصلحة.

يدرك أن المخاطر الفردية في جميع أنحاء المنظمة مترابطة ويمكن أن يخلق تعرضا مشتركا يختلف عن مجموع الفرد المخاطر



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Features of Enterprise Risk Management

- 5 Provides a structured process for the management of all risks, whether those risks are primarily quantitative or qualitative in nature.
- 6 Seeks to embed risk management as a component in all critical decisions throughout the organization.
- 7 Provides a means for the organization to identify the risks that it is willing to take in order to achieve strategic objectives.
- 8 Constructs a means of communicating on risk issues, so that there is a common understanding of the risks faced by the organization, and their importance.

يوفر عملية منظمة لإدارة جميع المخاطر ، سواء وهذه المخاطر ذات طابع كمي أو نوعي في المقام الأول.

يسعى إلى تضمين إدارة المخاطر كعنصر في جميع القرارات الحاسمة في جميع أنحاء المنظمة.

يوفر وسيلة للمنظمة لتحديد المخاطر التي ترغب في القيام بها تأخذ من أجل تحقيق الأهداف الاستراتيجية.

يبني وسيلة للتواصل بشأن قضايا المخاطر ، بحيث يكون هناك الفهم المشترك للمخاطر التي تواجهها المنظمة، والمخاطر التي تواجهها أهميه.



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Features of Enterprise Risk Management

- 9 Supports the activities of internal audit by providing a structure for the provision of assurance to the board and audit committee.
- 10 Views the effective management of risk as a competitive advantage that contributes to the achievement of business and strategic objectives.

يدعم أنشطة التدقيق الداخلي من خلال توفير هيكل لتقديم ضمانات إلى مجلس الإدارة ولجنة التدقيق

ينظر إلى الإدارة الفعالة للمخاطر على أنها ميزة تنافسية يساهم في تحقيق الأهداف التجارية والاستراتيجية.



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Definition of enterprise risk management

RIMS

Enterprise risk management 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.



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Definition of enterprise risk management

COSO

Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity, manage risk to be within its risk appetite and to provide reasonable assurance regarding the achievement of entity objectives.



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Definition of enterprise risk management

IIA (Institute of Internal Auditors)

A rigorous and co-ordinated approach to assessing and responding to all risks that affect the achievement of an organization's strategic and financial objectives.

HM Treasury

All the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them and monitoring and reviewing progress.



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Benefits of enterprise risk management

Financial

- Reduced cost of funding and capital
- Better control of CapEx approvals
- Increased profitability for organization
- Accurate financial risk reporting
- Enhanced corporate governance



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Benefits of enterprise risk management

Infrastructure

- Efficiency and competitive advantage
- Achievement of the state of no disruption
- Improved supplier and staff morale
- Targeted risk and cost reduction
- Reduced operating costs



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Benefits of enterprise risk management

Reputational

- Regulators satisfied
- Improved utilization of company brand
- Enhanced shareholder value
- Good reputation and publicity
- Improved perception of organization



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Benefits of enterprise risk management

Marketplace

- Commercial opportunities maximized
- Better marketplace presence
- Increased customer spend (and satisfaction)
- Higher ratio of business successes
- Lower ratio of business disasters



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- There is an important relationship between enterprise risk management (ERM) and business continuity management (BCM).
- The risk assessment that is required as part of the risk management process and the business impact analysis that is the basis of business continuity planning (BCP) are closely related.



- The normal approach to risk management is to evaluate objectives and identify the individual risks that could impact these objectives.
- The output from a business impact analysis is the identification of the critical activities that must be maintained for the organization to continue to function.



- Based on the definition of ERM set out above and the fact that it should be applied to the evaluation of core processes, it can be seen that the ERM approach and the business impact analysis approach are very similar, because both approaches are based on the identification of the key dependencies and functions that must be in place for the continuity and success of the business.



- Risk management in the energy and finance sectors has become a well-developed specialist branch of the discipline. In the finance sector, the objective of an ERM initiative is to enhance shareholder value by:
 - improving capital and efficiency by providing an objective basis for allocating resources and exploiting natural hedges التحوطات and portfolio effects;



- supporting financial decision making by considering areas of high adverse impact and by exploiting areas of risk-based advantage;
- building investor confidence by stabilizing results and protecting them disturbances and thus demonstrating proactive risk stewardship.



What is Basel II?

Basel II is the second set of international banking regulations defined by the Basel Committee on Bank Supervision (BCBS) . لجنة بازل للرقابة المصرفية . It is an extension of the regulations for minimum capital requirements as defined under Basel I.



The Basel II framework operates under three pillars:

- الحد الأدنى لمتطلبات رأس المال
Capital adequacy requirements
- المراجعة الإشرافية
Supervisory review
- انضباط السوق
Market discipline



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ERM in energy and finance

Banks have been subjected to Basel II for some time and are preparing for implementation of the Basel III requirements by 2019.



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The statement that risk management has failed in banks is more difficult to contradict.

However, the reality is that it was not the failure of risk management principles that caused the banking crisis. It was the failure to correctly apply those principles.



Many banks made two simultaneous mistakes:

- An accurate risk and reward analysis was not undertaken, so that banks made decisions on the basis of the rewards available, rather than taking a more balanced view of the risks involved in seeking those higher rewards.



- Quantification of the level of risk involved was not accurate, because the banks were taking such a risk-aggressive approach that certain events were considered to be so unlikely that they could be ignored.



One of the best established resilience standards is the Organizational Resilience Standard (ASIS SPC.1-2009) published by the American National Standards Institute.



This ASIS standard takes an enterprise-wide view of risk management, enabling an organization to develop a comprehensive strategy to prevent when possible, prepare for, mitigate, respond to, and recover from a disruptive incident.



The overall approach is that a resilient organization needs to 'prevent, protect and prepare' in relation to resources and assets and at the same time be able to 'respond, recover and review' when a crisis occurs.



The emergence of resilience is an opportunity for risk management and business continuity specialists to work together to ensure a more coordinated approach to enterprise risk management, business continuity and crisis management.



There are three behaviours that should be achieved by an organization if it is to achieve increased resilience:

- awareness of changes in the external, internal and risk management environments, so that constant attention to resilience is ensured;



- ‘prevent, protect and prepare’ in relation to all types of resources, including assets, networks, relationships and intellectual property;
- ‘respond, recover and review’ in relation to disruptive events, including the ability to respond rapidly, review lessons learnt and adapt.



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Thank You



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