

**IIA presentation**

**Enterprise Risk Management (ERM)**

**Key Concepts & Trends**

August 5, 2010



# Enterprise Risk Management (ERM)

## Key Concepts & Trends

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### I. Trends in Enterprise Risk Management (ERM)

- Factors Driving Improvements in Risk Management Approaches
- Key Findings from Aon's 2010 Global ERM Survey

### II. Aon's Approach to ERM

- Risk Awareness, Risk Improvement & Risk Governance
- Case Study

# Factors Driving Improvements in Risk Management Approaches

## External and Internal Expectations and Requirements

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### External Expectations & Requirements

- **Regulatory (e.g. SEC) requirements** for controls, financial risk management frameworks and improved disclosures concerning risk and risk management
- **Rating agency (e.g. S&P) and lender scrutiny** of existing practices for identifying and managing risks
- **Current market and economic conditions** force an inward look at and assessment of existing risk management practices
- **Published standards** for risk management (e.g. COSO, AS/NZS, ISO)

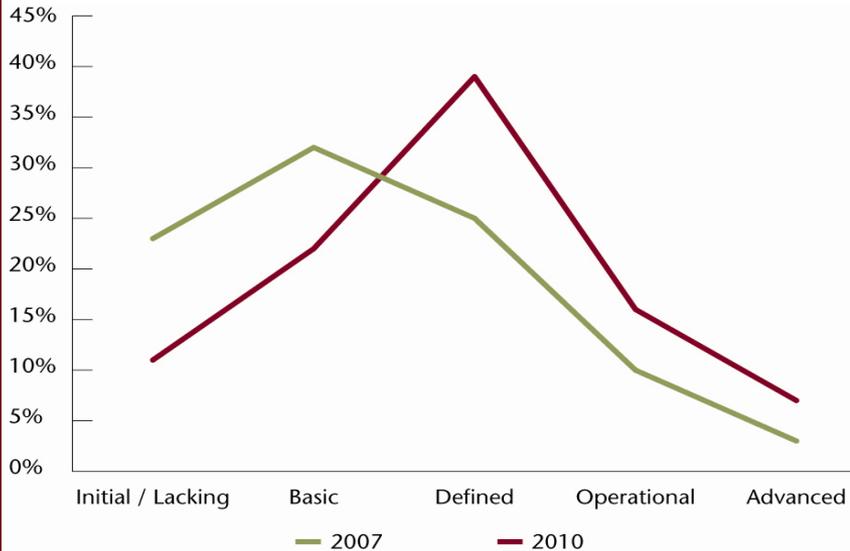
### Internal Expectations & Requirements

- **Desire for improved communications** throughout the organization regarding risks to the organization's strategy and objectives
- **Management's need to better understand** the causes of volatility in the business and thereby improve decision making
- **Management duty to provide assurance** to the Board and external stakeholders that key risks are managed
- **Board requests** better risk information and details on existing risk management activities and strategies

# Key Findings from Aon's 2010 Global ERM Survey

## ERM Maturity has Improved Since 2007 Global ERM Survey

### ERM Maturity: 2007 vs. 2010



- Overall ERM maturity improved
- “Advanced”: more than doubled
- “Defined” - “Operational”: 55% responses

### ERM Maturity Levels

#### Initial / Lacking

- Very limited in scope; ad-hoc

#### Basic

- Limited capabilities to identify, assess, manage and monitor risks

#### Defined

- Sufficient capabilities to identify, assess, manage and monitor major risks
- Some inconsistencies in application

#### Operational

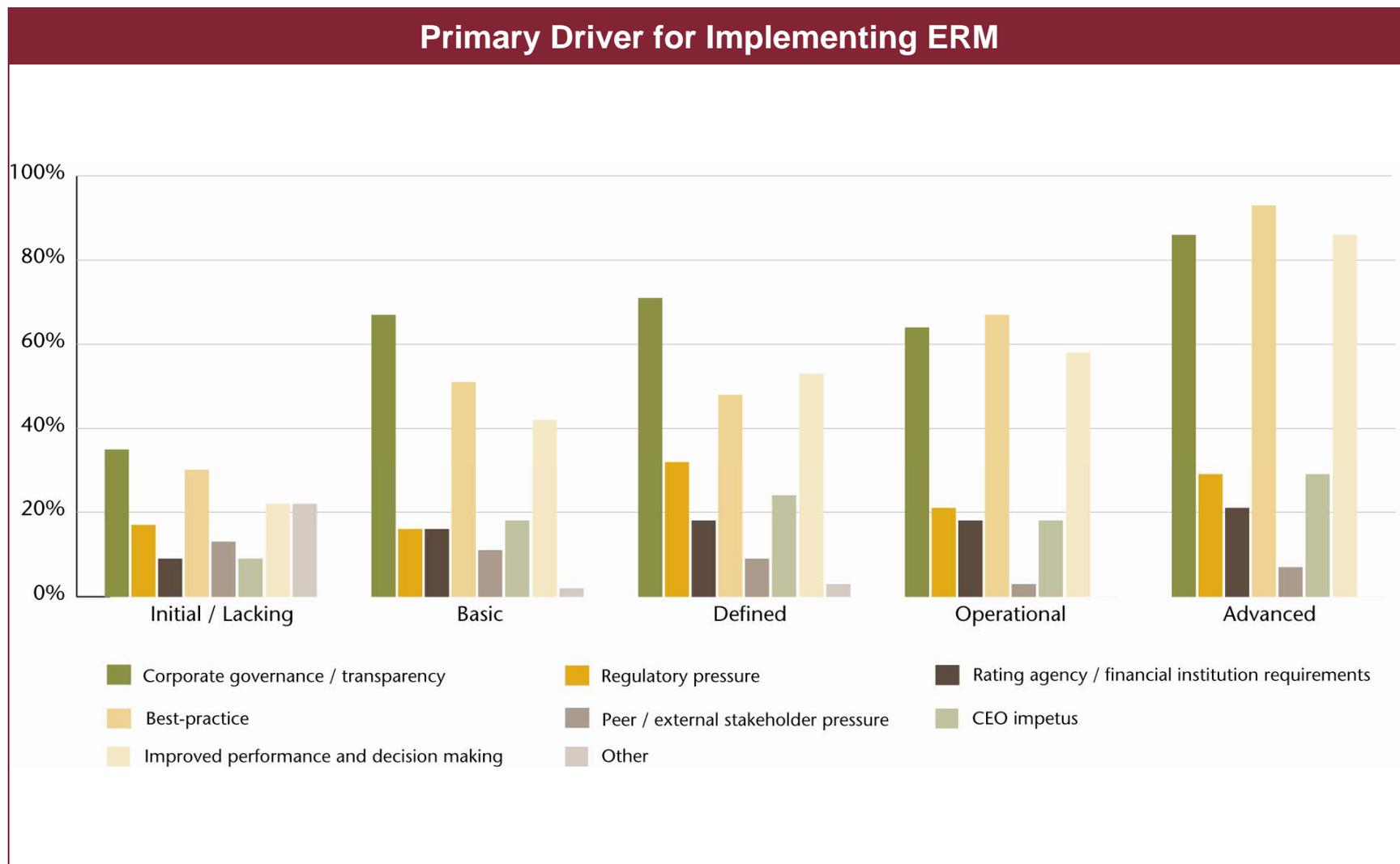
- Consistent application of policies and techniques across organization
- Embedded, tested capabilities

#### Advanced

- Well-developed and dynamic capabilities
- Explicit consideration of risk in decisions

## Key Findings from Aon's 2010 Global ERM Survey

### Improving Corporate Governance / Transparency is Primary Driver for Implementation



## Key Findings from Aon's 2010 Global ERM Survey

### Hallmarks of Advanced ERM

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1. **Board-level commitment** to ERM as a critical framework for successful decision making and for driving value
2. **A dedicated risk executive** in a senior level position who drives and facilitates the ERM process
3. **An ERM culture that encourages full engagement and accountability** at all levels of the organization
4. **Engagement of stakeholders** in risk management strategy development and policy setting
5. **Transparency** of risk communication
6. **Integration of financial and operational risk information** into decision making
7. **Use of sophisticated quantification methods** to understand risk and demonstrate added value through risk management
8. **Identification of new and emerging risks** using internal data as well as information from external providers
9. **A move from focusing on risk avoidance and mitigation** to leveraging risk and risk management options that extract value

*These hallmarks are common among all ERM practitioners—regardless of size, industry or region*

# Aon's Approach to ERM

## Risk Awareness, Risk Improvement & Risk Governance



### Risk Awareness

- Build Enterprise Risk Profile and reach consensus on the most critical risks
- Prioritize risks for additional analysis, response
- Quantify selected risks, when additional insight is needed to support decisions
- Identify metrics to measure and monitor risks

### Risk Improvement

- Understand potential risk response strategies
- Select appropriate risk response strategy, given cost-benefit and risk tolerances
- Implement and monitor effectiveness of strategy

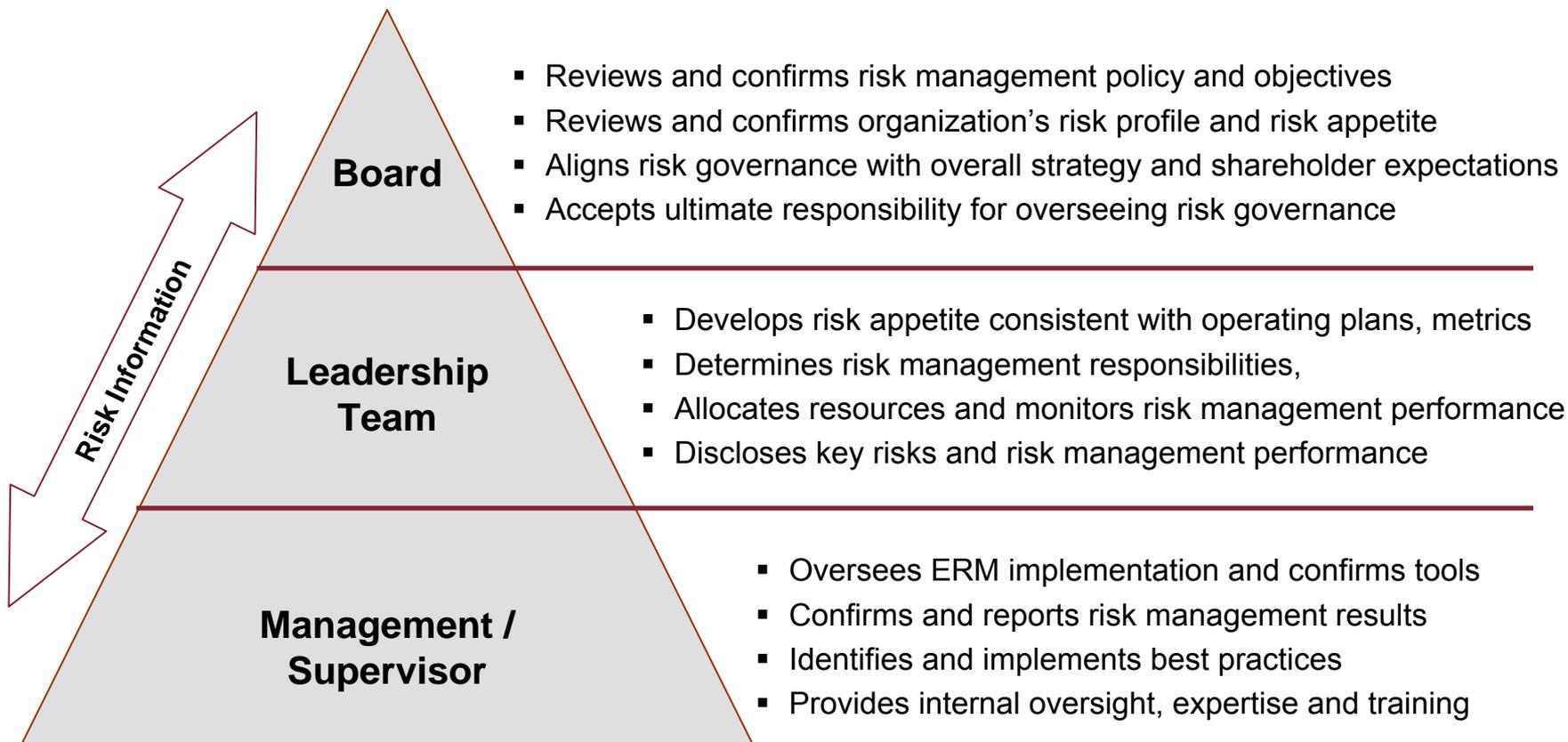
### Risk Governance

- Establish organizing structures and tools for managing risk, including reporting frameworks and governance structures
- Define organization's risk strategy and appetite

## Aon's Approach to ERM

### Providing Risk Information to Key Decision Makers

***A mature ERM program supports decision making*** by integrating effective risk identification and assessment approaches into existing governance structures and management processes



***Effective ERM programs will fit within organizational culture and management priorities***

## Strategy and Implementation Case

### Midstream Gas Company Seeks to Evaluate ERM Capabilities and Develop Strategy

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**Situation:** A rapidly growing gas processor wanted to evaluate its existing risk management capabilities and develop a strategy to implement a sustainable ERM approach that leveraged the organization's strengths and closed identified gaps

#### Process

- Reviewed various operating, strategic and financial documents and interviewed 20 management representatives to assess existing risk management activities and decision processes
- Assessed existing risk management practices against certain risk management standards (e.g. COSO, Standard & Poor's) and ERM best practices using Aon's ERM Evaluation Scorecards
  - Applied a rating to each Aon Evaluation scorecard component: Governance/Infrastructure, Process, Integration and Communication & Sustainability
- Identified strengths in existing risk management practices and opportunities for improvement
- Detailed 7 key recommendations to be implemented in 2009 and 2010, which would close identified gaps and move the organization toward its desired ERM rating ("Strong-Excellent ERM" by S&P)

#### Results

- Evaluation scorecards and explanations for each ERM Evaluation Scorecard component
- Multi-year ERM implementation strategy developed to leverage organizational strengths, closes gaps and supports a sustainable ERM program
- Basic ERM implementation completed August 2009
- Internal ERM is continuing development work including customized internal software system

## John Rogula

### Associate Director, Enterprise Risk Management

<b>Current Role &amp; Experience</b>	<p>As an Associate Director within the ERM Practice, John's primary responsibility is to manage the delivery of high-value ERM solutions for Aon's clients. John is the ERM Practice Lead for the Healthcare Industry. John has over 17 years experience in management consulting. Prior to joining Aon, John was a Principal with Oliver Wyman's Corporate Risk Consulting practice, and was the Industry Leader for Consumer Products. In this role he was responsible for directing and training global client teams to design and implement ERM processes and infrastructure, and managed measurement modeling and mitigation strategy development to address specific risk concerns. Prior to joining Oliver Wyman, he was a Senior Manager with Accenture. In this role, he had responsibility for managing strategic and IT projects across various industries, including the development of Program Offices to manage people, timelines, budgets, and program risks. His project experience spans multiple industries, including consumer products and retail, healthcare, biotherapies, biopharmaceuticals, chemical and utility companies.</p>
<b>Areas of Expertise</b>	<p>Enterprise Risk Management including governance, strategy, design and implementation.</p> <p>Program and Project Management</p> <p>Operational risk management</p> <p>Supply Chain risk management and Business Continuity Planning strategies</p> <p>IT risk and strategy management</p>
<b>Education</b>	<p>Masters of Business Administration (Boston University)</p> <p>Masters of Science - Management Information Systems (Boston University)</p> <p>Bachelor of Science, Business Administration (Boston University)</p>