

# Enterprise Risk Management

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Market developments over recent times have highlighted that volatility is not just something you associate with interest rates, currency or equity security risk anymore. Change is no longer linear, but exponential, as the life cycles of organisational business models compress. Risk management now sits firmly on the executive and board agenda. Boards and executive management of companies want a deeper understanding of how risk is being managed across the enterprise and in particular how to manage risk to create the optimal rewards for their shareholders.

## Traditional risk management

Traditional risk management approaches often are compliance focussed, fragmented across organisational silos, with elements that do not operate cohesively. Moreover, methods and processes lack consistency across the organisation, risk reporting is not consolidated, data suffers availability and consistency problems and risk systems fail to produce required information. As a result, risk is inadequately factored into decision-making in critical areas such as business strategy and capital allocation.

## Enterprise Risk Management (ERM)

ERM helps organisations move beyond compliance, transforming risk management into a strategic function that provides value to the business. The ERM focus is on delivering an integrated, comprehensive risk management program that is based on a portfolio view and employs

consistent organisation wide processes, methods, reporting and systems. This enables the organisation to effectively prioritise its risk management investment.

ERM encompasses:

- **Aligning risk appetite and strategy** – Management considers the entity's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- **Reducing operational surprises and losses** – Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.
- **Ensuring robust and transparent risk management** – ERM facilitates the identification and management of multiple and cross-enterprise risks. Through the appropriate documentation of risk assessments and action plans, organisations can provide the accurate and timely management information that is increasingly required by the Board and senior management.
- **Strengthened decision making** – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance resource allocation driven by an informed understanding of priorities and the cost/benefit of risk mitigation controls.
- **Embedding risk management across the organisation** – Through effective training and communication, risk management is consistently understood and applied across the organisation in order to achieve an effective and embedded framework.

Our specialist  
team can help you

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## ERM checklist

There are a number of elements considered essential to the success of an organisation's approach to managing risk. The following checklist outlines the key elements of a robust ERM framework:

Our Risk Consulting team is a specialist division within Aon who provide:

ERM Framework Element	Yes	No	Unsure
Board understands the priority business risks and how those risks are being addressed.			
Management has a clear vision of how the organisation is managing risk across the various business units with its diverse portfolio of products spread across geographies.			
Processes, systems and people are aligned with the company's business strategy.			
Risk culture is integrated with the corporate culture, i.e. working behaviours and practices.			
The risk management function exists to drive business performance in addition to fulfilling compliance requirements.			
Risk management and business planning is fully integrated and reflected within supporting procedures and guidance.			
Management recognises that the key to growth and value creation is effectively identifying and managing rewarded risks, while at the same time protecting the company's assets.			
Risk identification and assessment are an ongoing enterprise-wide effort and not a sporadic once-a-year activity for certain functions within the organisation.			
A dashboard style management reporting package based on KPIs is in place across the organisation.			
Decision-makers are confident about the magnitude of uncertainties.			

If you answered 'No' to any of the above, are unsure in your responses or uncertain of the nature of risk management framework within your organisation then perhaps it's time to talk to us.

We benchmark the organisation's existing risk management framework against the key principles from COSO ERM 2004, Australian/New Zealand risk standard AS/NZS 4360:2004 and a collation of good practices in the market globally.

We assist organisations in their progression from traditional risk management towards adopting the ERM framework because we recognise that it's more practical to leverage the existing risk management infrastructure. The approach is more likely to produce early success which in turn increases the chances for broader acceptance and support for developing risk management into a competency within the organisation.