



Society of Actuaries in Ireland

ERM practices in non-financial institutions

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Disclaimer

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Outline of Presentation

1. High profile risk topics for the Institute of Risk Management (IRM)
2. Financial Reporting Council 'risk guidance' published in September 2014
3. Scope of Enterprise Risk Management (ERM) in non-financial institutions
4. Consider the challenging aspects of ERM, such as:
 - Risk maturity / risk culture
 - Risk appetite statements
 - Risk and the 'business model'
 - Longer-term viability statements

High profile risk topics for the IRM

Risk issues that are currently of concern to business include:

- Cyber risks and threats ('who is out to get us, why and how')
- Complexity of business models and need to increase resilience (STOC)
- Changes in regulations and/or regulator priorities or methodology
- People risks (corporate culture), including bribery and money laundering
- Social media / reputation concerns (and the associated opportunities)
- Brexit – implications, timing and potential opportunities

Why implement a risk management initiative

<u>Risk Management objective</u>	<u>Description</u>
Mandatory (fragmented approach)	<ul style="list-style-type: none">• The basic objective for any ERM initiative is to ensure conformity
Assurance (co-ordinated approach)	<ul style="list-style-type: none">• The board and audit committee require assurance
Decision-making (influential activity)	<ul style="list-style-type: none">• Risk-based information is available to support decision-making
Effective and efficient business processes (business leading)	<ul style="list-style-type: none">• ERM leads achievement of effective and efficient STOC

Financial Reporting Council (FRC) risk guidance

Risk Management responsibilities of the Board 1

1. Risk management processes

- identify the risks facing the company
- RM is incorporated within normal processes

2. Principal risks and risk appetite

- assessment of risks to business model and strategy
- risks the organisation is willing to take (risk appetite)

3. Risk culture and risk assurance

- risk culture embedded throughout organisation
- adequate RM discussion at board, including assurance



Financial Reporting Council (FRC) risk guidance

Risk Management responsibilities of the Board 2

4. Risk profile and risk mitigation

- company's risk profile is kept under review
- measures to manage or mitigate the principal risks

5. Monitoring and review activities

- management process of monitoring and reviewing RM
- monitoring and review is on-going and not just annual

6. Risk communication and reporting

- internal and external risk management communication
- risk information communicated to and from the board



Financial Reporting Council (FRC) risk guidance

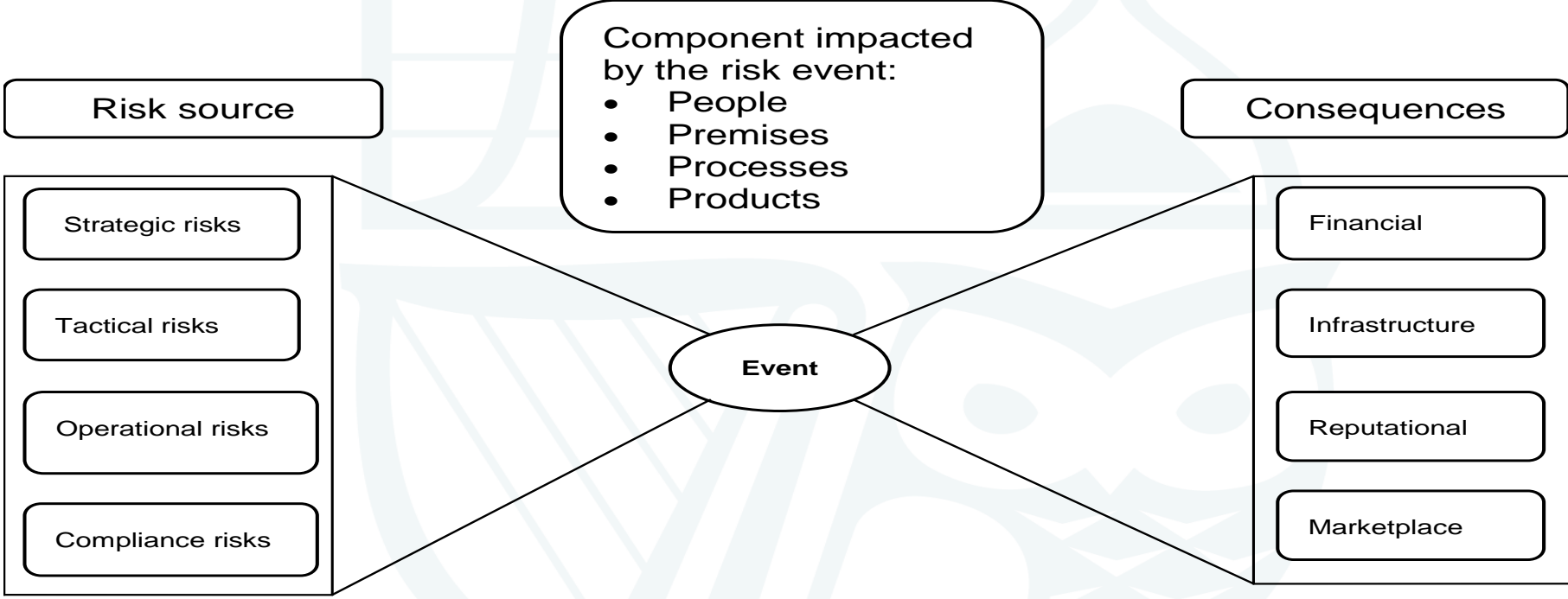
Financial and Business Reporting

Appendix A: Going Concern Basis of Accounting and Material Uncertainties

Appendix B: Longer-term Viability Statement



Bow-tie representation of risk management



Alternative approaches to risk classification

The risk identification, analysis and evaluation activities could be aligned to consideration of the 4P's or the FIRM Risk Scorecard:

- * People
- * Processes
- * Products (and/or services)
- * Performance
- * Financial
- * Infrastructure
- * Reputational
- * Marketplace

Alternative approaches to risk maturity

Also, an approach based on improving risk maturity can be adopted, such as the FOIL approach to defining risk maturity:

- * Fragmented, but may be excellent in specialist areas
- * Organised, with a coordinated approach aimed at assurance
- * Influential, and supportive of STOC decision-making
- * Leading, with risk considerations leading strategy and tactics

Network Rail – risk appetite statement 1



In the annual report and accounts 2015, Network Rail provides a risk appetite statement as follows (part 1):

- *Network Rail has **no appetite for safety risk exposure** that could result in injury or loss of life to public, passengers and workforce. Safety drives all major decisions in the organisation. All safety targets are met and improved year-on-year.*
- *In pursuit of objectives, the company is **willing to accept**, in some circumstances, **risks that may result in some financial loss or exposure**, including a small chance of breach of loan limit. It will not pursue additional income generating or cost saving initiatives unless returns are probable.*

Network Rail – risk appetite statement 2



In the annual report and accounts 2015, Network Rail provides a risk appetite statement as follows (part 2):

- *The company will **only tolerate low to moderate gross expenditure for delivery of operational performance targets**, including network reliability and capacity and asset condition, disaster recovery and succession planning, breakdown in information systems or information integrity.*
- *The company wants to be seen as best in class and respected across industry. It **will not accept any negative impact on reputation** with any of its stakeholders and will only tolerate minimum exposure (minor negative media coverage), no impact on employees and no political impacts.'*



ITV has a formal risk management process which covers risks at all levels of the organisation and considers risks in three core groups:

- High Impact, Low Likelihood (HILL) risks
- Strategic risks that would impact execution of the strategy; and
- Process level risks embedded into everyday activity

The Board reviews **risk appetite** to ensure ITV is carrying an acceptable level of risk. During the year it conducted an exercise to assess the current risk appetite of the business and the actual risk the business takes with respect to the following categories: **financial, market, operational, compliance and regulation, creative investment and organisational**. This is considered to be the first step towards **using risk appetite as a decision making tool**.

Risk and the business model (represented by CORR)

- 1. Customers** – both existing and prospective customer segments and targets; marketing and sales activities; customer servicing and support; and distribution routes and channels
- 2. Offering** – nature of the products and/or services based on capabilities, purpose and commitment; activities and business sector; quality, delivery, support, execution and innovation; and CSR, values and governance
- 3. Resources** – including in-house and out-sourced, including data, capabilities and assets; partnerships and networks; organizational structure; and activities and core processes
- 4. Resilience** – financial and reputational, including spending on infrastructure, sales and support; revenue streams (sales, profit and cashflow); people, culture, leadership and governance; and ethics and reputation

In the annual report 2015, Zoopla Property Group provides a longer-term viability statement as follows (part 1):

- *The directors have conducted a **robust assessment of the principal risks** facing the group and believe that the group is well placed to successfully manage these risks. Therefore, the directors confirm that they have a **reasonable expectation** that the group will continue in operation and meet its liabilities for the **next three years**.*
- *The following **factors were considered in determining the 3 year period**:*
 - *the group operates within the online digital marketing space;*
 - *the group is a relatively young enterprise; and*
 - *the group has changed rapidly over its relatively short lifetime.*

In the annual report 2015, Zoopla Property Group provides a longer-term viability statement as follows (part 2):

- *The directors believe three year viability period is the most appropriate to ensure forecasting is reasonable and the group can conduct a reasonable assessment of principal risks. In arriving at their conclusion, **the directors considered the forecast financial performance and cash flows over the three year period.***
- *The forecast has been subject to sensitivity analysis driven by the principal risks to the group. **The directors have reviewed the potential impact on the business of sensitising a number of key assumptions** including increased competition, a reasonable change or challenge with regards to regulation and macro-economic factors such as a decline in the UK property market.*

In the annual report 2015, Zoopla Property Group provides a longer-term viability statement as follows (part 3):

- *Each analysis considered the ability of the group to **meet its operational and financial obligations** throughout the period including compliance with the existing debt covenants.*
- *Based on the analysis performed, the directors confirm that they have a **reasonable expectation that the group will continue in operation and meet its liabilities** as they fall due for the next three years and continue to adopt the **'Going Concern' basis in preparing the audited financial statements** for 2015.*



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