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Risk health check  
When is yours?





# Rethinking enterprise risk management (ERM)

Today's business leaders understand the importance of risk management – but they still struggle to identify strategies to make it more effective and efficient. Do you know if your risk management practices provide a competitive advantage, given the size and complexity of your organization? Do you know if your ERM framework is aligned with leading standards? As a member of the board or the executive management team, what comfort level do you have around your organization's risk management activities? Will your risk management program pass muster during regulators' and rating agencies' examinations? Have you done a risk health check to both understand your current ERM capabilities and consider next steps in the risk intelligence journey? Asking questions like these, and finding effective answers, is critical to developing the "right" risk management capabilities.



## ERM in a risk intelligent enterprise

Risk Intelligence (RI), Deloitte's risk management philosophy, focuses on maintaining the right balance between risk and reward. Simply put, organizations create value by taking risks and lose value by failing to manage them. Before considering risk intelligence, however, it is important to understand what enterprise risk management, or ERM, is all about. ERM is the development of a strategic, systematic and illustrative risk management capability across an organization. It includes exercising effective risk governance, establishing customized risk management infrastructure and implementing robust risk management processes. ERM helps organizations achieve strategies and objectives for both value preservation and value creation. Deloitte calls organizations with this advanced risk management capability risk intelligent enterprises.

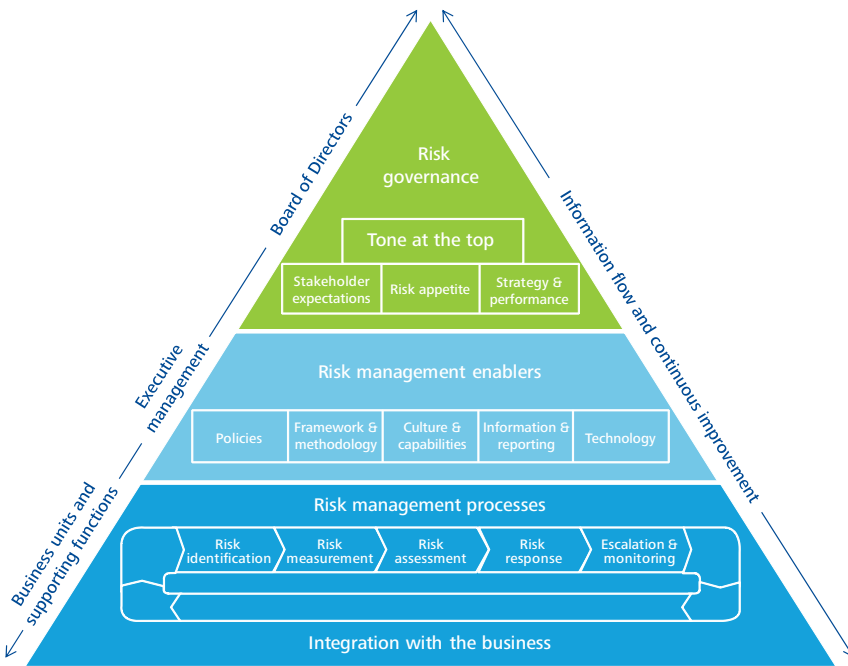
The risk intelligent enterprise understands that calculated risk-taking is essential to value creation. It does not strive to eliminate risk or even necessarily to minimize it – which marks a critical departure from the traditional view of risk as something to avoid. The risk intelligent enterprise seeks instead to manage risk exposures so that it incurs just enough of the right kinds of risk – no more, no less – to effectively pursue its strategic goals.

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To keep risk exposures and business strategy aligned, a risk intelligent enterprise must coordinate across the following three levels of risk management:

### Risk intelligent enterprise



- **Risk governance** is led by the board of directors and includes setting the tone at the top, aligning stakeholder expectations, approving the risk appetite and integrating risk management with strategy and performance goals.
- **Risk management enablers** are put in place by executive management and include the development of policies, frameworks and methodologies, culture and capabilities, information, reporting and supporting technology.
- **Risk management processes** are led by the business units and functions and include the identification, measurement, assessment, escalation and monitoring of specific risks, as well as risk response.

## Why understand your ERM capabilities?

Most organizations already have a multitude of ERM practices and processes to address risks in particular organizational areas – functional risks, business unit-specific risks, compliance risks and so on. While this may address targeted risks effectively, the lack of a mature ERM capability can expose risk management gaps and redundancies, and prevent sufficient insight into key risk interdependencies.

Organizations typically exhibit varying levels of ERM maturity. To assess this level for individual organizations, Deloitte has developed the ERM maturity model and the ERM diagnostic which are consistent with concepts embodied in the ISO 31000 International Standard on risk management.

The maturity model helps organizations understand their current RI situation and identify steps they can take to improve it. As organizations progress along the maturity curve, their risk management activities become steadily more integrated and coordinated. Risk becomes a strategic concern, embedded into leadership's planning processes and the organization's day-to-day business activities.

Thanks to this functionality, the maturity model can help you answer the following questions:

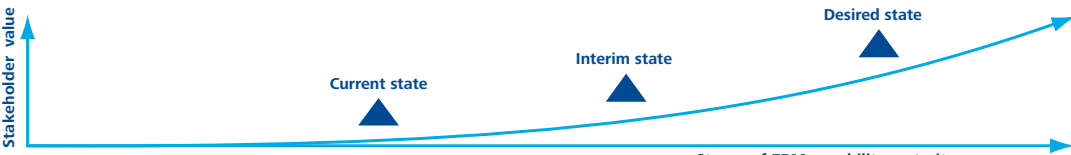
- How capably can the organization manage its risk profile right now?
- How capable does it need to be?
- How can it achieve its desired state? By when?
- How can it leverage existing ERM practices?

# How the ERM diagnostic can help

The results of the ERM diagnostic can help you:

- Determine your organization’s current risk management capabilities in the context of relevant leading risk management practices
- Identify and define target risk management capability levels over time
- Identify key risk and opportunity areas where improved risk management practices can provide competitive benefits
- Clarify and prioritize specific project and change management plans
- Understand the relative alignment between key stakeholders’ assessments of the organization’s risk management capabilities
- Facilitate more specific conversations with boards, executives and risk owners

Summary of comparison of an organization’s current and desired maturity levels with representative attributes by maturity level



Stages of ERM capability maturity				
Initial	Fragmented	Comprehensive	Integrated	Strategic
<ul style="list-style-type: none"> <li>• Ad hoc/chaotic</li> <li>• Enterprise takes minimal risks into consideration for determining the vulnerability to risks</li> <li>• No formal procedures for risk assessment</li> </ul>	<ul style="list-style-type: none"> <li>• Risk is defined differently at different levels and in different parts of the organization</li> <li>• Risk is managed in silos</li> <li>• Limited focus on the linkage between risks</li> <li>• Limited alignment of risk to strategies</li> <li>• Disparate monitoring and reporting functions</li> </ul>	<ul style="list-style-type: none"> <li>• Risk universe is identified</li> <li>• Common risk assessment/response approach developed and adopted</li> <li>• Organization-wide risk assessment performed, action plans implemented in response to high priority risks</li> <li>• Communication of top strategic risks to the senior management team</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management activities coordinated across business areas</li> <li>• Risk analysis tools developed and communicated</li> <li>• Enterprise risk monitoring, measuring, and reporting</li> <li>• Scenario planning</li> <li>• Opportunity risks identified and exploited</li> <li>• On-going risk assessment processes</li> </ul>	<ul style="list-style-type: none"> <li>• Risk discussion is embedded in strategic planning, capital/resource allocation, product development, vendor selection, etc.</li> <li>• Early warning system to notify the risks above established threshold to board and management</li> <li>• Linkage to performance measures and incentives</li> <li>• Risk modeling</li> </ul>

Before gaining the ability to reap these rewards, however, your organization must determine its risk management capabilities. A good way to begin is by answering some of the following questions:

### Risk governance

- Do the board of directors, board and management committees have charters that explicitly include their risk management roles and responsibilities?
- Have you clearly defined and communicated your ERM philosophy, vision and risk management strategy and made it understood throughout the organization?
- Have you defined a framework for clarifying the organization's attitude to risk taking?
- Does strategic planning consider risk appetite, risk assessment results and scenario analyses?

### Risk management enablers

- Does a process exist to "operationalize" risk management policies in communications, training, monitoring and reporting?
- Is a customized risk framework and risk management methodology in place to support the organization's objectives and activities, to meet stakeholder requirements and to facilitate compliance with regulations and standards?
- Are risk management competencies assessed across the organization and training programs tailored to address needs?
- Do systems exist to integrate risk management activities efficiently?

### Risk ownership

- Do risk measurement processes exist to integrate and aggregate data in support of critical decision-making?
- Have you identified risk interdependencies to better understand the cumulative effect of interrelated risk exposures?
- Have you developed an integrated first response/recovery plan and tested for all major risks?



# The Deloitte difference – head and shoulders above the competition

Deloitte has been rated by leading independent research firms as the leader in end-to-end risk management services. This external recognition affirms what many Deloitte clients have experienced and know – that we offer a distinct advantage as follows:

	Deloitte difference	Which means
Market leadership	Our enterprise risk practice is a market leader with substantial credentials.	By understanding your challenges and needs, we bring you insightful perspectives combined with practical recommendations. We help you successfully implement customized ERM solutions and benefit from the advanced thinking of our top professionals.
Industry and ERM experience	We have a strong, dedicated and highly skilled team of ERM specialists, with significant, in-depth industry experience.	We leverage our industry knowledge, bringing hands-on experience and demonstrated competence to ERM evaluation.
Methodology and tools	We have a proven, flexible global methodology and toolkit that is aligned with industry standards.	We offer innovative approaches and toolkits that can improve the efficiency and effectiveness of your ERM program.
Knowledge sharing/ knowledge transfer	We combine a collaborative approach with a commitment to sharing leading ERM practices.	We can enhance risk management skills, knowledge and capabilities to sustain risk management within your organization.

To learn more, contact your Deloitte practitioner for the latest analyst rating.



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