THE INDEPENDENT INSTITUTE OF EDUCATION

Varsity College

CORPRO SA
CORPORATE PROJECT CONSULTANTS SOUTH AFRICA

Enterprise Risk Management

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Corporate Governance and ERM.

Learning Unit 4

Learning Outcomes.

Explore the following:

- Corporate governance;
- Enterprise risk management;
- Organisational considerations.

Background

Trend to include other risks driven by:

- Restructuring of organisations;
- Increasing competition;
- Certain practices eg JIT and TQM;
- Consolidation of financial services;
- Absence of coordinated risk management practices.

AND

- Emergence of **Corporate Governance**

4

Corporate Governance.

Corporate Governance refers to the

(A) relationship among the

(1) managers of a corporation,
(2) its board,
(3) its shareholders and
(4) other relevant stakeholders

and also to the

(B) specific responsibilities of

(1) boards of directors and
(2) management

to **ensure and maintain** these relationships.

5

King.

King I

- 15 Principles of Corporate Governance for the Board of Directors and people responsible for direction of enterprise.

King II

- More detail on how to implement – March 2002;
- Six sections.

King III

- Applies to all entities – not only corporations;
- Moves from principle of “comply” to “apply and explain”

6

Enterprise Risk Management.

King II and King III require risk to be treated on integrated basis in organisation.

Risk Management approaches were:

- Fragmented;
- Compartmentalised; and
- Cannot deal with evolving risks and opportunities.

Lead to changes…….

7

Changes in ERM.

Drivers of changes:

- Globalisation;
- Corporate Governance;
- Technology;
- Intangible Assets.

Forces businesses to search for new ways to create value.

Every decision involves taking on risks.

New risks in assets and processes as well.

8

What is ERM?

Risk Management perspective on management.

ERM entails ……..

ERM aims ……….

Definitions.

1. Casualty Actuarial Society (CAS): ………
2. Institute of Internal Auditors Research Foundation: ….

Fundamental concepts:

- A process;
- Applied across the enterprise;
- Manage downside and exploit upside risks;
- Includes risks from all sources;
- Involves coordination of risk management activities.

ERM vs traditional risk management.

Approaches to implementing ERM.

1. Measurement-driven approach;
   - ID key risk factors;
   - Understand their materiality and probability;
   - Risk mitigation focuses on most material risks.
2. Process-control approach.
   - Key business processes and
   - accompanying uncertainties in
   - executing the business plan.
   - Refer the “how”

In implementing the following should be considered:

- Range of organisation’s operations;
- Sources of risks;
- Types of risk management activities

11

Steps to implementing ERM.

1. Develop a common framework for risk;
2. Establish overall risk management goals;
3. Develop risk management strategies;

12

Principles of enterprise-wide risk management.

From King II report: (p97)

13

Organisational Considerations.

Risk silos.

Management of insurable risk:

- Scope of insurable risk silo;
- Risk-financing responsibility;
- Risk control responsibility;
- External consultants.

Reporting function of insurable risk managers.

14

Thank you.

15