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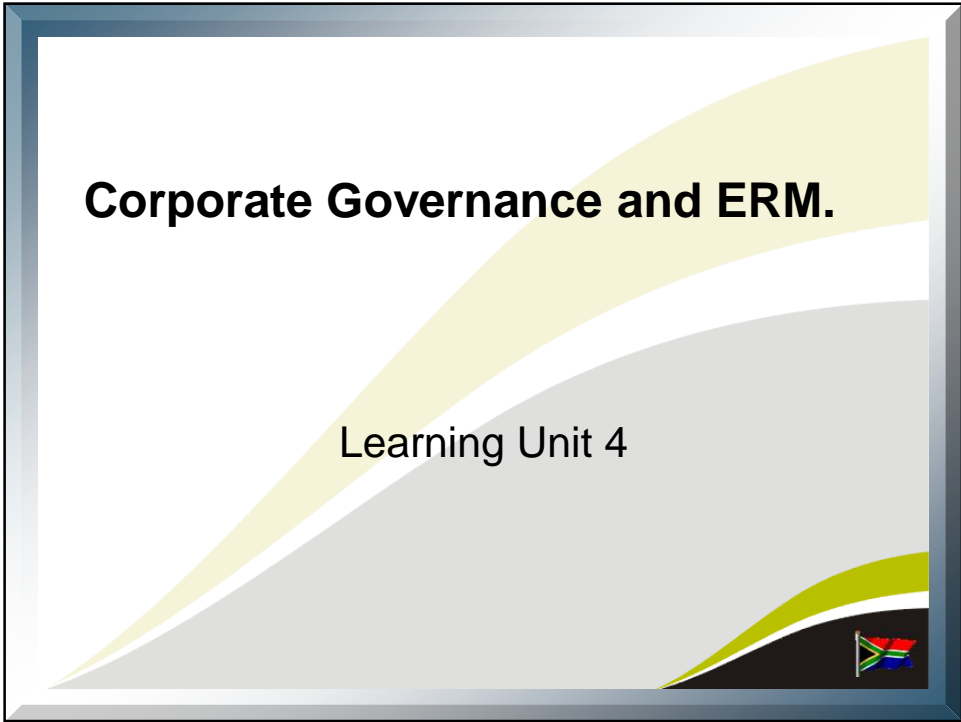
Varsity College

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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**



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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.



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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”



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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.....



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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.



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What is ERM?

Risk Management perspective on management.

ERM entails

ERM aims



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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.



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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



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Steps to implementing ERM.

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



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Principles of enterprise-wide risk management.

From King II report: (p97)



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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.



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Thank you.

