



MANAGING RISK

# Benefits of ERM

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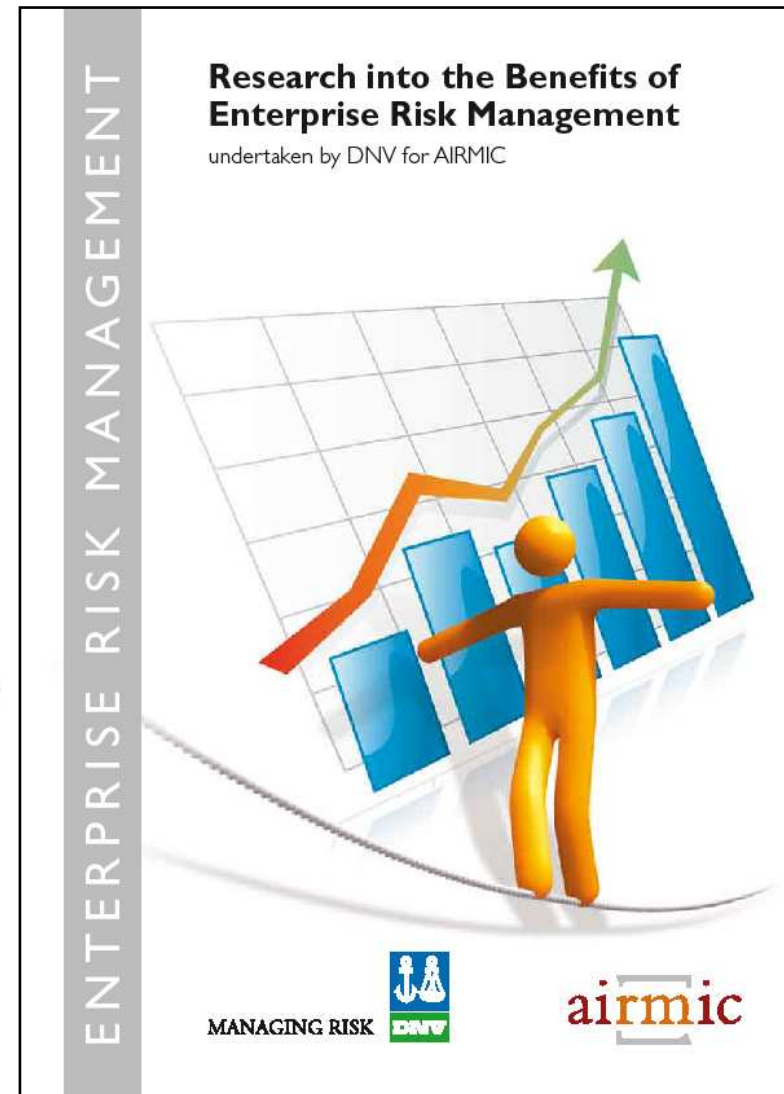
## AIRMIC ERM Project

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# Project objectives

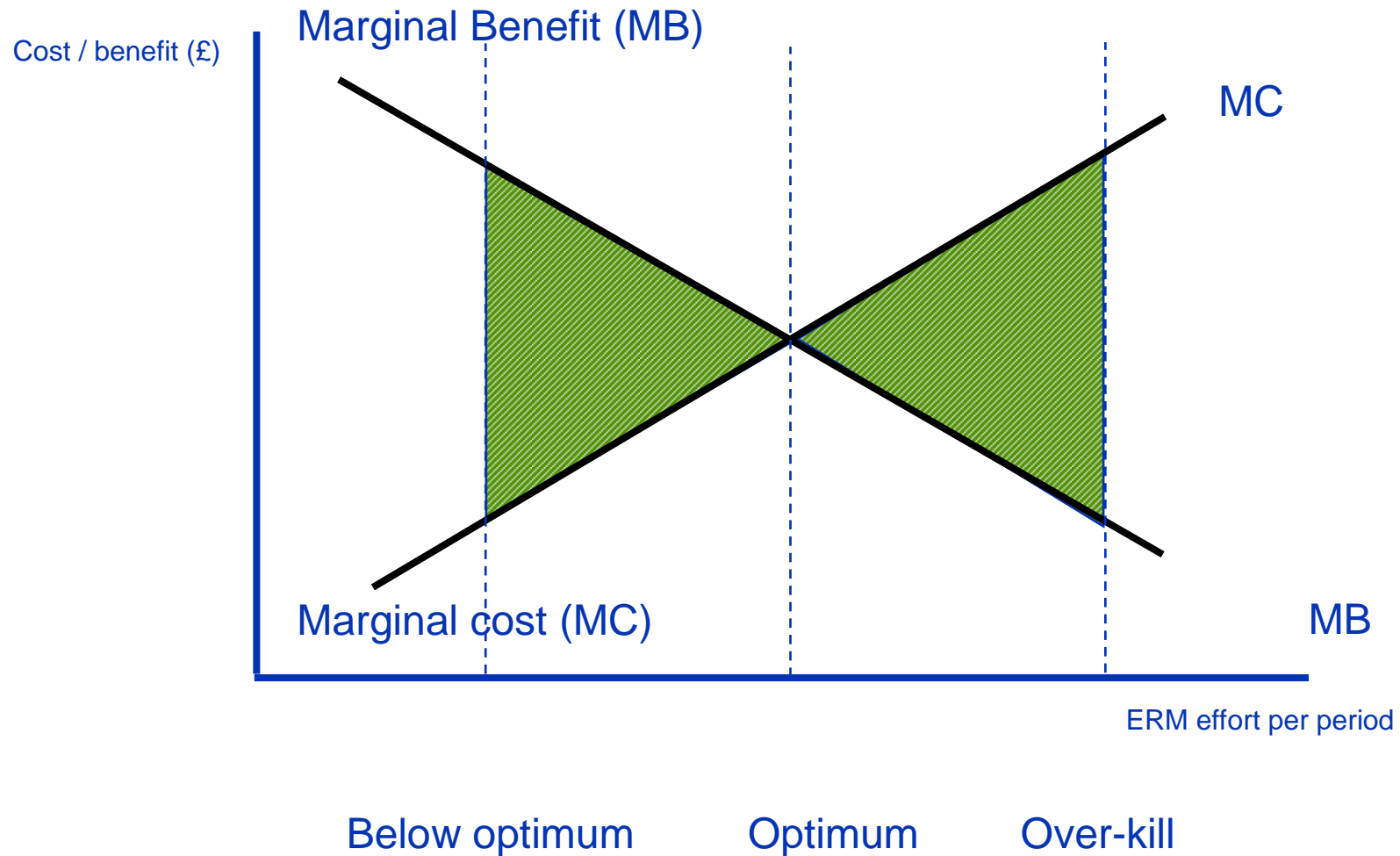
- Identify the ERM benefits
- Quantify and illustrate those benefits by a range of actual case studies that illustrate added value
- Report the findings in a style and format that risk managers can use to support the business case for implementing ERM in their own organisation.



# Hallmarks of ERM excellence



# Proportionality



# Ways that ERM needs to proportionate

## System-level

1. Total ERM effort for the level of risk faced
2. Risk control versus risk financing
3. Effort at the different levels of the organisations
4. Balance effort on 'Plan, Do, Check, Act'
5. Competency versus systems
6. Investment in people versus supporting infrastructure

## Process-Level

8. Context establishment
9. Risk identification
10. Risk prioritisation
11. Managing risk

# Assessment Process

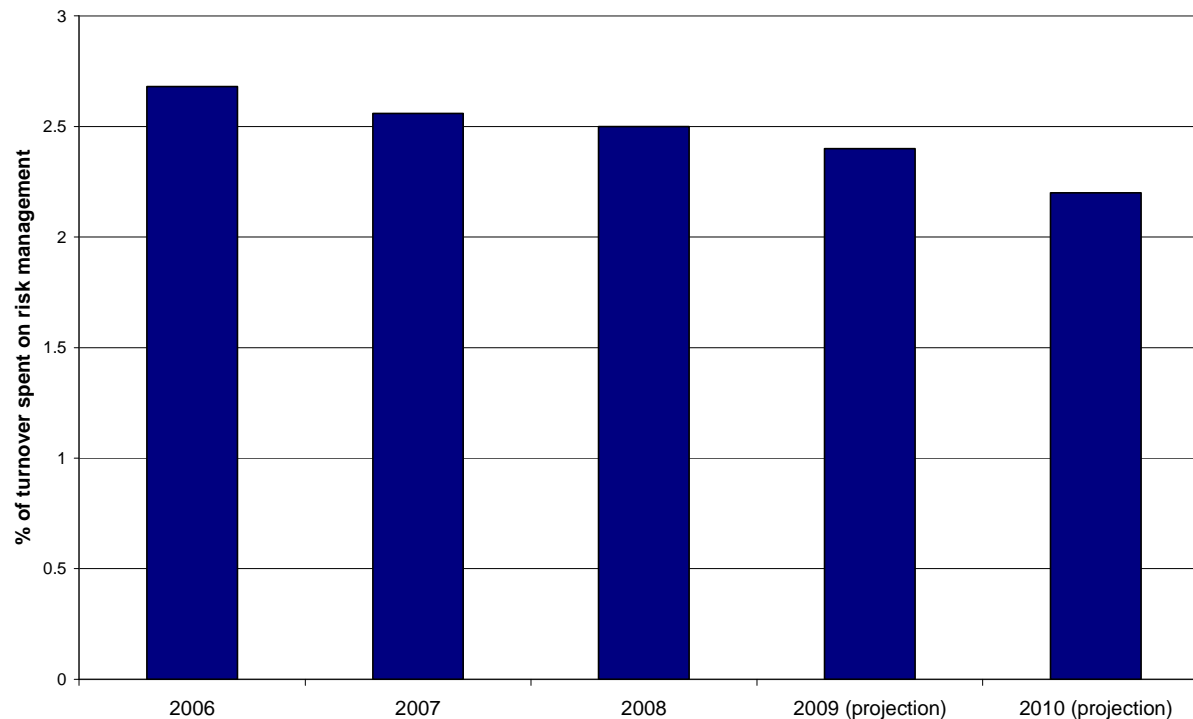


# Sources of competitive advantage

- Strategic
  - Managing the risk of a portfolio of Strategic Business Units (Boston box)
- Value Chain
  - Cost efficiency
  - Value added
  - Managing linkages
  - Robustness
- Unique capability (better than competitors and difficult to imitate)
  - Safeguarding resources and competences
  - Development of resources and competences

- DLA Piper is a leading global legal services organisation
- 5th largest law firm by turnover: 3,600 Lawyers, corporate structure, 50 risk managers
- “The firm has an entrepreneurial culture ... the better we manage risks, the more risks we can take”. Julia Graham, Chief Risk Officer

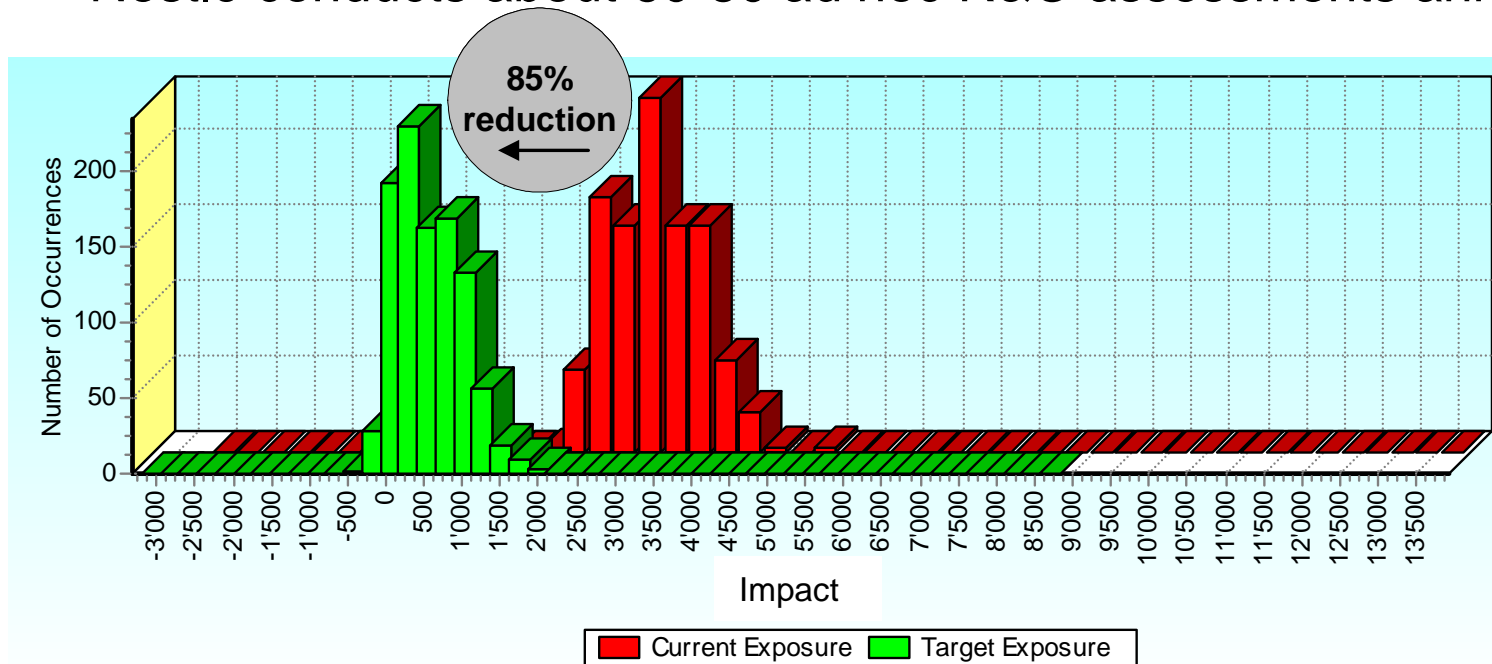
Percentage of DLA Piper International turnover spent on risk management



# DLA Piper International Risk Managers

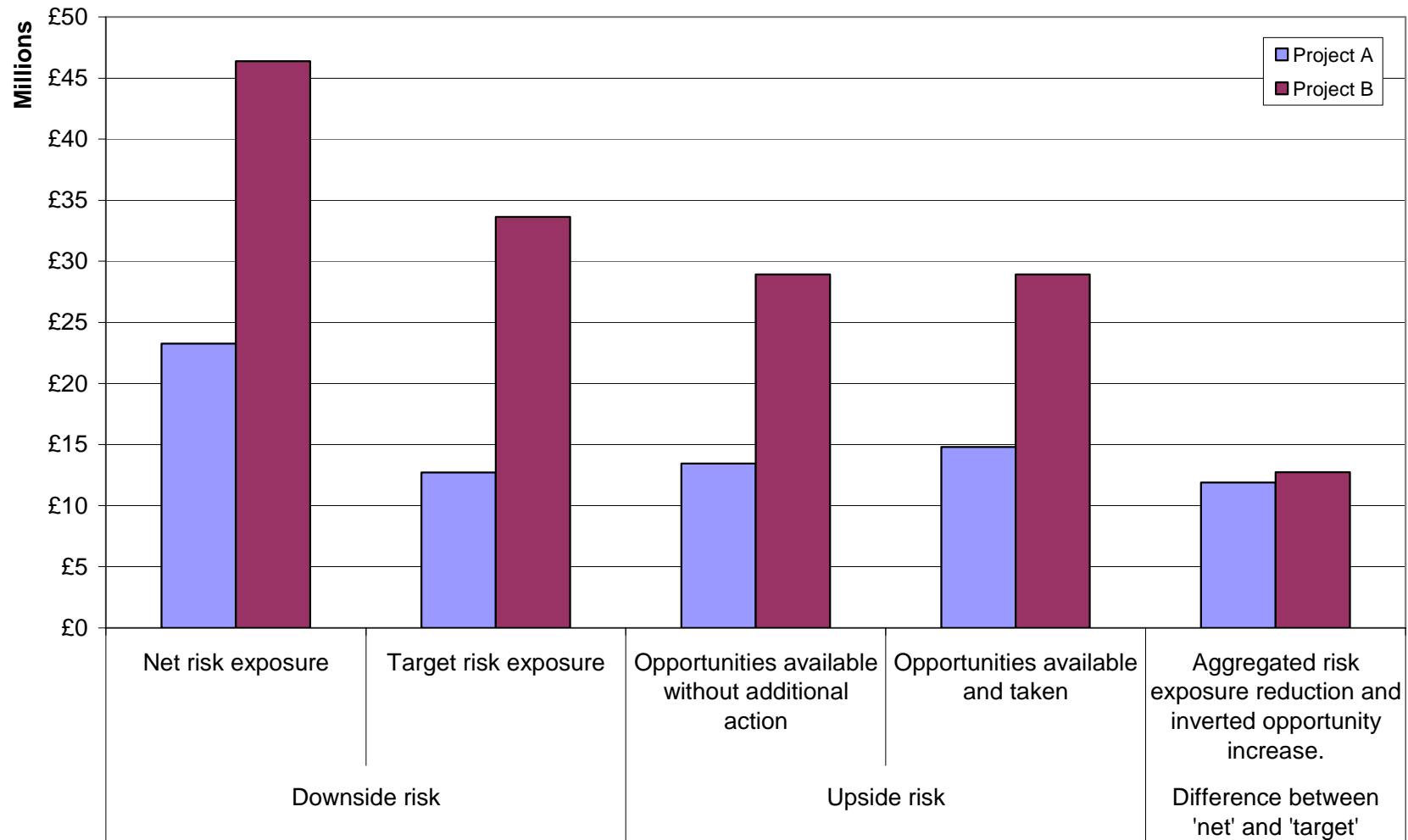
| Team                            | Number of people                  | Responsibilities  |
|---------------------------------|-----------------------------------|---|
| Core/ centre of risk excellence | 10                                | Develop central polices and procedures, systems, processes, training, insurance and project management. |
| Regional development            | 7                                 | ERM regional design, implementation, risk reviews and training.   |
| Central services                | 22 (all graduates or para-legals) | Manage the client engagement processes including client identification and conflicts of interest.       |
| IT                              | 1                                 | The IT risk manager reports to an IT manager, although he works closely with the ERM team.              |

- Nestlé is the world's leading nutrition, health and wellness company, with annual sales of EUR 65.4 billion and 276,000 employees.
- R&O management focuses on the principle of value-added.
- Few mandates
- Nestlé conducts about 60-80 ad hoc R&O assessments annually



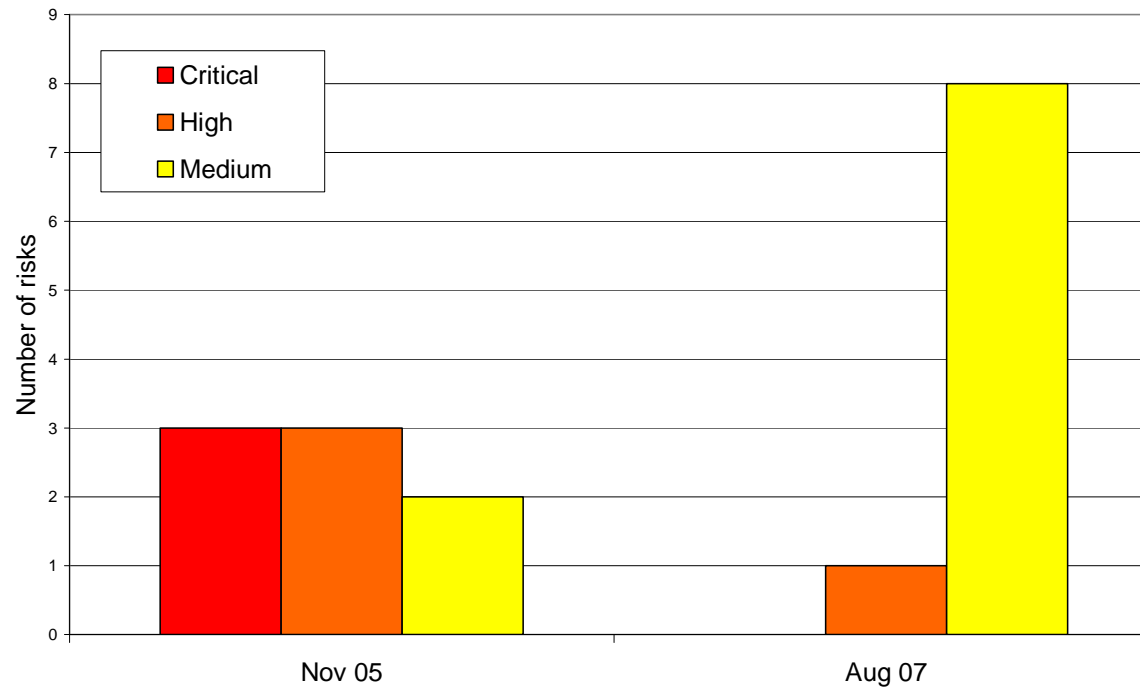
Risk exposure for Nestlé projects that were live in October 2007

# Nestle: Two Illustrative Project Examples



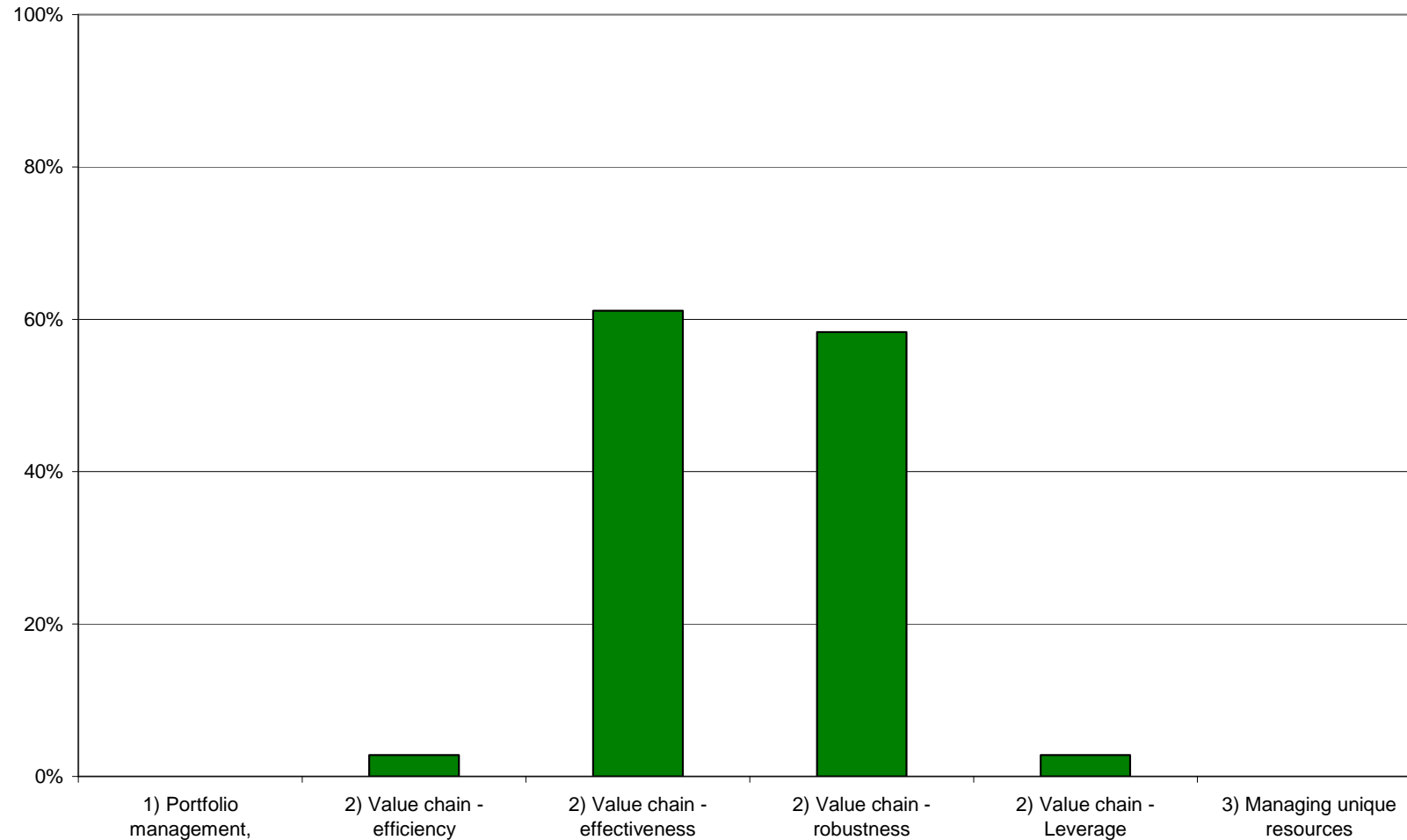
# Government Agency

- A large government agency with responsibility for some £75 billion of assets and an annual budget exceeding £5 billion. It employs some 2,500 staff.
- It has implemented a risk management framework that has yielded substantial benefits for a modest effort.

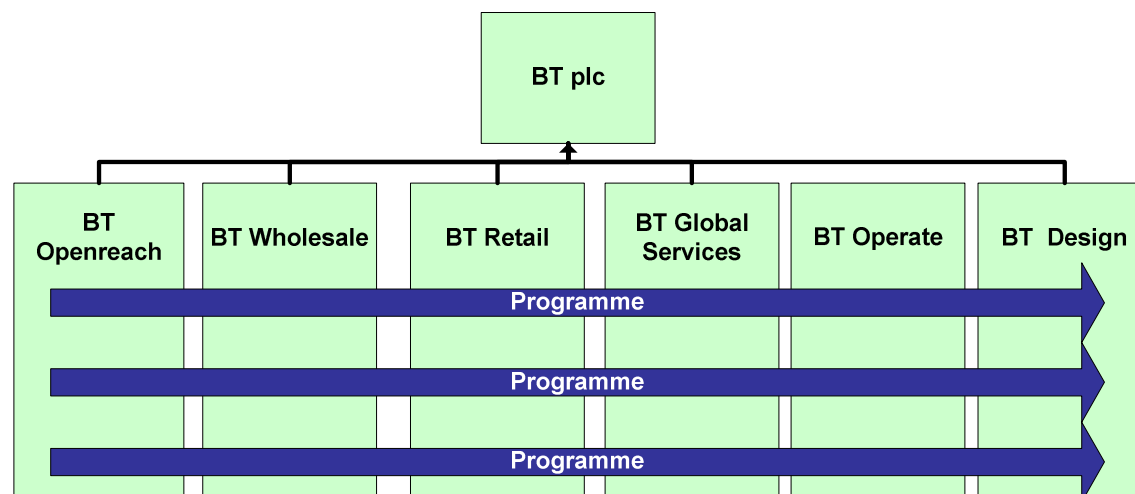


Changes in risk profile

# Government Agency: Category of risk

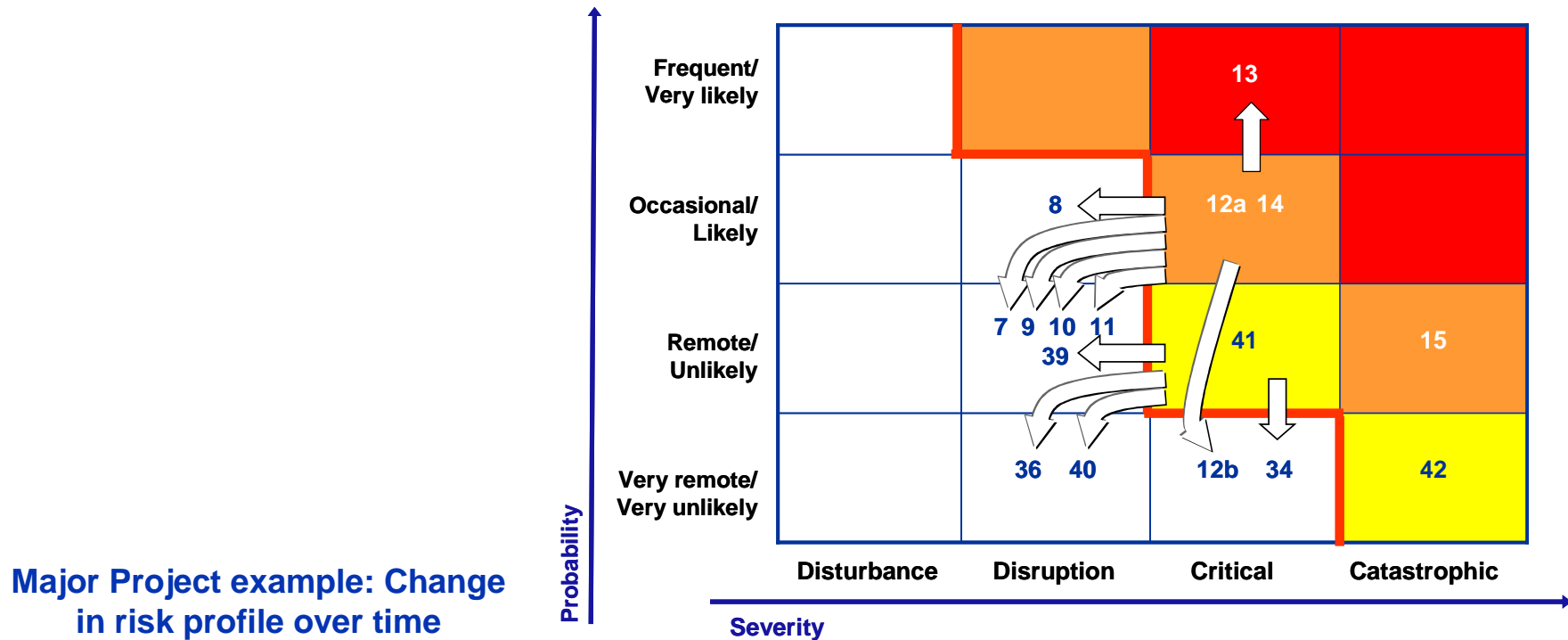


- BT is one of the world's leading providers of communication solutions and services, operating in 170 countries. In 2006/07 its turnover was £20.2 billion, with £2.5 billion profit. It has over 100,000 employees and an autonomous organisation structure
- Five year plan to embed ERM
- BT Wholesale reduced net risk by 15% between 2005 and 2007, whilst simultaneously facing 20% more gross risk.



**BT Structure**

- Solvay is an international chemicals and pharmaceuticals group. In 2007 it employed over 28,300 people, with a turnover of EUR9.6 billion.
- “Risk management helps us make decisions faster. Without the confidence of knowing what the risks are, we would not move forward”. Claes Mårtenson, the Group Risk Manager.



# Conclusion

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- Good news: Organisations are enjoying good benefits from ERM
- Different approaches were found
- Practical approaches and getting the basics right is the key to a good return on effort
- There is scope for improving the quality of risk identification, even in some of those organisations that are best at risk management
- Risk-adjusted consolidated data is still some years off, even for leading edge organisations.