



# ***Harnessing Opportunities, Managing Risks***

**November 2008**

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# Agenda

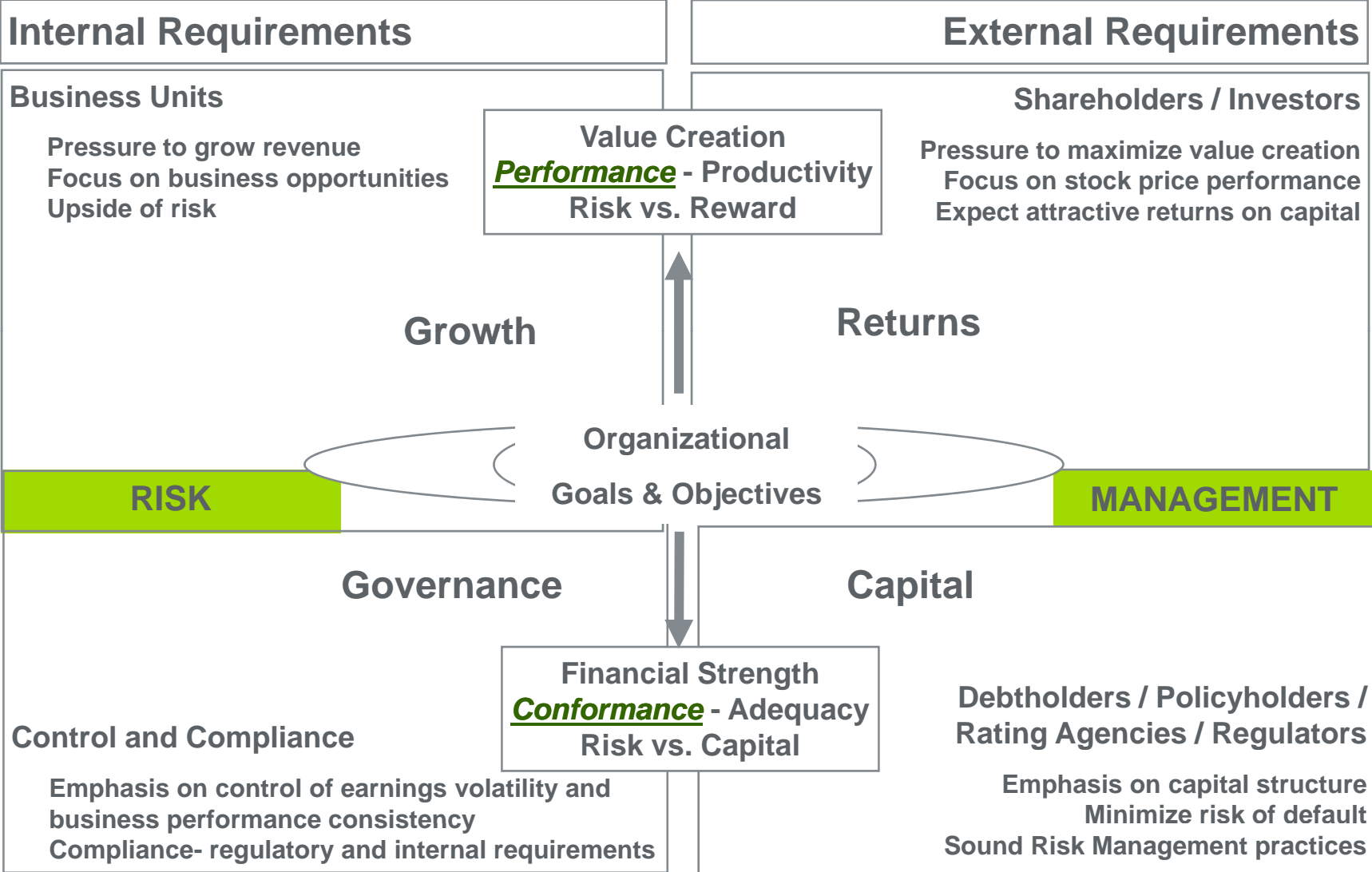
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- ↳ The context for Enterprise Risk Management (“ERM”)
- ↳ Concepts and Applications of ERM
  - ERM infrastructure, assessment and mapping
  - ERM strategies and solutions
- ↳ The Path Forward



# The Context for ERM

# Balance Diverse Interests of Internal & External Stakeholders



## Balance Diverse Interests of Internal & External Stakeholders

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*“There is a fine line between risk-taking and recklessness. Risk-taking drives innovation; recklessness drives over a cliff. In recent years, the Western world had too much of the latter”*

International Herald Tribune, October 2008

*“It was not greed and stupidity that brought the world to the precipice, but bad management. There has been a lack of control and understanding of emerging issues and an unwillingness to heed warnings that came from impeccable sources*

Financial Times, October 2008

*“The banks that are surviving the best today ... - like JP Morgan and Banco Santander – are not surviving because they were better regulated than the banks across the street but because they were better run. Their leaders were most vigilant about their risk exposure than any regulator required them to be”*

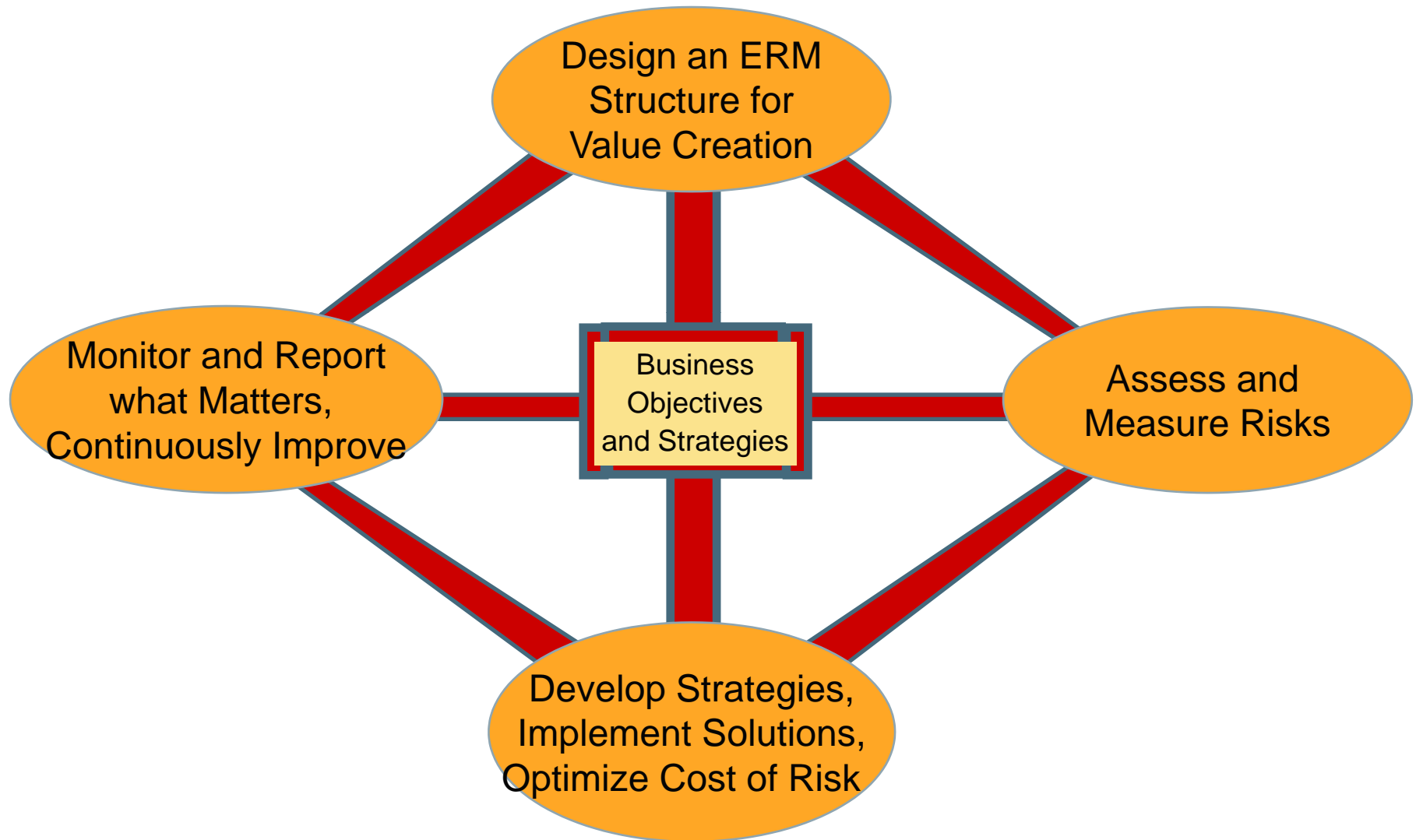
International Herald Tribune, October 2008



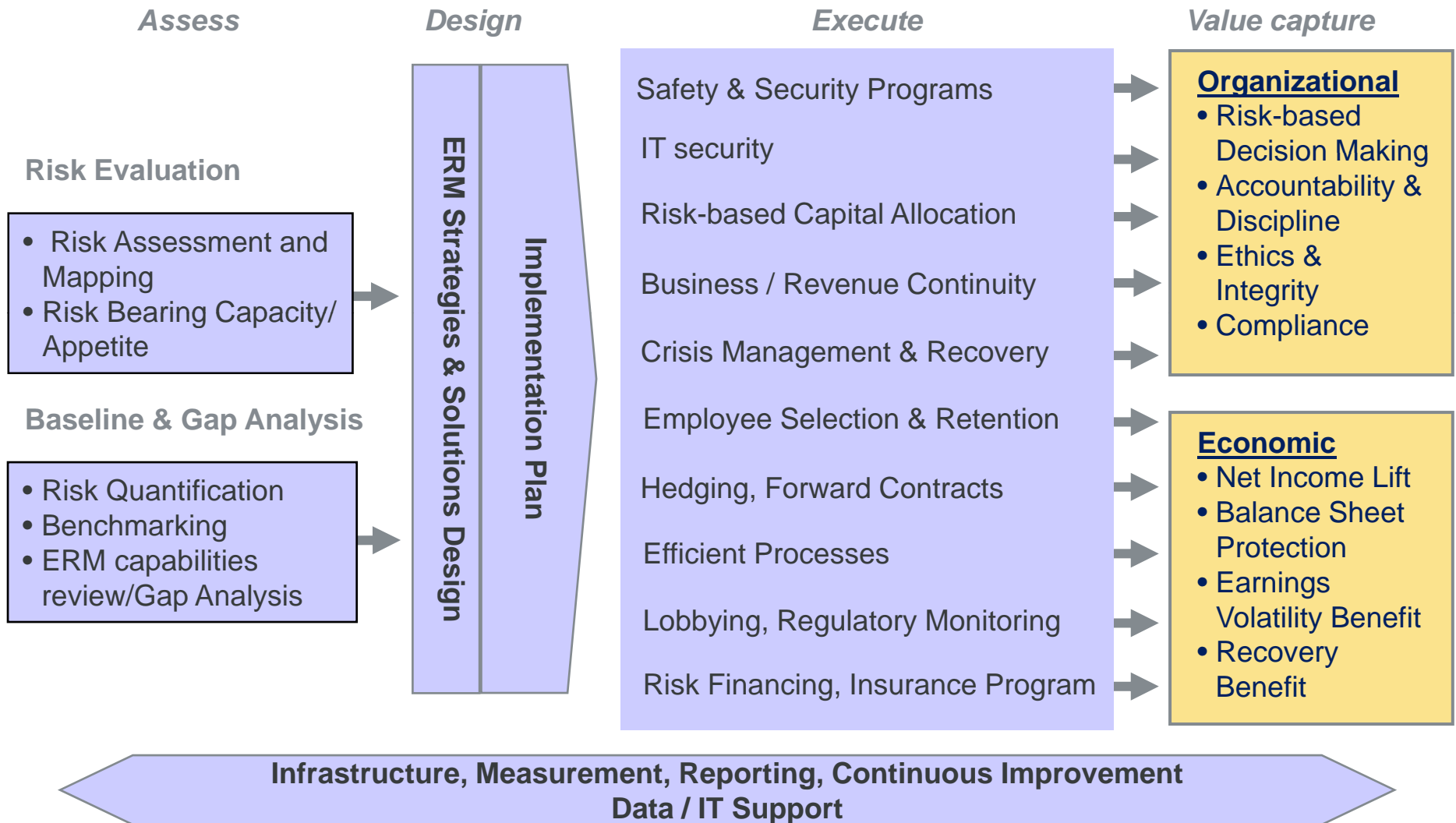
# ERM Infrastructure, Assessment and Mapping

# Critical Components of an ERM Framework

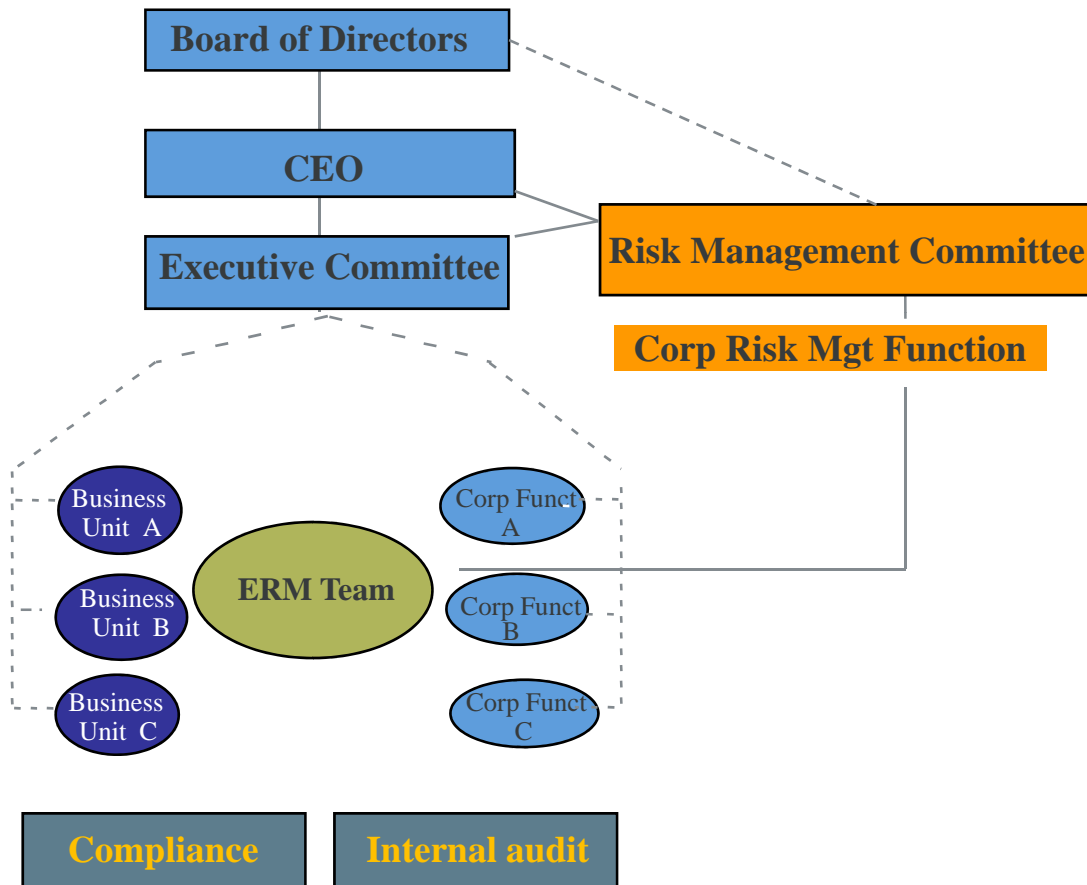
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# Project Approach to ERM



# RMC Oversight Structure – Governance and Accountability



**Governance**

**Coordinated Decision Making**

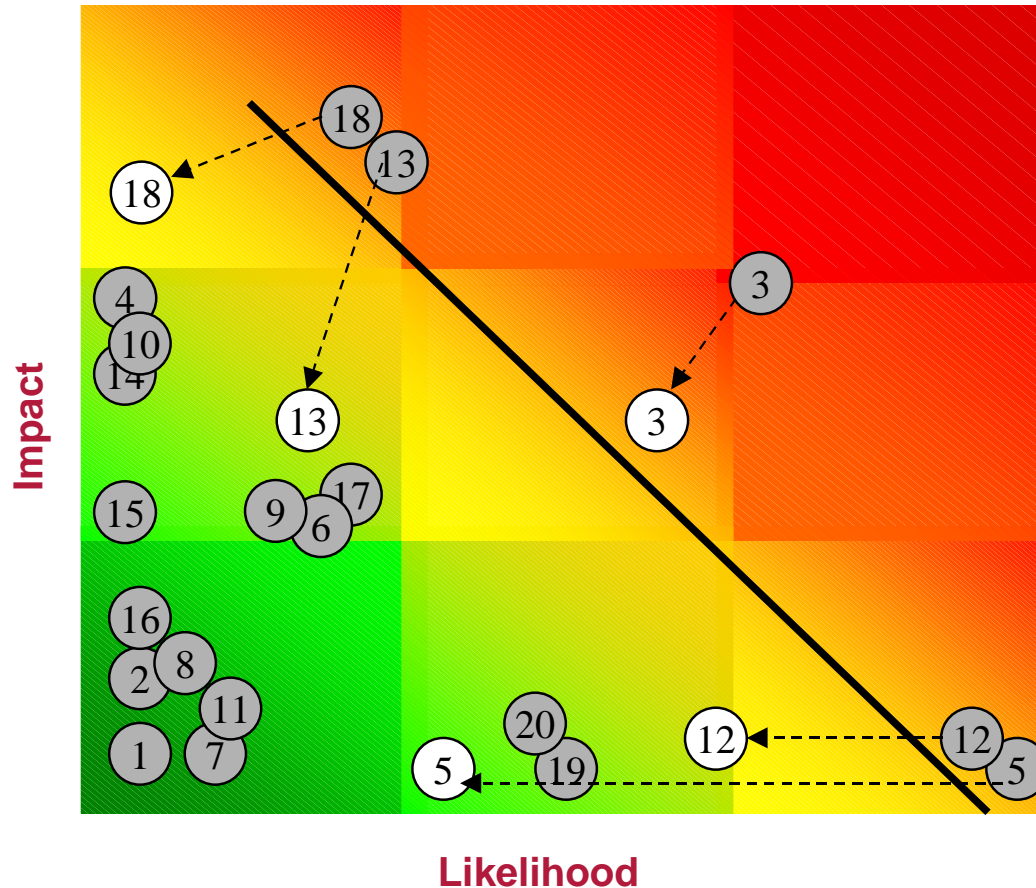
**Enable, Collect, Analyze, Facilitate and Synthesize**  
*“1<sup>st</sup> line of defense”*

**Operations and Support – Own, Manage and Report**  
*“Manage Risk at the Source”*

**Independent Validation Functions**  
*“2<sup>nd</sup> line of defense”*

# Risk Prioritization Map – Illustrative

Risk defined: *The uncertainties that the organization must understand and effectively manage to execute its strategies, achieve its business objectives and performance goals, and create value*

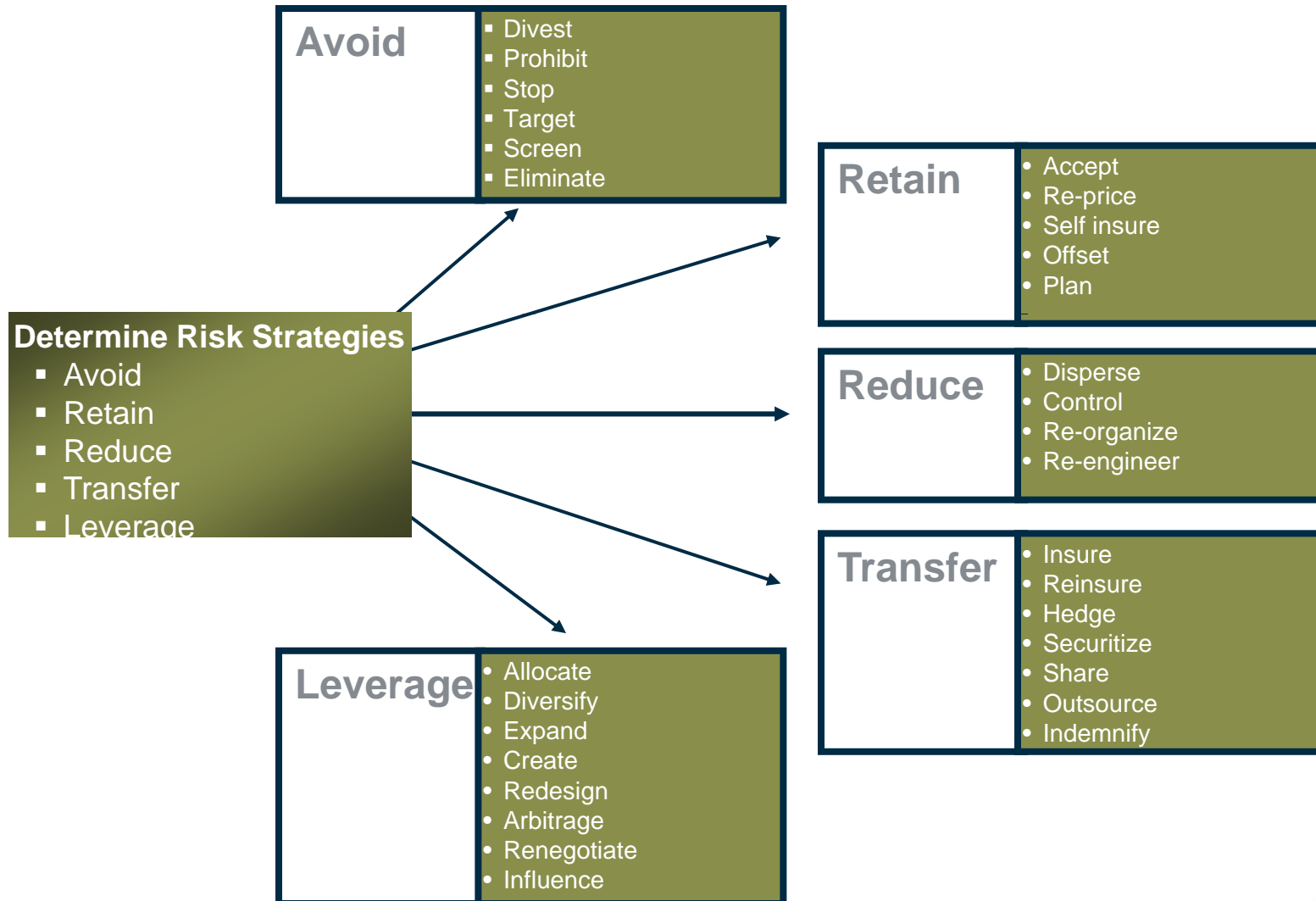


*Understanding the effect of risk impacts, probabilities and capabilities is key for a successful risk management process*

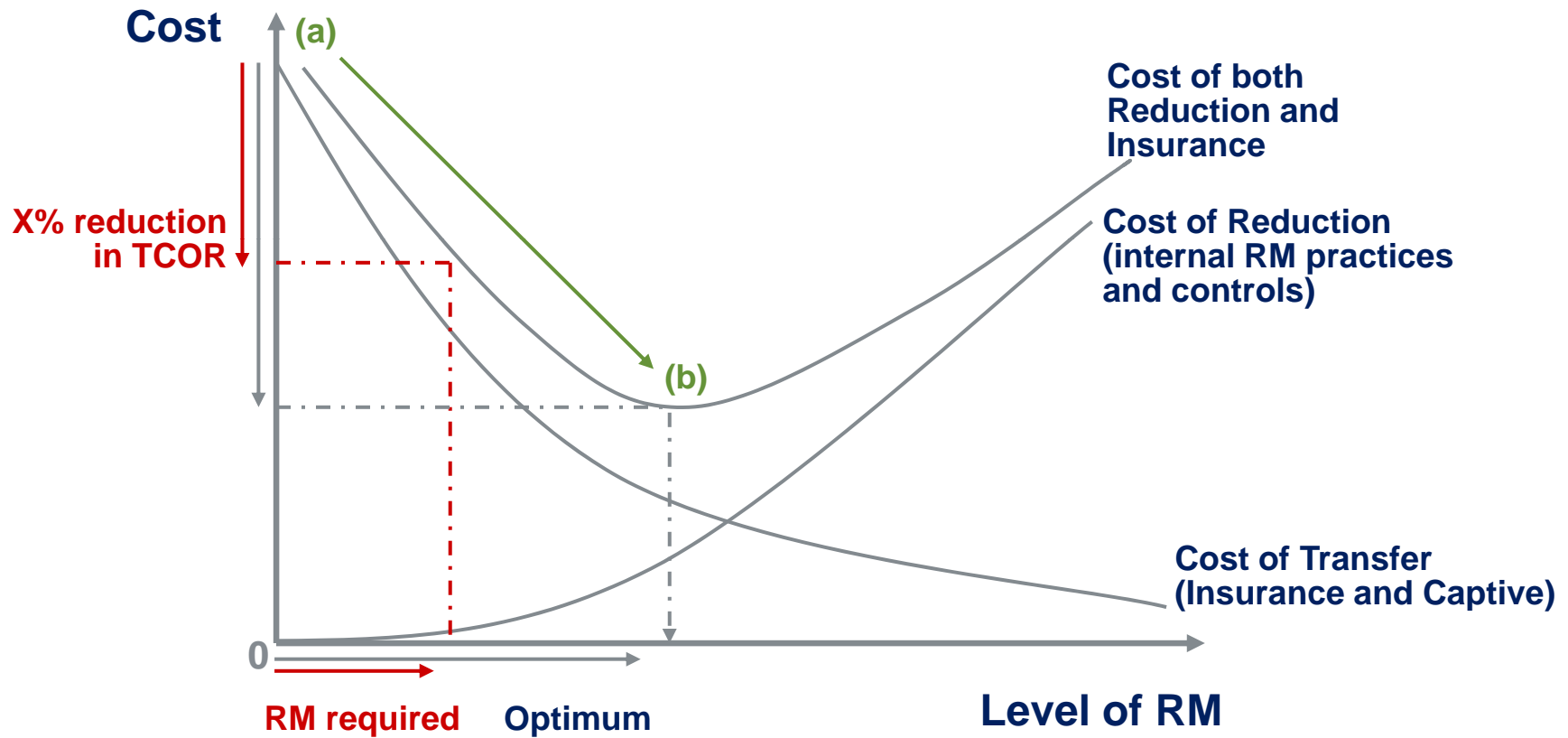


# Risk Strategies and Solutions

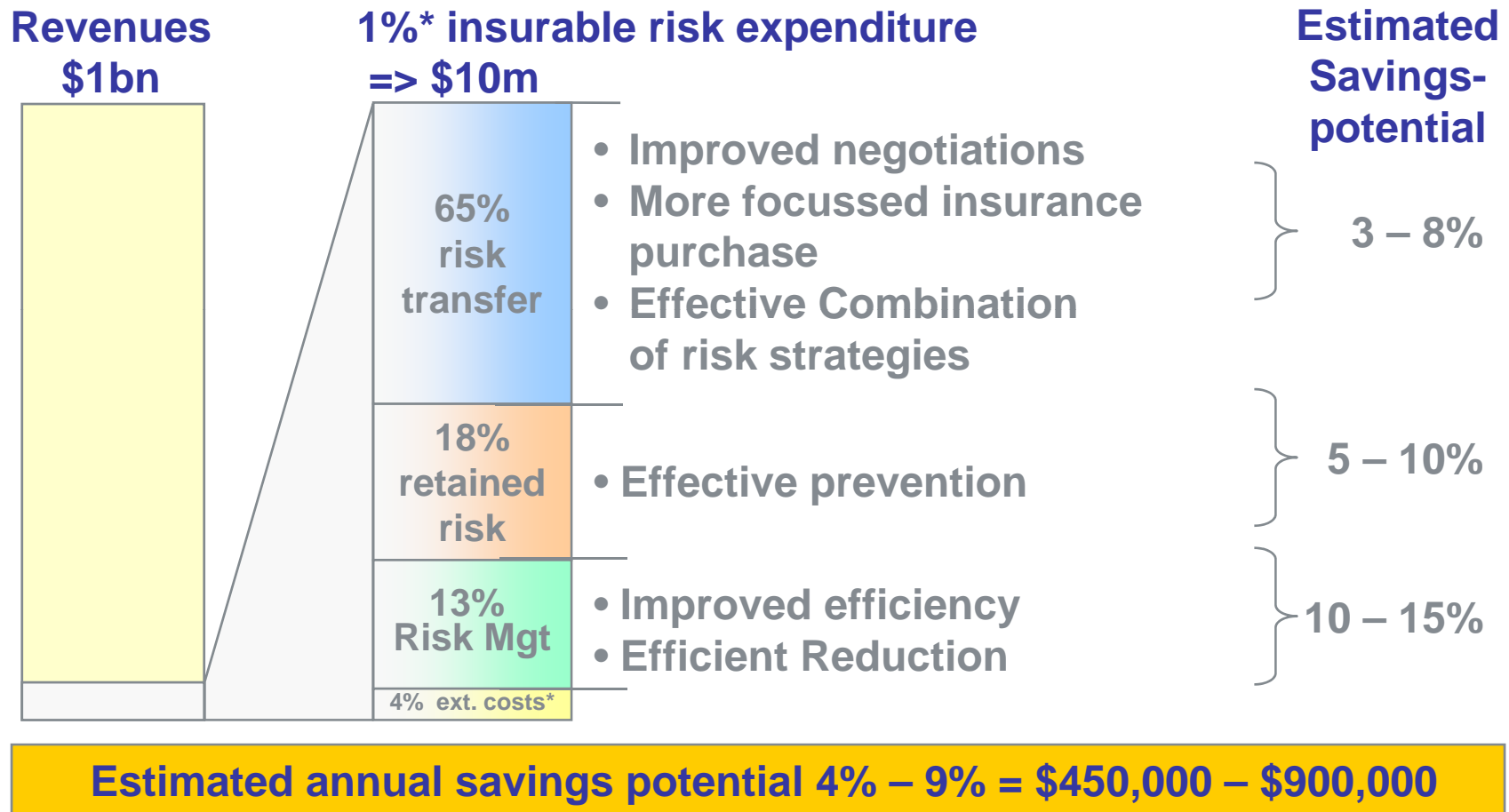
# Managers Can Choose from Alternative ERM Strategies



# Effective Combination of Risk Strategies – An Example of Reduction and Transfer



# Effective Combination of Risk Strategies – Implementation Business Case



# Improving Decision-making by Incorporating Risk Factors – Illustrative

Estimated Returns on Opportunities for Decommissioned Property (illustrative)

Business Option	Traditional ROI Analysis	Key Risk Factor	Representative Risk Reduction Costs	Risk Adjusted ROI Analysis
Lease Property to Third party	20%	Deferred Environmental Cleanup	Increased cleanup costs related to deferral	5%
Sell Property	25%	Future Lost Production	New contingency contracts to meet potential production shortfalls	10%
Hold and Maintain Property	40%	On-Site Injury Liability	Property upgrades to meet current safety standards	7%
Donate Property	15%	Immediate environmental Cleanup	Search costs for relevant recipient and additional 'permitted use' contracting	13%

*The tendency for traditional business cases to ignore or underestimate operational risks often misleads decision makers by distorting risk-reward profiles of competing alternatives*



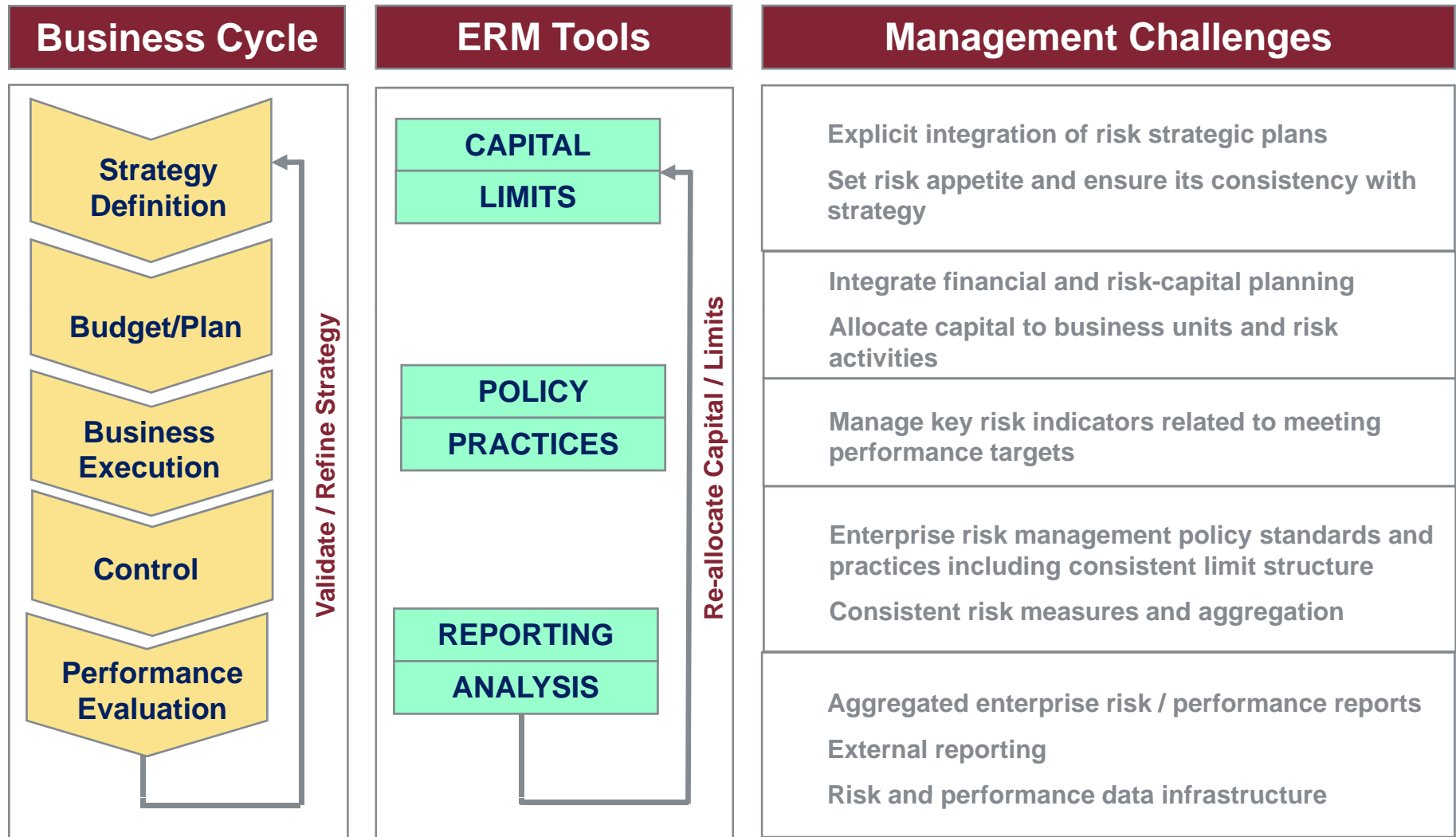
# Developing an 'Enhanced' Structure to Optimize ERM Capabilities

Type of Exposure	Level of Exposure	Risk Solution	Advantages
Expected	Low	Income and internal reduction	<ul style="list-style-type: none"> <li>Operating Group focus</li> <li>Efficient</li> </ul>
	Medium	Captive and/or internal reduction	<ul style="list-style-type: none"> <li>Cash flow</li> </ul>
Unexpected	High	Insurance	<ul style="list-style-type: none"> <li>Diversification</li> <li>Pooling</li> <li>Established Mechanism</li> </ul>
	Extreme	Capital markets, government, insurance & capital market hybrid	<ul style="list-style-type: none"> <li>Long-term</li> <li>Access to very large pool of capital</li> </ul>



**Making It Happen**

# Linking Strategy, Objectives and Appetite is Required to Effectively Manage Risk



# The Path Forward

## Building Risk Capabilities

Systematically Build and Improve Risk Management Capabilities

Capabilities are characteristic of individuals, not of the organization

Initial

Process established and repeating: reliance on people is reduced

Established

Policies, processes and practices defined and formalized across the organization

Uniform

Risks measured, managed and aggregated on an enterprise-wide basis

Managed

Organization focused on RM as a source of competitive advantage and continuous improvement

Optimizing

RISK

OPPORTUNITY

# A Summary of Key Benefits

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<b>Establish Sustainable Competitive Advantage</b>	<ul style="list-style-type: none"><li>↳ Integrate with business planning and value management processes</li><li>↳ Avoid missing key risks and losing vital opportunities</li><li>↳ Optimize balance between capital preservation and growth/profit-generation</li></ul>
<b>Manage Risk at a Lower Cost</b>	<ul style="list-style-type: none"><li>↳ Minimize risk averse behavior</li><li>↳ Develop cost-effective risk strategies and solutions</li><li>↳ Eliminate redundant or unnecessary risk controls</li></ul>
<b>Improve Business Performance</b>	<ul style="list-style-type: none"><li>↳ Support more informed/proactive risk management decisions aligned with business objectives/strategies</li><li>↳ Link to enterprise performance, measurement and monitoring</li><li>↳ Reduce volatility and prevent surprises</li></ul>

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