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Enterprise Risk Management: Realizing Profit from Risk

Raymond M. Slabaugh

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A Conceptual Overview
Presented by:

Raymond M. Slabaugh, III
Managing Director

Palmer & Cay Consulting Group
9020 Stony Point Parkway, Suite 200
Richmond, VA 23235
804 . 267 . 3206 Phone
804 . 330 . 4952 Fax
Ray_Slabaugh@palmercay.com
www.palmercay.com

I. Enterprise Risk Management

A. Common framework for identifying, defining, analyzing, correlating, measuring, controlling (via risk retention or risk transfer), and monitoring *all* the risks of the organization regardless of department or "silo";

B. Provides a central strategic practice focused on *actively managing the upside of risk that must be taken to gain profit* rather than the more common notion of protecting the company from losses through compliance procedures, hedging, and insurance.

II. Management Assurance / Mandated Board Governance

A. Turnbull Commission 1999 (United Kingdom)
   1. Executive management is responsible for identifying, evaluating, assessing, and managing their risks by December 31, 2000.

B. Conference Board of Canada (1997)
   1. Enterprise risk management is a critical tool to steer organizations through turbulent and volatile environments.

C. Codified Risk Management Standard 1997 (Australia)
   1. Corporate executives are responsible for the development, implementation, support, management, and monitoring of a organizational wide risk management program.

III. **"Fund Managers Say They Want Rankings to Reflect Governance"** The Wall Street Journal, 11/05/1999

A. A group of high-powered fund managers representing $3 trillion in capital is asking publishers of global-market indexes to do something they have never done before: factor the quality of corporate governance ...

IV. **Corporate Misfortunes (Stock Slides)**

A. AETNA - 3 Lawsuits (October 1999); Corporate Malfeasance, RICO, False Advertising. Plaintiff attorneys creating public policy;

B. Hershey Foods (October 1999); Computer System Failure (new in April 1999) before Halloween and Christmas can't get product to suppliers, short-term loss of market share to competitors. Adverse affect on EPS.

C. Boeing/McDonnell Douglas (October 1999)- Company should have known about technology transfers to China; Federal Indictment against company.

D. Coca -Cola (June 1999) -Financial & Reputational Damage. Failure of Public Relations Strategy to adequately address contamination issues. Company assessments indicate this incident will substantially affect corporate earnings for 2nd, 3rd and 4th Qtr 99 and potentially into 2000.

V. **Why Should Palmer & Cay Provide ERM?**

A. Repositions Marsh from transactional to consulting mode;

B. Proactive approach - not waiting for RFP;

C. Logical risk management approach - identification through transfer;

D. Not limited by current placement;

E. Easier to move discussion to strategic issues;

F. Able to demonstrate breadth of available MMI resources;

G. We have the capabilities and resources;

H. Additional revenue possible;

I. ***If We Don't - Our Competitors Will!*** Price, D&T, Towers Perrin, Aon

VI. Current Risk Management Paradigm

A. Narrow "silocentric" risk identification, definition and measurement;

B. Impact on equity and shareholder value typically does not include measurement or effect of risk;

C. No definition or understanding of absolute worst case scenario;

D. No corporate plan to identify, evaluate, and correlate risks of the company;

E. No strategic risk financing or risk mitigation plan among corporate silos; or consistent method of quantifying Risk and determining what is *material* to the company.

F. Strategic decisions often fail to take into account the full impact of risk on the company or its stakeholders

VII. What is Risk?

A. *Chart*

VIII. Risk Balance Wheel: Changing the Future of Risk

A. *Chart*

IX. Types of Risk

A. Risk in Your Control

B. Risk You Can Influence

C. Risk Outside Your Control

D. Unknown Risk

X. Why Enterprise Risk Management

A. Fidelity Investments

B. Coca-Cola Bottling

XI. Strategic Risk Management Questionnaire

A. Why does Palmer & Cay exist?

B. As an Executive Committee or Board, what obstacles do you see that affect your goals and objectives?

C. If you had additional resources to help achieve your objectives, what would they be?

D. In your opinion, what is the worst thing that *could happen* to Palmer & Cay?

E. In your opinion, what is the worst thing that *has already happened* at Palmer & Cay?

F. What are the critical areas inside and outside Palmer & Cay that give you the most concern (and why)?

G. What is your definition of "risk"?

H. List 10 adverse situations you feel would have impact on Palmer & Cay.

I. List 10 opportunities that you believe would positively affect the profitability and survival of Palmer & Cay.