

Second Enterprise Risk Management Seminar

**ERM 2010**



Institute of Actuaries of Australia

**– It's All About Opportunity**

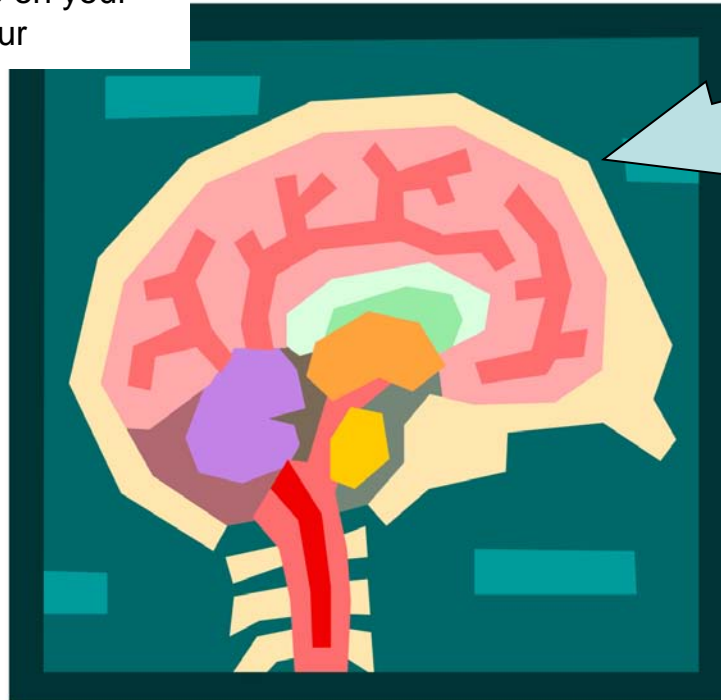
AMORA JAMISON HOTEL, 11 JAMISON STREET, SYDNEY

Tuesday 21 September 2010

# **Crisis- Proofing the Organisation: is it possible?**

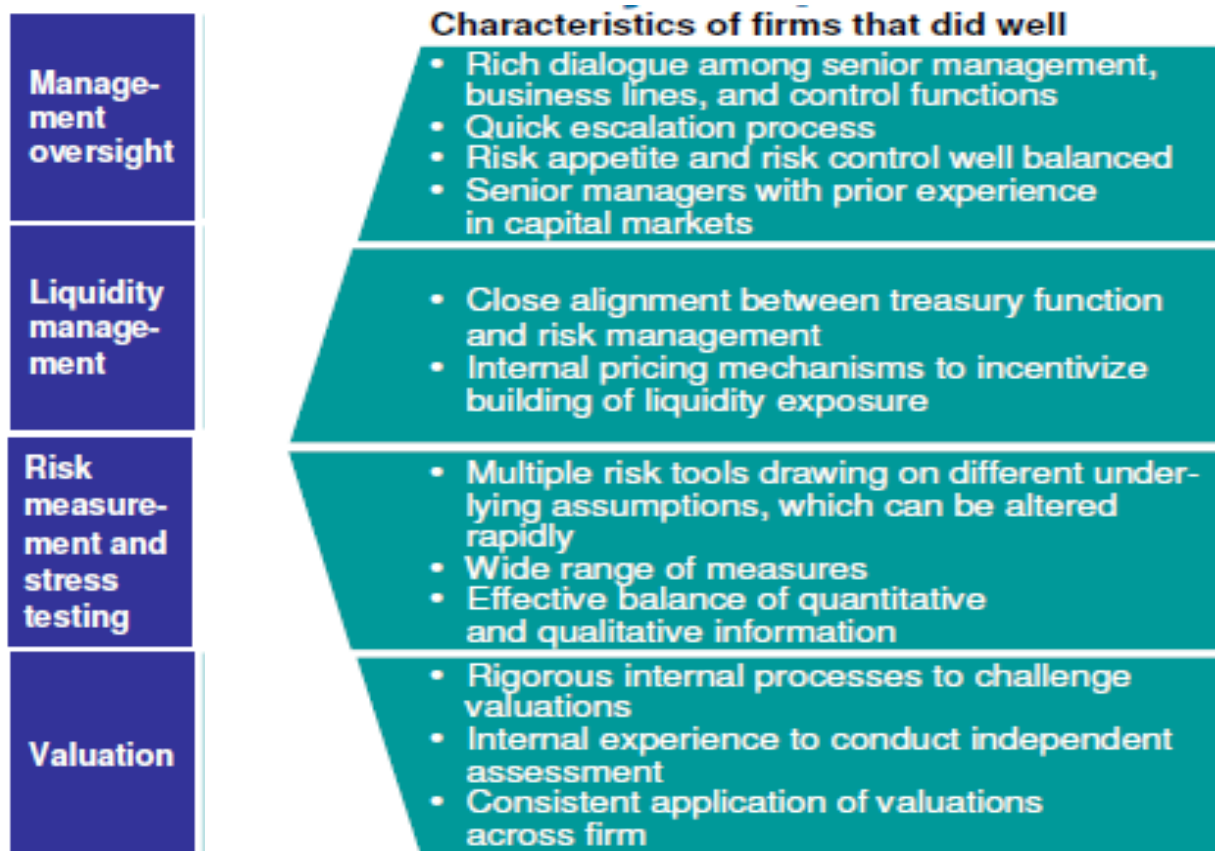
**Colleen Guray**

The more an issue matters, the less likely you are to be on your best behaviour



Limbic system – modulates fight / flight

### Key lessons learned from risk management failures and successes have driven the global industry response



<sup>1</sup> This assessment is based on an analysis of 11 of the largest banks and securities firms

SOURCE: Senior Supervisors Group; Observations on Risk management Practices during the Recent Market Turbulence (March 6, 2008)



### Key lessons learned from risk management failures and successes have driven the global industry response

#### Characteristics of firms that did not do well

<p><b>Management oversight</b></p>	<ul style="list-style-type: none"> <li>• "Organizational silos"</li> <li>• (Aggressive) expansion of risk without clear guidance</li> <li>• Little capital market experience in senior management</li> </ul>
<p><b>Liquidity management</b></p>	<ul style="list-style-type: none"> <li>• Treasury function lacked information across all businesses</li> <li>• Contingency plans based on incomplete information</li> </ul>
<p><b>Risk measurement and stress testing</b></p>	<ul style="list-style-type: none"> <li>• Limited number of specific risk measures, incorporating outdated or inflexible assumptions</li> <li>• Limited integrated view across businesses</li> </ul>
<p><b>Valuation</b></p>	<ul style="list-style-type: none"> <li>• Lack of relevant internal valuation models for complex products</li> <li>• Heavy reliance on external valuations</li> </ul>

<sup>1</sup> This assessment is based on an analysis of 11 of the largest banks and securities firms

source: Mark Lawrence IAA ERM 29/9/2009

SOURCE: Senior Supervisors Group, Observations on Risk management Practices during the Recent Market Turbulence (March 6, 2008)

## Summary of industry recommendations for effective Risk Management and Governance

### Structure

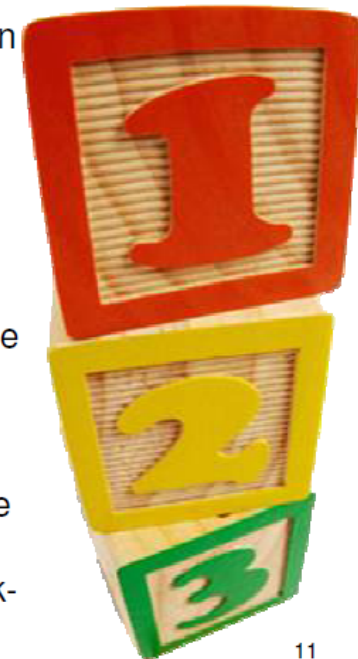
- Dedicated Board Risk Management Committee, with strong industry experience & risk management skills
- Independent CRO responsible for all risks, reporting to CEO and Board, with stature to influence decisions
- Adequately resourced risk management organisation

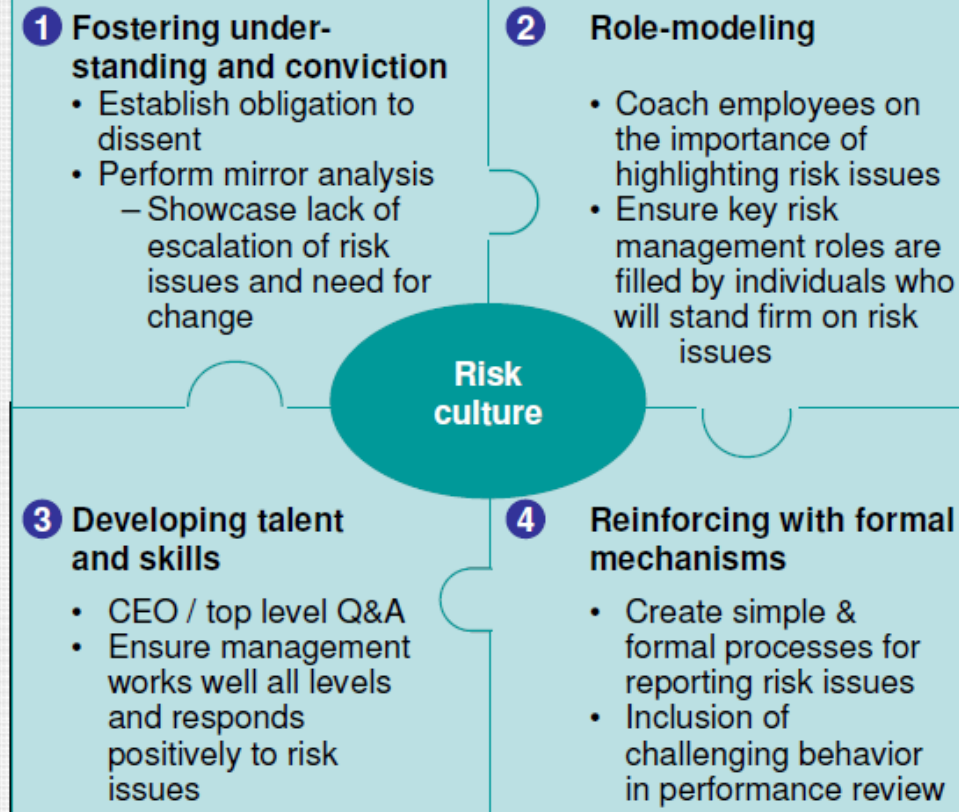
### Board Responsibility

- Ensure effective dialogue about risks at all levels
- Clearly define risk appetite for all businesses & ensure coherence with business plans & strategy
- Deeply understand integrated risk profile & how this is changing, including risk concentrations

### Culture

- Ensure risk culture is robust and effective – diagnose & address weaknesses as necessary
  - Ensure all employees understand their responsibilities for risk management
  - Ensure (formal and informal) information flows are effective and “bad news travels”
  - Ensure compensation schemes do not induce risk-taking in excess of firm’s risk appetite





**This four part model is used to address each of the underlying causes for risk culture failure**

Second Enterprise Risk Management Seminar

# ERM 2010

**- It's All About Opportunity**



Institute of Actuaries of Australia

AMORA JAMISON HOTEL, 11 JAMISON STREET, SYDNEY

**Tuesday 21 September 2010**



Second Enterprise Risk Management Seminar

**ERM 2010**

**- It's All About Opportunity**

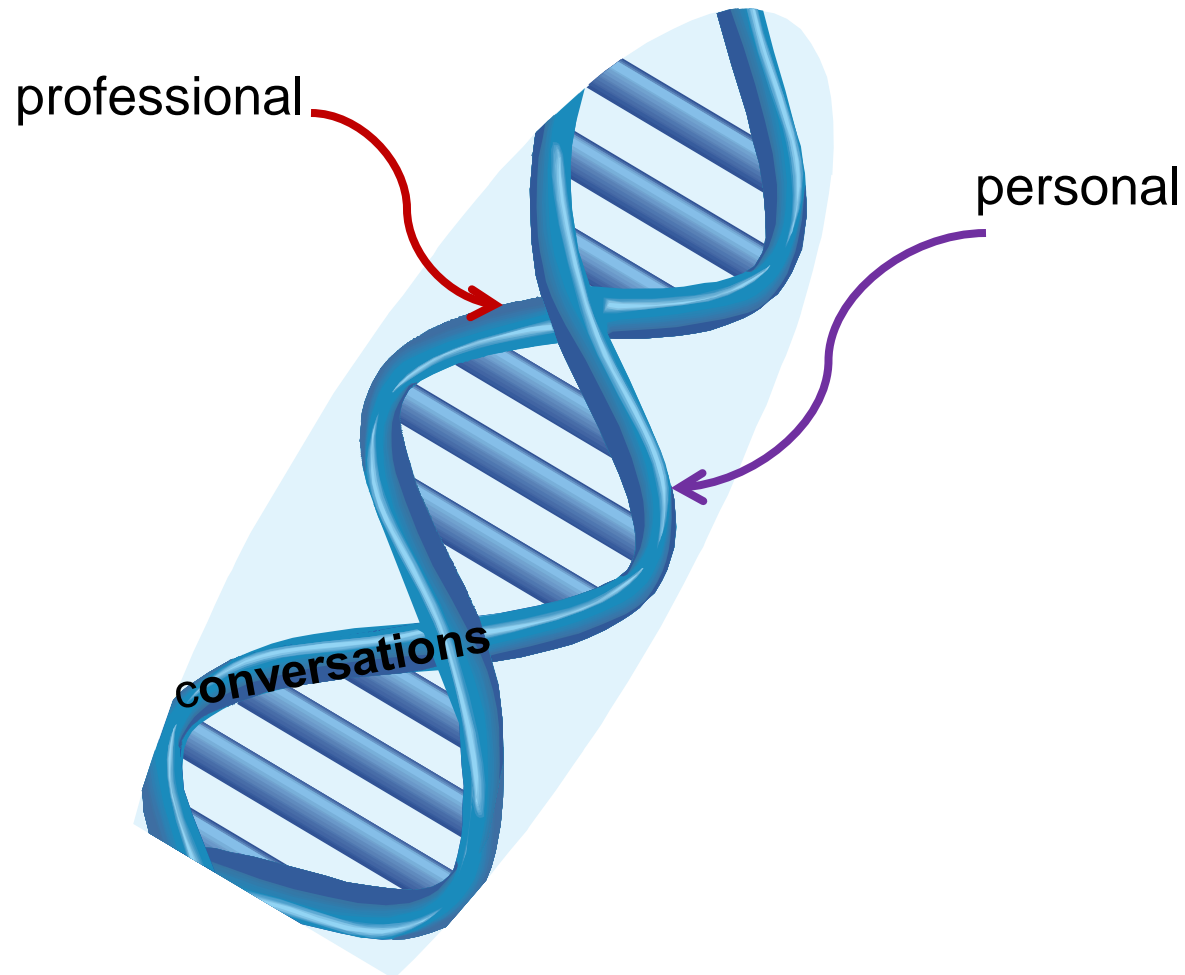


Institute of Actuaries of Australia

AMORA JAMISON HOTEL, 11 JAMISON STREET, SYDNEY

**Tuesday 21 September 2010**

# LEADERSHIP



Visible behaviour

Underlying cultural currents::

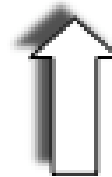
- Assumptions
- Attitudes
- Beliefs
- Values
- Emotions



### Embracing the “Shadow System” brings Health.....

The FORMAL System:  
espoused values, norms,  
expectations

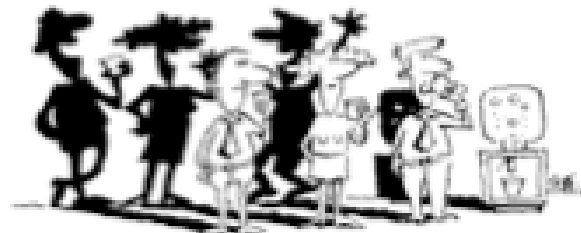
Downside:  
Repressed anxiety  
creates malevolent  
undercurrents



Upside: Allowing  
diversity, uncertainty,  
& healthy conflict  
enables creativity  
& innovation!

“Conversation”

The “Shadow System”



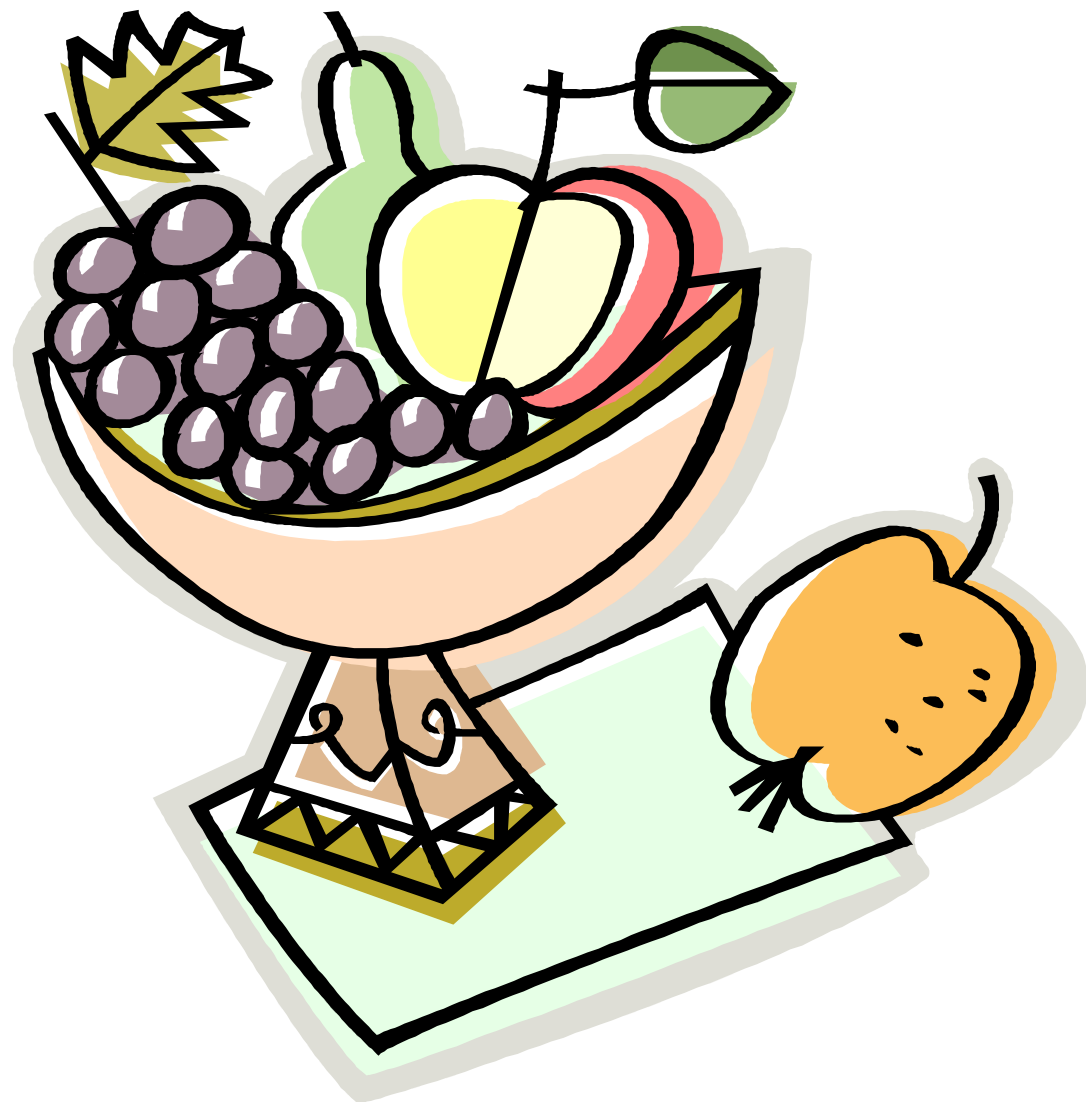
# ERM 2010

- It's All About Opportunity



AMORA JAMISON HOTEL, 11 JAMISON STREET, SYDNEY

Tuesday 21 September 2010



# ERM 2010

## - It's All About Opportunity



AMORA JAMISON HOTEL, 11 JAMISON STREET, SYDNEY

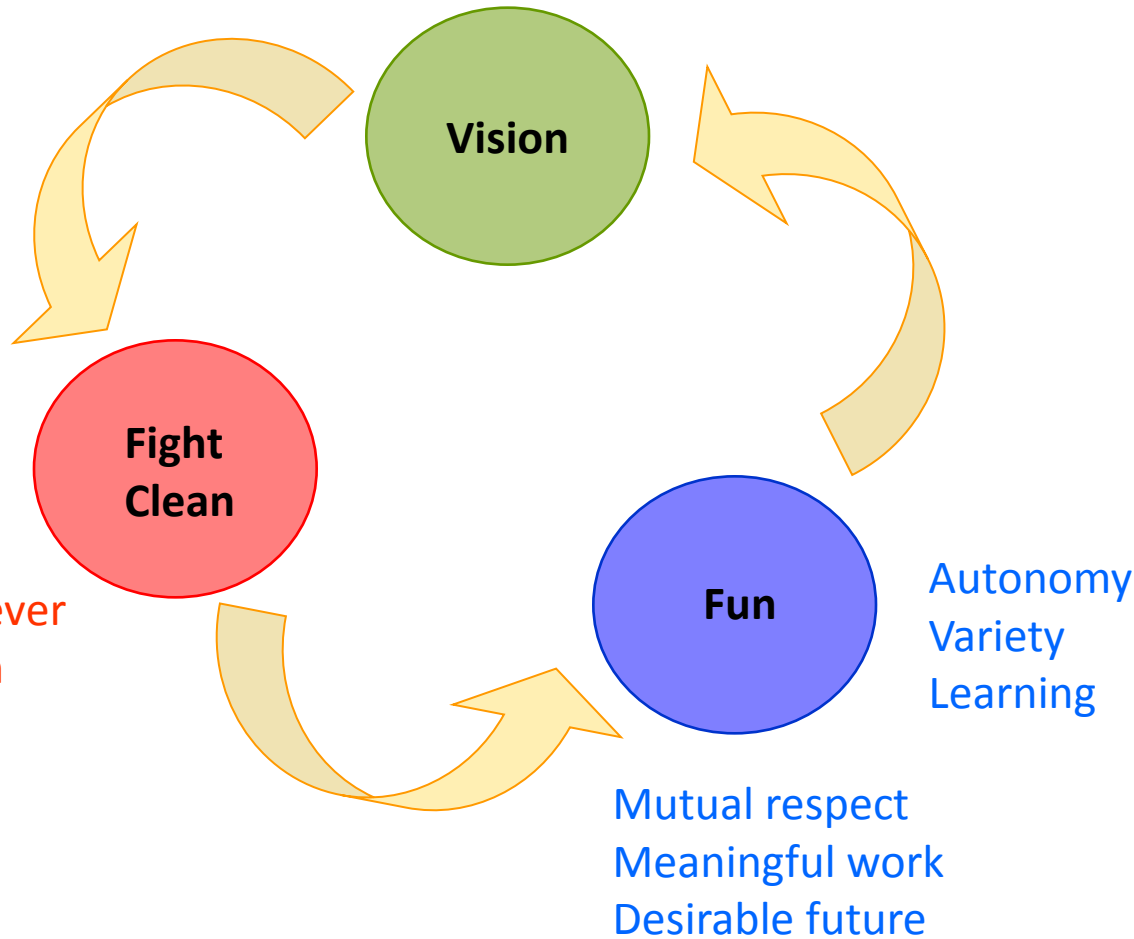
Tuesday 21 September 2010



## What is Integrity?

*....a personality structure comprising*

- Ability to tell the ***truth*** to self and others
- Ability to understand own impact on the system and to take responsibility for this
- Ability to hold others ***accountable***
- ***Loyalty*** to the greater good



Biggest fight you'll ever  
have is the one with  
yourself!