
**The Premier Business Leadership Series Hong Kong
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**“Meeting the Challenges of
Enterprise Risk Management”**

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Agenda

- ❖ **Enterprise Risk Management (ERM) defined**
- ❖ **Key benefits**
- ❖ **The evolution of ERM and several leading models**
- ❖ **Key components**
- ❖ **Heat mapping as a tool for enhanced decision making**
- ❖ **The “D Risks” and how ERM helps to manage them**
- ❖ **Closing comments**

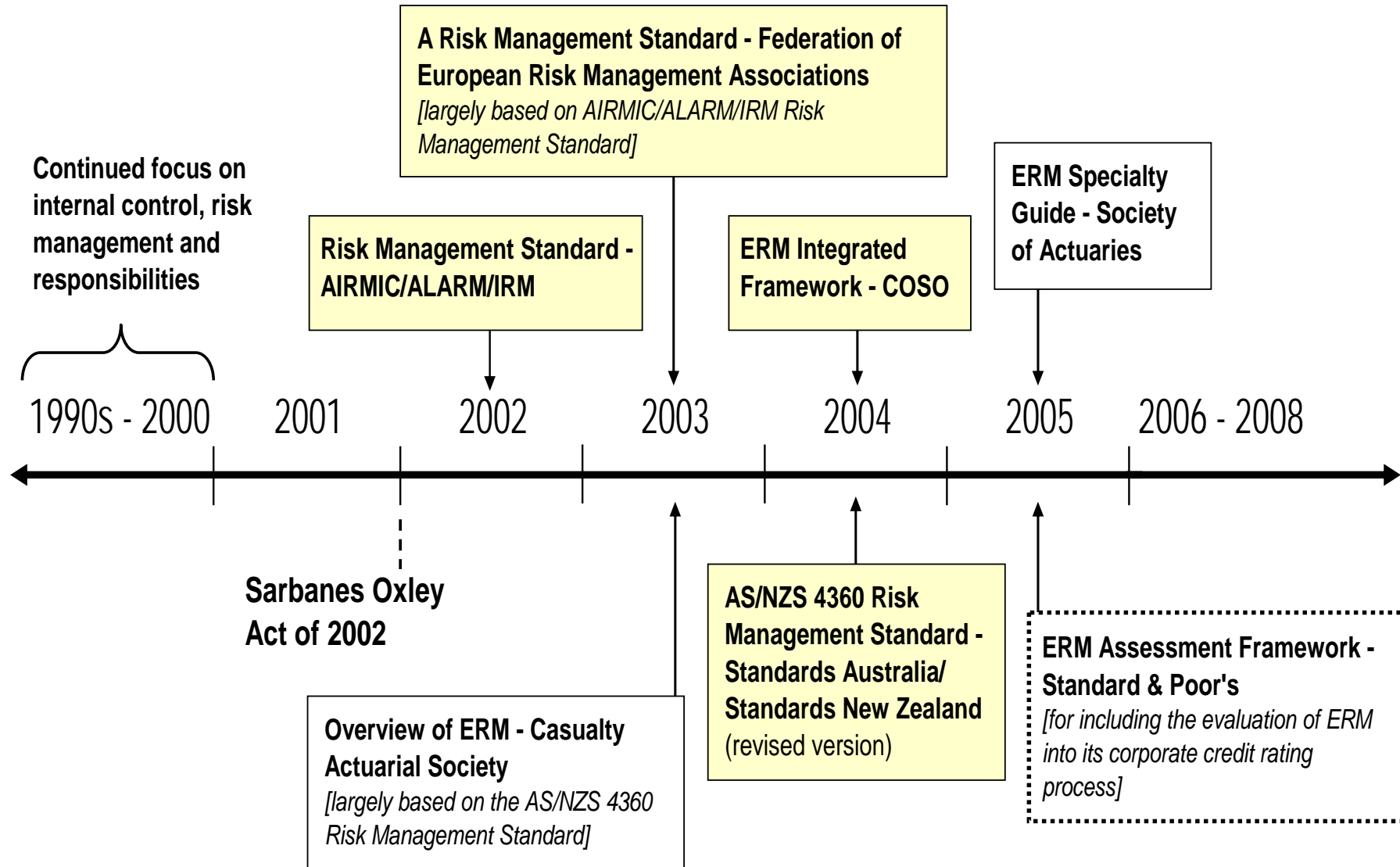
- ❖ *The process whereby all material risks faced by an organization are identified, assessed and effectively managed within a coordinated and strategic framework.*

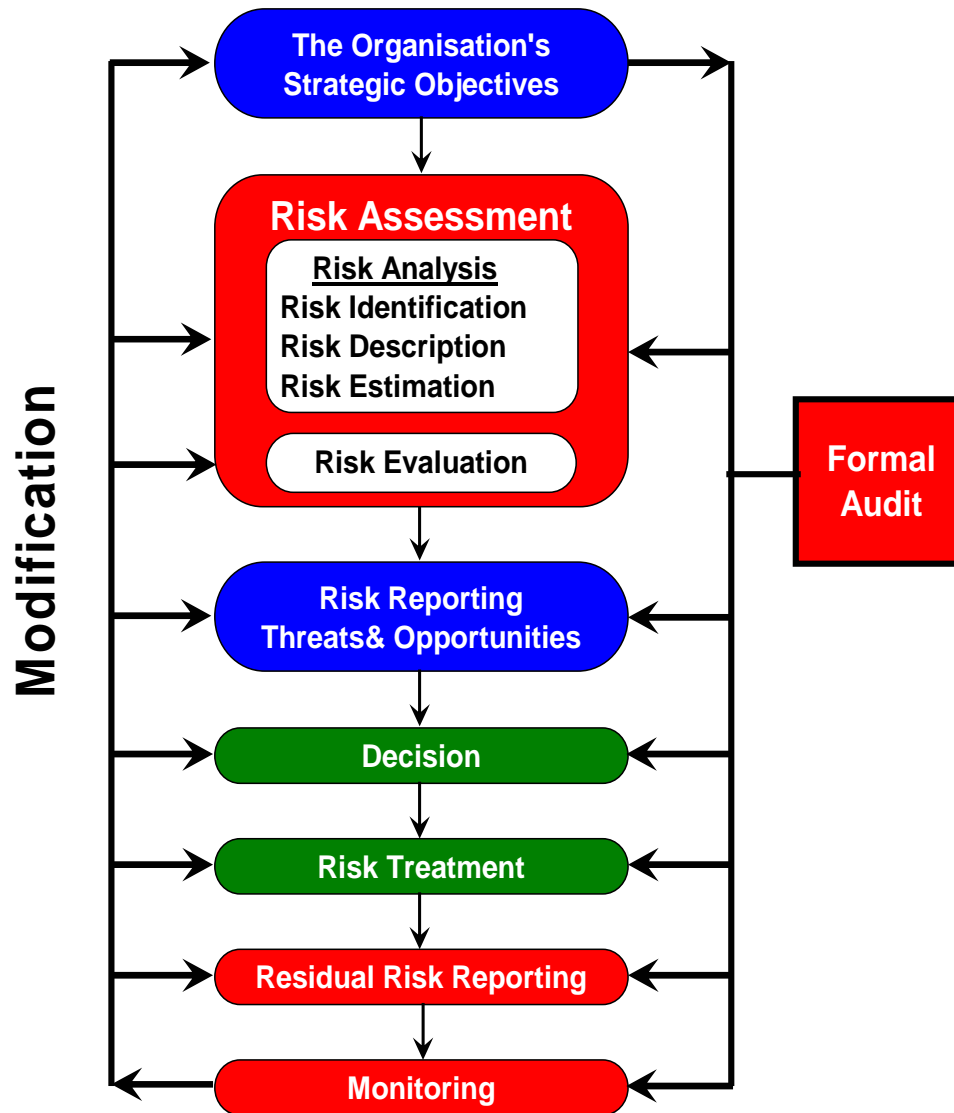
Key Benefits of an Effective ERM Framework



- ❖ Provides a systematic way to identify all material risks.
- ❖ Enhances the ability to manage risks on an aggregate level.
- ❖ Reduces the risk of major risk events interfering with the priority objectives of the organization.
- ❖ Enables the organization to better manage emergent risks.
- ❖ Promotes greater operational efficiency.
- ❖ Contributes to informed decision making.

ERM Evolution and Related Key Publications



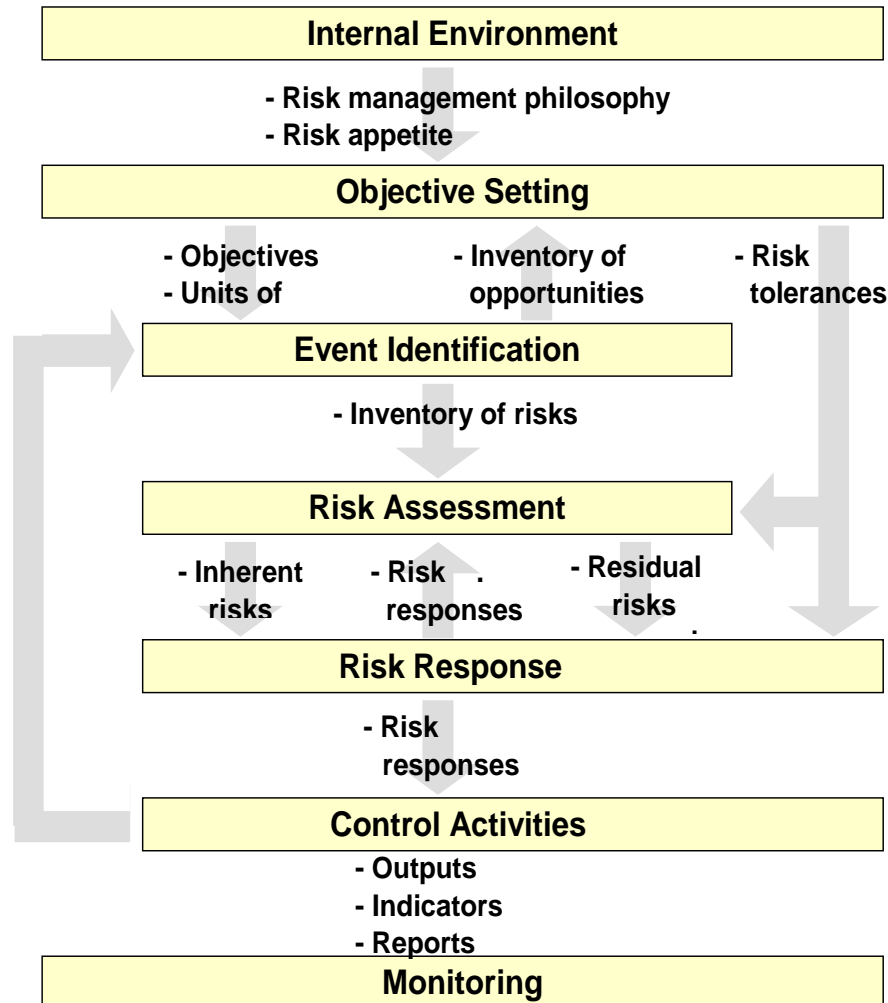


Some personal views:

- ❖ Emphasizes the understanding of the **external and internal drivers** of key risks faced by the organization.
- ❖ Stresses the importance of **relating risk management to the strategic objectives of the firm.**
- ❖ Easy to understand the risk management process but **provides limited guidance on the implementation** of each step.

Source for diagram: A Risk Management Standard published in 2002 by the Association of Insurance and Risk Managers (AIRMIC); ALARM, the Public Risk Management Association; and the Institute of Risk Management (IRM)

COSO ERM – Integrated Framework (2004)



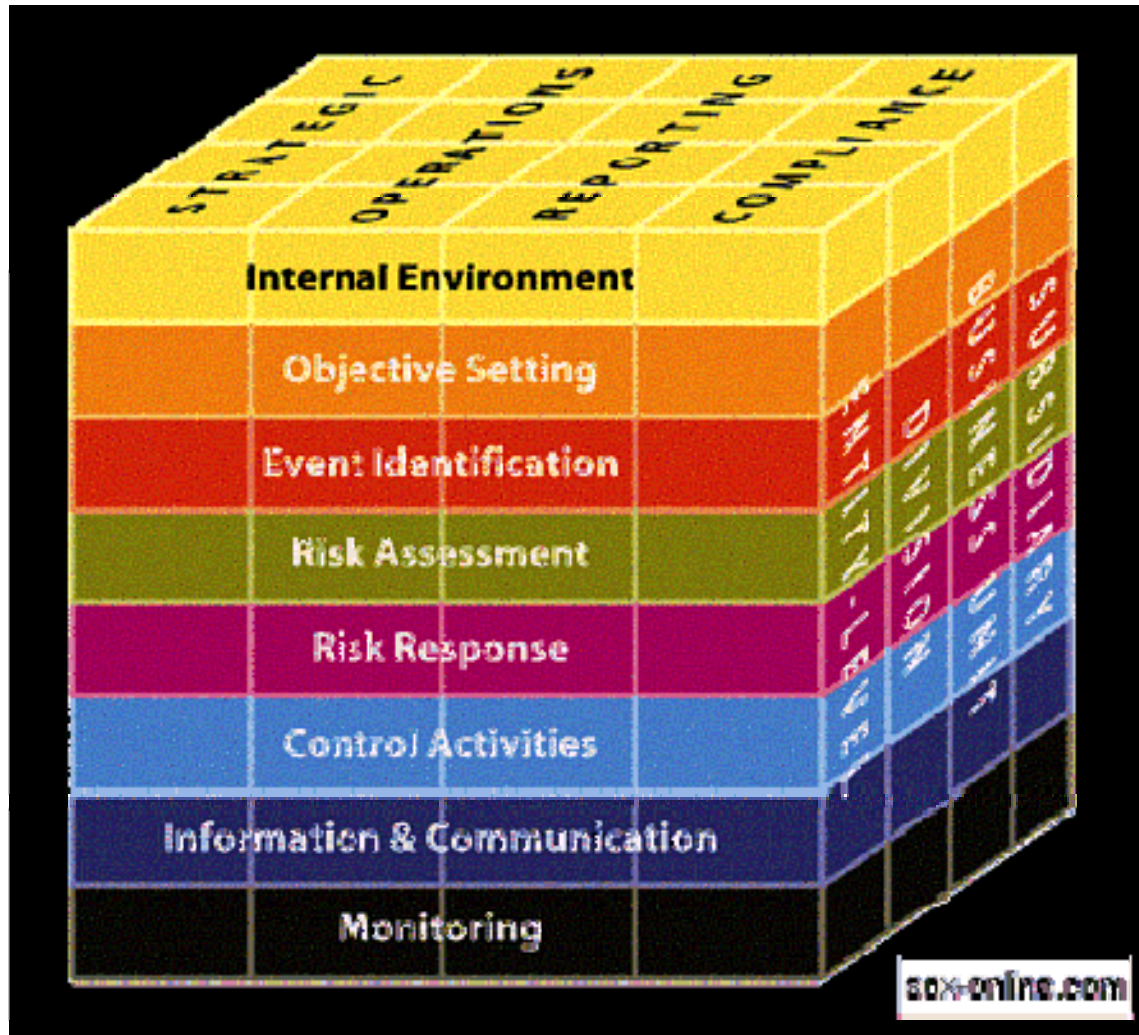
Some personal views:

- ❖ It provides a comprehensive vision of ERM.
- ❖ Emphasizes the need for understanding **the internal environment and the objectives of the organization**. “Objective setting” is one of the key steps of the risk management process and is a precondition to event identification.
- ❖ Worth studying from a theoretical standpoint but falls short in terms of guidance on **how to apply the principals from a practical standpoint**.

Source for diagram: *Enterprise Risk Management – Integrated Framework: Application Techniques* published in 2004 by the Committee of Sponsoring Organizations of the Treadway Commission)

The COSO Cube

(The Committee of Sponsoring Organizations of the Treadway Commissions)

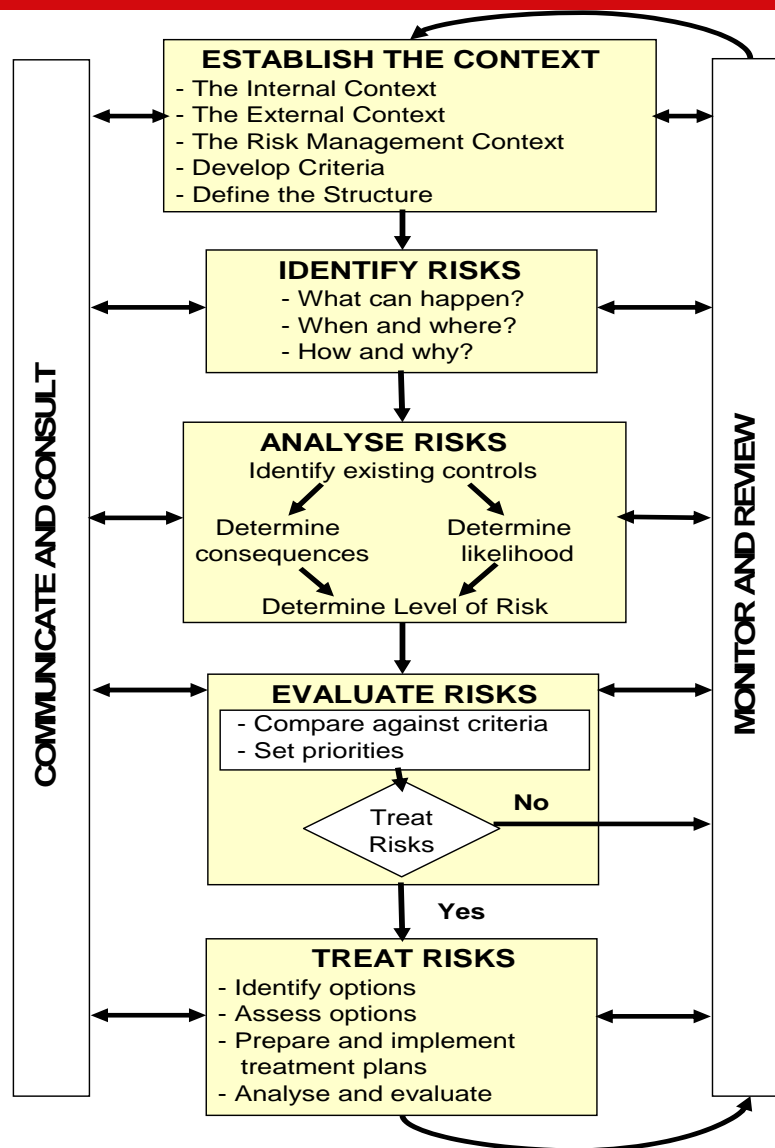


Source: http://www.sox-online.com/coso_cobit_coso_cube-new.html

An alternative cubist perspective on ERM



The Australian/New Zealand Risk Management Standard AS/NZS 4360 (2004)



Some personal views

- ❖ Emphasizes the understanding of the **external and internal environment** of the firm in which the objectives are pursued.
- ❖ Offers a **flexible approach** which in my view makes the key stages of the risk management process **relatively easy to understand**.
- ❖ Provides more detailed **guidance for implementation across the organization**.

Source for diagram: *The Australian/ New Zealand Risk Management Standard AS/NZS 4360 (2004) published in 2004 by Standards Australia and Standards New Zealand.*

❖ Establish the risk context

- Establish the frame of reference for how risks will be evaluated through the process
- Design a risk register for capturing the key details
- Design risk reference tables for the key scoring and triggered action
 - Likelihood
 - Impact
 - Combined risk scoring / Heat mapping
 - Risk Acceptance (establishing triggers for mandatory actions)

❖ Risk Identification

- Workshop the resident experts and front line risk owners to identify all significant risks
- Define each risk

❖ Risk Assessment

- Score the likelihood & impact based on the risk context that has already been established
- Assess whether the risk level of each risk is to be accepted or not

❖ Risk Treatment

- Identify the appropriate options and design specific risk treatment plans with owners
- Higher level review and sign-off on approved risk treatment plans

❖ Risk Reporting & Monitoring

- Establish formal procedures and routines for reporting and monitoring of action plans
- Heat mapping of the most significant risks for stakeholder assessments and review

Heat Mapping as a Tool for Enhanced Decision Making

3 X 3

		Impact		
		Low -1	Medium -2	High -3
L i k e l i h o o d	High -3	(R5)		(R1)
	Medium -2	(R7)	(R3)	(R2)
	Low -1	(R8) (R9) (R10)	(R6)	(R4)

5 X 5

		Impact				
		Negligible -1	Minor -2	Moderate -3	High -4	Extreme -5
L i k e l i h o o d	Almost certain -5					
	Likely -4		(R5)		(R1)	
	Medium -3		(R7)	(R3)		(R2)
	Unlikely -2	(R10)	(R8) (R9)	(R6)		
	Rare -1					(R4)

The “D” Risks (particularly relevant to ERM)

- ❖ **D**eficient Expertise Risk
- ❖ **D**eliberation Risk (actually over-deliberation risk)
- ❖ **D**ifficulty Risk
- ❖ **D**isastrous Risk (Catastrophic)
- ❖ **D**isconnect Risk (Silo and/or absence of ownership)
- ❖ **D**istracted Risk
- ❖ **D**on't Dare to Say Risk

- ❖ *“Risk is all about uncertainty or, more importantly, the effect of uncertainty on the achievement of objectives. The really successful organizations, work on understanding the uncertainty involved in achieving their objectives and ensuring they manage their risks so as to ensure a successful outcome.” - Kevin Knight, ISO*
- ❖ *“If you do not actively attack the risks, they will actively attack you.” -Tom Gib*
- ❖ *“Good Risk Management fosters vigilance in times of calm and instills discipline in times of crisis.” - Dr. Michael Ong*

Thank you

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