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1 June 2009

## Risk perspectives - Eliminating doubt

Bill May, head of risk management, Crisis Survivor

The Companies Act 2006 has codified the requirements of directors and established where responsibility - and therefore blame and personal liability - lies.

Enterprise Risk Management (ERM) includes the methods and processes businesses use to manage risks and seize opportunities. It provides a framework that involves identifying circumstances relevant to the business' objectives and assessing their likelihood and magnitude of impact, determining a response strategy and monitoring progress. By identifying and addressing this, businesses protect and create value for their stakeholders.

ERM can also be described as a risk-based approach to managing an enterprise, integrating concepts of strategic planning, operations management and internal control. It is evolving to address the needs of stakeholders wanting to ensure risks are managed as regulators have increased their scrutiny on this.

There are various important ERM frameworks. Management selects a risk response strategy for specific risks identified and analysed, such as:

- Avoidance: eliminating the activities giving rise to risk
- Reduction: taking action to reduce the likelihood or impact related to the risk
- Share or insure: transferring or sharing a portion of the risk to mitigate
- Accept: no action is taken due to a cost or benefit decision

ERM, as defined by the Risk and Insurance Management Society, is the culture, processes and tools use to identify strategic opportunities and reduce uncertainty. It is a comprehensive view of risk from operational and strategic perspectives, reducing uncertainty and promoting opportunity.

So why is ERM so important to the broker? Simply put, when brokers deliver ERM as part of their overall service, clients can be moved from price-based purchasing to value-based relationships, enabling brokers to discover more about their clients and allowing them to demonstrate how their expertise can help to achieve tangible business goals.

