

Enterprise Risk Management - Fact Sheet

Overview

History

Due to questionable corporate political campaign finance practices and corrupt practices in the mid -1970s, the U.S. Securities and Exchange Commission (SEC) and the U.S. Congress enacted campaign finance law reforms and the 1977 Foreign Corrupt Practices Act (FCPA) which criminalized transnational bribery and required companies to implement internal control programs. In response, the Treadway Commission, a private-sector initiative, was formed in 1985 to inspect, analyze, and make recommendations on fraudulent corporate financial reporting.

The Treadway Commission studied the financial information reporting system over the period from October 1985 to September 1987 and issued a report of findings and recommendations in October 1987 titled *Report of the National Commission on Fraudulent Financial Reporting*[\[1\]](#). As a result of this initial report, the Committee of Sponsoring Organizations (COSO) was formed and it retained Coopers & Lybrand, a major CPA firm, to study the issues and author a report regarding an integrated framework of internal control.

The **Committee of Sponsoring Organizations of the Treadway Commission (COSO)** is a voluntary private-sector organization, established in the United States, dedicated to providing guidance to executive management and governance entities on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

The COSO Sponsoring Organizations are:

- American Accounting Association
- American Institute of Certified Public Accountants
- Financial Executives International
- Association for Accountants and Financial Professionals in Business
- The Institute of Internal Auditors

What is Enterprise risk management (ERM)?

Enterprise risk management (ERM) in business includes the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organization's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a

response strategy, and monitoring progress. By identifying and proactively addressing risks and opportunities, business enterprises protect and create value for their stakeholders, including owners, employees, customers, regulators, and society overall.

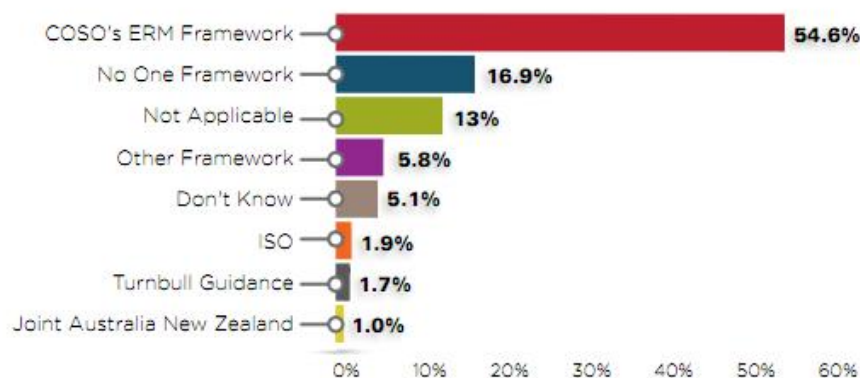
ERM can also be described as a risk-based approach to managing an enterprise, integrating concepts of internal control, Sarbanes–Oxley Act, and strategic planning. ERM is evolving to address the needs of various stakeholders, who want to understand the broad spectrum of risks facing complex organizations to ensure they are appropriately managed. Regulators and debt rating agencies have increased their scrutiny on the risk management processes of companies.

The **financial crisis of 2007–2010** is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It was triggered by a liquidity shortfall in the United States banking system, and has resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies.

It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity

Today, some 30 years after the financial swindling of the 1970's and resultant legislation there is heightened awareness again and contemplation of new laws in the US to address financial risks and regulations. The world is still reeling with these ramifications making attention to Enterprise Risk Management more in demand and in vogue than ever before.

Framework Used for ERM Guidance



Market Size and Maturity

Current State of Enterprise Risk Oversight and Market Perceptions of COSO's ERM Framework

Since its release in 2004, COSO's Enterprise Risk Management – Integrated Framework (COSO's ERM Framework) has been widely recognized as a respected authority on the topic of Enterprise Risk Management (ERM). However, other than anecdotal observations, COSO lacked any concrete information on the extent of its adoption within organizations or market perceptions about its usability.

To gain a sense for the extent of use, consideration, or reliance on COSO's ERM Framework, COSO commissioned the Enterprise Risk Management Initiative at North Carolina State University to conduct a survey in summer 2010 working through the COSO sponsoring organizations. The survey was targeted to individuals who are involved in leading ERM related processes or knowledgeable about those efforts within their organization.

<http://www.coso.org/documents/COSOSurveyReportFULL-Web-R6FINALforWEBPOSTING111710.pdf>

The largest category of respondents (37 percent) held the position of head of internal audit, followed by those with the title of chief financial officer (CFO) at 23% of respondents. Other respondents included the head of risk management or chief risk officer (12%), controller (10%), and member of the board of directors (6%), with the remainder representing numerous other executive positions

Industry Descriptions	Percentages
Manufacturing (SIC 20-39)	24%
Finance, Insurance, Real Estate (SIC 60-67)	20%
Services (SIC 70-89)	20%
Not-for-Profit (SIC N/A)	11%
State or Local Government	7%
Wholesale/Distribution (SIC 50-51)	5%
Retail (SIC 52-59)	4%
Construction (SIC 70-89)	3%
All Other Combined (none greater than 2%)	6%

Key Findings

- The state of ERM appears to be relatively immature. Only 28 percent of respondents describe their current stage of ERM implementation as “systematic, robust and repeatable” with regular reporting to the board. Almost 60 percent of respondents say their risk tracking is mostly informal and ad hoc or only tracked within individual silos or categories as opposed to enterprise-wide.
- There appears to be a notable level of dissatisfaction with how organizations are currently overseeing enterprise wide risks. Almost half (42.4 percent) described their organization's level of functioning ERM processes as “very immature” or “somewhat

mature.” About a third (35 percent) admit that they are “Not at All Satisfied” or are “Minimally” satisfied with the nature and extent of reporting to senior executives of key risk indicators.

- While in about half of the organizations management has formally assigned responsibility for risk oversight to a member of management, in over half of the organizations the board of directors has not formally assigned risk oversight responsibilities to one of its subcommittees.
- Almost two-thirds of respondents note that management formally reports the entity’s top risk exposures to the board on a regularly scheduled basis; however, the form of risk oversight appears to be casual and unstructured. Just under half (44 percent) note there was either no or only minimal processes for identifying and tracking risks.
- Boards of directors, especially those on the audit committee, are placing greater expectations on management to strengthen risk oversight in the majority of organizations. That in turn is perhaps encouraging CEOs to assign more responsibility within management to strengthen risk oversight.
- Almost 65 percent of respondents were fairly familiar or very familiar with COSO’s ERM Framework. Very low levels of familiarity were reported with the Joint Australia/New Zealand AS/NZ 4360-2004, the Turnbull Guidance, and the ISO standards for risk management. COSO’s ERM Framework was also the overwhelming choice as the basis for implementing ERM within the respondent’s organizations. Very few respondents indicated that they used other frameworks as the basis for designing and implementing ERM processes.
- Most believe that the COSO ERM Framework is theoretically sound, provides a common language for ERM that is widely accepted by organizations, and clearly describes key elements of a robust ERM process. There was some criticism that COSO’s ERM Framework is overly theoretical. About a quarter (26.5 percent) responded significantly or “a great deal” to the perception that the COSO ERM Framework contains overly vague guidance.

Scope of Market

Source Wikipedia: http://en.wikipedia.org/wiki/Enterprise_risk_management

It is clear that companies recognize ERM as a critical management issue. This is demonstrated through the prominence assigned to ERM within organizations and the resources devoted to building ERM capabilities.

Embedding ERM - A Tough Nut to Crack

http://www.towersperrin.com/tp/getwebcachedoc?webc=GBR/2009/200901/2008_Global_ERM_Survey_12809.pdf

In a 2008 survey by Towers Perrin, at most life insurance companies, responsibility for ERM resides within the C-suite. Most often, the chief risk officer (CRO) or the chief financial officer (CFO) is in charge of ERM, and these individuals typically report directly to the chief executive officer. From their vantage point, the CRO and CFO are able to look across the organization and develop a perspective on the risk profile of the firm and how that profile matches its risk appetite. They act as drivers to improve skills, tools and processes for evaluating risks and to weigh various actions to manage those exposures. Companies are also actively enhancing their ERM tools and capabilities.

Three quarters of responding companies said they have tools for specifically monitoring and managing enterprise-wide risk. These tools are used primarily for identifying and measuring risk and for management decision making. Respondents also reported that they have made good progress in building their ERM capabilities in certain areas.

In this study, more than 80% of respondents reported that they currently have adequate or better controls in place for most major risks. In addition, about 60% currently have a coordinated process for risk governance and include risk management in decision making to optimize risk adjusted returns.

In another survey conducted in May and June 2008, against the backdrop of the developing financial crisis, six major findings came to light regarding risk and capital management among insurers worldwide:

1. Embedding ERM is proving to be a significant challenge
2. Company size matters
3. European insurers are better positioned
4. ERM is influencing important strategic decisions
5. Economic capital standards are gaining ground
6. Operational risk remains a weak spot

Embedding ERM - A Tough Nut to Crack - Select List of Contributing Companies

following page

<p>Accident Fund Insurance Company of America Achmea Aetna Inc. AFLAC International, Inc. AIG Companies, Japan and Korea AIOI Insurance Company AIX GroupAlleanza Assicurazioni S.p.A. Allianz of America Corp. Allianz Insurance plc Allianz Life Insurance Japan Ltd. Allianz S.p.A. (Ras) Allianz SE Allstate Insurance Company American Family Insurance Group American Fidelity Assurance Company American International Group, Inc. American International Group Australia Pty. Ltd. American Modern Home Insurance Company (Inc.) Ameriprise Financial, Inc. Arab Insurance Group (B.S.C.) Arch Capital Group Ltd. Argo Group U.S. Ariel Reinsurance Limited Asahi Mutual Life Insurance Co. Assicurazioni Generali S.p.A. Assumption Mutual Life Insurance Co. Assured Guaranty Ltd. Atradius Credit Insurance N.V. Aviva plc Aviva Canada Inc. AXA Australia AXA France Solutions AXA Life Insurance Co., Ltd.</p>	<p>AXA UK Beaufort Underwriting Agency Limited BES-VIDA, Companhia de Seguros, S.A. BlueCross BlueShield of Minnesota Blue Cross Life Insurance Company of Canada Caixasabadell Vida, S.A. de Seguros y Reaseguros Canopus Managing Agents Limited CastlePoint Reinsurance Company, Ltd. Catlin Group Limited China Life Insurance Company Limited Church Mutual Insurance Company Cincinnati Financial Corporation Citadel Reinsurance ClearView Retirement Solutions CNA Financial Corporation Conseco, Inc. Co-operators Life Insurance Company Country Insurance & Financial Services Daido Life Insurance Company The Dai-ichi Mutual Life Insurance Company Delta Lloyd Deutschland AG Delta Lloyd Groep Desjardins Financial Security EFG Eurolife Insurance Electric Insurance Company Empire Financial Group Engage Mutual Assurance Entraide Assurance-Vie Equitable Life of Canada Erie Insurance Group Everest Reinsurance Company FaithLife Financial</p>	<p>Fondiaria SAI S.p.A. Fortis SA/N.V. Frankenmuth Financial Group Fukoku Mutual Life Insurance Company Generali USA Life Reassurance Co. Genworth Financial, Inc. Global Seguros GMAC Insurance Gothaer Finanzholding AG Great Eastern Holdings Limited Great Eastern Life Assurance (China) Co. Ltd. Groupama Central Groupe Promutuel Féd. Soc. Mutuelle d'Ass. Gén. The Guarantee Company of North America Guard Insurance Group, Inc. GuideOne Insurance Company Guilford Specialty Group Inc. Hannover Rückversicherung AG Hardy (Underwriting Agencies) Ltd. Harleysville Insurance Companies The Hartford Financial Services Group, Inc. Hartford Life Insurance K.K. HBOS plc Helvetia Compañía Suiza, S.A. de Seguros Horizon Blue Cross Blue Shield of NJ Hortica Insurance Company The Independent Order of Foresters ING Antai ING Australia ING U.S. Financial Services Group IPCRe Limited Just Retirement Limited Kansas City Life Insurance Company</p>
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