ENTERPRISE RISK
&
RISK MANAGEMENT

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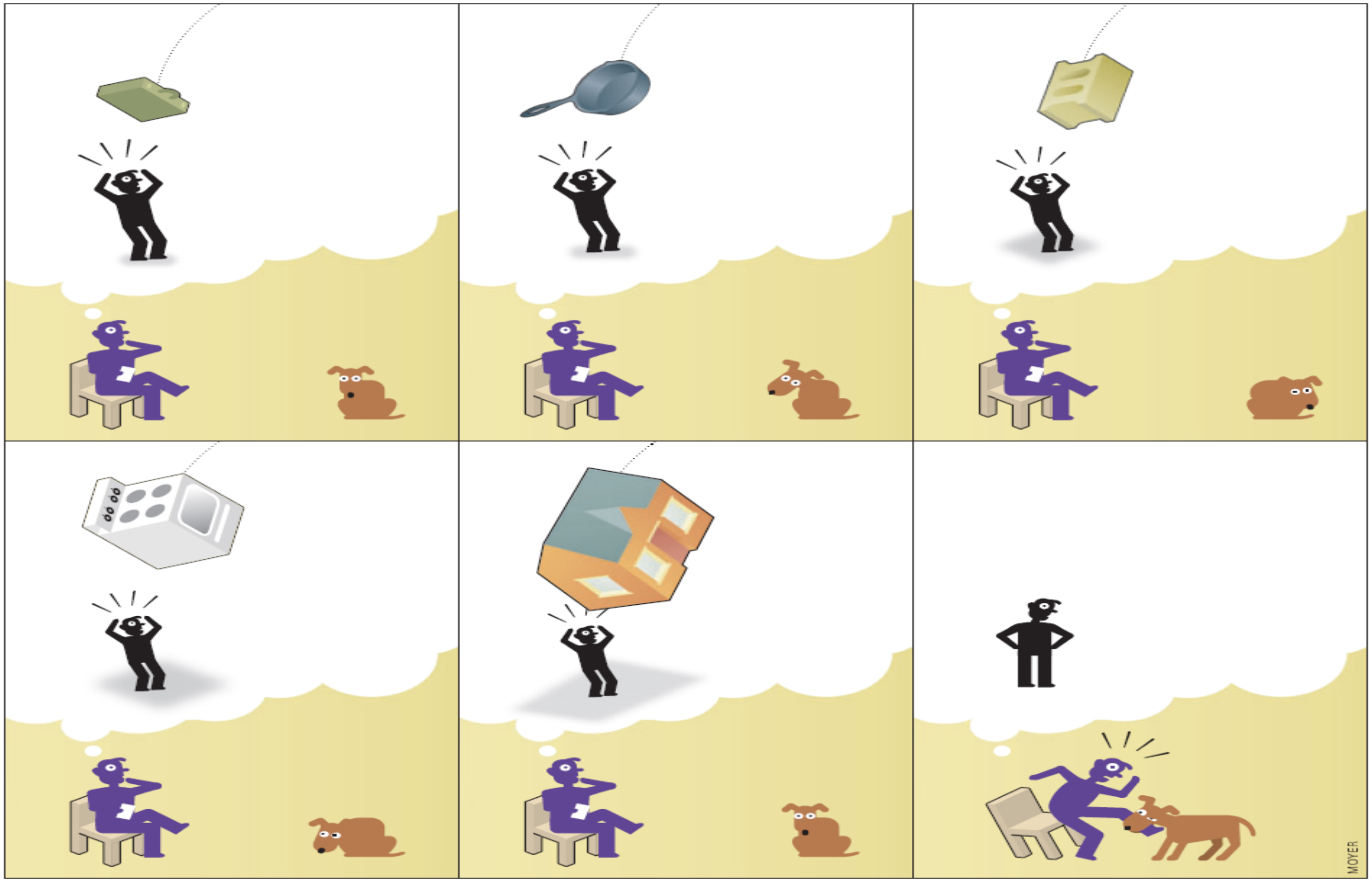
Types of Risk



Risk?

"The major difference between a thing that might go wrong and a thing that cannot possibly go wrong is that when a thing that cannot possibly go wrong, goes wrong, it usually turns out to be impossible to get at or repair."

- Douglas Adams

"Even a correct decision is wrong when it was taken too late."

- Lee Iacocca

"Good Risk Management fosters vigilance in times of calm and instills discipline in times of crisis."

- Dr. Michael Ong

Definitions

Risk

- Risk is virtually anything that threatens or limits the ability of an organisation to achieve its objectives.
- Objectives can have different aspects (such as financial, health and safety, and environmental goals) and can apply at different levels (such as strategic, organization-wide, project, product or at process levels).
- It can be unexpected and unpredictable events such as collapse of a building, the wiping of all your computer files, loss of funds through theft or an injury to a member or visitor who trips on a slippery floor and decides to sue. Any of these or a million other things can happen, and if they do they have the potential to damage your organisation, cost you money, or in a worst case scenario, cause an organisation to get closed.

Definitions

- **Risk Management**

The coordinated activities to direct and control an organization with regard to risk.

- **Risk Management Process**

Systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analyzing, evaluating, treating, monitoring and reviewing risk

- **Risk Management Policy**

Statement of the overall intentions and direction of an organization related to risk management

Why do we need to manage risk?

Risk Management is required for an organisation in order to

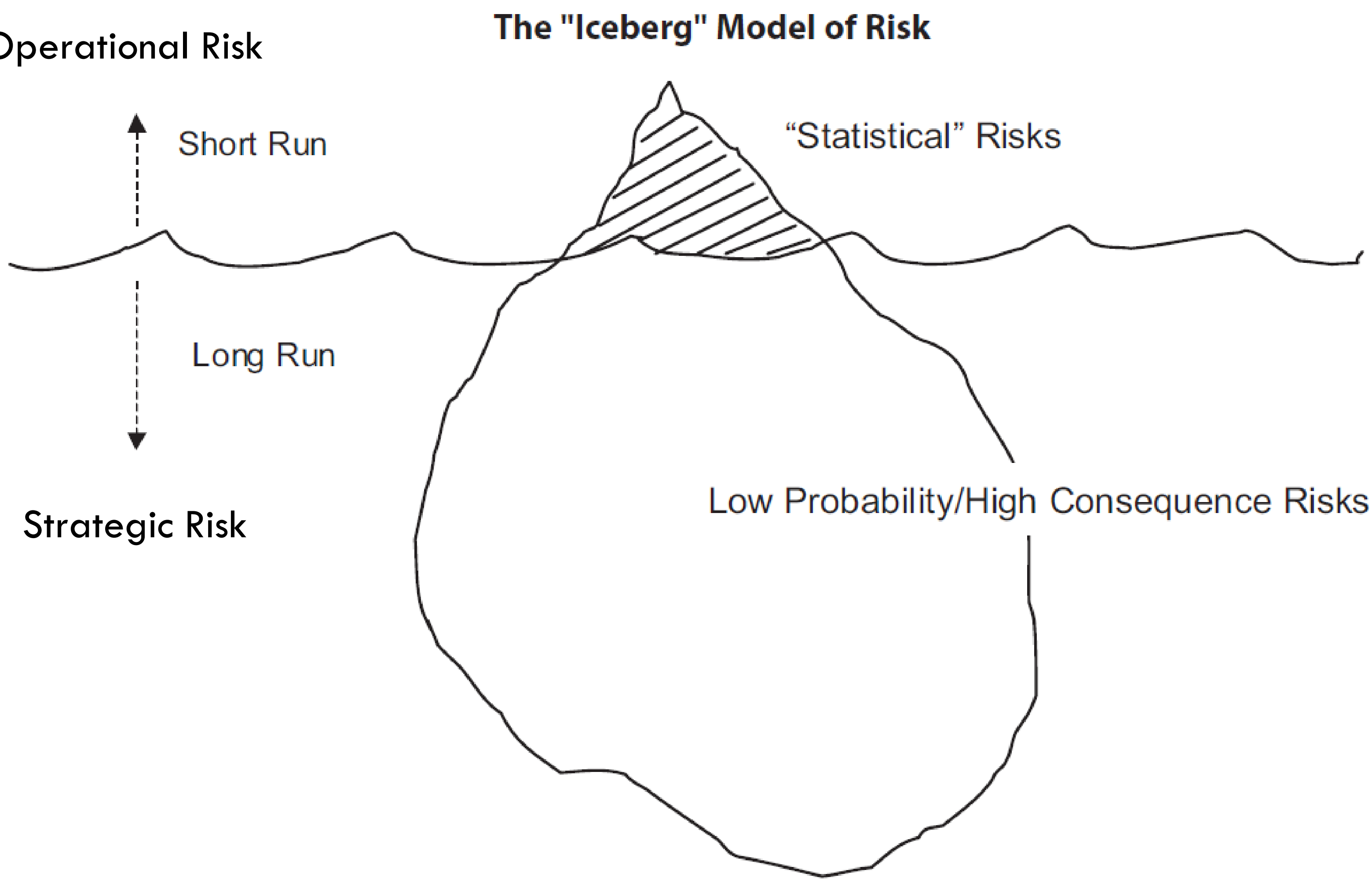
- increase the likelihood of achieving objectives;
- encourage proactive management;
- be aware of the need to identify and treat risk throughout the organization;
- improve the identification of opportunities and threats;
- comply with relevant legal and regulatory requirements and international norms;
- improve mandatory and voluntary reporting;
- improve governance;
- improve stakeholder confidence and trust;

Why do we need to manage risk?

- establish a reliable basis for decision making and planning;
- improve controls;
- effectively allocate and use resources for risk treatment;
- improve operational effectiveness and efficiency;
- enhance health and safety performance, as well as environmental protection;
- improve loss prevention and incident management;
- minimize losses;
- improve organizational learning; and
- improve organizational resilience.

The Iceberg Model of Risk

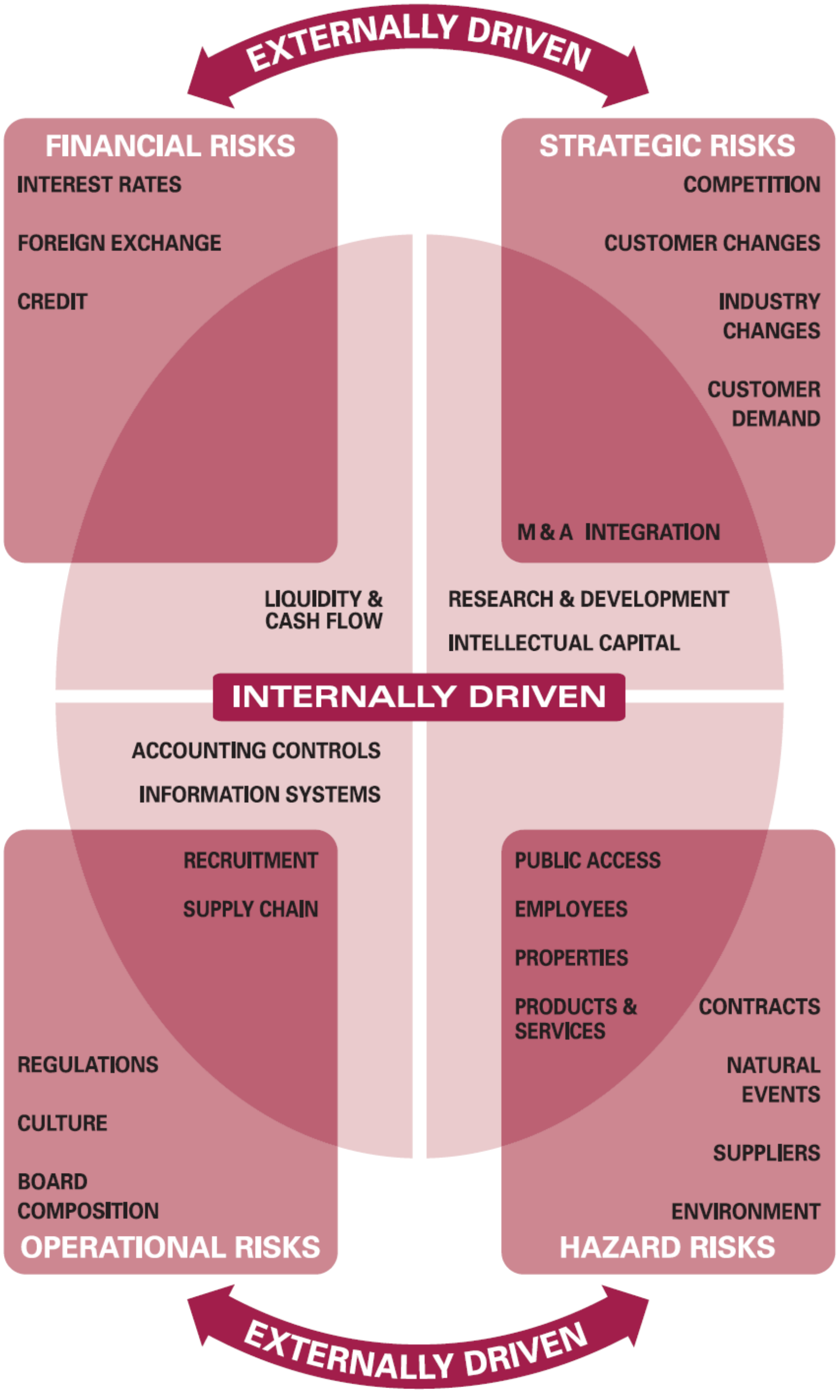
Operational Risk



Strategic Risk

Source: Adapted from Mark Jablonowski, 2005

Type of Risks



Type of Risks

Source: PwC, 2012

Some more examples of type of risks

Manufacturing	Sales & Marketing	Product Development
Infrastructure	Macroeconomic	Technology
Vendor Management	Global Competition	Information Security
Environmental	Market Related (Business Cycles)	Project Cost & Time
Safety	Demand Forecasting	Regulatory
Non-Compliance	Country Risks	Approved Design
Variability of Manufacturing Process	LME Prices	Technology
Cost Management	Credit Risk	Experts in technology

The Risk Management Process

Risk Assessment

Step 1: Identification of risks

- Identify the sources of risk in your functional area (already occurred, probability of re-occurrence)
- Identify the sources of risk in your business unit (already occurred, probability of re-occurrence)
- Identify the potential sources of future risk in your functional area (never occurred, probability of occurrence is there in future)
- Identify the potential sources of risk in your business unit (never occurred, probability of occurrence is there in future)
- Prioritize (Requires attention immediately / Require attention in near future / Require attention in distant future)

Risk Assessment

Step 2: Describe the risks

- Qualitatively describe the risks – the origin of risks, type of risk (strategic, functional, operational or hazards), severity/impact on business, probability of occurrence.
- Take help of historical data and extrapolate.
- Prioritize (Requires attention immediately / Require attention in near future / Require attention in distant future)

Risk Assessment

Step 3: Estimation of risks

- Estimate the financial impact of risk on business
- Estimate the impact of risk on the stakeholders
- Estimate the impact of risk on the environment
- Prioritize (Requires attention immediately / Require attention in near future / Require attention in distant future)

Risk Evaluation

- Risk Exposure

Risk 1: Financial Impact x probability of Occurrence

Risk 2: ……………………………………….

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…… ………………………………………

Risk n: …………………………………………………

Prioritize on the basis of value of Risk Exposure

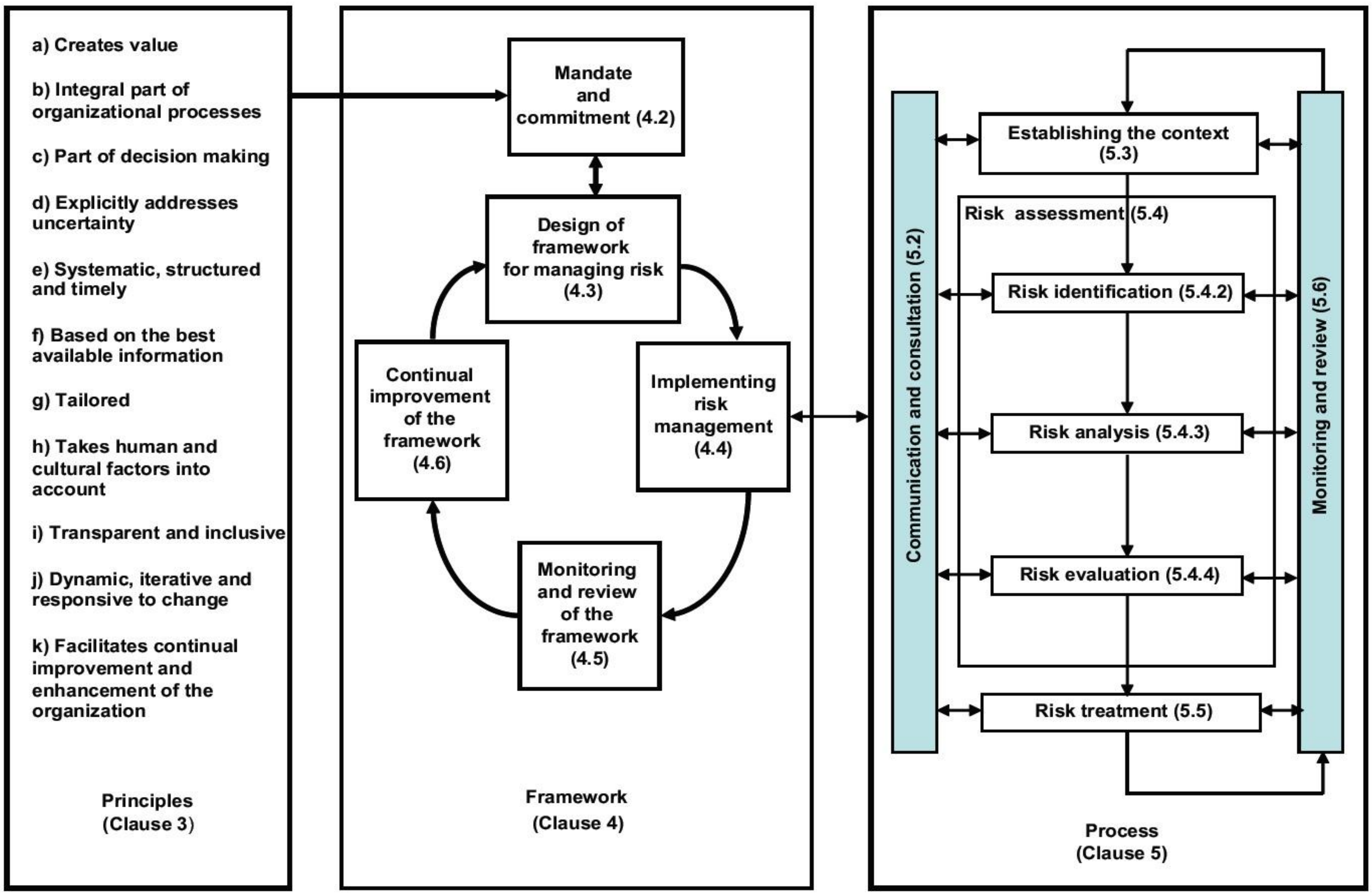
Significance / Impact of Risk

Impact Level	Financial Impact	Impact on strategic / operational objectives	Impact on Regulatory/ Reporting objectives
Catastrophic (5)	> Rs. 10 Cr.	Significant impact in MS; sales, CSI	Prosecution of or Imposition of personal penalties on Directors/ Board of Directors
Major (4)	Rs. 5 - 10 Cr.	Major Impact	
Moderate (3)	Rs 2.5 -5 Cr.	Moderate impact	Imposition of corporate penalties arising from legal disputes
Minor (2)	Rs 0.5 – 2.5 Cr.	Minor impact	
Insignificant (1)	< Rs.0. 5 Cr.	Insignificant impact	Non- compliance with procedural aspects of law

Probability of Occurrence of Risk

Estimation	Description	Indicators
High (Probable)	Likely to occur each year or more than 25% chance of occurrence.	Potential of it occurring several times within the time period (for example - ten years). Has occurred recently.
Medium (Possible)	Likely to occur in a ten year time period or less than 25% chance of occurrence.	Could occur more than once within the time period (for example – ten years). Could be difficult to control due to some external influences. Is there a history of occurrence?
Low (Remote)	Not likely to occur in a ten year period or less than 2% chance of occurrence.	Has not occurred. Unlikely to occur.

The IS/ISO 31000:9000 framework



THANK YOU