

# Switched on

ERM has become something of a buzzword in recent times, but how can companies make sense of the large amount of data that risk management can create?

Sara Edlington talks to some of the companies that think they have the answer

**E**nterprise risk management (ERM) is not only important for decisions that are taken within a company; there are other factors to consider as well.

Strategic Thought Group's vice-president of global marketing, Peter Robertshaw, explains that this need for risk information is further bolstered by the requirements of regulators, credit rating agencies and insurance companies, which want to know more about the risks they may, or may not, be covering. "Enterprise risk management technology is no longer just 'nice to have' for complex businesses," he says.

Airmic technical director Paul Hopkin agrees, saying that ERM technologies are important, especially with regard to more complex risks. "ERM applications are well developed for analysis tools, such as predictive models and dependency analysis," he says.

So what does an ERM package do? FM Global's business risk consulting group manager, Stuart Selden, explains that the 'enterprise' in ERM means tying together all the disparate risk management approaches across a business. He adds: "Because of the breadth of such an approach, software applications can be a useful tool in pulling together information and structuring outcomes, but there are more important basics to have in place. A software application alone is not likely to result in a high-quality risk management process."

Selden advises to look not for a technology to drive the ERM process, but for one to support it. He suggests that companies make sure the basics are in place beforehand and ensure that the ERM system is sufficiently flexible to meet changing business needs. He adds that companies should make sure the software can interact with existing risk management systems. He concludes by saying: "Remember that once technology is used, it then becomes a process that needs to be considered in the risk management framework going forward."

## What's required?

A company needs to decide what it is looking for in an ERM package. Syntex Management Systems' president and chief executive, Trent Derr, explains that one of the major critical success factors is to select a solution that will adapt to the business's needs and structure over time.

"Inherently, as your organisation's risk management practices mature, you'll need your ERM solution to facilitate those changing business processes and structures," he says.

He points that, at the most basic level of ERM, a company will have integrated, repeatable processes across the organisation, with a common risk data repository. By the time a company reaches the highest level of ERM maturity, he says: "The organisation will have a continual improvement process in place that includes the repeated identification of the leading indicators of specific risk exposures in the business."

As an ERM system is a large investment for any company, getting these basics right is vital to the future successful use of the package. It is also worth asking the people who are going to use the ERM what they think it needs to do. A company is not only choosing an ERM package for today, it should also be looking at how the company and its demands on its ERM could change in the future.

A real-life example comes from Rio Tinto's chief adviser of risk, John Summers. He explains how they went about choosing an ERM package. "We were looking for a system that could identify, manage and report risk data in a flexible and convenient form; with capability to escalate and delegate risks through the organisation; and one that was fully enterprise-enabled, with necessary internal and external security features to prevent data loss (either inadvertent or deliberate)."

He says that the firm also wanted a system with a flexible, workshop-enabled front-end risk identification capability and a system suited to the established Rio Tinto risk process, "so that we were not forced to adapt our process to match system constraints". The company chose Strategic Thought Group's Active Risk Manager package as its ERM solution.

Another business that is using Active Risk Manager is Leighton Contractors, based in Australia. Risk manager Karl Davey explains that the company wanted a system that would support true organisation-wide enterprise risk management.

"In that respect, we wanted a system that could be used by all levels of the business – from engineers to senior management and board – and would cover all the facets of ERM: project, operational, business and strategic, safety, catastrophic and crisis management, financial, and environmental aspects."

Integrating the ERM into existing systems and business structures is another important issue when choosing a package. Summers says: "We are in the early stages of a full deployment but our experiences with users have, so far, been positive."

## Beyond the basics

There are other factors to look at. Keeping ahead of the technologies that are being used in your organisation is one consideration. Personal digital assistants, smartphones and mobile phones are all now commonplace, and data may need to be captured from them in some instances.

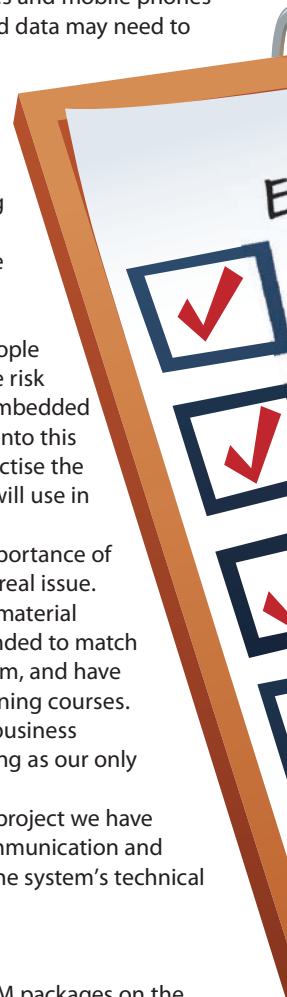
Training is another area that a company should look into when choosing an ERM solution. Davey says: "Training in the product has been supported through our online management system or via workshops. What has been important to us is training people in the foundations of effective risk management, and we have embedded Active Risk Manager training into this course so that people can practise the theory with the system they will use in normal practice."

Summers agrees on the importance of educating staff. "Training is a real issue. Our supplier gave us generic material that we have tuned and extended to match our configuration of the system, and have built our own risk-literacy training courses. We are deploying across our business worldwide and using e-learning as our only training method."

He adds: "Throughout this project we have learned hard lessons that communication and training are as important as the system's technical capability."

## What next?

There are several different ERM packages on the market. Some are designed for specific industries such as finance, whereas others are designed for broader use. A small selection of these are listed in the box, opposite.



## What solutions are out there?

FM Global's RiskMark is the only global fact-based property risk quality-benchmarking model available, says Stuart Selden, the company's business risk consulting group manager. "RiskMark provides a reliable measure of risk quality on a scale of 1 to 100. Our analysis shows that losses at locations with the lowest scores are eight times larger and occur four times more often than losses at the locations with the highest scores."

Strategic Thought Group's Active Risk Manager is a web-based product. Vice-president of global marketing Peter Robertshaw says: "The Collaborative Workshop Solution allows all employees to be involved with the risk and reward process whatever their location, even in areas where connectivity is limited. Risk data is later synchronised when a connection to the enterprise ARM system is possible."

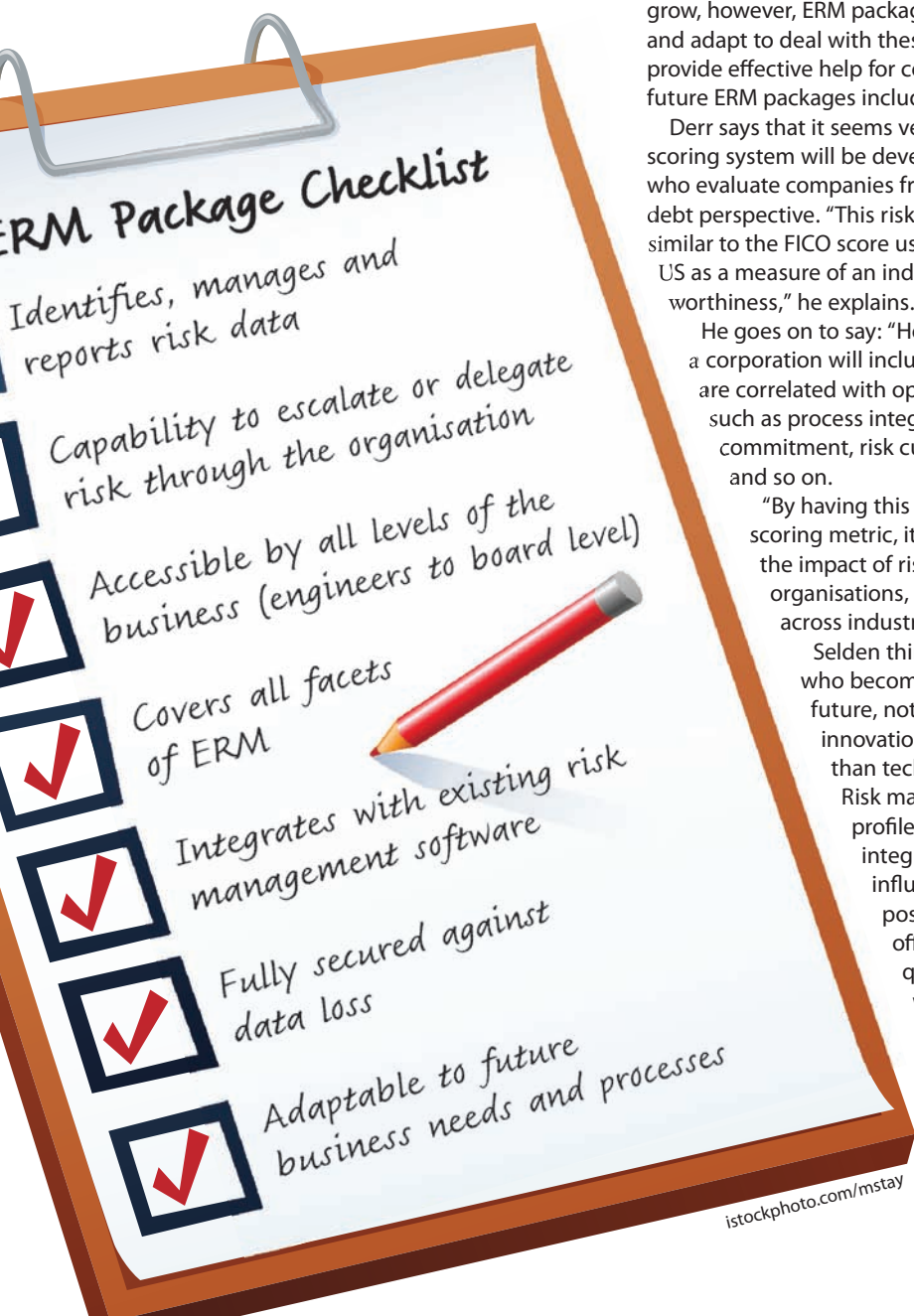
Syntax Management Systems president Trent Derr says that the Syntax IMPACT ERM enables a company to capture and manage all its proactive and reactive sources of risk, and perform analytics on that common data repository to identify those factors that are affecting operational performance. Industries that are using this product include energy, utility, transportation and manufacturing companies.

SAS offers ERM software for the financial, communications, energy and insurance industries. The company claims that its software has the most powerful predictive analytics available.

Methodware's Enterprise Risk Assessor integrates risk, audit, compliance and governance, and is designed around the Australia/New Zealand 4360 standard. It can be used in a single location or across an enterprise.

'We wanted an ERM system that could be used by all levels of the business, from engineers to senior management'

Karl Davey, Leighton Contractors



As risk management continues to develop and grow, however, ERM packages will have to expand and adapt to deal with these changes and still provide effective help for companies. What will future ERM packages include?

Derr says that it seems very likely that a risk scoring system will be developed by the analysts who evaluate companies from an investment and debt perspective. "This risk score will very likely be similar to the FICO score used in Canada and the US as a measure of an individual's credit worthiness," he explains.

He goes on to say: "However, the risk score for a corporation will include the key factors that are correlated with operational excellence, such as process integrity, leadership commitment, risk culture, and so on.

"By having this standardised risk scoring metric, it will be easier to assess the impact of risk practices across organisations, both within a sector and across industries."

Selden thinks that it will be people who become more important in the future, not just the software. "I see innovations in process rather than technology specifically.

Risk managers need a higher profile and more operational integration to be able to influence culture. The position of chief risk officer raises some questions because it may well draw risk management away from operations, which will further decrease their ability to integrate."

And in that may lie the key to running a successful risk management policy: having the right software, people who know how to use it well, and making sure that the right people are involved in the process.

Another important aspect is keeping ahead of new technologies, such as personal digital assistants (PDAs).

Kroll Ontrack computer forensics manager Tony Dearsley explains: "I think that the enterprise risk management sector has become much more aware of the power and the danger of a relatively small and innocuous-looking piece of media, and at the same time more conscious of the power of a single individual to disseminate a vast amount of sensitive information in a small amount of time."

He concludes by saying that, in the future, he thinks we will see more efforts to acknowledge these facts in policies and in practices, "but in ways that also acknowledge the need not to impede workflow unduly".

Though implementing an ERM system can take time, the rewards for those companies that fully embrace the idea can be great.

As Robertshaw says: "Companies are good at the traditional qualitative assessments of risk and mitigation information. Where they fall short is by not doing a quantitative assessment on at least their top risks and the associated return on investment on the mitigation strategies."

He goes on to say that this type of approach can be incredibly beneficial in decision support and improve business performance by decreasing insurance premiums, reducing losses, improving business continuity and crisis responses, and delivering projects and products on time, to budget and to technical specification.

And these are as good reasons as any to seriously look into implementing an enterprise risk management package. ■

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