# Enterprise Risk Management (ERM) Bootcamp


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# Enterprise Risk Management Bootcamp

- Learning Objectives
  - Consider what ERM is, and how it can help your organization
  - Define ERM and other key risk management concepts
  - Describe common risk management standards and principles
  - Examine some of the challenges and solutions in implementing ERM
  - Study some of the keys to ERM implementation success
  - Describe the elements of a risk management framework infrastructure and processes
  - Gather tools to begin assessing your organization’s ERM capabilities and risk culture
  - Gain resources to develop an ERM framework improvement plan, business case, and policy
  - Consider appropriate ERM program priorities for your organization to develop an ERM roadmap

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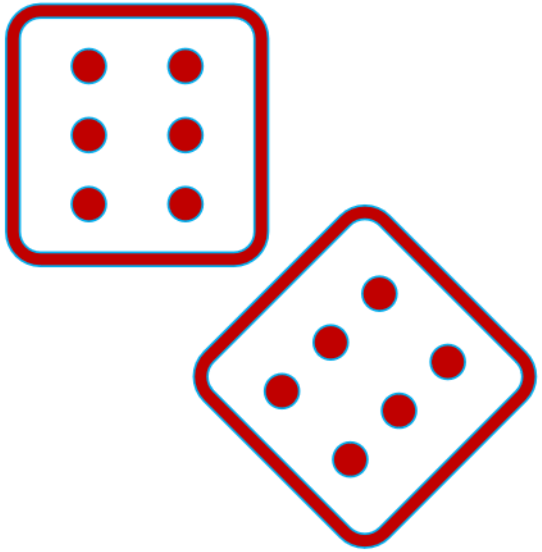
# What is Risk?

- An effect of uncertainty on goals and objectives, something that deviates from the expected – an occurrence or change of circumstances; also includes uncertainty arising from the possible occurrence of given events (foreknowledge)



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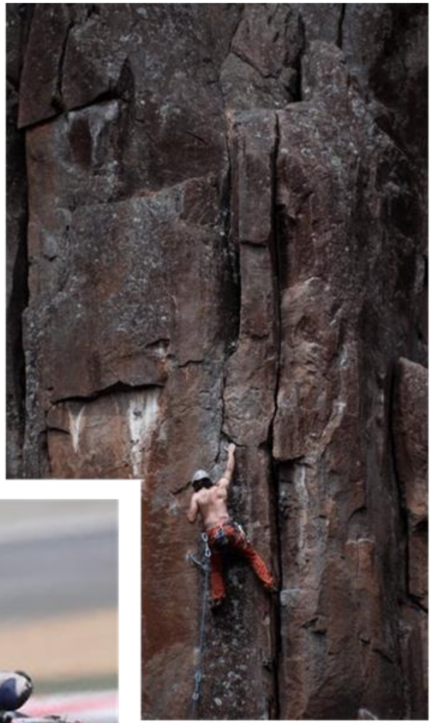
# Levels of Risk



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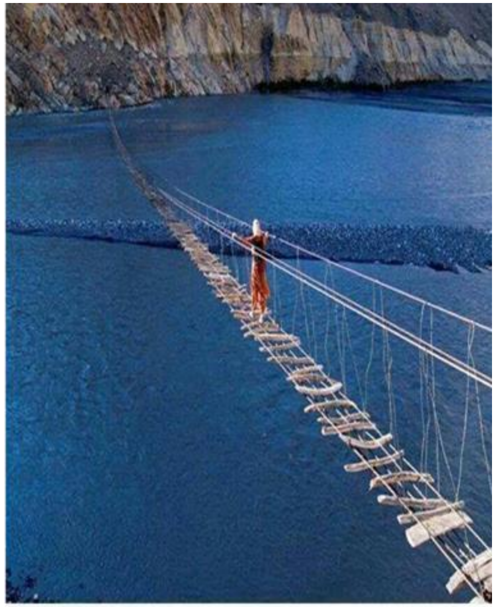

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# Levels of Risk

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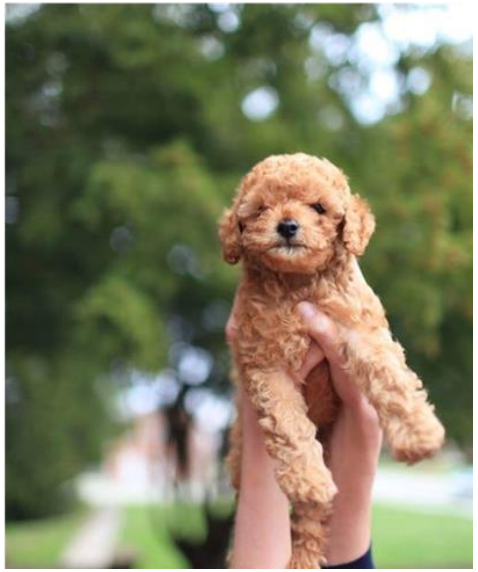

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# How is Risk Expressed?

- Risk is usually expressed in terms of risk sources, potential events, their consequences, and their likelihoods

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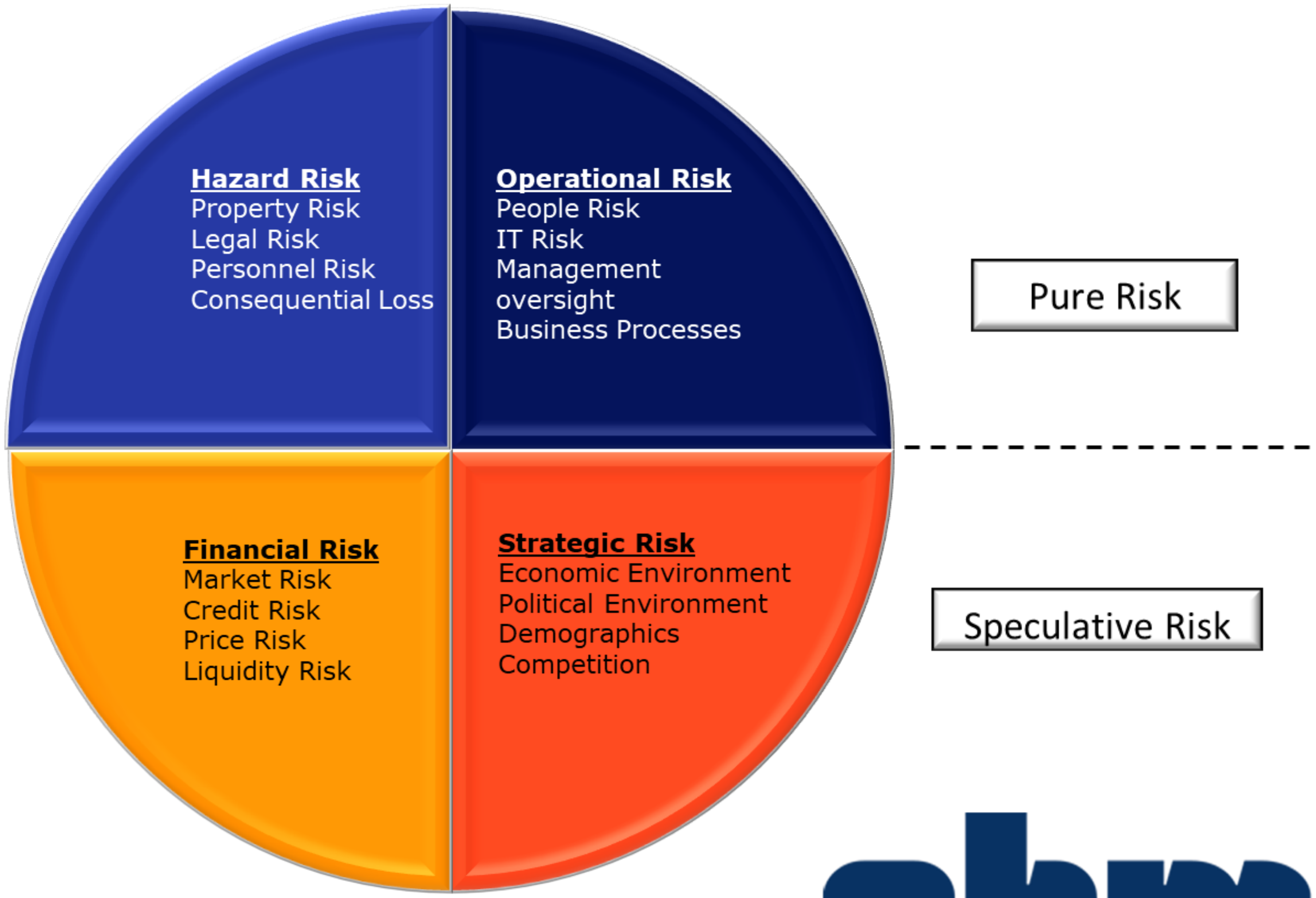
# Types of Risk?

- Pure Risk
  - Hazard Risk
  - Operational Risk
- Speculative Risk
  - Financial Risk
  - Strategic Risk

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# Visualizing the Risk Universe

FIGURE 6 **Global risks landscape: an interconnections map**

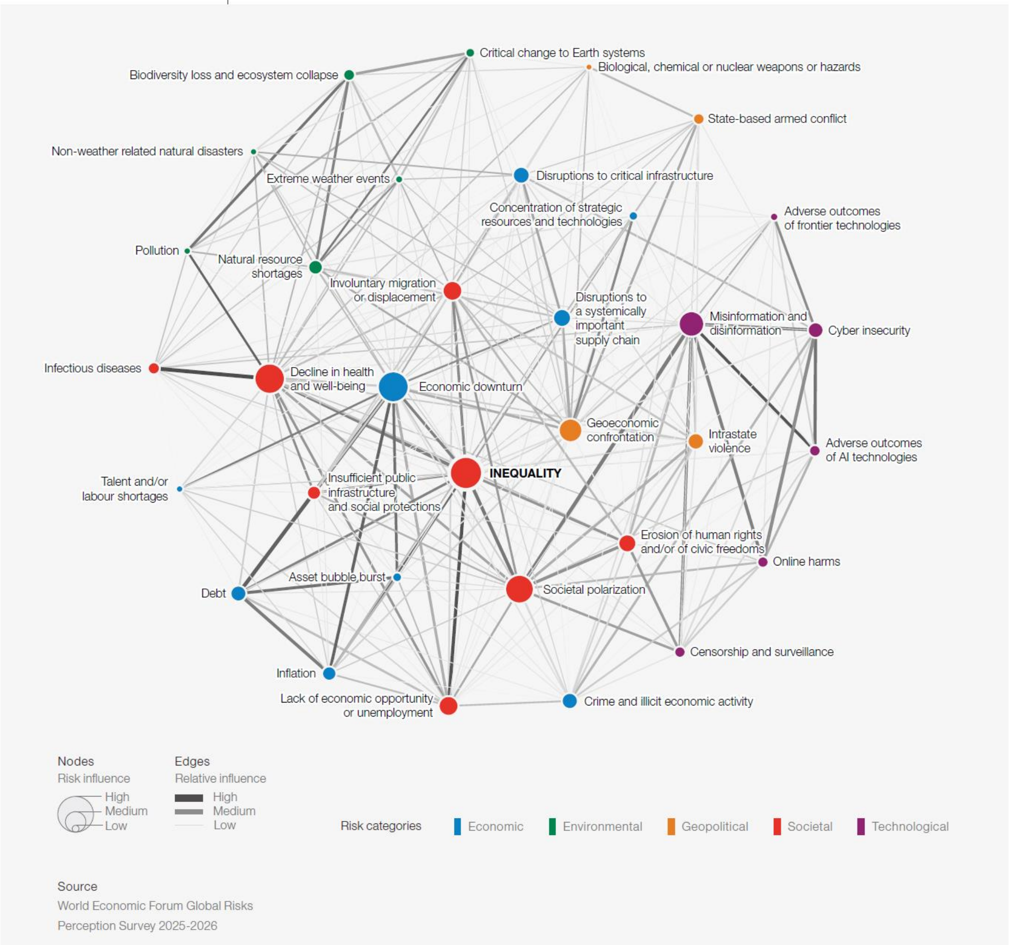
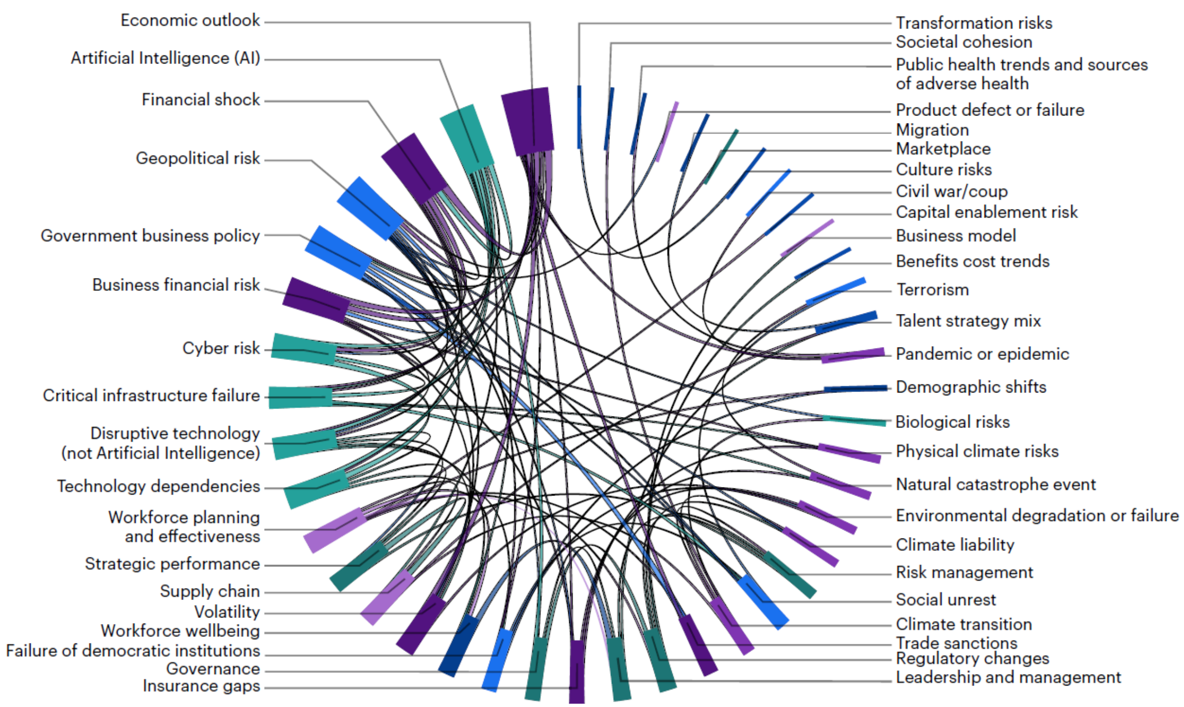



Figure 3. **Interconnected risks**




Source: WTW Emerging and Interconnected Risks Survey 2025

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# The Risk Management Process

- The Risk Management Process:
  - Identify risks
  - Analyze those risks for the likelihood that it will happen, and what impact would be on your institution
  - Selecting risk treatment options
  - Implementing the risk treatment
  - Monitoring the selected treatment

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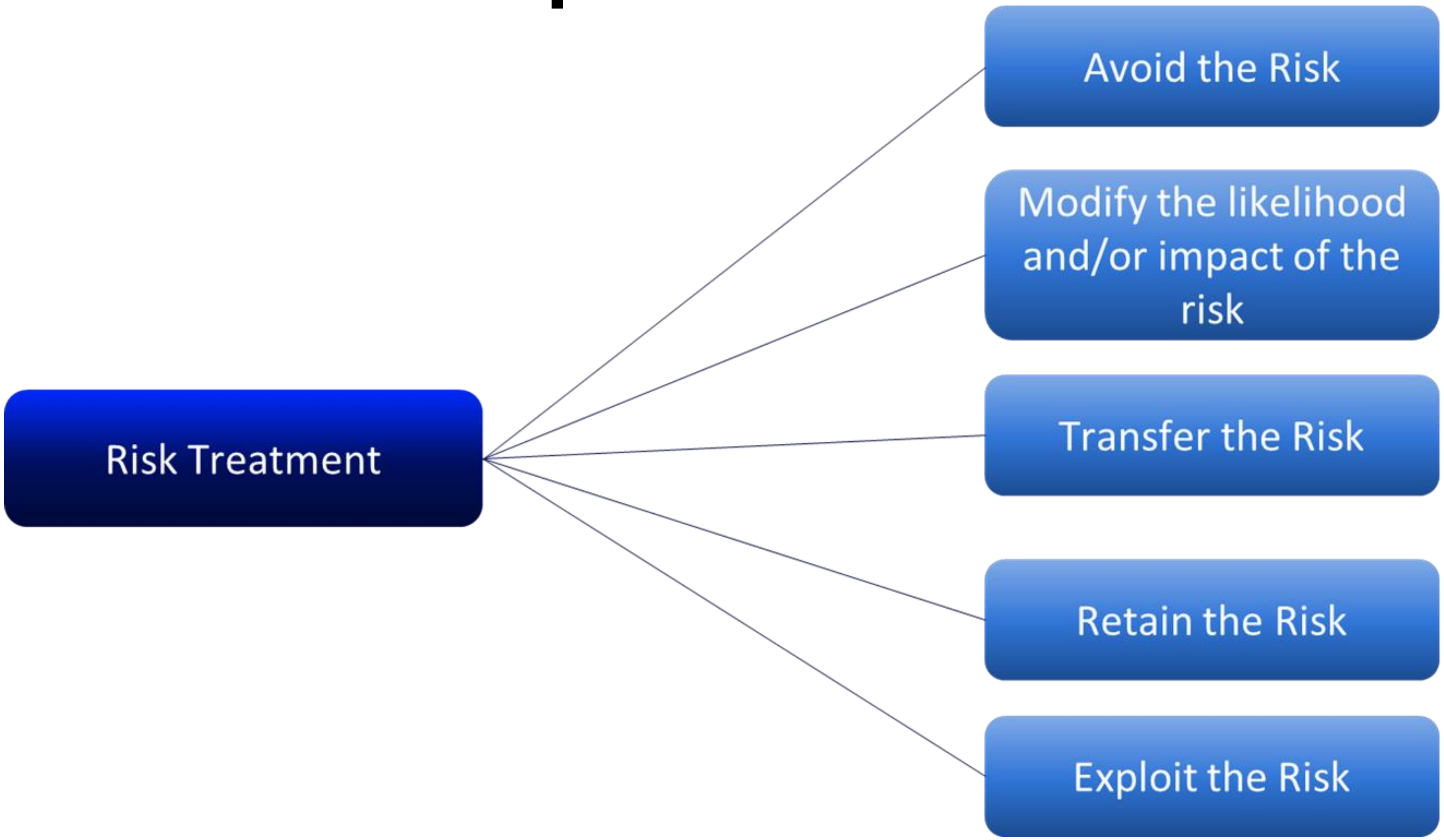
# Risk Treatment Options



# Evolution of Risk Management

Transactional → Integrated → Strategic

**Historic Risk Management**
- Insurance
- Specific hazards
- No compliance input
- Separate safety & emergency management
- "Silo" approach
- Risk Manager = insurance buyer

**Risk is bad – focus is on transferring risk**

**Advanced Risk Management**
- Alternative risk transfer techniques
- Proactive prevention & risk reduction
- Integrated approach to claims, contracts, insurance, etc.
- Increased education & accountability
- Collaboration across departments
- Risk Manager *may* be the risk owner

**Risk is an expense – focus is on reducing cost-of-risk**

**Enterprise-Wide Risk Management**
- Broad range of risks analyzed
- Combination of risk controls & opportunities
- ERM alignment with strategy
- Helps manage growth, allocate capital & resources
- Risks owned by subject matter experts
- Greater availability of risk mitigation and analytical tools
- Risk Manager = risk moderator, partner, leader; *not* the owner of every risk

**Risk is uncertainty – focus is on optimizing risk to achieve goals**

# Risk Management Approaches: Traditional vs. Enterprise

- Traditional Risk:
  - Risk is the possibility that something bad or unpleasant will happen. Only dealing with pure risk.
  - Risk management is minimizing the adverse effects of accidental loss. Often associated with insurance and insurable risks.
- Enterprise Risk:
  - Risk is the effect of <u>uncertainty</u> on objectives. Can include speculative risk.
  - Risk management is the coordinated activities to direct and control an organization with regard to risk or uncertainty. Looks at opportunities and not just loss.

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# Enterprise Risk Management (ERM)

# What is it? How It Can Help Your Organization?

- Consider what ERM is and how it can help your organization
- Define ERM and other key Risk Management options
- Describe common Risk Management standards and principles

# What is Enterprise Risk Management?

Enterprise Risk Management, or ERM, is a holistic approach to manage all of an organization's risks, including operational, financial, hazard, and strategic risk, to meet the organization's objectives.

- The Institutes Enterprise Risk Management, 2nd Ed. Edited by Michael W. Elliott. 2017

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# How Does Your Institution Make Big Decisions Now?

A. Trying to decide the best option between two bad options.

B. Insuring everything they can physically see or mentally think of.

C. Routinely asking for more resources to address the risks that emerge

D. Focused on making sure everything runs smoothly from an operational perspective and ignoring strategic opportunities

E. Kinda sorta like all of the above and also, like none of the above.

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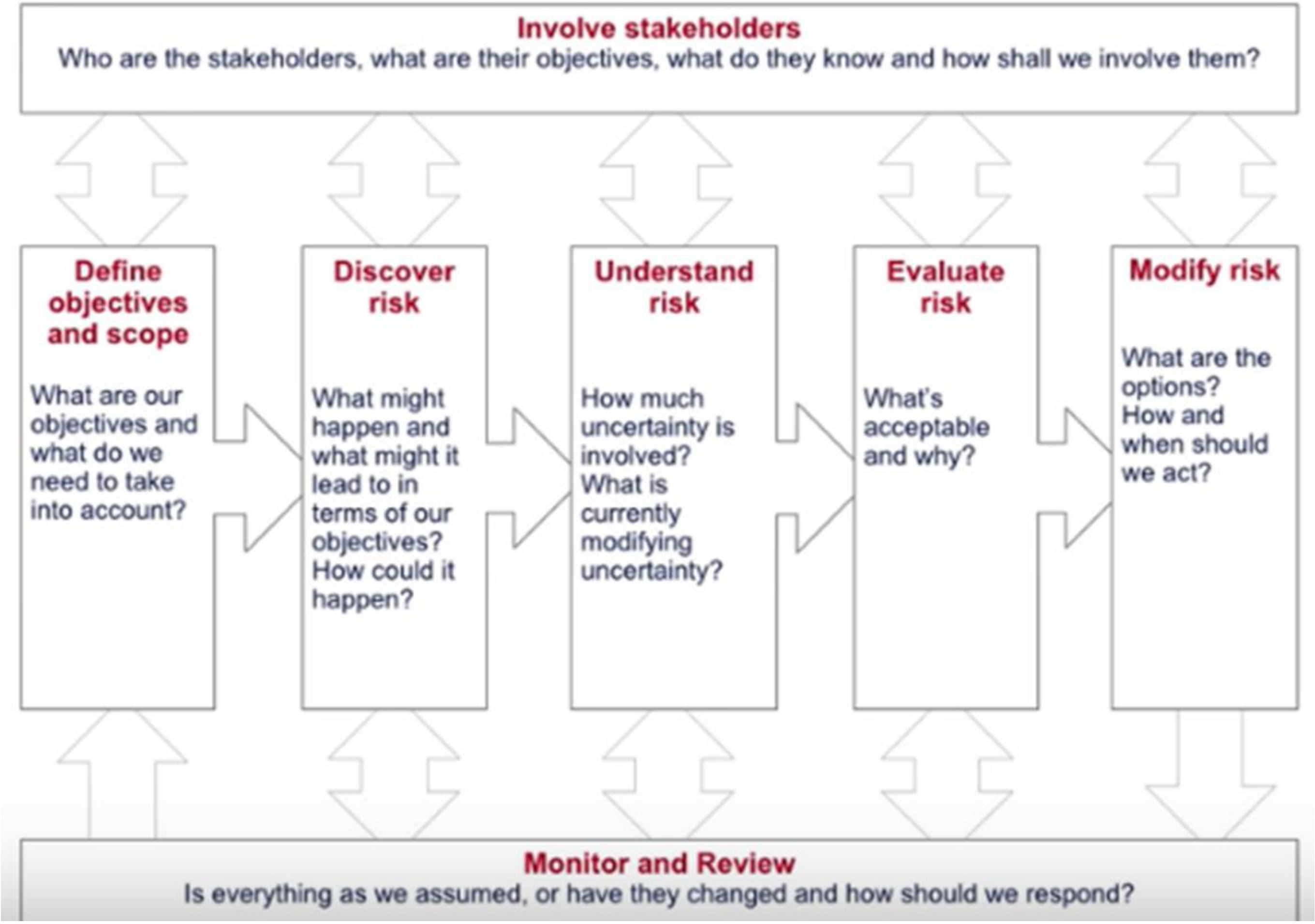
# Enterprise Risk Management is Decision Support

| | |
|---|---|
| Provides better insight for the university's goals | Enterprise Risk Management dramatically improves your ability to respond to the organizational pressures you face. |
| Provides more efficient and effective operations | Enterprise Risk Management prioritizes and manages your risk exposures and resource allocation to support an interconnected portfolio rather than in silos. |
| Provides leadership with clear oversight of risks | Enterprise Risk Management provides the opportunity to present your risk profile to your board and leadership team through a holistic view that easily demonstrates how risk affects your entire organization. |
| Provides better compliance with regulatory requirements | Enterprise Risk Management ensures you are positioned to comply with reporting and other regulatory requirements. It provides the data needed to demonstrate compliance and the assurance that all risks are managed effectively. |
| Provides integration into daily business activities | Enterprise Risk Management provides a clear framework for managing all quantitative or qualitative risks, giving you the ability to continuously detect, evaluate and monitor risks before they become a problem. |
| Provides greater confidence in achieving the university's goals and objectives | Enterprise Risk Management enhances confidence that all the risks with the potential to derail your goals and objectives are properly mitigated to achieve desired outcomes. |

# ERM Framework – ISO 31000

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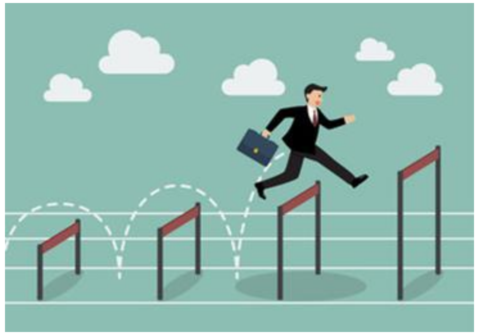
# ERM Implementation Challenges

- Lack of Perceived Value
- Not adding value to stakeholders
- Resistance to Change
- Ineffective Communication Network
- Lack of a Common Risk Language
- Reluctance to Discuss Sensitive Info
- Lack of Management Support
- Unsupportive Culture
- Lack of Internal Knowledge & Skills
- Identifying Too Many Risks
- No Implementation Plan
- Not Integrating ERM into the Business



# ERM Implementation Solutions

- Develop an ERM Implementation Plan
- Assign an Executive Risk Committee
- Assign a Mid- Level Risk Group
- Develop Common ERM Terminology
- Develop Risk Champions
- Consider Risk in Strategic Planning
- Add ERM into Policies
- Monitor Trends in Claims, Lawsuits, Fines
- Integrate with Business Resource Planning
- Conduct Risk Workshops
- Conduct Risk Interviews (with Internal Audit)
- Measure risk in ranges
- Don’t hyper focus on the Risk Registry
- Integrate Risk Assessment Techniques into organizational processes
- Cultivate timely Risk reporting into ongoing meetings

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# Challenges & Solutions Group Work

- What challenges does your institution face?

- What solutions do you use to address those challenges?

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# Keys to Implementation Success

| | | Oversight | |
|---|---|---|---|
| | | Centralized | Decentralized |
| Implementation | Centralized | Where some have developed, but centralized implementation requires significant staff and does not take advantage of current subject matter expertise | |
| | Decentralized | Oversight is at highest levels, including board, but implementation is pushed out to experienced subject matter experts through risk and compliance "ownership" | Where most entities have been, although with some limited departmental oversight, but does not incorporate board-level reporting and accountability |

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# How You Know You Are Moving in the Right Direction

- Senior leaders understand the value of ERM
- An ERM implementation roadmap is developed
- The ERM program strengths/weaknesses can be assessed
- Change management is incorporated in ERM risk identification process
- Key stakeholders are periodically trained on ERM practices, principles and techniques
- The implementation of the ERM program engages and supports University Stakeholders
- The ERM program is continuously maturing by touching all parts of the University
- The ERM Program enhances risk sensitivity at the University

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# ERM Value: Addressing Higher Ed Challenges

- Discuss in groups the challenges your institution is seeing right now:

  - Demographic enrollment cliff
    - Domestic and international

  - Political and regulatory pressures
    - Federal and state actions on research funding, DEI, student aid, visa policies, paying student athletes, etc.

  - Artificial Intelligence (AI) disruption
    - Academic side <u>and</u> business side

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# ERM Value: Embedding ERM into Your Organization

- Risk Culture
  - Training to build ERM skills
  - Building network communication channels
  - Employing change management techniques


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# Assess Your Institution’s ERM Capabilities


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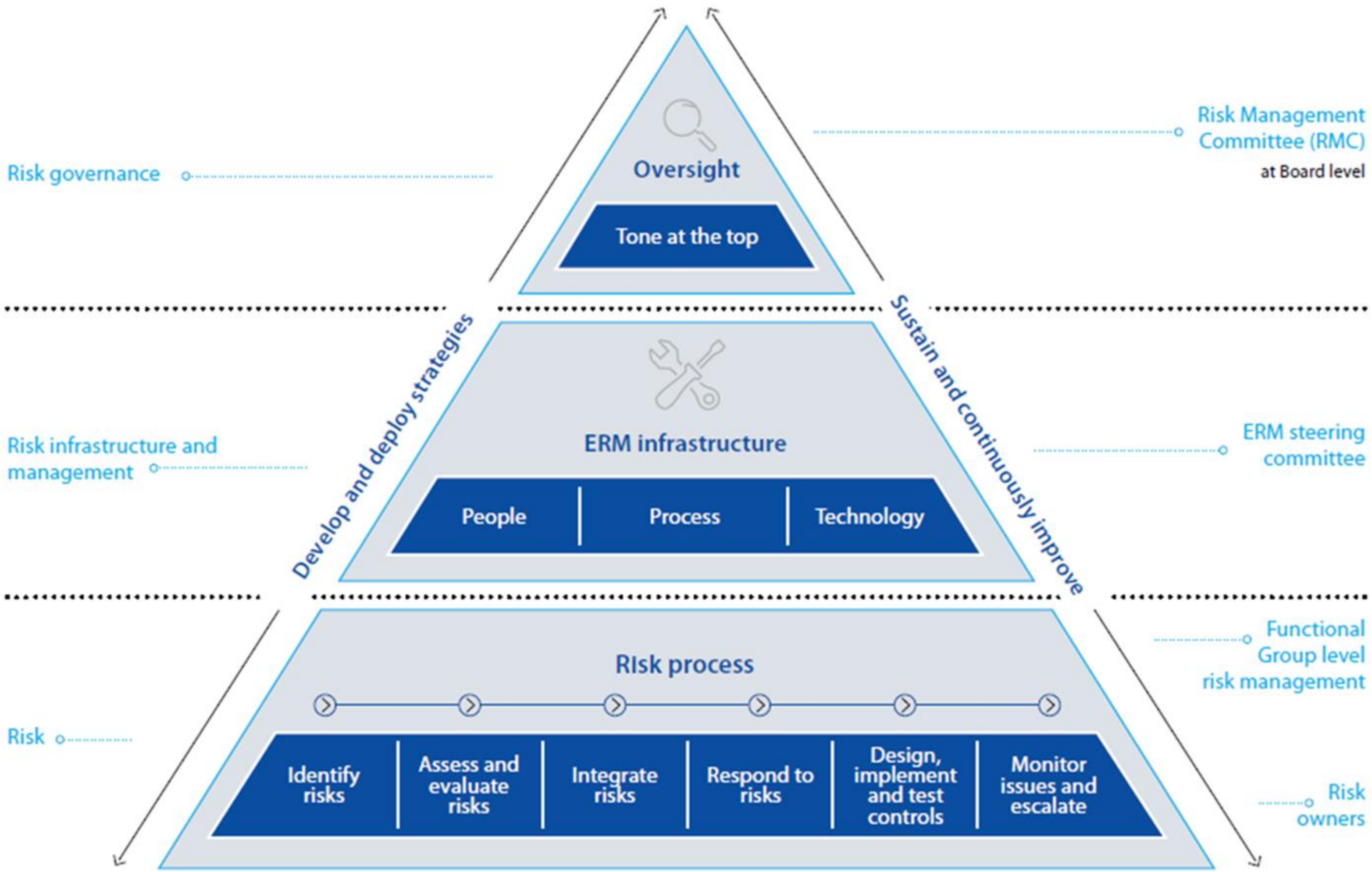
# ERM Oversight/Governance

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# Everyone is a Risk Manager

- ERM is done by the entire organization, not just its risk function. Decision-makers do most of the work, with the help of the Chief Risk Officer and their team.
- Strive for a seamless flow of communication, where leadership is frequently updated on emerging risks that arise throughout the organization
- Embed risk champions in business functions and units to ensure that risk is managed as an integral part of organizational activities

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# Hypothetical #1

- Based on an internal analysis concerning the University's programs and majors, the Provost's Office is evaluating whether the University should build a new building dedicated to theatre arts to attract national and internationally prominent figures to the University as well as attract students interested in theatre arts to enhance the University's overall brand and reputation.
- In reviewing the current capital position at the University, the CFO's office is evaluating and prioritizing several capital projects over the next few years, including space for innovative partnerships with local businesses, and significant upgrades to athletic facilities, among other strategic initiatives.
- The Business and Operations area is evaluating whether they have the in-house expertise to meet the job specifications should construction of the building be green-lighted.
- Additionally, the Business and Operations area is evaluating whether the new proposed building should be built on campus or located in available space or near the cultural area of the town the University is located.

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# Questions to Consider

- What senior leaders (departments) should be at the table and/or consulted?
- What are the different types of risks that the situations present?
- Who are the stakeholders that are impacted by the situations and will be impacted by the ultimate decision(s) that are made?
- What strategic opportunities do the situations present?
- What operational challenges do the situations present?

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# Hypothetical #2

- The new president of the University wants to expand the undergraduate population by 15% over the next 3-5 years.
- The University housing department estimates that three or four dormitories will need to be built to house the new students.
- Prior to the arrival of the new president, the University's capital plan had allocated a large percentage of its capital budget to deferred maintenance costs to address the University's aging infrastructure, not on building new dormitories.
- The CFO's Office estimates that unless the undergraduate population expands significantly in the next 2- 3 years, tuition rates will eventually have to be increased by 10% in order to maintain current budgetary levels.
- Unionization is becoming more prevalent on campus, and it is estimated that 40% of the staff will be unionized by the end of the year, up from 25% as of last year. This increase will likely cause University salary expense to increase substantially over the next few years.

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# Hypothetical #3

- An executive order from the new federal administration states that universities that receive federal funding can no longer provide on-campus housing for graduate students from certain countries. The graduate students from these countries represent approximately 17% of all graduate students who live on campus.
- On the same day, another executive order states that universities that receive federal funding can no longer purchase supplies and/or transact any business from companies that are domiciled in those same countries. Those suppliers represent approximately 11% of all suppliers the University uses. Some of those products that the University purchases from the banned suppliers are not easily found elsewhere.
- The executive orders explicitly state that if the universities are found out of compliance, a material amount of their federal funding could be suspended.

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# Where is your Institution in its ERM Journey?

Level 1
**Nascent**

- Lacks formal ERM process; no basic communication or monitoring; risks addressed as they arise; fails to anticipate potential risks

Level 2
**Emerging**

- ERM roles and responsibilities defined; governance established; risks are identified and assessed; rarely well prepared for unanticipated events

Level 3
**Integrated**

- ERM program is endorsed by leadership; policies and processes are in place for some activities; risks are shared across silos; occasionally well prepared for unanticipated events

Level 4
**Predictive**

- ERM program is recognized by whole organization; policies and processes are in place for all activities; risks are identified and qualitatively assessed; periodically well prepared for unanticipated events

Level 5
**Advanced**

- Risk discussion is embedded in strategic planning, capital allocation, and other processes and in daily decision-making. An early warning system is in place to notify management of risks above established thresholds; regularly well prepared for unanticipated events and have learned from past events to improve processes

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# Questions?

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# Appendix

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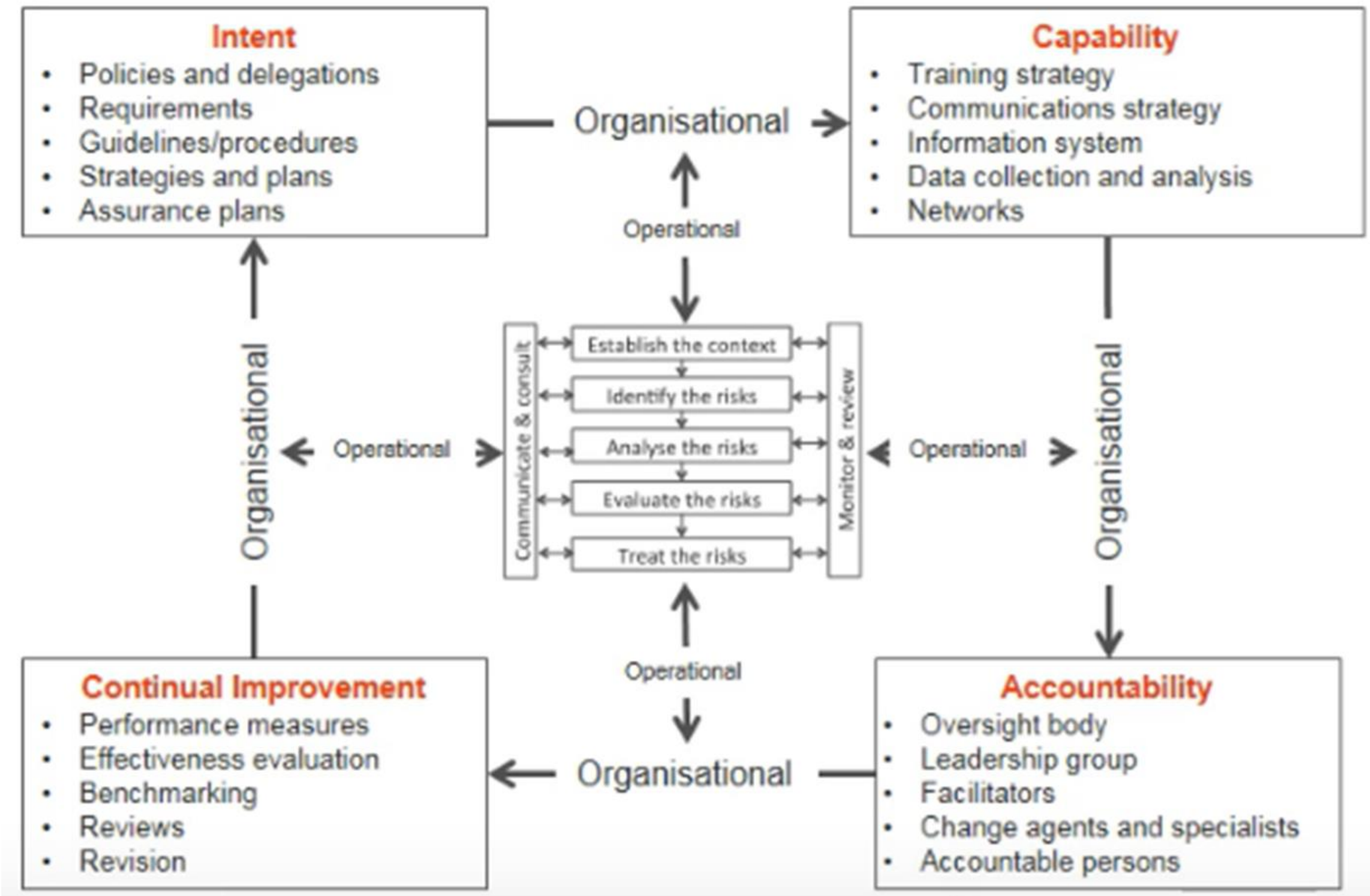
# ERM Infrastructure

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# Resources

- NC State ERM Initiative - - https://erm.ncsu.edu/
- Public Risk Management Association/Enterprise Risk Management Training https://primacentral.org/education/enterprise-risk-management-training/
- University Risk Management and Insurance Association - - https://www.urmia.org/home

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