

# Scaling the heights of enterprise risk management



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Recent market conditions offer a harsh reminder that big risks do occur and that sound risk management is neither a luxury nor an irrelevant burden. The complexity of the operating environment has led to regulation beginning to move away from rules and becoming principal-based, aligning capital requirements with the perceived risk levels of each business.

It feels as if, from every direction, that senior executives are told that enterprise risk management (ERM) is the panacea, and yet it is incredibly difficult to get a clear and concise overview of what is needed. It is perceived that achieving ERM requires vast risk departments poring over huge volumes of real-time risk data, with the ability to instantly effect directional changes in the business in response to risk events. If such perceived perfection cannot be achieved, there is a temptation to revert to "doing the minimum" in order to meet governance requirements. This clearly does not add value to the organisation in any way.

In reality what is needed to manage risk well across the enterprise is actually likely to be relatively straightforward and about optimising existing management processes. If ERM is intended to give companies the ability to anticipate and react to emerging threats to key business objectives, then some more practical views of what ERM requires may help to give perspective.

To achieve "anticipation," organisations of all sizes need to understand how risks might emerge as a result of their particular operational context and business strategy. For complex (not

necessarily just large) businesses, this will clearly require more effort and sophistication than for less complex (not necessarily just small) businesses. Because regulated organisations of all sizes are required to maintain business plans, it seems sensible to embed them with processes that bring in this "anticipation" of threats and opportunities. Because it can be scaled to the size and complexity of the organisation, it need not be a prohibitive exercise.

Having gained this insight and understanding, ERM then becomes a matter of monitoring the development of areas identified as representing high risk relative to the tolerance set; ensuring that thought has been given to what can be done to mitigate an evolving risk should it occur; and putting in place the management processes to effect change as required. It is again clear that these tasks are more involved and challenging for more complex organisations, so the resource investment to achieve success in these areas very much depends upon the nature and complexity of the business.

Milliman consultants include former chief risk officers and other risk professionals who know from experience that the greatest



**Complex Risk Assessment, Linkage Identification, and Simulation: "CRisALIS"**

Milliman's CRisALIS methodology has been developed to bring a new perspective and rigour to the identification and assessment of risk. Rather than simply looking at risk exposure as an aggregation of lower-level individual risk events, CRisALIS enables organisations to look at the risk exposure as a holistic set of interconnected events and processes from which risks emerge. The techniques used within CRisALIS enable you to see which events are most significant either because they represent key risk areas or because they are influential in the occurrence of key risk events. Using scientific approaches for the analysis of complex systems, we can help you to spot the patterns that can signify emerging risks and can simulate the behaviour of key dynamics in the risk exposure for you. Results can be used to inform areas such as strategic planning, risk management, and capital allocation. By taking a holistic view with a robust, repeatable process you can look at the entire risk exposure in aggregate. The whole process uses language familiar to your organisation and provides outputs which are intuitive and easy to interpret. Used in combination with risk information and management processes, CRisALIS will help you to embed ERM firmly into the organisation and help to focus your resources on the key risk areas and the key opportunities.

common denominator is not always the right solution, and that tailored pragmatic solutions can deliver substantial ERM benefits to companies of all sizes. Our CRisALIS methodology has been developed with leading academics to bring powerful but accessible techniques to all companies.

We know that good risk management comes from within and that combining new tools with the usage or adaptation of existing control structures and processes will deliver results. By focussing on the objectives of ERM, rather than a rigid template-driven approach, we can help you to deliver what you need to manage risk across your particular organisation.

We would be very happy to scope a short assignment with you to assess your risk exposure and to identify the key features of that. This initial piece of work in itself brings valuable input to your risk management and business-planning process. If you wish to explore things further after that, we can use the information from this first phase to help you to develop a pragmatic and effective risk framework.

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