

ERM Fact Sheet

Enterprise Risk Management Defined

Enterprise risk management (ERM) is the process of coordinated risk management that places a greater emphasis on cooperation among departments to manage an organization's full range of risks as a whole. ERM offers a framework for effectively managing uncertainty, responding to risk and harnessing opportunities as they arise.

Unlike other risk management practices, the concept of ERM embodies the perspective that risk analysis cuts across the entire organization. The goal of ERM is to better understand the shock resistance of the enterprise to its key risks and to better manage enterprise risk exposure to the level desired by senior management.

History of ERM

The concept of a holistic approach of risk management traces its roots to the early 1970s when Gustav Hamilton of Sweden's Statsforetag proposed the "risk management circle" to describe the interaction of all elements in the risk management process (assessment, control, financing and communication).

In the 20th century, risk managers were primarily responsible for managing "pure" risks through the purchase of insurance, though the concept of risk management soon became associated with financial risk management with the use of derivative financial products.

There has been a growing need from organization to permanently link their risks across their business units and adopt a more comprehensive framework. Full linkage – the integration of risk, capital and financial management – allows for a continuous recognition of the array of risks facing an organization, their individual and collective impact on shareholder value, leading to well-defined strategic actions.

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Importance of ERM

Organizations have a growing need to permanently link their risks across their business units and adopt a more comprehensive framework.

There are several checkpoints that drive the need for enterprise risk management, which include:

- Greater transparency
- Financial disclosures with more strict reporting and control requirements
- Security and technology issues
- Business continuity and disaster preparedness in a post-9/11 world
- Focus of rating agencies
- Regulatory compliance
- Globalization in a continuously competitive environment

Benefits of ERM Framework

Using the enterprise risk management framework can help an organization achieve its objectives. Enterprise risk management offers a number of benefits:

- Align risk appetite and corporate strategy
- Links growth, risk and returns
- Improves risk responses
- Reduces operational surprises and losses
- Recognizes and acts upon opportunities
- Deploys resources effectively

With the increasingly complex and fast-changing business environment, organizations are seeking risk management professionals to join their teams. As these new roles in enterprise risk management continue to grow, actuaries are becoming leaders in the practice, which takes a 360-degree view of an organization's risk profile.