The GPS Framework: A New Approach to Comprehensive Strategic Risk Management

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Abstract

Primary Contents: 1) A brief discussion of why ERM often fails to identify risks to strategic objectives but is the correct foundation for Strategic Risk Management (SRM), 2) a walk-through of the design of a customized SRM program for an insurance company, and 3) an illustration of key concepts from the *Logical Framework*[1] that will improve the execution of SRM around any strategic objective.

Usage: This paper provides clear action steps for the design and implementation of a customized SRM framework; also provides high-level information on the most pragmatic elements of Leon Rosenberg's *Logical Framework Approach*.

Summary of Key Points:

- By design, ERM is not always "aware" of the finer details of particular strategic objectives at the business segments or the risks to those objectives.

- The consideration of the *portfolio* of a company's strategic goals and associated risks is crucial to preserve and increase company value. However, this class of key risks goes largely under the radar of the seemingly wide risk identification net cast by a strong ERM function.

- ERM is still the right foundation for SRM and gets you "most of the way there" provided that some specific methods and metrics are overlaid on its traditional components.

- The design of an SRM program with three main objectives is used as an example of a methodical SRM design approach

- Objectives simultaneously address the needs of both internal and external stakeholders and create the upfront C-suite endorsement and support that underpins any successful SRM framework

- The example stresses one important path toward satisfying the objectives: ensuring an SRM framework that enables *Adaptive Management:* timely and informed management action to alter business tactics, risk mitigations, or overall strategic course.

- Introduces *Potential for Action* as a risk mitigation assessment tool and employs the concept of *risk velocity* as it relates to Adaptive Management

- Employs an intuitive and methodical approach to specify all key framework components that lead to an SRM program meeting the key objectives

- Key insights on SRM execution: The paper provides several examples of how the *Logical Framework* improves both the SRM process itself and the planning around the input to the process, i.e. the strategic objective