## ENTERPRISE RISK MANAGEMENT (ERM)
### FACT SHEET

### What is Enterprise Risk Management?
Enterprise risk management (ERM) is the process of coordinated risk management that places a greater emphasis on cooperation among departments to manage the 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 previous risk management practices, the concept of ERM embodies the notion 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 are several checkpoints that have driven the need for enterprise risk management. This includes an increase in:**
  - 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 from rating agencies
  - Regulatory compliance
  - Globalization in a continuously competitive environment

### Defining ERM

- **Risk Management** – the discipline by which an organization identifies, assesses, controls, measures and monitors various risks and opportunities for the purpose of achieving the entity’s strategic and financial objectives.

- **Capital Management** – the discipline by which capital is deployed within an organization based on management tolerance for risk, economic constraints, and performance objectives for the organization as a whole, while still satisfying regulatory and rating agency requirements.

- **Financial Management** – the discipline by which an organization evaluates its performance utilizing risk-adjusted measures that reflect returns, capital consumption and volatility on an enterprise and individual business unit basis.

- **Risk Appetite** – the level of aggregate risk that an organization can undertake and successfully manage over an extended period of time. According to Basel, risk appetite is the broad-based amount of risk an organization or other entity is willing to accept in pursuit of its mission or vision. Enterprise risk management enables an organization to determine what level of the risk it chooses to accept as it seeks to build shareholder value.

- **Operational Risks** – the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

- **Strategic Risks** – potential damage to reputation, competition, demographic trends, technological innovation, capital availability and regulatory trends.
### Demonstrating ERM and the Role of Actuaries

- No matter how well planned and executed, risk management procedures cannot always guarantee results. Nevertheless, using the enterprise risk management framework can increase an organization’s and its shareholders’ confidence that they will achieve their objectives.

- Enterprise risk management offers a number of benefits:
  - Aligns risk appetite and corporate strategy
  - Links growth, risk and returns
  - Improves risk responses
  - Reduces operational surprises and losses
  - Manages enterprise-wide risks
  - 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.

- To meet this growing need, the Society of Actuaries has developed the international credential Chartered Enterprise Risk Analyst (CERA), encompassing the most comprehensive and rigorous demonstration available of enterprise risk management. This marks the first new credential in 58 years from the SOA, and also signifies an evolution of the profession.

- The CERA-credentialed professional possesses the unique ability to use both quantitative and qualitative methods to anticipate, identify and optimize risk, leading to well-defined strategic actions for organizations. For more information, visit [www.CERAnalyst.org](http://www.CERAnalyst.org).

### Implementing the ERM Framework

- There is a growing need from organizations to permanently link their risks across their business units and adopt a more comprehensive framework.

- Organizations have traditionally used the "siloh approach to risk management that looks at the individual performance of a business unit instead of a more holistic approach that looks at the long-term impact on risk and capital needs of the entire enterprise.

- Organizations, especially those in insurance, have long identified and quantified risks, though this has commonly been done in a vacuum that separates risk management, capital management, and financial management.

- Therefore, in order to effectively allocate resources, satisfy all stakeholder demands, manage the diverse risks, allocate capital to those areas that add value, and measure the organization’s performance, it is critical that the “silos” be permanently linked.

- 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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**About Actuaries**

Actuaries bring a complex future into focus by applying unique insight to risk and opportunity. Known for their comprehensive approach, actuaries enable smart, more confident decisions.

**About Society of Actuaries**

The Society of Actuaries (SOA) is an educational, research and professional organization dedicated to serving the public and its members. The SOA’s vision is for actuaries to be recognized as the leading professionals in the modeling and management of financial risk and contingent events. The SOA’s mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal problems involving uncertain future events. To learn more, visit [www.soa.org](http://www.soa.org).

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