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Enterprise Risk Management Framework as an Ecosystem

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Enterprise Risk Management Framework as an Ecosystem

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Abstract

A sound enterprise risk management (ERM) framework functions as an ecosystem by balancing the complex interdependencies of its elements while constantly adapting to an ever-changing, external environment. Each living organism (stakeholder) has a unique role to play in forming a thriving ERM ecosystem (framework). It has to maintain synchronization across the various levels—legal entities, business lines, products and risk categories—and be risk-conscious in its decision-making. For an ERM framework to withstand events causing severe disruption to the system, an institution must:

- Identify all inherent and emerging risks, including their correlations/dependencies
- Implement key business decisions and actions on behalf of all of its shareholders
- Instill a common risk culture and language that is well understood and practiced by all levels/ business units
- Balance risk mitigation and risk-taking behavior to achieve the goals set out by and for its stakeholders

The ERM ecosystem is established at the most senior level of the organization. The board, executive committee and/or an ERM committee determines how effective, integrated and resilient the ERM framework will be. We live in a dynamic **biosphere** where external factors can **disrupt** how we routinely conduct business. Drastic changes in regulation, market trends, terrorist's attacks and extreme natural disasters are often categorized as one-in-200 events. These extreme scenarios can destroy a weak or adequately rated ERM ecosystem.

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