



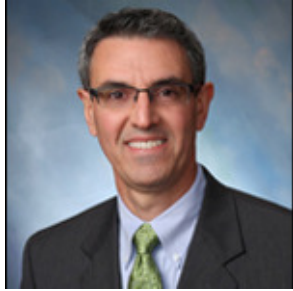
Enterprise Risk Management:

Culture, Vision, Performance

June 29, 2011



Today's Panel



- **Dave Potterton (Moderator), Vice President of Research** for IDC Financial Insights Global Banking, Insurance, Capital Markets and Risk Management practices.



- **Michael Versace, Research Director** at IDC Financial Insights, focusing on the Global Risk end-user and technology marketplace.



- **Larry Mead, Vice President and Managing Director** for Guidon's Financial Services and Insurance practice focusing on business improvement and solutions across the financial sector.

Where We Are

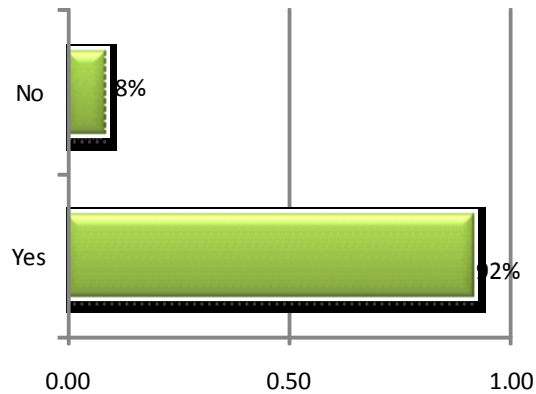
Regulatory pressures and today's global business realities are forcing financial firms to re-think and restructure organizations, technologies and business processes used to manage risk.

It is increasingly vital for firms to harness technology and information to make actionable, optimized, and timely decisions ... keeping risks at acceptable levels.

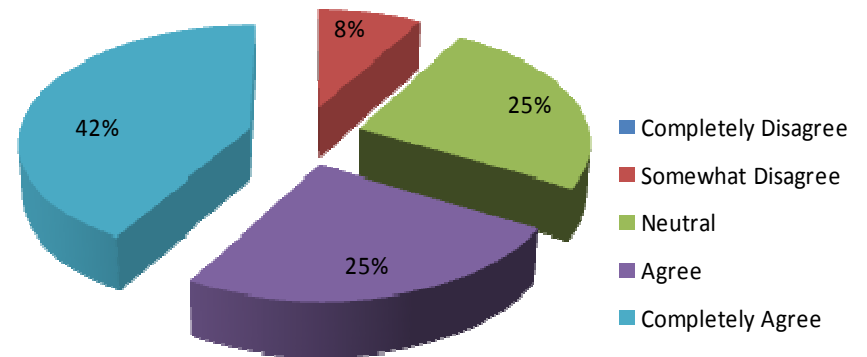
But it is also critical to establish agile cultures with repeatable disciplines and processes to manage thru the change and situational complexities ... staying ahead of the competition.

The Organizational Stress

Institution has received increased pressure from federal regulators



I am concerned that an increase in regulatory queries is straining my compliance team and resources

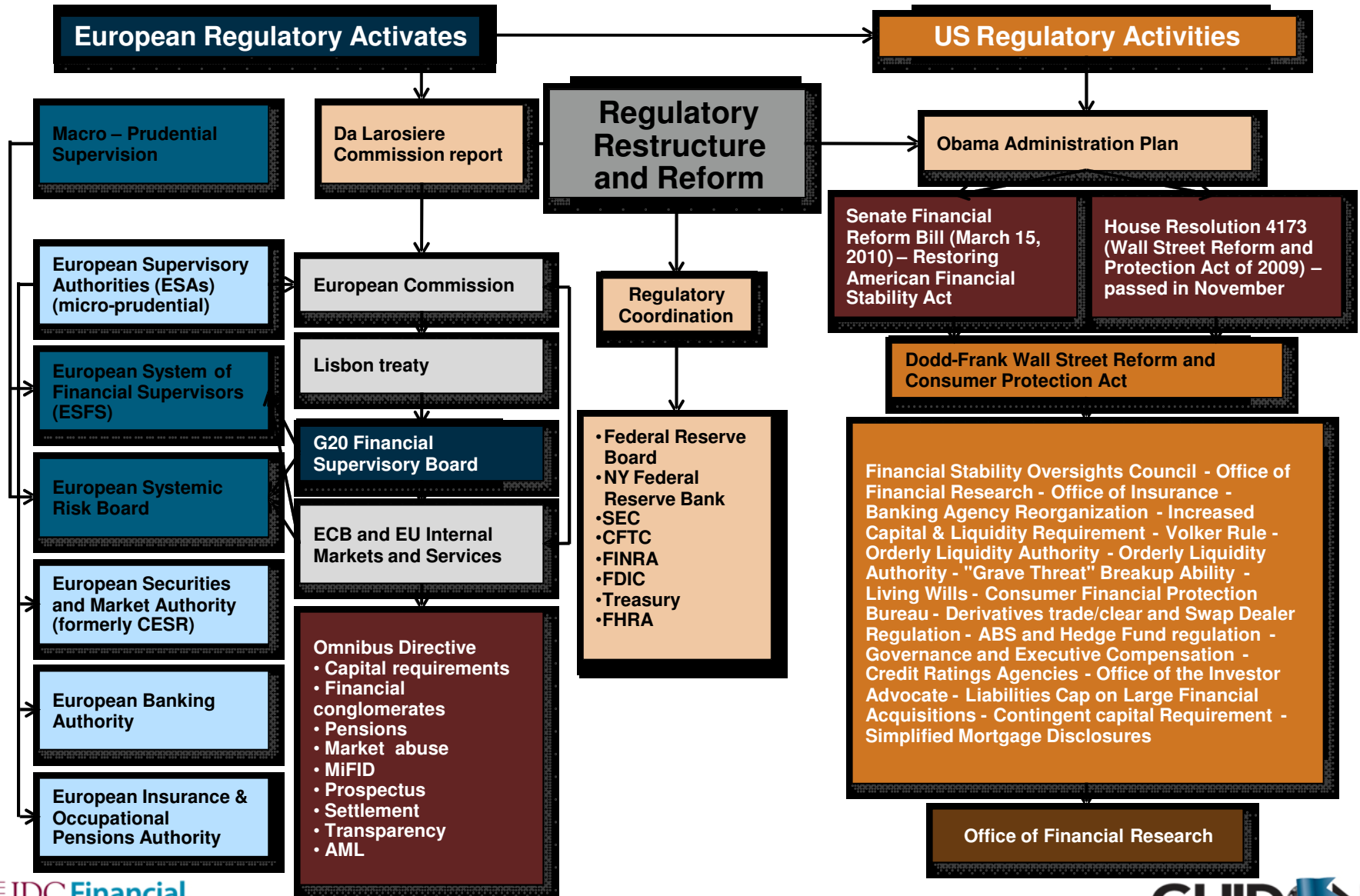


92% of risk managers interviewed feel they are under siege from federal and state regulators.

77% of risk managers feel that increased regulatory scrutiny is stressing out their teams.

Source: IDC Financial Insights 2010 Risk Officer Survey

The Regulatory Complexity



The Cost of Compliance

The SOX Experience

• THE COST OF COMPLIANCE •

The average cost of compliance with the Sarbanes-Oxley Act in 2006 for companies with under \$1 billion in annual revenue..... **\$2.8m**

The average cost in 2001..... **\$1.1m**

Percentage increase in costs between 2005 and 2006..... **13%**

The increase in external audit portion of SOX compliance, 2005-2006..... **4%**

The total increase in external audit fees, 2001-2006..... **271%**

Cost Drivers

Direct Costs

- Assessment
- Documentation
- Technology
- Legal, ...

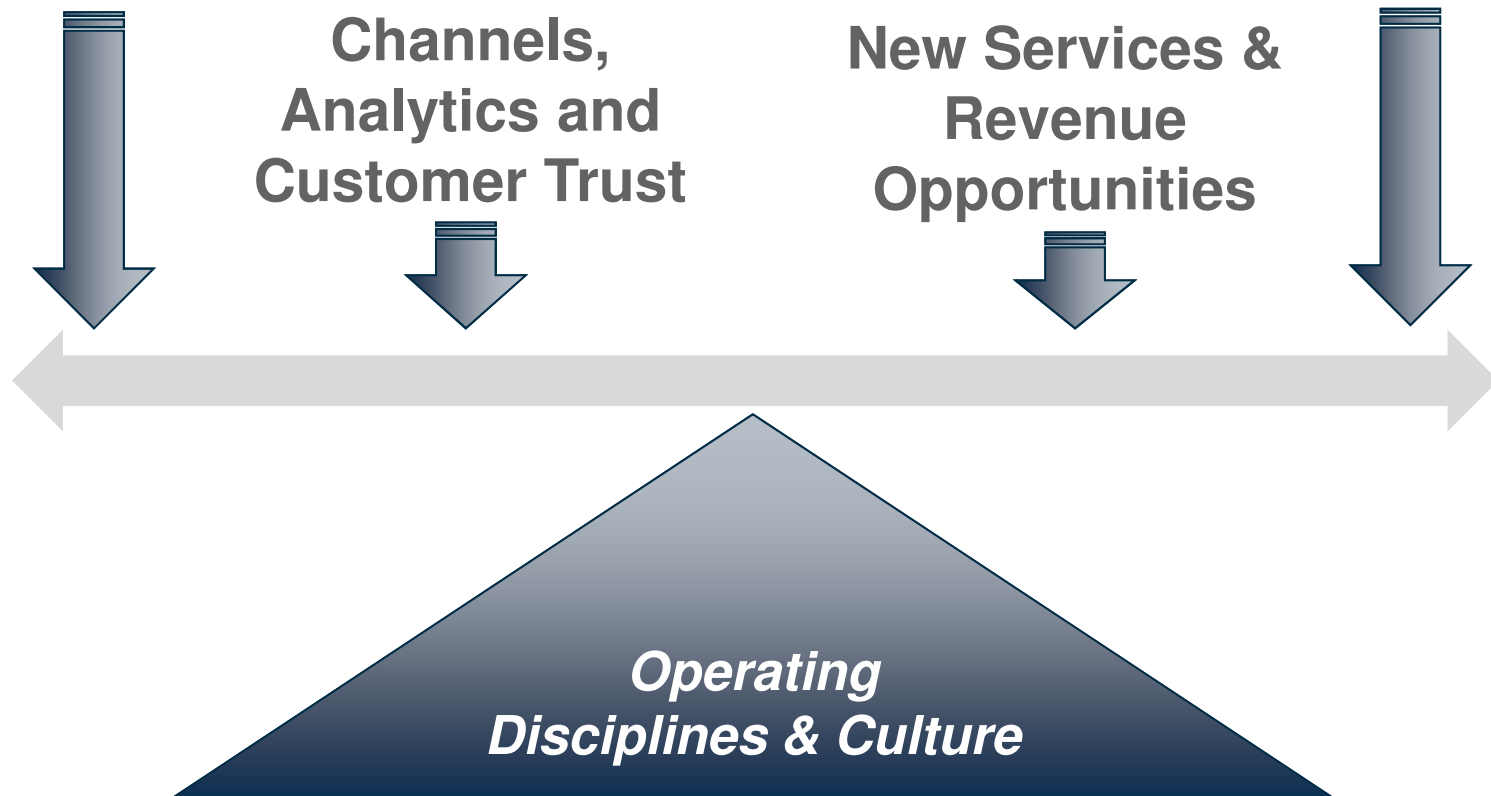
Indirect Costs

- Productivity
- Rework
- Evaluation, ...

Risk and Innovation Balancing Act

Regulatory & Compliance Burden

Efficiency & Effectiveness



Industry Leader Perspective

“Risks are an unavoidable consequence of being in business. Efficient risk management enables an organization to view newly identified risks as opportunities for increased profit as well as cost reductions, impacting shareholder value Efficient risk management should become a competitive advantage.”

– *European Risk Expert*

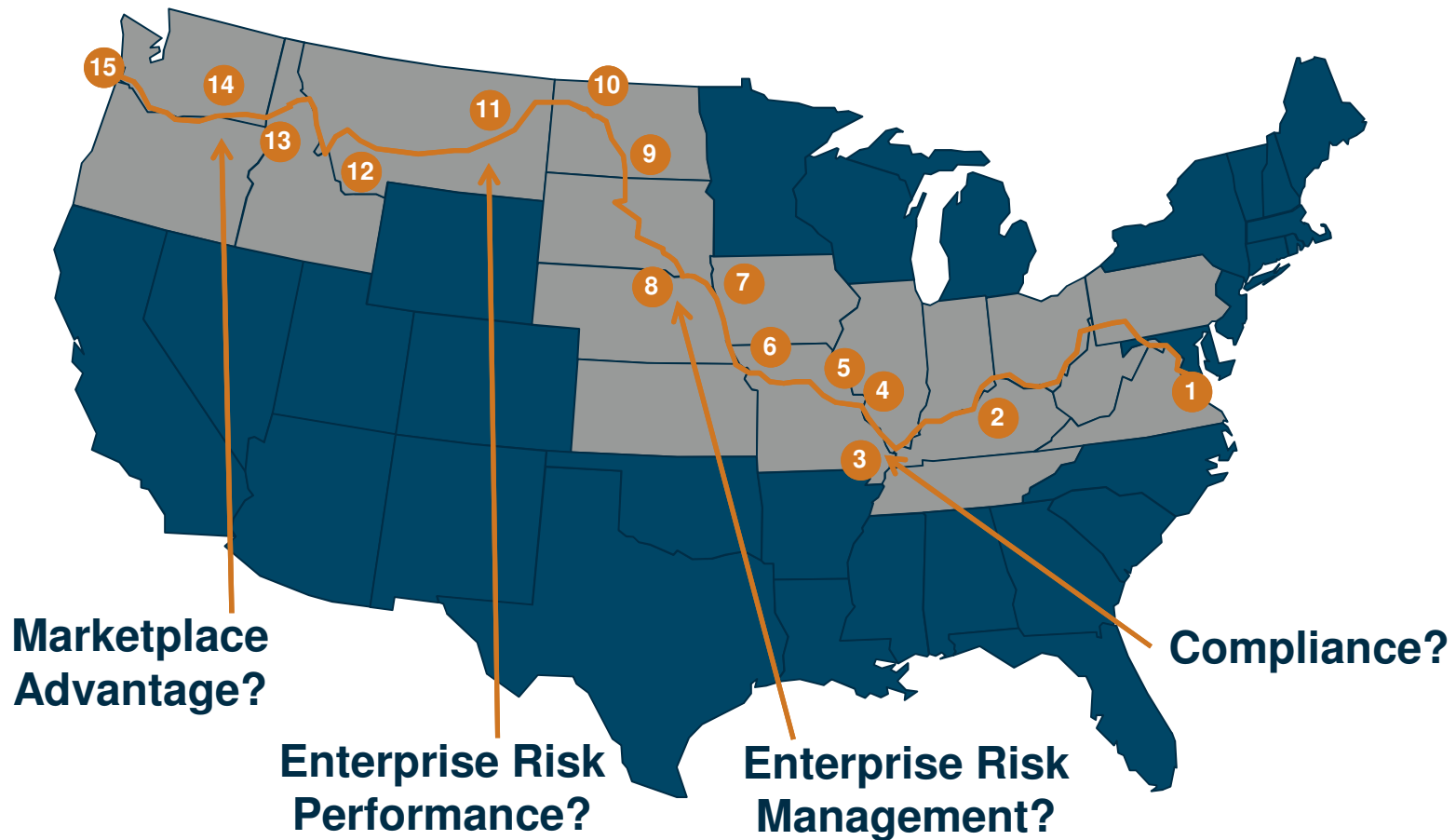
“Integrating risk culture into a business takes time, discipline, leadership, and a willingness to be practical in designing and fitting ERM tools and process with other management routines ... culture is very often quite simply forgotten by CROs and their risk functions.”

– *CEO, Large US Insurer*

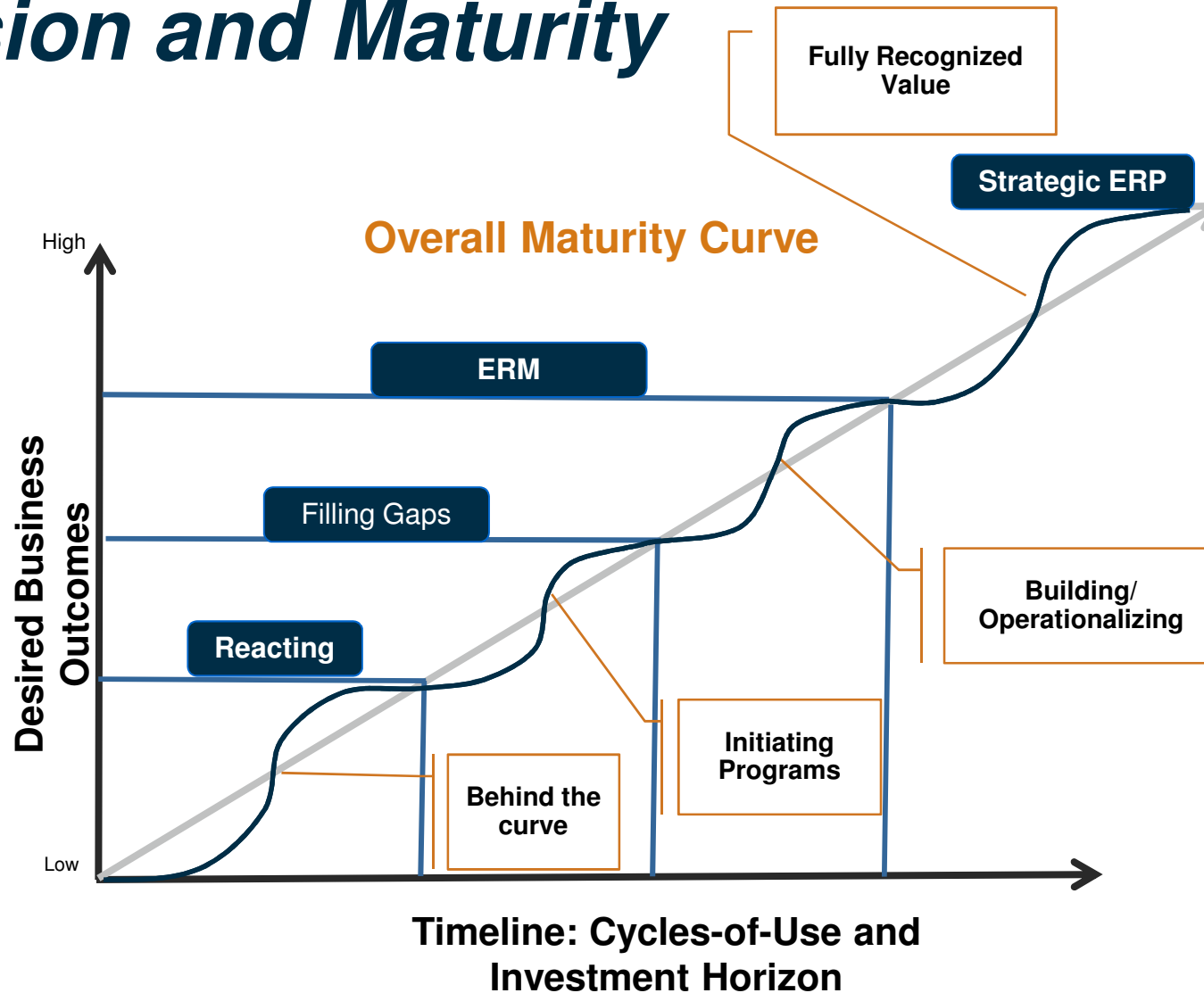
Source: IDC Financial Insights and allaboutrisk.com expert survey 2011

Principle #1 – Map Out the Journey

Where are you going and why?
What are the stops along the way?



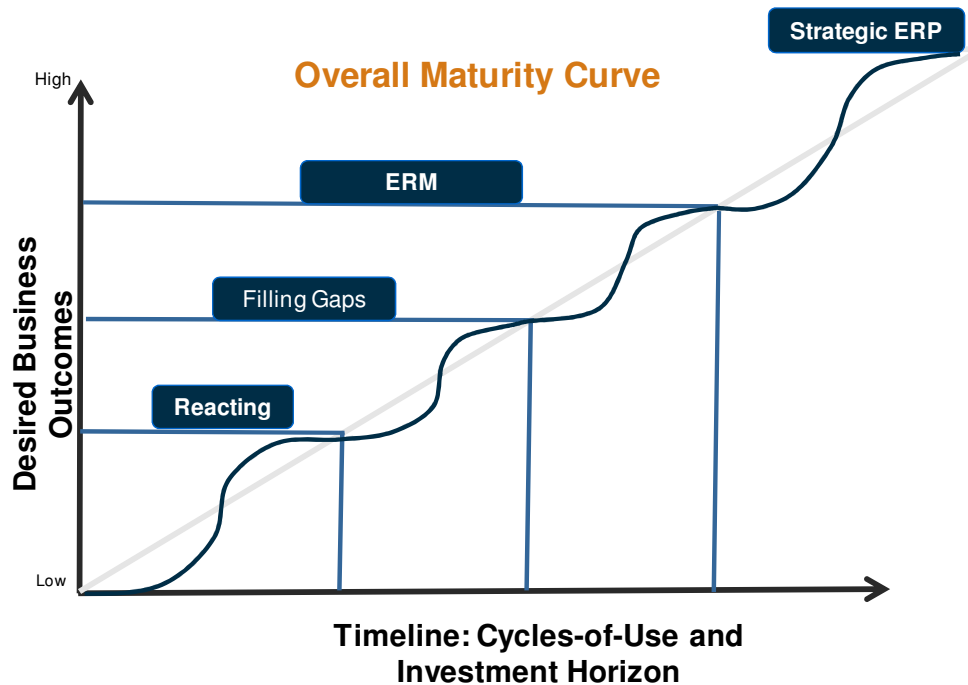
Map Out the Journey *Vision and Maturity*



Map Out the Journey *Vision and Maturity*

Limited ERM Characteristics

1. ERM still a promise – not yet reality
2. Compliance is the emphasis – audits are the primary tool of choice
3. Ownership is generally with a Risk Leader or Audit function
4. Solutions are a collection of data points – little integration
5. Technology, not Enterprise Risk Architecture, Shared Services, etc.



Maturing ERM Characteristics

1. Persistent Risk Culture - Risk Performance an accountability
2. Performance - Monitoring and risk evaluation is part of the company fabric
3. Ownership is shared by Leadership; particularly P&Ls
4. Solutions are designed, and customer-centric
5. Technology supporting robust metrics, analytics

Launching – risks not understood, costly approach, reactive

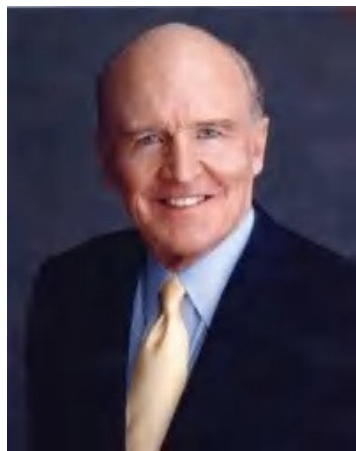


Agile - Scalable, Defensible, and Competitively Opportunistic

Principle #2 – How Matters More Than What

- Management Disciplines are the “HOW”
 - Strategic Planning and Deployment
 - Business reviews
 - Talent Development
 - Innovation
 - Technology Deployment
- Strategies, business models and entire industries change rapidly today – business management processes are the key to adaptation and execution



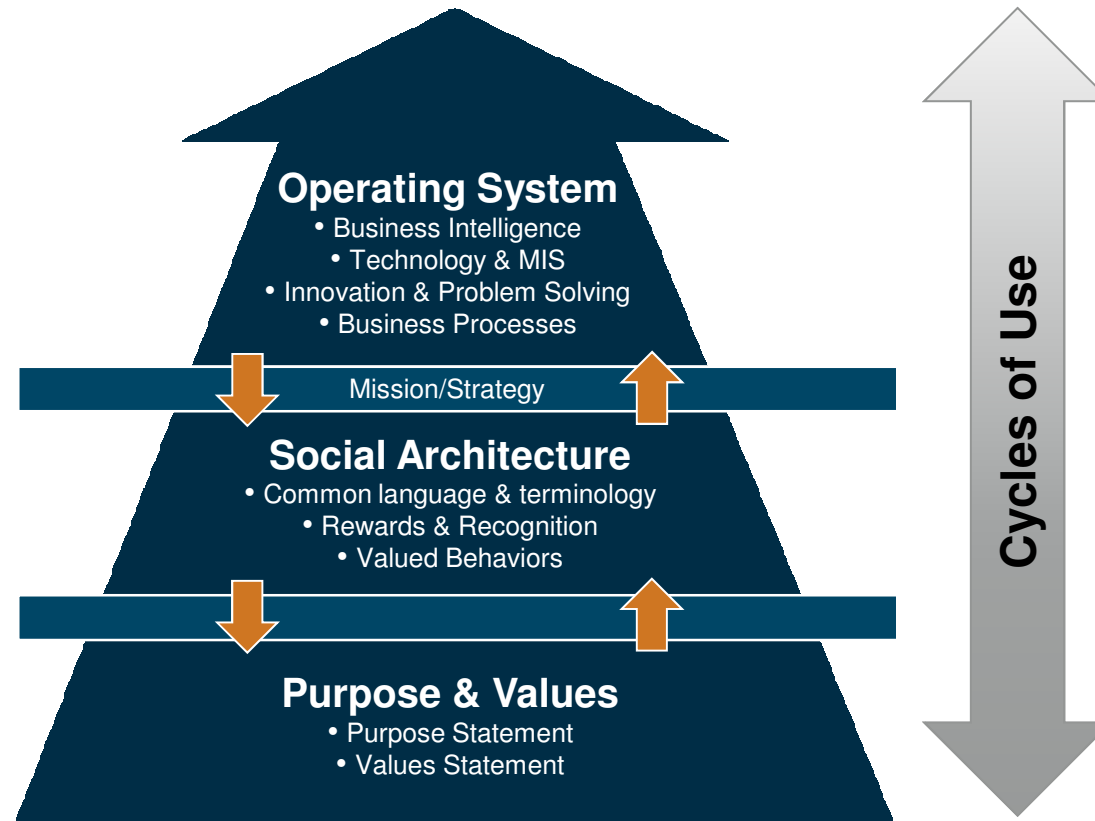


“...The two fundamental forces that drive GE...a common operating system and social architecture...”

Jack Welch
GE 1999 Annual Report

How Matters More Than What

Architecture of the High Performing Enterprise

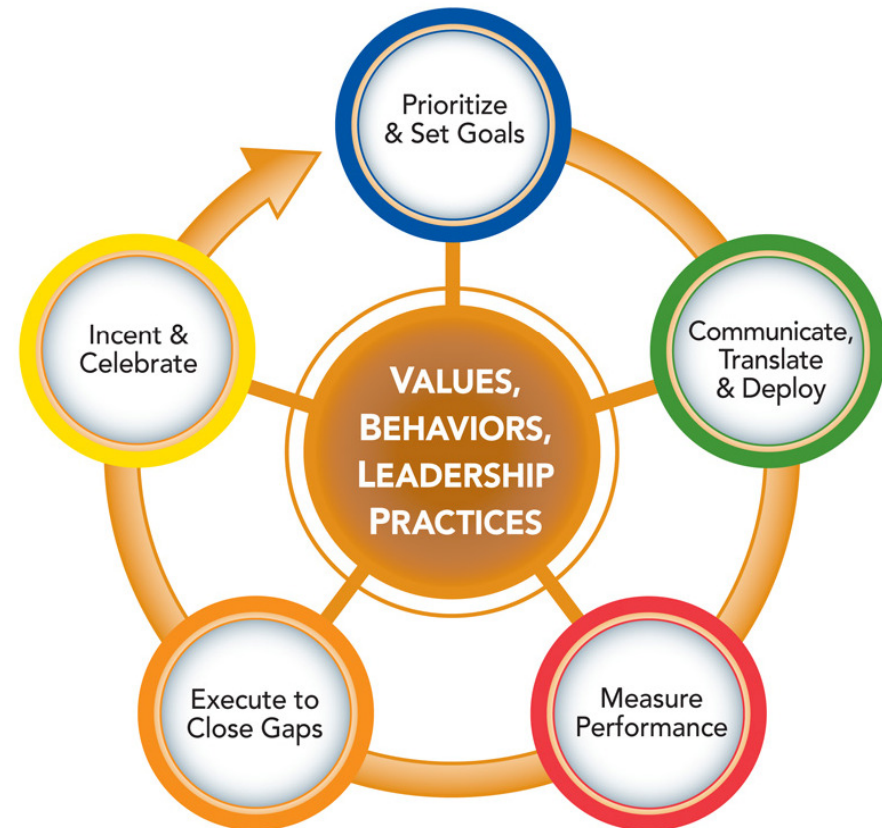


High Performing Organizations need a Rosetta Stone to continually and rapidly recognize external change, understand internal capabilities, focus on the exceptions & disagreements and deliberate practice to embed changes in an organization's DNA.

How Matters More Than What

- Begin by clarifying the role of Senior, Middle, Associate-level management
- Design the Standard Playbook for all levels of the organization – including the cultural framework for Enterprise Risk Performance
- Tools and practices linked to values of the organization

Framework for a Cultural “Operating Architecture”

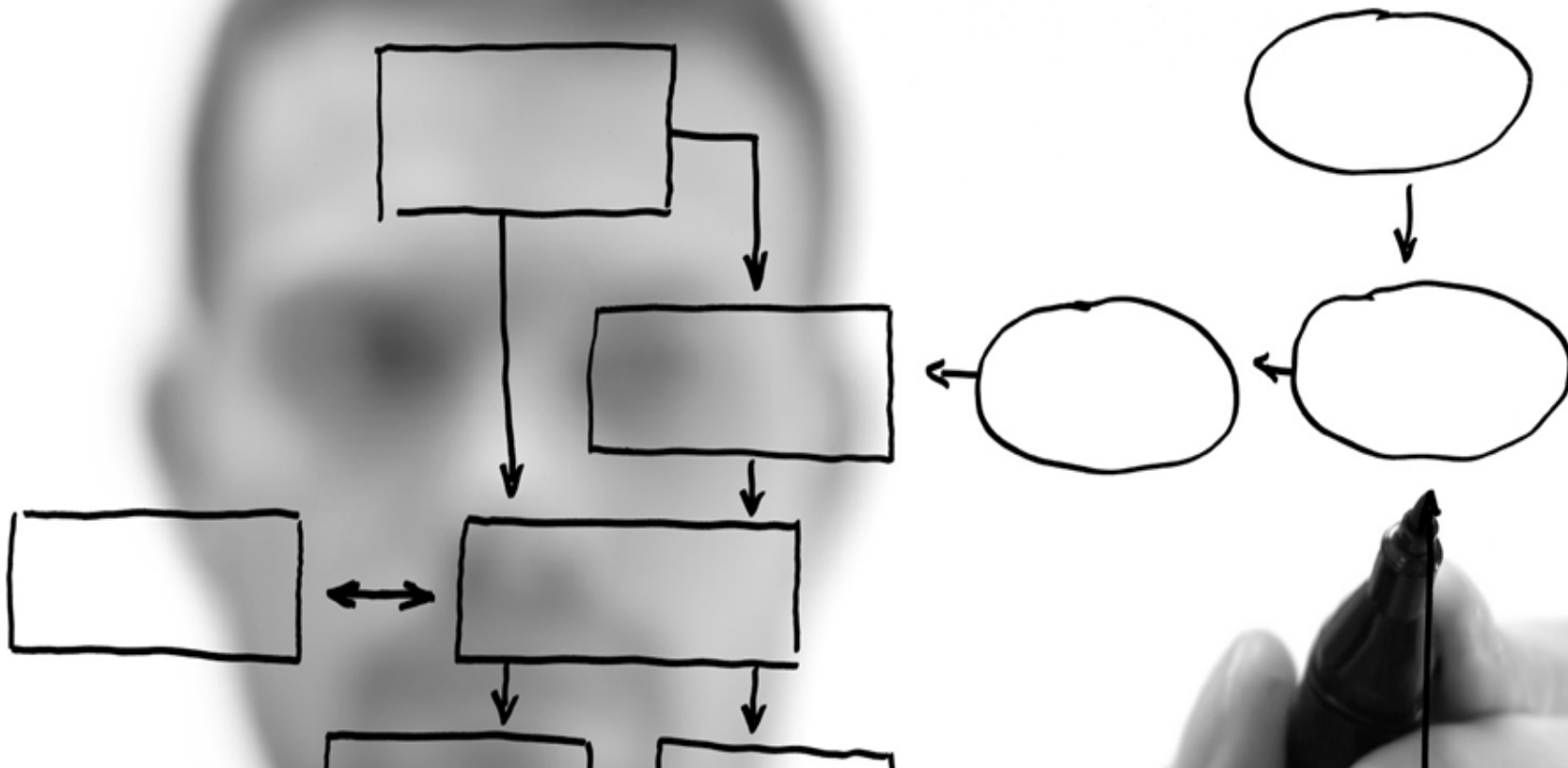


Principle #3 – Compete In Dog Years



A time-compressed company does the same thing as a pilot in an OODA loop... It's the competitor who acts on information faster who is in the best position to win.

George Stalk, Jr. & Tom Hout,
Competing Against Time

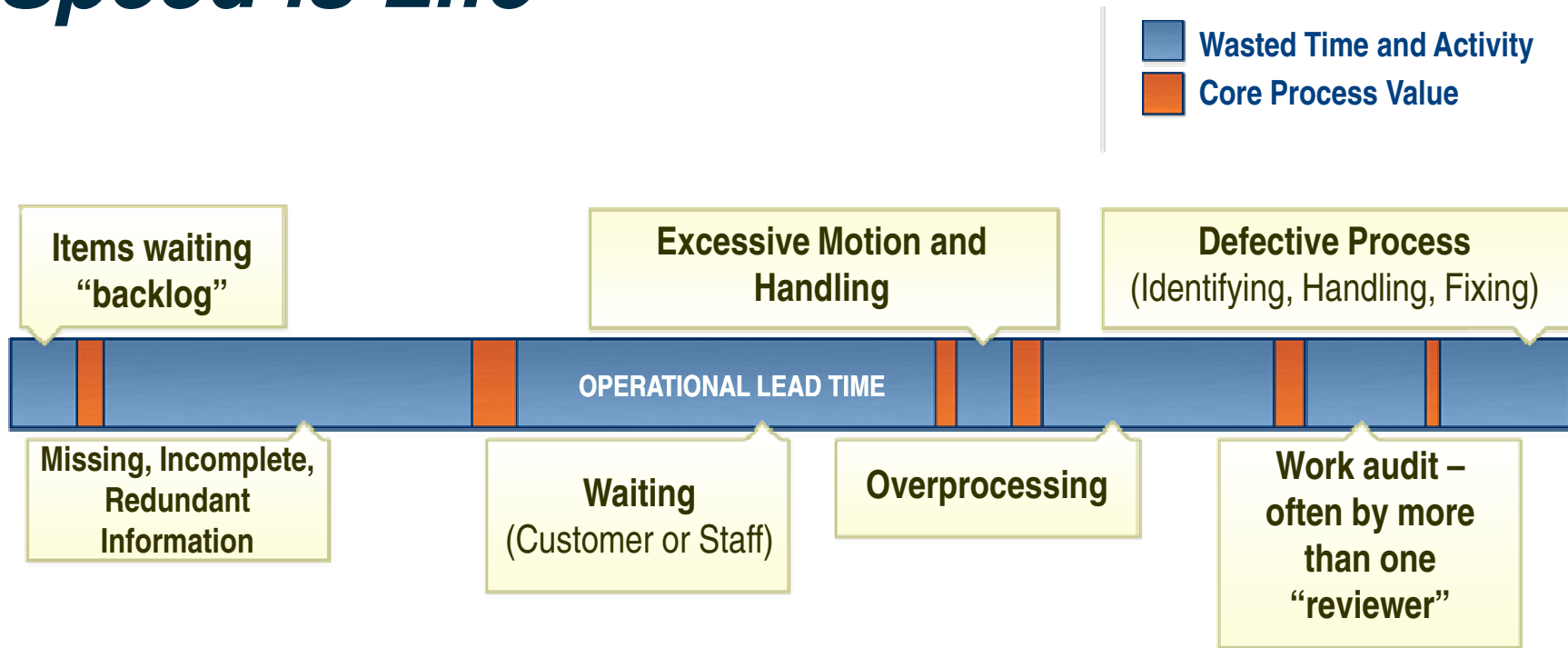


“At a time when firms in many industries offer similar products and use comparable technologies, business processes are among the last remaining points of differentiation.”

– Tom Davenport, *Competing on Analytics*

Compete in Dog Years

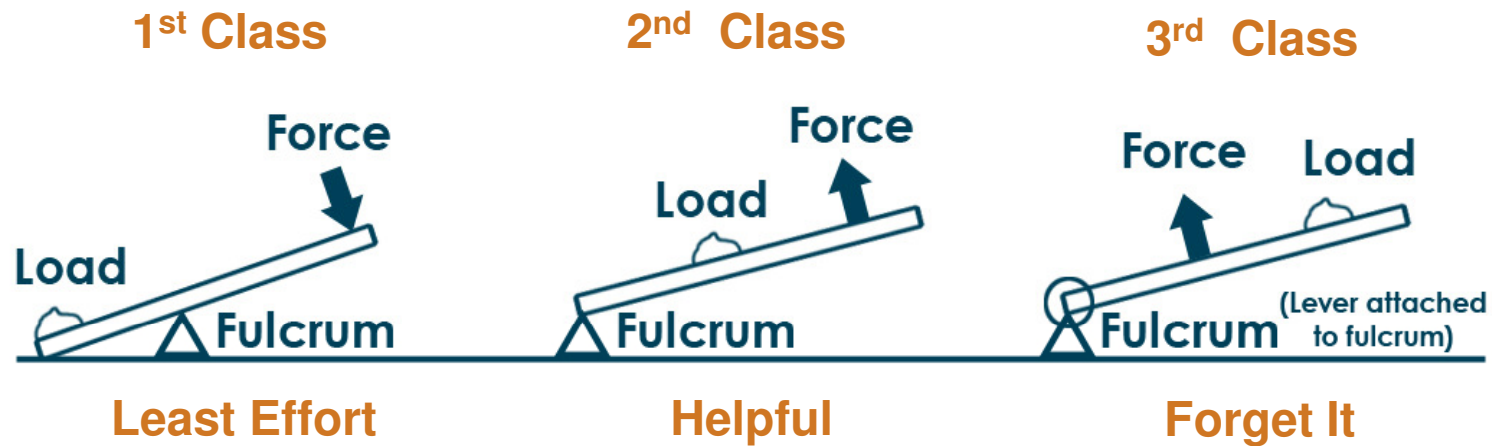
Speed is Life



Start with the Customer & Process to drive efficiency and effectiveness. The key is to reduce every activity and every effort to "core value."

Principle #4

Simple First-Class Levers



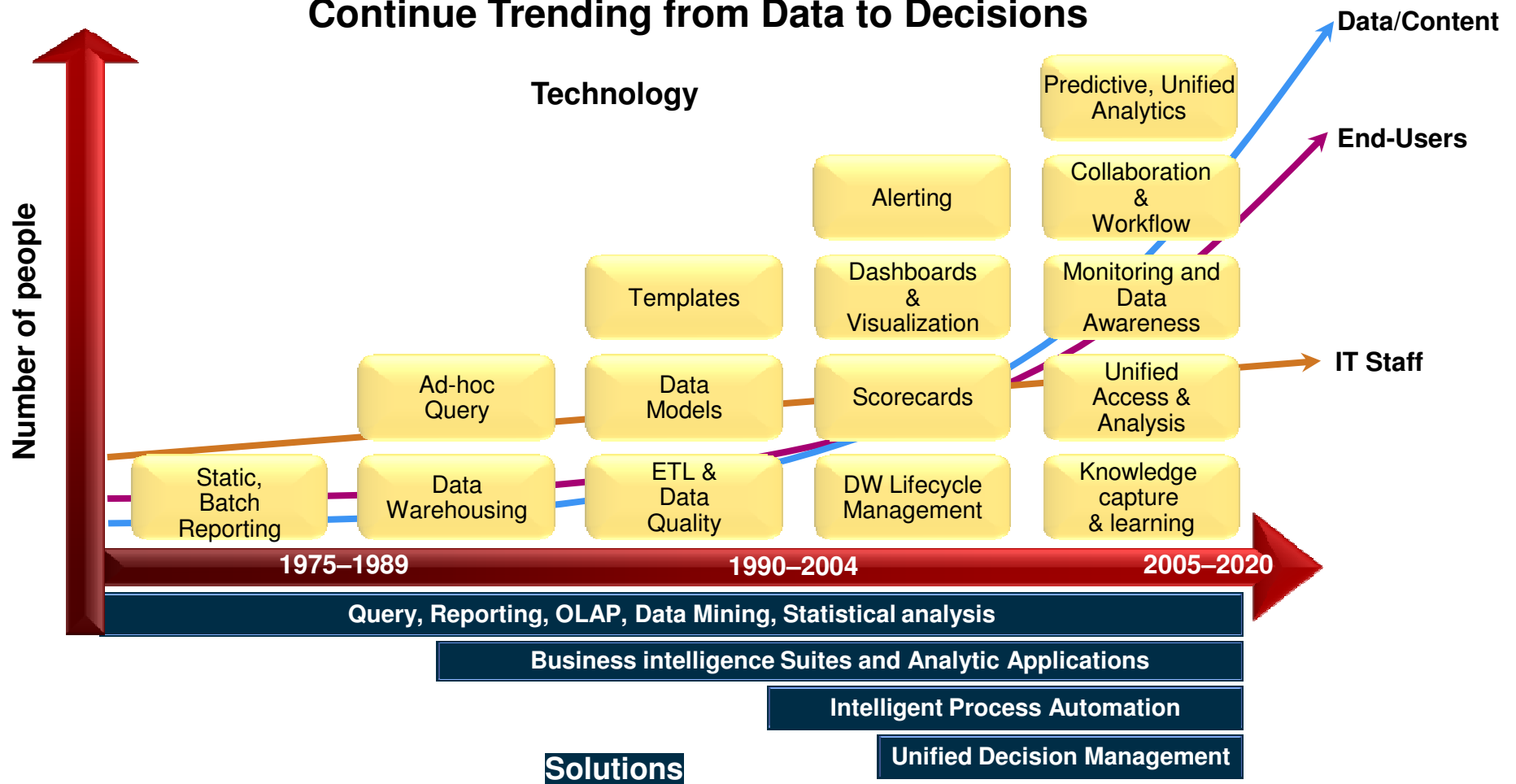
Information, Analytics, and Technology are incredible levers that must be designed around the Customer, Culture, Process, and true Information Needs to be most enabling and effective.

Image Source - Professor Beaker's Learning Labs

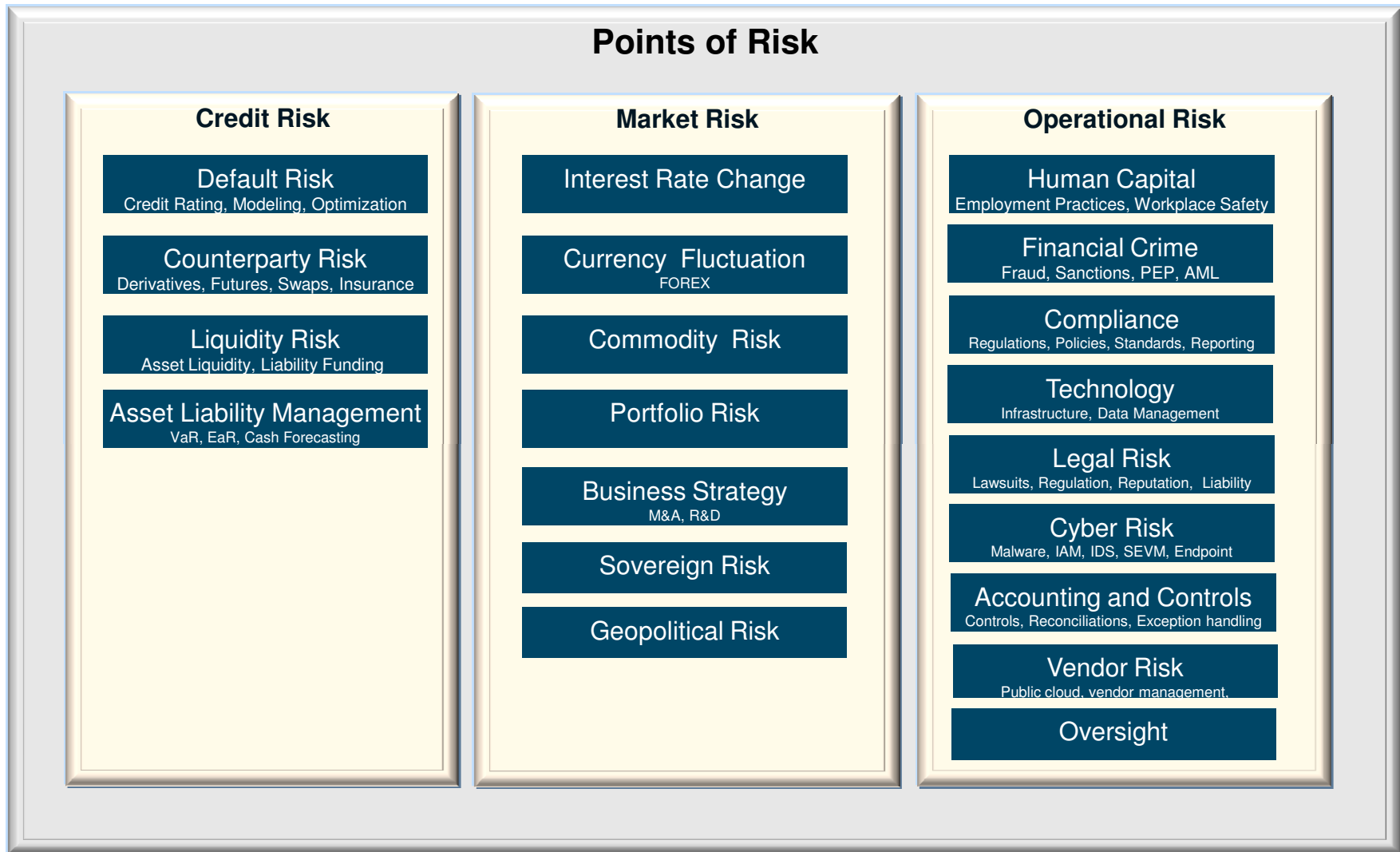
Simple First Class Levers

Analytics Evolution & Maturity

Continue Trending from Data to Decisions



What are the Risks & Information Needs?

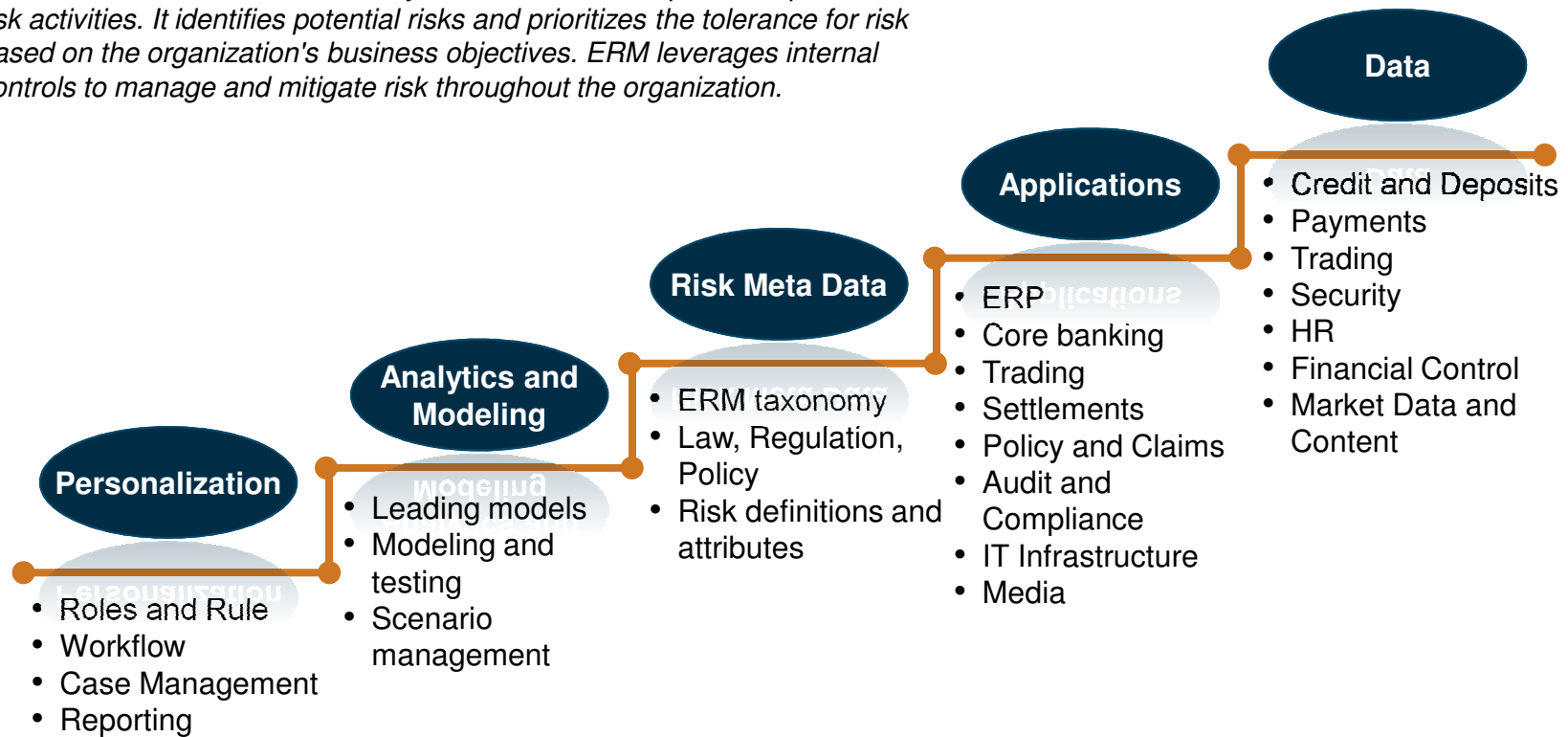


Simple First Class Levers

Core ERM Solution Components

ERM Solution Definition

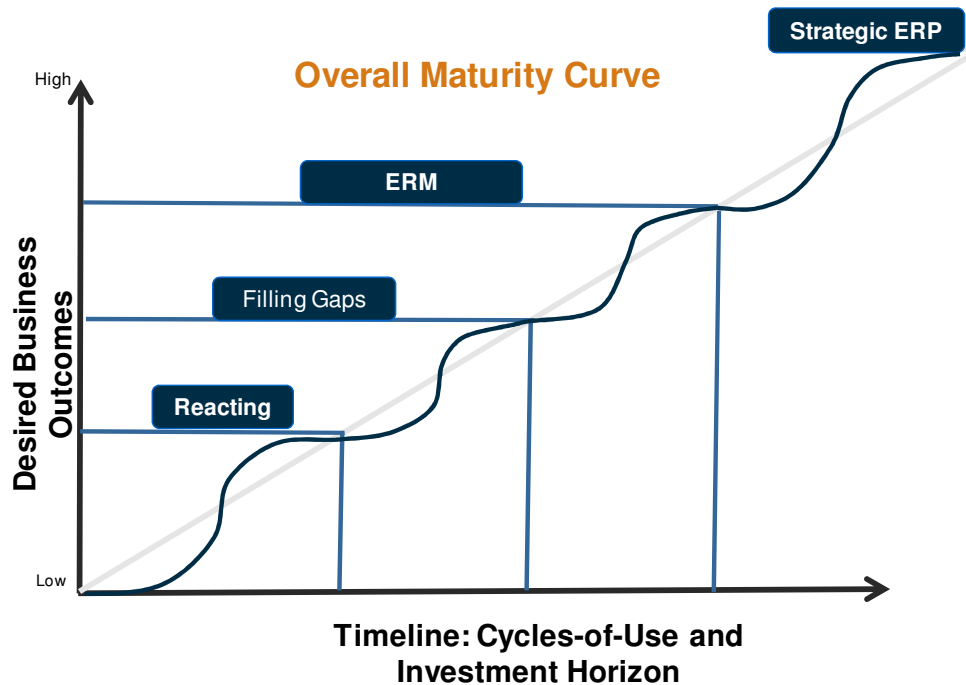
IT solutions used to establish, analyze, measure, and report enterprise-wide risk activities. It identifies potential risks and prioritizes the tolerance for risk based on the organization's business objectives. ERM leverages internal controls to manage and mitigate risk throughout the organization.



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Take-Aways for Navigating the White Water

- ❑ We are in a world of continuous rapids frequently interrupted by monsoons
- ❑ Four *Principles* for the *Journey*
 - ❑ *Map out the Journey*

Establish a shared vision that fits your Business Reality & need
 - ❑ *How is more critical than What*

Design the *cultural framework* for Enterprise Risk *Performance*
 - ❑ *Speed is life!*

Start with the Customer & Process to drive efficiency and effectiveness
 - ❑ *Simple First-Class Levers*

Enable with Technology; avoid building ERP around it



Questions?



Thank You!

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