INTERNATIONAL FEDERATION OF RISK AND INSURANCE MANAGEMENT ASSOCIATIONS
WHITE PAPER
ENTERPRISE RISK MANAGEMENT

The International Federation of Risk and Insurance Management Associations (IFRIMA) is the international umbrella organization for risk management associations representing 26 organizations and over 30 countries throughout the world. With its roots going back to the 1930s and its development through the discipline of insurance and risk management, IFRIMA is uniquely positioned as a leader in risk management and its application.

In today's business and economic environment, the practice of risk management has evolved to provide increasing value to organizations. Every organization takes risk in order to meet its business objectives. Without risk, there would be no reward. The risks that an organization takes must be assumed through a disciplined and systematic approach to risk management in order to add value. Not only does risk management protect the organization from loss, but also the appropriate risk management techniques will allow the organization to take those risks necessary to meet its business objectives.

Risk Management is a central part of any organization's strategic management. It is the process whereby organizations methodically address the risks relating to their activities, with the goal of achieving sustained benefits across the portfolio of activities. Risk management should add maximum value to these activities. In order to properly integrate risk management into the strategic management of the organization, the risk manager must be positioned at a high enough level in the organizational structure to ensure the success of the program.

The value added by risk management relates directly to the mission of the organization, its long-term viability and its business imperatives. In order to achieve this value, risk management can and should be applied by taking an integrated approach, i.e.:

- Taking into consideration all types of risks
- Adopting a consistent approach and methodology to each type of risk
- Ensuring that policies and strategies are developed with a positive and professional risk/opportunity approach.

This can and should be achieved by developing policies and activities in three significant areas:

1. **Contribution to the overall business objectives of the organization**.
   All organizations must take risk in order to be successful. Risk management, appropriately applied, will allow the organization to take those risks, which are necessary to its overall value, and to leverage opportunities from the ability to take and manage risks.

2. **Establishment of a consistent, transparent framework for corporate governance**.
   Good corporate governance requires that effective risk management programs be established by Boards of Directors and implemented by management. These programs must be comprehensive and transparent, promoting risk consciousness through the organization and allowing for comprehensive reporting externally to shareholders and regulators.

3. **Protection for the company from adverse variances and catastrophes**
   Protection from adverse variances and catastrophes requires the consideration of both internal and external risk factors. In addition, to achieve appropriate protection requires a combined focus on risk mitigation and risk transfer through insurance, hedging or other financial instruments. The practice of hazard and insurable risk management has matured significantly over the years and has protected organizations from catastrophic risk exposures to their properties, personnel and for their liabilities.

Risk management standards have been developed and adopted by IFRIMA members in Australia, Europe and Canada. Corporate governance regulations have been developed by a number of governments and stock exchanges throughout the world. In addition, industry and risk specific standards, guidelines and frameworks have been developed by many professional and self-regulatory organizations, such as the Committee of Sponsoring Organizations (on behalf of the audit profession), the Basel Accord for banking institutions and the Global Association of Risk Professionals (on behalf of financial risk managers.)

IFRIMA encourages the development of best practices and guidelines for risk management. A detailed international risk management standard would not be practical to develop because there is no one risk management standard. However, a generic best practice/guideline document is considered by IFRIMA as beneficial for the development of risk management throughout industries and countries.

The foundation of a strong risk management program is the inclusion of a disciplined, consistent process throughout an organization. That process needs to be linked to the organization's strategic objectives and should include:

1. Risk identification and assessment. This step includes identification of the significant risks that face the organization including development of risk registers and risk mapping along with both quantitative and qualitative analysis of the exposures facing the organization.

2. Risk mitigation strategies. The development of risk mitigation strategies is key to the management of risk issues and action plans need to be included in the overall business plans of the organization to ensure successful implementation.

3. Residual risk transfer. Once all risk mitigation strategies have been evaluated and implemented as appropriate, the residual risk has to be effectively managed through a combination of insurance, hedging and other alternative techniques ensuring the best possible coverage at the lowest possible transfer cost.

4. Risk reporting. The organization requires the ability to report on risks internally, specifically to senior management and the Board of Directors.

5. Monitoring. This part of the process is designed to ensure adherence to and effectiveness and relevance of policies and procedures relating to risk management.

Implementation of a risk management program will differ from one organization to another. Nevertheless, it is important that the implementation plans include the manner in which risk management will be embedded into the culture of the organization. This should include the definition of roles, training and integration into the reward system. Without operationalizing risk management into the organization's culture, the program will become just words on paper.

The skill set for risk management will vary considerably depending upon the industry. It can include the need for expertise in investments, finance, actuarial science, law, engineering, risk transfer, business processes, internal audit, etc. including combinations thereof in order to appropriately address the risks. Risk management is a collaborative process requiring commitment and consensus within an organization. The culture and business purpose of the organization will drive the type of process and risk mitigation strategies to ensure successful implementation.