

Evolving risk management

Risk-enabled performance management

Craig Faris

Federal Enterprise Risk Management Summit

Advancing Best Practices in ERM

September 9, 2014

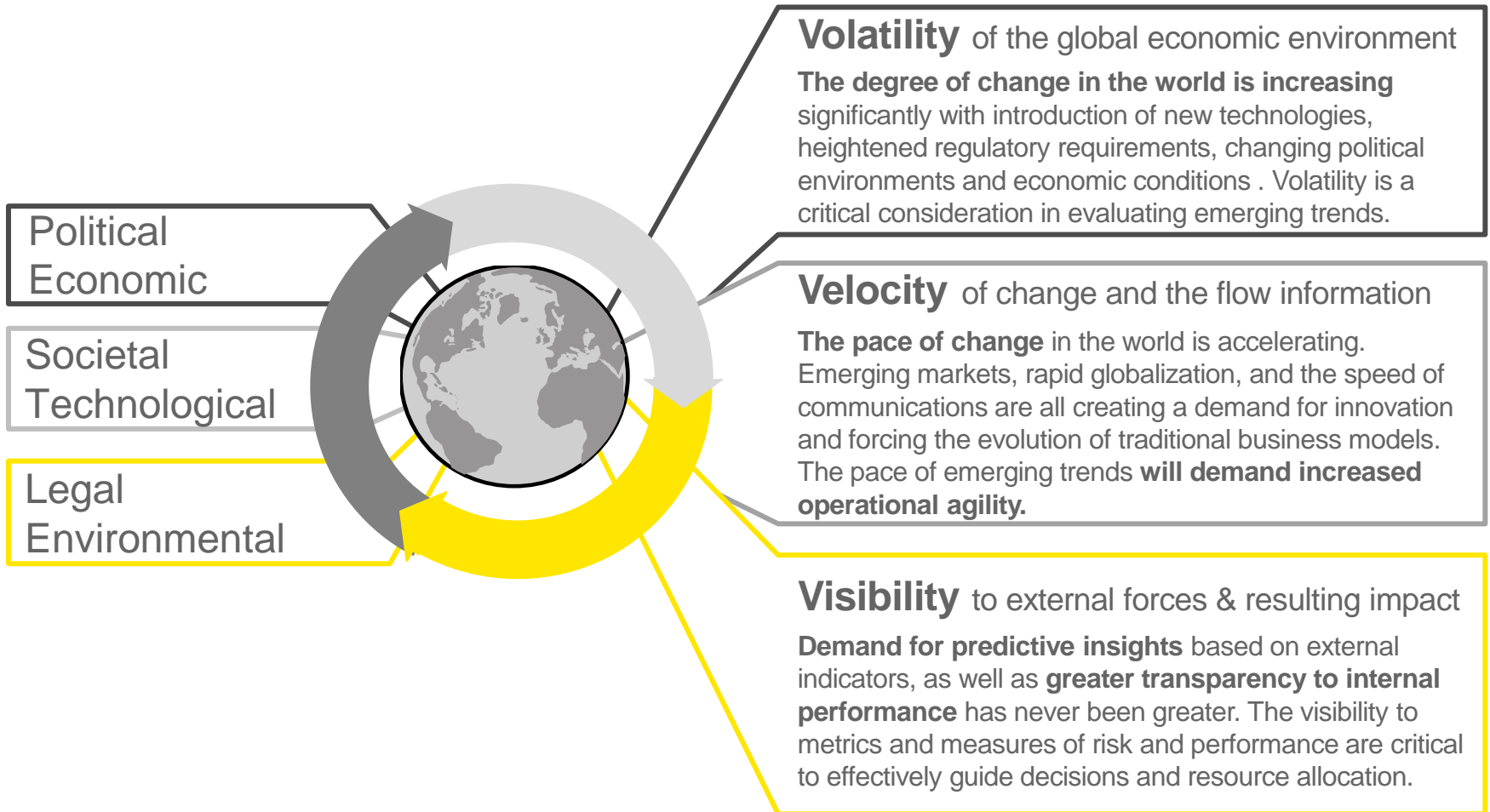


Building a better
working world

The situation



Global risk and uncertainty levels are unprecedented ... and growing



Challenge question



Is ERM up to the task of managing risk in this global environment?

What if in the Government Sector it also did this?

- ▶ Positioned risk and uncertainty as critical and focused decision criteria and part of the normal management decision making process
- ▶ Served as a central point of alignment between strategy and operations
- ▶ Drove enhanced communication between agencies and stakeholders
- ▶ Created a focus on the drivers and relevant range of uncertainties associated with plans and actions, then identified leverage over them
- ▶ Provided insights for reducing costs while increasing risk coverage
- ▶ Became a proactive enabling tool versus reactive response mechanism

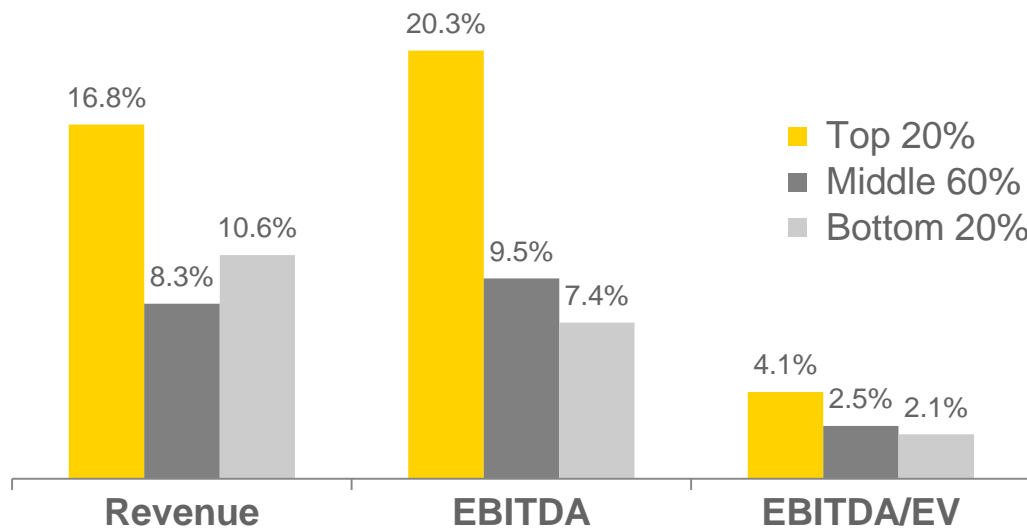
The facts



EY research indicates a direct correlation between effectiveness of risk management and business results

“Companies in the top 20% of risk management maturity delivered three times the level of EBITDA than the bottom 20%.”

82%
of institutional investors
are willing to pay a
premium for effective
risk management



Compound annual growth rates 2004-2011 by risk maturity level



(Source: Ernst & Young research)

Business is about balancing risk and reward to create value

Companies are re-evaluating how they manage this balance

Risk-taking is fundamental to economic reward – the challenge is to recognize which risks differentially impact business outcomes and transform how those risks are managed in order to best protect the business, enhance performance and drive value creation.

This requires companies to find innovative and effective ways to:

- ▶ Grow revenues and market share
- ▶ Optimize performance
- ▶ Protect their organization



The solution



Most effective risk management not only helps protect, but also proactively helps drive positive results – it is a balance

Leading organizations expand their view of risks and enhance risk management beyond the traditional compliance and reporting to support better decision making and improved results

Keep us out of trouble

Growing number of restatements

Bigger fines and settlements

Expanding regulation

Stiffer sanctions

Catastrophic reputational consequences

Criminal indictments

All too confusing and overdone...
except when we get in trouble

Goal

Make our business better

Coordinated risk activities

Enhanced business processes

Risk-adjusted decisions

Effective use of technology

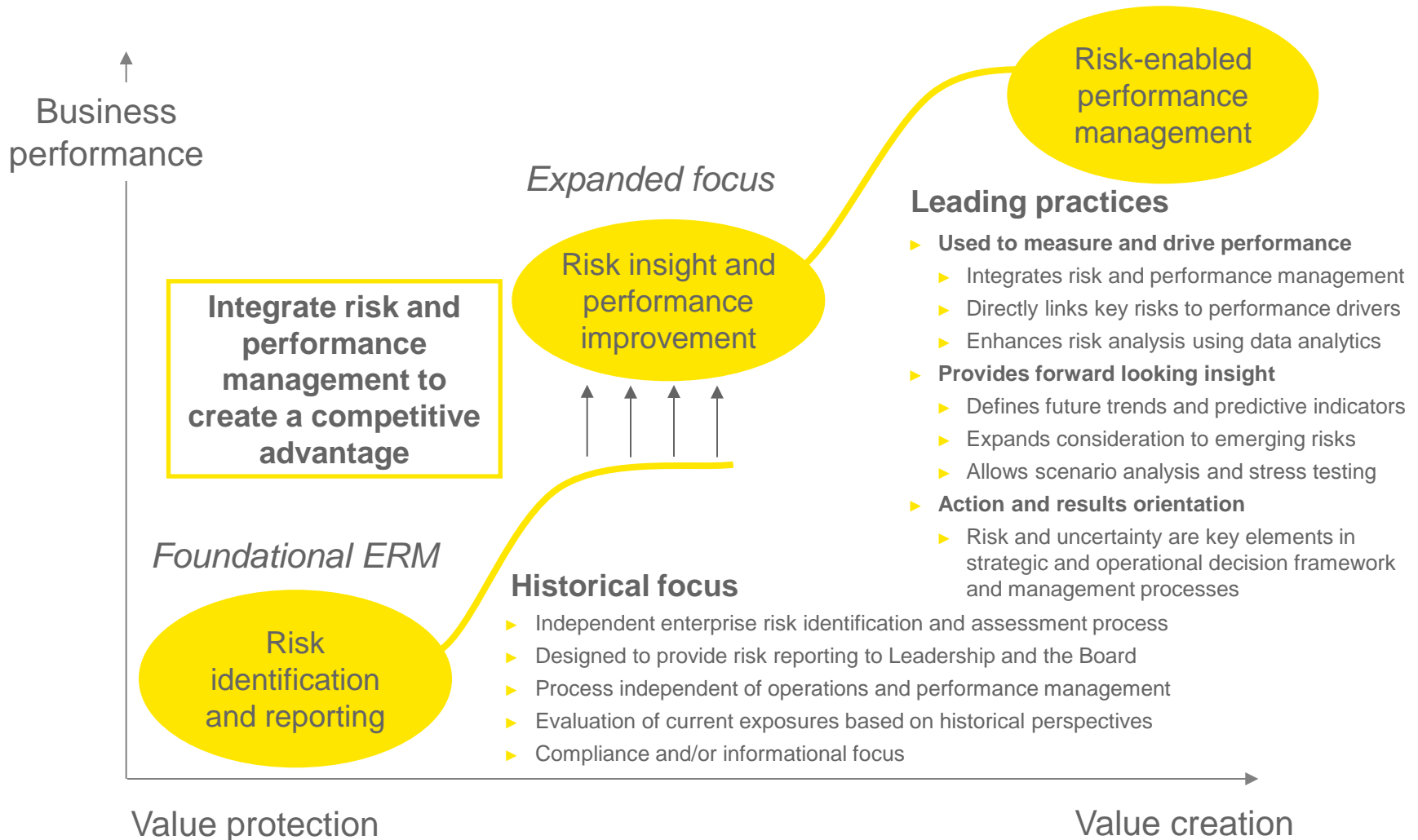
Improved risk reporting and disclosure

More efficient risk spend

Must do it...
but how do we do it better?

We believe the key to the future is better linking risk and performance management

Shifting from risk *monitoring* to *risk-enabled performance management*

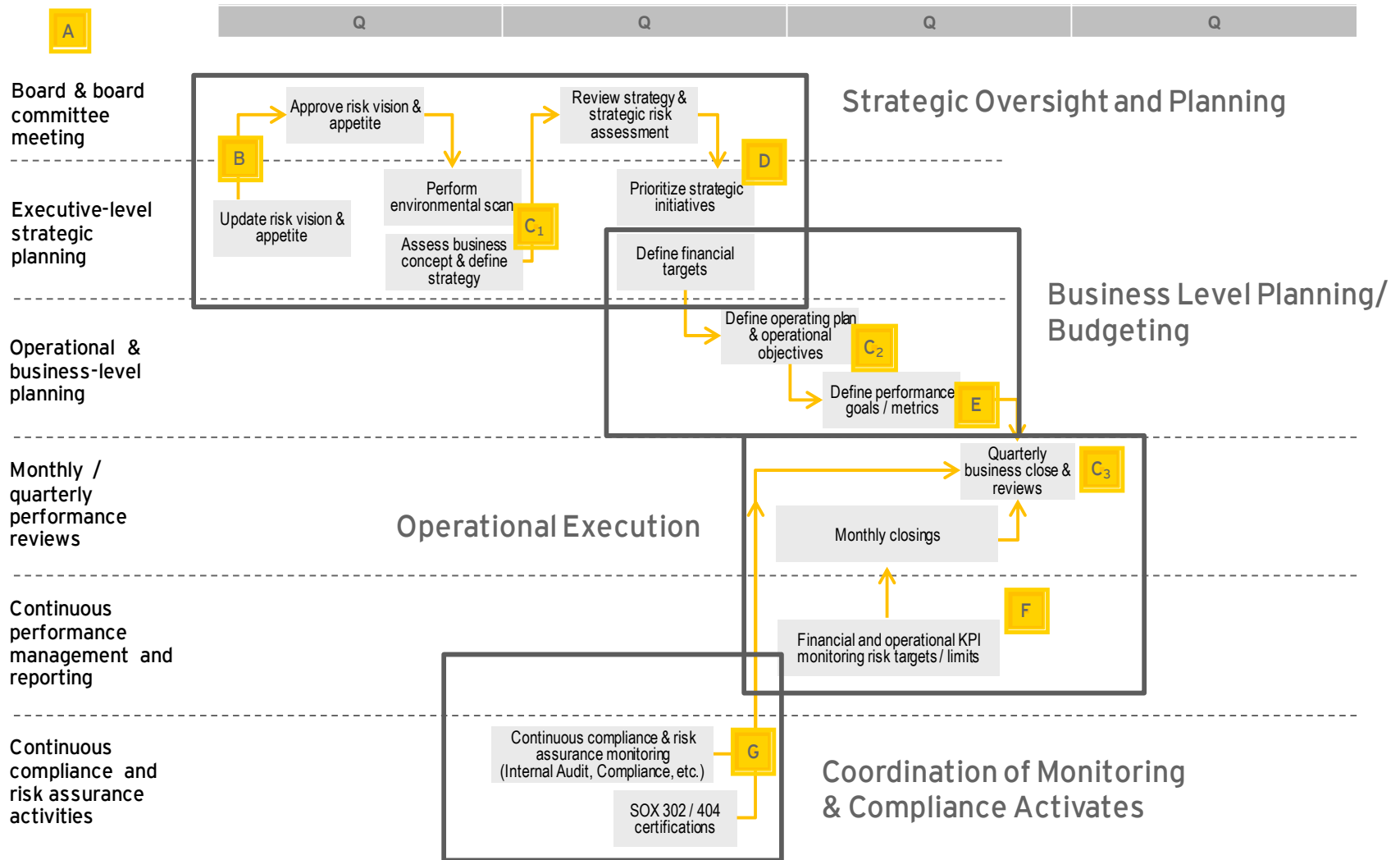


Embedding risk insights into the “Rhythm of the Business”



“Rhythm of the Business”

REPM integrates risk management into the Rhythm of the Business

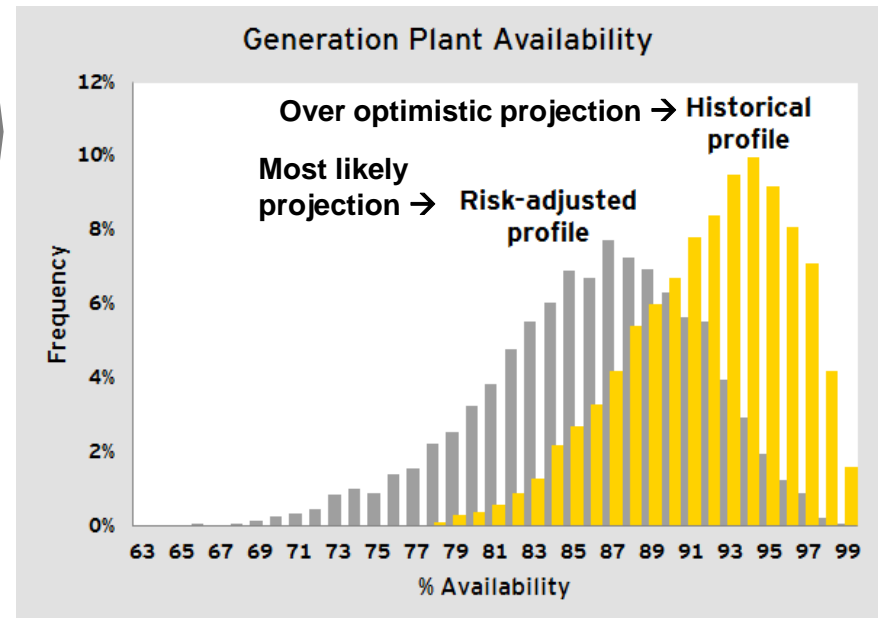
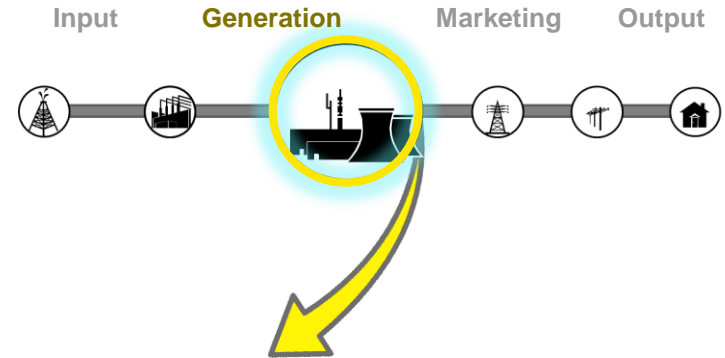


REPM examples



Capital allocation planning is risk-adjusted to enhance cash flow

- ▶ **Issue:** Maintenance capital allocated to a power plant relied on the plant's historical availability. Risks to the plant's aging infrastructure were known but not reflected in its historical performance.
- ▶ **Complication:** The company was unable to effectively understand and communicate how the known risks could impact future plant availability.
- ▶ How the REPM framework helped:
 - ▶ Isolated the key risks to plant availability
 - ▶ Quantified and aggregated risks into a risk-adjusted profile of plant availability
 - ▶ Facilitated more effective capital allocation to cover risk mitigations
- ▶ **Insight:** Plant was at greater risk of deteriorating performance than history indicated, warranting additional investment to prevent service degradation and reduced cash flow.



Executive level reporting is changed to support a new dialogue

Assessments are consolidated into risk-adjusted ranges around KPIs:

Key performance indicators align risk monitoring with performance management

Key Risk Indicators (KRIs) are tracked to monitor relative threat levels

ERM REPORT - Q3 2014

| KEY PERFORMANCE INDICATOR | FY 2015 | | | | | | KEY RISKS |
|---------------------------|---------|------------|---------|------------|-----------|-----------------|---|
| | PLAN | RISK RANGE | | TOLERANCES | | RISK TREND | |
| | | LOWER | UPPER | LIMIT | COMPLIANT | | |
| FREE CASH FLOW (Millions) | \$350 | \$220 | \$415 | \$150 | YES ● | Neutral | Pending lawsuit Insurance costs Risk X |
| RETURN ON SALES | 18.0% | 13.3% | 21.0% | 11.5% | YES ● | Decreasing ↓ | Production delays Raw material costs Risk Y |
| BOOKINGS (Millions) | \$1,500 | \$1,245 | \$1,688 | \$1,200 | YES ● | Increasing ↑ | Global economy EPA regulations Risk Z |
| SAFETY (TRIR) | 1.33 | 0.86 | 1.94 | 2.00 | YES ● | Neutral | Aging workforce Materials handling Risk AA |
| QUALITY (Index) | 8.5 | 7.7 | 9.3 | 8.0 | NO ● | Neutral | Engineering specs Supplier delays Risk BB |

Management-declared tolerances inform decisions and risk-mitigation priorities

Individual risks that contribute most to the exposure are isolated

Questions



Presenter bio – Craig Faris



Craig Faris
Principal
Americas Risk Advisory
O&G/Chemicals Sector Lead

Contact information:
Ernst & Young LLP
Westpark Corporate Center
8484 Westpark Drive
McLean, VA 22102
Mobile: +1 202 531 8299
Office: +1 703 747 0946
Email: craig.faris@ey.com

Craig Faris is a Principal in the firm and is the Americas Risk Advisory Leader for the Oil & Gas/ Chemicals Sectors. He was previously the Global Lead for Emerging Risk Services and was responsible for developing EY's Risk-Enabled Performance Management approach. He has more than 20 years experience in risk management across a broad spectrum of industries, which he brings to bear in helping clients achieve top tier business results through effective risk management.

Craig has worked with numerous global corporations in creating top to bottom risk management programs and supporting capabilities, linking Board governance and oversight of risk with executive leadership and operational execution to enhance business performance.

Previously, Craig was a risk leadership Partner with both Accenture and Oliver Wyman, and was a leading force in integration of risk management with strategy development, analytics and operational practices. Prior to his consulting career, he was the Global Director of Enterprise Risk Management for Wal-Mart, and also held numerous positions at Amoco Corporation, such as Global Exploration Coordinator, Director of Strategy, Director of Process Improvement, Geotechnical Operations Lead and Exploration Geologist.

Craig holds an MBA from the Kellogg School of Management, an MS from Virginia Tech and a BS from the University of Missouri.

Further reading on Craig's talk today can be found on EY.com. Simply enter *Expecting more from risk management* in the main site search field.

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