

# RISK HORIZONS

JULY 2007

## Beware dangers of jumping on the ERM bandwagon

Risk management practitioners should not be fooled by the latest buzzwords into thinking they can cover all risks facing their organisations, says RMIA WA president Brian Roylett.

Mr Roylett, principal of Perth-based consultancy Roylett RM, said misinterpreting the concept of enterprise risk management (ERM) could lead to a false sense of security.

He and RMIA national president Grant Whitehorn discussed ERM at the WA Insurance Expo in Perth.

"ERM has been around in different guises for many years," Mr Roylett said. "It's been called total RM, holistic RM, enterprise-wide RM and operational RM.

"But now some people have jumped on the bandwagon and all of a sudden ERM is presented as something new."

Mr Roylett said it was wrong to think of ERM as a single program or panacea for risks right across an organisation. "There is a whole series of programs that, together, make up an ERM program for an individual organisation," he said.

"They can cover areas such as security, environmental risks or OHS. All these add up to a sum total, and that is probably the preferred way to look at ERM.

"Otherwise, it is so broad that there will never be one individual or part of an organisation that will be totally responsible for it."

He said anyone appointed to be "god" as an enterprise risk manager faced an impossible job, unless they viewed their role as coordinator of an organisation's individual RM programs.

"Everything depends on the sum of the individual parts, so, if you are a coordinator of all the individual sub-programs, that approach will help pick up any deficiencies."

Mr Roylett said the alternative was to spread effort too thinly, an approach that could result in a "tick-and-flick" approach.

"If we are just looking to satisfy our board of directors or government that we have a program in place, then that's a danger," he said.

"Everyone will get a sense of satisfaction and then sit on their backsides thinking they are all protected. But it will be a false sense of security and a false sense of satisfaction."

Mr Whitehorn agreed, saying the introduction of ERM was the greatest challenge facing RM practitioners in Australia.

"It's still an elusive concept, so some people have difficulty implementing it. Others think RM and ERM are synonymous. They are not.

"ERM brings together all the elements of RM; it is the means by which practitioners can see how RM operates across an entire organisation."

Mr Whitehorn said traditional RM still operated in silos. Each used the same sorts of controls, but it was feasible that an organisation's five key risks were managed by five different people in isolation.

"Without effective ERM, the real cost of risk cannot be understood for an entity as a whole. ERM involves sharing risk information across an organisation.

"Without it, an organisation will have real difficulties knowing how much risk it can retain and how much should be shared, eg, via an insurance policy," Mr Whitehorn said.

"ERM is a comprehensive, holistic approach that improves the allocation of resources and reduces duplication. It has tangible financial benefits for organisations."

## Public sector moves on risk

Victoria's Auditor-General, Des Pearson, says significant advances in embracing risk management principles have been made by the state's public sector agencies in just the past four years.

Speaking at an RMIA Victoria chapter lunch, Mr Pearson said four years ago there was a considerable shortfall in RM performance among state agencies.

A 2003 audit examining practices across 61 departments and agencies showed that, while most had started to address RM in some way, they had not rigorously assessed risks or evaluated risk controls.

"Fewer than 40% had appropriate RM strategies in place, 33% did not explicitly identify and assess their key risks. Just 28% were effectively implementing their strategies," Mr Pearson said.

"There was no clear understanding of statewide risks, and no single explicit mechanism to collect and analyse significant risks to the state.

"There was no assurance that statewide risks in a portfolio had been identified.

"By statewide risks we mean those risks that are significant or widespread and their consequences extend beyond one department or agency."

Mr Pearson said the audit recommended development of a statewide RM framework and guidelines for identifying, assessing and managing statewide risks.

"The Department of Treasury & Finance is developing a statewide risk management strategy and framework that is to be ready by July 2007."

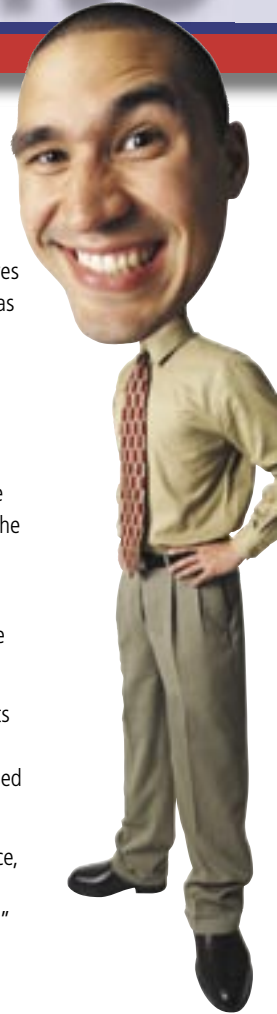
Mr Pearson said a follow-up audit to the 2003 audit was now in progress on 25 Victorian Government departments and agencies.

It had already showed improvement in performance and attitudes to RM. He said discussions with departments and agencies being audited suggested their executive management or boards took a lead and were involved in RM.

In addition they all had a risk manager or coordination unit, audit committees, internal audit functions with clear roles and responsibilities, and produced regular risk reports for executive and audit committees.



Des Pearson



## Projects deliver unique challenges

Project managers can never count on facing exactly the same risk twice, guest speakers told an RMIA NSW chapter meeting.

Colin Davies, director of consulting with Sydney-based project manager Capital Insight Pty Ltd, and the firm's senior consultant Peter Flanagan, said every project generated unique risks.



Colin Davies

While suggesting a project encompassed any undertaking with a start, middle, and finish, for example, installing IT systems, planning a holiday, refurbishing or constructing a building, and even an election campaign, the pair focused on their experiences delivering infrastructure projects, such as hospitals and health facilities, for the NSW Government.

Mr Davies said much RM occurred in "steady-state" operating environments, such as manufacturing or other processes that were largely repetitive and predictable.

"Project management is a much more dynamic environment. It can be influenced by factors such as ground conditions, the local environment and even the neighbours."

Mr Davies said all projects were different and even a particular site presented unique, sometimes hidden, challenges - evidenced by "the number of gas mains that are hit or water pipes broken".

He cited different hospital projects that may have similar characteristics, but which each generated different risks. "We might be involved in five or six different hospitals, and they will all have unique challenges, depending on the type of facility, whether it specialises in heart diseases, cancer treatment, or if it's a children's hospital.

"Also where it's located, in the country or the city, will influence what kind of risks it faces."

Mr Davies said risks also differed between projects that expanded existing facilities and those on greenfields sites. "You need contingency plans to handle problems such as an interruption of a hospital's water supply that might affect kidney dialysis patients. If there is a problem, you need to know how you can rapidly remedy the situation."

Mr Davies said most of his firm's risk-related activities occurred in a project's planning phase. "Most of my involvement would be in the upfront phase through to the beginning of design and engagement of a contractor," he said.

"The company ceases its involvement at the point the project was commissioned and handed over to users, although we roll through the defects and liability period of about 12 months."

Mr Davies said because of any project's unique risks, project managers should never become complacent or rely on a checklist mentality.

"Because projects are so variable, if you start approaching RM as a checklist you will run into problems. We tend to use past problems to inform risk planning for new ones. Each risk assessment for a project tends to be an amalgam of past experiences and new ones.

"So, while you can probably reasonably forecast 80% of risks that might occur, it's the other 20% that may be unique to a project and that is where the nasties can bite you in the backside."

## Explosive claims against CEOs

Australia's business leaders need to "stop behaving like ostriches" and start planning to minimise the impact of attacks by explosive devices on their operations, says a corporate security specialist.

Explosives expert Bob Czigledy told a Victorian security SIG meeting too many CEOs ignored potential threats. "They need to get their heads out of the sand."

The principal of Czigledy Consulting, a firm specialising in assessing the risks and impacts of explosives, said too many business leaders were complacent about the risk of terrorist or other types of attack.

Mr Czigledy would not disclose their identity, but said he had conducted numerous assessments for "large corporate clients" of the likely placement and impact of explosive devices.

But most of corporate Australia was not doing enough to avoid or reduce risks. "From my experience, most CEOs couldn't care until something happens and an explosive goes off. They are the ones holding the purse strings, but they seem very apathetic."

Mr Czigledy said business heads in the UK and the USA were more aware of the need to plan for explosive attacks because both countries had experienced such incidents.

## Ownership the essential element

Every risk in an organisation should belong to someone, says RMIA director Kevin Knight.

He told the NSW chapter that ownership of risk had to start at the highest levels. "There has to be ownership of risk from the board down. There has to be acceptance of the RM policy and framework. There needs to be accountability and authority.

"Every risk should have an owner, and the owner is the person who has the responsibility and authority for what to do about that risk."

Mr Knight, retired risk manager for Education Qld, said there was often a lot of talk about responsibility, but when it came to managing risk "very few people want to hold their hand up and say: I am accountable".

Mr Knight cited resource group BHP Billiton's CEO Chip Goodyear as one who set a standard for others to follow. "Chip Goodyear took the company's RM policy and rewrote it himself," he said.

"He rewrote it into his own words. So now it's more than a plain-English version, it's in Chip Goodyear's own style and everyone knows it has his authority behind it.

"Leadership must be from the top because the board and the CEO are the only ones who can say what is the risk framework, what level of risk are we comfortable with, what areas of risk do we want to get into, and which don't we want to touch with a barge pole."



## Don't ignore business basics

A RM consultant has reminded business operators not to let their focus shift from basic compliance obligations.

Graham Caddies, principal of Townsville-based business advisory firm Advance Profit Plan, told the NSW chapter that legislation covering essential obligations should be the starting point when assessing risks.

For many businesses, it was the Corporations Act, while not-for-profits were covered by specific legislation, and organisations like local councils were governed by laws in each state. "Those laws should be the starting point, but a lot of times we don't start at that level."

Mr Caddies said if the focus of directors or managers fell too heavily on issues like bird flu, terrorism or other potential catastrophes, they could miss addressing more mundane, but more likely, risks.

Basic legally enforceable contracts that most businesses signed were examples of simple risks that could be overlooked. "Your business might have a memorandum of understanding with another business, or you might work for a contractor. If so, there are conditions in any such agreements and, if you don't meet them, you could be in breach.

"The same with insurance. Every policy has conditions and if you fail to read them, the insurance may be useless."

Mr Caddies said potential catastrophic events should not be ignored, but should not command too much attention. "Directors and managers have all these individual bricks of a business. Some people are trying to build a wall without starting from the foundations and tying the bricks together," he said.

## Taking a realistic approach pays off

Being pragmatic can be the best approach to business continuity management, says Linda Mills, principal of Tasmanian-based consultancy Mills Management Products & Services.

She stressed the need to be realistic when assessing business risks and developing continuity plans. "Be specific, and avoid all-encompassing, motherhood statements," she said in a presentation to the Tasmanian chapter.

"Map and communicate the relationships with other plans, strategies and programs and recognise it will be an evolving framework and program."

She said plans had to take into account the perspectives of stakeholders likely to be affected. "Understand their attitudes and behaviours and what they mean to what you are doing in your business."

That should include recognition of the possibility of remedial or punitive action.

She recommended against treating business continuity management as "a pseudo-science". "Don't get caught up in best practice frameworks, or numerical ratings and probabilities that are more suited to financial or credit RM," Ms Mills said.



Linda Mills

## Climate change affects all

Members of a national law firm's special panel on climate change say its risks need to be addressed by businesses of all sizes on a whole-of-business basis.

John Briggs, Brisbane-based member of Blake Dawson Waldron's environmental team, and senior associate Gavin Scott, gave the advice to RMIA's Qld chapter.

Mr Briggs and Mr Scott said risks from climate change needed to be addressed from a "whole-of-business" perspective because of the variety of likely impacts.

Mr Briggs said while there was still some doubt in the wider community about the validity of climate change, the shift in the Howard Government's previously sceptical attitude was likely to bring new business regulations.

New regulations were just one of several risks business operators needed to address.

"Everyone recognises that any response to climate change is going to push up the cost of energy.

"Litigation is an issue. We are already seeing challenges by conservation groups to resources projects, such as Xstrata's Newlands mine, near Mackay, based on claims about greenhouse gas emissions."

Mr Briggs said climate change would affect corporate governance obligations by prompting new disclosures by boards about their organisation's responses.

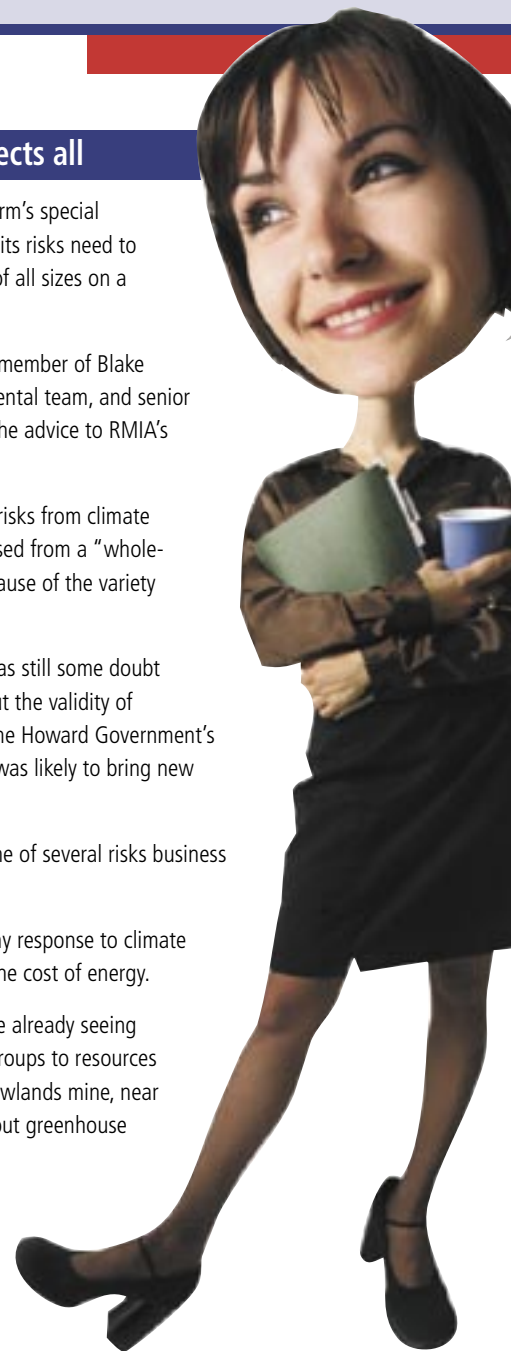
"The impact of climate change needs to be tackled across the whole of a business." Mr Briggs said his firm had followed that approach by establishing a climate change panel.

"The panel is not just environmental lawyers, it includes others specialising in mergers and acquisitions because an emissions trading scheme and a company's carbon credits will have implications when a business is bought or sold."

Mr Briggs said businesses of all sizes needed to assess their climate change risks.

"Certainly the ones that are high producers of greenhouse gases need to be concerned about it. Those who are heavy consumers of energy need to be concerned because it will impact on their bottom line.

"It will be pretty well every business that will be affected," he said.



## CPRM profile Flying high in the top end



Lachlan Miller

When Lachlan Miller is not at his desk at the Territory Insurance Office in Darwin, chances are he is indulging in what may seem an incongruous past-time for a risk management practitioner - flying ultralight aircraft.

Mr Miller, head of corporate risk & compliance for the TIO and a Certified Practising Risk Manager (CPRM), is a member of a Darwin ultralight club and enjoys nothing more than soaring over the city and its harbour.

"People think it's a very strange thing for a risk manager to do. But it's been my passion for the past six to eight months."

Mr Miller is also passionate about Darwin and the top end lifestyle. "I'm an Adelaide boy but I absolutely love Darwin."

His love for his adopted home is shared by his wife, Megan, a midwife at Royal Darwin Hospital, and their son, Zack, 7, and daughter, Indigo, 4.

Mr Miller first came to Darwin in the 1990s to study at Charles Darwin University for a degree in law and business. "I dropped law and stuck with the business side," he said.

He stayed in Darwin for almost a decade, returning to Adelaide for a four-year stint as a risk and audit manager in local government and in enterprise risk services for Deloitte.

Mr Miller took up his present post with TIO two years ago and now wouldn't be parted from Darwin's climate, lifestyle and people. "I decided northern Australia, the top end, is the place to be. I wouldn't be in a hurry to go down south again."

Since first studying in Darwin, Mr Miller has found time to secure qualifications in internal audit from Flinders University, a master of commerce from the University of South Australia, and is completing a graduate certificate in RM through Monash University.

One of his latest learning experiences was completing his CPRM last November. Mr Miller recommended the CPRM process, including interviews by a expert panel, presentations, and responses to hypothetical situations, to all RM practitioners.

"It's quite a challenging weekend, in terms of having to draw on your expertise and being able to communicate to others in a coherent, logical way," he said.

"It's all about thinking on your feet and applying the RM knowledge you have. If you want to move out of your comfort zone and test your skills it's a good way of doing that."

He said it was helpful to mix with other risk professionals undertaking their CPRM assessment over the same weekend.

"You pick up bits and pieces from your classmates. There are some little gems of information you pick up - the slightly different way people express or communicate issues."

## RMIA Update

### By Grant Whitehorn, RMIA National President

This issue of Risk Horizons introduces a new column, RMIA Update. This is an initiative of the RMIA board to improve member and non-member communications on activities undertaken by RMIA.

During the 2007/08 year there are significant plans in progress to boost the range and quality of services to members. They include:

- Improved membership service and networking through online services and a new database system.
- Employing an education and professional development manager to start building career development pathways with credentialed education, training and professional development.
- Exploring the feasibility of RMIA offering credentialed training as a Registered Training Organisation.
- Expanding RMIA's professional development offer during 2008 to include RM and ERM workshops.
- Establishing the Over the Horizon Group, a think tank of Australia's eminent risk practitioners to identify emerging risks and how they can be successfully managed.
- Building a virtual library for members that will become an invaluable source of knowledge and tools over time.
- Continuing RMIA's leadership in developing Australian and international standards for the management of risk.
- Improving RMIA's capability to advocate members' interests to decision makers.
- Promoting CPRM and CRMT accreditation programs to employers and recruitment consultants in the field.
- Delivering the Security Risk Management Body of Knowledge best practice guide and determining the guides to be developed over the next few years.
- Expanding the range of special interest groups (SIGs) and facilitating improved collaboration through the website.
- Establishing a limited-entry SIG, the Chief Risk Officers' Forum, to enable Australia's most senior practitioners to network with their peers.

RMIA will continue to provide current member services, including the highest quality, most affordable conference on the management of risk in the Asia-Pacific region, relevant, high-quality chapter programs, complimentary subscriptions to *Risk Management* magazine, *Risk Horizons* seven times a year, help with professional inquiries and opportunities to obtain CPRM and CRMT accreditations.

These services must be adequately resourced and, to achieve that, the board has decided to increase membership fees. The individual rate will now be \$230 + GST and the corporate rate \$280 + GST.

An analysis of fees charged by five similar organisations showed RMIA's 2006/07 individual rate was 49% below the average and the corporate rate 35.4% below the average. The new fees are still below the average individual and corporate rates of the other organisations.

For RMIA to achieve its goals for the professional advancement of all members, it is important to have a strong membership base. I urge you to renew early. Renewal forms will be distributed soon.

I look forward to working with the membership to advance RMIA's progress as the peak body for professionals involved in the management of risk.

**Risk Management Institution of Australasia Ltd**

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