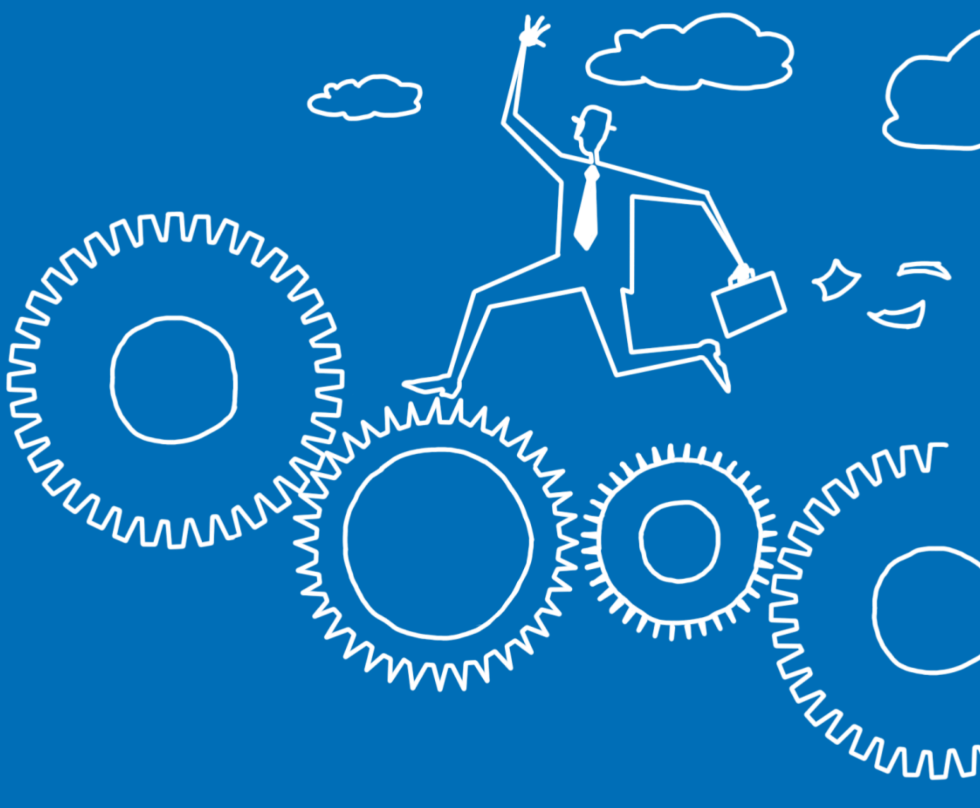
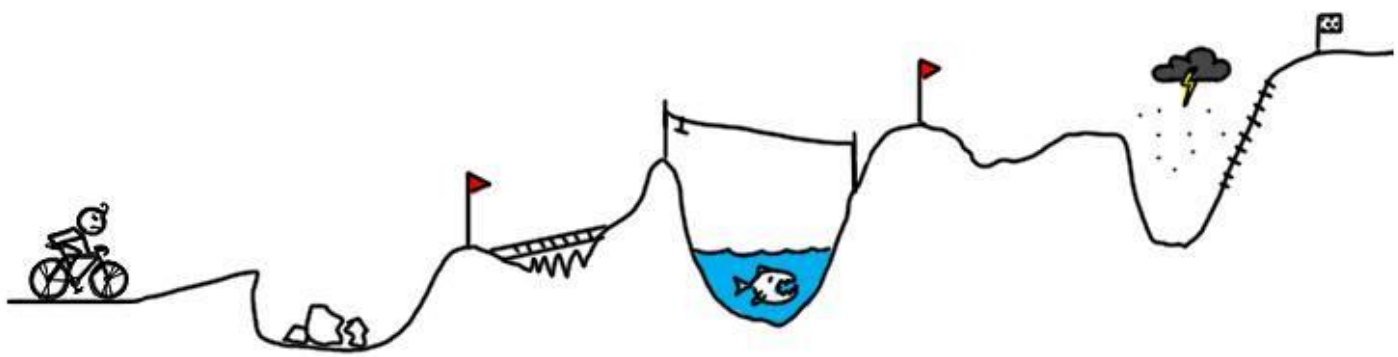
# FREE RISK MANAGEMENT SLIDES



***The only alternative to risk management is crisis management, and it is a much more expensive, time-consuming and burdensome***

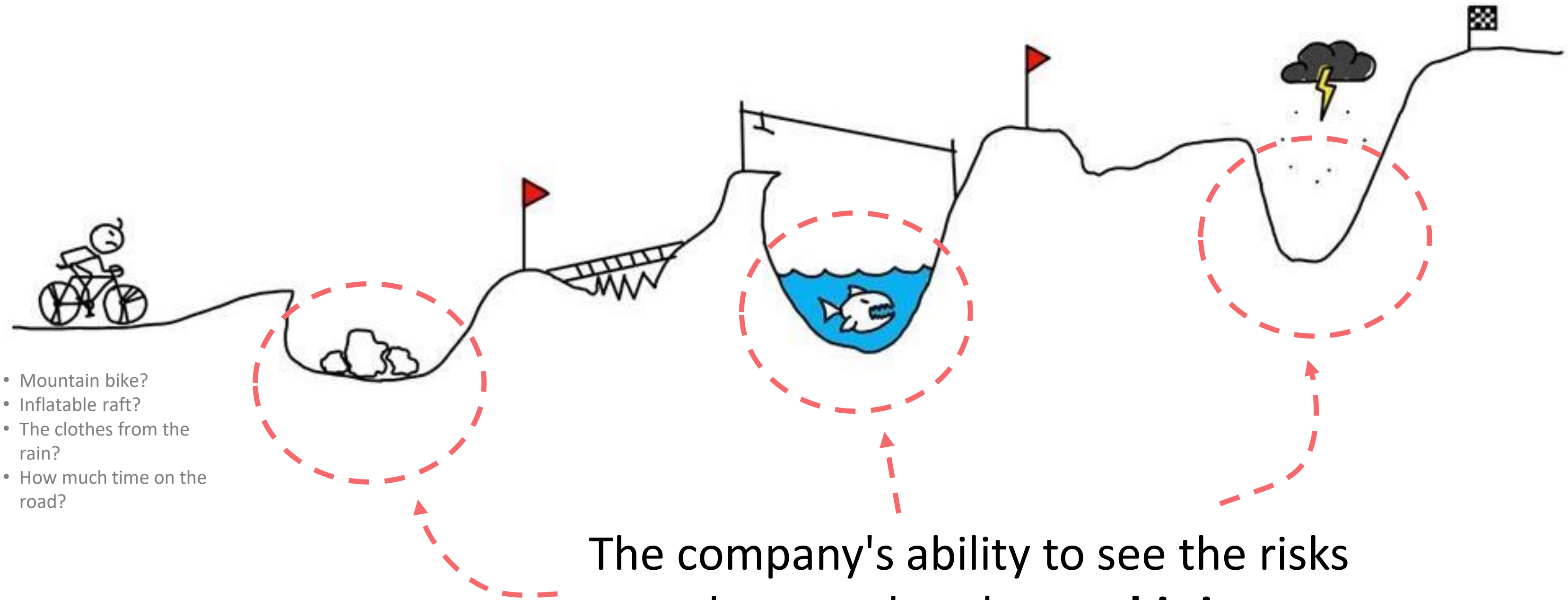
*James Lam,*
*CRO GE Capital*

your “plans”



the universe’s plans for you

# Most decisions are associated with uncertainty

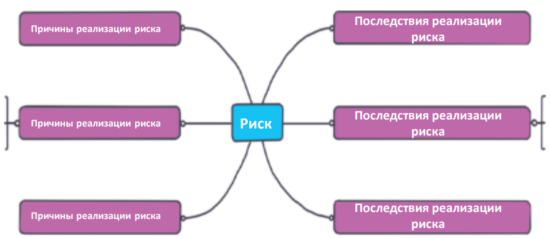


- Mountain bike?
- Inflatable raft?
- The clothes from the rain?
- How much time on the road?

The company's ability to see the risks and respond to them - **this is an opportunity to beat the competition**

# What is risk?

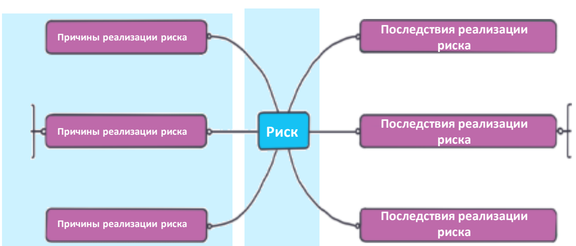
## Risk – effect of uncertainty on objectives




- An **effect** is a deviation from the expected — positive and/or negative.
- **Objectives** can have different aspects (such as financial, health and safety, and environmental goals) and can apply at different levels (such as strategic, organization-wide, project, product and process).
- Risk is often expressed in terms of a combination of the **consequences** of an event (including changes in circumstances) and the associated **likelihood** of occurrence.
- **Uncertainty** is the state, even partial, of deficiency of information related to, understanding or knowledge of an event, its consequence, or likelihood.

# What is risk?

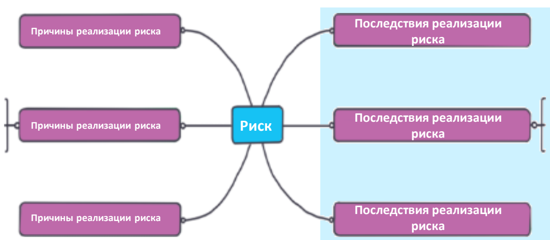
**Risk – effect of uncertainty on objectives**




- **Risk source -** element which alone or in combination has the intrinsic potential to give rise to risk
- **Event -** occurrence or change of a particular set of circumstances
  - An event can be one or more occurrences, and can have several causes.
  - An event can consist of something not happening.
  - An event can sometimes be referred to as an "incident" or "accident".
  - An event without consequences can also be referred to as a "near miss", "incident", "near hit" or "close call".

# What is risk?

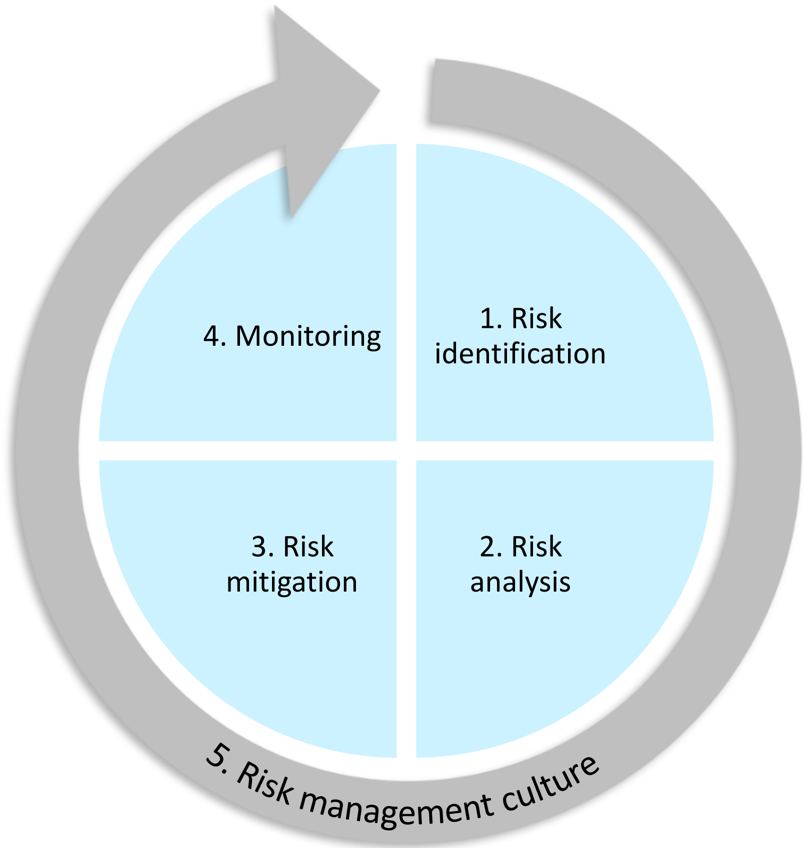
## Risk – effect of uncertainty on objectives



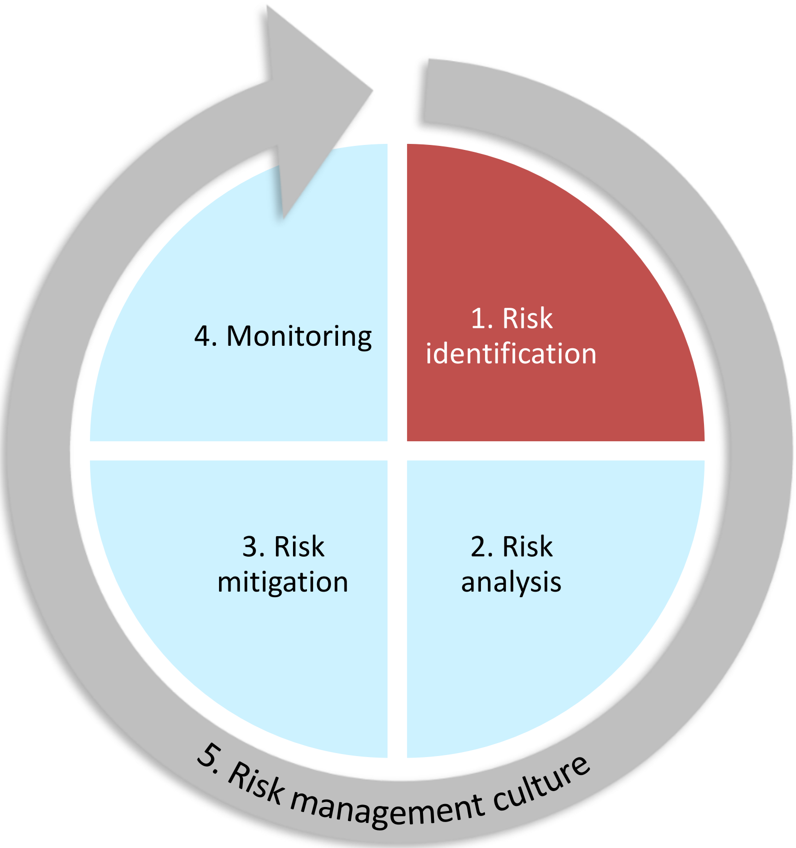

- **Consequence** - outcome of an event affecting objectives
  - An event can lead to a range of consequences.
  - A consequence can be certain or uncertain and can have positive or negative effects on objectives.
  - Consequences can be expressed qualitatively or quantitatively.
  - Initial consequences can escalate through knock-on effects.

# What is risk management?

**Risk management -** coordinated activities to direct and control an organization with regard to **risk**



# STEP 1: Identify the risks during decision-making and the achievement of objectives / KPI

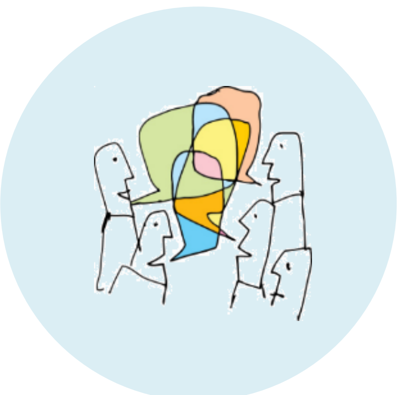



- **Identifying risks** - process of detection, identification and description of risks*
- Risks that can not be identified at this stage, can not be mitigated later
- Risk identification should be **an integral process during decision-making, planning, budgeting and other business process**

* Identification includes the recognition of risk events, their causes and possible consequences. Risk identification can use historical data, theoretical analysis, informed opinions and expert views and needs of stakeholders.

# Despite the large number of cognitive biases, they can be overcome by using a structured process





**A. Goals / decision decomposition**

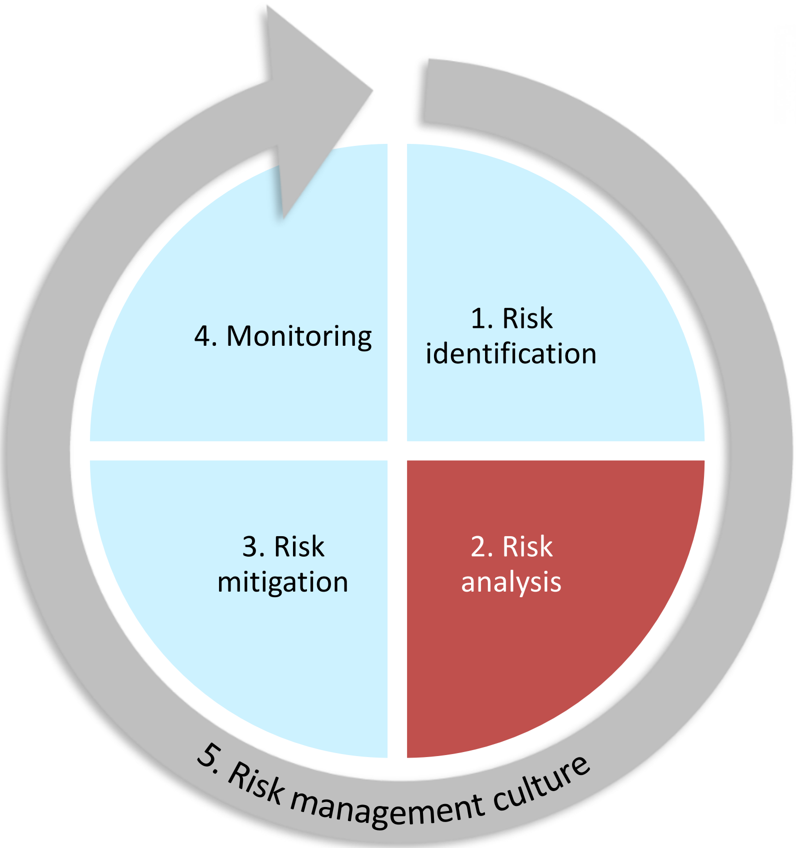
**B. Risk taxonomy**

**C. Get other people involved in the identification**

# Don’t reinvent the wheel

- Analyze corporate history and statistics - what happened before can occur again
- Talking with experts like bank consultants, insurance brokers, industry experts can also help in identifying risks
- Pay attention to industry reports and publications
- Participation in the discussion forums can also be helpful

# STEP 2. How to measure risks?

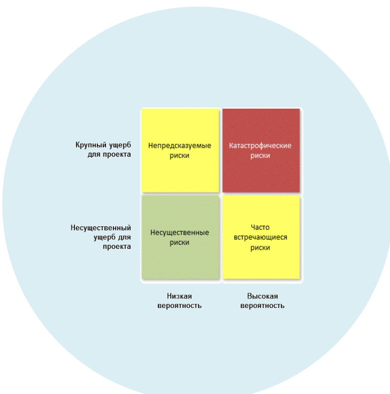


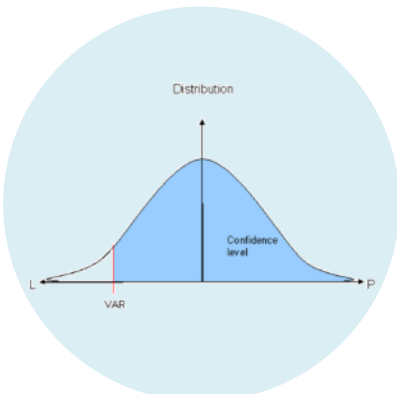

- **Risk analysis -** The process of understanding the nature of the risk and determining the level of risk*

- Analysis and prioritization of risks allows you to select a narrow range of potential risks that management needs to focus on

* Risk analysis provides a basis for evaluating the risk and decisions regarding exposure to risk. Risk analysis involves determining the degree of risk.

# Cognitive biases may be overcome through a structured process



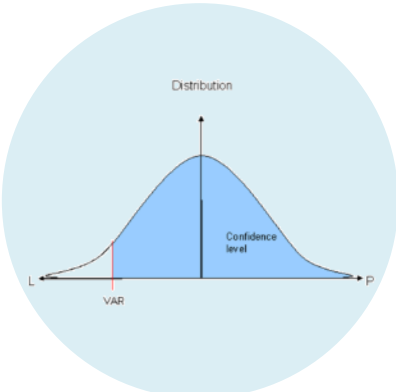




**A. Qualitative analysis**

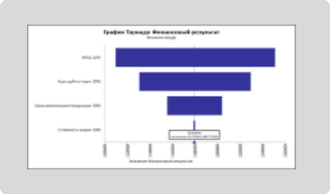
**B. Bow-tie analysis**

**C. Quantitative analysis**

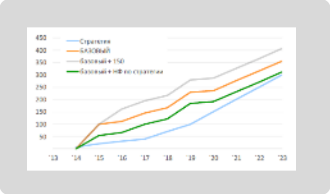
# Qualitative risk analysis includes a number of tools



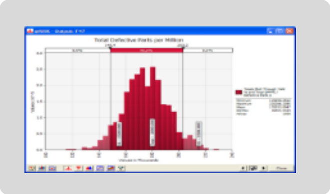

**C. Quantitative analysis**



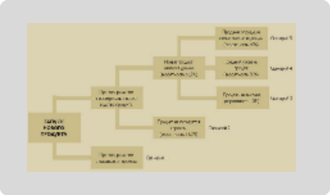
i. Sensitivity analysis



ii. Scenario planning

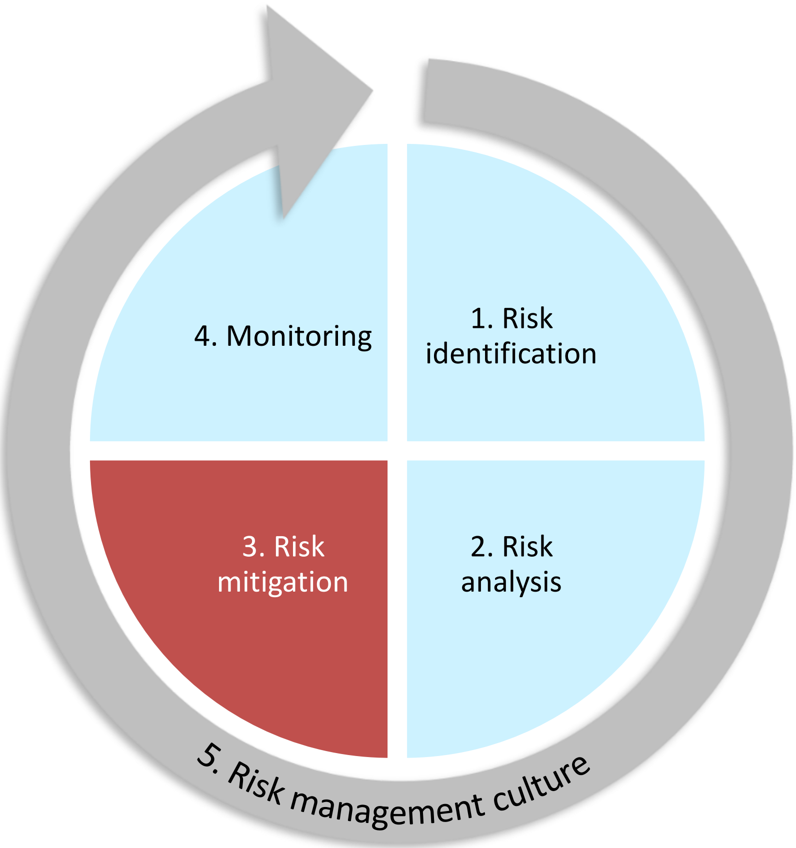


iii. Monte-Carlo simulation modelling



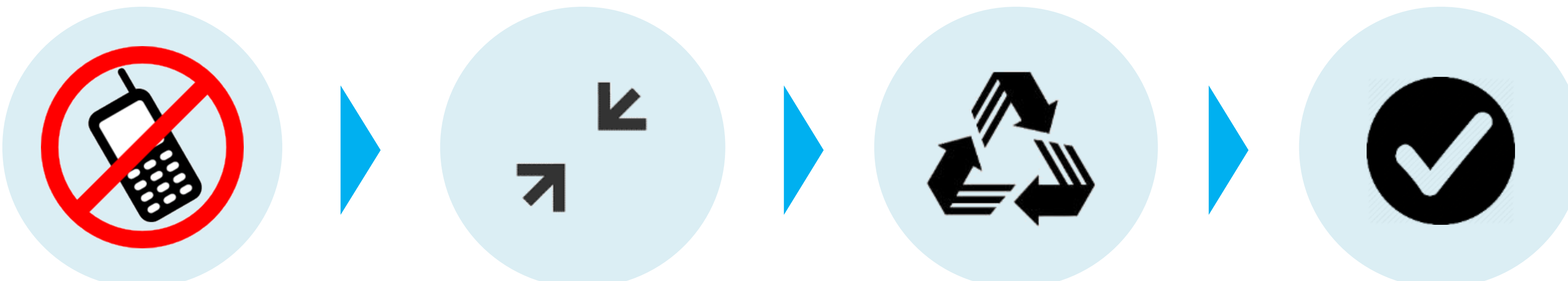
iv. Advanced data analytics / Big data

# Step 3. How to deal with significant risks




- **Risk treatment - process to modify risk**
- The impact on the risk of having negative consequences, sometimes called "mitigation," "eliminate the risk", "risk prevention" and "reduced risk"
- Exposure to risk may create new risks or modify existing risks

# Mental traps can be circumvented by using a structured process

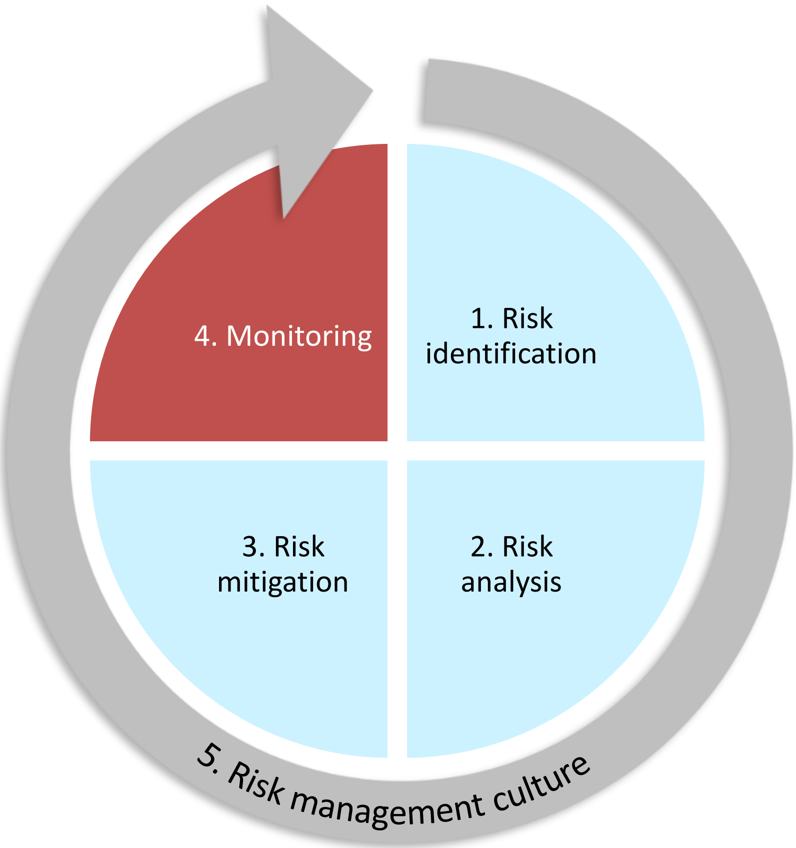


**A. Avoid** **B. Minimize** **C. Transfer** **D. Accept**

# Don’t reinvent the wheel

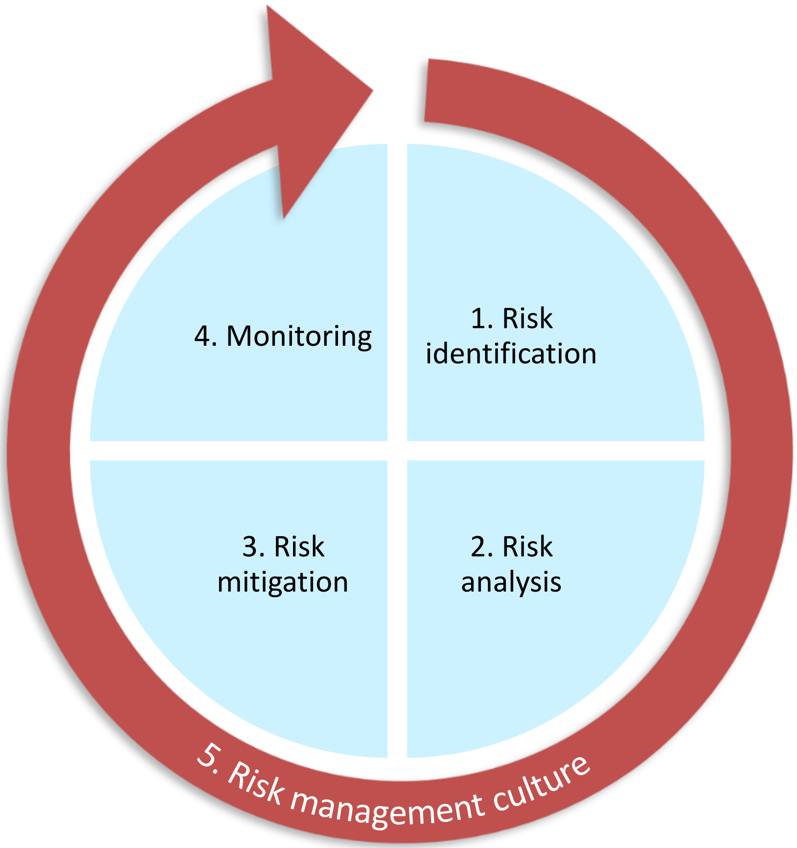
- For many, the risk is already a legal requirement, industry standard or internal procedure to mitigate it
- It is necessary to assess whether the existing processes in the organization and controls make it possible to neutralize the risks and comply with legal requirements instead of creating new controls or changing procedures

# Step 4. Monitoring and reporting




- **Monitoring** - continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected
- Monitoring can be applied to a risk management framework, risk management process, risk or control.
- Control - measure that is modifying risk

# How to make risk management part of the company's DNA?




- **Risk management takes into account the human and cultural factors**
- **Risk culture -** the creation of the organization in an environment that would facilitate the identification, evaluation and risk reduction, as well as open communication about the risks
- No matter how good or a simple risk management process may be, if employees and managers reject it, the company will not be able to manage risk

# How to overcome the pitfalls and develop a culture of risk management within the company

**RISK MANAGEMENT -**
**10% process 90% culture**

Strengthening risk management culture among employees is the most important step in the implementation of the risk management system in the organization