Enterprise Risk Management

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Acknowledgement

The information contained within the first half of this presentation was summarized from a report published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The title of their report is “Enterprise Risk Management Framework” and you can obtain a copy at the following internet website:

www.erm.coso.org

What is Enterprise Risk Management?

Enterprise risk management is a process, effected by an entities board of directors, management and other personnel, applied in a strategy setting across the enterprise, designed to identify potential events that that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

- It is a process designed to effectively manage risks.
- It is effected by people and is applied across the enterprise and across all levels of management
- It is designed to identify events potentially affecting the enterprise and manage those risks according to its risk appetite.
- It provides *reasonable* assurance that objectives will be met.

Eight Components of ERM

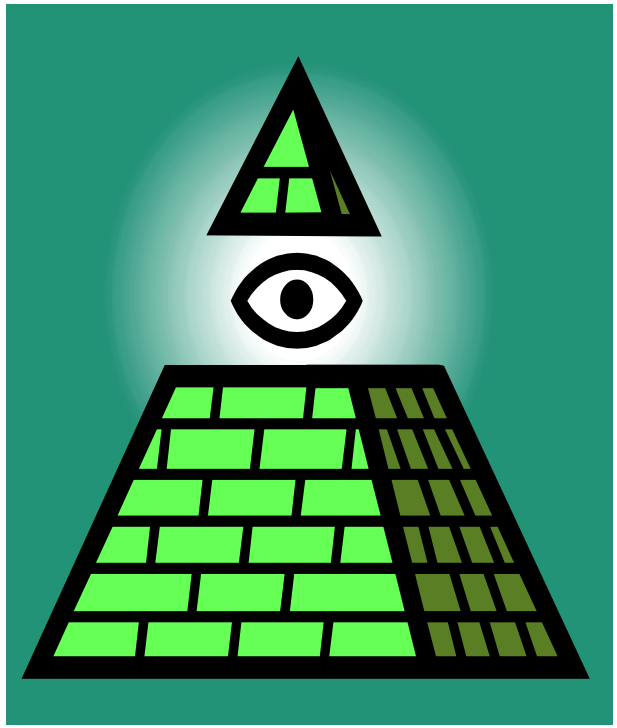
- Internal Environment
- Objective Setting
- Event Identification
- Risk Assessment
- Risk Response
- Control Activities
- Information and Communication
- Monitoring

Internal Environment

The Entities Internal Environment is the foundation for all other components of enterprise risk management, providing discipline and structure.

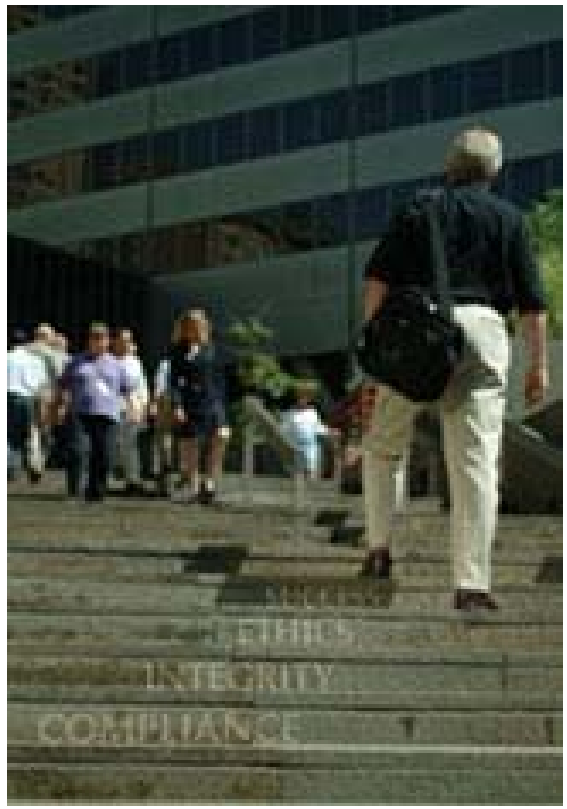
The internal environment is comprise of many elements. The most key include;

- Ethical Values
- Competence and development of personnel
- Management's operating style
- Assignment of authority and responsibility



Setting Objectives

Within the context of the established mission or vision, business leadership establishes related objectives that are aligned and linked to the business strategy.



Entity objectives can be separated into four categories:

- Strategic
- Operations
- Reporting
- Compliance

Event Identification

Management recognizes that uncertainties exist-that it cannot know with certainty whether and when an event will occur, or its outcome should it occur. There are external and internal factors that affect event occurrence:

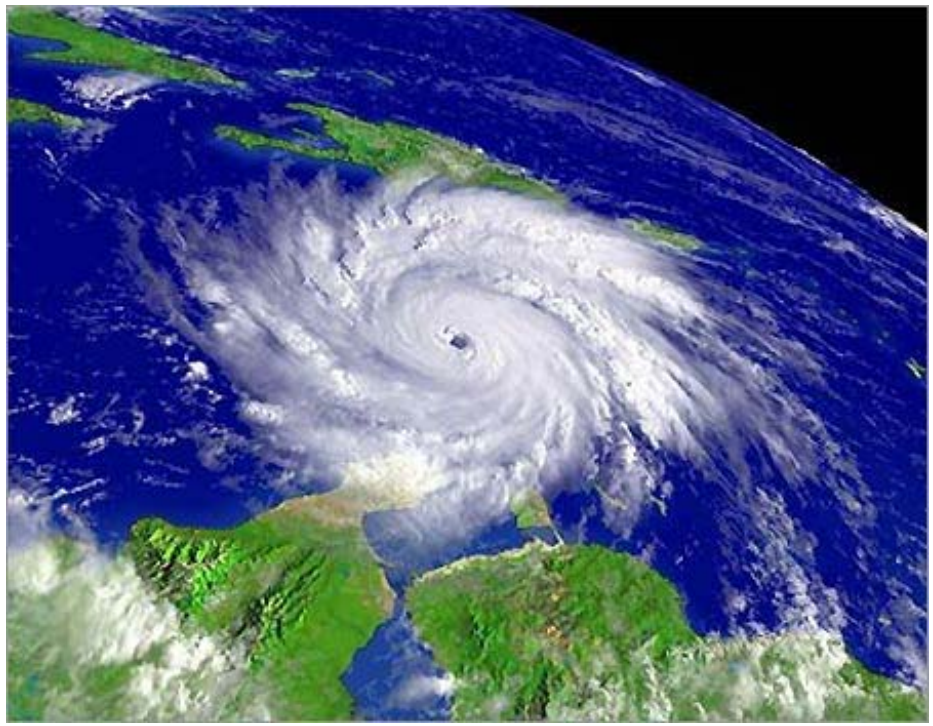
External factors include – economic, business, natural environment, political, social, and technology.

Internal factors include – infrastructure, personnel, process and technology

(Internal factors reflect management choices)

Risk Assessment

Risk assessment allows an entity to consider how potential events might affect the achievement of objectives. Management assesses events from two perspectives: likelihood and impact.



Incidence – represents the possibility that a given event will occur

Severity – represents its effect should it occur

Risk Response

Management identifies risk response options and considers their effect on event likelihood and impact, in relation to risk tolerances and cost versus benefit.

Risk response generally falls within these four categories:

- Avoidance
- Reduction
- Sharing
- Acceptance

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Control Activities

Control activities are the policies and procedures that help ensure risk responses are properly executed. They generally involve two elements:

Policies – Establish the foundation (or rules) by which the company and employees get work done.

Procedures – The methods the company and employees employ to effect the policies.

Information and Communication

Information is needed at all levels of an organization to identify, assess, and respond to risks, and to otherwise run the entity and achieve its objectives.

Communication should raise awareness about the importance and relevance of ERM, communicate the entities' appetite and risk tolerances, implement and support a common risk language, and advise employees of their roles and responsibilities.

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Monitoring

Enterprise Risk Management is monitored – a process that assesses both the presence and functioning of its components and the quality of their performance over time.

In essence, monitoring means auditing, adjusting to the results, then auditing again to measure and continuously improve performance.

ERM Benefits

No entity operates in a risk-free-environment, and enterprise risk management does not create such an environment. Rather, enterprise risk management enables leadership to operate more effectively in environments filled with risks.

Enterprise risk management provides enhanced capability to:]

- Align risk appetite and strategy
- Link growth, risk and return
- Enhance risk response decisions
- Minimize operational surprises and losses
- Identify and manage cross-enterprise risks
- Provide integrated response to multiple tasks
- Seize opportunities
- Rationalize capital

ERM Limitations

Risk relates to the future, which is inherently uncertain

- Effective enterprise risk management helps management achieve objectives. But enterprise risk management, no matter how well designed and operated, does not ensure an entities success.

- The achievement of objectives is affected by limitations inherent in all management processes. Shifts in government policy or programs, competitor's actions or economic conditions can beyond management's control.

- The design of enterprise risk management must reflect the reality of resource constraints, and the risk management benefits must be considered relative to their costs. While enterprise risk management can help management achieve its objectives, it is not a panacea.

Qwest - Integrated Risk Management

- Corporate Compliance
- Regulatory Compliance
- Disaster Preparedness
- Safety and Environmental Management
- Corporate Security
- Information Security
- Risk Finance, Insurance & Claims

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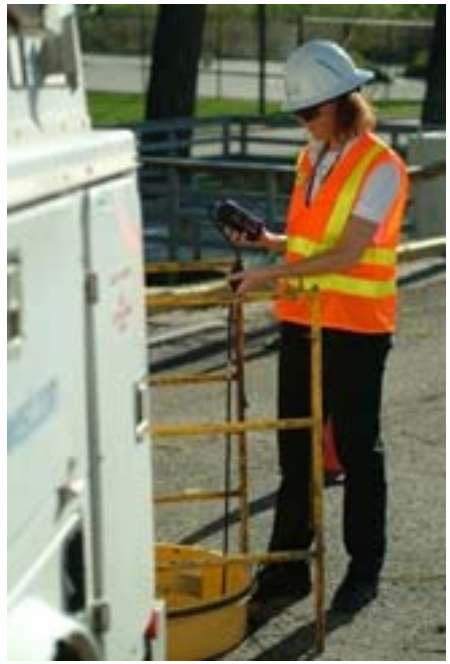
Safety and Environmental Management

- Staying Ahead of the Curve

Responding to New Hazards and Threats

- West Nile Virus
- SARS
- Mail Threats (Anthrax)
- Terrorism

- REAC TEAM



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Risk Assessment and Response

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Information Security

- INFO-SEC

- Cyber Incident Response
- Computer Viruses
- Worms, Bots
- Computer Misuse
- SPAM
- Malicious Software

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Corporate Security

- Access Control
- Video Surveillance
- Guard Services
- Investigations
- 24 Hour Hotline
- Fraud Center

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Risk Finance, Insurance and Claims

- Property Claims
- Auto Subrogation
- Third Party/Auto
- Worker's Compensation
- Outside Plant
- Commercial Insurance
- Captive Insurance

Corporate Compliance

- Corporate Policies
- Code of Conduct
- Privacy
- Advise Line
- Records Management
- Compliance Training

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Disaster Preparedness

- Business Continuity / Disaster Recovery Plan Development and Testing
- Emergency Response Team Structure / Processes and Exercise Facilitation
- Telecommunications Service Priority (TSP), Mutual Aid, and Government EOC Liaison
- Marketing Support
- Compliance / Governance

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Regulatory Compliance

- Planning, Training & Communications
- Implementation & Assurance
- Research & Advisory
- Risk Assessments
- Product & BU Operations Compliance
- Sales Compliance: Slamming, Cramming, DNS
- Regulatory Reporting

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Conclusion

- By definition (and necessity) ERM programs are very “company specific” based on need, culture, history and other factors
- Many attributes of an ERM program have been practiced in the safety and environmental management areas for years
- Expand from “hazard” risks to include legal, financial and other risks
- Questions ??