EBOOK

Enterprise Risk Management

Managing risks to meet business objectives

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phundex

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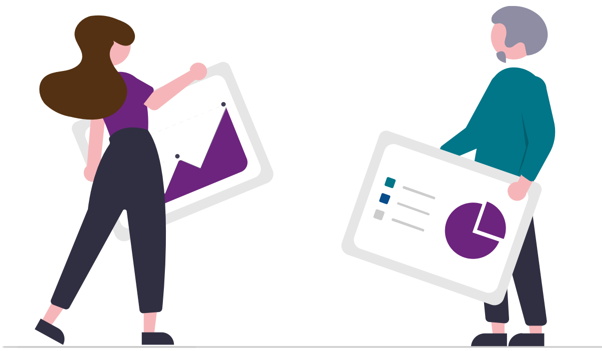


Introduction

No matter your business goals, enterprise risk management (“ERM”) can help you achieve them. Although every company practices risk management in some way, a formal ERM process puts methodologies in place so your organization can systematically increase your chances of achieving its strategic objectives. Without risk management, a company will likely need help to meet its business goals consistently. make poor decisions and be less prepared for changes in the environment in which it operates.

A key impetus for the development of ERM arose out of the regulatory requirements related to the financial institution sector. In this context, ERM focused primarily on minimising identified risks. Over time, the role of ERM has broadened to consider the impact of risks on the ability of the organization to achieve its strategic objectives. The COVID-19 pandemic created a very practical case study that illuminates the importance of risk management. Almost overnight, companies were severely tested by a range of issues, including insufficient employee protections, supply chain deficiencies, and unpredictability in revenue and profitability.

The Fundamental Elements of Enterprise Risk Management

There are five key areas of risk which businesses much assess, monitor and avoid or mitigate to manage their enterprise risk

Business Risk Assessment: Identification and assessment of significant risks and the implementation of suitable risk responses

Business Risk Treatment: identification of the appropriate risk response or treatment

Business Risk Management Planning: development of a plan to manage the identified risks

Business Risk Management: development of initial processes to manage identified risks

Management Review & Evaluation: ongoing evaluation and review of the organization's risk profile

Business Risk Assessment

Initial cataloguing of the risks faced by the business

The risk assessment includes, for each risk, an evaluation of the potential impact and likelihood that the risk will arise. These are usually calculated on a numerical scale. These will then be multiplied to give each risk an inherent risk score.

Strategic Risks: the risks that have the potential to impact the strategic direction of the business

Market Risks: the risks that the business faces from the market place

Credit Risks: the risks the business faces by extending credit to clients and other stakeholders

Liquidity Risks: the risks of not being able to manage the liquidity of the business

Operational Risks: the risks of errors and omissions due to poor operational management

Business Risk Treatment

Conceptually, the treatment of each risk will include some combination of the following:

1 Acceptance or tolerance of the risk - the business accepts that the risk is within its tolerance levels and doesn't need to do anything else to manage the risk.

2 Avoidance or termination of the risk - the business decides it must avoid the risk or terminate the circumstance that causes the risk.

3 Risk Transference or sharing - typically, the business will transfer or share risk by entering into hedging or insurance agreements .

4 Joint Venture or other arrangements - the business may elect to share the costs and benefits of a risk or opportunity.

5 Mitigation of risk through internal control processes - the business may be able to reduce the risks by maintaining strong internal processes to ensure the risk does not arise.

In all cases there is a need to score the effectiveness of the mitigation process based on its reduction on both the impact and likelihood of the risk.

The net risk score for impact and likelihood is multiplied to drive a residual risk level for each risk.

Business Risk Management Planning

After the risk diagnostic has been performed, management will have a better sense of the risks, potential impacts, and likelihood they could have. Management will then be able to plan its response to the identified risks.

The following steps then need to happen:

Risk Register - creation of a structure to catalogue the identified risk – this is usually referred to as the risk register

Risk Score - assessment of inherent risk for each risk. Inherent risk is the multiplication of the pre control scores for impact and likelihood

Residual Risk - assessment of residual risk for each risk. Residual risk is the multiplication of the post control scores for impact and likelihood

Risk Ranking - ranking of the identified risks based on both objective and subjective considerations

Key Risk identification - identification of key or perhaps top 10 risks

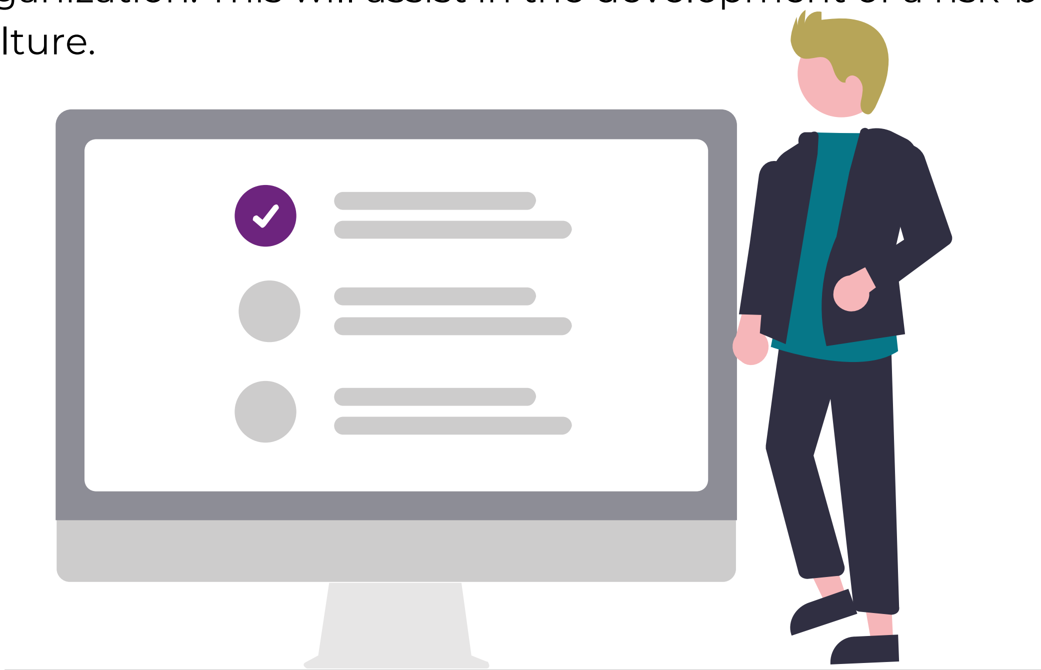
Risk Management Process - formulation of a go forward enterprise risk management process and document it.

Enterprise Risk Management

Management Plan Execution

Once the risk management plan has been developed, management must move towards the execution of the plan. The early stages of the ERM plan include:

- Rolling out, by senior management, the key objective and operational framework of the ERM plan;
- Over time, the organization will get to the point where it can establish a risk tolerance framework. Risk tolerance is essentially the level of residual risk that the Board of Directors and the management team deem acceptable;
- Where there are key risks that have residual risk levels above the risk tolerance level, plans need to be rapidly developed and executed to drive residual risk below tolerance;
- Some risks may be identified where it may be relatively easy to achieve material reductions in residual at minimal cost;
- Training around risk issues should be provided throughout the organization. This will assist in the development of a risk-based culture.

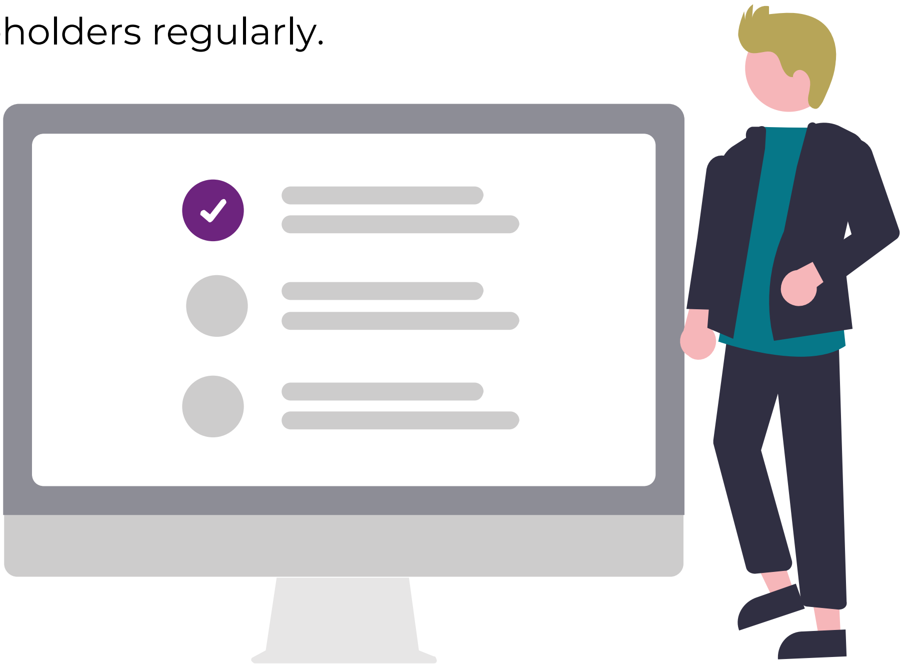


Management Review and Evaluation

Managing and updating the plan & process

Once the enterprise risk management plan is in place, then several features need to occur:

- Assess compliance with the ERM plans objectives, framework and processes;
- Ongoingly assessment of the effectiveness of controls. In some organizations, this can take the form of formal risk control testing;
- As experience is gained in the ERM process, controls may be refined to reflect enhanced knowledge or changes in the underlying risk;
- A periodic review of the risk profile by the Board of Directors and /or management will help to avoid unexpected risk issues and will also send a strong message regarding the importance of the ERM programme;
- As experience is gained in the process, management will be in a better position to identify the company's emerging risks and develop an appropriate mitigation strategy; and
- The results of the ERM programme should be formally reported to the Board of Directors, senior management and other key stakeholders regularly.

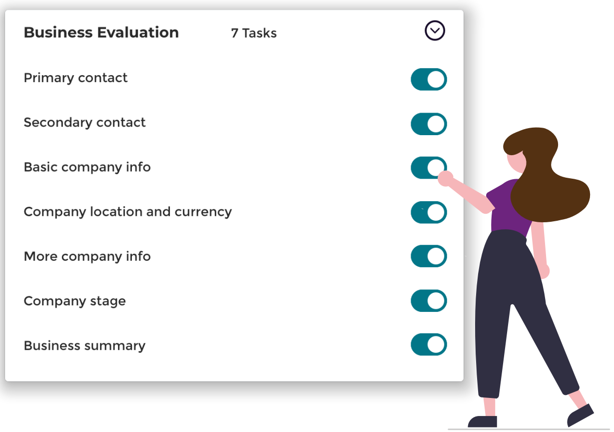


Risk Management with Phundex

At Phundex, we believe in good governance and risk management. We also believe in making work streamlined and straightforward. We want to allow you to focus on client-facing activities while ensuring you meet all your management and regulatory requirements.

We've worked with multi-national financial institutions, managing risks on a global level. We've also helped smaller and non-regulated businesses set up robust business risk management processes, using them ourselves. While many of these organizations have tools for certain aspects of risk management, what we found was that for many organizations, there was a lack of transparency and clarity within the organisation about their risk management framework and procedures.

The impact of Covid over the past several years has brought home the need for a robust Enterprise Risk Management Framework to help management deal with expected and unexpected risks. Having a central place with your overall Risk Management Framework means that your teams know where to go for information on how to manage risks and how to escalate when necessary.



Phundex for Risk

We've created a Business Risk Management Pathway to get you started. It includes Stages and Tasks to structure an ERM Framework, manage the overall process, and a checklist of items to include in your ERM process. Best of all, it is fully configurable so that you can tailor it to your exact needs in a transparent, auditable way.

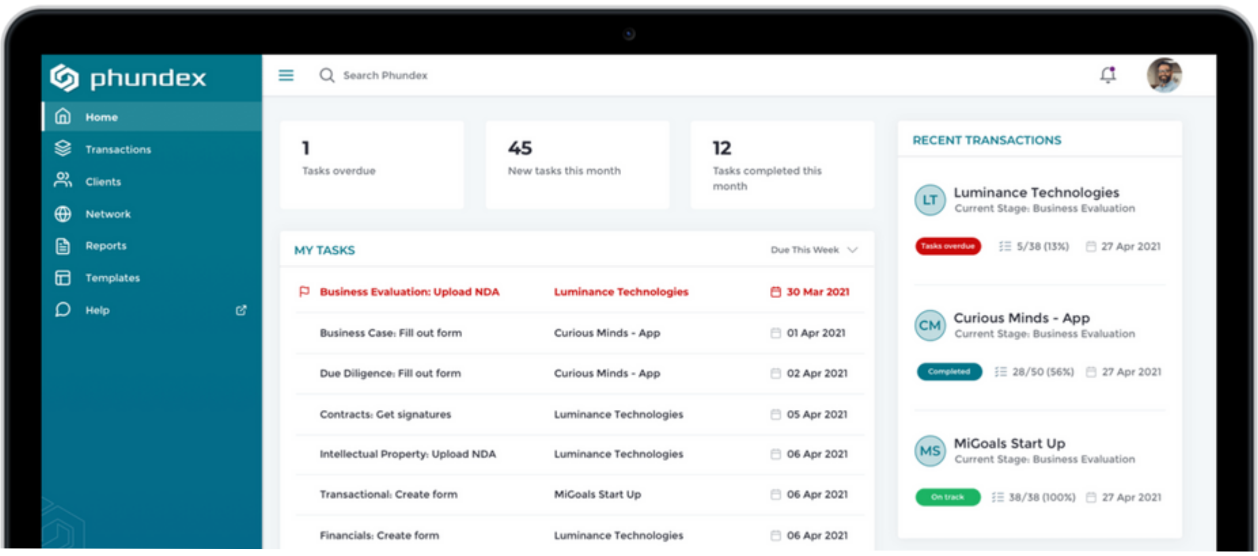
When reviewing your risk management framework, you'll have confidence in the control via the Phundex platform.

The Phundex platform

Phundex is a digital investment pathway between issuers, advisors, administrators, and investors and those with capital needs.

- House data and documents in a central platform with full permissioning capabilities, version control and audit trail
- Streamline and simplify transactions and processes with configurable pathways, capturing each step
- Supports task management with robust built-in workflow capabilities, including automated alerts
- Delivers team management, so that team members can be assigned their specific responsibilities
- Provides personalised dashboards so each team member can understand what they need to deliver

These features substantially reduce enterprise risk by creating an ecosystem that truly supports the complex management of risks across the investment lifecycle.



The Phundex platform

By digitising manual processes through Phundex, organisations can:

- Reduce mistakes and omissions by automating transaction and process management for individual projects through digital pathways

- Improve data governance around documents by storing them in a project's data room, with the right permissions to support confidentiality, transparent version control and an audit trail

- Support regulatory obligations by ensuring materials required for compliance are kept in a single location, and that compliance processes are completed through an automated digital pathway. Digital pathways – which capture processes – make regulatory change easier, too.

- Collaborate better across geographies and time zones by making responsibilities clear within an individual's dashboard, and by assigning tasks, and automating alerts and follow-ups.

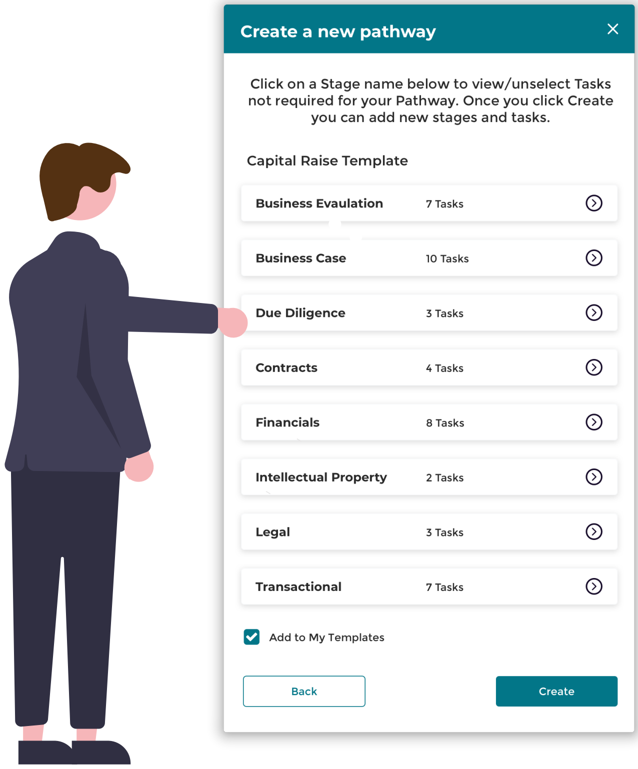
- Manage contractual relationships transparency and effectively. Integrate third parties more effectively into the team by providing them with their own dashboard, alerts, and tasks. House all third party materials, such as contracts, in a single location.

In summary, by adopting Phundex, issuers, advisors, administrators, and investors can reduce enterprise risk by transparently improving management and control of risks. At the same time, these organisations can enhance data governance, document security and compliance.

Conclusion

At most firms today, the investment lifecycle is dominated by document management and processes that have developed from antiquated, paper-based approaches. Whether they are storing essential documents without permissioning or version control on shared drives, or are trying to manage complex tasks for a team based in multiple time zones, using manual approaches can quickly lead to operational risk. And operational risk events can rapidly escalate into real damage – the kind of damage that means organisations are not able to meet their strategic goals.

Phundex can enable issuers, advisors, administrators, and investors to digitally transform investment lifecycle processes through the creation of data rooms, digital pathways, and individual dashboards. These reduce operational risk by greatly enhancing collaboration, accountability, and transparency. This means teams have more time to focus on the activities that really generate value for the organisation, and can concentrate on achieving their goals.



To learn more about Phundex, contact us.

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