

# The Financial Crisis and Enterprise Risk Management



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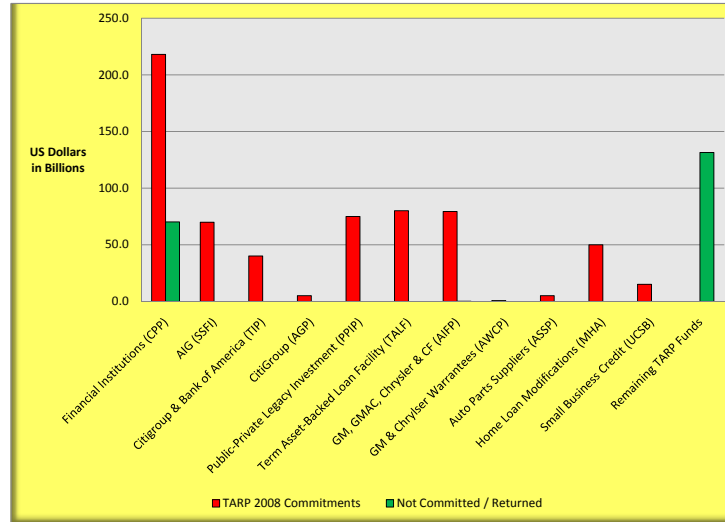
September 16, 2009

## Financial Crisis

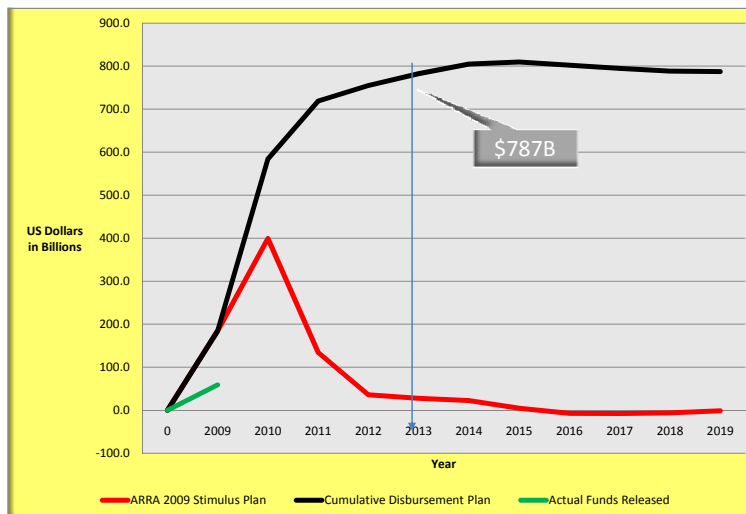


- What started as a US mortgage problem in June 2007, led to the financial crisis and a global recession
  - Fannie Mae and Freddie Mac (80% taxpayer owned & Govt. backed)
  - \$182B AIG bailout (80% taxpayer owned)
  - \$700B Emergency Economic Stabilization Act 2008 (TARP)
  - Over 84 FDIC insured banks have failed in 2009
  - \$57B GM and Chrysler bailouts, followed by bankruptcies
  - \$30B GM bankruptcy funding (61% taxpayer owned)
  - \$787B American Recovery and Reinvestment Act (ARRA)
  - \$1.6T Federal deficit; growing to \$9T by 2019, 82% of GDP
  - Global recession

## Emergency Economic Stabilization Act 2008



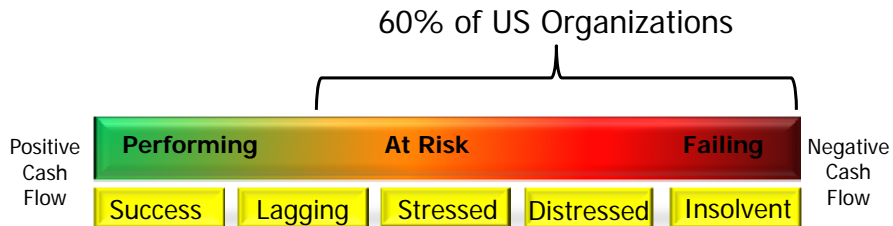
## American Recovery & Reinvestment Act 2009



# Impacted



# Risk Continuum



# Risk Continuum

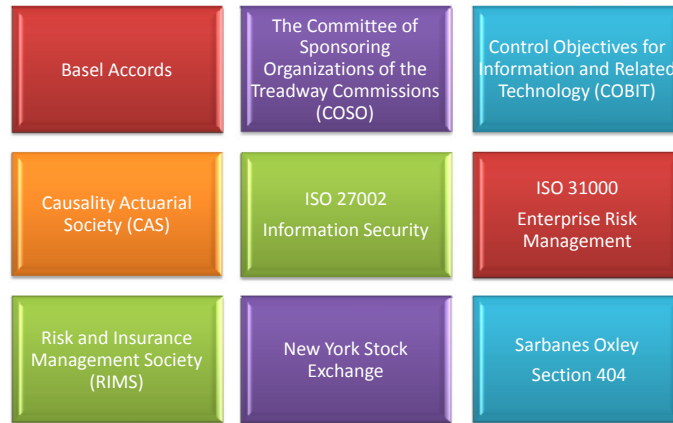


Where is your organization on the continuum?

# Risks



# Standards

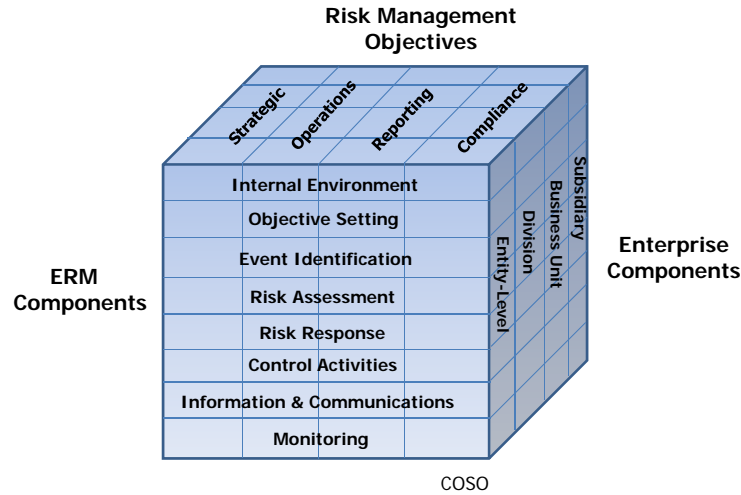


# Definition

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

COSO

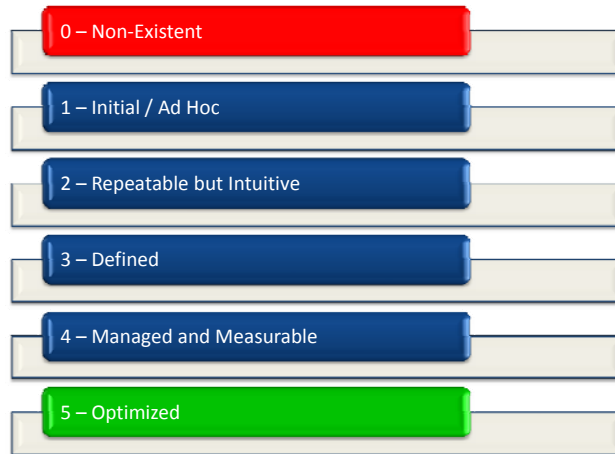
# Framework



# Benefits

- Provides value for stakeholder
- Enables management to effectively deal with risk and opportunity
- Helps management achieve performance and profitability targets, and prevents loss of resources
- Ensures effective reporting and compliance with laws and regulations
- Avoids damage to brand and reputation

# Maturity



COSO

# So what happened?



## Challenges

- In many organizations, ERM is more for show than a fully integrated business function
  - Satisfy Sarbanes-Oxley, NYSE and Standard & Poor's
  - Perceived as a cost of doing business
  - CEOs and CROs do not communicate on a regular basis
  - CROs do not have direct lines of communications with board members
  - ERM organizations have focused on internal controls and financial risks, and not taken an enterprise-wide view that includes strategic and operations risks

## Findings

- Since September 2008, the spotlight has focus on risk management:
  - 72% of senior executives are concerned about their own ERM vulnerabilities Towers Perrin
  - 75% of key risks are communicated on an ad hoc basis at management meeting NC State
  - 74% of ERM organizations do not provide a report on the organization's top risks to the board of directors NC State
  - 58% of employees had little or no understanding of how risk exposures should be assessed for likelihood and impact KPMG
  - 50% of organizations are not strongly averse to risk or risk averse NC State
  - 44% of organizations do not have ERM processes in place and have no plan to implement ERM NC State

## Future

- To assure the financial crisis never happens again, federal regulatory agencies will issue an series of risk management compliance requirements
- Board of directors will increase their oversight of the top enterprise-wide risks
- C-level executives will embrace enterprise risk management , along with middle management, employees, partners and suppliers

## Emerging Risks

- Unemployment
- Protectionism
- Inflation / Deflation
- Deficit
- China

# Questions

**Enterprise Risk Management & Business Continuity Planning**



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