



Risk Management Governance, strategic planning, prudence, risk avoidance

In a recent edition of its magazine *Cross Currents*¹, Ernst & Young proposes 10 priority initiatives to improve your approach towards risk management in a global and volatile environment for financial firms. Many of these initiatives may apply to all types of companies:

1. Challenge the current culture of firmwide risk committees and risk reporting.
2. Develop an objective statement of risk tolerances.
3. Eliminate groupthink from the risk identification process; encourage and welcome minority viewpoints.
4. Recommend risk-based financial forecasts that link financial forecast and capital/liquidity adequacy to changes in macroeconomic conditions.
5. Establish risk-adjusted performance measures that appropriately influence behavior and strategies.
6. Integrate risk measures across businesses and risk types for market events.
7. Implement multiple views of risk for increased transparency.
8. Improve governance and control over all financial models.
9. Expand static risk measures to include experience-based simulations.
10. Expand new product governance processes to include the challenges of the early years.

¹ Volume 9, Issue 4, « Managing risk in the downturn » by Hank Prybylski

Although it has been a familiar concept for major companies for decades now, financial, operational and risk management has particularly concerned corporate management and other external interveners such as bankers, lawyers, accountants and specialized insurance brokers.

As a result of the worldwide financial crisis that started in the fall of 2008, the necessity for increased accountability of officers and putting governance role at the forefront for administrators of public and private companies are on everybody's mind.

In conclusion, recent events compel us to realize that organizations must broaden their forecasts and models to include the probability of extreme and rare events that may nonetheless have significant or catastrophic consequences.



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