Programmatic Portfolio Company Reporting

Access Holdings

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This is a documentation of best practices for risk management for the Access Holdings family of companies. Companies to which this applies will be small to medium sized enterprises (SME's) in the service and manufacturing sectors.

Why Risk Management?

A well-run company has a multi-year strategic plan that aims to achieve a number of goals in pursuit of its vision, mission and values. A business risk is anything that threatens the achievement of the company's strategic plan.

Employee, manager, member of the C-suite, director – all of us have a vested interest in the achievement of the company's strategic plan because all of us contribute to achieving the strategic plan and all of us depend on the company's continued success for our livelihoods.

Companies face a wide variety of risks. And the initial reaction to the idea of risk is that risk is something to be avoided since if something is risky it must be bad. But companies, by definition, take risks to achieve their business objectives. Risk can result in damage, but risk can also result in opportunity. And we don't manage risks to have no risk. We manage risks to decide which risks are worth taking to achieve our strategic plans because we judge that the likely payback from managing those risks successfully is worth accepting those risks.

Since we are all going to be taking risks in pursuit of our strategic plans, managing risk becomes a critical part of everyone's job.

Risk Management Process

The Risk Management Process – 5 Steps

There are five basic steps in the risk management process:

- Identify the risk
- Analyse the risk
- Evaluate and rank the risk
- Respond to the risk
- Monitor and review the risk

There are many different types of risk – examples include financial risk, operational risk, legal risk. Companies generally have a top-down program of risk identification with the Board of Directors and management driving the work. Best practice is to marry that with a bottom-up risk management program where all employees are encouraged to identify risks they encounter in the course of their work and are given the means to report their observations to those responsible for the risk management process.

Once a risk is identified it has to be analysed. This requires all business functions or activities impacted by the risk to be understood. Some risks can be minor inconveniences, some are so impactful that they could destroy the company, and most are somewhere in between.

Since there is such a wide range of consequences associated with each risk, it is important to rank and prioritize risks. Risks can be assessed in terms of three measures – severity of the risk's impact, likelihood that the risk will materialize and ability of the company to control the risk. One way to rank risks is to assign a numerical value to each of the three measures and total the values to get an overall weighting.

The fourth step is to decide what to do, if anything, about the risk. There are four different risk response strategies which are discussed below.

The last step is one of the weakest parts of most companies' risk management processes. This is the continued monitoring of risks, updating of the understanding of risks and assessing the ongoing effectiveness of chosen risk response strategies. The continuous involvement of the Board of Directors and senior management in a defined monitoring and updating process is the key to ensuring that the risk management process remains evergreen and does not deteriorate into a once-in-a-while management action.

Organization of Risk Management

Risk management will only operate effectively if it is a priority for the Board of Directors and senior management. Updates on the company's risk management should be a standard agenda item for monthly C-Suite meetings and for quarterly Board of Directors meetings. As with any other business function assigning responsibility for the risk management to a Chief Risk Management Officer or similarly titled member of the company executive ensures that risk management becomes an integral part of the management of the company, and that a risk management culture prevails.

Top-down risk management starts with a workshop with senior management and directors. Participants can be asked to independently identify the top three risks in each category of risk. A group discussion of all risks listed for a particular category can narrow the list down to those risks all agree are significant. Appendix1 Board Oversight of Enterprise Risk contains a list of possible risks in various categories under step 2.

Bottom-up risk management can start with a questionnaire for employees asking them to identify risks that could or do prevent them from carrying out their responsibilities effectively. Employees should also have an easy way to communicate newly identified risks they encounter in their daily work and escalate it to the Chief Risk Management Officer.

The Risk Register

As risks are identified and analysed by the five-step risk management process, a central register of risks should be kept under the control of the Chief Risk Management Officer.

For each risk in the risk register the following information should be provided:

Risk category	See separate section below.

Brief risk description or name	
Detailed discussion of the risk	
Status of the risk management process	Identified/in review/accepted/rejected/addressed with addressed indicating that the risk has been responded to.
Severity of risk expressed as a number	Scale of 1-5, 5 being most severe with severity being the idea of how much damage the risk could do to the company.
Likelihood of the risk occurring expressed as a number	Scale of 1-5, 5 being the highest likelihood the risk will occur.
Ability to control the risk expressed as a number	Scale of 1-5, 5 being the least ability to control the risk.
Total weighting expressed as a number	Scale of 1-15 with 15 being the most important risks. Use colors to represent High Medium and Low Risks – Red Yellow Green.
Risk ownership	Wherever possible responsibility for managing the risk should be assigned to an individual, or at least a committee or department or business unit. Personal ownership of responsibility greatly increases the likelihood that the risk will be well managed.
Company's response to the risk	This section is a detailed discussion of what response strategy the company has chosen and the status of that response.
Date response strategy was initiated	
Results of reviews of the risk and response strategy	Each time the risk is reviewed and the response updated this should be noted here including the date of the review/update and the person who did the review/update. This provides a record over time of the company's management of the risk.

Categories of Business Risk

There are many categories of business risk and each company will have to devise categories specific to their business and industry.

A basic list of categories and potential risks under each is included in step 2 of Appendix 1 Board Oversight of Enterprise Risk, though it should be noted the potential risks are enterprise level and therefore not representative of many of the lower level but still important risks faced by the company. Appendix 1 notes that the categories of risk are not complete and each company must devise their own categories.

A basic list of risk categories from Appendix 1 is:

Strategic risk
Mergers & Acquisitions risk
Financing risk

Operational risk
External risk

Other common categories of risk include:

Legal and regulatory compliance risk
Reputational risk
Economic risk
Competitive risk
Program or project risk
Innovation risk
Exchange rate risk
Interest rate risk
Environmental risk
Political risk
Seasonal risk

Risk Response Strategies

Although the operational details of responses chosen by companies for each risk will vary, there are basically only four risk response strategies:

1) Avoid the risk. Under avoidance the company chooses to eliminate any activities which give rise to the particular risk.
2) Reduce the risk. Under reduction the company takes steps to better align the potential costs from accepting the risk with the potential benefits by changing operations, controls, processes, etc.
3) Transfer or share the risk. The most obvious example of transferring the risk is insurance and the most obvious example of sharing the risk is insurance deductibles. Other transfer and share strategies can involve joint ventures with other entities or government agencies.
4) Accept the risk. Acceptance means that no additional effort is made to mitigate the risk which is a bit academic as almost every risk can be reduced in some fashion with different operational arrangements.

Risk Management Software

Most companies keep a risk register on a spreadsheet or word document. The problem with this approach is that it encourages static rather than dynamic risk management since the document is sitting somewhere under someone's control and not readily accessible by all members of the company involved in the best practice top-down/bottom-up risk management process.

There are now a number of risk management software tools that help manage the five steps of the risk management process and make the identification, reporting and tracking of risks dynamic and real time. 2022 risk management software packages include:

nTask	https://www.ntaskmanager.com/
Resolver	https://www.resolver.com/
CURA	https://www.curasoftware.com/

A1 Tracker by A1 Enterprise	https://www.a1enterprise.com/
Integrum	https://www.integrumsystems.com/
Qualys	https://www.qualys.com/
Audits.io	https://www.falcony.io/product/audit
MasterControl Risk Analysis	https://www.mastercontrol.com/quality/risk-software/
Predict360 by 360factors	https://www.360factors.com/
Pims Risk Management by Omega.no	https://omega365.com/products/risk-management
Opture ERM	https://www.opture.com/
Reciprocity	https://reciprocity.com/risk/
Optial Risk Management	https://www.optial.com/solutions/risk
SAS Model Risk Management	https://www.sas.com/en_us/software/model-risk-management.html
GOAT Risk Solutions	https://goatrisksolutions.com/

One of these risk management packages will do a better job of helping the risk management process than your current spreadsheet or word document.

The System of Internal Controls a Special Subset of Risk Management: Risks in the Accounting and Finance Function

The system of internal controls at a company are those procedures and activities designed to ensure the integrity of accounting and financial reporting, prevent and detect fraud, ensure operations are conducted in an approved manner and safeguard the company's assets.

Internal controls are typically documented by the finance group or the internal audit group. Every internal control is a form of reduce the risk strategy aimed at a particular risk associated with the four areas included in the definition above.

In the Access Finance Playbook, internal controls are discussed under the Internal Audit section and in much more detail in the Internal Controls section.

Enterprise Risk Management a Special Subset of Risk Management: Risks That Can Destroy the Company

In February 2020, from seemingly out of nowhere the coronavirus arrived and became an existential threat to companies – disrupted supply chains, health and safety of employees, means of doing business, the ability to function as a business at all, corporate reputation – the impact has been massive. Companies made rapid adjustments some successfully, some not. And as the pandemic recedes companies are having to address new risks – supply chain vulnerabilities, when, if or how to bring employees back to work, recovering lost customers.

The pandemic is an example of an external risk that meets the definition of enterprise risk.

Enterprise risks are material threats to the company's achievement of its objectives. It is likely there are no more than a handful of risks that are truly strategic/enterprise-wide for any company. Understanding of enterprise risk is a prerequisite to determining the company's strategic direction and preparing its strategic plan.

The role of the Board of Directors is to provide oversight of the risk management process. The directors should satisfy themselves that management has a risk management process in place and functioning effectively. More specifically the Board of Directors provides oversight of the type and extent of enterprise risks the company faces, the company's tolerance for risk, and management plans to address risk. This includes ongoing monitoring of the risk management process and ongoing review of changes in the strategic environment and related changes in the company's risks and strategic direction and plans.

A 9 Step Framework for Corporate Risk Management (Really the five risk management steps expanded):

1. Establish Context
   Understand current conditions in which the organization operates from an internal, external and risk management context.

2. Identify Risks
   Document material threats to the organization's achievement of its objectives.

3. Analyze Consequences
   Quantify the impact of each risk, the likelihood of its occurrence and the company's ability to mitigate it.

4. Analyze Interconnectivities
   Aggregate risks; understand relationships, interdependencies, and the compounding effect of simultaneous occurrences.

5. Re-analyze Consequences
   Redefine risks to include interconnected risks and re-quantify the impact and likelihood of occurrence of each.

6. Prioritize Risks
   Rank the significant risks in order by severity and likelihood of occurrence.

7. Assess Risk Tolerance
   Determine the entity's capability and appetite for potential consequences of risk.

8. Choose Response Strategies
   Develop plans to avoid, reduce or control, share or insure, accept, or exploit risks and assign responsibility for risk monitoring and response strategy development to members of management.

9. Monitor
   Continually measure and monitor the risk environment and the risk management process.

See Appendix 1 Board Oversight of Enterprise Risk – A 9 Step Framework for Corporate Risk Management, for a more detailed framework of the 9-step process.

Insurance A Special Subset of Risk Management: Transference and Sharing of Risk

When companies purchase insurance coverage, they are using the third risk management strategy discussed above, transfer or share the risk. Insurance is a special subset of risk management because it is a ubiquitous risk management tool used to manage certain risks companies face that usually cannot be addressed economically by any other tool.

The transfer of risk idea is simple. For example, companies cannot accept the costs of the risk that employees driving company vehicles could get in an accident, so they purchase vehicle insurance to cover the cost of replacing a vehicle damaged in an accident and liability insurance to cover costs arising from a successful lawsuit by a person injured in an accident involving a company vehicle claiming compensation for injury.

Sharing risk with insurance can also be illustrated with vehicle insurance. Companies typically insure vehicles with a deductible, agreeing to cover the cost of damage to a company vehicle up to a certain amount, the deductible.

With a deductible, the insurance company pays all the costs associated with the policy up to the policy limit and then turns to the company for reimbursement of the deductible amount. Another option for sharing risk is self insured retention (SIR). Amounts covered in a policy by SIR are paid for by the company with no involvement at all by the insurance company.

The choice between a SIR and a deductible comes down to insurance cost and coverage. With a SIR the insurance company will lower its fees more than with a deductible because it faces lower costs. Coverage is also affected. In a $1million policy with a $100,000 deductible, the insurance company will provide $900,000 of coverage. If the policy has a $100,000 SIR, the insurance company will provide $1m of coverage.

Engage a Broker

Insurance is a technically complex topic and understanding which insurance companies offer which coverage with favorable terms and fees is not something management usually has time for. Most companies engage an independent insurance broker to help them navigate the insurance management process.

A glance at Appendix 2 Insurance Coverage Schematic shows the typically large number of insurance companies the broker has identified to provide the different types of insurance the company needs to obtain.

The advantages of selecting a broker rather than an insurance company include:

- Independent advice on which companies provide the best insurance for each type of insurance policy as measured by expertise, terms and conditions, coverage available, and price.

- Expert support in managing the claims process with the insurance company, on behalf of the company.
- Independent technical advice on the mechanics of individual insurance policies.
- Independent advice on what insurance coverage is best suited to address the risks the company faces.
- Benchmarking the company's insurance coverage against other companies of similar size or in the same industry.

An insurance broker is typically selected in a competitive RFP contest and companies often revisit their choice of broker every 3 to 5 years. Appendix 3 Insurance Broker Request for Proposal provides an outline of a good insurance broker RFP process.

Insurable Risks

Not all risks the company faces can be addressed by insurance. Insurance companies will provide insurance against risks that something will happen or not outside the control of the insured. They do not insure for speculative risks which arise from intentional decisions rather than uncontrollable circumstances or risks that cannot be adequately assessed.

In insurance terms a risk is anything that is likely to trigger the payment of a claim by the insurer. For a risk to be an insurable risk it has to meet certain criteria. The risk must be:

- Enough of a financial threat or costly enough that the company is willing to protect itself against the risk by paying a premium.
- Statistically predictable; insurers must estimate how often a risk will occur and how sever the consequences will be.
- Common; many other insured companies face the same risk, so all the policyholders can shoulder the weight of the collective damages.
- Unlikely to occur at the same time as other similar policyholders.
- Random; outside of the policyholder's control.
- Clearly defined with a measurable value, not within the influence of the insured.
- Financially feasible for the insured; the risk can't be so disastrous that the insurance company can't ever pay for it

Types of Insurance and Risks Addressed

Insurance is all about addressing risk and there are many different types of insurance policy available to address different risks. Some insurance policies exist because certain risks are excluded from insurance offered. For example many property policies exclude damage from floods so Difference in Conditions policies are taken out by companies to cover that risk.

The more common types of corporate insurance policy and the risks they address are summarized in the table below.

Type of Insurance Policy	Insurable Risks Covered
Property	Damage to company property from burglary, fire, breakdown of machinery, explosion.
General Liability	Claims from bodily injury or property damage resulting from company products, services or operations.

Business Vehicles	Damage to vehicles from accidents, theft of vehicles, liability to third parties for injury or medical costs.
Workers Compensation	Medical costs, disability payments arising from work related injuries or illnesses.
Environmental	Environmental pollution or contamination caused by company activities resulting in remediation costs or compensation costs.
Legal Liability	Settlements and costs arising from circumstances for which the company as been deemed responsible.
Director's & Officers Liability	Legal fees, settlements and financial losses faced by directors and officers as a result of their actions in their capacity as directors or officers of the company.
Employment Practices Liability	Defense costs and damages related to various employment-related claims including allegations of wrongful termination, discrimination, workplace harassment and retaliation.
Professional Liability	Costs associated with claims of negligence from clients or customers for negligence, copyright infringement, personal injury, etc.
Difference in Conditions (DIC)	Costs associated with perils not covered by standard insurance policies, such as floods or earthquakes.
Cyber Security	Costs associated with recovering from data breaches, hacking, cyber crime etc.
Fiduciary Liability	Costs arising from claims of mismanagement by the company in the role of fiduciary, such as managing employee benefit plans and pension plans.
Insurance Agents Errors and Omissions	Costs arising from insurance broker's errors and omissions such as forgetting to renew coverage, recommending the wrong coverage, failing to help settle a claim, etc.
Crime	Costs arising from employee dishonesty, forgery, robbery, and other criminal acts.
Key Person Insurance	The death or incapacity of a key person can cause significant loss of revenues, profits and also result in additional costs associated with replacing the person. This policy is a life insurance policy on the key person with the company named the beneficiary.
Business Interruption	Loss of income after a significant event affects the business including theft, riot, natural disasters, etc.
Umbrella	Umbrella insurance offers additional coverage above the policy limits but can also offer coverage outside the situations covered by the underlying policy.
Excess	Excess policies do not change the terms of the underlying insurance but offers additional coverage above the policy limits.

Glossary of Terms

People in the insurance business speak their own special language with terminology that covers complex ideas. Just look at the types of insurance policy discussed in the table above to see how many words it takes to describe what the various policies are for.

Do not be afraid to ask what opaque insurance terms mean. If you want to do your own homework here is a good glossary of insurance terms:

https://www.thehartford.com/business-insurance/glossary-of-business-insurance-terms

Conclusion

A business risk is anything that threatens the achievement of the company's strategic plan.

Risk can result in damage but risk can also result in opportunity. And we don't manage risks to have no risk. We manage risks to decide which risks are worth taking to achieve our strategic plans because we judge that the likely payback from managing those risks successfully is worth accepting those risks.

Since we are all going to be taking risks in pursuit of our strategic plans, managing risk becomes a critical part of everyone's job at the company.

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Appendix 1 Board Oversight of Enterprise Risk

Appendix 2 Insurance Schematic with Explanations

Appendix 3 Insurance Broker RFP

Appendix 1 Board Oversight of Enterprise Risk

Board Oversight of Enterprise Risk – A 9 Step Framework for Corporate Risk Management

Step 1 Establish Context

Understand current conditions in which the organization operates from an internal, external and risk management context including:

- Strategic direction, strategic plan
- Industry, customers, competitors
- Regulations
- Operations

Step 2 Identify and Categorize Risks

Document material threats to the organization's achievement of its objectives in various risk categories.

Strategic risk – market trends and performance, competition, selection of ineffective strategies, acquisitions
M&A risk – failure to create value for shareholders, ineffective post acquisition integration
Financing risk – liquidity, capital availability, capital structure
Organizational risk – leadership depth and quality, management and labor availability and cost, cultural alignment
Operational risk – customer satisfaction, product failure, service quality, capacity constraints, vendor and customer dependencies, input quality and pricing
External risk – macro-economic volatility, industry structural change, industry cyclicality

The Framework focuses on these six risks. There are many other possible categories of risk and each company should determine its own appropriate categories. Examples of other risks include:

Hazard risk – liability torts, property damage, natural catastrophe, environmental
Compliance risk – compliance with applicable laws and regulations

Reputational risk – the consequence of acts, events and perceptions

Step 2 Identify and Categorize Risks – Strategic Risk
The primary risks associated with strategy are the selection of appropriate strategy, the ability to implement that strategy on a timely basis.

Strategic risk examples:
- failure to develop and execute strategy on a timely basis
- insufficient new customer revenue acquisition
- failure to execute the business model
- Failure to establish a low-cost viable manufacturing facility
- insufficient capital equipment replacement and upgrades
- opportunistic takeover bid at a depressed value

Tools/processes to assist Boards to oversee strategic risk:
- comprehensive fact-based strategic plans
- independently conducted customer surveys to validate product/service differentiation
- competitor analysis
- assessment of major strategic initiatives from a risk perspective. Examples from lower to higher risk include product line extension or geographic expansion, smaller or replacement capital projects, new products, expansion to underdeveloped regions, major acquisitions, major capital projects and expansion into new markets
- stress testing using financial models including best and worst case scenarios

Step 2 Identify and Categorize Risks – M&A Risk
The primary risks associated with M&A risk arise from uncertainty, complexity, incomplete knowledge and understanding of the target. The degree of Board involvement in M&A should vary depending on size, strategic importance, complexity and management capability.

M&A risk examples:
- insufficient or ineffective due diligence
- failure to create value for shareholders
- ineffective post acquisition integration

Tools/processes to assist Boards to oversee M&A risk:
- advance clarity on acquisition criteria and common understanding between the Board and management
- comprehensive fit analysis against acquisition criteria typically in two stages, a preliminary view early in the process and a final review post due diligence and prior to close
- depending on size and complexity, Board review, with independent advisors, if necessary, of valuation, structuring, due diligence, integration planning, strategic validation and acquiree management
- financial modeling to stress test the impact of the acquisition
- review of acquisition financing plans

Step 2 Identify and Categorize Risks – Financing Risk
The primary risks associated with Financing risk are liquidity, capital availability and capital structure. Liquidity risk arises when the company is unable to generate sufficient internal cash flow to sustain operations because of continued losses or large unplanned expenditures such as unfavorable litigation. Capital availability can be affected by liquidity issues or changes in capital markets. Capital structure poses risks from the absolute level of indebtedness, inappropriate mix of short and long term debt, timing and amount of debt repayments.

Financing risk examples:
- failure to meet bank covenants
- inability to renew current loan facilities
- change in lender policies and practices
- reliance on short-term debt to support capital expenditures and long-term growth
- insufficient availability of funds under current loan arrangements

Tools/processes to assist Boards to oversee financing risk:
- liquidity stress testing using financial modeling focused on the balance sheet and cash flows
- debt term analysis of renewal and repayment terms, well in advance of the expiry of debt arrangements
- understanding capital structure beyond the balance sheet including pensions, postretirement benefit obligations, long-term operating leases and large capital projects commitments
- external review of capital structure done periodically by independent consultants or the company's investment or operating banks
- capital availability review including capital and debt markets, monetizing assets through sale or sale and lease back

Step 2 Identify and Categorize Risks – Organizational Risk
The primary risks associated with Organizational risk are leadership depth and quality, management and labor availability and cost, cultural alignment. Ineffective leadership poses the single greatest organizational risk.

Leadership risk examples:
- Unplanned executive resignations
- Ineffective execution of the succession plan for the CEO
- Loss of key customer facing management
- Insufficient management depth and capacity to support growth
- Ineffective key staff retention initiatives
- Unfavorable changes in union/management relations

Tools/processes to assist Boards to oversee organizational risk:
- regular leadership assessment – in an annual review focused on the results of the business and the CEOs performance against specific objectives.

- broader leadership assessment – Boards should periodically consider other measures such as capability against criteria used to hire for the position including areas such as leadership, team building, vision and strategy, internal and external communications, track record, judgment, foresight and risk management
- assessment of compensation bias – executive compensation with high variability and significant equity components designed to align executives with shareholders encourages executives to take risks. Boards need to select balanced compensation practices
- CEO retirement plan

Step 2 Identify and Categorize Risks – Operational Risk
The primary risks associated with Operational risk are customer satisfaction, product failure, service quality, capacity constraints, vendor and distribution dependencies and input quality and pricing.

Operational risk examples:
- Loss of major customer or share of wallet
- Failure to execute production to satisfactory metrics
- Failure to align costs with revenues
- Failure of supply chain execution to procure inputs at competitive prices
- Customer bankruptcy
- Inventory obsolescence
- Lengthy production disruption
- Insufficient capital equipment to meet customer needs
- Few vendor or customer dependencies

Tools/processes to assist Boards to oversee Operational risk:
- customer satisfaction reviews by independent customer surveys
- product failure analysis to pinpoint underlying operational problems
- competitive margin analysis looking at consistent higher/lower margins than competitors reflects some form of competitive advantage/disadvantage which needs to be understood using detailed benchmarking of company margins against competitors

Step 2 Identify and Categorize Risks – External Risk
The primary risks associated with External risk are macro-economic volatility, industry structural change , industry cyclicality and legal issues.

External risk examples:
- continued depressed North American economy
- rapid weakening of the us dollar against other currencies
- acts of God
- rapid increases in interest rates
- changes in laws or regulations
- legal claims
- inadvertent breach of laws

Tools/processes to assist Boards to oversee External risk

- stress testing of capital structure and ability of the company to reduce costs in the face of reduced revenue
- review of management plans to modify operations to sustain the company through industry cycles
- monitoring of lawsuits

Step 3 Analyze Consequences

Quantify the impact of each risk, the likelihood of its occurrence and the company's ability to mitigate it. Use a simple tool like a heat map to categorize risks as high, medium or low on each of three axes – severity, likelihood and ability to mitigate.

Risk	Severity	Likelihood	Ability to mitigate
Strategic			
Failure to execute strategy on a timely basis	High	Moderate	High
Operational			
Lengthy production disruption	High	Low	Low

Step 4 Analyze Interconnectivities

Aggregate risks. Understand relationships, interdependencies, and the compounding effect of simultaneous occurrences. Analyzing the interrelationship and compounding effects of risks is difficult and important. Often several high-risk conditions are present for years and the occurrence of a new triggering event deals a fatal blow. The approach to the analysis of interconnectivities can be based on examining risks with moderate or high severity and low or moderate ability to mitigate and considering the consequences of their simultaneous occurrence. By ignoring the likelihood of occurrence this approach addresses the "black swan" phenomenon.

Step 5 Re-analyze Consequences

Redefine risks to include interconnected risks and re-quantify the impact and likelihood of occurrence of each. Re-analyze the risks in the context of their possible simultaneous occurrence. This may result in the newly defined composite risks. An example is the loss of its major customer close to the expiry of a major debt facility with the former jeopardizing the renewal of the debt facility, creating a new financing risk.

Step 6 Prioritize Risks

Rank the significant risks in order by severity and likelihood of occurrence. Focus attention on those few critical risks, usually not more than a handful, that truly threaten the company's survival or ability to meet its key strategic objectives.

Step 7 Assess Risk Tolerance

Determine the entity's capability and appetite for potential consequences of risk:

- risk mitigation not risk elimination
- balancing of risk and reward

- example debt raised to fund an acquisition which will be cash flow negative for a year and put the company's debt covenants in jeopardy may not be judged acceptable even though the EBITDA from the acquisition is accretive immediately

Step 8 Choose a Response Strategy
Develop plans to avoid, reduce or control, share or insure, accept, or exploit risks and assign responsibility for risk monitoring and response strategy development to members of management. It is likely that some risks but will be beyond the company's ability to control or mitigate. For risks such as these, the Board needs to focus on the capital structure of the company. The strength of the company's capital structure and capital availability plan is the key element in sustaining the company. A well-financed company can withstand severe adversity better than a weakly finance company

Examples of Response Strategies:

- Ineffective strategy development or execution
  - Ongoing formal assessment of success using key performance indicators, external benchmarking, and other early warning tools
  - Focus on rapid corrective actions when objectives are not being met
  - Development of alternate strategies and formal contingency planning

- Loss of a major customer
  - Executive level attention to customer relationship, performance and satisfaction
  - Independent customer surveying
  - Accelerated and extensive new customer acquisition programs
  - Expansion of critical services not easily replicated by the competition

- Significant loan covenant violation or change in lender policies
  - Tight financial, working capital and operational management, focusing on near-term results
  - Heightened executive-level communication with lenders, with early and transparent disclosure of potential risks to covenant compliance
  - Expansion of lender base including off balance sheet financing
  - Contingency planning including possible asset divestitures
  - Long-term capital raising

- Unplanned leadership loss
  - Continuously updating executive succession plan
  - Accelerated executive development programs
  - Talent upgrade through selective recruitment.

  - Continuing weak economy

    - Cost reduction/restructuring planning (including hiring freezes)
    - Focus on working capital and manufacturing capacity management
    - Aggressive manufacturing efficiency programs
    - Suspension of major capital projects

- Unforeseen production disruption
    - Manufacturing capacity planning (including greenfield sites or acquiring alternate facilities)
    - Business interruption insurance programs
    - Heightened attention to labor matters
    - Reciprocal competitor capacity arrangements in the event of certain occurrences (such as Acts of God)

- Failure to establish a viable low-cost manufacturing operation
    - Pursue joint venture with local partner
    - Facility purchase
    - Merger or acquisition

Step 9 Monitor
Continually measure and monitor the risk environment and the risk management process. Use red flag identification to monitor critical risks including key performance indicators, regular customer satisfaction assessment, competitor benchmarking, industry analyst reports, updated financial stress testing and current executive succession planning. Include formal risk monitoring on the Board's agenda. Include agenda items in which key risks are discussed individually over several meetings so that Board members are fully informed.

Conclusion

- Enterprise risks are material threats to the company's achievement of its objectives. There are likely no more than a handful of risks that are truly strategic/enterprise-wide for any company. Management has to establish, operate and monitor a risk management process such as the 9 Step Framework for Risk Management. The Board of Directors has a responsibility to oversee management's risk management processes. Board Oversight of Enterprise Risk – A 9 Step Framework for Corporate Risk Management has been designed to assist directors to carry out their oversight responsibility.

With thanks to, and acknowledgement of:
John E. Caldwell CA, *A Framework for Board Oversight of Enterprise Risk.* Toronto, ON: CICA, 2011. A paper.

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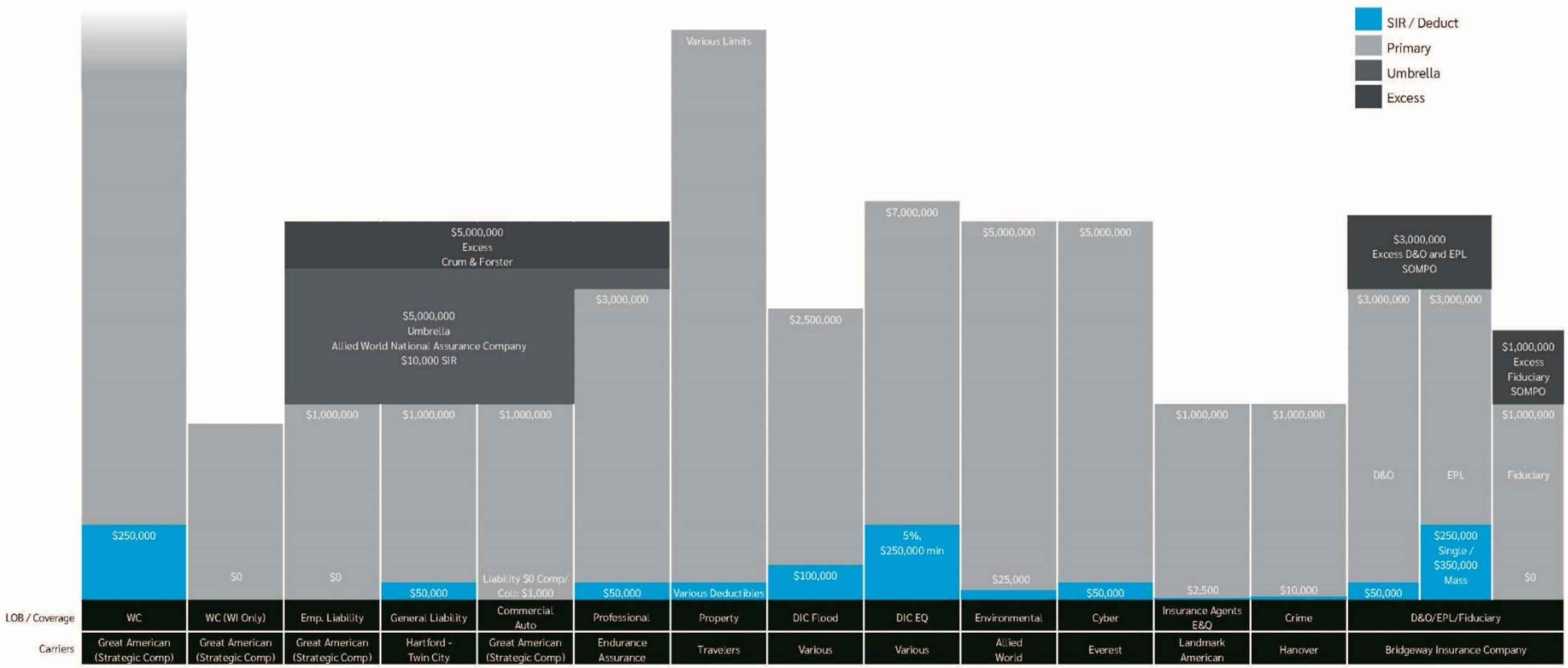
Company

Property and Casualty Program



This schematic summarizes details of the company's insurance coverage by type of policy. Some observations:

1) Because the company has used an independent broker coverage for various policies is provided by a number of different insurance companies,
selected working with the broker for best terms, expertise, price etc, as shown in the bottom row of the chart 2.
2) LOB/Coverage lists the types of insurance provided. For details of each type see the insurance section of the Risk Management report.
3) Self Insured Retentions (SIR) are a form of sharing risk in which the company retains all the risk up to the amount of the SIR and the insurance
company has no involvement. Deductibles are a form of sharing risk in which the insurance company pays all amounts under the policy up to the
policy limit and then turns to the company for reimbursement of the deductible amount.
4) Note there are both excess and umbrella policies taken out by the company. Excess policies do not change the terms of the underlying insurance
but offers additional coverage above the policy limits. Umbrella insurance offers additional coverage above the policy limits but can also
offer coverage outside the situations covered by the underlying policy.

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This is an outline of a company RFP for an insurance broker.

1. **Introduction**
    - Background on the company and its operations with any key statistics such as revenue range, number of locations, number of employees
    - Website
    - List of current insurance coverage areas:
    - Property
    - General Liability
    - Etc.

Provide a Statement of Coverage Issued (COI) for each policy

2. **RFP Objectives**
    - Ensure the company's brokerage arrangements are priced competitively.
    - Assemble a broker service team that will assist the organization in the development and execution of its Risk Management Strategy.
    - Evaluate and identify a broker team with the capabilities to design and implement, as appropriate, alternative risk management options.
    - Identify partners with the capability and expertise to actively participate in assisting with strategic planning initiatives based on expected growth.
    - Identify opportunities to add additional value to the organization.

3. **Timeline and Response Guidelines**

Activity	Target Date
RFP sent to brokers	
Deadline for initial questions on RFP	
Qualifications and proposals received from brokers	
Notification of selections of brokers for final phase	
Meetings with finalist brokers completed	
Selection of broker	
Execution of broker services agreement	

A reasonable timeframe would be 2 months

4. **Proposal Submissions**
    - Deadline
    - Recipient at the company
    - Specify electronic delivery

5. **RFP Eligibility & Selection Criteria**
    - Selection Process and Participation Requirements
        - Comply with all instructions.
        - Complete all required sections of the RFP.
        - Respond to all questions in reasonable detail.
        - Meet the deadline for submission of RFP to the company.

- Selection Criteria
    - Quality of the response to the RFP
    - Expertise with advising clients on evaluating risks and structuring and managing insurance programs
    - Ability to provide cost-effective solutions to meet the needs of the compasny
    - Coverage Expertise and ongoing Coverage Quality Control Process
    - Loss Control Support
    - Claims Support
    - Overall expertise within our industry
    - Willingness to work with existing insurance underwriters as necessary
    - Financial strength
    - Stability
    - Reputation
    - Amount, nature, visibility, and appropriateness of compensation
    - Demonstrated exceptional level of customer service and support to clients
    - Quality and experience of assigned account personnel
    - Accuracy of proposal as demonstrated by documentation, presentations, and telephone references

6. **Broker Qualifications** – Answer the following to be eligible to participate

- Overview of Company Structure/ History/ Philosophy
    - Describe the structure of your organization, including number of employees and available resources, locally, nationally and globally.
    - Describe your areas of specialization, specifically including the resources your organization possesses in support of these areas of specialization.
    - How many accounts does your organization service?
    - How many employees does your organization have?
    - How many of these employees have new business responsibilities versus service?
    - What is your employee to account ratio in each department including claims, loss control and account management?

    - Competitive advantage
        - Outline your perceived strengths and weaknesses in the marketplace.
        - How are you different from your competitors?
        - Why would you be the perfect partner for our company?
        - How do you use technology to provide us with excellent service?

            - Service Team
        - Illustrate the account team structure.
        - List the names of the proposed day-to-day account service team and describe each member's service role.
        - Attach resumes of the service team members.

            - Qualifications
    - Expertise; technical/industry specific
    - Describe how you will act as an extension of the company's Finance and Environment, Safety & Health's Departments in the area of Risk Management.

- Discuss and describe the experience your organization has in servicing and understanding the unique
- needs and exposures of the company's size and resources.

    - Marketing
- Provide your thoughts on the state of the insurance market the company will be experiencing for our renewal.
- Who are your top markets?
- Provide a timeline and transition plan if you were selected to represent the company on our lines of coverage.
- Based on the information provided and your experience with similar companies, provide conceptual program options and rationale.

    - Risk Management
- Describe specific techniques and procedures, which you will use to assist us in identifying current and anticipated new exposures to accidental loss.
- Describe how your firm ensures its clients receive the broadest coverage available in the marketplace at an economical cost.
- Explain and give an example of the skills and experience your firm has in designing insurance or other risk transfer techniques that fit with the company's business.
- Describe the steps you would take in reviewing our current program.
- How would you keep us informed of current developments in the risk management arena?

    - Risk Control Services – Describe your approach to loss control and the services to be provided:
- Casualty: Describe in detail how you will assist the company design and implement casualty loss control techniques that will reduce loss frequency and severity and ensure compliance with our client's requirements and various regulatory agencies.
- Property: Describe in detail how you will assist the company design and implement property loss control techniques that will reduce the potential for loss.
- Professional Services: Describe in detail how you will assist the company design and implement risk management to reduce the loss for this area of our business.
- Describe your approach to the providing or managing unbundled loss control services.

    - Claims Management – Describe your approach to claims management and the services to be provided:
- Discuss how you will assist in claim audits and other file reviews as deemed necessary for current insurer services. Provide details of the services provided and available for this type of program.
- Discuss your experience and approach to analyzing and improving claims management programs.
- Describe your involvement in the selection of unbundled claims services.
- What role does your organization play in first party property claims?
- Describe how you will assist the company to actively manage open claims to assure timely and cost-effective closure.
- How many accounts do each of your claims persons serve on average?

- How many claims are your claims persons actively monitoring on average?

7. References

Please provide at least 4 references (company name, contact name and title, address, phone number, email)
References will be contacted. Please notify them accordingly.

8. **Quality Control**

- Discuss how your organization will ensure accuracy and timely delivery of:
    - Submissions to markets
    - Binders/advices of insurance
    - Policies, program agreements, resume of insurance and other “insurance related” documents.
    - Certificates of insurance, auto ID cards, accident kits, posting notices, etc.
    - Detail how your organization monitors insurer market quality and solvency. How is this information disseminated?

9. Other Insurance/Risk Management Related Services

- Describe the step by step process your firm would use to set up and administer an effective Certificates of Insurance Program including software, if any that would be part of this process.
- Describe how your firm would provide analysis of company data to assist us in obtaining the most favorable position with respect to insurance rates.
- How do you determine limits and retention levels to recommend to your clients?
- Provide samples of your presentations such as your proposals and claims reviews.
- What other offerings might our company be interested in? Please consider our current needs and potential offerings that could be useful in future years given the company’s history of growth.

10. Broker Compensation

Participants are requested to provide thoughts about compensation including:

- Preference for commission or fee.
- Compensation: Please provide a compensation amount/arrangement you believe to be fair to all parties involved. Be specific as to what activities and services are included in your compensation. Also, specify the services and/or activities that would be subject to additional charges or fees, and the approximate dollar amount of all fees. Please avoid generalizations.
- Explain any contingent commission structure you may have with service providers.
- Describe your Company’s transparency policy/ initiatives, if any.
- Please include a specimen service agreement.

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