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Sustainable Symphony:
Echoes of Change)))

Building Sustainable Systems: The Convergence of ESG, ERM and Internal Controls

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About Marsh

Marsh is a business of Marsh McLennan, the world's leading professional services firm in the areas of risk, strategy, and people.

Marsh McLennan

 **Marsh**
Insurance broking and risk management solutions.

 **Guy Carpenter**
Reinsurance and capital strategies.

 **Mercer**
Health, investment, retirement and career consulting and solutions.

 **Oliver Wyman**
Strategy, economic, and brand consulting.



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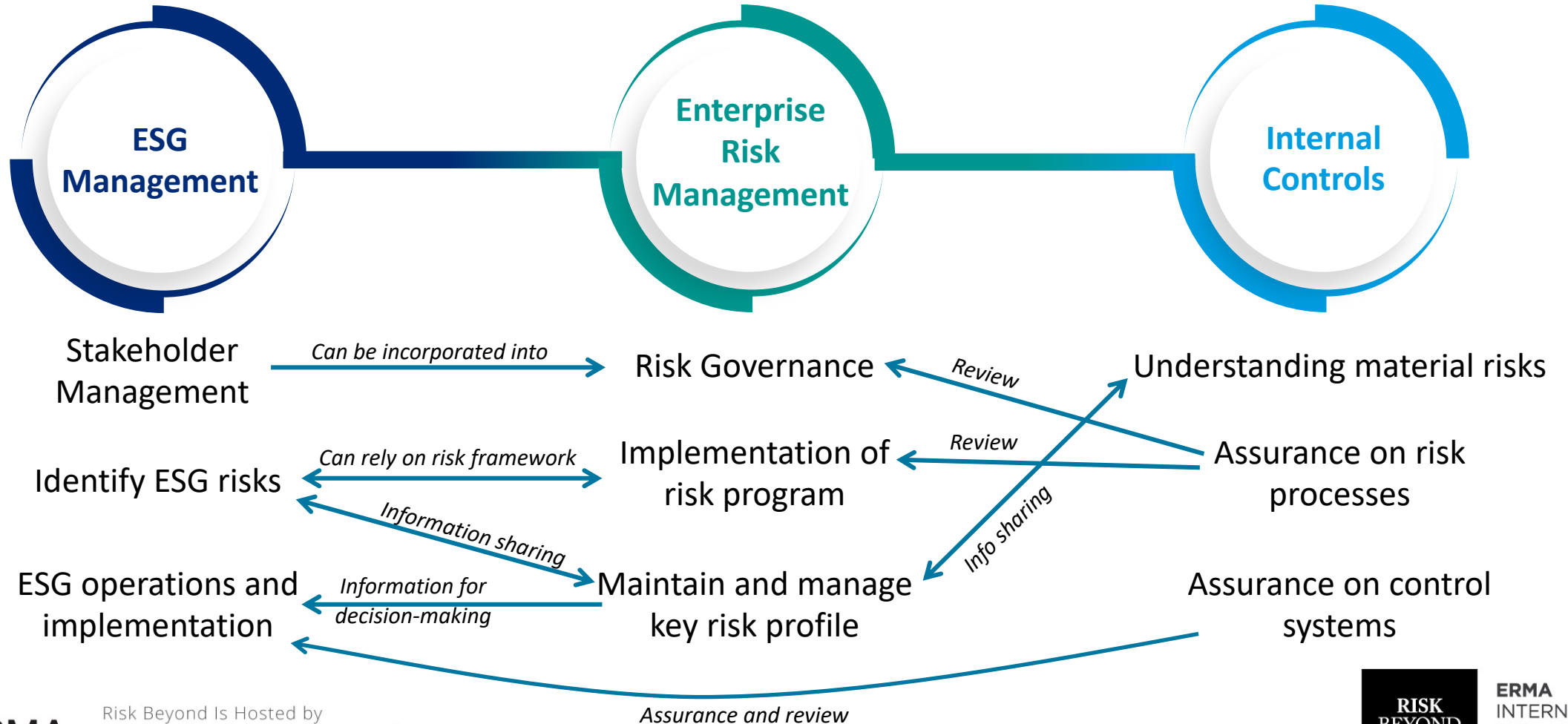
Marsh Strategic Risk Consulting (SRC)

The Strategic Risk Consulting Team helps identify enterprise-wide, business continuity, sustainability and cybersecurity risks for organizations across different industries and geographies. We collaborate with key stakeholders on preparedness, and recovery plans to ensure that the business is ready to bounce back from any unexpected event.

Six Pillars of Marsh SRC



Simple on the surface, but more inter-connected than you think



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Understanding ESG



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Quick Warm Up

When you see the term “ESG”, which aspect comes to mind first?

Environmental

Social

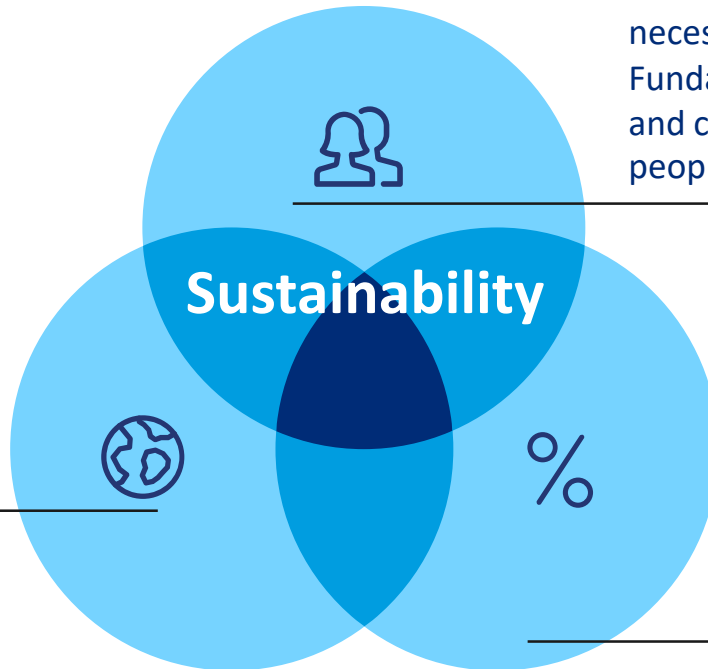
or

Governance?

Sustainability is often illustrated as the balance between 3 areas

Planet

All of Earth's environmental systems kept in balance and natural resources used at a rate where they are able to replenish themselves.



People

Universal human rights and basic necessities are attainable by all people. Fundamental to this is — personal, labor and cultural rights are respected and all people are protected from discrimination.

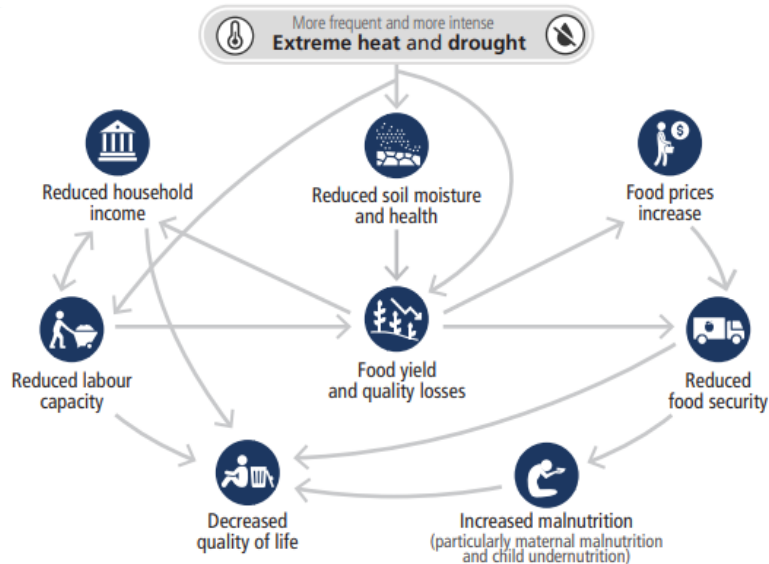
Profit

Beyond financial impact towards economic impact — including creating employment, generating innovation, paying taxes and wealth creation.



The Environment encompasses a wide range of critical issues that reflect a company's impact on our planet.

- 1 Carbon Emissions & Climate Change Impacts
- 2 Resource Usage (Water, Waste, Raw Materials)
- 3 Waste Management & Pollution
- 4 Biodiversity and Ecosystem Preservation
- 5 Supply Chain Management
- 6 Environmental Compliance & Reporting



“E” issues remain top-of-mind

58% of Asian Businesses

face more challenges with dealing with environmental issues than from social and governance issues

BNP Paribas, 2024

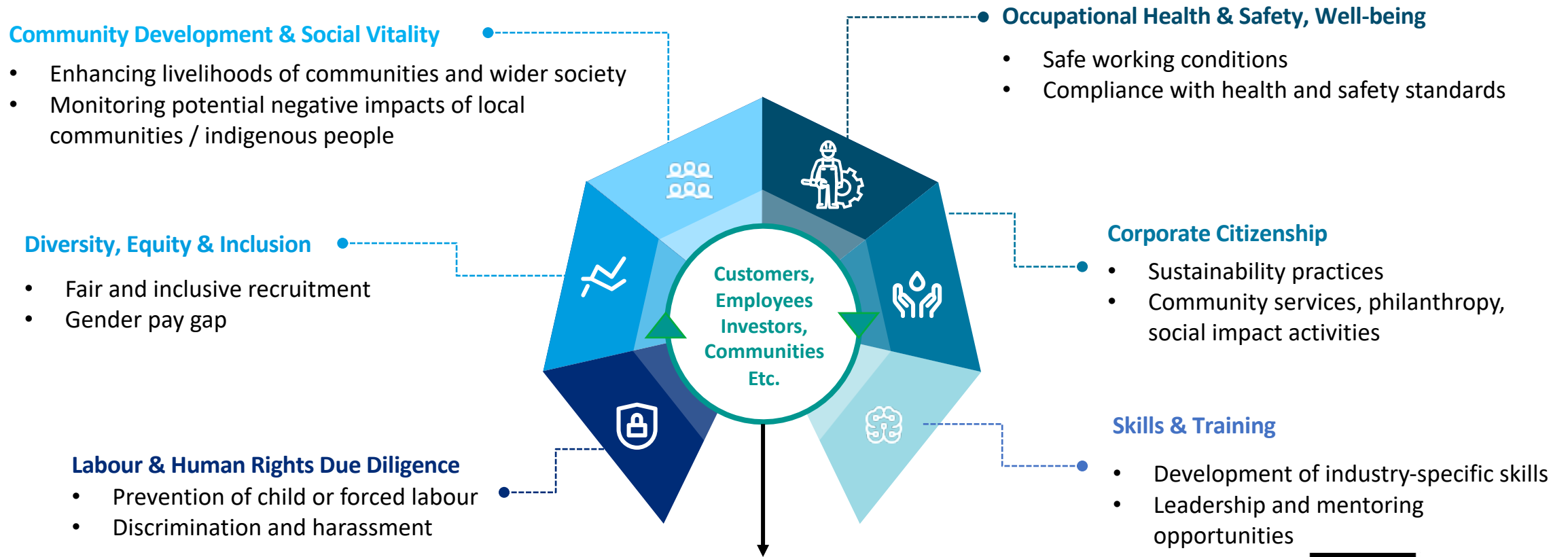
“E” issues go beyond climate change

<50% of top 250 businesses globally

recognize biodiversity loss as a risk to their business

Global Survey of Sustainability Reporting 2022

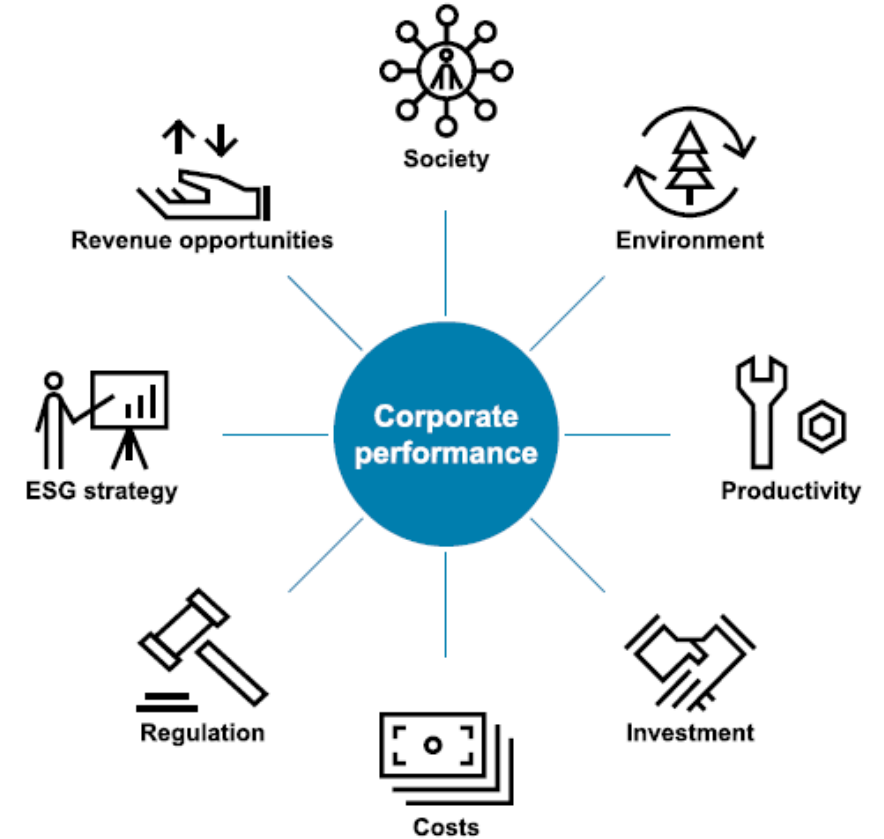
Social examines how a company manages relationships with investors, employees, suppliers, customers, and the communities where it operates.



Benefits of Adopting an ESG-mindset

1. Facilitate top-line growth
2. Reduce current operational costs
3. Minimize regulatory, legal interventions and penalties
4. Optimise investment and capital expenditures
5. Improve the company's reputation and branding
6. Strong risk management practices
7. Increased shareholder value

The Links Between ESG And Financial Performance



Source: S&P Global Ratings.

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ESG is a collaborative effort that takes place across the organization

Every stakeholder has their objective – how do we bring everyone together?



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Understanding Enterprise Risk Management



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Risk is inherently linked to the objectives of an organization

ISO31000 defines risk as:

The effect of uncertainty on objectives.

Strategic objectives

- Establish 5 strategic partnerships with key industry players within the next 3 years to enhance market reach.
- Achieve a 20% increase in employee engagement scores within two years.

Financial objectives

- Increase annual revenue by 15% over the next 3 years.
- Achieve a profit margin of 20% by the end of the fiscal year.

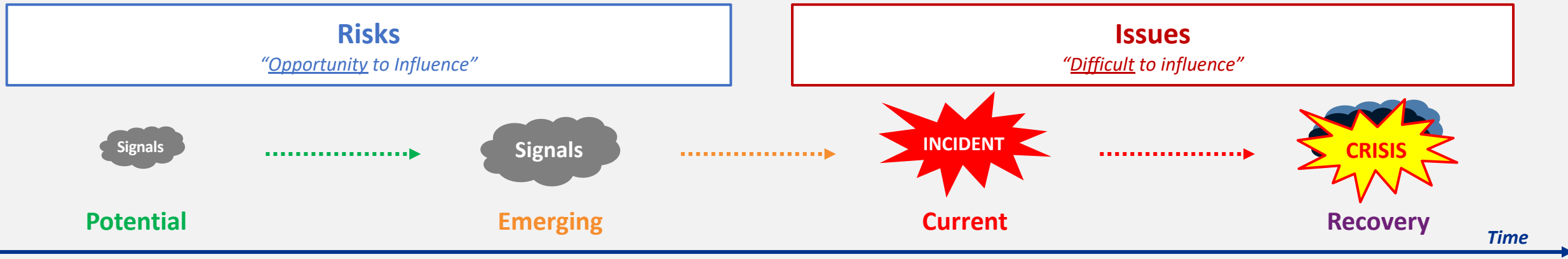
Operational objectives

- Streamline production processes to reduce lead time by 30% within 18 months.
- Achieve ISO 9001 certification within 2 years to enhance quality management.

ESG objectives

- Reduce total waste generated by 50% within five years and implement a zero-waste policy by Q4 2025.
- Decrease water usage by 30% over the next 3 years through efficiency improvements and recycling initiatives.

Risk management is meant to enhance proactive decision-making



Risk is an uncertain event or event that **might happen in the future**

Precautionary actions to be taken

Issue is an event that has **already occurred**

Too late for precautionary actions. Reactive measures to be taken



“E” and “S” issues are significant risk topics

■ Economic ■ Environmental
■ Geopolitical ■ Societal ■ Technological

Top 5 Global Risks in terms of impact (severity)

| | 2019 | 2020 | 2021 | 2022 | 2023 | (2-year timeframe) 2024 | (10-year timeframe) 2024 |
|---|-----------------------------|-----------------------------|-----------------------------|-------------------------|--|----------------------------|-----------------------------|
| 1 | Weapons of mass destruction | Climate action failure | Infectious diseases | Extreme weather | Cost of living crisis | | |
| 2 | Climate action failure | Weapons of mass destruction | Climate action failure | Livelihood crises | Natural disasters and extreme weather events | | |
| 3 | Extreme weather | Biodiversity loss | Weapons of mass destruction | Climate action failure | Geo-economic confrontation | | |
| 4 | Water crises | Extreme weather | Biodiversity loss | Social cohesion erosion | Failure to mitigate climate change | | |
| 5 | Natural disasters | Water crises | Natural resource crises | Infectious diseases | Erosion of social cohesion and societal polarization | | |

Observations:

- **4 out of 5 Top risks are related to climate changes and the environment.** This implies that the risks of a slower and more disorderly transition have now turned into reality, potentially leading to dire planetary and societal consequences.
- **Social and environmental issues feature heavily in both the 2- and 10-year timeframes in recent years**



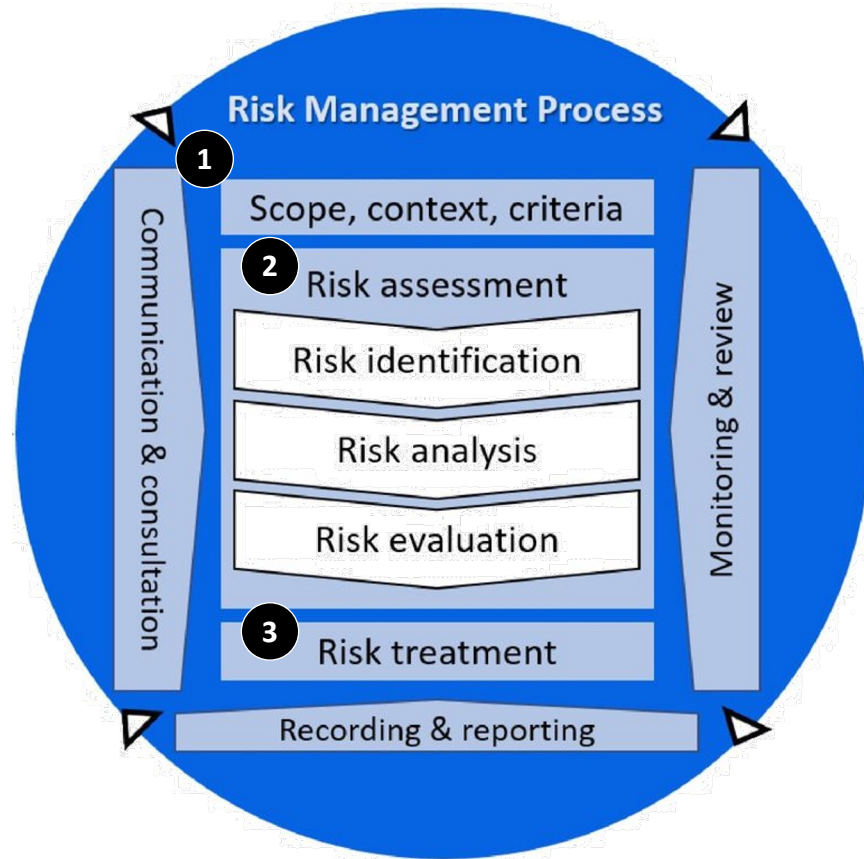
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Source: World Economic Forum, Global Risks Report 2024, Global Risk Perception Survey
 Note: Over the ten years, the report has streamlined some risks and added new risks as a result of observed economic, geopolitical, societal and technological trends, as well as exacerbated or emerging trends from the COVID-19 crisis. Consequently, names and definitions of some risks were revised and, where applicable, have been modified and/or expanded to reflect new ways in which the risks may materialize and the potential adverse outcomes they may cause



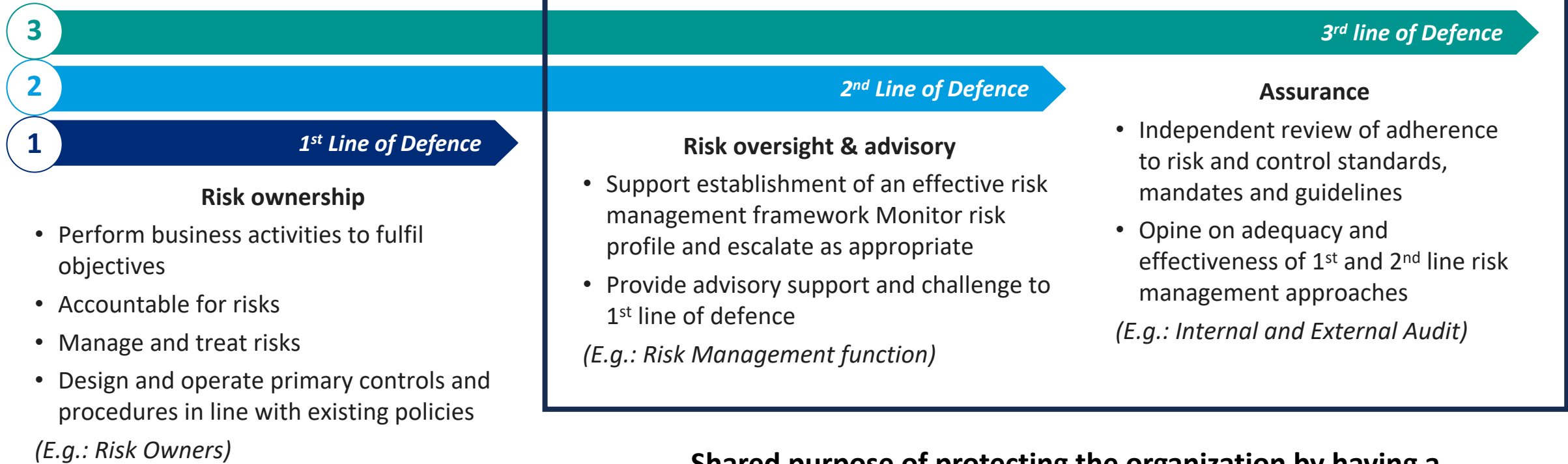
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ISO31000 provides a set of principles and guidelines for the design and implementation of a risk management framework



- 1** Establish scope, context and criteria
 - **Scope** – types of risks to be managed under the framework
 - **Context** – strategic or operational objectives of the organization
 - **Criteria** – risks that a company is (un)willing to take
- 2** Conduct risk assessment
 - **Identify** – highlight risks that may prevent an organization from reaching objectives
 - **Analyze** – deep dive into these risks and determine likelihood & impact
 - **Evaluate** – priorities the risks and compare with risk criteria
- 3** Carry out risk treatment
 - **Terminate, Tolerate, Treat, Transfer, Increase (Pursue)**

The Three Lines of Defence provides clear roles & responsibilities for risk management



Shared purpose of protecting the organization by having a comprehensive approach to risk management, governance and oversight

ERM has evolved over time

Risk Management's Traditional Practices

- Narrow, silo-centric risk identification
- No systematic understanding of correlation among risks
- Risk not considered in strategic decisions
- Risk mitigation and risk finance practices not coordinated across functions
- **Risk works alone**

Risk Management of Today

- ✓ Risk management is a systematic, comprehensive and integrated activity that is linked to strategic objectives
- ✓ Risk Management plays multiple roles – as a source of information, facilitates the ERM process, supports business decisions and protects the organization.
- ✓ Takes into account **perspectives from all parts of the organization**

ERM serves as a bridge to other aspects of the organization

Insurance Management

Effective risk management informs risk transfer (insurance) strategies, ensuring adequate coverage and cost efficiency.



Internal Audit

ERM and IA can build on each other's efforts to mitigate risks and ensure the effectiveness of mitigating controls.



Sustainability

Integrating risk management with sustainability initiatives helps identify and mitigate environmental and social risks.



Risk Management

Business Continuity

Risk management is essential identifying potential disruptors to the business, allowing the organization to strengthen its resilience capabilities.



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Bringing ERM, ESG and Internal Controls Together



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The COSO-WBCSD guidance is designed to help risk and sustainability practitioners apply ERM concepts and processes to ESG-related risks.



WBCSD – World Business Council for Sustainable Development

COSO - Committee of Sponsoring Organizations of the Treadway Commission



Enhance Resilience

Viability and resilience of the organization depends on its ability to anticipate and respond to an array of complex and interconnected risks.



Common Language for Articulating ESG-Related Risks

Articulating ESG-related risks brings ESG issues into mainstream ERM processes and evaluations.



Improve Resource Deployment

Enables management to assess overall resource needs and help optimize resource allocation in managing entity-level and ESG-related risks.



Enhance Pursuit of ESG-related Opportunities

Identifying ESG trends and considering both positive and negative aspects of ESG-related risks can lead to new opportunities.

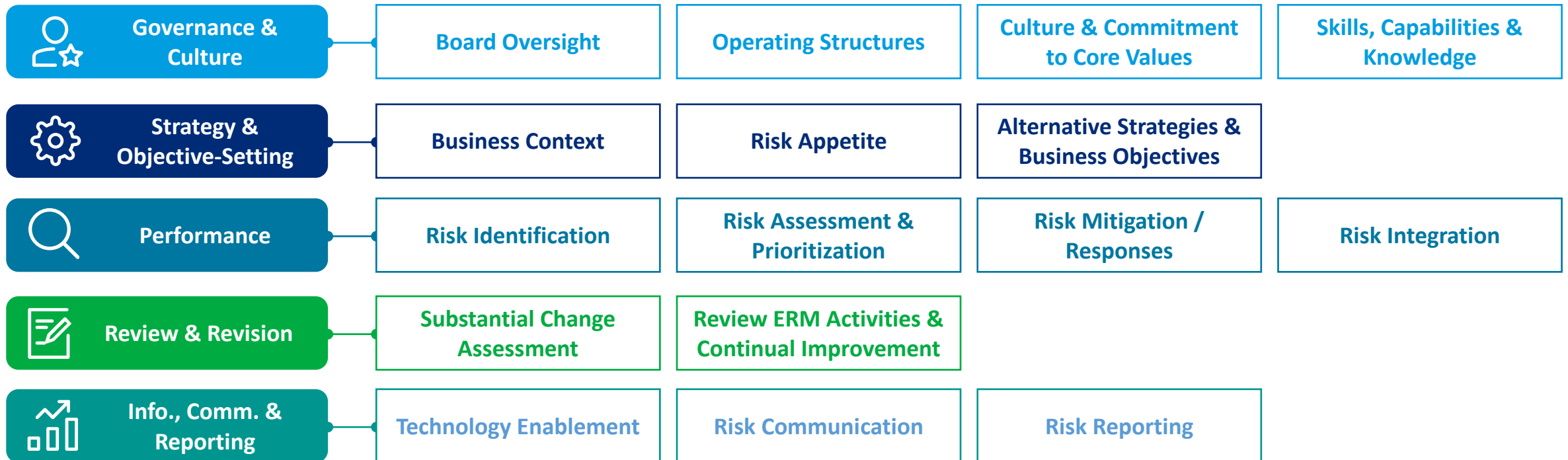


Improve Disclosures

Provide the transparency and disclosure investors expect and achieve compliance with jurisdictional reporting requirements.

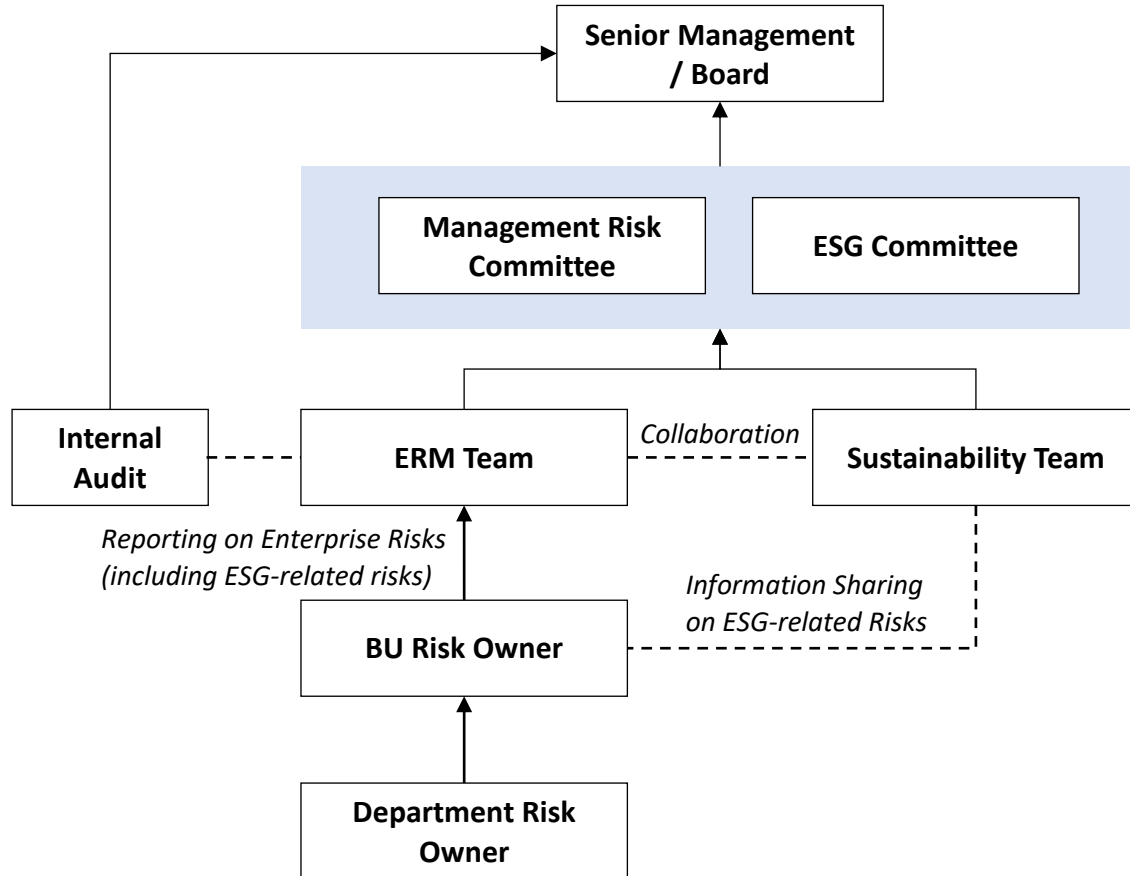
The COSO-WBCSD guidance is designed to help risk and sustainability practitioners apply ERM concepts and processes to ESG-related risks.

The guidance covers 5 components



Governance – Collaboration between teams is key

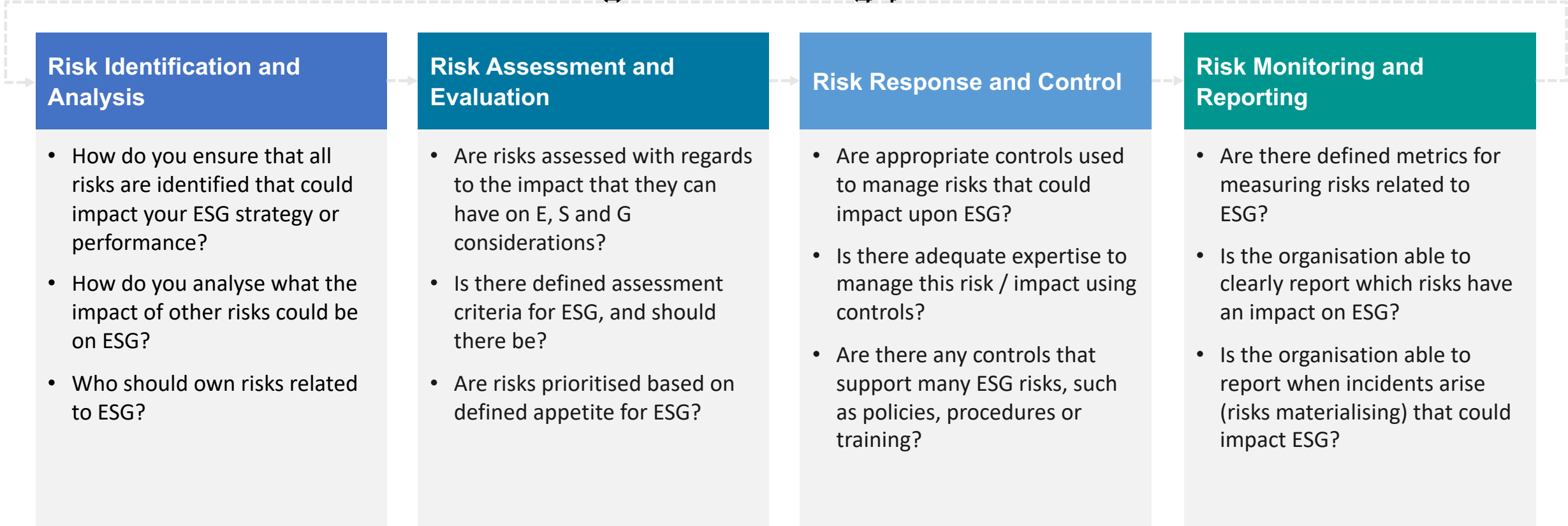
Illustration



The ERM Team and Sustainability Team should maintain a close working relationship.

- The **ERM Team** should coordinate and review all risk information, and facilitate the management of ESG risks within the ERM process.
- The **Sustainability Team** should work with the ERM Team to identify opportunities for knowledge-sharing. The team can rely on the inputs from risk owners to understand key risks which can be used to support ESG-related decisions.

Process – Embed ESG thinking into existing processes



Adapting the core risk management process to manage ESG risks is vital to success.

Process – Understanding ESG risks will require an understanding of certain key characteristics

Time Horizon

- ESG risks can manifest in both the immediate and long-term (>15 years).
- As such, thinking about ESG risks may require extending beyond traditional planning horizons,



Stakeholders

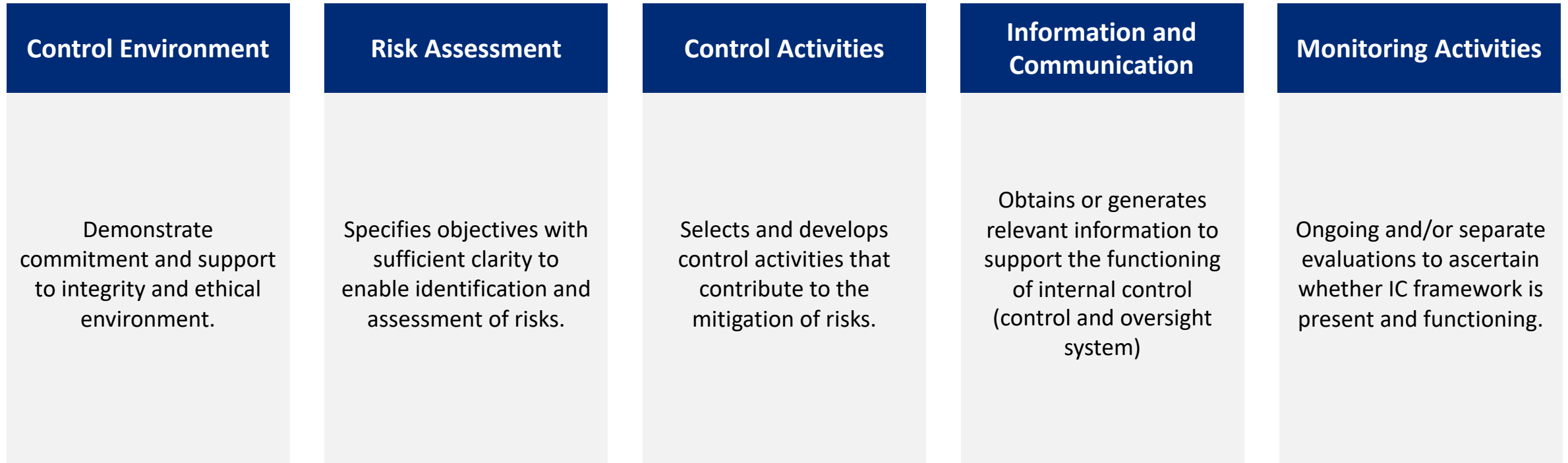
- Integrating ESG into ERM requires balancing the interests of various stakeholders
- Goes beyond just meeting customer expectations
- Every part of organization and **external parties** are involved / have a point of view – management can be challenging for risk teams

Process – The key objective of the ERM-ESG framework is to ensure value is delivered to the wider group of stakeholders

| <i>Stakeholder groups</i> | Shareholders | Customers | Employees | Public and wider community | Environmental authority |
|---|--|---|--|--|--|
| | | | | | |
| Example primary expectations | Return on investments | High quality products / services delivered | Safe work environment | Responsible business conduct | Compliance with environmental regulation |
| ERM role in supporting the goals | Risk assurance to achieve business objectives and optimal cost of risk | Visibility over risks affecting products / services | Driving risk awareness culture (including health and safety) | Ensuring corporate social responsibility roles are met | Management of key risks associated with environmental and sustainability targets |

Process - ERM, ESG and IA speak a common language of risk & controls

The COSO Internal Controls Framework provides guidance on how establishing an effective internal control system, that can be applied to non-financial or internal reporting.



Process - ERM, ESG and IA speak a common language of risk & controls



Entity-level controls designed to manage risks across the organization (e.g. policies and procedures, training and communication, hiring policies)

Process-level controls specific to a particular activity or function. Controls for ESG risks may already be in place for some of these processes.

Documentation of controls is key:

- **What** is the control about?
- **Who** is performing the control?
- **When / how often** is the control performed?
- **Why** is the control performed?
- **Where / How** is the control performed?

People – the keys to success

Tone from the Top – the leadership **“talking the talk”** and **“walking the talk”**

An **organizational culture** that embraces risk management

Technical **understanding** of ERM, ESG and its elements

Understanding that effective ERM is a **journey**, not a destination



Understanding that effective ERM **adds value** to the organisation

Transparent **communication** as the norm

Adequate **resourcing** to effectively manage risk

We talked about the pros... what about the cons?

1) Continuous

2) Consistent

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