Risk Maturity Model Framework for Enterprise Risk Management – A Review

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Abstract— In today's scenario, every organization is exposed to a diverse range of risks from different sources. Increased unpredictability in the world of business has uncovered the ineffectiveness of traditional risk management approaches. This has given rise to an approach which is integrated in measuring and monitoring risks known as the Enterprise Risk Management. Enterprise Risk Management and its frameworks have been a common agenda for all types of organizations. And adopting it within the organization will help in decreasing the organization's exposure to risks. One of the frameworks is the Risk Maturity Model, which helps in measuring the alignment of risk management practices followed by the organization with the best practices of the maturity model. In this regard, this paper discusses about the Enterprise Risk Management and its generally accepted framework i.e., the Risk Maturity Model. The attributes of Risk Maturity Model and the advantages of implementing it within an organization is also presented.

Index Terms— ***Enterprise Risk Management, ERM Frameworks, Risk Maturity Model.***

I. INTRODUCTION

The intricacies and fluctuations of the present economic environment is a dominant reminder that there are a plethora of risks which the organizations face. Organizations these days are compelled to spend tremendous amount of resources to manage risks since the traditional approach where risk is considered as a necessary evil and must be removed is insufficient. For an organization to be successful, regardless of its size or structure, transparency of risks faced by it is of utmost importance. Therefore, identifying and managing risks must be a part and parcel of their day to day operations. Whether a risk needs to be avoided, reduced or turned into an opportunity is based on the approach followed to manage that risk.

According to the study conducted by Ahmad Rizal Razali and Izah Mohd Tahir [1], Enterprise Risk Management can be defined as an approach which is systematically integrated and manages risks throughout the organization and makes sure that they achieve their objectives and also create value for their stakeholders.

Enterprise Risk Management is a systematic approach of the management of the overall risks an organization faces. It is a concept which changes the traditional approach and abridges risk management in an extensive, integrated and strategic system.

Enterprise Risk Management (ERM) has various synonyms like integrated risk management, holistic risk management and strategic risk management. Enterprise Risk Management implements the holistic approach to deal with risks. Many a times the interaction of different types of risks become highly alarming and causes more harm when compared to individual risks. Therefore, each and every individual risk along with the likelihood of risk interaction must be perceived as it helps in classifying risks as per its impact on the organization.

II. TRADITIONAL RISK MANAGEMENT Vs ENTERPRISE RISK MANAGEMENT

According to Sheehan [2], one of the significant risk that an organization can face is the risk of not managing its opportunities and threats. The traditional approach on risk management, is constrained only to threats and losses, and do not look at risks as prospective opportunities which help in generating earnings. However, Enterprise Risk management process is an enhanced version of the traditional risk management, which is formed by diversifying its scope. Every organization personnel must know to identify the nature of risk because a strong risk management system will reduce the unfavorable impact the organization could face and also help in reducing losses.

As per the study conducted by Cican Simona-Iulia [3], traditional risk management focuses only on pure risks, the outcomes of which could or could not be losses. As per this approach, there is no interaction between individual risks.

In case of traditional risk management, every risk is treated separately by different individuals within the organization. However, risks are related and it has the capability of affecting each other. One risk influences other risks. This silo-based approach followed by the traditional risk management does not take interactions of risks into consideration. Also, the coordination of risk management within the organization is inadequate. On the other hand, ERM considers the potential interactions among different types of risks.

Gatzert and Martin [4] in their study have mentioned that the purpose of ERM is not just to minimize the risk but to also look into the possible opportunities clearly. An ERM program across the organization makes sure that the entire organization is committed towards managing the risks and not only the related department.

The table below provides the attributes of traditional and enterprise risk management approaches-

TABLE 1: Traditional Risk Management Vs Enterprise Risk Management- A comparison.

Traditional Risk Management	Enterprise Risk Management
Risk is treated as an individual hazard.	Risk is viewed as a part of business strategy.
Risk identification and assessment.	Risk portfolio development.
Concentrates on individual risks.	Concentrates on critical risks.
Risk mitigation is carried out.	Risk optimization is carried out.
Risk limits.	Risk strategy.
No specific owners of risk.	Designated risk responsibilities.
Unsystematic way of risk quantification.	Clear monitoring and measuring of risk.

Source: The Nexus of ERM and Value Creation: A Systemic Literature Review [5]

III. ERM FRAMEWORKS

ERM framework as described by COSO [6] 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".

Enterprise Risk Management has certain innate capabilities which helps the organization to attain its performance and avoid loss of resources in the process of reaching its targets. As per COSO [6], the ERM encompasses-

- Aligning risk appetite and strategy
- Enhancing risk response decisions
- Reducing operational surprises and losses
- Identifying and managing multiple and cross-enterprise risks
- Seizing opportunities
- Improving deployment of capital

Adopting a suitable ERM framework helps the organization to avoid pitfalls and surprises along the path of achieving its goal. ERM frameworks aids the organization in identifying, analyzing, responding and monitoring risks as well as opportunities. Some of the frameworks of ERM are-

1. Casualty Actuarial Society framework.
2. COSO ERM framework.
3. RIMS Risk Maturity Model.

In this paper we discuss about the RIMS Risk Maturity Model Framework for Enterprise Risk Management.

IV. RIMS RISK MATURITY MODEL

In order to help organizations to utilize Enterprise Risk Management in a better way, the Risk and Insurance Management Society (RIMS) introduced the Risk Maturity Model (RMM). The agenda of the RIMS Risk Maturity Model is to serve as a valid benchmarking tool for risk practitioners who are responsible for ERM planning and communication throughout the organization. In a theoretical aspect, Risk Maturity Models are beneficial in interpreting the degree of sophistication of the risk management practices within an organization, its reliability and usefulness at every step. According to Chapman [7], the organizations that chooses to improve their existing approach to risk management can adopt Risk Maturity Models.

As per Steven Minsky [8], for an effective Enterprise Risk Management, the RIMS Risk Maturity Model recognizes seven key attributes. Each attribute is evaluated using the following scale of five maturity levels-

Maturity Levels:

- Nonexistent
- Level 1: Ad hoc
- Level 2: Initial
- Level 3: Repeatable
- Level 4: Managed
- Level 5: Leadership

V. ATTRIBUTES OF RISK MATURITY MODEL

The Risk Maturity Model makes use of the five-level maturity model to evaluate the ERM practices followed by the organization through the seven key attributes:

1. Adoption of ERM-based approach: The organization's risk culture is of main focus under this attribute and it focuses on the level of executive acceptance for an ERM-based approach.
2. ERM process management: The degree to which ERM is a part of the organization's culture and its core business processes is covered under this attribute. It also focuses the extent to which ERM processes are unequivocal and persistent.
3. Risk appetite management: The knowledge and consciousness of the organization towards risks and its capacity to endure risk is the focal point of this attribute. It also focuses on the gaps between understanding the risk and the actual risk.
4. Root cause discipline: The significance given on seeking the root cause of risks and categorizing them, exploring the main sources of risk and concentrating on the betterment of the organization's internal control activities to risks is focused under this attribute.
5. Uncovering risks: The source of information regarding the risks for the organization, the purview of risk assessment as well as the level of documentation with respect to risks and opportunities are the basis of this attribute.
6. Performance management: The level of information sharing amongst the personnel of the organization about the risk goals and how its measures are communicated is the focus of this attribute. The process of integrating the ERM information into planning and the level to which the performance indicators include the qualitative and quantitative measures are also considered.
7. Business resiliency and sustainability: This attribute evaluates the level of information utilized by ERM for planning of operations and disaster recovery.

Risk Maturity Model enhances the risk management within an organization and gives a road map for the development program of ERM.

VI. IMPORTANCE OF RISK MATURITY MODEL FOR ERM

Enterprise Risk Management is a process which can be implemented in organizations. But what is missing in it is a tool which is in line with this process and helps in measuring the effectiveness of ERM. RIMS Risk Maturity Model is a benchmarking framework intended to establish very clear, specific criteria for planning and it guides the monitoring and control activities. As per the study conducted by Monika Wieczorek-Kosmala [9], Risk Maturity Models are very helpful in perceiving the level of sophistication of the existing process of risk management and its effectiveness at each stage. RIMS Risk Maturity Model is applicable for all types of organizations which experiences different range of risks.

VII. BENEFITS OF ADOPTING RMM

According to a report published by the Risk and Insurance Management Society [10], the Risk Maturity Model has varied benefits for the organizations, practitioners and stakeholders.

Some of the benefits for organizations are-

- Risks and opportunities which are poorly addressed is tackled.
- Helps in sorting out any inefficiencies related to the business process.
- Aids in building an improved decision-making process which is scalable and repeatable.

Some of the benefits for risk practitioners are-

- It helps in building harmony and setting up milestones.
- It benchmarks from the best practices available.
- Helps in unambiguously communicating with the board, rating agencies, management, regulators and process owners.

Some of the benefits for ERM stakeholders are-

- Assists and ensures smooth running of the ERM process.
- Gets rid of efforts which have chances of being duplicated and connects the support functions directly with the process owners.
- Helps in measuring ERM value based on priorities.
- Establishes a common language and vision.

Apart from this, adopting a Risk Maturity Model also helps in reducing costs and increasing the top line revenue.

CONCLUSION

Traditional Risk Management is not profoundly transformed. Enterprise Risk Management is an advanced version of the former which is originated by diversifying its scope. However, implementation of Enterprise Risk Management alone is not sufficient. A proper framework to measure the process is very essential. By adopting the Risk Maturity Model framework, the organizations and its managers can measure the results of their ERM program. The RMM not only measures how well the ERM has been adopted by the organization, but also evaluates the ERM process exceptionally and alters it as and when required to make sure that the intended benefits are delivered.

The seven key attributes of the Risk Maturity Model evaluated along the five maturity levels help in measuring the alignment of risk management practices followed by the organization with the best practices of the maturity model. Enterprise Risk Management and Risk Maturity Model are associated in such a way that if you consider ERM as a weapon, then RMM can be called as the plan of attack.

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