

STRATEGIC THOUGHT GROUP ACTIVE RISK MANAGER PRODUCT NOTE

closed-loop risk management

A Strategy for now and the future

This paper provides an overview of Closed-Loop Risk Management (CLRM), the vision and strategy that leads the development of Active Risk Manager (ARM), the leading web-based enterprise risk management system. CLRM guides us as we consider new initiatives and insights in Enterprise Risk Management (ERM) and in particular as the Compliance and ERM markets converge.

History

The foundations of closed-loop risk management lie within the science of cybernetics, the study of systems, communication and control. Applying cybernetics to ERM allows us to analyze and subsequently enhance the effectiveness of processes through defined feedback loops, thereby enabling learning, enrichment of knowledge and adoption.

As the capability of Active Risk Manager (ARM) grew, there was a responsibility to define a clear product strategy that would guide the future development of the product, taking into account both our vision and customer requirements.

CLRM was developed to guide the delivery of a single integrated ERM product. It is therefore committed to the improvement of communication and effectiveness within an organization, and able to support the broadest range of risk, governance and compliance standards, including COSO (ERM & Controls), PmBok, HIPAA, CMMI, RMM, CMI, COBIT, SarbOX, HSC, FDA, The Orange Book, EFQM and Basel II.

As a result, ARM provides the functionality required for the implementation of these frameworks. Furthermore, ARM goes the extra mile in providing configurable capability that allows businesses to apply their own ERM process.

Closed-Loop Risk Management (CLRM) is Strategic Thought's vision for ERM and Compliance and has been developed for the specific purpose of guiding the ARM product strategy.

ARM, guided by CLRM, is the leading ERM solution available today with thousands of users in 12 industry sectors. Functionally comprehensive to meet different industry sector requirements in a single system, highly configurable to meet different risk management standards, Active Risk Manager offers its customers the highest levels of proven user experience.

Customers can gain significant time, financial and operational savings by investing in a single solution that is reliable, auditable, & secure, providing the board with a unified view of governance, risk and compliance issues.

Co-operation throughout an Organization and the importance of "closing the loop"

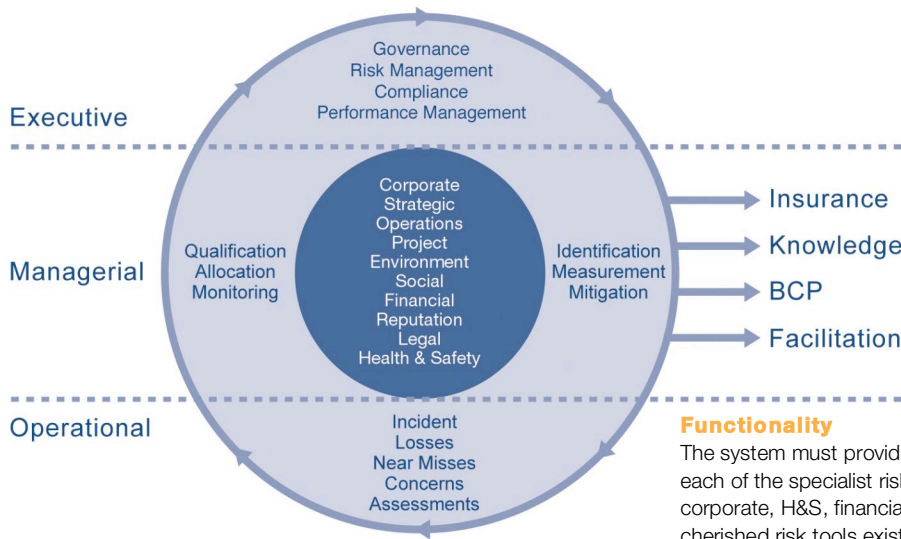
Legislators and regulators, determined to increase the importance of risk management and compliance, have been intensifying the pressure on businesses to ensure that internal controls efficiently protect staff, customers, shareholders and the environment.

This resolve has assured that executives pay rigorous attention to the controls and plans around threats to their organization. Close co-operation between the executive and managerial levels of an organization leads to improved policy and planning for future events. Current and recent events will inevitably affect the agreed policies and plans. The critical and required knowledge regarding actual day-to-day events is held by the operational layer of an organization.

Closed-loop in the context of CLRM refers to the ability to take into account losses from past events, enabling managers to report on how effective the risk management process has actually been, thereby demonstrating visible return on investment and “closing the loop”.

CLRM involves the operational layer of a business to provide information on losses and near misses in order to systematically facilitate reporting on return on investment of the ERM process. The cooperation between executives, management and operations, and the feedback of information from operations through to management and then to the board, also “closes the loop” in a practical sense on the risk management process. It is therefore appropriate to refer to CLRM in both systematic and practical terms.

The diagram below illustrates the scope of Closed-Loop Risk Management, and the importance of both the directional and feedback flows around the organization in enabling the maximum return to be obtained from ERM:



Supporting true and complete ERM

Enterprise Risk Management’s full value is achieved with the involvement of all interested parties, inside and outside of the enterprise, and it is proved through the assessment of losses, near misses, and measured decrease of risk exposure throughout the risk management process.

In order to build consistent value throughout an organization, a single enterprise software solution is required that will not only support the strategies, goals and processes set by all parties, but will also break down any barriers to introducing a risk and opportunity aware culture throughout an entire business.

The system must also be licensed in line with the commercial realities of implementing ERM across an organization. There will not only be large numbers of users of the system, but the extent of use of the system will vary greatly. The commercial model must reflect this, and provide cost-effective licensing for those user-groups who will use the system “lightly” as well as those groups likely to be “heavy” users.

The main non-process, non-commercial product-based barriers to the implementation of an enterprise risk management process can be divided into three categories: User interaction with the system, functionality, and technology.

Interaction with the system

A single solution that is acceptable to all potential users of an organization needs to offer multiple methods of user interaction with the system to meet the specific needs of each area of responsibility:

- Executives require summarized & exception information, as well as assurance that risk governance policies are being met.
- Managers need access to a full set of risk tools and access to the relevant risk information repository, reporting & analysis tools, workflows and information relationships
- Operational staff need an efficient method of contributing to the ERM process that also supports their day-to-day activities.

ARM provides a different user interface for individual user groups. Extensive configurability enables the product to meet the needs of the entire organization.

Functionality

The system must provide sufficiently deep functionality in each of the specialist risk types (e.g. insurance, project, corporate, H&S, financial, operational). Where pockets of cherished risk tools exist, the strategy is to integrate, embed and absorb, thereby supporting rollout success and evolution if desired.

Integrating key risk driven business functions such as Business Continuity Planning, Insurance Claims and Policy management also offers high value. This facilitates the assessment of operating issues, exposures and opportunity patterns across the business. This assessment may lead back to the identification or measurement of new exposures that could result in the business missing its objectives.

To deliver CLRM Active Risk Manager has an unparalleled level of functionality, and the agenda for functional enhancements to the product continues unabated with the new more intuitive Release 3 platform that will form the basis of updates for the next two years.

ARM presents a structure for all risks by process, by entity, by measure or by asset, segmented by core system and customer definable fields. Whilst highly configurable, the system is easy to configure and the most important decisions are in categorizations, impacts and scoring. Functions then split between stages of the risk process, type of risk process and desired maturity level. Probability and frequency calculation is supported, as is the ability to project the future impact on an organization of specific change.

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At the heart of ARM's functionality is the projection and deliverance of measurable performance or economic return from risk and compliance management, with support mechanisms in place within the system to make users succeed.

Delivering the closed-loop risk management strategy through ARM enables us to ensure that the system will consistently **deliver financial benefit, ensure compliance, improve performance, enable delivery success and assure confidence overall.**

Active Risk Manager helps to prioritize the direction of management effort and corporate resources and thereby ensures effective management towards organizational goals.

Technology

The delivery of CLRM holds to strict technical principles: that the software is available, accessible, performant and, most significantly, secure.

Strategic Thought believes that the following attributes are essential to the on-going success of an ERM solution:

- A non-intrusive technology platform
- A logically centralized data repository, independent of physical or geographic constraints.
- A secure web based solution: ensures universal staff access and significantly reduces technical barriers to a large-scale enterprise application deployment.
- A user interface that delivers appropriate functionality across the organization, capable of the proactive roll up and push down of risk information.
- A systems architecture that is scalable, robust, performant and capable of evolution.
- An integrated solution, extendable through a portal, and offering open-standard integration to common middleware technologies

The ARM product architecture and all onward developments are governed by these fundamental principles.

The Value of Information

With the information gathered by the operational layer of the business, managers can report back to the executive on how effective the risk management process is (thereby closing the loop).

Capturing business events and near misses from the operational layer will enable executives to:

- assess statistically the possible recurrence of key losses in regard to the risk identification process
- demonstrate a reduction in losses over time as a result of improved risk management actions, thereby increasing profits (i.e. real ROI)
- over time enable an evidence-based model on how effective the expenditure on risk mitigation has been

- use the risk management process to better manage insurance costs and cover (linking past losses to future insurance needs)

In other words, Closed-loop risk management not only reduces costs (as well as the cost of risk management) across the business, but also enables a business to measure how effectively risk mitigation plans have reduced loss.

CLRM & Active Risk Manager: What they will deliver for you

CLRM has directed the provision of an evidence-based loop, applicable from the board throughout the enterprise, which manages and takes advantage of risk in a manner that delivers compliance and protects economic capital. ARM enables the management of risk and the exploitation of opportunities and so delivers clear and measurable returns.

The deliverance of compliance standards reliably is a fundamental capability; ARM delivers the compliance needs and enriches logical international risk management frameworks laid down by the likes of COSO, Pram and PMI. It is at the absolute forefront of Compliance and Enterprise Risk Management.

CLRM and ARM therefore delivers a solution that:

- caters for all levels of the organization
- covers all risk verticals enabling true consolidated assessment and reporting
- has a technical architecture that removes barriers to enterprise rollout
- supports a fully cyclical risk management process that includes losses and near misses
- supports other key business functions that benefit from the prioritization of a risk driven process (such as insurance, continuity planning and complaint management).

Summary

Strategic Thought Group's goal is to offer customers the market leading solution in ARM, which whilst frequently purchased for specific needs, delivers a most comprehensive capability for organizations in 12 major sectors today. It is rare that a customer goes for a "big bang" approach from day one across all areas; at the same time we have several customers with over 2,000 end users and rollouts planned beyond our original 10,000 user vision.

Customers can choose to start with a layer of business or an area (such as projects, operations, assets, health & safety, finance, corporate governance or pure compliance).

We offer the assured knowledge that existing tools and data sources favored by the customer can be integrated: the frequently observed objectives of convergence, reliable process and improved return on investment are reliably delivered by Active Risk Manager and Closed-Loop Risk Management.

CLRM is the vision, ARM is the solution.