Risk and Growth: Thrive, Survive or Fail

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Risk Management Challenges

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- Complexity
  - Organizational
  - Instrument
  - Models
  - Regulatory Complexity
    - Financial Reform
    - Capital and Liquidity Standards
    - Environmental
    - Healthcare
- Capital Markets, Credit Ratings

What a Corporate Risk Manager Does

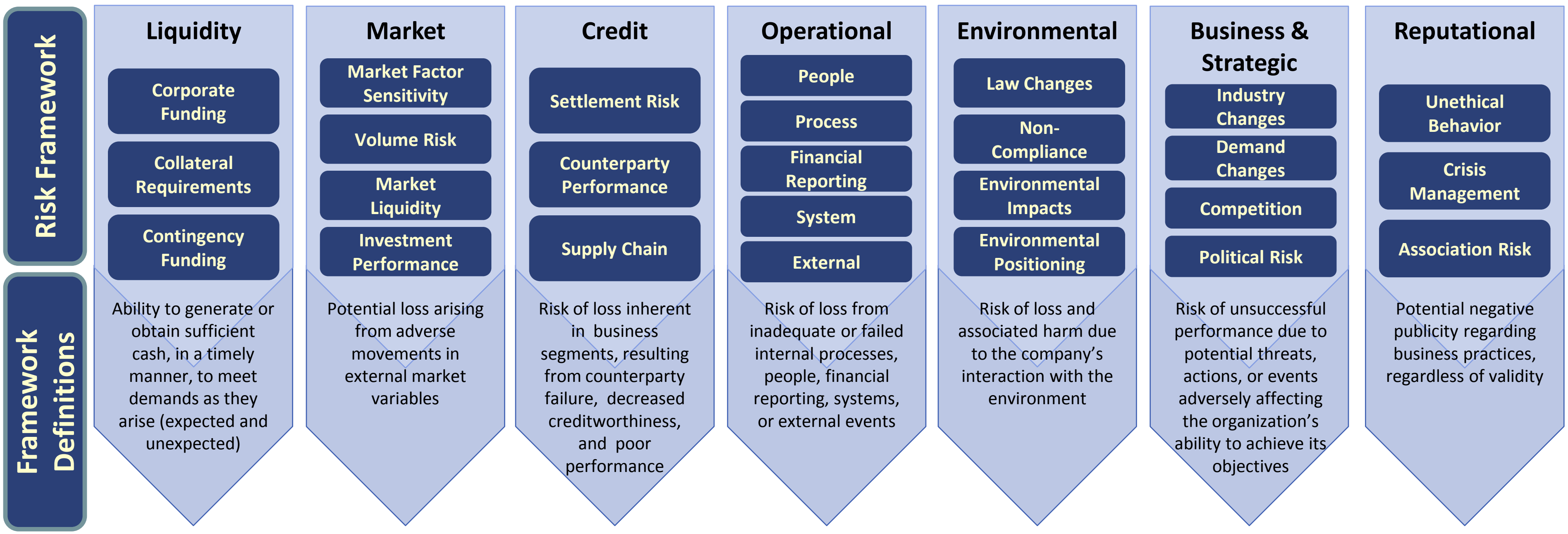
- Establishes a Risk Management Vision with Top-Down Support
- Creates Bottoms-Up Risk Identification Processes to Reinforce Company Corporate Values
- Brings Convergence of Functional Groups in Risk Assessments
- Articulates Risk Appetite and Integrates into the Strategic Planning Process
- Communicates Top Risks, Emerging Risks and Strategic Risks
- Promotes Resiliency and Sustainability: The Importance of How We React
- Charges Customers the Cost of Risk - Risk Pricing and Risk Capital
- Supports a Strong Risk Culture: Everyone is a Risk Manager

Risk and Uncertainty

- Risk
  - Black Swan Events
- Uncertainty

Type of Risk-Taking Matters

- Controllable v non-controllable
- Quantifiable vs. non-quantifiable

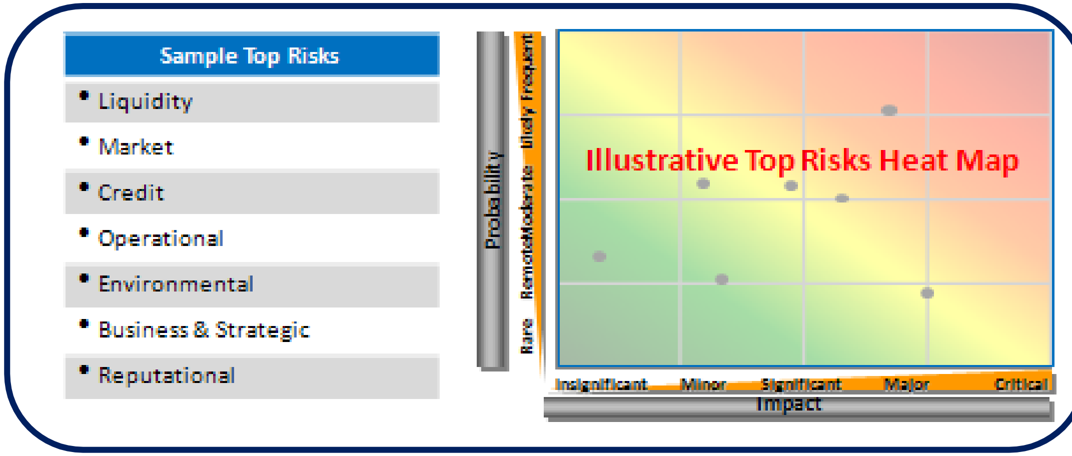


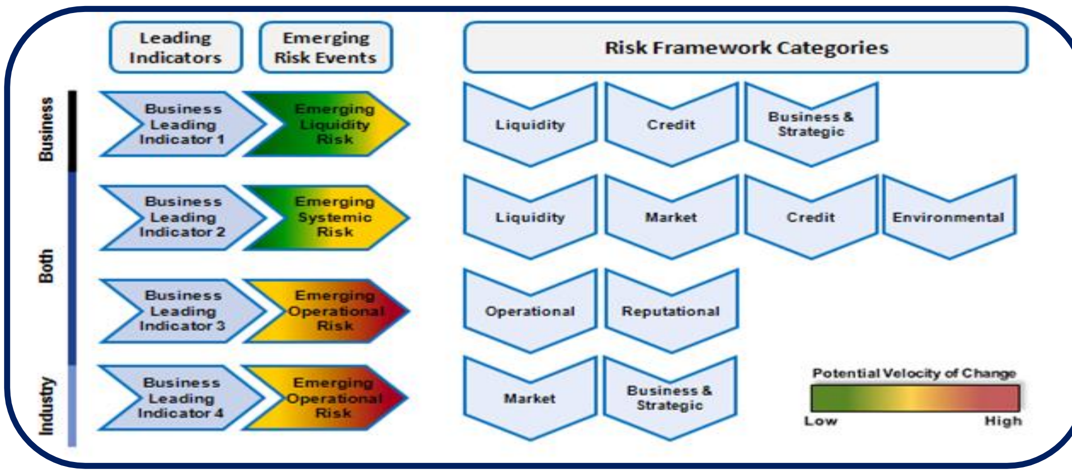
- Physical vs. financial market participation
- Timeframe

Timeframe Matters - Top Risks, Emerging Risk and Strategic Risks

To build and maintain an effective risk management framework, a company must continuously evaluate the risk landscape

- **Top risks** are highlighted to ensure that executive management is focusing on the priority risks to the company
- **Emerging risks** are identified based upon new systemic, political and market factors, as well as other current events
- **Strategic risks** assess underlying emerging and systematic risks incorporated in the strategic plan that could derail the strategy and business plan





By understanding the enterprise risk factors, a company can develop strategies to optimize controls, improve performance and reduce the negative impacts to the business

Conclusion and Key Policy Questions

- Risk must be taken commensurate with the desired growth rate. Higher risk creates the opportunity for higher returns
- To reduce risk in the economy, growth will be sacrificed
- Risks are fluid and can easily change forms
- Risk Manager advice for policy makers:
  - Conduct robust cumulative cost benefit analysis before regulatory changes are implemented
  - Pursue policy that reduces complexity of firms (e.g., Glass-Steagall) rather than adding new regulatory rules to a complex system
  - Be selective in the government guarantees and allow failure