

St. John's University Enterprise Risk Management (ERM)  
Survey of AEGIS Member Companies – ERM Task Force

# Bill Hillman

Senior Vice President  
*AEGIS Insurance Services, Inc.*

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## AEGIS ERM Task Force

- Origin of this initiative
- Meeting output
- Survey results

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## AEGIS ERM Task Force Origin

- Enterprise risk management has a higher profile across all industries
- Financial institutions and financial services companies under greater ERM scrutiny
- AEGIS initiated our ERM process six years ago
- Many members expressed interest in developing their ERM capabilities
- Wide range of maturity of ERM development within the membership

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## AEGIS ERM Task Force Members

Name	Company
Felicia Brown	Iberdrola USA Management Corporation
Gail Chambliss	PNM Resources, Inc.
Ken Dolan	MDU Resources Group, Inc.
Chris Eaton	Enbridge Inc.
Steve Haynes	American Electric Power Corp.
Dwight Jacobs	Duke Energy Corporation
Naru Navelle	Deloitte & Touche, LLP
Wayne Soza	El Paso Electric Company
Ali Suleman	Hydro One
Anil Suri	PG&E Corporation
Dave Vajda	NiSource Inc.

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St. John's University Enterprise Risk Management (ERM)  
Survey of AEGIS Member Companies – ERM Task Force Meeting

# Wayne Soza



Vice President Compliance and Chief Risk Officer

*El Paso Electric*

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## AEGIS ERM Task Force Mission

- Promote the development and sharing of information related to ERM for the benefit of the membership
- Identify ERM issues and trends that affect the energy industry and communicate that information to AEGIS
- Provide advice to AEGIS management on ERM related matters
- Work with AEGIS staff to educate the membership on ERM related topics at AEGIS events
- Facilitate the development of a ERM best practices guide for the benefit of the AEGIS membership

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## AEGIS ERM Task Force Meeting

- Overview of members' programs
  - History
  - Structure
  - Risk identification
  - Risk ownership
  - Company culture

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## Deloitte Presentation

Naru Navelle – Partner, Deloitte & Touche, LLP

- View of risks
  - Opportunities vs. threats
- Top risks on the minds of Deloitte power utility clients
  - Cyber
  - Regulatory
  - Aging infrastructure
  - Competition
  - Disaster prevention
  - Supply chain management

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## Deloitte Presentation

Naru Navelle – Partner, Deloitte & Touche, LLP

- Other factors on the minds of power utility clients
  - Board and management reporting
  - Board risk governance
  - Identification of emerging risks
  - Integration of ERM with other functions
  - Quantifying risk appetite and tolerance
  - Managing silos

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## AEGIS ERM Task Force Meeting

Next steps

- Survey members
- Build ERM best practices
- Explore ERM benchmarking
- Develop ERM training

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ERM Industry Assessment

# Dr. Paul L. Walker

James J. Schiro/Zurich Chair in Enterprise Risk Management  
Exec Director, Center for Excellence in ERM

*St. John's University, Tobin College of Business, School of Risk Management*

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## The Other Why

Evidence of ERM value

- Increase probability in meeting goals and targets
- Reduced volatility
- Increased value = 25%?
- Dollar savings = 150 million?
- Increased robustness
- Increased resiliency
- Fewer and potentially better managed crises
- Better decision making

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## ERM Maturity and Value

(Pooser, Walker, Fier and Barresse, 2015)

<b>Maturity</b>	<b>Value (Tobin's Q)</b>
Ad hoc	0.4854
Initial	1.1148
Repeatable	1.0956
Managed	1.0492
Leadership	1.2761

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## Background

- April – June 2015 survey of industry
- Received 103 responses
- Industry
  - 47% electric
  - 13% gas
  - 29% combined
- Size
  - Above \$2.5 billion = 46%
  - Below \$2.5 billion = 54%
- Data analysis provided by Protiviti (Lily Craft, Shawn Seasongood)

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## Top Risks and Insights

### Top 10 Global Risks

1. Regulatory
2. Business interruption
3. Profit pressure: cost cutting impact
4. Cyber
5. Crisis response management
6. Market stagnation or decline
7. Climate change
8. Severe weather; floods, storms, drought, wildfires
9. Profound political and social instability
10. Water crisis

### Insight # 1

- Respondents see risks as growing significantly
  - 55% agree and 37% neutral

### Top 10 Energy Industry Risks

1. Environmental regulation
2. Cost recovery
3. Aging infrastructure
4. Commodity price volatility
5. Capital project execution
6. Aging workforce
7. Cyber operational
8. Distributed generation
9. Cyber data breach
10. Capital: cost, accessibility & stability

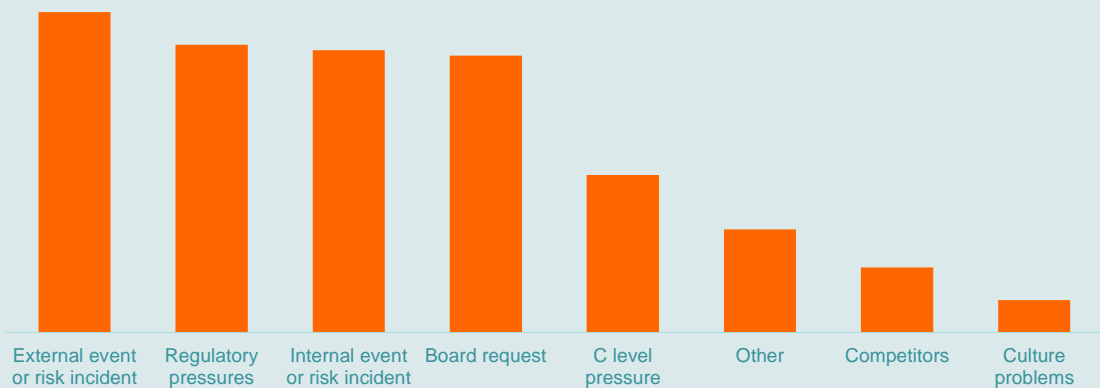
### Insight # 2

- Insurance is an effective risk mitigation tool for
  - Operational risks (91%)
  - Financial risks (61%)
  - Information technology risks (45%)
  - Strategic risks (21%)

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## Drivers of ERM and Formal ERM



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## Formal ERM Process or Initiative

- 74% have ERM (agree/strongly agree)
- 61% have a management level risk committee
- 71% have risk maps

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## Faking It in America

“Risk management, it’s very easy to form a base exercise and just check the box, OK we had the meeting, we talked about these things, done. You know? Let’s put it away ‘til next quarter or next meeting, who cares? It’s one of the very easy things to fake.”

– Walker et al. 2012 (*Improving Board Risk Oversight*)

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## Bad News?

- Recent risk surprises
  - 27% have had them
  - 24% do not know
- 51% do not require a risk analysis on major decisions
- 58% do not analyze risks to determine an acceptable recovery and resiliency level

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## Bad News?

- 64% do not have a clear threshold on when to do a deep dive or when to escalate to management
- 43% do not view risks as opportunities
- Communication (GM, Penn State, Fukushima)
  - 34% do not have clear risk accountability
  - 43% do not develop and communicate risk information timely
  - 26% do not timely report significant risk information to management
  - 34% do not timely report significant risk information to the board

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## Need Help?

- 28% - how to do risk assessments
- 34% - infrastructure
- 34% - risk communications
- 43% - linking risk to objectives
- 52% - linking risks to strategy

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## What I Did Not See

- Reputation risk
- Recent energy company operational risk event
  - \$600 million in repairs and remediation
  - \$102 million in fines and restitution
- Reputation impact / enterprise value losses
  - \$4.44 billion or 7X the operational losses (calculations provided by Steel City Re)

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## Next

- You are where?
- Assess ERM practice
- Assess board risk governance
- Build real ERM

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