Essentials and Assessment of Risk Management

THE FERMA-RIMAP® SERIES

The FERMA-rimap® Series serves as a proactive, continuous and dynamic learning and research platform to respond to risk managers' present and future educational and professional needs. The volumes set a flexible and dynamic measurable standard taxonomy for European Risk Managers and essential reading for students gaining their qualification. The scope of *The FERMA-rimap® Series* is to reach out to experienced or junior risk professionals, whatever their background is, and wherever their career is heading. All risk professionals have a duty to stay in contact with the evolution of the risk landscape.

Essentials and Assessment of Risk Management

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Preface

Risk management has become an indispensable function in modern organisations, playing a critical role in safeguarding assets, ensuring regulatory compliance, and enhancing decision-making processes. In an era characterised by increasing complexity and uncertainty, the need for structured, dynamic, and forward-thinking risk management frameworks has never been more pronounced. This volume, *Essentials and Assessment of Risk Management*, is a comprehensive resource designed to provide both aspiring and seasoned risk professionals with a robust understanding of risk management principles, frameworks, and practical applications.

This book is part of the *FERMA-rimap® Series*, which aims to create a dynamic, continuous learning platform for risk professionals across Europe and beyond. The content has been meticulously curated to align with the evolving landscape of risk management, drawing from best practices, established methodologies, and contemporary challenges faced by organisations. It serves as a valuable reference for those preparing for the FERMA-rimap® certification, as well as for practitioners seeking to deepen their expertise in enterprise-wide risk management.

The structure of this book reflects a holistic approach to risk management, beginning with foundational concepts and progressing towards more complex topics, such as strategic risk management, financial models for risk analysis, and emerging trends in risk governance. Through detailed discussions on frameworks such as ISO 31000:2018 and COSO ERM, we aim to equip professionals with the knowledge required to implement effective risk management strategies that integrate seamlessly with organisational objectives.

We extend our sincere gratitude to the contributing authors, industry experts, and academic professionals who have shared their insights and expertise in shaping this publication. Their dedication ensures that this book remains a valuable resource for risk managers, corporate leaders, policymakers, and students alike. This book series is a testament of FERMA's (Federation of European Risk Management Associations) unwavering commitment to promoting excellence in risk management through education, research, and professional development.[1]

[1]To know more FERMA's commitment to risk management, please visit www.ferma.eu

As you engage with this material, we encourage you to approach risk management not merely as a compliance exercise but as a strategic enabler of business resilience and value creation. We hope this book serves as a guiding tool, inspiring you to adopt proactive and innovative risk management practices that contribute to the long-term success of your organisation.

Acknowledgements

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The structure of the following document is based on the FERMA rimap® Body of Knowledge developed in 2015 by a team of European risk managers representing their national risk management associations, members of FERMA, to serve as a basis for a European Risk Management certification. The FERMA rimap® Body of Knowledge was designed under the supervision of Prof. María Isabel Martínez Torre-Enciso, Doctor in Business and Economics by UCM, Professor of Corporate Finance in UAM, MBA, RIMAP.

Prof. Jean-Paul Louisot, Docteurès Sciences de Gestion de la Sorbonne, MBA, ARM, FIRM, acted as FERMA's subject matter expert to ensure greater consistency among the numerous chapters of the Body of Knowledge, the FERMA existing learning materials and the new content developed to enrich the document.

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Chapter 1

Introduction to the FERMA rimap® Certification (4 Pillars System)

Introduction

This chapter describes the role of the Federation of European Risk Management Associations (FERMA) in risk management in Europe and the aims of the FERMA rimap® certification system.

It describes the four-pillar approach of the certification and outlines who is eligible to seek certification.

There are no learning outcomes for this chapter.

FERMA and Risk Management Associations

FERMA was established in 1974 under the name of the 'European Association of Industrial Insureds' (AEAI) as an international association with the aim of representing the interests of commercial insurance buyers and exchanging ideas and experiences.

Today, FERMA brings together 22 risk management associations in 21 European countries and represents more than 4,800 risk managers across a wide range of business sectors, from major industrial and commercial companies to financial institutions and local government bodies.

FERMA provides the means of coordinating risk management and optimising the impact of its membership associations outside their national boundaries on a European level. FERMA promotes communication among its members and also within IFRIMA (International Federation of Risk and Insurance Management Associations), of which FERMA is a member.

FERMA rimap® Certification

FERMA has developed the FERMA rimap® certification scheme as an attempt to organise and re-structure the risk management industry. Its aim is to give a

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strong identity to the profession, making sure executives, boards, human resource departments and academics value the profession as it really is.

FERMA rimap® will provide formal recognition of the competence of the risk professionals who undertake the certification.

Why Should Risk Professionals Be Certified?

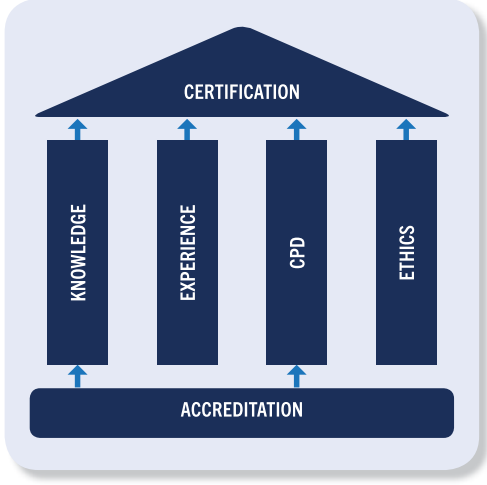
To be resilient, organisations need more than ever to ensure their assets are protected and therefore to go beyond insurance. This requires risk managers to have a particular set of skills and experience – as listed in our Body of Knowledge. The role of FERMA rimap® is to provide assurance to all organisations that the certified risk manager they employ is appropriately skilled and has sufficient knowledge to help protect their organisation.

For individual risk professionals, FERMA rimap® will:

- increase your credibility and competitive advantage over peers;
- provide international recognition, which will enable opportunities in multinational organisations;
- increase the opportunities for you to grow your responsibilities;
- assist you to develop your career;
- provide independent recognition to top management of your professional status.

The Four Pillars of FERMA rimap® certification

FERMA rimap® certification is based on four pillars to ensure that the skills essential to risk managers are equally valued and can be equally employed. The premise is that knowledge should always be cross-checked against experience and ethics to ensure that the knowledge being applied is not theoretical in nature but fully applicable to the relevant situation. Continuous professional development (CPD) will guarantee that risk managers continue to learn and stay up to date with the latest trends through the many available risk management and insurance events.



The four pillars can be defined as follows:

- *Knowledge* – the overall and comprehensive knowledge base that risk managers should be familiar with in their professional careers.
- *Experience* – the measure of the significant experience that risk managers have obtained over the course of their careers.
- CPD – the common requirement for qualified professionals to ensure they continue to learn and develop throughout their careers.
- *Ethics* – the sound basis for a code that can be expanded and updated over the coming years.

Eligibility Criteria

Depending on the combination of education and experience, FERMA rimap® certification will be accessible to risk managers who fulfil the following criteria:

FERMA rimap® Certification

	Education	Experience
	Master	Min. 3 years
Level	Bachelor	Min. 5 years
	High school	Min. 5 years

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Chapter 2

Principles and Aims of Enterprise-Wide Risk Management

Introduction

The need to manage risk is increasingly featured in legislation and regulations. The need to integrate risk management into the general management practices of organisations is fast becoming a key organisational objective as shareholders, stakeholders and public interest groups become more interested in how organisations manage their risk exposures. In addition, the drive to improve corporate governance is compelling organisations to examine the manner in which they manage the risks facing them at strategic, tactical and operational levels.

To be most effective, risk management should become part of an organisation's culture. It should be embedded in the organisation's philosophy, practices and business processes rather than viewed or practised as a separate activity. When this is achieved, everyone in the organisation becomes involved in the management of risk (ISO 31000:2018).

The introduction of an enterprise-wide risk management framework is the most effective means available for organisations to support the principal objectives of informed risk taking, good corporate governance, compliance with increased regulation and an improved relationship with the organisation's stakeholder community.

Risk management is the foundation of the control environment (i.e. the environment in which an organisation's internal control procedures operate) and sound corporate governance, and affects all of the organisation's activities. For this reason, the implementation of an effective enterprise-wide risk management framework requires careful planning.

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This chapter describes the principles of risk and enterprise risk management (ERM) and the aims and benefits of effective ERM. It explores what risk is and its prevalence in daily life as well as the key factors that should be accounted for when creating a plan for responding to risks.

Learning Outcomes

By the end of this chapter, you should be able to:

- describe what risk is and what constitutes risk management;
- describe the aims of enterprise-wide risk management;
- understand the benefits that sound risk management can bring to organisations.

Risks in Daily Life

Whatever you do and however you do it, there are always elements of risk in your daily life that you need to manage, whether you're at home, at work or at play.

Examples of ways in which you take risks in your life may include:

- driving a car
- mowing the lawn
- developing a general project
- dealing with clients or colleagues
- establishing work priorities
- purchasing new equipment or systems.

Activity | Risk management in your life

Consider the following two scenarios then answer the following questions.

Mowing the lawn

1. Did you check for stones in the grass before you started to mow the lawn?
2. Did you wear solid shoes or boots, or were you barefoot?

Driving a car

1. How much care do you take when you drive a motor vehicle?
2. Why do you service your motor vehicle?

Enterprise Risk Management

Your answers to the questions in the previous activity may have highlighted that you seek to minimise the consequences of risks in your daily activities, whatever

they may be. With these consequences in mind (whether you're aware of them or not), you probably aim to effectively manage your risk exposures in life.

Like you in your everyday life, organisational stakeholders also aim to minimise the consequences of an organisation's activities in terms of the risks it is exposed to. The overall management of the risk that organisations accept to achieve their strategic objectives is known as enterprise-wide risk management.

All organisations are exposed to many risks, whether they be losses (such as damage to an asset or poor investment earnings) or failure to achieve a planned positive outcome (such as failing to break into a new market or execute a government policy effectively). Simply by conducting everyday business, an organisation is exposed to risk, but organisations must also take risks. Therefore, in some cases, risk-taking is deliberate and in others it cannot be avoided. It makes sense for organisations to manage all risks in a co-ordinated and planned manner. Risk management is a tool that enables an organisation to do this.

Risk Management

Risk management is a combination of organisational systems, processes and procedures that identify, assess, evaluate and mitigate risks in order to protect the organisation and its strategies and objectives. An effective risk management system plays a significant role in reducing exposure to potentially unfavourable events.

Within a corporate context, risk is managed through a range of formal and informal systems that are a reflection of the corporate culture, the type of industry in which they operate, and external factors such as jurisdictional laws and regulations, and the forces of competition.

Many organisations follow an ERM model, which is one that operates across an entire organisation.

The ERM model, as described within ISO 31000:2018, is the framework for managing risks that:

- Is iterative and assists organisations in setting strategy, achieving objectives and making informed decisions.
- Is part of governance and leadership and is fundamental to how the organisation is managed at all levels. It contributes to the improvement of management systems.
- Is part of all activities associated with an organisation and includes interaction with stakeholders.
- Considers the external and internal context of the organisation, including human behaviour and cultural factors.
- Is based on the principles, framework and process.

Risk Management Principles

ISO 31000:2018 specifies eight risk management principles that an organisation should address to effectively manage its risks and achieve its objectives.

The organisation's board and senior management need to consider these principles when establishing a mandate and commitment to manage risk. According

to these eight principles, in addition to preserving and creating value risk management should be:

1. Integrated
   Risk management is an integral part of all organisational activities.

2. Structured and comprehensive.
   A structured and comprehensive approach to risk management contributes to consistent and comparable results.

3. Customised
   The risk management framework and process are customized and proportionate to the organisation's external and internal context related to its objectives.

4. Inclusive
   Appropriate and timely involvement of stakeholders enables their knowledge, views and perceptions to be considered. This results in improved awareness and informed risk management.

5. Dynamic
   Risks can emerge, change or disappear as an organisation's external and internal context changes. Risk management anticipates, detects, acknowledges and responds to those changes and events in an appropriate and timely manner.

6. Best available information
   The inputs to risk management are based on historical and current information, as well as on future expectations. Risk management explicitly takes into account any limitations and uncertainties associated with such information and expectations. Information should be timely, clear and available to relevant stakeholders.

7. Human and cultural factors
   Human behaviour and culture significantly influence all aspects of risk management at each level and stage.

8. Continual improvement
   Risk management is continually improved through learning and experience.

   Source: ISO 31000:2018, pp. 3–4.

Risk Management Objectives

The principles outlined above provide guidance to organisations about what considerations need to be incorporated into organisations' planned responses to risk.

The common objectives of these principles, and risk management more broadly, are to:

- manage uncertainty (both upside, opportunity, and downside, threats);
- minimise waste and loss;