

THE ALS GROUP

Managing Risk to Influence Successful Outcomes

What Is Enterprise Risk Management? A Plain-English Guide for Owners and CFOs

Key Takeaways

- Enterprise risk management ("ERM") gives leadership one view of every risk the business faces, not just the ones an insurance policy covers.
- A working ERM program does four things: it finds the risks, puts a dollar value on them, decides what to do about each one, and keeps the list current.
- You don't need an in-house risk department. An outside ERM partner can run the program for you.

Most companies manage risk one silo at a time. Finance watches cash, operations watches safety, legal watches contracts, and the broker watches the insurance. Each piece makes sense on its own, but nobody sees how they connect. ERM closes that gap.

1. ERM looks at every risk, not just the insurable ones

Insurance covers a slice of what can go wrong. ERM looks at the whole picture:

- **Operational:** a key supplier fails, a project runs late, a system goes down
- **Financial:** rising insurance costs, lender requirements, cash flow strain
- **Strategic:** a new market, an acquisition, a shift in regulation
- **People and reputation:** losing a key leader, a public incident, a dispute with a partner

Some of these can be insured. Many can't. ERM makes sure leadership sees both.

2. ERM follows four steps

1. **Identify:** Interview leadership and managers, review contracts and loss history, and build one list of risks.
2. **Quantify:** Rank each risk by how likely it is and what it would cost. Simply put, put a number on it.
3. **Decide:** For each risk, choose to avoid it, reduce it, transfer it (through contracts or insurance) or accept it.
4. **Monitor:** Assign an owner to each risk and review the list on a set schedule, at least once a year.

3. ERM pays off in decisions, not paperwork

A risk register that sits in a drawer helps no one. Good ERM changes what leadership does:

- You buy insurance for the risks that matter and stop paying for coverage you don't need.
- You negotiate contracts knowing which risks you're taking on.
- You walk into a renewal, a board meeting or a lender review with answers, not guesses.

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4. The program should fit your company, not a textbook

Recognized frameworks such as COSO ERM and ISO 31000 give structure, and they're worth knowing. A mid-size company doesn't need a 200-page manual to use them. It needs a clear list, honest numbers and people who own the follow-through.

How ALS Helps

Our enterprise risk management services work like an "outsourced" risk management department. We identify and quantify your risks, define your risk appetite and tolerance, tie the findings to your contracts and insurance program, and give leadership a short, prioritized plan. Because we're fee-based and don't sell insurance, our advice is never tied to what you buy. We've been doing this since 1994.

There you have it: what ERM is, how it works and why it pays off.

Frequently Asked Questions

What is the difference between ERM and traditional risk management? Traditional risk management usually focuses on insurable risks, like property damage or liability claims. ERM looks at every risk that could affect the company's goals, including strategic, financial and operational risks that insurance won't touch.

How long does it take to set up an ERM program? A focused first pass, covering risk identification, ranking and a written plan, can often be done in a few months. The real value comes from keeping it current, so plan on regular reviews after that.

Is ERM only for large companies? No. Smaller and mid-size companies often benefit the most, because one uninsured loss or bad contract can hurt them more. The program just needs to be sized to the business.

What does an ERM consultant actually deliver? You get a prioritized list of your risks, a dollar estimate for the biggest ones, recommendations for each, and a simple way to track them going forward. A good consultant also connects the findings to your insurance program and contracts.

Can ERM lower our insurance costs? It can. When you know which risks matter most, you can adjust limits and deductibles, drop coverage that doesn't fit, and show carriers that your risks are managed, which helps at renewal.

If you need more information on any of the topics covered here, or are interested in a Risk Management Assessment ("RMA"), please contact our Managing Principal, Albert Sica, at asica@thealsgroup.com or at 732.395.4251.