



The Institute of Risk Management  
SOUTH AFRICA

April 2009

## LETTER FROM THE IRMSA PRESIDENT



**Reginald Haman**  
IRMSA President

I would like to wish you and your families well over the Holidays and hope that you will have travelled safely during this busy period.

One of the stated objectives of IRMSA, indeed with significant effort applied, is that IRMSA is a professional body for Enterprise Risk Management and that any other focus area should be seen as auxiliary to this core responsibility. After careful consideration the IRMSA Exco in consultation with the Publisher of Enterprise Risk Magazine, agreed that it no longer makes business sense to insist on a sole relationship between the two parties, as the magazine must also be commercially viable and deliver the Enterprise Risk Management message to risk professionals. It was agreed on a continuous relationship, but the Enterprise Risk magazine will not continue to be the official magazine of IRMSA. IRMSA as a result of this will not endorse the magazine and the IRMSA logo will not appear on the cover of

Enterprise Risk. The magazine will, however, carry a half page article which will cover IRMSA activities and events and will appear in the association pages.

IRMSA will continue to keep our members posted in our monthly Newsletter, so keep an eye out for it.

From the IRMSA Executive Committee, I look forward to seeing you at our IRMSA events and appeal to all non-members to join IRMSA and to become involved in our activities.

Yours in Risk  
*Reginald Haman*

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**Go to [www.irmsa.org.za](http://www.irmsa.org.za) for the details**

# Food for Thought

A friend recently sent me a couple of articles from the Harvard Business Review that really got me thinking. They were headed "The Risk Revolution" and dealt mainly with what has come out of the so-called "sub-prime" crisis. Not claiming to be a financial risk wiz I won't pretend to understand the intricate mechanisms that underlie the issue but it has lead me to question the fundamentals, not of risk itself, but of what we mean by *risk management* in the current environment.

We seem to have reached a stage where the business of deliberately creating and trading *unnecessary* risk, has come under the umbrella of risk management. This is perhaps better described as gambling and, whilst there are many risks associated with running such businesses that are properly the concern of the risk manager, I am starting to wonder how far the role should go. In the end, the saying that "risk management is just good management" might mean that it loses all definition.

You might want to think about that but, on the related subject of definition, we will soon be seeing the latest standard on risk management, ISO 31000. I have recently returned from the sixth meeting of the Risk Management Working Group, held in Singapore. It is quite amazing to have forty specialists, representing twenty countries and ten different languages, trying to agree the meanings of words which are still hotly debated even within one country and language. Nevertheless the Standard is in its final stage and should be published next October.

Details of the latest draft will soon be available but as a foretaste I thought you might appreciate the following passage from the New Zealand Society for Risk Management.

## What is Risk Management?

"Risk" is a commonly used word with a meaning that continues to evolve. The most recent Australian and New Zealand Standard on Risk Management (AS/NZS 4360: 2004) defines risk as "the chance of something happening that will have an impact on objectives". In the soon-to-be-released first international standard on risk management (which will be known as ISO 31000) this concept is expected to be further refined so that in future, risk will be defined as "the effect of uncertainty on objectives".

The central issue of both definitions is "objectives" - that is, the objectives of the individual or entity concerned. The change in definition shifts the emphasis from "the event" (something happens) to "the effect" which is the effect of the event on objectives. So, the "risk" isn't the chance of having a fire (for example) but the chance that value will be destroyed and or income flow disrupted (assuming preserving value and income flow was part of the objective).



From both definitions, it can be seen that risk is particular to the objectives of the individual, organisation (or even society at large) and that it arises because those objectives are pursued against an uncertain background. Although the individual or organisation controls their objectives, they cannot fully control or predict the background environment in which they operate and it is this, the background environment, overlaid on the particular objectives, which generates uncertainty and thus risk.

Because risk is directly linked to objectives, it is obvious that risk is not inherently "bad". Many objectives can only be achieved by being willing to accept at least some risk. If risk can be managed effectively, opportunities can be exploited. Risk is generated by every decision that is made by an individual, organisation or society - small wonder that it is beneficial for individuals, organisations and governments to become increasingly proficient at understanding risks and knowing whether, how and when to "treat" those risks in order to improve the chance of realising objectives.

Risk is best characterised by describing both the effects (referred to as "consequences") and the chance of experiencing those consequences (known as "likelihood"). The level of any particular risk can be expressed by combining the two considerations (i.e. the potential consequence in terms of the objectives, and the likelihood of those consequences being experienced). If the resulting level of risk is either too high or too low for the entity whose objectives are at risk, then the risk can be treated so as to adjust the size of the consequences and / or the likelihood of experiencing those consequences.

By managing risks - which is to say constantly understanding and then if appropriate treating the risks - an individual, organisation or society is more likely to achieve their objectives. The most common misconception about risk management is that its purpose is to avoid risk. In fact its purpose is to make success more likely. As one commentator put it, "effective risk management allows you to run faster".

### How "Objectives" Create Risks

#### Example 1 - Living in Wellington

Some people live in Wellington for positive reasons to do with work, lifestyle, climate or being close to the body politic, notwithstanding that about every 500 years or so, they and their city will be subjected to sudden and very high ground accelerations when the Wellington earthquake fault next ruptures as a result of the continual build up of strain through movement of the earth's tectonic plates beneath. The risk that their objectives in living in Wellington could be thwarted by death, injury and massive disruption to day to day life is lessened through building codes, resilient infrastructure, earthquake insurance and personal precautionary

#### Example 2 - Investing in commercial ventures

Other people invest money in commercial ventures with the objective of generating wealth. They do this knowing that this objective can only be achieved through operating in competitive and regulated environments, establishing and preserving a good reputation and by relying on expensive staff whose capabilities at the time of the decision to proceed, will be unknown as will, for example, future exchange rates, raw material costs and demand for the organisation's products or services. These risks of failure can be reduced by, for example, sound market analysis and strategic planning, good governance, careful staff selection, continual monitoring of the external environment and responding in an agile way to change – in short by understanding and controlling risk.

*With acknowledgements to Caretaker, the newsletter of Steve Winks & Co.*

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# UNISA - International Banking Conference 2009

**UNISA is proud to announce that the second International Banking Conference to be hosted 27-30 November 2009 on the luxurious Sinfonia Ocean liner\*\* departing from the Durban harbour, setting sail for international waters.  
Bon Voyage!**



## **THEME: RISK MANAGEMENT**

We welcome all risk managers, credit managers, portfolio managers, capital market specialists, chief underwriting officers, insurance managers, fund managers, ngo's, students, academics, hedge fund & institutional investors, representatives of the Central Bank, representation of the Institute of Bankers and representatives of public & private sectors on board!

*Registration ends July 2009*

For more information or sponsorship opportunities, visit the IBC website: [www.unisa.ac.za/ibc](http://www.unisa.ac.za/ibc) or contact us on (+27) (0)76 358 6526 or [ibc@unisa.ac.za](mailto:ibc@unisa.ac.za)

***\*\*IMPORTANT INFORMATION TO KEEP IN MIND: A VALID PASSPORT IS NECESSARY TO JOIN US ON THE CRUISE FROM DURBAN HARBOUR. ALSO BOOK YOUR FLIGHT WELL IN ADVANCE, AS SEATS ARE LIMITED ON FLIGHTS TO DURBAN (ESPECIALLY FROM OR TAMBO - JOHANNESBURG)!***

# Sponsorship and Advertising

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It is also appropriate to thank for all our sponsors for their support in sponsoring IRMSA in 2009. Great deal, guys – thank you.



The Institute of Risk Management  
SOUTH AFRICA

Postal Address:  
PostNet Suite 616  
Private Bag X 43  
Sunninghill  
2157

Physical Address:  
Ground Floor  
North Block  
The Crescent

Phone: 011 234 5898  
Fax: 086 647 6191  
E-mail: [admin@irmsa.org.za](mailto:admin@irmsa.org.za)  
Web: [www.irmsa.org.za](http://www.irmsa.org.za)

## ABOUT THE INSTITUTE

The Institute of Risk Management was formed through the amalgamation of The Society of Risk Managers (SRM) and The South African Risk and Insurance Manager Association (SARIMA) in September 2003.

Operating from permanent offices in Johannesburg with a full time staff, it is a registered non-profit organisation representing individuals and companies committed to the enhancement of the Risk Management discipline in its widest context - enterprise-wide.

Effective Risk Management integrated across the enterprise was not only mandated in the King II report on Corporate Governance but is the cornerstone to building a robust and successful business strategy, irrespective of the size of the organisation.

The Institute has embodied the essence of this principle in delivery of a range of services including:

- professional accreditation of individual members
- a forum for discussion of and interaction on current risk issues
- a credible platform enabling practitioners to speak on matters affecting the discipline
- research and project development
- education and training
- opportunities for networking and professional development through conferences, briefings and topic focused workshops