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*BILATERAL FORUM ANRA – SI.RISK*

# ***Enterprise Risk Management in the Telecom Italia Group***

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# ***Enterprise Risk Management in Telecom Italia***

- ▶ **Foreword**
- ▶ **What is ERM**
- ▶ **ERM Output**
- ▶ **The Interview**
- ▶ **Instruments for Risk Evaluation**

***Now in the midst of “Great Recession” many of us still have unanswered questions about how we arrived at our current state. The overall result is that a big magnifying lens has been put on Companies questioning about their governance. Most has been done in terms of establishing rules (SOX, 231, etc...) but mostly, the stakeholders started wondering if the Companies were well aware about their risks and how they were organized analyzing, measuring, treating them.***



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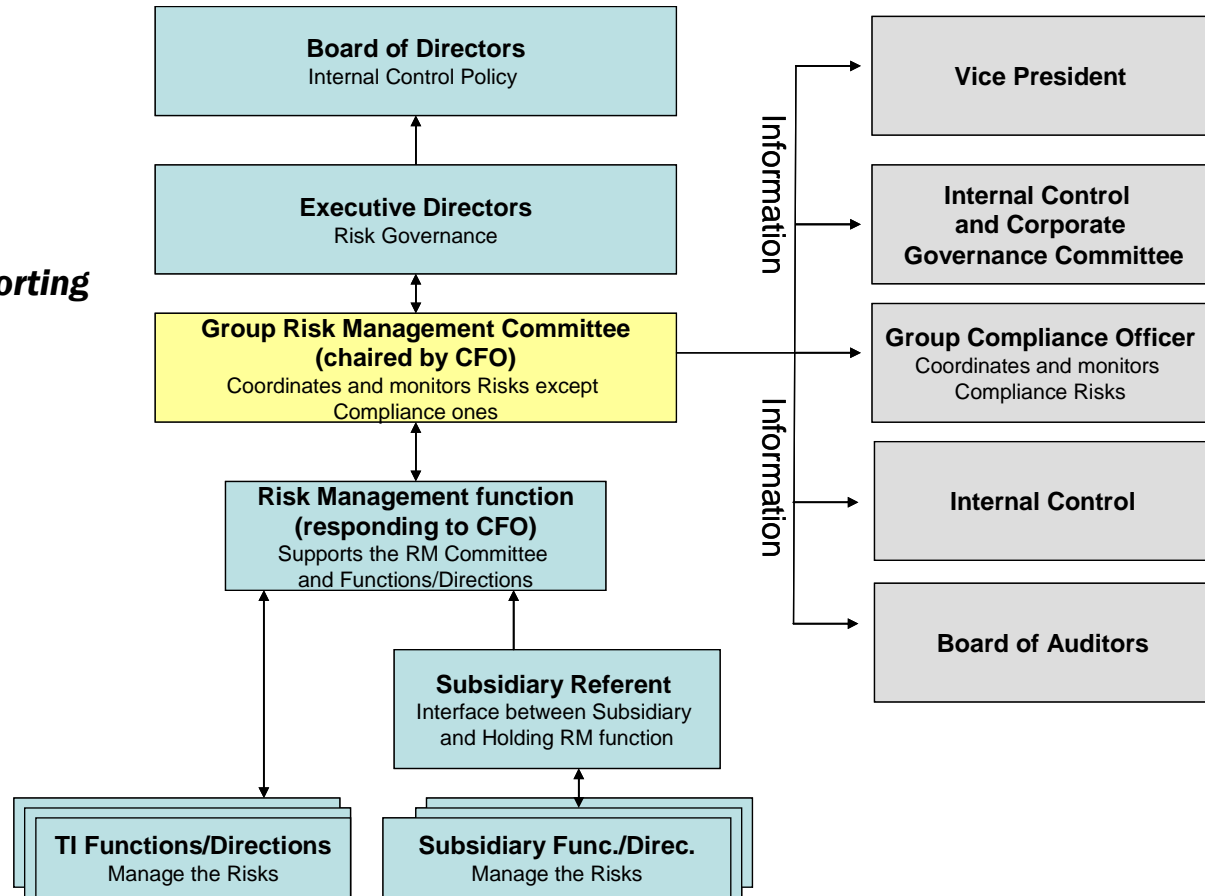
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## **ERM Definition**

- ▶ **Enterprise risk management (ERM) is the framework and process finalized to minimize the effects of risk on the strategic goals in the organization, with the consequential impact on capital and earnings.**
- ▶ **ERM Process is based on management's risk profile self-assessment, considering potential impact on strategic objectives in a perspective of internal processes's effectiveness.**
- ▶ **ERM allows:**
  - ▶ **To spread through the Company risk awareness and culture**
  - ▶ **To collect and to communicate in a common language to the CEO all the information concerning risks arising throughout the Company.**

# ERM Framework in Telecom Italia

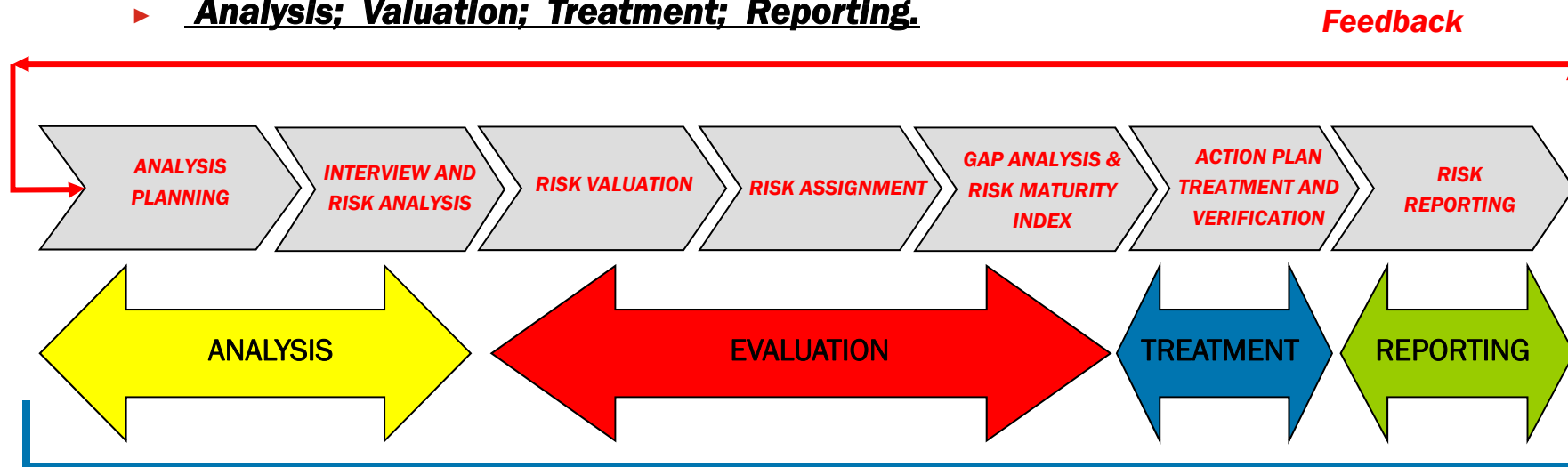
- ▶ **ERM Framework identifies and defines:**
- ▶ **Mission**
- ▶ **Risk Architecture:**
  - ▶ **Roles**
  - ▶ **Responsibilities**
  - ▶ **Communication/Risk Reporting**
- ▶ **Risk self-assessment**
  - ▶ **Risk Identification**
  - ▶ **Risk Valuation**
  - ▶ **Risk Target (To Be)**
- ▶ **Risk Protocols**
  - ▶ **Procedure**
  - ▶ **Guideline**



# ERM Process

The ERM process is a cycle made of four main phases:

- ▶ Analysis; Valuation; Treatment; Reporting.



The main activities of those phases can be summarised in:

- ▶ Risk mapping with the definition of Corporate Risk Profile (CRP)
- ▶ Focus on most relevant risks: identification of TOP risks
- ▶ Activities on TOP risks:
  - ▶ GAP Analysis
  - ▶ Action Plan presentation
- ▶ Reporting activity concerning the results obtained in the previous steps.



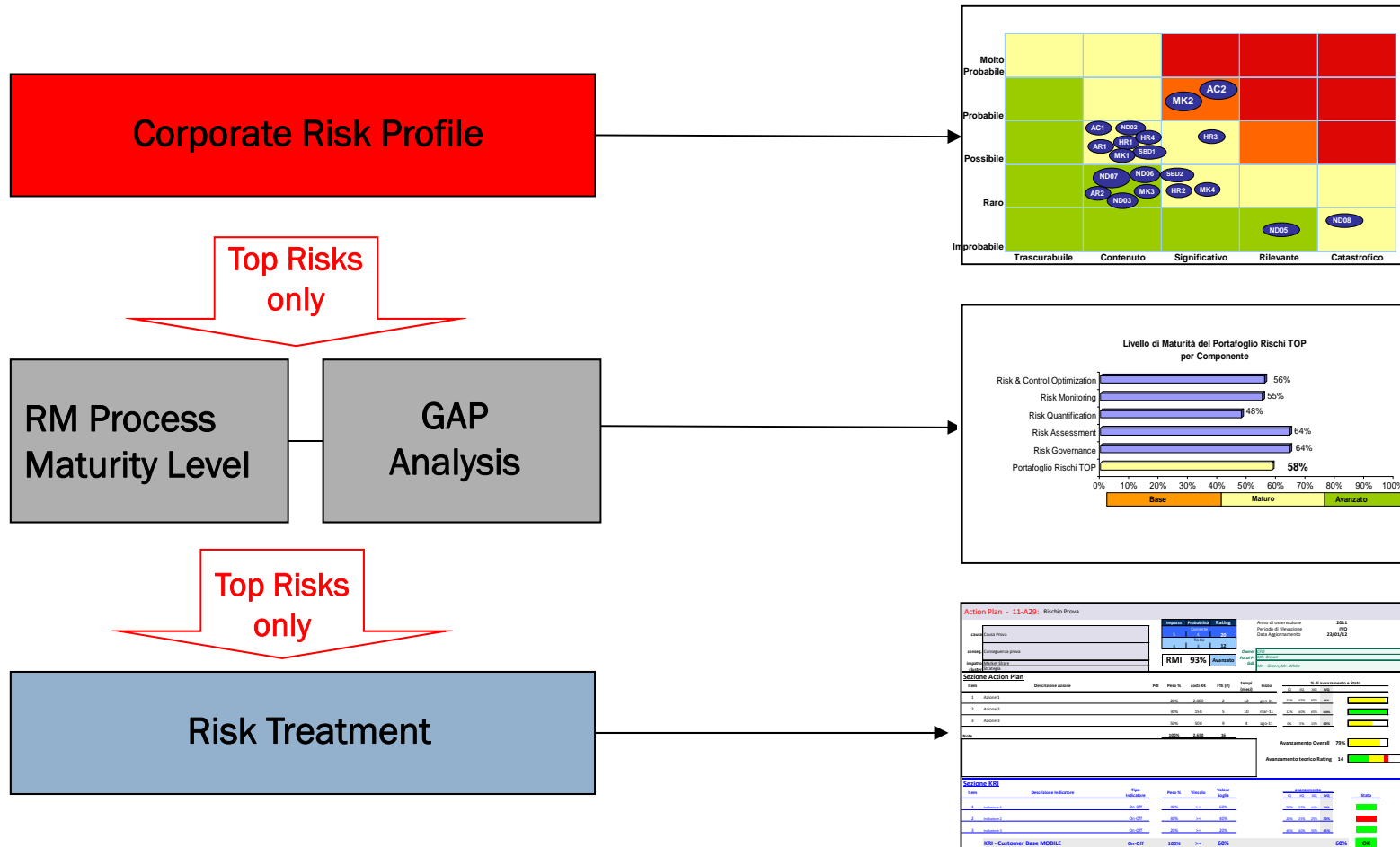
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# ERM OUTPUT

► ERM process allows to define:

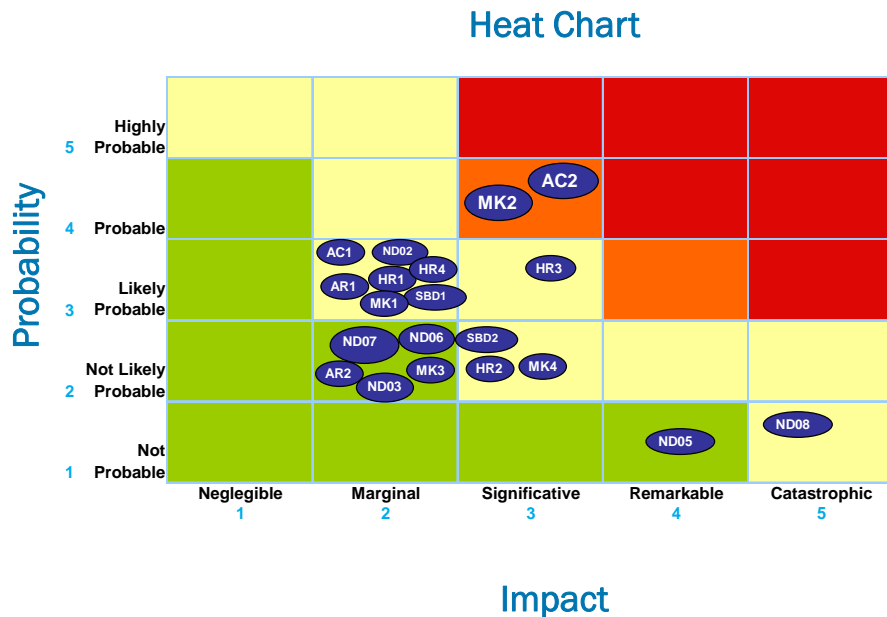


# ERM Corporate Risk Profile (CRP)

**The Corporate Risk Profile is the company risk portfolio; CRP identifies all risks by impact and probability.**

**The preparatory information necessary to obtain the Corporate risk profile is:**

- ▶ **Company's strategic objectives**
- ▶ **Company's process structure**
- ▶ **Instruments for Risk Valuations:**
  - ▶ **Parameters to measure Impact (see Annex 2 impact evaluation model)**
  - ▶ **Parameters to define probability of an event to occur (see Annex 3 probability evaluation model);**
  - ▶ **Source of risks (see Annex 1)**
- ▶ **A questionnaire to interview the management in order to get cause-risk-consequence descriptions, valuation and the indication of the risk owner for each risk.**



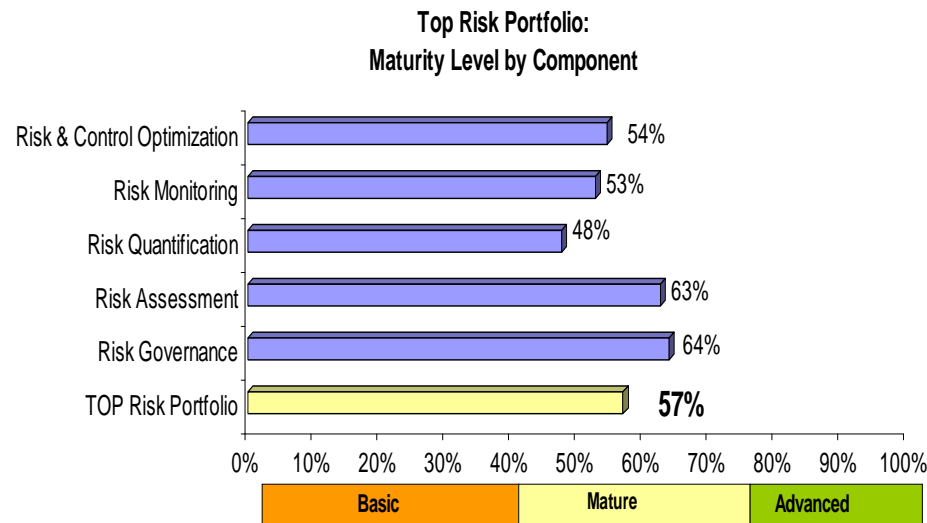
**For each risk detected by the management during the interview, a Risk Register is filled, with all the information about description and valuation.**

**The combination of all Risk Registers constitutes the Corporate Risk Profile. Among all risks attention is focused on most critical TOP Risks.**

## ERM Risk Process Maturity Level – GAP Analysis

**On Top Risks only, each Risk Owner is requested to self-assess the level of maturity of his risk management process, defining the Risk Maturity Index (RMI).**

**The RMI measures the gap with respect to a standard defined by international best practices and is the results of an elaboration (weighted average) based on the answers to questions on five main topics:**



- ▶ **Risk Governance**: evaluates the approach in defining roles and responsibilities in the process of risk management;
- ▶ **Risk Assessment**: evaluates the procedures of identification, classification and valuation of risk.
- ▶ **Risk Quantification & Aggregation**: evaluates the method of quantification and consolidation /aggregation of the company 's risks.
- ▶ **Risk Monitoring & Reporting**: evaluates the activities of monitoring, reporting and assurance.
- ▶ **Risk & Control Optimization**: evaluates how information on risks and on controls is used to improve performance.

# ERM Risk Treatment

**Risk Treatment identifies, for each TOP risk, the activities to select and implement in accordance with the objective of reducing the risks within the acceptable limit, testing its effectiveness compared to the expected results.**

Action Plan - 11-A29: Rischio Prova												
causa		Causa Prova		Impatto		Probabilità		Rating				
conseg.		Conseguenza prova		Corrente		4		20				
impatto cluster		Market Share		To Be		3		12				
RMI 93% Avanzato				Anno di osservazione 2011 Periodo di rilevazione IVQ Data Aggiornamento 23/01/12								
Owner: CFO				Focus P: Mr. Brown								
GdL: Mr. Green, Mr. White												
Sezione Action Plan												
Item	Descrizione Azione	Pdi	Peso %	costi KE	FTE (n)	tempi (mesi)	Inizio	% di avanzamento e Stato				
1	Azione 1		20%	2.000	2	12	gen-11	15%	45%	65%	95%	
2	Azione 2		30%	150	5	10	mar-11	12%	40%	65%	100%	
3	Azione 3		50%	500	9	4	ago-11	0%	5%	15%	60%	
Note		100%	2.650	16	Avanzamento Overall 79%							
						Avanzamento teorico Rating 14						
Sezione KRI												
Item	Descrizione Indicatore	Tipo Indicatore	Peso %	Vincolo	Valore Soglia	avanzamento			Stato			
1	Indicatore 1	On-Off	40%	>=	60%	50%	55%	60%	70%			
2	Indicatore 2	On-Off	40%	>=	40%	20%	25%	35%	30%			
3	Indicatore 3	On-Off	20%	>=	20%	40%	40%	50%	45%			
KRI - Customer Base MOBILE		On-Off	100%	>=	60%	60%				OK		

The steps to implement the Action Plan on a Top Risk are:

- ▶ Define of the “Rating to be”: the expected results of the mitigation actions;
- ▶ Organize the team work
- ▶ Define the action necessary to mitigate the risk
- ▶ Define the weight of each action
- ▶ Define the deadline for each action
- ▶ Define the Key Risk Indicators (KRI) to monitor the risk level
- ▶ On each quarter the risk owner updates the results of the action plan, giving the percentage of implementation for each action and the KRI.



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## **The phase of the interview: Interviewer & Objective**

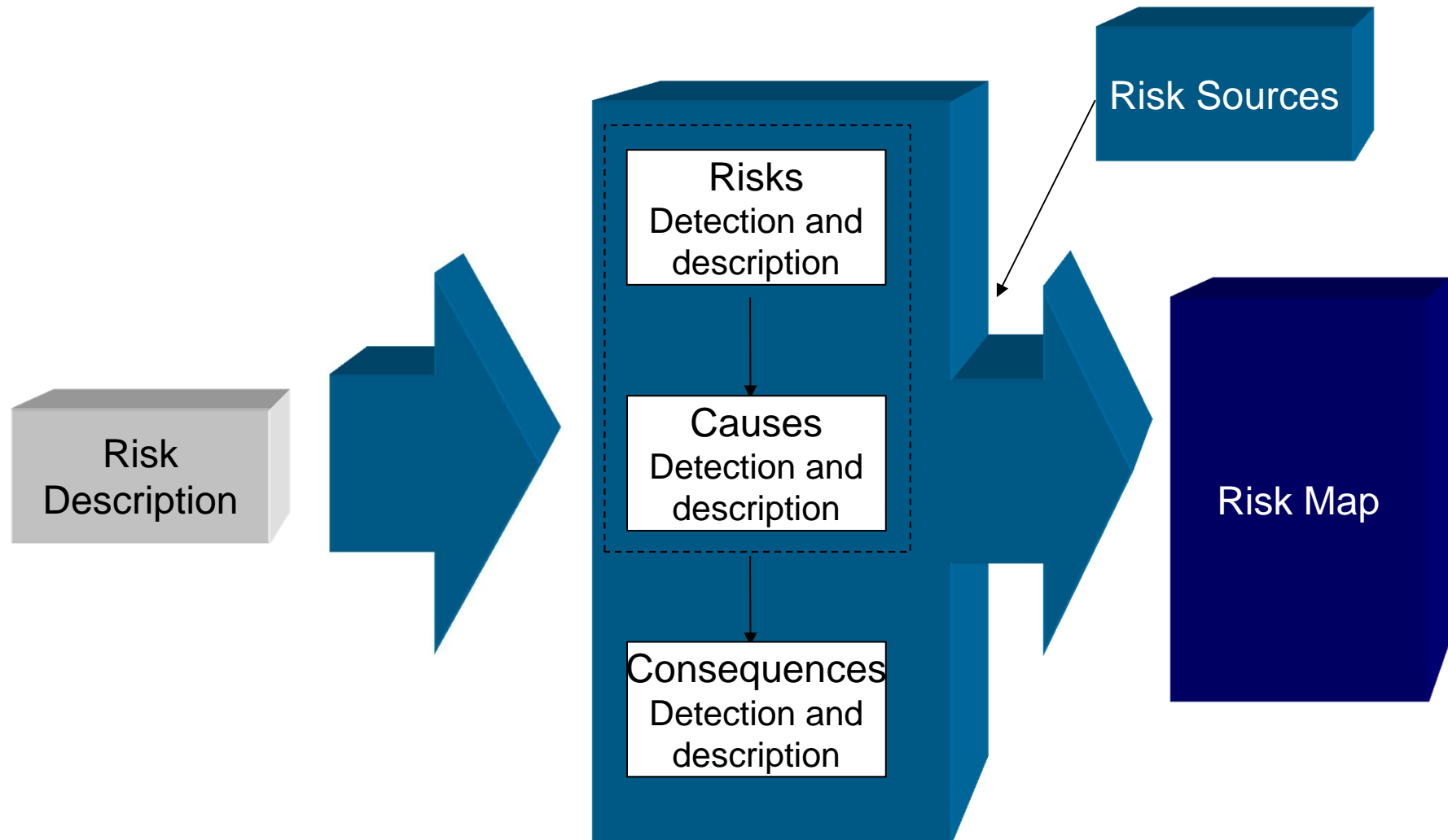
### **The Interviewer**

The Interview is led by the components of the AFC Department as methodological support.

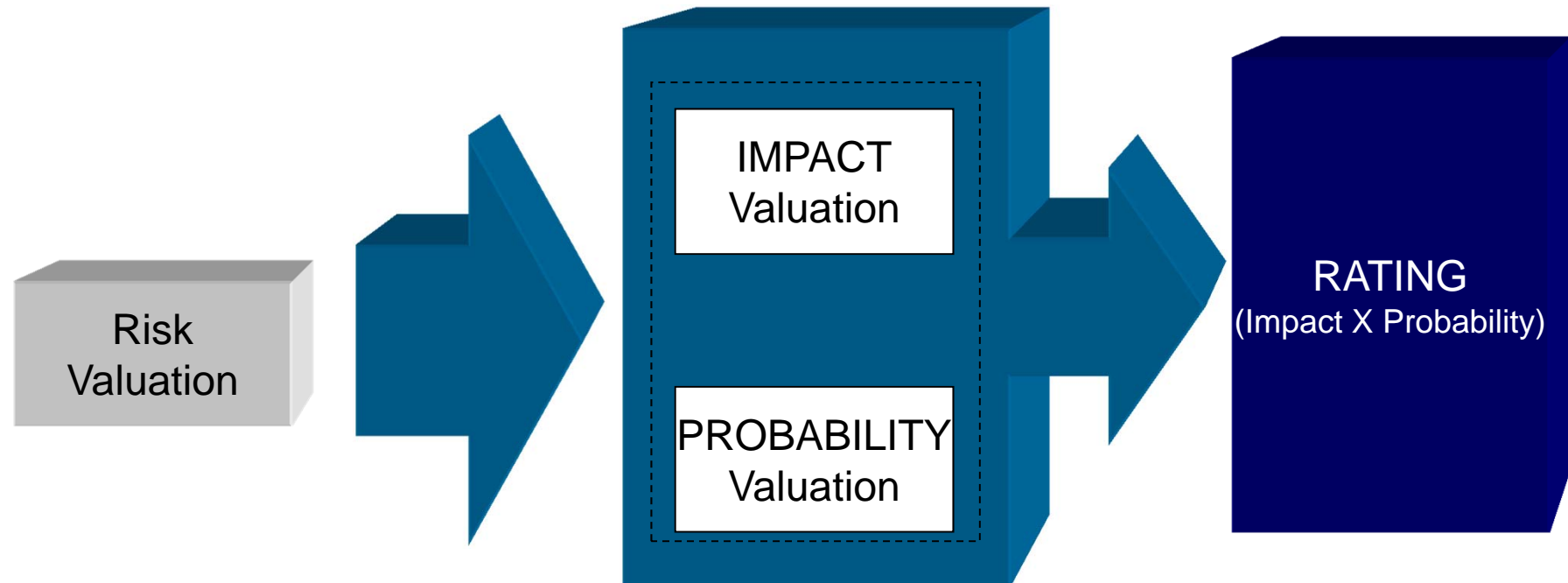
### **Interview Objective**

The objective of the interview is to identify and value those risks that potentially can prevent the interviewed process owner from achieving the assigned objectives. The overall Risks detected throughout the Company constitutes the Corporate Risk Profile

# Risk Identification



## Risk Valuation



*Each Risk Detected has to be valued.*

Risk measure represents a judge given by the person interviewed and it is worked out as the combination between:

The **Probability** that the Event occurs: minimum 1 (Not Probable) max 5 (Highly Probable);

The **Impact**: that the Event could generate: minimum 1 (Negligible) max 5 (Catastrophic).





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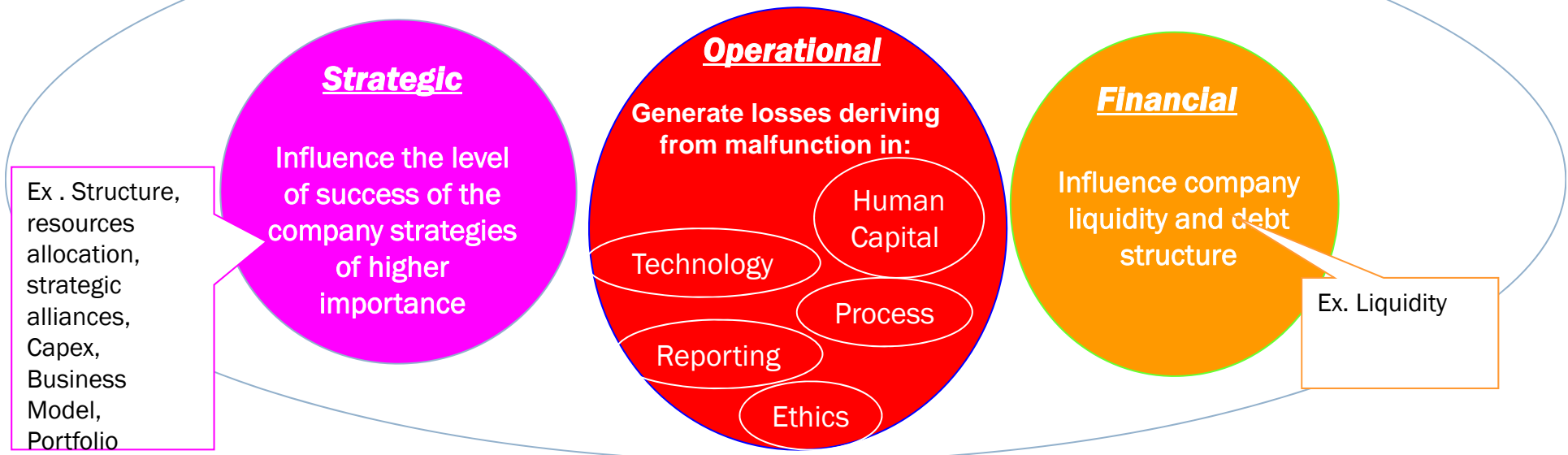
## Instruments for Risk Evaluation: sources of risk

The Source of Risk is the element that alone or in combination with others, has the intrinsic potential to originate risks (ISO 31000)

### External Sources of Risks

Competitor, Customer Requirements, Macroeconomics, Financial Markets, Industry, Questions of Law, Natural Disaster, Public Relations, Normative, Social Political, Technological Innovations, Terrorism, Electromagnetic Fields

### Internal Sources of Risks.



## Instruments for Risk Evaluation: Impact Evaluation Modeling

		CATEGORY				
		NEGLIGIBLE	MARGINAL	SIGNIFICATIVE	REMARKABLE	CATASTROPHIC
CATEGORY DESCRIPTION		Insignificant impact on the organization. The impact can be absorbed through the ordinary activities.	Only impact within the organization. The impact can be absorbed, but requires an effort from management to minimize it.	Significant impact on business. Could hit customers. The impact is worrying and requires additional effort from management.	Cosiderable impact on business. Substantial damage on the ability to serve the customer. The impact is critical and requires extra effort from management.	Probably the company could not survive. The impact is disastrous and could lead to potential collapse.
<b>PAR.</b>	EBITDA - CAPEX					
	Market Share (Fixed & BB market)					
	Market Share (Mobile Market)					
	Customer Satisfaction Index (CSI)					
	Service Interruption for large-scale					
	Security Sitemas					
	Regulatory & Compliance					
	Image/Reputation					
	Human resources					
	Health & Safety					

## Instruments for Risk Evaluation: Probability Evaluation Modeling

Categories	Factors
<b>Highly Probable</b>	<ul style="list-style-type: none"> <li>▶ &gt;75% likelihood, or</li> <li>▶ the event occurred in the recent months, or</li> <li>▶ the event is likely to happen in the following months</li> </ul>
<b>Probable</b>	<ul style="list-style-type: none"> <li>▶ &lt;75% likelihood, or</li> <li>▶ the event occurred in the last 12 months, or</li> <li>▶ the event is likely to happen in the next 12 months</li> </ul>
<b>Likely Probable</b>	<ul style="list-style-type: none"> <li>▶ &lt;50% likelihood or</li> <li>▶ the event occurred in the past 3 years, or</li> <li>▶ the event is likely to happen in the next 3 years</li> </ul>
<b>Not likely Probable</b>	<ul style="list-style-type: none"> <li>▶ &lt;25% likelihood, or</li> <li>▶ the event occurred in the past 5 years , or</li> <li>▶ the event is likely to happen in the next 5 years</li> </ul>
<b>Not Probable</b>	<ul style="list-style-type: none"> <li>▶ &lt;1% likelihood, or</li> <li>▶ the event never occurred in the past or it occurred once in 10 years, or</li> <li>▶ the event is not likely to happen in the future</li> </ul>