

Insights

Measuring Risk Mitigation Strategies' Effectiveness Begins with Assessing Risk

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Discover why UMass has transitioned to assessing its inherent risk exposure.

Making Sure Your ERM Program is Serving Its Intended Purpose

Enterprise risk management (ERM) establishes processes to identify, assess, mitigate, and monitor risks across an organization. While each component of an ERM program is essential, the ultimate goal of an ERM program is to reduce an organization's exposure to risk. If the organization is aware of risks and their impacts, but unaware of how successful the organization is at reducing risk exposure, the ERM program is not serving its intended purpose.

Many ERM programs, however, are challenged in progressing beyond the risk identification and assessment phase of an ERM program cycle, often finding the organization in the position of habitually assessing risk and updating risk registries. Additionally, organizations may conflate the assessment of risk and the assessment of risk mitigation in the risk identification and assessment phase of its ERM program cycle, i.e., some risk stakeholders may contemplate ongoing mitigation strategies when contemplating risk exposure, and other stakeholders may assess risks without accounting for mitigation strategies. This inconsistency can skew an organization's true understanding of its risk exposure.

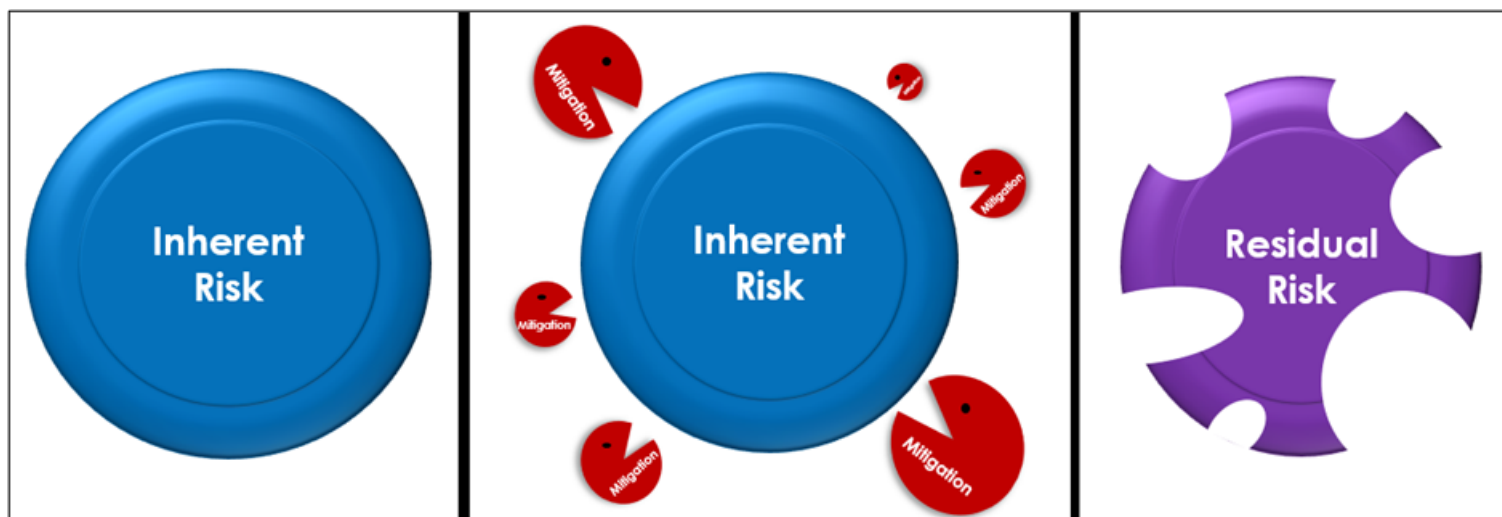
Determining an Organization's Risk Tolerance

A comingled risk assessment and mitigation assessment may also lead organizations to make decisions about risk acceptance, avoidance, transfer, or reduction by assuming the risk assessment provides a comprehensive understanding of risk exposure and the impact of risk mitigation strategies without having methodically assessed the effectiveness of mitigation on reducing the organization's risk exposure. A dedicated accounting of mitigation strategies layered with knowledge of the effectiveness of those mitigation strategies are integral to an organization's determination of risk tolerance.

The New Focus: Inherent Exposure of Risks

The University of Massachusetts (UMass) has transitioned to assessing the inherent exposure of risks to which the UMass system is vulnerable as an institution of higher education and evaluating our innate exposure to risk exclusive of any risk treatment. This means that during our risk assessment process, we intentionally do not account for mitigation strategies being implemented to reduce our risk exposure. This approach to risk assessment allows us to gauge our fundamental risk exposure using established risk assessment tools and prevents us from inconsistently balancing the effectiveness of mitigation strategies against risk exposure; rather, we create a baseline (which we have designated as a risk's Inherent Risk Score) against which we can measure our progress in reducing risk exposure.

By assessing inherent risk, UMass can conduct a separate but correlated assessment of mitigation strategies. The dedicated mitigation assessment process increases transparency by documenting all ongoing risk mitigation strategies and sets the stage for informed risk tolerance discussions by providing a detailed evaluation of the effectiveness of these strategies in reducing risk exposure.



The mitigation assessment process does not define whether the university is satisfied with the residual risk but informs leadership as they make determinations about accepting risk, further reducing risk, transferring residual risk, or altering activities to avoid risk. In addition, the mitigation assessment may assist in identifying opportunities that risk presents by providing a comprehensive perspective of the university's risk-related activities.

Methodology for Assessing Mitigation Strategies

Leveraging the concepts of our risk assessment process, the UMass ERM program created a mitigation assessment methodology that enables the university to document all ongoing risk mitigation strategies and evaluate their effectiveness through three different lenses:

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| Conduct this Assessment... | | To Generate... |
|----------------------------|---|--------------------------------|
| 1 | Measure the effectiveness of an individual mitigation strategy on risk exposure | Individual Effectiveness Score |
| 2 | Compare the effectiveness of multiple mitigation strategies on risk exposure | Mitigation Strategy Rank |
| 3 | Measure the aggregate effectiveness of all risk mitigation strategies on risk exposure | Residual Risk Score |

The three assessments are completed through one evaluation process using a newly developed mitigation assessment tool. Assessments are correlated to, but not a replacement of, the risk assessment process and the Inherent Risk Score.

The university is presently rolling out the mitigation assessment program systemwide.

Want to Learn More?

Attend article authors Christine Packard and Olivia Watson at URMIA's 2022 Annual Conference in September for their breakout session where they will provide more detail on the mitigation assessment tool and its rollout.



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