

Global Risk Management Day

by Copenhagen Compliance*

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How to quantify risks to calculate reserves for contingencies

By Jesper Lyng Jensen

Presentation outline

Setting the stage for quantification of risk

Working with reserves

Risk financing cost

About Jesper Lyng Jensen

Quantification is not often used

- Maybe we need to integrate with Finance more...
- Risk = probability * consequences

... and other management disciplines such as Quality Management...

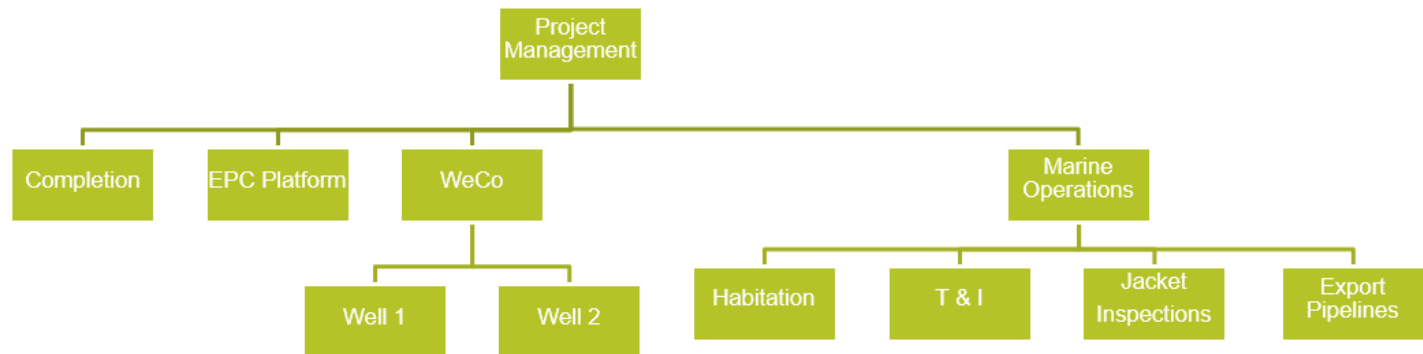
Making risk management speaking to the reserves

- It makes sense to let risk speak to capital reserves
 - It gives a measure of risk and assign a cost of risk
 - It aligns Risk Management with financial planning
 - It requires the risk management process to be structured
- Risk management keeps track of reserves



Structuring a risk management effort

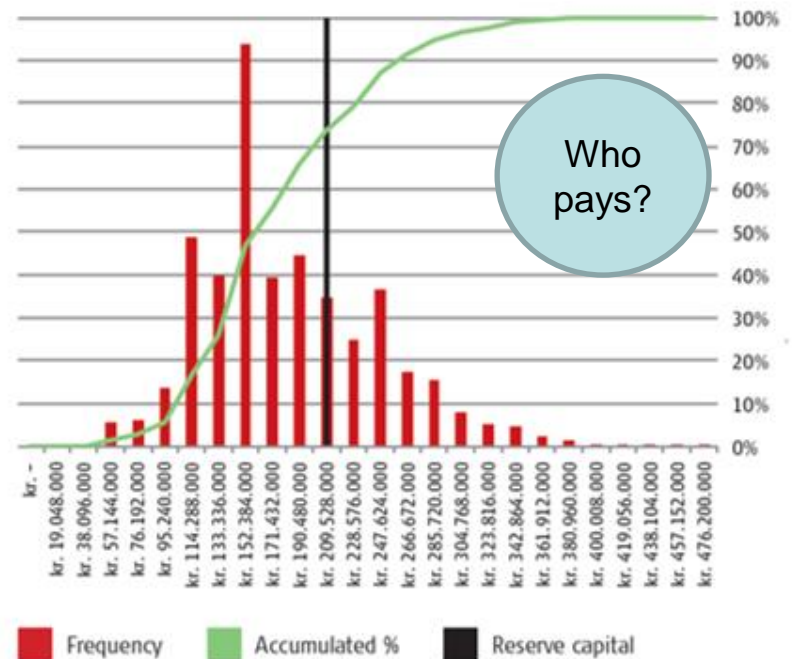
- It should follow the budget structure
 - Sub-projects, projects and portfolio levels
 - Process, section, department, division, country and corporate levels
- Each structure can only manage risks according to their mandate
- Experts must be consulted on all risks
- Risks can be transferred to other structures



Quantification is (still) simple

- In a structured risk management effort where risk speaks to reserves quantification and simulation has a unique value
- Risk simulation has value to finance people and to decision makers
- Saves many resources internally and add value to the resources invested in RM
- It allows a company to start looking at risk financing cost

Monte Carlo simulation – costs: Copenhagen University Hospital



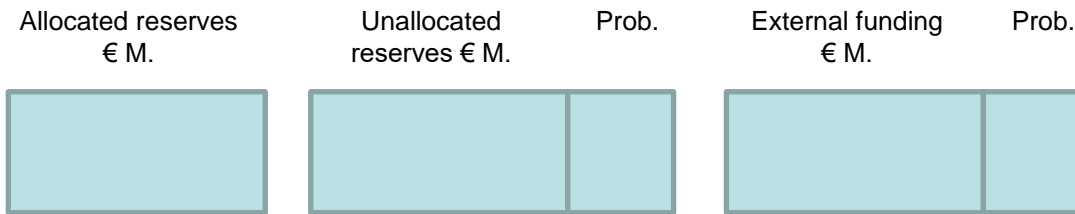
Risk financing cost

- The cost of procuring the capital needed for risk cost
- At corporate or aggregate level

A simple question: Where will the money come from?

- If the answer is **internal funding** you have an unknown financing cost in your organisation

Template for assessing risk financing cost



Identified project savings
€ M.

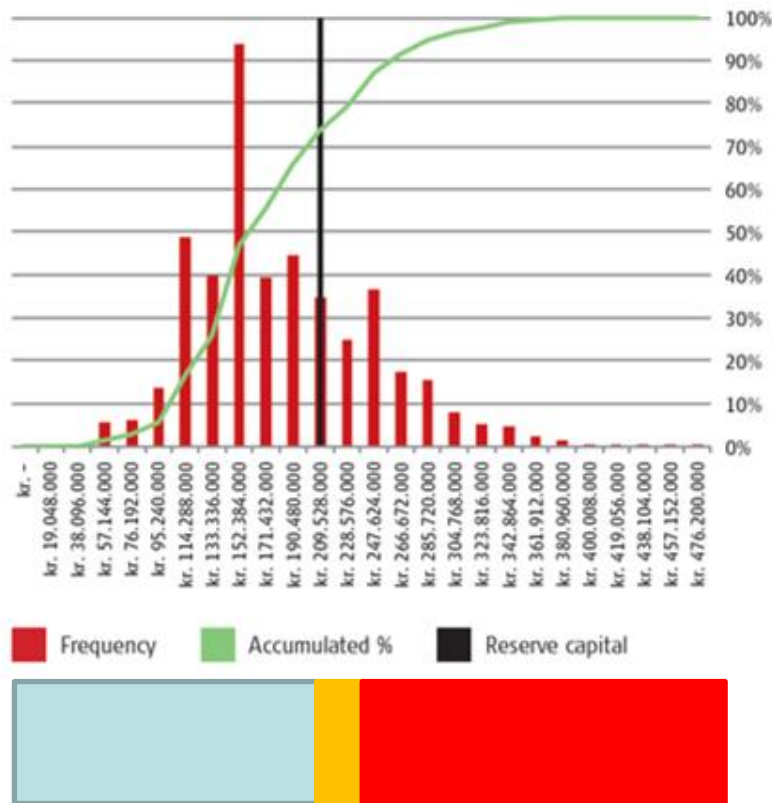


Internal fundingsaving
€ M.



Visualisation

Monte Carlo simulation – costs: Copenhagen University Hospital



Summary and questions

Request for efficiency and return in investment in Risk Management should drive RM to align with Financial Management

You need a structured Risk management effort and to make Risk Management speak to reserves

Benefits:

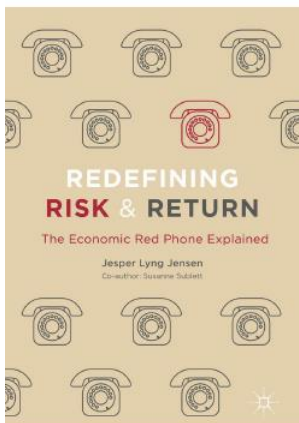
- Improved precision in risk work (risk descriptions)
- Finance can use your data
- Decision makers easily understand how your data is used in the decision process
- Risk has a price at corporate level, by increasing the need for reserves
 - Risk is no longer free
- Value destruction by internal risk financing is made apparent and can be managed

About Jesper Lyng Jensen



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Public Institutions

Pharmaceutical Industry

Risk Researcher

Peer-reviewed paper

Book in Danish and English



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<https://ipteams.dk/home/eksperter-ondemand>



[Risk Management](#)

April 2012, Volume 14, Issue 2, pp 152-175 | [Cite as](#)

Risk, resources and structures: Experimental evidence of a new cost of risk component – The structural risk component and implications for enterprise risk management

RISK SIM V9

Monte Carlo Simulation of Risk

Select
Project or portfolio

Monte Carlo
Project

Monte Carlo
Portfolio