

ERM VIDEO INSIGHTS

Transcript of Bonnie Hancock and Fred Stuckel *Identifying and Evaluating Emerging Risks*

Bonnie Hancock: Hi, I'm Bonnie Hancock, the Executive Director of the Enterprise Risk Management Initiative at North Carolina State University. And today I have here with me Fred Stuckel of Express Scripts, where he is Vice President of enterprise risk management and audit. The topic that we want to cover today is emerging risks. And so I think a logical place to start, Fred, might be to have you describe for us how you define emerging risk.

Fred Stuckel: So we would define emerging risk, at Express Scripts, a risk that we haven't really contemplated, thought about, and it seems to be arising out of the industry or out of the world, that we are starting to see that could negatively impact us. That we start to see it, we notice something is changing, something's moving, and then we begin to contemplate the impact to us.

Bonnie Hancock: Okay, well I'll pick up on that first part where you said it's something that we haven't thought about. And so, a logical question then, is how do you think about it? What techniques do you use to try to identify some of those risks?

Fred Stuckel: So we spend a lot of time on the internet and on social media. I peruse through international newspapers that are converted from foreign language to English, to get different perspectives of what the impact of any kind of change might be to the United States or to the global market. Since we are a global market now, we source a lot of our products internationally, so how does whatever event that's occurring impact our business.

Bonnie Hancock: Okay, how do you engage other members of management in that identification process?

Fred Stuckel: So through the process if I identify it, or my risk owners, that I have, I have 23 vice presidents that work with me very closely. As they start to see these risks, we will start socializing the ideas, there are no bad ideas, everything's a good idea. And then we just try to determine whether or not the risk is low to the company or if the risk is higher to the company. If the risk is higher to the company, then we have to pay more attention to it and socialize the risk greater.

Bonnie Hancock: Okay, so let's say you've identified a few things that are of higher risk, or higher potential impact for the company. How do you go about then monitoring those risks?

Fred Stuckel: So then there would be, the risk owners, we'll assign a risk owner, the risk owner will then be responsible for tracking and working closely with me, we will work together, to determine what the risk is and how its progressing. Whether or not we have to have playbooks put into place, so that we can react to a risk if it was to start manifesting itself in such a way, to

impact Express Scripts. And we can pull that playbook off the shelf and we can begin implementing processes immediately to defend the company.

Bonnie Hancock: Okay, I got to tell you, “playbook” is not a term that I’ve heard in the enterprise risk management space before, so maybe you could just take a little side line and describe that for us.

Fred Stuckel: Sure, so we define a playbook, as basically a set of plans that we would use in the event of an occurrence. That we are not caught off guard, sitting there saying “Oh no, now what do we do?” Right. So if something is to occur the risk owner, has, basically, documented procedures that they would pull off and say here’s what we are going to do right now and this is how we are going to try and avoid this risk.

Bonnie Hancock: Okay, so Fred, could you give me an example of an emerging risk that you’re dealing with now and how you’re monitoring it?

Fred Stuckel: Sure. We keep monitoring right now the ever-changing political environment globally. There seems to be a lot of movement and sometimes anti-American sentiment, that in certain countries could negatively impact, possibly, our supply chain. So we’re constantly monitoring that activity to determine whether or not it could have a negative impact on us, possibly even the credit markets, how that might be for us to be able to obtain credit. So we’re just constantly watching those types of environments to assess how it might impact Express Scripts.

Bonnie Hancock: Okay, that’s a really helpful example. So when you’re thinking about some of these emerging risks, what sort of time horizon are you looking out on? Something that you think will happen in the next year or two or is it a more long range thing?

Fred Stuckel: Great question. We look at 1-3 years, and then I do look three years out. So we do try to decide if there’s any kind of specific risk that may exist out there. We may look at it and say, “this one looks like it’s emerging very, very quickly; the velocity is changing very fast.” And we would mark that as a relatively close risk: 1-3 years. If it looks like a risk that is slowly but surely manifesting itself, we’ll put it on the back burner, but we’ll always monitor it.

Bonnie Hancock: Okay, if you’re talking to a group of risk professionals, and are willing to give them some advice about processes around emerging risks, any sort of pitfalls you’d tell them to try to avoid?

Fred Stuckel: There is no bad idea. Every risk is a real risk. It can manifest itself. We try to focus on the unknown, unknown risks at Express Scripts, looking for those things that we just never contemplated. It seems that those are the ones that have the most negative impact to a corporation, you just didn’t see it coming. Don’t dismiss ideas. Any idea, it could happen, and so you just have to have the willingness to accept the idea and then say, okay let’s talk about it.

Bonnie Hancock: Okay, yeah great advice. We see a lot of times people want to dismiss the negative or not dwell on it, that person has a weird idea out there, let's sort of put him in a corner. But listen to those things, it may give you some insights you wouldn't have otherwise seen.

Fred Stuckel: Or the risk itself may evolve because it may be the risk they perceived but then it could affect something else.

Bonnie Hancock: Great advice, thank you so much Fred for spending the time with us on emerging risks.

Fred Stuckel: Glad to do it, thanks.