

# MODELLING RISKS- LIMITATIONS ANF CHALLENGES

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## The abstract

### Contribution

In today's jungle of available risk assessment tools and models, the risk manager may choose a model without due consideration to its limitations. In the prevailing financial environment, the Board of Directors holds the ultimate responsibility of Enterprise Risk Management system. The Board approves the risk management policy, set the acceptance levels for risk appetite and receive periodic reports to be able to oversee the effectiveness of risk management. However, an analysis of the shortcomings of the actual model in use is seldom presented to the Board.

The purpose of this paper is to contribute to risk managers' understanding of the limitations of various tools/ models and to the challenges these limitations may represent. Academic literature and the author's own experiences as risk manager/ consultant consist the background of the paper.

### Background

ISO 31000 standard provides principles and guidelines on risk management. Many public and private companies use these guidelines for the assessment and the treatment of risks. ISO 31000 does not introduce a *unique* risk assessment model. The standard advocates that the organization should apply risk identification tools and techniques that are suited to its objectives and capabilities, and to the risks faced. According to the standard, risk analysis can be qualitative, semi-quantitative or quantitative or a combination of these, depending on the circumstances.

ISO/IEC 31010, Risk Assessment Techniques is a supporting standard for ISO31000. The standard provides general guidelines for selection of techniques. The document introduces 31 different techniques.

COSO 2013 Internal Control- Integrated framework defines risk as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves the process for identifying the likelihood and impact of risks to the achievement of objectives. The integrated framework does not define a *unique tool* which may be employed under the assessment process.

The risk manager has the opportunity of choosing between many alternative tools and models for risk assessment. However, he/she also faces the risk of ignoring the limitations and challenges. Information about limitations and challenges may be useful for these decisions.

**Keywords:** risk models, risk tools, risk matrix, loss expectancy, correlation matrix, ISO 31000, ISO/IEC 31010