

Risk Management: Across the Port Enterprise

Mitigating Cost; Optimizing Opportunity

Understanding Risk—Central to Business Planning and Operations

- RM as a concept is not new; as a concept it is an essential component of the strategic planning process --SWOT
- Emerging approach—link and integrate systematic RM into business strategy and operations
- S&P 2008—ERM as a rating factor
 - RM culture
 - Strategic RM
- Private sector surveys show growth in ERM implementation
 - Gap remains—aligning RM across line operational functions

What is ERM?

- What it is NOT:
 - Not a uniform, one-size-fits-all solution
 - Not a black box of mysterious algorithms
 - Not a PROJECT, with a beginning and end
- What it is: Underpinning of a well thought out and feasible business plan, leading to embedded, transparent management processes

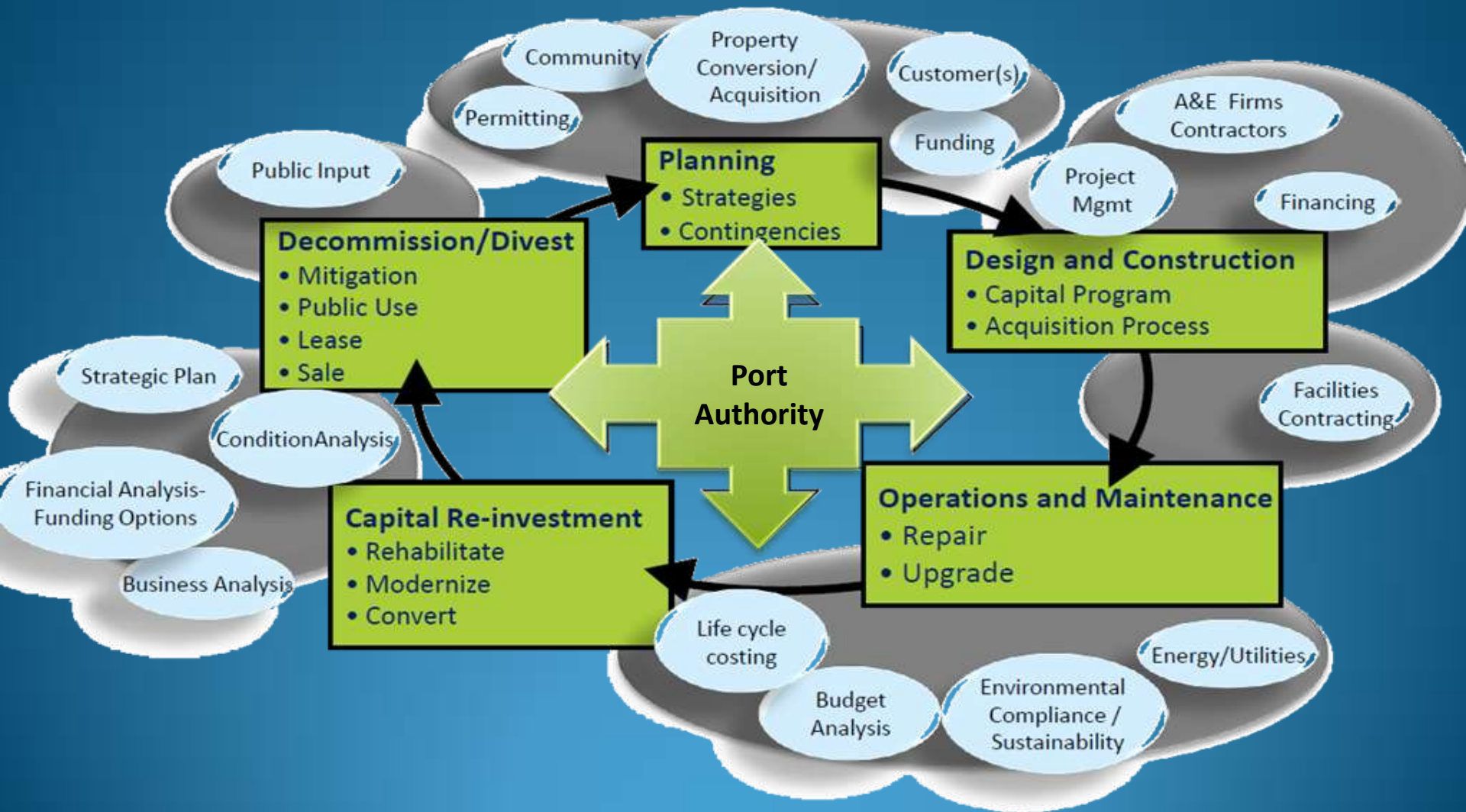
Opportunity to apply ERM for improved management of port assets

- Port Infrastructure Moves Into (Beyond) Middle Age
- Investment Capital More Difficult to Source
- Pressures continue for ever more efficient operations
- New demands for sustainable development and operations, security, non port related public amenities
- Inadequate inventory and condition assessment
- Current maintenance practices, e.g., “run to failure”, result in higher costs and longer down times
- Retirements and the loss of “institutional knowledge”

Leads to Strategic Assessment Management

“Systematic and integrated business practices in which owners **optimally manage their built and natural assets** by monitoring performance, risk and cost in alignment with the organization’s mission and integrated with the varying levels of service requirements **over the life cycle of the asset.**”

Infrastructure Decision Life Cycle



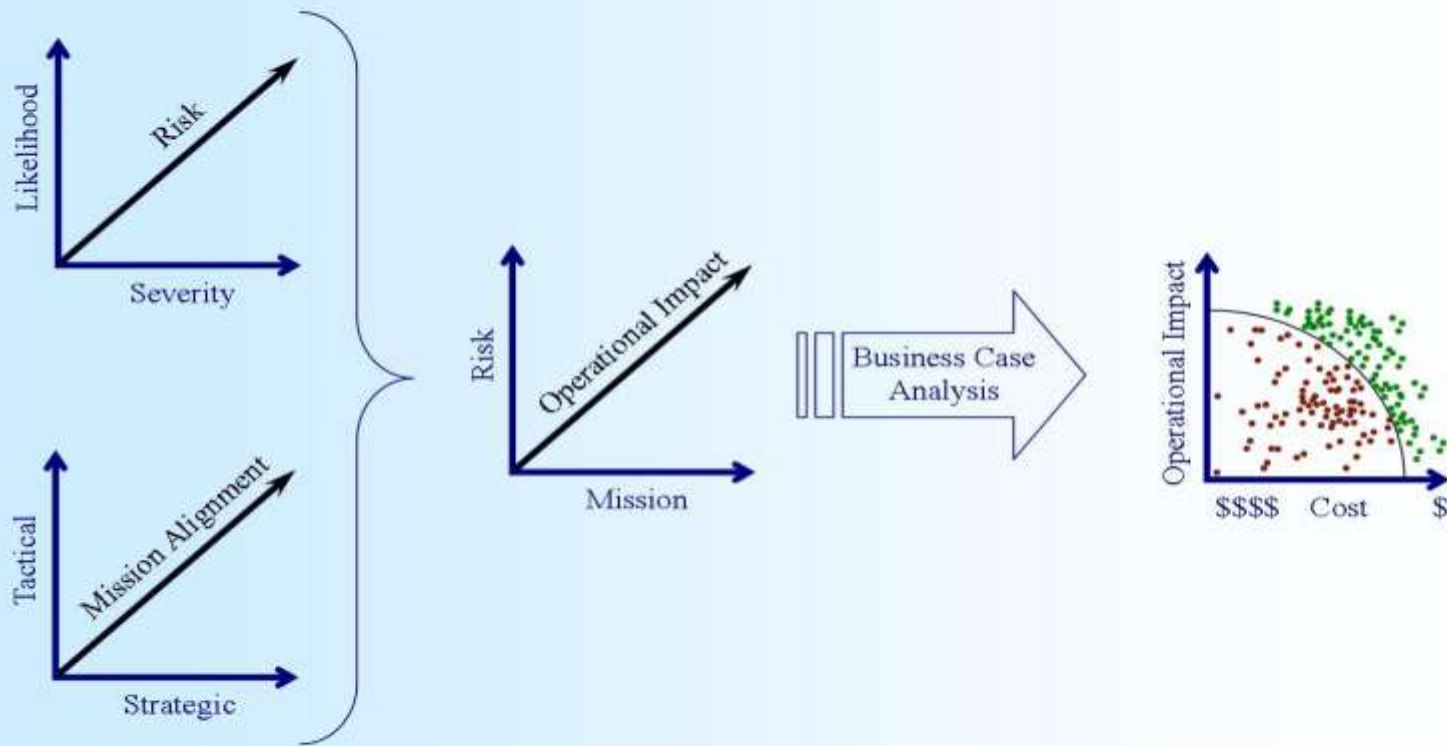
AM/ERM Interface

Asset management fulfills an important but *limited* role in strategic port management if it is *not* accompanied by a comprehensive, fully integrated *risk assessment* approach that links asset integrity to the organization's goals.

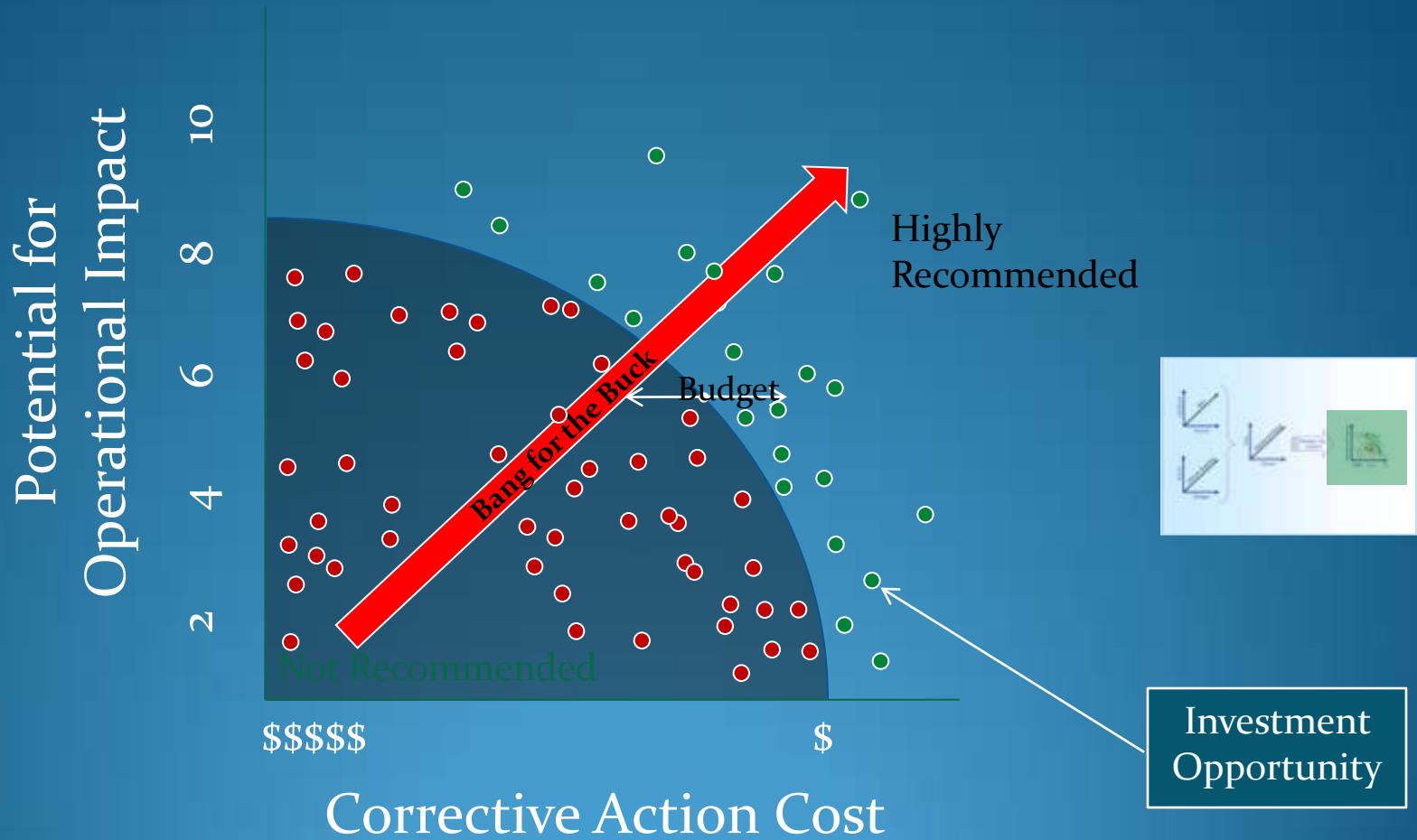
The analysis needs to relate reduction of risk, or optimization of reward to the mission and goals of the enterprise through strategic capital decision making across the organization's portfolio.

These processes will not replace the decision maker nor eliminate uncertainty, but support the process by supplying preferred investment solutions that are transparent, auditable, rational, defensible and repeatable.

Evaluation of Risk to Mission



Risk to Mission—Business Case



Port management constraints to adopting Strategic AM

- Corporate culture and inertia
- Up-front commitment in time and expense
- Competing priorities
- Insufficient or “balkanized” knowledge base
- Overly aggressive consultants
- Lack of clear and feasible goals
- Inadequate implementation plan

Port industry ERM progress

- Some ports moving forward
 - Port of Oakland
 - PANYNJ
- AAPA website—Best Industry Practices

Summary

- Today's volatile political and business climate, combined with aging infrastructure and capital shortfalls, creates a receptive environment for Strategic Asset Management utilizing the principles of ERM