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airmic daily

Moore urges closer attention to cultural issues

Risk managers should pay closer attention to cultural issues and focus more effort on that aspect of risk management.

This was the message from Paul Moore, the former HBOS head of regulatory risk who blew the whistle on the failed British bank.

Moore: culture is key to sound risk management

Addressing the Airmic conference on Tuesday morning, he said the banking crisis was caused by a failure in organisational culture and ethics. "You can have the best governance processes in the world, but if they are carried out in a culture of greed, unethical behaviour, and an indisposition to challenge, they will fail."

"People say culture is intangible, but it is absolutely possible to understand culture if you want to. We've got to find a way of being more analytical about it."

The former bank risk manager, who has since set up his own risk management consultancy, told delegates he was fired from HBOS after he raised concerns about the bank being overly sales oriented and its "cultural indisposition to challenge".

He said the head of risk at the Halifax – a division of HBOS – once told him: "Risk management is not seen as a core business imperative or competence … Sales are regarded as more important than anything else."

Moore also said the head of HBOS's risk management committee complained he didn't understand the first thing about risk. "I was totally flabbergasted," Moore recalled.

He said it was this culture that caused all the problems for the bank. "Regulators have to start supervising culture," he said.

Moore was charged with conducting an internal investigation into HBOS's risk management systems after the financial regulator raised concerns about the bank's controls.

After initially being tasked with this inquiry, he met significant opposition internally and was eventually given the shove. "If people don't like having their tyres kicked, that is a cultural indicator of significant risk," he said.

"Culture is more important in risk management than process or structure," Moore added. He also urged the risk management profession to up its game. "We need to professionalise ourselves to the same level as actuaries, lawyers and accountants."

He also insisted that executive management is far too powerful. "There has been a completely inadequate separation and balance of power between the executive and those responsible for overseeing and reining them in."

Moore went on to complain that the current structure of corporate governance is "totally inadequate" and that those responsible for reigning in the banks, like auditors, non-executives and regulators, proved incapable of doing so.

"I suggest a new dedicated, expert, non executive role," he said. "Control functions should primarily report to this non executive."

Read the full story on page 8.

Paul Howard, Airmic chairman, arranged a fun run in aid of Cliq Sargent, the children's cancer charity, on Tuesday morning. *StrategicRISK* was there

OFFICIAL AIRMIC DAILY

Continuity capabilities 'overrated', says Marsh

Many European firms are overconfident in their ability to manage business continuity and supply chain risks, leaving them vulnerable to physical disruption and economic conditions, according to Marsh.

Research by the insurer found that although 83% of respondents felt business continuity management (BCM) was integral to their risk management and was understood and supported by senior management, only 41% thought it had given them a better understanding of their business.

Moreover, just 29% felt it had led to improved decision-making.

The findings also suggest that organisations concentrate their BCM plans on physical supply chain risks rather than non-damage related risks, such as those caused by the Icelandic volcano and air traffic disruption. "Our experience is that many organisations overrate their BCM capabilities and their perceptions often do not match reality," said Hugh Morris, managing consultant at Marsh Risk Consulting.

"The more obvious nature of physical supply chain risks is apparent to manufacturing firms, while only the most advanced financial services firms realise how important and vulnerable the supply chain can be.

"Service firms can be equally, if not more, at risk from supply chain disruption than manufacturers," he added. "As the recession reminded us all, the domino effect when these firms cannot supply each other with capital can have far-reaching and damaging consequences."


Albanpix Ltd/Rex Features

The Eyjafjallajökull eruptions and subsequent ash cloud caused huge disruption to business

Reputation tops risk managers' concerns

Reputational risk exposure is the subject most likely to keep risk managers awake at night, according to Airmic's annual survey of members.

Nearly a third (32%) of those surveyed in June regard it as a great or very great cause for concern. The subject is now a more significant priority than insurer solvency – the issue that has dominated much of the past two years – though 22% still regard this as a significant worry.

Getting insurance losses paid continues to cause difficulties. Some 27% of respondents had had a claim declined in the past two years, and only 58% rated their lead insurer's speed in paying as 'good' or 'very good'.

Of the members questioned, 43% said their concern about the compliance of international insurance programmes had risen in the past 12 months; no one had seen an improvement.

There has been considerable discussion within Airmic about the near impossibility of ensuring that insurance programmes are internationally compliant. Yet failure to get it right can result in fines, non-payment of claims, gaps in cover, increased taxation and bad publicity.

The survey also found that risk management resources had been squeezed during the recession, with 54% reporting lower departmental budgets, 24% citing staff reductions and 34% lower bonuses or pay.

At the same time, members are being asked to do more: 53% reported that their responsibilities have broadened as resources are cut.

Those surveyed saw the soft insurance market as running out of steam in all their main classes of business. More of them anticipated rises than falls in the coming year. In property and business interruption, 31% forecast a rise while 6% predicted a fall, while in employer's liability 31% see a rise and 7% a fall. The split on this issue in public liability was 32% and 7%, in third-party motor 70% and 4%, in D&O 37% and 7%, and in professional indemnity 44% and 3%.

Broker remuneration is an issue that will not go away. Some 43% of commercial insurance buyers observed an increase in the number of brokers seeking remuneration from insurers for services not directly connected with the placement of individual policies. More than a quarter (28%) believed that the way their brokers are paid could give rise to a conflict of interest.

"Risk managers increasingly take a broad view of their responsibilities. It comes as no surprise to see reputational risk taking the top spot now that events have reminded us of the need to protect reputation," said Airmic chief executive John Hurrell.

"The relatively low profile of insurer solvency is a tribute to the way insurers handled the financial crisis. Unfortunately, having the cash to pay a claim and actually doing so promptly are two different things. This remains an enduring cause for concern and even dissatisfaction in some cases."

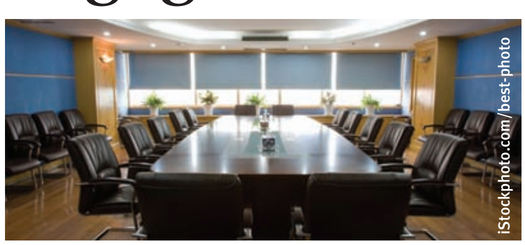
Boards failing to engage in risk, research shows

Boards at a surprisingly large number of UK corporations are delegating responsibility for risk management rather than taking direct ownership of it themselves, according to initial findings emanating from research carried out on behalf of Airmic.

The Cass Business School in London is carrying out a three-year study into the impact of big events on organisations and their reputations, including the role or risk management in reducing the negative effects.

Professor ManMohan Sodhi, who is leading the research, said one of the main points to emerge is the apparent mismatch in many organisations between exposures and the risk management and insurance strategies devised to meet them.

A third of risk managers who took part in an in-depth questionnaire on the subject said they were worried senior management at their firms were not taking risk seriously as a board issue. Half were


iStockphoto.com/best-photo

concerned that their organisations as a whole had given insufficient consideration to large risks.

"Many firms appear still to be placing excessive reliance on insurance, despite the painful reminders that this is only one part of the risk management jigsaw," said Airmic technical director Paul Hopkin, introducing the initial findings of the research at the conference.

"As we have seen too often in the past couple of years, insurers can pay compensation for physical losses but not for the reputational damage that occurs when things go badly wrong.

"Too many firms are leaving the protection of their reputation to chance."

Airmic chief executive John Hurrell added: "This research has already highlighted one of the critical issues underpinning corporate resilience and that is the essential role of the board in driving the risk culture of the organisation.

"Risk managers can only be truly effective if they are supporting corporate strategy, not battling against it. We expect this research to provide compelling evidence of the importance of implementing a robust risk management strategy driven from the top."

The first substantive recommendations are expected to be presented at next year's annual conference.

Ferma leader underlines closer teamwork efforts with Airmic

Airmic and Ferma (the Federation of European Risk Management Associations) are working together more closely than ever, said Ferma president Peter den Dekker in his opening address to the Airmic conference in Manchester.

Ferma, which sees as one of its core responsibilities to lobby European officials on behalf of the risk and insurance buyer community, has been conducting a benchmarking survey of European risk managers, den Dekker said. The results of the survey are due to be unveiled as Ferma members gather in London for the federation's biannual summit in September.

Broker remuneration and transparency are key concerns for risk managers in Europe and the UK, as indicated by two recent member surveys by Airmic and Ferma respectively. Den Dekker has set himself the target of reaching an agreement on broker remuneration transparency. He hopes to have an agreement with BIPAR, the European brokers association, in time for the Ferma summit in London. “Our goal is to identify potential conflicts of interest,” he told Airmic delegates.

Ferma presented its request for full remuneration transparency to BIPAR at the broker group's general assembly in February and received a “positive response”, according to den Dekker.

The request involves mandatory disclosure from brokers on two types of remuneration. Brokers are being asked to reveal all financial remuneration linked to the servicing of the insurance contract, as well as the source and general description of any payments received that are not directly linked to the insurance transaction.

Solvency II is another area of concern for risk managers in Europe – a key area in which Ferma is targeting its lobbying efforts. Den Dekker urged captive owners in Europe to participate in QIS5 (the Quantitative Impact Study), designed to give regulators an idea of the impact of implementing the new rules.

Den Dekker also announced that Julia Graham, former Airmic chairman and chief risk officer for international law firm DLA Piper, has been appointed vice-chairman of Ferma.

Den Dekker: goal is to identify conflicts of interest

Supply chain concerns grow

As more and more high-value goods are manufactured abroad, risk managers are being urged to consider carefully all the inherent risks associated with their supply chain and to plan accordingly.

According to the EU, the theft of high-value, high-risk products moving in supply chains in Europe costs businesses more than €8.2bn (£6.8bn) a year. And the threat from organised criminals is increasing and becoming more violent.

Against this background, Chartis Insurance marine loss control manager John Carroll told a conference workshop that high-value, attractive goods are increasingly transported around the globe.

"It's important for risk managers to consider how best to work with all parties in their supply chain," he said. "This means reviewing all exposures with the manufacturer, the freight forwarder and the distributor to evaluate and control the risks.

"Furthermore, effective business continuity planning, which takes account of geographical and supplier risks, is essential if they are to ensure goods arrive both on time and in a sellable condition."

Carroll and Chartis engineering manager Nick Tilley, together with Deutsche Post DHL risk manager Mark Jones discussed loss control and risk management associated with transporting high-value goods to market.

Illustrating their views with case studies, they highlighted the value of business continuity planning, enterprise risk management and risk transfer, with a particular focus on warehouse security risks and road haulage transit risks.

Theft of high-value, high-risk products costs European businesses £6.8bn a year

One risk manager with great experience of these issues pointed out that developing trends such as temperature- and dust-sensitive goods were adding to the problem.

"The challenge is not simply one of increasing complexity. Resilience within the supply chain is also being stretched, given the unwillingness to hold high stock levels, as well as a growing unwillingness to pay for risk transfer," he said.

Risk managers spell out cyber fears in Airmic study

Cyber liability has been identified as the most significant emerging risk facing insurers, according to Airmic's first ever benchmarking study into the casualty insurance market.

The exercise, carried out jointly with Advisen and sponsored by Chartis, is based on responses from 83 UK-based risk managers and provides an insight into buying patterns.

Environmental exposure was another important emerging risk. Some 50% of the companies polled considered their company more exposed to environmental liabilities.

Compliance was identified as another problem area. Respondents identified "maintaining compliance with local tax laws", "maintaining compliance with local insurance requirements" and "getting policies issued timely" as significant issues in managing a global casualty programme.

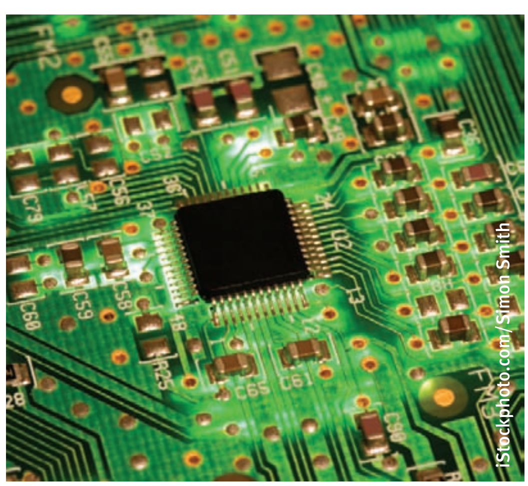
The survey also identified a greater need than ever to control losses as a means of improving a company's margins in difficult economic times. Some 35% of risk managers polled felt global loss consultancy was going to become more important over the next two years.

There were signs of optimism that the soft market was coming to an end. More than 50% of the respondents said that if the market does start to harden, they'll look at retaining more risk, whether that's within the business or their captives. But fewer than half of respondents said they currently use a captive insurance company for casualty exposures.

Chartis senior vice-president Philippe Gouraud said: "Our own research with Airmic member companies indicates that managing leakage of controllable cost through effective risk management and loss control is becoming a higher priority for most corporations."

Russell Meagher, senior vice-president, relationship management, in the major accounts practice at Chartis UK, added: "Most head office organisations are lean and mean now, so risk managers are being charged with looking for loss consultancy and risk management advice wherever they can find it most cheaply and effectively. Risk managers are being asked to do more with less."

Airmic plans to make the benchmarking study an annual event to identify and measure trends.



Crawford offers crisis cashflow tips

The need to maintain cashflow after a serious incident is an aspect of disaster planning that is easily overlooked, the Airmic annual conference heard.

"In the early days after a big event, there's going to be a big outpouring of cash with nothing much flowing back in," Crawford & Company vice-president for global markets Clive Nicholls told a workshop.

Inevitably, he said, there is a time lag between the initial expenditure after a disaster and getting compensation from your insurance company. And when credit is tight, finance directors will demand to see that gap reduced to the minimum.

The only way to make this happen is to plan in advance. Nicholls highlighted key actions that risk managers can take to ensure a positive cashflow outcome: check your insurance policy provides clarity and certainty; be aware of the information claims managers will need; and put in place the recording and monitoring systems necessary to ensure managers receive this information in a timely fashion.

"If you think through these issues before anything goes wrong, it will facilitate payments and save you time. It will also reduce the likelihood of confusion with your insurers – which is the last thing you need when there has been a big event," Nicholls said.

"Having a team where each member understands what is required will make it easier. For the risk manager this could be a once-in-a-lifetime occurrence, so you have to get it right first time."

Trouble is abroad for intrepid multinationals

Terrorism, flu viruses, political instability – the risks facing employees of multinationals forging into emerging markets are many. ACE's Jeff Dowling outlines to *StrategicRISK* the ways that risk managers can be proactive in keeping their clients out of sticky situations

Sipa Press / Rex Features

Anti-government Red Shirt protesters ended their two-month rally in Bangkok last month, leaving several dead and many more injured

Business travel has been a risky affair of late. From Icelandic volcanoes to terrorists to the threat of a flu pandemic, business travellers have faced a plethora of potential risks the moment they step on a plane.

And as multinationals look to pursue growth opportunities in the emerging markets of China, India, Brazil and others, their employees face risks not generally found in the more developed parts of the global economy. Political instability, regulatory uncertainty, corruption and bribery are just some of the challenges confronting those looking to enter these markets.

While keen to avoid scare mongering, Jeff Dowling, head of corporate and major risks in ACE European Group's accident and health (A&H) unit, says these kinds of risk are becoming more prevalent. "I'm not trying to frighten people. It is a fact of life. You have to understand these things are going on."

The most recent security incident Dowling's department has been involved in took place in Thailand, where anti-government protesters, known as the Red Shirts, were stirring up trouble.

"Tourists and business travellers were going to get their pictures taken with the Red Shirts because they thought it was a historical moment," explains Dowling, who adds that in so doing they were putting themselves in more danger. "Not surprisingly, they stopped doing that when the shooting started."

It's exactly that kind of situation that ACE's Dowling would like to avoid. He says his department takes a proactive approach to help the firm's clients avoid getting into a difficult situation. Insurance alone is not enough, he adds.

Another major consideration is the support available to employees once they are overseas. The A&H policy that ACE sells includes the services of global security specialists red24, which provides pre-travel advice to help risk managers with their risk assessments.

In addition, as part of the policy, red24 issues real-time alerts about developing security situations. Customers who register can receive these alerts via phone, text or online.

For example, if civil unrest boils over into riots or violence, a text message will alert the business traveller so they can factor this into any journeys they are planning.

The assistance also extends to evacuation, when this is the correct course of action, and security support on the ground. Dowling explains how, when one of his clients was stranded in Mumbai less than half a mile from the Taj Mahal hotel that was rocked by a deadly terrorist assault in November, red24 dispatched security professionals to escort him to safety.

> **'Tourists and business travellers were going to get their pictures taken with the Red Shirts. They stopped doing that when the shooting started'**
> Jeff Dowling, ACE

"He was in real panic," Dowling explains, "so he contacted our security specialist helpline. They talked to him and found out where he was and what was happening. They said the best place for him to stay was in the hotel and then they dispatched two people to escort him to safety."

"ACE looks at each situation and assesses whether the people are in real danger," he adds. "Sometimes moving could be worse than them staying where they are. Each situation is unique. But the policy itself will pick up costs for extra accommodation or evacuation from life-threatening situations, and we also pay a limit for security specialist costs.

"For example, while on a business trip if the local authorities declare a state of emergency necessitating immediate evacuation, because of the political unrest in the country where employees have travelled to, then we will assist with that evacuation to a place of safety." he continues. "We take action to get people out of situations and make sure they're safe."

Thankfully, the worst terrorist incidents or natural disasters remain a remote risk. But Dowling says ensuring the safety of employees on assignments around the world should be a key concern for responsible companies.

In the UK, new corporate manslaughter legislation has reinforced the responsibility of directors to make sure their employees are safe wherever they travel. From a risk management perspective, this goes beyond offering financial compensation if something does go wrong.

"The risk manager has got to assess the risks to his employees," Dowling adds. "And they have a role to play in educating employees about those risks." ■

IN FOCUS

Active 2010 hurricane season predicted

Clearing up debris after hurricane Agatha, the first of the Atlantic hurricane season

Atlantic basin and US land-falling hurricane activity will be 55% above the long-term norm, according to a Tropical Storm Risk (TSR) pre-season forecast.

TSR, part of Aon Benfield, predicts 16 tropical storms, including eight hurricanes and four intense hurricanes. This compares with long-term norms of 10, six and three, respectively. The firm also forecast five tropical storm strikes on the USA, including two hurricanes. This compares with long-term norms of three and 1.5.

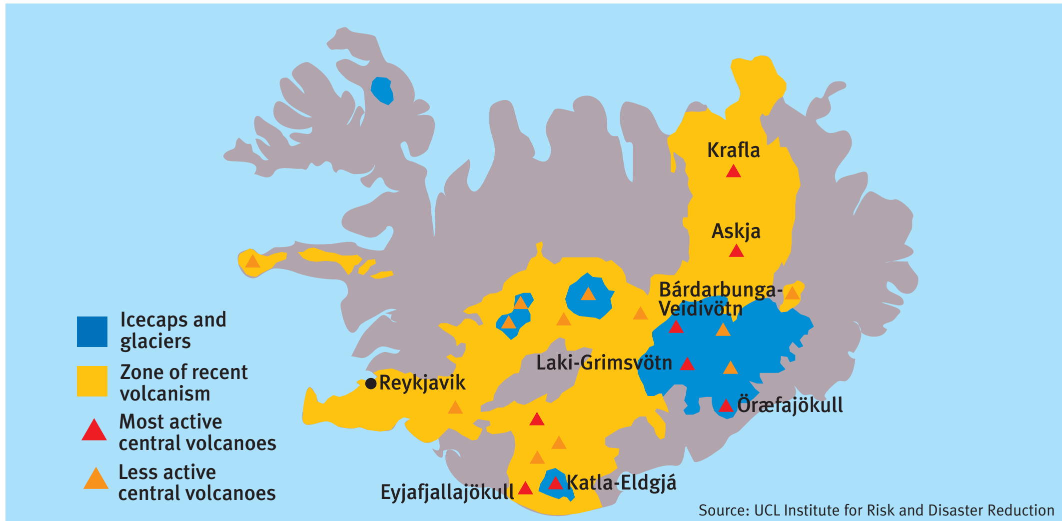
Three main climate factors will determine the level of hurricane activity: the speed of trade winds over the tropical North Atlantic, sea temperatures in the tropical North Atlantic and the strength of El Niño.

TSR's Professor Mark Saunders said: "Every main climate indicator points to the 2010 hurricane season being active."

Aon Benfield's head of international analytics John Moore added: "Although uncertainty remains within hurricane forecasts, the insurance industry is increasingly informed by this data source when considering how best to manage its exposure to this risk."

NATURAL DISASTERS

More Icelandic eruptions likely, experts say



Source: UCL Institute for Risk and Disaster Reduction

Since the eruption of Iceland's Eyjafjallajökull, there has been speculation about the triggering of its larger neighbour, Katla. Recent research from scientists at the UCL Institute for Risk and Disaster Reduction warn this is a strong possibility.

The 'post-mortem' into the eruption concludes that if any future eruptions combine with the right weather conditions, there is likely to be a repeat of the recent air transport disruption.

But the unpredictability of volcanic activity and weather conditions make it difficult to predict when this might occur – and at what scale.

The report is also critical of the response to the ash cloud, describing it as entirely reactive. The impact on airspace could have been predicted, it says, and better preparations could have been made as the dangers of ash clouds to aircraft have been recognised for nearly three decades.

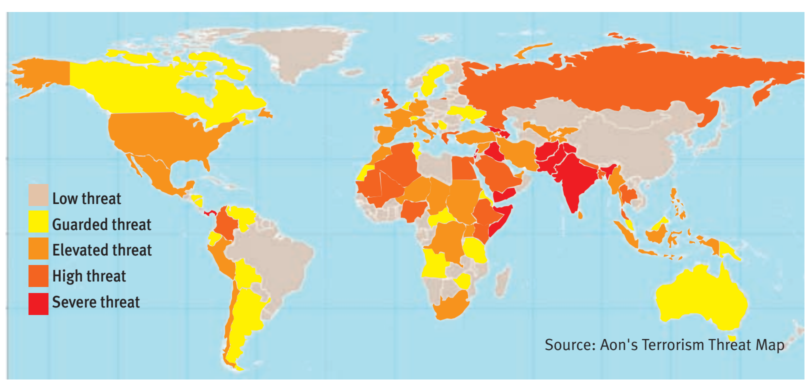
The report also says that the potential threat presented by volcanic ash should be added to the UK's national risk register.

Institute for Risk and Disaster Reduction director, Professor Peter Sammonds, said: "Volcanoes in Iceland have now become a key concern for the UK.

"We need to know how these ice-capped volcanoes may disrupt air transport in the future. That means understanding better the volcanology, the ice physics and meteorology, as well as assessing the risk of ash to aircraft engines and systems."

TERRORISM

International efforts blunting terrorism threat



Source: Aon's Terrorism Threat Map

International counter-terrorism efforts appear to be stifling the ability of terrorist groups to mount significant attacks on the scale of 9/11, according to Aon.

The 2010 Aon Terrorism Threat Map shows that the USA's classification has been heightened following a string of terrorist incidents in 2009, including the Fort Hood massacre, the foiled Christmas Day airliner attack over Detroit and last month's bomb scare in New York's Times Square.

And despite an apparent slight downward trend in the number of attacks in recent months, established insurgencies continue to provide the focal points for terrorism in Iraq, Pakistan, Afghanistan, India, Somalia and Yemen.

Elsewhere, there have been sporadic terrorist threats and attacks by nationalist and left-wing movements, with a rise in incidents in traditional hotspots such as Northern Ireland, Greece, Russia, Argentina and Chile.

Al-Qaeda is being forced to focus on building its networks in traditional conflict zones, blunting its ability to mount 9/11-style high-profile attacks, says the research.

£33.32m

(€40.1m) The size of the fine levelled by the FSA against J. P. Morgan Securities for failing to protect client money by segregating it appropriately

£80m

(€96m) The total worth of Aon's sponsorship deal with Manchester United Football Club – said to be the most lucrative shirt sponsorship deal in football history

Source: *The Times*

AA

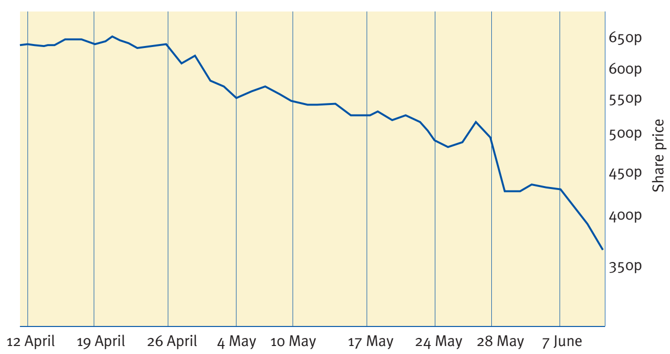
The Fitch rating of BP's long-term debt, cut from AA+ in the face of mounting Gulf oil-spill clean-up costs. Fitch estimated that the clean-up costs of the disaster could reach £3.4bn (€4.1bn)

330m

Estimated number of Manchester United fans

DEEPWATER HORIZON EXPLOSION

Oil spill depletes BP's share price

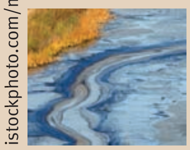


20 April Millions of litres of oil poured into the Gulf of Mexico, following a blast on the Deepwater Horizon oil rig. The oil threatens some of the richest resources of fish and marine life in the USA.
22 April The Deepwater Horizon rig, valued at over $560m (€457m), sinks.
29 April US president Barack Obama pledges "every single available resource" for the clean-up.
30 April BP chief executive Tony Hayward says the company takes full responsibility and will pay all legitimate claims and the cost of the clean-up.
7 May An attempt to place a containment dome over the spewing well fails.
14 May Obama slams companies involved in the spill, criticising them for a "ridiculous spectacle".
19 May The first heavy oil from the spill hits Louisiana marshlands.
26 May BP's Hayward flies over the Gulf. BP says the disaster has cost the company $930m.
1 June BP shares plunge 17%, wiping $23bn off its market value.
7 June BP says it has spent $1.25bn on the spill.
11 June Supportive comments from the UK government lift BP's battered price by 6.4%. BP is worth £70bn (€84bn), compared to over £120bn when the spill occurred.

Source: Reuters

SOUNDBITES

"The president and prime minister reaffirmed their confidence in the unique strength of the USA/UK relationship"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Downing Street insisted that the "special relationship" between Britain and America has not been damaged as a result of the BP Gulf oil spill.

"We are no longer puppets"


istockphoto.com/burak pekakcan

Turkey's finance minister, Mehmet Şimşek, reflects his country's new-found sense of optimism. This mood is fuelled by Turkey's improved foreign relations with its neighbours, opening up new markets, and a strong economy amid the financial crisis – the OECD reckons GDP will grow by almost 7% this year.

"There are strikes every day in China that never get reported"


istockphoto.com/David H. Lewis

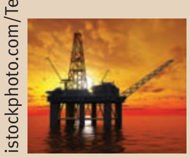
Geoffrey Crothall, director of the China Labour Bulletin in Hong Kong, says reports from China tell of militancy spreading as workers demand double-digit pay rises.

"If you are looking at whether, on a global scale, we are safer from terrorism this year than last, the difference is marginal, but reflects the pressure we have exerted on our foes"


istockphoto.com/Martin Kucera

General Richard Myers, retired chairman of the US Joint Chiefs of Staff and a member of Aon's board of directors, comments on the apparent reduced threat from global Jihad networks.

"The downgrade of BP's rating reflects Fitch's opinion that risks to both BP's business and financial profile continue to increase following the Deepwater Horizon accident in the US Gulf of Mexico"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The rating agency Fitch explains why it has downgraded the rating on BP's long-term debt by one notch.

Sources: *Guardian*, *Economist*, *Times Online*

Strength to be unpopular

Paul Moore, the man who blew the whistle on HBOS, talks to *StrategicRISK* about presenting messages to the board that it may not want to hear. His experience is a lesson to all risk managers

Bringing an unpopular message to the board is tough. Nowhere was this more clearly demonstrated than in the case of Paul Moore, the HBOS whistleblower.

HBOS, one of Britain's biggest banks, had to be rescued by a government-backed bid in October 2008 at the height of the credit crisis as it was sinking beneath huge subprime debts. Moore was the bank's head of risk and he claimed to have seen the problems coming years earlier. But, according to his claims, his warnings went unheeded. Instead, he was spectacularly given the shove.

Airmic has asked Moore to present at this year's conference because the association feels his message could resonate with other risk managers, and that there are important lessons to learn about the challenges of communicating risks to the board.

Clearly, in tricky circumstances such as Moore found himself in, it is vital to make a convincing case to the board. Yet Moore argues that this is exactly what he did. "You can have the best governance processes in the world, but if they are carried out in a culture of greed, unethical behaviour and an indisposition to challenge, they will fail," he says.

> **'You can have the best governance processes in the world, but if they are carried out in a culture of greed, unethical behaviour, and an indisposition to challenge, they will fail'** Paul Moore, Moore, Carter & Associates

Moore joined HBOS in 2002 to head regulatory risk. As far back as 2003, the FSA was worried about the bank's internal risk management systems. HBOS's chief, James Crosby, asked Moore to head an internal inquiry. At that stage, Moore, who's been a partner at KPMG and worked for Marsh for a short time before joining HBOS, says that he made it clear to the board that if he was to lead the investigation, he wanted to do it thoroughly and forensically.

His investigation unearthed some disturbing signs. In particular, Moore raised concerns about the potential for the bank's sales staff to mis-sell consumer investment products and payment protection insurance. When Moore reported about reckless lending at the bank, he was reprimanded by his bosses and eventually he was fired. Moore claims to have been severely let down by the bank's non-executives, who failed to offer him the support or protection he needed.

Paid for silence

StrategicRISK quizzed Moore about his experience. Did he have good relations with the board prior to his investigation and credibility at a senior level? "If I'd been in the perfect world, I would not have walked into HBOS and walked into a tornado," he says. "I would have had several years to build relationships. But I didn't. I was promoted into the job 14 or 15 months after I'd arrived to deal with a situation because the regulator had turned the thumb screws on."

Lots of risk managers probably find themselves in a similar situation because it is often the case that a new person is promoted to deal with a difficult set of circumstances, he says.

Moore felt compelled, and legally obliged, to disclose his serious concerns to the FSA. HBOS's reply to the warnings was to commission KPMG to do an independent inquiry.

Paul Moore's story was first told in the July 2009 issue of *StrategicRISK*. Read it online: tinyurl.com/PaulMoore

Meanwhile, Moore was reportedly given a six-figure sum for his silence. He feels the regulator should have done more. It was not until the height of the banking crisis that Moore broke his silence and gave evidence to a government inquiry into the failure of Britain's biggest banks.

Moore thinks the role of risk manager needs to be strengthened and that they should be given protection against being fired if they present hazards to the board. He is pleased that some of these considerations have been taken into account in regulatory inquiries, such as the Walker Review, into the causes of the financial crisis.

"You shouldn't have to rely purely on the emotional aspect when you're doing the risk manager's job. It should be based on evidence. If the evidence demonstrates something, then it shouldn't be permitted for a chief executive on their own to dismiss somebody. It's absolutely wrong. The decision should be overseen by the FSA, because that means that the board will not take a decision lightly; they will think carefully."

Getting in the way

Risk managers are fundamentally challenged by the fact that their work to protect companies from disaster is often seen as meddling and an obstacle to business. "A large percentage of people who are subjected to any type of review don't like the person who's done the review," Moore says. "It's only natural, but the culture should be that it's a good thing to have one's tyres kicked.

"I'm not the kind of risk manager who says: 'The answer's no, now what's the question?' My mantra is cars have better brakes so they can go faster."

Moore believes he did everything he could to present his case properly and make sure the bank's senior managers took the message seriously. "I am absolutely satisfied that technically I did the job outstandingly well and I took every step that I could possibly think of to lay the groundwork so that it was accepted."

The problem, he says, was that senior bosses took the negative message as a "personal affront" and weren't prepared to take the necessary steps to rectify the situation. ■

Survey

Paul Moore's consultancy, Moore, Carter & Associates conducted a survey of risk management professionals into the causes of the banking crisis. Go online to see the full findings: **tinyurl.com/SR-RiskExonerated**

65 YEARS AGO

A


B


C


D


E


F


G


A: Sean Harry, Gary Pallister, Karl Hennessy
B: Chris Ball, Suzanne Brine
C: Paul Moore
D: Vanessa Hodgkin, Phillip Millon, Annette Rainbird
E: Jordane Wood, Glen Evans, John McDonald
F: Sophie Williams, Karina Chilton, Carolyn Williams
G: Phillip Dietz, Stephen Bailey

H

I

J

K

N

M

H: Peter Whalley, Ashley Martin

I: Ben Akers, Bart Jansen

J: Jonathan Tilburn, Angela McCluskie, Philipp Cremer

K: Nigel Wallace, Mark Brickles, Stefan Groch

L: David Hertzell, Phillip Tracey

M: Bill Freeman, Celine Maimaran

N: Graham Harris, Linda Coppel

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New world, new risks

The recession has forced companies to re-engineer their operations. But the consequent changing nature of corporate risk profiles could spell trouble for businesses and their insurers, says **Bruce Hepburn**

The chill wind of recession has forced UK firms to make a raft of strategic and operational changes in order to cut costs and secure new revenue streams. But what effect has this had on risk profiles? And why might this cause problems for businesses and their insurers?

During 2009, Mactavish held in-depth consultations with 250 major companies in the manufacturing, construction, retail and financial services sectors. We wanted to find out what nitty-gritty changes firms were making in response to the toughest trading conditions in a generation.

We found that the downturn had drastically raised the pace of change in the business world. This, in turn, has meant operating risks are evolving to an unprecedented degree, as companies combat recessionary pressures.

At first glance, conclusions about companies innovating to stay afloat should surprise nobody. But what took us aback were the speed of reforms and the number of specific changes being initiated.

Firms are diversifying into unfamiliar business areas, quickening the pace of outsourcing to the Far East and speeding up new product launches. For instance, one hi-tech manufacturer doubled its rate of new-product launches while cutting manufacturing lead times by 75%, all with a static product development budget.

The recent volcanic ash debacle has shown the fragility and interconnectedness of many global supply chains. With aircraft grounded, some car manufacturers warned of halting production due to the non-delivery of essential components from overseas. Disruption caused by business failures has the potential to be so much more damaging than in the past.

Projects to increase efficiency across product supply chains were widespread in the retail and manufacturing sectors. These ranged from site closures to the elimination of buffer stock. Although such measures can improve operations, they can also increase product quality risks and heighten exposure to business interruption problems.

Innovating out of the downturn

Construction activity has been hit hard by the recession. Firms are bidding for contracts at zero-margin rates as well as looking for infrastructure work outside their normal field of expertise. This might expose them to unfamiliar risks, such as asbestos exposure or regeneration work in derelict buildings.

Beyond construction, many manufacturers reported sharply increased rates of product development: diversifying away from conventional products to newer and often wider service offerings.

These moves increase the risk of product failure and also introduce a new risk for traditional manufacturers, professional indemnity: litigation stemming from advice that then leads to things going wrong.

This was also a new and increased risk for several retailers, with many getting increasingly involved in product design and sourcing more products from manufacturers in low-cost territories. If products are subsequently found to be substandard, sourcing from further-flung destinations can make it more difficult to pass on liability for any losses to errant suppliers.

Keeping on top of disclosure

Businesses and operations are changing, of that we can be certain. By extension, then, risks must also be changing. Some risks will get better, some will get worse. On the whole, it is our view that there is more risk in the business system due to both the recession and other pressures, such as globalisation.

In some ways, this is academic: insurance law places the duty on the buyer of insurance to disclose, not the insurer to investigate. Any material circumstance that might have an effect on the mind of a 'prudent underwriter' in estimating the risk has to be disclosed by businesses. If not, policies may not prove reliable in the event of a claim.

The businesses we spoke to were understandably focused on reducing costs and discovering new ways to make money, rather than analysing the risk impact of operational changes.

Worryingly, 65% of those firms consulted did not review how their risk is explained to insurers as part of the contract on which their business relies. This surprised the 40 senior underwriters we interviewed, who also admitted not seeing sufficient detail about changing risk profiles in broker submissions.

So, why should all this matter? In short, insurance has never been more important to UK firms. Balance sheets are stretched and companies can ill afford any nasty surprises. If policies are not always reliable and large claims are turned down or, more likely, delayed by insurers, some businesses may be in trouble.

Operating risks are changing to an unprecedented degree, as companies combat recessionary pressures

Insurers must also grasp the nettle of risk disclosure. Changing risk patterns may lead to losses in unexpected areas and could impact on already flattening margins. Getting this right is vital for all concerned. ■

Bruce Hepburn is chief executive of Mactavish


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The art of identification

Surely the first step to good risk management is identifying the particular risks your organisation faces? Yet this vital step is often poorly executed, says **Richard Archer**. Risk managers must tackle this problem or risk falling to those unseen punches

Risk identification is arguably the most important step in the risk management process. If significant risks are not recognised, the management of risk stalls, no matter how well people prioritise and manage risks or the quality of their enterprise risk management (ERM) software. Despite this, risk identification is often poor, as anyone who looks at a lot of risk registers would confirm.

Why is identification important?

Without good risk identification, organisations are 'flying blind' and are likely to suffer the full consequences of risks, as appropriate controls will not be in place. After all, it is the punch that the boxer does not see that puts him on the canvas; if a boxer fails to see a punch coming, he can not attempt to avoid or defend against it.

In addition to the importance of indentifying risks is the need to make sure non-risks are not put forward. Anything incorrectly put forward as a 'risk' wastes time and adds complexity and unnecessary cost to the subsequent management of risks.

Precise risk identification is vital in order to estimate an organisation's risk exposure. If risks are missed, any estimate of risk exposure can be very misleading. Also, without the ability to estimate the risk exposure – either qualitatively or quantitatively – the concept of risk appetite becomes useless, as there is no way of knowing whether limits are exceeded. Improved risk identification is needed if the concept of risk appetite is to be reliably applied outside the financial sector.

Why is identification so difficult?

To correctly identify a risk, the risk manager needs both a knowledge of the subject area and as a technical understanding of what constitutes a risk. Without the former, they will not have sufficient insight for precise risk identification. Without the latter, it is very easy to incorrectly identify a long list of non-risks, such as causes, consequences and poor controls.

Another concern is that risks may be phrased inappropriately for the level of the organisation in question. At the operational level, individual risks are commonly identified using the bow-tie model. At the strategic level, risk identification is generally a more aggregated affair. Boards take a strategic view on risk and tend to focus on uncertainties in trends rather than individual uncertainties, although important individual risks will be of interest too. The different view of risk from the operational and strategic perspectives presents challenges for the escalation of risks, as risks escalated or delegated may cease to be worded appropriately.

Complicating matters further, different risk management processes have adopted a wide range of risk definitions. This problem has been greatly reduced though the publication of the latest standards, ISO31000 and BS31100, which have adopted a common uncertainty-based definition of risk. The ISO definition of risk is now "the effect of uncertainty on objectives", which puts risk in an organisational context. Another widely used definition of risk is "exposure to the consequences of uncertainty".

People often list risks that they think others would expect to see in a risk register, rather than the risks they actually see

The UK Health and Safety Executive (HSE), however, takes a different tack to these standards, as it encourages the identification of 'hazards' rather than 'risks' in health and safety risk assessments. Also, many organisations in the major hazard industries use event-based risk definitions, which exclude uncertainties that are ambiguous.

Another issue is that people often list risks that they think others would expect to see in a risk register, rather than the risks they actually see. There is a tendency for some people to want to list commonly mentioned risks, such as 'terrorist attack', even if these are not actually significant to the organisation. This causes a disconnect between people's knowledge of the potential pitfalls and what is written in the risk register. For some people, there is something about a risk register that stops them from thinking.

Too often people overlook external risks. People tend to understand the workings of their organisations, and so are well placed to identify internal risks. The external context is much less well known, more difficult to control and can be very dynamic. External emerging risks can be particularly tricky to identify.

What can risk managers do?

Organisations should invest in risk management coaching to ensure staff have a basic understanding of how to identify risks. This coaching, if to the point, need take no more than half an hour, and could be integrated into the start of a risk assessment workshop. Organisations that invest in expensive ERM software at the expense of training may find that their software is filled with junk information.

Risk managers should encourage the organisation to start risk identification, with the key being uncertainty. To help people do this, it is helpful if they are introduced to the bow-tie model mentioned earlier, which differentiates between uncertainties, causes and consequences. The standard approach is to identify the uncertainty first, and the consequences of each uncertainty second.

When facilitating risk assessment workshops, risk managers should take a balanced approach to encouraging people to phrase risks correctly. It can be demoralising for a group if the facilitator is continually pointing out that risks put forward are not actually risks.

For large risk assessment workshops, it can be a good idea to hold the risk identification part of the workshop on separate days. Not only does this provide dedicated time for risk identification, but it also enables the facilitator to clean up the phrasing of risks between workshops. Once the risks are ranked or quantified, it is more difficult to change the wording, as the risks may need to be re-analysed.

In summary, without good risk identification, organisations will be 'flying blind'. They will be regularly affected by risks for which they do not have appropriate controls. They will also be unable to determine whether their risk exposure is within a set risk appetite. Despite the importance of risk identification, risks are not always identified as well as they might. Risk managers can help their staff through back-to-basics coaching and supporting them in their risk assessments. ■

Richard Archer is enterprise risk manager at Wellcome Trust

It's good to talk

After 21 years with British Telecom – six and a half of them as group risk manager – Kip Berkeley Herring stepped down from the company in May. He has played a key role with Airmic throughout that time. He spoke to *StrategicRISK* about the changes he has witnessed over the years

How many Airmic conferences have you been to?
The first one I went to was in Robinson College, Cambridge. I joined Airmic in September 1989 and so 1990 would have been the first one I attended. I've been to most of them since then; about 80% I'd say.

Is there one that stands out in your memory?
I think the conference that sticks in my mind is the first and only one to be held in London. It was treated differently by attendees. It had a different feel because a lot of people were popping in and out. It encouraged more of a mix for the attendance, bearing in mind of course that the majority of Airmic members are London-based. It was memorable for me because I chaired the discussion panel in respect of claims certainty. And that was the precursor to the work we've done on the willingness to pay investigation and subsequently became the combined input into the claims study, which was achieved the year before last.

What we were trying to do is to get everyone to recognise that there were basic paradigms that have to be achieved by all of the insurers to give them the basis of a good claims management capability. So it was getting everyone to agree what those elements were and agree to maintain and achieve those elements.

What has been your single biggest victory with Airmic?
If there's one thing, it is the work we did with insurers on claims. I do believe insurers have truly embraced what we were doing and it has encouraged change in the way insurers think about their approach to claims. I think when we started, there was a danger that claims were being pushed into a back-office function and not being recognised as a forefront of why people buy insurance. So yes, I would say that is one of the single most pleasing moments during my time with Airmic. In a similar vein, I am very proud of the work we did with insurers looking at contract certainty.

Airmic has built on that with the reservation of rights work, hasn't it?
Absolutely yes, I think the claims initative was a bit of a watershed in terms of Airmic's work with the market.

And contract certainty was an industry-wide initiative that was quite successful?
The thing there was we managed to get Airmic a seat at the table. We were not seen as an integral part of the issue, nor as an association that could help with the solution. But by persistently talking to people, like the FSA, we did get a seat at the table and we were able to make sure the views of risk managers were heard.

How has the risk management profession changed over the course of your career?
I think the word 'profession' is the telling descriptor. I do believe risk management has become much more professional over that time. It is recognised in most organisations as being the key element that has to be addressed within the fundamentals of running an organisation. That doesn't mean every organisation has to have a risk manager, but it does mean they need to look at risk within their organisation, recognise it and manage it accordingly.

'What's next for me? I wouldn't be a risk manager if I didn't have plans and things to consider. All I'll say is I'm not going far away'

What are the main challenges facing your risk manager peers today?
The biggest challenges we are seeing are related to change. We've seen huge changes in terms of the economy and technology, and they are the kind of things that do cause the greatest challenges for risk managers and their businesses to address.

One of the big challenges for a risk manager is being recognised in the organisation and being seen as credible. What are your thoughts on how risk managers can raise their profile?
The way that risk managers communicate their message is absolutely fundamental to the progression of risk management and its level of importance or its role within a commercial venture. It's too easy for people to push risk management to one side as a business inhibitor. People need to recognise that risk management does exactly the opposite. Managing risk is a way to enable business to make a profit and succeed and to differentiate itself from its competitors.

How has the financial crisis and the global slowdown changed the profession?
We got to a point where financial organisations, especially the merchant banks, were being lauded as having the highest level of risk management. I think the recession has proven that was not quite so. I think that the fact that the risks were not being recognised and managed is something we should be looking at. This was not because risk management failed, it was because management failed to deal with the risks in the way that they should have been doing. It shows the human side of managing risks and that we can so easily be sidetracked by short-term reward.

What are you most looking forward to at this year's conference?
I always enjoy the conferences, because it's a great opportunity for like-minded people to come together. It's quite heavily oriented to the insurance side, which is something we as risk managers need to work at. But there are great opportunities to meet people and network. And the workshop sessions go from strength to strength each year.

What's next for Kip Berkley Herring?
I'm planning to take a bit of time off over the summer. I think the timing is good. And then I'll get back into the swing of things in the autumn. I wouldn't be a risk manager if I didn't have plans and things to consider. I've not taking a step off the cliff without a parachute, if you know what I mean. All I'll say is I'm not going far away. ■


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