StrategicRISK

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20 TWENTY YEARS IN RISK

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MARKING TWO DECADES OF CHANGE

THE RISK MANAGER'S WORLD HAS CHANGED FUNDAMENTALLY since Amrae held its first Les Rencontres in the early 1990s.

In celebration of Amrae's 20th Les Rencontres, *StrategicRISK* brings you this special supplement tracking the progress of the risk management profession over the past two decades.

Much has changed in the risk manager's world since the early 1990s. Back then, the sole responsibility of most corporate risk managers was probably risk analysis and mitigation, normally by purchasing insurance.

Over the past 20 years, though, many risk managers have seen their roles evolve as prestige and complexity has grown. Several events over this period have forced companies to think about risk differently. It is no longer enough to simply react to threats once they've appeared. The best organisations are thinking about risks strategically and how they can benefit from them by seeking competitive advantage.

Correspondingly, the risk manager's role has changed as companies have come to terms with new challenges associated with the complexities of a 21st century world. Globalisation, political instability, the financial crisis, cyber crime, fraud, large-scale natural catastrophes, terrorism, pandemics, demographic challenges and developmental issues, not to mention the environment, climate change, a dwindling supply of natural resources and overpopulation, are all shaping the modern risk landscape.

Large global organisations are incredibly complex, and faced with these challenges they simply have to respond with a sophisticated risk management approach. Across a globally diverse group of companies, it can be difficult to streamline these activities, implement a consistent approach and communicate its benefits, but that's what the world's leading risk managers are grappling with right now.

Amrae board member and risk manager for French multinational PPR Anne-Marie Fournier says her profession has witnessed a complete shift from insurance handling to a purer form of risk management over the last 20 years. "Risk prevention and risk mapping now form part of the tool set of modern risk managers," she says. Meanwhile, "better knowledge by risk managers of the exposures of their companies is enabling some to assess and potentially report to senior management. This includes presenting to audit committees and risk committees, but also taking questions from the board on risks."

However, further development is needed. Risk managers must be much more precise in identifying and quantifying these exposures. And they need to be more imaginative in developing solutions to problems. But, overall, commentators are positive about the future and many believe that increasingly competent risk managers will become the main "risk reference" within their companies.

Throughout this special supplement, you will hear from risk managers from all over Europe about how they think the profession has changed and where they think it is going. We hope you find it a useful retrospective and one that hopefully also sheds light on progressive steps. Finally, congratulations to Amrae for a successful 20 years. Here's to another thriving 20.

Nathan Skinner, editor, StrategicRISK

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The 1990s signalled a new era in risk management, spurred by increased regulation, catastrophe events and increasing globalisation

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In 2008 storm clouds were gathering over financial services at the end of a decade in which risk management came of age

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Today risk managers have moved from a focus on first-party risks to third-party risks, and away from domestic to worldwide threats

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THE EARLY YEARS 1990s to 2000

Corporate governance entered a new era in the 1990s. Increased regulation upped the ante for risk managers as major natural catastrophes put pressure on the insurance market

The 1990s – a new focus on risk

It was the decade that brought Hurricane Andrew, asbestos, and a seismic shift in the scope and importance of risk management

THE 1990S SIGNALLED A NEW ERA for risk management in Europe. While major natural catastrophes put pressure on the insurance market, major trends, such as ever-increasing regulation and corporate globalisation, began to exert far-reaching and continuing influence, shaping the risk management landscape of today.

Ferma president and Pirelli group risk management director Jorge Luzzi believes that major external events stimulated the development of risk management in the 1990s.

"When we analyse natural catastrophes, Hurricane Andrew [in 1992] comes immediately to mind as one of the biggest natural catastrophes of the 1990s, not only because it was a category 5 storm when it arrived at the coast of south Florida, but also for its almost $27bn [€21bn] impact on the economy. Andrew was a good school for managing other catastrophes of its kind because of the lessons for future risk mitigation measures," he says.

Luzzi also points to the 1999 earthquake in Izmit, Turkey. "This was quite symbolic of the impact of natural catastrophes in developing countries. Izmit was and is an industrial centre, and several European multinational companies suffered as a result of this event. It was the first big demonstration of the impact of a catastrophe on their logistic supply chains."

The earthquake also pointed to a new way to deal with construction in regions with such seismic characteristics all around the globe.

According to Willis ERM head and analytics managing director David Simmons, the major losses that occurred in the late 1980s and early 1990s caused big shifts in the insurance market. "There was a realisation that practices that had served the market well for many years were beginning to fall away. Insurers began to realise that they needed to change," he says.

"At the same time, tools like catastrophe risk models began to become available. Underwriters started using their in-house computer systems to build and develop risk management techniques that allowed them to perform active risk management."

> *'There was a realisation that practices that had served the market well for many years were beginning to fall away'*
>
> **David Simmons** Willis

Asbestos crisis

It was not just natural catastrophes that caused ripples through the insurance market. Ferma secretary-general Pierre Sonigo says: "The asbestos crisis, which plunged into difficulty even such a temple of insurance as Lloyd's, was felt as a psychological shock and a major surprise. Claims of a previously unknown magnitude could threaten large insurers and even the oldest British institution, and previously unknown exclusions started to appear in insurance contracts, first for asbestos, then pollution."

Allianz Global Corporate & Specialty France chief executive Thierry van Santen – who was former Danone group head of risk management, Amrae president from 1992 to 1998 and Ferma president from 2001 to 2005 – points to the fact that insurance cover began to broaden during the decade.

THE BIRTH OF AMRAE

AMRAE PRESIDENT AND MINING group Eramet's director of risks and insurance Gilbert Canameras comments:

"Two associations of French insurance buyers met in the early 1990s and organised a first congress in Bordeaux in 1992 to see if they could produce together some relevant scientific contents.

"It was a real success. Therefore, they decided to merge. Amrae was created three months later with two key aims:

- to establish a strong platform to influence the insurance and broking markets to improve their skills and processes; and
- to promote the development of enterprise risk management – a small number of participants had encountered the concept in the USA and saw the value of adapting this for incorporation in the French culture."

"We went from policies that focused on fire and external events coverage, boilers and machinery, business interruption and so on, to covers that included other eventualities such as flood and earthquake," he says.

Sonigo agrees. "'All risks except' covers in property and liability emerged – even contracts that grouped together property, liability, transport and automobile in one and the same policy. If the client wanted it, these contracts became pluri-annual, lasting three or five years. However, all these innovations, though interesting, did not last long and today have about disappeared," he says.

Simultaneously, changes in regulation spelt strong liberalisation for the European


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The 1999 earthquake in Izmit, Turkey, was one demonstration of the impact of a catastrophe on European companies' logistic supply chains

insurance industry and increased competition. Van Santen says: "At the end of the 1980s and beginning of the 1990s, many national markets were tightly controlled by the local insurance associations, which drove prices by imposing rate tariffs. Gradually the barriers came down. The EU single market directive meant that it was possible to issue a single policy for all a company's risks in the member states, rather than having local policies in each country."

Insurance market consolidation also reduced the number of insurers involved in underwriting international business, with just a few players emerging as leaders.

Globalisation

These were important developments in the light of another emerging trend: globalisation. Gras Savoye's deputy managing director in charge of sales and client strategy, Renaud de Pressigny, says that for many companies the 1990s marked the start of a new global approach.

"Large industrial corporations began moving most, if not all, of their production to developing countries, while companies were seeking to expand internationally, discovering new markets," he says. "The result was exposure to hitherto unknown risks." It is, of course, a trend that has continued to the present day.

In addition, says Luzzi, there was an event of seismic proportions in the electronic world. "The genesis of the internet took place during the 1960s, but the real worldwide impact occurred during the 1990s. Since 1995, the internet has had a drastic impact on culture and commerce, including the rise of near-instant communication by electronic mail, instant messaging, voice over internet protocol and now blogs and social networking, as well as online shopping and trading.

"This change of technology modified quite drastically the risk management, loss prevention and security approach to everything."

The 1990s were also a decade of political upheaval. The decline of the Soviet Union had been foreseen for more than 10 years. Its collapse occurred not because of sophisticated weaponry but a poor economy that remained so for many years and could never sustain any political system. Luzzi says that, in the aftermath, the world went to eastern Europe to invest, "but integration has been slow, and several decisions in risk management were later modified".

For Sonigo, the outstanding feature of the 1990s was the development of the role of the risk manager in European businesses. "Before this, some companies had a director of insurance whom brokers pompously called 'risk manager' out of flattery," he says. "His role was often limited to his country of origin, and his place in the corporate hierarchy was not high."

A true science at last

"Then the role of risk manager became more important, allocated to a senior executive whose functions extended across all the group's worldwide activities," Sonigo adds. "He or she would put in place global programmes for risk prevention and for insurance.

"The management of risks became a true science [the cindyniques, a term coined in the Sorbonne for groups studying risk] and was taught in universities and other important academic institutions. Having started with US risk managers as their role models, European risk managers overtook them in the extent of their responsibilities, increased position in their organisations and their qualifications," Sonigo says.

Day by day, the world at large became more sensitive to risks and their consequences (such as the Exxon Valdez oil spill, the collapse of the Soviet Union, the European windstorms at the end of 1999). The result, says Sonigo, is that risk managers suddenly found that everyone recognised their role. **SR**

DECADE OF CHANGE

01: A spate of natural catastrophes, putting pressure on insurers as well as their clients

02: Liberalisation of the European insurance markets with broader policy wordings and the emergence of international business insurance leaders

03: More companies embracing globalisation – and consequent exposures to 'new' risks

04: The internet 'took off' – creating a whole new set of risks

05: Political upheaval presenting both challenges and opportunities to the industry

06: The transformation of insurance buyer into risk manager – and wider appreciation of the role

CRISIS POINT Run-up to 2008
The darkening clouds gathering over financial services as the world looked ahead to a new century was just one example of how increasing complexity and interconnectedness came to shape risk management in the noughties

Hubris: before the storm

The seeds of today's economic woes can be found at the start of a decade that saw huge social change and the risk management profession come of age

IN MANY WAYS THE MOMENT THAT would define risk in the noughties – and the decade beyond – came in 1999 when US president Bill Clinton responded to heavy lobbying from the banking sector and repealed the 1933 Glass-Steagall Act.

This legislation was intended to remove forever the conditions that led in part to the Great Crash of 1929 by forcing the separation of the commercial and investment wings of banks.

"Customers no longer knew if they were walking into a safe haven or a casino," says Katoen Natie chief risk officer Carl Leeman. The repeal opened the door for the trading and underwriting of complex financial instruments, including the subprime loans that would rise from around 5% of US mortgage lending in 1999 to nearer 30% by 2008, with credit default swaps supposedly eliminating risk.

But the stormclouds gathering over financial services as the world celebrated a new century were just one example of how increasing complexity and interconnectedness came to shape risk management in the noughties – the decade when, in many ways, the profession came of age.

"To me, the development of risk management has some similarities with that of the 'boiling frog' story," says DLA Piper chief risk officer Julia Graham. The story says that if a frog is placed into boiling water, it will jump straight out and survive. But if it is put into cold water, which is then slowly heated, the frog doesn't notice the change in temperature.

"Over time as the water heats up, the frog drifts into unconsciousness and isn't aware when the water gets so hot it's too late and dies. Risk management has evolved over the years and until the jolts of 2008 – and in 2010 – our profession was also, in some organisations and to some degree, gently going with the rise in the world's natural and financial temperature."

In the 1990s, risk managers were still mainly insurance buyers and 'risk management' was mostly associated with manufacturing, local authorities, health and education. But all that was to change in response to the pressures and complexities of the new millennium.

French multinational PPR's risk manager, Anne-Marie Fournier, says: "There has been a complete change from insurance handling to a purer form of risk management.

"Risk prevention and risk mapping now form part of the tool set of modern risk managers. Meanwhile, insurance conditions have drastically changed from standard wordings to fully tailored solutions mainly based on 'all risks' mechanisms, as a result of pressure from risk managers.

> *'There has been a complete change from insurance handling to a purer form of risk management'*
>
> **Anne-Marie Fournier** PPR

"Better knowledge by risk managers of the exposures of their companies is enabling some to assess and potentially report to senior management on these issues. This includes presenting to audit committees and risk committees, and taking questions from the board on risks and insurance coverage.

"However, there is a need to be much more detailed in identifying and quantifying these exposures and for greater imagination relating to future exposures."

Quite how much imagination would be required to appreciate the risks the new century presented was starkly illustrated early on the morning of 11 September 2001 when the first plane hit the Twin Towers.

For many risk managers, this event illustrated that risk was global and had wide repercussions.

Mining group Eramet's director of risks and insurance, Gilbert Canameras, who is also Amrae president, says: "The events of 9/11 illustrated not just the dangers of terrorism risk but also the significance for other risks and for the insurance community resulting from just one event. This had consequences on limits of capacity in the market."

Canameras says 9/11 highlighted the need for risk managers and their companies to diversify. "It showed the potential dangers of concentrating key assets – people, information, equipment and so on – in a single location. Similarly, the event also highlighted for risk managers the need to diversify their insurance and to use several underwriters rather than a single insurer."

This position was repeatedly reaffirmed as the increasingly globalised world faced up to the impact of globalised risk: from war in the Middle East to tsunamis in the Pacific, nuclear accidents in Japan and

COMMUNICATION IS KEY

AS THE MILLENNIUM ARRIVED, CONSUMERS WERE ALREADY getting excited about two products that would, in many ways, come to define the noughties: mobile phones and home broadband. Together these technologies would change forever the way people communicated, both with each other and companies, opening a new front in corporations' battle against reputational risk. With the arrival of social media mid-decade, companies found that they had to rapidly move beyond the traditional PR executive talking to the press. Now every disgruntled customer had a megaphone to voice their opinions online, corporate mistakes found their way onto YouTube and Flickr, and employee indiscretions could live on forever on Facebook. The game had changed – and it would keep changing.

terrorism in Europe. All these events exposed the fragility of companies to disruptions in their increasingly complex, just-in-time supply chains, often occurring thousands of miles away.

Airmic chairman John Hurrell says: "[The Japanese tsunami] was a wide area incident, a huge number of interconnecting aspects of society were affected, and that's something we need to prepare for."

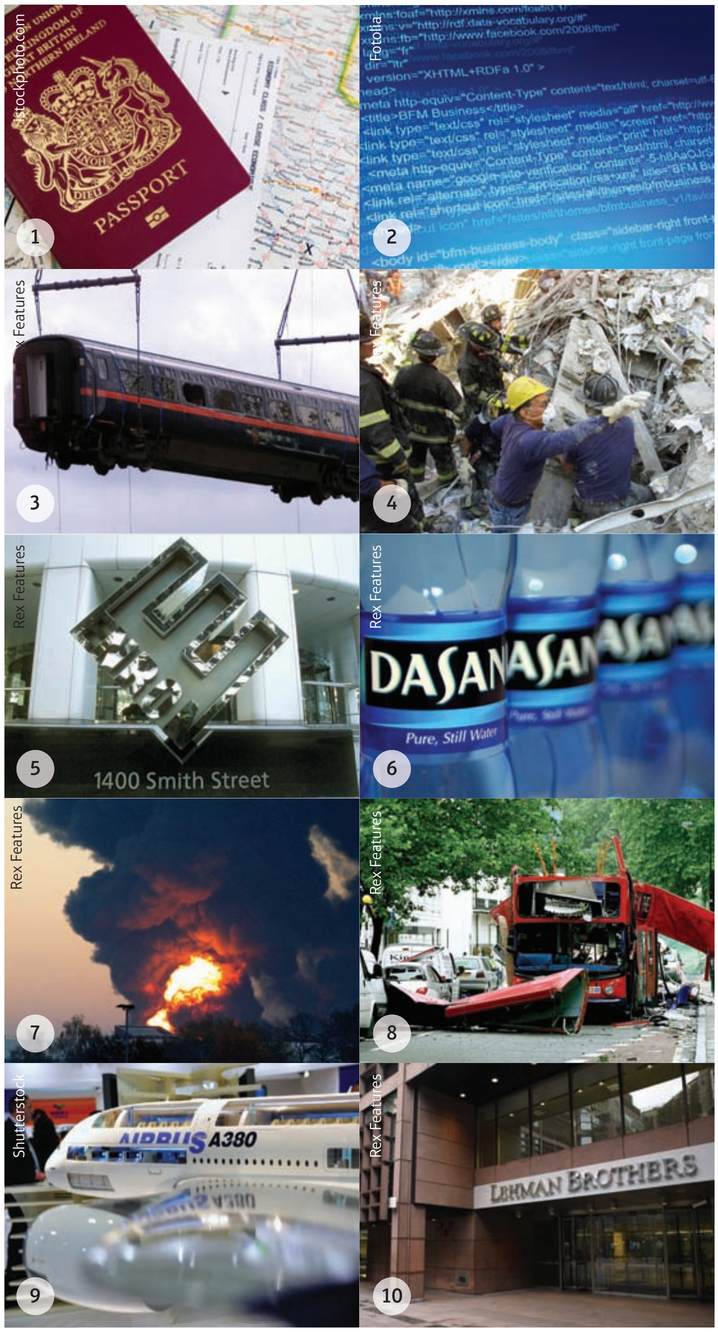
"In the UK, we've seen similar, if far less serious, events in recent years and we should take that on board when we look at risk. We've had largescale floods, we had the Buncefield fire and two winters where large parts of the country have been iced out – and who knows what's on the horizon? There could be a pandemic, more floods.

"The core point to take away is that each time any of these events has occurred, it has exceeded our planning by some order of magnitude. It's time to think the unthinkable and see where that leaves us."

That seems good advice for all risk managers as we look at a future with serious, unquantifiable threats looming large over coming decades, from climate change to the eurozone crisis, the possibility of a hard landing for the Chinese boom, social disruption across the Middle East, rising energy costs, an ageing population increasingly reliant on care from heavily indebted states, skyrocketing youth unemployment and the threat of war with Iran.

For the first time in decades, parents across the Western world can no longer be sure that their children will have better lives than them. Good risk managers are needed to negotiate a troubling uncertainty at the heart of our society. **SR**

TIMELINE: RISK EVENTS THAT DEFINED THE NOUGHTIES



1. **UK Passport Agency (1999)** When a new IT system failed spectacularly, there followed a large bill for compensating people who had to cancel holidays when new passports did not arrive.
2. **Dotcom bubble (2000)** A classic boom-and-bust that blew holes in stockmarkets as internet hype led many to invest recklessly in companies that rapidly went bust.
3. **Hatfield rail disaster (2000)** The crisis of confidence that followed this crash led directly to the collapse of Railtrack as the UK's monopoly rail infrastructure supplier.
4. **9/11 attacks (2001)** An unforeseeable event that abruptly set the tone for the decade and beyond, defining Western foreign policy, affecting economies around the world and led to two wars.
5. **Enron (2001)** Enron won Fortune magazine's most innovative company award every year from 1995-2000 and the exposure of its crooked accounting practices shook business certainties to the core.
6. **Coca-Cola Dasani (2003)** A rapid and effective response to the disastrous launch of new drink Dasani illustrated the benefits of a solid crisis plan.
7. **Buncefield (2005)** The explosion at an oil depot in Herfordshire affected many businesses exposed to fragile just-in-time supply chains, plus an inadequate safety culture at the site and its poor communication plan.
8. **London terror attacks 7/7 (2005)** The attacks introduced the UK to a new risk: so-called 'clean skin' terrorists, unknown to the intelligence services.
9. **EADS Airbus 380 (2006)** This pan-European project exemplified the risks of working internationally: the electronics simply wouldn't wire together.
10. **Lehman Brothers (2007)** When the US government unexpectedly let Lehman Brothers collapse, the shock seized up global finance and led to the credit crunch.

AN ERA OF OVER-CONFIDENCE

THE NOUGHTIES WERE A TIME WHEN MANY BUSINESS people seemed to ignore risk. With hindsight, it's hard to believe that we didn't prepare better for the two great crashes of the period – the dotcom bubble and the financial crisis – as the signs were there for all to see. Every bubble that has popped and every financial mania in history has been preceded by the same symptoms: an uncritically accepted growth story, easy credit and over-borrowing, an investment boom – and lots and lots of conspicuous consumption. All of which were present in spades throughout the noughties. It seems we just refused to believe it could happen again. And again.

CHAPTER 3

A NEW WORLD ORDER 2008 and beyond

Outsourcing and a greater use of suppliers and sub-contractors means risk managers have moved away from risks focused on property to ones focusing on liability and business interruption; from a world of first-party risks to one of third-party risks

Crisis is the new normal: risk management since 2008

Globalisation means dealing with risks – and catastrophe – all over an increasingly uncertain world

THE RISK MANAGER'S ROLE HAS changed dramatically in the last 20 years. In most large corporations the insurance buyer of the early 1990s has been transformed, with insurance just one of the tools that today's risk manager uses to counter the adverse effects of risk.

Gras Savoye deputy managing director of sales and client strategy Renaud de Pressigny says risk managers today face risks all over the world, unlike 20 years ago when the focus was much more domestic. He says: "Today's risk managers are exposed to natural catastrophes in new territories, copyright or counterfeiting issues in emerging markets, political risks, and credit risks in countries where the financial data is scarce and the quality is questionable. All these trends will certainly continue and are changing the risk manager's job.

"Outsourcing and greater use of suppliers and subcontractors means we are moving today away from risks focused on property to ones focusing on liability and business interruption. Risk managers have moved from a world of first-party risks to one of third-party risks, also taking account of stakeholders and NGOs. It has changed the ways that they need to operate internally."

His advice is to break the silos. "Many companies have lived for a long time with silos, which can be by product division, geographies or whatever. Now risk is everywhere and risk managers need to be able to establish bridges internally with all their departments: safety, human resources, procurement, IT, and so on.

"For example, the IT department's focus used to be on protecting company data. Now the most important issue is protecting clients' data. Risk managers need to be facilitators – the focal point of all areas within a company that is handling and managing risks well."

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Events like the tsunami in Japan brought home the impact of globalised risk

'Since 2008, the world has appeared to be in a permanent state of chaos'

Pierre Sonigo Ferma secretary-general

De Pressigny adds: "It is important to be clear about the limits and power of insurance. Insurable risks are only a part of the total world of risks to which companies are exposed. However, at the same time, insurance provides a great deal of understanding on how to control risks and put an estimate on the cost of risk, so it can make risk easier to handle."

TOP 10 RISKS

StrategicRISK's 2011 Risk Report summarises the concerns of some of Europe's leading risk managers, who identified the top 10 risk concerns as:

1. **Economic recession and recovery**
2. **Political turmoil**
3. **Climate change**
4. **Data theft and leakage**
5. **Regulation**
6. **IT security**
7. **Energy and commodity prices**
8. **Crime and corruption**
9. **Civil unrest**
10. **Exchange rates**

Allianz Global Corporate & Specialty France chief executive Thierry van Santen – also former head of risk management for the Danone group, Amrae president from 1992 to 1998 and Ferma president from 2001 to 2005 – says the landscape has changed dramatically, with many European companies having much of their risk based outside the continent.

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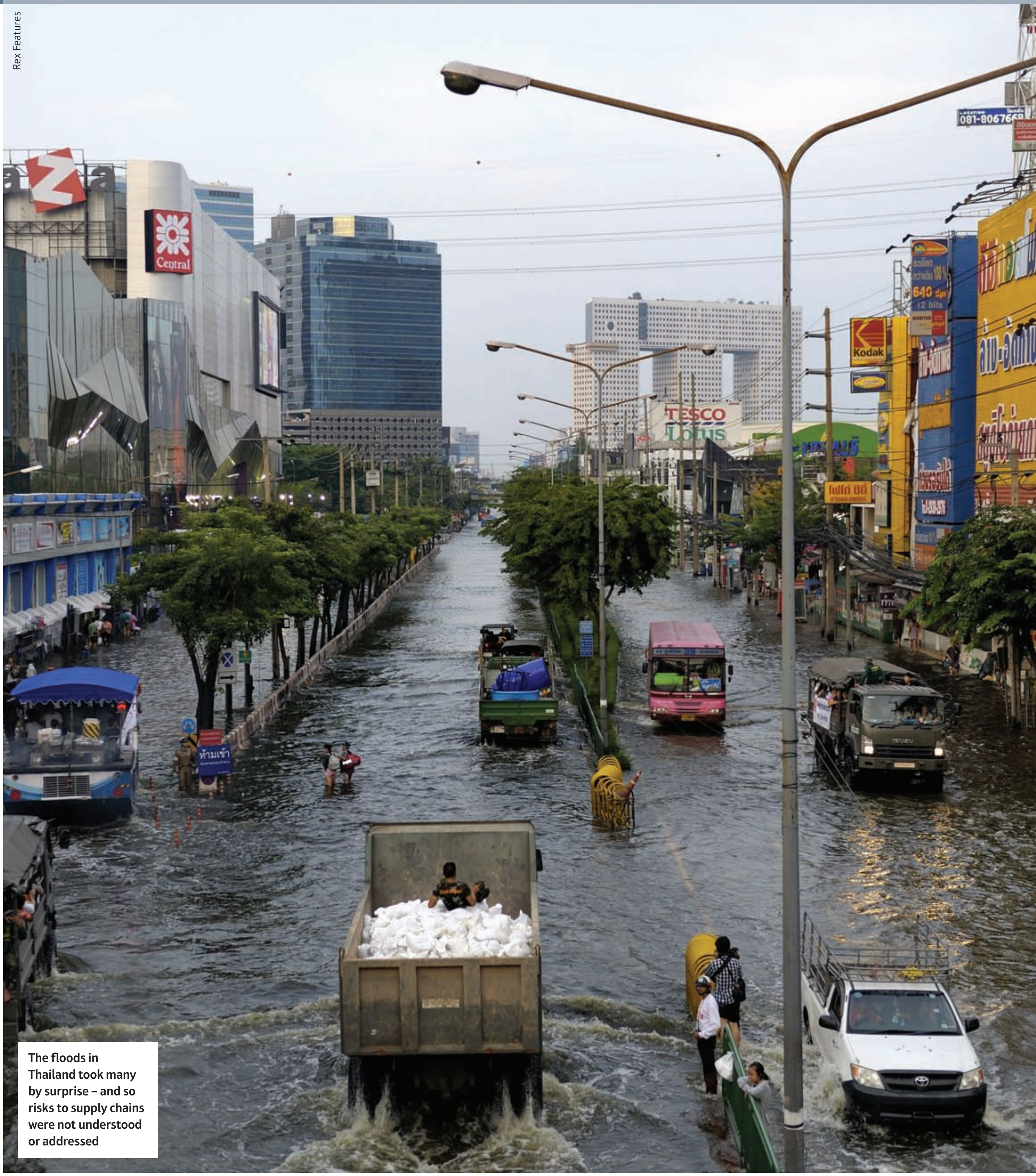


The floods in Thailand took many by surprise – and so risks to supply chains were not understood or addressed

"Today's risk managers have to face natural catastrophes and other risks specific to areas that they – and the insurance market – may not have addressed properly because of the lack of good risk models," he says. "Current models focus specifically on certain types of risks, such as earthquake and flood, but in many countries the risks are not really well understood and addressed. Taking Thailand as an example, if there was a flood 50 years ago the country had no industry to speak of, so nothing was insured – or modelled.

"The result is that today's risk managers trying to address these risks have difficulties in finding the right expertise. Sometimes it may be too late. If the company has already built a factory in a flood area, what can they do about it? Managers are running after the risk."

Pirelli group risk management director and Ferma president Jorge Luzzi says that, since 2008, industrialised countries have struggled to regain economic stability. "Countries like Brazil used to be seen as countries with a big, positive future; the same applied to China and India. Yet,

FUTURE CHALLENGES

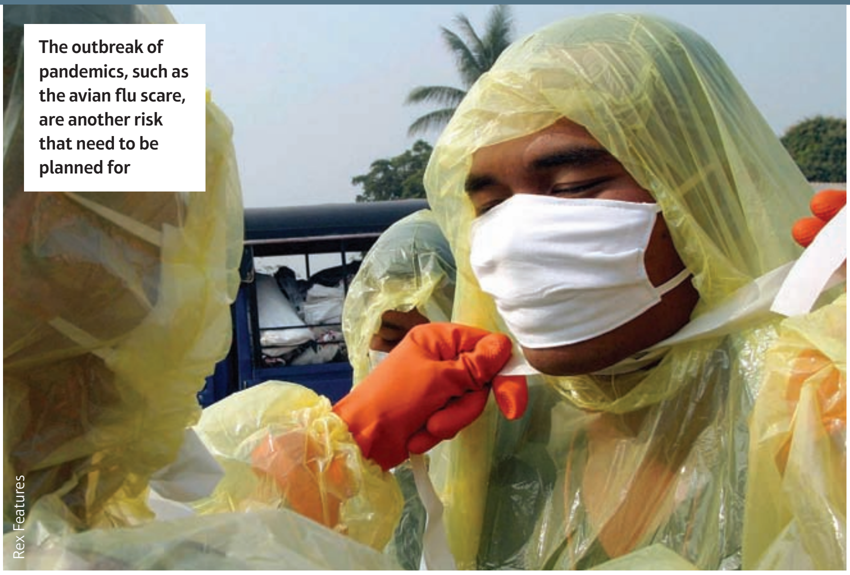
Globalisation – coming to grips with dealing with risks in countries where cultural differences, likelihood of natural catastrophes, and lack of authentic data pose particular difficulties

The need to incorporate **enterprise risk management** – silos have no place in today's risk world

Coping with rising **third-party risks** – potentially likely to overtake own property damage considerations (if they haven't already)

The ability to **make the right decisions quickly** while they are still relevant – today's world is changing fast

Networking – comparing problems and strategies with peers at European risk management association events like the Amrae Les Rencontres can provide useful pointers


Rex Features

The outbreak of pandemics, such as the avian flu scare, are another risk that need to be planned for

nobody had been expecting that such a modification of the world economy could happen at the starting point of the 21st century. The world has a lot to learn from these big, but also different, kinds of societies.

"Brazil, India and China have a culture of commerce and quick decisions, while the developed world is still acting as it did in the past when rapid communication did not condition them to take quick decisions. Even a good decision can take so long that it becomes a bad decision because circumstances have changed. This characteristic obliges all risk managers to act quickly and just in time. These new, big players will have a considerable effect on the future because they are quite different in culture, religion, and way of thinking to the traditional big powers," says Luzzi.

Ferma secretary general Pierre Sonigo takes a pessimistic view. "Since 2008, the world has appeared to be in a permanent state of chaos. Crisis has become normality and above all global – thanks to the internet – and uncontrolled. Governments admit their impotence to escape the situation and satisfy their citizens' expectations for liberty, a comfortable life and happiness. Risks have become planetary: epidemics, stock exchange collapses, corporate failures such as Lehman Brothers, Enron and AIG, tsunamis and earthquakes that block supply chains because of the failure of contractors. But it may be that 'we ain't seen nothing yet' and that what is waiting for us will turn out to be even more severe."

Amrae president and mining group Eramet's director of risks and insurance, Gilbert Canameras, agrees that the challenges are huge. "Natural catastrophes appear to be increasing both in terms of numbers and intensity. The consequences today tend to be much more severe.

"It is very important to consider where the company is sourcing products and equipment. For example, if it is building a plant in an earthquake-prone zone, it needs to ensure that the construction is strong enough to resist and avoid disaster."

> *'Natural catastrophes appear to be increasing both in terms of numbers and intensity. The consequences today tend to be much more severe'*
>
> **Gilbert Canameras** Amrae president and Eramet director of risks and insurance

However, despite the growing challenges, Canameras says that corporate risk management has improved significantly in the last two decades. "It may be because we have a lower risk appetite than in the past. This is due in part to the fact that we now have a regulatory environment that requires companies to show that they are taking appropriate measures to avoid the detrimental consequences of risks. Companies are much more conscious of the need to prevent risks occurring to avoid financial surprises."

He said: "In the last 20 years, Amrae has helped its members to develop risk management, and this is evident in companies that have totally integrated the concept. It is now seen not as a constraint or just a regulatory requirement, but as a tool that can help companies to create value and be winners in their competitive environment." **SR**