StrategicRISK

RISK innovation

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Showcasing risk management maturity around Europe

Scandinavia – success through collaboration and ingenuity

A sophisticated understanding of risk

How four nations are addressing pressures at home and abroad

It would be as wrong to generalise about ‘Scandinavians’ as it would be to generalise about ‘southern Europeans’. Yet there are important similarities and economic and social relationships between Denmark, Finland, Norway and Sweden that have helped to align their insurance industries and have meant that risk management has developed within them in parallel.

Perhaps the most important characteristic that organisations in these countries tend to share is a willingness to co-operate with companies from countries outside their own – a willingness that perhaps owes something to their shared histories and to the influence over centuries of powerful neighbours to the east, west and south. A second seemingly shared characteristic would be technical ingenuity. These qualities have helped Scandinavian manufacturers and service providers of all kinds to achieve great success all over the world. The need to develop a sophisticated understanding of risk has been a natural consequence of this international success, while in recent years increased regulatory pressure at home and abroad and the changing nature of other existing and emerging risks have added to the pressure.

This report examines how effectively insurers, brokers and risk managers are addressing those risks, and considers the benefits enjoyed by organisations that have prioritised the development of risk management and implemented enterprise risk management programmes.

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KEEP LOOKING FOR NEW, UNEXPECTED RISKS

Given the global success of so many Scandinavian companies, it's not surprising that risk management is blossoming in Sweden, Norway, Denmark and Finland

Employer-employee collaboration is one reason why Denmark's risk management infrastructure has developed more impressively than in the USA and Asia, with a strong record in improving health and safety management in particular, says Danish toy manufacturer LEGO's senior director of strategic risk management Hans Læssøe.

"Companies have been working very closely with trade unions," he says. "Health and safety is a more natural function to have in-house here than it is in the USA. Here, it's based on agreements between employers and employees, rather than on legislation or lawsuits."

Still, Læssøe can identify areas where there is room for improvement: "At crisis management, we are evolving. Strategic risk management is still gaining momentum but from a low base. So operational risk is up and running and working as it should, and strategic risk is becoming a more active part of the company – in larger companies. In smaller companies it doesn't really exist yet."

Pharmaceutical firm ALK-Abelló's risk manager Dorte Serop says there is a promising trend towards the use of enterprise risk management (ERM) in Denmark, which is helping to ensure risk gets proper attention at board level. This percolates down to raise awareness of risk issues throughout an organisation.

In Sweden, the development of risk management owes something to the success of the country's many multinational brands, such as Volvo, Electrolux, Ikea and Ericsson. Security equipment manufacturer ASSA ABLOY's group risk and insurance manager Fredrik Finnman says: "That has created a big demand for risk management within those organisations."

He says the spread of good practice in the discipline has been boosted by the less hierarchical management structure often found in Swedish companies. "Since the 1980s, that has created a more holistic, broader view of risk management than you see in other countries," he says. "The push into [ERM] started in the late '90s and has gradually progressed in the past 10 years."

Similar trends have become visible across Scandinavia, says former Finnish Risk Management Association president Lassi Väisänen, also former chief risk officer at telecommunications company TeliaSonera, who now runs his own consultancy.

"In the past 10 years the focus has been more about enterprise risk management, about training members to be more holistic, about how we can be much more part of the process when the enterprise is planning a strategy," he says. "Previously, people representing risk management in a company were insurance managers, but in the last 15 years there has been lots of change. Risk management was more compliance-related; now we need people more on the business development side, so they can better understand the business-related risks. It's more about focusing on strategy."

Naturally, the types of risks most likely to be in the forefront of risk managers' minds vary across the four countries, but there are clear trends. Catastrophe risk is frequently on the agenda. Marsh Nordics chief executive Mark Pollard says his company spends a lot of time working closely with clients to help them attain a deeper understanding of the catastrophe risks they face across the organisation. Cyber risk has become a bigger issue, with some companies beginning to express frustration at insurers' sluggish response in developing more affordable products to cover these risks.

The long tradition of Scandinavian business expansion abroad has helped give many companies and insurers plenty of practice in managing risks related to operations in other territories. ASSA ABLOY's Finnman reels off the list of risks his company has faced when expanding into parts of Africa and Latin America.

> *'In Mexico, we face security risks every day: we have been affected by shootings, by trucks being hijacked'*
> **Fredrik Finnman**
> ASSA ABLOY

"We have risks like corruption, risks around logistical challenges. You always have security risks. We have fairly large operations in Mexico, where we face security risks every day: we have been affected by shootings, by trucks being hijacked. But also, when acquiring companies in these regions, you have the problem that most risk management is not as good as it would be in the developed world, and the motivation to improve an understanding of risk management is not well developed."

Læssøe has worked at LEGO since the 1980s so has seen, at first hand, the many different challenges faced by his company as it entered new markets and started operations in countries worldwide. Aside from operational and financial risks, he highlights the effort LEGO has had to put into considering risks and constraints related to cultural differences.

For example, he points to South Korea, where employee satisfaction surveys are "entirely useless because saying anything negative about a manager would be regarded as a terrible insult".

As with risk management in general, it seems one important lesson these companies have learned is that successful international expansion is based in part on a willingness to keep searching for new, unexpected and unidentified risks.

Key points

Awareness
There is a trend towards the use of enterprise risk management in Denmark

Broader view
The spread of good practice in Sweden has been boosted by a less hierarchical management structure

Tradition
Scandinavia's tradition of overseas expansion has provided plenty of risk experience

THE TOP RISKS

1 Supply chains

Many of the issues that cross the average Scandinavian risk manager's desk are related to the international nature of supply chains. ASSA ABLOY, for example, has 100 factories in 60 countries. Selling products across many jurisdictions also means product liability risks can become a significant issue. International compliance is an ongoing headache too, as is compliance in general (see Hot Topic, right).

2 Catastrophe

Catastrophe risks and also extreme weather risks are a concern for many companies across Scandinavia. In summer 2011, severe flooding in Copenhagen was a powerful illustration of the potent nature of these types of risks. In Norway, the thriving oil industry contends with multiple operational risks.

3 Cyber risk

A growing number of companies are also grappling with cyber risk, created by more sophisticated IT security threats and the financial, regulatory and reputational problems associated with data theft. Electrolux head of risk Lennart Edstrom says: "The risk management community has a tendency to be too focused on the traditional kind of risk management, the insurance side, which makes them forget about new and evolving risks. Cyber risk is a good example. It's quite difficult for a multinational company like Electrolux. It can be difficult to understand which part of the company owns or is responsible for mitigating this risk, as it overlaps many different departments."

4 Computers

Finnish risk management consultant Lassi Väisänen highlights another type of IT-related risk: "If you are investing in a big IT project, how do you deal with the risks of getting this programme ready in time to get the benefits? IT can be a big black hole," he says.

HOT TOPIC

COMPLIANCE

Concern over risks related to regulatory compliance appears to be widespread in many Scandinavian organisations. For some risk managers there is no bigger source of frustration. "National and international bodies are implementing their own varying rules and regulations, which means compliance can be a huge challenge," says Electrolux's Lennart Edstrom. "The variations between different regulatory bodies pose a growing challenge for multinational companies.

"Six or seven years ago, 2% of my time was taken up with compliance. Now it's more like 15%, which is a huge jump in a short time and I'm not sure that this increase in regulation is bringing much benefit. Of course compliance is important, but the regulations are becoming more and more complex and perhaps more inefficient."

In Denmark, LEGO's Hans Læssøe concurs. "The legislative bodies in Scandinavia have a high product safety and goal agenda, and they're very, very effective," he says. "That provides Scandinavian and Danish companies with a bureaucratic burden that most companies from elsewhere don't have. So we have a legislative overdrive that hampers our competitive edge.

"And we have a complicated tax system and the highest taxes in the world. That's dangerous, because all of those countries are small, with 5, 6, 7 million people each. So major companies, like Sony and Ericsson, are all depending on exports. We can't rely on a domestic market."

EXPERT VIEW

LOUISE DENNERSTAHL,
CEO, ZURICH NORDIC

CONSEQUENCES OF CATASTROPHES

The key concerns of risk managers here in the Nordic countries can really be split into two categories: short term and long term.

Short term, one of the issues with the natural catastrophes that took place in 2011 is that everybody realises that the impact and the related losses have increased significantly. With that in mind, it's not going to be like it was in the past; we expect as a consequence of these catastrophes that rates are going to increase in the market and that there might be reductions in capacity, higher deductibles and so on.

Long term, it's more about the integration of risk management within the company. It's the perception of risk managers here that they're getting more and more integrated.

Companies really need to manage their risks much more proactively than they have done in the past, and I think most are already doing that.

Zurich has 140 years' experience in this field; we have a global network, which is extremely well interconnected. We serve customers in more than 170 countries, and we also have the tools and capabilities to make sure that the programmes we put in place for these large corporations are compliant in terms of regulation, taxes and licenses.

I think the key to this is that we have a long-lasting experience in carrying out risk analysis, and we know how in a lot of territories that could be new to some of the customers.

The role of a risk manager is to identify and monitor their company's overall risk exposure, and really drive the enterprise risk management through their organisation. I think the performance and how you work with senior managers is probably something that is changing. For some companies they are already reporting to, or having direct access to, the board.

UNDERSTANDING RISK
BRINGS BENEFITS

Enterprise risk management is in the ascendancy among large Scandinavian companies, but the efficiencies it brings also offers opportunities for the region's many smaller firms

Key points

Size matters
ERM is better established among the region's larger organisations than smaller ones with fewer resources

Growth
Spirit of co-operation has helped the risk manager's role evolve

Knock-on effect
Small companies can benefit from large firms' better understanding of risk

Factors have combined to boost the profile of risk management in Scandinavia over the past decade. Enterprise risk management (ERM) is being implemented by many companies, although it tends to be better established within larger organisations.

Security equipment manufacturer ASSA ABLOY's group risk and insurance manager Fredrik Finnman is modest about his company's progress towards the ultimate goal of ERM: a unified, accurate view of risk across the whole organisation. "We are not as mature as other Swedish multinationals; we're a pretty young group, created following a merger in 1994," he says.

"We're a very diverse company where local management and divisional management has a high degree of independence. But if you talk about Sweden in general, most multinationals are dealing with or already have that process for ERM, where they either have a chief risk officer or a group risk manager in charge of that process."

Finnman believes that the less hierarchical management structures often found within Swedish companies have made them particularly fertile for the cultivation of ERM approaches from the late 1990s. He believes that spirit of co-operation has helped the risk manager's role evolve from being a co-ordinator of risk identification and mitigation processes into one that can also inform strategic business decisions at board level.

Pharmaceutical company ALK-Abelló's risk manager Dorte Serop sees similar trends in Denmark. "I would say there's been a big change, from just looking at insurance-related risk management to ERM," she says. "This change has been driven partly by risk managers – we were the first to see the need – but also, boards of directors have come to understand that it is their job to oversee it, to ensure compliance and use [ERM] to govern the company."

Serop says that her company has adopted ERM slowly over the past five years as she, other managers within the company and "a focus from the outside world" have combined to push the project forward.

She says the prioritisation of risk management tasks is now influenced by input from the company's country managers outside Denmark: a co-ordinated approach that she believes would have been unthinkable in most companies 10 years ago.

While Serop finds it hard to single out any particular project that has been directly, significantly boosted by ERM, she suggests that it plays an important role in helping to make the company more efficient: "It helps to streamline the company in different areas."

LEGO's senior director of strategic risk management

Hans Læssøe started working on an ERM project for the company in 2008. By then he had already been working for the business for more than 25 years, building an inside knowledge that has provided a significant boost to the project.

"I knew the company very well and I knew a lot of the people," he says. "I knew I needed to take a product developer's view and I knew which of them could see beyond his own area. I knew which planners could see beyond supply chain planning, which finance planners could see beyond P&L. So that has been good."

He says his experience in working in several different areas of the business also helped him to understand how actions in one area might affect another: "I can see linkages between the different areas: if you do this in sales, what will it do to product development, what will it do to marketing?"

> *'I would say there's been a big change [in Denmark], from just looking at insurance-related risk management to ERM'*
> **Dorte Serop** ALK-Abelló

Sweden is home to many large multinationals, Ikea being one of the most famous

The key benefits of ERM, such as improved security, better focusing of resources on risks in most urgent need of mitigation, identification of risks that could be exploited to gain competitive advantage and increased risk awareness across the organisation, are more likely to be realised by larger companies with the resources to develop ERM.

But Læssøe believes the consequences of those companies improving their understanding of risk may also have indirect benefits for smaller companies, of which Denmark in particular has a large number.

For example, he suggests, new opportunities may appear for more Scandinavian companies as multinationals start to rethink their strategy of basing production facilities in parts of the Far East that are subject to growing political, economic and climate-related risks.

"Denmark is defined by a large number of small companies," he says. "Two-thirds of all Danish people are employed in companies with less than 50 employees. This means that we may not have a lot of risk management, but we do have a lot of agility in the country, because small companies are more agile than larger companies."

If so, this would represent another illustration of the positive impact that an improved understanding of risk issues could have for a country's wider economy, as well as for specific organisations.

HOT TOPIC

FROM THE VIKINGS TO IKEA: TAKING AN INTERNATIONAL APPROACH

Scandinavians have been deeply involved in international trade for centuries. One might say, with tongue in cheek, that the Vikings were simply practising an unusually aggressive commercial strategy when they raided or settled in regions of Europe from Ireland to the eastern Mediterranean and sailed west across the Atlantic to Iceland and what would later be known as the New World.

In more recent centuries, the innovation and quality of products and services provided by Scandinavian companies has led to the development of many world class, in some cases iconic, brands. They include technology giants like Ericsson and Nokia, and hugely successful companies in fields as diverse as motor transport (Volvo), domestic appliances (Electrolux), furniture (Ikea), toys (LEGO) and shipping (Maersk).

Innovation and quality of products and services has led to the development of world-class, in some cases iconic, brands

Other companies less well-known abroad have had a huge impact in their industries: Norwegian fish and seafood company Marine Harvest now has a 25%-30% market share in the global salmon and trout markets. Meanwhile, Norway has become the world's fifth largest exporter of oil and third largest exporter of gas.

This international influence and success has brought world-class talent and innovation in all these industries back to Scandinavia and has also helped to make the practice of both risk management and insurance in these countries highly sophisticated.

Today, while it certainly exposes companies to many risks and challenges, there can be no doubt that the international aspect of many businesses in Scandinavia has enriched greatly the economies and business cultures of these countries.


Hans Læssøe

UP THE LADDER THE KEYS TO A SUCCESSFUL RISK MANAGEMENT CAREER

A NATURAL EVOLUTION

Hans Læssøe has taken a circuitous route to reach his present position, but one which he believes has armed him with a wealth of relevant experience. After completing an MSc in electric power engineering in the early 1980s, Læssøe started working for LEGO as a computer programmer, then became a trainer supporting LEGO employees who were starting to use IT as a creative business tool. (This was, he points out, the pre-PC age, when his job involved writing programmes in the computer language COBOL on punchcards.)

From 1988 until 1997 Læssøe served as director of manufacturing strategy for LEGO, as its manufacturing facilities and supply chains expanded rapidly around the world. "We were building about 20,000 square metres of factories per year to catch up with sales," he recalls.

Subsequent roles have included director for strategic development and, as business and strategic controller, being operationally responsible for a section of the business employing more than 900 staff in seven countries.

In 2007 he was tasked with establishing and managing a new strategic risk management function to run in parallel with insurance risk management and treasury processes. The following year the focus on strategic risk was extended into a full ERM programme.

Having spent so long working in so many different parts of the company, Læssøe was able to communicate effectively with managers across the organisation and understand quickly how developments in one area of the business could affect other areas of the company.

The other important factor working in his favour was having a high level of backing within the company. "I've been given all the support from senior management I could have asked for," says Læssøe. "If I wanted more time, I got more time. My boss asked me if I needed more employees before I asked for them."

All in all, the story of Læssøe's career shows there are other ways to become a risk manager besides the traditional underwriter/broker apprenticeship served by so many risk managers. His success proves that skills learned through the study of engineering and an immersion in strategic planning, alongside – most importantly – a deep knowledge of a specific organisation, can be at least as effective.

'I've been given all the support from senior management I could have asked for. My boss asked me if I needed more employees before I asked for them'

KEY BENEFITS

At LEGO, studying risks within the company's planning processes revealed the true extent of volatility in the company's top line. "It showed we could take more risks," says Hans Læssøe. "That supported management in taking some bold decisions on investing in production capacity."

In 2008 he introduced Monte Carlo simulations, now used to guide risk appetite, based on simulations of worst-case scenarios compared to budgets. The solutions and processes his team put in place now enable the company to calculate a 'net earnings at risk' figure, which has helped the company to take more risks, with positive effects on the bottom line.

Among benefits the business has enjoyed as a result of the ERM programme, Læssøe picks out three in particular:

1. A consolidated risk database, which has provided "a base for prioritisation of which risks to make more or less serious".
2. Matching a consolidated risk exposure metric against a defined risk tolerance, giving the company the ability to take on more risks, such as investing in manufacturing capacity at a level beyond planned levels of growth.
3. Enhanced project risk and opportunity management have helped improve the chances of business projects succeeding and provided assistance to those facing difficulties.

FALLING SHORT

While there is plentiful capacity in Scandinavia, the service insurers provide does not always come up to expectations, and some areas, such as cyber risk, are poorly developed

Many of the world's major insurers and brokers have a significant presence in Scandinavia, particularly in Stockholm, a candidate for the region's insurance capital.

There is plentiful capacity for cover against a huge range of risks and in those areas where there is not enough capacity – in some risks relating to pollution caused by offshore oil and gas industry operations, for example – there are routes via which cover can be secured on the London market.

On the other hand, says Aon Norway attorney-at-law Matthew Connell, some Scandinavian companies may find they can get better terms and conditions with a local insurer because of that insurer's knowledge of local companies or industries.

Cover will often be arranged for 100% of high-value risks, certainly up to about $250m (€190m). This tendency to write 100% of the risk rather than opt for co-insurance can sometimes have the effect of reducing capacity in some areas, such as catastrophe risk.

Willis Sweden chief executive Johan Forsgard says the Swedish insurance industry is particularly strong. "The overall picture is very good and there is healthy competition both among risk advisers and insurance brokers and between insurers," he says.

"If you narrow the view to companies and organisations requiring more complex risk management services, the number of potential service providers, both in terms of risk advisers and insurers, naturally reduces to a few multinational companies."

Because Sweden has had a fairly international and globalised industrial base for many years, international trends in insurance and reinsurance tend to reach the country early. Swedish companies were among those pioneering the use of captives during the 1980s, for example.

Captives were popular in part because only from the late 1980s did brokers have much of an impact on the Swedish market. Brokers, including the world's leading players, now have a strong presence in the country, while consolidation has led to the creation of some healthy Swedish insurance companies alongside international names.

Yet, while the market clearly keeps at the forefront of changing trends in the industry, Swedish risk managers still have reservations about the service they receive.

Security equipment manufacturer ASSA ABLOY's group risk and insurance manager Fredrik Finnman says: "In lines of insurance where the industry is very active, like property and disruption insurance, where the loss prevention methodology is well developed, insurers are very helpful."

"But with something like product liability, the assistance I get from the insurance industry is not impressive. I don't feel I get the help I expect from them in terms of how we can improve management of and mitigate product-related risks."

Finnman finds insurers' coverage of cyber risks, for example, is not yet very well developed. "They do support us, but the capacity is fairly limited," he says. "Normally you need to approach several insurers and they always come back with a question about our liabilities – but we also need them to help us understand what cyber liabilities we might have. So there is a need for more collaboration between the insurance industry and insurance buyers."

In Denmark, pharmaceutical company ALK-Abelló's risk manager Dorte Serop also gives grudging approval to the services insurers provide to her company. "The capacity is, for the time being, sufficient," she says. "Of course we always ask for better rates.

"We have also experienced some restraints on the property side. Pharmaceutical companies are not so popular with liability insurers. I would like some more capacity from insurance companies for my liability programme, and a little bit more competition."

> *'With something like product liability, the assistance I get from the insurance industry is not impressive'*
> **Fredrik Finnman**
> ASSA ABLOY

In Finland, risk management consultant Lassi Väisänen says too many insurers are still failing to support clients keen to implement an enterprise risk management (ERM) approach. "Insurance companies are helping with the things related to insurance, but in most cases when they try to provide other risk management services they have not succeeded, because the mindset is all about incidents," he says. "They are not supporting how to develop ERM."

With so many companies from all four countries running operations abroad, the extent to which insurers can provide or support an international programme of insurance and risk mitigation is crucial.

Says Forsgard: "Sweden's large number of globally active companies has created a good local understanding of how to structure a global insurance programme from Sweden. This has also created a competitive market landscape in terms of capacity and network capabilities."

Aon Norway senior broker Kristine Giske Hagen says her company specialises in helping companies set up international insurance programmes and improve their understanding of global risks. "We use the Scandinavian markets for liability, property and cargo covers," she says. "For specialist risks, like aviation or political violence, we would go outside the Norwegian markets, going to London for the more specialist risks."

Connell adds: "It's quite common to have international programmes. Three to five years ago, some of the smaller »

Key points

World class
Most major insurers and brokers have a presence in Scandinavia

Think local
Local insurers with knowledge of local markets sometimes offer better deals

Building an industry
Consolidation has led to the creation of a healthy local insurance industry

> *'Contractual risk management is an area that's definitely expanding'*
> **Matthew Connell** Aon Norway

» Norwegian players struggled to place capacity around the world, but now everyone is able to do global programmes. If they're not, they're going to struggle."

But not all Scandinavian insurers are so well-equipped, says Marsh Nordics chief executive Mark Pollard."There are some [insurance] companies in this region that have a strong local presence but are really just Scandinavian insurers," he says. "They have adequate networks to arrange insurance elsewhere, but they don't always have a complete understanding of tax and regulatory compliance all over the world and we do occasionally see things happening that Marsh wouldn't do, things which wouldn't pass a strict compliance test.

"But one of the biggest insurers in Scandinavia is Zurich and they have been market leaders in compliance and have a very sophisticated point of view of how to deal with those issues," he adds.

Forsgard says that, in Sweden at least, there is a detectable difference in effectiveness between those insurers and advisers/brokers with their own global network and those which are part of an association of locally active service providers. "As a general rule, providers with their own global network are at an advantage," he says.

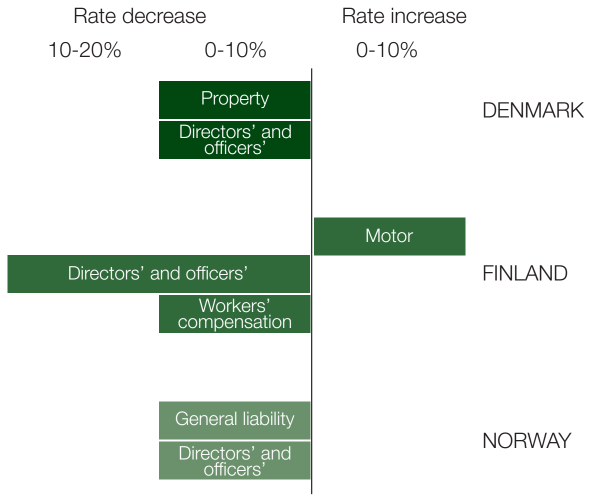
Among the usual risks insured in these global programmes, political or catastrophe are some of those with the highest profile. But the effort to ensure compliance with all local regulations has also become more of a concern for many companies.

Pollard says many of his clients now take a meticulous approach to ensure that every possible compliance risk is covered. He says: "Sometimes that's difficult: achieving that level of compliance is not easy at all. We spend a lot of time and energy making sure we're arranging things for clients that fulfil local requirements."

Connell says that contractual risks have become more of an issue for Aon clients in Scandinavia running international insurance programmes. "We review contracts, the indemnity scheme and the liability scheme in addition to insurance, working on improving those schemes, trying to shift as much liability away from the client as possible," he says.

"Contractual risk management is an area that's definitely expanding. The bulk of these international contracts are written in English and [Scandinavians speak] very good English, but this is quite complicated English and written by clever lawyers, so it's a good idea to get someone to take a closer look."

NORDIC INSURANCE MARKET TRENDS



Source: Marsh, Q4 2011

BROKER'S VIEW MARK POLLARD, MARSH NORDICS, CEO

A SOPHISTICATED MARKET

"The Scandinavian insurance markets are pretty well aligned with international insurance markets," says Marsh Nordics' Mark Pollard. "When you look at the options available, the insurers working here are pretty much the same as you would find in Germany, France or the UK. I don't think there's a huge difference in terms of what's available.

"There are a few areas where we would habitually go to London to get some of the covers that we'd find difficult to place in local markets, particularly contingency insurance and event cancellation insurance. Until recently, terrorism tended to go to London and the dominant market for those risks is still not the local market." He says that large aviation risks also tend not to be insured within Scandinavia.

"There's a tendency for companies to write 100% of the risk," he says. "You don't find the long schedule for co-insurance very often here. They tend to go for 100% then try to figure out the reinsurance. That can create a capacity squeeze in areas like catastrophe."

Insurance markets in Scandinavia tend to be softer than in most international markets for many types of risk, he says. "There's an increasing amount of capacity – we're currently talking about three or four new insurers bringing capacity into Sweden. Risk transfer is generally cheaper here than in other parts of the world, so the new capacity here is a little bit counter-intuitive from that point of view – new competition will hold rates where they are."

"There's no doubt that Scandinavia is more aligned with mainstream international insurance markets," Pollard says. "This market is closer and more directly influenced by international markets than some of the other markets in Europe. There are several routes to getting direct access to Lloyd's capacity, particularly for the more esoteric types of cover. The big insurers and brokers are all here. It's a sophisticated market."