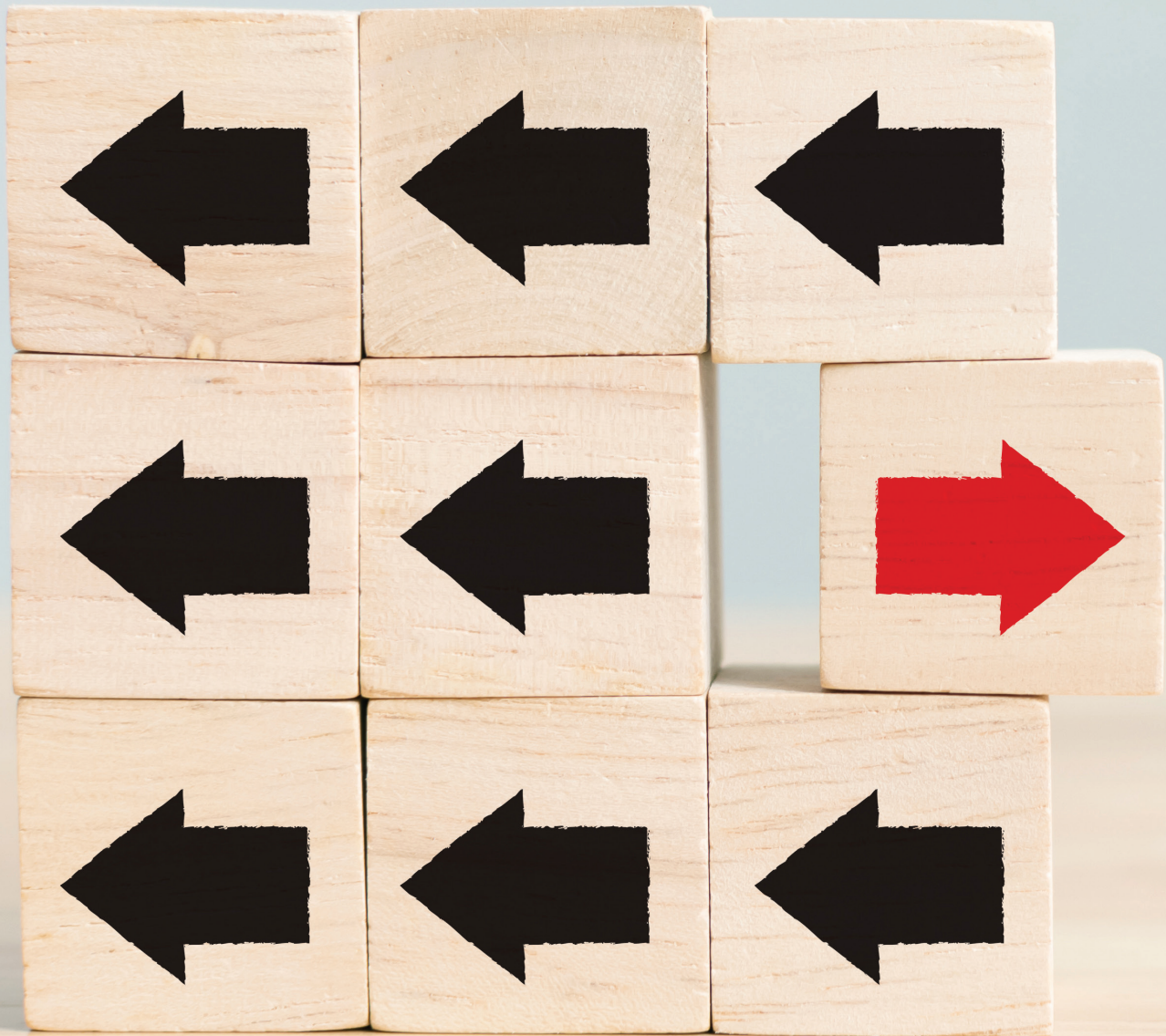


Risk management is at a turning point, pivoting from an operational to a strategic role. Corporate culture - the way risk is treated and the way we treat those involved in loss events - is critical to that change.



Senior risk managers gathered during the Dubai World Insurance Congress for a roundtable debate on the impact of corporate culture on risk management. The right culture is vital to truly embed risk in decision-making at the top level, and to deal with more uncertain risks, especially those involving human performance.

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Your place at the top table



RISK MANAGERS MUST HAVE EXPOSURE AT THE VERY TOP OF AN ORGANISATION AND ACROSS THE COMPANY TO INFORM THE HIGHEST LEVEL OF LEADERSHIP.

Risk management is changing. Historically, risk management was all about managing physical and operational risks – fire and explosions, equipment malfunctions, system breakdowns. But today's risk professionals are now more likely to be kept awake with concerns over business model threats from start-ups, the changing demographics of customers and employees, and emerging risks that could damage a new portfolio of intangible assets.

The risk landscape is volatile, uncertain and complex, and wrapped up in strategic disruption. And with this new environment comes a critical period for risk management as a practice and a profession.

New opportunities are being created for risk managers to take a more strategic role – helping management and the board make decisions on strategy as well as risk managing the threats to these plans. Risk managers need to elevate their positions from operational risk management to strategic risk management.

However, while several organisations have embraced strategic risk management as an integral part of their enterprise risk management framework, many risk professionals are struggling to get the airtime with the top table to make a positive impact on strategy.

This challenge formed the focal discussion point at *StrategicRISK's* Dubai roundtable, held during the Dubai World Insurance Congress in February.

Attended by senior risk managers from stock-listed companies across the EMEA region, the discussion, held under Chatham House Rule, focused on overcoming barriers to gaining greater strategic footing within an organisation, including board and C-suite engagement, cultural change and risk communication.

BEING HEARD BY LEADERSHIP

The biggest hurdle is board and C-suite engagement. Few risk managers are actively involved in management conversations about creating strategy and defining corporate objectives.

"How many of us are involved in any discussion about strategy and setting corporate objectives?" asked one risk manager from an oil and gas company.

He added: "Executive management create the strategy, define the objective and then ask risk managers to identify and manage the risks. Strategy and risk management should go in tandem and should be a process embedded at the point of creating strategy and defining corporate objectives."

This sentiment was echoed by a risk manager from a construction company. His message was that a corporate cultural shift is needed to ensure that risk management is recognised as a strategic-making tool across the company. But to achieve this, risk managers must have a seat at the top table.

"Risk managers must have exposure at the very top of an organisation and across the company to inform >



IN SOME ORGANISATIONS, I FOUND IT DIFFICULT TO MAKE RISK MANAGEMENT WORK BECAUSE I WAS SEEN BY COLLEAGUES AS MIDDLE MANAGEMENT, WHERE MY ROLE WAS TO ADMINISTER PROCESSES.



the highest level of leadership. Without this, risks cannot successfully be embedded and discussions about strategic risk management will not take place.”

He added: “In some organisations that I worked for, I found it difficult to make risk management work because I was seen by colleagues as middle management, where my role was to administer processes.

“When I moved to a different organisation, where I reported to the CEO, I was able to influence more parts of the organisation around risk thinking and strategic decision-making. Risk management had greater buy-in from executive management and from all departments across the company.”

TALK THEIR LANGUAGE

This is only part of the answer. Engaging colleagues from other departments is equally as important as getting buy-in from the very top. But this challenge is more about changing the perception of risk management from a function that “prevents business opportunities” to one that “enables business development”.

How to make this happen? Risk managers need to articulate their value by adopting their company’s ‘corporate language’, explained one risk manager who works for a utilities company

“We don’t talk about risk management or use terms such as ‘risk tolerance’ and ‘risk appetite’. We talk about performance and how it is related to the delivery of our corporate and strategic objectives.

“We measure and monitor performance, and think about risk management in terms of how we can increase the chances of successfully delivering each of the objectives. Corporate language and communication was key to this.”

Another risk manager emphasised the importance of applying different approaches to different internal stakeholders. “When I first rolled out a risk management process, the CEO went absolutely crazy. He went down to all the department directors and asked: ‘Why have we got risks in the organisation?’ It became known as The Red List.

“Business units didn’t want to talk to me, so I had to come up with a new way of redeploying risk management. I came up with different clock speeds: with the C-suite, I took a slow-burn approach to risk management. With the business unit directors, I took a fast-burn approach, and with the project directors I rolled out risk management. I then filtered the risks that went up to the C-suite.

“By doing so, the maturity level improved and ultimately, the fear of risk management slowly disappeared.”

This is a good case in point: challenges abound, but risk managers can have influence and can affect the cultural change needed in some organisations.

The evolving risk environment suggests that the demand for risk management is generally growing. Change is propelling shifts in risk management and risk professionals must step confidently into this strategic role. ■

Remember: Behind every human error is a human

On 7 September 2005, *Ryanair flight FR-9672 from Germany to Rome avoided a potentially fatal collision that would have put the lives of 166 passengers at risk.

The incident occurred on a daytime flight from Niederrhein in Germany to Rome's Ciampino airport. Midway through the flight, severe thunderstorms forced the captain to redirect the aircraft to Rome's Fiumicino airport.

In doing so, the pilot began missing air traffic control instructions, and started flying below safe altitudes, putting the plane at risk of crashing into other aircrafts. At one point during the incident, it descended below a safe height near hills. Air traffic tapes show the aircraft meandering above the airport and failing to line up with the runway. The pilot and his deputy made the decision to divert to nearby Pescara airport in Italy, where, finally, the plane landed safely.

An investigation was launched soon after. It found that the captain was psychologically unfit to fly because he had buried his three-month-old son days before and was too afraid to take extra leave because he feared losing his job.

This case study, presented by Ulrich Straub, risk engineer at Swiss Re Corporate Solutions, placed human performance integrity risk – the 'human element' that could affect critical performance – at the centre of discussions at *StrategicRISK's* Dubai roundtable, held during the Dubai World Insurance Congress.

Attended by senior risk managers from critical-safety industries, including aviation, construction, oil and gas, and energy, the discussion focused on the challenges that risk managers face in identifying such risks.

Human error brought on by bereavement, fatigue, personal stress and overworking, for example, can hinder critical performance and inevitably negatively impact safety, quality, profit and security.

The case of Ryanair flight FR-9672 illustrates the power human emotions can have on performance. But, as risk managers at this roundtable found, identifying human error before it emerges, and creating systems and safety processes for preventing it, are strategic challenges.

At the heart of the challenge is corporate culture.

EMPOWER STAFF TO SPEAK UP

In many high-pressured and results-driven industries, there is a propensity to remain quiet about personal and emotional issues that could affect performance and lead to large-scale losses, said one risk manager who works for an airline company.

"How do you ensure that all members of staff are fit to work? I have young children and when they are sick I will often be kept awake throughout the night, with very little sleep. I will suffer fatigue but will I speak up?"

"This is a corporate culture issue. Companies need to foster a culture that enables employees to raise such issues and feel comfortable with saying, 'I haven't slept much because my children are ill. Can someone cover me, and can I be deployed in a position that isn't safety critical?'"

"Employees, particularly those in critical-safety roles, have a responsibility to do this. But it is the manager's responsibility to ensure the right culture exists for staff to speak openly."

For many businesses, production is often prioritised over safety. This is an inadvertent trade-off: profits and volume capture the board's attention – much more so than human performance integrity risks. And so, the primary focus across the company will be on profits above all else, said a risk manager from a metals and



mining industry. “We’re human not robots. So, the ‘human element’ in risk will always be a factor that businesses need to manage.

“From an enterprise risk management perspective, the human factor should be something that everyone is talking about. This ensures that people-related risks can be prevented and mitigated. It is a corporate culture issue – and we need to effect change.”

SOLUTIONS ARE OUT THERE

There are, however, examples of good practice. The construction industry appears to be flying the flag in managing human performance risk, with innovative solutions using wearable technologies.

Biometric and environmental sensors are fitted into protective equipment such as hard hats, gloves, safety vests and work boots.

These sensors monitor and capture data on workers’ movements, repetitive motions, posture and slips and falls; as well as heart rate, body temperature and other vital signs. The device will alert safety managers of any members of staff who are suffering from issues such as

exhaustion, overheating and fatigue – conditions that if mitigated will prevent thousands of injuries on construction sites each year.

The risk manager whose organisation piloted the device has seen positive results. “Through algorithms, we were able to identify workers suffering from sleep apnoea,” he said.

“We found that they were only getting four hours’ worth of sleep. We got medical professionals in to address the issue. This really helped to eliminate issues of being afraid to speak up. It also demonstrated that we have a positive attitude and that staff will not be penalised for suffering a personal issue.”

Cultural change is, ultimately, a key solution to addressing human performance integrity risk – certainly in the long term. But as in the example of wearable technology, tools and services are emerging that can help better manage risk and engage workers in the safety process, in the short to mid term. This is explored further in our Expert View, below.

As for Ryanair flight FR-9672, fortunately this was a near-miss. The pilot lives another day to tell of the lessons learnt. And what are they? For one, to never underestimate the human factor in a potential loss event. ■

*Flight International

EXPERT VIEW: IF YOU THINK SAFETY IS EXPENSIVE, TRY A LOSS

The insurance industry pays out millions of dollars in losses that can easily be prevented, and a large proportion of these losses can be traced back to manmade and human performance integrity risks, that, at the time, may have went on unidentified.

Take the 1996 oil explosion at the Cactus gas plant in Chiapas, Mexico. A faulty and outdated valve caused 100,000 bbl of leaded and unleaded gasoline to burn out of control, resulting in \$175m of damages. It also killed eight people and injured 20 more. An investigation concluded that human error was the root cause. An error that could perhaps have been prevented with the right corporate culture.

Human performance integrity risk is traditionally very difficult to identify. One of the main barriers to managing such risks is the absence of a culture that empowers employees to speak up about issues that could affect critical performance – personal stress and fatigue, for example.

Whether the threat relates to issues such as human performance integrity risk, corporate culture or other unforeseen risk, risk engineers play a vitally important role by helping reduce the uncertainty, discover unknown threats, quantifying and mitigating losses to our insureds assets.

We’ve worked with many clients on identifying unanticipated risks. We start by conducting a detailed site visit and survey of everything from ‘hardware’ (process designs and protection), ‘software’ (management systems, audits and procedures), to ‘lifeware’ (safety culture, staff



WE CAN CHALLENGE THE CONCEPT THAT SOME RISKS ARE ‘UNINSURABLE’, AND WE CAN EXERCISE MORE INNOVATIVE THINKING, COMING TO A JOINT SOLUTION.



Ulrich Straub



Philip Brandl

motivation and alertness). During this stage, we discovered a gap in leading through a cultural change at one of our clients and successfully applied the Human Performance Integrity approach.


As part of this exercise, we use tools that can measure a company’s safety culture in general. We have also built a new tool to measure the resilience of an organisation their ability to react to any disruption. Reports are then drawn up, with recommendations of where improvements can be made and a joint risk improvement strategy is developed.

Some of these threats may appear uninsurable but through a collaborative approach, involving key stakeholders – risk engineers, brokers and risk managers – we collectively arrive to a decision together on what the best solution for any unforeseen risk should be. By doing so, we can challenge the concept that some risks are ‘uncertain’ or ‘uninsurable’, and drive innovative thinking to come to a joint decision on the solution.

With our industry-specific approach, we provide an unbiased, external view of the risk landscape, corporate culture and industry benchmarks. Combining the global experience of the Swiss Re group with local experts from various fields, we engage, learn, prevent and mitigate losses to our insureds assets.

It is critical to ensure that all three cogs are moving – the ‘hardware’, ‘software’ and ‘lifeware’. After all, if you think safety is expensive, try a loss.

Ulrich Straub, risk engineer and Philip Brandl, manager risk engineering services EMEA, Swiss Re Corporate Solutions



Your
groundbreaking
ideas

+

Our
pioneering
solutions

=

Creating
new opportunities



Swiss Re
Corporate Solutions

From road and rail bridges that span vast stretches of water to tunnel systems beneath busy cities, we all know how complex infrastructure projects are. You might think that insuring them must be too; but that's not the way we see it at Swiss Re Corporate Solutions. From financing to construction to operation, from surety to liability to property, our Infrastructure experts possess a wealth of hands-on experience. This enables us to apply a fresh perspective and cut through the complexity. We can even create tailor-made solutions to cover multiple exposures for a single project. Why should insurance be over-engineered? **We're smarter together.**

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