StrategicRISK

Risk and corporate governance intelligence

- NO OFF-THE-PEG RISK SOLUTIONS WITH THE ICONIC'S SARAH MCNAMEE
- THE LATEST TOUGH TRUTHS FROM OUR #CHANGINGRISK CAMPAIGN
- PUTTING A WAGER ON THE WEATHER
- AIRMIC'S INCOMING CHAIR TIM MURRAY ON MAKING OVER THE PROFESSION

EUROPE EDITION [Q2] 2019 | **Issue 117**

OUR WORLD AT WAR

As global superpowers show no signs of retreating from the trade battlegrounds they have created, companies must fight clever to avoid becoming a casualty of trade war.

www.strategic-risk-europe.com


partner.
IN LOCKSTEP WITH YOU, LONG TERM.

Q2 2019
EUROPE EDITION

StrategicRISK
www.strategic-risk-europe.com

CONTENT DIRECTOR
Kin Ly

EUROPEAN CORRESPONDENT
Sara Benwell

EUROPEAN CORRESPONDENT
Dan Ascher

COMMERCIAL DIRECTOR
Europe, Middle East and Asia-Pacific
Adam Jordan

EDITOR
Asia-Pacific
Lauren Gow

PUBLISHER
Europe, Middle East and Asia-Pacific
William Sanders

HEAD OF EVENTS
Debbie Kidman

MANAGING DIRECTOR
Tim Potter

HEAD OF FINANCE
Paul Carey

DESIGNER & SUB-EDITOR
Laura Sharp

email: firstname.surname@nqsm.com

ISSN 2517-5734

PUBLISHED BY
Newsquest Specialist Media Limited, registered in England & Wales with number 02231405 at Loudwater Mill, Station Road, High Wycombe HP10 9TY – a Gannett company

SUBSCRIPTIONS
StrategicRISK Subscriptions Department
21 Southampton Row, London, WC1B 5HA

email: customerservices@strategic-risk-global.com

tel: +44 (0)20 8955 7015

tel: +44 (0)20 7618 3456
fax: +44 (0)20 7618 3420
email: strategic.risk@nqsm.com

For all subscription enquiries please contact: william.sanders@nqsm.com

Printed by Warners Midlands Pl

Contents

Will insurers join us in the future?

The ever-shifting business landscape means all too often new risks are labelled 'uninsurable'. But insurers are motivated to change this. Our latest campaign, #ChangingInsurance, aims to push things forward.

Kin Ly
Content director
EMAIL > kin.ly@nqsm.com

For three days in June, the *StrategicRISK* international team came together in full force, leaving our offices in London, Hong Kong and Sydney to set up base in Harrogate, UK. We had two aims for Airmic's annual conference: to fill our show dailies and website with breaking news from the event; and to gather intel on what our readers care about most.

The themes from those chats fill the pages of this issue. Political risks – our cover story – continue to be a hot discussion point, with global trade wars and Brexit forcing many risk managers to ask: What can we do to avoid becoming a casualty of trade war? (See pp29-33.)

Change was also a significant theme playing out in every single conversation that I had during my time in Harrogate. This is understandable when we are living through what is, quite possibly, the fastest change ever witnessed in business.

In today's technologically advanced and globalised world, traditional business models are being disrupted, enhanced and reinvented, at an exponential pace. The velocity of this change – and its breadth and impact – is being felt in almost all countries, sectors and markets. Its impact extends to entire systems of production, supply chains, distribution, and in areas of management and governance.

Not only does this mean that the risk landscape is changing but insurance solutions also need to evolve to keep pace with the fresh demands of business and the threats that keep risk managers awake at night.

Think about how risks have shifted from physical assets to intangibles. Following a data breach, reputation damage and non-damage business interruption (NDBI) are two of the most significant threats to business: these intangible risks are capable of causing long-term damage to market share, revenue and profits.

A recent survey by Airmic (see pp4-5) brings to life risk managers' worries. For the third consecutive year since its launch, reputation damage was ranked the number one fear, followed by NDBI after a cyber attack.

Aon's 2019 global risk management survey also highlights these risks: damage to reputation, cyber attacks, and data breach and business interruption (to both physical and non-physical assets) are among the top 10 risk concerns for European businesses. Respondents to Allianz's Risk Barometer 2019 ranked these risks among the worst, too.

These threats require sound enterprise risk management to prevent and mitigate. And insurance is one part of that mitigation strategy. But the problem, according to many risk managers, is the lack of suitable insurance – a dearth largely blamed on the absence of underwriting data, labelling these risks as 'uninsurable'.

So, the team and I posed this question to insurers in Harrogate: how are you innovating to ensure your products can viably cover risks to intangible assets?

The resounding response was that insurers are listening – innovation is happening. But they need input from the risk community, one insurer said, "so we can direct innovation in the right places and continue offering services and products that are fit for purpose".

Insurers all spoke of the importance of forming closer partnerships with risk managers, opening communication channels and fostering dialogue, "so that together, we can shape the future of insurance".

That got the *StrategicRISK* team thinking. Can we contribute to this communication, share and disseminate important feedback and insight from the risk and insurance community on what they need and want? Can we help close the gap between insurer and buyer, in respect of risks to intangible assets?

And so a new idea was born: #ChangingInsurance – a campaign promoting new thinking in insurance.

Backlit by the success of our #ChangingRisk campaign (see pp21-28), #ChangingInsurance will gather the views of the global insurance buying community, insurers and brokers, on how they think insurance should evolve. To top off our campaign, we will bring together risk and insurance managers with brokers and insurers in a one-day event later in the year.

We launch our new campaign next month. So, if you fancy nudging insurance into the future with us, get in touch – I'd love to hear your thoughts. **SR**

Becoming an influencer

Airmic's survey points to a risk profession with greater ambitions to support strategic decision-making. But how can we realise this ambition?

When risk managers were asked in Airmic's 2019 survey what opportunities they would most like made available to them, the most popular answer was a greater ability "to influence strategic decision-making." A staggering 82% of directors or department heads and 76% of managers identified this strategic growth as the most important priority.

The second most popular option was a "more interesting range of challenges (such as managing emerging risks)" and third was a "broader range of responsibilities". Lynda Lucas, director international risk management at Fujitsu, says: "Risk management is maturing to address risks within and beyond an organisation's direct control, which requires our visibility and contribution across the business and at board level."

To exert this influence, risk managers want more collaboration. The survey showed that risk professionals already have a degree of visibility across business functions – 85% said they already work with finance departments – but they want to get closer to the business continuity, crisis management and IT security.

CHANGING TIMES

One of the key drivers behind risk managers' desire to be involved in strategy is the changing nature of the risks that corporates face. The survey supports research from Standard & Poor's that 90% of assets are intangible.

For the third year, risk managers identified loss of reputation as the number one risk facing their businesses. A whopping 79% of risk managers said this was their leading concern. Airmic CEO John Ludlow says: "Reputation and corporate brand are the company's most valuable assets."

The next most important risk was business interruption following a cyber event (56%). Here risk professionals and the C-suite appear to be in sync. Data security was the top concern for the boardroom.

Digital disruption is another issue keeping managers up at night, with 77% saying this risk has become harder to manage in the last year and 63% saying it will get harder still in the next few years. Tracey Skinner, director of insurance and risk financing at BT Group, says:

82%
of directors named strategic growth as their top priority

79%
listed loss of reputation as number one concern

56%
stated a cyber event halting business was a top fear

"Organisations have the ability to be severely affected by a cyber-type event, and many to a severe level."

The third biggest threat was political uncertainty (49%). Continued uncertainty over Brexit, a volatile trade war between the US and China, and heightened tensions in the Middle East are just some of the issues keeping geopolitical risks top of mind for managers.

Research indicated that this is one of the areas risk professionals are finding most challenging to deal with. Some 75% said that political risks have become harder to manage over the past 12 months and 83% said they will pose even more difficulty over the next three years.

Another risk identified was climate change. As consumer awareness around environmental issues has grown, so has the reputational cost for those companies that fail to act. Despite this pressure, the importance of climate risk does not appear to have made an impact on the C-suite. Only 9% of respondents identified climate change as the top concern within the boardroom.

ARE YOU BEING SERVED?

The final area surveyed was the efficacy of the insurance market and whether risk managers feel well served by the risk transfer or mitigation options available to them.

Transparent relationships between businesses, brokers and insurers are vital if intangible risks are going to be managed effectively. This means insurers and risk management will have to collaborate more closely.

TURNING DATA INTO INFORMATION

Supported by QBE, *Turning data into information* looks at the role data analytics can play in bettering the relationship between risk managers and insurers. More than half (51%) of risk managers said that the use of data and analytics had strengthened their insurer relationship, while half said it had secured more tailored insurance relationships.

"Harnessing the full potential of data and advanced analytics requires collaboration between industry participants and the development of multidisciplinary teams that can give a more rounded perspective of the exposures of a business," says QBE's Cécile Fresneau.

TRANSFORMING INSURANCE

Supported by KPMG, *Transforming insurance for tomorrow's risks,* reviews the challenges and solutions to managing risks to intangible assets, as more businesses become 'asset light'. "Managing, mitigating and financing these risks is the ultimate challenge for the organisation and their risk and insurance partners," the report says. "But respondents appear conflicted in the way they want to approach this."

"In order for risk managers to achieve the 'tailored' insurance solutions desired, a more collaborative way of working with the market will need to be found. If risk managers are unwilling to explore more collaborative ways of working with their brokers and carriers, then they will naturally limit the market's appetite to explore solutions beyond pure indemnity."

On cyber insurance, BT's Skinner says that there is still more to be done to achieve tailored solutions. "The cover available seems to work well for the organisations that will see an immediate impact, such as those who are electronic trading. The current solutions do not seem to respond that well for organisations that may suffer a longer-term impact. For most large organisations, the demand will be for a tailored solution for the things that will impact them, and the industry needs to continue to work hard to tailor products accordingly."

This chimes with survey results. Some 64% of risk managers said they want more tailored solutions, 48% called for more guidance from insurers on managing intangible risks and 40% said they wanted more use of new tech in insurance programmes. **SR**

THREAT MONITORING

Supported by Control Risks, *Assessing risk, realising opportunity and taking reward,* examines how organisations attempt to monitor, map and comprehend a highly complex threat and risk environment.

The threats facing organisations in 2019 are more complex and increasingly intangible. This makes it harder than ever to identify and plan to mitigate against these risks.

As external factors top the list of concerns among risk managers, threat monitoring is becoming increasingly important. But only one-third of risk managers said that threat monitoring has been integrated and is valued by all relevant parts of their organisation.

"The maturity of threat monitoring programmes depends on the ability to pull different parts of the organisation together to create a holistic view of threats," says Oliver Wack, partner at Control Risks.

49%
are kept awake by political uncertainty

9%
listed climate change as a major concern

VALUE OF BOARDROOM ENGAGEMENT

Supported by AIG, *The value of boardroom engagement,* aims to help risk managers to better engage with senior managers.

The scrutiny of decisions made by board directors is intensifying, particularly when it comes to big interruptions around issues such as cyber, sustainability or reputation. The unpredictable political environment, increasing regulation focusing on personal liability and social trends for increased boardroom accountability are producing more circumstances in which business leaders could find themselves the subject of investigations or legal actions.

The UK Corporate Governance Code also puts a greater emphasis on identification of emerging risks, and the alignment and monitoring of corporate culture and diversity and inclusion.

Géraud Verhille, head of financial lines, AIG UK, says: "Businesses and boards that can anticipate threats, prepare for them and adapt accordingly will be best placed to thrive. This will require strong corporate governance that allows organisations to innovate and take the risks they need to. Directors and officers who are in tune with the organisation's risk profile will also develop a greater understanding and awareness of their own personal liabilities."

"Insurance should be used to enable, as well as protect directors and officers."

UNDERSTANDING EXTERNAL THREATS

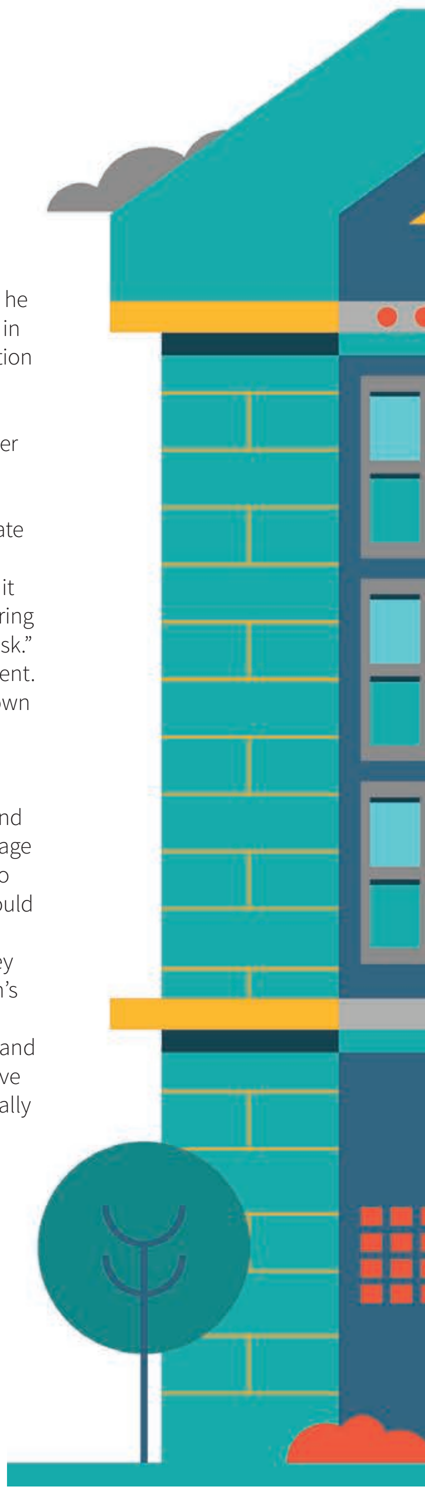
Supported by Willis Towers Watson, *Understanding external threats* to an organisation delves into the challenges of responding to geopolitical risks. More than any other 'megatrend', risk managers say geopolitical tensions are "becoming harder, or significantly harder, to manage over the next three years".

As Neal Croft, global client relationship director at Willis Towers Watson, puts it: "Geopolitical circumstances demand a high degree of engagement and understanding, whether your organisation is small, medium-sized or large, and whether it operates locally or globally. Increasingly, no company, however large or small, is immune from the impact of geopolitical risks."

The report recommends analysing geopolitical risks through 'six lenses' to achieve a 360-degree perspective and the interconnected nature of the challenge in front of them. The six lenses are: investment and return; trust and reputation; people risk; climate and environment; cyber; and business resilience.

An uneasy alliance

As the JLT acquisition is finalised, Marsh's UK and Ireland CEO Chris Lay talks us through the potential personality clash and whether premium increases will put pressure on brokers to work harder.



Tensions are currently rising between risk managers and their brokers, prompted by continuing rate hikes and accusations that insurers are failing to meet the needs of clients. Meanwhile, at the world's biggest intermediary, Marsh, brokers will face a further challenge: explaining the impact of its owner Marsh & Mclennan Companies' $5.6bn acquisition of JLT, the fourth largest globally.

StrategicRISK spoke to Marsh's UK and Ireland chief executive Chris Lay, who describes the deal as a growth play that will have an impact on the personality of both firms.

Of JLT, Lay says: "They've come across as being maybe a slightly more feisty organisation." He notes that JLT pitches itself as "a bit more aggressive, a bit more entrepreneurial". But he adds: "When you're the fourth or the fifth or sixth, you have to wear a slightly different T-shirt." And he hints that some of JLT's 'feistiness' will be incorporated into Marsh, which is generally seen as being the more corporate of the big broking houses.

Lay concedes that a number of his new workmates will not be convinced by that. "Some colleagues will decide early on, for their own reasons, that it's not for them," he says.

STAY OR GO?

His comments follow a number of high-profile departures, including at least one former JLT broker who has left for start-up McGill & Partners, which was launched by Aon former president Steve McGill, with up to $250m in funding from Warburg Pincus. The start-up comes at a pivotal time, just after Marsh's acquisition of JLT, which completed in April.

Lay says: "As you go through the early stages, it can be a bit choppy as we're coming together and people are finding their feet. But the synergies of the deal are only going to be seen in functional areas, not in client-facing areas, because we want to bring everybody together and that's what we're working hard to do."

Lay defends the insurance industry against accusations that it has been too slow to develop products that suit the needs of clients. As examples, he points to innovations in the use of insurance capital in the long-term pension liabilities space and the creation of business interruption cover that protects clients even when they have not suffered physical damage.

"They are always going to say never enough, never fast enough, never in the right scale," he says of the complaints. But: "The insurance industry would not be so large – or growing the way it is – if it didn't create value for clients. The insurance industry is actually a very efficient use of capital. Otherwise you could rip it up. Most of our clients have a much greater risk-bearing capacity than they use but they choose to transfer risk."

The reason for that, he explains, is that it's efficient. "The pricing works and [clients] want to use their own capital for other reasons."

START AFRESH

Lay maintains that the industry "does a good job". And to risk managers who complain because their coverage isn't broad enough and doesn't go deep enough into the things they like to protect, Lay suggests they should tear up their existing programme and start again.

"They would still buy a lot of insurance," but they wouldn't necessarily buy differently, he says. Marsh's systems look at how much risk capital to bear, the efficient point to transfer it, advisable policy limits and timings. "If you truly just use the data power we have today, 90% of our clients would buy something totally different," Lay says. "They choose not to because – partly – human nature is resistant to change."

In the face of 3% average rate increases and accusations that the suite of products demanded by clients is not being provided by carriers, Lay says that insurance should be "repositioned".

He notes that some executives saw the purchase of insurance merely as a procurement exercise and therefore viewed any price increases as purely detrimental. "If you can get into the boardroom and ask: 'Would you spend this to protect this?', the answer is likely to be: 'Yeah, I would actually.'"

"THE INSURANCE INDUSTRY IS ACTUALLY A VERY EFFICIENT USE OF CAPITAL. OTHERWISE YOU COULD RIP IT UP."

Chief executive,
UK and Ireland, Marsh
Chris Lay

Lay says the broker's secret to handling discussions around price increases is to engage clients early and be well prepared. "Make sure you've got all the data, all the insights, all the knowledge. Involve the client directly as much as you can in discussions with the market. You're often underwriting the culture of a business, and trying to differentiate yourself."

In order to secure the best terms for clients, Lay urges his team to understand the dynamics of different underwriters in the changing market to find out where capital is tight and where it's more readily available. **SR**

Grey rhino in a china shop?

As Debenhams, one of the UK's largest department store chains, falls victim to the high street curse, we ask how risk managers can stop their companies becoming the next retail sob story.

By all accounts, Debenhams – a more than two-centuries-old brand – fell behind the times. A 2006 public offering valued the firm at £1.7bn; when it delisted on 15 April 2019, shares were trading hands for just 2p each, putting a measly £20m price tag on a business with 166 stores across the country.

There are a number of factors that led to the downfall of Debenhams, not least that in this internet age a businesses can no longer be a jack of all trades and master of none. In fact, the same cannot be said of its sales staff, some of whom were reportedly tasked with carrying out repairs on the crumbling stores.

The firm was battling a spiralling cost base as a mountain of debt continued to grow, eventually looming over the loss-making business. At the time of writing, Debenhams was set to close 50 stores as part of a company voluntary arrangement, bringing it closer and closer to the fate that has met other high street retailers like Poundworld, Maplin and Toys R Us. But these well-known examples aren't the only ones to have failed to address the market risk in their own business plan.

Philippe Cotelle, board member for Ferma and Amrae, names Nokia and Kodak as other examples. Nokia lost its grip on the mobile phone market as it failed to keep up with the smart phone revolution, while Kodak's film processing business fell by the wayside when the camera world went digital.

HOW DO YOU AVOID THE BARGAIN BIN?

Cotelle advises that one way to avoid this type of failure is to leverage the experience of employees across all levels of the business to understand the risks those staff see on the horizon. Those points can then be plotted on a risk map.

"The cartography of risk has to take all the different elements around the companies as well as within the companies," Cotelle says. For Debenhams, that might have led management to put more resources into the firm's online operations, which fell behind the competition. "And that's probably what [Debenhams] completely missed there, in the same way that Nokia missed completely the turn to the smart phone or that Kodak missed the turn to digitalisation."

To avoid going the same way, Cotelle says managers need to establish a framework of analysis that captures not just internal risks, but external ones, too.

Fellow risk expert Hans Læssøe says Debenhams' failure should not have been a shock to management – who must have known it was coming.

"It's a combination of things that has evolved over time, where management has been unable to or unwilling to do what it takes to get back on track," says Læssøe, the former risk manager for Lego Group, who is now principal consultant at AKTUS.

SLOW, PAINFUL DECLINE

"If you don't have a building fire or a terrorist attack or a fraud case, some incident that really cripples you, which most companies don't, the demise of a company is a gradual process," Læssøe explains.

He says the process can often stem from a vicious cycle as management cut costs to offset falling sales. However, investment is normally correlated with revenues, sending the company into tailspin.

Rather than being a black swan event, where a devastating event that could not have been foreseen cripples a company, Debenhams was a 'grey rhino' event. "A grey rhino is a big, dangerous risk, charging right in front of you," Læssøe explains. "Everybody knows it's there and nobody does anything about it."

In the world of Amazon and other online retailers, he says: "If you have a brick and mortar retail store with high rent costs and so on, that's a grey rhino. It's charging at you."

He says boards need to take a step back and ask: "'Why is the world a better place with me in it than without me in it?' If you cannot answer that question immediately, you have a problem."

He adds that, in the face of falling sales, firms need to address the reason for the drop in revenues and perhaps refocus on their core competencies and doing what they do better. But they also need to future proof their businesses by making sure they will still be able to attract staff and customers in years to come.

"It all comes back to 'why'," Læssøe says. "To the questions: Why should I work for you, why should I buy your product?"

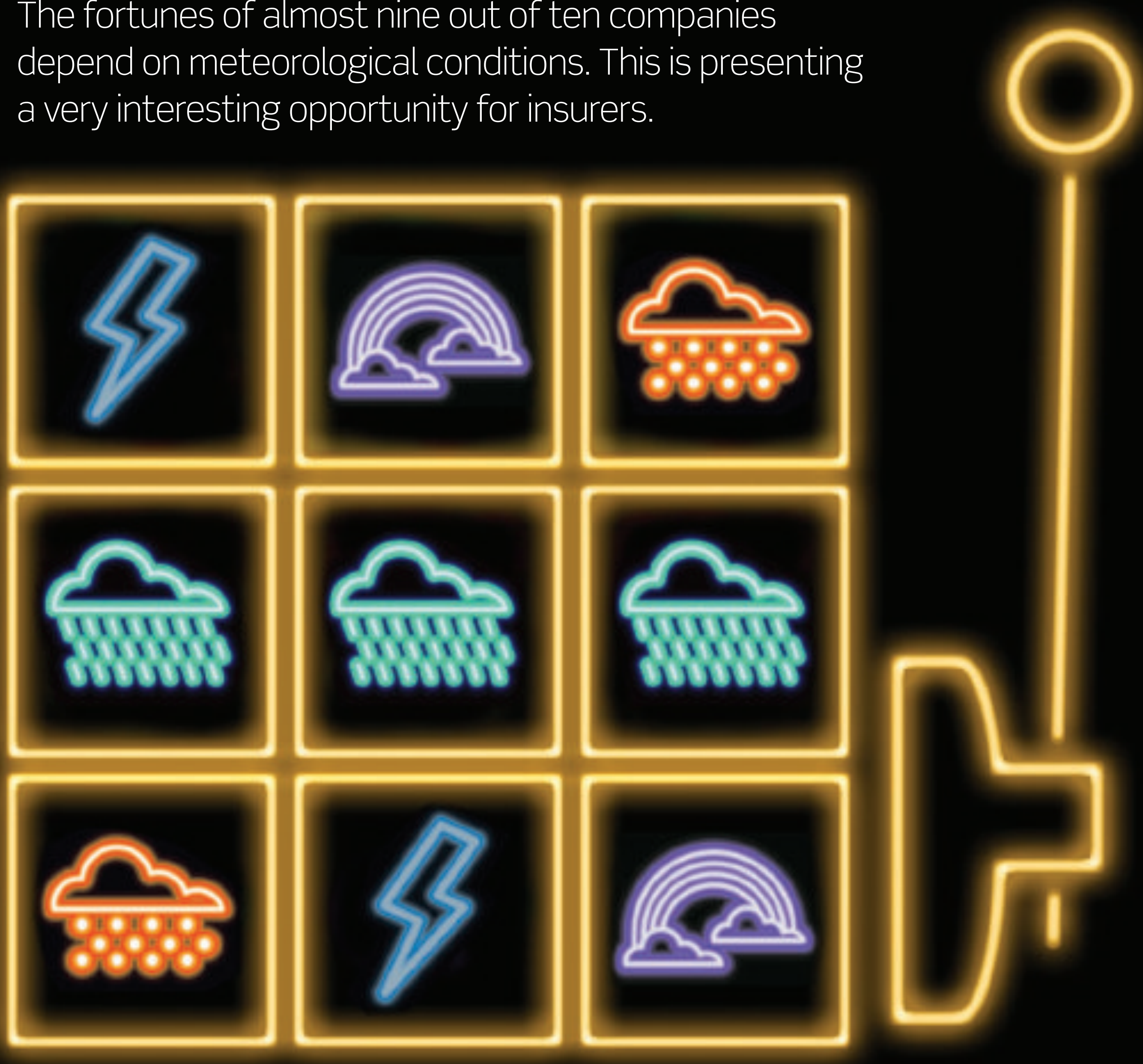
"If you cannot answer that, you're in trouble. You may not be in trouble this year, but you will be in trouble in a very short time. And if you're not doing anything about it, you're not doing your job right." **SR**

"ASK 'IS THE WORLD A BETTER PLACE WITH ME IN IT THAN WITHOUT ME IN IT?' IF YOU CANNOT ANSWER, YOU HAVE A PROBLEM."

Founder, AKTUS
Hans Læssøe

Claim it on the weatherman

The fortunes of almost nine out of ten companies depend on meteorological conditions. This is presenting a very interesting opportunity for insurers.



This last Easter weekend, shopping centres, DIY stores and garden centres in the UK suffered an 11% drop in footfall as shoppers elected to stay outside and enjoy an unseasonably warm April break.

Traditionally, retailers would chalk up a weekend of poor sales to bad luck and hope for rain next year. However, utilising the fact that 88% of businesses' profitability is impacted by the weather, the insurance industry thinks it may have a solution.

Th solution was born out of one of the biggest scandals in corporate history: Enron. Before it bankrupted itself, the one-time US energy company became the darling of Wall Street by creating derivatives for sectors ranging from news media to insurance risk. In 1999, Enron sold the first weather futures instrument, agreeing to pay an energy company $10,000 for each degree it fell below the average temperature that winter.

And now insurers are trying to convince clients to use that sort of trigger in their own insurance programmes. Those triggers can be anything from levels of rainfall to wind speed, as long as it can be shown that the event would cause a loss.

"We can take the ground shaking or the magnitude of an earthquake as the trigger or also the category of a hurricane," says Martin Hotz, head of parametric nat cat at Swiss Re Corporate Solutions.

That means that underwriters depend almost solely on historical records to price a policy.

Paul Ramiz, a director in Aon's innovation and solutions team, says: "The beauty of parametric insurance is that as long as there's good-quality data, you can potentially write policies anywhere."

Ramiz says parametric policies most commonly rely on weather-related triggers, such as rainfall levels or wind speed. "The reason it works well in weather is that there is good meteorological data globally, in some instances going back over 100 years."

At the moment, energy companies are some of the biggest buyers of parametric cover, as they seek to offset the risk of fluctuating temperatures affecting supply and demand. But it's also used in the agriculture sector where crop yield can serve as a trigger.

Ramiz says parametric insurance has also caught the attention of finance bosses in the construction industry, who buy the cover to offset the cost of lost days following heavy rain.

FIRST PRINCIPLES FIRST

One of the first principles of insurance states that the insured should not be left better off after a payout than they were before the incident that triggered a claim. To avoid a conflict with first principles, parametric insurers establish an insurable interest before a contract is signed. Ramiz explains that parametric insurance is an agreed-value policy, which specifies in advance how much policyholders will be paid in certain circumstances.

Head of innovative risk solutions at Swiss Re Corporate Solutions Christian Wertli says: "The clients are free to decide what to use the payout for exactly, so long as they use the money for some of their incurred loss; and incurred loss could be loss of revenue, increased expenses, denial of access, non-physical damage business interruption – I mean you can literally name it."

"IF THERE'S NO PHYSICAL DAMAGE, OR BI COVERAGE BECAUSE THERE'S NOT BEEN A PHYSICAL LOSS, THEN A PARAMETRIC POLICY CAN FILL THE GAP."

Director, innovation and solutions, Aon
Paul Ramiz

Ramiz says the cover is looking to fill the gaps in a traditional property policy. "If there's no material damage or physical damage, or business interruption coverage because there's not been a physical loss, then a parametric policy can fill the gap."

He says that a traditional policy wouldn't cover a construction company if its workers had to delay a project because heavy rain had partly flooded a site.

"It's covered by a parametric cover because we establish that there is an insurable interest as these businesses are dramatically impacted from a profit and loss perspective if the weather goes against them. We look at what the cost is of the contract, what the day rate is, in construction, for example, or we look at what the expected cost of a megawatt hour is expected to be in an energy tariff. That establishes your sums insured and quantifies what and where the insurable interest is."

Parametric cover is best suited to sophisticated buyers with risk managers, such as energy companies or other firms with big balance sheets. Claims payment is quick and efficient and the policy wordings are short because the buyer and insurer just need to define a location, risk period, sum insured and the event.

DEFINE LOSS

But there are downsides, says Ramiz, who explains that a weather event could cause damage but not result in a payout because the conditions were not extreme enough to trigger the policy.

He also highlights the price of policies as a potential downside. He says that the greater the probability of a weather event occurring, the higher the price of the policy, much like a traditional policy in which buyers pay a premium to lower their deductible.

But, he says: "Parametric policies are based upon data. There is a risk the data may not align with the risk location, but the rise in gridded data sets and improving data capture is removing this hurdle."

Wertli says that in a normal situation, the client would notify their broker or carrier of a loss or an insurer proactively checks if a policy has been triggered and makes a payment within 30 days. He notes that in the unlikely event that the payment exceeds the actual loss, the policyholder would have to refund the difference to the insurer. But that was very unlikely because the definition of loss is intentionally "very, very broad".

Hotz says that is because they do not want to get bogged down in adjusting claims, as well as looking at policy exclusions and sub limits, which can mean policyholders are not paid for 18 months, in some cases leading to litigation.

"It's not to say that the traditional policies are doing a bad job, they cover what they're supposed to cover. But, most of our clients who have bought these instruments have been through nat cat situations over the past few years and they realised first-hand that in today's economy – where assets for corporations very often are intangible and intangible assets traditionally are very difficult to insure – they were retaining a bigger share of the loss than they were first anticipating," he says.

"They suffered and took away a lesson. With these clients, it's a very different discussion to have than with clients who have been luckier in the past." **SR**

Before it's too late

Reflecting on April's devastating terrorist attack in Sri Lanka, Suchitra Narayanan explains why risk managers must demonstrate care, conviction and courage to ensure their warnings are heeded.

On Easter Sunday, I sat glued to my phone and the television, horrified at news of the terror attacks in Sri Lanka. I ruminated upon the thought that we live in such a volatile world today. Everything seems to be constantly changing, be it politics, technology or social media.

The news reports stated that the Sri Lankan government had been warned of the attacks a couple of weeks before they took place and again hours before. The warnings were purportedly specific, which made me wonder – how often do companies ignore warning signs and, essentially, risk management?

No one likes to hear bad news, so this makes the intrinsic messaging of risk a hard one to deliver. It's easy to blame management for not being committed to the discipline of robust risk management but is this because the message is not strong enough?

Relating this back to the terror attacks, I asked myself if the warnings were not acted upon perhaps because the message was not conveyed in the right way.

MAKE YOUR MESSAGE MATTER

Messaging is such a simple concept, but probably one of the hardest things in reality to deliver as a risk manager. I draw upon my own experiences where I have sometimes struggled to convince CEOs of the importance of issues that I felt needed to be conveyed. The benefit of hindsight, of course, is that I know now what I could have done differently. This brings me to something that I affectionately refer to as the three Cs: care, conviction and courage.

For a message to matter, risk managers naturally need to care enough about the content. The most worthwhile risk-based conversations I have had with management have been those where I genuinely cared about the company that I worked for and I was able to put myself in the shoes of the CEO. People can sense care, people react positively to it and so it makes tough messages much easier to communicate and discuss.

When I first started working in risk management, I would approach each meeting, each engagement, with much trepidation. I wasn't always sure what I was and

"IT'S EASY TO BLAME MANAGEMENT FOR NOT BEING COMMITTED TO THE DISCIPLINE OF ROBUST RISK MANAGEMENT BUT IS THIS BECAUSE THE MESSAGE IS NOT STRONG ENOUGH?"

Former head of risk, AirAsia
Suchitra Narayanan

wasn't meant to say and what management wanted to hear. I learnt the hard way: when questioned, I would often fumble, out of nervousness, and be met with sometimes perplexed, sometimes agitated looks.

I quickly grasped the fact that conviction is so very important. Know the content, and anticipate questions you might be asked (though it is okay to not know all the answers as long as you're honest), and stand firm in that conviction. It is a trait that gains trust and respect.

DON'T SHOOT THE MESSENGER

Risk managers, it's no secret that we are often the most disliked messengers in the organisation. Financial risks, strategic risks, liquidity risks – we need to bear the burden of delivering the sometimes unpleasant messages.

This requires courage – lots of it. I am still developing courage as I go along and the one thing that inspires me to be courageous is the glimpse of change. For it is courage that is going to take risk management to greater heights and for risk managers to be heard.

My mind wanders back to Sri Lanka. I can't help but think, if only the warnings, the unwelcome messages, had been taken more seriously. I don't have the ability to change the world but I can change the way I, as a risk manager, deliver my messages so that people listen, take note and most importantly, act before it's too late. **SR**

An image upgrade

Stuffy, data-led, paper-driven? Risk management's image could do with a revamp, says Airmic's incoming chair Tim Murray. He is a man on a mission to change perceptions.

Speaking to Tim Murray, just moments before he takes the position as Airmic's new chair and addresses a delegation of more than 1,700 risk and insurance professionals in Harrogate this morning, it's clear that he has big plans for the year ahead – and can't wait to get started.

A passion for risk management is hardly surprising for someone stepping into this particular hot seat. But what makes Murray stand out is his unwavering conviction to show everyone the exciting side of risk management.

"If I could achieve anything in the next year, it would be to get recognition for the industry," he says. "When I refer to the industry, I don't just mean the insurance sector – I want people to understand that the wider risk management sphere is actually a very interesting area."

"There is still a perception and a reputation that risk management is a job filled by middle-aged, white men. People think it is a stuffy, data-led, paper-driven profession. But it's far from that! If I can get the message across that risk management, including insurance and all its facets, is actually a great place to be, then that will be a success."

ONLY THE DYNAMIC NEED APPLY

This may sound like a tall order, but when you hear Murray passionately talk about the nature of risk management, it's easy to see how his vision could be achieved.

He has certainly made this his chief ambition. "I aspire to help Airmic define the profession, Or at least, build parameters for what is involved."

Far from 'stuffy', the day-to-day challenges in risk are exciting – the perfect job for anyone who wants dynamism and diversity within their career. And they are the very ingredients that will likely encourage new talent. That and the way in which risk management is changing.

"The direction of risk management is transforming, with things like interconnectivity, digitalisation, artificial intelligence, etc," Murray says. "This means that the nature of the job will change, too. And let's not forget that the incoming talent will neither want nor expect 20-year jobs anymore."

"All of this creates a potential pipeline that can be helped by defining the essence of what the industry is, with better advertising of the variety and excitement in risk management. And, ultimately, the recognition that if you like solving puzzles and joining dots, this is a fabulous career for that."

The role also has strategic weight within companies, too. "There is the technical and intellectual challenge. The ability to add value to a company's decision-making."

In fact, these are the very reasons Murray has held such a long-standing career in risk management – now spanning almost 30 years. "Frankly, it is the variety," he explains. "No one day is the same. It's very challenging. If you like making order out of chaos – it's a great industry. It certainly keeps me motivated on a daily basis."

"You have to recognise that you cannot analyse activity and risks in a company without looking at them from a holistic point of view. Once you understand the interconnectivity of risks, and that there are so many multiples of what can happen within a day, or a week, or a month, then can you truly appreciate just how interesting the job is."

GRAB PEOPLE'S ATTENTION

Another key ambition for Murray, is helping risk managers to break down organisational silos – which should be central to the role of risk management.

"Division of thought and the resulting silo mentality is one of the main problems within risk management," he says. "The interlinking of activities across functions, departments, operations and the understanding of risks that underpin all such activities is absolutely critical, from regional to divisional right through to technological silos."

He adds: "Communication is vital. The cross-fertilisation of ideas and risk data and analytics will only work when you communicate. It is the most valuable skill in a risk manager's armoury."

"If you are unable to extract real information about what is happening in a company, because your reporting is perhaps too theoretical, too wordy, or too process-oriented, then you are going to miss out on what is really going on, in other words what should really keep people awake and deserves attention – which is absolutely key to good risk management."

"Gone are the days of focusing primarily on spreadsheets and risk registers alone," he says. "Equally it's the associated discussion and narrative that helps distil key concerns."

Murray describes himself as an extrovert. He is certainly gregarious and easy to speak to – and these are the qualities, he believes, that has helped his successes so far.

"I'm more extroverted than the average person," he states. "I gain my energy from interactions with people, not spreadsheets. Conversations, face-to-face time, site visits, meetings with other functions are crucial to effective risk management."

He continues: "Understanding the way people think and what concerns them from their perspective – that a lawyer thinks differently to an accountant for example – is so important in risk management. You just can't do that sitting behind a computer."

Indeed, face-to-face conversations will help risk managers build relationships with C-suite management, which is particularly important in the face of today's evolving and complex risk landscape.

NOT ALL ABOUT RISK AVOIDANCE

The fast-evolving nature of cyber risk, the increase in reputational threats and other esoteric risks can bring businesses to their knees. They are the types of risks that have piqued the C-suite's interests. And, unsurprisingly, have elevated the role of risk management.

For Murray, this means that risk managers must learn to operate at a level that chimes with executive

CASTING A WIDER NET

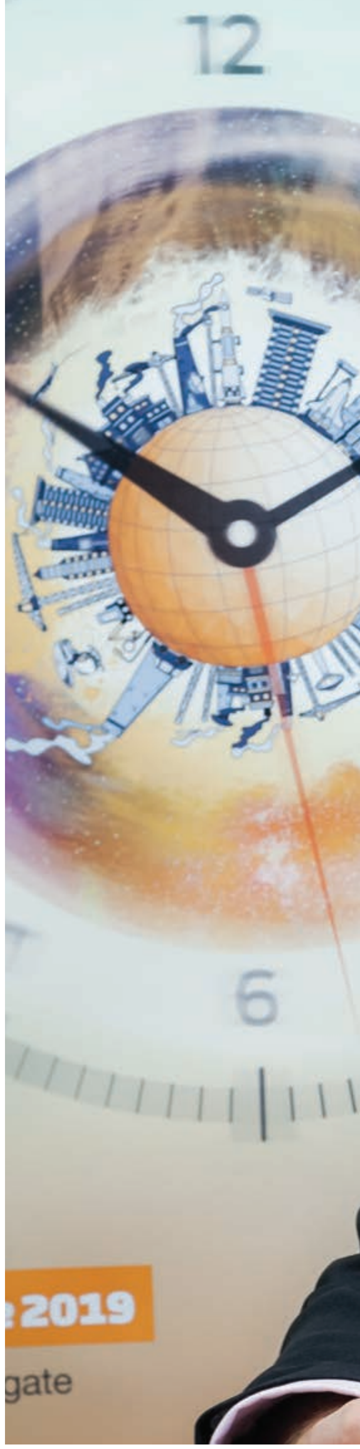
Murray plans to continue the efforts of Airmic to boost diversity of its membership, not just in terms of gender, ethnicity and age, but different professions and outlooks.

Diversity in talent is critical to ensuring that risk management continues to move forward. And Murray wants to build on the important work that Airmic has already done in this area.

"I'm not just talking about gender and ethnicity, although those are very important. I'm also talking about the involvement of other professions, which brings in new ways of thinking," he says.

This diversity is always at the forefront of his mind when he is recruiting. "When forming a team, I tend to look for potential, regardless of someone's background profession," he says.

"This doesn't just mean technical potential, it also means the ability to challenge, mix and flex within a team. That's a key element of working in risk and insurance. It is important to understand and think outside the box when you are trying to help map strategy for future risks and opportunities."



"NO ONE DAY IS THE SAME. IT'S VERY CHALLENGING. IF YOU LIKE MAKING ORDER OUT OF CHAOS – IT'S A GREAT INDUSTRY."

"PART OF THE RISK MANAGER'S JOB IS TO DISPEL THE NOTION THAT WHAT WE DO IS PREVENT RISK TAKING. THE IDEA OF RISK MANAGEMENT AS A POLICING ACTIVITY IS FUNDAMENTALLY WRONG."

management and board members. They must be able to use their expertise to help companies take the right opportunities and mitigate risks in the right way, and with the appropriate mitigations.

"Perception is king," he says. "Part of the risk manager's job is to dispel the notion that what we do is prevent risk taking. The idea of risk management as a policing activity is fundamentally wrong."

He adds: "Risk management is a function that supports informed decision-making – we consider risks and opportunities."

And this is where the big challenge lies: changing long-held, legacy perceptions. "Part of the problem is that the traditional, foundational source of risk management is in the insurance field," he says.

"People often look at insurance as being a necessary evil rather than a piece of the risk managers' armoury that can be turned around to provide key management information – for example, a risk feedback loop from surveys, wide-ranging industry expertise, claims data and analytics that can aid, not hinder future decision-making."

"If businesses begin looking at insurance as just one of the many tools at a risk manager's disposal – then that could help to change perceptions. And, if we convince stakeholders to look at risk managers from an opportunity perspective, then that traditional perception of risk management will start to break down."

He continues: "Risk management is there to assist decision-making, not to make the decisions. The whole point is to allow senior managers to make informed decisions rather than blocking investment."

So, will change happen?

"I am optimistic that the days of people glazing over when we talk about risk management will end, eventually... Hopefully in my lifetime because I am very much in favour of changing it." **SR**

Finding the perfect fit

Australia-based online retailer THE ICONIC is the definition of a maturing start-up. As its growth continues, head of risk & controls Sarah McNamee is dedicated to ensuring the board sees risk management as more than just an accessory – it's a must-have staple.

Paris, Berlin, London, Stockholm. Sarah McNamee has worked in some of the world's most glamorous locations in her risk, compliance and audit career to date. So taking on the role of head of risk & controls at Australia and New Zealand's fastest growing online fashion and sports retailer, THE ICONIC, was a natural fit.

Sydney native McNamee's impressive career has already spanned a number of continents and industries, taking in some of the world's biggest companies along the way.

She graduated in 2008 from Macquarie University in Sydney, holding a double-degree in Commerce Accounting and Business Administration Marketing.

McNamee began her career with advisory firm Deloitte, picking up a graduate role covering process improvement and some elements of risk. Like most in the industry, she did not set out for a career in risk management, but quickly grew to appreciate the analytical nature of the work.

"AT EVERY LEVEL AT THE ICONIC, RISK MANAGEMENT IS SOMETHING WE'RE KEEN TO PROGRESS. THINGS ARE MOVING SO QUICKLY, AS ARE THE RISKS."

In 2013, she relocated to London to work for consultancy firm Protiviti, providing advice to fast-moving consumer goods companies, media and pharma businesses.

Moving back to Sydney with Protiviti, McNamee's risk career took off with a role focused on risk governance and risk consulting. Helping clients plan and execute risk management strategies piqued her interest in spotting risks and operational challenges on the horizon.

"That's where I stepped away from audit and fully into risk work, and where I started to see the value in risk management as part of businesses' wider strategies," she says.

McNamee then became risk and audit manager at Coca-Cola Amatil, the regional division

of the global drinks giant, helping the company focus on competition, adapting to a changing regulatory environment, and managing operational risk. She reported to board committees about present and future challenges, such as the global trend away from sugar and its impact on the beverages market.

"The company had a traditional but effective risk management approach, and it was about bringing conversations to the board and trying to influence decision-making," she says.

FAST FASHION

McNamee joined THE ICONIC in July last year, taking on the newly created role of risk & controls manager. The position, covering strategic risk and controls and insurance coverage responsibilities, was handed to McNamee as the company sought to formalise its risk management operation. McNamee's risk function sits separately from other areas of the business, giving her a "helicopter" view of the company.

"In order to be effective, you need independence for your controls framework," she says. "I report to the CFO, and in a dotted line to our parent group, Global Fashion Group."

THE ICONIC, which sells everything clothing, from designer shoes to luxury sportswear, for women, men and kids, was founded in 2011. The retailer has grown quickly, from boasting just five employees at its inception to more than 950 today.

The company generated more than $267 million in sales in 2017 and has a goal for revenues to hit $1 billion in the next three years. This growth comes as consumers, particularly younger shoppers, continue to abandon the high street in preference for making selective and savvy online purchases, with the greater convenience and choice it offers.

"CYBER SECURITY IS AN INHERENT RISK. HERE'S A NEW ISSUE ALMOST EVERY WEEK. FRAUDSTERS ARE ALWAYS TRYING TO BE ONE STEP AHEAD OF THE GAME."

McNamee describes THE ICONIC as a "maturing start-up", with an established footprint in its field. With any fast-growing start-up comes challenges, however, particularly in the tech-driven online space. Growth, new markets and competition are "part and parcel" of the issues growing companies have to focus on, she says.

McNamee is responsible for implementing the retailer's risk management and control framework, and "establishing it across the business".

"At every level at THE ICONIC," she says, "risk management around our processes and systems is something that is hugely important to us and we're keen to progress. With our high-growth environment and the evolving nature of our company, things are moving so quickly, as are the risks."

So what risks does a growing online retailer think about? McNamee says remaining relevant, having the best and most inspiring assortment at the best price, the flexibility to scale in line with our growth and the agility to respond to changing preferences, ultimately creating a seamless experience for our customers."

Of course, being an online business, safeguarding data also poses a unique challenge. "Data governance is a big issue. Data is core to our decision-making and, increasingly, we're using big data. The way you collect, manage and use data is hugely important to

support accurate and effective decision-making," she says.

Data privacy is also front of mind. "With global best practice development, such as [the EU's] General Data Protection Regulation, it's about ensuring we treat customers' data correctly, and make sure it is safeguarded."

THE ICONIC is focused on keeping information safe and secure, in a world where even global heavyweights have been brought to their knees by malicious attacks. "Cyber security is an inherent risk," McNamee says.

"There's a new issue almost every week and a new article about a breach somewhere. Fraudsters are always trying to be one step ahead of the game. It's about protecting our customers, managing reputation and mitigating the damage as well."

TAILORED APPROACH

So how different is the approach to risk in such a maturing start-up?

"Everyone is on the journey and believes in the values of the company. The principles of THE ICONIC are core to its decision-making. It's my challenge to make risk management relevant to key stakeholders. The number of hours I have with which to do that is limited, so my job is to articulate how decisions impact the risk management framework, and how they fit in with our values."

McNamee says it is her role to help senior executives understand risk in a practical sense, and how issues might impact customers, the company's most important commodity.

"If the customer is core to our decision-making, how do I represent this risk in terms of our customers to key stakeholders and our executive team. It comes down to knowing your audience and making it relevant to them. It's making sure they are aware of the key risks facing our business and having the right tools in place to effectively mitigate these risks," she says.

As THE ICONIC continues to grow, McNamee's risk role will continue to evolve. She loves the changing nature of the job, as new risks emerge for the business.

"No two days are the same. But the ability to effect change, and deliver on initiatives as a risk manager is much greater in a high-growth environment. I see the future of my role as helping support the business in taking the right risks to support our continued growth."

McNamee has learned a lot about start-up risk management over the past year. Her biggest piece of advice to risk managers in smaller companies? That risk is not a one-size-fits-all function.

She adds: "Listen to your stakeholders, understand what's important to them. Develop a framework that supports their needs as well as delivering a risk management function."

"Don't try to emulate a standard approach. The tried and tested risk management model may work for a larger company, but for a start-up, the nature of decision-making and the pace of change requires a framework and approach that's practical and resonates with the culture of the business." **SR**

"IT'S MY CHALLENGE TO MAKE RISK MANAGEMENT RELEVANT TO KEY STAKEHOLDERS. MY JOB IS TO ARTICULATE HOW DECISIONS IMPACT THE RISK MANAGEMENT FRAMEWORK, AND HOW THEY FIT IN WITH OUR VALUES."

THE ICONIC: VITAL STATS

The fashion retailer is growing fast as customers abandon the high street for the convenience and choice of online shopping.

5 ➔ 950
employees when founded in 2011... and in 2019

1,000
name brands on offer

3hr
Available delivery within Sydney

$267m
sales generated in 2017

$1bn
Revenue goal for 2021

60,000
items stocked at any time

200+
new arrivals land daily

12m
website hits per month

Healthy, wealthy and wise

A company that values employee well-being will benefit from better performance and engagement. So how can risk managers help the board to see that it pays to care, asks AXA XL's Timothy Smith.

A workforce that is healthy, physically and mentally is a more productive one. And risk managers have an important role to play in helping their organisations to achieve this goal, while reducing costs over the longer term. The Chartered Institute of Personnel and Development (CIPD) says that good health and well-being is a "core enabler" of both employee engagement and organisational performance. For employees it is increasingly important to feel that well-being is a key part of their employer's strategy.

While anecdotal evidence suggests that companies are keen to embrace well-being, one of the challenges faced by risk managers and others concerned with improving employee well-being and reducing absence is getting the issue onto the board's list of priorities.

IT'S A COST SAVER

In a 2018 study, the CIPD found employee well-being was on the agenda of senior leaders in 61% of companies surveyed, up from 55% in 2017. It is possible to demonstrate the financial benefits of a well-being strategy. This, we hope, can give risk managers added clout when trying to persuade senior management that, as well as making employees, both current and future, feel more engaged, there is a way to reduce the bottom line costs caused by ill health and injury.

According to the Health and Safety Executive (HSE), 1.4 million people in the UK suffered from a workplace illness in 2017/2018. Workplace injury and new cases of work-related ill health cost employers about £3 billion in that year. Research by the CIPD shows that health-related absence can cost businesses up to £557 per employee per year. Introducing a holistic well-being policy can help to substantially reduce those costs.

Take the example of a manufacturing company with 10,000 employees. The average annual absence per employee is 6.6 days a year. Musculoskeletal-based absence could cost that company about £180,000 a year and mental health-related absence about £104,000. On the other hand, the cost of engaging a clinical employee services provider for musculoskeletal rehabilitation support might be in region of £70,000 per year.

Companies can also significantly boost recruitment and retention efforts with a programme that makes their employees feel that not only will their physical and mental health while at work be safeguarded, they will be supported throughout their recovery.

MENTAL HEALTH MATTERS

As the UK economy has become more service-based, so mental health issues have become a larger factor in workplace absence. This requires a more nuanced approach than simply paying a valid claim.

A holistic programme that aims both to enable employees to feel supported through mental health difficulties and rehabilitate them back into the workplace provides many benefits, including financially and in terms of employee loyalty and engagement.

This strategy requires a broad way of thinking. It cannot be done in silos. A holistic approach to well-being requires dialogue across the organisation, involving not just risk management departments, HR and employee benefits professionals, but also taking in corporate social responsibility, occupational health, treasury and legal experts, among others.

This also requires a long-term mindset. The financial and productivity benefits of a holistic well-being programme are in themselves long term and the risks of employee ill health and injury typically are long-tail.

An important element of making a holistic well-being approach a success is developing a relationship with an insurer with expertise beyond the purely transactional. An insurer that works with a specialist occupational rehabilitation provider can give clients access to a much broader tool kit to get employees back to work. This is much more of a partnership approach and requires a dynamic dialogue between insurer and client.

This was a key topic at this year's Airmic conference and we are looking forward to continuing this dialogue beyond Harrogate. **SR**

Timothy Smith is senior underwriter, UK casualty, retail at AXA XL.

"FOR EMPLOYEES IT IS INCREASINGLY IMPORTANT TO FEEL THAT WELL-BEING IS A KEY PART OF THEIR EMPLOYER'S STRATEGY."

Senior underwriter, UK casualty, retail, AXA XL
Timothy Smith

#ChangingRisk

LEADING THE RISK REVOLUTION

As our #ChangingRisk campaign continues to gain momentum, we gather the latest opinions, impassioned views and harsh truths on where the industry must go from here.

CONTENTS

Everyone is talking about #ChangingRisk

We surveyed risk managers from across the world for their views on what really needs to change in our industry. They pulled no punches.

In the industrial era, a company's business model didn't change much. The way in which businesses developed, delivered and captured value would remain static for decades. But in today's technologically advanced and globalised world, traditional business models are being disrupted and reinvented – at an exponential pace.

The velocity of change – and its breadth and sheer impact – is being felt in almost all countries, sectors and markets. Its impact extends to entire systems of production, supply chains, distribution and to areas of management and governance. And the risk landscape is changing like never before, posing new and complex risks for risk managers. To keep pace, remain relevant and add tangible value to business, risk management needs to change.

In our #ChangingRisk survey, we asked what you want to see changed. At the time of writing, more than 50 risk managers have taken part. Their views are a candid and passionate portrayal of the state of risk management and the challenges that need to be addressed to ensure a risk-mature future. There are some harsh truths – and not all that you'll agree with. And while we review these findings, let's do so with thought to the innovative work of many risk managers. This isn't about throwing out the old. It's about enhancing the strength of risk management.

In three events this year, we will place a microscope on some of the common themes that come out of our study to aid our #ChangingRisk manifesto, which we will launch at the end of this year.

So, while we continue collecting your views, we've summarised the interim data to give you a snapshot. The full report will be available at the Ferma Forum in Berlin, 17–20 November. **SR**

WHAT ELEMENTS OF RISK MANAGEMENT ARE OUTDATED AND INEFFECTIVE?

A FALSE SENSE OF RISK MANAGEMENT

"The preoccupation of catering to the board and audit and risk committees' expectations of risk management – i.e., production of governance documents – gives a false sense that risk management is effective. I don't mind if an organisation feels it must start the risk conversation with a flawed risk heat map and/or risk register, but it's a real problem if that's where risk management stops (which is often the case)."

OVER-COMPLICATED ERM

"Many companies over-complicate ERM and focus a lot on capturing risk data in a non-consistent fashion and in cumbersome risk registers. The information is not used to drive risk-informed decisions."

WHAT WOULD YOU CHANGE TO IMPROVE RISK MANAGEMENT?

REDUCE TIME SPENT ON RISK FRAMEWORKS

"Yes, we need tools, but it is ridiculous when the development of frameworks, methodologies and heat maps consumes most of your role. Our role should be considered as risk/opportunity advisory services. We do not 'manage' risk, and nor are we solely focused on 'risk'.

Aren't we also there to help from an opportunistic perspective, i.e., helping business protect what they have, and helping them make informed decisions to maximise growth? Yes, we need a profile to understand where an organisation is – profiling is the cornerstone – but we need to be strategic advisors and a conduit to pull the right stakeholders together to help make informed decisions."

CHANGE ROLE, RESPONSIBILITIES AND JOB TITLE

"I would start at a higher level and transform the name, role and responsibilities of the risk manager. This requires a disruptive 'start again' strategy.

With the ever-increasing focus on risk and strategic achievement at board and executive levels, I would start from that perspective and answer the following question: 'What role and/or function is required to assist the company in developing strategies that are achievable, resilient and flexible; mindful of the opportunities that are available and internal and external risks to strategic success?'

Then, 'How does this role/function align to the current or future organisational structure?'

Thereafter, the following can be considered:

- What are the skills, attributes and experience required to deliver the role and responsibility?
- What tools, structures and methodologies are required to be successful and to really add value to the organisation, exec and board; including the three topics above – tools, standards and risk model?"

WHAT DO YOU THINK IS SLOWING CHANGE IN RISK MANAGEMENT?

GETTING THE RISK STORY WRONG

"Auditors, insurance and consultants telling management different stories about what risk management is. All say they do it, all have different solutions and approaches and all have different underlying motives."

WHEN WE DON'T HELP TO MAKE DECISIONS THAT MATTER

"Those who are deemed 'risk managers' or equivalent not having the ability and skills to create real value by helping the business make decisions that matter. I believe that an enhanced skill set, above and beyond what has been necessary for some of the traditional risk work, will be required, but for this there is a considerable amount of content already available – decision science, psychology, risk analysis and modelling techniques."

ONE SIZE DOES NOT FIT ALL

"The concept that one approach to risk management works for all organisations. Risk management needs to be bespoke to the business and consider the current stage in its business lifecycle, the strength of the company's leadership and the maturity of governance by the board. Pedalling a one-size-fits-all approach is naive at best and damaging at worst."

CHANGING PERCEPTIONS

"Risk management is only considered a compliance requirement, with no bearing in strategy setting or decision making."

OUR JOB TITLE

"The concept of ERM and titling most risk functions and individuals as 'risk managers' – particularly when we do not manage the risk as we do not own it."

THE INDUSTRY'S UNDERSTANDING, OR LACK THEREOF

"The first thing that is slowing down change is the insurance industry (brokers, insurers and reinsurers) not understanding that risk management is more than buying insurance. The second thing is when risk managers only concern themselves with downside risk instead of risk = uncertainty, and include upside (strategic) as well as downside (tactical)."

It takes two

We need to create two distinct and defined roles in risk management to drive new solutions in a changing world, writes John Ludlow, chief executive for Airmic.

Four words – *New world. New solutions* – and the theme of this year's Airmic annual conference sums up, succinctly, the state of business, the state of risk management and, crucially, our role within it.

The new world is perpetuated by several trends. Most notably, the advancement of new technology, which underpins the depth and velocity of the business transformation that is so prolific today. Then the acceleration in globalisation connecting businesses from the Atlantic to the Pacific into a global ecosystem of trade, distribution and supply chains. There are also new economies in the on-demand, sharing and intangible markets, initiated by so-called unicorn start-ups, which are driving competition and change faster than we have ever witnessed before.

The last trend is new solutions. This encapsulates the risk community's ambition to pioneer new thinking in risk so that we can ensure the success and resiliency of our businesses in the face of this brave new world.

As business continues to shift and evolve, risk management will need to adapt and play a more significant role in helping the board of directors and C-suite develop a more risk-intelligent organisation. So, from a risk perspective, what does this need to look like?

A FRAMEWORK

Risk management, by and large, operates on two or three main levels – operational, tactical and strategic. In other words, bottom-up (operational) and top down (strategic and tactical).

Operational is all about optimising the efficiency and effectiveness of an organisation. At the strategic level, risk management is about creating a defined model for identifying, assessing and managing risk and uncertainties. It is the 'what' – what is your business model? 'Why' – your purpose and value; 'when' – your priorities; 'where' – the internal and external contexts; and 'who' – the capabilities.

Tactical risk management drives the delivery of this strategy, this relates to change management – anticipating the internal blockages and resistance to risk management and unblocking them.

It is about taking stakeholders on a journey and helping them recognise the true value of risk, as well as its business enablement potential, and its capability to support intelligent risk-taking.

It is about getting into the same mindsets of the board and using this to drive change.

And within these two pillars – strategic and tactical – is where we need to effect the biggest change so that we can drive risk management further up the risk maturity curve and respond to the risks of the new world.

Indeed, the concept and theoretical parts of risk management are in good shape – we are very good at working bottom up. We are the experts in compliance and operation risk. And we have a healthy community of professionals who drive strategic and tactical risk management.

But change is a question of elevating the number of professionals who can confidently lead – who can shape and enhance strategic and tactical risk management – an area that Airmic is working hard to support its members to do.

TWO MINDS

So, my vision for #ChangingRisk is to create distinct roles of the risk management function – splitting out the strategic and tactical from the operational. These functions – equally as important as the other – are different mindsets and would not be combined into one meeting or one role in larger teams, as is the case in many organisations. They should, instead, be considered as two distinct jobs.

Take the finance profession as one example. In a large company we would not expect a financial accountant, who conducts general financial management, to also be the management accountant, forecasting the financial health of the company's future. These are two different disciplines – so, why should one risk manager always be expected to be able to conduct all three disciplines of risk management?

Combining these job roles confuses the risk conversation and the understanding of risk management among the c-suite and board. Strategic and tactical; and operational risk management are two different occasions to talk to the business. And when approaching the board, we must be clear on what perspective we are giving – the operational or the strategic and tactical?

These disciplines within business are simply referred to as 'risk management', and technically they are. But one is bottom-up and the other is top down. Yes, they are both risk management, but they must to be orientated differently, so the value of each is clear.

Finally, we need to support risk managers to develop the competencies that they need to help their organisations become risk intelligent. We are well-versed in the theory. The next step is to build on the knowledge – strategic-influencing skills, change management and team building.

For me, #ChangingRisk is about developing capability and capacity within the risk management community so we can respond to the new world with new solutions. **SR**

The world is watching

We are facing a paradigm shift, as society expects more from businesses, says Brigitte Bouquot, Amrae president and risk manager for Thales.

The risk manager's role is fast-evolving to meet the changing needs of businesses. And this change is driven by two trends.

The first is digital disruption. Globalisation coupled with greater interconnectivity are changing the way companies operate and so risk managers will need to assess the risks associated with these new models.

For example, many companies are moving away from being a sole-manufacturer to being service or platform providers. But when businesses make this transition, they suddenly develop global connections. This is creating a rupture in the way we manage risk.

Technology might be global, but regulations are not global. This means that there is an increase in the compliance burden on organisations. Keeping pace with the changing regulatory environment is critical. Large global companies must be fully compliant with the law, otherwise they put their top directors at risk.

This leads to the second trend: digital disruption and the added regulatory burdens. This adds a new layer of risks, which are closely linked to business strategy.

Risk management cannot be defensive anymore. You must be at the root of organisational strategy. At the same time, risk managers must still manage the traditional historic risks like fire, flood, storm and staff health. And they need to be closer to the C-suite.

Risk managers must ensure that when a company decides to go in a new direction, this is done after balancing risk and knowing what is at stake in terms of liability, supply chain and skills. To achieve this, risk managers need to be connected to board members. If a risk manager is too far below the board or if they are isolated, they cannot assess strategic risks until after decisions have been made – which is often too late.

WE NEED INVESTMENT

This changes the risk manager role. Being connected means that risk managers don't necessarily need to be an expert in all risks, but they do need to be able to interface with senior management and build a relationship. The best way to achieve this is to increase the resources of the risk team. This means you can keep all the experts but introduce a management position at a higher level whose job it is to communicate the risks to the board.

Before going to the board, it can be useful to create a governance committee where experts evaluate the risks that a business is facing. Then, when risk managers go to the C-suite, they can say: here are the top five risks, and we've worked out the priorities and actions required.

This kind of model is not always in place. We're seeing more progress, but creating this structure requires understanding from senior management of the real value of risk management. The C-suite needs to know that they must invest in risk management.

SOCIETY EXPECTS

One thing that is driving better understanding of risks on boards is the societal expectation across the world that companies will do good. This has created a climate of corporate responsibility, which is giving risk management a new lease of life.

The education of board members has changed so much – now there are rating agencies and CSR and all this dynamic is pushing for better risk management. But this can't be just communication about the importance of risk, it has to have real budget behind it. And as society expects that a company will not create risk, there are rewards for businesses with strong risk management even if the end product becomes a little more expensive.

It's important to understand the world globally and to match the expectations of the young people that own society. People expect companies to be fair and not only making money. This is something which helps risk management to be embedded in the whole of the company. **SR**

> Risk management cannot be defensive anymore. You must be at the root of organisational strategy.

Work on your soft skills

Want to make a real difference? Risk managers need to develop the way they communicate with their organisation and with the C-suite, says François Malan, chief risk officer at Nexity. But that can take courage.

The risk management profession is changing because companies are facing a lot of new and complex threats – cyber, climate change and other business interruption risks.

No longer can risk managers assume the role of 'expert on risk and insurance'. This is still very important, but they must also develop the right soft skills. And how easy this is to do will depend on the personality of the risk manager and their willingness to adapt and learn.

One of the most important of these skills is the ability to oversee and manage various departments, finding ways to break down silos and get teams working together.

ONE TEAM, ONE VISION

There will often be several departments in one company who have some responsibility for dealing with these complex risks – from legal, compliance and health and safety to human resources. Risk managers need to act as co-ordinators, bringing together several functions so that they can obtain a truly holistic view of the company's risk profile.

Risk managers need to get an overarching view of the risks, co-ordinate the various teams, not just for the purpose of effective risk management, but so they can present one clear picture to the top management. It's vital that risk managers create a risk aware culture throughout the business.

And to successfully achieve this goes back to my first point of developing the right soft skills.

Risk managers need to get better at marketing and communicating risks. They must find ways to convince stakeholders that they're not just the owners of risk but they exist to also improve risk management throughout the organisation.

Risk managers need to be courageous with this. They need to monitor and evaluate risks but also challenge stakeholders and top management.

Dealing with the C-suite is rapidly becoming one of the most critical components of a risk manager's job, particularly given the high-profile of emerging risks.

So, risk managers need to be more strategic and to find ways to present granular risks in a way that's holistic, relevant and useful to the board. They need to build a dashboards or create something simple, clear and then market and promote it in the right way.

Good key risk indicators could help. But risk managers can't just follow other companies. They must adapt existing indicators to match the risk profile of their organisation and use them to develop and report on their risk management strategy.

And these top-level discussions need to happen regularly. It is not enough to meet with the board once a year. Risks evolve rapidly and so risk managers should be updating senior executives at least quarterly to show the changing threats the business is facing.

TWO TO TANGO

For their part, the C-suite also need to consider risks more seriously because they are liable when something goes wrong.

And we're starting to see this happen. Risk management is increasingly seen and discussed at board level. Senior management want to know how the organisation is dealing with these risks. They don't want to go into all the details, but they need to have the reassurance that risks are being well managed. They're asking questions about cyber risk, business continuity, and we can't forget the old risks – fire, flood and other traditional risks.

Senior managers are more aware of the importance of risk management and want to be kept informed, partly because they understand the business costs if things go wrong. Most of all, risk managers need to evolve to ensure they are ready for these questions and prepared to answer them in a way that makes sense at board level. **SR**

Stop thinking like risk managers

Start thinking like the C-suite. Risk management can't just be about evaluating risks, but the strategic direction of a company, says Gaëtan Lefevre, group risk and insurance manager at Cockerill Maintenance & Ingénierie.

The risk manager role needs to evolve to better support business. That means that risk management cannot just be about evaluating risks, it must also be about understanding the strategic direction of a company and – critically – adding value.

For this to happen, it is critical that risk managers report into high level management, the chief executive or CFO for example. They must communicate with those at the top of a business and have regular contact with decisions-makers.

CREATE A ROLE FOR RISK MANAGERS

Ideally, with this contact comes the creation of a new senior level role, such as chief risk officer. Risk managers are not yet at the top of the maturity curve and the challenge is to develop a specific role in the company.

Creating such a position is not easy because there are internal challenges from other departments, but a CRO needs to have oversight of all the risks whether it is reputation or cyber risks.

Some industries are ahead of the curve on this, namely insurance or finance, where it's mandatory to have a CRO. But for other sectors, fundamentally, it's up to the company whether to employ or develop the CRO role. So, if an organisation doesn't understand the strategic importance of good risk management – they're unlikely to see the value of a C-suite risk role.

If you can't show how your advice and support will create value in the company you are completely missing the challenge.

CHANGE THE LANGUAGE

It is critical that risk managers start speaking the language of senior managers. They need to understand the business and in particular the company's strategic direction.

To rise up the maturity curve, risk managers need to develop new activities that clearly demonstrate how risk management can add value to an organisation. They need to make sure that they are giving the right support and the right advice to the right people.

This means a change in the way that risk is communicated. You can no longer just say: "We need to do this (or not) because it avoids a risk, and I'm the risk manager and this is my job."

CREATE VALUE

You need to create your position even when you have the title and to convince your management that you add value. This is so important. If you can't show how your advice and support will create value in the company you are completely missing the challenge. You're not framing your advice in a context that your C-suite and board will understand.

This is a huge change for many risk managers, who will need to develop the right skills and confidence to communicate this way. They'll need to understand finances, corporate strategy and to balance risks holistically against opportunities.

In the future I'd like to see more risk managers reporting to the chief executive with access to the board. My dream is that all risk managers will play a central role in supporting the business. But to achieve this, risk managers need to stop thinking like risk managers and start thinking like the C-suite. **SR**

What's in a name?

Juliet may have disagreed, but a lot can, in fact, be achieved from changing a name, writes Patrick Smith, director of Acumen Advisory, and principal of Airmic Academy.

There is no doubt that the risk landscape is changing faster than ever before. As trade continues to shift and grow in complexity; and technological advances accelerates transformation in business – from tangible to intangible assets – the role of risk management is evolving. It is becoming more strategically important and if the risk management community is to continue adding value to business, it also needs to change and enhance its capabilities.

There are three things that need to change to ensure that the risk community continues to advance up the risk maturity curve and benefit the organisations it serves

First, risk must be placed in the centre of strategy creation and strategic decision-making. Risk managers must be at the forefront of and be the experts in collating and analysing data relating to any strategic constraints or accelerants in the management of risk and opportunity. They should be responsible for horizon scanning and drive forward both resilience and developments for the near and longer term.

TRUSTED ADVISORS

The second change I would like to see, which is a derivative of the first, is for risk managers to be regarded as trusted advisors to senior-level management and exercise their full potential to inform and guide strategy and strategic decision-making. This will cement their place at the top table. For this to happen, risk managers may no longer be called 'risk managers'. In the future, their job titles could take on a new name, the 'chief strategy officer' or 'business resilience officer', for example. The point is that change is needed.

Risk management has a very bright future, but we must disrupt and transform ourselves and drive risk to be positioned more strategically within an organisation. Given that the role, as I see it, should be central to the achievement of strategic objectives, rather than on responding to headwinds and incidents, we need a more 'transformative' job title.

The issue with 'risk' in the job title is that, rightly or wrongly, the word can have negative connotations. 'Risk' can be regarded in some industries as a blocker to commercial or strategic progress. And herein lies one of the challenges that we must overcome – changing the perception that our stakeholders, C-suite and the board of directors have of risk management. Sadly, our value in aiding strategy isn't always recognised. Unfortunately, perception is often reality.

Risk management is often regarded as being overly technical and academic. Over the last 50 years, risk management has developed into a 'science' because the evaluation of risk and the governance around it can appear to be overly complicated and removed from core business objectives.

Equally, risk management frameworks can often provide output that is difficult to understand and, most importantly, hard to use in the practical sense. There is no questioning the significance of risk output, but it must be displayed in a way that provides practical answers – and answer the real question: "What should we do next?"

Of course, all of this can be changed – and collectively we can truly affect the future of risk management.

REWRITE THE RULES

If I were to write the #ChangingRisk manifesto for the future, I would rewrite the risk management rules and transform both job titles and the specification of our roles. I would create a career that realises the vision of what we hope risk management to be: the strategist or futurist of the businesses that we represent.

Effective engagement with the recipients of risk management is critical to changing common and embedded perceptions. It would be a mistake to produce a manifesto that does not have the support and influence of the users of risk management – risk management stakeholders, executive managers and boards of directors. Creating a "top down" pressure for change is as important as "bottom up" transformation.

The final item I would place in the manifesto is, 'change the risk conversation'. We must stimulate discussions around new questions – so, rather than asking the usual questions around what risks might prevail, we should rather ask "given the risk landscape, what is the right strategy and how can we execute it?" As risk professionals, we will naturally assess, mitigate and prevent the risks to strategic success.

So how about it? Let's nudge at the future of risk management so we become the strategist and futurist, and critical to organisational sustainability and success. **SR**

Combat fatigue

From China and Trump to Brexit and Brussels, the world is one political battleground in 2019. As global companies live in fear of impending economic catastrophe, what can they do to avoid becoming a casualty of trade war?

US president Donald Trump began Monday, 6 May in typical fashion. Taking to Twitter in the early hours of the morning, he kicked off the day by making public threats against China – escalating the high-stakes trade war between the two global superpowers that has left economists fearing a global economic downturn.

He proclaimed to his followers: “The United States has been losing, for many years, 600 to 800 billion Dollars [sic] a year on trade. With China we lose 500 Billion Dollars [sic]. Sorry, we’re not going to be doing that any more!”

The US president has shown no sign of backing down after launching an aggressive trade war against China in early 2018. Trump has outlined plans to double tariffs on $200 billion of Chinese goods, while China has introduced its own tariffs since the beginning of 2018.

The trade war has left global companies and risk professionals scrambling to assess the impact on supply chains and consumer demand. Like so many other political risks in 2019, market observers are unsure whether things will get better or worse.

ON THE EDGE

The US-China trade war is one of several global political risks facing multinational companies in 2019. Nearly every global company has deep connections with the US and China, and the trade war has already damaged political relations between China and allies of the US. The ongoing friction is yet to cause an economic catastrophe, but multinationals are on alert.

The recent furore over Chinese telecommunications company Huawei competing to build 5G networks in the UK and Australasia has further fanned the flames, raising the prospect of retaliation and obstruction of free trade. A host of other political risks continue to haunt risk managers, including lone-wolf terrorism, recessionary political instability, Brexit and state-sponsored cyber attacks. Many of these issues have been on the horizon for several years, but are tough to mitigate.

According to advisory firm PwC, 2019 has marked a “risk realignment” for global businesses. Policy uncertainty, trade conflicts and cyber threats have given CEOs cause for anxiety over the course of the year. US-China relations, rising nationalism and geopolitical tensions were cited as some of the biggest political risks facing companies right now. According to PwC, 88% of CEOs expressed concerns about the US-China trade conflict.

“THE RIPPLE EFFECTS OF THE CURRENT CHINA-US TRADE RELATIONS ARE BY NO MEANS CONFINED TO CHINA... DISRUPTION IS ALREADY PLAYING OUT AROUND THE GLOBE.”

Risk report
PwC

According to PwC in a recent risk report, global companies have adjusted their supply chain management during the trade war. “The ripple effects of the current China-US trade relations are by no means confined to China… Disruption is already playing out around the globe, as companies diversify their customer and supplier bases, accelerate procurement schedules, and turn inward in search of growth.”

“Nowhere are these trends more apparent than in China, where, according to the CEO survey, local businesses are shifting their focus

"THE IMF HAS SAID IF WASHINGTON AND BEIJING CONTINUE LIKE THIS, IT WILL PUSH US GDP DOWN BY 0.6%, AND CHINA'S GDP BY 1.5%. THOSE ARE SCARY STATISTICS."

Director, Control Risks
Martin Baghdadi

to the domestic market, where the middle class is burgeoning, and to markets in Africa, the Middle East and Southeast Asia."

WE WILL ALL FEEL IT

Martin Baghdadi, a director at Control Risks, says the US-China trade war has impacted different countries in different ways, with a notable impact on Canada following its arrest of a Huawei executive. He believes the trade tensions mark an "ideological" shift in US politics. "Where Obama was frustrated with China, we now have Trump enforcing tariffs, from a government that is deeply suspicious of China and not just from a trade perspective."

Baghdadi fears the trade wars will have a significant and detrimental impact on global economic growth. "The IMF has said if Washington and Beijing continue like this, it will push US GDP down by 0.6%, and China's GDP by 1.5%. Those are scary statistics."

Baghdadi says Asia-Pacific companies have begun

HARD BREXIT COULD HAVE A HUGE IMPACT

In Europe, Brexit remains the focal political risk. While risk managers expected the issue to be finalised this year, there is still no end in sight.

Britain has extended its deadline to leave the EU to October 31, but the British government's exit plan has been rejected several times by cross-party politicians.

The British economy has slowed, forcing businesses across Europe to revise their plans. Risk managers fear further chaos in the months ahead, with the distinct possibility of a 'hard' Brexit, in which Britain would leave without a European trade deal.

Hans Læssøe, founder of Danish risk consultancy AKTUS, says Brexit is one of the leading political risks on the continent. "Both sides of the [UK parliament] focus on party politics with little or no inclination to find common ground, which they should have done years ago."

"I fear a hard/no deal Brexit will have a huge impact on business – plus the consequences of a significant decline in GDP over the coming years," says Læssøe.

"I FEAR A HARD/ NO DEAL BREXIT WILL HAVE A HUGE IMPACT ON BUSINESS – PLUS THE CONSEQUENCES OF A SIGNIFICANT DECLINE IN GDP OVER THE COMING YEARS."

Founder, AKTUS
Hans Læssøe

to adapt to the new trade environment by channelling goods and services through Vietnam. "Some countries are benefiting as companies try to untangle economic links."

He predicts some US allies with strong links to China, such as Australia, will be forced "to choose their alliances" as the trade wars intensify. He believes the trade wars will cause particular upheaval for Asia-Pacific businesses. "There is concern at board level. Companies want to know where they stand and where their business stands in China," he says.

Risk consultant Eamonn Cunningham believes the US-China trade war will damage the global economy. "They say that if the US retail sector gets the flu, China gets a heavy flu. The miners in Australia will get pneumonia. There is a lot of brinkmanship going on. People are playing poker with some very big chips on the table."

Cunningham says the trade war has prompted risk managers to "think twice" about their strategic plans. "If you're a rational business owner, you're looking at this and saying: 'The outcome here could be disastrous.' The likelihood of a not so pleasant outcome might be quite low, but risk managers must multiply the impact by the likelihood. It's a very large impact we are talking about. You can't help but sit up and take notice."

Cunningham says risk managers need to think about "the risk of uncertainty". "It puts a dampener on the future, and that is certainly evident in the retail sector, with low consumer confidence," he says. "It also impacts the industrial levels, and companies are putting brakes on capital expenditure."

POLARISING FEARS

Cunningham says risk managers should not view political risk in isolation. "You can't just talk about the old-fashioned suite of political risk. If you look broadly, clearly terrorism has reared its ugly head and that has major ramifications. In the context of this, there is a resurgence of advocates promoting an ultra far-right philosophy and greater acceptance of populist parties, in Germany and Italy, for example."

Baghdadi is also concerned about potential "lone-wolf" terrorist attacks across the globe, following the recent devastations in New Zealand and Sri Lanka. "I would not be surprised if there was an uptick in lone-wolf attacks following the disbanding of Isis fighters in Syria and Iraq," he says.

Cunningham adds that polarising politics and the emergence of nationalist governments have made it a more challenging business environment. "There's a greater acceptance of populist parties gaining momentum in Europe," he notes.

"The impact of all this isn't always clear. It is difficult for large multinationals trying to plan and mitigate risk."

Risk consultant Chris Corless thinks the rise of protectionism should be viewed as a key political risk. "Politically, the continued rise of protectionism and its impact on the various elections globally is a concern, because of its potential impact on global trade. The continued growth of separation between the haves and the have-nots and the broader 'us versus them' will continue to drive further populist agendas, and a further reduction in global growth."

Cunningham believes political tensions also influence cyber risk, following a series of state-sponsored cyber attacks in recent years. "We're in a whole new ball game with politically motivated cyber hazards. I'd expect companies to be looking at this, and they will dismiss this concept at their peril."

88%

of CEOs concerned about the US-China trade war, PwC risk report

ECONOMIC FREEFALL

While political stalemates are unwelcome enough, concerning economic trends could also influence political risk in the coming year. Global central banks from the US to New Zealand have abandoned plans to raise interest rates amid weak economic growth and inflation. The risk of a global downturn has increased over the year.

Economic issues are known to impact political stability, and Baghdadi of Control Risks believes we could see greater political upheaval if the economy worsens. In 2017, when global GDP hit 3.8%, Control Risks raised its political risk rating on seven countries. So far in 2019, with global GDP set to fall to 3.3%, the firm has raised the risk rating of five countries already.

Cunningham says it would be difficult for central banks to support economies, and agrees with Baghdadi that slow growth could heighten political risks. "The capacity of central banks to use monetary policy is more limited. The risk of an economic downturn needs to be on the register of every risk manager. That needs to be connected to potential political fallout, particularly when a country is in the middle of an election." **SR**

"THEY SAY THAT IF THE US RETAIL SECTOR GETS THE FLU, CHINA GETS A HEAVY FLU. THE MINERS IN AUSTRALIA WILL GET PNEUMONIA. THERE IS A LOT OF BRINKMANSHIP GOING ON."

Risk consultant
Eamonn Cunningham

Environmental bonds: When polluter pays

If a site suffers an environmental accident, the operator is liable for clean-up – even if insolvent. Environmental bonds let you breathe, knowing your costs, and your reputation, are covered.

Simona Belati, senior manager technical underwriting, Atradius Bonding Italy

Marc Cambourakis, country manager, Atradius Bonding France

The year is 1976. Swiss pharmaceutical and cosmetics giant Hoffman LaRoche is one of the most successful and pioneering healthcare companies in the world. But on 10 July, disaster struck. A cloud of smoke from a chemical plant owned by one of LaRoche's subsidiaries began to descend on the north Italian town of Seveso – soaring temperatures and high pressure caused the plant's valve to malfunction, emitting dangerous toxins.

The white cloud contained a lethal chemical – dioxin – also known for its carcinogenic properties. Over the days and weeks that followed, the town would witness the full impact of the contamination: plants and animals within the vicinity began to die and about 80,000 animals were slaughtered as a pre-emptive measure aimed at protecting the food chain. Vegetation was destroyed, topsoil removed, and houses in the area nearest to the chemical plant demolished.

In the immediate aftermath, Seveso's human population suffered nausea, blurred vision, skin lesions and, later, many of its inhabitants, particularly children, developed severe chloracne, a rare skin condition.

Research into the long-term health effects of the disaster is ongoing, but one study suggests that babies born to women who lived in Seveso at the time of the accident were six times more likely to have altered thyroid function than other babies.

Today, the name 'Seveso' is associated with tough European laws that require any site that stores, manufactures or manages dangerous chemicals to inform local authorities; and to develop measures for the prevention and management of potential accidents.

Seveso is a reminder of the disasters that can occur and a company's responsibility to the environment. It reminds us to ensure that the right preventative actions are taken, and that the right protections are in place. And while insurance is an important consideration, businesses would also do well to consider environmental bonds. For high-risk businesses, bonds are mandated by law, but other businesses could also benefit from this added protection.

Of course, that means understanding exactly what they entail. We asked Marc Cambourakis, country manager, Atradius Bonding France, and Simona Belati, senior manager technical underwriting, Atradius Bonding Italy, to answer our readers' most frequently asked questions about environmental bonds.

WHAT ARE ENVIRONMENTAL BONDS?

Under EU laws and the polluter pays principle adopted by OECD countries, sites (quarries, wind farms, farmland, etc) at high risk of environmental damage must obtain a contractual agreement that provides these guarantees should the operator of the site not respect the obligations stated in the authorization given by the public authority.

- The costs of preventing and managing environmental damage caused by pollution are paid in full
- The cost of restoration is covered

Environmental bonds are mandatory, particularly in the following areas:

- Management, treatment, collection and storage of waste
- Handling of so-called 'Seveso' installations
- Treatment of surfaces
- Construction of wind farms

Environmental bonds issued by Atradius prevent

In partnership with:

your company from immobilising valuable cash needed for the smooth operation and development of sites. They provide operators with the surety bonds required by EU law. In addition, environmental bonds are fixed-income financial tools that provide capital for new and existing low-carbon projects such as renewable energy activities.

WHAT RISKS ARE COVERED BY ENVIRONMENTAL BONDS?

Environmental bonds protect against damage to a site and are provided in three main areas:

- The security and maintenance of sites
- Clean-up following accidents and spillages that cause environmental damage
- Restoration of sites

In any of the above scenarios, environmental bonds will provide guarantee in case the principal fails to perform according to the terms and conditions of the contract with the public beneficiary.

In an event that a site needs to be restored – for example where an operator is instructed by the authorities to dismantle all wind turbines and restore the site to its original form; or damaged is caused after the leakage of harmful toxins – but the operator does not perform based on his obligations set in the authorisation, the bond can be called and the cost of restoration guaranteed.

HOW DO ENVIRONMENTAL BONDS BENEFIT MY RISK MANAGEMENT PROGRAMME?

For some sites, environmental bonds are mandatory and required by law to legally operate. But over and above the legal obligations, bonds can also help safeguard against other risks: reputation damage, for example.

Corporate social responsibility and a company's involvement in protecting the environment has come under the spotlight in recent years. If a site is liable for causing environmental damage and fails to adequately clean up any spillages, for example, its reputation could be tarnished.

SHOULD I USE ENVIRONMENTAL BONDS INSTEAD OF INSURANCE?

Environmental bonds are not the same as insurance. While bonds provide surety around the protection and restoration of a named site, they do not cover third-party liabilities, nor any other risks linked to high-risk sites. Following thorough risk assessments, insurance policies should be taken out that complement the environmental bond.

I'D LIKE TO INVEST IN ENVIRONMENTAL BONDS. BUT WHY SHOULD I CHOOSE ATRADIUS?

A historic leader in the issuance of bonds, Atradius has been supporting companies to meet the requirements of environmental regulations, ensuring more and more diversified activities and sectors, including quarries, Seveso sites, storage and waste transfer, and wind farms.

Today, Atradius is the first choice for companies that are newly subject to surety bond obligations. This is because our brand is well known to the authorities, giving them comfort that our bonds meet all legal requirements. In France, for example, we have more than €1bn of exposure in environmental bonds.

Our customers continue coming back to us because we quickly and professionally respond to their needs and in most cases, we can issue bonds within 24 hours.

Atradius is a bond underwriter, not a capacity provider. This means we issue bonds willingly based on our assessments of contracts. Our goal is to help customers grow their business safely. **SR**

ATRADIUS BONDING: THE STATS

MORE THAN
55K
customers supported

MORE THAN
300
types of bonds issued

MORE THAN
140K
new bonds issued each year

Striking the balance

Today, a company's value is based more on non-tangibles than its assets. The CRO must engage with the CFO and COO, says international enterprise risk manager Adrian Clements, to weigh up the priorities of both sides.

The chief finance officer's role is outward looking – exchange rates, market, profit, growth, funding. He is selling a story to the shareholders and stakeholders.

But businesses also need to talk about carbon footprint, corporate social responsibility and so on. Today, the value of a company is estimated in terms of non-tangibles. Only 20% is asset and capital based. This is a huge change compared to 10 years ago when it was the opposite.

The chief operating officer's role is more inwards facing – assets are potentially old and in need of repair; are they able to produce the products needed for the future? How do we enhance performance? Operations need to reduce costs, reduce working capital, keep the assets producing, and not get in the news because of issues of pollution, fires or quality problems.

A chief risk officer should be providing insight to both sides so that the company benefits from the synergies; leveraging both into a very interesting solution. Through system transformation, using three focus areas, the CRO can really help.

OPERATIONAL SUPPORT

Operations are typical long-term focused. The assets will last a long time if managed efficiently. They will be flexible enough to product a larger range of products than necessary. They will be able to run at name plate capacity, or higher, efficiently. However, they need opex and capex. If there are multiple plants, then the type of product made by each facility can play a role. By restricting capex, the CFO is forcing two things:

- The capex received needs to be efficiently invested.
- This restriction, if spread over multiple sites, means there is either not enough capex per site to maintain efficiency, quality, etc, or some sites will be harvested.

The COO therefore needs to know:

- Where is, and where will, the company making its margins?
- Which products, and therefore plants, will be needed in the future?

VALUE TRANSPARENCY

Transparency implies measurement and benchmarking. So, we are quickly into KPIs. No problem – the operations people have hundreds of KPIs. Same for the finance group. Through the CFO strategy in restricting capex, the COO has a need: value transparency. The question is: are these KPIs combined and integrated into meaningful, manageable, valuable, company-enhancing tools?

Consider these two simple examples:

- A finance KPI could be working capital reduction. Inventory is reduced, spare parts cut to a minimum. KPI achieved.
- Operations KPI could be MTBF (mean time between failures). As the assets are getting older and working capital is reduced, then one way to achieve this goal is to slow down the operations. This puts less strain on the assets and maintains quality at an acceptable level. KPI achieved.

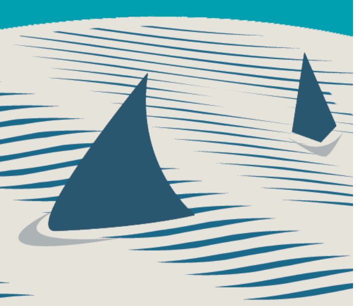
No alignment and any potential synergy is possibly short term. What should be the future-oriented company's KPI?

The question can be split into different sections that require decisions to be made. These questions can be facilitated in workshops by the CRO:

- Where are we making the most EBITDA?
- Which product is making the most EBITDA?
- What do I have to do to ensure these lines and products are efficient, i.e., best fixed and variable costs, meeting and surpassing nameplate capacity?
- Where will the market be in five years and what do I have to do to ensure my company is prepared, i.e., plants in the right countries, assets able to produce the right products?

This value transparency and opportunity analysis is typically part of any strategic review or budget process. In fact, these should be the questions that have already been answered in the risk reporting. The risks and opportunities should be on the heat map already. But there are many cases where the margins made by products and production lines are kept confidential.

CONTENTS



In fact, a study by McKinsey showed that the typical questions being asked, and the solutions created, do not match up. According to this study, only 30% of management gains are captured by the solutions being proposed. This would imply the risk and opportunity being estimated by teams are not in line with reality.

VALUE CREATION

Is it the risk manager's job to report? Is it to conduct risk transfer? Is it compliance and control? I believe it's value creation. I hope that risk managers are providing insight into what needs to be done and a little on how it can be achieved. This will generate the stakeholder sustainability and help mitigate the non-tangible risks so key in today's society.

If it's crucial that financial data be kept secret, the CRO can take the operational data and normalise it so that margins are not known but the projects can be prioritised correctly based on impact. If the margins are not secret, then he can align and create a risk register that is effective, i.e., not based on risk but vulnerability. After all, it's key to understand which high margin line, process or product is vulnerable. It might not be the one that has the highest risk.

Time plays a large role in decision-making, but this is not being reflected in action plans. For example, some ideas may be good but not in the current market cycle, or in this plant, or for a different product line. Some ideas need to be done now rather than later, even though they don't pose the largest risk. We may be extremely vulnerable to certain events, and though these events are systemic and small, they will affect image and other non-tangible risks.

Some ideas that have been turned into projects should be stopped at some point as the market conditions have changed. This means the KPI used needs to use actual rather than budgeted numbers.

The CRO is acting as an adviser and facilitator to the CFO and the COO, and ensuring that ideas, projects and targets are used successfully. But most importantly, the CRO is adding value by making the old-fashioned budgeting process dynamic and actual. Why use a budget that is based on last year's results and future proposals when the economic and market environmental conditions are changing continuously?

So, what we need is:

- To remove the traditional budget process and replace it with a dynamic system using actuals rather than budget figures
- An operational EBITDA bridge that guides the COO to make timely decisions and use capex and opex
- Updated reports weekly, monthly and quarterly depending on the dynamics

Does your risk manager have these tools? A risk management system transformation process rather than a performance transformation process is what's needed. Right now, however, most management consultants are offering only performance transformation. **SR**

Still surprised by a crisis?

The myriad of disasters that can hit are nothing new, yet companies are still often caught under-prepared, marvels risk specialist Gabriel Souza.

We all know that we are living and working in a more volatile, uncertain, complex and ambiguous world.

So why, then, do we still underestimate the necessity to prepare our businesses and tackle the challenges of a volatile environment in a structured way? Why

do businesses continue to struggle to address the same problems, like floods, hurricanes and diseases outbreaks? Why do companies continue to lose billions of dollars every year as a result of cyber attacks, facilities damage, security? Why do the executive management of so many companies continue to ignore the fact that unexpected events can destroy their companies?

In Deloitte's 2018 Global Crisis Management Survey, 84% of the companies said they had crisis plans in place, as well as continuity plans and incident management plans. But, if we asked them how their plans are structured, we would likely see inconsistencies, out-of-date procedures, and stakeholders ill-prepared to deal with events that could harm the company.

Creating and enacting an effective and structured plan for crisis management is not simple. It should involve the following:

Establish a crisis committee with all the required personnel. It is important to mention that the committee can vary depending on the breadth of the crisis. And, of course, the C-level management has a reserved seat in all events.

Understand the possible outcomes using risk management. It is essential to identify all the potential events, as well as the impact and consequences.

"IF WE ASKED COMPANIES HOW THEIR CRISIS PLANS ARE STRUCTURED, WE WOULD LIKELY SEE INCONSISTENCIES, OUT-OF-DATE PROCEDURES, AND STAKEHOLDERS ILL-PREPARED TO DEAL WITH EVENTS."

Risk management specialist,
Gabriel Souza

Develop structured procedures to tackle each possible event. Steps should be mapped precisely, and responsibilities defined. It is essential to then define the recovery time objective for the event and then simplify this against the steps that have been mapped out.

During a crisis, personnel will likely feel high levels of stress, which can complicate a crisis recovery. People must feel supported by a practical document/system that is to the point and avoids overthinking.

Treat business continuity separately. Many combine the concept of crisis management with business continuity. It should be treated and seen as two separate perspectives – after all some crises may not interrupt a company's operations. But it is important to understand how a crisis can impact the operations.

Effective communication with employees, customers, public agents, insurance companies, shareholders and any other stakeholder that must be involved in the crisis is critical. The achilles heel in most crises lies in a failure to communicate effectively. But worse is a failure to be transparent with all stakeholders, particularly customers. Best practice requires you to:

- Identify and detail all stakeholders that should be involved in any crisis management. The document must inform the roles, responsibilities description, names, contacts and any other relevant information.
- Define the face of the company in a crisis, who will speak to the press, employees and suppliers. They must have in-depth knowledge of the company, be confident and have undertaken media training.
- Define a 'hot line' through which all external agents can communicate. A big mistake is in not creating open lines of communications between external and internal crisis management personnel. Identify all communications channels, including social media, press, intranet, etc, and define how to communicate through these channels during and after the crisis.

Learn from mistakes. Unfortunately, crisis management is not always performed as we planned. Thus, after every crisis, it is vital to have an assessment and create a database of lessons learned to be used to enhance plans and mitigation for future events.

Prioritise people's safety in every plan. This must be followed by the kindness and altruism to provide the support and infrastructure required for victims and their families.

This is just a glimpse into how we need to be structured and respond to harsh scenarios and guarantee that infrastructure, money and people's lives are not lost owing to a lack of preparedness. **SR**

One big family

Lynda Lucas has now completed her tenure as Airmic chair, passing the baton to Tim Murray. But she leaves behind her legacy in learning programmes, better digital plug-in and, most proudly for Lynda, a more inclusive membership.

WHAT HAVE BEEN YOUR HIGHLIGHTS AS THE CHAIR OF AIRMIC?

My background is in company secretarial, not risk or insurance, and one of the things that I wanted to encourage was more diversity and inclusion. Not only gender diversity but also ethnicity; and diversity in the organisations and industries represented by our membership. Not everyone involved in risk management has 'risk' or 'insurance' in their title – and we are seeing that diversity improve, too.

And this led to the most pleasing thing of all: going to the *fast*Track forum in February, the room looked different. You could see more younger people, but also a wider variety of professionals and a good gender balance. To go to an event and hear people make comments like, "I walked into the room and I felt comfortable," – that was amazing.

WHAT WAS YOUR BIGGEST CHALLENGE?

I didn't have enough time to do everything that I wanted to do! Everyone imagines that being Airmic chair, you just pitch up to the board meetings, present at the Airmic dinner and then at the annual conferences at the start and end of your tenure. But it is so much more than that – Airmic is engaged in such a wide range of activities.

TELL US A SECRET FROM YOUR TIME AS CHAIR?

It did take a long time to learn how to work the Airmic coffee machine. That takes a bit of getting used to! Otherwise, there aren't many Airmic secrets – it's a well-known beast.

IF YOU COULD GIVE TIM MURRAY ONE PIECE OF ADVICE, WHAT WOULD THAT BE?

I've already done it: I told him "get your diary out now." Get the events in which you want to participate diarised, because I know his diary is probably even more frantic than mine.

WHAT NEEDS TO HAPPEN FOR RISK MANAGEMENT TO THRIVE?

You must reinvent yourself and evolve in order to be successful. You need to have a lifelong love of learning and continue looking for the opportunities to update your knowledge and your skillset.

There will be a learning hub at this year's conference, with TED-style talks, which people can dip in and out of, in addition to the usual workshops. There's also *fast*Track, the business excellence programme, the Cass leadership development programme, and the academies. In addition, we've developed the 'tech hub' at this year's conference. It is evolutional of the conference to have a dedicated section for technology that is relevant to risk management.

TELL US SOMETHING ABOUT YOU THAT PEOPLE WOULD NEVER GUESS?

I have driven around the Nürburgring circuit in a TR6. It's the old German Grand Prix circuit. That was very memorable. I overtook a Mercedes on the final straight and according to the speedometer, I was doing more than 100 miles per hour!

IF YOU COULD CHANGE ONE THING FOR THE FUTURE, WHAT WOULD IT BE?

I would like to break down silos. The solution to a lot of our problems is in working together. And extended ERM is part of that. That is, extending ERM into your environment, your suppliers, customers, maybe even into your competitors. And working together rather than working alone.

IF YOU COULD PICK UP A NATIONAL NEWSPAPER TOMORROW AND SEE ANY RISK-RELATED HEADLINE, WHAT WOULD IT BE?

All organisations mandated to have climate change in their risk register. **SR**


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.
corporatesolutions.swissre.com
Swiss Re Corporate Solutions offers the above products through carriers that are allowed to operate in the relevant type of insurance or reinsurance in individual jurisdictions. Availability of products varies by jurisdiction. This communication is not intended as a solicitation to purchase (re)insurance. ©Swiss Re 2018. All rights reserved.