

RISK FOCUS > #ChangingRisk

THE REVOLUTION
MARCHES ON

#ChangingRisk

Our #ChangingRisk campaign continues to inspire our community to push ever forward, applying serious thought and energy to discovering what risk management's future must be.

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Change challenge

We are galvanised to move forward, to meet the demands of a globalised, digitally connected world. In the second part of our #ChangingRisk survey, you explain what must be different.

Risk management is on the precipice of change. As the landscape changes, businesses will rely more than ever before on robust risk management to help them take more informed risks, bring new opportunities to fruition and gain keen competitive advantage.

Our readers feel challenged by this change and many recognise that risk management needs to evolve. They've told us what they think needs to change, what's slowing down progress, and what the community needs to do to improve the effectiveness of risk management. **SR**

WHAT DO YOU THINK IS SLOWING CHANGE IN RISK MANAGEMENT?

TOO FAST FOR CHANGE

"Business is probably changing too fast for risk management to really add value. It is not a parallel process, it is always one or two steps behind, not ahead of the game."

BOARDROOM BARRIERS

"Risk managers need to have the courage to push forward to their execs and senior management (or government managers in the public sector) how they can help with decision-making for high performance. For example, get involved in sustainability and climate change for your organisation. It's a big issue today!"

WRONG PRIORITIES?

"Risk management prioritises the needs of the board committees over and above the organisation's needs. Cascading the risk process through organisation takes time. With every tweak of this process (often through consultants), it takes longer to embed, mature and become fit for purpose."

AN AFTERTHOUGHT

Risk management is still considered a supporting role and sometimes as an afterthought after critical decisions are made."

WHAT ELEMENTS OF RISK MANAGEMENT ARE OUTDATED / INEFFECTIVE?

ART NOT SCIENCE

"Risk management is an art. It is not a question of which elements of risk management are outdated or ineffective - it is the deployment and lack of risk strategy that are ineffective."

WHAT CAN THE PROFESSION DO TO FACILITATE CHANGE?

FIND COMMON GROUND

“Start developing common ground: identify the things that unite us and build on that. There are so many bodies claiming ‘ownership’ of risk management, no wonder organisations get confused when seeking assistance.”

BUILD STANDARDS AND TOOLS

“Develop better ERM standards and more practical tools for emerging risks and upskill the profession with regards to digitalisation and new technology platforms.”

NEW FOCUS

“Focus less on ‘risk specialisms’ and more on how organisations achieve success and how risk management can and should assist.”

CHALLENGE THE STATUS QUO

“Advocate for challenging the status quo and not simply rolling out the same thinking around current standards.”

NO MORE JARGON

“Make it less technical or complicated, make risk management easy to embed into business as usual and improve conversations and help the business areas join the dots.”

EVIDENCE-BASED APPROACH

“Demonstrate, through case studies, how companies that have mature RM practices actually benefit from reducing the impacts of risks and in facilitating/optimising opportunities. This could prompt others to emulate this effective behaviour.”

GET AWAY FROM SILOS

“Many good practices exist within risk management. But what we need to get away from is anything that is ‘separate’ to how organisations operate, and focus on the activities, skills, techniques and capabilities that will equip us to be truly integrated as trusted advisors to the organisations we work for. Basic risk procedures that focus on risk registers and heat maps are outdated. We have to move past these so we can integrate into our organisations at all levels.”

WHAT WOULD YOU CHANGE TO IMPROVE RISK MANAGEMENT’S EFFECTIVENESS?

INTEGRATE ERM

“ERM should be implemented as part of the overall business management suite and work in co-ordination with strategic planning and budgeting cycles. There is great opportunity in simplifying tools and leveraging them at various levels of the companies so that ERM is seen as something that creates value and not a ‘nice to have’ silo.”

COLLABORATE

“There is a desperate need for the profession to come together rather than disagreeing on what works and what doesn’t. For instance, the answer isn’t qualitative or quantitative risk assessment: it’s both, or more appropriately, whatever is relevant for the circumstances. This would be greatly assisted by a globally recognised, tertiary-level qualifications framework to ensure that the practitioners are held in the same standing as other professions.”

CONNECT WITH INTERNAL AUDITORS

“I’d like to connect risk management and internal audit more closely. In my company, due to budget constraints, these two functions sit in the same department and are carried out by the same team, although, ideally, they should be separate. We think that these two functions can help each other, certainly in my company. That is, risk management will lead and steer internal audit to look at high-risk areas and internal audit can gather evidence for risk management.”

FIND UPSIDE RISKS

“Risk managers should consciously seek out opportunities for upside risk that the business has either not seen or where the business has used conservative assumptions. Risk managers should never hide behind the three lines of defence but should instead strive to be the most passionate advocate for doing the best business for the company.”

OVERCOME RISK BIAS

“At the most senior level of the organisation: address the issues of bias in risk identification, so you’re looking at the right things. Include scenario analysis and cumulative risk assessment (even if only conceptual), make appropriate deep-dives mandatory for the ‘top risks’.”

“At the operational level of the organisation: prioritise control management, monitoring and assurance (bring in more bowtie analysis and critical control management). With respect to the three lines model (and the various derivatives) – do away with reliance on horizontal risk oversight (i.e., blend Line 1 and 2), give more attention to vertical ‘oversight’/monitoring (what else should management be doing). Maintain third line independent assurance.”

MOVE AWAY FROM THE PAST

“Boards of directors need to start focusing on the risks that matter, moving away from the ways of the past and how they have viewed risk. A big focus of their attention should be focused on really ensuring management are analysing the risks to their strategies as these will ultimately determine the success of the organisation. In non-financial organisations, risk management needs to transition to decision quality by ensuring the business is supported in its decision-making processes, which includes the consideration of risk.”

We are exciting!

So spread the word. It's up to risk professionals to make sure others know the value in what we do, says Siemens' Alexander Mahnke.

IF YOU HAD THE POWER TO CHANGE THE FUTURE OF INSURANCE RISK MANAGEMENT, WHAT WOULD YOU CHANGE AND WHY?

One of our biggest challenges is around our future talent and having the right diversity in people and professions in our market. I know this sounds a lot easier than it actually is. If I look at our market, I still see the same sort of people coming from the same sort of background. So, we must become a lot better if we want to attract the right talent in the future.

Many people fall into insurance risk management. I am a lawyer by training and I have specialised in international and European law, and when I first met my predecessor at Siemens I really didn't know anything about corporate insurance. But he told

"It's not your CEO or CFO's job to understand you, it's your job to make yourself understood."

me the right things; that this is a very international business where you can meet people from different countries and different backgrounds. And that not one day in this market is like another. It's a very interesting industry, but no one had told me that before when I was at school or university.

IF I GAVE YOU THE CHALLENGE OF WRITING A RISK MANIFESTO FOR THE FUTURE. WHAT WOULD BE THE NUMBER ONE POINT THAT YOU WOULD PUSH?

To be able to phrase what we do in such a way that people understand that this is one of the most interesting and exciting professions that you can choose. I can talk to everyone in my company, in the core business of my company, and they explain to me what they do and it's my job to understand if this is a risk and if the risk is insurable. So, we are at the interface of everything that can be defined as a risk and that's quite exciting. There are very few

professions within a corporation that are as diverse and as broad as insurance risk management.

WHAT IRRITATES YOU THE MOST ABOUT HOW INSURANCE RISK MANAGEMENT IS PERCEIVED BY STAKEHOLDERS?

There is a tendency to maybe talk a little too much and do too little, and this is also a frustration that I can see and hear when I talk to the younger generation in the market. People have great ideas and great propositions to do things differently and make things better. But the culture of doing things the way we've always done them is so strong that it's sometimes very frustrating to come across that, especially if you have a short patience span.

IS IT A PROFESSION THAT HAS ENOUGH OF A VOICE AT THE SENIOR LEVEL WITHIN ORGANISATIONS?

I would always tell people to look in the mirror and ask yourself: what can I do better? Because it's not your CEO or CFO's job to understand you, it's your job to make yourself understood.

At a GVNW level, we are constantly emphasising to our members that they need to be able to understand and to explain the value of insurance to whoever is asking – and perhaps more importantly to explain it to those people who aren't asking. Because at the end of the day we, as insurance risk managers, are spending money that the companies we're representing have to earn first. That's quite a responsibility.

WHAT'S THE MOST IMPORTANT LESSON THAT YOU'VE LEARNED IN YOUR CAREER?

If you do your job right and you lean on the right people, you can probably find a solution for every risk your organisation faces, whether that is self-insuring, insuring or taking the risk on your own balance sheet. I take that approach and as a result, there is very little I'm afraid of and very little that keeps me awake at night. **SR**

Alexander Mahnke is president of the German risk management association GVNW and CEO of insurance (controlling & finance, financing) at Siemens.

Redefine yourself

We are so much more than insurance, believes Ralf Mareczek of Bertelsmann. And we must ensure we are involved in all aspects of our businesses.

IF YOU HAD THE POWER TO CHANGE RISK MANAGEMENT, WHAT WOULD YOU DO?

I would like to increase the awareness of all involved parties, such as the supervisory board, in all facets of risk management. You have issues in legal, in finance... so we have to work closely across all units. Sometimes there is a lack of communication between different departments. There's room for improvement between insurance carrier, broker and the insured.

WHAT IRRITATES YOU ABOUT HOW RISK MANAGEMENT IS PERCEIVED?

Sometimes there's a perception that risk management is limited to buying insurance coverage. We are thinking about the whole risk situation. It's a challenge to get the right opinions in the company. Risk managers are more focused on other issues than insurances.

IF YOU WERE TO WRITE A RISK MANIFESTO, WHAT WOULD BE YOUR NUMBER ONE POINT?

I would like to have the right clarification of the role of risk and insurance management inside an organisation. You need a defined position in the corporate centre or headquarters. Sometimes the insurance or risk management has not a main role in organisations. It is part of finance or legal. If you can build it on a greenfield then you can write a definition of a clear role in your organisation. It's very important. You also need a high awareness of cyber risks.

IF YOU COULD RELAUNCH RISK MANAGEMENT TODAY, WHAT OPERATING MODEL WOULD YOU ADOPT?

Today, it's very important to combine enterprise risk management and insurance risk management. It should be one department or one part of a finance department. In finance, there you have a variety of risks such as currency risk. You should be involved in all developments of a company. With mergers and acquisitions, you should be involved at the very early stages, so that you can manage the risk. You have a target,

you think about the operations, and then you can model different aspects of this.

HOW DO YOU CONVINCe BUSINESS LEADERS OF THE VALUE OF RISK?

It's really about showing that a risk value is an estimate of a potential cost of a risk. That is

“If you can build it on a greenfield then you can write a definition of a clear role in your organisation.”

calculated by multiplying the probability by impact. You have to evaluate the risk and then calculate it on different models, such as the Monte Carlo Simulation. You are working with figures, with estimations, and sometimes you have soft facts. With climate change, we don't know what will happen in the future. You can calculate natural catastrophe risk on an actual basis or current basis, but what happens in three years' time? We don't know.

WHAT'S THE BIGGEST RISK YOU'VE TAKEN?

An earthquake risk in California. We built a big warehouse for Arvato, our software company. It was a really high risk that we had to calculate in our books. We have fire risk of printing machines – that's probably the biggest risk we have. In the future, it will be more cyber and liability risks.

WHAT'S THE MOST IMPORTANT LESSON YOU'VE LEARNED?

You have to think creatively, be open minded and find alternative solutions. In this way, in a negotiation with different parties, it's sometimes possible to turn a 'no' into a 'yes'.

WHAT'S ON YOUR MIND RIGHT NOW?

Digitalisation. For us, it's thinking about what the risks of digitalisation could be and how to optimise cyber insurance coverage. **SR**

Ralf Mareczek is vice-president, corporate insurance, at Bertelsmann.



Persuade with action

Ask what the big risks are for the future, says Benedikt Hintze of Georgsmarienhütte Holdings. Because risk management doesn't just stop in 2020.



IF YOU HAD THE POWER TO CHANGE RISK MANAGEMENT, WHAT WOULD YOU DO?

If I had the superpower of time traveling, I'd use it to show which damages we avoided because of loss prevention and how much we increased our company longevity. You are never able to tell what were the right decisions. Let's say it's a fire in a factory, then it's clearly visible. You can ask 'why did it happen and what did we fail to do?' But suppose with our actions we avoid this damage. You never know that you avoided it.

WHAT IRRITATES YOU ABOUT HOW RISK MANAGEMENT IS PERCEIVED?

When risk management is considered to be a legal requirement. This frustrates me because apparently it seems to have no other benefit. Maybe, it would

solutions. How can you compete in today's highly competitive marketplaces by using mainstream solutions and benchmarking? I would have a risk management strategy and process that's as tailor-made and unique as the overarching business strategy is. It's what differentiates us from competitors.

DO BOARD-LEVEL EXECUTIVES UNDERESTIMATE THE VALUE OF RISK MANAGEMENT?

If you've reached a state of needing to persuade top management then it's already too late. It's a structural deficiency in risk culture. Of course, you can provide charts, diagrams and graphs, showing this and that. But in the end, convincing is not enough. As risk managers, we have to persuade with actions, not with words.

WOULD YOU LIKE TO CHANGE THE NAME 'RISK MANAGER'?

I despise the terms 'risk management' and 'risk manager'. Because yes, risk seems negative, and manage is so meaningless and unexciting. And actually the entire company deals with risks. No person alone owns a risk. Unfortunately, so far I have not found a better title for the job. And so, we are still risk managers.

WHAT'S THE MOST IMPORTANT LESSON THAT YOU'VE LEARNED?

Being human is all about taking risks since risk is only the other side of taking an opportunity. Sometimes I get the impression that risk management is about risk avoiding or worse – being risk averse. This is nonsense.

WHAT'S ON YOUR MIND RIGHT NOW?

My new book, *Insurance Manager Convinces Company Boss*. It begins with a company boss asking: 'Why is this claim settlement taking so long?' A risk manager is explaining to a company boss how the world of industrial insurance and risk management works. It evolves to the question of whether there will still be insurances in future, or if it will evaporate because the insurance market can no longer produce what we as risk managers need. It has been written in cooperation with GVNW. **SR**

Benedikt Hintze is senior risk and insurance manager at Georgsmarienhütte Holdings.

be better if it was not legally required. Then top management and shareholders would want to have risk management in place only if it provides value.

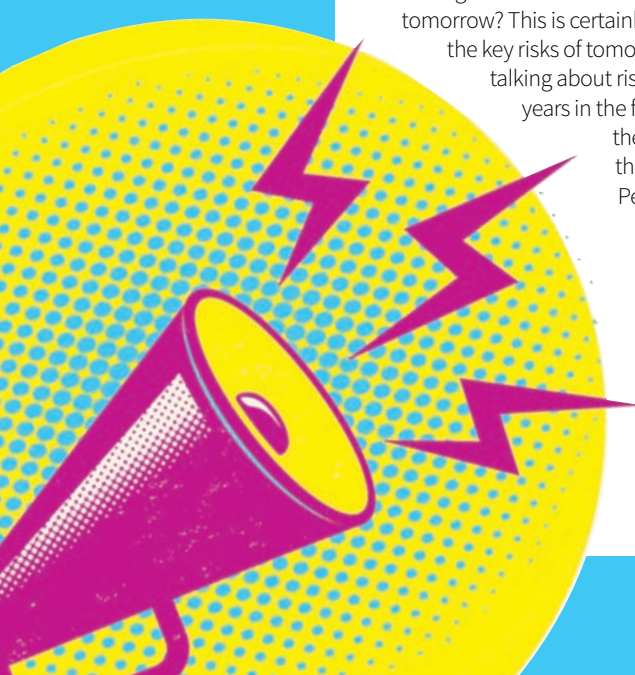
IF YOU WERE TO WRITE A RISK MANIFESTO, WHAT WOULD BE YOUR NUMBER ONE POINT?

Hunting black swans. What are the key risks of tomorrow? This is certainly a major topic and usually the key risks of tomorrow are the strategic risks. I'm talking about risks that can occur 10, 30 or 50 years in the future. For example, evaluating the consumer marketplace or the competition in the market. People are usually looking only at the next business year, but risk management does not stop in 2020.

WHAT RISK MANAGEMENT OPERATING MODEL COULD BE ADOPTED IN THE FUTURE?

Probably no model at all. Models are off-the-shelf

**"I despise the term 'risk manager'.
No person alone owns a risk."**



Are you welcome?



Würth Group's Matthias Beck discusses why you must be seen as an enabler, not a hinderer, if you want risk's value to be understood.

WHAT IS YOUR TAKE ON RISK MANAGEMENT TODAY AND WHAT COULD CHANGE OR IMPROVE?

The reputation of risk management should be on the same level as other group functions. We are a big company of almost 80,000 employees in 80 countries and more than 400 individual entities. Our risk management approach is practical, hands-on and implemented across the group. My perception is that I have the same reputation as other group functions when I talk about insurance management. But when it comes to risk management, there is still some way to go.

IF YOU HAD THE POWER TO CHANGE RISK MANAGEMENT, WHAT WOULD YOU DO?

It's about the level of awareness and identifying what falls under 'risk management'. Management take a lot of decisions that are directly linked to risk management. But they may not be aware that risk management is part of what they're doing. Risk information has unconsciously influenced their business or strategic decisions.

IF YOU WERE TO WRITE A RISK MANIFESTO, WHAT WOULD BE YOUR NUMBER ONE POINT?

The top point would be the organisational positioning of risk management, which should be clear and transparent, and that roles and responsibilities should be clearly communicated. An important success factor in that regard is trustful, efficient and effective communication and interlink with other risk management functions, such as corporate safety, quality, compliance and IT. Existing policies and procedures are supporting this communication and are really playing an active part in influencing business decisions.

DO BOARD LEVEL EXECUTIVES UNDERESTIMATE THE VALUE OF RISK MANAGEMENT?

No, I don't think they underestimate the value, as they are always considering risks and risk management when making decisions. What's sometimes missing is a structural and sustainable process.

We have around 400 companies in the group. Most of them have their own risk inventory, with an assessment of the main risks, the amount and the measures in place. The risk manager is the owner of the process but not the owner of the risk inventories. The output of this risk reporting, needs to be used

in order to support business decisions in a more structured way.

WHAT IS YOUR VIEW OF RISK MANAGEMENT OPERATING MODELS?

They're a good starting point to identify potential risks. But more important is lifting risk a bit higher within the corporate structure. I started with being responsible for corporate insurance management, and risk management was added 10 years ago. We developed a good and efficient enterprise risk management process that suits well our decentralized organizational structure.

WOULD RISK MANAGEMENT BENEFIT FROM A REBRAND?

I don't have an idea of what it could be rebranded to and maybe there is not really a need. If you are able to convince stakeholders with your actions, it doesn't matter under what brand you do it. The challenge in our function is to make the additional business value more transparent – where and in what way are we able to support the business to make more risk-based decisions in a structured and well-reported way.

WOULD YOU LIKE TO CHANGE THE NAME 'RISK MANAGER'?

It's not the job title, it's whether you are a hinderer or an enabler in your organisation. Do you walk into the



“Do you walk into the room and they say: ‘Oh no, here’s the risk manager coming,’ or ‘Thank goodness, it’s the risk manager, he’s helping us?’”

room and they say: ‘Oh no, here’s the risk manager coming,’ or ‘Thank goodness, it’s the risk manager, he’s helping us?’ This is very important. What we have been able to achieve within our group is that whenever people and top management are talking about risk and insurance management, they see us as a valuable resource. **SR**

Matthias Beck is head of group insurance and risk management at Würth Group.