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Excellence in Risk Management VI

Strategic Risk Management in Practice

An Annual Survey of Risk Management Issues and Practices

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Editor

Tom Walsh

Art Director

Thomas Branco

Review Panel

Brian Elowe
Marsh

Gordon H. Prager
Marsh

Joseph A. Restoule, CIP, CRM
Risk and Insurance Management Society (RIMS)

Richard J. Roberts, Jr., RF, ALCM, ARM, CPCU
Risk and Insurance Management Society (RIMS)

Pamela Rogers
Marsh

Mary Roth, ARM
Risk and Insurance Management Society (RIMS)

Foreword

The sixth annual Excellence in Risk Management report is based on a survey conducted during a time of ongoing uncertainty regarding the strength and pace of economic recovery and financial system reform. Central governments and regulatory authorities have undertaken vigorous measures to inject capital, restore order and stability, and foster growth. Facing extraordinary challenges, organizations large and small, public and private, across all industry sectors are finding new ways to assess and manage risk in support of strategic and operational objectives.

This year's Excellence survey yielded a variety of responses about the impact of the economic downturn on risk management programs. Most respondents said their companies' risk management programs were directly affected by the recession, although a surprising number reported that they weren't affected. Generally, the level of spending on risk management programs will not change much as a result of the recession. But change is happening. Within companies, there is a drive to use risk management capital more efficiently.

Savvy risk managers can capitalize on the imperative for efficiency, for example using risk optimization as a platform to initiate changes they have long contemplated and recommended. For example, a majority of Excellence respondents said they would like to give their firms' risk management programs a more strategic approach, a goal that has been repeatedly stated over the years of this survey. Coupled with that is the reality that senior management at many firms is now more aware than ever of the need to incorporate risk into the decision making process. Risk managers may be able to push harder for that coveted "seat at the table" with other decision makers.

This is the sixth year that Marsh and the Risk and Insurance Management Society, Inc. (RIMS) have jointly crafted and sponsored the Excellence in Risk Management Survey, a quantitative survey of RIMS members and others. The findings in this report are based on responses to a survey conducted by Oliver Wyman, the management consultancy, in February and March of 2009. The initial results were presented as part of the Excellence in Risk Management VI session at RIMS 2009 Annual Conference & Exhibition in Orlando.

We hope you will find the Excellence report a useful tool for fostering discussion of risk management within your organization. And we encourage you to reach out to us if you have questions about any of the issues raised in this report.

Tim Mahoney
President
Global Risk Management
Marsh

Joseph A. Restoule, CIP, CRM
President
Risk and Insurance Management
Society (RIMS)

Mary Roth, ARM
Executive Director
Risk and Insurance Management
Society (RIMS)

Part One: Risk Management and the Financial Crisis

Global financial crisis has affected risk management spending

The 2009 Excellence survey was fielded as the U.S. economy had been in recession for 16 months, with the global economy in similar straits. We wanted to know how the economic situation was affecting companies' investments in risk management.

Risk Management Spending in 2009

Although a slight majority of firms said their investment in risk management would be affected by the recession, the numbers were not as high as one might have expected. The fact that 47 percent said spending would not be affected may be due to a desire to continue strong risk management practices in an effort to avoid adverse financial surprises.

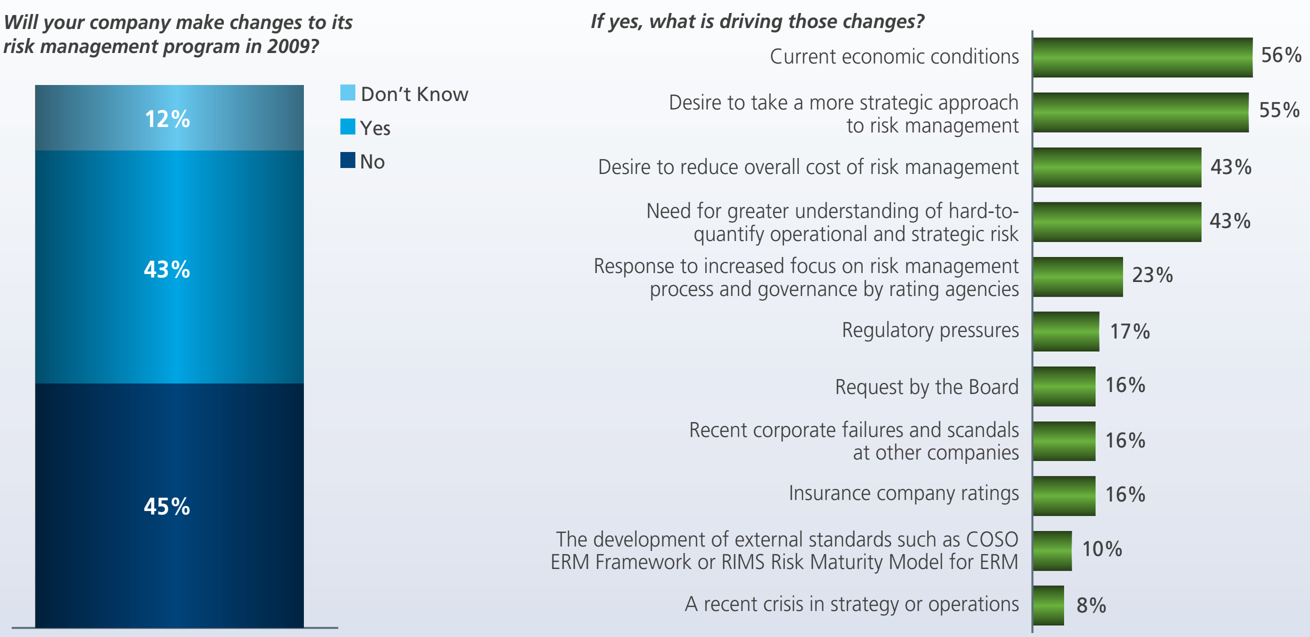
- All-in-all, it appears that risk managers are working with roughly the same budgets as they were in 2008. Of the 53 percent that said the economy would have an impact on risk management investment, 3 percent said their spending would be "much higher" and 7 percent said it would be "much lower" in 2009 compared to 2008.
- Of the affected companies, nearly half said spending would be only "slightly lower," while about one-quarter said global financial conditions would lead to "slightly higher" investment in risk management. With investments thus changing only minimally, risk managers should be focusing on making their budgets as efficient as possible.

Risk Management and the Financial Crisis

Risk management spending is undergoing a drive to efficiency

Although risk management budgets at most companies are not changing dramatically during the economic crisis, risk management is a dynamic function and more than 40 percent of companies said they will make changes to their risk management programs in 2009.

Risk Management Program Changes



- The most common reason cited for such changes is the economic downturn. The third-most cited driver of changes fits hand-in-glove with the economy, and that is the effort to bring risk management costs down.
- Neck-and-neck with the economy as a primary driver of change was a desire to have a more strategic approach to risk management. (The next section of the report covers the strategic approach in more detail.)
- It's worth noting that about one-quarter of firms said the changes were being driven by a new focus from the credit ratings agencies on risk management. Much of the talk around this topic has quieted down over the past year as the ratings agencies themselves have had many questions to answer about their actions in the months and years preceding the recession. However, companies should not lose focus on this issue as it has not gone away and may receive more attention when the economy bounces back.

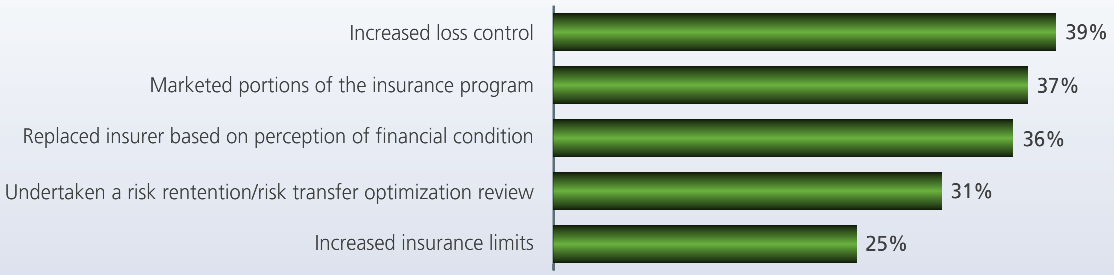
Risk Management and the Financial Crisis

Loss control is a leading factor in the drive to efficiency

Although the overall risk management budget has not changed significantly at most companies, the recession is changing the way that many companies are spending. One of the responses has been to focus on making the investment in risk management more efficient.

Focus on Efficiency

What actions are your company taking to better manage risk financing?



Loss control was the most commonly cited area by firms as they looked to increase efficiency in their risk management spending. For the most part, changes in loss control involve increased spending, part of a long-term strategy to lower losses. Some firms, however, are decreasing loss control spending. At first glance, this could seem to be a shortsighted measure, saving dollars now at a potential cost of increased losses in the future. However, companies that have undertaken an optimization review of their risk retention/risk transfer program may find that the loss control budget has grown disproportionately large, leaving room for decreases to be made now.

- More than one-third of firms are focusing on marketing portions of the insurance program, including portions that are not normally marketed. Again, this is part of injecting efficiency into the risk management program. For example, consider an organization that will not increase its risk management budget, but wants to increase loss control. To remain budget neutral, it needs to identify areas in which spending can be decreased. A natural tack to take is to see if insurers will compete for portions of the insurance program, and then to convert any savings to loss control.
- Likewise, an optimization review—another measure cited repeatedly in our survey—strives to improve efficiency by taking a hard look at issues such as the aggregate retention appetite of the organization. One key issues being probed is whether it is more efficient for a firm to use insurers' capital or the firms' own capital. Another issue involves the trade-offs between transferring risk and accepting more volatility.
- A unique aspect of the current financial crisis has been its impact on insurers, particularly on some of the largest companies. Uncertainty around insurer financials led many companies to take a hard look at the diversity—or lack of diversity—in their insurance programs and to replace insurers or market portions of their insurance programs. These steps have taken place regardless of whether a company expects to increase or decrease its risk management budget.

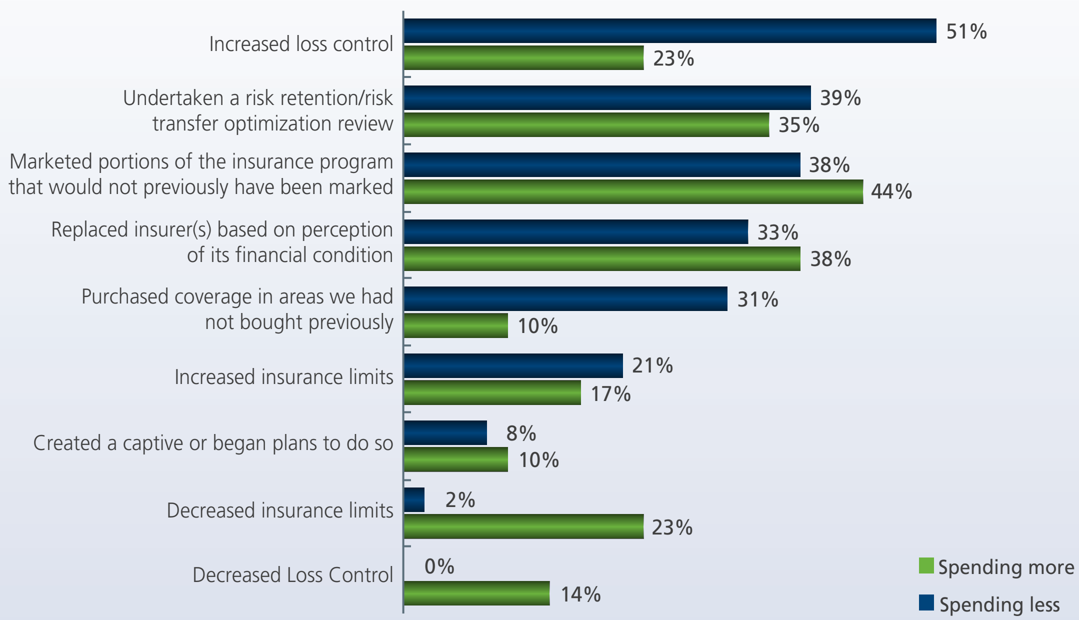
Risk Management and the Financial Crisis

Budget direction has some impact on spending priorities

We also compared risk financing actions between companies that were increasing their risk management spending and those that were decreasing their risk management spending.

Budget Direction and Focus on Efficiency

What actions are your company taking to better manage risk financing?



- Those spending less are much more likely to be decreasing loss control budgets and insurance limits. Although these actions may at first glance seem to lay the groundwork for increased losses in the future, there may well be cases in which "too much" is being spent on loss control and limits. Any decision to decrease spending in these ares should be carefully reviewed. Those spending more are far more likely to be increasing loss control measures and purchasing coverage in new areas.
- Both groups, however, are taking a hard look at their insurance programs and replacing insurers based on concerns about their financials and marketing portions of the program.

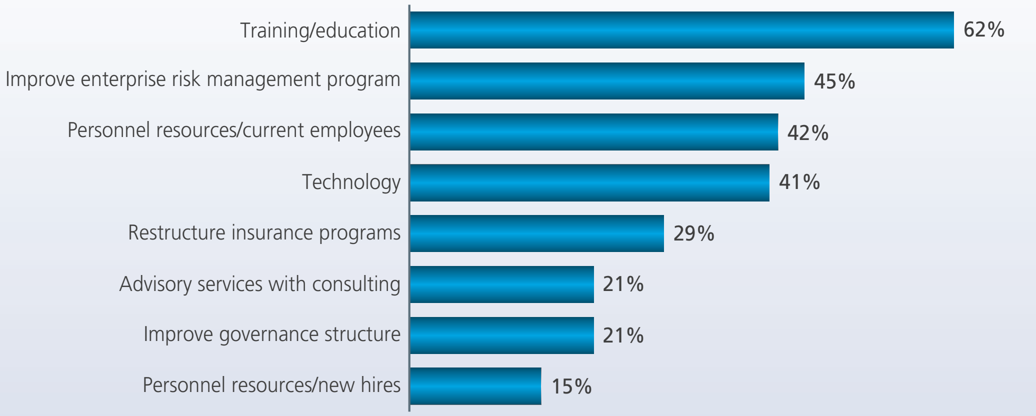
Risk Management and the Financial Crisis

Increasing risk management capabilities at the organization level

The *Excellence* survey made a distinction between what companies are doing to increase overall risk management capabilities at a the organizational level and what is being done inside the risk management department.

Increasing Risk Management Capabilities in a Company

Focus areas for developing company's risk management capabilities in 2009



- At the organizational level, the number one activity to increase risk management capabilities is training and education. This represents an area of great potential benefit for risk managers who are able to use their skills and provide training in critical areas of risk identification and mitigation to those in other departments. Doing so would help to address another focus area of organizations—improving the risk management capabilities of current employees.
- The focus on improving enterprise risk management programs at the organizational level is another area that also should play to risk managers' strengths. If a company is truly interested in improving this area, risk managers need to be a key part of the discussions.

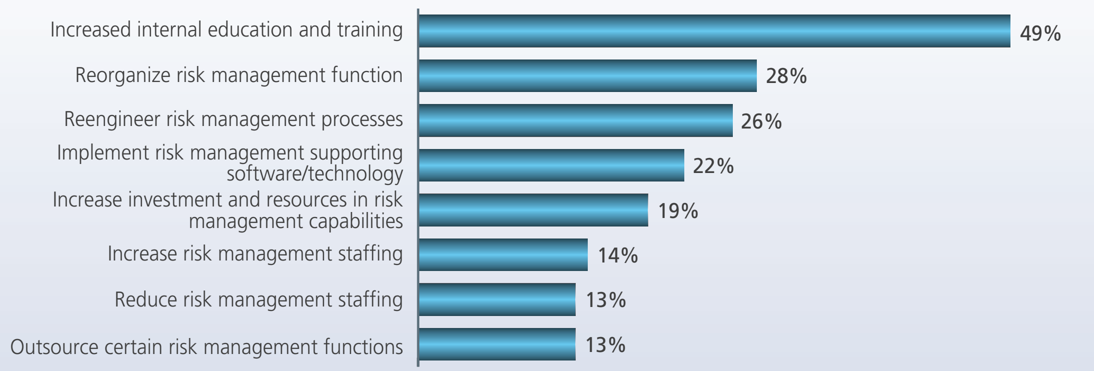
Risk Management and the Financial Crisis

Increasing risk management capabilities at the department level

At the risk management department level, the most common activity planned for the coming months is training and education. This was a priority both for risk managers and for C-suite executives and across all risk management approaches. With budgets tight and constraints on staff time, it is imperative that any training be well thought out, efficiently planned and effectively executed.

Increasing Capabilities in the Risk Management Department

What actions are your risk management department taking to improve risk management capabilities?



- Reorganizing the risk management function and reengineering risk management processes are also priorities for many companies. This type of internal focus can be time consuming, but can pay dividends through increased efficiency if done rigorously and with a clear plan in hand. Re-engineering backroom processes, for example, can lead to a reduction in the day-to-day administrative work or to ways to better use technology to accomplish some tasks. There also may be savings from outsourcing some functions—or from deciding that certain tasks actually are unnecessary.
- Despite the tough economy, a small number of companies are looking at increasing risk management staffing (14 percent) or creating a corporate-level risk management function (6 percent). Given the deep recession, the number considering reducing risk management staffing (13 percent) is somewhat lower than one might have expected.

Takeaways: Risk Management and the Financial Crisis

Risk management budgets have proven fairly resistant to large-scale changes resulting from the current global recession. But risk practitioners are being asked to change the way they operate. One response to the economic crisis has been to look for efficiencies in how risk management dollars are being spent. Risk managers may benefit by using the desire for change at the organizational level to drive changes within their own departments. Pursuing a risk optimization review can help focus spending and provide the rationale for risk finance decisions.

Part Two: Strategic Risk Management

Organizations continue to aspire to a more strategic approach

Each of the past four years, the *Excellence* survey has asked risk practitioners to categorize their firms' approaches to risk management as traditional, progressive, or strategic. The overall mix of choices has not changed much over the years, with most companies saying their approach is progressive. There is no right or wrong approach, and different approaches have proven appropriate for various organizations at particular points in time.

Risk Management Approaches

Traditional Risk Management
- Risk Identification
- Loss Control
- Claims Analysis
- Insurance and Risk-Transfer Methods

Progressive Risk Management

Traditional +
- Alternative Risk Financing
- Business Continuity
- Total Cost of Risk
- Education and Communication

Strategic Risk Management

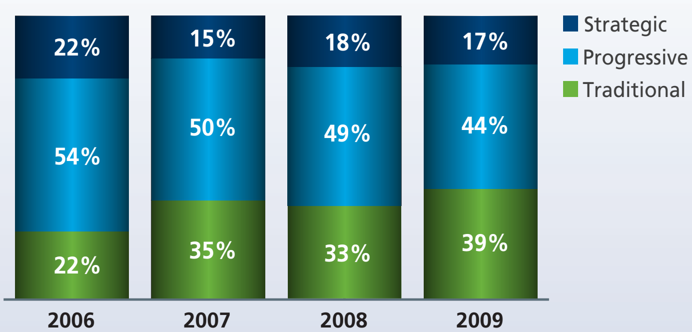
Traditional +

Progressive +
- Enterprise-wide Risk Management
- Indexing of Risk
- Use of Technology

Strategic risk management incorporates all of the characteristics of traditional and progressive approaches, but adds in measures with more of a "C-suite view" of risk. Companies that practice strategic risk management tend to view risk as something to optimize, not just to mitigate or avoid. There is a concerted effort to index risk against competitors and against the organization itself. And there is a stronger effort to weave risk issues into the overall conversation about the organization's business decisions.

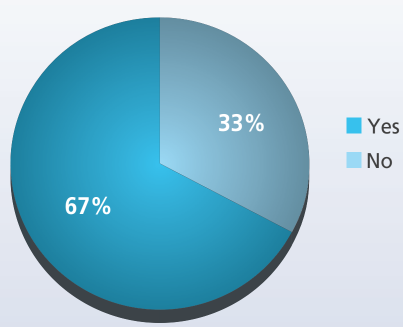
Self-Identified Risk Approach

How would you categorize your firm's approach to risk management?



Strategic Aspirations

Do you wish to move toward a more strategic approach to risk?



Between 2008 and 2009 there was a slight uptick in the number saying they are traditional (from 33 percent to 39 percent) compared to those identifying their approach as progressive from (49 percent to 44 percent). One possible reason is that the intense economic pressures of the past year have caused some companies to pull back and focus on "core" elements of their risk management programs, such as risk identification, loss control, and claims management.

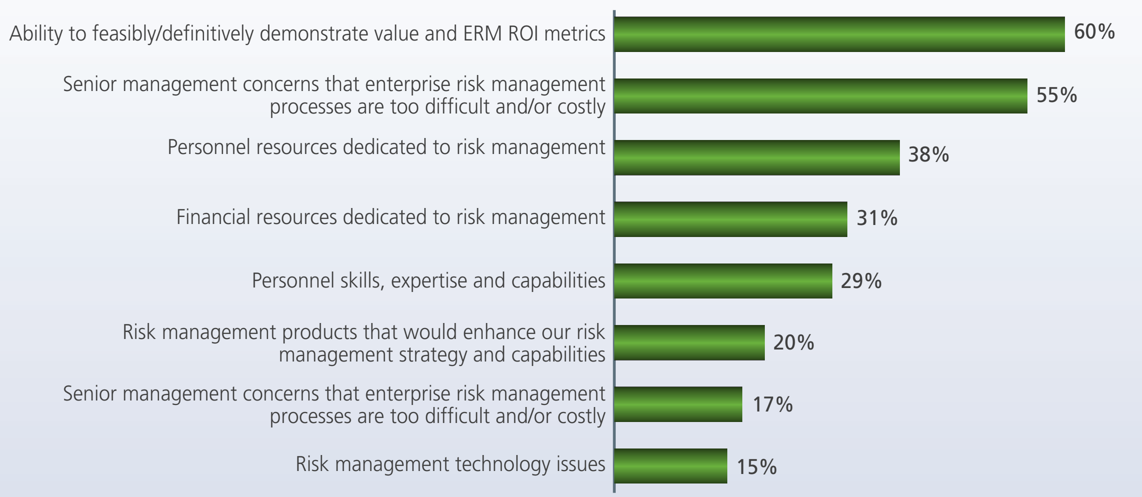
Strategic Risk Management

Barriers to changing the risk management approach

The percentage of firms expressing a desire to be more strategic has stayed about the same over the years, raising the question: Why aren't companies that say they want to adopt a more strategic approach able to make the change?

Making Progress Toward Strategic Risk Management

What are the main barriers at your firm to adopting a more strategic approach to risk management?



- About two-thirds of companies said they desire to adopt a more strategic approach to risk management. When asked what areas needed to be addressed to make the shift possible, the two most frequent responses were:

  1. metrics showing the value and return on investment (ROI); and

  2. senior management commitment.

Measuring and demonstrating a return on investment in strategic risk management programs, such as ERM, can be difficult. But without some measure, it can be hard to get past senior management concerns about the cost—and the effort to become more strategic can stagnate.

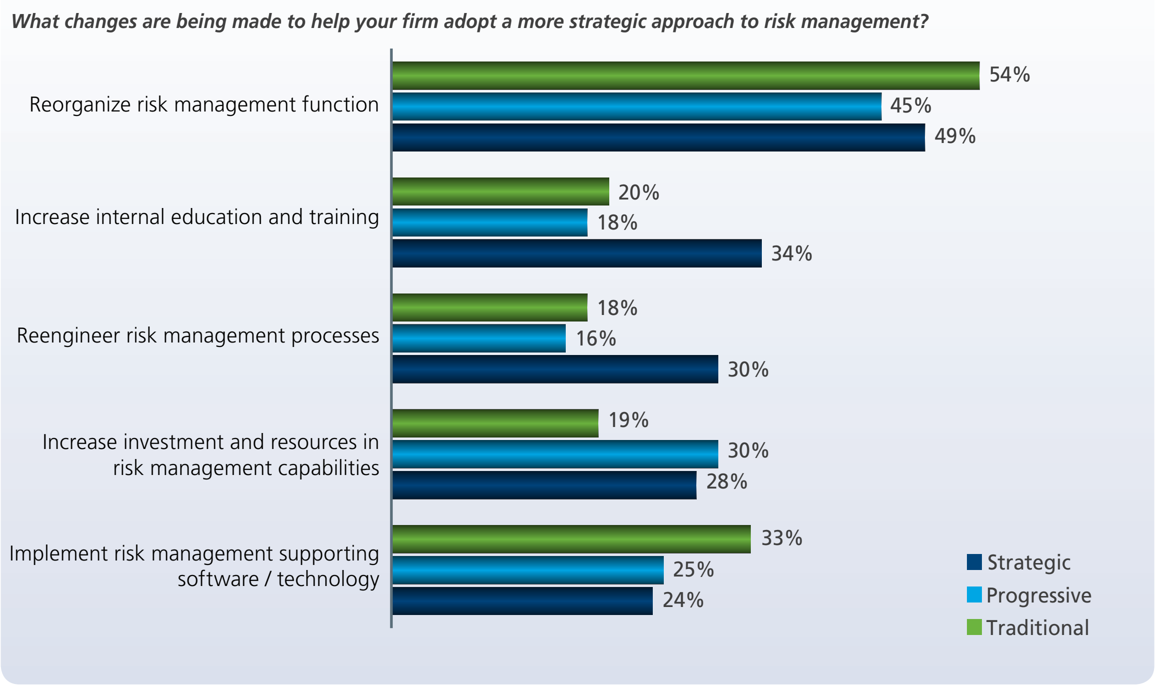
- Fewer than 20 percent of risk managers perceive senior executives as being overly concerned about the cost or difficulty of implementing ERM and other strategic risk processes. In other words, they may well be willing to spend the money once they are convinced of the value.
- The next set of barriers cited involved areas such as personnel, financial resources, development of expertise and skill sets, risk management products, and technology—all of which hinge largely on budgets. But as we just saw, risk managers are not particularly worried that management is unwilling to fund such items. So the problem circles back to convincing management of the ROI.

Strategic Risk Management

Achieving a more strategic approach

Having seen what the barriers are to becoming more strategic, the survey looked at the changes some companies are making to help them reach their goal.

Planned Changes to Risk Management Programs



- The companies that already consider themselves to be strategic continue to be doing as much or more in these areas as the other approaches. For example, they were much more likely to be increasing their investment in risk management capabilities, and to be putting new technology in place.
- As we have seen elsewhere, all three approaches place a high value on education and training.

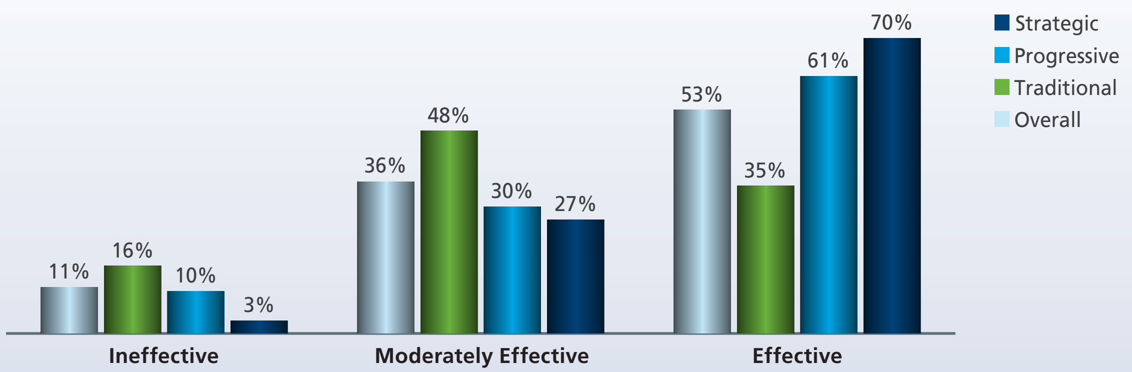
Strategic Risk Management

Strategic approach raises confidence

The media, regulators, and other stakeholders have given a lot of attention to the role of risk management in some of the underlying failures that contributed to the economic crisis. The more a company views its risk management function as strategic, the more confidence it has in its ability to help navigate the financial crisis.

Navigating the Financial Crisis with Confidence

How effective is your organization's risk management approach in helping to navigate the current financial crisis?



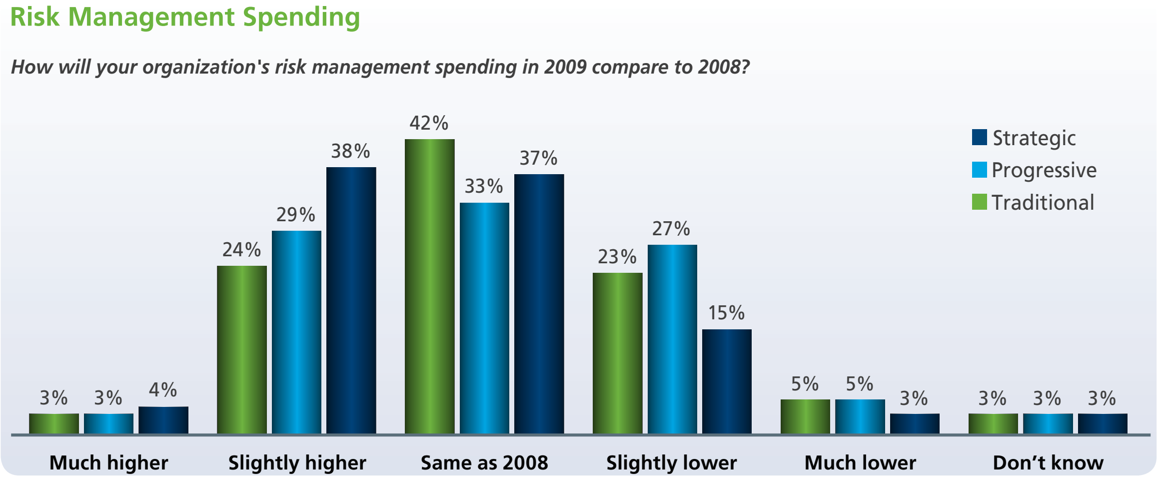
The more strategically a firm views risk management, the more likely that it has a 360-degree view of risk across the company. Not only are strategic risk managers better equipped to know what is going on elsewhere in the company, they are more likely to feel they can exert at least a degree of influence.

- Marsh's work in the area of risk optimization has shown the potential benefits from a drive for efficient use of capital in organizations, which want to know what the right balance is for using insurance capital versus using the organization's own capital. Once companies begin to feel comfortable that they are achieving the right balance, they can move on to a question such as: "Do we feel comfortable with our risk management in this economic environment?" Getting to that question represents a move toward finding the ROI of the overall program.
- Many companies in this economic environment are looking at the tradeoffs between the pressures to reduce costs, the increasing volatility in their organizations, and the ability to manage those issues. The companies that believe that their risk management approach provides a 360-degree view of risk in the organization are able to show, for example, that it may not be the right thing to retain risk simply to reduce a premium cost. That is where effectiveness comes into play and is why some companies feel they were reasonably effective in this environment.
- Organizations with a strategic approach are more likely to be conducting studies on the cost of risk capital and other issues in a language that CFOs understand. When decisions are reached in such firms, the comfort level about the decision rises at all levels due to the shared language between financial officers and risk managers.

Strategic Risk Management

Strategic firms spending more

Companies with a strategic approach were more likely to say they will increase their investment in risk management in 2009. This likely relates to their overall confidence that the risk management program is adding value even during tough economic times.



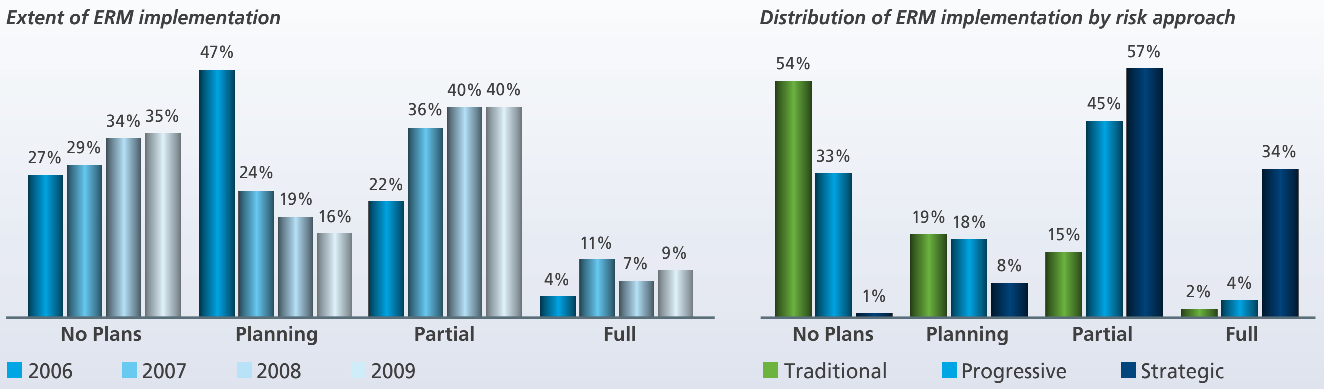
- Forty-two percent of strategic firms said spending on risk management would be either much higher or slightly higher, compared to 32 percent of progressive and 27 percent of traditional firms.
- Only 18 percent of strategic companies said their investment would be less, compared to 32 percent of progressive and 28 percent of traditional companies.

Strategic Risk Management

The number of firms adopting ERM may reach a plateau

The adoption of enterprise risk management (ERM), a key component of strategic risk management, appears likely to plateau at about 65 percent of firms. Most self-identified strategic companies are well beyond the planning stage for ERM, while more than half of traditional companies and one-third of progressive companies say that ERM is not in their plans.

Extent of ERM Implementation and Distribution by Approach



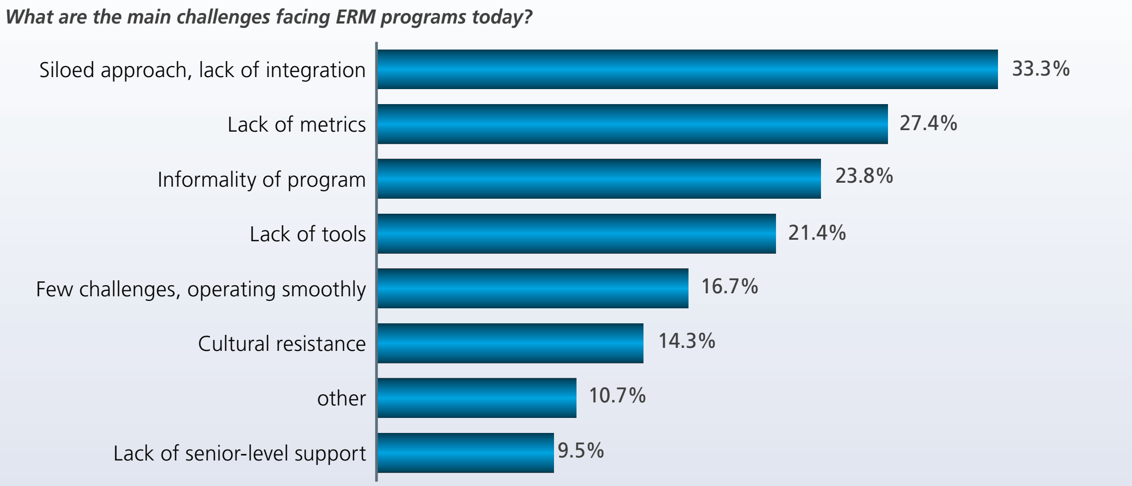
- The slow but steady increase in the percentage of firms saying they have no plans to adopt ERM is evidence that tough questions about its cost and value are being raised. Senior executives want to know exactly how ERM adds value. Proponents say that ERM's value to a firm comes in many areas that are not easily quantifiable, making it important for risk managers to effectively point out the qualitative benefits.
- From 2006 to 2009, the percentage of companies planning to implement ERM dropped from almost half to only 15 percent. As expected, this corresponded with a dramatic increase in companies with partial implementation of ERM over the same four-year period. What did not occur, however, was a significant rise in the number of firms reporting full implementation of their ERM plans.
- The *Excellence* survey has used the word"strategic" rather than "ERM" as the overarching term for this approach to risk management. Strategic has a broader connotation than ERM itself, which can be construed to be a tool or set of activities associated with being strategic. Where "ERM" can sound like a process that a firm will need to spend money on, showing how risk management needs to be woven into the strategic goals of the company may allow the discussion to with senior management to take place against a different background.

Strategic Risk Management

Challenges to adopting ERM

Earlier this year, Marsh's Risk Consulting Practice studied ERM programs at companies worldwide and identified some of the main challenges confronting them.

Challenges Faced in ERM Implementation



Source: "The Importance of ERM During Economic Upheaval," Marsh Risk Consulting, (February 2009)

The study found that lack of integration and siloed approaches are the most common challenges confronting ERM programs. Nearly half of respondent companies indicated that their ERM programs are only partially integrated into the company's routine business processes. This lack of integration is perhaps due to insufficient or ineffective communication between companies' risk function and the rest of the business, a relative lack of influence exerted by the risk function, or a potential lack of risk expertise at the Board level. Other key challenges included lack of metrics (27 percent), program informality (23 percent), and lack of tools (21 percent).

Takeaways: Strategic Risk Management

The percentage of firms saying they want to adopt a more strategic approach to risk management has remained high over the past several years—but there has been no discernible movement toward reaching that goal. In order to gain senior management backing for the move, risk practitioners need to be able to show the ROI of strategic risk management—whether it is called ERM or something else. One way to do so is to begin speaking the language of financial executives, for example by conducting—and acting on—studies on the efficient use of risk capital. Some companies may be able to move the needle on ERM implementation by adopting a different tone for the conversation. Instead of approaching senior management with a message that says "I want to do ERM", making the link between ERM and strategic risk management will help to show the value of an ERM approach to managing risk.

Part Three: Strategic Risk Management in Practice

Strategic firms focus on integrating risk with corporate goals

Before looking at the tools, methodologies, and reports used by firms with different approaches to risk management, it's important to understand what they see as the main goals of the risk management function within their organization.

Top 3 Goals of Risk Management Program

Traditional Risk Management	**Progressive** Risk Management	**Strategic** Risk Management
1. Increase ability to meet corporate strategic goals by ensuring risks are explicitly considered in business decisions	1. Increase ability to meet corporate strategic goals by ensuring risks are explicitly considered in business decisions	1. Improve capabilities to identify and assess risks
2. Improve management of cross-organizational interrelated risks	2. Improve capabilities to identify and assess risks	2. Increase ability to meet corporate strategic goals by ensuring risks are explicitly considered in business decisions
3. Improve risk governance practices	3. Increase management and business-unit accountability	3. Increase management and business-unit accountability

- Risk managers at traditional and progressive companies are more likely to focus on the ability to identify and assess risk. Interestingly, strategic firms tended not to list this as a top goal. Why? It is likely that with their 360-degree view of risk across the entire company they are already confident that they are capturing that information. This allows them to focus on cross-organizational management of risk.
- Organizations with a strategic risk management approach are more likely to focus on ensuring that risks are explicitly considered in business decisions. Although all three approaches said this was a top three goal, more than two-thirds of strategic companies said so compared to only 40 percent of traditional companies. This is a key point to explore for companies that wish to become more strategic—remember that one of the barriers is the lack of buy-in from senior management and a related inability to show ROI. By ensuring that risk issues are part of an organization's strategic discussions, risk practitioners can take an important step in showing ROI.
- It's also important to consider who in the company is bringing risk issues to the table. For example, in many firms, internal audit brings forth the information on risk that reaches senior executives. The information from audit tends to be quantitatively driven, laden with graphs and checklists. Risk managers may find an opportunity to add value by working with internal auditors and supplying complementary qualitative views about the risks and risk mitigation measures being taken across the company.

Strategic Risk Management in Practice

Strategic firms use a wider variety of tools

The *Excellence* survey explored the risk management tools and methodologies used by organizations with a strategic risk management approach compared to those used by companies with traditional and progressive approaches. The hallmark of strategic companies was a much broader use of and a wider array of risk management tools and techniques.

Risk Management Approach at Work

What tools and methodologies does your firm's risk management function use?	Traditional*	Progressive*	Strategic*
Internal subject matter experts	63%	59%	79%
Internally generated and tracked risk indicators	42%	41%	63%
Industry benchmarks/loss experience	66%	65%	59%
Risk mapping and decision tree analysis	20%	27%	57%
Qualitative self assessments	27%	35%	56%
Key risk indicators	32%	38%	51%
Individual or facilitated group self assessments	30%	38%	49%
Statistical analysis/probabilistic modeling	32%	31%	45%
Scenario analysis (to prioritize risks)	19%	32%	44%
Quantitative individual self assessments	15%	23%	44%
Scenario analysis (to measure risks)	28%	36%	42%
Statistical analysis/probabilistic modeling	15%	18%	41%
SWOT analysis	30%	34%	40%
External subject matter experts	22%	25%	40%
"Table-top"/simulation exercises	15%	22%	40%
Externally generated and tracked risk indicators	17%	21%	33%
Value at risk	15%	30%	32%
Risk adjusted return on capital (RAROC)	5%	12%	28%
Economic value added	17%	26%	25%
Cash flow at risk (CaR)	13%	12%	20%
Earnings at risk (EaR)	10%	9%	13%
Return on risk adjusted capital (RORAC)	5%	6%	13%

* Percentages refer to the number of firms in each category that said they use the corresponding tool.

- Strategic companies use a significantly greater number of tools and methodologies to identify, measure, and prioritize operational and strategic risks, and also use a wider range of risk measurement techniques. This backs up the idea that they operate more in the enterprise risk area than progressive or traditional firms.
- Strategic companies were more than twice as likely to conduct qualitative self-assessments as traditional companies, and nearly three times as likely to run quantitative self-assessments. They were also much more likely to employ risk mapping, and run tabletop simulation exercises.
- It's important to remember that the value from using a variety of models comes not in the models themselves, but in risk practitioners' ability to discuss the information and put it in the context of risk management decisions.

Strategic Risk Management in Practice

Strategic firms use wider variety of reports

Risk managers with a strategic approach use the information generated by their tools to prepare more reports and to engage regularly with senior management. Such reports provide an important way of keeping C-suite decision makers aware not only of risks facing the firm, but of the value the risk management function is providing.

Reports Sent to Senior Management

What reports does your risk management function send to senior managers quarterly or annually?	Traditional*	Progressive*	Strategic*
Updates on key risk mitigation strategies	23%	33%	56%
Entity-level risk assessments presented as “heat maps”	13%	20%	54%
Trends in key risk indicators	31%	40%	52%
Group/business unit risk assessments presented as “heat maps”	11%	19%	49%
Emerging risks outlook	13%	22%	48%
Overview of primary methodologies used for risk modeling and risk assessment	15%	21%	35%
Risk assessments of large projects/capital projects over a defined threshold"	13%	23%	24%

* Percentages refer to the number of firms in each category that said they generate the corresponding report.

- Traditional risk practitioners report much less often and in fewer ways to senior managers. For example, only about 30 percent of traditional organizations report trends in key risk indicators quarterly or annually, another 40 percent do so episodically or as requested, and 30 percent say this type of reporting is not applicable. This indicates that traditional approaches are often reactive to senior executives—and again it’s worth pointing out that this traditional structure works very well for many companies.
- Remember, nearly two-thirds of traditional companies said they want to move toward a more strategic approach. And the top two barriers they cited were demonstrating ROI and obtaining senior management commitment. Providing a regular stream of useful reports on key risk issues can be a start to getting over those barriers. If the reports themselves help senior executives to make better-informed decisions, the ROI will begin to be seen.

Takeaways: Strategic Risk Management in Practice

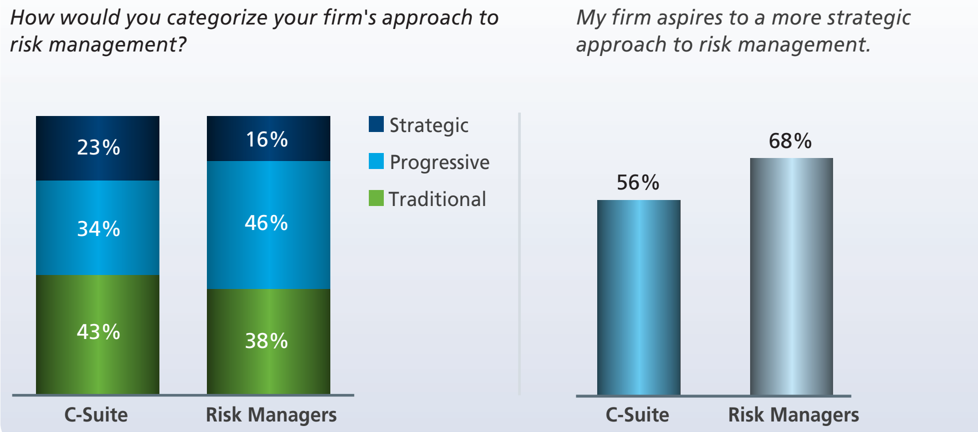
The economic environment has increased the pressure on all companies to address risk at the highest levels of the organization. Companies with a strategic approach to risk management use more tools and have more structured and frequent reporting on risk management than do firms with other approaches. As such, they are in a better position to ensure that risk management provides relevant and applicable information that meets the needs of the organization and executive team. But no matter what an organization’s approach is, the tools used must be backed up by solid, actionable reporting. It’s not always necessary for the risk managers to be conducting their own studies for their voices to be heard. Forging a strong relationship with internal auditors and other departments can allow risk practitioners to supplement their reports with the risk manager’s own analysis.

Part Four: Risk Managers and the C-Suite

Risk managers and C-suite share some goals

The ongoing economic crisis is likely to bring more focus on risk management's role in an organization. At the same time, most risk practitioners continue to desire a more strategic approach to risk management, but are having difficulty achieving this goal. Risk managers and their C-suite counterparts would do well to keep an open dialog about areas of agreement and disagreement, whether they change their overall approach or not.

Risk Managers and C-Suite Aspire to be More Strategic



- A majority of both risk managers and C-suite executives say their firms should move toward a more strategic approach to risk management. Risk practitioners need to understand where their companies' decision makers stand on this issue. If there is agreement that a more strategic approach is desired, the risk manager has a chance to be a catalyst. If there is disagreement, however, the risk manager needs to make sure his or her approach is in line with corporate expectations.
- Those in the C-suite are slightly more likely to categorize their organizations' current approach as strategic or traditional, while risk managers are most likely to say it's progressive.
- There is a lot of agreement among the risk managers and C-suite executives that want to see a more strategic approach to risk management as to where the barriers are to make it happen. Each of the groups listed the following as the top three areas to be addressed:

  1. Senior management commitment
  2. Ability to demonstrate value
  3. Personnel resources

The only difference was in relative importance, with risk managers placing senior management commitment at the top of the list, while the C-suite placed personnel at the top.

Risk Managers and the C-Suite

Goals of risk management programs

Despite sharing common goals for the company's risk management program, the C-suite and risk managers may be evaluating the effectiveness of the program differently.

Risk Managers and C-Suite Share Important Goals

What would help your firm reach the stated goal of practicing risk management more strategically?

C-Suite	Risk Managers
1. Increase ability to meet corporate strategic goals by ensuring risks are explicitly considered in business decisions	1. Increase ability to meet corporate strategic goals by ensuring risks are explicitly considered in business decisions
2. Increase management and business-unit accountability	2. Improve capabilities to identify and assess risk
3. Improve capabilities to identify and assess risk	3. Increase management and business-unit accountability

It's just as important to find areas of common ground as it is to point out differences. And one encouraging sign for the relationship between risk practitioners and the C-suite is that they generally agree on what the main goals of the risk management program should be.

- More than half of risk managers and C-suite executives said the top goal of the risk management programs should be to increase the ability to meet their companies' strategic goals.
- One important area of disconnect is related to corporate governance. About one-third of C-suite executives said a top goal of risk management should be to improve corporate governance—only half the number of risk managers cited this as a key goal. Risk managers should have a conversation with the decision makers to see if they are underestimating the role risk management can play in the corporate governance process. Those in the C-suite, in turn, should be explicit about their expectations from risk practitioners in this area.

Risk Managers and the C-Suite

Effectiveness of risk management programs

Views on Effectiveness of Integrating Risk Information

C-Suite	Risk Managers
Most Effective Areas at Integrating Risk Information	
Operational Planning	Operational Planning
Large Capital Investments/ Strategic Planning	Capital Allocation
New Product/Service Development	Large Capital Investments/Strategic Planning
Ineffective Areas at Integrating Risk Information	
Research and Development	Research and Development
Procurement and supply chain planning	Strategic Planning
New Product/Service Development New Country/Market Entry	Procurement and supply chain planning

- At first glance, risk managers and the C-suite seem to share similar views on how effective the company is in integrating risk information into various areas. For example, operational planning received high marks from both groups; and research and development received low marks from both.
- But a broader look shows that in all nine areas we looked at except for one—operational planning—risk managers were more likely to give a higher rating than were C-suite executives. And on the flip side, the C-suite was always more likely than risk managers to say the company's use of risk information was "not effective." The caution flag here for risk managers is that the C-suite may be eyeing your program with a much more critical eye than realized.
- A similar pattern emerged when respondents were asked how effective their company's risk management approach is to navigating the financial crisis. The responses were close, but the C-suite was more hesitant than risk managers to rank it as "effective" and more likely to say it was moderately effective.

Risk Managers and the C-Suite

Focus areas for developing capabilities

- Nearly three-quarters of C-suite respondents agreed with risk managers that training and education should be a top priority.
- There was also strong agreement that resources should be directed to improving the enterprise risk management program. There is obviously an opportunity at some companies to couple these areas together, gaining C-suite backing for more training and education which could lead to strengthening the ERM process.
- Risk managers also should note that a potential area of disconnect exists related to corporate governance. Just as the C-suite was more likely to see governance as a corporate goal for risk management, so too do they want to see it be a focus for development in 2009. These are strong indications that there is discussion at high levels in some companies about risk management's role in governance. If risk managers are not aware that these conversations are happening, they would be wise to make themselves aware and to become involved in the conversations where possible.

Risk Managers and the C-Suite

Finding common ground

Personal Development Goals

What are your personal career development goals?

C-Suite	Risk Managers
1. ERM training;	1. ERM training;
2. technology training;	2. spend time in other departments;
3. spend time in other departments	3. finance skills

Risk managers and the C-Suite should be creative in their search for common ground. For example, they should pay attention to how they can play a role in helping C-Suite executives to meet their own goals. The most common personal development goal for both risk management and C-suite executives was training in the application of ERM.

Risk managers—especially those who want to become more strategic—have a golden opportunity here to educate senior management about the value of enterprise-wide risk management. And about how its ROI should be measured.

Risk managers also should note that nearly a quarter of C-Suite executives said they want to spend time in other departments. Given that our study was explicitly asking about risk management, it seems it could be beneficial to find out if your CFO or COO wants to spend time learning more about the risk management function. If he or she does, this would present an enormous opportunity to show the value of strategic risk management—or traditional or progressive risk management, for that matter—to a senior decision maker.

Takeaways: Risk Managers and the C-Suite

The financial crisis of the past 18 months has increased the significance of risk issues in corporate decision making. This means the already important working relationship between the C-suite and risk practitioners will become even more critical. Although there are some areas of disconnect between risk managers and those in the C-suite, there also are many areas of agreement. Effective risk managers are able to broaden the discussions they have with senior decision makers.

Recommendations

The global recession has caused companies to rethink their business models, strategies, and operations—including the role of risk management. Many risk practitioners are responding by increasing the efficiency within their departments and attempting to forge closer ties to the C-suite. Yet the majority of risk managers and their C-suite counterparts continue to be stalled when it comes to a professed desire to take on a more strategic approach to risk management.

Following are some recommendations to help companies think and act more strategically—and efficiently—about risk management:

- **Evaluate your position** in the current economy. Find ways to make your spending more efficient. Does the budget need readjustment? Are your funds allocated in the portions of your program that make the most sense?
- **Establish an evaluation process** to assess your firm's current risk management approach. Is it traditional, progressive or strategic? Ensure that risk management department functions are aligned with that approach.
- **Create a means of establishing ROI** for your risk management function. The executive team needs to see ROI if it is to back a move toward greater strategic risk management/ERM adoption. Risk managers must consider how the information they provide to leadership better enables operational and strategic decision making. Without a clear way to establish the benefits of your program, it will be difficult to enact changes.
- **Develop a clear set of goals** for where you want your risk management program to be, whether it is to be more strategic or to be better at the basics—or both. Risk managers, senior managers, and decision makers throughout the company should be involved in the process.
- **Create a road map** to get to your destination. You will need to work within the constraints of budgets, realistic timelines, and available technology and personnel.
- **Maintain an open line of communication** between risk managers and senior level management. Ensure that the issues that require the greatest attention from management and the Board have a clear structure around risk management.
- **Consider how the information generated by the risk management function is applied** and integrated into the decision making processes. Are you using the right tools to generate the information the company needs? Are you reporting in a language the C-suite is comfortable with, and in a timely basis?
- **Use this survey** as a discussion point and education tool to elicit the views of senior executives and others in your company about the direction of risk management in your firm.

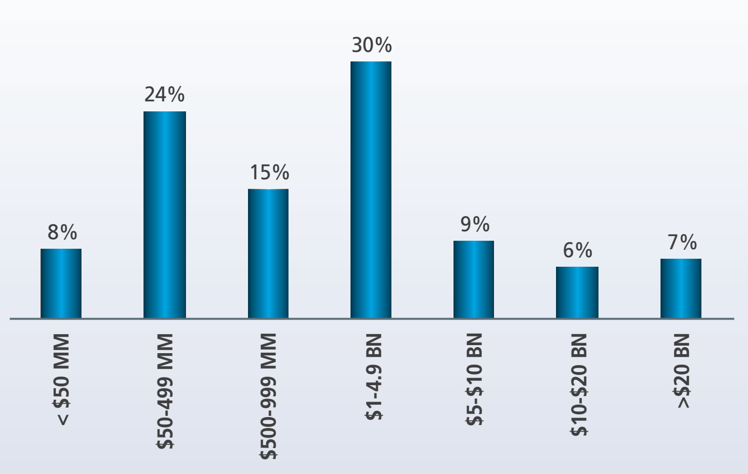
Appendix

The findings in this report are based on responses to a survey conducted by Oliver Wyman in February and March of 2009.

Annual Revenues

The firms represented in this survey were divided into seven revenue groupings.

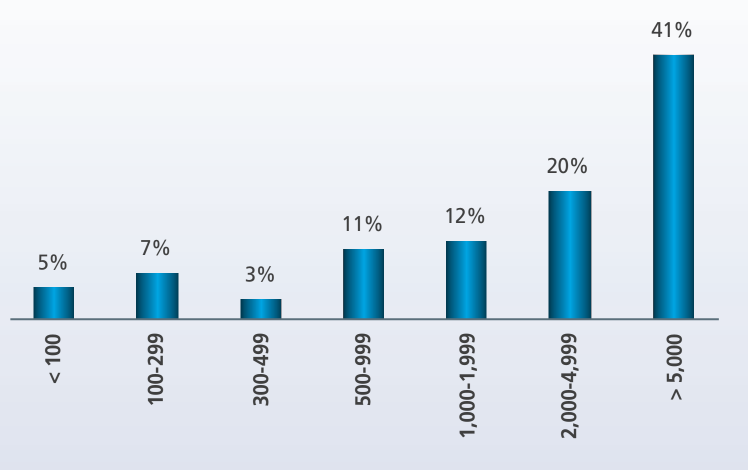
Distribution by Annual Revenue



Number of Employees

The firms represented in the survey were divided into seven groupings based on the number of employees.

Distribution by Company Headcount



MARSH

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

About RIMS

The Risk and Insurance Management Society, Inc. (RIMS) is a not-for-profit organization dedicated to advancing the practice of risk management. Founded in 1950, RIMS represents more than 3,500 industrial, service, nonprofit, charitable, and governmental entities. The Society serves more than 10,000 risk management professionals around the world. For more information on the Risk and Insurance Management Society, visit www.RIMS.org.

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