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# 406:The General Counsel as Risk Manager

**Roger L. Andrews**
*General Counsel & Director, Risk Management*
E.D. Bulllard Company

**David L. Christensen**
*Managing Director, Advanced Risk Solutions*
Marsh USA Inc.

**Ellen R. Dunkin**
*General Counsel*
Risk and Insurance Management Society, Inc.

**Thomas Masiello, Jr.**
*Counsel, Risk and Claims Manager*
Cumberland Farms/Gulf Oil

# Faculty Biographies

**Roger L. Andrews**

Roger L. Andrews is director of risk management for E.D. Bullard Company in Cynthiana, Kentucky. He reports to the president and CEO in managing risk for this major manufacturer of personal protective equipment including hard hats, fire helmets, respiratory equipment, and thermal image cameras. His duties include the purchase of all property and casualty group health insurance and workers' compensation policies, review of all product literature and warnings, administration of the 401(k) program, and management of all litigation claims under the self-insured retention.

Earlier in his career, Mr. Andrews worked for Travelers Insurance Company as a commercial underwriter in San Diego and in the international department of travelers in Hartford, Connecticut. After law school, he worked as a manager of property and casualty in the Maine Bureau of Insurance. He later became the director of risk management for the State of Maine. He has served as director of risk management for Hannaford Bros. Co., Northern New England's largest supermarket and drugstore chain, and Bath Iron Works Corp., a large contractor that builds cruisers and destroyers for the U.S. Navy.

Mr. Andrews has been active in the Risk and Insurance Management Society, Inc. (RIMS) for the past 20 years, including as president. He currently serves on the RIMS nominating committee and is a member of the board of directors of the Spencer Educational Foundation. In 2003, he was recognized by *Business Insurance* and RIMS as a member of the Risk Management Honor Roll.

Mr. Andrews received a BA from Brigham Young University and a JD from Thomas Jefferson School of Law in San Diego.

**David L. Christensen**

David Christensen is a managing director and coleader of Marsh's Northeast Advanced Risk Solutions Group, primarily engaged in developing comprehensive risk management and financing solutions for major clients.

Prior to his current position, Mr. Christensen performed a number of roles within Marsh, including senior casualty broker, client executive, and enterprise risk management consultant. In all of these roles, he specialized in identifying risk, evaluating clients' financial circumstances, and developing new strategies to manage and finance risk. These strategies included solutions such as integrated and finite risk programs, loss portfolio transfers, captive insurance programs, financial, commodity, and weather hedge products, cash flow and guaranteed cost programs, and capital market securitization of risk. Mr. Christensen joined Marsh, brokering marine hull and liability placements in the New York, London, and Norwegian markets. He also participated in the development, implementation, and marketing of a risk management consulting product designed for firms involved in mergers and acquisitions. He managed client relationships and was responsible for brokerage of all lines of property and casualty insurance for these clients. In 1996, he became a senior member of NY operations' casualty department, where he brokered large casualty programs for healthcare and public entity clients.

 

Mr. Christensen received a BA from the College of William and Mary. He attended the College of Insurance, and has earned the Associate in Risk Management designation. He is a registered broker in NY State, as well as a registered NASD Series 7.

**Ellen R. Dunkin**

Ellen R. Dunkin is general counsel of the Risk and Insurance Management Society, Inc. (RIMS) in New York. RIMS is a non-profit organization dedicated to advancing the practice of risk management, a professional discipline that protects physical, financial, and human resources. Her responsibilities at RIMS include providing advice to the organization, its staff, and volunteer leadership on a wide range of issues. She is also the director of meetings and events at RIMS. In this capacity, Ms. Dunkin gets to plan, organize, and attend RIMS Annual Conference & Exhibition, a yearly event that provides educational opportunities and an exhibit hall to its 10,000 attendees.

Prior to joining RIMS, Ms. Dunkin served as senior attorney to Marsh & McLennan Companies, Inc. There she provided counsel in the areas of securities regulation, mergers and acquisitions, executive compensation, and employee benefits. Ms. Dunkin began practicing law as a corporate associate at Willkie Farr & Gallagher in New York.

She currently serves as chair of ACC's Non-Profit and Association Committee. She recently completed a third term on the non-profit committee of the Association of the Bar of the City of New York. Ms. Dunkin has also served as an officer and director of the Mamaroneck Schools Foundation in Mamaroneck, New York.

Ms. Dunkin received her BA from Albany State University and graduated from St. John's University School of Law, where she was an editor of *Law Review.*

**Thomas Masiello, Jr.**

Thomas Masiello, Jr. is the risk and claims manager for Cumberland Farms, a leader in the convenience store industry.

Prior to joining Cumberland Farms, Mr. Masiello worked in-house for AIG focusing on insurance defense, premises liability, and workers' compensation. He spent a year with MacDonald and Wallace providing legal and risk consulting services and four years managing risk for the Boston Housing Authority.

Mr. Masiello is a vice chair of the ABA risk managers and self-insurers law committee and a member of the tort and insurance practice section. He is a member of the Massachusetts Academy of Trial Attorneys, the American Trial Lawyers Association, and is a recent inductee to the International Association of Defense Counsel. He is currently serving on the nominating committee of the Risk and Insurance Management Society.

Mr. Masiello received his Associates degree from the Insurance Institute of America, graduated from Johnson State College, and received his JD from New England School of Law.

# 406: The General Counsel as Risk Manager

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Thomas Masiello

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## The New Reality of Risk

- Rising Healthcare Costs
- Shrinking & Shifting Labor Market
- Management Expectations & Accountability
- Supply Chain Dependency
- Intellectual Property
- Technology Acceleration
- Political Volatility & Terrorism
- Privacy & Identity Theft
- Brand & Reputation Risk
- Environmental Liability & Climate Risk

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## Risk Management Basics

- Holy Trinity of Risk Management (Risk Financing, Loss Control and Claims)
  - Risk Financing
    - Retained Risks
      - Current Expense
      - Unfunded Reserves
      - Funded Reserves
      - Borrowing
      - Single Parent Captive

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## Risk Management Basics Cont'd

- Transferred Risks
  - Insurance
    - E.g., guaranteed cost, loss sensitive
  - Non-Insurance Contractual Transfer
    - Loss Portfolio Transfer
    - Indemnity Agreements
    - Hold Harmless Agreements

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## Risk Management Basics Cont'd

- Loss Control (Safety)
  - Any steps taken to prevent loss/minimize occurrence
    - Frequency
    - Severity

"Frequency breeds Severity"



## Risk Management Basics Cont'd

- Claims
  - Represents "Soft Costs" (Typically the driver in a company's overall cost of risk)
  - Attracts senior management attention (PR, reputation, bad press, costs, etc.)
  - General Counsel unquestionably best equipped to handle claims

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## Advanced Insurance Concepts & Alternative Risk Finance

- **Captives**: a closely-held insurance company whose business is primarily supplied by and controlled by its owners.
  - Types:
    - Pure captives
    - Group captives

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## Advanced Insurance Concepts & Alternative Risk Finance Cont'd

- **Risk Retention Groups**:
  - Owner controlled insurance companies
  - Similar or related business activities
  - All or any portion of members exposures
  - Excluding first party coverages

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**Advanced Insurance Concepts & Alternative Risk Finance Cont'd**

- **Finite Risk**: Financing concepts with well-defined risk transfer where insured funds major part of risk.
- **Integrated Risk Management**: Process whereby financial and operational risk are analyzed and treated in holistic manner, rather than separately.

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**Advanced Insurance Concepts & Alternative Risk Finance Cont'd**

- **Multi-year Single Limit**: Combines several coverages under a single limit with an itemized self insured retention.
- **Dual or Multi-trigger programs**: Require two or more triggers to engage coverage.
- **Loss Portfolio Transfers**: Transfers incurred losses to third party.

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## Advanced Insurance Concepts & Alternative Risk Finance Cont'd

- **Weather Derivatives**: Helps reduce impact adverse weather may have on financial bottom line.
- **Capital Markets**: Developed to assist Fortune 500 and smaller companies manage full spectrum of business risks.

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## Advanced Risk Management Concepts

- Total Cost of Risk
- Business Continuity Planning
- Crisis Management
- Enterprise Risk Management

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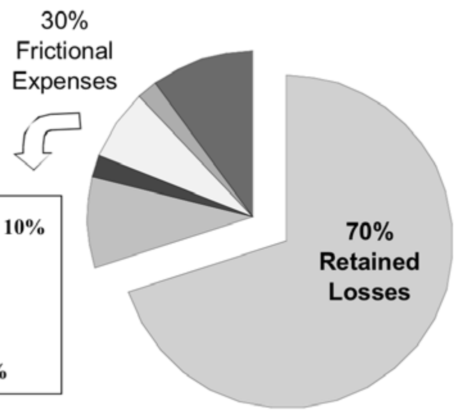
# Total Cost of Risk




- Profit & Administration = 10%
- Risk Transfer = 2%
- Claims Handling = 7%
- Loss Control = 2%
- Taxes & Assessments = 9%

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"Would you please elaborate on 'then something bad happened'?"

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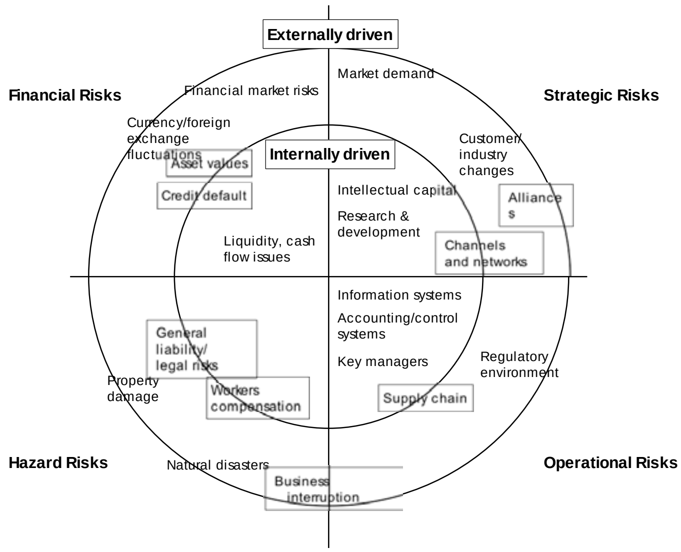
## Enterprise Risk Management: Illustrative Risk Drivers



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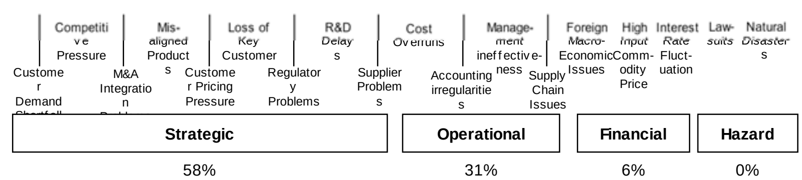
Causes For Stock Drops – Fortune 1000 Group Analysis

**Risk Event Precipitating Stock Drop (# of Companies)**

% of top 100

**Other Findings:**

- Two years later, these 100 companies had never recovered relative the S&P 500
- Over two-thirds of these risks could have been mitigated through well-known management tools and techniques



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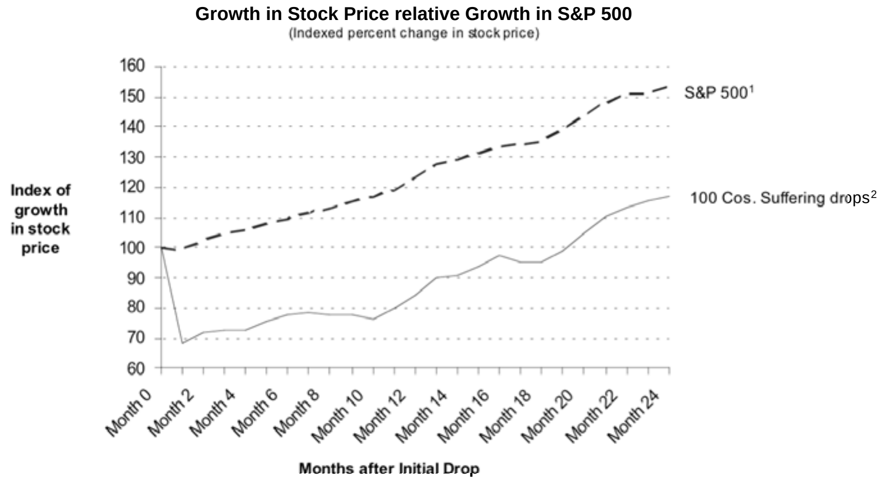
**After the Stock Drop**

The 100 companies studied never recovered relative to the rest of the market.



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# Five Step ERM Process

- Identification, Assessment & Measurement
- Analysis of risk management techniques
- Selection & design of RM strategies
- Implementation of RM strategies
- Reporting and monitoring risk and risk management action plans

# Five Step ERM Process Cont'd

## 1. Identification of Risks

Three Dimensions of Every Loss Exposure

1. The value Exposed to Loss
2. The Peril (Event) Causing Loss
3. Financial Consequences of Loss

### A. Types of Exposures

1. Property (Real, Personal, Intangible)
2. Net Income = Revenues - Expenses
3. Liability (Any Claim, With or Without Merit)
   (Tort, Contract, Property, Criminal, Comp, OSHA, DOT, EPLI)
4. Key Personnel (death, disability, retire, resign, fired)



# Five Step ERM Process Cont'd

## 1. Identify Risks (continued)

B. Identification Methods

- Surveys/Questionnaires
- Personal Inspection
- Financial Statements
- Records/Files
- Reviewing Flow Charts
- Experts (within and outside of organization)

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# Five Step ERM Process Cont’d

## 2. Analysis Alternatives

### A. Loss Control (Safety)

Design to prevent or control losses

1. Avoidance
2. Loss Prevention – Reduces Frequency
3. Loss Reduction – Reduces Severity
3. Duplication – Serves as a “Back-Up”
4. Separation
5. Contractual Transfer – For Loss Control: Asset or Activity (i.e., leasing property or sub-contracting hazardous work)

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# Five Step ERM Process Cont’d

## 2. Analysis Alternatives (continued)

### B. Risk Financing to Pay for Losses

1. Retain
   a) Current Expense
   b) Reserve (Funded or Unfunded)
   c) Borrow
   d) Captive
2. Transfer
   a) Commercial Insurance
   b) Contractual Transfer
      1) Indemnification
      2) Hold Harmless
      3) Loss Portfolio Transfer

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## Five Step ERM Process Cont'd

### 3. Select/Design Technique

Choice is <u>typically</u> financially driven

### 4. Implement Technique/Strategy

Technical Decisions

Managerial Decisions

### 5. Monitor Results/Enhance Program

- To ensure proper implementation
- To detect and adapt to change



## Risk Management Relationships

- Internal
  - Operating companies
    - Senior management, Field personnel
  - Legal Department
  - Finance Department
    - CFO, Treasurer
  - Internal Audit Department
  - Human Resources and Other

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# Risk Management Relationships

- External
  - Insurance Broker(s)
  - Underwriters
  - Outside Counsel
  - Insurance Adjusters, TPA's or Case Management Vendors
  - Risk Management Consultants
  - Safety or Loss Control Vendors
  - Data Management Vendors

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# The Case of Having RM reside with the General Counsel

- 73% of CEOs want their General Counsels to manage risk*
- Enterprise Risk View
  - The Legal Department is in an unique position to obtain the "big picture" within an organization

*See "What your Boss is Thinking?" *Corporate Legal Times*, October 2003, pages 30-37.

See also "Ability to Assess Risks, Suggest Solutions Key to Success In-house," *New England In-House*, Vol. 2, No. 2, July 2004.

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## The Case for Having RM reside with the General Counsel Cont'd

- Sarbanes Oxley reporting requirements
- Confidentiality: Business personnel more willing to disclose information when it is kept confidential
- Legal Department should manage investigation
- Legal Department manages litigation and outside attorney relationship



## Excellence in Risk Management
## What we learned?

- Successful RMs:
  - Have varied educational and work experiences
  - Report to individuals with varied responsibilities

*See "Excellence in Risk Management: A Qualitative Survey of Successful Risk Managers," May 2004, Risk and Insurance Management Society, Inc. and Marsh, included in your materials

## Excellence in Risk Management
## What we learned? Cont'd

- Successful RMs can play three primary roles, as determined by their organizations:
  - Strategic Player
  - Competent Risk Manager
  - Insurance Administrator and Claims Manager



## Excellence in Risk Management

- What does it take to be a strategic player?
  - Access to senior management and clout
  - Significant accomplishments with impact on corporate bottom line
  - Financial role

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## Excellence in Risk Management

- Best Practices
  - Turn cost center into profit center
  - Get more face time with senior management
    - Offer to review non-litigated claims
    - Pick a high frequency exposure and fix it
    - Identify a high severity exposure and develop strategy
    - Review claims handling instructions
    - Audit claims



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## Risk Management Hot Zones

- Mergers, Acquisitions and Divestitures
- Terrorism Risk
- Real Estate Transactions
- Reputational Risk
- Vertical or Horizontal Diversification
- International Expansion and Downsizing
- Corporate Governance
- Marquis Property & Events

# Typical Insurance Portfolio

| Coverage | Inception Date | Expiration Date | Limit | Part Of | Deductible/ Retention | Insurer | Broker | Premium |
|---|---|---|---|---|---|---|---|---|
| General Liability | 1/1/2004 | 1/1/2005 | $2,000,000 | | $250,000 | St. Paul | Willis | $329,334 |
| Auto Liability | 1/1/2004 | 1/1/2005 | $2,000,000 | | $250,000 | St. Paul | Willis | $72,154 |
| Umbrella Layer 1 | 1/1/2004 | 1/1/2005 | $8,000,000 | | $2,000,000 | St. Paul | Willis | $157,870 |
| Umbrella Layer 2 | 1/1/2004 | 1/1/2005 | $10,000,000 | $20,000,000 | $10,000,000 | ACE | Willis | $83,408 |
| Umbrella Layer 2 | 1/1/2004 | 1/1/2005 | $10,000,000 | $20,000,000 | $10,000,000 | Nat'l Union | Willis | $83,408 |
| Workers' Comp | 1/1/2004 | 1/1/2005 | $10,000,000 | | $250,000 | St. Paul | Willis | $52,000 |
| Aviation Non-owned | 8/1/2003 | 8/1/2004 | $10,000,000 | | $0 | USAIG | Willis | $3,800 |
| Ocean Marine | 1/1/2004 | 1/1/2005 | Blanket | | $0 | Fireman's | Willis | $40,000 |
| Environmental | 1/15/2000 | 1/15/2005 | $25,000,000 | | $250,000 | AIG | Marsh | $247,000 |
| Fiduciary | 8/1/2003 | 8/1/2004 | $20,000,000 | | $50,000 | Chubb | Willis | $23,000 |
| D&O Layer 1 | 12/1/2003 | 12/1/2004 | $20,000,000 | | $500,000 | AIG | Marsh | $410,000 |
| D&O Layer 2 | 12/1/2003 | 12/1/2004 | $20,000,000 | | $20,000,000 | XL | Marsh | $300,000 |
| D&O Layer 3 | 12/1/2003 | 12/1/2004 | $20,000,000 | | $40,000,000 | Chubb | Marsh | $200,000 |
| Crime | incl D&O | incl D&O | $27,000,000 | | $7,000 | AIG/Various | Marsh | incl D&O |
| Employment Practices | incl D&O | incl D&O | $20,000,000 | | $200,000 | AIG/Various | Marsh | incl D&O |
| Property | 1/1/2004 | 1/1/2005 | $543,000,000 | | $4,200,000 | FM | Willis | $442,704 |
| | | | | | | | | $2,444,678 |

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# Typical Schedule of Retained Losses

| Coverage | Current Valuation | Valuation Date | Estimated Ultimate Value |
|---|---|---|---|
| General Liability | $3,000,000 | 5/3/2004 | $7,000,000 |
| Auto Liability | | | |
| Umbrella Layer 1 | | | |
| Umbrella Layer 2 | | | |
| Umbrella Layer 2 | | | |
| Workers' Comp | $2,000,000 | 5/3/2004 | $5,000,000 |
| Aviation Non-owned | | | |
| Ocean Marine | | | |
| Environmental | | | |
| Fiduciary | | | |
| D&O Layer 1 | | | |
| D&O Layer 2 | | | |
| D&O Layer 3 | | | |
| Crime | | | |
| Employment Practices | | | |
| Property | | | |
| | $5,000,000 | | $12,000,000 |

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# ERM Risk Maps

- Risk maps provide a snapshot of the identified risks in terms of severity and frequency of each exposure.
  - Severity. The intensity of a peril should it materialize.
  - Frequency is the likelihood of the occurrence of the hazard.
- Risk maps are different for every business. It can be created as a simple graph, easy to understand, or more complex in a multidimensional format.

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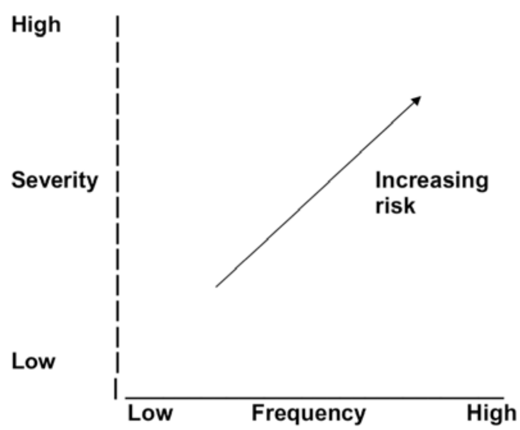
# Risk with Severity & Frequency

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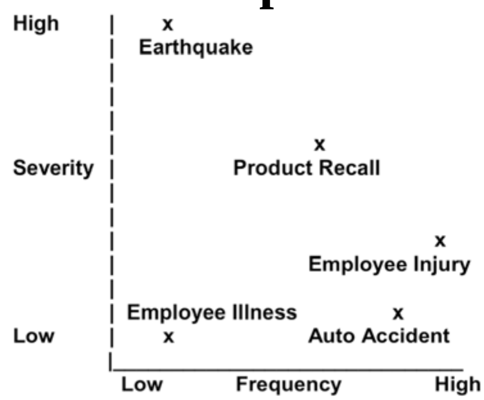
# A Simple Risk Map

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# Risk Scoring Decision System

| FACTOR | SCORE | DESCRIPTION | EXAMPLE |
|---|---|---|---|
| Probability | 1 | Extremely rare | Once every 100 yrs. |
| | 2 | Occurs rarely | Once every 10 -25 yrs. |
| | 3 | Occurs periodically | Once every 3 -5 yrs. |
| | 4 | Occurs regularly | Once per year |
| | 5 | Occurs with sufficient regularity to be accurately estimable | Multiple times per year |

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# Risk Scoring Decision System

| FACTOR | SCORE | DESCRIPTION | EXAMPLE |
|---|---|---|---|
| Time to Impact | 1 | Occurs over a long period of time providing opportunity to adjust/ react | Months or years of warning (e.g. legislative change) |
| | 2 | Occurs quickly – Limited advance warning | Hours or day s of warning (e.g. windstorm) |
| | 3 | Occurs suddenly – No advance warning | No warning (e.g. explosion) |

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# Risk Scoring Decision System

| FACTOR | SCORE | DESCRIPTION | EXAMPLE |
|---|---|---|---|
| Severity | 1 | Small loss | < $100,000 |
| | 2 | Large loss but not material | < $1 Million |
| | 3 | Min. level of financial materiality (as defined by management) | > $10 Million |
| | 4 | Major financial impact | > $25 Million |
| | 5 | Potential to imperil organization's strategy/ market perception | > $100 Million |

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Risk and Insurance Management Society, Inc.®

MARSH

Research Report

# Excellence in Risk Management

## A Qualitative Survey of Successful Risk Managers

May 2004

# Foreword

In a single decade, the role of risk manager has undergone a serious transformation. In 1994, activities of the typical risk manager focused on purchasing hazard insurance and processing claims. Since that time, the U.S. economy has soared to and, ultimately, fallen from the stratosphere. Health care costs have soared, as well, and they continue to do so. Interest rates reached their lowest points in recent history, while insurance markets tightened significantly and are only now beginning to soften. Acts of terror once unthinkable are now a standard part of the lexicon. The Sarbanes-Oxley Act and its new demands on corporate governance contribute another layer of risks to be managed. And interwoven throughout this period is technology, both as a contributor to risk and as a tool in its mitigation.

Now, the highly proficient risk manager needs to have a finger on the pulse of the organization as a whole, maintaining a multidimensional view of risk across lines of business, operations, and geography. The risk manager not only helps to contain the cost side of the profit-and-loss equation, but also contributes to decisions about allocating capital and protecting the organization against earnings volatility. In some cases, risk managers have created additional sources of revenue generation. The role has evolved: Originally focused on protection from hazards, it now needs to provide a holistic view of the organization's total risk profile, upside and downside.

The sheer breadth of these issues begs the question: What kind of individual is able to rise to such a dizzying array of challenges? What experience or course of study prepares these risk managers to address issues that range from quantifying previously unidentified risks to creating a corporate culture that embraces risk management? What personal skills and aptitudes are shared by those professionals recognized for their leadership and innovation? This survey seeks to understand these and other attributes that contribute to outstanding performance in the field.

Sponsored by Marsh Inc. and the Risk and Insurance Management Society (RIMS), this study represents a qualitative inquiry in this area and seeks to elucidate the personal, professional, and organizational characteristics of the successful risk manager. It also attempts to shed light on some of the key factors for achievement in this profession.

The only certainty in the risk management field is change, a certainty that those who have achieved excellence in the profession appear to have embraced.

Our sincere thanks to the survey participants for their time and effort. Without their support, this report would not have been possible.

Lance J Ewing

**Lance Ewing**
President, RIMS

Risk and Insurance Management Society, Inc.®

Peter Garvey

**Peter F. Garvey**
President & CEO, Marsh North America

MARSH

# Contents

# Summary of Criteria

The "Excellence in Risk Management" survey was conducted by Greenwich Associates, a premier strategic-consulting and research firm for providers and users of financial services worldwide. Thirty risk managers were interviewed during a two-month period beginning in January 2004. The survey respondents were drawn from professionals, each recognized in years past by *Business Insurance* magazine as a "Risk Manager of the Year" or named to its "Risk Manager Honor Roll." These individuals were judged to have met the following criteria for such designation:

1. They established and implemented effective risk management programs within their organizations.
2. They tackled and solved one or more major problems for their organizations.
3. They applied the diverse tools of risk management and insurance in innovative ways.
4. They used the insurance markets creatively and effectively in structuring insurance programs that served the needs of their organizations.
5. They established workable intelligence systems both inside and outside of their organizations, culminating in a flow of information about events and activities that affected their organizations' risk management and insurance.
6. They skillfully performed the functions of management in the overall organization and within their own risk management/insurance departments.
7. They achieved the most effective programs at the optimum cost over the long term.
8. They developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operational aspects of the job.
9. They exhibited an attitude and performed activities in a manner that fostered the advancement of the risk management profession.
10. Each was developing his or her own career.

The study was conducted in two phases: The first phase was a background and profile questionnaire completed by the participants themselves; the second was a personal interview conducted by Greenwich Associates.

# Summary of Key Findings

Our survey of excellence in risk management reveals:

- More than two-thirds of the participants held advanced degrees, including MBAs, JDs, or both. Nevertheless, almost all cited the need for greater understanding of financial, accounting, and tax issues as being of paramount concern moving forward.
- In addition to robust technical and analytical skills, study participants cited as keys to success their abilities to interact with senior management; to communicate, persuade, and motivate; and to understand the financial, accounting, and tax implications of risk management strategies and programs.
- The broker relationship is key: Selected brokers are considered either trusted advisors (43 percent) or actual extensions of the risk managers' organizations (40 percent).
- Study participants prioritize risks by assessing their impact on the income statement, developing policies and procedures to address each risk, and establishing effective loss-control programs.
- Participants in the study have developed a hierarchy of information that builds on claims and loss data as a foundation. The application of analytical tools then provides trend data, internal benchmarking, and specific cost allocations to individual operating units. At the highest level, strategic insights can be acquired through external benchmarking and the use of incentive programs to create a sort of continual feedback loop of information from the field to the risk manager.
- Slightly more than one-third of the study participants have what they consider innovative risk management technology.

# Risk Manager Demographics

Risk management is clearly a field that builds on accumulated knowledge and the wisdom gained through experience. Participants had worked as risk managers for an average of 16 years; 70 percent of the study participants had worked in the field for more than 21 years (see figure 1). The career paths of these individuals reflect the profession's roots in insurance: Sixty-three percent had worked for insurance brokers, insurers, or other insurance service providers at some time prior to becoming risk managers (see figure 2).

**Figure 1**


Respondents were asked the number of years as a risk manager and the number of years as a risk manager for the current firm. *N = 30*

**Figure 2**


Respondents were asked their employment experience prior to becoming a risk manager. *N = 30*

*"It's fair to say that I didn't choose the field; the field sort of chose me."*

# Risk Manager Demographics

The survey group displayed an uncommon stability in their employment, with well more than half having spent more than 10 years at the same firm (see figure 3). This is in contrast to a general population that changes jobs every three years on average. One possible conclusion that might be drawn from this anomaly is that once these individuals find their niche in risk management, their increasing depth of insight into their companies allows them to excel.

**Figure 3**


Respondents were asked the total number of years with direct experience in risk management. *N = 30*

**Figure 4**


Respondents were asked the number of people who report directly to them. *N = 30*

The subjects of the study overwhelmingly pursued their mandates at the parent organization, rather than within a subsidiary. In 83 percent of the participants' organizations, the risk management function was performed entirely within a single unit located at the organizations' headquarters. In addition, they managed this function with limited personnel, with more than half of the respondents identified as having fewer than six direct reports (see figure 4). More than half of the respondents reported to either the treasurers (30 percent) or the chief financial officers (23 percent) of their organizations (see figure 5).

# Risk Manager Demographics

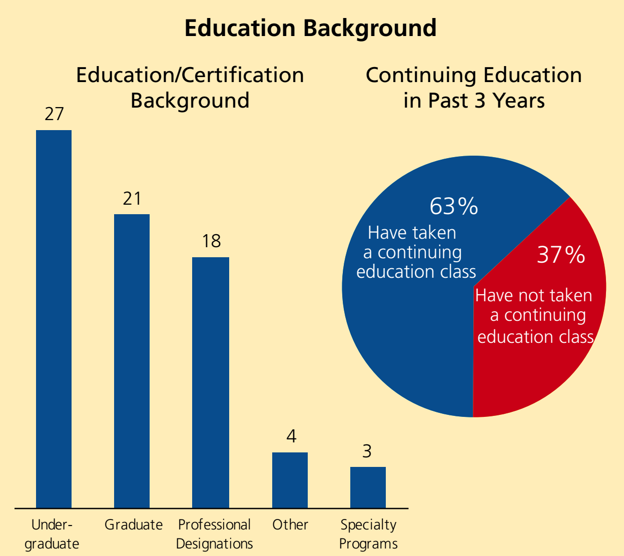
**Figure 5**


Respondents were asked to whom they report within the firm. *N = 30*

Educational attainment among the study participants was startlingly high: More than two-thirds of the group had earned graduate degrees, and 63 percent had taken continuing-education courses in the past three years. Of those with advanced degrees, most (two-thirds) had obtained an MBA, a JD, or both (see figures 6 and 7). Despite this, almost all of the respondents cited a need for greater financial expertise than they currently possess.

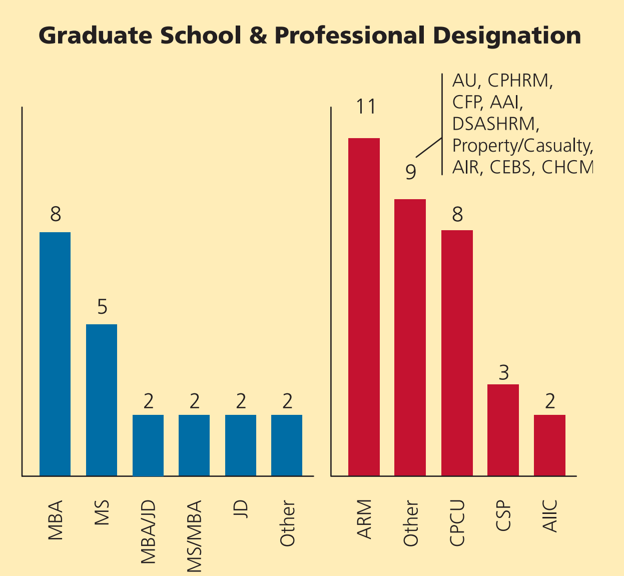
*"I encourage my people to go for any and all education they can get."*

**Figure 6**




Respondents were asked their education/certification level and if any continuing education courses were taken in the past 3 years. *N = 30*

**Figure 7**




*N = 30*

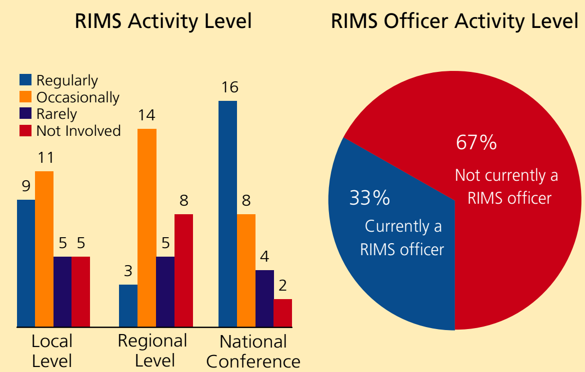
# Risk Manager Demographics

These risk managers were committed to sharing their knowledge and raising the visibility of the profession. Almost all of the respondents gave speeches at events outside of their organizations on topics that ranged from best practices in fraud control and workers compensation, to lessons learned from September 11, to building a risk management culture. Moreover, 43 percent authored papers on related subjects (see figure 8). The majority (66 percent) were active in a RIMS chapter, and more than half regularly attend the RIMS annual conference (see figure 9).

The portrait that emerges is of an individual motivated by intellectual ambition. They are innovative and resourceful in accomplishing their goals, having learned to leverage limited internal staff with outside resources to create a virtual risk management organization. Highly educated and credentialed, the study's successful risk managers are people who seem to have found an organizational niche that offers them career satisfaction and intellectual stimulation.

**Figure 9**

**RIMS Membership/Officer Status**




Respondents were asked about their RIMS membership activity level at the local, regional, and national level. In addition, they were asked if they are currently (or within the last five years were) an officer of RIMS. *N = 30*

**Figure 8**

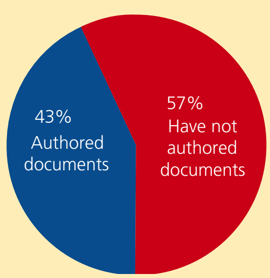
**Risk Managers – Speaking and Authorship**

Speakers at Events Outside Company

Risk Managers Who Have Authored Documents on Risk Management

29 out of 30 risk managers gave speeches outside of company:

- Lessons Learned from September 11
- Fraud Control—Best Practices
- Seminar on Aerospace Electronics
- Workers Compensation
- Fundamentals of Risk Management
- Building a Risk Management Culture




Respondents were asked if they have given speeches outside of the company on risk management and if they have authored documents on risk management. *N = 30*

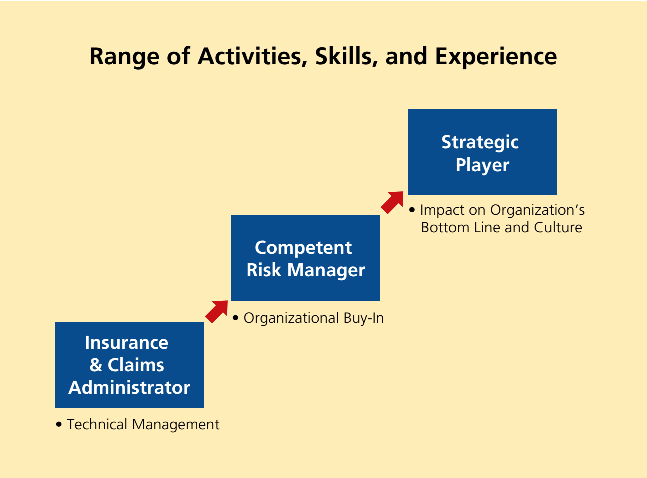
*"This is the greatest job in the world. Risk managers are lawyers; they're doctors from their workers compensation knowledge; they're finance people; they're contract managers; they're procurement people; they're human-relations people."*

# The Risk Manager in Context

The risk manager now functions on a variety of levels within the organization, ranging from claims administration and insurance placement; to risk identification and loss control; to litigation, safety, and security; to the creation and management of insurance captives. There is a natural progression from demonstrating technical skills through securing organizational buy-in to having a significant impact on the organization's bottom line (see figure 10).

**Figure 10**

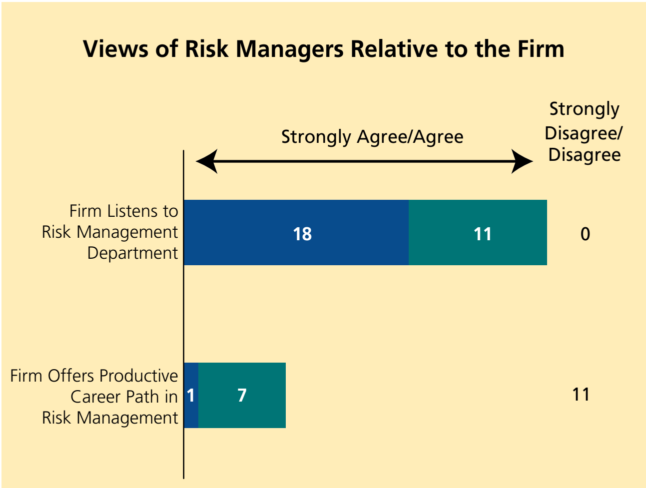



All participants agreed that their firms listened to the risk management department, and 62 percent strongly agreed (see figure 11). Not surprisingly, given their status as industry leaders, the survey participants are often involved at a strategic level within their firms, where they have an impact on the organizational bottom line as well as the culture. In addition to robust technical and analytical skills, study participants cited their abilities to interact with senior management; to communicate, persuade, and motivate; and to understand the financial, accounting, and tax implications of risk management strategies and programs.

At the same time, only 26 percent of those responding believed that their organizations offered a productive career path in risk management (see figure 11). The successful risk managers appear to have blazed their own trails within their organizations by demonstrating leadership qualities and innovation, managing expectations, and building day-to-day working relationships.

*"[Risk managers] have to be able to establish relationships. The ability to build bridges is key. You have to be fair and ethical, and you have to have integrity…. Those elements are critical to successful risk management."*

**Figure 11**



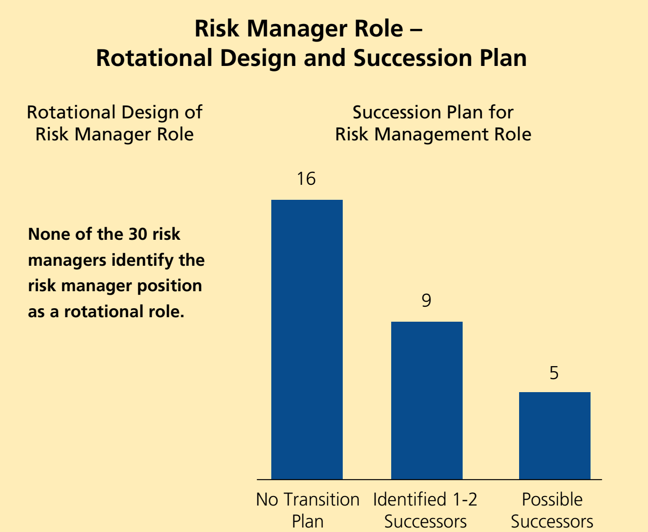

Respondents were asked on a 5-point scale, ranging from "5" being Strongly Agree to "1" being Strongly Disagree, several questions on the risk manager position and their views on their firms. *N = 30*

# The Risk Manager in Context

None of the 30 participants identified the risk manager position as a rotational stage within their organizations (see figure 12). Nevertheless, most participants identified the need to reach out to operating units on a regular basis in an effort to understand business risks as a critical component of their success.

More than half of the respondents had no succession plan in place for their own positions (see figure 12). It is certainly ironic that the risk manager would have no strategy in place to cover the risk of his or her own departure from the organization. These facts may serve as a reflection of the organization's view of risk management—identifying the specific individual, rather than the role, as key.

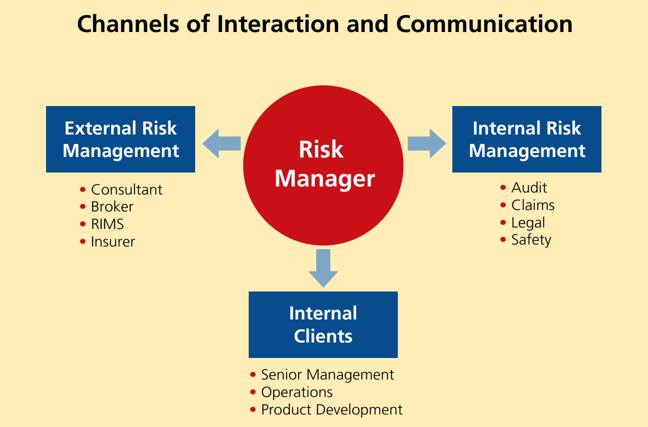
**Figure 12**




Respondents were asked if the risk management position is designed to be a rotational position and to describe the status of a successor for their position. *N = 30*

*"I have access to board members that we didn't have a decade ago. I think it is pretty funny to look at it a decade later, and we're on a first-name basis with board members."*

**Figure 13**



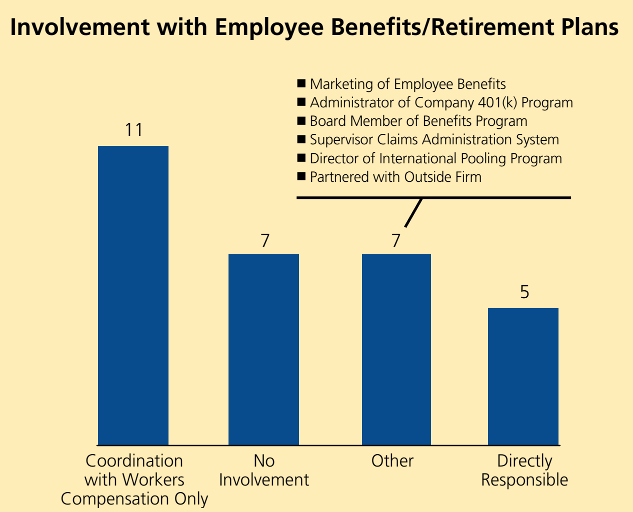

*"[Loss control] has [had] an impact on the bottom line over the years. I mean, risk used to account for about 8 percent of sales, so 8 cents of every dollar was attributable [to losses]. Now, it's a fraction of a penny, so that's significant."*

Study participants viewed themselves as operating within a web of interrelationships, spanning internal and external constituencies. Their "clients" included senior management, operations, and new-product development. They built external alliances with their consultants, brokers, insurers, and professional organizations and relied on a range of trade and major business media to stay current on risk management issues and practices. Internal alliances included legal, human resources, accounting, and tax departments (see figure 13).

# The Risk Manager in Context

The majority of respondents (60 percent) had no involvement in employee benefits or retirement plans or dealt only with workers compensation issues (see figure 14). This may reflect the combination of risk and benefits management as being too broad in scope to administer effectively. But it is clear that these two areas must often forge effective working relationships on certain key organizational issues.

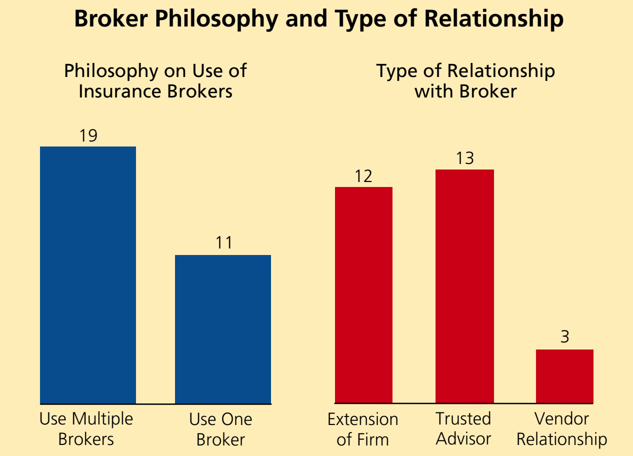
**Figure 14**




Respondents were asked about their involvement with employee benefits/retirement plans. *N = 30*

*"I've always had a very close relationship with brokers. To me, it's a very personal business. In fact, they're really an extension of our risk team in terms of how we involve them. They become really familiar with the company's products, so they're really part of our team."*

**Figure 15**



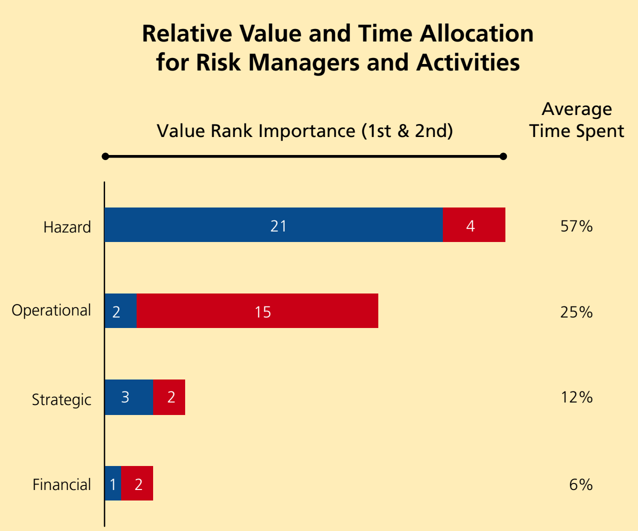

Respondents were asked to describe their firms' philosophy on the use of an insurance broker and to describe the type of relationship with their broker. *N = 30*

Philosophy about brokers was a point of contrast in the study. Just over one-third of the participants use a single broker for all of their insurance needs. The other 64 percent use multiple brokers, seeking out multiple perspectives on their issues and using the individuals they identify as experts for specific coverage areas, with little regard for geography or institutional affiliation. Moreover, few (10 percent) regard these as mere vendor relationships: The selected brokers are considered either trusted advisors (43 percent) or actual extensions of the risk managers' organizations (40 percent) (see figure 15). As an example, many identified the communication of their companies' risk profiles to the insurance markets as a joint effort with their brokers.

# The Risk Manager in Context

Finally, participants were asked in what areas they spent their time and the relative value of their activities. They identified hazard risk as the area where they spent more than half of their time, and 83 percent of them felt it was a high-value activity. Hazard risk was followed by operational risk (25 percent of time allocation), rated as a high-value activity by 56 percent (see figure 16). This, of course, leaves very little time for focusing on strategic and financial areas. Several interpretations of this data are possible: that the agenda of the risk manager is dominated by more traditional activities; that risk managers have too few resources to be able to delegate more of their work; or that they may simply be caught up in the “doing” of what they find most interesting, rather than the managing of others. Alternatively, hazard risk may represent their “comfort zone” to which they return after a few exciting forays into the lesser-known geography of strategic and financial risk.

**Figure 16**



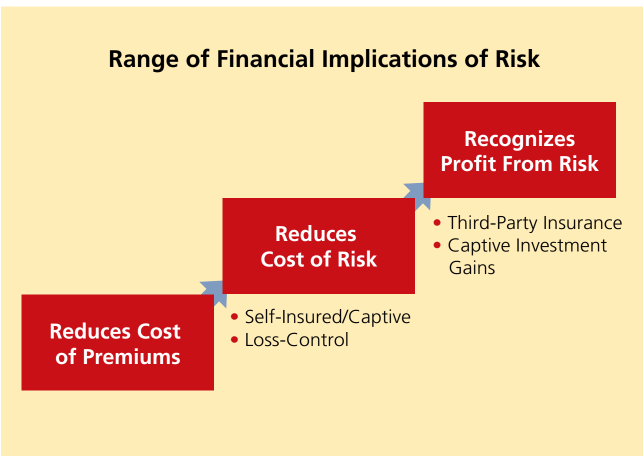

Respondents were asked about the types of risk management activities with which they are involved, the relative rank value of each type, and the proportion of time allocated to each type. *N = 30*

This information points to several conclusions: As risk management emerges within their organizations, the study participants have been particularly adept at creating an awareness of the added value it can offer. They have been able to communicate effectively on a topic that others within their organizations may initially find obscure. By force of personality and by providing results, the respondents have created allies within their organizations that allow them to succeed. They leverage the best external resources they can find to the fullest extent possible, creating a virtual risk management organization in the face of their own limited internal resources.

# The Organization and Risk Management

Risk management's changing status within organizations reflects its broader range of financial impacts. Where reducing the cost of premiums was a key focus in and of itself, some risk managers now pursue such avenues as loss control and forms of risk financing and self-insurance to reduce the cost of risk. Innovative risk managers are extending their impact to creating profit from risk through providing third-party insurance and investment gains with captives (see figure 17). In this way, the concept of risk management is becoming integrated into the organizational consciousness, and the process is becoming institutionalized.

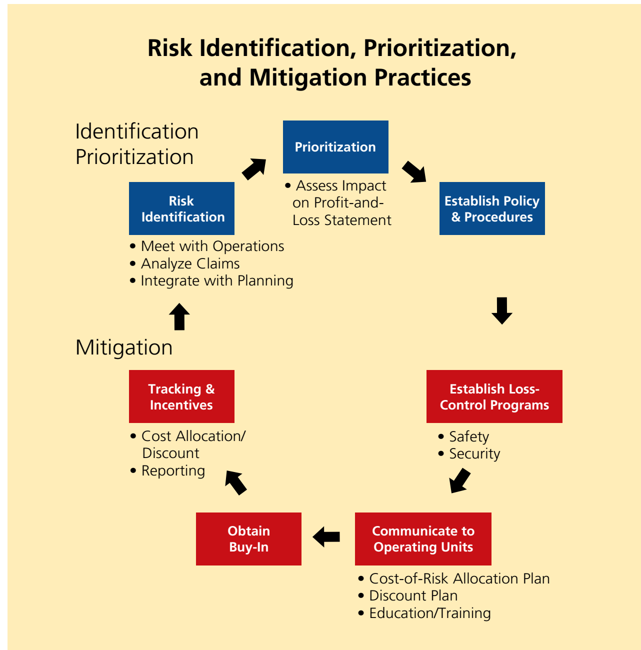
**Figure 17**




The risk managers who are the subject of this study have taken responsibility for and have been successful in moving this process forward within their organizations. That process begins with risk identification (see figure 18).

Respondents primarily pursued three routes to detecting risks: meetings with operating managers, analysis of claims, and integration of risk management with business-unit planning processes. Study participants prioritize risks by assessing their impact on the income statement, developing policies and procedures to address each risk, and establishing effective loss-control programs.

**Figure 18**

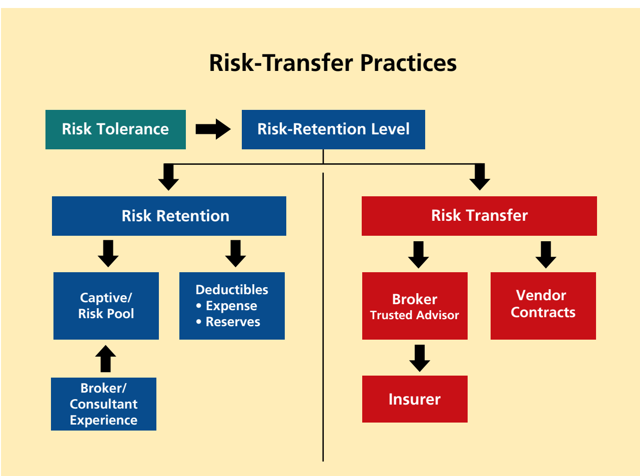



*"[Successful risk managers need] a basic understanding of contracts… of how claims and litigation scenarios work. Beyond that, you need to have some understanding of how to differentiate between insurance markets and hard and soft cycles and why you would go to one group versus another in either type of insurance market… trying to recognize and create value in insurance relationships instead of just paying premium…how to go back and be an advocate for your company both to the insurance markets and, then, internally to senior management on the value of what you're trying to achieve."*

# The Organization and Risk Management

Risk mitigation is implemented primarily at the operating-unit level: detailing the issue, cost allocation, and incentives; driving educational and training programs; tracking and reporting results; and, crucially, obtaining buy-in. Finally, retention and transfer decisions are made by establishing a dollar value for the organization's risk-tolerance level, to which each potential loss may be compared. Based on that tolerance, certain risks may be retained through establishing reserves or by placing the risks in captives or risk pools. Others are transferred contractually or through purchasing traditional insurance (see figure 19).

**Figure 19**




Ninety percent of the study participants believe that their firms manage risk effectively, and for 80 percent, risk management is a key strategic function in their firms. While most agree overwhelmingly that their firms' cultures support innovation in risk management, little more than half (53 percent) feel that their firms use the risk management function to its fullest capability (see figure 20). This finding may, again, be reflective of the resource constraints under which the participants operate, believing that there is far more they could do if they had the means and the clout to do it.

*"I can teach the technical skills... but I think what really makes a person successful are the other things, the leadership and the ethics and the creativity—the intangibles."*

Respondents identified several key areas of change within their firms with regard to risk management. They were happy to report an elevation of the risk management role. Participants also noted an increase in risk tolerance and retention. They have witnessed a reassessment of risk management strategy, with greater emphasis placed on risk identification and loss control. Finally, study participants noted the increasing adoption and integration of risk management programs across their organizations.

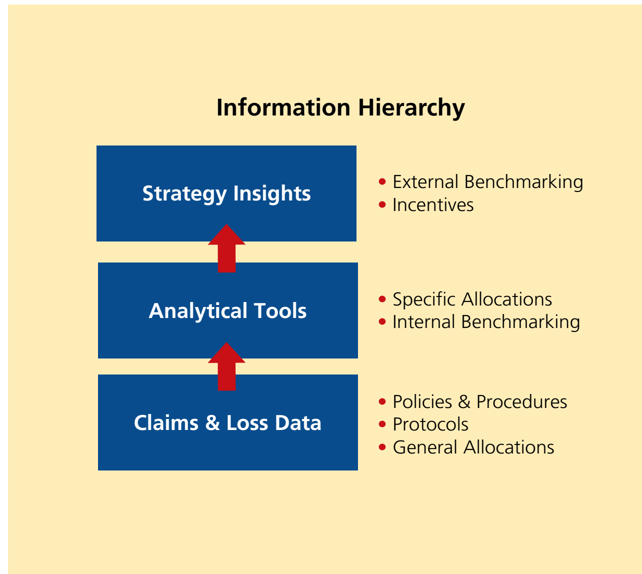
**Figure 20**

# Leveraging Information for Risk Management

*"If you want to do the same thing every day, then this isn't for you."*

Successful risk management relies on information, so obtaining information, assessing its quality, and converting it to a usable form is the risk manager's ongoing challenge. Participants in the study have developed a hierarchy of information that builds on claims and loss data as a foundation. The application of analytical tools then provides trend data, internal benchmarking, and specific cost allocations to individual operating units. At the highest level, strategic insights can be acquired through external benchmarking and the use of incentive programs to create a sort of continual feedback loop of information from the field to the risk manager (see figure 21).

**Figure 21**



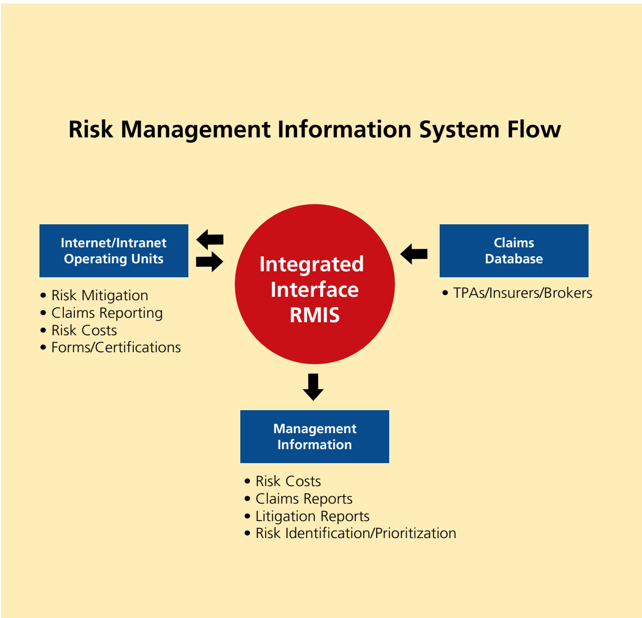

*"There is no shortage of data—both internal and external.... The real challenge in this business is to synthesize that data into actionable insights...."*

*"The insurance paradigm was hard to overcome. People would...say, 'What do you mean you're not getting enough return? You're not supposed to —you should be happy when you never collect on your insurance dollars.' And I was, like, 'Why?'"*

# Leveraging Information for Risk Management

**Figure 22**



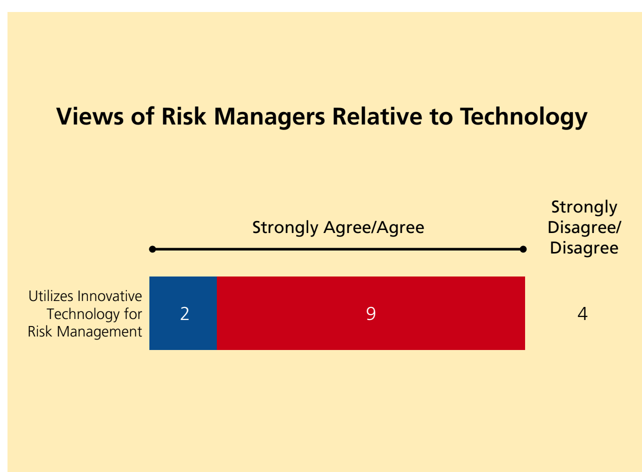

Study participants describe an ideal risk management information system that integrates three information channels: a claims database fed by brokers, insurers, and third-party administrators; operating-unit data on claims, costs, and mitigation; and staff-unit reporting on litigation, claims, risk identification, prioritization, and costs (see figure 22). The purpose is to allow the analysis at the granular level required for truly controlling losses.

The unfortunate reality is that few risk managers possess such a system. Only slightly more than one-third of the study participants have what they consider innovative risk management technology (see figure 23).

Benchmarking is not a universal practice among risk managers, with many citing the uniqueness of their organizations or the competitiveness of their industries as barriers. Those who do benchmark tend to use information provided by brokers or taken from a RIMS benchmark survey. They usually focus on limits, coverages, and costs.

*"At one time I was a cost center... [but] I've had the opportunity to become a profit center. I'm actually a noncore business unit making money for [my company]."*

**Figure 23**




Respondents were asked on a 5-point scale, ranging from "5" being Strongly Agree to "1" being Strongly Disagree, several questions about the risk manager position and their views on their firms. *N = 30*

# Conclusions

Successful risk managers bring all of these different elements—their personal, professional, and organizational skills—together to have the maximum impact on their organizations (see figure 24).

**Figure 24**


As a result of events over the past decade, the spotlight is focused squarely on risk management. It has changed the way firms think about their businesses and how they operate. It has shifted the focus from purchasing insurance to controlling losses and quantifying the costs of risk. The risk management function itself has gained increased visibility in the business world at large, in government and public utilities, and in institutions. Organizations increasingly recognize the benefits that effective risk management has to offer. As a result, the risk manager role is becoming ever more strategic to the firm's prosperity.

> *"Risk managers have got to be more proactive. They've got to be aggressive. Don't sit in your office. Be a champion; make a difference."*

Where does risk management go from here? This study points to some specific action items for the organization:

- As an area that affects the firm's bottom line, as well as its culture, it seems clear that elevating the visibility and the reporting relationships of the function will enhance the risk manager's effectiveness. Moreover, the organization's board of directors may wish to consider establishing a risk management committee that would function in a manner similar to the audit or compensation committee.
- The loss-control function is only as good as the risk-identification and risk-mitigation processes on which it is based. Organizations should identify and incorporate their industries' best practices to maximize the benefit of their risk management investments.
- Risk tolerance must be analyzed on a systematic and regular basis. This will allow the organization to consider adopting more aggressive risk-retention strategies.
- Organizations must focus on the career development of risk management professionals, providing them with depth in their specialty, their firms, and their management practices. Key people must be identified and developed to handle greater responsibility. Increased financial expertise is required in risk management decision-making in order to assess its bottom-line impact. Organizations should make these resources and educational opportunities available to their risk managers.
- As a data-reliant function, risk management cannot operate as a technological stepchild. It requires the organization's commitment of resources at a level consonant with its contribution. Installing integrated data systems and up-to-date analytical tools is a priority.

# Conclusions

What are the implications for the risk management professional? The study points to three areas of focus for the ambitious individual in the field:

- **Rotation through business units**: Although our participants did not "rotate" through their firms, a deep understanding of the organization is the secret weapon of the successful risk manager. Find a way to gain that insight and credibility by pursuing a rotation through various operating units within the organization.

*"And it's thinking bigger than you. It's not moving from renewal to renewal. It's not moving from claim to claim or fire to fire. It's: 'How do I help my organization take a competitive position as a result of what I do?'"*

- **Convergence with financial management**: As the risk manager role expands, the separation from such activities as interest-rate, commodity-price, and currency-rate hedging will seem increasingly artificial. Develop a foundation in finance, tax, and accounting through coursework and through practical application with a stint in the treasury department of the firm.

- **Leveraging of technology**: Understand the technology available to the risk management function, and find ways to use it more efficiently. Pursue a "straight-through-processing" approach to reduce the time spent on repetitive tasks, and maximize opportunities to capture data at its source.

In the final analysis, this survey suggests opportunities exist for risk management professionals and their organizations to realize substantial benefits through continuous interaction with senior management, understanding of field operations and the financial implications of risk, leveraging of information technology, and use of external expertise to create a virtual risk management organization. All of these elements, mixed with a forceful personality and the willingness to *take* risks, appear to create the right combination to lead to success in the risk management profession.

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