Evolution of Risk Management: Rethink, Reframe, and Reposition

RIMS Massachusetts Chapter Spring Conference
Evolution of Enterprise Risk Management

Carol Fox, ARM
Director of Strategic and Enterprise Risk Practice
Getting to Know You

- How many of you are in private enterprise? Public sector?

- Is your role as a risk professional fully supported within your organization?

- If your organization has already implemented ERM, please stand up.

- If you are leading your organization’s ERM program, please continue standing.

- Thank you. You may sit down now.
Agenda

- Rethink
- Reframe
- Reposition
  - Your Brand
  - What Do You Want to Be Known For?
  - Competencies and Compensation
- Questions
“MY JOB IS TO CREATE AN ENVIRONMENT WHERE EMPLOYEES FEEL SAFE TAKING RISKS.”

“MY OTHER JOB IS PUNISHING EMPLOYEES WHO MAKE ANY KIND OF MISTAKE.”

“MY POINT IS THAT I’M GLAD I DON’T HAVE YOUR JOB.”

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Rethink: What Does Risk Management Mean... to you?

An organizational function
- Shapes risk principles and policies
- Informs communication and training

A process
- Identification and assessments
- Monitoring and reporting

A discipline for decision-making
- Organizational objectives
- Actions based on common “intelligence”

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Source: RIMS Workshop - Risk Management Techniques: Gaining the Risk Advantage, 2013. All rights reserved.
Rethink: The Function’s Evolution

Insurance Buyers
- Administering

Hazard
- Managing

Integrated
- Directing

1950’s – 60’s
1970’s – 80’s
1990’s

Source: RIMS Workshop - Risk Management Techniques: Gaining the Risk Advantage, 2013. All rights reserved.
Rethink Risk Perception:
Value Protection or Value Creation?

**Risk** = the potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable outcome).

Wikipedia

**Risk** = an uncertain future outcome that can either improve or worsen our position.

RIMS
DePaul Strategic Risk Management Lab Findings: The Six Challenges for Risk Management 2012

1. Risk management is not integrated with strategy and strategy execution.

2. Risk assessments are focused on the wrong risks; often not focused on the most important strategic risks (Pareto “80/20 rule”).

3. Risk management is not executed as a continual and repeatable process.

4. Risk management “silos” create barriers to developing effective risk management.

5. Risk management is not viewed as value-added (branding). ERM is often under-resourced and under-networked in the organization.

6. Differing perceptions of the importance of different risks within different parts of the organization.

“Strategic risk management is not a core competency.”

Source: Dr. Mark L. Frigo, PhD, CPA, CMA  www.commerce.depaul.edu/sev
Rethink: Risk Management’s Role in Strategy Planning and Execution

- Risks arising from the strategic plan: 52%
- Risk input into strategic planning: 46%
- Execution risks related to strategy: 40%
- Structure strategic risk management: 32%
- Facilitate scenario building: 20%
- Advisor for specific issues only: 17%

Source: DELIVERING STRATEGIC VALUE THROUGH RISK MANAGEMENT RIMS/Marsh Excellence 10 Report, 2013. All rights reserved.
Elevating Risk Management

REFRAME
Reframe: Why Focus on Strategic Risks?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Risk Category</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>65%</td>
<td>Strategic Risks</td>
<td>• Decline in demand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Poor acquisition/merger integration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Competitor infringement</td>
</tr>
<tr>
<td>13%</td>
<td>Operational Risks</td>
<td>• Operational setbacks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Poor demand forecasting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Commodity price</td>
</tr>
<tr>
<td>15%</td>
<td>Financial Risks</td>
<td>• Accounting irregularities / fraud</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Poor financial hedging</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Financial restatements</td>
</tr>
<tr>
<td>7%</td>
<td>Legal and Compliance Risks</td>
<td>• Regulatory conflicts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Civil lawsuits / litigation</td>
</tr>
</tbody>
</table>
Reframe: for Strategy

Insurance Buyers
- Administering

Hazard
- Managing

Integrated
- Directing

Strategic
- Leading


Source: RIMS Workshop - Risk Management Techniques: Gaining the Risk Advantage, 2013. All rights reserved.
Reframe: Play Offense and Defense

Strategic risk management ("SRM") is a business discipline that drives deliberation and action regarding uncertainties and untapped opportunities that affect an organization’s strategy and strategy execution.

Source: RIMS Strategic Risk Management Implementation Guide. All rights reserved.
Source: RIMS Strategic Risk Management Implementation Guide. All rights reserved.
Reframe: **Board’s View of Primary Roles**

Shape the risk principles and policies of the company, track the capital risk capacity of the company, define who is responsible for managing the specific risks within the organization, and provide a framework for judging the effectiveness of risk-taking.

Make sure that there is a risk management system in place in each business that includes effective risk-control mechanisms as well as information systems that flow up to senior management.

Quote Sources: “Point Of View: A Special Issue Focusing On Today’s Board & CEO Agenda” 2010
spencerstuart.com
Reframe: What Else?
Reframe: What Else Indeed?

**HOW WILL WE KNOW THAT WE ARE DELIVERING VALUE RELEVANT TO THE ORGANIZATION FOR OUR STAKEHOLDERS?**

Stakeholder: Any individual or organization that is directly or indirectly involved with or affected by an organization’s decisions and activities.
Elevating Risk Management—Elevating Your Role Through ERM

REPOSITION: YOUR BRAND
Reposition: Personal Branding

What are you known for?

"I know it all ... I just can't remember it all at once."

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Reposition: **Modifying Your Brand**

![Diagram illustrating the relationship between risk profile and organizational mind-set](image)

- **Image makers** (High appetite for risk)
  - Sales
  - Marketing

- **Adventuresome visionaries** (High appetite for risk)
  - Line Executive
  - CEO
  - Strategist

- **Daily operators** (Low tolerance for risk)
  - Risk Manager
  - Internal Auditor

- **Operational leaders** (Low tolerance for risk)
  - Controller
  - CRO
  - CIO
  - COO
  - CFO
  - Sales
  - Marketing
  - Line Executive
  - CEO
  - Strategist

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# The Evolving Role of the Risk Professional

## Key Questions and Activities

### ERM (Enterprise Risk Management)

**Key Question:**
How do we make better decisions about uncertainties that affect our future?

**Key Activity:**
Establish overarching framework for managing the organization’s most significant risks.

**Key Objective:**
Enhance the achievement of strategic objectives and board risk oversight.

### Integrated

**Key Question:**
What are the key threats we face in achieving our business objectives and how should we respond?

**Key Activity:**
Risk identification, analysis with coordination from other risk management functions.

**Key Objective:**
Establish process for proactively managing operational threats to the business.

### Traditional

**Key Question:**
What are the insurable and contractual risks we face, and what are we doing to mitigate them?

**Key Activity:**
Hazard based risk identification.

**Key Objective:**
Treat risk as an expense item, managed through an insurance buying and/or hedging function.

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[As board members] “You’ve got to have both the intuitive and the analytical, and risk professionals help you hugely on the analytical side. The business judgment, imagination and life experience of the board members come into play on the intuitive side.”

Source: “Point Of View: A Special Issue Focusing On Today’s Board & CEO Agenda” 2010 spencerstuart.com
Reposition: Greater Board Expectations

“... risk management has to be involved in forward planning ... have a role in strategic planning sessions ... [and] for a particular product or service...”

From RIMS “Voice at the Top” Webinar
March 14, 2013

Special Guest: Douglas W. Leatherdale
Retired Chairman and Chief Executive Officer, The St. Paul Companies, Inc.

Board Member:
United Health Group (current)
Xcel Energy
Numerous societies and philanthropic organizations

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Reposition: A New Breed?

Are you part of the new breed of risk professional?

“...the profile of risk managers is evolving to meet changing business needs”

Source: “What makes a great risk manager?” 2011 Active Risk activerisk.com/risk manager

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Elevating Risk Management – Elevating Your Role Through ERM

REPOSITION: WHAT DO YOU WANT TO BE KNOWN FOR?
Reposition: **What Do You Want to be Known For?**

*You are in charge of your brand.*

Tom Peters, 1997

- **Visionary**
- **Businessperson**
- **Exceptional Expert**
- **Team player**
- **Mission**
Reposition: **Visionary**

- Leader
- Teacher
- Innovator
- Far-sighted
- Creative
- Evolving

Source: RIMS Executive Report: *The Evolving Role of the Risk Professional 2012*

Are you seen as a “far-sighted imagineer”?
Reposition: Exceptional Expert

- Framework
- Standards
- Project plan
- Principles
- Process
- Governance

Do you know something that your colleagues do not know?

Source: RIMS Executive Report: *The Evolving Role of the Risk Professional 2012*
Reposition: **Exceptional Expert**

Is that something of value to the organization’s success?

- Tools
- Training
- Communication
- Methodology
- Measurement
- Appetite Framework
- Transfer mechanisms

Source: RIMS Executive Report: *The Evolving Role of the Risk Professional 2012*
Reposition: Business Person

Are you obsessed with pragmatic outcomes?

- Internal business consultant
- Collaboration
- Key metrics/indicators
- Risk as explicit factor in control testing
- Reporting

Strategic Advisor

Reposition: Team Player

Unconnected Perspectives → Portfolio View

Risk Professional as Perspective Collector → Risk Professional as Information Consolidator

Whoever undertakes to set himself up as a judge of Truth and Knowledge is shipwrecked by the laughter of the gods.

Albert Einstein

Are you seen as a team player?
Reposition: Who is Primarily Responsible for ERM?

Source: RIMS 2013 Benchmark Survey
Produced by Advisen
Reposition: Collaborative Alliances

**Which risk functions within your organization are included in ERM activity planning and execution**

- Legal
- Internal Audit
- Compliance
- IT Risk Management
- Operations/Safety
- Strategic Planning
- Business continuity
- Treasury
- HR
- Security
- Public Affairs/Relations
- Logistics
- Other

Source: RIMS 2013 Benchmark Survey
Produced by Advisen
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REPOSITION: COMPETENCIES AND COMPENSATION
Reposition: Competencies and Compensation

What Differentiates a Great Risk Professional?

How Does That Translate Into Compensation?
Risk professionals of all levels must know their own industry dynamics, its economics, operations, staff, customers, competitors and other business partners and stakeholders.

Source: RIMS RISK MANAGER CORE COMPETENCY MODEL

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Reposition: C-Suite’s Competency Expectations

- Intimate knowledge of the business and industry
- Strategic view of risks and risk management's role
- Broad-based operational perspective
- Business process / project management experience
- Compliance view of risks / risk management's role
- Insurance knowledge

Source: DELIVERING STRATEGIC VALUE THROUGH RISK MANAGEMENT
RIMS/Marsh Excellence 10 Report, 2013. All rights reserved.

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Reposition: Translating Competencies into Compensation

Job Details for **Top Risk Management Executive**

**Job Description**

Oversees all aspects of an organization's risk management function. Responsible for planning and directing business analysts, risk modeling, and loss prevention programs. Requires a bachelor's degree with at least 15 years of experience in the field. Familiar with a variety of the field's concepts, practices, and procedures. Relies on extensive experience and judgment to plan and accomplish goals. Performs a variety of tasks. Leads and directs the work of others. A wide degree of creativity and latitude is expected. Typically reports to top management.

**Alternate job titles:** Chief Risk Management Officer, Chief Risk Management Executive, Top Risk Management Executive, VP, Risk Management, Vice President of Risk Management

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**Job Statistics**

**Years of Experience**

- 0-1: [Pie chart]
- 2-5: [Pie chart]
- 1-10: [Pie chart]
- 10-15: [Pie chart]
- 15+: [Pie chart]

**Education Level**

- No diploma: [Pie chart]
- High School: [Pie chart]
- Associate's Certificate: [Pie chart]
- Bachelor's: [Pie chart]
- Master's: [Pie chart]
- Doctorate: [Pie chart]

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**Core Compensation**

<table>
<thead>
<tr>
<th>Median</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Salary</td>
<td>$194,938</td>
</tr>
<tr>
<td>Bonuses</td>
<td>$58,138</td>
</tr>
</tbody>
</table>

**Value of Benefits**

<table>
<thead>
<tr>
<th>Benefit Type</th>
<th>Median Value</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>$10,719</td>
<td>3.3%</td>
</tr>
<tr>
<td>401K/403B</td>
<td>$9,500</td>
<td>2.9%</td>
</tr>
<tr>
<td>Disability</td>
<td>$1,772</td>
<td>0.5%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>$6,507</td>
<td>2.0%</td>
</tr>
<tr>
<td>Pension</td>
<td>$16,000</td>
<td>4.9%</td>
</tr>
<tr>
<td>Time Off</td>
<td>$31,148</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

**Total Compensation**

$328,721 100%

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Source: Salary.com

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Reposition: For Higher Compensation

Source: RIMS 2013 RISK MANAGEMENT COMPENSATION SURVEY
Reposition: Is Your Position Evolving?

- Risk management is evolving from “a second line of defense only” to playing “offense and defense”.
- The board expects information - not just data - focused on strategic risks that can either improve or worsen the organization’s position.
- The new breed of risk professional must act as risk leader, capability architect and strategic advisor.
- Forging “strategic alliances” throughout the organization helps in avoiding shipwrecks.
- Broader competencies (i.e., an evolving skill set) translate into higher compensation levels.
Reposition: **What Do You Want to be Known For?**

You are in charge of your brand.

Tom Peters, 1997
Reposition: Your Mission

• What are you passionate about?
• What is your personal definition of success?
• What differentiates you from your colleagues?
• What would your customers say is your greatest strength / personal trait?

Create a 15 word mission statement that answers:

What do I do that adds remarkable, measurable, distinctive and distinguished value?
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QUESTIONS