

SPECIAL REPORT: EXCELLENCE IN RISK MANAGEMENT 10

DELIVERING STRATEGIC VALUE THROUGH RISK MANAGEMENT



PRODUCED IN CONJUNCTION WITH RIMS, THE RISK MANAGEMENT SOCIETY™
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REPORT ANALYSIS AND REVIEW

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EXECUTIVE SUMMARY

This marks the tenth year that Marsh and RIMS have produced the *Excellence in Risk Management* survey. Much has changed in the world of business and risk management over that time, but one thing has held true: Risk professionals continue to add great value to the organizations they serve. The specifics of the roles vary greatly from company to company, but in general we have seen a move toward risk managers adding more value to organizations' strategic decisions. Of course, there is still much room for growth, and gaps remain between what senior leaders and risk professionals expect from the risk function in its delivery of strategic value.

The 2013 *Excellence in Risk Management* survey gathered the views of more than 1,200 risk professionals worldwide, top executives, and others. Among the key findings:

- Risk management is in an evolutionary period. One of the characteristics of this time is a call for a more relevant central risk function, one that helps to better unlock the strategic role of risk management.
- Risk managers, in order to play more of a strategic role, need to “connect the dots” in their organizations and understand how priorities are set and how action steps are determined at upper levels of leadership. Building organizational risk capabilities through education, providing greater risk input into strategic planning/execution and establishing key risk indicators (KRIs) to guide the overall risk framework within their organizations are desired by the C-Suite.
- Eighty percent of C-Suite respondents and 75% of risk professionals said they do not aggregate risks at the portfolio level. The overwhelming “No” demonstrates an immediate opportunity: Risk management can deliver great value by coordinating information into a portfolio view.
- For their top choice regarding focus areas for developing their organizations' risk management capabilities, risk professionals this year chose: “Improve the use of data and analytics.” Overall, 74% of respondents said their organizations need to conduct deeper analysis on their risk-related data.
- Risk professionals and C-Suite executives said that identifying and assessing risks arising from the strategic plan is the top reason why risk management is included in strategic planning and execution activities. The C-Suite perspective clearly indicates a desire for risk management to add meaningful strategic value and effectively engage throughout the strategic workflow. This includes leading the risk identification and risk quantification to better inform organizational strategy.
- There is a significant gap in the definition of “value” between the C-Suite and risk professionals, as seen by responses to questions around key performance measurements. For example, the transactional (risk transfer) response is highly valued by risk professionals, and yet falls very low on the list for C-Suite respondents.
- When it comes to planning for the next catastrophe, risk professionals seem to be more strategically focused on enterprise-wide impacts than the C-Suite, which is still showing concern for the fundamental insurance coverage question. However, the coverage question suggests a keen interest in ensuring alignment between insurance contracts purchased and the value of financial benefits they should reliably deliver.
- The top risks for 2013 reflect shifting priorities as political, regulatory, and environmental conditions changed over the past year.

“We need to build the capacity to approach risk in such a way as to ensure that we can respond to and recover from risks we have not faced. This conversation is not always welcomed.”

DIRECTOR OF RISK MANAGEMENT
AT A LARGE GENERAL
MANUFACTURER

TIME TO EXECUTE

Risk management is in an evolutionary period. There remain pressing business needs to better understand and prepare for hazard risks, and there are emerging needs to identify, quantify, and manage strategic, operational and financial risks that may impede organizational performance. This includes, for example, understanding and analyzing the complex interrelations between the various components of a risk portfolio, all of which can impact the organization’s performance in unexpected ways.

For a number of years now, the *Excellence in Risk Management* survey has pointed to increased expectations from the C-Suite about what the risk management function will bring to organizations’ overall business strategies. With those expectations come opportunities, but many risk managers appear to be holding back — or are being held back. Why? And are the increased expectations of recent years really part of a call for a more relevant central risk function, one that helps to better unlock the strategic role of risk management?

FIGURE 1: DEVELOPING RISK MANAGEMENT CAPABILITIES IN 2013

Q: WHAT ARE FOCUS AREAS FOR DEVELOPING YOUR ORGANIZATION’S RISK MANAGEMENT CAPABILITIES IN 2013?

	C-SUITE	RISK PROFESSIONAL
#1	Training/education	Improve the use of data and analytics
#2	Strengthen enterprise risk management capabilities	Training/education
#3	Improve the use of data and analytics	(Tie with #2) Strengthen enterprise risk management capabilities

One place to start looking for answers is to examine respondents’ focus areas for developing their organizations’ risk management capabilities in the coming year (see Figure 1). Not surprisingly, risk management training and education emerged once again as a leading indicator for this business need. C-Suite members envision improved sharing of risks and strategies as part of an empowered central risk function that focuses on risks that could affect future outcomes, demonstrably adding value to the organization.

This year’s survey respondents were given an additional option: “Improve the use of data and analytics.” Risk professionals made this their top choice, just ahead of training and education, which had been number one for several years running. In turn, both of these areas — training and analytics — support more robust views of enterprise-wide risk; strengthening ERM capabilities and integrating ERM deeper into strategic planning ranked as the third and fourth focus areas.

Since 2008, risk management has entered a new frontier, whereby the assessment, interdependency, and overall importance of effective risk management has shifted. Organizations seek risk professionals who can more meaningfully guide a broad risk dialogue and build appropriate views to test and control the risk environment. Additional training and education in areas of risk identification, data analysis, and business strategy approaches are most relevant.

With these results in mind, there are opportunities for risk management to be exceptionally effective, and for organizational leadership to help make it so:

- Develop risk-based capabilities through training and education, while involving the right people in the dialogue. The “right” people — those who best understand the business and the industry — can be found across the organization, from operations to the boardroom.
- Show the value of available multi-sourced data for informing decisions by using it as one means to help integrate risk management into strategic planning.
- Tie risk management efforts more visibly into risk strategy and governance, which will help improve risk-based decision making while making “compliance” come alive with value-driven results.
- Provide risk management with the resources needed to succeed, such as upgraded data management and risk management information system (RMIS) tools.
- Use analytics to drive better risk finance and insurance purchasing decisions.

In order to be more strategic, risk managers need to “connect the dots” in their organizations and understand how priorities are set and how action steps are determined at upper levels of leadership. As a first

step, risk professionals must establish key risk indicators (KRIs) that will guide the overall risk framework within their organizations. Without KRIs, one cannot determine whether the organization is taking the right level of risk, or whether a “top down” or “bottom up” risk management and governance framework (or combination) is most effective for the organization. There must be multiple measures to test both successes and failures. Single measures may not be strategic or substantial enough to tell a meaningful story or guide decision making within the organization. Through effective training and organizational awareness, risk professionals can frame the dialogue that will best guide the organization’s success.

FIGURE 2: UNDERSTANDING THE RISK LANDSCAPE
 Q: WHAT ARE THE TOP TWO AREAS OF IMPROVEMENT TO HELP SENIOR MANAGEMENT AND BOARD MEMBERS MORE FULLY UNDERSTAND THE RISK LANDSCAPE OF YOUR ORGANIZATION?

	C-SUITE	RISK PROFESSIONAL
#1	Increase education and awareness of concepts such as ERM and strategic RM	Link RM to organization’s strategies
#2	Link RM to organization’s strategies	Increase cross-functional risk collaboration
#3	Include strategic implications in risk analyses	Increase education and awareness of concepts such as ERM and strategic RM

Education and training also come into play in setting the risk landscape for senior management (see Figure 2). In this case, the C-Suite is saying that some education/training should be aimed at senior leadership for fuller understanding of risk management principles and practices in developing and executing business strategy.

“My challenge is to increase my visibility to be able to enlighten executive management about the financial and operational value of risk management and insurance.”

MANAGER OF RISK AND
INSURANCE AT A LARGE
PHARMACEUTICAL COMPANY

Also, by taking care of the C-Suite’s number one and number two priorities in this area, it is likely that risk professionals will be advancing on their goal of increasing cross-functional risk collaboration. Although the 2013 survey did not ask about cross-functional risk committees, the 2011 and 2012 surveys showed increasing use and perceived effectiveness of such committees.

Benefits to the organization from developing cross-functional risk collaboration and a strategic risk framework include:

- Aligning internal and external data, risk and control assessment results, and capital and scenario analyses to compare with KRIs. This brings more powerful management information and operational risk management reporting capabilities.
- Increasing clarity when it comes to robust and complete coverage of relevant risks, whether for self-assessment, KRIs, or collection and classification of emerging risks.
- Expanding use of indicators for multiple, as well as specific, risks in a clear and consistent way.
- Making internal and external benchmarking easier with the use of common definitions.

Similarly, there are many benefits behind increasing education at the board level around ERM, strategic risk management, and related techniques used to identify and assess risk and to report the results across the organization. Awareness and buy-in at higher levels for strategically focused enterprise-wide risk management will help convey strong sponsorship and commitment to risk management at senior levels of the organization. It will also:

- Establish and communicate risk appetite in a deliberate and meaningful way.
- Facilitate appropriate data aggregation and reporting, which will allow meaningful internal and external comparisons.
- Ensure that efforts to develop KRIs and monitor risk are relevant and focused on areas of highest risk.
- Provide greater consistency and assurance in the way risk issues are managed across the organization.
- Ensure robust coverage of risk factors while reducing duplicative efforts in tracking and monitoring risk.
- Permit systematic adjustments to capital estimates with enhanced credibility.

These benefits all provide value-add factors for the C-Suite and executive teams. Closing the gap between risk management and the C-Suite — if that is indeed an objective for risk professionals — involves more clearly identifying the value that risk management delivers to the organization. Arguably, an enhanced skill set to lead this charge is on the mind of many C-Suite respondents.

STRATEGIC USE OF DATA AND ANALYTICS

The exponential growth of data over the last 10 years makes it no surprise that there is a concurrent increase in analytical techniques to harness the power that sits within organizations' ever-larger data stores. Those invested in risk management are looking to data analysis to help connect the dots between risk data and organizational strategy. The first step is to ensure the right kind of risk data and analytics are being harnessed; next comes applying the right tools to allow the greatest impact.

Given the advance of data availability and aggregation, it's no wonder that nearly three-quarters of *Excellence* survey respondents said their organizations need to conduct deeper analysis on their risk-related data. Data analysis aligned with tests that will support the organization's overall risk strategy will help risk professionals close the gap between being a cost center and a strategic thought center, while also more clearly addressing organizational values and related objectives.

This includes using data for a closer evaluation of the organization's KRIs, functional benchmarks, variances from expected outcomes, and forward-looking predictive indicators. It will also improve the ability to make effective risk finance decisions.

The context in which the analysis occurs becomes critically important to its relevancy and perceived value. Based on this year's survey results, a key constraint around data analysis appears to be an ability to capture, warehouse, and process the data using technology resources, with fewer respondents citing an ability to source personnel or required expertise to evaluate the data.

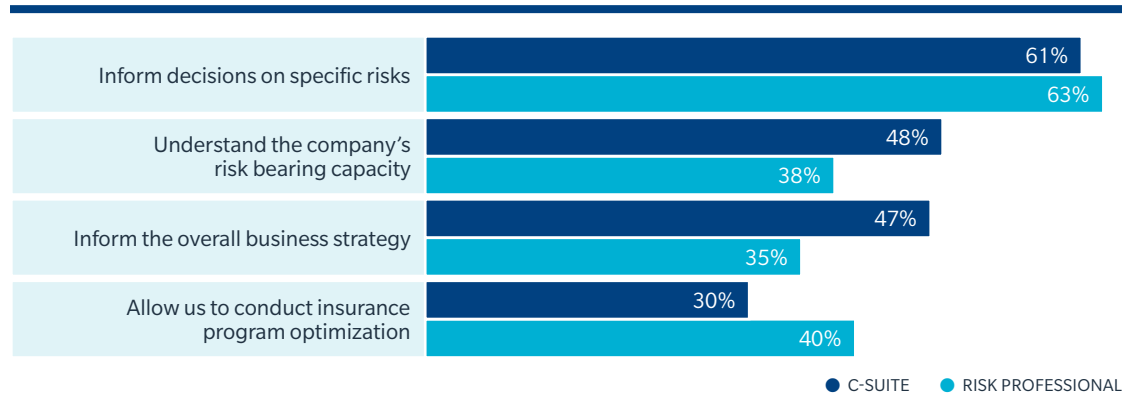
74% of respondents said their organizations need to conduct deeper analysis on their risk-related data.

“We now use data and analytics to measure what has already occurred. We would like to develop tools to use exposure data and past experience to predict future events and manage risk around those events.”

DIRECTOR OF RISK MANAGEMENT
AT A MIDSIZE TRANSPORTATION
COMPANY

FIGURE 3: USE OF RISK-RELATED DATA

OUR MOST SIGNIFICANT USE(S) OF RISK-RELATED DATA AND ANALYTICS IS TO:



Today, more frequently than not, risk management is siloed within the organization, a view reinforced by the responses to a question about how data are best used.

- The majority of C-Suite and risk professional respondents said the most significant use of data is to inform decisions about specific risks.
- The alignment ended there, however, as further C-Suite responses highlighted more strategic uses of data and analytics.
- Risk professionals, on the other hand, picked insurance program optimization as their number two response. While optimizing insurance programs remains a valued exercise, it maintains a risk-transfer focus rather than a broader strategic one.

C-Suite respondents clearly indicated a desire to see the risk function evolve. Not surprisingly, the goal of integrating decision making across all risk classes and data sets is that firms are able to avoid duplication of risk management expenditures and exploit natural hedges. Organizations that engage in strategic and enterprise-wide risk management are able to better understand the aggregate data and risks inherent in different business activities. There is value to the organization in having the risk function provide an aggregate, system-wide data view — that is, a portfolio

view — as it provides a more objective basis for resource allocation and arguably improves capital efficiency and return on equity.

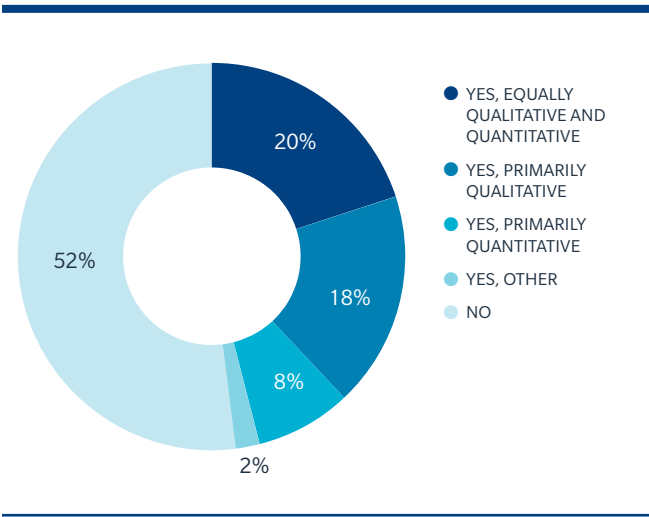
Also revealing are respondents' views about risk bearing capacity, which, although an analytical tool, provides a portfolio view. Only one-third of risk professionals said they consider applying risk bearing capacity as a top use of data, while nearly half of the C-Suite said it was. And the survey found similar results regarding informing the overall business strategy. Of further interest is the relatively low place given to improving benchmarking abilities, reflecting the growing importance of an overall internal understanding of risk positioning as opposed to a comparison against peers.

Those risk professionals that desire to move their function to a more strategic place in the organization need to look at such results and ask: How do we push forward our use and presentation of data-driven analysis so that the C-Suite sees us as and calls on us to inform the overall business strategy? And for the C-Suite, the issue may lie more in the performance metrics used to measure the risk management function's overall value to the organization — from a budgetary insurance and claims cost-reduction basis to measurements based on the value and impact for improved business results.

PORTFOLIO ANALYSIS

FIGURE 4: RISK APPETITE AND RISK TOLERANCE

Q: HAS YOUR ORGANIZATION DEVELOPED FORMAL ENTERPRISE-LEVEL RISK APPETITE AND/OR RISK TOLERANCE STATEMENTS?



A source of value for an organization is an ability to provide improved information about its risk profile to stakeholders. Developing formal enterprise-level risk appetite and/or risk tolerance statements help both external and internal stakeholders better understand and assess the financial strength and performance of a firm. The more opaque a firm, the more important the ability to communicate risk profile, risk appetite, and/or risk tolerance statements.

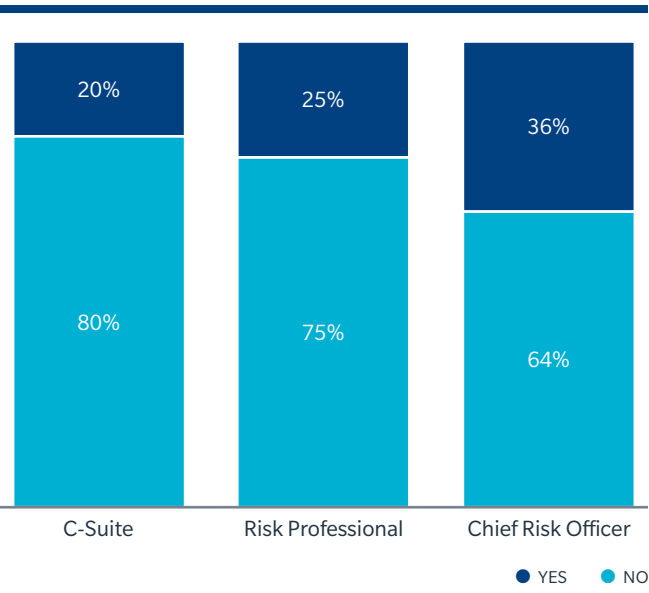
Many survey respondents developed their view of risk tolerance through non-quantitative, “gut level” approaches based on experience, or from some other qualified assumption that is generally accepted within the organization. This represents a functional starting point for most, if not all, companies before they develop a more quantitative view.

The majority of respondents said their organizations have not developed an enterprise-wide view. Not surprisingly, the group most likely to say they had developed such a view, either qualitatively or quantitatively, were chief risk officers (CROs). In

organizations where there is a CRO role, one would reasonably expect the development of a risk appetite and/or risk tolerance position as a key objective. Given the convergence of wants and needs between the respective groups — the C-Suite looking for enterprise-wide, value add approaches; and risk professionals willing to pursue a broader agenda — there is a significant opportunity for risk management to lead a cohesive dialogue. In doing so, risk professionals should help their organizations develop a useful risk appetite and/or risk tolerance view.

FIGURE 5: AGGREGATION OF RISK

Q: ARE RISKS AGGREGATED TO UNDERTAKE PORTFOLIO ANALYSIS AT THE ENTERPRISE LEVEL?

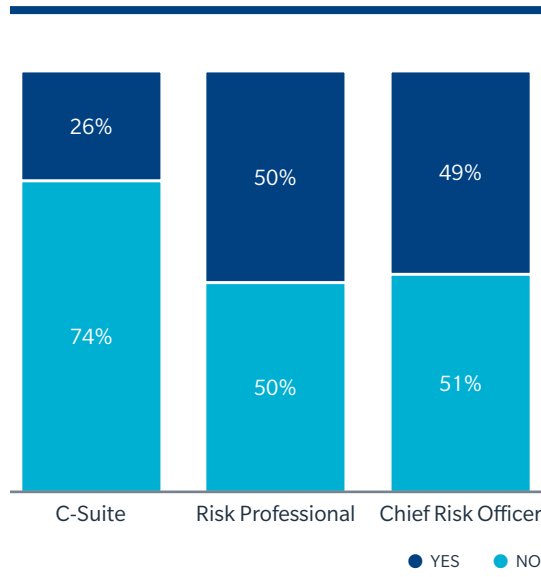


The overwhelming, across-the-board “no” to the question of whether risks are aggregated at the portfolio level demonstrates an immediate opportunity, similar to that with risk appetite: Risk management can deliver great value by coordinating information into a portfolio view. There are inefficiencies to a traditional “silo” approach, as managing risk this way creates information gaps. Combining risk into a portfolio view allows the organization to better understand interdependencies and develop accurate risk-adjusted rates of return, in comparison to a siloed approach.

Overall, the responses here correlate with the C-Suite's desire to build a more holistic view of risk. A portfolio view allows information to flow more naturally into an ERM framework and provides improved views for an organizational risk profile. An aggregation of risk information and analysis, along with communication about pre-emptive and strategic solution sets to the C-Suite can help in key areas. This includes capital allocation and risk optimization across the enterprise, rather than, perhaps, a siloed approach unintentionally lost and undervalued within a purely transactional view.

FIGURE 6: RISK BEARING CAPACITY

Q: DOES YOUR ORGANIZATION INCLUDE RISK BEARING CAPACITY AS A MEASUREMENT OF RISK APPETITE/RISK TOLERANCE?



Risk bearing capacity offers a prospective view that is useful in establishing allocations of risk and/or of capital to drive value for shareholders and the organization as a whole. In fact risk bearing capacity is seen by many as the backbone of analytical efforts and can help

drive decisions around capital allocation. If an organization does not understand what risks it is willing to take, it will be difficult, if not impossible, to measure the risk itself.

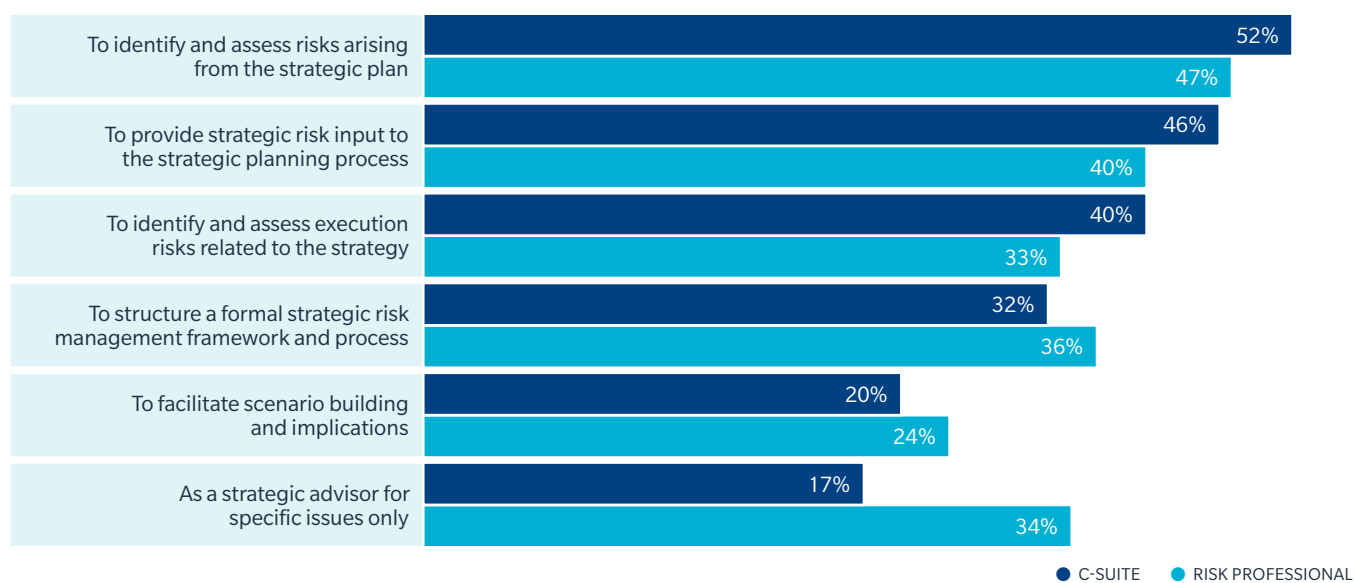
With a view on forward profitability, growth, and, in some cases, related key performance indicators, an organization can use risk bearing capacity as a cornerstone for developing an enterprise-wide view of risk and risk allocation to satisfy organizational performance measures.

Certain industries, such as financial institutions, are well down the path of developing, quantifying, and allocating risk bearing capacity (and risk-weighted assets) according to evolving regulatory and risk management frameworks. However, other industries tend to operate in more qualitative realms and have not yet formalized their system-wide risk views and related risk tolerances. When activated, the use of risk bearing capacity would be one of the views available to holistically capture and quantify the organizations risk tolerance. It would correspondingly serve as a guiding tool for risk strategy.

The survey results for this question were, frankly, puzzling, with 75% of C-Suite respondents saying risk bearing capacity was not used in their organizations, compared to 50% of risk professionals saying it was. There may be a perception from some risk professionals that they are providing risk bearing capacity information, but it is not visible at higher levels of the organization. This speaks to the need for risk managers to better communicate their approaches to those in leadership and across the organization.

FIGURE 7: RISK MANAGEMENT AND STRATEGIC PLANNING

Q: THE RISK MANAGEMENT FUNCTION IS INCLUDED IN THE ORGANIZATION'S STRATEGIC PLANNING AND EXECUTION ACTIVITIES:



The results indicate that risk management is perceived to play a support role across the entire organization. Risk managers and C-Suite executives alike were most likely to say that identifying and assessing risks arising from the strategic plan is the top reason why risk management is included in strategic planning and execution activities.

The C-Suite perspective here is telling: Risk management should be in a position to add meaningful strategic value. It should also effectively respond to strategic work flow and lead the risk assessments that, in turn, can guide organizational strategy. C-Suite results reinforce the view that the risk unit in and of itself should not necessarily have to manage specific risks, but should originate the risk and analytical framework required to best guide the organization to successful strategic outcomes.

By thus influencing risk discussions, relevant risk management can also reduce the tendency for organizational “silos” to refuse to share information and to hide negative outcomes or trigger key risk indicators. Further, the C-Suite’s desire to evolve beyond specific risk decisions and optimization of insurance into the broader areas of organizational risk tolerance, portfolio performance, and business strategy set the stage for

more customized risk management solutions that fall outside of insurable risk. This suggests the central risk function has an opportunity to provide impactful guidance not only on transfer or loss mitigation, but on the overall evaluation of various risk positions and direct organizational value.

But there is a gap worth noting. Despite the large percentage of risk professional and C-Suite respondents pointing to risk management’s role in the strategic plan, far fewer say it is a full member of the strategic planning and/or execution teams (15% of risk professionals and 20% of the C-Suite). And nearly half of the C-Suite respondents said they rely on risk management to provide strategic risk input to the strategic planning process and to identify and assess execution risks related to the strategy, yet only one-third of risk professionals saw themselves in these roles.

These responses indicate some forward movement from prior years’ *Excellence* surveys regarding risk management’s role in strategy, but there is still a significant gap in integrating risk management fully into strategic and/or execution planning.

MEASURING PERFORMANCE

FIGURE 8: KEY PERFORMANCE MEASURES: DELIVERY

Q: WHICH RISK MANAGEMENT KEY PERFORMANCE MEASUREMENTS WOULD BEST DEMONSTRATE THE FUNCTION'S OVERALL VALUE TO THE ORGANIZATION? DELIVERY OF:

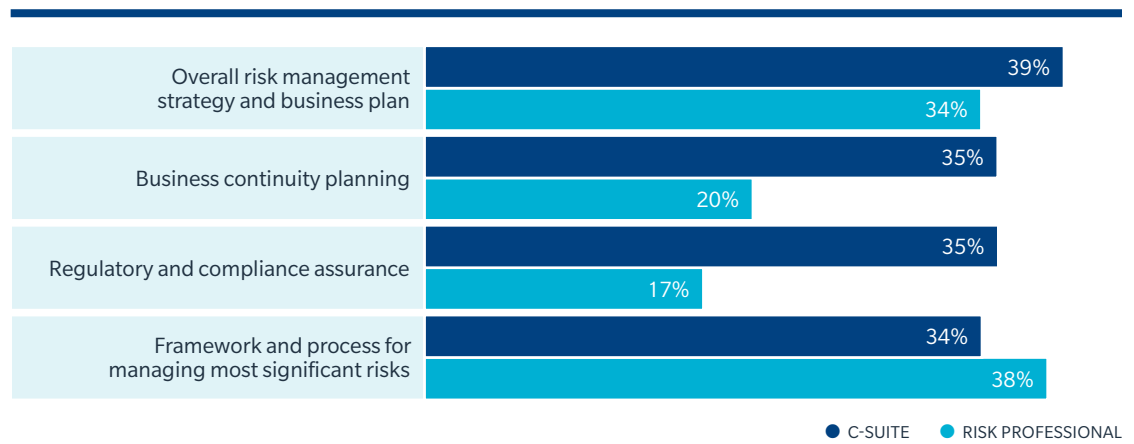
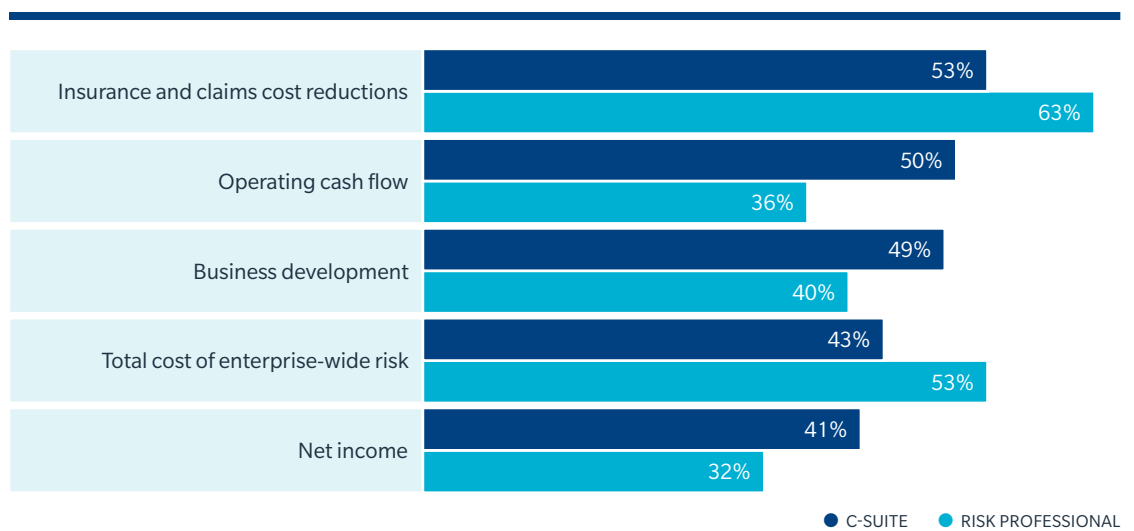


FIGURE 9: KEY PERFORMANCE MEASURES: IMPACT

Q: WHICH RISK MANAGEMENT KEY PERFORMANCE MEASUREMENTS WOULD BEST DEMONSTRATE THE FUNCTION'S OVERALL VALUE TO THE ORGANIZATION? IMPACT OF:



There is a significant gap in the definition of “value” between the C-Suite and risk professionals, as seen by responses to questions around key performance measurements. Historically, the determinants of traditional risk management activities have been well documented. Corporate insurance demand by firms with well-diversified shareholders is not typically driven by risk aversion. Consider the groundbreaking research conducted by Mayers and Smith in 1982. Their analysis was one of the first to validate portfolio diversification views stating that shareholders are able to costlessly diversify firm-specific risk, and the purchase of insurance causes a loss of shareholder wealth when purchased at actuarially unfair rates. However, when insurance is structured and purchased as part of the firm’s overall financing strategy, it increases organizational value through its effect on investment policy, contracting costs, operating costs, cash flow, and even the firm’s tax liabilities. Additional research suggests insurance also helps to reduce various agency costs associated with stakeholder conflicts. All of this adds value to the firm when optimized as part of an enterprise view.

Viewed this way, we can see how the C-Suite would seek to optimize the use of the risk function to drive improvements in the financing strategy. This includes positive effects on cash flow and profitability. These benefits play out as the risk management framework works to reduce earnings (profitability) volatility and support growth (revenue/business development) strategies by reducing the probability of catastrophic losses and identifying the interdependencies between key risk indicators that may otherwise affect organizational financial performance.

Clearly, building a risk framework and aligning risk objectives are part of the equation and must align with the overall business strategy. That said, it is important to note the transactional (risk transfer) response is highly valued by risk professionals, and yet falls very low on the list for C-Suite respondents. This suggests that focusing on the response — risk transfer — without a strong tie in to a risk framework and overall business objectives leaves a sizeable disconnect in value determinants between the C-Suite and risk professionals.

Among the questions raised:

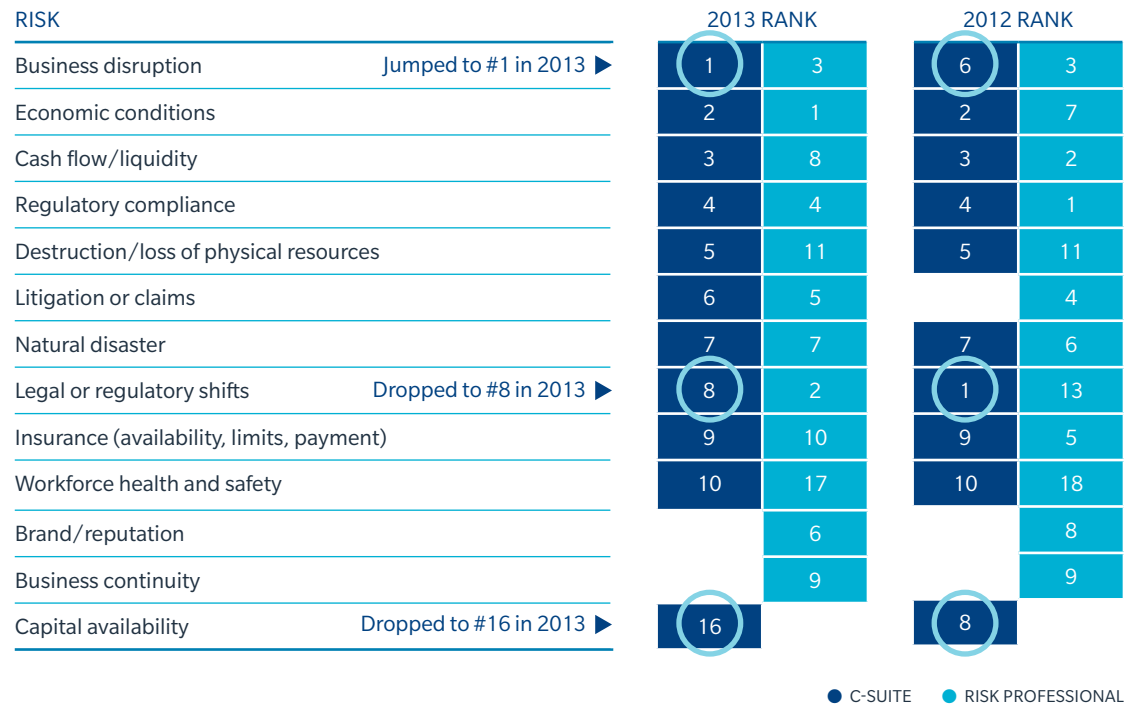
- Are risk professionals being rewarded for where they can deliver greatest value to the organization?
- Are there more relevant alternatives to rewarding only budgetary results tied to reductions in insurance transactions and claims?

“Risk management’s biggest opportunity is to help the organization understand and challenge its strategic direction.”

RISK MANAGER AT A MIDSIZE ENERGY COMPANY

TOP RISKS 2013

FIGURE 10: TOP RISKS 2013



Each year, organizations shift their focus on their top risks for the coming year as new exposures emerge, traditional ones re-emerge, macro and micro economic conditions change, and legal and regulatory environments shift. Tracking the changes provides a sightline into organizations' thoughts about likely risk issues. Following are some of the highlights from the 2013 survey:

- The US presidential and congressional elections may have offered some certainty around potential legal and regulatory shifts, as those issues dropped from the number one concern in the C-Suite in 2012 to number eight in 2013.
- At the same time, the "Sandy effect" from Superstorm Sandy — following on the heels of a disaster-filled 2011 — may be behind the rise in business disruption into the number one slot. Such a relationship is further evidenced by the move up of natural disaster and loss of physical resources.
- Concern about brand and reputation issues continued to increase up for both risk professionals and C-Suite respondents, although not breaking into the top 10 for the C-Suite, for which it moved from number 16 to number 13.
- For the C-Suite, capital availability moved from number 8 in 2012 to number 16 in 2013, which may reflect a loosening in credit

and higher confidence in economic recovery, although the still-tentative feel may be reflected in economic conditions overall remaining a top concern.

- The risks related to data security and privacy breaches ranked number 12 for risk professionals, and number 26 among C-Suite respondents, while exposure to technology and systems failures ranked number 16 and number 18, respectively. The relatively low placement of these cyber risks was somewhat surprising, especially given the coverage the topic has received in the media and in such venues as the Davos World Economic Forum.

Following the devastating natural disasters of 2011, 2012 was looking like an active catastrophe year, but not overly so until Sandy hit the US East Coast in late October. Sandy helped push the year's insured losses into

the \$65 billion range, well above the 10-year average of \$50 billion. When asked what the major concerns were about the potential impacts on their organization of a major disruptive catastrophic event:

- C-Suite respondents showed the most concern about the overall performance of the business model, employees, and the perfection of the hedge in the form of insurance contract/coverage. Risk professionals may want to take note of this and provide their leadership with analysis on the ability of customers and infrastructure suppliers to continue operations.
- Risk professionals focused more on external factors, such as infrastructure damage. This could perhaps be another indication of a “Sandy Effect” for risk professionals in the Eastern US.

FIGURE 11: NATURAL DISASTERS SPUR ASSESSMENTS

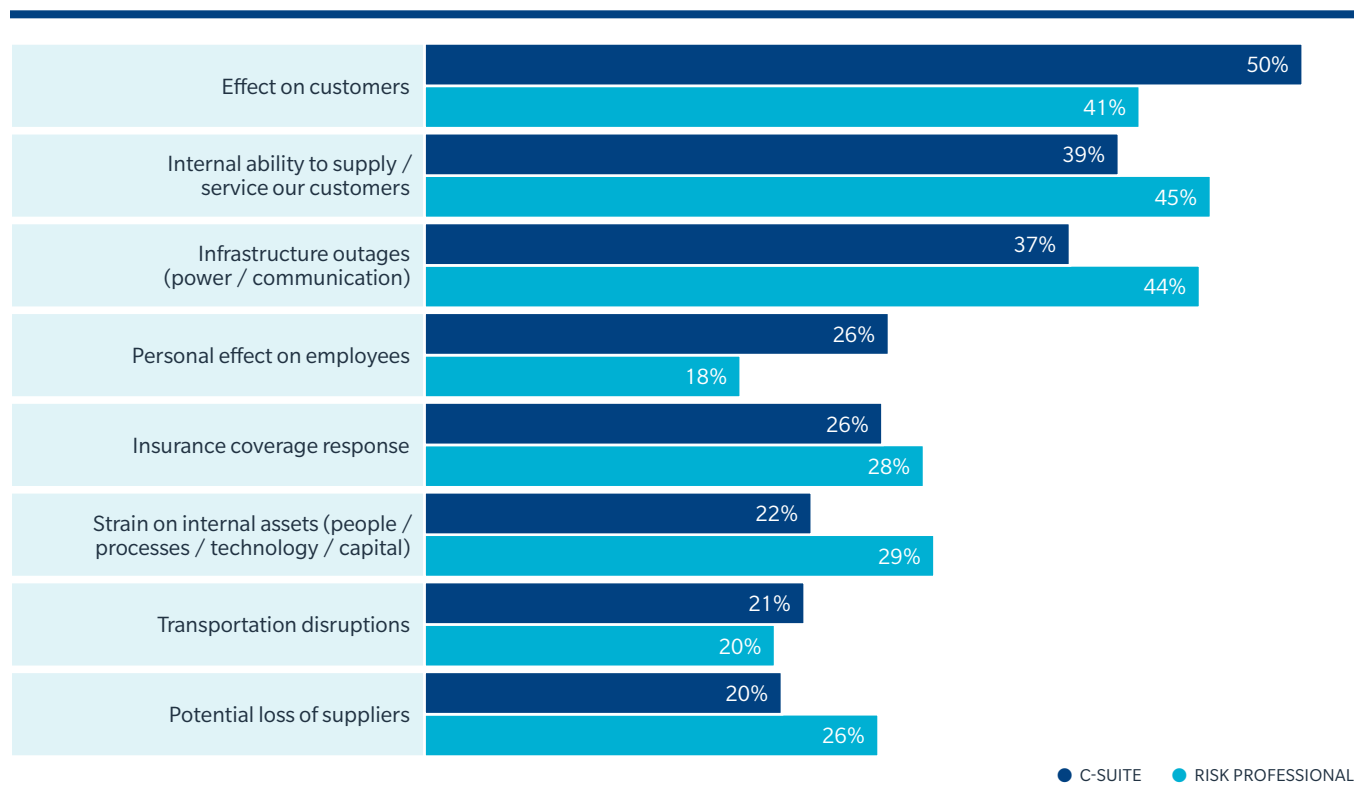
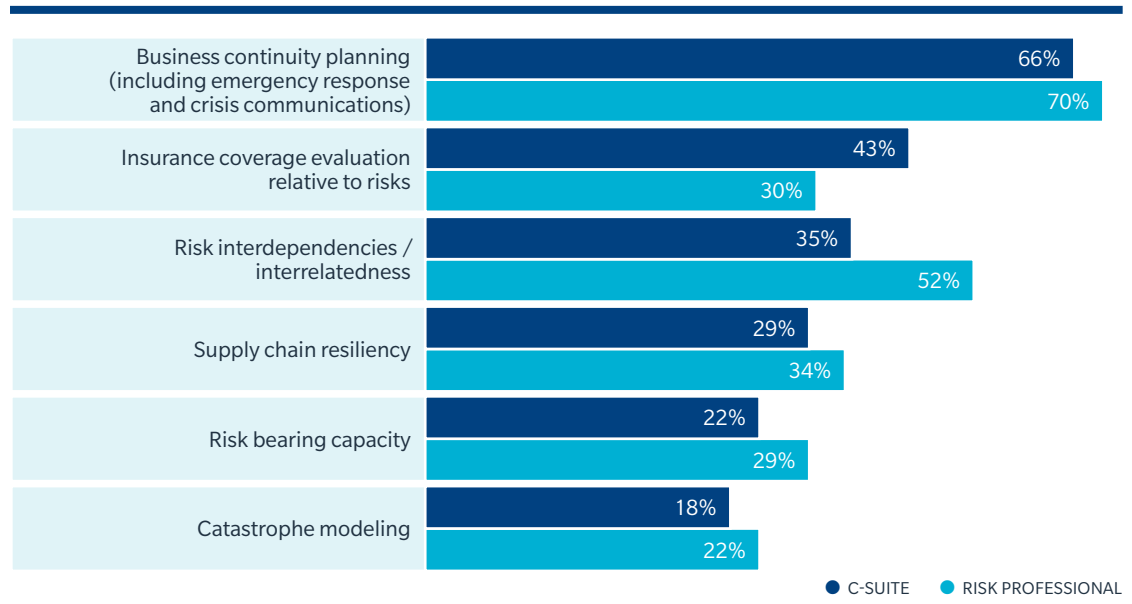


FIGURE 12: CATASTROPHE PLANNING PRIORITIES

Q: AS RELATED TO CATASTROPHE PLANNING, WHICH OF THE FOLLOWING AREAS DO YOU THINK YOUR FIRM WOULD MOST BENEFIT FROM SPENDING ADDITIONAL TIME AND/OR RESOURCES ON IN THE NEXT TWO YEARS? (CHOOSE TOP THREE).



When it comes to planning for the next catastrophe, risk professionals seem to be more strategically focused than the C-Suite, which is still showing concern for the insurance question. C-Suite views the issue along the lines of: “insurance needs to pay as planned.” Perhaps this is a response to the underlying issues otherwise identified by the C-Suite; the importance of building a program aligned with risk tolerance and appropriately covering the critical elements (root causes) that can lead to supply chain adversity, otherwise recognized as cash flow and revenue volatility.

The responses are also interesting in that organizations do not seem to be satisfied with their reviews of business continuity following the disasters of 2011, when it ranked as the number one issue in a similar question. However, looking at the areas companies say they will benefit from spending additional resources on over the next two years, there is one notable shift from 2011.

First, consider that the items commonly reviewed following such catastrophes can be broken into three general buckets:

- 1. Control measures:** Business continuity planning, including crisis response and emergency planning; and supply chain resiliency.
- 2. Insurance:** Coverage evaluation.
- 3. Future/Strategic:** Risk interdependencies and CAT modeling.

In 2012, both C-Suite and risk management respondents placed control measures and insurance coverage above risk interdependencies. In 2013, however, risk interdependencies moved higher for risk professionals, a sign, perhaps, that they are taking steps to engage more fully in the organization’s strategic conversations and show their understanding of how their organization and industry operates.

There appears to be a general discomfort with the level of planning and uncertainty about resiliency. In other words, the C-Suite is worried about volatility and that a nonperforming supply chain or other business/customer interface would likely comprise a significant infrastructure risk and create sizeable amounts of cash flow volatility — and risk.

CREATING A CENTRAL RISK FUNCTION

Looking at the 2013 *Excellence in Risk Management* survey as a whole makes a compelling case that leaders at many organizations are calling for the evolution to a more relevant central risk function, as some have already put in place. C-Suite participants called out the individual or risk unit responsible for coordination of risk discussions across the entity and asked that they identify, assess, and strategize cross-organizational risk solutions. They suggested this central risk person should occupy a high position in the strategic dialogue and have access to senior executives, reflecting the ever-growing sensitivity to board reporting and monitoring, including a public company's specific fiduciary and regulatory duties.

C-Suite respondents identified the importance of a central risk function to facilitate efforts to manage risk and as such, the need for an appropriate amount of training, education, and implied political savvy to lead the cause. And there are many in the risk management function that agreed with the assessment.

A relevant central risk function must enhance a strategic risk management/ERM program by identifying risks that might otherwise be missed by C-Suite, business unit, or other key executives. For this reason, C-Suite respondents focused heavily on the need to train and educate the individuals responsible for the risk leadership role. This training would be focused on the broad aspects of building enterprise-wide risk assessment and linking risk management deliverables to the organization's strategies and objectives. The importance of understanding how to solve business problems through the use of applied analytics was keenly communicated by this year's survey results.

By definition, a robust and central risk function takes on the leadership role of building organizational risk capabilities. It may be responsible for insurance buying or loss control. However, executing the transactional element is not necessarily a fundamental risk capability aligned with C-Suite views. Instead, owning the risk strategy is fundamental. The survey results indicate that C-Suite members are more interested in understanding "options" around what types of risk and risk responses are most beneficial to a firm's expected returns and performance. They want to encourage the use of a viable evaluation process to assess risk. Most commonly, this is a problem-solving process used widely in planning and budgeting and modified to systematically approach decisions to retain, transfer, control, avoid, and/or exploit exposures.

As such, those seeking a relevant central risk function categorize strategic risk identification and risk sharing as being fundamentally different from purely risk transfer or mitigation. C-Suite members and their organizations need a central risk management function that seeks out factors that are changing the business landscape and conducts deeper analysis on risk management and risk-related data: What is happening with markets, regulators, politics, competitors, and other sources of risk? What is happening inside the organization itself with cultural, management, leadership, human resources, and unit life cycle exposures? These are important risk issues and this year's *Excellence* results suggest they deserve full attention from all risk practitioners.

RECOMMENDATIONS

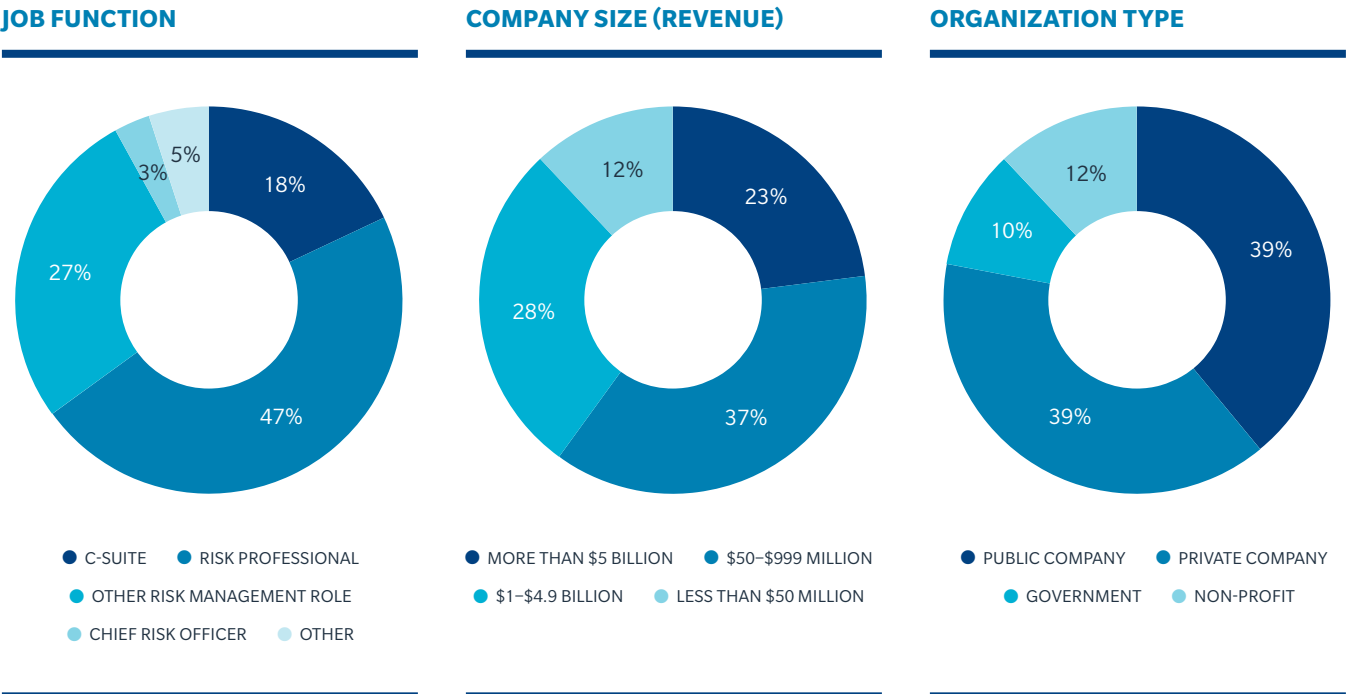
Following are some recommendations for risk professionals and others based on this year's Excellence in Risk Management survey and report.

- **Embrace the role of strategic advisor by “connecting the dots”** in your organization so that you understand how priorities are set and how action steps are determined at upper levels of leadership.
- **Establish key risk indicators (KRIs)** that will guide the overall risk framework within your organization and help frame the dialogue that will best guide the organization's success.
- **Be the leader in building risk capabilities**, thus helping to guide organizational strategy. The C-Suite sees the risk unit in and of itself as not necessarily having to manage specific risks, but originating the risk and analytical framework required to best guide the organization to successful strategic outcomes.
- **Help to increase education at the board level** around enterprise risk management, strategic risk management, and related techniques used to identify and assess risk and to report the results across the organization. This can help to build strong sponsorship and commitment to risk management at senior levels of the organization.
- **Develop formal enterprise-level risk appetite** and/or risk tolerance statements to help stakeholders better understand and assess the capacity to retain risk given the financial strength and performance of your organization.
- **Use data analysis and aligned tests** to support the organization's overall risk strategy as a means to close the gap between being a cost center and a strategic thought center. At the same time, you will be able to use results to more clearly link organizational values and related objectives to options. This improves your ability to make more informed and effective risk management decisions.
- **Build a more relevant central risk function**, as some have already put in place, that will coordinate risk discussions across the entity and identify, assess, and strategize cross-organizational risk solutions.
- **Develop performance measurements** to more clearly demonstrate the value that risk professionals bring, beyond insurance and claims cost reductions.
- **Use this report to help stimulate and guide conversations** about the future of risk management.

APPENDIX

RESPONDENT DEMOGRAPHICS

The findings in this report are based on more than 1,200 responses to an online survey conducted in February 2013.



NOTES

[illegible]

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