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Excellence in Risk Management VII

Elevating the Practice of Strategic Risk Management

Contents

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Foreword

Risk management practices have come under increasing scrutiny in the wake of the economic crisis of the past two years. Even with widespread understanding of the overall importance of strategic risk management, and recognition of higher standards on the part of regulators and stakeholders, many organizations continue to experience roadblocks that hamper the adoption of truly strategic, enterprise-wide risk management. This has important implications for risk practitioners, senior leaders, and other stakeholders across the enterprise as they strive to elevate the practice of risk management. We explore these implications in this, the seventh annual *Excellence in Risk Management* survey from Marsh and the Risk and Insurance Management Society (RIMS).

An example of the current situation can be seen in a new Securities and Exchange Commission (SEC) rule regarding risk disclosure. Although most public companies in our survey report that they have prepared for the SEC rule, questions exist about the overall risk management framework that could make compliance difficult to achieve and monitor. Among the barriers we have identified to achieving a 360-degree view of risk are organizational silos and divergent views about risk challenges.

At the same time, the financial crisis has helped drive the conversation about risk into the C-suite. Still, many risk managers do not feel they have a seat at the table. Consider the following statement from one of our survey respondents: "I don't think risk management has been specifically asked to participate in short- and long-term strategic planning." Risk managers and their C-suite colleagues will be well-advised to develop and adjust action plans to bring their organizations' risk management practices in line with their overall business strategies and the external environment.

This is a time of opportunity. For risk managers, use of deeper analytics and other strategic tools and methods will allow them to provide compelling information for the C-suite discussion about uncertainty, risk, and volatility—and thus achieve greater visibility in their organizations. Likewise, CEOs, CFOs, and others in the C-suite have an opportunity to tap into the risk management resources across their organizations, elevating the discussion and practice of risk management and broadening their outlook.

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

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Executive Summary

Two years of global financial crisis have intensified the spotlight on risk management. One result of the renewed scrutiny from regulators and other stakeholders is that many companies no longer view enterprise risk management (ERM) as just a "nice to have." Yet, many organizations are struggling to define ERM for their own firms and to overcome embedded barriers to its adoption—whether it's called ERM or strategic risk management.

Among the key findings from the 2010 *Excellence in Risk Management* survey:

- The number of firms saying they have an ERM program more than tripled in 2010 compared to 2009, to 28 percent of respondents; however the number saying they do not have an ERM program also increased, from 35 percent to 53 percent. One possible reason for the seemingly contradictory movements? With all of the attention given to risk management, companies are more focused on what it means to have an ERM program—with the result sometimes being, "No, we are not there yet."

- One of the most significant developments in ERM is the recent Securities and Exchange Commission (SEC) rule focusing on the disclosure of board measures to manage enterprise-wide risk. Although 84 percent of large public companies say they are preparing for the rule change, more than one-third of smaller public firms say they have not prepared. Private firms appear to have paid little heed to the SEC rule, although they eventually may find it in their best interests to do so as it becomes an increasing concern for their public company suppliers, partners, and customers.

- More than half of survey respondents said they do not have an enterprise-wide risk committee; however 63 percent of those without one said it would be a good idea to have one. Such a committee can be an effective means to promote a 360-degree view of risk.

- Risk managers may find allies among finance executives in lobbying the C-suite for enhancements to ERM programs. Both groups view ERM as the top risk management focus area for 2010. If they can demonstrate a return on investment in risk management, they could propel ERM enhancements to the top of the C-suite's risk management priorities and help solidify an approach across the organization.

- There is much room for growth in terms of risk management's role in developing companies' business strategy.

- The dominant barrier cited to getting a more prominent seat at the table for risk management was a siloed approach, with little or no cross-company collaboration.

Focus Areas for Improving Risk Management in 2010

The economic crisis of the past two years impelled organizations to devote more time and attention to risk management, evaluating strategies and addressing new and amplified challenges. The 2010 *Excellence in Risk Management* survey found a discernible shift in priorities over the past year, with increased emphasis on strategic risk management.

2010 Risk Management Challenges

Managing the top risks

The survey asked respondents to identify their companies' top risks and whether there was a plan in place to manage each risk or if a review had been done of the risk in the last 12 months.

- The survey findings give some indications of communication and perception gaps between risk managers and others in an organization. For example, 83 percent of risk managers said that there is a plan in place for business interruption, but only 68 percent of C-suite and 55 percent of finance respondents said so. This could be an indicator of a need for greater discussion of risk in general across the organization. Similar divergent numbers were evident for responses around technology failure.

Company's Top Risks	**Overall** Rank (Readiness*)	**Risk Managers** Rank (Readiness*)	**C-suite** Rank (Readiness*)	**Finance** Rank (Readiness*)
Property	**1** (86%)	**1** (87%)	**3** (91%)	**4** (67%)
Business Interruption	**2** (78%)	**2** (83%)	**5** (68%)	**1** (55%)
Regulatory / Compliance	**3** (71%)	**3** (74%)	**2** (62%)	**9** (73%)
General Liability	**4** (73%)	**6** (76%)	**1** (78%)	**2** (52%)
Workers' Compensation	**5** (79%)	**5** (83%)	**6** (73%)	**6** (47%)
Business Continuity / Crisis Management	**6** (70%)	**4** (70%)	**10** (67%)	**11** (70%)
Data Loss / Privacy	**7** (69%)	**9** (70%)	**4** (73%)	**7** (57%)
Brand / Reputation	**8** (47%)	**7** (47%)	**7** (54%)	**14** (22%)
Technology Failure	**9** (64%)	**8** (66%)	**9** (68%)	**10** (36%)
Directors and Officers Liability	**10** (63%)	**11** (65%)	**11** (65%)	**3** (47%)
Natural Catastrophe	—	**10** (79%)	—	—
Cash Flow	—	—	**8** (76%)	**5** (77%)
Credit Risk	—	—	—	**8** (77%)

* Percent of respondents with management plan in place/recent review undertaken of the risk.

- Only 47 percent of respondents said they have a plan in place to manage their brand/reputation risks, a number that should be a call to action for any organization without such a plan. Damage to a brand can occur quickly and cause significant economic damage.
- "Pandemic"—an emerging risk of the past several years—ranks high in terms of companies having a plan in place (77%). This may stem from the amount of publicity pandemic received in the past several years, which likely increased awareness on the part of CEOs and boards of directors, potentially increasing their willingness to fund planning.

2010 Risk Management Challenges

Comfort level by type of risk

The chart to the right shows all of the risks chosen in the survey as top risks, mapped against the comfort level organizations have in managing them. In this view, it's clear financial and strategic risks tend to make risk practitioners more uncomfortable than hazard and operational risks.

- The most significant exception among hazard risks is climate change. Despite all of the publicity about the subject and the concern shown by insurers in recent years, climate change is the risk that is receiving the least attention—but also generates the most discomfort. In part, it remains a difficult risk for which to develop a management plan. It is also a subject that continues to generate controversy.
- As a group, financial risks generated the most discomfort, although they were not generally seen by respondents as being top exposures. This could be indicative of a gap between the way risk managers and others in the organization view what is important to the company through their respective roles.

How comfortable are you that this risk is being managed appropriately?

Risk managers would do well to facilitate a discussion with others in the organization to reduce that gap.

- "Traditional" hazard risks such as property, workers' compensation, auto liability, and general liability were viewed as important, but did not cause a great deal of discomfort for risk practitioners. Of these, property, workers' compensation, and general liability were ranked as top 10 risks.
- We found some differences in how risk managers and those in the C-suite ranked the top risks. For example, C-suite executives ranked general liability as the top risk, while risk managers ranked it sixth. Still, there was agreement on the overall top 10, with the only difference being that risk managers placed "natural catastrophe" in their top 10 and the C-suite identified cash flow/liquidity.
- A larger number of differences was evident when we looked at finance executives' responses. They ranked "business interruption" as their top risk, and were less comfortable with the way it was being managed. Like their C-suite colleagues, finance executives place cash flow/liquidity in the top 10. They were the only group to rank "credit risk" in their top 10.

2010 Risk Management Challenges

Personnel and prioritization top the list

The main overall issue faced by respondents' organizations in elevating the practice of risk management is a lack of personnel dedicated to the task, although there are distinct differences when responses are looked at by company size.

What are the key challenges in improving the practice of risk management at your organization?

- The mid-tier organizations in our survey listed lack of personnel and financial resources as the top two obstacles they face. This was the only group to list lack of financial resources first, and they did so by a wide margin (51 percent compared to 39 percent for the largest organizations and 33 percent for the smallest).
- The top concern for both the largest and the smallest organizations was prioritization, with both groups saying that other areas have greater priority than risk management. Taken together, the apparent lack of resources and the competing priorities beg a larger question. Following the financial crisis—with all of the focus put on risk management practices by regulators, shareholders, and others—just what in an organization has priority over risk management? It is a question companies will need to address as the focus on risk management practices increases in the coming years.
- The smallest organizations were the only ones to place senior management commitment as a top three challenge. As will be seen later in the report, the smallest companies were also the ones most likely to place the responsibility for risk management into the higher levels of the C-suite. This may indicate the nature of the workload and the many hats often worn by senior management of smaller companies.

Top 3 Challenges by Company Size (revenue)

	$1B and above	$50M to $1B	$50M and below
1.	Other areas have greater priority	Lack of personnel resources	Other areas have greater priority
2.	Lack of personnel resources	Lack of financial resources	Senior management commitment
3.	Demonstrate return on investment	Other areas have greater priority	Demonstrate return on investment

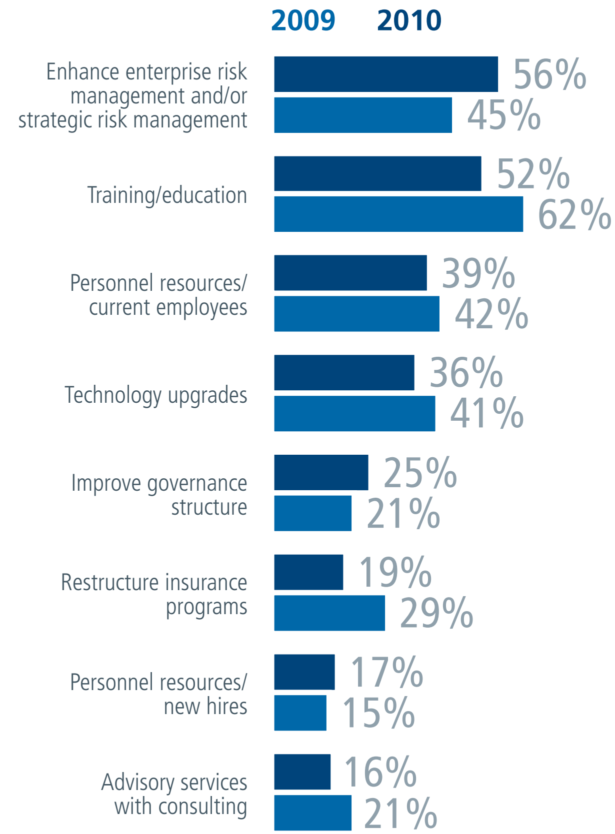
2010 Risk Management Challenges

Focus areas for developing risk management

After looking at the challenges companies say they are facing, we examined their focus areas to gauge whether there was a logical connection between where organizations see their problems and where they are directing their time and resources.

- One potential disconnect stems from the fact that as a focus area, personnel resources/new hires ranked fairly low. Remember, it was cited the most often as the top challenge to improving risk management capabilities. In terms of focus, both enhancing strategic risk management and training/education were ranked in higher. Perhaps, risk practitioners do not yet feel the economic tide has turned sufficiently to enable them to hire more people.
- Technology upgrades received a nod from 36 percent of respondents as a focus area; compared to only 12 percent that listed risk management technology issues as a challenge. Again, this could be a simple reflection of where the overall risk management dollars are currently flowing. But perhaps more of a connection should be made that risk management technology that automates processes could free up trained risk management professionals to take more of a role in the strategic risk management effort.
- Compared to 2009, this year's responses showed a distinct turnaround in the first two priorities, with enhancing ERM becoming the top focus area over training. Why? One possibility is that the new risk governance rules from the Securities and Exchange Commission that came into effect this year have caused companies to place strategic risk management higher on their radar screens.
- There was a 10 percent drop from last year in respondents saying they would focus on restructuring insurance programs. This is an indication that improvement in the economy has made organizations more confident in insurers overall. Also, it is likely that many companies examined and adjusted the structure of their insurance programs last year and don't see the need or benefit to do so again.

What are the primary focus areas for developing your organization's risk management capabilities?



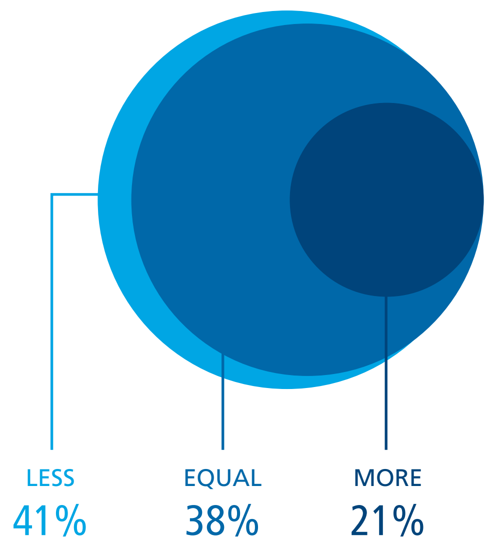
2010 Risk Management Challenges

Multinational challenges

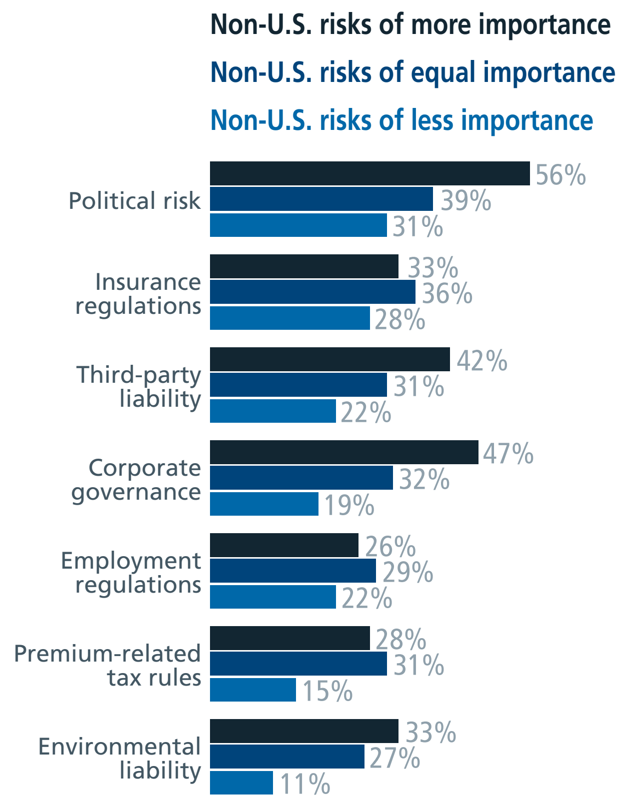
We also asked about the challenges for companies with more than 10 percent of their revenues coming from outside the United States. Do they view risk differently?

- Well over half of respondents with more than 10 percent of their revenue coming from outside the United States said geography did play a role in how they view risk. 38 percent said they consider their U.S. and non-U.S. risks as being of equal importance, however, 41 percent said they viewed non-U.S. risks as less important and 28 percent said they were more important.
- We then looked at top risks according to the three groupings of importance from the previous question. All three groups cited political risk as their top concern. Those organizations that considered their non-U.S. risks to be of more importance were nearly twice as likely to say they are concerned about political risk as those for which their non-U.S. risks are of less concern.
- Corporate governance and third-party liability were also critical areas for those companies that are more concerned about their non-U.S. risks.

Are your organization's non-U.S. risks of more, less, or the same importance as its U.S. risks?



For your organization's non-U.S. operations, which of the following areas would you consider of primary concern?



Enterprise risk management (ERM)—some prefer the term strategic risk management—is no longer just a "nice to have." Regulators, customers, investors, and other key stakeholders are pressuring organizations to identify and explain how they manage the risks they face. As new best practices are developed, the core ERM platform will remain the same, but specific processes associated with risk appetite, risk-bearing capacity, quantification, and integration will advance.

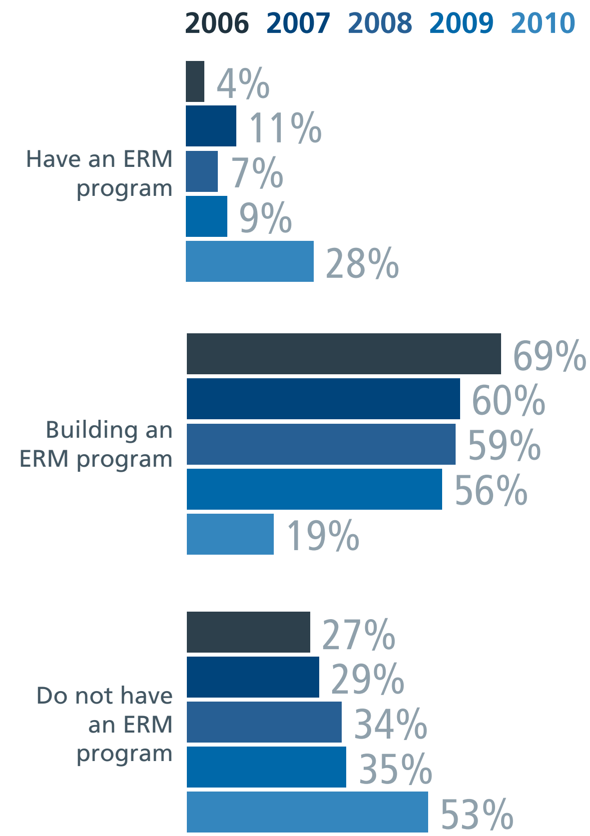
Enterprise Risk Management

Number of organizations with ERM programs jumps

The number of organizations saying they have a formal ERM program jumped in 2010. Yet at the same time, the number saying they do not have an ERM program also increased. Those claiming the middle ground—building and implementing an ERM program—fell significantly.

- The trend lines may indicate a heightened awareness of exactly what an ERM program might entail. The dramatic increase between 2006 and 2010 in those saying they have an ERM program clearly shows that many organizations have taken the subject of ERM seriously. What is absent is a practical view of ERM that unifies all of its concepts.
- The downward trend in those implementing an ERM program supports the fact that these programs evolve, with average development and implementation time usually within two to three years from the starting point. As programs begin to function, the number of those that consider their program to be in a preliminary stage drops. However, some of the drop in this category appears to have shifted to organizations responding that they do not have an ERM program in place. Perhaps some organizations that had been building an ERM program are less confident in their ability to do so—or have turned away from it—prompting a "no" response.
- The numbers also indicate that many companies are just now looking seriously into what is involved in having an ERM program. The spotlight from the SEC and others may have pressured some who previously would have said they were building an ERM program to take a step back, look at what they have in place, and decide it does not add up to ERM.

Does your organization currently have a formal enterprise risk management (ERM) program?



Enterprise Risk Management

Regulatory implications extend to private firms

SEC Rule No. 33-9089 went into effect in early 2010 and focuses on disclosure of board measures to manage enterprise-wide risks, including policies related to risk identification, risk appetite, and management of risk/reward tradeoffs throughout the enterprise. The rule also extends beyond the C-suite and seeks to enhance risk management awareness for all employees.

- The regulatory requirements are so new that some respondents who said they have prepared for the SEC rule soon may find themselves questioning their own level of preparedness as enforcement proceeds. In fact, early examination of proxy statements by an independent governance group showed a wide divergence in approaches to disclosure.

Has your company prepared for new SEC requirements regarding risk management?

	YES	NO
Public company	78%	22%
Private company	22%	78%
Non-profit	32%	68%
Government	14%	86%

SEC Rule No. 33-9089 focuses on disclosure of board measures to manage enterprise-wide risks:

Compensation policies and practices that present material risks to the company (New Item 402(s))
Stock and option awards of executives and directors
Director and nominee qualifications and legal proceedings
Board leadership structure
Board role in risk oversight (New Item 407(h))
Potential conflicts of interest of compensation consultants

- Private companies overwhelmingly said they have not prepared for compliance with the SEC rule, which might be expected because the SEC does not regulate them. However, private firms should develop an active understanding of the rule—if not an outright compliance mechanism for it. To understand why this is necessary, an organization can perform one simple test: Ask, "Do we do business with public companies?" If the answer is "yes," then the firm already has a reason to begin thinking about what compliance sould like. The progression of Sarbanes-Oxley (SOX) adoption by private companies provides an analogy, whereby private companies at first paid little attention, but soon came to realize that SOX was just as much a reality for them as it was for public firms.

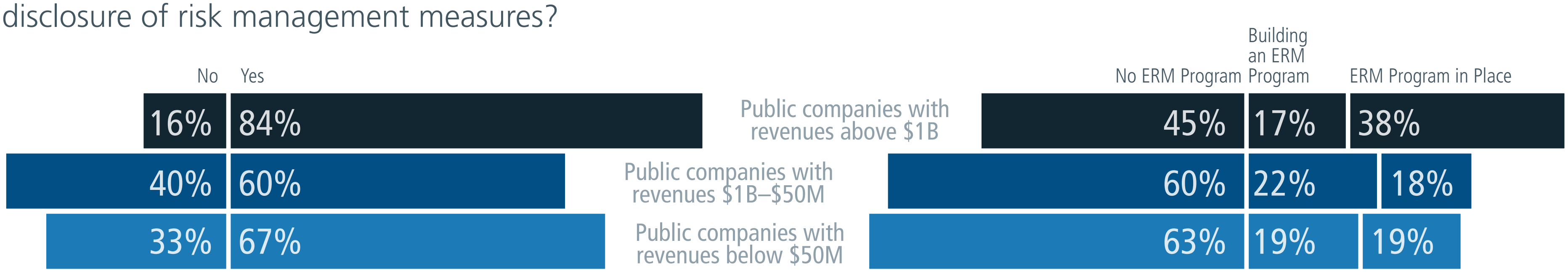
- Directors at all major companies with whom Marsh's ERM experts have spoken in recent months have expressed significant concern about what compliance with the SEC rule means for their firms. They are particularly concerned about the new requirement regarding the board's role in risk oversight, item (407(h), with some concerned because there is no clear vision yet of exactly what is expected.

Enterprise Risk Management

Smaller firms lag in SEC preparations

Has your company prepared for potential new SEC requirements regarding the disclosure of risk management measures?

Does your organization currently have a formal enterprise risk management (ERM) program?



Large public companies appear to be far and away more prepared for the SEC rule than their smaller counterparts.

- Perhaps what is needed to spur the smaller companies to engage is a set of new ERM applications tailored for them. The other possibility is that SEC enforcement actions may be the needed prompt.
- One issue that likely is playing a role in companies preparations to comply with the SEC rule involves the interpretation of just what it means to practice ERM. Over time, the term has developed some negative connotations for certain companies and individuals. The theoretical discussion is now being eclipsed by the practical reality—the question is, "what does practical look like?"
- Another concept that needs to be part of the discussion is that of balancing the cost of investing in risk management with the return on the investment. Showing a return on investment for an ERM program is a perennial issue for our survey respondents. With the new SEC rule, however, risk practitioners have one more item to show in their list of areas that will benefit from having ERM in place.

Enterprise Risk Management

Organizations not embracing cross-functional risk committees

Establishing a risk committee across the company is potentially easier—and less expensive—to accomplish than are many of the other challenges to developing an ERM/ strategic risk management program. More than half of all respondents said their organization does not have a cross-functional risk committee, presenting "low-hanging fruit" for advocates of ERM/strategic risk management development.

Does your organization have a cross-functional risk committee?

	YES	NO
All respondents	47%	53%
Revenues above $1B	59%	41%
Revenues between $50M and $1B	36%	64%
Revenues below $50M	23%	77%

How effective are cross-functional risk committees?

	Very Effective	Somewhat Effective	Not Effective
All respondents	31%	62%	7%
Revenues above $1B	33%	64%	3%
Revenues between $50M and $1B	34%	55%	11%
Revenues below $50M	13%	65%	22%

- There are a number of good reasons why organizations should be creating an enterprise-wide risk committee. Not the least is that establishing such a committee is exactly the type of broad management for which the SEC and S&P are looking.
- One place to begin developing a committee is to look at the organization for any forum—particularly one involving senior leaders—that engages in an active, open conversation about the critical risks to the organization. Such a forum could provide a natural starting point and an already engaged set of allies.
- The overall lack of risk committees likely will change dramatically as companies move toward compliance with the new SEC risk governance rule. A best practice for developing such a committee is to have the committee structure (leadership) intersect with the financial reporting process and the strategic planning process.

Each year the *Excellence* survey looks for areas where risk managers and C-suite executives agree or disagree. In 2010, we also broke out a segment we call "Finance," which includes such job titles as controller, assistant treasurer, and internal auditor.

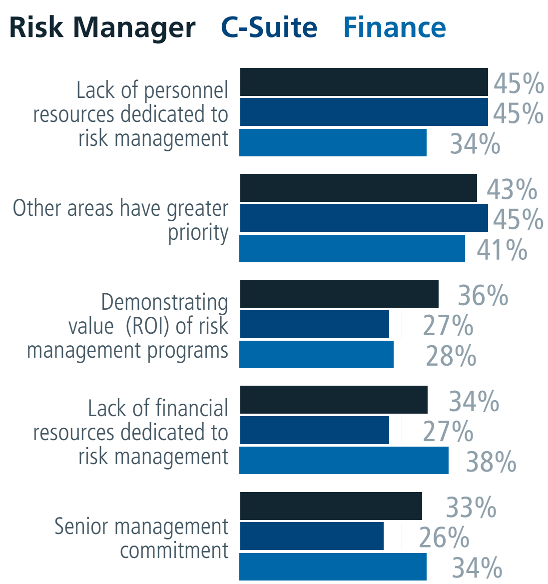
Views Across the Organization

Alignment and divergence

Risk managers, finance professionals, and C-suite executives showed similar levels of concern regarding where risk management stands in the organization's priorities. This is an area worth discussing among all three groups. Do they share a common view as to what the priorities are? Why do some have higher priority? How might risk management become involved in these areas, where appropriate?

- Although finance executives did not share the same level of concern as the other two groups regarding a lack of personnel resources, they showed the most concern regarding the lack of financial resources. This could be a critical talking point in aligning resources.

What are the key challenges in improving the practice of risk management at your organization?



- Risk managers may have allies among finance executives in pushing for enhancements to ERM programs. Both groups viewed it as the top focus area for 2010. Although in doing so, they will need to address one of the common challenge areas—demonstrating a return on investment.

What are the primary focus areas for developing your organization's risk management capabilities in 2010?

2010 Focus Areas

	Risk Manager	C-Suite	Finance
1.	Enhance ERM	Training/ education	Enhance ERM
2.	Training/ education	Personnel resources	Training/ education
3.	Personnel resources Technology upgrades	Enhance ERM	Personnel resources

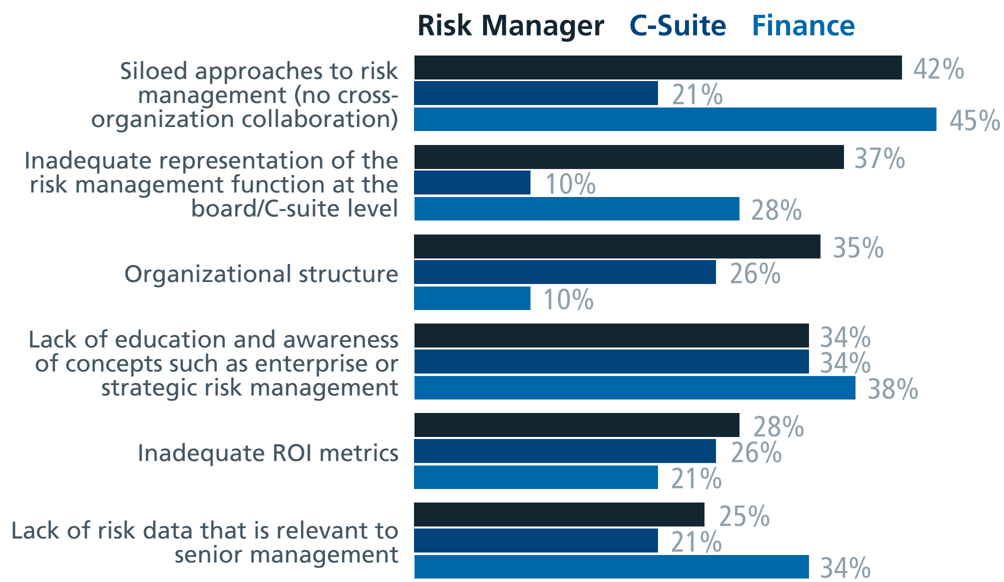
- The ability to show ROI could change the focus for the C-suite. If a significant ROI can be demonstrated, perhaps through new analytics or better presentation of existing methods, the C-suite could well move enhancing ERM to the top of its priorities and help solidify an approach across the organization.

Views Across the Organization

Risk managers and finance see silos

What could be causing senior leaders to not see the entirety of the risk landscape in their organization? Breaking down the responses to this question by job function shows some stark differences of opinion.

What barriers prevent your senior management and board of directors from fully understanding your organization's risk landscape?



- Risk managers and finance executives shared the view that silos within the organization were a significant part of the problem. That response underscores the potential benefits of having enterprise-wide communication about risk issues. If departments are managing their risk issues within their own groups without an overall coordination effort somewhere in the organization, it stands to reason that senior leadership could have difficulty developing a 360-degree view of risk across the firm.
- An interesting addendum to the above is that the C-suite respondents were less than half as likely to point to silos. Does this mean that despite what risk managers and others feel that the C-suite actually is able to see the organization's risks clearly? Or are the silos so hardened that the C-suite does not even realize there is a problem?
- A similar split marked the feeling that there was inadequate representation of risk management at the board/C-suite level. Again, about a third of risk managers and finance executives said this was a problem; however only 10 percent of the C-suite respondents thought so. Are risk managers expecting too much by wanting more representation at the highest levels? Or is someone from outside the risk management function carrying the message into the board room?

Views Across the Organization

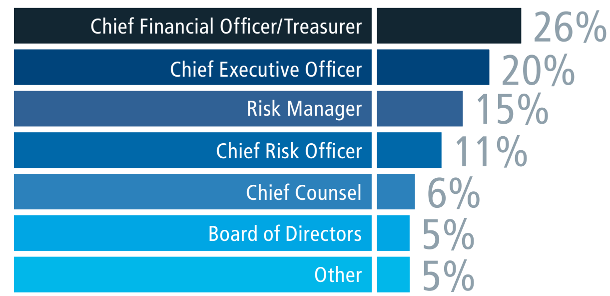
Responsibility for risk management approach

As with any strategic function, the responsibility for an organization's risk management approach should be centered somewhere. But just where that is varies widely, according to our survey. This view of who is in charge serves as a reminder that "best practices" must be balanced against the reality and the needs of the specific organization. In the case of taking responsibility for a firm's risk management approach, it may well be the strength of the individual that matters most, not where in the organization the person is located.

- When we looked at responses based on the size of the company, middle tier firms were most likely to view the risk manager as being responsible for the company's overall approach to risk. One possible explanation is that these firms may be taking a more narrow view of the definition of "risk management," one that is centered on hazard risk.

- When we looked at the responses from risk managers, C-suite executives, and finance executives, some differences emerged.
  - Risk managers were the most likely to place responsibility on themselves (19 percent), although they, too, were most likely to say CFO/treasurer had the responsibility (25 percent).
  - Finance professionals were the most likely to place responsibility with the CFO/treasurer (38 percent), followed by chief risk officer (21 percent). This group was the only one to place significant responsibility among comptroller/controller/assistant treasurer (17 percent).
  - C-suite respondents were the most likely to name the CEO as having responsibility (26 percent), although they were more likely to name the CFO/treasurer (28 percent). This was also the group that was least likely to name the risk manager as having responsibility (3 percent).

Who has the primary responsibility for determining your organization's overall approach to risk?



Large Firms More Likely to Place Risk Responsibility in C-Suite

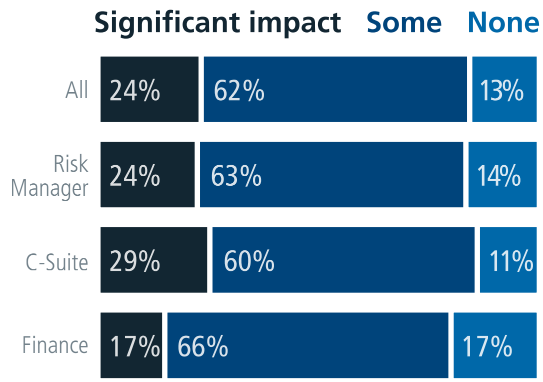
	Revenues above $1B	Revenues between $50M and $1B	Revenues below $50M
1.	CFO/Treasurer	Risk manager	CEO
2.	CEO	CFO/Treasurer	Risk manager
3.	CRO	CEO	CFO/Treasurer

The quest for a so-called "seat at the table" is an ongoing one for risk practitioners. Theoretically, the objective in acquiring that seat is to make a significant impact on developing an organization's overall approach to managing risk. As our survey responses show, there is room for growth in terms of risk management's impact on strategic planning.

Risk Management and Business Strategy

Room for growth

What impact does risk management have on setting the business strategy of your organization?



How can risk issues be better integrated with the short- and long-term strategic planning goals of your organization?

Top 5 Responses:

1. Increase senior management buy-in
2. Develop a formal ERM process and goals
3. Improve collaboration across the company
4. Improve the quality of risk management data
5. Create cross-functional risk committees

- Less than a quarter of respondents believe risk management has a significant impact on setting their organizations' strategic goals. However, there is some encouragement in the fact that risk management was seen more than 60 percent of the time as having "some impact" on strategic planning. Risk practitioners need to take a lead role to identify and implement the appropriate course of action to increase the strategic impact.
- One starting point could be for risk management to facilitate organizational and project risk assessments, identifying the barriers or risks that have the potential to impede achieving a business objective. Then, guide the collaborative ranking of those risks and the development of control or mitigation solutions for key risks.
- Another possibility is for risk practitioners to conduct their own risk assessments on the risks or barriers that are keeping the risk management function from achieving its business objective, namely, better integration into the setting of the organization's short- and long-term strategic planning goals.
- Finally, there is another indication here that the C-suite may be willing to give risk practitioners a seat at the table. C-suite respondents were the most likely to say risk management has a significant impact on setting strategy. They were also the least likely to say it has no impact.

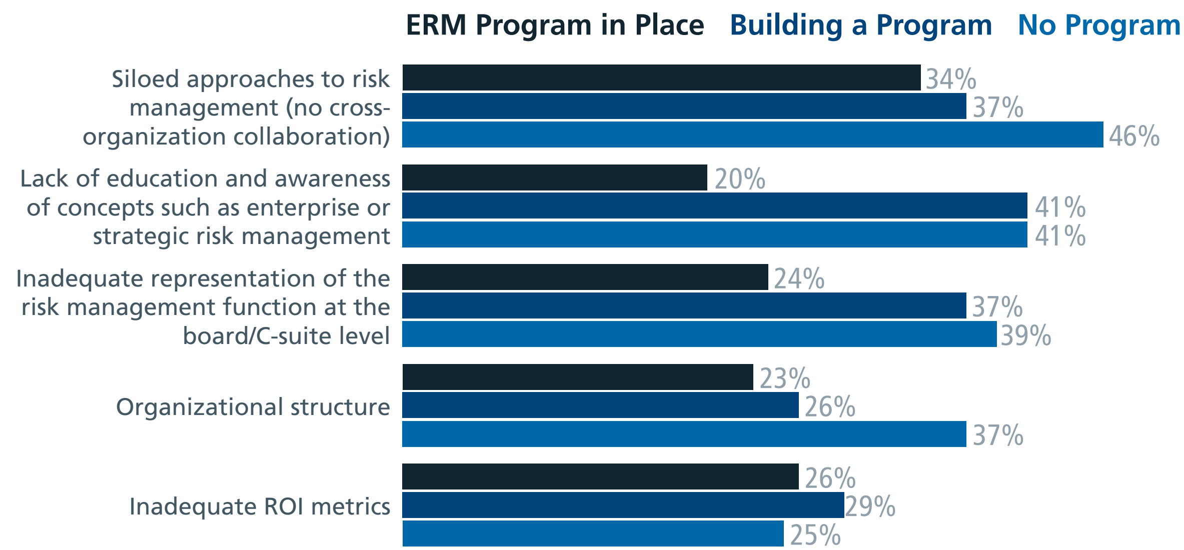
Risk Management and Business Strategy

Barriers to understanding: Siloed approaches and lack of awareness

Previously in this report we looked at the barriers to senior leadership's understanding of the risk landscape from the perspective of job function. Another interesting view on the same question is to see how the differences stack up based upon an organization's adaptation of ERM.

- This perspective on barriers shores up the basic premise of ERM proponents that an enterprise-wide view of risk is a barrier breaker. Breaking down silos, providing education, promoting awareness—all are part and parcel of an ERM approach.

What barriers are in place that may prevent your senior management and board of directors from fully understanding the risk landscape of your organization?



- Those with an ERM program also are less concerned about organizational structure and representation of risk management at the board level. Again, for a risk practitioner, ERM brings connectivity to the rest of the organization. With the barriers broken down, the structure is less of an issue. Although with nearly a quarter of those that have an ERM program still citing organizational structure as a problem, the issue has not completely gone away.

- The area of most agreement as to barriers came regarding return on investment metrics. Roughly a quarter of each group said that inadequate ROI metrics created a problem for senior leadership's understanding of risk management at the firm.

Risk Management and Business Strategy

Risk management seen as a cost control center

One way to look at how a particular function within an organization is viewed is to see for what it is held responsible. Are the responsibilities critical to setting business strategy? We asked respondents to tell us the key performance indicators (KPIs) for which they were accountable.

- The top three metrics cited are focused on insurable risks: cost/risk financing, claims management, and loss prevention/loss control. These are indicators typically found in "traditional" or "progressive" risk management programs—not "strategic" risk management programs. Are these metrics that would inform or educate senior management regarding risk management's impact on strategic planning? Quite possibly not.

What are the main Key Performance Indicators (KPIs) for which your risk management function is held accountable?

71%	Cost/Risk Financing
39%	Claims Management
30%	Loss Prevention/ Loss Control
27%	Risk Analysis/Modeling
21%	Scope/Quality of Coverage
15%	Risk Identification
7%	Customer Service
4%	Safety/Environmental Compliance
3%	Training
2%	Captive Profit
1%	Financial Product Development

- Perhaps a more important and broader set of KPIs for a strategic risk management program to monitor and report on to senior management would be indicators that reflect the organization's performance in managing the key risks that can impede achieving the company's short- and long-term strategies. Identifying such a set of KPIs could be accomplished by the risk management function facilitating a cross-functional identification of key risks.

- If risk practitioners want to have more impact on their organizations' strategy, they will need to find ways to expand their KPIs to include such items as risk analysis and modeling, risk identification, and measures related to financing. One way to begin altering the KPIs for which they are responsible is to identify at the tools and methods that are relevant to and available for risk management.

Risk Management and Business Strategy

Tools to manage risk

A broad range of tools exists to help firms manage all aspects of the risks they face. But of the 19 tools/methods we asked about, only five were used by more than half of the respondents. Increasing the appropriate use of such analytics and reporting the results to senior leadership could help elevate the strategic value of risk management and increase its visibility across the organization.

- Some of the methodologies used to arrive at key risk indicators—such as facilitated risk assessments and risk mapping, which are silo-breaking and collaborative by nature—appear to be less frequently used. This begs the question, how are the key risk indicators determined and by whom?

- Looking at how often the results from various tools are sent to senior management, it seems that risk practitioners may be missing some opportunities to provide valuable input. For example, less than 30 percent of those that use value at risk measures said they report the results on a regular basis to senior management. How is the other 70 percent using the information? Do risk practitioners have a clear understanding of how valuable some of the information they are collecting would be in setting business strategy?

- On the flip side, could it be that senior management does not find some of these indicators crucial dashboard data. For example, 61 percent of respondents said they used industry benchmarks/loss experience, but only 39 percent of those reported results up the ladder. It may be important data from the perspective of managing insurance programs, but it raises the question: Which data should risk managers be overseeing to make the most effective use of their time and effort? This question could serve as the basis for an important conversation between the risk manager and senior management.

- A relatively high percentage of risk managers used internal and external subject matter experts, but their expertise ranked low in terms of being reported to senior leaders. Does this support the view that risk management doesn't have a strong voice with the C-suite or the board? Or might it mean that others, lacking the expertise but in a power position, report this data? And if so, how effective and engaged are they?

Tool/Methodology	Our firm uses this tool	Results sent regularly to senior leaders
Internal experts	77%	35%
External experts	62%	24%
Industry benchmarks	61%	39%
Internally generated/ tracked risk indicators	56%	66%
Key risk indicators	56%	35%
Self assessments	46%	35%
Scenario analysis	43%	30%
Group self assessments to determine impact and probability	41%	31%
Statistical analysis/ probabilistic modeling	39%	39%
Value at risk	39%	29%
External risk indicators	38%	51%
Strengths, weaknesses, opportunities threats (SWOT) analysis	36%	28%
Risk mapping	30%	42%
Simulation exercises	29%	34%
Cash flow at risk (CaR)	20%	43%
Earnings at risk (EaR)	17%	44%
Risk adjusted return on capital (RAROC)	16%	39%
Return on risk adjusted capital (RORAC)	13%	45%
Economic Value Added™	10%	44%

Recommendations

The economic crisis of the past two years has led organizations, regulators, shareholders, and other stakeholders to think anew about the role and scope risk management plays in their firms and in the wider economy. Although most risk practitioners believe risk management plays a role in setting their firm's business strategy, not many are convinced the impact is significant. Yet if there is any lesson to be drawn from the events that led up to the financial crisis, it is that risk management can and should have a significant impact on shaping business strategy and its successful execution.

The discussion of risk is definitively moving into the C-suite and board room. And as it does, risk managers, CFOs, CEOs, board members and their peers will best serve their organizations and shareholders by understanding that risk considerations are a critical component of the decisions they make. What follows are some recommendations based on this year's *Excellence in Risk Management* survey, to help companies think more strategically about risk management:

- Determine where you are in the process of implementing strategic risk management/ERM, the barriers to completion, and the resources and authority required to complete the journey. Based on your findings, develop a plan for moving your organization forward—do not assume someone else in your organization has put forth a plan. In the absence of any other plan, yours is more likely to be considered.

- Prepare to comply with new requirements from the SEC and others regarding risk governance. Even private companies will be well-advised to understand these requirements and begin developing appropriate strategies.

- Explore the wide range of tools and methodologies available to help inform your risk decisions. Are there additional tools and analytics you could be using to generate the information your company needs?

- Report the results of your analyses to senior management as a means to combat the widespread feeling that management is either not buying into strategic risk practices or is not educated enough about them. But do so with an eye to enabling leadership to make the best, most fully informed operational and strategic decisions they can.

- Establish cross-functional risk committees as a step toward developing a true 360-degree view of risk across the organization and to combat siloed approaches. Tap into existing forums within the organization where risk is being discussed by senior leaders.

- Explore the areas of agreement and disagreement on risk issues among risk managers, C-suite executives, and other areas, such as finance. It is possible that there is already more alignment than one might have expected. And where there are differences, it can be beneficial to work through them and develop a cohesive strategy to address risks.

- Use this survey as a discussion point and education tool to elicit views from across your organization about the role and direction of risk management.

Appendix

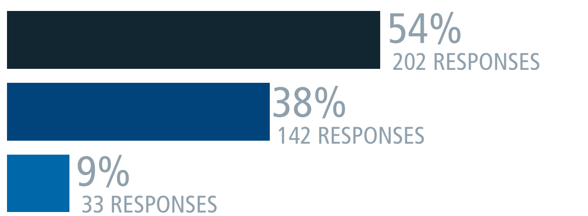
Respondent Demographics

The findings in this report are based on responses to a survey conducted in February 2010. A total of 418 people participated in the survey.

Company size and non-US revenue

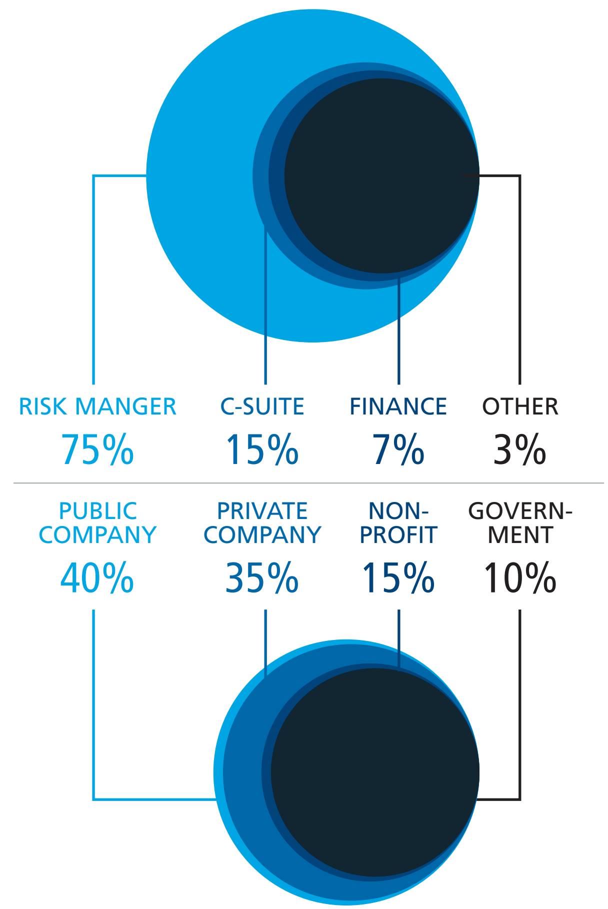
Companies with revenues above $1B
Companies with revenues $1B–$50M
Companies with revenues below $50M

Company Size



Revenue from Outside of United States

Job function and organization type



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Marsh

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