Risk and Insurance Management Society, Inc.®

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Viewing Risk Management Strategically

Excellence in Risk Management V

An Annual Survey of Risk Management Issues and Practices

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Foreword

As we publish the fifth annual *Excellence in Risk Management* report, all eyes are on the global economy, which continues to suffer the aftershocks of the subprime credit crisis. Economists and others are looking ahead and offering mixed views on how long and how deep the economic downturn will be. One of the many questions about the crisis that no doubt keeps some executives awake at night is: Would so many firms have been caught off guard if their risk management practices had provided senior executives with a broader, more strategic view of risks?

The *Excellence* survey once again found that most professionals want their firms to take a more strategic approach to risk management, one that provides a broader view. We found widespread recognition that risk management can provide a competitive edge that goes beyond traditional areas such as risk transfer and loss control. And we also found an increased awareness that risk management is being scrutinized in new ways, such as the move by credit ratings agencies to incorporate analysis of strategic risk management into their findings.

As in the past, one of the areas we looked at was enterprise risk management (ERM). It may surprise some to see that adoption of ERM appears to be leveling off, at about 65 percent of companies. Whether this is a temporary plateau or the beginning of a long-term trend, only time—and future surveys—will tell. Among companies that have started down the path to ERM implementation, the commitment remains strong; and satisfaction with their programs grows with time.

This is the fifth year that the Risk and Insurance Management Society (RIMS) and Marsh have jointly crafted and sponsored the *Excellence in Risk Management* survey. This year's results were first presented at RIMS 2008 Annual Conference & Exhibition in San Diego. Significant help was also contributed by Financial Executives International (FEI). TNS, a premier strategic consulting and research firm, conducted the 2008 survey. We offer our sincere thanks to all who took part in the survey.

Finally, we hope that all of you find something of value inside the report. We believe the survey can serve as a meaningful discussion point and education tool for companies as they discuss their risk management direction.

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Part One: Strategic Risk Management

Most organizations aspire to a more strategic approach

In the *Excellence* survey, we ask risk practitioners to categorize their approach to risk management as traditional, progressive, or strategic. Although most of our respondents in 2008 continue to classify their firm as progressive, strategic risk management is clearly the approach most are striving to achieve. Among the defining characteristics of strategic companies is a propensity to undertake a wide variety of initiatives, and to prioritize risks differently.

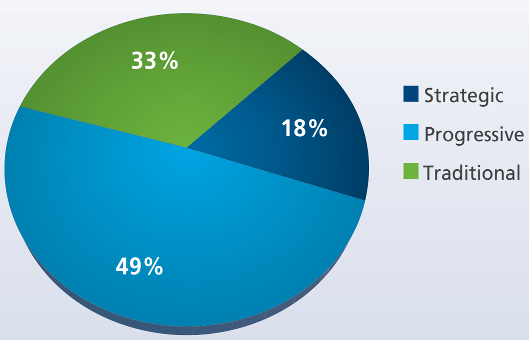
Strategic Risk Management Adds a C-suite Viewpoint

Traditional Risk Management	**Progressive** Risk Management	**Strategic** Risk Management
	Traditional +	Traditional +
		Progressive +
■ Risk Identification	■ Alternative Risk Financing	■ Enterprise-wide Risk Management
■ Loss Control	■ Business Continuity	■ Indexing of Risk
■ Claims Analysis	■ Total Cost of Risk	■ Use of Technology
■ Insurance and Risk-Transfer Methods	■ Education and Communication	

Strategic risk management incorporates all of the areas from traditional and progressive approaches, but adds the C-suite view of the totality of risk. The practitioner of strategic risk management views risk as something to optimize, not just to mitigate or avoid, taking an enterprise-wide view of risk and using it to competitive advantage. Risk is indexed against the organization itself, year-over-year, and against competitors. And risk management information systems (RMIS) and other technologies play a large role in managing risk.

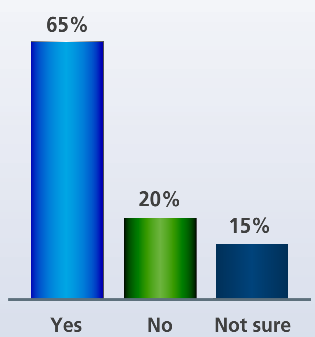
Self-Identified Risk Approach

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



Firms Aspire to Strategic Approach

Does your firm aspire to a more strategic approach?



The dynamic nature of risk management is shown by the high percentage of firms that want to develop a more strategic approach. Eighteen percent of firms identify their approach as strategic, but nearly two-thirds of the remainder are not satisfied with the status quo—they aspire to be more strategic.

Strategic Risk Management

Company characteristics and risk management approaches

Differences in Company Characteristics by Risk Management Approach

Traditional	33%
Average Number of Employees	3,451
Average Revenues	$2,022M
Public, for Profit	37%
International Operations	53%
Manufacturing	44%
Financial	10%

Progressive	49%
Average Number of Employees	4,911
Average Revenues	$3,227M
Public, for Profit	39%
International Operations	55%
Manufacturing	30%
Financial	8%

Strategic	18%
Average Number of Employees	5,177
Average Revenues	$3,702M
Public, for Profit	48%
International Operations	65%
Manufacturing	35%
Financial	29%

The larger the company—by revenues and the number of employees—the more likely it is to characterize its risk management approach as strategic. Strategic firms are also more likely to be public, for-profit companies, to have international operations, and to be in the financial services sector. Companies of all sizes and from all industries may, however, be found in each approach.

Ranking of Top Exposures Varies Among Approaches

	Strategic	Progressive	Traditional
Brand Reputation	1	4	11
Business Continuity	2	2	4
Regulatory/Compliance	3	7	7
Property	4	1	2
Technology/e-risk	5	8	5
Workers' Compensation	12	3	3
General Liability	6	5	1

Firms that view risk management strategically set their priorities differently than others. Strategic risk managers are more likely to think of insurance purchasing as a component of the risk management process, not the primary function. They use their overall skill sets to elevate the thinking about risk as it affects the company's entire operations.

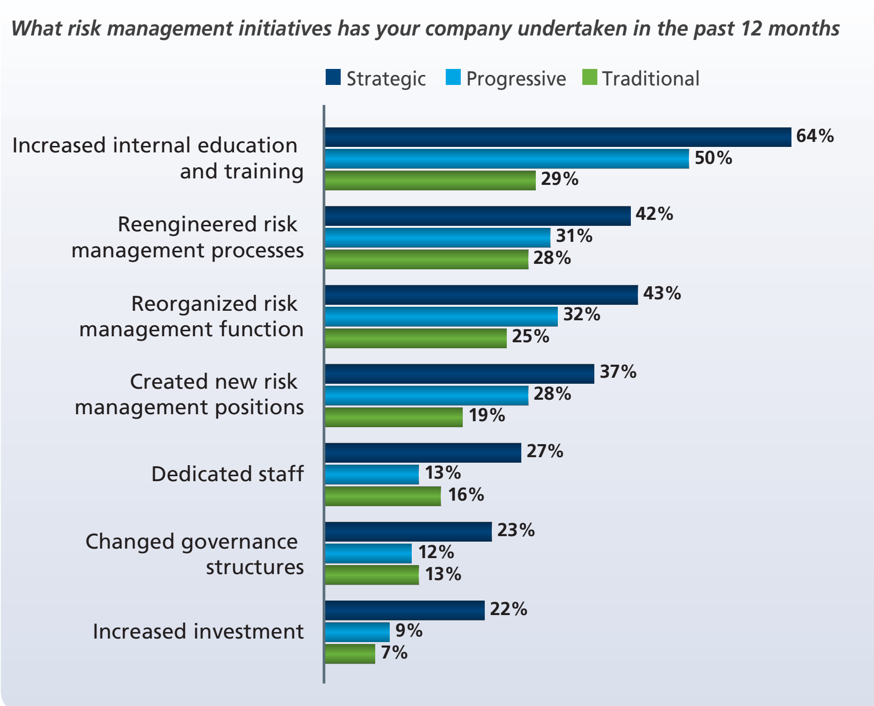
- Strategic firms rank brand and reputation, business continuity, and regulatory/compliance as their top three exposures. Clearly these companies are not thinking of risk management as primarily an insurance-oriented function.
- Firms with traditional approaches, on the other hand, place at the top of their exposure lists the risks with more insurance-oriented solutions—general liability, property, and workers' compensation. Progressive firms fall somewhere between the two.
- As companies become more strategic, it may lead to them to additional changes in such areas as resource development. For example, they may look for personnel with expertise in areas outside of traditional risk management concerns, with deeper knowledge of operations, supply chain, brand, and other areas.

Strategic Risk Management

Strategic firms undertake more risk management initiatives

Firms with a strategic risk approach show another interesting trait: They tend to do more. From education and training to investments in risk management, strategic firms are more active.

Risk Management Initiatives



- Strategic firms cover a lot more ground than do progressive or traditional firms. It also can be expected that as firms move toward strategic risk management, their need to increase training and to change the structure of their risk management departments would increase.
- Even strategic firms are involved in a relatively small number of initiatives regarding governance. This is an area that should receive more attention, as having the proper governance structure in place can be critical to achieving C-suite and board buy-in to a strategic risk management approach.

Takeaways: Strategic Risk Management

It's not enough for companies to simply say they want to be more strategic in risk management. It's important to have a long-term vision that defines where your firm wants to be, where it is now, and how it can move from one point to the next. Staffing and other resources will be keys to changing the risk management approach at any company. In order to make the most from limited resources, risk management departments should understand what the firm's broad risk exposures are and undertake initiatives that help address them. All of this should be done in close cooperation with the C-suite and with an understanding of what its priorities are.

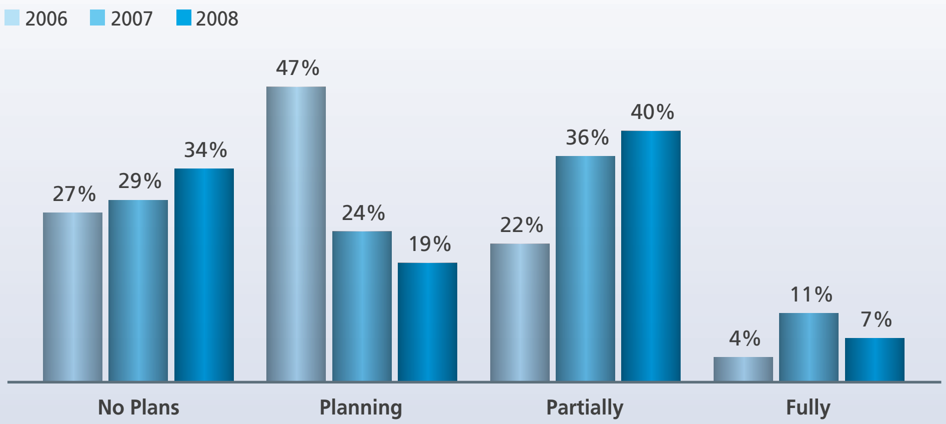
Part Two: Enterprise Risk Management

The number of firms adopting ERM may have reached a plateau

The adoption of enterprise risk management (ERM), a key component of strategic risk management, may reach a plateau at around 60 percent to 65 percent of companies. Firms that do not plan to implement ERM programs cited competing corporate priorities as a key component of their decision. Among those that are taking the ERM path, the vast majority show a strong commitment, as evidenced by their willingness to maintain spending in this area despite current economic conditions. And the further along the road to implementation, the higher the satisfaction level.

ERM Implementation Reaching a Plateau

To what extent has your firm implemented an ERM program?



- From 2006 to 2008, the percentage of companies planning for ERM dropped significantly, with a sharp rise in the number of firms in the implementation phase.
- There was a smaller but significant increase in companies saying they have no ERM plans. Budget constraints, management changes, and doubts about ERM's value likely account for the increase.
- It appears ERM may be reaching a plateau, with about 60 percent to 65 percent of companies choosing to implement a program. The plateau could be temporary if any of a number of things occur, such as if companies with ERM programs begin better quantifying the benefits; or if priorities shift; or if changes at the credit ratings agencies make ERM more appealing.

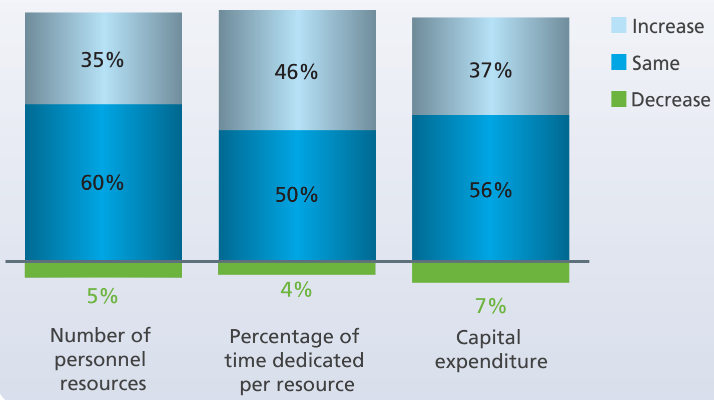
Our survey defined ERM as follows: "Enterprise risk management (ERM) is comprehensive risk management that allows corporations to identify, prioritize, and effectively manage their critical risks. An ERM approach integrates risk solutions into all aspects of the business practices and decision-making processes. With an ERM solution, companies have a uniform approach aligned with their strategies and objectives. ERM is a process that is continuously evaluated to ensure that companies effectively identify and manage risks of all types."

Enterprise Risk Management

Investment in ERM holding steady

Most Companies Maintain ERM Investment

How will your investment in ERM in 2008 compare with ERM spending in 2007?

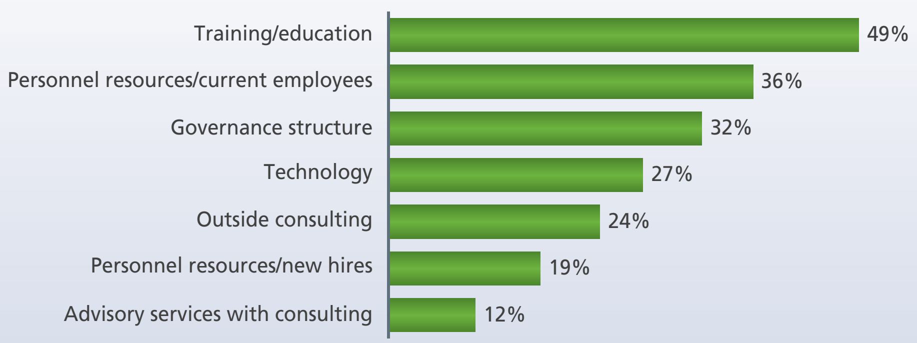


Companies do not enter ERM implementation lightly, as evidenced by their investment committment. Despite the tough economic environment, the vast majority of firms with ERM programs plan to maintain or increase the resources they dedicate to them.

- More than one-third plan to increase the capital expenditure on ERM, while more than half will maintain current spending..
- Nearly half will attempt to boost their ERM effort by increasing the time existing personnel spend on it.

ERM Investments Focus on Training/Personnel

What will be your firm's top ERM investment priorities?



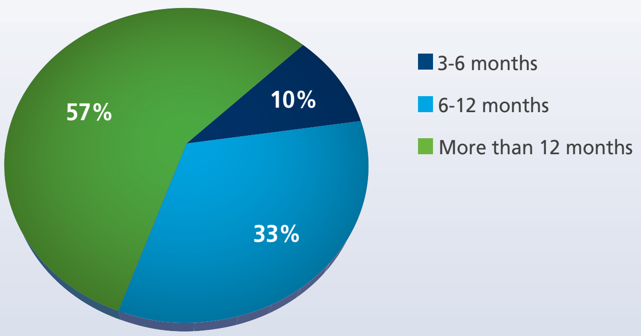
- About one-third of firms said they would focus on governance structure as part of their ERM investments. This is a critical area to key in on as companies attempt to elevate risk management into a discipline that receives due attention at the C-suite and board level. Without a supporting governance structure, it can be difficult or impossible to keep ERM initiatives moving ahead.
- Some of the capital being spent on ERM initiatives will flow into education and training.

Enterprise Risk Management

Satisfaction with ERM increases over time

Most Firms Allow More Than a Year for ERM Implementation

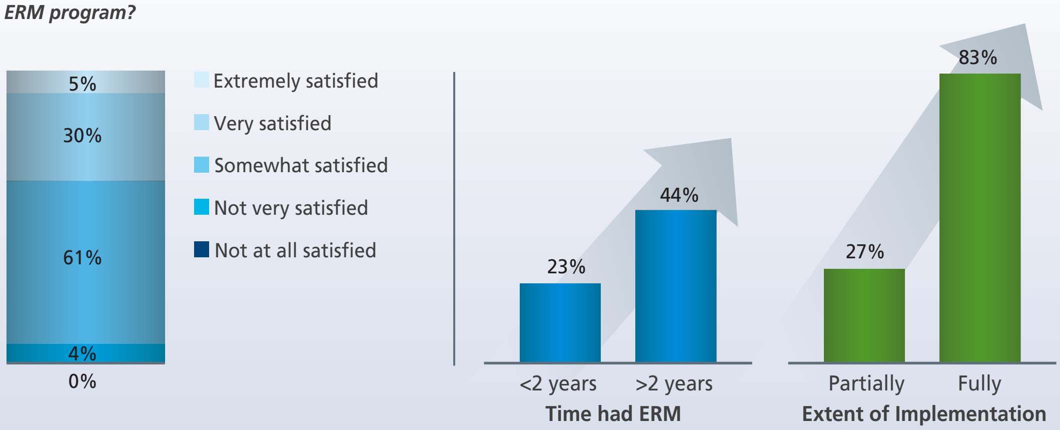
How long will it take to implement your firm's ERM program?



One of the common mistakes that can be made in implementing an ERM program is to treat it as a project with a set beginning and end. Instead, ERM is more of a process, a way of looking at risk across the organization.Some companies now treat ERM as something to be "operationalized," or made a part of how business is done.

Effect of Time/Extent of Implementation on Satisfaction

How satisfied overall is your firm with its ERM program?



- Starting an ERM program can pose frustrations, as seen in the relatively low satisfaction ratings from respondents with ERM in place for less than two years and from those with ERM only partially in place.
- The message from respondents, however, is that perseverance pays off. The longer a company has had ERM and the greater the extent of implementation, the higher the satisfaction ratings.

Enterprise Risk Management

Range of Reasons for not Adopting ERM

Top 5 Reasons for not Adopting ERM

Why will your firm not implement an ERM program?

1. Other areas have greater priority
2. Risk is managed at the operational or functional level
3. Senior management does not see the need
4. Lack of personnel resources
5. Cannot demonstrate value associated with ERM

Most firms that are not planning for an ERM program say it is simply a matter of priorities. Other reasons cited included that risk is managed at the operational level, senior management is not on board, and the company lacked the resources. Risk practitioners who believe their company should explore an ERM program might consider ways to engage the C-suite in discussions centered on specific objections. For example, show how managing risk across the enterprise will not supplant managing it at the operational level, but can improve overall coordination of risk activities, issues, and expenses.

Takeaway: Enterprise Risk Management

ERM is a key consideration for companies that are seeking to make their risk management programs more strategic, but it is not being embraced across the board. In fact, the number of firms looking to put an ERM program in place may have reached a plateau. It will be interesting to see if the plateau is temporary. Many companies are still in the planning or implementation phase of their ERM programs, and satisfaction with these programs increases with time and with the level of implementation achieved. As more “satisfied customers” tout ERM’s benefits, it could persuade companies that currently have no plans to adopt ERM to change their strategy.

Among companies that now have ERM programs, investment remains strong. When the economy recovers, it is quite possible that there will be increased investment in ERM programs and personnel. Risk managers and those in the C-suite with risk management responsibility would be well advised to think now about the ERM investments that would propel their programs forward. Training and education, adding new personnel, upgrading technology and the like are important, but it can be even more important to ensure that an appropriate governance structure is in place.

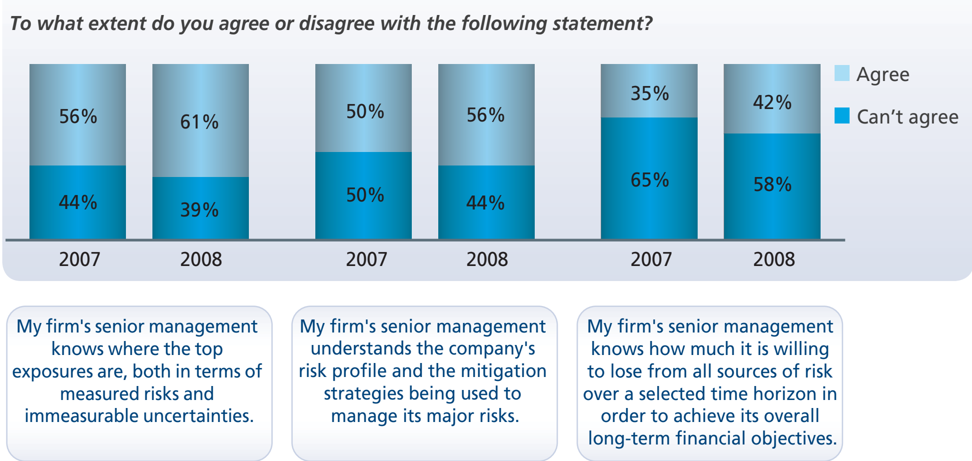
Part Three: ERM and the Credit Rating Agencies

Shift coming for all companies

The major credit ratings agencies are moving ahead with plans to incorporate a review of enterprise risk management into their analyses of nonfinancial companies. Such reviews have long been a part of the process for financial firms. No matter the risk management approach, risk managers in all organizations should be aware of the coming changes. In some organizations, the changes could give ammunition to the argument that a more strategic approach to risk management is needed.

Conversations with the major credit ratings agencies led us to three key statements that they believe companies should be able to agree with in order to show a strong risk management culture.

Key Statements from Ratings Agencies



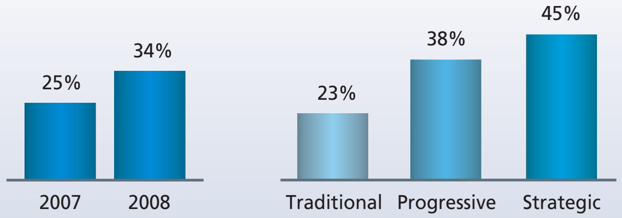
- From 2007 to 2008, the ability to agree with each ratings agency statement increased slightly. Still, the overall picture is one of risk practitioners who are not comfortable with their senior managements' grasp of some key risk issues.
- When considering each question on its own, it is alarming that so many individuals involved in risk management have so little faith in what their senior management understands. For example, 58 percent of respondents couldn't agree that their senior management knows how much it is willing to lose from all sources of risk.
- Those involved in risk management should be raising these questions directly with the appropriate senior executives. Perhaps senior management is more aware than risk managers realize. If not, the dialogue should be appreciated by all.

ERM and the Credit Rating Agencies

Responses to ratings agencies questions

Risk Sophistication Improves Response to Ratings Agencies

Is your firm able to agree with all three ratings agency statements?



- Despite an improvement over 2007, the number of companies that cannot respond affirmatively to all three statements is a cause for concern. These rating agency changes are taking place and there should be no excuse for not being aware of them.
- Because strategic firms look at a broader of range of risks, it is likely that they maintain a broader radar for news and information about risk issues. This increases the chance that they will not only see certain news items, but that they would connect them to risk management.
- Even among strategic companies, well over half fail to answer all three statements affirmatively. Strategic implies a broad view of risk, which means being aware of significant changes that cold affect your company—especially when it is so directly tied to risk management.

Preparing for Ratings Agency Changes

Standard & Poor's (S&P) recently changed its global credit ratings assessment criteria to include the risk management practices of nonfinancial organizations, looking specifically at ERM components. The S&P ERM guidelines for nonfinancial organizations includes taking stock of an organization's:

Differences Emerge on the Obstacles to Becoming More Strategic

What holds your firm back from practicing more strategic risk management?

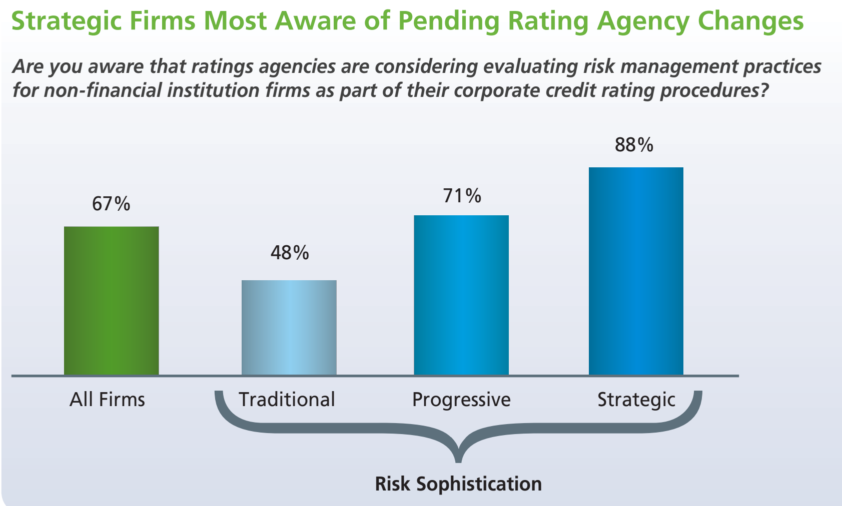
Risk management culture:
- Risk management frameworks or structures currently in place
- Roles and responsibilities for risk management
- Timing and lines of ERM reporting and communications
- Thoroughness of ERM policies
- The role ERM plays in an organization's other strategic planning initiatives

Strategic risk management:
- Review of senior management's view of risk and its impact on the company
- Analysis of the frequency and nature of the risk identification process
- Assessment of risks' severity on liability management and financing decisions
- Analysis of the role of risk management in strategic decision making

For more information about evaluating your companies readiness for ratings agency changes, contact your Marsh representative.

ERM and the Credit Rating Agencies

Many risk managers unaware of potential changes



- Once again, strategic firms score the highest marks for being aware of the coming changes. As was said earlier, their broader radar for risk issues helps keep them attuned to ongoing developments
- The lowest level of awareness comes from those whose firms fall into the traditional category of risk management. Putting aside the obvious benefits that awareness could bring to one's company, professional development and pride alone should motivate risk managers to be aware of such issues that touch directly on risk management.

Takeaways: ERM and the Credit Rating Agencies

The potential financial impact on a firm of a ratings agency review can be significant because it affects the cost of credit. The ratings agencies are now preparing to look at all companies' ERM/strategic risk management practices as part of the ratings review. Yet two-thirds of companies cannot answer affirmatively three key questions the agencies could be expected to home in on. This represents a slight improvement from 2007, but still means that a lot of companies need to make some improvements. Risk managers and their C-suite counterparts should work to further the awareness of this issue inside their companies.

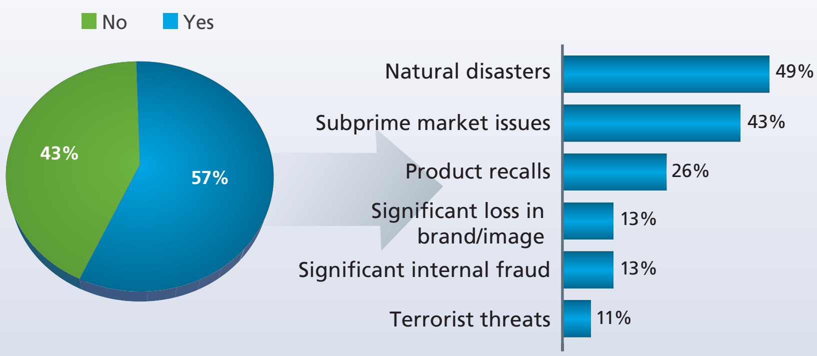
Part Four: Experience with Risk

Strategic firms likely to act following high impact events

High impact, low probability events are those that few people see coming, such as catastrophic natural disasters, product recalls, and the subprime credit crisis. Most organizations were affected by at least one such event in the 12 months from March 2007 through March 2008, with natural disasters the most prevalent. In most instances, companies with a strategic risk management approach were more likely to modify their practices and policies following an event.

Many Affected by High Impact Events

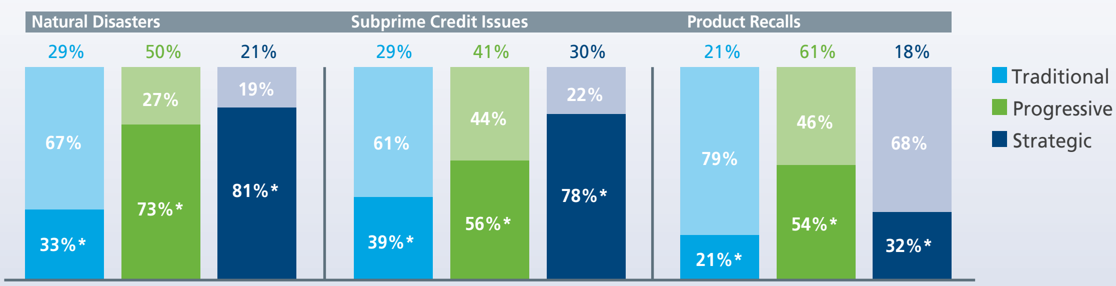
Has your firm been affected by any of the following risks in the past 12 months?



Many companies may be affected by an event even if they don't directly experience it. For example, a hurricane may knock out part of the supply chain for companies far from the coast. For some, even such long distance impact will be enough to make them change procedures.

Risk Events May Lead to Actions

Has your firm modified or re-evaluated its practices as a result of recent high impact events?



*Percentage of firms that modified practices after critical events.

- In general, strategic firms were more likely to take some action following a risk event. One exception, however, was that strategic firms were less likely than progressive ones to modify practices in the wake of a product recall. This could indicate that strategic firms have already put a great deal of effort into contingencies for product recall events.
- Traditional firms are the least likely to say they modified practices following any kind of high impact event. This could be a result of the narrower scope of the risk management practitioners in these firms; in other words, changes may be being made, but not within or through the risk management function.

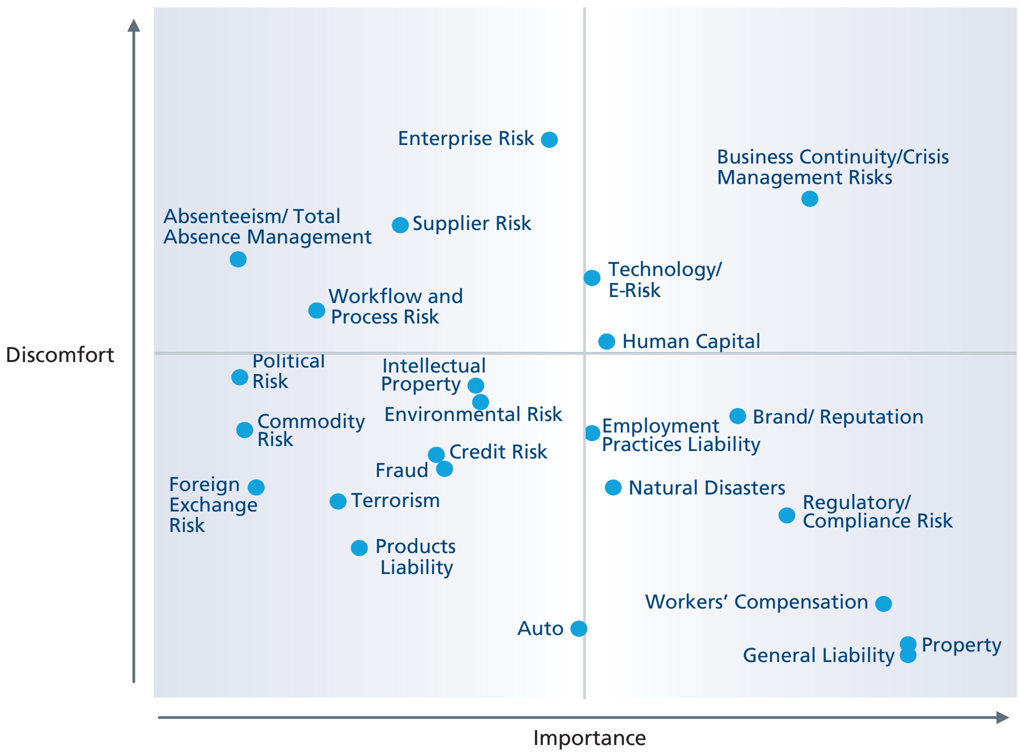
Experience with Risk

Importance and discomfort measures

We asked survey participants to rank a number of risks in terms of both importance and how comfortable they are with their firm's ability to manage them.

All Risks for 2008: Importance vs. Discomfort

Please indicate the level of importance this risk area represents relative to your firm's operations and financial performance.



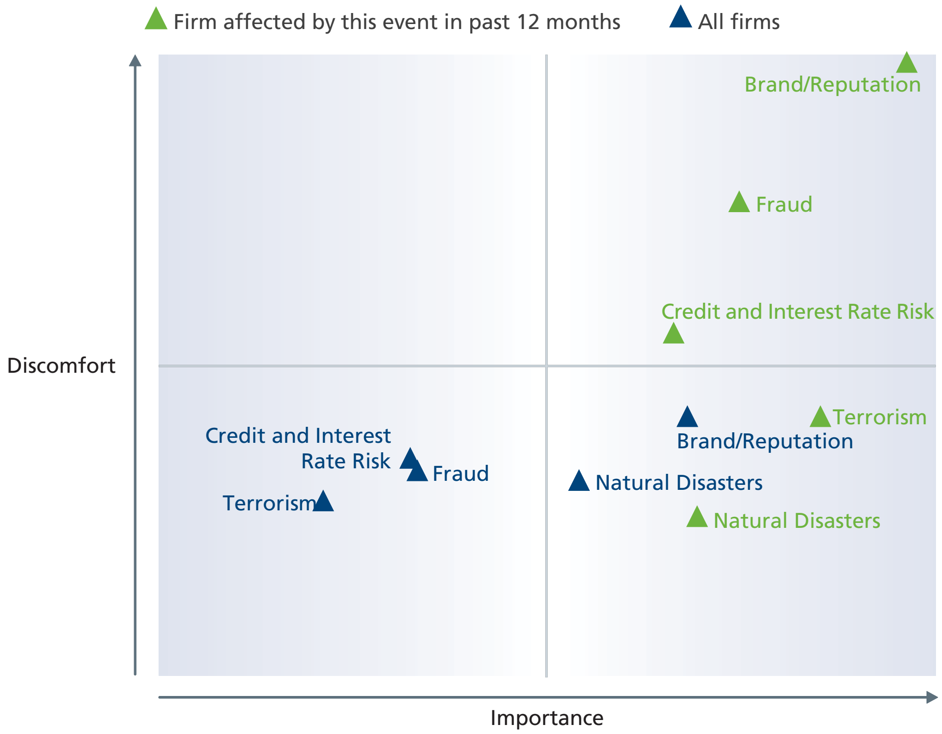
- Traditional risks—automobile, workers' compensation, general liability, and property—are viewed as important, but not of great concern as far as risk managers' ability to handle them.
- Our survey respondents expressed the most discomfort with business continuity and crisis management, enterprise risk, technology and cyber risk, and supplier risk. Of these, business continuity/crisis management and technology/cyber risk were seen as the most important.
- It's worth noting that some of the risks that caused greater discomfort—absence management, supply chain-related risks, and enterprise risk—were also seen as of lesser importance. This could reflect a growing awareness among risk managers that they need to become more familiar with these issues.

Experience with Risk

The role of experience

Experience Plays a Strong Role in How Risks are Viewed

Please indicate the level of importance this risk area represents relative to your firm's operations and financial performance.



- Experience is a great teacher, and, apparently, a great cause of discomfort. When we looked at firms that had experienced various high impact risks and compared them to the general population, it was striking how the perceptions changed. Almost without exception, those that had experienced such events sharply upgraded their view of importance while also showing greater discomfort.
- This should wave a red flag to companies that currently feel comfortable with the measures they have in place to handle such issues as brand damage, fraud, credit and interest rate risk, and terrorism.

Takeaways: Experience with Risk

During the normal course of business, there are many immediate issues that demand attention, making it difficult to focus on events that may never affect an organization. But companies need to be prepared for the unexpected, especially when these events can deal potentially devastating blows to areas such as reputation, supply chains, daily operations, and more. Risk managers need to be able to balance the day-to-day necessities with an ability to plan ahead. One way to grab the attention of the C-suite and other key constituents is to zero in on risk events that happen to competitors, peers, or geographic neighbors as a springboard for discussion.

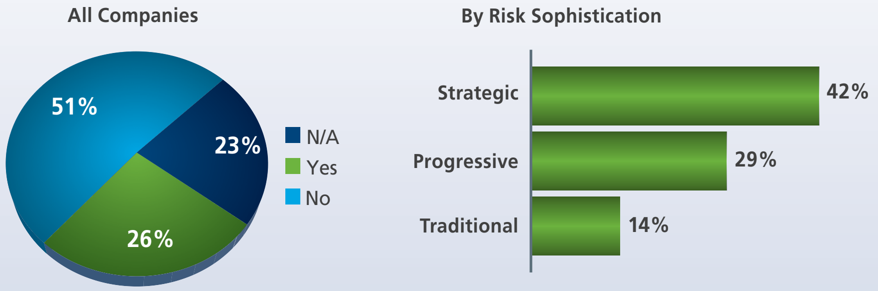
Part Five: Supply Chain Risk Management

Difficulties in supply chain risk management affect most companies

Supply chain risk is an issue of increasing concern to businesses in today's global economy. A failure in a subprocess anywhere in the world has the potential to disrupt production, create safety issues, spur product recalls, and/or hurt the bottom line. And yet, more than half of our respondents said their firms do not have a process in place to assess and manage end-to-end supply chain risk. Larger companies were more likely to have a process in place, while smaller, service-oriented firms tended to say supply chain risk did not even apply to them.

More than Half of Firms Appear to Have Supply Chain Problem

Does your firm have a risk management process in place to assess and manage end-to-end supply chain risk?

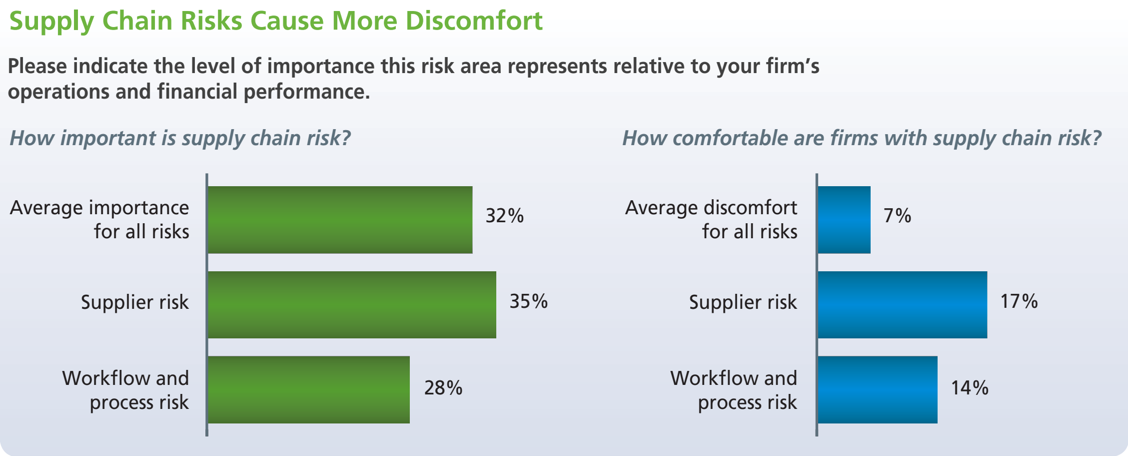


- The problems extend across all three approaches to risk management, although being a self-identified strategic company significantly increases the likelihood of a supply chain process being in place.
- Surprisingly, 58% of strategic firms said they do not have such a process in place. Companies that believe their approach to risk management is strategic would be expected to have supply chain issues well in hand.
- The 23% of companies that said supply chain risk does not apply to them should also be looking more carefully at their operations. It is hard to imagine a company of any significant size today that does not need to be concerned with supply chain issues.

Our survey defined "supply chain" as follows: Supply Chain includes all processes in making, moving, storing and servicing physical goods from your suppliers' suppliers through to the end customer. This includes internal processes such as manufacturing, purchasing, transportation, and inventory management, as well as external activities performed on your behalf by suppliers, logistics partners, transportation carriers, distributors, co-packers, service and repair organizations and so on.

Supply Chain Risk Management

Supply chain causes more discomfort than most risks



- Companies see supply chain risk—broken down in our survey to "supplier risk" and "workflow and process risk"—as being of average importance compared to other risk issues. However, they expressed significantly more discomfort with managing supply chain risk. This is likely due to the complicated nature of supply chains, particularly for large companies.
- We also found that, as was the case with some other risks, firms that experienced supply chain problems tended to say they were of increased importance. They also expressed more discomfort with managing such risks.

The Rising Tide of Supply Chain Risks

A recent report from Marsh Risk Consulting, *Stemming the Rising Tide of Supply Chain Risks*, outlined the problems facing risk managers in dealing with supply chain risks. "Risk managers who tackle the challenges being presented by global supply chain dynamics can play a more strategic role and will likely make much bigger contributions to the competitiveness of their company," the report said. To receive a copy of the report, contact your Marsh representative or send a request to questions@marsh.com.

Steps to Help Improve Supply Chain Risk Management

1. Create a cross-functional supply chain risk team that looks end-to-end.
2. Embed risk management activities and responsibilities into existing supply chain processes and functions; create consistency across the organization.
3. Build up analytics and risk metrics.
4. Extend the risk manager role.

Supply Chain Risk Management

Difficulties in supply chain affect most companies

We looked at the characteristics of organizations based on whether they said they had a process in place to manage supply chain risk, they had no process in place, or they said supply chain risk management did not apply to them.

Supply Chain Process and Company Characteristics

Have a risk management process for supply chain	26%
Average Number of Employees	5,241
Average Revenues	$3,860M
International Operations	66%
Manufacturing	39%
Retail	21%
Service	40%

Have no risk management process for supply chain	51%
Average Number of Employees	4,338
Average Revenues	$2,603M
International Operations	58%
Manufacturing	41%
Retail	14%
Service	44%

Believe supply chain risk does not apply to the firm	23%
Average Number of Employees	3,915
Average Revenues	$2,496M
International Operations	40%
Manufacturing	19%
Retail	2%
Service	79%

- Firms with a process in place tended to be larger in terms of employees and revenues. They also were more likely to have international operations.
- Nearly 80% of the firms that said supply chain management did not apply to them were in the services sector. This indicates a potential misunderstanding of exactly what constitutes a supply chain. (Note: The definition of supply chain in this year's survey referred to "end-to-end" supply chain processes. Recognizing that supply chains can be extremely complex, many respondents may have been uncomfortable stating that there is a process in place to manage the risk "end-to-end.")

Takeaways: Supply Chain Risk Management

Supply chain risk is one of many areas competing for risk managers' attention and resources. The fact that less than one-quarter of organizations surveyed said they have a supply chain risk management process in place shows the depth of the problem. Risk managers ignore supply chain at their own peril—and their organization's. The fact that supply chain causes considerably more discomfort than do other risks shows that risk managers know that more needs to be done. Raising the profile of supply chain risk is yet another way that risk managers can elevate the profile of their function in the eyes of the C-suite and other senior executives while making a significant contribution to their firm's competitive footing, market share, and reputation.

Part Six: Risk Managers and the C-Suite

Agree on strategic aspirations; not on obstacles

The risk management approach at most companies is evolving toward one that is more strategic, building around such issues as supply chain management, alternative risk financing, enterprise risk management, and broader use of technology. No matter the path chosen, the way will be clearer if risk managers and their C-suite counterparts identify areas of agreement and disagreement; building on the first and smoothing the latter.

Risk Managers and C-Suite Aspire to be More Strategic

- Those in the C-suite are more likely to view their company's risk management approach as strategic, while risk managers are more likely to say it's progressive.
- More significant is that the two groups are similar in their desire to be more strategic. This provides a natural starting point for risk managers and C-suite executives to use to map out strategies for becoming more strategic.

Differences Emerge on the Obstacles to Becoming More Strategic

What holds your firm back from practicing more strategic risk management?

Risk Managers

1. Other areas have greater priority
2. Lack of personnel resources
3. Corporate structure
4. Lack of financial resources
5. Lack of personnel expertise

C-Suite

1. Lack of personnel resources
2. Other areas have greater priority
3. Lack of personnel expertise
4. Difficult to identify/analyze investment metrics
5. Lack of financial resources

- Two of the C-suite's top five obstacles to becoming more strategic relate to personnel issues. Risk managers should pay attention to this as it may indicate that some key executives do not understand the level of expertise available within the risk management department.
- Risk managers that truly believe in the need to become more strategic should begin laying the groundwork to convince their C-suite counterparts. One potential avenue to explore is to identify the C-suite's priority areas and show how risk management can play a role. Developing metrics to show the potential value of strategic risk management will likely help—and may be required by senior management.

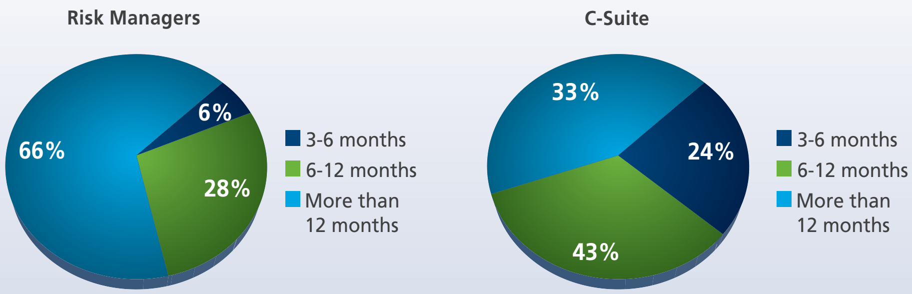
Risk Managers and the C-Suite

ERM expectations do not line up

Although a similar percentage of risk managers and those in the C-suite aspire to more strategic risk management, there are areas of disconnect involving ERM. The C-suite expects quicker implementation and has some different priorities for ERM adoption.

C-Suite Expects Quicker ERM Implementation

How long will it take to implement an your firm's ERM program?



- Most risk managers expect ERM implementation to take more than 12 months. More than half of the C-suite, however, felt it could be done in much less time, with 24% saying it could be accomplished in three to six months.
- The disconnect on how long ERM implementation will take shows the need for risk managers to clearly identify expectations from senior management. It could be that the C-suite has a completely different idea for what ERM implementation means. If so, risk managers need to align or manage expectations to avoid potentially serious misunderstandings.

Priorities for ERM Implementation Differ

Top priorities for ERM implementation

Risk Managers	
Training/education	54%
Personnel resources/ Current employees	38%
Governance structure	35%

C-Suite	
Personnel resources/ New hires	58%
Training/education	47%
Technology	40%

- The differences in priorities show some other areas where the C-suite and risk managers are not aligned. Risk managers see training and education, a focus on existing personnel, and governance structure as the keys; the C-suite places new hires and technology in the top three.
- Training and education appears in each group's top three, showing an area of common ground. Holding discussions on just what each expects from training and education initiatives may help develop other areas of common thinking.

Risk Managers and the C-Suite

Agreement on who is accountable

In 2007 we asked who took leadership of a firm's risk management efforts. The C-suite said it took the leadership role; the risk managers said they did. In 2008 we split the question up and asked both who was accountable and who was responsible.

Risk Management Accountability and Responsibility

Who in your firm is accountable for risk management? Who is responsible?

	Accountable		Responsible	
	Risk Managers	C-Suite	Risk Managers	C-Suite
CEO	1	1	3	3
CFO	2	2	2	1
Risk Manager	3	3	1	2

- The C-suite and risk managers agreed that ultimate accountability for risk management efforts sits in the C-suite with the CEO. They disagreed, however on where functional responsibility rests, with the C-suite saying it was the CFO's responsibility and the risk managers saying it was theirs.
- This drives home again the need for clear communication between risk managers and the C-suite. Risk managers should always remember that while they carry out the day-to-day risk management functions, having top-level support will likely lead to better traction in the organization for their efforts.

Takeaways: Risk Managers and the C-Suite

The value of maintaining clear lines of communication between the C-suite and risk managers cannot be overstated. As we found in our survey, even when both areas agree that a more strategic approach to risk management is desired, there can be serious differences over such things as how long it will take to implement an ERM program and what the priorities should be.

One way to begin a dialogue about the role risk management should play is to look for areas of agreement on shared interests and objectives. For example, risk managers and those in the C-suite that aspire to be more strategic could look at training and education, a high priority for many of our respondents. It may then be easier to broach topics of disagreement—such as whether the focus should be on new or existing personnel—within the context of training.

Recommendations

The majority of risk managers and their C-suite colleagues want their firms to take a more strategic approach to risk management. Some are turning to enterprise risk management as the cornerstone for a more strategic approach. Others are not looking to ERM per se, but do want to develop a broad view of the risks facing their organizations. Following are some recommendations to help companies think and act more strategically about risk management:

- **Establish an evaluation process** to assess your firm's current risk management approach. Is it traditional, progressive, or strategic? What functions are the risk management department expected to carry out?
- **Develop a clear picture** of what the right approach is for your organization's future. Risk managers, senior managers, and decision makers throughout the company should be involved in the process.
- **Create a road map** to get to your destination. You will need to work within the constraints of budgets, realistic timelines, and available technology and personnel.
- **Understand the role ERM plays** or could play in your organization. If you are just beginning down the ERM path, make sure others in the firm realize the steps involved and the time frame for implementation. Develop metrics that will allow you to lay out the costs and benefits of ERM.
- **Keep aware of outside influences** on risk management, such as the current moves by credit rating agencies to look at risk management in their analyses. Keeping senior executives informed on important changes—especially ones that could affect the bottom line—can raise the profile of the risk management function in your organization.
- **Learn from what happens to others**. Just because your company is not directly affected by a catastrophic event, for example, doesn't mean you can't use it to perform a gut check on your own risk strategy.
- **Maintain strong connections** to all areas of your company and understand their dominant risks. This means staying informed about areas such as supply chain risk management, reputational risks, and others that have changed drastically over the past 10 years.
- **Make sure the line of communication** to the C-suite is clear and open.
- **Use this survey** as a discussion point and an education tool to elicit the views of senior executives and others in your company about the direction risk management in your firm.

About RIMS

The Risk and Insurance Management Society, Inc. (RIMS) is a not-for-profit organization dedicated to advancing the practice of risk management. Founded in 1950, RIMS represents more than 4,000 industrial, service, nonprofit, charitable, and governmental entities. The Society serves more than 10,700 risk management professionals around the world. For more information on the Risk and Insurance Management Society, visit www.RIMS.org.

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