

April 2011

Excellence in Risk Management VIII
**Greater Expectations,
Greater Opportunities**



Contents

i	Foreword
iii	Executive Summary
1	2011 Risk Management Expectations
5	Advancing Enterprise Risk Management
11	Data and Analytics
15	Views Across the Organization
20	Global Risks
22	Recommendations
23	Appendix

Editor: Tom Walsh

Designer: Lance Rossing

Review Panel:

Yvette Connor, Marsh

Brian Elowe, Marsh

Ben Fidlow, Marsh

Carol Fox, RIMS

Gordon Prager, Marsh

Pam Rogers, Marsh

Foreword

The roles and contributions of professional risk management within organizations have evolved and grown over the years of this report. Challenged as seldom before by persistent global economic travail and by devastating natural and human element catastrophes that impact supply chains, assets, earnings and operations, more enterprises have recognized the importance and value of firm-wide governance, and risk managers have both fueled and responded to the rising expectations.

Fully 80 percent of the respondents to the 2011 *Excellence in Risk Management* survey said that senior leadership's expectations of the risk management function have grown over the past three years. We explore these new expectations in this, the eighth annual *Excellence* report from Marsh and the Risk and Insurance Management Society (RIMS).

There are many reasons that all eyes are on risk management, from the financial crisis and economic downturn to new regulations to increased scrutiny from shareholders and other stakeholders. As one risk manager told us, "The risk management department is significantly more visible. Everyone is asking questions about how to minimize exposure to financial loss."

Increased expectations generally bring new challenges. In risk management these challenges

include breaking from the confines of "old school" thinking, which pegs the department as being focused solely on mitigating hazard risk through insurance procurement and claims management. It can be a challenge to take advantage of the department's increased visibility to claim a more strategic role. It can even be a challenge deciding how to best use the new tools that are available, such as better analytics built on higher volumes and quality of data. And it's definitely a challenge to do all of that with budgets that remain lean.

The flip side, of course, is that meeting challenges gives rise to opportunities. "Management is open to new suggestions and changes," said another respondent, the chief risk officer at an energy firm. "And people are getting opportunities and taking on new responsibilities that didn't present themselves before when working in a more siloed environment." Of course that is not the case everywhere. As we discovered, a siloed work environment remains a key barrier inside many organizations.

We hope you find *Excellence in Risk Management VIII: Greater Expectations, Greater Opportunities* a useful tool for opening discussions around the role of risk management in your organization. And we encourage you to reach out to us if you have any questions about the issues raised in the report.



David Bidmead
Chief Executive Officer U.S.
Marsh



Tim Mahoney
President, Global Risk Management
Marsh



Scott B. Clark
President
Risk and Insurance Management
Society (RIMS), AAI



Mary Roth
Executive Director
Risk and Insurance Management
Society (RIMS)

Executive Summary

The perception of the risk management department is changing, spurred in part by the economic adversity and uncertainty of the past three years. Organizational leadership is looking for more transparency across the enterprise—and risk management is no different. For those risk managers who may not be sitting at the firm-wide governance table, now is an opportune moment to seize on the growing expectations and establish a strong strategic role for themselves and their departments.

Among the key findings from the 2011 *Excellence in Risk Management VIII* survey:

- An overwhelming majority of respondents said that senior management’s expectations of their organizations’ risk management departments have grown over the past three years. Senior management’s list of desired changes from risk managers includes integrating risk management deeper with operations, executing daily risk management activities more efficiently, providing improved analysis and quantification, and leading enterprise risk management (ERM) activities.
- The most common focus area for 2011 is strengthening strategic risk management, which was cited by more than half of survey respondents. For the second year, this area came out on top, although barriers to doing so remain.
- The top barrier cited to senior leadership understanding of the risk landscape was silos within the organization. This is the same answer given in prior years, and is something that organizations should begin to confront if they have not already done so. One way to tear down the silos is to create or strengthen cross-functional risk committees.
- As the role of chief risk officer (CRO) continues to develop, we are beginning to see some differences in how they view and prioritize the issues. For example, CROs were much more likely than other risk managers to categorize senior management’s change in expectations as “very significant.” CROs said strengthening ERM capabilities and integrating ERM into strategic planning were focus areas for 2011.
- Economic conditions ranked as the number one risk among respondents, and was also the risk that they were least comfortable with their organizations’ ability to manage. In other areas, such as business disruption, risk managers and the C-suite are not as aligned in their views of how prepared their companies are to manage the risk.
- Nearly 60 percent of companies said their use of data and analytics has changed over the past three years. This is likely a reflection of leadership’s desire for there to be more transparency and quantification around risk decisions, particularly the economic implications. Despite the stated changes, however, there appears to be a need for companies to better use the available tools and analytics.

Indicate areas in which senior management’s expectations of the risk management department have grown.

- 1 Integrate deeper with operations
- 2 Execute day-to-day risk management activities more efficiently
- 3 Provide better quantification / analysis on risk management

Three-plus years of financial instability have shone a spotlight on risk management and its strategic role in many organizations. Risk managers should be fully aware of the challenges and opportunities that come with their organizations' new expectations.

2011 Risk Management Expectations

Economy spurs challenges and opportunities

The economic downturn that began in 2008 changed the way many companies view their risk management departments. Respondents to the 2011 *Excellence in Risk Management* survey overwhelmingly agreed that senior leadership now demands more from risk managers. Among the 80 percent that said expectations have increased, the leading issue is for risk management to become better integrated with operations.

- Integrating deeper with operations is more than just breaking down the silos that have kept many risk management departments pigeonholed as the “insurance procurement office.” It means transforming the organization’s perception of risk management from a tactical, risk-averse function to a valued partner. Risk managers need to step out of their offices and reach out to operations personnel. It is important to not only understand the business and how it works, but to articulate how risk management can help the organization meet its strategic objectives.

- For many risk managers, a large part of the challenge is to create value for the organization through the second-most cited response: effective execution, including the efficient use of time. Enterprise risk management (ERM) actually can create efficiencies throughout the organization by reducing expenses, such as eliminating duplicative risk assessments, thereby increasing IT and operational productivity. As the chief risk officer at an energy firm told us, although her firm will not fund an increase in headcount, it is willing to purchase technology. So she is identifying and automating many tasks, freeing up time to work more closely with other departments.
- The survey also tapped into a widespread feeling that there is a need for better quantification and analysis related to risk management. This will be explored in more detail later in this report, but it is interesting to note that providing an understanding of risk management ROI placed relatively low on the

list of where expectations have grown. This may mean the value of analysis is demonstrated in the outcomes of what risk management does, not by placing a specific ROI on the risk management function itself.

Have senior management’s expectations of the risk management department grown over the past three years?

80%

YES, EXPECTATIONS
HAVE GROWN

20%

EXPECTATIONS HAVE
NOT GROWN

Indicate areas in which senior management’s expectations of the risk management department have grown.



Industry Snapshot

We interviewed some of our respondents and asked why they answered the way they did. Here is a sampling:

Life Sciences, Risk Manager: “The role of risk manager is respected globally...The resources are not increasing, but the responsibilities are.”

Education, Risk Officer: “The global financial turmoil enhanced the perception among top administrators that assessing, analyzing, controlling, and managing risk is critical in keeping intact the university’s established name in higher education.”

Real Estate, Risk Manager: “Senior management fails to comprehend the scope of effort that managing risks enterprise-wide demands.”

2011 Risk Management Expectations

KPIs: Defining expectations

Because organizations are increasing their overall expectations of the risk management function, it's important that key performance indicators (KPIs) are explicitly defined, agreed upon, and measured. We asked respondents to tell us what the top KPIs are for which leadership holds risk managers accountable.

- The most common KPI fell into the bucket of “managing and communicating risk management value through TCOR.” This shows that the risk management function is focused on measuring success based upon their company’s view of TCOR. Organizations define TCOR very differently and execute varying levels of analysis and management around TCOR, as will be shown later in this report. Nonetheless, a common language involving measuring TCOR was prevalent in the KPIs.
- The top five KPIs accounted for 70 percent of the responses. The overall view on risk management’s “success,” therefore, can be fairly well defined and segmented. These top KPIs set the stage for the way an organization expects risk managers to optimize their function’s performance. Outcomes ranged from pure insurance budget management to executing strategies that are fully aligned with corporate views on risk tolerance.
- Our analysis also found strong relationships between KPIs. For example, if a respondent said “alignment with company risk tolerance” was the main focus, then it was highly likely that additional KPIs for that respondent would involve system-wide ERM results and performance against loss forecasts. Conversely, if a respondent said the primary KPI revolved around procuring insurance, then it was likely that follow-on KPIs would occur in more traditional areas, such as delivering successful claim results, timely reporting, and meeting financial goals.
- The survey asked about KPIs in an open-ended question. The top 10 “buckets” of answers appear on the following page. Some of the “raw” responses included:
 - Maintain stability in TCOR
 - Deliver insurance renewals within budget
 - Engage senior leadership in the management of strategic risks
 - Being aware of risks and then developing pro-active controls
 - Claims compared to exposures
 - Decrease TCOR
 - Scenario based resiliency testing of key strategies
 - Settlement time of claims
 - Understanding non-insurable risks

As shown in the chart on this page, we grouped KPIs in three “layers” based on survey responses. The primary layer shows how respondents identify success and perceive their mandate from the broader organization. The secondary and tertiary layers highlight key initiatives that relate back to the first layer. For example, there was a strong correlation between the most prevalent KPI, managing TCOR, and follow-on KPIs in areas involving mitigating liabilities and supporting organizational preparedness, and competitive procurement of risk transfer. Likewise, respondents who indicated insurance budget management as the leading indicator of how they were measured were most likely to list KPIs in areas supporting the effective delivery of claim results and providing timely reporting.

Primary KPIs



Secondary KPIs

Financial performance measurements for retained/insured exposures	27%
Risk management alignment with company goals	17%
Competitive procurement of risk transfer	13%
Mitigating liabilities and supporting organizational preparedness	9%
Delivering successful claim results	8%
Build strategic risk awareness across organization	4%
Managing and communicating risk management value through TCOR	3%
ERM results and value demonstrate support of company performance	3%
Compliance	3%
Insurance budget management	3%

Tertiary KPIs

Risk management alignment with company goals	22%
Financial performance measurements for retained/insured exposures	14%
Mitigating liabilities and supporting organizational preparedness	8%
Delivering successful claim results	8%
Competitive procurement of risk transfer	7%
Compliance	6%
Meet various financial goals	5%
Build strategic risk awareness across organization	5%
Contract management	5%
Service excellence	4%

Many organizations see the shift in leadership’s expectations as part of the move toward a more strategic use of risk management. One of the keys to meeting the expectations will be for risk managers to interact more with all parts of the company.

Advancing Enterprise Risk Management

Integrating risk management across the firm

If companies do indeed expect risk management departments to integrate deeper with operations for an enterprise-wide scope, it will be helpful to see what they are focusing on and what stands in the way.

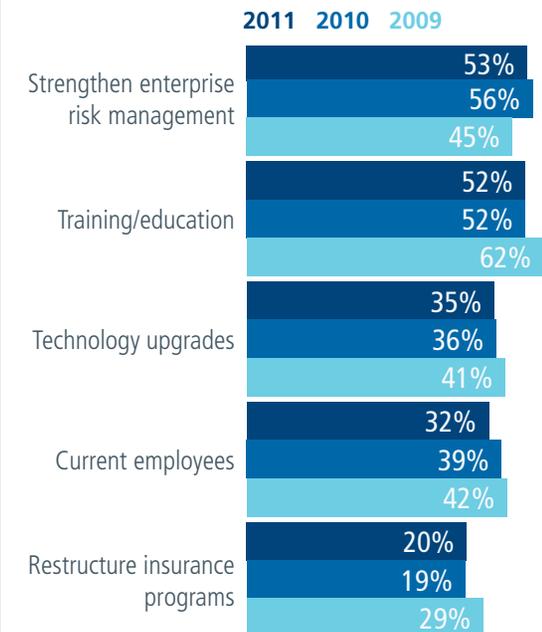
- For the past two years, survey respondents’ most commonly cited focus area for developing risk management involved strengthening ERM, which some prefer to call strategic risk management. This seems a natural companion to the increased expectations for deeper integration, conveying a stronger, broader role for risk management.
- The consistent emphasis on training reflects, in part, a desire to promote risk management’s integration, whether through bringing the risk management message to other departments or vice-versa. It’s also likely that although companies are not willing to make permanent budget increases (such as new hires), they are willing to improve the abilities of in-house staff.

- Technology upgrades and focusing on current employees (rather than to new hires) continue the emphasis on efficiency. It’s worth noting to risk managers that their counterparts in the C-suite were the most likely to view technology upgrades as a focus area. This should help pave the way for technology that can ease the time spent on mundane tasks and open the door to developing the deeper integration of risk management with other departments.

Industry Snapshot

Each industry group we analyzed placed either training/education or strengthening ERM at the top of their focus list. Health care, public entity/government, and real estate showed technology as their second choice behind training/education, while retail respondents placed personnel/current employees second.

What are the primary focus areas for developing risk management capabilities?



Advancing Enterprise Risk Management

Silos remain a barrier

A primary goal of bringing risk management deeper into setting—or at least contributing significantly to the development of—the business strategy is to help senior leadership make better business decisions.

- Year after year, “siloed approaches to risk management” is the top reason cited by survey respondents as getting in the way of senior leadership’s understanding of the risk landscape. This indicates that efforts to push ERM have not made much headway. So how can silos be broken down? All organizations practice risk management in multiple forms, depending on the exposure being addressed. Building a team among these risk practitioners to design a common approach is a logical first step, not only to break down the silos, but to overcome the barriers posed by lack of education and awareness, and organizational structure.
- Nearly one in three respondents cited a lack of relevant risk data to show to senior management. With the vast array of tools and methodologies available this should not be

nearly as widespread an issue. Risk managers should be looking to their peers, associations, brokers, consultants, and others regarding practical analytical methods that provide relevant data to senior management.

- Interestingly, less than a third of respondents cited inadequate links to organizational strategies and objectives, and demonstrating the value of ERM as barriers to implementation. Yet, these are areas tied to senior management’s strongest expectations, which are described more fully later in the report.

Industry Snapshot

Siloed approaches to risk management were not cited as one of the top barriers to senior management’s understanding of the risk landscape in the financial institutions, public/entity/government, real estate, or retail industries. It was the top concern for the communication, media, and technology (CMT), health care, manufacturing, and power and utilities sectors.

What barriers may prevent senior management from fully understanding the risk landscape of your organization?



Advancing Enterprise Risk Management

Number of cross-functional risk committees on the rise

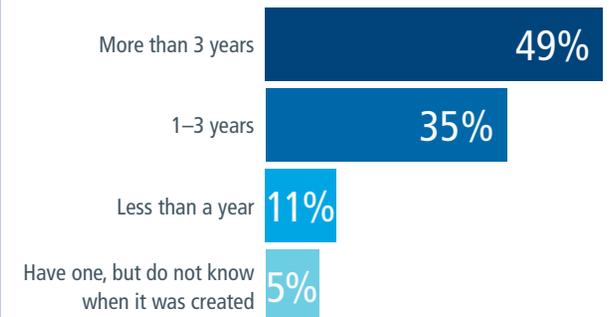
One of the methods companies can make better use of in meeting the expectation to foster a strategic view of risk is to establish a broad-based risk committee, often referred to as a “cross-functional risk committee.” Taking this step is potentially easier—and less expensive—to accomplish than are many of the other challenges to developing an ERM program.

- The number of companies reporting that they have such a risk committee increased significantly over the past year, jumping from 47 percent in 2010 to 62 percent in 2011. The percentage of companies with less than \$50 million in revenue reporting that they now have a cross-functional risk committee increased from 23 percent in 2010 to 50 percent in 2011.
- Of companies with such a committee, 46 percent have added it in the past three years, with 11 percent saying they have had a committee for less than a year. Any organization looking to tackle risk more strategically should be seriously considering taking this step.

Do you have a cross-functional risk committee?

	Yes	No
All Respondents	62%	38%
Revenues above \$1B	68%	32%
Revenues between \$50M and \$1B	59%	41%
Revenues less than \$50M	50%	50%
Public companies	69%	31%
Private companies	56%	44%

How long has your organization had a cross-functional risk committee?



- We also asked how risk issues can be better integrated with strategic goals. The top five results are all areas that would likely be supported through an effective risk committee.
- The number one response to the question was to involve risk management early in the process of deciding the organization's strategic planning goals. Among risk managers, nearly 75 percent cited this as a key area. Early involvement in such strategy discussions could develop as a result of participation in a broad-based, effective cross-functional risk committee.
- The same could be said of improving communication between risk management and senior management. If risk managers not only sit on but actually take leadership roles in cross-functional risk committees—including starting them in some cases—it is likely that senior management will take notice.

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

Top 5 Responses

- 1 Involve risk management early
- 2 Adopt a formal strategic risk management process
- 3 Increase senior management's support of risk management function
- 4 Improve ability to measure risk management ROI
- 5 Improve communication between risk management and senior management

Industry Snapshot

Financial institutions and power and utilities companies were the most likely to report having a cross-functional risk committee, with 82 percent and 84 percent respectively.

On the low end, CMT, public entity/government, manufacturing, and retail all were below 50 percent of respondents saying they had a committee. Among those, CMT stood out as having the highest percentage saying the committees are not effective, at 13 percent.

As to how risk issues can be better integrated with short- and long-term strategic planning goals, our defined industry groups were unanimous. Involving risk management early in the process was at the top of each industry's list. This was one of the only questions we asked where the top answer did not vary at least slightly among industries.

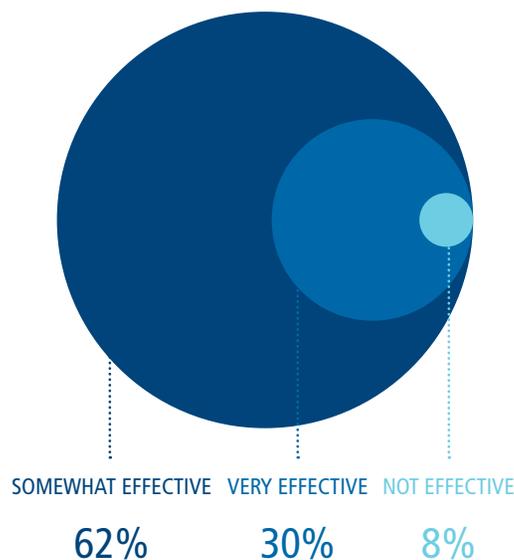
Advancing Enterprise Risk Management

Improving cross-functional risk committees

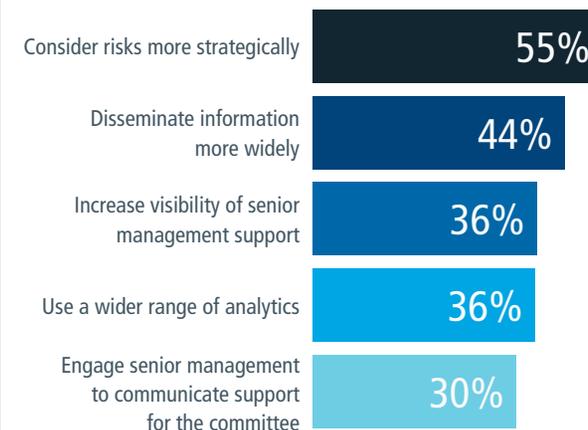
Opinions of the effectiveness of cross-functional risk committees stayed almost level over the past year, with about two-thirds of respondents giving them a tepid “somewhat effective” rating.

- Companies that have created risk committees should look at how to make them more effective. Creating a risk committee clearly isn’t enough; how the committee functions is crucial for effectiveness. This is an area of opportunity for risk managers who want to impact the success of the organization across the business. In a time when senior leadership expects more, risk managers should be leading ERM activities whenever and wherever possible.
- Another issue is the need for better communication. Risk managers that want to see their department’s strategic role increase should consider communication of the committee’s activities as part of how they can meet the expectation to integrate more deeply with operations.

Please indicate how effective you believe cross-functional risk committees are.

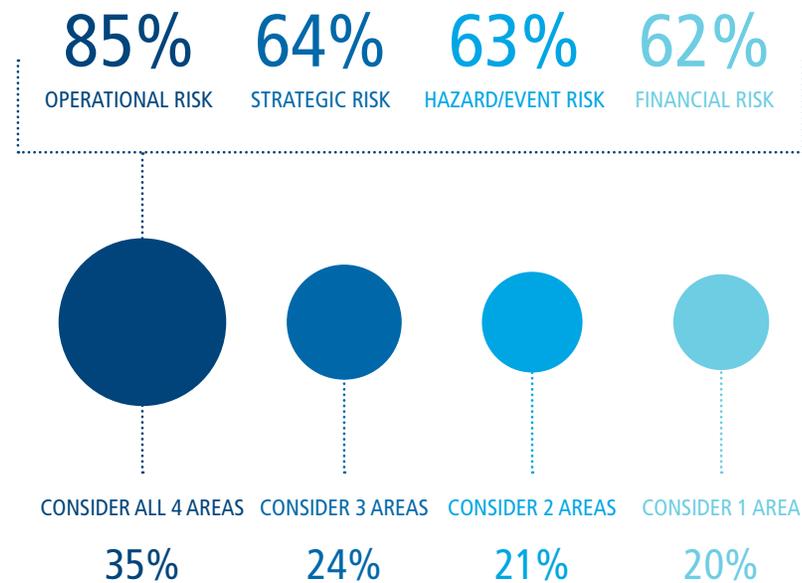


How could your firm’s cross-functional risk committee become more effective?



- Disseminating information more widely is seen as an important key to effectiveness by nearly half the respondents. Risk committees that share information on emerging and dynamic risks help their organizations become more nimble and adaptive to changing conditions.
- More than half of our respondents with a committee said it needs to consider risks more strategically. Respondents could choose all four quadrants of risk—operational, strategic, hazard, and financial. Yet, the responses regarding the focus of the risk committee revealed that strategic, hazard, and/or financial risks are not considered by more than 35 percent of the committees, perhaps because strategic risks are considered the purview of executive management and the board, financial risks the purview of the CFO and the board’s audit committee—and because hazard risks are assumed to be well-insured.

What is the focus of your organization’s cross-functional risk committee?



- Only 35 percent of those with a risk committee said it looks at all four areas. And 41 percent said the risk committee only focused on one or two areas. To be effective, the risk committee should be looking across all four quadrants to obtain a fuller risk portfolio view and consider the interrelatedness of the risks.

Industry Snapshot

The energy sector was the most likely to say cross-functional risk committees are not effective, at 20 percent.

Education respondents were the least likely to take the middle ground, having the highest percentage of those saying the committees are very effective (59 percent), but also having the second-highest number saying they are not effective (17 percent).

Leadership at most organizations wants to see more transparency in decision making. There is a range of analytical tools and methods available that can help pull the curtain back on risk financing.

Data and Analytics

New tools available; use varies

Although a majority of organizations say their use of data and analytics have changed over the past three years, most still are not using the available tools to take a truly enterprise portfolio view of risk. The value provided by analytical tools is much greater today than it was three years ago, due to improvements in data quality, an increase in the available tools, and gains in computing power.

- The continued soft insurance market may have delayed the use of many tools and kept a broader analysis of risk transfer from occurring. However, insurance pricing is traditionally cyclical—companies would be well served to get their tools in line now, before the cycle changes. It's never untimely to take a deeper dive into understanding your risks and how their management impacts the use of capital.
- Respondents who felt that senior management's overall expectations of risk management have grown were twice as likely to say that the organization's use of data/analytics had changed. That group also was more likely to

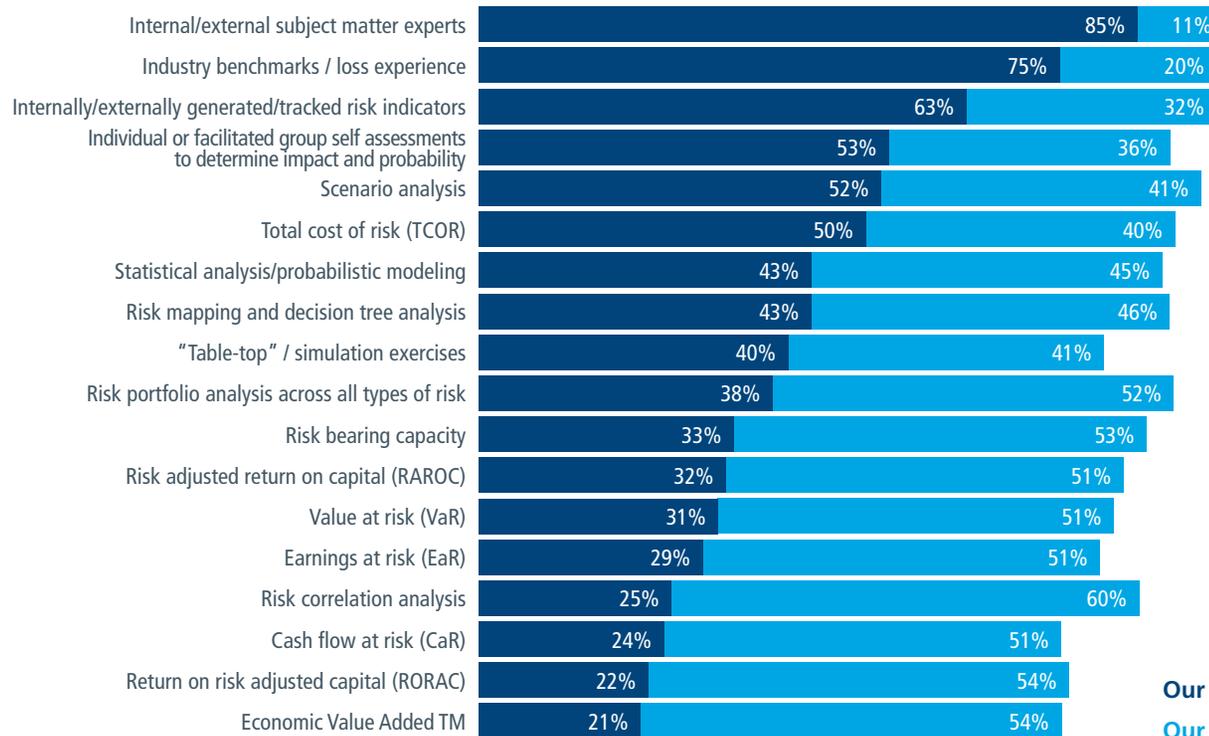
say they use each of the analytical tools and methodologies. And they were more likely to say they report the results from their analyses to senior management.

- There is wide variety in the tools being used, although the qualitative measures—internal and external experts, loss experience—continue to dominate. Organizations should take the time to carefully evaluate which tools are right for their firms, and work to integrate them into their strategic risk management efforts.
- For every tool, a large number of respondents said their company would use them if they were available. For example, although only 33 percent said they use risk bearing capacity, 53 percent said they would use it if available to them. This shows an overwhelming desire to use a wider range of analysis, and should be pursued by risk managers and others looking to improve the understanding of their organizations' risks.

Has your company's use of data/analytics changed over the past three years?



Indicate the tools in use at your organization.



Industry Snapshot

The industries that were least likely to say their use of data and analytics have changed over the past three years were manufacturing (47 percent), public entity/government (48 percent), retail (49 percent), and communications, media, and technology (50 percent).

The industries that were most likely to say their use has changed were construction (81 percent), real estate (72 percent), and energy (71 percent).

Our firm uses this tool

Our firm does not use this tool but would if it were available

Data and Analytics

TCOR measures lack consistency

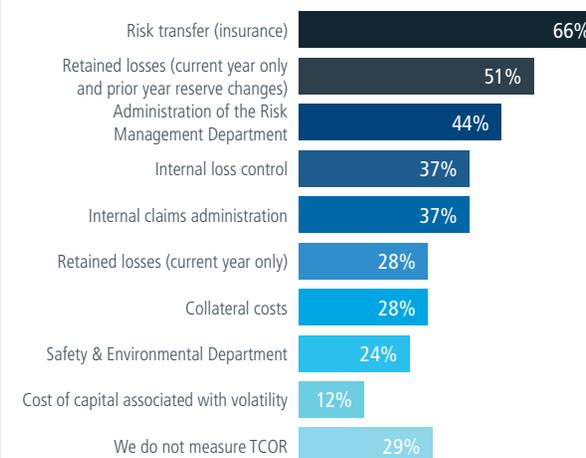
Among the more than two-thirds of organizations that measure TCOR, there is a wide range of methodology in use. However, the vast majority of those are not capturing information on one of the key areas—the cost of capital associated with volatility.

- Companies reported a great deal of variation in the way they measure TCOR. Nearly a third of companies are not measuring it at all, while those that do measure it see no consistent or common methodology. Although there is no single standard for measuring TCOR, it would be expected that the measure, at a minimum, should include retained losses, risk transfer costs, outside professional services costs, and risk management costs. Often, however, that is not the case.
- Only 12 percent said they measure the cost of capital associated with volatility, which means that very few are viewing TCOR as a dynamic calculation. Instead, it is seen as a static calculation that places little or no explicit value on the volatility reduction provided by sound

risk management practices. Organizations are not evaluating their risk management spending in terms of the main value it adds—volatility reduction. They are viewing the insurance spend differently than other capital expenditures.

- Nearly two-thirds of respondents said they pay more attention to TCOR expected amounts than to its volatility. That suggests an emphasis on budgets, rather than on the greater value that can be provided by risk management. Viewing TCOR in such a limited way can lead to decisions such as raising retentions or relinquishing hedging mechanisms simply to save a few thousand dollars—a decision that could serve to significantly increase unintended risk-taking and ultimate costs.
- In many cases, risk managers focus on the cost of their insurance premiums, but often that cost is not material to the organization. Leadership wants to understand how risk affects the overall cost of capital, and ERM should focus on the costs that provide that insight.

What costs does your firm include in measuring TCOR?



Approaches to TCOR

64%

MORE ATTENTION IS GIVEN TO TCOR EXPECTED AMOUNTS

36%

MORE ATTENTION IS GIVEN TO THE VOLATILITY OF TCOR

Data and Analytics

Portfolio analysis not measuring up

Companies that want to practice strategic risk management need to be looking at their risks as a portfolio, not individually. And yet the majority of survey respondents said they are not doing so.

- For companies that want to integrate risk management deeper into setting the business strategy, looking at risks individually will not get them where they want to be. There is not a simple set of steps involved—there needs to be consideration of risks in combination.
- The majority of respondents said they have not adopted what can be seen as two pillars of an ERM program: viewing risks as a portfolio and developing risk appetite and/or tolerance statements. These are tools that allow the relationships among risks to be considered. For example, consider a company that has a severe accident at a site in which employees and others are hurt. Right off the top there will be workers' compensation losses, general liability issues, business interruptions, brand and reputation

concerns, and more. The time to analyze the relationships is well before the accident, not while you are attempting to manage it.

- Where risks are combined in a portfolio analysis, our C-suite respondents were the most likely to be looking for correlation among risks. Although three-quarters of risk managers also were looking for those correlations, the numbers would ideally be at 100 percent, given that the purpose of a portfolio is to identify the relationships and manage the portfolio for greatest efficiency.

Industry Snapshot

The financial institutions sector stood out as the most likely to report combining risks in a risk portfolio analysis, with 61 percent of respondents saying they do so. On the low end were health care (15 percent) and manufacturing (18 percent).



Each year the *Excellence* survey looks for areas where risk managers and C-suite executives align. In 2011, we once again broke out a segment we call “Finance,” which includes such job titles as controller, assistant treasurer, and internal auditor.

Views Across the Organization

C-suite has highest expectations

The majority of those in C-suite, finance, and risk management roles all agreed that expectations of the risk management department have grown over time. But in most areas, the C-suite respondents were the most likely to say so.

- Senior managers seem to be saying that the opportunities to become stronger leaders within the organization are there—risk managers just need to step up and take them. Risk managers say they want increased support and improved communication with senior management. And yet, at the same time, it is senior management and finance that are more likely to be pushing for a deeper integration of risk management with operations. And it is the C-suite that is more likely to be calling for risk managers to step up in areas such as leading ERM activities, and increasing involvement in overall business strategic planning.
- Risk managers are more likely to view the new expectations as meaning they need to “do more with less.” This may well be a case where leadership now takes it for granted that all departments are expected to operate this way and don’t view it as any more of a burden or new expectation on risk managers than it is for anyone else. Risk managers need to heed the executive call to take leadership roles in ERM activities and integrating risk management practices in overall business strategic planning.
- The finance respondents were the most likely to say that risk management should be integrating deeper with other departments. This could serve risk managers well as much of this expanded role could be anticipated to

Indicate the areas in which senior management’s expectations of risk management have grown.



involve the financial implications of risk management. It could be beneficial for risk managers to spend time not only learning the language of finance within their organizations, but in offering risk management techniques to more fully link strategic objectives with financial performance.

- The finance department could also yield some allies for risk managers in increasing the use of technology to eliminate administrative tasks, the one area where finance really stands out for its support. Eliminating mundane, routine tasks can free up valuable time for risk management staff to take on a more strategic role for the organization.
- In light of the results for where expectations have grown, it's interesting to look at the question of how risk issues can be better integrated with strategic planning. The main concerns of risk managers here are to become involved early, to find increased support from senior leaders, and to improve communication with them. And yet, from the previous question, the expectations from the C-suite are that risk managers will be proactive in integrating risk management with operations, will lead ERM activities, and will increase their involvement in overall business strategic planning. Risk managers should seek opportunities to become involved in the organization's planning processes and strategic initiatives, rather than wait for an invitation.

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



Views Across the Organization

Responsibility for risk approach

Respondents vary widely in where they say the responsibility lies for setting the organization’s risk approach. Not only are there different opinions by role within companies, but different industries have their own tendencies.

- 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. It may well be the strength of the individual that matters most, not where in the organization that person is located.
- When looking at this question by role, some differences emerged:
 - The C-suite was most likely to say responsibility rested in the C-suite, and finance was most likely to say it rested in a financial position.
 - Risk managers and CROs, however, were most likely to say the CFO/treasurer held the responsibility, while placing the CEO third.

Industry Snapshot

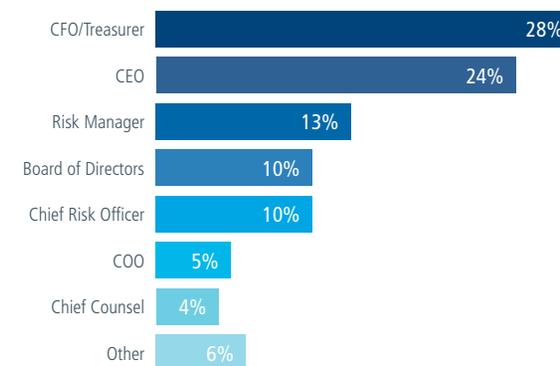
More than half the respondents in the CMT sector said the responsibility for setting the risk management approach rested with the CFO (52 percent). This was the largest percentage given to an individual role with any of the defined industries.

Other industries that were most likely to place the responsibility with the CFO were education (43 percent), energy (31 percent), manufacturing (33 percent), real estate (32 percent), and retail (40 percent).

The construction industry (43 percent) was the most likely to say that the CEO held that responsibility, a view shared only by the health care industry (33 percent).

Finally, the risk manager/chief risk officer was placed at the top by financial institutions (34 percent), power and utilities (30 percent), and public entity/government (42 percent).

Who has the primary responsibility for determining the organization’s overall approach to risk management?



Responsibility by Role

	C-suite	Risk Manager	Finance
1	CEO	CFO/Treasurer	CFO/Treasurer
2	CFO/Treasurer	CRO/Risk Manager	CEO
3	CRO/Risk Manager	CEO	CRO/Risk Manager

Views Across the Organization

Chief Risk Officer

The development of the role of Chief Risk Officer (CRO) is bringing a strong risk management voice into senior management ranks.

- The CRO and risk management respondents identified the same top four primary focuses: strengthen ERM capabilities, integrate ERM into strategic planning, technology upgrades and training/education. But CROs were much less likely to consider training/education the top focus area in 2011. Instead, they chose two areas related to strengthening and integrating ERM capabilities as their two top priorities, while risk managers ranked these as second and third.
- When it came to senior management expectations, CROs had an even stronger opinion of just how much they had grown, with 56 percent of CROs saying expectations had grown “significantly” compared to 38 percent of risk managers. This could be related to the CRO being positioned in the C-suite and thus “feeling the heat” more than the risk manager. And it is also likely that a company with a CRO is already well along the path of integrating risk management deeper with operations.

Have senior management’s expectations of the risk management department grown over the past three years?



What are the primary focus areas for developing your company’s risk management capabilities in 2011?



Views Across the Organization

Managing the top risks

The financial crisis not only changed the expectations on the risk management department, it also established the economy as the top concern for risk managers and their C-suite counterparts. And it's a risk they are none too comfortable about managing.

After identifying their companies' top risks, survey respondents indicated how comfortable they are that these risks are being managed appropriately in terms of their organizations' exposure to loss. They also advised whether there was a plan in place to manage each risk.

- Of the three subgroups we examined—C-suite, risk managers, and finance—only finance executives didn't choose "economic conditions" as their top risk, ranking it instead at number five. Business disruption, destruction/loss of physical resources, regulatory compliance, and technology/systems failure all raised more concern in the finance office than economic conditions, perhaps because of their backgrounds and daily exposure to the financial world.

- One area that bears attention is the significant gap between risk managers and the C-suite in their views of readiness for managing business disruption. Less than 60 percent of the C-suite believes their firm is ready, while more than 75 percent of risk managers said they were. A similar gap exists regarding the destruction of property. The two groups need to ensure they are fully aligned and ready to act in such critical areas.
- Organizations are also concerned about the impacts that government regulations and the legal environment are having on their businesses. The risk manager for one large retail chain said that the changing nature of regulations alone is enough to make it critical for the risk management department to be on the agenda both at board meetings and at various department meetings such as legal, audit, and human resources. And the director of risk management at a life sciences firm said the mounting regulatory burden has led to more scrutiny of the risk management function by the board.

Company's Top Risks	Risk Managers Rank (Readiness*)	C-suite Rank (Readiness*)	Finance Rank (Readiness*)
1 Economic conditions	1 (30%)	1 (26%)	5 (31%)
2 Business disruption	2 (76%)	3 (58%)	1 (63%)
3 Regulatory / Compliance	3 (60%)	5 (59%)	3 (62%)
4 Legal or regulatory shifts	4 (44%)	2 (47%)	6 (53%)
5 Litigation or claims	6 (70%)	5 (63%)	9 (56%)
6 Technology / systems failure	7 (63%)	11 (65%)	3 (60%)
7 Brand / reputation	5 (44%)	8 (51%)	12 (35%)
8 Data security / privacy breach	9 (65%)	7 (60%)	8 (53%)
9 Destruction / loss of physical resources	8 (80%)	20 (61%)	2 (73%)
10 Business continuity / crisis management execution	10 (67%)	13 (64%)	17 (58%)
Cash flow / liquidity	—	4 (47%)	7 (62%)
Talent availability	—	8 (25%)	
Competitors	—	10 (28%)	9 (36%)

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

Each year the World Economic Forum (WEF) releases its *Global Risks* report, taking a macro-level look at risk issues of importance. This year's *Excellence in Risk Management* survey asked respondents to tell us about their own risk issues, and also how—and whether—some of the broad-based risks identified in the WEF study are manifesting in their own companies.

Global Risks

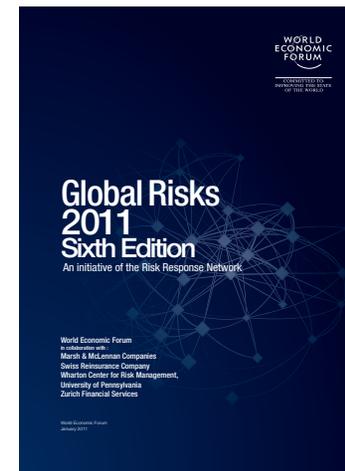
Worldwide risks not high on corporate radars

The *Global Risks 2011* report* observed that while the frequency and severity of risks to global stability have amplified, “the ability of global governance systems to deal with them has not. In particular, economic disparity and global governance failures are shaping the evolution of many other global risks, and inhibit our capacity to respond to them. The interconnectedness and complexity of issues mean that unintended consequences abound, and traditional risk response mechanisms often simply shift risk to other stakeholders or parts of society.”

The report identified three risk clusters:

- **Macroeconomic imbalances:** Including currency volatility, fiscal crises and asset price collapse, arising from the tension between the increasing wealth and influence of emerging economies, and high levels of debt in advanced economies.

- **Illegal economy:** Comprising state fragility, illicit trade, organized crime, and corruption. These risks, while creating huge costs for legitimate economic activities, also weaken states, threatening development opportunities, undermining the rule of law, and keeping countries trapped in cycles of poverty and instability.
- **Water-food-energy:** Demand for water, food, and energy is expected to rise by 30 percent to 50 percent in the next 20 years, while economic disparities incentivize short-term responses in production and consumption that undermine long-term sustainability.



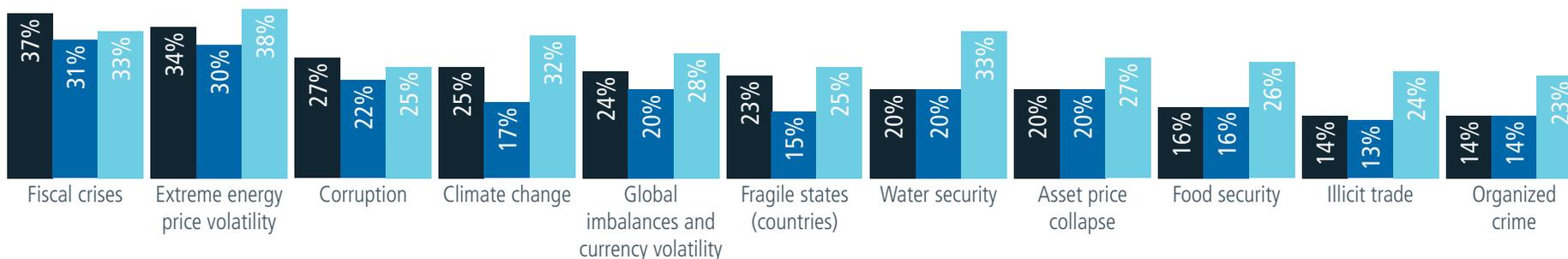
“Effective risk response is not only about proactively reducing the downsides associated with global risks; it is also about seizing the opportunities for innovation and growth that may arise.” —WEF 2011

* Marsh & McLennan Companies is one of the WEF’s four contributing global risk partners for the sixth edition, a group that also includes Swiss Reinsurance Company, Wharton Center for Risk Management (University of Pennsylvania), and Zurich Financial Services.

Global Risks

We took a sample set of specific risks within those clusters and asked respondents to indicate **(1) whether they are already on their organization’s risk register;** **(2) the degree to which the organization’s operations, earnings, asset values, and/or human resources may be exposed to direct or indirect physical or financial loss arising from an adverse event or development;** and **(3) whether the organization has taken specific measures to reduce vulnerability to loss or volatility.**

- In general, less than a third of *Excellence* survey respondents said their organization had placed any of the WEF risks on their organization’s risk register. The highest response was for fiscal crises, which matches with the high ranking for “economic conditions” in the *Excellence* survey. But as “asset price collapse” and “global imbalances and currency volatility” are also related to economic conditions, it is somewhat surprising that they did not rank higher.
- For nine of the 11 risks—with climate change, water and food security, illicit trade, and organized crime standing out—the percentage of respondents that said the risk is of relevance to the organization was much higher than the percentage saying they had done anything about the risk, either acknowledging them on their risk register or taking specific measures. This begs the question, if it is relevant to an organization’s earnings, asset values, or human resources, why wouldn’t these risks be monitored as part of the ERM risk register?
- Looking at organization size for those that said they have taken specific measures to reduce vulnerability, fiscal crises and extreme energy price volatility were far and away the “leaders of the pack” for companies with revenues exceeding US\$1 billion, as compared to the other nine risks and to companies with lower revenue bands. The highest degree of consistency of response for companies within all revenue bands was around fiscal crises, with all three classes showing a 32 percent response.



Already on our organizations risk register **Our organization has taken specific measures to reduce vulnerability**

This risk is of relevance to my organization's operations, earnings asset values and/or human resources

Recommendations

The period of economic disruption that began three years ago has changed the expectations on risk managers. Senior leadership expects more from the function, without necessarily providing additional resources to meet the challenge. As with any challenge, the new demands come with new opportunities for risk managers—and organizations—that step up and meet them head on.

Following are some recommendations based on this year's *Excellence in Risk Management* survey, to help companies think and act more strategically about risk management:

- Look for leadership opportunities in your organization's advancement in enterprise risk management. Whether it's making sure risk management is on the agenda at appropriate meetings, creating or improving a cross-functional risk committee, or leading the entire effort—be a catalyst. As the risk manager at one health care organization put it, the firm's new emphasis on ERM means her department now has a "chance to shine."
- Continue to break down organizational silos. Embrace senior management's goal to integrate deeper with operations. Focus risk management efforts on the value you can add to the organization in achieving the organization's strategic and operational objectives.
- Continue to break down organizational silos. Meeting the goal to integrate deeper with operations means being more visible in your company. Get out of the office when possible and see how your company actually does business.
- Look for allies in other departments. You may find, for example, that your finance department shares the desire to improve the firm's technology. Or that your IT director has some thoughts on better protecting the company's digital assets. The key is to have the conversations.
- Understand the analytical tools and methodologies that are available to help you dig deeper into your company's risk issues. It's important to find the appropriate tools, use them effectively, and share the results with decision makers.
- Take some time to consider risks that are relevant to the success of your organization from a broader perspective, such as that presented by the *World Economic Forum Global Risks 2011* report. Although a risk issue such as "water scarcity" may not seem relevant now, the global economy with its far-flung supply chains could alter that one day.
- Use this survey to generate discussions and to elicit views from across your organization about the role, value and direction of risk management.

Appendix

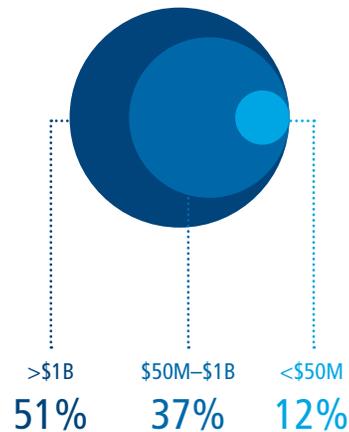
Respondent demographics

The findings in this report are based on responses to a survey conducted in February 2011. A total of 1,022 people participated in the survey.

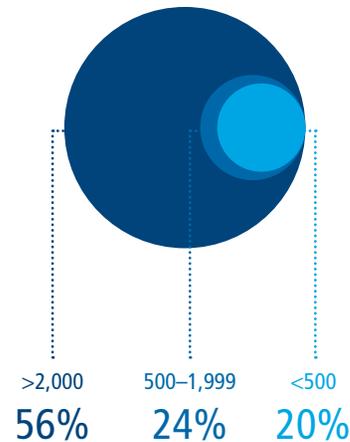
Job Function



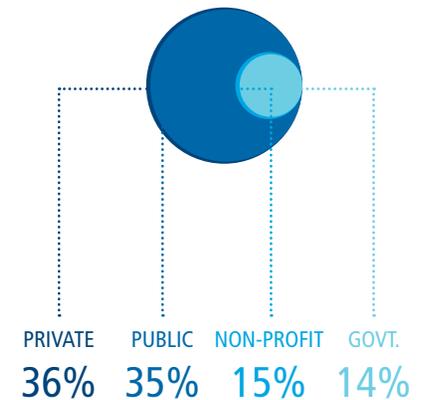
Company Size (revenue)



Number of Employees



Organization Type



The information contained in this publication is based on sources we believe reliable, but we do not guarantee its accuracy. This information provides only a general overview of subjects covered, is not intended to be taken as advice regarding any individual situation or as legal, tax, or accounting advice and should not be relied upon as such. Recipients of this publication should consult their own insurance, legal, and other advisors regarding specific coverage and other issues.

This document or any portion of the information it contains may not be copied or reproduced in any form without the permission of Marsh Inc., except that clients of any of the Marsh & McLennan Companies need not obtain such permission when using this report for their internal purposes, as long as this page is included with all such copies or reproductions.

Marsh is part of the family of Marsh & McLennan Companies, including Guy Carpenter, Mercer, and the Oliver Wyman Group (including Lippincott and NERA Economic Consulting).

Copyright 2011 Marsh Inc. All rights reserved.

Compliance No.: MA11-10652

