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BusinessWeek
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A WORLD OF RISK

Since 2001, the business world has been rocked by an unprecedented series of catastrophes, such as the September 11 attacks, accounting scandals, and Hurricane Katrina, to name just three.

THESE MEGA-EVENTS have brought the concept of business risk to the forefront of executives' concerns everywhere, and now the discipline of risk management, which had been working diligently in the background of the business world for decades, is getting its time in the spotlight.

Risk management is becoming a strategic concern involving the board, C-suite, and a broad array of corporate managers. "There is more to risk management than just the insurable interests in an organization," says Michael Liebowitz, president of the Risk and Insurance Management Society Inc. (RIMS), in New York, and director, risk management and insurance, for New York University. "The board of directors, trustees, or officers of an organization have seen an overwhelming need to include not only an insurance strategy into their operations, but an enterprise-wide risk management strategy, so they are not surprised by any unknown exposures that might be lurking in the wings."

The risk manager helps protect his or her organization both internally and externally from threats to its integrity, whether property, assets, or people. Applying the risk management model of risk identification, assessment, measurement, mitigation, and monitoring to the satisfaction of management and governance makes risk management a vital corporate function.

As a discipline, risk management grew out of mere insurance program management, but has since incorporated elements as disparate as worker safety, legal compliance, information technology, and even strategic business

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Zurich Financial Services

Over the years, insurance leader Zurich Financial Services has been a visible partner of the Risk and Insurance Management Society (RIMS) on many fronts, including the annual RIMS conference and on numerous RIMS publications projects. For John Ormerod, Zurich's global corporate marketing head in North America, the partnership between RIMS, Zurich, and the risk manager has been a productive one.

"I think that as a body, RIMS has had a major influence in enhancing the visibility and the reputation of the risk management community," Ormerod says. "Through our partnerships with RIMS, we have had good opportunities to engage in meaningful dialogue with leading risk managers."

Ormerod cites its participation in the RIMS conference as well as special RIMS publishing projects as a great way to help risk managers face the challenges of their discipline. "Being involved in such forums helps us participate in the thought leadership of this industry," Ormerod says. "I think that working with RIMS helps us make sure to get opinion leaders from the risk management community involved."

development. Where there is a way for an enterprise to run into trouble, there is a risk manager figuring out how to keep that risk locked down.

Driving the Discipline

What does it mean to manage risk? And what does it mean to be a risk manager? Every enterprise has different definitions, based on its own perceptions and expectations. Still, several common issues of major importance can be identified.

One key trend is the move toward enterprise risk management (ERM), which looks at risk management from a strategic, rather than tactical, viewpoint. The philosophy has been around for decades, but as the risk climate has intensified, ERM is increasingly seen as the ideal way to manage the variety of risks an organization faces. ERM recognizes that unfortunate events generally do not affect just one area of the business.

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For example, if a hurricane damages your facility, the obvious business concerns would be to make necessary repairs and get operations up and running. But what about your suppliers? Maybe they were hit harder than you and are unable to meet your needs. Do you have an alternative solution? What about the emotional well-being of your employees, who might have lost their homes and are unable or unwilling to come to work? Do you have a program to provide for them? Or what if the damage caused hazardous chemicals to leak into the environment? Do you understand your liabilities, and do you have a clean-up strategy?

ERM attempts to address an organization's risks as a whole rather than as individual parts. By seeing the big picture, risk managers can then design a program that coordinates seemingly disparate risks into a cohesive risk management approach.

To that end, RIMS, a nonprofit organization that provides 10,000 risk management professionals around the world with a wide array of products and services, has developed its ERM center of excellence, an online resource for news, tools, and information about enterprise risk management. The online center's risk maturity model for ERM, for instance, is a tool designed to provide

risk managers with guidelines and best practices for developing effective risk programs. Users take an online benchmarking exercise that assesses the maturity level of their risk program and then develops a plan to improve its effectiveness.

Initiatives such as these are doing a lot to bring ERM from a theoretical concept to actual implementation, says Carol Fox, senior director, risk management and business continuity planning, for Cincinnati-based Convergys Corp. and the vice chairman of the RIMS ERM development committee. "We are on the cusp of moving ERM from a best practice to a requirement," she says. "Our partnerships, reaching out to other risk practitioners in actuarial societies and rating agencies, and being inclusive in our approach are really helping the entire risk management discipline."

Reality Check

As for the rest of the world, the terrorist attacks of September 11 were an eye-opener for the insurance industry. Not only was the catastrophe one of the costliest in history, resulting in tens of billions of dollars in insured losses, it also illustrated how ill-prepared insurers were for losses of this magnitude. If large-scale terrorist acts were to become the new reality, insurers feared that they would be unable to afford to pay the claims from another such disaster. Enter the Terrorism Risk Insurance Act (TRIA). Passed by Congress in 2002, the law was designed to provide insurance companies with a federal backstop in the event of another devastating terrorist attack. The Act made it possible for insurers to offer terrorism coverage at relatively affordable rates and also gave them time to devise a more effective long-term solution to terrorism exposure. Although it was initially set to expire at the end of 2005, TRIA was extended until the end of 2007.

With that expiration date fast approaching, risk management lobbyists have been active in Washington to ensure that the interests of the risk management community are met by whatever solution is devised to follow TRIA. Says Terry Fleming, director of the division of risk management for Montgomery County, Md., and a member of the RIMS board of directors: "The major hurdle that we see is getting the administration to support a permanent solution to terrorism exposure. Congress has indicated the desire for a permanent solution and not another extension. However, if an extension is the only option, I believe that it would pass for at least another two years."

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Looking at the world since the new millennium, it's no wonder the profession of risk management continues to grow by the day. Corporate boards have been navigating through unprecedented volatility throughout the past decade. With ever-increasing globalization, unpredictable weather, and reliance on emerging technology, the future doesn't appear any less rocky.

The Discipline Evolves

It hardly seems a coincidence that this period can also be categorized by a rise in risk management. More now than ever, the risk manager has rapidly evolved past the role of mere "insurance buyer" into the realm of integral strategic planner. Indeed, the position of chief risk officer, or CRO, is now in place in many Fortune 500 companies, and the weight given to the knowledge and capabilities of such professionals—regardless of title—is at an all-time high.

Once you are the CRO, you are a C-level executive, which gives you more access to information and more impact on the direction of the business, says Joanne Berkowitz, executive vice president and chief enterprise risk officer of The PMI Group Inc., a financial products company in Walnut Creek, Calif. In two ways, her professional duties changed upon becoming a CRO: "The first is that being CRO for an entire group of companies, you are taking a holistic view of risk across all of the organization, versus concentrating on any one part of any one company in the group. But it also makes you pay attention to all risks—operations, credit, strategic risks. It provides me with a much more robust responsibility and view of the organization's risk."

The salary of risk management professionals has continued to rise for years, and the emergence of and continued promotion to the CRO level will likely only propel this trend. Of course, as we steer into a period of heightened disaster, accountability, and information technology, elevating the status of the company's first line of defense against risk only makes sense.

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Produced by: **Carey Publishing Group**
www.careypublishing.com

Written by: **Bill Coffin, Morgan O'Rourke, and Jared Wade**
Risk Management Magazine

Designed by: **AAC Saatchi & Saatchi**
www.aac.bm

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