

## ROLE AND POSITION OF THE RISK MANAGER IN HIS/HER ORGANISATION.

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4<sup>th</sup> Mini Euro-Conference, Palais des Congrès, Liège.

### INTRODUCTION

Good afternoon, ladies and gentlemen, [dear supporters and other attendees],

It is a honour for me to speak for this selected company and in this perfect atmosphere. I would like to give a short presentation about the role and position of the risk manager in his or her organisation. More indirectly I will tell something of the development of risk management in the Netherlands and Belgium.

First of all I will give an idea of my background, why am I doing here a presentation?

My name is Bram Kamp. I am studying Insurance economics and risk management at the Erasmus University of Rotterdam. Last october I visited on an invitation of the AEAI the risk management forum in Monte Carlo.

**Bram KAMP**

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**Insurance Economics / Risk Management**

**AEAI / RIMS Forum Monte Carlo**

**Stage: Noord Natie Antwerp**

**Graduation: september 1994**

To learn more practical risk management I did a stage at Mr. Daelemans, risk manager at Noord Natie. Noord Natie is the largest independant general cargo handling company in the port of Antwerp. There I learned the importance of claims management and legal knowledge. For my final thesis I decided to do a survey for the role and position of the risk manager in his / her organisation. This resulted in a series of 23 interviews with risk managers of very different companies in the Netherlands and Belgium.

I will graduate in september 1994 on this thesis and perhaps I am then available for your company.

### WHAT IS RISK MANAGEMENT?

Risk management has been developped from several points of view. I distinguish three different perspectives.

First of all there is a technical / safety viewpoint.

This is the oldest one. The pioneer in this field of risk management was a prominent French authority on general management, Henri Fayol. As early as 1916, Fayol recogni-

zed six basic activities of an industrial undertaking. These activities are:

- *Opérations techniques*: technical activities (production, manufacture, adaptation).

- *Opérations commerciales*: commercial activities (buying, selling, exchange)

- *Opérations financières*: financial activities (search for an optimum use of capital)

- *Opérations de comptabilité*: accounting activities (stock taking, financial statements, costs, statistics).

- *Opérations administratives*: managerial activities (planning, organisation, command, coordination, control).

- *Opérations de sécurité*: security activities (protection of property and persons).

## RISK MANAGEMENT (TECHNICAL / SAFETY)

Henri Fayol (1916):

- \* Opérations techniques
- \* Opérations commerciales
- \* Opérations financières
- \* Opérations de comptabilité
- \* Opérations administratives
- \* Opérations de sécurité <----

Fayol stated that the object of the security activity ...

...is to safeguard property and persons against theft, fire and flood, to ward off strikes and felonies and broadly all social disturbances or natural disturbances liable to endanger the progress and even the life of the business. It is the master's eye, the watchdog of the one-man business, the police or the army in the case of the state. It is generally speaking all measures conferring security upon the undertaking and requisite peace of mind upon the personnel.

The technical / safety viewpoint has still big influence in technical companies, such as chemical and petrochemical industries.

Secondly there is the insurance perspective. This perspective is nowadays the strongest movement and was developed in the 1960's in the United States. Of course I am also influenced by this mainstream as my studies are called Insurance economics. The main purpose of this movement was to save money on insurance premiums and was financially oriented. Nowadays we call these activities risk financing. It was no surprise that insurance companies and brokers saw this development with some hostility. The large captive movement is based on this phenomenon.

Third there is a more difficult, a philosophical perspective.

This small stream states that risk should not always be seen as bad. It could be positive or negative. Risk should be considered a "fact of life", where we have to deal with. In this perspective risk management should be an "art of life". Insurance made us perceive the phenomenon of risk as threatening, although we could also learn from experiencing risks.

## RISK MANAGEMENT (PHILOSOPHICAL)

RISK : a FACT of LIFE

RISK MANAGEMENT: an ART of LIFE.

TASK RISK MANAGER:

To protect the company from too MUCH protection.

In this light you can also see the statement of a Swiss risk manager on his task: "To protect the company from too much protection." Make people aware of the risks they are running. Make them act like there is no insurance.

I think this stream has still many barriers to cross, and it will take at least ten years before it is adapted generally.

## INTEGRATION.

More and more one comes to the conclusion there is a need for an integrated, more broader, holistic, risk management approach. Already more than 10 years ago Skandia developed its well-known risk management model. See separate SLIDE 1. In this wheel-shaped model the risk manager is positioned as a coördinator, standing in the center of all sorts of risks and dealing with very different people in the organisation. A risk manager must not think he has to know all about every risk: for that purpose he can consult anyone next to him.

Another model was already showed yesterday by Mr. Felix Klomann. See separate SLIDE 2. This one is a real holistic model. The risk manager has to cope with all possible risks that can threaten the enterprise. Not only the traditional risks on the right-hand side (the Hazard risks), but especially on the left-hand side (the Business risks). Dynamic risks are nowadays far more threatening than the pure risks only. Think for example of the cases of the Exxon Valdez and Perrier. Product recalls can severely damage the reputation of a company. There is nothing new under the sun as Shakespeare knew this fact already more than 350 years ago.

## REPUTATION RISK MANAGEMENT

William Shakespeare (1604):

*Who steals my purse steals trash - 'tis  
something, nothing;  
'Twas mine, 'tis his, and has been slave to  
thousands;  
But he that filches from me my good name  
Robs me of that which not enriches him  
And makes me poor indeed.*

Othello.

In this presentation I will use the following definition of the Glasgow Caledonian University: Risk Management is the identification, analysis and economic control of those risks which can threaten the assets or earning capacity of an enterprise.

MY SURVEY: Role and position of the risk manager.

To get more insight in the matter of practical risk management I held in the beginning of this year 23 interviews with risk managers in the Netherlands and Belgium. I realise this is relatively small group, but that personal talk revealed more about risk management than a written question form. Personal interviews have their time restrictions.

Most companies are large multinationals: 13 companies have a turn-over of more than 20 billion Dutch guilders and 6 companies have more than 60.000 employees.

ROLES and TASKS: What do these risk managers do?

In this survey I gave risk managers three possible answers at different subjects for which they were (1) actively responsible, (2) consulted or (3) not involved.

Between brackets after each figure you can see the results of a similar, more extended survey of the former French ACADEF (now: called AMRAE: Association pour le Management des Risques et des Assurances des Entreprises). Please watch the astonishing similarities between those figures.

The tables speak for themselves:

### What do these risk managers do?

	1	2	3
Risk identification	76 (61)	20 (37)	4 (2)
Risk analysis	70 (66)	30 (33)	0 (1)
Evaluation of risks	82 (54)	13 (31)	4 (15)
Insurance	100 (90)	0 (7)	0 (3)
P wording, limit, ded.	91 (91)	9 (7)	0 (2)

### What do these risk managers do? (2)

	1	2	3
Annual budget	85 (80)	10 (17)	5 (2)
Choice of brokers	89 (83)	10 (14)	0 (3)
Choice of insurers	78 (83)	17 (14)	4 (3)
Prevention / protection	28 (26)	54 (60)	17 (14)
Claims & loss adjustm.	81 (89)	4 (9)	15 (2)

## What do these risk managers do? (3)

	1	2	3
Disaster planning	22 (17)	54 (38)	24 (45)
Mergers & take-overs	22 (?)	19 (?)	59 (?)
Personnel coverages (accident only)	60 (39)	24 (23)	15 (38)
Group insurance (incl. retirement)	15 (25)	3 (26)	82 (49)

Some comments on these figures:

INSURANCE, the buying of insurance policies, is clearly the central role of the risk manager. 100% of the risk managers is actively responsible for insurance.

At the PREVENTION / PROTECTION plans the risk manager is usually consulted. The responsibility remains at the work division.

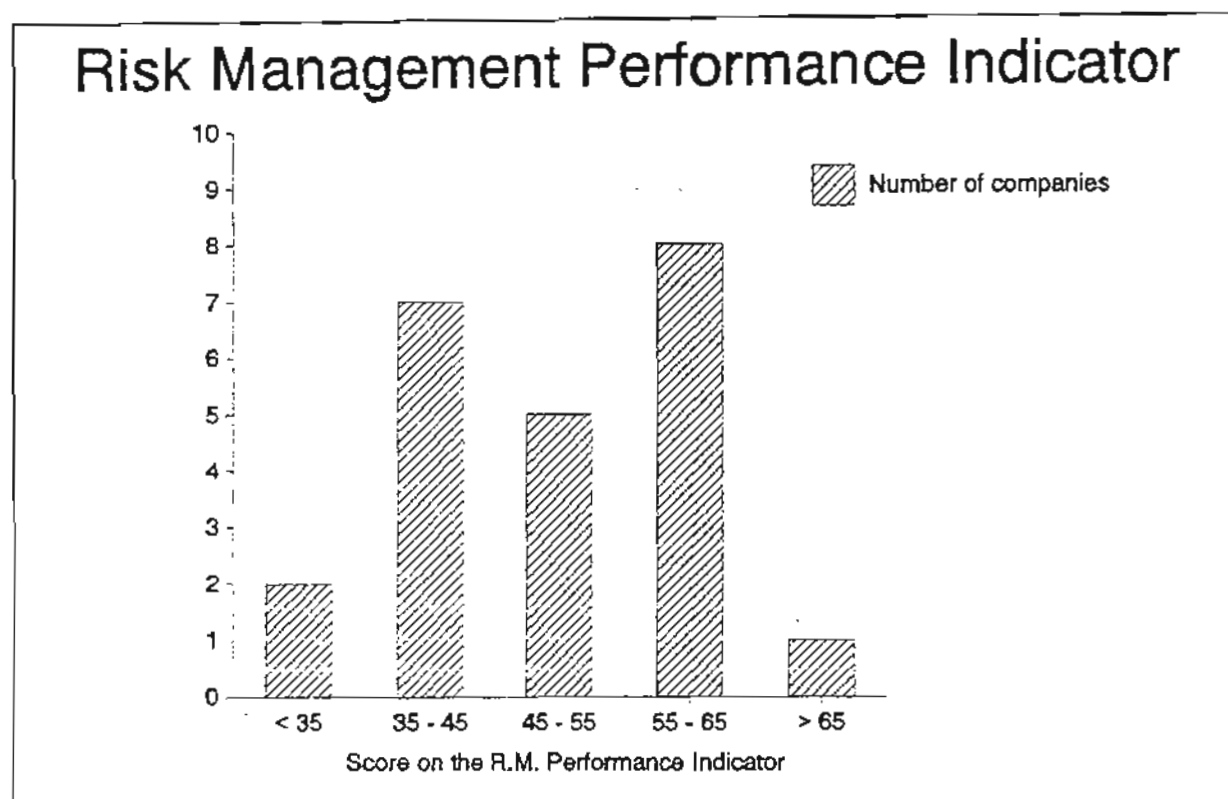
DISASTER PLANNING is a newer topic. Half of the risk managers is being consulted. A quarter is actively responsible. Another quarter is not involved at all.

At MERGERS & TAKE-OVERS 60% of the risk managers is not involved. It could be important to be aware of f.e. environmental risks. In smaller companies or with a risk manager high in the hierarchy they are actively responsible.

The figures do not show many differences between the Dutch\Belgian and French situation. As was concluded in Risk Management Reports on the subject of disaster planning (and mergers & take-overs) the Dutch\Belgian risk managers are also some years behind the U.S.A. in this regard.

## R.M. PERFORMANCE INDICATOR.

On the basis of this survey I developed a risk management performance / involvement indicator which is intended to measure the relative importance of the risk management function / department within the organisation. Of course, it is more or less subjective, I gave myself the weights to the different factors.



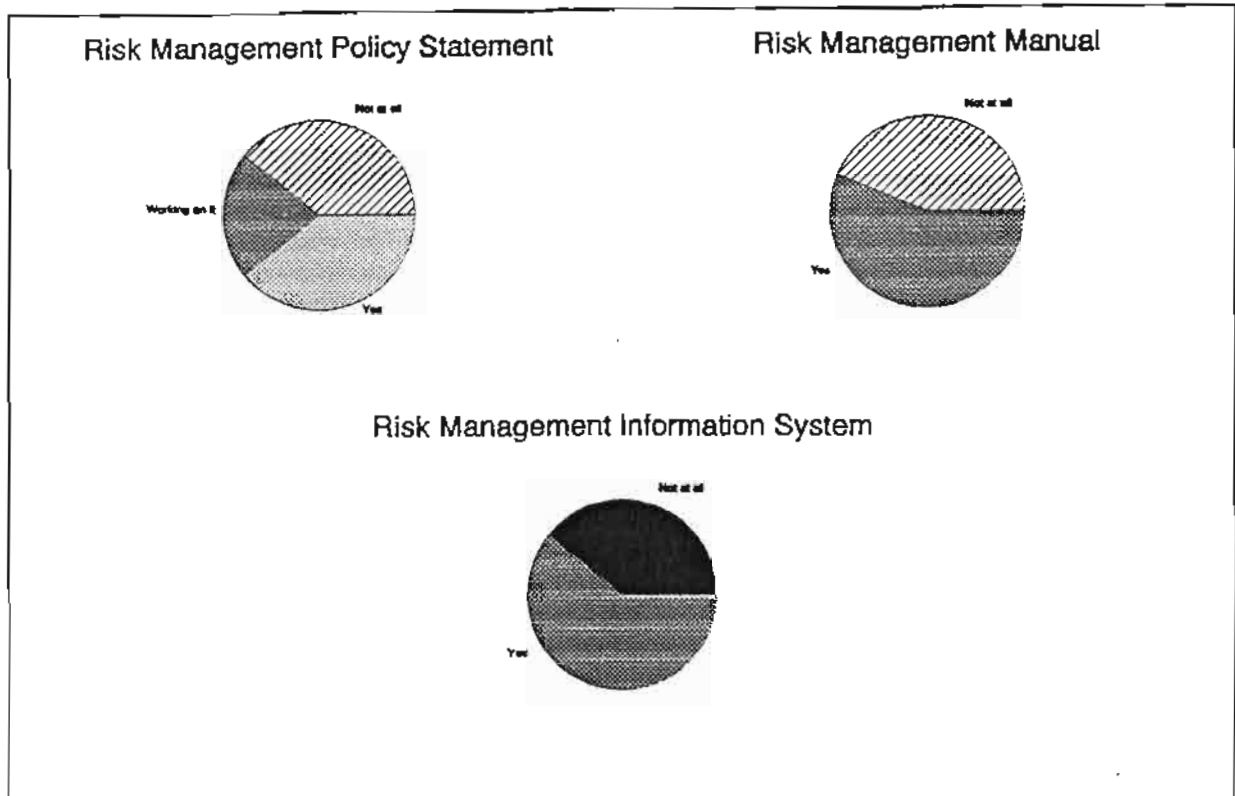
Heavy weights in this risk management performance / involvement indicator were given to:

A: The existence of a risk management policy statement, manual and information system.

In the survey was asked for the existence of a Risk Management Policy Statement. 40% of the risk managers did have one. 20% was working on it and another 40% did not have a policy at all.

A risk management policy statement is the foundation of a risk management program. Senior management and possibly the board of directors become involved through the process of ratifying and communicating the policy. It provides the risk management function with the authority and operating guidelines to construct an effective risk management program.

It is just like the saying: When you don't know your destination, it is really hard to get there.



56% of the risk managers did have a risk management manual. A risk management manual sets out the practice which the company wishes to see implemented. A manual is mostly practically oriented.

60% of the enterprises did have a risk management information system.

A risk management information system contains at least 3 subjects:

- Valuation of the enterprise's assets.
- Administration of accidents and loss figures.
- Administration of insurance policies.

B: Involvement in more speculative risks.

These are acquisitions (take-overs and mergers), disaster planning, reputation risk management, contacts with quality management, prevention and protection plans.

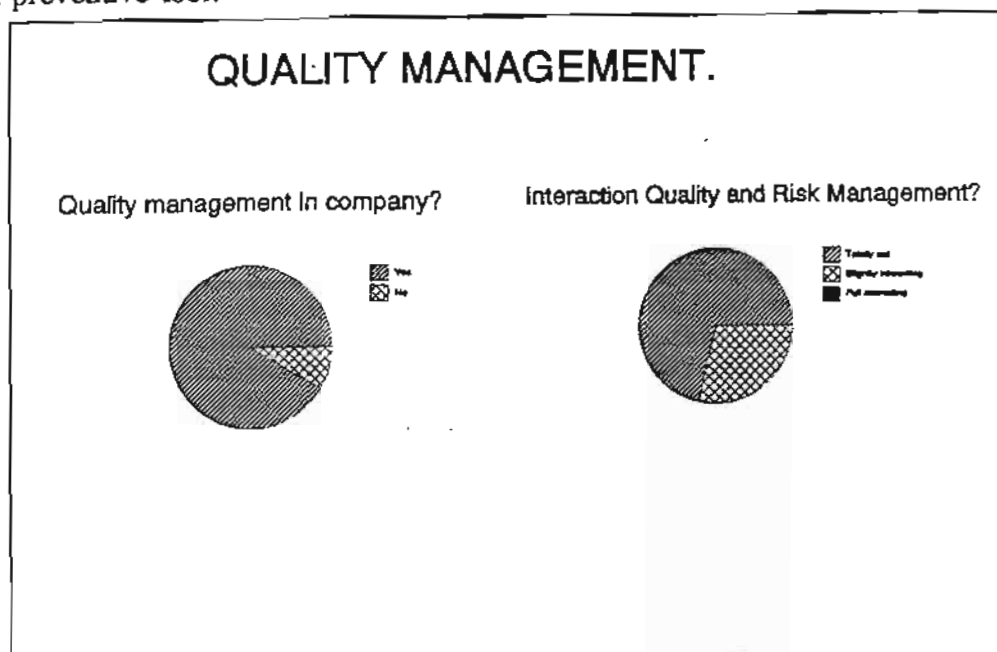
#### QUALITY:

More and more companies practice some form of quality management. ISO 9000, 9002, Kaizen and TQM are common terms in business. Total Quality Management can help



reduce risks as a preventive tool.

Although both do exist in most companies, as you can see on the slide, it comes never to a full interaction. On this special field there lie great opportunities for new survey.



C: ranking in the hierarchy.

Risk managers reporting to a higher level in the hierarchy do have more involvement than others.

D: keeping current by reading risk management magazines:

The number of references was counted, with a restricted maximum.

#### RISK FINANCING:

Risk management contains also the financing of those risks the risk manager wants to transfer: that is INSURANCE. In the world of insurance the broker and the insurance company play still a central role.

Although I hope most risk managers did not feel like the man on the separate SLIDE 3, there exists some dissatisfaction about insurance brokers.

Only one risk manager does not make use of broker services. He does his business directly with insurers. Three risk managers have one single broker. 11 risk managers have two or three brokers. Eight risk managers have more than 3 brokers.

Among these are the famous ones: Alexander & Alexander, Marsh & McLennan, Mees & Zoonen (partner in the Unison network), Sedgwick and Rollins Hudig Hall. Belgian risk managers also named Boels & Bégault.

The reasons risk managers select their broker(s) are the following:

- Know-how, market knowledge.
- International network; although two R.M. say insufficient.
- Service oriented, commitment.  
(being more than a mailbox).

Several risk managers do not trust their broker(s) completely (for 100%).

A couple of them were not satisfied. They complain about many promises made, few are true. Others are clear: when my broker did not satisfy me, I would have another.

#### INSURANCE COMPANIES:

The insurance companies are the risk carriers (although they reinsure again).

The list of insurance companies is much longer, but it is clear that only a small group can play on a world scale. This includes: Allianz, Zürich, Winterthur, Royal, A.I.G., Cigna and Gerling. It is remarkable that Dutch insurers are almost absent on their own industrial insurance market.

The criteria (mentioned by risk managers) on which an insurance company is selected, are the following:

Solvability / credibility (rating)	15
Long-term partner / commitment / service	8
International operating	7 (2 say = NOT)
Specialisation	
Speed in paying damages	
Premiums.	

Most risk managers are satisfied, but it seems that Allianz and Gerling have a few very satisfied clients. Perhaps they show better commitment through an industrial spirit?

<[ By the way, I am not payed by the mentioned companies, nor do I possess stocks or options in them ]>

Although satisfied, the critics were severe, I will mention some of them:

- "They have insufficient market knowledge (i.e. knowledge of their clients)".
- "They have no idea of the underlying risks".
- "They have evolved from insurers toward financial institutions".
- "European insurers show more commitment. Preferably an American insurer never take the lead on our policies.

Most risk managers are also doing business directly with insurance companies (i.e. without a broker). The reasons for doing business directly are:

Cost reduction	8
Shorter lines / more involved	6
Better quality	3
More risk information	

## CAPTIVES.

Two thirds of the enterprises has established their own insurance company, named a captive or a captive (in-house) broker. This seems a bit high, but it can be understood when we consider the turn-over of the companies.

Most of the insurance captives are located in the Netherlands and on Bermuda. Other popular places are Luxembourg and Curaçao (for the Netherlands). Ireland, United Kingdom, United States, Switzerland and Belgium were named once.

The reasons for establishing a captive were:

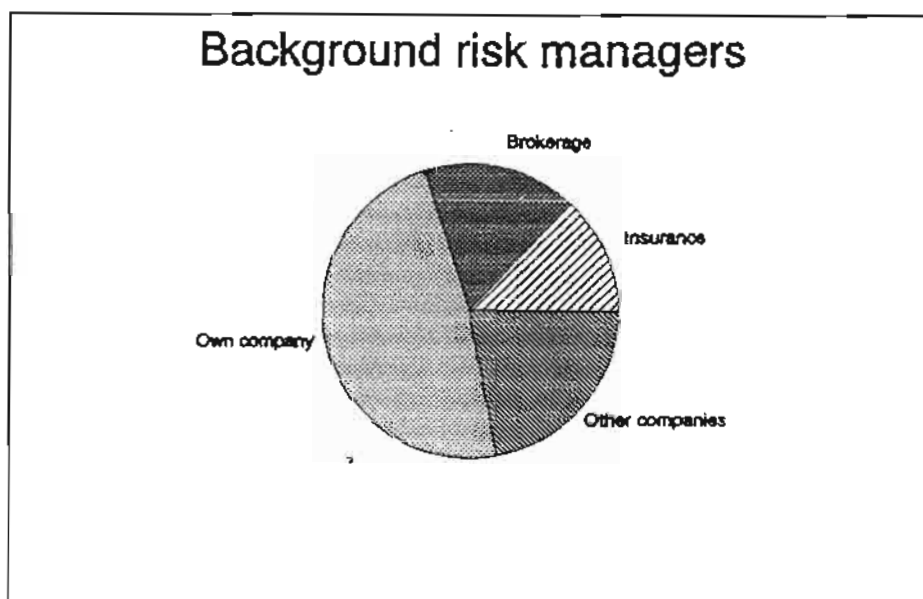
Own risk financing	8
Cost control / risk management tool	6
Better image	4
Access to reinsurance market	3
Lack of capacity	3

British Petroleum calculated that from £ 1,- insurance premium only 37 cents remained risk premium (intended to finance losses). The difference was used by overhead, broker commission, etc, etc. This could be a strong reason to establish your own captive.

## POSITION of the RISK MANAGER.

About the position I can be much shorter: Most risk managers report to the Finance department, only 2 risk managers report directly to board of directors and 5 report to the legal department.

More than two thirds of all companies started their risk management



activities in the 19 eighties or later.

## Background

Most risk managers worked for a long time in their own company; they know the enterprise like their own house. Almost one third has worked in insurance or brokerage. The others come from other companies.

## CONCLUSION:

In this short presentation I described what developments took place in history. The technical/safety and insurance points of view are still dominating risk management. Nowadays companies do need a broader risk management approach. Comparing the Dutch / Belgian situation with the French one, there are not remarkable differences. Based on the U.S.-French comparison one could also say for the Dutch / Belgian situation that they are some years behind on the U.S.A.

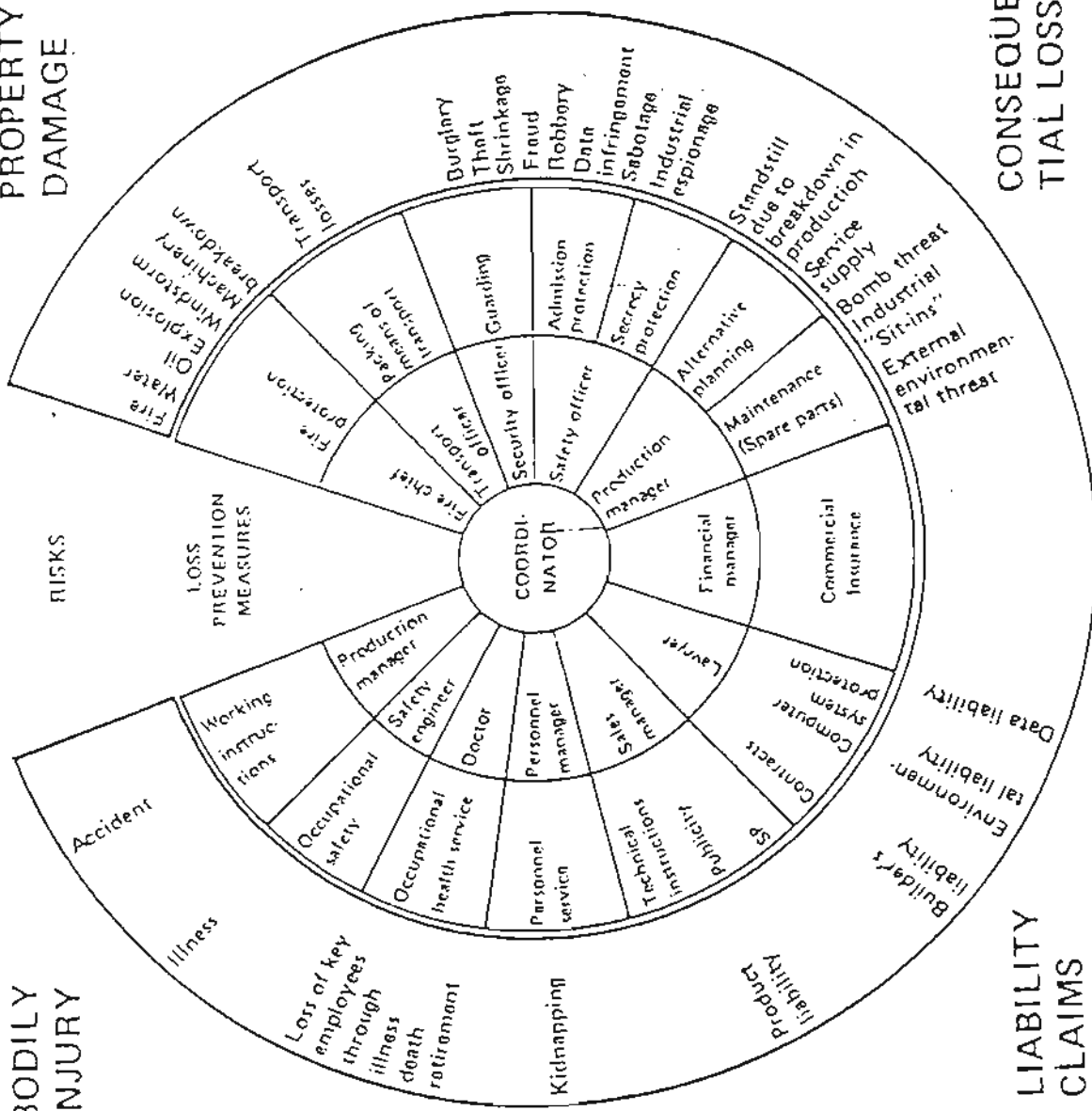
In my survey it became very clear that for many enterprises there is enough space for improvement. Only few companies rank high on my indicator. In my point of view in the next ten years the risk management function, with the right people, can show its value to the company and probably gain much more influence.

Thank you very much for your attention and I would like to give the word to Mrs. Dequae.

# CRIMINAL ACTIVITIES

PROPERTY DAMAGE

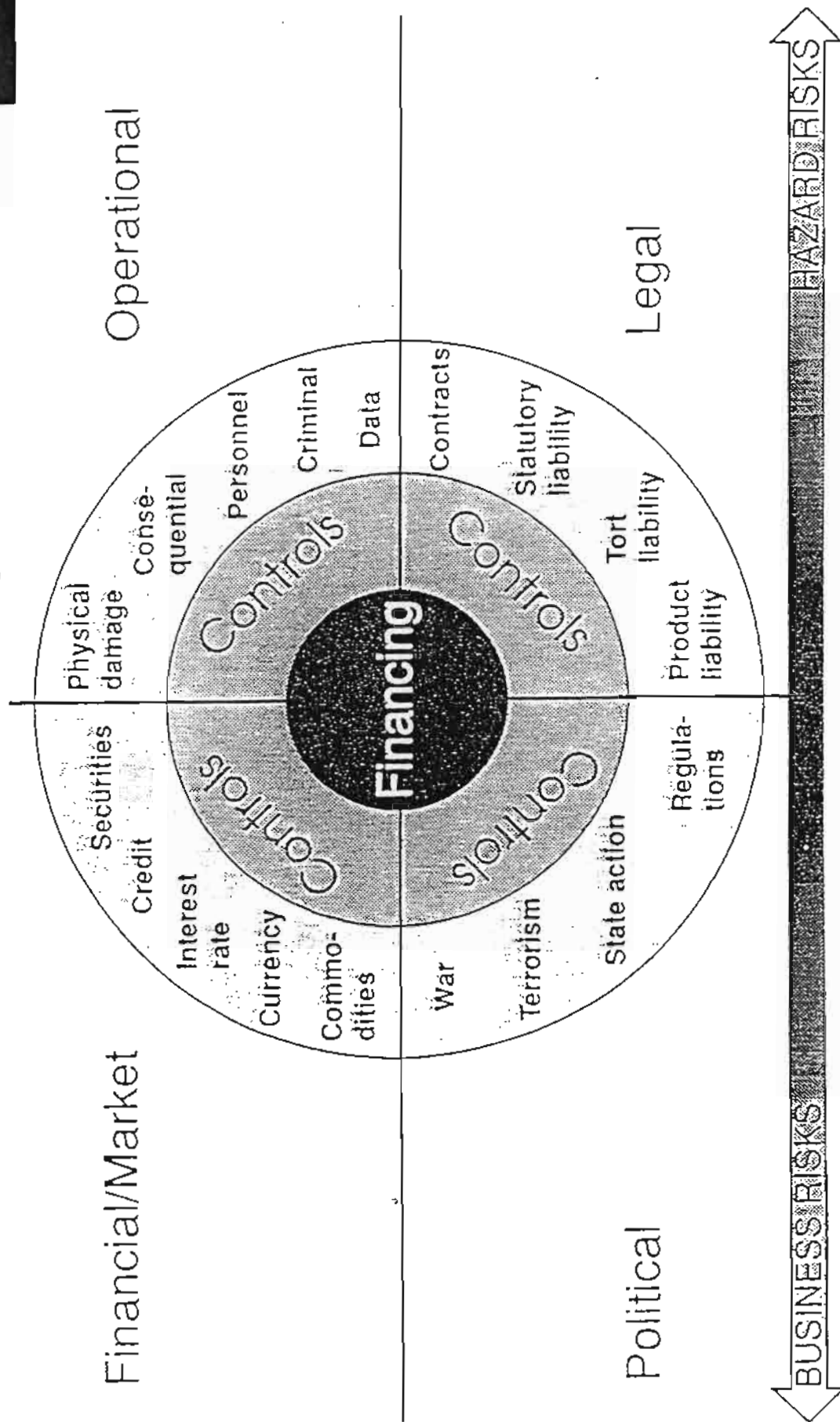
CONSEQUENTIAL LOSS



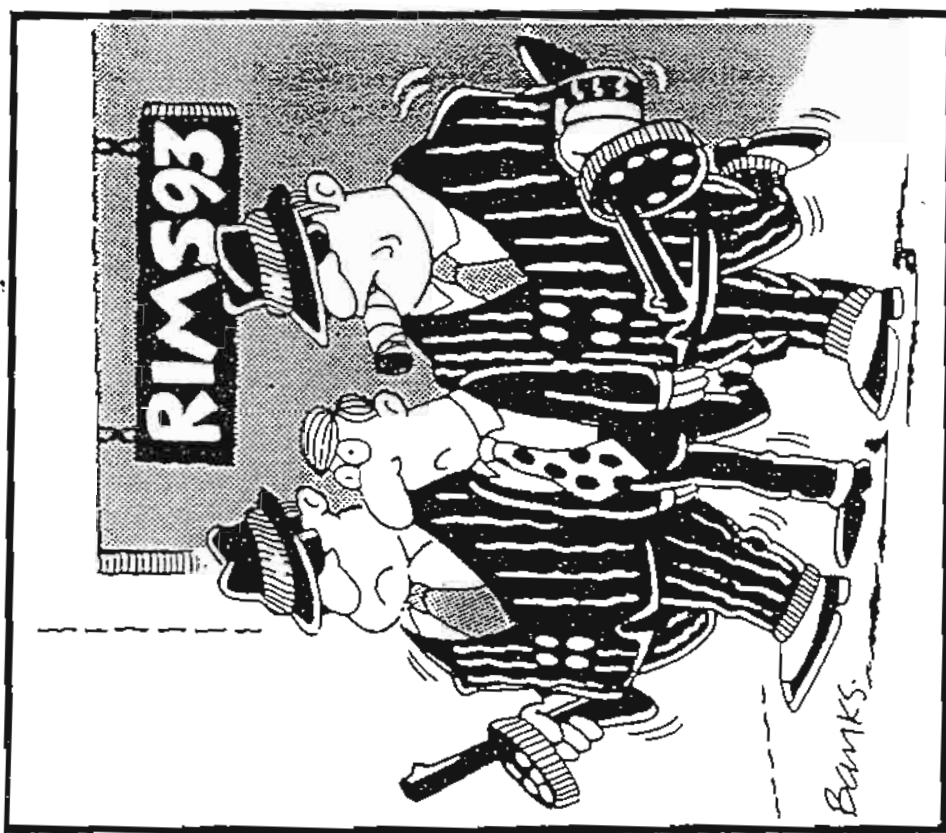
BODILY INJURY

LIABILITY CLAIMS

# The Risks In Risk Management



A fortuitous event...



....Brokers help their risk manager  
clients "enjoy" Monte Carlo

