

Practice vs. Preaching

A LITTLE RISK MANAGEMENT avoids a lot of fan cleaning," joked CNA's chairman and CEO, Steve Lienthal, during a discussion about enterprise risk management at last month's International Insurance Society annual conference. I only wish risk managers had been there to witness this firsthand. After being lectured for years about sound risk management, buyers would have been amused to see carriers and brokers challenged to get their own houses in order.

Indeed, it was refreshing to hear how a top broker, commercial carrier and financial services provider grapple with practical and cultural obstacles threatening to sabotage ERM—efforts being closely watched by rating agencies.

Insurers must practice what they preach—that was the essential message delivered by the three heavyweight speakers at IIS. With people entrusting their lives, families, homes and businesses to insurers and brokers, the industry has a responsibility to make sure its unique exposures are under control so clients get what they are promised, no matter what the circumstances.

Leave it to a life insurer to deliver a definitive risk management philosophy for carriers and brokers everywhere. "In a true ERM culture, everyone is a risk manager," said Principal Financial Group's chairman and CEO, J. Barry Griswell, whose firm has a chief risk officer in place. "We must imagine the unimaginable." He cited earthquakes, hurricanes, terrorist attacks and pandemics among his most feared concerns.

"The question is not just whether you can survive economically, but operationally," he added. "Can you continue to function and do your jobs?"

Any entity's corporate risk unit "must have influence and authority" to be effective, advised Mr. Griswell. "It must be both partner and police," remaining independent of business units but working with them to identify, quantify and contain exposures.

Again, the speakers emphasized, money talks. If a risk management program is purely defensive, "it's hard to get past the

organizational inertia," said Greg Case, president and CEO of Aon Corp. "Focus more on the potential upside—the bottom line, the stock price, your competitive position—to get people to buy in."

However, a big concern for insurers and brokers—as well as their clients—is not to go overboard with risk management, in the sense that a company can become too conservative for its own good.

"You shouldn't start playing not to lose," warned Mr. Case. "You've got to look at ERM as value creation to make it work. Diagnostic models are essential, but they're just the table stakes. To win, you need to monetize the potential impact. What is ERM worth to you, literally? Look at its balance sheet impact."

“Enterprise risk management is not something you buy off the shelf and plug into your operation. It is a value system that must be internalized and evolutionary.”



CNA, which also has a CRO, seconded that advice. "The tendency is to become fixated on risk aversion and run the organization upside down," said Mr. Lienthal. "But we're in the risk-taking business. The key is to take risks responsibly and be fully prepared for the consequences."

He also urged risk managers of all stripes to "use your common sense. Don't just allow numbers spewed out of a computer to dictate your every course of action. What do your years of experience tell you?"

Ultimately, however, the speakers made clear that ERM is not something you buy off the shelf and plug into your operation. It is a value system that must be internalized, as well as evolutionary—adaptable to changing circumstances in a volatile world.

This certainly isn't too much to ask of an insurer or broker—not after they've made the same demands of their clients for years.

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