ERM – Everyone’s Responsibility to Maintain

ENTERPRISE RISK MANAGEMENT MIGHT SEEM LIKE AN EXECUTIVE FUNCTION, BUT EXPERTS SAY EVERY PERSON AND EVERY DEPARTMENT HAS A ROLE.

Lindsay Robison

“No my job.” Have you ever found yourself muttering that phrase? Come on, admit it. We all have ... in any number of aspects of our lives, even if it’s only voiced in our minds or disguised under coughs.

When it comes to risk management, enterprise risk management in particular, the first instinct may be to defer. A question about ERM or a request to perform an ERM-related task leads some insurance industry professionals to use that phrase while pointing toward management’s or the regulatory/compliance team’s offices.

And who can blame them? Especially when ERM experts such as Yvette Connor, principal of risk advisory and strategic risk practice leader for Grant Thornton LLP, make statements like this one: “Most insurance companies are performing some form of enterprise risk management for regulatory reasons, and in many cases, if a company is large enough, it’s filing an Own Risk and Solvency Assessment report with their lead state regulator.”

Even a basic definition of the practice could make people point the finger of responsibility in that general direction. Consider the following: “ERM is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings.”

But managing an enterprise’s risks isn’t just a regulatory issue, nor is it the responsibility of only one or two groups. For ERM to work correctly, the emphasis should be on the “enterprise” portion of the phrase, meaning every department and every person has a role.

“Enterprise risk management is best viewed as the responsibility of all — from the frontlines and frontline managers to the risk analysis team on up,” says Howard Kunreuther, author, James G. Dinan Professor Emeritus of Decision Sciences and Public Policy, and co-director of the Center for Risk Management and Decision Processes at the Wharton School of the University of Pennsylvania. “We’ve found that ERM works best when you have everyone involved.”

A Positive Spin on ORSA

Enterprise risk management is about more than governance and regulation. Yet, both are heavy influencers, because as Yvette Connor, principal of risk advisory and strategic risk practice leader for Grant Thornton LLP, says, regulatory reasons are why most insurers perform risk management.

Even though that often leads to the need to file an Own Risk and Solvency Assessment, “not all insurance companies qualify for ORSA reporting, but it has influenced the industry,” Connor says. “Regulators want to know how you’re managing your business and your risk and what you think that risk is worth.”

While there may be collective sighs inside insurance companies’ headquarters at the mention of such regulatory reporting, Connor sees it in a positive light. “For the first time, insurers have the ability to tell their risk stories in ways that fit their culture,” she explains. “They get to [explain] in their own words how they identify risk and manage risk.

“In this instance you’re not given a checklist,” Connor continues. “Regulators have said, ‘We’re not going to tell you everything you need to do. You tell us what you’re doing.’ And you get to describe it in your voice.”

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involved rather than thinking about it as a hierarchical process.”

For SFM Mutual Insurance Company, the transition to a company-wide system began in the early 2000s — right around the time enterprise began finding its place in front of the term “risk management.”

“I do think SFM has been forward-thinking as far as realizing risk doesn’t just lie in claims and underwriting, that traditional insurance company risk management perspective,” says Amanda Aponte, vice president and chief risk officer for SFM Mutual. “Risk is enterprise wide, and that means we can encounter everything from regulatory risks to weather risks.”

That thinking leads Aponte’s team to meet with all departments at SFM to discuss their risks. “What we’re trying to do as a company is take the mystery out of ERM and make it more than just an executive function,” Aponte explains.

“We’re providing more frontline education so that every employee has a handle on how [his or her] role may expose us to risk,” she continues. “Having employees understand that helps us stay viable, maintains our reputation, and keeps our business moving forward.”

Checking the List

Grant Thornton’s Yvette Connor says ORSA’s lack of a prescribed reporting checklist can be an insurer advantage, but Wharton School professors Howard Kunreuther and Michael Useem suggest companies make checklists to ensure they are master managers of their enterprise risks.

✔ Don’t pretend it can’t happen to you
✔ Involve personnel at all levels
✔ Recognize behavioral biases and simplified rules that misdirect company decisions
✔ Identify and appraise the risks you face
✔ Define your risk appetite and risk tolerance
✔ Take steps now to invest in protective measures
✔ Learn from your own adverse events and those of others
✔ Strategize for recovery
✔ Protect against extreme events through risk transfer
✔ Attract and prepare the next generation of company leaders

Source: “Mastering Catastrophic Risk: How Companies are Coping With Disruption”

Being Deliberate

Some people believe their intuition is their superpower. And while there are times when a person’s intuition might guide them in the right direction, experts caution against using intuition as part of a company’s enterprise risk management plan.

“Management decisions in preparing for and reacting to low-probability-but-high-consequence events often reflect behavioral biases and simplified decision rules that characterize intuitive thinking, including an availability bias, hindsight bias, underestimation of risk, overconfidence, minimum risk thresholds, myopia, and a status quo bias,” Wharton School professors Howard Kunreuther and Michael Useem write in their co-authored book “Mastering Catastrophic Risk: How Companies are Coping With Disruption.”

“Deliberative thinking, by contrast” the text continues, “gives greater attention to systematic analysis and complex protocols, both essential for company readiness for disruptions.”

While there has been progress in companies’ transitions from intuitive to deliberative thinking when managing enterprise risks, it’s a work in progress ... for everyone, according to Useem.

“I suffer from intuitive thinking as much as anybody, even though I teach deliberative thinking in the MBA classroom,” Useem admits. “We must force ourselves to retrain, rethink, and realign our thoughts and processes to become more strategic and deliberative.”

Source: Carol Williams, a former Florida Office of Insurance Regulation financial specialist and current founder and consultant with ERM Insights by Carol.