A PROFESSION IN TRANSFORMATION

Driving business value through risk and insurance management

RESULTS

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Foreword

We embarked on this research with an assumption that risk management is a profession going through a period of unprecedented transformation. However, we kept an open mind about this assumption.

The survey of 152 members concluded that risk management is as much a profession as law or accountancy. Our research shows that individuals are on a career journey in risk management, with the expectation that this journey could satisfy their professional ambitions, giving them the opportunity to gain new knowledge, learn new skills and develop in seniority.

As organisations adopt emerging technologies, experiment with new business models and are increasingly rated by the value of their intangible assets – such as reputation, data or intellectual property – the greater is their need to update some of the more traditional approaches to quantifying, managing and transferring risk.

In this report, we explore the 'why', the 'how' and the 'now what?' of a profession in transformation. We explore what transformation means in practical terms and set out the key priorities for risk managers as they take on the role of tomorrow's risk leader.

At the same time, we are publishing three reports that draw on different elements of the same data used to construct this report, to help deepen and enrich the story, and I urge you to seek them out:

- *Is the insurance market fit for the future?* An exploration of how insurers are supporting risk managers for tomorrow's world, supported by AXA Corporate Solutions.
- *Digital transformation.* A consideration of how digitalisation is transforming business models while creating strategic opportunities for members, supported by Chubb.
- *The value of risk and insurance management.* A discussion about why there is a greater need for risk and insurance managers to demonstrate the value of their role and the strategic contribution they can make to businesses, supported by JLT.

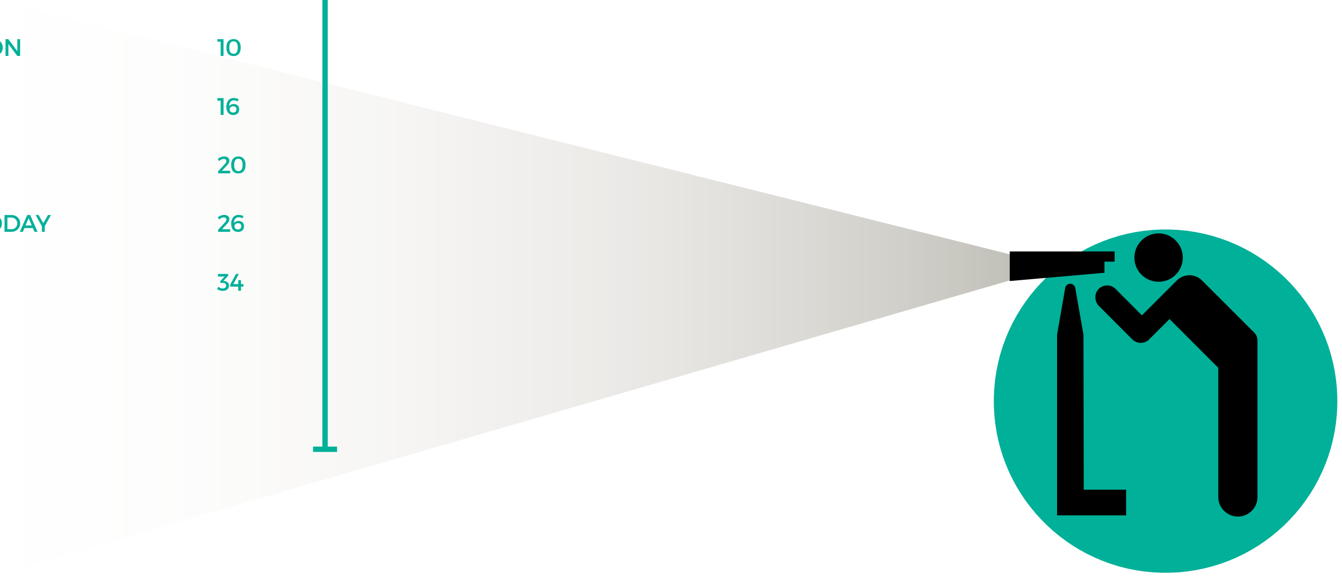
I would like to thank our project advisory group, comprising project sponsors – AXA Corporate Solutions, Chubb and JLT – as well as Airmic members who provided invaluable insight to the development of this research, and the experts from other associations and institutes who gave their time to talk to us in depth. I would also like to extend my gratitude to the Airmic members who completed our survey.

There will be more to come. Over the coming months, further insights from our research will be shared through a series of short papers, webinars and blogs.

Finally, I would like to say how excited I am to see the profession evolving. I feel incredibly positive about the support that Airmic will be able to provide its members in the years to come and look forward to talking to you more about how we can work together for the benefit of our profession and the organisations we serve.

Julia Graham, Deputy Chief Executive and Technical Director, Airmic

Inside...



The sponsors

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AXA Corporate Solutions is a wholly owned subsidiary of the AXA Group dedicated to the provision of property, casualty, motor fleet, marine and aviation insurance products and related services for large corporations, including risk consulting, risk transfer, claims management and financial protection. Benefiting from AXA Group's financial strength rating in the A category, AXA Corporate Solutions has been specifically designed to respond in full to the needs of clients whose size and geographical reach, as well as the complexity of their risk transfer and management requirements, demands access to a world of specialist resource.

To ensure we are able to service the insurance needs of multi-national corporations and large organisations in our chosen markets we have developed significant and expert local presence which includes teams of highly experienced and specialised underwriters, a multi-disciplined and expert claims team, and a network of highly capable risk engineers. This expert local presence, due to the unique structure of AXA Corporate Solutions, is able to call upon (and easily utilise) specialised resource from every corner of the globe to the benefit of our clients, whether this be via our extensive international network or through the pooling of world-wide knowledge and experience.

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Chubb
Chubb is the world's largest publicly traded property and casualty insurance company. With operations in 54 countries, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. As an underwriting company, we assess, assume and manage risk with insight and discipline. We service and pay our claims fairly and promptly. The company is also defined by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength and local operations globally. Parent company Chubb Limited is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. Chubb maintains executive offices in Zurich, New York, London and other locations, and employs approximately 31,000 people worldwide. Additional information can be found at: chubb.com/uk

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JLT Speciality
Why? Because in the world of insurance broking, risk management, claims consulting and settlements, the only way we can develop solutions, which really deliver, is to fully understand all of the different challenges our clients face. And we know the answer does exist, no matter how difficult the question is.

Our success comes from focusing on sectors where we know we can make the greatest difference. On using insight, intelligence, and imagination to provide expert advice and robust – often unique – solutions. And on building partner teams to work side-by-side with clients, our network and the market to deliver responses, which are carefully considered from all angles.

Because of this approach, our clients trust us. They have total confidence in knowing the vital elements of their operations are covered, enabling their businesses to be even more ambitious and surpass expectations.

We place over £3.2 billion of premium into the global insurance markets every year, giving us leverage to secure the best deal for our clients. This is not at the expense of the relationships with our markets though, and because of this, insurers are keen to underwrite our risks, develop new products with us and push the boundaries of possibility.

We know how we work makes us different. It's quite a claim but we're driven to deliver on it every single day.

JLT

Research partner

Longitude

Longitude is a specialist thought leadership agency providing advisory, research and content creation services that enhance our clients' revenue, relationships and reputation. We work with a wide range of the world's most prestigious B2B brands across Europe, the US and Asia Pacific. Our 40 clients are concentrated in the professional services, financial services and technology sectors, but also stretch into infrastructure, oil and gas, and other sectors.

Longitude

Executive summary

At a time of extreme change, businesses face new threats and opportunities. While risk managers are at the sharp end, they are in an excellent position to create additional value for the business. Airmic's research suggests risk managers are responding positively to the growing demands of the operating environment, but and it also shows that the scope of responsibilities and roles within the profession and changing.

In particular, today's risk managers are increasingly expected to be strategic advisers to the board in order to enable informed and intelligent decision-making. This requires risk managers to possess a broad range of knowledge skills and experience, some of which they are having to acquire rapidly.

This research aims to explore the challenges ahead by taking in the views of a wide range of people working in risk. In some cases, their roles may be more geared towards insurance management; others are pure risk specialists. For many, the role combines a range of different responsibilities, and not every respondent in this study describes themselves as a 'risk manager'. Nevertheless, all of the participants are intrinsically involved in risk management at their organisation. For the sake of simplicity, we use the term 'risk manager' to describe them all.

This study also took the views of a number of associated professions – Chartered Institute of Personnel and Development; Chartered Insurance Institute; Business Continuity Institute; Association of Chartered Certified Accountants; Chartered Institute of Internal Auditors; and the Institute of Risk Management – which added valuable insight into risk through the lens of the professions that they represent.

The research's key findings include the following:

Risk will increasingly become a more regular item on the board agenda but our profession is too often seen as focused on risk prevention, rather than business enablement – a perception that is changing
82% expect the value created by risk to increase over the next three years but 74% of respondents say the profession must undergo significant change to keep pace with complexity in the external environment; and 47% currently struggle to articulate the value of their profession

Risk managers relish the challenge and opportunities ahead
38% of respondents became risk managers for the challenge of the role or the opportunity to work with a variety of stakeholders – the proportion is even higher among those who have more recently joined the profession. Airmic members are well qualified – over half have a post-graduate professional qualification and 11% have a relevant Master's degree.

Risks are becoming increasingly complex and interconnected but organisations still have a tendency to think and act in silos

51% of respondents see loss in reputation as a top-three threat to their business, making it the greatest concern for risk managers today. Damage to reputational equity is an all-pervading risk that can be triggered by a number of interconnected risks. Risks to other intangible assets, such as data, is also a key concern – 30% of respondents say loss or theft of data is a top-three threat. Familiar threats remain on the risk radar – they are just further down the list of priorities.

Complexity and connectivity demand greater collaboration

While 66% of respondents have regular, close collaboration with finance, only 32% have this with the technology department, 30% with strategy and 21% with HR employee benefits. Relationships in these areas are. however, predicted to improve. As organisations transform their business models in the digital age, risk managers are seeking closer partnerships with those who manage technology and information security.

Focus on organisational resilience is increasing

Risk managers have made progress in their efforts to improve resilience. The majority of respondents tell us that they have embedded, to some extent, five resilience principles (outlined in Airmic's *Roads to Resilience*), with particular progress being made on 'rapid response', 'review and adapt', and 'relationships and networks' where 48%, 34% and 33% have fully embedded the principles respectively.

Data is key and as a profession we must learn to create, analyse and exploit relevant data more effectively

35% of respondents say their use of analytics today is limited but 56% expect to use analytics extensively within three years.

Insurance continues to be a key tool for risk managers

The changing value proposition from insurers is attracting interest from many risk managers, especially when it comes to protecting their intangible assets, which are harder to cover using more traditional insurance solutions. Currently, only 23% of respondents are looking to insurers for value-added services but 39% anticipate doing so over the next three years.

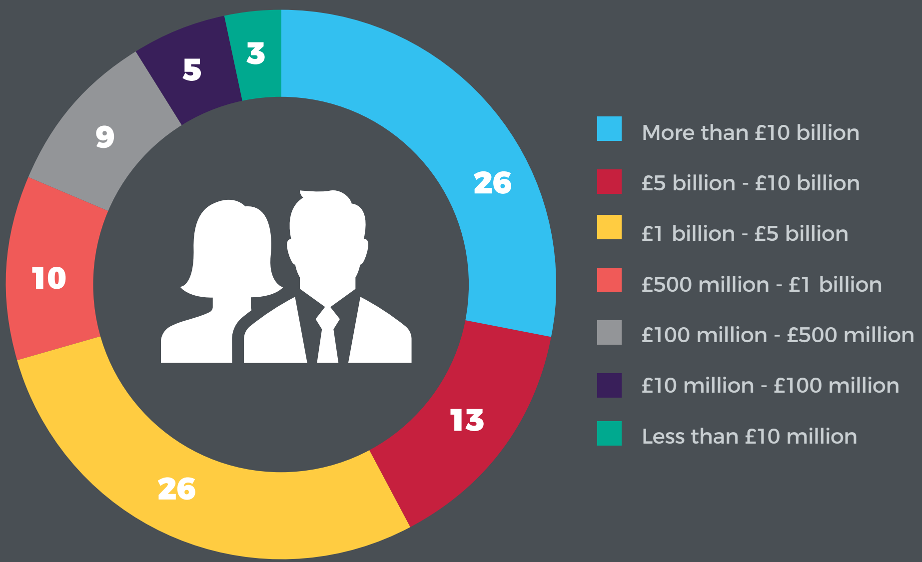
Good risk managers understand that while there may be risks associated with a particular decision, there may also be business opportunities

Today's risk managers

This study, produced by Airmic in collaboration with Longitude, is based on the responses of 152 risk managers at companies of varying sizes and across a range of business sectors, as well as on a series of qualitative interviews.

Risk managers' appetite for challenge appears to be increasing, with a greater number of individuals joining the profession with a realistic idea of its responsibilities and demands. There is a growing popularity of dedicated risk management qualifications (see chart 'Respondents' professional qualifications'). These qualifications are reflected in the job titles, role and responsibilities of today's risk managers (see chart respondents job titles).

Respondents' business size (%)



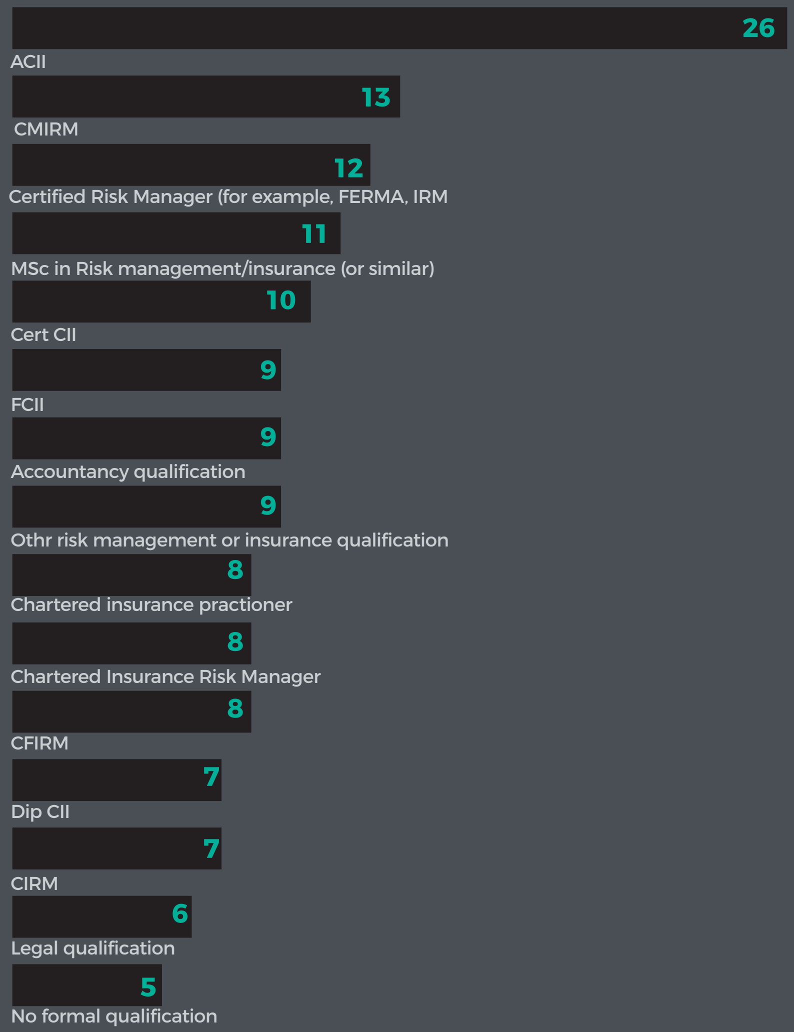
Split of respondents by company size

Survey respondents

Split of respondents by job title

Due to rounding, and the use of multiple-choice questions, some figures and charts in this report may not add up to 100%.

Respondents’ professional qualifications



Acknowledgements

We would like to thank the following for giving up their time and insight to be interviewed for this report:

- Chris Bilney, Head of Client Management and Industry Practices, JLT Specialty
- Peter Cheese, Chief Executive, Chartered Institute of Personnel and Development (CIPD)
- Adrian Donald, Partner, JLT Specialty
- Sian Fisher, Chief Executive, Chartered Insurance Institute (CII)
- Steve Hatherall, Head of Broker and Client Relationships, AXA Corporate Solutions
- Deborah Higgins, Head of Professional Development, Business Continuity Institute (BCI)
- Suresh Krishnan, Head of the Global Accounts Division, Europe, Chubb
- Paul Lowin, Regional Commercial Manager, AXA Corporate Solutions
- Jamie Lyon, Head of the Corporate Sector, Association of Chartered Certified Accountants (ACCA)
- Liz Sandwith, Chief Professional Practice Advisor, Chartered Institute of Internal Auditors (IIA)
- Clive Thompson, Non-Executive Director, Institute of Risk Management (IRM)

We would also like to thank our project advisory group for their input and insight in steering this project:

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- Zoe Kay, Marketing and Communications Leader Global Accounts, Chubb Global Markets
- Adrian Donald, Partner, JLT Specialty
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- Lucky Lelly, Content and Research Marketing Manager, JLT Group
- Andrew Honley, Insurance Manager, British American Tobacco
- Kate Loades, Global Vice-President, Insurance, Risk and Health & Safety, Pearson
- Emmanuel Fabin, Insurance Manager, TSB Bank
- Katie Moore, Group Risk Manager, Vodafone

Section 1

A profession in transformation

The profile of risk management within most organisations is higher than it has ever been, and the importance of risk is now widely recognised at board level – and this trend is set to continue.

In this study, more than eight in 10 respondents (82%) say the value that risk management brings to the business will increase over the next three years, while the same proportion believe it will become a more regular item on the boardroom agenda over the next three years.

Yet the role of the risk manager is rapidly changing. Today's risk managers increasingly operate as business enablers, working strategically with executive management to ensure that the business can exploit opportunities for growth. Risk managers do not believe their role is to highlight the roadblocks standing in the way of such opportunities, but rather to find the most effective routes around them.

"The role of the risk manager is to articulate clearly to the organisation what the risks are, what the benefits are, and where the balance lies," says Liz Sandwith, Chief Professional Practice Advisor at the Chartered Institute of Internal Auditors. "Good risk managers understand that while there may be risks associated with a particular decision, there may also be business opportunities."

Nearly half (47%) of survey respondents, however, say that they find it difficult to articulate the value of risk management across the business (see Figure 1).

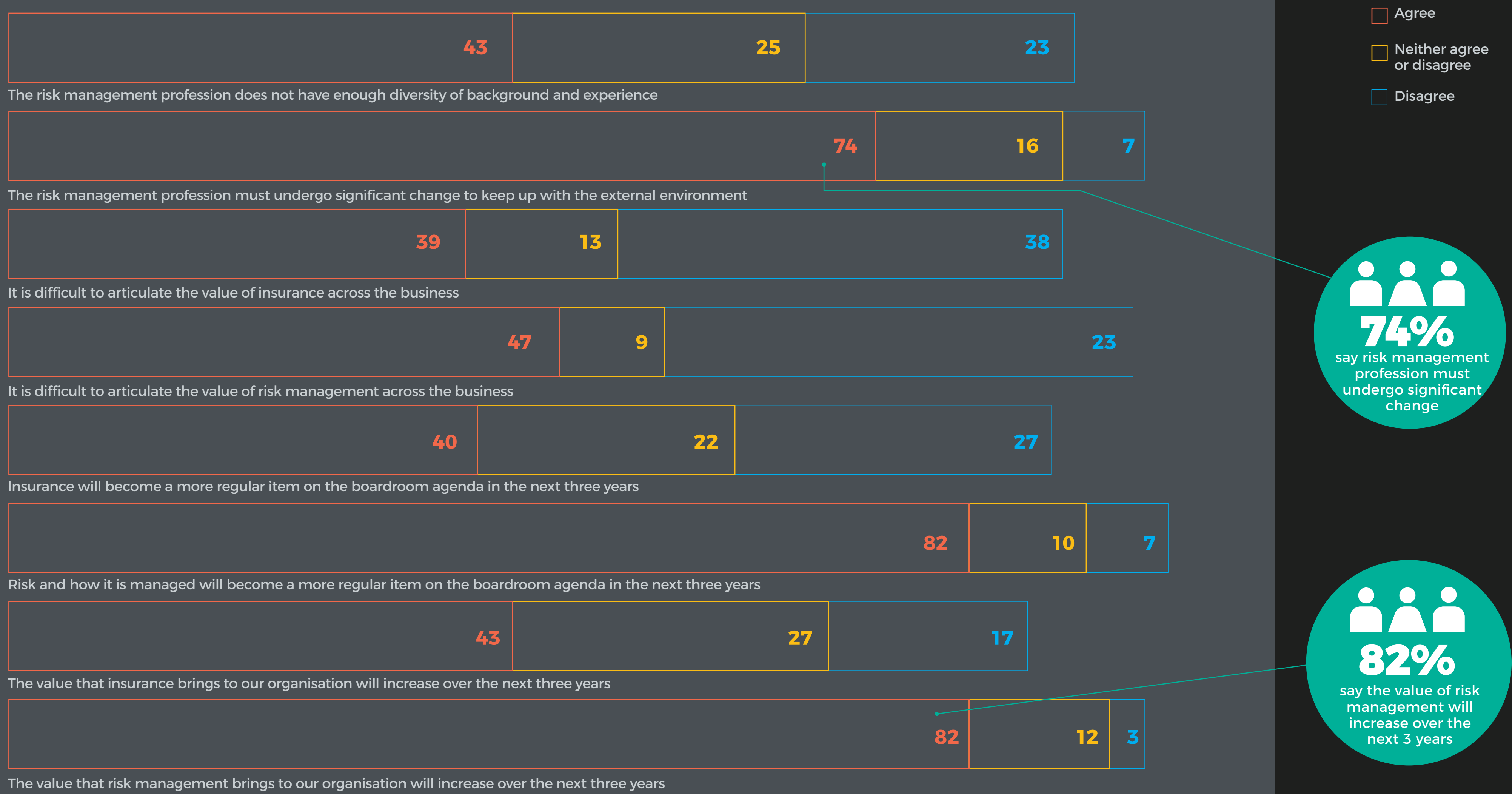
How best to get the message across? Julia Graham, Deputy Chief Executive and Technical Director of Airmic, has this advice. "It helps to convey the risk message through the lens of other professionals," she says. "Think about the challenges that your Chief Information Officer has, or the problems faced by your Head of Finance or Head of HR, for example, then work out how you work together to help them."

Risk managers who are able to articulate risk in a way that resonates with the specific objectives of various departments will find themselves pushing at an open door, with professionals in other parts of the organisation increasingly open to working with them (Airmic's deep dive mini report, *The value of risk and insurance management* takes a closer look at how to effectively demonstrate value – see sidebar *Articulating value*).

Jamie Lyon is Head of the Corporate Sector at the Association of Chartered Certified Accountants, the global body for professional accountants. He takes the following view of the finance function: "Very few problems in the business world are solved within a functional perspective, because they're pan-enterprise

> **Today's risk managers increasingly operate as business enablers, working strategically with executive management**

Figure 1. The profession must evolve to keep pace with rapid change



and involve end-to-end processes. So finance is very mindful that there's a conversation to have around risk, and they want risk managers at the table."

Similarly, Peter Cheese, Chief Executive of the Chartered Institute of Personnel and Development (CIPD), argues that, "It isn't the role of risk managers to manage and understand all the risks the business faces. Rather, the challenge is to create a culture of risk awareness and understanding throughout the business, so that culture is embedded."

Sian Fisher, Chief Executive of the Chartered Insurance Institute (CII), says: "There might once have been a time in the past when risk managers were regarded as a necessary evil for regulatory compliance, but the risk managers we work with now have a much broader and more strategic outlook."

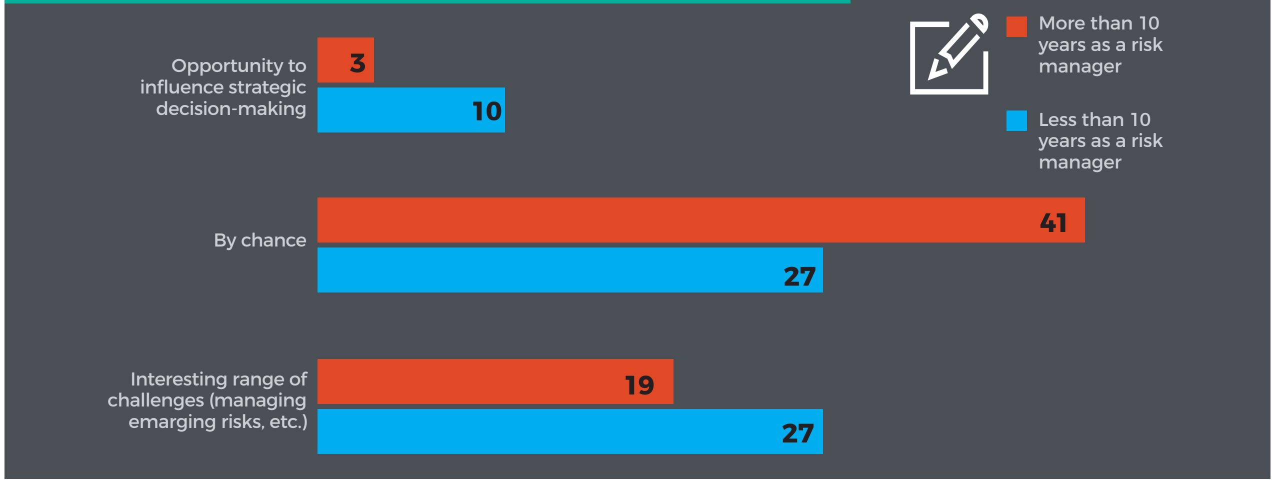
THE APPETITE FOR CHALLENGE

Risk managers recognise that they cannot stand still – that the nature of their role will evolve in line with the evolving business landscape. Almost three-quarters (74%) of respondents say the profession has to undergo significant change to keep pace with the realities of the fast-changing business environment. "The whole context of the world in which our members are working is like quicksand," says Airmic's Julia Graham. "The complexity, pace and need for transparency in the environments in which they operate are breath-taking."

The challenges of a dynamic and fluid working environment are embraced by risk managers. About one-fifth (21%) of respondents say they became risk managers because they wanted to face a wide range of challenges; 22%, meanwhile, say they have always relished the opportunity to work with many other parts of the business or to influence strategic decision-making (see Figure 2).

Figure 2. Why risk managers entered the profession

Figure 2B. Why risk managers entered the profession – by length of service



Risk managers' appetite for challenge appears to be increasing over time, with a greater number of individuals joining the profession with a realistic idea of its responsibilities and demands. Of the respondents who became risk managers within the last 10 years, for example, only one in four (27%) did so 'through chance'. This is notably lower than the 41% of longer established risk managers (with more than 10 years of experience) who say the same thing (see Figure 2B). Additionally, a greater proportion of 'new arrivals' say they became risk managers because they are looking for a diverse range of challenges and because they want to influence strategic decision-making.

This trend may partly be explained by he development and availability of dedicated risk management competency frameworks, models and qualifications, which set out clearly what the role entails. The variety and popularity of the qualifications on offer is illustrated by the chart 'Respondents' professional qualifications' in our methodology section.

Risk managers also seem broadly content to continue working in the profession, even though it may have changed since they first 'signed up'. The majority (57%) say they have no plans to move into a different position in the future, whereas just 3% are actively planning a complete change of career.

Many risk managers recognise that they need to develop new skills and competencies. In turn, organisations will have to start recruiting risk managers from a wider pool of talent: almost half (43%) of respondents say the profession does not currently have enough diversity of backgrounds and experience.

The finding above, that people are becoming risk managers with different motivations than their more established peers, could suggest that the talent pool is already widening to some extent. It is also borne through by the experience of industry experts.

ARTICULATING VALUE

All too often, corporations view insurance as an annual transaction – premiums out and losses in. Its value, however, extends beyond this binary activity. An insurance policy is one of the most financially significant contracts that businesses enter into – often amounting to hundreds of millions of pounds. This contract, if structured correctly, can protect a company from unexpected and unfunded volatility; the settlement of a claim can underpin the ongoing success or survival of a company; and, approached in the right way, insurance can be used as a strategic business enabler that can facilitate exports, M&A deals and capex. Yet only 43% of risk and insurance managers project that in the near future the value of insurance to business will increase – which indicates that the value of insurance as an enabler is less well recognised.

In addition, 39% of respondents find it difficult to articulate the value of insurance effectively.

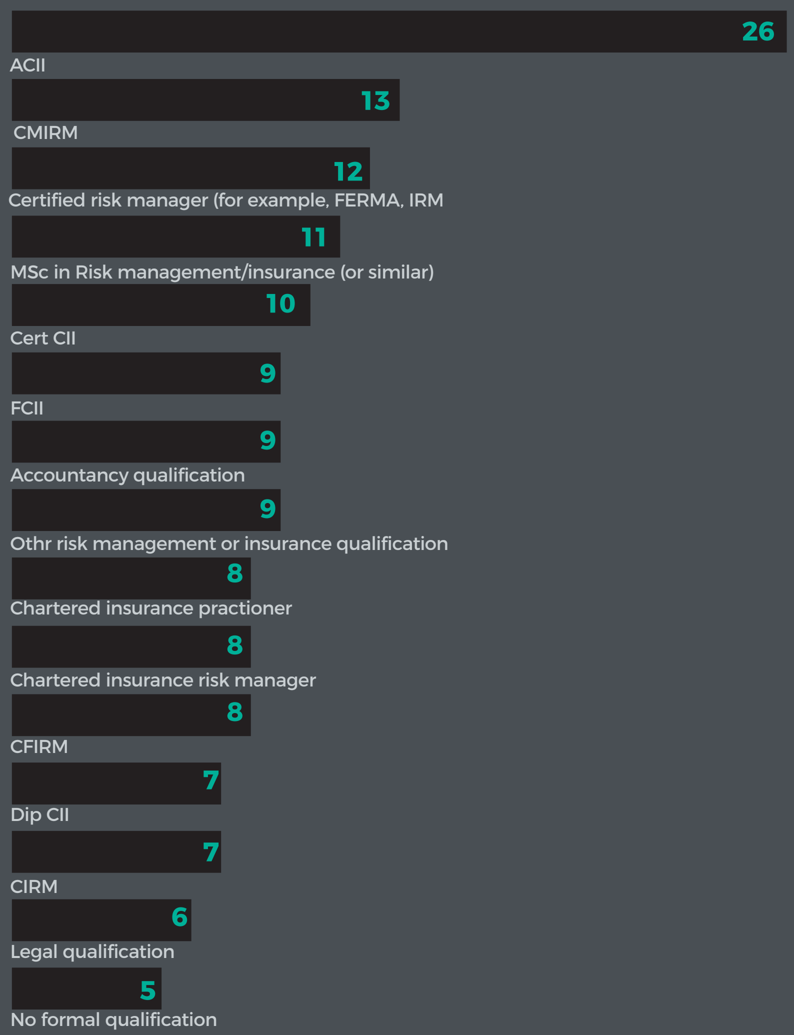
The problem is that insurance is often treated as a tactical purchase with perhaps too much focus on price. Cost, savings and premium reductions sometimes take centre stage in conversations about the value of insurance, rather than the quality of cover or how it can protect the long-term resilience of the company and its balance sheet.

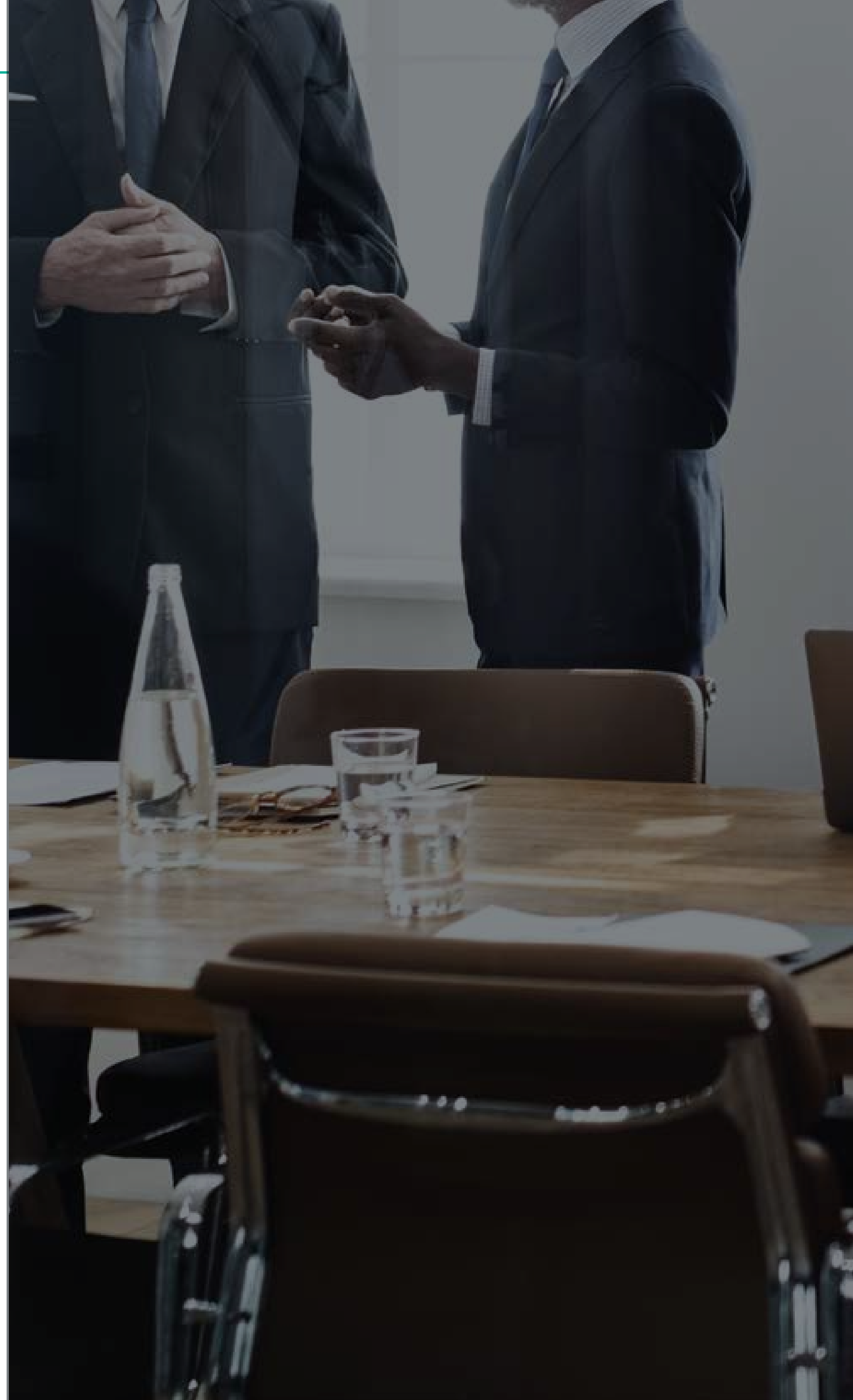
One solution is to translate the benefits of the insurance programme into the language used when speaking to business units, the C-suite and the board. To do this successfully, insurance – and how it is spoken about within businesses – needs to evolve to match corporate goals, as well as the changing risk landscape, says Adrian Donald, Partner at JLT Specialty.

"The challenge for risk and insurance managers is that they, and we as brokers and insurers, talk in insurance language, which bears very little resemblance to the way corporates, the C-suite and top management think and operate," he says. "Risk and insurance managers need to be the conduit that takes insurance and risk transfer information from the market and translates it into what it means for the business, its balance sheet and its future growth and success." And therein lies the opportunity.

Excerpt taken from Airmic's deep-dive report, *The value of risk and insurance management*, supported by JLT

Respondents' qualifications





> "The development of risk management competency models, frameworks and qualifications are helping to articulate more clearly what the role entails

Section 2

The shape of the challenge

The risk landscape is evolving at pace. While today's issues of greatest concern are unlikely to diminish in importance in the months and years to come, new challenges and opportunities are emerging.

Airmic thought leadership – in partnership with the Chairmen's Forum, CGMA and Alvarez & Marsal[1] – asserts that the risk landscape is being influenced by three disruptive factors:

- Speed of change – of markets, environments, distribution, geography. The rate of acceleration requires a speed of response which is greater than anything previously experienced
- Complexity – of risk, of business models, of technology dependence and of the external environment beyond anything experienced to date
- Transparency (whether planned or otherwise) occasioned by social media, traditional media and the pervading investigative process

An additional challenge for risk managers is that many of the most significant threats they face are interconnected. This makes them harder to manage and gives them greater scope to cause harm.

REPUTATIONAL EQUITY

The interconnectedness of today's business risks comes through clearly in respondents' most top-of-mind concerns, for example, in loss of reputation or brand value (see Figure 3). Is reputation a risk? It certainly featured highly in our survey when risk managers were asked to identify their most top-of-mind risk concerns. In a Airmic roundtable, members convened to consider the results of the survey, a debate ensued as to whether damage to reputation stood alone as a risk or whether damage to reputation was an effect of other risks. Whatever your point of view, the consensus was that reputation is now the biggest intangible asset on the balance sheet of most organisations. As a consequence, damage to such an important (and vulnerable) asset is perceived as a top-of-mind risk.

An Airmic member who works for an international online fashion retailer sums up the risk well. "If we looked at the top risks that many respondents identified, all can essentially cause reputational damage, which is why reputation features among the top three risks for businesses. For me, reputation isn't a risk, it is an intangible asset that in today's world can be damaged instantly by a number of threats on the risk register."

The second and fourth highest concerns – the impact of cyber risks causing business interruption (36%) and cyber risk resulting in loss or damage to personal data (30%) are both closely linked to reputation damage. The roundtable cited a number of cyber events where impact on the reputation of organisations was the greatest concern – if not the most lasting concern.

Managing these risks will demand development of new knowledge and skills and risk managers will have to be agile and flexible. Risk will increasingly become a more regular item on the board agenda but the risk management profession is too often seen as focused on risk prevention than business enablement. Risk managers exist to help the organisation manage the effect of uncertainty on objectives – that effect can be negative or positive.

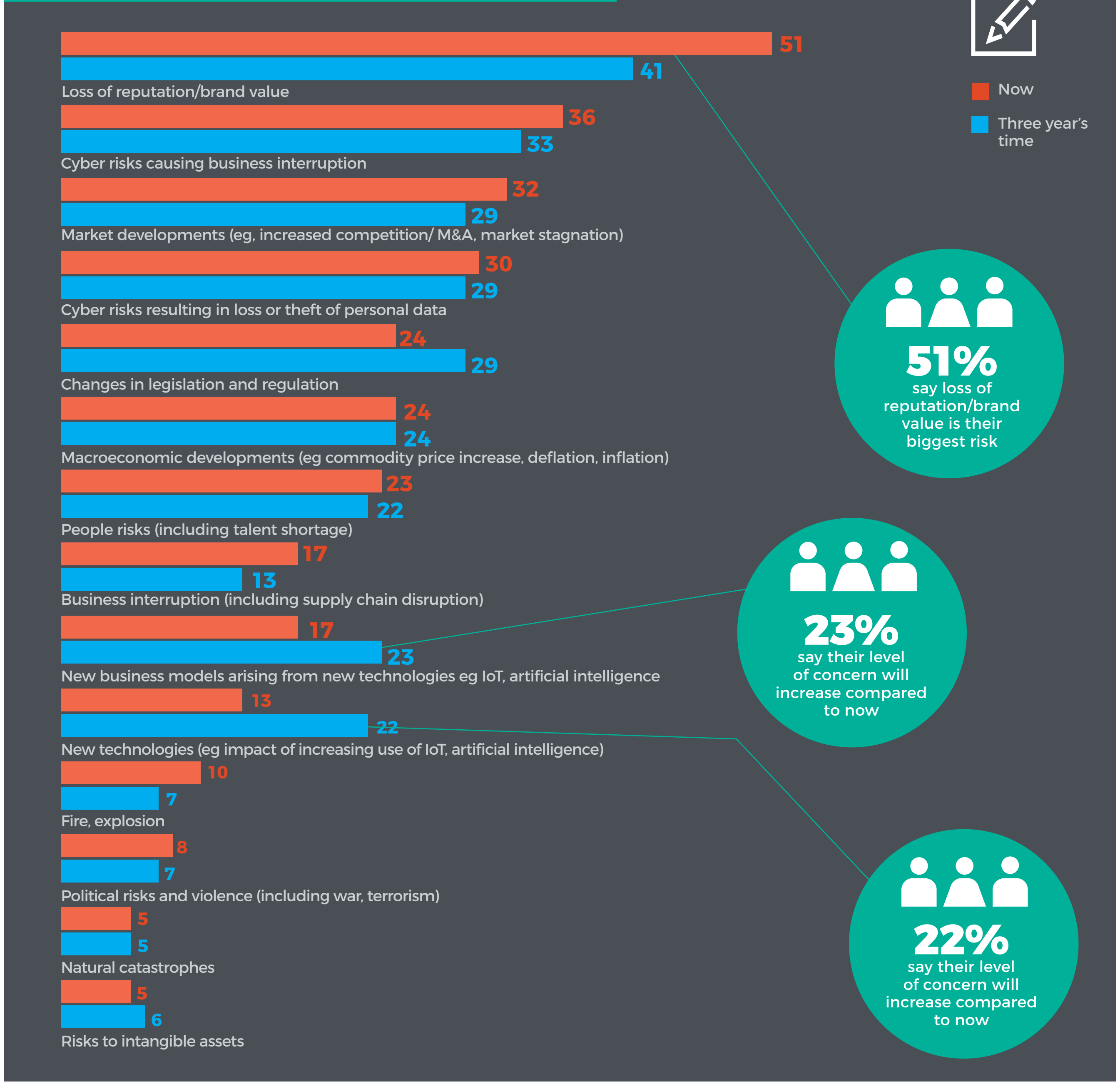
REDUCE, TRANSFER, RETAIN: A NEW BALANCE

How do risk managers deal with these threats, both new and emerging? In some cases, they see a growing role for the insurance market. Around half of respondents plan to transfer cyber risks to insurers, for example.

In other areas, this may not be possible, and risk managers plan to reduce risk within the business. Just 3% expect to be able to transfer reputational risk (see Figure 4), which is unsurprising considering how difficult it is for insurers to quantify brand damage and create viable solutions. The same is true for the damage caused by new business models and emerging technologies. For such concerns, risk managers may increasingly turn to the insurance industry for support through value-added and advisory services (see Section 3).

[1]Airmic, Chairmen's Forum, CGMA and Alvarez & Marsal, *Ensuring Corporate Viability in an Uncertain World*, 2017. https://www.airmic.com/technical/library/ensuring-corporate-viability-uncertain-world

Figure 3. The most top-of-mind concerns, today and tomorrow

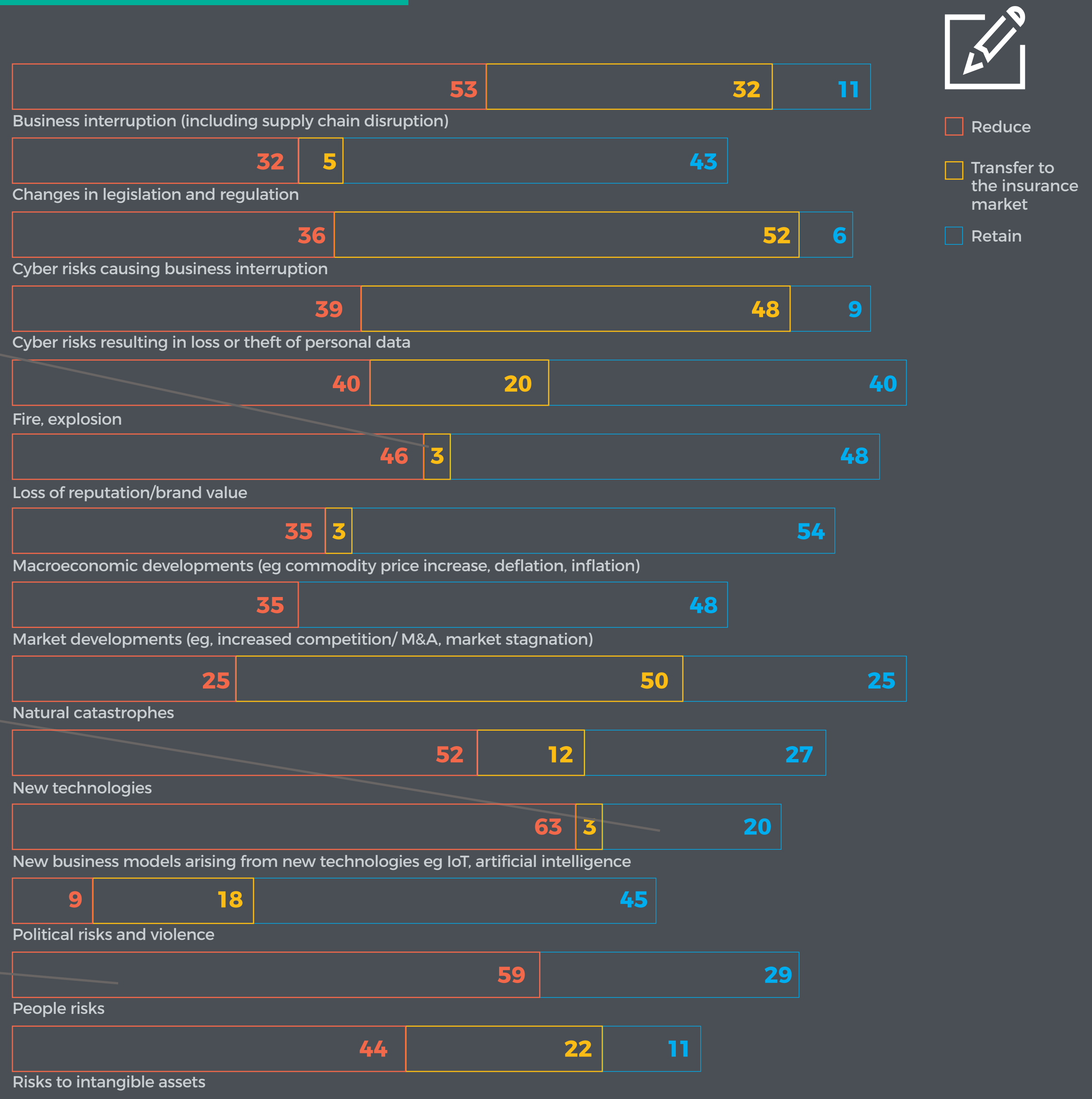


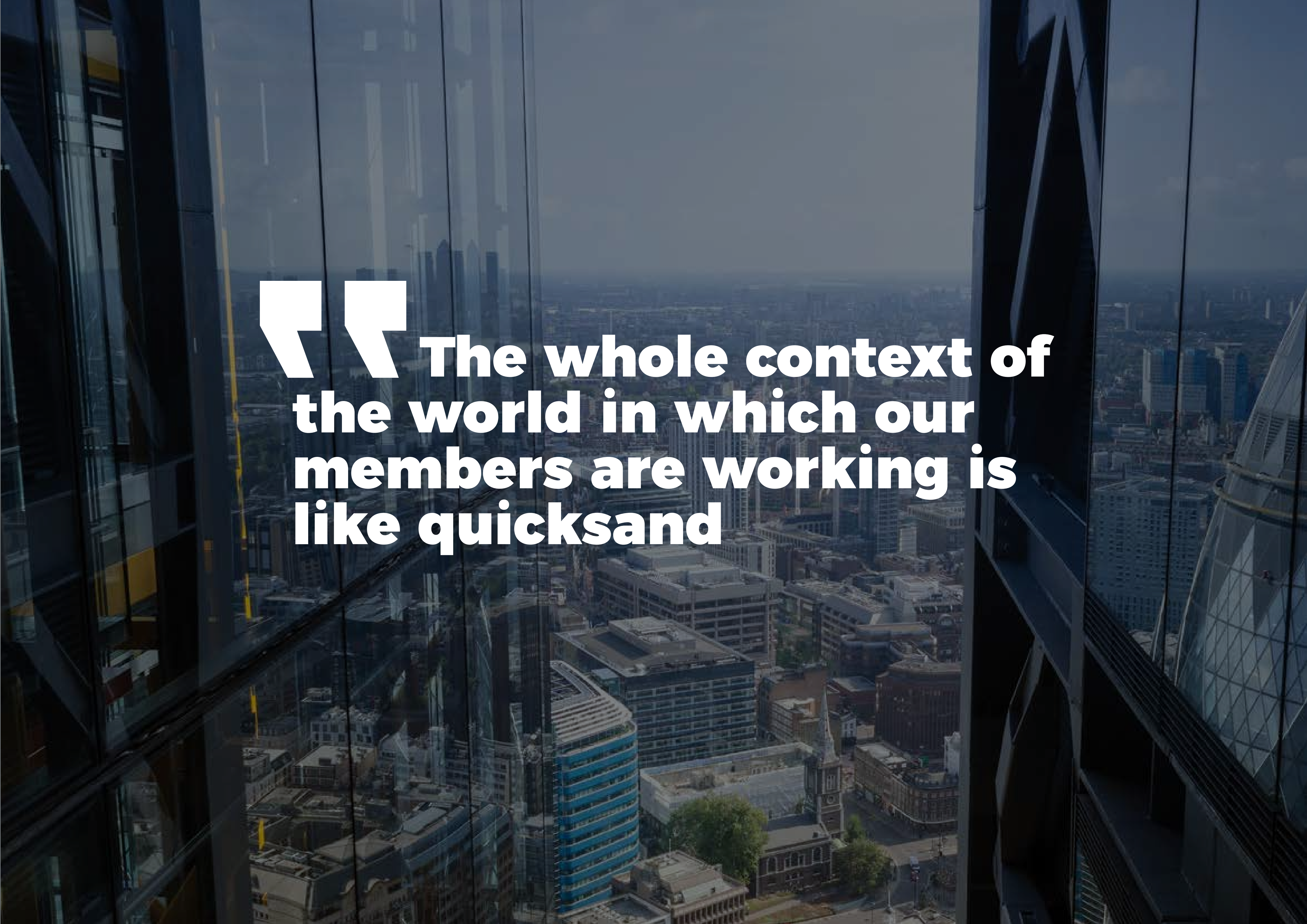
3% expect to be able to transfer reputational risk

20% say they will retain risks linked to new business models in 3 years' time

59% expect to reduce people risks

Figure 4. Tomorrow's risk mitigation priorities





"The whole context of the world in which our members are working is like quicksand

Section 3

The scale of the challenge

How far have risk managers travelled on their transformation journeys to date? This study suggests that risk managers have a mixed view of their readiness for several key challenges, which include getting to grips with unfamiliar and evolving risks. They are aware that there are gaps to be closed – but there is a clear opportunity to demonstrate their value as business enablers across the organisation.

THE LEARNING CURVE

When it comes to the physical, 'tangible' risks with which they have been managing for many years – for example fire or explosion or natural catastrophes – risk managers are satisfied with their ability to manage the threat. They continue to mitigate these dangers with a mix of approaches, transferring some of the risk to the insurance market while retaining the rest within the business, and seeking actively control it.

Yet the playing field is changing, as John Ludlow, Chief Executive of Airmic, explains: "A close look at almost any business sector will reveal that the way we do business has been so revolutionised by technology that the nature of our assets, objectives and risks have fundamentally changed," he says. "This requires new skills, investment and an open mind to doing things differently. We must understand how to manage and measure the new assets, to identify and understand the new risks and develop ways of adding new value. It can be hard to invest and change when the market is under pressure; however, the rewards for the brave are greatest."

Loss in reputation as an intangible asset was identified as the risk that concerned risk and insurance managers the most. Although this risk loses some ground over the next three years –51% say its their top risk today, compared to 41% in three years' time) – it is still identified as the biggest threat facing risk managers in the future. Yet less than half the respondents in this research (43%) are satisfied with their ability to manage it.

Even fewer – about one in four (27%) – are satisfied with their ability to manage the risk of data loss or theft. In some organisations, the responsibility for this will fall to the Chief Information Officer (CIO) or Chief Information Security Officer (CISO). But there is a grey area in many organisations about who in the business 'owns' cyber and information risk. This is concerning given that it is now less than a year until the implementation of the EU's General Data Protection Regulation (GDPR), which imposes onerous new responsibilities on all organisations to protect data – and gives regulators powers to impose punitive sanctions for breaches.

Information security is an organisation-wide risk, which necessitates physical, organisational and technical security measures. Complying with existing data protection law and the GDPR cannot therefore be sole responsibility of the technology or information team but must be treated as an issue for risk managers to address and control.

Cyber risk that causes business interruption is not a new risk in Airmic surveys and it continues to be a risk where risk managers say they are not satisfied with their ability to manage it. Only 36% said so for this survey. As cyber-crime continues to proliferate, this will be a key priority area.

People and culture were identified as a key enabler for the resilient organisation (*Roads to Resilience, 201*). However, people risks are identified as a key concern to risk managers (Figure 3) and prompt a negative response (-12%) in terms of how satisfied risk managers feel in managing the risks.

"The biggest source of risk in every business is actually its people, their behaviours and the decisions they make," says Peter Cheese of the CIPD. "The way to manage that is through better corporate governance. Risk managers have to help the board to really understand that the main drivers of risk are cultural, so that they can lead and drive risk management throughout the organisation."

A theme from the research is that most risks considered top-of-mind cannot be managed in silos. While each risk silo demands technical management competence, to cross silos, managers must collaborate and hunt as risk teams.

EMERGING TECHNOLOGIES INTRODUCES NEW CHALLENGES

Then there are the risks posed by emerging technologies, where risk managers also have concerns – even for technologies that have already made significant inroads into the activities of many enterprises.

Figure 5. Satisfaction and dissatisfaction with the ability to manage key risks

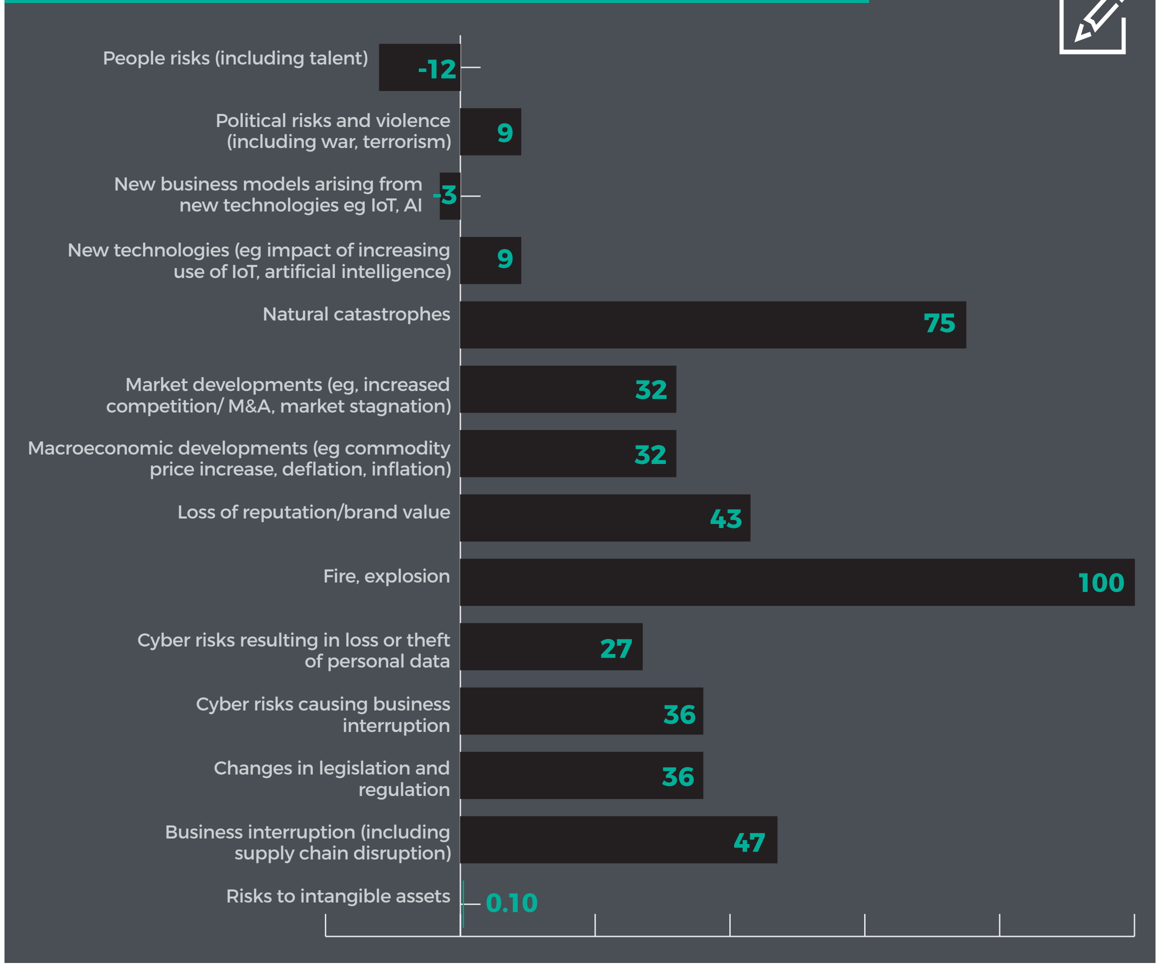
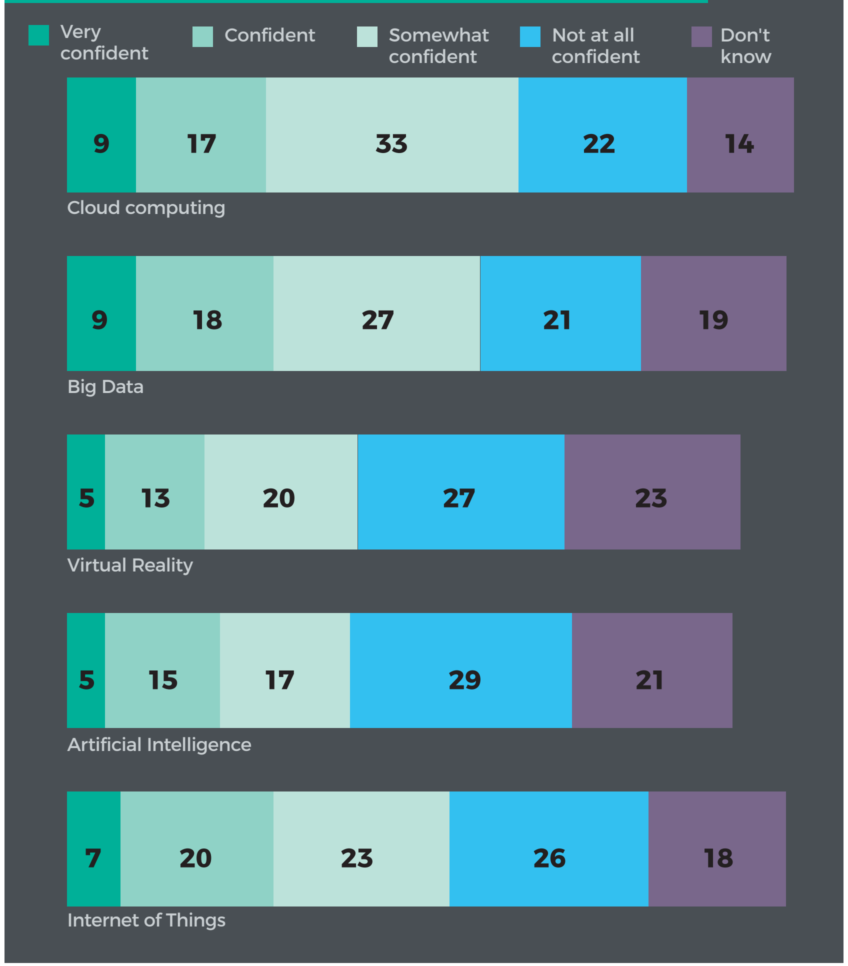


Figure 6. Confidence in managing emerging technology risks



Note: Positive values indicate respondents' level of satisfaction; negative values indicate level of dissatisfaction

Cloud computing is a good example. Adoption rates for cloud solutions are rising rapidly, but just one in four risk managers (26%) says they feel confident or very confident about their ability to address the related risks (see Figure 6). Similar numbers feel confident or very confident about risks attached to big data, where many organisations are currently making significant investments, and to the internet of things, a technology that is also of growing importance in many industries.

Comfort levels with less-well-established technologies are even lower. Just one in five risk managers (20%) are confident or very confident about addressing the risks attached to artificial intelligence applications; the figure falls even lower – to 18% – when it comes to virtual reality.

RESILIENCE: BUILDING ON A STRONG FOUNDATION

Resilient organisations understand the importance of future-proofing themselves against the growing array of risks they face. Airmic research developed with the Cranfield School of Management has identified five principles of resilience that many risk managers will recognise. These do not 'just happen' but are nurtured in an environment that is built with a sustained focus on people and culture; business structure; strategy, tactics and operations; and leadership and governance:

1. Risk radar: the ability to anticipate problems and see things in a different way helps organisations develop an early warning system and seize new opportunities.

2. Resources and assets: well-diversified resources and assets provide the flexibility to respond to opportunities as well as adverse or changing circumstances.

3. Relationships and networks: risk information flows freely throughout the organisation up to directors to prevent the 'risk blindness' that afflicts many boards.

4. Rapid response: capability that prevents an incident escalating into a crisis or disaster because people and processes are in place to quickly restore things to normal.

5. Review and adapt: learning from experience, including near- misses and making the necessary changes and improvements to strategy, tactics, processes and capabilities.

This study suggests that many risk managers have made impressive progress in their contribution to improve resilience. The majority of respondents tell us that their organisations have embedded, to some extent, the five principles, with particular progress being made on 'rapid response', 'review and adapt', and 'relationships and networks' where 48%, 34% and 33% have fully embedded the principles respectively.

Peter Cheese says that the question of resilience often comes back to the people factor – an area where risk managers concede that they find risk management tough. "So many of these dimensions relate to people, training, skills, culture and behaviour," he argues. "We've got to work harder to profoundly understand risk and human capital, which is so critical to sustainability."

Figure 7. Where key aspects of organisational resilience are embedded

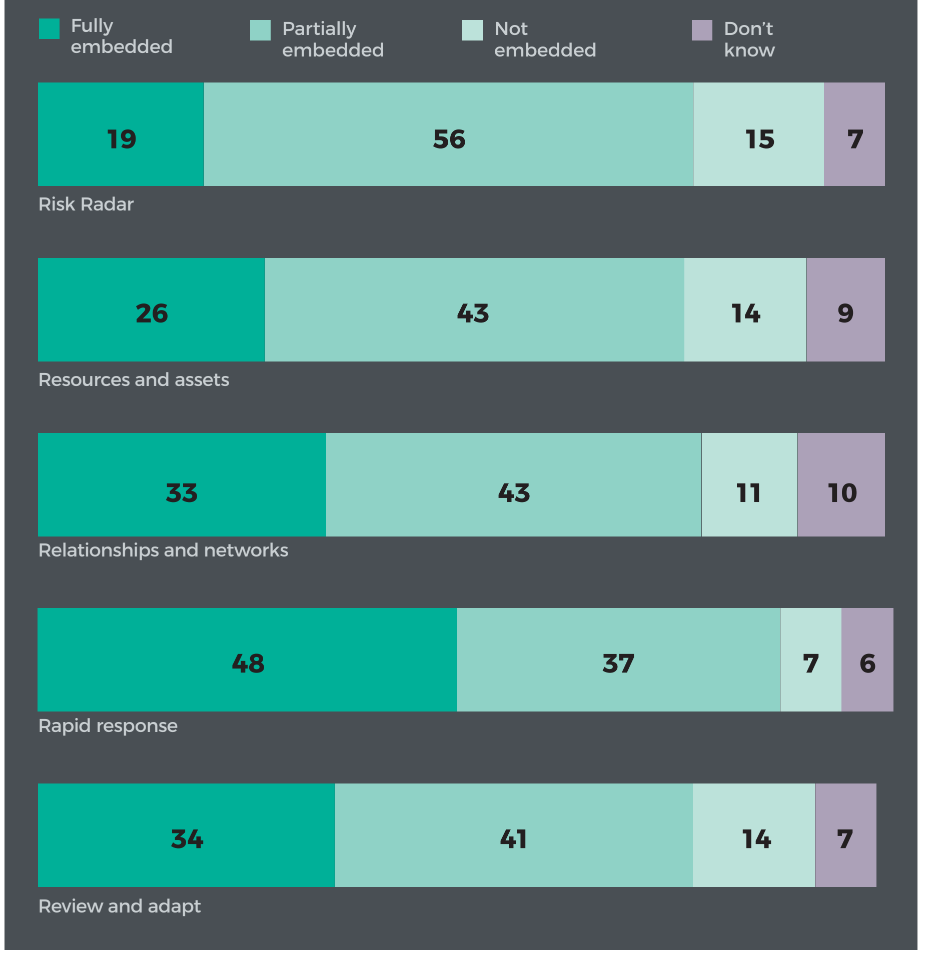
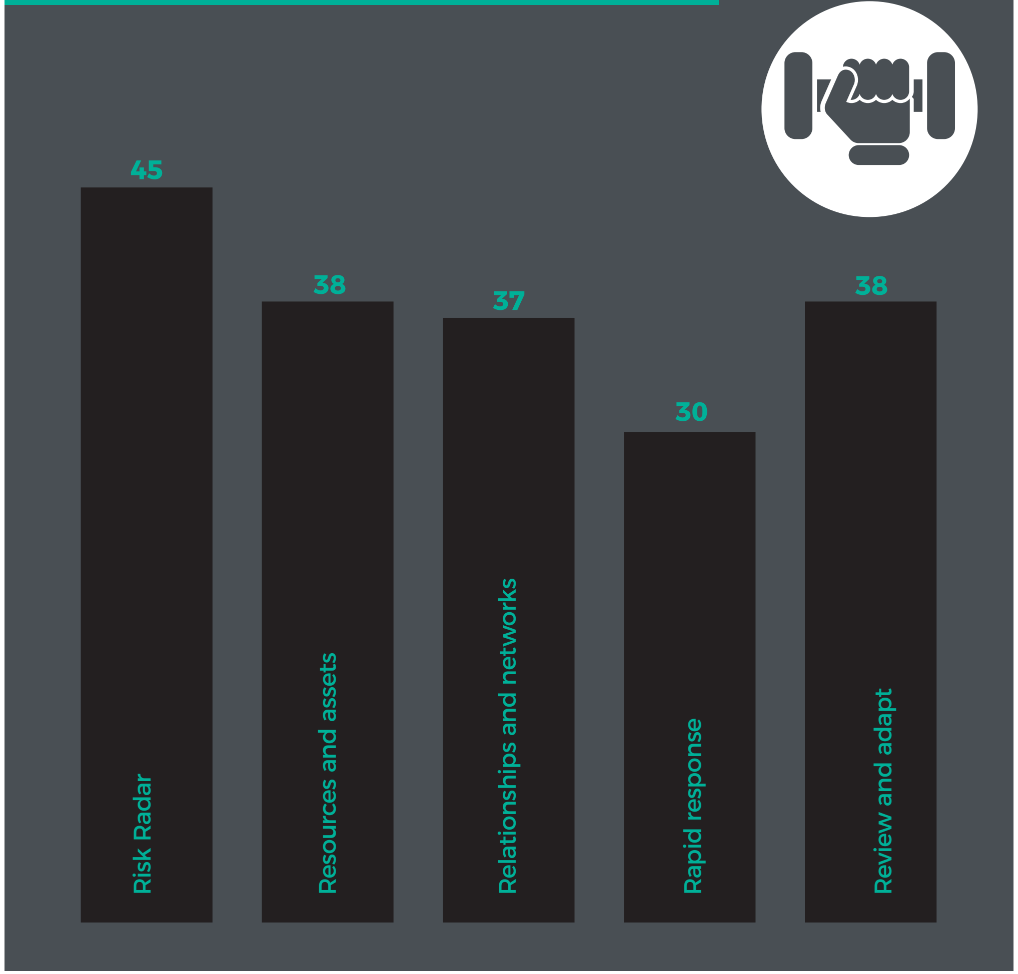


Figure 8. Priority areas for resilience over the next three years



"So many of these dimensions relate to people, training, skills, culture and behaviour

ON THE AGENDA: PATCHY CYBER DEFENCES

With cyber risk now regarded by risk managers as a priority (second only as a concern to reputational damage in this study), it is clear that organisations are eager to manage the threat effectively, with the majority saying they have an action plan to improve defences (this is reviewed further in Airmic's deep-dive report *Digital transformation*).

Yet there is more work to be done and our research demonstrates that some businesses have moved further forward than others. Risk managers can be instrumental in supporting cyber security by building closer partnerships with the functions that have a necessary involvement in related issues, notably the technology and IT functions. As the harm caused by recent data breaches demonstrate, the stronger the role that risk managers can play in improving cyber defences and governance, the greater their standing will become in the business more broadly.

However, just one in three (34%) respondents currently believes that their organisation is managing cyber as an enterprise risk, which suggests many are still approaching it as a subset of technology risk. As a governance issue, this finding is related to the lack of clarity about who 'owns' – or should own – cyber risk, with the data suggesting that there is little consensus among businesses on the right approach. Just three in 10 respondents (31%), for example, assert confidently that there is a clear cyber governance framework in the business. One in four (26%) says their cyber risk mitigation is led by the board, while only 20% believe their board has sufficient knowledge of cyber risks.

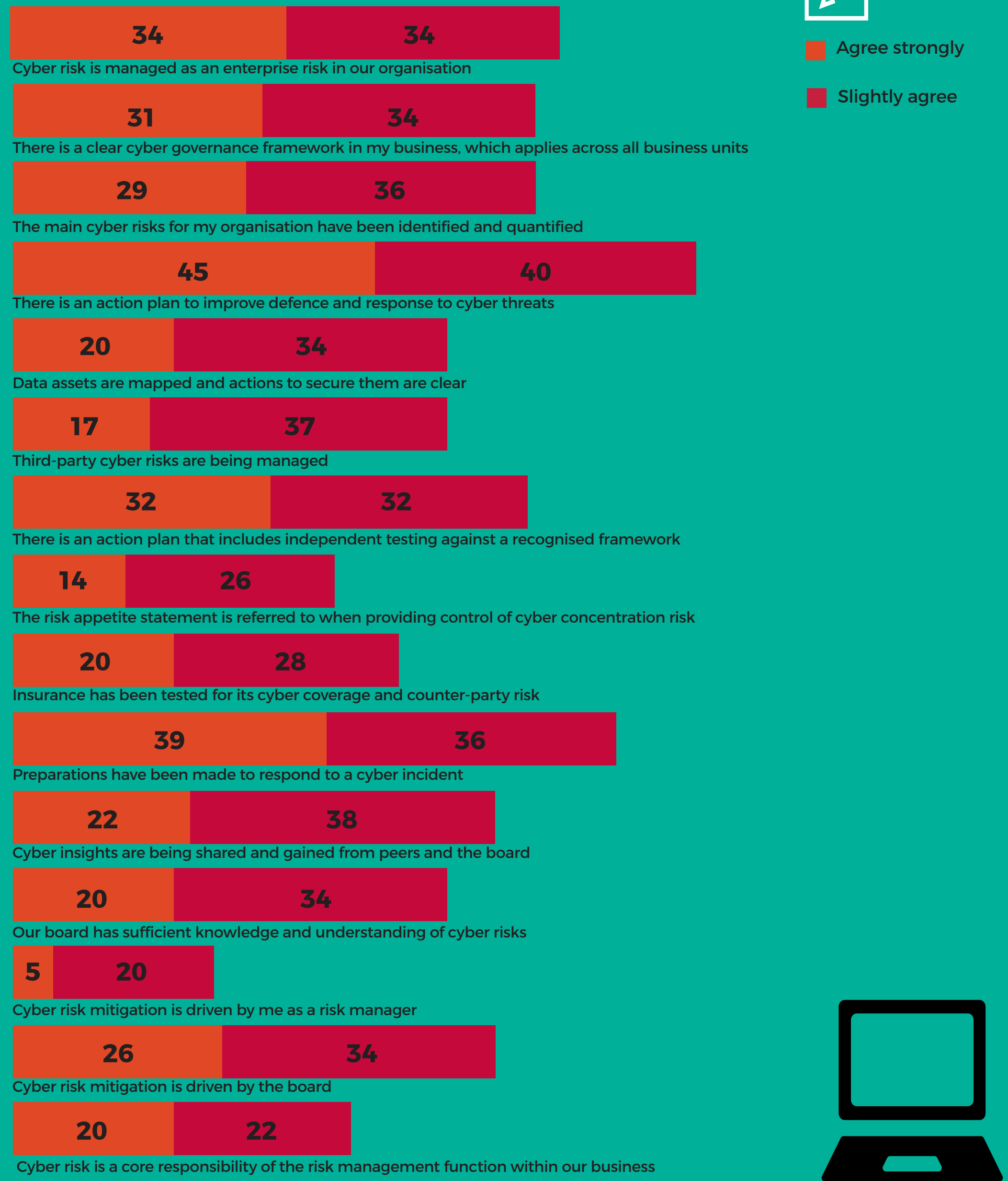
A lack of clear governance may explain some of the holes we see in our respondents' defences. Only 20% of risk managers say they have mapped their data assets and taken clear actions to secure them, which suggests the remainder may not be completely clear about where their data 'crown jewels' are held or whether they are secure.

Similarly, just 17% of respondents say they are managing third-party cyber risk, even though cyber attackers are known to infiltrate companies' systems by first hacking their suppliers, who often have weaker defences. This is also a growing concern for regulators – especially in the financial services sector.

Moreover, even in areas where risk managers are generally upbeat about their response to cyber risk, significant minorities demur. For instance, only 39% of respondents can say categorically that their organisation has made any preparations for responding to a cyber incident.

Many risk managers also have reason to be nervous about the forthcoming GDPR, the provisions of which take effect in May 2018. Just 18% of respondents say that advice on issues relating to this regulation is already fully embedded across the organisation; and while more than half (55%) say it will be embedded within three years, that means that many companies will reach next May's implementation deadline lacking capability in an area where regulators have the power to fine businesses up to 5% of their global annual turnover for serious failures.

Figure 9. Views on cyber risk



"The way we do business has been so revolutionised by technology that the nature of our assets, objectives and risks have fundamentally changed

Section 4

Tomorrow's risk manager – today

Risk managers of tomorrow will look very different from their counterparts of today. They will need a broader range of skills and competences – and are therefore likely to come from a more diverse range of backgrounds. Their roles will be more varied and increasingly strategic. And their career paths may take different twists and turns.

That said, certain core competencies will remain as important as ever. "When you come into risk management you still need the basics," says Julia Graham of Airmic. "You'll need to understand all the component parts that make up the profession."

Not least, argues Jamie Lyon of ACCA, "the nuts and bolts of the finance model." These, he says, "will continue to underpin everything the business does, so if you don't understand the commercial reality of this, it will be difficult to help the business manage enterprise risk. Compliance, legal and regulatory duties are also must-haves."

There are also new 'basics' to build knowledge of, says Sian Fisher of the CII – particularly in the technology realm. "Everyone is desperate for people who understand the technology of the business," she says.

The aim, argues Julia Graham, should not be to build levels of expertise and experience that would enable a risk manager to work at a senior level in any other function of the business. Yet risk managers do need to be able to hold their own when collaborating with those functions. "You need to know enough to be able to talk to the senior leaders in those functions and to win their confidence and their respect," she says. "It's only then that you can effectively challenge others' views and secure the influence you need."

Some parts of the skillset required for modern risk managers might be described as 'softer'. For example, risk managers need to be effective communicators who are capable of building strong personal relationships with colleagues throughout the organisation. Problem-solving and conflict resolution will also be key attributes.

"One of the principal skills that you need is one of communication and consultation in your organisation," says Clive Thompson, Non-Executive Director of the Institute of Risk Management. "That involves building your own internal network, making sure you've got stakeholder approval and that you're aligned to the interest of the organisation and can build the consensus you need to bring the organisation to a better managed risk framework."

Asked what an effective risk manager looks like today, in terms of skills and talents, Deborah Higgins, Head of Professional Development at the Business Continuity Institute (BCI), says, "somebody who's got a broad business experience combined with a really practical outlook. As well as having their specific risk assessment focus, they need an analysis of what's happening inside and outside the organisation and what makes it tick."

At the same time, risk managers must be increasingly strategic. "There will inevitably be a dynamic between people who are trying to be objective about risk and those who sit in the commercial heartland," says Sian Fisher. "But it would be wrong to think that those in the latter group don't take risk seriously. The risk manager has to work with them in a rigorous and systematic way to drive the business forward."

DRIVING THE DATA DIVIDEND

One area where risk managers foresee rapid development is in the use of data analytics. More than a third of risk managers (35%) say their use of analytics tools today is limited, against 18% who describe it as quite or very extensive (see Figure 10). But within three years, more than half of risk managers (56%) expect to be using data analytics extensively.

Steve Hatherall, Head of Broker and Client Relationships at AXA Corporate Solutions, urges risk managers and insurers alike to exploit the opportunities offered by data. "One of the things all risk managers know is that there is a constant hunger at board level for an understanding of how the organisation compares against other similar enterprises and insurer data can provide that information," he says.

"If you can forecast trends, you can manage the downside of those trends," adds the IRM's Thompson. "What we need as a profession is to understand how that new insight, which we will gain through the better use of data and the better use of analytics, can help us create new opportunities."

There may be excitement about the potential for data analytics to contribute to better risk management, but there are barriers to overcome first (see Figure 11). Some 43% of respondents warn that they have difficulty accessing the data they need, while 28% complain that the data they can access is of a poor quality. And more than a third (35%) say they don't have the budget required to exploit the possibilities of data analytics.

"I don't think any of us are really using the data we have and hold," says Hatherall. "Data has been one of those issues in the 'too hard to deal with' box, and we're missing an important opportunity to gain much better insight that would improve risk management."

Some organisations are reserving judgement of how useful data analytics is going to be to the risk management function. A quarter of respondents (26%) say that they are not using data analytics today because their traditional approach to risk management is sufficient. A fifth (21%) say that their stakeholders do not sufficiently value analytics.

Achieving these goals may require investment in new technologies to overcome legacy IT problems, as well as a willingness to confront new risks. With good data analysts now in short supply, skills shortages may also be an issue.

Figure 10. Current and future uses of data analytics

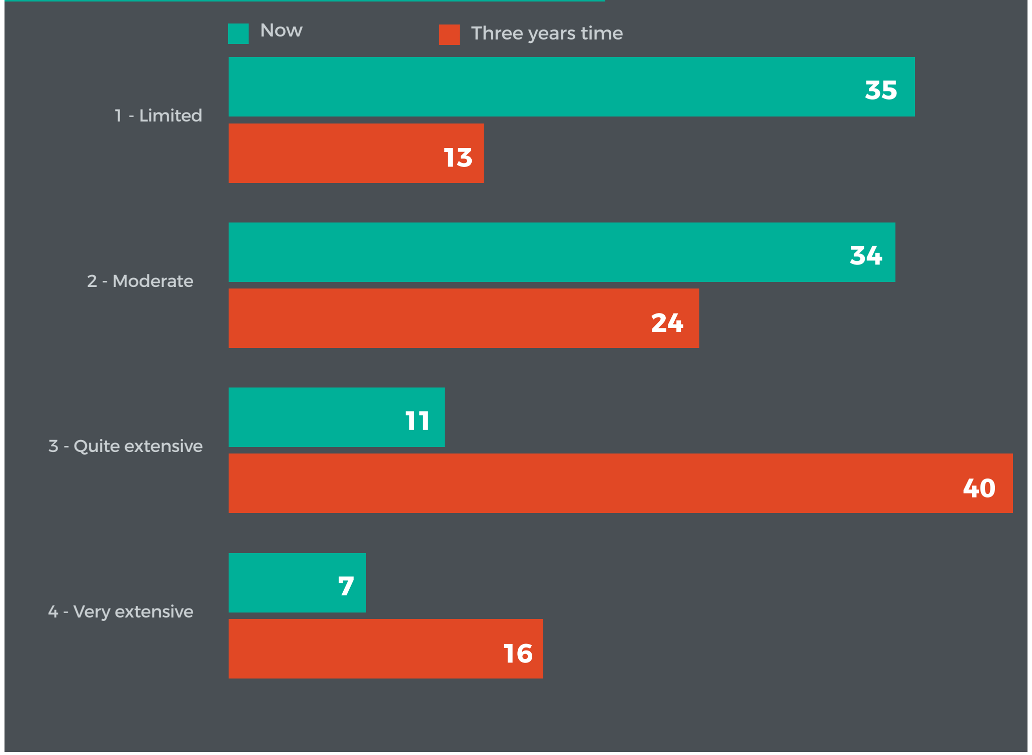
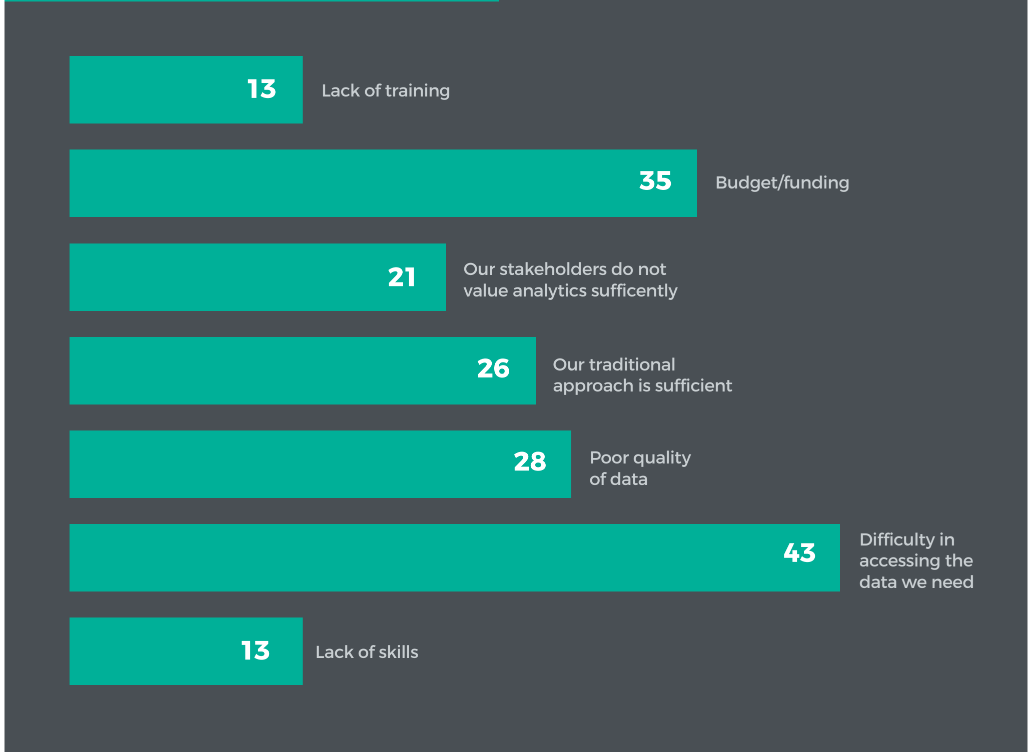


Figure 11. Reasons for not using analytics



BUILDING PARTNERSHIPS AND COLLABORATIVE RELATIONSHIPS

The more that risk managers can help establish a culture of open and ongoing collaboration, the more they can help the business achieve its wider objectives. At present, the reporting lines between function heads and the C-suite are frequently carried out in silos, which restricts the flow of information about emerging opportunities and threats to those who may need it most. By building stronger partnerships with all functions, risk managers can ensure opportunities are realised and emerging threats are managed across the enterprise.

However, while this study reveals that most risk managers have working relationships with all functions, it also suggests that collaboration is often occasional, rather than close or formalised. In some cases, the level of collaboration may not be sufficient for risk managers to counter existing and future threats effectively.

Our research finds that two-thirds (66%) have regular and close collaboration with finance, and almost as many (63%) say the same of the legal function. Considering the threat posed by cyber security, however, it is notable that less than half of respondents (45%) have regular and close collaboration with information security (see Figure 12), and that this figure falls to just 32% when it comes to collaboration with their technology functions. Relationships with internal audit and HR professionals are another area where risk managers need to be closer. “I think more work needs to be done on the practical elements of working together,” says Higgins of the BCI, “such as joint exercising, joint planning, joint reporting, joint stress testing – responding in a joint way to crises or incidents that happen.”

The good news is that risk managers recognise the importance of building a stronger partnership. Some 46% and 39% of respondents expect to have closer relationships with information security and technology, respectively, in the next three years (see Figure 13). Building these stronger partnerships will be key to enhancing risk managers’ ability to manage cyber risk and its impact on other risks.

When it comes to internal audit, Liz Sandwith of the Chartered Institute of Internal Auditors thinks that many risk managers need to hone their messages if they are to build closer working relationships with people from her profession and with members of other functions. “If the risk manager really thinks about the risks facing the organisation and presents to the board, perhaps, 10 or 12 key risks that could bring the business to its knees, he or she is raising something that is manageable and that the board can actually own and action moving forward,” adds Sandwith.

Similarly, the CIPD’s Cheese believes that the key to connecting with HR professionals is relevance. “Risk managers have to be connected and understand the context of the business, both in terms of the strategy of the business and the existential risks it faces,” he says. “Risk managers have to be able to articulate those threats in a way that is relevant to the business. They have to speak the language of business.”

Be prepared to take proactive steps in pursuit of partnerships with other functions, says Jamie Lyon of ACCA. “Collaboration is partly a mindset, but there are also some very practical steps you can take,” he says. “Think about pulling people into risk from other parts of the business for specific projects, for example. Look at whether secondments and rotations can give people from within risk greater exposure to other parts of the business – or get people from those other functions into risk for a period.”

The key is to be mindful of what risk can bring to any collaboration, according to Airmic’s Julia Graham. “It’s no good pitching up to talk to your head of IT or human resources if you’ve got nothing to say to them,” she warns. “Look at the challenges through their eyes and understand what keeps them awake at night. Then think about how you can work together to solve those problems as a team, in a way that will help your organisation do better and add even more value to the business.”

Figure 12. The risk connection with other functions

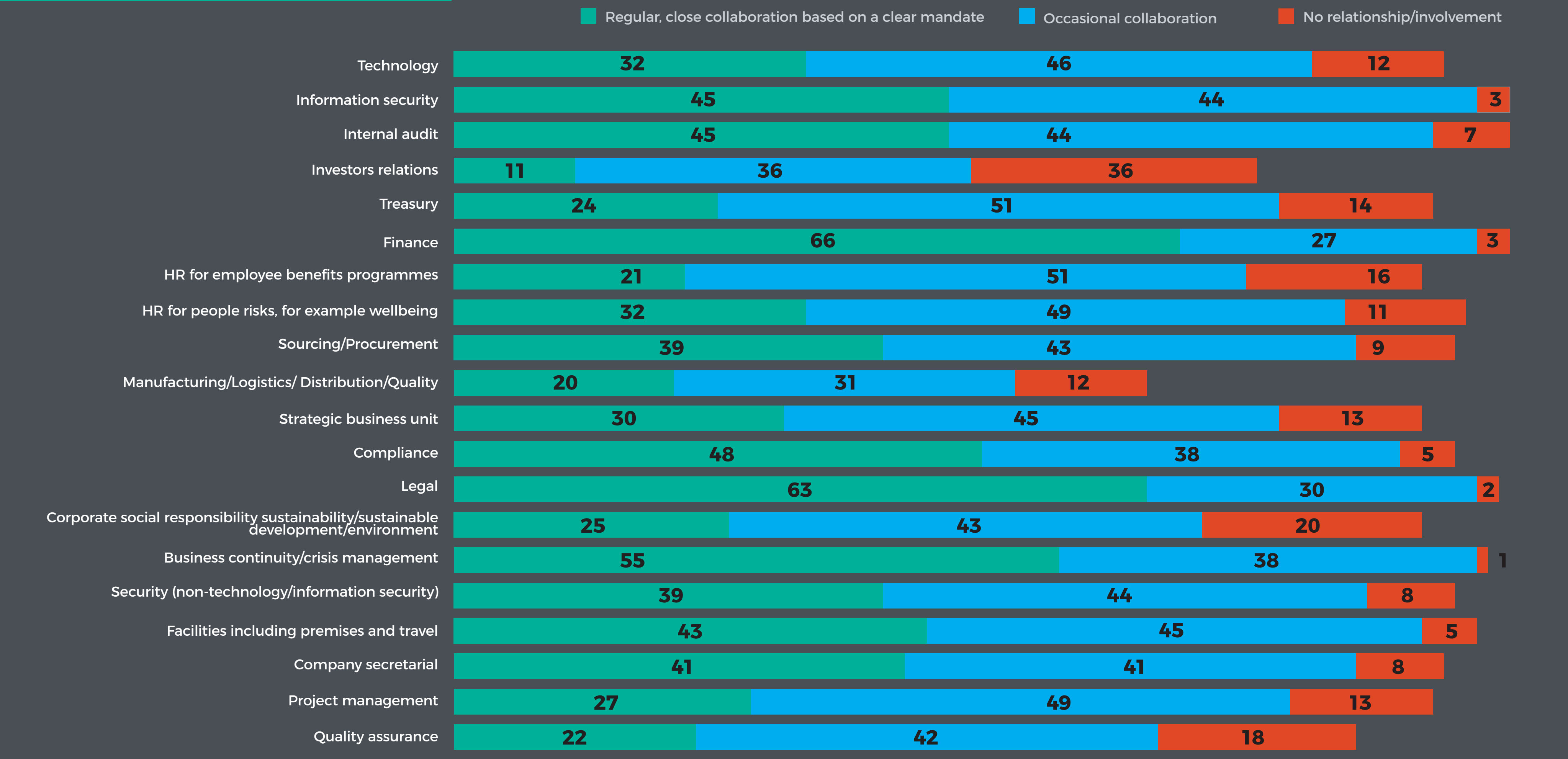


Figure 13. Changes – or not – to risk managers' relationships

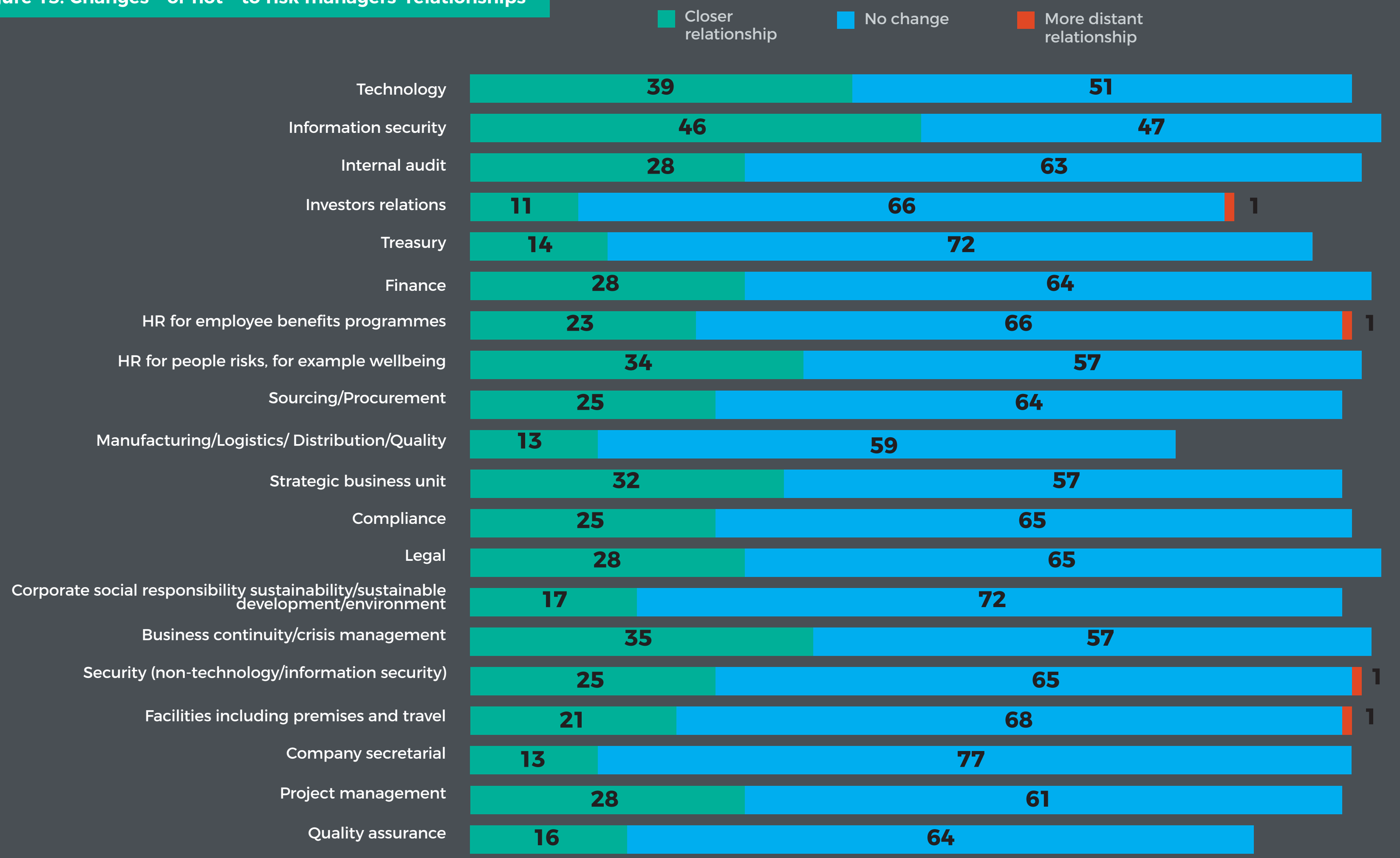


Figure 14. Trends in risk transfer

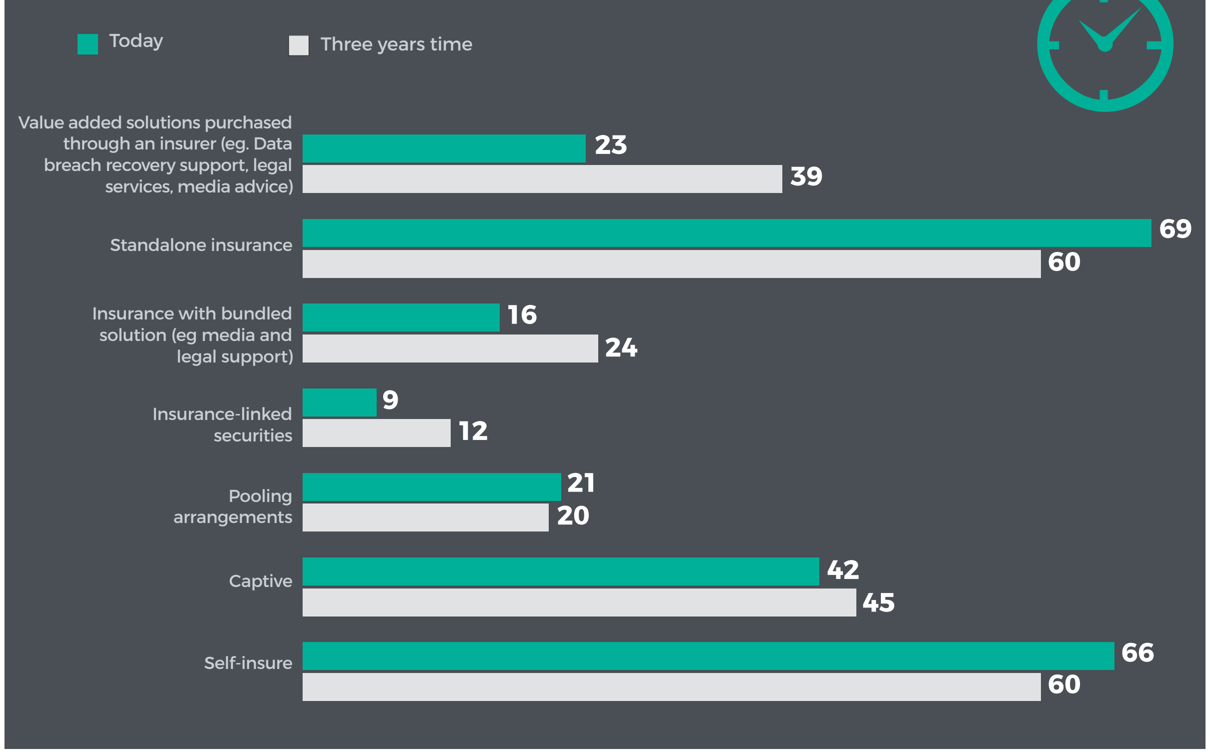
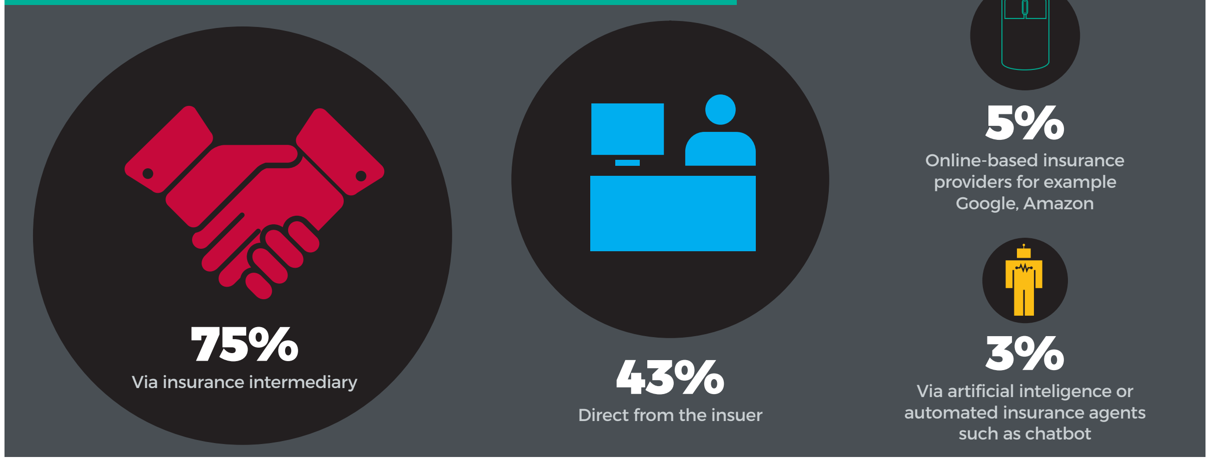


Figure 15. Who businesses buy insurance from in the future



INSURANCE FOR THE FUTURE

Insurance continues to be a key tool for risk managers, with many respondents expecting to make more extensive use of the industry in the years ahead. Some 43% expect to see an increase in the value that insurance or insurance management brings to their organisation over the next three years.

Some of the increase in value will come as insurance plays a more significant role in mitigating the risks of which risk managers are currently most mindful. Many respondents, for example, are looking at the possibility of insurance for cyber risk, with 47% having already tested insurance for cyber coverage and counter-party risk.

“Cyber protection today has to be part of the enterprise risk management portfolio,” says Suresh Krishnan, Head of the Global Accounts Division Europe at Chubb. “It is a risk for which one can’t afford to wait to see what one’s peers are buying or benchmarking because every enterprise has a different profile for which a solution must be singularly tailored.”

Airmic’s John Ludlow believes the insurance industry needs to evolve at pace. “Whilst the traditional areas of insurance will remain, products and services for these areas have naturally commoditised over time. To remain relevant, we must understand the new challenges business leaders are facing and continually develop products and services that underpin the success of our customers.”

The changing value proposition from insurers is attracting interest from risk managers, especially when it comes to protecting their intangible assets, which are harder to cover using more traditional insurance solutions (Airmic’s deep-dive report, Is the insurance market fit for the future? takes a closer look at this, see excerpt ‘From tangible to intangible assets’. Currently, only 23% of respondents are looking to insurers for value-added services – anything from help with data recovery following a breach to advice on dealing with the media – but 39% anticipate doing so over the next three years. Similarly, while 16% of respondents currently buy bundled solutions from insurers, this is set to increase to 24% in three years' time.

Insurers, for their part, recognise the need to offer solutions for a much broader range of risks – even in areas such as reputation, where risk managers have been cautious about transferring the risk. "There is some first aid that can go around the reputational risk," says Chris Bilney, Head of Client Management and Industry Practices at JLT Specialty. "But a lot of it is to do with disaster planning, crisis management and first response on the part of the business. It's a hard one to nail down for insurance because you don't know where the risk could come from, how or where it might manifest itself, and what sort of response you'd need to give."

This study suggests that we may also see changes to the way in which risk managers buy insurance. Asked to identify the ways in which they purchase insurance, more than four in ten (43%) say they will in future buy insurance directly from insurers, although 75% say they will do so through an intermediary.

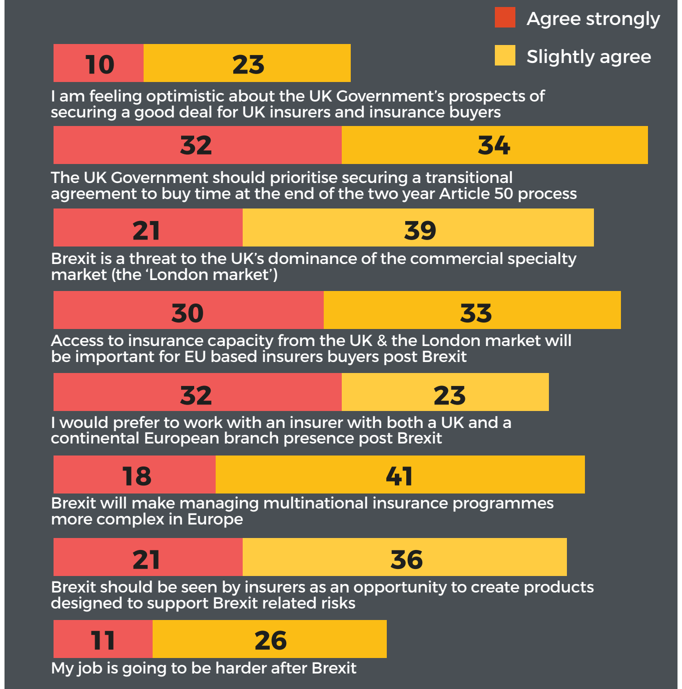
There has been some concern about potential conflicts of interest among brokers, with risk managers being eager to see greater transparency from their brokers over remuneration models and the relationships that some firms have developed with insurers. If this transparency can be improved in the future, we could expect more risk managers to use brokers.

Clive Thompson of the IRM is also a senior Projects Director at Willis Towers Watson and he believes that brokers can add extra value to the procurement process because they work across a wider range of risks. "A broker sees the data in a wider context than an insurer," he explains. "The insurer may have one particular basket of risks, and has deep data for that particular basket, but a global broker has data across risks which are more challenging to place. They are a repository of data."

It is also the case that risk managers have in the past criticised the insurance sector for a lack of innovation. So far, however, innovation has not encouraged risk managers to embrace new insurance sales channels. This study shows that online platforms and artificial-intelligence-driven channels have achieved little penetration, though this may change as more insurers consider such ventures.

One area where insurers may be able to improve their record on innovation is in offering products for emerging risks. In particular, risk managers are keen for insurers to protect them from the risks inherent in the UK's impending departure from the EU (see Figure 16). Some 57% of respondents think that insurers should see Brexit as an opportunity to create products that will help in this area, but 59% warn that Brexit will make managing multinational insurance programmes in Europe more challenging. In total, a little more than one in three (36%) believe their job is going to be harder after Brexit, suggesting an opportunity for insurers to expand or deepen their support.

Figure 16. Respondents' thoughts on Brexit



FROM TANGIBLE TO INTANGIBLE ASSETS

As businesses begin to shift their investment from tangible assets (machinery, equipment and buildings) to intangible assets (computerised information and data; innovative property such as scientific and non-scientific R&D, copyrights, designs, trademarks; and economic competencies including reputational equity[1]) – risks to intangible assets will continue to rise in importance. Global competition, new business models, advances in technology and the increasing importance of the services industry are making sure of that. In fact, the growth of intangible assets outpaces that of tangible assets – 84% of the S&P 500's market value is now held in intangible assets, up from 17% four decades ago[2].

Risks to intangible assets will undoubtedly remain a prime focus for risk managers in the future, says Paul Lowin, Regional Commercial Manager, AXA Corporate Solutions, UK. "I see a landscape where I can only foresee a landscape where risks to intangible assets will increase concerns regarding risks to intangible assets increase. Knowledge companies represent a growing proportion of the economy and these companies own relatively few physical assets, trading primarily on their reputation.

"And in today's increasingly interconnected and transparent world, where mobile communications and social media connect people globally, reputation and brand value can be damaged in a matter of seconds. "In extreme cases, loss of reputation can bring down an entire business. It is these types of new and intangible risks that underpin the challenges for risk managers and the insurance industry at large."

Excerpt taken from Airmic's deep-dive report, *Is the insurance market fit for the future?* supported by AXA Corporate Solutions

[1] *OECD, New sources of growth: intangible assets, 2011* [2]*Ocean Tomo, Annual study of intangible asset market value, 2015*

Conclusion

> **We must understand how to manage and measure the new assets, to identify and understand the new risks and develop ways of adding new value**

This research underlines the effort that many risk managers have made to adapt to the fluid environment in which they now operate. This is a profession whose leaders are proving themselves willing to step out of their comfort zones and take on new responsibilities. Many risk managers are now key strategic enablers within their organisations.

But significant challenges remain, and risk managers must do more to prepare themselves for further change as new priorities emerge and new demands arise. Those that are able to rise to the task will be rewarded with an even higher profile within their organisation, greater recognition of the value that risk brings to the business, and a career path with a far broader range of future options. These are, indeed, exciting times for risk.

It will not be easy, however. Risk managers must work towards their organisations' strategic priorities and identify how to develop their own skills and experiences while continuing to manage the day-to-day events and emergencies that can prove all-consuming.

The key to success will be to focus on those areas where there is the greatest room for improvement and the highest potential to add value. The findings articulated in this research should begin to help risk managers achieve these goals.

In particular, risk managers should focus on 10 key takeaways:

1. Develop techniques for assessing intangible, complex and connected risks which go beyond silos
2. Improve skills such as in communication, relationship-building and conflict resolution
3. Improve knowledge such as in technology, finance and business acumen
4. Learn to create, analyse and exploit relevant data more effectively
5. Establish ways of working to ensure networks develop, teaming occurs and productivity is heightened
6. Understand their skills and experience gap and create personal development plans to close the gap
7. Form a stronger profile and relationships with their Executive in order to drive an enterprise-wide culture of risk management
8. Build closer and more collaborative partnerships with functions across their business
9. Align insurance to financial metrics such as dividend, operating profit and earnings will attract board attention and increase the value of insurance
10. Work more closely with insurers, brokers and risk management solutions providers to articulate what innovative solutions they need

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