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Insurance buying will not impress the board concludes PolRisk event

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Risk professionals must focus their efforts to help their organisations achieve their objectives and help ensure that key management decisions on risk maximise opportunities and minimise threats, according to discussions held at a PolRisk event attended by ISO 31000 risk management standard Chair, Kevin Knight, this week in Warsaw.

Risk professionals must prove the added value that this role brings to an organisation and escape the idea that insurance buying will prove their worth to top management, Mr. Knight and PolRisk representatives agreed.

At the event, held in Warsaw on Monday, Mr. Knight asserted that the term risk manager is no longer relevant to the role that risk professionals should play in the management of risk – as seen through the eyes of the ISO 31000:2009 Risk management—Principles and guidelines.

And, he noted that the holistic approach towards risk management taken by PolRisk is a good example to other more established risk management associations.



Kevin W. Knight, Chair of the ISO working group that produced the ISO 31000

The major difference between the ISO 31000 and previous risk management standards is that it first advises organisations to establish the principles and framework that highlight where the management of risk must take place. This is at management level, explained Mr. Knight.

It was written in management terminology and should help them to gain a better understanding of risk management and thus enable risk professionals to more easily enter into dialogue with risk owners, Mr. Knight noted. It is as much a document for managers as traditional risk professionals, he added.

“It is a better document for directors and senior officers to read and it now provides room for the risk champion to actually start a new conversation at a higher level. If you are the traditional risk manager the challenge for you is ‘can you make the leap from where you are now to talking to the bosses?’” Mr. Knight told *Commercial Risk Europe* during the meeting.

The standard then places the risk process in its proper context, which is to allow for information to come from management and then be fed back into the decision-making process on objectives and risk, he added.

“The risk manager is the champion, the facilitator or the co-ordinator. I am totally opposed to anyone being called the risk manager, just as I do not like safety manager or quality manager, because all of these activities are line management accountability. Therefore the role of the risk professional is to help them

manage risk and to co-ordinate reporting and to provide advice and service up the line to the risk management committee or board committee of management. They need to be able to have a good understanding of the business and be able to provide a lot of advice themselves of know where to get expert assistance from,” explained Mr. Knight.

And, increasingly insurance is not the answer to a the management of corporate risk, he added.

“Because only 20-25% of your risk is capable of being covered or helped by insurance. Even business interruption insurance, for example, doesn’t necessarily mean you will survive a disaster – you cannot insure the retention of your customers,” he explained.

For example, organisations need to work out how to protect their reputation if it cannot be insured.

“It is about how you look at risks, particularly when it comes to opportunities. How do you understand the strengths and weaknesses of your organisation so that you are able to leap in and respond when opportunity presents itself,” noted Mr. Knight.

Mr. Knight’s assertion that the term risk manager should be redundant, reflective of the management of risk as set out in the ISO 31000 and that the role should be focussed on achieving objectives and formulating strategies was welcomed by PolRisk.

“This is something that was a big surprise, but a positive surprise for me. The fact that you do not have to anchor on risk management control or insurance buying,” said Slawomir Pijanowski, Vice President of PolRisk and Director in charge of Identity & Access Management Program at Telekomunikacja.

“If we narrowly think about risk it cannot be perceived by financial markets or strategic people. Our perception here is that risk management must be sold as enhancing management practice itself by leading to better performance results and better realisation of objectives. What is the added value if you buy insurance? Buying insurance is not going to get the board excited,” he added

Mr. Pijanowski stressed the need for risk professionals to prove the added value of Enterprise Risk Management to help achieve organisational objectives.

“If we do not prove the concept of Enterprise Risk Management and the fact that it provides value it cannot work as it will still be perceived as a process that just produces paper and does not help to achieve company objectives,” he explained.

“We have to show that risk management is helping to better formulate better strategies and help people to realise the risk of non-realisation of those strategies. This has to be reflected in the pricing value of a company or on the stock exchange. If you cannot say that Enterprise Risk Management is a value driver for a company’s shares, the financial markets, and perhaps the CEO, will reject the concept,” Mr. Pijanowski added.

Mr. Pijanowski acknowledged that changes to risk culture within organisations is likely to be 3 to 5 year process. But he stressed that one really important issue is how to prove the effects and value of benefits of ERM in the short term.

This is important as often chief executive officers have a contract for only 2 or 3 years and they are accountable for the delivery of value in that short time frame, he said.

“And, we must prove that the concept is fruitful and can deliver pragmatic benefits after a short time period. Of course that does not mean that the culture will change after a quarter or six months, that is a long-term goal, but we can still influence and affect management decisions over this short period,” he continued.

PolRisk’s holistic approach toward risk management is a good example to other more established associations, noted Kevin Knight.

“They are focussed on holistic risk management rather than insurance buying, which I think is a very good approach. They are looking at how can they work with risk management practitioners, whether they are

insurance buyers, company secretaries or directors and owners of companies, to help people understand the need to manage risk. To understand risk in organisations and to manage it with the emphasis on maximising your opportunity whilst you minimise your threats,” noted Mr. Knight.

“This is the position of our association. We thought we were going in the wrong direction because we are different from other associations, but it seems that our position is not so bad,” said Tomasz Miazek, President of PolRisk, the Polish risk management society and risk manager for Telekomunikacja.

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