

Leading Risk Culture Change

Linda Conrad
Director of Strategic Business Risk
Zurich

Paul Walker
Zurich Chair in Enterprise Risk Management
St. John's University

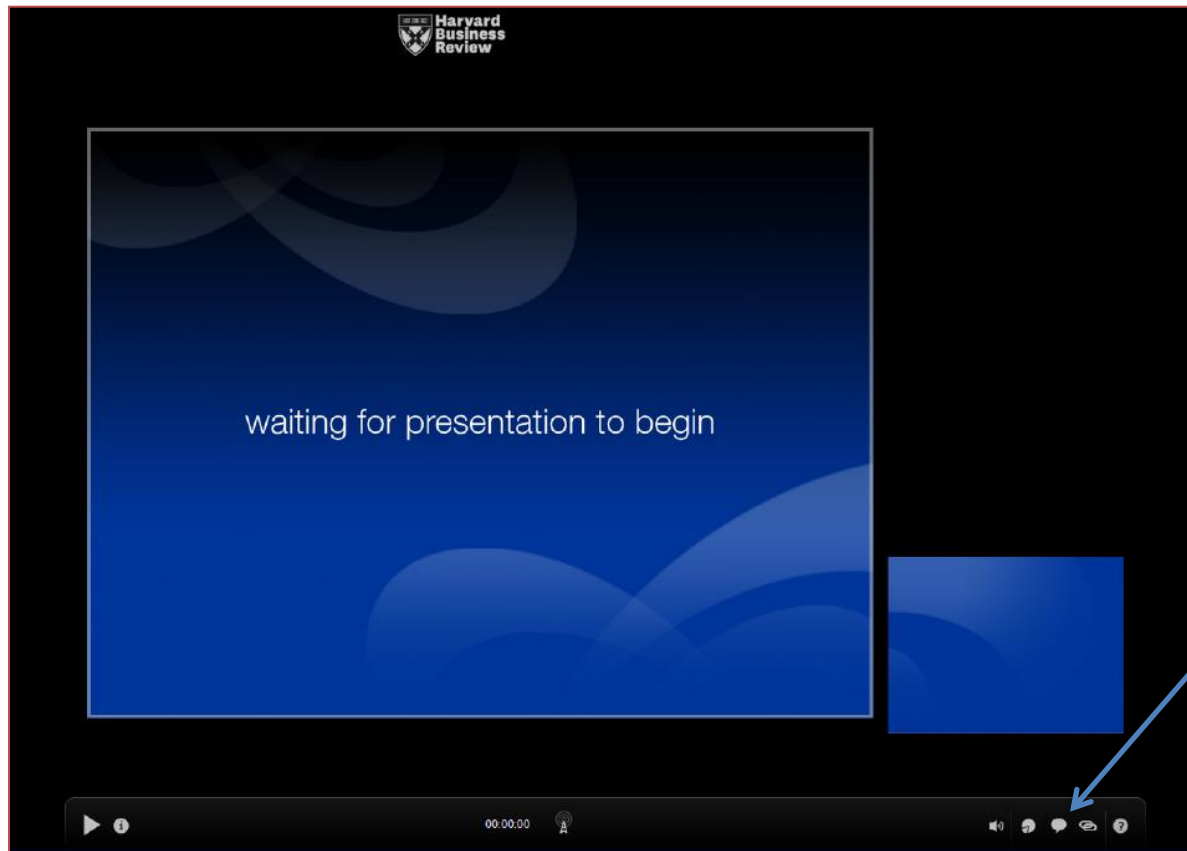
Johan Willaert
Corporate Risk Manager
Agfa Corporate Center

MAY 15, 2013

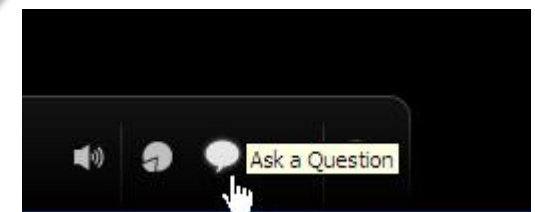
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Culture is key to turning risk into reward



- The culture must support **challenging leadership** on critical elements of strategy
- Over time, it will become an **engrained process**
- ERM can eventually be used more **tactically**
- Approach becomes **consistent across the business**
- **Engages** the entire organization in risk awareness
- **High performance** operating model achieved
- Organization can consciously increase **risk tolerance** levels to profit from prudent risks

The only real mistake is the one from which we learn nothing.

- Henry Ford

Enterprise risk requires leadership

Better informed decision-making

Decrease total cost of capital by increasing risk transparency

Identify and manage key exposures



Maximize growth opportunities

Optimize risk and opportunity balance

Reduce volatility in business results

Steps to leadership in ERM

1 Gain support from Senior Management

2 Define the scope of initiative and communicate

3 Map key strategic risks and vet with stakeholders

4 Conduct strategic risk assessments to prioritize risks and opportunities

5 Set action plan and follow-up / review periodically



Incorporate into strategic planning cycle

1

Gain support from Senior Management

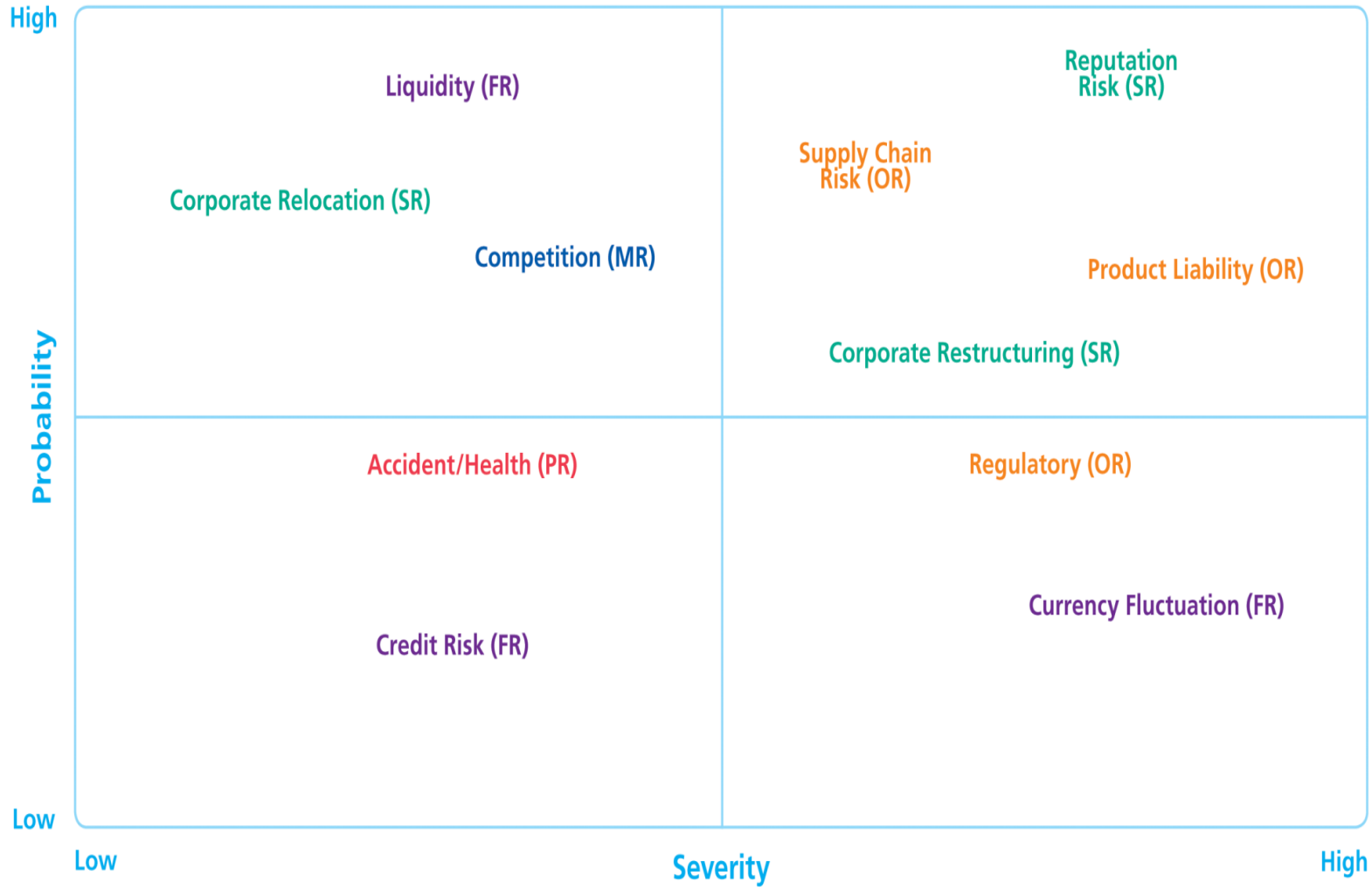
- More than just an ‘Executive Sponsor’
- Should be driven by the CEO and / or Board of Directors
- Must be a recognition of the value to the organization
- Perfect opportunity to be introspective about past / current strategy, and key lessons to help repeat successes and avoid failures
- Encompasses Risk Management / Insurance function
- “Top-down” approach maintains strategic focus

2

Define the scope of initiative and communicate

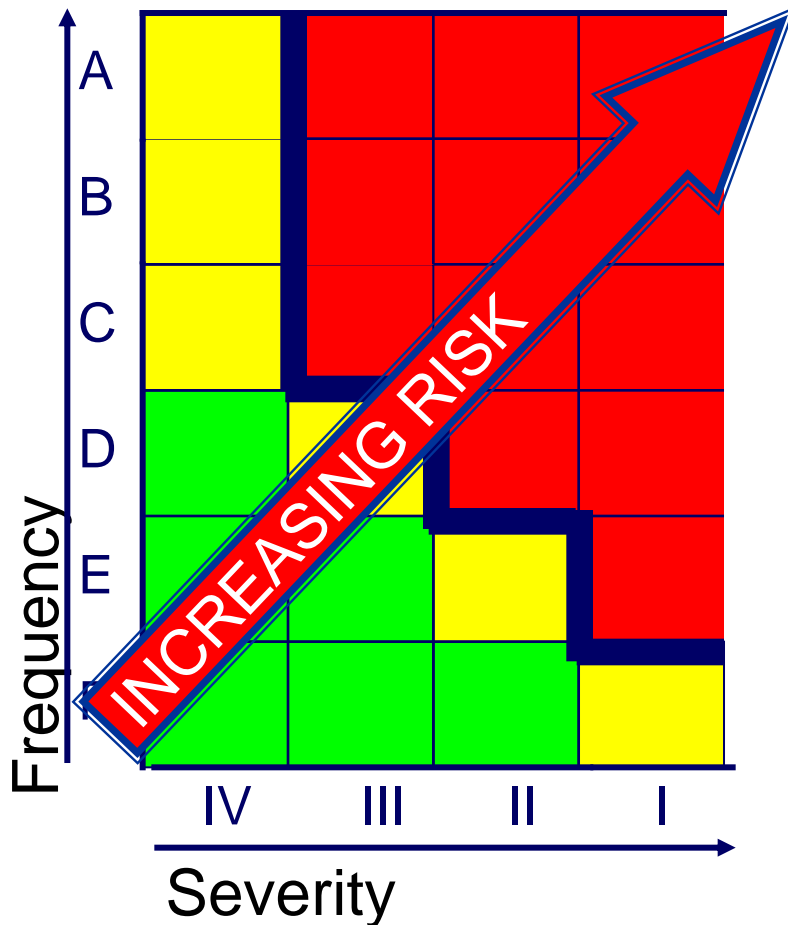
- Will ERM be undertaken company-wide? At the BU level? On specific project(s)?
- Who are the key stakeholders in the initiative?
- What is the organization's risk appetite?
- What time horizon will be examined?
- Objectives must be defined: How will success be determined?
- Metrics should be embedded where possible to:
 - Measure success / failure rate
 - Support an early warning system – 'Key Risk Indicators'
- Plan communications to key stakeholders – share results (successes and failures)

3 Map the key strategic risks and vet with stakeholders



4

Conduct Total Risk Profiling assessments to prioritize risks and opportunities



- Strategic Risk Assessments seek to:
 - Identify
 - Define
 - Assess
 - Manage
- Very important to visualize risk levels
- Supports prioritization of risks and opportunities
- Variety of methods and styles, and must be tailored to the organization

5

Set action plan and follow-up / review periodically

- Strategy and risk management actions should be set in parallel
- Actions should focus on most critical risks or largest opportunities
- Leadership should evaluate the anticipated effectiveness of risk improvements
- Ownership and accountability are key – close the gap
- Review is critical:
 - At set intervals (quarterly, biannually, etc.)
 - As significant change is experienced (leadership, underlying assumptions, objectives, etc.)
- Measure! Measure! Measure!

State of the Union: Mismanaged risks cost money and ultimately loss in shareholder value. It can also prevent you from taking advantage of opportunities that drive innovation and growth

- The more you understand the risk exposures within your business, the more you can make informed decisions to prepare for the risk and promote the right opportunities

Risk Culture With Communication: C-Shift provides the structure for dealing with risks systematically and successfully

- Prepare your company to understand the need for a risk culture from the “top down” so risk can be communicated and understood. This will minimize the negative effects of risk on your capital and earning, and encourage profitable growth

Embed a proactive corporate risk culture ZURICH[®]

Build a Risk Culture prior to implementing a Risk Framework

1. **Communication:** Make a Commitment to Stakeholders about an “Open Environment” on risk culture and management. This includes employees, shareholders, partners, customers.
2. **Leadership:** Positive Messaging “Tone from the Top” and ownership of ERM from top to bottom of the firm
3. **Growth:** ERM into Action by linking the organization Risk Framework to Profit, to drive accountability
4. **Sustainability:** Focus on Implementing to align with long term Corporate Goals

C-Shift: cultural shift to risk accountability



Align Key Performance and Key Risk Indicators to business manage risk



- Key Performance Indicators (KPIs) help a firm see how it is performing in relation to its strategic goals and objectives.
- Key Risk Indicators (KRIs) are leading indicators of risk to business performance, giving an early warning to identify a potential risk event.
- Zurich uses KRIs to monitor risks are in the areas such as:
 - natural catastrophe risks (percentage of group shareholder equity)
 - asset-liability matching (duration mismatch)
 - strategic asset allocation (percent allowed in investment categories)
 - credit risk (weighted average credit rating)
 - other risks specific to business or functional areas

Enterprise Risk Wheel

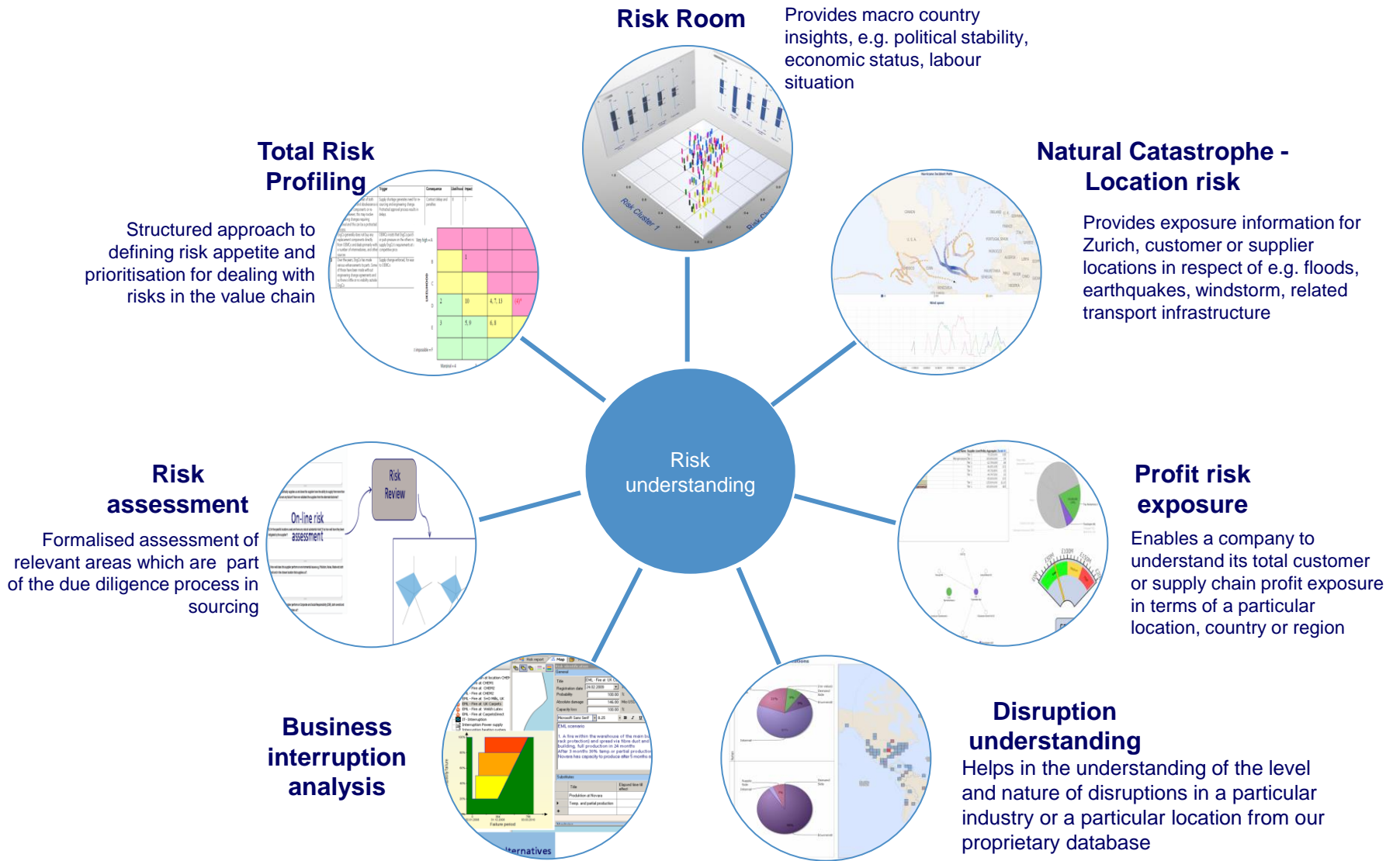


Leadership in Risk: bridging the gap

Engage with leadership by using ERM to go beyond compliance by applying ERM tools for operational and strategic purposes

- mergers and acquisitions
- business resiliency
- new project and product development
- customers' risks
- decisions made in the marketplace
- other

Zurich's family of risk tools



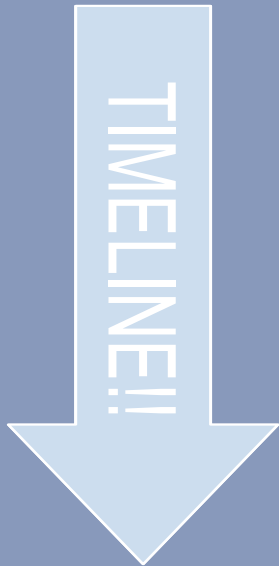
Visit www.zurich.com/riskroom and www.SupplyChainRiskInsights.com for more info, and search for our free app of the Zurich Risk Room in the iTunes or Google Play store

Total Risk Profiling (TRP)

How can you deal with risks that you don't even know are there?

Develop risk scenarios
Quantify financial severity and assess probability

Define the risk appetite
Prioritize risk scenarios and
develop improvement plan



1. VULNERABILITY

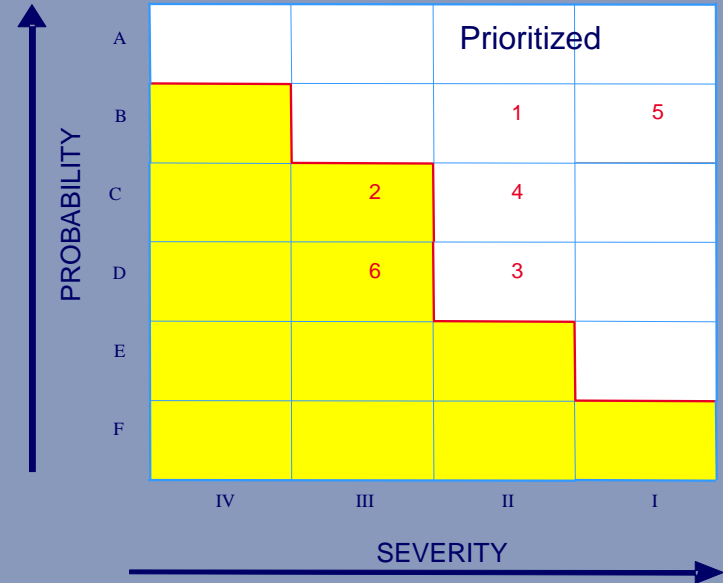
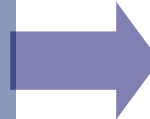
- what?
- where
- controls?

2. TRIGGER

- how?
- why?
- when?

3. CONSEQUENCES

- how big?
- how bad?
- how much?



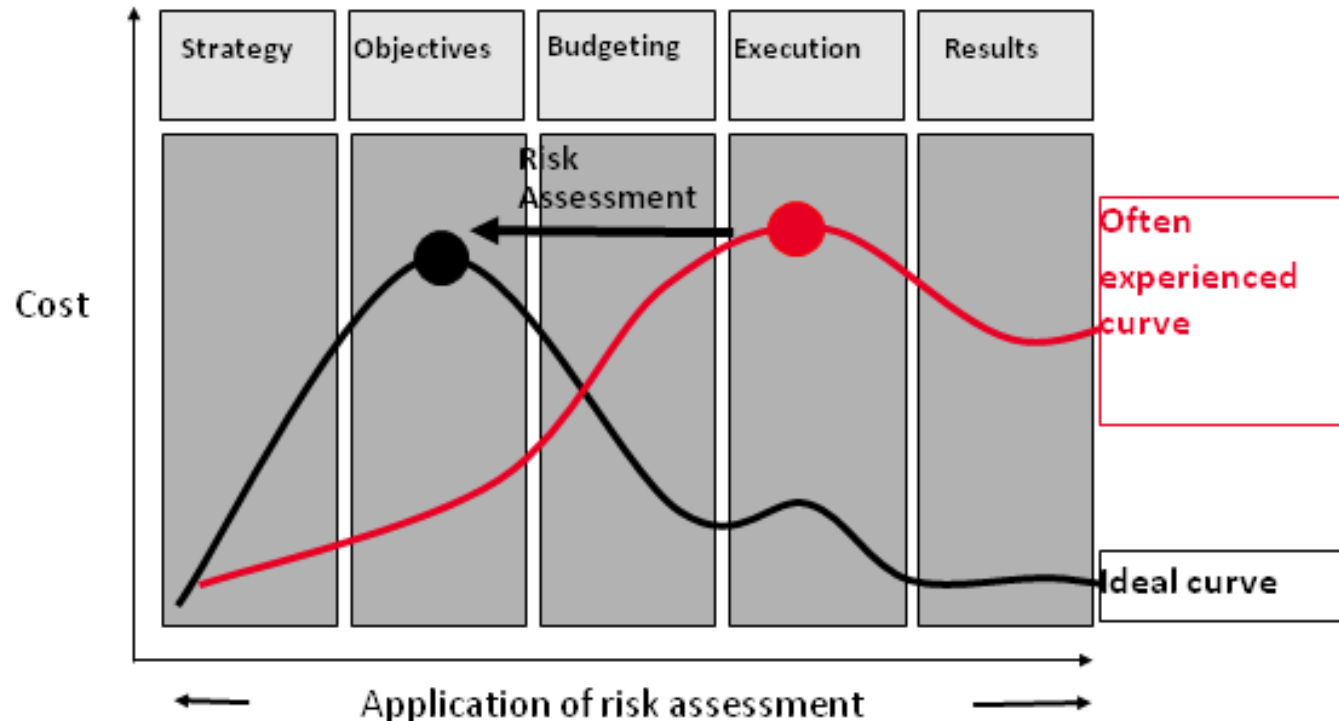
Visit www.ZurichERM.com for more information

Proactive in the business life cycle

Zurich-sponsored HBR Survey: "Risk Management in a Time of Global Uncertainty"

You know when you're really getting good at risk management, when the company does its risk assessment at the project kickoff rather than at the end.

– Angela Herrin, Harvard Business Review Analytics Services



Turning risk into results



After Zurich introduced an enhanced operational risk management framework

- One business unit reduced operational risk-based capital (RBC) consumption by 21.7 percent when Zurich moved from an asset-based to a risk-based approach for operational risk quantification
- The business unit then identified high risk exposures, performed a deeper assessment and developed mitigation measures.
- The unit experienced an additional reduction of 28.9 percent in operational risk capital consumption the following year.
- Operational risk capital not consumed was then available to fund profitable growth for Zurich.

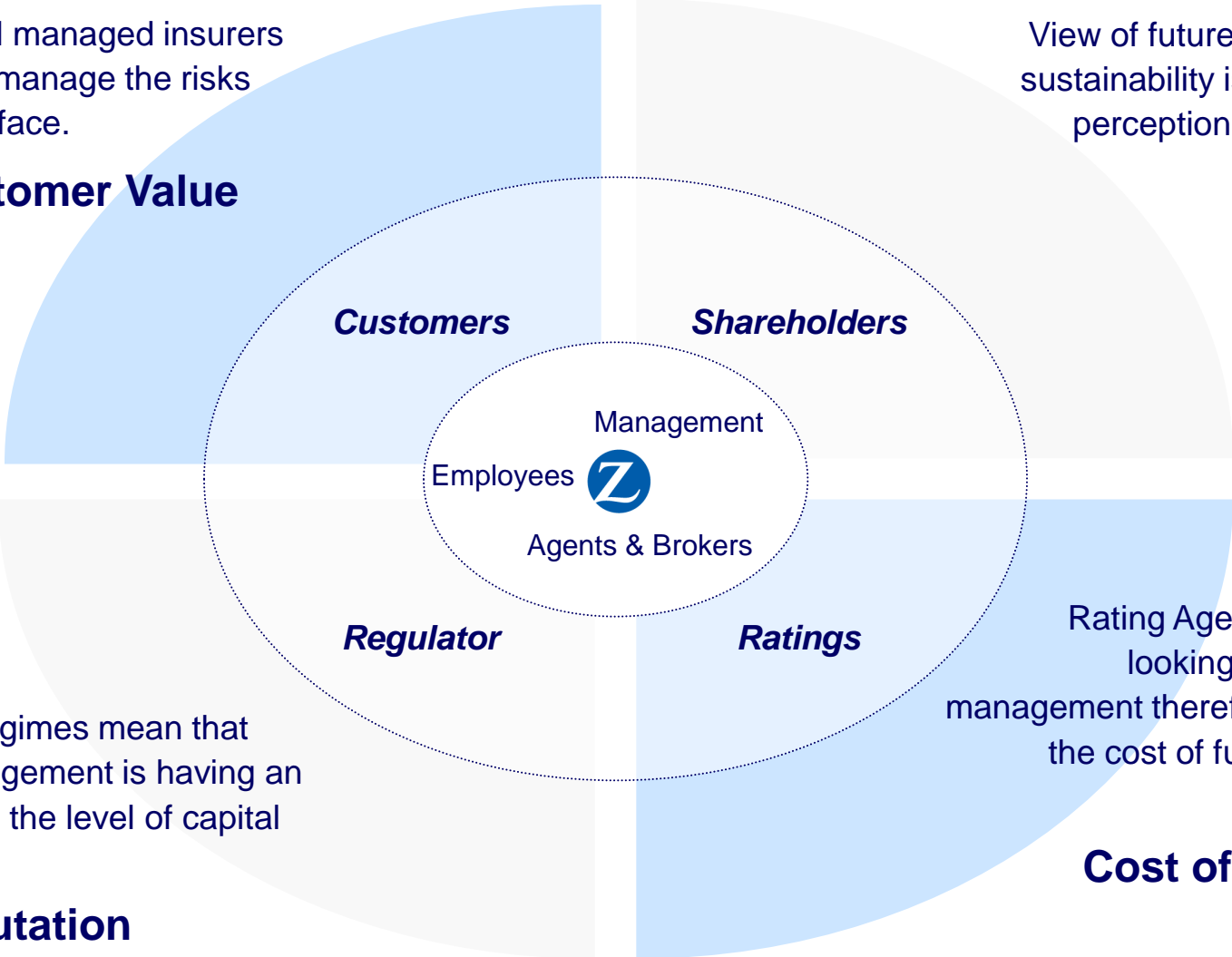
Enterprise risk leadership benefits all stakeholders

Want well managed insurers who can manage the risks that they face.

↑ Customer Value

View of future earnings and sustainability is impacted by perception of risk and its management.

SHV ↑



Capital regimes mean that risk management is having an impact on the level of capital required.

↑ Reputation
↓ Regulatory Capital

Rating Agencies are now looking at ERM. Risk management therefore impacting the cost of funding capital.

Rating ↑
Cost of Capital ↓

Risk Oversight



- Item 407(h) also requires companies to describe the role of the board of directors in the oversight of risk. Recently, the U.S. Government Accountability Office found that economic output losses from the 2007-2009 financial crisis could exceed **\$13 trillion**. Given the magnitude of that crisis, which continues to be felt, it would be **difficult to overemphasize** the **importance** that investors place on questions of **risk management**.
 - Luis A Aguilar, SEC, Feb 20, 2013

What the prof saw...

- “We’re just going to do compliance ERM.”
 - CFO
- “I’ve never heard any of that.”
 - NYSE Board member
- “Can’t criticize anything we do.”
 - NYSE Chairman of the board
- “We cleanse it before it gets to the board.”
 - Fortune 100
- “Organization’s top risk is culture and communication.”

Board complaints

- Not getting strategy/risk info timely; no real time to digest/question.
- Says ERM but looks like silos.
- ERM leader does not think broadly enough.
- We do not assess board effectiveness in risk, strategic risks, or risk oversight!
- Good information...

Getting good information



- “CEOs can share only what they want to share.”
- “The question for most boards members [is this]: Are they getting good information? And I would argue that, in some cases, they are not.”

Improve transparency

- “When you have a good CEO who is open and transparent, you are able to get good [risk] information. When you don't, it's the board's responsibility to **create an environment where they get the information they need...** and not be passive or be managed.”
 - Board member

Boards



- Get engaged
- Do more than listen
- Understand the risk culture
- Ask the right risk questions



FERMATM

Federation of European
Risk Management Associations

Leading Risk Culture Change Webinar

Johan Willaert

Board member FERMA

15 May 2013



FERMA™

Federation of European
Risk Management Associations

agenda

- Risk governance and risk committee
- Risk appetite and risk tolerance
- Strategic and operational goals versus risk management
- Channels of communication: link with
 - Internal audit
 - business units

Risk governance and risk committee:

- How to organize and
 - How to make this organisation work and make it 'focus driven'
- ⇒ with focus on operational and strategic goals

External Risks:

Economic environment
Environmental hazards
Reputational risks
Marketplace risks
....

Internal risks:

Internal control
Financial risks
Infrastructure risks
Compliance
Intellectual property
....

Corporate
Strategy

**Risk Management:
Integrated
Approach**

Management Culture
Management Architecture
Corporate Governance

Risk appetite and risk tolerance:

- to be prepared at C-suite level and
- approved and monitored at board level

Regulatory oversight



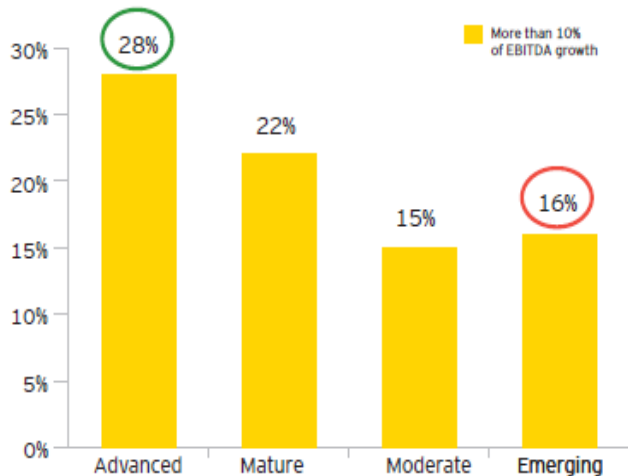
Internal audit - test/evaluate effectiveness of risk governance framework



Strategic and operational goals versus risk management (1):

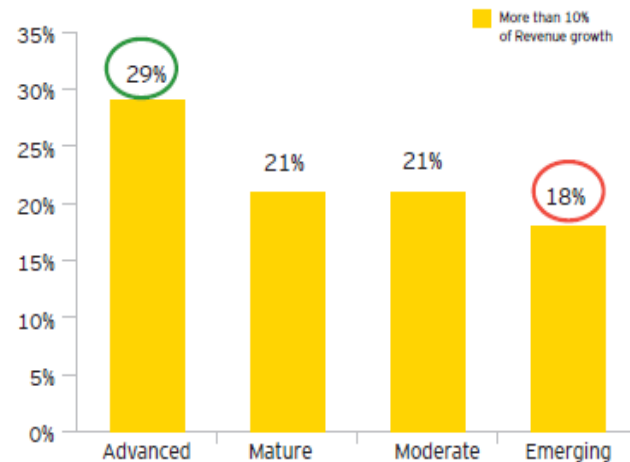
- Link risk management and better performance
(see FERMA benchmarking survey 2012)

Risk Management maturity and EBITDA growth



"28% of companies with Risk Management advanced practices have an EBITDA growth over 10% whereas only 16% of companies with emerging practices present such a growth."

Risk Management maturity and REVENUE growth



"29% of companies with Risk Management advanced practices have a Revenue growth over 10% whereas only 18% companies with emerging practices present such a growth."

Strategic and operational goals versus risk management (2):

- Importance of



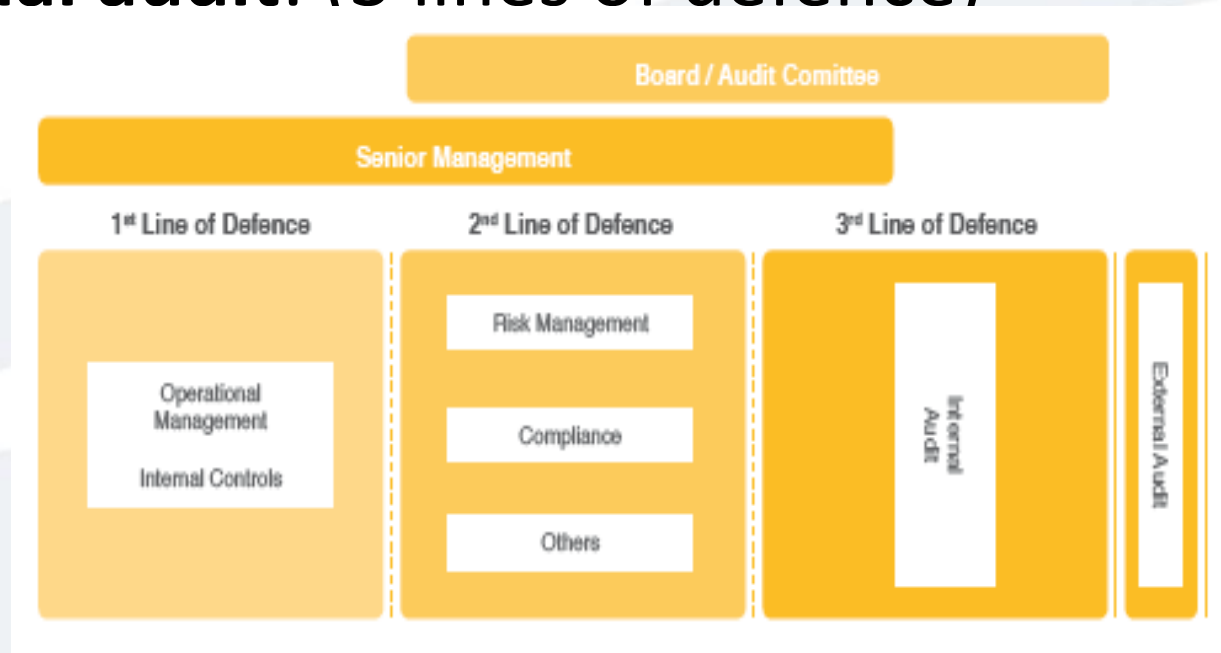
risk awareness

& risk culture

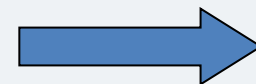


Channels of communication: link with

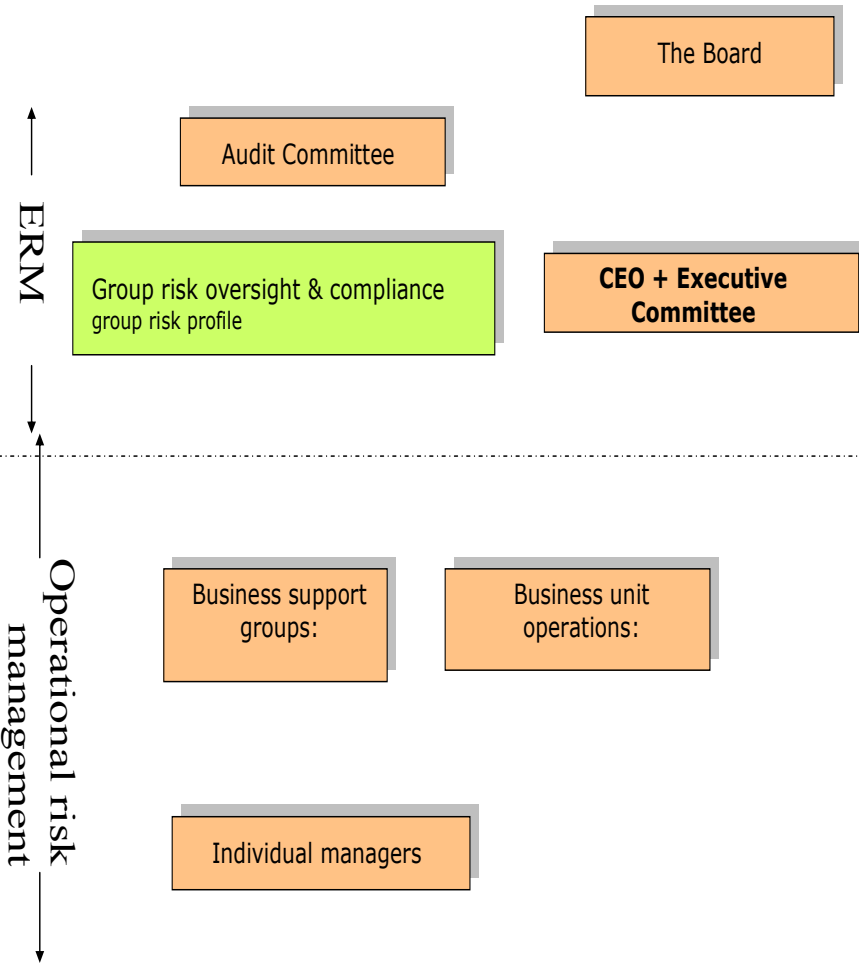
- **internal audit: (3 lines of defence)**



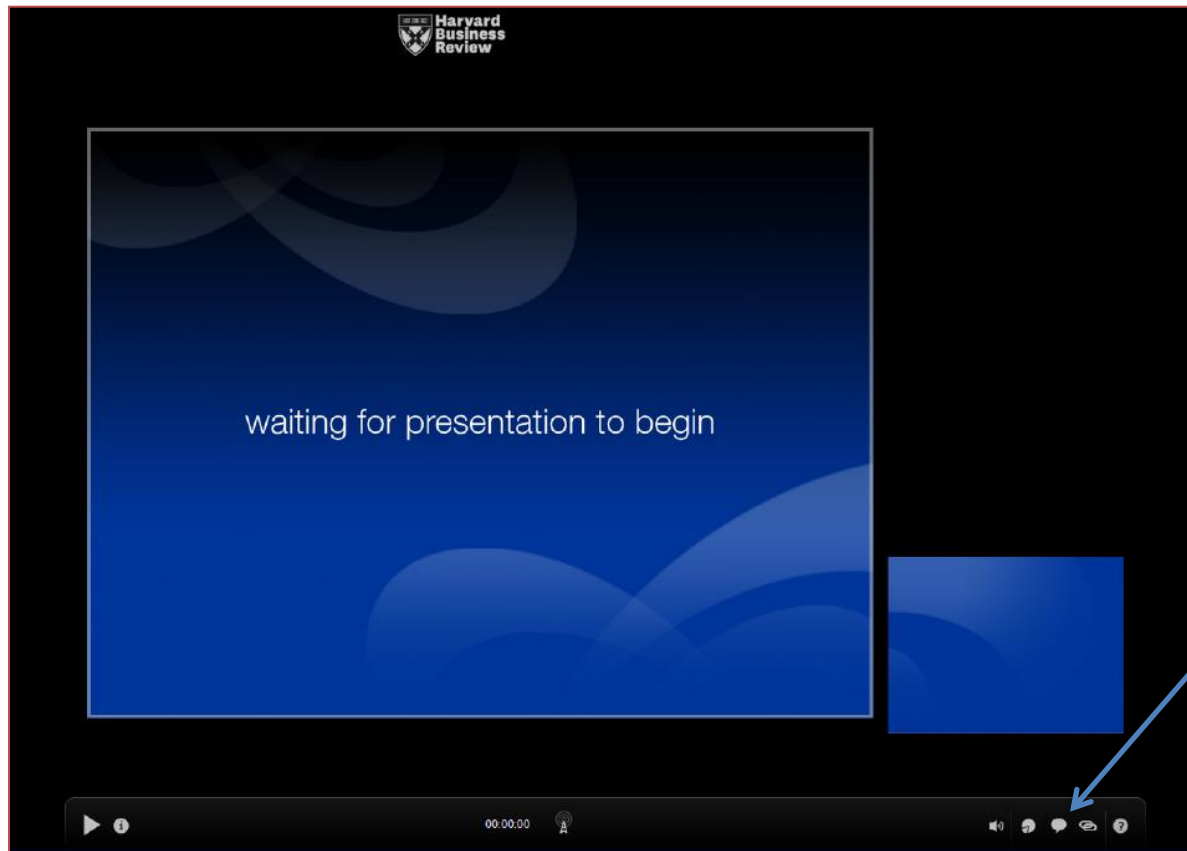
- **business units (top-down and bottom-up)**



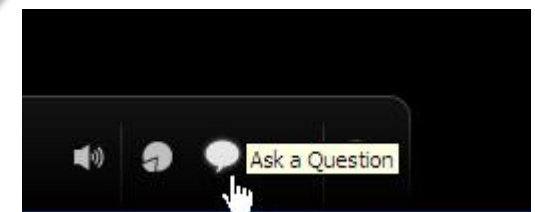
Different management levels have to communicate (top-down & bottom-up)



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Zurich Insurance Group

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