Optimizing Risk and Insurance Management for Tomorrow's Challenges

People matter, results count.

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1. Introduction

When the Audit Committee of the Board, the CEO or CFO, or the auditors ask — or worse, when the large investors' attorneys lead their interrogatory with 'did you do all that is reasonable?' — the corporate risk and insurance executive needs to be confident of their thought leadership addressing rapidly morphing and emerging risk; and not be distracted by the aspect of processing the risk and insurance administration.

For the risk management/insurance industry, the current decade has been dynamic in terms of both risk evolution and the emergence of new risks.

Technological advancements such as connected devices—in concert with micro and macro-economic movements beyond casual fluctuations, chaotic political factors, and morphing business ecosystems—are driving significant and shifting complexity in business operations. These changes, in turn, materially alter a corporation's exposure to new risks from an exploitative and a market-opportunity perspective. In fact, they drive evolving operational, financial, and market risk.

Within this rapidly-evolving risk terrain, a corporation's risk and insurance management efforts should be considered far more than operational activity. In order to effectively safeguard the corporation it is critical that risk and insurance management be supported at the executive level as a strategic effort that merits ongoing investment. Risk- and insurance-management leaders should be able to provide critical thinking about constantly-evolving risks. Unfortunately, within so many companies the complexity and administrative aspects of day-to-day risk management operations limit time for strategic thinking.

Forward-thinking corporations understand the critical need to optimize and prioritize the risk- and insurance-management function by leveraging professional services that can streamline more operational activities.

The shift to using professional services to manage day-to-day operations and requirements processing will empower corporate risk and insurance managers to think strategically and to help their corporations build a resilient and competitive risk foundation.

Arming, empowering, and enabling risk and insurance managers means return on investment. Why? Because strategic, critical thinking helps to defend the organization's foundational capitalization. As such, the risk and insurance management function, and the solution described in this paper, are crucial to the corporation, its stakeholders, its senior executives, and Board of Directors.

2. A Rapidly–Evolving Risk Terrain

A host of drivers, such as technological advances, external market forces and changing business ecosystems are transforming the environment in which organizations operate. Corporate operations are increasingly more complex, which can lead to unexpected new risk and a lack of preparation.

Three key factors contribute to increasing risk complexity:

2.1. Technological Advances

- **Cyber Threats** – In this digital age, corporations process intense inflows of data from both credible and malicious sources. These sources may include cyber threats that present broad risk as potential strikes to operations, financial underpinnings, market capitalization, and business reputation.

- **Connected and Smart Technologies** – Connected technologies, such as smart devices, wearables, etc., are not separate from cyber threats, but further open gateways to data theft and customer information privacy breaches. Smart technology adds unpredictability through programming malfunction or hacking:

  - When connected and smart technologies are leveraged by bad actors working in concert, risk exposure intensifies.
  - Bad actors, frequently acting in concert and trans-nationally, are proficient in the use of technology to undermine corporate entities. For every corporate check and balance, bad actors may counter with a novel means to present risk exposure.
  - Making the risk even more substantial is an apparent unlimited budget, which bad actors invest at the expense of corporations.
  - Now more than ever, corporations are looking to their risk and insurance management leaders to help to strategize and develop high-stakes solutions that prohibit, mitigate, and transfer risk.

2.2. Changing Business Ecosystems Add Risk Terrain Hazards

- **Globalization** – As corporations build global operations, the diversity of risk escalates exponentially, which makes it important to design a risk-management approach that allows local customization and enables enterprise-wide economies of scale.

- **Fragmented Organizations** – Organizational structure is ever evolving to keep pace with changes in the markets with which the corporation buys from, sells to, and serves. Organizations are fragmenting along their value chain to focus on core functions, while outsourcing other aspects of their business to third parties. Thus, they are becoming more disjointed and must collaborate with a greater number of external stakeholders.

Risk is rapidly morphing and evolving with the speed of technology enablement. Markets served, customers' trust, and the stock markets are all affected in the blink of an eye due to an adverse risk event. On top of all the rest, there is the insidious Point Of Internal Compromise where internal resources who find themselves in economic need, and the corporation's loop holes in clear sight, act to take from the corporation money, assets, and advantage.

While this required organizational change offers numerous benefits, it decreases overall corporate risk-exposure control. This makes it more important for organizations to implement a robust risk management strategy — moving it from thought leadership to actual day-to-day administration of insurance-related processes.

2.3. Macro-Environmental Forces

As a result of today's complex business atmosphere, macro environmental forces are changing at a greater speed than ever before. Colliding markets, environments, geo-politics, regulatory and economic factors, and rising terrorism, all threaten corporate operations and financial stability.

It goes without saying, then, that the scope of risk management—at both an operational and strategic level—is broadening.

Savvy, future-focused organizations must carve out time for their risk and insurance managers to strategically focus on tomorrow's risk.

Risk and insurance managers must alert their corporate executives of the crucial need for optimal risk management strategy. Risk and insurance management leaders must be afforded internal and external tools and resources to allow them to move full speed ahead with risk management thought leadership that is not diluted by day-to-day administration and processing operations.

It is not only the complexity of risk that is increasing but also the magnitude of its impact.

The ease of proliferation of information over digital platforms allows risks to cause sudden and massive change in the market reputation of the corporation and a corresponding collapse in market capitalization before a corporation can even respond.

In the rapidly-evolving risk terrain, it is critical for organizations to invest in a proactive risk management approach.

3. Are Corporations Prepared to Manage a Rapidly Evolving Risk Environment?

While effective risk and insurance management is critical for an organization, there are substantial challenges to implementation in many corporate environments.

3.1. Adapting to Changing Risk Trends

One key challenge faced by corporations is adapting and changing to meet tomorrow's changing risk terrain.

The ability of the risk and insurance management organization is tasked to see, hear, understand, and take the right actions to protect the corporation – to every reasonable extent. Therefore, the risk and insurance management organization has to be one that is able to adapt rapidly, seamlessly, with new people and new tools to match the speed of change.

Proactive administration and operationalization of the internal risk and insurance workings of the corporation help the corporation to utilize their risk management resources. The question that remains is whether the internal organization is optimally staffed and organized to meet changing prioritized risks. The challenge is to have the right people, tools, and processes always calibrated to meet the risk terrain.

3.2. Speedily Adapting to Rapid Market Risk Development

In addition to keeping up with the rapidly evolving risk terrain, it is critically important for corporations to be agile in their approach to other related areas as well, so as to manage easily avoidable risks.

For example, corporations must adapt to evolving regulations in order to avoid risks arising from non-compliance. And with that in mind, the corporation and the risk and insurance manager need absolute confidence that they have the right people, at the right time, all the time, to use the tools and systems crucial to the risk and insurance mission space.

3.3. Optimizing Internal Capacity and Resources to Meet Emerging Risk Terrain

In the implementation of risk management strategy, corporations face a few challenges from the point of view of pure resource deployment of internal capacity. Thus, while all agree that the risk terrain is beyond slippery, it is ever changing and evolving, the matter comes back to "yesterday's budget" and the demand placed on risk and insurance management leaders to do more with less.

Corporations today have to process an exponentially greater amount of information than ever before. This fact puts significant pressure on their operational infrastructure and exposes it to a greater magnitude of risk.

Apart from capacity management, another area that demands corporate focus is the design of the operational and administrative aspects of risk and insurance management.

Corporations must ensure sufficient time and financial investment in enabling, empowering, and arming their risk and insurance management leaders to do their job ever better.

Recent trends indicate a different reality.

In a survey of business leaders by the Enterprise Risk Management Initiative, it was found that only 25% of the respondents believe their organization has a complete formal enterprise-risk management process in place; although 57% of respondents believe that the volume and complexity of risks have changed significantly in the last five years.[1]

Another metric to understand an organization's investment in risk management is the Total Cost of Risk (TCOR) that measures the amount spent by a corporation on risk management.

Per the 2016 RIMS Benchmark Survey, TCOR declined by 2% in 2015 as compared with 2014; and it was found to be at $10.55 spent on risk per $1,000 of revenue.

Despite more than 90% of 450 respondents in an Advisen survey in 2015 saying that cyber risks are at least a moderate threat to their organization, the TCOR for cyber risk was found to be $0.38 per $1,000 of revenue in the 2016 Benchmark Survey.[2]

A decreasing TCOR, in an increasingly complex risk and regulatory environment that tomorrow brings, signals a glaring need for corporations to renew their focus on planning the right investment and approach in risk management.

[1] Beasley, Mark. Branson, Bruce. Hancock, Bonnie. 2016. "The State of Risk Oversight: An Overview of Enterprise Risk Management Practices". Enterprise Risk Management Initiative and AICPA®, April, 2016. Accessed March 2017. https://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/ERM/DownloadableDocuments/AICPA_ERM_Research_Study_2016.pdf

[2] "2016 RISK AND INSURANCE MANAGEMENT Benchmark Survey". Advisen Website, April, 2016. Accessed March 2017. http://www.advisenltd.com/wp-content/uploads/2016/03/RISK AND INSURANCE MANAGEMENT -Book-Summary-Report-2016-04-06.pdf

4. Optimizing the Risk & Insurance Management Executive Time and Expertise

When implemented effectively, a corporate risk-management initiative works as a key strategic lever, rather than a pure compliance metric. But to achieve this distinction, it is important to apply optimized approaches that leverage professional services corporations to execute day-to-day operations so that the risk and insurance management executive may fully focus on blocking, mitigating, and transferring corporate risk.

The challenge is to arm, empower, and enable corporate risk and insurance managers to focus on key strategic aspects of risk and insurance management.

4.1. Benefits of an Optimized Risk and Insurance Management Strategy

- **Greater Focus on Strategic Tasks** – Risk and insurance management leadership executives can prioritize strategic tasks over mundane tasks that are necessary but manageable without the executive's focused attention. An optimized strategy would enable these thought leaders to direct greater focus toward the more strategic aspects of risk management.

- **Experts to Handle Risk and Insurance Management Processes** – Outsourcing risk and insurance operations provides access to experts who can ensure a best-in-class execution by tapping into known best practices.

- **Resource Cost Optimization** – Risk and insurance management leadership executives can now optimize the use of resources by sourcing only as per need from an external professional services corporation. Thus, they gain enhanced control on their risk costs and eliminate unnecessary expenses.

- **Resource Deployment Optimization** – The risk and insurance management team must assure the corporation that it has the right people, with the knowledge to use the right tools. Crucial to this consideration is to assure the corporation that in those flash risk events, the resources are variable and can be, will be, as needed, when needed:
  - These days, economic consequences are too extreme for firms to allow factors such as resource constraints to be a reason for risk-event inadequacy.

- **Flexible Plan Design** – Risk and insurance management leaders gain plan design flexibility to meet rapidly changing risk terrain across all lines of insurance/ risk.

- **Ability to Better Leverage Data for Insights** – By incorporating enhanced data infrastructure, risk and insurance managers can ensure more efficient storage of and access to data. This gain is then leverged to assimilate and formulate actionable conclusions to better predict future trends of evolving risk.

- **Streamlining Talent Management** – Selection, hiring, and training of employees involved in the administration of internal risk and insurance operations takes considerable time and investment. However, this activity can be streamlined by sourcing talent from external, specialized players, which will enable the corporation to focus more on the core risk management strategy.
- **Leveraging the Latest Tools** – By leveraging a specialized player for risk operations, risk and insurance managers optimize access to the latest critical tools for reporting, risk surveillance, and insurance management.
- **Administrative Cost Reduction** – Corporations should keep in mind the cost of delivery of crucial thought leadership in risk and insurance management and its budgeting impact. By adjusting the internal risk and insurance administration, beyond the current TPS's that are deployed, time, focus and cost-savings gains are made. Corporations benefit by reduced administrative costs related to claims and benefit management, which contribute to the overall expense of risk management.

4.2. Enabling the Ability to Adapt to Risk Terrain Change

In order to deploy an optimized risk and insurance management strategy, corporations can follow a three-step approach:

1. Step away from trying to fit past operating models and budgets, into the corporation's current and future strategic framework:
   - Consider the future risk landscape while developing tomorrow's risk and insurance management strategies and models.
2. Prioritize critical tasks that require dedicated manager's time:
   - This is important to enable executives to balance their tasks with the demands from the C-Suite, regulators, and investors.
3. Recognize which internal operations pose a gate to strategic tasks:
   - Segregate necessary, but focus-diluting day-to-day operations. Such activities can be outsourced to specialized professional services firms.

Exhibit 1: Designing an Optimized Risk and Insurance Management Strategy

Source: Capgemini Financial Services Analysis, 2017

4.3. The Role of Professional Services

Professional services play a key role in the implementation of an optimized risk and insurance management strategy.

One of the main benefits of outsourcing all of the internal risk and insurance administrative duties to professional services specialists is the ability to follow a variable resource approach so as to provide the right amount of service as required at any particular time. This level of engagement will not only help corporations be prepared for higher resource requirements, but will also help to optimize the overall risk management cost.

Through their expertise, professional services corporations establish enterprise-wide standard processes that improve accuracy and operational efficiency.

The services provider supporting the risk and insurance management leaders also provides assurance that when that time does come — the time of a rapid risk event threatened or in process — the resources needed to support the corporation will be available 24 x 7.

There are benefits to the corporation to place the day-to-day administration, data sourcing, and data production into the hands of highly experienced professionals. Professional Services corporations specialize in these operations and they will enable risk and insurance management to tap the latest risk management tools and technologies and stay ahead of the rapidly evolving risk terrain.

Professional services firms specializing in data and analytics are especially beneficial in the areas of emerging risk identification, claims fraud detection, claims litigation, and drawing high-level risk-trend insights.

The "Excellence in Risk Management XIII" report shared by Marsh reported that 74% of respondents surveyed said their organization would benefit by using analytics to better quantify emerging risks.[3]

Leveraging data and analytics capabilities will be critical to corporate risk and insurance management strategies going forward; and professional services players can be a valuable partner.

[3] Zaffino, Peter. 2016. "These Are the Biggest Business Risks Today". Fortune, April 21, 2016. Accessed March 2017. fortune.com/2016/04/21/business-risks-syrian-civil-war/

5. Conclusion

Today, the term that makes the Chief Financial Officers' eyes glaze over with concern is "sustainability"

Sustainability assurance and quantification is the most pressing matter for the corporation, its CFO, and its Board to answer.

The ability of risk and insurance managers to partner with the CFO, to bring to bear the needed knowledge, processes, and safeguards to bolster and support achieving sustainability is vital to corporate security.

In an increasingly complex business environment, where the risk terrain is morphing, evolving, and emerging, it is clear that risk and insurance management must become integral to corporate core strategy. It is critical to the sustainability of the corporation.

To empower corporate risk and insurance managers to work strategically, their time and focus must shift away from day-to-day operational activities that can be outsourced to professional services organizations.

Partnership with professional services organizations equips corporations with useful capabilities, such as advanced analytics, that will help them to enhance returns from their risk and insurance management initiatives.

Risk and insurance management has never been easy. And today's complex operating, market and financial dynamics pose increased sustainability threats.

The most important step forward is to enable, empower, and arm risk and insurance management executives to stay laser focused on thought leadership to achieve corporate sustainability, while shifting day-to-day process administration to the right operating partner.

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