

RISK PROFESSION

Lack of positive RM contributes to GFC

Many organisations have failed to adopt effective enterprise-wide risk management cultures and behaviours, adding fuel to the global financial crisis, says Brian Roylett, RMIA president.

But he says there has been no systemic failure of risk management as a business discipline. "Perhaps we have failed risk management," he suggested.

Mr Roylett was a member of a top-level panel of experts at a Lloyd's of London business briefing.

He criticised some boards of directors, which, during unprecedented economic growth and profitability, had begun to reward executive management for achieving outstanding financial performance without due consideration to the "risk and opportunity equation - the higher the financial returns the greater the risks to the organisation".

But he said not all organisations in a particular industry group, including the financial services sector, had sustained identical fates during the GFC. "Many major corporations have demonstrated true organisational resilience during difficult times, primarily due to reinforcing a sound, enterprise-wide RM culture across all business activities of the organisation."

Mr Roylett urged organisations to create a liability RM culture and adopt enterprise-wide RM standards, guidelines or frameworks. "Develop the internal competencies to effectively manage liability risk exposures and determine the organisation's



Brian Roylett

risk thresholds, that is, the capacity of the business to retain financial risk and manage appropriate levels of retained risk."

He said the status of the insurance market cycle influenced the degree to which organisations implemented effective liability RM policies, practices and procedures. "During intense market competition among underwriters, an organisation's liability RM plan may have minimal influence on premiums."

Mr Roylett said soft market conditions created an internal impression within insured organisations that an effective liability RM capability was not a determining factor in setting premium pricing, resulting in less emphasis on liability management and controls. Hardening market conditions created a "temporary" focus on liability RM, often resulting in superficial measures being implemented to satisfy underwriters' requirements.

He urged organisations to allocate adequate resources to effectively manage liability risk exposures.

Mr Roylett's fellow panellists were Matt Newman, Catlin's casualty business group leader; Jeremy Rowsell, national casualty manager, program design & placement, Aon Risk Services; and Alex Sanchez, general manager, policy, economics & taxation, with the Insurance Council of Australia. The panel was chaired by Ross Greenwood, business & finance editor, Channel Nine.

GFC to spark attitude shift?

A prolonged global financial crisis (GFC) may see a fundamental shift in the attitude to managing risk.

That was a perspective expressed by Dr Chris Perryer, director, international MBA programs, UWA Business School, at a WA RMIA Chapter panel session on whether RM has failed.

He spoke about the influence World War Two and the Great Depression had on his father, and how those events had defined his father's values, encouraging prudence, thriftiness and a focus on family survival.

Dr Perryer pondered whether, if the GFC were prolonged, a similar attitude change may result

today. It could create a generation that was more risk averse and had a changed attitude to what was important.

Dr Perryer said many RM professionals were engineers, so they had technical, task-oriented backgrounds, but were not so relationship oriented.

People frequently did not take stakeholders into account in decision-making. The GFC was a prime example of "people not understanding the impacts of what they're doing, and they're still doing it. Executives are still flying first class and taking big bonuses. They didn't anticipate the significant risk from a public relations perspective".

Dr Perryer said the RM framework was about collecting data, analysing it and taking action. While RM itself had not failed, the problem may lie in judgements made following the analysis. "Look broadly, see the world through stakeholders' lenses," he suggested. "Try to get inside the heads of those affected."

He said accountable decisions needed to be ethical and transparent. "Even if things go wrong, you need to show your [decision-making] methods are reasonable to a reasonable person."

First mover

Peter Janus, Alcoa risk manager and a member of the WA RMIA Chapter's leadership group, told the WA Chapter seminar Alcoa had taken an early approach to coping with the GFC and had gone into "survival mode". Alcoa was one of the first to freeze wages, cut capital costs and "do all we can to manage cash".

Within three months, Alcoa had gone from trying to meet demand for product, labour supply and ships, to halting building projects, reassessing its situation and reacting early, giving it a "first mover's advantage".

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The company continued to work on strategic risk assessments and ensure it managed costs so it was in a good position to forge ahead when the subsequent upswing began.

Mr Janus said the GFC had not been "on anyone's strategic list of risks that could occur", but, when it did, Alcoa, being in a resource industry, was "hit very quickly, but able to react quickly".

The same principle had seen Alcoa survive WA's Varanus Island gas explosion that affected industry gas supplies in 2008. "We had a plan in place and were quick into the market to source alternative supplies," he said.

Mr Janus said the risk fraternity now understood the importance of communication, and that meant keeping employees, customers and suppliers fully informed of what companies were doing to manage the GFC.

Act repealed

Peter Moore, managing director and principal consultant at Risk Point, and a member of the WA chapter leadership team, related some of the history behind the GFC.

He told the WA Chapter seminar it stemmed, in part, from the US Government's 2001 decision to repeal the 1933 *Glass-Steagel Act*, which forced banks to be either commercial or investment banks, not both.

That allowed investment banks to package mortgages as CDOs and other instruments and on-sell them.

Other factors included credit being easier to access, which created an asset bubble in the housing and real estate markets. In November 2007, "the whole thing started to come down".

The progressive dismantling of protective measures had been "seemingly overlooked, although educated investors" should have seen it coming, Mr Moore said. Collapse in one market spiralled into another.

But Mr Moore said companies that had sound RM methodology, and followed through with the rest of the RM process, would weather the GFC better than those that did not. "Thankfully, more companies are seeing the value RM adds to the business model and decision-making.

"Although, there were still companies that conducted risk analysis, but took the process no further."

Mr Moore said corporate memory was very short; too few organisations learned the lessons of the past.

However, companies were now starting to scrutinise their processes more closely, ensuring controls were "up to speed" and seeking advice. "It's a reality check for a lot of companies."

Mr Moore said the younger generation had not been through a downturn, so did not know how to react. But older people "have been there before and know what to do".

He said it was a myth that the Australian economy was "de-coupled" from the US economy, but Australia would fare better because the nation's banks were more tightly controlled and had stronger lending practices, eg, no non-recourse loans.

"RM has worked, but people have forgotten some of the fundamental rules. The cost of risk is now being more closely examined."

Jobs decline

Alan Langford, chief economist with BankWest, commented on labour force trends, saying there was an increase in part-time workers, as full-time jobs depleted.

Aggregate income growth was constrained by the slide in full-time employment, hence "monetary and fiscal policy are being deployed furiously in tandem to limit the extent of the slowing in aggregate household income growth".

He told the WA Chapter seminar there was evidence both were working, although it was far from widespread. "Lower interest rates and the latest round of fiscal stimulus, coupled with a tentative recovery in global share markets, have collectively stemmed the slide in consumer confidence."

He said the first home owner grant had caused an uptick in new housing finance approvals for construction.

"The case for further easing of monetary policy remains strong, as does the case for more fiscal stimulus as the federal budget approaches rapidly," Mr Langford said.

Self-insurance can benefit employers, employees

The financial benefits of a company becoming self-insured can be significant, but the primary motivation must be an uncompromising commitment to look after the employees, says Gary McMullen, a director at Willis Australia.

He believes large employers with good safety records can make big savings on their workers' compensation bill, but he told RMI's NSW



Gary McMullen

chapter there were several hurdles to jump before the balance sheet improved.

"Comcare, the federal scheme, is one option. It has the advantage of harmonised rules that cross state and territory boundaries. But, in December 2007, the Federal Government imposed a moratorium on companies seeking declarations to self-insure under Comcare, and that could last until after the next election.

"An option available to all large companies is to consider self-insurance in the state schemes. The states have different regulations and eligibility criteria on who can apply, but savings are significant if the board of directors is prepared to take the risk."

Mr McMullen says if a firm has about 200 employees, is paying at least \$750,000 a year in workers' compensation premiums, has a strong commitment to OHS and well-run safety structures in place, it is an ideal candidate for self-insurance.

However, the safety component should not be under-estimated. Improving safety performance and eliminating injuries in the workplace should be the primary goal for any organisation seeking to self-insure their workers' compensation risk. "This is where they will achieve the greatest savings in terms of financial and return on their human capital strategy," Mr McMullen said.

"It's all very well wanting to save money up front with a move to self-insurance, but directors must have the long-term vision and show faith in their company that self-insurance can work for them."

Mr McMullen, a Harvard Business School graduate, said the average time to become self-insured was nine to 12 months, depending on the state guidelines and an employer's readiness to meet the eligibility criteria. "The process is worth it if the company is serious about reducing workers' compensation costs and improving the safety culture," he said.

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To succeed, an organisation needs to meet prudential requirements, such as having a strong balance sheet and providing a bank guarantee, an integrated OHS system with good safety performance, a commitment to rehabilitation following workplace injuries and invest in an IT system that can integrate with state regulators to record injury data.

"It may seem like a lot before you are even considered," Mr McMullen said. "But it's more about common sense and strategic leadership.

If you are serious about safety, you can make huge savings and have a very healthy, happy workforce. A happy workforce is a productive one."

Mr McMullen estimated that, for most large companies, workers' compensation insurance was probably the second or third largest bill after wages and rent. He has seen more companies interested in self-insurance as the global financial crisis loomed.

"About 12 months ago, self-insurance was nowhere near as popular as it's becoming now. We are seeing organisations trying to cut costs and, for some, that may mean cutting jobs. The smarter ones are looking at self-insurance and they can see the potential for saving money and jobs. A downturn in the economy opens up rare opportunities to outmanoeuvre competitors and self-insurance is one such opportunity.

"Obviously there is more pressure in the current financial climate, but that can be a good thing. Staff are hopefully going to keep their jobs and be well looked after at work. The company can invest the savings, which, in my experience, are between 30% and 50% of their annual premiums back into the business or into safety initiatives.

"All it takes is for an employer, well versed in risk management, to implement a safety, claims and return-to-work strategy that leads their industry and it would be hard for them not to look at self-insurance and improve the balance sheet," Mr McMullen said.

CPRM profile

CPRM assists in job search

APA Group corporate risk manager Ian Scrutton believes becoming a Certified Practising Risk Manager assisted him in gaining his latest job.

Sydney-based Mr Scrutton, who gained the CPRM accreditation last November, had reservations about going through the process because he

felt he already had the skills and experience to progress on his own merit. But he eventually did so, after seeing the accreditation gain respect in the RM profession.

"I was skeptical initially and did not intend to take up RMA membership. I have been in the business for a long time and have plenty of confidence in my credentials and did not really think about applying to be a CPRM.

"But I noticed more people were going for the accreditation and eventually discussed it with several colleagues and friends.

"I was especially encouraged by a respected colleague and I began to see the benefits."

Mr Scrutton was impressed with the challenging process and the grilling he received from the panel.

"The application was more arduous than I initially thought, which means not everyone who applies will achieve it. That will give it more credibility with risk managers and clients.

"I had to present my qualifications and produce a body of work that went before the panel, before an interview, which was very stimulating, so I felt I had been challenged before I had even been awarded the accreditation.

"I enjoyed the interview with the panel. They are my peers and I was impressed. I would be very happy sitting down discussing various RM factors and strategies with them."

The AFL fanatic, who used to coach his son's side in his spare time, has been in RM for 25 years and is relishing the chance to meet other CPRMs.

"It will be good to exchange ideas and I'm looking forward to sharing problems and challenges with other CPRMs."

Mr Scrutton believes prospective clients are more likely to use the services of CPRMs. "Clients will know a CPRM has a good standing in the profession. The credibility it holds means you have already reached a proficient standard."

Until recently, Mr Scrutton was a risk manager at Echelon, in WA, but had been hankering for a move and said being a CPRM helped him secure his new role.

"The accreditation is more appropriate for a corporate RM role and helped me to land the job," he said.

"In the current financial climate, being a CPRM means you stand out and I think it gave my application more credibility. For my new employers, it was an easy sign for them that I had plenty of knowledge and experience."

With a new role as part of a team overseeing gas infrastructure, Mr Scrutton is eager to make

his mark, and believes he can achieve that with RMA's network on his side.

"The accreditation says a lot about your skill and experience as a risk manager. It also tells the wider business community about your ability to network and take on board and develop ideas in other areas. In time, that can only propel the RM industry forward."

CRMT profile

Accreditation to 'test the water'

The \$8 billion Air Warfare Destroyer (AWD) project is building three Hobart Class warships in one of Australia's largest Defence initiatives.

The AWD Alliance is made up of the Defence Materiel Organisation, ASC Pty Ltd (formerly the Australian Submarine Corporation) and Raytheon Australia. The first of the AWDs is scheduled for delivery in late 2014 and expected in service by 2017.

Raytheon Australia is responsible for the ships' combat system, and the man responsible for its RM plan is Hamish Leith, a newly-accredited Certified Risk Management Technician.

Mr Leith, 36, says he completed the CRMT accreditation to "test the water", but was impressed with the rigorous process required and now is aiming to upgrade his accreditation to CPRM.

"I was confident with the level of scrutiny applied," he said. "It was not a matter of paying your money and signing the papers."

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Hamish Leith

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Mr Leith joined RMIA in 2007 and gained his accreditation because he appreciated the organisation's holistic approach to RM.

Other organisations he considered focused on elements of RM, eg financial or insurance, but Mr Leith's priority is ERM. "Tunnel vision doesn't appeal; there's no point in RM unless it's across the board."

After completing an urban planning degree, Mr Leith initially worked in investigations and security-based RM.

He is principal of Adelaide-based consultancy Corporate Risk Group Australia, but currently contracted to work full-time with Raytheon Australia.

Mr Leith must integrate the combat system RM plan with the Alliance's over-arching, project-wide RM plan and Raytheon Australia's RM plan.

He chairs monthly meetings of the combat system risk review board that considers all identified risks, determining their current status and whether they are accepted or shifted to another level, ie, to another of the dovetailing RM plans.

The combat system project has integrated product teams (IPTs) and several cross product teams, for example subcontracts, finance, engineering and project planning and control.

The IPTs work at the above water, under water, combat management system, ship system, communication information system and land-based support levels. Mr Leith's ERM plan must "thread the needle between them".

He says one of the keys to successful RM implementation is communication. But the ultimate project risk is to meet the objectives on time and within budget.

**'Tunnel vision
doesn't appeal'**

RMIA Update



NEW WORKSHOP - FUNDAMENTALS OF RISK CONTROLS

A new Risk Controls one-day workshop is for individuals working in all types of organisations who need to acquire knowledge of how controls help identify and manage risks.

The workshop aims to give participants fundamental and essential information to be successfully able to identify, assess and improve controls in their organisations.

The content provides practical tools and activities to ensure participants can explore issues and problems with their peers. It also examines the latest methodologies, developments and research in the area of risk and controls.

The workshop has been designed and developed in consultation with subject matter experts, industry experts and education specialists and has undergone a Quality Assurance process to become RMIA endorsed.

Scheduled dates are:

Canberra - May 18
Sydney - June 24
Adelaide - July 28
Perth - July 29
Hobart - September 2

For more information, go to www.rmia.org.au or email education@rmia.org.au.



FUNDAMENTALS OF MANAGING RISK WORKSHOPS

Participants who attend the Fundamentals of Managing Risk workshop acquire the skills and knowledge to apply the risk management process in their organisation by understanding the AS/NZS 4360:2004 standard.

Reference is also made to the draft ISO 31000 RM standard throughout the workshop.

The delivery method is a combination of practical application of theory through case studies in an interactive individual and group environment. The workshops are delivered by facilitators who are RM practitioners and qualified, experienced presenters.

The workshop has been endorsed by RMIA and a Quality Assurance panel consisting of industry experts and educational specialists to ensure the content delivered is current to industry trends and the broader business climate.

Perth - Wednesday, Thursday - May 6-7
Canberra - Monday, Tuesday - June 22-23
Adelaide - Wednesday, Thursday - July 8-9
Darwin - Wednesday, Thursday - August 5-6
Sydney - Wednesday, Thursday - August 26-27
Perth - Tuesday, Wednesday - September 22-23
Melbourne - Tuesday, Wednesday - October 27-28
Wellington, New Zealand - expressions of interest welcome

For further workshop information or bookings, go to www.rmia.org.au.



CRMT EXCLUSIVE SESSIONS

As the number of RMIA Certified Risk Management Technician (CRMT) accredited members is rapidly increasing, an invitation is being extended to those interested in developing a special interest group to share information, knowledge and expertise.

Send expressions of interest to the Education Manager, education@rmia.org.au.



RMIA NATIONAL CONFERENCE

The RMIA National Conference, *Risk management: the road to resilience*, is in Cairns, far north Queensland, on November 22-25.

It provides an excellent opportunity to partner with RMIA as a sponsor or showcase your products and services in the exhibition area.

The partnership prospectus is available on the website, www.rmia.org.au.

The RMIA Annual Conference is the pre-eminent learning and professional development event for RM professionals in the Asia Pacific region.

It attracts more than 600 delegates from Australia, New Zealand, the Pacific Islands and south-east Asia.

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