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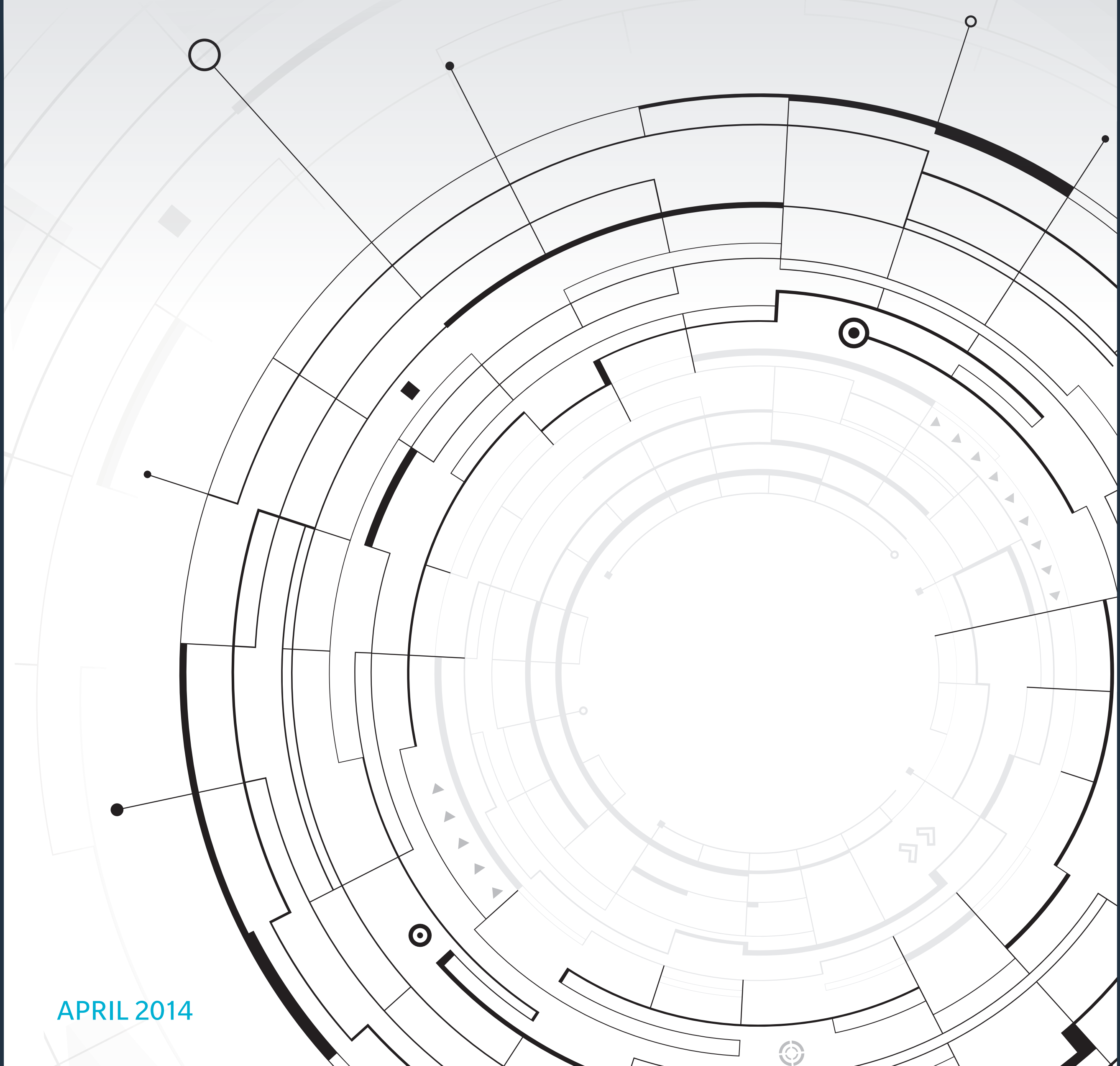
SPECIAL REPORT: EXCELLENCE IN RISK MANAGEMENT XI

RISK MANAGEMENT AND ORGANIZATIONAL ALIGNMENT: A STRATEGIC FOCUS



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CONTENTS

REPORT ANALYSIS AND REVIEW
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INTRODUCTION

Since 2004, the *Excellence in Risk Management* survey has clearly shown an ever-increasing organizational focus on risk management. The drivers have included regulatory and rating agency requirements, emerging risks, and a geopolitical landscape fraught with greater uncertainty. The annual report has pointed out new and refined best practices, tools, and trends, as well as the widening divergence between risk management as traditionally practiced and the growing expectations from senior management and their boards of directors as to what it should provide.

The result has been more pressure on risk professionals to become increasingly strategic in support of organizational prosperity. While the last several years' surveys have shown only incremental movement in grabbing this opportunity, the 2014 results are encouraging, showing that risk professionals are deploying new approaches and building capabilities inside their organizations. Among the survey's C-suite respondents, more than half observed that risk management was treated as a key strategic function in their organizations. But there is, of course, more to be done: more gaps to bridge, and more opportunities to be uncovered and seized.

Excellence in Risk Management XI draws on both the results of an online survey and a series of in-depth discussions with forward-looking risk professionals during which they highlighted trends, discussed their implications, and raised new areas of awareness and opportunity to help organizations address today's complex risk issues.

RISK MANAGEMENT AS A CATALYST FOR ORGANIZATIONAL ALIGNMENT

The risk professionals in our focus groups agreed that senior leaders in their organizations are paying more attention than ever to risk. And as past *Excellence* surveys have clearly shown, leadership's expectations around risk management deliverables have grown in recent years. The result is evident, whether from the fact that many risk executives find themselves and their insights more in demand from boards of directors, or that others find their organizations making risk management a "stop" in the progression of upwardly mobile leaders. Such movements put the risk management function of many organizations in a position to be a catalyst for organizational alignment.

Consider, for example, the relationships that senior risk executives have with boards of directors. Most risk executives we interviewed cited mounting interest in risk from their boards. The assistant vice president of enterprise risk at one financial institution observed a notable change in her interactions with the board over time. In recent years, her department increasingly has been asked to help the board better understand strategic risk, as well as the board's own accountability regarding organizational risk. Gone is the apparent passivity related to risk she had previously felt from the board. Now, board members are more concerned about understanding their roles around risk, including the questions they should be asking. "They want education and awareness," she said.

Much of that education and awareness is directed at understanding risk at the strategic level. "They don't want a lot of the detail about managing specific, individual risks," said the director of internal audit for a major global manufacturer. "They truly want the key strategic risk dialogue." Many focus group members said such dialogue includes an insistence on being given information regarding emerging risks, worst-case scenarios, and so-called "black swans." Although reporting on these can be a challenge, it is an area that risk professionals may find themselves uniquely qualified to bring to senior management's attention.

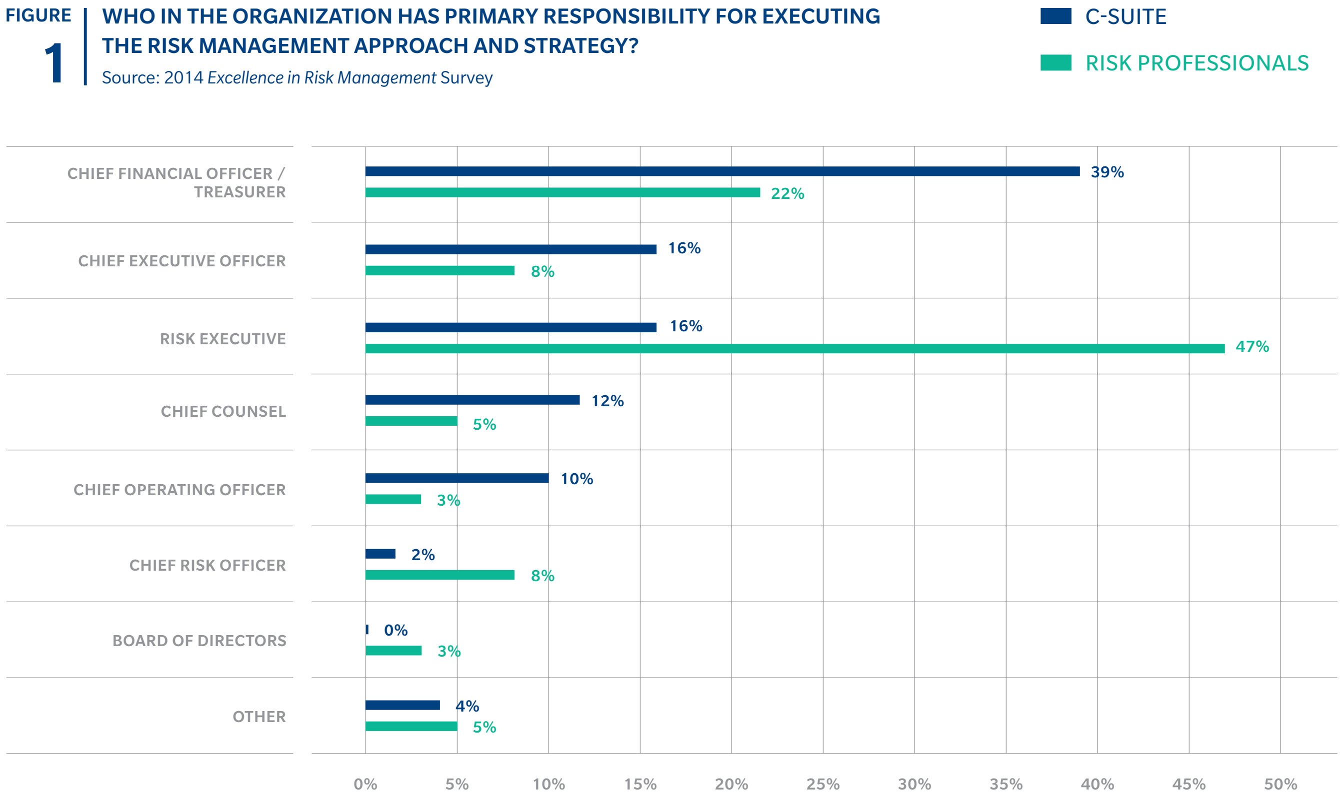
Some focus group participants were quite blunt in their assessment of leadership's current understanding of the company's risks. "[Much] of leadership doesn't quite understand the process and where risks really lie," said the risk director at a chemical firm. It is important that the education of the board and other leaders goes beyond whether the proper insurance coverage is in place. Instead, risk conversations should extend to anticipating potential problems, discovering where in the organization those problems lie, and explaining how they are identified, measured, and managed.

These advancements are positive and show the possibilities for the risk management function to fulfill a role in bringing a risk perspective into organizational strategy. However, there continues to be ambiguity about where the primary responsibility for executing risk management and risk strategy resides (see **FIGURE 1**). While 47% of risk professionals identified this as their primary role, only 16% of C-suite respondents agreed. Instead, C-suite responses tended toward the CFO as the primary executioner of risk strategy. Even within the C-suite, at least seven different roles were shown as having responsibility for risk strategy and execution. It should be noted that while the sample size of chief risk officers was somewhat low, those that did take part overwhelmingly (but not surprisingly) saw themselves as having primary responsibility. It will be interesting to watch in coming years to see if the overall organizational alignment around risk issues continues and, in doing so, brings significant change to where organizations place the responsibility for executing risk management strategies.

With senior leadership's heightened interest in emerging risks and the uncertainty they bring, risk professionals are being asked to provide a higher level of insight — in addition to managing traditional insurance, claims, and mitigation functions. However, as stated above, leadership is not looking for a detailed cataloging of specific risks; they are asking in large measure to be prepared for the unexpected. This dynamic creates new implications for risk management as expectations continue to rise.

FIGURE 1 | **WHO IN THE ORGANIZATION HAS PRIMARY RESPONSIBILITY FOR EXECUTING THE RISK MANAGEMENT APPROACH AND STRATEGY?**

Source: 2014 *Excellence in Risk Management* Survey



CONVERGENCE WITH STRATEGIC MANAGEMENT

While risk management has historically reported into the finance departments of most organizations, the increase in demands that comes with being more strategic are driving even greater integration with operations and other functions across the enterprise. And the rising volatility associated with global operating environments suggests that many organizations are looking to understand not only the financial implications of risk, but the risks associated with executing their strategies. They are looking to risk management for both information and insights.

In considering the influence that risk management has on setting the organization's business strategy, 93% of the C-suite responded that risk management carries some or significant impact (see **FIGURE 2**). Focus group participants highlighted: (1) their greater involvement as risk leaders, and (2) their integration into the strategic operations of their respective organizations, including involvement in such areas as sustainability initiatives, international acquisitions, and business continuity/emergency response.

Responding to a question about where risk management is heading, the vice president of enterprise risk management and compliance at a food distribution company replied that her department is more involved with strategic issues. In support of this, her organization has integrated insurance, claims, regulatory compliance, vendor compliance, security, and business continuity (and others) into an integrated functional area. This type of role expansion illustrates the increasingly strategic role of the risk management function in many organizations.

Survey responses from the C-suite support this premise. We asked what knowledge and abilities will be most important to meeting the organizations' risk management needs over the next three to five years (see **FIGURE 3**). An *aptitude for strategy* and *business acumen* were chosen by a 2-to-1 margin over any other response. Both of these areas require a high degree of connectivity to an organization's financial and operational workings. We also asked whether organizations treat risk management as a key strategic function (see **FIGURE 4**). More than 50% of both the C-suite and risk professionals replied that their companies treat it as such.

FIGURE 2 — WHAT IMPACT DOES RISK MANAGEMENT HAVE ON SETTING THE BUSINESS STRATEGY OF YOUR ORGANIZATION?

Source: 2014 *Excellence in Risk Management* Survey

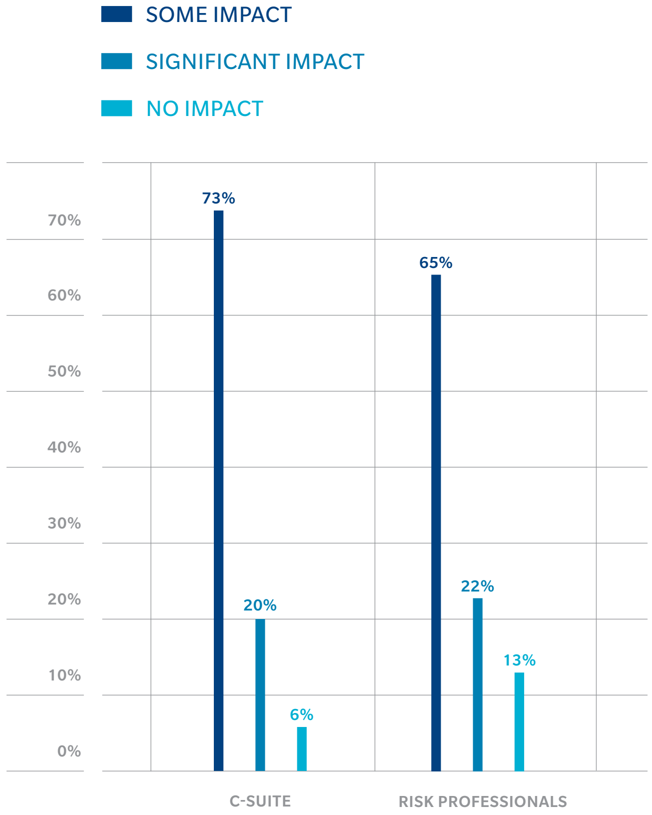


FIGURE 3

IN CONSIDERING THE RISK MANAGEMENT NEEDS OF YOUR ORGANIZATION OVER THE NEXT THREE TO FIVE YEARS, WHICH OF THE FOLLOWING ABILITIES AND AREAS OF KNOWLEDGE WILL BE MOST IMPORTANT?

Source: 2014 *Excellence in Risk Management* Survey

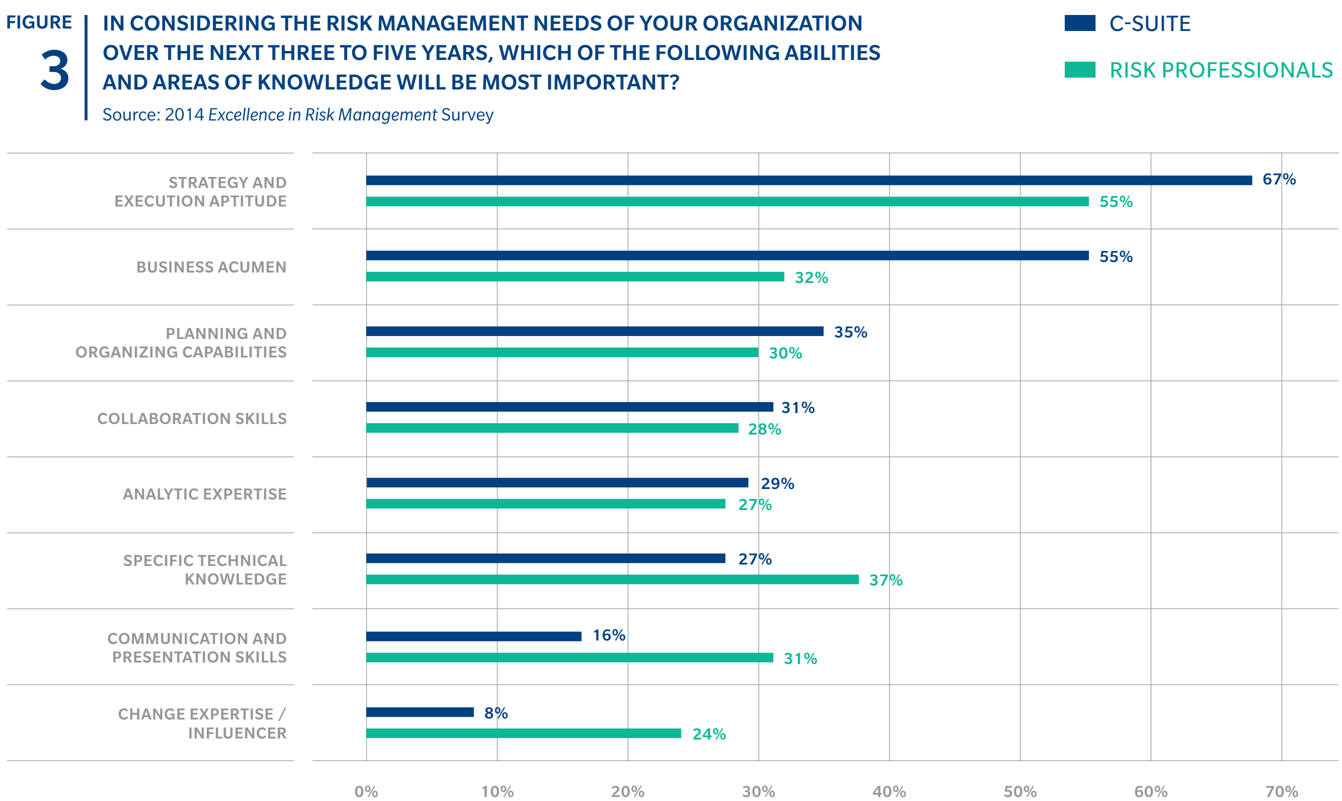
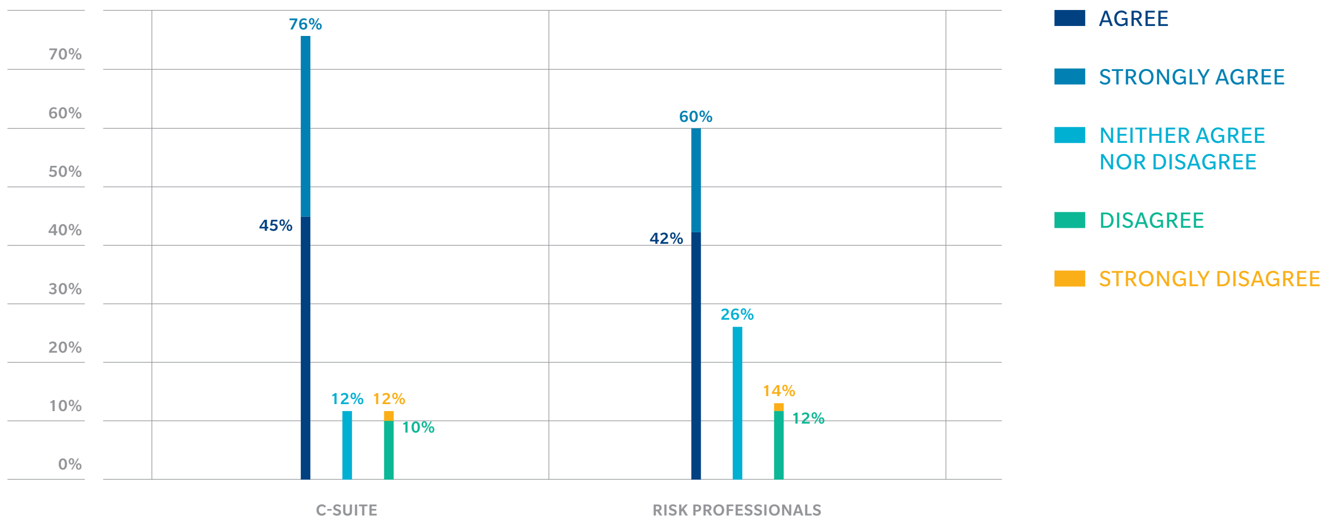


FIGURE 4

MY ORGANIZATION TREATS RISK MANAGEMENT AS A KEY STRATEGIC FUNCTION.

Source: 2014 *Excellence in Risk Management* Survey



RISK MANAGEMENT, TECHNOLOGY, AND ANALYTICS ARE UNDER-LEVERAGED

The majority of C-suite (69%) and risk professionals (75%) believe that their organizations manage risk effectively (see **FIGURE 5**). This confidence in the function's performance, however, appears to be undermined by the responses to another question, where most respondents indicated that the risk management function is under-used (see **FIGURE 6**). More than half (51%) of C-suite respondents said that their organizations were not using the risk management function to its fullest ability. Only 20% of the C-suite felt that their organizations were using the function to its fullest; as did 25% of risk professionals.

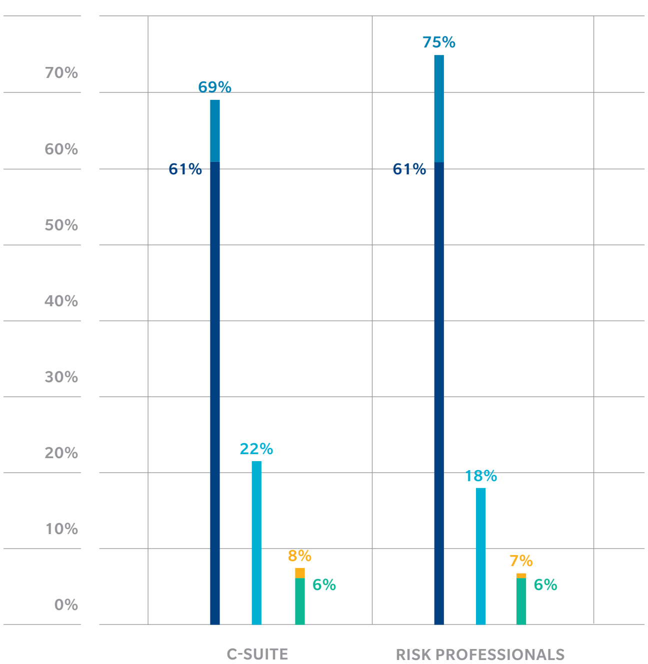
Why the discrepancy between the high marks regarding the job being done and the lower marks for what it is capable of? And, more importantly, what can be done to bridge the gap? One potentially productive area to look for answers is in the ongoing transformation around how data and analytics are being used in risk management.

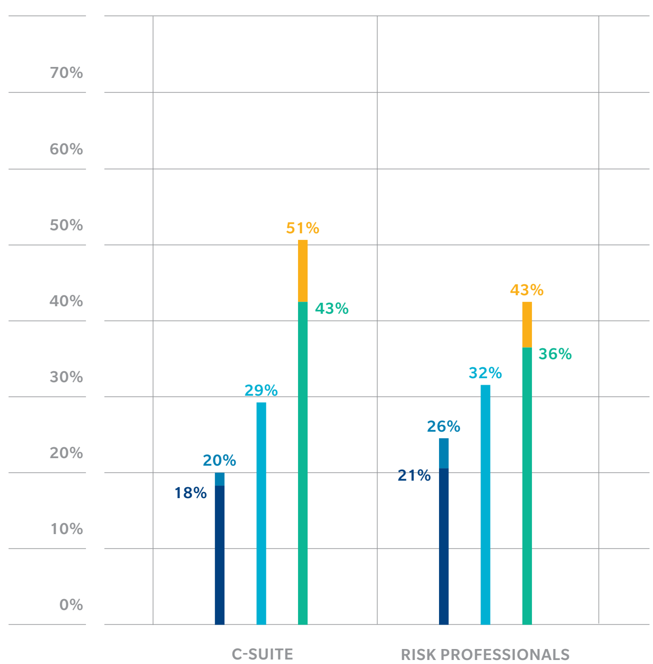
By its nature, risk management relies on data and, in this era of Big Data, can no longer function as a technological runner-up. When asked to identify the top areas where organizations would benefit from improved use of data and analytics, C-suite respondents ranked risk mitigation and risk identification as their first and second areas respectively, while risk professionals ranked risk-bearing

FIGURE 5 | **MY ORGANIZATION MANAGES RISK EFFECTIVELY.**
Source: 2014 *Excellence in Risk Management* Survey

FIGURE 6 | **MY ORGANIZATION USES THE RISK MANAGEMENT FUNCTION TO ITS FULLEST ABILITIES.**
Source: 2014 *Excellence in Risk Management* Survey

AGREE | STRONGLY AGREE | NEITHER AGREE NOR DISAGREE | DISAGREE | STRONGLY DISAGREE





capacity and risk quantification (see **FIGURE 7**). These four areas depend on an understanding of internal and external metrics, which are made available through the aggregation of data and deeper analytical capabilities.

C-suites and boards are asking risk professionals for more than what insurance coverage is in place. They want to know what unexpected risks the organization may face, and where to invest effectively. Their support in accelerating investments in technology and analytics will be well served, and should provide risk professionals with some of the tools needed to tighten the connection between managing risk effectively and using the department to its fullest potential.

FIGURE 7 | **MY ORGANIZATION WOULD BENEFIT BY IMPROVING ITS USE OF DATA AND ANALYTICS IN THE FOLLOWING AREAS:**

Source: 2014 *Excellence in Risk Management* Survey

C-SUITE	RISK PROFESSIONAL
1) RISK MITIGATION	1) UNDERSTANDING THE ORGANIZATION'S RISK-BEARING CAPACITY
2) RISK IDENTIFICATION	2) FINDING THE RIGHT MIX OF ANALYTICS AND QUALITATIVE METHODS
3) FINDING THE RIGHT MIX OF ANALYTICS AND QUALITATIVE METHODS	3) RISK QUANTIFICATION
4) RISK QUANTIFICATION	4) RISK REPORTING TO THE BOARD AND OTHER STAKEHOLDERS
5) UNDERSTANDING THE ORGANIZATION'S RISK-BEARING CAPACITY	5) RISK MITIGATION

Among the most significant risk drivers at a strategic level are risk appetite and quantification of risks for regulatory and rating agencies. In the past, risk tolerance was looked at infrequently, if at all. Today, organizations are evaluating these elements as their operating environments and financial metrics change more often.

Focus group participants identified some practical analytical applications to support risk finance decisions. For example, several cited increased requirements for them to consider alternative risk financing options. This requires greater connectivity with finance, tax, and treasury colleagues to develop a deeper understanding of the tax and cash flow implications of potential alternative structures. Several observed that there is a growing interest inside their companies to share analytical approaches across treasury and risk functions. Risk professionals, for example, may find that methods for hedging and treating commodity risk can be useful as potential financial market alternatives for risk transfer. Those in traditional treasury functions might benefit by employing such risk methods as scenario simulations and risk bearing capacity models and applying them to cash flow or future borrowing needs.

Many identified another area gaining traction: the use of analytics to balance internal and external capital. For example, the vice president of risk management at a major retailer noted that he can use analytics to better value different layers of the company's insurance program, comparing their internal weighted cost of capital to premium charges from insurers. This approach is expanding beyond individual insurance products to include all coverages within the broader risk portfolio. A more advanced discussion with senior management follows, allowing organizations to understand the potential leverage point of insurance as a risk transfer mechanism as opposed to a discussion simply focused on premium variances to budget.

From a mitigation perspective, the retail risk executive pointed to workers' compensation as an example. Instead of spreading scarce workers' compensation resources evenly across "every bad back, knee, or shoulder," predictive analytics allows him to take a more targeted approach focused on the cases that will most benefit from early and proactive medical and claims management. Such varied uses of data align well with the C-suite respondents, who ranked risk mitigation as the top area to help their organizations improve the use of analytics.

The acceleration of data, analytics, and board-level interest has led to advancements in "dashboards" for reporting purposes. Several risk professionals mentioned that through dashboards they are able to share information that communicates the interplay between ever-changing risks and their organization's balance sheet to ensure that corporate decisions are aligned with overall risk appetite. For example, one chief risk officer (CRO) advised that her organization is integrating data analytics into all new-product development. And there was general agreement that more "leading indicator" analytics are required in order to help companies focus and plan for future risks. To do so effectively, information generally must be sourced from outside organizations, as well as inside.

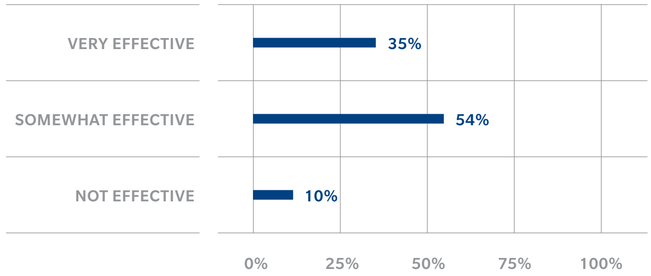
DEVELOPING "RISK KNOWLEDGE CENTERS"

The *Excellence* series has long highlighted the evolving desire to have risk management embedded deeper across organizations. This year's study advances the idea that risk professionals can act as what can be thought of as "risk knowledge centers," with the potential to provide an "omniscient" view of how risks play out across the company.

Some focus group members have seen a higher demand for their involvement with — or leadership of — cross-divisional strategic planning groups or advisory committees to address issues ranging from supply chain to product integrity and more. This is part of an ongoing advancement of cross-functional discussions through risk committees. It can help to engage leaders in the conversations about risk and align an organization's priorities and strategies around how it approaches risks across the enterprise. When we last asked about such committees in 2012, 90% of respondents said they were "somewhat" or "very" effective (see **FIGURE 8**).

FIGURE 8 | **INDICATE THE EFFECTIVENESS OF CROSS-FUNCTIONAL MANAGEMENT RISK COMMITTEES.**

Source: 2012 *Excellence in Risk Management* Survey



The agendas for risk committees are evolving. What used to be essentially a group review of a corporation's top risks has moved toward building perspectives around strategic risks. The goals include both mitigating some risks and taking advantage of market opportunities associated with others. Cross-functional committees are seen as part of an "integrated, strategic-goal process," stated a director of risk management for a global consumer products company. Previous *Excellence* studies found that a high percentage of risk professionals did not sit on the risk committee in their own organization. This year, several in the focus groups said that they have been asked to join or lead their companies' risk committees, perhaps evidencing some forward advancement for risk executives in line with the higher expectations associated with becoming more strategic.

The director of insurance at a multinational conglomerate said a key role for her department is to be the matrixed department that reaches out across the organization regarding various risk issues. The goal is twofold:

1. To gain a view across seemingly disparate areas such as treasury, products, safety, environmental, legal, IT, and supply chain, and develop insights for the organization's leadership.

2. To convey knowledge that enables the operational division heads to better manage risk in their areas.

So how does this play into the development of risk management as a virtual knowledge center? In order to provide value as a knowledge center, members of the risk management department must truly know and be focused on the business (see **FIGURE 9**). Risk professionals who practice this approach spend time ensuring that their people understand what is going on across the business. They aim to build the awareness that strategic thinking about risks cannot take place in a vacuum.

FIGURE 9

THE BIGGEST GAPS IN THE PERFORMANCE OF MY ORGANIZATION'S RISK MANAGEMENT FUNCTION INVOLVE:

Source: 2014 *Excellence in Risk Management* Survey

C-SUITE	RISK PROFESSIONAL
1) EDUCATING OTHERS ON KEY RISK MANAGEMENT PRACTICES	1) INTEGRATION WITH OPERATIONS
2) INTEGRATION WITH OPERATIONS	2) LACK OF CROSS-ORGANIZATIONAL COLLABORATION
3) LACK OF CROSS-ORGANIZATIONAL COLLABORATION	3) EDUCATING OTHERS ON KEY RISK MANAGEMENT PRACTICES
4) ADVISING ON NON-INSURABLE STRATEGIC AND OPERATIONAL RISKS	4) ADVISING ON NON-INSURABLE STRATEGIC AND OPERATIONAL RISKS
5) IMPLEMENTATION OF FORMALIZED ERM PROGRAM	5) SUPPORT FOR AN ENTERPRISE-WIDE RISK MANAGEMENT APPROACH

That there is widespread agreement around this concept can be seen in the responses to a question related to the gaps in performance within risk management. Four of the top five responses from risk professionals and the C-suite were the same, if in a slightly different order. And two of the top three responses for both groups were "integration with operations" and "lack of cross-organizational collaboration." The alignment here indicates not only an agreement around the goal to develop risk management as a cross-organizational resource, but an awareness that there is much work to be done in achieving it.

Several focus group participants are beginning to leverage analytical proficiency to provide additional insights into such areas as quality, manufacturing, and distribution. Deeper integration and cross-collaboration can be gained through such risk management techniques as dashboards, modeling, risk appetite/tolerance applications aligned with balance sheet and forecasting models, assessing supply chain providers critical to the organization, and mapping critical interdependencies. For example, two of the focus group members provide this type of business intelligence directly to operations and other parts of the organization.

The benefits? The director of risk at a major business-to-business service organization said that serving as a sought-after, centralized resource for insights "has led the organization to embrace risk management rather than being seen as 'sales suppressors.'"

NEW SKILLS AND DEVELOPMENT PATHS FOR RISK MANAGEMENT PROFESSIONALS

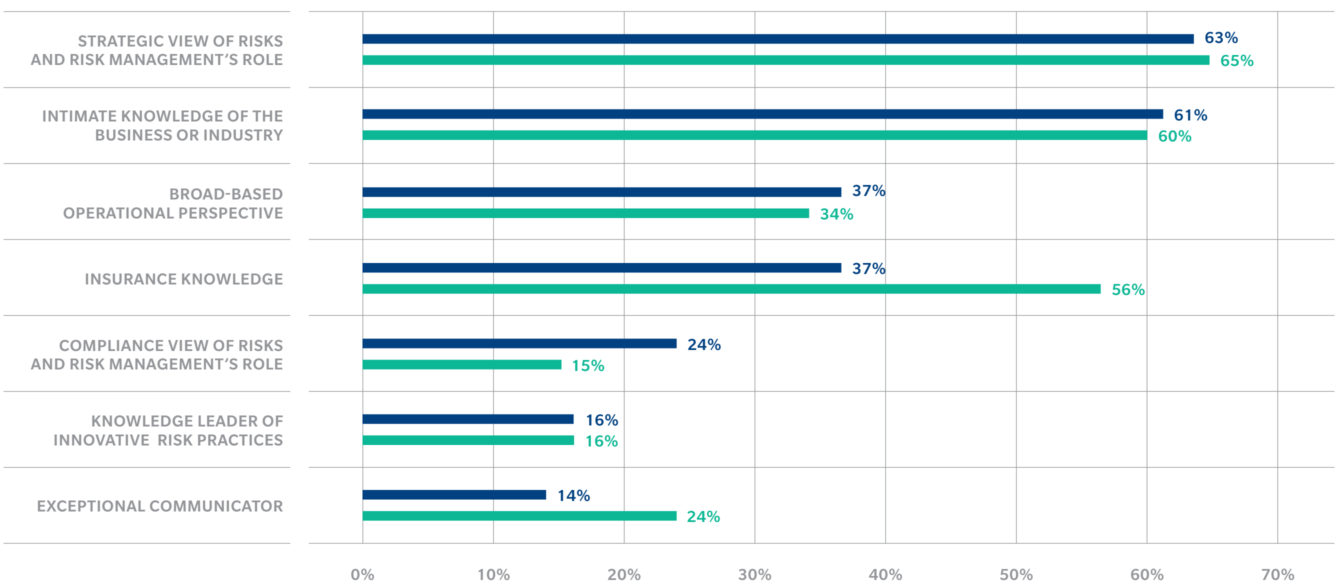
Higher expectations and interest from senior leadership brings to the forefront the need to focus attention on the skill sets and development needs that will best prepare risk professionals for the future. The director of global risk management and insurance at an international manufacturer observed: “We are much more focused than in the past on hiring experienced people — people with 5 or 10 years either as a broker or perhaps a risk manager at a smaller company, as opposed to hiring people who are directly out of college.” Further, risk management staff members at the company are given regular contact with brokers and insurers. “They have to interact with the underwriters; they have to respond to their questions,” he said. “So it’s almost like an analyst visit.”

Risk management departments generally are not expanding, and have not been, according to many years of questioning through the *Excellence* survey. Instead, many are realigning and consolidating positions. More generalists with good interpersonal skills are required

FIGURE 10 | **IN CONSIDERING THE RISK MANAGEMENT NEEDS OF YOUR ORGANIZATION OVER THE NEXT THREE TO FIVE YEARS, WHICH OF THE FOLLOWING ABILITIES AND KNOWLEDGE WILL BE MOST IMPORTANT?**

Source: 2014 *Excellence in Risk Management* Survey

C-SUITE
RISK PROFESSIONALS



rather than technicians. Accounting and financial abilities were described as “table stakes – part of the job.” Specific knowledge areas that were mentioned in the survey and in the focus groups included (see **FIGURE 10**):

► Stronger analytics skills.

► Business acumen/understanding the space (“how we do what we do”).

► A need to be “tech savvy with an understanding of IT” due to operations’ reliance on it.

► Diversity of backgrounds, including in legal and human resources.

The focus group members universally agreed that they are seeking candidates with strong interpersonal skills — generally described as being an influencer, collaborator, or facilitator — and the ability to become a business partner at all levels of the organization.

Developing talent from within takes the form of greater engagement internally and externally, immersion in operations, and taking advantage of educational and networking programs. One focus group member remarked that, ideally, he would like to place his team geographically, aligned with operations. A number of others mentioned placing staff on project-based cross-functional teams as a development opportunity. The director of risk management for a global business-to-business organization noted that his department partners with a local university for students to take classes at the company, for which the students earn credit toward an MBA.

RISK MANAGEMENT AS A ROTATIONAL ROLE

An interesting dichotomy exists when considering the value of risk management as a “rotational” role. Some see the function as having become more complicated and requiring a greater depth of experience; thus, it is no longer appropriately seen as a rotational position. Instead, some organizations may flip the approach, with risk management staff members rotated into the business operations for a spell before coming back into risk management.

Others, however, build out specific rotations through risk management departments for senior leaders. At one energy company, for example, “rising stars” within the firm are placed into the director of risk management position for a year or two where they oversee the professional risk managers that are in place; this provides risk management education and exposure to high-potential employees as they move into higher levels of management.

Regardless of approach, there is greater focus on new skills that will become the “standard” for senior risk executives. Survey respondents identified an aptitude for strategy, technical knowledge, and business acumen as the top three knowledge areas most needed over the next three to five years (see **FIGURE 10**). Several participants added that with the higher visibility to senior management, stronger communication skills will be necessary for success.

THERE'S ALWAYS MORE TO DO!

Becoming more strategic around risk implies the need to consider emerging issues and ones that may not be immediately apparent as an organizational concern. This includes such issues as the potential impact of broader geopolitical events and their potential to introduce volatility into strategic plans. And, when these risk areas can be taken from the global to the operational level, the connections can cause fundamental shifts in approach. The World Economic Forum's (WEF's) annual *Global Risks* report has become one of the leading studies in which such overarching risks are identified and discussed.

As has been the case for several years, the 2014 *Excellence* survey delved into some aspects of the WEF report. We wanted to know how companies feel about the potential impact of the top 15 global risks discussed by the WEF in 2014 (see **FIGURE 11**). The array of responses indicate that more can be done to raise long-term trends as discussion points within an organization to gauge whether there is an operational and/or financial impact to the company. Even cyber-attacks, a risk that was ranked at the top for "already being a concern," was cited by only 52% of survey respondents. With all of the attention given to cyber-attacks recently, it would seem that there is more opportunity for discussion around this risk. Other responses highlighted a difference in perception between the C-suite and risk professionals, for example:

- Nearly half (47%) of C-suite respondents said climate change is unlikely to ever be a concern, while only 31% of risk professionals felt that way.
- Among the C-suite, 42% said global governance failure was unlikely to ever be a concern for the organization; only 23% of risk professionals shared this view.

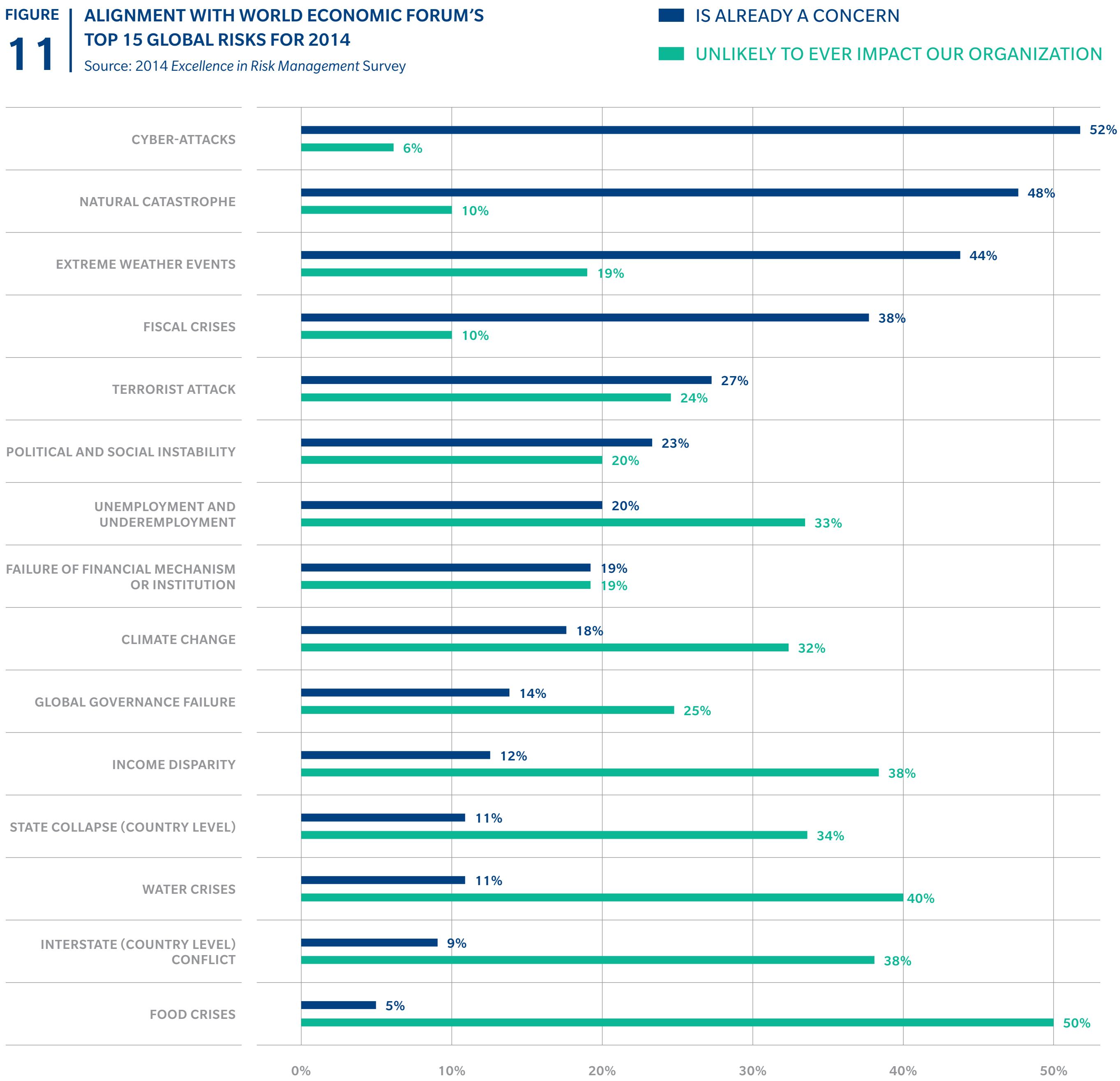
The growing connectivity between risk and strategy noted earlier facilitates focus in other broad areas, such as sustainability. For example, a small percentage of *Excellence* survey respondents (11%) identified "water crises" as a current concern, while nearly 80% said that it would either never be a concern, was more than five years away from being a concern, or weren't sure if it should be a concern. From an industry perspective, water risks can be critical to beverage companies and others. The director of risk management at one beverage company has seen his risk management function shift attention on the future of water supply and sourcing at a macro level. "We're looking out at natural resources and water and making a concerted effort to partner with, promote, and support sustainability in wetlands," he said. "We've partnered with other organizations to help preserve natural wetlands and aquifers just as a hedge and a guarantee that we're doing as much as we can do to preserve sources of water." At the same time, his group is looking at efforts to create efficiencies and streamline usage as a conservation mechanism. Such measures are the foundation for a strategy to address a key risk at the core of the company's business.

But not all companies are at that risk/strategy inflection point. For example, despite their dependence on water as a cornerstone of the business, only 12% of retail/wholesale, food and beverage respondents cited water crises as a current concern, and 29% said it would never be a concern. Among manufacturers, 39% said water crises will never be a concern. The corporate risk manager at one diversified manufacturer and defense supplier told us that water risk remains "one that you just can't get your hands around yet, so nobody will talk about it." In such situations, the risk management function — as the matrixed risk knowledge center — has the potential to step in and drive the conversation, pulling together varied resources and viewpoints from across the organization.

What will it take to move the needle for more companies across these types of issues? Unfortunately, it may take severe shortages, cost increases, or geopolitical upheaval that directly impacts the business before some raise the level of conversation. Similar situations may unfold around such areas as population growth, shifting populations, rising infrastructure demands, weather impacts related to climate change, and others that are not in the traditional realm of day-to-day risk management. Feedback from forward-looking organizations evidences that they are beginning to use reports, like the WEF, to engage leadership in discussions to ascertain how these broader trends may impact strategy and execution.

FIGURE 11 | **ALIGNMENT WITH WORLD ECONOMIC FORUM'S TOP 15 GLOBAL RISKS FOR 2014**

Source: 2014 *Excellence in Risk Management* Survey



A LOOK BACK AS WE MOVE FORWARD

As the Marsh/RIMS *Excellence* survey is now in its 11th year, it is fair to ask just how far risk management has come in the last decade.

In 2004, the inaugural report concluded with a few observations, actions, and implications for risk management, noting:

> "In the final analysis, this survey suggests opportunities exist for risk management professionals and their organizations to realize substantial benefits through continuous interaction with senior management, understanding of field operations and the financial implications of risk, leveraging of information technology, and use of external expertise to create a virtual risk management organization."

At first glance, one might say that the 2004 conclusion is as relevant today as it was then. Upon further reflection, we discover that risk management indeed has evolved (see **FIGURE 12**).

FIGURE 12 | COMPARING 2004 *EXCELLENCE* CONCLUSIONS TO 2014 FINDINGS

2004 *EXCELLENCE* CONCLUSIONS	2014 *EXCELLENCE* FINDINGS
Risk management focus has shifted from purchasing insurance to controlling losses and quantifying the costs of risk.	Risk management focus has continued to shift and the function is playing a more strategic role regarding an organization's strategic plan. There is wide agreement that risk management has an impact on setting organizations' business strategies. Risk identification and mitigation remain important. The two primary gaps in functional risk management performance are now widely seen as educating the rest of the organization and integrating with operations.
Elevating the visibility and the reporting relationships of the risk management function will enhance a risk manager's effectiveness.	The majority of C-suite and risk professionals agreed that their organizations treat risk management as a key strategic function.
Leverage technology...to reduce the time spent on repetitive tasks, and maximize opportunities to capture data at its source.	The C-suite sees the greatest benefit from data and analytics coming from improving their use in risk mitigation and identification, coupled with the "right" mix of quantitative and qualitative methods. While many risk professionals are still chasing data systems and tools beyond spreadsheets, a few are using integrated data and leveraging big data. Two focus group members said they deliver value to the rest of the organization by expanding and integrating analytical tools and processes beyond traditional borders to improve decision making.
Risk tolerance must be analyzed on a systematic and regular basis. This will allow the organization to consider adopting more aggressive risk-retention strategies.	While risk tolerance was not specifically addressed in 2014, the survey generally has shown progressive improvement in the use of analytics for greater understanding of organizational risk-bearing capacity. The internal risk transfer conversation has turned from insurance premiums and retention levels to business needs, such as strategic business resiliency, focusing on leading rather than lagging indicators.
Organizations must focus on the career development of risk management professionals, providing them with depth in their specialty, their firms, and their management practices. Key people must be identified and developed to handle greater responsibility. Increased financial expertise is required in risk management decision making in order to assess its bottom-line impact.	The C-suite identified a greater risk management need over the next three to five years in strategy and business acumen. Focus group responses revealed that there continues to be a need to do more with less. As such, heads of departments are replacing risk specialists (such as claims) with individuals with broader data analytics, financial accounting backgrounds, and advanced technology skills. Expanded skill sets are needed as risk portfolios expand. Also mentioned were interpersonal skills — including influencer, collaborator, facilitator, and business partner — along with the ability to work with all levels of the organization.
Rotation through business units. A deep understanding of the organization is the secret weapon of the successful risk manager. Find a way to gain that insight and credibility by pursuing a rotation through various operating units within the organization.	Many risk professionals are taking on additional responsibilities in areas such as business continuity, IT risk management, compliance, internal audit, and security. A number of focus group participants indicated that risk management is used as a rotational role for high-potential individuals. Others noted that there may be a risk in such a rotation as risk management and the issues it is involved with have become more complex. There was some discussion that risk management should be a career destination, rather than part of the journey.

TOP RISKS 2014: A CYBER SURPRISE

Each year we rank the movement of organizational risks across a broad spectrum of financial, hazard, operational, and strategic risks. When asked to rank their organization's top risk issues for 2014, C-suite respondents and risk professionals agreed on six of the issues they placed in the top ten, as was the case in 2013. And again, one of the biggest surprises was around data security, or cyber risk, which topped one list and seemingly fell short on another.

Risk professionals named cyber risk as their number one risk priority in 2014, after placing it at number 12 in 2013. For C-suite respondents, however, cyber risk again did not break into the top 10, although it did gain significant consideration, moving from number 26 in 2013 to number 12 this year. The seeming lack of focus from the C-suite was surprising given the attention one especially large data breach was receiving from the media, regulators, and Congress at the time the 2014 survey was in the field.

With the potential that exists for cyber-attacks to bring significant losses and reputational damage, cyber security represents an area in which risk professionals can grab the lead to ensure their organizations are prepared. As the risk manager at a large manufacturer told us: "Cyber is one area we have left to IT for quite some time. It's an area we'll have to get more involved in." And the fact that it is high on their radar screens can be seen not only in the high priority on the top risks list, but through a more traditional measure — a continued uptick in the purchase of cyber insurance. A recent Marsh study shows a 21% rise in the number of companies purchasing cyber insurance in 2013 over 2012.

Other notes from the top risk rankings include:

- Brand and reputation risk moved to the fourth spot for the C-suite after not being in their top twenty for the past two years. It also moved higher for risk professionals, from number eight in 2012, to number six in 2013, to number three in 2014. Risk professionals this year may well have been influenced by the high level of negative attention being placed at the time of the survey on the company at the heart of the aforementioned cyber incident.
- Business disruption fell to number 10 on the C-suite's list after being at the top in 2013. While it is always a key concern, the 2013 ranking was likely influenced by the impact of Superstorm Sandy and, before that, a disaster-filled 2011. By contrast, 2013 was a relatively mild year for catastrophic events.
- Talent availability placed in the top 10 for the C-suite for the first time. This could reflect the gradual ramping up of the economy; with more jobs available, the talent pool is freer to move around.
- Other economic indicators include the dropping of "economic conditions" from the number two concern to number five for the C-suite, and "cash flow/liquidity" falling out of the top 10 for both groups.
- Risk professionals in the focus groups said that the increased, direct involvement with senior leadership and boards of directors influences their prioritization of risks.

FIGURE 13 | **TOP RISKS 2014**
Source: 2014 *Excellence in Risk Management* Survey

C-SUITE	RISK PROFESSIONAL
1) LEGAL OR REGULATORY SHIFTS	1) DATA SECURITY / PRIVACY
2) LITIGATION OR CLAIMS	2) ECONOMIC CONDITIONS
3) REGULATORY COMPLIANCE	3) BRAND / REPUTATION
4) BRAND / REPUTATION	4) NATURAL DISASTER
5) ECONOMIC CONDITIONS	5) REGULATORY COMPLIANCE
6) WORKFORCE HEALTH AND SAFETY	6) LITIGATION OR CLAIMS
7) BUSINESS CONTINUITY / CRISIS MANAGEMENT EXECUTION	7) LEGAL OR REGULATORY SHIFTS
8) TALENT AVAILABILITY	8) TECHNOLOGY / SYSTEMS FAILURE
9) COMPETITORS	9) SUPPLY CHAIN VULNERABILITY
10) BUSINESS DISRUPTION	10) BUSINESS CONTINUITY / CRISIS MANAGEMENT EXECUTION

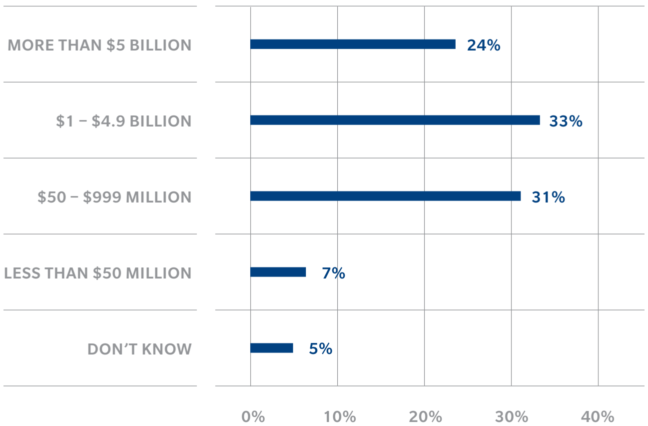
CONCLUSION

The results of the 2014 *Excellence* survey and focus group discussions build on those of previous years to confirm that unknown and as yet untapped opportunities exist for risk management professionals and their organizations to realize substantial benefits from mature risk management practices. It is no longer news that risk itself is a priority at the senior leadership levels. What is clear is that the risk management function indeed has taken a more strategic role, as was suggested in the initial 2004 report, and that expectation gaps identified in the more recent years are aligning at last. There is positive movement in such areas as the strengthening of interactions between risk functions and boards; the use of analytics for both traditional and evolving strategic purposes; the development of cross-functional collaboration through such means as risk committees; the development of risk management personnel to include financial and operational skills; and the evolution toward an organizational risk knowledge center.

APPENDIX

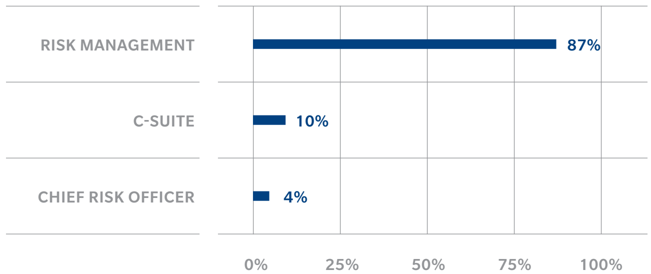
COMPANY SIZE (REVENUE)

Source: 2014 *Excellence in Risk Management* Survey



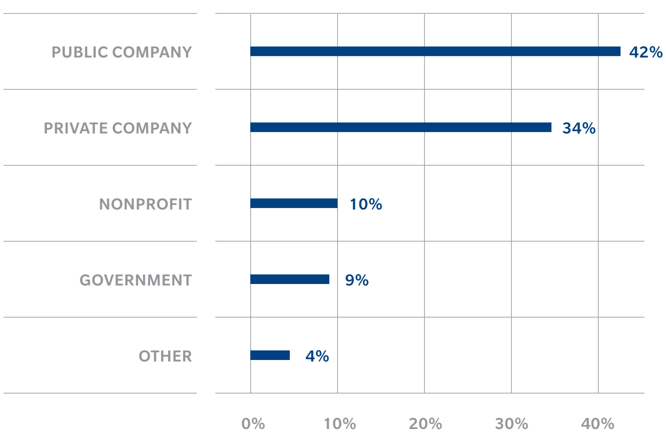
JOB FUNCTION

Source: 2014 *Excellence in Risk Management* Survey



ORGANIZATION TYPE

Source: 2014 *Excellence in Risk Management* Survey



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