

Results of Lockton Companies 2017 Risk Management Survey

2017 • Lockton® Companies

James Brown may have been known as the “hardest working man in show business” but even he would take a backseat to today’s risk professionals.

Despite a prolonged soft market cycle, risk managers are being pulled in more directions than ever before. Companies face an unprecedented array of risks which are becoming more diverse, complex, and challenging to address. At the same time, risk managers are seeing an increased level of questions from the C-Suite and Board around risks, program structure, adequacy of limits and risk financing techniques.

In addition to handling the day-to-day complexities of the role, risk professionals are also being asked to identify, quantify, and prioritize between evolving risks such as cyber liability, terrorism, social media, and climate change.

In many organizations, they must also be able to bridge the gaps between finance, operational, human resource, and legal activities while framing opportunities or challenges in financial terms. The level of responsibility of the position tends to vary by the risk manager’s tenure, the size of the company, and overall reporting structure. Equally important, however, are experience, available resources, and day-to-day access to/interaction with executive management. It is clear risk management is facing the same aging/retirement trends which are impacting the overall job market as the industry is beginning to lose experienced talent.

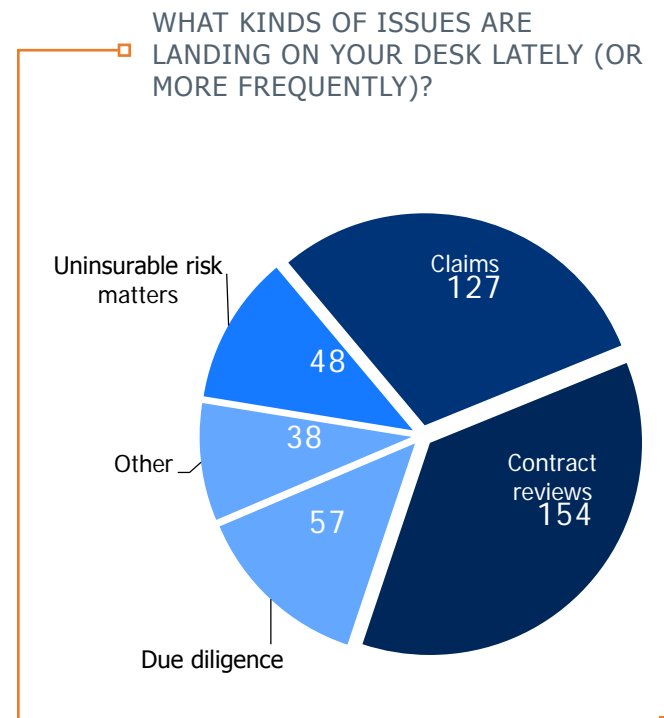
RYAN BROWN
SVP, Client Advocate
T 314.812.3241
E rbrown@lockton.com



“ Overall, we found that the risk management function is being asked to support more areas of the business. As a result, risk managers are seeing increased interaction with the C-suite and being asked broaden their overall skill sets and financial acumen.



Where are Risk Managers Focused?



Conclusion

Risk Managers, regardless of experience level, are being asked to do more with less. The scope of their responsibilities can run the gamut including program design, underwriter/broker meetings, M&A due diligence, claims, contract review, premium allocations, and worrying about uninsured risks. **The survey results point to Risk Managers being mired in the day-to-day task of servicing their internal constituents, making it difficult to pivot to the strategic questions being raised by their CFOs.**

When asked what areas they would give more attention if they had additional time, 36% would improve their knowledge of the business operations and risks and 31% would improve internal processes and KPIs. Interestingly, only 10% expressed a need to improve market relationships.

Also, while 76% indicated they did not have a voice in strategic issues within their organization, there were very few who indicated a desire to improve their own financial acumen, communication skills or understanding of advanced risk management techniques. Oddly, however, most also indicated that these are the areas where those new to risk management should spend more time. **This is a disconnect that will have to be reconciled.** It could point to the fact that 63% of the survey respondents were already well established in their careers.

Companies are now managing risks which defy easy measurements or lack a suitable framework for management. These include such things as reputational harm, political risk, supply chain and logistics, legal, compliance, human resources management, financial, and other controls related to the Dodd-Frank or Sarbanes-Oxley Acts. All of these and more now fall under the risk management umbrella and require new approaches and tools. They will also require risk managers to articulate strategies and outcomes using the language of the C-Suite.

Risk management is becoming increasingly visible, and this has led to higher expectations around skill sets. **The risk manager of the future will be tied to strategic decision making and asked to master disparate disciplines including finance, operations, technology, and logistics.**

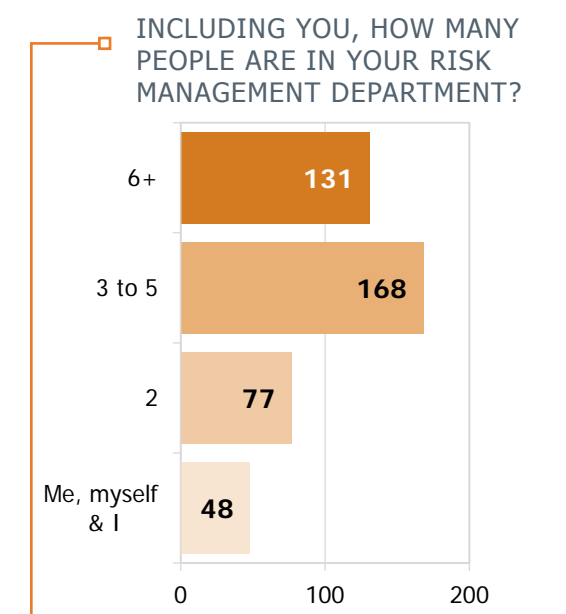
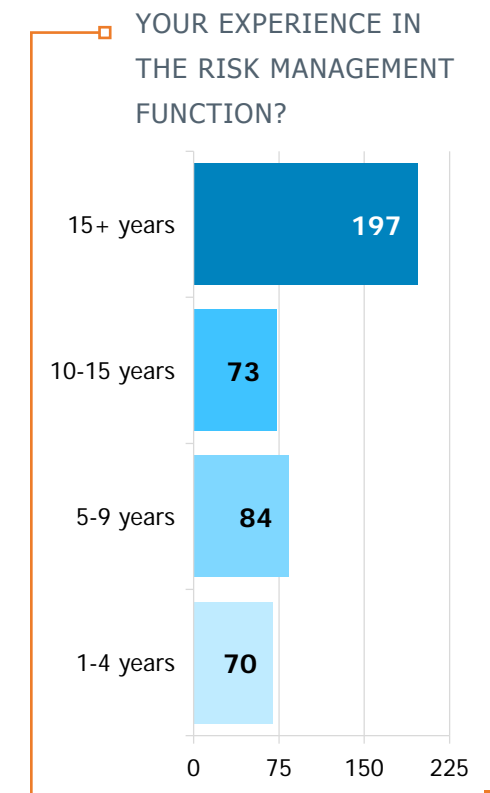
Observations About the Risk Manager's Role

Regarding the Risk Manager's Experience in the Risk Management Function

- + Those with less experience (1–4 years) are more likely to be challenged by their CFO's regarding the cost of insurance (+11%) than those with 15+ years in the risk management role
- + Risk managers with 15+ years of experience are more likely to be tackling contact review activities (+12%) vs. their counterparts with 1–4 years of experience
- + **If given more time, those with 15+ years of experience would focus on building internal relationships (+9%) where those with 1–4 years of experience would increase knowledge of the underlying business operations (+11%)**
- + Risk managers with 15+ years of experience have more routine interactions with senior management (+12%), whereas those with 1–4 years of experience are much more likely to interact only around renewals/claims matters (+15%)
- + Risk managers with 1–4 years of experience are less aware of M&A transactions (+10%) and tend not to be on the due diligence team (-12%) vs. those risk managers with 15+ years of experience
- + Risk managers with more experience tend to use total cost of risk (+5%) and year over year (+3%) as key performance metrics, where those with less experience are more likely to use actual vs. budget (+8%)

Regarding the Size of the Risk Management Department

- + Risk management departments with 6+, tend have more claims (+19%) vs. those with a one person department; while one person departments tend to be dealing with M&A activities (+9%) vs. those with larger risk management departments
- + **Larger risk management departments appear to have a voice in strategic decisions vs. smaller and/or one person risk management function (+20%) and are rarely left out of strategic decisions (+17%)**
- + Smaller risk management departments are more likely to communicate with senior management around renewals and/or claims (+10), where larger departments have more routine interactions with senior management (+15%)
- + One person risk management departments appear to be more aware (+10%) and involved (+9%) in M&A transactions



Regarding the Employee Size of the Organization

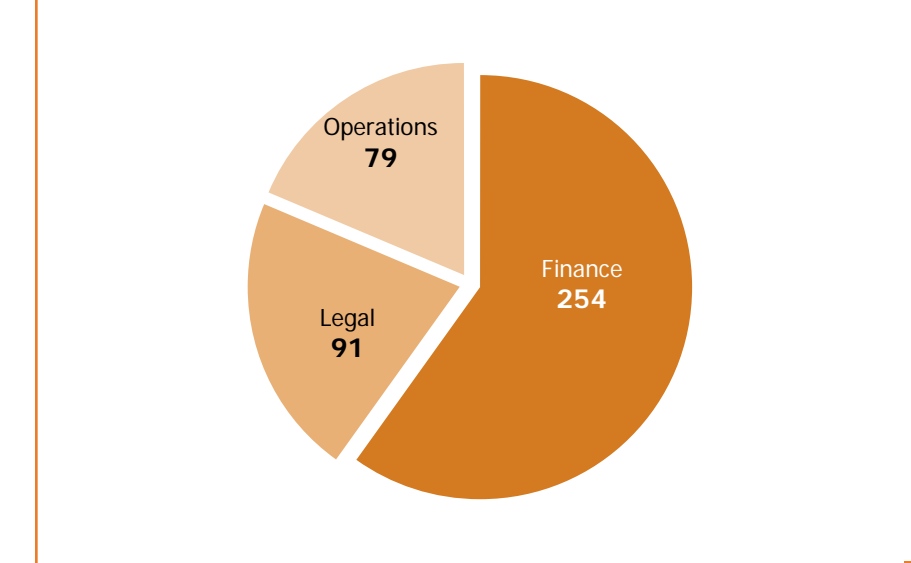
- + The larger the number of employees, the more likely that the risk management reports through Finance (+12%) and less likely to report through Operations (-18%)
- + Risk managers at companies with less than 1,000 employees are more likely to be tackling due diligence (+9%) than risk managers with more than 10,000 employees
- + Risk management is on the due diligence team with companies with more than 10,000 employees (+14%) than those with fewer than 1,000 employees
- + The smaller the organization, the more likely that the risk manager is striving for their brokers to provide a better understanding of the insurance marketplace (+12%)



Regarding the Risk Management Reporting Structure

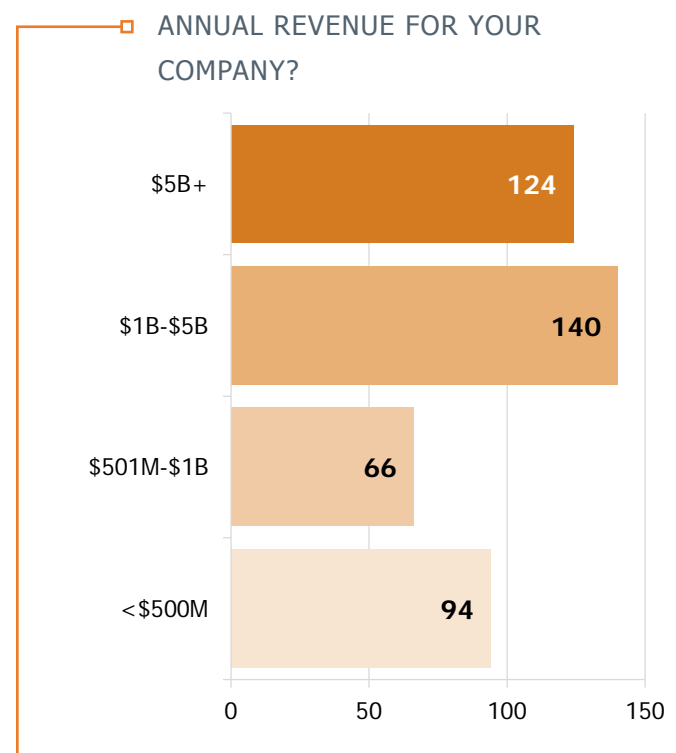
Within companies of over \$1B in revenues, Risk Management generally reports through Finance (60%) with the remainder split between the General Counsel (21%) and Operations (19%). Interestingly, however, those aligned with the General Counsel greater interaction with Executive Management outside of the renewal cycle or core insurance issues. They tend to see more strategic issues and be more involved with Enterprise Risk Management.

WHERE DOES RISK MANAGEMENT REPORT UP THROUGH?



Regarding the Revenue Size of the Firm

- + Risk managers at companies with less than \$500M in revenue tend to be tackling claims (+14%) more than risk managers at companies with greater than \$5B in revenue
- + Risk managers at companies with less than \$500M in revenue would spend more time on administrative excellence (+10%) and building relationships externally (+10%)
- + Risk managers at companies with more than \$5B would spend more time on building relationships internally (+10%) and increasing knowledge of the business operations (+12%)
- + Risk management is much more likely to be imbedded on the due diligence team at companies with revenues greater than \$5B than those less than \$500M (+27%)
- + Risk managers at companies with revenues greater than \$5B are asking their brokers to be more strategic (+8%), deliver better tools (+7%) and are less interested in the insurance marketplace knowledge (-21%) than those companies with less than \$500M in revenues



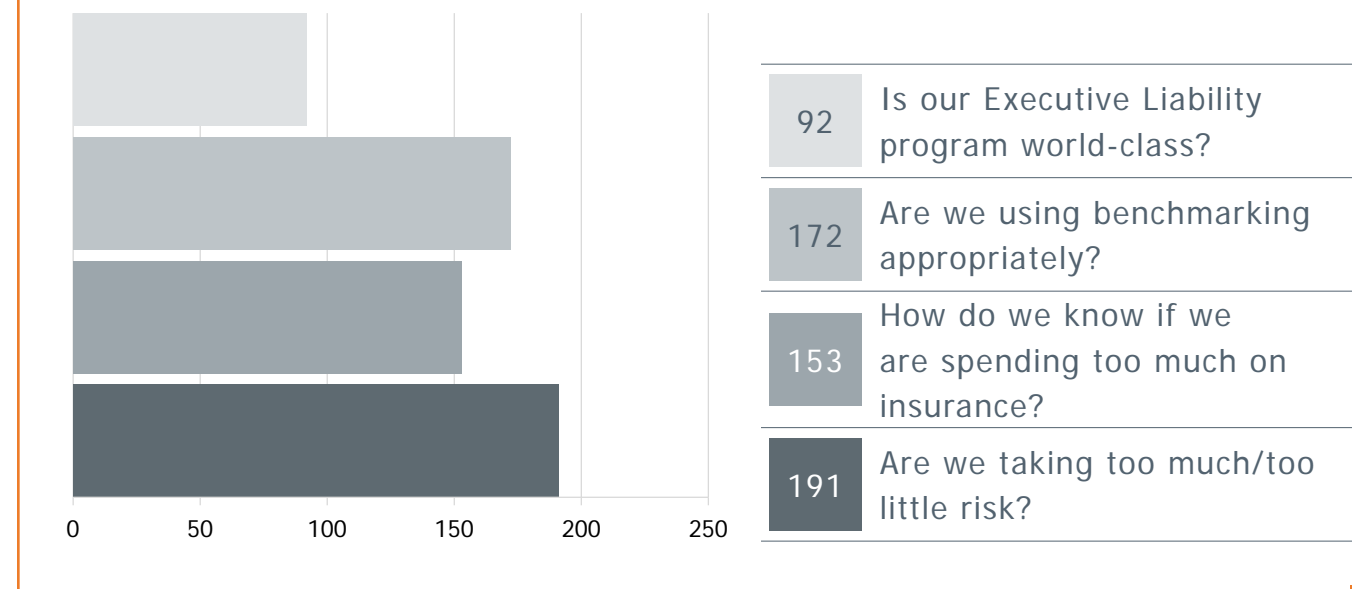
Tenure plays a significant role in terms of day-to-day focus,

with senior level risk managers (15+ years) being more involved in M&A transactions, ERM, contract review, and strategic business issues. By contrast, those with less than 4 years experience tend to be focused more on renewal activity and claims management. Tenure also has a strong correlation with exposure to Executive Management, and those with less experience tend to be challenged more by their CFOs around the cost of insurance.

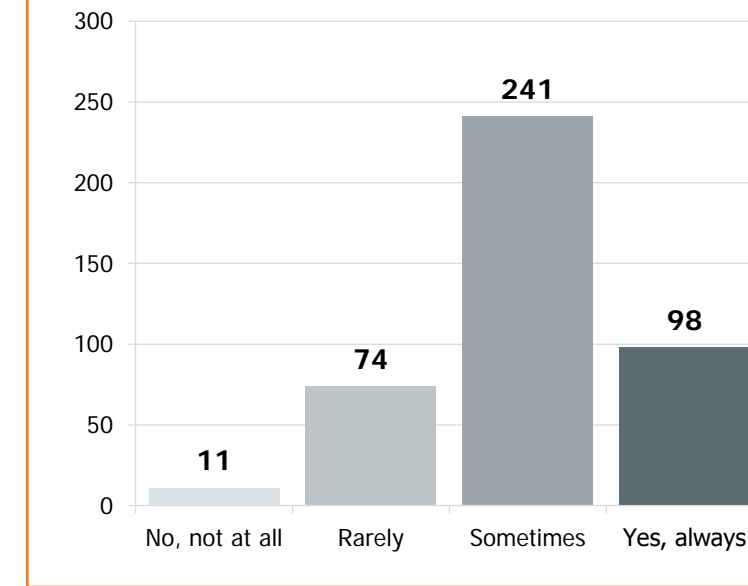
Finally, the survey showed company size and tenure also impact how risk professionals measure performance. Large companies (>\$1B) with experienced risk managers (15+ years) tend to focus more on "Total Cost of Risk", progress against KPIs, or YOY improvement. By contrast, smaller companies (<\$1B) with less experienced risk managers focus more on results vs budget, number of transactions or amount of activity.

Evolving Focus of The C-Suite

WHAT QUESTIONS IS YOUR CFO ASKING NOW OF YOUR RISK MANAGEMENT DEPARTMENT THAT HE OR SHE WASN'T ASKING 1-2 YEARS AGO?



DOES THE RISK MANAGEMENT DEPARTMENT HAVE A VOICE IN DISCUSSIONS ABOUT STRATEGIC ISSUES (DECISIONS) FOR YOUR ORGANIZATION?



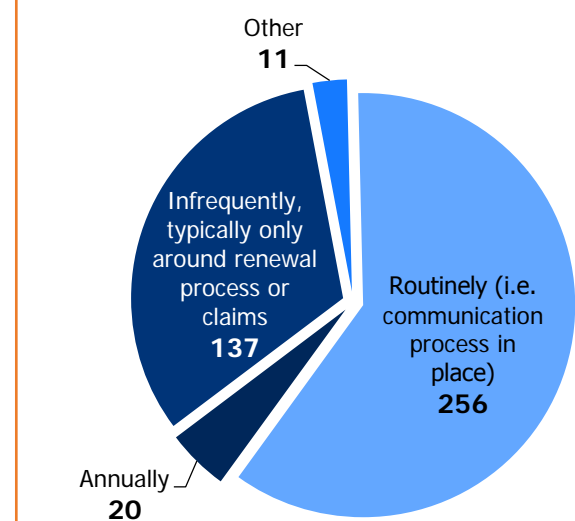
For larger companies, the results of this question generally settled around four very broad categories.

- + **Cyber Liability**—although this is not a new exposure, it continues to evolve; privacy is still a concern but so are business interruption, property damage, bodily injury and adequacy of limits
- + **Emerging Risks**—what risks should the company be considering that have not previously been considered; what is going on in the global environment—how fast can they impact the organization and can they potentially amplify existing risks; will our program cover these risks
- + **Big Data**—how is big data being used to improve loss forecasting, reduce costs, or benchmark limits; how do we know if we are buying enough?
- + **Capacity**—how can we better leverage our captive, capital, or premium spend to expand coverage or critical limits

At the smaller companies, the responses overlapped in terms of cyber liability and emerging risks but also added some questions around the following.

- + **Communication/Education**—how can the company better educate the rest of the organization around risk management issues
- + **Cost Savings**—how can risk management save the company money, either through reduction of risk or premiums
- + **Trust**—how do we know we are getting the best advice/options from our broker and carrier

HOW OFTEN DO YOU MEET WITH SENIOR MANAGEMENT TO DISCUSS RISK/INSURANCE MATTERS?



REGARDING M&A TRANSACTIONS, HOW INVOLVED IS THE RISK MANAGEMENT FUNCTION THROUGHOUT THE DUE DILIGENCE PROCESS?



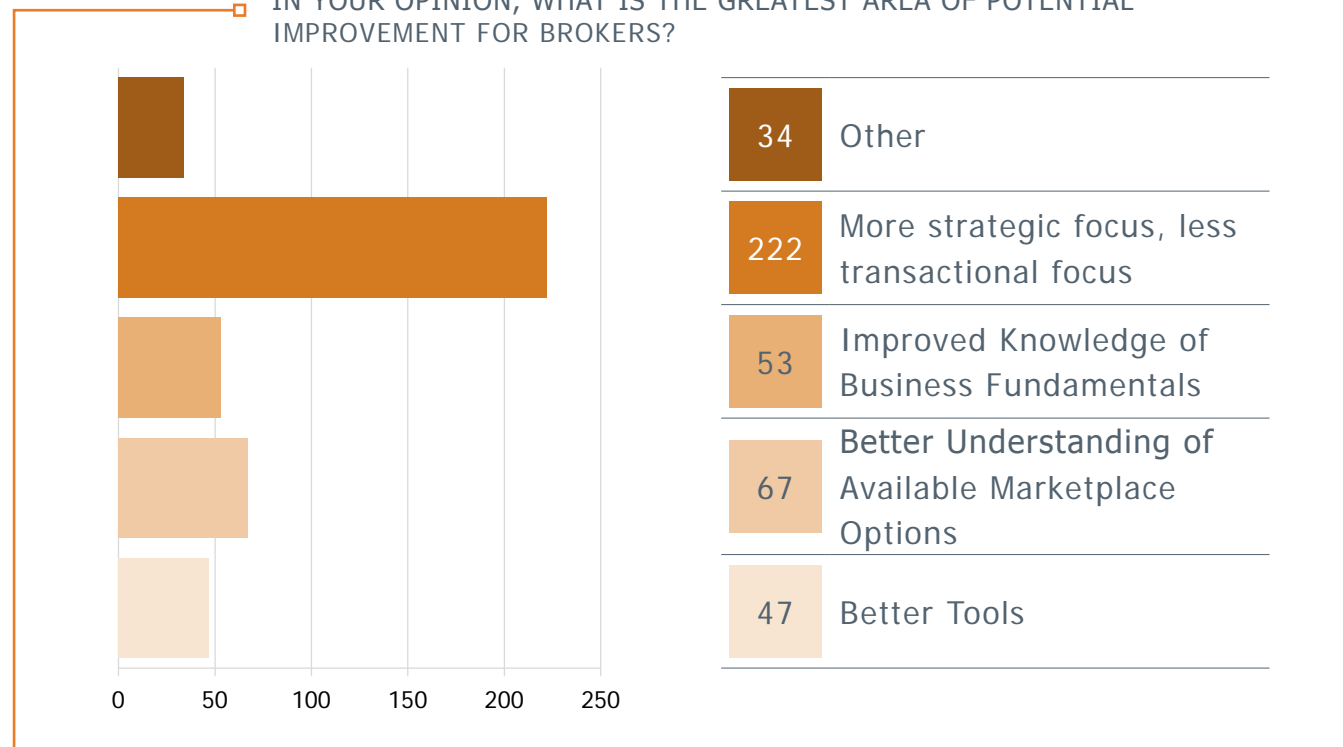
Conclusion

Regardless of company size, it is apparent that **risk management is becoming more of a focus at both the Board and C-suite level**. While cost will always be important, the emphasis is increasingly on harnessing data to improve decision making and increasing risk awareness across the organization. Companies are also aware how quickly the macro and regulatory environment can lead to new risks and trying to ensure that their programs adapt accordingly.

It is also clear that when comparing this response to those around "Where are Risk managers Currently Spending Their Time?", there is a disconnect. Too much time is being spent focused on day to day tasks, largely due to a lack of bandwidth and administrative support. Brokers will need to fill this gap to allow risk managers to address the larger questions posed by the C-Suite. See also response to "What Brokers Need to Improve".

What Brokers Need to Improve

IN YOUR OPINION, WHAT IS THE GREATEST AREA OF POTENTIAL IMPROVEMENT FOR BROKERS?



Conclusion

As noted earlier, the role of the risk manager is changing rapidly, with an increased demand for new skill sets and strategies. As a result, brokers will be challenged to evolve as well.

The brokerage community’s historical emphasis on broad market relationships and transactional excellence is no longer viewed as the centerpiece of a true value proposition.

Instead, brokers are being pressed to provide both administrative relief and unfettered access to strategic advice and resources as a core part of their service offering. An operational model focused on placing coverage and selling advice or projects as “add ons” stands in conflict with the needs of a risk manager operating in a resource scarce environment. Those who fail to adapt will ultimately lose market share.

This reality, however, stands in stark contrast to the reality that most public brokers are pursuing their own cost and operational efficiencies. **The tendency in recent years has been to cut back and centralize, treating resources as profit centers. This disconnect is causing increased frustration at the risk management level.**

This was a question which generated significant and consistent feedback, regardless of company size or industry sector. In fact, the survey feedback was remarkably consistent in several areas, regardless of industry or company size.

- + Improve understanding of the business and industries in which it operates
- + Develop a strategic, forward looking focus
- + Share ideas/best practices from other clients
- + Stop focusing on the next sale or added fees
- + Improve accuracy and timeliness of execution

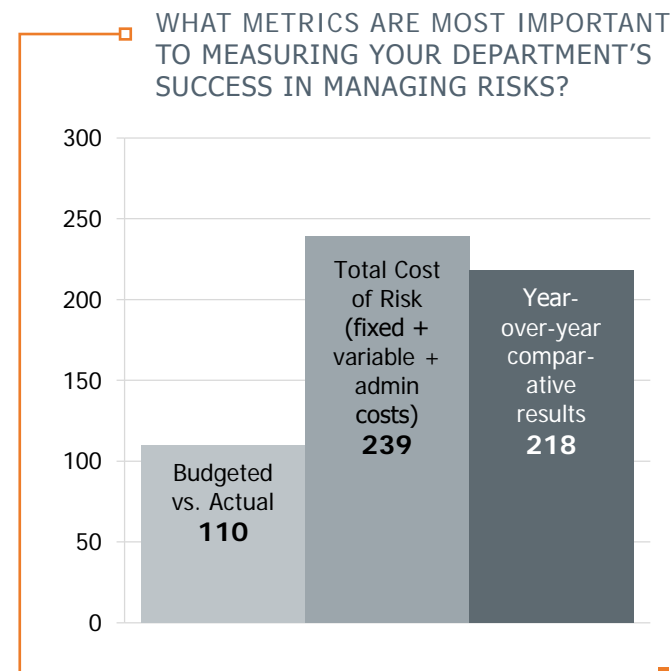
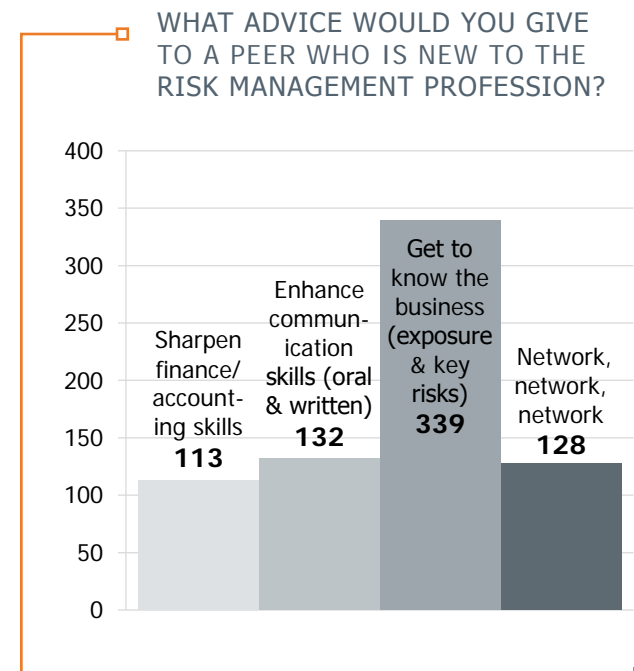
For companies with annual revenues greater than \$1B, there were additional comments, including the following.

- + Find creative ways to expand existing coverage and close gaps
 - + Summarize outcomes or projections in financial metrics versus “insurance speak”
- + Improve claim trend analysis and loss mitigation guidance
- + Identify emerging risks and provide insight as to their potential impact
- + Improve benchmarking and limits analysis

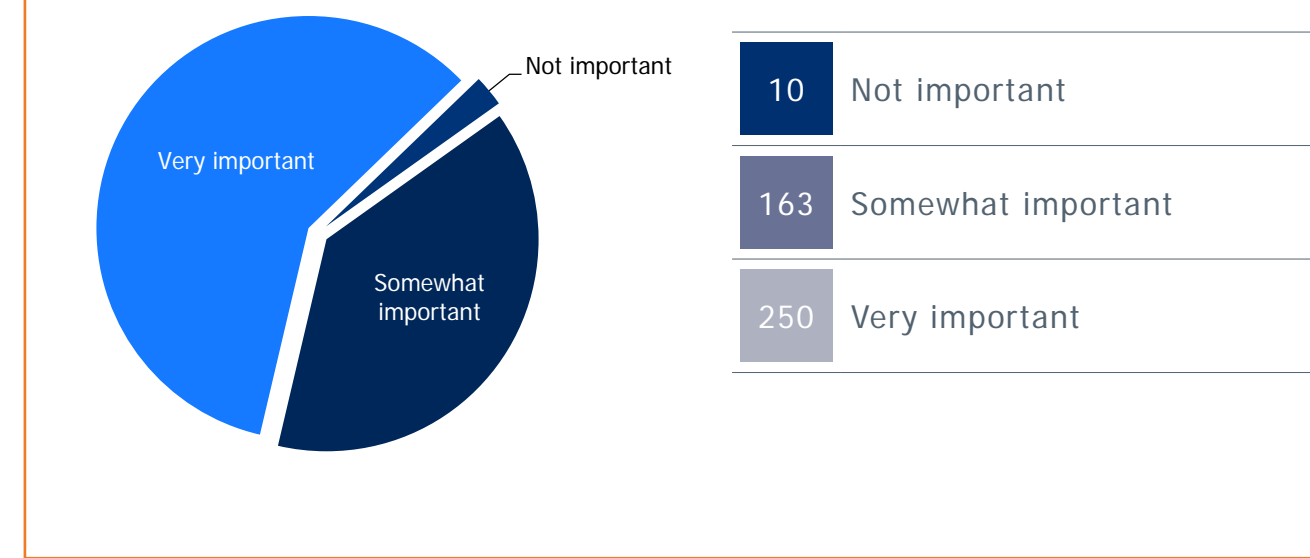
Companies with revenues less than \$1B also placed a heavy emphasis on day-to-day support, emphasizing the broker must provide resources and allow more time for day-to-day questions and issues.



What Advice Would You Offer a Peer



HOW IMPORTANT IS IT FOR YOU TO NETWORK WITH YOUR PEERS IN RISK MANAGEMENT?



Conclusion

Multinational companies face an array of risks which are becoming more diverse, complex, and challenging to address. The most successful firms manage risk by assessing the global environment, preparing for future events, and closely monitoring key threats. They take calculated risks which can help add to top line growth while building resources and protocols around the most significant threats.

Risks which are poorly understood or managed can cost money or inhibit the ability to gain advantage from emerging opportunities. Companies are discovering risk management awareness and accountability must be firmly embedded in their culture, process, and leadership to protect their business and maximize returns. Risk management is becoming increasingly visible, and this has led to higher expectations around skill sets. **The risk manager of the future will be tied to strategic decision making and asked to master disparate disciplines including finance, operations, technology, and logistics.**

Although this evolution of skills sets can seem daunting, the transformation is already well underway. Most experienced risk managers have already had significant exposure to the C-Suite and learned how to communicate effectively. They have also developed broad cross functional contacts throughout the organization. Similarly, universities are increasingly pairing risk management with a strong business curriculum. New professionals are tech savvy, have a broad array of skills and comfortable with multi tasking. They are curious and have an ability to forge high developed networks.

The pace of change demands technical excellence and updated skills and all signs point to the risk manager of the future being more integral to the success of a business than ever before.

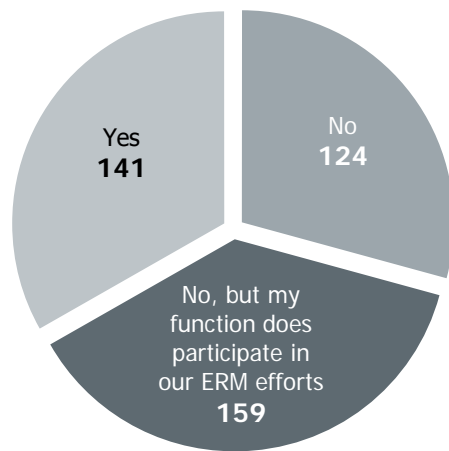
The responses to this question indicate that most risk managers clearly understand that the position is changing rapidly. As a result, their advice to someone just starting out in the business centered around 4 key areas:

- + 47%--Get to know the business. They recommend mastering operations, finance, human resources and legal. They also pointed to the need to stay abreast of emerging risks, global economic trends and the organization's tolerance for risk and volatility.
- + 15% pointed to a need to improve finance and accounting skills while another 18% suggested enhancing communication skills. Both responses highlight that the risk manager of the future will increasingly need to communicate with the C-suite. To do so effectively, they must be prepared to speak that language and communicate ideas, strategies and outcomes in financial terms. ROI, leverage, and contribution to EPS will all become highly relevant terms for future risk managers. So too will the need to drop "insurance vernacular" and hone in on key points.
- + 18% of the responses also focused on the importance of peer to peer networking to share ideas and strategies. This will likely play a bigger role as the position becomes more complex.

The survey feedback also included some other valuable advice including:

- + Be intellectually curious
- + Seek to impact the business and improve the bottom line
- + Obtain professional designations
- + Find a strong broker partner
- + Embrace technology

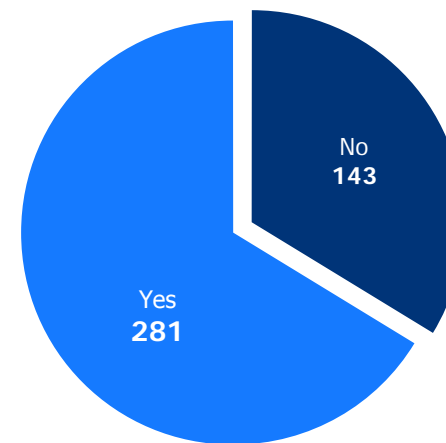
DO YOU HAVE RESPONSIBILITY/ OVERSIGHT FOR ENTERPRISE RISK MANAGEMENT?



If the Risk Manager Also has Direct Responsibility/Oversight for Enterprise Risk Management

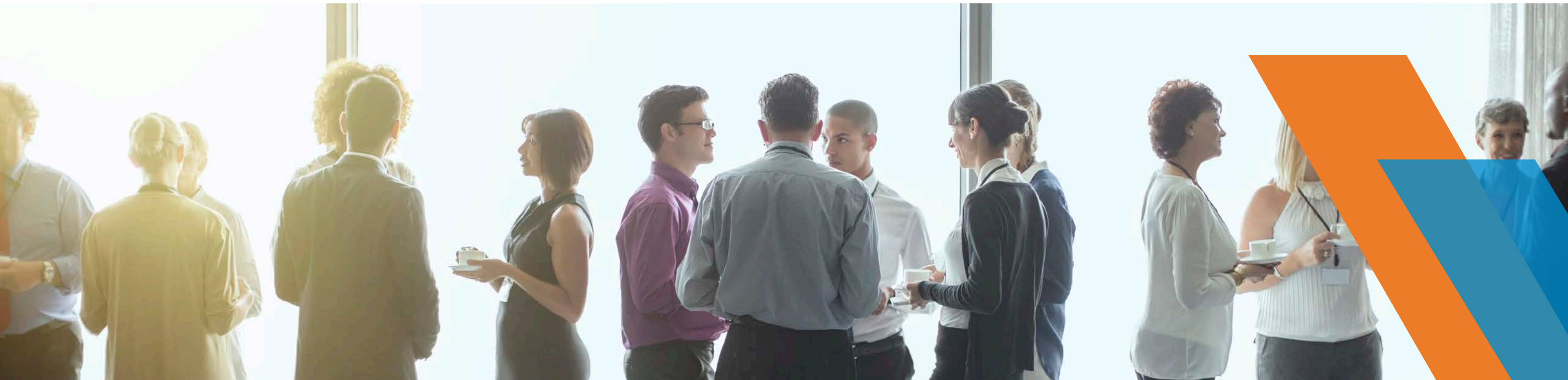
- + They are more likely to be tackling uninsurable risk matters (+12%)
- + They have a strong voice in strategic matters (+12%) and their interactions with senior management are less likely to be around the renewal process (-12%) and more routine (+15%)
- + Risk managers with ERM oversight are more likely to feel that brokers need to be more strategic and have less transactional focus (+10%)

DO YOU HAVE RESPONSIBILITY/ OVERSIGHT FOR WORKERS COMPENSATION CLAIMS?



If the Risk Manager has Responsibility for Workers' Compensation Claims

- + They spend more time on claims matter (+10%) and less on contract reviews (-12%)
- + They have an established communication process with senior management (+19%) and less likely to have infrequent communications (-20%)
- + They are more likely to be on the due diligence team (+14%)





“ The survey results have provided us with unique insights and unfulfilled needs of today’s risk manager. These insights drive the agenda and content for our Complex Risk Symposium. Most notably, the Risk Manager’s boot camp sessions. Topics include executive presence, M&A, use of property modeling, and cyber risk.

50 CONSECUTIVE YEARS OF GROWTH



Agenda

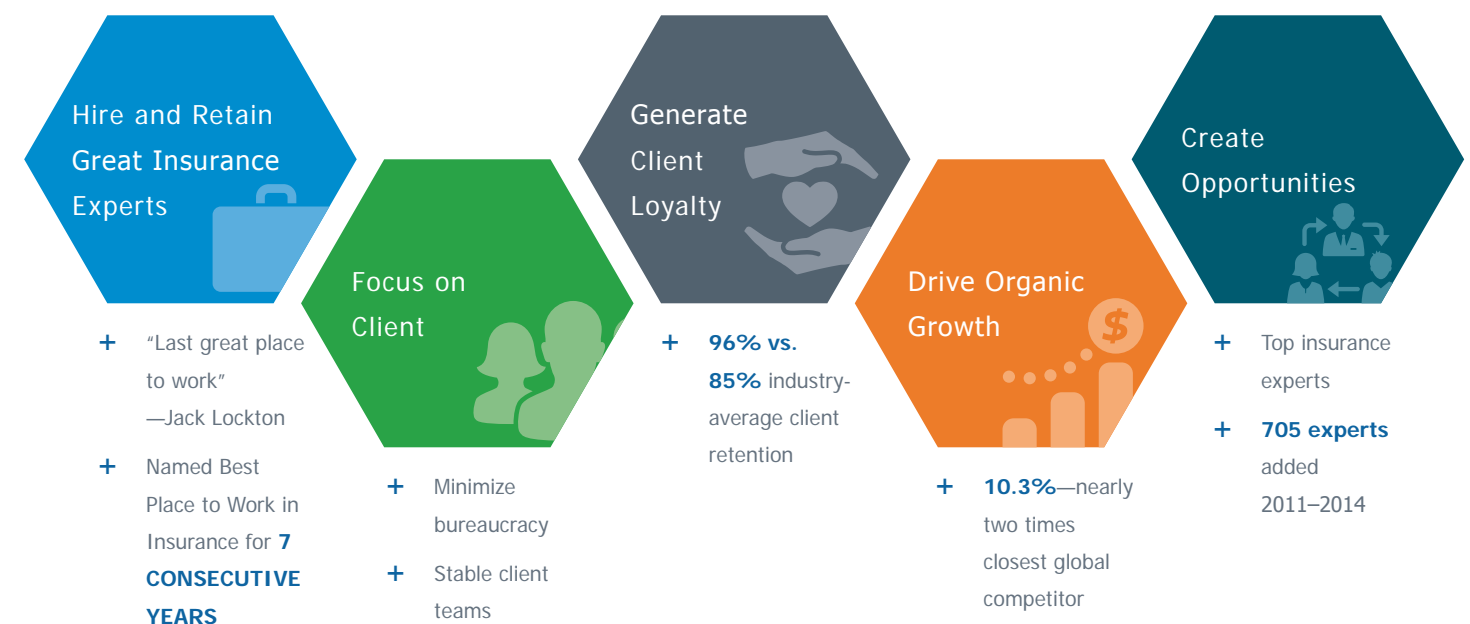
Tuesday, June 13, 2017

- 11:00 a.m. Registration Opens for Bootcamp Attendees
- 11:45 a.m. Bootcamp Luncheon session **How Risk Managers Can Be Better Communicators**—Tim Johnson, Slomoff Consulting Group
- 2:15 p.m. Attendees Pick 2 of the 3 Breakout Sessions to Attend
 - **Due Diligence Checklists Do Not Create Value, But You Can!**—Tony Palumbo, Lockton Companies; Renee L. Szalkowski, Lockton Companies
 - **Using Models to Effectively Manage Your Catastrophe Property Risks**—Mike Andler, Lockton Companies; Scott Curtis, Lockton Companies
 - **What Could Possibly Go Wrong? How to Effectively Identify, Quantify, and Assess Cyber Risk**—Brendan Fitzpatrick, Axio
- 4:30 p.m. General Registration Opens
- 6:00 p.m. Opening Reception
- 7:00 p.m. Opening Dinner

Wednesday, June 14, 2017

- 7:00 a.m. General Registration
- 7:15 a.m. Buffet Breakfast
- 8:00 a.m. Welcoming Remarks—Ryan Brown, Lockton
- 8:15 a.m. **What’s the Verdict? A Discussion about Punitive Damages and Excess Casualty Coverage**—Kate Browne, Swiss Re; Kim Wilkerson, XL Catlin
- 9:00 a.m.* Panel Discussion on **Evolution of Cyber Risk**—Mike Tanenbaum, Chubb; Josh Ladeau, Aspen
- 9:45 a.m. Panel Discussion on **Workers’ Compensation Trends**—Rob Gelb, York; Greg McKenna, Gallagher Bassett; Dr. David Chen, Shirley Ryan AbilityLab; Peter Macdonald, The Hartford
- 11:00 a.m. Micro Topics
 - **Global Travel Risk: Coordinating HR and Risk Management for Effective Emergency Response**—Logan Payne, Lockton
 - **Communicating Actuarial Results to C-Suite**—Richard Frese, Milliman, Inc.
 - **Transactional Liability**—Jeff Anderson, Allied World
 - **Unraveling a Complex Contingent Business Interruption Claim**—Jeff Esper, RWH Myers
- 11:45 a.m. General Session on **How Artificial Intelligence Will Change the World**—Kate Browne, Swiss Re
- 12:30 p.m. Lunch Session on **Crisis Management**—Rhonda Barnat, Abernathy MacGregor
- 2:00 p.m. Executive Panel—Glenn Spencer, Lockton; Peter Eastwood, Berkshire Hathaway Specialty; Ivan Gonzalez, Swiss Re; Jeremy Johnson, AIG; John Lupica, Chubb
- 3:45 p.m. Keynote—John O’Leary
- 4:45 p.m. Closing Remarks—Ryan Brown, Lockton
- 5:00 p.m. Closing Reception
- 6:45 p.m. Bus pick-up to Blues Museum
- 7:00 p.m. Dinner and entertainment at the Blues Museum

Lockton Business Model



Our Mission

To be the worldwide value and service leader in insurance brokerage,
risk management, employee benefits, and retirement services

Our Goal

To be the best place to do business and to work



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RISK MANAGEMENT | EMPLOYEE BENEFITS | RETIREMENT SERVICES

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