



## LA CHRONIQUE EUROPEENNE PAR ADRIAN LADBURY, BIE

### AMRAE chronicle 1 – June 2009

#### Heading - A dark cloud with a silver lining

Introduction – The severe global economic downturn has presented the risk management profession with an opportunity. But, risk managers must make sure that their boards really understand what is required. Adrian Ladbury, International Editor of Business Insurance, reports from recent risk management meetings across Europe.

April and May were exceptionally busy times for the European risk management community and possibly represent the dawn of a new era for the corporate risk and insurance manager.

This is because the global financial and economic crisis that followed the credit crisis seems to have thrust the profession onto centre stage at last.

For so many years the majority of corporate leaders in Europe, the United States and worldwide understood risk management to mean financial risk management, and little else.

The boards of non-financial institutions focused upon treasury operations and the risk management of debt and equity portfolios, ALM and the like.

The boards of financial institutions focused sharply upon market and credit risk, and only in very recent times operational risk.

This would not necessarily be a bad thing in itself.

But unfortunately the focus was too often not upon how to identify, measure and manage that financial risk in a sensible way to help companies protect *and* enhance the corporation's assets.

The focus was far too much upon how to enhance those assets and the protection part was simply overlooked.



Financial risk managers were placed under intense pressure to use their sophisticated software tools to work out how to maximise profit at all times and relentlessly seek the up-side of risk.

Hence the explosion in ever more confusing and complex forms of risk transfer, mainly through securitisation.

Boards were not very interested in hearing about the potential downsides of risk.

This was largely because they convinced themselves that growth would continue at the same relentless pace and thus pay for any mistakes that occurred along the way.

Very obvious warning signals sent out by dramatic failures of risk management from Barings and LTCM to Parmalat were apparently ignored.

The result of this lop-sided view of risk management was of course the dramatic collapse in credit markets that created the current global economic recession.

And, after a few months of panic and the inevitable attempts to shift the blame, we appear to have arrived at a consensus: we need proper risk management to prevent this from happening again.

This is why corporate risk and insurance managers all over Europe and the United States that I have recently interviewed say that they are suddenly fashionable in the boardroom.

It was not so evident at the RIMS conference in Orlando in mid April because we were still then perhaps trapped in the panic phase of this cycle.

This would possibly explain why so few U.S. risk managers actually turned up to the event in sunny Florida and left a huge convention centre and exhibition floor feeling strangely empty.

But the potential renaissance in risk management was certainly evident at the annual AGERS conference in Madrid and the annual general meeting of the German risk management association DVS during the first week of May.



These were much more upbeat meetings during which risk and insurance managers discussed how they should and could help their corporations survive the downturn and seek opportunity from the new risk environment.

The Spanish in particular reported a sharp increase of interest in risk management and believe that the time is now right for the implementation of enterprise wide risk management systems.

But, as stated by leading Spanish risk manager Cristina Martinez, board member of AGERS and the Federation of European Risk Management Associations and now risk manager for Camporio Food Group, **ERM will only work if the board truly believes in it.**

**ERM is not a fancy phrase that can be used to impress investors and fellow board members she and other leading Spanish risk managers stressed.**

**The whole board needs to buy into the concept and make sure that the whole company culture adapts to it too.**

**If company culture does not change to meet the needs of the ERM program then it will fail to have any real impact and just prove another costly and time-consuming burden.**

**This is why many of those interviewed for the Business Insurance Euro 100 survey of risk and insurance managers with Europe's biggest companies are not overjoyed by the sudden rise in their profile.**

**Many of them seem to be nervous that their bosses are not ready to go the full distance to make it work.**

**This raises two key questions that need to be answered by the European and international risk and insurance management community over the coming months:**

**First: Is ERM and also possibly the elevation of the risk manager to chief risk officer status really the answer to our corporate woes?**

**Second: Do we have the commitment and understanding at board level to make it work this time?**



**Over the next few weeks I will chair a series of discussions on this and other critical topics that face Europe's risk and insurance managers in cooperation with the national associations, including your own AMRAE.**

**These discussions take place in France, Germany, the UK, Spain, Italy and the Netherlands and promise to be challenging and open debates, particularly as they are all "off the record".**

**Hopefully these discussions will provide some hard evidence about whether companies across Europe really are prepared to invest in true risk management. And, if they are prepared for the commitment exactly how it will work.**

**For the risk and insurance manager this debate is critical as it will set the tone for how the profession develops over the coming years of recovery and beyond.**

**I look forward to revealing the findings of our debates within the BIE 100 community through the pages of Business Insurance and this column.**

**Please do not hesitate to send me your thoughts at [aladbury@businessinsurance.com](mailto:aladbury@businessinsurance.com) so that you can enter the debate.**

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**\* Following the merger of Business Insurance Europe into Business Insurance we are keen to ensure that Europe's risk managers receive the newspaper. If you are a risk manager and would like to receive a free copy of BI please contact me at the above email address.**