Winter School

THE EVOLVING ROLE OF RISK MANAGEMENT IN A CHANGING WORLD

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Outline

- View of Risk
- Changing World
- Risk Management in Changing World
- Risk Management Developments
- Risk Transfer
- Outlook
View of Risk

OLD PARADIGM

• Fragmented
• Ad hoc & Reactive
• Functionality Driven
• Narrowly Focused
• Cost Based

NEW PARADIGM

• Integrated
• Proactive & Continuous
• Process Driven
• Broadly Focused
• Value Based

RISK MANAGEMENT
The Changing World

- Global village – global financial crisis
- Rising unpredictability of climate change – climate risks, natural disasters
- Increasing cyber attacks – cyber risks
- Increasing threat of political violence and terrorism
- Businesses operating multinationally
- Rapid technological advances have magnified the threats on risk managers’ horizons and multiplied the opportunities for perfecting their skills
Zimbabwean Perspective

- Politics – Negative Trend
- Economic growth & drivers – Negative Trend
- Inflation – Negative Trend
- Natural disasters – Increased Likelihood
- Currency changes – Uncertain Tomorrow
Risk Management in Changing World

Circular depiction is highly intentional

Components are meant to be dynamic (reviewed back/forth in any sequence)

Having the right culture is key

- What else can go wrong and how are risks interconnected?
- What are we doing about the risks?
- How well do we manage the risks?
- How do we determine the size and scope of the risks?
- How do we ensure we have the right information to manage risk?
- How well do we manage the risks?
- What are we doing about the risks?
- What are all the risks to our business strategy and operations?
- How much risk are we willing to take?
- How good are we at overseeing risk taking?

What are all the risks to our business strategy and operations?

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Risk Management Developments

- Corporate risk management practice has undergone significant change in recent years
- Professionalism, innovation and diversity driving the change
- Boards and C-Suite increased awareness of the hazards of poor governance and digital disasters such as high profile data breach
- Boards and C-Suite have grown in appreciation of the risk function
- Risk Managers influence in the companies is on the rise
- Risk Managers clout has grown up and down the chain of command
- Risk Managers now key business partners with the ability to influence strategic decisions across their organisations – increasingly looking externally for expertise and support and insurers are becoming handy as a source of advice
Risk Management Developments…

- Risk Managers taking on a greater role in governance and compliance
- Risk Managers are no longer expected to just monitor, but to lead
- Risk management going beyond risk transfer – insurers should change their conversations with clients
Risk Transfer?

Retail Clients
- Individuals, business of all sizes and government agencies buy insurance to protect against property and/or liability losses as well as life and health coverages.

Insurance Brokers & Agents
- Brokers and agents match buyers with appropriate insurers. Many insurers also have e-business platforms and write business directly over the internet.

Primary Insurance Companies
- Primary insurance companies of all shapes and sizes sell policies to the original insureds and are responsible. Companies can write several lines of business (multi-line or diversified), a few or just one (Specialty). They can be owned by shareholders (stock) or their policyholders (mutual).

Reinsurance Brokers
- Insurance companies amass portfolios of policies and, for a variety of reasons, buy reinsurance to help them manage risk. Reinsurance brokers help to put together these transactions and place them with panels of reinsurers and/or capital markets, thereby spreading risk.

Reinsurance Companies
- Like primary insurers, reinsurers can write many, a few, or just one line of business. Sometimes, they are subsidiaries of primary insurers but many times are independent companies owned by shareholders.

Alternative/Capital Markets
- In recent years, capital markets investors have become more active in assuming insurance-related risks through insurance-linked securities and other types of transactions.

Retrocessionaire
- A retrocessionaire may, in turn, assume risk (or sell an insurance policy) to a reinsurer that desires to manage its risk.

EXAMPLES
- Motor
- Home
- Life & Health

Claims
- AIG
- Swiss Re
- Lloyds

Beyond Risk Transfer

- Risk of insurance failure – insurers’ clients should be concerned
- Insurers competitiveness should be based on ability to assist clients on risk management as experts
- Disaster recovery plans beyond ICT recovery plans
- Stress testing
- Culture issues
- Risk education
- Expand presence along the value chain
- Offering innovations and developing partnerships
- Building enterprise risk frameworks
Risk Management Outlook

- Risk management is no longer perceived as an obstacle to innovation or diversification.
- Tomorrow’s risk managers will play an increasingly pivotal role in business decision-making – at the highest level, as well as across organisational functions.
- Senior executives’ growing acceptance of the risk manager as a business partner is testament to their development as well-rounded business professionals, with knowledge of how all parts of the organisation work and fit together, and with the array of communication and other skills required of business leaders.
- Growing perception at senior levels that good risk management is capable of delivering value to the business.
- Accelerating technological change is a test of risk managers’ skills.
Risk Management Outlook

- Boards and CEOs will expect risk managers to keep the organisation prepared for the many threats of the digital age, from cybercrime to compliance failures to the reputation hazards of social media – and to ride out the repercussions should something go wrong.
- Risk managers can now use new data technologies and techniques to further master their core role across a wide range of new and emerging risks - create new sources of value, tapping their ability to identify future opportunities as well as threats.
- Risk managers expect data and analytics to eventually transform their function.
- The need to build strong internal partnerships
- Increasing external collaboration with the risk experts, consultants and insurance partners who have the specialist skills and knowledge that risk managers increasingly require.
Conclusion

- Digital – a great change driver
- Data – the great differentiator
- Innovators and futurists
- Expanding the range of expertise is imperative
- Professionalization is key to cementing hard-earned influence
THANK YOU