Not Every Risk Manager Needs To Become An ERM

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I understand the need, I understand why this evolution is occurring, and I think risk managers have a large role to play—particularly on ERM committees.

As the practitioner of a profession that is sometimes underappreciated by senior management, I also understand the risk manager’s desire to take their game to the next level. All that being said, I have to ask whether we risk managers are missing a step here, as well as an opportunity to have a bigger impact on our organizations.

The traditional risk manager needs to be part adjuster, part attorney, part underwriter, part risk-financial professional and part loss-control engineer.

Since there aren’t too many people who can be a master of all these disciplines, the greatest trait a risk manager can possess is to know when to defer to someone smarter. This is why having an excellent insurance broker/team is so important.

Keeping all this in mind, I have a problem with the popular dictum that all risk managers should be looking to assume the mantle of enterprise risk manager.

Lead an ERM committee—yes, but as a one-person show, I think the added breadth comes at the expense of depth. There are just too many areas that fall outside of the skill set of most risk managers, who already essentially must be part mathematician and part economist, as well as understand the intricacies of financial hedges, the firm’s information technology systems and regulatory risks, to name just a few duties.

I seriously doubt whether anyone can possess all of the skills needed to effectively address all of these areas outside of a team setting.

The best ERM department I have seen, and the model that I think best supports the spirit of ERM, is at a large Midwestern utility company. The department is headed by a chief risk officer who is a Ph.D. in mathematics. She has on staff a traditional risk manager, a financial risk manager, an environmental engineer and other experts reporting up to her.

Each of these direct reports speaks to their respective disciplines. The CRO then aggregates the various data into enterprise-wide reports and strategies.

While I’m not saying that a risk manager can’t or shouldn’t make the leap to this type of position, isn’t there a more natural extension of the risk manager’s domain that should be examined first?

Before making the jump from senior risk analyst to risk manager, I had the opportunity to complete a rotation as a health and wellness benefits manager. The best way to briefly sum up my responsibilities in this role would be to take the bullet points directly from my resume:

- Responsible for $66 million health and wellness budget.
- Responsible for all benefit plan designs and applicable coverage placements.
- Responsible for tracking, projecting and benchmarking health care costs for the organization and reporting to senior management.
- Responsible for all carrier, broker, actuarial relationships.
- Manage health and welfare department, including development of business plan and supervision of two direct reports.
- Oversight of employee benefit department’s Sarbanes-Oxley compliance.
- Employee benefits due diligence for mergers and acquisitions.
- Respond to employee issues and chair benefit appeals committee.

The end result is that when I took the reins as benefits manager, it was not a leap for me to round out my skills with a refresher on the Health Insurance Portability and Accountability Act, the Consolidated Omnibus Budget Reconciliation Act and the Mental Health Parity Act.

My time in benefits opened my eyes to a wealth of synergies and economies of scale that, in my opinion, have remained largely unexplored by most companies.

For starters, risk management and employee benefits departments are often approaching and utilizing the same insurance carriers, broker and actuaries, yet they conduct separate requests for proposal and have separate fee agreements.
Mr. Hunter countered that "it is astonishing to hear that since there is no claim, there is no subsidy. I've never had a homeowners claim in 40 years. I want my money back."

Mr. Hartwig said that "in more than six years after 9/11, the fact of the matter is terrorism is still uninsurable. We don't know how frequent it is and what it will cost, so you don't know what to charge."

He added that "the private market has made it abundantly clear" it wants no part of terrorism exposures, particularly on the reinsurance side.

"You have to think of terrorism risk as an act of warfare, and war has never been insurable in the United States," he said.

But Mr. Hunter asserted that private insurers "can cover conventional terrorism," noting that models are in use to assess such risks. "Katrina losses were twice 9/11's, and the industry handled that and still reported a record profit," he said.

However, one of the few points of agreement during the debate was that private carriers cannot insure against massive nuclear, chemical, biological or radiological exposures, as TRIA extension legislation in the House would have them do.

As for those who say the federal government should have no role in terrorism reinsurance, "I have a four-letter word for you—Iran," said Mr. Hartwig. "Say there is no TRIA and, as many people fear, the U.S. attacks Iran. The likelihood of a terrorist attack in this country would go through the roof, yet millions of businesses and workers would be left unprotected [without TRIA]."

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