21st Century Risk Management
Challenges, Trends and Imperatives

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Today’s Talk – 21st Century Risk Management

- “Postcards from Davos” – the World Economic Forum
- Interconnectedness – Canada, China and 24/7
- Coming of Age for ERM – and the Voice of Risk Management
- D&O and the Canadian Boardroom
- Marsh Thought Leadership in Action
- A Word in Mandarin
World Economic Forum

“Postcards from Davos”

Jan. 26 – 30, 2011

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Co-editors
Kristel Van der Elst and Nicholas Davis
Three Risk Clusters – Two Driving Risks

Clusters

- Macro-economic imbalance: Links global imbalances and currency volatility, asset-price collapse and fiscal crises
- Illegal economy nexus: Links illicit trade, organized crime, corruption, and fragile states
- Water-food-energy nexus: Clusters climate change with water security, food security and extreme energy price volatility

Drivers

- Economic disparity
- Global governance failures
From the WEF to the Boardrooms of the World

How deep is your understanding of how uncertain events might impact your organization – earnings, assets, supply chains, labor force, market share, reputation …?

Challenges in identifying and assessing emerging risks and interconnectedness of all risks

Everyone

Everywhere

Marsh – Leadership, Knowledge, Solutions...Worldwide.
Canada, China and 24/7
Resource-rich and Commodities-driven
China and Canada – Headlines from 2010 & 2011

June 26, 2010

China, Canada Aim to Double Trade

$60b by 2015 targeted; China-Canada deals set to boost ties

Ottawa – China, the world’s largest exporting country, will work with Canada to double their trade to $60 billion by 2015, visiting President Hu Jintao said in the Canadian capital on Thursday.

January 18, 2011

CIC to Open Toronto Office

China increasing becomes a major source of capital

Beijing – China Investment Corp. has chosen Toronto for its first foreign investment office – highlighting Canada’s relative openness to Chinese investment.
A scenario study released at the World Economic Forum

The *dramatis personae*:

- World’s largest commodities producers: Latin America, Africa, Russia, **Canada**, Australia
- World’s largest commodities importer – **China**
- Developed world economies – “pumping liquidity into the global financial system through loose monetary policies”
Capital flows to “banker-friendly” emerging markets for higher returns
  ⇒ Complex derivatives blossom once again – with funding from the West

Commodities-rich emerging economies are prime beneficiaries
  ⇒ Governments of all commodities-rich economies spend beyond means
  ⇒ Unrealistic valuations spur further development and production

Continued rapid growth of the Chinese economy is assumed … yet
  ⇒ Inflation impels China to raise interest rates and appreciate its currency
  ⇒ Commodities prices collapse, producing a new debt crisis
  ⇒ Sovereign banking systems are once again “on the edge of the abyss”

It’s not just China ⇒
Exposure to an increasingly interconnected global economy

- Sovereign debt, the euro and the eurozone
- Sustainability of rapid growth rates in emerging economies
- Potential for “asset bubbles” in Brazil, India or China
- Geopolitical unrest in regions with significant Canadian investment
- Dealing with corrupt regimes
- Climate, catastrophic weather and supply chain impact
- Commodity price and foreign exchange volatility

Rx: An integrated appraisal of your unique risk register
Coming of Age for ERM
“The Voice of Risk Management”
Challenge and Opportunity for Risk Management

Risk is a C-Suite issue…

Globalization

Communication

Technological Advances

Interconnectedness

Complexity

Human Element and Natural Disasters

Driving demand for sophisticated advisory capabilities and robust execution expertise

Risk is a Growth Business
Challenge and Opportunity for Risk Management

- Increased scrutiny in the wake of the global financial crisis
  - Regulators, auditors, clients, investors and other stakeholders
- Often viewed chiefly as “insurance buyers”
  - Perception impedes participating in firm-wide governance
  - Exacerbated by prolonged soft market and growing trend toward a more procurement style
- Advent and growth of the CRO role
  - Advanced skill sets and financial / operational experience
- ERM is no longer “optional”
  - Who is in the best position to spread the gospel?
Question Time!

from the CFO and the Risk Manager
Questions from the CFO for the Risk Manager

- What’s your name?
- How fluent are you in the language of finance?
- What is the cost of capital associated with our risk management program?
- How have we quantified expected and worst case costs of legacy issues?
- Is our captive insurance company capital-efficient?
- When is the last time we conducted a risk mapping – and what does it look like?
- To what extent are we exposed to emerging risks?
- To what extent are we exposed to “single points of failure” or force majeure in regard to our suppliers, customers and others?
- Do we have formal disaster recovery / business resiliency plans in place?
- What are the nature and treatment of our counterparty risk vis-à-vis our firm’s insurers and capital providers?
- What tools and benchmarks do we use to determine the optimality of our risk management program – breadth of coverage, contract performance and cost?
It’s a pleasure to meet you! How long have you been with the company?

Here’s my phone number. Could you please call me at the very outset when the firm is considering an acquisition or divestiture?

To help determine our risk tolerance, how would you rank the importance of our financial indices – annual revenue, operating income, cash flow, EPS, etc.?

Would you be open to a scenario-building risk identification and risk mapping session with all of our corporate departments and business heads?

Why don’t we establish a formal firm-wide governance committee – with a chair for risk management?

What is senior management thinking about today in regard to diversification of products and services, geographical expansion, research and development, and merger / acquisition / divestiture opportunities?
Questions for the Risk Register

- Did anyone have on their list?
- How many externalities merit modeling and defense?
- Does volatility matter most (or only) for those who are already dealing with adversity?

Even for firms that are performing well in a hospitable environment, volatility matters.
A Multitude of Stakeholders – and High Expectations

- Stakeholders galore
  - Employees, customers, vendors, creditors, shareholders, capital providers, governmental and regulatory authorities, rating agencies
  - *and cafés within a five-block radius*

- In what manner is risk awareness and management integrated with strategic planning and operational decision-making?
  - Are we taking the right risks to optimize value?
  - What are the most critical risks impacting the performance of the organization and the execution of our strategies?
  - How much volatility are we willing to introduce and sustain?
  - Are our risk management capabilities across the organization aligned with the risks we are taking?
Uncertainty – *Beware the Capital Eater*

- Understanding how uncertain events might impact the organization’s value drivers
  - Test assumptions in underlying strategic plans and capital investments especially those with a 5-10 year execution horizon
  - Understand and monitor complex and changing interrelationships between systemic risks
  - Overcome typically short-time frames of corporate risk assessments
  - Support planning process that explicitly factor in increased uncertainty

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**Top challenges in identifying and assessing emerging risks**

- The challenge of interpreting and aligning the data to the company’s strategies and operations: 37%
- Ensuring senior leadership focus: 13%
- Insufficient analytical capabilities and methodologies within the company: 11%
- The challenge of obtaining information: 18%
- Applying appropriate company resources and time: 21%

**Source:** Oliver Wyman/Financial Times Survey on Emerging Risk
ERM through the Survey Lens

2009 to 2011

- The Importance of ERM During Economic Upheaval
  Marsh and GovernanceMetrics

- Excellence in Risk Management VII
  Marsh and the Risk and Insurance Management Society (RIMS)

- Global Emerging Risks Survey
  MMC’s Oliver Wyman and the U.K.’s Financial Times

- The Financial Crisis of 2015 – An Avoidable History
  MMC’s Oliver Wyman
Voice of the Risk Manager

- More time is being spent on risk management
- More RMs with technical / commercial backgrounds
- Recognition of the value of the CRO
- Growing focus on less tangible risks to the organization
- Artificial barriers between the “silos” are being torn down
- Clearer, broader definition of the purview of the RM
- Greater engagement between RMs and the business
- Increased focus on counterparty risk
- RMs can now influence the culture of the enterprise
A More Active Judicial and Regulatory Environment

- Canadian Secondary Market Liability Securities CA suits *
  - A record 28 active class actions, including 8 filed in 2010 alone
  - Approximately $15.9 billion in outstanding claims

- An active and well-heeled plaintiff bar
  - For cross-border firms, discovery shared by U.S. and Canadian counsel

- FCPA and Dodd-Frank
  - Non-Canadian operations held to Canadian regulatory standards
  - Eight of the top 10 FCPA settlements were effected in 2010

- Conversion from GAAP to IFRS
  - An opportunity for an aggressive plaintiff bar?

- The Canadian regulatory regime in transition

* Source: Trends in Canadian Securities Class Actions: 2010 Update – NERA
Superior Analytics and Client Technologies
“A Word in Mandarin”
危機
Risk and Reward are inextricably linked

- Risk organically accompanies the quest for discovery, productivity, wealth creation, improvement of the human condition

The rewards for enterprises are unique for each

- Revenue growth
- Increased market share
- Diversification
- Geographic expansion
- Reputation
- Survive
- Thrive

The rewards for society are immense

- Regeneration of the world’s productive prowess
- Eradication of disease and endemic poverty
- Stability – and the breakout of peace
ERM is a strategic and operational imperative
- *The difference between surviving and thriving*

A prerequisite for the Risk Manager
- *Speaking the language of finance*

An imperative for the C-Suite
- *Understanding the art and science of risk management*

The challenge for 21st Century risk management makes our mission all the more vital and exciting.
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Thank you!

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