

RISK AND INSURANCE TOGETHER OR SEPARATE?

THE ASIAN RISK MANAGERS WHO WERE gathered for this leg of the Asia Risk Frontiers project were asked whether it made sense for risk and insurance management to be combined or carried out separately.

The response was mixed and probably a 'red herring', as insurance is actually an element of risk management and not a distinct function.

Patrick Abdullah, vice-president, enterprise risk management (ERM) at Astro Overseas, the international arm of the Malaysian media group, said there is no right or wrong answer to this question.

"You need insurance, yes. ERM identifies many things that people simply do not see and we have to ask if we manage these risks. We ask whether we can get insurance to back it up. Then we engage the people involved to talk to the insurers because an insurance policy may help. It is a joint effort," he said.

Raziyah Yahya, general manager, risk and insurance, at Malaysian energy group Petronas, said the question is actually a "misnomer", because insurance is basically an integral part of the risk management framework.

"It is a mitigation tool within ERM. Insurance is part of the CRO's range of tools but the remit is wider than insurance. It includes financial risk, commercial risk, political risk, operational risk. There are various buckets of risk and not all are insurable," she explained.

"Insurance is very useful because it helps you identify and measure the risk as you ask yourself what to retain and what to transfer or not to transfer. If you do not transfer it, then you are at least aware of it and know that you need to manage it. It is not a question of what is superior. Insurance is part of risk management; insurance is a risk within the ERM umbrella," continued Ms Yahya.

Josephine Woo, enterprise risk manager at Tokio Marine, also pointed out the importance of project risk management, another significant risk bucket that is not necessarily insurable.

"We participate in project risk. This needs risk assessment and we have to talk to the board about this and analyse the risks related to any project," she said.

Bernado Mochtar, head of ERM at ABM Investama in Indonesia, said that one recent trend is the increasing tendency among senior management to regard insurance as simply a cost rather than a strategic asset.

They would rather see the risk managed and losses prevented in the first place to avoid paying out the premium, he said.

"Companies are more concerned with managing risk rather than transferring it. They only want cover for catastrophe risk, natural disasters and maybe terror but that is it. Transfer costs of risk for operational and credit risks need to be saved," added Mr Mochtar.

"But if this strategy is followed, then proper data has to be gathered and managed properly otherwise it will not be priced properly. Scenarios need to be carried out," he continued.

—Adrian Ladbury



COMMUNICATION, CONFIDENCE, DIPLOMACY AND TECHNICAL EXCELLENCE ALL NEEDED TO SUCCEED IN RISK

THE ASIAN RISK AND INSURANCE management community may well be at a relatively early stage of development and still, far too often, the job is carried out by legal or procurement people who are focused simply on price and little else.

But Pan-Asia Risk and Insurance Management Association (Parima) members tend to be experienced and sophisticated risk and insurance professionals, who are in a position to hire staff and advise peers on what to look for in the aspiring next generation.

The participants in the Malaysian Risk Frontiers Asia roundtable were therefore asked what they believe are the key skills and attributes that a risk and insurance manager needs to succeed and what they would look for when hiring new staff.

Josephine Woo, enterprise risk manager at Tokio Marine, said a risk manager has to understand the need for a balance between the three main stakeholder groups for any listed company: shareholders, customers and regulators. They also need to be honest and technically astute.

"There needs to be a compromise. You have to have the shareholders' best interests at heart but you also have the best interests of the policyholders too, and of course regulators. You need to find the right balance. Integrity is very important too. A good technical understanding of the actual business that is being underwritten, and ability to seek the gaps and challenges and look for solutions is also critical," she said.

Ms Woo said one important way in which a risk manager can improve their skills and understanding is through focus groups and discussion about risks faced at both junior and senior level.

And risk managers need to be strong. "A risk manager needs to be strong enough not to compromise themselves," she said.

The risk manager added that this education needs to be carried out within the risk management community itself and within the insurance sector at the same time.

"I would say the banking sector in Asia is quite mature but the insurance market

is still at a relatively early stage. Therefore, a lot of education needs to be carried out and this involves a lot of training online and face-to-face. Then they have to talk to us, the customers, more frequently and try to understand our risks better," she added.

Raziyah Yahya, general manager, risk and insurance, at Petronas also focused on education and skills.

She said she has to be fully confident of the ability of the people that work for her to deal with problems – and they need to be market and business savvy.

"They need to be able to deal with the financial aspects, auditors, our own shareholders, operational units, other partners such as contractors and others such as insurance brokers, underwriters and loss adjusters. Risk managers also need soft skills such as the ability to articulate. This is very important or people will run rings around you," she said.

UPSTREAM / DOWNSTREAM

Hard skills are critical too, said Ms Yahya. "You need a good knowledge of the subject. You need to understand insurance and the business of the group itself. In our case, that means upstream, downstream and shipping companies and you need to understand how other markets work around the world," she said.

Ms Yahya added that risk and insurance managers also need to prove they possess strong integrity to succeed.

Bernado Mochtar, head of enterprise risk management (ERM) at ABM Investama, said communication skills are paramount.

"Good communication skills are essential because the risk manager needs to engage with so many different people in different functions, especially the risk owners. They also need to know the business processes and the legal and compliance standards," he said.

Patrick Abdullah, vice-president, ERM, at Astro Overseas, said risk managers need to be strong and flexible at the same time.

"There has to be no middle ground. But risk managers must be good with people. They need to understand how to read a

person and their body language. They need to understand when to push and when to pull, when to go back and when to be harder when dealing with the risk owner," he explained.

As all risk managers who work for large organisations are aware, they cannot be expected to manage and own all the risks. Their key function is to persuade fellow managers of the value of risk management, identify risk champions in all operating units and give them the tools and support to do the job.

Mr Abdullah said the risk manager must therefore be a good educator and trainer.

"You have to be prepared to train people, push them forward, stand behind them and guide them. My philosophy is to stand behind risk managers and let them take the lead, guide them carefully and empower them," he said.

Mr Abdullah also reminded his colleagues that a sense of humour can help immensely to progress a discussion.

Saurabh Verma, risk manager with a leading Indian conglomerate and Parima board member for India, said risk managers need to be prepared to think outside the box, be open-minded and seek solutions that others cannot see because they are mired in the day-to-day business.

"Risk managers should have a basic understanding of the business and also of service protocols. They need a 360-degree view of where and who to go to, to find a solution," he said.

"What I see is that most risk managers are very concerned with their own world, talking to insurers and brokers and the like. They need to really listen to what is being said and not just look at what the market offers but also listen to what the real experts have to say and properly analyse what is on the table," continued Mr Verma.

"As a risk manager you need to be able to sit back and be a good listener in the external and internal world. You need to talk less and listen more. You have to get back to basics. A risk manager should be smart enough to pick the right partner," he added.

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