To Our Subscribers

We want to thank our new subscribers and welcome everyone to the ninth issue of the ARM quarterly newsletter recently renamed to Crossing Thin Ice! We hope that you all find this publication valuable. With a few short articles meant to provide unique insights, we present ideas about how to address specific issues related to ERM and introduce potential risks and opportunities that may not yet be on your radar.

The primary authors are Dave Ingram and Max Rudolph. We have been active participants in the risk management, actuarial, investment and insurance spaces for many years.

Subscribers are encouraged to suggest topics for articles and ask questions of the authors during our follow-up webinars and podcasts. Ever cognizant of regulatory requirements, leveraging them to add value to you in practical ways, is our focus.

Sponsored by Actuarial Risk Management (ARM), the Crossing Thin Ice subscription is free to all readers.

A free webcast is also available and our podcasts covering these topics is called Crossing Thin Ice. If you would like to further engage the authors as consultants, for continuing education purposes or to join our ERM Discussion Group, please reach out. More info can be found throughout this newsletter. We hope to help you find a solution that meets your needs!

Please forward to others who study risk.

For more details
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We hope you will join us on our journey!

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The content of this newsletter is meant to be educational and thought provoking.

Nothing in it should be interpreted as investment advice.

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Risk Management Beliefs

A prominent business organization expert, Edgar Shein, tells us that culture has three primary aspects: what people say, what people do and what they believe. Since the Global Financial Crisis of 2008, regulators have been telling financial firms that they needed to have stronger risk management cultures. And then they went on to describe at length what management in a strong risk management culture would say and what management and employees in that strong culture would do. With no mention of that third element of culture - belief.

So what happens? Risk management, in many financial services firms, becomes a compliance exercise. No one was asked to believe in risk management, and few do.

When something is a compliance exercise, there are some parts of it that management “says” that they are going to do that they never get around to actually doing. Management of a firm that failed after recording a large loss from a risk where they far exceeded their risk tolerance was asked what the risk committee of the board said about the very high-risk position. Their response was that while they had filed a risk management program description with the regulator that said that they had a board risk committee, that committee had never met even once. No one at that firm was bothered by that omission, because they did not “believe” that they needed a risk committee.

Check out the Crossing Thin Ice podcast

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Risk Management Beliefs (cont'd)

When something is a compliance exercise, people may do something that is required by the regulators, but only when it does not interfere with achieving the real goals of the business. They believe that they know what to do to achieve those goals. The actual culture of the business is just the small triangle in the middle of the Venn diagram above, the things that the leaders say and the staff does because they all believe will lead to success for the business.

Forming or changing the beliefs is a slow and very deliberate process. I have worked at two companies that successfully went through a culture change and joined a third right after they had gone through one. In all three cases, the process was very similar. It required a constant focus from the executives to keep saying the new belief over and over again and to point out situations repeatedly when people in the company acted according to the new belief and especially when the results were a success for the new belief.

The three elements – Say, Do, Believe- were all there.

One thing that will stand in the way of a culture change is often the individuals who were the most successful under the old culture. They may feel that they must actively oppose the culture change and management may feel that they must bend the new rules to accommodate them. That accommodation would be the death knell of the culture change.

A risk management culture is particularly difficult to install or change materially. If a company wants to change their sales culture, they can tell people to do something different and then they can point to the successes that are the result of that change. The successes will be tangible changes in sales. But the result of a working risk management system is the absence of excessive losses, or maybe just losses that are smaller than competitors in adverse times. People are not wired to pay as much attention to something that doesn't happen. Building belief in a risk management culture will require plenty of communication from executives about the risk management "successes" of staying within risk tolerances and limits and the resulting controlled loss environment that results. This will always be difficult to get enough airtime for these communications because the most senior executives have limited time for messaging, and they also need to support the very important goals of sales and profits. This is why the Chief Risk Officer needs to be a master communicator – they need to be able to tell the stories of risk management success and keep telling them without becoming a bore.

If you are concerned about the risk culture of your firm, try thinking about the situation in terms of these three elements – Say, Do, Believe – and how the company might get to the point where the employees Believe in risk management.

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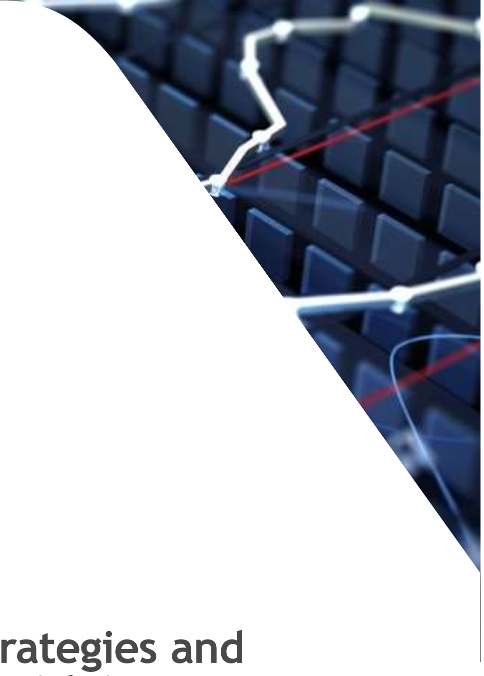
Actual Risk Management



Crossing Thin Ice

Now providing three ways for you to get insights, strategies and solutions from ARM consultants to help resolve your risk issues.

Newsletter

- 3 to 5 articles quarterly
- Written by Dave Ingram, Max Rudolph and other ARM consultants focusing on risks faced by insurers and risk management strategies
- Available on the ARM website

Webcast

- One-hour live webcast once each quarter following the newsletter publication
- Webcast includes brief presentations, interviews with authors and live Q&A with your questions answered regarding the newsletter topics

Podcasts

- Two per month
- Delivered by Dave Ingram & Max Rudolph
- Presenting material from the newsletters and webcasts in a totally audio format.
- Available wherever you download podcasts

* No charge for subscriptions to ay of the three services

“While insurers have been challenged by low interest rates and the pandemic, the next few years will see a radically changing environment for insurers. We will be using this provocative platform to identify emerging risks and delve into what we see as the drivers of future success.”

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