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RISK MANAGERS OF TODAY: ON THE BOUNDARY BETWEEN YESTERDAY AND TOMORROW

According to the generic job description, risk managers "advise organisations on any potential risks to the profitability or existence of the company. They identify and assess threats, put plans in place for "if things go wrong" and decide how to avoid, reduce or transfer risks".

Although, what is behind this rather vague description of responsibilities, how have those responsibilities evolved and where this evolution is heading to? To collect some first-hand thoughts on the matter, we have interviewed a dozen managers in a risk function of different non-financial companies in various European countries. Some of them were corporate risk managers, others had a risk function added to an insurance function, while some were combining the role of risk manager with that of chief financial officer. The respondents varied from luxury goods business and automotive to IT solutions and retail, hence representing diverse perspectives.

Even though in some companies the position of a risk manager dates back to the 1970s, for the majority this is still a very recent phenomenon. Whereas risk management is an everyday routine in financial institutions, non-financial companies are making only shy steps towards a methodical process of managing risk. It does not mean that non-financial companies are not aware of their risks or do not deal with them whatsoever. As the risk manager of a large Belgian retailer said: "It's not like we were not doing risk management before. It was just implicit." However, being implicit is no longer sufficient in today's complex and volatile business world. The speed of change and the complexity of risks push companies to install clear and systemized risk management, and a dedicated risk function.

THE EVOLVING ROLE OF THE RISK MANAGER

The ambiguity surrounding the risk function is fostered by the variety of names and different function combinations. Some companies have a chief risk officer or Head of Risk, others a risk manager, yet others a risk specialist. In some companies the function is a separate function, in others it is combined with the role of CFO, internal auditor, or the insurance function. Irrespective of the title though, the risk function is responsible for setting up and maintaining a risk management system in the company, for collecting the input from various sources, consolidating it, analysing it and finally reporting it.

In most of the companies who participated in the interview, at the outset 98% of the job of a risk manager was insurance focused. All the risk management was, in fact, done within the frame of insurance. Consequently, the main responsibilities were ensuring that all necessary insurance policies were in place. The corporate risk manager of an energy company noted that in the first years of working in his role: "It was only about insurance". This stance was confirmed by the corporate risk manager of an IT solutions company: "The risk management role evolved from early 2000 to the present moment from "taking care of insurances" to "protecting the business against risks."

Insurance is still one of the major solutions that can be used to transfer risks. However, insurances are no longer the main focus of attention.

Besides being insurance focused, the risk manager of yesterday was an isolated function. “There was very little communication with upper management. In fact, there was very little communication in general. I was living in a silo” recalls the risk manager of a pharmaceutical company. Nowadays, this is changing. The risk manager of today is coordinating the different organizational functions that are dealing with risk, such as operations, security, legal, safety, and treasury. The risk manager needs to be able to communicate with people at all organizational levels and within all the different domains. The function has thus become highly interactive.

Another evolution with respect to the role of a risk manager concerns the reporting lines, which have broadened since the early days of the function. Initially, the risk function was reporting to the CFO in most companies. At this time in most of the cases there is also regular reporting to the General management, to the Audit Committee and, on more and more occasions, directly to the Full Board. This trend mirrors the expectations for more active involvement of the Board of directors and greater responsibilities placed on them.

There is also increased pressure on the risk management function from the regulatory side, as expressed by the risk manager of a household appliances company: “the pressure from the financial authorities and audit put demand on risk managers in the compliance perspective”. The domain of risk management is very contingent, hence hard to regulate. While the basic standards and ground rules are indisputably needed, over-regulation might lead to negative consequences. If the compliance part takes too much of the risk manager’s time away from the strategic and operational activities, this will only harm the business.

So what is the role of a risk manager today? He or she is no longer just an insurance specialist, but instead - is someone who is a strategist, a communicator, a facilitator and an organizer at the same time. The person in that function is constantly engaged in business processes and monitors them inside and outside the company to be able to capture the potential uncertainties that can affect the company’s performance. The risk manager of a luxury goods company sums it up perfectly: “I am the one who constantly asks “what if” to everyone”.

PERSPECTIVE ON THE FUTURE

The risk function, as well as the required skills and expectations from the outside world will keep evolving in the future. “The risk function will be of much higher importance than ever before”, claimed the risk manager of an automotive company. At large, the hopes for the future for many of the risk managers are very much related to an open dialogue on risk across the organization and higher up. Risk managers anticipate more risk awareness by the general management and the board, and more involvement of them in the risk management process. This is especially important given the speed with which risks can affect the business. Greater awareness and more active involvement of the highest organizational levels in the future is not a luxury, it is a must.

Another expectation for the future is greater involvement of risk managers in M&A deals. “Previously there was no involvement of the risk function in M&A, now there is and it should continue", is the hope of one respondent. Here it is important to note, that in M&A deals it is not only the assets and obligations that are acquired, it is also the risks. Moreover, it is vital to analyse the potential interdependencies, since even if the risks of both partners in the deal are known, their blend might drastically change the risk profile of the combined company.

Additional development of the responsibilities of a risk function relates to adopting a mid- to long term perspective. In general risk managers today are mainly focused on business risk management, but less on the long-term perspective of 10 to 20 years. This, according to the majority of respondents, will become a point of attention in the future. Despite the fact that the future is unpredictable by definition, it is a task of the risk manager to keep thinking about it both on a global and local scale, and both from a short-term and long-term perspective.

The reporting lines, as mentioned previously, will also further evolve. As the Board of directors becomes more aware of the need for systemized risk management, the need for direct reporting to the Board will increase. Risk managers need to be ready for that evolution. "We need to learn how to communicate more efficiently. Board members like to have the information presented to them in a concise way. They don't like redundant words", shared his concern the risk manager of a food group. His colleague from an automotive company echoes: "Board members are more discussing risks, they are more asking about risks. There is more involvement. And this trend will continue."

Summing up the opinions of the respondents, the role of a risk manager in the future is likely to become more influential and more involved than ever before. Nevertheless, even executives in companies with a separate risk function were unanimous that the "ultimate risk manager" in a company is the CEO. It is the CEO who uses the risk information for decision-making and it is the CEO who takes responsibility for those decisions.

All respondents agreed that the function of risk manager is still under development. It is a very dynamic role with a lot of challenges, both at this particular point in time and in the long run. It requires a vivid mind, an eagerness to keep on learning, good communication skills and a lot of persistence. These capabilities, coupled with an extensive knowledge of the company and the industry from all the different perspectives - from general manager to legal, from HR to supply chain, etc. - will allow risk managers to stay competitive and bring value to their companies.