Building a Performance-Focused Risk Management Process — Step Three: Enable and Empower

By Carol Williams

The adage "Rome wasn't built in a day" attests to the fact that building something great and enduring takes time. Like the breathtaking coliseums, cathedrals and artistic masterpieces from the Greco-Roman era through the Renaissance, building a risk management process focused on performance and strategy takes both time and deliberate effort.

Considering the mounting challenges to success that P&C insurers are now facing, it can be tempting to simply cut and paste a method or process that other insurers use. However, one-size-fits-all approaches that are hastily put together fail to account for each company's unique situation and needs and, therefore, result in a process that is (at best) not helpful for ensuring the company's success.

Strategic decision-making is supposed to be collaborative, so management and others should feel comfortable offering their perspective, asking questions, and challenging assumptions, even towards a seasoned veteran.

Based on the wide range of operating structures and markets each P&C insurer serves, no two processes — whether operational or strategic — will be identical, which makes building a goal-oriented risk management process to inform decisions that much more challenging.

The first two articles in this series explored foundational issues companies must address to ensure any risk management practices and processes are the right fit. These include developing a risk mindset and culture at all levels and identifying the company's specific needs for ensuring its success.

With that in mind, the next step in this journey is to develop custom tools and empower people at all levels to use these tools in the decision-making process. Good risk management does both, and cannot operate successfully with one and not the other.

It's hard to say which one should come first, because in the end, personnel will not feel empowered without the right tools, but the tools cannot be successfully used without empowering people throughout the company.

Be an Enabler … in a Positive Way

As I've mentioned before, tools will vary from one company to the next depending on its unique culture and needs. Broadly speaking, these tools will be based on two general scenarios: is your company more concerned about fast and informed decision-making or do you need a more documented, formal process?

Scenario One: Improving the speed and effectiveness around decision-making

You need to take four (yes, only four!) steps to making decisions that are risk-informed and performance-focused while being efficient and effective. Sound too good to be true? It isn't, but many companies overlook at least one of these steps, which puts the end result in jeopardy of succeeding.

Step 1: Identify weaknesses and fill in gaps

Take a careful look at how your company is currently making decisions around strategy and goals.

- Is it collaborative or rigid and top-down driven?
- Are other perspectives brought to the table or do decision-makers simply rely on only one or two people?

One common issue many companies have is relying too much on one person with years or even decades of experience in the company. Often times, it's assumed this individual possesses the proverbial crystal ball since their experience and knowledge about the company runs so deep. Their suggestions are blindly accepted with no questions or challenge, which can be dangerous.

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This article first appeared in the Fall 2020 issue of *The Demotech Difference*, a publication of Demotech, Inc., www.demotech.com.
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Step 2: Develop a standard list of questions to ask around every decision

Every decision will be unique in its own right and require a different conversation. However, there are some standard questions to have on hand to initiate the conversation and ensure that everyone has the information needed to make a fully informed (and risk-based) decision. When an idea or course of action is proposed to achieve a goal, be sure to ask these questions at a minimum:

One common issue many companies have is relying too much on one person with years or even decades of experience in the company.

- What kind of resources will this take? (People, skills, technology, space, money, etc.)
- Are these resources available internally or externally?
- Will it take more money to obtain these resources?
- What is the timing? Does this proposal have a short turn-around or is it more long-term?
- Will there be any system impacts to this proposal?
- Is this proposed idea dependent on any other processes, initiatives, or projects, whether current or pending?

Again, the goal of questions like these and others is to initiate a robust discussion and ensure that any assumptions are valid. After all, asking questions and challenging assumptions are two key mantras of any successful endeavor into risk management. It's not about being mean, disrespectful, or rude, but rather ensuring ideas are properly vetted.

Step 3: Have an easy way to hold people accountable

Once a decision has been reached, there will need to be a sustainable and straightforward way to hold people accountable for those charged with carrying out the decision. Accountability can be accomplished in three steps:

1. Be clear on roles and responsibilities for everyone involved.

2. Develop milestone dates to check in on progress.
3. Identify and track relevant metrics that can be independently verified.

The key to accountability is consistency. Holding a person or group to a different standard can be toxic to the culture and morale of any company.

Step 4: Proactively communicate

Inevitably, any strategic initiative will require other business areas to get involved. For example, a new underwriting process may require the help of IT. Instead of waiting until later in the project timeline, the relevant IT personnel should be in the loop from the beginning and have a clear understanding of the project's scope and expectations.

The saying "failure to plan on your part does not constitute an emergency on mine" is especially true in this circumstance. It is unreasonable to expect an individual or team to drop everything and come rushing to handle something they should have had time to prepare for.

Therefore, to ensure the initiative can be completed on time with minimal stress to everyone involved, take the time to plan ahead and communicate, preferably before a final decision is even made.

Scenario Two: Need for more documentation and a formal process

Much of scenario #1 will still apply, since the ultimate goal is building a risk management process focused on strategy and performance.

However, scenario #2 requires the extra layer of assuring regulators and investors that your company understands risks to strategic objectives and is doing something to address them.

But there should be some caution here. A 2019 Deloitte survey discovered that 61 percent of financial executives consider "managing increasing regulatory requirements and expectations" to be one of the biggest risk management challenges. However, author Norman Marks explains in "World Class Risk Management," "… when risk management is implemented in response to regulation, it becomes a cost of doing business instead of a way to do business more effectively."

To be clear, I am not talking about catastrophic risk modeling and reinsurance purchasing; as a P&C insurer, you are well versed in the different perils you underwrite and how best to transfer certain risks to the reinsurance market.

But in the last decade, regulations like ORSA and holding company filings have placed a greater emphasis on meaningful risk disclosures. Most regulators have a financial background and approach their role with an audit mindset. (I know because I used to be a regulator.) In their mind, ERM is a fairly unknown beast with a formal process and plenty of documentation of the output. They will look for hard numbers and a documented process for how your company identifies and assesses risks.

Therefore, a framework or governance document describing how your processes work and the level of risk the board and senior management are willing to take in pursuit of objectives will be an additional tool for guiding your company's approach to risk management.

To avoid the trap of risk management becoming another cost of doing business though, it's important to remember that this isn't about creating a list of risks, ad nauseam, but rather about making good corporate decisions. Are you properly managing risks to your goals and appropriately communicating how and why?

So instead of handing over a list to your state's insurance regulator or the rating agency, document decisions and what the company is doing to address risks around these decisions. Doing so will keep your risk management endeavors from falling into this dreaded trap and instead focused on achieving objectives.

Empowering Your People

Developing tools for enabling a performance-focused risk management process is only half the battle.

If personnel at all levels do not feel empowered to provide input during the decision-making process, it won't matter how well designed your tools are. After all, decision-making is not just for top executives, but managers, subject matter experts and other personnel as well.

Therefore, once tools are developed, it's incumbent upon executive leaders to tell people at all levels of the company that they now have both the authority and ability to ask questions and challenge assumptions. Remember the two elements in the mantra for successful risk management?

You want personnel, whether they are VPs, managers, front line underwriters, customer service reps, marketing, or claims personnel to feel like they have a voice. After all, with the proper tools in hand, everyone has a valid perspective to offer regarding risk and strategic objectives.

Now to some, it may appear as if I am advocating for chaos, mayhem, and mutiny, which of course is not true.

The key is to make sure your employees understand that they do not have to blindly accept things. Do they need to follow the direction of management? Absolutely! Can they ask why or other questions to better understand management's decision? Absolutely! The caveat here is they need to be reminded that there is an appropriate way to go about asking questions and challenging assumptions. After all, there is business etiquette and your company culture.

Avoiding Chaos

Enabling and empowering people go hand in hand. You can't tell managers and employees they are empowered to give their perspective without providing tools to do so. Likewise, you can't use tools without empowering the people that make your company work, which is why laying the foundation of a strong, risk-aware culture should always be the very first step in building a performance-focused risk management process.

If your company's tools don't align with your company's culture and needs, you will experience dreaded chaos. Likewise, if you don't empower your people to ask questions and properly coach them on how to appropriately challenge assumptions, chaos will ensue as well.

No company executive wants unnecessary (and negative) chaos. There is enough uncertainty in the business environment today, especially with managing employees in the COVID-19 world, ensuring operations and productivity don't suffer, and maintaining financial stability.

Are you ready to enable and empower personnel at all levels to actively participate in charting the company's future?

(Part 4 of this four part series will appear in the February issue of The Demotech Difference.)

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