Organisations around the world are facing unprecedented levels of risk. The scale and magnitude of the threats to their operations are growing, as are the complexity and the scrutiny of the mitigation strategies deployed by them.

Primary risk exposures such as property and casualty and directors and officers’ liability are becoming more complex to manage because of increasing regulatory requirements and stakeholder expectations.

Secondary risk, such as natural catastrophes and the challenges of the rapidly rising global population, are also climbing the risk management and boardroom agendas of most companies.

It is difficult to say which of these secondary risks will ultimately have a quantifiable impact on a company’s profitability, but risk managers need to have effective mitigation strategies in place for all such eventualities. And to do that, they need to be better informed and prepared than ever.

With the support of Swiss Re, Aon hosted a one day seminar in London entitled International Growth: Navigating Risk to Maximise Reward.

We brought together leading risk management practitioners from across Europe to share their experiences and insights into the current and emerging issues facing their organisations, their industries and the profession as a whole.

We also wanted to use this event to share Aon’s global knowledge and expertise. As one of the world’s leading risk managers and human resource consultants, we help our clients across the world successfully navigate their most significant risk and people issues. We understand that all risk professionals need to share best practice and to discuss their challenges with peers and trusted advisers such as Aon.

And as part of our commitment to leading this crucial debate, we will continue to provide a thought leadership platform for risk management specialists to hone their knowledge and glean new insights.

The complexity of our clients’ organisations is growing each and every day, with new economic and competitive challenges.

To be successful, risk managers must have strategies to mitigate risk from all of its sources and help organisations make the most of the opportunities these challenges represent.

Risk has never been more profound. This event represents an important opportunity to understand the growing importance of the contribution that risk managers make to the evolution of all organisations as they embrace more innovative and productive ways of working. I look forward to having the opportunity to address you in the future.
Choosing opportunities

International growth is an exceptionally broad topic, particularly given the significant changes that the last decade has witnessed as a result of the emerging markets and the economic conflagration of the last five years.

The growth of the emerging markets and how global organisations can make the most of the opportunities that they represent was a key theme of Aon’s International Growth conference.

Providing insights into the future of emerging markets, Dr Kurt Karl, Head of Economic Research and Consultancy at Swiss Re, said “The growing global population of emerging markets includes a Chinese middle class which will have tremendous purchasing power in the future. We anticipate that the emerging market share of the global economy will grow to 50% by 2025 with eight of the world’s top 10 mega-cities being in emerging markets.

“This will be a game changer in the way the world is shaped. This rise will inevitably have strong implications for global energy consumption and infrastructure investment. Recent events have also highlighted how political instability and unrest is becoming a key macro downside risk.”

As Jon Stanton, Group Finance Director at The Weir Group, pointed out, these changes create a great deal of opportunity, but there is a challenge for organisations to only take on the opportunities that are closely aligned to their risk appetite, he suggested.

“We adopt a crawl, walk, run approach to entering new markets - however attractive they appear - allowing us to assess risk on the ground and adjust our risk appetite on the basis of meaningful market knowledge,” he said.

The need for this level of risk assessment was a topic that John Cridland, Director General of the Confederation of British Industry (CBI) touched on when he spoke about the banking sector’s perceived lack of investment in the UK. “Why aren’t they investing? Quite simply because the returns do not justify the investment,” he said.

Describing himself as an optimist, he suggested that the prognosis for the UK economy was improving. “The economic storm clouds have moved away from London, the US appears to be stable and China, despite a wobble, similarly appears to have stabilised.

“I think we can realistically hope for single digit growth in gross domestic product over the next year. This may not sound like much, but it is a vast improvement on where we have been.”

Cridland also suggested that the way that industry in the UK has developed over the last few years could well be an advantage over the next few years. “The growing middle classes in emerging markets want branded goods rather than simply industrial goods, putting the UK in a strong position given the composition of our economy. There are a number of major UK companies that have the capacity to take advantage of the conditions, although we do not have enough of them and perhaps could be stronger in the mid-tier.”

“The emerging markets offer tremendous opportunities for organisations all over the world, with the rising populations and emerging middle classes, but there is also risk,” concludes Swiss Re’s Karl. “Data is always a challenge, but ultimately, understanding risk is a key component of success.”
Ensuring flexibility

The conference provided an opportunity to see how approaches are changing across industries simultaneously.

One example of this is the move away from imposing a leadership structure from the central company to using local expertise imbued with the core philosophy of the central company.

“The model is not the ex-pat model,” the CBI’s Cridland said. “You need to have local people on the ground if you are going to be successful, and at the same time, when things get difficult, they get difficult locally.”

Local knowledge can be invaluable when trying to understand what is happening in a country. “The difference between official and unofficial estimates, as well as national and regional estimates, can be significant, and having a view on both can be a significant advantage,” he continued.

Top down, bottom up

Coupled with this, as Weir Group’s Stanton observed, it is important to balance central power and local autonomy. “It is the people on the ground that know their local markets inside out. There are many common risks that we can have a position on within the central PLC, but we strive to ensure that each company within the group has a certain amount of autonomy. We want to keep the entrepreneurial spirit alive without reinventing the wheel in each market that we enter.”

“We take a strategic approach as well as putting boots on the ground,” he continued. “Communication is key to making sure that everyone understands the position and the organisation as a whole is in a position to maximise the opportunities.”

Jonathan Rigby, Head of Marketing for Manchester United, outlined his team’s approach as it seeks to build on its preeminent position internationally. He highlighted the organisation’s de-centralised global approach which focuses on local knowledge coupled with ensuring teams have an intrinsic feel for the global brand and how it should be represented.

Communicate back to the centre

Irrespective of the relative levels of autonomy enjoyed by an organisation’s international components, the need to ensure effective and consistent risk management showed throughout the seminar.

“The risk management function needs to stay relevant as an organisation grows,” said Andrew Tunnicliffe, CEO of Aon Global Risk Consulting (AGRC) in a break-out session that focused on the Aon Risk Maturity Index. “Every organisation needs to ensure that an understanding of risk appetite is embedded and reflects both the top down and bottom up view.”

“Communicating risk is very important to ensure effective mitigation,” added David Crofts, Managing Director of AGRC UK. “Even negative results can help drive action and embracing failure can be key to avoiding similar problems in the future.”

What’s your organisation’s risk maturity rating?

Wharton University of Pennsylvania
Understanding risks

As would be expected from a conference that brought together risk managers from a variety of industries, one of the recurring themes throughout the seminar was the need to understand the risks that organisations face.

Providing a different perspective from some of the business views aired throughout the day, former director general of MI5 Baroness Manningham-Buller’s observations still resonated with the event’s broad themes.

The sheer number of potential threats was daunting, suggested Manningham-Buller. “Threats can come from any number of places, military, volcanos, pandemics, mass migration, terrorism, energy, shortage of water, cyber-risk.”

“You need to be constantly thinking about the what ifs, scanning the horizon,” she continued. “Things can happen that you simply can not mitigate, so you need to be flexible at all times. You need to see an issue as it evolves and respond, but you also need to be realistic about what you can prepare for.”

The vulnerability of sound strategy to events came up throughout the conference. “One thing is certain, things will turn out differently from the way that we planned,” Weir Group’s Stanton said. “The function of risk management is delivering the outcome despite this.”

Echoing this, the CBI’s Cridland observed “There are any number of significant risks that can knock a strategy off target, we need to be robust in our approach to risk to understand the true picture.”

While the number of threats that could derail a strategy is a significant challenge, like any project, the key is to break them down into manageable components and have a mechanism in place to understand and mitigate, whether that is simply through sound internal strategy or using the insurance markets.

Grant Foster, Head of Enterprise Risk Management within AGRC EMEA, suggested that understanding the business as a whole is key to effective preparation. “In a large organisation it can be difficult to know where the vulnerabilities lie, so it is worth spending time modelling risk.”

Ultimately, risk is a phrase that often has a negative connotation, but risk managers need to see it as a positive force,” said Stanton. “A healthy risk appetite needs to be understood from the board room to the shop floor. There needs to be clear understanding of what an organisation will do and what it will not.”

Summing up the event, Alan Reid, Managing Director, Global Clients, Aon Risk Solutions, said “Against the ongoing instability of the global economic market, it is critical that senior executives understand the ever-changing global landscape and how the international business landscape could look in the future. This will help to mitigate risk and we hope that this event provided some useful perspectives that will help empower firms’ resilience for the long term.”