# Enterprise Risk

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The official magazine of the Institute of Risk Management

**Raising the Standards:** why Simona Fionda is leading an initiative to overhaul IRM's Professional Standards

**Bridge to the future:** getting ahead in the war on talent / **The future of flexible working:** the rules on home working / **Getting the fundamentals right:** seeing risk as positive / **Reflections on Europe's risk landscape:** how the profession needs to adapt

Enterprise Risk

*Winter 2021*

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**About the IRM**
The IRM is the leading professional body for Enterprise Risk Management (ERM). We drive excellence in managing risk to ensure organisations are ready for the opportunities and threats of the future. We do this by providing internationally recognised qualifications and training, publishing research and guidance, and setting professional standards.

For over 30 years our qualifications have been the global choice of qualification for risk professionals and their employers. We are a not-for-profit body, with members working in all industries, in all risk disciplines and in all sectors around the world.

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# Editorial

## Meet your future self

Over the past couple of years or so, there has been a subtle but decisive shift in how risk managers see and talk about themselves. Obviously, the pandemic has upturned all our former certainties. But I think this change has more to do with the maturity of the profession itself.

Enterprise risk management implies both an organisation-wide approach to risk and a forward-looking attitude to seek out emerging threats that could stand in the way of strategic goals. This approach has helped risk managers get closer to the board in many businesses and to support critical decision-making.

> **People are increasingly focusing on what personal and professional qualities risk managers need to thrive in fast-moving, uncertain environments**

### Personal qualities

Even so, a compliance focus has remained strong – rightly so in many areas. But a compliance mindset entails thinking more about tools and techniques than personal skills and professional development.

Herein lies the crux of the recent change. Instead of only asking, “what technical skills do risk managers need to serve their organisations?”, people are increasingly focusing on what personal and professional qualities risk managers need to thrive in fast-moving, uncertain environments. It is a world in which risk professionals can flip their thinking from threat to opportunity and back again as needed for the business and its stakeholders.

### Emerging professional

This emphasis is evident in at least three of the features in this issue. It is one of the reasons behind Emma Fowler’s suggestion that chief risk officers could be seen as natural successors to their chief executive officers (Bridge to the future, pp 16-20). It is the type of person Robert Chanon describes as “a new type of hybrid risk manager” in our focus on Europe.

And it is one of the challenges IRM faces in overhauling its Professional Standards as I discovered when I interviewed Simona Fionda for our cover story. As well as better integrating the many new qualifications and training IRM has created since the Standards launched back in 2015, the new guidance needs to act as an overarching set of principles and practices relevant to all practitioners. It is not just about technical skills but also about the competencies all risk managers need to develop to thrive in today’s world.

If you want a say in that future, get involved.

**Arthur Piper**
Editor

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# Tackling emerging risk

## IRM guidance offers new insight for charities seeking to strengthen their resilience

Many charities have had a tough time since the pandemic hit early last year. Recent research from the Charity Commission, for example, found that 90 per cent of charities have struggled with issues such as service delivery, finances and staff. A majority (60 per cent) reported a loss of income, and about one in three experienced staff shortages.

But the Commission also found resilience. It is a testament to the determination of charities to serve their stakeholders that only 97 charities said they were insolvent – out of a total of 170,000 on the Commission's register.

Like other sectors, charities face a wide range of challenges as the risk landscape continues to change – often in unpredictable ways. Supply chain weaknesses, rising inflation and the growing need to accommodate flexible working patterns and look out for mental health issues are all emerging risks.

### Embedding risk management

To help charities navigate these changing threats, IRM's Charities Special Interest Group formed a Working Group to develop and publish guidance on identifying, tackling and finally embedding emerging risk. All three publications are now available on our website (theirm.org).

The publications will help anyone involved with strategic risk management within a charity to identify and tackle potential threats that may impact the organisation's objectives and provide a solid foundation for managing such risk.

The last publication goes one step further and offers tools and techniques to take that work and embed it within an organisation.

But why embed risk management? Instead of seeing emerging risk management as a one-off or occasional piece of work, the idea behind embedding those tasks is to make them an ongoing part of the organisation's overall risk management process. Since the risk landscape is always changing, making this a regular focus of the everyday organisational cycle makes sense.

### Strategy

In fact, the guidance shows how, treated in this way, emerging risk management can become part of setting and reviewing organisational strategy. In that approach, strategy teams may own and shape the emerging risk management process – with the help of those involved in risk – which in turn ensures the embedding of the emerging risk process in the organisation's strategy-setting, review and approval process.

While it may not be possible for every charity to adopt this approach. But given the diversity of the sector, we outline other possibilities available to embed emerging risk management.

Each of the publications were developed with the help of a team of people from the sector involved in risk. The members are too numerous to list here, but I would like to thank them for their efforts, and their names are set out at the beginning of each document. We urge all of those working on risk and strategy within the sector – and beyond – to take full advantage of our insights and collective wisdom to help make organisations more resilient in these challenging times.

**Download free copies of the guidance here:**

**An introduction to identifying emerging risks** *https://bit.ly/3djE4vX*

**How to assess and treat emerging risks** *https://bit.ly/3ryUdWO*

**How to embed emerging risk identification and management** *https://bit.ly/3ElxhOj*

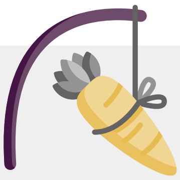
**Alyson Pepperill, CFIRM, is co-chair of IRM Charities SIG.**

# Trending

DATA

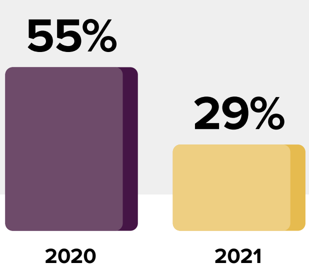
The latest stories and news affecting the wider business environment as interpreted by our infographics team

## Businesses need to go back to school on talent management

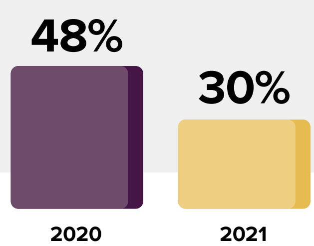


Survey respondents reporting difficulty attracting talent **45%**

Those taking steps to improve staff retention

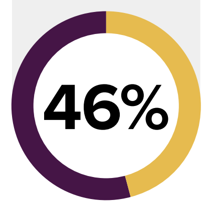



CEOs with talent management as a key priority

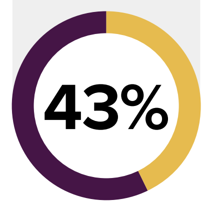



Organisation's approach to talent strategy

Based on current and future needs

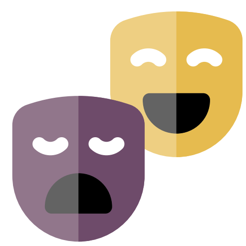



Ad hoc




Source: *Resource and talent planning survey 2021: CIPD*

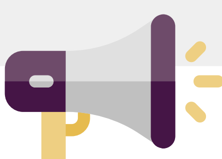
## Half-hearted engagement with corporate culture



While risk managers are keen to foster risk cultures, recent disclosures suggest businesses are less focussed on promoting corporate values

Companies mentioning general commitment to culture and engagement initiatives

**51%**



Those that say they monitor culture and employee engagement

**45%**

Companies prepared to disclose information on specific initiatives and practices

**20%**

Source: *Discussing human capital: A survey of the S&P 500's compliance with the new SEC disclosure requirement one year after adoption*, Gibson Dunn

# UK manufacturers' order books strongest on record

The CBI's recent business health check found UK manufacturers running down stocks of finished goods in their strongest performance since records started in 1977

**Manufacturers said order books were**

**46%**
Above normal

Below normal
**20%**

**Export books strongest since 2019**

**24%**
Above normal

Below normal
**21%**

**Over the past three months, output has**

**38%**
Increased

Decreased
**21%**

**Those planning a price hike for domestic customers**

**69%**

Source: CBI

# Investors focus on ESG outcomes

Investors are increasingly willing to put their money into companies with better ESG performance

**79%**
ESG risks are an important factor in investment decision-making

**75%**
Companies should address ESG issues, even if doing so reduces short-term profitability

**68%**
ESG performance measures and targets should be included in executive pay

**49%**
I am willing to divest from companies that aren't taking sufficient action on ESG issues

But businesses fail to manage risks

**Directors who say ESG is linked to company strategy**

**64%**

**Directors who say ESG risk is well managed**

**25%**

Source: PwC 2021 *Global Investor Survey*

# Raising the Standards

**BY ARTHUR PIPER**

Simona Fionda is leading an initiative to overhaul IRM's Professional Standards – and explains why she hopes the process will mark a significant milestone in the organisation's journey

> **Risk managers can use the Standards to codify and track their professional journey throughout their careers**

Six years ago, IRM concluded a landmark initiative that codified for the first time the professional practice of risk management. At the core of this programme was the Professional Standards published in 2015 and designed to provide structure and support to not only IRM's members but also the risk profession worldwide.

Until that point, risk managers had been served well by IRM qualifications. They provided much-needed technical competencies in enterprise risk management (ERM) and knowledge of the core principles and practices all risk managers need in their toolkit. But, as Simona Fionda, a serving member on the IRM's Professional Standards committee and one of the original team members who created the Standards, says, the qualifications on their own gave little guidance on issues such as behavioural competencies or career structure and progression.

The Standards met that need and launched at the same time as IRM's certification and continuing professional development (CPD) regimes. The latter was an important step in promoting lifelong learning as a central element of individuals' professional careers. Indirectly, this package helped provide a common language and professional touchpoints for all stakeholders of the risk community.

**There is an argument to say the Standards need to provide an overarching set of principles and practices that are relevant to all risk professionals and stakeholders**

The Standards are intended to underpin everything from IRM qualifications and its membership structure to guiding the continuing professional development activities, such as training and events, helping individuals build a successful career in risk management. The Standards also help employers strengthen their organisational risk capability, giving them a benchmark against which to recruit and retain appropriately trained and qualified people.

As Fionda says: "The Standards have been designed to be used by risk professionals, but also to be a valuable tool and benchmark for employers, HR and training professionals, recruiters and regulators, and they aim to support personal development, recruitment and selection, performance management, performance development and qualification design."

## Journey

In practical terms, risk managers can use the Standards to codify and track their professional journey throughout their careers. They provide, for instance, set levels of competence and skills that someone needs at the outset of their careers. When they have achieved those levels, it is clear to see what they need to work on next to move into the next stage of professional competence.

"The Standards are not simply about technical proficiency," Fionda says, "but they help people to see their journey of responsibility clearly." That means, for example, outlining the shift senior professionals in ERM need to make from tactical to strategic thinking, and from communicating with peers and management to working with boards.

Seen from that perspective, IRM's increasingly diverse qualification and training offering can be seen as supporting every risk manager's journey through the profession by providing the technical and behavioural competencies needed for success. But while this offering has truly blossomed over the past six years, the Standards have remained unchanged. So why alter them now?

For one thing, it has felt like a long six years. The so-called mega-trends – digital transformation, climate change, the pandemic, geo-political uncertainty and

## BIOGRAPHY

### Simona Fionda – head of Europe enterprise risk, Funding Circle

Fionda is a risk and audit professional who works in international financial services, from FTSE 100 to digital start-up banks to UK regulators. She is currently head of Europe enterprise risk at Funding Circle.

Fionda was one of the original members of IRM's Professional Standards and Certification committee creating and overseeing the newly launched Professional Standards and Certification regime. She also served on IRM's Education and Standards committee, where both Professional Standards and qualifications were overseen. She is currently deputy chair of the Professional Standards committee and a member of the IRM Investment committee.

She is also a co-opted member of the audit and risk committee at Queen Mary University of London.

others – have increased the demands on ERM. That is because while the narrower fields of credit risk, solvency risk and others have remained relevant, the interconnected nature of global risk trends has become increasingly clear. As a result, risk professionals have been increasingly asked to take an important role in the oversight of organisational resilience, as was clear from IRM's own research into the changing role of members during the pandemic.

At the same time, the role of ERM has continued to expand dramatically, especially in non-financial risk areas. While subjects such as credit risk are relatively well defined, for example third party, cyber and ESG-related risk often have greater complexity because of the interconnected nature of those issues – and because they straddle financial and non-financial areas. For example, climate risk may entail assessing both the risks associated with the mechanics of carbon capture and the less well-defined problems of reputational damage – especially in an age of fast-moving social media.

In Fionda's experience, this trend is leading boards to press for more analytically sound measures for quantifying non-financial threats and opportunities. That is leading some areas of the profession to increasingly use data analytics in non-financial risk to make the connections between information across the business and beyond to map risk profiles and mitigation strategies.

> **“ Not all stakeholders are likely to get everything they ask for**

### Overarching

On the other hand, at a higher level, says Fionda, there is an argument to say the Standards need to provide an overarching set of principles and practices that are relevant to all risk professionals and stakeholders regardless of the winds of change that sweep through their organisations: “In that case, the risk professional would need the same competencies – the ways you think and behave do not necessarily change, but the way that you apply these competencies technically does change, as do your technical skills.”

After the Professional Standards committee nominated Fionda to lead a review of the current Standards, she identified the need to drive a pragmatic path through these conflicting trends.

“It is one of the big challenges of this review,” she agrees. “The Standards have to make equal sense to those working in the profession but specialising in, for example, supply chain, cybersecurity or financial services. We need to strike a balance between the right level of detail and ensuring they make sense across the whole profession, its industries and geographies.”

Given the continuing growth of and interest in IRM outside the UK in areas such as North America, Latin America, India and Asia, the review also needs to look forward at what the composition of the membership may look like over the coming decade.

At this early stage in the process, nothing is off the table. She has been studying how other professional bodies present their Standards – some prefer the term competency framework and code of ethics – and wants to ensure that however the revised Standards are presented to both members and beyond is clearly understood and communicated. Everything from the content to the delivery method is up for a refresh.

### First steps

Fionda sees this project as a collaborative and wide-reaching one. Her first step has been to conduct a survey of the whole IRM membership, including the recently merged members of the Institute of Operational Risk, to discover how well awareness

## TABLE

| USER TYPE | APPLICATION |
|---|---|
| **Individuals** | ■ Self-assessment<br>■ Personal training needs analysis<br>■ Performance development<br>■ Career planning |
| **Employers, HR and training professionals** | ■ Recruitment and selection<br>■ Performance management<br>■ Performance development<br>■ Training needs analysis<br>■ Design of in-house training and development interventions<br>■ Technical capacity building<br>■ Career management<br>■ Succession planning |
| **Recruiters** | ■ Recruitment (e.g. job adverts, person specifications)<br>■ Selection (e.g. interview aide memoires) |
| **Regulators** | ■ Specification of criteria for a "fit and proper person"<br>■ Audit standards<br>■ Confirmation of compliance |
| **Universities** | ■ Qualification design<br>■ Informing curriculum design |
| **IRM** | ■ Informing the development of products and services<br>■ Qualification design<br>■ Informing curriculum design<br>■ Assessment of membership applications |

of both the existence and the purpose of the current Standards have spread since their creation in 2015. As one might anticipate, there has been both good and bad news. In the polling IRM has carried out, the majority of respondents knew about the Standards. However, among those who did know about them, few said they actively used them.

Cannily, Fionda had also attached a copy of the Standards to the survey questionnaire, which gave her an opportunity to delve deeper among those who knew little about the Standards. She asked them to read it and provide feedback – this time with more positive results. "Well over 90 per cent of respondents said the content was helpful, they read it with interest, and some even came back and told us they would use it to help them shape how they planned to look at the strategic reviews of their teams and their competencies," she said.

Understandably, she refuses to be drawn to conclusions at this stage of the review process, but her early thoughts are that more work will be needed to better communicate the content of the revised Standards and how to use them effectively – whatever changes are made to their substance. The review is a huge team effort involving staff at IRM and working groups of volunteer IRM members looking at issues that might include creating a more interactive offering, better integrating the Standards with IRM's wider offering and considering whether and how these can be used as a benchmarking tool.

At the time of writing, Fionda was just beginning to focus on IRM key stakeholder groups beyond membership – regulators, recruiters, training professionals and employers. These focus groups would include representation across sectors and geographies to ensure appropriate consideration is given to regional and sector-specific requirements. She is planning a series of focus groups to understand what their expectations are and the kinds of value they are looking for from the revised Standards. Fionda talks about "co-creation" when she refers to the process she is advocating for the review. The initial discovery phase, which will conclude with the output of the focus groups, aims to provide a broad and comprehensive view of the 'wants' and ideas of all stakeholders. After that comes a design phase. The project will define appropriate working groups to develop the content and the delivery mechanisms for the revised Standards, as well as re-aligning that content to IRM's broader offering. Finally, a consultation phase with both members and stakeholders will precede the final version of the Standards – projected for mid-2023 – followed by the final approval and sign-off later that year.

### Co-creation

By "co-creating" the revised Standards and the way they will be delivered in this fashion, Fionda hopes to use the exercise as an awareness-raising opportunity, at the same time as increasing the value of the Standards and boosting adoption by members and stakeholders. One potential disadvantage, of course, is that it will take longer – although she believes that the benefits will far outweigh that drawback. Another is that not all stakeholders are

> **The process is not just about updating the material; it is a piece of IRM engagement in its own right**

likely to get everything they ask for. "That is why part of my role is also to make priority and scoping calls throughout the life of the project and to explain to the stakeholders why certain elements have been descoped – if indeed that happens," she says.

Fionda is ideally suited to this approach and describes herself as a "huge believer" in consultation and communication. In fact, the first time we met was at an IRM event in 2018, when she delivered a paper called "The lost art of experiential training", subsequently published in Enterprise risk in spring 2018. Her decision to centre the consultation processes and their outcomes on real-world experiences of the end users chimes well with the central argument of that article – that experience is critical to effective learning and development. While in that paper, experience related to the experience of a single person – the individual risk manager – here, it can be seen to relate to the consultation process and its participants as a whole.

## Engagement

As such, developing the revised Standards in this way promises to both increase the diversity of views reflected in the end product and root it firmly in the everyday experiences of risk professionals and stakeholders today. The consultation process becomes an experience that raises awareness of the Standards and improves their relevance at the same time. As Fionda puts it, "the process is not just about updating the material; it is a piece of IRM engagement in its own right."

She is aware of the need to keep the scope of the project contained and manageable but resists the temptation to take an agile approach that would seek to focus on a minimal viable product that can be done quickly with marginal gain. "I believe that thinking big and, if necessary, scaling down, is more valuable than thinking narrow and delivering at speed but with limited scope or value," she says. "I believe the revised Standards can become the flagship IRM offering to the global risk community and wider stakeholders. It is a project of strategic importance, and it is recognised as such by the IRM Board. The Standards underpin the entire IRM offering, and their review is a huge piece of work. If done well, it will complete IRM's journey from being primarily an education body to being the true, global professional body for ERM."

It is a worthy ambition and one that is shared by the many other stakeholders which have already shown huge support for Fionda's approach and ambitious plan.

# Bridge to the future

**BY EMMA FOWLER**

While businesses have their gaze fixed on getting the right digital experts for their future transformations, few understand what talent evolution is likely to mean for their enterprises – and how to get ahead of the game

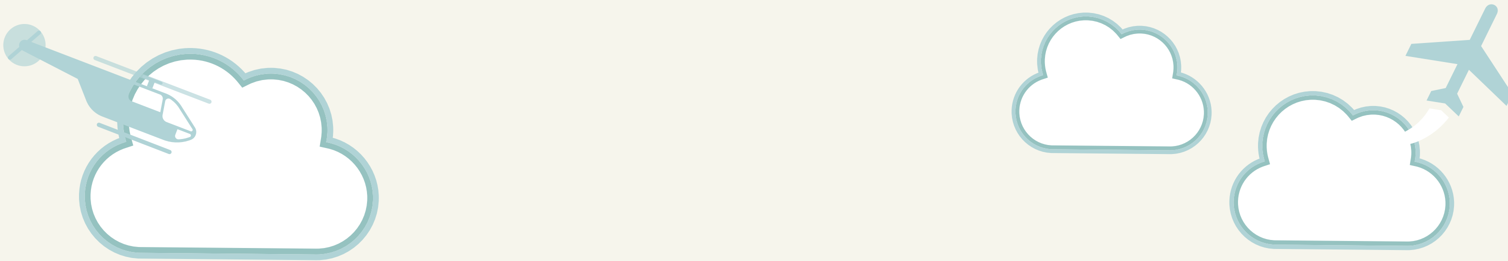
It's hard to believe the phrase chief risk officer (CRO) has been around for almost 30 years, since James Lam coined it at GE Capital in 1993. Since then, the role of CRO has become ever more common as regulation has increased (particularly across financial services after the 2008 crisis), and building a second line of defence has become seen as best practice.

As the title has grown in popularity and the talent pool has expanded, so the scope and influence of the role has expanded.

> **The fight for data scientists and machine learning developers currently is miniscule in comparison with the shift in talent requirements we'll see in future**

CROs now often report directly to the CEO or chair of the risk committee, set risk appetite and form part of a company's board or executive team – not because they must, but because other executives recognise the support, challenge and safety that having a world-class risk function can bring. A business-savvy CRO who can guide the front line and the senior management of the business to take the correct amount of risk (and as a result, capitalise upon opportunity – rather than managing risk by saying no to business decisions) is worth her weight in gold and can command a financial package of more than £1 million a year.

But what next for the CRO: this critical business shaper, this



> **Bridge talent – who effortlessly bridges the gap between your group strategy or value creation plan and how your teams spend their time – will be almost impossible to find, and on every hiring manager's list**

regulatory expert, this board influencer? What looms on their horizon? What will keep them awake at night in future? How must they evolve themselves and their teams from here, to continue to add value and keep their respective organisations safe?

We've witnessed the creation of best-in-class risk functions in recent years: enterprise risk; market, credit, operational, cyber and regulatory risk; and the challenging of the capital model are among those disciplines that define them. Practitioners who have been involved for a decade or two have designed, built and stood up global risk frameworks more than once, and the difficult challenge that once stood in the way of the function becoming influential has – dare we say it? – disappeared. You might speak with some CROs these days and hear that they find the role routine. That the challenge of old is gone.

## Talent evolution risk

Could it be that for some risk teams, the focus upon technical excellence in each given discipline perhaps stifles the opportunity for entrepreneurial, innovative and future-focused strategic thinking?

The danger in this situation is palpable. Day-to-day running of the function has become straightforward… but the unseen risk heading down the track to these experienced CROs is possibly the most critical of all, and it's almost totally unnoticed. You won't find it on the balance sheet, or in the board papers. It's not with the regulator, or associated with your reputation, or the customer experience. It's not connected to the movement of the markets impacting your investment portfolio, or supply chain risk that so many developed countries are challenged with currently.

The risk is *people*. "Ha! talent risk is something that's on my mind constantly", you say to yourself, reading this article. "This is not new! In fact, the risk factors associated with our people strategy, our succession planning and our talent is in every board report we write!"

But this is a very specific type of people risk. It is the risk associated with finding, growing and keeping people who can translate and interact in the intersection between strategy, technology and talent. You might categorise it as *talent evolution risk*.

> **Could it be that for some risk teams, the focus upon technical excellence in each given discipline perhaps stifles the opportunity for entrepreneurial, innovative and future-focused strategic thinking?**

The unprecedented pace of digital transformation gives organisations the opportunity to evolve in ways they never dreamt possible. This leads to opportunities and challenges for risk management, with cyber, AI, digital transformation and machine learning at the forefront of every CRO's mind, as well as part of their toolkit.

It would be easy to think therefore that the challenge is having enough engineers, or developers. Enough product managers. Enough builders – of products, and solutions; of dashboards and databases and data lakes. Or it might be the challenge is the war for talented machine learning specialists: brilliant brains who can program your systems to watch your team as they work, making recommendations based on habits and patterns the team demonstrate, making administrative tasks simple and easy – and eventually redundant – as computers do the thinking for us.

But no. That's not the talent evolution risk at all. That's the current fight, creating spirals of technical experts moving round markets at unprecedented rates, and associated increased remuneration. We've seen the same before, with regulatory specialists when Basel and Solvency models had to be built and tested on time, with accounting expertise when International Financial Reporting Standards must be implemented. Fighting this current skirmish is hard but simple, in comparison with the future battle.

"So what is coming?" you ask. "What's my risk that I can't see that I haven't planned for?" "*What is talent evolution risk?*"

## Future planning

Picture this: Tesla adds insurance as a cost-effective, add-on service to every autonomous vehicle it sells. What next for motor insurance internationally? Or Amazon implements a Buy Now, Pay Later model across its platform. What next for the credit card industry? Electronic Arts build in-game gyms and workouts that you can attend for free while playing FIFA. What next for the personal training industry?

Yes, you say – all these things are coming, no doubt, and we've seen many business model transformation risks over the years – from the way music is bought and shared, to the airline industry. What's your point? We can't stop technological progress, and competition will always be present.

The question is: *who is planning for the digital future in your organisation?* Yes, you may well

have a technology team – a CTO, a Head of Digital Transformation, a Head of Information Security and Cyber and Product – focused on what technology can offer your business and how it can be implemented. But who in your organisation is identifying the transformational strategic opportunities that will be enabled by these technological developments? And, even more importantly, who is thinking about the dramatically different skills you will need to realise these?

Are you training your leaders to think strategically, and then translate that to digital outcomes, and coach their teams accordingly?

The fight for data scientists and machine learning developers currently is miniscule, in comparison with the shift in talent requirements we'll see in future. Every leader will need to be a data specialist. Every leader will need to understand how to design future-focused strategy, and ensure their teams can execute it.

This bridge talent – who effortlessly bridges the gap between your group strategy or value creation plan and how your teams spend their time – will be almost impossible to find, and on every hiring manager's list.

Coupled with this, we know technology will nip at the heels of your administrators. Repeatable, data-driven tasks will be picked up by machine learning – and huge swathes of certain industries will disappear (think audit, claims, even large parts of software development itself). How can you prepare perhaps as much as half your workforce to be ready to evolve, in order that they won't be redundant in 10 years' time? How can they embrace the excitement of their evolving career, rather than sitting frozen in place as their role is cannibalised by the digital solutions their colleagues built?

This change is already trickling into the mainstream. When a CRO is appointed into a start-up business in a regulated sector these days, the regulator will hold senior manager interviews which are significantly stringent around the risk practitioner's capability to understand digital and cyber risks, as well as the infrastructure and architecture that they will be responsible for in their new role. Sometimes the CRO is so underprepared coming out of the first-round interview that they self-select out of the second.

## Tomorrow's CRO

What does this mean for the risk director of tomorrow?

It means that they must be digitally expert as well as people-savvy because the risk of not being able to identify hire, train, develop and retain digitally minded talent is the greatest barrier to the future safety and success of their organisations.

It could allow risk to become the most valuable, insightful and strategic function in all businesses. It could elevate the role of CRO to be the visionary leader whose insight determines the organisation's future success. There's no doubt that having a vision of future talent challenges should be the remit of the chief executive officer (CEO), the chief operating officer and others across the executive team – but the CRO is ultimately accountable for visualising and managing the associated risk impact and mitigating this.

> **CROs need to clarify the requirement for bridge talent across the business and then help the leadership team identify, attract, train, develop, retain and promote these experts**

We envision that CROs will become bridge talent themselves – being able to visualise and articulate what needs to transform across the business in order to keep pace with competitors and the constantly evolving market. Not only can they coach, mentor and train bridge talent in the risk division, but they can support their colleagues across the organisation to do the same.

*But this will only come to pass if we act now.* So where do we begin?

The future for risk is a bright, exciting and strategic one, if we focus on how *the right people will make all the difference*. If risk can be the surveyor of future-focused risk – and by being so, lessen or remove risk impact on the business, particularly from a talent perspective – so their influence will increase.

From a practical perspective, CROs need to *clarify the requirement for bridge talent* across the business and then help the leadership team identify, attract, train, develop, retain and promote these experts. Risk teams must be *future-focused in risk and talent evolution*. They should be vital contributors to talent strategy, recruitment strategy and target operating model decisions, so the business doesn't fall behind on the journey of digital evolution. *Risk frameworks* must quantify, monitor and provide insight into the organisation's talent evolution, allowing business heads to make data-driven decisions when it comes to leadership development, succession planning and talent acquisition. Ultimately, risk practitioners should see themselves as digital business partners: accountably supporting and challenging their stakeholders in terms of *people, product and platform innovation.*

This strategically aligned, digitally minded, horizon-scanning CRO will become a vital navigator for every successful business of the future. In fact, it wouldn't be a surprise to see CRO as a natural successor for CEO in years to come, due to the breadth and depth of what they influence, and the strategic insight they hold.

The transformation that has happened in risk over the last decade has been astonishing – but the evolutionary challenge ahead is as great, if not greater. *Only the most visionary CROs will survive.*

**Emma Fowler is founder of the executive talent agency Areté Ventures. She is honorary life member of IRM.**

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# The future of flexible working

BY JO KEDDIE

> **Many businesses are concerned about their ability to refuse flexible working requests**

The pandemic has made flexible working an everyday reality. With new rules in the pipeline businesses need to take care how they handle requests if they are to stay on the right side of the law

In the post-pandemic working world, flexible, or "hybrid", working has become a much-discussed topic among employees and employers as businesses encourage their workforces to return to the office. With many employees having enjoyed the flexibility and advantages of working from home and proven, in some cases, to have increased productivity, many businesses are seeing a rise in requests for flexible working arrangements. Many businesses are, quite rightly, concerned about their ability to refuse flexible working requests given that their workforces have proven how well they have worked remotely during the pandemic.

Are businesses obliged to approve flexible working requests from their employee to work flexibly? From a legal perspective, the answer is "no" as the right to request is exactly that, a right to request, and there are a number of reasons that a business can rely on to refuse the request. Each request, however, should be considered on its own facts and merits and dealt with reasonably by the business.

### Current law

Presently, only those employees who have been continuously employed for at least 26 weeks can make a formal flexible working request under UK law. The request can cover a change regarding the days or hours worked, when they are required to work or where they are required to work. Employees can only make one flexible working request in any 12-month period.

Such requests must be in writing, be dated and state that it is a flexible working request. It should also explain the change being requested and propose a commencement date for the change as well as identifying any impact or effect the change would have on the business and how that impact might be mitigated. Finally, it should state whether the employee has made any previous requests and, if so, when.

> **It is paramount that businesses deal with any request for flexible working in a reasonable manner**

### Responding to requests

It is paramount that businesses deal with any request for flexible working in a reasonable manner. First, the employee should be notified of the business's decision within three months of the request being made, unless extended by agreement. However, it is good practice to deal with such requests within a few weeks of receipt rather than wait out the full legal period.

The current legal framework provides businesses with eight business grounds on which they can rely to justify refusing a flexible working request. These grounds are wide and are as follows: granting the request will result in a financial burden for the business; the business will be unable to reorganise work among its existing staff; the business would be unable to recruit additional staff (i.e. to fill a one- or two-hour void period); the request would lead to a detrimental impact on quality, performance or the ability of the business to meet its customer demands; there would be insufficient work for the periods the employee proposes to work; and, finally, the business is undergoing a restructure or redundancy exercise.

The Acas Code of Practice on making and responding to flexible working requests provides useful guidance to employers for handling requests to work flexibly. It recommends acknowledging the request in writing so as to set a timescale for dealing with the request; notifying the employee if they have omitted any required information or information which might assist the business in considering their request and, importantly, inviting the employee to a meeting to discuss the request. The employee should

## FIVE POINTS BUSINESSES SHOULD CONSIDER WHEN RESPONDING TO FLEXIBLE WORKING REQUESTS

- Treat each application for flexible working carefully, and consider each application on its own merits. Ideally, have in place a clear policy, timeline and process in relation to how the business will approach and handle such requests.
- Be flexible and consider possible options or alternatives once the flexible working request has been put forward. Engage and consider carefully any evidence and justification presented by the employee, not least, if they have worked effectively in this way for the last 20 months.
- Consider any legal and factual justification and reasons for refusing the request; for example, most of the workforce and the business's clients are no longer working remotely and are requiring face-to-face meetings and contact. Consider training needs and measures needed to support and nurture more junior employees.
- Consider whether any changes should be temporary or permanent while the pandemic evolves. Allow for trial periods where it is reasonable to do so. Also, be mindful of long-term strategy and how others in the sector may be responding to flexible working requests to ensure that talent is retained and not attracted elsewhere by more flexible arrangements.
- Keep careful written reasons of the considerations and decision-making process, and try to be consistent where possible in the approach and consideration applied to requests.

also be informed that a colleague or trade union representative can accompany them to the meeting with their employer.

### Implications of refusal

From a legal standpoint, refusing a request to work part-time or insistence on set working hours may result in a claim for indirect discrimination under the Equality Act 2010. Indirect discrimination occurs where an employer unjustifiably applies a general rule which is also known as a provision, criterion or practice ("PCP") which puts a group sharing the same protected characteristic at a particular disadvantage and which also places the individual at a particular disadvantage.

A successful employment tribunal claim for indirect discrimination can be costly for a business in a variety of ways. First, from a monetary point of view, the tribunal can award compensation of up to eight weeks' pay (based on a maximum of £544 per week) along with an essentially unrestricted amount of damages to an employee who has been unlawfully discriminated against. There may also be a separate award for injury to feelings (which can be up to £45,600). Secondly, defending such claims can be time-consuming and expensive in terms of management time and legal fees. Thirdly, it can affect employee morale and the culture of the organisation if a public judgment goes against the business by upholding a discrimination claim.

> **The government's proposal to include flexible working requests as a day-one right is not analogous with a right to work from home**

The recent case of *Mrs Thompson v Scancrown t/a Manors* should serve as a warning to businesses when considering flexible working requests. Mrs Thompson put in a flexible working request which was ultimately refused by her estate agency employer. She brought a tribunal claim for indirect disability discrimination on the basis that her business's PCP requiring employees to work from 9am to 6pm, Monday to Friday, disproportionately affected women and placed her at a disadvantage. The tribunal upheld Mrs Thompson's claim on the basis that the business had not provided adequate evidence to support its refusal of her request. As a result, Mrs Thompson was awarded almost £185,000 in damages.

As well as the obvious financial cost to Mrs Thompson's employer, there is also the consequent risk that other claims may follow if other employees' requests had been breached in a similar manner. Further, such an adverse finding may deter potential future talent and recruits.

### The future

The government is current consulting over making flexible working the "default position" by including the right to make a statutory flexible working request as a "day-one right". This would mean that, from the first day of an employee's employment

> **The need to be present at business premises on a permanent basis is less clear-cut especially as a consequence of the lessons we have all learnt as a result of the prolonged periods of enforced lockdown**

with a new business, they could submit a flexible working request under the statutory regime.

The timing of this proposal is interesting, as many would assume that it was born out of the success of home working during the pandemic and the government's Good Work Plan, which suggested making it mandatory for businesses to state whether a job was flexible in the recruitment process. The fact that the discussion has come to the fore now is undeniably advantageous to those employees who prefer working from home. Evidence collated during the past 20 months has shown that for many sectors, working remotely does not hinder the ability of large parts of the workforce to work as effectively at home as in the office.

It is important to note, however, that the government's proposal to include flexible working requests as a day-one right is not analogous with a right to work from home; it simply negates the requirement for an employee having to serve a minimum 26-week period with their employer before being allowed to make a request.

## Responding to requests

The legal position for businesses has not changed as a result of the pandemic. That being so, there has and will continue to be a marked increase in such requests, and businesses inevitably have to be mindful of the fact that many of their workforces have worked well from home over the last 20 months.

There will be some sectors, of course, where working remotely is simply not viable, and refusal to grant a request can easily be justified by one of the eight statutory reasons, for example, design and manufacturing businesses and many of those in the retail and hospitality sectors.

However, in many other sectors, the need to be present at business premises on a permanent basis is less clear-cut especially as a consequence of the lessons we have all learnt as a result of the prolonged periods of enforced lockdown. Businesses therefore should err on the side of caution, consider requests individually and carefully, and be mindful of their sector's approach as flexible working will be here to stay in the long term, and for many employees it will become a key feature of their requirements when searching for new roles or deciding to stay with their present businesses.

**Jo Keddie is senior partner and head of employment at the law firm Winckworth Sherwood LLP.**

# Getting the fundamentals right

BY CLIVE THOMPSON

The classic textbook *Fundamentals of risk management* has been revised to reflect the tempestuous events of the past few years

Risk management is a dynamic and developing discipline. Given the ever-increasing complexity of the business environment, it is not surprising that production of the sixth edition of ***Fundamentals of risk management*** became necessary, three years after production of the fifth edition.

The main changes that were necessary in this sixth edition reflect the occurrence of a pandemic, the impact on risk management activity of new digital techniques and the climate crisis that is engulfing us and which will affect every aspect of business organisation. Of course, we also took the opportunity to make those minor amendments that our student population have spotted too.

This edition is the first which Paul Hopkin has not authored directly. The text remains largely based on his thoughts, ideas and expertise developed over the course of his extensive career. In updating this book, it was clear that the fundamentals he laid down firstly in 2010 remain. It has been my privilege to bring my own experience of the lectures, seminars, special interest and other group meetings we both attended over many years to bear.

## Close alignment

One of the important considerations in producing this edition was to remain closely aligned to the structure of the *International Certificate in Enterprise Risk Management (ERM)*. Although the book remains substantially in the same form as the fifth edition, some adjustments have been made to bring out more of an emphasis on ERM and opportunities. New chapters have been provided for implementing ERM, setting objectives and how ERM adds value.

**For more information on IRM's International Certificate in Enterprise Risk Management:**

*https://bit.ly/3xozoxP*

It also includes a host of new case studies at the start of each part. These case studies have been drawn from far and wide. They fully embrace the global nature of the study of risk management as the cases travel from China, through Singapore to the Middle East and Africa. Although a majority remain UK based, it includes European and US entities also. Sectors covered include both central and local government, and public, private and non-governmental organisations.

I have included the Grenfell Tower disaster as a particular example from which to learn. In the 1990s, I personally dealt with a fire which destroyed a food-making factory within 30 minutes, killing two firemen and costing over $100 million of damage. That fire should not have spread so quickly but did so as a result of the panelling, in this case internal panelling. Subsequent discussions with food manufacturers to broadcast the concerns that the tragedy highlighted met with a blank denial from business to make improvements because of the costs of doing so. Grenfell had exactly the same issues, albeit with external panelling. Lessons were not learnt from previous incidents, and risk management appears to have been poorly implemented. Public statements regarding how Knightsbridge borough council paid lip service to managing risk have been included in the book. We await the findings of the inquiry to see whether the estates' management were under-resourced and underqualified.

> **The emphasis is much more on seeing risk as positive rather than a constant threat**

## Greater professionalism

In editing the book, attention was paid to the way that risk management and the expertise of risk professionals must continue to be enhanced in line with the ever-increasing expectations placed on organisations. The increasing number of individuals with the job title chief risk officer (CRO) must mean the need for robust professional

**For more information on IRM's Senior Executive Route:**
*https://bit.ly/32zepNF*

## PROMINENT CHANGES

1. The emphasis of the volume is much more on seeing risk as positive rather than a constant threat.
2. It establishes that risk is different in an uncertain digital/ age: "In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking risks".
3. It provides some new technology issues to consider, for example, the option to crowdsource input to achieve greater diversity of thought, along with including the transition of operations to the cloud.
4. It introduces some new case studies, for example, about risk failings at businesses as diverse as Arcadia, HBOS and Boohoo.

> **New chapters have been provided for implementing ERM, setting objectives and how ERM adds value**

qualifications and designations for risk management practitioners is increasing at a similar rate. This book, along with IRM's relaunch of its *Senior Executive Route*, means there is really no excuse for anyone who professes to be a risk manager not to be qualified.

Recent events have brought risk into higher profile. Certain types of risk have increased dramatically, and the need for a robust ERM initiative to be adopted by organisations has never been greater. Risk management needs to offer an integrated approach to the evaluation, control and monitoring of these changes in the kinds of risk we will face.

The book provides examples that demonstrate the benefits of risk management to organisations in both the public and private sectors.

The pandemic has been devastating for those who have lost loved ones. The resulting economic dislocation has exposed some weaknesses in systems but also forced us to show resilience and accelerate the trend towards the use of technology in everyday activity. The need for physical presence has lessened as more activity has migrated online. Sectors like tourism and transport have suffered, but others, especially the technology sector, have reaped rewards. Efficiencies have been revealed in how we conduct business, be that commercial or otherwise, that will be difficult to turn down in future.

Whichever way the world of work will change in future, it is undeniable that it will involve greater use of technology and the creation and analysis of more and more data. This trend towards data management will also help society as it shifts towards a carbon-neutral and more sustainable system to counter the effects of climate change. Both of these drivers will impact on the risks we face and the ways we manage risk. Both these drivers are considered throughout the book where it is felt they will have an impact.

Recent events have illustrated the reality of the significant risk we face from climate change. In 2021, we witnessed wildfires, tropical heat in Western Canada, catastrophic flooding in Europe and more unusual events across the globe than ever before. The need for a robust ERM initiative to be adopted by organisations has never been greater. In a new chapter that has been introduced entitled "How risk management adds value", climate change risk

Image credit: Gary L Hider / Shutterstock.com


**Image:** A rainbow in a house window to thank the NHS and key workers during the Coronavirus lockdown

**Image:** The Grenfell Tower Disaster

Image credit: Ms Jane Campbell / Shutterstock.com

has been identified as an area where the risk management function needs to have a role in the organisations' response to the risk. While reference is made to the Task Force on Climate-Related Financial Disclosures (TFCD) it is, of course, something that applies across and to all sectors. The book offers an explanation of the accepted taxonomy of physical, transition and legal risks. It also offers a brief discussion of implementing a climate change approach as an example in another new chapter on "Implementing enterprise risk management". More work is required to fully elaborate risk management in this area, not least because of reasons of space. It is hoped that IRM will be able to produce something in this field next year.

> **There is really no excuse for anyone who professes to be a risk manager not to be qualified**

## Lesson

The book includes an analysis of global reactions to the global financial crisis and the pandemic. It makes the case that both were capable of being (and in fact were) foreseen, that countries in the East responded more effectively to both events than governments in the West due to past experience, and that there are lessons to be learnt regarding the impact of public policy co-ordination and speed of response.

For example, Paul Moore (a qualified CRO) warned HBOS about their overly zealous sales culture in 2004, only to be sacked and replaced by a sales manager. Four years later, HBOS received a £21 billion government bailout. A pandemic was clearly foreseen as a key risk by the World Economic Forum, so much so that the US set up the Directorate for Global Health Security and Biodefense (DGHSB) in 2014 (to be dissolved under the Trump administration), and the UK ran Exercise Cygnus, which it is understood identified problems that could overwhelm the care sector.

It suggests that those with the most recent experience of similar issues had the more effective responses. For example, experiencing SARS in the East enabled governments to understand the importance of tracing infections. There had also been the "Asian contagion" some 11 years prior to the global financial crisis to trigger the memory of bankers in the East.

When undertaking this task, I received considerable help and support from colleagues who have become friends over my years with IRM. In particular, my team of peer reviewers, Kate Boothroyd, Doug Smith, Mark Turner, Simona Fionda, Esme Pitassi and Serrina Galleymore, were really helpful in providing comments on parts of the book where they had expertise. They all volunteered their expertise to review their sections, and their help in making the text as up to date as possible was invaluable.

Developments in risk management will continue apace. Technology will have a greater role to play in helping risk managers not only to control risk but also to exploit opportunities. The scope of risk management will expand as it contributes to the changes necessary to cope with climate change. In that respect, this sixth edition will age but, as it says in Paul's original title, the *Fundamentals of risk management* will remain. There are some exciting developments ahead, and the future for the new entrant to risk management will be bright if they equip themselves with these fundamentals. ER

**Clive Thompson is co-author of *Fundamentals of risk management.***

# Reflections on Europe's risk landscape

BY ADRIAN CLEMENTS, SEBASTIAN RATH AND ROBERT CHANON

The changing nature of risk across Europe and beyond is not only challenging business resilience, but the very operating models that sectors have relied on for years. In the first of our reflections on risk management in Europe, Adrian Clements asks how ready the profession is to meet those challenges

Under the banner of providing decision-makers with insight, there is a natural need to look at not only risks and opportunities for my organisation but also those changing elements that can pose risks and opportunities to me. As we have seen in the recent pandemic and the Suez Canal blockage, the full understanding of what this means has been underestimated.

The more prevalent single risk model was steamrollered by the multi and simultaneous risk model. Not only did these events affect me but also my suppliers, customers and all organisations in the same sector. My continuity plan, the safe harbour, becomes a risk in itself.

## New roles

We are starting to see a profound change in the scope and depth of the CRO role in addition to that of the 360-degree view. We are seeing that it is actually more like a sphere. This has been highlighted by the environmental, social and governance (ESG) focus. We are being asked to consider actions and decisions that affect the sustainability of the planet's ecosystems. Those include climate change, social impact and energy and extend to food, water and infrastructure among others.

Previously, the goal was to help the company achieve its strategic goals with these other elements being of lower significance. Tomorrow, the CRO might need to challenge that the leadership is not doing enough. This change, if it is a change, can result in the CRO challenging the business model of the company, which will put the risk function in a difficult position – especially if risk management reports to a head of audit or finance.

> **We are starting to see a profound change in the scope and depth of the CRO role**

Theoretically, each risk scenario identified, each action made, should include all aspects of the company footprint. The cost benefit should include all costs and all benefits, including non-financial risks such as reputation, customer and the environment. Unfortunately, this was either not the case or the weight given to some of these elements was very small – despite the fact that 80 per cent of a company's value may be non-tangible.

## Beyond reporting

This not just a reporting exercise. Looking even deeper, we start to understand that behaviour and company culture play a significant role in a company's success. However, we also see that the traditional way of categorising the risk universe is not effective. We see finance, operations, strategy and "other" as the top-level categories. But they do not fit with the world today. Human capital, business model capital and innovation are playing a significant role in behaviour and growth. The risk can ensure a more future-oriented approach by clearly differentiating between the financial risks that are due to and driven by the company and those that are consequences of other factors.

The traditional heat map is efficient for initial consideration and the beginning of the maturity curve. However, when I see the speed of change of the current economy, the factors influencing both risks and opportunities, I see that it is simply not adequate.

The future requires that we include time horizons like time to implement, time to impact. In addition, the duration of the opportunity or risk and the long- and short-term consequences enable me to decide whether to do something or wait but improve my resilience. Do I need to be resilient everywhere, or can I be robust, resistant and antifragile in some areas? Only in my key and critical functions is resilience required.

### Opportunity processes

Slowly, risk managers are seeing that the opportunity process is a little different to the risk process and challenges ideas behind risk appetite, identification and mapping. These time-based elements mean that the heat map, which has no timeline, is not sufficient. Even Monte Carlo simulations are inadequate to consider the feedback loop of the actions I am proposing. Is agent-based modelling the way forwards? Can I use an extended or modified fishbone diagram to picture my universe?

Risk managers need to apply the same rules to their own functions as they do to customers and stakeholders. Challenge what has been done for years and has led us to the situation we are currently in. Go beyond many guides and standards which were used as guiding principles and do what is right. Take a white piece of paper and capture the key elements needed for the future purpose of advising and supporting decision-making such that all stakeholders are adequately served. Give support to the future vision development, guide strategic awareness and ensure actions are timely, adequate, resilient and sustainable.

> **The traditional way of categorising the risk universe is not effective**

When we look to projections of what the future holds, we see people and sectors clinging to their comfort zones, fine-tuning what already exists with the aim of not rocking the boat. But events in Europe (as elsewhere) are evolving so fast, they are accelerating and being amplified in so many directions, that the risk manager, who is supposed to look into the future, will be reacting and responding. It is time to rethink what will make risk management fit for purpose in the future.

**Adrian Clements is president and chief risk officer at AT-IPIC.**

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# Turning the dial on climate change

**BY SEBASTIAN RATH**

The second of our reflections argues that risk managers have a decisive role to play in climate change risk management and mitigation. But the time to act is now

What could be a more poignant reflection on COP26 than inviting ourselves to a personal stock-take before November next year, when Egypt hosts COP27 in Sharm El Sheikh?

COP26 reminded the world again that the UN's annual climate change conference is a global and democratic risk management

forum, shaping national, sector and corporate commitments and compromises. The summit truly is a fine example of data-driven discourse and the art of diplomacy, and the challenges to deliver sufficient impact.

While effective at fostering


Image credit: MAURO UJETTO / Shutterstock.com

risk awareness, the art of risk mitigation requires a delivery, with abundant challenges on timing, impact, feasibility and trust. As COP26 tried to keep the Paris commitment to a 1.5-degree target alive, debates on loss and damages earned recognition yet too little action. Equally, the global discourse frequently and clearly flagged that accounting for sustainability requires applying natural and social capital accounting. It also and repeatedly debated on the extent to which transformation implies circularity and should reflect the fair social and natural capital as we strive to protecting and mitigate damage to our biosphere.

## What should we do?

Now that politicians have returned from COP26, and the United Nations Framework Convention on Climate Change (UNFCCC) has spelled out sector targets, breaking points and stock-take moments, what will we do as risk managers? As individuals, corporate decision-makers and risk leaders?

Leaving to one side excuses to act in a timely way, and in the understanding that costs of climate inaction exceed costs of prevention, let's embrace 2022 with each of our risk management actions: personal contributions are welcome, starting with a small impact from adjusting our energy usage, travel and consumption. Equally, our professional contributions will call on our insurance expertise for risk, climate, catastrophe, capital and risk transfer. Our time is now. And the menu of opportunities is daring, shall we say.

> **Our professional contributions will call on our insurance expertise for risk, climate, catastrophe, capital and risk transfer**

Let us start by delivering on the Glasgow Financial Alliance for Net Zero (GFANZ) commitments for our sector. Let us identify and fund long-term risk transfers engagements and deploy insurance investments as we act on the UNFCCC's catalogue of sector targets and thereby support delivery of nationally determined contributions (NDCs) to reducing carbon emissions by 2030 and towards 2050.

## Bringing change to life

Let us deliver Task Force on Climate-related Financial Disclosures (TCFD) governance and reporting frameworks. Let us support European customers seeking sustainable commitments and transparency, as we bring alive our Sustainable Finance Disclosure Regulation (SFDR), ESG and Sustainable Development Goal (SDG) frameworks. And for all those joining Net-Zero Insurance Alliance (NZIA), let us be credible in delivering our net-zero contributions. Moreover, let us use 2022 to engage in deeper supervisory dialogues, as we challenge our climate risk stress-testing, our own risk and solvency assessment (ORSA), our current and future underwriting, investments and operations, as we address and service the climate protection gap and climate resilience in our European and global markets. For 2022, those opportunities are abundantly real, yet may not be quite complete.

The COP26 closing sessions reminded us that a true shift is needed. More impact is needed. A novel accounting and value-based discourse is required as we start to revalue social and natural capital, and reflect impacts of putting a price on carbon. Surely, longer-term thinking also triggers longer-term risks. Thus, our foremost challenge may be the one that Sir David Attenborough so well posed for us: "Is this how our story is due to end? A tale of the smartest species doomed by that all too human characteristic of failing to see the bigger picture in pursuit of short-term goals?"

**UNFCCC Report 2030 Breakthroughs Upgrading our systems together:** *https://bit.ly/3leloSH*

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# Hybrid risk management

**BY ROBERT CHANON**

Over a decade of changes in the French insurance market has created the need for a new approach to risk management which has implications beyond the sector, argues the third and final reflection

Before 2010, policyholders were not seen as clients, and few client loyalty schemes existed. The client acquisition model assumed that new entrants would take up the same insurer as their parents and would keep the same insurer for life.

In 2010, a typical portfolio churn was about 5 per cent. Online comparison sites emerged with digitalisation (and increased internet access) to change this trend, resulting in a better-informed consumer and a more competitive market. General insurance policies were traditionally contracted for one firm year. New laws allowed policyholders to cancel policies at any time. Portfolio churn increased to such an extent that many insurers were forced to create loyalty schemes.

## Multi-channel

Digitalisation also saw the appearance of multi-channel distribution and new on-demand insurance services. This introduced new flexibility in policy interpretation. Insurers would no longer refuse claims, and they would allow customers to access services or benefits in the event of a claim. For example, if the insured is partially covered, the insurer would often propose that they could make a partial payment towards access to the service or benefit. This represented a fundamental paradigm shift for insurers because they had to act in favour of the client and assist them in their claims.

Traditional policyholders were turned into clients overnight, forcing better conduct in the industry. Some insurers have created self-help mini-communities and forums in the same spirit as the friendly societies and corporations of the Middle Ages.

## Tied agents

Digitalisation has also affected France's traditional tied agency networks; footfall has decreased dramatically as online offerings have progressed. In 2010, claims would be processed in an agency. By 2020, centralised claims platforms had become more dominant.

Search engines and social media provide multi-channel sales leads with 100 per cent online processing. Insurtechs will further disrupt the physical agency network, not least because upcoming technological innovations will make insurance more accessible for the consumer. This is only the start.

At the end of 1990, there were over 300 mutual insurers in France. Since 2010, the good intentions of Solvency II have had unwanted effects. The new capital constraints forced many mutuals to close or find a suitable group that could shoulder the new Solvency II capital requirements.

## Risk management

By 2020, risk management teams within these groups had become cost-conscious, centralised business partners to mutuals, losing vital experience in risk and actuarial management.

As our profession becomes increasingly technological and data-driven, more models are used for analysis. This is creating a new type of hybrid risk manager who needs to acquire new skills to deliver sound ERM analysis and judgment. Without internal and external support, the future risk manager will find it difficult to provide insight to decision-makers. The key to the success of future risk teams is adequate training, budgeting and resourcing.

**Robert Chanon, CFIRM, is interim ERM director and climate change lead at Aviva.**

# Digital Risk Management Cetificate

*The essential qualification for tomorrows risk practitioner*

**Develop an understanding of risk management in the digital era**

The IRM's specialised Digital Risk Management Certificate explores how appropriate risk management tools and techniques can be applied, adapted and developed in the digital context and provides a detailed introduction to cybersecurity principles and practices.

The course covers how to carry out digital risk assessments, provides a detailed grounding in cybersecurity principles and practices and also looks at the ethical issues surrounding both privacy and machine learning.

## By the end of the qualification, you should be able to:

> Demonstrate a broad understanding of today's digital technological developments

> Explain how digital technology and innovation is impacting organisations and society

> Contribute knowledgeably to identifying, assessing and controlling digital risks throughout your organisation and its supply chain, associated with new technologies and new ways of working and more

## What our students say

**Emma Duggan, Risk Manager, Experian, United Kingdom**

"The IRM's Digital Risk Management Certificate is extremely relevant to my role and I would urge risk professionals to consider it. It is very relevant for anyone working in technological development, as risk is everyone's responsibility. I have been able to take more of a leading role in ensuring cybersecurity risks are effectively controlled and information security issues are remediated at the root cause."

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Developing risk professionals

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# Green gear change

## The challenge for electric vehicles

Electric vehicles are 30 to 40 per cent more polluting than conventional cars. Yes, you read that right. But those figures only refer, of course, to the environmental cost of making electric vehicles. When you factor in the total lifespan of each vehicle, the calculation tips in favour of electric cars, vans and lorries.

But by how much? Accurate comparative figures are extremely difficult to come by as they all derive from differing assumptions. The Massachusetts Institute of Technology Energy Initiative, for instance, reckons that the total emissions per mile for battery-powered cars are lower than those generated by cars with internal combustion engines.

### Longer term

At present, an average US vehicle emits about 200 grams of CO2 per mile, according to the research group. Petrol cars have been doing better with improvements to efficiency, so an equivalent car perhaps emits about 300 grams over the same distance. So electric cars start with higher emissions initially but then outperform petrol cars over the longer term.

The high environmental cost of electric vehicles arises because it is extremely damaging to mine for lithium and cobalt – two key components of the most recent generation of batteries. In fact, lithium-ion rechargeable batteries are an environmental, social and governance (ESG) nightmare – perhaps worse than the oil and gas industries.

Image credit: Michael Marais / Unsplash.com

### Child labour

Cobalt miners in the Democratic Republic of the Congo, for example, work in unsafe conditions and are often children. Extracting lithium takes huge amounts of energy and creates enormous waste and landscape destruction, and recycling rates for batteries are pitifully low – an article in January's *Nature chemistry*, "The rise and rise of lithium", put it currently at 5 per cent.

Taking the broader ESG considerations into account, it seems hard to make an accurate assessment of the current risks and benefits electric vehicles bring. What would it take to make the case more compelling?

First, when more renewable energy feeds into national grids, the benefits of electric vehicles begin to make better sense.

"We are projecting that with cleaning up the grid, we can reduce emissions from electric vehicles by 75 per cent, to about 50 grams of CO2 per mile in 2050," Sergey Paltsev, a senior research scientist at the MIT Energy Initiative, told CNBC.

Second, the industry is also striving to make more efficient cars – not just electric vehicles, but petrol and diesel varieties too. The UK automotive industry body SMMT reckons that the CO2 emissions for the average car have dropped by about 30 per cent in the past two decades roughly. Scientific papers are chock-full of developments aimed to make cleaner batteries and improve extraction technologies. By 2050, many are envisaging a fully working, ESG-friendly electric vehicle Nirvana.

### Bigger cars

So why, then, did average new car emissions rise by 2.9 per cent in 2018 – the most recent figures on SMMT's website? Because people seem addicted to buying the heavier and, therefore, more highly polluting sports utility vehicle models. In addition, some change their new cars within a couple of years of purchase, which would make electric vehicles a worse option than petrol ones. So, while the electric revolution is mostly a technological one – the cognitive shift to make it work, it seems, currently lacks spark.

# Supply Chain Risk Management Cetificate

*Identify, analyse & prevent*

Our Supply Chain Risk Management Certificate will help businesses build resilience in their supply chains. Study online from anywhere in the world with practical learning outcomes that can be put into practice to benefit your organisation immediately. The specialist certificate is awarded by the IRM and developed with support from the Supply Chain Risk Management Consortium. The qualification provides a broad understanding of supply chain risk management principles and practices.

## By the end of the qualification, you should be able to:

- Identify, assess and control the supply chain risks that your organisation faces
- Demonstrate an understanding of how supply chains operate and the risk implications of ongoing developments
- Contribute to supply chain financial risk transfer decisions

## What our experts say

**Robert J Trent PhD**
**Professor of Supply Chain Management, Lehigh University**
"Far too many companies gain an appreciation of supply chain risk only after suffering directly the adverse effects of risk. This certificate provides people with the knowledge, concepts, and tools to enable them to become a valuable part of their organisation's efforts to survive and prosper in an ever changing world."

**Nick Wildgoose**
**Independent Supply Chain Risk Consultant**
"There are supply chain disruption and reputational incidents happening every day, that could have been better managed to drive value. This new qualification will help learners develop a clear understanding of supply chain risks, and the tools and technology which can help organisations stay protected."

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