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Skills for Risk Management

by H. Felix Kloman

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I've argued for some years that there is no one skill set that qualifies a person for risk management responsibilities. Much depends on the nature of a particular organization and on the specific risks that loom large on its horizon. An energy company needs someone versed in energy trading. A financial institution manager must understand credit and market risk analyses and derivatives. In the public policy arena, decisions on risk issues require the most sensitive forms of communication with various interest groups. In agriculture, weather is the dominant risk. For an insurance company, the knowledge of an actuary may position that person for CRO responsibilities. Even these specialized skills are secondary to more qualitative capabilities such as judgment, integrity, intuition and experience.

Yet many major associations and societies continue to champion their particular members as "uniquely" qualified to take the mantle of risk management. It just isn't so! As John Roberts, the risk manager of BC Ferries, in Vancouver, Canada wrote recently to me, "ERM is too broad to belong to any one discipline." He added, "Enough of this turf war!" Roberts is right. What provoked both of us was a recent article by Lawrence Quinn, "The New Gospel: Actuaries and Risk Management," (*Contingencies*, May/June 2005) where he cited the arguments by some in the actuarial profession that they are best suited to lead ERM. I know many actuaries and some of them could easily serve as a CRO, not only for an insurance company, where most are employed, but for other financial and non-financial organizations.

H. Felix Kloman is editor of *Risk Management Reports* in Lyme, Conn. He can be reached at *FKloman@aol.com.*

But actuaries must overcome three limitations. The first is the public view of their work and experience. The old adage that an actuary drives a car down the road by looking through the rearview mirror has more validity than many imagine. Yes, the past often replicates itself, but real "risk," the chance of something unexpected occurring, is seldom susceptible to rearview analysis. The public, perhaps unfairly, pigeonholes actuaries in the role of cruncher of old numbers. Can they overcome this view?

Their second limitation is an over-emphasis on quantifying everything. This leads inevitably to the fallacy of: "If it can't be measured, it can't be managed!" Many of the most important operational and reputational risks lack a credible database, even using global rather than organizational records. That makes them less susceptible to quantitative modeling. Quinn cites Dr. Shaun Wang, Georgia State University, on this point: "As I got involved in the ERM process, I learned that analytical skills are one thing; understanding the businesses—the local culture and dynamics—is quite another."

And third, as actuaries are required to spend an inordinate amount of time studying mathematics, many lack critically important communication skills so essential to modern risk management.

All of these potential actuarial shortcomings of actuaries can be corrected. I, for one, welcome the fresh interest in ERM shown by the Society of Actuaries and the Casualty Actuarial Society. I attended their last two ERM conferences in Chicago (see RMR June 2004 and June 2005), two of the best in my recent experience. Their contributions will enlarge our understanding of risk but, at the same time, I trust their leaders will be listening as acutely to the representatives of the other risk management disciplines. These sub-disciplines are not "threats" to one another but rather part of a new dynamic and inclusive approach.

I sum up this comment with a quote from another reader, Chris Duncan, Marsh in Atlanta, who wrote me recently: "As a (former) risk manager and CRO, I always described myself as the 'world's worst risk manager' as I viewed it as my job to find a way to say 'yes' and help my companies take intelligent risks, not say 'no' to any and all risks. In general, I've found that the people drawn to the risk management profession are pre-disposed to be risk adverse, and trained to exaggerate that trait professionally, which impacts the function's credibility with senior leaders whose job is to move forward. Progress is only made when people (companies, governments and societies) look uncertainty in the eye, do what they can to mitigate what they must, and step out anyway."

Duncan's comments mesh with the keynote of the SOA ERM effort: "Turn Risk into Opportunity." After all, risk is opportunity! ✦