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Matthew McConaughey and Risk Management

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Ok now that I got your attention, maybe a spoiler alert of sorts. If you have seen "Interstellar" you will be familiar with Mr. McConaughey's battle against time as he travels through space to save the human race, not to mention get back to his daughter.

The fact is, Matthew (I am sure he will allow me to call him that) had viewed time in a different frame of light until he approached a black hole and it sped up. Prior to his interactions with the black hole, Matthew and "his" universe had interacted with time consistently. *One minute* to Matthew was *one minute* to his daughter. The black hole warped that and *one minute* to Matthew became *years* for his daughter. While he is no longer able to navigate time with the control he had desired, he discovers gravity is his one constant in interacting across time and uses it to communicate to his daughter and eventually save the world.

How does this tie into risk and risk management? In my world of insurance and reinsurance, it is easy to assume that business interacts with time in a consistent manner. We have seen companies enter into multi-year deals assuming that time will be the great diversification factor and if one year strays from the target, the others will balance it back out. We, unfortunately, do not have to get into a spaceship to encounter black holes that warp time and create risk for our companies. These black holes arise every day in the form of pressures such as: competitive, top line growth, staff expertise, and regulatory to name a few. Unfortunately, what happens in insurance and reinsurance, is not a speeding up of time (bad years do not improve quickly) but instead a slowing down of time and bad years dragging out. These "risk" black holes make it more difficult to diversify across time.

So where is our "gravity" in insurance and reinsurance? Well it is rather simple—our "gravity" is management discipline. While not a single item, it does embody six core disciplines that when maintained with integrity, a company is more likely to survive a black hole: pricing, underwriting, mitigation/hedging, claims, monitoring, and staff development. If a company fails on any one of these items it is like a spaceship losing an engine and trying to steer away from a black hole. It may be possible but you will put pressure in areas you did not intend and potentially not avoid the impeding danger.

I would like to point out the importance of all of these items working together over a multi-year time horizon, to make time a true diversification tool. The fact is, prior to any of this happening, the management team of a company needs to define an operating structure that allows for these disciplines to communicate effectively and seamlessly across each other. A key component to that would be the company's risk appetite statement.

Think of it as Matthew's launch and travel plan into outer space. Would you jump in a rocket and hit the ignition switch without a plan? As I sit here and think about it, Matthew and his fellow astronauts failed in having a robust enough risk appetite statement before setting off to save the world. Had they fleshed this out more, they would have at least been aligned in making their risk decisions around the black hole.

Considering this, I would propose that intra- and inter-year risk management should be tools that do not work alone, but in conjunction with each other, as well as, with the six areas of management discipline. As the company encounters one or more of the different types of "risk" black holes, the different disciplines should adjust and the intra- and inter-year risk management should regulate around those changes. Blindly assuming time will heal all wounds will send you directly into a black hole with no escape. ■

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