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Risk Management Investor Survey

by Mary Ellen Luning

“Ernst & Young LLP is conducting a series of surveys around risk, exploring attitudes toward risk and its management, comparing viewpoints across key stakeholder groups including investors, senior executives and audit committees.”



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Author's Note: Much of this article is excerpted directly from the investor survey performed by an E&Y team headed by Thomas McGrath, global managing partner, Client Services and Accounts.

As members of the Risk Management Section, there is no doubt in your minds that Enterprise Risk Management (ERM) is a hot topic. More than that, it is at the top of the minds of senior management, boards of directors, and investors in all industries. Driven by fear of major business failures and under increasing compliance-related pressures, companies are focusing on their exposures, and risk management has become part of the essential fabric of the corporate governance structure.

Ernst & Young LLP is conducting a series of surveys around risk, exploring attitudes toward risk and its management, comparing viewpoints across key stakeholder groups including investors, senior executives and audit committees. While these surveys are not specific to the insurance industry, or to the U.S. market, they are quite relevant to our environment, especially the most recent survey of 137 major investors. The survey participants are the institutional investors and asset managers who run some of the world's largest investment portfolios, who represent significant investors in most of our organizations.

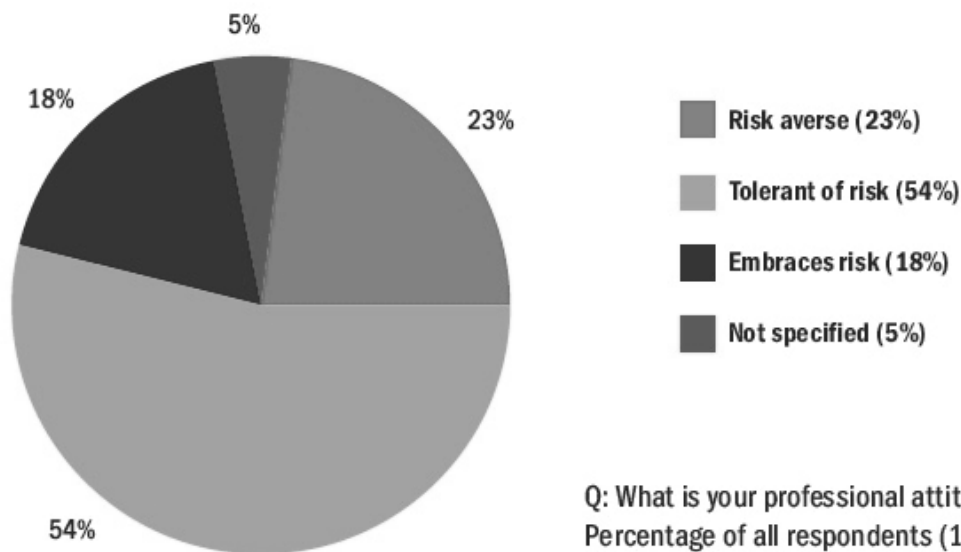
The results of the survey may not be that surprising to the Risk Management Section, but the survey confirms the direction we are taking as an industry with increased focus, changes in our corporate culture and integrated approaches around risk management. For one, the survey showed that investors do not want to eliminate risk (Exhibit 1), but expect risk to be managed effectively. Therefore, they must understand the risks they are taking and thus, when making investment decisions, transparency is at the top of their list of priorities (Exhibit 2). Investors want to know more about how risk management concepts are applied in your organization. The study clearly shows that what you communicate

about risk management is absolutely affecting those decisions (Exhibit 3), with 61 percent saying that they have decided not to invest where risk management was deemed insufficient.

Based on the survey results, it is clear that risk is playing an increasing role and receiving greater emphasis in investment decisions. So what are investors looking for? The investors surveyed identified “clear ownership of risk” as a primary success factor. In addition to an integrated approach, they are clearly focused on the corporate risk culture, e.g., an understanding of risk throughout the organization, active board involvement, a dedicated risk function, etc. (Exhibit 4). Having a separate risk management function was high on the list of success factors, but the results indicate that most investors feel that ownership still lies ultimately with the CEO and the Board (Exhibit 5).

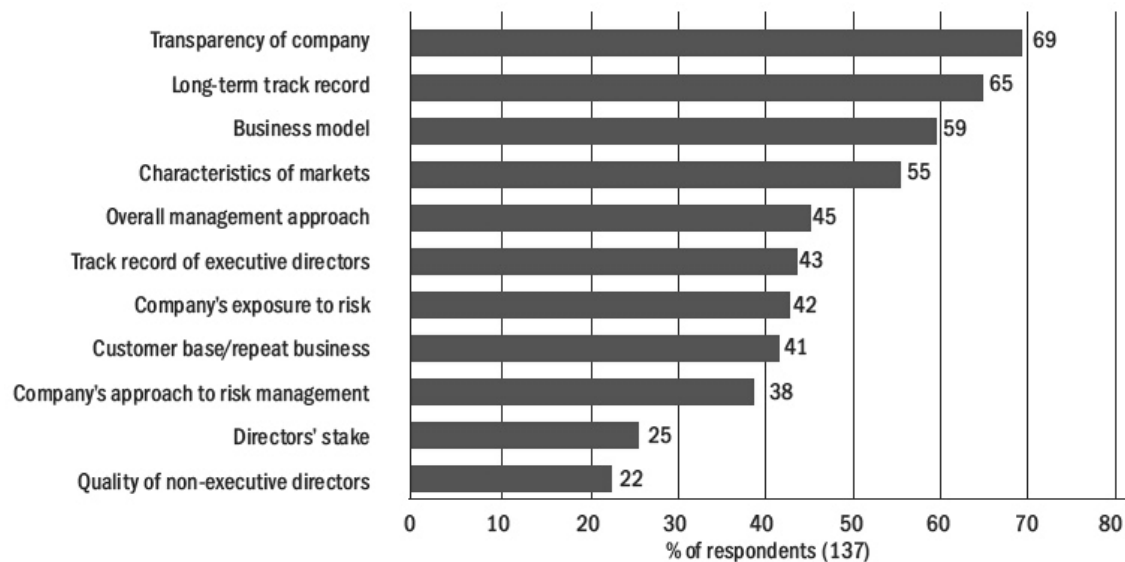
It is clear that investors are hungry for more information on risk management in making their decisions, and in many cases they are currently basing decisions on incomplete information. The good news is that there is a premium available for those companies that can demonstrate successful risk management through frequent, effective and transparent investor communications. In summary, our ability to meet investor needs and maximize shareholder value through communicating our risk profile and demonstrating the effectiveness of risk management activities is not just important to operating our businesses, but is also increasingly driving the value and valuations institutional investors place on our organizations. ♦

Exhibit 1: Investor Risk Appetite



Q: What is your professional attitude towards risk?
Percentage of all respondents (137)

Exhibit 2: Transparency Is a Priority

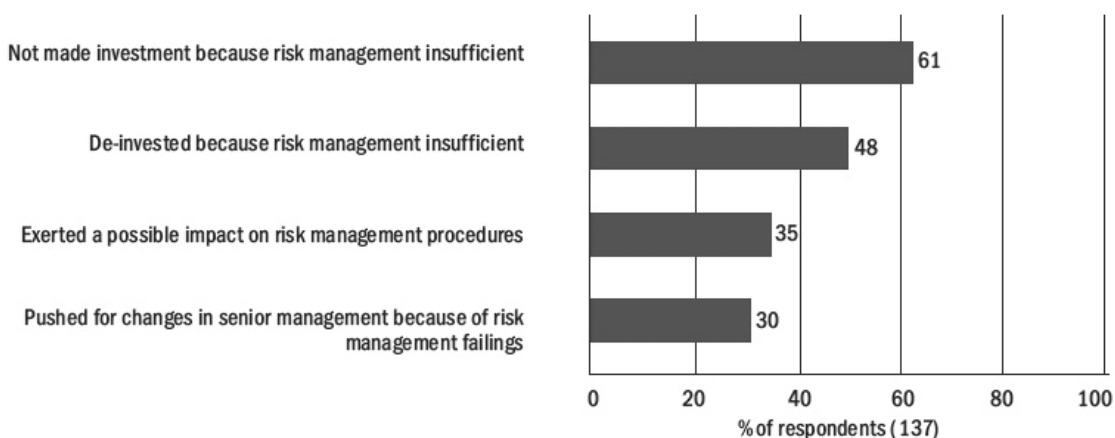


Q: When you are considering making an initial investment in a company, what priority do you give to the following? (High rating - % respondents giving 8, 9 or 10 rating on 1-10 scale)

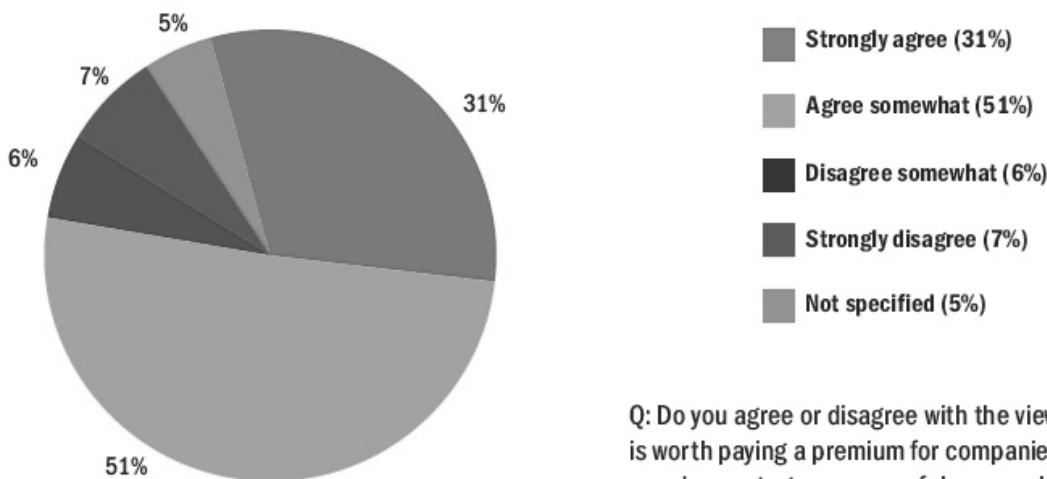
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Exhibit 3: How Investors Use the Information



Q: Have there been any instances you can recall where you, as a major investor, have...?

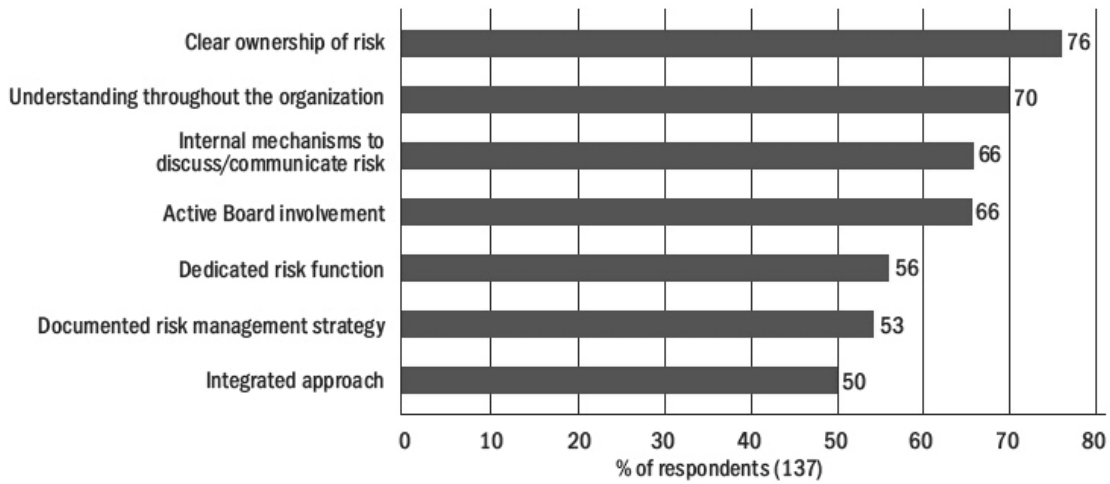


Q: Do you agree or disagree with the view that it is worth paying a premium for companies that can demonstrate a successful approach to risk management?
Percentage of all respondents (137)

Future Challenges for Companies ... according to investors:

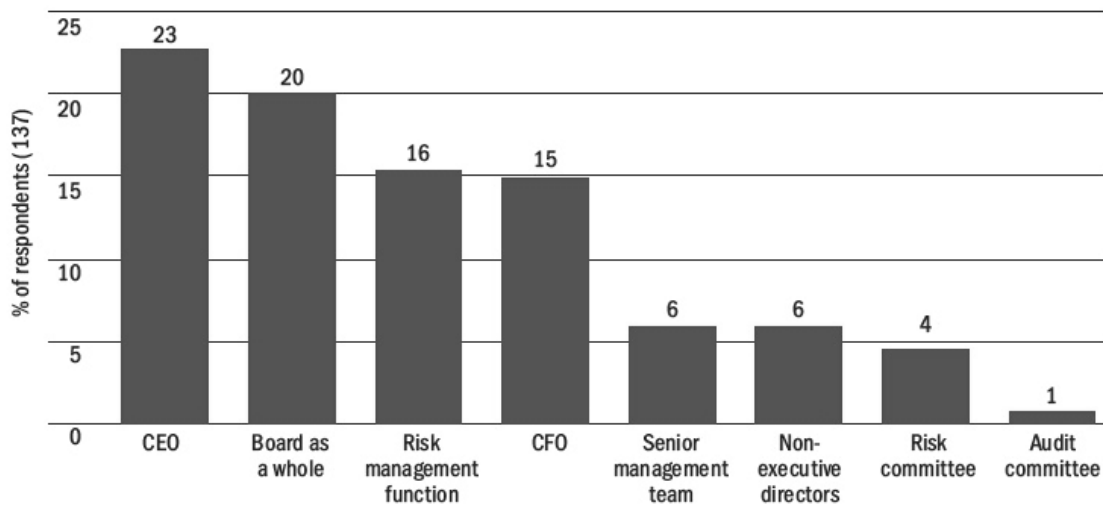
- “Deciding what risks to mitigate and what risks to leave exposed.” *Fund Director, United Kingdom*
- “As an investor I want the companies to truly commit themselves to change what is wrong when it comes to risk management.” *Senior Investor, Brazil*
- “To be more integrated and flexible and have the ability to change as the company’s growth and profile change.” *Chief Investment Officer, United States*
- “Simply making sure that everything they say is the truth.” *Senior Investor, United States*

Exhibit 4: Success Factors



Q: How important are the following to the success of a company's approach to risk management?
 (High rating - % respondents giving 8, 9 or 10 rating on 1-10 scale)

Exhibit 5: Ownership



Q: Who do you prefer to see own the issue of risk within the companies you invest in?
 Note: Respondents were asked to make a single selection only.