

## The Upside of Risk

IRM Workshop @ INSUREX 2010

*James N. Portelli FCII FIRM. A Chartered Insurance Practitioner by profession, James is a Fellow of the Chartered Insurance Institute and of the Institute of Risk Management and has been active in the industry in Europe and the Middle East in diverse technical, business development and management roles for the past twenty years. Currently EVP, Head of Risk, at Oman Insurance Co PS, James is also the regional coordinator of the IRM Middle East Network.*

[http://www.theirm.org/events/irm\\_middleeast\\_regional\\_group.htm](http://www.theirm.org/events/irm_middleeast_regional_group.htm)

It is not without reason that the last session of the last day on a conference is generally referred to as the 'graveyard' shift. Indeed for a particular session on AML (admittedly not the most alluring of topics) a few years ago at a regional financial services conference the only persons present for the graveyard beat were the panelists themselves!

This was not the case with the IRM Workshop at INSUREX 2010 that attracted a sizeable audience of risk management practitioners in addition to other insurance delegates present for the conference.

The idea to have an INSUREX workshop in conjunction with the regional network of the UK Institute of Risk Management was conceived by Policy Magazine editor Hussain Hadi and the UAE regional group of IRM readily rose to the occasion.

The topic chosen was not a traditional risk management topic in the sense that it did not focus on the 'downside' aspect of risk. The prospect of an ensuing discussion and Q&A session on iatrogenic aspects of downside risk treatment would not have contributed to INSUREX concluding on a positive note!

The workshop topic, strategic risks and their management recognizes the validity of the definition of risk provided by the recently released International Risk Management Standard (ISO 31000:2009), i.e. "effect of uncertainty on objectives."

Although this represents a marked difference from recent definitions of risk immediately prior to the publication of the ISO 31 000 standard, it also reflects a convergence with a more classical interpretation of risk.

The development of risk management as a profession and its widespread application particularly in commerce and industry required greater alignment between risk and reward. Various vehicles exist for a company to transfer risk. However, risk remains an integral part of the reward process of any enterprise and, therefore, risk is core to an enterprise's strategy. This development in risk management thinking over, arguably, the last few decades, may have contributed to the paradigm shift in the definition of 'risk' from what was widely accepted in, for example, COSO Risk Management Framework to the new ISO 31000: 2009 definition.

Insurance-like practices have existed for millennia but, in commerce and industry the term 'risicum' can perhaps be traced back to medieval times in Europe and was closely associated with loss or damage in marine ventures. This was also the time when marine insurance started to develop as a practice between merchants first in Italian ports and later spreading throughout continental Europe. However, even then and perhaps because of the Arab influence, the term 'rischio' (derived from "رزق") was also in use to signify good fortune. Therefore, until the Middle Ages the term 'risk' denoted uncertainty that could, on the one hand present the possibility of loss and, on the other hand, represent good fortune. The subsequent adoption of the word 'risk' in English seems to have shed the potential 'upside' element of uncertainty, focusing more on loss. Possibly this arises from the fact that commerce and industry (i.e. shipping, banking, insurance etc.) was developed by the Genovese and the Lombards who imported with them the more legalistic definition of risk and also the keenness of legislators to divorce gambling from business risks (the Life Assurance Act 1774 is an example). Consequently, for centuries, the accepted definition of risk concentrated more on the 'downside', i.e. the 'possibility of loss' and this was not restricted only to insurance. For example, in corporate governance, the COSO report defines 'risk' as, "the possibility that an event will occur and adversely affect the achievement of objectives."

With risk management coming of age as a profession, holistic practice had to necessarily complete the circle again; hence risk appetite (and its management) is as much part of the risk management discipline as is risk tolerance and its treatment.

Thomas Alexander, Director of Hull and Non-Marine business at NASCO Middle East Insurance Brokers delivered the first presentation entitled, "Blue Ocean Strategy". Thomas' presentation was a crisp and succinct summary of the book bearing the same name by distinguished INSEAD professors. The presentation and reproductions were by kind permission of Harvard Business Publishing.

The presentation drew on various examples by international brands that successfully expanded from what the authors define as the 'red ocean' (epitomised by the 'get more for less' mantra) to a blue ocean strategy. Blue oceans represented markets or segments that offered a relatively uncontested market space, the rules of the game were waiting to be set and, as a result, promised higher profit margins. The '*take home*' message was that in challenging accepted product or service standard parameters one may re-define a new buyer value curve based on the behaviour, likes, dislikes and expectations of previously unexplored, untapped or unexploited market space. The 'Blue Ocean' presentation tied in very neatly with earlier INSUREX 2010 presentations by, for example, Karl Gray's delivery on RSA Middle East's survey on customer behaviour (challenging demographic segmentation methods) on the first day of the conference and Dr. Omar Fisher's comments on Takaful insurance demand during the morning sessions preceding the IRM workshop.

The second presentation during the IRM Workshop, delivered by James Portelli, Head of Risk at Oman Insurance Co And regional IRM Network coordinator, focused on risks associated with strategic development and how these vary in nature from operational risk management. This presentation served as a lead-on to a healthy Q&A and discussion session.

The overall message from the workshop was that risk and reward are not necessarily opposing forces. What often distinguishes the good from the leading enterprises is the latter's ability to harness risk appetite and saddle strategic positioning within an integrated approach to risk and return. Responsibility, whether for risk or return, is a collective one.