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Federation of European
Risk Management Associations

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THE ROLE OF RISK MANAGEMENT IN CORPORATE RESILIENCE

2021 Survey Report

40⁺
YEARS

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recognised voice
of European
risk managers



21
COUNTRIES



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5000
RISK MANAGERS
IN EUROPE



About FERMA

The Federation of European Risk Management Associations brings together 22 national risk management associations in 21 European countries. FERMA represents the interests of nearly 5000 risk and insurance managers in Europe active in a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies. More information can be found at www.ferma.eu

FOREWORD

Dirk Wegener, President of FERMA



On behalf of FERMA, I am pleased to present this report that we have produced with McKinsey & Company. It explores the contribution of risk management to corporate resilience as we move forward from the immediate impact of the pandemic crisis.

Before the pandemic, we knew that risk management and risk managers had an important role in keeping shocks from destabilising their companies. The pandemic proved that. Until this report, however, we had little data on this contribution.

Against this backdrop, FERMA and McKinsey & Company surveyed risk and insurance professionals and senior executives across sectors globally in the summer of 2021. Our aim was to establish a current view of the role of risk and insurance management in fostering resilience for their organisations.

Today, we see from the report that the majority of participants feel their organisations are well equipped to manage resilience overall. At the same time, more can be done. In particular, these results give the impression that there is work to be done on improving organisational risk culture, as well as making resilience more of a strategic priority.

Risk and insurance managers are already involved in this process in a meaningful way. The findings give us a great incentive to maintain momentum. We must continue to underline our worth to our organisations. They also show us where we can take the initiative by developing in areas such as foresight capabilities and sustainability.

This survey gives us a foundation for our future work on resilience. We will also embed resilience into our advocacy work when we contribute to European projects, across a range of topics linked to the green and digital recovery, and beyond.

The pandemic has highlighted the importance of good risk and crisis management and its contribution to resilience, but we must not be complacent. We continue to face other, potentially disruptive shocks, for example, from climate change and cyber risks. Resilience is essential for the success of European business, and as this survey shows, in this, risk and insurance managers can be leaders.

*Dirk Wegener,
President of FERMA*

EXECUTIVE SUMMARY

The COVID-19 pandemic has put a spotlight on organisational resilience. As catastrophic events grow more frequent but less predictable, the need for resilience grows. This need is further highlighted against the backdrop of increasingly interconnected and complex risks.

In this context, FERMA and McKinsey & Company surveyed risk and insurance professionals and senior executives across sectors globally in the summer of 2021 to collect a current view of the role of risk and insurance management in fostering resilience for their organisations.



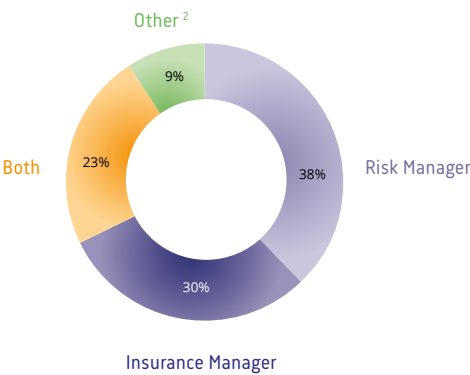
The responses show that :

- The Coronavirus pandemic accelerated the push for corporate resilience, though in varying degrees across sectors and resilience pillars.
- More than 60% of the participants acknowledge resilience as a top priority or very relevant in strategic decision-making.
- Risk and insurance managers are involved in resilience in a meaningful way with further room to lead initiatives.
- 57% of those that responded to the survey feel their organisations are well equipped to manage resilience overall. Financial, operational, digital and technological resilience are considered the most relevant areas across companies. Foresight capabilities (scenarios and stress testing) emerge as a core area to strengthen corporate resilience.
- The risk function and executive teams play a leading role in building resilient organisations, more than strategy teams.
- Looking forward, almost three-quarters of the risk managers surveyed see a clear need for both improving risk culture and more strongly integrating resilience in their organisations’ strategy.

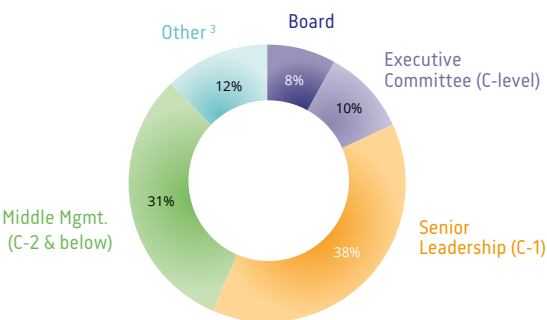
SURVEY METHODOLOGY AND RESPONDENTS



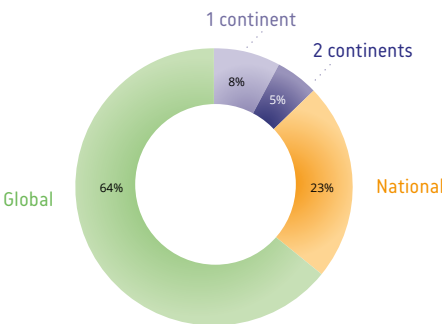
ACROSS FUNCTIONS



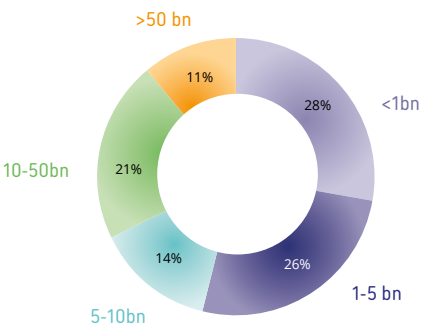
ACROSS ROLES



GLOBAL FOOTPRINT



COMPANY SIZE Revenue in 2020 in euro

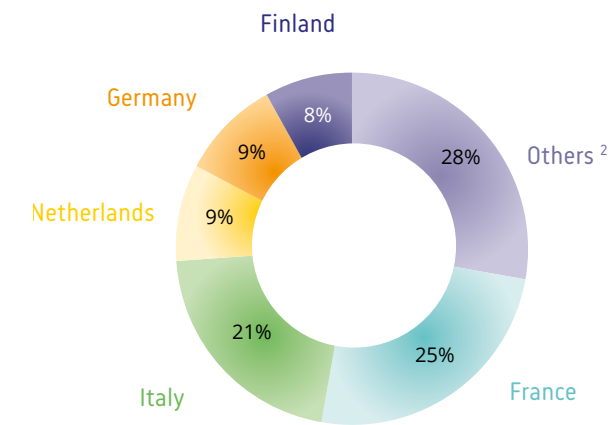


In 2021, the Federation of European Risk Management Associations (FERMA) and McKinsey & Company surveyed risk professionals from a range of industries and countries, about corporate resilience and the impact of the pandemic. The survey probed for views on the risk function, as well as the present and future status of resilience in their organisations. Results reveal the growing importance of risk management and resilience in long-term strategy development. The results also provide valuable insights on some of the measures needed to further strengthen corporate resilience.

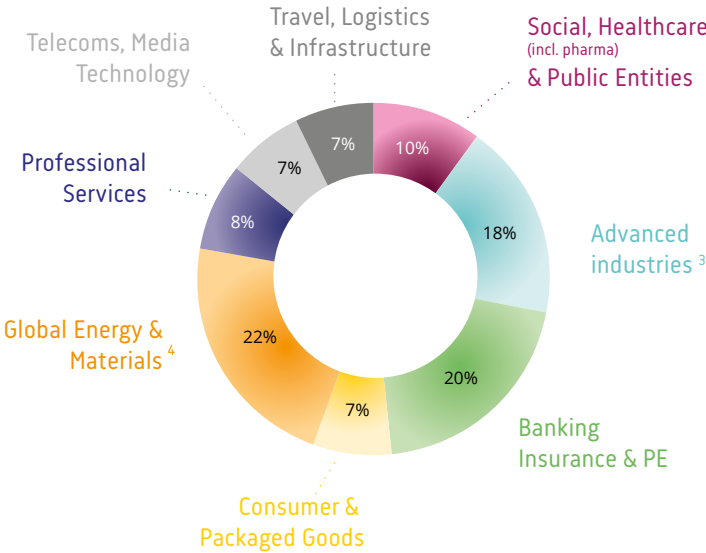
1. Some questions were not answered by all participants, thus n can be different per question
2. N = 16 for Other in Functions
3. N = 22 for Other in Positions

SURVEY METHODOLOGY AND RESPONDENTS

LOCATION¹



INDUSTRY



1. These locations are the headquarters but all participants are from Europe
2. EU and others include Luxembourg, Austria, Belgium, Denmark, Norway, Portugal, Spain, Sweden, Switzerland, United States of America, Nepal, Angola, Japan, China, Brazil, and Argentina
3. Advanced Industries include Advanced Electronics, Semiconductors, Automotive & Assembly, and Aerospace & Defense
4. GEM includes Basic Materials, Chemicals & Agriculture, Power, Oil & Gas

RESILIENCE DEFINITION



We asked survey participants to define resilience as it relates to their organisation. The respondents expressed diverse views, revealing that resilience is a term used to cover a wide range of elements, action areas, capabilities and objectives.

HOW DO YOU DEFINE RESILIENCE FOR YOUR ORGANISATION?



"Finding opportunities from crises and threats"

"Advanced capabilities on business continuity and crisis management, dynamic scenario analysis and planning, balance-sheet strength and operational agility"

"The underwater portion of the iceberg of our risk management organisation; the capacity of the company to sustain the impact of events after applying emergency measures; our culture, our team sense, our leadership, and our feeling that our organisation is among the best."

"The readiness to continue to provide products and services to our customers no matter how much the external context changes or worsens."

"The natural capacity to respond decisively to crises and potential disruptive events, minimising damages and enhancing opportunities"

"Ability and strength to continue the vision of the company despite setbacks; go from reactive to proactive; move from post-strategy to pre-strategy"



"To execute our strategy, we need to make sure that we adapt to real-life changes—including the pandemic, energy transition, etc."



"The ability to resist the impact of crises and big events; meeting objectives and goals; providing business continuity and service customers"

RESILIENCE AND THE IMPACT OF THE PANDEMIC



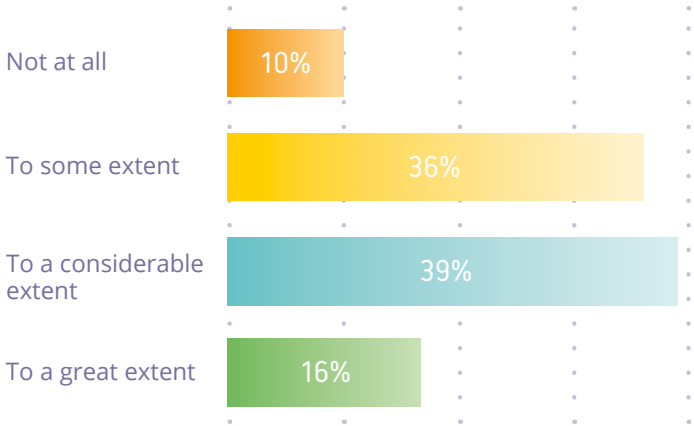
The impact of the Coronavirus pandemic on risk and insurance management

The coronavirus pandemic has raised the profile of risk and insurance management, and corporate resilience.

90% stated that the pandemic made risk and insurance management more important to their organisations. Of these, more than 50% said it was to a considerable or great extent.

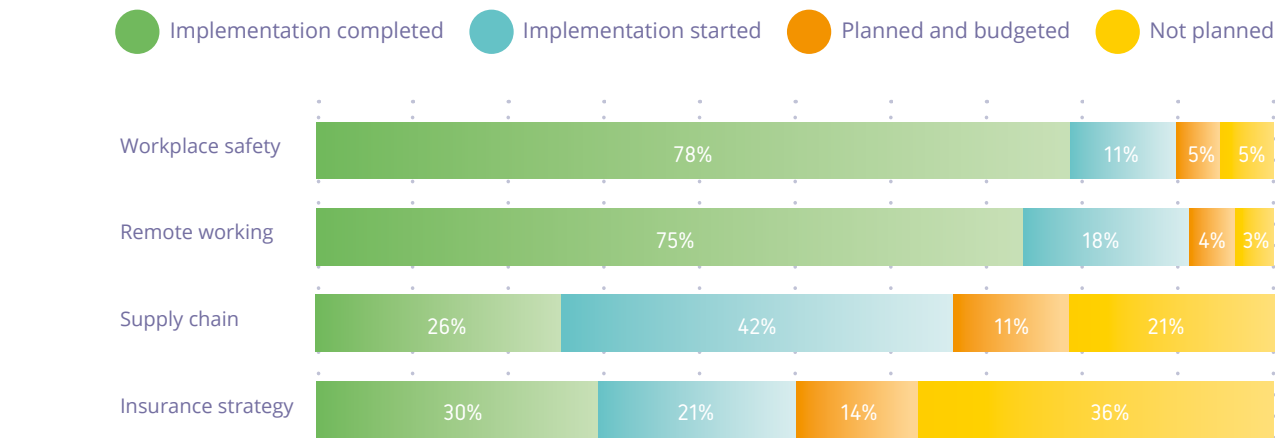
Only 10% found no direct impact.

To what extent has the pandemic made risk and insurance management more important to your organisation?



“The pandemic caused us to look beyond one risk area and toward a corporate-wide view. It forced us to understand the advantages in moving our stance from risk management to resilience.”

To what degree has your organisation taken action in these areas of resilience since the pandemic?



Perhaps unsurprisingly, the areas where most organisations have taken action during the pandemic are workplace safety and remote working. Around three-quarters of respondents have fully implemented changes already in these areas. Only a handful of organisations have not planned any changes in these areas.

“We are learning from the crisis, reviewing, for example, our evaluation process for suppliers. In the past we focused mainly on financial impact but have since adopted a holistic view, looking at the geographic footprint, compliance issues, among other factors.”

Managing business operations and the supply chain emerged as key vulnerabilities during the pandemic. While over a quarter of respondents have already made changes to their supply chain, over half of the organisations covered in this survey have either planned or begun implementation of supply chain changes.

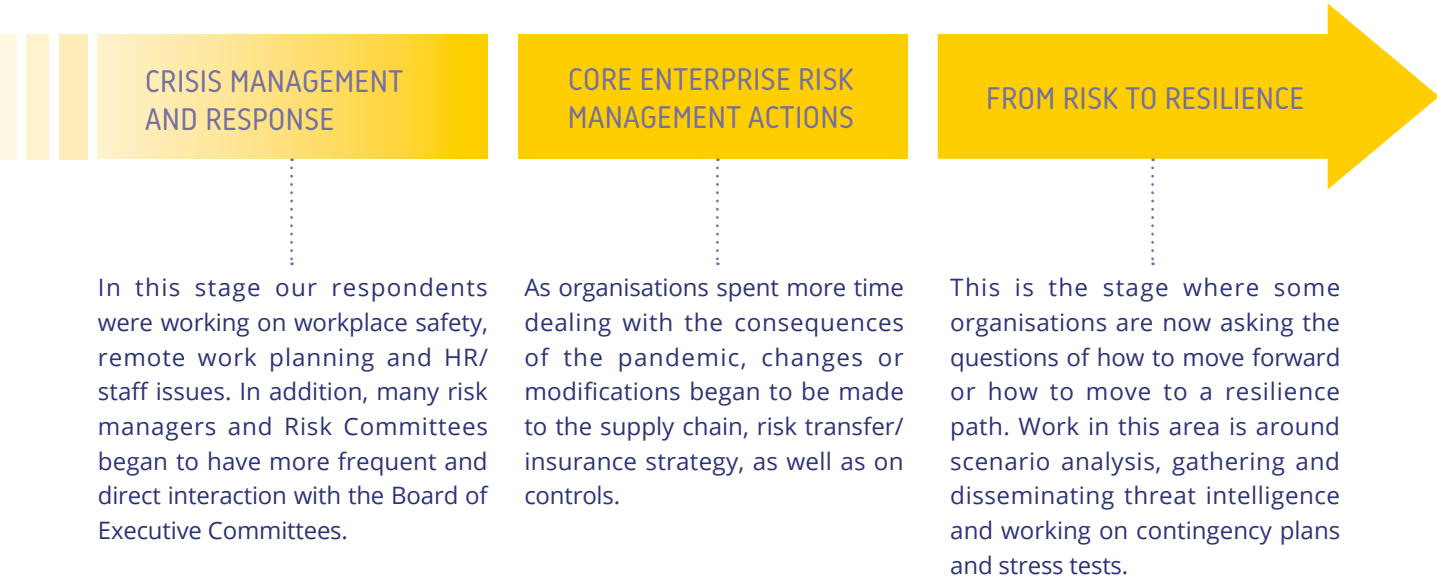
Almost two-thirds of respondents plan to make changes in their insurance strategy or have made them already. This is likely linked to hard-market conditions that began to appear 6–8 months before the pandemic. The pandemic worsened these conditions, and could have led some commercial customers to consider self-insurance or captives, for example.

1. Other focus areas: Threat intelligence, Controls update, Supervisory Board activities, Higher self insurance/deductibles, Emerging risk scenarios and corporate contingency planning; N = 20

RESILIENCE AND THE IMPACT OF THE PANDEMIC

A simplified overview of the stages of actions relating to resilience in the pandemic:

Based on the input from risk managers we have illustrated in the simplified graphic below the stages of actions on resilience, with a selection of examples of actions taken. In practice, it is very likely that these stages are overlapping.



“ We have established a 5-year scenario as an annual exercise. This is an input for strategy setting to be linked to the enterprise performance plan. We develop mitigation actions for scenarios as part of our strategic objectives. This way, risk is involved, speaking the same language as strategy.”

“ During the crisis, we led a Risk Committee, sitting with the Executive committee every week over 3 months. This was an opportunity for us to demonstrate the value of the risk function over the longer term.”

ROLE OF RESILIENCE IN STRATEGIC DECISION MAKING



Resilience as part of the strategic process

For almost one in six resilience is a top strategic priority. Further, almost two-thirds of organisations make resilience a strong focus in their organisation's strategy. Only 6% of respondents do not place any specific focus on resilience in the context of their strategy.

To what extent is resilience considered in your organisation's strategy?



2 in 5 surveyed are in organisations where risk and insurance management are a regular feature of strategic discussions. While there is already strong involvement of the risk function in strategic discussions there is also room to grow with 13% not at all involved in these discussions in their organisations.

How much is your risk function involved in strategy discussions in your organisation?

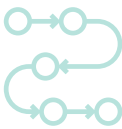


Results on the use of scenarios and stress-testing techniques are split. More than half (53%) of executives rarely (or never) use them in strategic decision making, while 47% do. 12% use stress testing in every risk and resilience exercise as part of their strategic process.

How often do you run scenario analysis or stress tests on key risks as part of your company's strategy process or in preparation for strategic decision making?



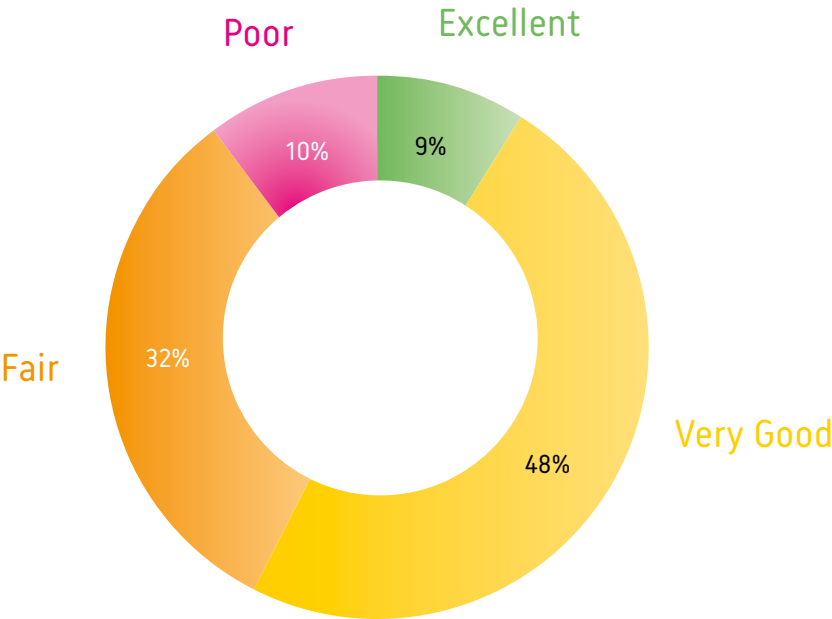
RESILIENCE AND ITS CORE AREAS



The survey sought to assess the robustness of structures and processes in each organisation using nine resilience categories. These included foresight capabilities (scenarios and stress-testing), which enable organisations to simulate and quantify the impact on business of a general or industry-specific scenario. Results are used to identify resilience areas for reducing potential adverse impact. Response capabilities to disruptions and crises were also assessed, to discover insights into the ability of organisations to react to and bounce back from unanticipated shocks.

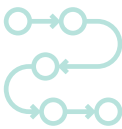
A. Financial resilience		High margins, low fixed costs, strong balance sheet, cash reserves, access to capital market, hedging capabilities
B. Operational resilience		Business continuity management, flexible workforce and production, diversity and the transparency of the supply chain
C. Digital & technological resilience		Digital strategy and risk management, cyber security, and invention capabilities
D. Organisational resilience		Purpose-driven mindset, openness to change, reskilling capabilities, lean and agile setup
E. Market position and M&A capabilities		Strong market position, diverse revenue portfolio, M&A capabilities, capability edge
F. Reputation, brand, & customer		Authentic reputation, brand value, stakeholder trust, social media savviness
G. Purpose & ESG alignment		Environmental, social, and governance criteria embedded in purpose, vision and strategy; environmental targets; social and ethical standards; robust governance
H. Foresight capabilities		Systematic internal and external information gathering; scenario-based simulations and stress-testing
I. Disruption & crisis response capabilities		Criteria to trigger task force setup, crisis response protocols, strategic adaptation

How would you rate your company’s capabilities and the effectiveness of its tools in managing resilience?



“The crisis demonstrated that updating contingency plans was useful. Though we had no specific plans for a pandemic in place, existing plans and protocols were helpful in managing the crisis.”

RESILIENCE AND ITS CORE AREAS



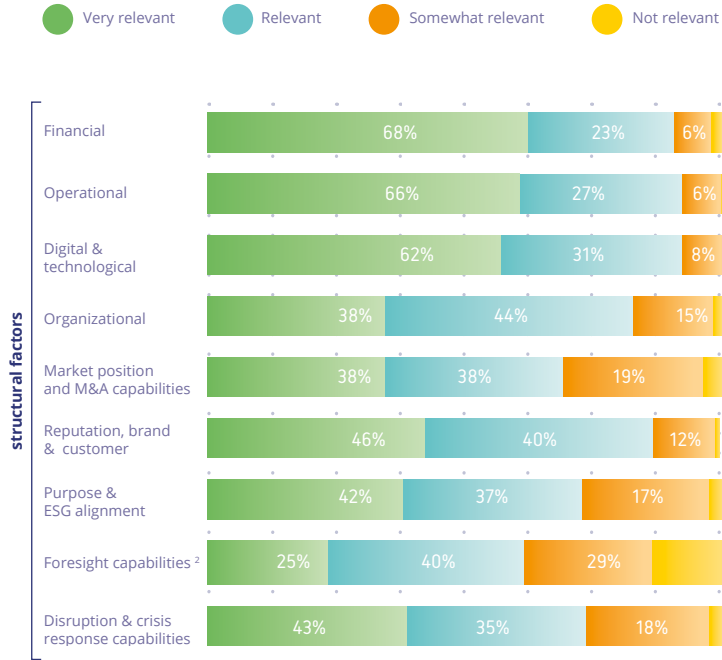
The survey probed the dimensions of resilience using three lenses: the relevance of resilience for organisations, their ability to manage resilience (capabilities), and the extent of the risk function’s involvement (scope).

In terms of the areas of resilience that organisations find the most relevant to them:

- Financial, operational and digital/technological resilience are considered the most relevant areas of resilience across most industries. Over 60% of risk managers consider these three areas of resilience very relevant.
- Foresight capabilities is the area that is ‘least’ relevant in terms of organisational resilience.
- Disruption and crisis-response capabilities are seen as more relevant than foresight capabilities, which possibly reflects the situation most organisations find themselves in in the context of the pandemic. This finding could reasonably be expected to change over time.

Relevance:

Which areas¹ are most relevant for your organisation’s resilience?

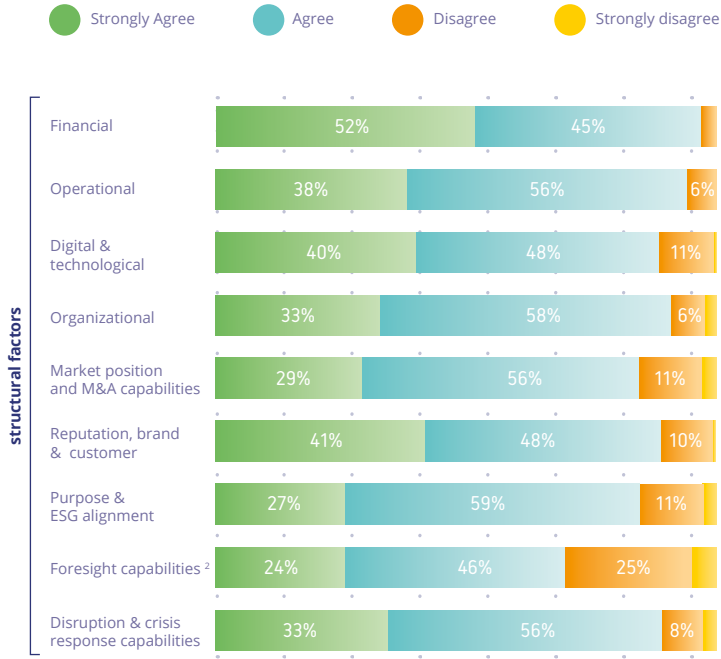


Overall, the majority of risk managers (57%) rate their organisation’s capabilities and effectiveness of its tools in managing resilience highly. Only 10% rate their company’s capabilities at managing resilience as poor. In terms of the different areas of resilience:

- Over half of those surveyed believe their organisations currently have effective capabilities to manage resilience from a financial dimension.
- There appears to be room for improvement around capabilities to predict events and conduct scenario analyses and stress-tests to assess potential outcomes. One-quarter of respondents say that they have no foresight capabilities currently in place.
- Further only one-third of respondents say they have effective crisis-management capabilities in place, a possible insight from the pandemic.

Capabilities:

To what extent do you agree with the following statement: "We have effective capabilities and tools in place to manage resilience in these areas"?



1. For definitions, refer to page 2.
2. Foresight capabilities refer to stress-testing resilience capabilities, which allows companies to quantitatively assess the impact on business of a general or industry-specific scenario by simulating reactions under each. This can then be used to identify resilience levers to reduce potential adverse impacts.

RESILIENCE AND ITS CORE AREAS

Scope:

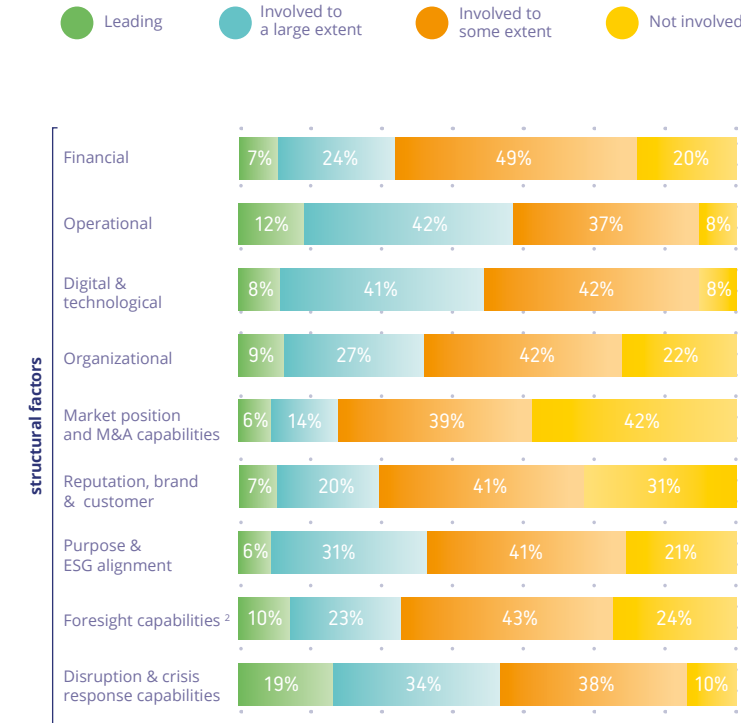
To what extent is the risk function involved in these resilience areas?

The scope of involvement of risk and insurance management in the different dimensions of resilience varies. Involvement is highest in the areas of operations, digital and technological and disruption & crisis response.

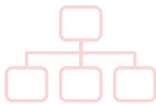
For more than 3 in 10 surveyed, risk and insurance management is not at all involved in market position or reputation, brand and customer dimensions of resilience.

Risk and insurance managers most often take a leading role in disruption & crisis response—far more than in any other resilience area.

“In times of crisis, Risk plays an important role to foster responsible, quick decision making.”



ORGANISING RESILIENCE

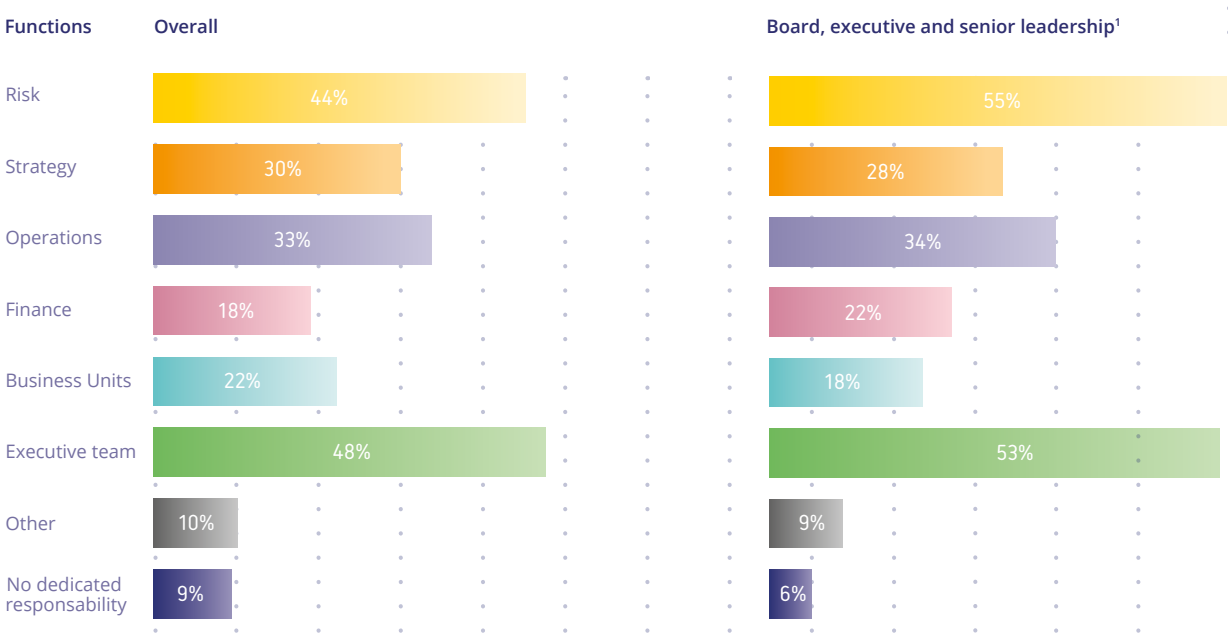


Where does the responsibility for building resilience fall?

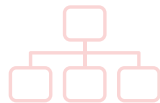
Most participants identified the executive team and the risk function as mainly responsible for resilience and related coordination within their organisations. This suggests that risk functions are taking a greater role in managing resilience more holistically, especially in coordinating with other functions.

To an even greater extent, senior executives (top management) believe that the executive team and the risk function are driving resilience. Additionally, these senior leaders report that finance plays more of a role than the business units do in building the resilience of the organisation (reversing the overall results on this point).

In your organisation, which group is primarily responsible for resilience, taking a coordinating role across the relevant areas?



1. Board + Executive (C-level) + C-1 middle-mgmt.



Where does the responsibility for building resilience fall?

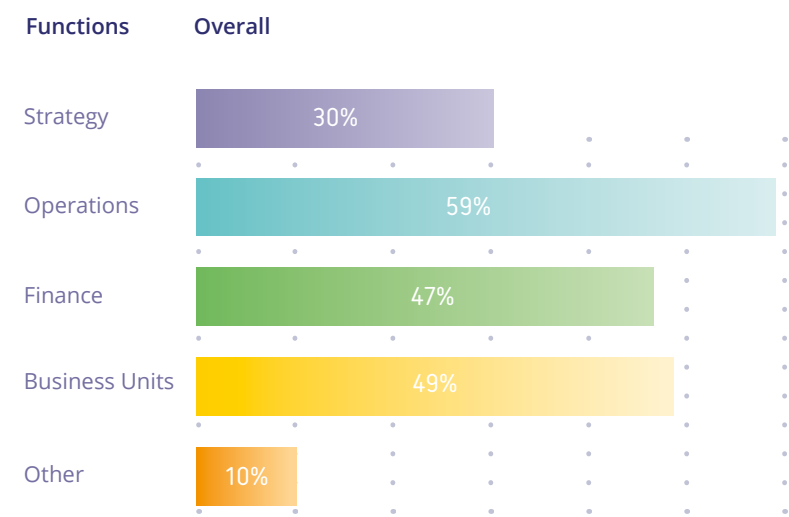
Most participants revealed broad cross-collaboration within their organisation around resilience, involving operations, business units, and finance; the involvement of strategy remains low.

Top-level management (board, senior executives, and leaders),

collaborate around resilience more closely with finance teams than other groups do (10% higher than overall collaboration).

The strong collaboration with operations is not surprising, given the relevance of this aspect of resilience efforts.

Which areas of your organisation most often collaborate with risk on resilience?



1. Board + Executive (C-level) + C-1 middle-mgmt.

The role of the risk function in managing resilience



“Risk governance is key. Corporate governance, board effectiveness, and CEO's success success are all linked to the risk governance model. This means efficient decision making, driving cultural change, and developing the right tools.”



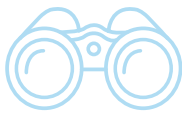
“During the pandemic, the full organisation adopted a risk approach. Now there is a greater involvement of the risk function and the mindset of top management has changed. The interaction with Operations has been much more relevant than with Strategy.”



“It is not enough for the CRO to be part of the executive team. Relevant is the CRO's voice in the team. This depends on how much the CRO is recognized as a key collaborator with other functions. The CRO's job is to convene, challenge and provide other perspectives.”

“Risk Management needs to go beyond lines of defense. If something happens, decision lines can be unclear. Corporate contingency plans need to be translated into risk governance. How can we become more proactive? Foresight is another important dimension. Companies often have siloed thinking”





What do risk managers say about their future efforts to strengthen resilience?

Three-quarters of risk managers expect a greater emphasis put in the near future on improving risk culture and integrating resilience efforts more deeply in the strategy process.

They do not expect that interactions with external stakeholders, including regulators, would play an important resilience-strengthening role. This implies that their efforts at building and managing resilience will be more inward-directed.

While almost half of the risk managers surveyed will place a major emphasis on interactions with their board as part of their efforts on resilience-strengthening going forward, more than two in five only expect to place a minor emphasis on this aspect.

At the same time, risk managers emphasize in interviews that it is essential to educate the Board room about the value of risk in providing meaningful risk reporting, performing scenario analyses and challenges, etc. to improve decision-making.

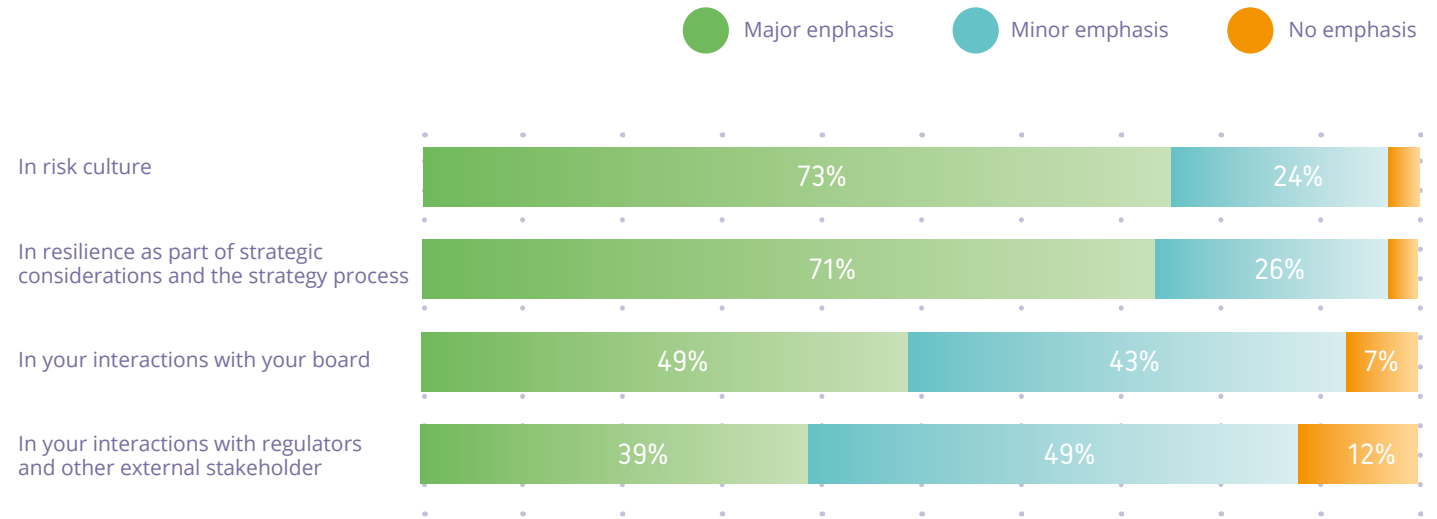
Finally, the recent pandemic crisis produced different lessons, e.g. in managing supply chain risks, improving fast and informed decision-making by adapting the risk governance, building a better data infrastructure etc.

Many risk managers are now using this opportunity to improve their value proposition and profile across the organisations.



“Reporting is an important improvement area. During crises, you need to get reliable data quickly. Many boards lack oversight on important risk topics. If companies lack appropriate risk data systems, top management will make suboptimal decisions. In our company, we launched an analytics project to combine data across the group as a priority.”

As the risk manager, where do you expect more emphasis to be placed on in the future to strengthen resilience?



“We need to revisit risk governance. The risk function is on the road to becoming better understood throughout the organisation. The board room is still missing out on why Risk has to be an important contributor to decision making.”



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