Operating globally is fraught with challenges. Companies today face an unprecedented array of issues including global economic conditions, margin pressure, regulatory compliance, supply chain, terrorism, political risk, and cyber liability. These topics have received a great deal of attention, and most well-run companies have developed policies and procedures to address them. This white paper will focus on some less publicized issues which can also have a significant impact on a firm’s ability to compete and thrive in the global marketplace.

These include:

- The Role of Risk Management
- Global Strategies
- Big Data
Multinational companies face an array of risks which are becoming more diverse, complex, and challenging to address. Companies are discovering risk management awareness and accountability must be firmly embedded in their culture, process, and leadership to protect their business and maximize opportunities. The most successful firms manage risk by assessing the global environment, preparing for future events, and closely monitoring key threats. They take calculated risks which can help add to top line growth while building resources and protocols around the most significant threats.

Risks which are poorly understood or managed can cost money or inhibit the ability to gain advantage from emerging opportunities. In a quest for growth, some businesses look abroad for new customers or trading opportunities, only to find they are beyond their knowledge base or risk management capabilities. Many companies also struggle with how to embed the proper “risk acumen” outside the US to proactively identify, prioritize, and address potential issues. This is largely due to a disconnect between “strategy” as defined by the C-Suite and “operational risk management” as practiced in the field.

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<td>Basic actuarial modeling, loss control, claims management, risk transfer/financing techniques</td>
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<td>Enterprise risk management, advanced analytic capabilities, political risk acumen, finance/tax strategies, “Blue Sky” and contingency planning</td>
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1. **Foster a collaborative culture that cuts across the traditional silos of the organization**

A culture in which risk management is seen as assisting, rather than hampering, profitable growth. The C-Suite must encourage the internal dialogue necessary to improve risk awareness, accountability, and ultimately achievement. While this sounds simplistic, the reality is far different. Risk management, finance, human resources, legal, and other interested parties can often have divergent views of risk and risk tolerance, or view the same set of facts very differently. Additionally, when locations and stakeholders are located far from the home office, this cognitive dissonance tends to become even greater.

2. **Have a common, well-defined understanding of “risk”, as well as an understanding of the business environment, value drivers, strategy, and associated risks**

Organizations should also examine their risk governance structure to ensure responsibilities are clearly allocated and defined at the board and management levels, and their internal structure supports and encourages risk dialogue. Management and the board should collaborate to establish a common understanding of the company’s tolerance for risk and its potential impact on strategy. Executive management must also be actively engaged in how strategies are being pursued, evaluating which risks to take and for what return. Furthermore, until recently the majority of corporations have made very little information about their overall risk profiles available to stakeholders. This is changing rapidly as rating agencies start to factor in a company’s ability to manage risk. Many public corporations are now actively working to identify and quantify the most critical risks they face and make their plan of action available to all stakeholders as part of their annual reports.

How do global companies move from a traditional risk management strategy to one that will support future growth?

The speed of change in today’s business environment has led to pressure on the basic framework and understanding of traditional risk management. Multinational companies must rethink their strategies and develop new approaches to dealing with an ever-increasing level of complexity.
3. **Manage the “hard to manage” risks**

Companies are also now managing risks which defy easy measurements or lack a suitable framework for management. These include such things as reputational harm, political risk, supply chain and logistics, legal, compliance, human resources management, financial, and other controls related to the Dodd-Frank or Sarbanes-Oxley Acts. All of these and more now fall under the risk management umbrella and require new approaches and tools. They will also require risk managers to articulate strategies and outcomes using the language of the C-Suite.

4. **Don’t skimp on hiring the right people**

Risk management is becoming increasingly visible, and this has led to higher expectations around skill sets. The risk manager of the future will be tied to strategic decision making and asked to master disparate disciplines including finance, operations, technology, and logistics. Operating globally also requires that companies become better at recruiting, training, and developing local talent. Without a nuanced understanding of the local marketplace, risks and needs, companies may overlook critical issues or opportunities. By 2018, the United States alone will face a shortage of over two million managers and analysts with the know-how to analyze data to make effective decisions. Companies ahead of this demand curve will gain competitive advantage.
GLOBAL STRATEGIES

Operating globally offers clear benefits associated with access to new markets, raw materials, customers, and suppliers. However, as companies become bigger and more geographically diverse, the challenges can outpace their ability to recognize and manage the risks or deal with uncertainty. Many multinationals point to the difficulty associated with coordinating management, core standards, and strategies around the globe. Standardized business processes and procedures which work so well in the US may prove wholly insufficient or overly draconian, depending on the market. Lessons learned in one jurisdiction may also not be transferable to others. Developing economies can also demand fast, flexible decision making around structure, people, processes, and risks. This can be difficult if centralized decision makers lack a clear understanding of local issues and customs or retain ultimate decision making authority.

Further, as international systems of finance, supply chains, health, energy, technology, and the environment become more complex and interdependent, the velocity and volatility of change has never been greater.

Risk in such a closely connected environment can no longer be treated as something which is confined to particular business unit, industry, or geographic region. Intertwined physical transport, trade networks, energy and water supply networks, and global information technology systems can become a basis for global stability or something which amplifies cascading shocks (e.g., mortgage security collapse).

Additionally, rapid political, legal, regulatory, and social change can impact strategies and further complicate decision-making. Traditional rules, practices, and norms vary significantly outside the US and can impact a company’s ability to penetrate new markets, protect intellectual capital, and avoid trouble. Regulatory directives, such as the US Foreign Corrupt Practices Act, OFAC, or FATCA can also cause problems closer to home. Even in western countries, the degree of governmental intervention to support local economies is at unprecedented levels and promotes even greater uncertainty around compliance or liability.
“Big Data” has become a commonly used term in both business and risk management, despite the lack of a commonly accepted understanding as to what it really means. The increasing volume and detail of information captured by enterprises, the rise of multimedia, social media, and the internet will lead to exponential growth in data “inflow” for the foreseeable future. In theory, this should help organizations optimize their performance and grow their business. Unfortunately, there is not yet general agreement or consensus around what sort of data is needed, how it should be captured or delivered.

Demands for “information” are increasing, but this is often an elusive target. Insurance markets, for example, emphasize their “data” capabilities but frequently lack the tools, common definitions, and consistency to convert this to comparable and actionable information. Additionally, much of their focus has been limited to using data to present historical trends, manage, and contain losses within the retention or improve risk selection. A better approach might be to develop client specific indicators for claims with adverse potential. The goal would to aggressively manage such claims very early in the process to help reduce costs.
Brokers can add to the confusion by offering pricing and loss benchmarks without being able to differentiate based upon the unique characteristics of each client. Seeing a loss trend isn’t helpful unless the underlying drivers are clearly understood. Similarly, benchmarks based on averages don’t facilitate decision-making. The C-Suite will also increasingly demand quantitative support and metrics to guide decision-making, and it is essential that risk managers work closely with key sources to establish a common platform, format, and access to needed data.

Finally, as data grows, companies will also have to grapple with issues and policies related to privacy, security, intellectual property, and even liability. Companies will also need to integrate information from multiple data sources, often from third parties, and the safeguards have to be in place to facilitate this. As recent headlines attest, many of the current risk management policies and practices are woefully inadequate. More importantly, there is a “patchwork” system of global regulation which creates significant regulatory and legal risk hurdles.

We have discussed just three of the strategic challenges facing companies operating in an increasingly fast paced and volatile global economy. No two companies will address them exactly the same way and competitive advantage will go to those willing to continuously adapt and evolve their structures and processes. Thinking globally but acting locally will become more important than ever, along with the demand for actionable data to guide decision making. The risk manager of the future will require broader skill sets and increasingly be asked to work across an organization to help facilitate strategic decision making.

Analyzing large data sets to predict, improve, and drive outcomes will become a key basis of competition. Every sector of the business will grapple with the implications of big data, and most are poorly equipped to do so.
Our Mission

To be the worldwide value and service leader in insurance brokerage, risk management, employee benefits, and retirement services

Our Goal

To be the best place to do business and to work