

# Fingers in the pies

The concept of integrated risk management first became popular in the late 1990s. According to Nicholas Robertson, Head of Risk and Insurance at the Shell Group, who chaired and introduced the breakfast briefing on the subject in October, the response of many corporates to the idea was to appoint a chief risk officer (CRO). With that step alone some corporates believed that integrated risk management had been accomplished in the twinkling of the eye.

It hasn't quite worked out like that. Corporate crashes – from Enron to more recent episodes such as the \$6bn (£3.2bn) meltdown at Amaranth, an American-based hedge fund – can still catch directors and stakeholders on the hop.

But Robertson argued that great strides had been made in integrating risk management within corporates, with evidence that the concept of risk management was beginning to have influence across the organisation.

Information and communication technology has been the leader in the development of risk management over a number of years, but other areas of the business also need to become more closely involved. Robertson said that integrated risk management could have an effect many areas and that there was a need for better two-way internal dialogue.

**WORKING TOGETHER** David Blackwood, ICI Group Treasurer, gave the treasurer's perspective on the risk facing his organisation. He shared the platform with his colleague Ian Canham, Group Risk and Insurance Manager at ICI. In Blackwood's words, they both "work together fairly closely".

ICI now positions itself to consumers across the globe as a leader in formulation science, whose products "create many of the effects that make the world look brighter, taste fresher, smell sweeter and feel smoother in areas such as paints, foods, fragrances and personal care. The kind of products you use every day."

One of the key concerns for ICI has been to tackle pension issues. The pension fund is now acknowledged as a major risk for many corporates. Blackwood said that ICI's pension fund's assets and liabilities were now "heavily matched". He did, though, admit that the pension deficit of £1.7bn on an FRS17 basis are "numbers hardly cast in granite".

There is also a growing recognition that mortality is one of the key, unknown risks. Blackwood was clear that we would not all actually die when actuaries said we should! In terms of managing the pension risk, ICI bought heavily into liability-driven investment (LDI) a few

## Executive summary

- The second breakfast briefing in the series on integrated risk management – organised by the ACT/AIRMIC Special Interest Group on Risk: Insurance and Treasury, and sponsored by Zurich Financial Services – continued to debate the development of an integrated approach to risk management based on best practice. At the meeting in October, ICI's Group Treasurer David Blackwood and its Group Risk and Insurance Manager Ian Canham outlined their approach.

years ago when LDI products were in their infancy, and also, according to Blackwood, when the cost of such products was substantially lower than today.

**PROTECTING THE BALANCE SHEET** ICI is an international business and generally manufactures in the countries and areas where it sells its products. Blackwood has a clear idea of the role of the treasury team: "Our job is to protect the balance sheet."

Blackwood dismissed the interest rate risk as not a big risk item on

PETER WILLIAMS  
LISTENS TO ONE VERSION  
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was the old cliché that this was about risk management not complete risk mitigation.

Canham recalled that ICI used to focus risk management on chemical plants and responsibility for risk management lay with the company's surveyors. There is now a "huge difference" compared with those days. As Group Risk and Insurance Manager, Canham described his job as having as many fingers in as many pies in order to ascertain the rise and development of emerging risk in the individual businesses. He said: "The job of the risk manager is one of constantly learning. You cannot know every risk."

**GROUP RISK REGISTER** In a company like ICI new products are coming on stream all the time (the company has 50,000 products) all of which represent a potential risk. With the company's operations spread across the globe there are major issues dealing with different regimes for regulatory risk – every country has different regulations – as well as dealing with different cultural attitudes to health and safety. Canham said integrated risk management needed to be a process of continuous improvement: learning from the company's mistakes and moving forward. For ICI these tasks are performed through a series of operation boards and the company also maintains a group risk register. If Canham has a particular concern or if something is drawn to his attention, his team has the mandate to "go in and have a look".

A key part of Canham's and Blackwood's role is to try to learn from the claims experience. This process Canham described as "integrated within the group".

It is key that the risk approach and the company's risk culture stay up to date with the reality of the business. ICI has changed dramatically over the last 10 years. Compared to a decade ago the company is smaller and while the core risk management culture may remain the same, the approach used as a standard risk assessment has to be adjusted.

Organisations have to accept that losses will occur and that insurance has to be purchased to protect those losses. They have to look at what cover is needed and the most effective way of buying that insurance cover. Many companies – including ICI – use captive insurance companies as a way of accessing the insurance market. Canham cited benefits of economics and coverage and flexibility. When the market is soft, captives can take advantage of the low rates by reinsuring a relatively large proportion of their risks. The low cost of reinsurance allows the captive to build up its reserves. When the market hardens, the captive may retain a larger proportion of its risks, and can maintain cover for the companies within the group even when commercial insurance is no longer available or is expensive. The ICI group has captive insurance companies with assets of \$250m.

According to Canham, insurance will always be part of the solution. But the key is for his team to know of all the liabilities so that they can be aware of any emerging trends. From both an insurance and a financial perspective it is important that the information is in order to focus on the integration of risk, and that can only happen at the group level.

regular debt but admitted that the currency risk was significant because of the overseas asset position. Because of the shape of the business, with assets held in territories across the globe, the company does not hold any debt in sterling. While Blackwood as treasurer takes responsibility for the financial risk and the group balance sheet, ICI believes that the job of country risk managers is to work with the head office to protect the operating assets under their jurisdiction. As you might expect from a company with the pedigree of ICI, the financial risk policies are quite conservative. For instance, trading in financial instruments is not allowed.

**THE STRATEGIC PROCESS** Interestingly, whatever the financial risks, Blackwood believes that the biggest risk is operational, and the top of the tree in this area is strategic choice, before one considers the risks of strategy execution. Any company that backs the wrong business opportunities, organic or inorganic, is heading for trouble. Execution requires a clear identification of operational risks, and clear plans to manage them, accompanied by good monitoring and measurement processes. In most instances this should be a pretty routine process in its own right. It should not be beyond the wit of large corporates to make sure that all necessary controls are in place. Blackwood acknowledged that mistakes do happen and things do go wrong – it

Peter Williams is Editor of *The Treasurer*.  
[editor@treasurers.org](mailto:editor@treasurers.org)

Breakfast briefings on integrated risk management are due to continue through 2007. Please refer to the ACT events website: [www.treasurers.org/events](http://www.treasurers.org/events).