

Short parts

The call for papers has been announced for the 2007 RMIA conference on the Gold Coast, on November 25-27.

Expressions of interest close on March 23. Please send a 300-500 word abstract. Go to www.rmiaconference.com for more information.

Plan ahead for the 2008 RMIA conference in Perth, which will be a combined RMIA-FAPARMO event.

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Dan Crowley, co-moderator for the conference and managing director of Verifact Investigations, turned up on day one wearing a striped green blazer. Looked a bit out of place, but he explained the relevance. Dan is a former Wallaby rugby union front rower who played for Australia in three World Cups and 39 Test matches. It was his Australian team blazer. He said RMIA and the Wallabies had shared traits -- integrity, achievement and values.

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RMIA patron Pat Barrett welcomed delegates, saying three factors were necessary for success in RM -- knowledge, ownership and implementation. He told delegates that using RM technology they did not fully understand was very risky and warned that "basic record keeping" was an element of risk management that was often ignored.

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Of course AFL had to rear its head at the conference, given that Melbourne was the host city. Keynote speaker Sam Mostyn, from IAG, is also a member of the AFL Commission. During question time, delegate and session chair Greg d'Arville achieved what many considered a first. A Collingwood supporter admitted that Carlton actually had a place in the competition.

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Speaker Linda Nicholls told delegates she had been taught as a youngster to manage the downside of risk. "Eat your vegetables, look both ways before you cross the road, do this .. don't do that, nice girls don't do that." As she grew older, she realised that "nice girls ... don't get caught".

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During the conference, Standards Australia RM committee chairman Grant Purdy launched a new handbook, *Delivering Assurance* based on AS/NZS 4360. He told delegates there were more people with the initials CPA than CPRM doing RM in Australia and there was "a fair bit of indifferent RM being done out there". He outlined the benefits of the new handbook. For more information, go to <http://www.saiglobal.com/shop/Script/Details.asp?DocN=AS0733778437AT>.

Risk management is about business success

Risk management is not a survival tool, it's about achieving business success.

That was the message from former Australia Post chairman Linda Nicholls (*below*), who spoke at a breakfast briefing at the RMIA conference.

Joining her on the podium was James Hardie chairman Meredith Hellicar. Both are members of the Marsh advisory board.

Ms Nicholls said as a child she was taught to be risk averse and to manage the downside of risk. "Don't do this, don't do that ..." was her mother's maxim. But in the corporate world she realised the cautions were about survival, not success. "Success is about taking risks wisely." In banking, for example, a lender who had never made a bad loan was one who did not know how to manage risk well.

She told delegates to seize the upside opportunities of risk and manage the downside. The corporate equivalent of her mother's advice was compliance and governance. The current framework allowed organisations to "box tick on the downside of risk", but they had to move beyond that and look at upside risk, like price pressures, competitive advantage, service quality, employee engagement and other earnings drivers.

"Where is upside risk on your risk map? How many of us can articulate the risks we actually want to take?"

Taking risks was essential to success. A company obsessed with compliance was in danger of forgetting to think about the business itself.



Ms Hellicar also criticised risk averse organisations. Good RM meant having a "deep, confrontingly realistic understanding of your own business". "You need a sanguine assessment of what you can control, mitigate or transfer. It's about competitive advantage, not just minimising risk."

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She said organisations needed a RM culture embedded from the top down. RM was not “an add-on”. While compliance was necessary, “you must position your company to seize opportunities to deal with future events”.

“Don’t assume compliance is enough. Filling out the forms and being correct may be a good outcome on paper, but it may be disastrous in the business.”

Increased disclosure requirements had “had the opposite impact” to regulators’ intentions. Company disclosure was now “opaque, dense and incomprehensible”.

Ms Hellicar (*below*) said it was a common mistake to outsource thinking on risk management. RM professionals could best add value by bringing discipline to the process, but “no one knows the business better than the people running it”.



Ms Hellicar said boards needed to make “brutal” and “hard-nosed decisions that enhance success”. That required continuous discussions between board and management.

Ms Nicholls agreed, saying management should not be wary of bringing bad news to boards. Boards needed to talk about how they managed the emotional aspect of receiving bad news.

When she joined the Australia Post board it was “a commercial company, but not operating like one”. Risk managers had to ask why a division was not making money or why competitors were making money in areas Australia Post was not. “Step away from your comfort zone and look at the real risks that are driving business outcomes,” she advised risk managers.

Ms Hellicar said risk managers needed the courage to ask substantive questions “not just stick to a process”. Doing so could allow RM to remain at a subconscious level.

Ms Nicholls said the best RM practitioners were those who had worked in and on the business.

She was critical of the newly released ASX guidelines on corporate governance, saying if risk weighting, which the guidelines require, was done correctly it would mean disclosure of confidential information and encourage litigation. “People think it should be against the law to lose money.”

Ms Nicholls said few companies wanted to talk about the upside risks ahead “because they don’t want their competitors to know”.

Terrorism risk from ‘sleeper cells’

“Sleeper cells” and “cleanskins” are the major terrorism concerns for Australia, says terrorism expert Adjunct Professor Clive Williams.

Prof Williams, from the Centre for Policing, Intelligence & Counter-Terrorism, Macquarie University, Sydney, told delegates the perception there had been no terrorist or politically motivated violence (PMV) in Australia was wrong.

“It was disturbing to hear someone as eminent as Attorney-General Philip Ruddock claim on television on September 4, 2006, that there has never been a terrorist attack on Australian soil. The reality is there have been many terrorism incidents, although the number of deaths is quite low.”

Prof Williams said there had been at least 22 cases of PMV in Australia since 1868, 13 by shootings, five by improvised explosive devices (IEDs) and four by stabbing or unknown circumstances.

Other well-known violent incidents in Australia, including the Russell St Police Headquarters bombing in Melbourne in 1986, were criminal, rather than political. “The terrorism concern now is about Islamist extremist sleeper cells in Australia that could one day be responsible for much more deadly attacks than those we have suffered in the past,” Prof Williams said.

In part, that threat was because of large numbers of people in Australia illegally, who had disappeared into the community. “The Dept of Immigration & Multicultural Affairs unofficially estimates there are 60,000 people unaccounted for. If correct, this presents ASIO and other national security agencies with a near-impossible monitoring task, despite the good work they have done in the past. A further concern now is ‘cleanskin’ [those with no criminal or security record] self-starter Islamist extremists, probably born or brought up in Australia, who may act with little or no outside support.”

Prof Williams said the most likely cause of death would be from multiple IEDs, similar to those used in the 2004 Madrid, 2005 London and 2006 Mumbai bombings. “We could then easily end up with one violent incident resulting in numbers of dead and injured far surpassing all previous incidents in Australia.”

‘Red tape’ biggest concern for business

Corporate Australia is caught in a “vortex of red tape, heavy regulation and challenges of competition”, according to the 2005/06 Aon Insurable Risk Survey.

Jason Disborough, Aon Risk Services divisional manager, presented the survey findings at RMIA’s 2006 conference.

“Corporate governance dominates the 2005/06 risk concerns for Australian organisations, with a lack of innovation also looming as a key risk to business,” the survey said.

Risk was being taken more seriously by CEOs, CFOs and boards and was increasingly being considered as part of the overall business strategy.

Organisations were benefiting from RM investment, through better informed decision making, improved internal controls and improved governance standards.

Risk costs were down 8.5% on 2004/05 to \$8.69 per \$1,000 of revenue and more organisations were actively selling their risks to insurers.

The most important factor for choosing insurers was value for money, an effective claims service and dependability.

Organisations were more relaxed about counter-party risk, with only 70% of respondents saying they regularly checked the financial security of insurers, compared to 84% in 2004/05.

ERM reduces workload and risk

Blue Care has reduced its workload and its risk by implementing an enterprise-wide risk management (ERM) framework, says Andrea Kanserski, Blue Care risk management co-ordinator.

Blue Care is one of Australia's largest not-for-profit community and residential aged care service providers, with an annual turnover of \$396 million and net assets of \$472 million.

Services include allied health, nursing, personal, respite and social care and pastoral care in metropolitan, regional and rural Queensland and northern NSW.

The majority of Blue Care clients are frail aged and young people with disabilities and their carers.

Ms Kanserski said that, before 2001, risk was managed informally on a day-to-day basis without contributing causes being identified and managed.

That caused frequent re-work of the same risk events, significantly increasing the workload. "An internal audit risk management review in September 2002 led to development of an ERM project plan."

The plan included risk responsibilities, including their integration into position descriptions, with alignment to the performance appraisal process. It also incorporated principles of risk assessment and management into Blue Care's strategic business decision process and management training programs.

"Like many organisations of this size, Blue Care was facing the challenges of implementing RM on an enterprise level. Executives saw RM as an operational role instead of taking a strategic view. Risk vocabulary was a problem with people using the same term but meaning different things."

RM was now a standing agenda item for all corporate forums attended by regional business managers, accountants, care managers, HR managers, staff development officers and workplace health & safety officers.

"To date there has been a good acceptance by all areas of the business to use the RM process and application to support our business decision making. This has been achieved by using a team focused approach and using staff expertise across business units to support implementation and integration of the Blue Care RM strategy," Ms Kanserski said.

"In the current aged care climate, Blue Care has recognised that our future relies on our ability to identify and manage business risks, allowing us to move with confidence and agility in realising market opportunities that align with our strategic directions."

Effective RM needs competent decision makers

Effective management of emergent and complex risks requires an approach that extends beyond a rational, standards-based method, says Beng Khoo, Australian National University lecturer.

She said a limitation of AS/NZS 4360 was that it did not address competent risk decision making as a requisite capability. Personal and situational factors and socio-cultural and political context influenced decision makers' perceptions of risks, how to make sense of them and how to assess them.

"Sensemaking ... plays a central role in the construction of risk perception before any application of formal methods and techniques to arrive at a risk judgement," Ms Khoo said.

Many risks were multi-faceted and not easily definable. "They are complex structurally, computationally, behaviourally, politically, contextually and dynamically. Not all risks are knowable and predictable."

Move towards 'horizon two'



Risk managers need to move beyond their core competencies and "expand the brand" of the risk professional, says Nick Chipman (above), CPRM, PricewaterhouseCoopers partner.

He told the RMIA conference risk managers were currently at "horizon one" but needed to move to "horizon two". They needed to get involved in decision making on risk, rather than just managing it. Their current role was insufficiently strategic. "We now have maturity about risk, so we can go further."

Mr Chipman urged risk managers to get involved in new investments, mergers & acquisitions, capital allocation, capital structure, corporate social responsibility/triple bottom line reporting and business model simplification. "We may touch on these things, but how deeply are we involved?"

Risk managers had a range of tools to help complex decision making within their organisations. "Look at where you see yourself in the business. What experience do you have that's valuable at horizon two?"

Constructive courage was required. "Don't take no for an answer", even if the CEO wants the risk manager to take a back seat in decision making.

There were benefits for the business in the risk manager being "engaged in growth and corporate development" and there were personal development benefits. "Challenge yourself and your team, don't just stand back and take orders."

Mr Chipman challenged risk managers to "do better as a profession". He called for increased "collegiality" through networks, coaching to fill gaps and blind spots, mentoring, collaboration and peer review.

Ms Khoo said best-practice standards needed the embedded capacity to "tease apart" the complexity of decision-making context and the propensity to promote risk decision-making competence.

"Effective adaptation and implementation of the standard will depend on skills and expertise of the decision maker using the framework. Proficient risk decision making is foundational to effective RM," she said.

Disclosure and accommodation of individual beliefs, values and general risk attitudes was required. "We need to be conscious of how [a person's] world view constrains or facilitates [their] approach to risk decision making."

Effective RM could be facilitated by an integrative, multidisciplinary framework, capable of "explicitly embracing" diverse perspectives while promoting learning to develop decision makers' cognitive maturity.

Climate change potential 'devastating'

Commercial and financial incentives are needed to reduce greenhouse gas (GHG) emissions and develop new technologies before Australian industries are devastated by climate change, says Tony Coleman, IAG chief risk officer.

CSIRO research found Australia was particularly vulnerable to climate change, he told the RMA conference. "The \$32 billion tourism industry is highly climate dependent. For example, the Great Barrier Reef supports a \$1.5 billion industry but, with a 2°C-3°C increase in temperature, 97% of the reef could be bleached."

Mr Coleman (*below*), a founding member of the Australian Climate Group, said \$17 billion of livestock industry exports faced risks from heat stress, pests and disease, and national livestock carrying capacity was expected to fall by 40% if temperatures increased 2°C.

A 2°C increase in temperature would reduce water flows in the Murray-Darling Basin and to Melbourne by 15%.

Mr Coleman said, based on a 20% reduction in Australian irrigation allocations, gross domestic product was projected to fall by around \$750 million in 2009/10.

Severe Australian tropical cyclones were expected to become more intense and move further south. Hailstorms on a similar scale to the Sydney storm in April 1999, that featured hailstones more than 9cm in diameter and cost \$1.7 billion, could become twice as frequent.

Mr Coleman said climate change response was a risk for business because uncertainty about the future of climate policy heightened risks associated with investment. "Business is used to working in uncertain environments, for example, fluctuating interest rates, exchange rates and crude oil prices. However, existing frameworks allow business to take informed positions on these variables."

A framework would assist business in making decisions and investments using established business models to manage climate risks and exploit opportunities. "How Australian industries and economic systems cope with [climate change] impacts depends not only on the extent and rate of climate change, but on their capacity to adapt. CSIRO concludes that reducing global GHG emissions will reduce the rate and magnitude of climate change, thereby allowing industries more time to adapt."

Reducing emissions in developed countries by 60% or more by 2050, as part of an international response, would prevent some of the worst-case scenarios of climate change in Australia.

The Australian Business Roundtable on Climate Change recommended delivering immediate, cost-effective GHG reductions



by setting a long-term aspirational goal and short-term binding target of GHG reductions, establishing a market-based carbon pricing mechanism and accelerating efforts to manage energy demand and reduce GHG emissions. Breakthrough technologies could be encouraged by expanding fiscal incentives, building modelling capacity to enable better cost/benefit analyses of mitigation and adaptive responses and creating a stronger science and technology culture to drive innovation.

A national strategy should be implemented to build resilience and reduce vulnerability to climate impacts, for example, building codes, water resources, health responses, biodiversity, heritage areas and climate-dependent industries.

Contract out to manage exposure

Given the potential impact of proportionate liability (PL) laws on risk allocation in contracts, parties should consider contract provisions to manage exposure, says Peter Mann, Clayton Utz partner.

Although there were some differences in PL laws between states, the main effect was to apportion loss between concurrent wrongdoers, according to their respective responsibilities.

"The PL legislation, coupled with other reforms to negligence law, was intended to place downward pressure on the cost of liability insurance ... by preventing a court from sheeting home 100% of a plaintiff's loss to a well-insured wrongdoer when others were also partly responsible," Mr Mann said.

There were several possible ways to contract out of PL legislation in some jurisdictions. Parties could include a clause that expressly stated relevant PL laws did not apply to claims between the parties, or provisions could be included in the contract that, if either or both parties were subject to an apportionable claim, liability would be apportioned in a particular way.

There was a "separate escape route" where parties agreed to refer disputes to arbitration instead of a court, and "negative any implied term" in the contract that the arbitrator had jurisdiction to deal with the matter under a PL scheme.

Mr Mann said that option may not be possible in all jurisdictions. Although all PL laws referred to "the court" being required to apportion liability in relevant proceedings, laws in NSW, Victoria, the NT and Tasmania defined "court" to include tribunals.

"Accordingly, in these jurisdictions ... it is not possible to contract out of the legislation by referring all disputes to arbitration, as arbitral tribunals are bound to apportion liability in accordance with the legislation in these jurisdictions," Mr Mann said.

The ability of parties to contract out of PL laws in some jurisdictions, but not others, could determine which law was chosen to govern a contract. The Trade Practices Act and PL laws in Victoria, SA, the ACT and the NT did not expressly allow for contracting out of PL, Queensland expressly disallowed it and WA expressly allowed it.

"A keen eye must be kept on legislative and case law developments on PL. While it is difficult to predict its likely impact on the insurance market, we can speculate as to possible effects of the changes."

A possible benefit to insurers would be their ability to underwrite risks knowing they were only liable for their insured's actions. "However, that benefit will potentially be offset by the increase in the number of parties involved in litigation as defendants scurry to ensure they are not left facing the burden of the entirety of a plaintiff's loss," Mr Mann said.

Good RM has a heart

To successfully embed a RM culture, risk managers need to consider employees' emotions as well as technical structure, says David Smith, Victorian WorkCover Authority risk manager.

He told the conference companies could have excellent RM structures, but could fail to deliver results if people's emotions were not engaged. "As a result of our training and experience, risk managers have a good understanding of the various technical aspects of RM. Unfortunately, like all technicians, the very skills and language we use can be a barrier in communicating risk throughout the organisation."

Mr Smith said that, in most organisations, the only time sociological risk was taken into account was when dealing with reputational risk. "As sociological risk is about what society thinks, we have an external focus when dealing with it. [However], just as emotions impact on communities' understanding of risk it will impact on the internal risk perceptions of our staff. As such, we cannot ignore the values and beliefs of our staff."

Mr Smith said that to move staff along the "RM journey" it was important to engage them on a cognitive and emotional level. Risk managers needed to understand that feelings and emotions people experienced at any given time affected their risk perceptions.

"How often do we see people engaged in RM processes because it is seen as a compulsory activity. They have no real interest and no real understanding of how it can be integrated into the way they carry out their business. The heart and head are both not engaged."

Mr Smith said without the heart, people did not have the will to perform, without hands they would not have skills and without the head they would not know what to do. "All are integral and we need to engage people on all levels to achieve results."

Stamina and guts leadership prerequisites



Effective crisis management requires a team culture, says General Peter Cosgrove, a man who has been a crisis leader through his military career and now heads the Cyclone Larry taskforce.

Mr Cosgrove (*above*) told RMIA delegates the team needed to be risk aware and have the confidence to tackle risk that had become reality. Team members "can't run round with their hair on fire, they need stamina and a lot of guts". They also needed professional skills, interpersonal skills and a good humour. They needed to be "calm and sunny", despite the crisis.

Defining the difference between leadership and management, Mr Cosgrove said leadership was "of the spirit; management is a science". You had to study management; it was about harnessing resources to achieve outcomes. Leaders could be trained and were born with some of the prerequisites, but no one was

born with the motivation to lead. Leaders needed "a fair deal of humanity" plus honesty, courage and guts.

The best leaders radiated calm and competence in a crisis and needed clarity of thinking. "They are good when it's smooth sailing, but better in a crisis."

Crisis leaders required simplicity. There was a danger in "trying to meet everyone's needs". For example, after the Asian tsunami, the military response had to be fast. It was not possible to wait for perfect information, as Indonesia needed immediate assistance.

Mr Cosgrove said the military was all about managing and mitigating risks but, since he left the military, he had become more aware of RM as a discipline in broader management.

Risk managers needed teams who were willing to get involved in contingency planning and needed to test their plans rigorously.

Businesses must plan for pandemics

Businesses must carefully consider human resource issues and business continuity now to properly plan for pandemic risk, says Rodney Moran, Victorian Department of Human Services communicable diseases unit senior policy & planning officer.

He told delegates businesses needed to identify core people and skills, establish pandemic planning teams, plan for staff absences, consider effects of shortages on operations and establish effective two-way communication.

"All businesses will be affected by staff absence because of illness or isolation of suspected cases, the need to take time off to care for others, or fear of contracting pandemic influenza.

"This will occur at a time when, for some agencies, the workload may be greater than normal. With a 30% attack rate it is estimated that staff absence could be 25%-50% during the peak of an influenza pandemic."

Mr Moran said flow-on effects could include supply shortages, transport delays, increased demand for services, possible disruption of fuel and energy supplies and temporary closure of venues. Continuity plans should be tested to find out how well they would work in a real situation.

"Influenza pandemics are associated with high deaths, excess illnesses, and social and economic disruption. There were three such pandemics in the 20th century.

"It is impossible to predict when the next pandemic will occur but, when one does, the widespread level of projected illness and mortality and the predicted disruption to society will have a major impact on all organisations," he said.

Scenario analysis needs democratic approach

For a scenario-based approach to risk assessment and analysis to be successful, it must be inclusive and truly democratic, says University of Essex Professor George Cairns.

Scenario analysis is a process of analysing possible future events by considering alternative possible outcomes. Prof Cairns said a study of the construction and oil industries found scenario analysis was viewed as the second most frequently used, and most successful method, of risk analysis in major projects.

"It must involve all relevant and involved decision makers from all levels and across all fields of activities, and must be structured in a way that does not allow powerful individuals to exclude data and opinions from the discussion, or to pre-empt the outcomes by enforcing interim selective decisions."

Decisions made at the end of the process should be based on critical consideration of the full range of possible outcomes and impacts of the scenarios.

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Prof Cairns (*below*) said history showed that, in projects where risk was present and accepted, RM procedures were not always effective, and human error and misjudgement could lead to tragedy.

Individually asking team members their views on different aspects of a project was the first step to scenario analysis. De-identified responses were collated for further consideration and opinions of “leading-edge thinkers” in the field of inquiry were sought.

“Organisations that wish to be fully prepared for any eventuality should seek to develop the skill of scenario thinking as an inherent quality of their members. Here, any problem, no matter how small and how tight the timescale, is approached by questioning what, how, who and why at the outset, establishing the widest range of plausible possibilities for outcomes, and only then considering options and selecting the most appropriate solution,” Prof Cairns said.

He warned of the tyranny of “groupthink”, when team members got locked into a single way of thinking and became blind to other options.

Bringing in external people challenged “business-as-usual” thinking and reduced the possibility of “groupthink”.

“Scenarios are not predictors of the future, but they are ways to better understand the diversity of the present.”



Learn from major event history

Major event organisers should implement effective methods to capture and analyse injury data as part of their planning to improve safety standards for future events, says Wayne Middleton, Lloyd’s Register principal consultant.

He analysed injury data of spectators, staff, volunteers and contractors during the 2000 Sydney Olympic Games (SOG). The study was designed to identify and propose rationales for injury trends, establish incidence rates and risk values, determine future benchmarking values and make recommendations for improving reporting and safety.

SOG non-sports related incidence of injury rates (IIR) per 100,000 people was 174.83 for staff, 22.34 for contractors, 12.97 for volunteers and 0.8 for spectators.

“The average IIR per 100,000 for industry in NSW (1999/2000) is 7.2. The NSW mining industry has the highest IIR of 54.7. The IIR for paid staff in this study is three times that of the most dangerous industry in NSW,” Mr Middleton said.

The IIR among paid staff could have been the product of a low organisational safety culture derived from the event’s temporary nature, critical project deadlines, and the rapid growth in workforce leading into the event.

“Major causes of injury included a lack of hazard and situational awareness, outdoor environments, ineffective risk controls and failures to implement safe work instructions.”

Mr Middleton said expanding the Building Code of Australia to include clearer standards for mitigating slip and trip hazards in temporary venues should be considered.

An independent body should collect and share injury data from public venues and events to improve the knowledge base from which safety risk assessments could be developed.

“The venues and events industry in Australia does not collect, analyse and share injury data for the purpose of improving safety standards within the industry. Data for serious personal injury incidents is collected by individual venue operators and event organisers.”

The information was usually only reported to public liability and workers’ compensation insurers or brokers and was largely for claims management purposes, not loss prevention. “Such data is not disseminated industry-wide and not shared publicly.”

Most countries that hosted Olympic Games had regulatory frameworks to govern safety management, but organising committees typically lacked experience and “a true understanding” of safety management systems for major events.

“While RM is considered a legitimate discipline and functional area of the organisation, RM’s role is largely considered for insurance, contingency planning, financial risk and stakeholder integration. Safety management is often considered as a less important function and therefore suffers from limited budget allocations, staffing restrictions and late appointment of human resourcing to key safety positions,” Mr Middleton said.

Develop RM’s ‘soft side’

The “soft side” of risk management organisational culture is as important as policies and procedures, says Paul Killeen (*below*), principal risk specialist with Telstra.

He told the RMIA conference that policies and procedures were easy to measure, whereas culture and values were not, but that did not negate their importance. “You may have the tools, but do you have their hearts and minds?” he asked.

Many companies spent a lot of money on RM frameworks but did not understand the need to know their employees’ hearts and minds.

Organisational culture was a basic pattern of shared assumptions, beliefs and values. The “artefacts” of culture were visible things, like rituals and titles, but there was a lot more below the surface.

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Characteristics of organisational culture were decision-making style, communications approach, goals/outcomes orientation, attitudes to innovation/risk taking, people orientation and diversity.

Mr Killeen said an adaptive organisational culture was innovative, took risks consciously and leveraged diversity.

For change to occur, staff had to see the point of change and understand why the company would be better off. Their RM capabilities needed to be increased. They needed to understand the lexicon of RM and be committed to training; tools needed to be intuitive. "If it's too hard, too complex, staff won't change."

Mr Killeen said RM could not be a separate entity, it needed to be seen by staff as part of their every day job. "Integrate RM within existing processes. You need to get everyone to understand risk."

A risk culture would not happen overnight, but had to begin at the top and be communicated down to the lowest levels.

'Thinking diversity' essential



Understanding diversity as an essential risk management strategy is part of IAG's move to a more proactive risk management culture.

Sam Mostyn, IAG group executive, culture & reputation (*above*), told the RMA conference the move was about "thinking diversity", not just gender, age or cultural diversity.

Diversity assisted in seeking out new trends. "A monoculture only sees risk one way," she said. "We require adaptive, diverse people in our organisations."

Issues on the horizon included the ageing population, young people's attitudes to work, and being close to full employment.

RM had gone through stages from "bare compliance" to product stewardship and corporate social responsibility. There was now a "reorientation in thinking" towards "disruptive innovation". IAG improved its own RM after conducting an internal audit of occupational health & safety and realising "we were not very good at it". The insurer developed a risk radar product to help customers "and ourselves" improve RM.

The product is now tailored to different market segments.

IAG asked customers, brokers and suppliers "what irritates them about working with us". "We listen to more people, including fringe stakeholders, those who really don't like what we do," Ms Mostyn said.

IAG measured responses and published them in its sustainability report, the third issue of which has just been released. "There are a lot of statistics we're not particularly proud of, but they are out there in the public domain."

IAG was preparing a new document on "how we do business" for "people at the front line" and had a "very strong whistleblower culture".

Ms Mostyn, a member of the AFL Commission, said RM was also important in football. For example, increasing women's involvement in the sport. It was no longer valid to say "that's footy" and accept sexist attitudes or behaviour. "We have created a cultural thinking program. It's not just about compliance, it's about opportunities."

Asked about AFL's competition from soccer, Ms Mostyn said soccer was "a major threat", but AFL better engaged families and kids.

Standard 'robust and acceptable'

Don't "fiddle" with the risk management process; AS/NZS4360 is "robust and universally acceptable".

That's the view of Roger Estall (*below*), chairman of the New Zealand Society for Risk Management. He said the process should not be altered, but the challenge was to understand the link between RM quality and organisational outcomes. "Managing risk is not optional, but it can be good or poor."

Mr Estall, whose company Risk Solutions Pty Ltd is Sydney based, said factors that affected RM performance included failure to recognise the need for expertise. Other factors were inadequate assessment of the external environment, missing the point, not overtly determining a corporation's risk appetite, and failure to couple risk creation and RM.

He supported the move to establish an international RM standard, saying it would be "hugely beneficial" to have "a common language". The ISO committee establishing the standard, expected to be available in 2008, is chaired by RMA president Kevin Knight. Much of the international standard would follow the path established in 4360. There was no need to "rebadge the process".

Mr Estall said the ASX listing requirement on RM had created greater awareness of the concept, but resulted in a tick-the-box application that gave the illusion RM was being done well.

RM performance was improving, "but still far from excellent". It was an integral part of good business practice, but "too many of us treat it as an add-on".



Mr Estall said companies needed "high-level corporate context statements" on RM. The reason some issues had suddenly appeared on the risk radar, although they had been around for years, like water shortages and potential pandemics, was because of poor context setting.

Mr Estall blamed the media, too, for failing to encourage more transparent risk assessment. Instead, the media encouraged bad RM by forcing governments into knee-jerk reactions.

Corruption risk assessment benefits QT

Potential exposure to corruption can be easily identified with a corruption risk assessment, says Paul Coffey, Queensland Transport (QT) RM coordinator.

In August 2004, QT assessed 20 business processes state-wide, including the top five business processes from four regions and 93% of the department's total risk exposure to potential corruption in compliance.

One business process was in the extreme risk zone, six were high risk, 10 were medium risk and three were low risk.

Regional risk profiles included 196 business processes, 49 from each region. Five business processes were 92% of the risk exposure across compliance in region one, 93% in regions two and three, and 84% in region four. "Regional findings indicated that region four generally had a lower level of risk exposure to corrupt activity and behaviour than other regions, due to a greater emphasis on implementing corruption controls," Mr Coffey said.

Corruption prevention toolkits were implemented on regional and state-wide levels.

The toolkits addressed organisational control, including strategic and operational planning; personnel controls, including recruitment, selection and training; business process controls, including separation of duties, staff rotation and work allocation; and management controls, including work reporting, reporting unethical conduct and rewards.

Mr Coffey said the risk assessment identified drivers of corrupt activity and behaviour and business processes undertaken by compliance units were generally similar across regions, but effectiveness of controls was inconsistent.

"That level of inconsistency identified an essential need to develop a state-wide approach to mitigate drivers of corrupt activity and behaviour relating to business processes. The findings and recommendations [in] the final report created distinct opportunities and benefits for QT to deliver transport-related services in a consistent, ethical, transparent manner across the state."

Future clearer for risk management

RM in 2008 should have strong links to strategic planning, clearly defined and understood risk appetite across businesses, greater transparency of risk information and risk accountability at all levels.

Maurice Pagnozzi, Asia Pacific partner in charge of KPMG's Enterprise RM Services, said that, in the past 10 to 15 years, a RM focus had emerged because of regulatory changes, corporate collapses and changing attitudes of directors.

He told the RMIA conf that, in 2006, there was a focus on risk tolerance, efficiency and control optimisation, aligning RM with strategic planning cycles, gaining ongoing support from boards and defining and articulating risk appetite.

Getting middle managers involved was the next hurdle to achieving effective RM in the next two years. "The reason many organisations don't manage risk well is because they see it as distinct from their day-to-day business."

KPMG's RM Beyond Compliance survey report said most organisations started with RM as a tool to protect employee safety and as a "name for the insurance function" of the business. They quickly expanded the function to cover treasury operations and broader financial controls but, to be effective, risk

ERM framework good for gold

Practical implementation of RM principles poses many challenges, especially for a multi-national company with many operational sites, says Darren Quinlivan, ModuSpec Australia principal risk consultant.

Mr Quinlivan was involved in developing and implementing an ERM framework for Newmont Australia Ltd, a gold producer with operations in NZ and Australia.

He said Newmont had long recognised the importance of RM as an essential part of good business practice, but did not have a common framework for all operations.

In 2004, Newmont's executive committee agreed to adopt a common framework for a more systematic, integrated approach to RM to better capitalise on work that had already been done and make continuing processes more efficient and effective.

The committee agreed a proactive, systematic RM approach should have broad application across the whole business and address compliance issues."

Mr Quinlivan said the new framework provided improved efficiency through rationalising site processes that, in the past, resulted in duplicating RM activity.

"One of the most important benefits of adopting a RM approach to business is that future activities should take place in a consistent, controlled, socially responsible manner with no surprises."

That could only be achieved if communication processes were structured in a way that significant risks faced at different levels in the organisation were reported to relevant people at the next level.

"This reporting process allows executive management to understand the most significant risks to the business and their potential impact on business objectives. In turn, it allows risk targets to be set and resources to be allocated in the most effective manner to achieve those objectives, the basis of good RM."

assessment needed to encompass all aspects of business activity, including regulation, compliance, competition, reputation and communication with stakeholders. "As one risk manager put it, 'risks should be identified and managed on a risk category basis, not by business silo'. Taking an integrated view of risk, covering all aspects of the business and its activities, elevates RM into a powerful tool for improving organisational performance," the report said.

Changing the culture of RM in an organisation required "a change in the mindset that positions RM as a compliance requirement".

It meant overcoming the attitude that RM was something forced on management and undertaken merely to comply with external standards and expectations.

RM practitioners needed to replace that attitude with a mindset in which all employees saw RM as a natural part of their role that provided real business benefit. "The challenge is that if management don't see clearly how RM can help them run their business, they will not see the value and not prioritise it."

Signs of real RM integration into management cultures included a less apparent need for formal frameworks as RM became part of normal business processes and management of risk becoming an accepted personal performance measure.

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Photos by Murray Harris Photography.