

RISK HORIZONS

CONFERENCE 2007

ASIO chief warns against complacency

The head of the Australian Security Intelligence Organisation (ASIO) has warned risk managers to be wary of "security fatigue" that may cause them to become complacent about the dangers posed by militant terrorist groups.

In his keynote address to RMIA's national conference, ASIO Director-General Paul O'Sullivan told delegates not to forget that Islamic extremists had identified Australia in public statements as a target for terrorist attacks.



Paul O'Sullivan

"Australians have been targeted, injured or killed in terrorist attacks overseas, most notably in Bali and Jakarta, but also in terrorist attacks in the UK, the USA, the Middle East, and Afghanistan," Mr O'Sullivan said.

"Islamic extremists have targeted Australia itself in terrorist planning and Australian citizens have engaged in terrorism-related activities here and abroad. Unfortunately, there is nothing I've seen to indicate this will not remain the case."

Mr O'Sullivan said six years after the September 11 attacks in the USA, and five years after the first Bali bombing, there was a risk of "security fatigue".

He described it as the risk that those in the security sector became complacent as the memory of terrorist attacks in the US, Bali, Madrid, and London receded.

"Or even that, as reports of terrorist attacks, successful or thwarted, become more familiar, we gradually become desensitised and less vigilant," he said.

"In some ways, this response is understandable and may well be a mark of a healthy society. Free and moderate people don't tend to dwell, singularly and intensely, on one area of life.

"I would, however, strongly caution against complacency, particularly among those involved in risk management. For, while we as a society don't tend to dwell on one aspect of life, militant extremists clearly do.

"Global jihadists single-mindedly dedicate their life, in the fullest sense possible, to a violent cause which they believe is sacred," he said.

"This distorted, belligerent identity has led them to target 'the West' and 'Westerners' as aggressive enemies to be goaded, punished, attacked and violently defeated."

Mr O'Sullivan said terrorism presented significant challenges to risk management strategies for Australia as a whole, within particular sectors of the economy, and for individual businesses.

"Terrorism is likely to remain a significant threat to Australia, and to Australians and Australian interests abroad, for some time to come," he said.

"It is essential, therefore, that government and business continue to work constructively together to manage the risks it presents, and to strengthen our ability to respond to incidents or attacks, should that need arise.

"Good risk management calls for frank but also imaginative assessment of the dangers we confront, and of our own particular vulnerabilities.

"Good risk management is perpetual, and forms part of an ongoing cycle of assessment, implementation and review, becoming hardwired into the normal decision-making of an organisation or enterprise," Mr O'Sullivan said.

Climate change hits the c-suite agenda

Climate change has rapidly become an issue resonating with the highest level c-suite executives and has the potential to affect shareholder value, says Gary Guzy, senior vice president and environmental practice leader with Marsh, US.

He told the RMIA conference that only a year ago it would have been "unbelievable" that people were so focused on climate change. "Even six months ago, it was seen as a compliance issue, but it's now a fundamental, strategic issue for businesses."

Senior executives were asking: 'How do we understand the impact, help our organisations to be resilient and create and optimise the new opportunities that climate change brings.'

The range of impacts from climate change events, including the increase in weather-related natural catastrophes, was broad. Apart from damage to physical risks, there were health issues, lost resources (eg crops), reputational risks, shareholder concerns, possible litigation and compliance and competition risks.

Mr Guzy said the Global Risk Network, an alliance of organisations, including Marsh, established by the World Economic Forum in 2004, had identified access to water as a longer-term geopolitical risk that could increase border disputes and refugees.

In Australia, 47.8% of greenhouse gas (GHG) emissions were from stationary energy production. Agriculture accounted for 19.5%.

Mr Guzy said Australia had the highest per capita GHG emissions of all industrialised countries; USA was second.

A 2,000 mile airline trip generated one ton of CO₂ equivalent, as did 10,600 hours of computer use.

Mr Guzy said climate change-driven litigation was a reality in the US. Courts had ruled that GHG emissions were pollutants and therefore could be regulated.

The insurance industry's response was perhaps the "canary in the coalmine". Some US insurers already had elected not to write or renew policies in coastal areas prone to hurricanes. That meant governments had to establish default funds for uninsurable properties.

Mr Guzy said insurers needed to develop better pricing strategies. "Typical retrospective rating" was not applicable to climate change risks, so insurers needed to involve scientists in premium setting.

Insurers had to create new tools to enhance resilience, for example, regional efforts to cope with storm damage by pooling premiums and tapping into reinsurance to maximise coverage.

He said RM professionals had to assess their organisations' climate change risk by modelling physical risks, enhancing business continuity planning, developing strategies for emissions consequences, analysing supply chains and developing demand-driven manufacturing.

In the legislative arena, it was important to be "at the table, not on the menu". "In the regulators' eyes, companies are defined by their actions. Are you part of the problem or the solution," Mr Guzy said.



Gary Guzy

Traditional RM silos were inadequate to cope with climate change – multidisciplinary teams were essential.

Carbon trading had many opportunities as the markets built in size. For insurers, there was the chance to develop products to manage risks the forward-based contracts used in carbon trading markets created.

Mr Guzy warned companies doing business with China to consider the adequacy of their risk disclosure. China's annual GHG emissions were projected to surpass those of the US next year. Developing countries' supply chain emissions were a key risk, he said.

ANZ RM culture "mixed"

A telling indicator of whether an organisation has an embedded risk management culture is whether employees are prepared to phone senior management and tell them there's a problem.

That's the view of Peter Donald, group head of operational risk at ANZ Bank. He said the culture was not yet widespread at the bank – "it's mixed".

He told the RMIA conference that operational risks had formerly been seen as the responsibility of line managers. The "real risks" were credit and market risk. But the bank now realised operational risk needed a more disciplined approach to risk identification because of the potential for indirect losses, eg, reputation and lost opportunities. Operational risks had interdependencies.

The level of regulation was a concern for ANZ Bank, imposing a compliance risk. Eg, the bank had a statutory requirement to collect a significant amount of data from business units, but did not have the ability to interrogate it.

Assessing potential joint venture partners as it moved into the Asian market was a risk. "How will the quality of our partner affect our reputation," he asked.

Technology risks were "huge". Mr Donald cited an internal messaging system that refused to reboot. It took technicians five hours to identify that human error was responsible as an unauthorised change had been made. The incident highlighted the need for better controls to ensure problems surfaced quickly.

Mr Donald said most losses resulted from a breakdown in processes or human error. The solution lay in embedding a RM culture, capturing line managers' "hearts and minds" so they managed their own operational risks.

"It's about values, attitudes and culture. It's hard to assess and measure."

In the ideal RM culture, employees would identify and assess risk as part of their normal jobs, they would bring issues to superiors' attention, and continually take action to strengthen controls.

While controls were important, Mr Donald warned against overdoing it. "You need balance."

A risk culture began at board level and filtered down, it was ongoing, not annual, and needed a structure to track and correct deficiencies.

"All staff have a role to play in operational RM." The risk professionals were to "guide, assist and ask the dumb questions".

The bank was currently trying to simplify its RM procedures. Policy documents were being rationalised and multiple risk registers meshed into one.

"We don't expect to eliminate all risks, but to weigh up risk-reward in a well-informed, impartial context."

Mr Donald admitted the ANZ "has not yet got the balance right". But said even if it was right today, it may not be in three, six or 12 months' time.

He warned RM professionals against becoming so intent on policies that they neglected culture. "We can govern by process instead of effective risk oversight." RM professionals had to be trusted advisers.



Peter Donald

Impartiality the journalists' shield

One of the most important risk management strategies for foreign correspondents is to be impartial and neutral, say Kylie McKiernan, manager, risk & insurance, for the ABC.

She told the RMIA conference there were more dangerous occupations than reporting in foreign countries, but, unlike soldiers or emergency workers, the journalist's role was to witness, analyse and report. "They are civilians whose work demands they put themselves in harm's way."

The ABC was obliged to send staff, including journalists, camera crews and sound recorders, to disasters and conflicts to provide comprehensive, accurate reporting.

The ABC had 14 international bureaux with 50 news gatherers and 30 support staff. More than 1,000 news gatherers had been killed overseas in the past 10 years, but most were local not foreign correspondents.

The over-arching principle for the ABC was that no story was worth the death or injury of an employee. "The news must be reported, but it must be done carefully," Ms McKiernan said.

Risks included disease, kidnapping and traffic incidents.

The ABC had a two-tier risk assessment process. The question asked was 'Can the coverage be provided in any other way, eg archive or pool footage?' If not, the assessment process began.

Foreign correspondents needed initiative, courage and experience. They needed to be capable of providing TV, radio and online content, be self-reliant, and physically and medically fit.

The ABC provided 24/7 support in the field and portable, flexible equipment.

Post-assignment, news gatherers had debriefings and counselling, if required.

Ms McKiernan said there was a great reliance on trust to keep reporters safe. "The media won't be viewed as independent if they lose neutrality. They must keep the shield intact."

In war and conflict arenas, the ABC did not display its logo, fearing that could make reporters a target. No ABC journalists carried guns.



Kylie McKiernan

Prioritise the risks

Good risk management means concentrating on the important things first, says Jude Munro, CEO of Brisbane City Council.

She told the RMIA conference it was impossible to do everything simultaneously and managers needed to combine periods of change with times of consolidation.

"That's one of the scars of management, knowing when to go in hard and when to pull back and give the organisation a breather."

Achieving a RM culture was about thinking ahead, practising, inspiring people and "building on what's there to make it better".

"You need to refresh the systems every now and then to reinspire the next wave of people."

Brisbane is the fastest growing region in Australia, and BCC the largest local government authority, with \$2.3 billion expenditure planned for 2007-08.

Climate change was a big risk for the city. Ms Munro said her targets included joining the bike path networks, shifting people out of cars and into buses, and restoring natural bushland around the city to achieve a carbon neutral city by 2026. The last 3-1/2 years had seen a 40% increase in bus usage. "Reliability and frequency is the answer."

Household water usage had dropped from 500 litres a day to 140 litres. Water use had been negligent in the past, but changes were being made. Recycled water was used on all construction sites and pumped back into dams. The city's Oxley waste treatment plant was "a world first" that recycled "biosolids – and you all know what that is" back into soil and fertilizer. Water was recycled and the plant powered by methane.

Despite the huge population increase scheduled for the area, planned development meant the required services and infrastructure could be supplied.

BCC's RM framework included risk profiles for the council as a whole, each business unit, major projects (\$5 million expenditure and above), major festivals and events and new business initiatives.

Ms Munro said responsibility for individual risk and compliance areas was assigned to "owners", with "friendly audits" to ensure everything was "up to par".



Jude Munro

Insurer ROE to drop before market turns

Insurers' return on equity needs to fall below 15% before underwriters will make active moves to start the market hardening, says Lambros Lambrou, Aon's national mgr, market services.

He told the RMIA conference that, barring catastrophes, the market would continue to soften. In the US, commercial lines were softening at a greater pace than in Australia, with Q3 of 2007 seeing the highest rate of decline of any quarter in the last seven years.

In the UK, all commercial lines, except motor, were softening. While Bermuda had a reputation for being "one of the more disciplined and rational markets", it was "awash with surplus capital looking for growth".

The global markets, including Australia, were very profitable. Combined ratios were very healthy, with Lloyd's the best performer outside Australia.

Mr Lambrou said insurers' four main concerns were slow premium growth, pricing and underwriting discipline, surplus capital and managing the cycle. With net negative growth in all major classes in Australia, there was intense competition and pricing reductions.

The buzz word in underwriting had been "technical rate", but no one knew what it meant. However, the level of data available to insurers had improved, so they could identify underperforming sections of portfolios or risks and eliminate those, rather than an entire class. Surplus capital could be returned to shareholders, used for mergers & acquisitions or to write more business.

Managing the cycle was problematic, as "no one has written the Bible on how to do it". Each insurer was different, depending on their bias towards long or short-tail businesses, the type of business they wrote, their investment strategies, and the level of aggression with reserve releases. Much of the industry's current profits were coming from reserve releases, which masked the underlying profitability of classes, making it hard for brokers to assess insurers' results, Mr Lambrou said.

But there would be no turn in the market "until we see mediocrity in insurers' results".

Mr Lambrou said the reinsurance market was softening, but not as much as the primary market. Reinsurers' premium pool was under pressure because insurers could increase retentions or use inhouse captives. The pricing power pendulum was moving from reinsurers to insurers.

Although natural catastrophes were increasing, as were the insured losses they generated, the effect was regional, not global, Mr Lambrou said.

Insurance shifts to capital markets

The insurance market has seen a significant shift from reinsurers into capital markets, says AIG Australia CEO Chris Townsend.

He told the RMIA conference the convergence between the capital and insurance markets was illustrated by the "dramatic" increase in securitisation. The capital market offered "a different level of security and comfort for insurers". Having different sources of capital available had reduced the reinsurers' monopoly.

Mr Townsend predicted the lower risk tolerance from new capital providers could contribute to a potential flattening of the cycle.

He said there were some positive signals about how the cycle was being managed. Previously a carrier collapse was required to force change, but the market was now more sophisticated, there was increased regulation, more RM from insurers and clients alike, and better risk modelling. Actuarial analysis was moving from back of house to front.

There had been significant rate reductions over the past four years, a broadening of policy coverages, large reserve releases and vertical integration of insurers and brokers.

Many carriers were changing strategic direction, driven by "the grass is greener syndrome".

Mr Townsend predicted the market would continue to soften, at least until mid 2009.

He said many companies were not using captives effectively. Most could absorb more risk or generate more revenue. Actuarial projections of 8% return on capital for captives were conservative. US-based captives had a potential problem if there was a change to the IRS that would not give them tax breaks unless they wrote "bona fide third party business". If that occurred, Mr Townsend predicted US-based captives would move offshore.

He said other trends in Australia were the development of chief risk officers, the compliance burden, moves towards buying multi-year policies, a broader appetite for risk and greater sophistication among insurance buyers.

Brokers evolve into risk advisers

The traditional insurance broker has evolved into a risk adviser, says Aon CEO Steve Neveit.

He told the RMIA conference that broking was product oriented and transactional. Risk advice was more consultative, providing fit-for-purpose products.

The focus was shifting from the total cost of insurable risk to the total cost of risk, taking into account political, foreign exchange, people and commodity risks.

"Risk is essential for business growth and skills in risk advice must grow with it. Advisers must work with risk finance providers to provide the required solutions."

Mr Neveit said brokers needed to develop more interactive technical solutions – "too many tasks are still being done manually". He told brokers not to "hold onto the black box – give clients the tools they need".

He said the *Aon 2006/07 Australasian Risk Management and Total Cost of Insurable Risk* survey demonstrated the value risk managers brought to organisations. The total cost of insurable risk was 21% lower for those organisations with RM professionals. He said risk was "three parts opportunity and one part downside protection".

RM now faced greater scrutiny. "You used to be able to risk manage in a corner and no one took any notice, now everyone wants to know." The risk manager's dilemma was that RM needed to be measured and expressed in numbers so people could understand it. "If things get measured, they get done."

Mr Neveit said while risk transfer costs had decreased, given the soft market,



Steve Neveit

companies were still retaining more risk and spending more money on RM. The benefits of greater RM investment were improved internal controls and governance and better informed decisions. "If you wait to react, it will be too late."

RM "a turn-off term"

Risk management can be a "turn-off term" in non-government organisations, says Elizabeth Fraser, Queensland commissioner for children & young people.

She told the RMIA conference "we have just kept repeating it", to get the RM message across to organisations that work with children. "It's an educative, reforming, change management focus."

Since January 2005, Qld legislation has required all organisations working with children to have RM strategies documented and in place.

The commission used RM tools to help organisations provide a safer environment for children. For example, all people working with children at schools, churches, sports clubs, homestays, and the like were required to have blue cards, which ensured they had passed a criminal history check. Screening would be intensified to focus on RM. Currently only people who had been convicted of an offence "appear on the radar".

The commission monitors all children in foster care or juvenile detention, visiting them monthly. It investigates all child deaths.

It hosts workshops to assist organisations to identify risks, develop strategies, put protocols in place, and build their own capacity to comply with the Qld legislation.

No property law? No problem

Building the world's largest man-made island is daunting enough, but locate it in a nation with no property or mortgage laws and you have the task that confronted construction company Nakheel, in Dubai.

Nakheel's general counsel, ex-patriate Australian David Nicholson, who has lived in Dubai for 16 years, outlined the task at a business breakfast briefing at the RMIA conference.

Dubai's ruler, Sheik Mohammed bin Rashid al-Maktoum, had implemented a 10-year plan to maintain Dubai's double-digit growth and develop the Middle East country as a business and tourism hub.

Nakheel was given the job of adding 1,000km to the waterfront, building residences for more than three million people, increasing the number of hotels by 50%, adding 10 million square feet of retail and increasing tourist destinations.

The solution was an ambitious plan to build three man-made islands. The first, Palm Jumeirah, has some residents already and will be completed in 2013. Work has begun on sand reclamation for the other two. The islands are shaped like palm trees to maximise sea frontage - 500ha Palm Jumeirah adds 78km of coastline.

Mr Nicholson said Nakheel had to provide all infrastructure, including services, air conditioning plants, roads and bridges. Homes on the first island initially sold for \$US1 million, but in only three years had increased to \$US4 million.

However, Dubai had no property law until 2006 so, while foreigners could buy homes, they had no titles to them. Nakheel developed its own internal registration and property transfer systems for buying and selling properties. The company also established a mortgage registration system, as Dubai still has no mortgage laws.

Mr Nicholson said land stability was an issue, because the island was built on sand dredged from the seabed. All sand was heavily compacted to ensure stability, he said.

A current risk was the transition from a development site to a community. Palm Jumeirah was built progressively, so many homes already had been sold, but there were still 4,000 construction workers on site.

Nakheel had to conduct "detailed environmental studies" because the massive movement of sand changed sea currents, causing erosion. A five-year study of environmental effects was currently in progress.

The breakwater that surrounds the island had to be redesigned to include gaps to allow water to flow through. Mr Nicholson said the breakwater had now become a haven for fish.

Building the first island taught Nakheel several lessons. They included the importance of forward planning and stakeholder engagement, professional project management, and using the best consultants and contractors.

"We're conscious of value for money, but there's no compromise on quality," Mr Nicholson said. He admitted the project had been delayed, but said "customers can cope with delays, but not with sub-standard homes".

Continuous risk management was essential, as the risk profile was evolving. Marsh, the breakfast briefing sponsor, had conducted high-level risk assessments and workshops with each of the Nakheel business units involved on the project.

Risk Horizons requested information on the cost of the islands, but was told Nakheel was a private company and did not disclose financial details. However, Nakheel had \$US60 billion of projects in progress.

Risk Manager of the Year awarded



RMIA's prestigious annual Risk Manager of the Year award has been won by the risk assessment & assurance team from BHP Billiton. The award was presented at the RMIA conference on the Gold Coast. It was accepted by Matthew Frost (centre), BHP Billiton group manager risk finance, on the team's behalf. He is pictured with sponsor AIG's CEO Chris Townsend (left) and RMIA president Grant Whitehorn.



Continuity plan can help exit business

A leading loss adjuster says a business continuity plan can help companies hit by a catastrophe, such as a fire, even if they decide to cease trading.

Allan Manning, MD of Melbourne-based loss management firm the LMI Group, said a plan to handle a disaster was a crucial management tool for business owners and managers.

Speaking at the RMIA conference, Dr Manning said his analysis of 12 firms without business continuity plans (BCP) that were affected by fires or other catastrophic events showed only half survived.

While none of the firms had a BCP before the event - primarily for reasons of ignorance or cost - those that developed one afterwards said it was very beneficial.

Dr Manning said a BCP could serve as the basis for an orderly exit strategy. "Even those owners who found that, for whatever reason, the business could not be saved, needed to develop a modified plan that strategically addressed the owners' withdrawal from the enterprise.

"If the decision is taken not to try and recover, the plan will set out the business exit strategy, considering all the stakeholders to the business, including staff and financiers, and the business owners themselves."

Dr Manning said his research showed one reason a catastrophic event could literally destroy a business without a BCP was the strain it put on the skills and time of owners and managers.

"When the fire or crisis occurs, the businessperson has to manage their business as normal. But, in addition, prudence dictates that they must manage rebuilding, sourcing and replacement of plant and equipment, and the re-supply of stock on hand," Dr Manning said.

"Regardless of their insurer, they also have to manage the claim process. The difficulty of these additional tasks increases with the size of the business and the size of the loss.

"These roles are additional to the ongoing, vitally important tasks of protecting market share, maintaining staff morale and conducting all the other normal management functions of a business owner."

To illustrate the benefits of a BCP, Dr Manning cited the case of a mattress manufacturing firm that experienced a fire at its factory.

The owners began a search for new premises "while the fire was still burning" and had leased a factory within a week.

In the meantime they had sourced replacement equipment and raw materials and were ready to set up the new premises "the minute the keys were handed over".

Dr Manning said by having a business recovery plan and business interruption insurance, the factory could start delivering to customers within two weeks of the fire.

His research showed businesses with several locations had a better chance of survival because "spreading the risk, reduces the risk".

A firm's financial health could affect its survival chances - those "financed to the hilt" and unable to borrow more were most likely to go under.

Dr Manning said his research showed the average period of disruption was more than 16 months, the time for completing repairs averaged almost 11 months, and under-insurance was a major problem with unrecovered losses ranging from \$10,000 to \$20 million.



Blue Care's strategy cuts policy premiums

Brisbane-based home nursing and aged care provider Blue Care has achieved lower insurance premiums by integrating its risk management operations on an enterprise-wide basis.

In an RMIA conference presentation, Blue Care's RM coordinator Andrea Kanserski said that, in the past three years, the organisation had implemented the first two stages of a planned four-stage RM strategy supported by an electronic reporting system.

Ms Kanserski said not-for-profit Blue Care had 9,400 staff and more than 3,000 volunteers using a fleet of 1,355 cars to make 1.8 million home visits a year. It housed more than 5,000 people in aged care facilities and a further 1,300 in independent living units.

It had operations at 250 centres in seven geographic regions throughout Queensland and northern New South Wales.

She said improved incident reporting across all business areas flowing from the first phases of its RM program had helped Blue Care's insurance agents and claims managers gain a better understanding of its actual organisational risk profile.

"Reporting all incidents against a risk consequence scale has ensured Blue Care can meet its insurance reporting obligations," Ms Kanserski said.

Presentations to Blue Care's underwriters on risk mitigation strategies, backed by improved claims management processes, had resulted in "significant" premium reductions on four policies for the current insurance year.

"Further discussion and premium renegotiations with a view to further reductions are planned for early in 2008," Ms Kanserski said.

Government poses a tough challenge

Embedding a whole-of-government RM framework across public sector agencies is a tougher battle than in the private sector, according to an officer from the Victorian Government's central RM body.

Mark Humphreys, RM adviser with the Victorian Managed Insurance Authority (VMIA), told the RMIA conference that RM in a government context seemed "predisposed to being an area of complexity".

"The starting place is never a blank canvas. Invariably, there are [several] agencies with established, but not necessarily complementary, RM responsibilities," he said.

"These responsibilities are met against the backdrop of a vast, overlapping spectrum of governmental risk. This may be risk that is insurable or non-insurable, financial or nonfinancial, but effectively it stretches out across the risk universe."

Mr Humphreys said what emerged in government was often a "frictional co-existence" and a "potential lack of any cross-departmental sense of responsibility".

In the government context, the potential common language and framework created by enterprise risk management (ERM) was not as advanced as in the private sector.

"Occurring as it does against the backdrop of a public service culture, it is more stymied than in the commercial sector," he said.

"Effectively, the absence of profit and loss as an economic driver in the public sector removes one of the major tenets and drivers for effective ERM."

He said Victoria was moving to address such problems through its government-wide RM framework. VMIA's 2007-2010 corporate plan aimed to deliver stronger cross-departmental collaboration on risk, an annual RM report, and a greater degree of collaboration between the authority and risk service providers.

Don't overlook day-to-day risks overseas

Too many businesses sending employees overseas on work assignments overlook day-to-day risks, such as common illnesses and petty crime, says an executive from a global emergency response company.

Claudine Webb, project manager for International SOS (Australasia) Pty Ltd, said large-scale medical and security incidents, such as a hurricane or a coup, could immediately impact a company by threatening the health and wellbeing of its staff overseas.

"However, it's the most common, every-day risks that are the biggest culprits in long-term business costs," Ms Webb told the RMIA conference.

"There is a plethora of common risks, such as gastroenteritis, malaria, muggings or theft, that occur just as much in developed countries as undeveloped countries.

"These risks are among the most underestimated ones and create the most burden on every-day business."

Ms Webb said the simplest, most effective way to mitigate every-day risks was to inform and educate staff before their deployment overseas.

"Easy access to country and city guides can inform them of the subtle differences in how to manage these common risks in different countries and environments," she said.

"These recommendations can range from choosing a specific taxi company deemed safe in Indonesia, to what food is safe to eat and where in Delhi, and what to look for in crowded areas to avoid petty theft in Paris."

Ms Webb said a common illness, such as malaria, was often dismissed by people heading overseas, yet it affected 30,000 travellers a year.

"As a result, International SOS evacuates 30 to 50 severe malaria cases every year, which represents a significant cost to the companies involved."

Ms Webb said precedents set in Australian courts meant companies had a clear duty of care towards staff overseas and were required to ensure employees were given appropriate advice, warnings and training to deal with likely risks. Employers had to proactively minimise risks and have procedures in place to respond to the needs of staff overseas.

She said proactive management was always preferable to a reactive approach.

"The risks facing employees abroad are many and complex. However, mitigating the risks can be very simple and cost effective.

"The complexities around managing risk mainly kick in when reactively managing an incident or crisis. Reactive RM is almost always more costly, in dollars and human costs, than pro-active RM," Ms Webb said.

"Investing in knowledge, employee education, planning and protection, site surveys and gap analyses can greatly mitigate and minimise most risks."

Don't manage to miss opportunities

If risk managers are to be of any value they need to encourage organisations to take more risks, says a Victorian consultant.

David Smith, managing

director of Risk Matters Pty Ltd, said too many organisations concentrated on the negative aspects of risk and too many risk managers had nightmares instead of day dreams.

"I'm a big believer in RM strategies, but we need to focus on management, and not so much on the risk itself," Mr Smith told the RMIA conference.

"We can't let the presence of risks stop us from seizing opportunities, from innovating, and from serving our customers as best we can.

"We just need to work out how we can minimise the effect of the downside of risks and we need to weigh the risks, their likelihood, and their manageability against the risks associated with not taking the 'risky' action," he said.

"A failure to seize opportunities, a failure to be responsive, and a failure to be innovative within an organisation is a huge risk in itself."

Mr Smith said organisations needed an approach that integrated management of risks and opportunities. Just as organisations could be risk-seeking or risk-averse, they also could be opportunity-seeking or opportunity-averse.

"The reason organisations exist is to embrace opportunities, not to minimise risk. As such, the more you move away from the operational level and the more strategic your viewpoint, the more important that opportunity risk becomes," he said.

"Certainly put strong, robust controls in place that will mitigate negative uncertainty, but ensure you seize hold of the opportunities that uncertainty brings. Above all, dare to dream or you will surely continue to nightmare."

Common ground on governance and climate change

The emergence of climate change as a mainstream business issue has parallels with the embrace of corporate governance reforms, says Owen Cameron, water projects manager with the Victorian Government's Department of Sustainability & Environment.

He told the RMIA conference that an increased focus on corporate governance in the past five years had been driven by globalisation, new legislative demands, increased activism by shareholders, and a growing demand for socially responsible investments and corporate behaviour.

It had also been influenced by the spread of the internet that offered faster, wider communication about corporate activities.

Dr Cameron said many of the same factors had helped make climate change a mainstream business issue, including new legal and regulatory requirements, increasing public concern and shareholder activism, and use of the internet to communicate corporate responses and strategies.

Demands for companies to institute better standards of corporate governance and current calls for them to respond to climate change both presented business opportunities.

"Companies that proactively investigated and managed governance-related enterprise risk created a climate of opportunity, identifying clear benefits, such as improving operational efficiency, protecting [their] corporate brand, access to cheap capital, and enhancing communications to shareholders, regulators and investors," he said.

"Some companies have been clear climate innovators, taking proactive measures in recognition of strategic business opportunities, long before the issue emerged into the mainstream. Those companies have recognised that climate change, like corporate governance, offers opportunities. For example, to reduce risk, save money, develop new markets and realise competitive advantage through proactive strategies that shape emerging regulatory environments."

Dr Cameron drew an even more direct link between climate change and disclosure requirements under corporate governance frameworks within corporations.

"A failure to address climate risk may represent a breach of governance and fiduciary duty, and expose directors and companies to increased risk of climate litigation," he said.



Consultant identifies flaws in the system

A security specialist says despite past and planned improvements, shortcomings in systems used in Australia to verify a person's identity open the door to identity crimes.

Paul Curwell, senior consultant with Booz Allen Hamilton, told the RMIA conference that advances in information technology had assisted those seeking to commit identity crimes.

He acknowledged stricter identity verification requirements were imposed on some industries and professions under new federal laws tackling money-laundering and terrorism financing.

But, he said traditional proof-of-identity (POI) systems, such as the "100-points" checklist for opening bank accounts, pre-dated development of relatively cheap and accessible desktop publishing software, printers and scanners.

Mr Curwell said identity crimes fell into two categories: identity theft, which involved appropriating someone's identity without their consent, and identity fraud, where an illegal gain was made without necessarily stealing an identity.

A 2002 estimate by the Sydney-based Securities Industry Research Centre of Asia-Pacific Ltd put the cost of identity crimes in Australia at \$2 billion to \$4.5 billion.

"There is also an unquantifiable cost of such crimes on victims in terms of emotional distress, lost time and loss of reputation, which is difficult to determine and varies on a case-by-case basis," Mr Curwell said.

A person's identity could be verified using three types of information: biometric data, such as fingerprints or DNA; attributed identity, such as names and birth dates; and biographical details, such as marriage, education and employment records.

Mr Curwell said an item, such as a document or card, used to assist in the identification process was known as a "token".

"Australia currently has no token that is specifically designated as an identity document. Instead, Australia uses four categories of tokens to establish a person's attributed and biographical - but not biometric - identity."

The four types of POI documents used included certificates of events, such as births or marriages; certificates of competency, such as drivers' licences or educational or trade qualifications; travel documents, including passports; and proof of address.

Mr Curwell said effective verification of a person's identity should involve authentication of biometric, attributed and biographical information.

But Australia's approach to identity crime was failing because the majority of POI tokens lacked sufficient security measures needed to guarantee their authenticity.

"With the exception of Passports Australia, most organisations in Australia do not routinely perform the authentication process on every element of an identity," he said.

"Some organisations are prohibited under legislation from authenticating a biometric identity while others elect not to perform diligent authentication processes simply to reduce operating costs.

"In return for not authenticating an identity in detail, organisations that use POI documentation to undertake their business activities make a conscious decision to accept or tolerate the volume of fraud they experience with costs often being passed on to consumers."

Mr Curwell said a shoddy verification process could be just as bad as none. "On occasions, organisations with a need to establish a person's identity before providing them with a service will poorly authenticate a customer's POI documentation.

"Poor POI checks often fail to detect false identities upon application to the organisation while also contributing to the perpetuation of that false identity within society."

Mr Curwell said moves were in progress to introduce new systems to manage identity risks, including the Federal Government's planned document verification service enabling federal and state governments to verify government-issued POI tokens.

But a drawback in the new system was that it did not extend to the private sector.

Understanding helps overcome resistance

A New Zealand-based consultant says resistance within an organisation to implementing a risk management framework is itself a real risk that needs to be addressed.

Tony Dyer, manager of the New Zealand operations of Melbourne-based Seraphim Risk Management, said there were several reasons some people resisted development and implementation of risk frameworks.

Mr Dyer told the RMIA conference the list of reasons he had encountered included a lack of understanding of RM and opposition to increased levels of documentation, accountability and responsibility.

In addition, some people took the approach that "the organisation has existed up until now without RM so why go to the expense of implementing something new?" Others could not see how it would add value.

He said some believed an identified risk might never happen and, if it did, would it make a difference?

"Dealing with resistance to the implementation of an organisational RM framework is best dealt with in a RM context," Mr Dyer said.

To overcome resistance it was important for managers to understand what RM was about, how it could work for them, and the reasons behind any additional workload and costs.

"If RM procedures are forced on managers by way of policy instructions, they are being forced to accept something they do not understand," Mr Dyer said.

"They cannot implement something they don't understand. If people in the organisation do not want something implemented, then it cannot be done."

Internet helps learn safety lessons

The internet provides a quick way to learn from the safety mistakes of others, but you need to be highly selective in the sites and sources you use, says Trish Kerin, risk manager for Australian Vinyls Corporation.

She said examining safety incidents in Australia or overseas enabled companies like hers to learn what went wrong for others in the same or similar fields and how to avoid their mistakes.

She told the RMIA conference that each year many safety incidents happened in plants within her industry around the world that could compromise safety or escalate to major disasters. But her company may never experience them.

"Because we may not see these incidents ourselves, or indeed more severe consequence incidents, it is important for us to learn from others' experience," Ms Kerin said.

"Not only is learning from incidents a critical part of process safety management from a preventive point of view, it is also critical from a mitigative point of view.

"Understanding how an incident may escalate, being able to see the signs and take steps to address them, may result in the incident consequence being greatly reduced."

Ms Kerin said there were numerous corporate and government websites that published useful information about industrial safety incidents.

They included the Network for Safety Professionals, based in the US (www.safteng.net), the UK-based Health & Safety Executive (www.hse.gov.uk), and the US government agency, the Chemical Safety & Hazard Investigation Board (www.chemsafety.gov).

"With such a large amount of information available, it is important to be selective in choosing which incidents to learn from," Ms Kerin said.

RMIA Update

By Grant Whitehorn, RMIA National President

As a result of the elections, there are two new board members, Brian Roylett (WA Chapter president), and Peter Napier (Qld Chapter president).

They replace Brad Greer and Ian Wildish, who did not seek re-election. Kevin Knight, from Queensland, was re-elected to the other board vacancy. The election results were announced at the AGM.

At a board meeting after the AGM, I was re-elected as president. Peter Hanzlicek is the new vice president and Kevin Mutch was reappointed as finance director. David Wilkinson, Peter Brass and Julian Talbot are the other continuing board members.

My report for this issue of *Risk Horizons* covers issues I raised in my president's report at the AGM, reporting against the six themes RMIA has identified as key focus areas.



Standards:

- A competency standards review is in progress to ensure the CPRM and CRMT accreditations reflect the move towards soft technologies.
- RMIA continues to maintain its global leadership role in standards development and maintenance. ISO31000, the new international RM standard, is expected to replace AS/NZS 4360:2004, on which it is based, in late 2008 or early 2009.



Knowledge:

- RMIA Update was introduced this year as part of the Risk Horizons newsletter. The aim is to inform members of significant developments and progress towards achieving the corporate strategy.
- The Risk Manager of the Year award attracted many high profile candidates. I was delighted to announce during the conference that the award was won by Matthew Frost and the BHP Billiton RM team.
- Chapters and SIGs, the heart and soul of RMIA, continued to provide excellent programs throughout the year, providing learning and networking opportunities for members.
- In 2008, RMIA will announce its new education manager. She will manage a range of activities, including a RM Body of Knowledge, a virtual library and a feasibility study on whether RMIA should become a registered training organisation.
- Next year RMIA will host a series of workshops covering introduction to RM, enterprise RM and transitioning to ISO31000.



Innovation:

- The Security Risk Management Body of Knowledge (SRMBOK) has been a major project during the year. Its launch is scheduled for Feb 2008. ERM will be the next product in the BOK series.
- During the year, as part of a constitutional review, RMIA will examine how to best structure the organisation to establish additional chapters

or regions in local areas, eg, Newcastle and north Qld. The objective is to improve member services within a flexible organisational framework.

- New SIGs planned for 2008 include health, project RM and local government RM.
- The Chief Risk Officer Forum will be launched in 2008, once selection criteria for membership are established. The Over the Horizon Group will also be launched in 2008.
- RMIA plans an awareness campaign among recruitment agencies, major employers and industry groups so they understand the RM function and the importance of the CPRM and CRMT accreditations in the selection process.



Opportunity:

- At an IFRIMA board meeting, held at the RIMS Conference in May, I put forward a paper proposing an International RM Week. The plan is to launch this globally in 2008.
- The 2008 RMIA conference in Perth will be a joint RMIA/IFRIMA/FAPARMO event, attracting greater international participation.
- RMIA has continued to develop memoranda of understanding with like-minded bodies, including BCI, BCMIE and the NZ Society for RM.



People:

- Membership has continued to grow in 2007, reaching 1,887.
- In 2008, RMIA will market test a proposal to establish a chapter in Dubai by running a RM summit there.
- I thank RMIA's many volunteers for the work they do in organising activities and the corporate office staff and service providers. With the appointment next year of the education manager, we now have the capabilities to roll out RMIA's full program of activities.
- We welcome our new company secretary, Emma Drew, to the RMIA leadership team. Emma is a partner with Minter Ellison, in Adelaide, and brings a wealth of experience to the position.



Protection:

- RMIA has begun a governance reform agenda that includes a comprehensive review of the constitution.
- The business plan has been finalised and is being implemented.
- The board established a finance & investment strategy to ensure funds are invested wisely.
- I prepared a board discussion paper on diversifying our revenue streams and will explore future strategies in 2008.
- RMIA's new website has been launched and offers enhanced features and easier navigation.
- Your feedback on RMIA initiatives can be emailed to operations@rmia.org.au.

I look forward to another exciting RMIA year in 2008.