

This article is a review of the latest issue of the RIMS<sup>1</sup> sponsored article about how the recession is affecting risk managers in the USA. It discusses how risk managers will need to react to extraordinary challenges and gives some ideas about what to look for in recessionary times.

The backdrop to the article lies in the idea that this year will see all regulators working to bring pressure on companies to “beef up” risk management programmes. This will have an impact in the boardroom where senior management will look to risk management departments to provide the answers for many of the challenges that these companies will face.

## **Key risks**

The big three risks which they identify for US risk managers in the recession are:-

- Supply chain risks
- Litigation issues
- Insurer solvency

### **Supply Chains**

Operating in an environment where key suppliers are under increased financial strain presents new risks to the organisation. Not only are they concerned about suppliers but RIMS advises that key customers need to be reviewed also. They discuss the use of Trade Credit Insurance as a mitigant but its availability is of course becoming more and more scarce.

### **Litigation**

This has been increasing in 2008 and they see this as a key issue for the future. Measured by the number of Federal Class actions which have been started they identify a 9% increase in activity in 2008 against the average of the 10 years before. But last year appears not only to have been a modest increase against the average but it seems to be a striking reversal of the trend which was decreasing.

The 210 class actions which were started in 2008 was 18 more than reported on average in the Stanford Law School Class Action Clearing House statistics for 1997 to 2007 (192). However, it was a whopping 34 cases more than the year before (192). Not surprisingly this rise is attributed to a single industry sector – financial services which accounts for 103 cases. This level in a single industry sector was unprecedented and begs the question of how 2009 might pan out given the turn of events at the end of last year.

### **Insurance Market**

The US is the most developed market in the world and buys more insurance than any other country. Its integration into the US economy is difficult to imagine for people who have not had dealings there. Workmen’s Compensation and Medical Insurance are critical to doing business and insurer solvency is seen as one of the key risks arising from this recession. In part this may be alleviated by forthcoming hardening of rates which they foresee, but judging by others in financial services solvency is a key concern.

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<sup>1</sup> Risk Management Reports Volume 36 No. 6 February 2009

## **Risk Processes**

The role of the risk manager will become more important but RIMS warns the risk manager that he will need to do more with less in this recession. There have been steep reductions in revenues in many organisations and this will inevitably lead to reductions or downsizing in risk management departments.

The risk manager's role will expand and he or she will need to look for ways to actively contribute to the bottom line of their organisation. Many organisations will be tempted to avoid risks as they wait for better times to come but the risk manager can look for the opportunities that risk presents and use their skills to better manage, mitigate or transfer risks to make that contribution.

Operating under these new strains will re-emphasise the professional development of the risk manager. The need to cope with risks from internal security to risks brought from the financial crisis mean that risk managers need to continually update themselves and refresh their learning.

Risk managers will need to embrace this learning if they are to respond to the development of increasingly embedding risk management in the business. Not only will this be a way of coping with less resource through using other departments to keep a focus on health and safety but it will also help to implement ERM processes and behaviours.

RIMS take the robust view that the recession will bring about greater emphasis on ERM. They say that ERM did not fail in banks, but people failed to implement the behaviour needed. They predict that boards will increasingly seek to adopt the ideas and processes required of ERM as a way of adding value to and protecting shareholders.