



# Disrupting the disruptions

Public entity risk management in an unpredictable world

PARMA

2015

# The panel

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# Our agenda

Chris Mandel

An introduction and overview: why disruption is every organization's key risk

Jeff Pettigrew

Intervening, communicating and acting with impact

Leo Costantino

Three pillars, trends and public entity risk management





**Chris Mandel**

**PARMA 2015**

# A broad and fuzzy paradigm

“There are known knowns. These are things that we know that we know. There are known unknowns. That is to say, there are things we know we don’t know, but there are also unknown unknowns. These are things we don’t know we don’t know.”

*Donald Rumsfeld, U.S. Sec of Defense (2002)*

*WHILE THE RISKS LESS UNDERSTOOD ARE DIFFICULT TO ADDRESS,  
THEY ARE OFTEN SO SUBSTANTIAL IN IMPACT, THEY CAN'T BE IGNORED*

Is a reflection of the evolving nature of an increasingly risky world

It is comprised of:

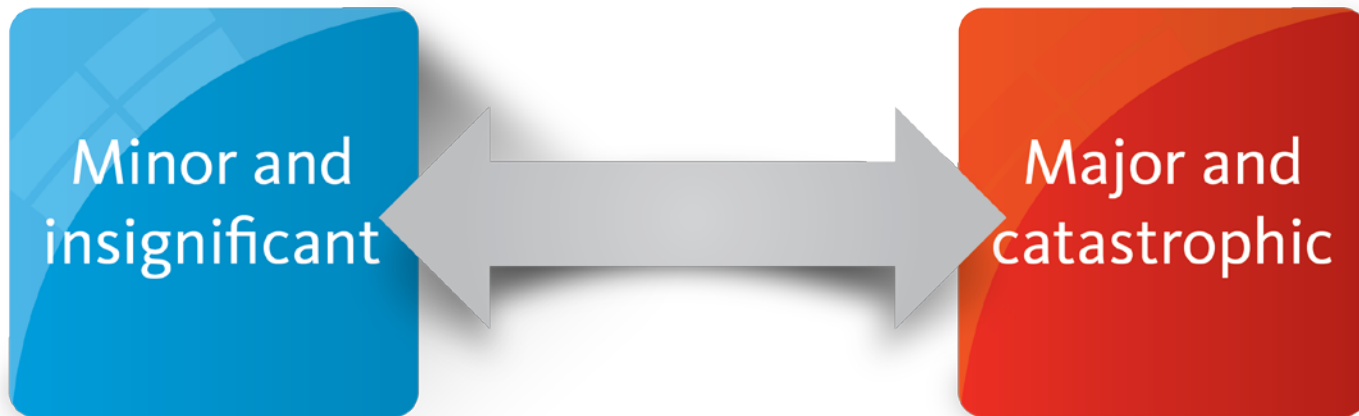
- Volatile
- Uncertain
- Complex
- Ambiguous



# Disrupted

- All organizations are affected by disruptions
- Order of magnitude is a defining difference

Impacts can be viewed across a spectrum





# The disrupted

There are endless examples of disruptive impacts; here are a few that stand out:

- City of Detroit
- Blockbuster Video
- Kodak
- Lehman Brothers
- Enron
- The health care industry
- Fracking industry?

*You can be on top of the world one day and hanging on for dear life in short order*



**Bickmore**





# Strategic risk

- A common theme among the disrupted is a failure to respond to strategic risk(s)
- Strategic risks are those that threaten to disrupt the ability to deliver strategic objectives and mission
- Sensing the future and responding effectively is often the lynchpin to survival
- Shifting your risk paradigm is often necessary
  - From obvious to the less obvious
  - From traditional insurable to uninsurable
  - From Siloed to holistic/integrated
  - From “green eye-shaded” to a stakeholder view
  - From prevention to control & exploitation

*Objects in the mirror may be closer than they appear*



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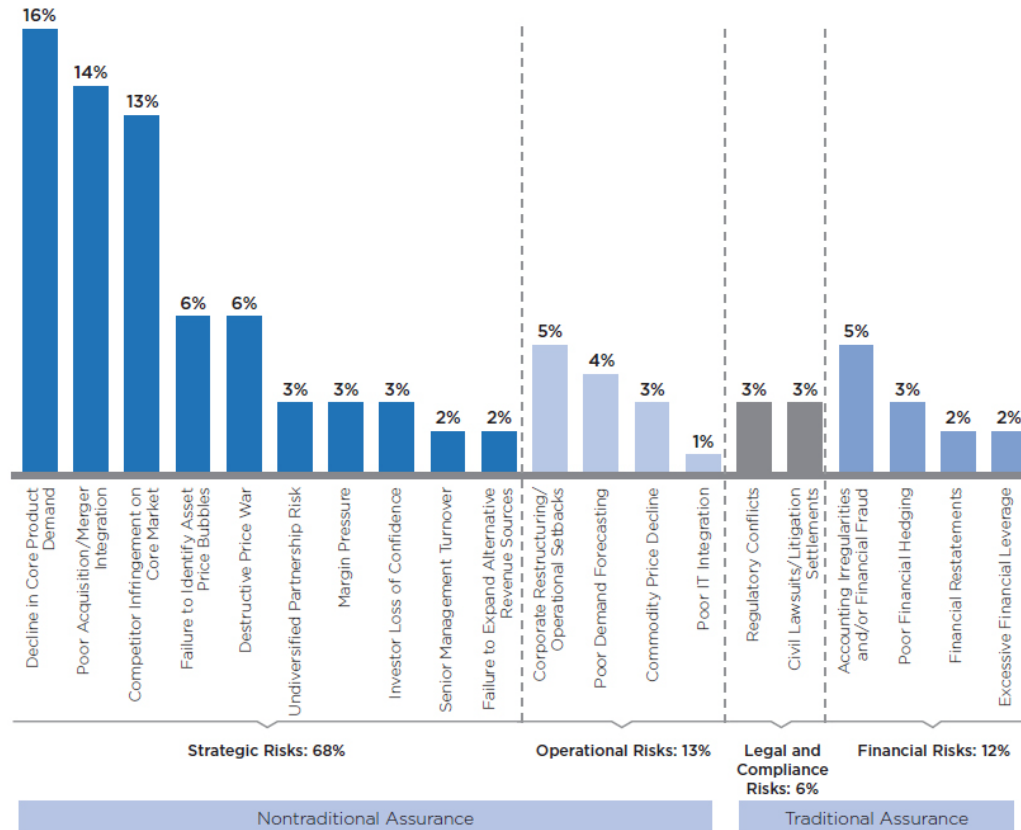
# Do some risks matter more?

Strategic risks continue to have greater negative impact on stock price than more easily auditable risk areas.

- This analysis looks at root causes underlying market capitalization declines of 50% or more in a single year.
- Percentages refer to frequency of occurrence of each factor in the sample population.

## ROOT CAUSES OF DECLINE

Market Capitalization Decline Drivers  
Top 20% of Fortune 1,000 (1998-2009)



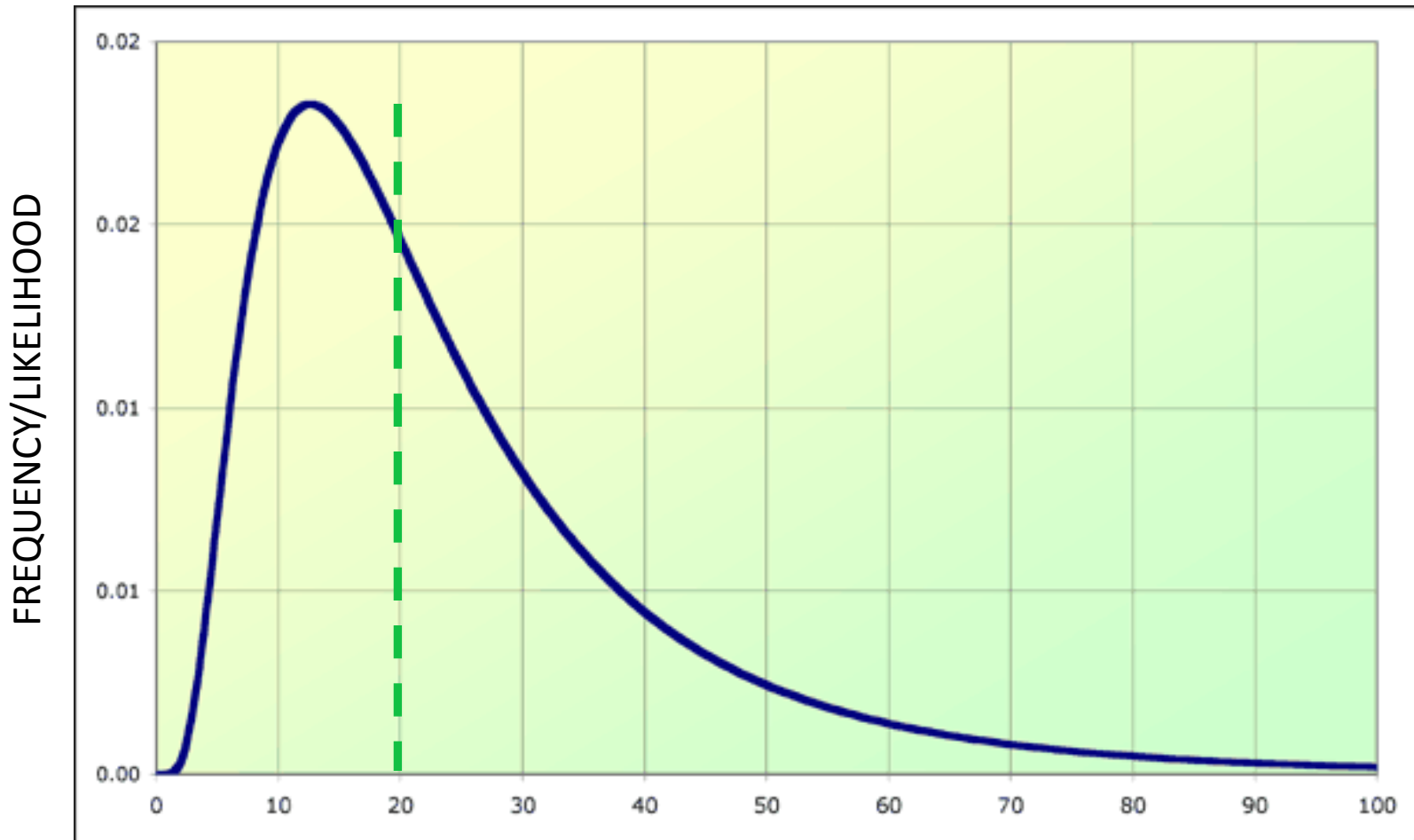
From the AUDIT DIRECTOR ROUNDTABLE\* of the FINANCE AND STRATEGY PRACTICE  
www.adr.executiveboard.com

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n = 128.



# Managing the most critical risks



# Aspirational attributes

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A VUCA world requires that organizations learn to:

- Anticipate
- Adapt
- Maneuver
- Be decisive
- Be ready and able to change course



# Resilience

- Once sensing capability is built, resilience becomes the goal
- Some ways resilience is accomplished
  - Running scenarios
  - Business continuity strategy
  - Disaster planning
  - Crisis communications
  - Brand and reputational protection strategies
  - Having contingencies

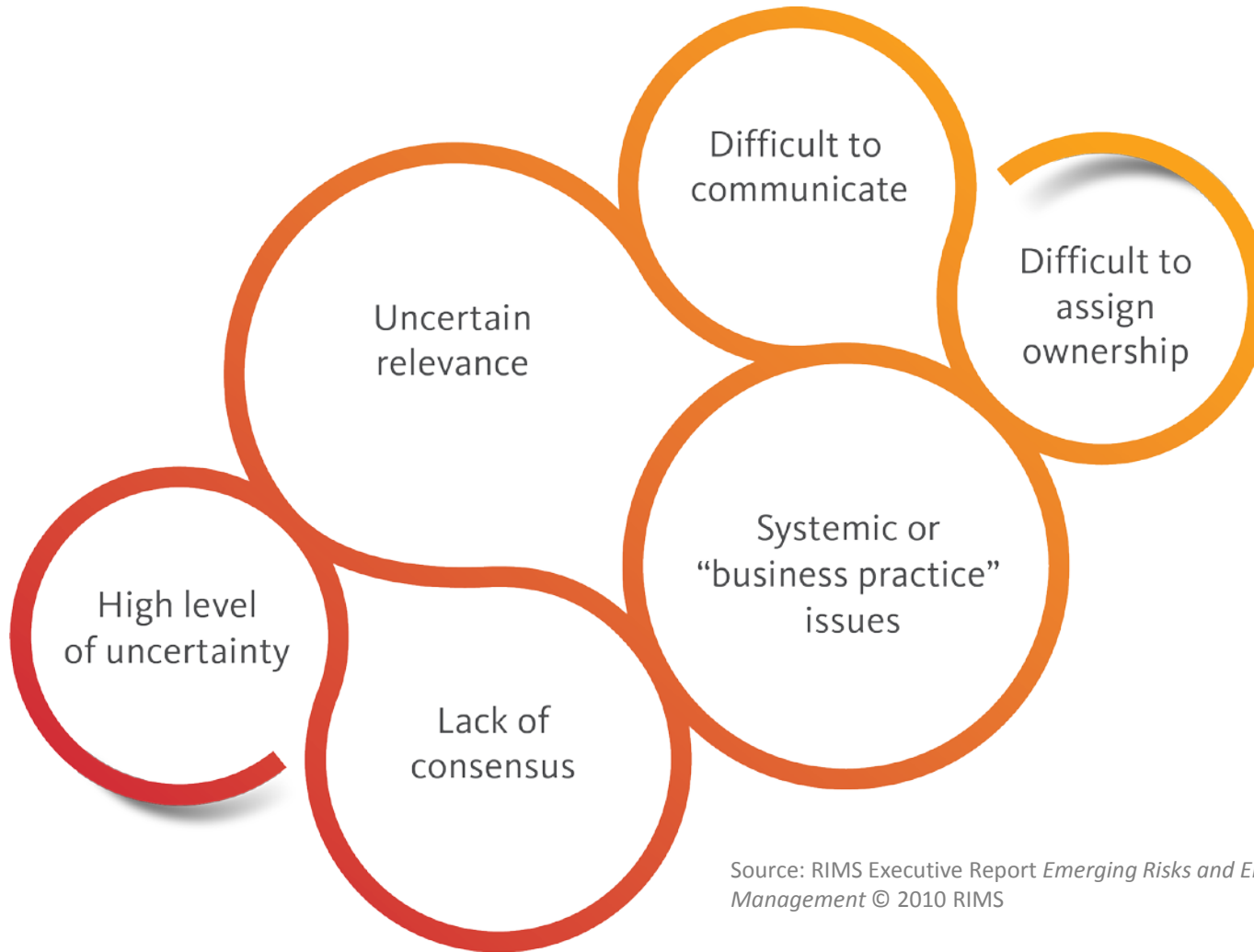


# What is an emerging risk?

- Those issues that have not manifested themselves sufficiently to be managed using the tools commonly applied to more developed exposures. They are “those risks an organization has not yet recognized or those which are known to exist, but are not well understood. - *RIMS’ “Emerging Risks and ERM*
- A condition, situation or trend that could significantly impact the company’s financial strength, competitive position or reputation within the next 5 years. Emerging risks involve a high degree of uncertainty. It is unclear where an emerging risk will land on the loss curve. - *Anonymous actuary*



# Traits of emerging risks



Source: RIMS Executive Report *Emerging Risks and Enterprise Risk Management* © 2010 RIMS



# Emerging risk process summary



Identify emerging risk relative to goals and objectives

Assess risk interconnectedness and determine appropriate responses

Monitor and report leveraging KRIs tied to KPIs

*Integrate in ERM Strategy*



# 3 keys to success in managing emerging risks

## Separate the emerging risks processes

Emerging risks are fundamentally different than more internal/short-term/operational risks, and many companies recognize the need for a separate, more qualitative and creative process (often led by dedicated committees or teams) for identifying and managing emerging risks

## Rely on SMEs

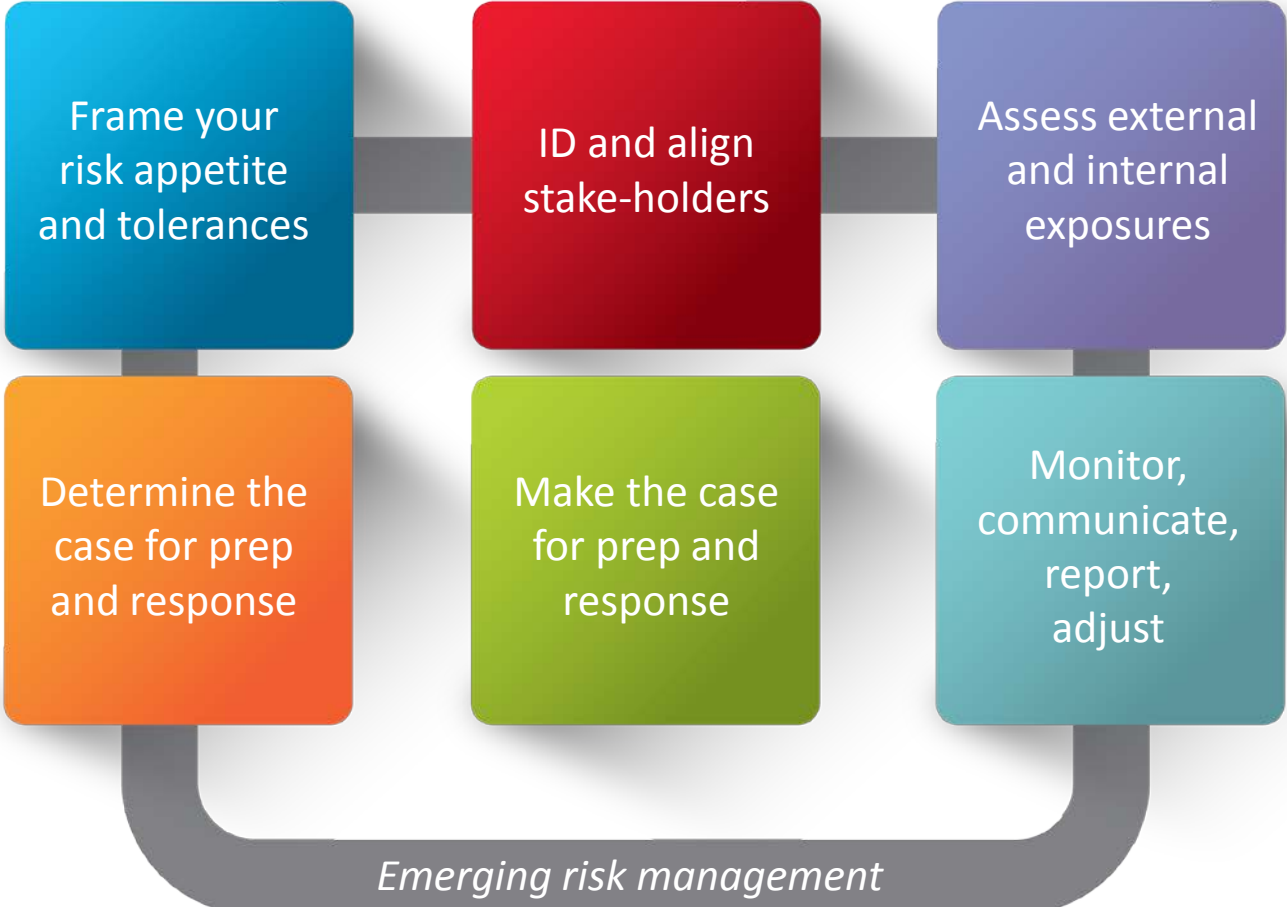
ERM teams often bring in individuals with a specialist-level understanding of particular external/macro-economic trends, using them to help create scenarios, assess the likely direction of trends and measure the potential magnitude of their impact on the enterprise

## Use robust scenario planning

Due to their longer-term nature, major external emerging risks require an effective scenario planning process to build confidence that their impact has been correctly assessed



# A simple process template to achieve resilience





THE  
RHYTHM OF

**RISK**

**Leo Costantino**

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*“Birth control, Ho Chi Minh, Richard Nixon back again  
Moonshot, Woodstock, Watergate, punk rock  
Begin, Reagan, Palestine, Terror on the airline  
Ayatollah's in Iran, Russians in Afghanistan  
Wheel of Fortune, Sally Ride, heavy metal, suicide  
Foreign debts, homeless Vets, AIDS, Crack, Bernie Goetz  
Hypodermics on the shores, China's under martial law  
Rock and Roller Cola wars, I can't take it anymore...”*

*Billy Joel, “We Didn’t Start the Fire”*

Insolvency  
**Tsunami** Lava flow Ebola  
 Bankruptcy Anti-vaccination  
 Baby boomers getting out  
 Long-term drought **Recession**  
 Millennials in the workplace **Civil unrest**





# Disruption

*What does disruption look like to public entity risk managers?*





# The pillars

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- Human capital
- Internal and external environments
- The economy



## The looking glass

- Our profession
- Our role
- Our future



# Organizational constraints

## Poor communication

Siloes, divisions, and turf wars

## Bureaucracy and centralization

Misguided attempts to control uncertainty with processes and hierarchies

## Busyness

Endless days of meetings, conference calls and emails that rob us of the time to look past the present and into the future

## Group-think

The “organizational consensus” on the future, and the prevalence of “yes-men” who can’t really tell their bosses the truth

## Reactive governance

packed board that agendas that encourage report-outs rather than proactive discussion and engagement



## Spotting trends and disruptors more quickly

- Accelerate discovery
- Confront bias
- Scan ruthlessly
- Prepare for surprise



## Present state | *Disruptors*

- (i) Changing workforce/workplace
- (i) HR vs. Human Capital Management
- (i) Evolving public entity jobs
- (e) Demographics
- (e) Pension reform
- (e) 3P – Public private partnership



## Present state | *Disruptors*

- (i) Legal environment
- (i) At-large elections
- (i) Law enforcement
- (e) Drought
- (e) Infrastructure attack/failure
- (e) Cyber attack/exposures



## Present state | *Disruptors*

- (i) Consolidation
- (i) Minimum wage laws
- (e) Volatile world economies
- (e) Income inequality
- (e) New U.S. economic cycles







THE  
RHYTHM OF  
**RISK**

What are *your* concerns?

Please pass your notecards to the front

# Takeaways

- Change your focus – forever
- Remove the “can’t/won’t/will never” happen filter from your approach to managing risk
- Manage risk with agility and resiliency in mind





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**RISK**

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**Questions?**

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**Thank you.**

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