



# thinkpiece

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## Risky Business: Rethinking Risk

Clare Sheikh

### Summary

- We live in an age where the pace of change is breathtaking. This leads to new challenges that businesses and individuals need to understand in order to manage the associated risks.
- Risk means different things to businesses and individual consumers. For firms risk is something that can be measured and when this is done in the right way opportunities are created. For individuals the concept of risk has more negative connotations.
- The global financial crisis has caused many to re-evaluate their attitude towards risk. Both businesses and the general public appear more risk averse, suggesting that the perception of risk is being redefined.
- Risk can be a positive force when managed correctly. For 300 years it has been the role of the insurance industry to support individuals and help firms manage risk by providing the best and most appropriate levels of cover. The challenge facing the industry now is adapting to the change in how risk is perceived by society.

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***CII Introduction: The economic downturn has affected people in many ways. One such example is the impact on perceptions towards risk, both in terms of businesses and individuals. In the final paper of the 'Risky Business' series Clare Sheikh, Group Director of Strategy, Marketing & Customer for RSA, explores the ways in which attitudes have shifted and what this might mean for the future.***

We live in an age where the pace of change is breathtaking. The emerging economies of Brazil, Russia, India and China are set to be the economic powerhouses of the 21st Century. Climate change and an ageing population confront us all with new challenges. Business, communities and individuals want to understand what these new and emerging scenarios are and to know what they can do to manage these new risks.

As old certainties are swept away, there has never been a better time to explore the fundamental concept of risk. That is why RSA decided to partner with the CII and the think-tank Reform to examine the concept of risk more fully. Our UK business has also partnered with the Future Foundation in launching a major series of research papers to look at how risk, and perceptions of risk, are changing. We wanted to try and understand what this means for the economy, for business and for individuals.

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***“Judging risk is not something that the business community feels confident about.”***

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In this final Thinkpiece of the “Risky Business” series, we thought it would be interesting to reflect on the results of this research which provide us all with an insight into how we can effectively manage risk to make the most of future opportunities.

### **Different perspectives on risk**

Risk means very different things to the business community and to individuals. In a business sense, risk is something that can be measured, even if it remains uncertain. As we discussed in our first Thinkpiece of the series, this type of risk is exactly the type of knowledge that insurers have been developing over the past 300 years, and it is the cornerstone to every insurer’s business model. Indeed it is impossible to imagine any organisation prospering by avoiding risk altogether. At RSA, we believe that managing a business is often about managing risk successfully while recognising that for some companies taking a single risk can transform fortunes.

For most consumers on the other hand, risk has more negative connotations. Risk is widely perceived as something that needs to be avoided. Some 58% of those questioned for our research agreed that they prefer to be cautious rather than to take risks. The number of people who say that they

occasionally do something dangerous just for the sheer exhilaration of taking a risk has declined from 28% in 2003 to 20% in 2009. Less than one in five state that they enjoy taking a risk. Perhaps unsurprisingly, the research found that young males enjoy taking risks the most. It is, however, important to remember that risk is a very subjective concept; for Al Gore and Alice Cooper, men born in the same year and educated at the same school, risk probably represents very different things.

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***“The concept of risk-taking seems to have become devalued. Less than half of business leaders... stated that they admire risk-takers”***

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Limiting risk is of course a key function in order to perform everyday tasks. Most people look both ways when crossing a road or check to ensure that doors and windows are locked before leaving the house. These are simple, sensible risk management actions that are ingrained into our very existence. When does this management of risk become risk aversion? And what happens when we become so risk-averse that we start stopping ourselves from doing certain activities? A certain quality of life goes hand-in-hand with taking risks: whether it is the risk of buying a new home, moving to a new city, or trying a new sport.

### **Rethinking risk**

The global financial crisis and recession are having an impact on how we all perceive risk. For the business community, this shift in attitude threatens to create years of risk-aversion, which may result in missed opportunities, slower growth and reduced prosperity.

Among business leaders there is an appreciation that the recession holds many opportunities for growth and to acquire assets, people and even rival companies. Among the business sample for our research, 63% believe that there is an opportunity to grow their business during the recession. However, only 45% expect their business to grow during this period. The gap between the two reveals a world of lost opportunity. More damningly still, only 25% see taking risk as a way to make money.

Furthermore judging risk is not something that the business community feels confident about. Over 70% of businesses sampled thought that they tend to react to the perceived risk rather than the actual risk. This is also evident in the consumer sphere where people are cutting back on spending – not because of a dramatic change in their own circumstances but because other people are doing so. Many of the general public perceive excessive risk to be a cause of the recession and so are over-compensating in their own attitudes to risk and becoming more risk averse.

The concept of risk-taking seems to have become devalued. Less than half of business leaders questioned by the Future Foundation stated that they admire risk-takers and less than half believe that entrepreneurship should be rewarded.

This suggests that the common perception of risk has been redefined. Whereas risk-taking was once exemplified in the public imagination by individuals such as Sir Alan Sugar and Sir Richard Branson, risk is now exemplified by groups of investors in banks speculating on inherently unsound and very complicated investment vehicles.

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***“Risk is no bad thing – as long as it is appropriately managed... It is up to us to appropriately assess these and provide the best products for both business and the public.”***

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For companies, this development in public opinion has potential implications for corporate responsibility programmes. It could be argued that corporate responsibility policies need to change to reflect shifting concerns and that a prudent approach to risk should be part of a corporate responsibility policy, along with ethical and environmental policies. However, such an approach would need to be balanced alongside an acceptance that a certain element of risk is good. Had the first insurers back in the eighteenth century not taken a risk in proposing a new business model to offer security to people against fire, then the insurance industry would not have developed into the model it is today, providing security and peace of mind to millions of customers around the globe. Indeed, if there had been no marine insurance, the working capital would not have been available for Captain Cook to explore the world as he did.

### **Insurance as an enabler**

While there has been much debate about the need for banks to understand the needs of businesses in order to maintain the competitiveness of British companies, little has been said about insurance. What our research shows is that companies fear that they are not adequately protected from risk. Seven in ten business leaders agree that companies in general have not done enough to protect themselves against risk.

Given this background it is perhaps unsurprising that our research showed that both the business community and consumers continue to value high

quality insurance cover. Among companies questioned by the Future Foundation, 55% believe that it is now more important than ever to have good quality cover. Among consumers the figure is even higher at 59%. In a recession, all consumer offers are subject to greater scrutiny, and it can be argued that as a result of this, value becomes more important than price. For this reason many businesses are re-evaluating the cover they have, to make sure the policies they hold are exactly right for their needs. In some respects, the recession has actually caused both business and consumers to get higher quality, better value products. This underscores the true value of insurance: to help customers keep moving when things go wrong and to enable businesses to use their capital as efficiently as possible without the need to provide in full against the most extreme events.

### **Conclusion**

Our research with the Future Foundation found that most companies and individuals are now – either through choice or necessity – behaving more cautiously and are more risk averse. This is despite the fact that many of those questioned do recognise a value in taking certain risks, either from an entrepreneurial perspective, or for enjoyment.

Despite the challenging economic back drop, the value that risk-taking can provide cannot be forgotten. Any appetite for risk will have to be carefully managed, with regulators needing to recognise that while bad risk needs to be controlled via an appropriate regulatory regime, too little risk taking will be detrimental for the future of UK business.

Risk is no bad thing – as long as it is appropriately managed. This is why insurance has been such a successful business model since the late eighteenth century. We are by no means complacent, and realise the future challenges facing the industry. It is up to us to appropriately assess these and provide the best products for both business and the public.

Through our knowledge and expertise, RSA have helped develop some of the newest global industries. We are the world's leading renewable energy insurer, and recognise that where there is risk, there is also opportunity. As we have underlined already, such effective risk management – where insurers work closely with their customers – is not only advantageous but also essential for a prosperous and safe society.

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The other articles in the Risky Business Series are:

- “Risky Business: Insurance and Society” by Andy Haste, Group Chief Executive of RSA
- “Risk and Insurance: A Critical Perspective” by Jonathan Swift, Editor of Post Magazine
- “Insurance and Nudge Theory” by Elizabeth Truss and Nick Bosanquet, Reform

For more information, see [www.cii.co.uk/thinkpiece](http://www.cii.co.uk/thinkpiece)



*Clare Sheikh, is Group Director of Strategy, Marketing & Customer for RSA plc with responsibility for the global implementation of business strategy, sales and marketing across RSA's portfolio of 127 countries. She is a member of the Executive Board and a Director of Codan, RSA's Scandinavian subsidiary.*

*Clare is also a Non-Executive Director of Alliance Trust plc, the UK's largest generalist investment trust business in the FTSE 100.*

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