The Future Is Now: Planning Strategy and Reporting Results

*This interview was conducted of William Austin by Liberty**Directions**, a publication of Liberty Mutual, for their Winter 1998 issue*

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Successful risk managers know that developing strategic plans and goals for their department is just part

of the challenge. The other part is to clearly communicate the objectives and report the results to their company, vendors, and coworkers. This must take place without any reduction in daily risk management practices. Planning is a dynamic process since risk management programs need so be monitored and adapt so constant changes in the business environment.

Fleet Financial Group is a diversified banking and financial services company based in Boston, MA. The company has grown substantially during the past three years and now employs more than 35000 people at 1,500 locations throughout the United States. Liberty**Directions** talked to William K Austin, Fleet vice president and corporate risk manager about his business planning process and how he communicates his department capabilities and responsibilities to senior management and other employees at all levels of the corporation.

LD: How are risks managed at Fleet?
Bill: Within a banking organization, there are many risk managers. My responsibility is to manage operational risk, which is the risk that emanates from Fleet's operations as a bank and financial services company The financial risk managers are my counterparts who are charged with managing the financial risks that arise from activities such as investments or extension of credit. While the risks we all manage may be different, our responsibilities are essentially the same: identify the risk; effectively and efficiently handle the risk; and monitor the risk.

LD: What is your goal for Fleet's operational risk management department?
Bill: Our department mission statement is to identify all aspects of operational risk and determine the most appropriate techniques, singularly or in combination, to control costs associated with such risk. This statement can be summarized by two words—cost control—and one word can be used to summarize how to achieve cost control—resource.

Operational risk comes in many sizes and shapes. Many risk managers think first of insurance to manage risk, but if a "cost control' mentality is adopted, then management of risk will use many techniques to achieve the best predictable cost scenario. "Resource" means the talent and skills this department brings to Fleet and its coworkers. Risks in any form cannot be effectively managed if we do not see ourselves as bringing internal and external resources to solve problems. Further, we will not be considered problem solvers by coworkers if we do not present ourselves and our programs as resources.

LD: How is risk management involved in business planning?
Bill: Fleet has a New Business Initiative (NBI) process. All risk management functions are networked to bring any risk management concerns to a new product or service. This means we will he involved in the developmental stage of products and services and can review the operational impact at the early planning stage. Being involved in the NBI process accomplishes two goals for us: identifies new risks and solutions—cost control—and makes us part of a ream or network where we can demonstrate how we are a resource.

We are also part of acquisition due diligence. Prospective operational risk needs to be identified and addressed to understand the overall cost of risk to Fleet. Many integration issues need to be addressed, including loss control, insurance consolidation, and claims management.

LD: Why do you create a risk management departmental business plan?
Bill: There is more to risk management than just the day-to-day responsibilities. We have daily tasks that may need to be accomplished— tasks that may involve projects that last several months or long-range planning on how we will effectively support Fleet in the area of operational risk management at later dates in time. When I joined Fleer three years ago, I had to determine what Fleet's expectations met for the operational risk department and how we were going to work as a department within a highly dynamic organization that was, and still is, growing by significant acquisitions.

The first objective was to determine and then understand Fleer's exposure to loss. This was critical because I was new to Fleet and a new risk manager. The second objective concerned the existing risk management staff I had to understand the strengths and weaknesses of the department personnel to ensure we had the skills necessary to effectively manage the operational risks of "present-day Fleet" and the "new Fleet" that would exist after each acquisition.

The third objective was to determine how the risk management department could add value to die company. It was necessary to figure out what kind of visibility we had, what kind we should have, and how to deliver "task management" in the most effective and efficient manner. Our vision and purpose needed to be outlined, communicated, and understood.

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ID: How do you use networking to accomplish these objectives?

Bill: Identifying exposures within the company could not happen until networks with various departments were established. This was a critical step for me as the new guy as well as for the existing department staff members who need to stay abreast of new employees or employees with new responsibilities. To maintain a network, information has to be continually exchanged with colleagues.

I determined three areas that would provide an immediate conduit to information about Fleet and its exposures: corporate legal, since the attorneys are always involved when something "risky" happens; compliance, since banking and financial services companies are
highly regulated (plus my first Fleet office neighbor was head of Corporate Compliance); and internal audit, since this department knows and understands all the lines of business and has an appreciation for operational risk

These networks allowed easy contact for me to get up to speed quickly in my role as corporate risk manager. The entire risk management staff is encouraged to network My goal for the staff is to be able to know who and how to contact the appropriate people quickly whenever the need arises.

LD: How did you determine the company's exposures?

Bill: I felt the area that needed the most attention and would give me the quickest education about Fleet was E&O. We developed a questionnaire during the summer of 1995 that was then completed by all the major business units. I used the legal, compliance, and audit network to determine who to contact within the lines of business.

The form we used defined the coverage and activities presently insured and asked the contact person to itemize activities that fell outside those shown in the questionnaire. The good news is that the department had a pretty good understanding of the exposures, and those areas that needed attention were essentially new business areas. Also, we were able to complete this project in about six weeks. Throughout 1998, we will be doing a more in-depth and sophisticated review of all operational risk exposures.

LD: Why is it important to have this information?

Bill: Once the information is collected, it will be used to develop a database. This database will give us the information necessary to continually understand Fleet and its exposures. We will also use it as a way to determine possible changes in our overall approach to risk financing. The exposure survey is a 1997 business plan activity that may lead to a restructured risk financing program in 1999 to be effective on January 1, 2000.

The survey may help us determine which lines of business or corporate staff functions, such as corporate properties or human resources, should have a dedicated risk manager~ This may require creating more specialists within the department. For example, departments such as human resources may be better served if their contact within risk management really understands their operations, needs, and exposures. Concurrent department staff members will increase their risk management knowledge and skills and thereby be a better value-added resource to all of Fleer.

LD: Why do you create a risk management annual report?

Bill: Legally, we are required to have the various bank boards, including the parent company, review the insurance program once a year. The insurance report provides an executive summary of the overall insurance program and contains information on a variety of topics, including broad coverage, self-insurance retentions that are consistent with the corporation's financial resources and our banking peer group, and confirmation that the insurance program has satisfied the many regulatory and compliance reviews.

This past year, I created a separate report for our CFO that detailed some of the same information as well as topics.of the 1997 departmental business plan, our corporate financial plan and budget, alternative uses of our captive, and status of our loss control projects. The report allowed the CFO to understand our direction and offer ideas on "redirection" to stay in line with the overall corporate Fleet plan. It also allowed me the opportunity to demonstrate to the CFO how we control cost and provide a resource to all of Fleet.

ID: How do you communicate what risk management does to the rest of Fleet?

Bill: This is done daily by networking, solving problems, and answering questions. Formally, the CEO holds an annual finance division meeting in Providence, RI. This year. each department manager was asked to prepare a presentation to be viewed by all employees. This meant that nearly 700 employees would be walking though a convention center and learning about what their coworkers do for the organization.

We created a flashy eight-minute slide presentation in Powerpoint and had it run automatically on a large television screen. The slides identified staff members, outlined how we report within the finance department, and summarized our areas of responsibilities and activities. It was very successful. We have since then made copies of the presentation and used this to identify ourselves within Fleet as well as distribute it to newly acquired companies. It is an excellent way to network and demonstrate that we are a resource.

Information is also shown on how the department can be reached by :telephone, mail, fix, e-mail, and our 24-hour emergency paging service. This handbook is helping to meet our goal of communicating to ill employees that risk management is a resource, and available to help their departments whenever needed. The last slide of this presentation rates, "Operational Risk Management by Fleet Corporate Risk Management, more than just buying insurance."

William K. Austin is vice president and corporate risk manager for Fleet Financial Group in Providence, RI. He is supported by a staff of six.