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RETHINKING ERM: COMBATING THE GROWING TALENT DRAIN IN THE INSURANCE INDUSTRY

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By Greg Jacobson, co-Chief Executive Officer

THERE IS A MONUMENTAL SHIFT OCCURRING IN THE LABOR FORCE. THE CURRENT GENERATION OF TENURED PROFESSIONALS IS AGING, CREATING AN IMPENDING DEFICIT OF QUALIFIED, EXPERIENCED INDIVIDUALS IN KEY LEADERSHIP AND EXECUTIVE POSITIONS. LOOKING AT THE GENERAL ECONOMY, THE LABOR MARKET IS PREDICTED TO SEE MORE THAN ONE MILLION PROFESSIONALS RETIRE DURING THE NEXT 10 YEARS.

This mass exodus of skilled employees is expected to be felt particularly hard within the insurance industry as the current number of employees aged 55 and older is nearly 30 percent higher than the rest of the economy.[1] In fact, the number of insurance professionals aged 55 and older has increased by 74 percent during the past 10 years. Already, 20 percent of the industry's workforce is predicted to be nearing retirement—a number that is expected to jump to 25 percent by 2018.[2] If the anticipated rate of retirements within insurance remain the same, experts estimate the industry will need to fill 400,000 positions by 2020.[3]

The overall labor market is expected to see more than **one million** professionals retire in the next **10 years**.

When looking at the loss of knowledge and skills from senior management levels, the current tenure of insurance professionals paints a challenging picture. According to the Bureau of Labor Statistics, the average tenure of insurance employees is nearly six years compared to the overall national average of 4.6 years. This highlights an industry that is comprised of older and more tenured workers when compared to the rest of the U.S. economy. As such, the uptick in retiring professionals is sure to leave a noticeable gap at the insurance industry C-suite and management level. With less than 27 percent of the industry under the age of 35, the number of current employees poised to fill the pending void falls short.

[1-2] Building a Talent Magnet: How the Property and Casualty Industry Can Solve Its People Needs (2010). McKinsey and Company. http://www.aamga.org/files/hr/BuildingaTalentMagnet.pdf.
[3] Insurance Industry Crisis: 400,000 Positions to Fill by 2020 (2013). PropertyCasualty360. http://www.propertycasualty360.com/2013/04/17/insurance-industry-crisis-400000-positions-to-fill.

Fortunately, most insurance organizations are already practicing a process that can be updated to meet the growing challenge. By rethinking their current enterprise risk management (ERM) programs, insurance organizations can better prepare for the impending departure of their current leaders.

Key Workforce Statistics

The number of workers aged **55 and older** is **30 percent** higher in the insurance industry than the rest of the economy.

The number of insurance workers aged **55 and older** has risen by **74 percent** during the past **10 years**.

20 percent of the insurance industry is nearing retirement.

By **2018**, it is expected that **25 percent** of insurance employees will be planning to retire.

ERM IN TODAY'S INSURANCE ORGANIZATION

ERM is a strategic business discipline that encompasses the process of planning and developing organizational activities in order to minimize the effects of risk on the bottom line. In today's business world, ERM is not just limited to assessing the impact of accidental losses, but encompasses all areas of organizational exposure to risk including financial, operational, strategic, compliance, reputational and governance.

Utilizing ERM, organizations identify set events or circumstances that are relevant to their objectives—including both risks and opportunities—and evaluate them for impact. Once the level of impact has been determined, companies can better determine adequate response and monitoring strategies. By proactively identifying and addressing potential risks and opportunities, organizations are better prepared to protect their businesses.

ERM has a long history within the insurance industry. In fact, many insurers committed to the practice of ERM several years ago and are now beginning to realize tangible benefits, resulting in a renewed focus and growing adoption of the ERM process. Within insurance, ERM has evolved to provide a more unified picture of an organization's potential risk. As such, insurers are expanding their primary risk functions to include everything from legal risks—managing litigation and analyzing trends that may impact the company—to customer service—ensuring complaints are handled promptly and reported for resolution. Other standard risk functions include marketing, compliance and ethics, accounting and finance, and quality assurance.

UTILIZING ERM TO COMBAT THE MANAGERIAL TALENT GAP

According to a survey conducted by the Economist Intelligence Unit, human capital risk is the most significant threat to businesses.[4] With the insurance industry facing an impending loss of talent from its senior management and C-level positions, the loss of human capital is a serious and timely risk. Unfortunately, many organizations do not include this risk in their thought processes when crafting an ERM plan for their organizations. In fact, despite the critical threat posed by human capital issues,

[4] Talent Acquisition and Enterprise Risk Management – Where's the Connection? (2014). Alan Davis & Associates Inc. http://www.alandavis.com/pdfs/risk-management-article.pdf.

business risk is still perceived as the top priority for ERM.

While understanding and preparing for traditional risks is important for business success, human capital issues cannot be ignored. Today's insurance organizations are facing a challenging future: a higher-than-normal number of predicted retirements is creating a loss of key personnel, the shallow industry talent pool is resulting in a growing "war for talent" and the industry's history of above-average tenure is making it difficult to find enough qualified talent to fill the growing demand for management and supervisory personnel.

Organizations that do not shift their focus toward current human capital issues face a loss of skills and knowledge as tenured professionals begin to retire. This shift has the potential to detrimentally effect the bottom line and make it difficult for companies to stay on track. Utilizing their current ERM system as a resource, insurers can better prepare for the looming skills gap and ensure their continued success. Taking a look now at the risk associated with future human capital issues and plotting a course of action will ensure a smooth transition as senior staff and management personnel leave the workforce and the next generation takes the reigns.

STRATEGIES FOR FUTURE SUCCESS

In order to successfully combat the loss of knowledge and skills, insurance organizations must look forward. Increased recruitment efforts, a renewed focus on employee engagement and an investment in succession planning are all vital efforts that organizations should undertake in order to prepare for future human capital changes.

> "Entrepreneurial, open-minded, honest, tech-savvy and creative, Generation X—currently aged 34 to 49—is the logical choice to take the helm industrywide."

To best weather the ongoing talent crisis, organizations need to prepare their current Generation X employees to assume the management and executive roles that the current Baby Boomer generation will be leaving vacant. Entrepreneurial, open-minded, honest, tech-savvy and creative, Generation X—currently aged 34 to 49—is the logical choice to take the helm industrywide.[5] Organizations should focus on ramping up their career development and training programs in order to position these professionals for a role at the top of the company ladder. Provide opportunities to take on additional responsibilities, stretch assignments and supervisory duties. Not only will this support the company's goal of cultivating leaders, but it goes a long way in engaging and motivating current employees.

[5] Next Generation: Why you'll regret neglecting Gen X (2014). Insurance Business America. http://www.ibamag.com/news/next-generationwhy-youll-regret-neglecting-gen-x-19115.aspx.

Millennials currently account for **25 percent** of the U.S. workforce and are expected to make up **50 percent** of the global workforce by **2020**.

In fact, employee engagement is a vital component of building a successful organization and preparing for future talent shifts. The key to retention and engagement lies within an organization's culture. Companies should rethink and update their current perks and benefits to ensure they are desirable and in line with what employees are seeking. This includes a quick climb up the corporate ladder, career development opportunities and flexible work environments. Fast-track high-performing employees and recognize individuals who have excelled. A-level players want to know that their contributions are appreciated and that they will be provided with opportunities to grow. Ramp up current training and career development programs in order to provide opportunities for employees to expand their horizons. By focusing on motivating and cultivating current employees, insurance organizations are turning their current staff into tomorrow's leaders.

In the push to retain and engage their current talent, insurers must not neglect bringing fresh talent into their ranks. Insurers must begin building their talent pipelines immediately and recruiting the next generation of insurance professionals.

Fortunately, the Millennial generation is now entering the workforce in droves. Today, Millennials account for 25 percent of the U.S. workforce and are expected to form 50 percent of the global workforce by 2020.[6] This talented and innovative generation offers a solution to the extensive talent influx needed industrywide. However, many Millennials view the insurance industry as "out-of-touch," "dated," and "behind-the-times." In order to combat these misconceptions, organizations need to rebuild their current images and highlight the ways in which their company cultures align with the "wants" of these young professionals. Millennials are tech savvy and innovative, and they want to make an impact. Insurers should showcase the message that insurance is a noble profession that provides competitive compensation and historically has seen unemployment running three to four percent below the national average. Promoting this story will help insurance companies compete in the current labor market and successfully build a bench of talent for the future.

With the skills gap looming, organizations must prepare for the departures of their current leaders. By rethinking current ERM to include human capital issues and risks, insurers can craft a strategy to ensure their continued success in the face of the mass exodus of tenured, skilled professionals and leaders. ▲

[6] Millennials at work: Reshaping the workplace (2011). PwC. http://www.pwc.com/en_M1/m1/services/consulting/documents/millennials-atwork.pdf.

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