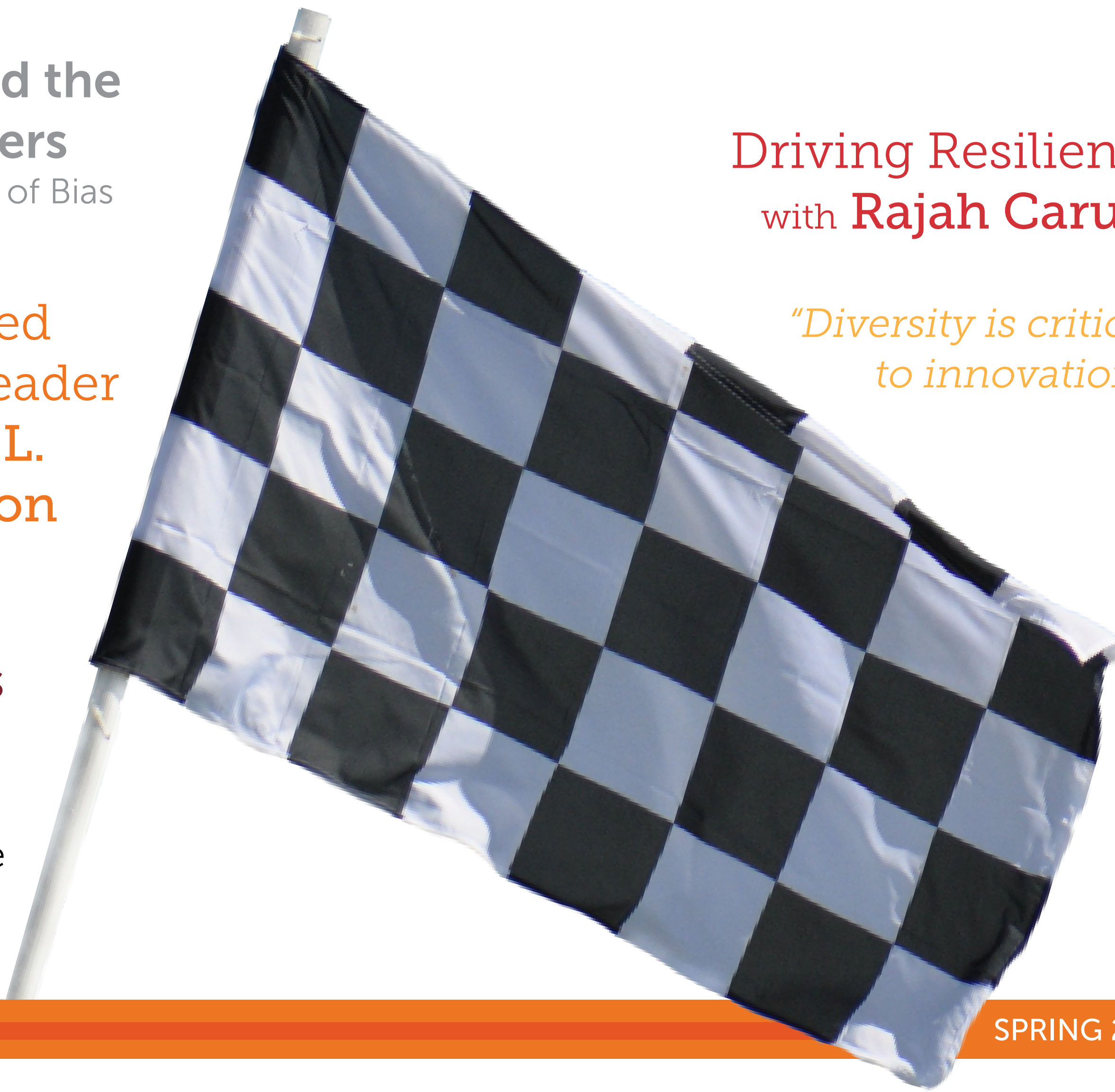
Risk Matters

A SEMI-ANNUAL PUBLICATION | SPRING 2021



Beyond the Numbers
The Cost of Bias

Driving Resilience with Rajah Caruth

"Diversity is critical to innovation."

Featured Risk Leader Susan L. Johnson

RC ANSWERS
How to cultivate a diverse workforce

SPRING 2021

Risk Cooperative

Contents

"There's a pure and simple business case for diversity: Companies that are more diverse are more successful."

Risk Matters

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Risk Matters is published semi-annually by Risk Cooperative to move risk from being a cost to becoming a catalyst for change, new initiatives and greater resilience around the world. With this and our latest curated content, we aim to advance the standards of practice of the risk and insurance profession.

Foreword

As summer officially begins and cities start to reopen, it marks not just the return to post-COVID normalcy but also the one-year anniversary of the global Diversity, Equity, and Inclusion (DEI) rallies inspired by the tragic death of George Floyd. Since 2020, DEI has become a top priority issue for organizations across the spectrum, regardless of industry or size.

From board members to shareholders and consumers alike, diversity, equity and inclusion are a top-of-mind concern. Consumers voting with their dollars demand full transparency on DEI from the companies whose goods or services they patronize. This goes beyond merely paying lip service to DEI on websites and ad campaigns, but rather embodying these values in the firm's culture and across all its operations – including supplier networks.

Firms are looking at procurement practices and supplier networks to ensure they are inclusive of minority providers. Creating diversified networks yields both positive broad-level economic impact and helps operational resiliency at the same time. These are issues that were brought to light during COVID, as supply chains became strained due to heavy reliance on key providers and price gouging.

In this issue of *Risk Matters* we dive deeper into the impacts DEI has on an organization, from key risk pitfalls to avoid to upside advantages. Via a curation of articles we look at how a robust DEI strategy can enable a resilient and agile organization. Additionally, we speak firsthand with Featured Risk Leader Susan J. Johnson, the Chief Diversity, and Inclusion Officer at The Hartford on how she is working to change the industry. We also share a special interview with Rajah Caruth, a unique perspective from one of the youngest minority NASCAR drivers in history, on how he navigates these risks both on and off the track.

As one of the few minority-owned and operated brokerages in the insurance industry, diversity, equity, and inclusion is a topic we focus on daily. It is not simply a "check the box" function but rather a pathway for building competitive advantage, operational resiliency, and ultimately risk agility.

Andres Franzetti is the Co-founder and Chief Executive Officer of Risk Cooperative

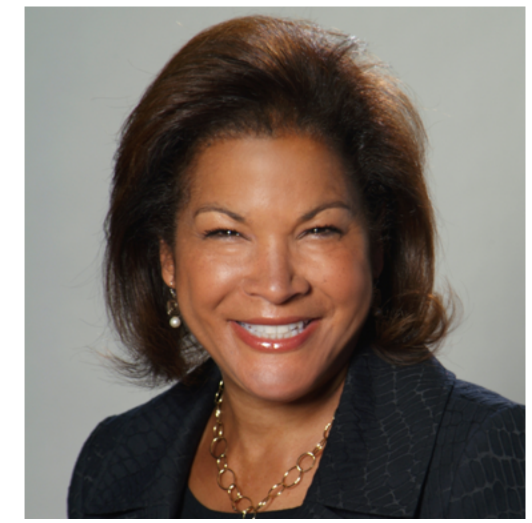
RISK MATTERS | SPRING 2021

Featured Risk Leader

The Hartford, founded in 1810, has a long history of insuring American icons such as Abraham Lincoln, Babe Ruth and the Golden Gate Bridge. But the firm's more recent accolades have centered around The Hartford as a model for sustainability and corporate responsibility, which is particularly notable in an industry not often recognized for progressive leadership.

As the Chief Diversity, Equity & Inclusion Officer at The Hartford, Susan L. Johnson is responsible for leading the insurer's enterprise-wide Diversity, Equity, and Inclusion (DEI) initiatives and aligning them with the company's business strategies. She partners with leaders across the organization to ensure that The Hartford's workforce reflects their customer base, that they drive successful acquisition, development and retention of talent, and that they focus on the right internal and external business and operational activities related to diversity. Her efforts have led Forbes, Bloomberg Financial Services, Human Rights Campaign Foundation and Disability Equality Index to recognize The Hartford as a DEI leader.

Ms. Johnson is not new to this work. Prior to her role at The Hartford, she led global talent, diversity and HR functions at Pitney Bowes Inc. Under her leadership, Pitney Bowes was selected the No. 1 company for diversity by DiversityInc. She has also held HR management positions at Pepsi-Cola and Campbell Soup Companies. Additionally, she has participated in local, state and national political campaigns and has worked on domestic policy and management issues in the public sector.



SUSAN L. JOHNSON,
CHIEF DIVERSITY, EQUITY & INCLUSION OFFICER, THE HARTFORD

Johnson received her bachelor's degree from Spelman College and a master's degree in Industrial and Labor Relations from Cornell University. Her extensive community involvement includes Board Chair for the Harriet Beecher Stowe Center in Hartford, Connecticut, and Board Secretary for the National African American Insurance Association (NAAIA). Additionally, she is active with The Links Incorporated and her church community. Ms. Johnson speaks nationally on topics covering diversity, leadership, career development, and talent management.

Ms. Johnson's recognition includes being named the Diversity & Inclusion Champion of the Year by Reactions publications; listed in Savoy Magazine's Top Influential Women in Corporate America; a Top Executive in Diversity by Black Enterprise Magazine, and an Industry Icon by Insurance Business of America.

> *"The insurance industry should be critical of itself in terms of what defines leadership and how we can expand that definition to enable it to apply to a broader array of people. "*

Through her work on DEI, Susan Johnson has created a shining example for the industry, demonstrating that a diverse workforce — a reflection of changing market demographics — adds value and reduces the business cost of bias. For this, it is our honor to name Susan L. Johnson as our *Risk Matters* Featured Risk Leader.

By the Numbers

THE CO$T OF BIAS

By 2045 the United States will be **majority minority**[1], meaning non-whites will make up 50.3% of the population[1]. Even sooner, by 2024, the population will have 6 million fewer men than women[2]. And while 5.6% of adults identify as LGBT, more than 15% of 20 to 25 year olds do.[2]

As it turns out, systemic inequities and biases lead to billions of dollars forfeited each year in lost productivity, revenue, and innovation—not to mention the reputational harm from being perceived as not inclusive. And these losses will continue to grow as changing demographics reshape the business world.

HABITS OF INCLUSIVE LEADERS[3]

1. Ensure all voices are heard
2. Make it safe to share ideas
3. Provide actionable feedback
4. Accept your team's advice
5. Empower the team to make decisions
6. Share the credit for team wins

[1] https://riskandinsurance.com/how-diversity-and-inclusion-can-address-the-insurance-talent-gap/
[2] https://news.gallup.com/poll/329708/lgbt-identification-rises-latest-estimate.aspx
[3] https://www.forbes.com/sites/kathycaprino/2017/10/26/new-data-reveals-the-hard-costs-of-bias-and-how-to-disrupt-it/?sh=6d4a26524595
[4] https://today.oregonstate.edu/news/even-small-amount-gender-bias-hiring-can-be-costly-employers-study-finds
[5] https://cdn.americanprogress.org/content/uploads/2020/07/31123658/BlueprintMBDA-brief1.pdf?_ga=2.84334044.479256381.1616084431-2024263809.1616084431/
[6] https://www.mckinsey.com/industries/public-and-social-sector/our-insights/building-supportive-ecosystems-for-black-owned-us-businesses

Gender bias is down from 1970, but still has a big cost.

1%
GENDER BIAS IN FORTUNE 500 HIRING[4]
=
$2.8 MILLION
LOST PRODUCTIVITY[4]

EMPLOYEES THAT PERCEIVE BIAS ARE[3]

- **3X** LIKELY TO DISENGAGE FROM WORK
- **3X** LIKELY TO LEAVE THEIR JOB
- **2.6X** LIKELY TO WITHOLD IDEAS

REDUCE BIAS PERCEPTION [3]

- **↓90%** SENIOR ADVOCATE
- **↓87%** INCLUSIVE CULTURE
- **↓64%** DIVERSE LEADERSHIP

+$450B
YEARLY COST

All minority groups reported higher perception of bias in the workplace than their white, male colleagues. These perceptions have costly implications for how these employees engage in the workplace.

Small business is a pathway to wealth building, yet existing wealth and capital is a prerequisite to entrepreneurship. Further, lack of community wealth in minority communities hinders survival during economic downturns. Despite these circumstances, Minority Business Development Agency (MBDA) funding has been in decline since 1970.[5]

BLACK BUSINESS VS POPULATION GAP[5]
+10 POINTS

BLACK LOANS[5]
-60% SMALLER THAN WHITE LOANS

BLACK WEALTH[5]
10% OF WHITE WEALTH

An investment in more business ecosystems that provide Black business owners equitable access to resources and opportunities can unlock part of the $1 trillion to $1.5 trillion in annual GDP that would come from closing the racial wealth gap.

MISSING BLACK BUSINESS EQUITY[6] **-$290B**

YEARLY ECONOMIC LOSSES BY 2028 [6] **↓$1-5T**

REVENUE PARITY WOULD ADD TO THE YEARLY GDP[6] **+$190B**

Driving Resilience

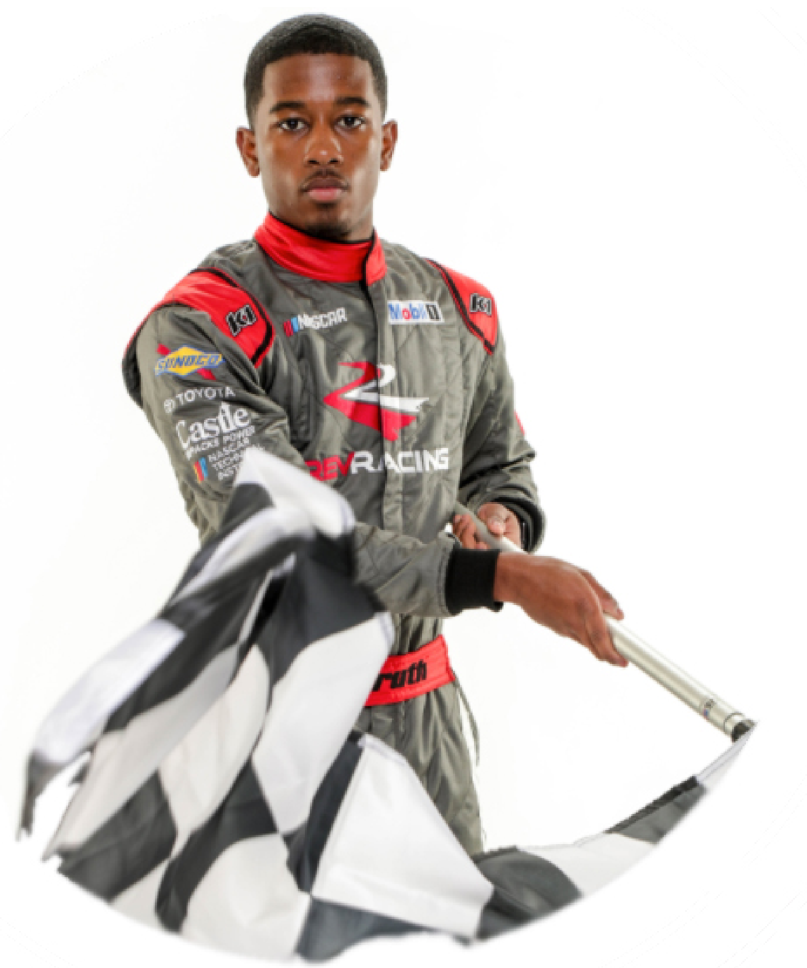
Rajah Caruth is just 18 years old, a freshman at Winston-Salem State University pursuing a degree in motorsports management. But there is more to Rajah than meets the eye. He is a 3rd year driver for NASCAR's Drive for Diversity Driver Development Program with a promising racing career already underway. But unlike many successful drivers before him, Rajah never set foot in a race car until he was 16 years old—nor did he have connections to the sport to help him get started.

Racing, like insurance, is all about taking calculated risks—risks that can lead to victory, as well as those that knock you out of the race. We asked Rajah about taking calculated risks, how luck factors into risk management, and demonstrating resilience on and off the track.

Despite being one of the younger NASCAR drivers, Rajah considers his age to be an advantage. He gets out on the track with youthful energy and confidence, but with the knowledge of an experienced team behind him. As he says, " I can lean on a lot of experienced people in my inner circle, take information from different sources, and incorporate it into my decision-making."

There's a saying that luck favors the prepared, and Rajah puts in the work to make sure his body and mind are ready for race time. "From working on my racecars, to consulting with my coach, to being physically right, practicing on my simulator and watching film...all the little things make sure I'm ready. Preparation is the thing that sets me up to have those lucky moments," Rajah says.

But sometimes, things just don't go to plan. Like any good risk manager, Rajah has a strategy for that: *When things don't go your way, use it as motivation.* And it seems to be working, as he's currently earned 3 wins out of 8 starts in the NASCAR Advance Auto Parts Weekly Series and 75% top 10 starts in the ARCA Menards Series.



Besides juggling school and racing, Rajah acknowledges feeling a sense of responsibility, as one of a handful of minority drivers, to use his platform to improve the lives of people who look like him and interest a new audience in the sport. He hopes to impact future generations by modeling good sportsmanship, on and off the track. "I was very fortunate to get my start without having any connections and having people take chances on me. My trajectory has been nothing like any of my peers. If I can do that for people someday, that's the least I can do."

Follow Rajah's activity on and off the track:
https://www.rajahcaruth.com/

Summaries

BBC NEWS | BUSINESS MATTERS PODCAST

Resident thought leaders Les Williams and Dante Disparte have been invited guests on the the BBC's World Service *Business Matters* podcast with regularity in 2021. Catch up on their latest appearances:

February 18 Listen
March 24 Listen
April 12 Listen
April 27 Listen

NPR NEWS WITH AUDIE CORNISH | AIRED MARCH 2021

As the pandemic recovery began in earnest this spring, Audie Cornish, NPR's iconic radio host, spoke with Risk Cooperative Chairman, Dante Disparte, about lessons learned our COVID-19 response.

All Things Considered:
https://riskcooperative.com/engagements/all-things-considered-dante-disparte/

Consider This:
https://riskcooperative.com/engagements/consider-this-dante-disparte/

WEBINARS: CYBER 360° | AIRED MAY 2021

After presenting to the InfraGard New York Metro area membership in January, Risk Cooperative launched a two-session engagement on cyber risk and resilience. InfraGard is a proactive collaboration between the FBI and the private sector to protect our nation's Critical Infrastructure.

Exposing & Mitigating Cyber Vulnerabilities
View the presentation:
https://riskcooperative.com/engagements/cyber-webinars-infragard/

Your Strategy for Cyber Recovery
View the presentation:
https://riskcooperative.com/engagements/cyber-webinars-infragard/

Links to all RC published articles, interviews, and engagements are located under Insights on riskcooperative.com.

RISK MATTERS | SPRING 2021

Featured Analysis

HOW CYBER RISK, FOOD INSECURITY, SOCIAL UNREST AND ECONOMIC FEAR WILL COLOR 2021 AND BEYOND | PUBLISHED 01.15.2021

2021

Written by Andres Franzetti
Originally published in Risk & Insurance

With recently developed vaccines for COVID-19 being distributed, there is burgeoning hope of getting the pandemic under control, yet hesitancy and fear still abound regarding what new risks 2021 may bring.

This prior year tested the resiliency of governments, companies, and families alike with a range of complex risks. If one lesson was gleamed from 2020, it was the need for better preparedness and the exposure of vulnerabilities of our global markets leading to disruption. The COVID-19 vaccinations are certainly promising, but they alone will not undo the damage that COVID has caused. As we begin to contemplate our return to normalcy, we cannot discard the pandemic's lingering impact and the new risks on the horizon.

As we enter the first week of this new year, we can anticipate certain risk categories which will certainly impact recovery efforts, business operations and daily life.

1 | Prolonged Recovery and Economic Strain

As the first phase of COVID-19 vaccinations begin, we are already seeing troubling signs around public trust of new vaccines and potential distribution challenges that may prolong potential containment efforts and stifle more optimistic recovery forecasts.

Access and distribution of vaccines are projected to fall below the target 20 million objective of Operation Warp Speed according to U.S. General Gus Perna. Lack of public trust is adding hurdles to the distribution efforts while new mutations of the virus are emerging and forcing widespread lockdowns globally. Supply chain and infrastructure complexities, especially in emerging countries that may not be suited for the vaccine's necessary cold storage requirements, not only hinder the widespread immunization efforts but renders those most vulnerable still at risk.

The impact is multi-pronged, as these countries will see diminished economic output, tourism dollars and other dampened critical economic factors. This type of K-shaped economic recovery, so named for the divergent impact of those who will thrive and those who will suffer simultaneously, will be felt across the globe. Those at the lower economic spectrum and more marginalized communities will feel the brunt of the impact on earnings, job loss and ability to meet daily living expenses. This already fragile state will be compounded by continued increased extreme weather and natural disasters causing large scale loss and displacing large populations. This has the potential to create greater instability, raise poverty levels and continue to drive deep societal divides.

2 | Rising Polarization of Societies and Geopolitical Tensions

2020 saw extreme societal polarization continue to rise around the globe. This was perhaps most evident in the recently concluded U.S. elections.

Even with President Elect Biden's impending inauguration underway, 70% of republican voters still believe the election and its results were illegitimate. This type of distrust in government institutions and the democratic process not only impedes its elected leaders' ability to govern, but it also creates vulnerabilities adversaries can expose.

International relations remain another source of potential concern as once reliable ally relationships are now less certain. Trade and foreign relation disputes, such as between the rising U.S. and China tensions add further economic pressures and instability to the global economy. As economic conditions worsen, already unstable regions will see more antagonistic behavior such as North Korea's nuclear tests and tense rhetoric between the US and Iran. While Trade and foreign relations have also grown strained as the U.S. and China tensions continue to rise adding further economic pressures and friction to the global stage. This can be dismissed as "saber rattling", any escalation could lead to larger scale conflicts, war and other such destabilizing events. During an already fragile recovery effort, this could have catastrophic events, compounded by the ripple effect on supply chain disruptions and the economic impact around the globe.

3 | Global Food Shortages and Increased Poverty

Global food supply chains have been growing more fragile over recent years due to irregular weather patterns and increased severity of extreme weather events devasting crops. COVID-19 further accelerated this crisis, as supply chains were disrupted driving the rise in food prices.

The United Nations (UN) has warned that the world is on the brink of its worst food crisis in at least fifty years. Simultaneously, a recent study by Swiss Re and the World Bank highlights that the middle class is eroding with predictions that by the end of 2021 up to 150 million additional people will fall into extreme poverty, defined as those living on less than $1.90 a day. If COVID-19 continues to hinder economic growth through 2021, extreme poverty numbers could climb even higher. This trend is cause for alarm as the erosion of the middle class has historically correlated with increased political instability, greater conflicts and democratic backsliding in countries.

Both advanced economies and emerging markets are at risk, particularly as more unemployed individuals struggle with high cost of food and goods. The U.S. has seen more than one in five households experience food insecurity during the pandemic.

4 | Cyber, Cyber, and More Cyber

Cyber has been a growing risk category for all industries over the last couple of years, even well before the pandemic. The pandemic has certainly exacerbated the risk and the impact of cyberattacks due to increased remote working environments and sustained rise in number of attacks. The frequency of attacks is projected to continue rising, as is the sophistication and severity of attacks.

Ransomware attacks in particular are not only growing but becoming increasingly targeted. Select industries will be most at risk such as hospitals. A recent report by the cybersecurity firm Check Point, tracked an increase in ransomware attacks on hospitals of nearly 71% from September to October 2020.

Cyber terrorism and espionage from nation state actors is also a new growing threat. Unlike traditional cyber criminals seeking monetary compensation, the primary objective of these bad actors is to cause maximum damage and disruption. This has led to more critical infrastructure attacks occurring, targeting cities and even government agencies such as the recent attack on more than 250 federal

RISK MATTERS | SPRING 2021

Featured Analysis

agencies and businesses currently presumed to be at the hands of Russian operatives.

As such, countries are seeking to increase regulatory requirements and penalties for non-compliance. Frameworks like the Department of Defenses (DoD) Cyber Maturity Model Certification (CMMC) are being rolled out across DoD's supply chain to bolster security. These regulations are becoming more strict and broader in scope to cover new technologies organizations have begun utilizing. As new technologies continue to emerge, and advances in AI utilization continue, companies will need to evolve the cybersecurity frameworks, cyber insurance adoption and other key mitigation tactics to combat the growing and evolving cyber threat landscape.

Building Back Better

Despite the turbulence of 2020, 2021 should not be viewed as all doom and gloom. While there are certainly challenges ahead, as is the case when new problems arise, so do new solutions and opportunities. 2020 has taught us to be more resilient, innovative, and agile in how we respond to new threats such as new teleworking technologies, rapid development of vaccines, innovation around socially distant restaurant dining, and alternative food delivery services.

However, the greatest opportunity is to create a revitalized plan for how we can build back better across our infrastructure, supply chains and global partnerships to create a more stabilized world economy supporting greater financial inclusion. In order to accomplish this, and to better absorb the systemic shocks of COVID-like pandemics, agile risk management and risk transfer tools are needed.

Emerging markets are already looking at parametric insurance programs at government levels to expedite economic recoveries from natural disasters and climate risks. Looking at similar solutions in advanced markets will help defer the economic burden from taxpayers and bypass political gridlock.

If 2020 has taught us anything, it is that risk does not discriminate, it does not care about economic status, race, gender, or nationality. To face the new level of complex risks and uncertainties facing our global markets, more innovative and resilient risk management models are needed in 2021 and beyond.

https://riskcooperative.com/news-and-analysis/2021-risks/

MOVING BEYOND TALK
| PUBLISHED 01.20.2021

2021

Written by Maureen Brody, featuring Andres Franzetti and Les Williams
Originally published in The Leader's Edge

The diversity, equity and inclusion movement has gained considerable traction over the past year.

But there is a sense among some that the insurance industry needs to go beyond roundtable discussions, guidance and sensitivity training to develop solutions that actually bridge the gaps in experience and trust that still exist between the races.
Among The Council's membership, partnerships with minority-owned enterprises are garnering good feedback and true opportunity for minorities in the insurance placement process. More than that, brokers are learning how to work with carriers to push the envelope on underwriting so blanket denials in low-income and minority areas become a little harder to do.

Opening the Door

One such brokerage is Birwood Services Group, a minority-owned firm based in Detroit, that has teamed with Lockton to undertake an assertive effort to improve diversity and inclusion in the insurance and financial services industry.

"In order for D&I to be sustainable, it must be modernized," says Ken Hurtt, president and CEO of Birwood. "Prior approaches in commerce and trade have run their course and are ineffective for current objectives. What America can do reliably is what America is—and that is being an open, free-market, competitive, capitalist system of commerce and engagement. Thus, a modern approach to diversity must be embedded in this context to endure."

The trauma surrounding the death of George Floyd was a high price to pay to awaken society—across ethnic lines—to the reality of America's challenge on racism, Hurtt says.

"But that did happen, and it was a wake-up call," he says. "Now that we're coherent, we need to design diversity to be delivered through a systemic process of inclusion to advance the healing process. That methodology is opportunity flow. Put diversity and inclusion in the industry's mainstream procurement ecosystem by merging it into the competitive bid process."

Birwood's business model hews to that philosophy, and as the broker of record, it uses its role as project and process manager to locate minority business enterprises (MBEs), vet them and include them in its bid process. It's not a given that the included company will win the contract, but it's an opening that most MBEs would not otherwise get.

For example, an RFP from an account might seek employee benefits as part of its package. Birwood would go out to multiple companies for bids and would include MBEs that match the opportunity profile, based on Birwood's supply chain vetting process. Those MBEs are on the table just like every other bidder; from there, Hurtt says, evaluation is driven by the competitive assessment process.

"This is important, because if we don't infuse MBEs into the flow of opportunities, they get left out of potential business they're qualified for," he says.

The opportunity goes both ways. Minority businesses get a shot at the RFP, and purchasers usually

Featured Analysis

are glad for the chance to partner with minority businesses.

"Many companies want to consider MBEs, to have that kind of diversity in their business relationships," Hurtt says. "When we put them in the mix, that's usually new and welcome. We are going to consider [the MBE] just as we would any other participant in the RFP. Also, increasingly clients are insisting on having this MBE presence in the process as part of a commitment they have to their diversity initiatives."

Birwood provides that pathway. But it doesn't have to do it alone.

Partnering with Lockton gives Birwood the benefit of excellent market access and expanded expertise and resources, as well as Lockton's respected name and credentials. So how did the two come to collaborate?

"We had the idea of partnering with a minority brokerage for some time," says Brian Roberts, Lockton's chief diversity officer, "but it takes the right person at the right time. When we came across Ken, we said, 'This is a good match.' We weren't necessarily looking for a minority firm, but he had our vision and he was in the Detroit area, which was a marketplace we wanted to expand in."

More Than Just a Contract

One of the problems minority businesses have faced in the insurance industry—as in many other sectors—is being put on a contract solely for the purpose of fulfilling a minority inclusion requisite. Many large contracts now require representation of at least one minority-owned business in the RFP process. Unfortunately, that is often a check-the-box exercise: the proposal includes a minority business that's in on the bid or even final contract, but it gets a payment and little actual involvement in the rest of the transaction. Under this perfunctory model, the minority business may get a nice chunk of change, but it doesn't gain market share, it isn't integrated into a network where it can show its stuff and develop expansion opportunities and it doesn't increase its expertise or reputation. It's a short-term financial windfall with little promise for sustainability.

That's not a proposition that Lockton or Birwood finds appealing.

"Oftentimes, a minority broker is involved in a purely transactional way," Roberts says. "For example, Big Broker A is working a large power plant account, and the city says it wants minority participation in this contract. Broker A finds a minority broker, pays them a nominal amount, but never gives them that opportunity to grow or hire. We said this can be done better, so it became part of an intentional effort to create wealth and jobs in underserved communities."

These contracts become a vehicle for more than just excellent insurance and risk management for policyholders. They are part of broadening participation in the economics of success.

"If you think about insurance jobs, they really are stable and facilitate family life," Roberts says. "Not only does Birwood bring these firms in; it gives these minority vendors access to the Lockton train as well."

And how do carriers and clients feel about this intentional effort to transform diversity and inclusion from a conversation into an operational model?

"It's too early to tell on ROI since we're so early in the program, but the response from clients and carriers has been really good," Roberts says. "I mean, you have to be determined; it doesn't just happen. You have to put the effort in, but we are committed to it. And Ken and his team are making good connections."

Birwood has so far focused mostly on the benefits front, but starting in January, P&C carriers may be hearing from the brokerage. It's harder in the property and casualty space for minority brokerages, Roberts says, because so few of them reach the minimum revenue threshold to get and keep carrier appointments. But, he says, that's just another reason to keep pressing forward.

Building Resiliency in Minority Communities

RCM&D, a Unison Advisors Company, is pursuing its own minority business action plan. It initiated a strategic partnership in 2018 with Risk Cooperative, a Lloyd's coverholder based in Washington, D.C., after years of working with the brokerage in a less formal way. While RCM&D focuses mostly on mid-market and larger accounts, Risk Cooperative's bread and butter is in the small market.

One of the goals of the two brokerages is to bring more creative ways to building resiliency in minority communities.

"We are minority owned and operated," says Andres Franzetti, CEO and co-founder of Risk Cooperative. "We try to work with minority companies as we grow our business as well. But when we look at how to create resiliency in minority communities, it's not just bringing them into the contract process—that's one piece—but can we create programs that are more geared to these subsets. For example, bespoke insurance solutions for diaspora populations that are sending money back home that protect income during difficult situations, whether it's a natural disaster or COVID or a recession."

Part of the work with minority businesses involves partnering on the financial side—not just insurance.

"What we find with minority businesses is they have restricted access to capital," says Les Williams, chief revenue officer and co-founder at Risk Cooperative. "We have to be very cautious about what they can afford. We might say, 'Given the fact that you have X employees and X growth prospects, we think you need $2 million in cyber coverage.' They say, 'Hey, that's 2.5 times what a $1 million policy would be.' So we help them with payment structuring or financing."

Risk Cooperative's good relationships with carriers help in crafting creative financing solutions, but the brokerage can also leverage RCM&D's size and gravitas where needed.

In a recent case, Williams says, "We got on the phone with RCM&D and the carriers and spent an hour and a half—then the carriers were willing to sign on to the account. That's a great aspect of this partnership."

Franzetti echoes the value of the relationship with RCM&D. "We work with all the major carriers," he says, "but in working with RCM&D, two plus two equals 10. We don't just use them for placements, though. It's really a partnership. We strategize about solutions for some of these hard-to-place clients. Is there a trend? Is there an opportunity? Can we get them more access? Part of the process is looking at these groups that are being underserved and seeing what else is out there where we can expand. These

RISK MATTERS | SPRING 2021

Featured Analysis

are great risks if we can structure the right kind of programs."

One of the problems brokers find is a built-in bias against inner-city and low-income businesses. Underwriters (and others) tend to have preconceived notions about certain types of business, certain locations and certain financial profiles. Franzetti says those notions need to be "recalibrated."

That takes an extra investment in these accounts, both in time and personal capital.

"It goes beyond just brokerage and requires greater collaboration with partners and carriers," Williams says. "As brokers, we don't do our carriers justice if we're not bringing them as close to the client as possible. It may be an inner-city property, but let's look at what mitigating factors it has against risk. We can bring the underwriter that information and maybe get a better outcome."

Pushing Back on Broad-Brush Denials

Plenty of brokers have seen routine or thoughtless denials, but when it came to affordable housing, Matt Kahn, executive vice president and commercial division director at RCM&D, got some pushback from a client, which got his wheels turning. Kahn's client wanted to know why the carrier was asking if the multi-family residential building he was seeking to insure was an affordable housing account. He thought it smacked of discrimination.

"We see this all the time in affordable housing," Kahn says. "The underwriter simply says, 'We don't want to write affordable.' I think that's kind of lazy to do that without actually looking at the property—just to say 'no' based on a belief that these are high-loss properties."

Kahn wrote an opinion piece for an insurance trade magazine on the incident that suggested there could be systemic racism at play. While he concedes that laziness is probably the actual reason, he does point to some potentially problematic tendencies in underwriting, such as the propensity to decline an account without fully investigating its risk potential.

The story that is told about inner-city communities is painted with a broad brush, some brokers say, one that tells a general story about an area but not much about individual risks. Crime scores are one of these plot elements.

Crime scores are generated for locations based on publicly available data on police reports or other judicial records. Though they advertise granularity, meaning type of crime and specific location, a question arises as to how most of the data are applicable to business insurance. For example, an act of sexual violence, a home burglary or a car theft—or even a cluster of those—isn't necessarily an indicator of future general liability or property claims from a business. Nonetheless, those data will generate a "crime score" for a business address simply because the incidents occurred nearby.

"How are these personal crimes relevant to property insurance?" Kahn asks. "How are you correlating these statistics to generate a property rating?"

Can a broker get around these scores by having the underwriter come see the property, come see how the owners and managers secure the premises, light the area, etc.?

"You can try to sell the risk to the underwriter," Kahn says, "but it's an arduous process."

But it's an effort Kahn has been willing to take for his clients. In his most recent case, he got a rejection by an underwriter for an affordable housing account, but he went to the underwriter's boss and her boss's boss with that article he wrote. He pointed out the embedded problems, and since then they've been underwriting his affordable housing properties.

"If everybody were trained on how to push back, it would be better," Kahn says. "For example, if a carrier declines an account because they 'don't write affordable,' it's not one of their 'preferred businesses,' and we know education also isn't on the list of things they write but we also know they wrote a school for us, we can go back to them and say, 'You have written outside your preferred segments before; why not here?'"

Growing Up and Out

One key to expanding the diversity in insurance—both the clients served and the minority businesses involved in RFPs—is intentionality. But with such a small smattering of brokerages pursuing this effort, can it be sustained, especially as they grow? Will, for instance, Risk Cooperative outgrow the small-cap market where most minority businesses now reside?

"Our focus is on small- to mid-cap right now," Franzetti says. "When you're talking about MBEs, by nature they're a little smaller or in the early stages, where they tend to be in the greatest need. Our plan is to grow with our clients and keep those relationships as they increase in size and revenue."

Part of that plan is to constantly cultivate partnerships with others who can serve accounts that are outside Risk Cooperative's wheelhouse.

"We have partnerships with much smaller brokerages that can work with super small businesses," Williams says.

And how does Risk Cooperative develop this network of partners?

"We do a lot of conferences, thought leadership pieces, etc.—many of our partners approach us," Franzetti says. "It takes a lot of effort and time. This is why there's not much of this approach in the industry. We have our internal metrics and standardized process for vetting each partner."

Tapping into RCM&D's opportunities is part of that outreach. Williams points to a diversity-and-inclusion forum that Risk Cooperative did with RCM&D a couple years ago. Seemingly a routine risk-management panel on preventing discrimination lawsuits, the presentation—like many others the firm does—awakened participants to the idea that a minority-owned brokerage is out there intentionally working with underserved communities.

Those kinds of events generate interest from prospective minority partners, who then can be assessed for quality and fit. It's an ongoing process nationwide, Franzetti and Williams say. Birwood's Hurtt concurs: cultivating opportunities and partners is a continuous effort.

"I come across partners, vendors, other potential participants for contracts through a variety of means," Hurtt says. "I keep them in mind. I make sure to note them and to follow up to see where or if we can work together or present an opportunity to them. That's a lot of what Birwood is about. We're going to give the best options to the client, but I believe some of those best options are going to come from minority businesses."

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Leadership, Anyone?

While a lot of brokerages are trying to figure out how to make diversity, equity and inclusion work, too many are stuck in their roundtable discussions and sensitivity training sessions. Developing new products, new ways of presenting options to clients and new training that enlightens and emboldens producers on assisting underwriters requires much more creativity, effort and investment.

It cuts into time spent developing and placing other accounts, and it may not yield immediate or consistent results. That's where brokerage leadership has to make some decisions about what level of investment a firm is going to make in changing the system.

The easiest, most expeditious way to put together a bid isn't going to be the pathway to diversity and minority inclusion and opportunity in the insurance industry. There are challenging questions that need to be considered.

How do you compensate a producer who spends extra time to get minority businesses covered or businesses that will benefit minority communities covered? Is there someone at your firm tasked with bringing MBEs into contracts? How can you establish an ROI? How will these efforts be publicly disclosed? Can they be marketed?

Additionally, traditional patterns and products may not be the right ones to serve the minority market. To address that problem, Risk Cooperative has established a risk innovation hub called RC Labs.

"A lot of the work we do focuses on new and emerging risk categories, a whole range of partners and clients," Franzetti says. "It's a place where we can partner with organizations to help develop new insurance programs, blockchain, working with academic partners on research. It's a bit unique in our industry. It is focused on areas of the market that are unserved or underserved."

Overcoming systemic exclusion of minorities in the insurance chain requires a top-down approach that includes setting goals and creating targeted solutions based on research, evidence, metrics and rewards. And, Hurtt says, a raw commitment to engage.

"It's futile to try to deal with these issues through conversation, because we are simply not going to ever heal the wounds," Hurtt says. "We need to move to a modernized systemic approach that fosters inclusion in the American ecosystem, which fosters collaborative trust. That's where we as an industry can really make a difference."

https://riskcooperative.com/engagements/moving-beyond-talk/

WE ALWAYS TALK ABOUT DIVERSITY AND INCLUSION; HERE'S 7 WAYS TO MAKE THOSE WORDS ACTUALLY MEAN SOMETHING

2019

| PUBLISHED 04.08.2019

Written by Les Williams
Originally published on Risk & Insurance

The month of April is "Celebrate Diversity Month," which begs the question for many: What exactly is diversity?

We sometimes hear the word 'inclusion' used along with diversity, as in 'diversity and inclusion.' Diversity and Inclusion, or DnI, is an issue that makes headlines daily in America and around the globe. So what exactly does DnI mean?

The Society of Human Resources Management (SHRM) defines diversity as "the collective mixture of differences and similarities that includes for example, individual and organizational characteristics, values, beliefs, experiences, backgrounds, preferences and behaviors."

They define inclusion as "the achievement of a work environment in which all individuals are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to the organization's success."

Hiring a Chief Diversity Officer (CDO) is a valiant first step in an organization's quest to achieve a truly diverse and inclusive environment, but a CDO is just one piece of the jigsaw puzzle.

On March 27th, we had the pleasure of moderating a panel in Richmond, Va., focusing on how organizations can structure themselves to better achieve a more diverse and inclusive environment. The panel was comprised of leaders from various backgrounds: Maria Tedesco, president of Union Bank & Trust; Dr. Rosalyn Hobson Hargraves, an associate professor at Virginia Commonwealth University; Syd Dorsey, owner of her own management consulting firm; and Carlos Brown, esq. senior vice president and general counsel of Dominion Power.

While the aforementioned definitions of diversity and inclusion are comprehensive, a more colorful definition was discussed on the panel: Diversity is being invited to the party, and inclusion is being asked to serve on the host committee, select the DJ, and even being asked to dance.

Educational institutions and corporations alike benefit from establishing more diverse and inclusive work environments and, by following the tenets of risk management, putting practices in place early can avoid future employee or community-related claims.

As gleaned from the panel discussion, the following are ideas to consider in the design of a diverse and inclusive environment:

1) Have Measurable Outcomes
It is important to assign metrics when implementing policies, but just as important is the ability to measure the right things.

Tracking the number of new hires from low income families is key, but it is equally important to track the retention rates of these new hires. Do they have a higher attrition rate than new hires from other income brackets? What percentage remain at your organization after one year? Two years?

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2) Tie Bonuses to DnI

Several companies tie employee bonuses to group attendance at DnI Training sessions.

By doing so, positive peer pressure is placed on groups such that if a certain number of employees within a group (a sales team for example) do not attend required sessions, then the bonus pool of the entire group is adversely affected.

3) Create a Discourse Around Ideas

The events of August 2017 on the campus of the University of Virginia cast a dark shadow across our nation: The video and photos of the physical confrontation over the possible removal of General Robert E. Lee's statue in a Charlottesville Park will be forever etched in our nation's conscience.

It is important for educational institutions and organizations to create forums where individuals can express their ideas/opinions on sensitive subjects, and many organizations hire trained facilitators to lead these forums allowing frustrations to be expressed in controlled environments.

4) Include White Males in the Conversation

Even among white males there is diversity (gay, straight, English, Irish, South African, Dutch, American, etc).

White males are part of the diverse fabric of educational institutions and organizations, and it is imperative to include them in DnI initiatives and planning committees to ensure all voices are heard.

5) Implement Strategies to Remove Individuals From Their Comfort Zones

Organizations must not be afraid to do things differently if they wish to achieve different results.

Some firms take the unique approach of hiring summer interns from low socioeconomic backgrounds in order to avoid simply hiring "friends of the firm." While uncomfortable initially, this creates a new method of recruiting and allows for a firm to grow in different directions.

6) Avoid Being Tone Deaf

Everyone reading this has worked at a company where, on a weekly or daily basis during meetings, their coworkers engage in small talk around the same topic. It could be a hit TV show, their favorite sports team, or politics. It is incumbent upon management to ensure "small talk" exists that does not just involve one constant topic for fear of alienating others in the workplace.

Tone deafness is a topic that frequently arises around religious observances; companies must be careful to avoid scheduling company-wide events during certain religious holidays.

7) For Educational Institutions, Adapt to the Changing Times

If alumni from a university did not have a good experience while pursuing their undergraduate work as it relates to DnI, then fundraising and donor relations may be compromised.

Colleges and universities must adapt to the changing times; as an example, class rosters historically only had a space for "Mr." or "Ms." and "male/female". For

RISK MATTERS | SPRING 2021

the LGBTQ and gender non-binary community, this is a problem. Schools must ensure their forms are reviewed and updated to capture all the possibilities.

Attitude Reflects Leadership

One of the key pillars of enterprise risk management involves active participation by senior management. DnI initiatives must have the full support of management, otherwise the organization will not take DnI seriously. This involves management not only attending DnI training sessions, for example, but also actively participating and providing feedback throughout the discussion.

These are a handful of ideas organizations should consider when designing a more diverse and inclusive environment. It is imperative to remember that organizations must become comfortable with being uncomfortable as they are testing new approaches to DnI implementation.

What makes Americans so unique and different is what unites us, and this ideal appears in the motto suggested by the committee Congress appointed on July 4, 1776. E pluribus unum, out of many...one.

Contributing to this article was James Shewey, the education practice leader for RCM&D. In addition to the education practice, he manages the commercial insurance operations for RCM&D's Virginia office. Mr. Shewey was named a 2018 Power Broker in the education category by Risk & Insurance®.

https://riskcooperative.com/news-and-analysis/we-always-talk-about-diversity-and-inclusion-heres-7-ways-to-make-those-words-actually-mean-something/

PALE, STALE & MALE: DOES BOARD DIVERSITY MATTER | PUBLISHED 09.04.2018

2018

Written by Dante Disparte
Originally published in Risk Management Magazine

The Connection Between Diversity, ESG and Profitability

Recent research has underscored the strong relationship that exists between diversity among leadership and ethical behavior, and superior resilience and long-term profitable sustainability. For example, the January 2018 McKinsey & Company report Delivering Through Diversity found a continuing strong link between diversity and performance. Companies in the top quartile for gender diversity on their executive teams were 21% more likely to have above-average profitability than companies in the fourth quartile. In terms of ethnic and cultural diversity, top-quartile companies were 33% more likely to outperform their peers on profitability. These trends were true at the board level as well. "We found that companies with the most ethnically/culturally diverse boards worldwide are 43% more likely to experience higher profits," McKinsey wrote. "We also found a positive correlation between ethnic/cultural diversity and value creation at both the executive team and board levels."

In their 2017 research on "total societal impact," Boston Consulting Group (BCG) also made the business case that for-profit companies that place greater emphasis on ESG measures can improve their valuations and margins. In addition, the Ethisphere Institute tracked the stock value of publicly traded companies on its annual Ethisphere Most Ethical Companies list and found that companies with robust ethics and compliance programs

RISK MATTERS | SPRING 2021

Featured Analysis

experience what they call an "ethics premium." Over a three-year period, their stock value was 4.88% higher on average than that of companies without such programs.

The importance of diversity and ESG issues has not been lost on business leaders. For example, the National Association of Corporate Directors' Blue Ribbon Commission Report on Culture as a Corporate Asset acknowledges the impact corporate culture can have on organizational performance and reputation. It also provides recommendations for boards to assess the health of their corporate culture and ensure that such an ethos is embedded in strategic discussions and driving the right behaviors.

In addition, Larry Fink, chairman and CEO of BlackRock, the world's largest asset management firm, wrote in his 2018 letter to CEOs that the company will continue to emphasize the importance of a diverse board. "Boards with a diverse mix of genders, ethnicities, career experiences, and ways of thinking have, as a result, a more diverse and aware mindset," he wrote. "They are less likely to succumb to groupthink or miss new threats to a company's business model. And they are better able to identify opportunities that promote long-term growth."

If the boards of Wells Fargo, Uber, Volkswagen, Equifax, Wynn and The Weinstein Company had been significantly more diverse, perhaps they would have had more risk resilience programs in place and fewer of these cases would have exploded into scandals. This is because more diverse boards are better at understanding, overseeing and balancing not only financial issues but ESG issues as well. Unfortunately, the boards of far too many companies are still too "pale, stale and male," populated by current or former CEOs and CFOs, and often devoid of any notable expertise in ESG and risk governance. Governance diversity means being inclusive of those who are most relevant to the business of a company—from both a financial, operational and an ESG standpoint—whether that diversity relates to gender, ethnicity, race, nationality, age, functional or professional expertise, or leadership qualities.

Most boards are 85% dominated by men, have an average age of 62 or over, and exhibit low levels of diversity in ethnic, racial, professional, and functional attributes. The reality is that most boards exclude women, people of color, younger professionals, and global and non-financial business experts. In defense of their staid ways, many boards claim to be "diverse in thought," suggesting that, despite their homogenous backgrounds, they still are able to contribute a wide range of viewpoints and ideas. While this may be true in some cases, the bottom line is that since most boards continue to be almost entirely made up of the same narrow candidate pool, their primary focus is still on growth, profits and maintaining status quo. Worse still, many boards are composed of friends and family of the CEO who are often loath to challenge existing strategies and processes and are subject to paycheck persuasion.

Leadership and Culture

While this may be changing, albeit slowly, a review of the world of business and governance reveals that there is still much progress to be made on board diversity, especially in the United States where there are no board gender quotas as there are in many European countries. The argument still used today to justify low levels of diversity is that there is a "lack of suitable talent," but all too often this is subtle prejudice masked as meritocracy. Meanwhile, the "diversity of thought" claim many companies and their boards make is often just a cop-out for instilling real diversity of background and experience. Many boards have become parochial in thought, judgment and action. The lack of meaningful commitments to diversity that reflects society, markets, investors and other stakeholders is harming private enterprise.

Recent corporate scandals have resulted in billions of dollars in lost market value, not to mention ongoing financial, reputational and legal consequences. In many such cases, CEOs are let go gently with golden parachutes while boards remain largely intact and in place, even amid questions about the apparent lack of appropriate response to ongoing concerns within the company.

There are two common and deeply interrelated threads running through these scandals. First, there was the breakdown or complete lack of appropriate risk oversight at the board level, especially relating to leadership and culture—the two most important strategic risks for which the board is uniquely responsible. Second, there was a prevailing homogeneity of background, expertise and demographics of individual board members, leading to "groupthink" that likely exacerbated these problems.

Research shows that more diverse boards and executive teams deliver greater financial value and engage in more successful strategic decision-making. Many companies are getting this equation right, understanding that in order to remain sustainable, profitable and attractive for long-term investment, they must pay attention to more than just traditional financial factors. They have come to realize that good ESG management, including diversity and inclusion within their employee population, management and board, is also good for business.

Beyond the Status Quo

The role of the board is not only to challenge management to achieve financial results but to achieve them in a manner congruent with stakeholder trust and value systems. In a market where trust is the most important asset organizations have, the board must be the sentinel of that institutional trust. This responsibility is perhaps a taller order than what many board members signed up for, but it is the best way to preserve enterprise value, guard against complex risk and retain stakeholder trust.

We are living at a time of unprecedented global risk due to the convergence of serious and rapidly scaling challenges, disruptions and potentially existential threats, from technological innovation and disruption, climate change, geopolitical instability, the severe decline of trust in all institutions, and the attendant acceleration and amplification of reputation risk by social media. In this rapidly changing world, companies need to have boards that are agile enough to keep pace with these new and emerging challenges. Boards must move from a position of sitting back to leaning in when it comes to promoting the diversity of people, backgrounds and expertise among decision-makers.

All too often, large enterprises have no notable separation of powers when it comes to the chairman and CEO roles, which are most often held by a single person, usually a man. Additionally, there is no demonstrable independence when it comes to risk oversight and corporate governance standards. As a result, many boards avoid decisions and

RISK MATTERS | SPRING 2021

Featured Analysis

essentially become a rubber stamp for the status quo. Stubbornly adhering to such a limited perspective can create severe blind spots and ultimately destroy corporate value. Challenging conventional board structures with more diverse candidates can help the board to consider different perspectives, ask a different set of questions about company strategy, and act as the necessary third rail that keeps management in check.

Boards have a crucial role to play in guiding not only financial returns but ESG impacts. A dramatic shift is taking place in governance for the dual purpose of maximizing financial returns and creating common social good for the broader stakeholder community. The role of the board must evolve beyond check-the-box compliance and move to embrace a holistic and integrated strategic oversight of ESG, enterprise risk management, leadership and culture. An essential part of achieving this objective is to have a properly diversified board.

https://riskcooperative.com/news-and-analysis/pale-stale-male-does-board-diversity-matter-2/

HOW TO CAPTURE THE DIVERSITY DIVIDEND | PUBLISHED 08.13.2018

20 18

Written by Dante Disparte
Originally published in Forbes

A video montage superimposing the faces of CEOs from the top 100 firms on the Fortune 500 list reveals a startling lack of diversity showing only 2 women, Marry Barra of GM and Indra Nooyi of Pepsi, who has recently announced she will step down. This is paired with a 25% decrease in women leaders on the list who make up a little more than 5% of the total. Non-white CEOs did not fair much better, with a 22% decrease in black CEOs of large enterprises compared to 2017, which signaled the loss of AmEx's long time CEO, Ken Chenault, bringing the number to the lowest point since 2002. Indeed, by this measure, Microsoft's CEO, Satya Nadella, carries the double burden of representing not only one of the world's largest technology firms and one of the world's most populated countries, but of carrying the leadership mantle for brown people everywhere. By other measures of diversity, such as gender, race, religion, sexual preference and educational attainment, among others, the business world seems to be deliberately missing out on a diversity dividend. Why?

Some countries, such as the UK, have opted for a degree of forced transparency revealing a gender pay gap that is more of a chasm in certain mainstay industries such as banking and insurance. For many of the UK's largest employers the gender pay gap, along with broad male-female equilibrium in leadership roles shows much work to be done, with 8 in 10 firms reporting that they pay men more than women. The gender pay gap in finance and insurance was 22% in favor of men with few women represented in top positions. How this shakes out for smaller firms may soon be known, as the UK is likely to mandate similar self-reporting on pay parity for firms with 50 or more employees. Countries that are serious about confronting pay parity, like Iceland, are making it illegal to pay women less than men for comparable roles. Iceland has recently instituted such sweeping laws with no signs of eroding economic competitiveness or riots in the streets. Iceland is aiming to capture its diversity dividend by encouraging equal economic participation for men and women. Iceland, like other Nordic countries, can make these sweeping changes more readily because it does not stigmatize maternity by treating pregnancy like an illness and children like a handicap as many advanced economies do, especially the U.S.

While entrenched societal tendencies about diversity run deep and cut across all countries and classes, some industries are worse than others, where technology and finance are among the leading culprits. Both tend to shield their poor diversity scorecards behind arguments of meritocracy or the relatively shallow talent pool of diverse yet qualified candidates they can draw from. The more insidious arguments that grease the slippery slope of improving board-level diversity, for example, is the lack of prior experience defense. When challenged, many of these firms claim "diversity of thought" as their defense for being deeply un-diverse and all too often woefully ineffective when it comes to pernicious issues of workplace sexual harassment, assault and discrimination. Not to mention other repetitive governance failures that are verging on the clinical definition of insanity given their frequency and similitude. This lack of diversity at the senior most governance levels is proving to be very costly. Just ask the once mighty The Weinstein Company (TWC), which fell on its own governance sword over Harvey Weinstein's pervasive sexual transgressions having to offload the firm in a bankruptcy fire sale. The firm was presided over by an all-male board with an average age of 62 at the time this crisis broke. While diversity alone is not a cure all, challenging conventional wisdom and convenient arguments that can make business and society at once more participatory and compensatory to underrepresented groups can only be a net positive for business and the world.

Indeed, based on gender-parity alone, as revealed by the gender pay gap, the global economy is like a car with a 6-cylinder engine where the male driver, passengers and mechanics choose to run on only 3. Shifting attitudes towards improved diversity outcomes implies breaking free of the notion that improving these standards is a zero-sum proposition where a woman's gain is a man's loss. Rather, diversity and inclusion improvements across quantitative and qualitative measures is closer to an all ships rising proposition. Renowned economist, Anthony Haldane with the Bank of England, espouses this very point by highlighting that diversity recruitment efforts that look at a candidates' qualifications in isolation without taking into account the "portfolio" or team they would contribute too is one way "unsafe" candidates are set up to fail and firms short change their talent pool. Instead, hiring managers and leaders, much like they structure their personal investment portfolios, ought to construct diverse environments across multiple dimensions that function better together than apart.

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Another aspect that sets up a prohibitive barrier to entry for diverse candidates is the algorithmic hiring process that is almost entirely machine-driven at the widest, thus most opportunistic, segments of the recruitment funnel. At these stages, a candidates' lack of certain preset qualifications eliminates them entirely. Insidiously, as evidenced by the video montage, how many diverse candidates opt out all together because they literally do not see themselves reflected when they peer in to a particular company or industry's hiring window? Sadly, even in U.S. politics, women and diverse candidates, who by every measure are qualified yet have the temerity to raise their hands to serve their country, are dismissively mischaracterized as "this girl...whatever she is" and "rappers," rather than as otherwise qualified political candidates who happen to be women or musically inclined. While this barrier to entry reflects a toxic strain of political and social tribalism that has crept into U.S. and global politics, it nevertheless underscores how far we have yet to go in creating rainbow nations. Indeed, because these barriers still exist more women like the Boricua Alexandria Ocasio-Cortez and black candidates, like Anthony Delgado, should enter and remain in the race until their presence becomes normal.

Against this backdrop of continued studies, self-reporting and preserving a decidedly un-diverse status quo, capturing a clear diversity dividend remains a domain for challengers. It took Lloyd's, the world's leading insurance marketplace nearly 330 years before a woman, Dame Inga Beale, was appointed to the helm. While Inga Beale will soon step down from her role leading Lloyd's, she has measurably improved diversity and inclusion at Lloyd's and in the insurance industry. Not singularly through her considerable presence, but through the initiatives she championed, such as the Dive In Festival, which has become the insurance industry's global call to action on improving industry diversity and inclusion outcomes. While Lloyd's under Inga Beale's watch has certainly become a diversity champion, other industry firms, such as Willis Towers Watson, which temporarily changed its logo during Pride Month to capture the diversity dividend in its employees shows the impact of enterprise-wide commitments to these priorities. Diversity and inclusion are not just about morale and altruism, McKinsey's report on diversity espouses the competitive advantages of talent, for which diversity is the key to opening a wider gate and inclusion illuminates the path.

By this measure, industry associations, such as Gamma Iota Sigma (GIS), which is the world's preeminent risk, actuarial and insurance collegiate association, are not contented with the industry's perception that risk and insurance are your "grandfather's" trade. Like Lloyd's, with Noelle Codispodi in charge, GIS has worked actively and with conscience about confronting the industry's real and perceived diversity and inclusion challenges, catching them early enough in the talent pipeline before the road forks into some dead ends. Taking these cues, which begin to cut at systemic positioning and perception issues, the only way to improve diversity long term is to get more diverse candidates on the playing field and on the radar of hiring managers in the first place. For this, apprenticeships, job shadowing programs and initiatives that address the skills, participation and pay gaps should be implemented more broadly. Indeed, for a sure pathway to the middle class, a professional credential, such as an insurance license, risk certification or project management designation are often all that is needed to get a

foot in the door of a $5.5 trillion-dollar industry. For a sure career path, bet on the risk business. For a sure dividend, bet on diversity.

https://riskcooperative.com/news-and-analysis/how-to-capture-the-diversity-dividend/

STARBUCKS, I TAKE MY COFFEE BLACK

| PUBLISHED 04.23.2018

2018

Written by Dante Disparte
Originally published in Forbes

For Starbucks, a company that has had its mix of praise and criticism for its proactive stance on addressing race relations in the U.S. with its Race Together campaign, it is ironic that it now finds itself embroiled in a racially motivated backlash that has gripped the company, including calls for boycotts. Following the unfortunate, filmed and wrongful arrest of two black patrons, Rashon Nelson and Donte Robinson, in an all-too-familiar scene at a Starbucks store in Philadelphia, the company has perhaps disproportionately decided to shut 8,000 of its U.S. establishments on May 29 for racial bias training. What this case demonstrates in the reactionary era we are living in, etched by deep social and political fissures bordering on tribalism, is that intangible threats affect business continuity tarnishing the veneer of corporate reputation and pushing back the lines of social responsibility efforts.

Starbucks, particularly under the leadership of Howard Schultz, now the company's executive chairman, is among a growing number of firms that can be characterized as corporate activists. They join the ranks of firms like Apple, Salesforce, and Chick-fil-A, among others, that have staked their claim on an often controversial social or political position, such as race relations, gender relations, campaign finance, religion and national security, among other issues. This rise of corporate activism flies in the face of traditional norms that the only role of a corporation and its executives is to enhance shareholder value in a socially agnostic

RISK MATTERS | SPRING 2021

Featured Analysis

manner. Trickledown economics, or so the theory goes, will take care of the rest for the betterment of society. Scandal after corporate scandal conspire with a marked erosion in institutional trust to challenge these norms. In short, people expect more from their public and private institutions (and occasionally their baristas) and Starbucks is only the latest firm to confront these challenges.

Whether they like it or not, boardrooms and the C-suite are facing growing pressure to demonstrate to their stakeholders and society writ large that their value systems are not meaningless words on a wall or annual report, but rather important pillars they will stand on when challenged. In short, values matter most when it is least convenient. Far too many firms and their shareholders are learning costly lessons about reputation risk management and the corporate trust deficit. Indeed, many a shareholder can watch the erosion of value in real time as executives are beamed around the world in split screen newscasts – on one side showing the defendant corporate leader facing an inquisition. On the other, their firm's share price movements. Increasingly, this pantomime theater is taking place in largely ineffectual hearings on Capitol Hill, where Mark Zuckerberg was the latest CEO to defend his crestfallen organization, where many lawmakers proved they do not know the basics of governing in the technological age, let alone regulating it. If trust and alignment with market expectations are the new currencies of business, how will corporate governance and leadership evolve when we appear to be so thin-skinned as a society and so skittish as institutions? Everyone armed with their iPhones waiting for a scandal to unravel and a person to misstep is an Orwellian form of social policing.

Starbucks' potential overreaction is not the first of its kind. Chipotle followed a similar course in 2016 following an outbreak of foodborne illnesses in some of its stores, when it decided to close 1,600 locations across the U.S. Since, Chipotle has struggled to recover despite many measures, including free meals and loyalty programs to lure back lost customers. Indeed, echoes of the E. coli outbreak still linger until today and the company's stock price reflects this market apprehension. Starbucks and its response to this challenge now creates a pattern in which the market begins to expect similar decisions following any type of corporate scandal or pressure. Taking this example further, should United Airlines have grounded all flights following the tragic case of Dr. David Dao? The airline ferries more than 143 million people around the world in general safety, notwithstanding the discomforts of modern air travel. Totally avoiding one of the world's systemic airlines to not face the highly unlikely fate of Dr. Dao may be impossible, unless you never travel by plane again. Waiting in a coffee shop without being arrested, like walking in a retail store without being followed, are sadly difficult if you are black in America. This is not Starbucks' problem to fix, but rather the society's.

Just because many of these events are now being filmed and immediately broadcast around the world, does not mean they are endemic and occurring in every Starbucks location. Not every Starbucks nor every Starbucks employee has the misjudgment exhibited at the Philadelphia store. No more than every security guard working for United or other airlines, has the inability to temper themselves. In short, people are fallible and large enterprises, notwithstanding their lofty mission and value statements, can be brought to their knees by this fallibility. Especially if reactions to crises are not immediate, sincere and proportionate.

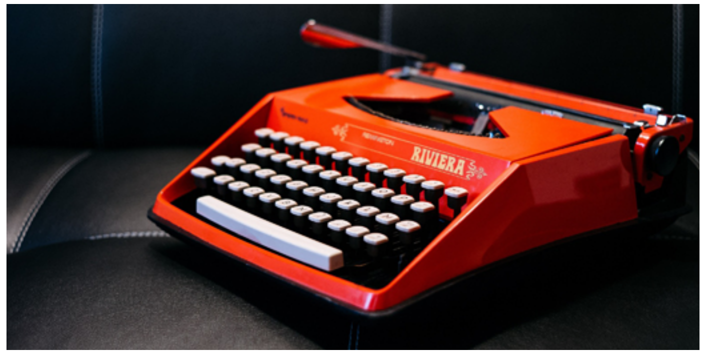
In Facebook's case, following an uncomfortable period of silence, rather than turning to his own platform and Facebook Live to issue a personal apology to his more than 2.2 billion monthly active users, Mr. Zuckerberg followed a reflexive pattern of corporate crisis communications. Shielding himself and his firm behind the often-anodyne messaging of public relations firms, which was to wait to allow perceptions to linger before beginning an apology tour. What these cases demonstrate is that businesses, institutions and people are fallible, yet customers, investors and lawmakers expect better. The optics of shutting down every store is that what is and should be treated as an exception, may very well be a rule in every Starbucks in the U.S., which is clearly not the case. Just as foodborne bacteria contaminating every Chipotle is implausible, the overreaction sent an irreversible market signal making trust difficult, if not impossible to regain.

Perhaps Starbucks and other firms should take the lessons learned from Le Pain Quotidien, which had a field mouse incident where a customer found a dead pest in her salad. Rather than shut down every store in the country, or get embroiled in costly law suits or overreactions, the CEO, Vincent Herbert, came out apologetically asserting that one of the business risks in providing pesticide-free, farm-to-table food is the occasional pest will creep into the supply chain. This incident has been long forgotten and Le Pain Quotidien continues to thrive. Clearly, equivocating complex issues like race, customer and food safety is impossible. Where they are all related is in their effect on corporate reputation and trust. While admirable, for Starbucks to carry the weight of mending race relations in a deeply divided America is a burden too heavy to carry.

https://riskcooperative.com/news-and-analysis/starbucks-i-take-my-coffee-black/

RC Answers

As my firm prepares to return to pre-COVID productivity after a year of social unrest and economic instability, we've realized we still have DEI work to do. What steps can our leadership take to cultivate an inclusive workplace?



HAVE A QUESTION FOR OUR EXPERTS?

Send your inquiries to info@riskcooperative.com and your question and answer may be published in a future edition of Risk Matters.

Workforce diversity has been shown to not only generate increased revenue, but also reputational improvements over the long term. Consumers increasingly value seeing themselves reflected in the businesses with which they choose to work. However, it is also important to recognize that the cost of bias and underestimating talent is significant as well. Even so, we increasingly see that simply embracing DEI is not enough; it must be woven into the fabric of your business culture to fully reap the rewards. But where to begin?

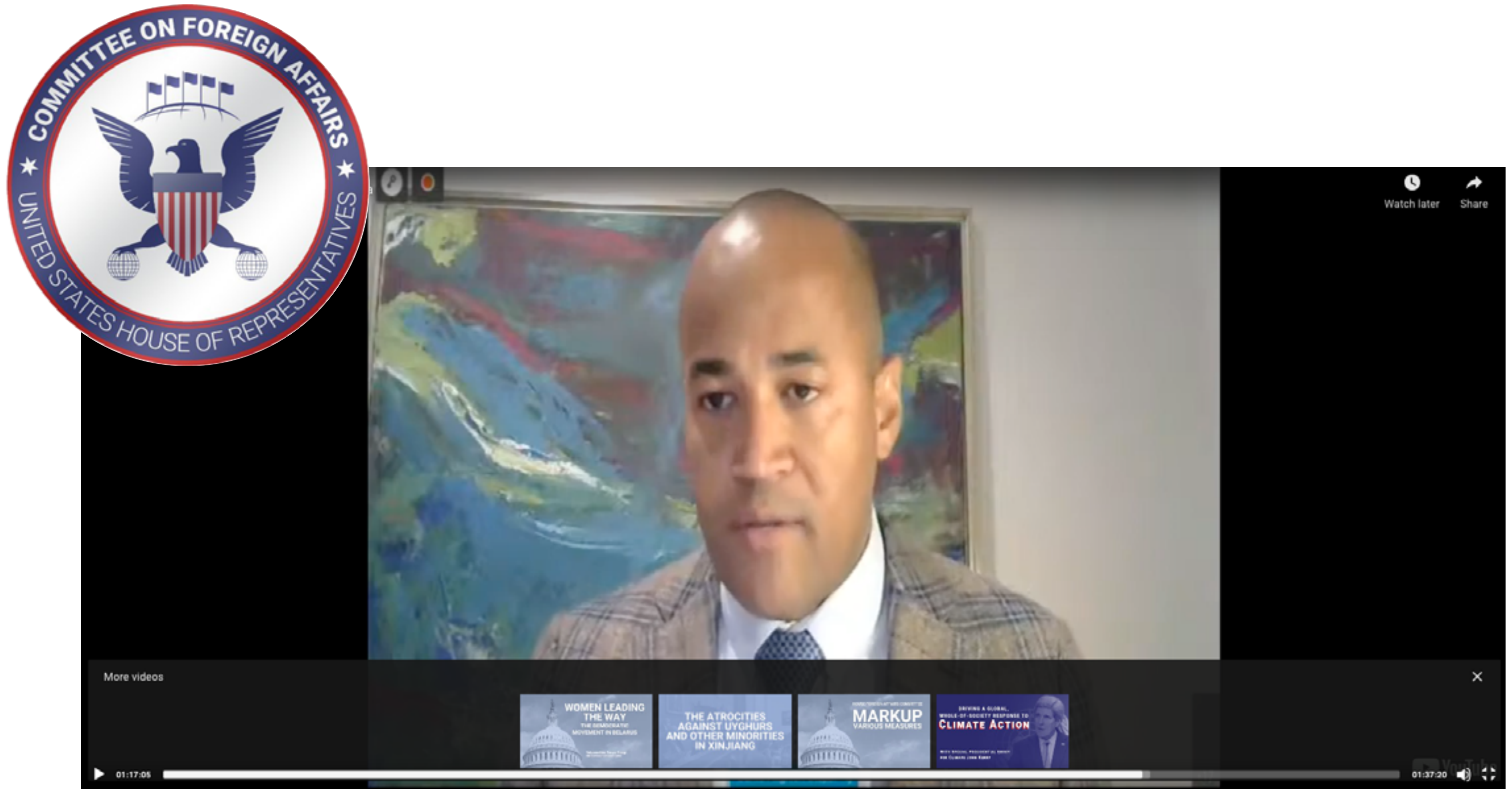
As our Featured Risk Leader, Susan Johnson said to Risk & Insurance[1], "I would advise them to figure out what diversity and inclusion means for them personally. I would encourage them to figure out a way to get to know people who are different from them in an authentic, transparent, and non-transactional way to expand their perspective."

After self-reflection, leaders need to establish specific goals. Dante Disparte has outlined pathways[2] for improving board diversity that can apply to the broader workforce—set measurable targets, refrain from friends-and-family hiring and broaden the talent pool, reshuffle teams, create oversight (separate from CEO), and embrace new perspectives (sometimes from third party experts.) Additionally, In his piece (republished on page 19) Les Williams offers advice on considerations for design your inclusive workplace.

Most importantly, acknowledge that DEI work is an ongoing process. By grounding your initiatives with a mechanism for continuous monitoring and improvement—much like an Enterprise Risk Management approach—you'll establish the foundation needed to ingrain inclusivity in the company culture.

[1] https://riskandinsurance.com/the-hartfords-susan-johnson-weighs-in-on-the-hot-button-issue-of-diversity-and-inclusion/
[2] https://www.nasdaq.com/articles/9-pathways-to-diversity-innovation-and-better-strategic-risk-governance-2019-03-05

Announcements



CONGRESSIONAL TESTIMONY TO THE HOUSE SUBCOMMITTEE ON AFRICA, GLOBAL HEALTH, GLOBAL HUMAN RIGHTS AND INTERNATIONAL ORGANIZATIONS

The House Subcommittee on Africa, Global Health and Global Human Rights requested testimony from Dante Disparte, founder and chairman of Risk Cooperative and member of FEMA's National Advisory Council, on the Effects of Climate Change in Africa. Mr. Disparte joined a panel of experts and fielded questions from Chairwoman Bass, Ranking Member Smith, and other committee members.

Written testimony and webcast recording is available.

20:50 Introduction
34:15 Opening Remarks
49:35 On remittances and the African Diaspora
01:04:55 On climate change and conflict
01:11:55 On policies, technologies and coalitions requiring U.S. leadership
01:15:15 On the reducing the insurance gap through small to mid-sized firms

https://riskcooperative.com/engagements/congressional-testimony-africa/

Risk Cooperative

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