Editorial

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Biographical notes: Paul Klumpes is a Professor of Accounting at EDHEC Business School, Roubaix, France. Previously, he was a Professor of Accounting at the Imperial College London and the Swiss RE: Professor of Risk Accounting at Nottingham University Business School. He received his LLB degree (Hons.) from the Open University, a BCom (Hons.), MCom (Hons.) and PhD in Accounting from the Unversity of New South Wales. He is also an Australian CPA and an Honorary Fellow of the Institute of Actuaries. He has numerous publications and his research interests cover the inter-relationship of public policy and reporting, regulation, financial management and control of financial services.

Philippe Foulquier is a Professor of Finance and Accounting, Director of EDHEC Financial Analysis and Accounting Research Centre. He is also actively involved in consulting in both IFRS-Solvency II and corporate valuation issues. He began his career in 1990 in the Scientific Department of the insurer UAP, notably in Asset Liability Management. He left UAP in 1996 and spent ten years as a sell-side Financial Analyst in brokerage firms. He was the Head of the Pan-European Insurance Sector at Credit Lyonnais Securities Europe, Enskilda in 2000 and Exane BNP in 2003. He carried out several IPO and international M&A operations.

Stephane Gregoir is a Professor of Economics, Associate Dean for the Faculty and Research and the Director of the Research Center in Economics at EDHEC Business School. He holds a PhD in Applied Mathematics, a Master in Economics and Statistics and an Engineer's degree. He was previously the Director of the CREST and held various positions as a Macroeconomist, a National Accountant and a Statistician at INSEE (French National Institute of Statistics). His fields of expertise are mainly non-stationary time series, seasonality, expectation formation and analysis, business cycle indicators and macroeconometric modelling.

The papers published in this special issue of *IJBAAF*, all focus on the theme of enterprise risk management (hereinafter ERM) and corporate governance, and arise from a conference that was held on 17 May 2011 at EDHEC Business School, Lille, and

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co-organised by the International Centre for Financial Reporting (ICFR). The conference aimed to address specifically the issue of the link between corporate governance effectiveness in the international insurance industry and the adoption of enterprise risk management by insurance firms.

The conference was sponsored by Milliman. Neil Cantle, a Principal of Milliman, noted that "Risk management practices need to undergo a dramatic change if they are to support modern business and society effectively. Much of the toolkit in use today was designed for simpler times. In the fast moving global context of complex modern reality, new approaches are needed and conferences like these provide a useful forum for encouraging and sharing those developments".

It is, therefore, no surprise that since the crisis began in 2007, the European Union has proposed a significantly enhanced Solvency Directive (Solvency II), which emphasises in its Pillar 2 the importance of effective governance and risk management to provide enhanced levels of capital adequacy within the insurance industry. The new regulatory principles within the Directive have therefore important implications for the effective corporate governance of key players in the insurance market. In addition, proposed changes to current international reporting standards will significantly enhance the accountability requirements. These developments, in turn, have a number of implications for understanding the multidimensional aspects of successful management of these changes including: responding to a changing regulatory environment; creating, and then meeting, value creation shareholder expectations; and developing the business strategy more effectively.

This conference, organised by the ICFR and EDHEC Business School provided a forum for discussing a number of research papers that dealt with various aspects related to some current issues and practices of 'enterprise wide risk management and corporate governance for insurance firms', whilst focusing on the implications of changing solvency, capital adequacy and accountability requirements, and their interrelationships between various regulatory, shareholder and management perspectives on the effective management of these organisations.

The three papers published as part of this special issue concern some aspects of the inter-relation of ERM with the insurance industry. The paper by Jean-Paul Louisot and Christophe Girardet, entitled 'Managing risk to reputation – a model to monitor the key drivers. A key to long term solvency for insurance and reinsurance companies', provides a useful framework for understanding the importance of reputation risk for insurance firms. Even if the EU had not included 'risk to reputation' specifically among the governance issues to be addressed by boards and executives, it is all too clear that they should do so as both from an internal stakeholders and an external stakeholders' perspective: the continued flow of premium is the only 'assurance' that contract obligations will be honoured in the long run (especially for long tail claims) while return on equity maintained. Indeed reputation is but the aggregate trust and confidence of all stakeholders. Furthermore, reputation is an intangible asset that directly affects the market value of the firm. Although the reputation evidences belief that the firm is on a sustainable course, it is built on the trust established with all stakeholders through past proper behaviour. Whereas reputation may prove more resilient than one might think at first, even menial misconducts, if repeated, can lead to a downfall. The demise of a few can engulf a whole industry when the transactions are based on trust in the fulfilment of future promises as it is the case for the insurance industry. This is why reputation has become an object of research for several branches of management sciences. Therefore, no

ERM (enterprise-wide management) project could be valid without including risks to reputation which are really a meta-risk, the risks of all risks.

In this framework, Jean-Paul Louisot and Christophe Girardet propose an operational model to define, measure, and monitor nine key drivers they have identified and classified in three categories: intentions, actions and results. They develop metrics for each driver on a scale from –5 to + 5 using different methods including semantic monitoring in the media, the consumers and the experts. This index can be used to measure of the firm's resiliency and thus could be justifiably eventually introduced in the rating agencies processes.

The paper by Martin Eling and Sebastian D. Marek, entitled 'Internal and external drivers for risk taking in UK and German insurance markets' analyses the impact of both firm-specific and external factors on the risk taking of European insurance companies. Eling and Marek analyse whether variations in stock prices for a sample of German and UK insurance firms is explained by firm-specific and external factors that proxy the environment in which the insurers are active. Their empirical results evidence the influence of institutional differences in the market-based UK corporate governance system and the control-based regime implemented in Germany. Their analysis shows that UK firms exhibit a higher level of risk, compensation, and board independence. Their results are robust even after controlling for other effects on stock prices, such as ownership structure, leverage, company size, and economic development affect variations in stock prices. Their results also account for increases in the volatility of insurance stock returns during the financial crisis.

The third paper by Stuart I. Greenbaum, entitled 'Enterprise risk management in financial intermediation', highlights various issues related to the limits of ERM adoption in financial firms as a strategic tool for corporate governance. The paper develops concepts of core and ancillary risks and investigates the theme of exploring alternative risk taxonomies. This is particularly interesting as few authors question their existence and their reason. Greenbaum suggests that the link between ERM and change management is an essential element of the ERM project that should dissolve into a process.

The three papers all share in common a concern with the application of ERM in explaining phenomena that are likely to be of interest to researchers and policymakers. Further research is needed to explore different aspects of ERM and their implications for effective corporate governance of insurance firms.

Finally, we take this opportunity to thank the International Centre for Corporate Governance for helping initiate this event, and to Milliman for providing sponsorship. We hope that the publication of these papers will stimulate further research into the interrelationship between conceptual bases for regulation and corporate governance practices, in these and cognate areas of finance and intermediation.