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David X Martin crafts a fable for professionals and the broader population Tuesday, May 28, 2013, By Katherine Heires

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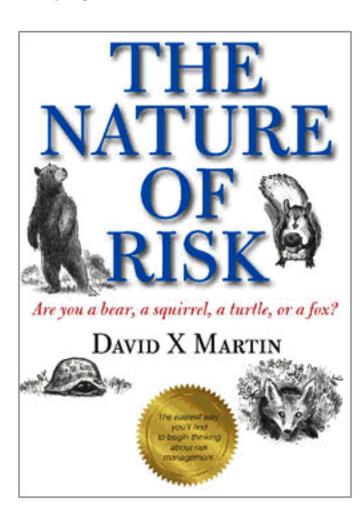
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Risk management is complex, multi-faceted and challenging, for novice and experienced practitioners alike. The more education, intelligence and perspective that can be brought to bear on the process, the better, says David X Martin.

Whitepapers

To that end, the veteran risk manager has produced a unique learning tool in the form of a self-published book, "The Nature of Risk."

Currently a senior risk adviser at consulting firm Oliver Wyman and an adjunct professor at New York University's Stern School of Business, Martin has worked at investment firm AllianceBernstein and for noted members of Citigroup's top management, including past chairmen Walter Wriston and John Reed and senior vice chairman William Rhodes. Martin was also founding chairman of the Investment Company Institute's risk committee.



David X Martin's "Nature of Risk" takes the form of a fable.

While amassing those credentials, Martin came to realize that practical primers on risk management -- that could be of use both to aspiring professionals and to members of the general public who may not have thought too hard about financial and safety concerns -- were lacking. He found little in the way of books, films or online resources that could help introduce risk and risk management to, say, board members, clients, nonprofessionals or even children.

"People don't talk about risk, and I thought it would be helpful to give people a framework to start to talk about it," Martin explains.

"The Nature of Risk: Are You a Bear, a Squirrel, a Turtle, or a Fox?" is billed as "an easy-to-understand introduction to managing risk." A label on its cover reads: "The easiest way you'll find to begin thinking about risk management."

Written as a fable "for those of you who believe it's still possible to make sense of the world we live in," as Martin says in the introduction, the book carries testimonials from the likes of BlackRock chief risk officer Bennett Golub and Oliver Wyman Group CEO John Drzik.

Another, former Citi colleague Rhodes, author of the 2011 book "Banker to the World," writes that Martin has succeeded where others have not in "mak[ing] the basics of risk management not only easy to understand, but entertaining too."

A More Difficult Assignment

Martin wrote a previous, more conventional business book, "Risk and the Smart Investor" (2010), which he says he finished in three months. "The Nature of Risk," by contrast, took 15 months to completion last July.

It was a more formidable project, says Martin, because he was boiling down, in 67 pages, such sophisticated concepts as portfolio diversification and continuity planning and illustrating them as lessons for animals in a forest, with chapter titles like "The Brush Fire" and "The Forest Fire."

Martin says the setting was inspired by wooded areas north of New York City where he spent time as a youth. "A lot of the story wrote itself," according to his introduction, "since the animals' instinctual approaches to survival -- the ultimate form of risk management -- mirror the way a lot of us deal with risk.

"Some of the animals, for instance, mistakenly believe that they can simply avoid risk. Some merely run with the herd. Others are oblivious to the risks around them. Still others change their approach so often that they really don't have an approach at all."

Although the narrative is simple and playful, "there is deep, theoretical thinking that underpins the story," Martin notes.

ERM at Citi

Simplifying complexity is something Martin has been doing for years.

At Citigroup in the early 1990s, when Reed was CEO, Martin, then a vice president, helped develop Windows on Risk, a system designed to monitor various types of risks and prepare the bank to take action to prevent or minimize damage. "It was the first enterprise-wide risk management system" designed for a global bank, Martin says. It encompassed not only credit and market risk, but also operational, technological and legal risks and the linkages among them.

Over time, the system was applied to individual countries' economies and risks and the extent to which the bank was exposed through lending, underwriting or trading. There were 14 key risk factors, in categories including industry, product, country and counterparty. The system also involved extensive use of scenario planning and consultations with outside experts who could help to identify and warn of new vulnerabilities

Recalling Citi's leaders, Martin says of the late Walter Wriston, "His thinking was always so clear" in crystallizing goals for what was becoming an increasingly complex enterprise and global environment. Martin regards Wriston as "the gold standard of CEOs."

John Reed, who succeeded Wriston as chairman in 1984 and is now chairman of the MIT Corporation, is a visionary with a unique global perspective coupled with a laser focus." Martin adds that Reed had "the most unbelievable Rolodex. I could call just about anyone in the world and they would call me back immediately."



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Martin says that when he heard Reed's successor Sanford Weill stopped using Windows on Risk, "I sold every share of Citibank I owned."

Current Issues

As a consultant to firms in various industries, Martin's focus has lately turned to the subject of CEO succession. In a white paper in March, written for the Korn/Ferry Institute with co-author Alan Guarino, Martin noted that the world's publicly traded companies have a combined market capitalization of about \$40 trillion. That shareholder value can be at risk when companies transition to new CEOs, yet boards of directors are often not prepared to manage this risk.

create success profiles for top executives based on a firm's future -- not past -- strategy; use scientific assessments to measure CEO candidates against the

The paper advises corporate boards to think about and

profile; know where the company stands relative to competitors in terms of executive talent; and keep CEO succession and talent issues high on the board agenda.

Martin says he is pleased to see wealth managers sharing "The Nature of Risk" with clients and with risk colleagues who in turn use the book to introduce their own family members "to what I do."

He says he is working on a sequel, "I Can Take That Risk," going beyond the basic understanding and into how to choose risks. "It will look closely at how to balance risk and reward, and it is turning out to be an even more difficult book to write," Martin says. "Hopefully, readers will find it even more

interesting."

Katherine Heires (mediakat@earthlink.net) is a freelance business journalist and founder of MediaKat

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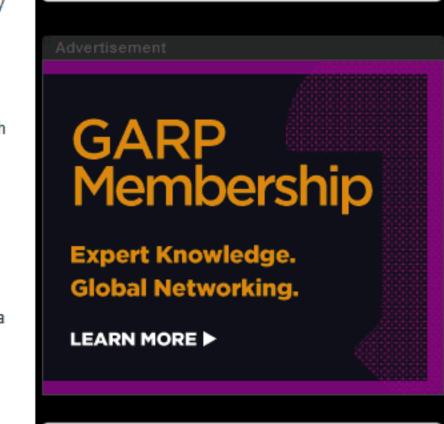
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