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The Insurance and Enterprise Risk Management Gap

Why ERM insights and insurance decisions need to be more closely connected

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> As risks grow and business environments become more complex, companies work hard to make better, informed decisions. Continuous improvement is crucial, yet one gap remains: ERM and insurance often develop separately, leaving key risk insights unused, which ultimately can drive cost for the organization.

With more than 20 years of leading enterprise risk management (ERM) processes for large global companies while also ensuring those companies were adequately insured, I have repeatedly seen a disconnect between ERM and corporate insurance arrangements. Over the years, I've reflected on why this gap exists and several factors contribute to it.

On one side: ERM

ERM is often compliance-driven, focused on maintaining a structured risk process in a regulated environment. Once a risk is identified, companies decide whether to accept or avoid it. Accepting a risk means designing a form of protection, operational measures like mitigation and prevention, or financial protection through insurance. Yet most risk action plans rarely consider insurance, even though it is a key part of a risk strategy.

On the other side: insurance

The insurance market is naturally focused on insurance products, coverage solutions and the areas where insurance capital can be deployed. Insurers and brokers assess which risks can be underwritten and where limitations or exclusions apply.

The result? These two disciplines can start to develop in parallel rather than together.

The ERM process identifies and assesses risks, often documenting them in a risk register and plotting them on a heat map. As the process matures, companies define risk appetite and risk tolerance levels, which should support decisions on risk prevention, mitigation and financial protection, including insurance.

At the same time, insurance programs are typically placed in close collaboration with brokers and insurers, relying on their expertise regarding available coverages, pricing, market trends and whether the insurance market is hardening or softening. Renewals are often approached with caution. Maintaining existing coverage terms and conditions can be important, especially in a hardening market. None of this is wrong or ineffective, but it often has too little connection to the risks identified through ERM or to the risk appetite expressed in the company's ERM framework.

It's no surprise this gap exists, as insurers and brokers are often only marginally involved in a company's ERM process and therefore have limited visibility into internal risk reports, assessments or priorities.

Over time, ERM and insurance arrangements drift further apart.

The consequence is a missed opportunity to tailor insurance coverage to the company's actual risk exposure.

It can also create practical challenges when an entity or business unit suffers a real loss. The management team may have limited understanding of which insurance coverage could apply or, in the worst case, may be unaware that relevant coverage exists at all. As a result, loss events may go unreported or uninsured.

I've seen the opposite too: when ERM and insurance align, companies make better decisions and become more resilient and many organizations prove this approach works.

Communication, knowledge-sharing and transparency are key

Especially in decentralized organizations, companies need to share clear information with stakeholders about the insurance coverages in place while also using the ERM process to better understand how entities view their own risks and challenges. This exchange helps organizations align insurance decisions with actual risk exposures. Just as importantly, better knowledge-sharing can demystify the insurance field, often seen as a niche area, and help companies become stronger, more informed insurance buyers.

- In some cases, a higher deductible may be appropriate.
- In others, the company may drop costly low-deductible coverage.
- In some areas, the company may simply retain risks it is willing and able to carry.

The point is not simply to buy more insurance. The point is to make better informed decisions about which risks should be transferred, mitigated or retained.

When ERM and insurance are connected more closely, risk financing becomes more strategic, coverage becomes more relevant and the organization is better prepared when losses occur.

Let's talk

If these questions are on your agenda, I would be glad to hear from you.

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