



RISK & INNOVATION

How To Enable Innovation: An Interview With Google's Loren Nickel

OVERVIEW

At first glance, innovation and risk management seem in conflict – “what could be?” versus “what could go wrong?”

But at many leading firms, risk managers are becoming vital partners in shaping the organization’s business strategy and enabling evolutionary innovation.

As director of business risk and insurance at Google, Loren Nickel is charged with managing the risks of a company whose very business is innovation. To manage the company’s everyday risks as well as an ever-evolving array of emerging ones, Nickel uses analytics to help understand and address exposures. He employs a portfolio-based efficient frontier approach to manage risks and optimize the company’s insurance program. And he emphasizes teamwork and cooperation to ensure risk management facilitates, rather than interferes with, innovation. Nickel’s efforts earned him recognition from the Risk & Insurance Management Society as the 2017 Risk Manager of the Year.

IN DEPTH

Nickel joined Google in 2015, bringing experience as both an actuary and as an underwriting manager with Aon and Fireman’s Fund Insurance Company. Those experiences, along with Google’s identity as a business driven by data and analytics, shape his philosophy toward managing the risks of Alphabet Inc., Google’s parent company, and all its subsidiaries. And given Alphabet’s size and scope—\$90 billion in annual revenue, 72,000 employees, and a market capitalization of \$579 billion—the risks are substantial.

“Our [risk management] approach is based in analytics and quantitative analysis,” Nickel said. “Certainly my background lends itself to that, and the company, being full of engineers, is very much a quantitative company.” In practice, the process involves many different elements of analytics, as well as quantitative actuarial analysis. “We use those frameworks to set priorities and strategic direction and to make sure that we’re aligned today with where the company is going to be in the next few years,” he said. And Google built its risk management analytics processes from the ground up. “It’s about capturing information in a way that is different than what has been done in the past,” Nickel said. “If you can capture more accurate or more timely information, you can evolve and improve products over time.”

Analytics allow Google to make the best possible risk management decisions. “I don’t think anyone could do the work that we’ve done without analytics,” he said. “It’s just not possible to get to the same point.”

Continuous Improvement

Though many are prone to describe the innovations coming out of companies such as Google as “disruptive,” Nickel takes a different perspective. “From my viewpoint, we’re focused on evolution as opposed to disruption,” he said. “We’re just evolving the process. To make things better, you have to change, and that’s a constant process.”

Part of that evolution involves positioning risk management to support rather than thwart innovation, despite the emerging risks innovation can produce. “We’re not the ‘no’ team—we’re not there to tell [the rest of the company] how not to do things. We’re trying to guide them in the best way possible to create their products,” Nickel said. “We’re trying to enable innovation. Our team’s job is not to stop good behavior that leads to innovation.”

Indeed, Nickel’s risk management approach is to avoid creating barriers. “If you’re just putting up barriers, you only see the result if someone tries to break through them,” he said. “The problem is that you may be aware of just one out of ten people who bumps up against these barriers; the other nine people might have given up because you’ve created too much process for them. They see the barriers and decide to focus on another area where there is less friction.

The risk manager regularly pushes back on the team as it considers new risk management processes. If the potential exposures the processes are meant to address aren’t extremely material to Google, risk management shouldn’t be imposing potential barriers to innovation, ability, or speed, Mr. Nickel believes.

“Our efforts are making sure that we’re really adding value and not just creating process for process’ sake,” he said. “We often have to test those boundaries, meaning that if you just remove the process, what happens? And if the sky doesn’t fall, then that process is probably unnecessary.”

Risk Management As Trusted Adviser

As is the case at many organizations, positioning risk management as an adviser to Google’s C-suite and across the organization is an ongoing process. At times, it might mean lending support to projects that aren’t risk-related or might not provide a direct payoff to the risk management operation. “Someone needs help and you think you can help them. You do that to build credibility,” he said. “Over time, as people see you as being credible and helpful, they will bring a lot of the risk issues to you.

Good communications are also essential—particularly when dealing with a complex topic such as risk. “To establish credibility, you also need to have knowledge and experience and be able to communicate that expertise in a nontechnical way. So my [risk management] team focuses on translating technical information in a way that makes it very palatable to the C-suite,” Nickel said.

It’s also important for risk management to be open to guiding innovation. That could, for example, take the shape of providing insight into relevant regulations and possible changes in the regulatory climate that might influence the direction of product innovation.

“Our team has to have a longer-term line of sight, so that when a product development team comes in with a project, we can use our knowledge of laws and regulations to direct them in the best way possible,” Nickel said. “Sometimes regulations aren’t clear. Take self-driving cars: clearly there are going to be changes in regulation over time, and it’s important for us to work with our internal teams around those issues.”

Finding Passion In The Global Impact

Nickel’s passion for risk management is partly attributable to the role he plays in enabling the technological changes Google is bringing to the world. He and the risk management staff are aware of the role they play each day in allowing Google to innovate on a global scale.

“Google’s impact on innovation is earth-shattering,” Nickel said. “And my team’s passion is enabling those technologies to happen more quickly and in a safer way. I think our team makes a disproportionately higher contribution compared with some other companies or places due to the sheer size and scale of the organization and the amount of innovative work that’s coming out of the company.”

