

The Birth of RMA

The Risk Management Association is marking the 100th year of serving its members. The official observance, beginning at this year's Annual Risk Management Conference in Philadelphia (November 17-19), will continue through and beyond the 100th anniversary date—June 25, 2014. Throughout the celebration, The RMA Journal is highlighting key moments in RMA history in this space each month.

What's worse than hearing that a company that owes you money is about to go under? Realizing that it might owe plenty to several other creditors, too.

That was the unfortunate situation facing several financial institutions in 1914, when a *New York Times* headline blared, "Receivers Take H.B. Claflin ... Notes Held by 5,000 Banks." H.B. Claflin was a dry goods company whose stores included Lord & Taylor. It was also a big-time borrower, but many creditors didn't realize to what extent. Despite its stellar credit rating, Claflin was over-extended after backing the debt of several struggling department store affiliates.

The receivership news broke just as the National Association of Credit Men was holding its convention in Rochester, New York. There was a bit of a stir, to say the least. Bankers raced out of the meeting hall to find phones. Some attendees left the site altogether and went home to get a better handle on their Claflin positions.

That 1914 gathering was also notable because it hosted the first meeting of The Robert Morris Club of the National Association of Credit Men, the organization you now know as The Risk Management Association. The club was not formed in response to the panic of the day; the meeting was planned beforehand. But its *raison d'être*—promoting relations between bankers so they could share credit information—was certainly applicable to Claflin. The club's early members hoped that such relations would minimize future losses.

The Rochester Club, Rochester, New York



The Robert Morris name honored the founding father known as the primary financier of the Revolutionary War and one of only two people to sign the Declaration of Independence, the Articles of Confederation, and the Constitution. (Roger Sherman, who helped draft the Declaration, was the other.) Morris also served as the young nation's powerful Superintendent of Finance and, with Alexander Hamilton and Albert Gallatin, is widely credited with developing the U.S. financial system.

But his illustrious career also includes a sad footnote. After amassing great wealth through shipping and other endeavors, Morris went bust later in life after a leveraged land speculation play went badly. He ended up in debtors' prison and was released only after a special appeal by George Washington led to bankruptcy law reforms.

But perhaps Morris's financial downfall made him an even more apt namesake for the organization that became RMA. After all, his life is a lesson in the vast potential—and pitfalls—of credit. Morris used credit to borrow against his name and finance the war effort. Later, borrowing helped put him in prison when the value of his investments plummeted.

Times have changed, and the draconian penalty of debtors' prison has long been abolished. But, as ever, the financial world remains a risky place indeed.

1914

1924

1934

1944

1954

1964

1974

1984

1994

2004

2014