



ENTERPRISE RISK
MANAGEMENT SYMPOSIUM

ERM Frameworks

Implementing an ERM Framework at a Small/Mid Size Insurer

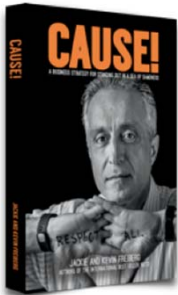
Michel Fournier
April 2015

Disclaimer

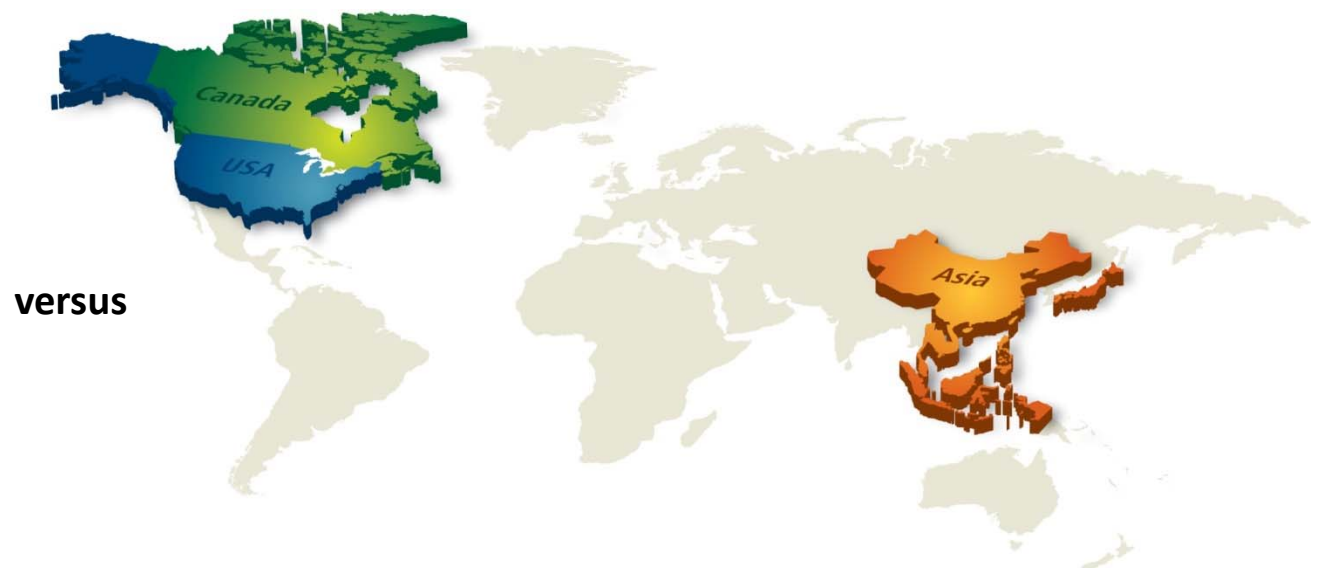
My comments are and this presentation contains my own opinions, which are not necessarily those of anyone else, including National Life Group. Any such opinions are subject to change without notice. This presentation is distributed for educational purposes only.



- ◆ National Life Insurance Company (NLIC) was founded in **1848**. Life Insurance Company of the Southwest (LSW) was chartered in **1955**.
- ◆ Sentinel Investments manages and distributes mutual funds.
- ◆ S&P Financial Strength rating of A, A.M. Best Rating of A and Moody's Rating of A2.
- ◆ Innovative individual life insurance and annuities
- ◆ Diversified relationship-based distribution
- ◆ Focused on long-term responsible growth
- ◆ Focus on middle-income, emerging affluent, and payroll deduction markets
- ◆ Approximately 1000 employees



Does size and complexity matter?



- National Life Group is present in all 50 *states*
- The majority of our employees are based in Vermont

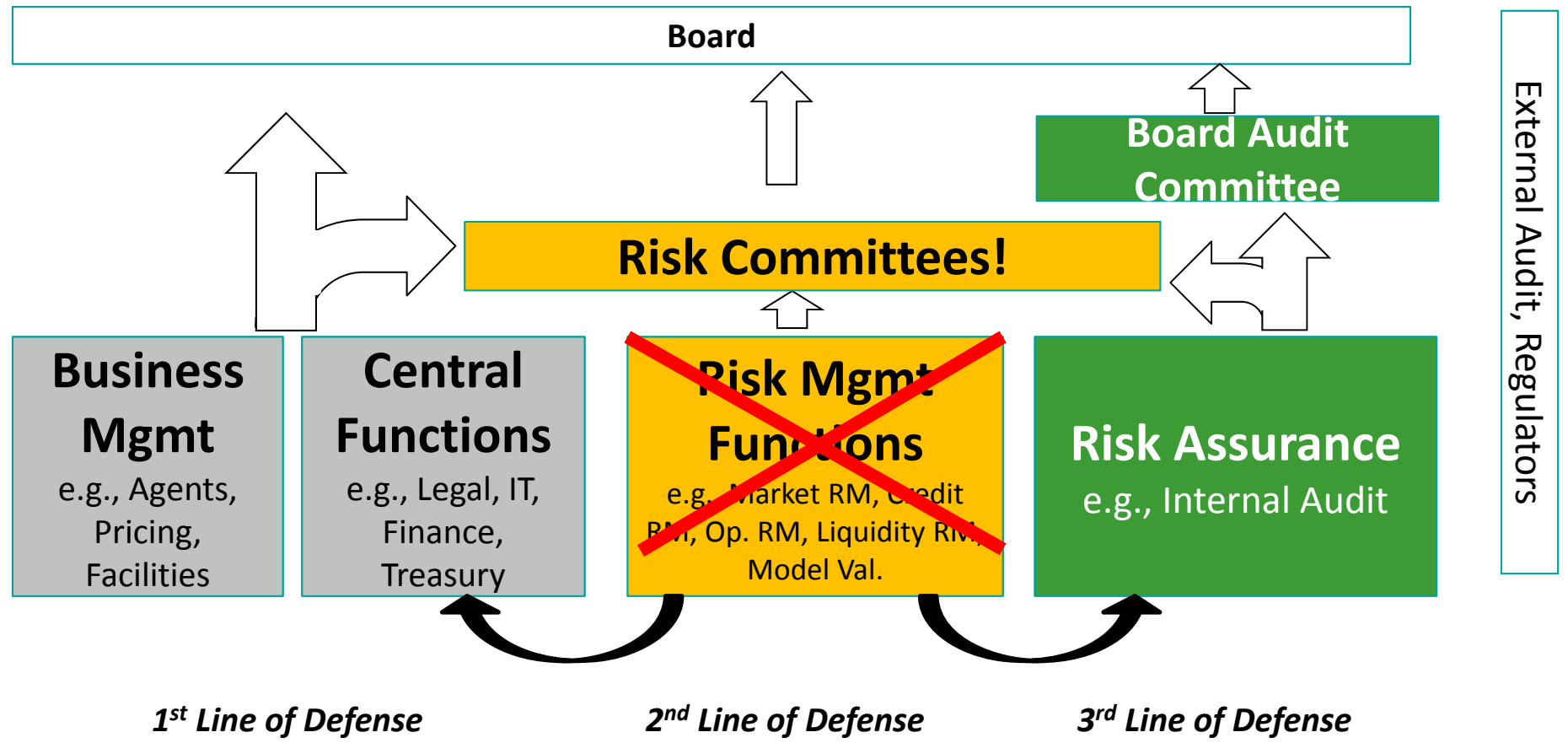
Size and complexity matters!

- Large and complex companies have a greater need for comprehensive ERM Framework.
 - You can't rely on hallway conversations when there are locations in multiple countries, time zones and languages!
- Smaller sized, less complex companies may focus on Risk Culture and key individuals.
- Mid-sized companies likely fall in between, but can still benefit from a central ERM team:
 - How to prioritize?
 - How to get buy in?



Q: What is the risk framework without a central second line of defense?

Ans.: Risk Committees & 1st + 3rd LOD coordination



The challenges of change...

- It's difficult to buy in to something until you've tried it.



- Prior to the iPad, most thought that tablets would not have a marketplace.
 - You could do it all on a laptop.
 - What do I need it for?
- In 2015, Tablets sales surpassed PCs.
- Adopting an ERM Framework is similar.
 - Risks come from different sources and have SME assigned.
 - Why would a centralized approach be better?

How to get buy-in? What to prioritize?

Rule #1: Focus on what and not who.

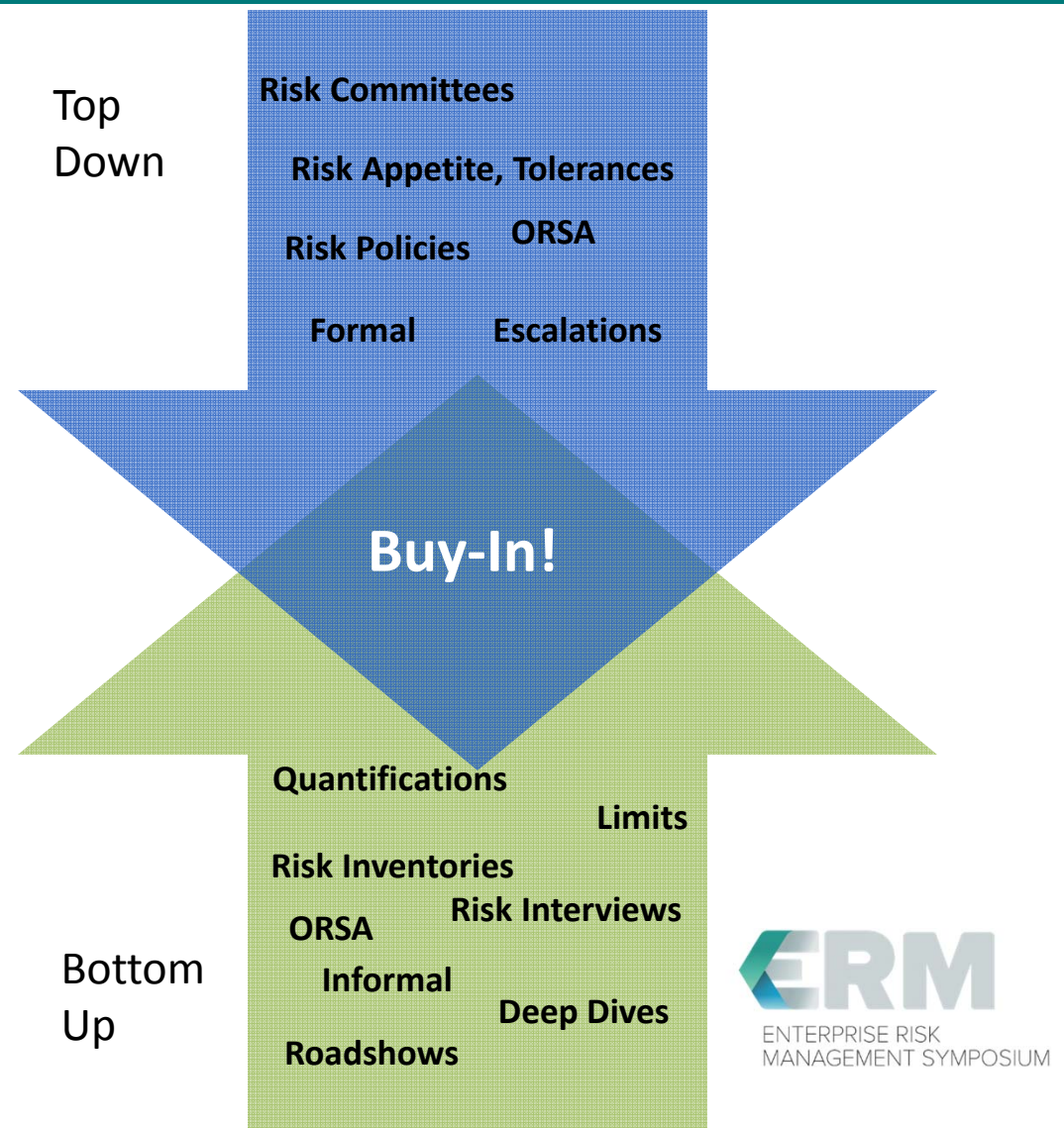
Focus on how to add value rather than who does what.

- **Quick wins** and examples help others understand the value of ERM. Examples of initial quick wins:
 - Stress Tests: help understand the benefits of regular repeatable 'what if' analysis
 - Risk Catalogues (e.g. all sources of equity risk)
- Pointing fingers and functional reorgs do not create buy-in
 - Given previous lack of centralized 2nd LOD, many tasks may be done in the 1st and 3rd LOD.
 - Simply having the same tasks done under a different org chart does not illustrate the benefits of ERM.



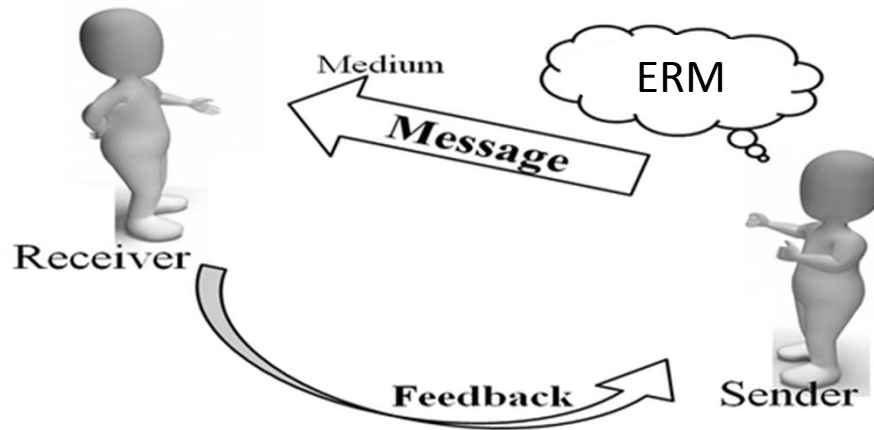
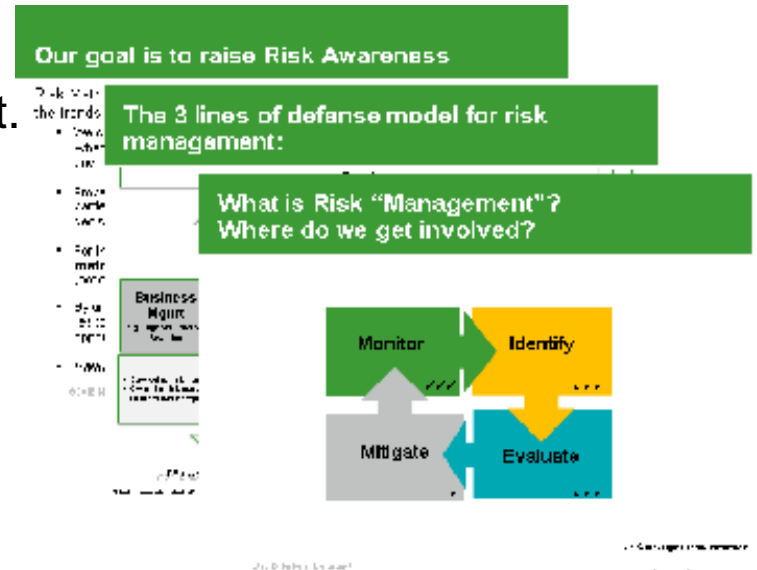
Rule #2: Top Down and Bottom Up Activities

- Top down activities help set the tone from the top.
- However without bottom up activities, ERM can appear as form over substance.



Rules #3: Engage and Communicate!

- Reaching to all areas of the company via **Risk Roadshows** to explain what Risk is about.
- Via these discussions receive feedback and suggestions on future areas to focus on.



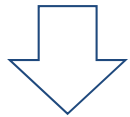
Engagement

Emerging Risk Identification Survey (ERIS) Process



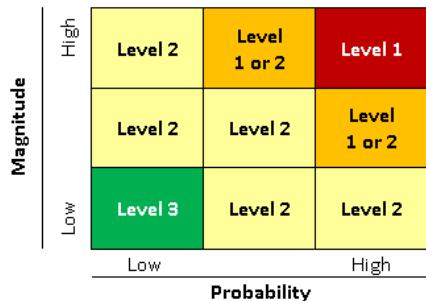
Step 1 Interviews

- **Interview** key personnel to catalogue risks



Step 2 Survey

- **Survey** to assess magnitude and likelihood of each event



Step 3 Heatmap

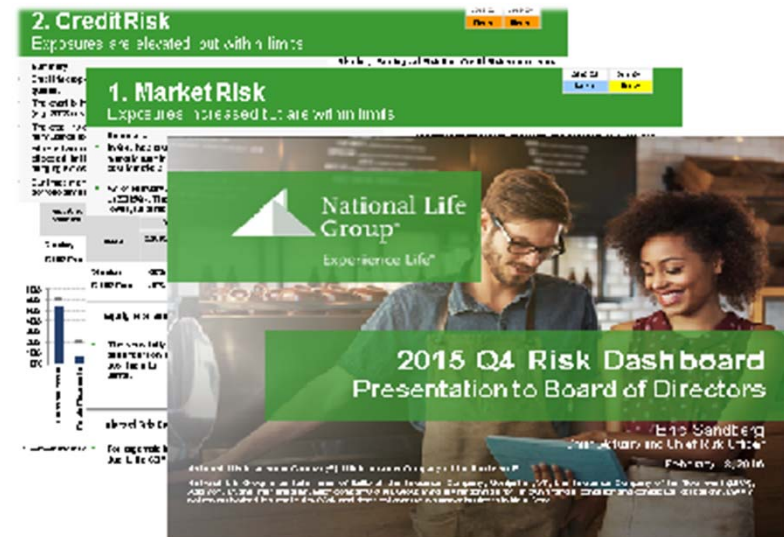
- **Heatmap** to identify Level 1 risks and priorities
- Share with the Board or other governing body

Simple Communication

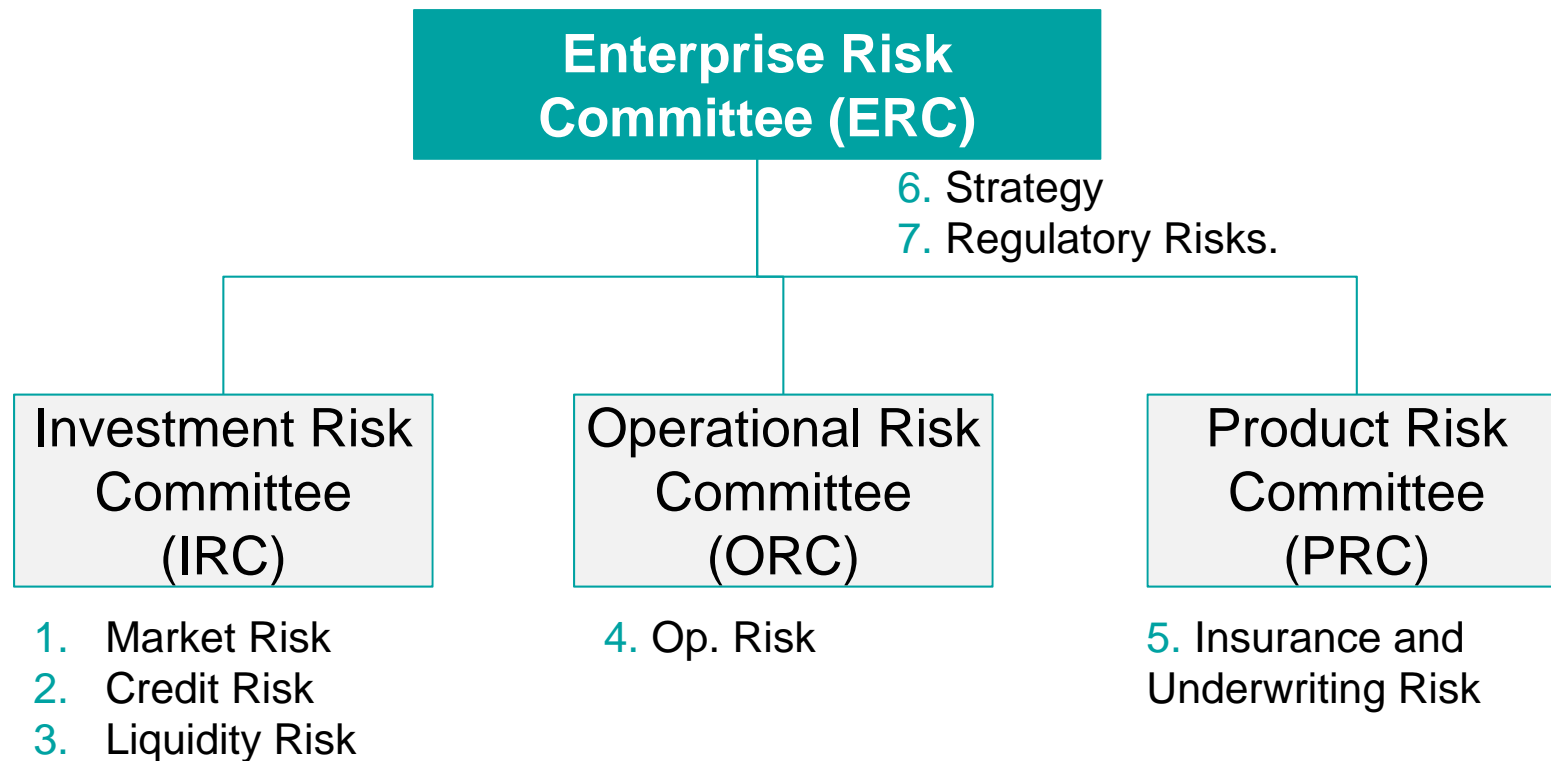
Focus on Key Risk Categories



Create Dashboards to communicate with Stakeholders

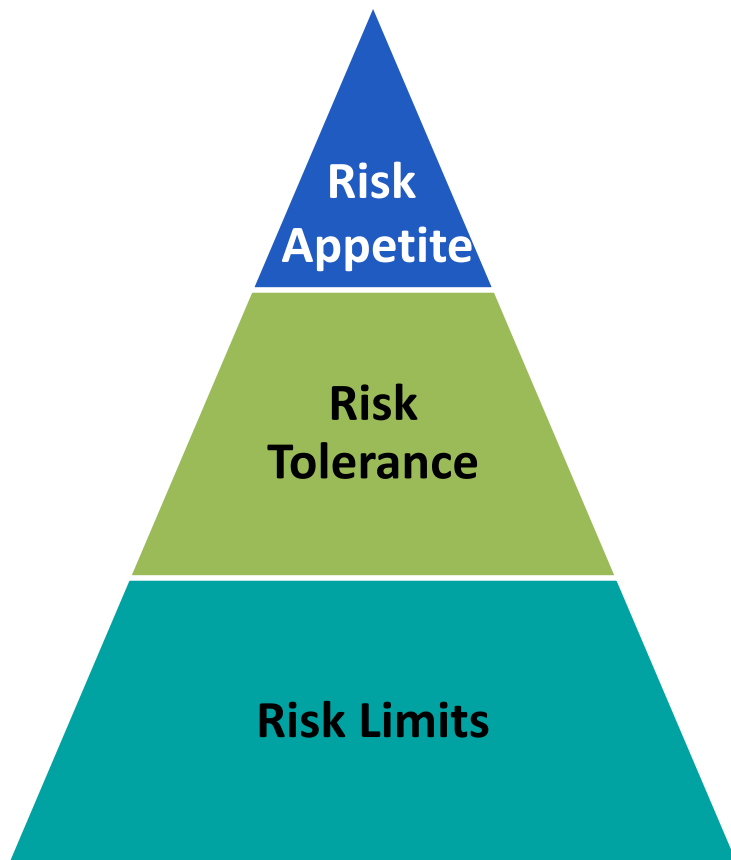


Risk Categories assigned per Risk Oversight Committees



8. Model Risk is assigned given type of model.

Risk Appetite, Tolerances and Limits



- Strategic expression of philosophy towards risk-taking.
- Sets the “tone at the top”
- Approved by the Board

- Quantifies the aggregate amount of risk we will tolerate.
- Likely set by the Board and/or executive management

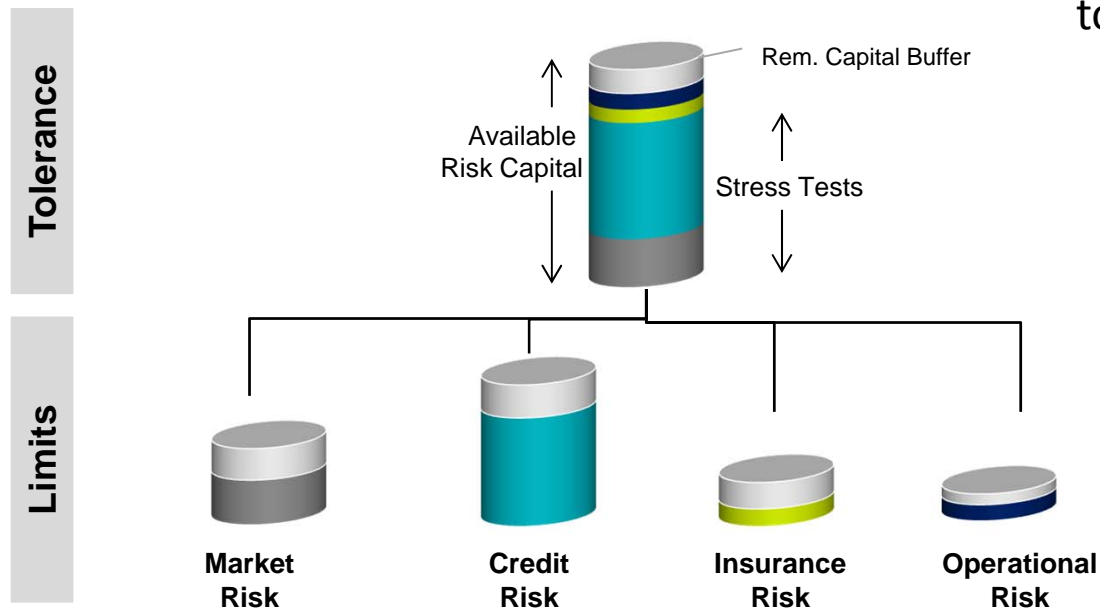
- Granular in nature and embedded within the risk management processes
- Typically set by management consistent with the approved risk appetite and risk tolerance

Stress Tests help make it 'real'

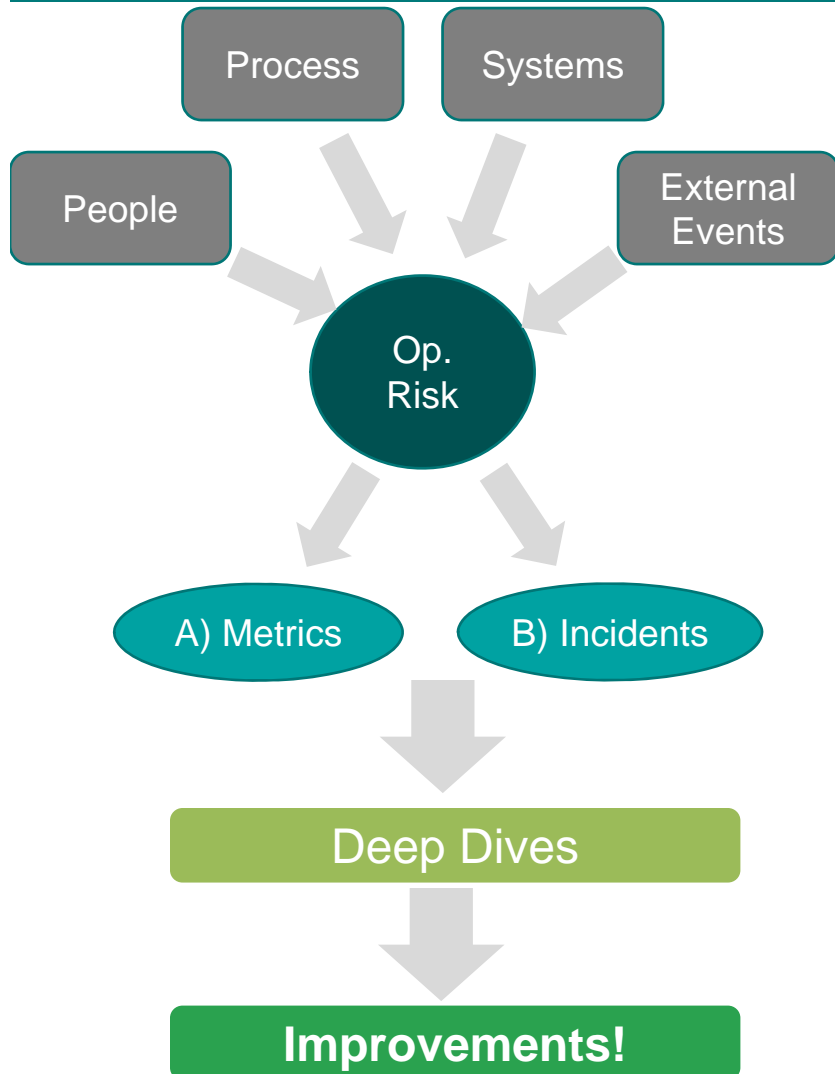


<i>Risk Utilization%</i>	<i>Risk Level</i>	<i>Escalation Required</i>
0-50%	Low	
51-75%	Moderate	
76-100%	Elevated	✓
>100%	High	✓✓

- Simple, Deterministic Stress Tests.
- Risk Utilization is relative to Risk Tolerance and Limits.
 - Drives (quantitative) breach escalation.
 - Qualitative assessment are also used to determine escalation.



A strong Risk Culture is crucial



- Process Risk would be a better term for Op Risk
- Larger firms can have multiple reviewers for 1 doer.
 - If a trader does not self report an incident either: back-office, mid-office, performance attribution, or accounting will identify it.
- Smaller firms may rely more on a risk-aware culture to implement loss incident reporting.
- Mid-sized firms may implement something in between

Incident Size	Involved	Informed
0 - \$	Process Owner	Risk
\$ to \$\$	Process Owner	Risk, ORC
\$\$ to \$\$\$	Process Owner	Risk, ORC, ERC
Above \$\$\$	Process Owner	Risk, ORC, ERC, Board

Conclusion

- The ERM Framework has to reflect the size and complexity of the enterprise.
- Emphasize ‘what’ and not ‘who’.
- Reach out and engage.
- Culture shifts take time.