

International Strategic Planning

Using ERM and a Captive Insurance Company to Drive Corporate Value



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Introduction

- M. Michael Zuckerman, JD, MBA, ACI, Associate Professor, Temple University Fox School of Business
- Why Rob Banks "... that's where the money is!" (Willie Sutton)
- Why go global – it is where the growth is....
- Global objectives:
 - Achieving efficiency
 - Growing market share
 - Supply chain
 - Increase stakeholder value



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Polling Question

- Which best characterizes the amount of time your practice involves working for captive insurance companies?
 - None
 - 10 to 30%
 - 31 to 60 %
 - More than 60%

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Today's Agenda

- International Risk Management
- Risks Associated with Globalization
- Multinationals Integrating ERM into strategic planning process
- Captive Insurance Companies can drive ERM (e.g., **non-financial parent**)
- Using captive insurance companies as a platform for global risk management programs
- The role of the actuary in driving this strategy



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International Risk Management Process

- Identify risks
- Assess nature and severity of risk within the context of the firm's operations
- Does a global risk management platform promote a firm's strategic goals?
- Develop Centralized Global Risk Management Program
 - Risk Financing
 - Property
 - Liability
 - Employee benefits
 - Business risk
 - Managing a global program
 - Political risk
- Benchmark, monitor and repair



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Strategic Analysis

- Country level strategic issues
- What are the critical risk factors
- How do we prioritize risk?



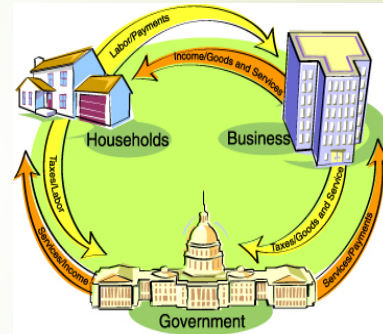
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Macro Risk Issues

- Cultural distance
- Economic Stability
- Climate issues
- Geopolitical and economic change
- Risk Management Infrastructure
- Political Risk



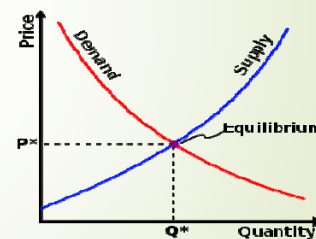
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Micro Risk Issues

- Rule of law
- Local regulatory environment
- What gives rise to political risk on a country specific basis
 - Changing governments
 - Changing laws
 - Religious influences
 - Transparency issues
- Core country specific risk factors(FM Global):
 - Economic
 - Risk Quality
 - Supply chain
- Trade issues (Roger Kashlak)
- Currency inconvertibility
- Strategic form of entry
 - Wholly Owned Subsidiary
 - Joint Venture
 - Non-equity licensing - structure to minimize exposure to assets and revenue stream



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Multinationals Integrating ERM into the Strategic Planning Process

Enter Enterprise Wide and Traditional Risk Management Principals and Practices

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ERM and The Role of the Board

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- Growing Stakeholder Value
 - The need for new Markets
- Strategic Risks
 - The role of Strategic Risk Management
 - Does the board understand the risks associated with global growth and cross border transactions?
 - Board reporting
- Reputational Risk Management – Complex & Multi-Dimensional
 - Leadership- has a clear vision of the future and Is well organized company
 - Citizenship- has a positive influence on society
 - Governance – is open and transparent about the way it operates
 - Performance – delivers financial results that are better than expected
 - Source: RepTrak©

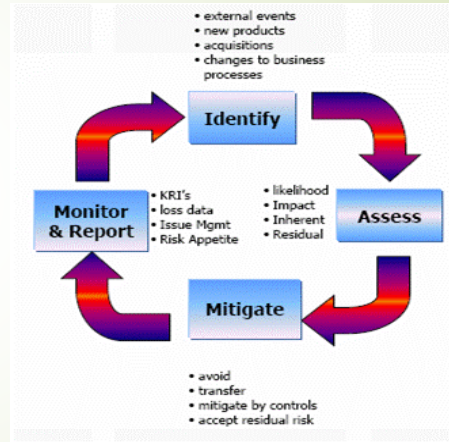
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ERM Standards and Framework

- COSO
- ISO 31000
- Governance, Risk and Compliance
- Standards v. Regulation
- What is a legal v. ethical standard
 - The Titanic lesson
 - Why compliance is not enough



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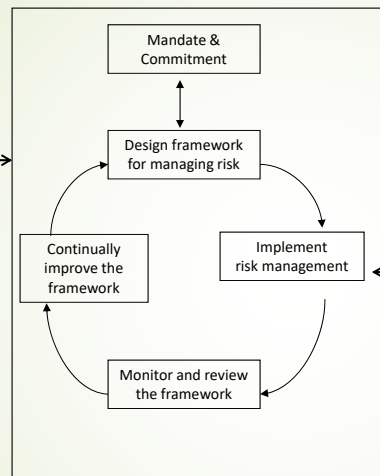
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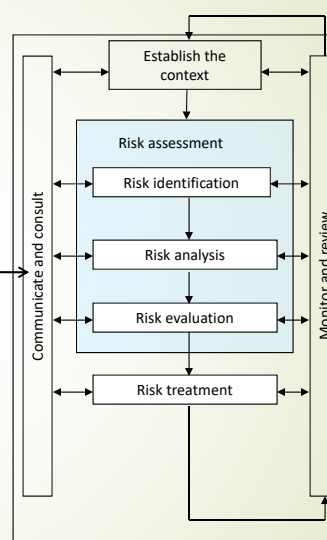
Principles

- Creates value
- Integral part of organizational processes
- Part of decision making
- Explicitly addresses uncertainty
- Systematic, structured & timely
- Based on best available info
- Tailored
- Takes human & cultural factors into account
- Transparent & inclusive
- Dynamic, iterative & responsive to change
- Facilitates continual improvement & enhancement of the org

ISO 31000 Framework



RM Process



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The Critical Role of Risk Identification and Assessment

Hazard

- ▀ Property
- ▀ Business Interruption
- ▀ Personnel
 - ▀ Travel Risk Management
- ▀ Liability
 - ▀ General
 - ▀ Products
 - ▀ Professional/E&O

Operational

- ▀ Systems/Cyber Security
- ▀ Systems/Data Privacy
- ▀ Supply Chan
 - ▀ Contingent Business Interruption
 - ▀ Political risk
 - ▀ Terrorism
- ▀ Products recall
- ▀ Talent

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The Critical Role of Risk Identification and Assessment

Financial

- ▀ Credit
- ▀ Price
- ▀ Commodity price risk
- ▀ Currency inconvertibility
- ▀ Liquidity

Strategic

- ▀ Country risk
- ▀ Economic
- ▀ Demography
- ▀ Trade disputes

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Building the Resilient Global Organization

- Business Resilience = Business Continuity
- Analyzing Key Risk Factors/Leading Risk Indicators
 - Geopolitical
 - Economic
 - Human rights
 - Risk environment
 - What is the state of Risk Management within the Jurisdiction
 - Indigenous supply chain vulnerabilities
- Risk Identification and Analysis within Context
 - Focus on Process
- Prioritizing Risk Issues: Business Interruption + Supply Chain + Cyber + Political risk
- Understanding inherent v. residual risk
- Role of Risk Owners

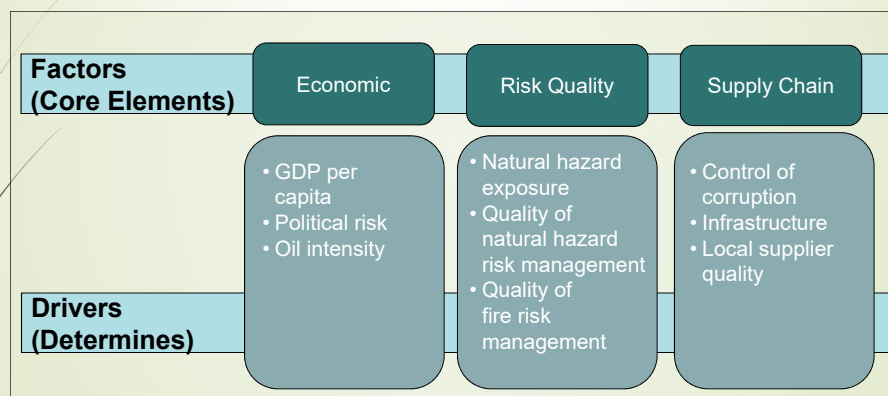
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Tools to Build the Resilient Global Organization Can Use to Drive Cyber Analysis

FM Global's Resilience Index



Source: FM Global

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SCRAM – *From Risk to Resilience: Learning to Deal with Disruption*

Supply Chain Vulnerability

- ▀ Turbulence
- ▀ Deliberate threats
- ▀ External pressures
- ▀ Resource limits
- ▀ Sensitivity
- ▀ Connectivity

Supply Chain Capabilities

- ▀ Flexibility in sourcing
- ▀ Flexibility in manufacturing
- ▀ Flexibility in fulfillment
- ▀ Capacity
- ▀ Efficiency
- ▀ Visibility Adaptability
- ▀ Anticipation
- ▀ Recovery...

Source: *MIT Sloan Management Review*,
written by Joseph Fiksel, Mikaella Polyviou,
Keely Croxton, and Timothy Pettit, Winter 2015

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Polling Question

- ▀ Global supply chain vulnerability core components include the country's
 - ▀ Economic strength
 - ▀ Quality of its Risk Management Infrastructure
 - ▀ Quality and integrity of supply chain infrastructure
 - ▀ All of the above

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Centralizing Global Risk Management Program

- Understanding Stakeholder Needs/Associated Risks
 - Employees
 - Customers
 - Suppliers
 - Investors
 - Credit rating agencies
 - Regulators
 - Community
 - Activists
 - The media
- Managing Risks:
 - Managing risk data
 - Risk communication
 - Governance
 - Compliance
 - Control
 - Coverage
 - Total cost of risk
 - Taxes
 - Allocation of costs

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Global Risk Control

- Global Risk Engineering/Loss Control
 - Loss prevention
 - Continuity of standards
 - Compliance
 - Employee travel risk training
- Loss Reduction
 - Managing claims
 - Managing catastrophes
 - Contractual liability

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Global Risk Financing: Multinational International Programs

Global Risk Management Objectivities in Priority Order

- Certainty of coverage
- Cost
- Statutory Compliance
- Program performance
- Fiscal compliance
- Accounting and allocation of TCOR

Coverage/MNL Participation

- General Liability – 85%
- Property Damage – 79%
- D&O Liability – 69%
- WC/Employers Liability – 49%
- Marine – 48%
- Auto – 46%
- Trade credit – 18%

Source: Aon Global Risk
Management Survey 2017

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Global Risk Financing

■ Key Exposures to Address

- Property damage
- Business interruption
- Third party general and product liability
- Products recall
- Political risk insurance
- Terrorism
- Protecting income producing assets and net income
- Global directors and officers liability
- Other business risk

■ Program Structure and Issues

- Program Structure
 - The Controlled Master Program
 - Local admitted
 - Closing the gap: Excess, DIC, and DIL
 - Continuity of coverage
 - The role of a Captive Insurance Company
 - Control
 - Efficient use of risk capital
 - Access to capacity
- Reinsurance and the Capital Markets

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Risk Financing: The Global Use of Captive Insurance Companies

Current

- Property Damage
- General Liability
- WC/Employers Liability
- Auto Liability
- Product Liability
- Errors and Omissions
- D&O
- Marine
- Terrorism
- Catastrophe
- Environmental

Future

- Property Damage
- General Liability
- WC/Employers Liability
- Auto Liability
- Product Liability (More important in EU)
- Cyber
- Errors Omissions
- Employee Benefits
- Marine
- Catastrophe
- Environmental

Source: Aon Global Risk Management Survey 2017

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The Captive Insurance Company Drives Global ERM

- Captives drive ERM
 - The captive as an effective ERM platform
 - C-Suite Risk Management Education
 - Captive governance = Risk governance
 - The captive board meeting
 - Risk data pipeline: parent – captive
 - Risk management review
 - Claims management review
 - Re/insurance Market review
 - Emerging risk—discussion and assessment
- Captive based ERM
- The captive as a growing global risk financing vehicle

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Polling Question

- How does a captive insurance drive ERM
 - Appropriate funding for risk retention
 - Creates a strong governance environment to manage risk
 - Can create an additional revenue stream
 - All of the above

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Global Property Insurance Program Case

Decentralized

- Domestic HPR
 - No policy/ coverage scripting
 - No unbundling loss prevention services
 - No centralization of risk data
 - No control over claims management
 - Less control over pricing
- Global excludes USA CMP
 - Fronted
 - Control
 - Regulatory compliance

Centralized

- CMP Commercial Front Insurer
- Direct access to reinsurers via front
 - Manuscripted policy—coverage amendments accepted
 - Regulatory compliance
 - More control over pricing
 - Unbundled loss prevention services
 - More control over claims

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Snap-On Tools Case

Business Model

- Global supply chain relies on franchisees (independent businesses)
- Strategic risks associated with this model include
 - Supply chain
 - Contingent Business Interruption¹
 - Visibility of risk data
 - Stakeholder relationships
 - Reputation
 - Survival

ERM Global Captive Response

- Global Captive Model
 - Bermuda –USA and Australia
 - Malta – EU
- Program Structure
 - Fronted GL, Auto and Property for USA and Australia
 - Direct write captive in Malta for EU
- Franchisee retention rate > 95%
- Franchisee risk data visible to Snap-On
 - Program addresses franchisees needs
 - Franchisees financially stronger
- Minimizes reputational exposure
- Addresses Snap On WC, Employer Liability and Products exposures
- Builds resilience

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Role of Actuarial Science

- Data management and analysis
- Modeling and Loss forecasting
- Premium development
- Presenting the findings
- Forecasting ultimate reserves
- Reserve certification
- Assist with in/reinsurance market negotiations
- ASC 450-20/FAS 5
- Negotiate with external audit

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Role of the Chief Risk Officer

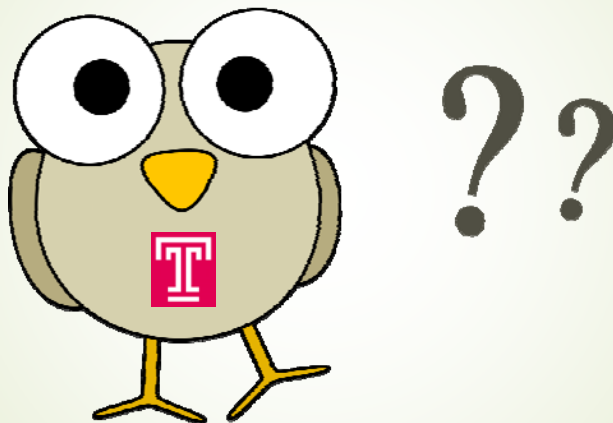
- Craft the ERM message from the top
- ERM Champion
- Risk culture
- Drive Governance, Risk and compliance
- Risk Identification
 - Process, definition and clarification
- Regulatory/compliance trends
- Clarifying and delineating strategic from operational risks
- Coordinate Risk team
 - Actuarial
 - Internal audit
 - Risk owners
 - Specialized Risk Management

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Questions



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