


**Keep your eye on the prize**

**Seventh Biennial Global Enterprise Risk Management Survey**

**Casualty Actuaries in Reinsurance Seminar**  
**Bermuda**  
**June 7, 2013**

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## Introduction

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### GLOBAL SURVEY PARTICIPATION

## Towers Watson has conducted its seventh biennial survey on Enterprise Risk Management in the insurance sector

- During the third quarter of 2012, we surveyed insurance executives around the world
- This is the largest insurance industry ERM survey; roughly 70% of the total 539 respondents were C-suite
- Respondents include a wide range of insurance organizations from North America (37%), Europe (25%), Asia-Pacific (31%), Latin America (5%) and Middle East and Africa (2%)
- Respondents come from many lines of business, including life insurance (41%), property & casualty (P&C) insurance (25%), multiline insurers (18%) and reinsurance (11%)
- 2012 Global Insurance ERM Survey Report available at:
  - <http://www.towerswatson.com/en/Insights/IC-Types/Survey-Research-Results/2013/03/2012-Global-ERM-Survey>

#### Geographical terms

- North America: U.S., Canada and Bermuda
- Europe: U.K. and continental Europe
- Asia/Pacific: Asia and Australia
- Latin America: Mexico and South America
- Middle East/Africa: Middle East and Africa

#### Annual revenue size terms

- Large: > \$10 billion
- Medium: \$1 billion to \$10 billion
- Small: < \$1 billion

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**Following the summary of key global findings, the report presents responses for two benchmark groups**

- To provide meaningful peer benchmarking, we have compiled survey responses for respondents meeting the following criteria:

Criteria	P&C Group	Reinsurance Sub-Group
Company ownership	All Companies	All Companies
Primary business	P&C insurer P&C reinsurer Multiline (life and P&C) insurer Multiline (life and P&C) reinsurer	P&C reinsurer Multiline (life and P&C) reinsurer
Size	All sizes	All sizes
Location	North America	North America
Special criteria	N/A	N/A
Number of Companies	132	41

- Note the following regarding the customized report:
  - Text and ranking of answers to survey questions are based on global results
  - Data for survey responses reflect the peer group

**Key Global Findings**

## KEY FINDINGS

## We have derived seven key findings from our 2012 insurance ERM survey

- 1. Insurers see the value in ERM.** Key sources of added value include the avoidance of business-threatening losses (78% of participants) and enhanced shareholder decision making (72% of non-mutual participants).
- 2. ERM's business impact continues to grow, albeit slowly.** Satisfaction with ERM performance increased in both Europe (from 57% to 62%) and North America (from 62% to 66%).
- 3. Those who stay the course reap the rewards.** Well-advanced ERM capabilities (greater than 75% complete) contributed much more strongly to business performance than those less developed.
- 4. Risk culture is critical to long-term ERM success.** Eighty percent of respondents indicate that risk culture is a highly important part of their end-state vision of ERM.
- 5. Defining risk appetite and monitoring against it are top short-term priorities.** While 74% of respondents have now defined a risk appetite, nearly 60% of these have yet to demonstrate its consistency with their risk limit structure.
- 6. The potential of economic capital is yet to be realized.** Methodology remains the top EC calculation challenge (58% of participants), while management buy-in (62%) and robustness of results (61%) are the key challenges to greater use of EC in decision-making.
- 7. ORSA/ICAAP is seen as beneficial by participants globally.** Almost 90% of respondents rate key aspects of the ORSA/ICAAP as beneficial, with around half of these expecting significant benefit.

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### Custom Peer Analysis

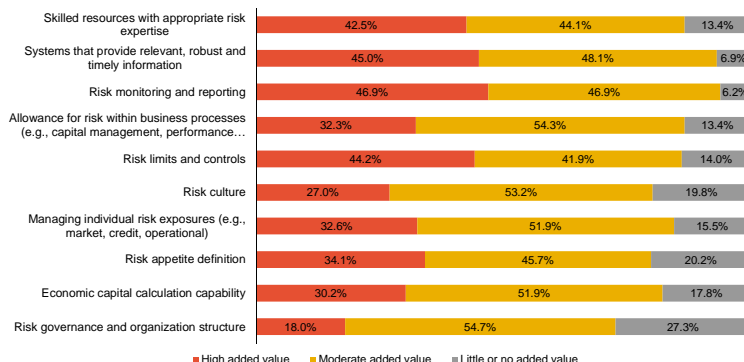
**Key Finding #1 –The industry, including reinsurers, are finding value in ERM**

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### Participants anticipate added value from investment across all areas of ERM

- Skilled resources and robust risk information systems rank highest in terms of potential added value
- Averaging across all aspects of ERM, 87% of participants see high or moderate added value from additional investment



Base: Q.7. Given your organization's current state, how would you characterize the potential added value to the business from additional investment in the following ERM areas? Please select one in each row.

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### Participants' short-term ERM priorities differ from their long-term vision

- Risk appetite is ranked as the top priority, with 46% of Asia-Pacific insurers now citing risk appetite as a priority area compared to 27% in 2010
- Risk monitoring and reporting is also a key priority for many, especially in North America (52%)
- Robust and timely risk information systems have become more important, especially in Europe (44% in 2012 compared to 30% in 2010)

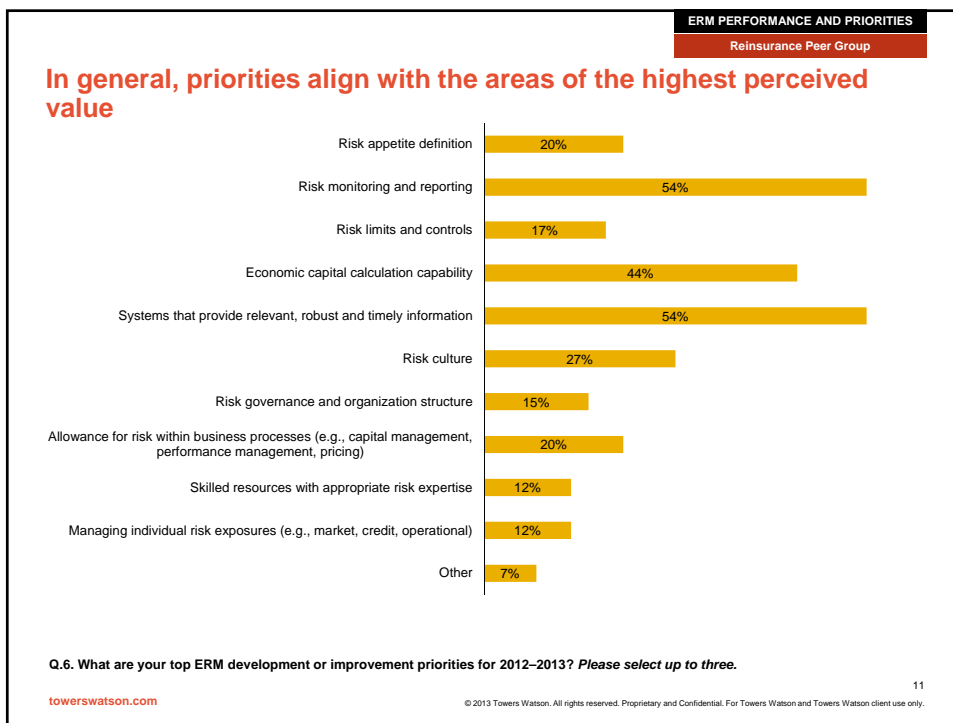
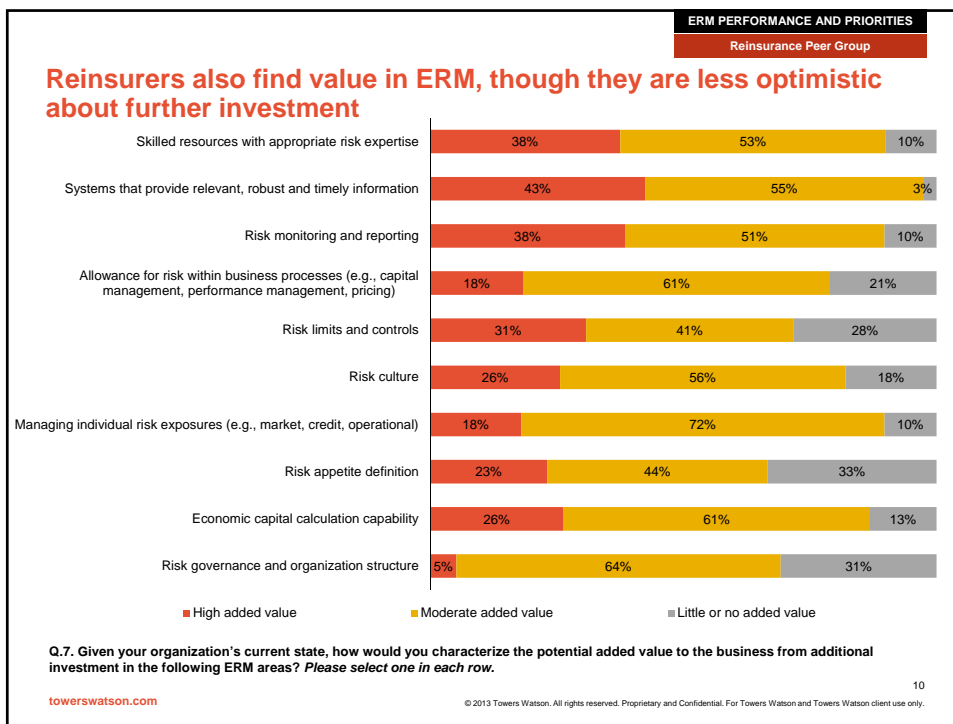


Base: Q.6. What are your top ERM development or improvement priorities for 2012-2013? Please select up to three.

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## Custom Peer Analysis

### Key Finding #2 – ERM's business impact continues to grow

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ERM PERFORMANCE AND PRIORITIES

## ERM development is most advanced in core risk control areas

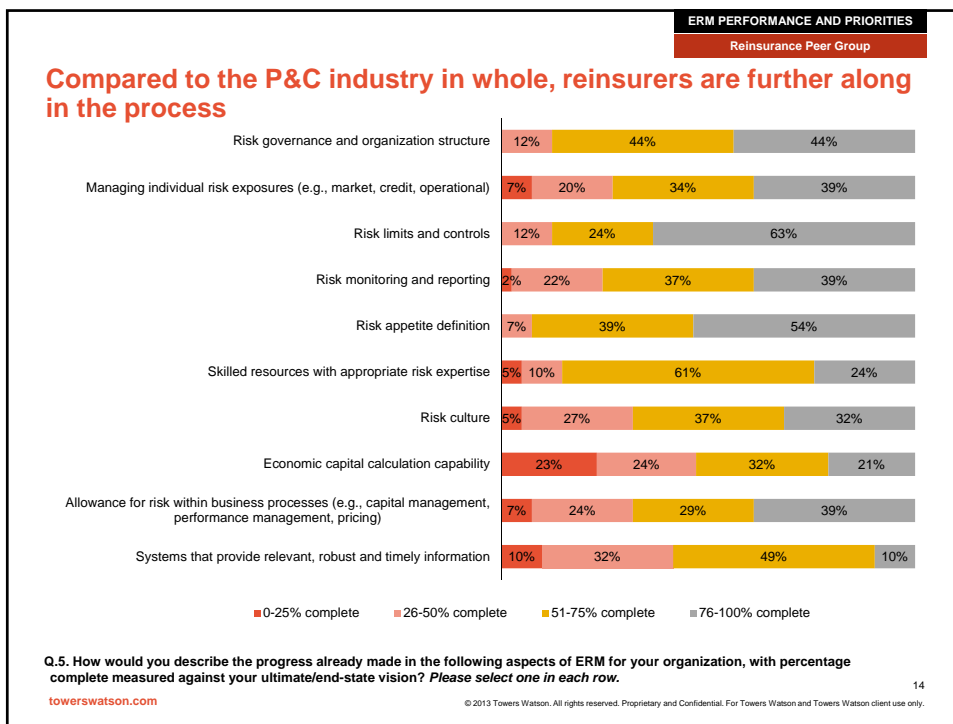
- Nevertheless, there is significant work to be done across a wide range of ERM aspects

ERM Aspect	0-25% complete	26-50% complete	51-75% complete	76-100% complete
Risk governance and organization structure	3.0%	22.7%	43.9%	30.3%
Managing individual risk exposures (e.g., market, credit, operational)	7.6%	26.5%	39.4%	26.5%
Risk limits and controls	6.8%	29.5%	28.8%	34.8%
Risk monitoring and reporting	11.4%	27.3%	34.1%	27.3%
Risk appetite definition	9.1%	26.5%	32.6%	31.8%
Skilled resources with appropriate risk expertise	12.1%	28.0%	44.7%	15.2%
Risk culture	7.6%	28.0%	38.6%	25.8%
Economic capital calculation capability	33.3%	15.9%	34.1%	16.7%
Allowance for risk within business processes (e.g., capital management, performance management, pricing)	13.6%	40.2%	32.6%	13.6%
Systems that provide relevant, robust and timely information	23.5%	30.3%	39.4%	6.8%

Base: Q.5. How would you describe the progress already made in the following aspects of ERM for your organization, with percentage complete measured against your ultimate/end-state vision? Please select one in each row.

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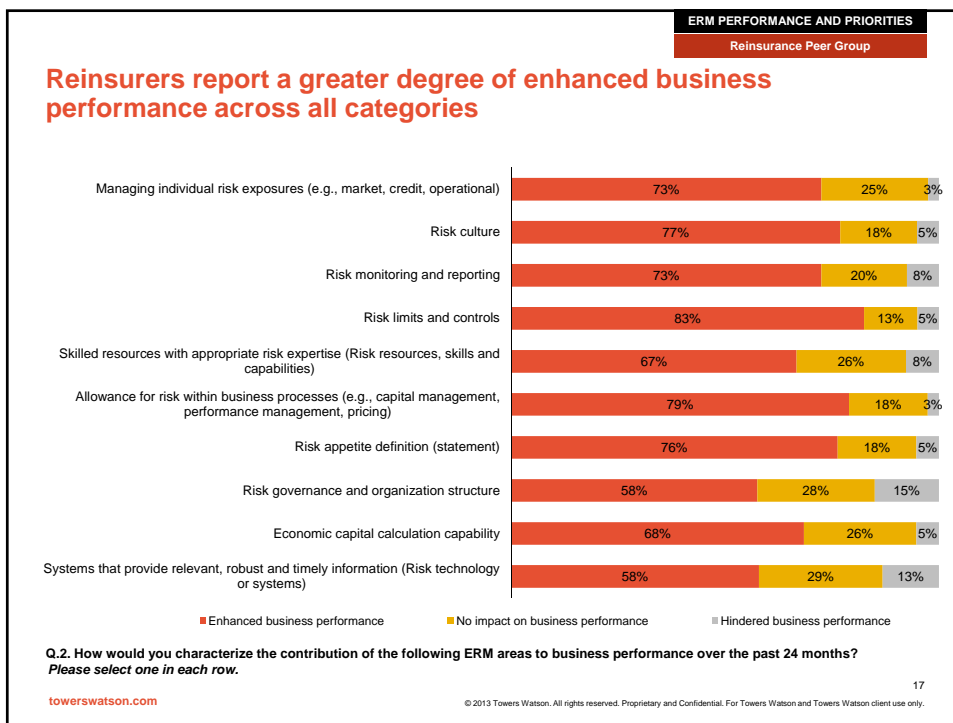
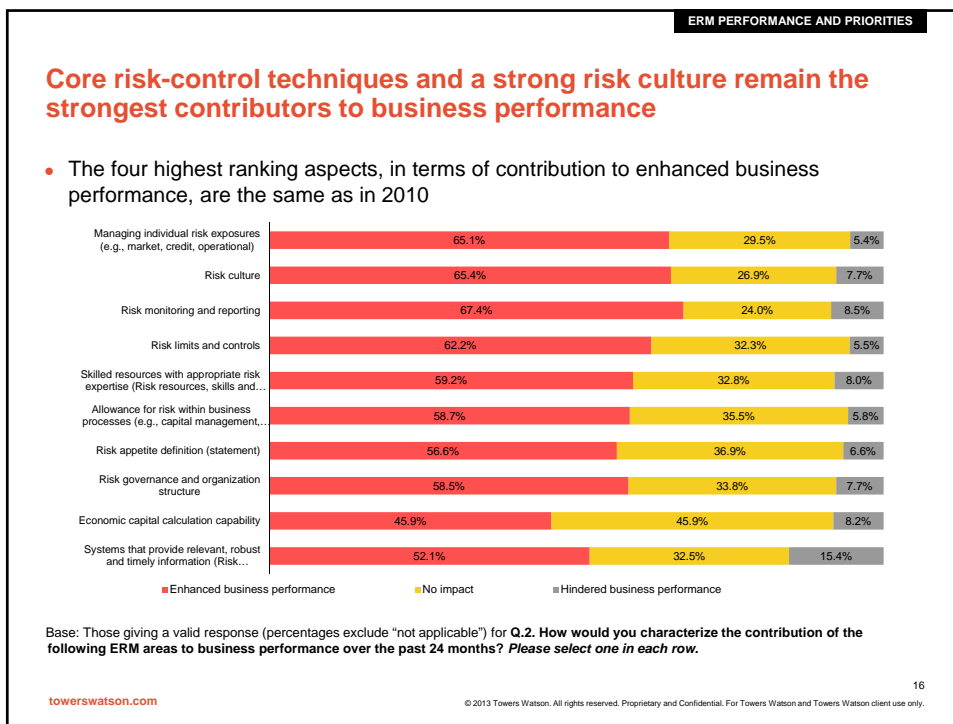
**Custom Peer Analysis**

**Key Finding #3 – Those who stay the course reap the rewards... reinsurers are further along in the ERM evolution and harvesting the benefits**

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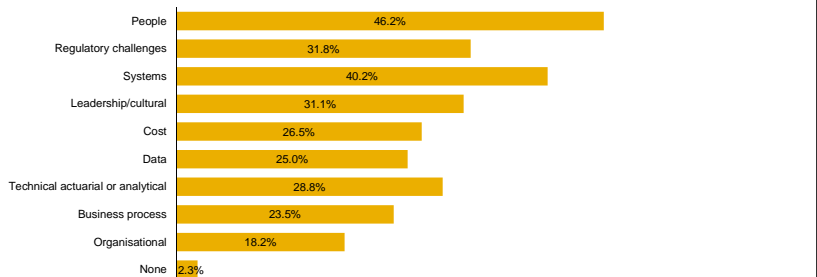
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### For the P&C Industry in general, finding the right resources continues to be a challenge

- As in 2010, people challenges are the top-ranking challenge to ERM implementation — particularly in North America (50%) and Asia-Pacific (46%), compared to Europe (33%)
- Regulatory challenges are a key issue for European respondents (54%) compared to North America (35%) and Asia-Pacific (32%)
- Those that are satisfied with their ERM performance cite regulation as the biggest challenge (48%); those that are dissatisfied are more concerned with the internal challenges of people and leadership

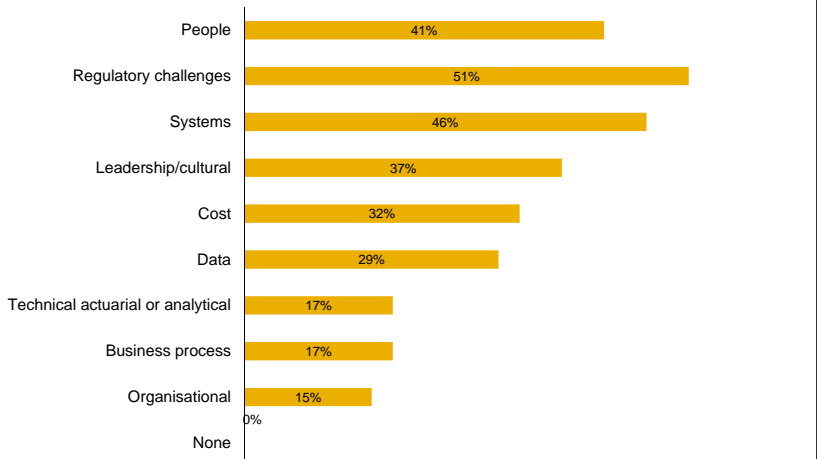


Base: Q.8. Which of the following areas present the greatest challenges to your organization in terms of implementing ERM over the next 12 months? Please select up to three.

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### For reinsurers, other challenges have emerged



Q.8. Which of the following areas present the greatest challenges to your organization in terms of implementing ERM over the next 12 months? Please select up to three.

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**Custom Peer Analysis**

**Key Finding #4 – Risk culture is critical to long-term ERM success**

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GOVERNANCE

### Most companies have appointed, or intend to appoint, a CRO or equivalent

- Those respondents with no intention of appointing a CRO are mainly small/medium insurance organizations where 24% have no intention of appointing a CRO, compared to only 9% of large companies

**P&C Industry**

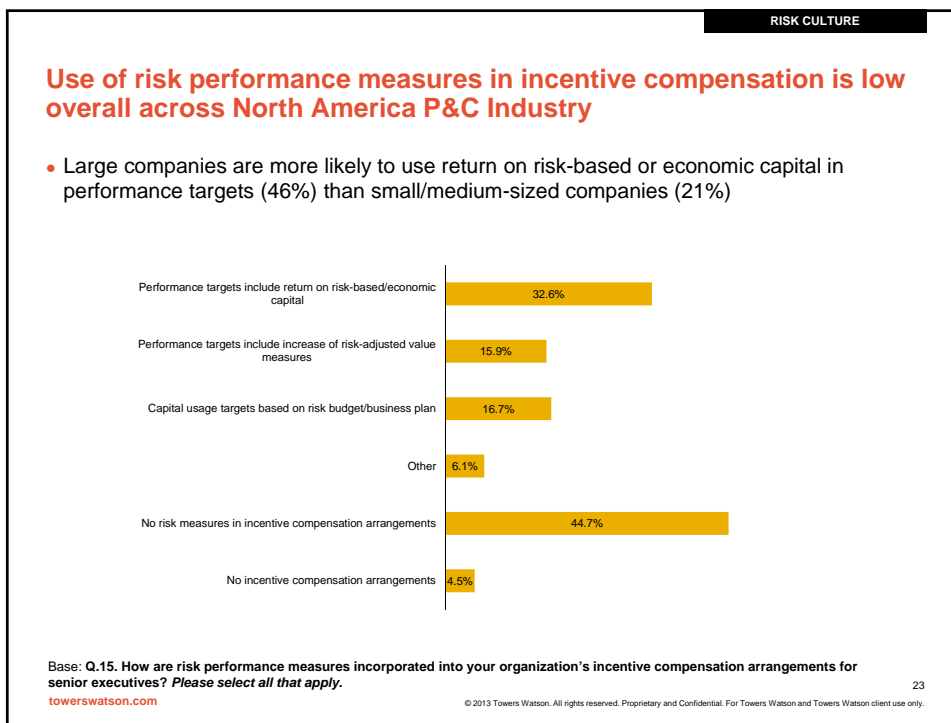
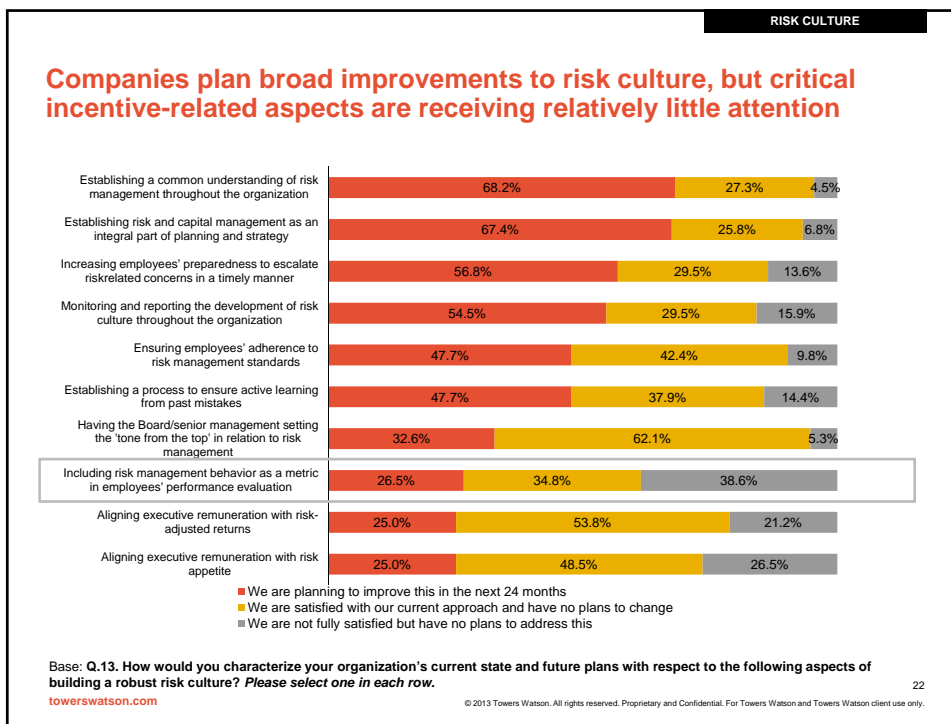
Response	Percentage
Yes	72.0%
No, and no plans	21.2%
No, but planned to be in place in the next 24 months	6.8%

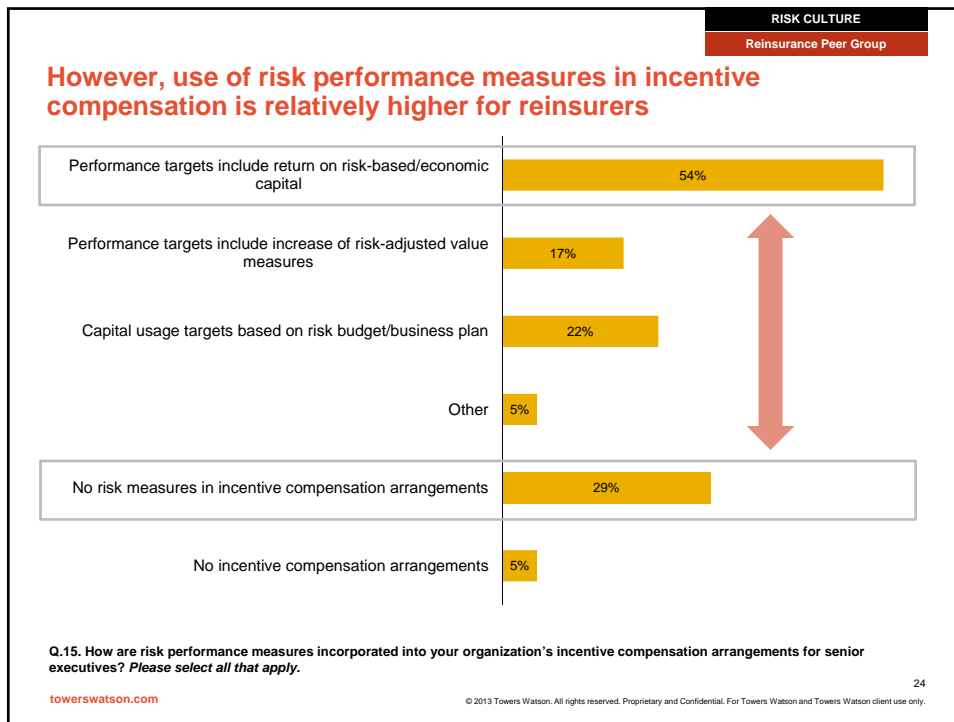
**Reinsurers**

Response	Percentage
Yes	85%
No, and no plans	10%
No, but planned to be in place in the next 24 months	5%

Base: Q.10. Have you appointed a chief risk officer (CRO) or equivalent (that is, a person whose role is explicitly to take primary responsibility for risk management)?

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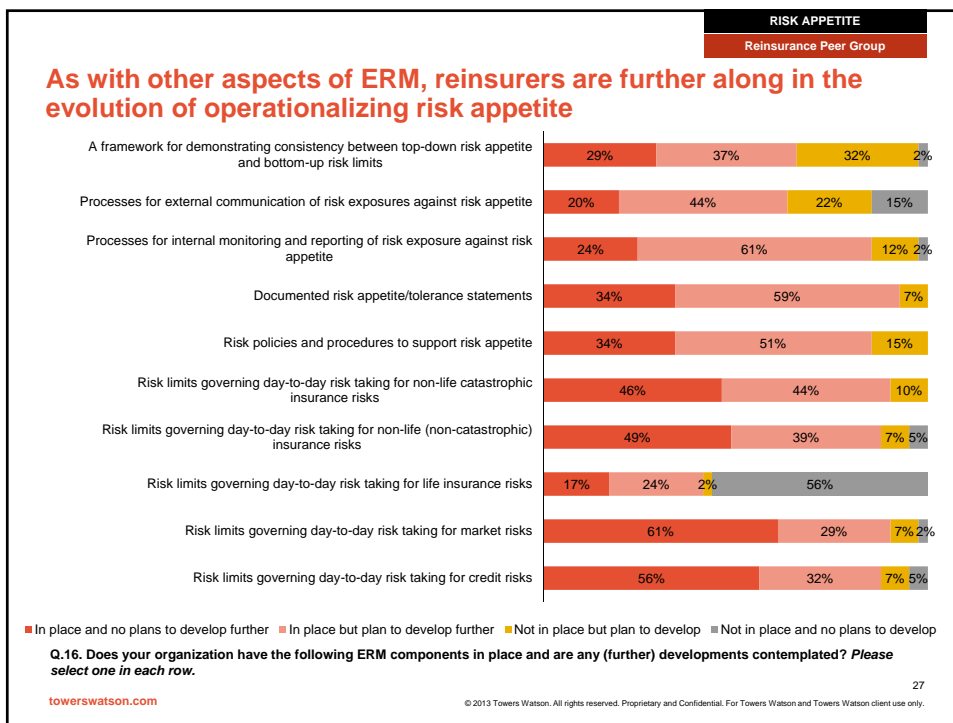
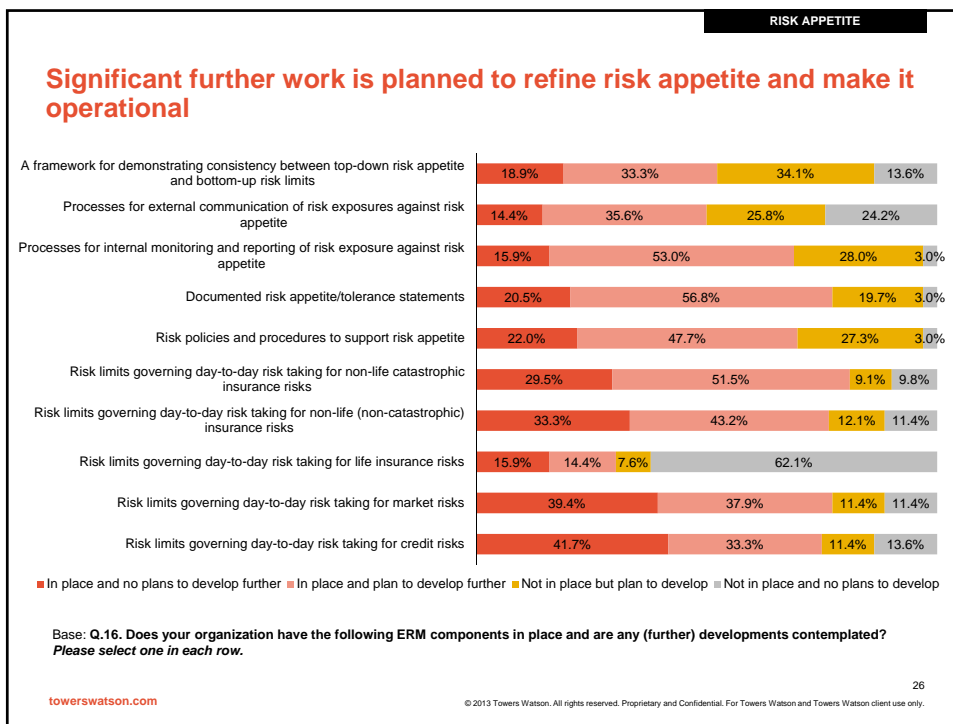


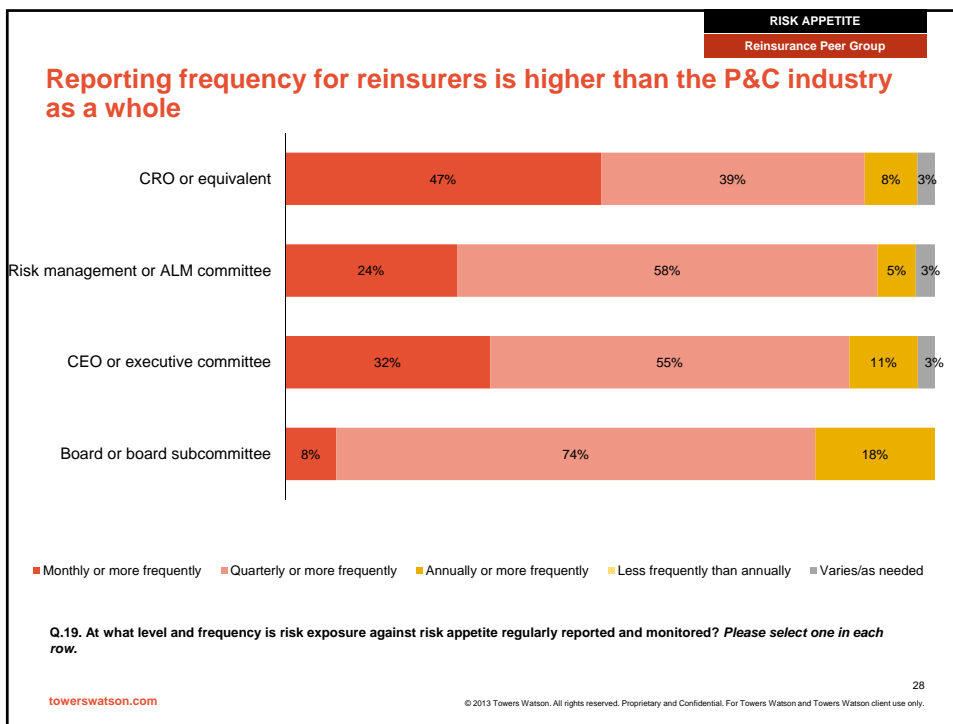
**Custom Peer Analysis**

**Key Finding #5 – Defining risk appetite and monitoring against it is key**

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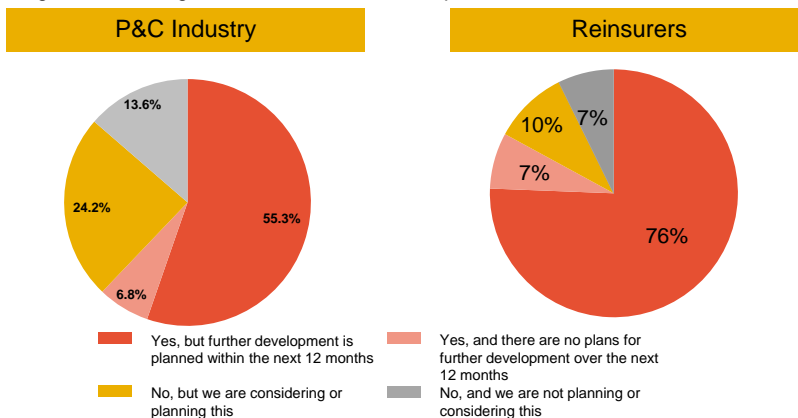
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**Key Finding #6 – The potential of economic capital is yet to be realized by the Industry as a whole... however, reinsurers are already realizing the potential.**

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### Reinsurers have significantly more likely to adopt economic capital calculations into their organizations

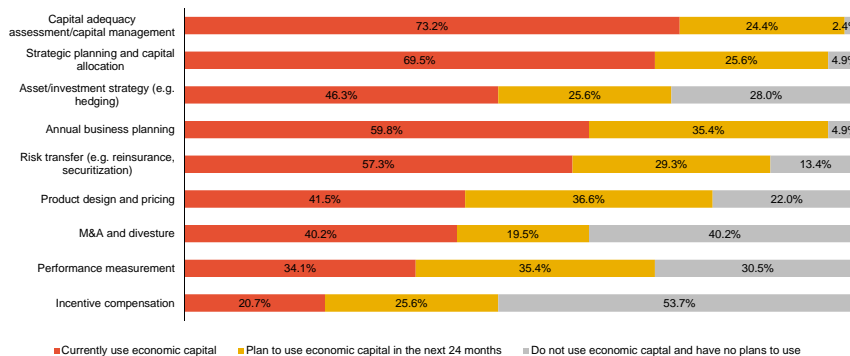
- Large companies (96%) are more likely to calculate EC than small or medium-sized companies (59%)
- There is little evidence of progress in relation to the proportion of participants who were planning or considering calculation of economic capital in 2010



Base: Q.25. Does your organization calculate economic capital?  
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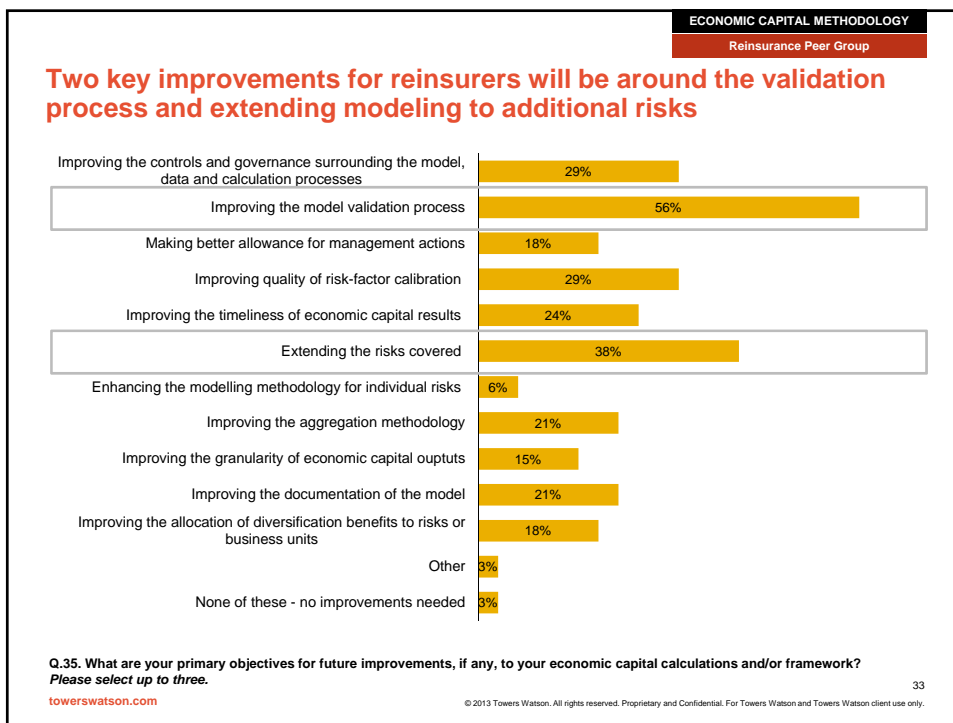
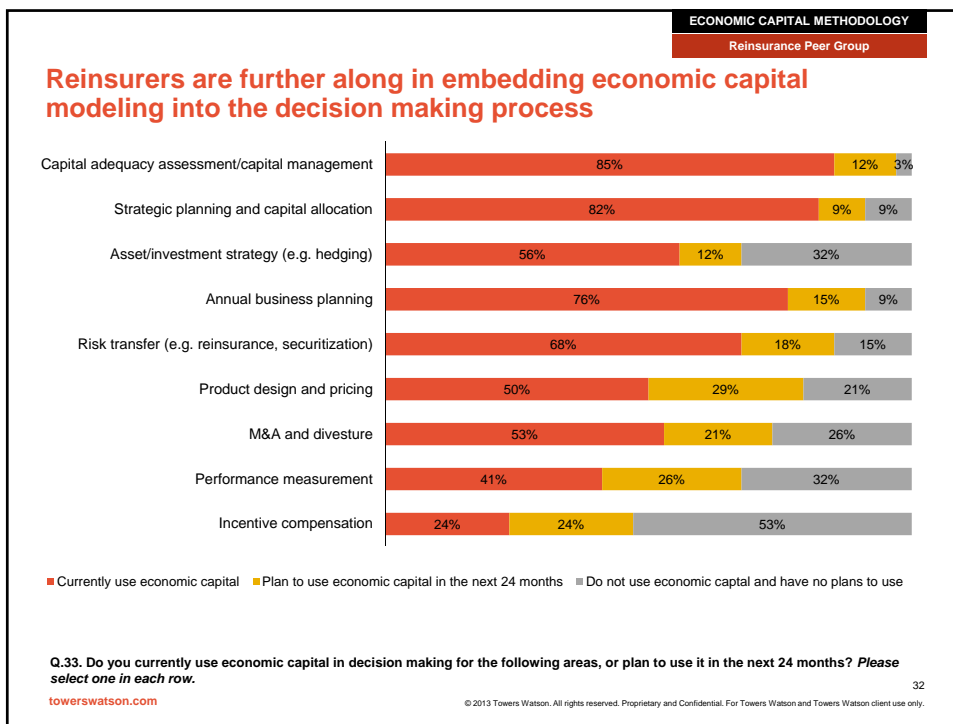
### Economic capital is expected to be used in a broad range of business decisions

- European life insurers use EC in business decision making more than their global counterparts
- For example, 75% of European life insurers use EC to inform asset/investment strategy compared to approximately 57% in North America and 52% in Asia-Pacific



Base: Those calculating economic capital for Q.33. Do you currently use economic capital in decision making for the following areas, or plan to use it in the next 24 months? Please select one in each row.  
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**Custom Peer Analysis**

**Key Finding #7 – ORSA/ICAAP is seen as beneficial by participants globally, though reinsurers are less optimistic than others.**

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ORSA and ICAAP  
Reinsurance Peer Group

### Majority of reinsurer respondents are required or intend to carry out an ORSA/ICAAP

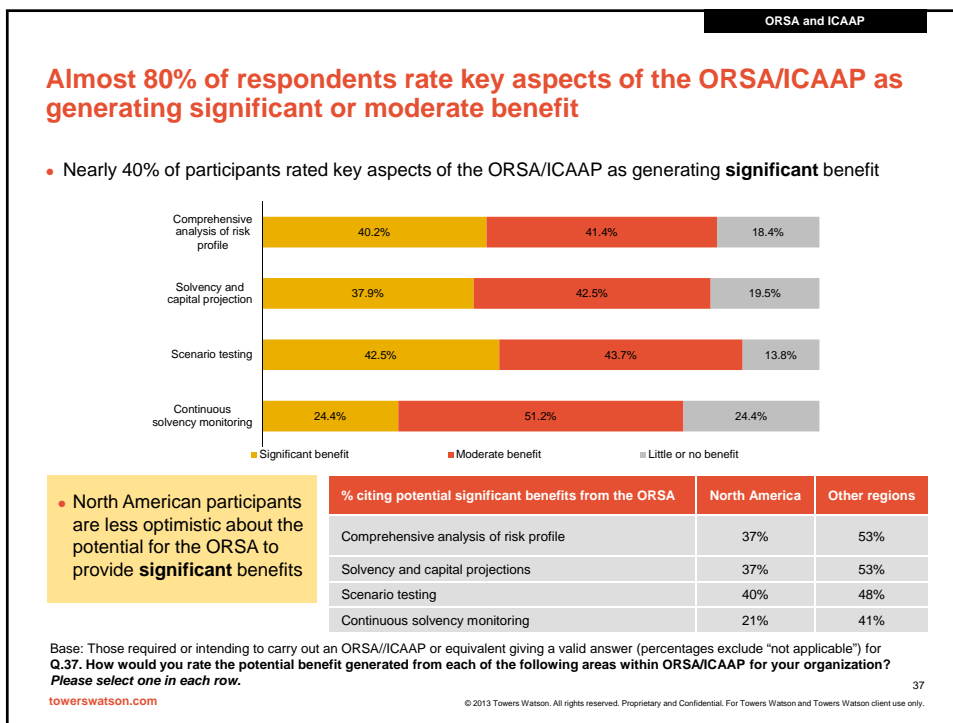
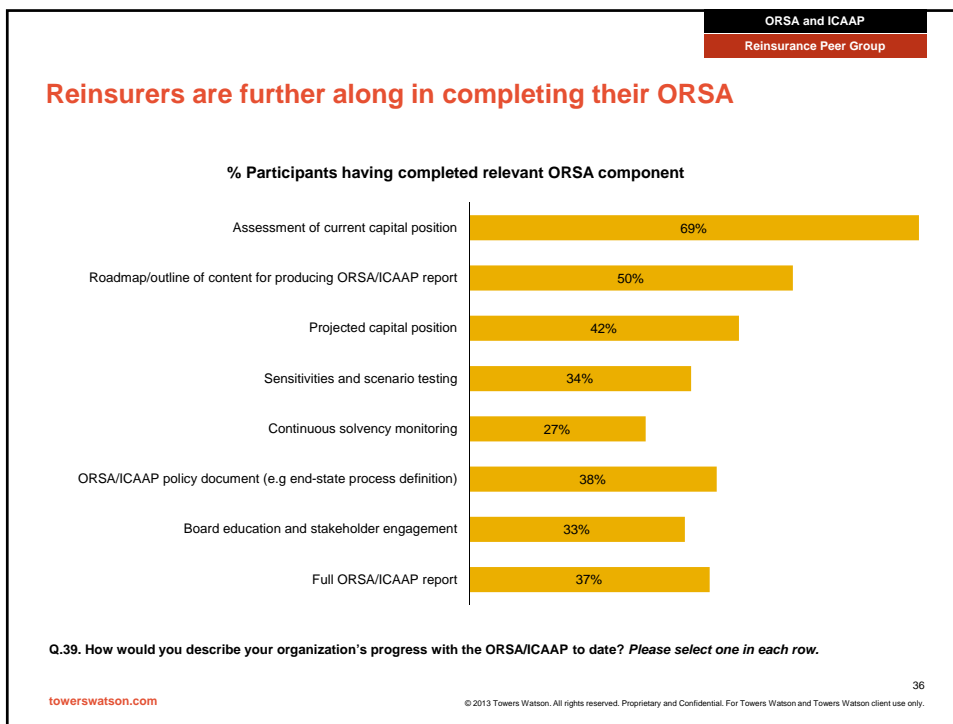
- The publication by the International Association of Insurance Supervisors of the paper "Insurance Core Principles, Standards, Guidance and Assessment Methodology" has resulted in the creation, in a number of countries, of the requirement to carry out an Own Risk and Solvency Assessment (ORSA). In some cases, this may be referred to as the Internal Capital Adequacy Assessment Process (ICAAP) or Comprehensive Risk Management Assessment and Reporting Process
- Under these requirements, companies are expected to complete an internal process and corresponding report, which provides their own assessment of the adequacy of the capital they hold for risks that the organization takes and plans to take in the near future

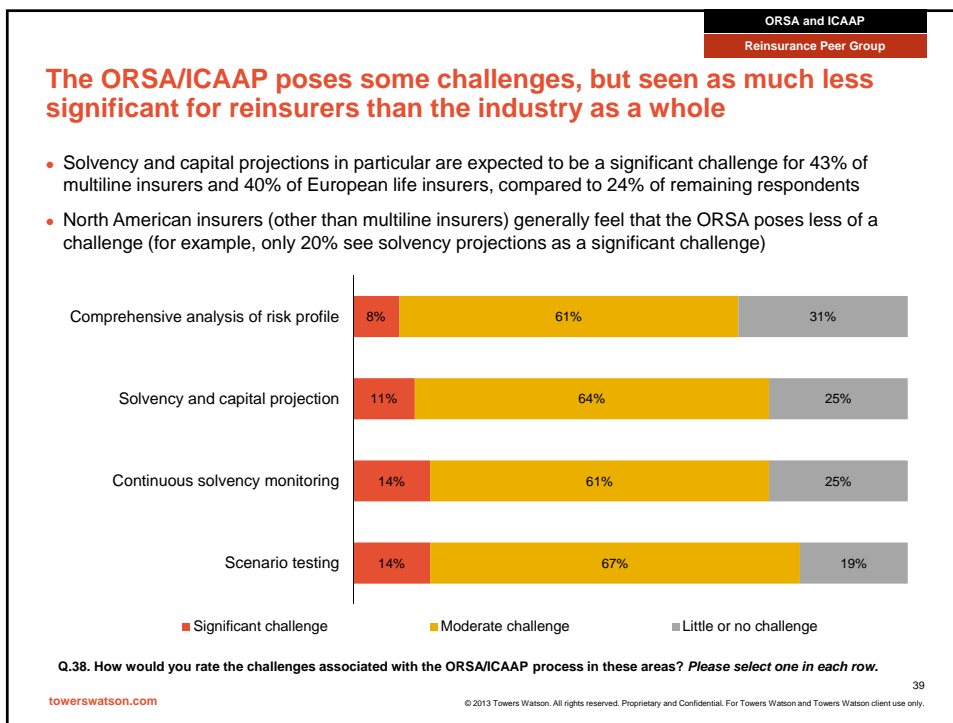
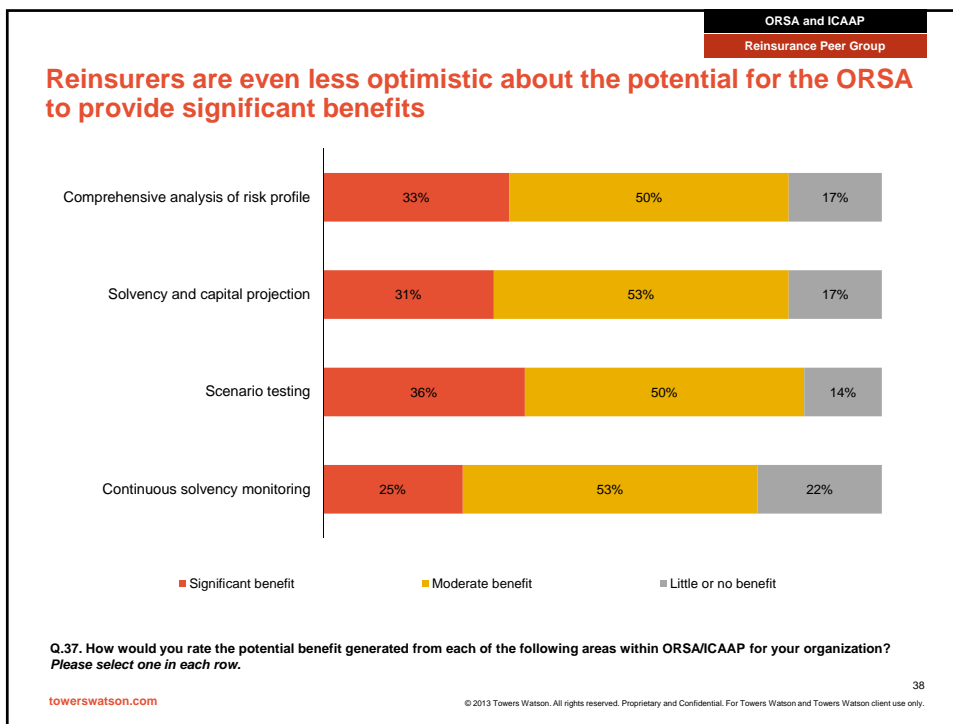
Response	Percentage
Yes	88%
No	12%

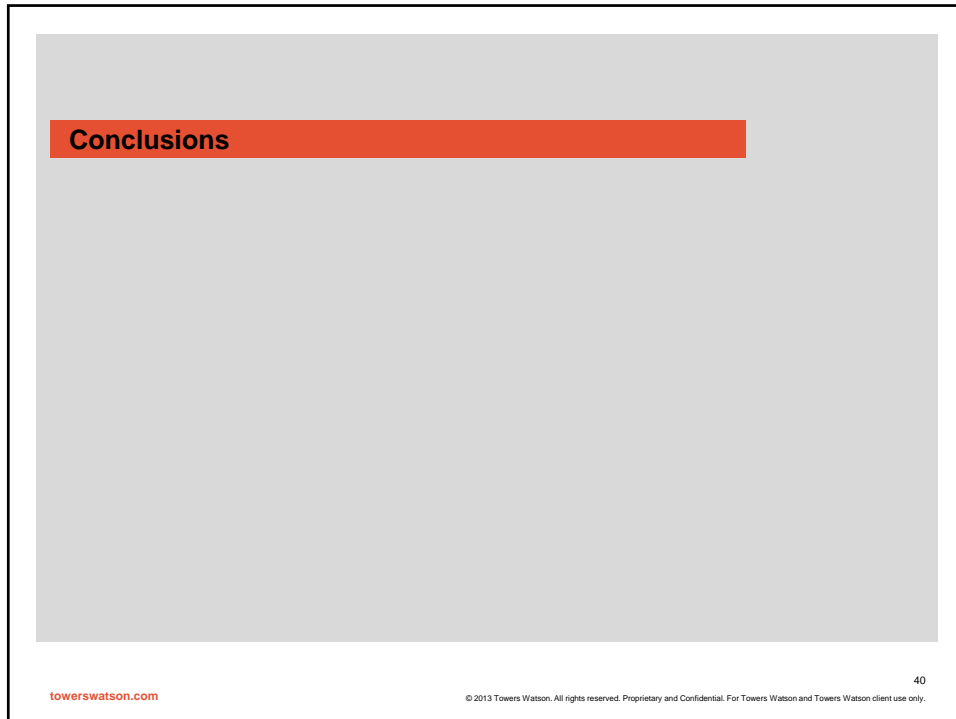
Base: Total respondents for Q.36. Is your organization required, or will it be required by regulators, or intending to carry out an ORSA/ICAAP for your organization?

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Conclusion

**The seven key conclusions from our 2012 insurance ERM survey**

1. The industry, including reinsurers, are finding value in ERM
2. ERM's business impact continues to grow.
3. Those who stay the course reap the rewards... reinsurers are further along in the ERM evolution and harvesting the benefits.
4. Risk culture is critical to long-term ERM success.
5. Defining risk appetite and monitoring against it are top short-term priorities.
6. The potential of economic capital is yet to be realized by the Industry as a whole... however, reinsurers are already realizing the potential.
7. ORSA/ICAAP is seen as beneficial by participants globally, though reinsurers are less optimistic than others.

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- In developing these results, we relied on the accuracy of data and information provided by the participants without independent verification
- Not all survey questions were applicable for all respondents; the lower number of respondents for some questions could limit the statistical relevance of results
- All individual survey responses are kept strictly confidential
- This report is confidential and is intended solely for the internal use of participants in the survey; it should not be distributed or disclosed to any third parties without the written permission of Towers Watson
- Towers Watson has conducted this survey in strict accordance with our understanding of antitrust laws and guidelines published by the U.S. Department of Justice
  - Participants are responsible for understanding and complying with these requirements and should seek legal counsel if questions arise