

ERM: AN INSURANCE COMPANY PERSPECTIVE

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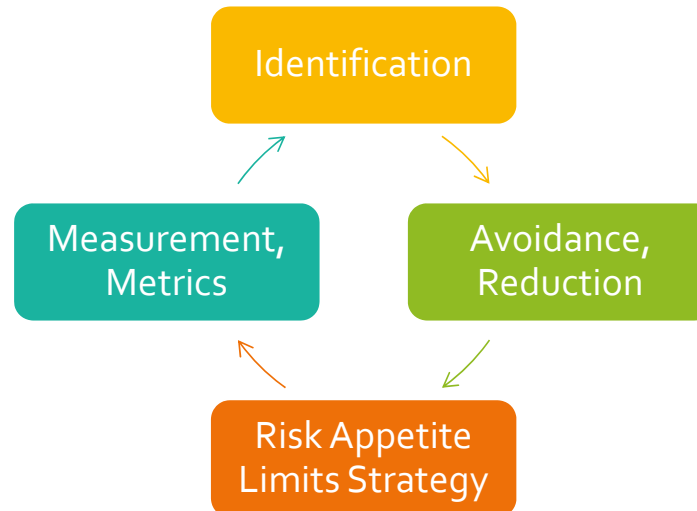
CRO Round Table

CARe Seminar

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ERM CONTROL CYCLE

1. Identification
2. Avoidance/Reduction
3. Establish and communicate Risk Appetite, Risk Limits, Integration and Business Plan/Strategy
4. Measurement, Quantification, Metrics
5. "Rinse & repeat"



ERM PROCESS

1. Culture, Governance
2. Identification, Prioritization
3. Appetite, Tolerances, Limits
4. Risk Management, Controls
5. Reporting, Communication (ORSA)

Multiple Perspectives of Risk

1. Economic: expected discounted present value or probability distribution, economic capital models
2. Accounting: US GAAP, IFRS, US STAT
3. Rating Agency
4. Regulatory

Some are unique to the insurance industry

Key Categories of
Risks for a Typical
Property/Casualty
Insurance
Company:

- Underwriting
- Asset
- Credit
- Operational

Underwriting

- a. Cat
- b. Non-Cat
- c. Products and policies
- d. Reinsurance protections
- e. Loss Reserves
- f. Pricing

Asset

- a. Investments
- b. Liquidity
- c. Other

Credit

- a. Reinsurance
- b. Receivables
- c. Fixed income investments

Operational

- a. Business Continuity
- b. Billing
- c. Policy issuance
- d. Marketing, agency management
- e. Claims
- f. Systems, Data
- g. Legal, tax, regulatory
- h. Others

International Actuarial Association ERM Principles*

1. ERM is concerned with all risks faced by insurers
2. ERM is concerned with creating value for the owners of an insurance enterprise whilst ensuring that promises made to policyholders are met
3. ERM is concerned with the totality of systems, structures and processes within an insurer that identify, assess, treat, monitor, report and/or communicate all internal and external sources of risk that could impact on the insurer's operations
4. ERM implies a common risk management "language" across the operations of the insurer
5. ERM involves systematic organization of and coordination between risk functions, i.e., specialist risk "silos" operating in isolation from each other are inconsistent with ERM principles
6. ERM includes both the management of downside as well as upside risks
7. ERM seeks to quantify all risks but acknowledges that not all risks can be measured in currency/financial terms
8. ERM is concerned with both behaviours (the risk management culture) and risk control processes
9. ERM involves holistic consideration of risk information relating to past events (e.g., losses), current performance (e.g., risk indicators) and future outcomes (e.g., the risk profile or risk assessment)
10. Risk management remains the responsibility of all personnel in the insurer, and not just designated risk professionals
11. Risk acceptance and management is integral to insurance

*Source - International Actuarial Association - Note on Enterprise Risk Management for Capital and Solvency Purposes in the Insurance Industry - Published 31 March 2009