



Embedding ERM in the Life Insurance Industry Getting Phase 0 right

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Contents

Five key success factors for getting Phase 0 right

1. Scope – what do we mean by ERM and which version are we implementing?
2. Baselining – where are we now and where are we going?
3. Set course – agree your implementation approach and set expectations
4. Engagement – the right methods for the right people
5. Planning – ride the wave

1. Scope – what do we mean by ERM and which version are we implementing?

ERM has been used to cover a lot of different programmes, and to hide a lot of sins...

Operational risk assessment and controls

- Understand key processes and their risk of failure
- “Narrow” focus on the largest operational risks e.g.
 - Fraud
 - Treating customers fairly
 - Process errors
- Using scenario analysis methods, identify top
 - Operational risks
 - Associated controls
 - Mitigants
- Consider cost/benefit of strengthening controls

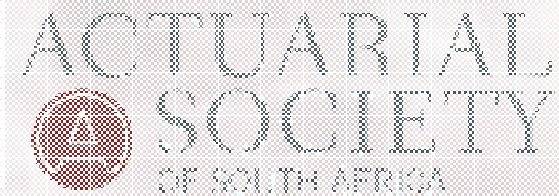
Risk policies and governance

- Focus on 2nd line of defence (risk oversight and control)
- Formalise policies and processes for management of some or all risks
 - Insurance
 - Market/credit/ALM
 - Operational
- Formalise risk organisation and governance
 - Corporate centre
 - BU/LOB

Company-wide Risk and Value Management

- Addresses comprehensive suite of *Applications and Enablers*
- Covers first and second lines of defence
 - Risk-based steering
 - Managing for value
 - Risk oversight and control
- Far-reaching impact well beyond the risk community

1. Scope – what do we mean by ERM and which version are we implementing?



In order to achieve a best practice, comprehensive ERM framework, insurers are looking at their capabilities and ambitions in four key areas

1. Models for measuring and analysing the overall risk situation

- Coverage of “risk map” by standardised models: Insurance risk (life and non-life), ALM risk, market risk, credit risk (investments, re-insurance), catastrophe risk, business risk, operational risk
- Aggregation method and management of diversification method

2. Implementation into operational environment

- Integration of risk measurement
- Establishment of the risk management “idea” within the organisation
- Ongoing development of risk models

3. Governance and instrument for managing risk

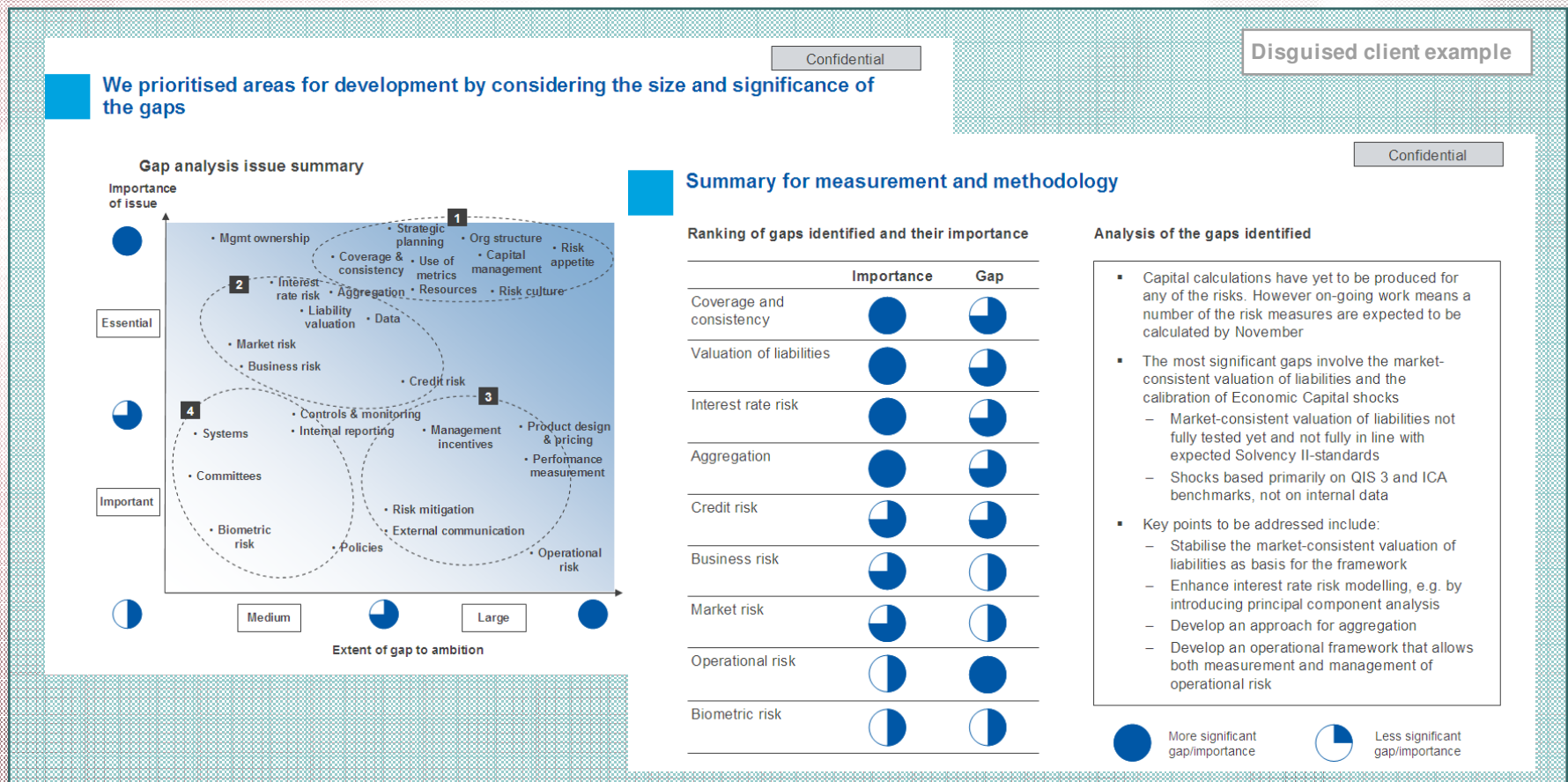
- Committee structure
- Internal risk reporting
- Organisational structure within risk management
- Risk appetite, risk tolerance and limit system

4. Group-wide use of risk information for risk/return decisions

- Integration of risk management into strategic steering
- Impact of risk management on incentive systems
- Impact of risk management on pricing, product design and profitability measurement
- Impact of risk management on investment management
- External risk communication

2. Baselining – where are we now and where are we going?

Gap analysis and ambition statement are critical in the communication and engagement process...



2. Baselining – where are we now and where are we going?

...as is understanding and articulating where the value potential lies

Disguised client example

Optimise upside

Improved financial performance

Contain and manage downside

Improved oversight and active mitigation

Comply with regulation

Comfortable compliance with Solvency II and Basel II

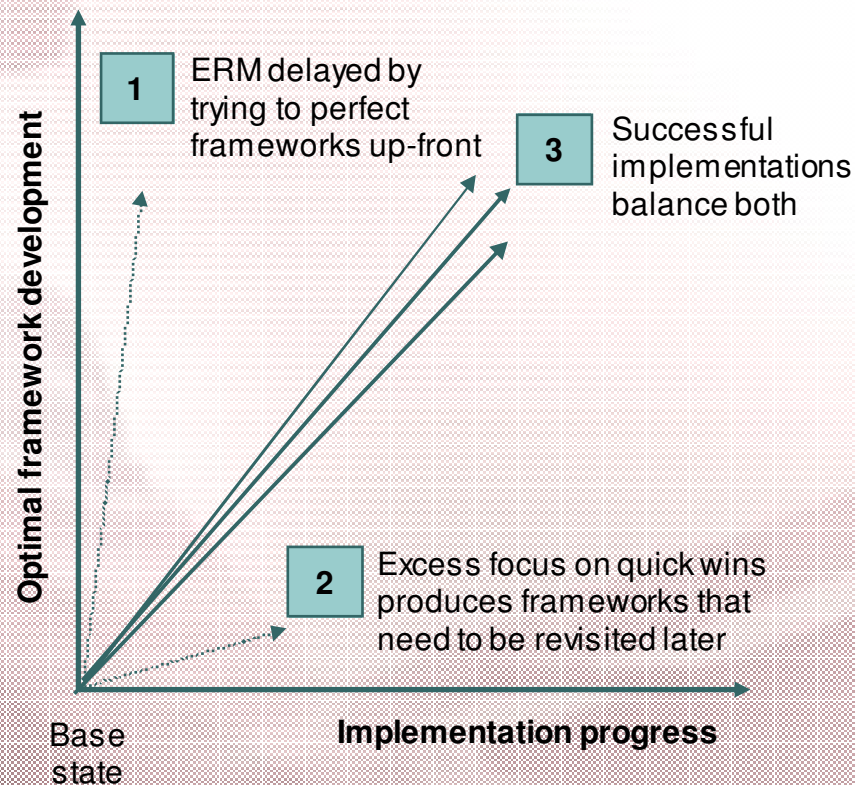
Improve external perceptions

More favourable treatment from external appraisers (regulators, rating agencies, analysts)

3. Set course – agree your implementation approach and set expectations

ERM implementation paths

Frameworks are essential to begin, but will evolve over time



Getting the right path to success

- Such a complex, interlinked problem as ERM is not easily implemented
 - 1 Defining exhaustive frameworks is difficult and delays implementation
 - 2 Excessive focus on “quick wins” results in waste as initial efforts are revisited when other framework components later demand a different approach
 - 3 The best approach balances the two
 - Develop and adapt frameworks as implementation is carried out
 - Minimise both the “time to start” and the “need to rework”
- Crucially a significant communication effort must be employed so people know what to expect, and when

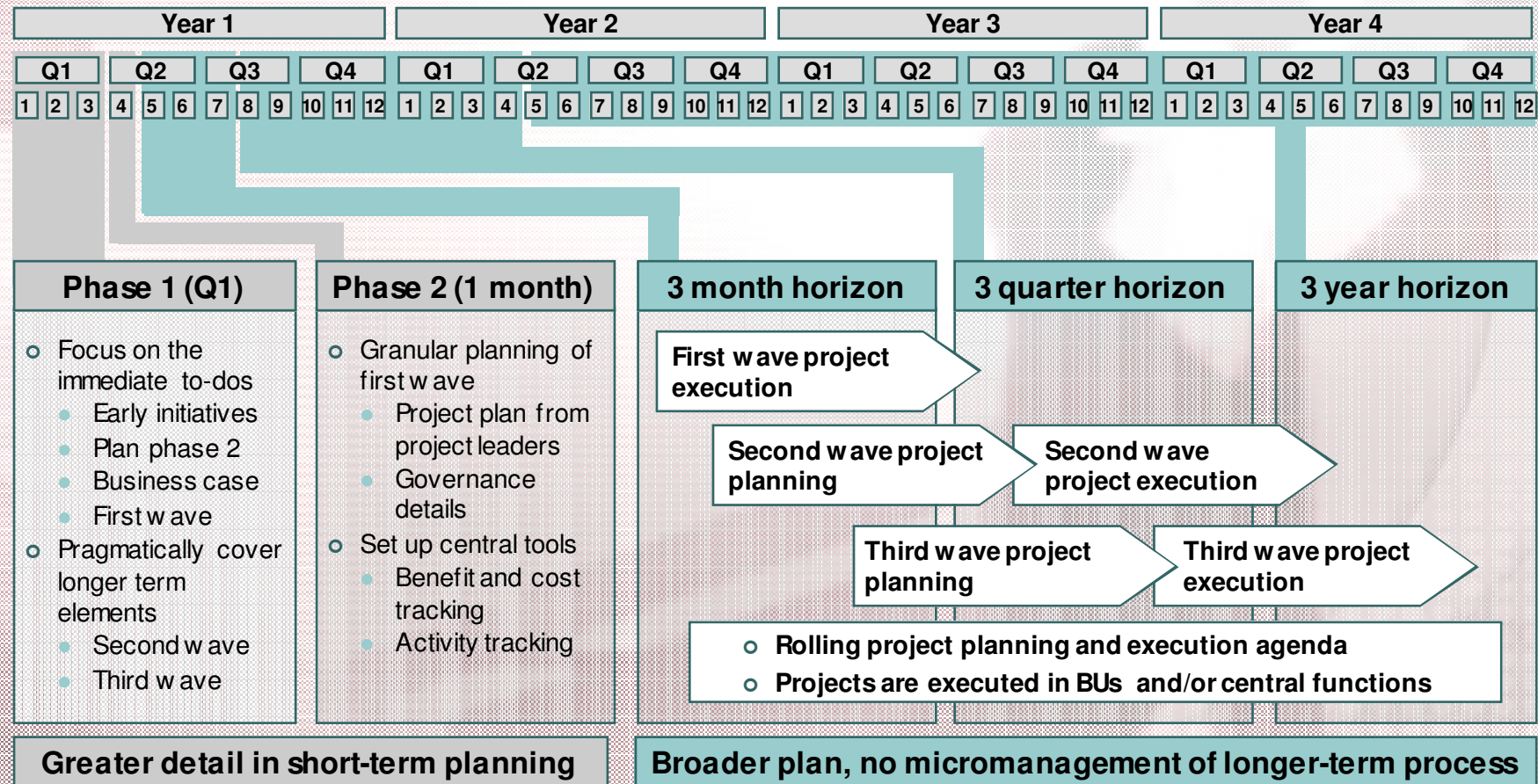
4. Engagement – the right methods for the right people

Success can be accelerated and enhanced by strong leadership from the very top, and driven from the functions most affected

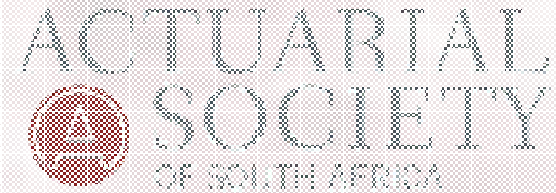
- At least four different stakeholder groups with significantly different interests
 - Central risk and finance team
 - Broader risk and finance community
 - “The Business”
 - External stakeholders
- Certain features of ERM frameworks do not easily resonate further down the hierarchy
 - Some seem abstract
 - Some seem onerous and pointless
- Significant support from the top-of-house can help create the momentum
 - Keeps it relevant
 - Formal inclusion in executive KPIs is a great way to focus the mind
 - Maintaining “the vision” is a good way to ensure consistent support
- Support from the wider (and most-affected) parts of the organisation can ensure ERM is actually embedded
 - Involve the “do-ers” in the design – they know what will work and what won’t
 - Maintain regular contact and support between the do-ers and the top management

5. Planning – ride the wave

Have a good (and reasonable) sense of how you will implement, but don't micro-manage the entire process from day one



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