Enterprise Risk Management in the Life Insurance Industry

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Agenda

1. What is Enterprise Risk Management?
2. Identify the material risks
3. Develop a common framework
4. Implement practices and processes
5. Create a risk culture
6. Adopt tools to facilitate
7. Practical points to consider

What is ERM?

- "The methodical management of all material risks" – Risk Management Association Journal; February 2006 (www.rmahq.org)
- "A rigourous and co-ordinated approach to assessing and responding to all risks that affect the achievement of an organization's strategic and financial objectives. This includes both upside and downside risks" – Institute of Internal Auditors
- "…a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within appetite, to provide reasonable assurance regarding the achievement of entity objectives" - COSO

What are Material Risks?

- Insurance Banana Skins by the Centre for Financial Innovations and PricewaterhouseCoopers – Enterprise Risk, Vol 3 No 3, April 2009
- Compares 2007 with 2009 survey results

- 1 Investment performance (11)
- 2 Equity markets (13)
- 3 Capital availability (26)
- 4 Macro-economic trends (-)
- 5 Too much regulation (1)
- 6 Risk management techniques (14)
- 7 Reinsurance security (27)
- 8 Complex instruments (19)
- 9 Actuarial assumptions (8)
- 10 Long tail liabilities (7)

Common Framework

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- Methodical management of risk requires a common framework, and by implication a direct link with strategy and business planning
- Pre-requisite for useful comparison, aggregation, prioritisation, escalation of material information and related decisions
- Deal with both quantitative and qualitative compenents of risk
- Commonality regarding:
  - Language
  - Culture
  - Portfolios
  - Capital
  - Risk-return trade-off

Practices and Processes

- Create links between the various components of the framework so that there is mutual understanding and reinforcement

- Incorporate all key risk types:
  - Market / ALM
  - Credit
  - Liability
  - Business
  - Operational

- Methodologies and outputs:
  - Economic capital
  - Risk exposure
  - Day-to-day risk and control events

Risk Culture

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- Senior management leadership at executive and board levels
- Clear assignment of risk ownership and responsibility
- Direct link to management reward, incentives and recognition
- Part of the normal business management process and not an “add-on”
- Links to other assurance providers, both internal and external
- Allocation of appropriate resources:
  - People
  - Technology
  - Budget

Risk Tools

- Typically risk management has evolved in pockets at different levels with organisations leading to a variety of approaches
- Increased complexity and the multiplicity of sources requires a level of standardisation for collation, aggregation and comparison
- The adoption of risk management tools is only useful if there is broad agreement regarding the risk framework and standards
- The integration of this information into a single source of the “truth” is key to speeding up the collation, aggregation and comparison process
- The end goal must be near real-time information so as to get to a predictive scenario analysis and modelling capability

Practical Points

- It takes time and resources to develop and implement an adequate and effective ERM model
- Build as far as possible on what is already practically being done well, instead of adopting a consultant-driven theroetical approach
- A key dependancy is the availability of scarce resources within the organisation, and the capacity of the business to absorb and embed change
- Leadership by example at a senior level is a pre-requisite for success, as demonstrated by giving sufficient attention to risk management
- Move from the theoretical to the practical to demonstrate quick wins at every opportunity

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