

XXI ASSAL Annual Meeting
Risk Management in Insurance

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Risk: The possibility of adverse events disrupting strategy or impacting financial results.

Risk Management: Framework of policies, procedures, guidelines, practices, models and metrics used to identify, analyze, assess, monitor, control, communicate, exploit, mitigate, avoid or eliminate risk.

“Risk Management is like driving a car, you can only go fast if you know you have good brakes.” *

* Steven Hunt – VP Research at Forrester Research; Harvard Business Review, 2/2004



Why Risk Management?

- Insurance companies are in the business of taking risks. Risk Management helps us:
 - Identify and successfully manage those risks that present profitable growth opportunities and avoid those that don't.
 - Balance the sometimes competing demands of our various constituencies; meet our customer obligations, satisfy regulatory requirements, and optimize shareholder returns relative to the risks we take.

Risk Oversight and Assurance Activities

Credit Risk

- Default/Prepayment
- Reinsurance
- Derivative Counterparty
- Other Counterparty

Investment and Market Risk

- Interest Rate
- Reinvestment
- Liquidity
- Spread
- Equity Market
- Foreign Exchange

Product/Pricing Risk

- Mortality/Longevity
- Morbidity
- Policyholder Behavior
- Medical Trend
- Other Assumptions
- New Product risk

General Operational

- Fraud
- Ethics & Conduct
- Litigation
- Communication
- Physical Property
- Process Execution/Data Quality
- Policies & Standards
- Management Oversight
- Outsourcing
- Business Continuity
- Compliance

Information & Technology

- Availability
- Access
- Privacy & Confidentiality
- Production Changes
- Functionality
- Malicious Acts
- Infrastructure

General Business

- Business/Market Intelligence
- Reputation
- Strategic Decision
- Distribution & Sales Strategy
- Expense Management
- Branding & Marketing
- Rating Downgrade
- Resource Allocation
- Legislative & Regulatory Changes (including Tax)

Employment

- Employee Retention/Performance
- Skill Availability
- Morale/Culture
- Employment Liability

Assurance/Oversight Provider

- Asset Liability Management – Green
- Internal Audit – Blue
- Strategic Risks Managed Through Senior Management Oversight



Risk Oversight and Assurance Activities

Strategic Risks Managed Through Senior Management Oversight

General Business

Business\Market Intelligence

Reputation

Strategic Decision

Distribution & Sales Strategy

Expense Management

Branding & Marketing

Rating Downgrade

Resource Allocation

Legislative & Regulatory

Changes (including Tax)

Employment

Employee

Retention/Performance

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Risk Oversight and Assurance Activities

Internal Audit

General Operational

Fraud

Ethics & Conduct

Litigation

Communication

Physical Property

Process Execution/Data Quality

Policies & Standards

Management Oversight

Outsourcing

Business Continuity

Compliance

Information & Technology

Availability

Access

Privacy & Confidentiality

Production Changes

Functionality

Malicious Acts

Infrastructure

Risk Oversight and Assurance Activities

Asset Liability Management

<u>Credit Risk</u>	<u>Investment and Market Risk</u>	<u>Product/Pricing Risk</u>
Default/Prepayment	Interest Rate	Mortality/Longevity
Reinsurance	Reinvestment	Morbidity
Derivative Counterparty	Liquidity	Policyholder Behavior
Other Counterparty	Spread	Medical Trend
	Equity Market	Other Assumptions
	Foreign Exchange	New Product risk

Risk Intelligent Questions To Consider

- What risks haven't we thought of?
- How much could we lose if we don't manage this risk intelligently?
- What is the likelihood of the risk occurring?
- What is our vulnerability to this risk?
- Is the risk correlated with other risk exposures?
- Does this risk represent a concentration of risk that may cause problems in risk management or mitigation?
- If I hedge or mitigate this risk, how does this change the likelihood and impact?
- Does our risk management or mitigation strategy introduce any additional risk?
- How much can we gain if we take this risk – provided we manage it properly?
- How can we get assurance that our confidence is justified?
- How much is it costing us (or will it cost us) to manage this risk?
- Is there a potential reputational risk impact from this risk?
- What individual or team is responsible for managing this risk end-to-end?

We are risk astute, not risk averse

