

Biennial Convention 2007

Adventures in Risk

23-26 September 2007 • Christchurch, New Zealand



Institute of Actuaries of Australia



Comprehensive Companywide Risk Management - A cultural change

John Wylie – CEO, ING Life Taiwan



Insurance and Risk

- Common sense is not common
- The obvious is not always obvious
- Economic Capital, SOX and management changes A great opportunity for cultural change



Insurers Take Risks

- Sometimes banks are right!
- Interest guarantees – Poland
- Mortality guarantees – Europe
- Morbidity guarantees – USA
- Legacy issues



Economic Capital

- Complex models
- How much is enough?
- Regulatory v EC
- INGLT an example
 - 3m policies, 2m policyholders
 - AUD 23bn assets; AUD 4.8bn annual premium
 - 2300 staff; 9000 agents



Economic Capital

- Reserve adequacy: 1/2000 shock; 90%
- At 12/2006, INGLT inadequacy at 90th percentile was EUR 2.4bn.
- Profits to zero.....build reserves.
- Huge capital Impact on profitscapital management a priority



TSR

- Too much capital? Reduce risk.
- How long?
- In meantime manage TSR
- Simple solution: Grow VNB, EV; reduce EC
- Communicate:

$$R = \text{deltaEV} + (f \times \text{deltaVNB}) + D$$

EC



How to Improve TSR?

- Increase the top line figures (EV, VNB)
- Reduce the bottom line (EC)
- Expense ratios, managing claims, retaining the good, reducing the bad, more sales, more profitable products, less risk



How to communicate?

- Growth and Efficiency
- The BIG 6
 - Understand our customers
 - Increase agent retention
 - Increase agent productivity
 - Build a few strong BA relationships
 - Reduce expense ratios
 - Increase TSR
- Enablers – HR/MD, SOX



Key Messages

- “Reducing EC means reducing risk”.
- “Everyone is responsible for managing risk reduction”



Effective and Efficient

- Companywide risk management a backbone
- Clear priorities
 - EC reduction
 - EV and VNB improvement
 - Reserve adequacy
- Achieved alignment of goals and priorities
- Do a few things well – prioritise throughout



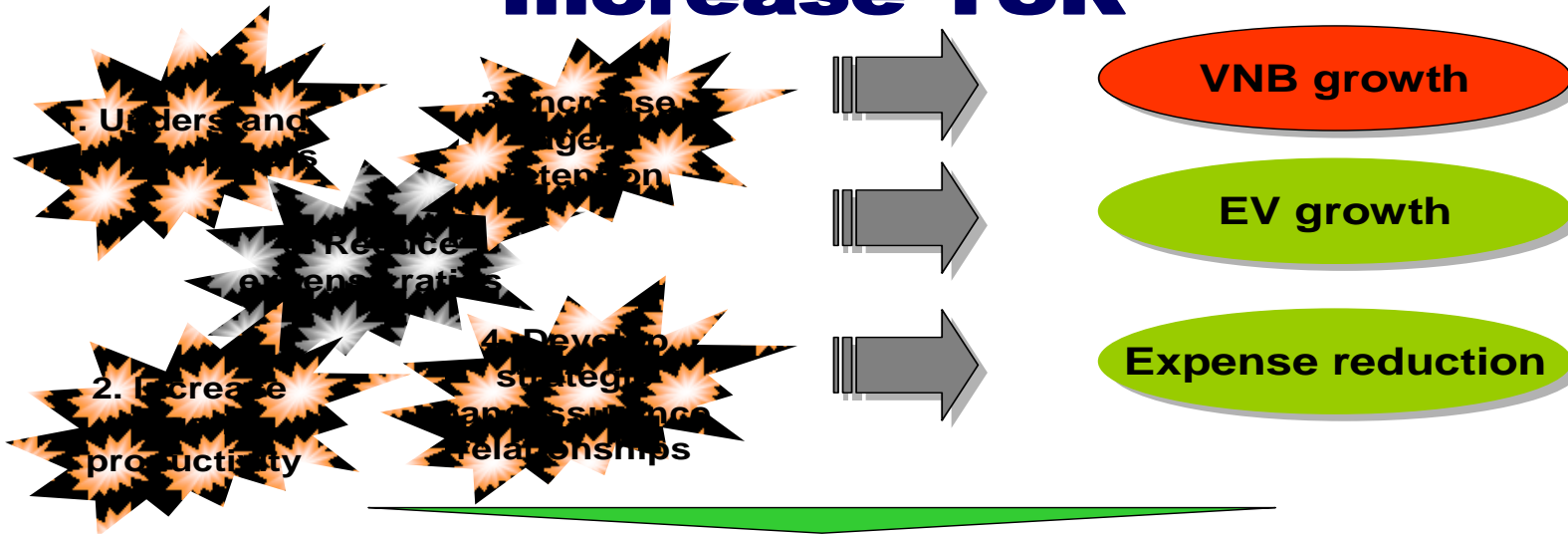
EC Reduction

- Asset side
 - Lengthen duration
 - Hedging
- Liabilities
 - Conversion
 - Short duration policies
 - Reinsurance, securitisation
 - Health claims management
- Constraints
 - Regulatory, market, reserve adequacy



Frequent Simple Communication

Increase TSR



$$TSR = f \left\{ \frac{VNB, EV}{EC} \right\}$$

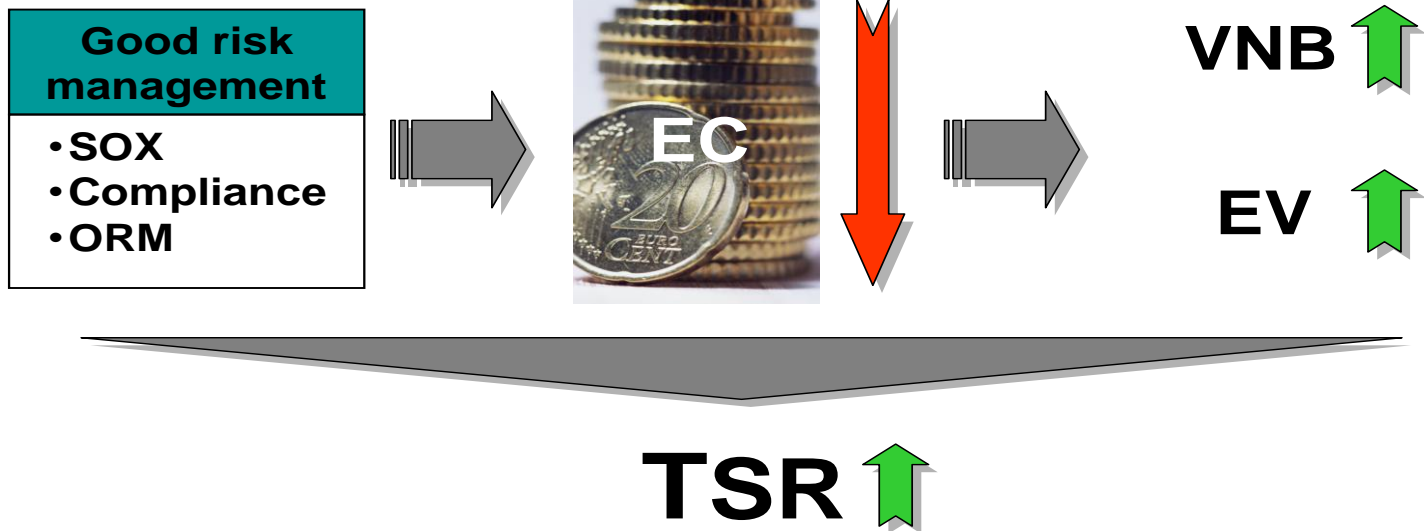
Managing business risk in all we do:

- Ops/IT, Finance, Marketing, Product Development
- Compliance, ORM, SOX, CAS



2nd Line Defence Adds Value

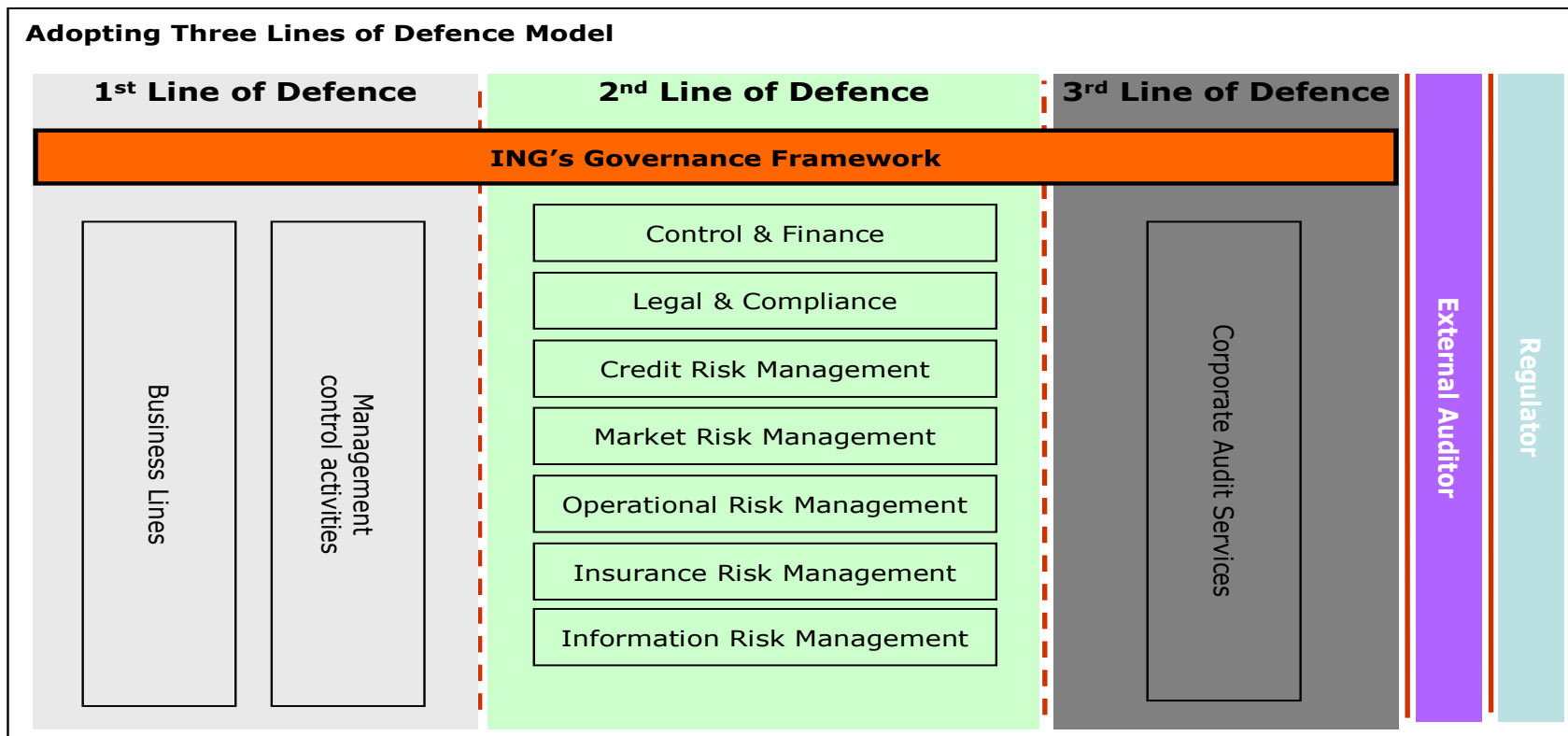
Risk Management





Risk is Everyone's Responsibility

Refresh: Risk Governance Framework





SOX – a useful risk tool

- Key controls
- Process definition, documentation, testing
- Effectiveness not efficiency
- Financial not non-financial



ORM, IRM and Reporting

- KRIs agreed and reviewed
- Audit item closing
- Incidents and complaints
- Security and Crisis Management
- Operational Risk Committee
- Scorecard; AUD 11m EC reduction possible



Bonuses

- 3 simple corporate goals
- 3 individual goals
- Excludes things out of management control
- Alignment with strategy and priorities
- Alignment with communication
- Weighted by input possibilities



Risk - Marketing and Distribution

- “This is a great business”
- Education
- Fact-find, needs analysis, recommendations
- Documentation
- FEC
- Conversion risk mitigation



Regulatory Change and Direction

- ERM
- CRO
- Health policy guarantee limitation
- “New York 7” reserve adequacy
- IFRS 4
- Solvency 2 introduction
- Agent education and activity controls



Does It Work?

- “Effective risk management is a key differentiator of ING” F= 84%; U= 2%
- “Value-based, results driven leadership at ING is encouraged and developed at all levels.” F=78%; U=4%
- “ING’s goals are clear and aligned at all levels” F=80%; U=6%
- “I can see a clear link between my work and ING’s objectives” F=83%; U=3%
- “ING is making the changes necessary to compete effectively” F= 86%; U= 3%
- “ING’s costs are managed to maximise value creation at all levels” F= 74%; U= 6%



Does It Work?

- EV Improvement
- VNB of EUR 155m – up 40% in 2006
- EC reduced by management action



Conclusions

- Risk management is everyone's responsibility
- Build into daily activities
- Ensure clear priorities are agreed
- Communicate clearly, simply, often
- Align bonuses
- Risk management can add value