

Risk and Capital Management

RESEARCH CONFERENCE

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Institute of Actuaries of Australia

Risk Management Practices in Insurers 2006 thru 2008

John Evans



Risk Management Processes: Best Practice

- Identification of risks, i.e. where income or outgo is uncertain
- Ranking of risks
- Management of risks where possible
- Identification of remaining risks
- Monitoring of risk events with escalation procedures
- Review of risks and management processes



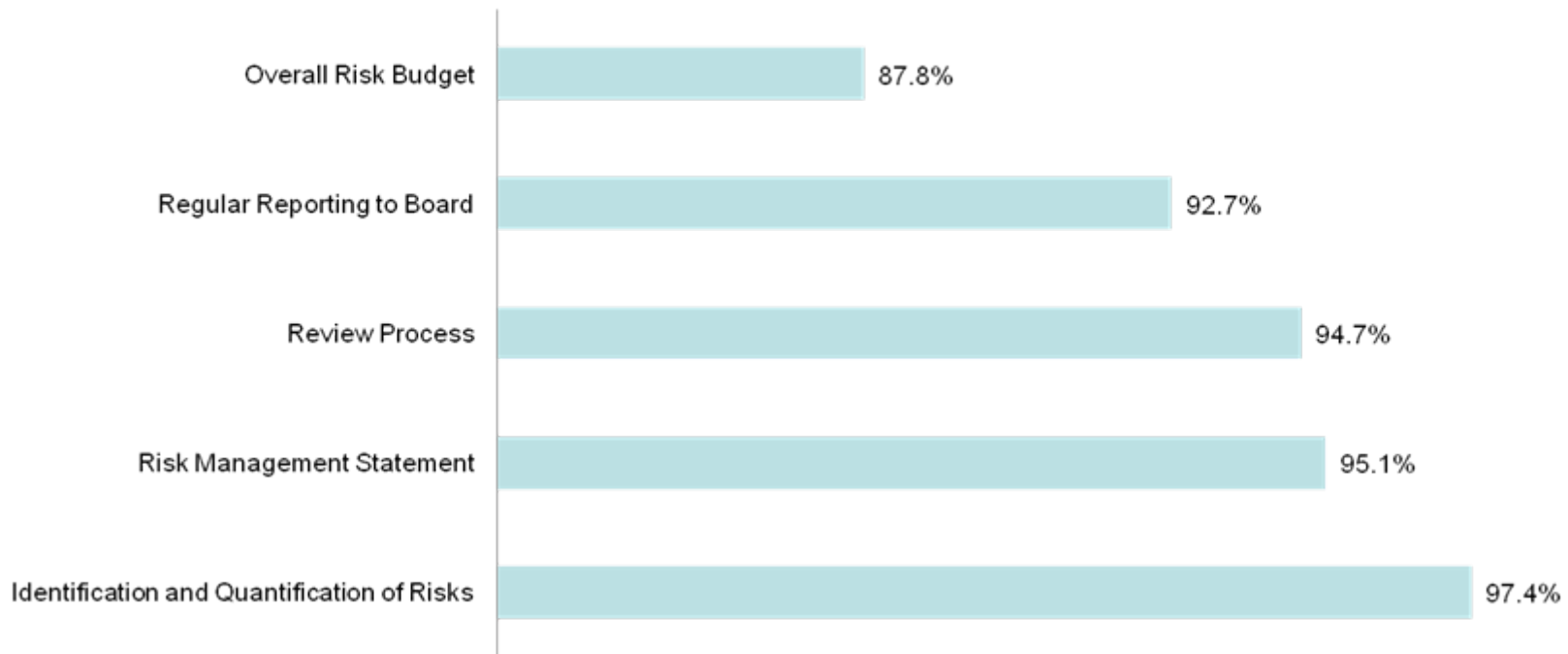
Database

- 52 insurers in Australia and New Zealand
- Covered the industry by annual premiums
- Respondents in 2006 and 2008 are not exactly the same
- Mostly multi line insurers
- Both online questionnaire and interviews
- Derived from a larger survey on “Drivers for Success in the General Insurance Industry” sponsored by Gen Re



2006 Results

Proportion of Respondents with Risk Management Process: 2006





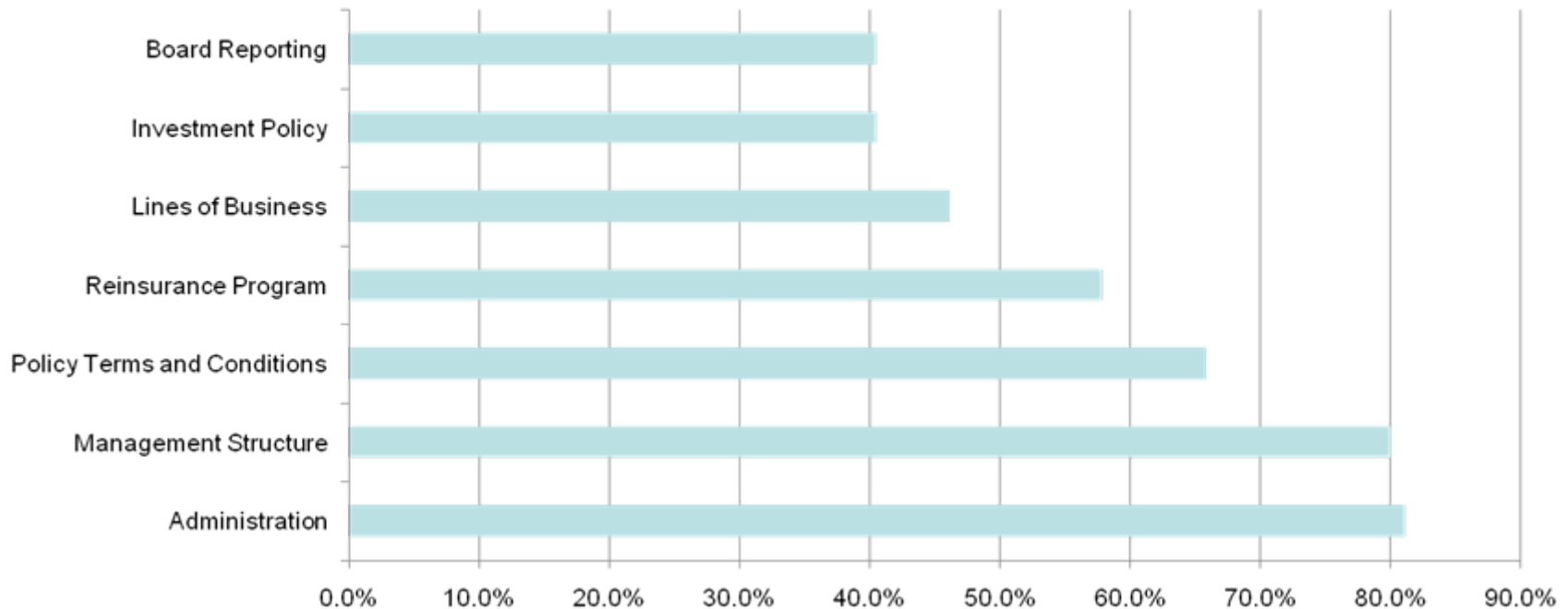
Some Observations: 2006

- Almost all did some identification and quantification of risks
- But less had a risk management statement, i.e. what they were doing and why
- Even less had an overall risk budget
- This would suggest a disconnect between the function of quantification, and the management of the risks, and a long way from best practice



Use of Risk Management: 2006

Proportion indicating an Effect from Risk Management Processes: 2006



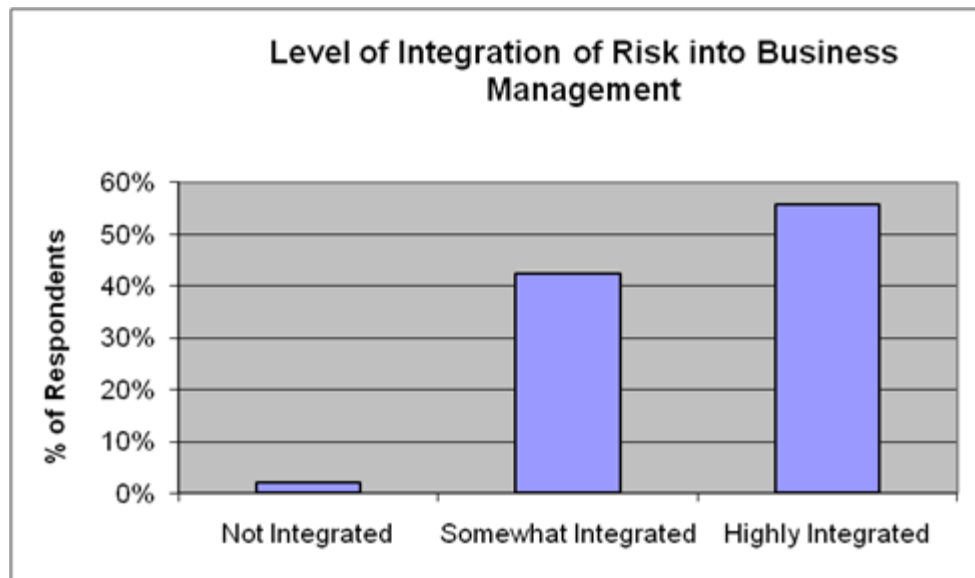


Implications of Risk Management:2006

- Under half changed their reporting to the Board as a result of introducing risk management processes, which suggests a serious governance issue
- under half reported that their risk management had affected their investment policy, yet the majority had changed their policy, suggesting a lack of understanding of total risk management
- The major effect was on management, which probably reflects the need for risk management resources (80% indicated they had specific risk management resources in 2006)

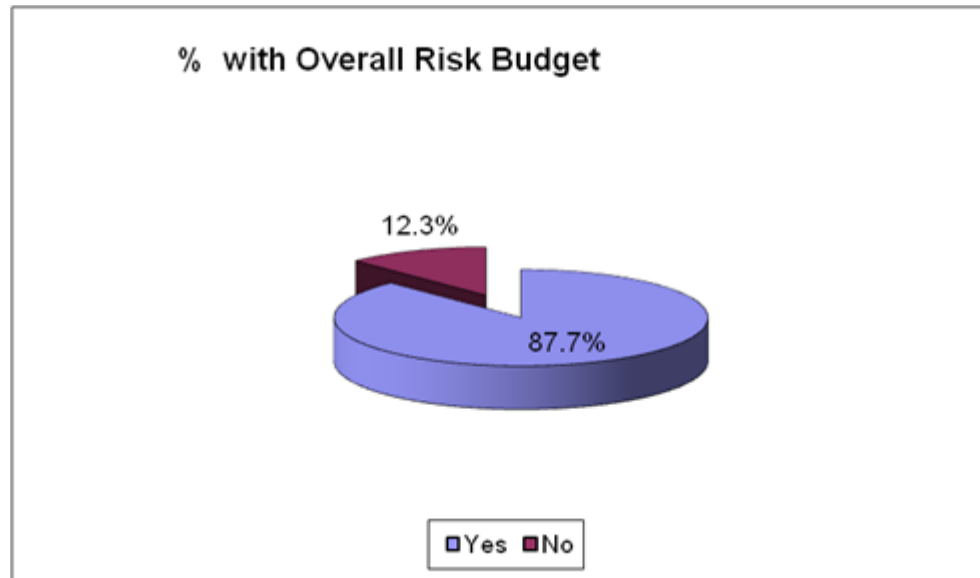


Integration into the Business Process:2008





Overall Risk Budget: 2008

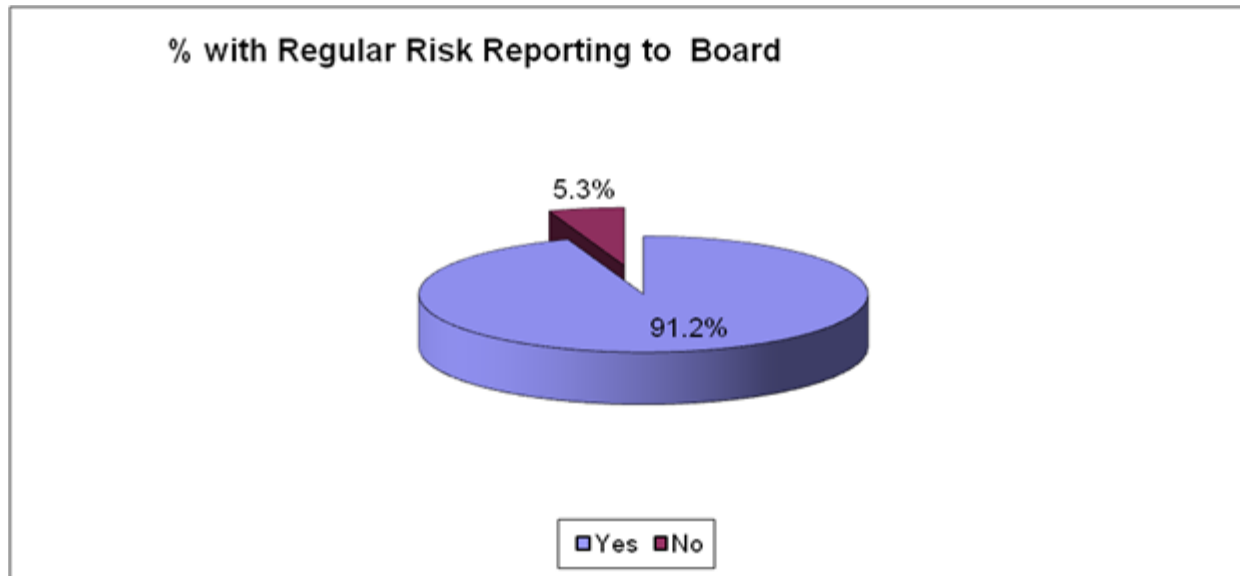


Quantification of Risks: 2008

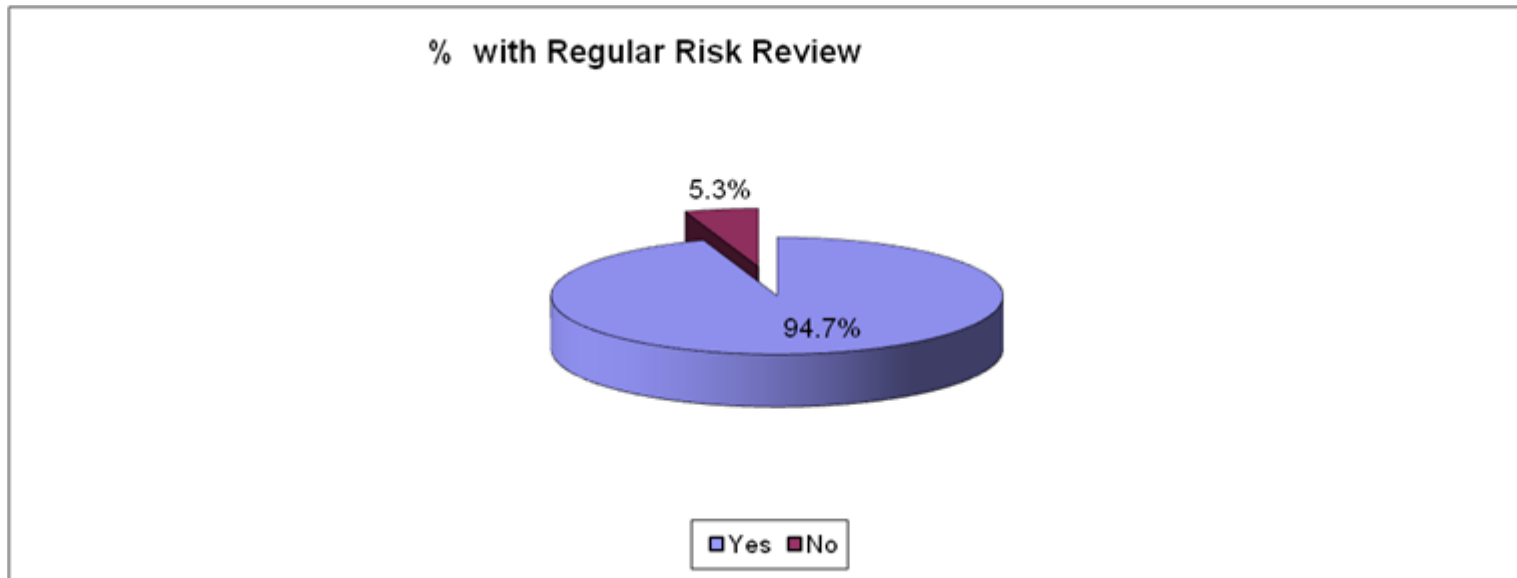




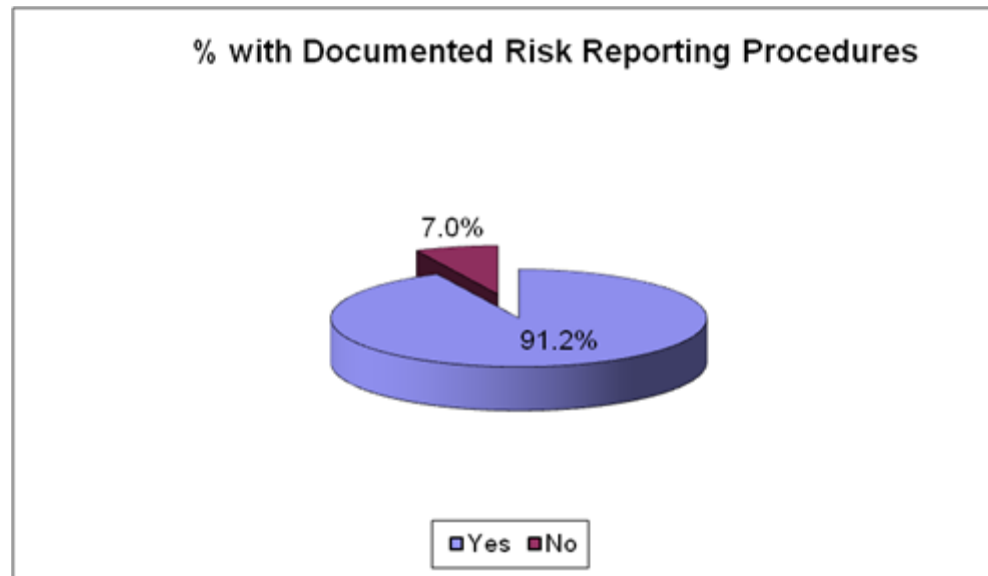
Board Risk Reporting:2008



Regular Risk Reviews: 2008



Documented Risk Management Procedures: 2008





2008 Summary

- 55% of insurers had their risk management systems highly integrated into their overall management process; 95% were partially or highly integrated.
- 88% of insurers had an overall risk budget
- 98% of insurers had regular quantification of risks in place
- 91% of insurers regularly reported risk issues to their Boards
- 95% of insurers regularly reviewed their risks
- 92% of insurers had documented risk management procedures

Proportion of Insurers Changing Risk Management Approach 2006~2008





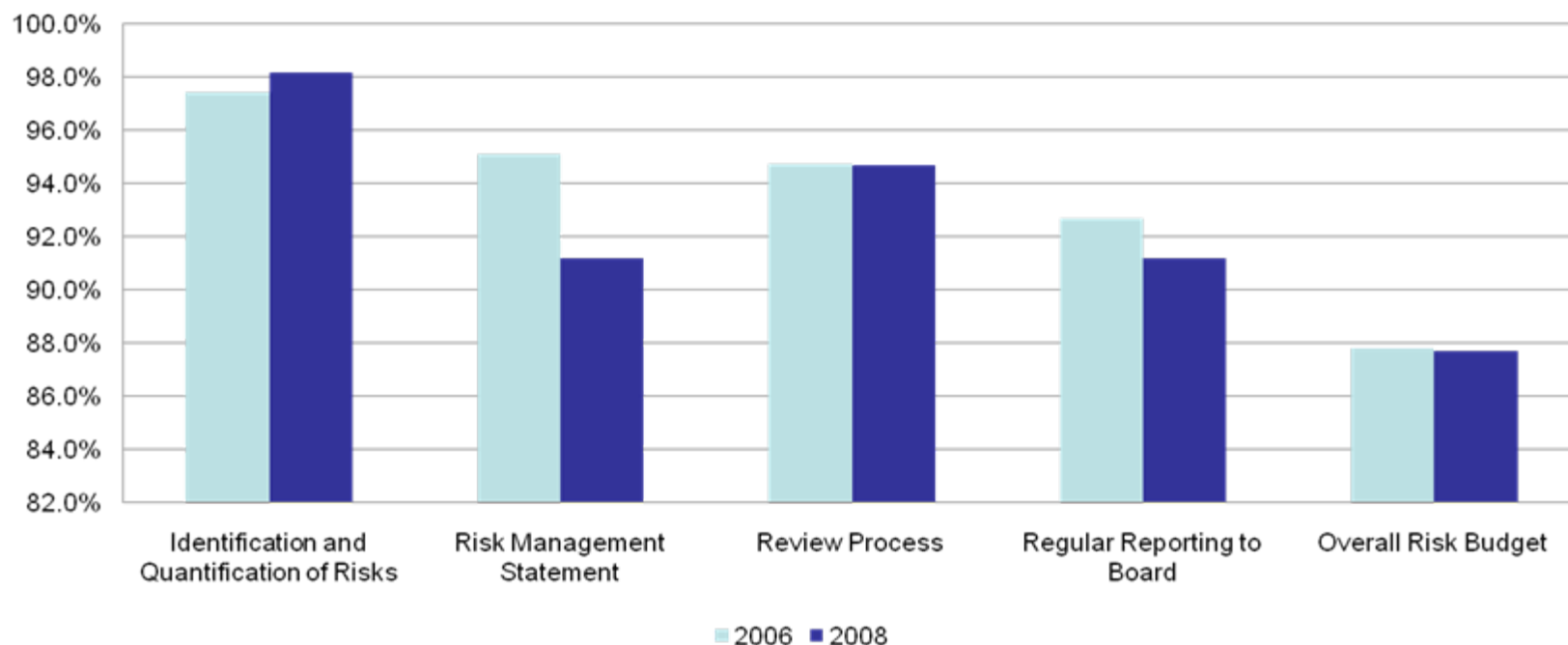
Some Observations on the 2008 Results

- There is a potential issue with the quality aspect of the reporting and reviewing as only 56% changed what was a long way from best practice from 2006 thru 2008, yet 80%~90% claim to now be doing what would be regarded as best practice



Comparison of 2006 & 2008 Results

Comparison of Risk Management Procedures 2006 v 2008





Behind the Figures

- The 2006 Risk Management statements were “boiler plate” and not understood in terms of implementation throughout the business
- The 2006 risk management processes were highly quantitative and were bottom up driven rather than an integrated approach
- By 2008, around half the industry had developed an ERM approach and the process was top down driven with appropriate monitoring



Implications

- The study indicates that around 50% of the industry still does not have an integrated risk management process, and is at risk of profit volatility that could otherwise have been managed
- The industry still has some way to go in achieving best practice; this may be an indicator of further rationalisation.