

Biennial Convention 2007

# Adventures in Risk

23-26 September 2007 • Christchurch, New Zealand



Institute of Actuaries of Australia



# ERM Capability – A Rating Agency's View

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## ERM Capability – A Rating Agency's View

- 1. How S&P Assesses ERM Capabilities**
  - & What We Found
- 2. ERM impact & Developments**
- 3. Professions Working in ERM**
- 4. ERM Methods in Different Regions and Sectors within Financial Services**
- 5. What's Next**

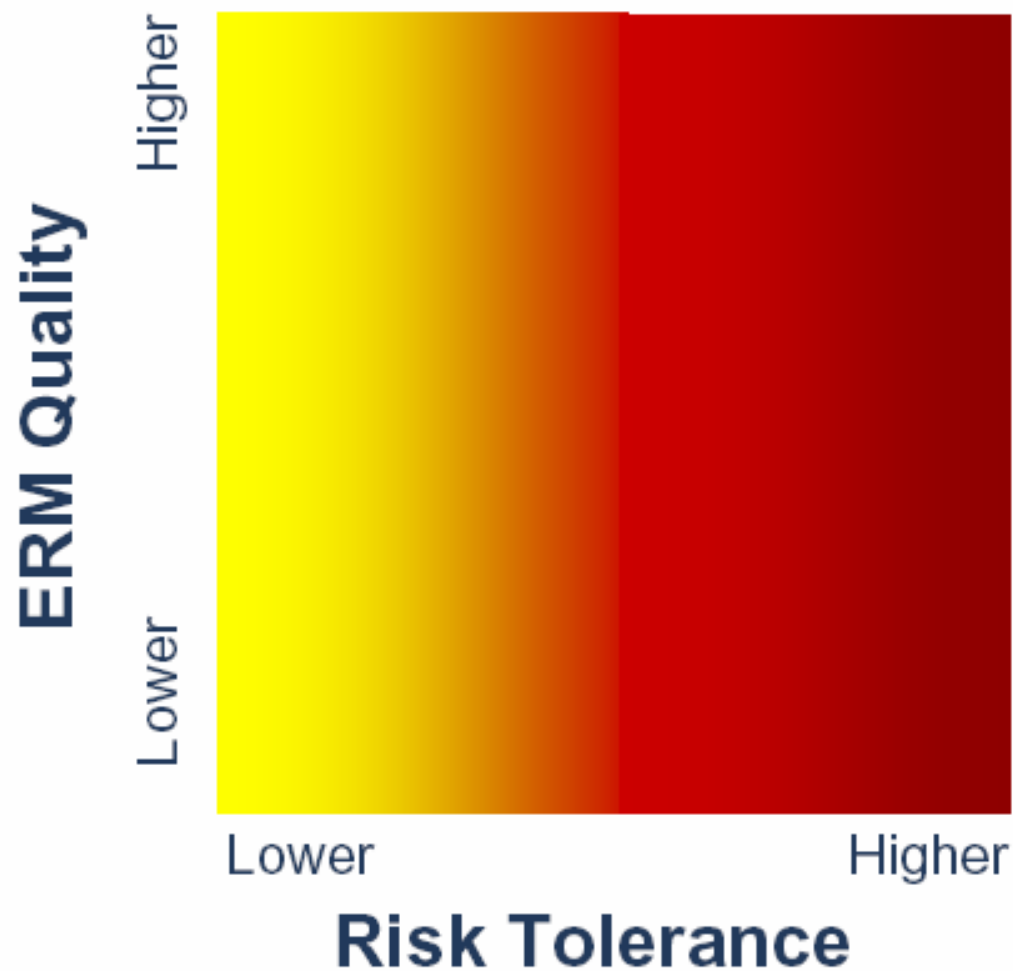


## What Role Can ERM Have in the Ratings Process?

- A Better Understanding of Management
- Forces Forward Thinking
- ERM – A Language for Communicating
- ERM at S&P
  - Insurance
  - Financial Institutions
  - Energy Firms
  - Other Industrials

# Before Formal ERM Evaluation

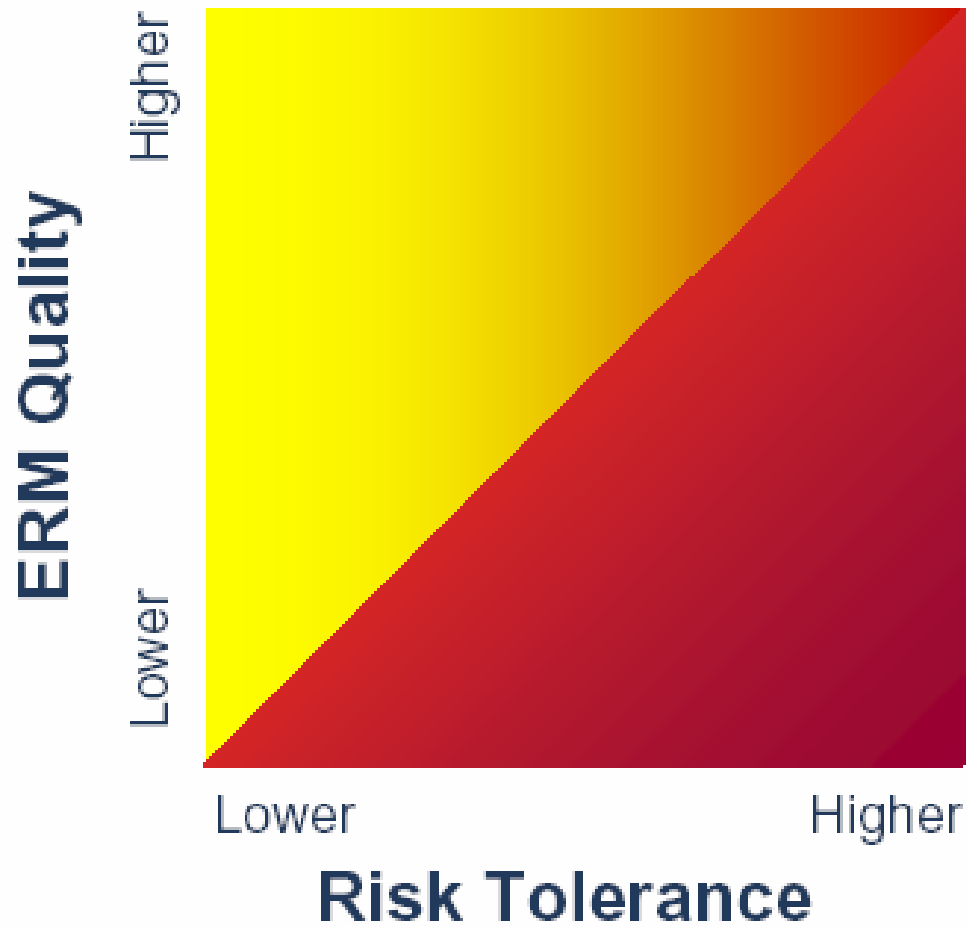
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Rating

# With Formal ERM Evaluation

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*High*

*Low*

Rating

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# ERM & Insurance Industry Ratings

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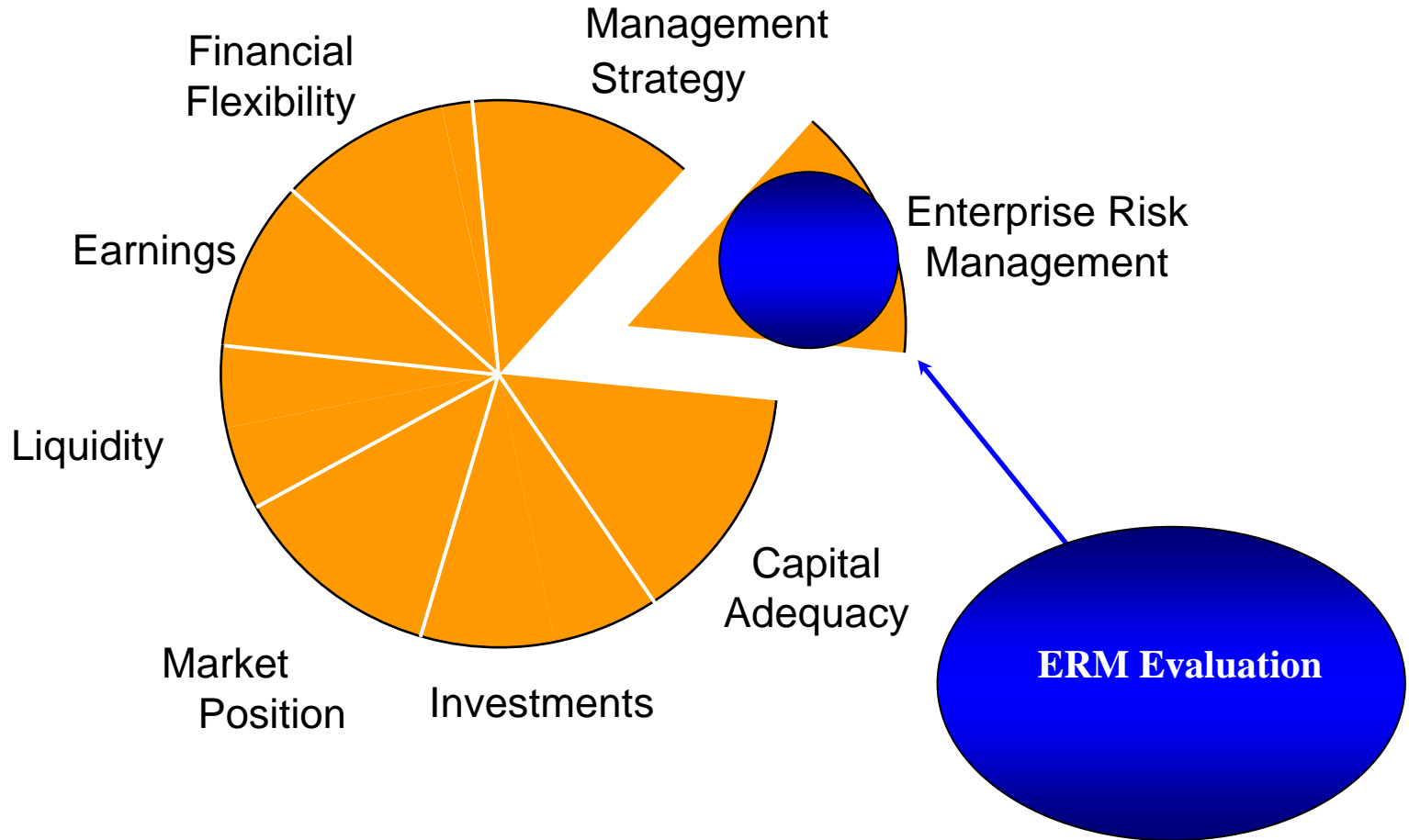
## Insurance ERM Evaluations

- In 2005, S&P Began to explicitly evaluate the ERM programs of insurers
- ERM became the 8<sup>th</sup> major rating component
- Through the end of 2006, S&P has completed the evaluations of 241 Insurers Globally
- ERM commentary is now a regular part of our annual credit reports of Insurers
- ERM is now a major topic in most insurance rating committee meetings





## ERM Evaluation in the Ratings Process



# Standard & Poor's ERM Evaluation Components





## Risk Control Applies to:

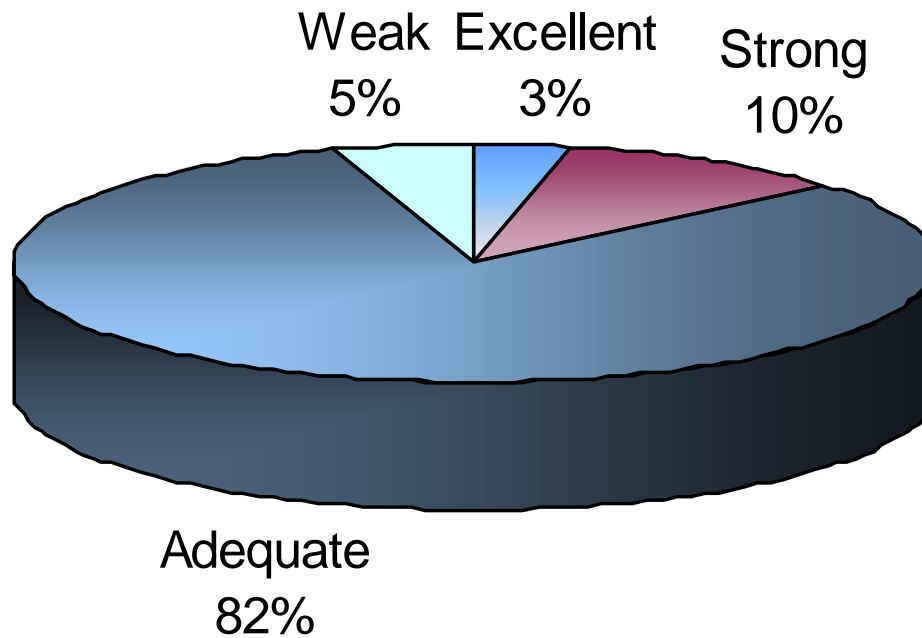


# Standard & Poor's ERM Quality Classifications

<b>Excellent</b>	<ul style="list-style-type: none"><li>▪ Advanced capabilities to identify, measure, manage all risk exposures within tolerances</li><li>▪ Advanced implementation, development and execution of ERM parameters</li><li>▪ Consistently optimizes risk adjusted returns throughout the organization</li></ul>
<b>Strong</b>	<ul style="list-style-type: none"><li>▪ Clear vision of risk tolerance and overall risk profile</li><li>▪ Risk Control exceeds adequate for most major risks</li><li>▪ Has robust processes to identify and prepare for emerging risks</li><li>▪ Incorporates risk management and decision making to optimize risk adjusted returns</li></ul>
<b>Adequate</b>	<ul style="list-style-type: none"><li>▪ Has fully functioning control systems in place for all of their major risks</li><li>▪ May lack a robust process for identifying and preparing for emerging risks</li><li>▪ Performing good classical “silo” based risk management</li><li>▪ Not fully developed process to optimize risk adjusted returns</li></ul>
<b>Weak</b>	<ul style="list-style-type: none"><li>▪ Incomplete control process for one or more major risks</li><li>▪ Inconsistent or limited capabilities to identify, measure or manage major risk exposures</li></ul>



## 2006 All ERM Scores Global 241 Insurers



# ERM & Ratings

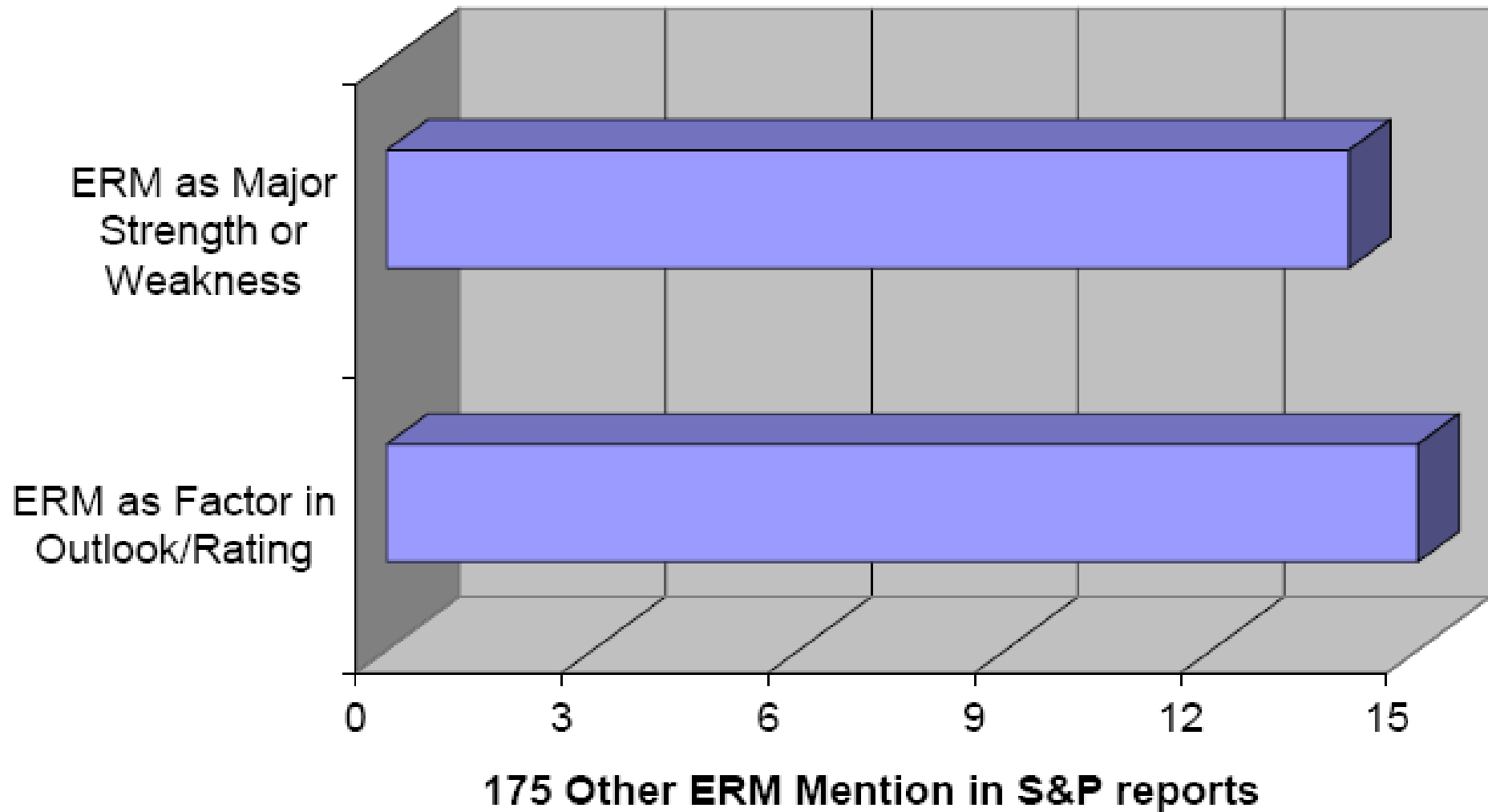
**ERM Quality Evaluation is based on the risks of the company**

**Importance of ERM in the company rating is based on:**

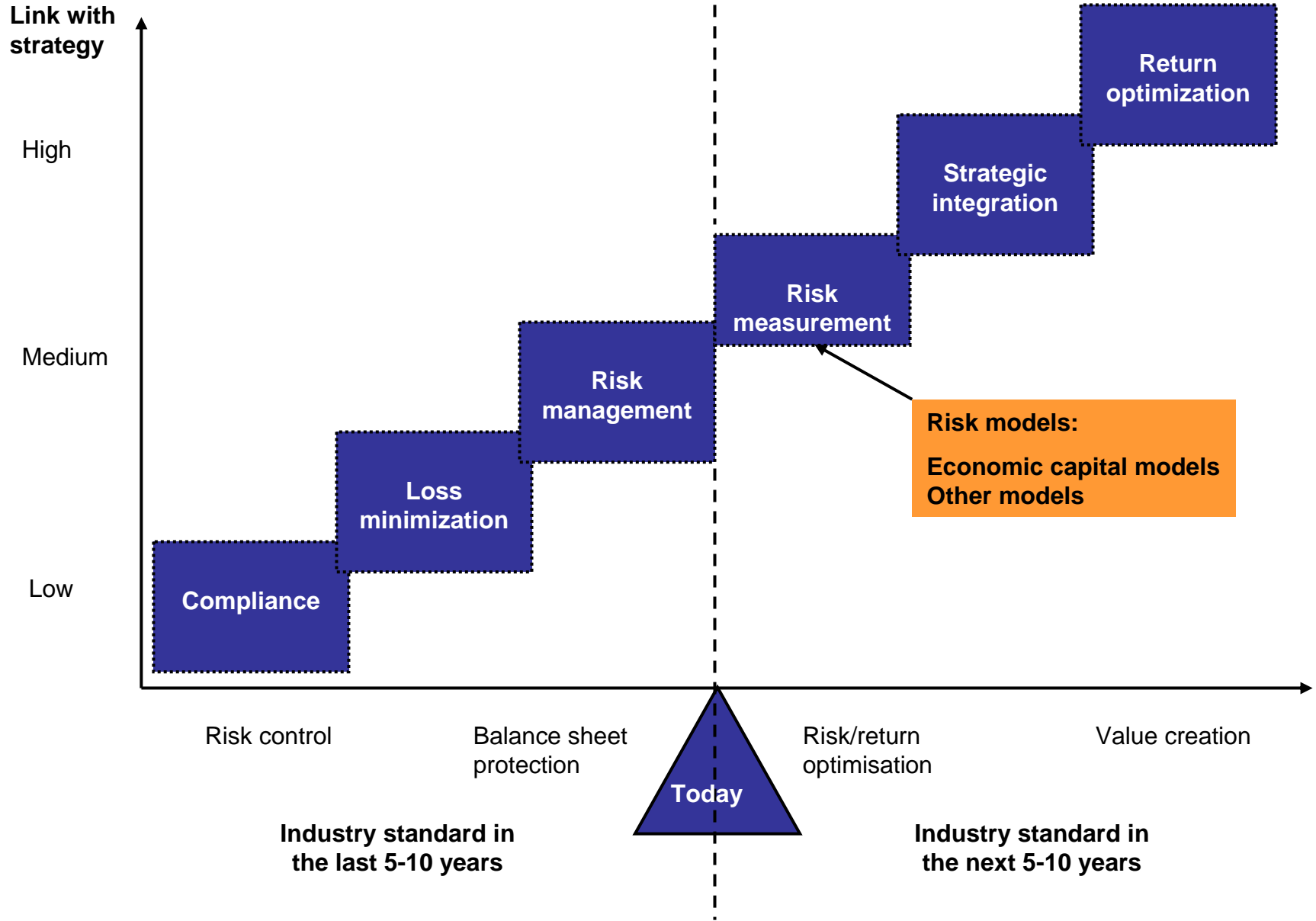
- Capacity to absorb losses
  - Complexity of risks
- 
- A insurer with tight capital and complex risks
    - ERM is very important
  - A insurer with excess capital and ordinary risks
    - ERM is not as important



# ERM in S&P Publications

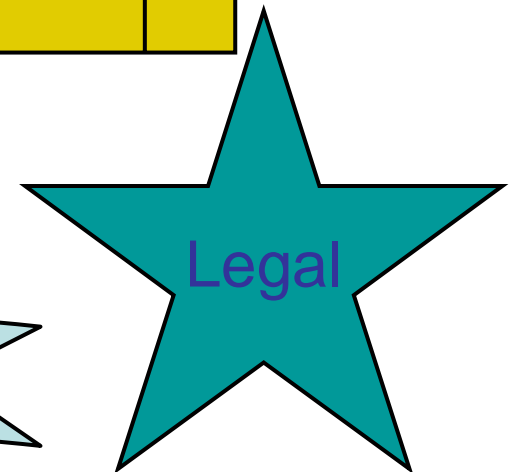
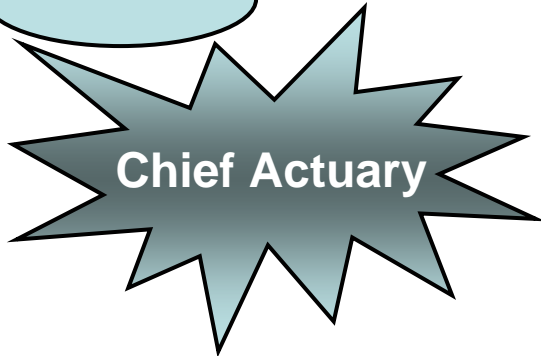
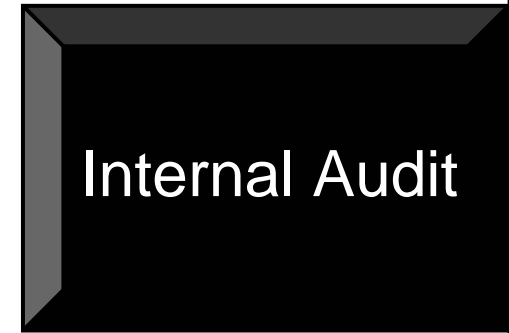
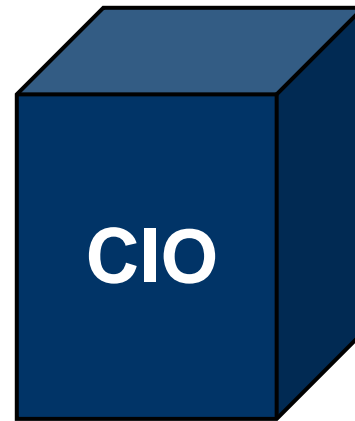
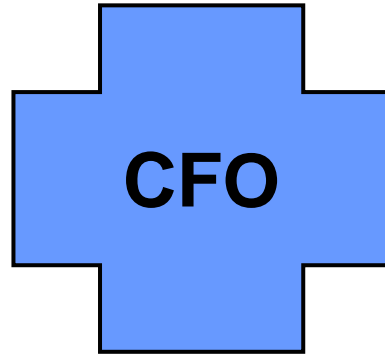
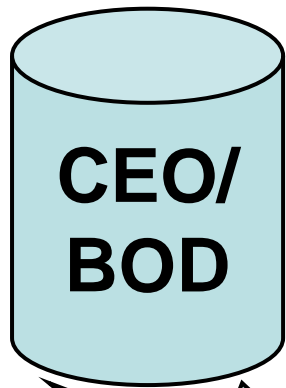


# Evolution of Enterprise Risk Management



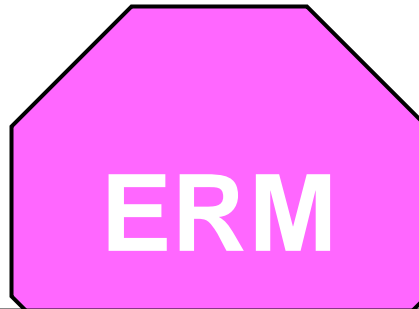
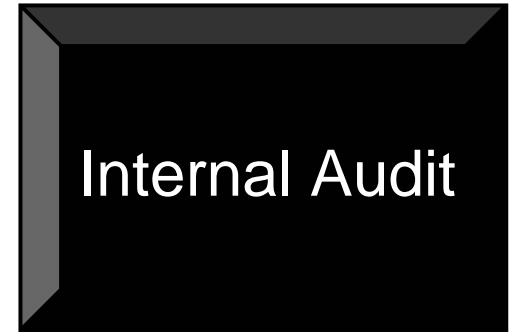
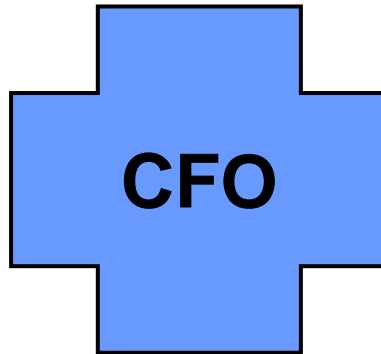


# Who is Working on ERM?

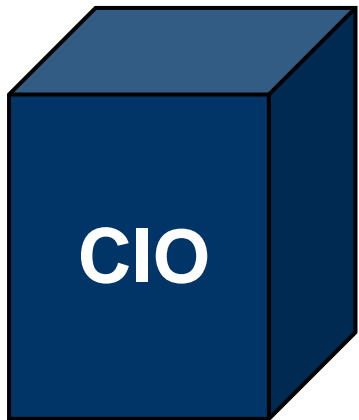


**ERM has different champions in different companies**

# Who is Working on ERM?

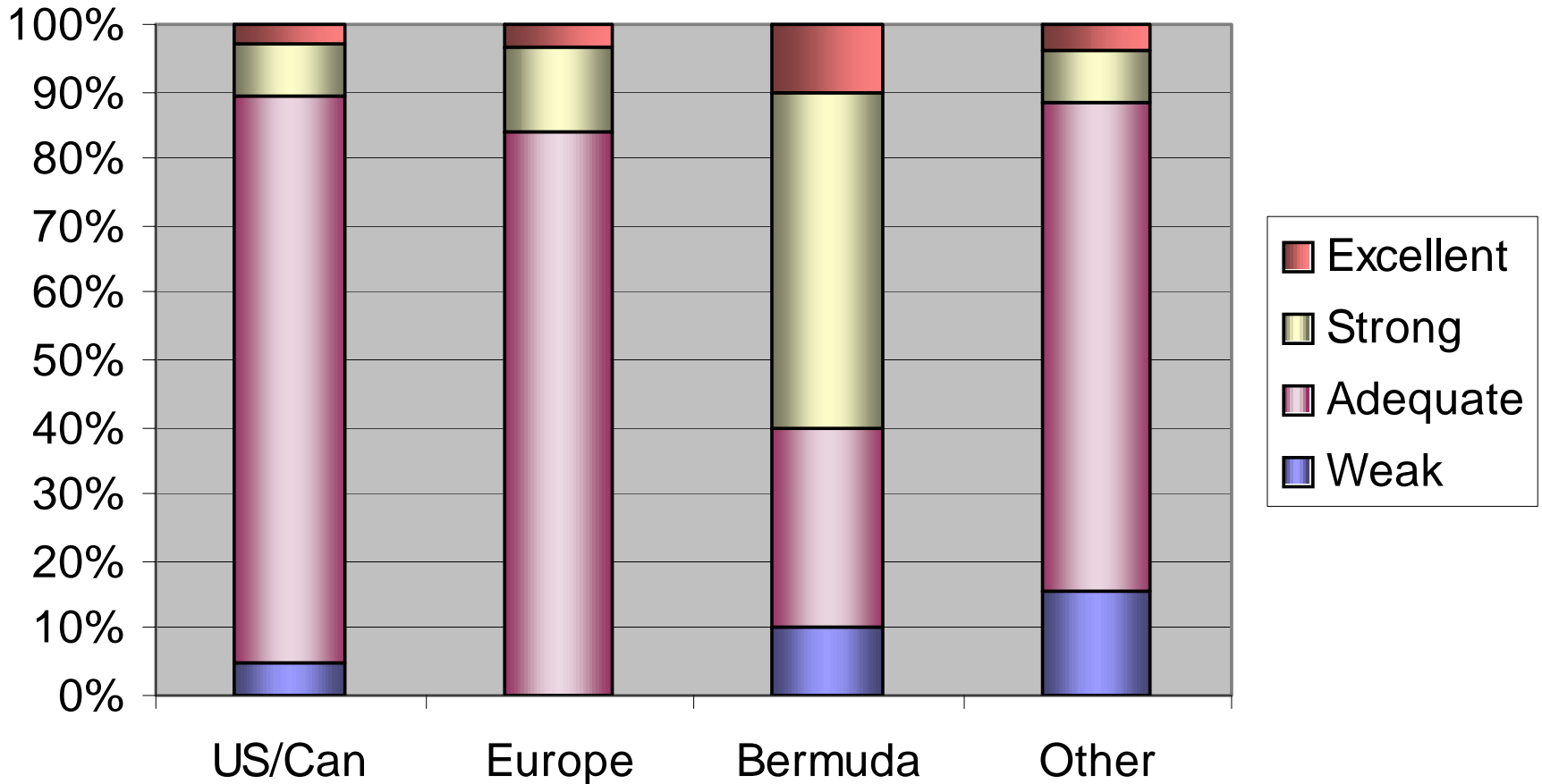


*ERM needs to work with everyone!*

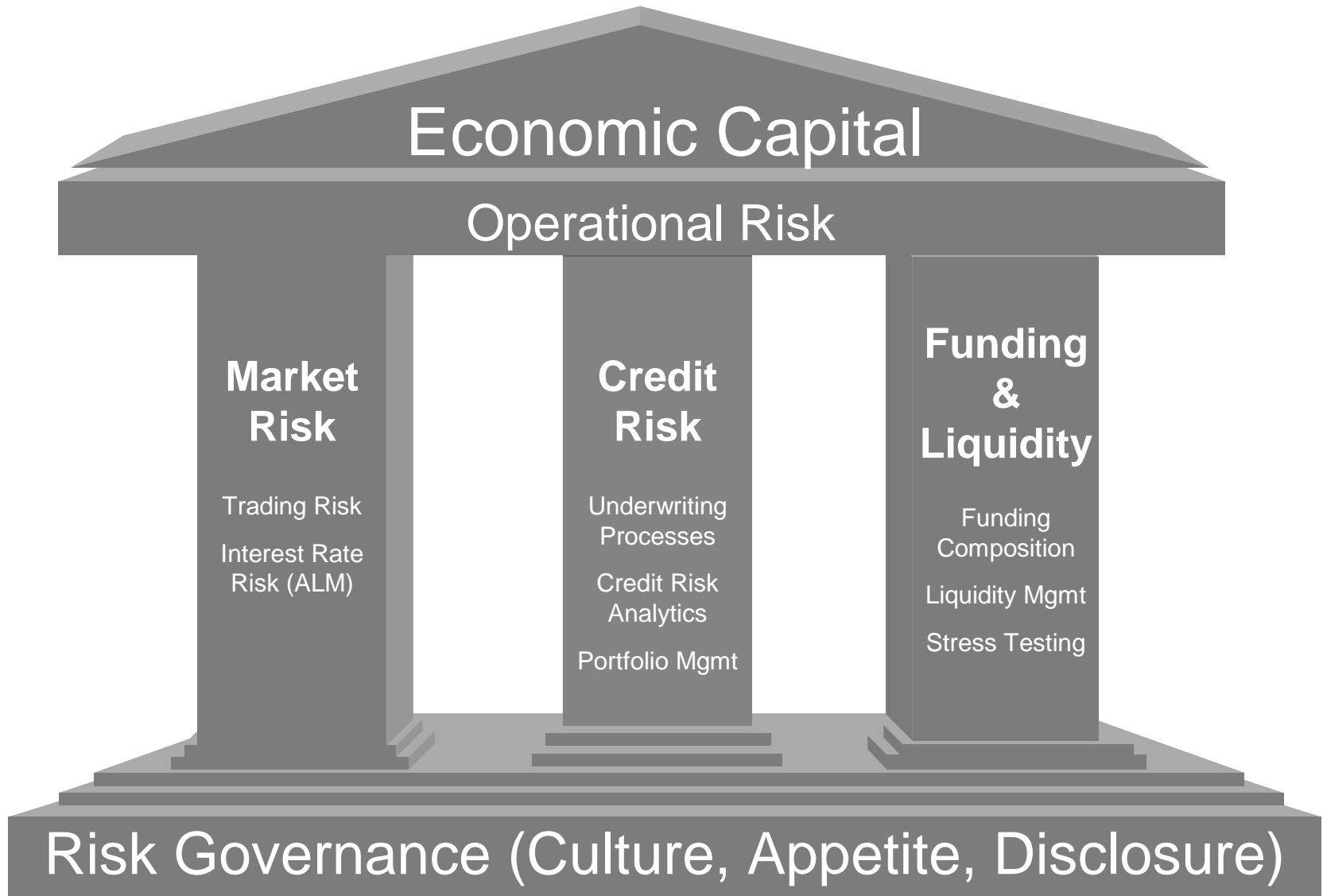




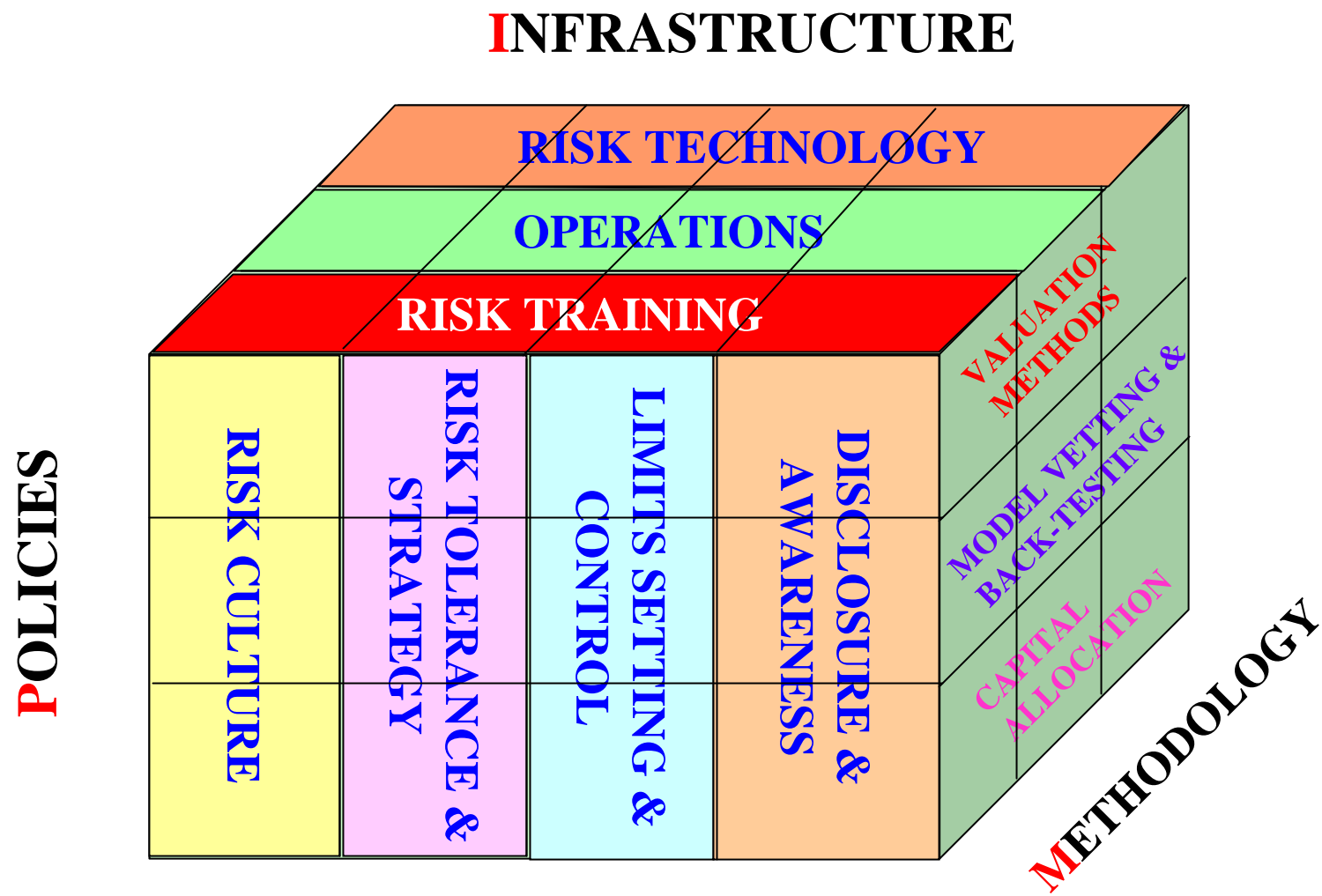
## Global ERM Score Distributions



# Standard & Poor's ERM analysis of Financial Institutions

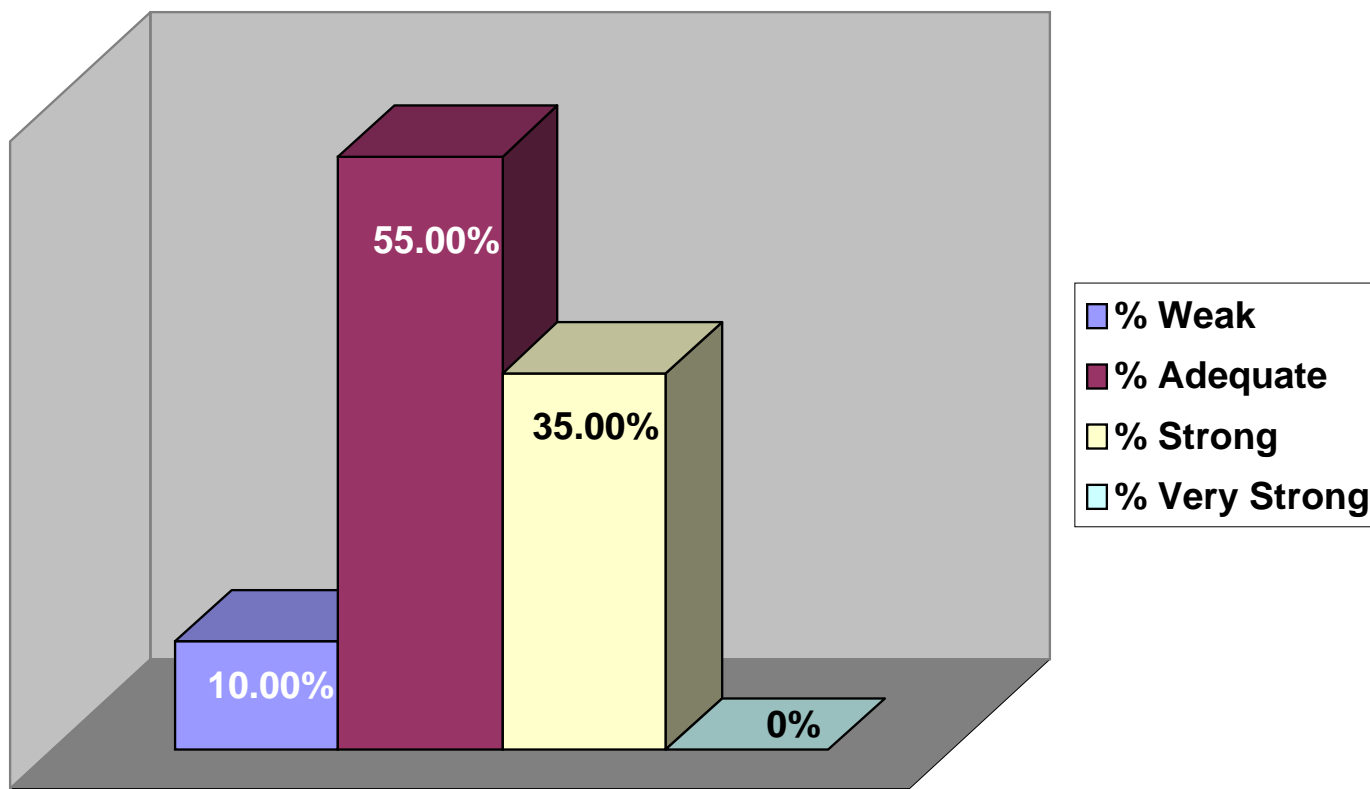


# Assessing TRM Practices: The PIM approach



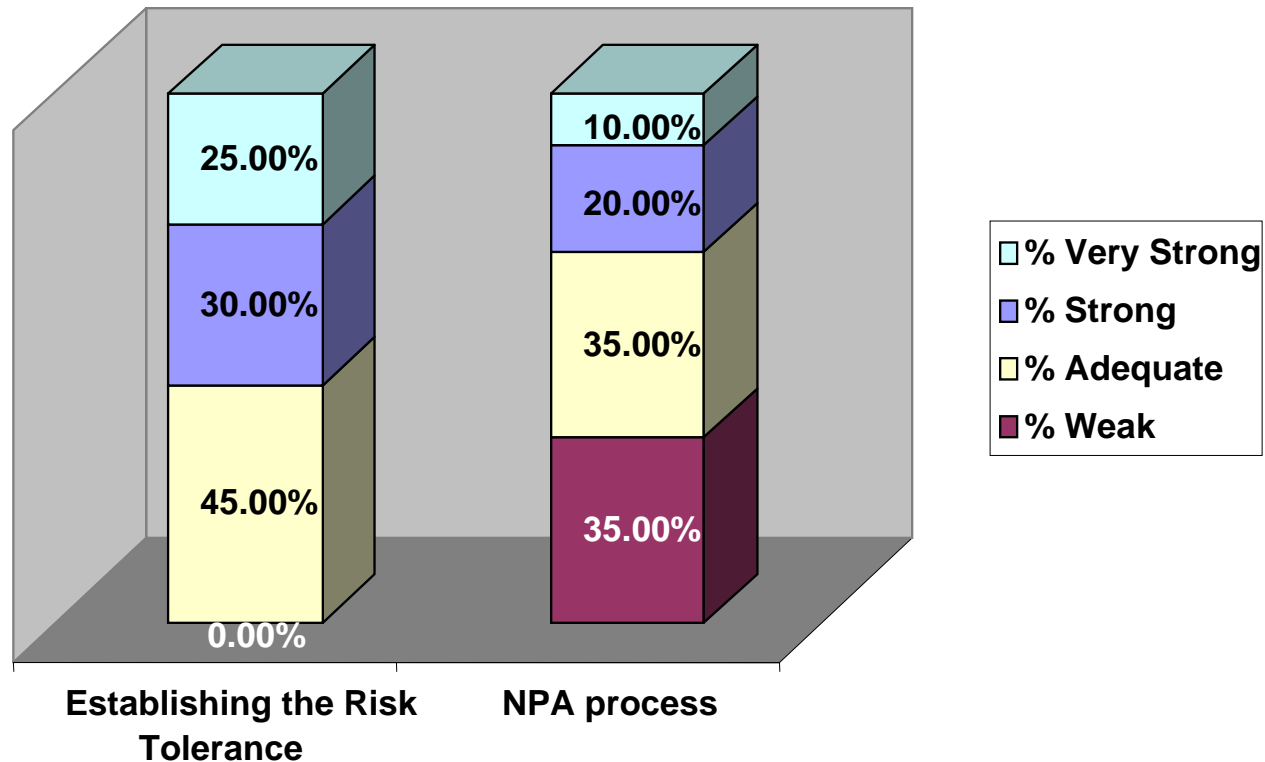


## Stature of RM



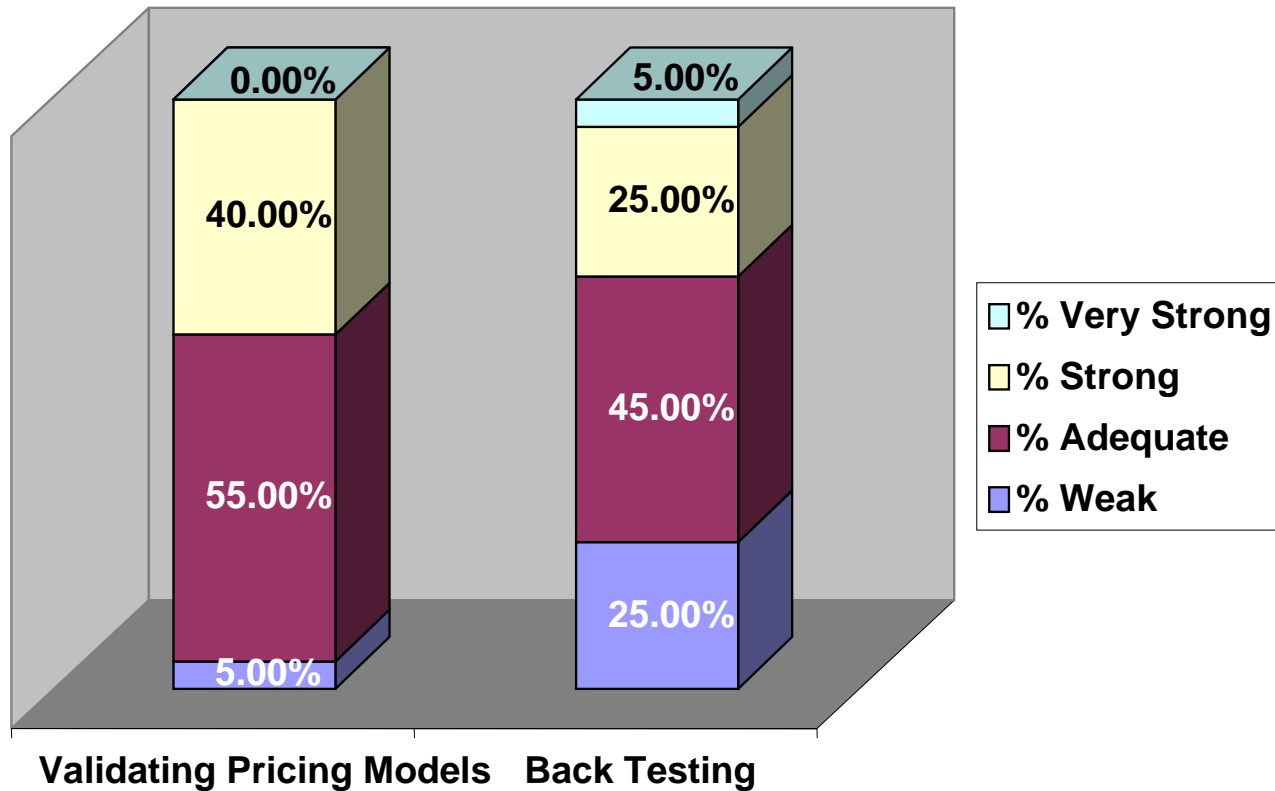


## Risk Appetite





## Model Vetting Process







## What's Next

- Economic Capital reviews for Insurers
- ERM findings for Banks
  - Including Impact of US Sub Prime
- ERM Evaluation Standards for Bank/Insurance groups
- ERM Evaluations for Corporates
  - Selection of initial Sectors



## Universal ERM Structure

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