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Layout & Distribution: Valéria Kozakova

Emerging Risks Industry Main Initiatives & AXA Process

Jean-Noël Guye

Executive Summary

- Emerging risks are challenging to the classic Risk Management as they aren't identifiable now
- Emerging risks are either new and developing risks, or risks that have been identified as a threat but difficult to quantify and having a high loss potential.
- Further, emerging risks are marked by a high degree of uncertainty; even basic information which would help adequately assess the frequency and severity of a given risk is often lacking.
- In the complex tree of emerging risks, we should focus on the emerging risks that may become catastrophic risks
- ➔ Group Risk Management (GRM) participates to initiatives that pool industry resources as far as anti-trust regulations permit and coordinates in parallel AXA investigation and assessment methodologies



EMERGING RISKS

1 : Insurance Industry Initiative

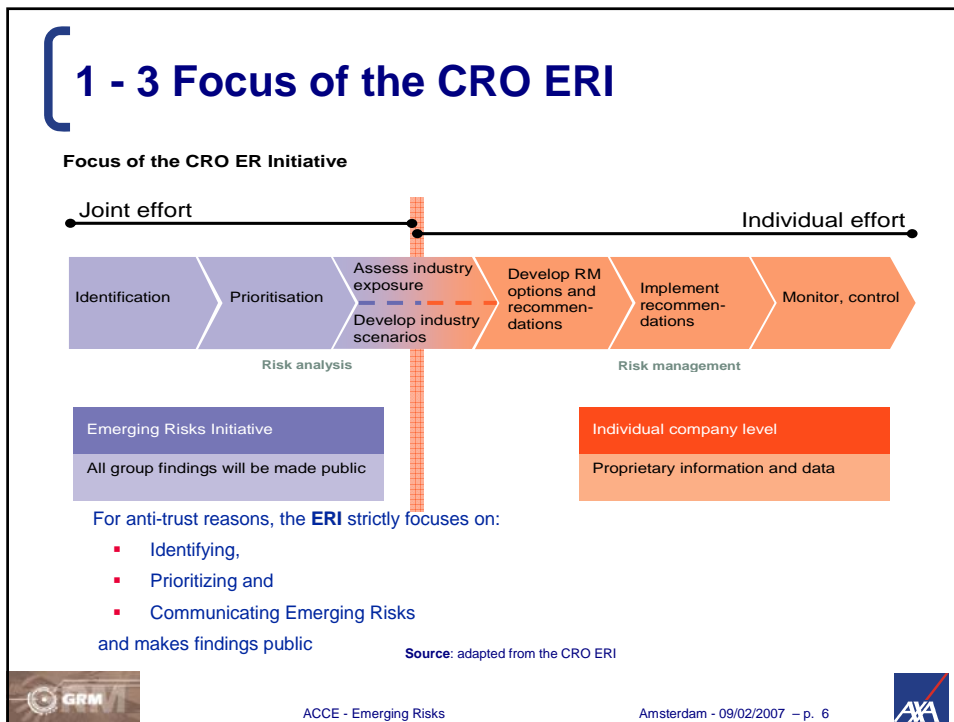
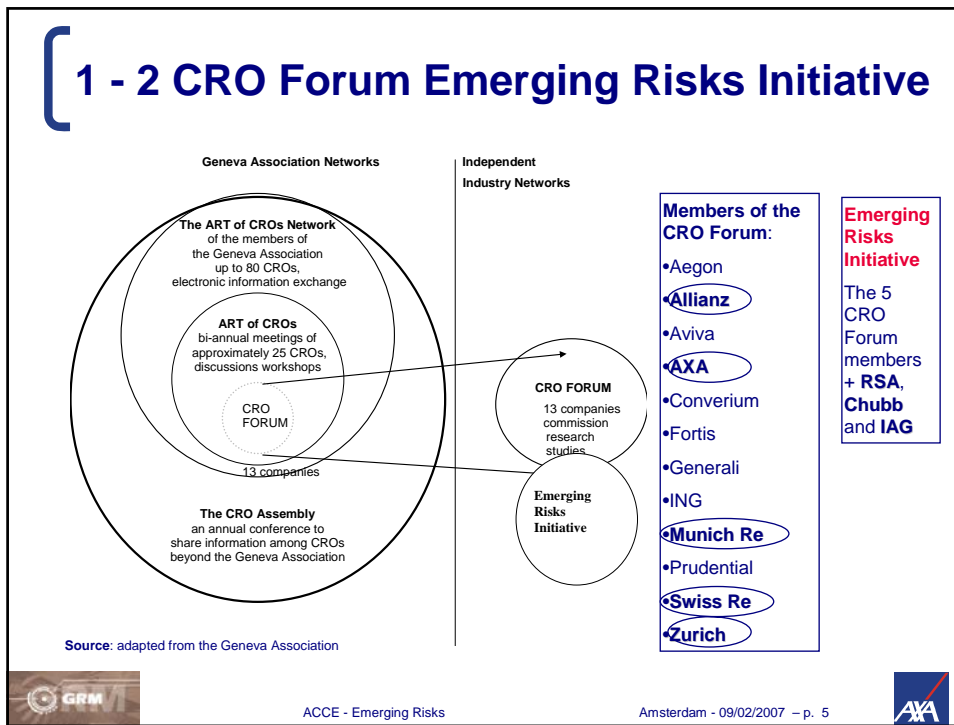
- From the CRO's to the Emerging Risks Initiative
 - Focus of the CRO Forum ERI
 - Objectives of Joint Effort
 - Example of Emerging Risks Rating Model
- 2 : AXA Emerging Risks Continuous Process
- Phase 1 – Selecting Risks, June 2006
 - Phase 2 - Organizing Working Groups, September 2006
 - Phase 3 – Qualitative Assessment, December 2006
 - Phases 4 & 5 – Quantitative Assessment, February/March 2007
 - Phases 6 & 7 – Actions Proposed, Decisions Taken, Next steps – June 2007



1 – 1 Industry Initiatives

- It is important that the insurance industry avoid being confronted by any surprises in this rapidly-changing environment. For this reason it is crucial that the industry identify, manage and communicate emerging risks to a broader community, providing ample opportunity for the formulation of proactive responses and fostering stakeholder dialogue with representatives of a community bound together by a shared risk.
- In May 2005, the CRO Forum and the Geneva Association agreed on establishing the Emerging Risks Initiative (ERI) with the aim of raising awareness for and communication about emerging risks that are relevant to the insurance industry





1 – 4 Objectives of ERI Joint Effort

- Represent insurance industry voice
 - Have a consistent voice on Emerging Risks within the insurance industry:
 - Promote standardized disclosure of key risks to various stakeholders
 - Raise awareness for specific topics and engage dialogue with potentially affected industry sectors
- Develop best practice industry standards:
 - Develop standardized industry loss scenarios that could be adapted by individual insurers to their portfolios
 - Develop a multidisciplinary approach
- Avoid duplication of effort on non-competitive issues



1 - 5 Example of Emerging Risk Rating

RISK	RISK SPECIFICS																OVERALL TOTAL			
	Rating according to AM Best										RISK SPECIFICS									
	ACC	CR	CR+	CR++	CR++	CR++	CR++	CR++	CR++	CR++	IMPACT ON PUBLIC PERCEPTION	PUBLIC PERCEPTION	CLAIMS OCCURRENCE	UNIDENTIFIED USE OF FIRM	CALCULATED AL SCORE	ABILITY TO MITIGATE IMPACT		Weighting factor	Weighting to overall result in emerging risk	
NANO	Cosmetics	4	7	5	5	7	7	0	0	0	0,2	7	2	1	2	3	0	0,87	1,5	58,2
	Chemical Industry	3	9	4	5	7	6	0	0	0	0,2	6,8	2	1	2	3	0	0,87		
	Pharma/Healthcare	3	9	4	5	7	6	0	0	0	0,2	6,8	2	1	2	3	0	0,87		
	Paints (Coating/Surface Treatment) (Centralized)	6	6	8	8	10	7	0	0	0	0,2	9	2	1	2	3	0	0,87		
	Waste Treatment Food Manufacture	4	0	0	4	4	5	0	0	0	0,1	2,6	2	1	2	3	0	0,87		

Source ERI 12-2006



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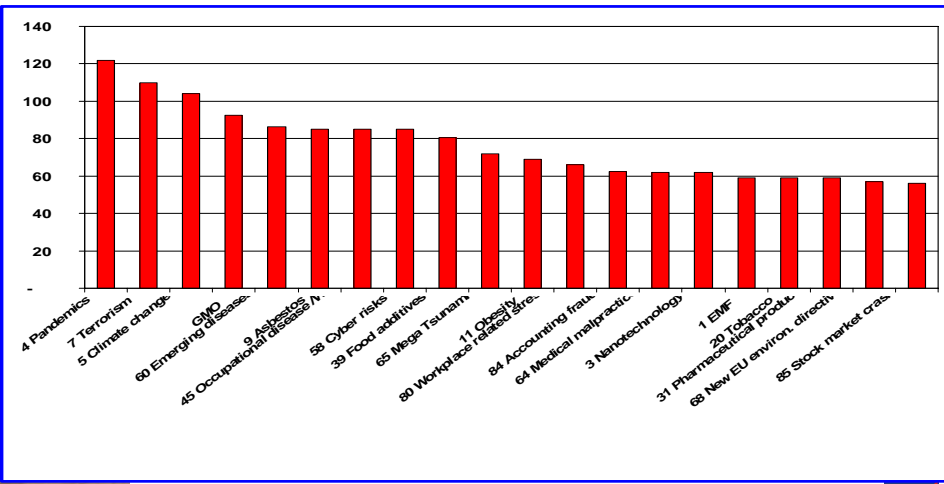
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2 – 1 AXA E R Process at Work - Phase 1 Selecting Risks at June 2006 Mid-year Review

Operating Entities short listed risks for mid-year review




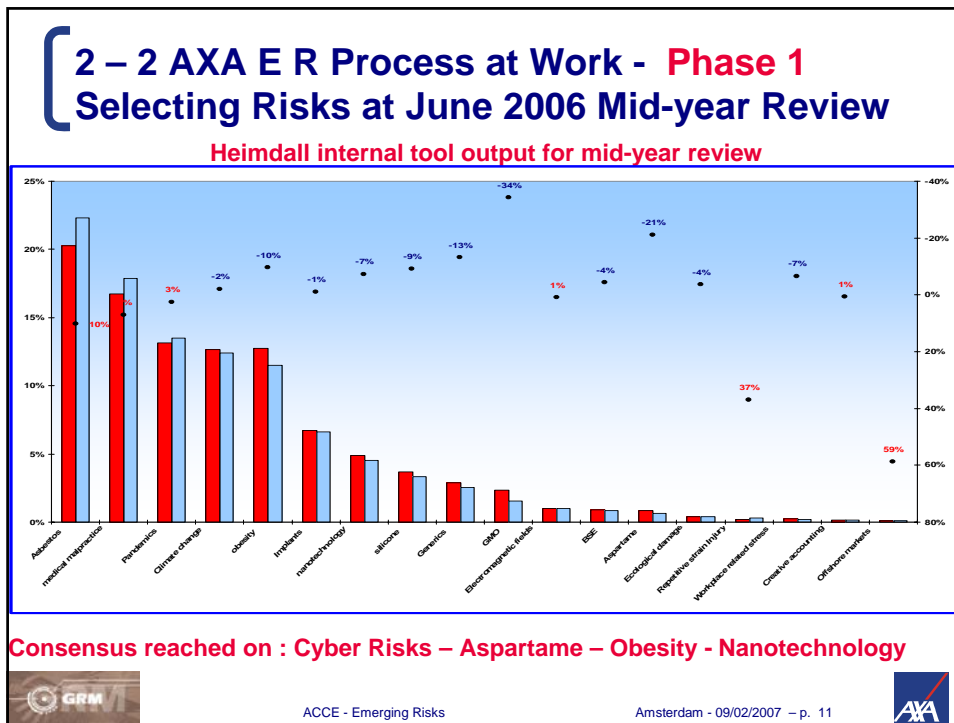
Risk Category	Number of Risks
4 Pandemics	120
7 Terrorism	110
5 Climate change	105
60 Emerging disease	95
9 Asthetics	85
45 Occupational diseases	85
58 Cyber risks	85
39 Food additives	85
65 Mega Tsunamis	80
11 Obesity	75
84 Workplace related	70
84 Accounting fraud	65
64 Medical malpractice	65
3 Nanotechnology	60
1 EMF	60
20 Tobacco	60
31 Pharmaceutical products	60
68 New EU environ. directiv	60
85 Stock market crash	55



ACCE - Emerging Risks

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- ### 2 – 3 AXA E R Process at Work - Phase 2 Working Groups in Place September 2006
- **WG 1 Cyber** is composed of **C. Neyrand** (P&C Operations), E. Dalbarade (France), F. Edelmeier (Germany), L. Taleyson (GRM), JN Guye (GRM)
 - **WG 2 Aspartame** is composed of H.T. Fuertjes (Germany), G. Gorge (GRM), L. Taleyson (GRM), **F. Mackie** (UK), JN Guye (GRM)
 - **WG 3 Obesity** is composed of **P. Knaus** (Germany), D. Kalinowski (Germany), L. Taleyson (GRM), L.M. Maranhao Ferreira (Med Region), P. Pasquiers (Turkey), JN Guye (GRM)
 - **WG 4 Nanotechnology** is composed of P. Talleux (Corporate Solutions), V. Delpit (Liability Managers), M. Godaert (Belgium), **A. Turbin** (France), D. Barnett (UK), L. Taleyson (GRM), JN Guye (GRM)
- NB: names in **italic bold** denote Working Group Leaders
- ACCE - Emerging Risks

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2 – 4 AXA E R Process at Work - Phase 3 WG 3 Obesity at Work December 2006

Obesity : Qualitative assessment

Sector	LOB / Rating	Comment
Food & Beverage (incl. Restaurants)	PL / GL 7	"Big Foods" like Coca Cola, McDonald's, Kellogg etc.
Pharma	PL - 4	Fat-busting drugs, unwanted and/or known side effects
Health Care	GL - 3	Failed fat-reducing treatment or therapy, diets etc.
Chemicals & Plastics	PL - 2	Chemicals used in agriculture, as food supplements etc. that could possibly affect obesity (for example makes a product more "addictive")
Advertisers, Publishers etc.	GL - 2	Misleading advertisement
All sectors	W C & Health 5	Higher expenses
	D & O - 3	Discrimination
	PL - 5	Products with a relation to ergonomics (machines, chairs, protective equipment etc.)
Schools etc. with school lunch, vending machines etc.	GL - 4	

Rating Scale
 → 1 to 3 : low hazard potential
 → 4 to 6 : medium hazard potential
 → 7 to 9 : high hazard potential
 → 10 : very high hazard potential



2 – 5 AXA E R Process at Work - Phases 4 & 5 WG 3 Obesity at Work February / March 2007

Obesity : Quantitative assessment

Calculation of exposure (E) using the limits of liability (= VS) for bodily injuries (in € m).

$$\text{General formula: } E_k = \sum_{i=1}^n (VS_i) \quad (1)$$

Obesity - Consolidation at Group Level

France : XXX €MM

Germany: YYY €MM

UK: ZZZ € MM

Group: AAAA €MM



2 – 6 AXA E R Process at Work – Phases 6 & 7 WG 3 Obesity at Work May/June 2007

Obesity : Actions proposed

- Represent insurance industry voice
- Questionnaire in Life & Health asking for BMI
- Promotion of prevention / health coaching / food programs
- Underwriting guidelines for "segments/industries at risk"
- Highest risks are marketing food to children and US-exposure
- Most exposed industries are "Big Foods": sub-limits or exclusion?

Decision : Management Board

Next steps:

- Keep Obesity risk on radar screen
- Short list an other Emerging Risk to be worked on 2007/2008



Working Group 3



OBESITY

P. Knaus (Germany), D. Kalinowski (Germany), L. Taleyson (GRM), L.M. Maranhao Ferreira (Med Region), P. Pasquiers (Turkey), Murat Uytun (Turkey), JN Guye (GRM)

