



International Association for the
Study of Insurance Economics

Études et Dossiers

Études et Dossiers No. 337

**The Insurance Industry and Enterprise
Risk Management: From Compliance to
Value Creation**

21 November 2007

Milan

&

Uninsured Industrial Risks

Ongoing Research Project
by Tileman Fischer

December 2007

Working Paper Series of
The Geneva Association

© Association Internationale pour l'Etude de l'Economie de l'Assurance

The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

The “Études et Dossiers” are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association. As they contain work in progress or summaries of conference presentations, the material must not be cited without the express consent of the author in question.

Layout & Distribution: Valéria Kozakova

The Rise of Risk - Creating Value with ERM

Anthony Bice

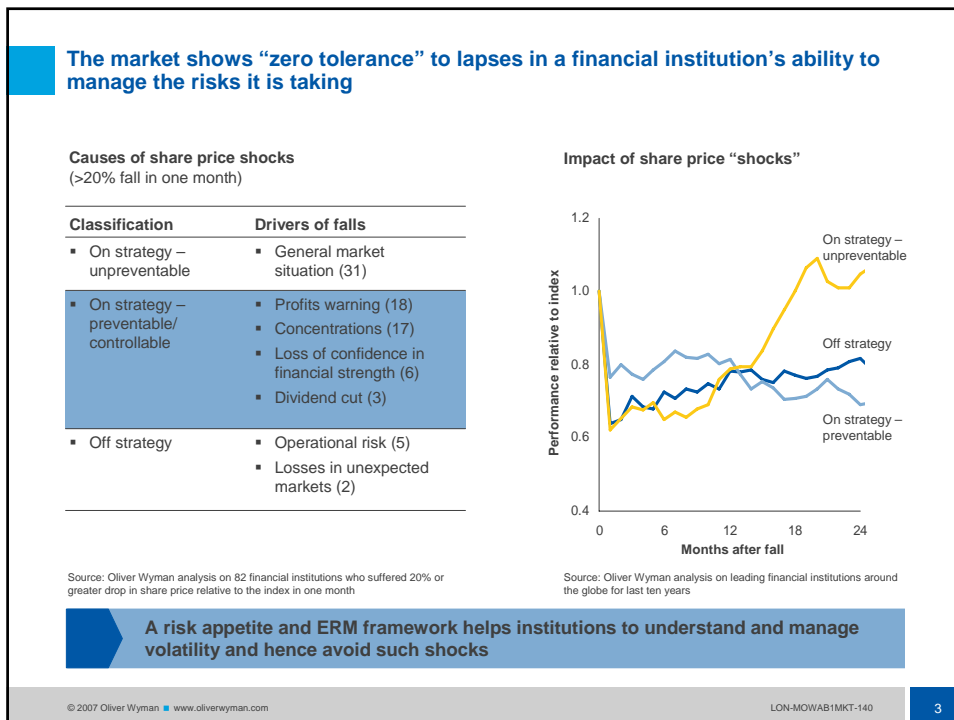
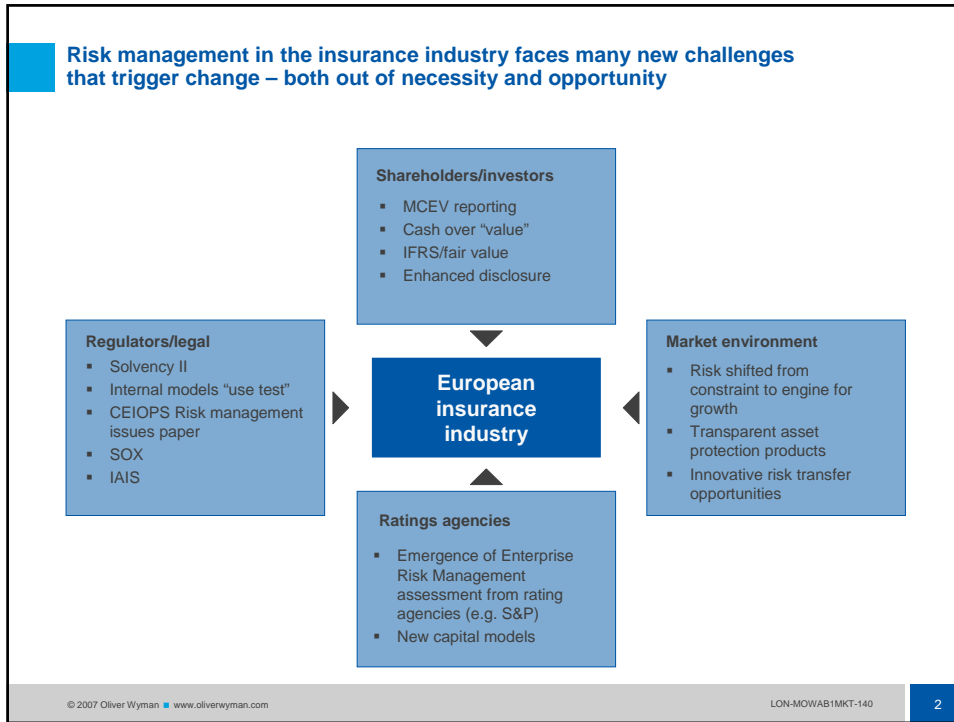
Confidentiality

Our clients' industries are extremely competitive. The confidentiality of companies' plans and data is obviously critical. Oliver Wyman will protect the confidentiality of all such client information.

Similarly, management consulting is a competitive business. We view our approaches and insights as proprietary and therefore look to our clients to protect Oliver Wyman interests in our presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the written consent of Oliver Wyman.

Copyright © 2007 Oliver Wyman

LON-MOWAB1MKT-140



Insurers who show how they link risk to strategy and decision making are preferred by investors – others can just fall off the radar screen

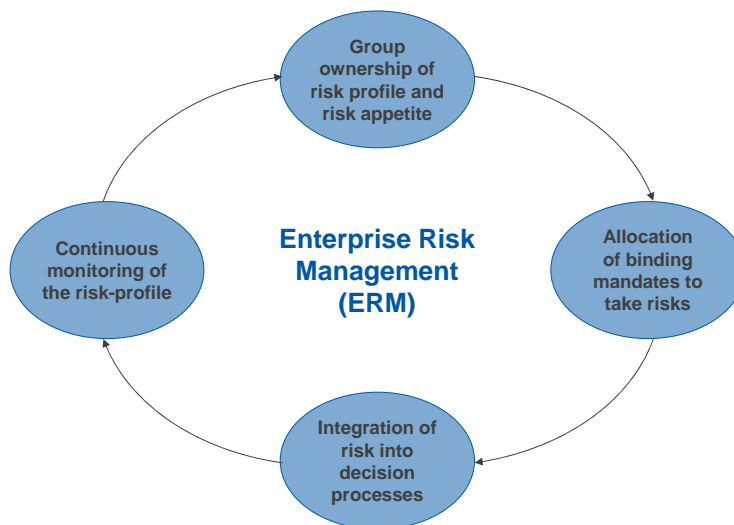
Player	Oliver Wyman disclosure study		Morgan Stanley investor survey
	Linking risk to strategy	Linking risk to decision making	What is the best managed European insurance group? ¹
AXA	●	●	1
Allianz	◐	◐	2(=)
ING	◐	◐	2(=)
ZFS	◑	◑	4
Fortis	◑	◑	5
AVIVA	◑	◑	6
Prudential	◑	◑	7
AEGON	◑	◑	(not mentioned by respondents)
Generali	◑	◑	(not mentioned by respondents)

◑ Behind market ◐ Market standard ● Ahead of market


1. Ranked by number of mentionings by respondents as one of the three best-run companies
Source: Oliver Wyman analysis of company disclosure, Morgan Stanley European Investment Survey (Vol. 2) Jan 2007, ranked using three choices per respondent

Embedding and communicating a risk appetite and ERM framework has tangible impact on investor perception

The Enterprise Risk Management cycle



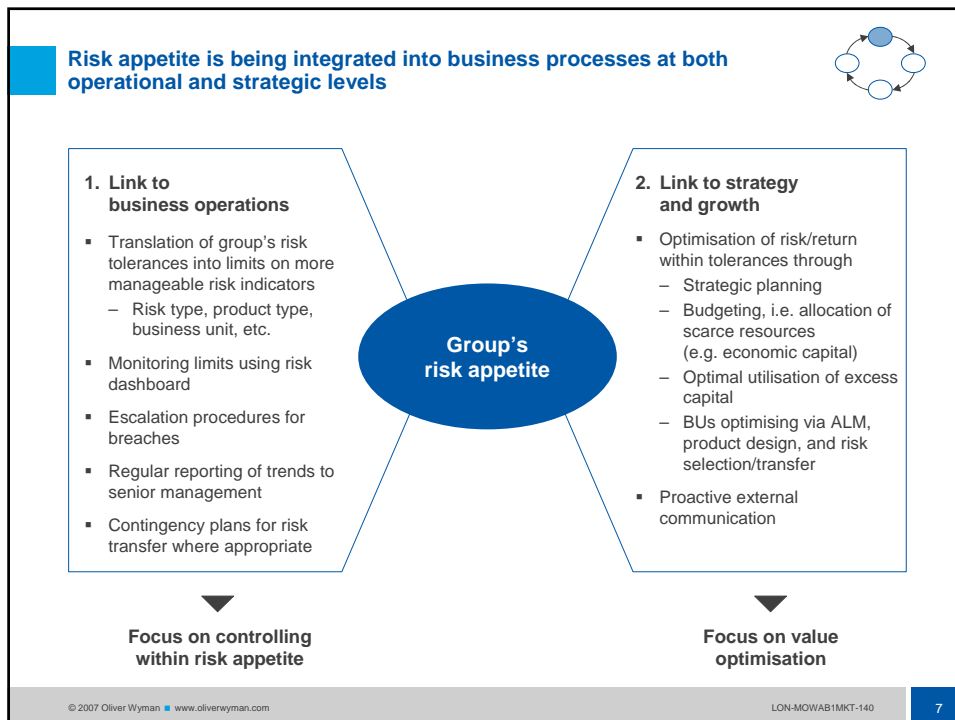
Industry practice is developing around four dimensions to risk appetite

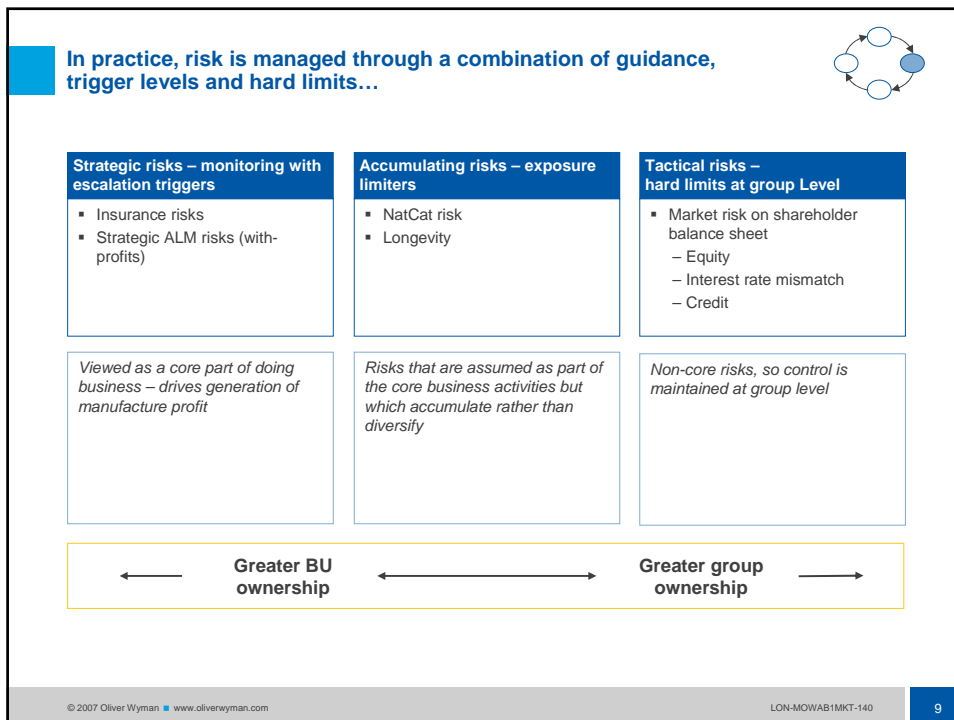
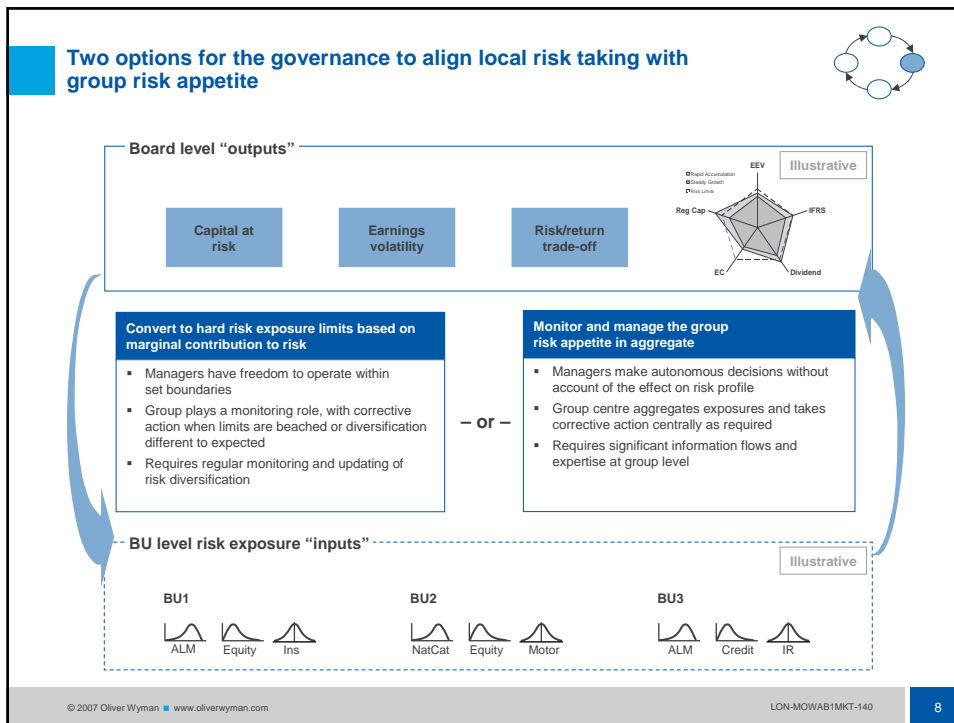


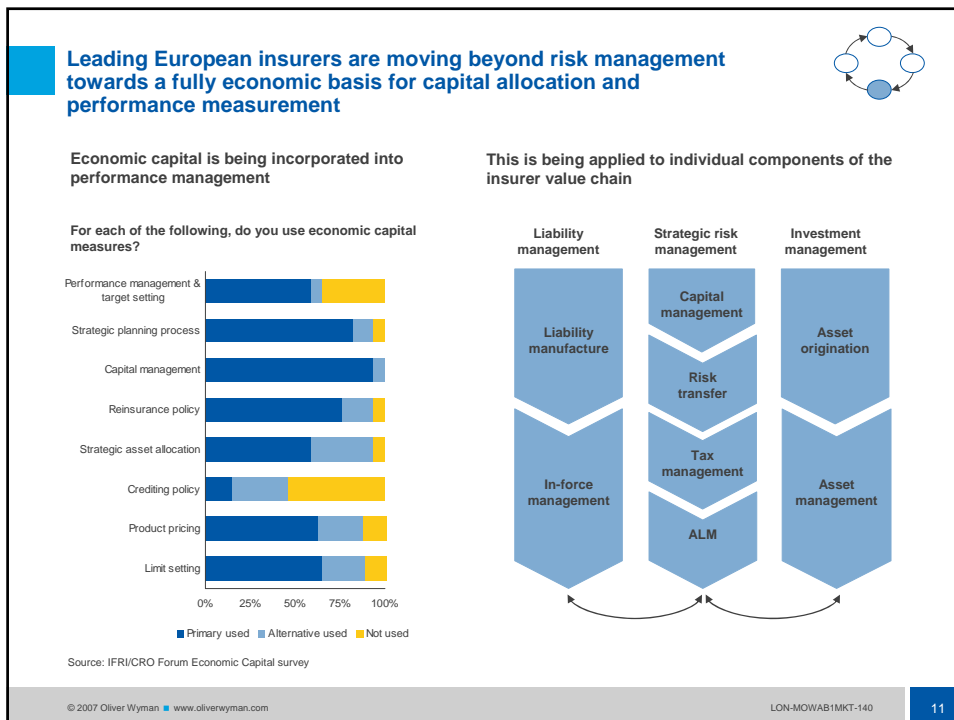
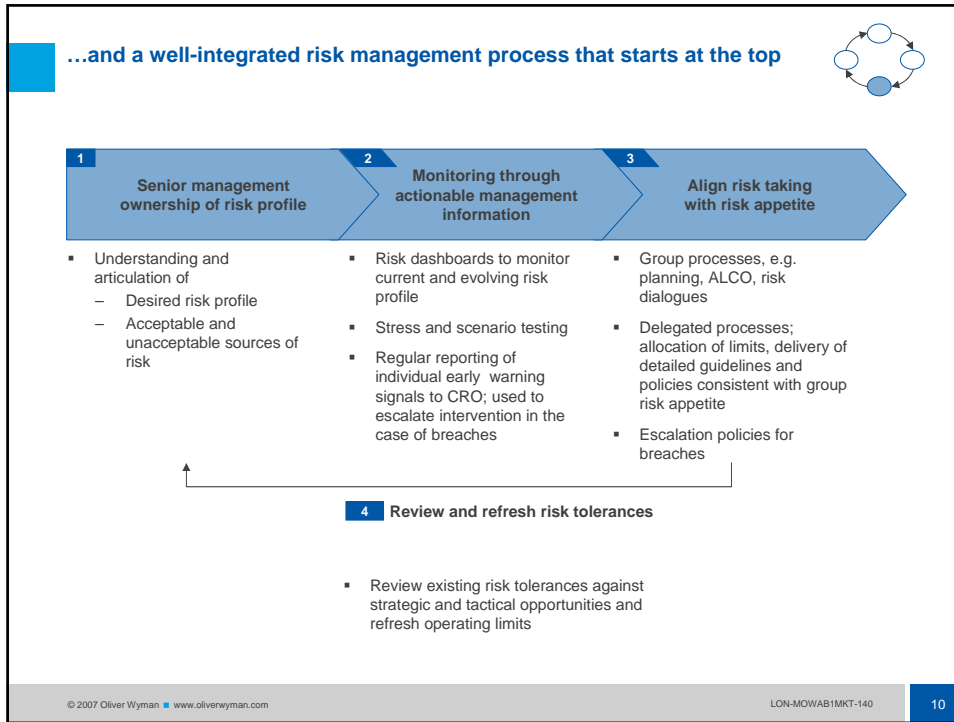
	Risk appetite elements	Benchmarking insights
Adequate capital level	<ul style="list-style-type: none"> Maintain regulatory requirements (e.g. FCD) Maintain rating (e.g. S&P) Meet target economic requirements (Risk capital) 	<ul style="list-style-type: none"> All peers monitor regulatory solvency Additionally, it is industry standard to monitor EC and rating-capital adequacy Leaders have a quantified comfort zone for capital Rating capital is not normally part of risk appetite
Stable profitability and growth	<ul style="list-style-type: none"> Keep up stable earnings Keep up stable EV growth 	<ul style="list-style-type: none"> The trend is to integrate accounting and economic profit, with quantified comfort zones Risk appetite is typically on an aggregate level, and not split by sources of risk to profit
Sufficient liquidity	<ul style="list-style-type: none"> Maintain dividend cover Maintain debt cover 	<ul style="list-style-type: none"> Apart from ratings considerations (banks), liquidity has not been a focus of risk appetite developments The technical challenges to do so are large
Sound reputation	<ul style="list-style-type: none"> Corporate governance and citizenship Consistent deliverance on promises Reputational risk 	<ul style="list-style-type: none"> Although recognized as a consideration, usually not articulated in risk appetite; normally covered by "Policies & Guidelines" Existing statements relate typically to "past burns"

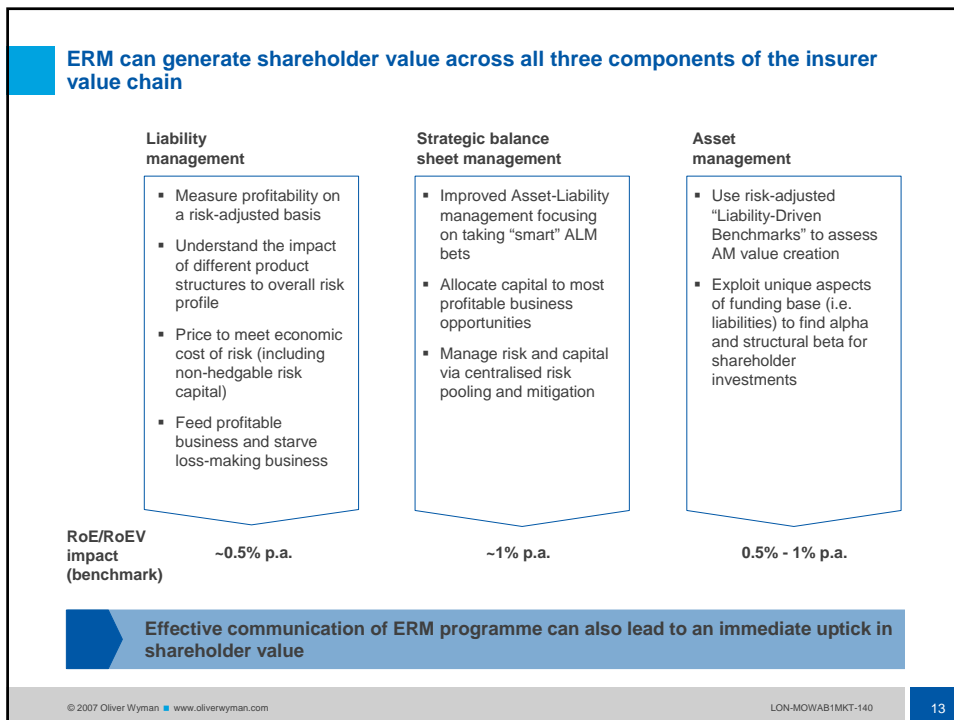
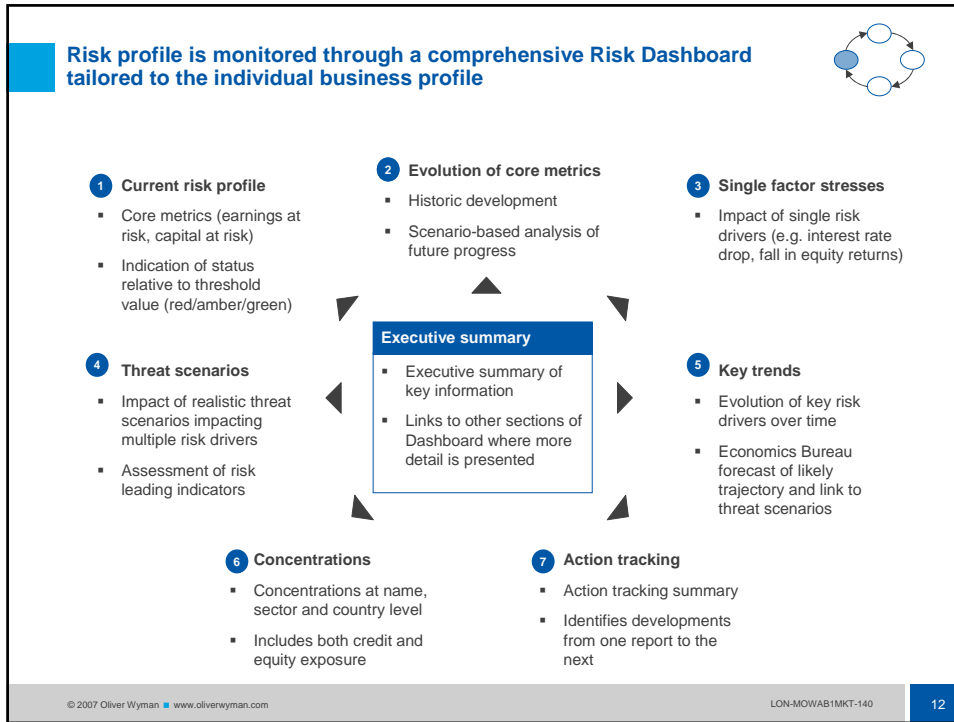
Source: Oliver Wyman benchmarking study

© 2007 Oliver Wyman | www.oliverwyman.com LON-MOWAB1MKT-140 6









In order to achieve a best practice ERM framework, insurers are looking at their capabilities and ambitions in four key areas

1. Models for measuring and analysing the overall risk situation

- Coverage of "risk map" by standardised models: insurance risk (life and non-life), ALM risk, market risk, credit risk (investments, re-insurance), catastrophe risk, business risk, operational risk
- Aggregation method and management of diversification method

2. Implementation into operational environment

- Integration of risk measurement
- Establishment of the risk management "idea" within the organisation
- Ongoing development of risk models

3. Governance and instrument for managing risk

- Committee structure
- Internal risk reporting
- Organisational structure within risk management
- Risk appetite, risk tolerance and limit system

4. Group-wide use of risk information for risk/ return decisions

- Integration of risk management into strategic steering
- Impact of risk management on incentive systems
- Impact of risk management on pricing, product design and profitability measurement
- Impact of risk management on investment management
- External risk communication