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Layout & Distribution: Valéria Kozakova

Enhancing Insurance Companies' Risk Management

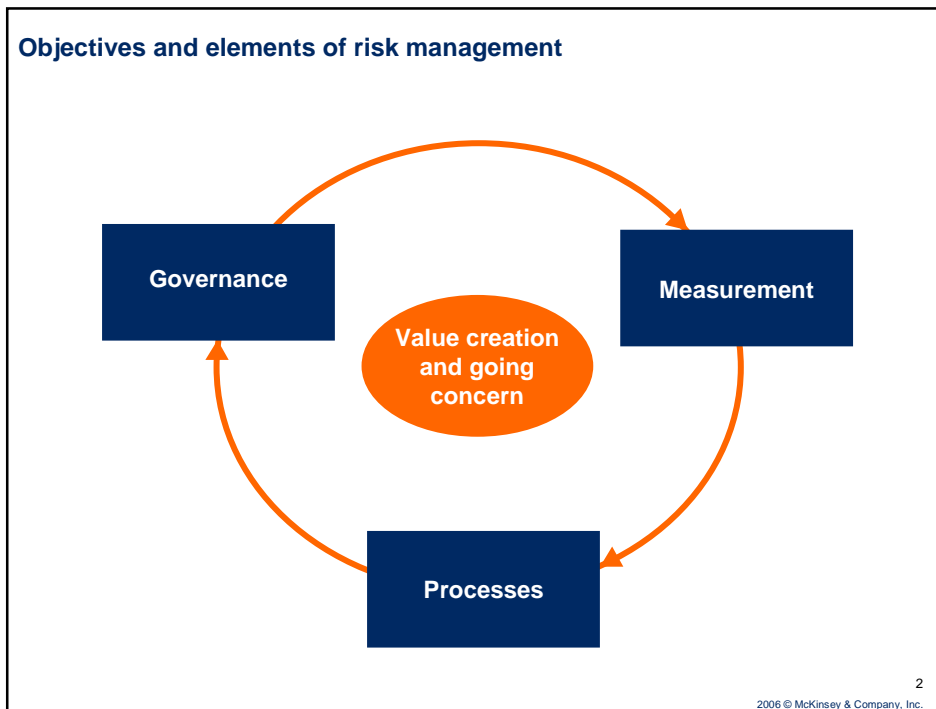
Günther Thallinger

Three discussion points

1 What risk management should do

2 Which challenges do insurers face

3 Where can regulators help



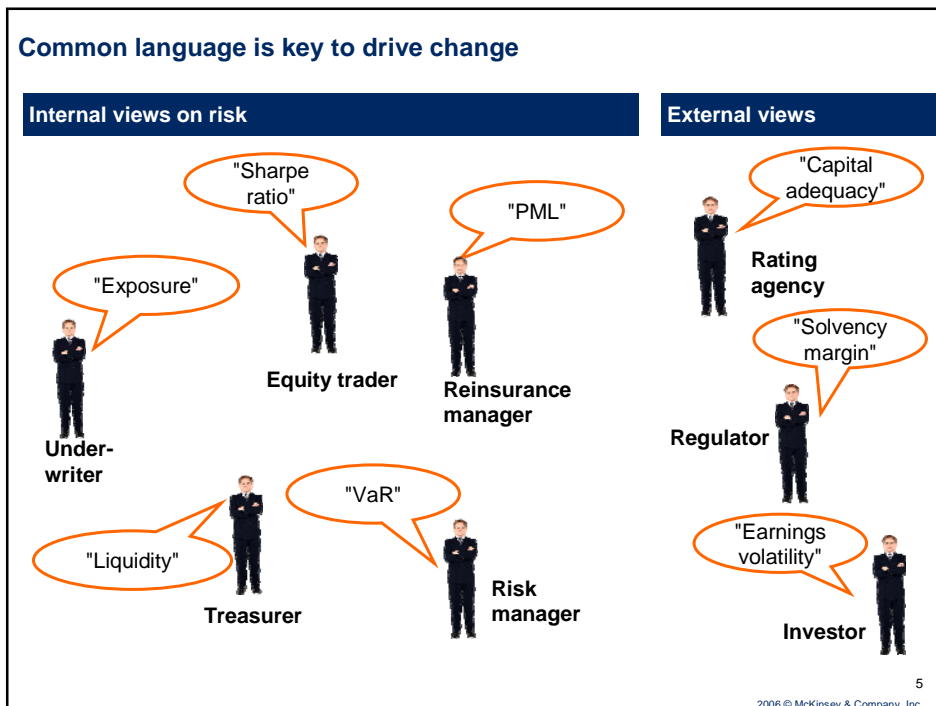
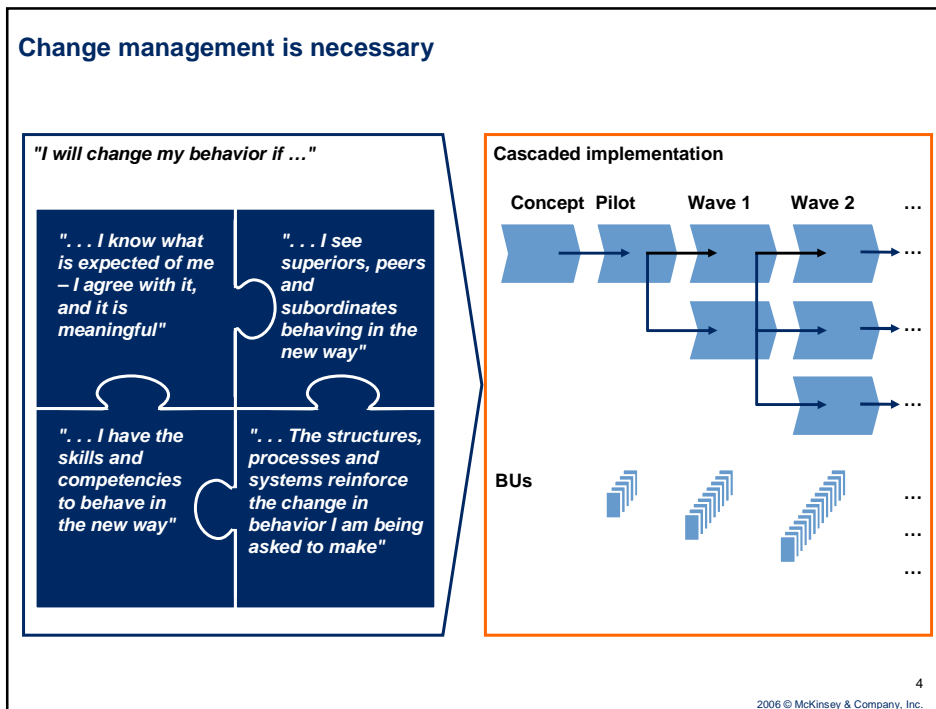
CLIENT EXAMPLE*

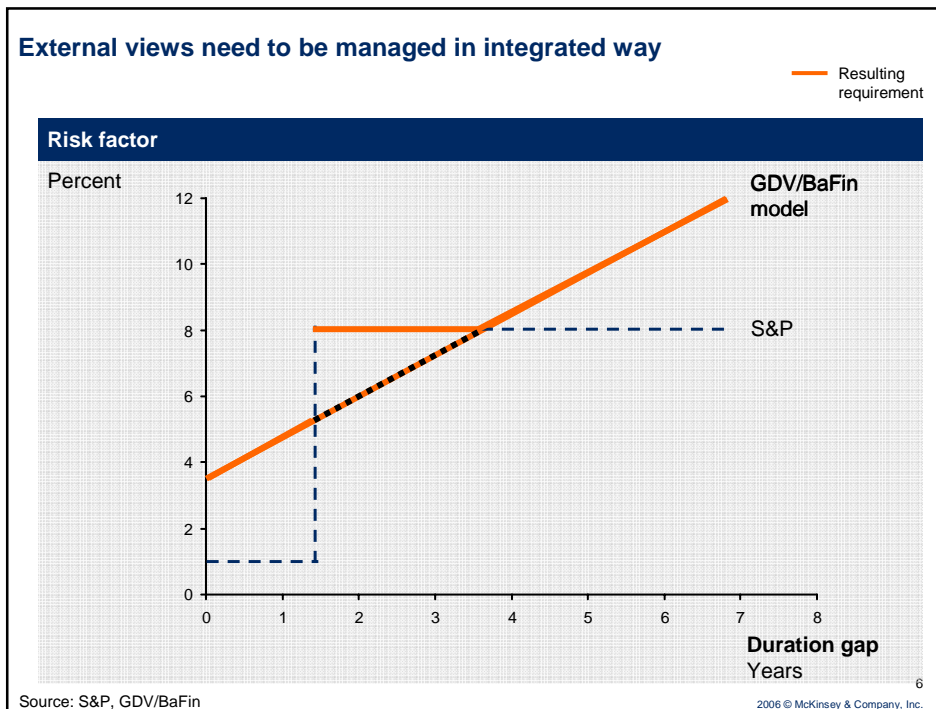
Are we already there?

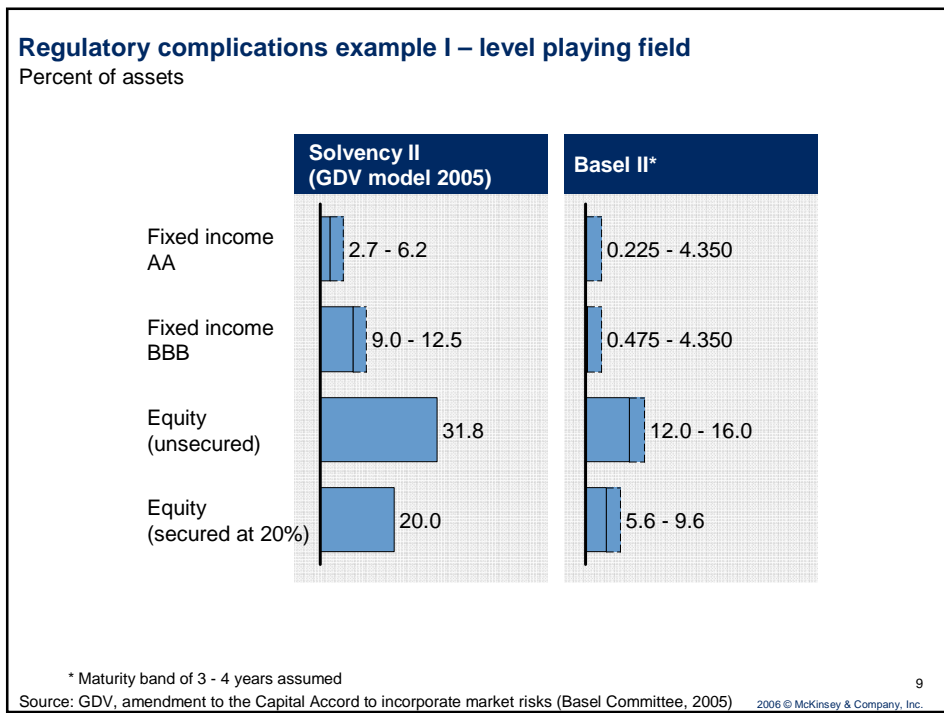
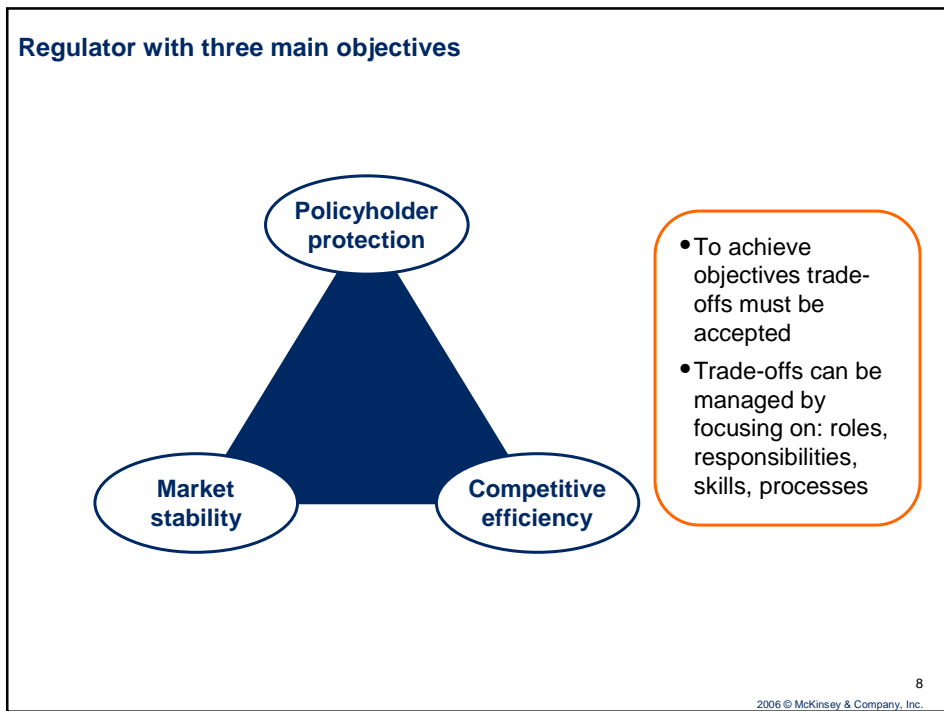
Examples		Insufficient	Advanced	
Governance	<ul style="list-style-type: none"> • Risk culture • Risk appetite • CRO-mandate • Business strategy 	[Progress bar]	[Progress bar]	?
Measurement	<ul style="list-style-type: none"> • Performance • Heat map • Contingency plans • Reviews • Core processes 	[Progress bar]	[Progress bar]	✓
Processes	<ul style="list-style-type: none"> • Skills • Risk committee • Risk function • Rating management • Capital management 	[Progress bar]	[Progress bar]	?

* Not necessarily representative for industry
Source: Interviews

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Regulatory complications example II – capital market stability

European insurance industry has investments of nearly EUR 6 billion (for comparison: volume of European investment market: EUR 28 billion)*

Citations from academia

- ¶ [...] proposed regulations [Basle II] fail to consider the fact that risk is endogenous. Value at risk can destabilize an economy and induce crashes when they would not otherwise occur
 – Embrechts (ETH), Danielsson, Goodhart (LSE) et al. ¶
- ¶ LTCM's problems were compounded by regulations that required banks to use risk management models to set capital. This virtually guaranteed that a volatility spike would lead financial institutions to shrink their trading portfolios [...]. As a result financial institutions had turned from being stabilizing to destabilizing forces
 – Stulz (Ohio State) ¶
- ¶ What is at issue is whether such bouts of turbulence will subside as more sophisticated versions of current risk management techniques become more widely adopted, or whether the more widespread adoption of such techniques merely serves to increase the fragility of the system
 – Morris (Yale), Shin (Oxford) ¶

* Estimated at market value for 2004
 Source: CEA, BIS, FIBV, academia 10
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Three discussion points

- 1** What risk management should do Ensure value creation and going concern
- 2** Which challenges do insurers face Run company wide change management
- 3** Where can regulators help Guide process setup and governance

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