



Keep your eye on the prize

ERM practices – Global vs. Asia practices

**Singapore Actuarial Society -5th General Insurance
Conference**

May 2013

Presenter: Hussain Ahmad

TOWERS WATSON 

Towers Watson has conducted its seventh biennial survey on enterprise risk management (ERM) in the insurance sector

- During July and August of 2012, Towers Watson conducted a web-based survey among senior executives in major insurance companies around the world
- Chief risk officers, chief financial officers and chief actuaries were asked to document the approaches to, and current status of, ERM activity within their companies
- This is the largest survey of the insurance industry on this topic; 69% of the total 539 insurance executive respondents were from the C-suite
- Respondents include a wide range of insurance organizations from North America (37%), Europe (25%), Asia-Pacific (31%), Latin America (5%) and Middle East and Africa (2%)
- Respondents come from many lines of business, including life insurance (41%), property & casualty (P&C) insurance (25%), multiline insurers (18%) and reinsurance (11%)
- **Geographical terms**
 - North America — includes the United States, Canada and Bermuda
 - Europe — includes the United Kingdom and Continental Europe
 - Asia-Pacific — includes Asia and Australia
 - Latin America* — includes Brazil, Mexico, Argentina and Barbados
- **Company-size terms**
 - Large — Company with annual revenue in excess of US\$10 billion**
 - Medium — Company with annual revenue between US\$1 billion and US\$10 billion**
 - Small — Company with annual revenue less than US\$1 billion**

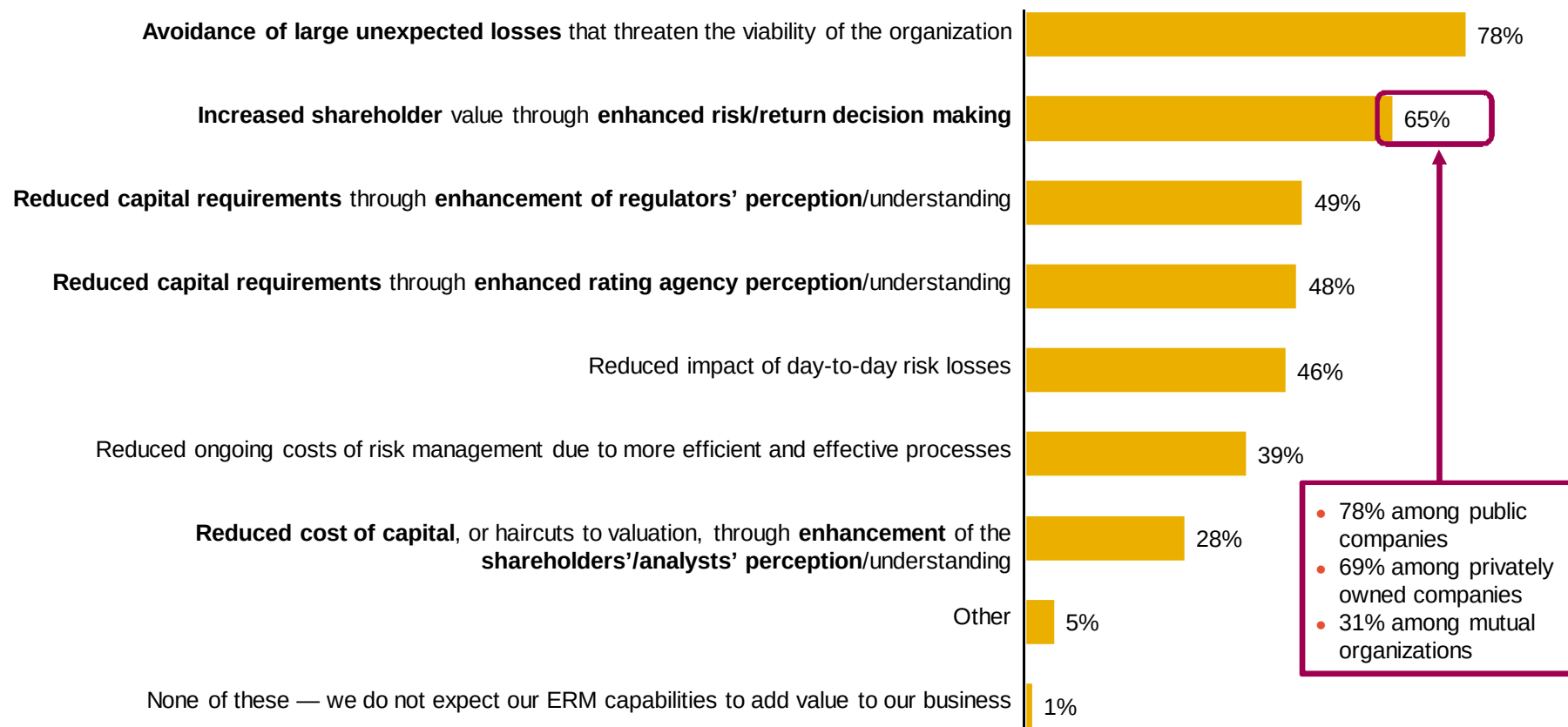
Confidentiality, reliances and limitations on distribution

- In developing these results, we relied on the accuracy of data and information provided by the participants without independent verification
- Not all survey questions were applicable for all respondents; the lower number of respondents for some questions could limit the statistical relevance of results
- All individual survey responses are kept strictly confidential
- This report is confidential and is intended solely for the internal use of participants in the survey; it should not be distributed or disclosed to any third parties without the written permission of Towers Watson
- Towers Watson has conducted this survey in strict accordance with our understanding of antitrust laws and guidelines published by the U.S. Department of Justice
 - Participants are responsible for understanding and complying with these requirements and should seek legal counsel if questions arise

We will focus on 7 key findings...

1. Insurers see the value in ERM.

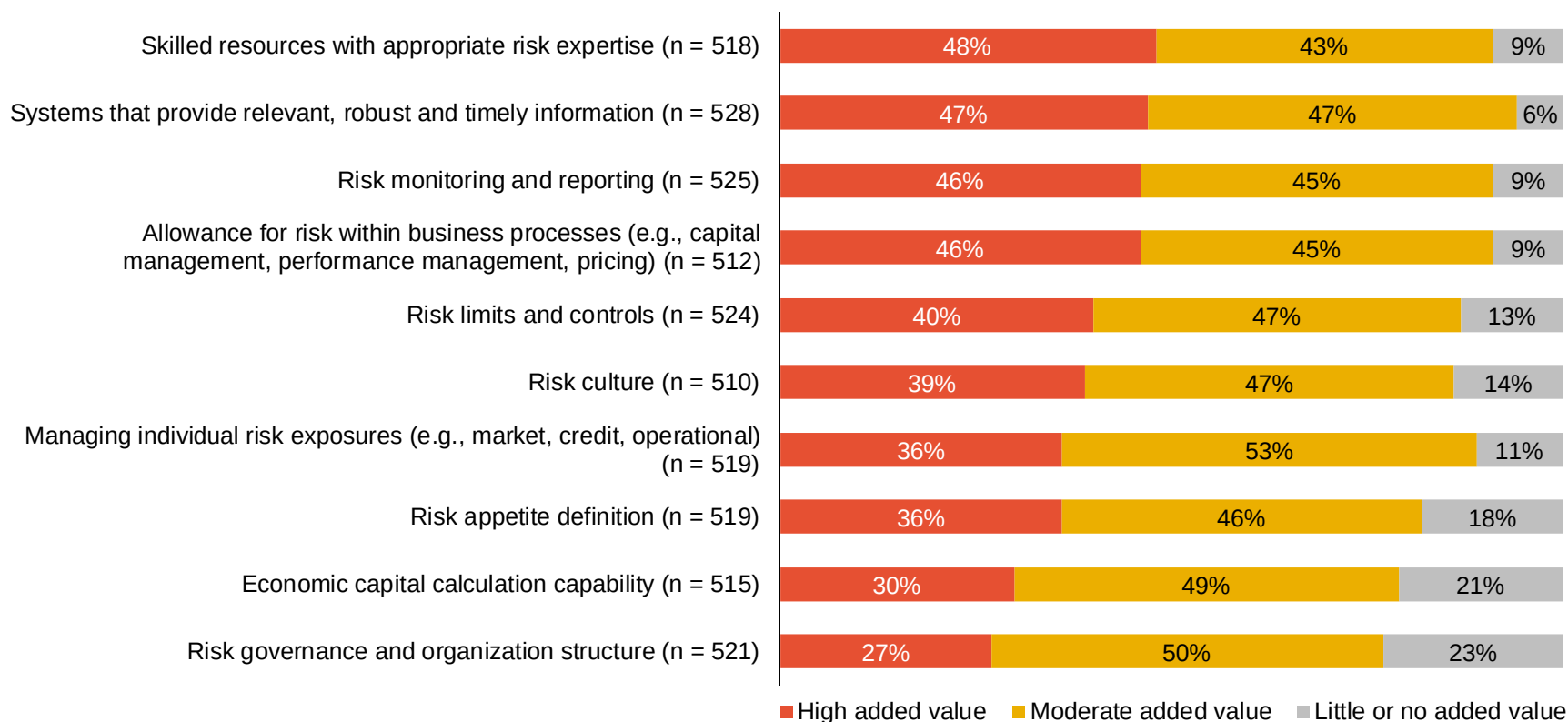
ERM is expected to enhance business performance primarily by avoiding large losses and improving risk/return decision making



Base: Total respondents **n = 539** for **Q.3. How do you expect your ERM capabilities will enhance business performance? Please select all that apply.**

Participants anticipate added value from investment across all areas of ERM

- Skilled resources and robust risk information systems rank highest in terms of potential added value
- Averaging across all aspects of ERM, 87% of participants see high or moderate added value from additional investment

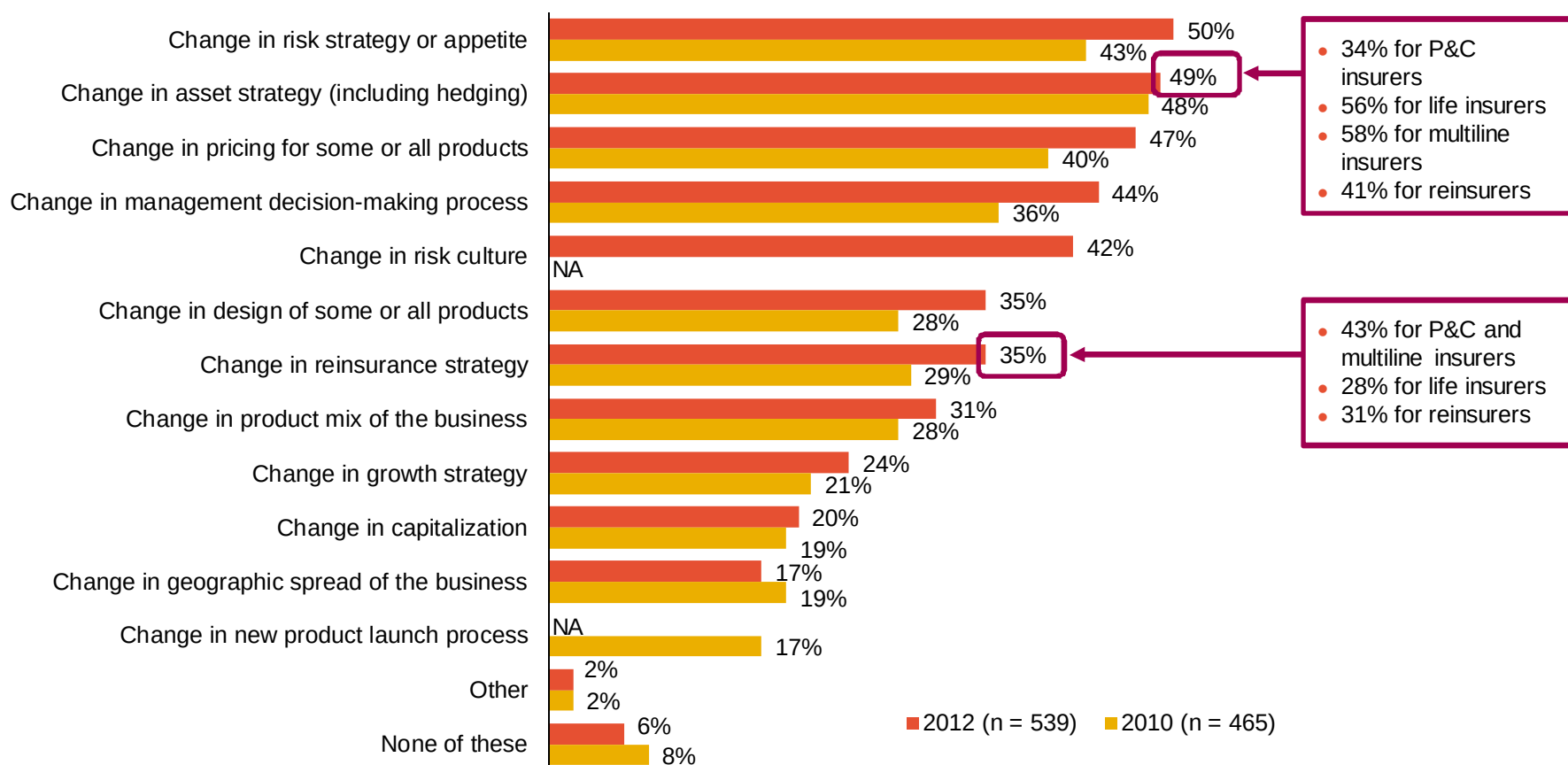


Base: Those giving a valid response (percentages exclude "don't know") for Q.7. Given your organization's current state, how would you characterize the potential added value to the business from additional investment in the following ERM areas? Please select one in each row.

2. ERM's business impact continues to grow, albeit slowly.

The business impact of ERM continues to grow

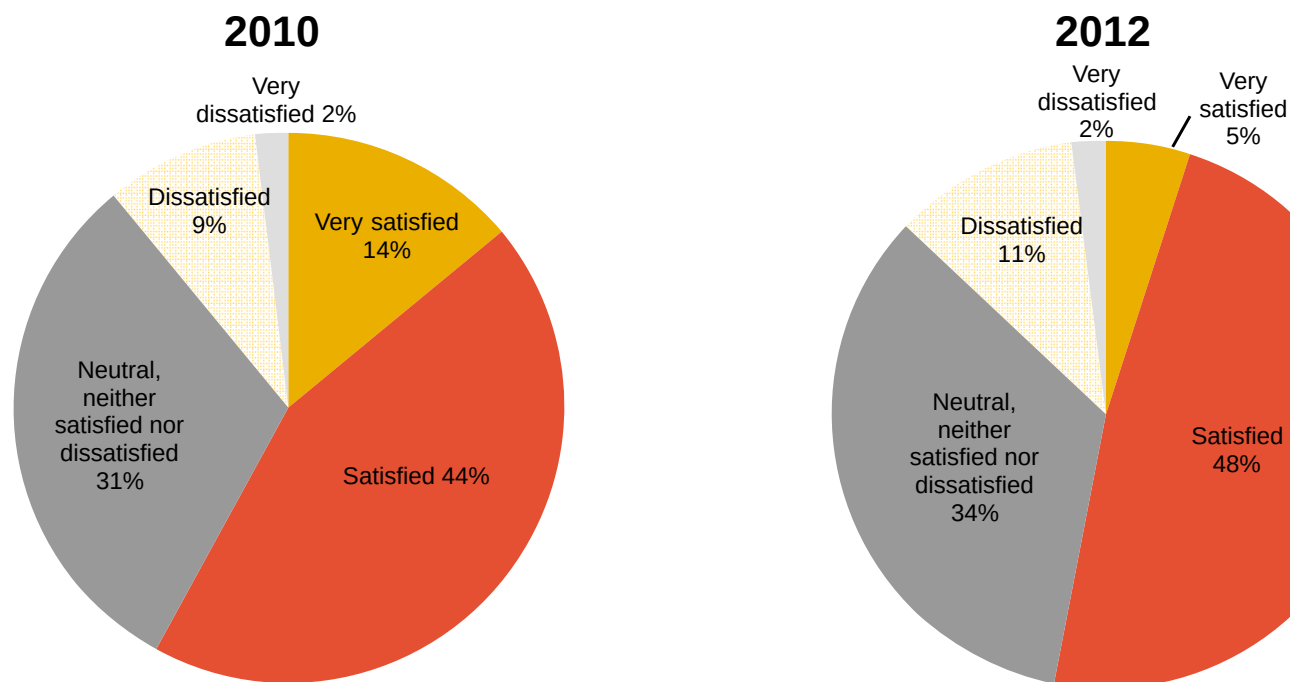
- ERM has resulted in business changes in an average of 4.0 areas in 2012 (up from 3.3 areas in 2010)
- There were noticeable increases in areas such as risk strategy/appetite, product pricing/design, reinsurance strategy and management decision-making processes



Base: Total respondents for **Q.9. Over the past two years, what business changes or impacts have resulted from your ERM program?**
Please select all that apply.

Overall satisfaction with ERM has remained broadly stable since 2010

- The percentage of 'very satisfied' participants fell from 14% in 2010 to 5% in 2012



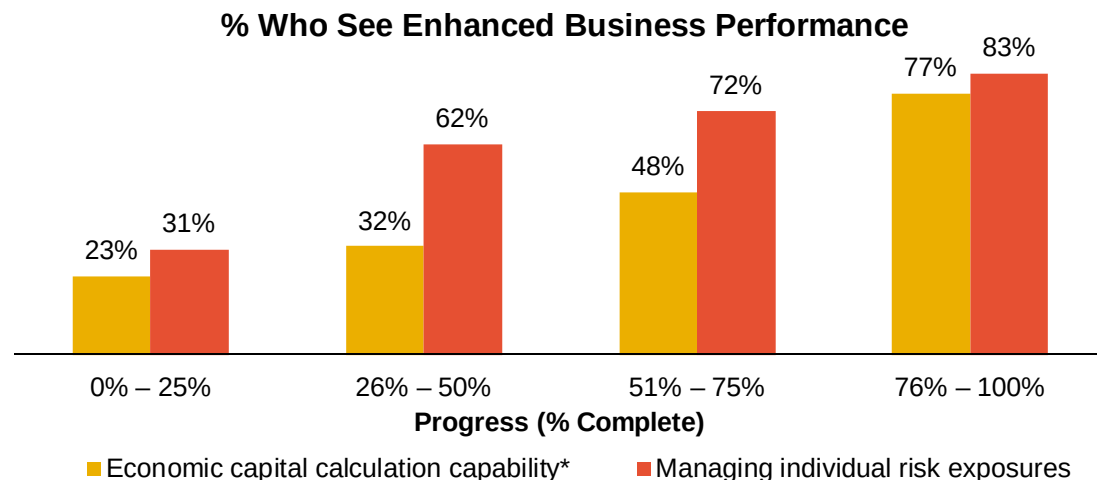
	Asia Pacific		Europe		North America		Other regions	
	2010	2012	2010	2012	2010	2012	2010	2012
Very satisfied/Satisfied	53%	35%	57%	62%	62%	66%	59%	34%
Neutral, neither satisfied nor dissatisfied	32%	50%	33%	25%	28%	24%	35%	49%
Dissatisfied/Very dissatisfied	15%	15%	10%	13%	10%	10%	6%	17%

Base: Total respondents 2012 n = 539; 2010 n = 465 for Q.1. How satisfied have you been with the performance of your ERM capabilities over the last 24 months?

3. Those who stay the course reap the rewards.

Those who stay the course reap the rewards

- ERM remains a work in progress
 - Averaging across all aspects of ERM, only 17% of participants indicated that development was 76% – 100% complete (compared to their end state vision); another 39% indicated 51% – 75% completion
- Satisfaction with ERM performance generally increases with incremental advances in ERM. For example, those who have risk appetite/tolerance statements in place are almost twice as likely to be satisfied with ERM performance (60%) as those who do not (34%)
- Well advanced ERM capabilities (greater than 75% complete) contributed much more strongly to business performance than those less developed
 - For example, well advanced risk information systems achieved “enhanced business performance” ratings significantly higher than less advanced systems (79% compared to 45%)
- Relatively quick wins are available in some areas (e.g. managing individual risk exposures – see chart)
- For other areas, in particular economic capital, firms need to get closer to completion to see the benefits

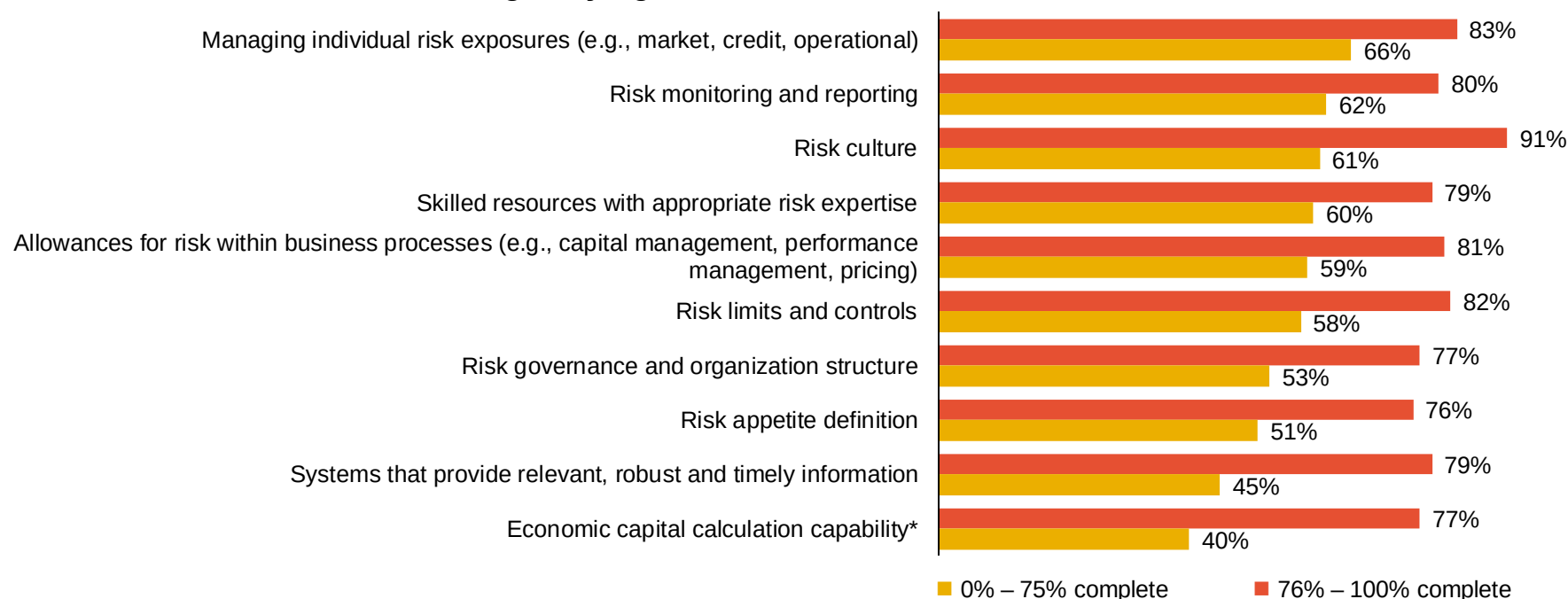


*Note that the economic calculation capability results exclude those that do not calculate EC. 11

Progress in ERM enhances business performance

- Well-advanced ERM capabilities contributed more strongly to business performance than those less developed
 - Relatively quick wins are available in some areas — for example, the managing of individual risk exposures
 - For other areas, in particular economic capital, firms need to get closer to completion to see the benefits

Percentage Saying ERM Enhanced Business Performance



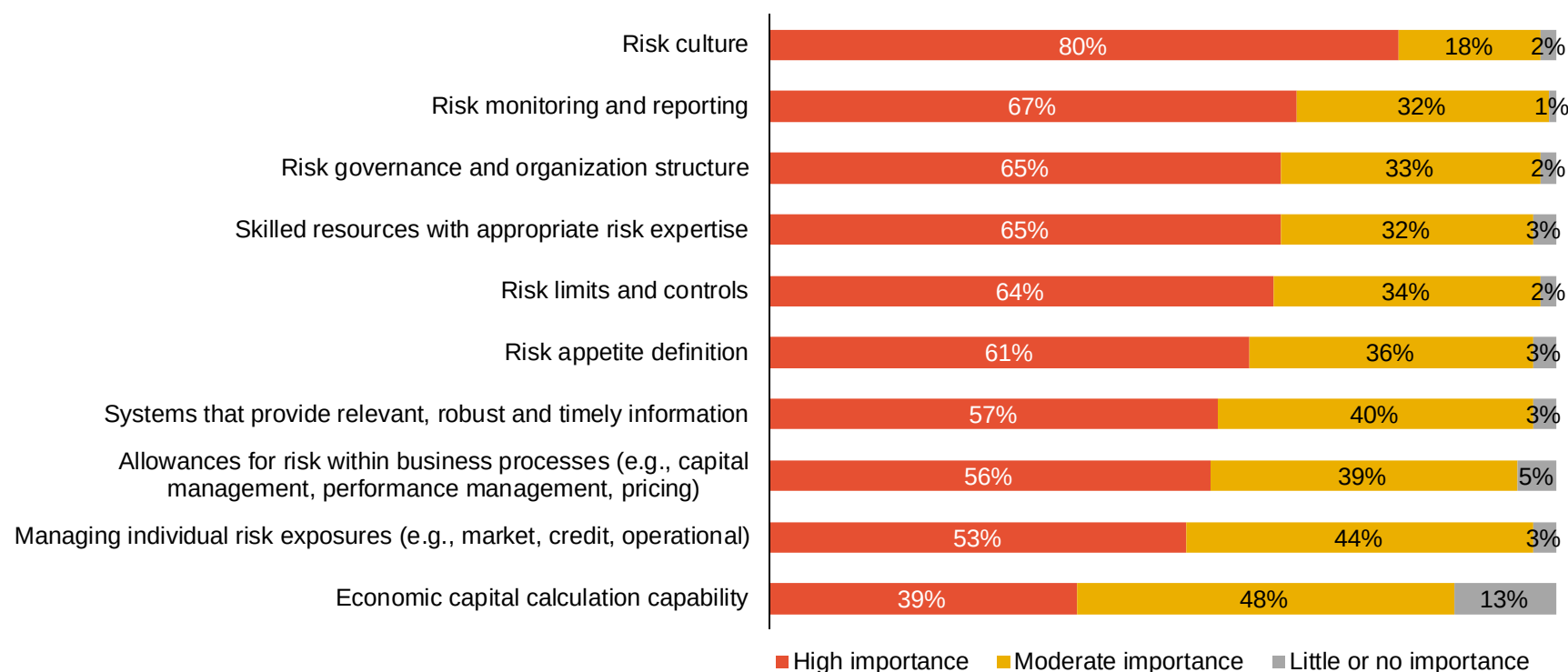
Base: Total respondents **n = 539** for **Q.2. How would you characterize the contribution of the following ERM areas to business performance over the past 24 months?** by **Q.5. How would you describe the progress already made in the following aspects of ERM for your organization, with percentage complete measured against your ultimate/end-state vision?**

*Percentages exclude those not currently calculating economic capital.

4. Risk culture is critical to long-term ERM success.

Risk culture is seen as significantly the most important aspect in participants' end-state vision for ERM

- Aspects related to the control and monitoring of risk exposures also ranked highly (including risk monitoring and reporting, risk limits and controls and risk appetite definition)
- While economic capital is lowly ranked overall, European insurers rate it more highly (52%) compared to their counterparts in Asia-Pacific (30%) and North America (35%)



Base: Total respondents n = 539 for Q.4. How would you rate the importance of each of the following aspects in your ultimate/end-state vision for your ERM program? Please select one in each row.

Companies plan broad improvements to risk culture, but critical incentive-related aspects are receiving relatively little attention

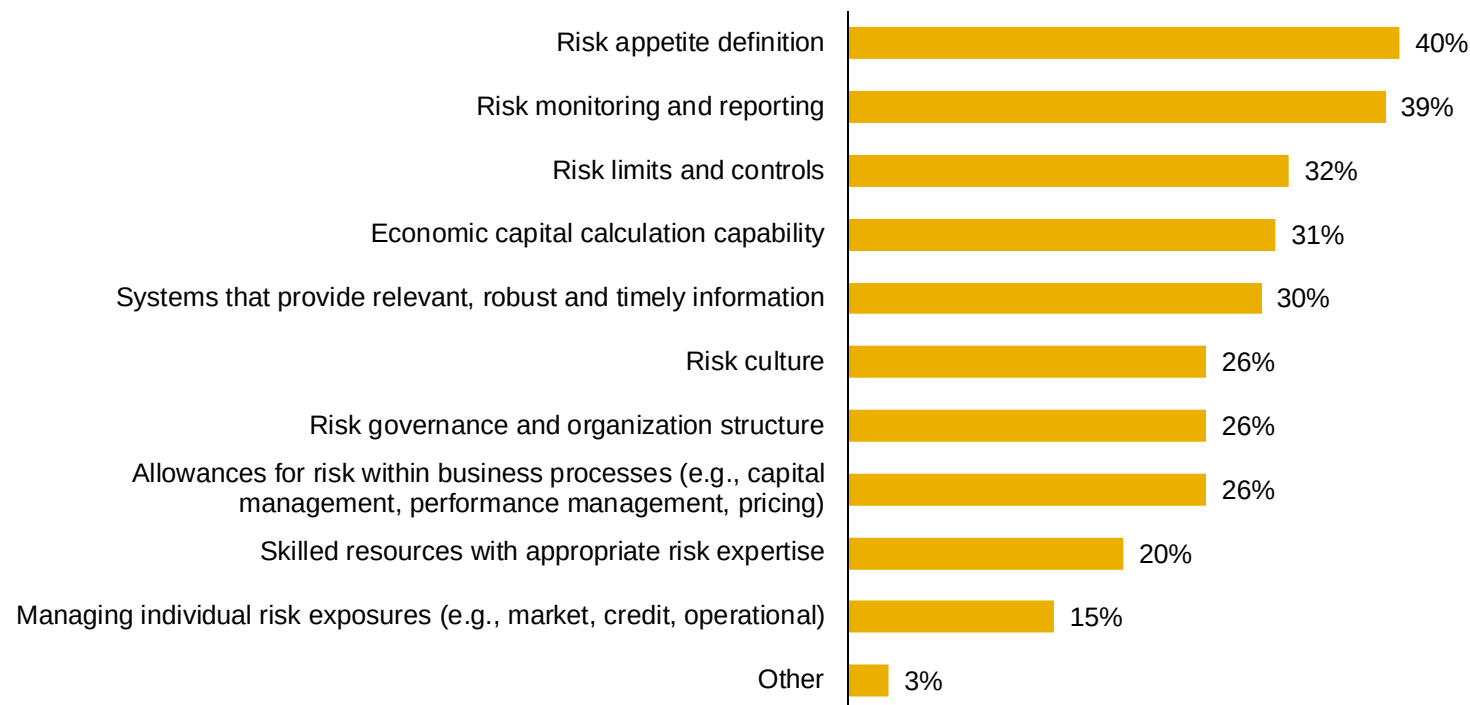


Base: Total respondents n = 539 for Q.13. How would you characterize your organization's current state and future plans with respect to the following aspects of building a robust risk culture? Please select one in each row.

5. Defining risk appetite and monitoring against it are top short-term priorities.

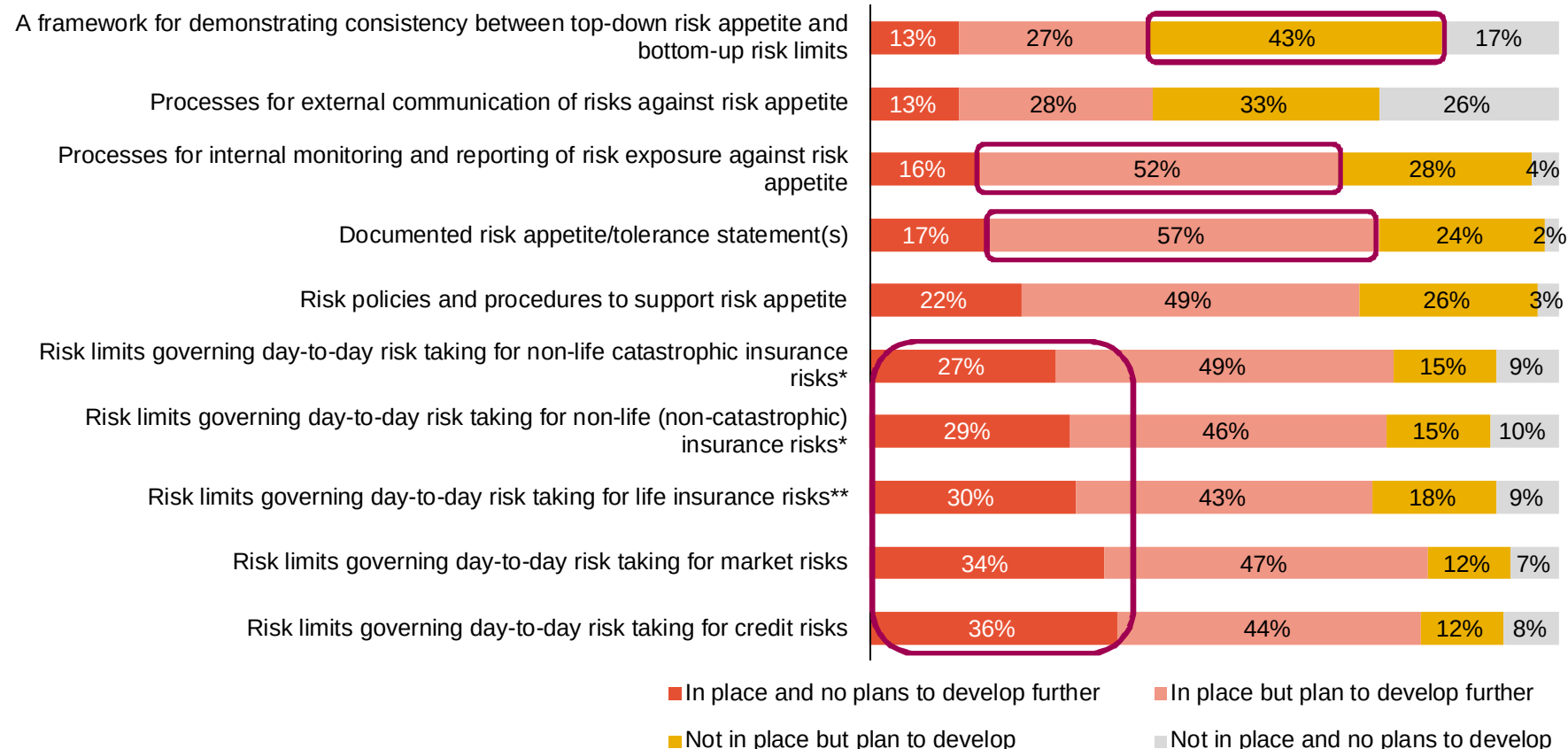
Participants' short-term ERM priorities differ from their long-term vision – but risk appetite features prominently

- Risk appetite is ranked as the top priority, with 46% of Asia-Pacific insurers now citing risk appetite as a priority area compared to 27% in 2010
- Risk monitoring and reporting is also a key priority for many, especially in North America (52%)
- Robust and timely risk information systems have become more important, especially in Europe (44% in 2012 compared to 30% in 2010)



Base: Those giving a valid response (percentages exclude “none of these”) for n = 538 for Q.6. What are your top ERM development or improvement priorities for 2012–2013? Please select up to three.

Significant further work is planned to refine risk appetite and make it operational



Base: Total respondents n = 539 for Q.16. Does your organization have the following ERM components in place and are any (further) developments contemplated? Please select one in each row.

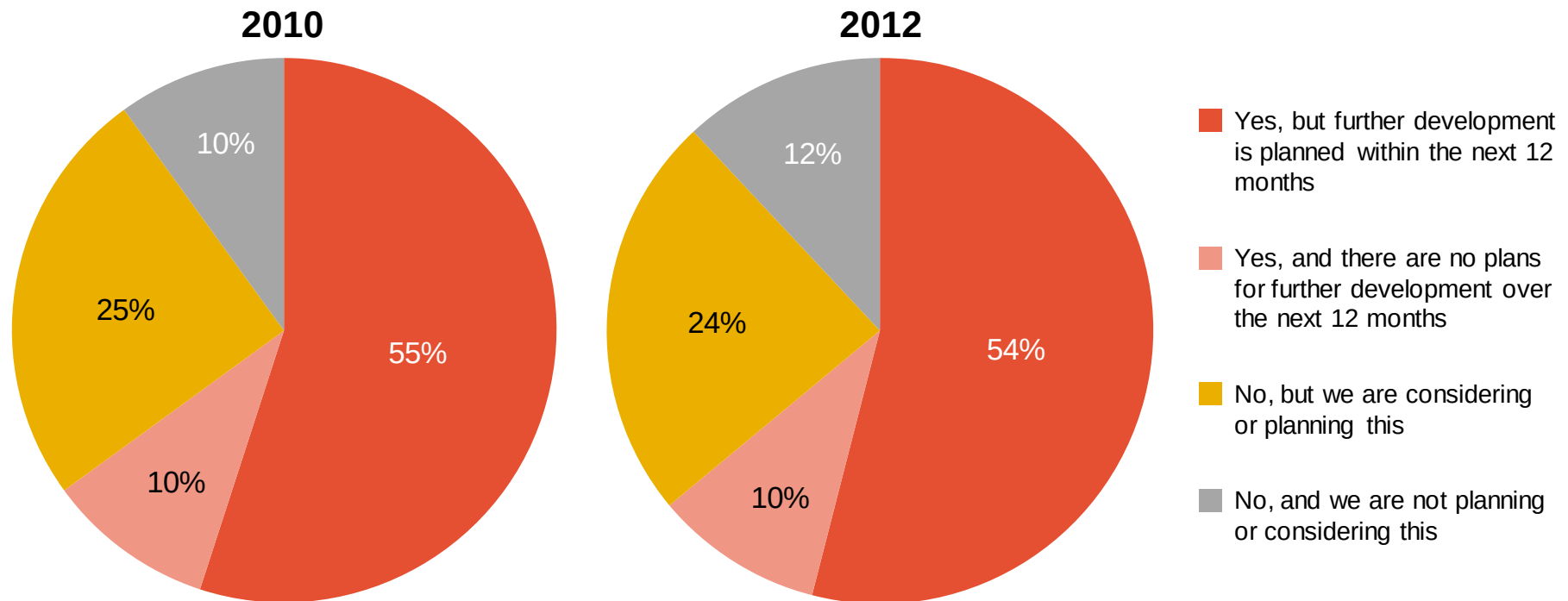
*Percentages are for P&C, multiline and health insurers/reinsurers only.

**Percentages are for life/annuity/pension, multiline and health insurers/reinsurers only.

6. The potential of economic capital is yet to be realized.

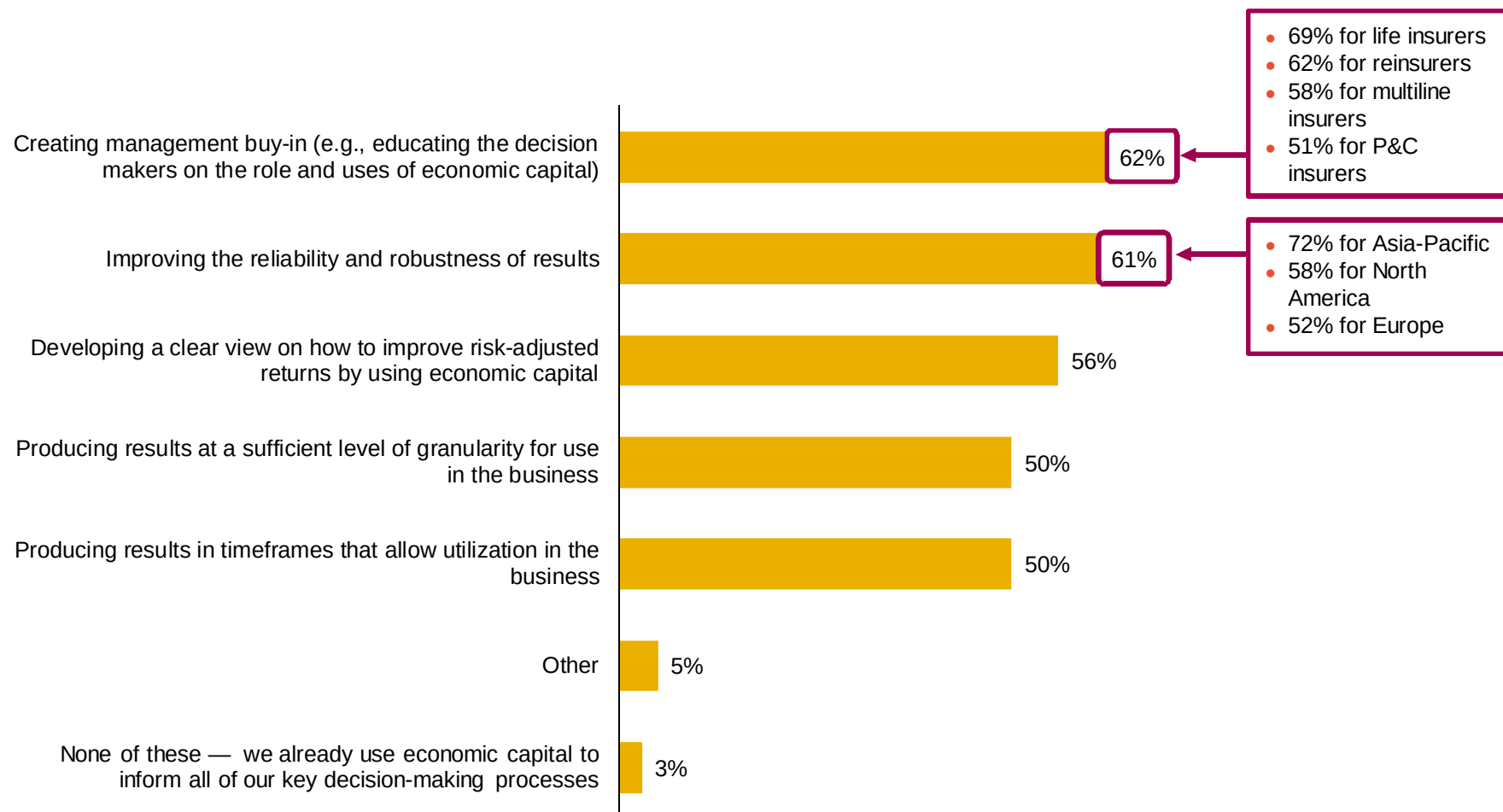
The proportion of companies calculating economic capital is largely unchanged from 2010

- Large companies (96%) are more likely to calculate EC than small or medium-sized companies (59%)
- There is little evidence of progress in relation to the proportion of participants who were planning or considering calculation of economic capital in 2010



Base: Total respondents 2012 n = 539; 2010 n = 446 for Q.25. Does your organization calculate economic capital?

Management buy-in and robustness of results are the biggest barriers to increased use of economic capital in decision making

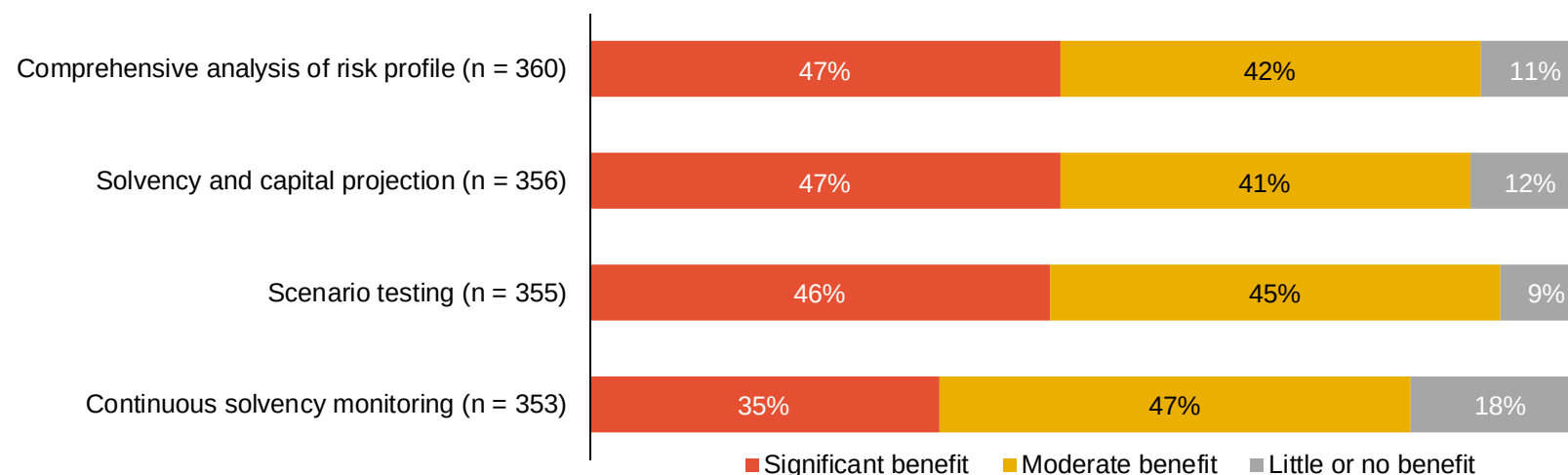


Base: Those calculating economic capital $n = 347$ for Q.34. What do you see as the key challenges to making economic capital more widely accepted in the business as a decision tool for risk taking? Please select all that apply.

7. ORSA/ICAAP is seen as beneficial by participants globally.

Almost 90% of respondents rate key aspects of the ORSA/ICAAP as generating significant or moderate benefit

- Nearly half of participants rated key aspects of the ORSA/ICAAP as generating **significant** benefit



- North American participants are less optimistic about the potential for the ORSA to provide **significant** benefits

% citing potential significant benefits from the ORSA	North America	Other regions
Comprehensive analysis of risk profile	37%	53%
Solvency and capital projections	37%	53%
Scenario testing	40%	48%
Continuous solvency monitoring	21%	41%

Base: Those required or intending to carry out an ORSA/ICAAP or equivalent giving a valid answer (percentages exclude “not applicable”) for Q.37. How would you rate the potential benefit generated from each of the following areas within ORSA/ICAAP for your organization? Please select one in each row.

ORSA/ICAAP is seen as beneficial by participants globally – but journey is far from complete

- Companies have some way to go before completing their ORSA/ICAAP
 - Other than in the UK, relative progress across other regions differs less than might be expected, given the differences in timing of development of the relevant regulations

% Participants with Completed ORSA/ICAAP Component*	North America	Asia Pacific	Continental Europe	U.K.
Board education and stakeholder engagement	19%	15%	11%	35%
Current capital position	45%	40%	36%	69%
Projected capital position	29%	29%	21%	29%
Sensitivities and scenario testing	22%	33%	20%	34%
Full ORSA/ICAAP report	14%	15%	10%	31%

*Percentages exclude “not required/planned.”

Seven key findings from our 2012 insurance ERM survey

- 1. Insurers see the value in ERM.** Key sources of added value include the avoidance of business-threatening losses (78% of participants) and enhanced shareholder decision making (72% of non-mutual participants).
- 2. ERM's business impact continues to grow, albeit slowly.** Satisfaction with ERM performance increased in both Europe (from 57% to 62%) and North America (from 62% to 66%).
- 3. Those who stay the course reap the rewards.** Well-advanced ERM capabilities (greater than 75% complete) contributed much more strongly to business performance than those less developed.
- 4. Risk culture is critical to long-term ERM success.** Eighty percent of respondents indicate that risk culture is a highly important part of their end-state vision of ERM.
- 5. Defining risk appetite and monitoring against it are top short-term priorities.** While 74% of respondents have now defined a risk appetite, nearly 60% of these have yet to demonstrate its consistency with their risk limit structure.
- 6. The potential of economic capital is yet to be realized.** Methodology remains the top EC calculation challenge (58% of participants), while management buy-in (62%) and robustness of results (61%) are the key challenges to greater use of EC in decision-making.
- 7. ORSA/ICAAP is seen as beneficial by participants globally.** Almost 90% of respondents rate key aspects of the ORSA/ICAAP as beneficial, with around half of these expecting significant benefit.



WWW.TOWERSWATSON.COM

Hussain Ahmad
Towers Watson
135 Cecil St. #09-01
Singapore
(65) 6880 5654
hussain.ahmad@towerswatson.com