C4.3: (1615 - 1745) - Flavours of risk

Nirav Patel
Actuarial and Insurance Management Solutions
PwC UK

Waves of Reforms…Oceans of Opportunities

2013 AGFA & 15th Global Conference of Actuaries

17th – 19th Feb, 2013 | Mumbai, India

What is risk?

Risk is an extremely broad concept

"We think about risk slightly differently…"

Risks facing a General Insurer

- Insurance – Underwriting, Reserving, Reinsurance
- Market – Investment, Currency, Inflation
- Credit – Business credit risk, Asset credit risk
- Liquidity
- Operational
- Group

Insurance risk

Underwriting risk

- Product design
- Underwriting process
- Data
- Methodology and assumptions
- Communication with other stakeholders
- Reviewing external studies on market competition and regulatory pressures
- Pricing and Underwriting Committee and its interaction with other committees.

Insurance risk

Reserving risk

- Reserving model
- Data
- Methodology and assumptions
- Validation of results
- Documentation
- Peer review
- Communicating results
- Reserving Committee and its regular interaction with other committees
- Reinsurance management

Other risks

Market risk

- Treatment of reinsurance and investments as assets
- Change in value of the underlying invested assets, e.g. Equity, property
- Impact of change in variables, e.g. Interest rate, currency, spot rates
- Risk based stresses to analyse impact on portfolio
- Data

Credit risk

- Treatment of credit risk within different types of assets.
    - Failure of reinsurer
    - Non-performance of assets

Other risks

Liquidity risk

- Aggregation of losses
- Expansion including new business strain

Group risk

- Actively looking for concentration of risk
- Comparing target portfolio mix against actual and creating a feedback loop into pricing mechanisms.

Other risks

Liquidity risk

- Treatment of liquidity
- Impact of different scenarios on liquidity

Challenges

- Actively looking for concentration of risk
- Comparing target portfolio mix against actual and creating a feedback loop into pricing mechanisms.

Operational risk

"The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events"

- The key stages for managing operational risks are:

Risk Identification → Risk Assessment → Risk Reduction and Monitoring

Operational risk - Challenges

Governance

- Very simple concepts but often the least used
- Incorporate management controls at the outset
  - Documentation
  - Modeling
  - Reporting
  - Peer review
  - The role of internal audit and risk committees
- Compliance!

Embedding risk behaviours

The required risk behaviours can only be delivered and sustained through changes to working practices, supported by processes and with buy-in from leaders/process owners

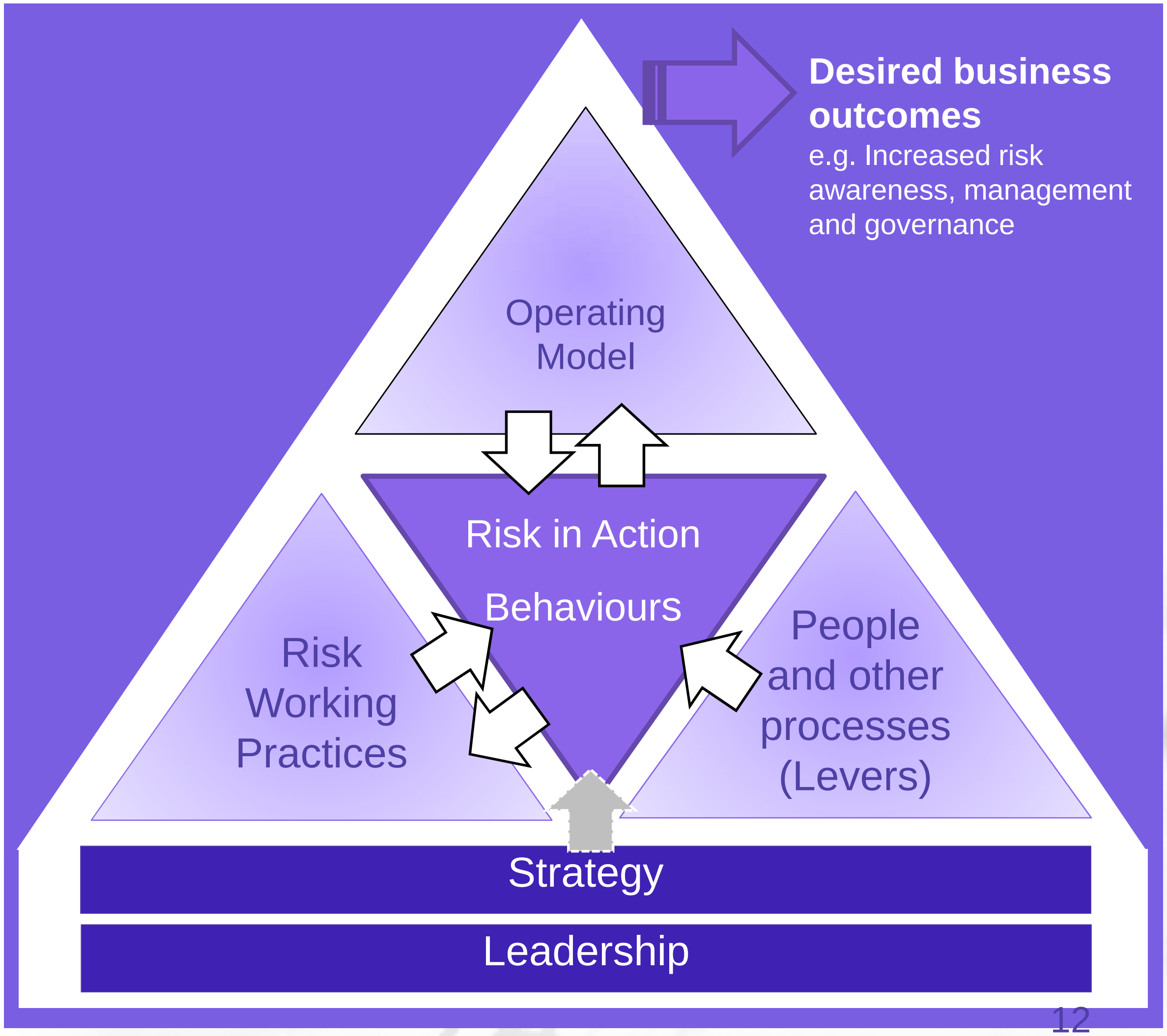
1 **Define leadership's vision for 'Risk in Action' and behaviours**
- Aligned to organisational and risk strategies and the operating model

2 **Establish and communicate clear risk working practices:**
- Focus on the key moments that matter and write responses
- Tighten roles, controls, process, (formal & informal) governance...

3 **Review the people (and non-people) processes:**
- Select key levers to pull, e.g. reward, L&D, performance management, role definitions, procurement, new client etc
- Review supporting IT

4 **Align L&D activities/Comms:**
- Develop relevant learning
- Make changes to existing progs
- Reinforce the change

5 **Establish measurement:**
- Determine key metrics and set up reporting capability to monitor progression



Enterprise Risk Management

- What it ERM?
- Benefits of ERM
  - Better risk reporting
  - Align strategy with risk appetite
  - Manage and/or transfer risk effectively
  - Comprehend links between growth, risk and return
  - Assess economic capital
  - Better allocation of capital and resources
- How do we make use of this framework?