

**STANDARD
& POOR'S**



Enterprise Risk Management: Ratings Agency View

David Ingram

*Standard & Poor's
Financial Services Ratings*

The McGraw-Hill Companies

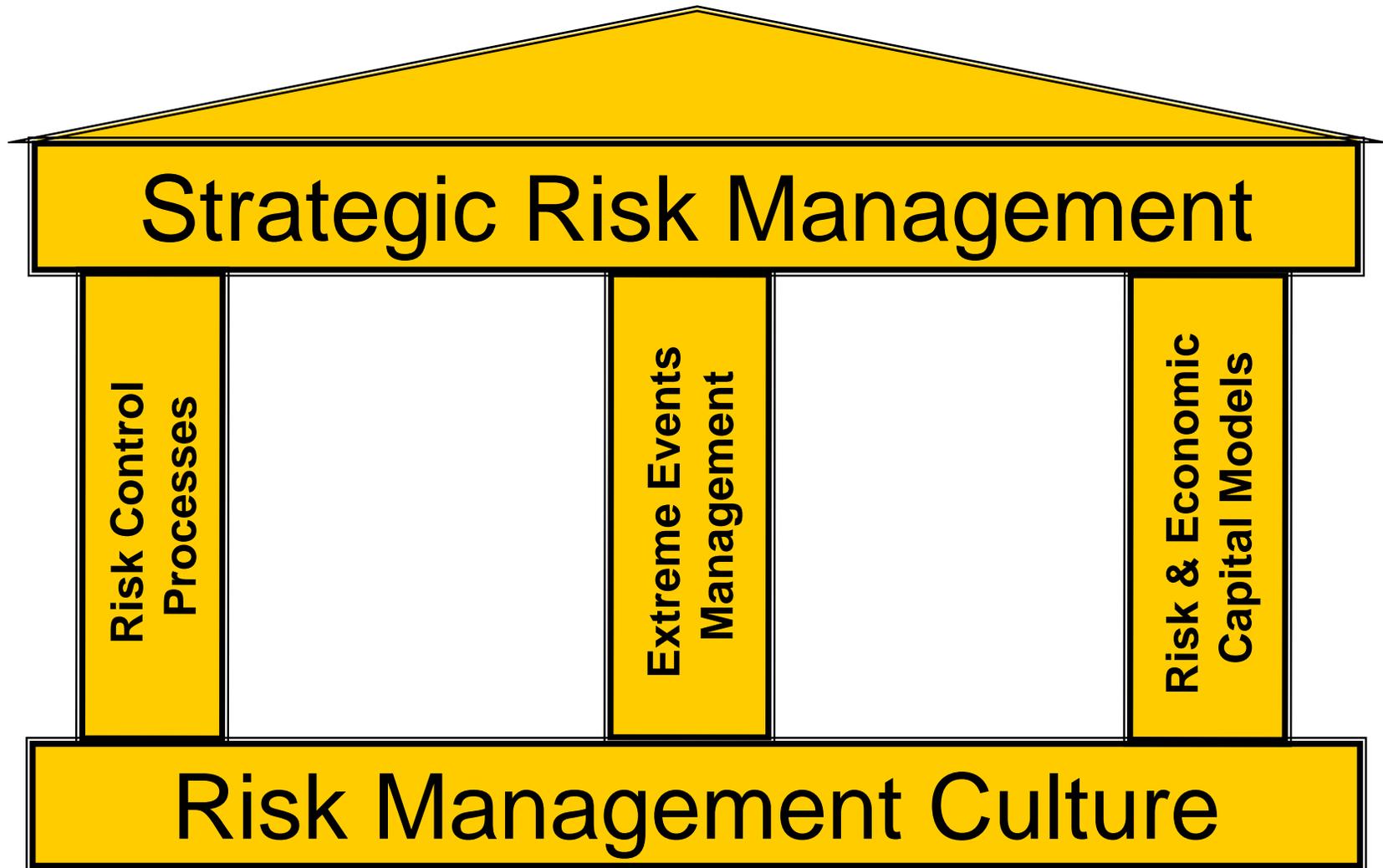


Agenda

- **Our ERM Criteria**
- **Who has been Evaluated**
- **Overall Findings**
- **ERM Elements**
- **What's Next**

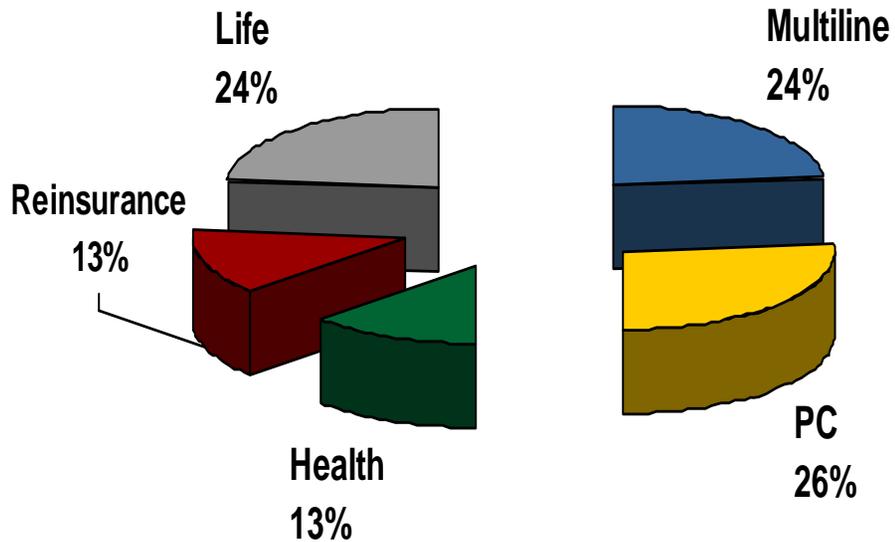


S&P's Evaluation of ERM

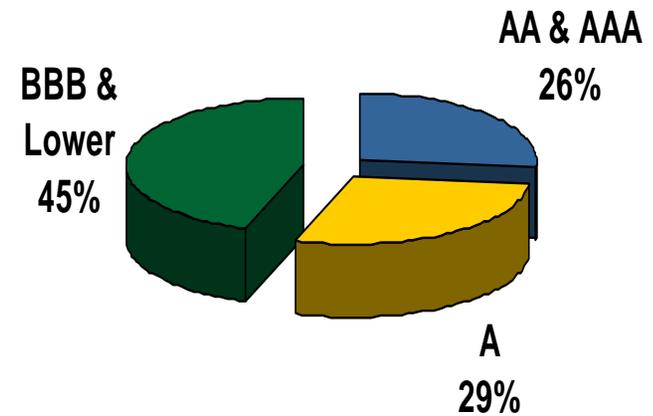


Who we have evaluated?

Sector Breakdown 38 companies



Ratings Breakdown 38 companies





Who have we evaluated?

- **Both Europe based (7) and US based companies (31)**
- **Companies primarily selected based on schedule of review**
- **Small number of “Leading Edge” off-cycle evaluations**
- **No way to tell if the findings to date are representative**
 - Sample too small
 - Slight positive skew from Leading Edge volunteers



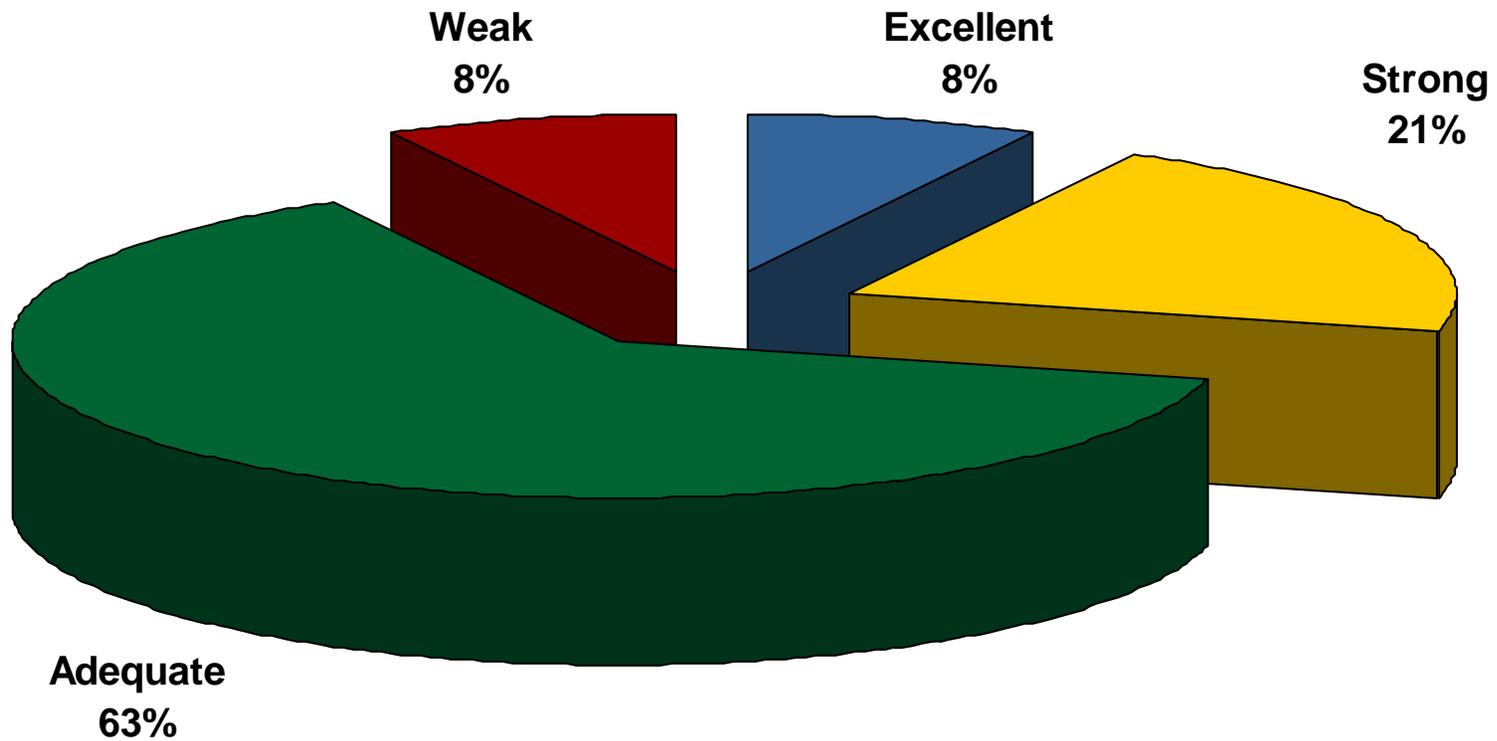
Overall Findings

Weak	Lacking basic controls for important risk(s)	8%
Adequate	Basic risk controls in place for all major risks	63%
Strong	Basic risk controls in place for all major risks PLUS: 1) Process to prepare for Unknown Future Risks 2) Process to make strategic choices among risks based on risk & reward framework	21%
Excellent	Mastery of Controls, Unknown Future Risk preparations & strategic risk applications	8%



Overall Findings

Overall ERM Evaluation 38 companies





ERM Impact on Rating

Out of 38 reviews completed:

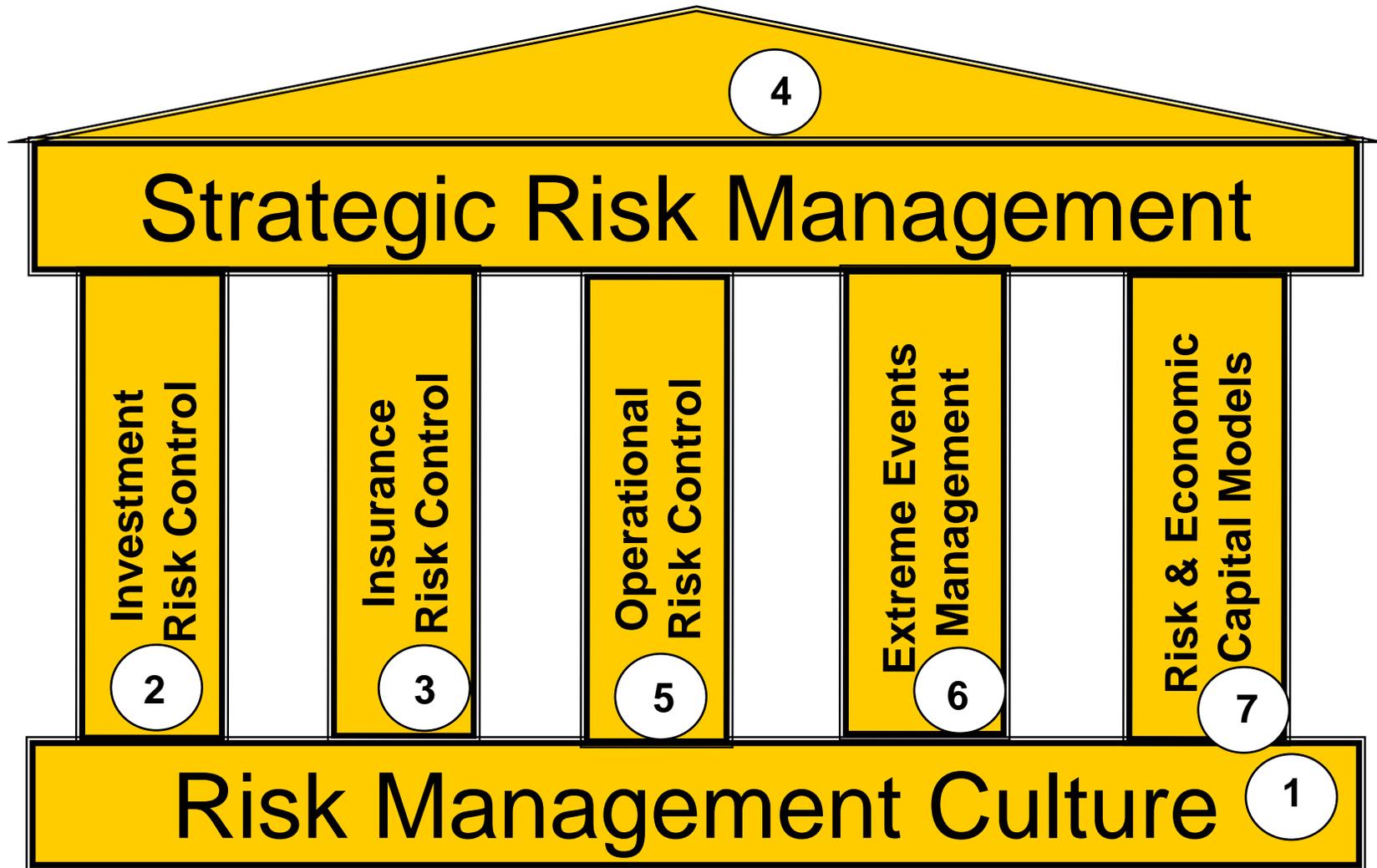
2 ERM Evaluations Strengthen Ratings

12 ERM Evaluations Affirm or Support Ratings

24 ERM Evaluations Neutral to Rating

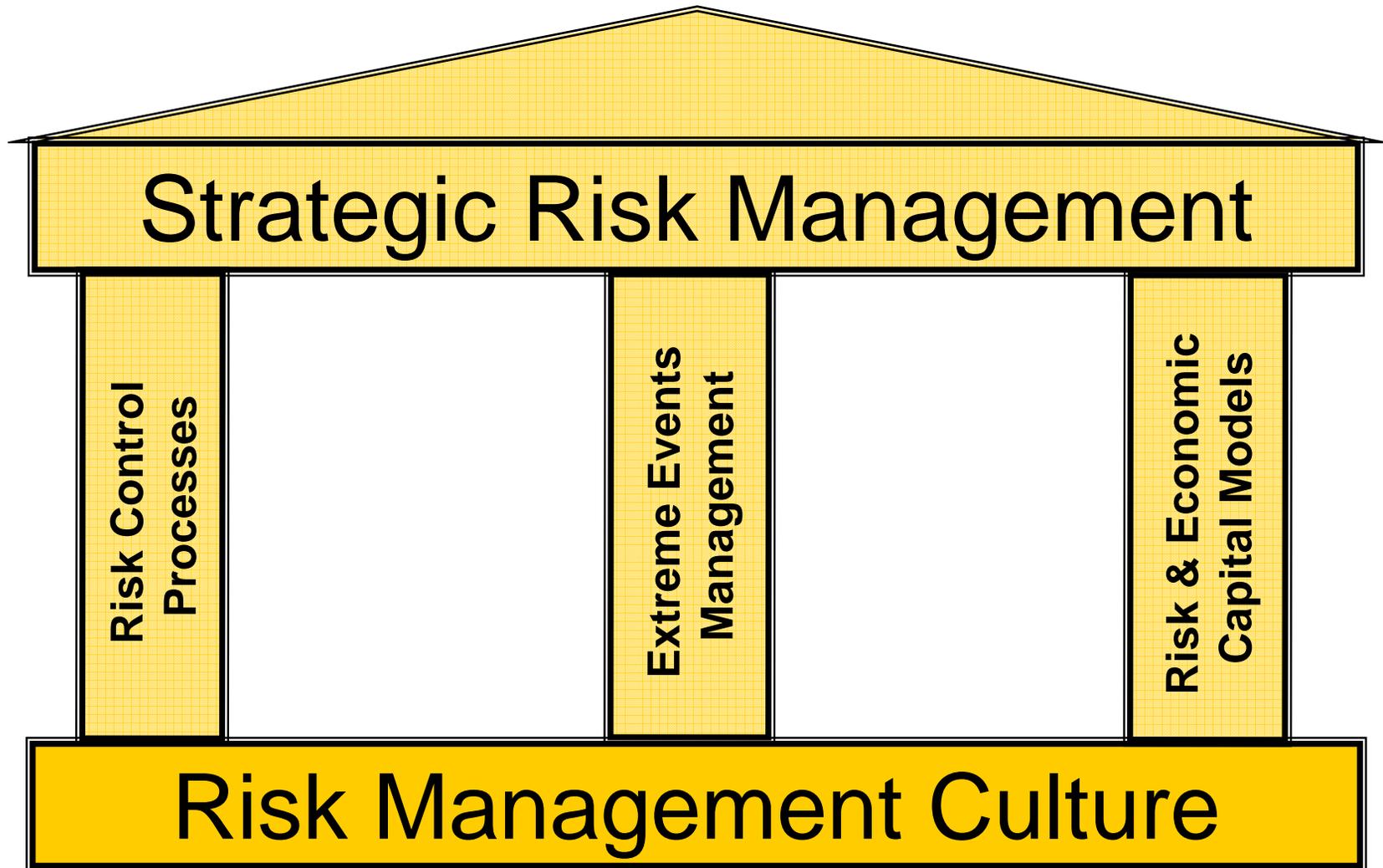


S&P's Evaluation of ERM





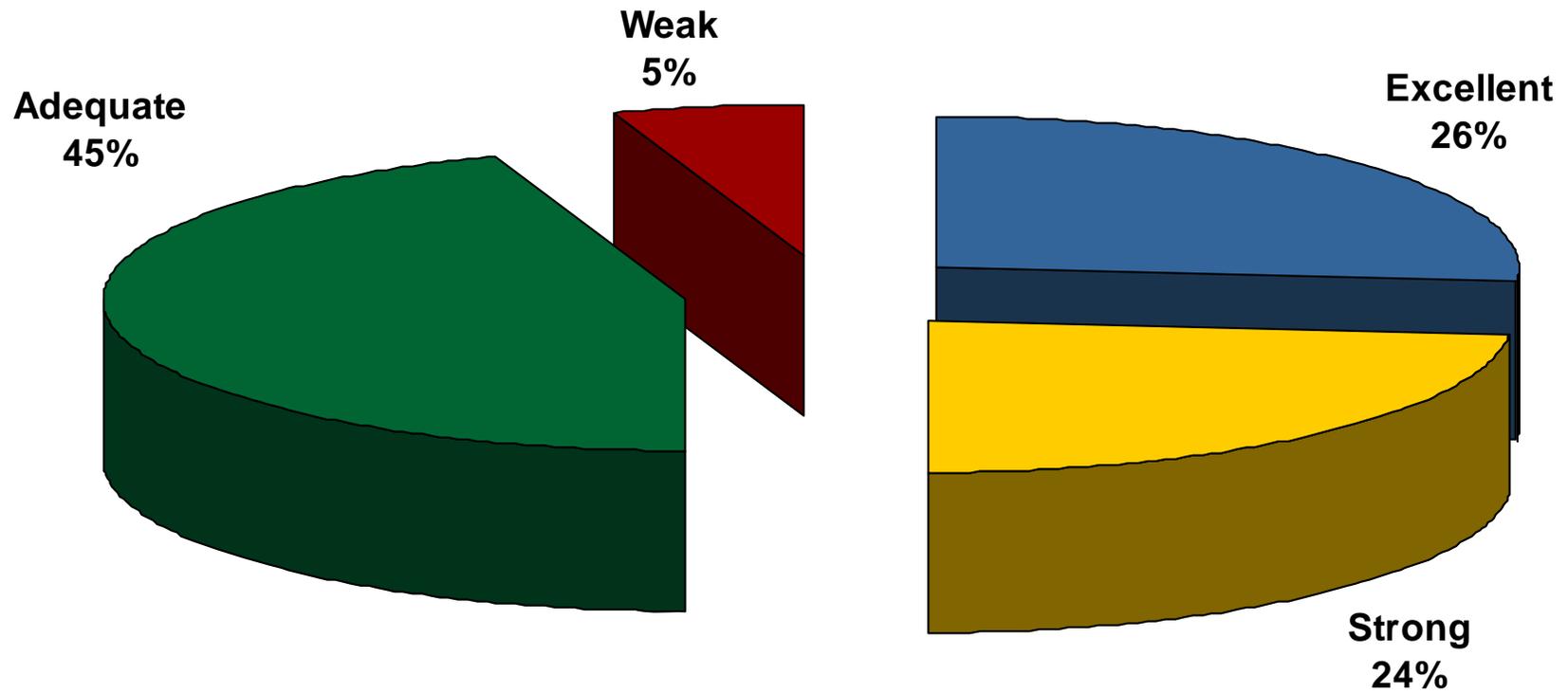
S&P's Evaluation of ERM





Risk Management Culture

Wide Range of Practices





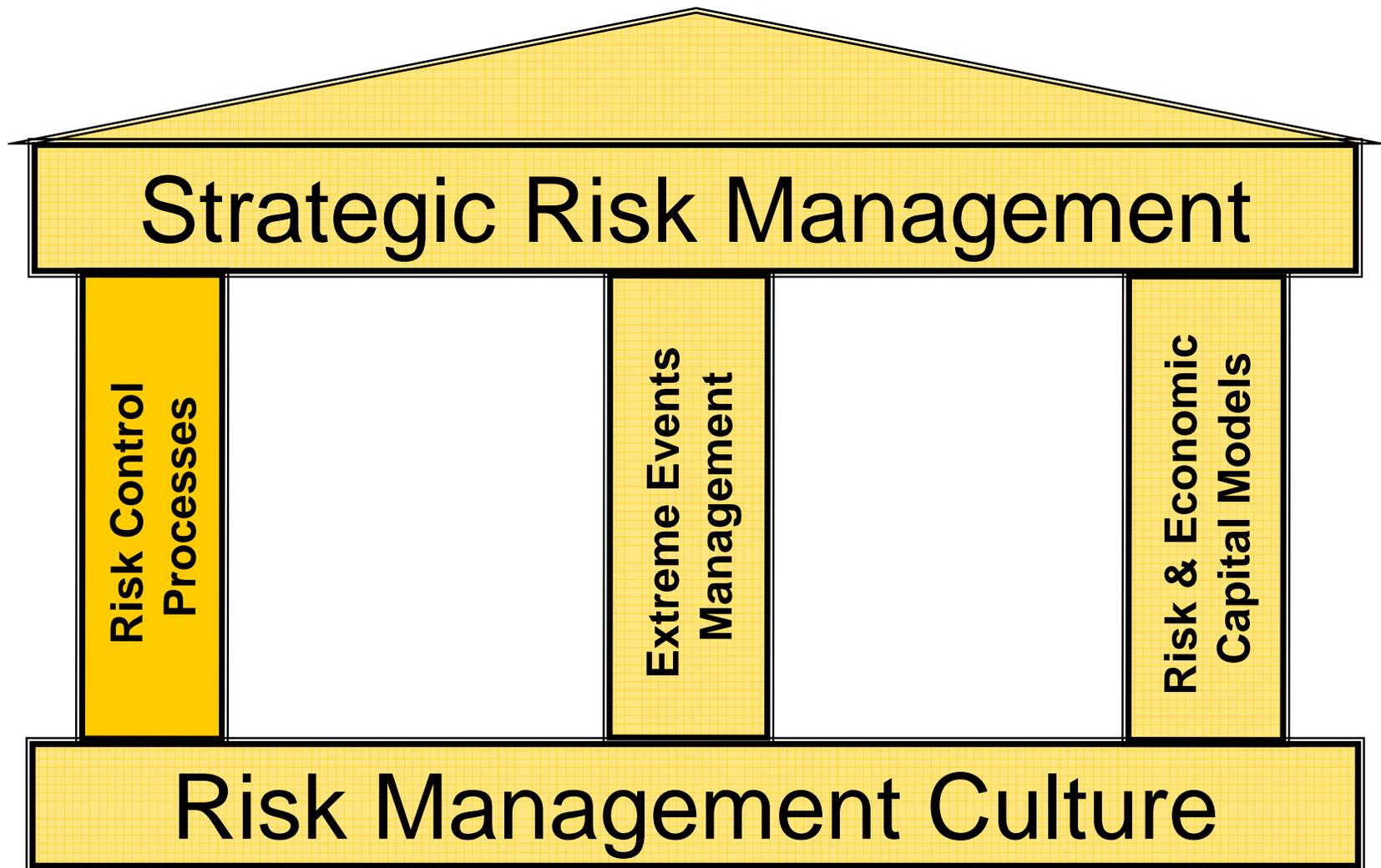
Risk Tolerance

Quantitative	Qualitative
Earnings Volatility	Uncertainty – are they assumptions or just guesses?
Ruin – Extreme Loss potential	Complexity – how many ways are there to get it wrong? How much do we know?
	Location – Country or other legal jurisdiction
	Experience/Expertise – inhouse vs. for hire vs. outside
	Tradability – can we get rid of it?
	Time Frame – how long is exposure?
	Type of Risk – Market, Credit, Insurance, Operational (and subcategories)
	Concentrations – by any dimension

Many Insurers will have several Zero Tolerance Risk Areas



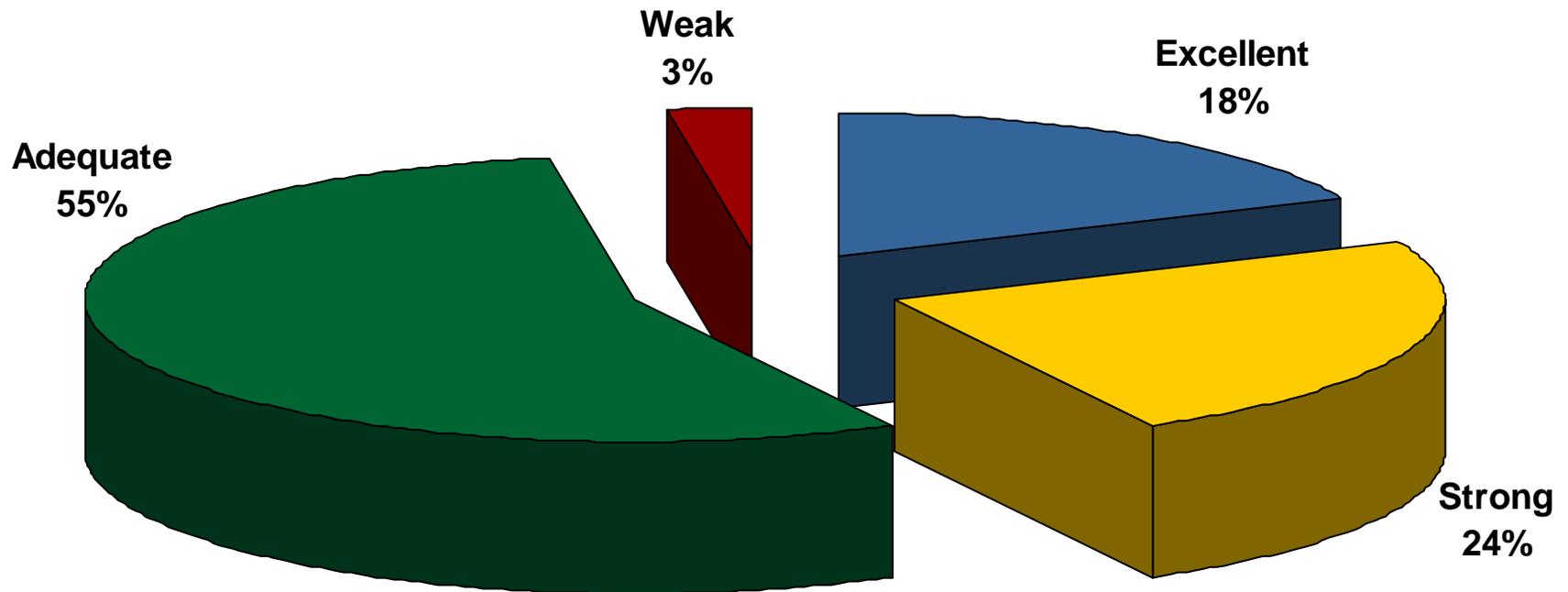
S&P's Evaluation of ERM





Investment Risk Control

Mostly doing what they need to do with a few standouts





Sound Practices: Credit Risk

Broadly four approaches:

1. Traditional Credit Management

- Underwriting Standards & enforcement process
 - Limits for concentrations by sector, location, rating, name
- Workout Process to provide best residual value

2. Portfolio Based Management

- Use of a Portfolio Credit Risk metric with structural model support
- Risk/Reward optimization process

3. Credit Spreads and Sales

- Loss limitation targets
- Firm Sales Triggers
- Regular monitoring and assessment of Credit Spreads

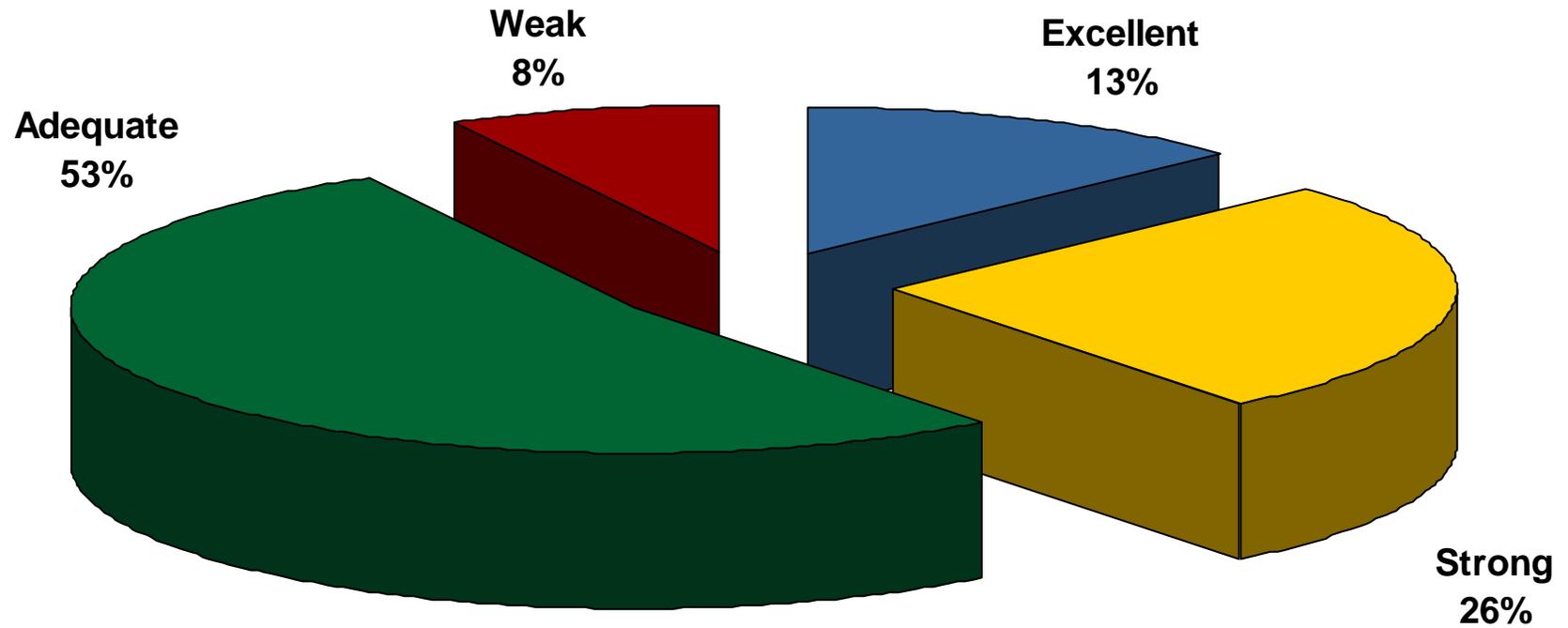
4. Credit Instruments

- Uses of CDO's & other credit instruments to effect changes in credit risk retained



Insurance Risk Control

Wide Range of Practices





Sound Practices: Insurance risk– P&C

1. Underwriting Process – Set, monitor and enforce standards

- Underwriting guidelines and enforcement
- Risk review
- Pricing
- Cycle management

2. Claims

- Process for assessing claims experience & comparing to pricing expectations & process to limit losses when appropriate

3. Monitoring and feedback mechanism

- Underwriting, Pricing & Claims

4. Catastrophe Risk

- Exposure concentration limits, monitoring & enforcement process
- Model and process to set and update model assumptions

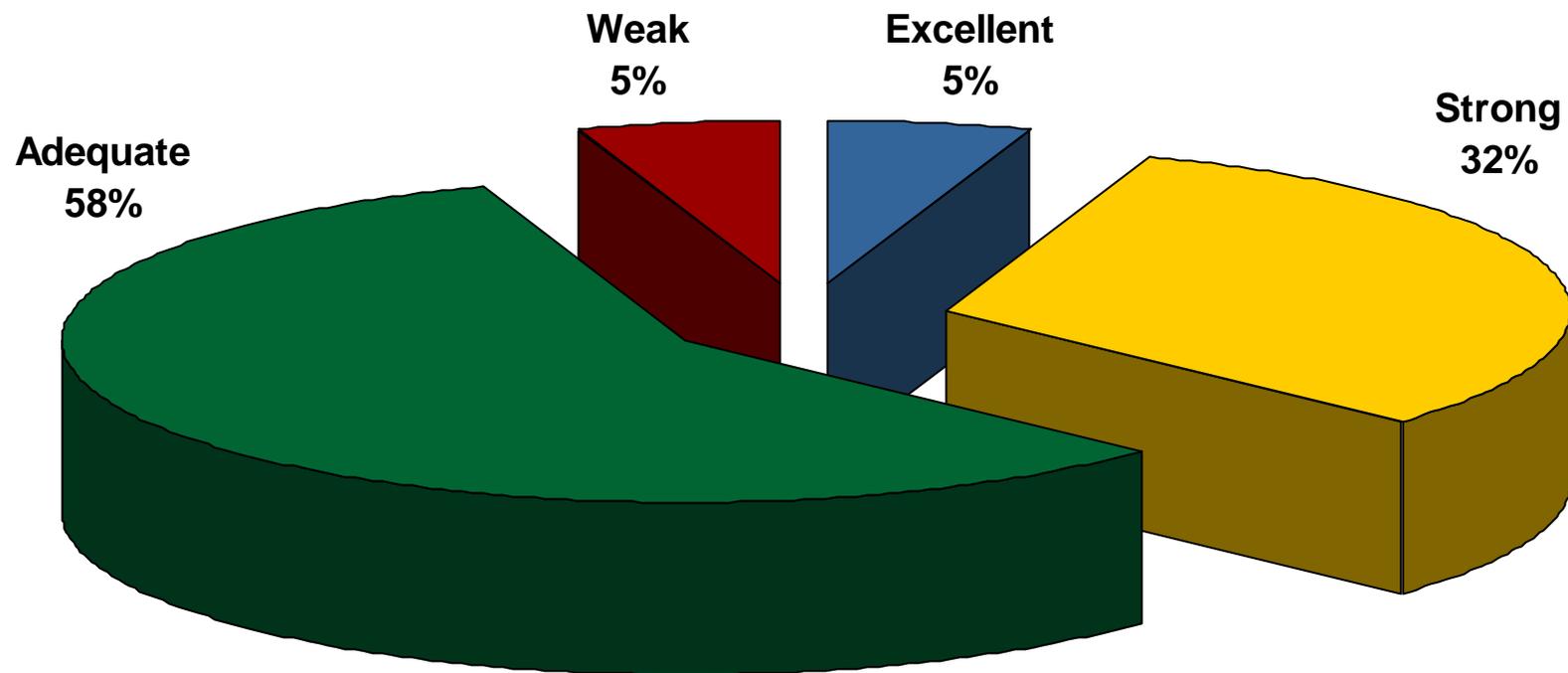
5. Reinsurance

- Policy for usage of reinsurance with update as conditions change
- Process to monitor and enforce compliance with policy
- Optimizing risk-return trade-off



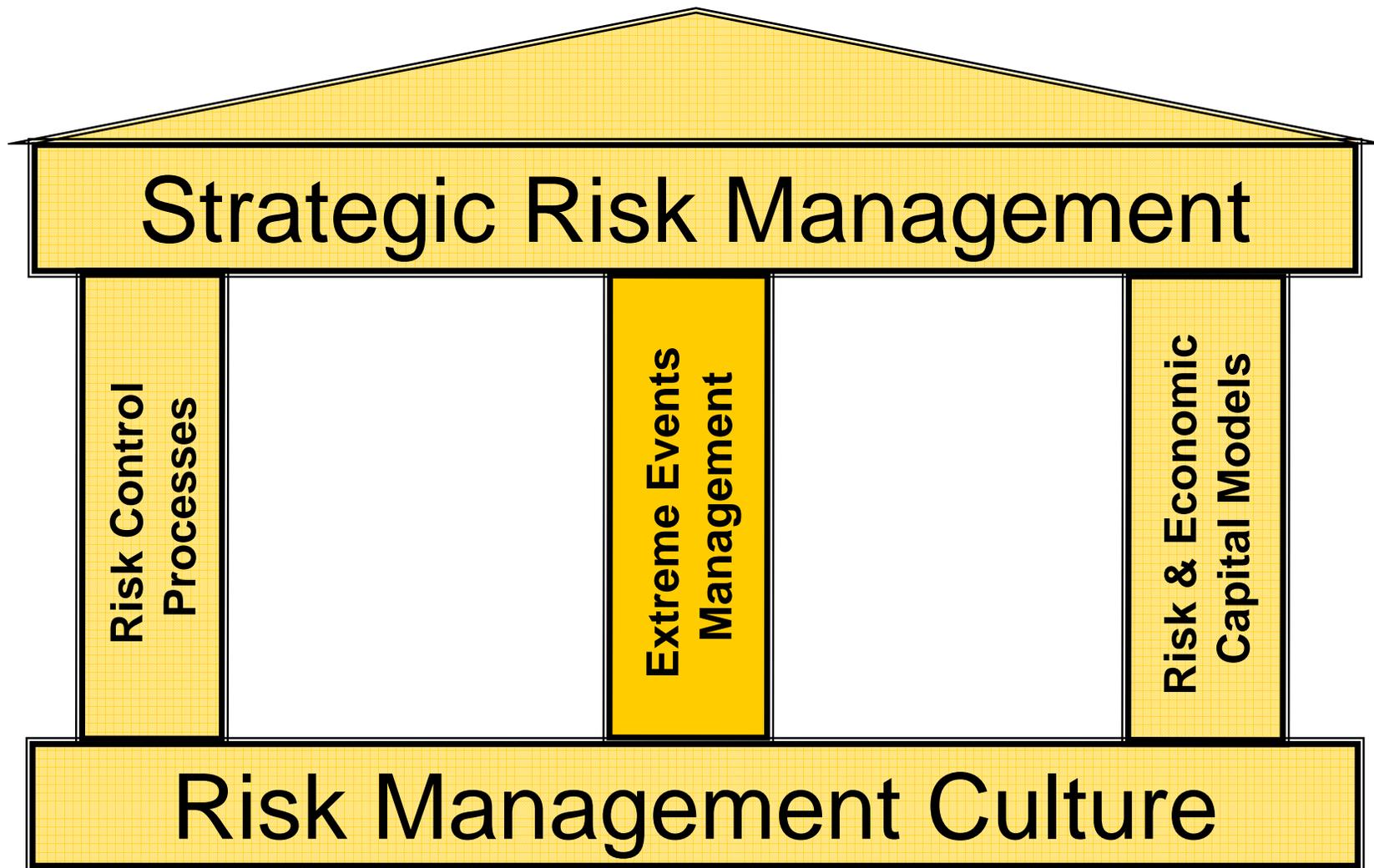
Operational Risk Control

Area to Improve Evaluation Capabilities





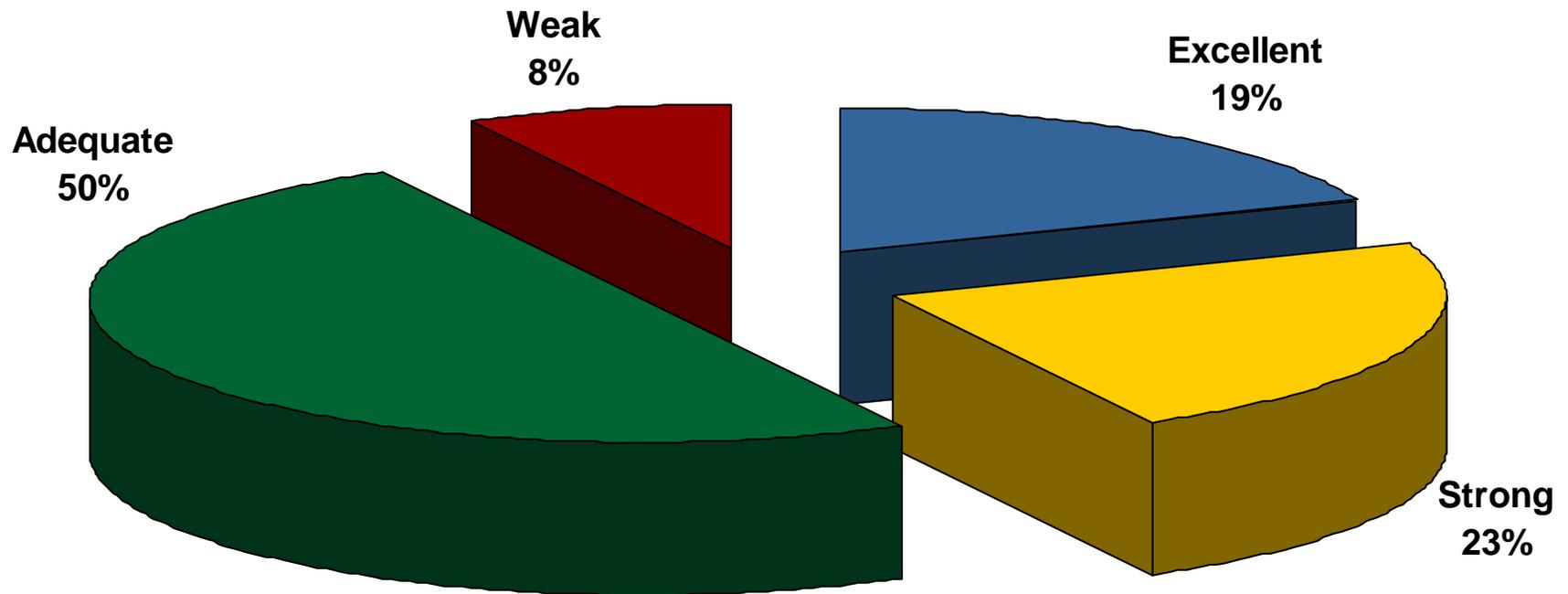
S&P's Evaluation of ERM





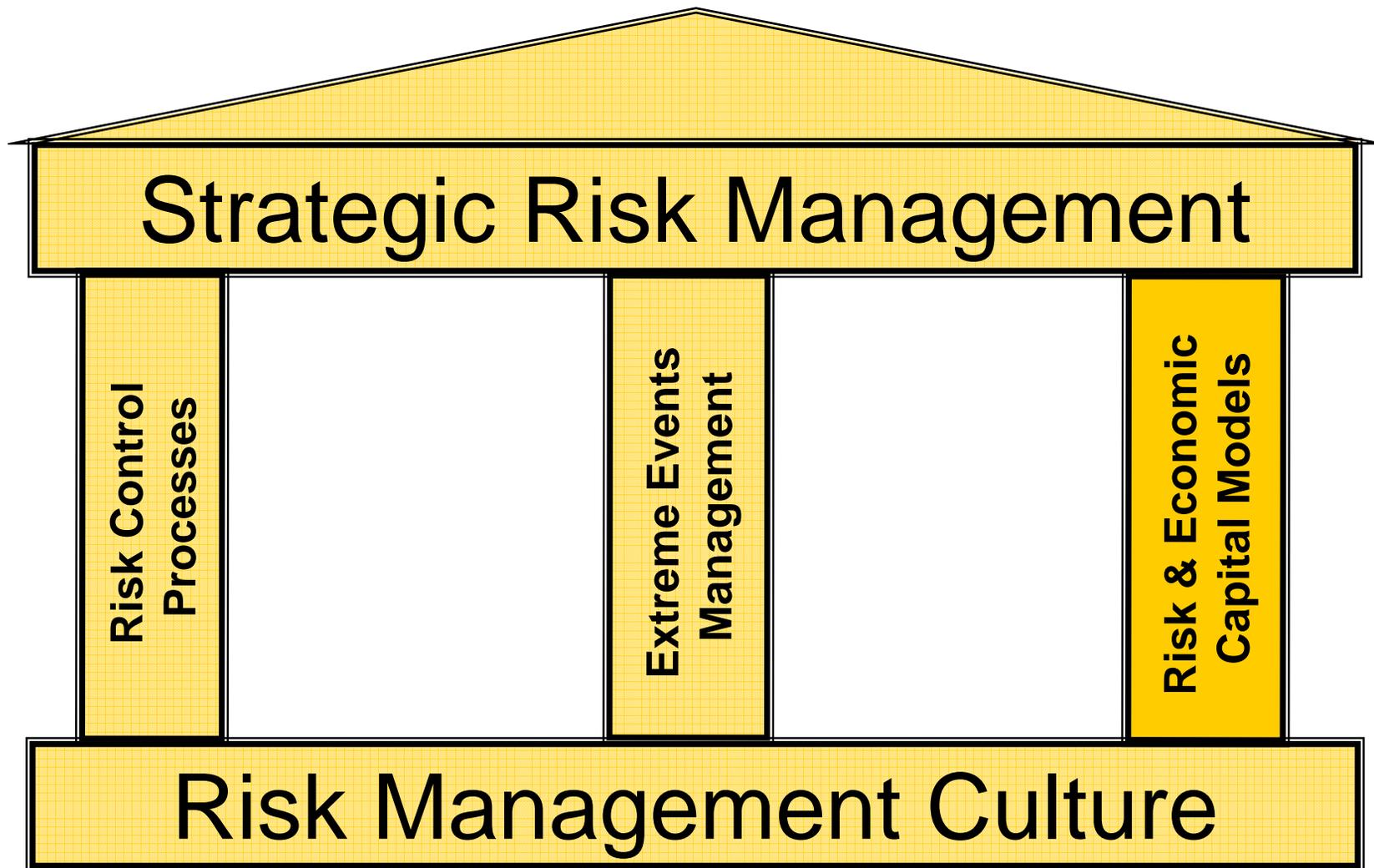
Extreme and Emerging Risks

Few Practitioners Found





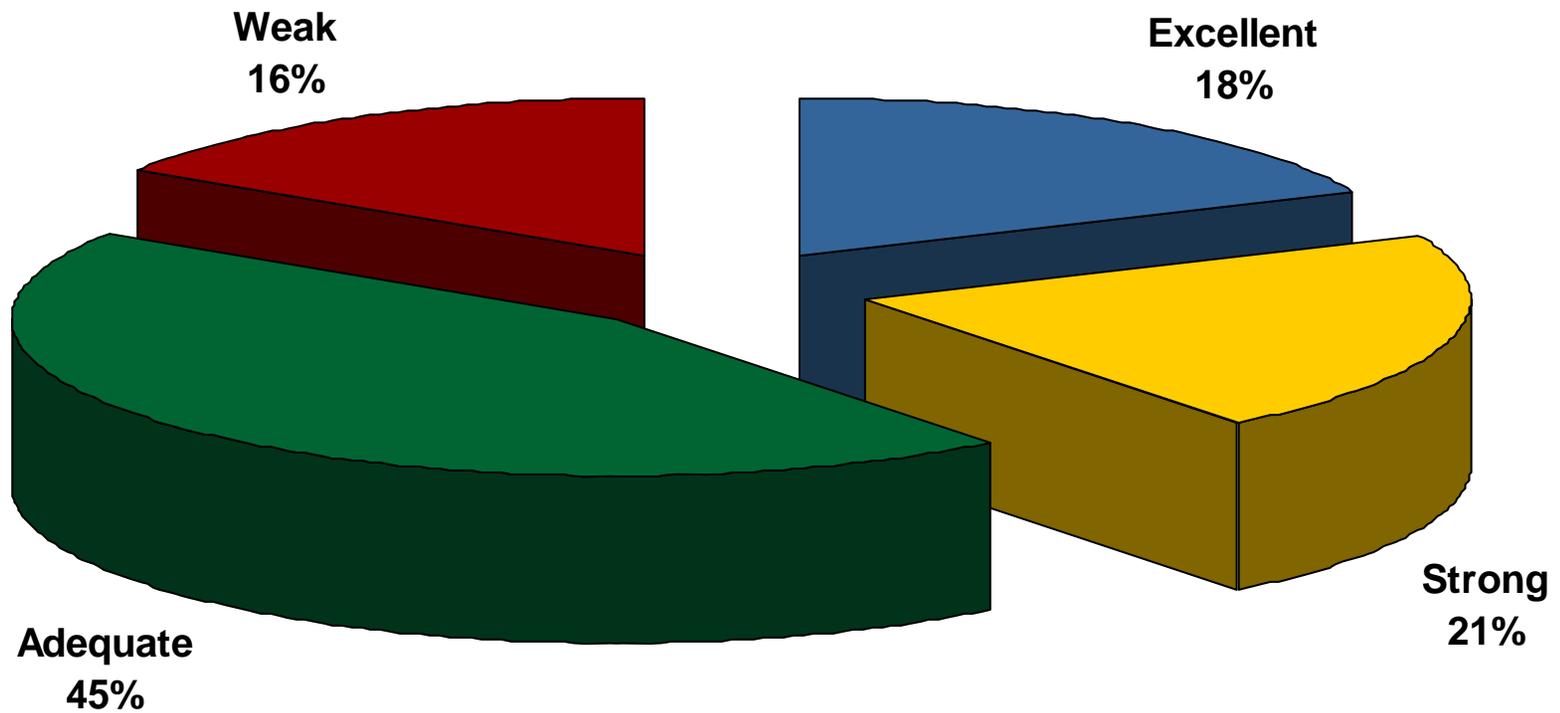
S&P's Evaluation of ERM





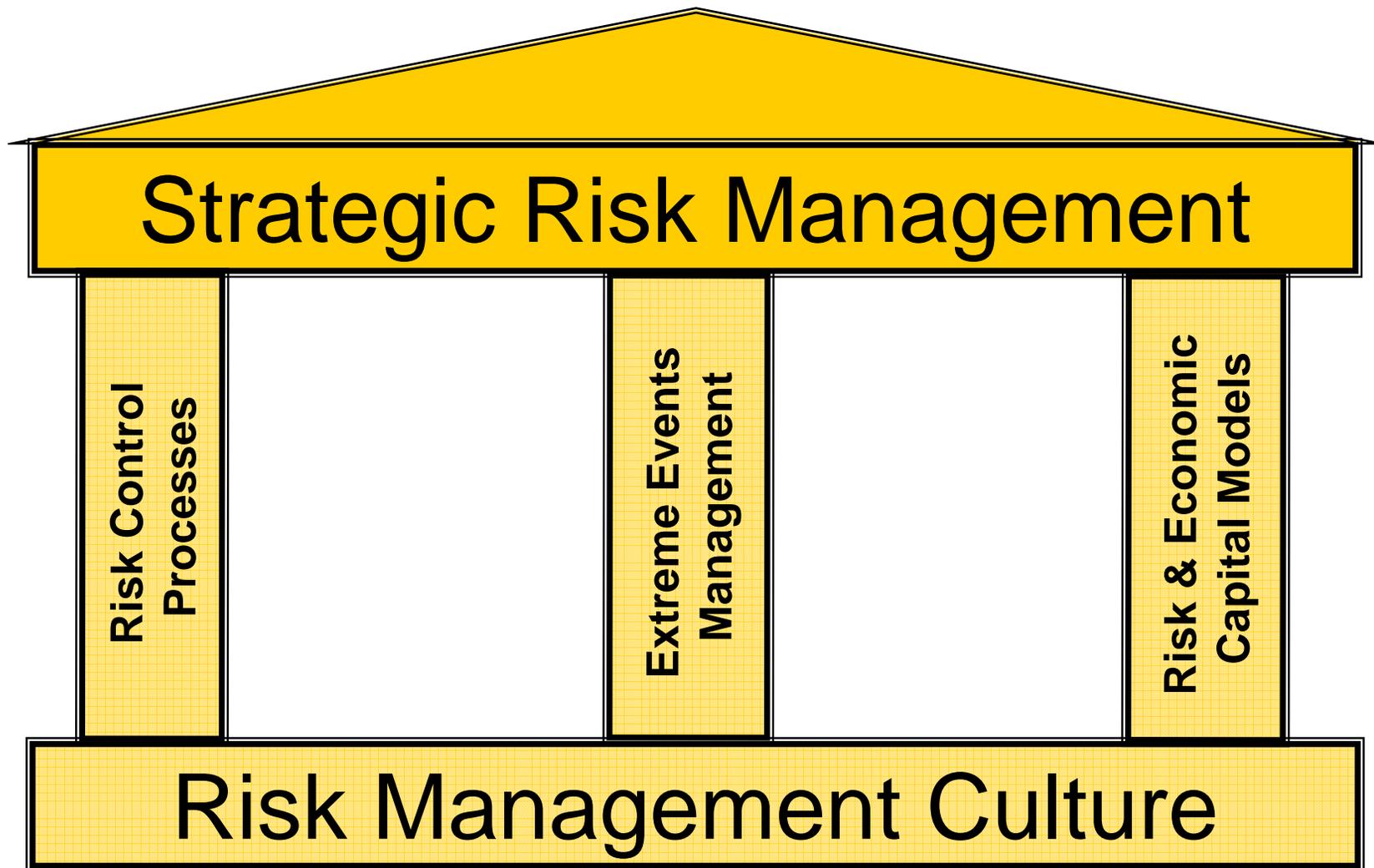
Risk & Economic Capital Models

Not subject to deep review





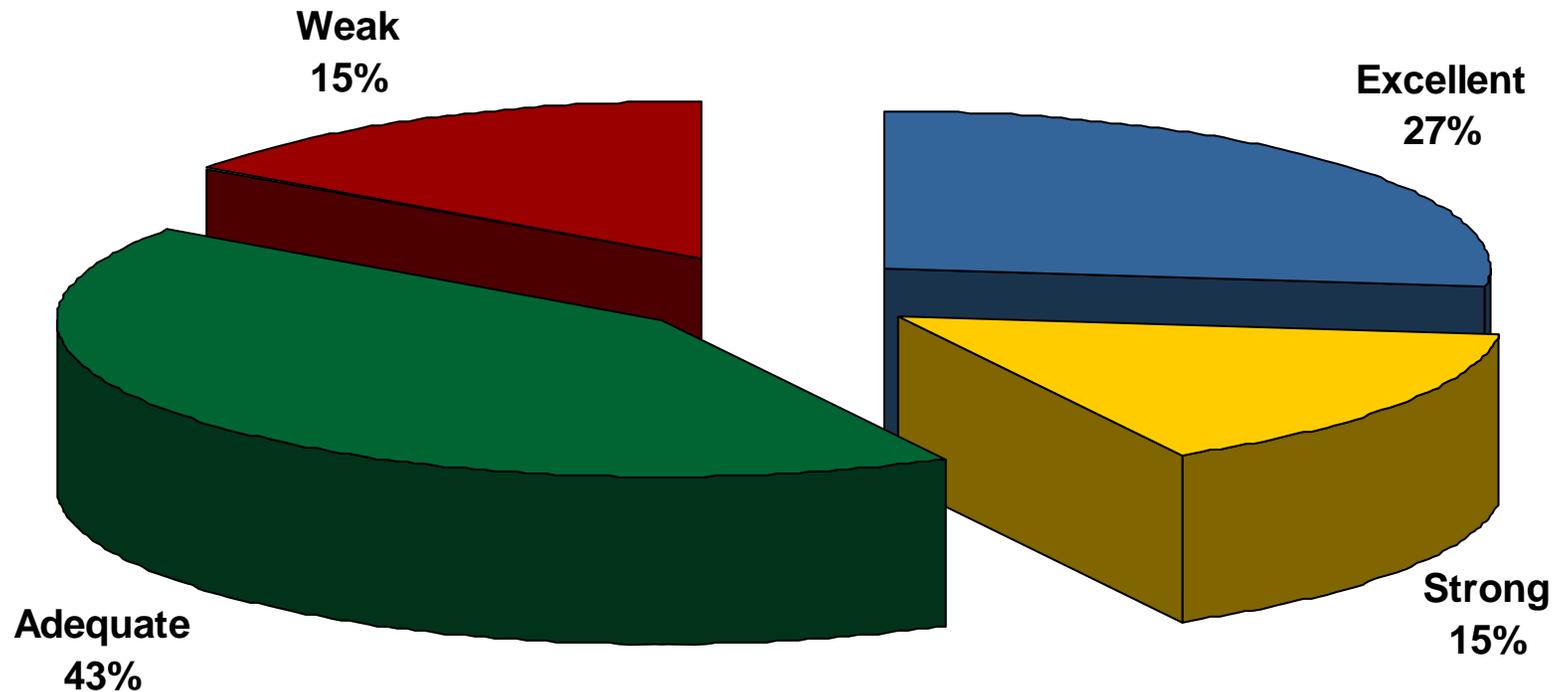
S&P's Evaluation of ERM





Strategic Risk Management

Expect that this area will drive competitive advantage over time





Coming Attractions - Criteria

- 1. Risk Tolerance**
- 2. New Product Risk**
- 3. Extreme Event and Emerging Risk Management**
- 4. Risk Control**
 - a. Broad Considerations
 - b. ALM / Market
 - c. Credit
 - d. Insurance – PC – Non-Life
 - e. Insurance – Life
 - f. Insurance – Health
 - g. Operational
- 5. Risk Models**



Questions?

Laura Santori

Director, Enterprise Risk Management

Financial Services Ratings, Paris

Tel: + 33 1 44 20 73 20

E mail: laura_santori@standardandpoors.com

David Ingram

Director, Enterprise Risk Management

Financial Services Ratings, New York

Tel: + 1 212 438 71 04

E mail: david_ingram@standardandpoors.com