

RISK CULTURE HOW IT DRIVES EVERYTHING

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Risk Culture



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MANAGING EXTREMES

- Who is talking about Risk Culture?
 - Regulators & Rating Agencies
 - Companies - GSIs
 - Case Study – SCOR
 - Ten Risk Culture Practices
- ERM Culture
 - Underlying Beliefs
 - Case Study – Partner Re
- Changing Risk Culture
 - Stories

Who is Talking about Risk Culture?



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MANAGING EXTREMES

- Regulators & Rating Agencies
 - Financial Stability Board
 - National Association of Insurance Commissioners
 - AM Best
 - Standard & Poor's

Insurance Companies



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MANAGING EXTREMES

- The Financial Stability Board has designated nine insurers as Global Systemically Important Insurers
 - AIG
 - Allianz
 - Aviva
 - AXA
 - Generali
 - MetLife
 - Ping An
 - Prudential (UK)
 - Prudential (US)

Seven of the nine mention Risk Culture in their 2013 Annual Report

2013 Annual Report AIG



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MANAGING EXTREMES

AIG - Our risk governance structure fosters the development and maintenance of a risk and control culture that encompasses all significant risk categories. Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit.

Allianz - Standard & Poor's stated that the Very Strong assessment of Allianz ERM is based on our strong risk management culture, strong controls for the majority of key risks and strong strategic risk management.

Aviva - We manage risk through our choice of business strategy, underpinned by our business culture and values, continuously seeking to identify opportunities to maximise risk-adjusted returns. Rigorous and consistent risk management is embedded across the Group through our risk management framework.

Risk Culture



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MANAGING EXTREMES

AXA - As an integrated part of all business processes, Risk Management is responsible for the definition and the deployment of the Enterprise Risk Management (ERM) framework within AXA Group, cemented by a [strong risk culture](#):

Generali - effectiveness of the risk management system through the spread of [a risk management culture based on shared values](#).

Ping An - The Group Executive Committee [promotes a culture of comprehensive risk management](#) within the Group **through** the inclusion of risk indicators in performance evaluation which [integrates risk management culture into its corporate culture](#). The Group [aims to promote a risk culture](#) and to enhance risk awareness.

Prudential (UK)



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MANAGING EXTREMES

- Our Group Risk Framework describes our approach to risk management, including provisions for risk governance arrangements; our appetite and limits for risk exposures; policies for the management of various risk types; risk culture standards; and risk reporting. It is under this framework that the key arrangements and standards for risk management and internal control that support Prudential's compliance with statutory and regulatory requirements are defined.
- Group Risk has responsibility for establishing and embedding a capital management and risk oversight framework and culture consistent with our risk appetite that protects and enhances the Group's embedded and franchise value.

Risk culture

(Unaudited)

We work to promote a responsible risk culture in three main ways:

- a By the leadership and behaviours demonstrated by management;
- b By building skills and capabilities to support management; and
- c By including risk management (through the balance of risk with profitability and growth) in the performance evaluation of individuals.

The remuneration strategy at Prudential is designed to be consistent with its risk appetite, and the Group Chief Risk Officer advises the Group Remuneration Committee on adherence to our risk framework and appetite.

CULTURE CASE STUDY SCOR

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MANAGING EXTREMES



Case Study SCOR



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MANAGING EXTREMES

- What does Risk Culture mean for a (re)insurer? In fact, Risk Culture forms *the basis of a solid risk management policy within the company*, as illustrated in the Greek temple.

Fig. 1: Building blocks of ERM



Source: SCOR 103 page booklet on ERM (2010)

Case Study SCOR



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MANAGING EXTREMES

The foundation of Risk Culture is strong internal risk-based governance. At SCOR this governance is overseen by a **Board Risk Committee** which reports to the Board of Directors. The main responsibilities of this committee are:

- Ensuring that the company has an **effective ERM framework** in place;
- Proposing an appropriate **risk appetite framework** to the Board and ensuring this is clearly communicated to and understood by all stakeholders, in particular by staff;
- Monitoring and reporting on the Group's **risk profile** to the Board;
- Monitoring and reporting **critical risk issues** to the Board.

Case Study SCOR



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MANAGING EXTREMES

- Risk Culture benefits from the appointment of a *Chief Risk Officer* (CRO) who is a member of the company's Executive Management. He/she is responsible for:
 - the management of the above areas and is expected to
 - provide regular updates to the company's Executive Management (weekly at SCOR) and
 - the Board Risk Committee (quarterly at SCOR).

Case Study SCOR



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MANAGING EXTREMES

- At SCOR, the day-to-day management of these areas is dealt with by the **Group Risk Management (GRM) department** which reports to the Group CRO.
- **The operating divisions** (SCOR Global P&C and SCOR Global Life) also **have their own Risk Management organizations**, headed by a Division CRO who has a dotted line reporting to the Group CRO. Both organizations work closely with GRM.

Case Study SCOR



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MANAGING EXTREMES

- From a governance point of view it is also imperative that a **clear separation of roles** between risk decision takers and risk managers exists. In particular the risk takers must be accountable for their business decisions. The various levels of decision making should also be risk-based, e.g. critical risks should be owned and managed by members of Executive Management.
- At SCOR, various risk-related committees, at or below the Group Executive Management level, provide formalized decision making forums which enable the views of risk decision takers and risk managers to be taken into account. For example the Group Asset Liability Management (ALM) Committee is in charge of capital allocation (to assets and liabilities) and strategic asset allocation. The Group Investment Committee is responsible for tactical asset allocation and ensures that the investment guidelines are respected.

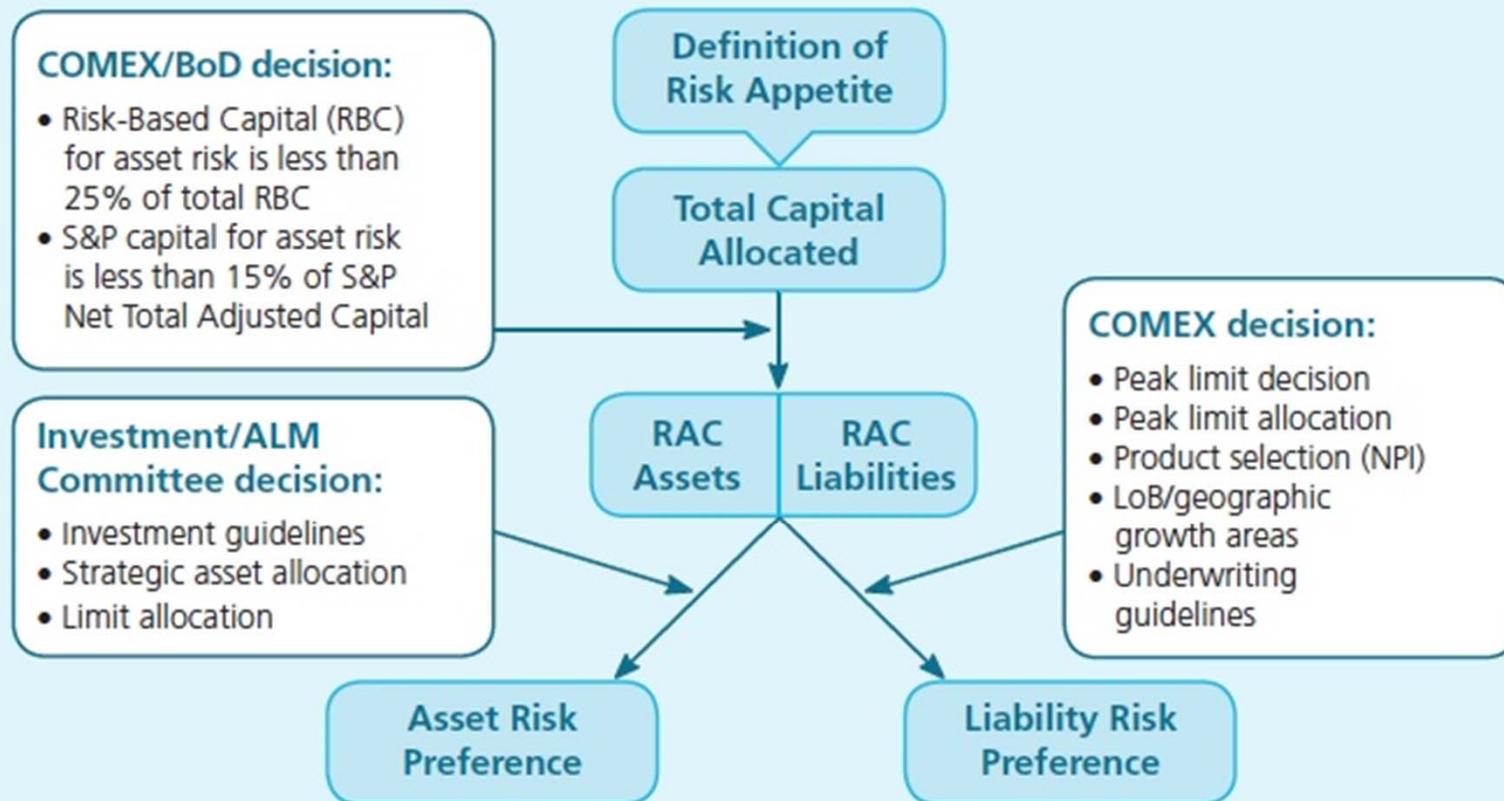
Case Study SCOR



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Fig.2: Process to derive Risk Preference and Risk Profile



Case Study SCOR



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Risk Culture is reinforced by:

- A remuneration system which incorporates incentives/ disincentives for management and staff to optimize risk and returns. The formula for SCOR's staff bonuses incorporates a significant element in respect of individual performance which is based on objective evaluation criteria including a part which rewards individual contributions to effective risk management;
- Risk-based, Group-wide policies and guidelines in areas such as ERM, reserving, underwriting, accounting, asset management, human capital management, compliance, internal audit, etc.;
- Risk-based internal control standards (including exposure limits) at the process level.

Case Study SCOR



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Fig.3: ERM affects the entire organization



TEN PRACTICES STRONG RISK CULTURE

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Strong Risk Culture



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- Regulators and Rating Agencies want to see Strong Risk Culture
- Each has slightly different version of Risk Culture
 - Financial Stability Board
 - NAIC
 - Standard & Poor's
 - AM Best
- The following discussion relates to their top ten
 - Practices that were mentioned by at least two of the four

Ten Risk Culture Practices



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MANAGING EXTREMES

1. Risk Governance – involvement of the board in risk management
2. Risk Appetite – clear statement of the risk that the organization would be willing to accept
3. Compensation – incentive compensation does not conflict with goals of risk management
4. Tone at the Top – board and top management are publically vocal in support of risk management
5. Accountability – Individuals are held accountable for violations of risk limits

Ten Risk Culture Practices



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MANAGING EXTREMES

6. Challenge – it is acceptable to publically disagree with risk assessments
7. Risk Organization – individuals are assigned specific roles to facilitate the risk management program, including a lead risk officer
8. Broad participation in RM – risk management is everyone’s job and everyone knows what is happening
9. RM Linked to strategy – risk management program is consistent with company strategy and planning considers risk information
10. Separate Measurement & Management of risk –
no one assesses their own performance regarding risk



Involvement of the board in risk management

- Regular Board reporting on Risk and Risk Management
 - Risk Profile and Strategic changes to Risk Profile
 - Risk Appetite & Risk Positions
 - Risk Policies and compliance
- Board organized to receive and act on Risk and Risk Management information
 - Separate Risk Committee
 - Existing Committees
 - Entire Board

Risk Governance - GSIIs



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MANAGING EXTREMES

Allianz – Supervisory Board has Risk Committee. Management Board approves Group Risk Policy. Has Capital, Risk and Finance Committees

AIG – Board has Finance and Risk Management Committee. CRO reports to CEO and FRMC.

Generali – Board approves Risk Management Policies, Strategies and Tolerance. Receives periodic risk profile reports

AVIVA – Board has Risk Committee which recommends Risk Appetite for Board approval. Risk Committee makes periodic reports to the board about significant risk exposures.

AXA - The Group Management Committee defines capital allocation regarding investment return and risk, defines the Group appetite for risks. Risk Appetite is endorsed by the Board of Directors.

Ping An – Board takes responsibility for effectiveness of overall risk management function. Audit and Risk Management Committee responsible for understanding major risks, monitoring risk management system.

Prudential (US) – Board oversees Risk Profile and management’s process for assessing and managing risk. Specific committees oversee specific risks.

Prudential (UK) - Primary responsibility for risk control lies with the Board. Group Risk Committee assists CEO in providing leadership, direction and oversight.

Risk Appetite



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Clear statement of the risk that the organization would be willing to accept

- Line of demarcation between Board & Management
 - All of board and management should have the same understanding of meaning
- Communicated broadly
 - Investors should want to know Risk Appetite
- More than half of insurers in US do not have this!
 - Most that do not have are lacking risk measurement systems

Risk Appetite - GSIs



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MANAGING EXTREMES

Allianz - defined by a clear risk strategy and limit structure. Close risk monitoring and reporting allow detection of potential deviations from our risk tolerance at an early stage

AIG - Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources. Our risk tolerances take into consideration regulatory requirements, rating agency expectations, and business needs.

Generali - Defined within the Group Management Committee along with proposals for updating the internal controls and risk management system.

Aviva – define risks selected in pursuit of return, risks to minimise and risks to avoid or transfer, and the amount of capital that can be put at risk

Prudential (UK) - retain material risks where consistent with risk appetite and risk-taking philosophy: (i) contribute to value creation; (ii) adverse outcomes can be withstood; (iii) have capabilities, expertise, processes and controls to manage.

Compensation



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MANAGING EXTREMES

Incentive compensation does not conflict with goals of risk management.

- Simple sales or profits based incentive comp may encourage management to pursue low profit/high volume or high profit/high risk opportunities.
- Risk weighted sales or risk adjusted profits can fix.
 - But are seen as too complicated – reducing effectiveness of incentive
- Need to balance incentive compensation with actual management of staff to reflect complex actual goals of the insurer

Compensation - GSIs



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MANAGING EXTREMES

Ping An - To meet regulatory requirements and to support the Company strategy and business development in a healthy and effective manner, have implemented a top-down performance management system that takes into account risk and compliance management.

Prudential (UK) – designed to be consistent with its risk appetite, and the Group Chief Risk Officer advises the Group Remuneration Committee on adherence to our risk framework and appetite. Include risk management (through the balance of risk with profitability and growth) in the performance evaluation of individuals.

Tone at the Top



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Board and top management are publically vocal in support of risk management.

- Public statements are made that include risk management among other top corporate priorities
- When important decisions are being made it is obvious that risk information influences the final decision
- Risk management gets supported when it is budget time
- Leaders continually articulate the firm's view of riskiness of various actual and potential positions
 - Risk Measurement system and leader's vision of riskiness should have some consistency

Tone at the Top - GSIs



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MANAGING EXTREMES

Allianz - The Allianz Group's management feels comfortable with the Group's overall risk profile and has confidence in the effectiveness of its risk management framework to meet the challenges of a rapidly changing environment as well as day-to-day business needs. As a provider of financial services, we consider risk management to be one of our core competencies.

Prudential (UK) - has established the Group Risk Committee to assist in providing leadership, direction and oversight in respect of the Group's significant risks, and with the Group Chief Executive and the Chief Executives of each of the Group's business units.



Individuals are held accountable for violations of risk limits

- The incentive compensation system does not replace management responsibility to manage
 - Identifying responsibility for undesirable situations and appropriately reacting is key management role
- Responsibility needs to be both individual and organizational
 - Group norm to respect limits
 - Expectation of management reactions to breaches
- Reaction not dependent upon results
 - Limit breach is serious even if the trade makes a profit

Accountability - GSIs



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MANAGING EXTREMES

AIG - Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit. Limit breaches are required to be reported in a timely manner and are documented and escalated in accordance with their level of severity or materiality. Responsibility for addressing and/or remediating any breach rests with individual or individuals within the specific unit that experienced the breach, who must report regularly on their progress to the ERM market risk team.

Challenge



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It is acceptable to publically disagree with risk assessments.

- There is a need to counterbalance the organization's view of riskiness
 - Things change and firm is doomed if they miss a major change because of groupthink
- Need to listen and react to contrarian voices within the firm
 - Make sure that it is know that such discussion is important to reaching the best conclusion
- Careful not to drive away dissenters
 - May be difficult to replace

Challenge - GSIs



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AXA - Systematic second opinion on key processes: Chief Risk Officers ensure a systematic and independent second opinion, on AXA material decision processes, like L&S and P&C new product characteristics (risk-adjusted pricing and profitability), P&C and Life Economic reserves, Asset and Liability Management studies, Asset allocation and new investments, and Reinsurance.

Risk Organization



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MANAGING EXTREMES

Individuals are assigned specific roles to facilitate the risk management program, including a lead risk officer.

- Four key organizational slots to fill for effective risk management system:
 - Risk Owners
 - Risk Committees
 - Chief Risk Officer
 - Risk Department

Risk Organization - GSIs



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MANAGING EXTREMES

AXA - Chief Risk Officers are responsible for ensuring that the top management reviews and approves the risks they carry in their company, understand the consequences of an adverse development of these risks, and have action plans that can be implemented in case of unfavorable developments

Generali - Risk management relies on an effective organizational structure based on clear definition of risk roles and responsibilities.

Ping An - the Group Risk Monitoring Committee's (RMC) main responsibilities include overseeing the establishment of risk management organization in subsidiaries and monitoring their performance

Broad participation in Risk Management



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MANAGING EXTREMES

Risk management is everyone's job and everyone knows what is happening

Three Lines of Defense Model

- Business Operating Units have primary responsibility for their risks
- Risk Management area recommends risk appetites and limits, risk policies, performs risk measurement and reviews new proposals
- Internal Audit performs review and reporting

Broad Participation - GSIs



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MANAGING EXTREMES

AIG - ERM supports our businesses and management in the embedding of enterprise risk management in our key day-to-day business processes and in identifying, assessing, quantifying, managing and mitigating the risks taken by us and our businesses.

AXA - Risk Management is a local responsibility, in accordance with GRM standards and guidelines.

Ping An - The Group Risk Monitoring Committee's (RMC) main responsibilities include: overseeing the establishment of risk management organization in subsidiaries and monitoring their performance; supervising the implementation of the risk management system in each subsidiary or business line, and promoting a culture of comprehensive risk management within the Group.

Prudential (UK) - promotes a responsible risk culture in three main ways: a- By the leadership and behaviours demonstrated by management; b- By building skills and capabilities to support management; and c- By including risk management (through the balance of risk with profitability and growth) in the performance evaluation of individuals.

Risk Management Linked to strategy



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MANAGING EXTREMES

Risk management program is consistent with company strategy and planning considers risk information

First question about risk and strategy:

Are you planning for risk to grow (a) faster than surplus, (b) slower than surplus or (c) balanced with surplus growth?

The emphasis of risk management program needs to be consistent with the answer to that question.

- If answer is (a) then a highly restriction based risk management program is not a fit.
- If answer is (b) or (c) then limits are a key tool.

Link to Strategy - GSIs



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MANAGING EXTREMES

AIG - Risk management is an integral part of how we manage our core businesses.

Ping An - enterprise risk management system is aligned with the strategies of the Group, as well as with the characteristics of our business. Risk management supports decision-making and facilitates the effective, sustainable and healthy growth of the Group, which helps the Group to become China's leading personal integrated financial services provider and ultimately fulfill our grand vision of becoming a globally leading integrate financial services group.

Prudential (UK) - Group Risk has responsibility for establishing and embedding a capital management and risk oversight framework and culture consistent with our risk appetite that protects and enhances the Group's embedded and franchise value.

Separate Measurement & Management of risk



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MANAGING EXTREMES

No one assesses their own performance regarding risk

- In general, most firms would not ever consider allowing employees to assess their own performance.
- However, many risk valuation and risk mitigation processes require a high degree of specific technical expertise.
 - To save on expenses or because of unanticipated turnover firms are often faced with a shortage of such expertise
 - Which leads to the bad decision to allow people to do the risk assessment for their own activities

Separation - GSIs



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MANAGING EXTREMES

AXA - Chief Risk Officers are independent from operations (“first line of defense”) and internal Audit Departments (“third line of defense”). Risk Management Department, together with Legal, Compliance, Internal Financial Control, Human Resources and Security Departments constitute the “second line of defense” which objective is to develop, coordinate and monitor a consistent risk framework across the Group. Risk Management Department, together with Legal, Compliance, Internal Financial Control, Human Resources and Security Departments constitute the “second line of defense” which objective is to develop, coordinate and monitor a consistent risk framework across the Group.

CULTURE
MORE THEN JUST PRACTICES

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What is Culture?



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Edmund Shein, Business Organization expert, says that culture has three aspects:

- espoused values – what leaders say
- artifacts – what members of an organization are observed to do
- underlying assumptions – shared values and beliefs

The essence of culture is then the jointly learned values and beliefs that work so well that they become taken for granted and non-negotiable.

Preliminary List of ERM Culture Beliefs



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MANAGING EXTREMES

1. The world is risky enough to make risk management desirable and predictable enough to make it worthwhile.
2. All organizations will always prefer not to fail. Risk management objectives should be a part of all company strategies.
3. Risks can be measured. Measurement is fundamental to risk management. Risk measurement is a very technical exercise that requires highly qualified experts to perform.

Preliminary List of ERM Culture Beliefs



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4. Risk does not manage itself. Management of risk requires attention and diligence. Risks can be managed by an organization through their choices to accept risks and their actions to mitigate or transfer risk.
5. Firms that are in the risk taking business will exist because of its ability to find opportunities where the market has mispriced risk that it can exploit.
6. Firms must identify and evaluate all aspects of the risks to which they are exposed. Risk aspects that are ignored will make a risk look excessively attractive to a firm that is in the business of risk taking.

Preliminary List of ERM Culture Beliefs



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MANAGING EXTREMES

7. Risks should be controlled through a process of limits and authority authorizations. Larger risks should be approved by people who are more senior within the company hierarchy.
8. Risk management should have a very high level of authority and should have access to communicating directly to the CEO and Board.
9. Preferences for risk and reward are highly asymmetrical. Rewards must be substantial to accept new/unknown risks.

Risk Culture Proposition



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MANAGING EXTREMES

- Unless a firm holds the ERM Beliefs, then adopting the regulators 10 Risk Culture Practices will not ultimately have the desired effect.
 - The Risk Culture Practices will be another Potemkin Village

RSIK CULTURE AS COMPANY CULTURE

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MANAGING EXTREMES



Risk Culture at Partner Re



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MANAGING EXTREMES

It's all about risk.

At PartnerRe, risk assumption is our business. Our success is wholly dependent on our ability to manage risk, so we focus first on the risk and then we consider the expected return.

- **Risk management is at the core of our value proposition.** We transform the uncertainty presented by risk into the certainty of claims payment for our clients. We must also produce an adequate return for our shareholders. Our challenge is to find the optimal balance between the returns that we can produce over the course of the market cycle and the risk to which we expose our capital.

It's all about risk.



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MANAGING EXTREMES

- Risk management is integral to our five-point strategy, which encompasses diversification, risk appetite, active capital management, excellence in evaluating and valuing risk, and consistency in how we deal with reinsurance and capital markets risks.
- Risk management is embedded in our culture, which encourages ownership and responsibility for risk management at all levels, with aligned return goals and compensation systems.

In the immediate wake of the Financial Crisis, PartnerRe decided to feature ERM in its 2008 Annual Report

PartnerRe Key Risk Policy Statements



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MANAGING EXTREMES

1. We centrally set and monitor absolute limits on our exposure to our shock losses.
2. We employ a consistent pricing methodology for all of our risks.
3. We use retrocession sparingly.
4. We reserve the lead year of long tail lines with prudence and recognize the inherent volatility.
5. Our non-life and life reserves are supported by investment grade fixed income securities matched as to quantity, duration and currency.

Source: PartnerRe 2008 Annual Report

PartnerRe Key Risk Policy Statements



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MANAGING EXTREMES

6. We do not manage reinsurance or investment risks for others.
7. We manage our underwriting and investments internally.
8. We make acquisitions only when they can be bought at or below economic value and integrated.
9. Our invested assets will be held at market for liquid investments and at fair value for investments which require significant management judgment.
10. Management's best estimate of fair value will never be greater than the value recommended to the Group Valuation Committee.

Source: PartnerRe 2008 Annual Report

PartnerRe Key Risk Policy Statements



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MANAGING EXTREMES

11. The CEO and the EC are the only people who can speak for PartnerRe as a Group to external audiences on strategic matters.
12. All senior managers will be significant shareholders of PartnerRe.
13. We do not pay a “carry” or percentage of profits to any individual at PartnerRe.
14. The primary metric for our annual incentive will be ROE.
15. Our Key Policies and supporting processes are subject to internal audit annually to ensure that they are operating effectively as designed.

Source: PartnerRe 2008 Annual Report

PartnerRe Risk Culture



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MANAGING EXTREMES

Skilled people and an appropriate culture

- The people who put the strategy, methodologies and policies into practice are just as important as the framework.
- Our culture does not depend on “superstars,” nor is it a “tick-the-box” environment that discourages individual initiative.
- We aim to find a happy medium that allows our people the flexibility to use their talent and exercise decision-making responsibility within the framework described. The emphasis on balance between qualitative judgment and quantitative analysis is reflected in the skill sets of our employees.
- Our underwriters and investment managers work closely with actuaries and analysts when making risk-assumption decisions.

Source: PartnerRe 2008 Annual Report

PartnerRe Risk Culture (2)



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MANAGING EXTREMES

- A notable feature of PartnerRe's culture is a high level of understanding and engagement with the Company's risk management approach.
- Regular, clear and open communication has helped to build a consistent risk management culture across our diverse organization.
- Our underwriters, actuaries and investment managers share a similar perspective on risk, and see the policies and processes not as obstacles, but as valuable tools to assist them as they balance the risk/return ratio of treaties and investments.
- At the same time, the Company's return goals and compensation systems are designed to reward behavior that builds stable, long-term value, not just short-term profit.

Source: PartnerRe 2008 Annual Report

PartnerRe Risk Culture (3)



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MANAGING EXTREMES

- We work hard to retain and develop our staff, nurturing future leaders with the same values as the present senior management, who will sustain our effective risk management culture as they move up through the organization.
- The continuity provided by good retention rates and internal succession also helps to ensure stability within our organization.

PartnerRe Since 2008



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MANAGING EXTREMES

- Partner Re experienced a large loss in 2011
 - Due to Japanese and New Zealand earthquakes
- Here is a part of management's reaction:
 - From a broader perspective, we are satisfied with the way our risk management systems performed.
 - Given the type of events, the losses were within our contemplated scenarios and within our maximum risk appetite.
 - But we also realize that we can improve on the communication of our risk appetite and risk tolerances as well as on our risk positions at any point in time – and we will.

PartnerRe 2013 Annual Report



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MANAGING EXTREMES

The limits approved by the Risk and Finance Committee and the actual limits deployed at December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Limit approved	Actual deployed	Limit approved	Actual deployed
Natural Catastrophe Risk	\$2.3 billion	\$1.5 billion	\$2.3 billion	\$1.6 billion
Long Tail Reinsurance Risk	\$1.2 billion	\$0.8 billion	\$1.2 billion	\$0.7 billion
Market Risk	\$3.4 billion	\$2.6 billion	\$3.4 billion	\$2.5 billion
Equity and equity-like sublimit	\$2.8 billion	\$1.8 billion	\$2.8 billion	\$1.7 billion
Interest Rate Risk (duration)—excess fixed income investment portfolio ⁽¹⁾	6.0 years	1.5 years	—	—
Interest Rate Risk (duration)—total fixed income investment portfolio ⁽²⁾	—	—	5.0 years	2.7 years
Default and Credit Spread Risk	\$9.5 billion	\$6.8 billion	\$9.5 billion	\$7.1 billion
Trade Credit Underwriting Risk	\$0.9 billion	\$0.7 billion	\$0.9 billion	\$0.6 billion
Longevity Risk	\$2.0 billion	\$1.2 billion	\$2.0 billion	\$1.1 billion
Pandemic Risk	\$1.3 billion	\$0.6 billion	\$1.3 billion	\$0.6 billion
Agriculture Risk	\$0.3 billion	\$0.1 billion	—	—
Mortgage Reinsurance Risk	\$0.7 billion	\$0.2 billion	—	—
Any one country sub-limit	\$0.5 billion	\$0.2 billion	—	—

PartnerRe 2013 Annual Report



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MANAGING EXTREMES

- Key policies are established by the Chief Executive Officer and policies at the next level down are established by Business Unit and Support Unit management. Key policies are approved by the relevant Committee of the Board and other policies are approved by the Chief Executive Officer.
- Risk management policies and processes are coordinated by Group Risk Management and compliance is verified by Internal Audit on a periodic basis.
- The Company utilizes a multi-level risk management structure, whereby critical exposure limits, return requirement guidelines, capital at risk and key policies are established by the Executive Management and Board, but day-to-day execution of risk assumption activities and related risk mitigation strategies are delegated to the Business Units and Support Units.

PartnerRe 2013 Annual Report



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MANAGING EXTREMES

- Reporting on risk management activities is integrated within the Company's annual planning process, quarterly operations reports, periodic reports on exposures and large losses, and presentations to the Executive Management and Board.
- Individual Business Units and Support Units employ, and are responsible for reporting on, operating risk management procedures and controls, while Internal Audit periodically evaluates the effectiveness of such procedures and controls.

BUILDING RISK CULTURE

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MANAGING EXTREMES



What to do to Create or Strengthen a Risk Culture



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MANAGING EXTREMES

- Create stories that tell how risk management behaviors in the past have been successful.
- As major events in the life of the firm occur, create new stories about the risk and risk management slant on the events

Four Point Story (TD Bank 2013)

- ✧ Continue to strengthen the sound risk management culture throughout the organization
- ✧ Understand the risk appetite. All policies and processes must line up with the risk appetite.
- ✧ Perform robust stress-testing so that key risk factors that impact the organization are clearly understood.
- ✧ Credit losses are high priority. Credit losses lag in a recession, so it's important to be prepared for them.

Four Point Story



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MANAGING EXTREMES

- Build upon and continue to strengthen a sound risk management culture throughout the organization
- Understand the bank's risk appetite. All bank policies and processes must line up with the risk appetite.
- Perform robust stress-testing so that key risk factors that impact the organization are clearly understood.
- Credit losses are high priority. Credit losses lag in a recession, so it's important to be prepared for them.

TD Bank 2013

ERM Culture Beliefs and Stories



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MANAGING EXTREMES

1. The world is risky enough to make risk management desirable and predictable enough to make it worthwhile.
 2. All organizations will always prefer not to fail. Risk management objectives should be a part of all company strategies.
 3. Risks can be measured. Measurement is fundamental to risk management. Risk measurement is a very technical exercise that requires highly qualified experts to perform.
1. Stories about other companies who have had troubles with the same risks. (The Rocks)
 2. Risk Appetite set to assure that company is able to withstand stresses.
 3. Always have an assessment of risk. Broadly report Risk Profile and explain basis of assessments.

ERM Culture Beliefs and Stories



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MANAGING EXTREMES

4. Risk does not manage itself. Management of risk requires attention and diligence. Risks can be managed by an organization through their choices to accept risks and their actions to mitigate or transfer risk.
5. Firms that are in the risk taking business will exist because of its ability to find opportunities where the market has mispriced risk that it can exploit.
6. Firms must identify and evaluate all aspects of the risks to which they are exposed. Risk aspects that are ignored will make a risk look excessively attractive to a firm that is in the business of risk taking.
4. Regular discussion of risk mitigation activities keep risk management in the foreground. Effective mitigation is celebrated. (Excess Losses do not happen.)
5. Regular discussion of risk selection activities. Evaluation and reporting of risk selection relative to peers.
6. Risk Assessment is in a constant state of improvement. New findings are expected and celebrated.

ERM Culture Beliefs and Stories



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7. Risks should be controlled through a process of limits and authority authorizations. Larger risks should be approved by people who are more senior within the company hierarchy.
8. Risk management should have a very high level of authority and should have access to communicating directly to the CEO and Board.
9. Preferences for risk and reward are highly asymmetrical. Rewards must be substantial to accept new/unknown risks.
7. Approvals and rejections of larger risks are presented to all involved in risk acceptance and discussed.
8. CRO shares reports to board and CEO, told as “our” report from risk management area.
9. Tied to improvements in risk assessments, lack of knowledge about a risk does not result in zero assessment value.

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