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***2012 US Insurance
ERM & ORSA Survey***
Key results and findings

June 2013

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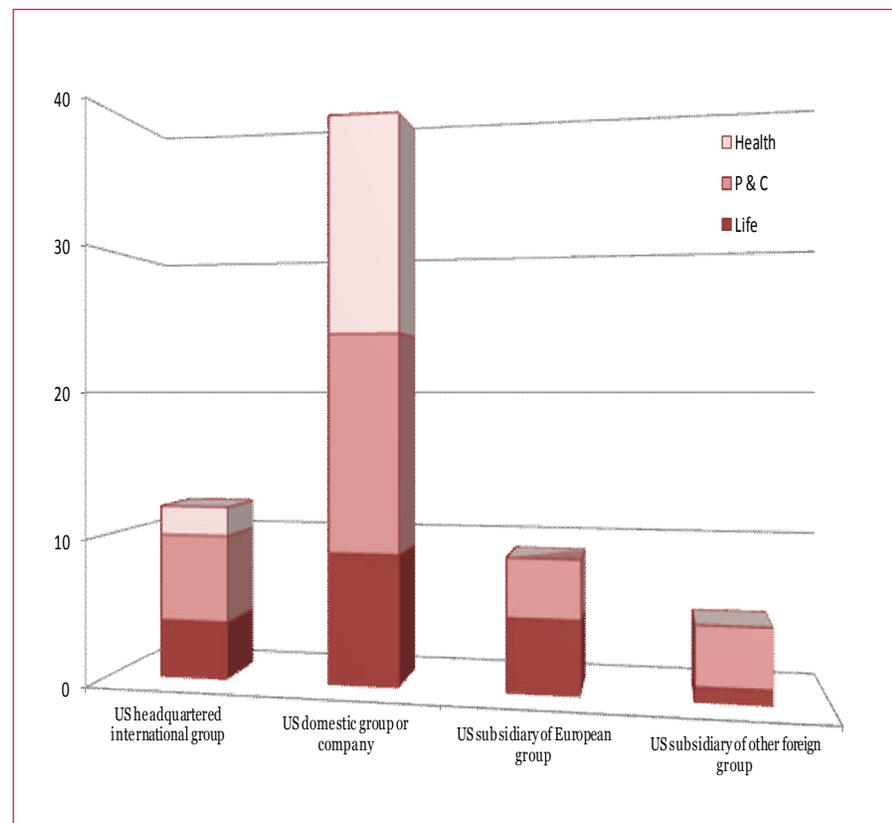
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PwC's 2012 US insurance ERM & ORSA survey

A continuation of PwC's two previous global ERM surveys, but in this case, targeted exclusively at the US insurance market.

- 65 companies, approximately 1/3rd of the market
- Mix of life, P&C and health, direct and reinsurance
- US headquartered groups, US companies and US subsidiaries of foreign groups
- 45 companies need to comply with other regimes including Solvency II, Canadian, Bermudan and Federal Reserve supervision
- Face to face interviews with CRO's



Key remarks on ERM & ORSA readiness

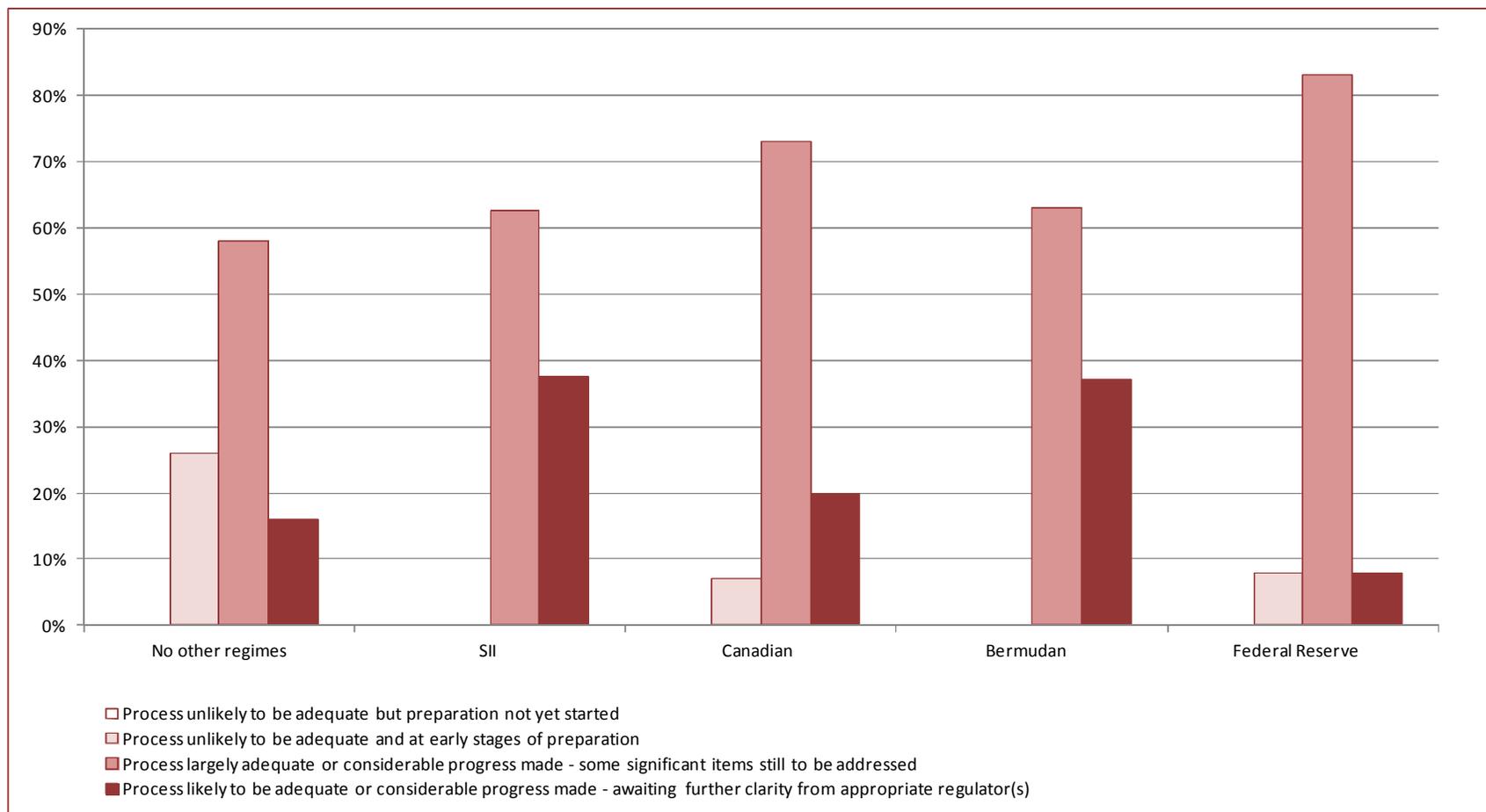
35% of companies indicated they do not have a fully implemented risk appetite with tolerances linked to business strategy.

38% of company boards are reported to either not be engaged or only passively engaged in risk management.

And, yet, 82% of respondents believe existing ERM processes are largely or already adequate for the ORSA.

Key finding: A potentially significant gap appears to exist between the perception of preparedness to implement the ORSA and the actual completeness of the underlying risk management framework.

Regulations in many territories have been encouraging insurers to develop ORSA processes



2012 US Insurance ERM & ORSA Readiness Survey

Key remarks on ORSA readiness – overall survey

Risk Strategy

1. Risk appetite

- Only two thirds of companies indicated they have a risk appetite statement that reflects tolerance, strategy and financial goals.
- For companies with risk appetite statements, statements covering a range of risk types typically are indicated.

2. Limit frameworks

- While most companies indicated having a limit framework in place, some are not well advanced.
- The use of risk-adjusted performance metrics is still evolving.

3. Linkage to business planning

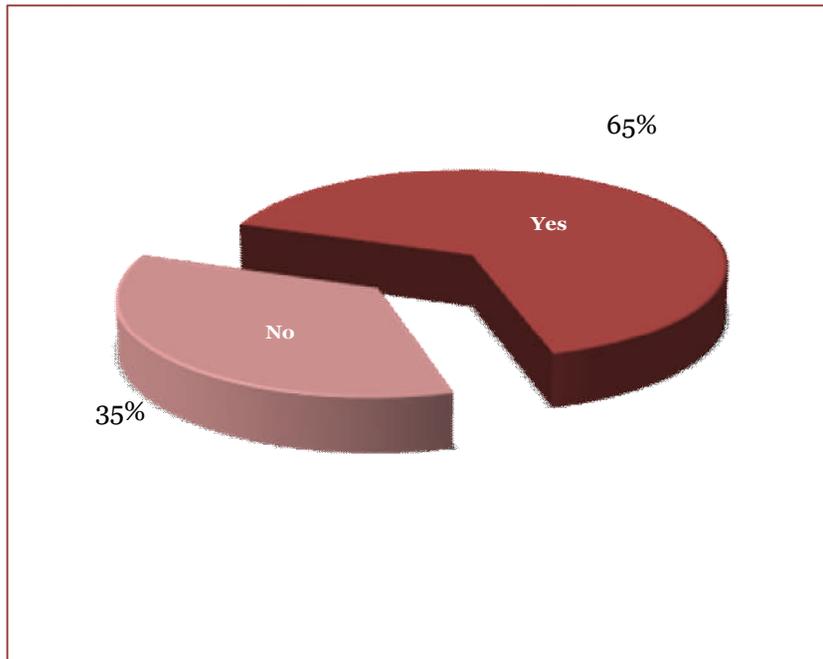
- A quarter of companies reported that risk appetite metrics are not included as part of the business planning process; over half only include some metrics.
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Survey results: risk appetite

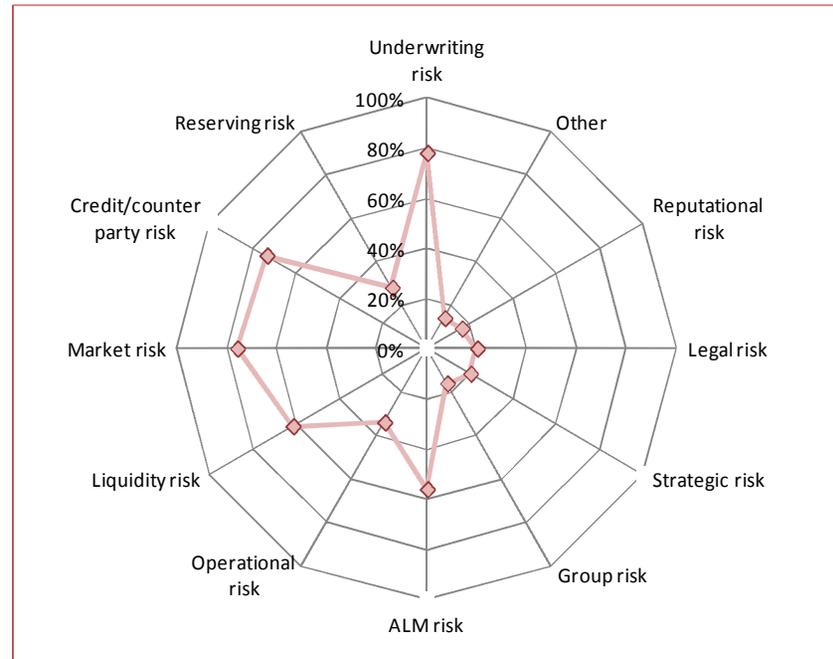
Risk appetite

- Defining Risk Appetite and linking to business strategy
- Cascading approved Risk Appetite down to tolerances and limits

Do you have a clearly articulated risk appetite statement?



Where is the risk limit framework most advanced?



Risk appetite should be clearly articulated and reflect the organization's risk carrying capacity, business strategy and financial goals. Processes and procedures should be in place to manage risk on an enterprise wide basis within defined boundaries without stifling day to day operations.

2012 US Insurance ERM & ORSA Readiness Survey

Key remarks on ORSA readiness – overall survey

Risk Governance

1. Reporting lines

- In 40% of companies, the CRO does not report directly to the CEO or the Board.

2. Board engagement

- Two in five company Boards are “not engaged” or only “passively engaged” in risk management. More than half of companies do not have a Board-level risk committee.

3. Internal audit

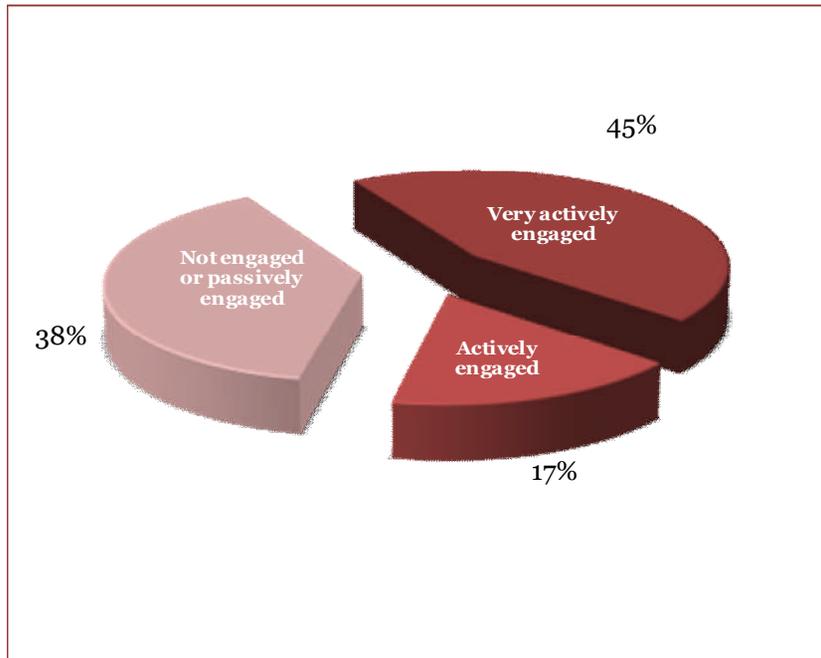
- Internal audit does not have a role in providing risk management oversight in over a quarter of companies.
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Survey results: risk culture & governance

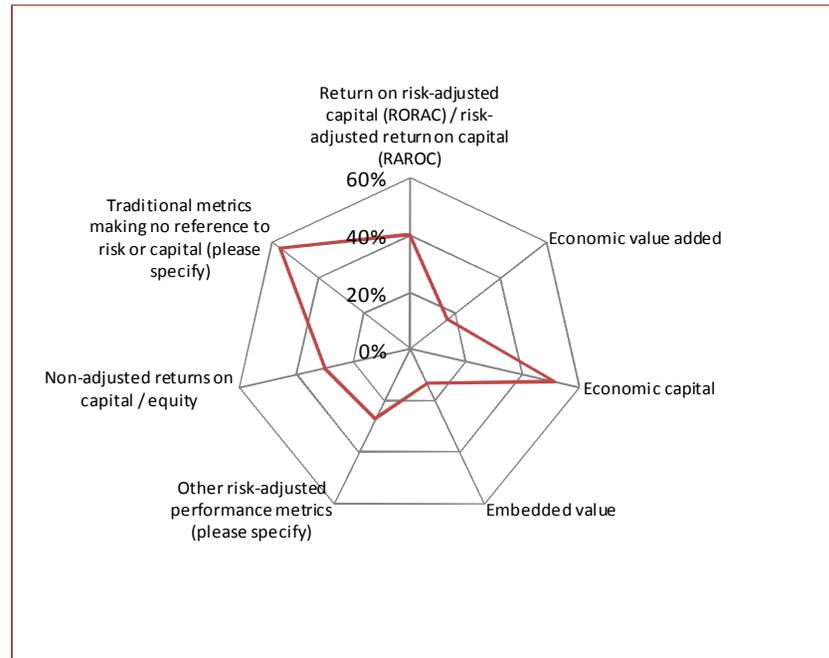
Risk culture and governance

- Achieving high engagement by the Board and buy in from Senior Management
- Shifting from informal to formal risk culture and demonstrating “use”
- Establishing clear roles and responsibilities – on-going accountability

How actively engaged is the board in risk management?



Use of risk adjusted performance metrics?



A governance structure based on a “three lines of defense” model is emerging as best practice in the industry. Senior management should be accountable and responsibility for “top tier” risks and clear risk management policies and procedures should exist for managing all material risks.

2012 US Insurance ERM & ORSA Readiness Survey

Key remarks on ORSA readiness – overall survey

Risk Management

1. Risk policies

- Many companies indicated not having fully documented risk policies covering their key risks.
- In addition, over half of companies reported that not all policies are actively reviewed, updated and enforced.

2. Stress testing frameworks

- The majority of companies reported not having a fully operational stress testing program.

3. Reporting

- A quarter of companies do not have a risk dashboard or risk management information pack.

4. Risk based compensation

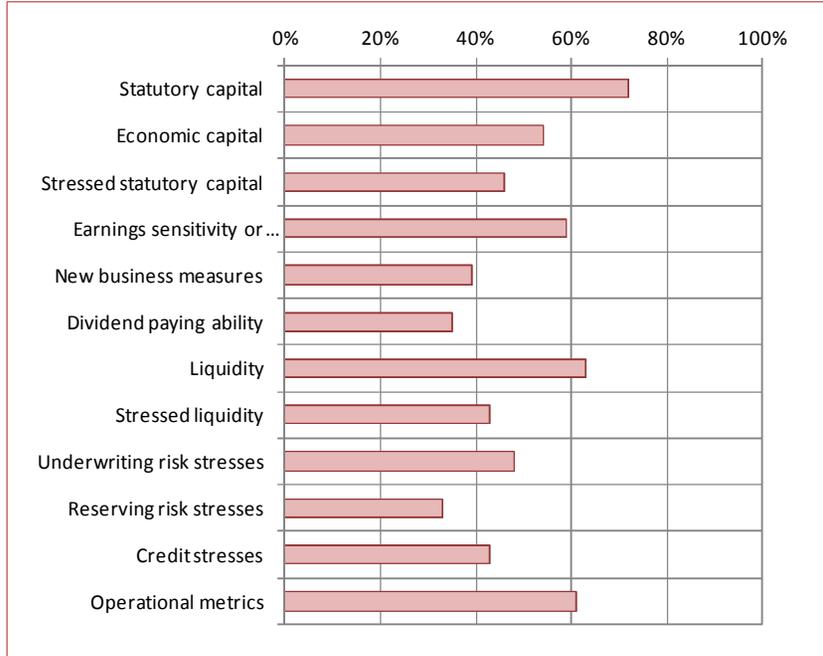
- Nearly one in five companies reported incorporating risk metrics in determining compensation.
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Survey results: risk reporting

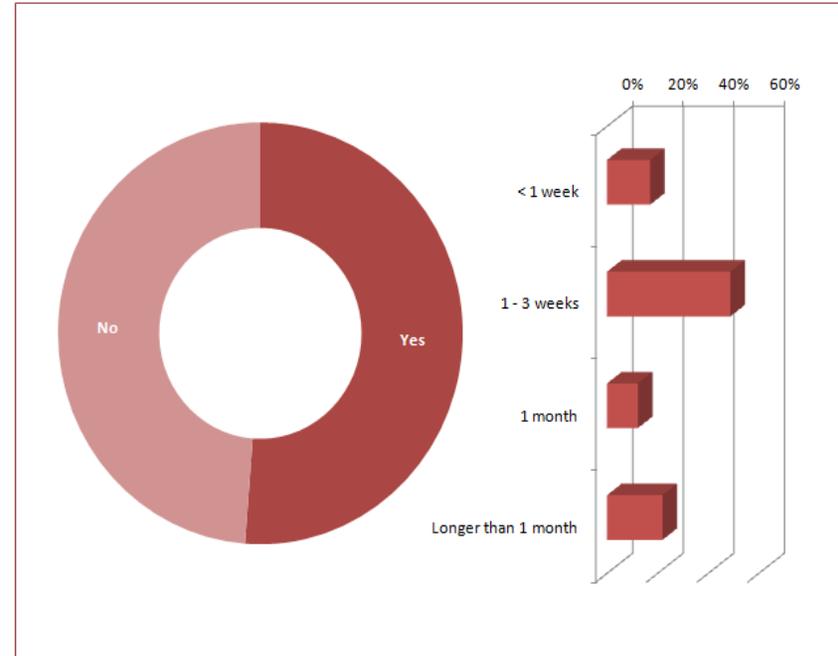
Reporting and communication

- Comprehensive risk information which is readily produced and accurate
- Consistency of risk reports across the enterprise
- Achieving high comfort with the quality and timeliness of management information to support confident, timely decision making– addressing model risk and process

Which metrics are included in your risk dashboard?



Data issues and time to produce?



Risk management information to monitor exposures and performance against appetite should be appropriately tailored to roles, responsibilities and authority levels.

2012 US Insurance ERM & ORSA Readiness Survey

Key remarks on ORSA readiness – overall survey

Risk Quantification

1. Economic capital

- Two thirds of companies reported using an economic capital measure.
- This still leaves a third relying on more traditional capital metrics.

2. Risk aggregation

- Two in five companies believe their risk aggregation approach needs improving, or is at a low level of sophistication.

3. Capital modeling

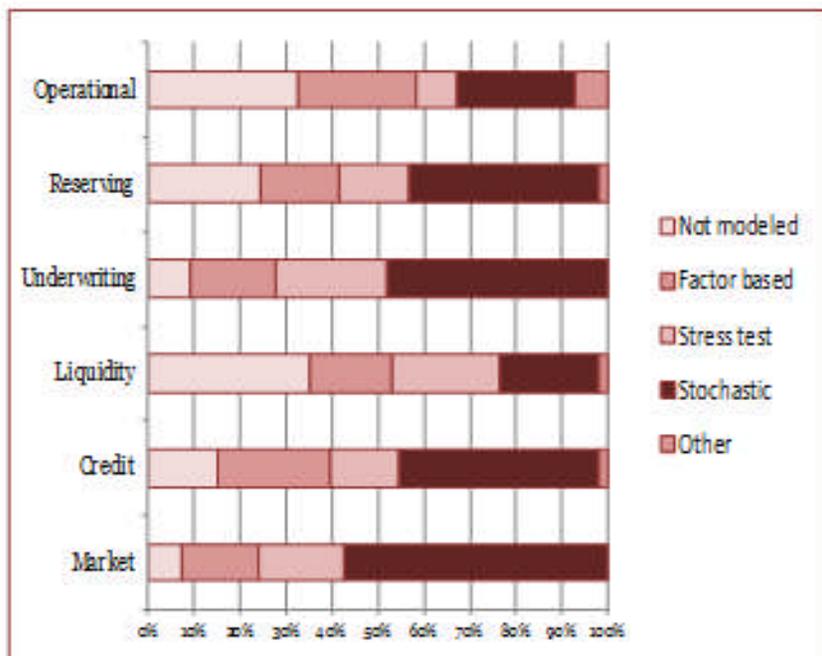
- Over 40% of respondents' capital models can only project capital requirements and solvency positions over a one year time horizon.
 - Over half of respondents' capital models can project capital requirements and solvency positions over at least a 3 year time horizon.
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Survey results: capital and prospective solvency

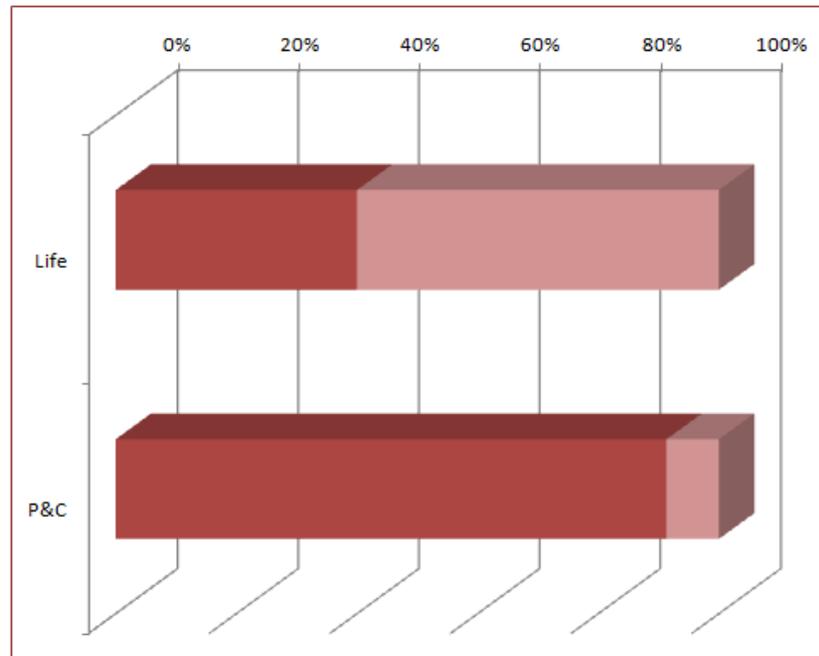
Group capital and prospective solvency

- Choice of enterprise-wide risk measurement framework
- Projection of risk measures over business planning period
- Reflecting management's actions

How do you model capital?



Ability to project a risk sensitive capital metric?



Internal risk and capital models are at the heart of an ERM framework. Models need to meet the highest quality standards, be appropriately calibrated (“real time”) and fully tested and documented. Models need to be subject to independent scrutiny and validation.

Reinsurers generally tended to report more advanced risk management techniques

Sophisticated risk management techniques are also likely to reflect the larger size and complexity of many reinsurance participants.

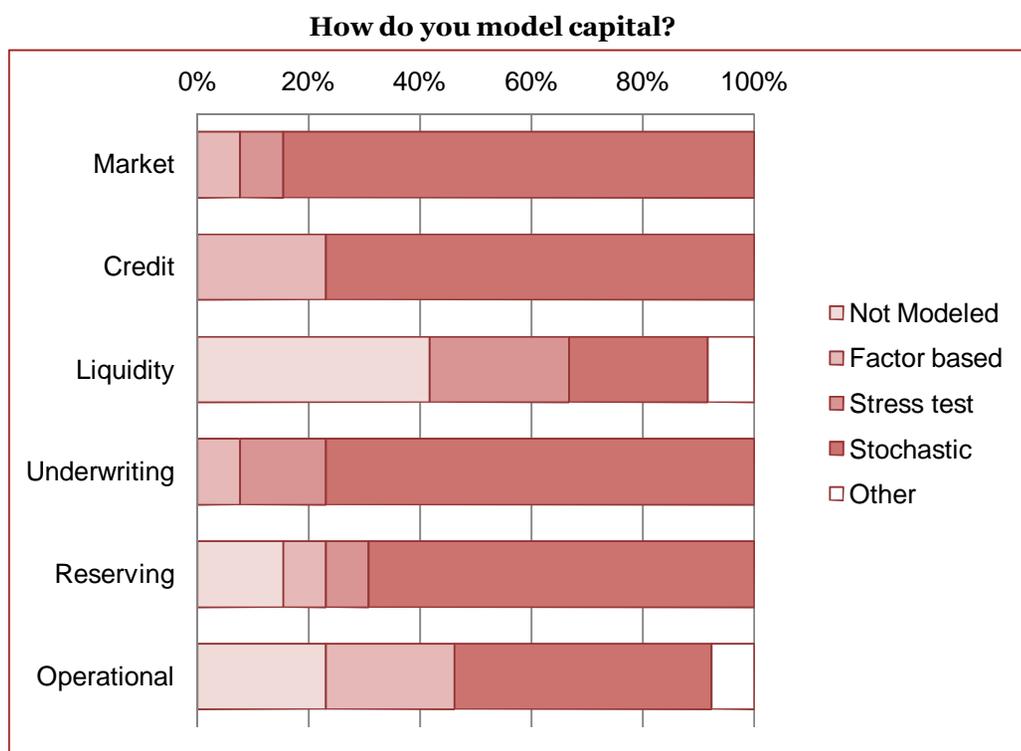
- Knowledge and importance of ORSA topics.
- Risk limit framework and metrics.
- Size of risk functions.
- Level of formalization of risk activities.
- Sophistication and formality of stress testing.
- Use of risk dashboards/MI packs.

Surprisingly, reinsurers were also slightly less likely to have a risk appetite statement than the industry as a whole. Reinsurers also tended to produce fewer risk metrics, though with a greater emphasis on economic capital.

Use of economic capital models was almost universal among reinsurance survey participants

92% of reinsurers used economic capital models, and the use of economic capital metrics was correspondingly more widespread.

- However, despite the importance of modeling, reinsurers were only slightly more likely than the industry as a whole to have formal model risk management and validation processes in place (62% vs. 56%).



Questions?

Thank you...

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