

“Guide to an ERM Risk Map and Working in Practice”

Edith Pfister

**Chief Financial Officer &
Chief Risk Officer**

RGA Reinsurance Company of Australia Ltd

2nd ASHK Risk Management Regional Conference, February 2010

RGA

The security of experience. The power of innovation.

www.rgare.com

Enterprise Risk Management

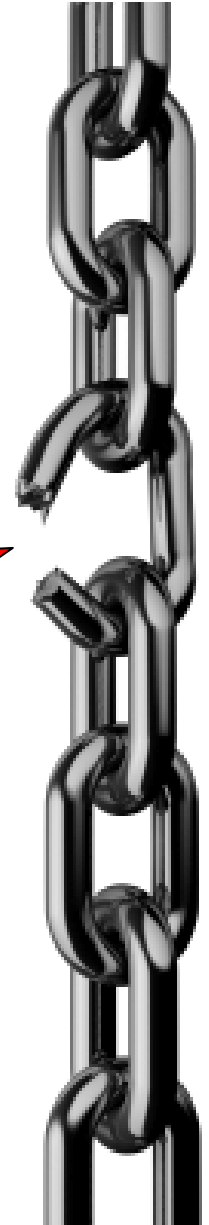
“ There has been a strong shift towards enterprise-wide and executive approaches to risk management over the last year. Risk management now has a much broader focus and is more embedded within organizations. There is also more involvement at board level by the CEO.”

[AON – Risk Survey 2008/09]

What's changed?

“You lose your brand and image as a result of something you’ve done or not done. You’ve got to get your house in order to make sure you don’t suffer an image failure”.

[AON – Vince Mamone]



ERM objectives for RGA

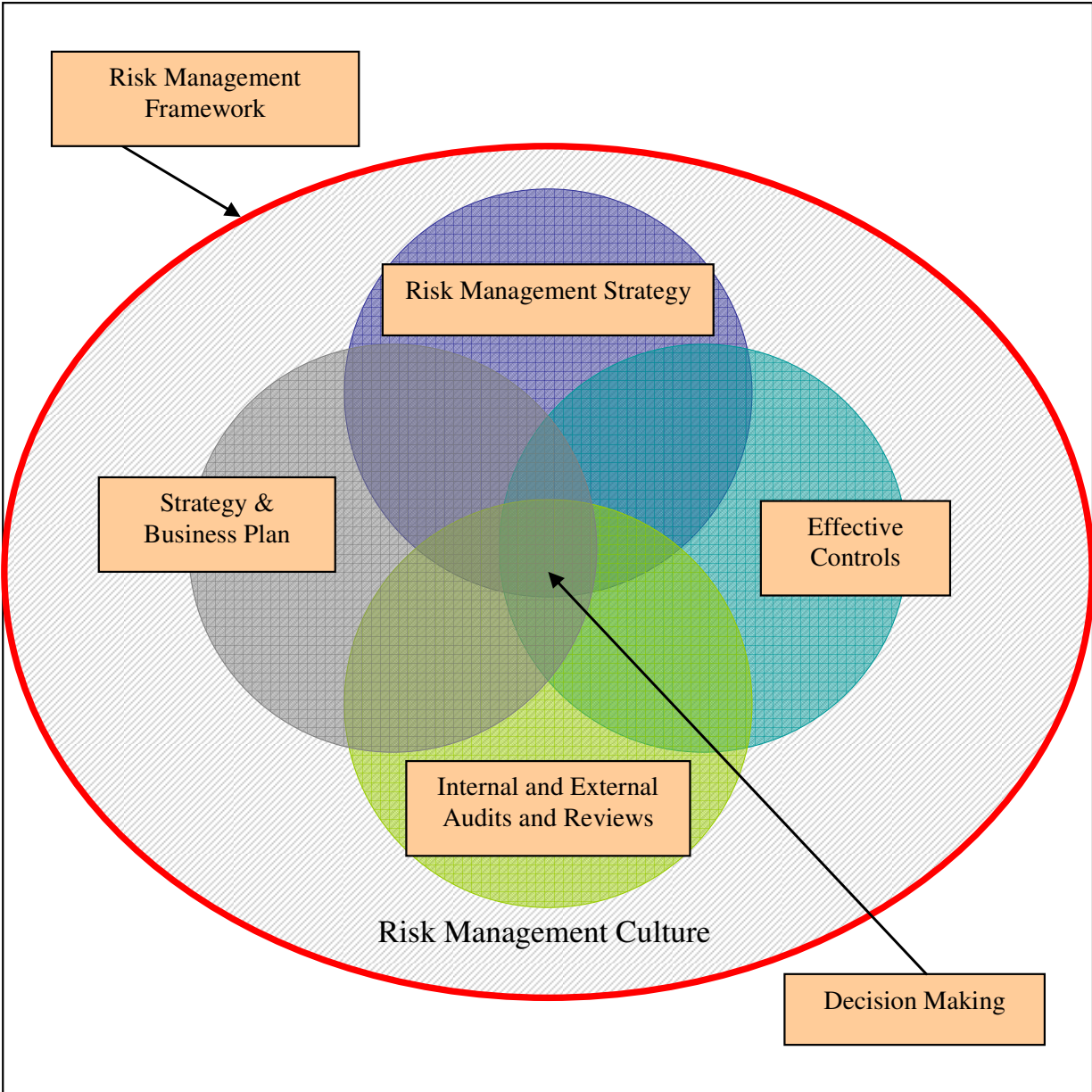
ERM Strategic Objectives

“RGAA naturally experiences uncertainty within its business, the challenge is to determine how much uncertainty to accept while striving to grow stakeholder value. This uncertainty brings both risks and opportunities, with a potential to erode or enhance value. The objective of this enterprise wide RMS is to provide a framework to management that enables RGAA to **effectively deal with uncertainty, associated risks and opportunities, enhancing the capacity to build value.** The RMS shall help ensure effective reporting and compliance with laws and regulations, and shall help to **avoid damage to RGAA’s reputation and associated consequences.** “

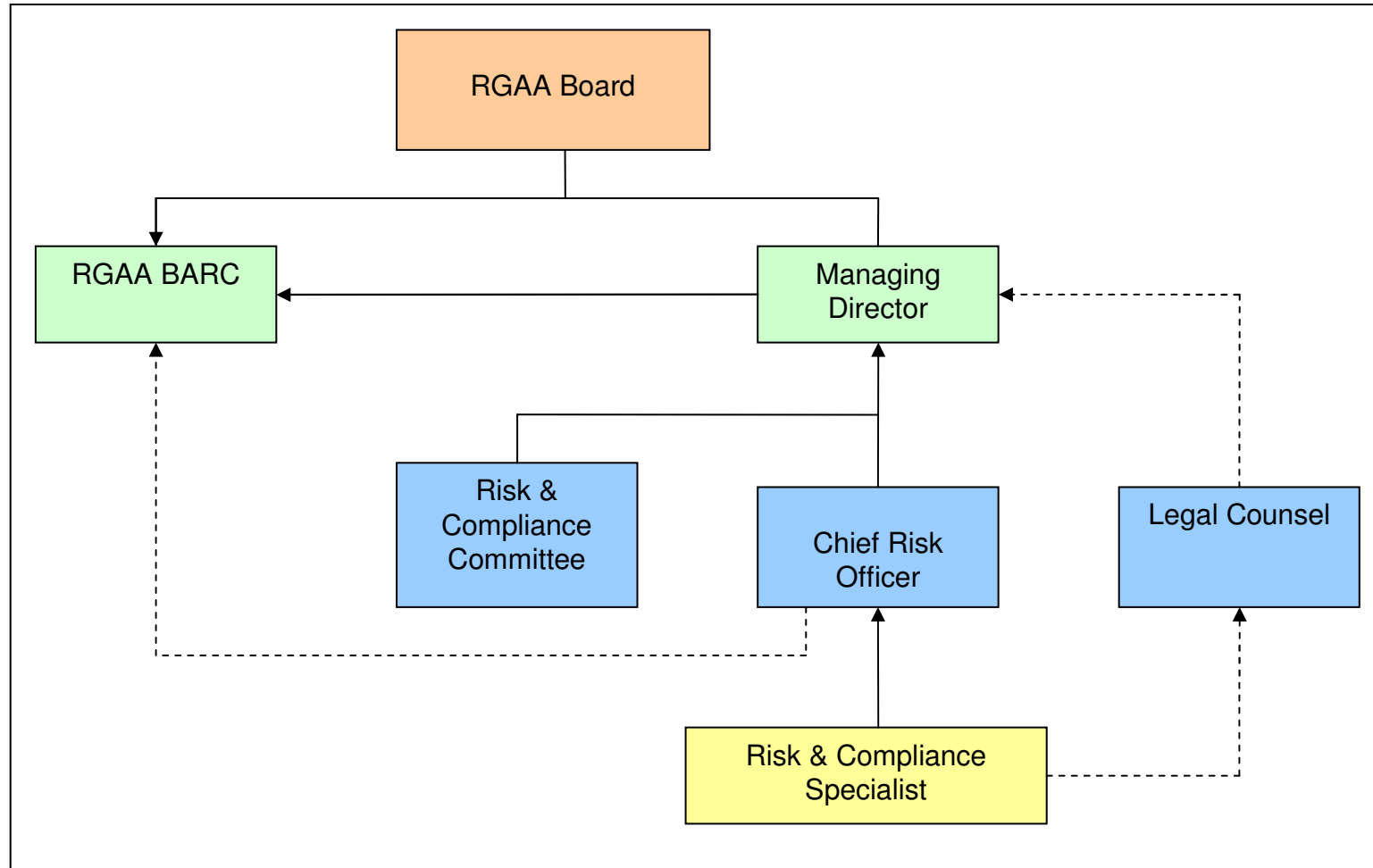
Critical success factors for ERM

- **Gaining total support from the top** – without this, the process will fall and staff will not support the implementation with anything but lip service
- **Incorporate risk management** within the development and review of business plans and targets
- **Follow through** – tools, templates, training, self-checks and self assessments, reviews & audits, and confirmations are vital for the ongoing success of the risk management program
- **Getting the message across** that risk management is not just another fad but is something that can assist all staff and managers to be more effective
- **Provide a simple system (processes)** that all staff can access and use on a regular basis

The ERM Framework



Risk Management Structure

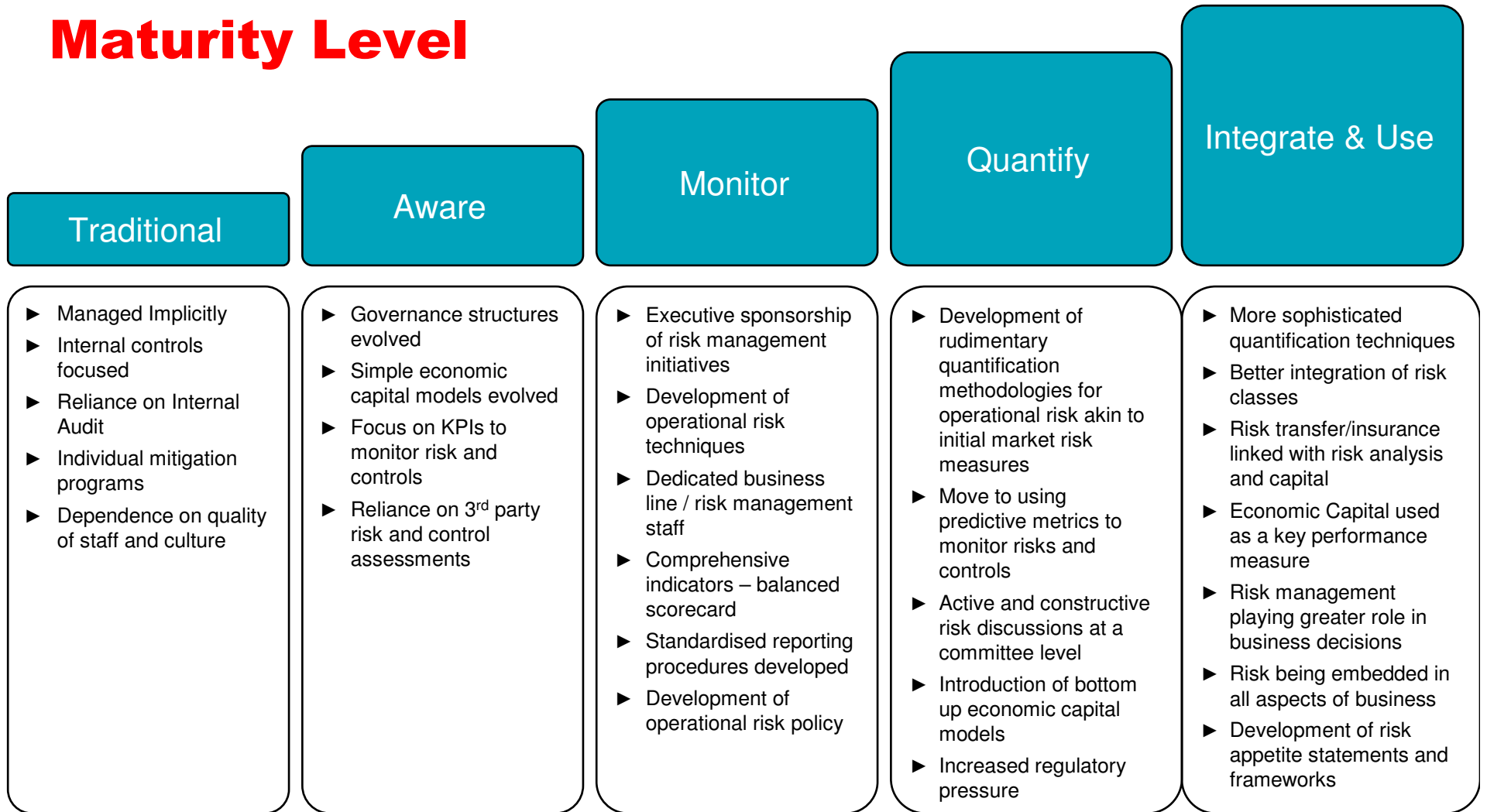


Roles & Responsibilities

Governing Body	Key Responsibility	Activities
Board of Directors	Ultimately responsible for risk management and being aware of the extent to which management has established effective risk management in the organisation.	Approves RGAA's risk appetite. Reviews the portfolio view of risk and considers it against the risk appetite. Delegates certain powers and oversight role to the BARC with regular feedback. Approves the RMS document.

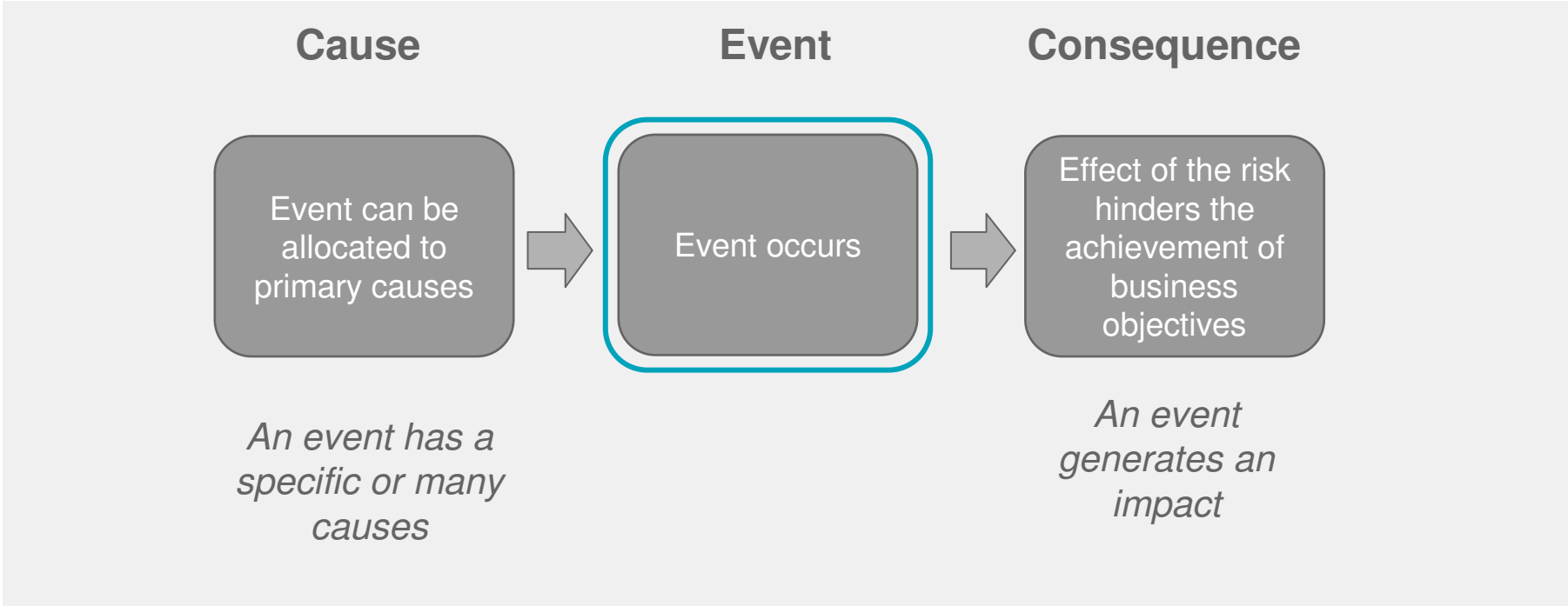
The Evolution of Risk

Maturity Level



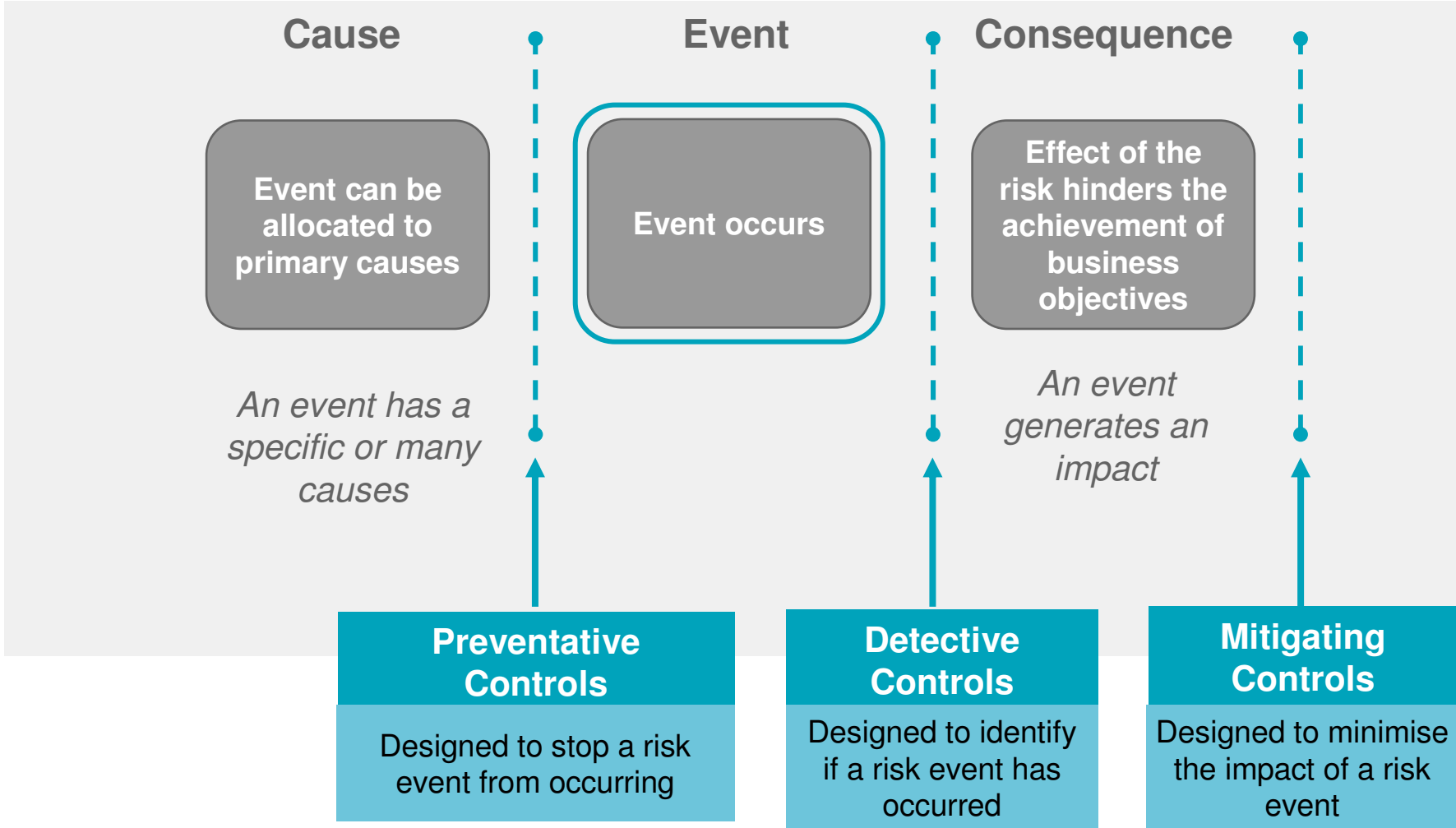
The 'Physics' of Risk

Understand Risk



The 'Physics' of Risk

Manage Risk



In-depth Risk and Control Analysis

Causes		Risk Event		Consequences	
<ul style="list-style-type: none"> ▶ Flawed assumptions and/ or product design ▶ Flawed data and/or system failure ▶ Lack of understanding terms ▶ Policy wording ▶ Conflict of interest ▶ External event voiding assumptions ▶ Market movements ▶ Poor judgement in determining assumptions ▶ Lack of staff capability / skills ▶ Lack of management oversight ▶ Insufficient understanding of the true risk ▶ etc 		Pricing Risk		<ul style="list-style-type: none"> ▶ Premiums are set too low resulting in financial loss ▶ Premiums are set too high resulting in loss of market share ▶ Threat to RGA's solvency ▶ Impact on RGA's market reputation 	
Likelihood (L) ⇨	-	Inherent risk (L*I)	H	⇨ Impact (I)	-
Preventative Controls		Detective Controls		Mitigating Controls	
<ul style="list-style-type: none"> ▶ Independent pricing review process ▶ Staff training ▶ Separation of duties ▶ Documented and approved policies and procedures ▶ Data reconciliation to record results ▶ Internal data compared to industry data ▶ Market and regulatory feedback ▶ Pricing systems controls (change controls, access controls, logical controls in system, procedures on system use) 		<ul style="list-style-type: none"> ▶ Control cycle incorporating evaluation feedback process ▶ Experience studies and management information 		<ul style="list-style-type: none"> ▶ Contractual terms in place to limit liability (treaty terms) ▶ Retrocession 	
Design (D)	-	Performance (P)	-	Control effectiveness (D*P)	M+
Likelihood (L) ⇨	Unlikely	Residual risk (L*I)	M	⇨ Impact (I)	Catastrophic



Risk Reporting

Workshop		Board and Executive Management			Workshop Date		30 Jul 2008		Updated:		23 Oct 2008 - Ver 2.0 - DRAFT		NOTE: Three risks have been combined within other risk categories			
Ref No.	Risk Description	Risk Owner	Indicative Risk Rankin	Risk Identification		Inherent Risk Assessment				Controls						
				Causes	Consequences	Impact	Impact Type	Likelihood	Severity	Control Description	Control Type	Control Owner	Control Design	Control Performance	Control Effectiveness	
	<small>Description of the risk event, should include enough detail to be understood in isolation</small>			<small>What are the causes of the risk</small>	<small>What are the consequences</small>	<small>Assessment of plausible risk impact in an uncontrolled environment</small>	<small>Main type of Impact (e.g. financial, reputation, technology)</small>	<small>How likely is it predicted that the risk event will occur</small>	<small>Automatic field</small>	<small>Description of the control (with examples if necessary)</small>	<small>Type of Control eg. Preventative (P), Detective (D) or Mitigating (M)</small>	<small>Local Owner of Control</small>	<small>How well does the control work in theory</small>	<small>How well does the control operate in practice</small>		
1	Pricing / Product Risk	Francis Burgess	H	Flawed assumptions Human error Flawed data System failure Lack of understanding terms Policy wording Conflict of interest External event voiding assumptions Market movements Poor judgement in determining assumptions Missed / absent assumptions Lack of staff capability / skills Business growth is not achieved Potential cause due to market shrinkage Actions of competitors restrict growth Industry contagion – actions of other firms adversely impacts the market Lack of management oversight Insufficient understanding of the true risk Product design Lack of communication from our clients re product changes Business Development fails to communicate changes at all or in a timely fashion to RGA stakeholders	Premiums are set too low resulting in financial loss Premiums are set too high resulting in loss of market share Threat to RGA's solvency Impact on RGA's market reputation Insufficient Growth	Catastrophic > 5.0				Independent Pricing Review Process Staff training Separation of duties Documented and approved policies and procedures Date reconciliation to record results Internal data compared to industry data Market and regulatory feedback Pricing systems controls (change controls, access controls, logical controls in system, procedures on system use) Control cycle incorporating evaluation feedback process Experience studies and management information	P P P P P P P D D	Div BD MD AA BDM BDM BDM AA AA				
						Catastrophic > 5.0										
						Major 2.0 – 5.0										
						Moderate 0.5 - 2.0										
						Minor < 0.5										
										Remote 0% - 3%	Unlikely 4% - 25%	Occasional 25% - 70%	Probable 71% - 100%			
										Annual Likelihood						



Education and Awareness

Guiding principle

“The Risk & Compliance Specialist engages actively with functional area managers and staff to ensure RGAA’s risk framework is understood and knowledge of risk management practices and risk reporting requirements within RGAA is adequate and up to date. This allows RGAA to build a sustainable and integrated approach to managing risk.”

ERM sustainability

Where to from here....?

- The ERM document is to be evolving over time – create a 360° perspective and help facilitate decision making
- It is imperative to reinforces risk philosophy - not only with words but also with everyday actions
- Introduce the language and culture of risk – embed the desired risk behaviours and risk culture
- Balance performance and risk, tailored to your organisation
- Be forward looking and adaptable, anticipate and prognosticate, challenge the status quo and ask the tough questions
- There is no right or wrong – it's about just and proper

Strategy and Trends

Follow or lead....?

- Role of CRO sustainable ?
- Change management and culture – relevant to ERM?
- Reliable measurement of risk – desirable/possible?
- Should we/can we measure behavior?
- Can/should ‘risk culture’ be regulated?
- What’s the ‘right’ cost for Risk Management?
- ...and who should pay for it?

“Guide to an ERM Risk Map and Working in Practice”

Edith Pfister

**Chief Financial Officer &
Chief Risk Officer**

RGA Reinsurance Company of Australia Ltd

2nd ASHK Risk Management Regional Conference, February 2010

RGA

The security of experience. The power of innovation.

www.rgare.com