

A View From the Crowd

Survey Observations and Enterprise Risk Management Commentary



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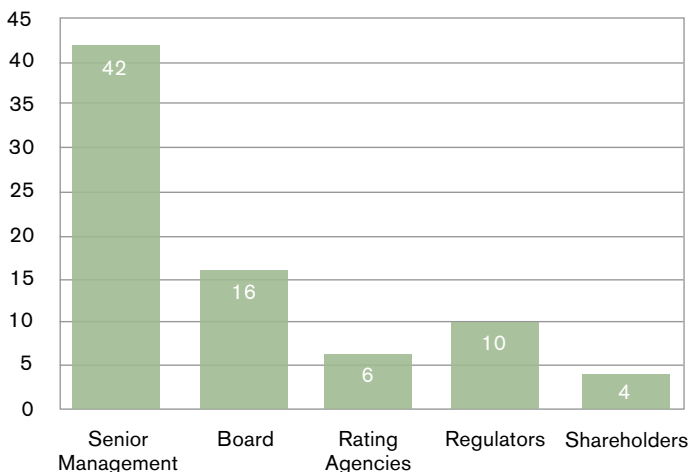
CASUALTY ACTUARIAL SOCIETY ERM SYMPOSIUM

At the April 2010 Casualty Actuarial Society (CAS) Enterprise Risk Management (ERM) Symposium in Chicago, Milliman solicited feedback through real-time reporting using an informal survey, thereby offering a dashboard of sorts on a variety of ERM issues and trends. The Milliman team interviewed attendees using an iPad, displaying live survey results at our exhibit booth.

Insurance company attendees, including actuaries at the symposium, were talking about the soft market and the challenge of managing through pricing declines. In addition, many attendees were interested in learning about how they can raise their organization's ERM process to the next level of maturity.

The focus of this article is to provide summaries and commentary of survey responses received from Milliman's CAS ERM survey and offer related thoughts and observations.

AS YOU WORK TO BUILD AN ERM STRATEGY, WHICH STAKEHOLDERS PRESENT THE BIGGEST CHALLENGE?



STAKEHOLDERS

Stakeholders are increasingly requesting more oversight and information as to the methods employed by executive management for enterprise risk management. They want to model business portfolios more accurately to understand and manage the potentially extreme behavior of their companies into real benefits.

Stakeholders are keen on understanding:

- How companies address emerging risks
- How companies manage known risks with limited mitigation resources
- How companies' enterprise risk management activities integrate with other functional activities
- How companies prevent surprises
- How resilient the companies are

In recent years, stakeholders desire more operational responsibility with greater accountability, and this is leading intuitive and ad hoc methods of risk management to be replaced with more formalized processes.

WHAT RESPONDENTS SAID EVERY CFO SHOULD KNOW

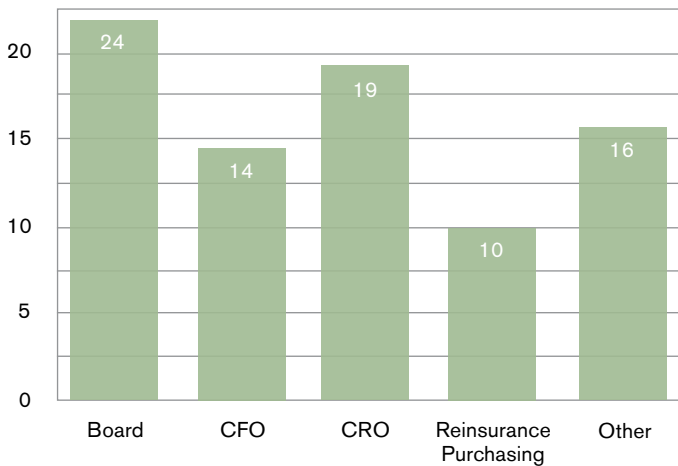
- The numbers are only a current estimate.
- A knowledge of risk is key in knowing the value of the company.
- Listen to your CRO.
- There is no free risk.
- Risk has a value.
- Decisions can be supported.
- What's the cost of not doing ERM?
- How do risks correlate?
- What return should I expect on my ERM investment and how should I go about calculating that return?

Comments from 2010 CAS ERM Symposium attendees in Chicago, Illinois.

WHAT DOES AN EFFECTIVE ERM BUSINESS PROCESS LOOK LIKE?

An integrated and embedded ERM business process offers tremendous value to the understanding and effective management of risks. For example, in a company that is focused on one area such as life insurance, one component of a successful ERM process could be a financial modeling system with adjustments for risk at higher levels that are not conducive to actuarial modeling. However, in a multi-line company, a component of its ERM process could be a collection of “best-of-breed” projection systems at a corporate level with additional risks modeled at the aggregate level. Businesses should understand the consequences of risks on their business plans and remain vigilant for emerging evidence that a chain of undesirable outcomes is building.

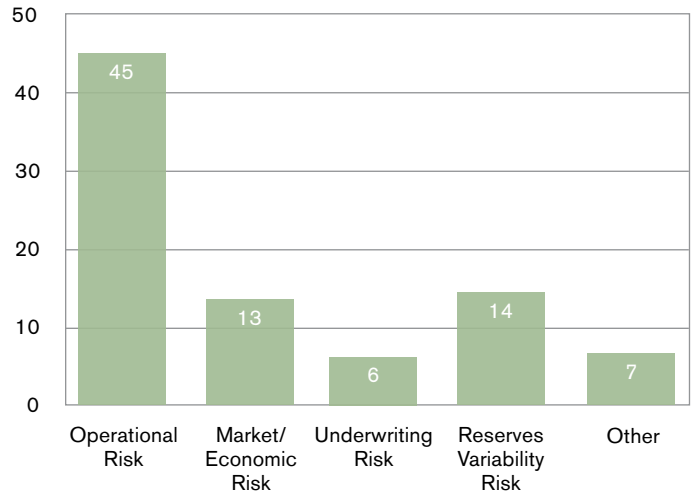
WHAT AREA OF YOUR COMPANY BENEFITS THE MOST FROM ERM FINDINGS?



An effective ERM business process can support senior management with:

- Performance management: Increase certainty of achieving critical key performance Indicators
- Capital efficiency: Align capital more accurately with the risks being taken and ensure that risks are being suitably rewarded
- Stakeholder management: Better alignment with expectations of key stakeholders
- Operational excellence: Reduce impact of surprises and boost the benefits of a well-managed portfolio of risks
- Reduction in total cost of risk (TCOR): Free up capital to invest in growing the business

WHAT DO YOU THINK IS THE MOST UNDERDEVELOPED AREA IN YOUR CURRENT ERM MODEL?



CURRENT ERM CHALLENGES

Many of the ERM processes that are currently in place struggle with creating effective risk management activities and reporting that are more frequent than annual updates.

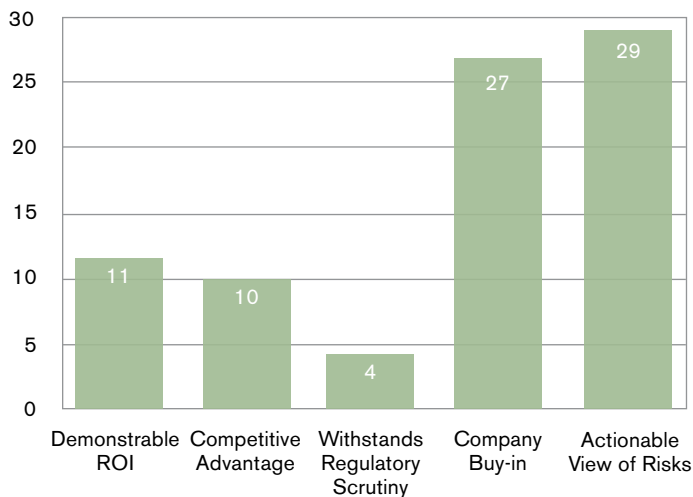
Challenges include:

- Integration of risk dependencies and risk driver interactions
- Decision making for deployment of limited mitigation capital
- The ability to quantify operational and strategic risk
- Defining an emerging risk process
- Getting more employees involved without hiring additional resources

It seems there is more urgency now from senior management to improve their early maturity level and resulting business value.

Hence, managing risk is essential to the success of any business venture.

WHAT IS THE MOST IMPORTANT FACTOR IN A SUCCESSFUL ERM IMPLEMENTATION?



FACTORS FOR SUCCESSFUL ERM IMPLEMENTATION

There is a direct link between good governance and effective ERM. Good governance demands that management can provide the board with a holistic view of the company's major risks; understand the company's risk appetite, including that for low-probability yet catastrophic risks; and rigorously stress-test key risk assumptions.

- Have sufficient, varied, and objective information sources throughout the organization
- Understand how the corporate culture impacts the company's risk profile and risk appetite
- Engage in direct dialogue with the executive team so that management can identify, assess, and manage risk effectively

In summary, Milliman sees the motivation changing for implementation of an ERM process. What was often a compliance effort is shifting to a more formal and more frequent process that is driving operational and strategic decision making. More emphasis is being placed on practical business value, as is evidenced by our CAS ERM Symposium survey results.

* Visual data is compiled from a live feed offered by Milliman in real-time during the CAS ERM Symposium in April 2010.

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Milliman, whose corporate offices are in Seattle, serves the full spectrum of business, financial, government, and union organizations. Founded in 1947 as Milliman & Robertson, the company has 52 offices in principal cities in the United States and worldwide. Milliman employs more than 2,400 people, including a professional staff of more than 1,100 qualified consultants and actuaries. The firm has consulting practices in employee benefits, healthcare, life insurance/financial services, and property and casualty insurance. For further information visit milliman.com.

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