



To Our New Subscribers

Thank you to our new subscribers and welcome to the fourth issue of the ARM quarterly newsletter! We hope to make this publication valuable to you with several brief articles that provide unique insights, some ideas about how to address specific problems and introduce potential risks that may not yet be on your radar.

The primary authors are Dave Ingram and Max Rudolph. In this issue we return David Ensor as a guest author. We are all active participants in the risk management, actuarial, investment and insurance spaces, and have been for many years.

Subscribers can suggest topics for articles and ask questions of the authors during our follow-up webinars and discussion sessions. Ever cognizant of regulatory requirements, leveraging them to add value to your company in practical ways, will be our focus.

Published by Actuarial Risk Management (ARM), the Strategic and Risk Solutions for Executives (SRSE) subscription consists of two paid tiers. The newsletter is free to all.

A webcast is available at either the company or individual level, as well as a follow-up one-on-one discussion with the newsletter authors that extends the general webcast. More info can be found at the final page of this newsletter.

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We hope you will join us on our journey!

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2022 ERM Survey: Part 2 Capabilities

Many say that insurers have always managed risk, and that is addressed in our ERM survey with questions on risk management capabilities.

Each company has a diverse set of capabilities depending on their unique risk exposures. An insurer may have a limited geographic presence or high product complexity so will naturally develop different capabilities.

ERM Capabilities

There are eight categories of ERM Capabilities in the survey and companies were asked several questions about each of them. They are:

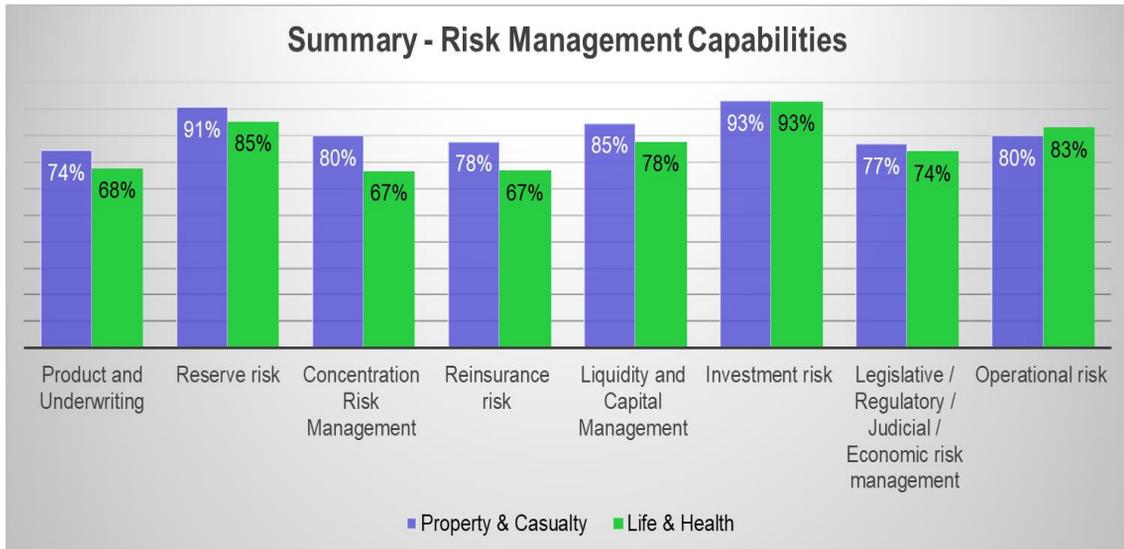
- Product and Underwriting - considers an insurer's unique risk exposures and how they manage them
- Reserve risk - holding adequate reserves is key to the ongoing success of an insurer. Experience and scenario analysis encourages resiliency.
- Concentration Risk Management - Monitoring and managing all kinds of concentrations, not just product and geography, are important considerations when a company is not diversified.
- Reinsurance risk - due diligence of a reinsurance program considers potential negative outcomes.
- Liquidity and Capital Management - solvency risk typically builds slowly until a liquidity event occurs. Philosophy toward building resiliency using redundant capital, the ability to raise capital and borrow quickly is considered.
- Investment risk - portfolio oversight and participation in familiar asset classes, using metrics to measure default, interest rate, equity and concentration risks

- Legislative/Regulatory/Judicial/Economic risk management - external risk exposures should be identified, monitored and managed.
- Operational risk - manage risks with data including disaster recovery and business continuity using internal controls and external assessments.





Part 2 ERM Capabilities (cont'd)



Similar to the ERM Framework, we asked insurers to share whether capabilities were new or longstanding. A score of 100% on the following graph would indicate that all companies have long standing capabilities for that area.

Insurers already managed specific risks prior to ERM so it's not surprising that overall results are higher than for an ERM Framework. The lowest Property & Casualty result was for Product and Underwriting, at 74%, while for Life & Health both Concentration Risk Management and Reinsurance risk were 67%. The biggest differences between L&H and P&C insurers were for Reinsurance risk capabilities where P&C outscored L&H by 11% and for Operational Risk capabilities where L&H was 3% higher.

All of the capabilities scored 67% or higher on average. It is important for individual companies to review their own results to see if there is a capability they should improve or plan to communicate why that risk is not a priority.

Reinsurance risk was the category with the highest number of insurers saying it was not yet a capability, at 19% for P&C and 27% for L&H. There are many ways to apply the proportionality principle to reinsurance. For example, some companies focus on distribution so reinsure 100% while other direct writers participate in a group that pools their business. It forms a continuum, so

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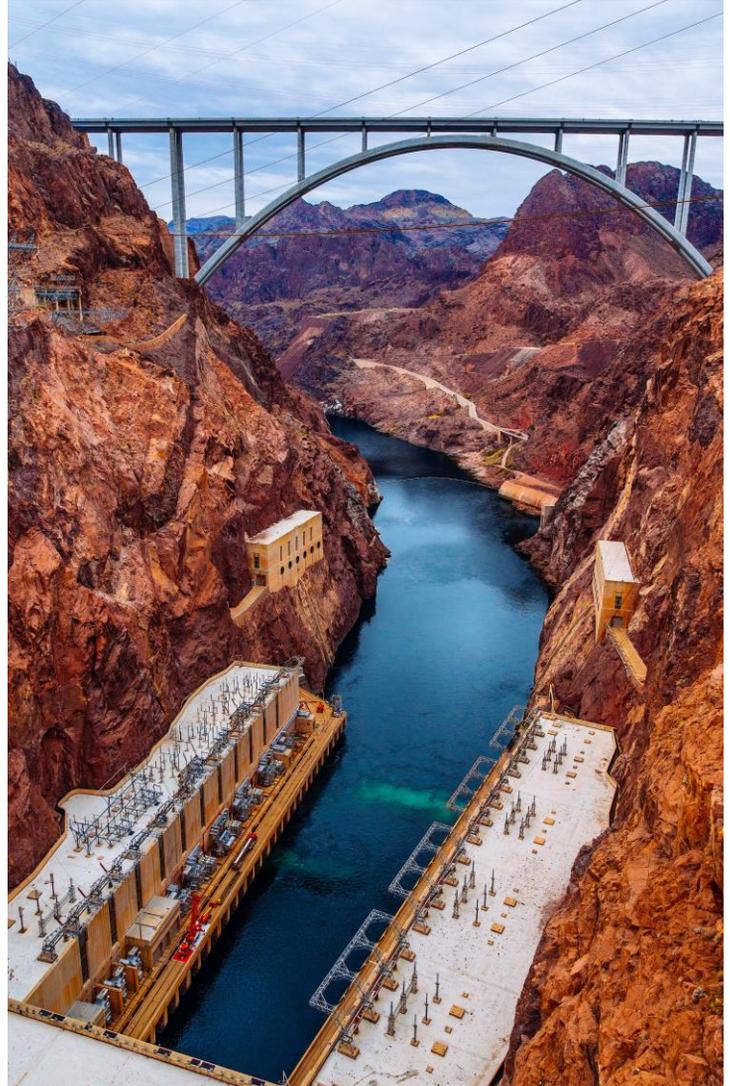
Part 2 ERM Capabilities (cont'd)

companies that right-size their ERM capabilities will want to communicate their thinking if it causes a broad survey to result in an inconsistent outcome.

A few individual questions resulted in surprising answers. Here are some where enough reported not having the capability to make it an interesting follow-up.

- Risk control cycle
- Risk correlation management
- Reinsurance risk capabilities
- Limited reliance on reinsurance
- Line of credit
- Make preparations well in advance of legislative and regulatory changes
- Appropriate participation in lobbying efforts
- Access to reliable, accurate, comprehensive and timely data
- Segregation of duties

The survey shows, for both the ERM Framework and ERM Capabilities, that the current state of the art for insurers is good and continues to improve. Companies need to make sure that they share their good practices with rating agencies so they are credited for their efforts. It can be helpful to seek outside help to ensure terms are understood by external audiences and to seek out shortcomings that could be easily addressed. For example, a company



could add a couple of deterministic stress scenarios that highlight a specific financial risk or document an AI-based fraud detection program that has been cost effective.

To view the full ERM Survey report visit the ARM website at <https://www.actrisk.com/newsletter-category/quarter-4-2022/>