



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.

We hope you find a solution that works for you!

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We hope you will join us on our journey!

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2022 ERM Practice: Part 1 Framework

They started to call it Enterprise Risk Management, or ERM, shortly before the turn of the century. But even now, more than 20 years later, we still find that the adoption of ERM is uneven throughout the insurance business. This fall, we heard from over 50 insurers about what they are doing with their ERM practice.

What we found to be interesting is that in a few areas of practice, everyone was on board. While there are other aspects of ERM practice that have a wide diversity of levels of practice. Here is what we learned...

First we asked about several fundamental parts of a basic ERM framework. Those are:

- Risk Identification - process of determining which risks that a company needs to consider managing, and prioritizing the most dangerous.
- Risk Management & Controls - have been a part of insurer practices but ERM brings with it an aspiration to apply them more consistently to all of the significant risks of an insurer.
- Risk Reporting - a key part of a control process is communicating the successes and failures and just the day-to-day progress of risk management.
- Risk Governance - Some risk management decisions and actions will be difficult. For ERM to be successful, top management and the board needs to be behind it.

- Risk Appetite & Tolerance - sits at the top of the ERM program and reflects the company strategy and intentions regarding risk taking.
- Risk Culture - is the part of the business culture that relates to risk and risk management. In particular, we look at how the business staffs its risk management efforts.
- Stress Testing - is a key risk evaluation activity that can be used by any company even without a complex risk model. Even fairly simplistic stress tests can provide actionable information about the risk profile of a company

For each of these seven parts of the ERM Framework, we asked insurers to choose among several statements that characterize differing levels of practice. A score of 100% on the following graph would indicate that all companies were following the very best practices for that area.

For Risk Identification, the responses tell us that both Life & Health and Property & Casualty insurers are operating very close to that best practice at 95%. For each of the other six areas, practice is at 80% or lower

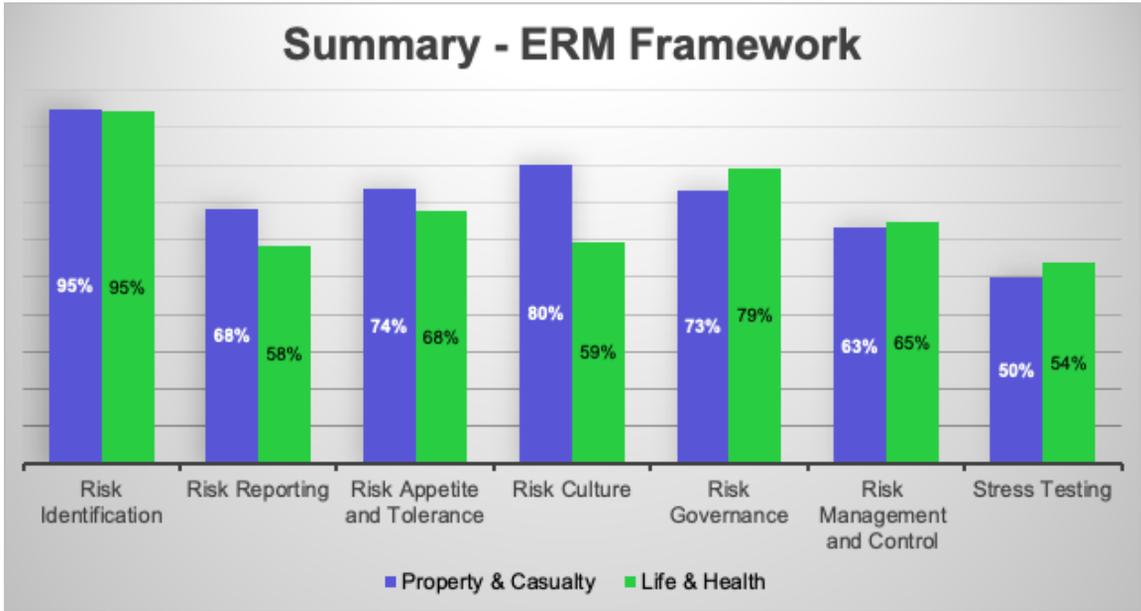
Compare your company to the ERM survey results at:

L & H <https://www.surveymonkey.com/r/ActRiskSurvey2022>

P & C <https://www.surveymonkey.com/r/ARMP2022>



Part 1 ERM Framework (cont'd)



“Stress Testing has the lowest scores”

on the average. Stress Testing has the lowest scores with 50% for P&C insurers and 54% for L&H. Overall, 37% of the insurers have Stress Testing scores below 50%.

Practice was below 60% for Life & Health insurers in three of the six areas, Risk Reporting, Risk Culture and Stress Testing. For Property & Casualty insurers only Stress Testing was below 60%.

Overall, there were 25% of the insurers whose scores for Risk Reporting and Risk Management and Control were below 50%. These are two very basic ERM activities that support transparency and active risk

management. They are the very next steps that an insurer should be taking after identifying their risks.

In the area of Risk Culture, we saw the largest difference between the practice level of the two sub sectors with practice of the P&C insurers at 80% and L&H insurers 21% lower at 59%. For Risk Reporting, L&H insurers outscored P&C insurers by 10%, 68% to 58%.

When we look at these scores averaged by company, we see that 12% of the companies have an average score under 50%. Slightly over half of the companies (51%) have a score between 50% and 75% and the remaining 37% of companies had average scores over 75%.