



**Actuarial Risk Management**  
Global Actuarial Consultancy

**Strategies & Risk  
Solutions for Executives**

## To Our Subscribers

We want to thank our new subscribers and welcome everyone to the sixth issue of the ARM quarterly newsletter! During the past 3 months, our list of subscribers has reached a total of 300! We hope that you all find this publication valuable. With a few short articles meant to provide unique insights, we present 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. We have been active participants in the risk management, actuarial, investment and insurance spaces for many years.

Subscribers are encouraged to suggest topics for articles and ask questions of the authors during our follow-up webinars and podcasts. 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 is free to all.

A free webcast is also available and our podcasts covering these topics is called [Crossing Thin Ice](#). If you would like to further engage the authors as consultants or for continuing education purposes, please reach out. More info can be found throughout this newsletter. We hope to help you find a solution that meets your needs!

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The content of this newsletter is meant to be educational and thought provoking. Nothing in it should be construed to be investment advice.



# Telling your ERM story to Rating Agencies

There is a story about Enterprise Risk Management (ERM) that most insurers can tell. You can think of that story as having four largely distinct parts: ERM Framework, Individual Risks, Aggregate Risk & Capital and the ERM Journey. Most often, even if your ratings analyst asks to hear the company's ERM story, there isn't enough time to tell them about all four parts, so you have to make a choice.



Let's first review what could be the plot of each element of the story:

**ERM Framework:** A summary of the key parts of an ERM program, often adapted from a standard framework. Standard frameworks that insurers have used include the NAIC ORSA framework, a rating agency framework, Solvency II framework or IAA ERM framework. For example, the AM Best ERM framework consists of Risk Identification & Reporting, Risk Appetite & Tolerance, Stress Testing, Risk Management & Controls and Governance & Risk Culture.

**Individual Risks:** Each of the key risks has its own risk management story. That story would tell how the company comes to be exposed to the risk, including whether there is any choice in that

process (such as underwriting). What sorts of mitigations the company uses with each key risk. How the company makes sure that the mitigations are being applied as planned and whether they are effective. How the company uses risk offset programs such as ALM, hedging and reinsurance to manage the risk. And finally, what sort of overall limit does the company place on the risk remaining (residual) after selection, mitigation and offsetting. The ERM framework discussion could include a broad discussion of the intended approach to this process for each of the key risks. In this part of the discussion, the actual specific examples of the execution of the intended ERM program needs to be presented.



# Telling your ERM story to Rating Agencies (cont'd)

**Aggregate Risk & Capital:** There are two ways that risk management becomes an Enterprise-wide system. The first is with the two elements above, where risk management is systematically and consistently applied to all of the key risks of the insurer. The second way is in the aggregation of overall risk and the management of that aggregation in relation to business choices and to the level of capital held by the insurer. This element of the ERM story tells about how the insurer is doing that second enterprise-wide function of ERM, telling how the risk measurement and aggregation is



done and how the insurer goes about actively managing that aggregate. This usually involves making choices about their business plans because capital is most often one of the important constraints on an insurer.

**The ERM Journey:** Insurers provide risk management products (insurance) to individuals and businesses, so having a state-of-the-art approach to managing the risks that are acquired by insurers makes eminent sense. But the insurance industry has operated for hundreds of years without ERM, it is an additional cost and often an unwelcome constraint on business. The story of the ERM Journey of an insurer is fundamentally the story of overcoming the obstacles and finding a compromise between the main components of an ERM program and the culture and practices of the insurer. This is often a long and difficult process and those who succeed are proud to tell their story.

When an ERM program is new, the tendency is to talk about the ERM Framework and the ERM Journey. But what the rating analyst really needs to hear is the Individual Risks and the Aggregate Risk & Capital parts of the story. To incorporate the ERM discussion into the rating decision, they will have to determine whether the ERM program will help the insurer to maintain or improve its level of security in the case of adverse experiences in the areas where it operates.

Dave, Max and other ARM consultants are available to help with your ERM needs. Whether setting up a voluntary ORSA from scratch, updating an internal ERM process or improving communication with rating agencies, let us share our knowledge, brainstorm ideas and help meet your goals.



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## Telling your ERM story to Rating Agencies (cont'd)

That comes down to a question of whether the company has a potentially effective and repeatable risk management process for their key Individual Risks. And whether they can expect to actually keep to their intentions about using that process through good times and bad. So, the discussion about Individual Risks is vital, and needs to include sharing some detailed evidence of the actual processes in practice.

In addition, the ability of the company to plan and track the level and growth of their risks compared to the surplus goes to the essence of the rating. Most rating agencies seek to assign ratings that they believe should be able to stand for several years. That can only be so if the company can be expected to manage the Aggregate Risk and Capital and explain how that is done to their analyst.

The part of the story about the ERM Journey, if included at all, should be brief and emphasize just the things that have changed since the last discussion with the ratings analyst.

*Dave Ingram was the first ERM specialist at S&P and developed and implemented the first rating agency ERM rating process for S&P.*



The Crossing Thin Ice podcast is now available to download from your favored provider. Please like, share and subscribe.



# Strategic Risk Focus for Insurance Company Board Members and Executives

Two-part training program on May 24 and June 7 at 2 pm ET leveraging CGAD requirements to demonstrate the importance of risk management processes and the most common current concerns. Register for free: [Part 1](#) and [Part 2](#)

*Additionally for a fee, we offer a private session customizing Part 1 and/or Part 2 to incorporate specific information that reflects your company's unique ERM program, key risks and Board role for just your Board members and Executives.*

## Part 1 (May 24)

### ERM & Board Role

- General introduction designed for new board members and executives and as a refresher for current board members and executives who have been less involved in ERM in the past
- Primary components of Insurer ERM Program
- Fundamental Board roles in ERM

## Part 2 (June 7)

### Current Focus of Insurer ERM Programs

- Provides broad perspective on risks most concerning to over 200 insurance executives for 2023 (identified in ARM's Dangerous Risks Survey) and the level of ERM practice by over 60 insurers (from ARM's ERM Practices Study)
- Essential background for board members to provide meaningful oversight to management in the area of ERM

[Free registration for Part 2 here](#)



While Enterprise Risk Management is a continuous process, Own Risk Solvency Assessment (ORSA) and NAIC Corporate Governance Annual Disclosure (CGAD) require insurance company leaders to annually report on their risk management program including direct Board involvement.

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# Strategies & Risk Solutions for Executives

Now providing three ways for you to get insights, strategies and solutions from ARM consultants to help resolve your risk issues.

## Newsletter

- 3 to 6 articles quarterly
- Written by Dave Ingram, Max Rudolph and other ARM consultants focusing on risks faced by insurers and risk management strategies
- Available on the ARM website

## Webcast

- One-hour live webcast once each quarter following the newsletter publication
- Webcast includes brief presentations, interviews with authors and live Q&A with your questions answered regarding the newsletter topics

## Podcasts

- Two per month
- Delivered by Dave Ingram & Max Rudolph
- Presenting material from the newsletters and webcasts in a totally audio format.
- Available wherever you usually download podcasts

\* No charge to subscriptions to all three services



While insurers have been challenging by low interest rates and the pandemic, the next few years will see a radically changing environment for insurers. We will be using this provocative platform to identify emerging risks and delve into what we see as the drivers of future success.

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