Actuarial Risk Management
Global Actuarial Consultancy

Strategies & Risk Solutions for Executives
4Q2023 Issue 8

To Our Subscribers

We want to thank our new subscribers and welcome everyone to the eighth issue of the ARM quarterly newsletter! Thanks to our new subscribers. 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 and opportunities 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, is our focus.

Sponsored by Actuarial Risk Management (ARM), the Strategic and Risk Solutions for Executives (SRSE) subscription is free to all readers.

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, for continuing education purposes or to join our ERM Discussion Group, please reach out. More info can be found throughout this newsletter. We hope to help you find a solution that meets your needs!

Please forward to others who study risk.

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

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RiskMaster Cheat Codes

I imagine that somewhere in the doomsday bunker hidden in the mountains somewhere, there is a book, more likely an entire wall of books, that contain the instructions to restart civilization.

At the other extreme, my impression is that many insurers do not have even a brief Cliffs Notes version of that for their ERM program. I've seen it over and over that when the executive or board member who is the champion of the last ERM program retires or leaves, the ERM program often just withers away. And there is little help available for someone who wants to keep it going or restart it.

The Risk Management Framework is the official name of the document that provides a brief summary of the key decisions that have been made about how ERM is to be practiced at a company. It has enough information that when the ERM champion leaves, their successor should be able to understand from that document what is the expected flow of back and forth that makes up the ERM program and who are the main players in that activity. It is not a detailed manual documenting every step. That level of knowledge should easily survive the passing of one executive. I like to think of this as the "RiskMaster Cheat Codes". With a good Risk Management Framework document a new executive or board member should be able to step right in and work to maintain or revive an ERM program.

So when you are writing or updating your RM Framework document, imagine that you were writing it to provide a high-level guide to that next generation of management and/or board members to guide them in continuing the life of the ERM program. Like the idea of writing a letter to your 21-year-old self.

Here is a suggestion of what to include, related to five components of an ERM Framework that appear in both the NAIC ORSA Guidance Manual and the AM Best Rating Criteria document:

1. Risk Identification and Prioritization – tells whether and how you identify your risks or if you are using a standard list. A good process strikes a balance between a totally homemade list that potentially misses one or more of the risks that are important to most insurers and a totally standard list that misses your unique situation.

Check out the Crossing Thin Ice podcast

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RiskMaster Cheat Codes (cont'd)

2. Risk Management and Controls – One way to think of a complete risk management system is "n+1" control cycles, one for each of the "n" key risks and one more for controlling aggregate risk. These control cycles will each have its own unique characteristics to reflect the differences among the risks and the variety of options for managing each risk.

3. Risk Appetite, Tolerance and Limits – Risk limits are the pain points for each of the "n" risks, Tolerance is that point for aggregate risk and Appetite is the overall risk strategy or approach.

4. Risk Culture – Tells the story of how staff are organized to accomplish the above items. In general, the culture of a business is the approach to accomplishing the objectives that have been learned by the staff and passed along to new staff as they are brought on board. Risk Culture can then be thought of as the approach to risk management. Creating a risk culture in a company that doesn't have one requires significant time and attention from top management.

5. Risk Governance – The oversight by top management and the board of the risk management system. This usually includes a risk oversight committee of the board and in a larger insurer a management risk committee as well.

Two additional topics that might be next on the list for inclusion in the ERM Framework are:

•Risk Reporting – this is needed at two levels – at a detailed level to support the ongoing risk management efforts and at an summary level to convey the total quantum of each risk that are accepted by the insurer as well as the amount of risk that remains after risk management efforts to top management and the board risk oversight committee several times per year.

•Stress Testing – a practice that we have mentioned over and over again because we believe that it is the absolute most cost effective way for an insurer to gain insights into its risks and the effectiveness of its risk management system.

One key thing to keep in mind is that this is being written for a reader who has never seen the program in operation. That will make these RiskMaster Cheat Codes the most effective. And should break the cycle of death and rebirth for the Risk Management program.

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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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 5 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 download podcasts

* No charge for subscriptions to ay of the three services

"While insurers have been challenged 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."

DAVE INGRAM | SENIOR ERM CONSULTING ACTUARY

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