



SOCIETY OF ACTUARIES

**SOA 09 Annual Meeting & Exhibit
October 25-28, 2009**

**Session 20 WS, ERM: Practical Issues at Smaller
Insurers**

Facilitators:

[Leon L. Langlitz, FSA, MAAA](#)

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ERM: Practical Issues at Small Insurers

Session 20WS, SOA Boston 2009 annual meeting

October 26, 2009

Facilitators: Max Rudolph and Leon Langlitz

Thoughts to generate discussion – no specific order

- This does not apply to me because I focus on life/health/pension/casualty/asset management/other
- How do I find the time to implement ERM?
- How do I justify the cost of implementing ERM?
- Should I create a Chief Risk Officer? How is it different from CFO/Chief Actuary/Auditor
- Where should this position/responsibility reside?
- How do I engage my CEO/board?
- Should I identify ALL risks or just the material ones?
- I can't manage what I can't measure? What does this mean to me?
- What does risk appetite mean?
- Are the rating agencies really interested in ERM?
- Is Risk Based Capital related to ERM?

Practitioner Solutions

- Embed risk culture – is everyone on the same page?
- Pricing discipline – does M&A use the same tools as internal pricing?
 - IRR/GAAP/hurdle rate/overhead expenses/capital requirements
- Leverage current models to do PBR and ERM – jointly develop project
- Iterative/incremental solutions
- Qualitative and quantitative analysis
- Leading indicators
- Communications to stakeholders – internal/external (especially rating agencies to sell value)
- Getting buy-in from senior management

ERM

Practical Issues at Smaller Insurers

SOA Annual Meeting – Boston
Session 20WS
Max J. Rudolph, FSA CFA CERA



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Enterprise Risk Management (ERM) Key Points

- Make better decisions!
 - Understand your risk profile
 - Solutions are unique



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Historical View of Risk

- Silo based – one risk at a time
- Mitigation focus

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Financial Crisis

- Culture
- Tail risk
- Outsourced decision making
- Misaligned incentives
- Mispriced risk

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Definition

Enterprise Risk Management

- Casualty Actuarial Society, 2003

“ERM is the process by which organizations in all industries assess, control, *exploit*, finance, and monitor risks from *all sources* for the purpose of increasing the organization’s short and long term *value* to its stakeholders.”

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Key Elements of ERM

- Holistic approach to managing risks
 - Risk appetite/alignment
 - Common language
 - Common measurement (leading indicators)
 - Guiding policies and limits
 - Emerging risks
- Alternative – crisis management

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Practical Implementation

- Risk culture
- Risk appetite
- Risk identification
- Stakeholder communication
- Strategic planning
- Incentive compensation

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Risk Categories

- Credit (C-1other)
- Equity (C-1cs)
- Pricing/Insurance/Underwriting/Actuarial
(C-2)
- Interest rate (C-3)
- Operational (C-4)
- Strategic (C-4)

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Thank you!

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