



SOCIETY OF ACTUARIES

**Health Spring Meeting  
June 2009**

**Session # 50 PD: The Current State  
of Health ERM**

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## Enterprise Risk Management

Society of Actuaries  
2009 Health Spring Meeting  
Toronto, Canada

Session 50PD  
June 9, 2009



April 9, 2009

## Agenda

- Getting Started
- Organization and Governance of ERM
- Targeted ERM Role
- Building ERM at Aetna

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## Getting Started

### Premise

ERM will not look the same across every enterprise, but will be tailored to fit the unique requirements of each business

### Healthcare Unique

Heavier weight on operational than financial, and heavy weight on strategic

### Organization Unique

ERM configuration and approach ultimately derives from risk culture, senior management commitment, governance process, and tolerance for uncertainty in results

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## Organization and Governance of ERM

The ERM function provides a unifying framework for a consistent view

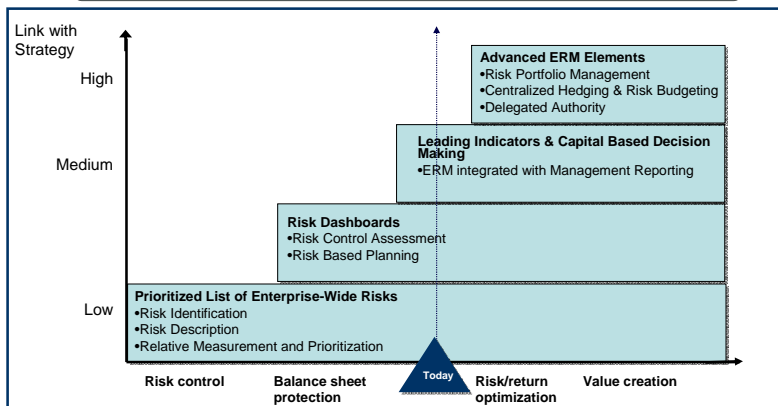


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## Building ERM at Aetna

Choice to deepen focus, broaden scope, or both



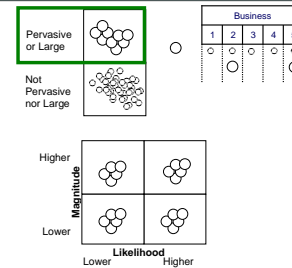
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## Enterprise-Wide Risk List

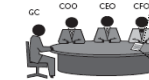
Manage and monitor a comprehensive list of potential enterprise risks, and reprioritize at least annually

1. Identify Enterprise-Wide Risks



2. Stratify risks by magnitude of impact and likelihood of occurrence

3. Use management team to confirm selection, identify emerging environmental or company unique changes, and prioritize risks



Ref #	Materiality	
	Magnitude (M)	Likelihood (L)
1	Higher	Higher
2	Higher	Higher
3	Higher	Higher
4	Higher	Higher
5	Higher	Higher
6	Higher	Lower
7	Higher	Lower
8	Higher	Lower
9	Higher	Lower
10	Higher	Lower
11	Lower	Higher
12	Lower	Higher
13	Lower	Higher
14	Lower	Higher
15	Lower	Higher
16	Lower	Lower
17	Lower	Lower
18	Lower	Lower
19	Lower	Lower
20	Lower	Lower

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## ERM/Planning Process Integration

### Aetna Unique

- Integrated within planning and performance management, ERM is positioned for frequent and fluid governance and review
- Designed to strengthen linkage between ERM and the Operating and Strategic Plans
- Enterprise-wide integration of ERM

### Focus

- Leverage ERM resource through engagement of Executive Committee & Risk Champions
- Place ERM at the center of planning and performance management process

### ERM/Planning Process

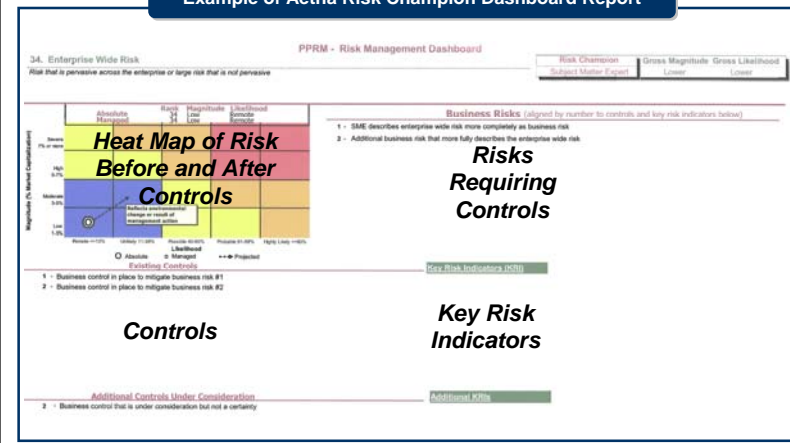
- Identify risks and controls to help manage these risks
- Balance shorter-term operating risks with longer-term strategic risks
- Help bring management emphasis to areas that could jeopardize strategic and operating goals
- Promote risk-based decision-making throughout the planning & management process

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## Risk Champion Dashboard

### Example of Aetna Risk Champion Dashboard Report



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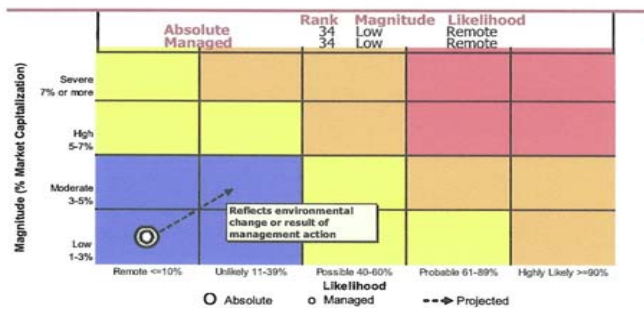
## Risk Champion Dashboard

Example of Aetna Risk Champion Dashboard Report

### 34. Enterprise Wide Risk

PPRM

Risk that is pervasive across the enterprise or large risk that is not pervasive

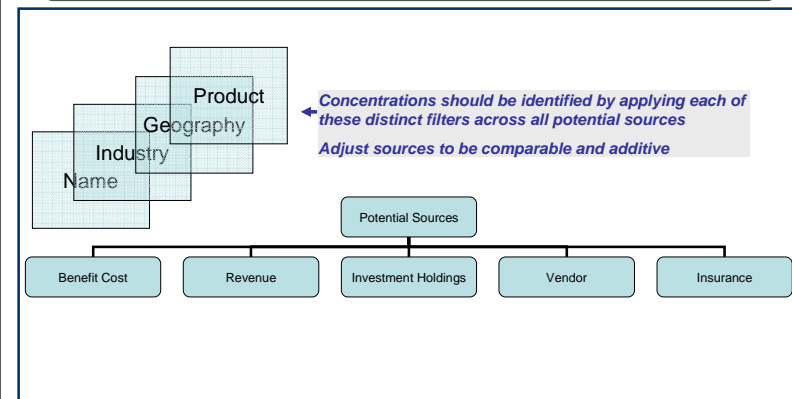


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## Concentrations

Extreme scenarios are neither predictable nor avoidable, but we can identify and manage concentrations



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# The Current State of Health ERM

Spring Health Meeting, Toronto  
Session 50  
Max J. Rudolph, FSA CFA CERA  
Rudolph Financial Consulting, LLC  
June 9, 2009

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## Definitional Issues

- What is ERM? What is it not?
- “ERM is a solution in search of a problem”

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## National Public Radio (US)

- Financial health of health insurers
- <http://www.npr.org/templates/story/story.php?storyId=100430248>
- February 9, 2009 Joanne Silberner
  - Drop in stock price
  - Drop in asset values
  - Drop in covered lives
- Managing risks like these is ERM

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## Definition

- “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.”

- Adopted by CAS and SOA

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## Objectives of Enterprise Risk Management

- Value added
- Knowledge
- Culture
- Compliance

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## General ERM

- Risk Culture
  - Walk the walk
  - Throughout organization
  - “Emerging/Developing”
- Risk Appetite
  - Aligned
- ERM Framework

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## Putting the “E” in ERM

- Enterprise wide
- Breaking Silos
- Holistic
- Everything
- All Risks
- All Jurisdictions/Entities
- Risk Combinations

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## What's different for Health Insurers?

- ERM Framework/Process is the same
  - Insurers
  - Financial services
  - Manufacturing/Services
- Risks differ – each firm is unique
- Focus on liability and operational risks
- Financial soundness is still key

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## Literature Search

- Kara Clark ERM articles
  - Aug 2005/Jan 2006 Health Section Newsletter
  - ASHRM monograph ERM January 2006 (3 parts)
- The Actuary
  - Bob Wolf's series of articles
- Contingencies
- Risk Management News
- CPD module: Introduction to ERM

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## Typical Questions on Survey

- How often is the company risk profile reviewed?
- What documents are given to new board members to describe risks taken?
- How could the ERM program be improved?
- Does the company have a succession plan?
- Is pricing methodology consistent across all purposes?

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## Comments from Survey

- External stakeholders rarely ask questions about ERM
- Many firms limit their ERM discussion to mitigation
- Few health consultants see ERM's value
- Some use ERM to provide a consistent framework when considering opportunities

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## Best Practices = Competitive Advantage

- ERM is used to make decisions
- Risk culture penetrates all levels
- Board involvement
- Emerging risk scanning
- Risk is Opportunity!

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## Next Steps

- Complete research
- Identify additional projects
  - Articles
  - Research
- How to implement internally?
  - All levels
  - Informal networks
  - Communication

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## Thank you!

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