



SOCIETY OF ACTUARIES

**ERM Symposium  
April 2010**

**4F – ERM for the Smaller Company**

Ellen Walsh  
Michael Leboeuf  
Tim Kelly

**Moderator**  
Phil Ferrari



Where Cutting Edge Theory Meets Some of the Best Practice



## 4F - ERM for the Smaller Company



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## Panel and Structure



Where Cutting Edge Theory Meets Some of the Best Practice

- Introductions
  - Ellen Walsh
    - PricewaterhouseCoopers
  - Tim Kelly
    - Country Financial
  - Michael LeBoeuf
    - LECG-SMART
- Session structure



What's Going On? There's More to It Than It Seems

## Industry Perspective of ERM Programs

**Ellen Walsh**  
**Partner, Insurance Risk & Regulatory Practice**  
**PricewaterhouseCoopers**



What's Going On? There's More to It Than It Seems

## Common Challenges

- Where should ERM responsibilities reside in my organization?
- What does a “typical” ERM structure look like?
- How do companies go about defining a risk appetite for the enterprise?
- What should we be reporting to management and/or the Board about my ERM process?
- How are companies adapting their ERM programs to manage risks beyond a their own ability to control (i.e., emerging/global risks)?
- How do we integrate our ERM activities with other risk and control activities being performed by other functions (e.g., I/A, Compliance)?
- How do we shift our ERM focus from risk mitigation to opportunity maximization?
- Have we identified the right risks to create opportunities for success?
- What ERM activities are a “must have” versus best practice?

# Starting Point: Define your objectives



What's Going Right? There's More to It Than You Think

- Set policies and procedures around the identification, measurement, mitigation, control and reporting of risks
- Establish a common language, tools and methods
- Own the enterprise risk appetite framework
- Exert independent oversight of enterprise adherence to risk management policies and standards
- Provide advice and expertise to business areas
- Provide executive management and Board independent assessment of risk exposures in context of risk appetite

# Building the foundation of your ERM program



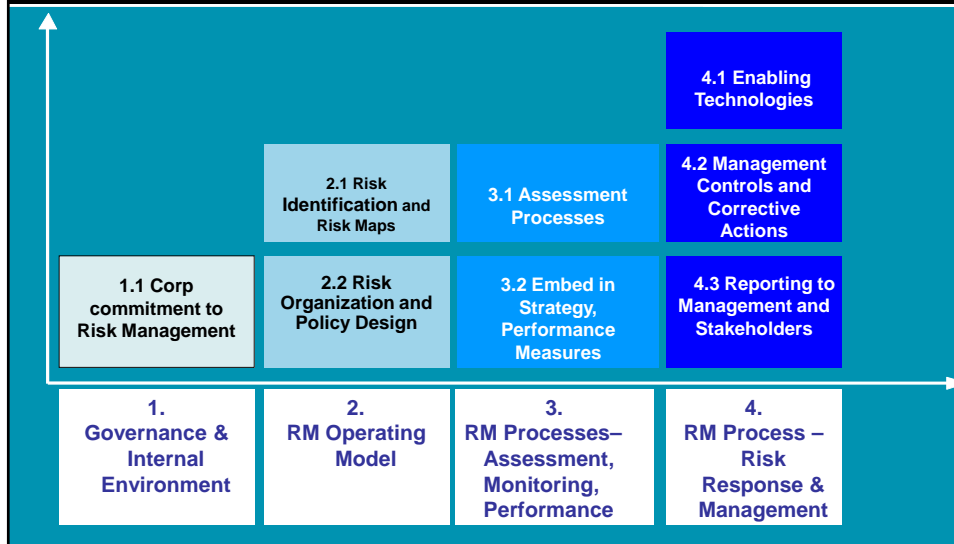
What's Going Right? There's More to It Than You Think



# Suggestion: Pursue a phased implementation



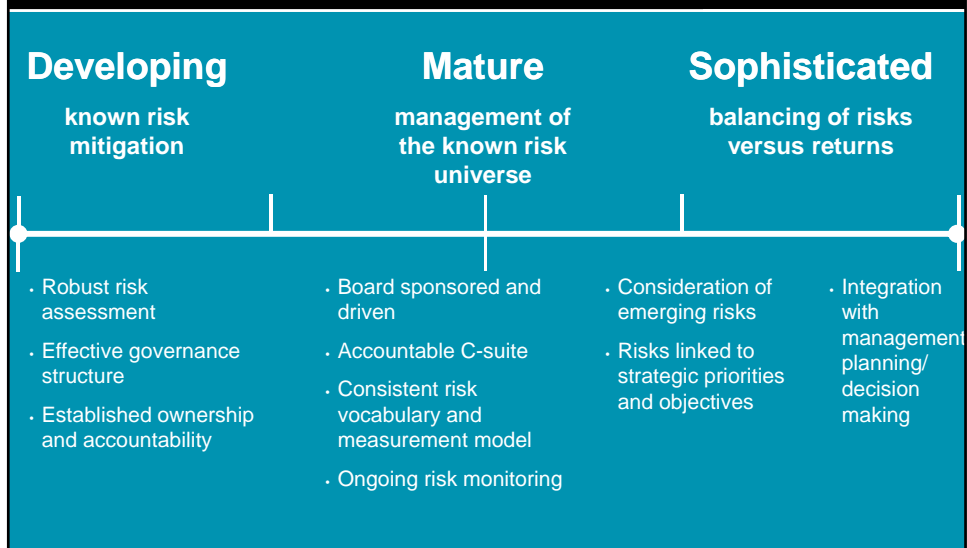
What's Coming Up: There's More to Do in 2014



# Maturity spectrum for ERM programs



What's Coming Up: There's More to Do in 2014



# What's next? 10 emerging practices



What's Coming Up? There's More to Come in 2014

1. Risk Management is **sponsored and driven by the Board**, including approving management's expression of risk appetite and the policy framework for risk tolerance.
2. The **C-Suite** (including CEO, COO and CFO) **is accountable** and actively engaged.
3. A **robust, relevant and meaningful risk assessment** is conducted that crosses the enterprise and considers relevant categories of risk: (e.g., strategic, operational, financial and compliance).
4. Risks are identified and **linked to strategic priorities** and business objectives.
5. A **governance structure** that supports oversight and execution of appropriate risk response activities is established and in place.
6. **Risk ownership** is established and management accountability clearly identified.
7. A consistent **risk vocabulary and risk measurement model** is adopted and in place.
8. Identified risk events are **monitored** on an ongoing basis.
9. Scenario planning capability is developed and applied to help determine risk impacts and to evaluate impact of **broader, strategic risks (emerging risks)**.
10. Risk management is developed as an organizational capability and **integrated in management development planning**, not viewed as an ancillary function



What's Coming Up? There's More to Come in 2014

## Practical ERM Implementation

**Tim Kelly, CPA, CFP, ChFC**  
**Director, Corporate Risk**  
**COUNTRY® Financial**

## ERM Development @ COUNTRY Financial

- COUNTRY Financial Bio
- COUNTRY's ERM Evolution
- What worked
- What hasn't worked
- Suggestions for companies early on in their ERM development

## COUNTRY Financial Bio

- Multi-line insurance & financial services focused on personal lines
- Exclusive agency force
- Ranked 668 in Fortune 1000
- Rating Agencies

## COUNTRY'S ERM Evolution

- Brief exploratory research period
- Life company risk identification and assessment effort
- Decided to use outside consultant to develop methodology & model
- Deep dive on top risks using FMEA
- Developed basic risk model

## COUNTRY'S ERM Evolution (Cont.)

- Used same process for P&C
- Created ERM framework & policy
- Board approval of ERM Policy
- Formed Corp. Risk Mgmt. Team
- Developed ERM training for management & board of directors
- Developed Risk Dashboard report

## What Worked?

- Started simple
- Communicated early wins to senior management & board of directors
- Focused on ERM process
- Close relationship with Internal Audit
- Formed Corp. Risk Mgmt. Team
- Training, training, training

## What Hasn't Worked?

- Risk management by committee
- Engraining ERM into culture, especially strategic planning
- Integration with compliance areas
- Communication back from risk owners
- Demonstrating ERM value/return

## Suggestions for Novices

- Determine best fit & get tone @ top
- Identify key risk owners early on
- Don't "boil the ocean"
- Avoid "one size fits all" technology
- Communicate ↑ & ↓ the organization often
- NOT a project!
- Don't ignore "tail end" risks

## Risk Management Through Product Design

**Michael LeBoeuf, FSA, MAAA, CLU, ChFC**  
**Managing Director**  
**LECG-SMART**

## A Common Problem with Product Development

- Everybody wants to chase the leader
  - Typically because many products today appear to be very commoditized
    - Term
    - Fixed annuities
    - SGUL

## A Common Problem with Product Development

- Chasing the Leader is fine so long as you analyze and quantify risks
  - Often insufficient time in the product development cycle
  - Risks that are typically not considered (even when there is time)
    - Illustration
    - Administration
    - Tax

## A Common Problem with Product Development

- What happens when you do not perform this analysis?
  - A competitive product that is underpriced makes it to market.
  - You may later pull the product back causing problems with distribution.
    - They did nothing wrong.

## How can this be addressed?

- Understand that your competitor is not necessarily your equal.
  - You may have a tighter bond with your producer.
  - Producers sell products, products do not sell themselves.

## How can this problem be addressed?

- Once you can establish a different, yet similar, path for your product design it frees you up
  - To address and price the product appropriate for the level of risk being undertaken by the company
  - To consider design alternatives that will satisfy producer/policyowner needs, but not result in underpricing

## Example - SGUL

- Market leaders currently employ shadow account designs
  - Designs are complex to program and administer
  - Create current and future risks for insurance companies
    - Tax
    - Litigation

## Example - SGUL

- Designs can be vastly simplified to ameliorate risks
  - Make the structure fixed premium instead of shadow account
  - Lapse coverage that is not being properly funded instead of waiting

## Example - SGUL

- Simplified designs do bear a higher consumer cost
  - Relationship with producers important
  - Providing product that is improved over existing product
  - Provide producer/policyholder education

Questions?