Effective Stress Testing in Enterprise Risk Management

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Abstract

Recent developments and the change in the global business environment have brought great urgency to enterprise risk management (ERM) issues, and insurers have been searching for the best ERM solutions for their practice. Stress testing has long been used as an essential risk management tool for insurers. This paper discusses both the theoretical and the application aspects of stress testing in managing enterprise risks. Effective stress testing maximizes the risk adjusted enterprise profit by controlling major risks (financial, strategic, operational and hazard) upon identifying risk metrics and modeling the correlations. A case study is included for demonstration purposes.