



2016 Enterprise Risk Management Symposium

April 6–8, 2016, Arlington, Virginia

Integrating Stress Testing Into a Risk Appetite Framework

By Chris Ordowich

Copyright © 2016 by the Society of Actuaries and Casualty Actuarial Society.

All rights reserved by the Society of Actuaries and Casualty Actuarial Society. Permission is granted to make brief excerpts for a published review. Permission is also granted to make limited numbers of copies of items in this monograph for personal, internal, classroom or other instructional use, on condition that the foregoing copyright notice is used so as to give reasonable notice of the Society of Actuaries' and Casualty Actuarial Society's copyright. This consent for free limited copying without prior consent of the Society of Actuaries and Casualty Actuarial Society does not extend to making copies for general distribution, for advertising or promotional purposes, for inclusion in new collective works or for resale.

The opinions expressed and conclusions reached by the authors are their own and do not represent any official position or opinion of the Society of Actuaries or Casualty Actuarial Society or their members. The organizations make no representation or warranty to the accuracy of the information.

Integrating Stress Testing Into a Risk Appetite Framework

Chris Ordowich, CFA, Ph.D.¹

Abstract

Stress tests and scenarios are often used as an informative tool to help stakeholders understand the risk profile of a firm. These analyses are often informational only and not directly linked to internal decision-making. This paper describes our approach to integrating stress tests into a regular decision-making process as part of our Own Risk and Solvency Assessment (ORSA). We have implemented a framework and analytical process that both enhances management's understanding of our risk profile and links that to the development of our risk appetite. In this applied paper, we describe the framework and supporting analytics we established to achieve this goal and the practical implications for obtaining buy-in from senior management to establish this as an ongoing process.

¹ The author can be reached at cordowich@munichreamerica.com. The views and opinions expressed in this paper are those of the author and not Munich Reinsurance America, Inc.