CHART 2A VALUE-BASED ERM MODEL

INTERNAL RISK DRIVERS
- STRATEGIC PLAN
- COMPETITOR ENVIRONMENT
- CUSTOMER SERVICE
- ECONOMIC CYCLES
- UNDERWRITING
- WAR / TERRORISM
- GOVERNANCE / TRANSPARENCY
- PUBLIC SCANDAL / CONTROVERSY
- EXTERNAL COMMUNICATIONS

EXTERNAL RISK DRIVERS

IMPACT ITEMS
- SALES GROWTH
- CUSTOMER RETENTION
- YIELD CURVE
- MORTALITY
- LITIGATION COSTS
- STOCK ANALYSTS RECOMMENDATIONS
- RATING AGENCY RATING

ILLUSTRATIVE/ PARTIAL EXAMPLE

VALUATION ELEMENTS

INCOME STATEMENT
- PREMIUM
- INVESTMENT INCOME
- CLAIMS
- EXPENSES
- DEBT SERVICE
- TAXES
- RISK CAPITAL PROFILE
- REQUIRED CAPITAL
- COST OF CAPITAL (WACC)
- BALANCE SHEET
- ASSETS
- LIABILITIES

PERIOD 1
- DISTRIBUTABLE EARNINGS
- PERIOD 2
- PERIOD 3
- PERIOD N

DISCOUNT @ WACC

SHAREHOLDER VALUE

TIME 0
- DISTRIBUTABLE SURPLUS

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