

Risk Management for Insurers – Reputation Risk

Jill Hoffman & Kelly Trinh

Agenda

- Importance of Risk Management
- Risk Management Cycle including a Case Study
- Benefits of Risk Management

Importance of Risk Management

- The need for Enterprise Risk Management (ERM) is driven by....
 - Greater transparency
 - Financial disclosures with more strict reporting & control measures
 - Security & technology issues
 - Business continuity & disaster preparedness
 - Focus of rating agencies
 - Regulatory compliance
 - Globalization in a continuously competitive environment

Risk Management Cycle



Identify

Underwriting

- The risk of a change in value due to a **deviation** of the actual **claims** payments from the expected amount of claims payments (including expenses).

Market

- The risk of **economic losses** resulting from price changes on the capital markets.

Credit

- The risk of a **counterparty** to a transaction **defaulting** before the final settlement of the transaction's cash flows.

Operational

- The risk of a change in value caused by the fact that actual losses, incurred for inadequate or **failed internal processes**, people and systems, or from external events, differ from the expected losses.

Liquidity

- The risk that we are **unable** to fund assets or **meet obligations** at a reasonable time.

Strategy

- The risk of making **wrong business decisions**, implementing or being able to adapt to changes in our operating environment.

Called the Risk of Risks due to compounding nature.

Reputation

- The risk that **adverse publicity** regarding an insurer's business practices and associations, **whether accurate or not**, will cause a loss of confidence in the integrity of the institution.

Reputation Risk – A Case Study



How to Successfully Implement ERM

Challenges

▪ Cultural

- Top management support for ERM, buy-in at business unit level
- Balanced risk governance
- Finding a balance between risk mitigation and business enabling

▪ Business

- Sound and profitable business model makes ERM easier

▪ Methodology and systems

- Define an appropriate risk measure (right degree of sophistication)
- Establish effective systems to support risk management processes

▪ Staff

- Broad perspective of ERM staff required – a lot of training needed!
- Exchange of staff between risk functions and business

Strong support by Board of Management is an indispensable prerequisite for successfully introduce and maintain ERM.

Benefits of Risk Management

- Risk management procedures cannot guarantee results.
- Using the ERM framework can increase an organization's and its shareholders' confidence that they will achieve their objectives.
- ERM offers a number of benefits:
 - Align risk appetite and corporate strategy
 - Links growth, risk and returns
 - Improves risk responses
 - Reduces operational surprises and losses
 - Recognizes and acts upon opportunities
 - Deploys resources effectively

Thank you very much for your attention

Jill Hoffman, jhoffman@munichre.com

Kelly Trinh, ktrinh@munichre.com

More Reading...

- The Conference Board: Reputation Risk
 - www.complianceweek.com/s/documents/ConfBReputation.pdf
- Deloitte: A Risk Intelligent view of reputation
- A Framework for integrating reputation risk into the enterprise risk management process: Lauren Regan