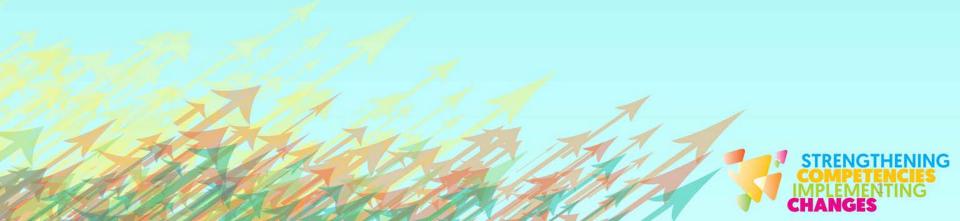
Risk Management for Insurers – Reputation Risk

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







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. Called the Risk of

Strategy

• The risk of making wrong business decisions, imple or being able to adapt to changes in our operating env

• 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

Risks due to

compounding

nature

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.



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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

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More Reading...

- The Conference Board: Reputation Risk
 - <u>www.complianceweek.com/s/documents/ConfBReputati</u>
 <u>on.pdf</u>
- Deloitte: A Risk Intelligent view of reputation
- A Framework for integrating reputation risk into the enterprise risk management process: Laureen Regan

