

Risk Officer's Forum

**The year
in review**

2018

The Risk Officer's Forum continues to encourage the development of Enterprise Risk Management (ERM) best practices among Canadian licensed P&C insurers and reinsurers.

Dear industry stakeholders:

As Chair of PACICC's Risk Management Advisory Committee, it is my pleasure to update you on the work of the Risk Officer's Forum, and to reflect back on activities in 2018 – the Forum's fifth full year of operation.

PACICC plays an important role in raising industry awareness about Enterprise Risk Management best practices through the ongoing work of its Risk Officer's Forum. Forum operations are overseen by an Advisory Committee that provides PACICC's Board with technical expertise and advice regarding current and emerging risk management issues. The Advisory Committee comprises senior industry risk officers from across the industry and is supported by a PACICC Administrator.

Over the past year, the Advisory Committee sought to identify emerging and priority risk issues, foster dialogue with regulators and industry risk professionals, create information sharing opportunities regarding industry best practices and monitor major risk areas. Program activities included a series of Risk Officer's Forum meetings and Emerging Risks webinars, a sixth (and now annual) Benchmark Survey on ERM Practices and ongoing liaison with industry stakeholders on topical risk issues.

I extend thanks to Randy Musselman (The Guarantee Company of North America) who retired from the Advisory Committee in 2018. Thank you to my Advisory Committee colleagues for their counsel and involvement over the past year, and to Ian Campbell and support staff at PACICC for their high-quality work. I am confident that the Forum is well positioned for continuing success, with an exciting program of activities that will carry us through 2019.

Susan Meltzer
Chair, PACICC Risk Management Advisory Committee

Forum activities and events in 2018

Forum meetings

Forum meetings are half-day, in-person sessions held in Toronto. The meetings include a guest speaker discussing a topical industry issue, followed by an industry panel of risk experts discussing current ERM issues. The meetings seek to engage attendees in interactive, frank discussion. Regulators may attend as guest speakers only. Media are not permitted to attend.

April 5

- Guest speaker: **Penny Lee**, Senior Director, Property and Casualty Insurance Group, OSFI
- Keynote Topic: Update on Current Industry Issues (FRFIs' Risk Assessment Process; Governance & Board Effectiveness; Cyber Security and InsurTech; ORSA; IFRS Update; and Regulatory Updates)
- Panel Topics:
- Risk Culture
 - Top 10 Enterprise Risk Management Best Practices



Penny Lee

September 5

- Guest speaker: **Stephen Smith**, Partner, Audit, Financial Services, KPMG
- Keynote Topic: International Financial Reporting Standards (IFRS) 17 – Insurance Contracts
- Panel Topics:
- Market Conduct Regulation
 - PACICC 2018 ERM Member Survey Results



Stephen Smith

October 31

- Guest speaker: **Louis Durocher**, President and Chief Executive Officer, Heartland Farm Mutual Inc.
- Keynote Topic: CEO Perspective on ERM
- Panel Topics:
- A.M. Best's Stochastic Capital Adequacy Ratio
The Impact of ERM in A.M. Best's Ratings Methodology
 - Feedback on OSFI Annual Risk Management Seminar Discussion Topics



Louis Durocher

Emerging risks webinars

Emerging Risks webinars focus in-depth discussion on technical aspects of one ERM issue. All webinars are recorded and posted on the PACICC website for future on-demand rebroadcast.



Paul Kovacs

February 21

- Speaker: **Paul Kovacs**, President & CEO, PACICC and Executive Director, ICLR
- Topic: Climate Change



Brenda Wells

May 16

- Speaker: **Brenda Wells**, Director, Risk Management & Insurance Program, East Carolina University
- Topic: Marijuana Legalization – Implications for P&C Insurers



Charles Dugas

October 24

- Speaker: **Charles Dugas**, Director, Industry Solutions, Element AI
- Topic: Artificial Intelligence and Machine Learning – Implications for P&C Insurance

PACICC 2018 Benchmark Survey on ERM Practices

Survey goals

- Encourage dialogue among industry stakeholders regarding ERM best practices
- Highlight practical elements that underpin a robust ERM program
- Identify areas where further progress may be needed

Response rate

- 108 firms represented in the Survey
- Respondents accounted for 81.7% of 2017 private industry DWP
- 71.2% of respondents are regulated by OSFI (account for 66.8% of 2017 private DWP)
- Respondents with more than \$1 billion in DWP accounted for 68% of industry market share
- Respondents with more than \$500 million in DWP accounted for 75.5% of industry market share
- **Note** – \$500 million in DWP was used as the breakpoint between larger and smaller firms

Key findings

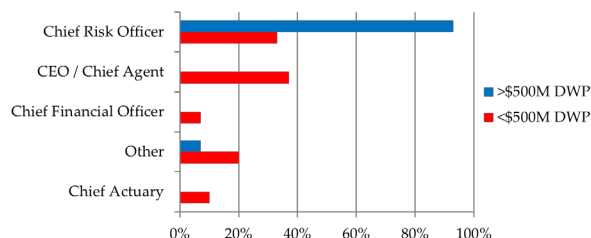
1. Differences in governance

This year's survey confirms differences in corporate governance practices both over time and between larger and smaller companies in the industry. We note differences in the parties who are responsible for ERM management, receive direction from a Head Office, have access to the Board of Directors or a Board Committee and are part of the Executive Management Team.

In 2018, 51% of respondents said ERM was the responsibility of their Chief Risk Officer, up from 46% in 2013 when the question was first posed. In 2015, 52% of larger firms said their CRO had primary responsibility for managing the company's ERM program. This has increased to 93% in the latest Survey. Two-thirds (67%) of smaller firms responding to the survey said this responsibility is shared between the Chief Executive Officer or Chief Agent, Chief Financial Officer, Chief Actuary or another party (e.g. Vice President of Finance).

Primary Responsibility for Managing Company's ERM

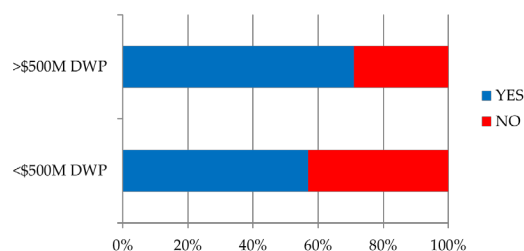
Larger vs. Smaller Companies (2018)



While there has been little change in collective responses on autonomy since this question was first posed two years ago (62% Yes in 2016 vs. 60% in 2018), there are differences between larger firm and smaller firm responses. The percentage of larger companies taking direction from a head office increased from 55% in 2016 to 71% in 2018. The trend has been the opposite for smaller companies, from 65% in 2016 down to 57% in 2018.

Person Managing ERM Receives Direction From a Head Office

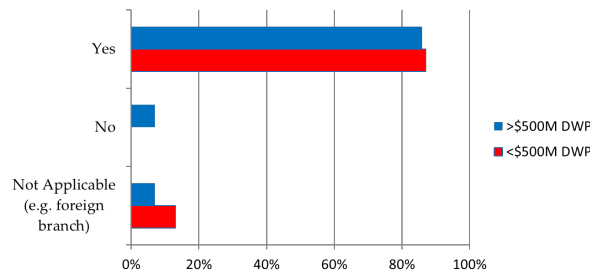
Larger vs. Smaller Companies (2018)



The percentage of parties with ERM responsibilities having access to the Board or a Board Committee overseeing ERM has increased slightly over time (from 86% in 2011 to 87% in 2018). While this used to be more pronounced for larger companies (94% for larger firms vs. 85% for smaller companies last year), that has changed in the latest survey. Now, 87% of parties in smaller firms now have access to the Board or Board Committee, vs. 86% in larger firms.

Person Managing ERM has Access to Board or Board Committee

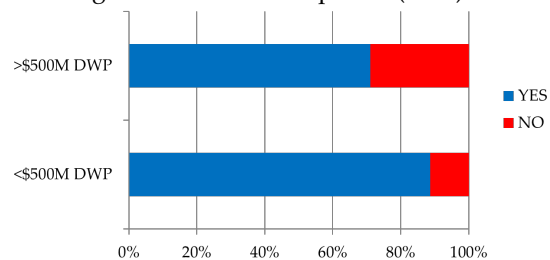
Larger vs. Smaller Companies (2018)



With task specialization and a larger number of staff in larger companies, there may be less likelihood for the person with ERM responsibilities to be part of the firm's Executive Management Team. Collectively, the number of respondents answering Yes has increased slightly over time, from 75% in 2011 to 78% in 2018. In the latest survey, a greater percentage of ERM managers in smaller firms reported that they were part of the Executive Management Team (87%) compared to those in larger firms (71%).

Person Managing ERM is Part of Executive Management Team

Larger vs. Smaller Companies (2018)



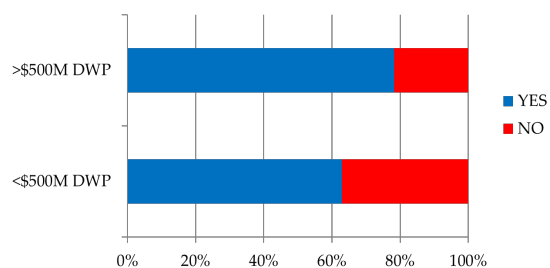
2. Approaches to risk management

Survey results continue to show differences in the approaches taken to risk management between larger and smaller companies in the industry.

There has been some improvement over time with firms implementing a formal process to identify new and emerging risks (from 68% in 2016 to 72% in 2018). Results of the latest survey show this trend is led by larger firms in the industry, but there has been some convergence. The percentage of larger firms answering in the affirmative was 83% in 2016 compared to 79% in 2018. Smaller firms are showing marginal increases, from 60% in 2016 to 63% in 2018.

Company Has a Formal Process in Place to Identify New/Emerging Risks

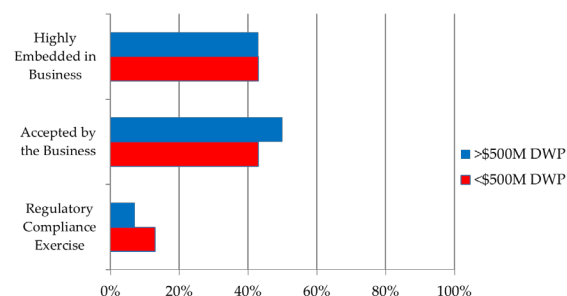
Larger vs. Smaller Companies (2018)



There has been growing acceptance of ERM by all respondents since this question was first posed – 81% acceptance in 2015 vs. 90% in 2018. A larger percentage of respondents in larger firms answered favourably in the latest survey (93%) compared to respondents in smaller firms (86%). The number of respondents viewing this as a regulatory exercise has fallen over time, from 19% in 2015 down to 9% in 2018.

How Does Your Company View ERM

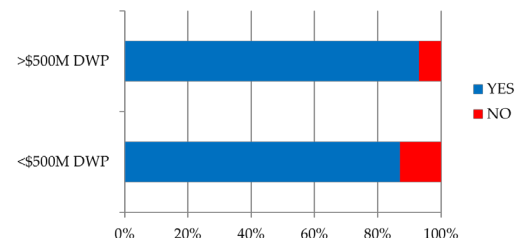
Larger vs. Smaller Companies (2018)



The percentage of respondents who said they maintain a risk register of all material risks identified has increased dramatically over time, from 79% in 2011 to 90% in 2018. This is led by larger firms in the industry, with 93% of their respondents answering in the affirmative in the latest survey, compared to 87% of respondents from smaller firms. Results here from both larger and smaller firms are very encouraging.

Company Maintains a Risk Register of All Material Risks Identified

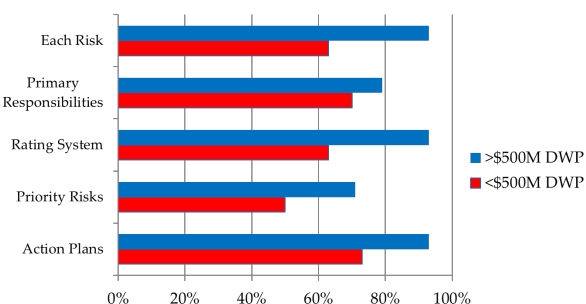
Larger vs. Smaller Companies (2018)



The Survey enquired about specific risks that companies' risk profiles address. Responses show that larger firms appear more focused on management practices (93%), consistent process and rating systems (93%) and action plans (93%). Smaller firms are more focused on action plans (73%) and primary responsibilities (70%).

Company's Risk Profile Addresses...

Larger vs. Smaller Companies (2018)



The percentage of firms employing a business continuity plan has increased, from 88% in 2016 to 91% in 2018. Most firms test once a year for disaster recovery (75% in 2018, compared to 67% in 2016) and business continuity (71% in 2018, compared to 45% in 2015). Most organizations have a cyber protection plan in place (93% in 2018, compared to 89% in 2016). This is tested once a year by 51% of respondents (47% in 2016) or on an ad hoc basis by 41% of respondents (44% in 2016).

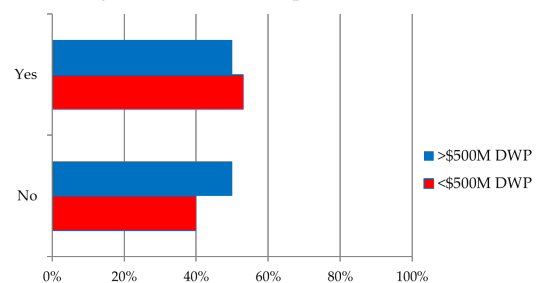
3. Importance of ORSA and ECM

A third area of interest in the Survey is the importance that companies attach to Own Risk and Solvency Assessment (ORSA) Economic Capital Models (ECM).

A growing percentage of all respondents have engaged external resources to complete and/or review their ORSAs – 52% in 2018, compared to 42% when the question was first posed in 2015. Larger firm use of external resources increased from 35% 2016 to 50% over the past two years, while smaller firm use increased from 34% to 53% over the same time period. Firms now have almost identical experiences using external resources to complete or review their ORSAs.

External Resources Engaged to Complete and/or Review ORSA

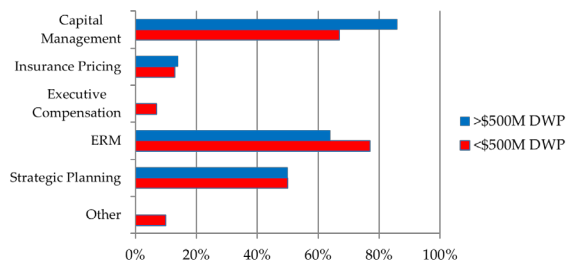
Larger vs. Smaller Companies (2018)



Over the past two years, all firms have reported significantly greater use of their ORSA results in most areas probed: capital management (73% in 2018 vs. 70% in 2016); insurance pricing (12% in 2018 vs. 9% in 2016); executive compensation (5% in 2018 vs. 0% in 2016); ERM (72% in 2018 vs. 75% in 2016) and strategic planning (50% in 2018 vs. 45% in 2016). This year, firms made greatest use of their ORSA results for capital management (86% for larger firms; 67% for smaller firms) and ERM (64% for larger firms; 77% for smaller firms).

Your Company Uses Its ORSA Results for...

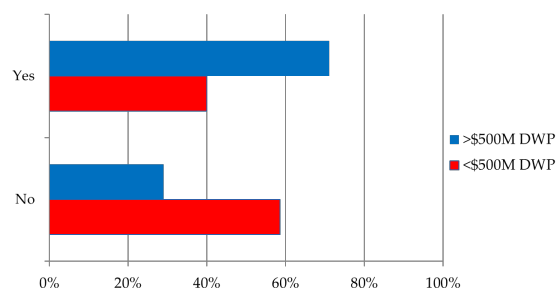
Larger vs. Smaller Companies (2018)



A growing number of companies are using an economic capital model on a regular basis. The total number of respondents answering in the affirmative has increased from 31% in 2015 to 49% in 2018. Larger company use has increased from 56% to 71% in just the past two years. Over the same time period, smaller firm use also increased, from 32% to 40%.

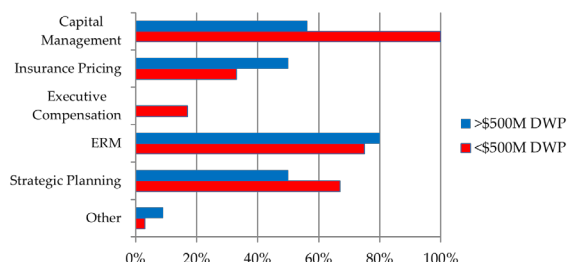
Company Uses an Economic Capital Model on a Regular Basis

Larger vs. Smaller Companies (2018)



This year, 71% of larger firms indicated that they used an economic capital model regularly. For these firms, the greatest use made of their economic capital model was for capital management (80%) and ERM (80%). Only 40% of smaller firms reported using an economic capital model regularly. For these firms, greatest use was made for capital management (100%), ERM (75%) and strategic planning purposes (67%).

If ECM Used Regularly, the ECM Results are Used for... Larger vs. Smaller Companies (2018)



4. Top emerging risks

The survey enquired about top emerging risks – in the next three years and over the next 10 years. No sample risks were provided to prompt replies. Answers were rolled up into summary categories.

In the near term, the top risk issues for respondents were cyber security and industry competition (both at 16.1%). Concern about several high-profile data breaches over the past year likely account for the industry's increased focus on cyber security. This ranked third in last year's list of short-term risks. In a highly competitive industry, respondents continue to view competitor actions and reactions as "risks" to their operations – on par with cyber security concerns. These two issues accounted for one-third of responses regarding short-term risks.

Top Emerging Risks Confronting Your Company Over the Next 1-3 Years (All Respondents)

1.	Cyber security	16.1%
2.	Industry competition	16.1%
3.	Technological change	14.1%
4.	Government regulation	13.1%
5.	Climate change	10.1%
6.	Political environment	10.1%
7.	Economic uncertainty	9.0%

Over the longer term, the effect of technological change was the number one risk cited by respondents (21%), clearly ahead of industry competition (11.6%), climate change (9.5%) and cyber security (9.5%). There was no change in the order of the top-four long-term risks cited by respondents in the 2017 and 2018 ERM surveys. Respondents have seen technological change reshape the business of insurance with new ways of measuring, controlling and pricing risk (e.g. artificial intelligence, blockchain, Internet of Things, telematics, cloud computing, Insurtech, FinTech, etc.). They fully expect this trend to continue over time.

Top Emerging Risks Confronting Your Company Over the Next 3-10 Years (All Respondents)

1.	Technological change	21.0%
2.	Industry competition	11.6%
3.	Climate change	9.5%
4.	Cyber security	9.5%
5.	Human capital	8.5%
6.	Government regulation	7.3%
7.	Political environment	7.3%

This graph compares respondents' summary responses over the two time periods (1-3 years and 3-10 years). The top-six short-term risks (accounting for more than 90% of responses) remained on the list of long-term risks. Top-of-mind concerns for respondents were cyber security and issues related to industry competition (pricing, new products, commoditization, etc.) which cause uncertainty in the marketplace. In the longer term, respondents' clear concern is on technological change and industry competition (unchanged in second place over the longer term). Concerns about the political environment decreased over the longer term.

Top Emerging Risks

(All Respondents)

Next 1-3 Years

Cyber security
Industry competition
Technological change
Government regulation
Climate change
Political environment
Economic Uncertainty

Next 3-10 Years

Technological change
Industry competition
Climate change
Cyber security
Consumer preferences
Government regulation
Human capital

Property and Casualty Insurance

Compensation Corporation

20 Richmond Street East, Suite 210

Toronto, Ontario M5C 2R9

Phone (416) 364-8677

Fax (416) 364-5889

www.pacicc.ca

2019 Risk Management Advisory Committee



Susan Meltzer
(Committee Chair)

Vice President, Risk
Aviva Insurance Company of Canada

Risk Management Advisory Committee members oversee the operations of the Risk Officer's Forum.

The Forum seeks to enhance risk management within the P&C insurance industry by:

- Discussing and sharing risk management best practices within industry;
- Reviewing and communicating topical risk management information;
- Serving as a risk management resource for PACICC and for insurance regulators;
- Discussing major existing risks and significant emerging risks within the industry; and
- Providing resources, references and information to facilitate research of risk management and related governance topics.



Sanjeev Agarwal
Chief Risk Officer

Aviva Insurance Company of Canada



Randy Besse
Director, Risk Management

SGI Canada



Brandon Blant
Vice President, Risk Management

Intact Financial Corporation



Manon Débigaré
Vice President and Chief Risk Officer

Desjardins General Insurance Group



Tracy Mann
Vice President, Enterprise Risk
Management and Chief Compliance Officer

Economical Insurance



Advisory Committee Administrator

Ian Campbell
Vice President, Operations, PACICC

Tel: 416/364-8677, Ext. 3224
icampbell@pacicc.ca

Risk Officer's Forum Membership

Membership in PACICC's Risk Officer's Forum is open to staff of any Canadian licensed insurer or reinsurer (Federal, Provincial and Territorial) with management responsibility for ERM in their respective organization. This includes PACICC member insurers and risk officers with insurers and reinsurers that are not PACICC members.

If you are not being contacted directly regarding upcoming Risk Officer's Forum events, please notify Ian Campbell to have your name added to PACICC's Forum database.