

Risk Officer's Forum

**The year
in review**

2019

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 the new 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 a busy program of events in 2019 – the Forum's sixth full year of operation.

PACICC continues to play an important role in raising industry awareness about Enterprise Risk Management best practices through the ongoing work of its Risk Officer's Forum. The Forum is 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 risk officers from across the industry and is supported by a PACICC Administrator.

The Advisory Committee seeks to identify priority and emerging risk issues, enhance dialogue with industry regulators and risk professionals, create information sharing opportunities and monitor major risk areas. Program activities again included a series of Risk Officer's Forum meetings and Emerging Risks webinars, a seventh (now bi-annual) Benchmark Survey on ERM Practices and liaison with subject-matter experts on topical risk issues.

The Advisory Committee was pleased to welcome two new members in 2019 – Michele Falkins (Heartland Farm Mutual Inc.) and Sonia Kundi (Aviva plc.). Thank you to my Advisory Committee colleagues for their counsel and involvement over the past year, and to Ian Campbell and Denika Hall at PACICC for their high-quality work. We are well positioned for continuing success this year and in the years ahead.

Brandon Blant
Chair, PACICC Risk Management Advisory Committee

Forum activities and events in 2019

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 3

Guest speaker: **Penny Lee**, Senior Director, Property and Casualty Insurance Group, OSFI



Penny Lee

Topics: *Update on Current Industry Issues* (OSFI 2019-22 Strategic Plan; Reinsurance Review; IFRS 17; Climate Change; Minimum Capital Test (MCT/BAAT); Revised Corporate Governance Guideline; Guideline E4-A (Role of Chief Agent & Record Keeping Requirements); and U.S./Mexico/Canada Agreement (USMCA))

Discussion: **Nick Milinkovich**, Senior Solution Leader & Associate Partner McKinsey & Company
Erwann Michel-Kerjan, Partner (Insurance Risk North America) McKinsey & Company

Topic: *Artificial Intelligence and Machine Learning*

Discussion: **Sanjeev Agarwal**, Chief Risk Officer, AIG Insurance Company of Canada
Brandon Blant, Vice President, Risk Management Intact Financial Corporation
Christopher Walton, Chief Agent for Canada General Reinsurance Corporation

Topic: *Current P&C Insurance Industry Issues (Group Discussion)*

September 4

Guest speaker: **Nav Litt**, Partner, Consulting, Deloitte

Topic: *Changes to the Business Environment in Canada*

Presentation: **Dr. J. Efrim Boritz**, Ontario CPAs Chair in Accounting and Director, University of Waterloo Centre for Information Integrity and Information Systems Assurance

Topic: *Cyber Security – Implications for the P&C Insurance Industry in Canada*



Nav Litt

Panel: **Ian Campbell**, Vice President, Operations, PACICC
Brandon Blant, Vice President, Risk Management Intact Financial Corporation

Topic: *PACICC 2019 ERM Benchmark Survey Results*

Forum meetings (continued)

October 28

Guest speaker: **Andrew Cartmell**, President & CEO, Saskatchewan Government Insurance

Topic: *CEO Perspective on ERM*

Panel: **Paul Field**, President, CEO and CFO, Reliable Life Insurance Company and Old Republic Insurance Company of Canada
Matt Moore, Senior Vice President, Highway Loss Data Institute
Pete Walker, Chief Technical Underwriter, Aviva Canada Inc.

Topic: *Cannabis Legalization – One Year In*

Panel: **Michele Falkins**, Vice President, CFO & CRO
Heartland Farm Mutual Inc.
Kathryn Hyland, Head Risk Management, L&H Americas and Senior Vice President, Group Risk Management, Swiss Reinsurance Company Ltd, Canadian Branch
Sonia Kundi, Vice President, Global Risk Innovation, Aviva plc

Topic: *Review of Agenda Items from OSFI's Annual Risk Management Seminar*



Andrew Cartmell

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.

February 20

Speaker: **Susan Meltzer**, Vice President, Risk Aviva Canada Inc.
Elaine Lajeunesse, Senior Vice President and Chief Risk Officer TD Insurance
Paul Field, President, Chief Executive Officer and Chief Financial Officer, Reliable Life Insurance Company and Old Republic Insurance Company of Canada

Topic: *A Conversation with Insurers Regarding Risk Identification*



John McAlaney

May 15

Speaker: **Dr. John McAlaney**, Associate Professor
Department of Psychology, Faculty of Science and Technology
Bournemouth University, United Kingdom

Topic: *The Social Psychology of Cyber Security*



Janis Sarra

October 23

Speaker: **Dr. Janis Sarra**, Presidential Distinguished Professor,
University of British Columbia
Professor of Law, Peter A. Allard School of Law,
University of British Columbia

Topic: *Climate Change*

PACICC 2019 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

- 113 firms represented in the Survey
- Respondents accounted for 86.9% of 2018 private industry DWP
- 72.6% of respondents are regulated by OSFI (account for 71.6% of 2018 private DWP)
- Respondents with more than \$1 billion in DWP accounted for 73.7% of industry market share
- Respondents with more than \$500 million in DWP accounted for 78.5% of industry market share
- **Note** – \$500 million in DWP was used as the breakpoint between larger and smaller firms

Key findings in the 1019 ERM Survey

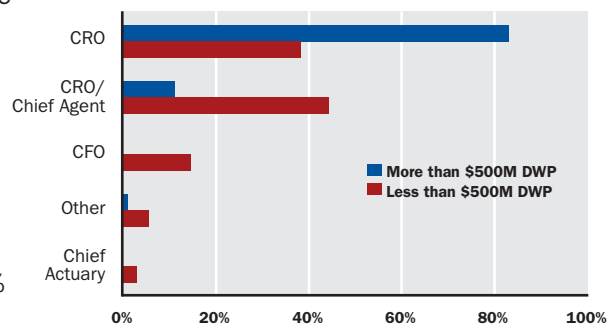
1. Corporate governance

The 2019 survey results show similarities in the corporate governance practices of larger and smaller companies in the industry. This includes C-suite concentration of ERM responsibilities, greater autonomy from a head office in risk management and enhanced ERM manager access to the Board of Directors or a Board Committee.

ERM responsibilities continue to be consolidated in the offices of the Chief Risk Officer, CEO and Chief Agent. In 2013, 74% of respondents said these one of these three positions had primary responsibility for ERM. In 2019, that figure has grown to 86.5% across the industry – 94.4% for larger firms (up from 93% last year) and 82.3% for smaller firms (up from 70% last year). In 2019, 53.8% of all respondents said ERM was the responsibility of their CRO – up from 51% last year, and 46% in 2013 when the question was first posed. “Other parties” were cited for ERM responsibilities by 28% of respondents in 2013, but only 13.4% in this year’s survey.

Primary responsibility for managing company ERM

Larger vs. smaller companies (2019)

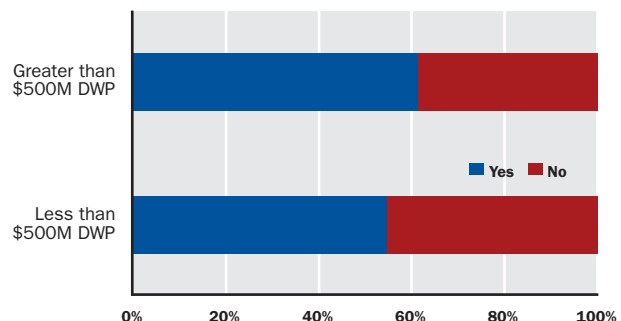


Responses here show more autonomy being exercised by both larger and smaller firms in the industry. In 2016 when the question was first posed, 62% of firms reported taking direction from a head office. That decreased to 60% last year, and now sits at 55.7% of firms in the latest survey.

The percentage of larger companies taking direction from a head office decreased from 71% last year to 61.1% in 2019. Similarly, the percentage of smaller firms taking direction from a head office fell from 57% last year to 52.9% in the latest survey.

Person managing ERM receives direction from a head office

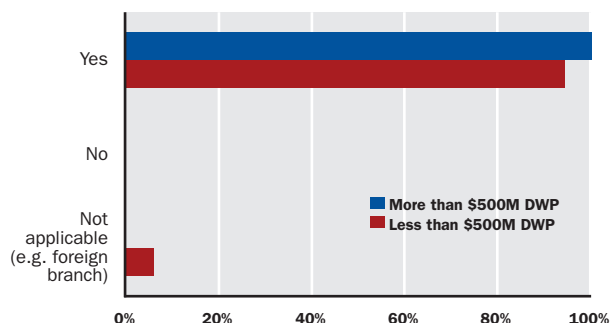
Larger vs. smaller companies (2019)



The percentage of parties with ERM responsibilities having access to the Board or a Board Committee overseeing ERM has increased dramatically over the past two years. In 2017, 94% of large firms reported Board access for their ERM managers. This increased to 100% in the latest survey. For smaller firms, the increase was also quite significant – from 85% in 2017 to 94.1% in the latest survey. Differences in approaches between larger and smaller firms are lessening. The 9% gap in Board access that we saw between larger and smaller firms in the 2017 survey is now less than 6%.

Person managing ERM has access to Board or Board Committee

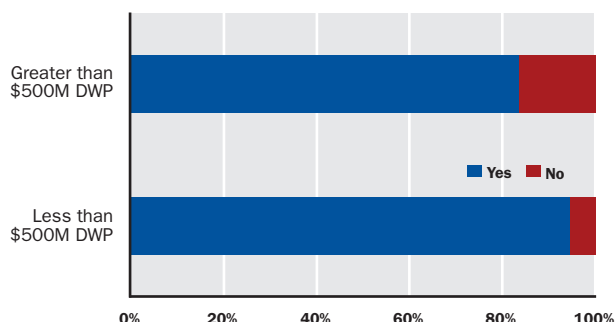
Larger vs. smaller companies (2019)



In 2017, 75% of firms said the person managing ERM was part of the EMT. That increased to 87% last year, and to 90.4% in the latest survey. An interesting development is that larger and smaller companies have effectively switched places with summary responses here. In 2017, 94% of larger firms and 85% of smaller firms reported that the person managing ERM was part of their EMT. This year, it is 94.1% of smaller firms and 83.3% of larger firms answering in the affirmative. With more task specialization in larger firms, there may be less likelihood for the ERM manager to be part of the firm's EMT.

Person managing ERM is part of Executive Management Team

Larger vs. smaller companies (2019)



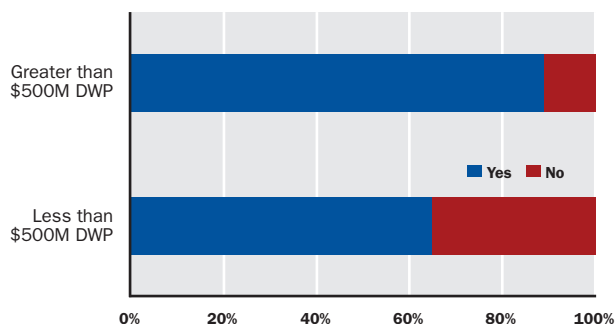
2. Approaches to risk management

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

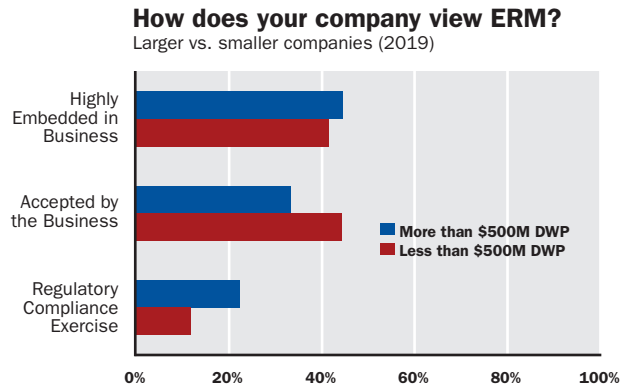
There has been slow improvement over time with respect to firms implementing a formal process to identify new and emerging risks. The industry average increased from 68% of firms in 2016 to 73.1% in 2019. This trend is led by larger firms, with their support increasing from 79% last year to 88.9% in the latest survey. Smaller firms have been enhancing their emerging risk identification capabilities over time, but at a much slower pace – from 60% in 2016, to 63% in 2018, to 64.7% in the latest survey. This shows that there is still work to do in aligning larger and smaller firm approaches to risk management.

Company has a formal process in place to identify new and emerging risks

Larger vs. smaller companies (2019)



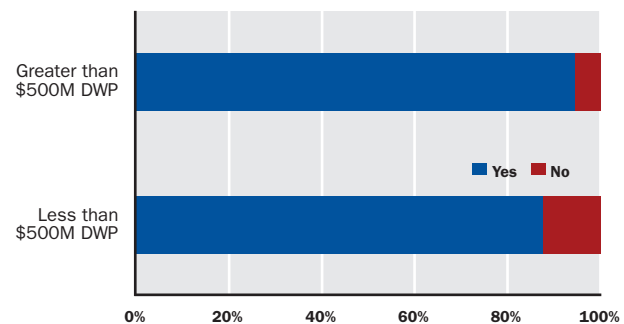
There has been some industry pushback regarding the role of ERM in firms in the industry. There was 81% industry acceptance when the question was first posed in 2015. Industry support increased to 90% last year – 93% support from larger firms and 86% support from smaller firms. In this year's survey, industry acceptance is down to 82.7% – 77.7% support from larger firms and 85.3% support from smaller firms. Many larger firms were less supportive of ERM in this year's survey. There has been a threefold increase in larger firms viewing ERM as a regulatory compliance exercise – from 7% in 2018 to 22.2% in the latest survey. 13% of smaller firms viewed ERM as a compliance exercise last year. That figure decreased to 11.7% in the latest survey.



While the percentage of respondents who said they maintain a risk register of all material risks identified has increased over time (from 79% in 2011 to 90% last year) it slipped back this year to 86.5%. Larger firm support increased slightly, from 93% last year to 94.4% this year. Smaller firm support slipped from 87% last year down to 82.3% this year. The Survey enquired about specific risks that companies' risk profiles address. Larger firms' risk profiles were more robust. While larger firms (88.9%) and smaller firms (73.5%) are both focused on management practices, larger firms are also more focused on prioritizing individual risks (83.3%) and developing action plans to mitigate priority risks (83.3%). Smaller firm support here was 67.6% in both cases.

Company maintains a risk register of all material risk identified

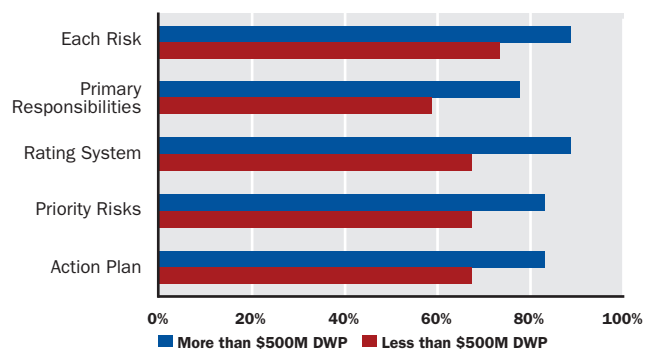
Larger vs. smaller companies (2019)



The percentage of firms employing a business continuity plan has increased, from 88% in 2016 when the question was first asked to 90.4% in 2019 – 100% for larger firms and 85.3% for smaller firms. Most firms test once a year for disaster recovery (65.4% in 2019, down from 67% in 2016) and business continuity (61.5% in 2019, up from 45% in 2015). Most organizations have a cyber protection plan in place (88.5% in 2019, virtually unchanged from 89% in 2016) – 100% for larger firms and 82.3% for smaller firms in the industry. Cyber protection plans are tested once a year by 42.3% of respondents (down from 47% in 2016), or on an ad hoc basis by 38.5% of respondents (down from 44% in 2016).

Company's risk profile addresses...

Larger vs. smaller companies (2019)



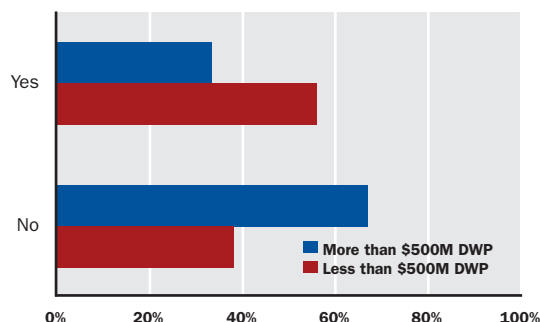
3. Importance of ORSA and ECM

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

A significant percentage of all respondents engage external resources to complete and/or review their ORSAs – 48.1% in 2019, compared to 42% when the question was first posed in 2015. Larger firm use of external resources has declined over the past year, from 50% last year to 33.3% this year. Smaller firm use increased marginally from 53% last year to 55.9% this year. Larger and smaller firms are close to having identical experiences using external resources to complete or review their ORSAs.

External resources engaged to complete and/or review ORSA

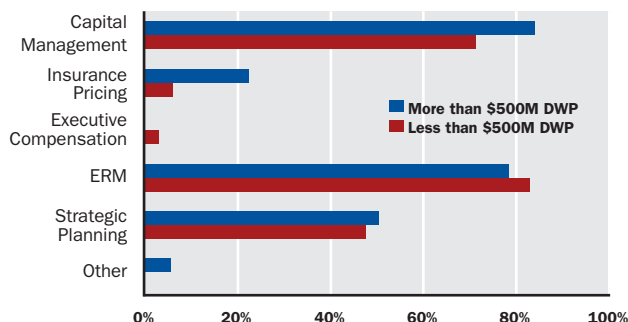
Larger vs. smaller companies (2019)



Over the past three years, all firms have reported significantly greater use of their ORSA results in most areas probed: capital management (75% in 2019 vs. 70% in 2016); insurance pricing (11.5% in 2019 vs. 9% in 2016); ERM (80.7% in 2019 vs. 75% in 2016); strategic planning (48.1% in 2019 vs. 45% in 2016); and executive compensation (1.9% in 2019 vs. 0% in 2016). This year, firms made greatest use of their ORSA results for capital management (83.3% for larger firms; 70.6% for smaller firms) and ERM (80.7% for larger firms; 82.3% for smaller firms).

Your company uses its ORSA results for...

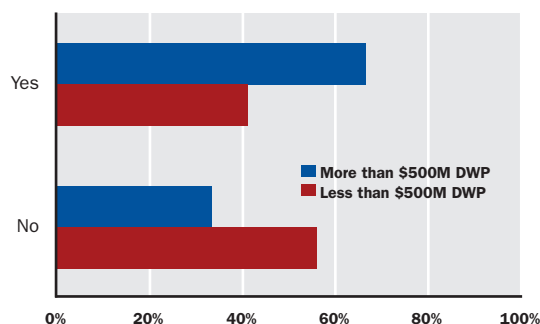
Larger vs. smaller companies (2019)



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 when the question was first posed to 50% in 2019. Larger company use has increased from 56% to 66.7% in that time. Over the same time period, smaller firm use has also increased, from 32% to 41.2%.

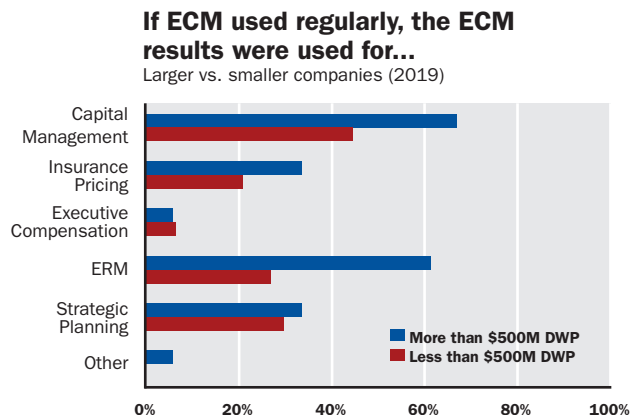
Company uses an Economic Capital Model on a regular basis

Larger vs. smaller companies (2019)



4. Top emerging risks

This year, 66.7% of larger firms indicated that they used an Economic Capital model regularly. The greatest use of their economic capital model was for capital management (66.7%) and ERM (61.1%). Only 41.2% of smaller firms reported using an economic capital model regularly. For these firms, greatest use was made for capital management (44.1%) and to inform their strategic planning activities (29.4%).



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 issue for respondents was cyber security (at 23.4%). Concern about high-profile data breaches over the past number of years likely account for the industry's continuing focus on cyber security. This was the number one short-term risk cited in in last year's survey (16.1%). Climate change and technological change (both at 20%) closely follow cyber security as key short-term risks this year. These three issues accounted for almost two-thirds of responses regarding short-term risks.

Top emerging risks confronting your company over the next 1 to 3 years

(All Respondents)

1. Cyber security	23.4%
2. Climate change	20.0%
Technological change	20.0%
4. Government regulation	12.2%
5. Industry competition	11.3%
6. Human capital	4.3%
Broker consolidation	4.3%

Over the longer term, the effect of technological change was the number one risk cited by respondents (32.9%), ahead of climate change (26.6%), industry competition (11.7%) and cyber security (10.6%). The top four long-term risks cited last year remain the top long-term risks for respondents. Respondents are concerned about the way that technological change may 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.).

Top emerging risks confronting your company over the next 3 to 10 years

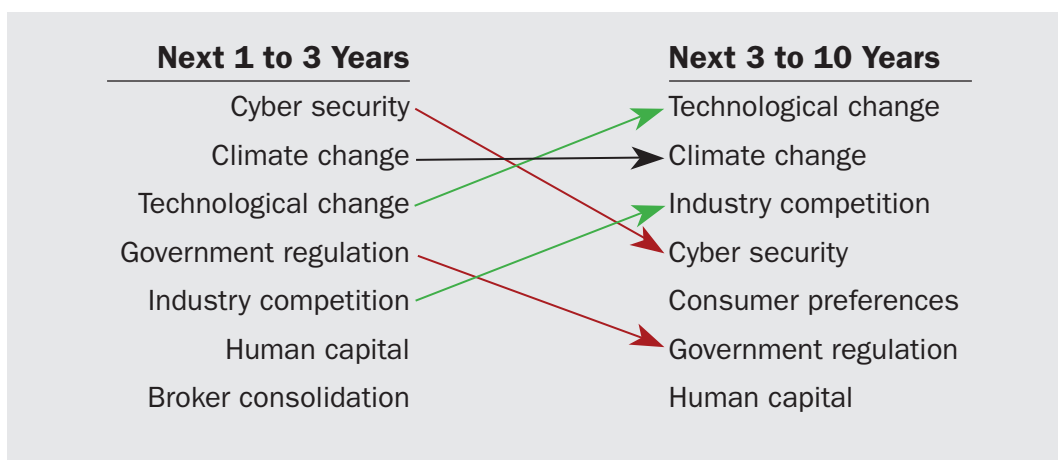
(All Respondents)

1. Technological change	32.9%
2. Climate change	26.6%
3. Industry competition	11.7%
4. Cyber security	10.6%
5. Consumer preferences	5.3%
Government regulation	5.3%
7. Human capital	4.2%

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)



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.

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2019 Risk Management Advisory Committee



Brandon Blant
(Committee Chair)

Vice President, Risk Management
Intact Financial Corporation

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
- Providing resources, references and information to facilitate research of risk management and related governance topics.



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SGI Canada



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Michele Falkins
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