

Member Survey on ERM practices

A report on PACICC's second ERM benchmarking survey

August 2013

2011
2013

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Introduction

PACICC issued its first Enterprise Risk Management (ERM) benchmarking survey to all member insurers in May 2011 to gauge their progress in managing enterprise risks, and to help identify where further efforts may be needed. A summary report on the survey findings was issued to members in December 2011.

This is a preliminary report on the second ERM benchmarking survey (issued in March 2013). While some of the questions posed in this year's survey differ from those in the initial 2011 survey, progress is still evident in several important areas – as summarized by the percentage of respondents answering “yes” to the questions below.

Question	2011	2013
Does your Company have a documented ERM framework or policy with established procedures?	80%	87%
Does your Company's Board of Directors have primary responsibility for overseeing the ERM framework?	42%	80%
Does the person in your Company with primary responsibility for ERM have direct access to the Board of Directors (or to the relevant Committee of the Board)?	86%	100%
Is the person with primary responsibility for ERM part of your Company's executive management team?	75%	87%
Do you have a risk policy statement that clarifies your Company's risk appetite or risk tolerance?	79%	–
Does your Company have a Board-approved risk appetite statement?	–	51%
Does the Board of Directors regularly review your Company's risk profile?	80%	82%

Key survey findings – 2013

Responses were received from 39 member companies. Industry representation is broader than indicated by the number of responses – as many corporate groups are included. In fact, the survey responses received account for 76.6% of P&C net premiums written in Canada (compared to 82% in 2011).

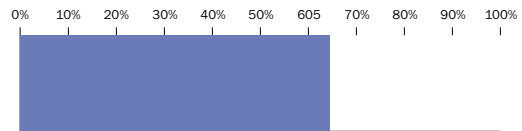
Key findings include:

1. ERM is becoming **well embedded** in Canada’s P&C insurance industry (some 87% of survey respondents have a documented ERM framework or policy with established procedures)
2. Companies are using a **variety of documents** to shape their ERM framework
3. Companies are **tracking material risks**
4. ERM framework is mindful of **regulatory capital requirements**
5. **Growing interest** in ERM.

Following is a summary of responses to key questions posed in this year’s ERM survey:

Question 5

65% of respondents have a Board of Directors that has a dedicated Risk Committee in place to oversee the ERM framework



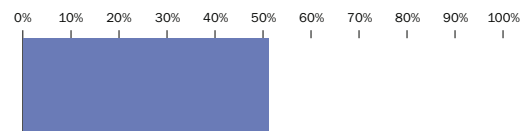
Question 6

Party with primary responsibility for managing enterprise risks: CEO or Chief Agent (28%); Chief Risk Officer (46%); Other person (28%)



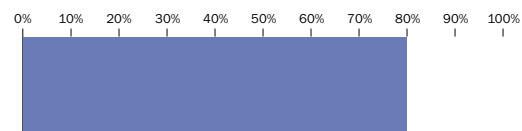
Question 10

51% of respondents’ companies have a Board-approved risk appetite statement



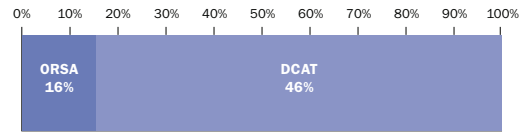
Question 12

80% of respondents’ companies maintain a risk profile (register or inventory) of all of the material risks identified by the company



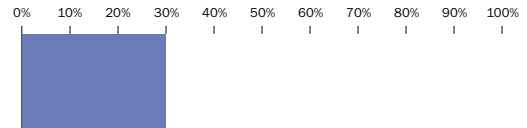
Question 18

16% of respondents' companies prepare an Own Risk and Solvency Assessment (ORSA) report and a Dynamic Capital Adequacy Test (DCAT); 84% prepare a DCAT only



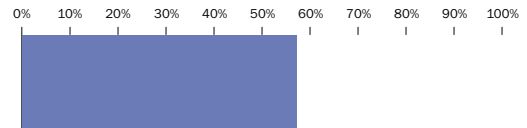
Question 19

30% of respondents' companies have had their ERM Policy or risk-management framework reviewed by external (independent) auditors or experts



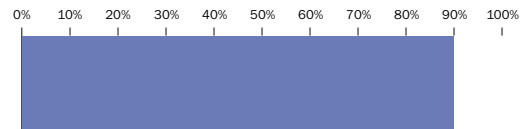
Question 21

58% of respondents said ERM has changed how management decisions are made in their company



Question 22

90% of respondents are interested in the establishment of a forum for Chief Risk Officers to discuss topics and issues related to ERM for P&C insurance.



1. ERM is becoming well embedded in Canada's P&C insurance industry

The 39 parties responding to the survey account for a sizable portion of the industry's Direct Written Premium (DWP). Almost 70 per cent of the responses received were from companies with more than \$100 million in DWP – 41 per cent came from companies with more than \$500 million in DWP.

Almost 90 per cent of respondents said their company has in place a documented ERM framework or policy with established procedures. Almost 80 per cent confirmed their company's Board of Directors has primary responsibility for overseeing the ERM framework. Two-thirds said they have a dedicated Risk Committee in place to oversee the Risk Framework. For three-quarters of respondents, the primary responsibility for managing enterprise risks rests with the Chief Risk Officer, CEO or Chief Agent. In every case, this party has direct access to the Board of Directors or the relevant Committee of the Board.

2. Companies are using a variety of documents to shape their ERM framework

Similar to the results of the initial benchmarking survey, respondents identified a wide variety of sources of information they are using for guidance in formulating their risk management policies. Sources continue to include: COSO's Enterprise Risk Management Intergrated Framework, OSFI's Corporate Governance Guidelines (including proposed E-19), ISO 31000, CIA/CAS guidelines, AS/NZS 4360: Risk Management, Solvency II, NAIC, IAIS and consulting firm guidelines.

3. Companies are tracking material risks

Four out of five respondents said their company maintains a risk profile (register or inventory) of all of the material risks identified by their company. Three out of four respondents said there are processes in place to periodically assess their company's internal controls against risk tolerance. While most companies continue to track material risks closely, risk appetites are not always well documented. Only 51 per cent of respondents said their company has a Board-approved risk appetite statement. Just 52 per cent indicated that their company's risk appetite outlines specific goals, benchmarks, parameters and limits (on both a quantitative and qualitative basis).

More than 90 per cent of the risk profiles include information relating to each risk. An equal number identify the person(s) primarily responsible for managing each risk. The risk profiles include a rating system to measure the impact and likelihood of each risk (77%), prioritize individual risks (75%) and outline action plans to mitigate priority risks (83%). While underwriting risk is explicitly addressed in every company's risk profile, other risks had varying levels of importance for respondents – market risk (94%), operational risk (88%), credit risk (85%), liquidity risk and reputation risk (both 82% cent) and strategic risk (77%).

4. ERM framework is mindful of regulatory capital requirements

Four out of five respondents said their ERM framework takes account of capital requirements, including projections of their company's future financial position and ability to meet regulatory capital requirements. However, insurers are still at the early stages of developing measures of Own Risk and Solvency Assessment (ORSA), with only 16 per cent of respondents having developed a draft ORSA to accompany their Dynamic Capital Adequacy Test (DCAT) report – and 84 per cent still preparing DCAT only. The company's Board of Directors and/or senior management conduct regular reviews of the risk profile in 81 per cent of cases.

5. Growing interest in ERM

Almost 60 percent of respondents said ERM has changed how management decisions are made in their companies. Nine out of 10 respondents said they would be interested in the establishment of a forum for Chief Risk Officers (CRO) to discuss topics and issues related to ERM for P&C insurance. Keen interest was shown in periodic ERM workshops and a CRO Forum. Suggested discussion topics included:

- Best Practices for smaller mutuals
- ORSA, EC modeling and ERM frameworks (best practices)
- Integrating ERM into stress testing (what is the appropriate level of Board oversight and how to quantify operational risk)
- Emerging risks review on the implementation of ORSA
- Governance risk measurement
- Turning risk management into value-add decision-making
- ORSA Internal Capital Targets
- Emerging fraud risks
- Industry risks
- Determining risk tolerances for individual risk profiles
- Regulatory streamlining across jurisdictions
- Sharing governance and risk best practices
- Establish general practices guidelines on Board training
- Aligning risk limits, risk tolerances and risk appetite
- Changes in the roles and accountability of actuarial, finance and risk management functions

6. Other comments

The survey offered respondents an opportunity to provide additional comments about ERM. Listed below are some of the comments received.

““ While every attempt has been made to respond in as straightforward a fashion as possible, sometimes the best response is neither “yes” or “no”... “not yet”, or “we’re working on it” would have been a better option. The fear is that, sometimes, by responding “no”, that the response is interpreted as not have a clear sense of the importance of that particular item to the overall ERM program”.

““ Importance of ERM is recognized. The PACICC-sponsored ERM sessions put on by KPMG were very much appreciated. On the survey, am glad it is being done, my only concern being the black-or-white responses called for in some cases when in fact one has started down the path but is not all the way there yet”.




““ Our missing link as a small organization is we have not spent the time to paper up the actual risk culture. Given our size, the policies in place, and stability of senior management within the organization and at the parent level has resulted in our risk culture being well understood and has remained consistent for over 10 years so it is ingrained. Taking away resources from running the business to paper the process is a significant hurdle”.

““ We are in the process of putting in place many of the items covered in this survey including a Risk Appetite Framework, Risk Register and Board Risk Committee. I have answered the questions in the negative as it may be several months before these items are completed. However survey may have been more useful if there was more than just a yes/no option. Some middle ground to take account of companies in our position would give a more complete picture of where the industry is at”.



““ A formal ERM Program is new to us and under current development/enhancement as we move forward. Participation in working groups and sharing of ideas would be very beneficial”.

Appendix I – PACICC 2013 Member Survey on ERM practices

1. What is your Company's size, measured in Direct Written Premium (DWP) in 2012? Are you:

		Response Percent	Response Count
Less than \$100 million DWP?		30.8%	12
\$100 million to \$500 million DWP?		28.2%	11
Greater than \$500 million DWP?		41.0%	16
answered question			39
skipped question			0




2. Does your company have a documented Enterprise Risk Management (ERM) framework or policy with established procedures?

		Response Percent	Response Count
Yes		87.2%	34
No If you answer "No" to Question 2, please skip to Question 6 and complete the remainder of the survey as applicable.		12.8%	5
answered question			39
skipped question			0



3. What guidelines or documents has your company used to arrive at its ERM framework?

	Response Count
	31
answered question	31
skipped question	8




4. Does your company's Board of Directors have primary responsibility for overseeing the ERM framework?

		Response Percent	Response Count
Yes		79.4%	27
Partly		17.6%	6
No		5.9%	2
answered question			34
skipped question			5

5. Does your company's Board of Directors have a dedicated Risk Committee in place to oversee the ERM framework?

		Response Percent	Response Count
Yes		64.7%	22
No		35.3%	12
answered question			34
skipped question			5


6. Who has primary responsibility for managing your company's enterprise risks:

		Response Percent	Response Count
CEO or Chief Agent		28.2%	11
Chief Risk Officer		46.2%	18
Other Person		28.2%	11
If other, what is that individual's job title?			15
answered question			39
skipped question			0



7. To whom does this individual with primary management responsibility for ERM report?

	Response Count
	37
answered question	37
skipped question	2



8. Does this individual have direct access to the Board of Directors (or to the relevant Committee of the Board)?

		Response Percent	Response Count
Yes		100.0%	38
No		0.0%	0
	answered question		38
	skipped question		1



9. Is he or she part of the company's executive management team?

		Response Percent	Response Count
Yes		86.8%	33
No		18.4%	7
	answered question		38
	skipped question		1



10. Does your company have a Board-approved risk appetite statement?

		Response Percent	Response Count
Yes		51.3%	20
No		48.7%	19
answered question			39
skipped question			0



11. Does your company's risk appetite outline specific goals, benchmarks, parameters and limits (on both a quantitative and qualitative basis)?

		Response Percent	Response Count
Yes		52.6%	20
No		47.4%	18
answered question			38
skipped question			1






12. Do you maintain a risk profile (register or inventory) of all of the material risks identified by your company?

		Response Percent	Response Count
Yes		79.5%	31
No		20.5%	8
answered question			39
skipped question			0








13. Are there processes in place to periodically assess your company's internal controls against risk tolerance?

		Response Percent	Response Count
Yes		73.0%	27
No		27.0%	10
If yes, please briefly describe your company's risk-monitoring process			28
answered question			37
skipped question			2




14. Does your company's risk profile address the following

		Response Percent	Response Count
Information relating to each risk, including causes and triggers, existing management practices or controls?		91.7%	33
“Owner(s)” or person(s) primarily responsible for managing each risk?		91.7%	33
A consistent process and rating system used to assess and measure the impact and likelihood of each risk?		77.8%	28
Prioritization of individual risks based on the ratings assigned?		75.0%	27
Action plans to mitigate priority risks?		83.3%	30
answered question			36
skipped question			3



15. Which of the following key risk areas are explicitly addressed in your company's risk profile?

		Response Percent	Response Count
Underwriting risk – Risks assumed through the insurance contracts written by your company.		100.0%	35
Credit risk – Risks related to changes in the credit quality of counterparties or intermediaries your company is exposed to – including reinsurance.		85.7%	30
Market risk – Risks that arise from volatility in financial markets, including changes in interest rates, bond and stock prices.		94.3%	33
Liquidity risk – Risks related to possible cash flow shortfalls, including cash calls following major loss events, credit rating downgrades, problems accessing financial markets, and so forth.		82.9%	29
Operational risk – Risks arising from potential deficiencies with respect to people, processes or systems in any of the risk areas noted above, as well as claims management and information technology.		88.6%	31
Strategic risk – The risk of loss arising from poor strategic business decisions.		77.1%	27
Reputation risk – Risks that could undermine policyholder, regulatory and/or public trust in your company's products, services or brand.		82.9%	29
		answered question	35
		skipped question	4



16. Does your company form an aggregate measure of its enterprise risks (for example, as related to economic capital), or would it be more accurate to say that you manage risks individually? Or both? (Please check one box)

		Response Percent	Response Count
Aggregate risks		13.2%	5
Individual risks		47.4%	18
Both		39.5%	15
answered question			38
skipped question			1


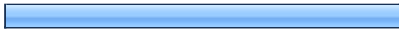
17. Does your ERM framework take account of capital requirements, including projections of your company's future financial position and ability to meet regulatory capital requirements?

		Response Percent	Response Count
Yes		83.8%	31
No		16.2%	6
answered question			37
skipped question			2



18. Has your company produced a draft Own Risk and Solvency Assessment (ORSA) report that has been presented to a risk-management committee, or at the Board level? Or is Dynamic Capital Adequacy Testing (DCAT) the only report of this nature that your company prepares?



		Response Percent	Response Count
Draft ORSA & DCAT		16.2%	6
DCAT only		83.8%	31
answered question			37
skipped question			2



19. Has your company's ERM Policy or risk-management framework been reviewed by external (independent) auditors or experts?


		Response Percent	Response Count
Yes		29.7%	11
No		70.3%	26
answered question			37
skipped question			2

20. Does the Board of Directors and/or senior management conduct regular reviews your company's risk profile?

		Response Percent	Response Count
Yes		81.6%	31
No		18.4%	7
If "yes," with what frequency?			27
answered question			38
skipped question			1

21. Has ERM changed how management decisions are made in your company?			
		Response Percent	Response Count
Yes		57.9%	22
No		42.1%	16
answered question			38
skipped question			1

22. Would you be interested in the establishment of a forum for Chief Risk Officers to discuss topics and issues related to ERM for P&C insurance?			
		Response Percent	Response Count
Yes		89.5%	34
No		10.5%	4
answered question			38
skipped question			1

23. If you answered "yes" to question 22, would your company participate in periodic PACICC ERM workshops?			
		Response Percent	Response Count
Yes		100.0%	33
No		0.0%	0
What key issues or topics would you like to see discussed?			16
answered question			33
skipped question			6

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