



As discussed in the previous two editions of FA News, the manner in which insurance companies identify, analyse, manage, assess and respond to the risks that arise both in and outside of the insurance sector has changed significantly over the years. This affected the manner in which risk managers mitigate, minimise, transfer and/or eliminate risks, which resulted in increasingly more insurers moving away from a 'risk management only' to 'influencing the risk' approach so as to proactively decrease it.

As such, insurers' operational ability, e.g. the execution of business functions to deliver, reduce costs, and align risk management with overall business strategy, among others, became ongoing executive concerns, requiring the various departments in insurance companies to work closely together with the aim to:

- acquire an intimate knowledge of the challenges their markets face
- gain an in-depth understanding of risk owners' prioritised risks
- elevate loss prevention on all levels
- align their business terms with risk reducing behavior, including those related to supply chain, regulation, reputation and operations
- find innovative solutions by continuously updating and reporting on the progress made in terms of risk mitigation measures and controls
- analyse all feedback with regards to internal processes, people and systems, among others
- evaluate any emerging trends to manage their exposure on a continuous basis; and
- generate up-to-date and adequate data, which is a pre-requisite for effective risk management

For this reason, the lines between ERM (enterprise-wide risk management) and underwriting risk management have become increasingly blurred in terms of identifying, assessing and managing risk so as to ensure the continued success of the company, its stakeholders and clients in terms of:

1. Identifying risks
2. Assessing risks
3. Managing risks by means of:
  - Avoiding the risk, e.g. excluding activities that could carry risk
  - Transferring the risk, e.g. making someone else responsible for the risk
  - Minimising the risk, e.g. take actions to minimise the severity or probability of the risk
  - Spreading the risk, e.g. reinsurance
  - Accepting the risk, e.g. retaining the risks that cannot be avoided or transferred; being prepared to realise a loss, should it occur

With said that, the continuous evaluation and revision of risk management strategies and procedures are integral to success. Risk management standards should never be regarded as a static concept. Hence, firms should continue to look for ways to raise, strengthen and further improve their standards by asking themselves the following questions:

1. How can we provide more effective and informed oversight of our risks?
2. Are risk considerations given appropriate profile in our business and strategic planning processes?
3. What should we be doing to realise the benefits of further integration of risk, capital and business management activities?
4. How can we improve the knowledge and understanding of our board and senior management to raise the quality of discussion and challenge on more complex matters?
5. Are our risk appetite statements and risk policies sufficiently comprehensive, well understood and workable?
6. Do we have a clear view of how we want to develop our risk management practices?
7. Are there enough opportunities for independent and informed challenge to risk management processes and outcomes?
8. Is there enough objectivity in our risk identification and assessment processes?
9. Does MI (Management Information) provide sufficient and timely material on risk issues and does it prompt appropriate action?
10. Is there enough clarity on how responsibilities for risk management activities are allocated?

By addressing the above-mentioned questions in the every-day running of their companies, insurers will be able to pro-actively prepare, manage and address the new wave of risks identified by the CSFI (The Centre for the Study of Financial Innovation) recently.

According to the CSFI's latest Insurance Banana Skins survey, conducted in association with PwC (PricewaterhouseCoopers), in which approximately 500 insurance practitioners and industry observers in 40 countries were interviewed on current risks, future trends and their preparedness to respond to the risk environment over the next two to three years, the raft of new regulations introduced simultaneously at international and local levels, emerged a clear leader in all major markets, including North America, Europe, Middle East/Asia and the Far East/Pacific.

Other high-ranking concerns noted by an industry that is being squeezed by low interest rates and intense competition, included the EU's Solvency II Directive which is due for implementation by the end of this year; new international reporting standards; the UK's review of retail distribution practices and other tax and regulatory initiatives; the availability of capital to meet tougher regulatory requirements; and the uncertain state of the world economy and financial markets.

The incidence of natural catastrophes - a reaction to recent disasters in New Zealand and Japan; political risk - a consequence of events in the Arab world, plus growing concerns about the solvency of eurozone countries also topped the list with the shortage of talent emerging as a new entrant, but straight in at number 6, and hence a main concern in all regions.

Despite a high incidence of floods, bombings and oil spills over the last couple of years, concern about climate change, terrorism and pollution risks remained low as these were seen to be manageable underwriting risks and less threatening to the insurance business than regulatory change, capital, macro-economic trends, investment performance, and natural catastrophes – the top five risks.

Interestingly enough, only 5% of the respondents interviewed, felt that the industry was well prepared to face the risks identified, underpinning the importance of the IT platform as primary risk management tool, and the alignment of underwriting and claims processes to fully support risk management strategies and processes going forward.