



International Association for the  
Study of Insurance Economics

# Études et Dossiers

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Layout & Distribution: Valéria Kozakova

# European View - Role of CRO in a Challenging Environment

Raj Singh

## Development of ERM in the Insurance Industry



### Insurance Industry – pre Enterprise Risk Management:

- In general individual risks managed by risk type and by segment, for example:
  - Actuarial risk
  - Investment risk


### Trigger for change in the industry – 9/11 and other Global developments:

- Balance sheets under pressure – capital positions eroded
- Large Corporate failures, such as Enron and Worldcom


### The change – introduction of Enterprise Risk Management:

- Need for an integrated view of risk – across all risk types and all segments


▶ Allianz SE had a weakened capital position after 9/11 & many challenges

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Getting the team on-board



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Allianz SE aims to protect the capital base and to support value creation by superior risk management

Key elements	
<b>Strengthening risk culture and awareness</b>	<ul style="list-style-type: none"> <li>▪ Risk adequate organization &amp; governance - 2002</li> <li>▪ Risk policy and minimum standards - 2003</li> <li>▪ Operational risk management - 2003</li> <li>▪ Top risk assessment - 2005</li> </ul>
<b>Protecting the capital base</b>	<ul style="list-style-type: none"> <li>▪ Internal risk capital (2001), improvements - ongoing</li> <li>▪ Capital stress tests - 2003</li> <li>▪ Limit system - 2003</li> </ul>
<b>Supporting value creation and decision making</b>	<ul style="list-style-type: none"> <li>▪ Economic performance metrics (EVA, MCEV) - 2004</li> <li>▪ Risk based strategy (risk tolerance/appetite) - ongoing</li> <li>▪ Risk/reward balance (risk based resource allocation) - ongoing</li> <li>▪ Integration of risk/capital into management dialogue - 2004</li> <li>▪ Risk and capital reports - 2002</li> <li>▪ Pre-emptive and emerging risks management - 2002</li> </ul>

**Risk diagnostics to ensure implementation (2003)**

▶ Allianz defined role of European CRO in Integrated Financial Services Groups

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Thought leader in risk management



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Allianz is taking position as industry thought leader in Europe...

- Allianz CRO founded and headed the CRO forum – a network of leading European insurers in 2005. Focus topics:
  - Comparison of internal models ✓ completed
  - Diversification effects ✓ completed
  - Risk mitigation ✓ completed
  - MV Liabilities definition of pragmatic approach
- Participation in QIS 1 and QIS 2
- Group Risk is actively involved in working teams discussing development of future requirements:
  - MA Risk (minimum standards for insurance, working team on operational risk, AKIM - working group internal models)
- AZ CRO invited to lecture on risk management throughout Europe

**Aim is to reach common definitions, agreement on industry best practice and education of key stakeholders**

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... as well as on a Global scale

- Allianz is sought after authority on risk management topics across the Globe



- AZ CRO serves as Chairman of the International Financial Risk Institute (IFRI)
- Unique cross-functional forum for CRO's of the top Global Banks, Insurers, Integrated Financial Services firms and Asset Managers

- Member of the Emerging Risk Initiative
- Allianz participates in several studies on Climate Change in conjunction with WWF
- Participant in expert studies in cooperation with various institutes on a range of topics, such as Pandemic risk



**Allianz aims to be an industry thought leader at a local and Global level**

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### Trend Assessment Committee: Risk Function and the Business working together

Identification (if possible)	Global action	Underwriting tools
<ul style="list-style-type: none"> <li>▪ Observe trends and identify risks</li> <li>▪ Analyze them as accurately as possible</li> <li>▪ Grade importance</li> </ul> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="text-align: center;">  <p style="font-size: x-small;">Genetically modified food</p> </div> <div style="text-align: center;">  <p style="font-size: x-small;">Pollution</p> </div> <div style="text-align: center;">  <p style="font-size: x-small;">Climate change</p> </div> <div style="text-align: center;">  <p style="font-size: x-small;">Electro-magnetic fields</p> </div> </div>	<ul style="list-style-type: none"> <li>▪ Take common action (e.g. recommendation, guidelines)</li> <li>▪ Change in culture (pro-active - expert oriented)</li> <li>▪ Risk assessment to check from "trial and error" to precautionary measures</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limit amounts (increase deductible, add aggregate etc)</li> <li>▪ Limit time exposure (manifestation trigger, claims made)</li> <li>▪ Exclusion (definition, partial or total exclusion)</li> <li>▪ Offer new product</li> </ul>

**Identification of emerging risks also shows business opportunities**

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Emerging challenges and future trends

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**Challenges at Allianz:**

- Decentralized nature of the organization
- Complex business across many segments
- Getting adequate resources with the right skill set

**Industry wide challenges:**

- New Regulatory Frameworks (e.g. Solvency II, Basel II etc.)
- Value proposition for the Risk Function
- Emerging risk issues and pre-emptive action
- Optimal set-up for Risk Function and the scope of the function

**Core challenge is gaining acceptance of an independent CRO and integrated enterprise wide risk management in the Insurance Industry**

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### How to address some of the challenges for the CRO

- Support from the highest level – Board and CEO must “buy-in”
- Define the role of an independent Risk Function in the organisation – develop a strong Risk Culture throughout the company
- Risk measures and topics must be embedded into performance measurement and management processes
- Create a clear value proposition for the Risk Function
- Get out there – show the importance and benefits of Risk Management both internally and externally and get some “quick-wins” to show the value added by ERM

 **The CRO must build credibility within the organisation and be seen to add value**