



Enterprise Risk Management

Beyond regulatory compliance –
enabling sustainable value creation



Regulatory background

Building on the learnings from the 2008 financial crisis, the most advanced (re)insurance prudential regimes were shaped in order to mitigate systemic risk exposures and protect policyholder rights under severe stress scenarios.

In this context, regulatory requirements around the transparency of risk levels and respective mitigating strategies (ORSA) as well as Board's involvement in the risk appetite setting, risk monitoring and risk governance processes, have significantly increased.

In Switzerland, FINMA's expectations around corporate governance in the (re)insurance sector are set out in the Circular 2017/2, which came into force on 1 January 2017 and clarifies the provisions of the Insurance Supervision Act.

In particular, the Circular describes the key principles of the **Enterprise Risk Management ("ERM") Framework** that must be implemented throughout any (re)insurance company, including the role of the Board, the executive management and the control functions, the requirements regarding segregation of duties, transparency of risk information and key decisions.

FINMA requires the appropriateness of the ERM system to be independently reviewed on a periodic basis.

Competitive advantage through ERM

The Circular represents an opportunity for those companies that haven't yet embraced ERM as a strategic leverage that can mark the difference between failure and success in light of the main challenges within the (re)insurance industry. The table below illustrates through a few examples why a strong ERM is a crucial success factor from any possible stakeholder perspective.

Key challenges	Enterprise Risk Management: success enablers
<p>Drive disciplined risk taking Ensuring product development, pricing and underwriting decisions reflect risk capacity and appetite</p>	<ul style="list-style-type: none"> • Meaningful and actionable definition of the risk strategy, including risk preferences, risk appetite and risk tolerance translated into enforceable operating limits • Appropriate use of risk measures to steer key business critical decisions, e.g. strategic asset allocation, underwriting/risk transfer strategy, M&A, major IT and business transformation initiatives • Risk adjusted performance indicators underpinning objectives setting and performance reviews
<p>Improve customer experience Delivering on customer promise from product sale to claims payment</p>	<ul style="list-style-type: none"> • Clear understanding of pain points along the customer journey by leveraging internal data sources (e.g. complaints, fines, breaches) to drive process improvements and inform discussions with distributors • Tone at the top translated into robust controls around sales and claims handling practices to position the company as a customer service leader
<p>Achieve more with less Optimizing use of resources and talent</p>	<ul style="list-style-type: none"> • Efficient implementation of the 3 lines of defence concept, clarification of respective roles, elimination of functional silos and automation of routine tasks • Control functions positioned as business partners, with clear focus on value add activities and constructive challenge, able to attract/retain talents and act as incubator for future leaders
<p>Turn data into insights Gaining a competitive edge through a superior understanding of risks and opportunities</p>	<ul style="list-style-type: none"> • Effective governance of data and calculation models underpinning business critical decisions (e.g. reserving, pricing, capital management) • Transparent and complete Management Information on risk levels, including forward looking indicators and projections to highlight risks and opportunities along the planning cycle • Adequately trained decision makers (e.g. regulatory requirements, risk management tools)
<p>Build resilience Protecting business operations and balance sheet from unexpected shocks</p>	<ul style="list-style-type: none"> • Strong solvency and liquidity positions sufficient to withstand severe stress scenarios • Effective Own Risk and Self Assessment process • Proactive response to cyber threats • Robust governance of key third parties
<p>Create long term shareholder value Safeguarding reputation, increasing return on capital and reducing volatility of profits</p>	<ul style="list-style-type: none"> • Strong internal control system fostering trust among external stakeholders (e.g. investors, business partners, regulator) • Optimized allocation of capital to operating units/lines of business with most attractive risk adjusted returns • Stabilization of business operating profits and dividend pay-out through risk transfer and hedging instruments • Increased RoE due to improved modelling of capital requirements and recognition of diversification benefits • Risk based long term compensation system for key risk takers to promote sustainable value creation

What does a good ERM Framework look like?

1 Risk Governance

Committee structure and authority

- Board of Directors
- Audit and Risk Committees
- Mandate and delegated authorities

Holistic approach

- Risk Management philosophy and key principles
- Link to strategic planning, capital management, dividend policy

Risk culture, values and behaviours

- Tone at the top
- Fit and proper requirements
- Remuneration of Key Risk Takers
- Transparency and disclosure

Risk strategy

- Risk appetite and preferences
- Risk capacity, tolerance limits
- Capital, earnings and reputational perspectives

Risk policy

- Policy framework and hierarchy
- Shareholder, customer, employee and regulatory perspectives

2 Risk oversight

- Compliance with regulations
- Fair treatment of customers
- Risk policy oversight and maintenance
- Own Risk and Solvency Assessment
- Capital and reserve adequacy
- Model validation and governance

3 Target Operating Model

- Clarification of roles among 3 lines of defence
- Independence and objectivity
- Fair balance between process and outcome
- Right (number of) people in the right places
- Adequate skillset to act as business partner
- IT enablers to maximise efficiency

4 Risk assessment and mitigation

- Product design review
- Risk identification/measurement
- Assessment of risk mitigation and risk transfer options (e.g. internal controls, reinsurance, ALM, hedging)
- Analysis of policy breaches/KRI
- Expert advice to close gaps
- Monitoring of action plans

5 Risk/reward trade offs

- Asset allocation and underwriting strategy aligned to risk appetite
- Risk adjusted underwriting and investment performance review
- Expected benefits from M&A and transformation initiatives vs. execution challenges
- Optimization of capital requirements and ROE

6 Business resilience

- Stress scenarios to test capital and liquidity positions, with relevant contingency plans
- Sensitivity analysis and forward looking projections
- Business continuity and disaster recovery plans
- Cyber risk preparedness
- Governance of key third parties
- Succession planning

7 Risk insights

- Board and management reporting
- 360° risk view of risk levels
- Compliance breaches and KRI
- Data quality assurance for key calculations
- Common risk language and taxonomy
- Accounting vs. business view

How can we help?

- KPMG has designed a **best practice comprehensive ERM Framework** comprising of 7 key components based on our in depth market understanding and risk management knowledge.
- For each of the components we **have detailed expectations of what is required** and a **clear view of leading and lagging practice**.
- Our **deep risk management understanding** and knowledge of regulatory expectations, coupled with **practical, hands on advice** means we can support you in designing an ERM Framework, **tailored to your business operating model** – this is not a one-size-fits all approach.
- Working together to implement and **embed the framework sustainably** in BaU, we will support you to close skill and capability gaps, upgrade technology enablers, and evaluate the right sizing options.
- We go beyond regulatory compliance, bringing you **real business value add**.

Engage & Understand

Gap Assessment

Design

Implement & Embed

Continuous Improvement



What you get:

Highly experienced dedicated risk management professionals

- Risk management is what we do – it's in our DNA
- We know what good looks like, what works and what doesn't
- Leveraging from our deep experience means we can help you avoid pitfalls and challenges
- We will understand your business model and tailor our approach accordingly

Access to industry
expertise and benchmark
information

Ready to go tools to
analyze impacts and
deviations

Deep experience to
accelerate progress

Innovative ideas to bring
new perspectives

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