

Enterprise Risk Management & BCAR

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ERM in the Rating Analysis

- Not a separate component
- Impacts all three areas of the rating evaluation
 - Capitalization
 - Operating performance
 - Business profile
- Integrated into agenda
- Clearly the potential to weigh heavily on a rating

ERM – What's New?

- Level of Board and Sr. Management focus
- Greater focus on correlation of risks
- Consideration of second tier risks
- Increased focus on modeling of risks
- Risk learning
- However, don't forget the importance of ERM will vary

Enterprise Risk Management

- Need to determine the risk profile and complexity of a company
- Review of company's ERM
 - ERM Culture
 - Identification & Management of Risk
 - Measuring the Risk
- Assessment of ERM will impact level of capital required to support rating

Assessment of ERM

- ERM Culture
 - Corporate governance and controls
 - Culture of organization
- Identify & Managing the Risk
 - Traditional risk management plus ...
 - Data integrity
- Measuring the Risk
 - Use of capital models/allocation of capital

Corporate Governance & Controls

- CRO responsibilities assigned
 - Executive level
 - Separate from immediate responsibility
- Board established risk tolerance
- Updates provided to the board
- Risk management part of executive compensation
- Earnings measured in relation to risk

Risk Management Culture of the Organization

- Part of daily operations
- Incorporated into planning process
- Importance understood and considered along with profit targets throughout the organization
- Evolution based on actual experience

Traditional Risk Management Plus

- Consistent measurement of risk
- Attention to detailed risk management
- Integrated risk management
- Creates
- An objective framework which considers emerging risks, risk accumulation and correlation across the entire organization

Data Integrity

- Quality of data
- Data verification procedures
- Access to the data

Use of Capital Models

- Integration into operations to monitor risk accumulation
- Allocation of capital decisions
- Quality of the model
- Sensitivity of the model

- Internal Model is given consideration in the evaluation of required capital

Questions?