

# The Rise of ERM as a Strategic Partner

## Eighth Biennial Global Enterprise Risk Management Survey

### Discussion of Key Findings

April 2015

# Towers Watson has conducted its eighth biennial survey on enterprise risk management (ERM) in the insurance sector

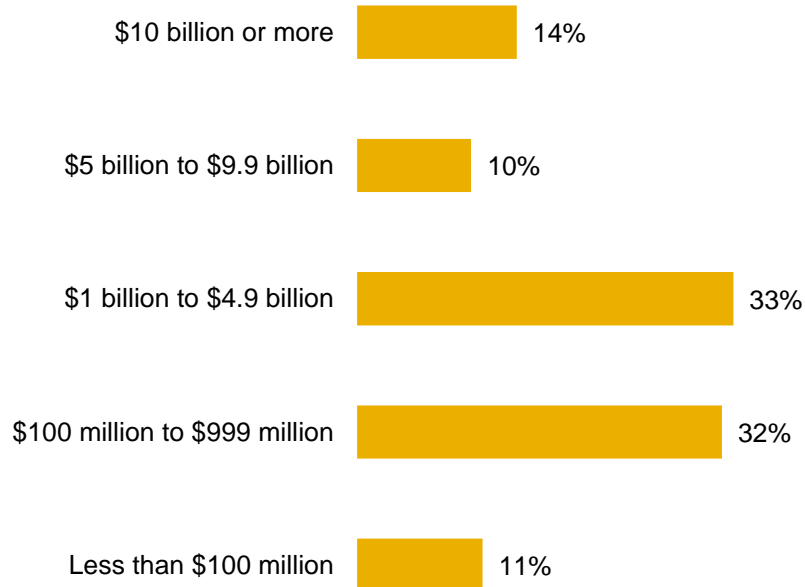
- During the second half of 2014, Towers Watson conducted a web-based survey among senior executives in major insurance companies around the world
- Chief risk officers, chief financial officers and chief actuaries were asked to document the approaches to, and current status of, ERM activity within their companies
- This is the largest survey of the insurance industry on its topic; 68% of the total 398 insurance executive respondents were from the C-suite
- Respondents include a wide range of insurance organizations from North America, Europe, Asia Pacific and multiple regions
- Respondents come from all lines of business, including life insurance (43%), property & casualty (P&C) insurance (30%), multiline insurers (13%) and reinsurance (11%)
- Geographical terms:
  - North America — includes the United States, Canada and Bermuda
  - Europe — includes the United Kingdom and Continental Europe
  - Asia Pacific — includes Asia and Australia
- Company-size terms:
  - Large — Company with annual revenue in excess of US\$10 billion
  - Medium — Company with annual revenue between US\$1 billion and US\$10 billion
  - Small — Company with annual revenue less than US\$1 billion

# Participants include 23 of the world's top 50\* insurers

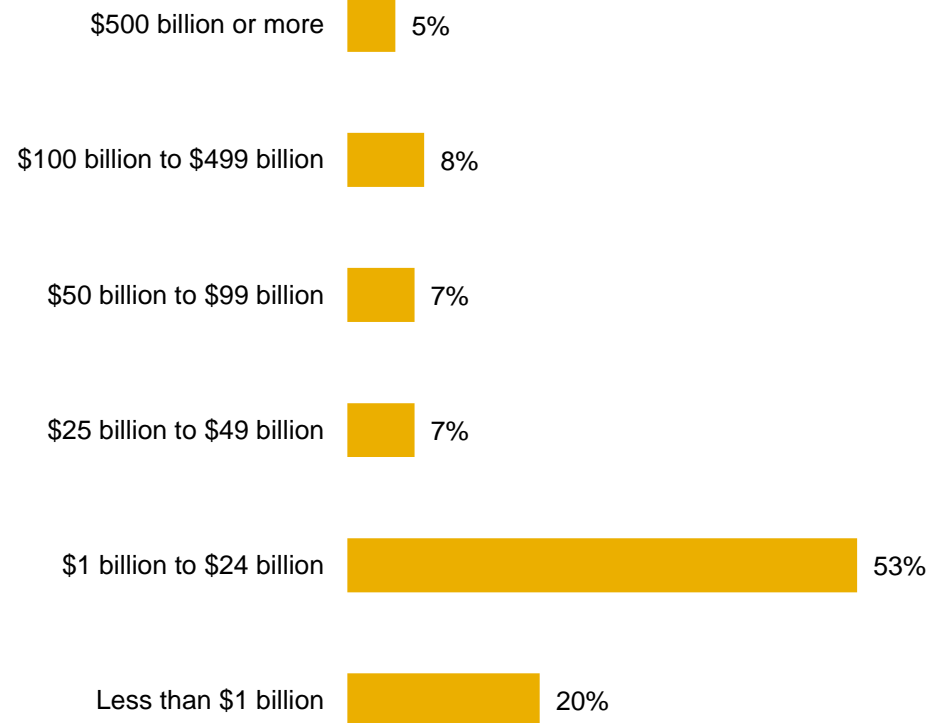
**Q.41** In U.S. dollars, what were your total direct revenues for your last accounting year?

**Q.42** In U.S. dollars, what were your total assets at the end of your last accounting year?

## Total Direct Revenues



## Total Assets



**Base:** Those giving a valid answer (percentages exclude non-respondents and 'decline to answer') n = 370 for Q.41, n = 371 for Q.42

\*A. M. Best

[towerswatson.com](http://towerswatson.com)

# Key Findings

# The Rise of ERM as a Strategic Partner

- According to Towers Watson's survey of almost 400 insurance executives worldwide, about three-quarters view the risk management function as a strategic partner that adds value to the business
- While regulation is often at the forefront of ERM planning and implementation, companies that set ERM priorities based on their true business needs are most satisfied
- Insurers advancing closer toward their end-state vision are:
  1. Engaging risk management as a strategic partner
  2. Looking beyond regulatory challenges to address true business needs
  3. Using risk appetite to build links with business operations
  4. Recognizing key risk performance metrics and reporting systems as high priorities

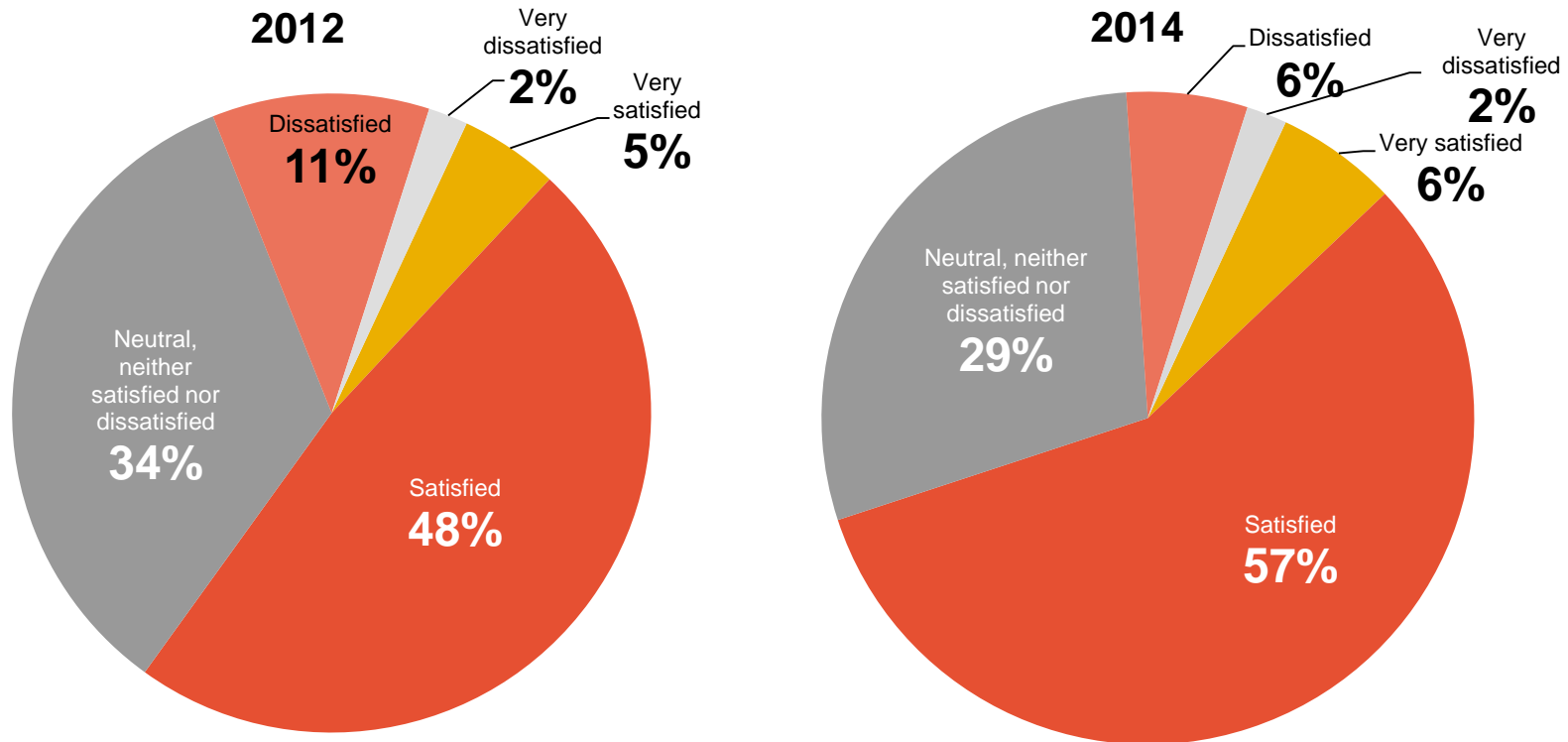
## Key finding #1:

### Insurers are most satisfied with ERM when they engage risk management as a strategic partner

- Most insurers (74%) say they view their risk management function as strategic partner, rather than a requirement for regulatory compliance.
- Companies that share this view are almost twice as likely (73%) to say they are happy with their ERM than those who don't (38%)
- This suggests that a positive view of the risk function with a clear link to key business goals goes hand in hand with overall ERM satisfaction and perceived value
- Nearly all large insurers (98%) say they view risk management as a strategic partner compared with 72% of other insurers

# Insurers' overall satisfaction with ERM performance has increased since 2012

**Q.1** How satisfied have you been with the performance of your ERM capabilities over the last 24 months?

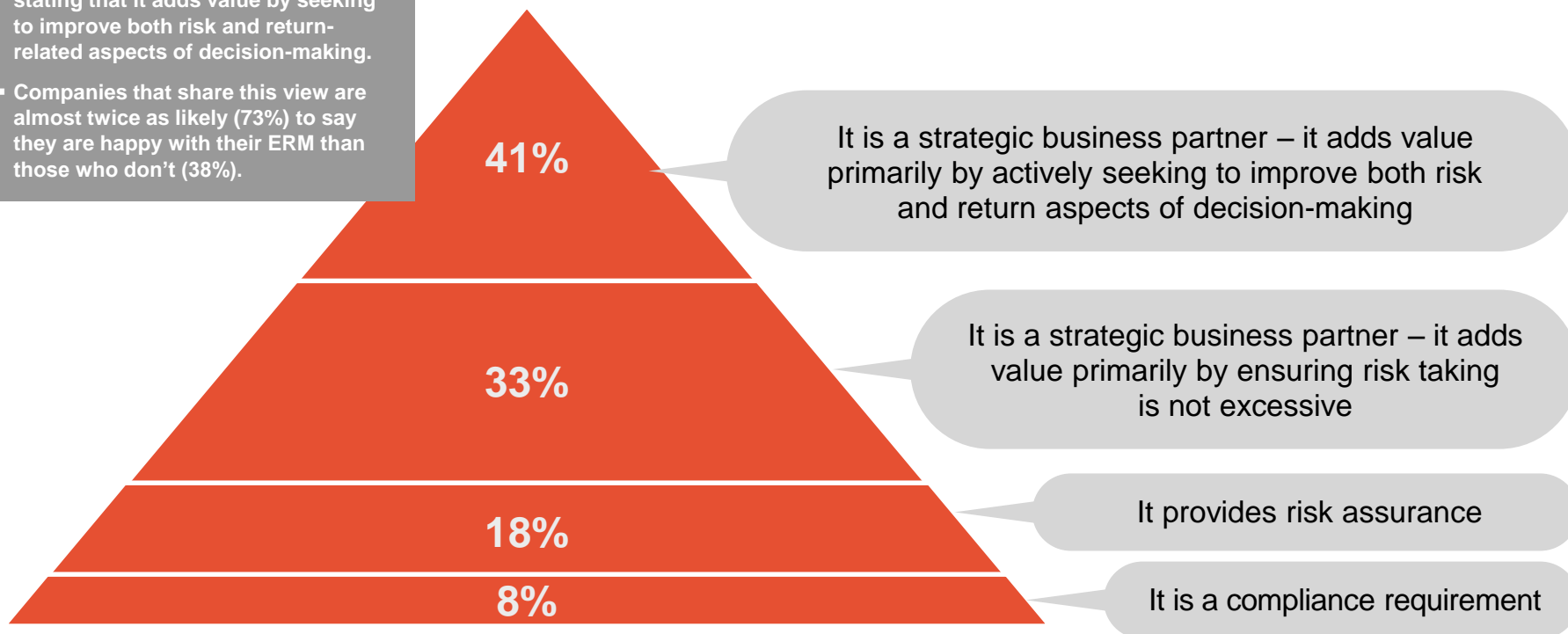


**Base:** Those giving a valid answer (percentages exclude non-respondents) **n = 397-539**. Overall satisfaction is defined as either "satisfied" or "very satisfied."

# Most respondents see the risk management function as a strategic partner

**Q.17** Which of the following do you think best describes how the risk management function is perceived by the board and executive team?

- Larger firms see it as a strategic partner (98%) with 47% of large firms stating that it adds value by seeking to improve both risk and return-related aspects of decision-making.
- Companies that share this view are almost twice as likely (73%) to say they are happy with their ERM than those who don't (38%).



**Base:** Those giving a valid answer (percentages exclude non-respondents and those not having a specific risk management function) **n = 387**.

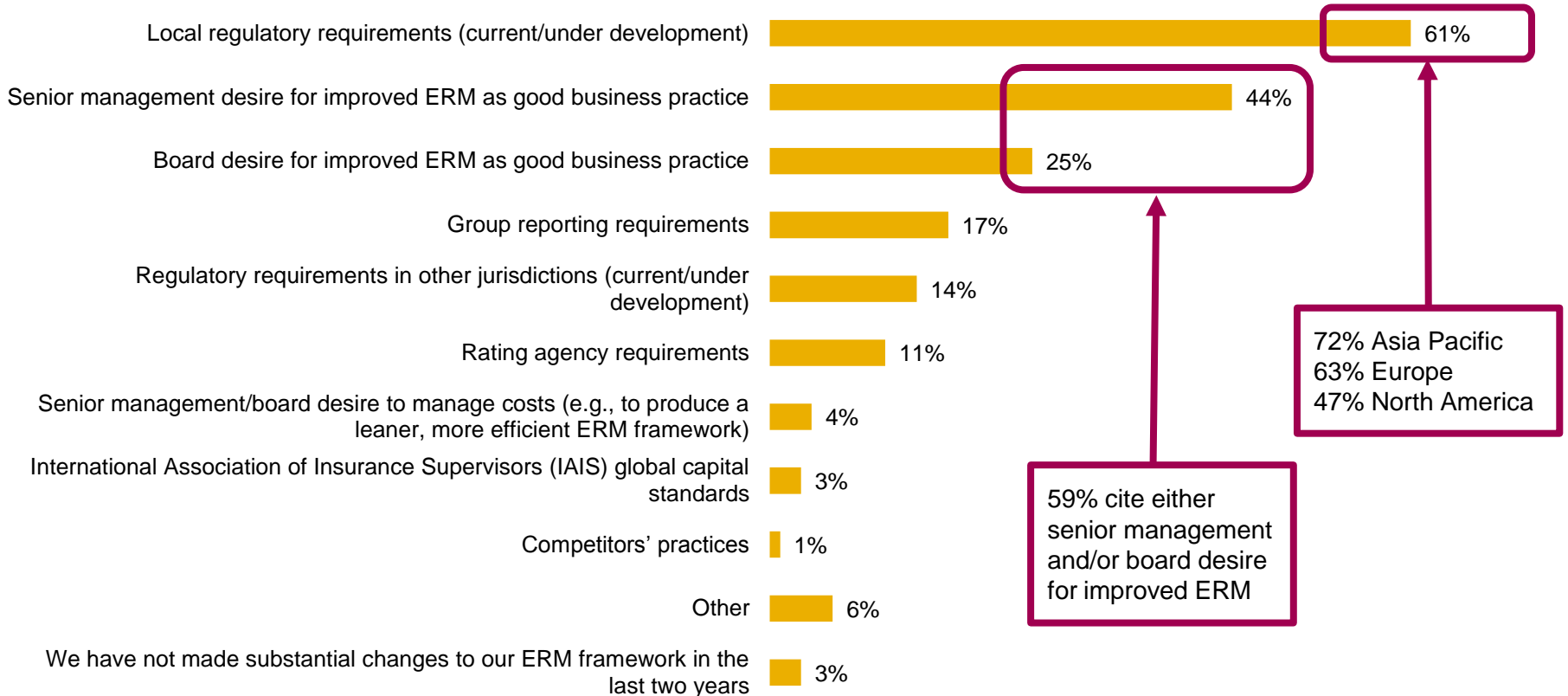


## Key finding #2: Insurers are looking beyond regulatory challenges to address their true business needs

- During the last two years, the desire by senior management and boards to improve ERM as a good business practice has been a key driver for change at 6 out of 10 or 59% of companies
- Local regulations are also a key driver in Asia Pacific (72%) and Europe (63%), but less so in North America (47%)
- While regulatory requirements are a useful catalyst for change, insurers recognize the value of a broader risk perspective aligned with their business strategy

# Local regulations, along with board and senior management desire for improved ERM, have been key drivers of change

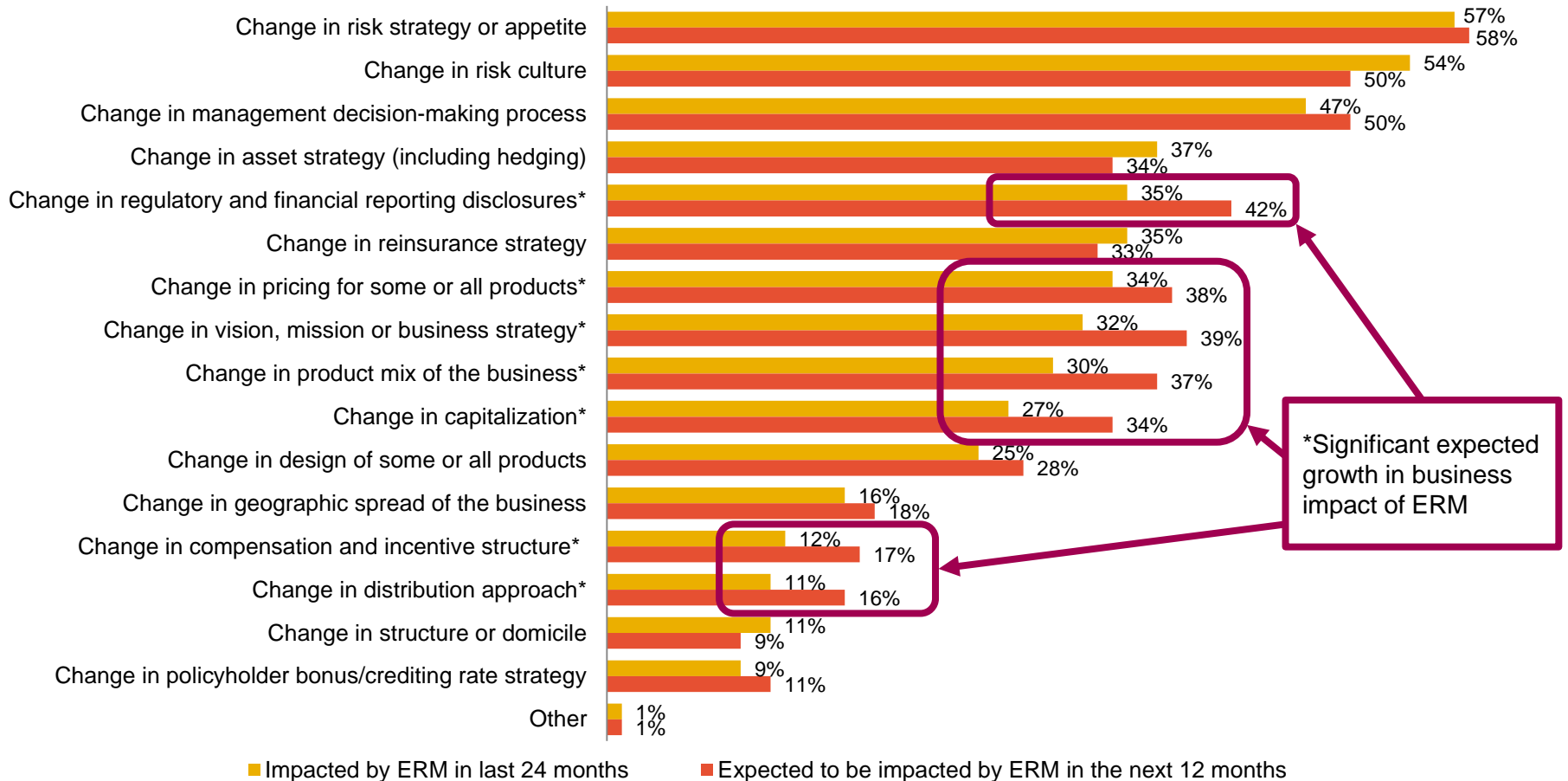
## Q.3 What have been the key drivers of change in your ERM framework over the last 24 months?



**Base:** Those giving a valid answer (percentages exclude non-respondents) **n = 394**. Respondents could select up to two. "Other" responses include: poor financial performance, audit findings and changing judicial environment.

# ERM's increasing impact on the business is expected to continue and become more pervasive

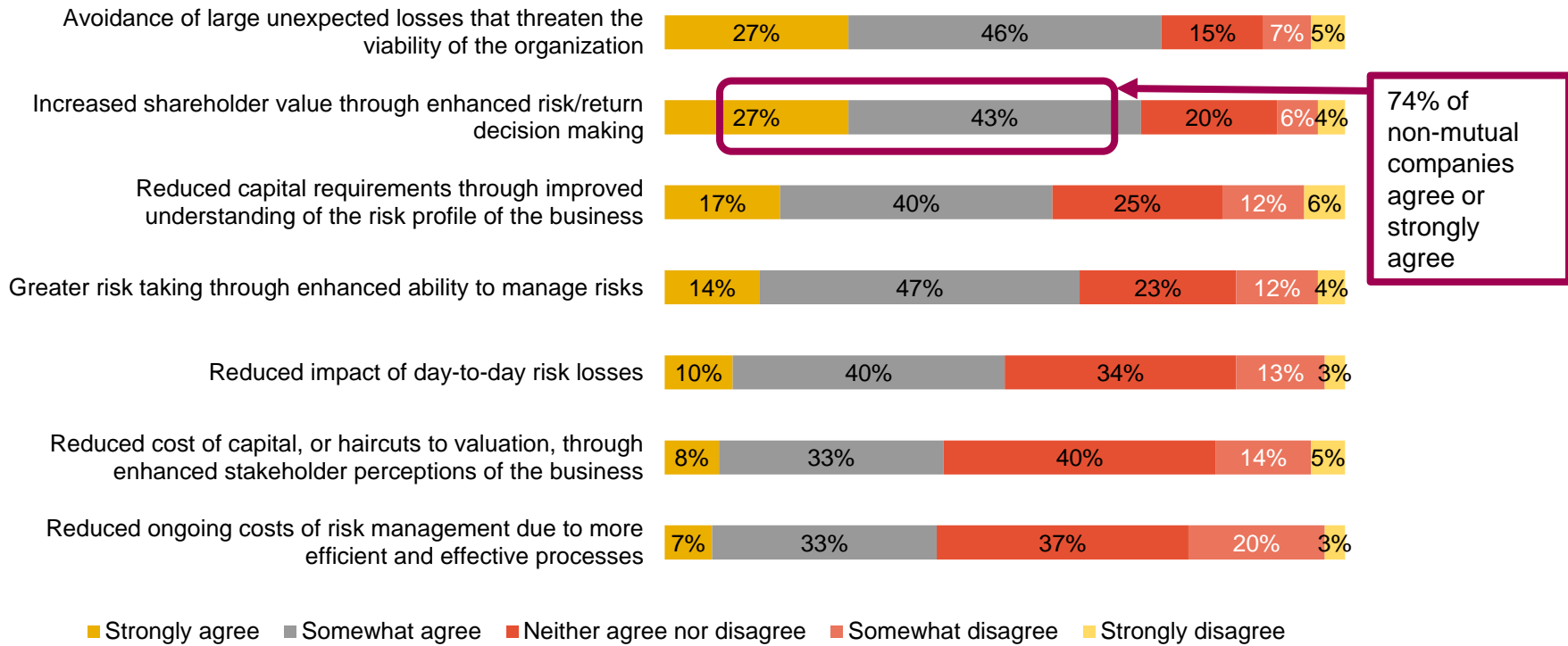
**Q.4** Over the past 24 months, what business changes or impacts have resulted from your ERM program, and what changes do you expect in the next 12 months due to ERM?



**Base:** Those giving a valid answer (percentages exclude non-respondents and 'none of these') n = 363.

# ERM is expected to enhance business performance primarily by avoiding unexpected large losses and improving risk/return decision making

**Q.5** How strongly do you agree or disagree with the following statements about the ways in which your ERM capabilities might be expected to add value to your business?

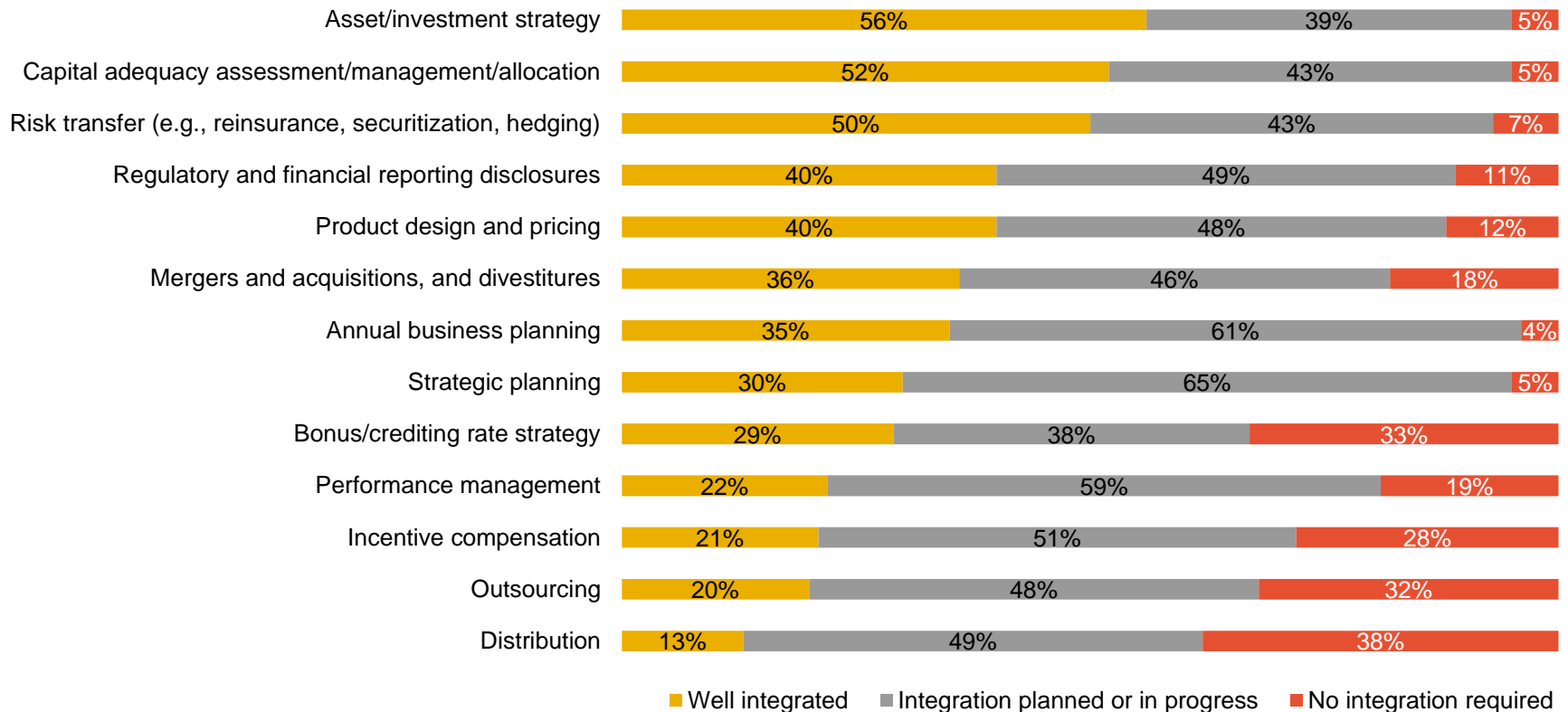


There is also a general agreement by a number of participants that ERM will improve regulators' and rating agencies' confidence.

**Base:** Those giving a valid answer (percentages exclude non-respondents) **n = 390-395.**

# While ERM is well integrated in some core business processes, significant further work is expected in all areas

## Q.6 Within which business processes is risk management well integrated?



**Base:** Those giving a valid answer (percentages exclude non-respondents and 'we do not have this business process') **n = 382-394**. Respondents were asked to select one in each row.

## Key finding #3: Insurers' progress with risk appetite lays the foundation for links with business operations

- Risk appetite and tolerances – foundational elements of ERM and key links with business strategy – are viewed as highly important aspects of insurers' end-state ERM vision by 76% of insurers
- Most (84%) now have a documented risk appetite statement
- More than half (57%) expect to make further changes to their risk strategy or appetite in the next 24 months
- While further work is needed to link risk appetite to business operations, progress in this area suggests that many insurers recognize its importance and now have a firm foundation in place to advance
- Most (between 80% and 90%) have risk limits in place for governing day-to-day risk taking

# Risk culture and risk appetite/tolerances are seen as the most important aspects in participants' ultimate vision for ERM

## Q.8 How important is each of the following aspects in your ultimate/end-state vision for your ERM program?

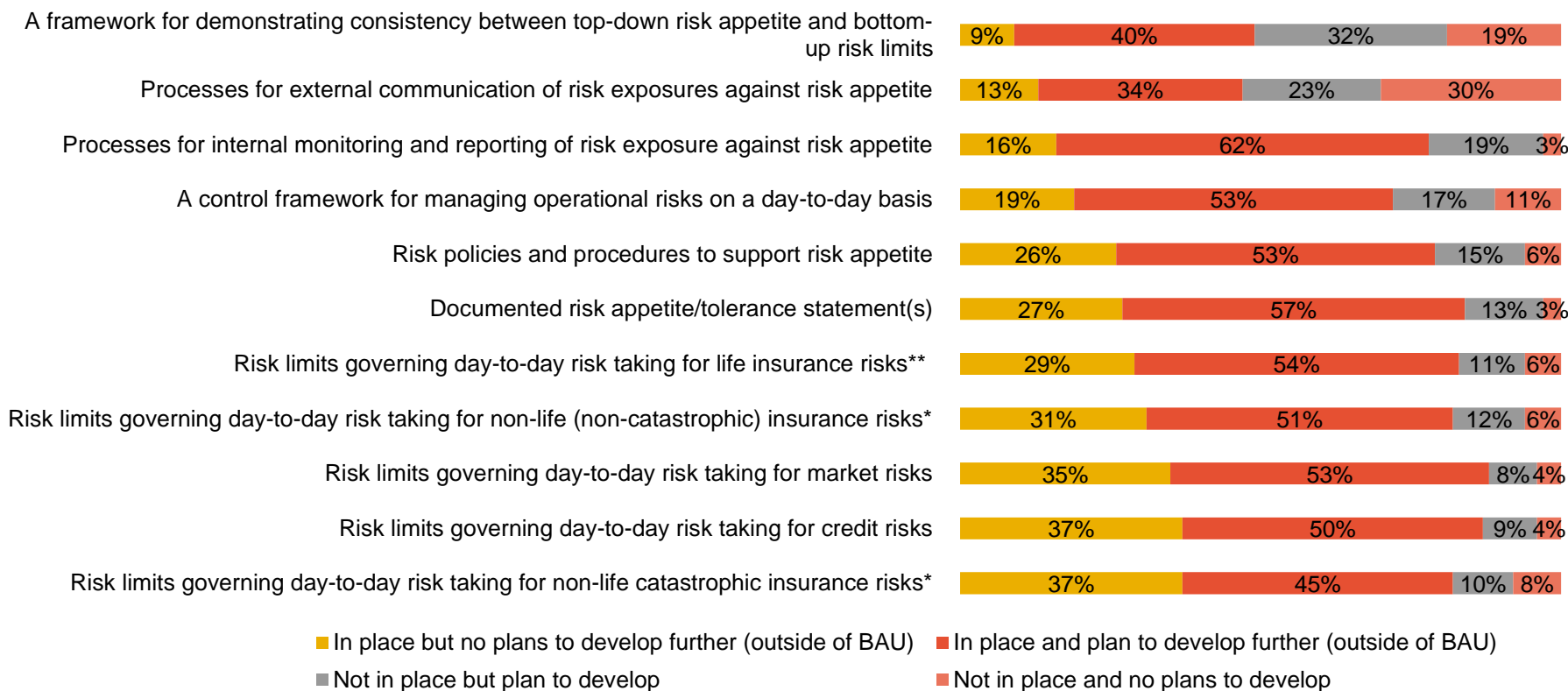


- Risk Appetite and risk tolerance shows a 15 percentage point increase at the “high importance” level from 2012.
- While economic capital is ranked lowest overall, North America and Asia Pacific insurers rate it more highly than in 2012 (45%, up ten percentage points and 37%, up seven percentage points, respectively). European insurers rated about the same (51%, down one percentage point from 2012).

**Base:** Those giving a valid answer (percentages exclude non-respondents) n = 391-394. Respondents were asked to select one in each row.

# There has been incremental progress with risk appetite but significant further work is planned

**Q.13** Does your organization have the following ERM components in place, and are there any developments (outside of business-as-usual [BAU]) contemplated in the next 24 months? *Please select one in each row.*



**Base:** Those giving a valid answer (percentages exclude non-respondents).

\*Percentages are for P&C, multiline and health insurers/reinsurers only.

\*\*Percentages are for life/annuity/pension, multiline and health insurers/reinsurers only.

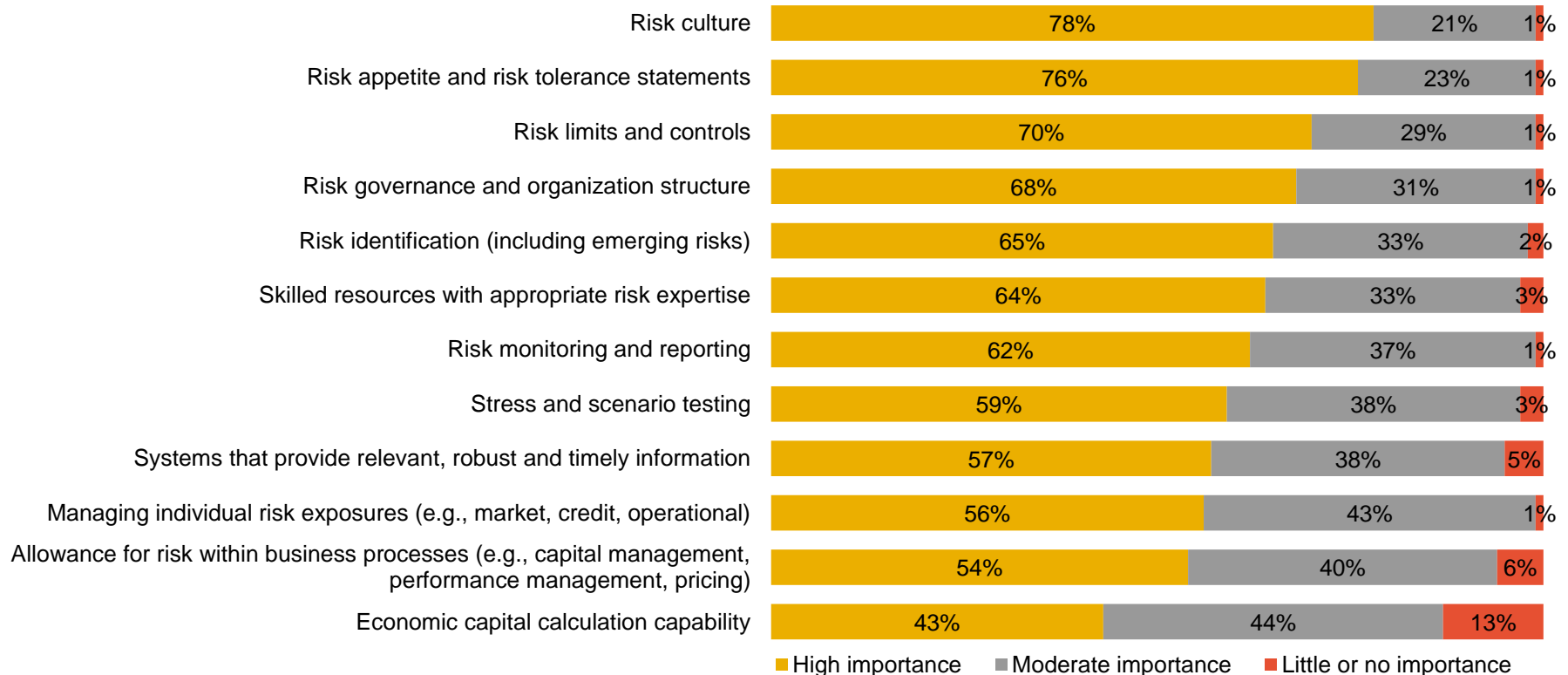


## Key finding #4: Insurers have identified key risk performance metrics and reporting systems as high priorities

- Most insurers (95%) cite risk reporting systems that provide relevant, robust and timely information as important for the end-state vision of their ERM program
- Nearly as many (87%) agree that economic capital is an important metric. Insurers recognize the clear benefits of having more reliable information to inform business decisions about risk that can lead to improved performance
- However, many companies have not yet reached the halfway mark on the journey to their end-state vision in these two critical areas (59% for risk reporting, 39% for economic capital)
- This indicates progress to come as insurers continue working on implementation challenges

# Risk culture and risk appetite/tolerances are seen as the most important aspects in participants' ultimate vision for ERM

## Q.8 How important is each of the following aspects in your ultimate/end-state vision for your ERM program?



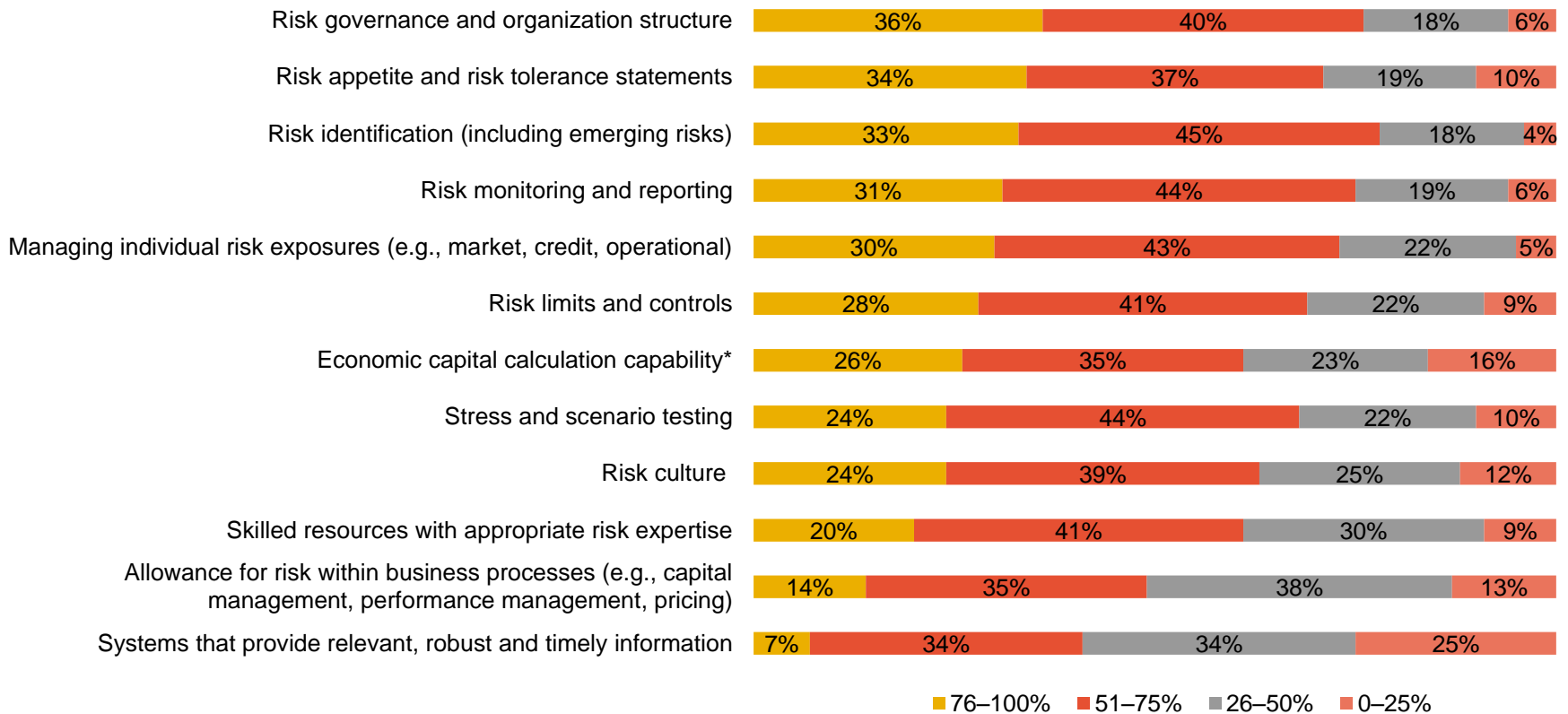
- Risk Appetite and risk tolerance shows a 15 percentage point increase at the “high importance” level from 2012.
- While economic capital is ranked lowest overall, North America and Asia Pacific insurers rate it more highly than in 2012 (45%, up ten percentage points and 37%, up seven percentage points, respectively). European insurers rated about the same (51%, down one percentage point from 2012).

**Base:** Those giving a valid answer (percentages exclude non-respondents) n = 391-394. Respondents were asked to select one in each row.

# ERM is well-advanced in areas such as risk governance and risk appetite, but significant work remains

Q.9

How would you describe the progress already made by your organization in the following aspects of ERM for your organization, with percentage complete measured against your ultimate/end-state vision?  
Please select one in each row.



**Base:** Those giving a valid answer (percentages exclude non-respondents). n = 392-395.

\* Those currently or considering/planning to calculate economic capital.



# Confidentiality, Reliances and Limitations on Distribution

# Confidentiality, reliances and limitations on distribution

**In developing these results, we relied on the accuracy of data, information and opinions provided by the participating companies without independent verification**

Not all survey questions were applicable for all respondents; the lower number of respondents for some questions could limit the statistical relevance of results

All individual company information and survey responses are kept strictly confidential

This report is confidential and is intended solely for the internal use of companies participating in the survey; it should not be distributed or disclosed to any third parties without the written permission of Towers Watson

Towers Watson has conducted this survey in accordance with our understanding of antitrust laws and guidelines published by the U.S. Department of Justice

Participants are responsible for understanding and complying with these requirements and should seek legal counsel if questions arise

# Thank you for your participation

**If you have any questions, please contact:**

## **Americas**

Martha Winslow

+1 952 842 6527

martha.winslow@towerswatson.com

## **Asia Pacific**

Marco Warmelink

+852 2593 4508

marco.warmelink@towerswatson.com

## **EMEA**

Mike Wilkinson

+44 207 170 3018

mike.wilkinson@towerswatson.com