

# RISK MANAGEMENT IN INSURANCE

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# Risk Management Basics

- Risk management is a corporate activity
  - risk management  $\neq$  underwriting (upravljanje rizicima  $\neq$  preuzimanje rizika)
- Risk management is a process
  - how the decisions are taken
  - what business activities are undertaken
  - what business activities are rejected (limits...)

# Three Lines of Defence in Risk Management

Active risk mgmt

Board of directors,  
underwriters,  
investment  
managers,  
sales, claims,  
etc.

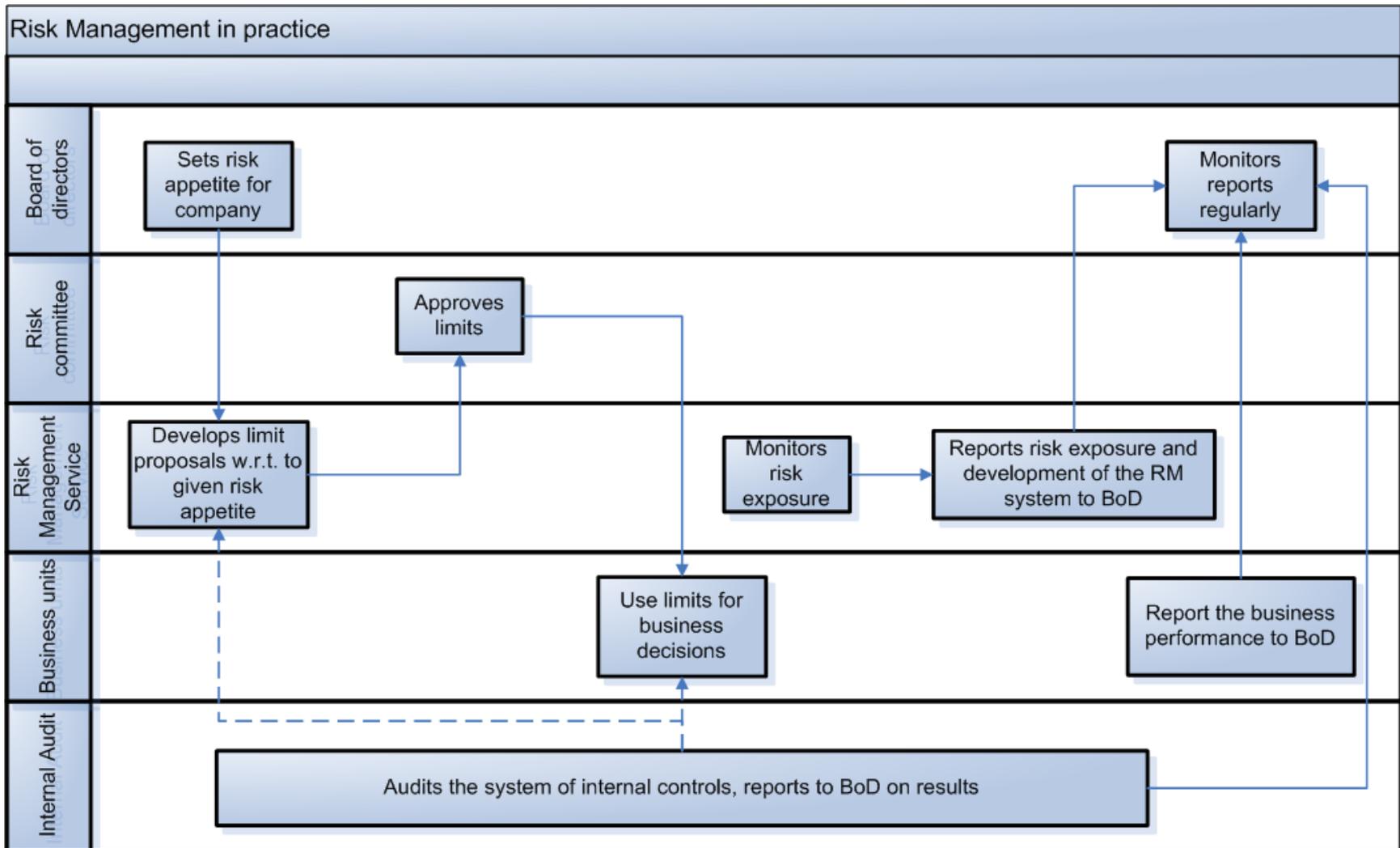
Risk mgmt system  
setup

Risk  
management  
service,  
risk committee

Risk mgmt system  
oversight

Internal audit  
department

# Risk Management Process



# Risks of a Life Insurance Company

According to Solvency 2:

- investment risks (market, credit)
- actuarial risks (mortality, longevity, disability, etc.)
- lapse risk
- expense risk
- CAT risk
- operational risks (processes, people, systems, external)

# Typical Risk Profile

- Market risks represent more than 40% of overall risk
  - because of ALM risk of life insurance
- Biggest core business risks are lapse and expense
  - lapse  $\Rightarrow$  directly linked to deteriorating economic conditions
  - expense  $\Rightarrow$  competition is driving up commissions (tied agents and brokers) in our region

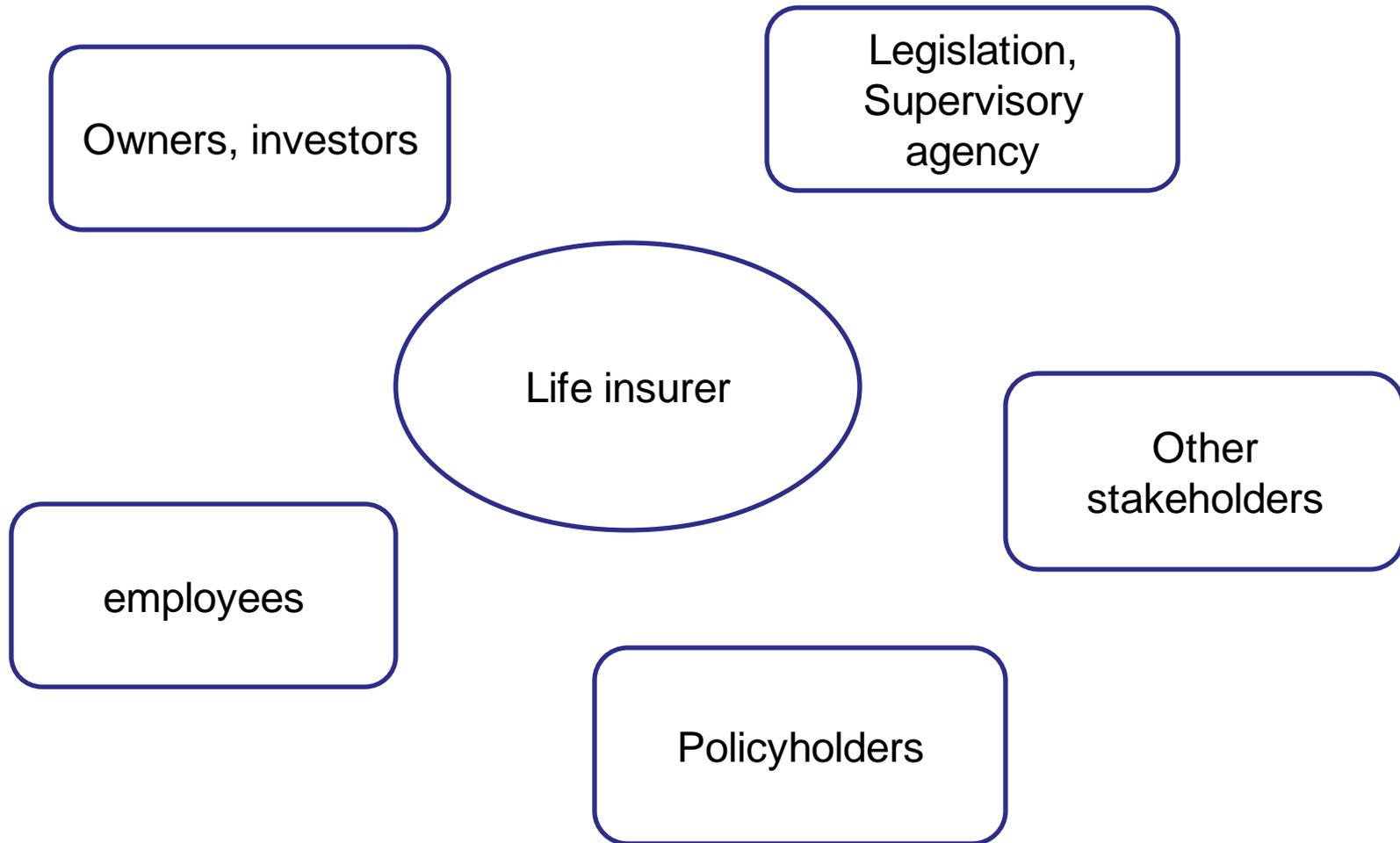
## Typical Risk Profile (cont.)

- Actuarial risks are typically very small
  - this type of risks measures possible errors in actuarial methods
- Operational risks are linked to business volume
- CAT risk typically reflects lapse and expense development

# How To Set the Risk Appetite

- Use appropriate measurable indicators
  - dividend payments
  - target capital adequacy surplus
  - accounting profit
  - zero tolerance risks
- Consider wider economic circumstances
- Make sure the indicators are relevant to business

# Who Influences Risk Appetite



# Key Strategic Risks

- Financial risks (capital and cashflow pressures)
- Competition
- Regulatory actions
- HR risks (staffing, knowledge, fraud)
- Structural resources (software systems, proprietary information)
- Internal bottlenecks

## Conclusion

An efficient risk management system addresses key strategic risks and uses transparent methods to achieve favourable business results.