

Risk Maturity Assessments in an International Group

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Pensions Conference 2017
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Agenda

- 1** Motivation
- 2** Development of Assessment Tool
- 3** Assessment Process
- 4** Use of Results at the Local Level
- 5** Use of Results at the Group Level

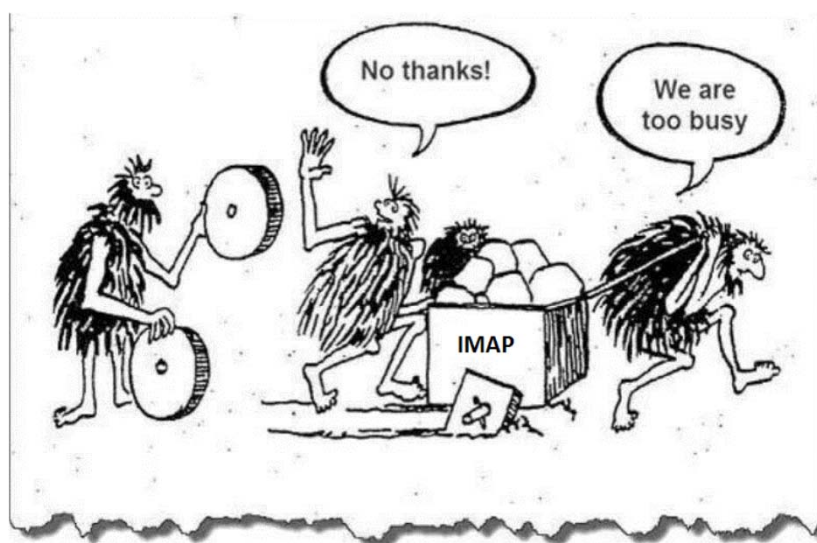


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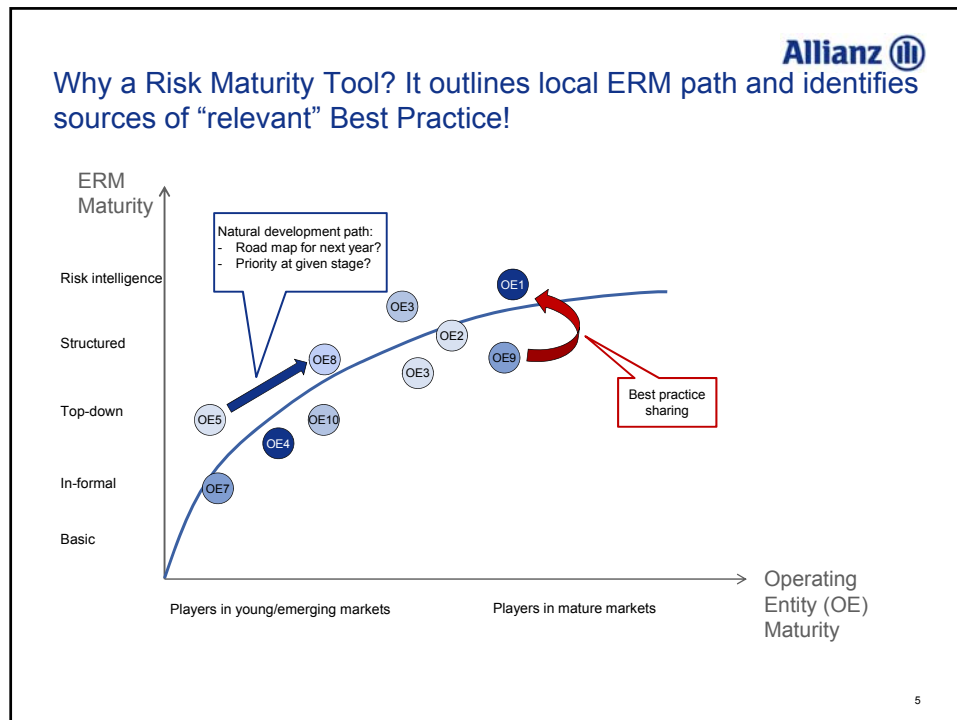
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Local and Group Environments When Risk Maturity Tool was Proposed at Allianz



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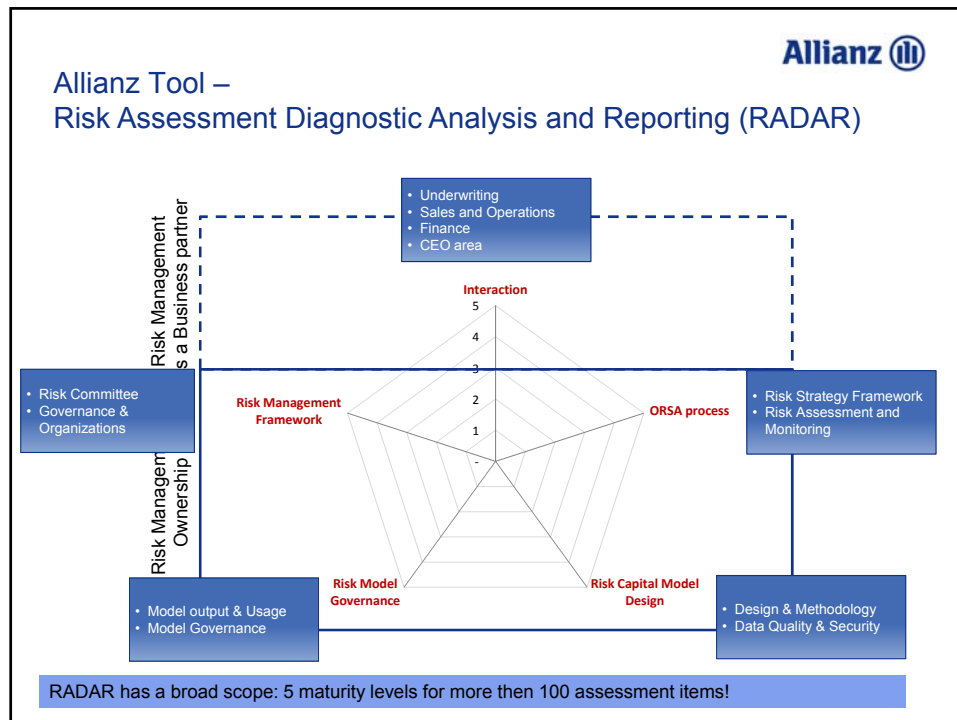



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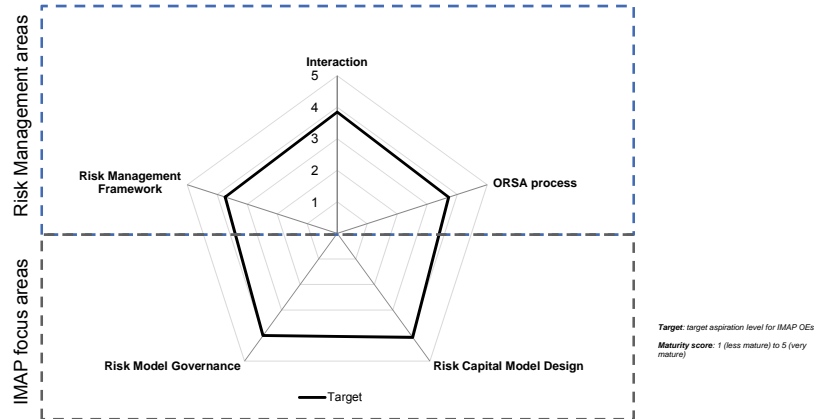
RADAR - Development of Assessment Items and Maturity Levels



- All categories have assigned an in-house Group expert
- Assessment items and maturity levels can be developed using
 - In house expert knowledge
 - Consulting support
 - Reference to current policies and procedures
 - Reference to outside literature
- Selected CROs are given the opportunity to vet assessment items and maturity levels. Ideally this should include completing the assessment for their OE and commenting on the appropriateness of the results.
- Minimum expected and target maturity levels should be identified for each assessment item. While ideally these should differ by entity, general expectations should be set and then adjustments agreed to as appropriate.

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RADAR results in a nutshell: Targets for IMAP-OEs



Targets for IMAP-companies based on implicit or explicit Solvency 2 requirements and Allianz Group ambitions.

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Sample Assessment Item – Interaction - PC Product Approval

Description	Assessment Criteria				
	Level 1	Level 2	Level 3	Level 4	Level 5
<ul style="list-style-type: none"> ■ Involvement in product approval process ■ Aspects considered in the course of product approval (e.g. economic view with regard to risk/return considerations) 	<p>A local product approval process is documented.</p> <p>The Risk Function is aware of new and changed products after they have been approved.</p>	<p>Level 1 Criteria and</p> <p>The Risk Function has a basic understanding of the policy terms and conditions (including endorsements and options) and their risk implications.</p> <p>The Risk Function receives notification of product approvals for new or changed products at the end of the process and reviews to ensure compliance with Group minimum standards.</p>	<p>Level 2 Criteria and</p> <p>The CRO makes sure that the P&C product control process is followed.</p> <p>The Risk Function is informed of new products at an early stage and leads decision making process.</p> <p>New and significantly changed products having major impact on risk profile are approved by the RiCo.</p> <p>The CRO is advising the product provider/ractuarial team on risk aspects including customer suitability, sales incentives, risky characteristics and financing requirements.</p>	<p>Level 3 Criteria and</p> <p>The Risk Function delivers risk capital figures allocated to subline/product level and challenges product pricing and profitability based on risk/return considerations (RoRC).</p>	<p>Level 4 Criteria and</p> <p>The Risk Function makes sure that tariff plans and pricing tools (including ratemaking indications) fully employ capital intensity information and measure RoRC calculations.</p> <p>New products are reported to RiCo.</p>

- To achieve a given level of maturity an OE must meet all the criteria for that level and all lower levels
- Adequate maturity varies by assessment item. There might be different levels of adequate maturity for
 - Regulatory requirements
 - Our basic expectations
 - Specific needs of the OE
- Assessments are basically process oriented (do you have this process or activity in place)

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Sample Assessment Item – Risk Monitoring and Management – Limit Monitoring and Management



Description	Assessment Criteria				
	Level 1	Level 2	Level 3	Level 4	Level 5
<ul style="list-style-type: none"> Compliance with Group and local limits Quality of monitoring process and scope Input for business steering 	Group limits are monitored at least on an annual basis.	<p>Level 1 criteria</p> <p>and</p> <p>The Risk Function monitors compliance with PC Group limits (e.g. for Nat Cat, Terror and man-made cat) on a regular basis.</p> <p>The CRO informs local RiCo about breaches including remediation plans ex-post.</p> <p>OE had no more than 2 major limit breaches (utilization greater than 110%) within the last 2 years which are remediated within 12 months.</p>	<p>Level 2 criteria</p> <p>and</p> <p>The Risk Function receives regular input from the underwriting department about exceptions for transactions, where predefined underwriting limits were exceeded.</p> <p>A clear escalation process exists in case of limit breaches (exposure and gross underwriting limits) leading to timely action plans to remediate the limit breaches.</p> <p>OE had no major limit breaches (utilization greater than 110%) and no more than 2 minor limit breaches (utilization between 100% and 110%) within the last two years which are remediated within 12 months.</p>	<p>Level 3 criteria</p> <p>and</p> <p>The Risk Function monitors exposure of all business lines/business area/territory and the risk capital consumption.</p> <p>There are forward-looking measures to avoid limit breaches.</p> <p>The Risk Function estimates risk capital consumption in case of new products or unexpected growth. Significant new/additional exposure to existing clusters is reviewed ex-ante by the Risk Function.</p> <p>OE had no major limit breaches within the last twelve months.</p>	<p>Level 4 criteria</p> <p>and</p> <p>The Risk Function monitors exposure based on risk return consideration and delivers steering input to underwriting function.</p>

- Bolded language incorporates results oriented criteria along with process oriented criteria. Finding appropriate results oriented criteria is sometimes difficult

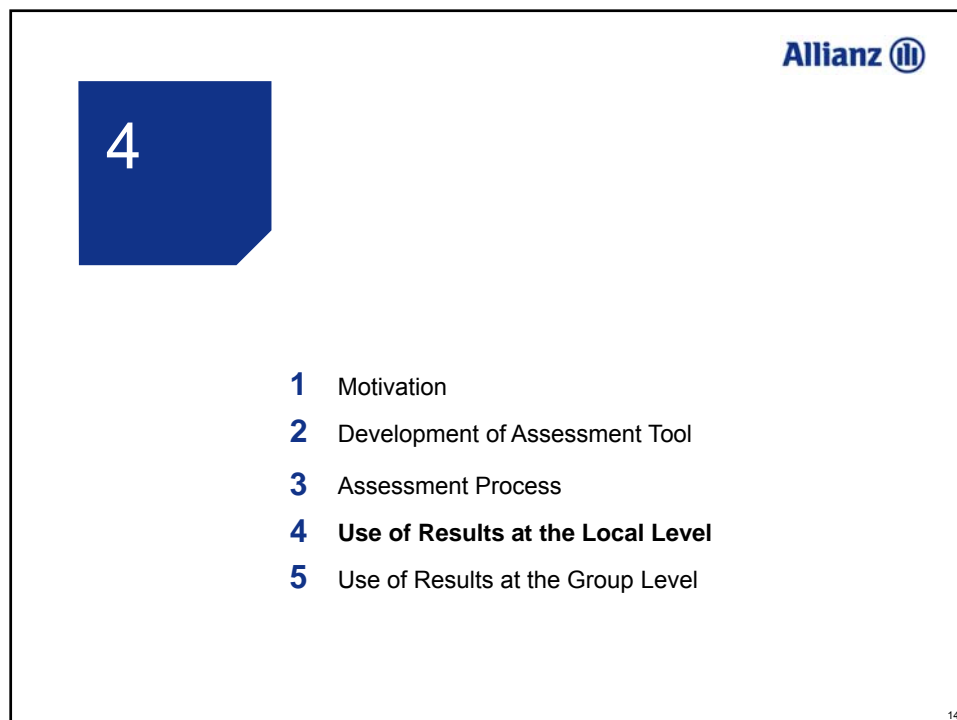
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Considerations When Evaluating Results within an Operating Entity



Relevance of a particular assessment item to risk issues that the OE may be facing



Operating culture and complexity of the organization



Scores do not always reflect the effectiveness of processes that are in place



Cost/benefit of process improvement

- Different aspects of risk management may be relevant for an entity (e.g. market risk for a life entity, reputational risk for a global corporate entity)
- Modeling assessment items are certainly less important for entities that do not use the internal model
- Different regulatory schemes (particularly outside Europe) will affect relevance

- Small simple organizations may be stifled by implementing complex processes
- More process development is needed for complex organizations (e.g. worldwide companies with home office functions in multiple locations)

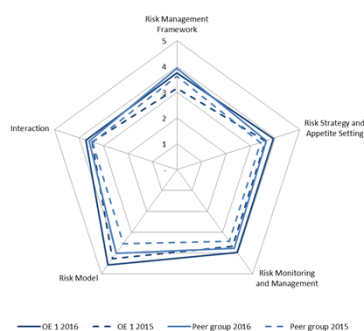
- OE can have the proper processes in place but the processes can be ineffective
- Conversely the OE might not have formal processes in place but still be able to achieve needed results informally

- Cost to achieve higher maturity level may be prohibitive
- OE may be able to develop alternatives that can achieve an acceptable result for less cost (particularly for those outside the EU)

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Utilization of Results by OE – Evaluation of Results Allianz

Average Risk Rating By Category



Strengths

- Risk Model is an outstanding category
- Interaction in most Finance-related functions, Audit, Non-life underwriting and Product approval process is strong
- Risk strategy & appetite setting and Risk monitoring & management are strong areas with limited room for improvement

Areas for Development

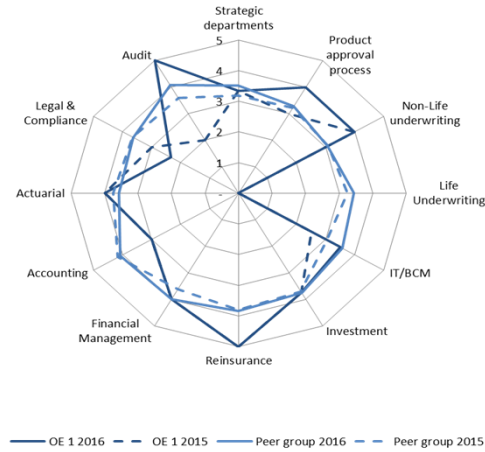
- Specific areas on the risk management framework can be enhanced. Particular focus on reporting delays, e.g. PRISM, and skills development of the Risk Management Function (RMF)
- Interaction has improved from prior years. Nevertheless there are still areas that can be enhanced, e.g. Involvement with strategic departments in relation to capital steering (CIR, Investment Strategy). Interaction is a development area for most OEs

- RADAR tool is primarily focused on processes and practices. Some „results oriented“ items were added this year (about 5-6 assessment items)
- Different OEs require different maturity levels depending on the complexity of their business and processes
- Assessment takes credit for work carried out by other areas but with RMF involvement

Peer group: average of Internal Model peers:

Utilization of Results by OE – Evaluation of Results Allianz

Interaction



- Significant improvements in some areas such as Audit, Product approval process and IT/ BCM
- Solid interaction with other finance-related functions (Actuarial, Financial Management, Reinsurance and Investment) and Non-life underwriting
- Some opportunity to improve capital steering (CIR, Investment Strategy) by providing enhanced support for planning and strategic decisions
- Opportunities for improvement in interaction are also in Legal & compliance and Accounting

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Utilization of Results by OE

Sample Development Plan



no.	RADAR Priority Areas	Sub-category	Issue	2017 RADAR Development Plans	Level of Priority	Deadlines/ Milestones
1	RM Framework	Reporting	Delays in reporting	1. Additional Quantitative Risk Resource to start on 24th April 2. Risk Plan to be presented in Q1 reporting 3. Actuarial Function Resource Plan to be presented in Q1 reporting	H	1., 2. & 3. Q1 Reporting for all (May RiCo)
2	RM Framework	Risk Function Resources	Skills development	1. New quantitative resource to provide cover for closing process 2. New quantitative resource to free up some time for other RMF resources to develop in other areas 3. Currently reviewing transfer of capital management Actuary from the Actuarial Function to the Risk Management Function. This will increase the skill base of the department and also allow current resources to expand into new areas 4. Request to Group Risk on what further regular training might be available at the Group level 5. Strategic Resource Planning program to review the scope of the RMF and skills required	H	1. Q2 closing 2. Q4 2017 3. H2 2017 4. End 2017 5. End 2017
3	Risk Monitoring and Management	Solvency capital assessment	Development of the ORSA process	1. Sign off of stress and scenarios by BoM to be used in the ORSA report	L	ORSA Report for Dec 2017
4	Interaction	Strategic departments	Enhance capital steering and reduce the volatility of the SCR	1. Review Capital Intensity versus peers 2. Involvement in the investment strategy (P&C and Pension). The main role of the RMF is to investigate the capital capacity of the company to re-risk the P&C investment scheme and the resultant change in sensitivity to market risk factors	H	1. End June 2017 for key peer and ongoing for other peers 2. Paper to the May Board meeting
5	Interaction	Legal & Compliance	Increase in interaction	1. IRCS project to align activities across control functions	L	1. Group Compliance Workshop 29th Mar 2017, other deadlines TBA end April 2017
6	Interaction	Accounting	RMF involvement in review of MVBS movements	1. Quarterly MVBS movement review and sign off with Finance	M	1. Q1 2017 Closing

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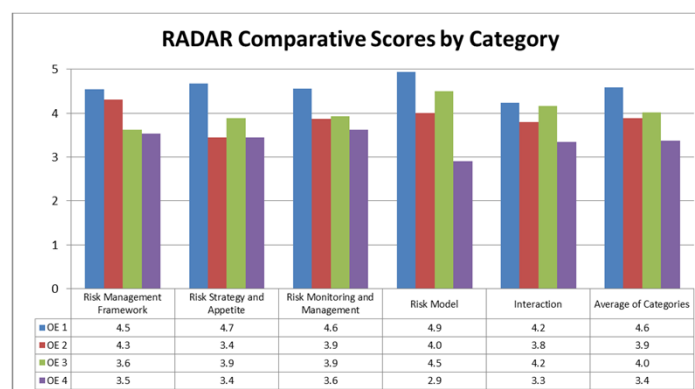
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Comparative Results – Four Operating Entities (OE)



- OE1 – Internal Model, Global large commercial writer – High complexity, products with significant reputational risk
- OE2 – Internal Model, single country PC entity
- OE3 – Internal Model, single country, PC entity
- OE4 – Standard Model, Global, retail writer using B2B2C model

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Considerations When Evaluating Results Across Operating Entities



Different OEs need different maturity levels based on their complexity



Scores may vary based on biases of evaluators



Scores do not always reflect the effectiveness the processes that are in place



Distortions may occur to the extent tool is used for other purposes

- Complex international organizations need more „maturity“ than small entities in one jurisdiction „where one can walk down the hall“
- Different aspects of risk management may be relevant for an entity (e.g. market risk for a life entity, reputational risk for a global corporate entity)

- Some people are „harder graders“ than others
- Some maturity items may be interpreted differently by different CROs and Group staff (e.g. risk activities performed outside of risk team, technical shortcomings in meeting maturity levels)

- OE can have the proper processes in place but the processes can be ineffective
- Conversely the OE might not have formal processes in place but still be able to achieve needed results informally

- Items can be missed if tool is limited to those that are „regulatory relevant“:
- Tool can end up with two targets – maturity level to reach regulatory requirements and maturity level expected by the shareholder which may be confusing

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Considerations with regard to Best Practice Sharing



- Maturity assessment tools can be a starting point for identifying best practice OEs
- In-house Group experts who developed assessment items are ideal for initial identification of best practice OEs
- Coverage staff and experts should consult to insure that they fully understand the best practice underlying high maturity levels and exactly who would benefit from them
- Best practice sharing tools that we have found effective
 - Connecting OEs informally with each other as opportunities arise
 - Opportunities for CROs to share their best practices through presentations at conferences or during regular conference calls
- Effective best practice sharing is relatively difficult to implement

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