

Risk Management in Life Assurance – current hot topics
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Risk appetite

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Risk appetite – what is it?

Standard & Poor's

- Defines risk appetite as “the framework that establishes the risks that an insurer wishes to acquire, avoid, retain and/or remove”
- Identifies three elements:
 - Preferences – qualitative statements
 - Tolerances – quantitative statements
 - Limits – operational level boundaries

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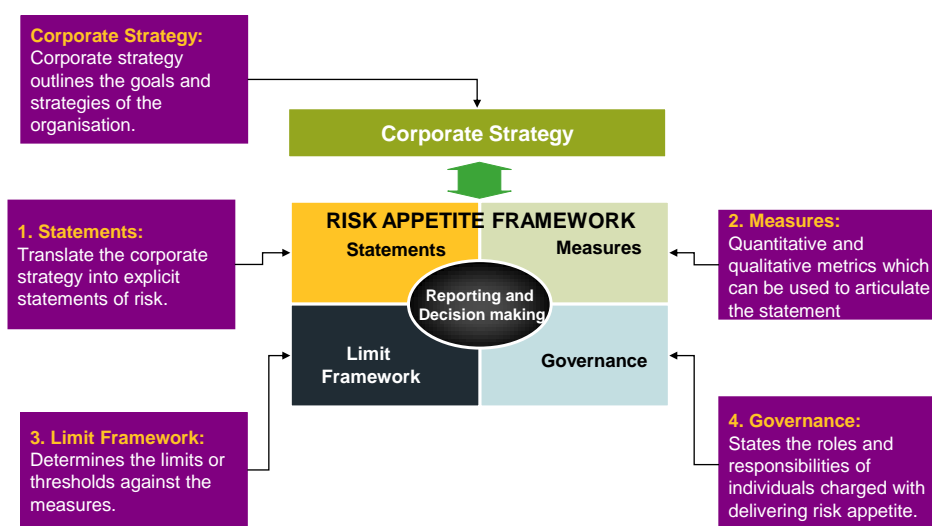
Risk appetite framework – why is it useful?

Benefits of a clearly articulated, agreed risk appetite include:

| | |
|------------------------------|---|
| Accountability | • Clear accountability and clarity of what the level of risk that group, regions and businesses can take and proactively manage the business against. |
| Clarity | • Clarity of decision making, delegated authorities and escalation criteria - speeding up decisions. |
| Alignment | • Alignment of day-to-day business decisions to the strategy and objectives of the group. |
| Performance | • Assists in optimising the group's use of capital and strategic decision making. |
| Regulatory compliance | • Meets requirements of external stakeholders (eg FSA) to demonstrate strong, coordinated risk management; |
| Board oversight | • Provides clear articulation of appetite and risk framework to enhance Board support of business decisions |
| Culture | • Risk appetite sets the tone for the risk culture across the organisation by encouraging consistent behaviours. |

Risk appetite framework components

Description and interaction with corporate strategy



Risk preferences – key questions

Why do we prefer some risks over others?

- Link to strategy
- Market opportunity
- Competitive advantage
- Predictability
- Diversifiability
- Manageability

What level of granularity do we go to?

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4

Aggregate risk tolerances – key questions

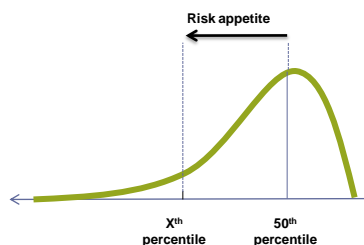
What metrics should we use as a base?

How many?

How should we calibrate them?

How should we express them?

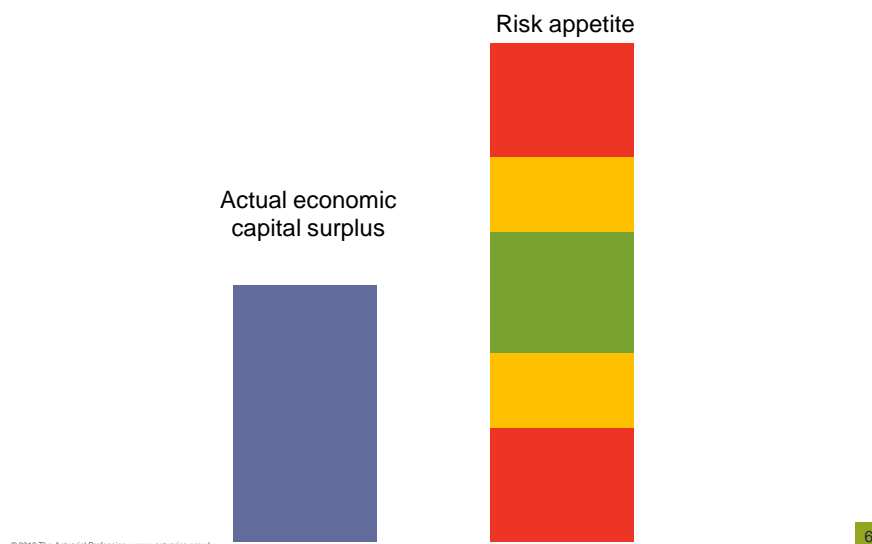
For P&L measures – rolling or financial year?



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5

Aggregate economic capital risk appetite



Aggregate risk tolerances – areas for caution

Modelling of management actions

Degree of dynamism

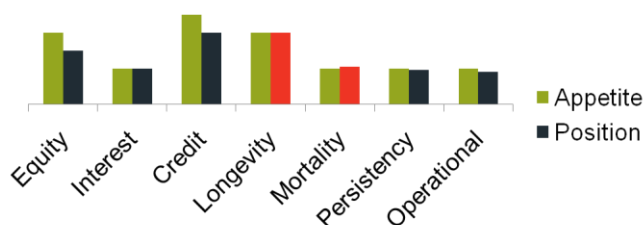
Frequency of measurement

Allowance for profits, dividends and coupons

Cascading risk tolerances – by risk type

Choice

- Set tolerances to assure remain within aggregate tolerance
- Set tolerances as statement of intent and rely on aggregate tolerance



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8

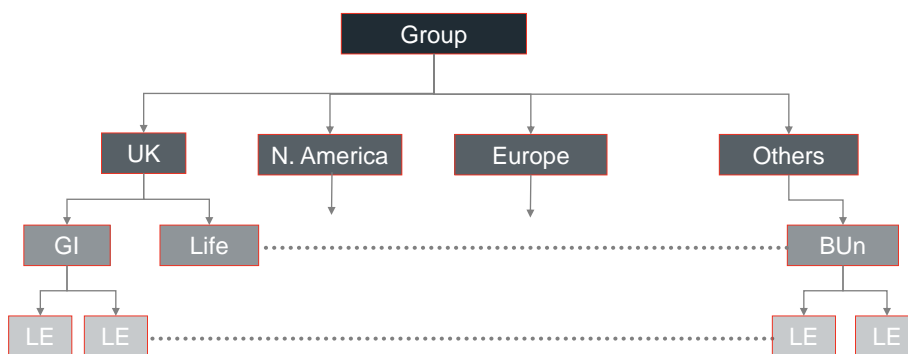
Cascading risk tolerances – by legal entity

Choice 1 – cascade by

- Required EC
- EC surplus

Choice 2 – set tolerance

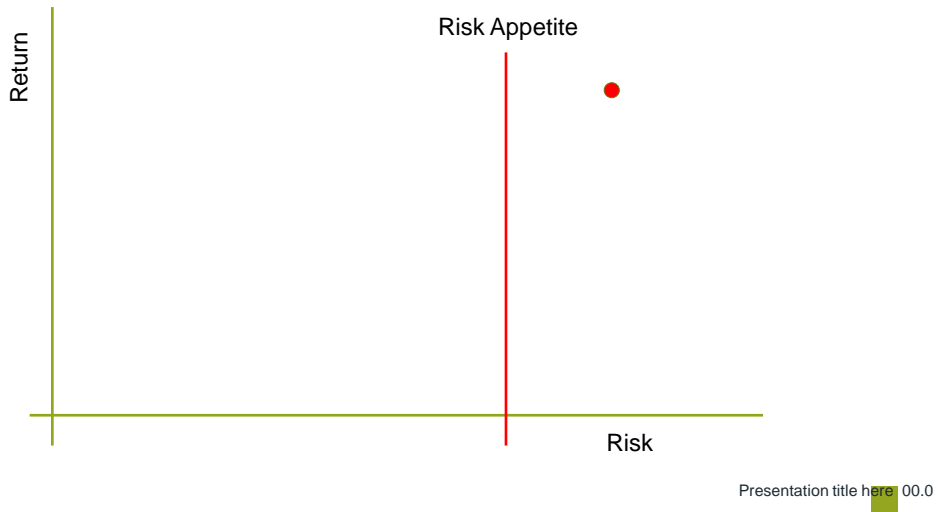
- Top-down
- Bottom-up



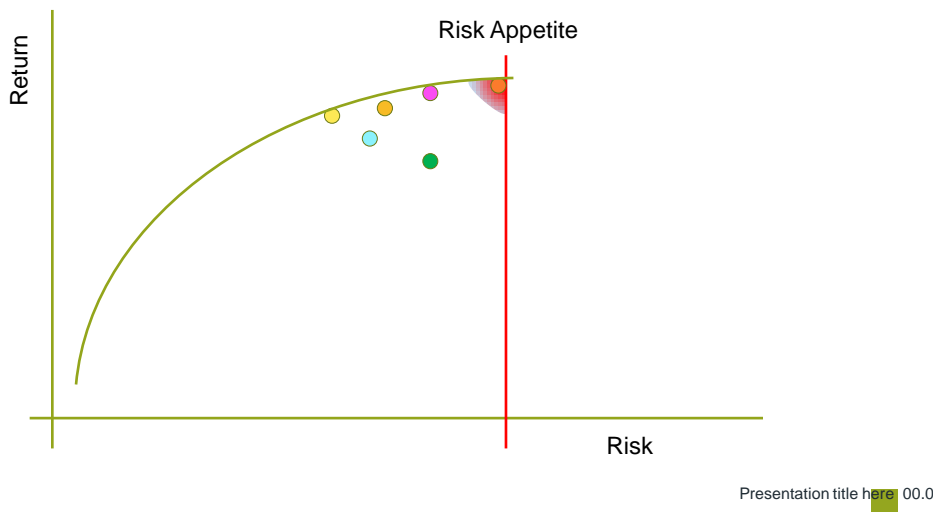
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9

Risk appetite in decision-making



Risk appetite in decision-making



Conclusions

- Do connect risk appetite and strategy
- Don't over-complicate it
- Do make sure it is used

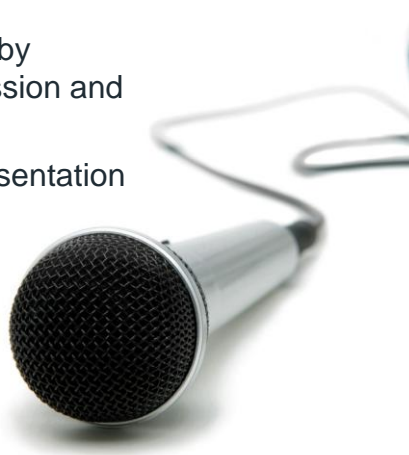
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12

Questions or comments?

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13