

# 7th Webinar on Risk Management

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## Effective Implementation of Risk Appetite Statement

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# Risk Management Framework



## Risk Appetite Statement – Key Attributes

### Risk Appetite Articulation

- All material risks should be specified
- Tolerance Articulation - Reduction in short term profits and long term EV

### Solvency & Capital

- Core objective is to be able to honor the contractual obligations made to policyholders
- Combination of stress capital benchmark and economic capital benchmark

### Policyholder's Interest

- Tolerance for reduction in Par bonuses tolerance in line with PPFM
- Service standards – Target level of operational accuracy in benefit payments

### Shareholder's Interest

- For tactical business decisions:
  - Tolerance for stat profits or dividends reduction
  - Tolerance for planned EV reduction

### Investments

- Actual investments should be within defined Strategic Asset Allocation
- Liquidity thresholds

# ERM Vision – To make Organization ‘Resilient & Risk Intelligent’

## Preventable Risks (1)

- Risks arising from within the company that generates no strategic benefit
- **Risk Mitigation Objective:** Avoid or Eliminate
- **Control Model:** Integrated Culture & Compliance model
- **Role of Risk function:** Coordinates & oversees specific controls
- *Examples – Operational Risks, Fraud, Conduct, Reputation etc.*

## External Risks (2)

- External, uncontrollable risks
- **Risk Mitigation Objective:** Reduce impact cost & faster recovery
- **Control Model:** Scenario planning, stress testing & war gaming
- **Role of Risk function:** Run scenario planning, stress testing & war gaming exercises; Acts as devil’s advocate
- *Examples – Cyber, BCP – Fire/Pandemic etc.*

## Strategic Risks (3)

- Risks taken for superior strategic returns
- **Risk Mitigation Objective:** Reduce likelihood and impact
- **Control Model:** Preventive Measures, Limits, Early Warning Framework
- **Role of Risk function:** Helps develop risk initiatives and their funding; Acts as devil’s advocate
- *Examples – Products (Interest Guarantees), Assets, Mortality etc.*

## Risk Appetite Discussion

- Discuss Risk Appetite in conversation with leadership quarterly during rating (RAG) for material risks
- Prepare RAS dashboard in addition to material risks dashboard quarterly

## Key Focus Areas

- Any sort of concentration – Product, Product Segment, Channel Sales/VNB should have upper threshold
- Internal capital requirements (stressed) implications based on product mix

## Review Frequency

- Review RAS annually as part of business plan approval to foster good governance
- Modify the RAS appropriately if company is taking more risks or limit the risk taking

## Emerging Areas

- Define Operational Loss Appetite and Product Operational Accuracy Appetite
- Reputation Risk – Quality of business thresholds

## Risk Appetite as Business Enabler

- Competitive Pressures:
  - Upper range (for sales) can be defined for business experiments with minimum IRR
  - Base IRR and Minimum stress IRR thresholds for product re-pricing