



Risk Management as a Value Enabler

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The Development of Risk Management

How can ERM add value?

Aspects of the Risk Framework can be developed to add more value

Examples of how improvements in Risk MI can add value

How we can reflect Risk Value and some concluding comments

The regulatory environment is more intrusive and coordinated, driving convergence of risk management practices



Monetary Authority
of Singapore



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



Office of the Commissioner of Insurance
The Government of the Hong Kong Special Administrative Region



Basel Committee on
Banking Supervision



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY



NAIC
National Association of
Insurance Commissioners

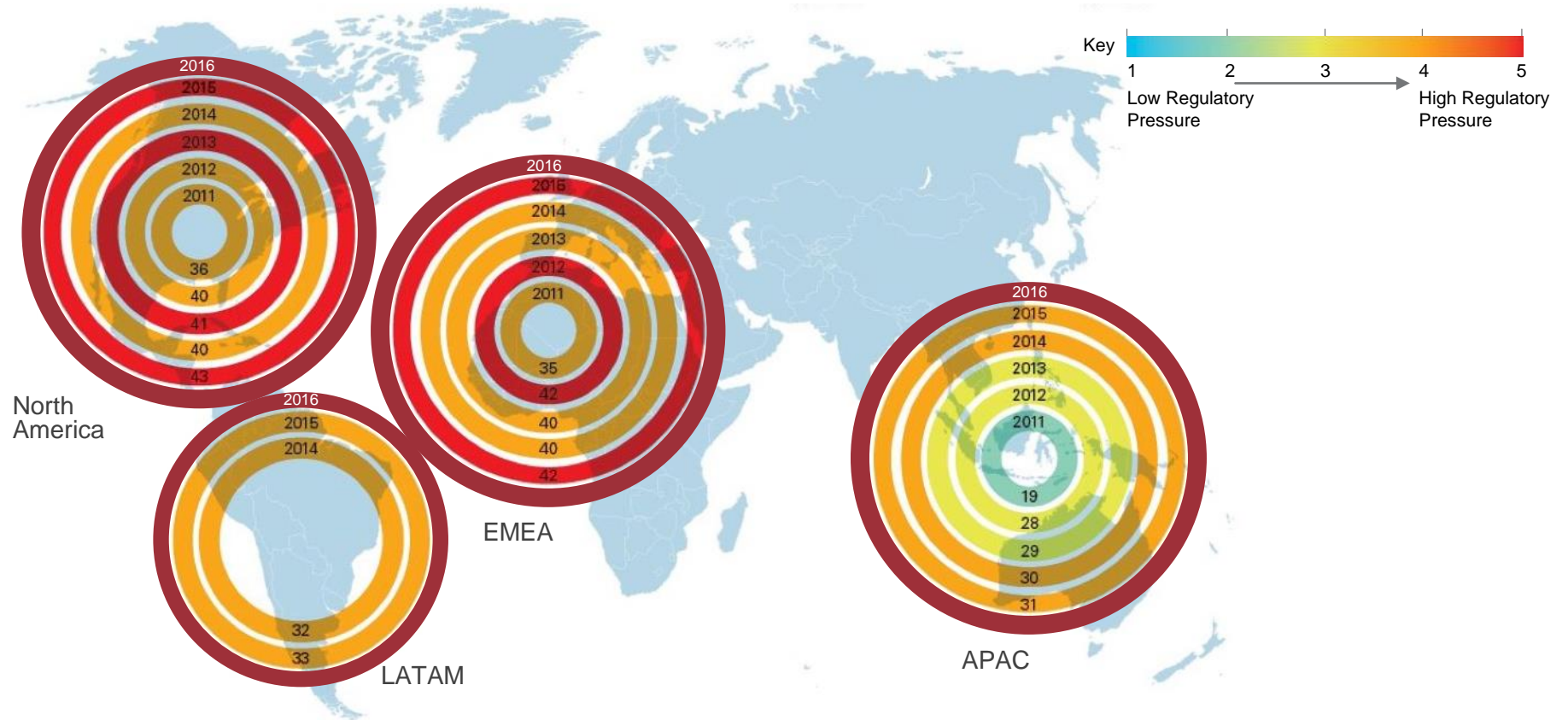
FSB
FINANCIAL
STABILITY
BOARD



International Association
of Insurance Supervisors

**Raising the bar globally e.g.. risk appetite and tolerances and stress
and scenario testing**

The regulatory pressures on Insurers isn't reducing!



Risk Events have influenced approach and expectations of risk management



Taking on too much risk



Lack of control / risk culture?



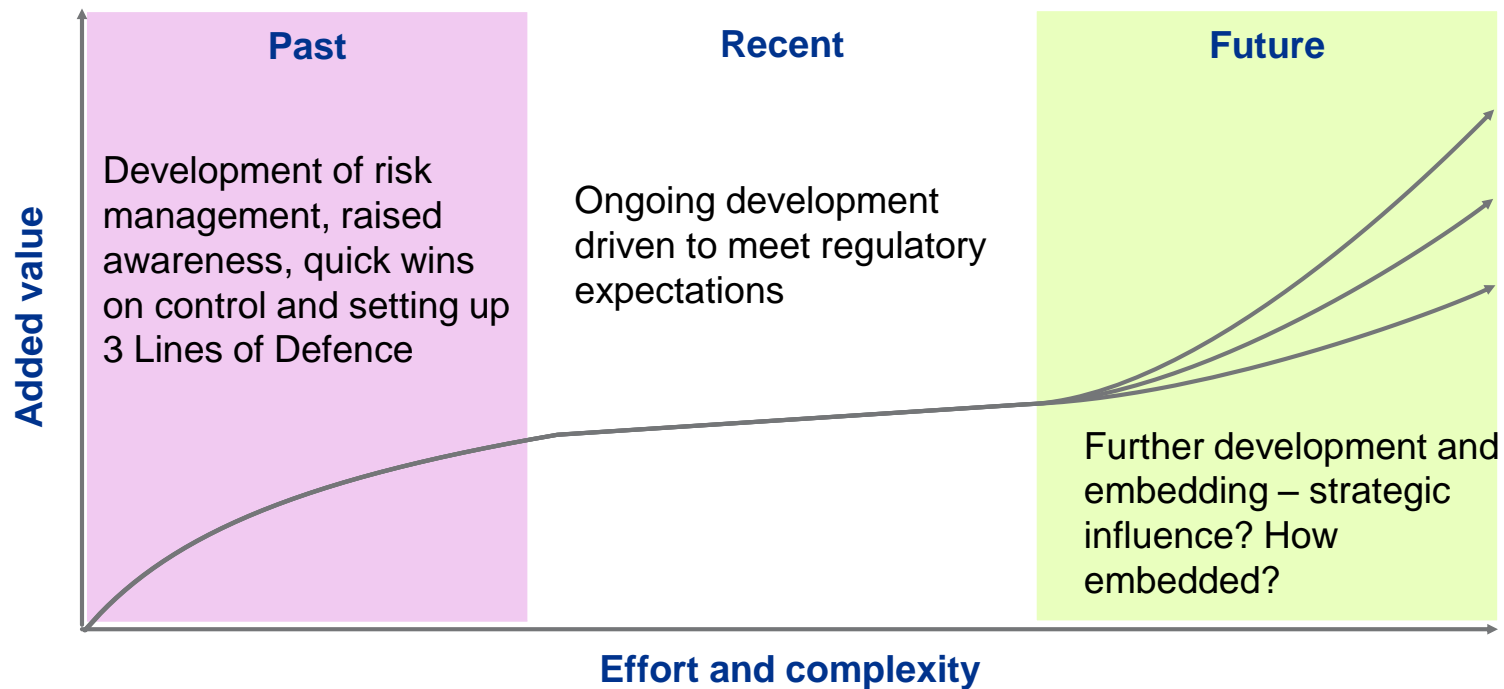
Not transparently communicating risk



Concentration risk

So where are we today in terms of Enterprise Risk Management (ERM) development?

The risk transformation journey for insurers



As we move through that the maturity spectrum we can see some key changes

The evolution of ERM

Old World risk management

Tactically focused

Controls led

Focused on detail and processes

Generalist

Operational Risk/Compliance heavy

Historical bias

Analysis heavy

Blurred accountabilities between
First/Second/Third LOD

New World ERM

Strategic focus

Value driven

Thought leadership

Specialist

Greater Financial/Insurance Risk Focus

Forward looking bias

Action focused

Clear second LOD accountability

The case for further investment in risk management as an activity



Linkage to
financial
outcomes



The Pace of
Change



Ratings
Agencies



Regulatory
interests



Customers

How can ERM add Value?

Where Risk functions can add Value



Risk efficiencies

- Risk are in a unique position; can lessons learnt be shared across the business to improve the **risk culture**
- Risk can assess and highlight **control optimisation** opportunities



Capital optimisation

- **Reducing volatility** in risk and capital profile
- Helping the business manage **risk concentrations**; **diversification** is amongst the most valuable tools that Risk can support



Revenue identification

- Risk functions should be applying **commercial as well as risk expertise**; challenging the business where it is being too cautious
- The CRO should have input to **strategic planning** whilst maintaining independence

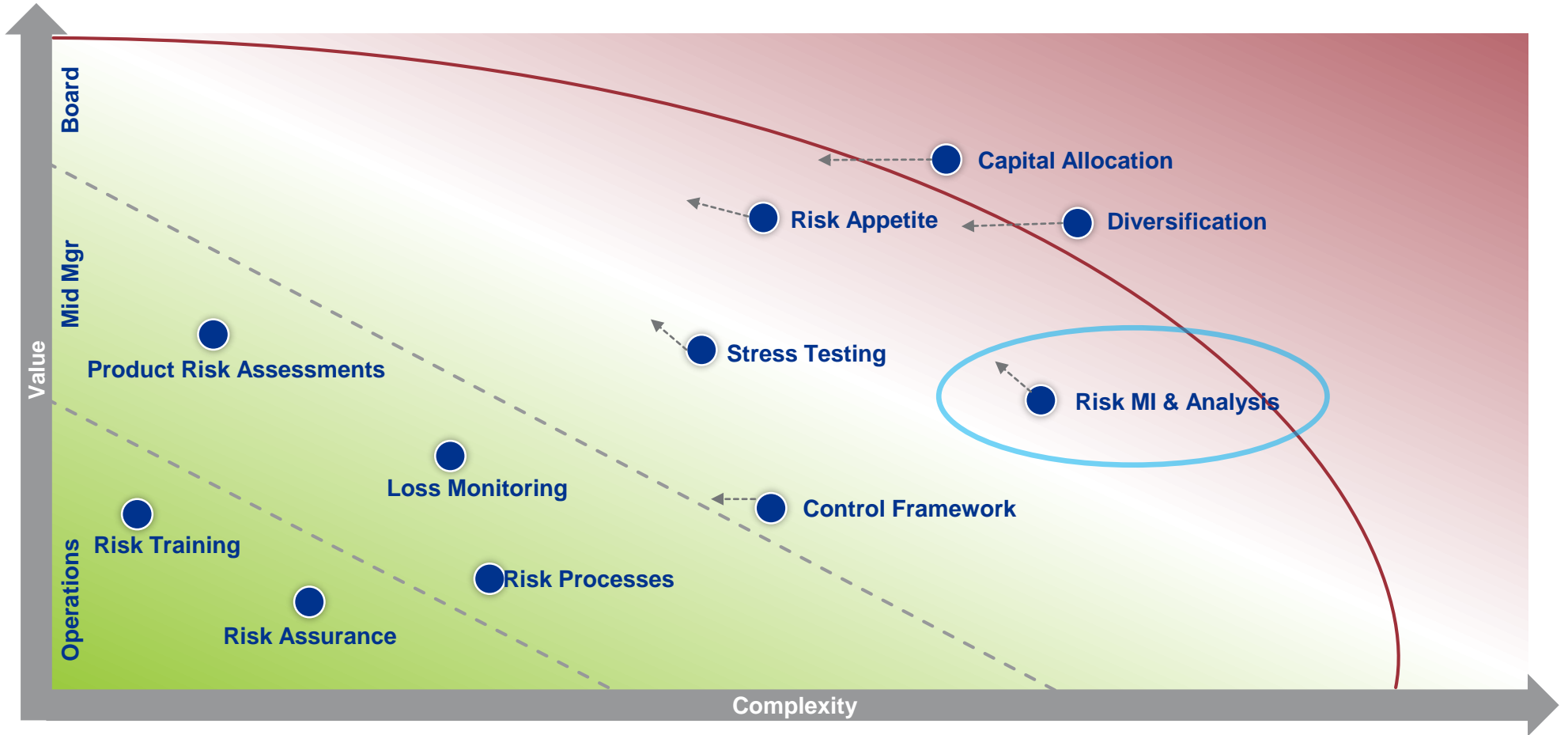
Our Viewpoint – Getting value from Risk Management as an activity

Value is optimised when there is a consistent focus on Risk Management activity across all three Lines of Defence. This is characterised by:



**Which aspects of the Risk
Framework can be developed
to add more value**

Value add will differ by audience however efficiencies can improve...



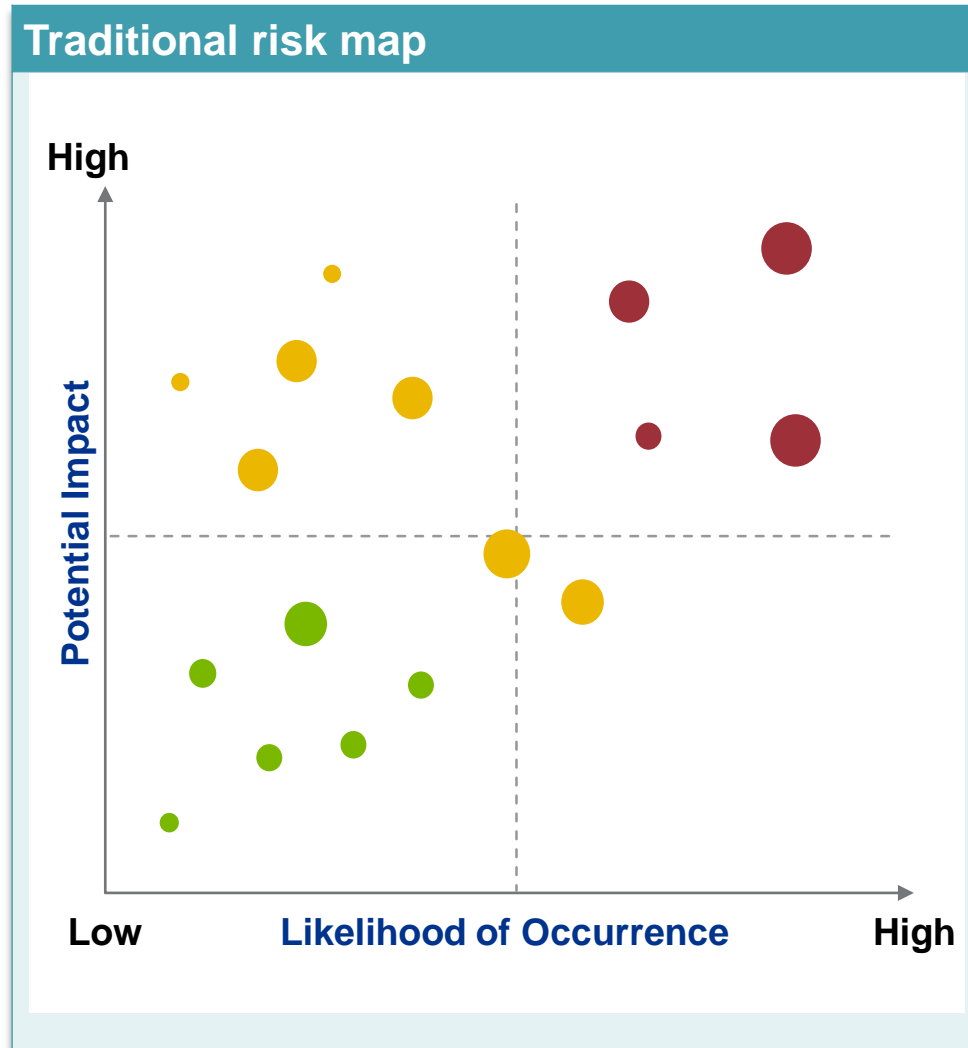
Key: ■ Fundamental

■ Applied

— Risk team's capacity

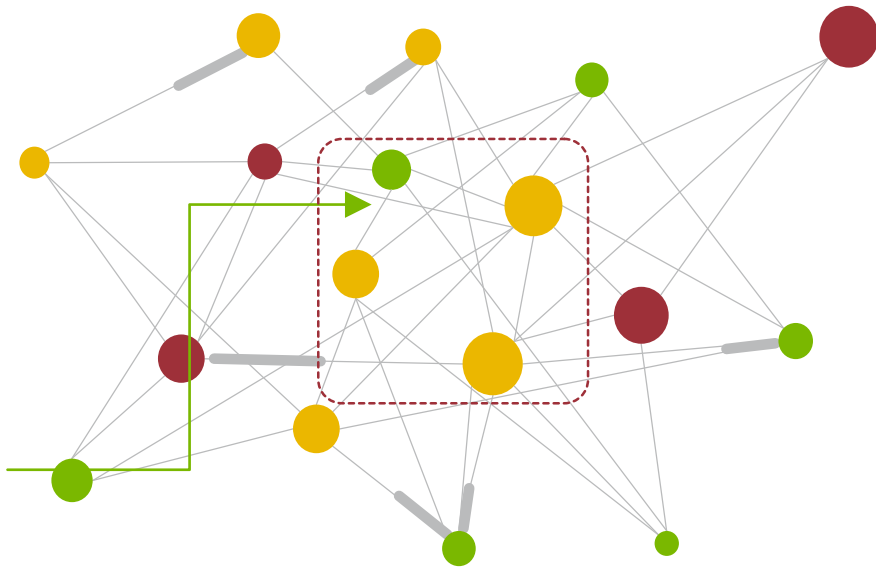
- - - End state post efficiency improvement

An area where more value could be added is in the risk profile...

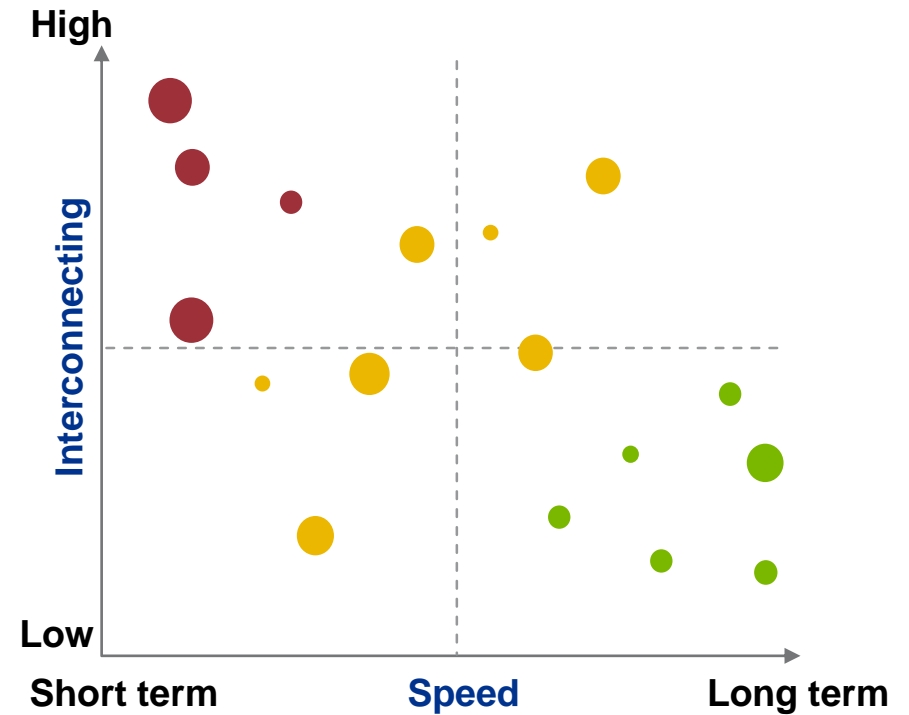


But risks are inter-connected and will emerge at different speeds...

Inter-connected view



Speed view



**How improvements in Risk MI
can add value**

Risk MI Design Principles define what good looks like



Data is consistent and timely

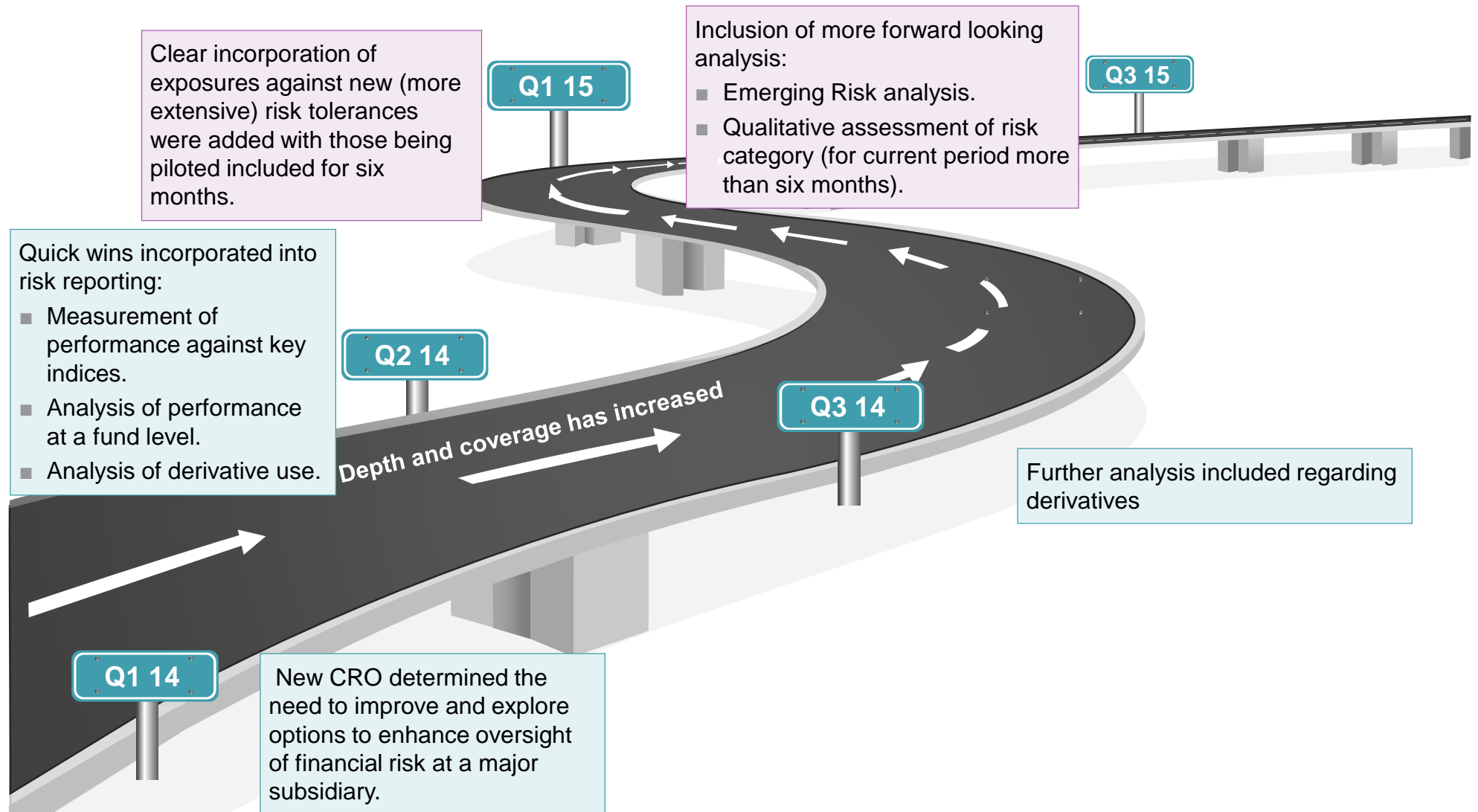
Efficiently produced, updated and distributed

Contains a clear point of view

Communicates key issues in enough detail to ensure use in decision making

Forward looking and a mixture of visual messaging and analysis

Example 1 - Risk MI was enhanced to enable stronger oversight of key exposure at a subsidiary

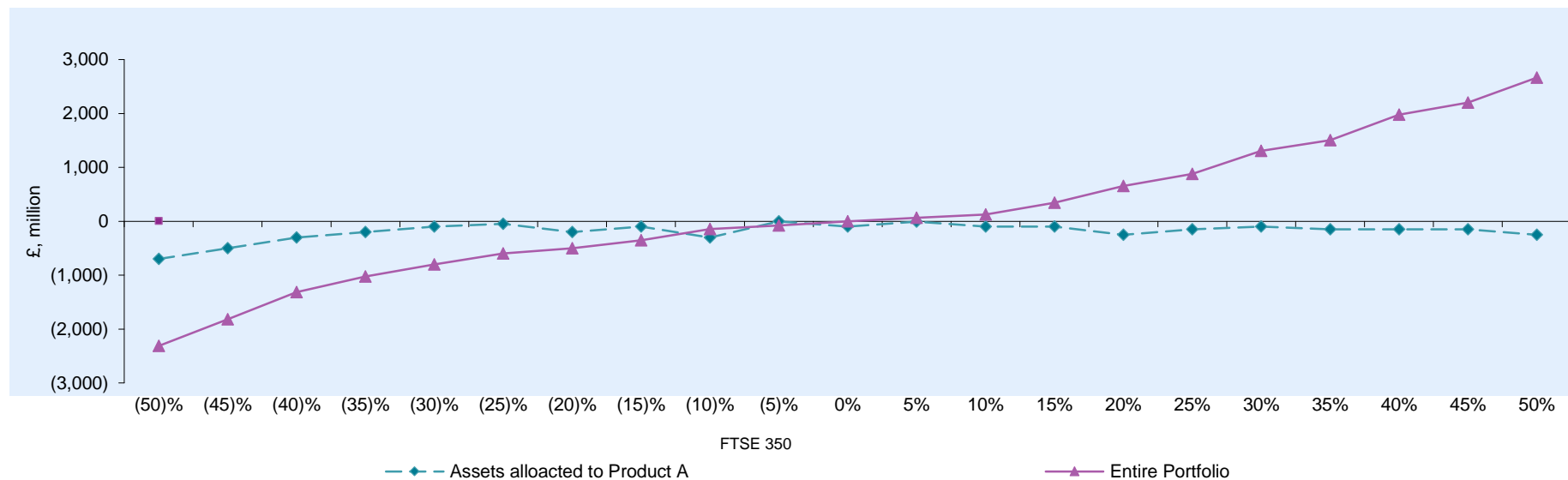


An extract of the changes that Group made to their Risk MI

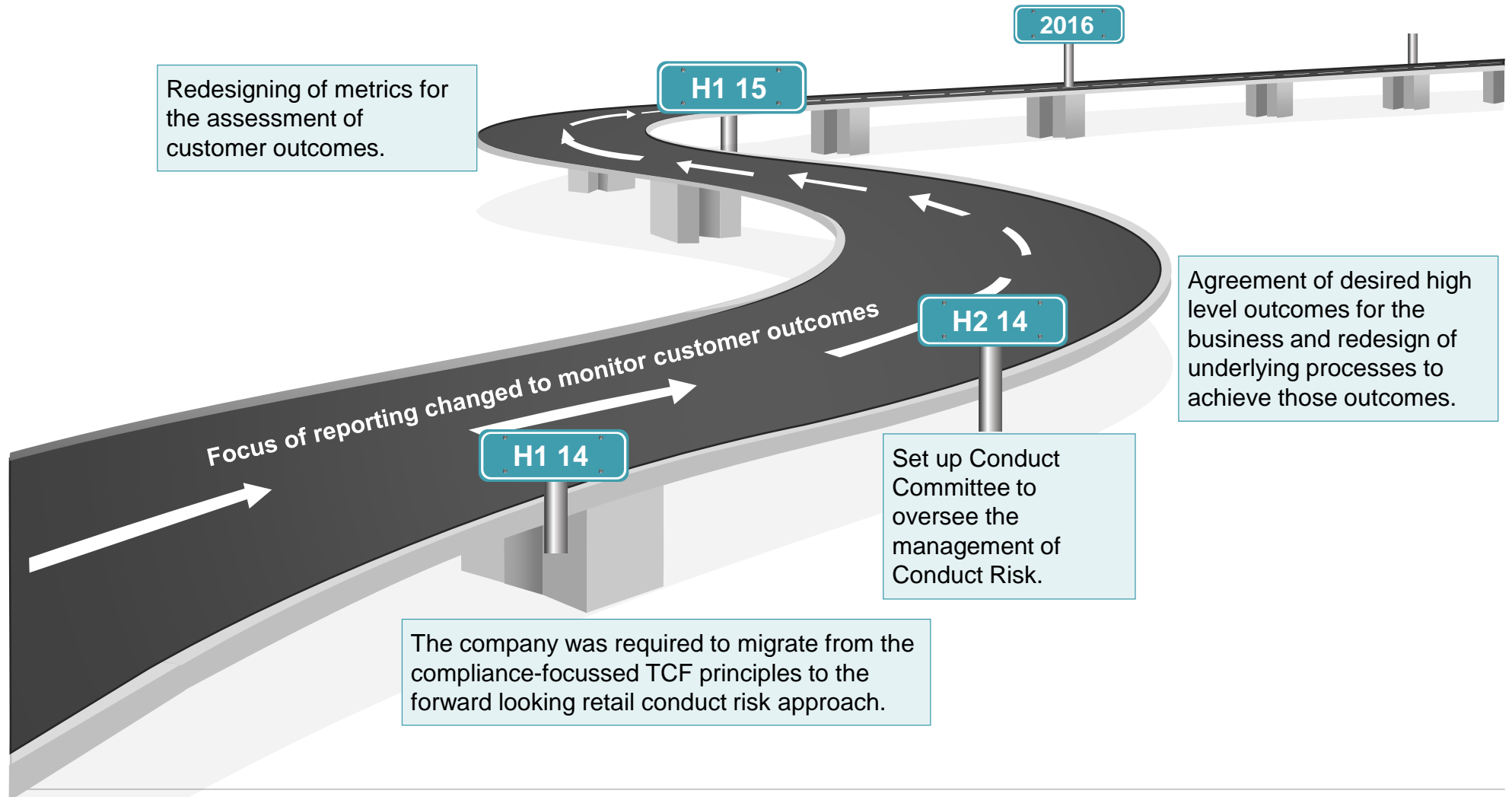
Fund performance (extract)

Portfolio	Asset Mix %	Month on Month change	Monthly performance versus FTSE benchmark	YTD performance	YTD Performance vs. FTSE benchmark
Alternative Strategy Funds	5.9%	(0.94)%	(0.04)%	3.47%	(0.62)%
Balanced Funds	6.3%	(0.82)%	(0.04)%	7.75%	(0.36)%
Bond based funds	18.2%	(0.88)%	(0.11)%	3.55%	(1.93)%
Emerging Markets Funds	8%	(5.50)%	(0.17)%	(2.63)%	(0.60)%
Global Funds	3.2%	(1.99)%	(0.06)%	1.28%	(0.42)%
Large Cap Funds	19.9%	(0.70)%	(0.09)%	11.56%	(0.39)%
Mid Cap Funds	7.0%	0.49%	0.05%	11.83%	(0.14)%
Sector Funds	4.4%	(0.35)%	0.00%	10.90%	(0.11)%

P&L Impact following instantaneous Equity Shock



Example 2 – Better monitoring of customer outcomes driven by regulatory change



The focus changed from one of compliance to prediction

Treating customers fairly outcomes

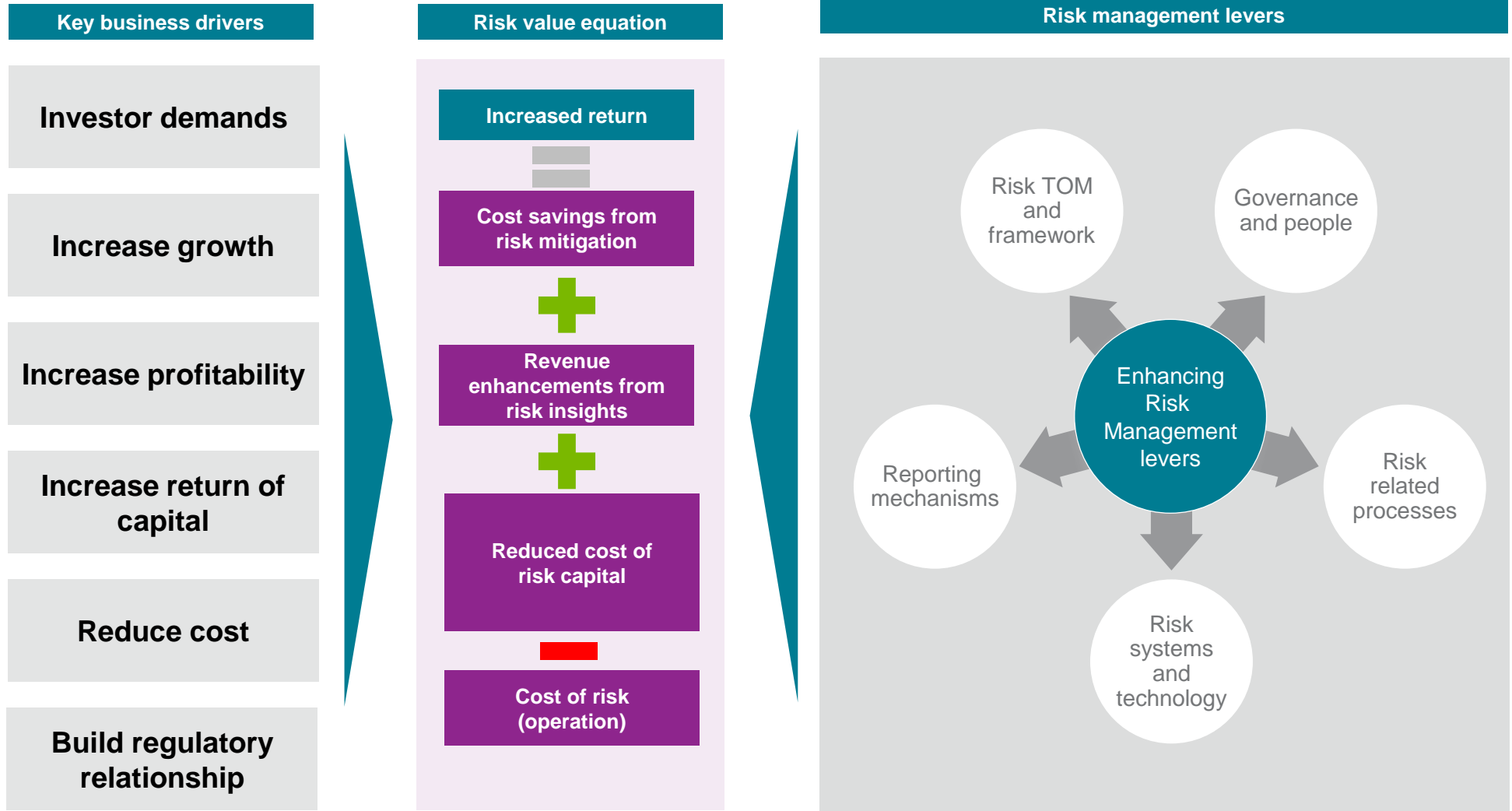
Outcome 1	The fair treatment of customers is central to the corporate culture.	✓
Outcome 2	Products and services meet the needs of identified consumer groups and are targeted accordingly.	✓
Outcome 3	Consumers are provided with clear information and are kept appropriately informed	✓
Outcome 4	Where consumers receive advice, the advice is suitable and takes account of their circumstances.	✓
Outcome 5	Consumers are provided with products that perform as firms have led them to expect	✓
Outcome 6	Consumers do not face unreasonable post-sale barriers imposed by firms	✓

Customer Outcomes incorporating future outlook

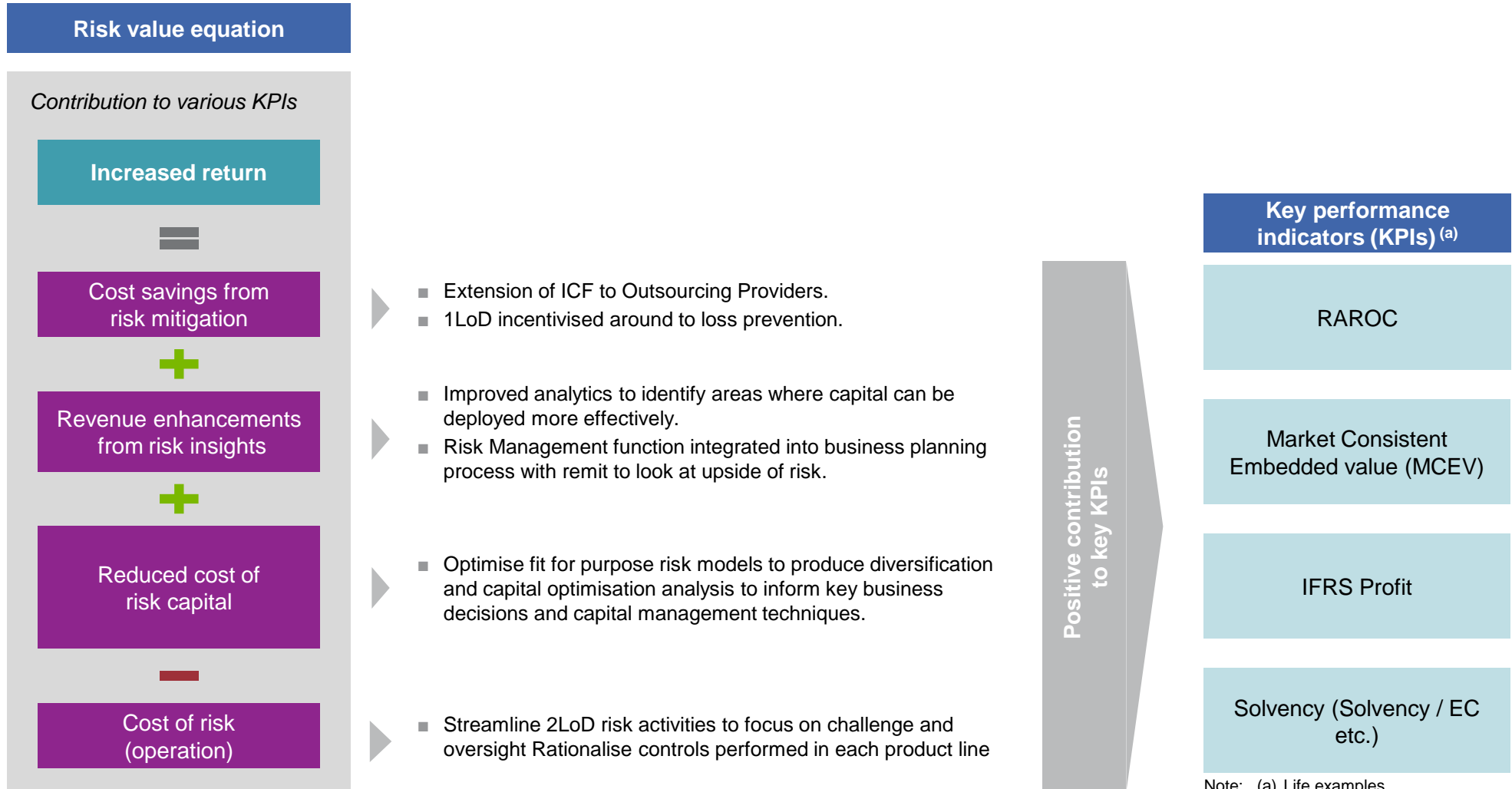
Minimum Standard	RAG status by data month						RAG Sep	Trend	Outlook	RTT return to tolerance	KPI RAG Spread		
	Apr	May	Jun	Jul	Aug	Dec 2015							
Overall Company	●	●	●	●	●	●	→	●	Dec 2015	2	7	120	
Product Marketing	●	●	●	●	●	●	→	●		1		10	
Product Lifecycle Management	●	●	●	●	●	●	→	●				14	
Sales and Advice	●	●	●	●	●	●	→	●				15	
Post Sales	●	●	●	●	●	●	→	●		1		25	
Claims Handling	●	●	●	●	●	●	→	●	Dec 2015	1	3	14	
Complaint Handling	●	●	●	●	●	●	→	●		2		16	

How we can reflect Risk Value and some concluding comments

A framework for articulating Risk's value through the Risk Value equation



Examples of using the Risk Management Levers to Increase Return



Final Thoughts

1 As we move away from compliance focussed change, Risk functions need to be able to articulate their value

2 Risk tools need to keep pace with innovation and reflect the needs of differing audiences

3 Having gained a seat at the table, Risk have to bring a strategic view and commerciality along with their independent risk expertise

Thank you



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