



2nd Seminar on Enterprise Risk Management

Risk management in the new normal

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Agenda

The 'New Normal'

How is the world now different?

How is risk management evolving?

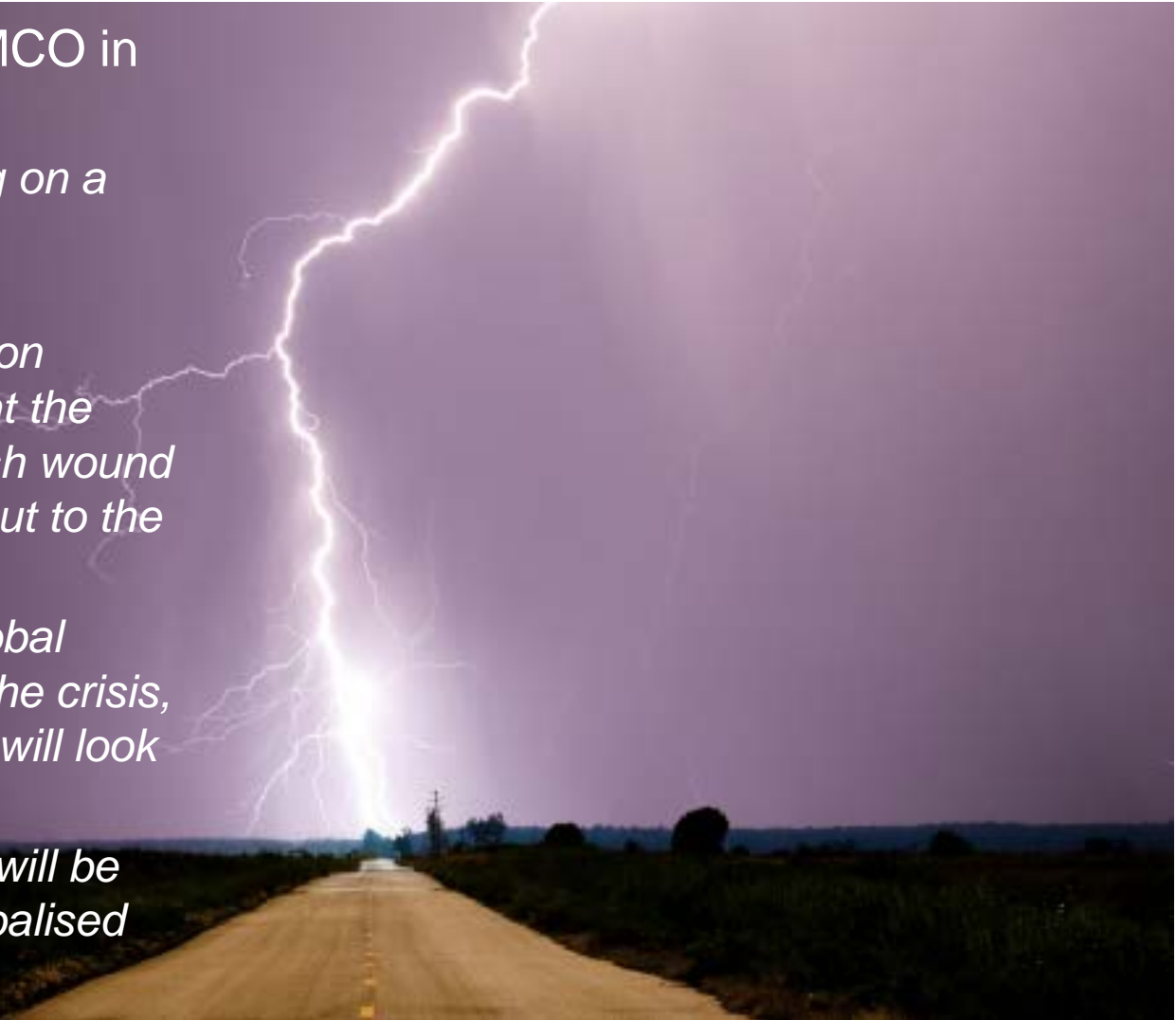
Value creation through ERM



The 'New Normal'

A term coined by PIMCO in 2009:

- *“the world is travelling on a bumpy road to a new destination”*
- *“to move the discussion beyond the notion that the crisis was a mere flesh wound ... instead the crisis cut to the bone”*
- *“when the US and global economy reset after the crisis, [the global economy] will look different”*
- *“the financial system will be de-leveraged, de-globalised and re-regulated”*

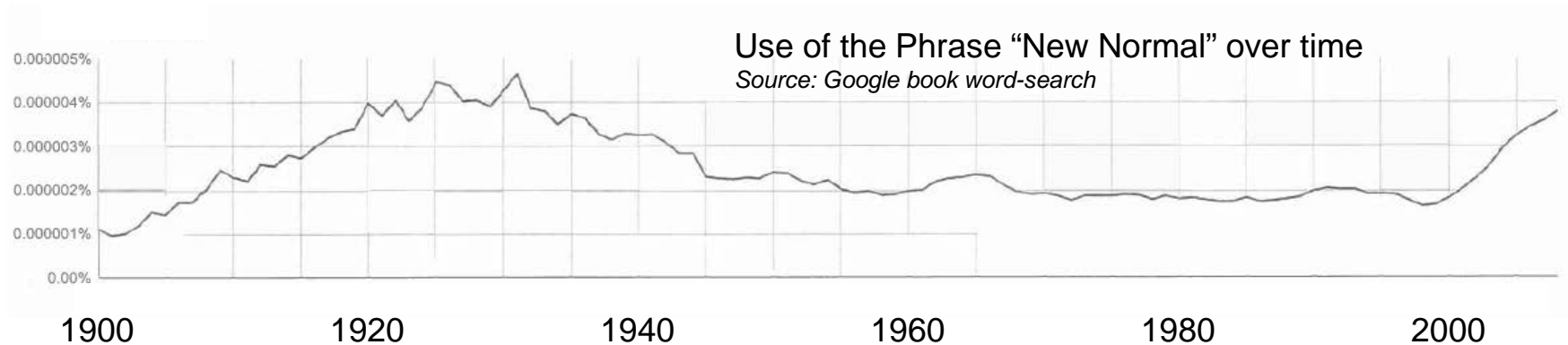


Is there ever really a ‘New Normal’?

- “[people] interpret the terrible economic conditions resulting from the financial crisis as the ‘new normal...’”
- “This obsession with a ‘new normal’ lends some momentum for the current catastrophe or craze, but nonetheless subsides as things eventually return to their long-run trend”

Source: *The New York Times*, Jan 2011, citing Professor David Liabson (Harvard, economics)

- And the term “New Normal” is not as new as might be thought ...



A question to the conference: What most characterises the “new normal” for the insurance sector?

Changes in the:

1. Economic environment
2. Physical environment
3. Technological environment
4. Regulatory environment
5. Other changes
6. There is no “new normal”

How is the world now different?

- Economic environment
- Physical environment
- Technological environment
- Regulatory environment



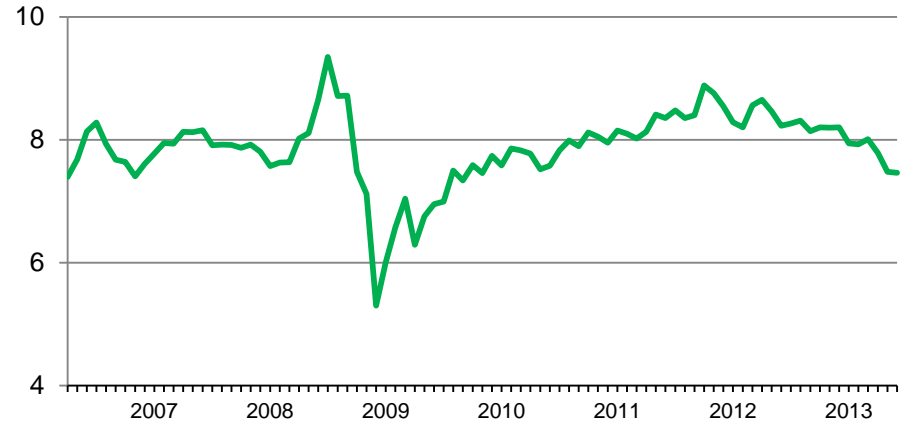


Economic environment

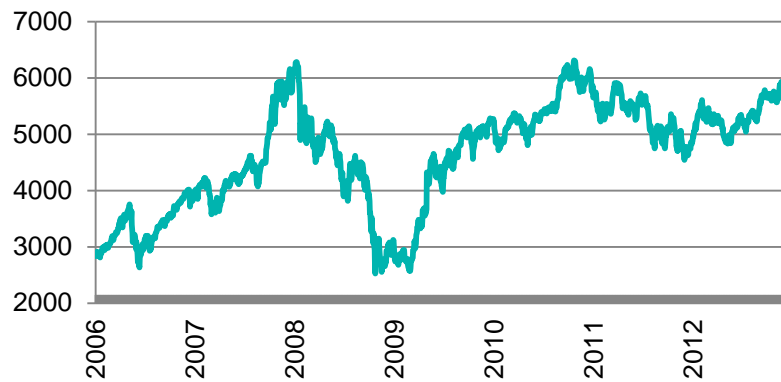
Economic Growth India real GDP %



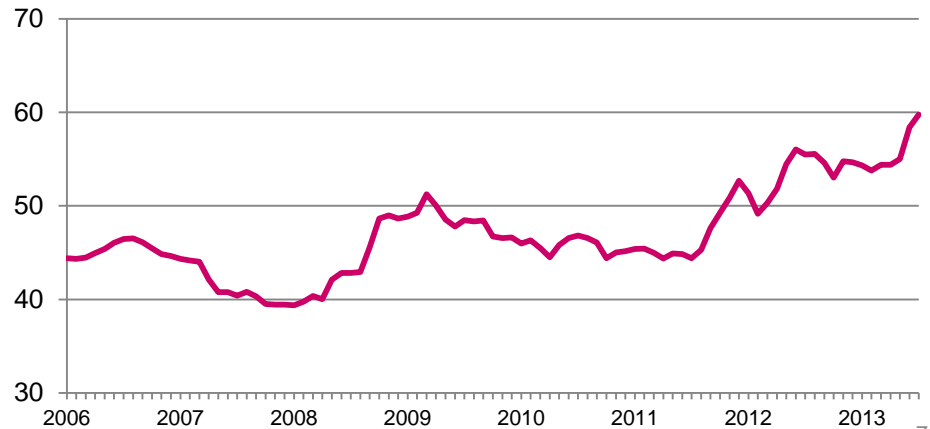
10 year govt. bond yields



Share Price Performance CNX Nifty Index

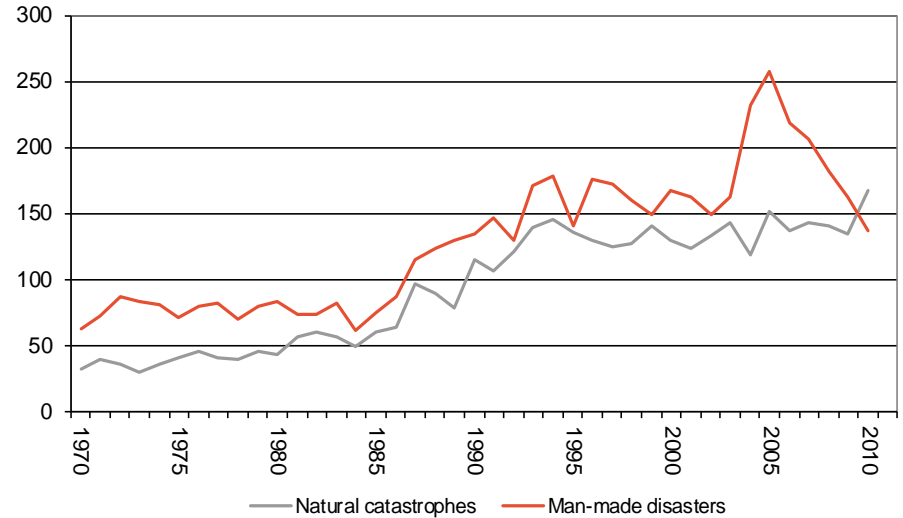


INR:USD Exchange Rate

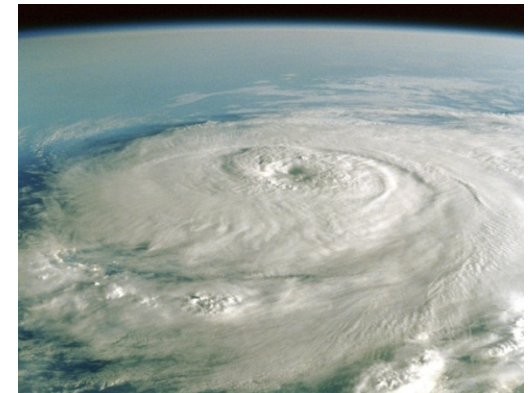


Physical environment

- Climate change – more extreme and less predictable weather
- Geological uncertainties – how good is our understanding of earthquakes
- Supply chains becoming more diverse and extended



Source: Standard and Poors - 'Source: Swiss Re Sigma No. 1/2011'



Technological environment

Technology and its impact continues to advance:

- Relentless increase in computing power and efficient access to it (eg cloud) – much more is possible
- The Internet – a key communication tool, for social interaction, buying, data access and data capture
- Data availability and the power of data analytics
- Mobile technology – computers in many pockets
 - Faster internet speeds, bigger screens





Regulatory environment

- Product guidelines
 - Product mix
 - Group versus Individual
 - Linked versus Non-linked
 - Sales practices
 - System requirements
 - Reinsurance
- Increase in FDI limit
- Direct Tax Code (“DTC”)
- Risk-based Capital (“RBC”)
- Distribution regulations



How is risk management evolving?



- The role of models
- The role of expert judgement
- The importance of people and training



Our 2008 global ERM survey was titled “Embedding ERM — A Tough Nut to Crack”

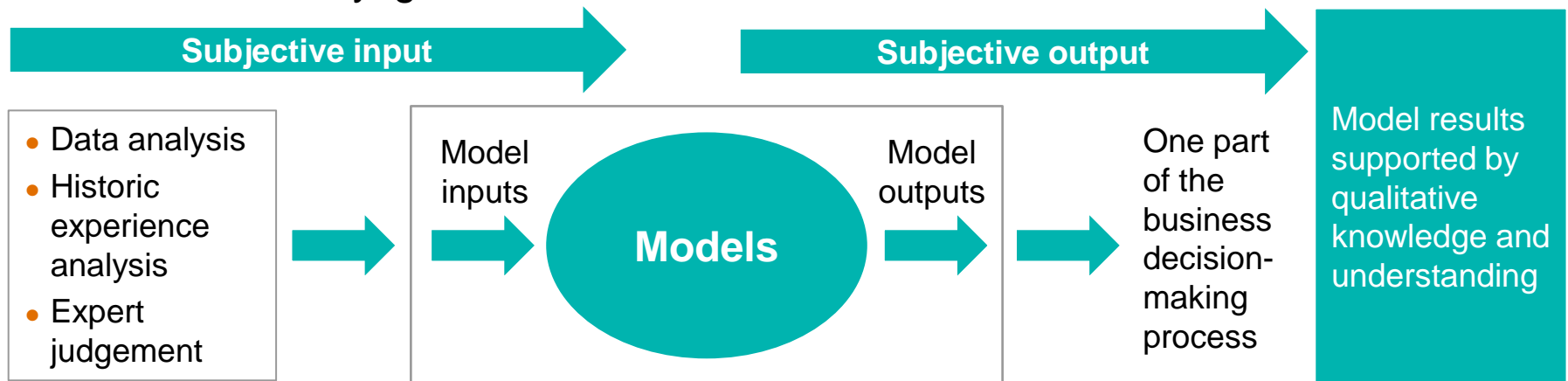
1. Embedding ERM is proving to be a significant challenge
2. Size matters
3. European insurers are better positioned
4. ERM is influencing decisions
5. Economic capital standards are emerging
6. Operational risk remains a weak spot

Our 2012 ERM Survey concluded: “Keep Your Eye on the Prize”

- 1 Insurers see the value in ERM**
- 2 ERM’s business impact continues to grow, albeit slowly**
- 3 Those who stay the course reap the rewards**
- 4 Risk culture is critical to long-term ERM success**
- 5 Defining/monitoring risk appetite are top short-term priorities**
- 6 The potential of economic capital is yet to be realized**
- 7 ORSA/FLAOR is seen as beneficial by participants globally**

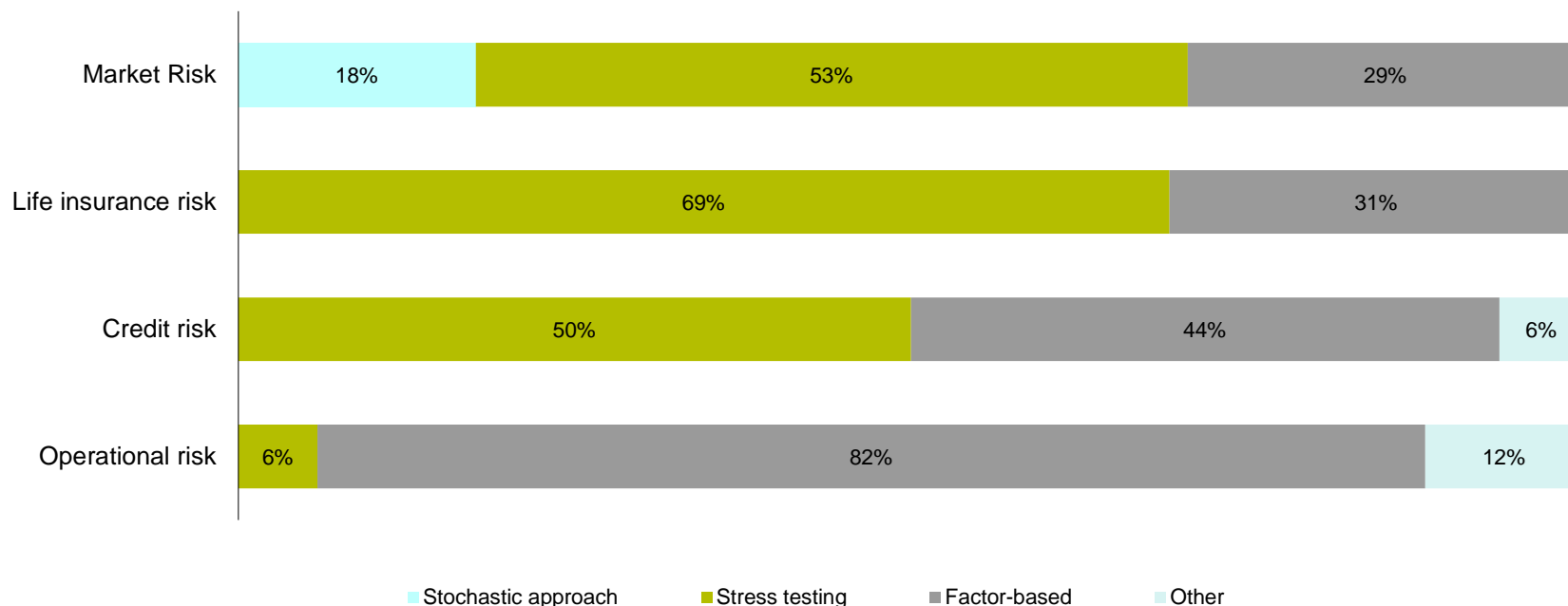
The role of models in decision-making

- The world is complex, ever-changing and imperfectly understood
- No model will be complete; nor will it be a perfect representation
 - All models incorporate judgements and approximations
- The model should challenge the business, but the business should also challenge the model
 - Models represent but one part of the decision process
- Models need to be designed to support decision-making
 - Robust, timely, granular results



Economic Capital risk modelling approaches are relatively uncomplicated in India

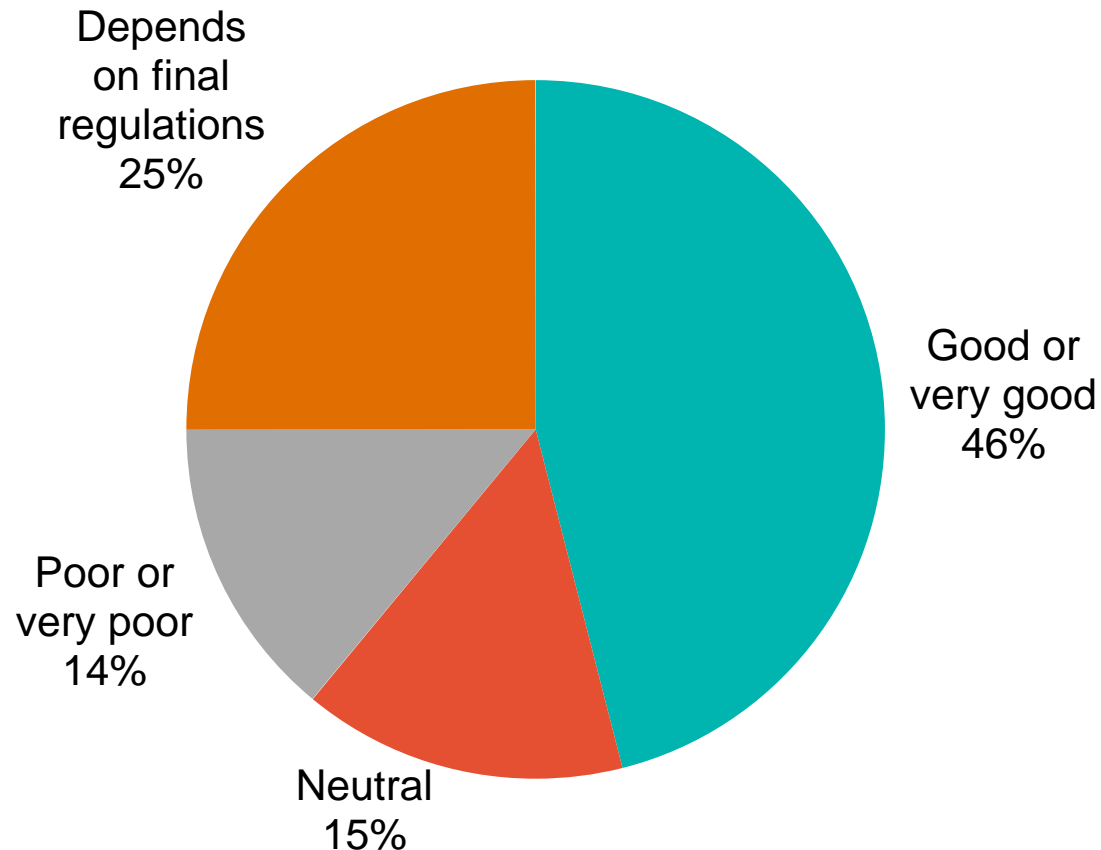
- Stress testing and factor-based approach predominant in assessing individual risks
- Stochastic approach used only for market risks by a few companies
- Globally, more than 50% companies use stochastic approach for market and credit risk and nearly 30% for life insurance risk



Source: Towers Watson 2012 ERM survey, Indian respondents

Q.26. What methodology do you use for your economic capital calculations for each of the following risks?

Is Solvency II appropriate as a risk management and measurement system?



Source: Towers Watson 2012 ERM survey, European respondents

S.7. How would you rate the Solvency II framework in terms of appropriateness for measuring and managing risk in your company?

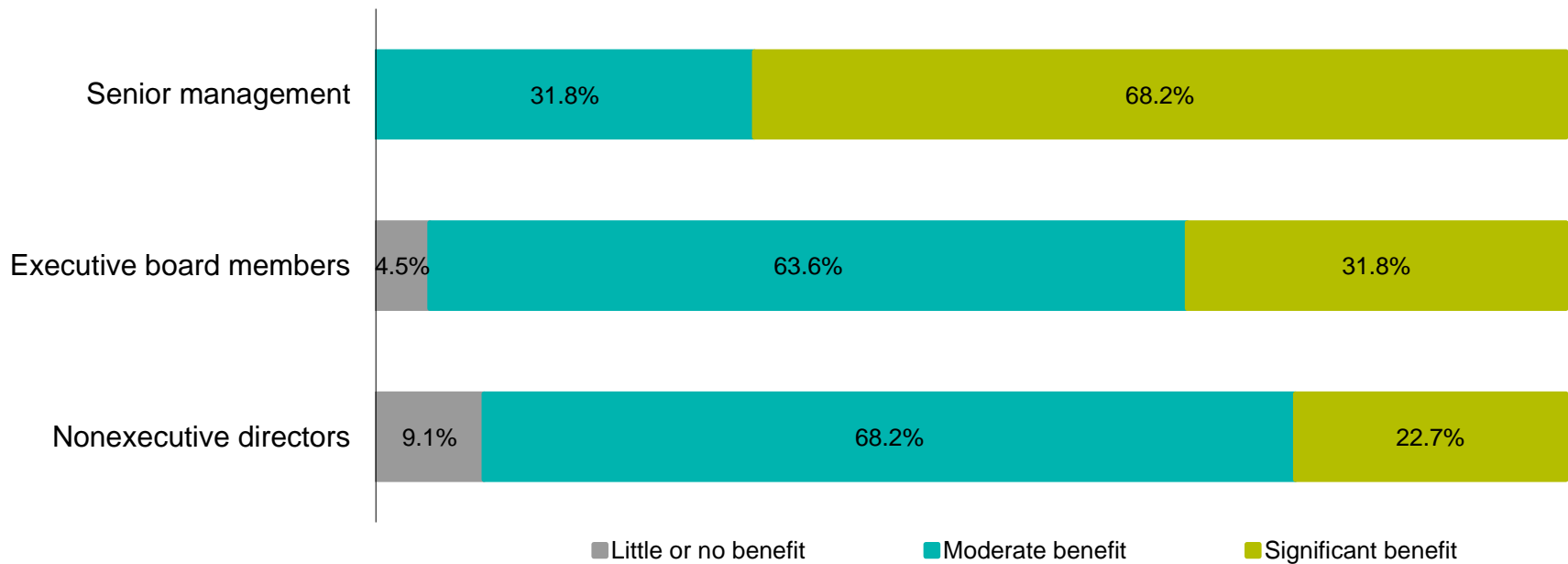
The role of expert judgement in model calibration

- Data cannot be ignored, but
 - There is rarely, if ever, enough data
 - Multiple analytic approaches are generally available
 - Is past data representative of the future?
- In practice expert judgement is a critical part of the calibration process
- Looking back over a long period of history can open our eyes to more of the possibilities

Source: Bloomberg.

More than two-thirds of senior management would significantly benefit from further ERM training

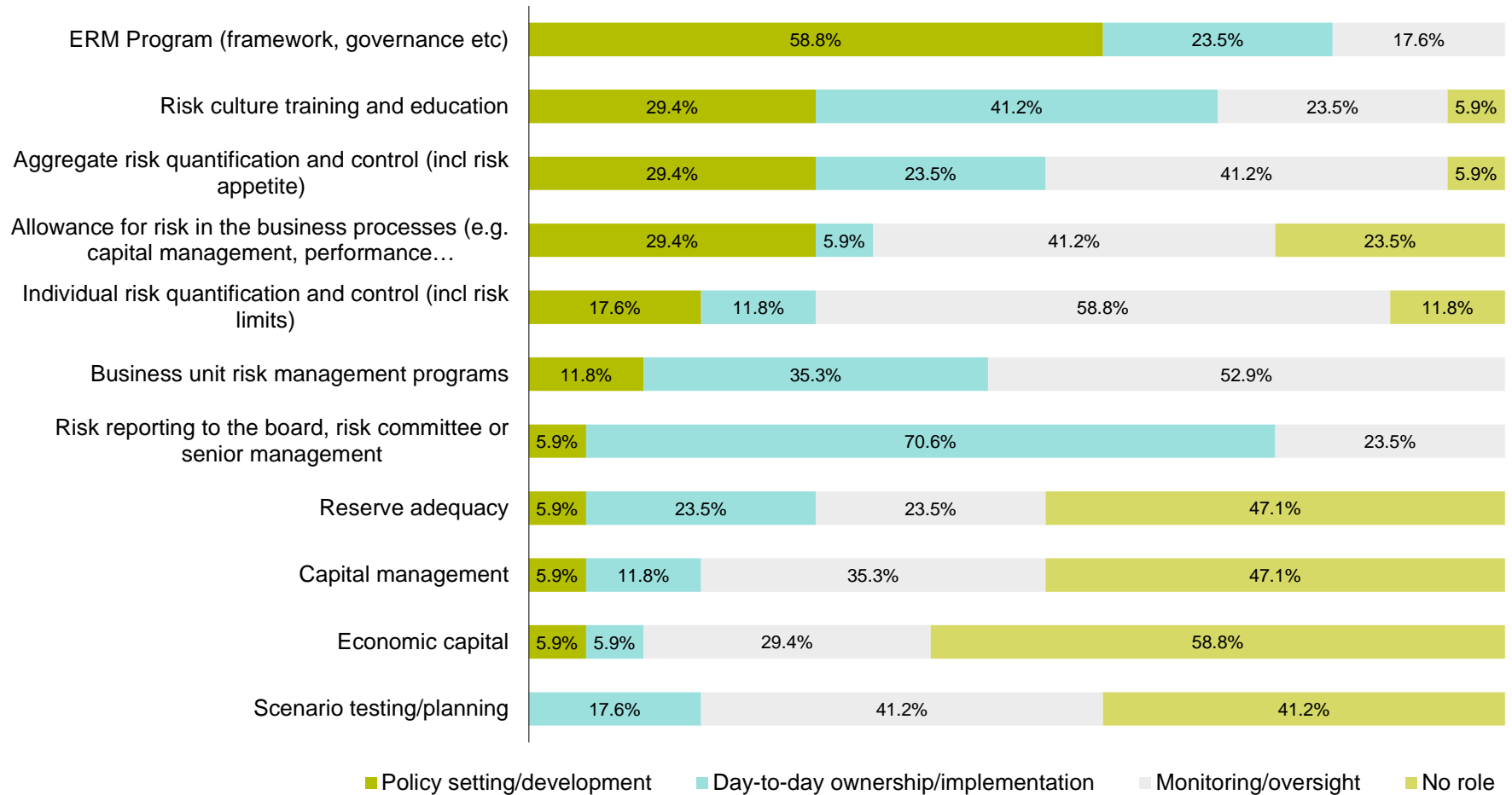
- The expected benefit of further training for senior management is substantially greater for Indian companies (68%) compared to their global counterparts (47%)



Source: Towers Watson 2012 ERM survey, Indian respondents

Q.14. To what extent do you think the following groups in your organization would benefit from the additional training or education in relation to ERM?

CROs typically have ownership of risk reporting, set policy for the ERM program and have a broad oversight role



Source: Towers Watson 2012 ERM survey, Indian respondents

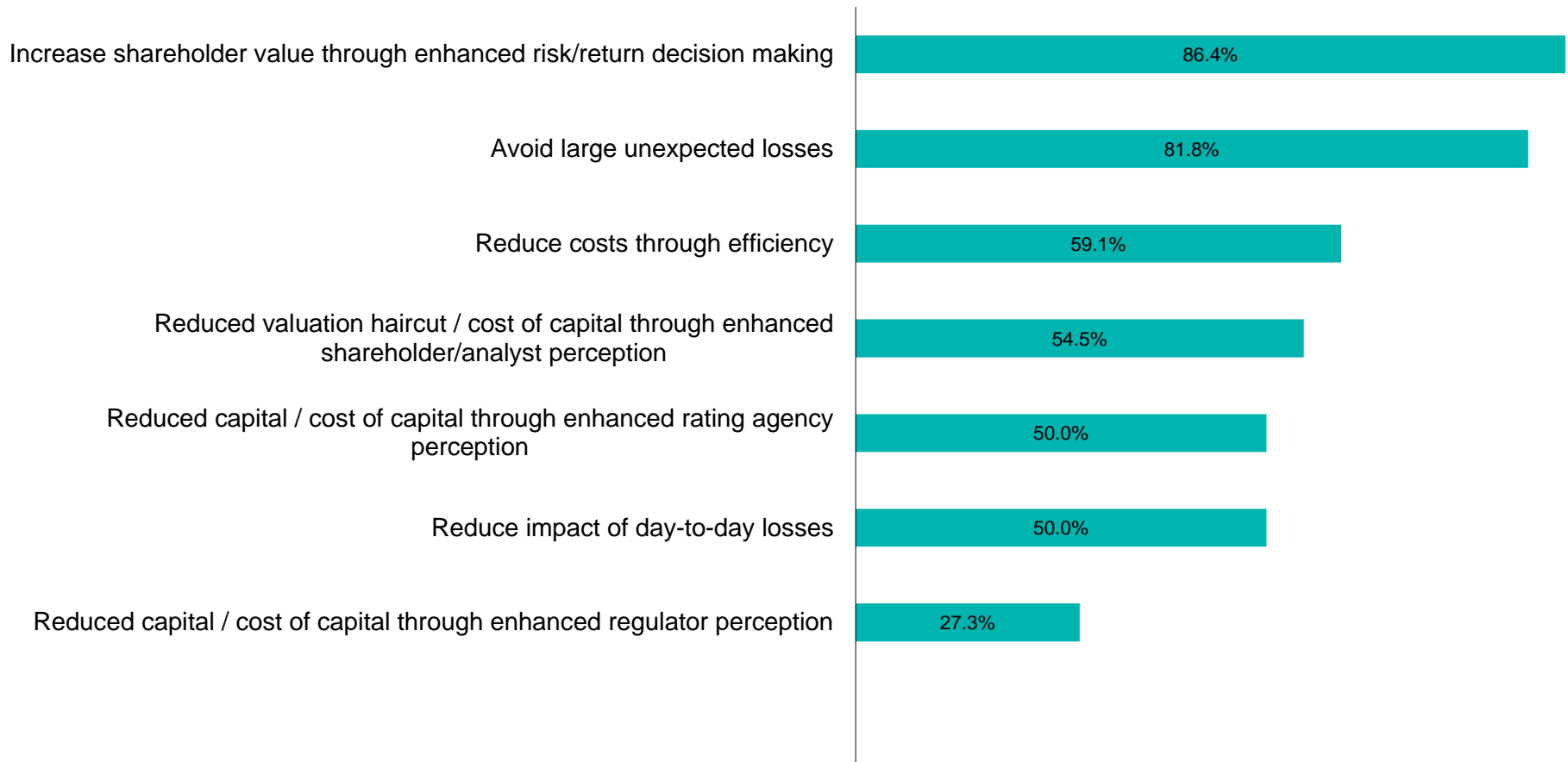
Q.12. For each of the following ERM activities, which set of terms best describe the role the CRO or equivalent plays?

Value creation through ERM



- ERM is expected to enhance business in a number of ways
- Emergence of use of EC in key decision making, despite challenges

ERM is expected to enhance business performance in a number of ways

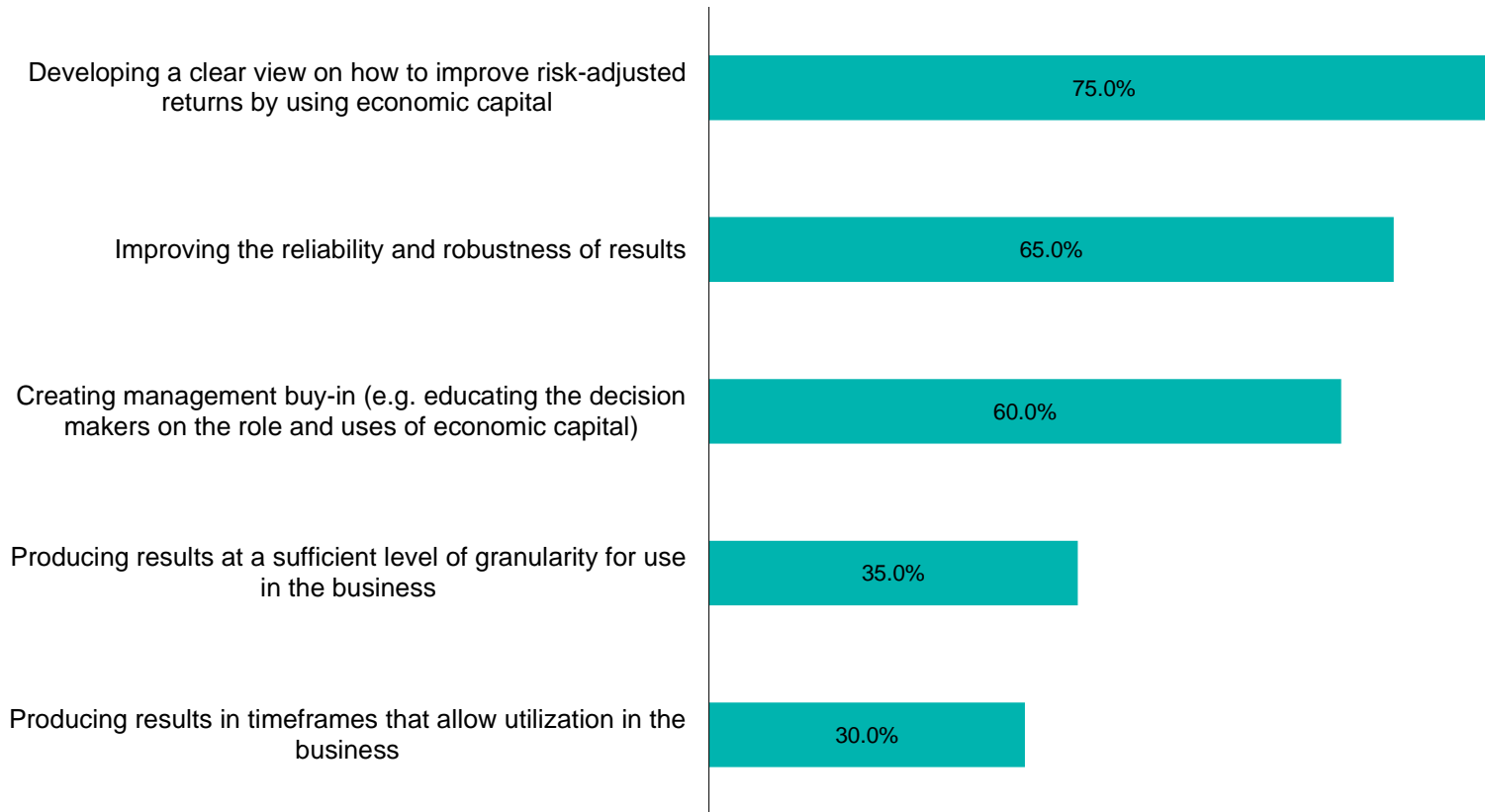


Source: Towers Watson 2012 ERM survey, Indian respondents

Q.3. How do you expect your ERM capabilities will enhance business performance? Please select all that apply.



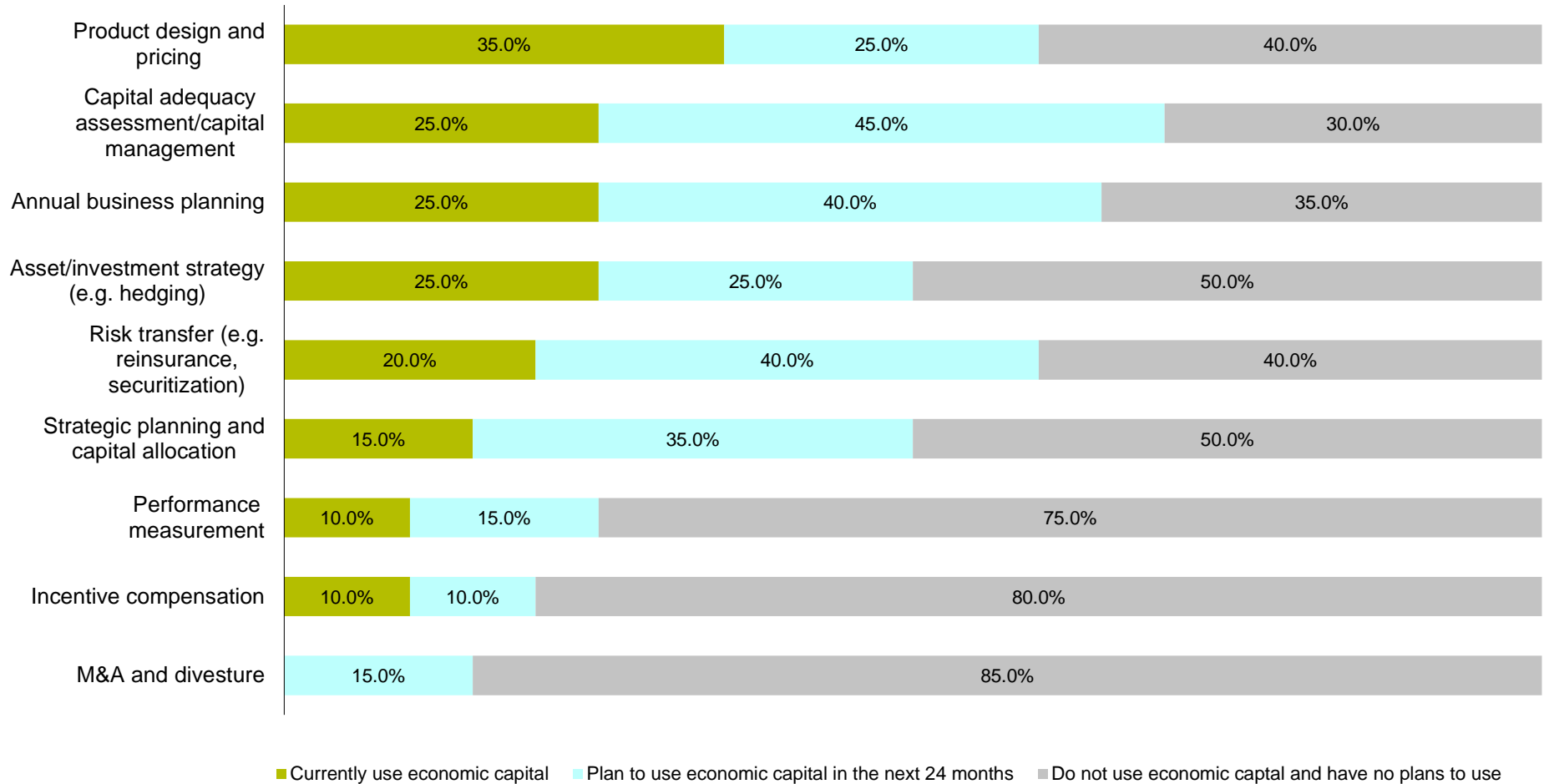
Economic capital faces a range of challenges in gaining acceptance as a decision-support tool



Source: Towers Watson 2012 ERM survey, Indian respondents

Q.34. What do you see as the key challenges to making economic capital more widely accepted in the business as a decision tool for risk taking? Please select all that apply.

...Despite challenges, emergence of use of EC in key decision making in India

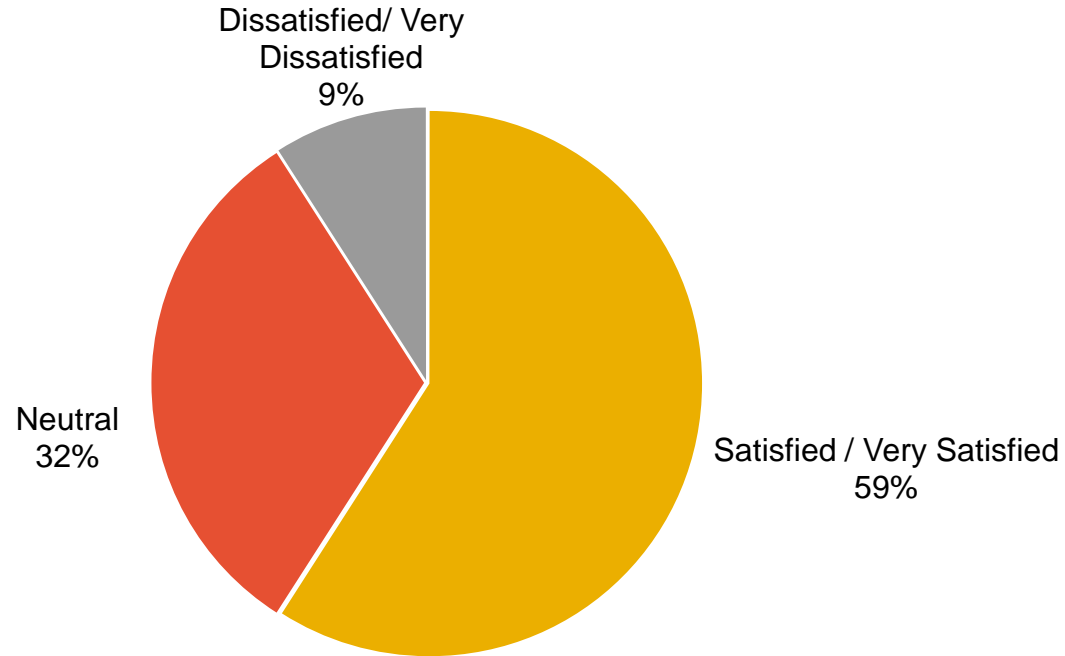


Source: Towers Watson 2012 ERM survey, Indian respondents

Q.33. Do you currently use economic capital in decision making for the following areas, or plan to use it in the next 24 months?



Overall satisfaction with ERM remains reasonably high



	India	Asia Pacific		Europe		North America	
	2012	2010	2012	2010	2012	2010	2012
Very satisfied/Satisfied	59%	53%	35%	57%	62%	62%	66%
Neutral, neither satisfied nor dissatisfied	32%	32%	50%	33%	25%	28%	24%
Dissatisfied/Very dissatisfied	9%	15%	15%	10%	13%	10%	10%

Source: Towers Watson 2012 ERM survey

Q.1. How satisfied have you been with the performance of your ERM capabilities over the last 24 months?



Any Questions?