



Dealing with the dilemma of emerging risk

A CRO's perspective

Wikus Luus, Hollard CRO

Hollard.

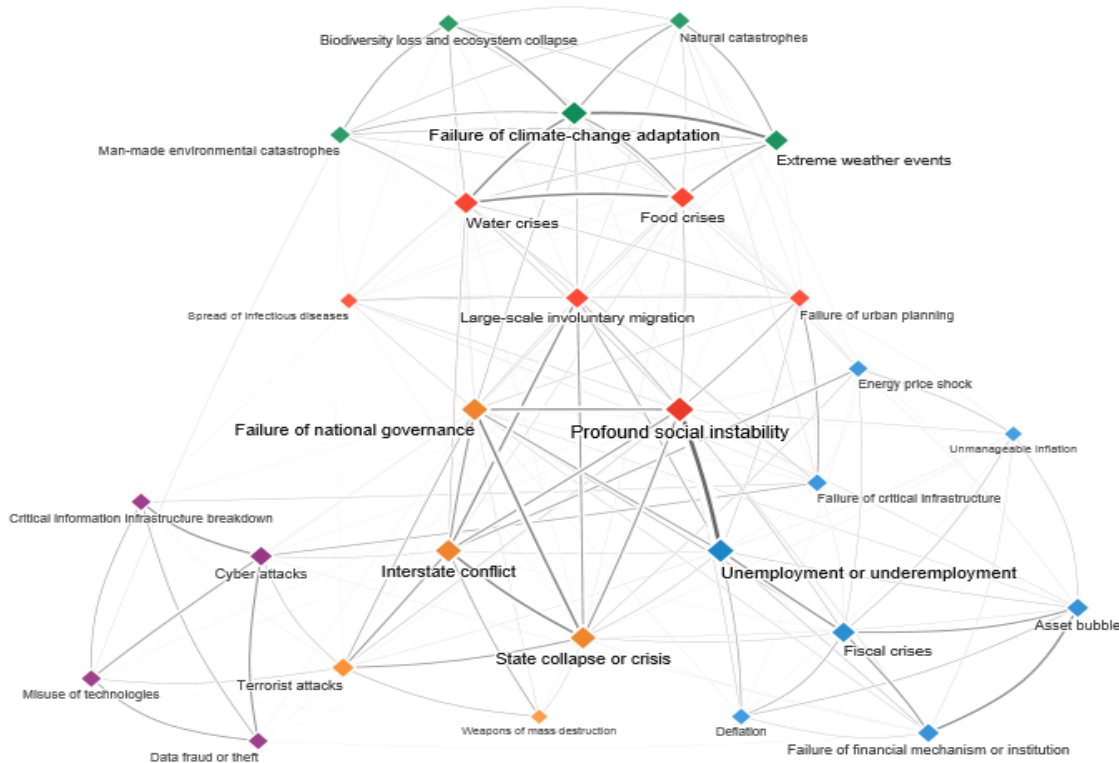
Emerging risk

It's complicated...much like John Rambo

Hollard.



Emerging risk problem statement – it's complicated



Source: WEF Global Risk Report 2015

Objectives / Contents

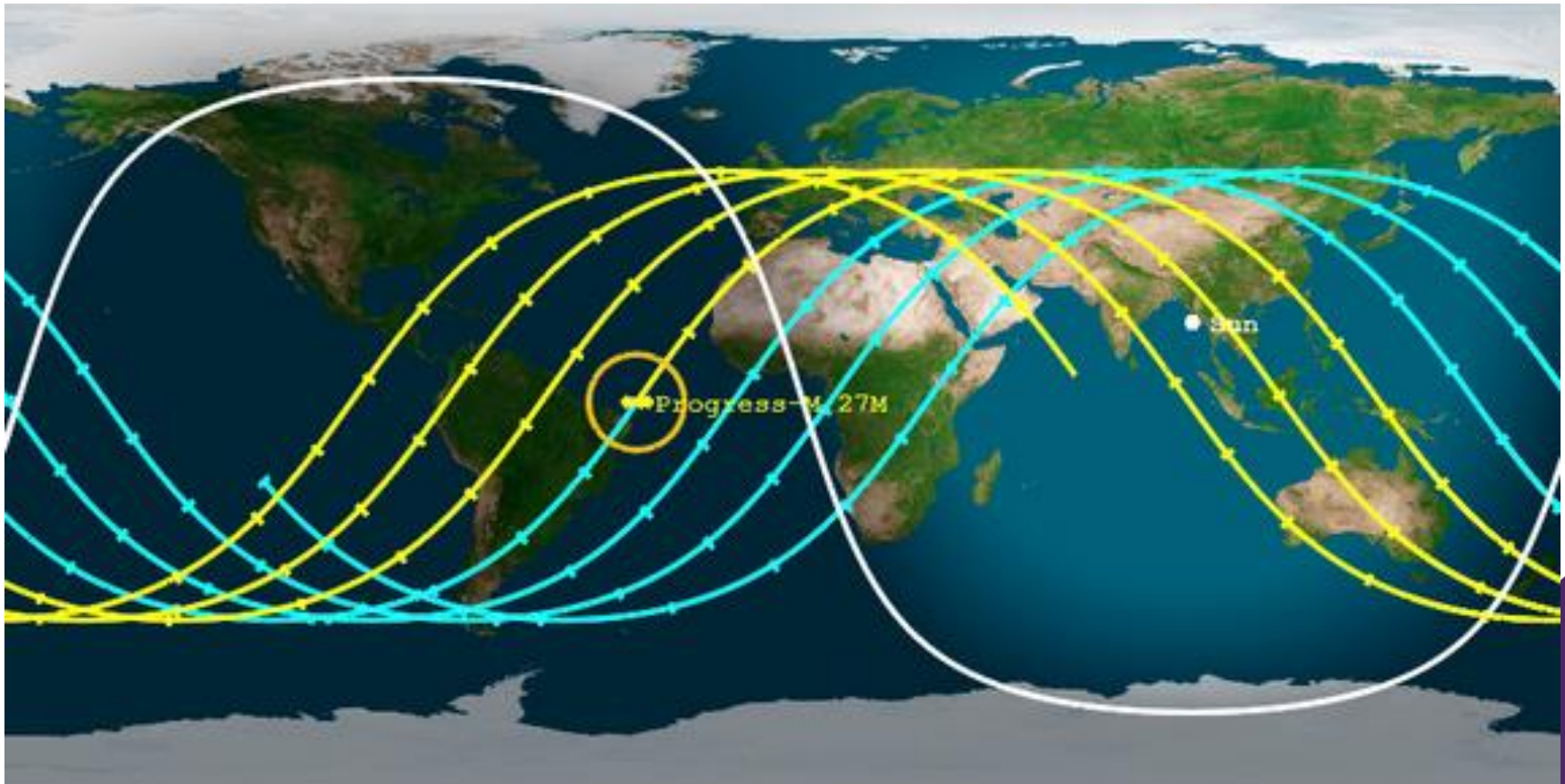
The dilemma that is emerging risk...

- 1) Defining the problem statement
- 2) Share my point of view / what we are doing at Hollard
- 3) Invite comment and discussion

Problem statement – inherent complexity

- Single events, multiple events and trends
- Linking cause and outcomes
- Tipping points
- Past, present and future
- Context
- Hidden connections (layers, nests, boundaries)
- What you know
- What you see
- Describing uncertainty versus predictions
- Patterns
- Modelling & quantifying
- Estimating impact

Problem statement – inherent complexity



This Aerospace Corporation map shows the potential re-entry paths of Russia's doomed Progress 59 spacecraft, with re-entry plots for Friday, May 8 at 1:40 a.m. ET (0540 GMT), plus or minus 5 hours.

Credit: The Aerospace Corporation

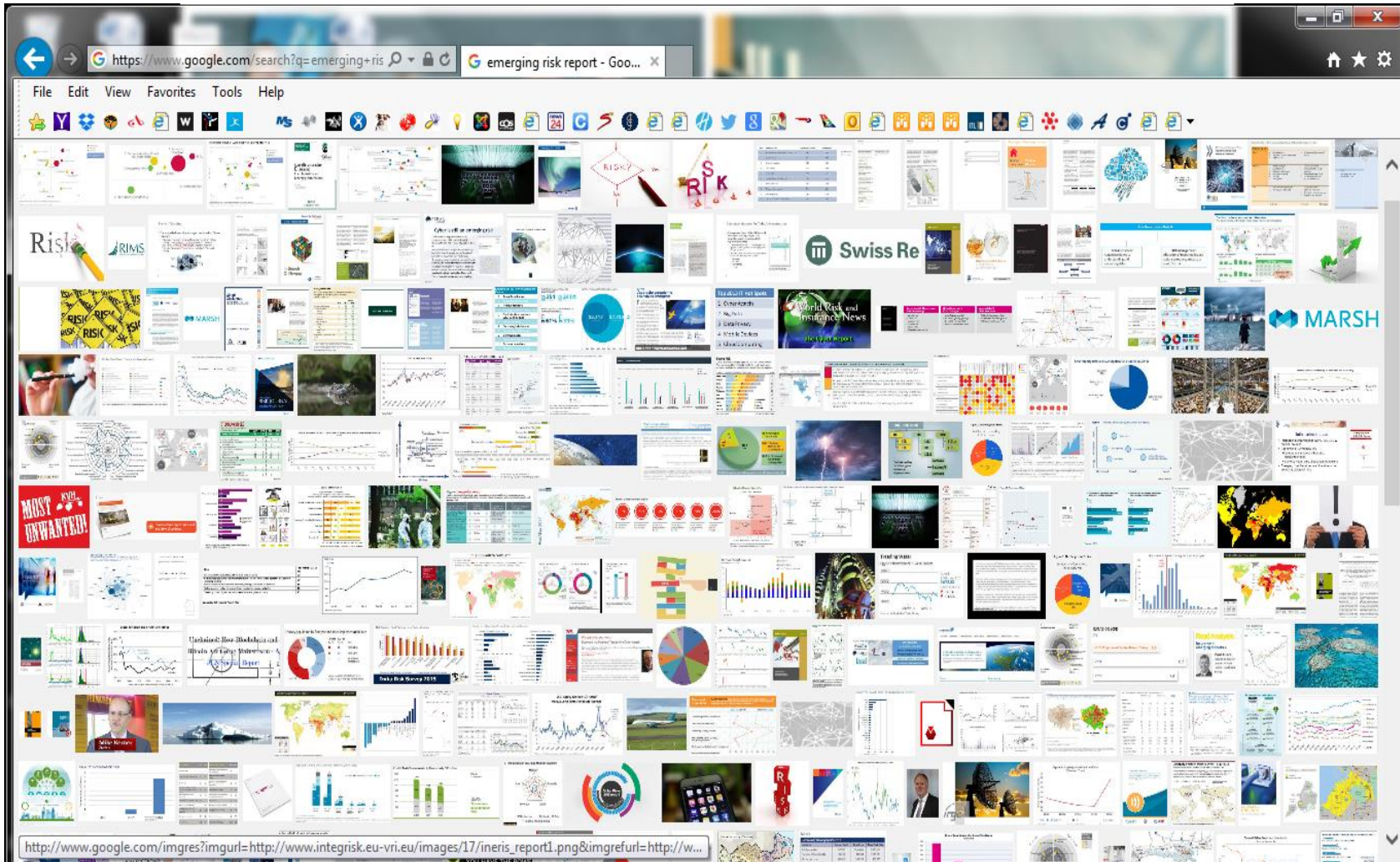
Problem statement – inherent complexity

- Single events, multiple events and trends
- Linking cause and outcomes
- Non-linearity
- Tipping points
- Past, present and future
- Context
- Hidden connections (layers, nests, boundaries)
- What you know
- What you see
- Describing uncertainty versus predictions
- Patterns
- Modelling & quantifying
- Estimating impact

Problem statement – what it is

- Defining it
 - “perceived to be potentially significant but which may not be fully understood” – known unknown or potentially misunderstood
 - “not perceived at all” – completely unknown
 - “large scale events versus trends”
 - “newly developing versus changing”
 - “Company vs industry vs society”
 - “black swans, strategic risk, etc”
- Differentiating between risk today and emerging risk
- How far do I look into the future?
- Uncertainty versus timing of event(s)?

Problem statement – so much out there



Problem statement – positioning and perspectives

- Different bodies & organisations with different objectives:
 - WEF, World Bank
 - Reinsurers
 - Consultants
 - Economists
- Risk versus opportunity
 - Banana Skins versus Strategic Opportunity
- Key drivers of change / versus risk types
 - STEEP
 - Mega trends
 - PESTLE
 - SONAR
 - Technological / Crystalizing / Aggravating

Problem statement – bringing it home

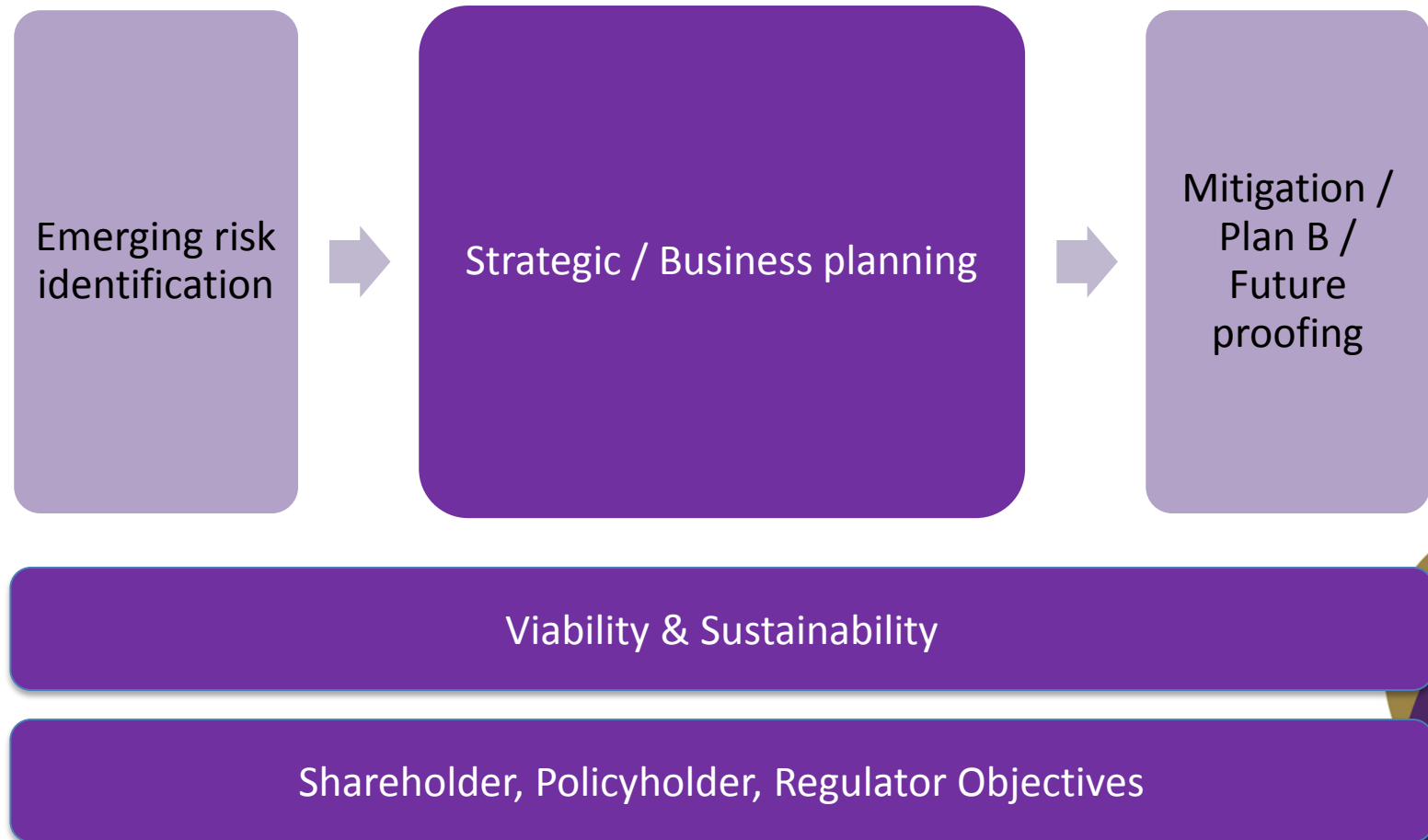
- Role of the CRO and the Risk Management Function
- Business buy-in
- Expertise – who knows best
- Objective point of view
- Skills in the risk function
- Qualitative versus quantitative assessment
- Behavioural biases
- Leader or facilitator
- Same framework for the rest of ERM
- Internal reporting
- Role of the Board
- Value adding for the shareholder and policyholder
- Meeting regulatory requirements

Searching for the solution at Hollard

Where we come from

- Emerging risk has always been around as a “theme of thinking” but activities underlying this were inconsistent, haphazard and too implicit.
- Increasingly more difficult to communicate
- Broad based acceptance that there was a need for change
- We have tried a few different things which failed or were only part successful
- Decision to:
 - Go back to basics
 - Find some consistency
 - Ensure a more integrated approach

Searching for the solution at Hollard What I want to see as CRO



Searching for the solution at Hollard

Role of the CRO / Risk Function



Viability & Sustainability

Shareholder, Policyholder, Regulator Objectives

Searching for the solution at Hollard

Where we are today

We have...

- Defined emerging risk
- Scanned the universe for frameworks, models, approaches and risks
- Picked a presentational framework that works for us
- Engaged with the Board
- Linked emerging risk thinking with our strategy initiatives aimed at ensuring a sustainable Hollard

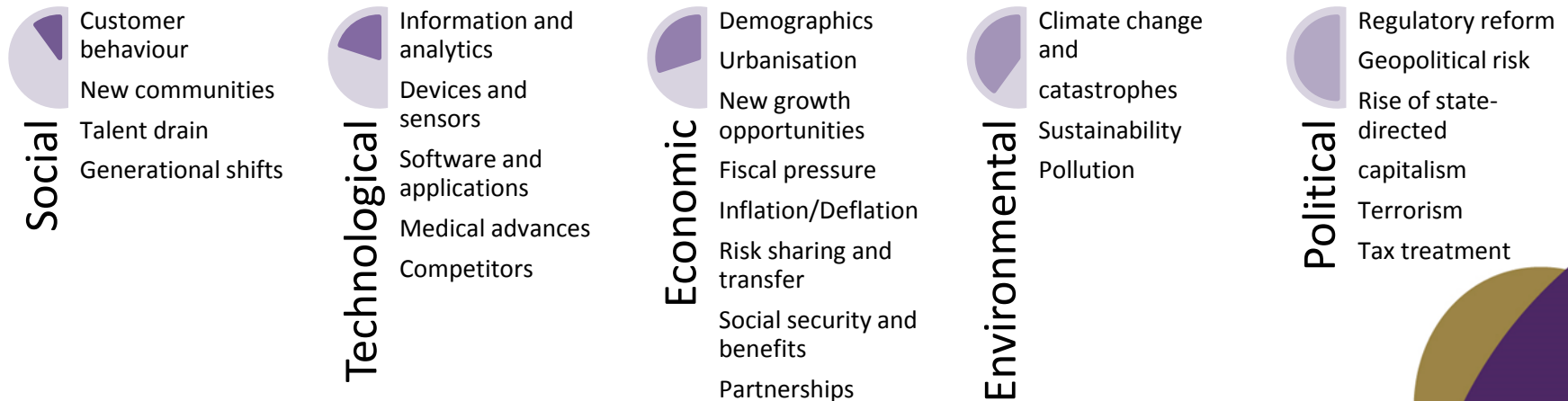
We are busy...

- Getting better at all of the above
- Integrating it with our annual strategy / budget / forecasting processes
- Spending time doing more detailed deep-dives with individual business units
- Figuring out how to report on this stuff going forward

Searching for the solution at Hollard

What it looks like

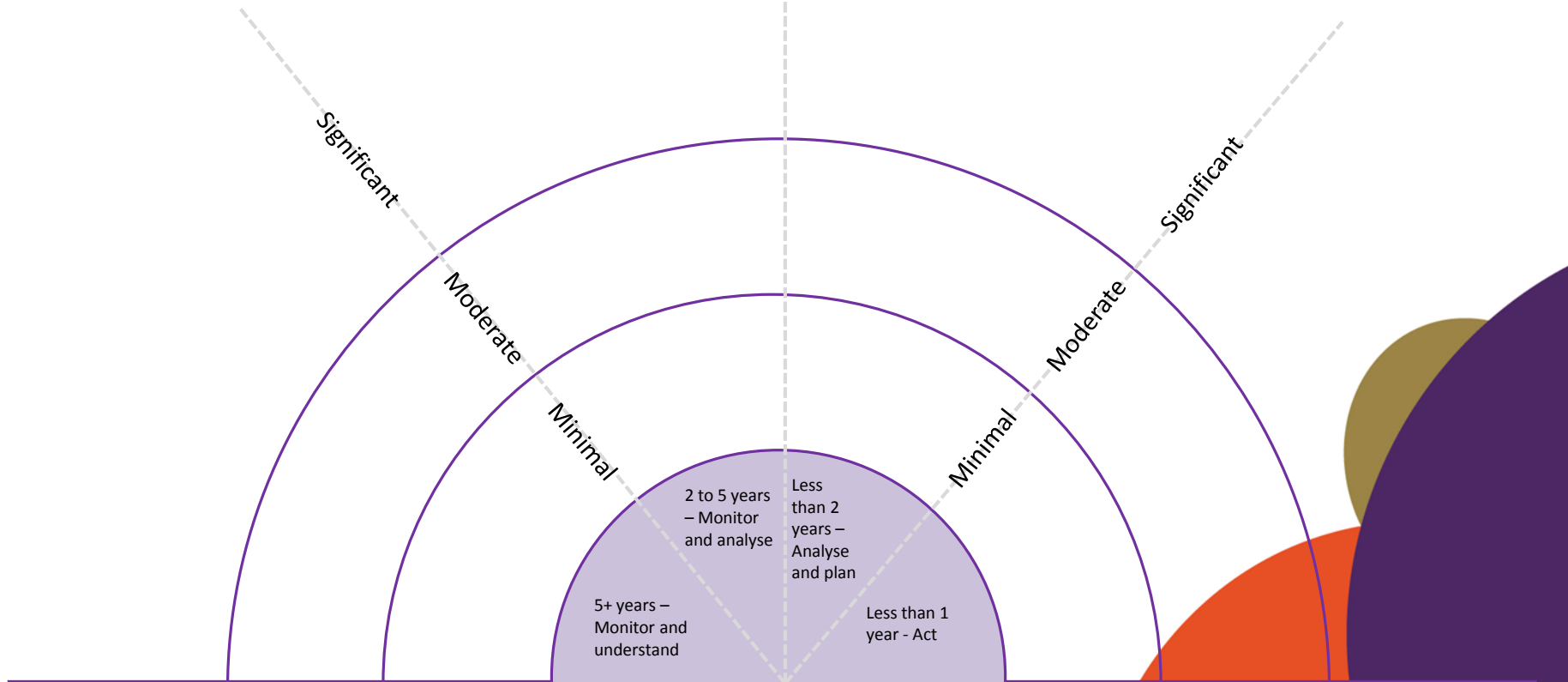
A framework that describes the key drivers for change for Hollard...STEEP



Searching for the solution at Hollard What it looks like



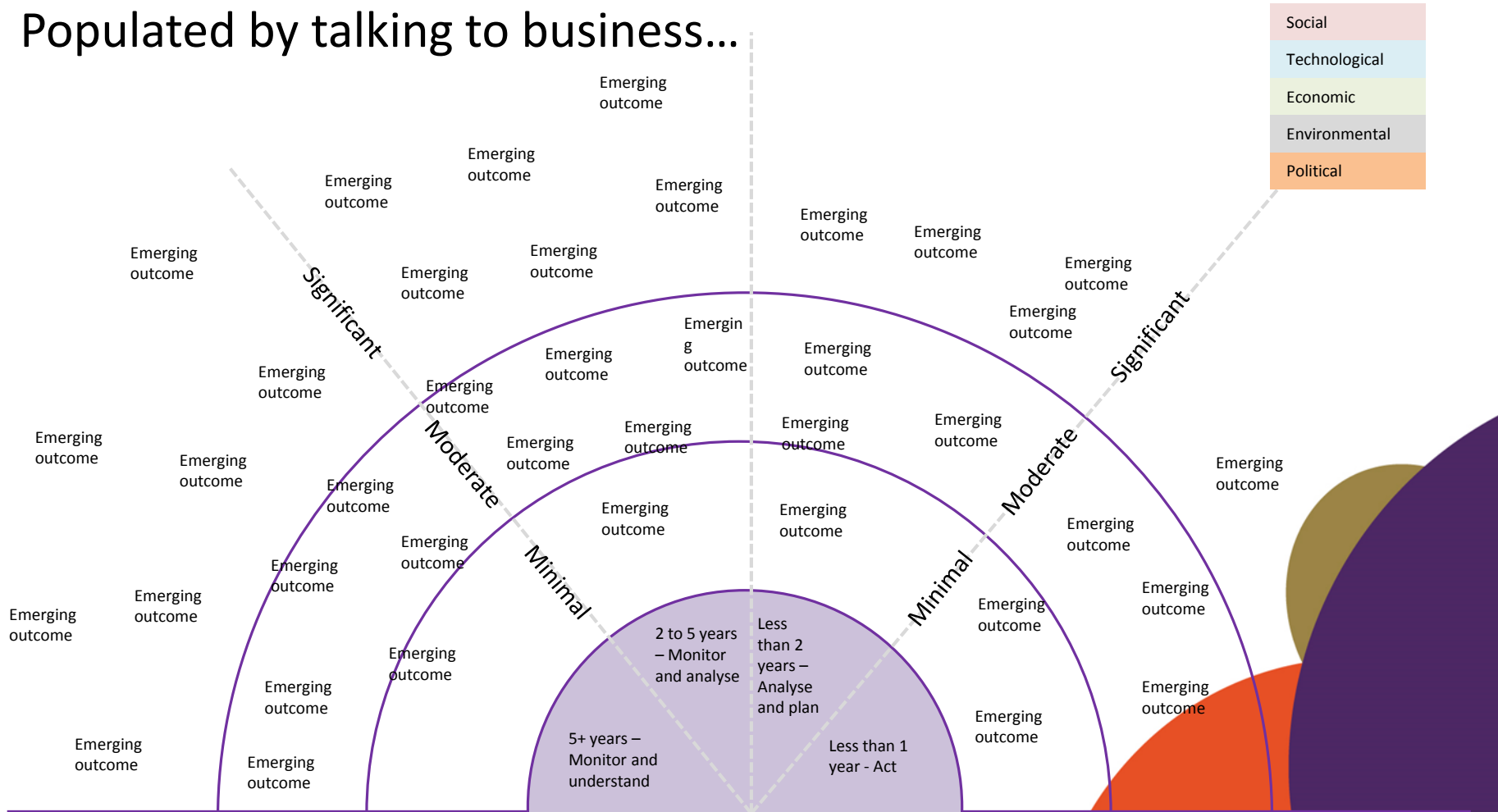
A framework that help us capture / illustrate a universe of emerging risk outcomes / events...



Searching for the solution at Hollard What it looks like



Populated by talking to business...

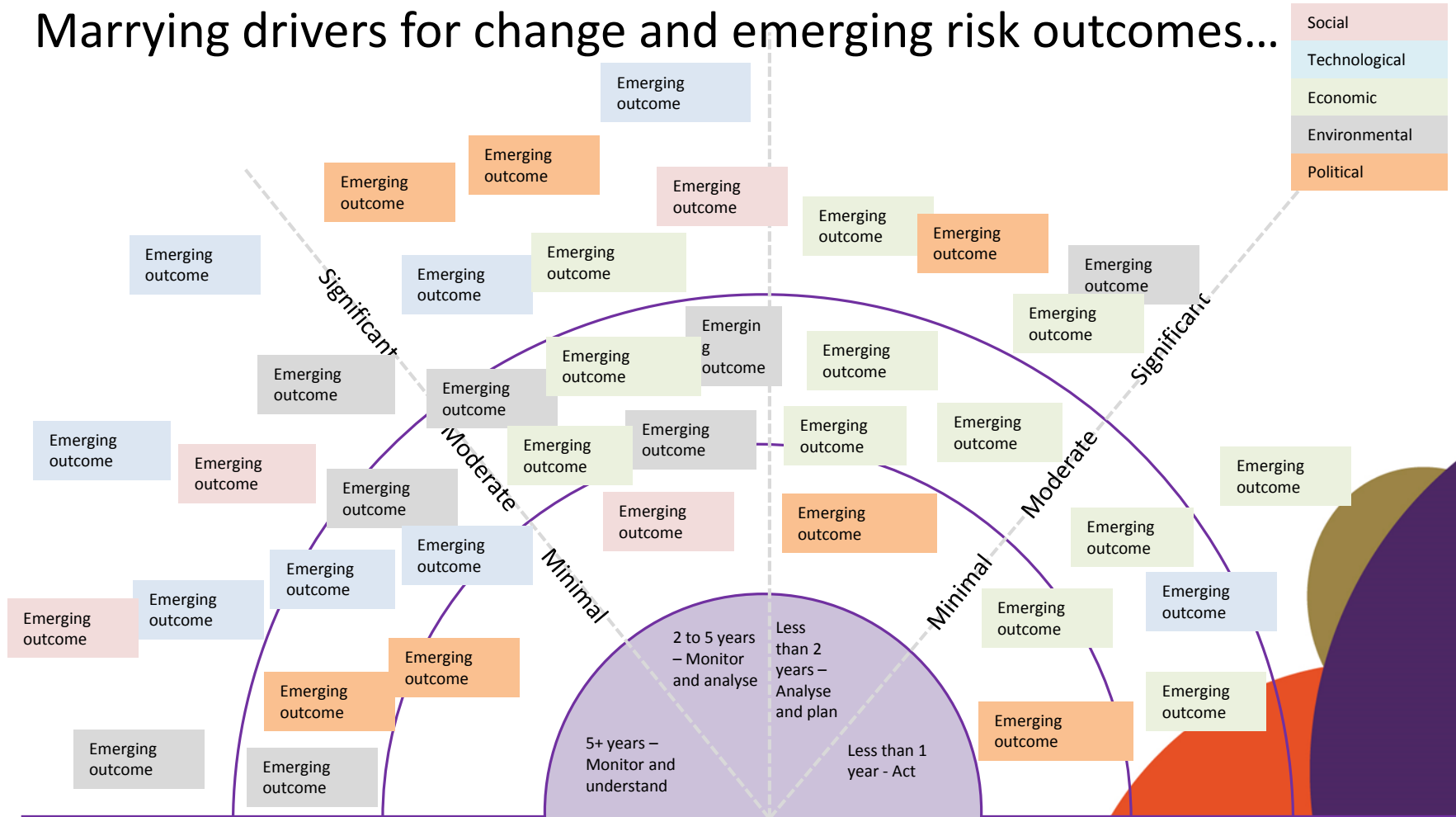


Searching for the solution at Hollard

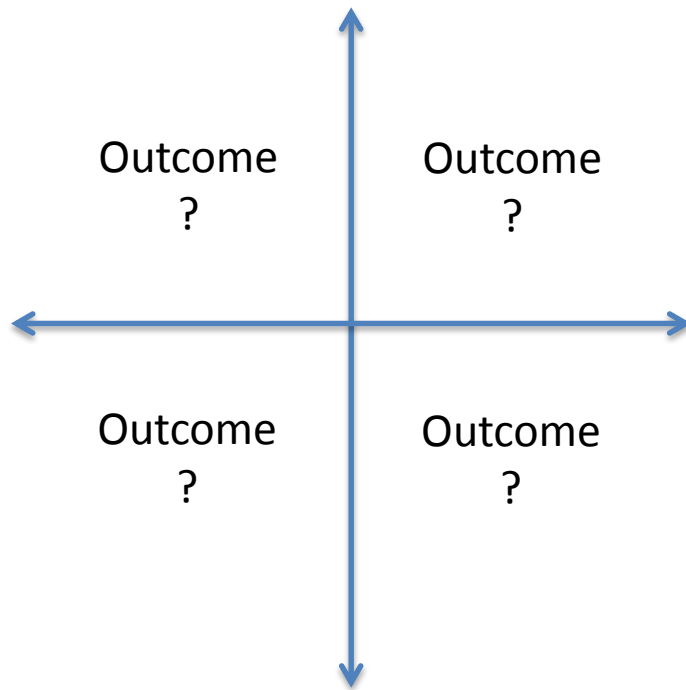
What it looks like



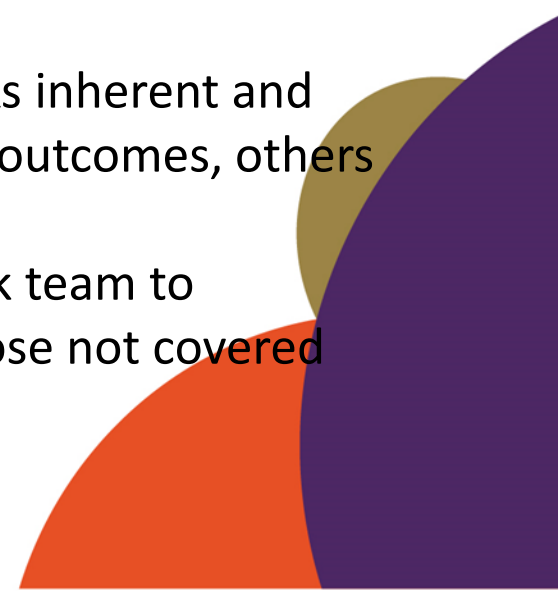
Marrying drivers for change and emerging risk outcomes...



Searching for the solution at Hollard Incorporating into scenario planning



- Incorporate emerging risk into our business scenario planning
- Known drivers or outcomes built in across all scenarios or excluded from scenarios altogether - strategy delivers to them
- Variable / unknown drivers define axes
- Some emerging risks inherent and unique to different outcomes, others not captured
- Role of CRO and risk team to pursue/monitor those not covered



Searching for the solution at Hollard



Linking STEEP drivers to our primary risk categories

	Hollard today						Future Hollard				
	Socio-cultural	Technology	Economic	Environmental	Political		Socio-cultural	Technology	Economic	Environmental	Political
Strategic	Green	Red	Green	Yellow	Red	Strategic	Yellow	Red	Green	Yellow	Red
Insurance - Life	Green	Red	Yellow	Green	Red	Insurance - Life	Yellow	Red	Red	Yellow	Red
Insurance - Short-term	Green	Red	Yellow	Green	Red	Insurance - Short-term	Yellow	Red	Red	Yellow	Red
Credit	Green	Green	Yellow	Green	Green	Credit	Green	Red	Yellow	Green	Yellow
Market	Green	Green	Yellow	Green	Yellow	Market	Green	Red	Yellow	Green	Yellow
Liquidity	Green	Green	Green	Green	Green	Liquidity	Green	Green	Yellow	Green	Yellow
Operational	Green	Yellow	Green	Green	Green	Operational	Green	Red	Green	Green	Yellow

Learning from our experience A few nuggets

- This stuff is complicated
 - But you can be pragmatic about it
 - Start by talking about it
 - Whilst recognising behavioural biases
 - You will have to try alternative approaches to see what works in your organisation
- No one knows their business better than “business”
 - Although “business” needs help to Define, Scan, Translate, Question, Remind
- Isolated emerging risk thinking is futile
 - Link into your strategy / planning / budget process
 - Present emerging risk through different lenses



Learning from our experience

A few thoughts on data and analytics

- “Emerging risk” is hard enough to describe, let alone to model
- Definitely a place for analytics at a more detailed / topical level
 - ✓ Seed-thoughts, trends, bots, social media mining
 - ✓ Learn from other industries – military, intelligence agencies
- Still very early days but discard at your own peril



Questions and ideas...

Hollard.

