



QUANTIFYING RISK, ENABLING OPPORTUNITY

ERM Seminar

Underwriting & Reinsurance Governance

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DISCLAIMER

- The purpose of the presentation is to be illustrative and informative, not exhaustive.
- Includes some personal views and opinions, which may not reflect those my employer or ASSA.

OBJECTIVES

Discuss the importance of a strong system of governance, esp. when faced with significant complexity.

Unpack the relationships between the relevant risk categories.

Outline elements of a framework for UW & RI Risk governance.

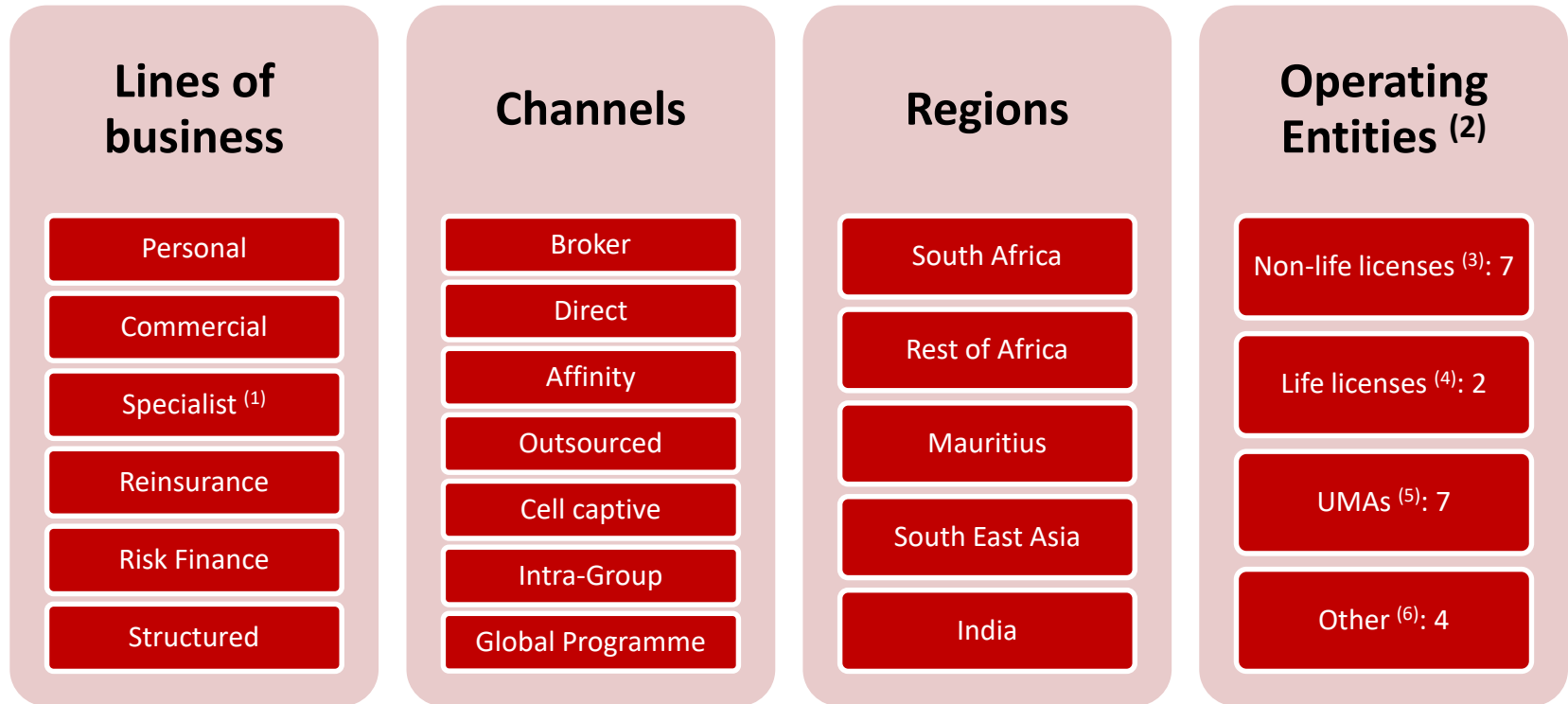
Highlight the roles of actuaries acting in various capacities.

Offer practical insight into some current hot topics.

BACKGROUND

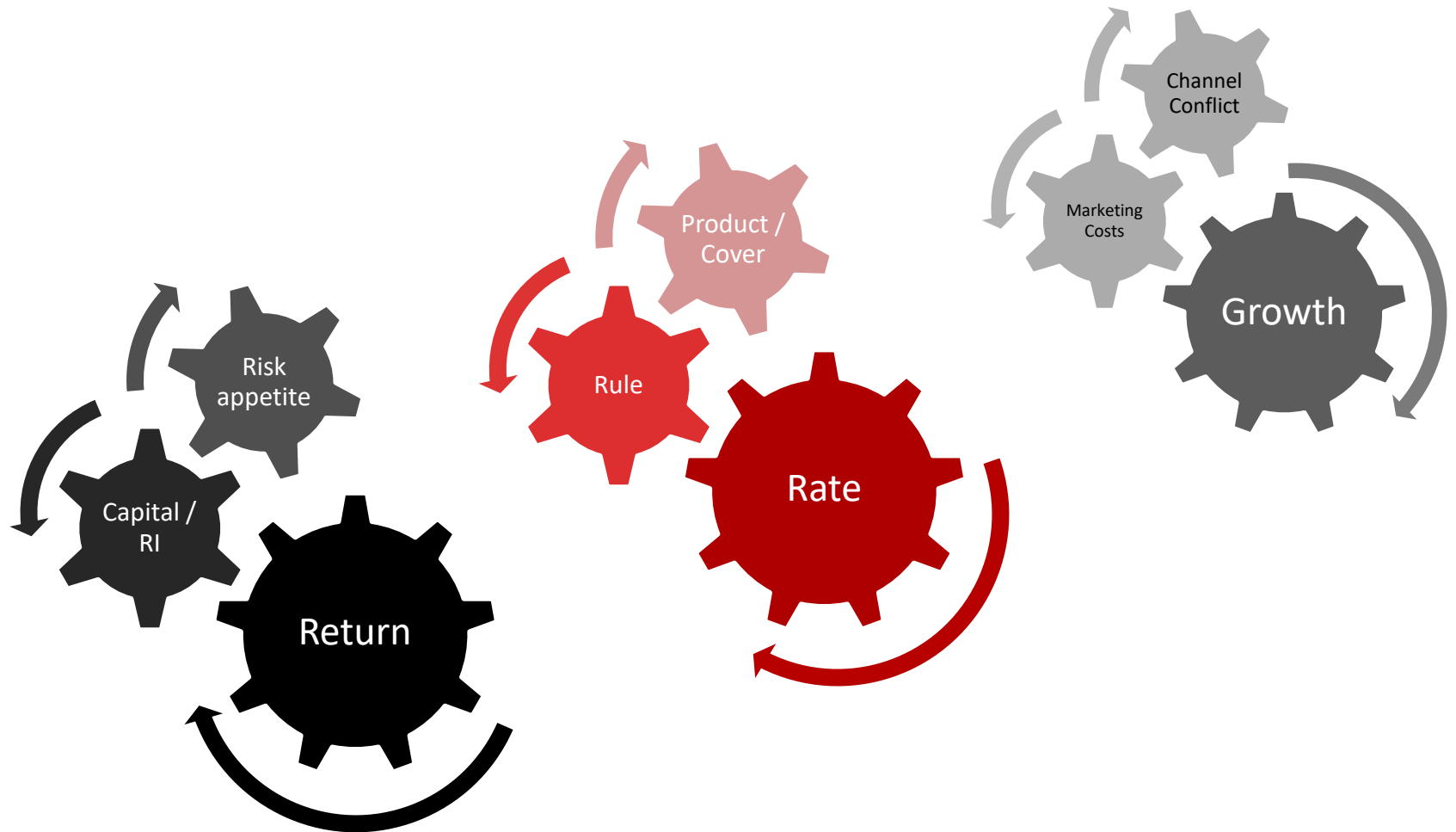
- Federal management model:
 - BUs have management autonomy, but within a defined framework
 - group's 5-year business strategy, annual business planning & budgeting
 - group governance i.e. “tight and loose” governance principles and
 - group risk appetite limits, cascaded down to BUs
- Need for centralised governance:
 - regulatory requirements under SAM (GOI, preceded by BN158)
 - bottom-line volatility and operational incidents, including:
 - **risk accumulations**
 - **operational near-misses**
 - **operational losses**
 - **reserve manipulation by BUs**

COMPLEXITY



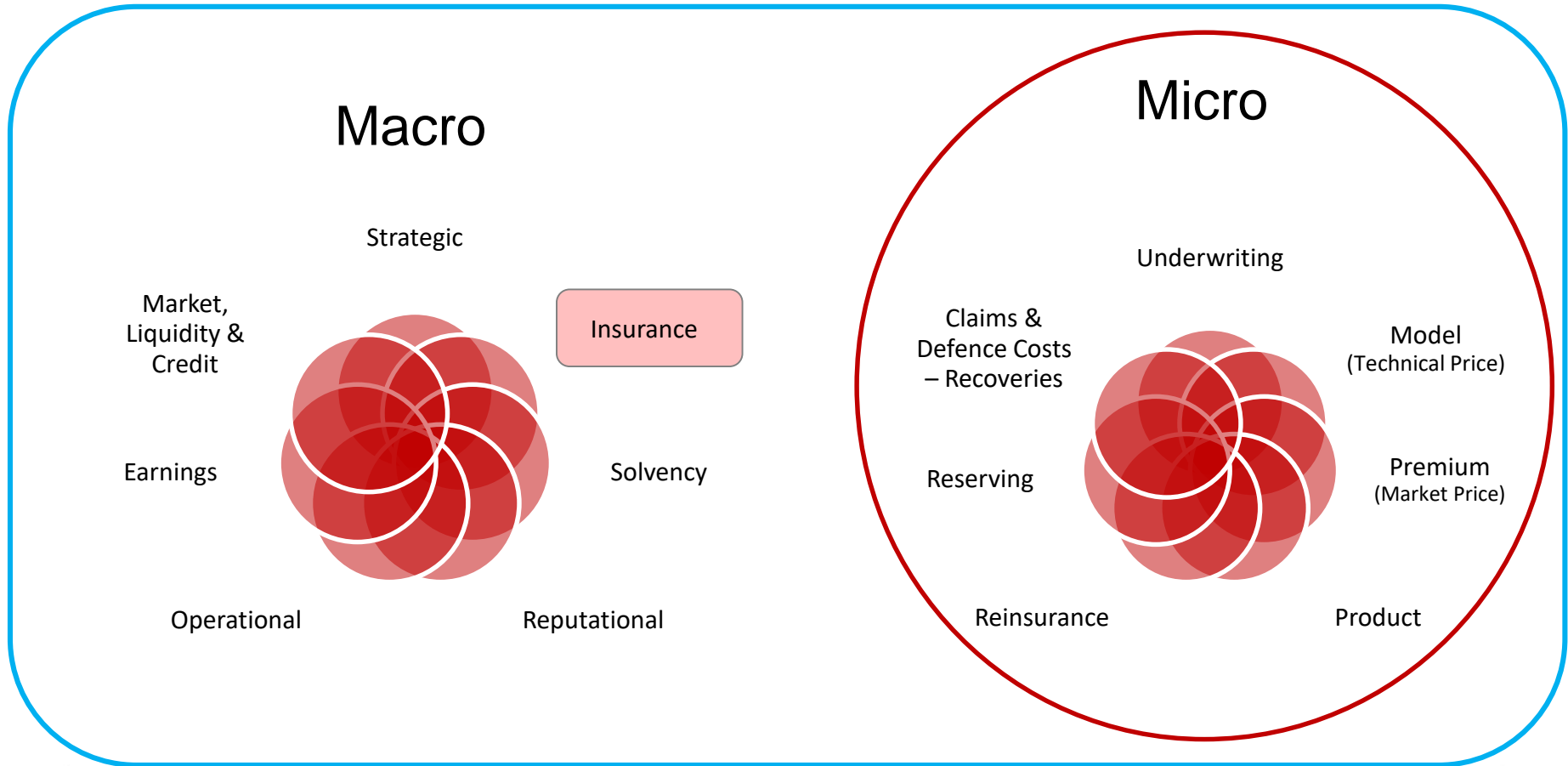
- (1) agriculture, aviation, body corporates, corporate property, engineering, guarantees, liability, marine, tourism, taxi operators, trade credit, transport, travel, and vintage cars
- (2) actively operating and majority owned by Santam Ltd as at 30 Jun 2019
- (3) 2 reinsurance and 2 cell
- (4) 1 cell
- (5) operating as external businesses
- (6) intermediaries and business partners

BALANCING ACTS



RISK UNIVERSE

ERM: ties it all together, recognising the interconnectedness of risk categories



MATERIALITY / SIGNIFICANCE

- **Crucial: to gain traction on important issues**
- Can be difficult to determine
- Especially, when faced with:
 - A lack of data
 - Complexity & (rapid) change
 - Interconnectedness of risk categories
- Important to elicit the principal components through:
 - Discussion with business esp. underwriters (qualify)
 - Understanding of data (quantify)

STRATEGIC RISKS (OTHER)

- Relentless change in risk environment
- Internal data
- Big data
- Operational ability to intervene
- Scarce skills and expertise
- Sustainability
- Technology-enabled underwriting decisions
- TCF / reputational risks of UW decisions / methods

THE HUMAN ELEMENT

The “Seven Deadly Sins”:

Envy, Lust and Greed:

Of your competitors’ top-line.

Sloth and Gluttony:

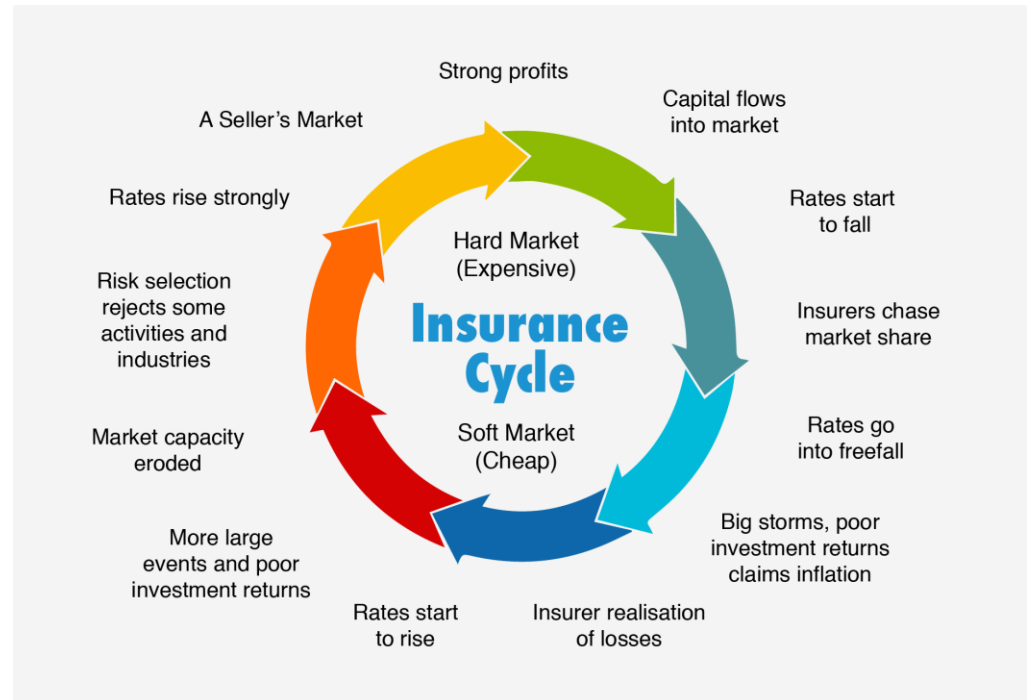
Bathing in the glory of past success.

Pride:

Resisting change when it is necessary.

Wrath:

Reactive behaviour, once its too late.



<https://mumby.com/how-to-navigate-car-and-home-insurance-rate-increases-in-2019/>

CONSIDERATIONS

- **Engaging with business**
 - Choose your battles
 - Communication is key
 - The vain pursuit of a front page article
- **Risk culture**
 - Risk appetite embedded
 - Segregation of duties
 - KPI, incentives (short- & long-term)
 - BUs and group collaboration not a given
- **Delegation of Authority: from Board to Junior UW**
- **Business Functions: adequate resourced & functioning effectively?**
- **Lines of Defence**
 - who has the skills, expertise, capacity?
- **Policies: need to be embedded at BU level**
 - Regular training / workshops important
 - Creating opportunities for exchange of lessons learnt across business
 - Central repository of reference material

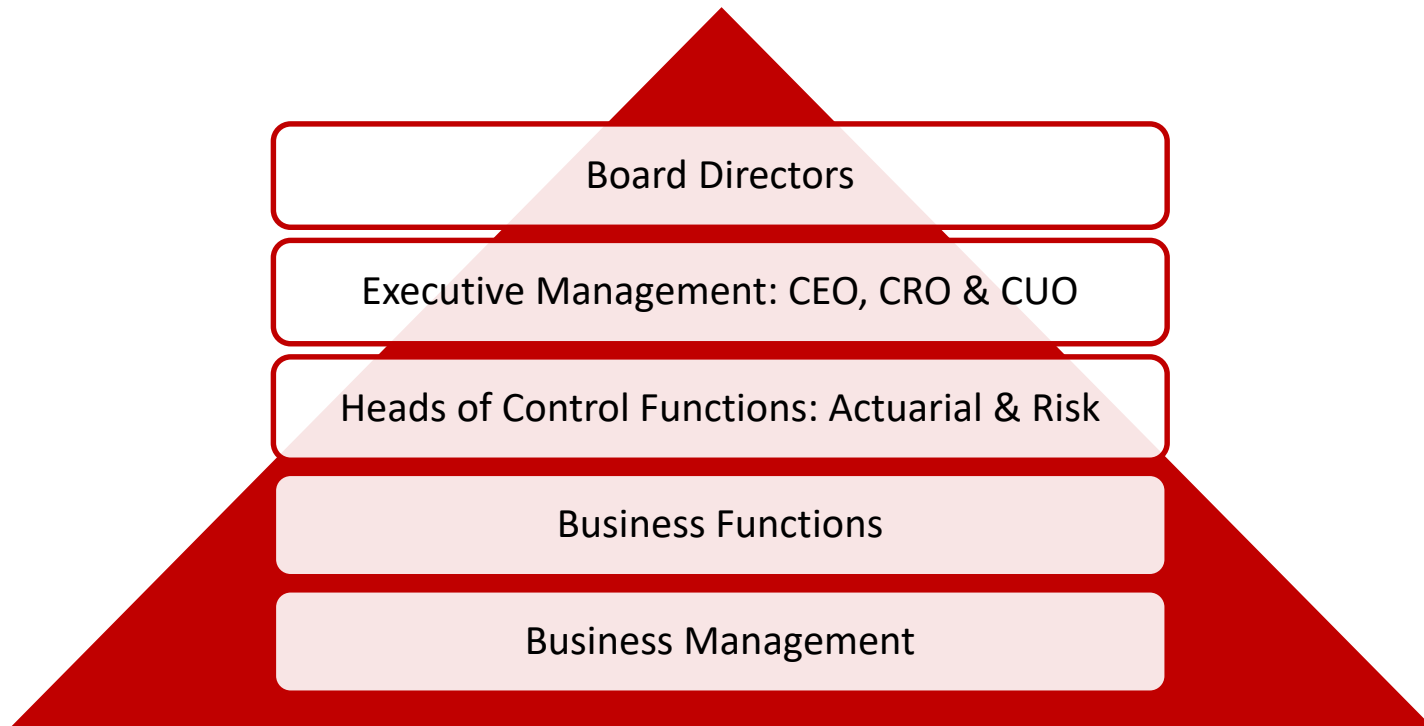
PRUDENTIAL STANDARDS

- Role of HAF
 - Express opinion on UW & RI policies
 - Adequacy of RI
 - Advice on actuarial soundness of the terms and conditions of insurance contracts

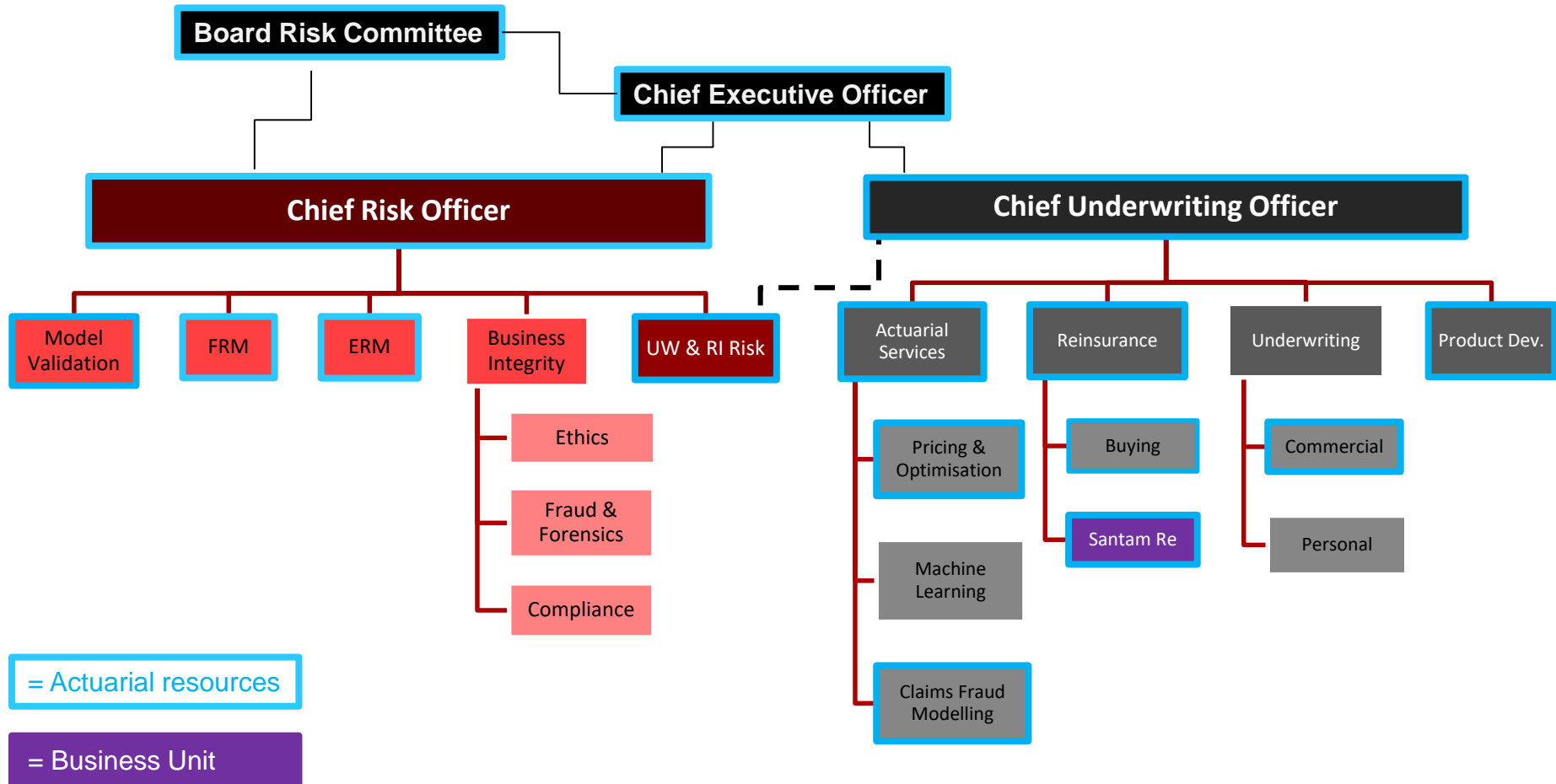
PRUDENTIAL STANDARDS

- Other issues:
 - Transitional period & requirements
 - Equivalent & non-equivalent jurisdictions
 - Collateral, “funds withheld” and “pay-as-paid” clauses
 - Fronting and intra-group RI
 - Due diligence
 - Assessing credit quality steps
 - RI replacement policy

ACTUARIAL ROLES



ACTUARIAL ROLES



GROUP UW & RI RISK FORUM

- Chaired by CUO (Deputy: CRO)
- Meets quarterly
- Representation: Group & BUs
- Facilitates discussion
- No decision-making
- Aids collaboration
- Learn from one another

Work Streams

Governance

Risk Appetite

Assurance

New & Emerging Risks

Reinsurance

Management Actions

Exposure Management

HOT TOPICS



SILENT CYBER

Affirmative

- Stand-alone policies
- Examples:
 - Forensics, public relations and monitoring costs associated with a breach
 - Losses from business interruption
 - Cyber extortion and ransomware
 - Costs of replacing, restoring and recreating damaged or lost data
 - Third-party liabilities

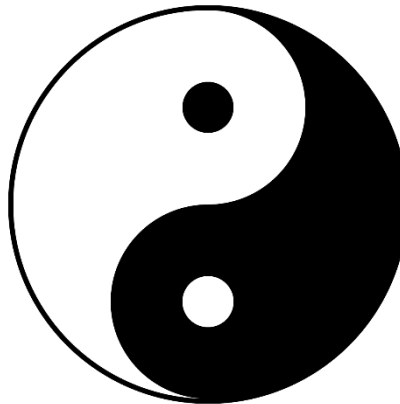
Silent (Non-Affirmative)

- Latent and unintended cover in traditional (non-liability) policies.
- Systemic to virtually every kind of policy
- Subject to great uncertainty
- Internationally, insurers have reacted strongly
- Examples:
 - Cyber attack on control systems causing deliberate or accidental property damage
 - Ditto subsequent:
 - business interruption
 - public liability

GOVERNANCE & LEADERSHIP

Governance and leadership are the yin and the yang of successful organizations...

**If you have leadership
without governance you risk
tyranny, fraud and personal
fiefdoms.**



**If you have governance
without leadership you
risk atrophy,
bureaucracy and
indifference.**

Thank you



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