

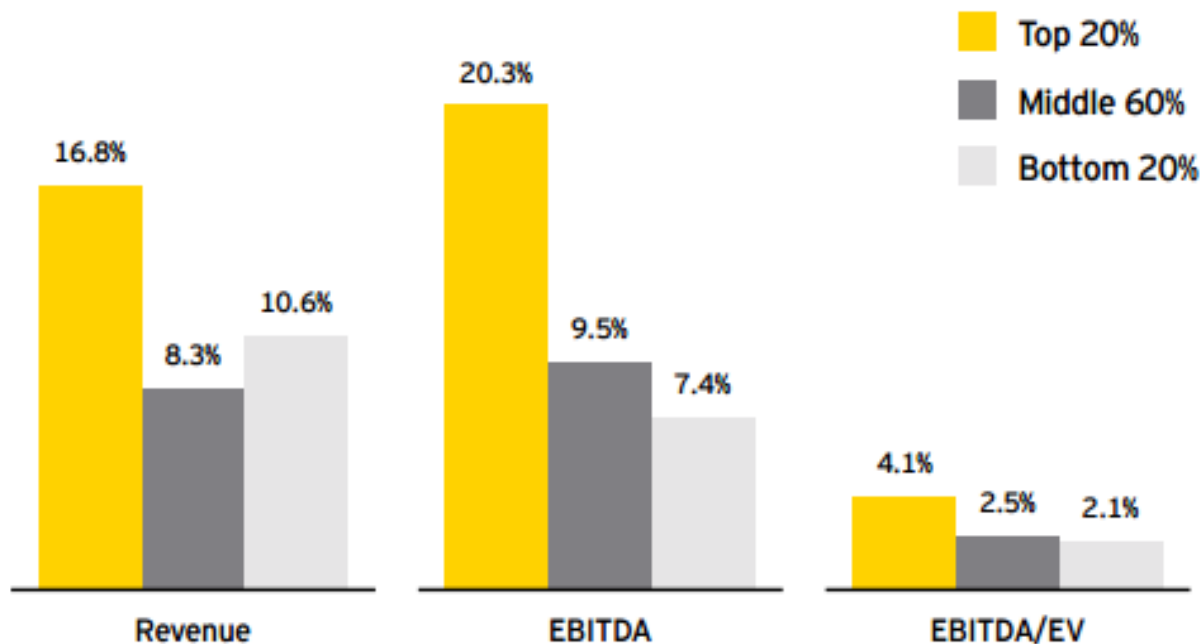
Risk Maturity

Adding Value to Business Performance



Impact of risk maturity on financial performance

Compound annual growth rates 2004-11* by risk maturity level



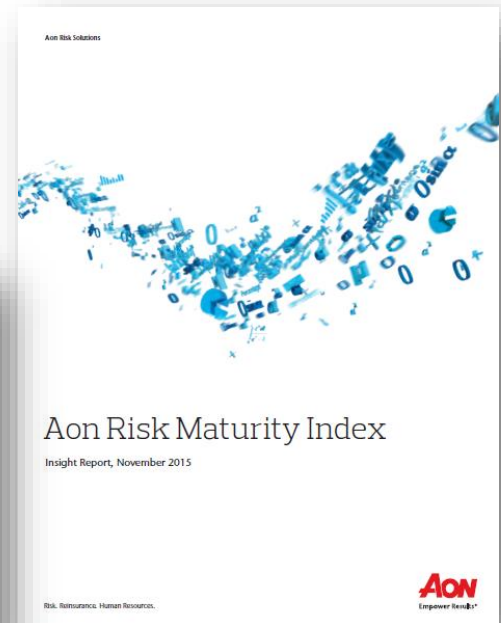
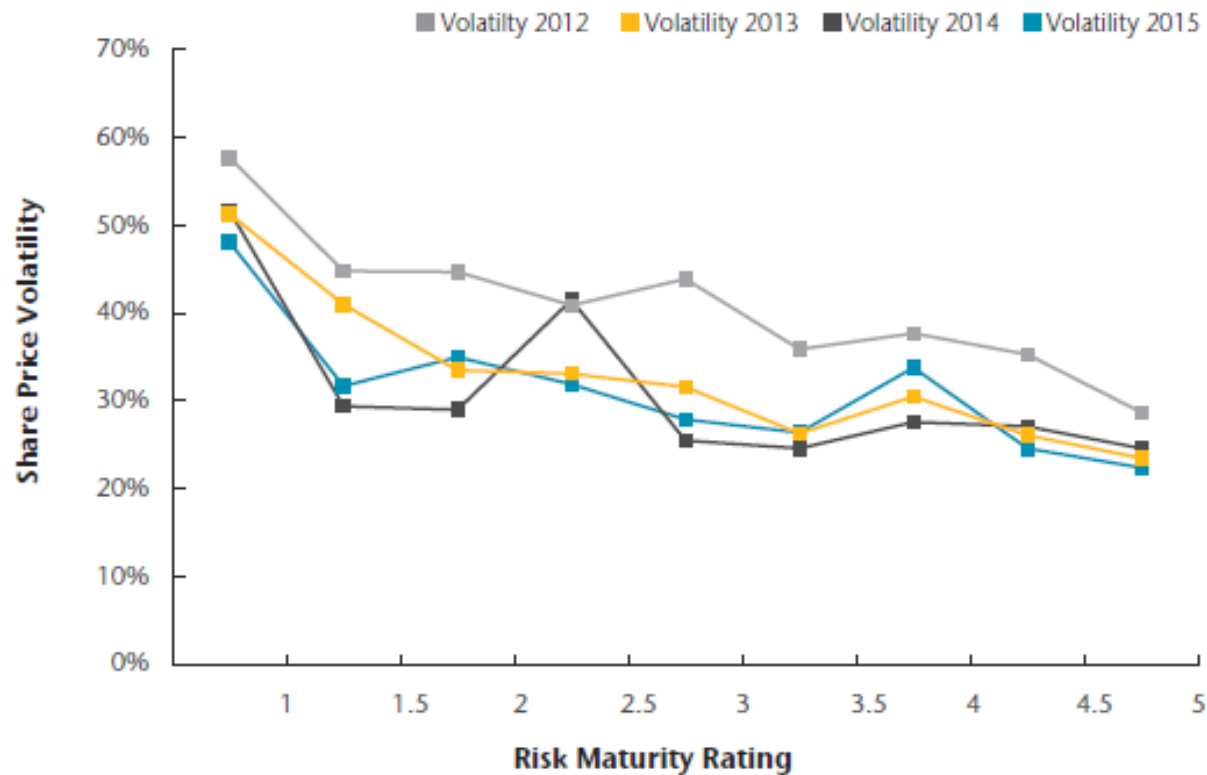
Key findings:

- “Organisations with more mature risk management financially outperform their peers.”
- Companies in the top 20% of risk maturity generated three times the level of EBITDA as those in the bottom 20%.
- Financial performance is highly correlated with the level of integration and coordination across risk, control and compliance functions.
- Effectively harnessing technology to support risk management is the greatest weakness or opportunity for most organisations.”

Source: Turning Risk Into Results. © 2013 EYGM Limited

A Market Leading Approach

Share price volatility 2015



Using Integrated Risk Management to Create Value as well as to Preserve Value



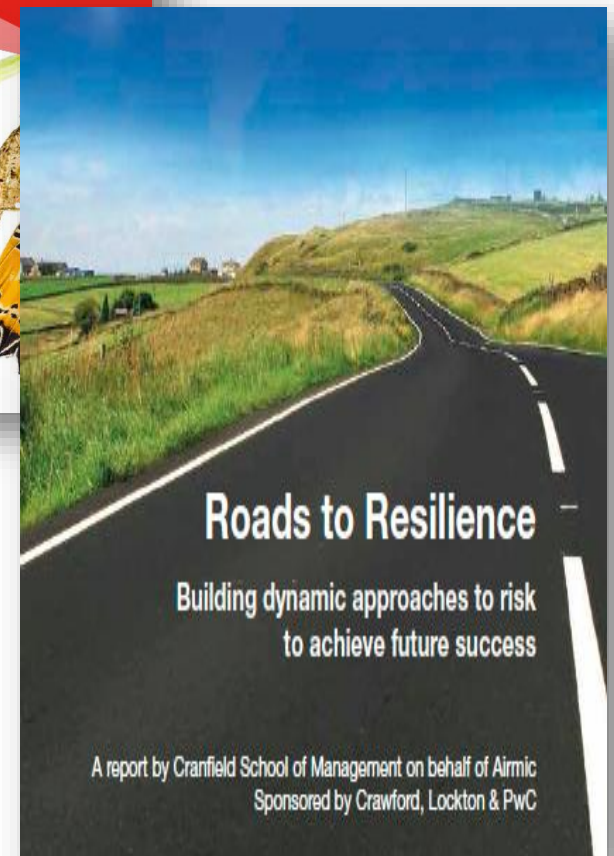
Organizations exhibiting mature risk management practices - as assessed with the RIMS Risk Maturity Model - realize a valuation premium

of up to **25%**.

Where Next?

Apply lessons from case studies of enterprise-to-strategic-risk-management transformations.

Learn from resilient companies.....





ARGO GROUP

Get there together

Strategy – risk maturity adding
value to business performance

10th November 2016

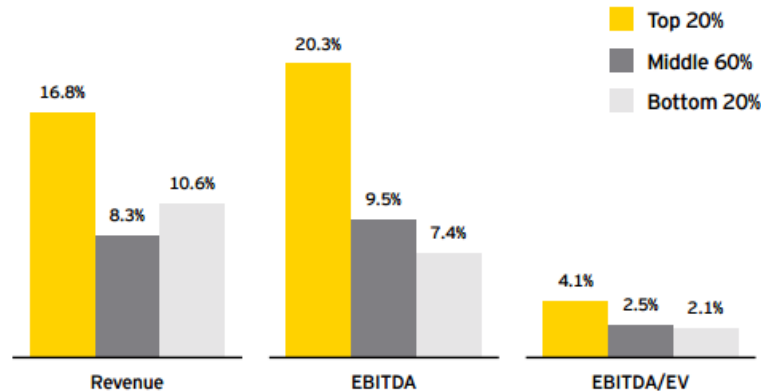
BENEFITS FOR THE CLIENT – FINANCIAL PERFORMANCE

Key findings:

- “Organisations with more mature risk management financially outperform their peers.”
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- Effectively harnessing technology to support risk management is the greatest weakness or opportunity for most organisations.”

A number of organisations, including Aon, EY, McKinsey, PwC and FERMA, have confirmed the link between financial performance and risk management.

Compound annual growth rates 2004-11* by risk maturity level

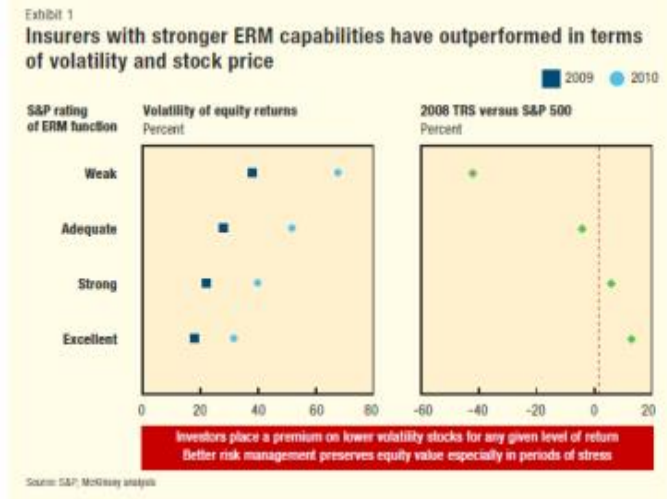


“Mature risk management drives financial results” (EY, 2013)

“Higher risk maturity will lead to:

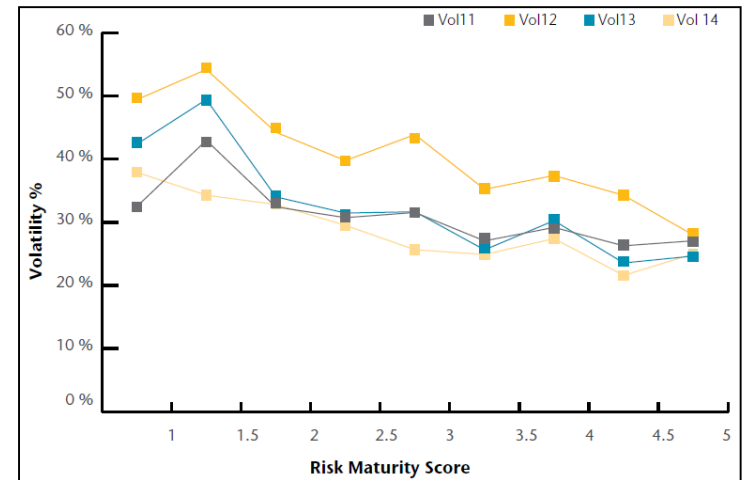
- **Increased stock price**
- **Lower stock price volatility**
- **Higher return on equity**
- **Greater stock price resilience to Bloomberg shock scenarios (e.g. Lehman default)”** (Aon, 2014)

“Risk management is linked to better corporate performance”
(FERMA, 2012)



A MARKET LEADING APPROACH

Stock Price Volatility (2011-14)
Negative Correlation with Risk Maturity



Source: Aon Risk Solutions, "Aon Risk Maturity Index", October 2014

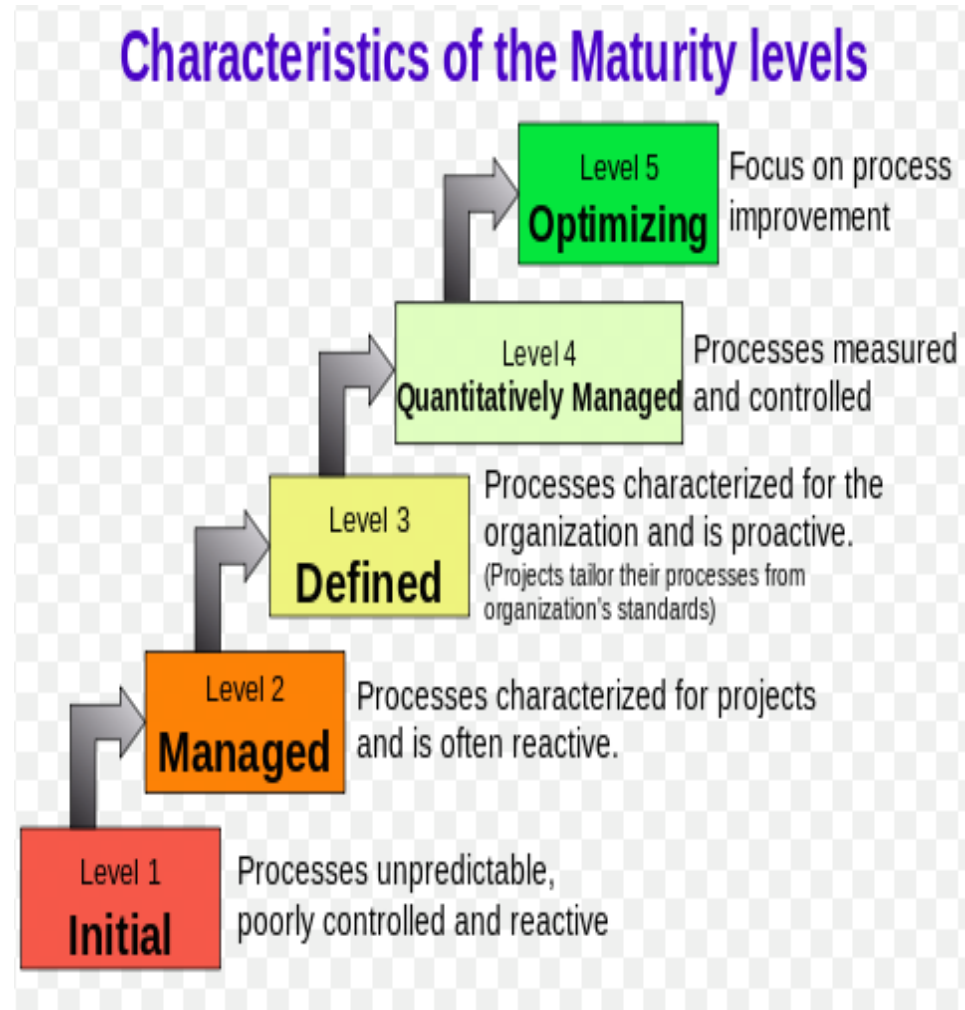
Risk Maturity Models - benefits

- A way to start planning with an end goal in mind
- The benefit of a community's prior experiences
- Common language and a shared vision
- A roadmap to prioritizing actions
- A way to define what improvement means for the organization
- A benchmark for assessing different organizations for equivalent comparison, or for assessing different parts of the organization

Source ISO / CD 31000 (2016)

Risk Maturity Model – what is it?

- It allows an organisation to have its processes assessed according to best practice, against a clear set of external benchmarks.
- Maturity is indicated by the award of a particular "Maturity Level".
- It is not unique to Risk Management and is widely used in 'Process management'



What is the question to which risk maturity model is the answer?

SUBJECTIVE DESIRE

- Where does the organisation's ERM framework need to be in the future to support the business strategy?

ROUTE MAP

- What is the ERM Strategy to drive improvement?
- How can we tell how we are doing?

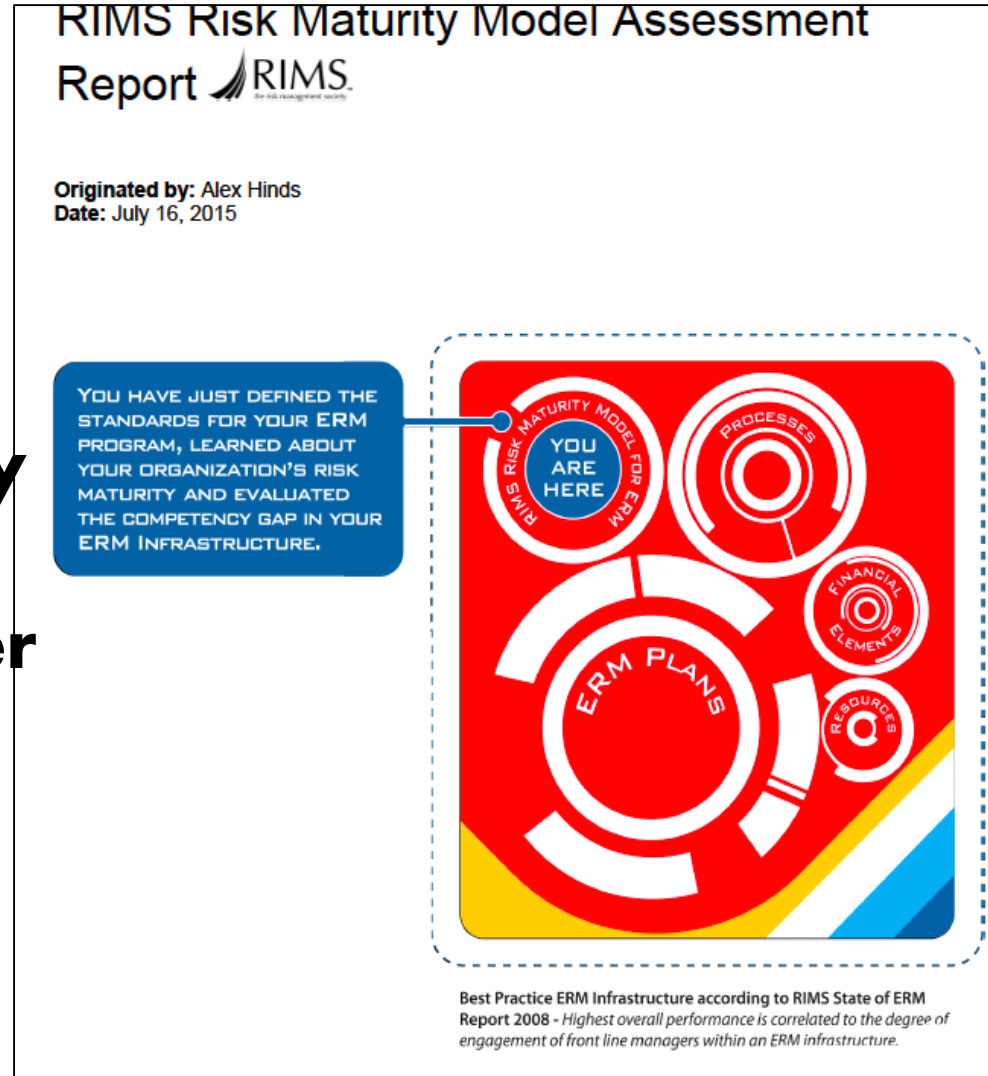
OBJECTIVE ANALYSIS

- Where does the current maturity of the organisation's ERM framework sit relative to best practice and peers?

Which maturity model and why?

Pick a model that is

- **Relevant to external stakeholders**
- **Meaningful internally**
- **Simple to use**
- **Can be repeated over time**
- **For example**
 - RMIS
 - NAIC
 - COSO



Selection criteria

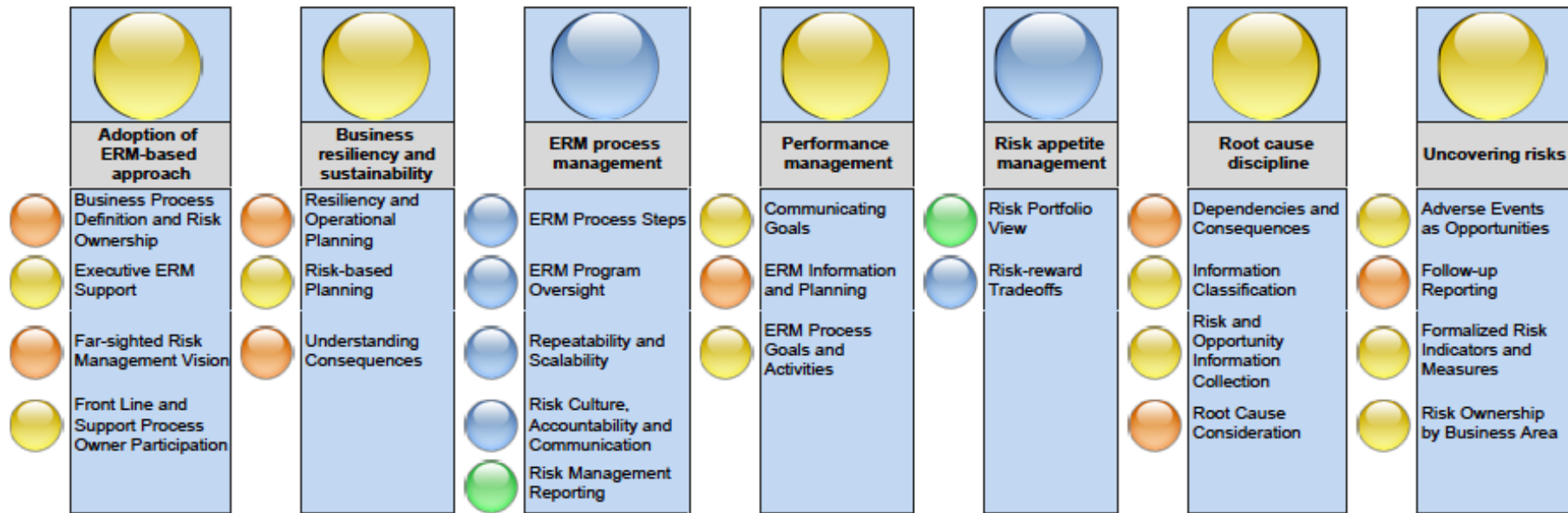
- Is there a regulatory expectation regarding the use of a particular model?
- Do other similar organizations use this particular model? Will industry comparisons be available?
- Does the model take customization and scale into account for the type and size of operations?
- Does the model recognize the important of why your organization manages risk and ask questions seeking evidence of that?
- Do the key elements of review (drivers or indicators) align with the design elements of ISO 31000?








Source ISO / CD 31000 (2016)

Example - RMIS tool - analytics

Maturity Level Summary Report

Attribute Maturity Level Summary for RIMS



| Maturity Levels Legend | | | | | | Average Overall Maturity Level | |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--|
|  |  |  |  |  |  | Maturity Score: 487.73 | |
| Nonexistent | Ad Hoc | Initial | Repeatable | Managed | Leadership | Maturity Level: Repeatable | |
| 0 | 1 | 2 | 3 | 4 | 5 | Maturity Level Score: 2.56 | |
| | | | | | |  | |

Making it practical – at Argo

- Articulating a new vision for managing risk across Argo
- Plotting a route map using a Maturity Model approach
- Focusing on creating a risk aware culture
 - Risks are made visible
 - Risks are discussed and understood
 - Risks are owned
 - Appropriate action is taken
 - We learn from our risk taking



Argo journey – 2015 position

| Maturity Model | Label | Description | Risk culture and governance | Risk identification and prioritisation | Risk appetite, tolerances and limits | Risk Management & Controls | Risk Reporting & communication |
|----------------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------|--------------------------------------|----------------------------|--------------------------------|
| Level 5 | Leadership | The insurer is at the leading edge of companies in relation to risk management. Risk management is embedded in strategic planning, capital allocation, and other business processes and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from board and management. | | | | | |
| Level 4 | Managed | The insurer is advanced in its risk management capabilities. Risk management activities are coordinated across business areas and tools and processes are actively utilized. Enterprise-wide risk identification, monitoring, measurement and reporting are in place. | | | | | |
| Level 3 | Repeatable | The insurer has risk management processes in place designed and operated in a timely, consistent and sustained way. The insurer takes action to address issues related to high priority risks. | | | | | |
| Level 2 | Initial | The insurer has implemented risk management processes, but the processes may not be operating consistently and effectively. Certain risks are defined and managed in silos, rather than consistently throughout the organization. | | | | | |
| Level 1 | Ad-hoc | The insurer has not developed or documented standardized risk management processes and is relying on the individual efforts of staff to identify, monitor and manage risks. | | | | | |
| Level 0 | Non-existent | The insurer has not recognized a need for risk management and risks aren't directly identified, monitored or managed. | | | | | |
| Legend | | | | Targeting for 2016 ERM Improvement plan | | | |
| | | | | Seeking to address from 3Q 2015 | | | |
| | | | | Can demonstrate current capability to a third party | | | |

Argo journey – 2017 action plan

| Maturity Model | Label | Description | Risk culture and governance | Risk identification and prioritisation | Risk appetite, tolerances and limits | Risk Management & Controls | Risk Reporting & communication |
|----------------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------|--------------------------------------|----------------------------|--------------------------------|
| Level 5 | Leadership | The insurer is at the leading edge of companies in relation to risk management. Risk management is embedded in strategic planning, capital allocation, and other business processes and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from board and management. | | | 2016 | | |
| Level 4 | Managed | The insurer is advanced in its risk management capabilities. Risk management activities are coordinated across business areas and tools and processes are actively utilized. Enterprise-wide risk identification, monitoring, measurement and reporting are in place. | 2017 | 2016 | | 2016 | 2017 |
| Level 3 | Repeatable | The insurer has risk management processes in place designed and operated in a timely, consistent and sustained way. The insurer takes action to address issues related to high priority risks. | 2015 | 2015 | | | 2015 |
| Level 2 | Initial | The insurer has implemented risk management processes, but the processes may not be operating consistently and effectively. Certain risks are defined and managed in silos, rather than consistently throughout the organization. | | | | | |
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| Legend | | | | Targeting for 2016 ERM Improvement plan | | | |
| | | | | Targeting for 2017 ERM Improvement plan | | | |
| | | | 2015/2016/2017 | Dates indicate when improvements made or targeted | | | |
| | | | | Can demonstrate current capability to a third party | | | |

SWOT analysis – ERM framework progress


| Framework element | Progress made | Areas to continue to develop |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk governance & Culture | <ul style="list-style-type: none"> Consistent Committee structures Training & Communication programs | <ul style="list-style-type: none"> Progress SUSEP plan within Business Unit A |
| Risk identification & prioritization | <ul style="list-style-type: none"> Business unit assessments aligned to business plans, considering both opportunities & threats Capital allocation based on risk models | <ul style="list-style-type: none"> Strategic risk landscape providing top-down view Refresh business unit assessments using new ERM software system |
| Risk Appetite & Tolerance | <ul style="list-style-type: none"> Risk appetite framework Over-arching appetite Capital-based tolerances | <ul style="list-style-type: none"> Continued use & development Roll out to Business Unit A Develop approach to FX risk |
| Risk management & controls | <ul style="list-style-type: none"> Capturing of specific risk-related action plans within risk assessments Capturing of overall action plan within quarterly Board risk report | <ul style="list-style-type: none"> Aggregation of risk action plans within new ERM software system Alignment of action plans with audit findings |
| Risk reporting & communication | <ul style="list-style-type: none"> Regular quarterly Board risk report in place Reporting at Group and in entities | <ul style="list-style-type: none"> Development of Key Risk Indicators (KRIs) within new ERM software system |

Making the case internally

Today's Insurance Headlines provided by Insurance Journal National Kinsale Launches New Law Enforcement/Police Process

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Argo Group Earns Industry Distinction for ERM Leadership

Among the best practices in a company's ability to manage risk effectively is its commitment to constant improvement. **LEARN** how this pledge recently earned Argo Group this year's Risk Maturity Model Recognition – an annual distinction given by the authors of the Model, LogicManager and RIMS, the risk management society™.

London

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- Q2 Earnings Call Transcript

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Company News Industry News Upcoming Events

- ALERT | Alpharetta Office Closed on Monday, Nov. 9
- NEWS | ERM Team to Promote Risk Awareness with Launch of New Function Site on ArgoNet
- ALERT | Singapore Office Closed on Tuesday, Nov. 10
- NEWS | New Cisco WebEx Support Site Now Available
- NEWS | Argo Group Earns Seat at The Insurance Insider's Monte Carlo Roundtable
- NOTICE | Current Job Openings | November
- IT | Wins for Week Ending 10.30.15
- NEWS | Advisen Showcases New Products at Argo Group in November Issue
- STAFF | November 2015 Anniversaries
- ACTION | Got a Burning Question for Argo Group's Leadership Team? Submit Your Inquiries by Monday, Nov. 9
- ACTION | Call for Submissions | Top Stories, Highlights | Submit by Monday, Nov. 9
- ALERT | Alpharetta Office Closing Early on Thursday, Nov. 12

What is the commercial impact on Argo?

- Standard & Poor's (S&P) provide Argo with a credit rating, which gives us a commercial 'licence to operate'.
- S&P also publicly rate our Enterprise Risk Management (ERM). Our performance on risk management impacts our overall credit rating.
- “We have revised our assessment of ERM to **adequate with strong risk controls** from adequate based on our positive view of risk controls. This view reflects consistency in underwriting actions that have translated into **improved operating results** and a **track record** of controls around prudence in reserve estimates and improving risk controls for catastrophe risk”

S&P Global
Ratings

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Research Update:

**Argo Group US Inc. And Operating
Subsidiaries Ratings Affirmed; Outlook
Stable**

Primary Credit Analyst:

Hardeep S Manku, Toronto (1) 416-507-2547; hardeep.manku@spglobal.com

Secondary Contact:

Laline S Carvalho, New York (1) 212-438-7178; laline.carvalho@spglobal.com

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Ratings Score Snapshot

Related Criteria And Research

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Final thoughts

- A Risk Management Maturity Model (RMMM) is just a tool to help your organisation work out what its Risk Management Strategy needs to be.
- It helps articulate where you stand compared to peers and best practices.
- It helps generate a debate with senior management and the Board on where you need to take ERM and why.
- It is helpful in explaining your own ERM journey to external stakeholders such as rating agencies and regulators, as well as staff.
- It is a tool regulators are starting to use themselves.

Any questions?

Alex Hindson
Chief Risk Officer
Argo Group

P +44 (20) 207 712 7654
alex.hindson@argolimited.com

