

BEST PRACTICE IN THE INSURANCE LIFECYCLE – INSURANCE AND THE RISK REGISTER AIRMIC ACADEMY

16 March 2021

DAVID STARK AND ANASTASIIA OBUKHOVA

Section 1

INTRODUCTIONS AND OBJECTIVES



Introductions

David Stark

Consulting Director & Practice
Leader of Enterprise Risk
Services

Marsh Advisory UK&I

Anastasiia Obukhova

Managing Consultant
Strategic Risk Consulting

Marsh Advisory UK&I

Learning Objectives

1. Explore the current challenges faced by Insurable Risk Functions.
2. Look at ways to bring together Enterprise Risk Management (ERM) and Insurance Functions.
3. Provide an overview of efficient processes for managing insurable risks.
4. Introduce a concept of risk and insurance alignment .

Section 2

MAIN CHALLENGES



Changing Business and Working Environment

Organisations are faced with increasingly **complex and often rapidly evolving risks** from a range of sources.



*If not controlled, these complex risks present **volatility** to a firm's business cycle and potential financial damage.*

Effective management of **risk and resilience** is **fundamental** to the success of an organisation.



Insurance should be fully aligned to these management activities.

An **integrated approach** should be undertaken, embedding all areas of risk management.



It reviews, improves and embeds all areas of risk management and informs the principles of insurance programme design.

An Integrated Approach to Risk Has Become a Necessity

New risk themes

- Interconnected businesses and fragility of economies.
- Agile and lean vs. capacity and reserves.
- Ability to withstand rapidly evolving risks and crises.

Integrating governance and ERM

- Links between societal and business risk.
- Risk and resilience framework.
- ERM and quantitative analysis.
- Traditional risk practices often siloed.

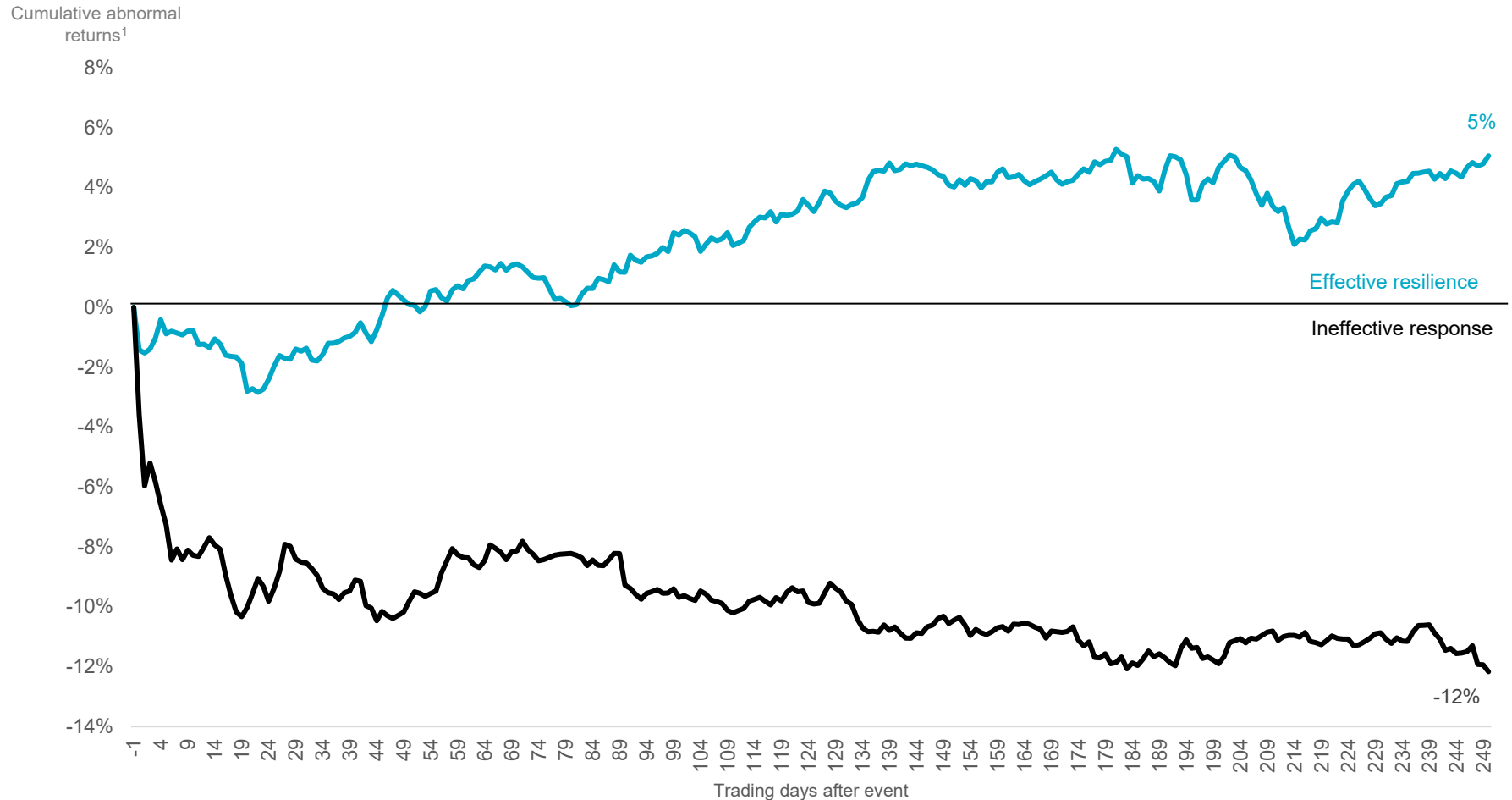


Aligning strategic risk and insurance

- Strategy, operations and financial practices.
- Digital data-driven approach.
- Insurance protecting the balance sheet, provided there is alignment with risk and resilience management.

Getting it Wrong Has a Long-term Impact on Share Price

An integrated approach effectively delivers long-term benefit for companies of all sizes

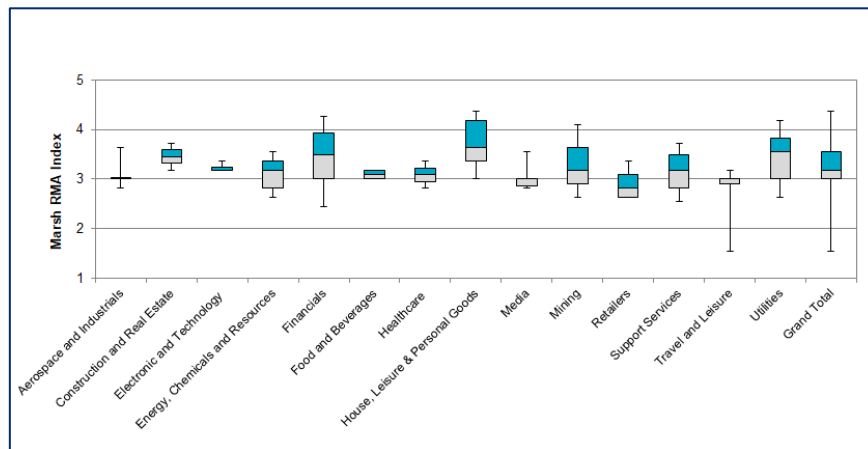


¹The sum of the differences between the expected returns on a stock (using the market model) and the actual return of a stock

²Facebook market data available up to 116 trading days only (31st August 2018)

FTSE100 Research Shows Insurance is Hardly Mentioned in Annual Reports

- In most cases, companies have a **short risk identification horizon** with themes such as climate risk and pandemics not receiving sufficient prominence.
- Few companies were meeting the Financial Reporting Council's (FRC) updated guidance on **emerging risk** themes prior to the implementation date.

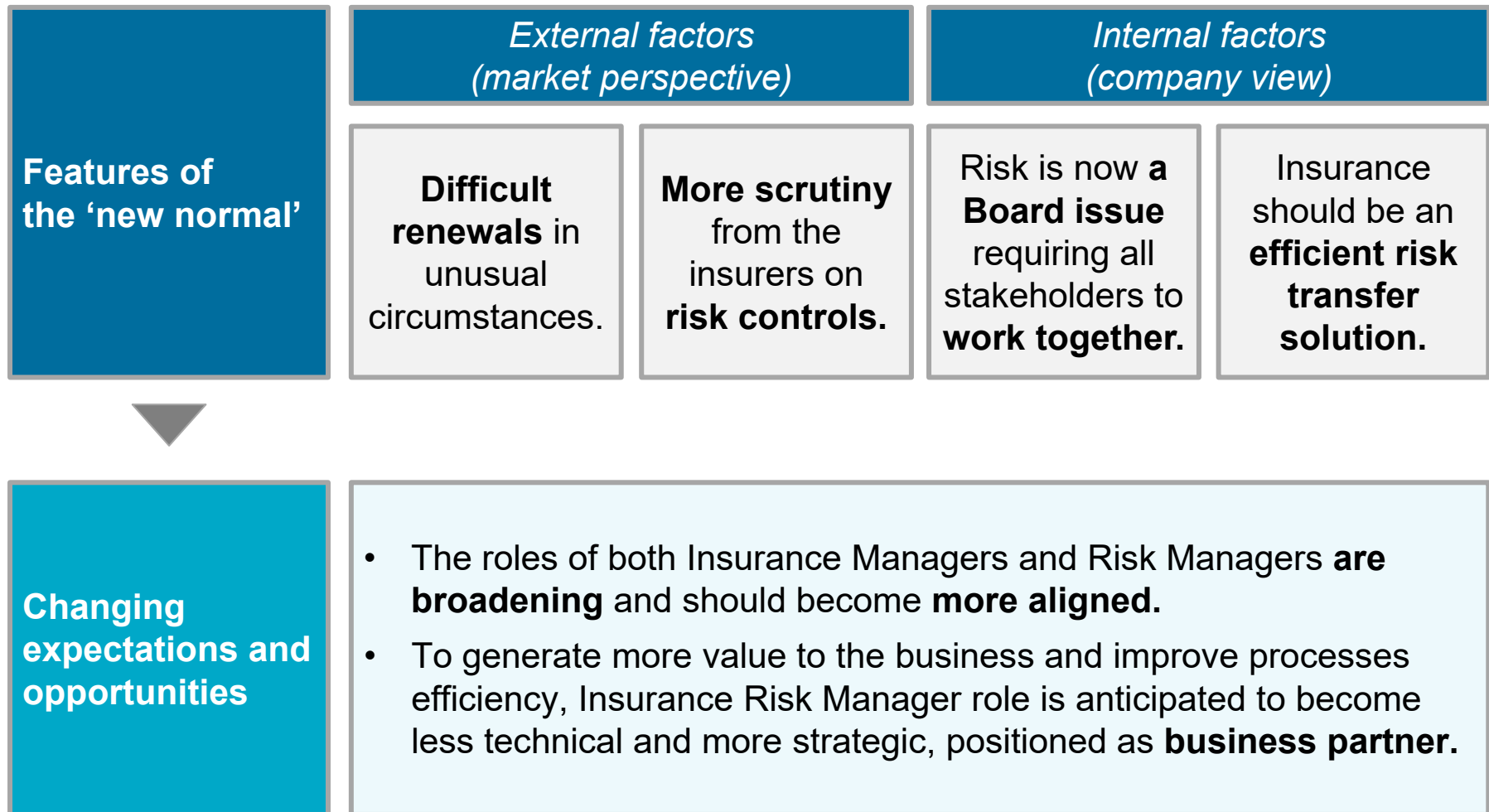


Cross-industry analysis on risk maturity and corporate governance alignment



Beyond Compliance: Marsh's insight research paper exploring FTSE100 companies report on risk

Changing Expectations in Light of the “New Normal”

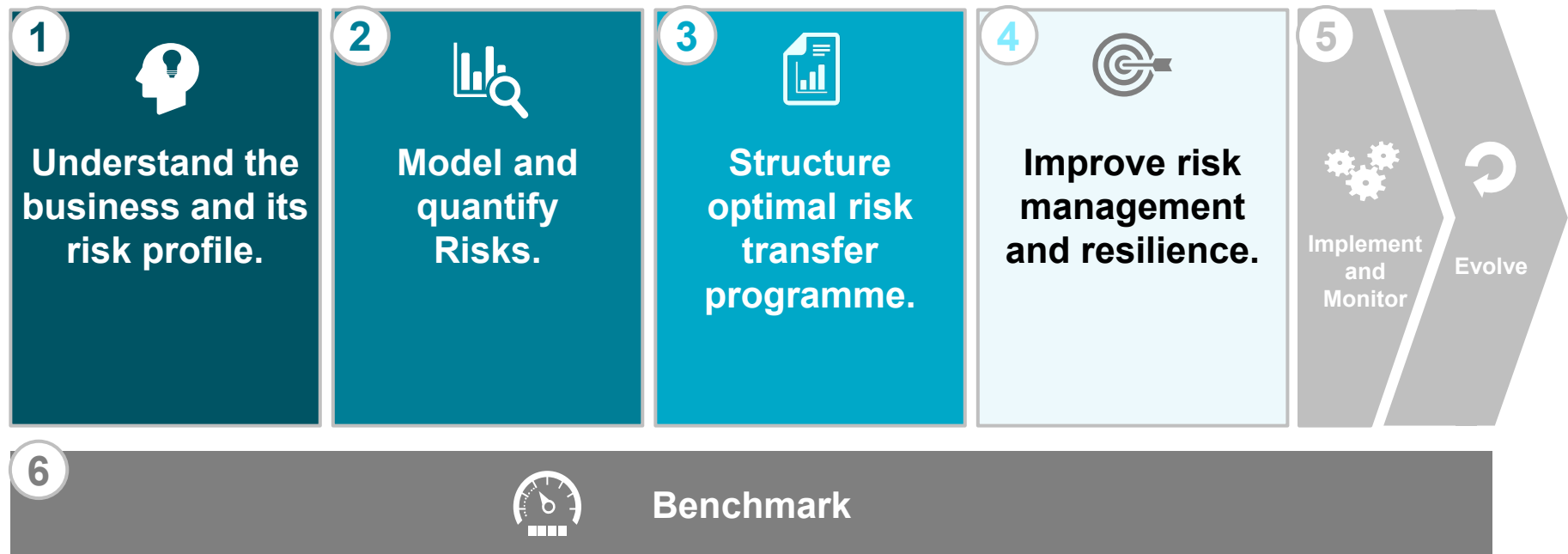


Section 3

AN ALTERNATIVE APPROACH



Better Alignment of Insurance and Risk is a way to Address Current Challenges



Review of Insurable Risk Framework and Processes Enables Improved Alignment of ERM and Insurance Functions

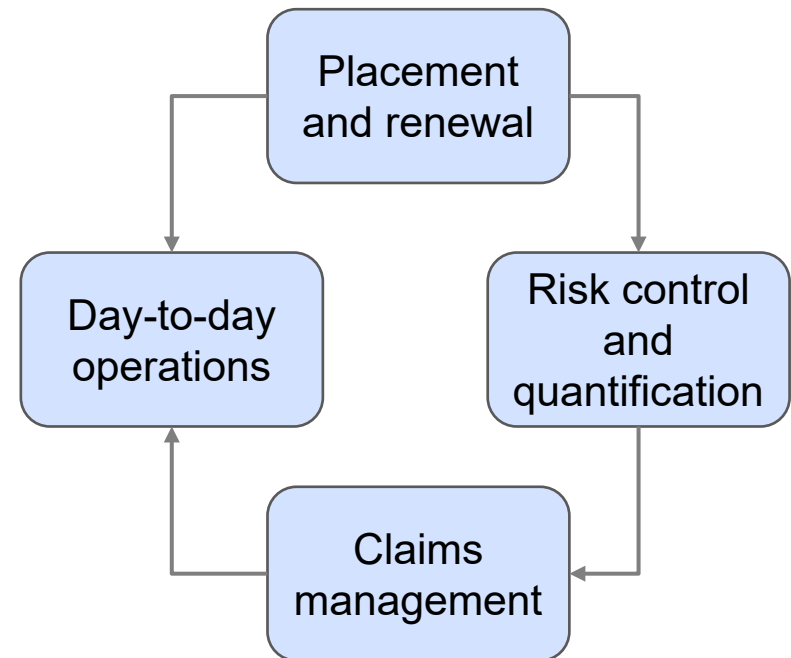
I.

Insurable risk framework



II.

Insurance lifecycle processes



1 Understand the Business and its Risk Profile

Connecting your strategy, business drivers, and associated risks



Objectives and context:

- Risk alignment should be set in the context of the organisation's strategic objectives.
- Using the Risk Taxonomy, the risks are identified and analysed systematically (with consideration of emerging risk themes).

Key activities include:

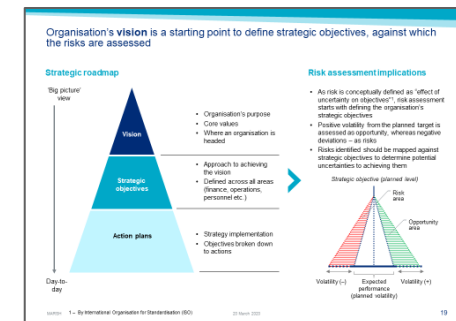
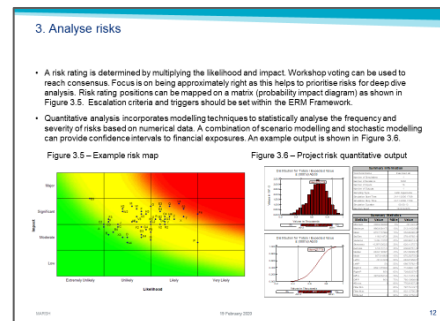
Example illustrations:

Understand business model and strategy

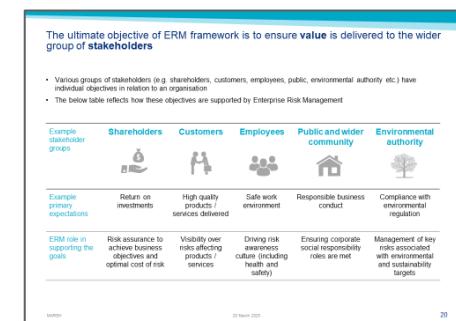
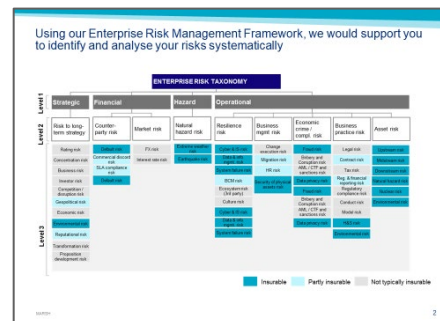
Identify and categorise risks

Understand risk appetite and tolerance

Review risk controls and mitigation actions

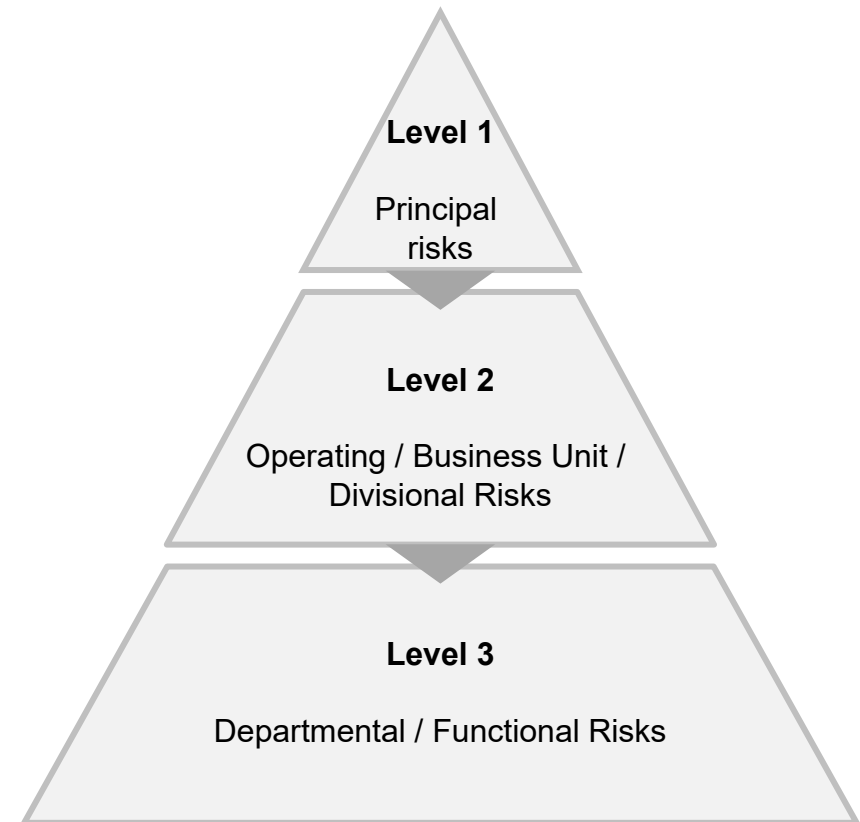
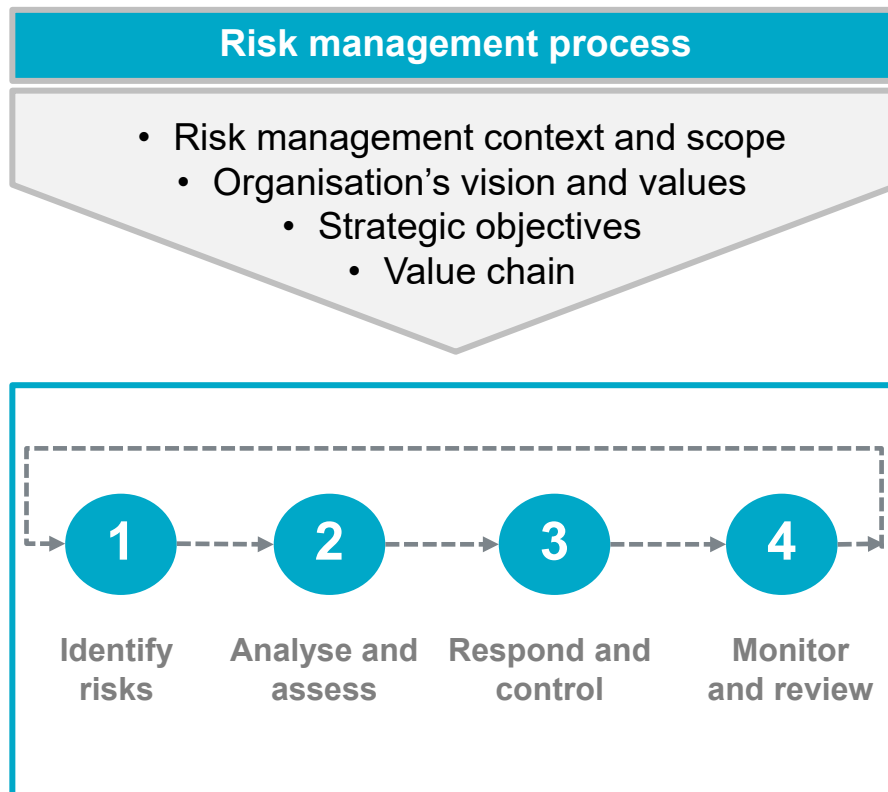


Risk heat map / Strategy implications



Risk taxonomy / Key stakeholders

1 Core Risk Management Process is a Key ERM Framework Component and Starts with Risk Taxonomy



Risk hierarchical structure overview

Model and Quantify Risks by Determining Financial Exposure of Key Risk Scenarios



Objectives and context:

- Measure the impacts of potential events to fully understand the financial implications and use this to prioritise major risks.
- Quantify risks to make informed decisions on the controls, retention and transfer of risk.

Key activities include:

Example illustrations:

Develop loss scenarios

Classify risks by insurability

Model insurable risks based on actuarial inputs

Model non-insurable risks for financial impacts

Loss scenarios
1. Bagl cyber-related scenarios cover the main areas expected, but impacts could be further specified to inform insurance decisions

March cyber risk framework vs. relevant BAGL operational risk scenarios

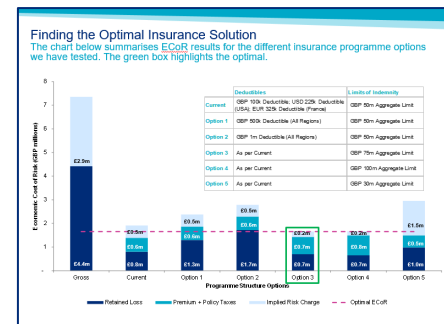
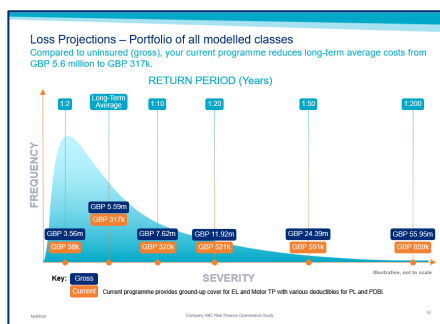
March cyber risk framework	Relevant BAGL operational risk scenarios	Impacts
<p>1.1 System information leakage</p> <p>1.2 Data breach (PI, PCI, PII, etc.)</p> <p>1.3 Data loss (PI, PCI, PII, etc.)</p> <p>1.4 Data loss (PI, PCI, PII, etc.)</p> <p>1.5 Data loss (PI, PCI, PII, etc.)</p> <p>1.6 Data loss (PI, PCI, PII, etc.)</p> <p>1.7 Data loss (PI, PCI, PII, etc.)</p> <p>1.8 Data loss (PI, PCI, PII, etc.)</p> <p>1.9 Data loss (PI, PCI, PII, etc.)</p> <p>1.10 Data loss (PI, PCI, PII, etc.)</p>	<p>1.1 System information leakage</p> <p>1.2 Data breach (PI, PCI, PII, etc.)</p> <p>1.3 Data loss (PI, PCI, PII, etc.)</p> <p>1.4 Data loss (PI, PCI, PII, etc.)</p> <p>1.5 Data loss (PI, PCI, PII, etc.)</p> <p>1.6 Data loss (PI, PCI, PII, etc.)</p> <p>1.7 Data loss (PI, PCI, PII, etc.)</p> <p>1.8 Data loss (PI, PCI, PII, etc.)</p> <p>1.9 Data loss (PI, PCI, PII, etc.)</p> <p>1.10 Data loss (PI, PCI, PII, etc.)</p>	<p>1.1 System information leakage</p> <p>1.2 Data breach (PI, PCI, PII, etc.)</p> <p>1.3 Data loss (PI, PCI, PII, etc.)</p> <p>1.4 Data loss (PI, PCI, PII, etc.)</p> <p>1.5 Data loss (PI, PCI, PII, etc.)</p> <p>1.6 Data loss (PI, PCI, PII, etc.)</p> <p>1.7 Data loss (PI, PCI, PII, etc.)</p> <p>1.8 Data loss (PI, PCI, PII, etc.)</p> <p>1.9 Data loss (PI, PCI, PII, etc.)</p> <p>1.10 Data loss (PI, PCI, PII, etc.)</p>

Compared to 2017, there is a greater number of scenarios and cover the scope of cyber-related events that we would expect to see

March cyber risk framework vs. Aba's cyber-related op risk scenarios (2017 vs. 2019)

March cyber risk framework	2017	2019
<p>1.1 System information leakage</p> <p>1.2 Data breach (PI, PCI, PII, etc.)</p> <p>1.3 Data loss (PI, PCI, PII, etc.)</p> <p>1.4 Data loss (PI, PCI, PII, etc.)</p> <p>1.5 Data loss (PI, PCI, PII, etc.)</p> <p>1.6 Data loss (PI, PCI, PII, etc.)</p> <p>1.7 Data loss (PI, PCI, PII, etc.)</p> <p>1.8 Data loss (PI, PCI, PII, etc.)</p> <p>1.9 Data loss (PI, PCI, PII, etc.)</p> <p>1.10 Data loss (PI, PCI, PII, etc.)</p>	<p>1.1 System information leakage</p> <p>1.2 Data breach (PI, PCI, PII, etc.)</p> <p>1.3 Data loss (PI, PCI, PII, etc.)</p> <p>1.4 Data loss (PI, PCI, PII, etc.)</p> <p>1.5 Data loss (PI, PCI, PII, etc.)</p> <p>1.6 Data loss (PI, PCI, PII, etc.)</p> <p>1.7 Data loss (PI, PCI, PII, etc.)</p> <p>1.8 Data loss (PI, PCI, PII, etc.)</p> <p>1.9 Data loss (PI, PCI, PII, etc.)</p> <p>1.10 Data loss (PI, PCI, PII, etc.)</p>	<p>1.1 System information leakage</p> <p>1.2 Data breach (PI, PCI, PII, etc.)</p> <p>1.3 Data loss (PI, PCI, PII, etc.)</p> <p>1.4 Data loss (PI, PCI, PII, etc.)</p> <p>1.5 Data loss (PI, PCI, PII, etc.)</p> <p>1.6 Data loss (PI, PCI, PII, etc.)</p> <p>1.7 Data loss (PI, PCI, PII, etc.)</p> <p>1.8 Data loss (PI, PCI, PII, etc.)</p> <p>1.9 Data loss (PI, PCI, PII, etc.)</p> <p>1.10 Data loss (PI, PCI, PII, etc.)</p>

Loss scenario evaluations / appraisal



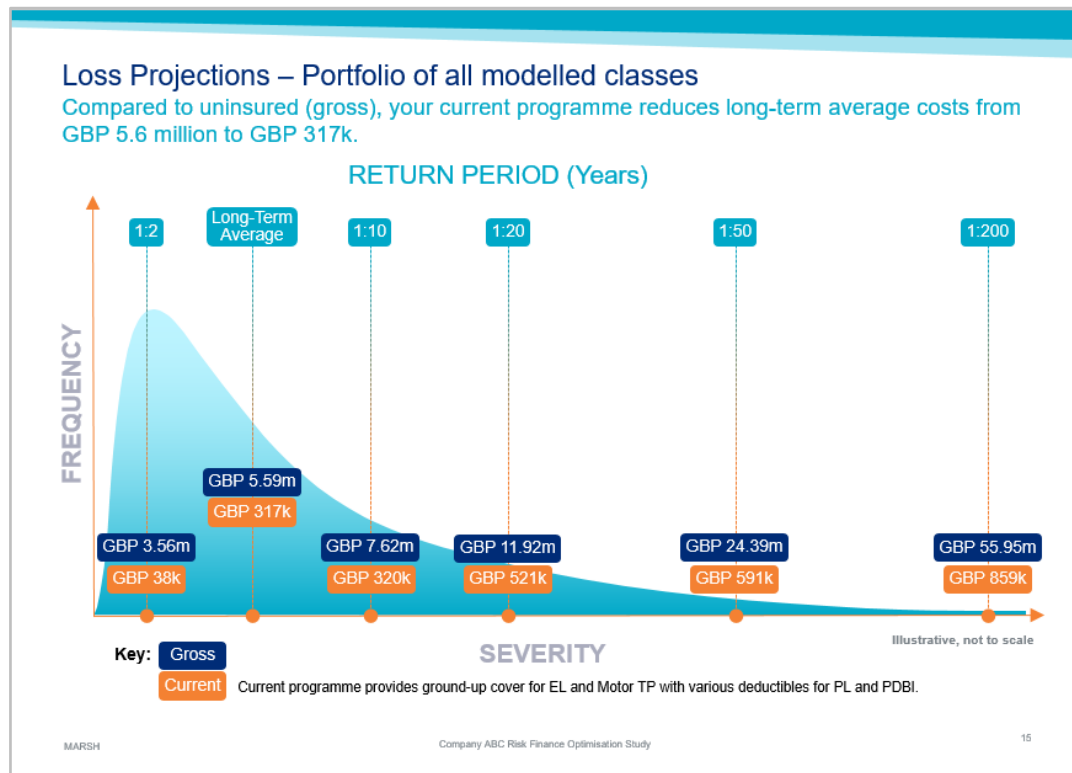
Loss projections

2 Both Insurable and Non-insurable Risks Should be Assessed and/or Quantified

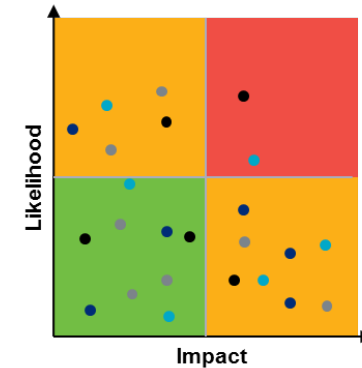


Non-insurable risk assessment

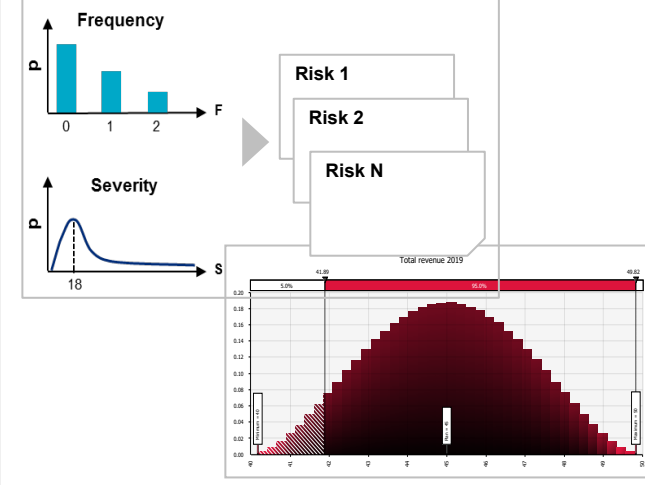
Insurable risk modelling



Qualitative (scoring)



Quantitative (risk modelling)



3 Structure Optimal Risk Transfer Programme



Objectives and context:

- Evaluate current risk transfer program (remodelling with alternatives, if required) to identify risk financing enhancements.
- Define the optimal strategy for retaining and transferring risk, and execute in the market.

Key activities include:

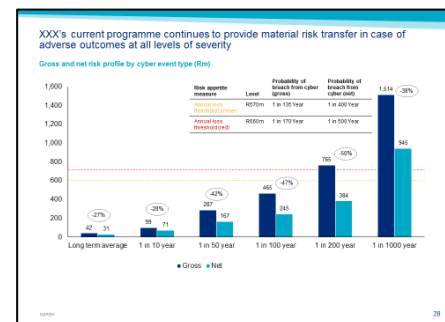
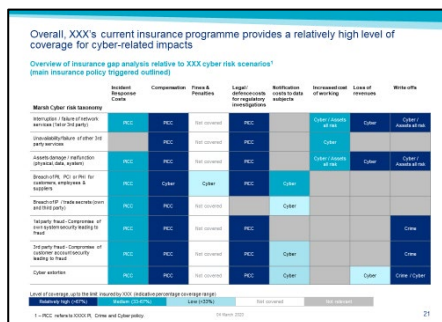
Example illustrations:

Assess insurance coverage and response.

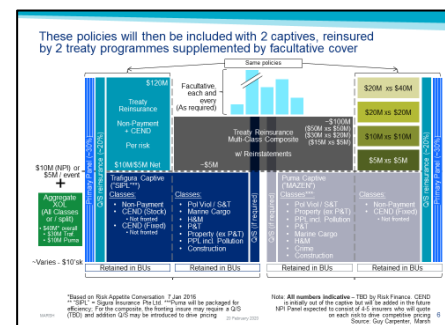
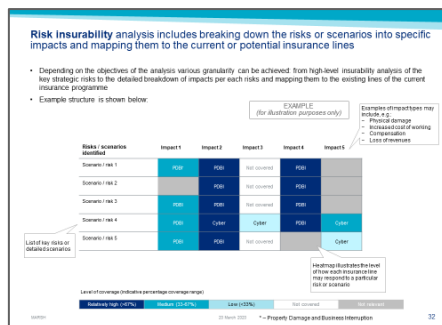
Optimise the balance of risk retention and transfer.

Review risk financing option, (e.g. captive).

Negotiate (re)insurance program aligned to risk.



Insurance coverage assessment / risk quantification



Insurance programme design

3 Risk Insurability Analysis Includes Breaking Down the Risks into Specific Impacts and Mapping them Against Insurance Lines



Risks / scenarios	Impact 1	Impact 2	Impact 3	Impact 4	Impact 5
Scenario / risk 1	PDBI*	PDBI	Not covered	PDBI	
Scenario / risk 2		PDBI	Not covered	PDBI	
Scenario / risk 3	PDBI	PDBI	Not covered	PDBI	
Scenario / risk 4	PDBI	Cyber	Cyber	PDBI	Cyber
Scenario / risk 5	PDBI	PDBI	Not covered		Cyber

Example impact types may include:

- Physical damage
- Increased cost of working
- Compensation
- Loss of revenues

List of key risks or detailed scenarios

EXAMPLE

Heatmap illustrates the level of how each insurance line may respond to a particular risk or scenario

Level of coverage (indicative percentage coverage range)

Relatively high (>67%)	Medium (33-67%)	Low (<33%)	Not covered	Not relevant
------------------------	-----------------	------------	-------------	--------------



Objectives and context:

- Review the risk management framework and improve where required.
- Determine control effectiveness and any addition risk mitigations to manage risk within appetite and provide resilience.

Key activities include:

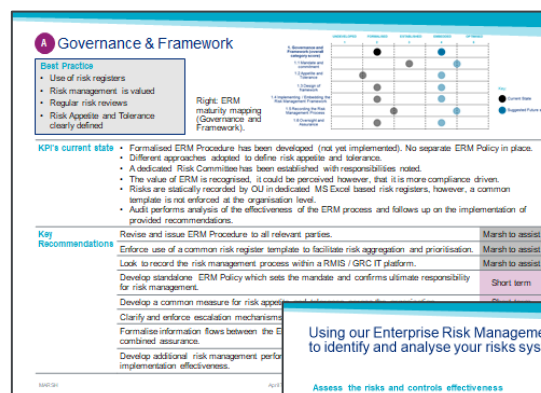
Example illustrations:

Develop risk management framework.

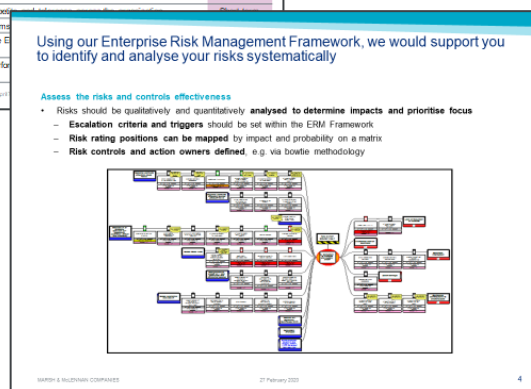
Assess controls and their effectiveness.

Enhance resilience.

Assess and prioritise risk management investment.



Risk framework development



Bowtie diagram

4

Risk Treatment, as one of the Response Types, Means Introducing Different Types of Risk Controls



Elements of bowtie analysis



5 Implement Risk Management Solutions and Monitor Progress

Combining strategic, operational and assurance best practices



Objectives and context:

- Update the risk profile, track emerging risks, plan management actions and engage with staff to achieve desired risk culture.
- Undertake operational risk control assurance incl. property risk surveys, property and equipment valuations, health and safety reviews, safe driving at work.

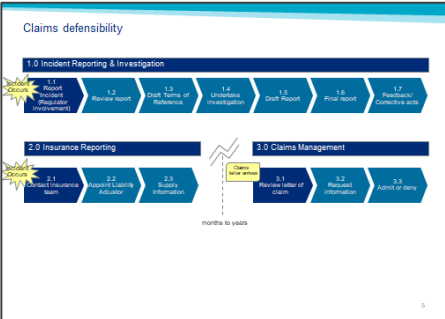
Key activities include:

Strategic initiatives

Operational initiatives

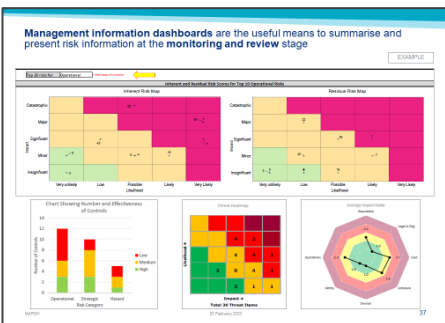
Risk assurance

Example illustrations:



Operational risk
outputs

Risk dashboard examples



6 Benchmark Against Industry, Peers and Risk Best Practices / Standards



Plotting of current state and road mapping of future state

Objectives and context:

- Independent review of the organisations risk practices, governance and status against strategic and operational risk standards.
- Comparison of approaches to peer group and industry risk data, determination of future state goals and road mapping of activities required to close gaps.

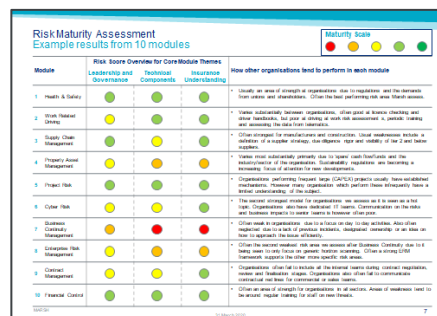
Key activities include:

Review practices to risk standards and industry best practices.

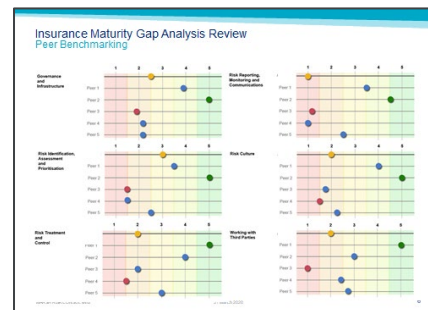
Peer group comparison and industry risk data benchmarking.

Determination of future state and risk strategy.

Example illustrations:

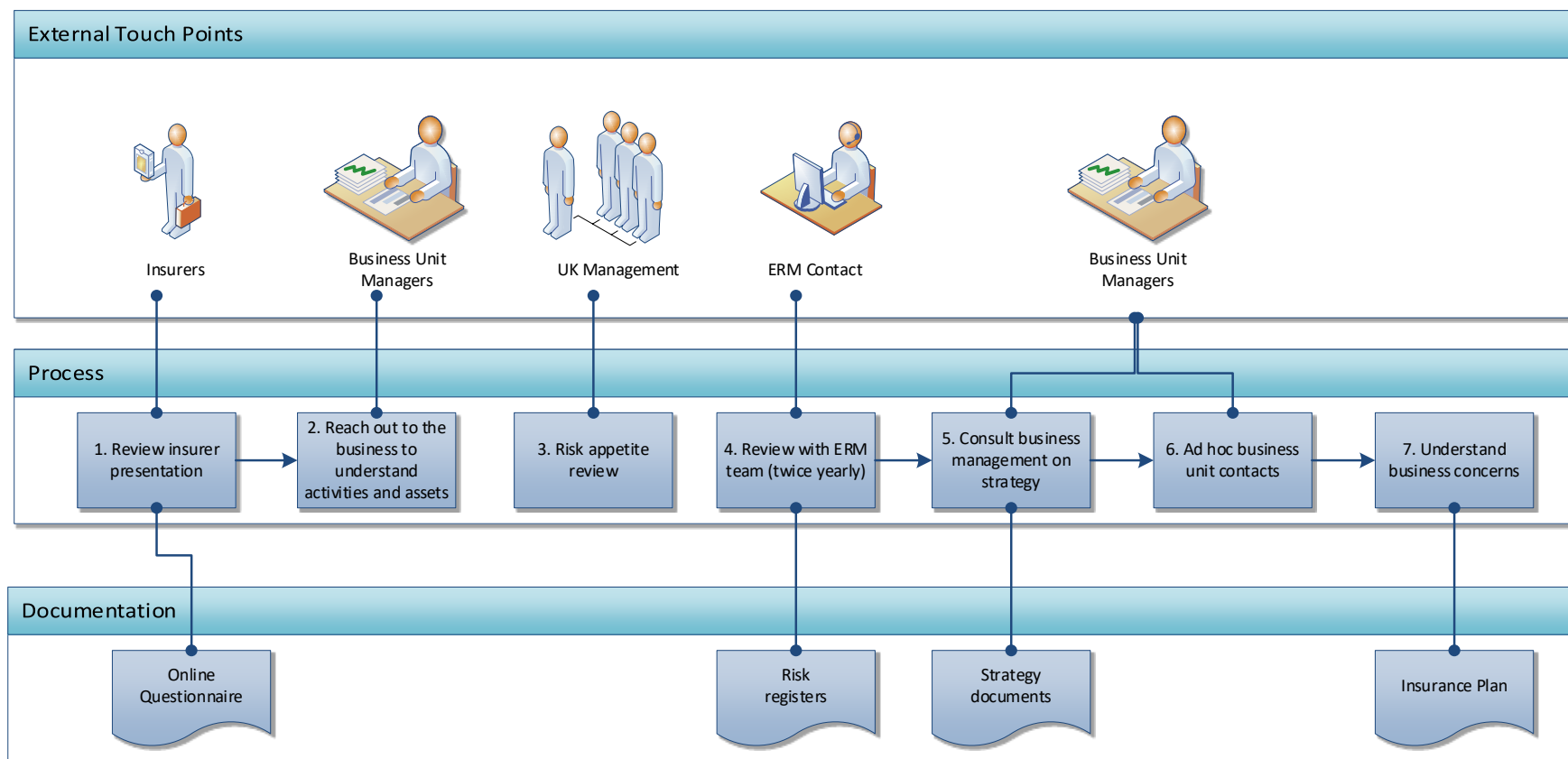


Risk maturity examples



Peer group comparison / future state mapping

6 Mapping Insurance Processes and Analysing Improvement Areas by Peer Benchmarking



*Simplified example process
of risk profile review*

Section 4

SUMMARY



Recap on Learning Objectives

Objectives

1. Explore the current challenges faced by Insurable Risk Functions.
2. Look at ways to bring together ERM and Insurance Functions.
3. Provide an overview of efficient processes for managing insurable risks.
4. Introduce a concept of risk and insurance alignment.



Outcome

- Looked at the challenges of “the new normal” and features relating to risk and insurance.
- Explored various touch points between both functions.
- Touched upon subcomponents of insurable risk management and associated processes.
- Explored better ways of “connecting the dots”.

Section 5

Q&A





This marketing communication is compiled for the benefit of clients and prospective clients of Marsh & McLennan ("MMC"). If insurance and/or risk management advice is provided, it will be provided by one or more of MMC's regulated companies. Please follow this link marsh.com/uk/disclaimer.html for further regulatory details.

Marsh Ltd is authorised and regulated by the Financial Conduct Authority for General Insurance Distribution and Credit Broking (Firm Reference No. 307511). Copyright © 2021 Marsh Ltd All rights reserved.

The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

This PowerPoint™ presentation is based on sources we believe reliable and should be understood to be general risk management and insurance information only.