

# Enterprise Risk Management (ERM) for Smaller Companies

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# Risk Management

- Get paid for the risks you take

# ERM Focus

- Focus should reflect *your* risks
  - Identify what they are
    - HR/legal/financial/operations/investments/sales
  - Prioritize them
    - Focus on mega event risks that threaten solvency
- Communication to stakeholders
  - Rating agencies
  - Shareholders
  - Employees
  - Policyholders

# Enterprise Risk Management

- Integrated approach to managing risks
  - Risk appetite
  - Common language
  - Common measurement (leading indicators)
  - Corporate governance
    - Guiding policies and limits
  - Risk combinations
  - Emerging risks

# Definition

- ERM is the **discipline** by which an organization in any industry **assesses, controls, exploits, finances and monitors risks** from all sources for the purpose of increasing the organization's **short- and long-term value** to its stakeholders.

(Casualty Actuarial Society 2003)

# Objectives of ERM

- ✓ Value is added to the firm
- ✓ Knowledge is gained
- ✓ Culture drives success
- ✓ Compliance forms the building blocks

# Compliance

- Audit focus
  - Checklist
  - Sarbanes-Oxley legislation
  - COSO report on Enterprise Risk Management (ERM)
  - Involves internal/external auditors

# Knowledge

- Understand the risks taken
  - Transparency
  - Competitive advantage
    - Accept the risk (seek out and exploit)
  - No competitive advantage
    - Mitigate (e.g., hedging, reinsurance)
    - Avoid



# Culture

- Starts at the top and builds momentum
  - Alignment
  - Integrity – walk the walk
- Learning process
  - Field continues to evolve
  - Build connections between silos
  - Share best practices/knowledge internally
  - Learn from your peers as they progress
- Alternative – crisis management
- Encourage honest discussions

# Value Added

- Build off of compliance basics
- Determine risk appetite with board
- Identify and prioritize risks and optimize risk/return profile
- Focus on balance sheet risks – manage across silos
  - Capital
  - Liquidity
  - Investment (credit/market risk)

# Risk Categories

- Credit
- Equity
- Interest rate
- Insurance liabilities/underwriting
- Operational
- Strategic

# Best practice structure for CRO

- Ready access to CEO is needed
  - Key internal/external consultant
- Time with Board of Directors
  - Include time with independent BOD members
  - Must be willing to have contrarian views ***and*** share them
  - Communicate technical topics to smart business people

- Companies that understand the risk/return economics of a business can take more of the profitable risks that make sense for the company and less of the ones that don't. Medico needs to know which are which.

# Articles

- Articles/presentations on ERM can also be found at
  - [www.rudolphfinancialconsulting.com](http://www.rudolphfinancialconsulting.com)
- Adding value with ERM
  - <http://www.soa.org/library/newsletters/the-actuary-magazine/2007/april/erm2007april.aspx>
- Newsletters
  - <http://www.rudolphfinancialconsulting.com/newsletter.html>

# Thank you!

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