

Risk Self Assessment In AXA Insurance

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— Be Life Confident —

Content



- § Give you an overview of AXAI's risk management process.
- § Risk Self Assessment exercise

Risk Management to date



- § **Current Reporting Process was introduced into Customer Operations in April 2004**
- § **Principles now used across all of AXA Insurance.**
- § **Process is fully embedded**
 - but is it an effective tool that is truly adding value
 - is it used by all

The Process

KEY ISSUES REPORTED TO THE RCC (Monthly)

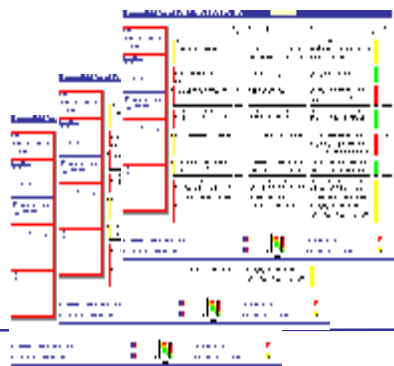


OUTPUT REVIEWED BY MANAGEMENT TEAM (Monthly)

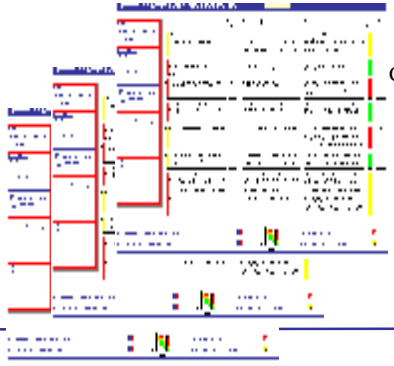


Item	Category	Open	In Progress	Completed	Escalated	Impact
1. Operational issues related to the AXA Group's core business	Operational	12	8	15	2	High
2. Customer service issues	Customer Service	5	3	10	1	Medium
3. Compliance and regulatory issues	Compliance	3	2	7	0	High
4. IT and technology issues	IT	4	6	9	1	Medium
5. Financial and accounting issues	Financial	2	1	5	0	High
6. Human resources issues	HR	1	2	4	0	Medium
7. Legal and risk issues	Legal	2	3	6	1	High
8. Other issues	Other	1	1	3	0	Medium
Total		31	24	69	5	

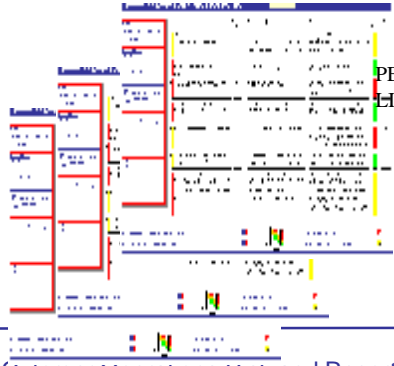
SUMMARY OF KEY ISSUES (Monthly)



COMMERCIAL
SERVICING



CLAIMS



PERSONNEL
LINES

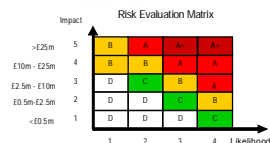
Customer Operations Risk and Reporting

The Risk Dashboard



RISKS & ISSUES: RISK 1

Risk Summary



Gross Impact	5	Net Impact	4	Target Impact	3	Control RAG (enter R, A or G)	G
Gross Likelihood	4	Net Likelihood	3	Target Likelihood	3	Trend (Enter UP, Down or Stable)	Stable
Gross Risk Rating	A+	Net Risk Rating	A	Target Risk Rating	B		

Ref	Issue	Target Date	Closure Action(s)	Progress Last Month	Progress This Month	Progress Status	Owner/Area
1b	The risk management process has not been clearly defined and documented by the Risk Team which has led to inconsistency in approach in some business areas	1. Q3 2. March 31 April 30	1. Roll out as a minimum the risk management framework based on the Customer Operations model to those areas where no clear framework exists. - All 2. Document new process - 1st cut - AB - Final - All			G	
2b	Not all business areas have fully "bought in to" a the benefits that risk management can provide and have therefore not fully embedded the process	1. April 06 April 06 March 06 2. Q3	1. Develop communication plan to include - Item in UP - AH - Communication to all risk champions supported by a risk champion away day - AH - Individual briefings to all Executive - AH 2. Roll out framework on a prioritised basis - All			G	
2c	The current risk management framework is focussed on short term issue management (downside risk) rather than long-term strategy (upside) and therefore strategic decisions can be made without consideration for operational implications	1. Q3	1. Following the rollout of the process begin to develop process to include the identification and review of strategic and upside risk - All			G	
2d	Group risk management are currently reviewing how risk management should operate within all Op Cos and therefore any processes that are used now and/or are in the process of being rolled out are at risk of being changed	1. June 06 2. ongoing	1. Roll out pilot in Distribution and Customer Operations - All 2. Provide business with regular updates on project STORM - All			G	
2f	There is a lack of risk management expertise in the business areas which could hinder the roll out and development of risk management practices within the business	1. Q3 2. Q3 3 Q4	1. Undertake training needs assessment of risk champions. - AD 2. Develop risk management training plan for risk champions - AD 3. Propose that all risk champions to have objective relating the embedding of risk management framework - All			G	
2g							
2h							
2i							
2j							
2k							

Risk 1
Failure of the business to adopt and embed an appropriate Operational Risk framework for the identification, reporting and management of Operational Risks.

- Drivers/Causes**
- Business does not know what is expected of them ie what is AXA's risk management framework, policy, risk tools and process to be followed.
 - Executive and/or business managers are not engaged in the process.
 - Lack of ownership and/or accountability for the identification and mitigation of Operational Risks
 - Lack of risk management capability within the business.
 - No visibility of risk management in the business areas
 - No consistent risk management process.
 - Risk management process not clearly defined.
 - Risk reporting is not timely and/or accurate.
 - Insufficient and/or experienced resource in central risk team
 - Insufficient and/or experienced resource within the business to roll out process

Impact
Failure to embed a robust risk management framework increases the risk that AXA's business objectives will not be met, opportunities will not be identified and regulation requirements could be

- Controls**
- Risk Champion network in place
 - Risk management framework developed
 - Group risk management guidance
 - Formal risk identification and reporting mechanism in place (via local Risk Committees to Executive Risk & Compliance Committee) includes the identification of risks, risk drivers, controls and corresponding issues
 - Risk Team support for specific business areas
 - Escalation process (see risk 1)
 - Sharing of information with other governance processes ie Internal Audit, Compliance, Technical Audit Teams

Performance Against Controls

Summary Report (Claims)



No	Risk Description	Net Risk Rating, RAG Control & number of issues					
		Large Loss	Liability	Life style	Motor	Property	Aggregated Total
1	Regulatory censure through lack of adherence to legislation (FSA/DPA etc) rules in relation to outsourcing of activity & / or delegated authorities (as defined by 3RM).	1	2	5	3	10	21
2	Regulatory censure through lack of adherence to legislation (FSA - ICOB7, TCF, T&C,DPA) in relation to in-house activity	1	3	0	3	5	12
3	Staff profile does not meet our business requirements, e.g. low competence or skillsset, staff shortages etc.	0	1	0 ▲	2	4	7 ▲
4	Claims results are adversely impacted through fraud carried out by internal, TPA, or DA /outsource provider staff or Customers	0	1	1	0	1	3
5	Claims indemnity spend adversely impacted by poor processes, lack of control (incl control tools), e.g. high leakage, low recovery rate	0	2	6 ▲	2	4	14 ▲
6	Claims operational effectiveness adversely impacted by lack of technological functionality, capacity and/or development	1	0	7	2	6 ▲	16
7	Claims indemnity spend adversely impacted by changes in the external environment.	2	5	0	2	0	9
8	Failure to win, or lose existing business due to poor reputation in the market place caused by poor claims proposition or service i.e. failure to meet service levels, failure to manage complaints.	0	1	4	3	2	10
9	Claims operating ratio uncompetitive due to high claims handling costs	0	0	0	2	0	2
10	Inadequate reserves in place to meet claims liabilities.	0	0	0	1	0	1
11	Significant failure to provide a claims service through internal BCP event, multi-claims catastrophe incident, financial collapse of, or breakdown in relationship with a TPA or DA or outsource provider	0	2	2	3	8	15 ▲
12	Failure to have adequate financial controls in place to comply with Sarbanes Oxley requirements	1	0	0	0	0	1
Total Issues		6	17	25	23	40	111

Key	Net Risk Rating	No of Issues	Control RAG	
	A or A+ Risk	1	Red status	Amber status
B Risk				
C Risk				
D Risk				

Comments

Large Loss – The number of issues remain at 6. The Risk and Control RAG status remain unchanged. IT as a whole continues to be an issue with system downtime and ongoing telephony problems

Liability – The Risk and Control RAG status remain unchanged. Issues have increased to 17. The Government Compensation Issue has been closed so is no longer included in this report. Two moderate issues have been added

Lifestyle – The number of issues has reduced from 30 to 25. The Risk Rating remains unchanged. Risk 3 – The Control RAG has moved to green as the 2 issues have been closed. Risk 5 – The Medical Treatment issue and the Fluctuation in Claims Volumes issues have been closed so are no longer included in this report. The Control RAG has improved to green from amber.

Risk 10 – The Outstanding Claims MI Issue has been closed and also is no longer shown in this report

Motor – The number of issues has decreased from 24 to 23. The Risk and Control RAG status remain unchanged. A new major issue relating to KPIs in AXA Business Services has been added to Risk 8 and is included in this report.

Property – The number of issues has increased from 37 to 40. The Risk RAG status remains unchanged. Risk 1 – The Claims DA Process has been redefined so the original issue has been replaced. Risk 6 – The Morecambe Systems Rollout Issue has been closed so is no longer shown in this report. A new issue about ACS/Solus in Morecambe is added. The Control RAG has improved from red to amber.

Aggregated total – The overall number of issues has reduced from 114 to 111. The Risk status on Risks 5 and 11 have been re-rated, improving from B to C. Risk 3 has also improved from C to D

Integrated Risk Management



The Aims of Risk Self Assessment



- § **To measure how effective risk management is in each functional area** (ie motor, household claims, customer service)
- § **Identify areas of improvement**
- § **Share best practices**
- § **Benchmark against future improvement**

The Scope of Risk Self Assessment



- § Risk Self Assessment is questionnaire based
- § The questionnaire is divided into a series of statements in the following categories
 - Risk Strategy and Policy
 - Leadership
 - People
 - Processes
- § Each statement has a choice of 6 answers, graded on a scale 1 to 6
- § Comments from the participants are encouraged

The Questionnaire



Customer Operations Risk Self Assessment



This Risk Self Assessment questionnaire will provide Customer Operations with information that will be used to evaluate the performance and progress it is making in developing and maintaining an effective risk management capability. The results will identify what we are doing well, what learnings can be shared and areas for improvement. They will assist in planning and development of the process and peoples risk management understanding and knowledge

Should you have any questions please contact Jim Haynes on 731 2249

Business Area	
Risk Champion	
Completed by	
Date completed	

Instructions

Prior to completing this questionnaire please read the following:

- * Please complete only the green cells
- * Where possible please provide comments to support your response
- * For each question please choose between the following 6 answers entering the appropriate number in the green box:
 - 0 No awareness and/or understanding
 - 1 Awareness and understanding
 - 2 Implementation in progress
 - 3 Implemented in all areas
 - 4 Embedding and improving
 - 5 Excellent capability established

Hold cursor over entry box on questionnaire to highlight choices
Please now proceed to the Questionnaire worksheet

The Questionnaire



	Questions/Statements	Response	Supporting Comments
1. Risk Strategy and Policy			
1.1	I (and my staff) are aware of the Risk Management Policy for AXA UK viz: * Protect the Group from unforeseen losses by identifying and evaluating risks and focusing control efforts in areas of greatest exposure. * Optimise shareholder value within the limits of the risk appetite of the Group.	0	Please enter 1 - 6
1.2	I (and my staff) are aware of AXA's Risk Management Standards viz: * Clear definition and communication of responsibilities * Consistent application of risk assessments * Cost effective risk management strategy for each significant risk * Effective reporting and escalation procedures * Specialist risk management capability	0	Please enter 1 - 6
1.3	The Risk Management framework is sufficient to support activities in my business area.	0	Please enter 1 - 6
2. Leadership			
2.1	Business Unit Heads understand and take responsibility for the key risks in my area.	0	Please enter 1 - 6
2.2	The key risks that could result in key objectives not being met in my area are regularly reviewed and assessed for impact and likelihood.	0	Please enter 1 - 6
2.3	Owners are clearly assigned responsibility for assessing and managing identified issues.	0	Please enter 1 - 6
2.4	These owners have the necessary responsibility and authority to discharge their responsibilities	0	Please enter 1 - 6
2.5	I feel that I am equipped with adequate risk management skills to fulfil my role	0	Please enter 1 - 6
2.6	Issues are prioritised and then mitigating actions identified and put in place	0	Please enter 1 - 6
2.7	Effective communication about risk is encouraged in my business area?	0	Please enter 1 - 6
2.8	Support is given by management when despite risks being well managed things go wrong	0	Please enter 1 - 6
3. People			

The Questions and results



		Question #	Funzione	Funzione	Funzione	Funzione	Funzione	Funzione	Funzione	Funzione	Funzione	Funzione
Risk Strategy	I (and my staff) are aware of the Risk Management Policy for AXA UK viz: * Protect the Group from unforeseen losses by identifying and evaluating risks and focusing control efforts in areas of greatest exposure. * Optimise shareholder value within the limits of the risk appetite of the Group.	1.1	4.80			5.00	4.67	3.67	4.00	4.87	5.00	4.57
	I (and my staff) are aware of AXA's Risk Management Standards viz: * Clear definition and communication of responsibilities * Consistent application of risk assessments * Cost effective risk management strategy for each significant risk * Effective reporting and escalation procedures * Specialist risk management capability	1.2	4.80			4.00	4.83	4.00	4.00	4.07	5.33	4.43
	The Risk Management framework is sufficient to support activities in my business area.	1.3	5.20			4.00	4.00	4.33	4.00	4.87	5.33	4.53
	Total Q1	4.93			4.33	4.50	4.00	4.00	4.29	5.22		4.47
Leadership	Business Unit Heads understand and take responsibility for the key risks in my area.	2.1	5.20			6.00	5.17	5.00	5.00	5.07	5.33	5.25
	The key risks that could result in key objectives not being met in my area are regularly reviewed and assessed for impact and likelihood.	2.2	5.20			5.00	5.17	4.33	5.00	5.07	5.33	5.01
	Owners are clearly assigned responsibility for assessing and managing identified issues.	2.3	5.00			6.00	5.00	5.00	5.00	5.40	5.33	5.25
	These owners have the necessary responsibility and authority to discharge their responsibilities	2.4	4.80			6.00	5.00	5.00	4.00	5.00	4.67	4.92
	I feel that I am equipped with adequate risk management skills to fulfil my role	2.5	4.60			5.00	4.83	4.67	3.00	4.33	5.67	4.59
	Issues are prioritised and then mitigating actions identified and put in place	2.6	5.00			6.00	4.50	4.33	4.00	4.60	5.00	4.78
	Effective communication about risk is encouraged in my business area?	2.7	5.00			6.00	3.83	3.67	4.00	4.80	4.00	4.47
	Support is given by management when despite risks being well managed things go wrong	2.8	5.00			5.00	4.33	4.67	3.00	4.80	4.33	4.45
Total Q2	4.98			5.63	4.73	4.58	4.13	4.88	4.96		4.84	

The Questions and results (cont)



People

Process




There is a general culture of risk management at all levels in my business area	3.1	3.80			5.00	4.33	3.67	2.00	3.67	4.33		3.83
Managers and staff are aware of the key risks facing the whole business and my department	3.2	4.20			5.00	5.00	4.00	4.00	4.00	4.33		4.36
Managers and staff feel able to raise risk related issues even when bad news	3.3	5.00			6.00	5.17	4.67	3.00	5.07	5.33		4.89
Risk management is encouraged as part of the established way of planning and delivery in my business area	3.4	4.80			6.00	5.00	3.33	3.00	4.60	4.33		4.44
When staff are empowered to take risks they are aware that they must take responsibility to control and manage these	3.5	4.60			6.00	4.83	4.00	2.00	4.40	4.67		4.36
Risk management is encouraged as part of the established way of planning and delivery in my business area	3.6	4.40			5.00	4.67	3.33	2.00	4.00	4.33		3.96
Empowerment levels are sufficient to allow adequate risk management decision making	3.7	4.60			5.00	4.83	4.67	2.00	4.67	4.67		4.35
Within my business area risk management skills of staff are reviewed and training is provided on identified gaps.	3.8	3.60			5.00	4.17	3.00	2.00	2.87	3.00		3.38
	Total Q3	4.38			5.38	4.75	3.83	2.50	4.16	4.38		4.20
There are well established approaches for identifying risks and issues and assessing and reporting them in my business area	4.1	5.00			6.00	5.00	4.33	4.00	4.67	4.67		4.81
The risks and issues identified are fully documented providing the details, closure actions, ownership and completion dates.	4.2	5.40			5.00	5.33	4.33	5.00	5.40	4.67		5.02
I understand how these risks and issues are evaluated using defined criteria that is applied consistently	4.3	5.20			5.00	5.00	5.00	5.00	4.87	5.67		5.10
This criteria encompasses a number of factors i.e. financial, service delivery, regulatory, quality etc.	4.4	5.40			5.00	5.17	5.00	5.00	5.00	5.67		5.18
Risks and issues previously identified are regularly reviewed and updated	4.5	5.40			6.00	5.17	5.33	4.00	4.93	5.67		5.21
Regular and timely reporting of identified risk and issues is fully established within my business area	4.6	5.00			5.00	5.33	4.33	4.00	5.20	5.33		4.89
The process has flexibility to provide quick and effective response to new risks and issues and external challenges i.e. regulation	4.7	5.20			5.00	4.50	4.33	2.00	4.47	5.33		4.40
Risk assessment is always a standard consideration in the implementation of business change or new projects	4.8	4.80			6.00	4.67	4.67	5.00	4.67	5.33		5.02
	Total Q4	5.18			5.38	5.02	4.67	4.25	4.90	5.29		4.95
	Total	5.57			6.10	5.50	4.95	4.22	5.32	5.65		5.33

Assessment Methodology



- § The questionnaire is distributed to all Risk Champions and others involved in Risk Management
- § When returned a RAG status is established for each category within each work stream
- § An overall RAG status is then established to form a Heat Map for Customer Operations

Results of Business Areas Risk Self Assessment					
	Risk Strategy and Policy	Leadership	People	Process	Average
Function a	4.9	5.0	4.4	5.2	4.9
Function b	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Function c	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Function d	4.3	5.6	5.4	5.4	5.2
Function e	4.5	4.7	4.8	5.0	4.8
Function f	4.0	4.6	3.8	4.7	4.3
Function g	4.0	4.1	2.5	4.3	3.7
Function h	4.3	4.9	4.2	4.9	4.6
Function i	5.2	5.0	4.4	5.3	5.0
Function j	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Average	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Key		
	Score	Assessment
	Over 4.75	Embedded
	Between 2.25 & 4.75	Implemented but requires improvement
	Under 2.25	Not implemented

Terms of Reference



Terms of Reference - Customer Operations Risk Self Assessment Review September 2006

Introduction

Risk Self Assessment (RSA) Review is an integral part of Risk Management function within Customer Operations. It is performed by Risk and Reporting Team on an annual basis. It is a questionnaire based assessment which evaluates the performance and the maintenance of the risk management within Customer Operations. This document sets out the framework for undertaking RSA, describes its objectives and process to be followed.

Objectives of RSA

1. To perform an assessment and measure the progress made in developing and maintaining an effective Risk Management capability in each work stream within Customer Operations i.e. Motor Claims, Property Claims, Customer Services Personal Lines etc
2. To identify areas needing improvement
3. To determine and share the best practices between the business units
4. To help develop specific action plans to address the gaps
5. To help identify and manage key risks facing Customer Operations

Scope of RSA

Information will be gathered via a series of statements, which are grouped into the following categories and answer the following questions:

1. Risk Strategy and Policy – is it known, clear and followed?
2. Leadership – is risk management promoted and supported by management?
3. People – are people familiar with the set guidelines and procedures, do they feel equipped and supported to manage risks well?
4. Processes – do operational processes incorporate effective risk management i.e. adequate control mechanisms are in place?

Assessment Methodology

Each statement has a choice of 6 answers, which are graded on the scale from 1 to 6 where:

- 1 Strongly disagree
- 2 Disagree
- 3 Slightly disagree
- 4 Slightly agree
- 5 Agree
- 6 Strongly agree

From the information gathered in questionnaires a total score is given for each category. From this an overall RAG status is established to form a Heat Map for Customer Operations.

Process

The questionnaires are distributed to all Risk Champions and others involved in Risk Management. The results will be analysed in an Excel spreadsheet and a table produced to illustrate the findings. The results will be presented at the Customer Operation Risk, Audit and Compliance meeting.

An action plan will be agreed with each Business Area

What next?



§ **We are currently analysing the results to determine the plans for 2007.**

Early results indicate:

- More training required around risk strategy – what happens with the information at AXAI level and then at Group Level
- More top down feedback from Exec is required
- Process tends to capture current issues rather than future risks
- Risk Management not always used out side of filling in the dashboards i.e. not always used as part of key decision making.
- Training for all management – not just risk champions

§ **Action plans to be developed and agreed with each Work Stream**

§ **Progress on any actions will be reported to the Customer Operations risk committee**

§ **Further assessments will be carried out on an annual basis.**

§ **Extend to other business areas as they embed risk in their areas.**

Any Questions?



— Be Life Confident —