



## **S&P Approach for Assessing Emerging Risk Management**

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# S&P Insurance Ratings Methodology: Heads of Analysis

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- **Management & Strategy**
- **Competitive Position**
- **ERM**
- **Operating Performance**
- **Capitalisation**
- **Investments**
- **Liquidity**
- **Financial Flexibility**

# How S&P views ERM frameworks

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- **Standard & Poor's ERM assessment includes an analysis of:**
  - Risk management culture
  - Risk controls
    - Investment risk: credit, ALM, market
    - Underwriting risk
    - Catastrophe risk
    - Reinsurance risk
    - Reserving risk
    - Life insurance risk
    - New product risk
    - Operational risk
  - ***Emerging risk controls***
  - Risk models
  - Strategic risk management

# S&P ERM Classifications

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- **Excellent**
- **Strong**
- **Adequate, which is differentiated into 3 sub-levels:**
  - Adequate
  - Adequate with strong risk controls
  - Adequate with positive trend
- **Weak**

# S&P Criteria: Emerging Risk Management

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**Assessment based on the review of the following:**

- **Identification of emerging risks**
- **Assessment of their significance**
- **Response to findings**

**Assessments includes review of:**

- **Policies in place;**
- **Examples of reports;**
- **Actual actions taken in response**

# Identification of Emerging risks

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- **Framework of emerging risk monitoring**
- **Extent of information sources monitored**
- **Range of experts/departments involved**
- **How effectively embedded in practice**

# Impact Assessment

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- **Scope:**
  - Criteria for selection of emerging risks
  - Emerging risks included
  - Business lines covered
- **Timeliness/regularity of assessment**
  - Frequency of regular assessment
  - If a major new emerging risk identified how long before assessment will be done
- **Comprehensiveness of the assessment**
  - Completeness of the design of the scenarios
  - Consequential impact of scenarios
  - Accumulations across different lines

# Response to findings

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- **Range of actions considered**
- **Cost/benefit analysis of different actions**
- **Triggers for different actions**
- **Framework for timely implementation of actions**
- **Allowance in internal capital model**
- **Track record**

# Key issues

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- **Requires involvement of wide range of experts, but ultimately it is a judgement call**
- **Does it cover most relevant risks and impact?**
- **Is it seen as “tick box exercise” or is it seen as an important part of effective risk management?**
- **Willingness to act on findings, especially when difficult actions may be required?**

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