

Use test and embedding



Catherine Davidson

January 2011

Agenda



- Requirements
- QBE's approach
 - Activities
 - Progress
 - Other considerations

- 9 Principles in CP56
- Draft pre-consultation Level 3 guidance on the use test
- No checklist
- Various papers, summarises, presentation etc.
- Embedding not a new concept

But what does it actually mean in practice?

QBE's approach to use test and embedding



- Building model uses into core business processes (Principle 2, 5, 6)
- Develop risk dashboards – create MI that is usable (Principle 1, 3, 4, 5, 6, 8, 9)
- Provide knowledge and training (Principle 1, 6)
- Identify limitations and improve the model (Foundation Principle and Principle 5, 7)

Activity 1: build into core business processes



For example:

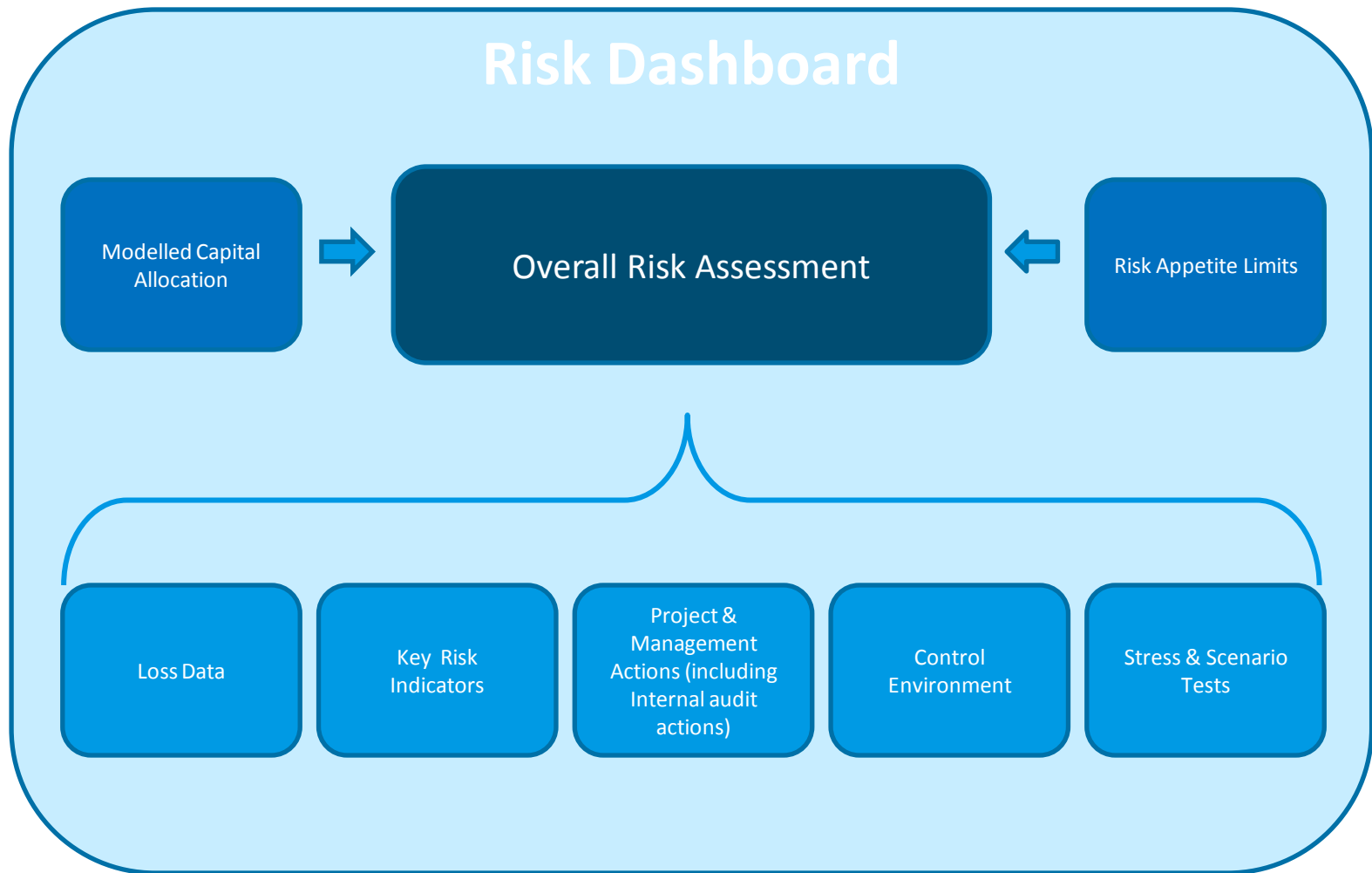
- Underwriting strategy through the business planning process
- Capital allocation to line of business, and therefore business plan monitoring (2007)
- Pricing e.g. for new products
- Remuneration - based on return on allocated capital
- Acquisitions
- Calculating regulatory capital (SCR)
- ORSA
- Standard risk MI

Activity 2: develop risk dashboards



- The key tool for delivering risk MI to the business – aligned to the granularity of decision-making.
- Consolidates the ERM framework in a concise manner to ensure that relevant risk information is available during key decision making activities.
- Includes control assessments, stress and scenario tests, key risk indicators, management action plans and loss events.
- Guide the business (particularly the key boards and committees), support decision-making and improve the management of risk.
- Allow comparisons between risk assessments, modelled capital allocations and risk appetite limits.
- Re-run appropriate dashboards to assess the impact of decisions (before making them)

Develop risk dashboards



Committees:

- Own all risk dashboards - ensure that risk dashboards are developed and maintained to support the assessment of both risk and capital.
- Challenge the accuracy and completeness of the underlying information.
- Consider the actions and decisions that arise from the risk and capital analysis and evidence any decisions made.
- Asked to appoint a 'risk champion' to facilitate the management of risk including dashboards

Risk champions:

- Develop and maintain the risk dashboards, including monitoring improvements
- Report approved changes (to the risk dashboards) to the ERM Team.

The ERM team:

- Facilitate the development of risk dashboards
- Support the process on an ongoing basis, assisting the risk champions to achieve the desired level of content and quality.
- Validation

3: Knowledge and training

- Knowledge requirements vary dependent on role
- Training activities linked to requirements, for example:
 - Board level training
 - CBT for general staff
 - Presentations/intranet/internal fact sheets
 - Continuous involvement for senior staff through dashboards
 - Continuous involvement for directors through the SII Steering Group & Risk and Capital Ctte.

4: Limitations and improvements to the model

- Use of the dashboards – wide review and validation
- Actual losses – compare loss events to capital numbers
- ERM team review and validation
- Internal audit review e.g. where model not being used

- Already used in business processes but increasing documentation and evidence
- Enhancing training materials and training plan
- Focusing on dashboards:

The ERM team coordinating the overall risk dashboard development process, but ownership remaining with business areas:

- Established key contacts within business areas.
- Introducing the risk dashboard concept and running through of the process
- A review of any areas already developed/part developed by business areas
- Developing drafts for consideration by committees
- Mapping to the risk register to ensure all relevant risks are covered
- Documentation of the risk dashboard development process
- Continuous refinement of the risk dashboard content through committee discussions.

Development

- Dashboard for each broad risk, and in some cases more granular (by underwriting division). Considerable work involved. Takes time to get it right.
- Dashboards are a key dependency for the use test
- Leaving ownership with the business – progress sometimes slow
- Resisting having a ‘list of uses’
- Documenting how the ‘use’ was identified, solutions designed etc.

Ongoing

- Culture, particularly in terms of evidencing decisions
- Keeping the dashboards live