

# I Risk Management Effectiveness

IRM Solvency II Special Interest  
Group

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## Agenda

### A Brief History of Time

- The Ghost of Risk Management Past
- Evolving standards and practices
- The Future?



## The Ghost of Risk Management Past

**“Trust me – I’m an underwriter”**

What does this mean to me?



## The Ghost of Risk Management Past

**What went wrong?**



**LLOYD'S**

**Where was Enterprise Risk Management?**



## The Ghost of Risk Management Past

### **The solution:**

Regulation, Regulation, Regulation

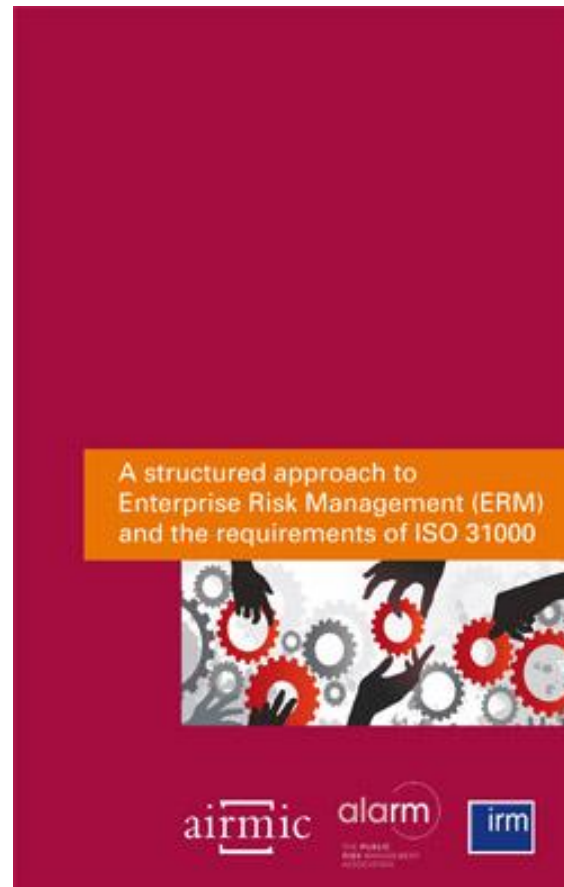
...and Enterprise Risk Management!

### **The Benefits:**



Evolving standards and practices

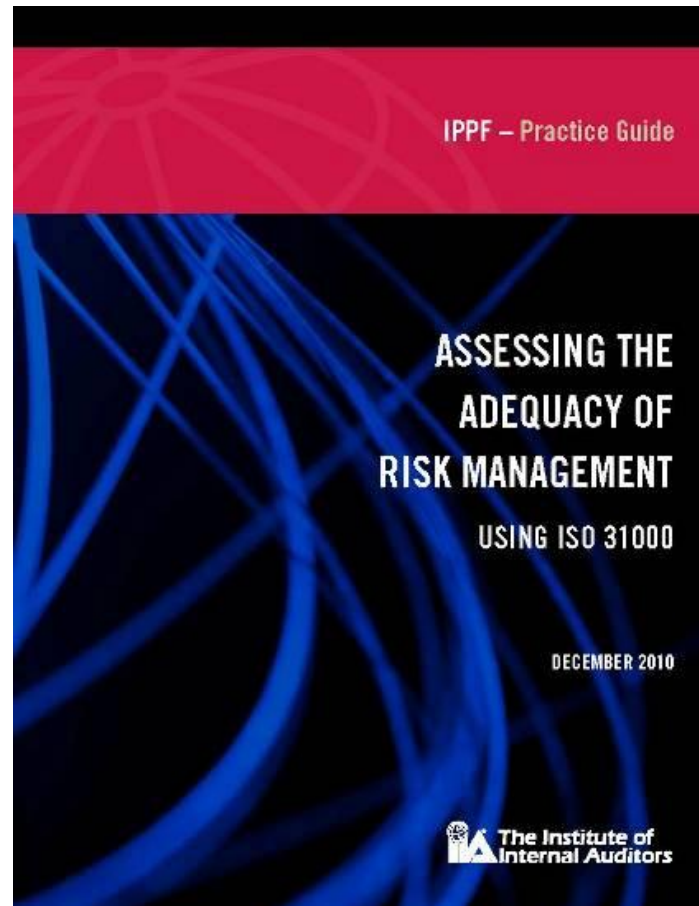
## A framework of RM Standards (we've got an ISO!)





Evolving standards and practices

## IIA Standards





Evolving standards and practices

## **In addition**

- Rating Agency Assessments of ERM
- Lloyd's and FSA standards and best practice
- Global regulation.....



## Evolving standards and practices

### **Board committees**

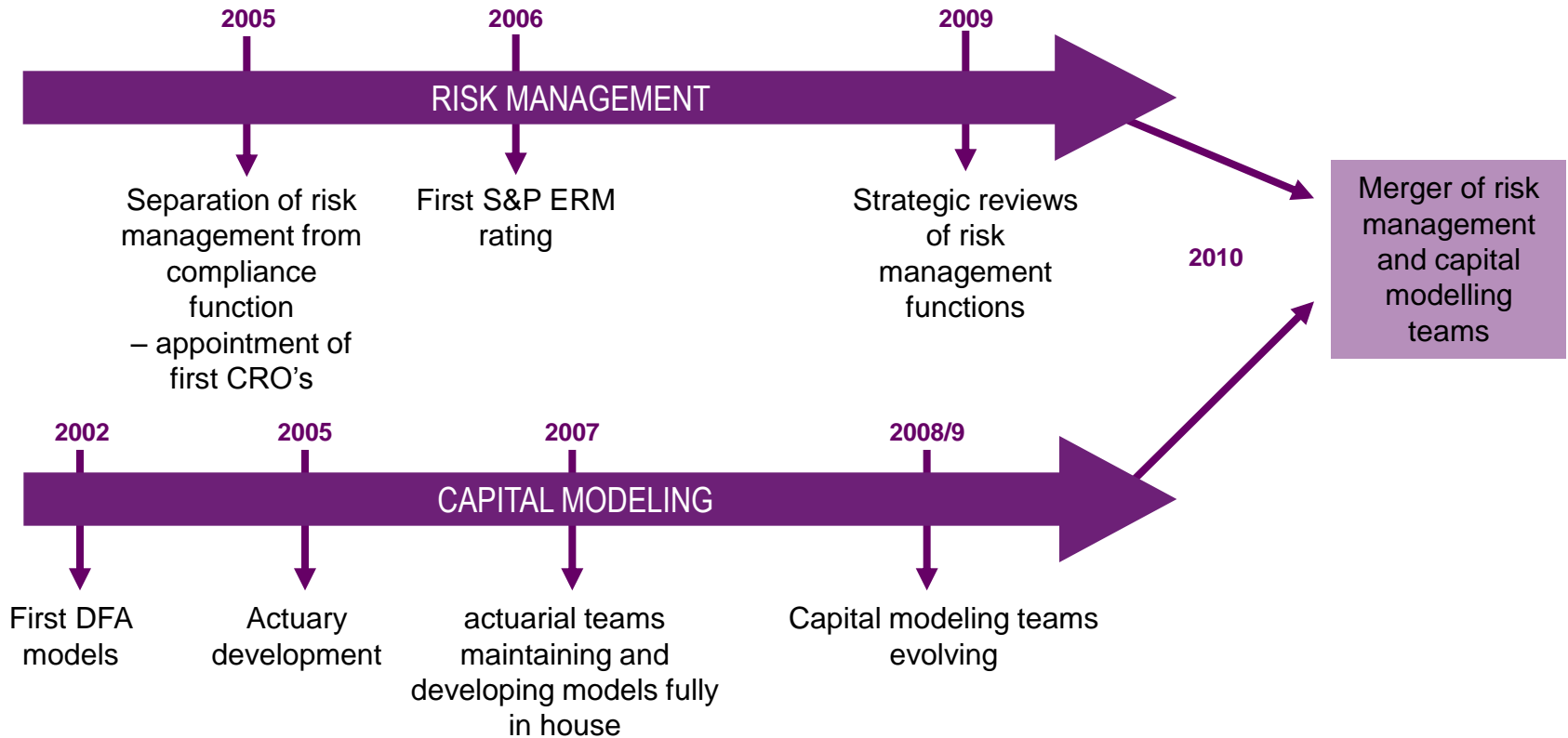
- Risk Committee
- Audit Committee
- Investment Committee

### **Key Management Committees**

- Executive Committee
- Capital Allocation Committee
- Reserve Committee
- Underwriting Standards Committee
- Credit Counterparty Committee



## Evolving standards and practices

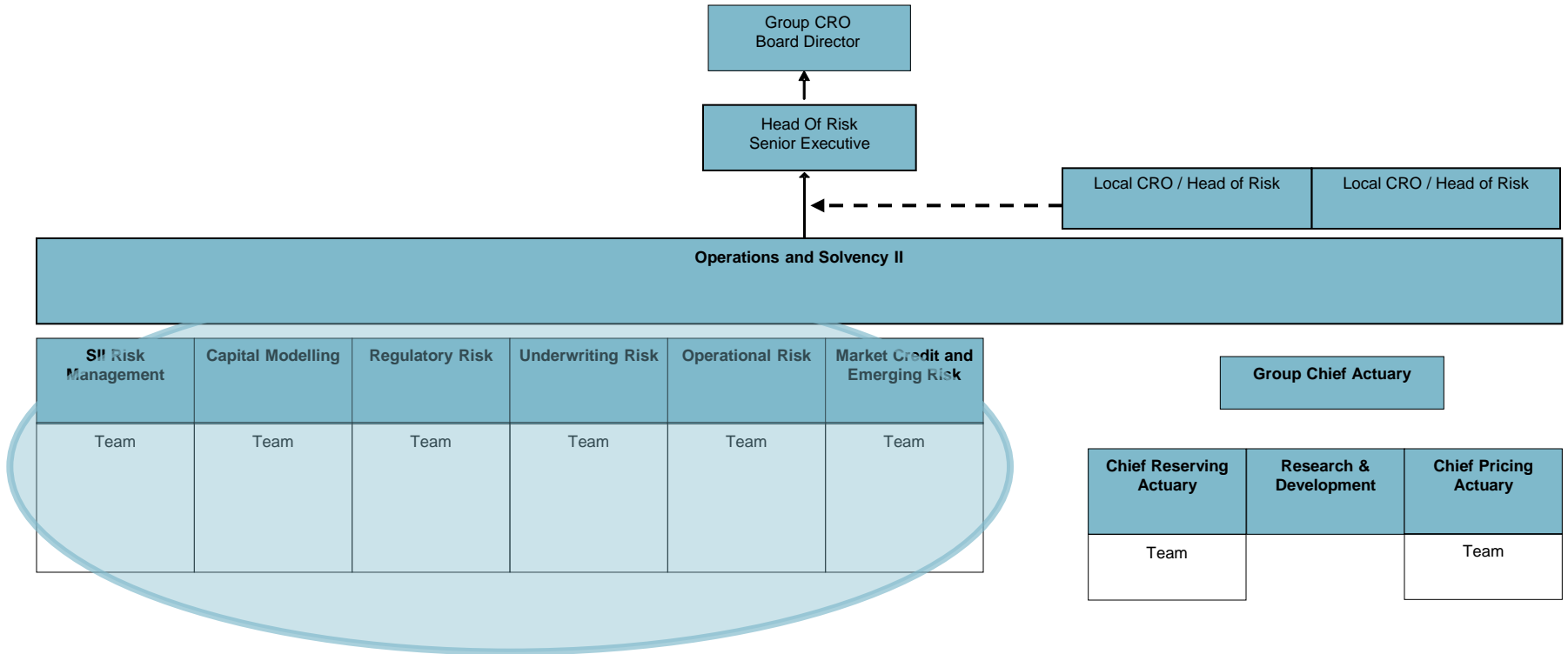


- Evolution from 'compliance' focus to integrated risk management.
- Merger of qualitative and quantitative approaches.



# Evolving standards and practices

## Risk Management & Actuarial: a new structure





## Evolving standards

### How effectiveness reviews have developed in scope

2005	2008	2011
<ul style="list-style-type: none"><li>• RM Framework and proposed 3LOD</li><li>• Process of identifying and maintaining the risk register</li><li>• Reporting</li></ul>	<ul style="list-style-type: none"><li>• Risk Policy setting and communication</li><li>• Risk Identification and assessment</li><li>• Monitoring, control and reporting</li></ul>	<ul style="list-style-type: none"><li>• Assessment of implemented RM processes</li><li>• RM framework design</li><li>• Documentation and evidence</li><li>• Completeness and accuracy</li><li>• Risk Appetite</li><li>• Internal Model Validation</li></ul>



## Evolving standards and practices Effectiveness reviews – Other approaches

- Defining and obtaining assurance over risk culture and “tone at the top”
- Emerging Risk Management
- Clarity of responsibilities between 1<sup>st</sup> and 2<sup>nd</sup> lines of defence
- Risk appetite (and cascading)
- Encouraging and rewarding positive risk management in all 3 LOD
- Effective Risk MI that drives business decisions



## The future?

- More corporate governance codes
- Further RM ISO development and standards (and audits thereof...)
- Integrated Assurance Reviews of all 3 LOD:
  - we are all responsible for effective (Risk) Management
- Solvency III....



I THANK YOU