



STRATEGY, MARKET DEVELOPMENT, RISKS INCLUDING NON- QUANTIFIABLE RISKS

Kathryn Moore and Stephen Dixon

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A presentation in two parts: 1

- Part One:
 - NED's role in strategy
 - Good strategy development
 - How to spot poorly thought through strategy
 - Spotting the risks
 - Non-quantifiable risks
- Steve Dixon

A presentation in two parts: 2

- Part Two:
 - How do you manage risks
 - How to get the best from MI
 - Your role in holding management to account
- Kathryn Moore





Part One: Steve Dixon

- NED's role in strategy
- Good strategy development
- How to spot poorly thought through strategy
- Spotting the risks
- Non-quantifiable risks



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Strategy

Strategy is not

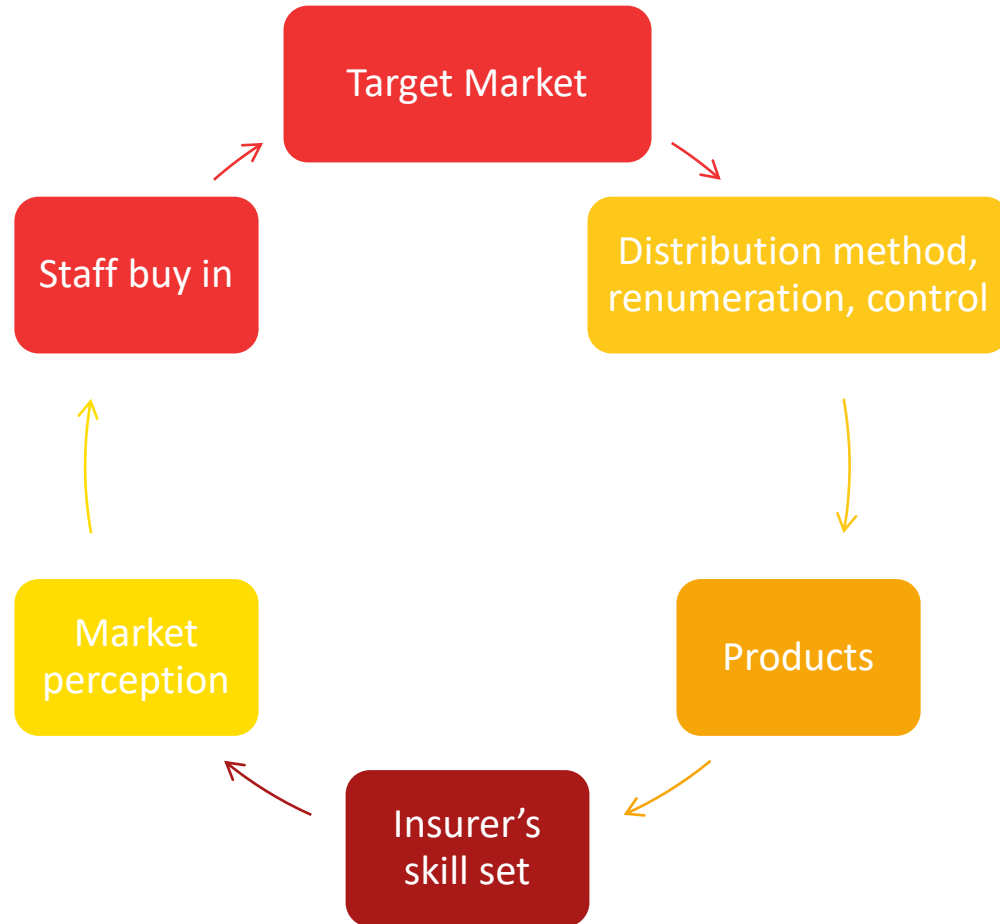
- Details
- Pay scales
- What colour the logo is

Strategy is

- Vision of direction
- Key components
- A key board responsibility
- Your job!



Strategy requires....



Poor strategies....

- No definition of target market
- No clear view of distributors or their needs
- No reason why target market needs the product
- No reason why distributors feel comfortable with product
- Insufficient margins for distributors and for insurer
- No internal expertise on the product or the market
- Or the distribution method
- No real link between product / market and how insurer is perceived – what it does
- Staff demotivated by “yet another initiative”



Example of new direction.....

Internal expertise

- Bought existing Lloyds broker in car insurance

Perception

- Advertising, new brand

Distribution model

Product fitted for distribution and target

Awards, success and new future



New directions.....

- Take time
- Take focus



Controls on management

- Ensure you believe in the strategy
- Do they?
- Are all the key points in place?
- If not – why not?
- Spend to achieve but
 - Check that spending is productive



Key issues.....



Non-quantifiable risks

- Nearly every major loss or company failure has its roots in the Board
- Nearly all have come from events not expected
- Roads to Ruin....



Key areas of risk

- Board skill and NED control lacking
- Board risk blindness especially on reputation
- Poor leadership on ethos and culture
- Defective communication
- Excessive complexity
- Inappropriate incentives
- Risk “glass ceilings”



Example 1: AIG

- Greenberg (CEO) punished those who didn't achieve the growth / profit targets
- Hidden losses by creative reinsurance
- Fraud
- Lost AAA rating
- More collateral needed
- Losses on CDS market
- Board made up of loyal friends and the great and good.



Examples reputational risk

- Arthur Andersen and Enron
- Network Rail and incompetence to repair track
- Passport Office
- Firestone tyres and defective tyres
- Northern Rock and “run on the bank”
- EADS Airbus A380 and wiring
- Shell overstating its oil reserves by 23%



Ethos and Culture

- Arthur Andersen and Enron
- Enormous fees from consultancy
- Queries on independence
- Shredded files before case launched
- No moral compass.



Defective communication

- Not listening to outside experience
 - Independent Insurance results “too good to be true”
 - Ignored by actuary, auditor and board
- Northern Rock required continuous market in its Granite paper
- Zurich had assumed that South African sibling company would adhere to its data protection standards – data loss ensued.



Complexity

- Always makes it very difficult to manage the business



Incentives

- BP executives had 70% of bonus on financial measures and 15% on safety....
- AIG's subsidiary had 50% of bonuses on short term performance
- Arthur Andersen rewarded those who doubled audit fees with consultancy fees and punished those who didn't
- Shell had incentives based on the oil reserves

Glass ceiling

- Societe General
 - Lots of queries on Kerviel, none followed up
 - Compliance officer not able to challenge superiors or Kerviel



Part Two: Kathryn Moore

- How do you manage risks?
- How to get the best from MI
- Your role in holding management to account

How do you manage risks?

What is your Risk Strategy?

- A document which is reviewed every year?
- A process followed by the risk department to produce MI presented to the Board?
- How the business manages its risks?



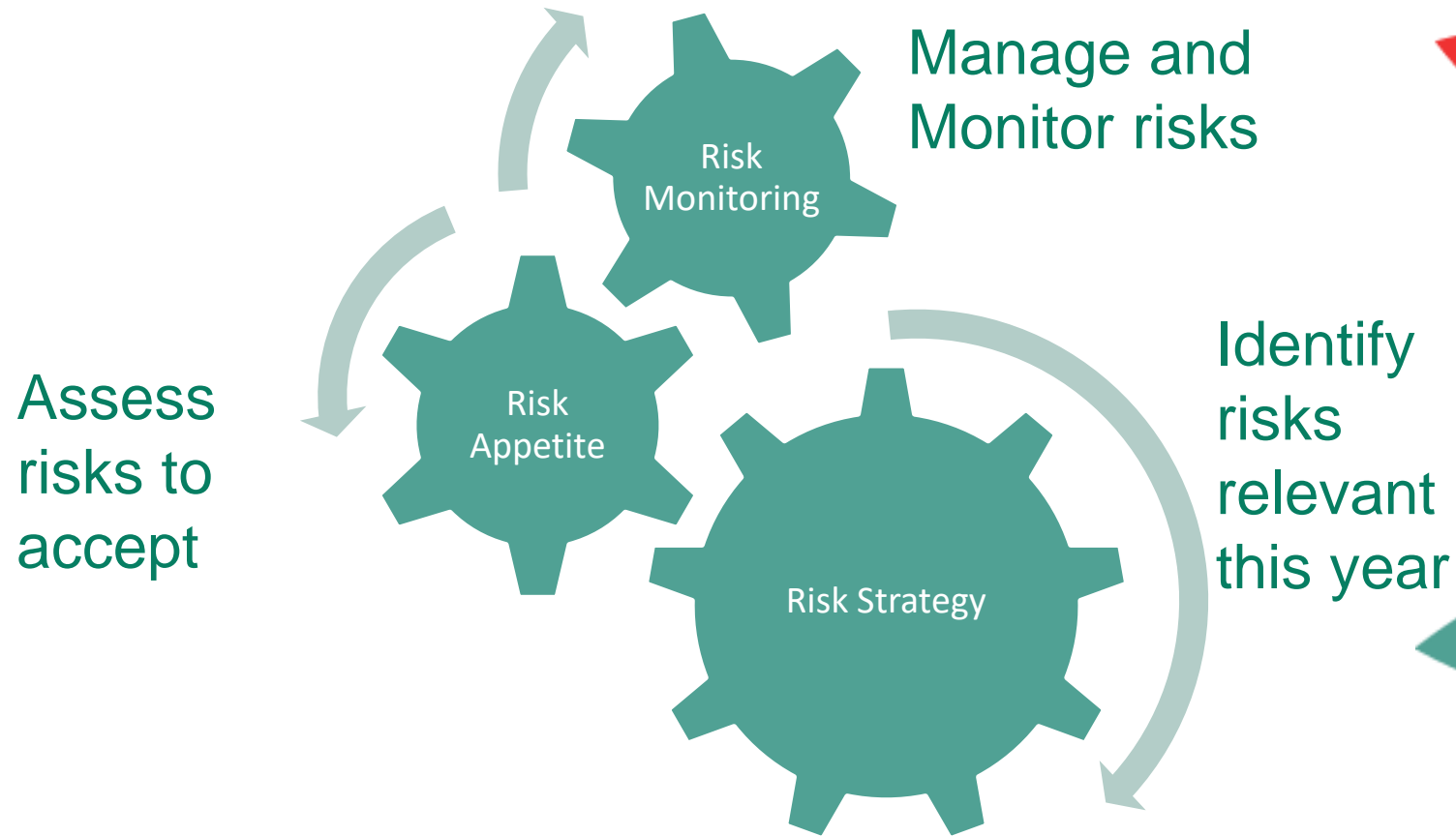
How do you manage risks?

What should your Risk Strategy do?

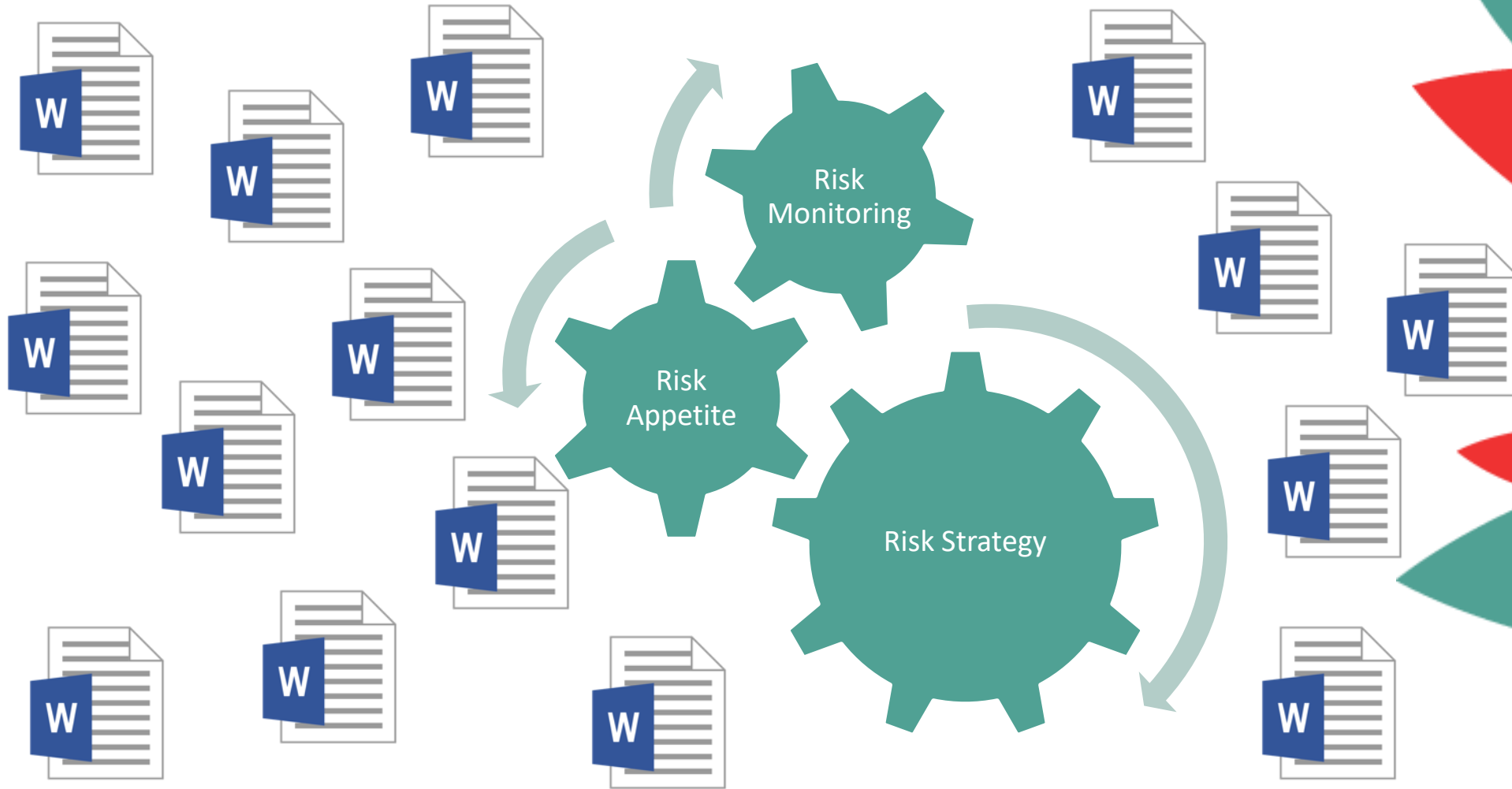
- Support the business strategy
- Enable the business to identify the risks associated with the business strategy
- Enable the business to agree how much risk to take
- Enable the business to manage the risk by monitoring its exposure



How do you manage risks?



How to get the best from MI



How to get the best from MI



What is Management Information?

- Those monthly reports we see at every meeting
- Tables and tables of numbers
- The Accounts and Regulatory Returns
- Board Papers



What is Management Information?

- Those monthly reports we see every meeting
- Tables and tables of tables
- The Accounts and Financial Returns
- Board Papers



What is Useful Management Information?

- It answers your questions
- It is relevant
- It is timely
- It supports decision making

COMPLETE ACCURATE APPROPRIATE



What is the Board's Role?

- To ask the questions
- To challenge the business strategy
- To understand the potential risks
- To understand the impact of future events
- To ensure that questions are answered
- To ask for evidence that historic commitments have been followed through
- To use wider experience to suggest alternative solutions





For more information, please contact

Kathryn.Moore@sda-llp.co.uk

Stephen.Dixon@sda-llp.co.uk

Telephone: 01372 739034



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