

The Risk Rucksack

Contents

- Introduction
- Why a risk rucksack?
- Outline Reporting
- What have we learned/problems
- Conclusion



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- **Introduction**
- Why a risk rucksack?
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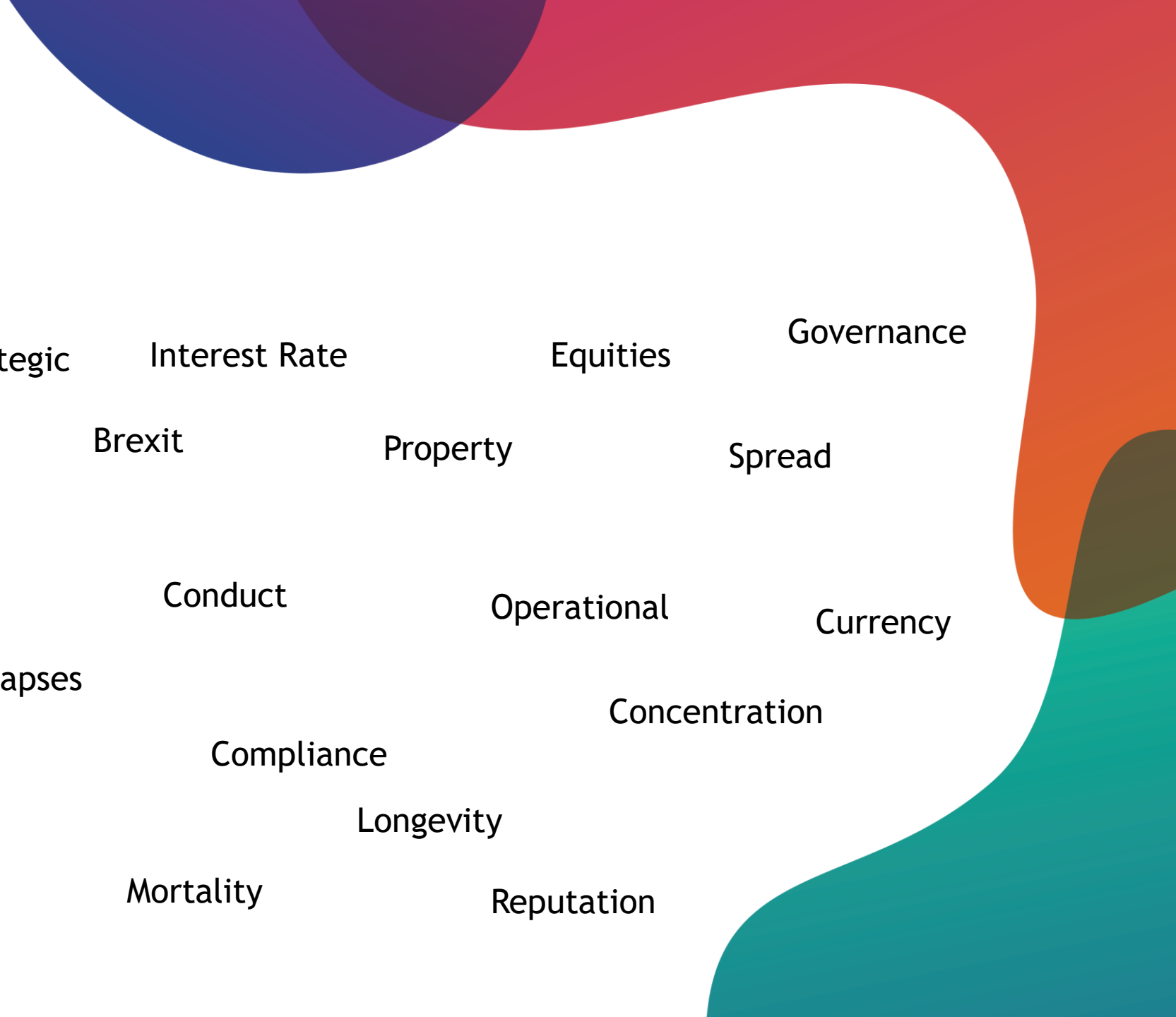


Introduction

- What are the problems with risk reporting?



Introduction



Reserving
Legal
Contagion
Inflation
Expenses
Climate Change
Morbidity


Strategic
Model
Liquidity
Lapses
Mortality

Interest Rate
Brexit
Conduct
Compliance
Longevity

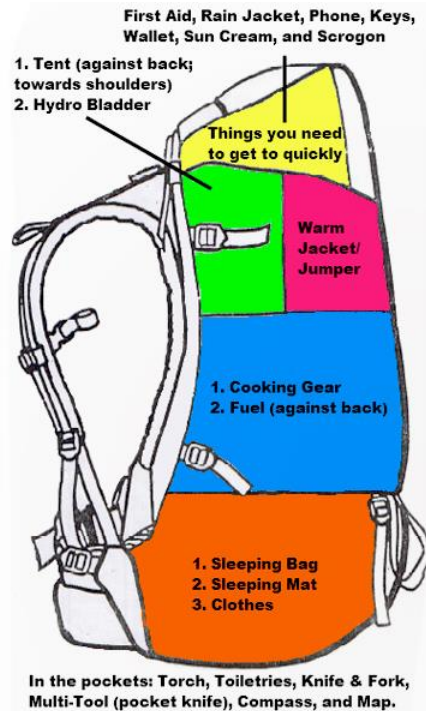
Equities
Property
Operational
Concentration
Reputation

Governance
Spread
Currency

Problems with Risk Reporting

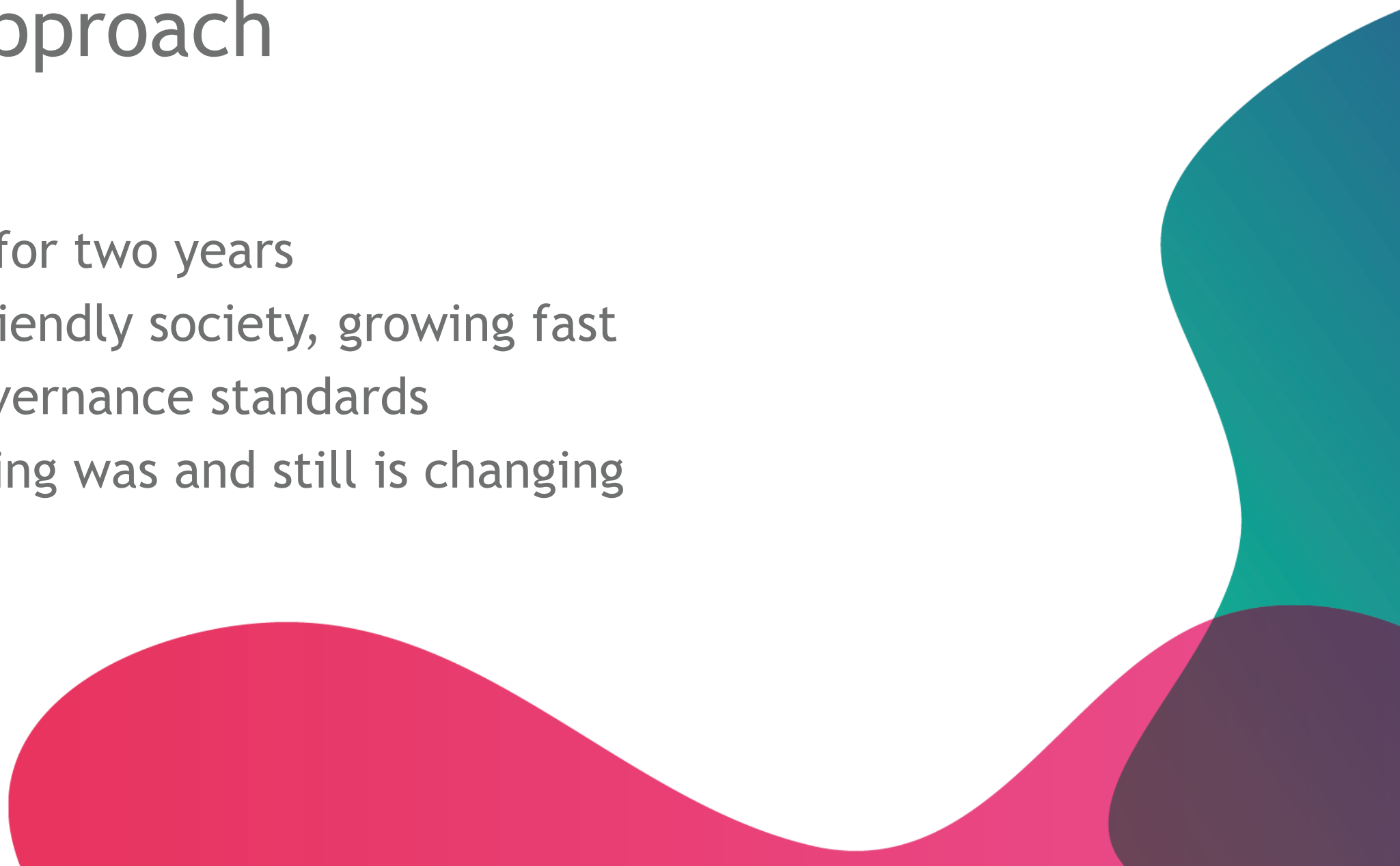
- The subject is vast
 - No-one is an expert on it all
 - The language does not help
 - Boards have to cover it all
 - Regulatory requirements are demanding
- 

Why a risk rucksack?



- Self contained, finite
- Everything you could need
- Carried around lightly
- Always a spare corner
- Does the job
- Fits comfortably

The Approach

- Piloted for two years
 - Small friendly society, growing fast
 - High governance standards
 - Everything was and still is changing
- 

Principles

- The biggest risk is not meeting the business plan
- The plan is not exact - what's your tolerance?
- You can miss the plan slowly or quickly
- RMS and ICS are different
- Judgement is more useful than forcing a process

Risk Rucksack

An approach to risk reporting

Principally, four types of risk considered

A: Business Plan Risks

B: Governance Risks

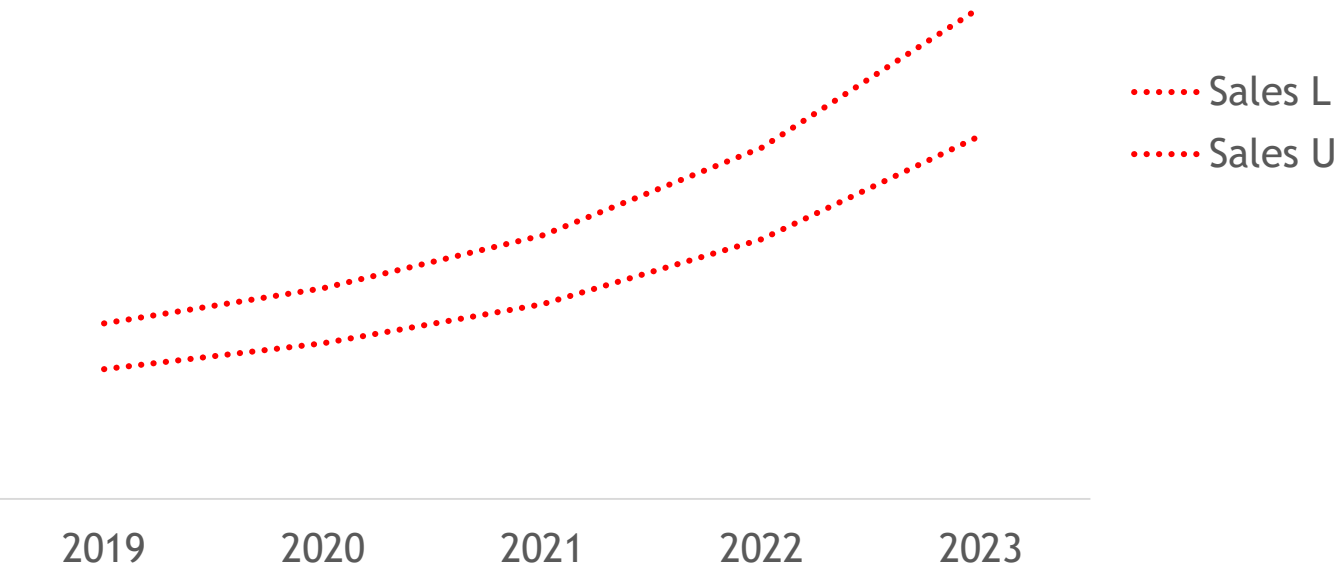
C: Solvency Risks

D: Operational Risks



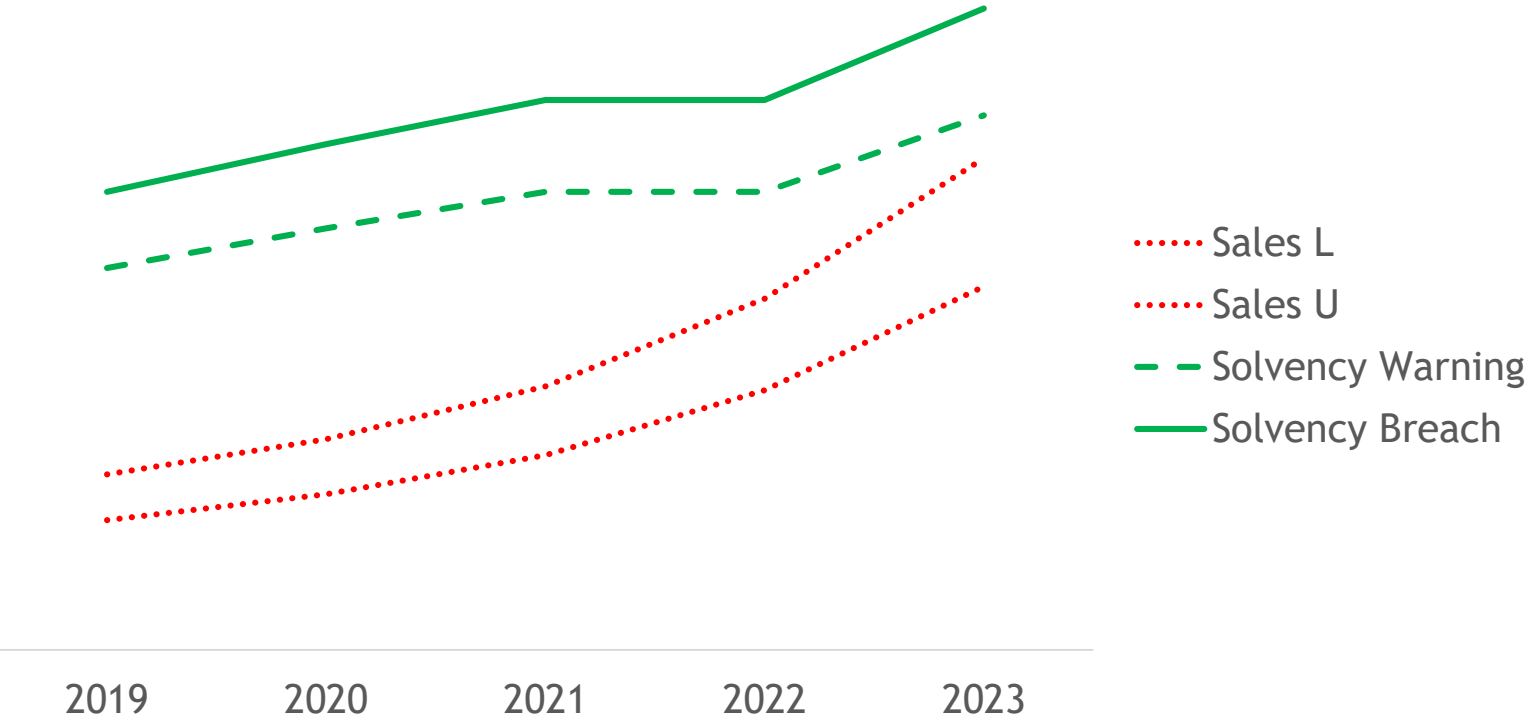
A: Business Plan Risks

Risk Corridor - Sales



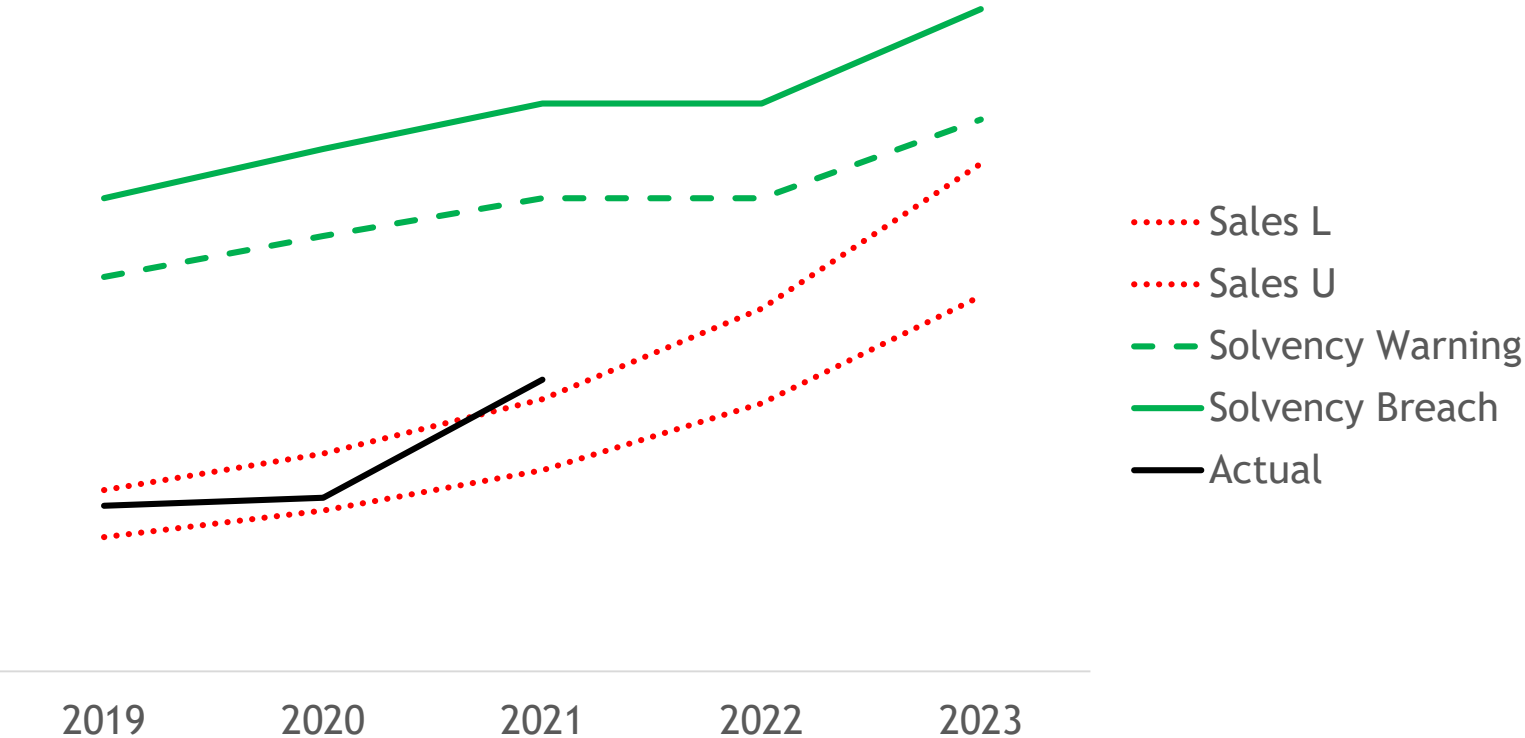
A: Business Plan Risks

Risk Corridor - Sales




A: Business Plan Risks

Risk Corridor - Sales



A: Business Plan Risks

- Sales
 - Expenses
 - Member numbers
 - Claims
 - Net Cashflow
 - &
 - Projects
- 

B: Governance Risks

- Board & Committee Governance
- Financial Governance
- Member Governance
- Investment Governance
- Legal & Regulatory Governance
- Compliance Governance
- Conduct Governance

C: Solvency Risks

- Market Risk
- Health Risk
- Life Risk
- Non-life Risk

or whatever version suits the firm

D: Operational Risk



D: Operational Risk

- Where internal control and risk management meet

D: Operational Risk

Risk tolerance

1,200 incidents with no or low cost per year

12 incidents costing £1,000 - £10,000 per year

1 incident costing >£10,000 per year

1 incident costing > £50,000 every 3 years

Risk Rucksack

A: Business Plan Risks

B: Governance Risks

C: Solvency Risks

D: Operational Risks



Risk Rucksack

A: Business Plan Risks

B: Governance Risks

C: Solvency Risks

D: Operational Risks

E: Internal Control System

F: Business Continuity

G: Emerging Risk

H: Risk Management System

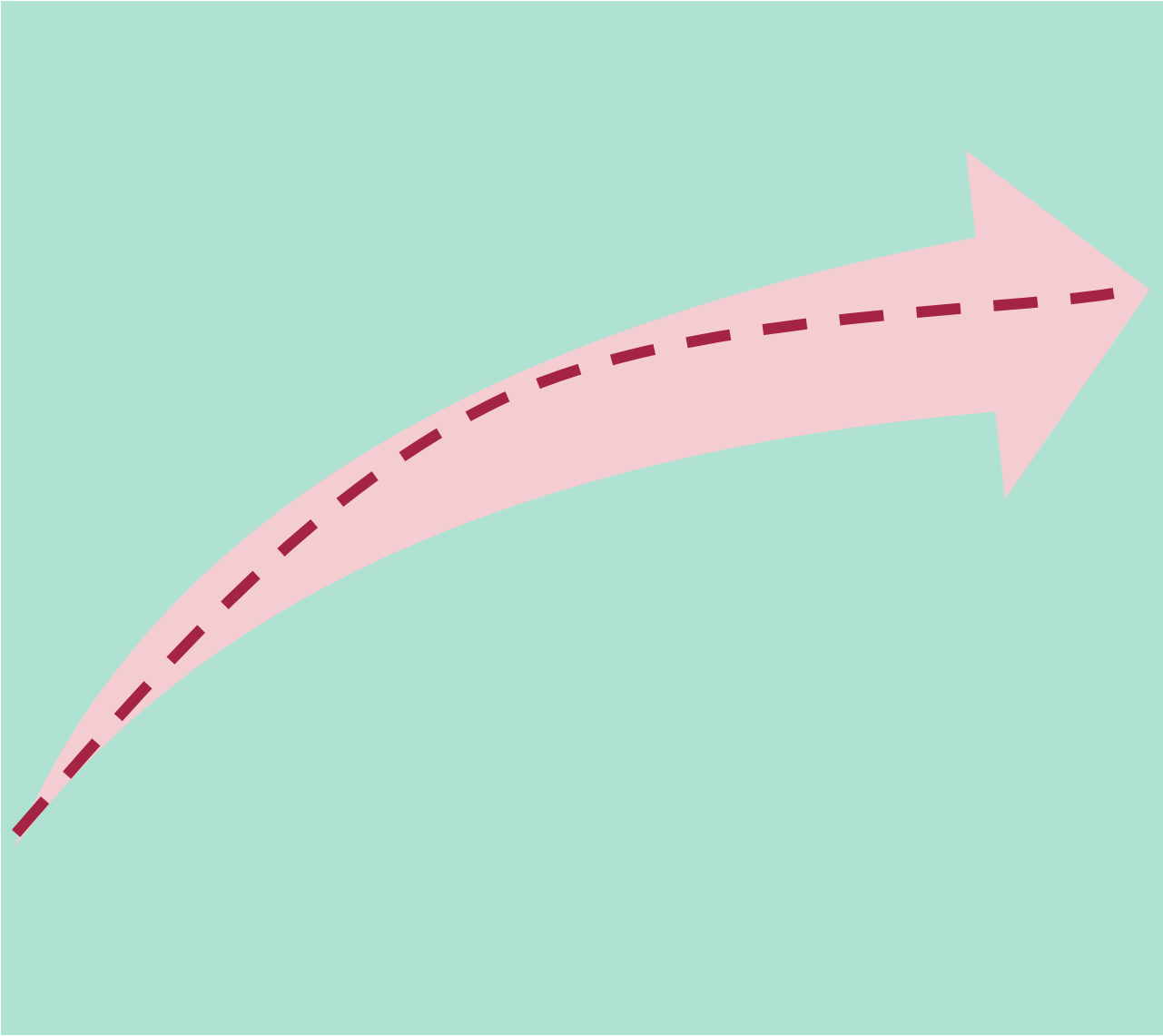
E: Internal Control System

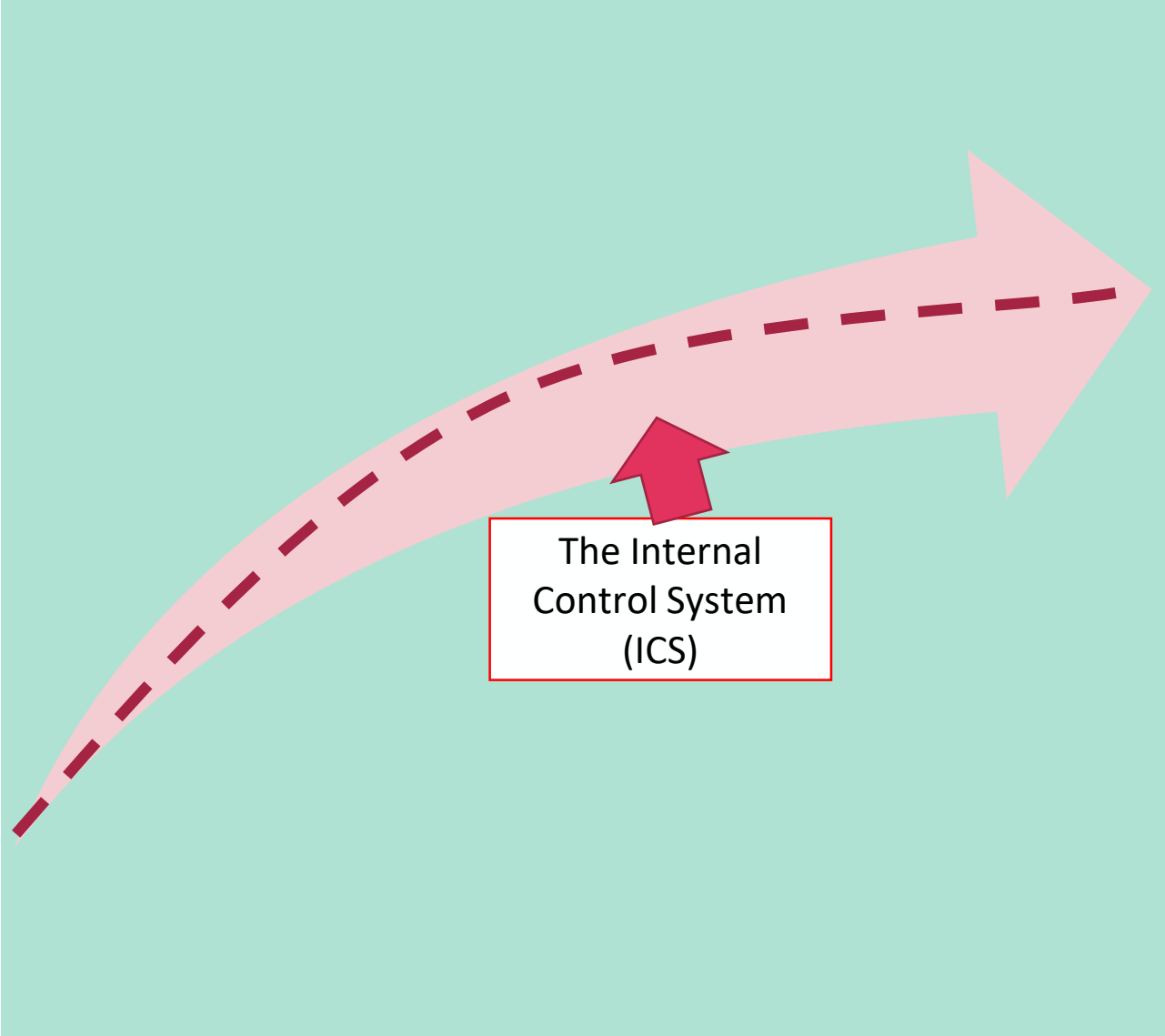
Treat

- Internal Control System (ICS)

separately from

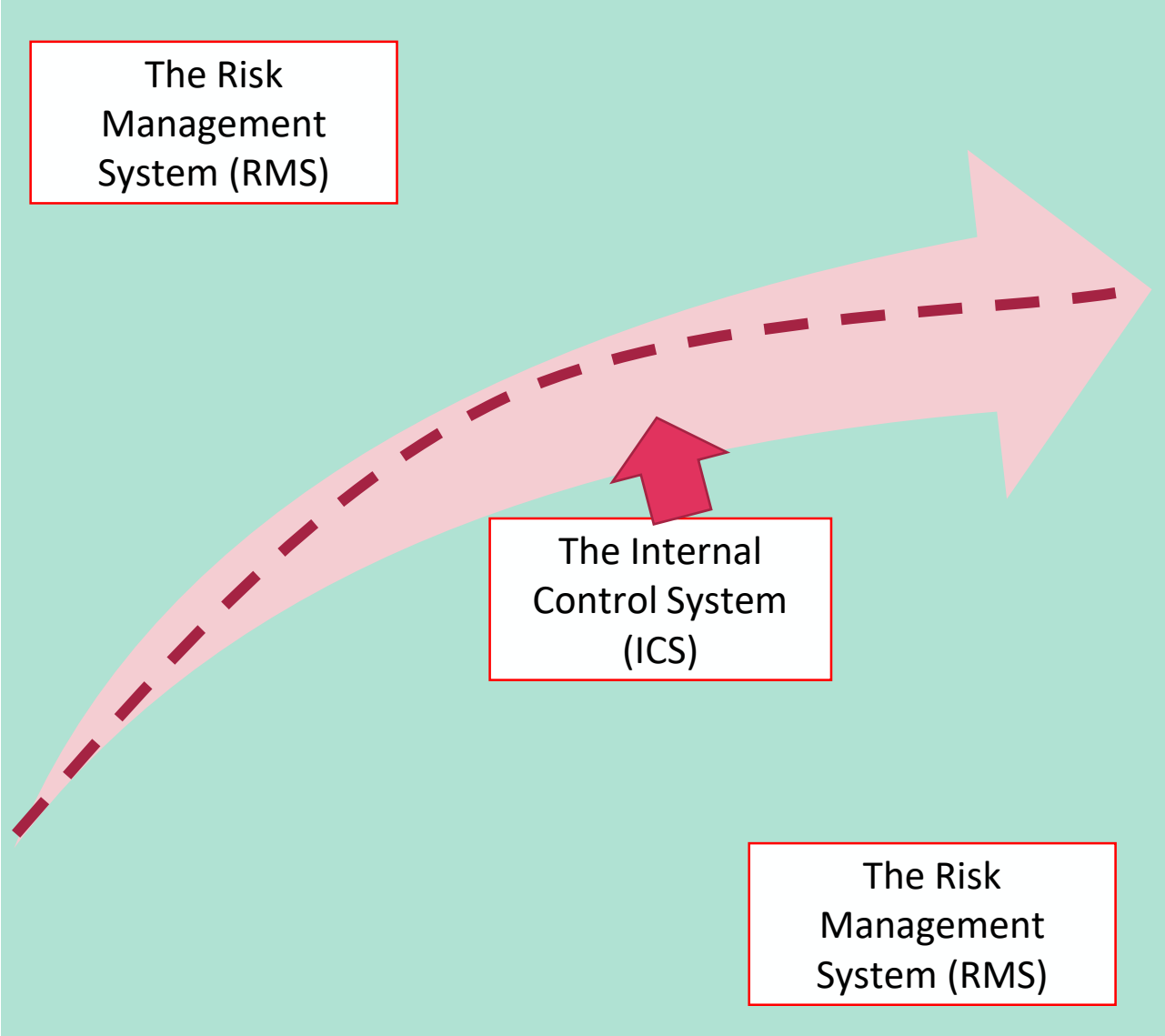
- Risk Management System (RMS)





The Internal
Control System
(ICS)





E: Internal Control System

1

- Controls are effective, dynamic and linked to the current and future environment

2

- Controls are effective and developing

3

- Controls are effective

4

- Controls are effective in all material areas

5

- Controls are ineffective in some material areas

6

- Controls are ineffective

E: Internal Control System

- Primarily about operational risk
- You have managers to do this
- They are poor at abstracting risk, but good at their jobs
- We ask managers to judge their controls
- We feed back incidents and allow them to self-correct
- Our managers are thus accountable for their internal control environment and risk management system components

E: Internal Control System

Meetings

- All Heads of areas (or risk people)
- Declare their control status
- Discuss areas of concern
- Learn something
- Conscience Question

What steps have been taken to avoid a risk crystallising (as distinct from a control matter)?

F: Business Continuity

A very particular part of the RMS

The bottom of the slide features a decorative graphic consisting of several overlapping, wavy, organic shapes. On the left, there is a large pink shape. In the center, there is a smaller red shape. On the right, there is a large yellow shape that overlaps with the pink and red shapes. The overall effect is a colorful, abstract border at the bottom of the white background.

G: Emerging Risk

- Brexit
- Cyber

H: Risk Management System

Review of effectiveness
Is the RMS effective?



Risk Rucksack

A: Business Plan Risks

B: Governance Risks

C: Solvency Risks

D: Operational Risks

E: Internal Control System

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What have we learned/problems?

- Works well for Board reporting
 - Links directly with risk appetite/tolerance
 - Concern that risk is too neutral a topic
 - Risk assessments use the same format

What have we learned/problems?

- What are your risk meetings like?

What have we learned/problems?

- What are your risk meetings like?
 - Internal Control Meetings
 - All Heads of areas (or risk people)
 - Declare their control status
 - Discuss areas of concern
 - Learn something
 - Conscience Question

What have we learned/problems?

- What are your risk meetings like?
 - Internal Control Meetings
 - All Heads of areas (or risk people)
 - Declare their control status
 - Discuss areas of concern
 - Learn something
 - Conscience Question
 - Risk & Control Meetings
 - A clearing house
 - Risk professionals
 - Supports the CRO
 - What goes to the ARC, the Board, Executive
 - Resource issues

What have we learned/problems?

- Do you have a risk dashboard?



What have we learned/problems?

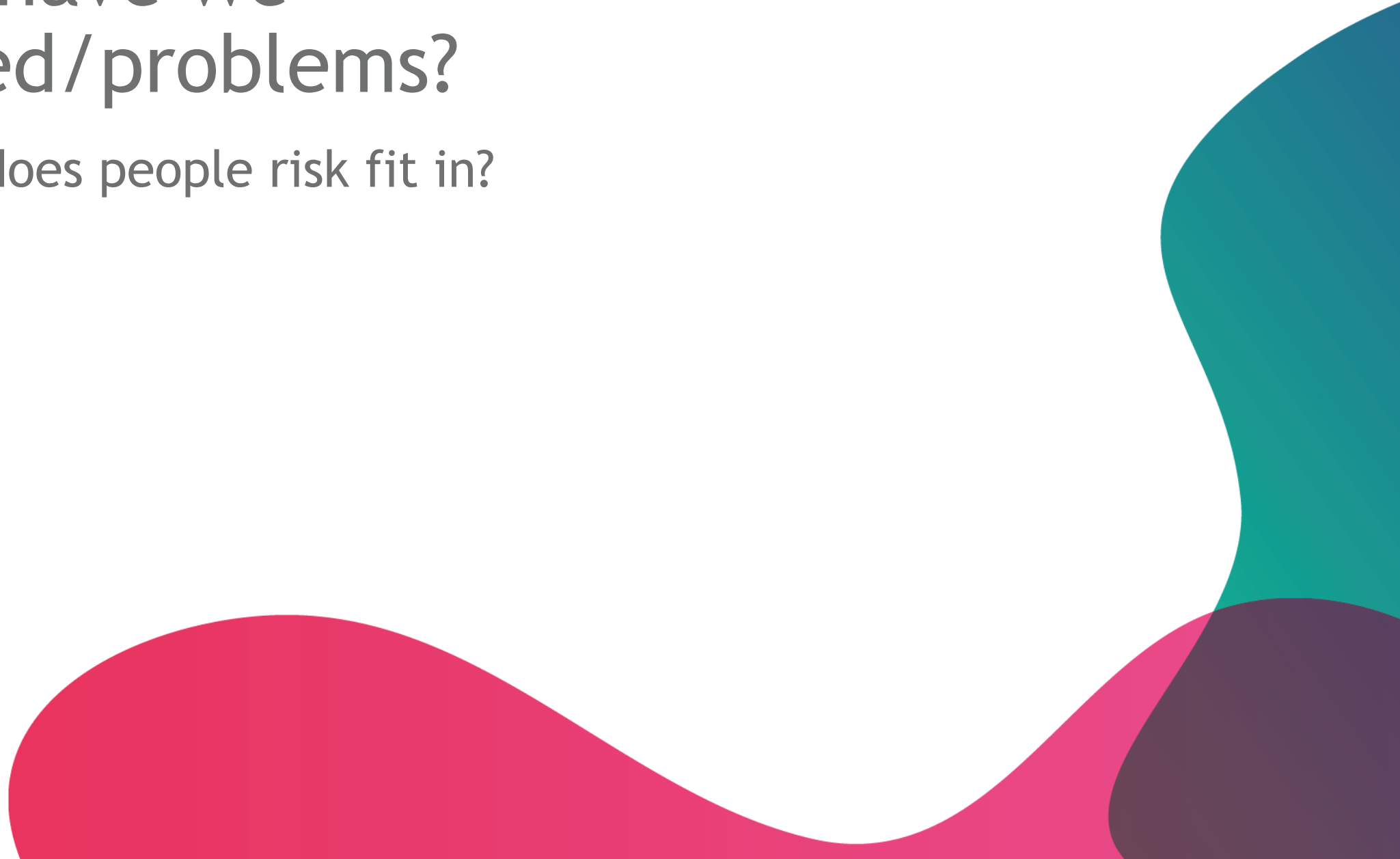
- Do you have a risk register?

What have we learned/problems?

- Do we use heat maps of impact/incidence?

What have we learned/problems?

- Where does people risk fit in?



What have we learned/problems?

- Where does people risk fit in?
 - People risk is a compound risk
 - Many components
 - Many possible outputs (already captured?)
 - Many ways to manage
 - Are testing an approach
 - Too soon to present...

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Conclusion

The Risk Rucksack

- seems to work
- has simplified reporting
- no loss of input possibilities for Board
- does not perpetuate a silo
- allows the risk professionals space to work
- Supports risk appetite/risk reviews
- respects management's judgement



The End