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News Release

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Increasing External Demands Compel Companies to Improve Risk Management Disclosures, Finds Guy Carpenter

Enterprise Risk Management Benchmark Review Shows Increased Focus on Metric-Based Analysis

New York, March 20, 2014 – Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist, today released its latest Enterprise Risk Management (ERM) Benchmark Review that provides an in-depth analysis of risk management practices and policies of 67 insurance and reinsurance companies located in Europe, United States, Bermuda, and Asia-Pacific. Based on publicly-available data from financial and risk reports, Guy Carpenter's ERM Benchmark Review reveals that most (re)insurers are managing capital with metric-based frameworks and are publishing more about their risk management targets than seen in Guy Carpenter's 2009 analysis. Capital market, legislative, and regulatory influences, such as the approaching implementation of Solvency II, are expected to further compel company managements to better recognize and analyze the risks of their enterprises.

"External demands such as regulatory developments, the ongoing sovereign bond crisis, and global natural catastrophe events are again showing how critical it is for insurance and reinsurance companies to effectively assess their corporate risks," said Markus Mueller, Senior Vice President. "With a thorough understanding of enterprise-wide risk and the integration of this knowledge into the business decision-making process, companies will be better prepared to respond to internal and external questions relating to risk and capital."

Risk Types

In addition to an analysis of market, credit, and insurance risk, a new metric referring to catastrophe risk has been added to the 2013 ERM benchmark study given its importance in the economic capital approach of (re)insurers.

For the different risk types analyzed, the general level of disclosure has increased globally, indicating growing attention and improved measurement capabilities among (re)insurers. This is particularly true for European carriers who are focusing their risk management processes in view of Solvency II as well as companies in Asia-Pacific, Bermuda, and North America, which appear to be catching up with the disclosure quality of their European counterparts.

Risk Governance

Measuring the integration process of a risk-based culture inside organizations, the 2013 analysis finds that companies are increasingly incorporating risk management into their performance and incentives policies. This appears to be consistent with the increased requirements imposed by new regulation, such as Solvency II and the NAIC's ORSA Model Act. Specifically, beginning in 2015, U.S. regulators are expected to require companies with more than USD500 million in direct premiums to file an annual ORSA summary report.

Capital Management
For the first time, the study investigated capital management as a central component of risk management practices. The study found that companies were generally developing their own risk-based capital models that need approval from either risk committees or authorities and external independent third parties. Interestingly, companies appear to be reluctant to disclose the exact level of their excess capital, but rather typically refer to their excess capital as a proxy that provides reassurances about their risk levels without explicitly reporting it.

Regulation Drives Need for Transparency
Reinforcing the analysis from previous briefings, the 2013 update of the ERM Review concludes that increasing external demands will drive (re)insurers to recognize the value of metric-based ERM frameworks and capital models in evaluating risks. The main external factor will be the final implementation of Solvency II in Europe, anticipated to take effect in 2016. It is likely that insurance regulators outside of Europe will adopt many parts of Solvency II as a holistic risk regulation framework. Also, the requirements of International Financial Reporting Standards (IFRS), which focus on market-consistent valuation of insurance liabilities and globalization of the insurance market will push companies to improve the quality of risk management disclosure, especially towards corporate quantitative goals and risk strategy.

“The improvement in disclosures observed in the past three years shows that a rapid evolution is underway,” said Mueller. “A more robust investment in ERM provides companies and their stakeholders with a better understanding of risk strategy in order to drive capital efficiencies and maximize stable risk-adjusted returns as part of an articulated business plan.”

TAGS/KEYWORDS
Guy Carpenter, GC Securities, Solvency II, Markus Mueller, ERM, capital models, risk management

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