Delivering risk management into the business – clash of cultures…
meeting of minds…adding value

Stephane Le Donné, AXA
Mike Wilkinson, Towers Watson
Sabine Leboulanger, Towers Watson

26 – 27 September 2013, Brussels
Delivering risk management into the business:

Clash of Cultures…

Meeting of Minds…

Adding Value
Agenda

- The challenge
- Discussion with AXA
- Building success
- Q&A
What’s needed in practice?

Embedding
- risk based decision making – aligning risk profile and growth strategy at board level

Establishing
- the purpose and ethos of the risk function – putting it into practice and demonstrating its value

Building
- an integrated and complementary assurance model – separating out first line activities

Empowering
- the whole organisation – cementing risk management awareness, responsibilities and governance within the structure

Implementing
- a practical evidential and monitoring framework – bringing tangible benefits without overburdening the business
Evolving a mature risk operating model

- Maximising effectiveness & efficiency
  - Embedded risk culture
  - Well integrated lines of defence
  - Proportionate risk governance

- Making work in practice
  - Responsibilities & Accountabilities clearly allocated
  - Risk Management framework
  - Effective MI & Communication
  - Effectiveness of decision making

- What needs to be in place
  - Clearly defined organisational structure
  - Key Function policies and ToR
  - Risk policies and processes
  - Internal Control System
Aligning and sustaining the risk culture

“What should our risk culture be?”

Empirical assessment

Prioritise cultural levers

Implementation & alignment

Create sustainability

“How do people in our company view risk management?”

“How do I ensure our incentive programme takes account of risk and meets regulatory requirements?”
Effective integration across the business

<table>
<thead>
<tr>
<th>Risk-Based Management</th>
<th>Risk Controls and Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition of value creation</td>
<td></td>
</tr>
<tr>
<td>Optimisation of value creation</td>
<td></td>
</tr>
<tr>
<td>Capital management</td>
<td></td>
</tr>
<tr>
<td>Risk in business planning</td>
<td></td>
</tr>
<tr>
<td>Risk control process</td>
<td></td>
</tr>
<tr>
<td>Risk policies</td>
<td></td>
</tr>
<tr>
<td>Emerging risk management</td>
<td></td>
</tr>
<tr>
<td>ORSA report</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Governance</th>
<th>Risk Culture</th>
<th>Tools, Systems and Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roles and responsibilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk reporting and MI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attitudes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Behaviour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk models for each risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic capital model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting tools</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Appetite Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk strategy</td>
</tr>
<tr>
<td>Risk preferences</td>
</tr>
<tr>
<td>Risk tolerances</td>
</tr>
<tr>
<td>Risk limits</td>
</tr>
</tbody>
</table>
Discussion with AXA
Main milestones of AXA’s ERM implementation

• AXA has not waited for Solvency II to develop its own internal economic capital framework

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>Economic capital project is launched</td>
</tr>
<tr>
<td></td>
<td>Embedded value is included in the scope of the project</td>
</tr>
<tr>
<td>2006</td>
<td>AXA internal model is reshaped so as to accord to Solvency II requirements</td>
</tr>
<tr>
<td>2009</td>
<td>Risk Appetite Statements are defined</td>
</tr>
<tr>
<td></td>
<td>Risk scenarios approach is strengthened</td>
</tr>
<tr>
<td>Since 2010</td>
<td>Significant development and effort in connection with pre-application process</td>
</tr>
</tbody>
</table>

• AXA internal economic model provides an adequate picture of the company risk profile
• It is used internally for most of AXA processes, within the ERM, e.g.:
  • Capital and Risk Management
  • Risk Appetite
  • Product Approval process
  • Reinsurance Strategy
  • Investment Approval Process
  • Operational Risks
Building a risk profile monitoring process step by step

AXA starting point, 10 years ago

Step 1 - The first step consisted of setting up risk limits, defining management actions and implementing regular reporting to the Senior management.

Step 2 – This assisted the Senior management to review and refine the Global Risk appetite of the company.

Step 3 – This enables us to implement a continuous process to monitor the risk profile, including a yearly review of risk appetite and risk limits, as a part of the ORSA process.
The aim of the **risk appetite framework** is to ensure that **appropriate governance, reporting, limits and decision processes have been set up to drive risk management decisions**. It helps the Group to:
- monitor accumulation of risks,
- have a clearly stated risk appetite, and
- manage its own exposure through interactions with local operating units.

The **risk appetite** considers potential impact of **risks** on **4 dimensions** across 7 key indicators:
- **earnings**: underlying earnings, adjusted earnings, net income (IFRS)
- **value**: Group EEV,
- **solvency**: solvency I II coverage ratios,
- **liquidity**: liquidity coverage ratio.

... to ensure that risks are limited and their consequences on all dimensions understood

Empower local units and manage the Group

The **risk appetite is a structured process** between the **Group** and **local units** to ensure **consistency** of risk tolerance, related governance and decision processes - **empowering local units** to actively manage their risk exposures through their own choice of local risk limits.
The Group Risk Appetite process:

- A quarterly release of a Group risk reporting, with sensitivities of the 7 key indicators to various risk factors (financial & insurance) in case of adverse events (1 in 20 years) and extreme events (1 in 200)
- and the translation into risk limits at Group level to be validated by the Management Committee.

- Regular reporting and management of the Group risk exposure vs. limits, specifically monitored by
  - the Group ALM Supervisory Committee for financial risks,
  - the Risk Insurance Supervisory Committee for insurance risks, and
  - the Risk and Compliance Committee for operational risks.

- A process mirrored in local units - quarterly reporting, risk limits, ongoing management of exposure with ongoing discussions with the Group to ensure alignment.

Risk Appetite is a risk governance tool to ensure that appropriate governance, reporting, limits and decision processes have been set up to drive risk management decisions.
A clearly stated Risk Appetite:

- Considering our **key indicators** (earnings, value, capital and liquidity) in various stress scenarios
- against our **risk appetite statements** (maximum allowed sensitivities in pre-defined stress scenarios)
- and adapt – where necessary – our **risk limits** to manage our risk profile.

The **functional** risk indicators are **simple** indicators (no complex calculations), used day to day to manage the risk exposures - they are easily and frequently monitored, reported and understood by people in the operations. They are needed to ensure that risk appetite will translate operationally.

For each **functional risk indicator**, two thresholds are defined:

- Actions taken to manage risk will depend on the area of the reported exposure.
Aligning strategic planning process and the ORSA

Year N | Year N+1

Strategic planning → ORSA → Strategic planning

ORSA forward looking scenarios are consistent with the scenarios used during the (previous) strategic planning process.

Conclusions drawn from ORSA process feed (next) strategic planning process.

Processes timelines

Governance

Cultural implication

... Benefits
Different training initiatives have been launched for several years to assist AXA Senior Management and Executives as well as Board members in their understanding of the Internal Model and Solvency II.

- Explain and evidence the different initiatives for increasing the knowledge and understanding about Solvency II and the internal model

- Specific focus on Executive and Senior Management
Building success
## Navigating the journey

<table>
<thead>
<tr>
<th>Clarity of purpose, pragmatism in implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empowerment, communication, information and terminology</td>
</tr>
<tr>
<td>Ensuring real ownership of risk within the business</td>
</tr>
<tr>
<td>Prioritising, using ORSA dry runs, testing and refining over time</td>
</tr>
</tbody>
</table>
Think simultaneously

Strategy...
Financial...
Business...

To add value through
Risk Management