

Risk Appetite

Southeastern Actuaries Conference

November 17, 2017

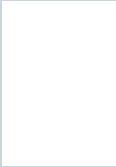




Agenda

- Theory 2
- Practice 9

Theory



What is risk appetite



Too much risk



Too little risk

Risk Appetite Framework

Risk Appetite

Risk Strategy

Strategic expression of overall philosophy towards risk-trading necessary to achieve the mission, so that from the Board on down there is alignment

What risks to take?

Risk Preferences

Articulating risk as opportunity, identifying risks that need to be taken deliberately in the expectation of creating value, needed to achieve the mission

How much risk to take?

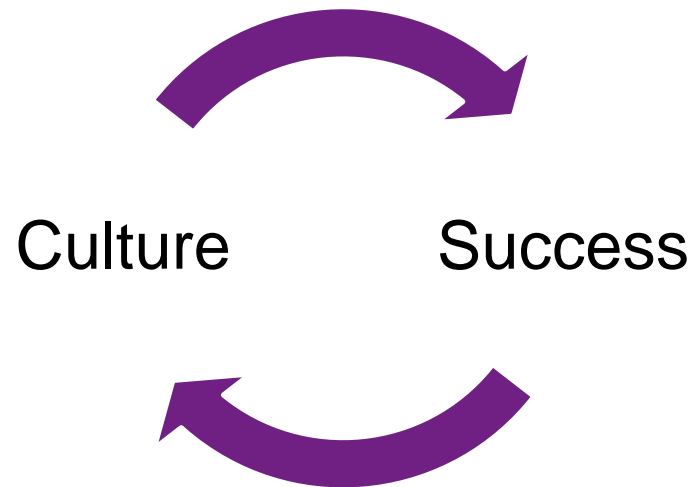
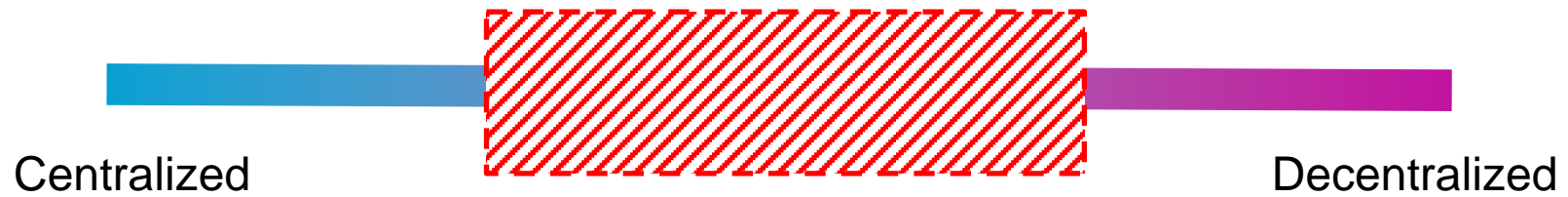
Risk Tolerances

Quantitative expression of the amount of aggregate risk the organization will tolerate over varying time horizons as a means to achieve its mission

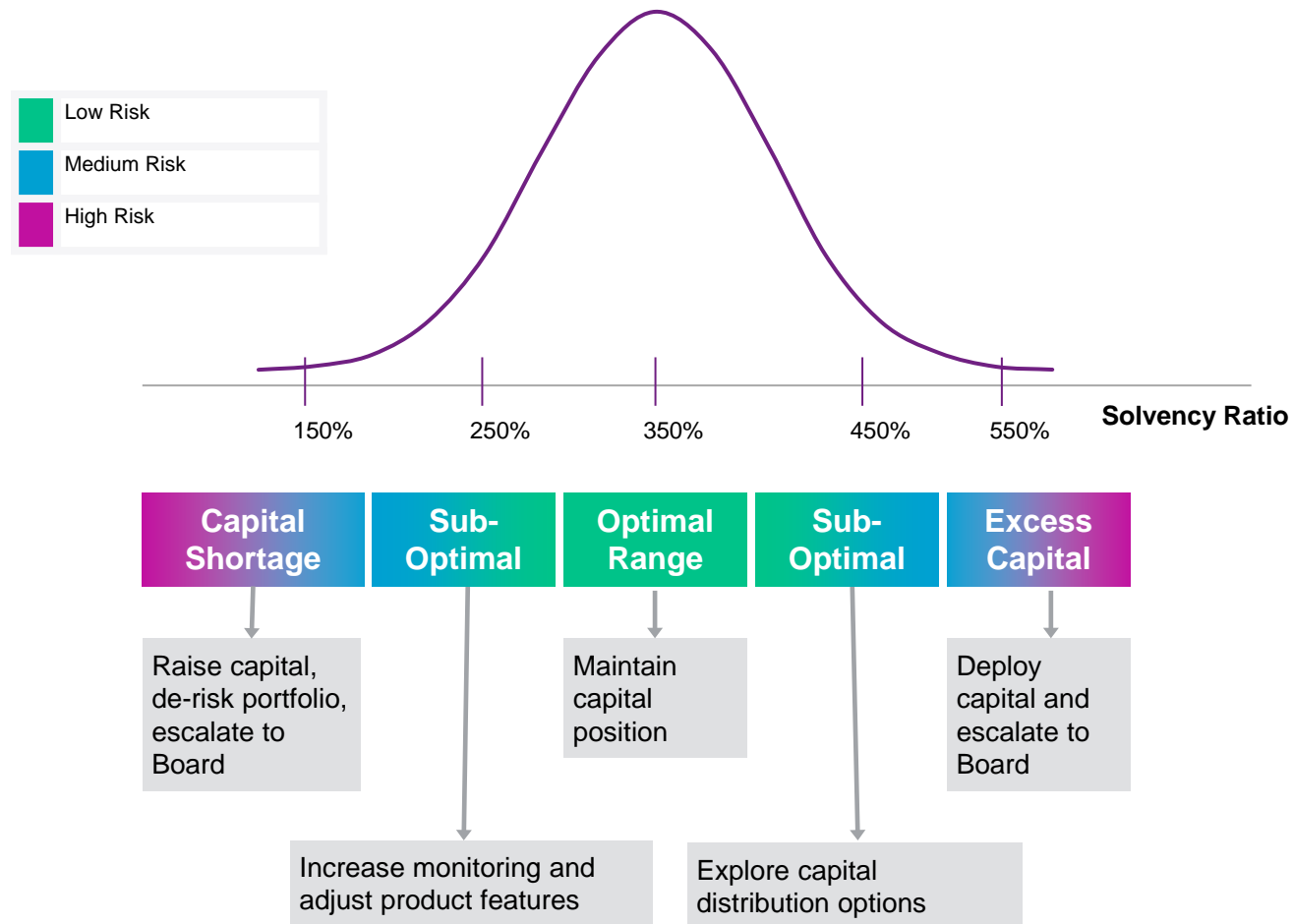
Example: top level objectives

Preserving Capital Adequacy (Either economic or regulatory)	Achieving Targeted Performance (Considering all Relevant Metrics)
<ul style="list-style-type: none"> • Avoid insolvency • Avoid impairment • Avoid rating agency actions • Avoid regulatory intervention • Avoid adverse actions by policyholders • Avoid adverse actions by distributors 	<ul style="list-style-type: none"> • Avoid sustained underperformance • Avoid excessive volatility • Avoid poor performance relative to peer
Maintaining Liquidity	Protecting Franchise Value
<ul style="list-style-type: none"> • Handle extraordinary policyholder obligations • Handle unusual illiquidity in asset markets 	<ul style="list-style-type: none"> • Avoid damage to reputation • Retain distribution relationships • Avoid loss of employee engagement • Avoid loss of sources of competitive advantage

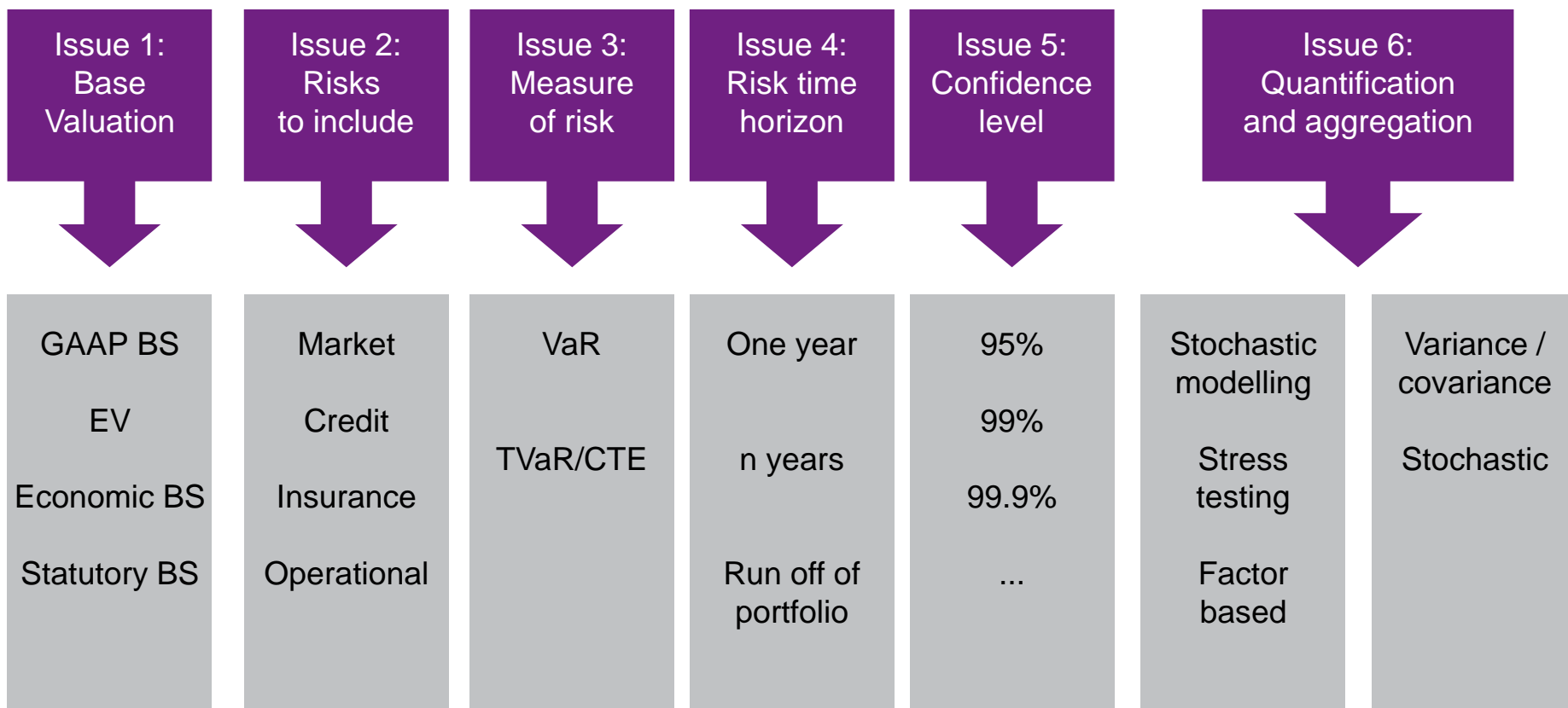
Organization and culture



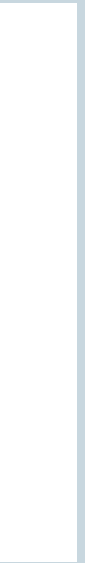
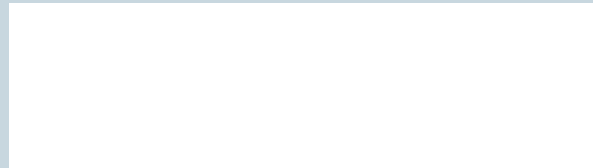
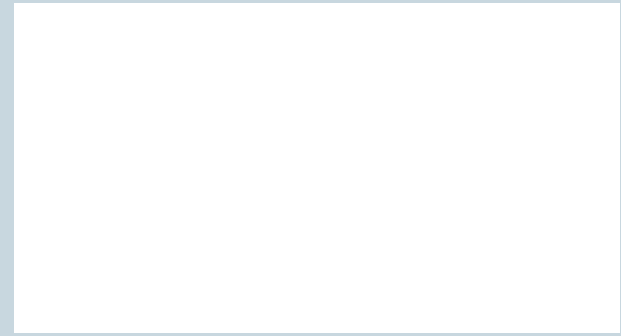
Articulation of target capital levels and management actions



Defining Capital

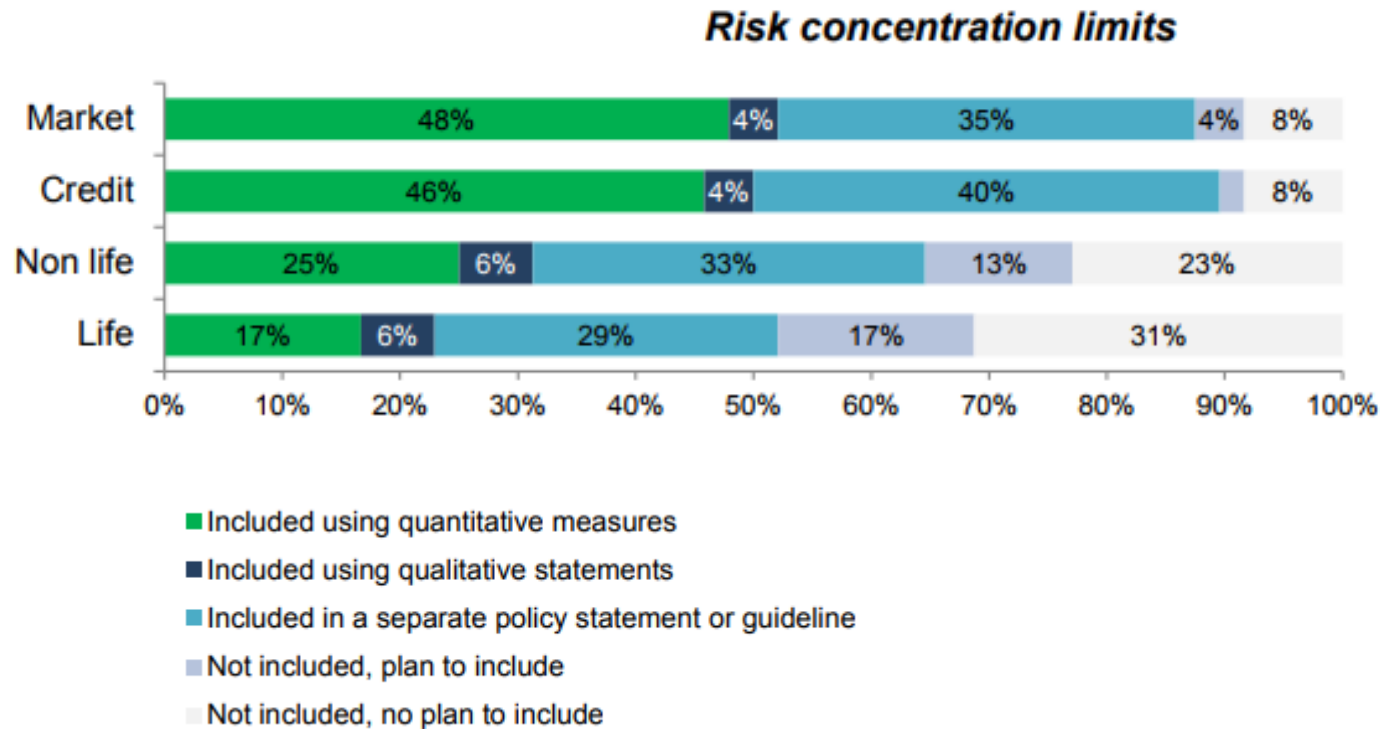


Practice



CRO Council and CRO Forum Risk Appetite Survey Results

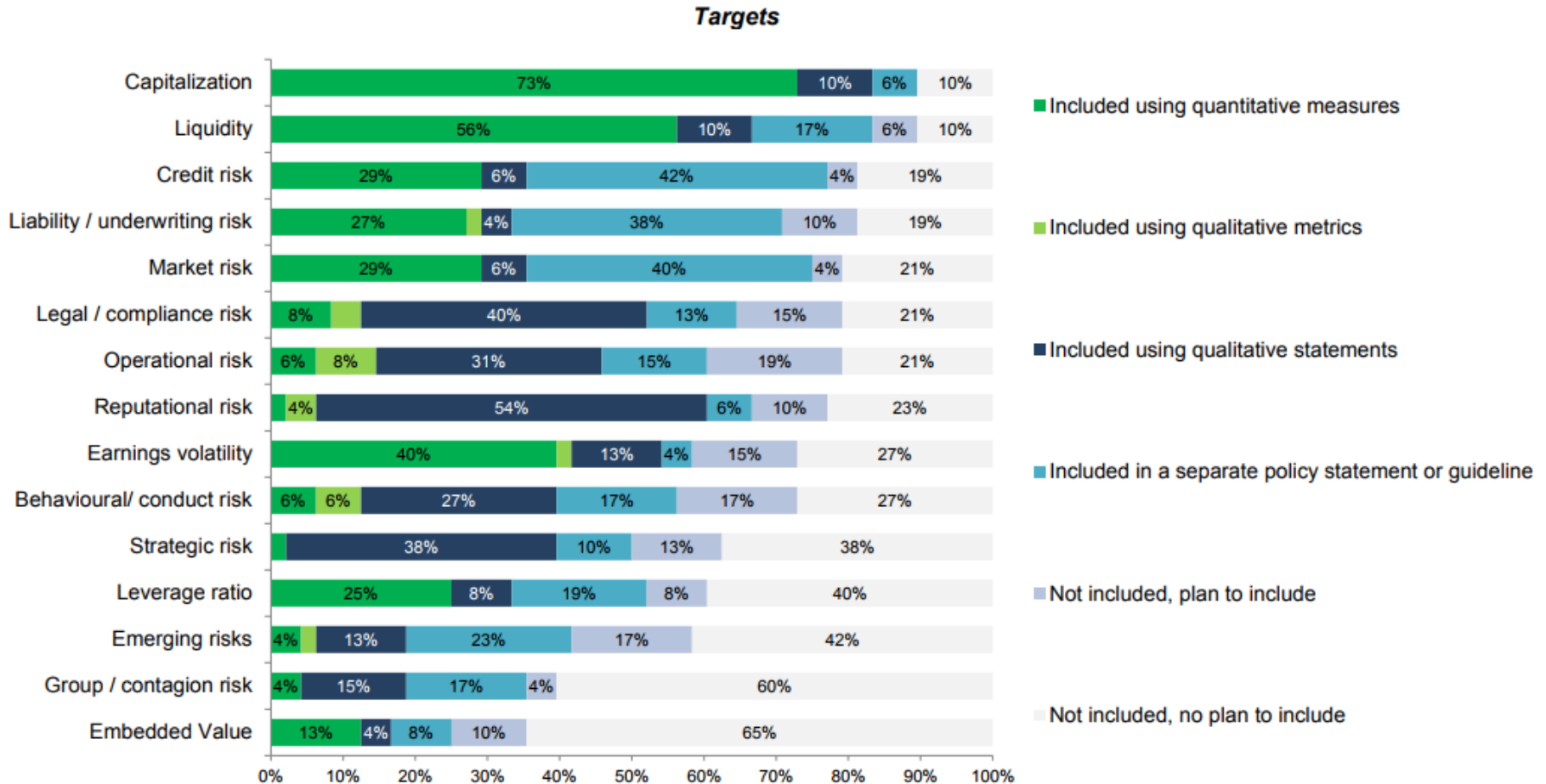
Risk Limits



Source: CRO Council and CRO Forum Risk Appetite Survey Results, March 2015.
http://cro council.org/images/CROC_CROF_RA_survey_publication_final.pdf

CRO Council and CRO Forum Risk Appetite Survey Results

Risk Targets

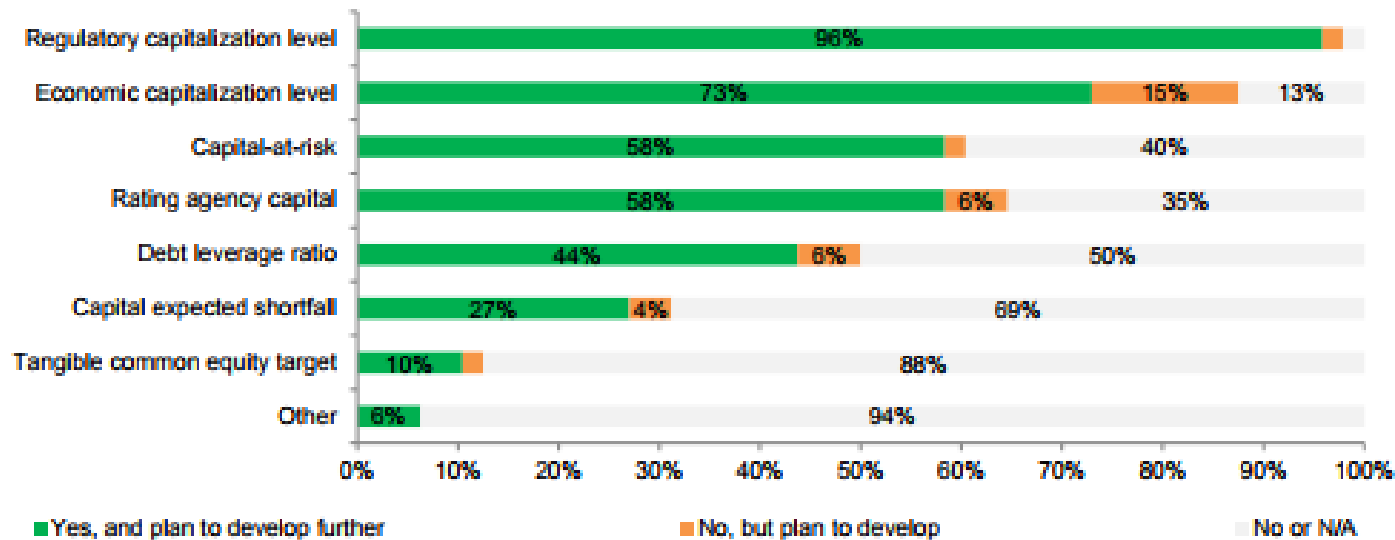


Source: CRO Council and CRO Forum Risk Appetite Survey Results, March 2015.
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CRO Council and CRO Forum Risk Appetite Survey Results

Capitalization metrics

**Capitalization metrics in use;
form of metric**

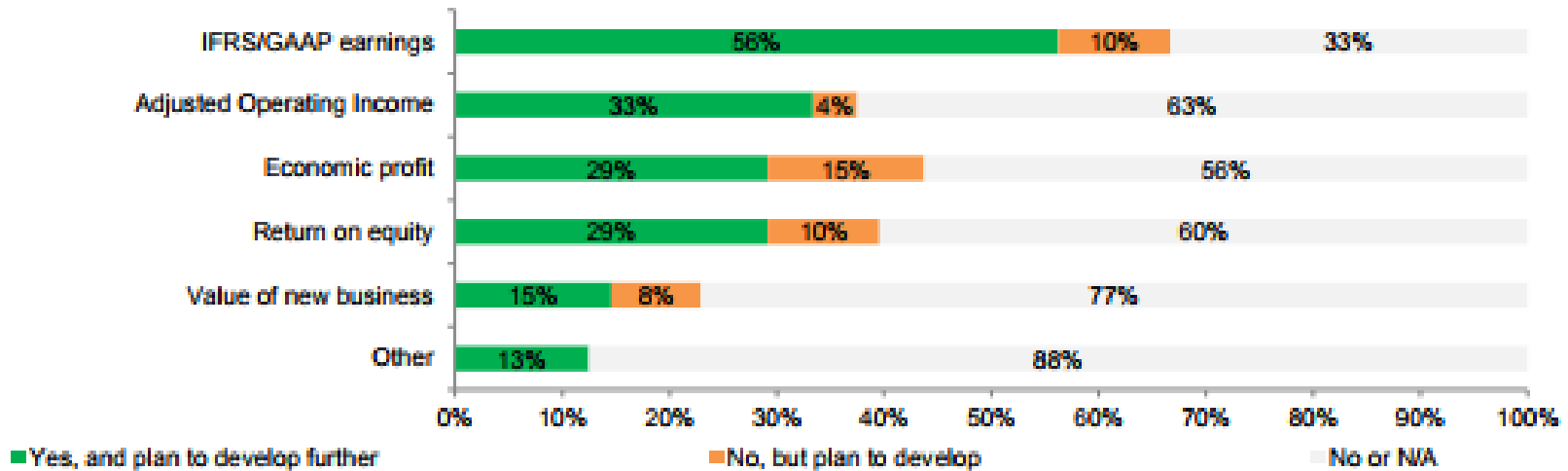


Source: CRO Council and CRO Forum Risk Appetite Survey Results, March 2015.
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CRO Council and CRO Forum Risk Appetite Survey Results

Earnings metrics

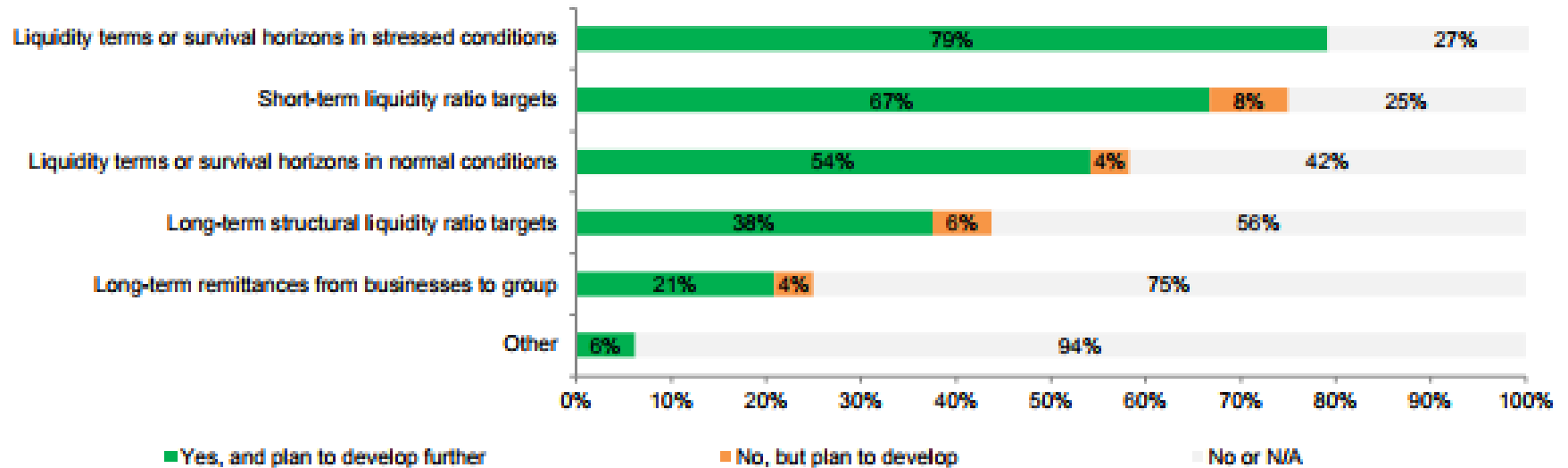
Earnings-at-risk metrics; form of metric



Source: CRO Council and CRO Forum Risk Appetite Survey Results, March 2015.
http://cro council.org/images/CROC_CROF_RA_survey_publication_final.pdf

CRO Council and CRO Forum Risk Appetite Survey Results

Liquidity metrics



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