

IMPLEMENTING ERM



TOWERS PERRIN RISK DIAGNOSTICS™

- How can we improve the quality of our risk retention and transfer practices?
- How can we improve the return on our investment in risk management systems?
- How can we make risk analysis cost effective and faster, yet more insightful and collaborative?

OVERVIEW

Corporations are under pressure to quantify and manage their risks in a systematic, transparent and cost-effective manner. For insurance risk managers, this means implementing practices that:

- optimize retention levels
- set better attachment points
- spot gaps in coverage
- evaluate risk on an integrated basis
- compare competing insurance programs
- effectively communicate strategy.

For treasurers and CFOs, it means making capital budgeting and financing decisions based on the combined risk of the entire enterprise. To prepare such analysis, companies require sophisticated probabilistic models of risk exposures and risk transfer devices.

THE TOWERS PERRIN APPROACH

Risk managers can't predict the future, but they can create a better balance between a company's comfort level with risk and the cost of protecting against it. Towers Perrin's proprietary software tool, Risk Diagnostics, makes it easier and cost effective to examine multiple risk factors, run probative state-of-the-art simulations, and determine where to draw the line between self-insuring and transferring risk to a third party.

How Risk Diagnostics Enhances Decision Making

Identify	Risk manager uses real-time RMIS data to focus on any combination of relevant risk categories, business units or forecast periods.
Quantify	Risk manager works collaboratively with colleagues and advisors to develop highly defensible measures of value at risk, developing actuarially sound simulations in minutes.
Solve	Risk manager experiments with and assesses the effectiveness of specific risk transfer devices and portfolios for optimizing aggregate retentions and limits.
Execute	The company bases its risk management decisions on robust, transparent and internally managed processes in a fast, cost-effective manner.

Risk Diagnostics allows users to decide what aspects and variables to include in the corporate model, and to modify them at any time to reflect changes in the risk environment. Its capacity to handle variables at a granular level means that Risk Diagnostics can be applied easily to specific risk categories and lines of business, yet allows data to be pooled into enterprise-wide evaluations.

Companies can use Risk Diagnostics to value capital at risk, prioritize mitigation and transfer activities, evaluate the effectiveness of existing insurance programs and compare risk transfer alternatives, including finite risk programs and derivatives. Risk Diagnostics delivers the tools to help companies understand the unique risk variables in each part of the enterprise and determine with a higher level of confidence a bet-

ter risk management strategy for the entire company.

Risk Diagnostics was designed to facilitate collaboration among risk managers, treasurers, CFOs, outside advisors and prospective insurers. Its plug-and-play adaptability and rich graphical interface were created with non-actuarial professionals in mind, to make risk management strategy discussions more productive at all levels. Because Risk Diagnostics is an add-on to Microsoft Excel™, it is easy to use and understand and requires minimal IT assistance.

The Towers Perrin approach empowers clients with superior models, tools, coaching and assistance, placing them in the driver's seat throughout the insurance renewal cycle and providing a superior paradigm for framing crucial risk management questions.

TOWERS PERRIN PUBLICATIONS AND COMMENTARY

We are ERM thought leaders who contribute to the development of the discipline with publications and commentary, including:

“Economic Capital and Enterprise Risk Management: A Rating Agency Perspective,”
Towers Perrin Roundtable, 2007

“Risk Management. Risk Opportunity. The 2006 Tillinghast ERM Survey,” *Towers Perrin Report*, 2006

“A Changing Risk Landscape: A Study of Corporate ERM in the U.S.,” *Towers Perrin Report*, 2006

“Insurers, ERM and the Rating Agencies,”
Update, 2006

“ERM — An Integral Way of Doing Business,”
Emphasis, 2006

“Life Insurance CFO Survey #15: Key Challenges for 2007,” *Update*, 2006

“ERM Helps Risk Managers Cope With Wider Risk,”
National Underwriter, 2006

“Life Insurance CFO Survey #13: Enterprise Risk Management,” *Update*, 2006

“Coming of Age: ERM’s Value in Strategic Planning,”
synnovation, 2006

“Pension Risk Management,”
Towers Perrin Roundtable, 2006

“Adding Value Through Risk and Capital Management,”
Towers Perrin Report, 2005

“The Chief Risk Officer — What Does It Look Like and How Do You Get There?” *Risk Management*, 2005

“Enterprise Risk Management — From Compliance to Value,” *Financial Executives International*, 2005

“ERM: Embracing a Total Risk Model,”
Financial Executives International, 2005

“The Growing Need for Effective Operational Risk Management for Wealth Management Companies,”
Institute of Actuaries of Australia, 2005

“Using Reinsurance to Drive Economic Value,”
Emphasis, 2004

A RECORD OF SUCCESS

Towers Perrin is the leading strategic and actuarial advisor to the insurance industry. We began applying our deep industry expertise to insurance buyers in 1977 and today are regarded as a global thought leader in both risk and capital management. We work with clients worldwide to:

- properly value capital at risk
- identify, assess and prioritize the risks that have the most impact on strategic objectives
- optimize retained levels of risk
- evaluate economic capital positions, third-party insurance, and non-insurance options for transferring risk
- benchmark risk experience and management procedures against peers and best practices
- integrate ERM into all company-wide strategy discussions.

Towers Perrin’s Risk Diagnostics software is the result of a decade of research and refinement, and it is designed to complement our suite of corporate risk management offerings.

ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm provides innovative solutions to client issues in the areas of human resource strategy, design and management; actuarial and management consulting to the financial services industry; and reinsurance intermediary services.

Towers Perrin’s ERM practice offers clients the ability to understand the full spectrum of risks faced by their organization and to create additional value by actively managing their key risks. Clients can deploy ERM to upgrade business planning through better articulation, quantification and oversight of the risks that drive value, and improve their ability to assess and implement risk solutions — both operational and transactional — to achieve their business objectives.

To discuss how Towers Perrin’s ERM practice and the Towers Perrin Risk Diagnostics tool can assist your business, please contact Patrick Finegan, Senior Consultant, in our New York office.

Patrick Finegan, Principal
patrick.finegan@towersperrin.com