

**IMPLEMENTING ERM**



## RISK POLICY AND CONTROLS REVIEW

- Are our risk policy metrics and controls customized to our objectives and organization?
- Does our company's risk policy evolve as the business changes?
- Is the risk management committee acting as a surrogate for a truly effective policy?

**OVERVIEW**

Risk policies are often more of a formality than an effective control mechanism. This is not surprising: Business conditions change quickly, but policies are reviewed only rarely. The result can be a policy disconnected from day-to-day operations that places unnecessary and inappropriate constraints on the business. This need not be the case.

**THE TOWERS PERRIN APPROACH**

A risk policy should reflect a company's unique set of financial objectives, constraints and business practices. Since board members, senior management, traders and risk management do not always share the same view of their company's objectives, aligning stakeholders' perspectives is the first step to a successful risk policy. A complete set of risk policies and procedures can be derived through a set of standardized interviews across the company, taking into account the major influences on these policies.

Although they will differ from company to company, a complete list of questions a risk policy must address should include the following:

- *What are the financial goals and objectives of the company?*  
Cash flow, dividends, EBIT, debt service: Which is the most important?

- *What are the constraints on the most important financial objectives?*

Is it the ability to service debt repayments? Maintain investment levels?

- *How do financial objectives link to risk policy?*

The company's risk policy and metrics should reflect its financial obligations, not the other way around.

- *How are hedging decisions made?*

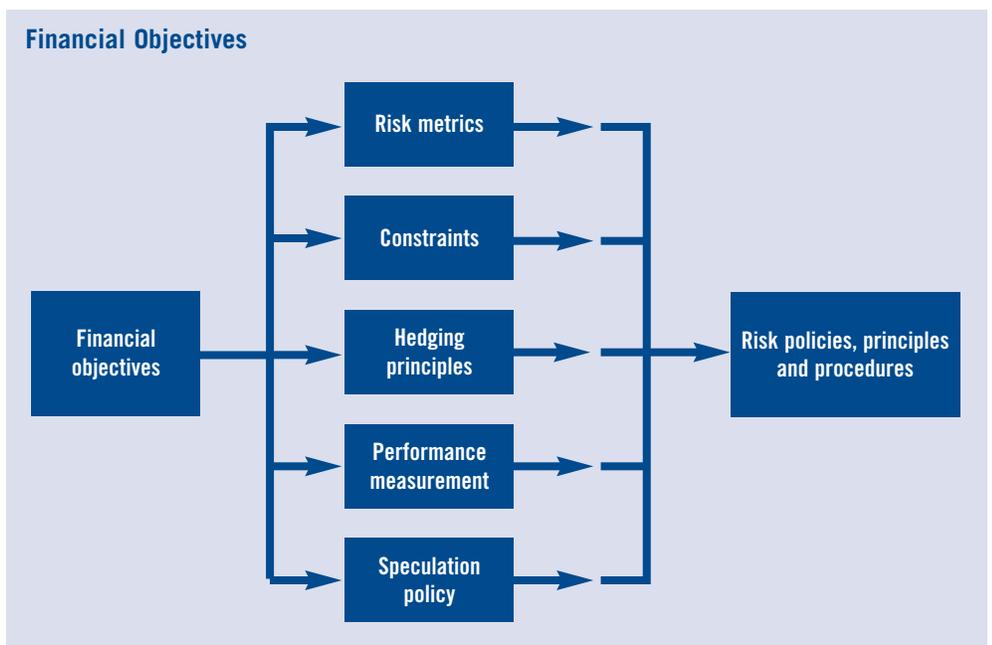
The risk policy should contain processes and metrics that make hedging decisions consistent and rigorous, not ad hoc or based on market "feel."

- *How is the performance of the portfolio and its various components measured?*

Does the policy stipulate performance metrics that are risk adjusted? Does it mandate proper separation between books?

- *What is the role of speculation in the company?*

This is one of the more contentious issues in many companies. Speculation must be clearly defined.



## **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

Once the answers to these questions are agreed upon, Towers Perrin can construct a risk policy that is appropriate and effective for everyone from traders to senior management.

## **A RECORD OF SUCCESS**

Risk Capital has been providing risk advisory services to companies in energy, chemicals, mining and financial services since 1999. Now, as part of Towers Perrin, the team is able to provide a broader array of in-depth consultancy, drawing on Towers Perrin’s recognized expertise in risk and capital management. We work with clients to:

- Determine clear financial objectives
- Investigate the implications of these objectives for risk policies
- Draft appropriate and practical risk policies
- Implement risk procedures and controls
- Maintain, update and review existing risk policies and procedures.

## **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 Enterprise Risk Management 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 can help you better manage risk policies, please contact:

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