

# News Release

## FOR IMMEDIATE RELEASE

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### **Insurers Making Strides in Development of Enterprise Risk Management Programs But PricewaterhouseCoopers Survey Finds Implementation Challenges Across Industry**

NEW YORK, March 3, 2004 - A new study by PricewaterhouseCoopers has confirmed that Enterprise Risk Management (ERM) is on the boardroom agenda as a key driver for a competitive edge in the insurance industry, but some leading insurers need to close the gap between the design and planning stages, and the actual execution and integration of ERM programs.

Market and regulatory forces will continue to drive insurers to implement ERM as an enabler for attaining financial goals. Leading companies look to ERM as a framework under which they can not only manage all the categories of risk but also optimize their portfolios and enhance product development. Some, however, continue to struggle with the necessary infrastructure, people, processes and technology essential to fully reap these benefits.

Forward-thinking insurers have been developing ERM for some years but it has only lately come to wider prominence in the wake of record losses, solvency scares and governance scandals. Insurance companies acknowledge ERM as one of the key enablers to managing uncertainty and almost a half of survey respondents viewed the protection of shareholder value as the main advantage of ERM, but just 5 percent felt that ERM was fully integrated with their strategic business decisions.

The study, entitled Enterprise-wide Risk Management for the Insurance Industry, draws on the findings of one of the most detailed and far-reaching ERM surveys ever conducted in the insurance industry, with a total of 44 leading insurers participating from Asia, Europe and North America.

Commenting on the study, Paul Horgan, partner, PricewaterhouseCoopers, said, "As insurers enhance their ability to measure, analyze and respond to risk, ERM is likely to play an ever more proactive role in identifying the strongest sources of earnings and strengthening the execution of the strategic plan. ERM is likely to become an increasingly important part of the competitive strength of insurers."

He added, “Industry leaders are addressing current market conditions with a more sophisticated and holistic approach to risk that seeks to integrate financial and non-financial risk management into a cohesive and comprehensive framework of governance, monitoring and control.”

There is no ‘one size fits all’ solution for designing and implementing an ERM program but the survey showed an emerging consensus about how to achieve effective ERM implementation and how it can benefit the organization. Some of those principles identified from the survey are highlighted below:

?? An effective ERM framework should align the key fundamentals of governance and organization, standards and policies, risk measurement methodologies and systems and tools

?? The ERM success factors emerging from a governance and organization perspective were:

- A clearly defined risk appetite articulated through limits and monitoring procedures
- Involvement of the board (57 percent of respondents had chief risk officers reporting risk issues to the board on a regular basis)
- Centralized ERM organizational functions in place (74 percent of survey participants)
- A set of risk committees at both corporate and business unit levels that ensure proper communication and help to instill risk into the culture of the business

The survey also found several areas which appear to be a continuing challenge, such as accumulating risk data and transforming it into useful management information. Only 6 percent of respondents were able to confirm aggregation capabilities across all risks and business units. Although auditing existing risk policies and procedures was cited as a key success factor, only 26 percent of respondents stated that internal audit risk reviews were operating effectively.

Insurers are discovering that re-engineering data flows, to address both compliance and financial risks, will enable them to leverage existing infrastructure. However, systems and data also remained a significant obstacle to ERM effectiveness, with only 8 percent of survey participants being ‘very satisfied’ with the technology used in risk management.

Shyam Venkat, partner, PricewaterhouseCoopers added, “Investors, analysts and rating agencies are likely to focus ever more closely on ERM as part of their demands for greater accountability and demonstrable improvements in risk management. Those companies who succeed in the implementation of ERM will be rewarded by the marketplace, but companies will need to move beyond a boardroom vision for an ERM program in order to fully reap the benefits.”

PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 139 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

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**Notes to Editor:**

To download a copy of the study, please visit [www.pwc.com/financialservices](http://www.pwc.com/financialservices)

The survey was conducted between July and October 2003. A total of 44 companies took part, from Asia, Australia, Europe and North America. Twenty-seven of the companies operate primarily in life, 12 in property and casualty and 5 in reinsurance. All are recognized as leaders in their respective markets, with a turnover of 39 out of the 44 being more than \$5 billion per annum.

Other related studies on risk management by PricewaterhouseCoopers include: 'Taming uncertainty: Risk management for the entire enterprise' and 'Compliance: A gap at the heart of risk management'. To download a copy of these studies, please visit [www.pwc.com/financialservices](http://www.pwc.com/financialservices)