ERM Tools Assessment Survey Results

Perspectives on how the property-casualty industry views its enterprise risk management tools.

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Introduction

Managing risk is a core principle of the property-casualty insurance industry. As regulation becomes increasingly complex, it is imperative that carriers continue to evaluate the enterprise risk management tools and processes they currently use.

To gauge the level of satisfaction carriers have with these tools and techniques, Ward Group conducted a survey of property-casualty business leaders to provide information and insight about enterprise risk management (ERM) with regards to:

- ORSA compliance requirements
- Measures of capital adequacy
- Satisfaction with current approaches to ERM
- The value additional tools and approaches could provide

The findings of this study are based on information from 187 property-casualty leaders, representing a wide range of carriers.

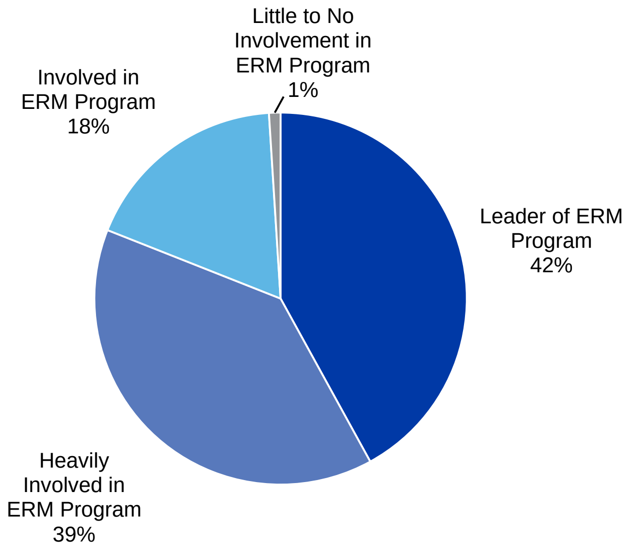
Consistent with all of our work, Ward Group is committed to protecting the confidentiality of our clients' data. Given this commitment:

- Participant names are not provided.
- Results are presented in aggregate.
- We have included as much detail as possible in this report, but in a way that preserves the confidentiality of all participants' information.
- The information included in this report is based on the responses received directly from participating firms with respect to current (i.e., Q1 2016) practices.

Profile of Study Participants

The purpose of the survey was to assess the tools used by property-casualty carriers to support their ERM strategy.

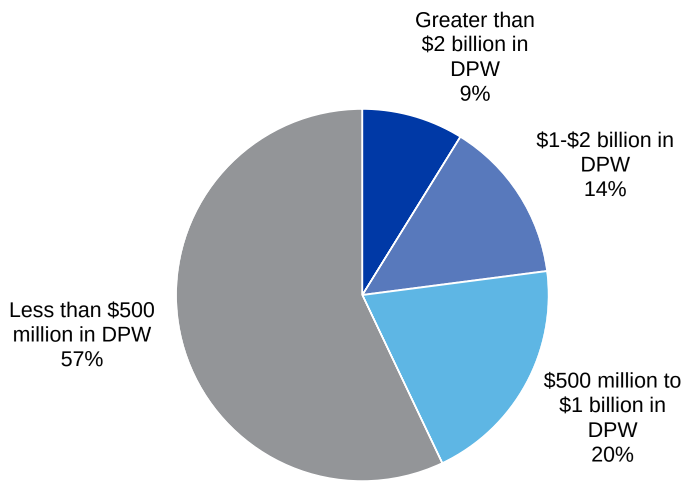
Role of Survey Respondent



20% of all respondents served as President or CEO of their firm, and another 47% were other C-suite respondents (CFO, CRO, etc.).

Respondent role had little impact on responses. Results had negligible variation between those leading the ERM program and those who were simply involved in the ERM program.

Number of Participating Companies by 2015 Direct Premium Written Category



Variation in responses materialized with respect to company size. Participants were asked to self-identify which category their 2015 direct premium written (DPW) volume fell (greater than $2 billion, $1-$2 billion, $500 million to $1 billion, and less than $500 million).

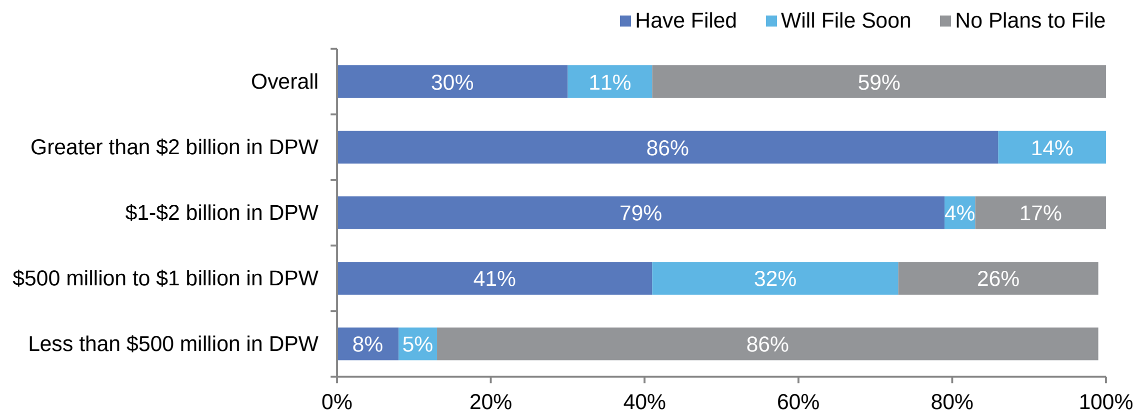
As carriers of different sizes have different ERM requirements, benchmark groups were created to provide better insight into the results.

Survey Results

Own Risk and Solvency Assessment (ORSA) Filings

Effective January 1, 2015, the NAIC ORSA model requires large and medium-size US insurance carriers and groups to file a summary report of their own internal assessment with their regulators. As the initial wording of the ORSA Model Act focuses on large and medium-size carriers, those groups are mostly likely to have filed or are planning to file in the near future.

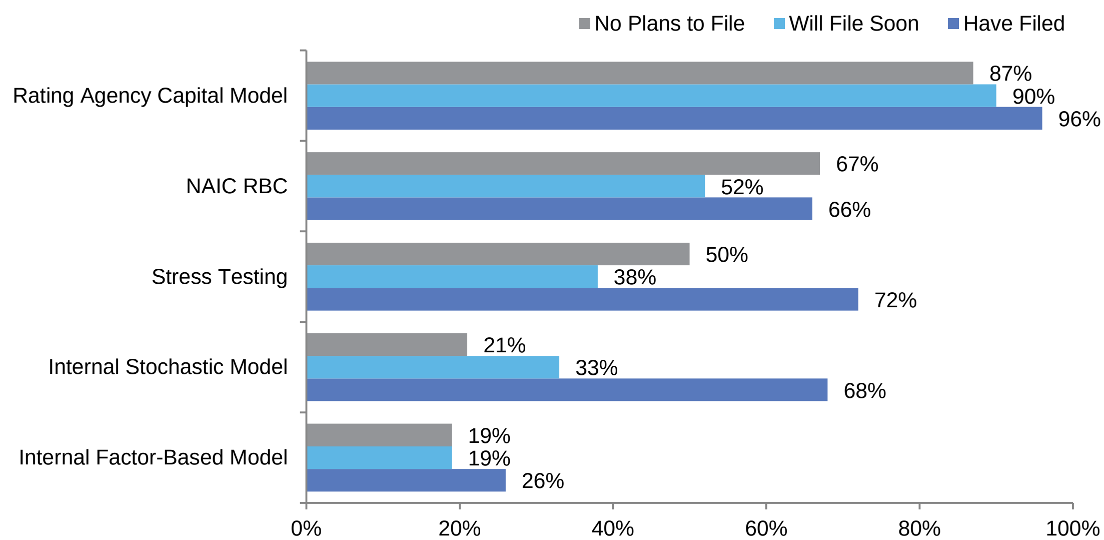
Percent of Participants Filing ORSA



Capital Adequacy Measurements

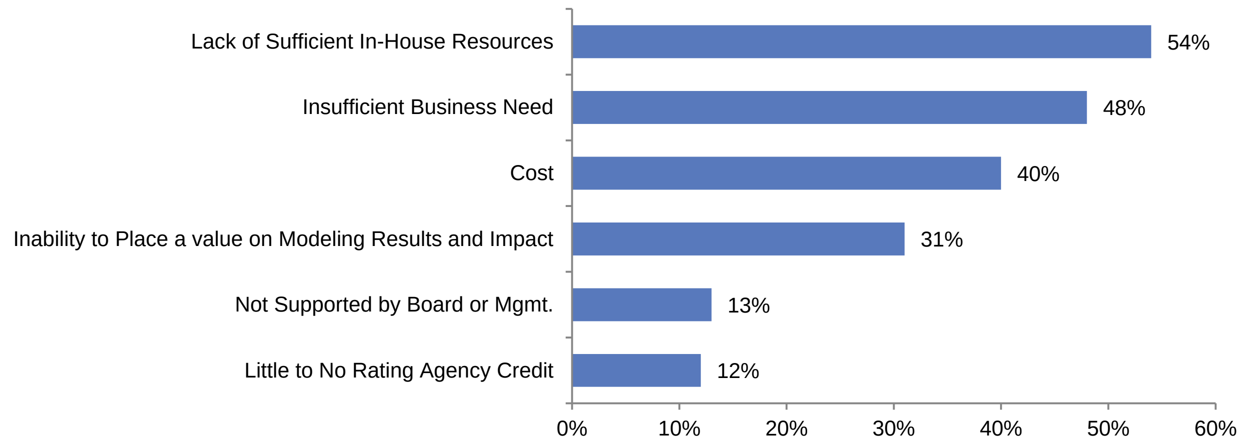
Capital adequacy is measured in a number of ways. While most participants used their rating agency capital models, (i.e. AM Best, S&P), the use of other models varied. The chart below shows the percentage of companies using each measure of capital adequacy segmented by their ORSA filing status:

Measures of Capital Adequacy



Internal stochastic modeling and stress testing were two measures of capital adequacy that were tied to whether the carrier had filed ORSA yet or not. Stochastic modeling is quickly becoming a key element of a carrier's ERM strategy; however, there are still a number of roadblocks preventing its adoption. The primary reason carriers indicated for not yet implementing stochastic modeling was a lack of sufficient in-house resources to undertake the process.

Reasons Indicated for Not Using Stochastic Modeling



Current ERM Tool/Approach Satisfaction

As carriers assessed their satisfaction with various components of their current ERM strategy, an interesting dynamic appeared. Carriers that have yet to file ORSA, but are planning to in the near future, were more likely to be satisfied with their current tools/approaches across the board than those carriers that have already filed ORSA. A potential explanation for this dynamic is once carriers have filed ORSA they find gaps to their approach they would like to improve; however, those gaps are difficult to identify until ORSA is actually filed.

Among the ERM tools/approaches we asked about in our survey, four areas were highlighted as having the most opportunity for improvement. These included:

1. *Tools to assist with strategic decisions:* 69% of participating carriers indicated that the tools they use when making strategic decisions could be improved.

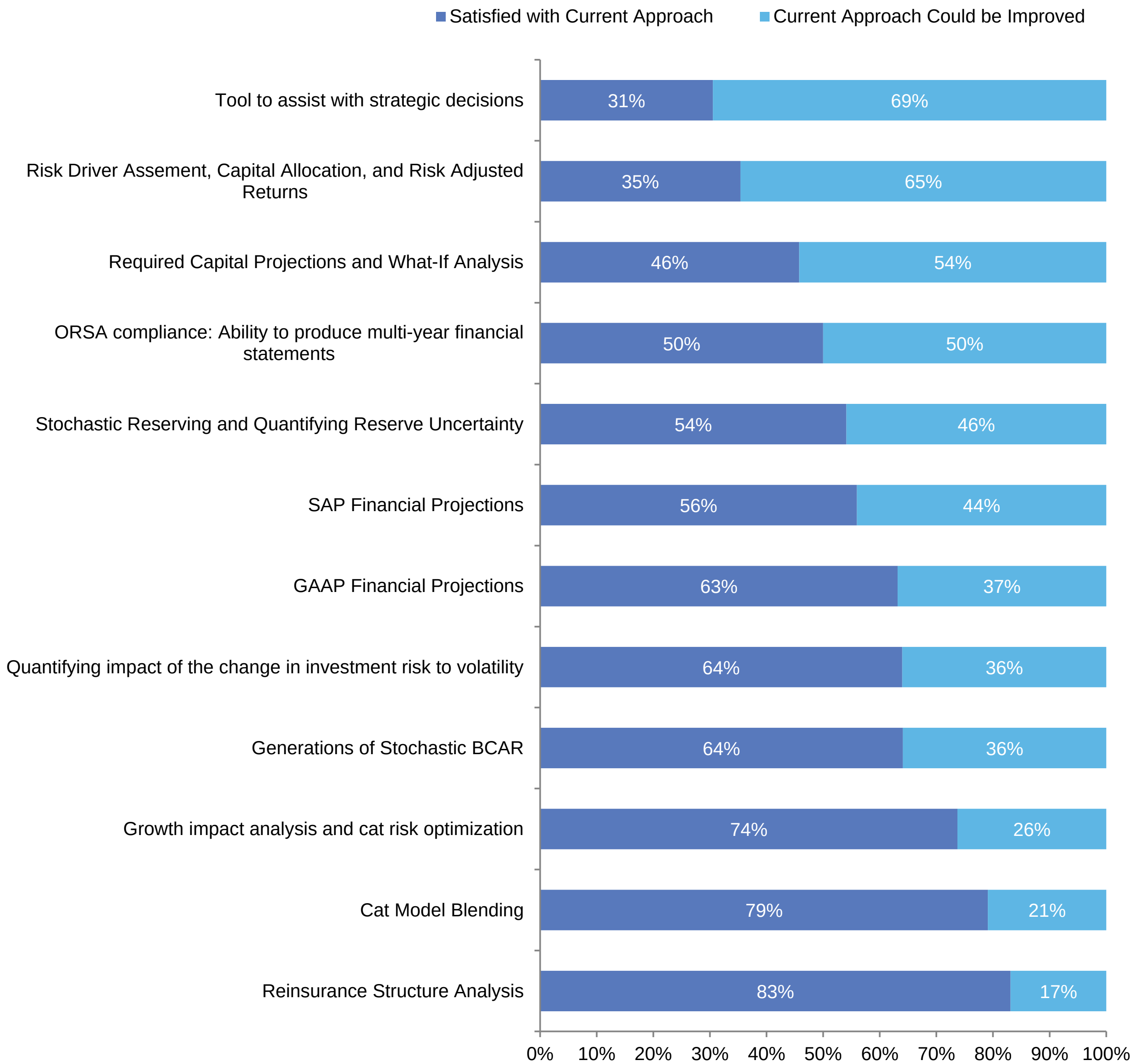
2. *Risk driver assessment, capital allocation, and risk adjusted returns:* 65% of participating carriers indicated that their current approach to these activities could be improved.

3. *Required capital projections and what-if analysis:* 54% of participating carriers indicated their current approach could be improved. Carrier premium volume had an impact on this activity, as carriers with less than $500 million in DPW were more likely than carriers above $500 million in DPW to identify this as an area of opportunity.

4. *Ability to produce multi-year financial statements for ORSA compliance*: Half of all participating carriers indicated the approach to these activities could be improved. This was one activity that had varying results based on the benchmark group. Carriers with less than $500 million in DPW and those greater than $2 billion in DPW reported more opportunity for improvement than those from $500 million to $2 billion in DPW. An explanation for this variance can likely be attributed to the lack of tools and sophistication at smaller carriers, while larger carriers have difficulty with consolidation of various operating entities.

Satisfaction With Current ERM Tool/Approach

Overall Benchmark



Carriers were more satisfied with their reinsurance structure analysis and cat model blending. This would be expected as these are more mature components of ERM and are typically handled by a carrier's reinsurance broker.

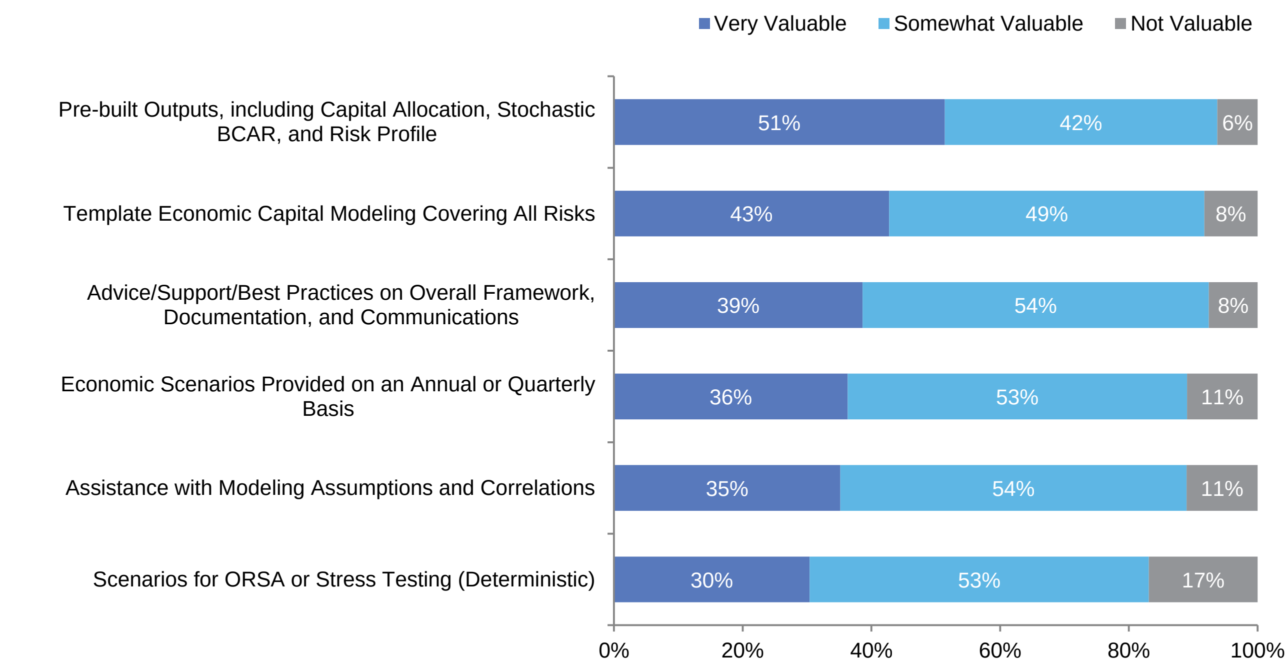
Value of Capital Modeling Solution Components

In response to the new regulatory requirements going into effect, a number of vendors have begun offering solutions to support carrier efforts to meet these requirements.

When asked which components of a capital modeling solution would have the most value to their organizations, carriers saw the most value in pre-built tools and templates where they could input their own data and more effectively manage the process themselves.

Perceived Value of Capital Modeling Solution Components

Overall Benchmark



Carriers in the $500 million to $2 billion in DPW range were more likely to indicate the various components as very valuable, in many cases due to the lack of experience among their current staff and limited amount of resources availability to develop them. Carriers over $2 billion in DPW likely have the scale to dedicate resources to capital modeling and the requirements have not impacted carriers below $500 million in DPW to the same level as larger carriers.

Conclusions

Notable findings from the analysis of the survey responses include:

- Enterprise risk management is a top concern among industry leaders, as demonstrated by the number of participants and job roles of the respondents.
- Adoption of stress testing and stochastic modeling will continue to increase as ORSA requirements necessitate.
- While a majority of carriers are satisfied with their current ERM tools and approaches, opportunities for improvement do exist, particularly for strategic decision support, capital allocation and scenario analysis.
- As carriers that have yet to file ORSA begin down that path for compliance, gaps in their tools and approaches will likely become apparent.
- Carriers see value in tools partners can provide that allow the carriers to “self-service” and take ownership of the process.

Contacts

Mathew Ryan, Director, Ward Group
Aon Hewitt
1.513.746.2436
matthew.ryan@wardinc.com

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