

The background of the slide features a deep blue ocean with a large iceberg. The visible tip of the iceberg is small, while the much larger submerged part is visible below the water line. The word 'Risk' is written in large, stylized, multi-colored letters (blue, green, yellow) that appear to be floating on the water's surface, partially obscured by the iceberg's tip.

# Risk

## ERM Seminar Survey on Risk Based Supervision

Presented by

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## Interactive Question #

# 1

Are you aware of the new  
Risk Based Supervision (RBS) process?

1

Yes.

2

No.

# Risk Based Supervision

Regulation No.10/POJK.05/2014, enacted in August 2014, requires all non-bank financial institutions (“NBFI”), which includes insurance companies, to perform self risk assessment against a set of pre-defined risk categories. In addition, the regulator OJK will also perform its assessment of the risk level of NBFI’s and provide feedback to each company.

## Objective

- To understand the inherent risks of NBFI’s.
- Enhance the supervisory process of NBFI’s.
- Moving from ‘compliance-based’ supervision to ‘risk-based’ supervision.

## Timeline

- Self-assessment to be performed each year as at 31 December and submitted by 28 February of the following year.
- Companies have submitted their first report by 28 February 2015. However, we understand that the OJK feedback has not been not issued yet (but is expected soon).

**The implementation of the RBS framework is a step towards aligning to the risk management / monitoring framework adopted in some other more developed countries, such as in Singapore (ORSA) and Malaysia (ICAAP).**

# Risk Based Supervision

The risk categories stipulated in the regulation include:



According to the guidelines, except for Management and Governance risks, all other risks should be considered from two perspectives below:

## Inherent risk

- Underlying risk closely linked to organisational activities, without considering mitigating actions taken by management.

## Management and control

- How does the organisation / management identify, measure, monitor and control inherent risks, via policies, procedures, systems and administration practices

# RBS: Management & Governance risks

## Management risk

- Risk of management failure in achieving the organisation's objectives as a result of a failure in preserving a team of managers who are competent and act with integrity.



## Governance risk

- Potential failure in implementing good governance practices across the organisation.





# RBS: Operational risk

- Potential failure in fulfilling commitments to policyholders as a result of the failure of internal process, human error, IT systems, etc.

## Inherent risk

- Complexity of organisation – organisational structure, human resources, corporate actions
- IT and systems
- Fraud and legal issues
- Disruption to company's business

## Management & Control

- Policies and procedures
- Administrative activities
- Management of information systems and technology
- Management of human resources
- Management of third party service providers

# RBS: Asset & Liability risks

- Potential failure in management of assets and liabilities.

## Inherent risk

- Asset management
- Liability management
- Mismatch of assets and liabilities

## Management & Control

- Awareness among directors/management
- Management of asset and liability risks
- Management of investment risks
- Controls in asset valuation

# RBS: Insurance risk

- Potential failure in meeting policyholder liabilities due to inadequate underwriting, pricing, reinsurance and/or claims management processes.

## Inherent risk

- Significance of insurance risk to the overall business
- Product mix and types of benefits
- Persistency, mortality, morbidity
- Structure of reinsurance in place

## Management & Control

- Management's understanding of insurance risk and monitoring of insurance risk
- Product design
- Pricing
- Underwriting
- Liability valuation
- Reinsurance
- Claims
- Product distribution
- Independent review



# RBS: Strategy & Capital risk

## ■ Strategy risk

- Potential failure in fulfilling policyholder liabilities as a result of failure in planning, setting and implementation of strategy, inappropriate decision making and/or the organisation being less responsive to external changes.

### Inherent risk

- Appropriateness / suitability of strategy according to the business environment conditions
- Strategic positioning of organisation

### Management & Control

- Planning and adopting of strategy
- Implementation of the strategic plan

## ■ Capital risk

- Capital adequacy
- Source of additional capital

# RBS: Rating system

- Each company is required to assign numerical rating from 0 to 4 according to its assessment of the risk levels in the organisation based on the following table:

Risk Rating	Risk Level
$0 < x \leq 1$	Low
$1 < x \leq 1.5$	Medium Low
$1.5 < x \leq 2$	Medium High
$2 < x \leq 3$	High
$3 < x \leq 4$	Very High

- Aggregation of each risk category is then performed using prescribed risk weightings.
- An example is provided on the next slide.

# RBS: Sample calculation

	Risk Level (A)	Weighted Risk Level (B)	Weightage 1 (C)	Net Risk Level (D)	Weightage 2 (E)	Explanation
(1) Management	1.5	1.5	10%	0.51		
(2) Governance	1.6	1.6	15%	0.98		
(3) Strategy (i) Inherent risk (ii) Management & control	2.4 1.5	2.0	15%	2.17		$B = [A(i) + A(ii)] / 2$ $D = [B^4 * C]$
(4) Operational (i) Inherent risk (ii) Management & control	1.1 2.1	1.6	15%	0.98		
(5) Asset & Liability (i) Inherent risk (ii) Management & control	2.9 3.1	3.0	20%	16.2		
(6) Insurance (i) Inherent risk (ii) Management & control	2.0 1.8	1.9	25%	3.26		
<b>(7) Aggregate Net Risk Level</b>				<b>2.22</b>	<b>60%</b>	$D = [ \text{SUM} (D(1) \text{ to } D(6)) ]^{1/4}$
(8) Capital Funding (i) Capital Adequacy (ii) Future source of capital (iii) Total	1.2 1.3	1.2 1.3	50% <u>50%</u> 100%	1.04 <u>1.43</u> <b>1.25</b>	<b>40%</b>	$D(i) = B(i)^4 * C(i)$ $D(ii) = B(ii)^4 * C(ii)$ $D(iii) = (D(i) + D(ii))^{1/4}$
<b>(9) Total Risk Level</b>				<b>1.98</b>	<b>100%</b>	



## Interactive Question # 2

Do you feel that now is the right time to introduce this RBS concept to Indonesia?

- 1 Yes
- 2 No, 1-2 years too early
- 3 No, 3-4 years too early
- 4 No, it should be introduced 5+ years from now

# RBS Survey



# RBS Survey



To gain better understanding of the approach and response of the industry with regards to the Risk Based Supervision process.

- The survey contains 28 questions covering various topics:

Calculation approaches

Quality of process

How integrated the RBS submission is into each organisation's internal risk management process

- Survey questions sent to registered participants at this seminar, focusing on those working for insurance companies
- 57 responses as at end 8 September 2015



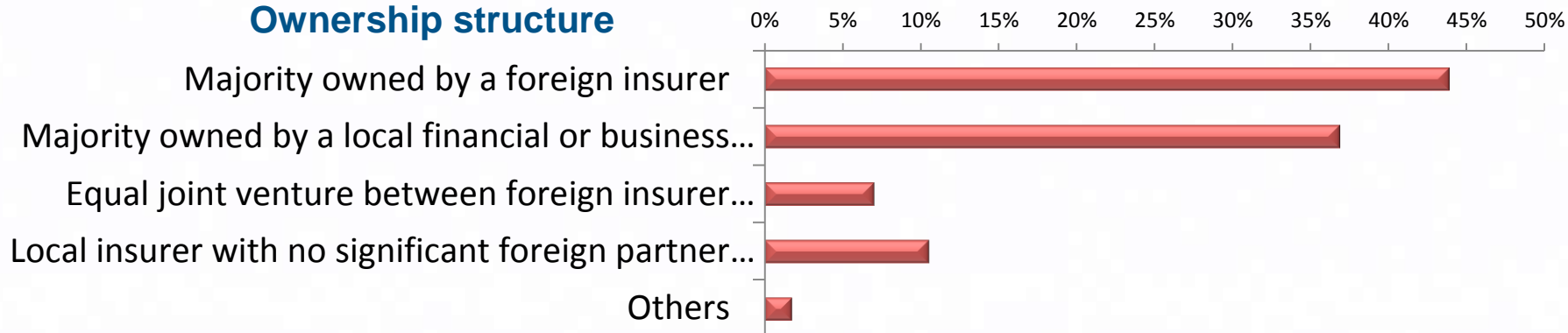


# Respondents Profile

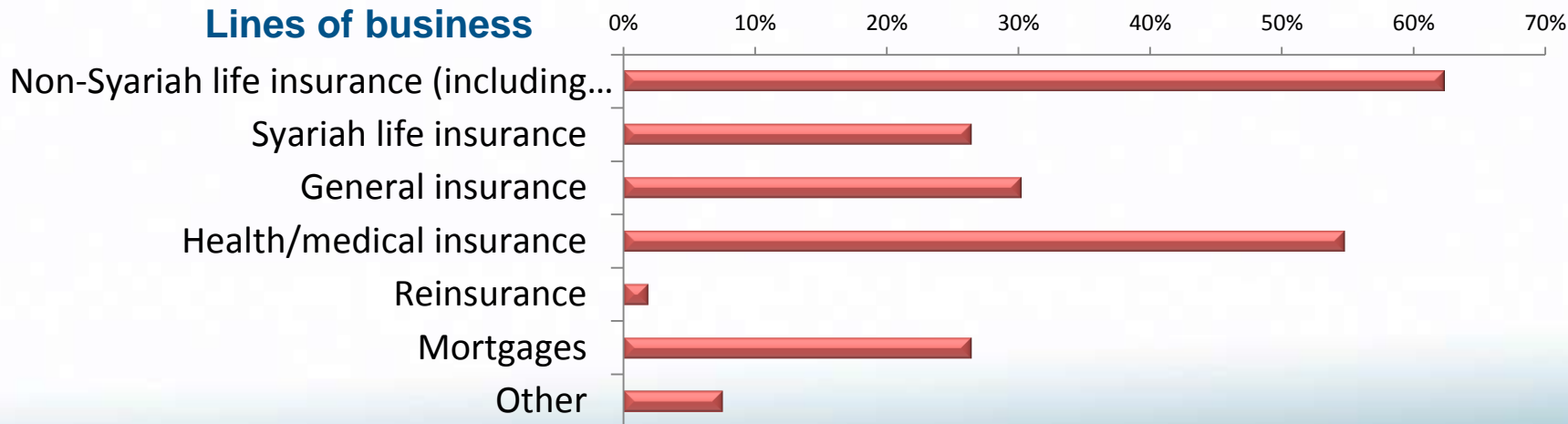
Please indicate the ownership structure of your organisation

What lines of business does your organisation write?

## Ownership structure



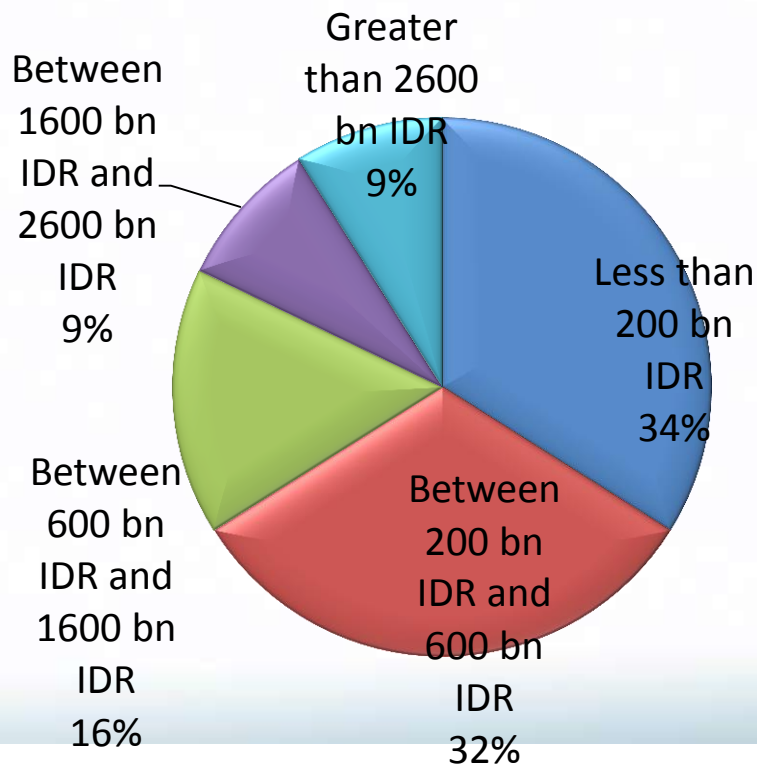
## Lines of business



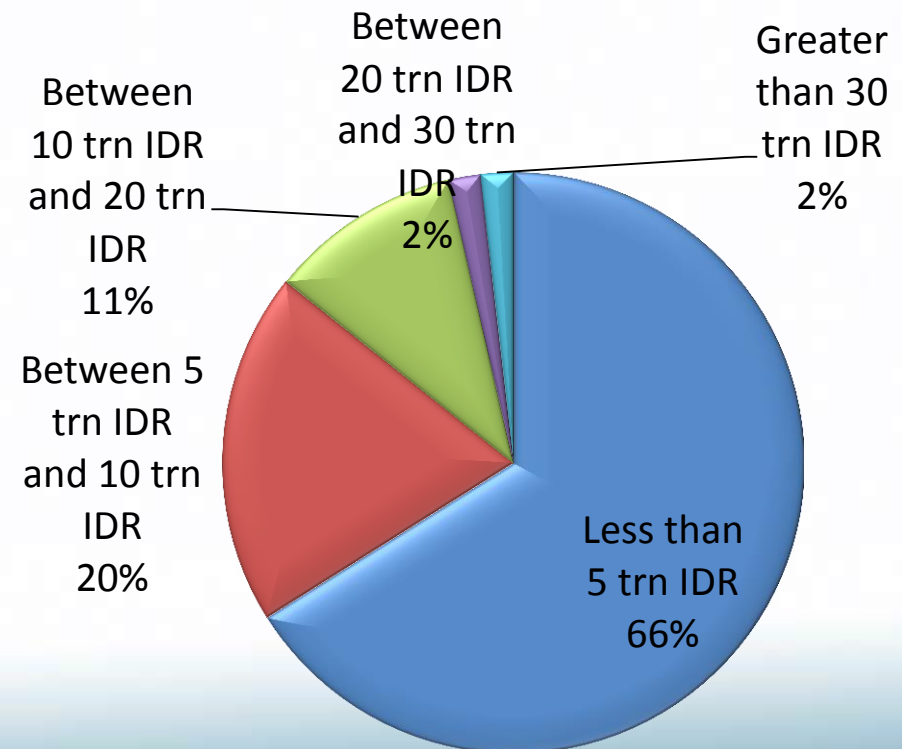


## Respondents Profile

What was the total Weighted/Annualised Premium Equivalent (APE, 100% of regular premium + 10% of single premium) collected by your organisation in the 2014 calendar year?



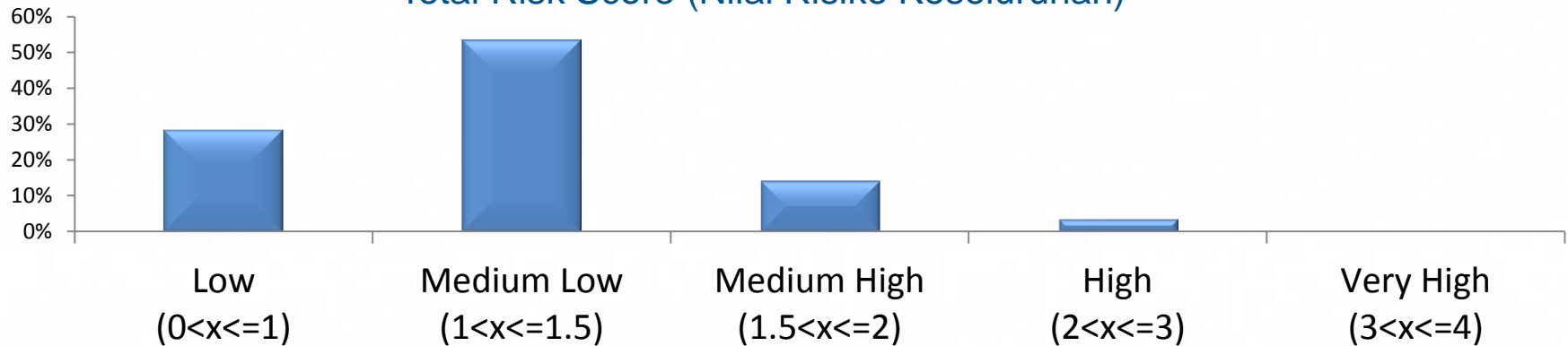
What was the total assets of your organisation as at 31 December 2014?



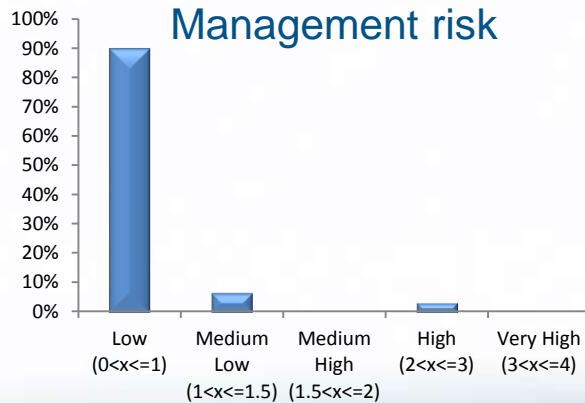


## What was your organisation's Total Risk Score (Nilai Risiko Keseluruhan)?

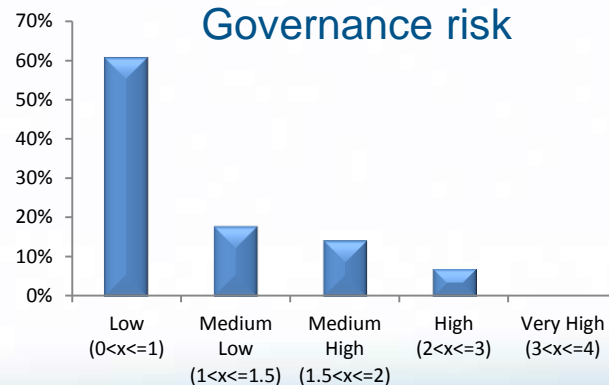
Total Risk Score (Nilai Risiko Keseluruhan)



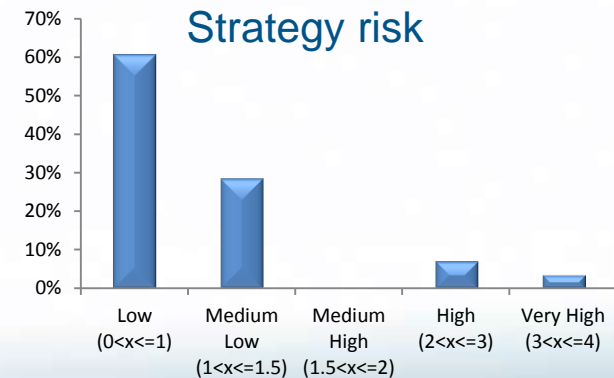
Management risk



Governance risk

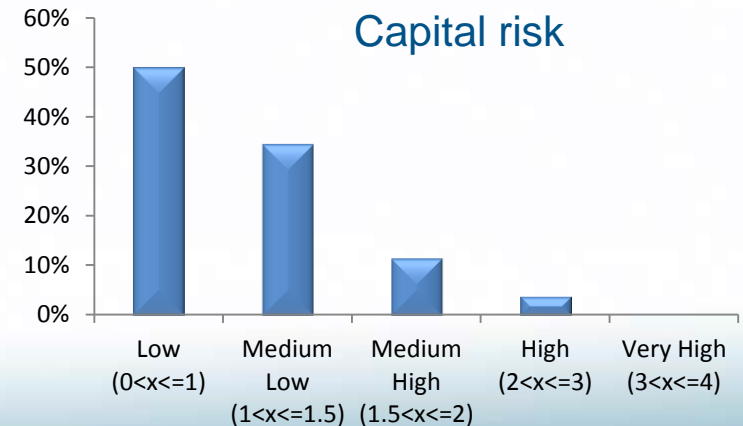
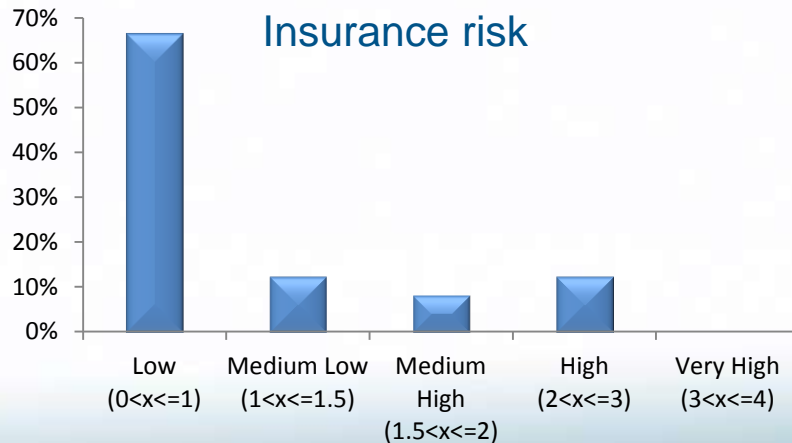
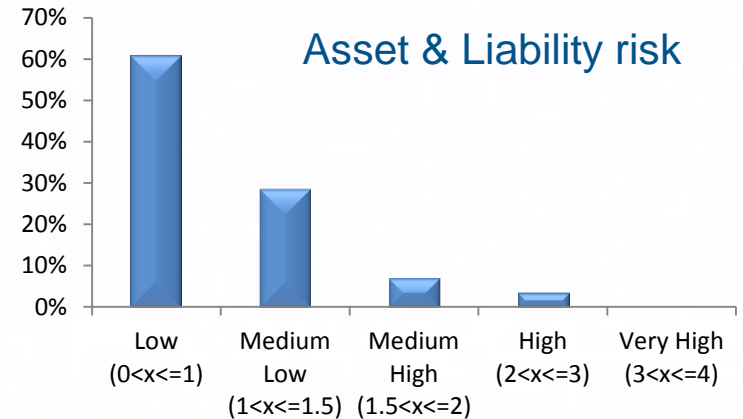
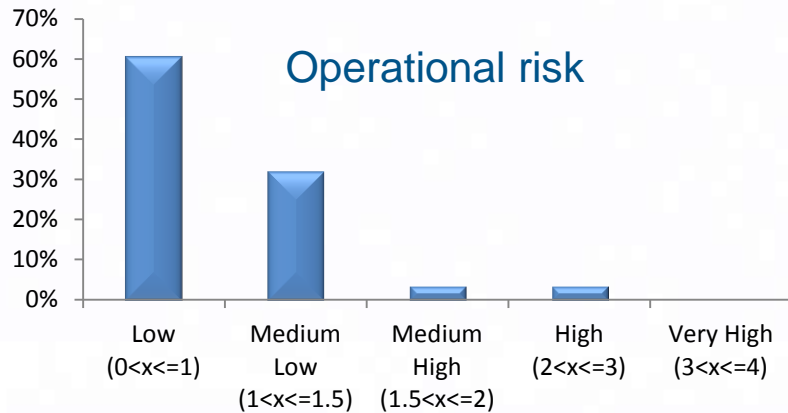


Strategy risk



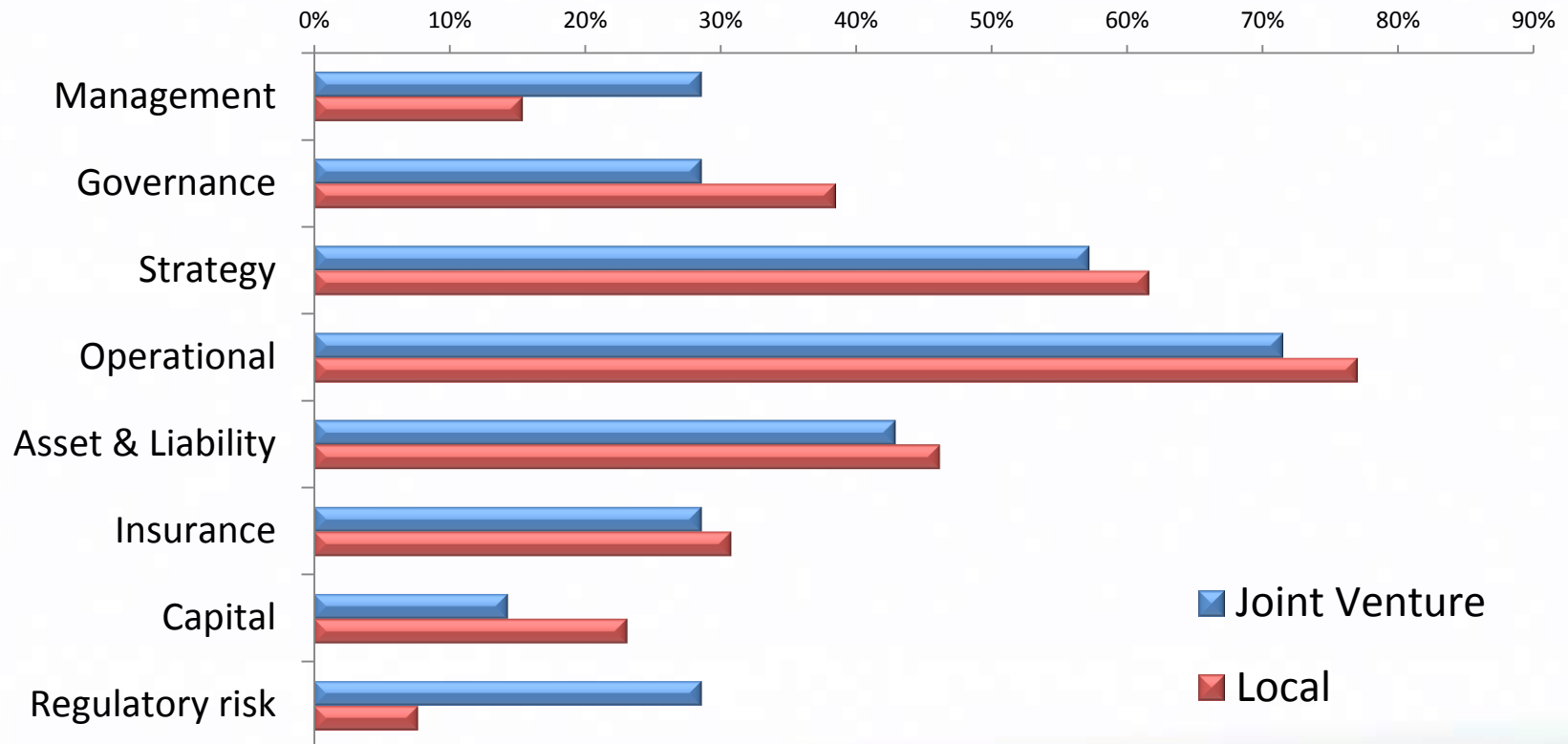


## What was your organisation's Total Risk Score (Nilai Risiko Keseluruhan)?



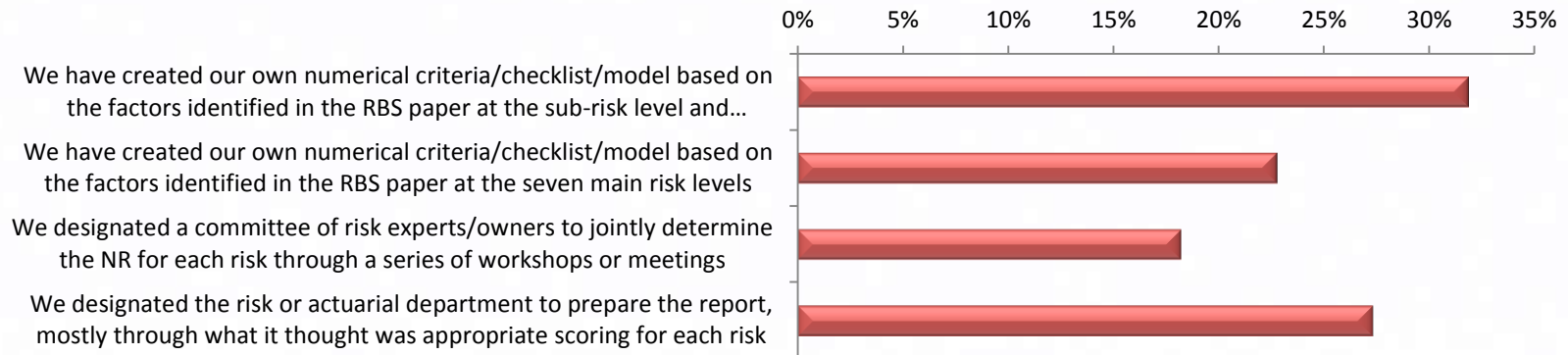


Please indicate the top three risks that your organisation is currently prioritising, independent of the actual Nilai Resiko that your process has calculated for those risks.

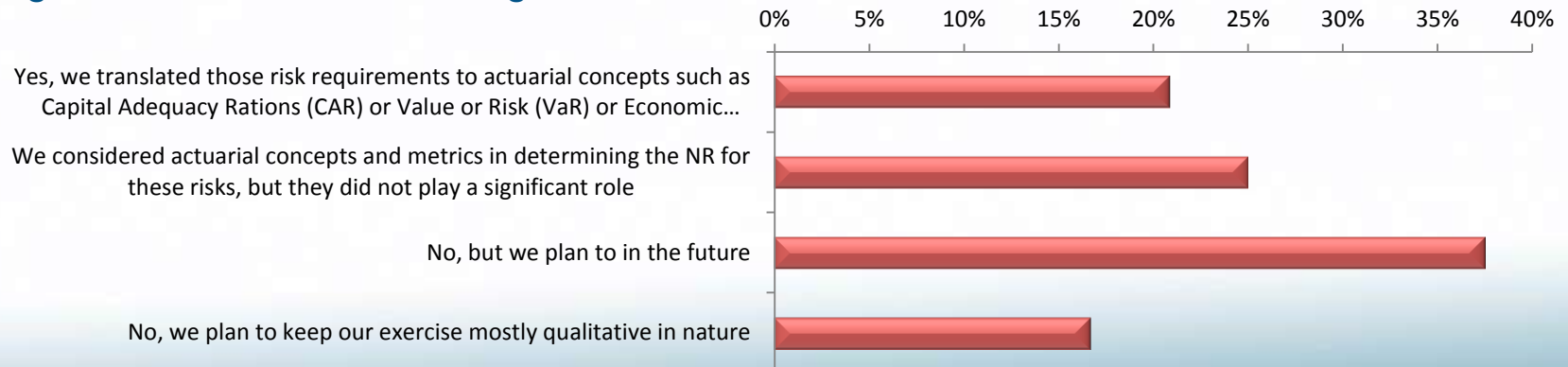




## Broadly, how did your organisation translate the qualitative nature of the RBS guidance to calculate the NR?



## For the risks that are more amenable to quantification in nature (e.g., the ALM and Dukungan Dana section), did your organisation relate the NR assigned to these risk categories to actuarial modelling?







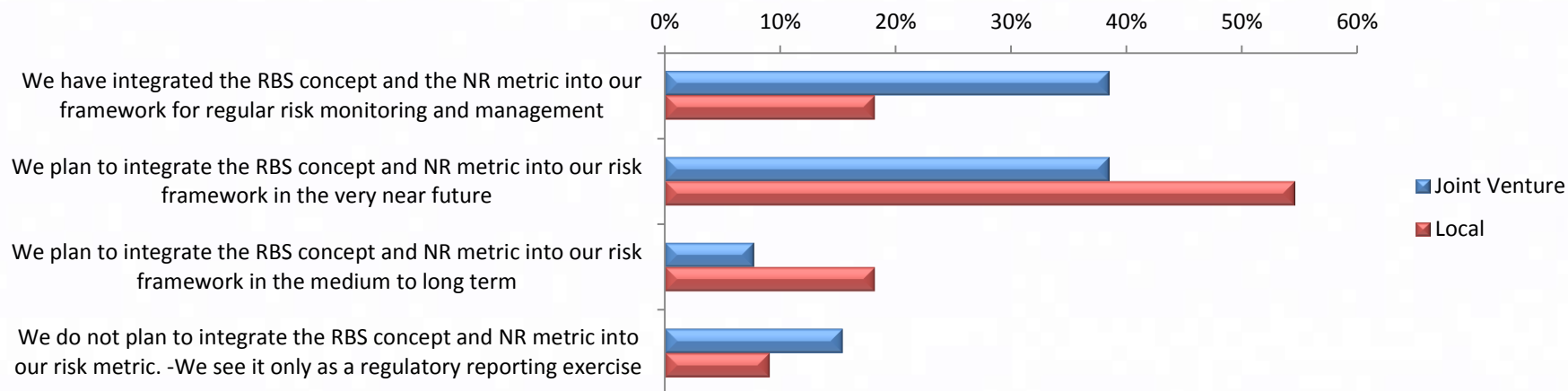
## Interactive Question # **3**

To what extent do you think your organisation has benefited from this RBS exercise?

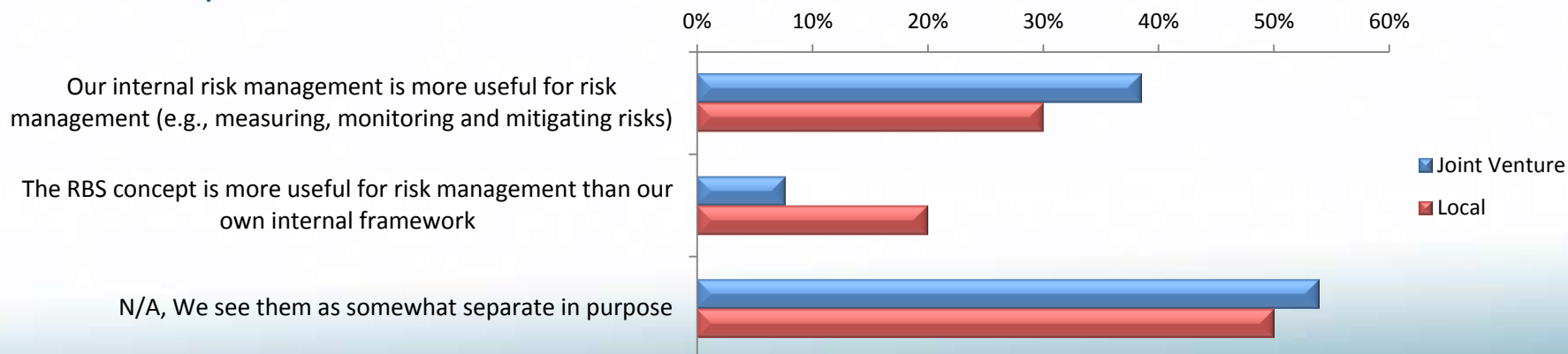
- 1** Do not know.
- 2** Very little.
- 3** Somewhat helpful.
- 4** Very helpful.



To what extent has your organisation integrated the RBS concepts and regular reports to OJK into your day-to-day regular risk management process?



If your organisation already has an internal risk management framework, how does the RBS compare to it?

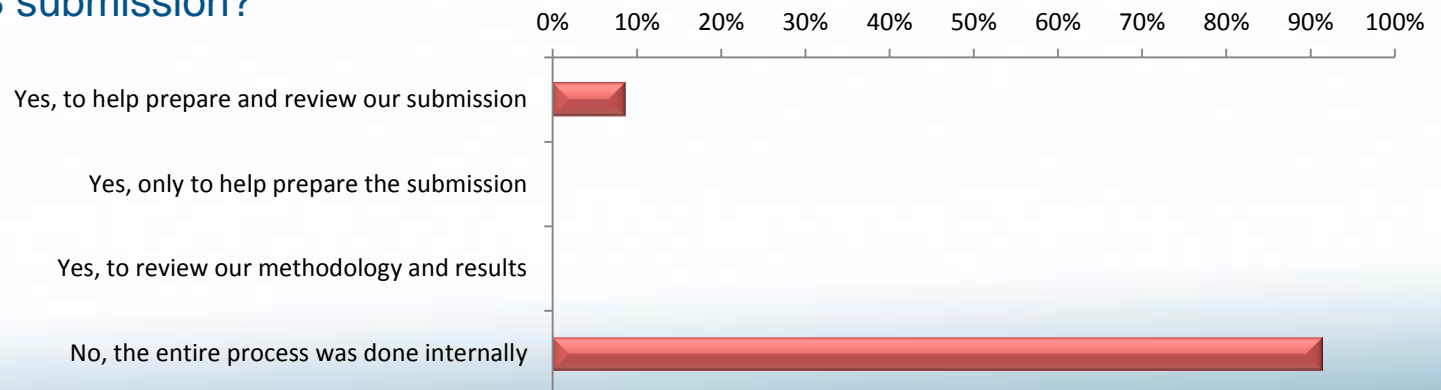




## Has your organisation decided to take any key actions as a result of the risk review done to support this RBS submission?



## Did your organisation involve a third party (e.g., consultant, auditor) to help prepare or review your RBS submission?





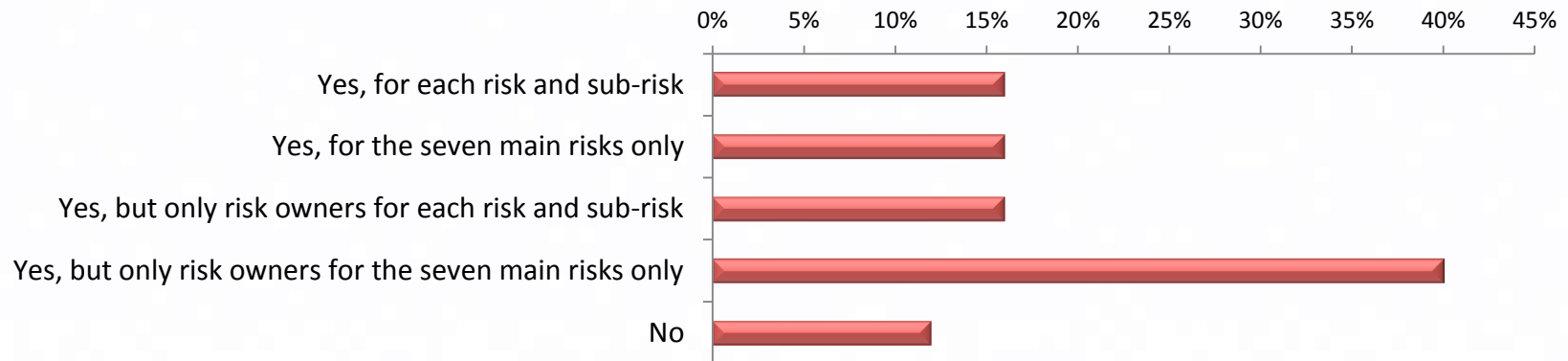
## Interactive Question #4

How many people within your organisation have been involved in the preparation of your company's RBS submission?

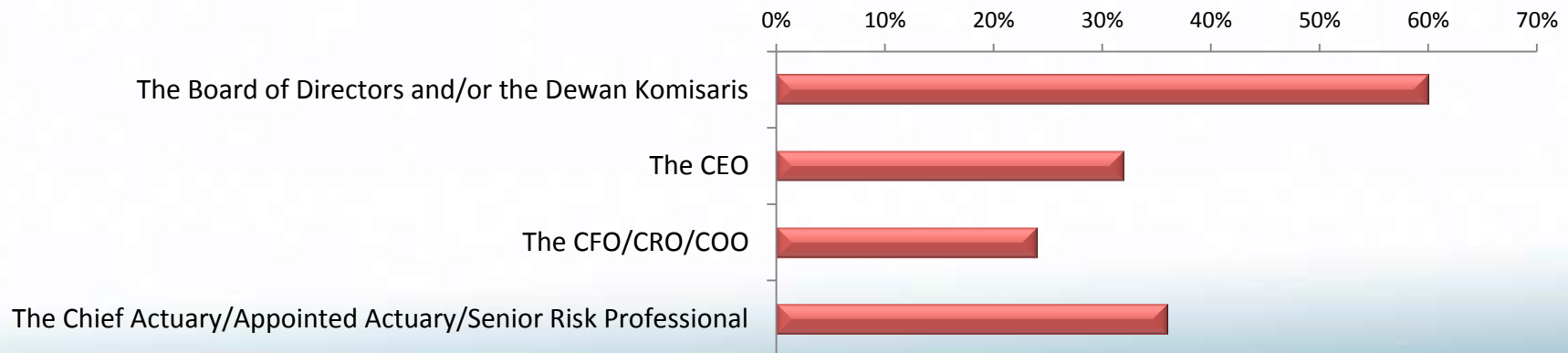
- 1 Do not know.
- 2 1-2.
- 3 3-4.
- 4 5 or more.



Has your organisation designated risk owners and risk reviewers for each of the risk and sub-risk modules of the RBS framework?

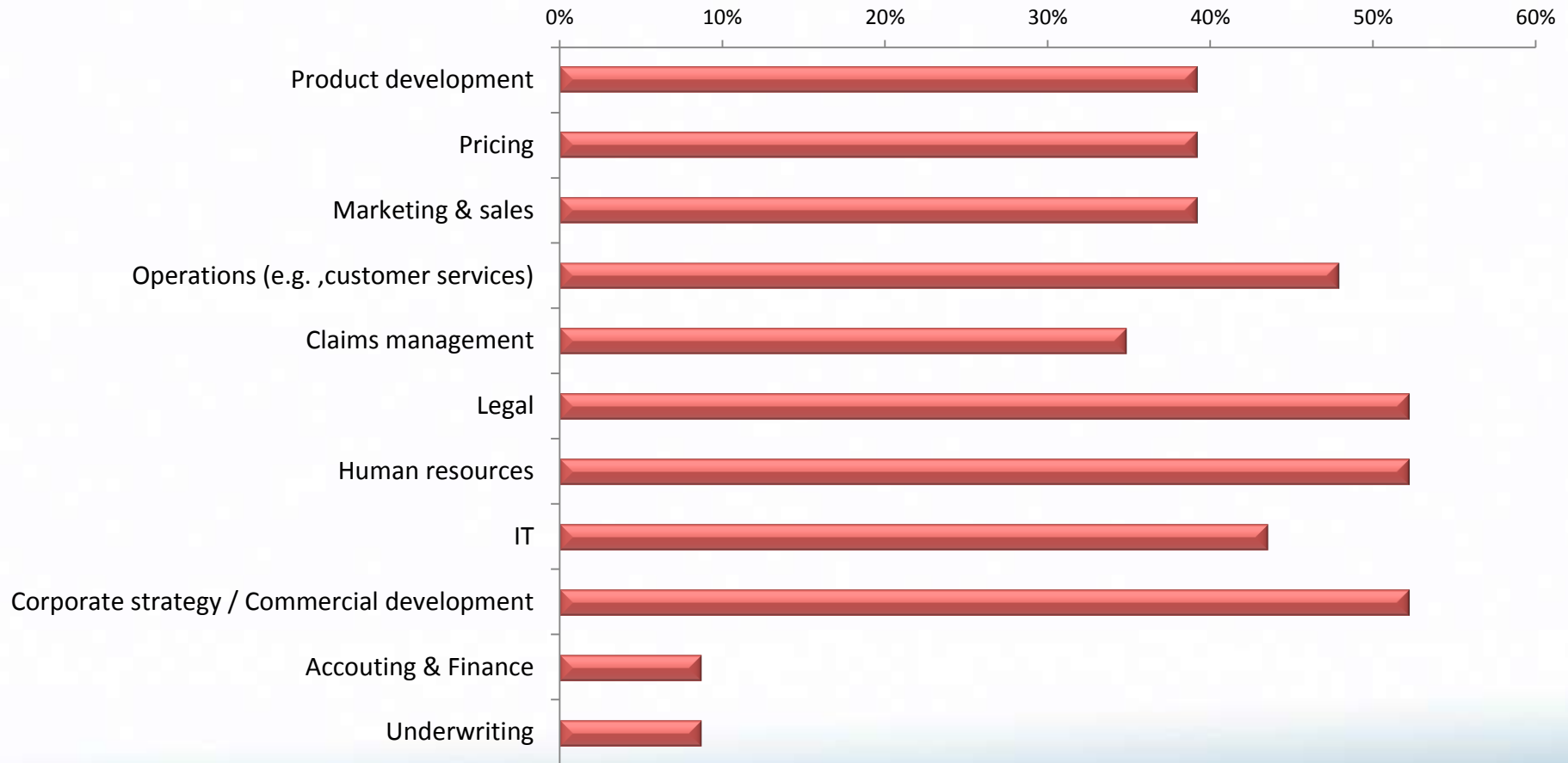


What was the highest level of executive involvement in the formulation or review of the RBS submission?





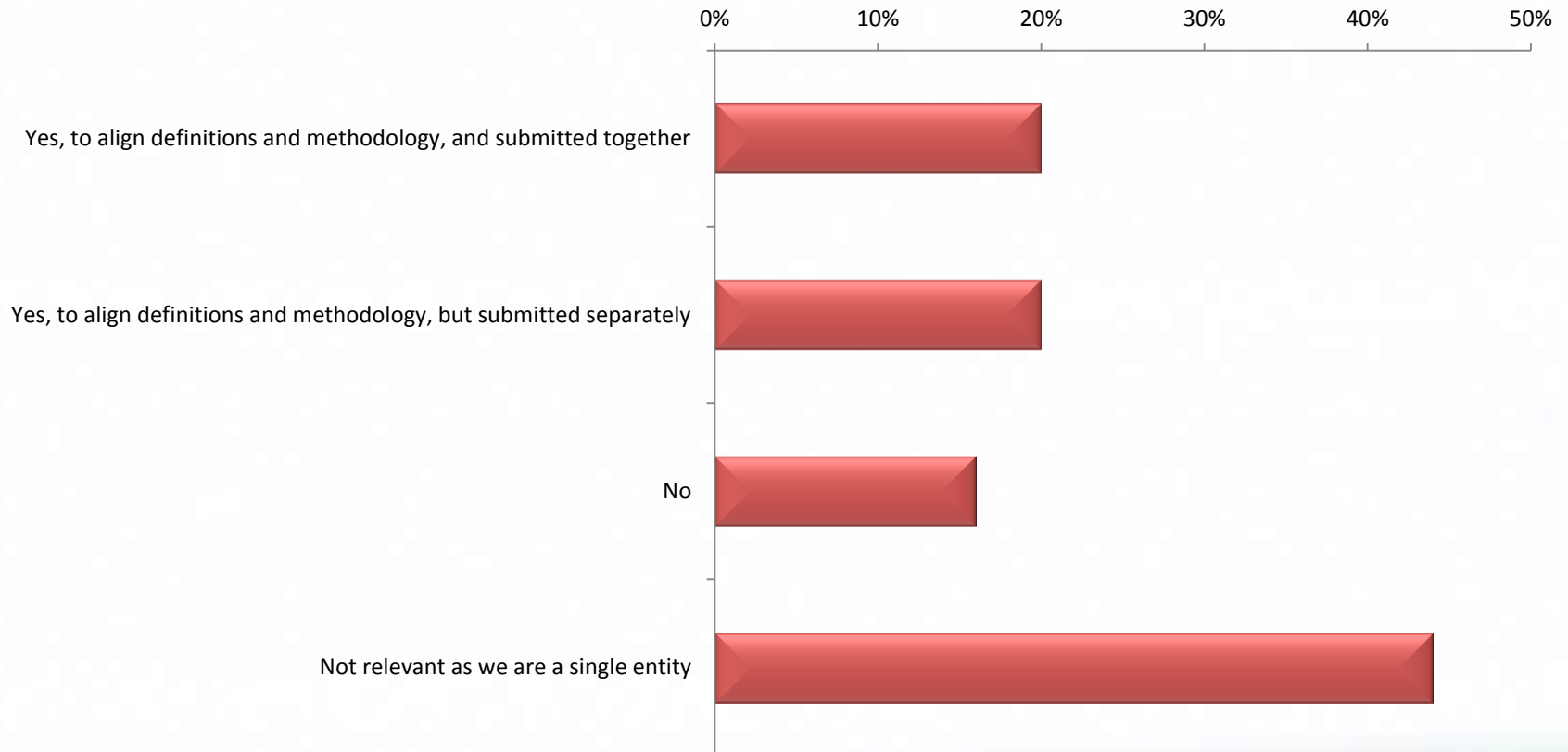
To what extent were other non-risk and non-actuarial departments involved in the scoring and formulation of the RBS submission?





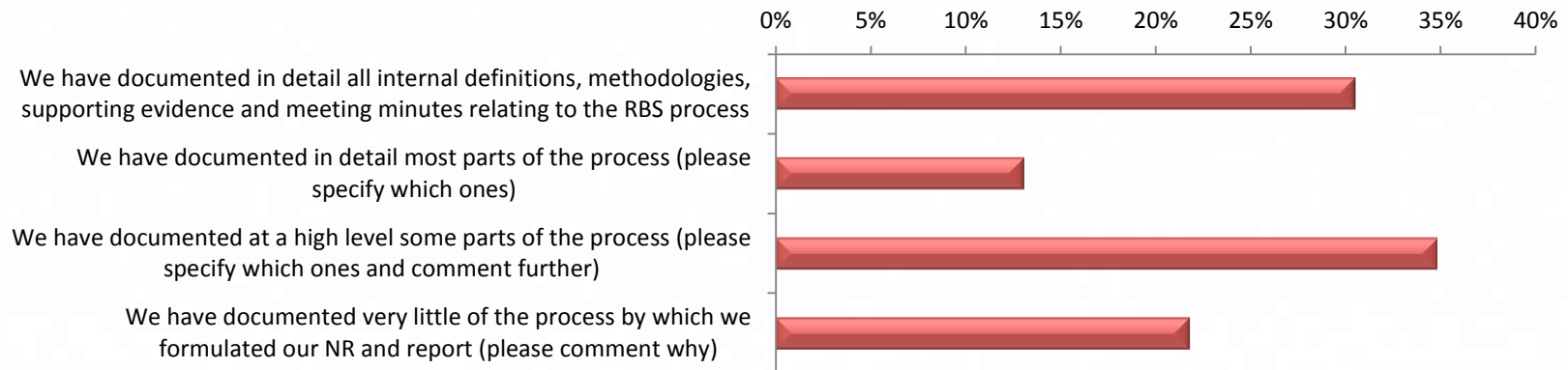


If your organisation has multiple entities (e.g., Syariah, non-Syariah, life, non-life, health), did your organisation co-ordinate internally?

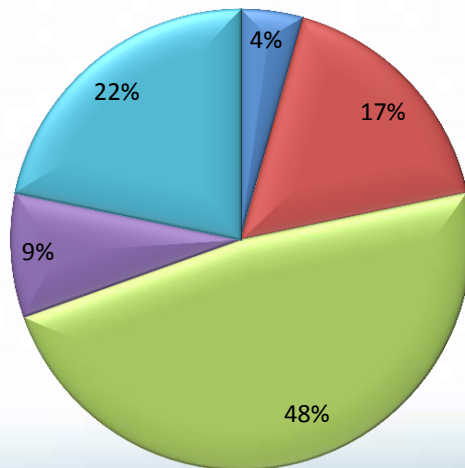




## When preparing the submission, what extent has your organisation documented the process?



## When submitting the RBS report to OJK, what have you included in addition to the basic template?



- A detailed commentary on each risk and sub-risk, detailing the methodology used and backing evidence such as policy documents
- A detailed commentary on each risk and sub-risk, detailing only methodology used
- A brief discussion on each risk, briefly outlining the reasoning behind the score
- A discussion on the overall NR only
- None beyond the minimum



## Interactive Question # **5**

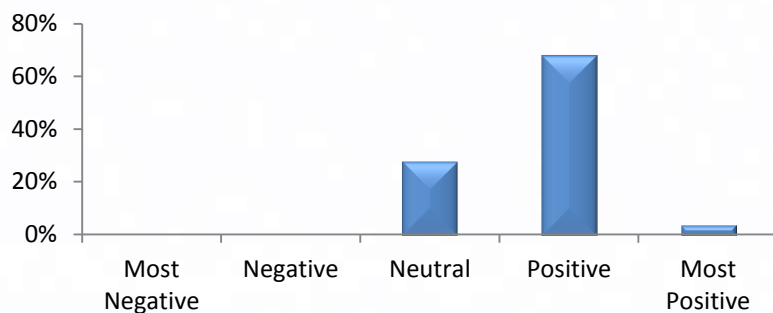
To what extent is your organisation looking to enhance its ERM framework?

- 1** Yes, very topical internally.
- 2** Yes, but little progress to date.
- 3** No, ERM Not seen as a key objective currently.

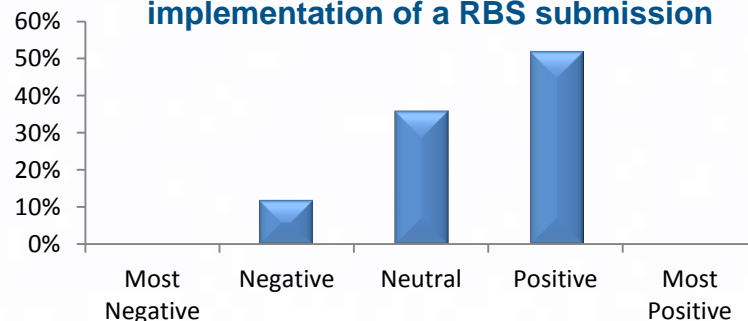


What is your overall perception on the concept of a RBS submission?  
What is your overall perception on OJK's current implementation of a RBS submission?

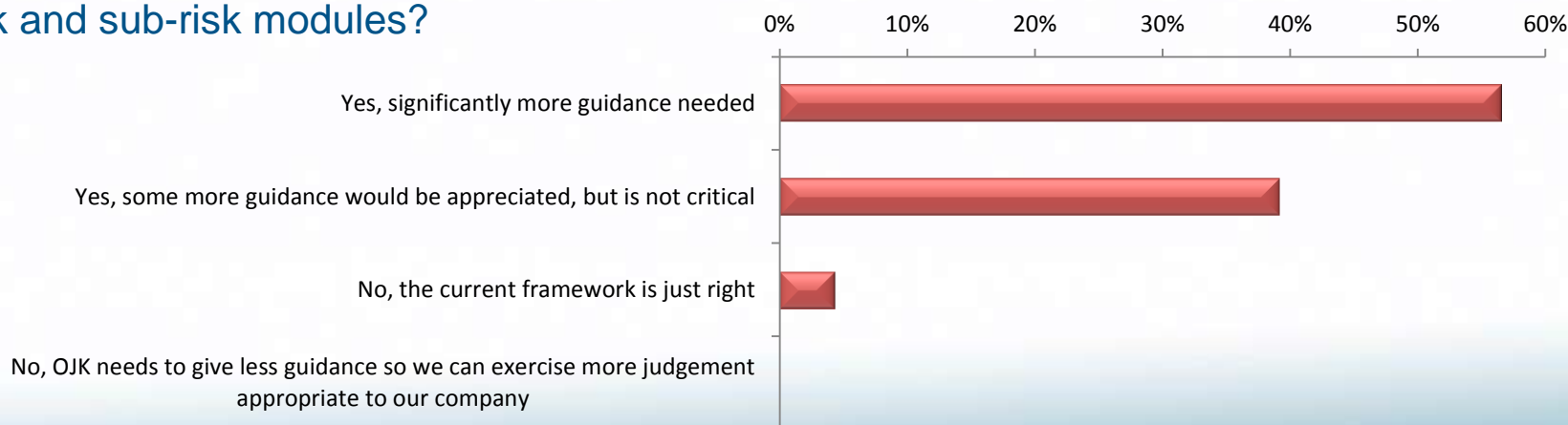
**Overall perception – Concept of a RBS submission**



**Overall perception – OJK's current implementation of a RBS submission**



Do you feel that more guidance should be given by OJK on how to calculate the individual risk and sub-risk modules?





## Milliman Insights....

- **A bold move by the OJK**, moving in the direction of enhanced risk-based supervision, as practiced in markets such as Singapore, Malaysia, China etc. However the survey shows this should be viewed as a preliminary step, with scope for further enhancements.



- All participants identified **Operational**, **Strategic Risk** and **ALM Risk** as their biggest concerns independent of the actual risk scoring;
- The industry response to the RBS concept were overwhelmingly **positive**, and the majority have indicated that they plan or already have integrated the RBS exercise into their internal risk management practices.
- However, the majority of participants indicated that they would appreciate **more guidance** from the OJK on how to determine their Risk Scores – insurers are currently using a wide variety of approaches; And hence there may be a lack of consistency comparability of results across companies



# Milliman Insights....

- Majority of companies also plan to **increase their internal risk management capabilities and staffing** in response to this RBS concept. Good initiative but resourcing may be challenging
- Interestingly, for most companies, the entire process were driven entirely by the actuarial or risk teams, with **limited involvement from other functions** such as operations, strategy and legal. Best practice would suggest a coordinated approach across all aspects of the business. In other markets the risk function reports to the Board, which has ultimate responsibility.
- **Documentation** of the submissions varied considerably, ranging from the submission of the template (only) to a more comprehensive document with methodology/commentary/backing evidence. A consistent format across with industry (with some documentation) would help the OJK to understand the approaches adopted and help make its assessment of companies' submissions more efficient. More detailed documentation internally is essential as companies develop the entire ERM process.



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