Q&A

Lorie Graham, Chief Risk Officer and Senior Manager of Insurance Services at American Agricultural Insurance Company

ERM HELPS REVITALIZE GLOBAL REINSURER'S RESULTS

By Russ Banham

RIMS

American Agricultural Insurance Company (AAIC) is a global, diversified provider or reinsurance products across the insurance spectrum. The company launched in 1948 as a reinsurer to the Farm Bureau® insurance companies across the United States.

In 1999, eager to enhance its opportunities for growth, the company acquired the assumed reinsurance business of Nationwide Group. The acquisition gave AAIC the opportunity to diversify their book of reinsurance business and assume business from insurers other than Farm Bureau® insurance companies, giving it wide exposure to additional domestic and international property and casualty insurance markets.

Today, AAIC continues to work on building and maintaining a profitable book of business that is well-diversified and supports development of innovative services for their clients, and growing their financial strength.

RIMS sat down recently with Lorie Graham, AAIC's Chief Risk Officer and Senior Manager of Insurance Services, to discuss her role in the development of the company's ERM program, which has played a vital part in AAIC's understanding of risk and informing strategic decisions that have a positive impact on financial results in the last five years.

RIMS: Thanks for joining us today. Looking over your bio, it appears you have 33 years of experience in insurance and risk management with Farm Bureau® insurance companies and AAIC. Is that when you first became involved in ERM?

Graham: Back in 2005, I was working for one of the Farm Bureau® insurance companies in Laramie, Wyoming. Our CEO took me aside, and said, "There's a new standard impacting our industry called "ERM" and I need someone in the organization to be in charge of it. You're this person." At the time, I had several years of experience in underwriting and had a background in risk management, but knew only a little about ERM. The discipline was still in its early stages for our industry and involved mostly audit and legal staff, as it was considered primarily to be an exercise in compliance. I was excited to explore and learn about this discipline and looked forward to the responsibility of creating an ERM process. I wanted it to be more than adequate; it needed to be robust, if we were going to put resources into this effort we should get something truly useful out of it.

RIMS: What was your first step in this journey?

Graham: I started with a basic format based on ISO 31000 (a family of standards relating to risk management codified by the International Organization for Standardization). I deviated a bit to incorporate what the banking industry had done with ERM. The banking industry had been practicing ERM for quite some time and as a financial institution we could certainly utilize some of what they had learned. Then, in 2008, I decided to pursue a career with AAIC in Schaumburg, Illinois for a position as a reinsurance casualty underwriting manager. In 2010, I was given the opportunity at AAIC to take on the function of enterprise risk management, with a mandate to create the company's formalized ERM program.

RIMS: What was the mandate?

Graham: Our CEO wanted a program where she and the Executive Leadership Team could gain insights about our complex risks on a more holistic basis. At the time, we were modeling and quantifying our financial risks and capital needs, but there was no formalized ERM framework to assess our risks at an enterprise level. Since I was fairly new to the organization, we began with a roundtable risk identification exercise to create a complete inventory our risks. This was a broad group of people from different disciplines in the organization. I made sure to educate everyone about our plans for the ERM process, setting up risk committee meetings with the executives to explore the risks they had identified. We also created a risk syntax, the vocabulary for use in our discussions and other communications to ensure consistency.

RIMS: Do you recall how many risks in all were on the initial list?

Graham: There were originally about 300 risks and we sorted through them to categorize, remove redundancies and separate risks from drivers. This systematic approach helped us determine which risks required more assessment or could be more effectively managed. Categorization allowed greater management focus and assisted in developing root causes. Today, we categorize risks to align with the lens that rating and regulatory agencies view our risks. However, we've learned that there are no clean boundaries when it comes to risk—a risk in one category will likely interact with risks in another category.

RIMS: What are the means of assessing the risks once they are identified and categorized?

Graham: Risk owners were assigned to each of the risks and then asked to perform assessments and rank their risks so we could focus our efforts on the most critical ones. Up until two years ago, all the data was on a spreadsheet that we had created ourselves. We would conduct risk interviews in person and then manually enter the information into the spreadsheet each year. Since then, we've subscribed to a service that provides software that allows us to store, search and slice and dice the risk data for different purposes within the organization. We still do the interviews, but risk owners now enter the information directly into the system. We've created a variety of charts and graphs and plotted them on dashboards so senior leadership and the board can easily review and understand our risk management performance. These dashboards include information such as risk trends, heat maps, mitigation effectiveness, and risk appetite.

RIMS: Do your activities also allow for identifying emerging risks?

Graham: Yes, we've developed an emerging risk monitor to keep an eye on emerging risks we've identified. We then do a deep dive into the emerging risks that can have a significant impact to our organization to learn more about them. These deep dives help us to recognize when those risks need to be escalated to the risk committee and considered for incorporation into our risk portfolio. Then we assign risk ownership and move from monitoring, to managing the risks actively.

RIMS: Sounds like the ERM program is both well thought-out and well underway, just the type of robust process you and your senior leadership team had pushed for.

Graham: Thank you. Sometimes it feels like progress is slow, but in looking back we've come a long way in a relatively short time, in terms of our capital modeling and management of the risk portfolio on an enterprise basis.

RIMS: Has the process provided a return on the investment in it?

Graham: Absolutely. In 2011, we experienced a pretty rough year. It was a bad year for the industry, but our losses indicated that we needed make changes. We wanted to get to the bottom of what was driving our experience so we could better manage our risks going forward. The ERM process provided the framework to evaluate the risks relative to our appetite.

RIMS: Can you be more specific?

Graham: Previously we managed our risks in what some would refer to as silos. We captured data and modeled risks discretely and with different strategies for budgeting and treating those risks. While each risk was actively managed, they may not have been managed on a holistic basis. There was no risk integration or comprehensive risk analysis to ferret out trends. Once we implemented the ERM process, we had greater transparency into all the risks and their coordination. The insights guided us to reconcile our risk appetite and make risk-aware changes to our programs. We basically de-risked our book in areas where the risks did not align with our risk appetite.

RIMS: And what was the outcome of these changes?

Graham: By vetting the risks strategically against our risk appetite and current risk portfolio, we now had insights into where we should de-risk or assume more risk going forward. We could make more informed decisions on how we assumed and retroceded risks and where we needed to change or develop new mitigation strategies. This consistent cyclical process of calibration and readjustment put us back on track in the upcoming years.

RIMS: How did the results compare to the prior year's results?

Graham: Interesting that you ask. We decided recently to apply the changes we made in the aftermath of 2011 to see how that same book of business would have performed if the changes had been in place in those prior years. We found that the 2011 would have turned out positive for us. We shared those restated results to with our stakeholders to demonstrate that the changes we made were having an impact on our business. It helped our stakeholders connect all the amazing things we're doing with the resulting positive performance in subsequent years.

RIMS: What's next for the ERM program?

Graham: To get better and better! There's no question that risks are getting more complex for all organizations, while timeframes for effective responses are compressing. We have an amazing team of leaders and subject matter experts at AAIC. We have developed a robust capital modeling system. We're also able to stress test different risk scenarios, looking at potential imminence over a one-to-three year period, and how it might impact us financially. When you look at AAIC on the RIMS maturity scale, we're getting closer to risk optimization area—where we're utilizing our ERM program not only to manage risk but also to gain efficiencies and capitalize on opportunities. All in all, our actual results and restated results have been extremely close the past five years, compared to the wide disparity that occurred in 2011. We've been holding steady ever since. ■