



Determining Risk Appetite

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ERM Symposium

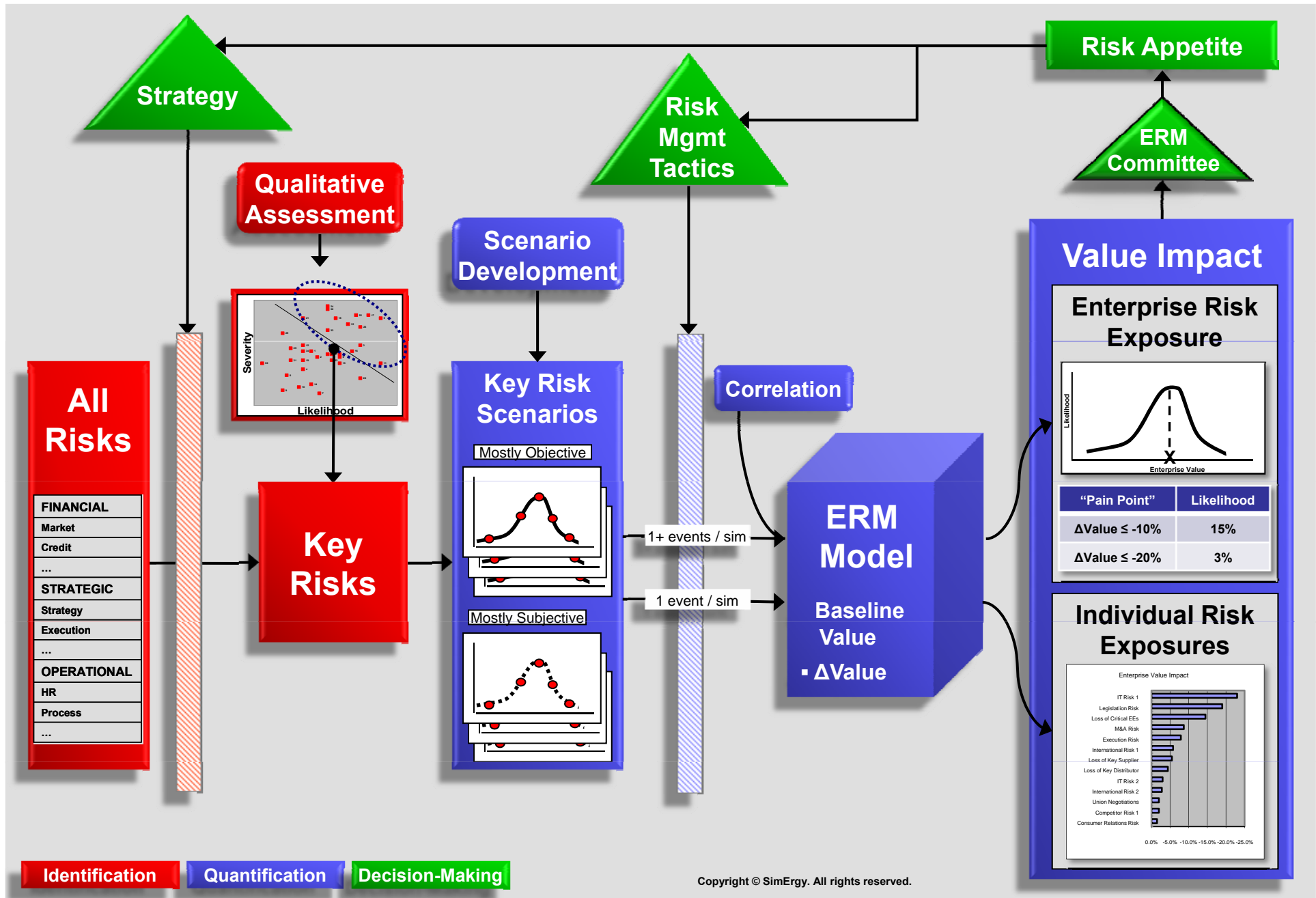
Session 5F: Risk Aggregation Leading to Risk Appetite

April 14, 2010

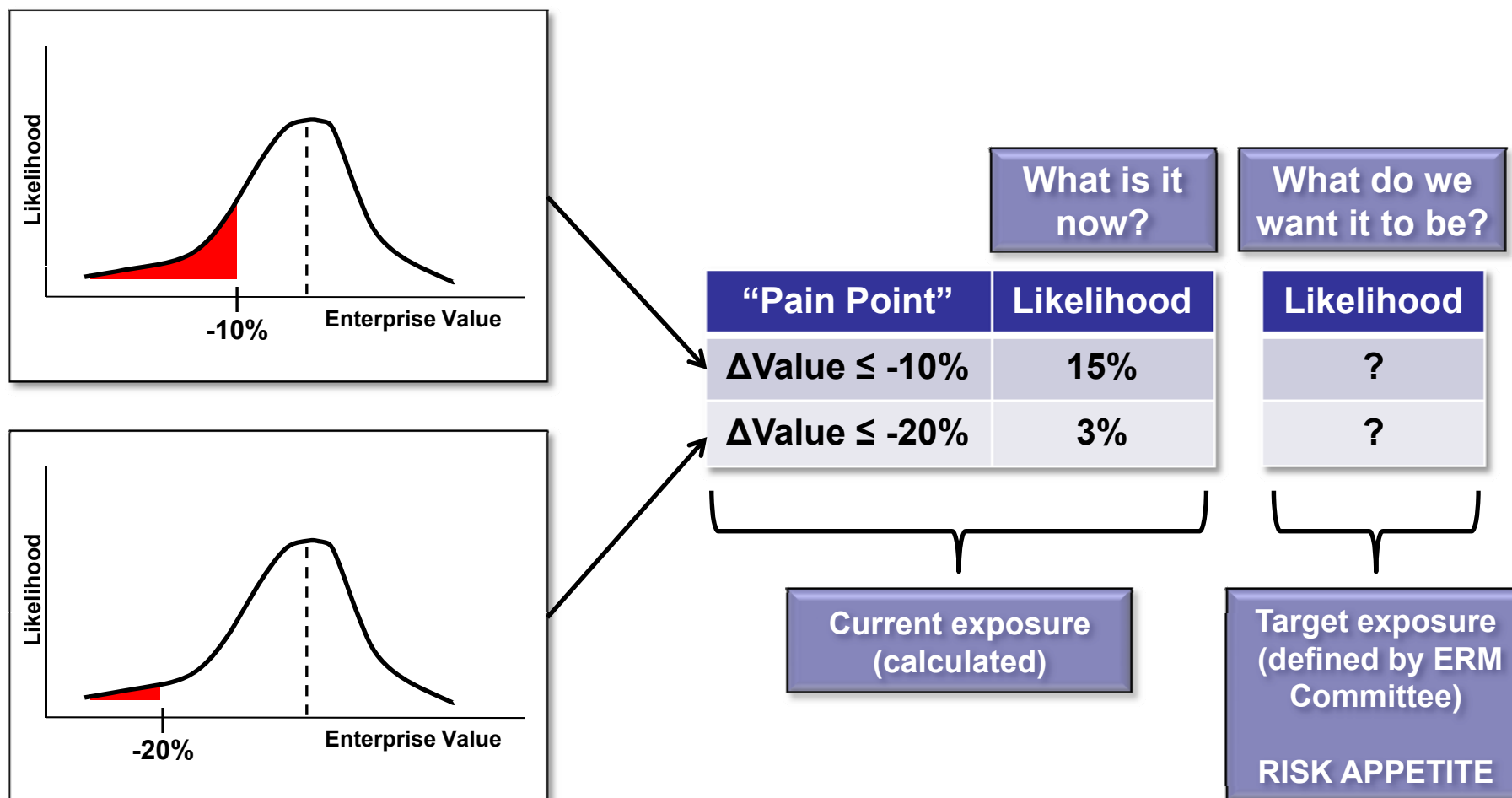
Traditional approach does not support enterprise-level aggregation

	Traditional Approach
All risks quantified?	NO <ul style="list-style-type: none">▪ Only financial risks robustly quantified▪ Violates “significant digits” rule
Is risk interactivity captured?	NO <ul style="list-style-type: none">▪ Quantified on silo / standalone basis▪ Correlation matrices common
Unifying metric?	NO <ul style="list-style-type: none">▪ Multiple, competing metrics

Value-Based ERM Framework



Enterprise risk exposure “pain points” are used to define risk appetite



Modified case study: Other key metrics supplement enterprise value metrics

"Pain Point"	Likelihood
Decrease in enterprise value of more than 10%	15%
Ratings downgrade – one level	7%
Falling short of Planned revenue growth by more than 200 basis points	11%
Falling short of Planned earnings by more than 2¢ per share	10%

Value-based approach provides enterprise-level aggregation

	Traditional Approach	Value-based Approach
All risks quantified?	NO <ul style="list-style-type: none"> ▪ Only financial risks robustly quantified ▪ Violates “significant digits” rule 	YES <ul style="list-style-type: none"> ▪ All risks quantified consistently ▪ Apples-to-apples math
Is risk interactivity captured?	NO <ul style="list-style-type: none"> ▪ Quantified on silo / standalone basis ▪ Correlation matrices common 	YES <ul style="list-style-type: none"> ▪ Quantified on integrated basis ▪ Direct calculation of interactivity
Unifying metric?	NO <ul style="list-style-type: none"> ▪ Multiple, competing metrics 	YES <ul style="list-style-type: none"> ▪ Single, unifying value metric

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