

An abstract of the PhD thesis titled

Exploring the understanding, motivation, design, challenges and performance of Enterprise Risk Management in the insurance industry: an empirical study on four major European Re/insurers

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The key objective of this research is to explore the scope and the extent to which insurance companies manage risks holistically. The objective was achieved through a naturalistic investigation of the understanding, motivation, design, challenges and performance of Enterprise Risk Management (ERM) in the insurance industry. The research began by describing the broad context of risk management from an interdisciplinary perspective and the literature is used to develop a theoretical framework of ERM. Then the ERM initiatives of four major European re/insurers were empirically investigated. These were used to develop a practical framework of ERM. Then the theoretical and practical frameworks were compared and contrasted and a number of propositions were developed and discussed. These provided a substantive theory of ERM. In the literature review it was found that most research on ERM in the insurance sector was developed from financial and economic perspectives, precluding the strategic aspects of risk particularly those involving aspects of organisational behaviour. The thesis argues that risk needs to be considered from a broader perspective beyond disciplinary silos in order to achieve a holistic view on risk and risk management. This argument was developed conceptually by few authors such as Dickinson (2001b), Mehr and Hedges (1963, 1974), Meulbroek (2002a, 2002b), Power (2004a, 2004b, 2005b), Wang (2004) and Ward (2003a). The empirical findings of this study support this argument and the study is the first in-depth academic study of ERM in insurance.

The research concludes that: there exists an uneven understanding of ERM across the insurance industry and the main reason is that risk is conceptualized in different disciplinary silos. Leadership of CEO and regulations turned out to be the key driving forces of ERM. The design of ERM in insurance companies was found to be similar across the industry. However, implementation of ERM varies extensively depending upon the organisation's business model, market, expertise, culture, and most importantly the risk profile. There exists a little understanding amongst insurance companies of how to measure the performance of ERM. Importantly, ERM was not found to be a new phenomenon, rather it is a natural evolution of risk management. The forces leading to the development of ERM include the increased sophistication of market and business and the increased awareness of risk, which in turn compelled insurers to unfold the complexity of risks. It was found that the insurers are more concerned about the dynamics of risk, for example, the volatility attached to assets and liabilities rather than their static values. The initiatives towards Solvency II and IFRS are the prominent examples. This, in fact, brought the concept of 'economic capital' into focus amongst insurers, regulators, rating agencies and other associated parties. Consequently, the emerging role of chief risk officer is interdisciplinary, which should reflect a broad body of knowledge both in general and technical terms.

The thesis is organised into six chapters plus an APPENDIX, which contains four Case Study reports. Chapter 1 sets the context of the research, explores the significance of the study, the motivation for the research, the research objectives and the structure of the thesis. Chapter 2 extensively reviews the literature concerning ERM. It contains six sections. The first section explores the concept of risk. An interdisciplinary outlook of risk from the perspective of the disciplines of psychology, sociology, economics and finance is described. Some financial theories relevant to risk are also considered. The second section introduces the concept of risk management and both traditional and modern risk management are explored. The concept of ERM evolves from this discussion. An overview of past research concerning ERM done by various practices were developed and the key findings are summarised. The third section explores insurance economics, where some basics of insurance (e.g., type of insurers' business, the underwriting cycle, and the relationship between the insurance market and capital markets) are discussed. Moreover, the current state of risk management in the insurance industry and the risk management process is explored. The fourth section addresses some key issues

in insurers' risk management from a technical and operational perspective. The fifth section covers recent regulatory changes and their implications for organisations. The role of the CRO within the organisational structure is also discussed. The sixth section develops, what appears from the literature, to be an effective framework of ERM (this is referred as the 'theoretical ERM framework'). In addition, the set of research questions explored in this study are identified. Chapter 3 focuses on the research methodology employed in the study. It starts with a revision of research objectives, identifies the gaps in literature and develops more formally the research questions to be explored in this study. Thereafter, the research paradigm and different types of academic research are discussed in order to identify the most appropriate research paradigm and style of research required to answer the research questions identified earlier. This is followed by discussion of research strategy and research methods (including data analysis) for this study; in fact this study follows the Case Study methodology under an interpretivist paradigm. Chapter 4 presents an analysis of data collected from the CASES and draws some conclusions based on this. It is divided into seven sections. The first section provides an overview of the four CASES included in the research. Sections 2 to 6 analyse the key findings of five dimensions of (i.e., the understanding, motivation, design, challenges to implementation (operational and technical), and the measurement of performance of ERM). The seventh section explores policy implications arising from the preceding analysis and several propositions are made on the basis of the analysis of the Case Study results. Chapter 5 presents the conclusions of the research in terms of the five dimensions of the study. Chapter 6 identifies the contribution of the research and suggests some future research directions. Finally the APPENDIX includes the four CASE reports, which provides the key sources of information for the data analysis and the findings as presented in Chapter 4.

Keywords: financial risk, operational risk, strategic risk, enterprise risk, enterprise risk management, leadership, chief risk officer, risk communication, risk modelling, risk measurement, economic capital, regulations, interdisciplinary, stakeholders.