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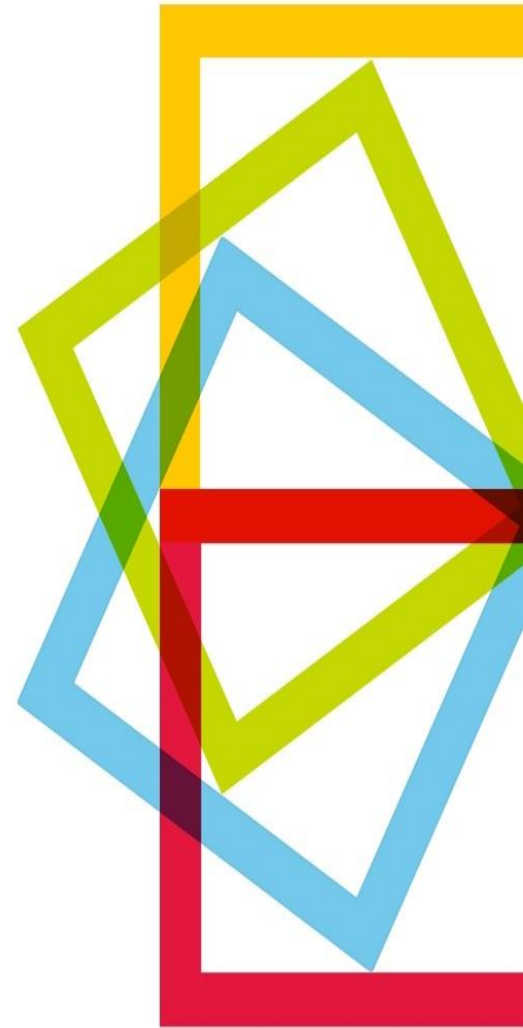
**McGRAW HILL FINANCIAL**

# **ENTERPRISE RISK MANAGEMENT (ERM) and the TAKAFUL MARKET**

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# Enterprise Risk Management

**S&P classifies an Insurance Company's ERM as one of:**

- **Very Strong**
- **Strong**
- **Adequate With Strong Risk Controls**
- **Adequate**
- **Weak**

**We decide whether ERM is of 'High' or 'Low' importance to the ongoing financial strength of the company.**

**Our ERM assessment also cross-references to our assessment of a company's Management & Governance.**

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# ERM: what does Standard & Poor's look at?

- **RISK MANAGEMENT CULTURE** –
  - Governance
  - Appetite & tolerance
  - Reporting
- **RISK CONTROLS** – processes and procedures
- **EMERGING RISK MANAGEMENT** – identifying and addressing risks that are not yet a threat
- **RISK MODELS** – not necessarily essential...
- **STRATEGIC RISK MANAGEMENT** – optimising the TOTAL RISK-RETURN profile

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# Enterprise Risk Management: the Takaful Perspective

**S&P determines insurers' credit strength to service future policyholder expectations.**

**The Sharia Board is an arm of Management & Governance, with a corresponding reporting & compliance requirement.**

**But how does that Sharia mandate help service takaful fund member expectations?**

- **The Takaful Fund (or Funds) operates on a mutual level – risks are pooled and shared among the members – a long term focus**
- **The Operator (usually) works on a profit-driven (investor) model, servicing the operational requirements of the takaful fund members – a short term focus.**

**That hybrid model creates operational tensions that need to be managed and optimised.**

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# Enterprise Risk Management: the Takaful Perspective

- **What is the framework for determining fund surplus distributions?  
How dependent is the business model on this?**
- **Is there ever the possibility of seeking to recover fund deficits from members other than through premium pricing?  
What track record is there for this succeeding?**
- **How does delivering a fund surplus align with making an operator profit?**
- **How are the risks of managing a heterogeneous takaful fund balanced with those of managing a more homogeneous takaful fund?**
- **Is the wakala fee approach the best answer to cost management for fund members and operators?**

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# Enterprise Risk Management: the Takaful Perspective

## OVERVIEW

- **An integrated approach**
- **An encompassing process**
- **Provides benefits**
- **Adds value**
- **Applicable from small to large**

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# Enterprise Risk Management: the Takaful Perspective

## SUMMARY

- **Most insurers are reasonably good at what they do; ‘traditional risk management’ proves sufficient for current rating requirements.**
- **However, for takaful companies, the conflicting needs – demands – of the investor-driven operator model for a distributable income do not necessarily balance the – often unmentioned – needs of stability for the takaful fund members.**
- **So ERM is an essential mechanism for balancing – optimising – the very different pressures on the management team from this hybrid operational model.**

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