



Tail Risks – How does a CEO think about them?

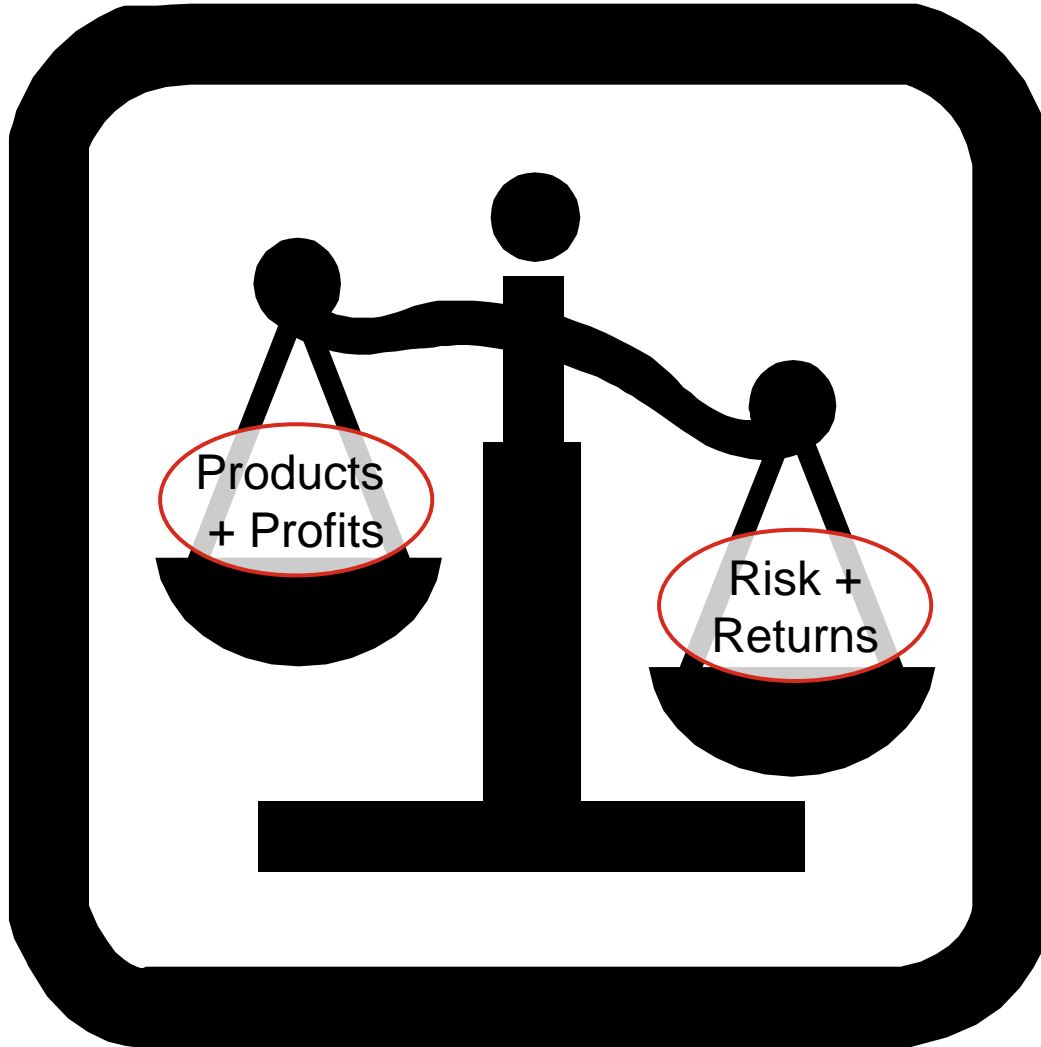
Bronek Masojada

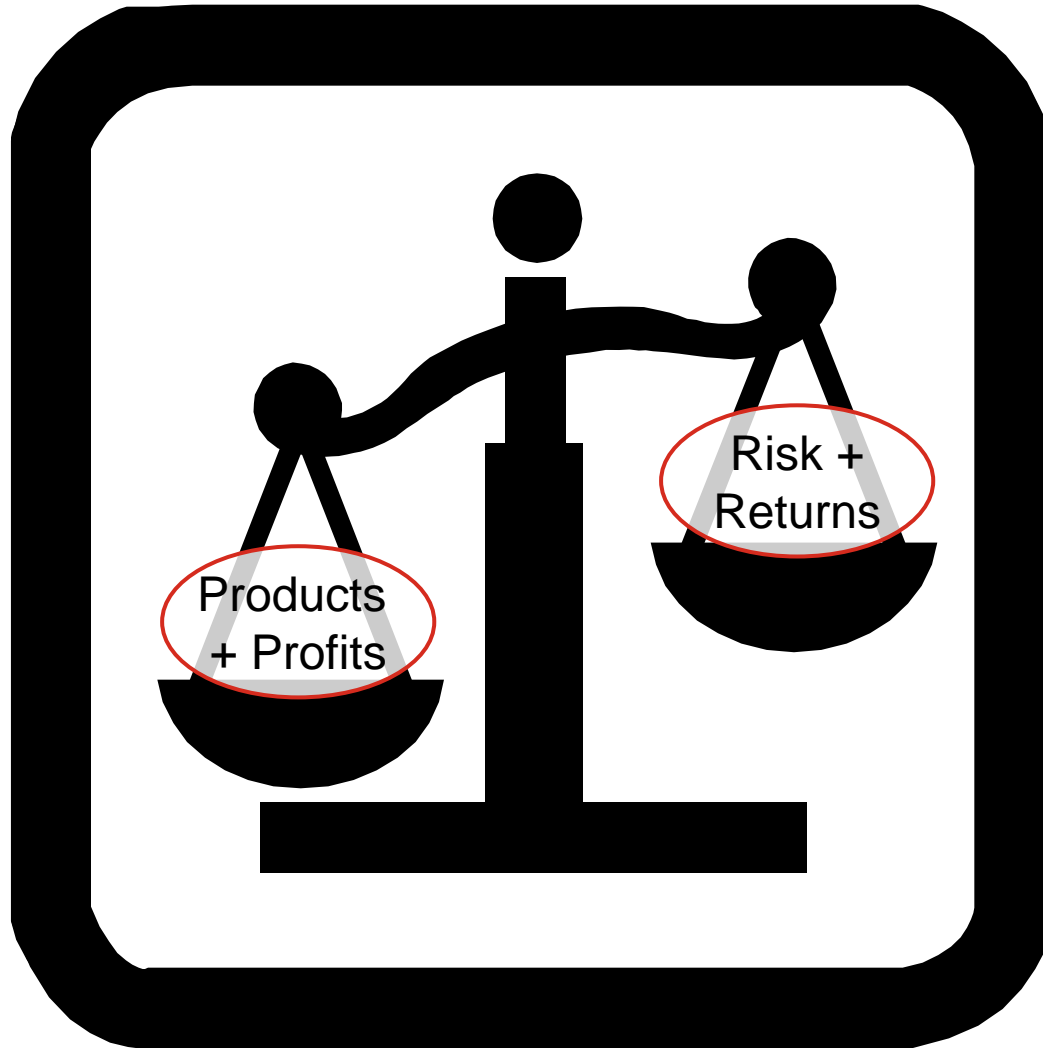
Hiscox Ltd

10th September 2013

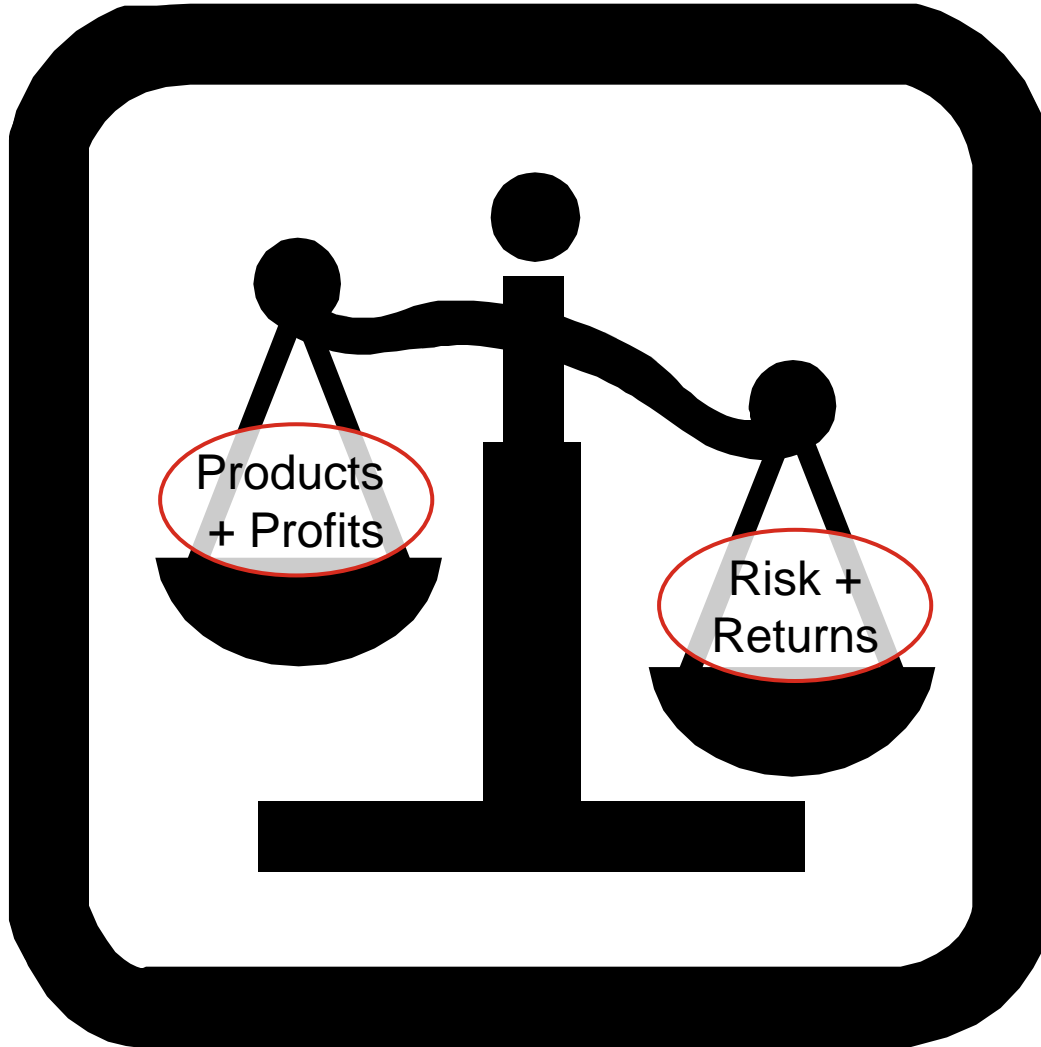
Create a business which serves customers distinctively with specialist insurance/reinsurance products in a way which maximises return on equity within a well defined risk appetite

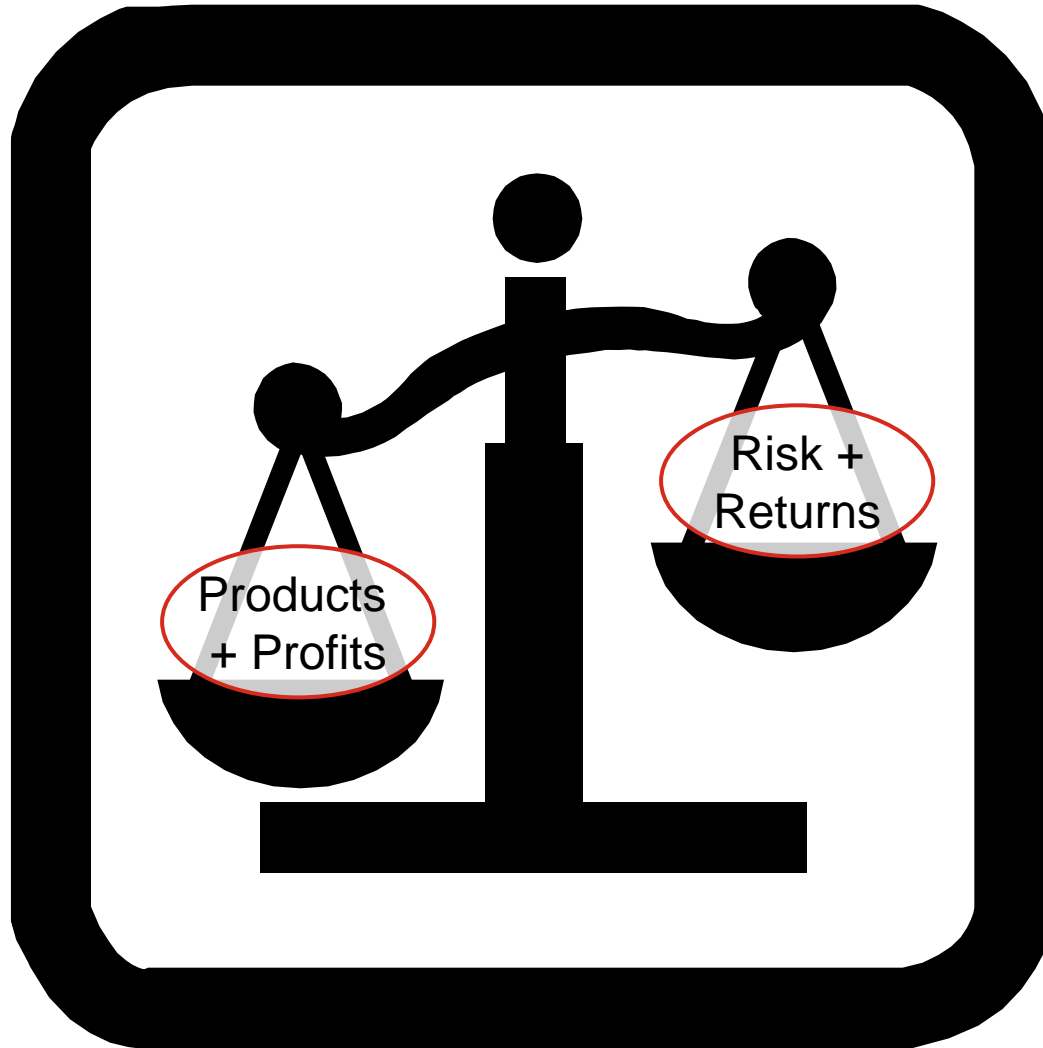
Maintain Balance





Maintain Balance





A few beliefs

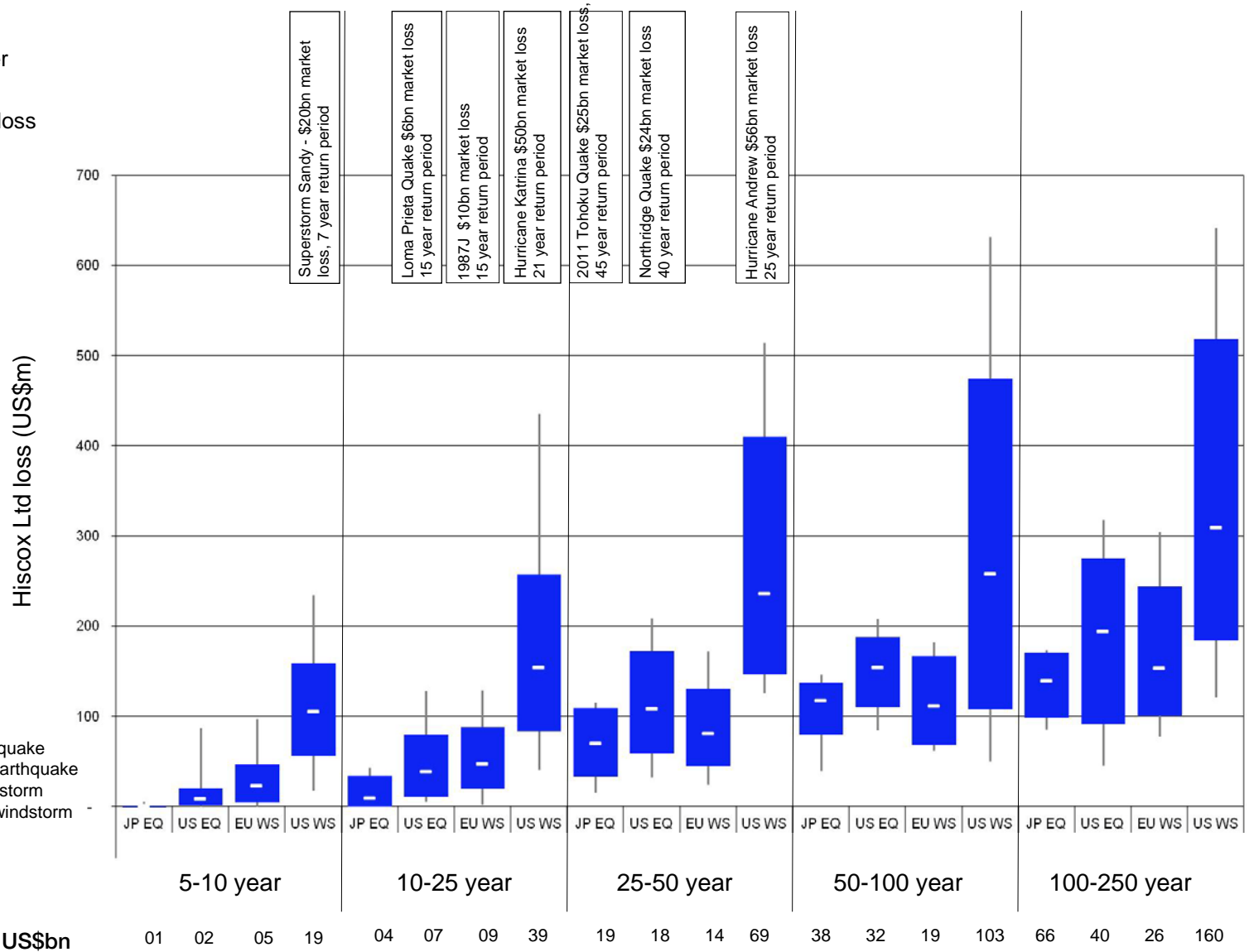
- A model will never fully reflect the real world
- We cannot run our businesses without models
- Individuals will always seek to game the system
- More data and/or analysis doesn't always help you understand a risk
- You can have too much of a good thing

There are limits to how well a model can ever reflect real life



Boxplot and whisker diagram of modelled Hiscox Ltd net loss (US\$m) June 2013

- Lower 5%- upper 95% range
- | Modelled mean loss



Do people game the system?

Basel Committee
on Banking Supervision



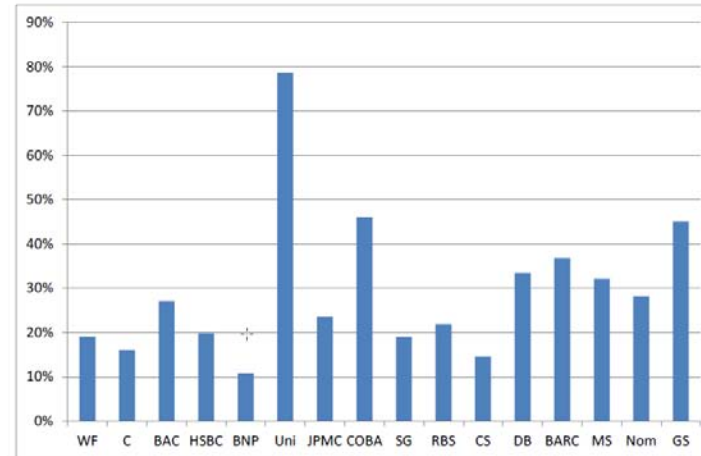
**Regulatory consistency
assessment programme
(RCAP) – Analysis of risk-
weighted assets for market
risk**

January 2013



BANK FOR INTERNATIONAL SETTLEMENTS

Figure 2: RWA for market risk as a percentage of trading assets (end-2011 data)



Confusing mysteries with puzzles

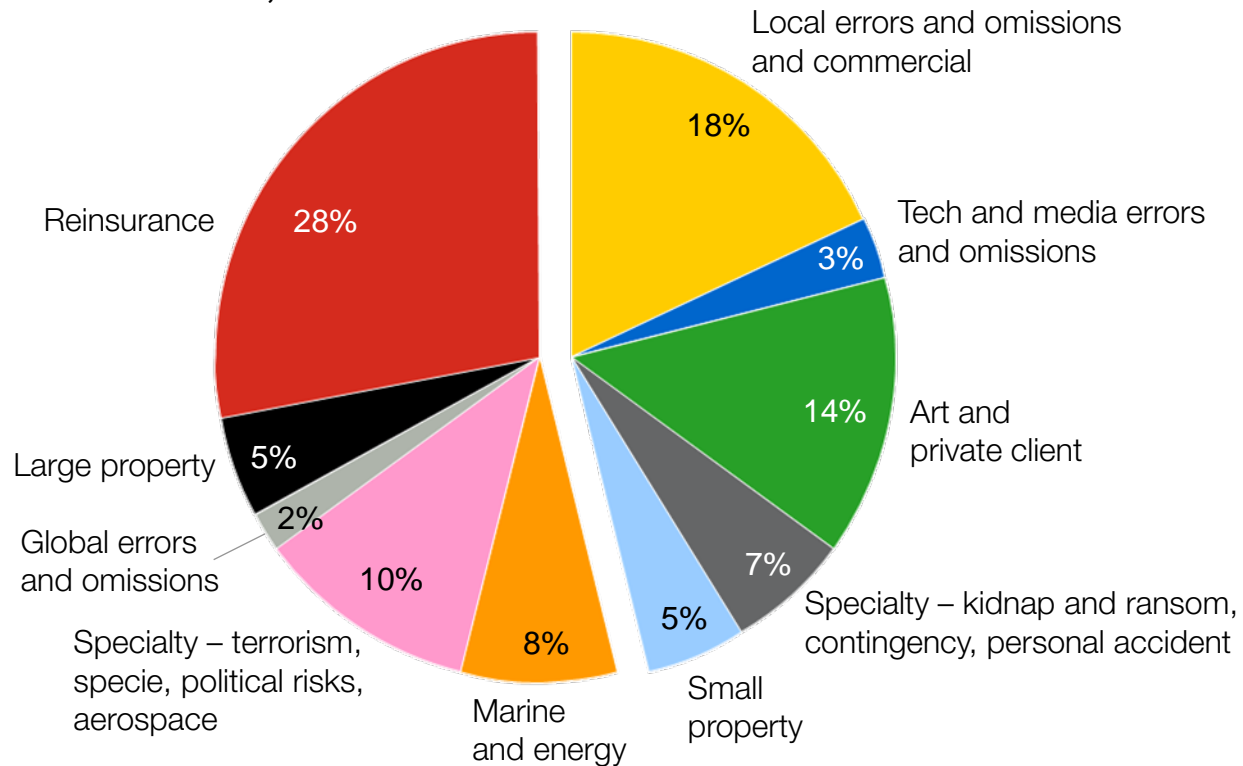
Puzzles are attractive because they come to clean conclusions. Puzzles can always be solved if you just pay attention to the right information, which is all there for you.

Unfortunately, many of the big problems that we face are not puzzles, but rather mysteries.

Mysteries are messy, and the methods that solve puzzles don't work for mysteries, and they might actually make them worse.

Open Secrets by Malcolm Gladwell

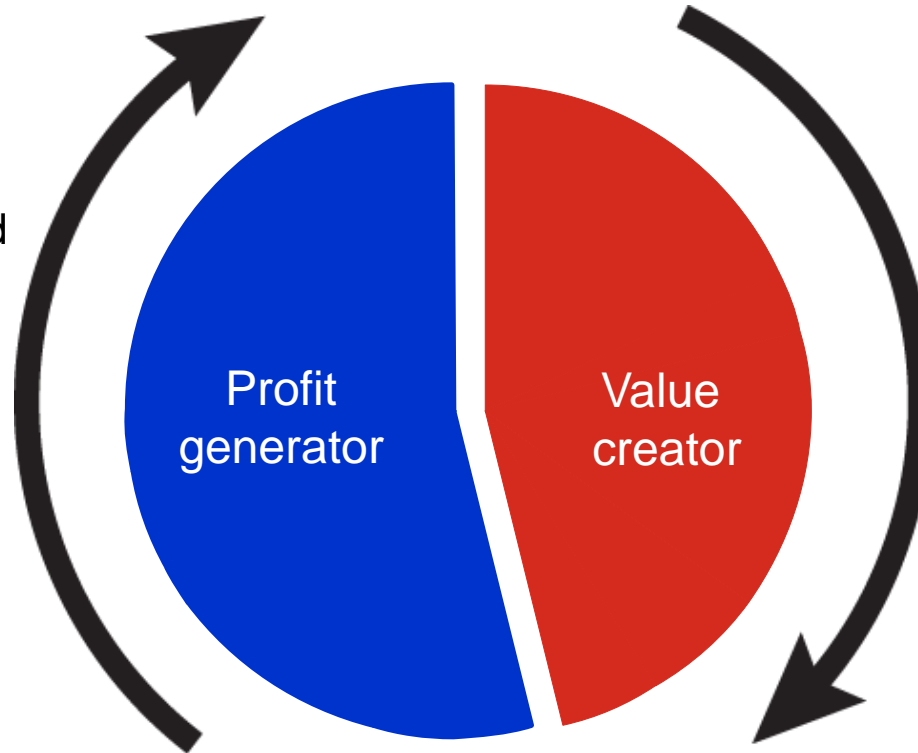
Total Group controlled income for 2012
100% = £1,792m



Done well – create a symbiotic relationship

Internationally traded lines

- Larger premium, catastrophe exposed
- Shrinks and expands according to rates
- Excess profits allow investment in retail development

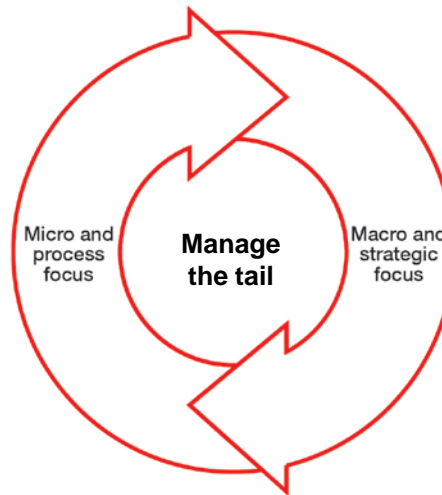


Local specialty lines

- Steady premium growth
- Pays dividends
- Brand builds strong market position
- Profits act as additional capital

Micro and Process Focus

- Individual, business unit, and executive authorities and limits
- Business plan and business process review and performance
- Day to day risk management processes
- Process for identifying new risks, dealing with them and triaging them into business as usual



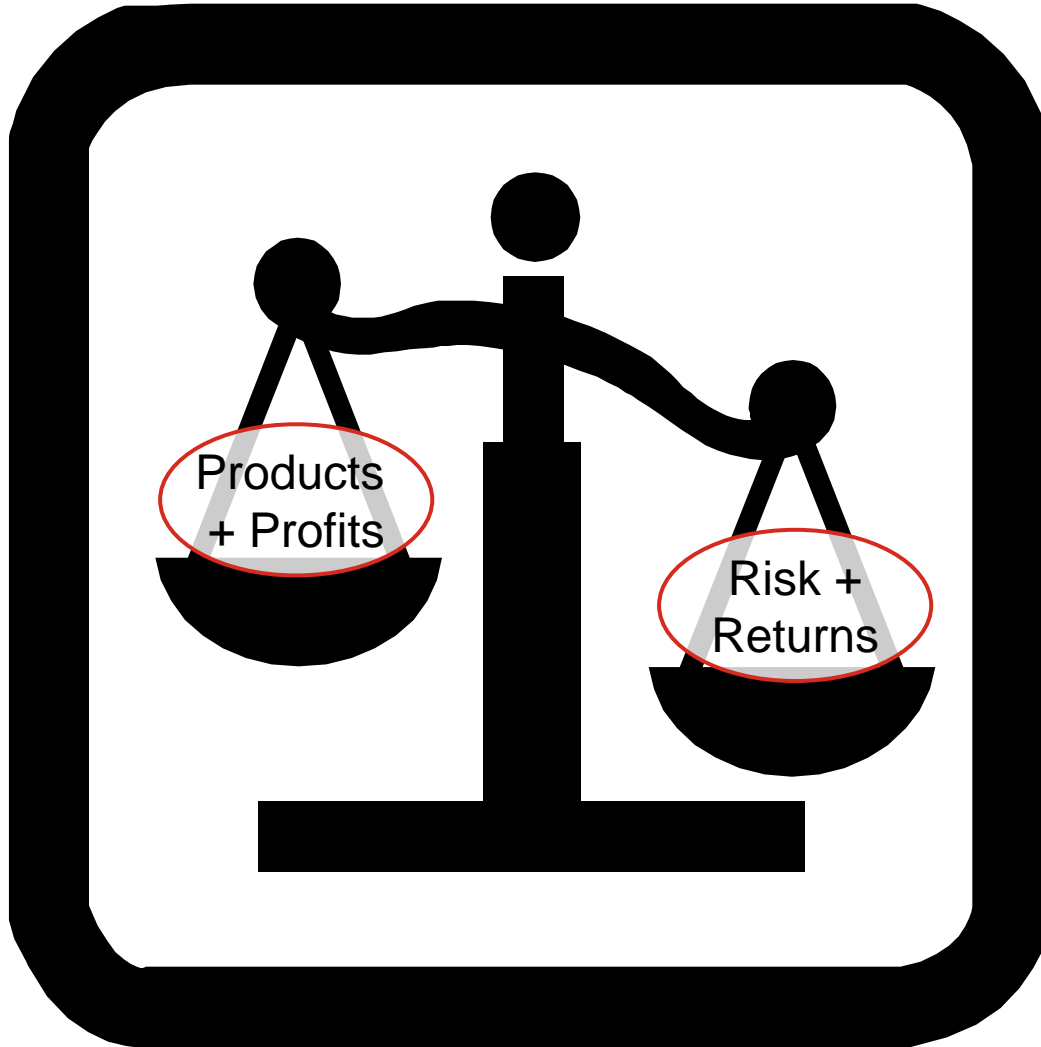
Macro and Strategic Focus

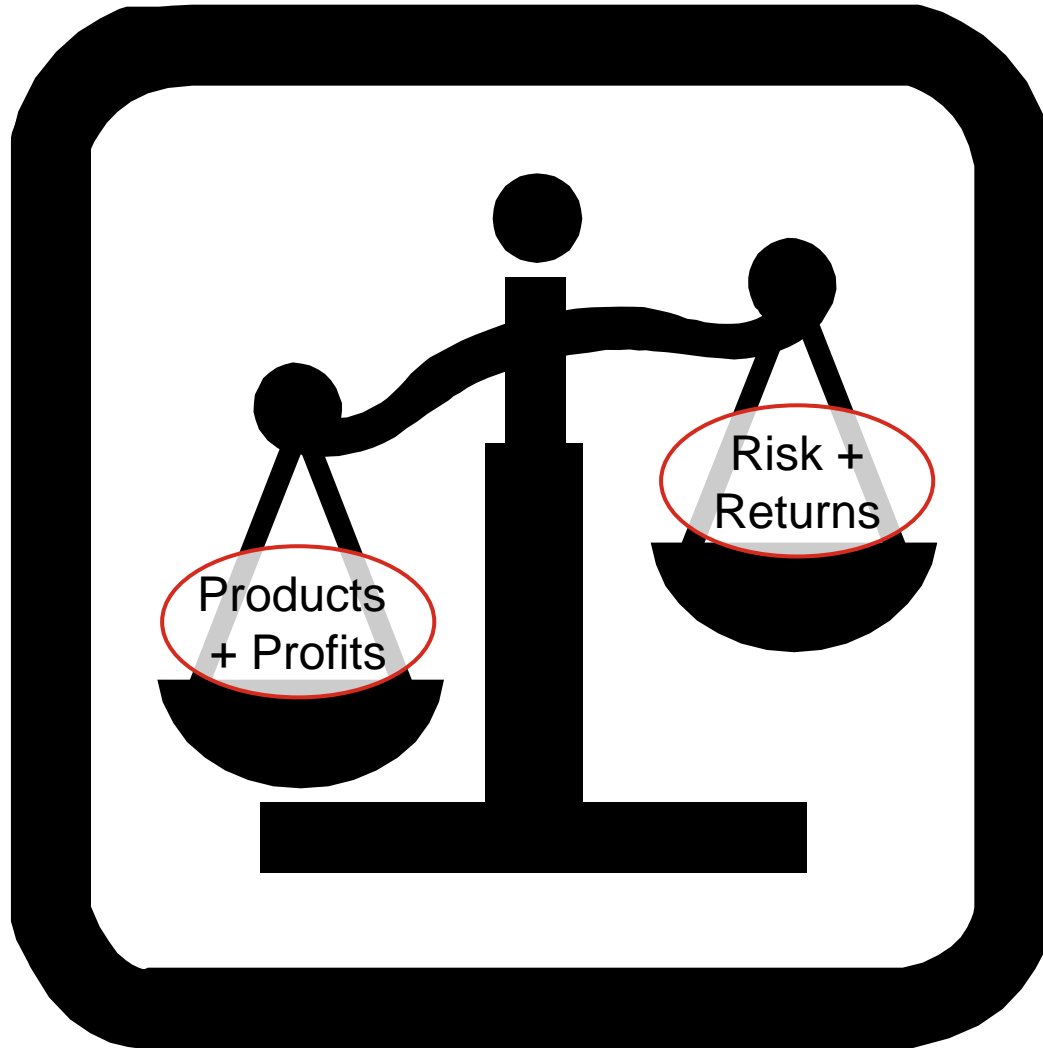
- Regular reviews of the top 10 risks in the business
- Discussion and debate on business unit and overall organisations strategy and ambitions
- What happens when the Capital models or risk controls fail?
- Grey swan brainstorming and thinking – 1 in 10 to 1 in 50.
- Thematic reviews

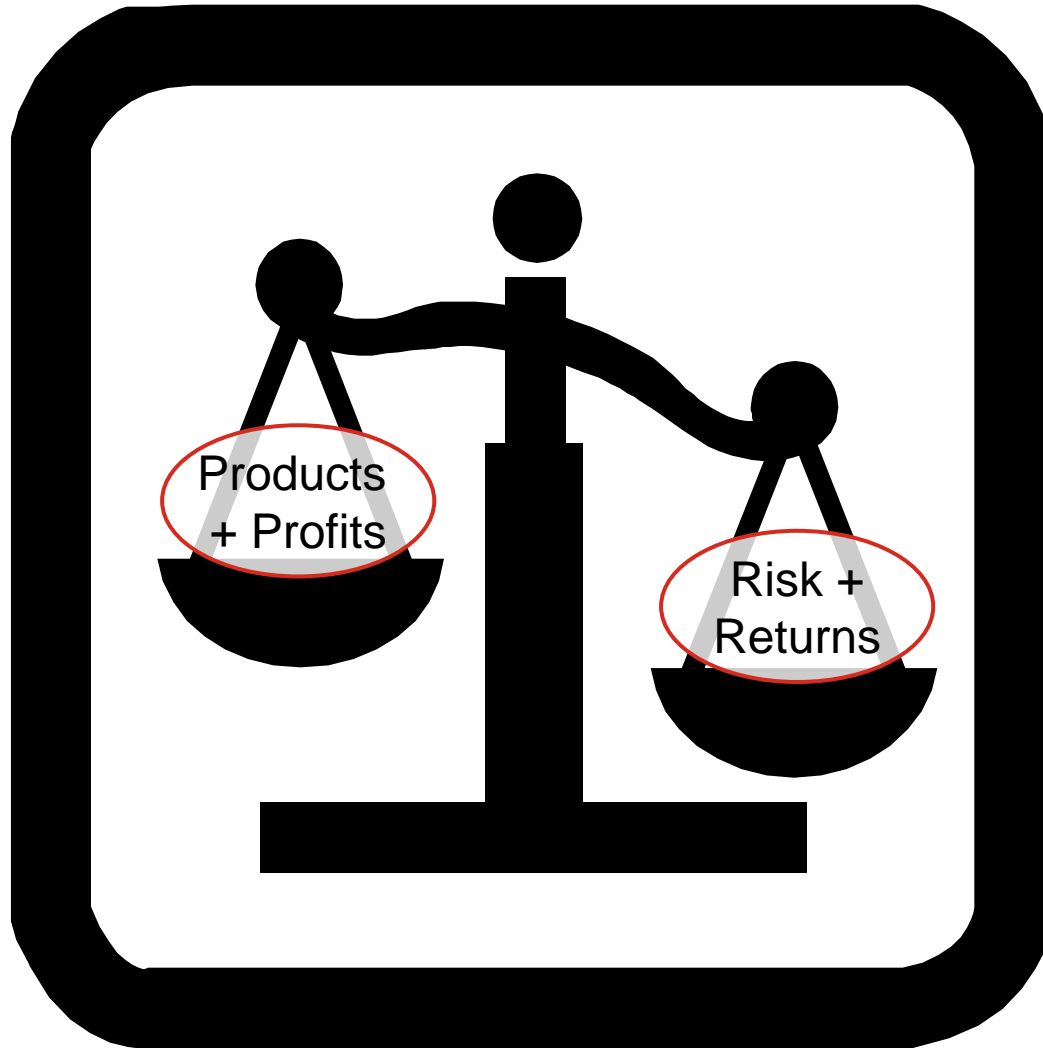
Rationale

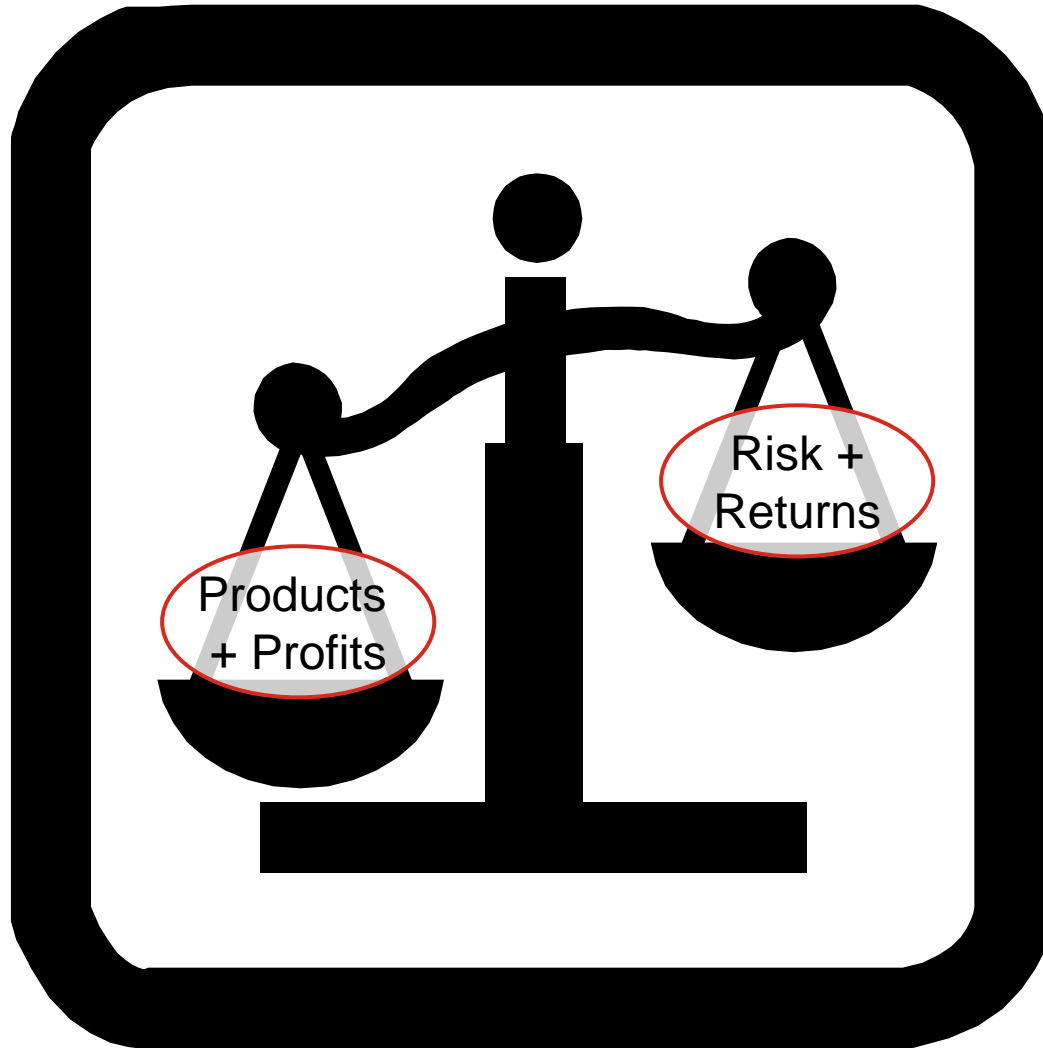
- Avoid a focus on controls and processes as the sole determinants of effective governance in an organisation
- Manage scale of information flows
- Focus on bigger issues means that gaming becomes harder

Maintain Balance













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