



Mapping of Life Insurance Risks

AAA Report to NAC

Key Topics in this Lesson



Credit Risk

Market risk

Liquidity Risk

Operational Risk

Legal risk

Reputation risk

"I don't have a category" Risk



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Credit Risk



Credit risk:

Risk that borrower or counterparty will not meet obligations

- ▶ Business credit risk
- ▶ Invested asset credit risk
- ▶ Political risk
- ▶ Concentration risk



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Market risk



Risk associated with movement of overall market rates and price

- ▶ Interest rate risk
- ▶ Basis risk
- ▶ Reinvestment risk
- ▶ Currency risk
- ▶ Asset concentration risk
- ▶ A/L matching risk
- ▶ Asset Matching Value Risk
- ▶ Political risk
- ▶ Sovereign risk



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Liquidity Risk



Potential an institution cannot meet short-term cash obligations

- ▶ Liquidity risk
- ▶ A/L matching
- ▶ Asset-affiliates
- ▶ Capital markets
- ▶ Catastrophes



(2 points) Define liquidity risk and describe three of its subcategory risks.

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Operational Risk



Potential that lack in internal processes or external catastrophes produce unexpected losses

- ▶ Human capital risk
- ▶ Operational risk
- ▶ Start-up risk
- ▶ Distribution channels risk
- ▶ Fraud risk
- ▶ Strategic risk
- ▶ Competitive risk
- ▶ Stress testing/scenarios
- ▶ Business continuation
- ▶ Acquisition of business

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Potential for losses due to unenforceable contracts, legal liabilities

- ▶ Political risk
- ▶ Regulatory risk
- ▶ Legal risk
- ▶ Distribution channels risk
- ▶ Sovereign risk
- ▶ Fraud risk



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Reputation risk



Potential negative impact from negative publicity, whether true or not

- ▶ Reputation risk
- ▶ Quality/service delivery risk
- ▶ Fraud risk

Pop Quiz



(2 points) Define operational risk and describe three of its subcategory risks.



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- ▶ Pricing risks
- ▶ Reserving adequacy
- ▶ Rapid growth
- ▶ New company/start up
- ▶ Economic environment
- ▶ Net retention risk
- ▶ Mortality-related risk (morbidity, longevity)
- ▶ Frequency/severity of claims risk
- ▶ Sales/lapse risk
- ▶ Underwriting risk
- ▶ Distribution channels risk
- ▶ Inflation risk
- ▶ Reinsurance Risk
- ▶ Financial Statement Presentation Risk
- ▶ Business concentration
- ▶ Small block of business