



A foundational part of any risk management program is the process by which “the business,” as the first line of defense, identifies and evaluates risks and controls. Without adequate processes to undertake these activities effectively, a company’s control environment can be exposed to unknown weaknesses and key stakeholders may not be able to develop the necessary understanding of risk to effectively perform their responsibilities. The absence of effective risk and control assessment activities will impair the ability of a company to identify, prioritize, escalate and remediate risk issues impacting the most important parts of managing a business such as strategy setting, business planning, executing large scale projects, customer retention, cyber security, maintaining mission critical systems and processes and launching new products.

The objective of a Business Risk Assessment Program (also known as Risk Control Self-Assessment, or RCSA) is to undertake a consistent and systematic approach to identify and evaluate risks and controls to create an understanding of a company’s enterprise-wide risk profile. This understanding in turn, will facilitate the management and equip key stakeholders to make more effective decisions due to awareness and agreement of inherent risks and controls put in place across organizational departments and processes for mitigation of top risks. The Business Risk Assessment framework and processes help ensure that reported risk levels reflect the most up-to-date view of a company’s strategic, insurance, financial and operational risks as well as their potential impact.

KPMG LLP (KPMG) professionals have many years of experience in assisting insurance companies in performing business risk assessments. Information about this key service offering from KPMG is summarized below.

## The Challenges

1. Creating a risk taxonomy (framework for organizing and categorizing risks) that provides a consistent way to evaluate enterprise risks across the major risk categories (insurance, market, credit, liquidity, operational, etc.)
2. Identifying and defining risks at an appropriate level of granularity to facilitate actionable results
3. Assigning the appropriate risk owners to risks and getting those individuals sufficiently engaged in their risk ownership responsibilities, including the risk and control assessment process
4. Developing a risk and control assessment methodology that produces meaningful and actionable information with respect to improving a company’s risk profile, strengthening the control environment and improving key stakeholders’ decision making capability
5. Determining the frequency of the need to update risk assessment results (identification of trigger events and regular assessment cadence)
6. Managing the scope of the process, particularly in large global organizations
7. Developing remediation action plans that are not costly or inhibiting to the enterprise goals
8. Provide adequate change management and training tools to facilitate the adoption of desired risk assessment behavior across the organization
9. Coordinating the broader business risk assessment process with other risk assessment processes that are undertaken across the organization such as IT, compliance, investments, insurance and other risk assessments, as well as those that may be conducted by Internal Audit to avoid burdensome responsibilities on the business, unnecessary duplication of effort and creating mixed messages regarding risk profiles
10. Aggregating, interpreting and reporting the results of the risk assessments to the stakeholders in a meaningful and consistent fashion to aid risk mitigation and key decision making.



## The Goals

- Determine the “risk footprint” of the company.
- Enable means by which the company’s risks and key controls are evaluated with critical risks being escalated to the senior management and the board.
- Provide input to the development of Internal Audit’s risk-based audit plan.
- Establish a basis upon which the business can evaluate risk associated with:
  - Business and strategic planning
  - New product development
  - Emerging risks
- Provide key input into the development of stress scenarios and a source of input data for the modeling of operational risk.
- Provide a basis for evaluating internal capital model output against the business’ view of risk and vice versa.
- Provide a key source of risk information that gets reported to senior management and the board.
- Satisfy certain regulatory requirements and rating agency expectations.
- Achieve sustained profitability through a strong risk management program.
- Understand areas where risks are not sufficiently mitigated, or where control effort are potentially duplicated.

## Our Approach

KPMG will leverage a knowledge base of lessons learned from previous engagements, engagement accelerators, industry-leading practices, and our understanding of regulatory standards and rating-agency expectations while delivering the following approach:

- We help our clients build a multilevel risk taxonomy by leveraging our internal library of insurance company risk and control information and facilitating workshops held with the various stakeholder groups.
- We work with our client to identify which risks are included in other risk frameworks across the organization such as IT and Compliance to avoid redundancy and seek opportunities to leverage existing processes.
- We leverage our experience of “industry practices” assignments of risk owners to various risks throughout an insurance enterprise and work with key stakeholders to educate identified risk owners of their responsibilities.
- We apply accelerators such as our risk and control library to work with clients to identify which key controls are also a part of other risk frameworks in order to eliminate redundancy and seek opportunities to leverage existing control assessment processes.
- We help our clients develop a risk assessment methodology tailored to the size and complexity of the organization and its risk profile. This methodology typically involves a deterministic approach that translates the knowledge and judgment of risk owners into quantitative and/or qualitative likelihood and impact scores (inherent and residual risk assessments) for each risk.
- We work with clients to develop an appropriate control-scoring methodology to create the ability to identify key control weaknesses of top risks.
- We help our clients develop a methodology to aggregate risk assessment results. We believe companies should have the ability to aggregate the risk assessment results of individual risks to create a more accurate picture of risk impact.



Figure 1 **Essential Components of Leading Practice Business Risk Assessment Capabilities**

Framework element	Description
Risk Taxonomy	Establishment of a risk taxonomy (framework for organizing and categorizing risks) that provides a consistent way to evaluate enterprise risks across the major risk categories
Risk Ownership	Identifying and assigning appropriate risk owners to risks across the enterprise
Risk Controls	Confirm and map key risk controls to the risk taxonomy
Risk & Controls Scoring	Deterministic approach that translates knowledgeable judgment of risk owners into quantitative and/or qualitative metric
Risk Aggregation	Establishment of a methodology to aggregate risk assessment results
Risk Assessment	Establishment of a methodology to enhance the ability to understand key risks, risk drivers, control weaknesses, trends, etc.
Risk Reporting	Interpreting and reporting the results of the risk assessments to aid risk mitigation and key decision making



**Our Team**

- **Senior team leadership with deep, relevant skills.** Our senior team is a seasoned group of professionals with both industry experience as Chief Risk Officers, Risk and Control professionals and Chief Actuaries as well many years of professional services experience assisting insurers develop risk assessment capabilities
- **Knowledge honed by global experience.** Our global perspective has been built upon a knowledge base of regulatory regimes that require robust risk assessment capabilities and through our work with regional and global companies each involving different variations of risk assessment approaches
- **A practical and well-developed approach.** Technical insight and expertise is important but certainty of delivery is equally important. We have a tried and tested approach that will deliver quality work.



## Contact us

For more information on KPMG's Insurance Risk Management solutions, or to arrange an in-house presentation, please contact one of the representatives listed below or visit KPMG's Insurance Web site at <http://www.kpmg.com/US/en/industry/insurance>.

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