

INTERVIEW

RESPONSIBLE RISK-TAKING



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WHAT IS THE ROLE OF GROUP RISK MANAGEMENT?

→ The core business of an insurer is to manage risks. AXA incorporates risk management strategies into its day-to-day processes, but must also be prepared for the most unlikely events, in order to protect the Group and its customers over the very long term. Our first role is to facilitate safe risk-taking in the company's day-to-day business. We are not here to stop people from taking risks, but to provide insight to help them select risks and make decisions in an informed manner and provide a framework for this decision-making. Our second role is to protect the AXA Group over the very long term. This means evaluating

AXA's resilience in a wide range of adverse scenarios and major crisis situations. We use a set of stress tests to assess our ability to cope with extreme and rare events having multiple impacts. To effectively fulfill these two essential missions, every player, from our top executives to our on-the-ground team members, must be strongly aware of the importance of risk management. We are working to develop a stronger risk culture through training and communications.

HOW DID THE CRISIS IMPACT YOUR ROLE?

→ The crisis both tested and powerfully accelerated our risk management role, and continues to do so. In light of the unprecedented volatility we witnessed, scenarios that previously would have seemed purely theoretical suddenly became very believable. Following the 2008 crisis, we proved that we could quickly deploy corrective actions and anticipate risks. One example is our decision to protect our equity portfolio. At the same time,

we implemented "risk appetite" measures and incorporated them into our operational decision-making. Concretely, each year we ask our managers to define the exact amount of loss that they could handle in a crisis situation with respect to the earnings, value, capital and liquidity. Next, we show the impact of their risk management decisions on these dimensions so they can revise or validate their strategy. We use this type of approach, for example, to determine the level of reinsurance coverage required to protect AXA in the event of a major natural disaster.

WHAT DO YOU EXPECT FROM SOLVENCY II?

→ Insurance is a regulated activity, which is a good thing for policyholders. The principle of the Solvency regimes is to verify that insurers are strong enough to uphold their commitments, even in a shock scenario. For this we need a detailed analysis of the risk taken by the insurer. The Solvency I regime did not differentiate between the risk of

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an equity or a real-estate investment or between the risk related to insuring an automobile driver or a factory. In this respect, Solvency II is a revolution. It draws a relationship between the amount of capital and the type of risk accepted by insurers. Although key points of debate still remain regarding the calibration of the Solvency II regime, we are already feeling its impact. AXA developed its own economic capital model in 2001, which we have used in our decision-making since 2007. Today, about one hundred AXA employees are working full-time on our internal economic capital model, called STEC⁽¹⁾. Their work is fully supported by our management team.

WHAT RISK CULTURE DO YOU HOPE TO GROW?

→ We want as many employees as possible to adopt the behavior of a risk manager and incorporate it into their day-to-day work. In order to develop a risk culture, we need a strong message and support from a core of experts,
(1) Short Term Economic Capital.

who are our Risk Managers. We have made a great deal of progress since 2004, when the Group Risk Management function was created, in improving safe decision-making. One of our achievements was to gradually make second opinions a widespread practice. For example, recommendations made by operational team members are reviewed by an independent third party, such as a Risk Manager. The development of our risk culture has been promoted by a range of expert-led training programs and greater risk awareness among many governance bodies.

HOW DOES THIS RELATE TO THE CULTURE OF TRUST AND ACHIEVEMENT SOUGHT BY AXA?

→ Imagine a corporate culture that develops a passive/defensive attitude among employees. This is the type of environment in which people are afraid to deliver bad news: a path that can lead to disaster. Overly permissive company cultures, however, can encourage employees to take unconsidered risks or overlook

rules in times of stress. This is an equally dangerous situation. On the other hand, a constructive culture, based on trust and achievement, is an excellent foundation for risk management. It guarantees that each employee does the right thing “even when no one is looking” and promotes an open, well-balanced attitude that meets the standards of good risk management.

HOW DOES AXA MEASURE UP IN TERMS OF RISK MANAGEMENT?

→ We are clearly at the top of the class. But we need to maintain this momentum over the long term. History has shown us that we need to be ready for the “impossible” to happen. We earned the highest score from Standard & Poor’s in Europe and in our industry. Our voice is listened to by the CRO Forum⁽²⁾. We are determined to stay at the forefront of research in our field and continue to progress.

(2) A professional group to develop and promote risk management best practices in the insurance industry.