



# Dynamic Risk Assessment (DRA)

**Insurance**

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# Insurance

The insurance market has become increasingly complex, placing new challenges on companies to grow top-line sales, while bolstering bottom-line profitability. Insurers must grapple with multiple issues, from navigating financial-market uncertainty and evolving consumer demands to outpacing digitally savvy new competitors. Meanwhile, insurers are being subjected to intensified regulatory scrutiny and enhanced compliance and capital requirements.

In addition, modernizing technology and processes to derive value from the vast volume of data, securing the best talent from an ever-shrinking pool, and driving efficiencies in front- and back-office operations will continue to challenge business models for several years to come.

As insurers, reinsurers, and brokers rethink their strategies to remain viable in the face of these challenges, organizations are under pressure to be more agile and efficient, which introduces more risk.

Leadership needs to understand and better predict trends; the correct portfolio of products, services, and

markets will need to be identified; and—based on this information—investments will need to be concentrated on the opportunities and threats that best align with the growth and portfolio ambitions of the organization.

Risk Management 1.0—the traditional approach—does a good job of generating defensive responses to risks or threats and developing governance disciplines to safeguard stakeholders' interests. But typically, it doesn't do a great job of identifying opportunities or "mega trends" and formulating responses to them. Responsibilities are stuck in the defensive mind-set. The risk organization is seen as responsible for covering the downside of risk. Auditors, legal counsel, and risk committees are set up as the "no" guys. But who is responsible for the upside of risk?

That's why KPMG developed a new approach designed to help organizations transform risk into value. Dynamic Risk Assessment (DRA) is designed to focus on both upside and downside of risk. We focus in on both sides of the coin, helping clients analyze observable "mega trends" to find the opportunities in risk that allow them to gain a competitive edge.

## What makes DRA unique

**DRA is a proprietary methodology developed by KPMG to help bring a better understanding of the risks organizations face in today's complex world. DRA takes an unprecedented approach to gaining insights into clients' risk environments by pinpointing central risks and shedding new light on the risk mitigation strategies.**

In today's highly interconnected and volatile world, dominated by new technology and emerging business models, the past is no longer a reliable guide to the future. Past data is a poor fit for the future as the forces and trends that shape our future have increasingly not manifested themselves before. Moreover, risks combine. They spill over into each other—they don't manifest neatly in isolation—and we no longer have the luxury of dealing with risks discretely.

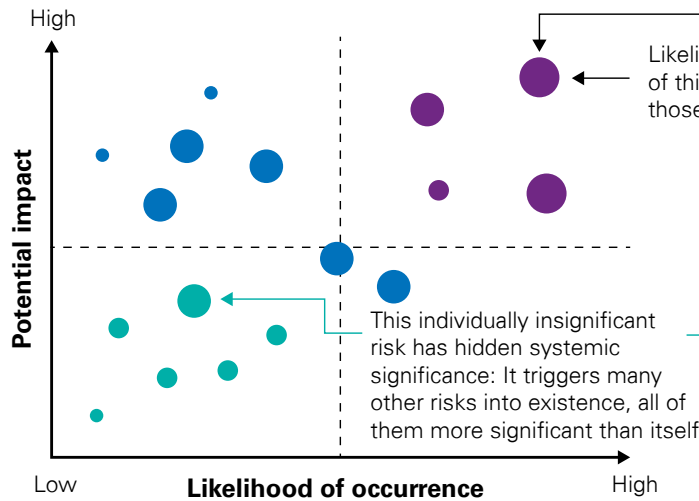


There is a need to advance beyond historical risk analyses comprising two-dimensional depictions of expected probability and severity, and consider a third, and indeed a fourth dimension: velocity and contagion. This, together with the consideration of global trends that are shaping our world, is what DRA encompasses.

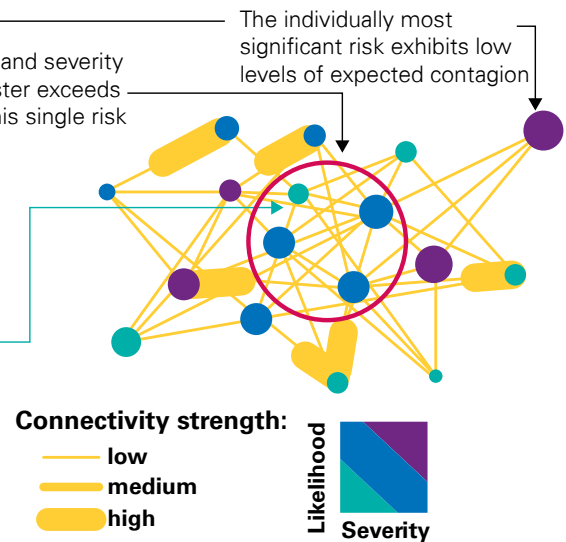


# DRA vs. Traditional Risk Assessment

## Traditional, two dimensional risk map



## Inter-connected view

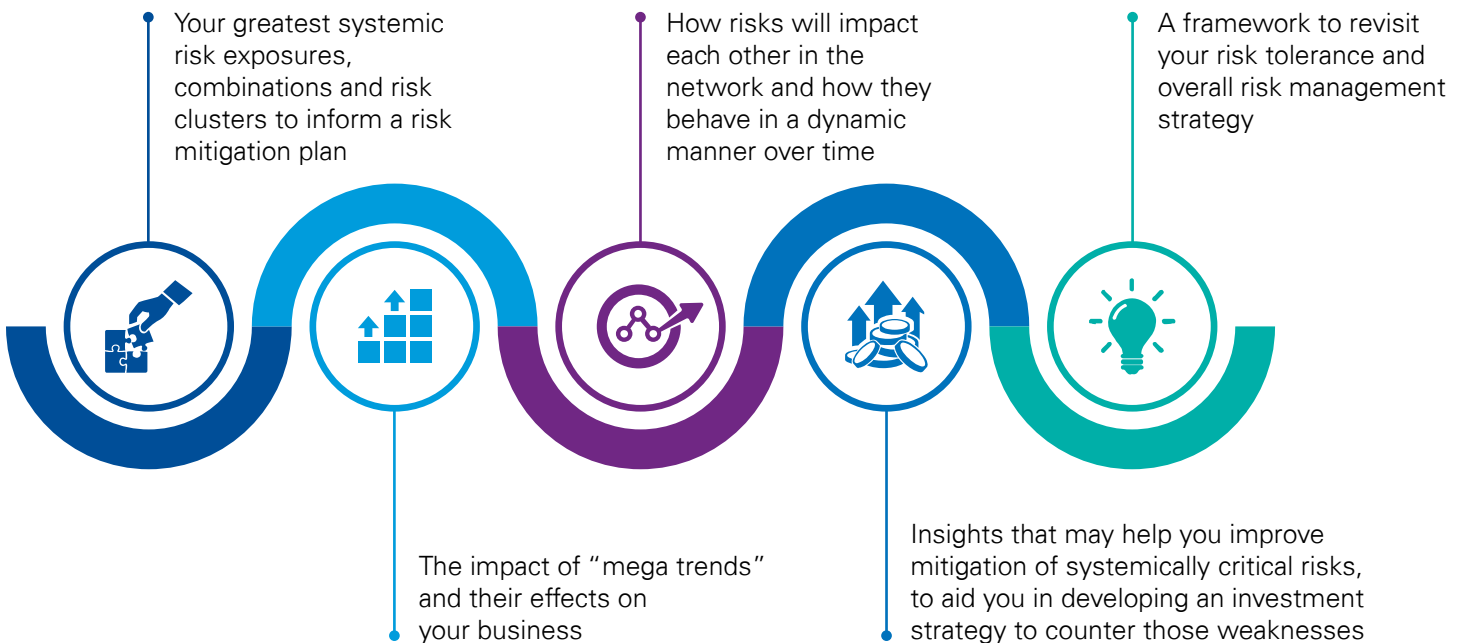


Certain risks connect more to each other than all other risks in the network, forming clusters.

DRA applies graph theory, the science of expert elicitation, actuarial modeling, sophisticated mathematics and financial mathematical algorithms, advanced data & analytics (D&A) and accounting science to assessments from experienced

risk and non-risk frontline and back-office individuals within the business. This is done in a KPMG proprietary (and patent pending) methodology to identify, connect and visualize risk in four dimensions.

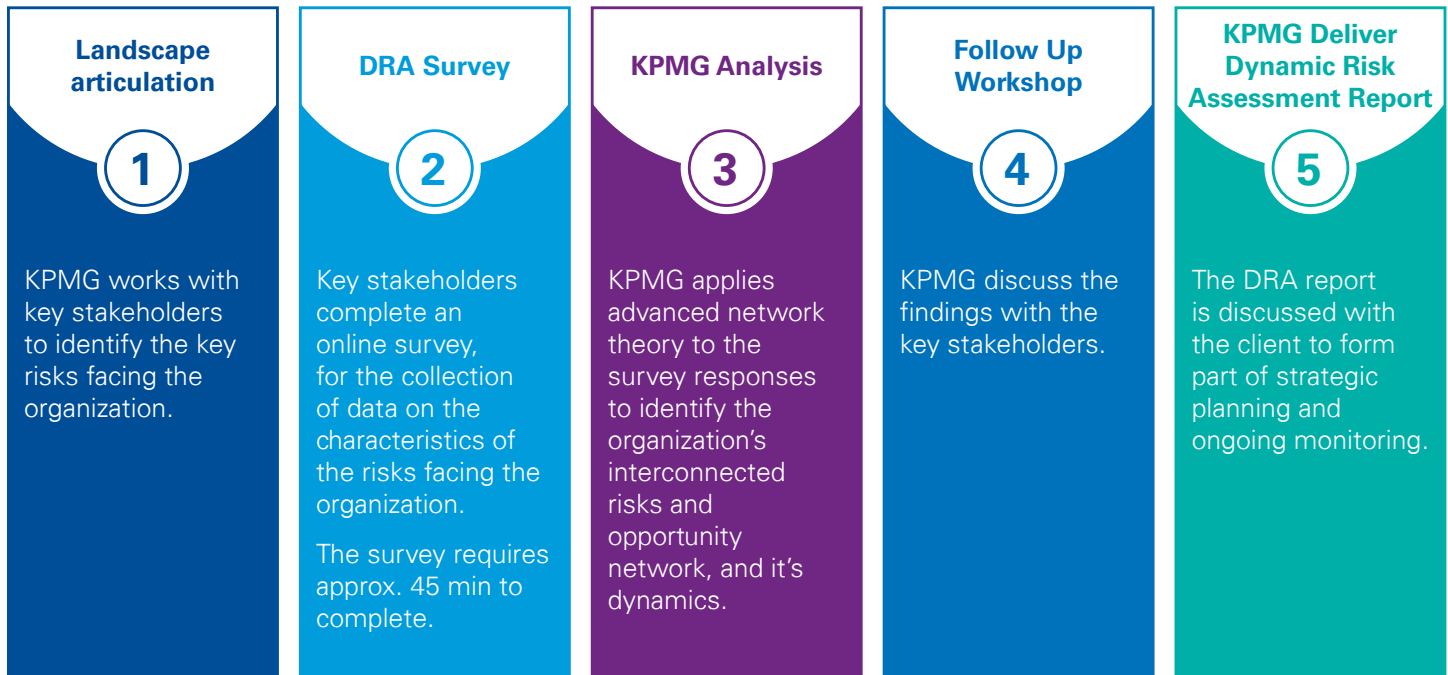
## The DRA methodology combines qualitative and quantitative data to help identify:





# The DRA process

Typically, the end-to-end DRA process takes six to eight weeks, with the key steps outlined below:



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