

**Casualty Actuarial Society  
Committee on Enterprise Risk Management  
Request for Proposal  
Value Creation Through Enterprise Risk Management,  
For Non-Insurance Commercial Enterprises**

**1. Sponsoring Organizations**

The Casualty Actuarial Society (CAS) was organized in 1914 as a professional society with the purpose of advancing the body of knowledge of actuarial science applied to property, casualty and similar risk exposures. This is accomplished through communication with the publics affected by insurance, the presentation and discussion of papers, attendance at seminars and workshops, collection of a library, research, and other means. The membership of the CAS includes over 3,700 actuaries employed by insurance companies, industry advisory organizations, national brokers, accounting firms, educational institutions, state insurance departments, the federal government, and independent consultants. Additional information about the CAS can be found at <http://www.casact.org>.

The CAS is pleased to have the Risk & Insurance Management Society, Inc. (RIMS) as a cosponsor of this request for proposals. RIMS is a not-for-profit organization dedicated to advancing the practice of risk management, a professional discipline that protects physical, financial and human resources. Founded in 1950, RIMS represents nearly 4,000 industrial, service, nonprofit, charitable, and governmental entities. The Society serves 8,000 risk management professionals around the world. Additional information about RIMS can be found at <http://www.rims.org>.

**2. CAS Committee on Enterprise Risk Management**

The CAS Committee on Enterprise Risk Management is charged with: defining, prioritizing, directing and monitoring research on Enterprise Risk Management (ERM); developing and maintaining an ERM bibliography; providing advice and content to the CAS committees that plan ERM-related seminars and workshops; monitoring and/or partnering with other CAS committees and other professional organizations regarding ERM-related activities; and, developing ERM messages and methods for the CAS to communicate internally and externally. The Committee on Enterprise Risk Management will oversee the research to be conducted under this RFP on behalf of the CAS.

**3. Interest in the Subject**

The CAS wishes to solicit original research on the topic of Value Creation Through Enterprise Risk Management, specifically focusing on companies outside the insurance industry. One of the objectives identified by the Committee on Enterprise Risk Management is the development of a body of knowledge regarding ERM for the purpose of furthering the educational efforts of the CAS, through both the syllabus of examinations and continuing education offerings. The Committee on Enterprise Risk Management further identified the topic of Value Creation Through Enterprise Risk Management as being of significant interest to CAS members and their respective companies and clients.

**4. Research Problem Description**

ERM has rapidly gained acceptance in recent years and is widely regarded as an important evolutionary step in the business of risk management, creating along the way an entirely new position of Chief Risk Officer within many corporations. At the same time, there is

much confusion as to what is or is not ERM, the ability of one person to monitor or control every aspect of risk facing a modern corporation, and so on. One of the most challenging questions surrounding ERM is whether or not ERM actually delivers on one of its fundamental promises – value creation – and if so, how can that value be measured? Dynamic financial analysis (DFA) is commonly identified as a possible tool for measuring value creation through ERM in an insurance company context, but what about the typical non-insurance corporation? The Committee on Enterprise Risk Management requests proposals from qualified researchers to produce a research document that solves one or both of the following problems:

**A)** Using one or more accepted financial performance metrics (EPS, ROE, RAROC, EBIT, etc.), demonstrate how value was created (i.e., financial performance was measurably improved) for a non-insurance company through the ERM process. This can take the form of a theoretical demonstration using accepted practices in economics, finance and mathematics, a case study of actual company, or a combination of the two approaches. Consideration should be given to the cost of implementing the ERM process, and the risk exposures incorporated in the demonstration should ideally include one or more with a favorable dimension (an uncertain gain) and not exclusively those with only adverse potential (property-casualty risks generally fall into this latter category). The Committee's preference is for the documenting of a real case study, but our review of proposals will not preclude consideration of the creation of a theoretical case study. If the latter route is taken, the Committee would expect a very rigorous treatment of the financial theory used to describe and evaluate the company being analyzed.

The Committee is looking for ideas that would, in the judgment of the Committee, represent a significant contribution to the literature on ERM. The researcher could produce results along one or more of the above approaches or present a completely new way of viewing and solving the problem, provided that the focus of the research is to describe and document objective measures of value creation derived from ERM.

**B)** From the perspective of a financial analyst (stock analyst, rating agency, institutional investor or lender, insurance underwriter, etc.), prepare a research report that objectively supports an "upgrade" of a company's debt/equity/risk rating (depending on your specific assumed perspective) based solely on the knowledge that the company has announced the appointment of a Chief Risk Officer and the implementation of a major ERM initiative. Consideration should be given to the cost of implementing the ERM process, and the risk exposures incorporated in the demonstration should ideally include one or more with a favorable dimension (an uncertain gain) and not exclusively those with only adverse potential (property-casualty risks generally fall into this latter category). Include objective financial measures employed in implementing the ERM initiative (impact of higher debt ratings, stock price targets, reduced insurance costs, etc.), a description of the decision-making framework, and an objective analysis of the value created through ERM.

Here again, the Committee is looking for ideas that would, in the judgment of the Committee, represent a significant contribution to the existing ERM literature that focuses on tangible benefits derived from the ERM process.

The research for these projects will be performed under contract and funded by the CAS. It is expected that the researcher(s) will work with representatives of the Committee on the specific design of the project.

NOTE: In responding to this RFP, the following working definition of ERM should be considered.

“ERM is the discipline by which organizations in all industries assess, control, exploit, finance and monitor risks from all sources for the purpose of increasing the organization’s short and long term value to its stakeholders.”

Embedded in the foregoing definition of ERM is the notion that the objective of ERM is not simply to protect the organization from threats, but to proactively create value. ERM purports to accomplish this by:

- Systematically identifying the material risks (both threats and opportunities) relevant to the organization’s business objectives.
- Rigorously analyzing the organization’s capital requirements to help achieve financial efficiency (for the owners) while protecting solvency (for the customers).
- Evaluating strategies (e.g., capital allocation, asset/liability management, insurance/reinsurance/hedging, operational changes) to find the optimal combination to improve growth and return prospects (i.e., optimization under uncertainty).
- Exploiting the natural hedges, portfolio effects and operational efficiencies of integrated risk management (including opportunities to undertake value-creating ventures that may not have been accepted under less sophisticated risk analysis).
- Enhancing stability (i.e., reducing volatility) of results, which attracts higher ratings, valuations and, for publicly traded companies, stock prices.

## **5. Project Requirements**

- a) Literature Survey. The paper should survey both insurance and non-insurance sources for any research relating to these issues and include a bibliography of such research.
- b) Description of ERM initiative. The paper should describe the issues facing the company that led them to want an ERM solution, and should explain the nature of the ERM solution, including both the anticipated benefits and benefits actually obtained from the ERM initiative.
- c) Description of objective metrics being used in the ERM decision-making framework and those used to demonstrate the success of the ERM initiative.
- d) Analysis of how the company’s performance, vis-à-vis the objective metrics, changed due to the ERM initiative.

## **6. Proposal Requirements**

Proposals should include a clear outline of the work that will be performed and the time frame in which it will be performed, including key dates. Please be as specific as possible. Identify which problem will be solved – (A), (B), or both. If a case study is to be used, identify the company or companies that will be used. While a proposal containing an unidentified company will be considered, the Committee will give preference to case studies that identify the company or companies being analyzed.

The proposal must contain an abstract of not more than 200 words that provides the evaluating Committee with an overview of the proposed content and methodology.

The proposal must include a cost proposal. While a maximum budget of \$40,000 has been established for this project, the Committee will give preference to a lower cost proposal of otherwise equivalent merit to one or more higher cost proposals.

This proposal should be reviewed in conjunction with the attached Research Agreement, which defines the terms and conditions under which the work is performed.

Respondents should demonstrate their interest in and familiarity with the application of ERM by including a resume (if a firm, of the principal consultant(s) performing or directing the work) showing relevant work/research experience and professional accomplishments (e.g., papers published).

The contract will be awarded by the CAS to the respondent who, in the judgment of the Committee on Enterprise Risk Management and entirely on the basis of his or her written proposal, is best able to perform the work as specified herein. If the Committee determines that no proposal meets the requirements of the RFP, then no contract will be awarded.

Receipt of proposals will be acknowledged by providing each respondent with a list of all respondents. Respondents not awarded the contract will be so informed shortly thereafter.

Interested researchers should submit their proposals and any questions in writing to:

Casualty Actuarial Society  
Attention: Mike Boa, Manager Communications and Research  
1100 N. Glebe Road, Suite 600  
Arlington, VA 22201-4798  
Phone: (703) 276-3100; Fax: (703) 276-3108; E-mail: [mboa@casact.org](mailto:mboa@casact.org)

The proposals will be reviewed by members of a subcommittee of the Committee on Enterprise Risk Management. The current membership of the Committee includes:

Jerry Miccolis, Chairperson	John Kollar
Paul Brehm	Don Mango
Kevin Dickson	Francois Morin
Barry Franklin	Chris Nelson
Gerry Kirschner	Ted Zubulake

## **7. Groups Invited to Participate**

Copies of this RFP will be distributed to the following groups. Respondents do not necessarily need to be a member of one or more of these groups to respond. The list below is not exhaustive.

- Casualty Actuarial Society
- Risk & Insurance Management Society, Inc. (RIMS)
- Educational institutions affiliated with the CAS through the Academic Correspondent and University Liaison Programs.
- The Association for Investment Management and Research (AIMR)
- The Global Association of Risk Professionals (GARP)
- The Society of Actuaries (SOA)

## **8. Schedule**

November 18, 2002  
RFP distributed

December 9, 2002

Deadline for questions (must be written) from researchers regarding the RFP.

December 23, 2002

All written questions together with their answers will be distributed to all proposers.

January 6, 2002

Proposal deadline (end of business day).

January 10, 2002

Proposal selection by Committee on Enterprise Risk Management.

January 16, 2002

Approval by CAS Executive Council.

August 1, 2003

Draft report due.

August 29, 2003

Final report due.

## **9. Compensation**

A maximum total of \$40,000 is available to be awarded to one or more researchers.

Payment of award(s) will be contingent upon delivery of an acceptable research product.

## **10. Presentation, Ownership and Publication of Report**

The selected researcher(s) will be required to sign the attached consulting agreement, which defines the terms and conditions under which the work is performed.

If asked, the researcher(s) agree to be available to present the report at a CAS meeting or seminar. If travel is required, reasonable expenses will be paid in addition to the compensation provided in Section 9.

The CAS intends to copyright the report, post it to the CAS Web Site, and submit it to the CAS Committee for the Casualty Actuarial Society *Forum* for consideration as a *CAS Forum* paper. The author may also wish to submit the paper to the CAS Committee on Review of Papers for consideration of inclusion in the *Proceedings* of the Casualty Actuarial Society. The *Proceedings* is the CAS's refereed professional journal. Guidelines for submitting papers for publishing in the *CAS Proceedings* are as stated on the CAS Web Site at <http://www.casact.org/aboutcas/guides.htm>, and in the *CAS Yearbook*. The time and effort needed for submission and inclusion in the *Proceedings* is outside the scope of this RFP.

As a cosponsor, RIMS is entitled to distribute the research report to its members and post the report on the RIMS Web Site.

It is intended that any interested party can use the results of the report freely. The research will be considered work-for-hire and all rights thereto belong to the CAS. However, appropriate credit will be given to the researcher(s).

## **11. Research Agreement**

**Value Creation Through Enterprise Risk Management, For Non-Insurance Commercial Enterprises**

Agreement is made effective the \_\_\_\_\_ day of \_\_\_\_\_, 200\_ by and between the Casualty Actuarial Society ("CAS") and \_\_\_\_\_ ("CONSULTANT"). Based on mutual consideration, the receipt and adequacy of which are acknowledged, the CAS agrees to contract for the services of the CONSULTANT, and the CONSULTANT agrees to provide services under the terms and conditions of this Agreement.

**I. STATEMENT OF WORK**

The CONSULTANT shall provide consulting services on behalf of the CAS to produce a research document that describes and documents objective measures of value creation derived from ERM, or any related areas the CAS may request during the period of performance, as specified in the Request for Proposal (RFP), the terms of which are incorporated herein by reference.

**II. PAYMENT FOR SERVICES (To Be Determined)**

In full consideration of the services provided hereunder, the CAS agrees to pay CONSULTANT a maximum fee of \$XX,XXX, plus reasonable expenses incurred at the request of, and subject to advance approval by, the CAS.

The CAS agrees to pay \$X,XXX of the fee at the time of contract award. A monthly statement describing services rendered and expenses incurred shall be submitted to the CAS Committee on Enterprise Risk Management (ERMC) at the end of each month in which services are rendered or expenses incurred. Final payment for such services and expenses (less the \$X,XXX payment to be made at the time of contract award) shall be rendered by the CAS within 30 days after acceptance of the final report.

**III. PERIOD OF PERFORMANCE**

CONSULTANT shall provide the services until the project as described in the RFP is completed. This period of performance shall not be changed without the written authorization of the CAS.

**IV. NOT-TO-EXCEED TOTAL LIMIT (To Be Determined)**

Total payment under this contract including reasonable expenses incurred at the request of the CAS shall not exceed \$XX,XXX, unless authorized in writing by the CAS.

**V. INDEPENDENT CONTRACTOR**

It is understood and agreed that CONSULTANT is an independent contractor in the performance of this Agreement, CONSULTANT is not an agent or employee of, or partner or joint venturer with the CAS, and CONSULTANT is not authorized to act on behalf of the CAS.

CONSULTANT shall assume full responsibility for payment of all federal, state and local taxes with respect to performance of the CONSULTANT's obligations under

this Agreement, and the CAS shall not be responsible for any benefits, insurance, or other payments not specifically agreed to in writing or under this Agreement.

**VI. RIGHT TO ACT AS CONSULTANT; REPRESENTATIONS**

CONSULTANT warrants to the CAS that he/she is not subject to any obligations, contracts, covenants or restrictions that would prevent him or her from entering into or carrying out the provisions of this Agreement. CONSULTANT represents and warrants that the work prepared under this Agreement is the CONSULTANT's own original work; that the CONSULTANT is the sole owner of the work and all the rights being granted to the CAS in this Agreement; that the CONSULTANT has full right and power to make the assignment in this Agreement; that the work does not violate any copyright, proprietary, or personal rights of others; that the work shall contain no material from other copyrighted works without the written permission of the owner of such copyrighted material; that the work is factually accurate and contains no matter scandalous, libelous, unlawful, or otherwise actionable; that the CONSULTANT has not previously in any manner disposed of any of the rights granted to the CAS or previously granted any rights adverse or inconsistent with such grant of rights; that there are no rights outstanding which would diminish, encumber or impair the full enjoyment or exercise of the rights granted to the CAS under this Agreement; and that nothing contained in the contents of the work shall be injurious to the health of the user.

**VII. TERMINATION**

This Agreement may be terminated by the CAS at any time by giving written notice of such termination to CONSULTANT and paying to CONSULTANT any amounts owed for the pro-rata performance of the services under this Agreement. Upon receipt of such written notice, no further charges will be made under this Agreement. Termination shall not affect the CONSULTANT's obligations under articles IX, X, XI, and XII. CONSULTANT shall not terminate this Agreement except upon material breach by the CAS of its obligations under the Agreement.

**VIII. HOLD HARMLESS**

CONSULTANT shall indemnify and hold the CAS harmless from any and all suits, claims, damages or losses whatsoever, resulting from any act or omission or breach of any representation, warranty, or obligation under this Agreement by the CONSULTANT, his employees, agents, and subcontractors.

**IX. CONFIDENTIALLY**

CONSULTANT warrants that, to protect the privacy of respondents to surveys conducted, CONSULTANT will collect only the data needed for the purpose of their inquiry and inform each potential survey respondent about the general nature and sponsorship of the inquiry and the intended uses of the data. CONSULTANT also acknowledges that information it obtains in the performance of this Agreement is valuable and confidential. Accordingly, CONSULTANT agrees not to disclose any such information to any person not authorized by the CAS to receive it. Upon completion of the work, CONSULTANT shall deliver to the CAS all data,

documents, reports, surveys, or other materials prepared by CONSULTANT in his performance under this Agreement.

**X. COPYRIGHT**

CONSULTANT hereby assigns to the CAS all right, title, and interest in and to the work resulting from the services under this Agreement, including but not limited to all copyright and all rights subsumed thereunder.

**XI. DISCOVERIES**

CONSULTANT will promptly disclose to the CAS all discoveries made and ideas conceived by CONSULTANT in his performance of the services under this Agreement. CONSULTANT assigns to the CAS all right and title to such discoveries and ideas, and agrees to execute any and all such documents, as the CAS deems necessary to secure to it all right, title and interest in such discoveries and ideas.

**XII. PATENTS**

CONSULTANT hereby grants a perpetual royalty free license to any of CAS members or other users of the CAS' publications for use of any patents or other procedures described in the work.

**XIII. AMENDMENT**

This Agreement may be amended only by a written document, signed by both the CAS and CONSULTANT.

**XIV. ASSIGNMENT**

CONSULTANT may not assign this Agreement or any right hereunder. Any such attempted assignment shall be void.

**XV. GOVERNING LAW**

This Agreement shall be governed by the laws of the Commonwealth of Virginia, and CONSULTANT hereby agrees to the exclusive jurisdiction of the courts of Virginia.

**CONSULTANT**

**CASUALTY ACTUARIAL SOCIETY**

by  
Name \_\_\_\_\_

by  
Name \_\_\_\_\_

Title \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Date \_\_\_\_\_