

ENTERPRISE AND FINANCIAL RISK COMMITTEE REPORT FOR THE PERIOD JUNE 2008 – OCTOBER 2008

This report covers the period from the meeting of the EFRC in Quebec City in June 2008 to the meeting in Cyprus on 2 November 2008.

The work of the EFRC has focused on four main themes during this period.

1. Finalising the IAA Practice Note on Enterprise Risk Management (ERM) prepared to support the forthcoming IAIS Standard on ERM

The ERFC responded in 2007 to an invitation from the IAIS to comment on a forthcoming IAIS Standard on Enterprise Risk Management and to draft an IAA Practice Note on Enterprise Risk Management to provide a guide to implementation for that draft IAIS Standard. This draft has been previously circulated extensively for comment to members of the EFRC as well as to members of the IAA Insurance Regulation Committee and the IAA Solvency Subcommittee. It was also presented and discussed at meetings of the IAIS Solvency & Actuarial Issues Subcommittee in Malaysia in January 2008 and San Francisco in May 2008. Reaction to the initial draft has generally been favourable and the further draft incorporating all feedback received was developed for discussion at the IAA meetings in Quebec City in June 2008. A final draft of this document has now been prepared for approval by EFRC at its meeting in Cyprus. The IAIS is expected to formally adopt the IAIS Standard on ERM at its Annual General Meeting this year.

2. Contributing to planning for the second international ERM Webinar to be held on 10 December 2008

The ERFC was involved in the successful running of an international “Webinar” on Enterprise Risk Management on 16 January 2008 which attracted an estimated 1,600 listeners in 47 countries. David Ingram, a member of the EFRC, was instrumental in developing and launching this event with organisational support provided by the Society of Actuaries. The Joint Risk Management Section (of the SoA, CAS and CIA) and the Institute of Actuaries of both Australia and Japan were also involved. A sequel to this event is now being planned for 10 December 2008 based upon the positive feedback received with suggestions for improvements being adopted. Topics being covered in the 10 December Webinar will include :

- Is ERM any real use in soft markets?
- Pros & Cons of Economic Capital Models versus Stress Testing
- Market Consistent Risk Management
- The role of the CEO and Board in ERM

3. Monitoring the continued unfolding of the “Sub-prime” crisis and its implications for risk management in the world’s financial system

It has now become abundantly apparent that the world financial system is progressing through a crisis of a magnitude that is likely to be seen only once in an individual’s career. Initiated in 2007 by the “sub-prime” crisis in the United States, the third week of September 2008 saw this crisis evolve into a need for the U.S. Government to move to either acquire or otherwise support major mortgage guarantors, insurers and banks to prevent their collapse and to avoid a complete loss of confidence in the U.S. financial system which threatened paralysis of the U.S. economy. Many of these problems were also infecting financial institutions in markets around the world. Whilst it is too early to be categorical about the causes of these events it is evident that many organisations focused too much on the pursuit of return and too little on the risks that their activities involved. This is likely in due course to lead to calls for further regulation and changes in the way financial institutions manage risk which will be of interest to actuaries. EFRC has been monitoring these events and reaction to them from regulators and market participants and will devote much of its meeting in Cyprus to discussing the implications.

4. Developing a continuing work program arising out of all of the above. This is expected to include:

- Responding as appropriate to the extensive work program that the IAIS has indicated it will be pursuing until 2010 especially with respect to emerging IAIS Standards on ERM;
- Facilitating continued support for training and CPD for actuaries in ERM, primarily by web-based seminars;
- Facilitating the development of a web-based global ERM library;
- Provide advice and assistance as required in the development of a global risk credential by member organisations of IAA;
- Serving as a knowledge resource and commentator on risk & ERM implications of emerging global environmental sustainability issues; and
- Monitoring the ongoing emerging crisis in world financial markets for developments relevant to the actuarial profession.

Tony Coleman, Chairperson