

A Global Enterprise Risk Management
Qualification –
Progress report to the Presidents Forum

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Definition of ERM

*“ERM is the **discipline** by which an organization in any industry **assesses, controls, exploits, finances** and **monitors** risks **from all sources** for the purpose of increasing the organization’s short- and **long-term value** to its stakeholders”*

(Casualty Actuarial Society)

A global ERM credential for actuaries?

- Background
 - Raised in IAA Enterprise and Financial Risks Committee (Nov 2006)
 - Discussed in Presidents Forum (April and October 2007)
 - Commitment to support the development of this project by 8 associations
 - Strong interest by several others

Background to this discussion

- Issue was raised at the IAA Financial Risks Committee in 10/2006 in Edinburgh
 - Decided to put it on the agenda for Mexico
 - Harry Panjer agreed to draft an issues brief
- RM has been on the agenda of the Presidents Forum.
- Fred Rowley (Australia) and Harry Panjer (Canada) agreed to have informal discussions with representatives of a few associations to see if there was sufficient interest to proceed.
- The subject was added to agenda at Presidents Forum for 2007

The global risk management environment

- Financial and Enterprise RM is a rapidly growing field of activity for actuaries and other risk professionals.
 - Most large financial institutions have a CRO and a team devoted to ERM.
 - Two associations (GARP and PRMIA) have been created to organize risk professionals and certify them with credentials (FRM, PRM).
 - They have members world-wide and are seen as global players.
 - Established associations (e.g. CFA Institute) are also seen as providing professionals.
 - The actuarial profession has been almost invisible to the buyers of FRM and ERM services (although numerous individual actuaries have become prominent).

The global risk management environment

- The profession is competing in this marketplace:
 - Many insurance companies have actuaries as CROs; but many do not.
 - CROs of other financial institutions could be actuaries. Why not?
 - Actuarial methods are used by other professionals RM in investment banks already (e.g. credit risk, credit derivatives, operational risk).
 - Basel II, Solvency II and other solvency initiatives create market opportunities for actuaries.

The global risk management environment

- Rating agencies are adding ERM as a key pillar in the assessment of financial institutions (e.g. S&P).
- Regulators are expanding the scope of regulation to include ERM
- Many (if not most) rated financial institutions are global in operations.
- GARP, PRMIA and others are using their identifiable credential as a “hook” into the financial marketplace, including insurers.

The global actuarial environment

- Credentials are essentially national in nature.
- Credential are well recognized in insurance for specific functions deemed to be “actuarial”.
- Actuaries are not instantly recognized for risk management expertise.
 - SOA is working hard on this through a marketing campaign for the CERA
- There exists no established “brand” that identifies actuaries globally as RM experts;
- The actuarial profession can compete globally.

What is a “global” credential?

- A single credential with a corresponding set of letters (e.g. XRX) that is widely recognized by buyers of RM services and widely accessible by persons who want to acquire the designation.
 - For example, a person being an FIAA could also be an XRX. It has no ‘national’ connotations.
 - This is in fundamental contrast to how we now credential actuaries.
- Questions:
 - Do global credentials have an advantage over local credentials?
 - If so, how can the actuarial profession have a global RM presence **without** undermining its existing strengths?

The working model

- Develop a credential around a core body of risk management knowledge.
 - With appropriate standards for achievement of the designation.
- A group of actuarial associations act as “sponsors” of the designation.
- Allow each sponsor to determine how the standards are met; e.g. examinations, courses of study.
- Complete mutual recognition of XRX amongst sponsoring associations.

Other premises

- All XRXs are (by definition) actuaries and members of a sponsoring organization. This means:
 - Breadth in the program sufficient to cover core traditional actuarial subjects;
 - An XRX meets IAA education syllabus requirements;
 - Codes of conduct, discipline, etc apply as with other actuarial members;
 - Expansion of the definition of the fields of practice of actuaries and the domain of actuarial science.

Other premises

- A visible RM brand serves as a “hook” into the marketplace:
 - *“I am an XRX and I can help you!”*
- A visible RM brand serves as a differentiator amongst actuaries, increasing awareness and interest.
- The RM designation will not succeed unless individuals holding it are successful. However, if such individuals are successful, the brand may be attached to that success.
- To date the CERA of the SOA is building a momentum
 - Marketing campaign
 - Number of persons completing requirements

Some recent developments

- SOA
 - has developed the CERA designation at ASA level
 - has a specialist ERM track at FSA level
- IA/FA
 - is developing syllabus at Core Applications and Specialist level
- IAAust
 - Is offering intensive CPD course in ERM for life and general insurers

What has happened since Nov 2007?

- 8 associations have signed a Statement of Intent to develop the designation
- 2 working groups formed
 - Recognition – Chair: Fred Rowley, Australia
 - Syllabus – Chair: Harry Panjer, Canada
- 1 representative from each of the 8 associations on each working group
- 2 other association have registered firm support (Catalunya, Philippines)

Signatories to the memorandum of understanding

- Actuarial Society of South Africa
- Colegio Nacional de Actuarios
- Canadian Institute of Actuaries
- Casualty Actuarial Society
- Faculty of Actuaries
- Institute of Actuaries
- Institute of Actuaries of Australia
- Society of Actuaries

Draft Syllabus

- The draft syllabus has been crafted in terms for “overall objectives” and “learning objectives”
 - What should persons receiving the credential be able to do?
 - There is not yet any reference to specific text material
- The syllabus content that is described is in addition to the current IAA education syllabus
 - All credential holders will also meet IAA requirements

IAA syllabus + the following topics:

- ERM concept and framework
- Structure of the risk management function in an organization
- What constitutes good risk management practice
- Reporting of risk exposures
- Risk types: market, credit, operational, business, etc
- Modelling tools including extreme value theory
- Aggregation of risks including copulas
- Risk mitigation techniques
- Risk measures
- Economic capital

Overall Goals of Credential - 1

The Global ERM designation indicates expertise in all aspects of Enterprise Risk Management including a thorough understanding of

- the concept of ERM
- the drivers behind ERM – governance, regulation, improvements in understanding of risk and techniques for measuring and managing risk, enterprise value protection and creation etc
- practical aspects of ERM, including all elements of a robust risk management framework and its operation, and critical success factors
- standards and good practice in use around the world
- the different types of risk – financial, insurance, operational, and strategic
- the quantification of risk, including tools and techniques and supporting mathematics
- practices and techniques for the management of risk, including control, mitigation, transfer, avoidance, and exploitation of risk opportunities
- the economic value added by sound ERM
- important regulation and regulatory capital requirements

Overall Goals of Credential - 2

For the risks currently developed enough to be modeled effectively, designees should be proficient at the following tasks:

- Independently develop reasonable models to quantify risk by type and in aggregate
- Parameterize the models appropriately
 - understand when historical data is applicable
 - know when and how to apply current values
 - Be able to apply informed judgment
- Run the models to obtain relevant results
 - be able to focus on the key metrics
 - select appropriate number of iterations
 - be able to update the model as necessary
- Explain the models and the results to a variety of audiences
 - other technical ERM experts
 - managers of specific types of risk
 - individuals such as the CFO, CEO and board members

Overall Goals of Credential - 3

In addition to modeling risk, global ERM designees should be able to perform the following tasks:

- Implement the basic steps in the risk management process for any individual type of risk and in aggregate
- Recognize how corporate governance issues can affect risk management within an organization, including organization structure and compensation incentives to accept or control risk
- Utilize the standard methods for reporting risk to boards and senior management
- Calculate regulatory capital requirements for insurers and banks
- Understand how rating agencies incorporate risk management in determining ratings
- Implement and explain economic capital models within an organization

Recognition Treaty - 1

- Single multilateral mutual recognition Treaty will recognise educational achievement to the levels stated in the previous section
- 2 categories of participants
 - Award
 - Non-award
- Only Award participants will award the designation, but all participants will recognise it
- ‘XRX’ designation does not depend on any actuarial qualification
- Actuarial qualifications may depend on ‘XRX’

Recognition Treaty - 2

- Standards to be evaluated locally (at first)
- Treaty participants may verify education standards (expected to tighten up)
- Probably requires Constitutional amendments
- Will require exchange of Disciplinary information
- To be decided:
 - entry/exit conditions
 - verification costs
 - external exam requirements

Next Steps

- Present to June 2008 Presidents' Forum
- Receive “go ahead” (for next stages) from existing supporting associations
- Develop a more detailed operational plan
- Obtain support from more associations
- Full Draft mutual recognition Treaty
- Further develop Syllabus

Thank you

Questions?