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?