Risk Management Group
1. **Context**

- New age of Corporate Accountability (Social and Investor Responsibility higher than ever)
- Customers becoming increasingly financially sophisticated and demanding at the same time Financial Services industry becoming increasingly complex
- Risk Mgmt (and increasingly Enterprise Wide Risk Mgmt) techniques becoming increasingly important
- Birth of the CRO role
- New profession emerging in risk management (CFAs, GARP/PRMIA, etc)
- Actuarial profession needs to make sure it has a seat at table
2. Institute Risk Management Group formed

Objectives

a) Build awareness
   - increase profile of risk mgmt in actuarial profession
   - elevate importance of risk mgmt in business community
   - convince business community of the value of actuaries

b) Develop methodologies and frameworks

c) Promote education and CPD
3. **Building Awareness**

- Articles in Actuarial Magazine (and Trade magazines)
- Presentation at Conferences
- Seminars
3.1 What skills and experience are required?

- Communication skills
- Technical skills — understand complex products / financial operations
- Strategic skills — understand the big picture and the linkages
- Process skills — ability to implement
- Investigative skills — ability to find the truth in difficult situations
- Organisational experience
- Industry and product experience
What is ERM?

• Philosophy of managing risks holistically to achieve the desired balance between achieving stakeholder value and managing risk exposure

• Encompass all risks from sources across the enterprise

• Embedded within organisation at all levels, reinforced through actions of the Board and senior management
Components of ERM?

• Identifying the risk in the organisation
  – The scope is the whole of the enterprise
  – Considers financial, strategic, operational and other risks
  – Continual reassessment

• Organising how the risks will be managed
  – Structure
  – Implementation
  – Coordinated across enterprise, considers interdependencies
  – Communication of philosophy set by Board (both internally and externally)

• Monitoring
  – For process and quality of implementation
  – Prospective and retrospective
  – For new risks that emerge

• Taking Action
  – Pre-emptive and reactionary
  – Involves people at all levels
Oversight Framework

- Important that ERM has Board and CFO commitment: The ‘tone at the top’ must be integrated with the organisation’s objectives and promote a culture of risk management.

- Example of possible oversight framework:
Ultimate objective is a continually evolving risk-aware culture

Make risk management behaviours ‘part of the way we do things’

- Develop BU specific activities to understand risks
- Encourage ownership of risks within BUs
- Hold Executives and Senior Managers accountable for improvements
- Understand BU cultural survey results; monitoring and feedback
- Assess in all external / internal audits and health checks
Management Assurance Framework

- Line of sight
- Understand what’s important and what’s not
- Structure is not enough
4. Developing consistent methodologies, tools and frameworks

Need to be sure that as a profession are treating similar risks across different industries consistently

Risk Mgmt group needs to sit across and connect well with Life Insurance, General Insurance, Superannuation and Banking actuarial communities

Harmonise the language of risk
## 4.1 Same risks… different names

<table>
<thead>
<tr>
<th>High level risks</th>
<th>Life Insurance</th>
<th>Retail Banking (mortgage)</th>
<th>General Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses too high</td>
<td></td>
<td></td>
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<tr>
<td>Competitive pressure on prices</td>
<td></td>
<td>Competitive margin squeeze</td>
<td>Hardening / softening of rates (insurance cycle)</td>
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<tr>
<td>Inefficient expense management</td>
<td>Expense over-runs</td>
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<tr>
<td>Lower business volumes than anticipated</td>
<td>New business risk Lapses</td>
<td>New business volumes Prepayment risk Churn risk</td>
<td>New business volumes Poor renewal rates</td>
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<tr>
<td>Operational risks (and one-off expenses)</td>
<td>Unit pricing risks Data integrity risks</td>
<td>Operational risk</td>
<td>Data integrity risks</td>
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<tr>
<td>Claims or default costs higher than anticipated</td>
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<tr>
<td>Poor quality / high risk customers</td>
<td>Underwriting risk</td>
<td>Credit risk</td>
<td>Underwriting risk</td>
</tr>
<tr>
<td>Inadequate claims handling</td>
<td>Claims management</td>
<td>Default recovery risk</td>
<td>Claims management</td>
</tr>
<tr>
<td>Profit released too early</td>
<td>Reserving risk</td>
<td>Provisioning risk</td>
<td>Reserving risk</td>
</tr>
<tr>
<td>Deterioration of underlying risks</td>
<td>Experience investigations</td>
<td>Increasing defaults</td>
<td>Adverse trend in claim costs</td>
</tr>
<tr>
<td>Investment earnings (or debt servicing costs) worse than anticipated</td>
<td>Adverse market movements</td>
<td>Asset / liability mismatching Investment return risk (on surplus assets)</td>
<td>Interest rate risk (market risk) Cost of funding</td>
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<tr>
<td>Asset defaults</td>
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<td>Credit risk</td>
<td>Credit risk</td>
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<tr>
<td>Revenue risks</td>
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<tr>
<td>Other strategic risks</td>
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<td>Reputation risks…</td>
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</tbody>
</table>
5. **Education and CPD**

Currently fragmented enterprise risk management educational environment globally, need a program that will:

- Enhance the current Part III educational program
- Develop a focused ERM qualification
- Evolve IAA to include a new ERM institute (to grow membership numbers and diversity)
5.1 Proposed ERM Education

Stage 1

• Provides overall foundation education that are the cornerstones of the CRA:

  • Mathematical Probability and Statistics
  • Applied Probability and Statistics
  • Stochastic Models and Applications
  • Financial and Insurance Mathematics
  • Risk Models
5.2 Proposed ERM Education

Stage 2

• Provides the professional interface to Stage 1 that evolves the CRA:
  • Case Studies
  • Professional Standards
  • Industry Issues
5.3 Proposed ERM Education

**CRA - Pathways**

**Actuarial**
- Part I + Part II + Inv
- Risk Measurement (Delivered by University and the Institute)

**Non Actuarial**
- First Degree
  - Undergraduate and or Postgraduate
  - Mathematics, Finance or Similar
- Master of Risk (Delivered by University)

**Stage 1**
Is the staging ground to link actuarial and non actuarial knowledge sets to facilitate a transition to stage 2.

**Stage 2**
- Risk Practice 6B (Delivered by the Institute)
- Risk Practice 6B

**Cap**
- Master of Risk & Chartered Risk Analyst (MRisk, CRA)

**Actuary & Chartered Risk Analyst** (FIAA, CRA)
5.4 Actuarial advantage

Harnessing the Profession’s Branding Position to Capitalize on ERM

- Attracts a wider more diverse membership base to the IAA
- Builds on the value of the IAA brand in the new area of Enterprise Risk Management
- Enhances the IAA name as an innovator in financial and risk management
6. Food for thought

1. How well placed do you think actuaries are to operate in the ERM field?
2. Would you want to operate in the ERM field now or in the future?
3. How are actuaries perceived in risk management?
4. How should the profession attack this space?