

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 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:



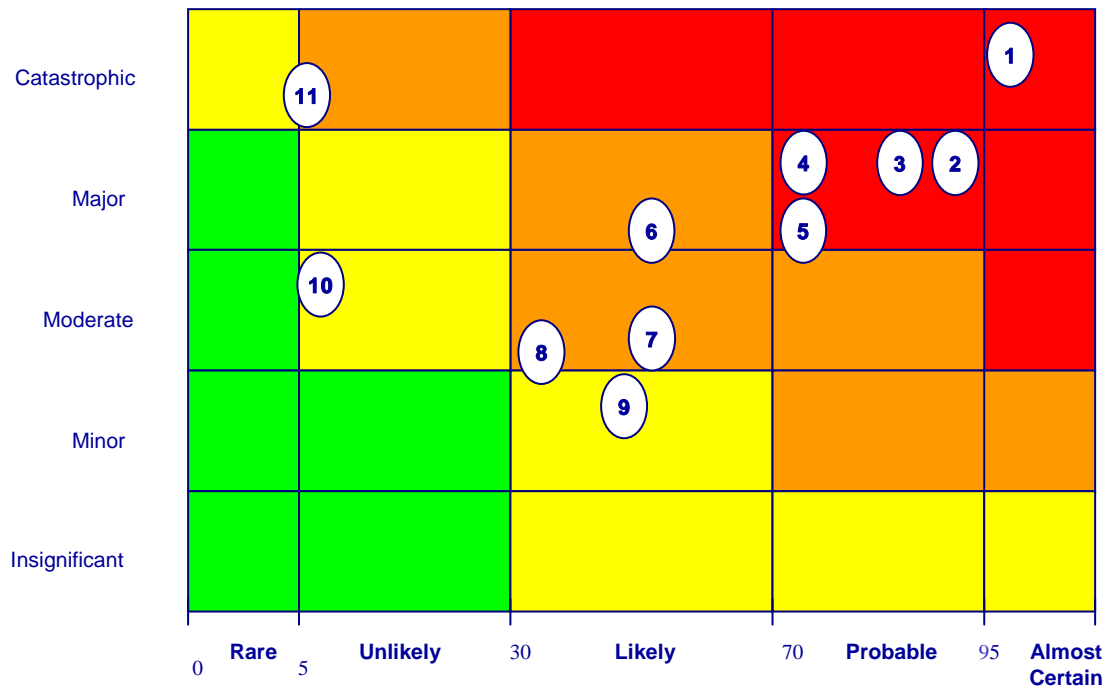
Ultimate objective is a continually evolving risk-aware culture

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

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

5. Education and CPD

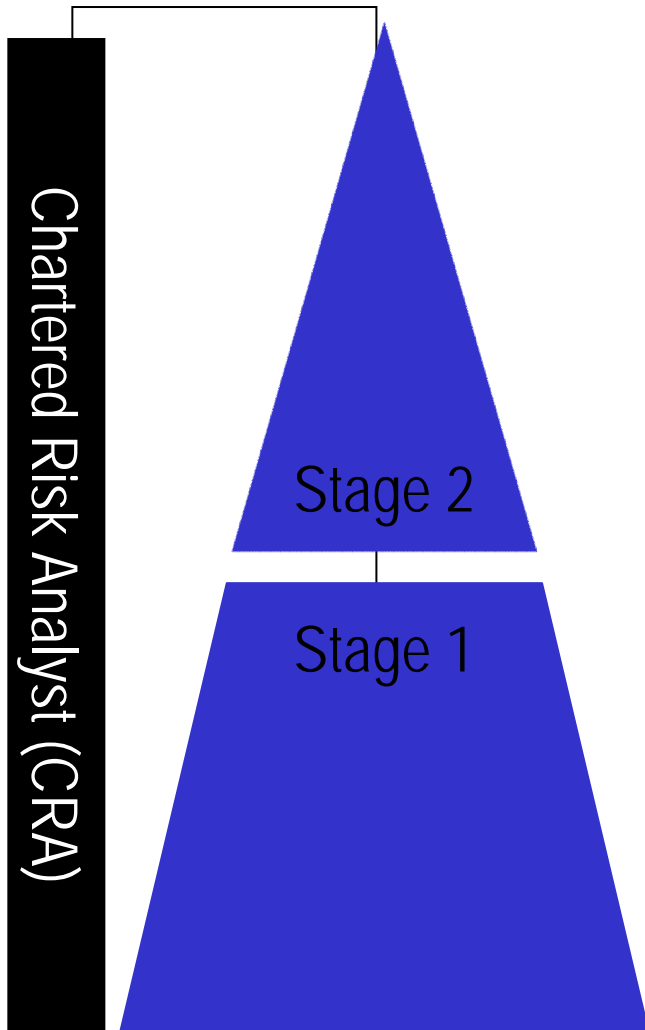
Currently fragmented enterprise risk management educational environment globally, need a program that will:

- 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)

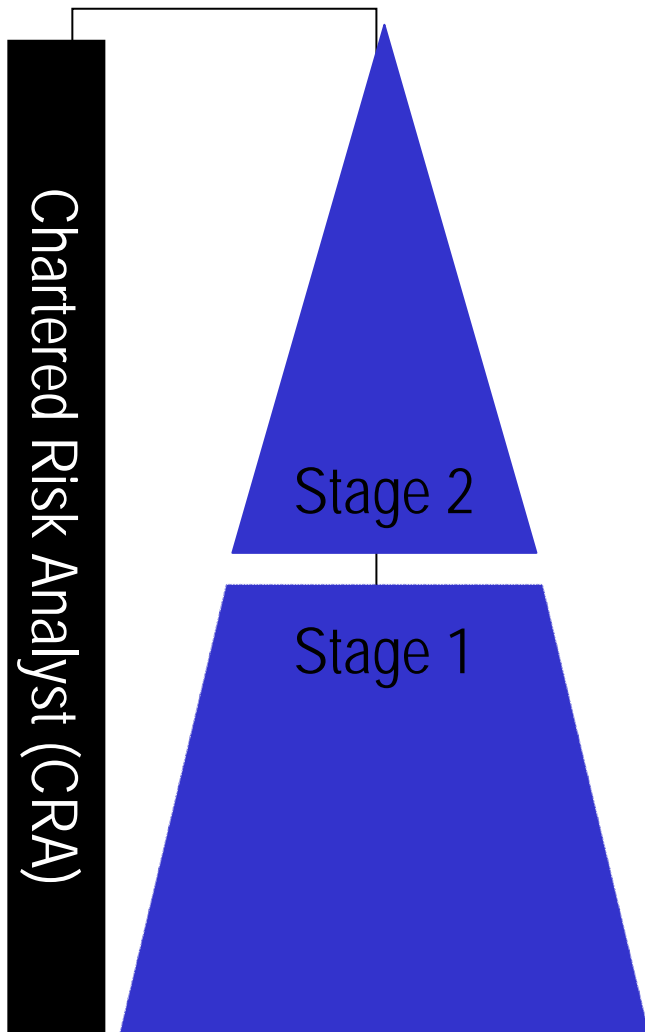
5.1 Proposed ERM Education



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

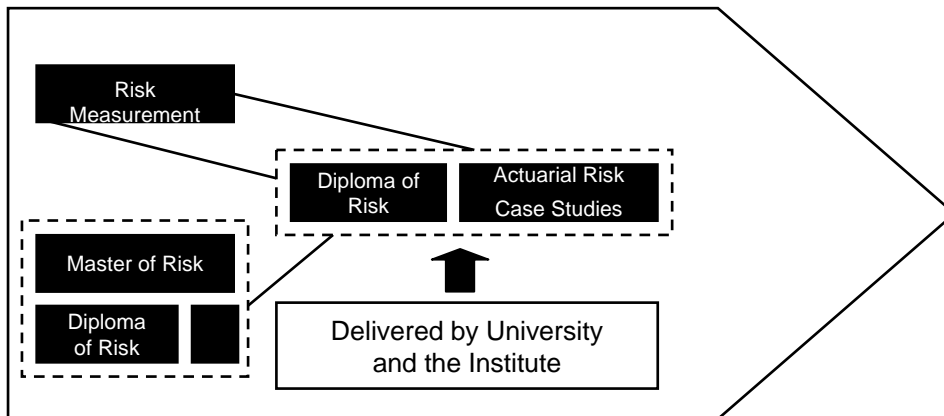
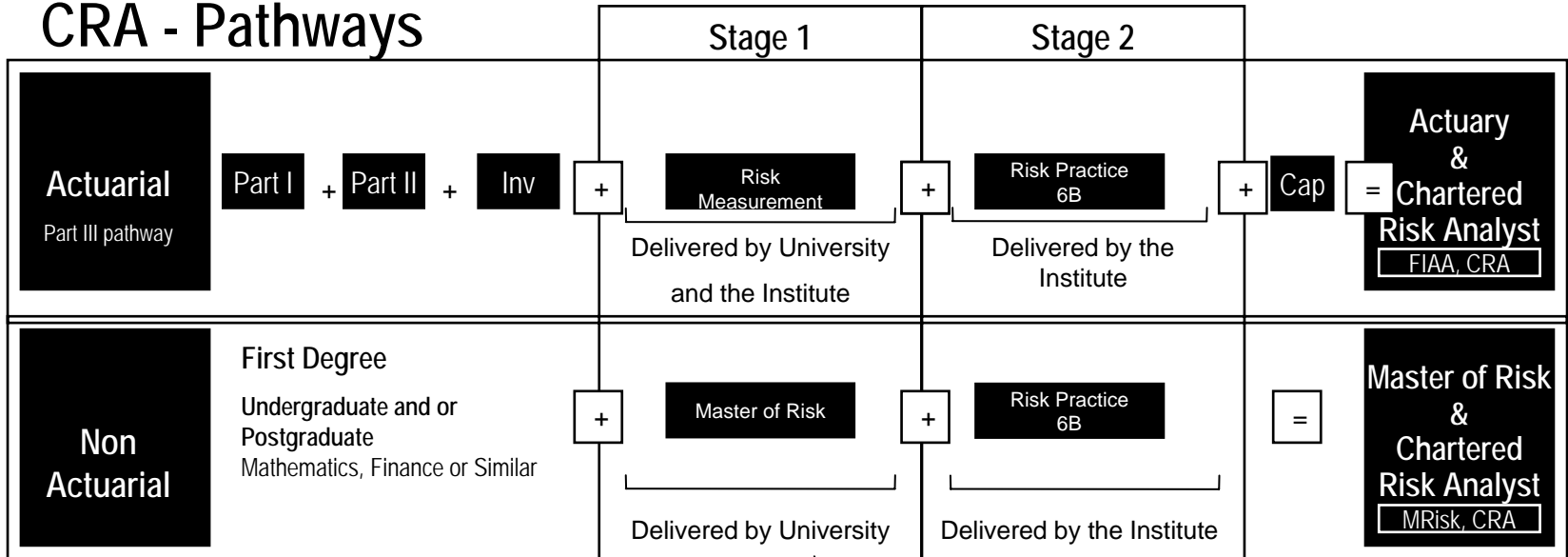


Stage 2

- Provides the professional interface to Stage 1 that evolves the CRA:
 - Case Studies
 - Professional Standards
 - Industry Issues

5.3 Proposed ERM Education

CRA - Pathways



Stage 1

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

5.4 Actuarial advantage

Harnessing the Profession's Branding Position to Capitalize on ERM

Actuary
&
Chartered
Risk Analyst

Master of Risk
&
Chartered
Risk Analyst



The institute is the bedrock
to any ERM branding
initiative



The institute builds on the
IAA brand.
Internationally relevant,
locally aware.

Platform for World's Best Practice Professionally Focused Enterprise Risk Management Education

- 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?