AFIR-ERM
Finance, Investment & ERM

REFERENCE LIST
June 2019

Article of the month:

Hungry for Risk?

June 2019. The Actuary Magazine

Risk appetite, risk exposure, risk tolerance, risk limit dashboard—these are all buzzwords used by your organization's enterprise risk management (ERM) program, right? While they may seem like high-level academic concepts that do not apply to your actuarial existence, the reality is many of your daily activities support key initiatives of your organization that help it operate within its risk appetite. So, what are these concepts all about, and how do they apply to you?

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High Yield Bonds: Compelling Risk/Reward Trade-Off

June 2019. T. Rowe Price (ASSET ALLOCATION COMMITTEE)

The attractive yield levels and generally healthy fundamentals of high yield bonds have led us to add to the asset class allocation in T. Rowe Price's multi‑asset portfolios, although the strong 2019 rally in sub‑investment‑grade bonds has eroded some of the relative value in the segment. Relative to other asset classes, such as equities, high yield bonds offer attractive risk‑adjusted returns given their consistency of income with a lower volatility profile than equities. Sub‑investment‑grade bonds rallied in the first four months of 2019, along with risk assets globally and declined only modestly in May, when equity markets were off more notably.

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Risk Around the Industry

June 2019. The Actuary Magazine

Chief risk officer of Venerable Holdings Inc., Charles Schwartz, says: "The insurance risk profession is adept at capturing and assessing the risk of 'known unknowns,' less so the 'unknown unknowns.'" To help us think about risks that may be perceived as less common or less likely—but may very well be the next major risk—here are four pieces on key emerging topics across InsurTech, FinTech, risk interdependence and strategic risk management. Let's start with InsurTech. As recently as three years ago, few had heard of it. Yet by the end of 2016, it was top-of-mind for many, and …

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The Reserve Uncertainties In The Chain Ladder Model Of Mack Revisited

July 2019. Alois Gisler (Mathematik, RiskLab ETH Zürich)

We revisit the "full picture" of the claims development uncertainty in Mack's (1993) distribution-free stochastic chain ladder model. We derive the uncertainty estimators in a new and easily understandable way, which is much simpler than the derivation found so far in the literature, and compare them with the well known estimators of Mack and of Merz–Wüthrich. Our uncertainty estimators of the one-year run-off risks are new and different to the Merz–Wüthrich formulas. But if we approximate our estimators by a first order Taylor expansion, we obtain equivalent but simpler formulas.

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Building ERM Buy-in

June 2019. The Actuary Magazine

Chief risk officers often describe their main challenge as a lack of buy-in. Without buy-in—from heads of business segments, executive leadership, the board and external stakeholders—the impact of the enterprise risk management (ERM) program cannot achieve its full promise of supporting better risk-reward decision-making at the highest levels, starting with strategic planning. Without proper buy-in, ERM remains useful but limited, often supporting only risk mitigation and capital management decisions. This lack of buy-in is often not the fault of the chief risk officer (CRO), but rather due to inherent flaws in the most popular ERM approach, which is capital-based.
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Model risk managers: banking's future VIPs

June 2019. Costas Mourselas (Senior staff writer at Risk.net)

The growing use of machine learning techniques in modelling is changing the risk profiles of banks – and raising the profile of quants charged with overseeing them, according to UBS chief risk officer Christian Bluhm. The deployment of ML models is already spelling new challenges for risk managers, said Bluhm, who was giving the keynote address at Risk Live 2019 earlier today (June 27). Managers must increasingly make calls on the safety and appropriateness of the parameters that govern an …
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Risk is Opportunity

June 2019. The Actuary Magazine

The award-winning SOA slogan "Risk is Opportunity" rose in popularity over the last decade. Whether analyzing risks, measuring risks or considering the optimal way to mitigate risk, there seem to be endless opportunities for actuaries to excel in the field of risk management.
The Actuary asked several chief risk officers to provide perspectives on emerging changes in the risk landscape and the current risk environment, and to reflect on the pursuit of career trajectories in risk. Suzette L. Huovinen, FSA, CFA, CERA, MAAA, chief actuary and chief risk officer at….
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Libor reform threatens hedge accounting for loans

June 2019. Nazneen Sherif (associate quant finance editor for Risk.net)

As the loan market prepares to switch to a new reference rate, concerns are growing that the forced renegotiation of contracts may interfere with hedge accounting arrangements, causing disruption to firms' balance sheets.
The industry is developing fallback measures for cash products to transition from the discredited Libor benchmark to a new suite of risk-free rates. This will require bilateral discussions between counterparties, but any changes to the terms of a loan may nullify the contract, …
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ESG: The missing dimension in risk management

April 2019. Alan Brown (chairman of the board of trustees of CDP)

ESG is on everybody's lips these days but there are still no generally accepted standards as to what it really entails – or even what it means. Moreover, today's investment management norms in a benchmark-focused world still materially constrain ESG actions.

There is a debate on exclusion versus engagement, and that is good. But the discussion, in my view, is still far too narrow. It is fair enough to acknowledge that exclusion means no longer having a voice at the table but, on the other hand, engagement without the potential to vote with one's feet may have limited impact.

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ESG: Weight of evidence

June 2019. Guido Giese & Linda Eling Lee (Guido Giese is executive director, applied equity research and Linda-Eling Lee is global head of ESG Research at MSCI)

There is no consensus on a positive link between ESG and improved portfolio performance.

Over 2,000 research articles from academics and financial professionals have analysed the link between companies' environmental, social and governance-related (ESG) characteristics and their financial risk and performance. While one study found that there is little research concluding that using ESG criteria has impaired investment performance, there is also no consensus on whether ESG has improved risk-adjusted returns.

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Norwegian sovereign fund rejects outcomes reporting for SDGs

May 2019. Rachel Fixsen (Investment & Pensions Europe Journalist)

Investors should not be formally assessed on the outcomes of investments made in line with the UN's Sustainable Development Goals (SDGs), according to one of the world's biggest asset owners. Norges Bank Investment Management (NBIM), manager of Norway's NOK8.9trn (€919bn) sovereign wealth fund, said it did not support adding outcome-based reporting on the SDGs, in a written response to the Principles for Responsible Investment's (PRI) reporting review.

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Hedge funds warn regulators over ineffective ESG regulation

April 2019. Susanna Rust (Senior Reporter at IPE.com)

Any responsible investment regulation is likely to fall short of its goal if it only targets asset managers, according to hedge fund industry body AIMA.

In a new "primer" on responsible investment developed with law firm Simmons & Simmons, the Alternative Investment Management Association (AIMA) said that, to be effective, "a regulatory framework must be broad-based and must encompass the behaviour of issuers".

This was to deal with the problem of data scarcity….

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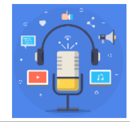

10 most common investment mistakes, how to avoid them and stay on the right track

2019. Rock on Retirement Podcast

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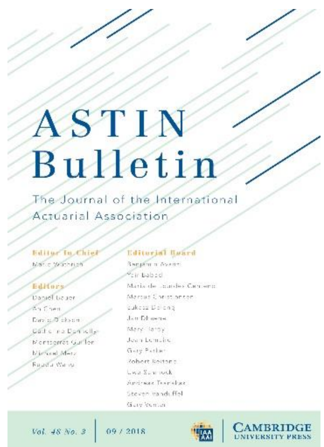

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UPCOMING EVENTS

Webinar Series with Dave Ingram (CERA, FRM, PRM, FSA, MAAA, and member of AFIR-ERM)

11th September, 2019. Risk Culture

11th December, 2019. Risk Appetite/Tolerance

Before, during and after the Financial Crisis, financial institutions can be seen to have been acting rationally, but only if you can admit that in the absence of a perfect view of the future, there are a number of different rational ways to imagine how the future will unfold. An idea is at the core of the anthropology theory of Plural Rationality. This webinar will explain how this theory provides vast explanatory power to understand the variety of approaches that have been and that are taken by financial institutions in response to risk.

Find out more

Coming Soon: In-person seminars in Poland and Tokyo!