AFIR-ERM
Finance, Investment & ERM

REFERENCE LIST
March 2020

Article of the month:
Kempen: Tail risks more likely to occur for pension funds

Sameer Van Alfen (IPE)

Tail risks for pension funds, such as the COVID-19 crisis, are much more likely to occur than schemes' current risk assumptions indicate, a new risk model has suggested. The model – developed by Wilse Graveland and Frank van der Ploeg of Kempen, and Casper de Vries, professor of monetary economics at Rotterdam's Erasmus University – showed that extreme events happen five to 10 times more frequently than thought. The developers said their new model helps pension fund boards avoid sudden and fundamental investment decisions by providing insight into financial markets and coverage ratios. Van der Ploeg, fiduciary manager at Kempen, said COVID-19 turns out to be a tail risk that has completely surprised financial markets, as it was the case with the financial crisis in 2008. Read More

Actuarial Models
AI Can Vanquish Bias: Algorithms we can't understand can make insurance fairer

Daniel Schreiber (LinkedIn)

Insurance is the business of assessing risks and pricing policies to match. As no two people are entirely alike, that means treating different people differently. But how to segment people without discriminating unfairly? Thankfully, no insurer will ever use membership in a "protected class" (race, gender, religion…) as a pricing factor. It's illegal, unethical, and unprofitable. But while that sounds like the end of the matter, it's not. Read More

ERM Models
Stress Testing, CECL and Coronavirus: The Importance of Telling the Story Behind the Numbers

Cristian deRitis (Global Association of Risk Professionals, GARP)

The modern risk manager must juggle everything from cyber risk to fraud to credit loss estimates to pandemics and other tail risks. Projecting the impact of not only common threats but also extremely adverse scenarios is a monumental task, but smart risk practitioners can use storytelling to paint a more accurate picture of potential outcomes, leading to better decisions and reduced risks. Read More

Investments
UK pension trustees presented with guide to climate-related risks

Susanna Rust (IPE)

A consultation has been launched on draft non-statutory guidance for occupational pension scheme trustees on assessing, managing and reporting climate-related risks. It is the work of a cross-government and industry group set up last summer by the Department for Work and Pensions. "The draft guide is designed to help trustees meet existing legal obligations to consider financially material factors in their investment decision making and provides suggestions on how to integrate the consideration of climate-related risks within trustee governance and risk management processes," it said. Read More

Thought Leadership: Investment in the age of geo-economics

Nicolas J Firzli (IPE)

Brexit, Trump, unprecedented Sino-American trade tensions: country risk and political considerations have moved to the fore and pension investors and asset managers alike have had to revise their investment strategies

Key points

- Austerity has arguably fed populist politics, leading to an end of globalist notions of international politics and finance
- Large pension funds and sovereign wealth funds have a strong history of cross-border illiquid investment
- Institutional investors will be courted as regional blocs compete for development and infrastructure capital. Read More

Trending topics

Looking Past Politics: Professionalism is key when piloting projections around the perils of political punditry

Jason Karcher (The Actuary Magazine)

As U.S. President Donald J. Trump once said, health care is complicated. Health actuaries live deep in the weeds of what is arguably health care's greatest complication—the financing of care. We operate in a world that is increasingly scrutinized by legislators and regulators at both the federal and state levels. The issue is polarized. Health coverage is either the best ever or a failing disaster. The future of the health care industry in the United States is uncertain—health markets have ridden currents driven by lawsuits and legislative efforts, and health care continues to be a prominent element of political campaigns. When these ingredients are mixed into a single stew, we find that health product pricing increasingly involves an element of political projection, with a variety of interest groups offering up their views on the potential impacts of any legislative, regulatory and judicial changes on our markets. Read More

Breaking through the issues preventing AI adoption in insurance

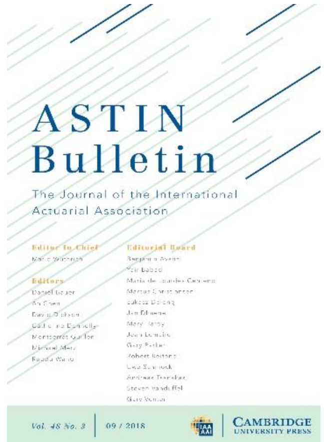
Neal Silbert (Insurance Business Magazine)

Advanced analytics has always been the cornerstone that the insurance industry was built upon. Maths and statistics have long driven the industry's ability to calculate and effectively transfer risk. The industry has always looked for, or developed, more effective analytic techniques. However, with the sudden and comprehensive development of so many different advanced analytic methods, new techniques and methods are actually creating a higher barrier to entry. Traditionally insurance professionals have found machine learning unfamiliar, difficult to explain and complicated to implement. Data science requires specialist knowledge that cannot easily be self-taught, and insurance companies have struggled to build in-house data science organisations as a result. The process requires actuaries and quantitative analysts to go 'back to school' to learn new methods in automated statistical analysis, programming techniques to capture and re-organise large volumes of data and new technologies. Read More

Resources (click upon image to access)

The Actuary Magazine:

ASTIN Bulletin:



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