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Article of the month:

Anticipating Events
Using member-level predictive models to calculate IBNR reserves
July 2018 Anders Larson, Jack Leemhuis And Michael Niemerg
Predictive models have the potential to transform many aspects of traditional actuarial practice and change the way actuaries manage and think about risk. One common actuarial task where modern predictive models are not commonly used is the calculation of incurred but not reported (IBNR) reserves. Rather, IBNR has historically been calculated for pools of members using aggregate methods that utilize high-level assumptions without any sophisticated consideration of the risk factors of the individual members within the pool. However, by incorporating these risk factors into a predictive model, there is the potential to develop an informative alternative to the traditional actuarial approach. In this article, we'll consider how a predictive model might be built to estimate IBNR at the member level. To demonstrate its efficacy, we'll consider a case study from the group health care market.
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Firearm Risk: An Insurance Perspective
Actuaries can apply their skills to help quantify firearm-related risk
Jul. 2018 Kristen Moore And Craig Reynolds
In the 2017–2021 Society of Actuaries (SOA) Strategic Plan, the SOA promises its stakeholders that actuaries will "provide trusted and objective actuarial research, analysis and insight on important societal issues." Firearm deaths and injuries are a significant problem in the United States and an important societal issue with actuarial and insurance aspects. Indeed, the American Medical Association recently called firearm violence "a public health crisis" and called for a comprehensive public health response and solution.
Gun violence in America exacts a significant toll on our society in both human and economic terms. The economic cost of firearms directly affects the financial outcomes of insurers and taxpayers. Actuaries are well positioned to study the mortality and morbidity related to firearms, yet there is little on the topic in actuarial and insurance literature.
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New credit risk modelling approach touted to reduce CCAR bias
Academic aims to address gaps in existing LGD forecast method with two-equation fix
Aug. 2018
A new way of modelling likely losses on loan portfolios claims to offer banks more accurate results by correcting what an academic describes as "bias" in lenders' loss forecasts. The method also promises sounder macroeconomic sensitivity analysis in estimating required capital for regulatory stress tests.
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Hedge funds turn to curve options for steepener trades
Previous bets on US interest rate curve flopped following unexpected flattening

Aug. 2018

Hedge funds are placing billion-dollar trades in curve interest rate options as they bet on whether the yield curve between the two-year rate and 10-year rate will steepen, according to three major banks.

The basis between both points on the US Treasury curve has tightened aggressively since the start of the year and now stands at 22.4 basis points. That contrasts starkly with data from a year ago, which shows the basis at 86.3bp.

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Quants tout improved expected shortfall backtest

Aug. 2018 - Luke Clancy

A new paper by a group of quants is touting a revised backtest for expected shortfall (ES) models – one that could offer banks with large trading operations a more accurate view of aggregate risk across desks, and, they hope, could be of interest for regulators when gauging aggregate risk across the financial system.

While value-at-risk (VAR) has been banks' standard gauge for market risk for many years, expected shortfall – also known as conditional VAR – has risen to prominence since the cris

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Credit data: zeroing in on supply chain risk

Data highlights the risks posed by economic protectionism, writes David Carruthers of Credit Benchmark

Aug. 2018

"An eye for an eye will make the whole world blind," Gandhi is said to have observed. Sadly, behavioural economists would probably agree he was not far wrong: recent tit-for-tat episodes of tariff imposition by the US, the EU and China demonstrate just how hardwired retaliatory behaviour is. But how do banks accurately gauge and price the risk of such arbitrary measures pose to their loan book?

Trade and tariff disputes have focused attention on the length and fragility of supply chains. Supply chain risk is often seen as an operational problem, but typically supply chain disruption becomes a financial and credit problem.

Banks can't wait to see what the long-term effects will be – they must contemplate the impact on firms' probabilities of default now. This month, we look at supply chain risk for 17 large global original equipment manufactirers (OEMs), and their network of some 500 suppliers across the globe. Already, a clear deterioration in the number of investment grade firms they deal with is observable. Elsewhere this month, we review credit trends for UK corporates, which we've been tracking since the Brexit referendum in June 2016. We also highlight regional credit rating differences raised in Basel 2017, and report on the distribution of senior unsecured loss given default estimates.

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Why the FRTB remains critical
Critics of the Basel Committee's Fundamental R*eview of the Trading Book are wrong*

***Aug. 2018 - John Beckwith and Sanjay Shar*ma**

As the world approaches the tenth anniversary of Lehman Brothers' collapse and the ensuing global financial crisis, memories are fading along with the lessons learnt – and the Basel Committee on Banking Supervision (BCBS)'s Fundamental Review of the Trading Book is facing headwinds from many in the industry.

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New Chinese forex crackdown to hit corporate hedging

Aug. 2018 Blake – Evans Pritchard

Despite new reserve requirement, dealers say 'maturity' in risk management is here to stay
Dealers fear a move by the Chinese authorities to reinstate a deposit requirement on foreign currency derivatives could slow a recent pick-up in hedging from local corporates, despite warnings from regulators that firms need to do more to brace for future market volatility.

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Financial Crime Risk Management Systems: Know Your Customer

Aug. 2018 - Chartis

This report is the first part of Chartis' Financial Crime Risk Management (FCRM) Systems Market Update for 2018. The remaining parts – Enterprise Fraud Solutions, Watchlist/Anti-Money Laundering (AML) Solutions and Trade Surveillance Solutions – will be published later in the year. While previous iterations of our FCRM report included all four elements in one publication, this year we have separated them, to enable us to focus on the individual areas in more detail.
The phrase 'Know Your Customer' (KYC) may sound like a business school management course mantra. In financial services, however, KYC is an important, formalized process, one that has become more complex and workload-intensive in recent years.

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UPCOMING EVENTS

13th annual Risk Australia conference

13th September 2018, Singapore.

This is the 19th year of Asia Risk magazine's awards. The awards recognise best practice in risk management and derivatives use by banks and financial institutions around the region. Submissions are now open and will close on July 13. The awards ceremony will take place on 13 September at the Marina Bay Sands in Singapore.

Find out more

Risk Management Perspectives Conference 2018

12th October 2018, Convention Centre Dublin

The Society of Actuaries in Ireland is pleased to announce the date for the Risk Management Perspectives Conference 2018, which will take place on Friday 12th October 2018 in the Convention Centre Dublin. The "Risk Management Perspectives" conference will provide attendees with insights into the challenges and opportunities that risk management creates for organisations.

Find out more