IAA Webinar on Risk Book Chapter

ERM Insights from Failures and Near-Failures

Presented by Enterprise and Financial Risk Forum

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Introduction

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Disclaimer

- We are members of the Enterprise and Financial Risk Forum or the Insurance Regulation Committee.
- Our remarks today are our personal opinions.
- They are not, and should not be construed as, official positions of the IAA or any of its Forums or Committees.
Introduction and Background

• The Enterprise and Financial Risk Forum (EFRF) exists to facilitate knowledge-sharing among IAA member associations on issues of international relevance for actuaries working in the area of enterprise, financial and investment risks.

• The EFRC began a project in 2017 to monitor research on failures. It evolved into a formal proposal for a new Risk Book chapter, which was approved Fall 2019.

• Several EFRF members, as well as other IAA volunteers, supported development through drafting case studies, peer reviewing drafts, and providing editorial comments.
Goals of ERM Insights Chapter

• Highlight historical situations where inadequate ERM processes have led to failure or near-failure of insurance organizations
• Identify common themes and indicators that can provide warning signs
• Suggest steps that organizations, and actuaries in particular, can take to avoid similar instances of distress
Structure of Webinar

- Moderated discussion of three ERM Failure/Near-Failure cases from chapter
- Summary of learnings from case studies and lessons for actuaries
- Responses to audience questions
Selection of Case Studies

- Chiyoda Mutual (Japan) -- Yosuke Fujisawa
- Equitable Life Assurance Society (UK) -- Nick Dexter
- American International Group (US) -- Kathy Wong
Lessons Learned – Leading Indicators

- Rapid growth in sales, particularly of a single product
- Rapid growth in a specific asset class
- Entry into new market without appropriate experience
- Investment in risky assets without relevant expertise
- Insufficient liquidity
- Insufficient technical provisions or capital for the risks assumed
Lessons Learned – Common Themes

- The culture of the organization is a determining factor in success or failure
- The role of the board is critical
- A strong-willed leader can run over the board and management and circumvent risk controls
- Problems can result from technically incompetent staff
- Regulation/supervision varies widely by jurisdiction and has a major impact on outcomes
Lessons Learned – Role of the Actuary

• Provide technical competence in pricing, reserving, capital projection roles
• Abide by professionalism codes and withstand management pressure
• Be a source of unbiased evaluation
• Communicate concerns with authority
• Influence the risk management culture of the company
Questions?

• If you have any questions for our speakers, please use the Q&A box on the bottom right hand side of your screen to submit your questions.

• Note: The recording of this webinar will be posted within the next day or so on the IAA website under the Events/Webinars tab.

• Should you have any further questions, they can be sent to the IAA Technical Activities at technical.activities@actuaries.org.
Thank you!