



Study of ERM Activities at IAA Associations (Preliminary Report)

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EFRC Study

- Data is collected by EFRC members who represent 37 associations
- 22 members have responded so far
 - Croatia, Lithuania, Poland, Finland, Hungary, Spain, USA, Sweden, China, Australia, South Africa, United Kingdom, Czech Republic, Canada, Ireland, Germany, Slovenia, Japan, The Netherlands, Switzerland
- Will keep working to get responses from other members.
- Study questions selected by EFRC members



Big Questions

For the IAA and Associations

1. Do we as professional organizations want to support the move of members of our profession into ERM?

2. Does success in developing a significant permanent actuarial foothold in ERM require
 - a. More initiatives by individual associations
 - b. More collaborative initiatives among associations
 - i. Through IAA or multilateral
 - c. More IAA initiatives



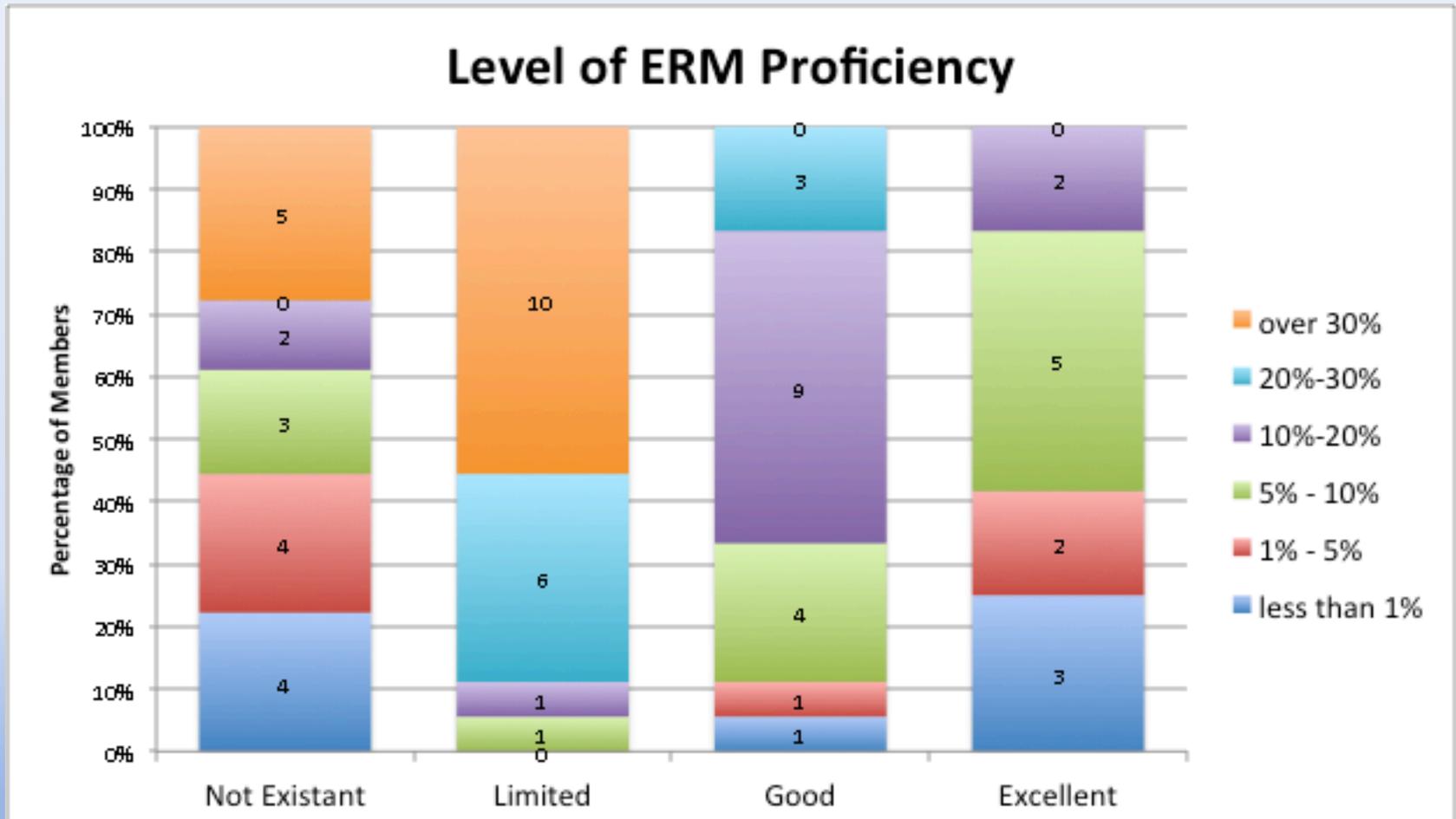
Association Activities

17 Report Association ERM activities
5 report no ERM activities

- Conferences, Annual ERM Seminar
- CERA
- Exam Syllabus
- Continuing Education / CPD
- ERM Stream/sessions at association annual meeting
- ERM Practice Area
- Lecture Series ERM
- Practice Committee
- ERM Web Page
- Colloquium with AFIR/ERM
- ERM Newsletter
- Solvency II Working Group
- ERM Funded Research & Call for Papers
- Standards of Practice
- Working with supervisor on solvency standards
- Comments on Regulatory Exposure Drafts
- ERM Qualifications Committee
- Risk Management Section



What is your best estimate of the percentage of actuaries in your association whose level of ERM knowledge and experience is





What strengths does the actuarial discipline bring to the science of ERM?

- analyticity, ability to understand, create and use mathematical and statistical models and tools.
 - integrating masses of input to develop well-considered business solutions;
 - Problems solving skills and structured framework,
 - Understanding weaknesses of models
- Good knowledge, training, experience and understanding of quantifying risks (esp. Insurance and Market risks)
 - history of combining quantitative analysis with commercial judgment to advise all levels of management and the Boar.
 - Reflecting competing interests of stakeholders
- Credibility - strong reputation for quality supported by professional standards and recognized for high level of professionalism. Code of ethics.



Actuarial Weaknesses Regarding ERM

- Too much focus on traditional roles of actuaries,
- Sometimes old fashioned approach,
- Sometimes looking for too much accuracy
- Maybe not always full understanding of business demands
- Current limited field of work.
- Sometimes less knowledge about asset side and qualitative risk management, operational risk, etc.
- The modeling process with very limited focus
- Less experienced in dealing with the qualitative aspects of risk.
- Perceived as pure quant/financial experts, not as trusted advisers in all business problems.
- Actuaries are also risk averse and hence not confident on advising on taking risks.



Weaknesses

- Believe we can't advise unless they have specific training and tend not to apply for roles in other areas.
- Lack of awareness outside the profession and/or outside traditional actuarial areas of what actuaries might be able to do
- Actuaries seen as too “technically minded” for wider ERM based roles. Image
- Overly theoretical approach and rigidness are often perceived as weaknesses of actuaries.
- Communicating to those outside our profession (both other professionals and to non-professionals).
- Seen as "clannish" - feel only actuaries should do work.
- ERM is out of our comfort zone



Actuaries should play larger role in ERM because

- of all advantages which actuarial science brings as explained above.
- we have a large knowledge in very different fields (see IAA syllabus) and are constantly improving this knowledge (CPD)
- Increasing needs for risk management an actuaries are capable to contribute
- We have a good basis for ERM, understanding the risks at a company taking part into the pricing, reserving, ALM, internal modeling, etc. process (risk quantification).
- ERM is a large opportunity on which the profession should capitalize. Opens up doors for actuaries to be the trusted advisers to businesses.
- Professional training and instincts to look practically at long run sustainability of pooled risk systems means we add unique value



Actuaries should play larger role in ERM because

- ERM is a significant growth area and the traditional life insurance role is changing under Solvency II. Therefore, there is a need for actuaries to change also.
- Insurance will always be our strength, however our skillsets are transferrable across different industries, therefore there is no reason to limit ourselves to insurance/pension space only.
- Actuaries can contribute where there is a need for risk quantification
- ERM is the bigger picture, actuaries are moving towards risk management roles so are becoming responsible for the bigger picture.



Larger Role for Actuaries?

Cautions:

- Actually, should question "can" actuaries play a larger role. We can if we are able to sustain some leadership in the field through setting professional standards.
- This will require a change in orientation to view risk from a broader perspective. Establishing ourselves as ERM leaders in organizations needs effort to achieve.
- must also continue to provide the expertise in the space 'owned' by actuaries, so we need to find an appropriate balance of emphasis between ERM and traditional actuarial roles.
- The actuary can play this larger role only if they are trained to consider the qualitative as well as quantitative aspects of risk, develop an in depth understanding of the businesses and the risk faced in other industries, and the ability to communicate risk assessment and mitigation strategies to non-technical audiences.



Can Actuaries?

What else is needed

- Lack of data and tools, lack of valuable leadership support.
- Lack of credibility and management support
- employers do not naturally hire actuaries for ERM roles, and lack of actuaries applying for ERM roles.
- The profession will have to build its professional credibility in this space; this will include developing a body of credible research and contribution to ERM "thought leadership".
- The ability to communicate clearly and effectively on risk matters has to be developed.
- Our initial research with insurance CROs suggests that they are confident in their own abilities. For tools they often use consultants to benchmark how others are approaching issues. In relation to actuaries on their teams, a lack of ERM skills seems to be a challenge in recruiting actuaries.



Can Actuaries?

What else is needed?

- lack of breadth in their business experience / strategic big picture thinking / pragmatism, communication skills,
- lack of interest in ERM or awareness on the part of actuaries of the opportunities to strategically influence the business through risk management.
- In relation to moving into other (non-insurance) financial services areas the challenges appear to be:
 - Actuaries: lack of sector knowledge, lack of awareness of opportunities (those who feel limited in moving into senior ERM roles cite a perceived lack of breadth in their actuarial career to date) and Employers: lack of awareness of actuarial skills.
- Don't have well-developed perspective on ERM relative to traditional actuarial work.



Can Actuaries?

- Lack of credibility outside the traditional actuarial industries.
- Leadership & management skills. The knowledge is established.
- Clarifying/Communicating the value add of actuaries and ERM both internally and externally
- Lack of incentive to make risk-based decision-making on the part of many managements in the financial industry.
- Confidence, because it is outside our direct comfort zone, but that is no reason not to step into it.



What Is Needed?

- Education in ERM field for the actuaries.
- Employers' awareness of importance of actuaries in ERM.
- Training, market perception of the actuarial role
- Solvency II implementation with ORSA will increase the need for ERM in insurance
- Provide learning opportunities and material, inc. material of the best practices, standards at the due course
- Education: wider range of risk classification, quantification, management during actuarial courses, thinking about the risks more integrated way, trying to be involved not only in the classical actuarial tasks.
- Chance to show the strength we have.



What is Needed?

- Educate the Board, regulator as well as other senior management
- Education and CPD, increased participation of actuaries in ERM space so as to act as champions and inspire younger generation;
- improve reputation of actuaries from pure quants to trusted advisers in business
- Positioning of skills set by profession with regulators - this is where we will get the most traction;
- Need to make sure actuaries do not get "pidgeon holed" as mere calculators;
- Quick action - the accounting profession may "lay claim" the ERM space before actuaries do.
- We are undertaking a wide ranging project to develop actuarial involvement in ERM which we can share



What is Needed?

- Training is needed in relation to certain mathematical skills (mostly addressed by the ERM course ST9).
- Marketing and communication also need to be addressed.
- facilitate exchange between actuarial and risk management communities
- actuaries training and prior experience in insurance/pensions is not valued over others who grew up in the business into which actuaries want to expand.
- Research and discussions about how to translate the insurance world of risk management into the broader uses of risk management in other finance and non-finance related industries
- Insist on such technical knowledge requirement for actuaries which consist specifics of ERM.
- Development of various ways to quantify risks in the real world.



Do Actuaries in your association have the training needed for ERM?

- CERA training is adequate at this stage.
- In general, no. Not clear whether the need is training or different selection - there is an ERM mindset/perspective that is different than traditional actuarial mindset/perspective. Not sure you can train? Maybe you need to be selecting different people?
- Mostly - additional mathematical skills are required for older actuaries and also training in relation to non-quantifiable risks.
- Yes. Ops risk & management skills could improve.
- Many actuaries especially older ones do not have proper ERM education.
- Some actuaries are close with regards to what would be needed for an ERM professional (knowledge of modeling, knowing the risks in ins. Company,...)



Do Actuaries in your association have the training needed for ERM?

- No, we would need systematic ERM education, above traditional actuarial knowledge.
- General ERM methodologies
- Could be improved
- No. But they will have
- Additional training in the management of operational risk would be helpful. This would include training in the development of and access to public data relevant to operational risk. Additional training in communicating risk concepts with management concepts to management is also important.
- Yes to a large extent but they feel they don't. ST9 is too technical and doesn't adequately address the Enterprise and qualitative side of ERM.



Do actuaries in your association have the reference materials needed?

- Yes (7)
- yes (English literature is available)
- Yes to the extent they exist today.
- sometime is enough, sometime we need more general data
- More data relative to operational risk would be helpful.
- The (global?) profession should build a comprehensive ERM reference library to assist actuaries in this developing field. Few associations have the resources to do this effectively on their own and it is something that can be effectively shared.
- It's a work in progress - ongoing expansion of the material is required.
- We are promoting CERA
- Partially.



Do you think actuaries in your association have the adequate methodology?

- No.
- Collaboration with other countries is needed
- To make the CEO more involved with the task.
- Generally speaking yes, although additional training in methodology relative to qualitative risk assessment is necessary.
- Yes (5)
- Some actuaries are well equipped. Others less so.
- It's a work in progress - ongoing expansion of the material is required.
- operational risk
- Yes. Research in measurement and management of ops risk needed.
- We are promoting CERA



What Assistance could be provided by IAA?

- Systematic education on ERM management over and above the actuarial knowledge.
- education material
- Training materials, studies about ERM.
- All kind of assistance is welcome. Not specified.
- "We are offering ERM education and research through our association, so we don't anticipate a need for IAA involvement in this area. As the IAA works on actuarial branding, we hope that ERM will be included in that work. As well, we support the ERM standards activities."
- CPD events



What Assistance Could be provided by IAA?

- broader collaboration will lead to more work.
- We don't require specific support but would like to keep in touch with international developments.
- Guidance or examples on ERM, ORSA.
- Dispatch speakers on ERM related topics
- CPD examples

- Several association offered to assist the IAA.



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EFRC and AFIR/ERM

- Two arms of the IAA that can assist with this process
- Much more can be done!
 - Develop a process for quick Sharing and Coordination of activities
 - Get the best from each association available to all
 - Make sure all are aware of what each of the associations who are developing ERM materials are planning



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