

# *Enterprise Risk Management*

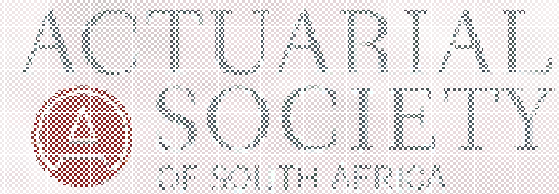
Opportunity for a Lifetime?

# Enterprise Risk Management

**Opportunity for a Lifetime?**



## ERM: Why the Excitement?



- An area of significant opportunity to help define the structures, rules and practices in an area closely related to traditional work.
- Opportunities lie in both traditional and non traditional areas
- If we don't establish our presence, others will, over time, intrude further into traditional actuarial space

## ERM: A Definition



The discipline by which an organisation in any industry assesses, controls, exploits, finances and monitors risk from all sources (including, but not limited to, financial, strategic, operational and insured event risks) for the purpose of increasing the organisation's short- and long-term value to its stakeholders



# Key Elements of an Enterprises' Risk Profile

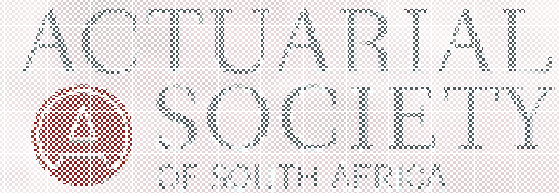
- Insurance
- Credit
- Market/ Investment
- Interest Rate
- Trading
- Currency
- Operational
  - IT
  - People
  - Process & systems
  - New Product
  - Legal
  - etc
- Reputational
- Strategic
- etc

# Some Key ERM Questions

- How does the enterprise define “risk”?
  - Volatility of income statement?
  - Financial soundness?
  - Operational integrity?
  - Being regarded as dull?
  - Failure to secure new contracts?
- How much “risk” can we afford to take/ not to take [Risk Appetite] and how can this be measured?
- How much risk do we take and how is this changing over time? [Risk Profile]
- Do we have the capital to back the risks we are taking?

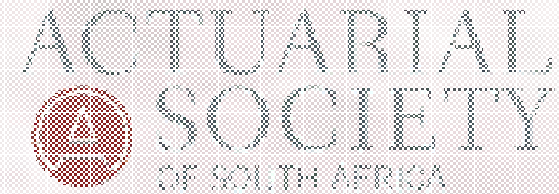


# ERM: Key Element of Strategic Business Management



- Emphasis on “sustainability” brings ERM onto centre stage: King III
- It is an “enabler” not inhibitor
- Is concerned with detail, but, ultimately addresses the issue of “capital”:
  - Do we have enough of what it is that we need to achieve our strategic business goals?
  - Do we have enough of what we need to avoid a “train smash”?

## ERM & the Actuary



- Have actuaries been “part time” CRO’s for a long time in traditional businesses?
- The attributes that have propelled many actuaries into leading business roles are the same ones that will make for excellent CRO’s:
  - Perspective & understanding
  - Ability to integrate
- With a proper foundation, we can take our skills into new territories.
- BUT: Others are also active.....

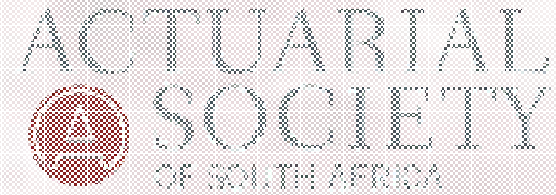


## ERM: The Current Players



- PRMIA & GARP are professional bodies
- Accountants are very active
- Mathematicians
- Other persons with financial background
- Actuaries as technicians
- Etc....

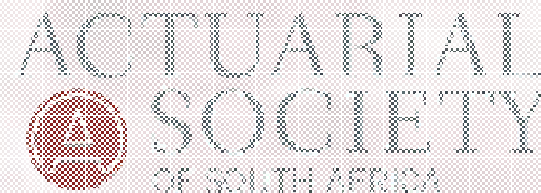
# So: Why Actuaries in the ERM Space?



- The basic quantitative training
- Training in the assessment of numerical outputs
- Ability to take a holistic view of the enterprise
  - Similar skills to valuers and senior executives
- Our professional promise

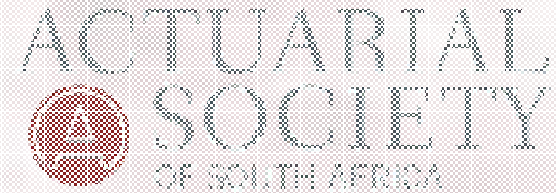


# ERM: The State of the Game



- Solvency II and Basel II both place increased emphasis on effective ERM skills within the target enterprises.
- FCR on the way for STI
- Risk assessment linked to Capital Adequacy:
  - No longer simply a calculation - ICAAP
  - Requirement for professional judgment, linked to a deep understanding of enterprise's risk profile
- Do we want to step into the breach?

# IAA Response to Global Financial Crisis



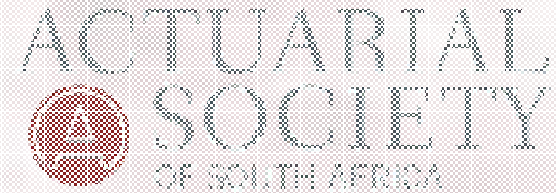
- While actuaries may not have been any better than the incumbents, actuarial techniques could really have helped:
  - e.g. application of the actuarial control cycle
- Is there a case for a regulated CRO role requiring professional backing?



# The ERM Opportunity: The Response

- The development of the Global “XRX” designation”
  - Either “CERA” or “ERMA”
- Participants include:
  - Australia, UK, France, Canada, Israel, RSA, Sweden, CAS(?) and others
- SoA still undecided
- Way forward to be agreed in Tallinn at IAA meeting

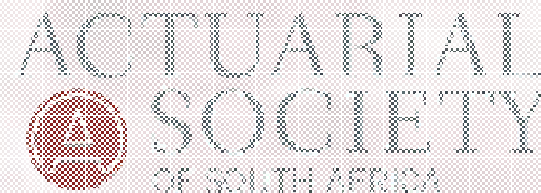
## Advantages of “Global XRX”



- Portable qualification
- Based on the actuarial skills set
  - Minimum of “Associate” qualification
- Global agreement on curriculum detail and maintenance of standards
- Sharing of educational capacity
- Backed by the professional promise of the local & global actuarial community

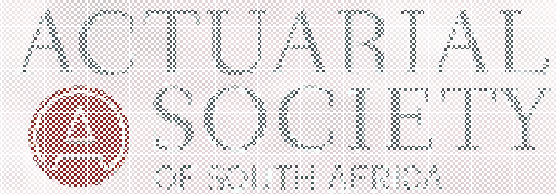


## Global XRX: The RSA Position



- We have participated actively in the development of the Treaty and Curriculum
- Council has agreed to sign the Treaty
- We still need to agree:
  - Inclusion of ERM F100 subject in our curriculum
  - How we will deliver tuition for the subject
- Discussions underway with universities in this regard
- Aiming to offer this as from 2011

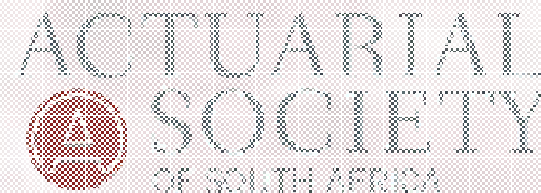
## Some Internal Challenges



- Reviewing the role of the E&FM Committee
- Coordinating its activities with those of other practice areas:
  - Pooling capacity & insights
  - Developing common approaches
- Building capacity to support the Educational Initiative



# ERM: The Actuarial Response



- At the “philosophical” level:
  - Actuarial techniques would make a difference
  - The backing of a profession (ongoing learning & standards) would make a difference
- At the practical level:
  - Establishment of the “Global XRX” as a professional qualification in the ERM space
  - Globally recognized
  - Multinational support for ongoing development of the qualification

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